



1H21 Results Review

March 2021



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0.0005	4.85%
0.0003	13.04%
2.0001	50.00%
0.0003	14.29%
0.0005	12.50%

Capricorn Group Limited

1H20 Results Review

Target Price (c)	1227
Current Price (c)	1273

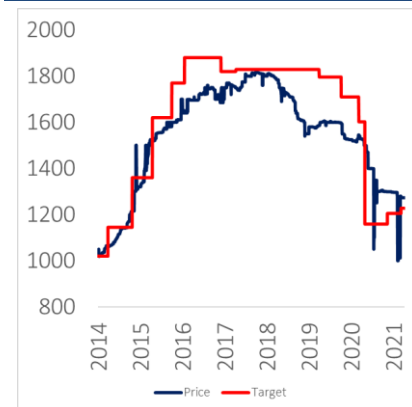
Year-End 30 June	FY20A	FY21E	FY22E	FY23E	Recommendation	HOLD
Net Interest Income (N\$m)	2,081	1,936	2,084	2,214	NSX Code	CGP
Non-Interest Income (N\$m)	1,425	1,470	1,525	1,586	Market Cap (N\$m)	6,609
Profit (N\$m)	1,012	854	965	1,028	Shares in Issue (m)	519
HEPS (c)	149	135	153	162	Free float (%)	26.1
DPS (c)	50	54	61	65	52 week high	1545
DY (%)	3.9	4.2	4.8	5.1	52 week low	1000
P/E (x)	8.6	9.4	8.3	7.8	Expected Total Return (%)	0.7
P/BV (x)	1.0	0.9	0.8	0.8		

Source: CGP, IJG, Bloomberg

1H21 Results Review

- The Group's profit from continuing operations decreased by N\$118.8 million a decrease of 20.2% from the comparable period.
- HEPS declined by 22.7% y/y.
- The drop in profit is attributed mainly to contracting net interest margins following 275 basis points of interest rate cuts in Namibia and 100 basis point reduction in Botswana.
- NIM is expected to remain compressed over the forecast period.
- Entrepo performed remarkably well, seeing as its interest income is fixed, while its funding costs are variable combined with a 10.6% y/y increase in microlending advances.
- NIR showed decent growth and continued migration to electronic channels.
- Operating expenditure was well contained, expected to grow inline with NCPI over the next three years.
- The sale of Cavmont bank was concluded on 4 January 2021 and is reported as a discontinued operation.
- The disposal of the loss-making operation should have a material and long-term positive effect on the group.
- IJG has reviewed its forecasts for FY21 – FY23 and has updated its target price to 1227 cps.
- Dividends for FY21 is expected to total 54cps.
- A total return of 0.7% is expected at the current share price
- IJG maintains its **HOLD** recommendation on the counter.

CGP Share Price vs Target Price



Dividends

Dividend (interim): 22c/share

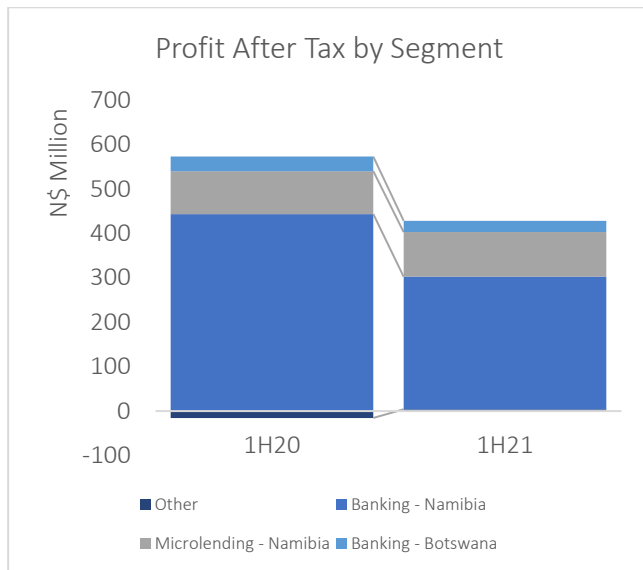
- Last day to trade: 12 March 2021
- Ex-Date: 15 March 2021
- Record date: 19 March 2021
- Payment date: 31 March 2021.



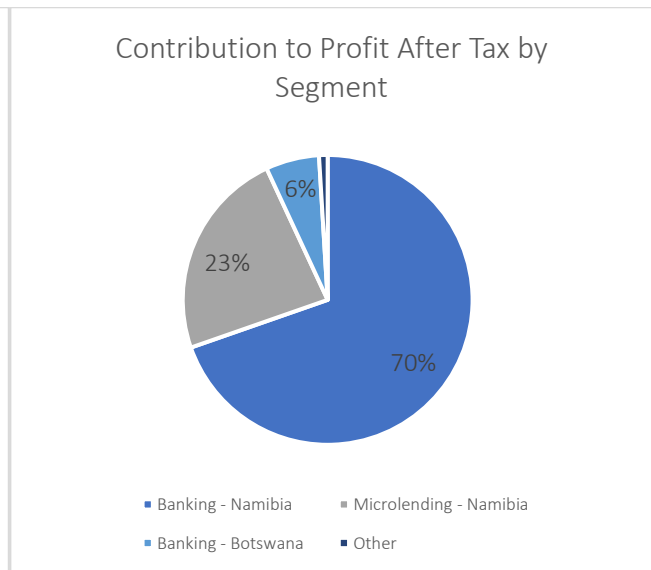
Key Performance Drivers

	FY19A	FY20A	FY21E	FY22E	FY23E
Advances Growth	5.0%	5.3%	1.8%	2.5%	3.0%
NIM	4.3%	4.1%	3.5%	3.6%	3.7%
NIR Growth	4.1%	11.7%	3.2%	3.7%	4.0%
CLR	0.33%	0.76%	0.90%	0.80%	0.75%
Cost Growth	2.4%	3.4%	2.6%	4.5%	6.0%
ROE	17.2%	15.7%	12.2%	12.7%	12.5%
HEPS	181.6	148.6	135.0	152.7	162.5
HEPS Growth	0.6%	-18.2%	-9.1%	13.1%	6.4%

Source: CGP, IJG



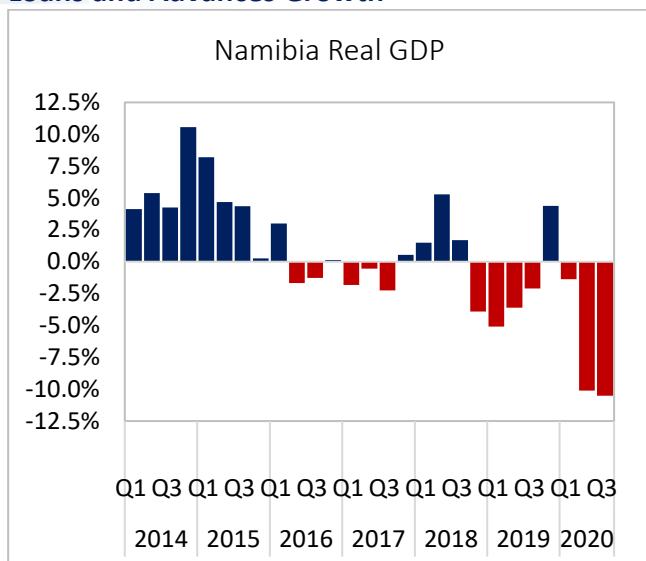
Source: IJG, CGP



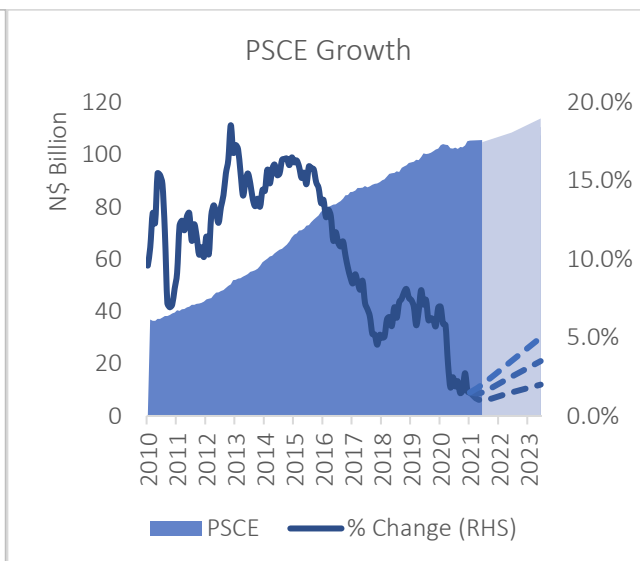
Source: IJG, CGP

- Profit after tax declined by N\$129.1 million or 23.2% y/y to N\$428.1 million for the half year.
- Namibian banking segment contributed mostly to the decline due to contracting net interest margins and increased impairments.
- Botswana performed well, but also suffered contracting margins and impairment losses.
- The microlending business performed very well, due to fixed interest rates on advances and strong growth in the advances book.
- Entrepo accounted for 23% of the group's income in 1H21, up from 17% in 1H20.

Loans and Advances Growth

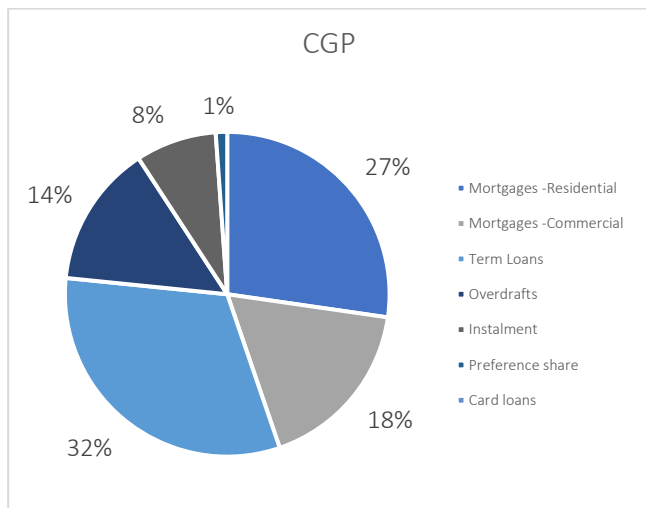


Source: NSA, IJG

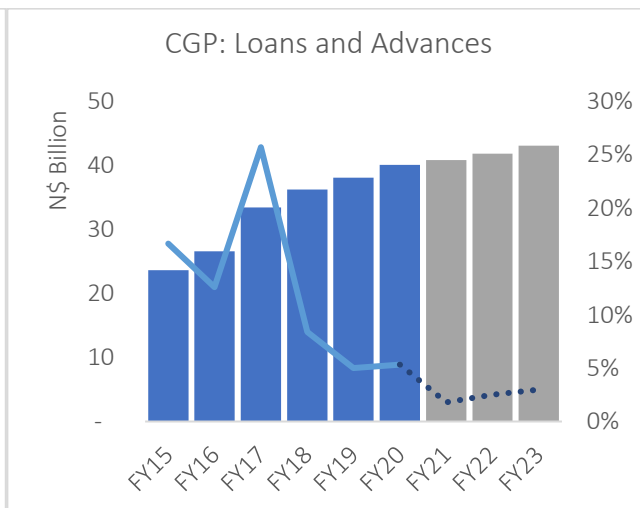


Source: BoN, IJG

- GDP growth for 2020 is expected to contract by 7.3% in 2020, posting growth of 2.7% in 2021 and 3.3% in 2022 according to the Bank of Namibia.
- Similarly, Botswana is expected to contract by 6.4% in 2020, but is expected to rebound sharply in 2021, growing by 8.8% as mining activity picks up.
- Low economic growth has translated into low PSCE growth, which amounted to 1.6% y/y as at 31 December 2020.
- PSCE growth is expected to remain below 5% over the next three years.



Source: IJG, CGP



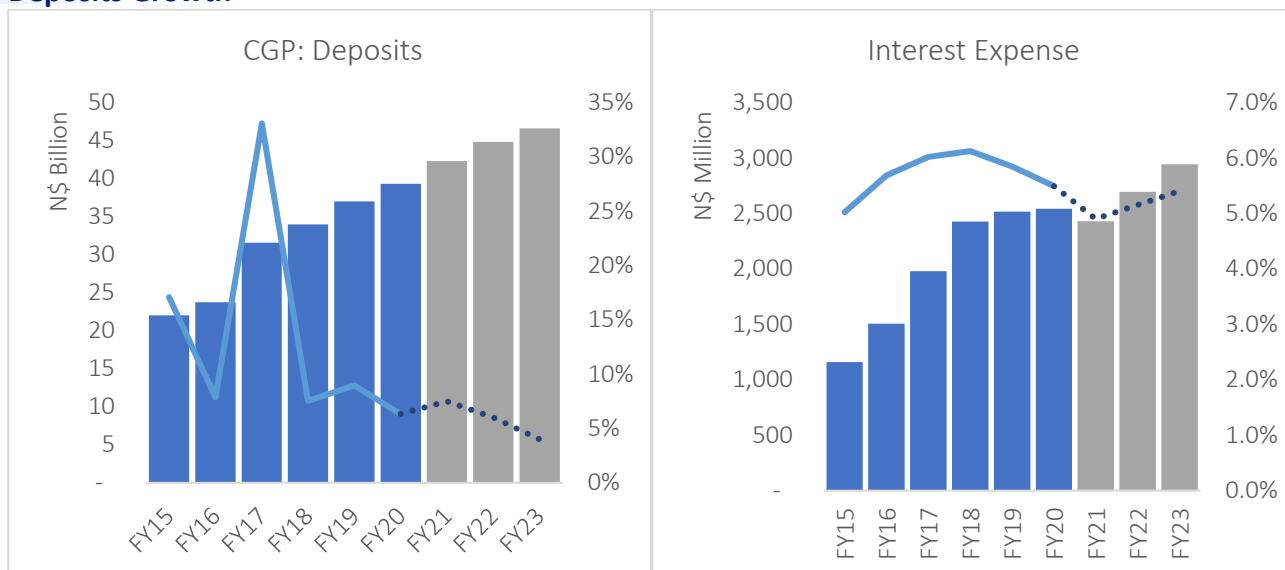
Source: IJG, CGP

- Capricorn was able to grow advances by 1.8% y/y,
 - Bank Windhoek increased advances 4.8% y/y attributable to commercial loans, overdrafts and mortgage loans.
 - Bank Gaborone increased gross loans and advances by 2.3% y/y to BWP4.8 billion in local currency terms (-4.7% y/y in NAD). The currency impact on BG is the reason for the low overall advances growth.
 - Entrepo's term advances grew 10.6% y/y.
- We expect loans and advances to grow by 1.8% in FY21, 2.5% in FY22 and 3.0% in FY23.
- Much of this is expected to come from continued growth in advances from the microfinance segment.





Deposits Growth

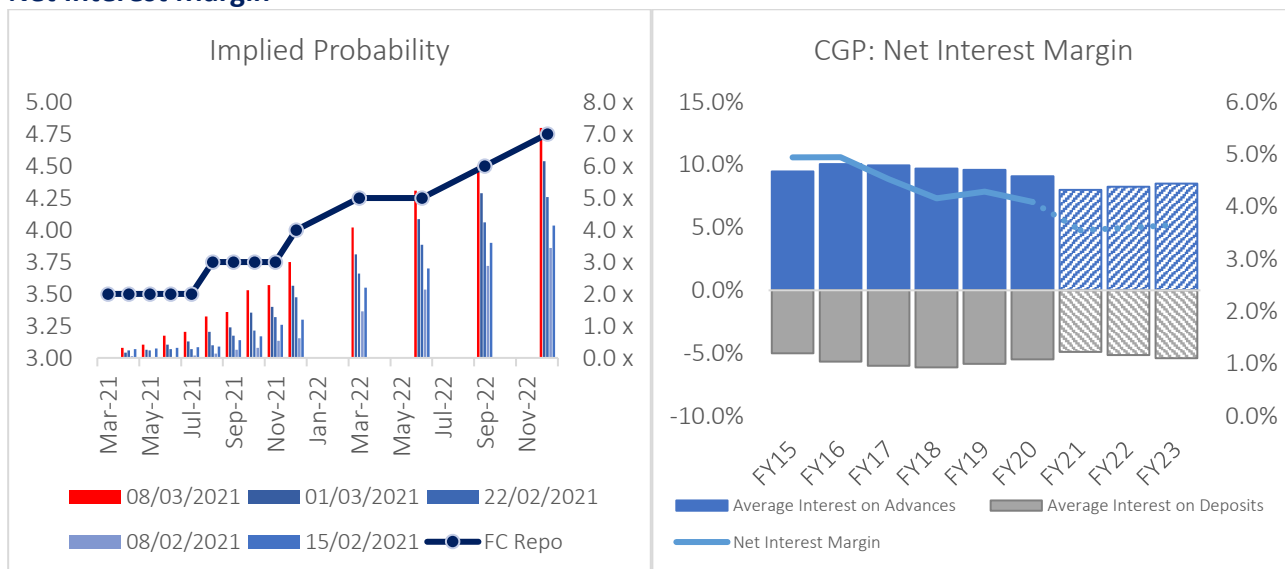


Source: IJG, CGP

Source: IJG, CGP

- Total assets increased by 6.3% y/y but declined by 0.2% in the last 6 months.
- Deposit growth outran advances, growing by 7.1% y/y.
- The Namibian budget deficit is expected to amount to N\$17.6 billion or 10.1% of GDP in 2020/21, 7.3% in 2021/22 and 6.4% in 2022/23.
- These large deficits will be primarily funded from domestic sources, much of which consists of short-term treasury bills, and this poses a serious risk of crowding out banking deposits.
- Increasing yields on TBs, combined with possible interest rates hikes in SA poses a risk of funding rates increasing rapidly.
- According to management liquidity takes precedence over funding cost and they are positioning themselves for adverse liquidity conditions.

Net Interest Margin



Source: IJG, Bloomberg

Source: IJG, CGP

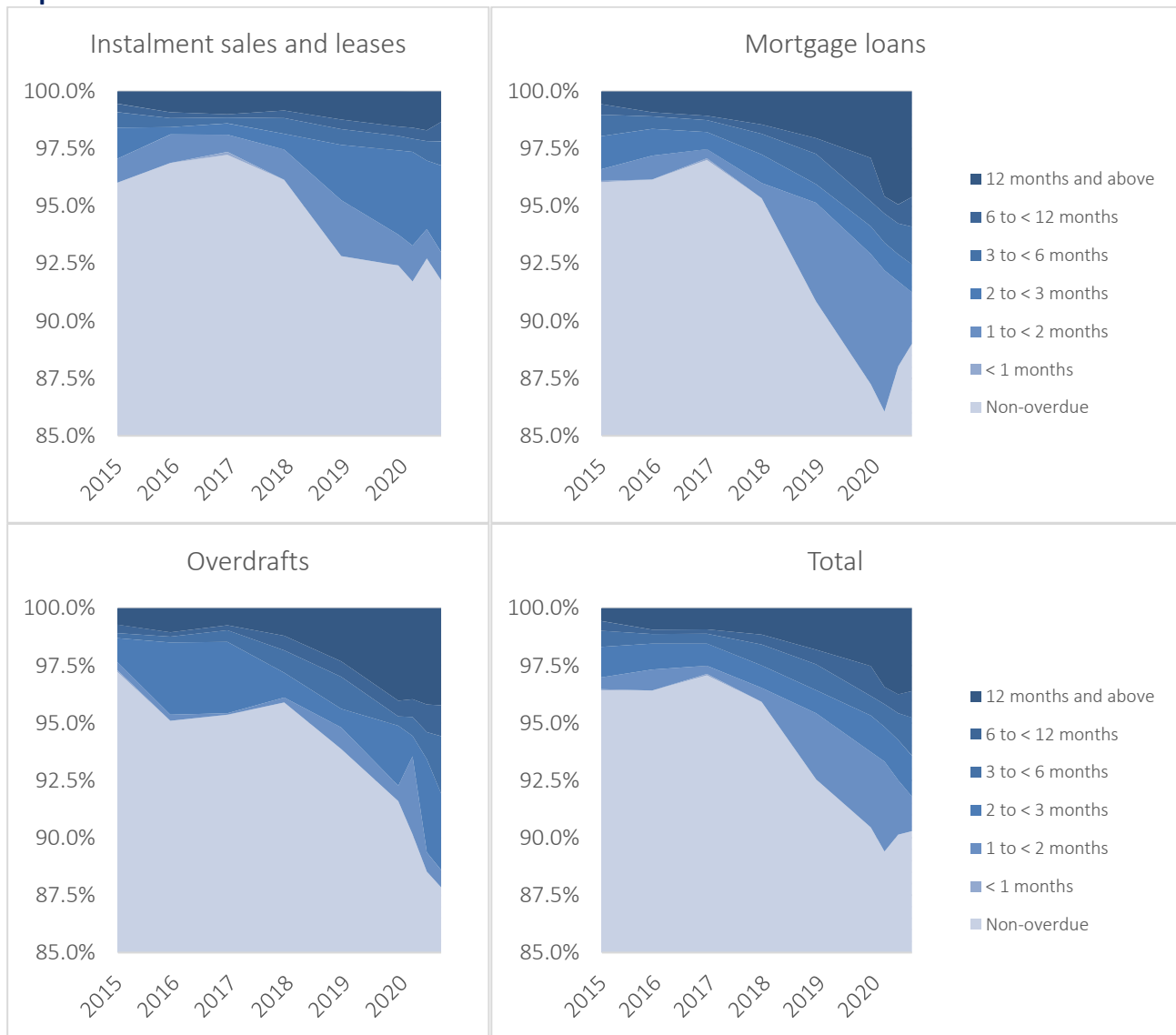
- Interest income declined by 18.2% y/y while interest expense declined by 27.5% y/y.
- Net interest income was down 6.8% y/y





- The net interest margin was negatively impacted by interest rates in Namibia decreasing by 275 basis points, while interest rates in Botswana decreased by 100 basis points.
- Bank Windhoek net interest margin contracted by 0.53%, while Bank Gaborone’s margin contracted by 0.38%.
- IJG believes that it is likely for interest rates to remain at current levels for longer as both expected GDP growth and inflation are expected to remain relatively low.
- Bank of Namibia currently holds a 25bps buffer over the South African repo rate, which we expect to remain intact until the eventual start of a rate hiking cycle.
- IJG expects the group’s NIM to decrease from 4.09% in FY20 to 3.55% in FY21 improving slightly to 3.65% by FY23.

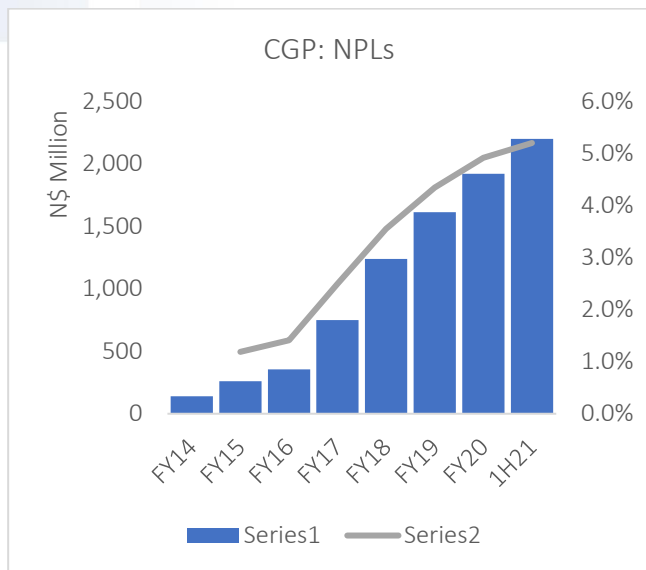
Impairments



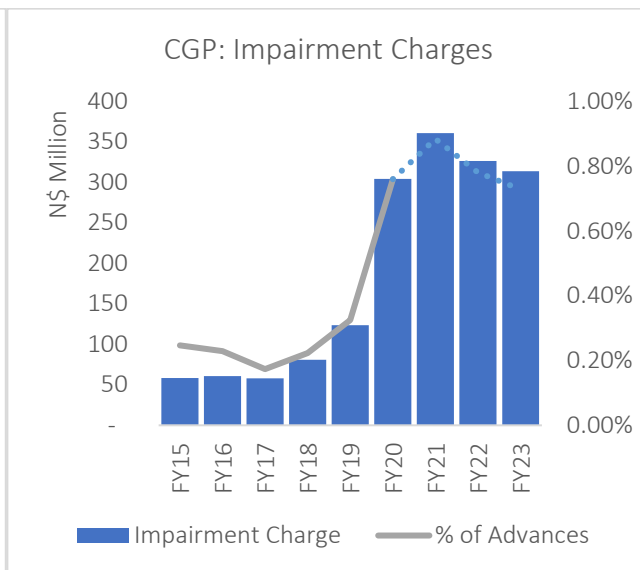
Source: Bank of Namibia, IJG

- Banking sector arrears have deteriorated significantly over the last couple of years.
- Total non-performing loans stood at 6.4% of total industry loans as at September 2020.
- There seems to be some deceleration in the downward trend in mortgages and instalment sales NPLs, however, these numbers remain worryingly high at 7.5% and 3.2% respectively.
- NPLs on overdrafts now stand at 8.1% of total advances.





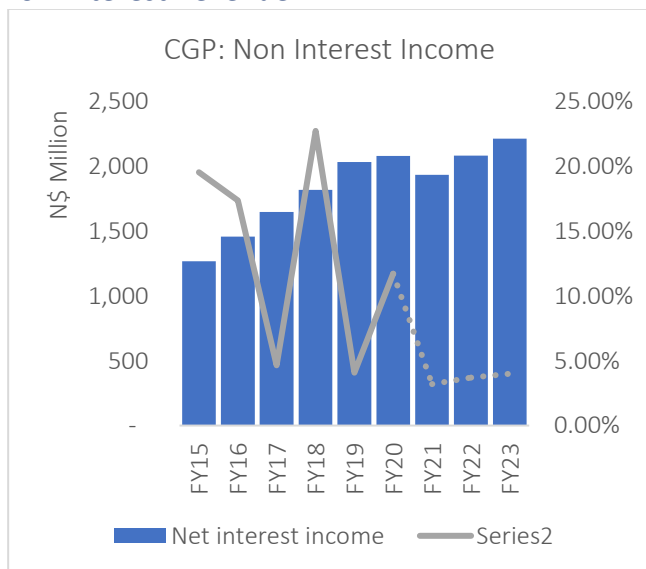
Source: IJG, CGP



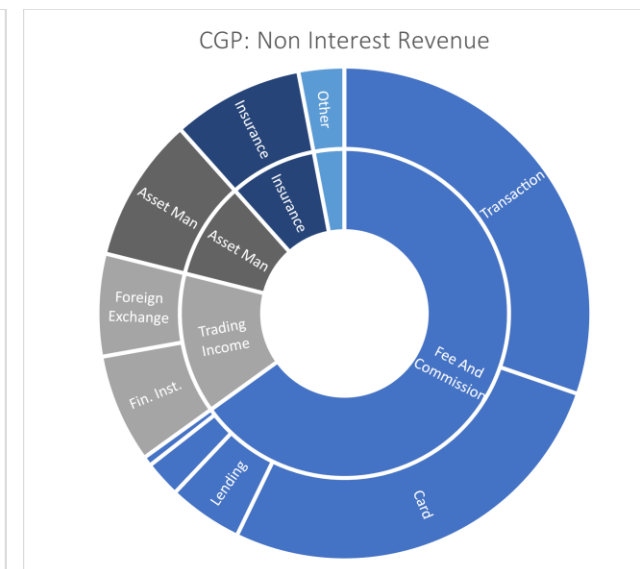
Source: IJG, CGP

- NPLs increased by 12.7% y/y to N\$2.2 billion or 5.2% of advances.
- Impairment charges increased by 186.6% y/y to N\$155.6 million for 1H12.
- NPL coverage ratio increased to 53.2% (44.8% Dec 19).
- IJG expects NPLs to moderate going forward, but to stay above 5.0%.
- Impairment charges are likely to remain elevated over the next three years.
- IJG expects impairment charges at 0.88% for FY21, declining to 0.73% by FY23.

Non-Interest Revenue



Source: IJG, CGP



Source: IJG, CGP

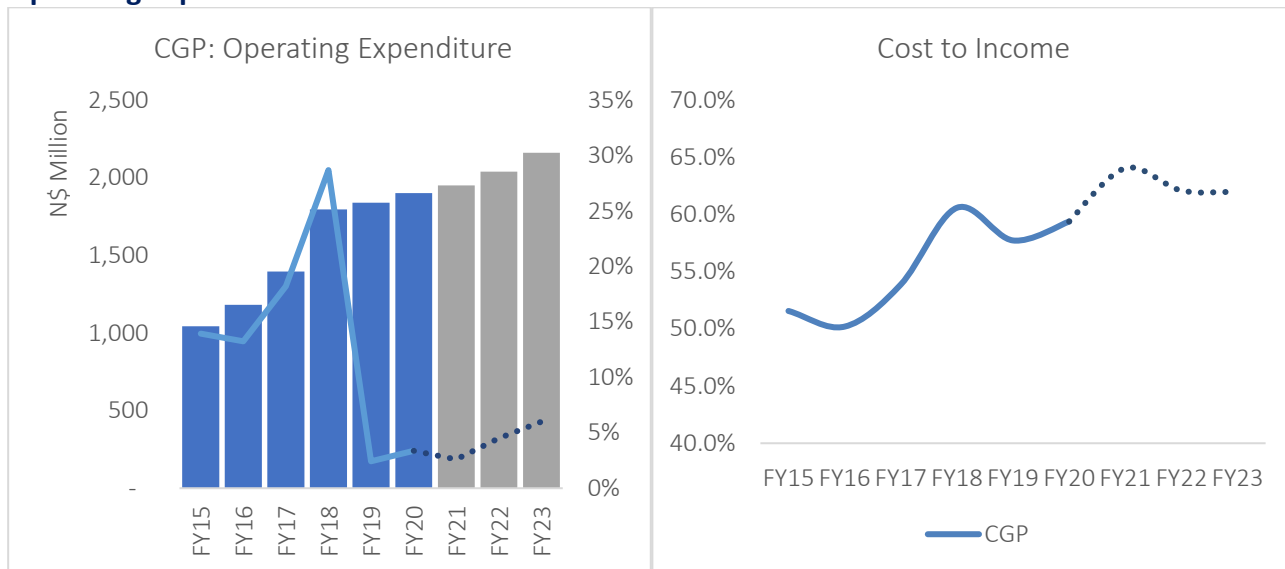
- Non-interest income increased by 3.2% y/y for 1H21.
 - Growth came mainly from 5.6% y/y increase in electronic channels.
 - Asset management fees increased by 13.0% to N\$77.4 million.
 - Trading revenue declined by 22.7% y/y.
- IJG expects modest increases in NIR, of roughly 4.0% p.a. over the next three years.
- Income from associates increased by 34.5% y/y to N\$55.0 million due to an increased stake in Paratus Group.
 - Paratus has entered into a joint venture with Telecom Namibia to land the Google's Equiano subsea internet cable, expected in the second half of 2022.





- This connection will give Namibia approximately 20 times more network capacity than the existing WACS cable.
- This should translate into higher revenues for the telecommunication provider going forward.

Operating Expenditure

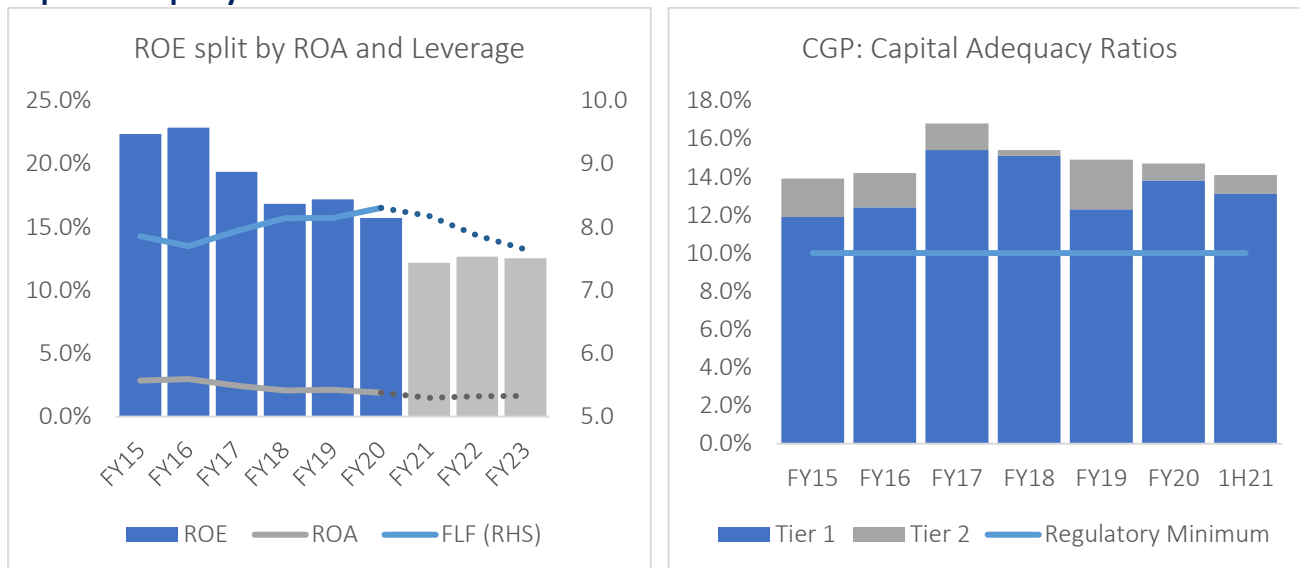


Source: IJG, CGP

Source: IJG, CGP

- Operating expenses were well contained increasing by 2.4% y/y.
- 80% of group’s operating expenditure is fixed and could not be re-adjusted.
- Technology costs drove increases, up 21.5% y/y due to depreciating USDZAR.
- Cost to income to spike in FY21, before normalising to around the 60% level.

Capital Adequacy



Source: IJG, CGP

Source: IJG, CGP

- Group remains well capitalised with a total risk-based capital adequacy ratio of 14.1%.
- 10% minimum regulatory requirement will likely not be changed soon.
- ROA is expected to decline from 1.9% in FY20 to 1.5% in FY21.
- We expect the ROE to remain low over the next three years due to lower NIMs and heightened impairments.
- ROE is expected to range between 12.0% and 12.7% over the next three years.



Valuation

The output of our valuation model is presented below.

	Value (N\$'000)	Price per Share	Price to Earnings	Forward PE	Price to Book	Forward PB	Dividend Yield	Forward DY	Weight
Residual Income	N\$6,411	12.35	8.3	9.1	1.0	0.9	4.0%	4.4%	25%
Dividend Discount	N\$5,825	11.22	7.5	8.3	0.9	0.8	4.5%	4.8%	25%
Justified Price to Earnings	N\$6,747	13.00	8.7	9.6	1.0	0.9	3.8%	4.2%	25%
Justified Price to Book	N\$6,506	12.53	8.4	9.3	1.0	0.9	4.0%	4.3%	25%
Weighted Average	N\$6,372	12.27	8.3	9.1	0.9	0.9	4.1%	4.4%	100%

Source: IJG

- Based on the table above, we derive a **target price of N\$1227** per share based on our base case estimates.
- Coupled with expected dividends of 54cps over the next 12 months, we expect a **total return of 0.1%**.
- Based on our assessment of intrinsic value and continuing economic headwinds, we maintain our **HOLD** recommendation on the Capricorn Group.

	Bull Case			Bear Case		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Advances Growth	2.0%	3.0%	4.0%	1.0%	2.0%	3.0%
NIM	4.0%	4.1%	4.2%	3.1%	3.1%	3.2%
NIR Growth	3.2%	3.7%	4.0%	3.2%	3.7%	4.0%
CLR	0.70%	0.70%	0.70%	1.10%	1.10%	1.10%
Cost Growth	2.6%	4.5%	6.0%	2.6%	4.5%	6.0%
ROE	15.5%	15.1%	14.5%	8.4%	8.3%	8.1%
HEPS	173.6	187.8	196.9	92.0	96.2	97.8
HEPS Growth	16.8%	8.2%	4.9%	-38.1%	4.6%	1.7%

Source: IJG, CGP

- IJG has also conducted a bull case and bear case scenario for CGP
- Based on the above assumptions IJG calculates a **1338 cps** target price given the **bull scenario** and a **1043cps** target price given the **bear scenario**.
- This translates to a **-15.0% total return given the bear case** and a **10.0% total return given the bull case**.
- Based on our assessment of intrinsic value and continuing economic headwinds, we maintain our **HOLD** recommendation on the Capricorn Group.

Summary of Financial Statements

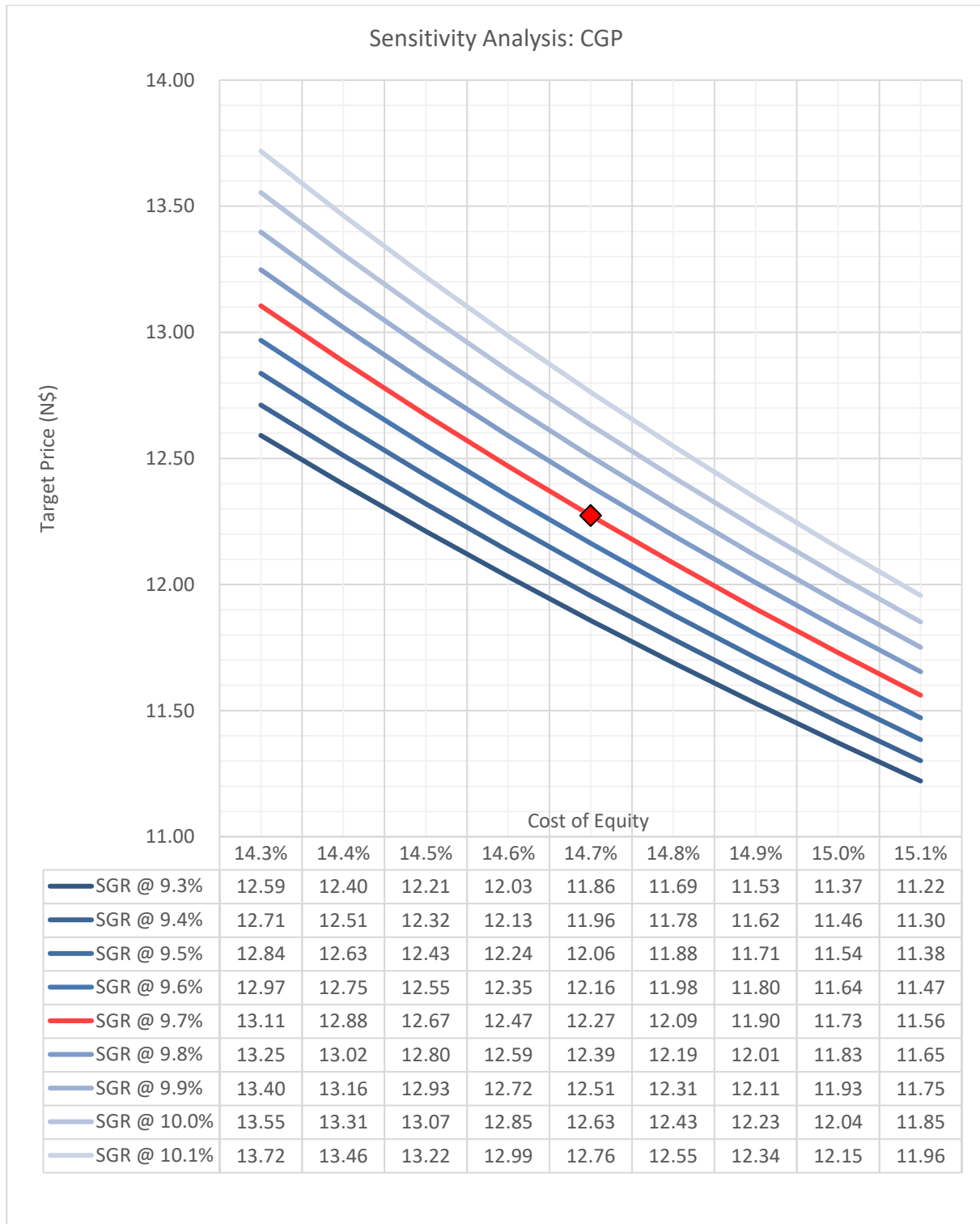
<i>in N\$ 000s</i>	<i>Actual</i>		<i>Forecast</i>		
	FY19	FY20	FY21	FY22	FY23
<i>Interest and similar income</i>	4,547,733	4,622,831	4,364,473	4,778,266	5,155,963
<i>Interest and similar expense</i>	(2,513,987)	(2,541,932)	(2,428,853)	(2,694,028)	(2,941,681)
<i>Net interest income</i>	2,033,746	2,080,899	1,935,620	2,084,238	2,214,282
<i>%Growth</i>	11.8%	2.3%	-7.0%	7.7%	6.2%
<i>Impairment losses</i>	(123,698)	(304,371)	(360,708)	(326,400)	(313,650)
<i>Non-Interest Income</i>	1,275,253	1,424,711	1,470,302	1,524,703	1,585,691
<i>Operating expenses</i>	(1,838,732)	(1,900,877)	(1,950,300)	(2,038,063)	(2,160,347)
<i>Operating profit</i>	1,346,569	1,300,362	1,094,914	1,244,478	1,325,976
<i>%Growth</i>	15.3%	-3.4%	-15.8%	13.7%	6.5%
<i>Share of profit from joint ventures</i>	3,675	2,817	-	-	-
<i>Share of profit from associates</i>	72,657	63,711	82,824	86,966	91,314
<i>Profit before tax</i>	1,422,901	1,366,890	1,177,739	1,331,443	1,417,290
<i>Income tax expense</i>	(387,750)	(354,795)	(323,878)	(366,147)	(389,755)
<i>Profit for the year</i>	1,035,151	1,012,095	853,861	965,296	1,027,535
<i>%Growth</i>	10.8%	-2.2%	-15.6%	13.1%	6.4%
<i>Other Comprehensive Income</i>	(11,250)	(85,268)	-	-	-
<i>Total comprehensive income</i>	1,015,299	926,827	853,861	965,296	1,027,535
<i>Headline Earnings</i>	929,323	1,021,658	853,861	965,296	1,027,535
<i>%Growth</i>	0.7%	9.9%	-16.4%	13.1%	6.4%
<i>EPS (c)</i>	181.6	148.6	135.0	152.7	162.5
<i>HEPS (c)</i>	181.5	157.2	135.0	152.7	162.5
<i>Dividends declared per share (c)</i>	66.0	50.0	54.0	61.0	65.0

0.0005	4.85
0.0003	13.04
11.0001	50.00
0.0003	14.29
0.0005	12.50

<i>in N\$ 000s</i>	<i>Actual</i>		<i>Forecast</i>		
	<i>FY19</i>	<i>FY20</i>	<i>FY21</i>	<i>FY22</i>	<i>FY23</i>
ASSETS					
<i>Cash and balances with central bank</i>	1,572,616	909,117	1,500,000	1,500,000	1,500,000
<i>Financial assets designated at fair value</i>	2,037,188	2,314,333	2,314,333	2,314,333	2,314,333
<i>Investment securities</i>	4,742,725	5,773,633	8,003,172	10,166,270	11,208,597
<i>Derivative financial instruments</i>	-	-	-	-	-
<i>Due from other banks</i>	1,724,043	2,996,527	2,996,527	2,996,527	2,996,527
<i>Loans and advances to customers</i>	38,049,583	40,078,622	40,800,037	41,820,038	43,074,639
<i>% Growth</i>	5.0%	5.3%	1.8%	2.5%	3.0%
<i>Investment in associates</i>	348,716	581,800	581,800	581,800	581,800
<i>Other assets</i>	2,203,084	3,684,094	2,166,700	2,166,700	2,166,700
Total assets	50,677,955	56,338,126	58,362,569	61,545,668	63,842,596
LIABILITIES					
<i>Derivative financial instruments</i>	-	-	-	-	-
<i>Due to other banks</i>	245,703	969,143	969,143	969,143	969,143
<i>Other borrowings</i>	996,372	861,502	861,502	861,502	861,502
<i>Debt securities in issue</i>	5,670,974	5,642,291	5,642,291	5,642,291	5,642,291
<i>Deposits</i>	36,984,725	39,323,264	42,272,509	44,808,859	46,601,214
<i>%Growth</i>	8.9%	6.3%	7.5%	6.0%	4.0%
<i>Other liabilities</i>	619,403	2,811,862	1,314,974	1,314,974	1,314,974
Total liabilities	44,517,177	49,608,062	51,060,419	53,596,769	55,389,124
EQUITY					
<i>Share capital and premium</i>	720,302	718,078	718,078	718,078	718,078
<i>Non-distributable reserve</i>	85,954	34,617	34,617	34,617	34,617
<i>Distributable reserve</i>	5,009,140	5,555,410	5,974,700	6,448,710	6,953,283
<i>Non-controlling interest</i>	345,382	421,959	574,756	747,494	747,494
Total shareholders' equity	6,160,778	6,730,064	7,302,151	7,948,899	8,453,472
<i>%Growth</i>	4.6%	9.2%	8.5%	8.9%	6.3%



Sensitivity Analysis



Source: IJG



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