



Capricorn Group Limited 1H23 Initial Impression February 2023



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Capricorn Group Ltd

1H23 Initial Impression

Target Price (c) 1449
Current Price (c) 1379

Year End 30 June	FY21	FY22	1H23	FY23E	FY24E	Recommendation	BUY
Net Interest Income (N\$ m)	2,255	2,337	1,312	2,748	2,833	NSX Code	CGP
Non-Interest Income (N\$ m)	1,476	1,669	940	1,836	1,946	Market Cap (N\$ m)	7,159.6
Profit after Tax (N\$ m)	1,024	1,146	698	1,547	1,664	Shares in Issue (m)	519
HEPS (c)	173	205	128	263	283	Free Float (%)	26.1
DPS (c)	60	72	39	87	93	52-Week High (c)	1400
DY (%)	4.5	5.5	*6.1	6.3	6.8	52-Week Low (c)	1050
P/E (x)	7.8	6.3	5.4	5.3	4.9	Expected Total Return	11.3%
P/B (x)	1.0	0.9	0.9	0.9	0.8		

Source: Capricorn Group Limited, IJG Securities
*Annualised

1H23 Initial Impression

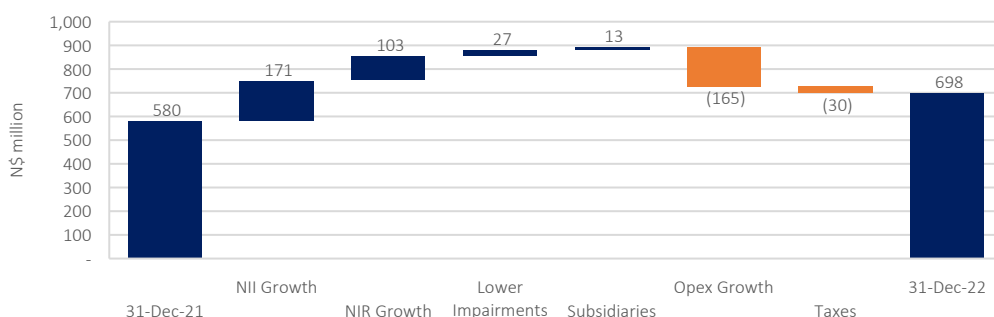
Capricorn Group Ltd (CGP) released interim results for the period ended 31 December 2022 (1H23). Profit after tax for the period rose by 20.3% y/y or N\$117.7 million to N\$698.2 million. Headline earnings per share increased by 24.0% y/y to 127.6 cps (1H22: 102.9 cps). An interim dividend of 39 cps (1H22: 32 cps) was declared for the period.

(N\$ '000)	1H22	1H23	Δ %
Interest and Similar Income	2 009 225	2 612 260	30.0%
Interest and Similar Expenses	(867 117)	(1 299 467)	49.9%
Net Interest Income	1 142 108	1 312 793	14.9%
Credit Impairment Losses	(181 950)	(154 893)	-14.9%
NII after Credit Impairment Losses	960 154	1 157 900	20.6%
Non-Interest Income	936 496	939 622	12.3%
Operating Expenses	(1 026 815)	(1 192 139)	16.1%
Operating Profit	769 839	905 383	17.6%
Share of Associates' Results after Tax	36 337	48 923	34.6%
Profit before Income Tax	806 176	954 306	18.4%
Income Tax Expense	(225 677)	(256 081)	13.5%
Profit after Taxation	580 499	698 225	20.3%

Source: CGP

As the graph below shows, the profit gains were primarily driven by improved net interest income (NII) on the back of 300 bps- and 100 bps worth of repo rate hikes in Namibia and Botswana, respectively. CGP posted NII growth of 14.9% y/y or N\$170.7 million to N\$1.31 billion. Interest and similar income grew by N\$603.0 million to N\$2.61 billion whereas interest expense and similar charges rose by N\$432.4 million to N\$1.30 billion. Bank Windhoek's net interest margin improved by 54 bps to 4.88%, while Bank Gaborone's contracted by 40 bps to 3.1%, due to material cost of funding increases driven by low liquidity levels.

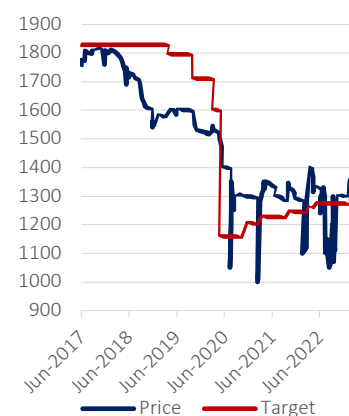
CGP Profit after Tax Growth Breakdown



Source: CGP, IJG Securities

The group also reported non-interest revenue growth of 12.3% y/y or N\$103.1 million to N\$939.6 million. This was ascribed to improved transaction volumes through both digital and traditional (ATM) channels. Asset management fees by Capricorn Asset Management increased by 11.3% y/y.

CGP Share Price vs Target Price (c)



Dividends

CGP declared an interim dividend of 39 cents per share.

- Last Day to Trade: 10 March 2023
- Ex-Dividend Date: 13 March 2023
- Record Date: 17 March 2023
- Payment Date: 30 March 2023

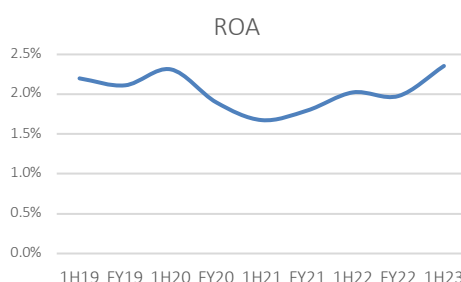
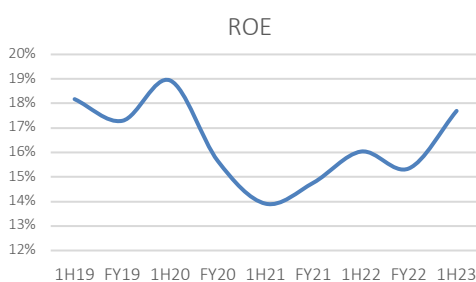




A steadily recovering domestic economy which positively impacts CGP’s key credit risk indicators, resulted in a 14.9% y/y drop in credit impairment charges to N\$154.9 million. However, as the management team correctly points out in their commentary, this remains well above pre-Covid levels. By comparison, CGP reported credit impairment charges of N\$54.3 million in 1H20.

Operating expenses rose by 16.1% y/y to N\$1.19 billion, well ahead of Namibian annual CPI growth of 6.9% over the same period. The uptick in transaction volumes resulted in operational banking expenses increasing by 46.8% y/y, while staff costs rose by 11.9% y/y driven by annual salary increases and the filling of vacancies, according to CGP.

Deposits grew by a sturdy 7.4% y/y to N\$44.1 billion. The increase was driven by both 21.9% y/y growth in the relatively expensive NCDs to N\$10.1 billion, and 17.3% y/y growth in the cheaper current account deposits to N\$10.9 billion. CGP remains healthily over capitalised with a total risk-based capital adequacy ratio of 16.6%, nearly in line with FY17’s high water mark of 16.8%. The group’s tier 1 capital adequacy ratio stood at 15.1% at 1H23, compared to 13.9% a year ago. ROE has been improving rapidly from the 13.9% low of 1H21 to 17.7% at 1H23.



Source: CGP, IJG Securities

Gross loans and advances grew by 3.3% y/y to N\$45.1 billion, compared to normalised PSCE growth of 3.9% y/y over the same period. Overdrafts grew by 6.5% y/y to N\$6.24 billion, term loans grew by 4.0% y/y to N\$14.5 billion, and instalment finance climbed by 10.9% y/y to N\$3.98 billion. Mortgage loans, which, at N\$19.8 billion, makes up 43.9% of the advances book, however, grew by a more subdued 0.9% y/y. Non-performing loans declined from 5.9% at 1H22 to 5.3% at 1H23 of gross advances, declining by 7.4% y/y to N\$2.38 billion. A significant portion of the deposit growth made its way to investments in government securities, which grew by 14.8% y/y or N\$757.4 million to N\$5.88 billion.

Our take

Overall, the group’s diversified portfolio delivered another set of impressive results, driven in large part by endowment coupled with robust non-interest revenue growth from rising transaction volumes.

Using a panel of standard valuation techniques, a cost of equity of 16.9% and a long-term sustainable return on equity of 17.0%, we derive a target price of N\$1449. Coupled with an expected final dividend of 48cps, we derive a potential total return of 11.3%. Based on the discount, we view the current share price as undervalued and upgrade our recommendation on CGP to **BUY**.



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