CAPRICORN INVESTMENT GROUP

1H18 Initial Impression

March 2018

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Capricorn Investment Group Ltd

1H18 Initial Impression

Target Price (c)*	***1829***
Current Price (c)	1799

Year End 30 June	2016	2017	F2018*	F2019*	F2020*
Net interest income (N$m)*	1,458	1,649	2,098	2,290	2,290
Non-interest income (N$m)*	954	998	1,263	1,442	1,442
Profit (N$m)*	905	918	1,136	1,317	1,317
HEPS (c)	181	182	225	260	260
DPS (c)	66	68	81	94	94
DY (%)*	3.8	3.8	4.7	5.5	5.5
P/E (x)*	9.5	9.9	7.6	6.6	6.6
P/B (x)*	2.0	1.8	1.5	1.3	1.3

Recommendation*	HOLD
NSX Code	CGP
Market Cap (N$m)	9,299
Shares in Issue (m)	516.9
Free float (%)	20.1
P/B (x)*	1.8
52 week high	1818
52 week low	1738
Expected Total Return (%)*	-11.6

Source: CGP, IJG

**unchanged from FY17 review*

1H18 Initial Impression

Capricorn Investment Group (CGP) released interim results for the period ended 31 December 2017. Profit after tax for the period increased by 6.4% over the corresponding period last year. Basic earnings per ordinary share and fully diluted earnings per ordinary share both increased by 2.0%. A dividend of 30cps was declared for the period.

Net interest income was up 19.6% to N$896.7m, although normalised for the Capricorn Investment Holdings Botswana (CIHB) and Cavmont Capital Holdings Zambia (CCHZ) acquisitions net interest income decreased by 0.7%. This is due to two factors according to the financials; 1) interest rate cuts in both Namibia and Botswana, and 2) the restructuring of the Bank Windhoek (BW) balance sheet reflecting slower growth of loans and advances, and strong growth in liquid assets. The increased use of liquid assets has led to a reduction in BW's interest margin.

Non-interest income increased by 26.1% to N$588.1m, which includes the sale of a portion of the shareholding in Visa Inc. Normalised non-interest income increased by 1.8% when compared to the prior year. The sale of the shareholding in Visa Inc resulted in a capital profit of N$42.6m. An increase in non-interest income from transactional and electronic channels within Bank Windhoek was partially offset by a contraction in trading revenue in both CIHB and CCHZ.

Normalised operating expenses increased by 11.6% (vs normalised interest income of -0.7% and non-interest income of 1.8%) to N$840.7m. The increase in operating costs was due to 1) three new branches opening in Namibia, 2) an increase in technology costs of 17.3%, and 3) capacity building within digital channels, marketing and strategic customer capabilities. The normalised cost to income ratio for the period was 59.9% compared to 54.1% in 1H17. Costs are thus growing quickly in relation to revenue. Further analysis of the nature of these cost increases (once off or recurring) will take place in our full review of the period.

Normalised loans and advances increased by 7.7% to N$34.1bn. This is due to subdued demand for debt in Namibia and Botswana as well as the restructuring of the BW balance sheet, according to the company. This does not necessarily mean that BW loans and advances growth came in below private sector credit extension growth of 5.1% for the 12 months ended 31 December 2017, but it may well be the case.

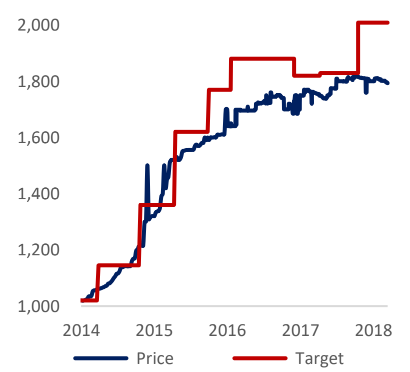
Non-performing loans rose from 2.02% to 2.96% on a normalised basis attributable to BW. BW classified four large loans as non-performing during the period. These loans are said to be well secured in the performance overviews. The uptick in non-performing loans is once again reflective of the current recessionary environment.

CGPs loan to funding improved from 93.9% to 88.1% y/y. BW funding increased by 13.7% well in excess of loans and advances growth. This is largely due to growth in term deposits and senior debt. As mentioned earlier, this has resulted in some contraction in the net interest margin but is prudent in the current environment.

The group remains well capitalised with the risk-based capital adequacy ratio declining from 16.4% in 1H17 to 15.0% at present. This is a slight improvement from the FY17 ratio of 14.8%. The Tier 1 risk-based capital ratio has declined somewhat from 13.9% to 12.9% but remains adequate.

Overall performance for the period was muted when viewed on a normalised basis. The increase in impairment charges (49.0% y/y) and non-performing loans is to be expected in the current environment. The economic contraction expected in 2017 has weighed on both consumer and business confidence in Namibia which is reflected in the muted performance from the banking sector. Increases in operating expenses, margin compression and an increase in non-performing loans and impairments are the main challenges faced by CGP. Performance from the recently acquired CIHB and CCHZ has been similarly constrained. CGP has indicated that an acquisition of a further 15% in CIHB has been approved by the board. Furthermore, a stake of 33.33% in locally listed Nimbus Infrastructure Ltd took place during the period under review. Pending a meeting with management and full review of the results we maintain our HOLD recommendation on CGP. Our target price will be adjusted in our full 1H18 review.

CGP Share Price vs Target Price



Dividends

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

- Last day to trade: 02 March 2018
- Payment date: 20 March 2018

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