Securities (Pty) Ltd.
Member of the NSX

CAPRICORN INVESTMENT GROUP LTD

1H17 Initial Impression

FEBRUARY 2017

Capricorn Investment Group Ltd	Target Price (c)	1820
1H17 Initial Impression	Current Price (c)	1762

Year End 30 June	2015A	2016A	F2017	F2018	F2019
Net interest income (N$m)	1,267	1,458	1,660	1,873	2,145
Non-interest income (N$m)	813	954	1,042	1,196	1,370
Profit (N$m)	753	905	1,041	1,174	1,334
HEPS (c)	150	181	208	235	267
P/E (x)#	11.3	9.4	8.1	7.2	6.3
DPS (c)	53.0	66.0	75.0	85.0	96.0
DY (%)*	3.1	3.9	4.4	5.0	5.7
P/B (x)*	2.3	2.0	1.7	1.5	1.3

Recommendation	BUY
NSX Code	CGP
Market Cap (N$m)	8903
Shares in Issue (m)	505.3
Free float (%)	22
52 week high (c)	1770
52 week low (c)	1685
Expected Total Return	12.5%

Source: CGP, IJG
#Based on HEPS and current share price
**Based on current share price*

CGP released its results for the six months ended 31 December 2016. The firm's results reflected the challenging macroeconomic environment in which it operates. Profit for the period remained flat (+0.3%) compared to 1H16. Earnings per share was also relatively unchanged year on year increasing 0.7%. As a result, interim dividends were kept at 30cps, unchanged from 1H16.

Net interest income increased by 3.0% to N$749.9m from N$727.9m in 1H16. Interest income increased by 14.9% while interest expense increased by 27.4%. The average cost of funding increased from 5.7% to 7.2%, while the average interest on advances grew from 11.2% to 12.1%, causing a contraction in the net interest margin of 52 basis points.

N$'Million	1H17	1H16	Change
Interest and similar income	1,636,597	1,424,043	14.9%
Interest and similar expenses	-886,718	-696,100	27.4%
Net interest income	749,879	727,943	3.0%
Impairment charges on loans and advances	-26,481	-31,454	-15.8%
Net interest income after loan impairment charges	723,398	696,489	3.9%
Non-interest income	466,531	481,393	-3.1%
Operating income	1,189,929	1,177,882	1.0%
Operating expenses	-582,732	-578,696	0.7%
Operating profit	607,197	599,186	1.3%
Share of joint arrangement's results after tax	303	976	-69.0%
Share of associates' results after tax	36,785	47,583	-22.7%
Profit before income tax	644,285	647,745	-0.5%
Income tax expense	-186,946	-191,863	-2.6%
Profit for the period	457,339	455,882	0.3%

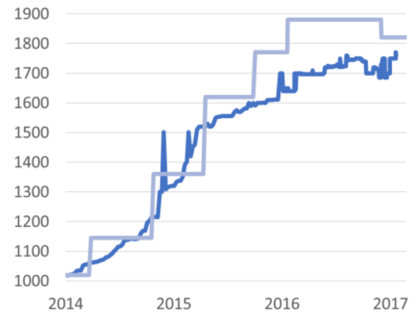
Non-interest income decreased by 3.1%, which is a disappointment versus our expectations. However, on a normalized basis, excluding once-off Kwanza trading income and the income of Welwitschia Insurance Brokers (WIB) sold in July 2016, non-interest income increased by 11.6%. Non-interest income now makes up 39.2% of total operating income, from 40.9% in the preceding year.

While top line growth was relatively sluggish, operating expenses were well contained, growing at only 0.7%. Normalising this figure for the sale of WIB, yields an increase of 4.5% in expenses. While other Namibian financial institutions have been affected by increasing compliance costs, CGP has done well to keep the cost to income ratio stable at 49.0%.

Total assets grew by 3.1%. Loans and advances growth was similarly muted, growing by 6.2%, from N$25.5bn to N$27.1bn. Once again growth in advances was mostly driven by increases in overdrafts and mortgages, while loans to other banks decreased by a massive 81.4% to N$268.4m from N$1.4bn in the previous reporting period.

Funding growth was also muted increasing by 1.5%. Deposits from customers increased by 2.9%, from N$26.6bn to N$27.3bn. Loans from other banks

CGP Share Price



Dividends

Notice is hereby given that an interim dividend of 30 cents per ordinary share was declared on 22 February 2017 for the period ended 31 December 2016.

- Last day to trade cum dividend: 3 March 2017
- First day to trade ex-dividend: 6 March 2017
- Record date: 10 March 2017
- Payment date: 24 March 2017

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decreased by 48.1% or N$197.9m, while debt securities in issue increased by N$296.2m. The slowdown in funding was largely due to a decline in market liquidity and an overall challenging economic environment. According to the bank, despite the challenging environment the group has managed to increase its maturity profile and decrease dependency on short term funding.

The group remains well capitalized with a total risk-based capital adequacy ratio of 15.6%, up from 14.5% in 1H16, well above the minimum regulatory requirement of 10%.

The company announced an interim dividend of 30 cents per share, unchanged from the interim dividend of 1H16. This implies a payout ratio of 32.7% slightly lower than the 32.9% witnessed in 1H16.

Pending further analysis of the 1H17 results and management discussion, we maintain our BUY recommendation on Capricorn Group. Please note that our target price will be revised with our full report on the 1H17 results.

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