CAPRICORN INVESTMENT GROUP

1H19 Initial Impression

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Capricorn Investment Group Ltd

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Current Price (c) 1575

Year End 30 June	2016	2017	2018	F2019	F2020
Net interest income (N$m)	1,458	1,649	1,818	1,958	2,178
Non-interest income (N$m)	954	998	1,225	1,335	1,469
Profit (N$m)	905	918	934	976	1,087
HEPS (c)	181	182	158	175	212
DPS (c)	66	68	60	65	77
DY (%)	3.8	3.8	3.6	3.8	4.6
P/E (x)	9.5	9.9	10.7	9.9	8.1
P/B (x)	2.0	1.8	1.5	1.4	1.3

Recommendation*	HOLD
NSX Code	CGP
Market Cap (N$m)	8,177
Shares in Issue (m)	519.2
Free float (%)	20.1
P/B (x)*	1.5
52 week high	1799
52 week low	1540

Source: CGP, IJG

1H19 Initial Impression

Capricorn Investment Group (CGP) released interim results for the period ended 31 December 2018. All in all, the results exceeded expectations, although a large portion of the outperformance was due to the acquisition of Entrepo.

Profit after tax for the period increased by 6.1% over the corresponding period last year. Basic earnings per ordinary share and fully diluted earnings per ordinary share increased by 9.6% and 9.8% respectively. A dividend of 30cps was declared for the period, unchanged from dividend declared in 1H18.

Net loans and advances increased by 10.2% y/y to N$37.6 billion. The increase is mainly attributable to the inclusion of Entrepo, but strong growth in commercial loans from Bank Windhoek (increasing by 27.5% y/y) added roughly N$1.4 billion to total advances. Financial assets designated at fair value through profit or loss, made up mostly of treasury bills and money market investments, increased by 34.2% y/y, up from N$4,299.4 million to N$5,768.2 million. Total interest income increased by 12.5% y/y to N$2,373.1 million.

Deposits grew by 6.2% from N$32.8 billion to N$34.8 billion, which was mostly attributable to increases in wholesale funding in the form of NCDs and demand deposits. Debt securities increased by 11.2% from N$4,270.9 million to N$4,750.2 million while other borrowings increased by 20.8% from N$1,388.4 million to N$1,677.3 million. Interest expense grew by 5.9% y/y to N$1,089.2 million. CGPs loan to funding deteriorated from 88.1% y/y to 90.1% as total funding increased by 8.5%, which was below the growth in gross advances of 12.2%.

Net interest income increased by 21.5% to N$1,089.2m. Of this, Entrepo contributed 6.9 percentage points of the growth while Bank Windhoek contributed 10.8 percentage points. This was largely due to expanding net interest margins in the Namibian operations. The widening margins were as a result of both higher average interest rates charged and improved cost of funding. However, the net interest margins of the Botswana and Zambian operations contracted due to adverse liquidity conditions in those markets which increased funding costs. On group level the net interest margin improved from 4.0% to 4.7%.

Non-performing loans have increased from N$1.0 billion to N$1.6 billion. According to the announcement, the increase was due to large (but well secured loans) being classified as non-performing. The IFRS 9 day-one adjustment saw impairment provisions increase by N$482.2 million or 156.3% y/y, which was accounted for as a direct transfer out of

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 2018.

- Last day to trade: 8 March 2019
- Ex Date: 11 March 2019
- Record date: 15 March 2019
- Payment date: 27 March 2019

distributable reserves. However, impairment charges for the six months decreased by 3.3% to N$38.2 million.

Non-interest income increased by 8.3% to N$636.9m. However, normalising for the sale of Visa Inc shares in the prior period, normalised non-interest income increased by 16.8% compared to the prior year. The increase in non-interest revenue could be attributed mainly to the inclusion of underwriting income from Entrepo, while an increase in transaction volumes and higher forex trading volumes also contributed to growth.

Operating expenses grew by 20.6% y/y, from N$840.7m to N$1,051.1m. The bulk of the increase was due to staff costs which increased by 18.8% y/y. According to the results announcement, this is a combination of salary increases and capacity building in both Capricorn Private Wealth and the IT departments. Staff expenses contributed 10.1 percentage points of the 20.6% y/y increase in operational expenditure, while the inclusion of Entrepo contributed 2.4 percentage points and operational banking expenses accounted for 3.9 percentage points of the total growth figure. The cost to income ratio for the period increased to 60.1% compared to 58.2% in 1H18 as expenses grew at a faster pace than income.

The group remains well capitalised, although the risk-based total capital adequacy ratio has declined from 15.0 % in 1H18 to 14.5% in 1H19. The ratio stood at 15.4% at the end of FY18. This is still well above the regulatory 10% minimum.

Overall performance for the period was better than expected. However, as mentioned, it seems a large amount of the contribution has been due to the Entrepo acquisition. Deposit growth has been low, while organic advances growth has also been low. Non-performing loans have been increasing, as will impairment charges going forward. Operating expenditure has not been contained well, as staff costs have continued to rise significantly. Although this can be seen as capacity building, the offsetting non-interest revenue has yet to materialise. Pending a meeting with management and full review of the results we maintain our **HOLD** recommendation on CGP. Our target price will be updated in our full 1H19 review.

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