



Capricorn Group Limited 1H22 Initial Impression February 2022



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Capricorn Group Ltd

1H22 Initial Impression

Target Price (c)* 1246

Current Price (c) 1123

Year End 30 June	FY19A	FY20A	FY21A	FY22E	FY23E	Recommendation	HOLD
Net Interest Income (N\$ million)	2,034	2,184	2,255	2,496	2,658	NSX Code	CGP
Non-Interest Income (N\$ million)	1,275	1,425	1,476	1,529	1,584	Market Cap (N\$ m)	5,830
Profit after Tax (N\$ million)	1,015	1,012	1,024	1,182	1,262	Shares in Issue (m)	519
HEPS (c)	182	157	171	201	214	Free Float (%)	26.1
DPS (c)	66	50	60	66	71	52-Week High	1350
DY (%)	5.1	3.9	4.5	5.0	5.3	52-Week Low	1012
P/E	7.2	8.6	7.8	6.6	6.2	Expected Total Return (%)	4.8%
P/B	1.1	1.0	1.0	0.9	0.8		

Source: Capricorn Group, IIG Securities

1H22 Initial Impression

Capricorn Group Ltd (CGP) released interim results for the period ended 31 December 2021 (1H22). Profit after tax from continuing operations increased by 23.8% y/y to N\$580.5 million. Headline earnings per share increased by 34.5% y/y to 102.9 cps for the period, indicating that the group is well on its way to delivering results in line with our FY22 forecasts. An interim dividend of 32 cps (1H21: 22 cps) was declared for the period.

As had been the case with the FY20 results, CGP restated their 1H21 statement of comprehensive income due to interest on loans and advances in stage 3 and the corresponding increase in the impairment unwind on expected credit losses for stage 3 not being recognised in accordance with IFRS 9.

(N\$ million)	1H21 (Restated)	1H22	Δ %
Interest and Similar Income	2,043.7	2,009.2	-1.7%
Interest and Similar Expenses	(955.1)	(867.1)	-9.2%
Net Interest Income	1,088.7	1,142.1	4.9%
Credit Impairment Losses	(232.1)	(182.0)	-21.6%
Net Interest Income after Credit Impairment Losses	856.6	960.2	12.1%
Non-Interest Income	706.4	836.5	18.4%
Operating Income	1,563.0	1,796.7	15.0%
Operating Expenses	(986.0)	(1,026.8)	4.1%
Operating Profit	576.9	769.8	33.4%
Share of Associates' Results after Tax	55.0	36.3	-33.9%
Profit before Income Tax	632.0	806.2	27.6%
Income Tax Expense	(162.9)	(225.7)	38.5%
Profit for the Period	469.1	580.5	23.8%

Source: Capricorn Group

The gains were driven by several factors. A strong increase in non-interest income of N\$130.1 million or 18.4% y/y to N\$836.5 million was recorded, stemming from significant increases in net trading income of N\$69.7 million, mainly from foreign exchange trades and derivatives. Additionally, transaction-based fee income increased by N\$42.9 million or 8.6% on the back of increased transaction volumes due to improved economic activity.

Net interest income increased by N\$53.4 million or 4.9% y/y to N\$1.14 billion despite a moderate decline of 1.7% y/y in interest and similar income to N\$2.01 billion. A 50 bps improvement in the net interest margins of Bank Windhoek due to lower funding costs, resulted in the interest expense line item declining by N\$87.9 million or 9.2% y/y to N\$867.1 million. The results release noted that Bank Gaborone's net interest margin decreased from 3.9% to 3.5% following "aggressive pricing in the market to attract and retain deposits".

Impairment charges fell by 21.6% y/y to N\$182.0 million, which management attributes to the improved operating environment having a positive impact on key credit risk indicators. Management however adds that the impact of the pandemic is still pervasive with 1H21's lower impairment charges more than three times higher than the N\$54.3 million reported in 1H20. Non-performing loans increased by 4.5% to N\$2.57 billion, resulting in CGP's NPL ratio increasing from 5.8% to 5.9%.

CGP Share Price vs Target Price (c)



Dividends

An interim dividend of 32 cents per share has been declared.

- Last Day to Trade: 11 March 2022
- Ex-Dividend Date: 14 March 2022
- Record Date: 18 March 2022
- Payment Date: 30 March 2022





0,0005	4,85%
0,0003	13,04%
0,0001	50,00%
0,0003	14,29%
0,0005	12,50%

Income from associates dropped by 33.9% y/y to N\$36.3 million as a result of a significant volume of life insurance claims during the outbreak of the third wave of Covid-19. Operating expenses increased by 4.1% y/y to N\$1.03 billion, roughly in-line with inflation of 4.5% over the same period. Employee costs rose 3.9% y/y due to annual salary increases. The aforementioned increase in transaction volumes during the period resulted in operational banking expenses increasing by 27.5% y/y.

Total assets grew by N\$1.15 billion or 2.1% y/y to N\$57.4 billion. Gross loans and advances increased by 3.6% y/y to N\$43.7 billion, ahead of PSCE growth of 1.00% over the same period. Bank Windhoek grew its gross advances by 2.6% y/y, with the growth attributable to commercial loans, mortgage loans and article finance. Bank Gaborone managed to increase gross loans and advances by 2.8%, however, due to a stronger pula, this resulted in a 6.1% growth in local currency terms. Entrepo reported loan book growth of 2.8% to N\$1.47 billion. Cash and balances with the central bank declined slightly by 2.4% y/y to reach N\$1.72 billion at the end of the period. Deposits grew by 0.7% to N\$41.1 billion.

Overall, CGP's results were in line with our expectations. The group's diversified portfolio delivered well on growth in profits and should be well-positioned to take advantage of the expected rise in interest rates during the year. Pending further analysis of the 1H22 results and management discussions, we maintain our **HOLD** recommendation on CGP. Our target price and recommendation will be revised with our full review of the 1H22 results, as will the forecasts in the table at the top of the page.

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