CAPRICORN INVESTMENT GROUP
FY18 Initial Impression
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Capricorn Investment Group Ltd

FY18 Initial Impression

Year End 30 June	2016	2017	2018	F2019	F2020
Net interest income (N$m)	1,458	1,649	1,818	1,958	2,178
Non-interest income (N$m)	954	998	1,225	1,335	1,469
Profit (N$m)	905	918	934	976	1,087
HEPS (c)	181	182	158	175	212
DPS (c)	66	68	60	65	77
DY (%)	3.8	3.8	3.6	3.8	4.6
P/E (x)	9.5	9.9	10.7	9.9	8.1
P/B (x)	2.0	1.8	1.5	1.4	1.3

Source: CGP, IJG
Forecasts adjusted on initial impression
** Target price unchanged pending review*

Target Price (c)*	
Current Price (c)	1689
Recommendation*	**HOLD**
NSX Code	CGP
Market Cap (N$m)	8,795
Shares in Issue (m)	519.2
Free float (%)	20.1
P/B (x)	1.5
52 week high	1818
52 week low	1689
Expected Total Return (%)*	

FY18 Initial Impression

CGP has released results for the year ended 30 June 2018. Profit after tax for the period increased by 1.8% to N$934.4m. Basic EPS came in flat while HEPS fell by 13.1% (accounting for an undisclosed bargain purchase gain and partial disposal of Visa Inc.). A dividend of 30cps was declared for the half year bringing the total FY18 dividends paid to 60cps versus 68cps in FY17.

Net interest income (NII) was up 10.3% to N$1,818.9m. Normalised for various acquisitions and disposals NII increased by 1.1%, a prelude to the depressed ROE for the period. Namibia, Botswana and Zambia all experienced interest rate cuts during the financial year, compressing margins as a result. Increased use of liquid assets and more expensive funding continued to play a role in margin compression as well. Normalised NII for FY18 displayed improved performance when compared to the 1H18 figure.

Non-interest income increased by 22.7% to N$1,225.2m, which includes the sale of a portion of the shareholding in Visa Inc. Normalised non-interest income increased by 4.0% when compared to the prior year. Here too performance improved on a normalised basis when compared to the 1H18 figures. The financial results point to a contraction in trading revenue in both Bank Windhoek (BW) and Cavmont Bank (CCHZ).

Normalised operating expenses increased by 14.7% to N$1,795.1m. The increase in operating costs was due to 1) three new branches opening in Namibia, 2) an increase in technology costs of 28.6%, and 3) capacity building within digital channels, marketing and strategic customer capabilities. The increase in technology costs for 1H18 amounted to 17.3% which points to heightened spending in the six-month period ending in June. The normalised cost to income ratio for the period was 60.6% compared to 53.9% in FY17. Cost increases in the profitable Namibian business continues to grow in order to remain competitive with regards to digital banking solutions.

Normalised loans and advances increased by 5.8% to N$36.3bn (including the effects of the Entrepo investment in the base). A strategic effort was made to restructure the BW balance sheet in order to improve the loans to funding ratio by increased use of liquid assets (up 55.3% to N$4.8bn). BW's interest earning assets grew by 9.5%, supported by liquid asset growth.

NPL's, as a percentage of gross advances, increased to 3.3% from 2.2% in FY17. Much of this increase stems from the four large NPL's on the BW book which have yet to be impaired. These NPL's have been non-performing since the second half of 2017. The results point out that these loans have not been impaired as they are well secured. We do see this as a risk as future impairment is becoming more likely. We aim to provide more detail on this post management consultation.

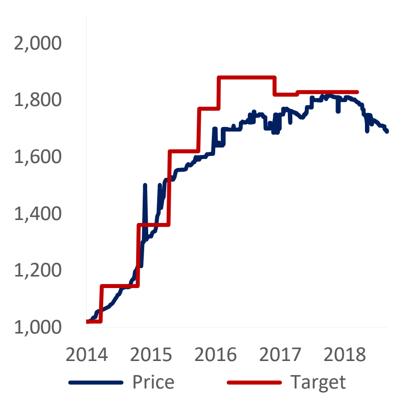
CGP's funding increased by 8.4% y/y to N$40.3bn while BW's funding grew by 8.5% y/y. CGP's loans to funding ratio improved to 95.2% from 96.7% in FY17. Growth in term and cheque deposits as well as senior debt has negatively impacted the net interest margin to some extent. A detailed breakdown will follow the release of the full set of financials (BW, CIHB, and CCHZ).

The group remains well capitalised despite the risk-based capital adequacy ratio declining from 16.6% to 15.3%. Some room exists to deploy capital and improve the ROE should the economic climate improve.

CGP made notable acquisitions of a further stake in Nimbus Ltd and a controlling stake in Entrepo. CGP's stake in Nimbus was increased to 30% in a strategic play into the telecommunications sector (Nimbus now holds 51.4% of Paratus Telecommunications (PTY) Ltd). Entrepo is a Namibian micro-lender which CGP expects to contribute 15% of profit after tax in the future (approx. N$140m plus on the current numbers). The group's stake in CIHB was also increased to 84.3% from 68.7%.

Performance for the period was poor (relative to past performance) with the partial Visa sale and a bargain purchase gain propping up EPS. ROAE declined to 17.3% from an average of 21.7% over the prior 5-year period. We will update our target price with the full review of the financials for FY18 after management consultations.

CGP Share Price vs Target Price



Dividends

Notice is hereby given that a final dividend of 30 cents per ordinary share was declared for the period ended 30 June 2018.

- Last day to trade: 31 August 2018
- Payment date: 19 September 2018

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