Capricorn Investment Group
FY17 Initial Impression
AUGUST 2017

Capricorn Investment Group Limited

FY17 Initial Impression

Target Price (c)	1829
Current Price (c)	1799

Year End 30 June	2015	2016	2017	F2018	F2019
Net interest income (N$m)*	1,267	1,458	1,649	2,098	2,290
Non-interest income (N$m)*	813	954	998	1,263	1,442
Profit (N$m)*	753	905	918	1,136	1,317
HEPS (c)	150	181	182	225	260
DPS (c)	54	66	68	81	94
DY (%)	3.5	3.8	3.8	4.7	5.5
P/E (x)	10.3	9.5	9.9	7.6	6.6
P/B (x)	2.1	2.0	1.8	1.5	1.3

Recommendation	HOLD
NSX Code	CGP
Market Cap (N$m)	9,299
Shares in Issue (m)	516.9
Free float (%)	20.1
52 week high (c)	1809
52 week low (c)	1685
Expected Total Return	5.4%

Source: CGP, IJG

Capricorn Investment Group have released their results for the year ended 30 June 2017. The results reflect the difficult operating conditions prevalent in Namibia characterized by low liquidity, higher cost of funding, slowing GDP growth and slower private sector credit extension. However, the results were also below our, admittedly optimistic, expectations. Profit after tax grew by 1.4% from N$905.0 million to N$917.6 million, and by 2.7% on a normalized basis. Headline earnings per share increased by 0.2% to 181.6 cps and dividends increased by 3.0% to 68 cps.

	2017 (normalised) N$'000	2016 (normalised) N$'000	Change %
Net interest income	1,505,922	1,458,142	3.3
Impairment charges	-46,572	-60,779	-23.4
Net interest income after loan impairment charges	1,459,350	1,397,363	4.4
Non-interest income	916,248	852,881	7.4
Operating expenses	-1,214,875	-1,134,131	7.1
Operating profit	1,160,723	1,116,113	4
Profit before income tax	1,239,917	1,214,641	2.1
Profit for the year	891,088	867,694	2.7

The company's results have been normalized for significant transactions to enhance comparability. During the year the group acquired a 68.7% stake in Capricorn Investment Holdings Botswana, which in turn holds 100% of the share capital in Bank Gaborone. The group also bought 97.9% in Cavmont Capital Holdings Zambia, the holding company of 100% of the share capital of Cavmont Bank. Furthermore, the Bank disposed of Welwitschia Insurance brokers on 1 July 2016 and once-off forex trading income on Angolan Kwanza in the prior year have been excluded.

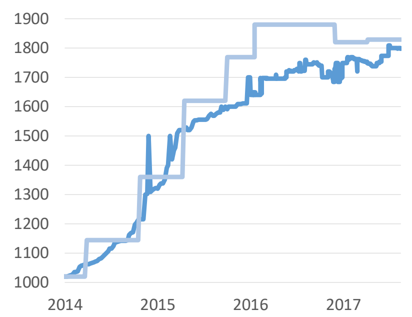
Advances in Namibia grew by 7.2% to N$28.5 billion, which is in line with the overall growth in private sector credit extension which stood at 8.0% in June. Total advances grew by 25.7%, from N$26.6 billion to N$33.4 billion as a result of the acquisitions of the other two banks. Bank Gaborone and Cavmont Bank now account for 12.2% and 2.5% of total advances respectively.

Total funding increased by 34.9% to N$37.2 billion including Bank Gaborone and Cavmont. On a normalized basis, Bank Windhoek's funding increased by 7.6%. However, interest expense grew substantially due to the low liquidity environment experienced in Namibia.

During the year, The Government Institutions Pension Fund of Namibia increased its shareholding in the group to 26%, making it the second largest shareholder after Capricorn Investment Holdings. These two shareholders can now be viewed as the shareholders of reference and have jointly pledged N$1 billion contingency funding facilities, which greatly reduces liquidity risk. Furthermore, the group has lengthened its funding maturity profile and decreased its reliance on short term deposits.

Net interest income grew by 13.1% to N$1,649.5 million. On a normalized basis,

CGP Share Price and Target Price



Dividends

A final dividend of 68 cents per ordinary share was declared on 15 August 2017 for the year ended 30 June 2017.

- LDT: 25 August 2017
- Ex Date: 28 August 2017
- Record date: 1 September 2017
- Payment date: 13 September 2017

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net interest income grew by 3.3% due to the squeeze on the net interest margin. Non-performing loans increased sharply to around 2.2% of the total portfolio. This is attributable to the consolidation of the Botswana and Zambian operations, where non-performing loans are substantially higher. Bank Windhoek, on the other hand, had a stable non-performing loan ratio which increased from 1.32% to 1.44%. Impairment charges decreased, on a normalized basis, by 23.4% to N$46.6 million or 0.17% of advances.

Non-interest income grew by 7.4% on a normalized basis. The steady growth was bolstered by increases in transaction based income, which recorded growth in excess of 20% while electronic channel income also delivered robust volume growth.

Operating expenses were once again well contained, increasing by 7.1% to N$1,215 million. Costs were driven largely by the amortization of investments into IT systems. Staff costs, which make up more than half of operating expenses, were also contained to roughly a 4.0% increase. The cost to income ratio of the group increased to 53.9% from 50.2% as a result of higher cost to income ratios of the subsidiary banks.

According to management the two new banks present a meaningful runway for growth. A large proportion of these markets remain unbanked, especially in Zambia where many small businesses still operate on a cash basis. Zambia also offers very attractive double digit net interest margins. Although Cavmont has not contributed significantly to the bottom line, Bank Gaborone has doubled their profit in the last year and both these entities are expected to make up a larger share of profits going forward.

The group remains well capitalized with the total risk-based capital adequacy ratio of 16.6% and a tier 1 risk-based capital adequacy ratio of 15.4%, well above the regulatory requirements of 10.0% and 7.0% respectively.

Pending the release of the FY17 integrated annual report and meetings with management, we maintain our HOLD recommendation on Capricorn Group.
Please note that our target price will be revised with our full report on the FY17 results.

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