



Capricorn Group

1H21 Initial Impression
February 2021



Research Analyst:

Dylan van Wyk
dylan@ijg.net
+264 61 383 529

0.0005	4.85%
0.0003	13.04%
0.2001	50.00%
0.0003	14.29%
0.0005	12.50%

Capricorn Group

1H21 Initial Impression

					Target Price (c)	1205
					Current Price (c)	1012
Year End 30 June	FY20A	FY21E	FY22E	FY23E	Recommendation	HOLD
Net interest income (N\$ m)	2,081	2,073	2,295	2,484	NSX Code	CGP
Non-interest income (N\$ m)	1,425	1,513	1,605	1,701	Market Cap (N\$ m)	5,244
Profit (N\$ m)	1,012	989	1,179	1,331	Shares in Issue (m)	519
HEPS (c)	195	191	227	256	Free float (%)	26.1
DPS (c)	50	59	63	75	52 week high	1545
DY (%)	5.0	5.8	6.2	7.4	52 week low	1000
P/E (x)	5.2	5.3	4.4	3.9	Expected Total Return (%)	24.4
P/BV (x)	0.8	0.7	0.6	0.7		

Source: CGP, IJG

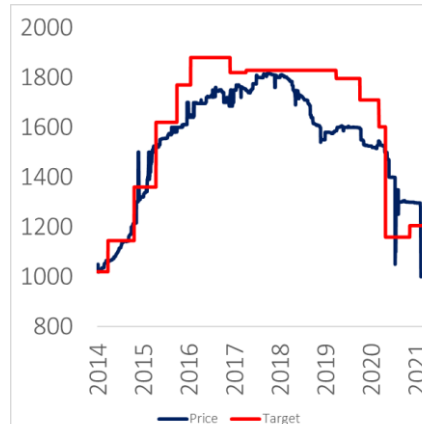
Capricorn Group released its results for the half year ended 31 December 2020. Seeing as these results cover the period from June to December 2020 the effect of the Covid-19 pandemic was expected to have a heavy impact on the financials. However, the results are still slightly below our expectations. Profit after tax from continuing operations declined by 20.6% y/y to N\$469.1 million, while headline earnings per share declined by 23.4%, as Cavmont Bank posted a loss of N\$40.9 million for the six months. The sale of Cavmont Bank Ltd was concluded on 4 January 2021 and its results were included under discontinued operations. ROE stood at 12.7% for the half year, while the ROE from continuing operations amounted to 13.9%. An interim dividend of 22 cents was declared, down from the 30 cent dividend declared for 1H20.

	1H21	1H20	%Δ
Interest and similar income	1,967,265	2,404,085	-18.2%
Interest and similar expenses	-955,057	-1,317,625	-27.5%
Net interest income	1,012,208	1,086,460	-6.8%
Impairment charges	-155,615	-54,296	186.6%
Net interest income after impairments	856,593	1,032,164	-17.0%
Non-interest income	706,382	684,573	3.2%
Operating income	1,562,975	1,716,737	-9.0%
Operating expenses	-986,029	-963,373	2.4%
Operating profit	576,946	753,364	-23.4%
Share of joint arrangement's results after tax	-	1,855	-100.0%
Share of associates' results after tax	55,013	40,895	34.5%
Profit before income tax	631,959	796,114	-20.6%
Income tax expense	-162,901	-208,261	-21.8%
Profit from continuing operations	469,058	587,853	-20.2%
Loss from discontinued operations	-40,916	-30,628	33.6%
Profit for the period	428,142	557,225	-23.2%

Source: CGP, IJG

The main drivers of the decline in profit were compressed net interest margins, as Namibia lowered its repo rate by 2.75% while Botswana dropped rates by 1.00%, coupled with higher impairment charges. The decline in interest rates led to a 18.2% y/y decline in interest income, which was offset by a larger reduction in interest expense, which declined by 27.5% y/y. As a result an overall decline of 6.8% y/y in net interest income was witnessed as Bank Windhoek saw a 0.53 percentage point reduction in its net interest margin, while Bank Gaborone's margin declined by 0.38 percentage points. Total advances grew by 2.5% y/y, bringing the total advances book to N\$40.7 billion. Impressively, Entrepo, the microlending division, saw its net interest income increase by 26.9% as its loans are issued on a fixed rate while its funding costs declined dramatically. However, Entrepo saw little growth in advances as its total assets remained flat year on year.

CGP Share Price vs Target Price

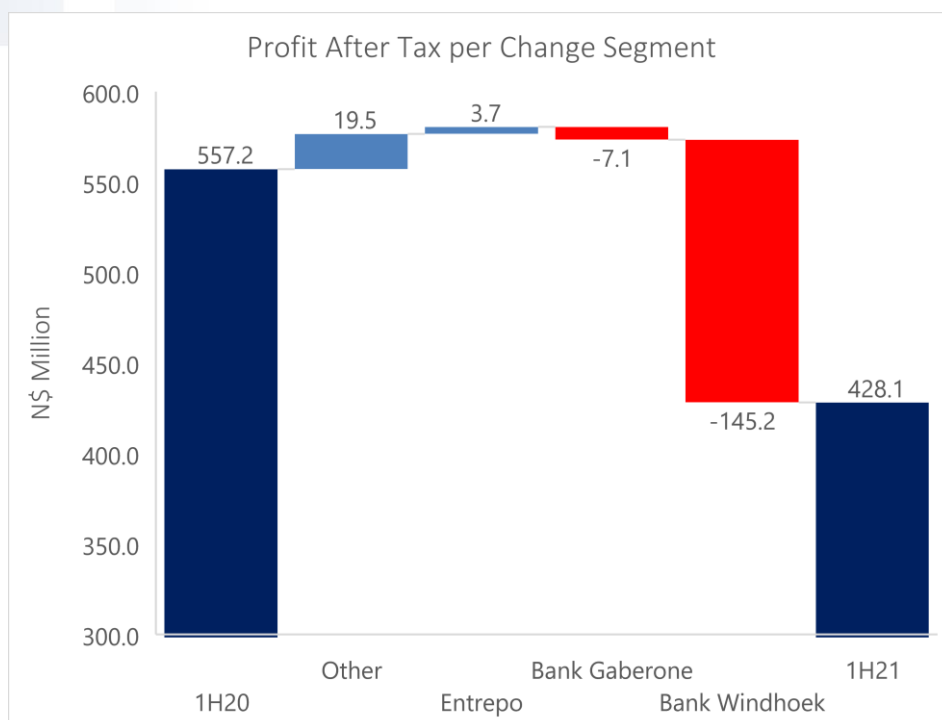


Dividends

Notice is hereby given that an interim dividend of 22 cents per ordinary share was declared for the period ended 31 December 2021

- Last day to trade: 12 March 2021
- Ex-Date: 15 March 2021
- Record date: 19 March 2021
- Payment date: 31 March 2021.

0.0005	4.85%
0.0003	13.04%
0.3001	50.00%
0.0003	14.29%
0.0005	12.50%



Source: CGP, IJG

Non-performing loans increased from 4.7% to 5.2% of total advances, increasing by 12.7% y/y to N\$2.2 billion. This is still below the industry average which stood at 6.4% at the end of September 2020 but is starting to reach uncomfortable levels. Due to the uptick in NPLs and heightened uncertainty, impairments were substantially higher than the pre-pandemic levels, increasing by 186.6% y/y to N\$155.6 million. This is a bit higher than IJG's expectation of N\$305 million worth of impairments for the full FY21. According to the financial statements, the Group applied a prudent forward-looking approach, consistent with the requirements of IFRS 9. The increased impairments saw the NPL coverage ratio increase from 44.8% to 53.2%.

Non-interest income grew at 3.2% y/y which was bolstered by a 5.6% y/y increase in transaction fees from electronic channels. Once again, Capricorn Asset Management, the Group's investment arm, posted solid growth in asset management fees of 13.0% y/y to N\$77.4 million. On the other hand, trading revenues suffered a decline of 22.7% y/y. Income from associates also saw strong growth of 34.5% y/y to N\$55 million, mainly due to the additional contribution from the Paratus Group.

Operating expenditure was well contained growing by only 2.4% y/y to N\$986.0 million, which is in line with inflation. Once again, the operating expenses were affected by a depreciating exchange rate, which saw the Group's IT and technology costs increase by 21.5% y/y. The Group remarked in the financial statements that roughly 80% of their operating expenditure is fixed, and could not be adjusted to align with the decline in income.

Overall, the results are just below IJG's expectations, as the decline in net interest income and increase in impairments were a given. The share price has declined dramatically from the start of the year, down 22.0% to only N\$10.12, which may indicate that there could be some value in the share at current levels. However, the economic climate remains daunting, and impairments are likely to remain high for the foreseeable future. As the results were roughly in line with our expectations and the price per share has decreased substantially below our target we upgrade our recommendation to a HOLD with our target price unchanged pending a meeting with management and full review of the results.



IJG Holdings

Group Chairman

Mathews Hamutenya
Tel: +264 (61) 256 699

Group Managing Director

Mark Späth
Tel: +264 (61) 383 510
mark@ijg.net

Group Financial Manager

Helena Shikongo
Tel: +264 (61) 383 528
helena@ijg.net

Group Compliance Officer

Zanna Beukes
Tel: +264 (61) 383 516
zanna@ijg.net

IJG Securities

Managing Director Designate

Eric van Zyl
Tel: +264 (61) 383 530
eric@ijg.net

Financial Accountant

Tashiya Josua
Tel: +264 (61) 383 511
tashiya@ijg.net

Settlements & Administration

Maria Amutenya
Tel: +264 (61) 383 515
maria@ijg.net

Sales and Research

Danie van Wyk
Tel: +264 (61) 383 534
danie@ijg.net

Equity & Fixed Income Dealing

Leon Maloney
Tel: +264 (61) 383 512
leon@ijg.net

Financial Accountant

Gift Kafula
Tel: +264 (61) 383 536
gift@ijg.net

Sales and Research

Dylan van Wyk
Tel: +264 (61) 383 529
dylan@ijg.net

IJG Wealth Management

Managing Director

René Olivier
Tel: +264 (61) 383 520
rene@ijg.net

Portfolio Manager

Ross Rudd
Tel: +264 (61) 383 523
ross@ijg.net

Money Market & Administration

Emilia Uupindi
Tel: +264 (61) 383 513
emilia@ijg.net

Wealth Manager

Andri Ntema
Tel: +264 (61) 383 518
andri@ijg.net

Wealth Administration

Lorein Kazombaruru
Tel: +264 (61) 383 521
lorein@ijg.net

Wealth Administration

Madeline Olivier
Tel: +264 (61) 383 533
madeline@ijg.net

Wealth Manager

Wim Boshoff
Tel: +264 (61) 383 537
wim@ijg.net

IJG Capital

Managing Director

Jakob de Klerk
Tel: +264 (61) 383 517
jakob@ijg.net

Business Analyst

Mirko Maier
Tel: +264 (61) 383 531
mirko@ijg.net

Business Analyst

Lavinia Thomas
Tel: +264 (61) 383 532
lavinia@ijg.net

Business Analyst

Fares Amunkete
Tel: +264 (61) 383 527
fares@ijg.net

IJG Advisory

Managing Director

Herbert Maier
Tel: +264 (61) 383 522
herbert@ijg.net

Director

Jolyon Irwin
Tel: +264 (61) 383 500
jolyon@ijg.net

No representation is given about, and no responsibility is accepted, for the accuracy or completeness of this document. Any views reflect the current views of IJG Holdings (Pty) Ltd. The views reflected herein may change without notice. IJG Holdings (Pty) Ltd provides this document to you for information purposes only and should not be constructed as and shall not form part of an offer or solicitation to buy or sell securities or derivatives. It may not be reproduced, distributed or published by any recipient for any purposes.

Talk to **IJG** today ...

and let us make your money work for you

4th Floor, 1@Steps, C/O Grove and Chasie Street, Kleine Kuppe, Windhoek

P O Box 186, Windhoek, Namibia

Tel: +264 (61) 383 500 www.ijg.net

STOCKBROKING | PRIVATE EQUITY | WEALTH MANAGEMENT | ADVISORY

