CAPRICORN INVESTMENT GROUP
FY19 Initial Impression
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Capricorn Investment Group Ltd

FY19 Initial Impression

Target Price (c)	***1796***
Current Price (c)	1600

Year End 30 June	2017	2018	2019	F2020	F2021
Net interest income (N$m)	1,649	1,819	2,133	2,296	2,533
Non-interest income (N$m)	998	1,225	1,359	1,450	1,581
Profit (N$m)	918	934	1,015	1,064	1,158
HEPS (c)	182	158	181	207	226
DPS (c)	68	60	66	69	75
DY (%)	3.8	3.5	4.1	4.3	4.7
P/E (x)	10	10.9	8.8	7.7	7.1
P/B (x)	1.8	1.6	1.3	1.2	1.1

Recommendation*	HOLD
NSX Code	CGP
Market Cap (N$m)	8,307
Shares in Issue (m)	519.2
Free float (%)	20.1
P/B (x)*	1.3
52 week high	1694
52 week low	1540
Expected Return	16.7%

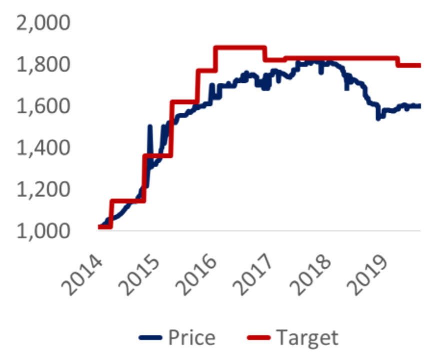
Source: CGP, IJG

Capricorn Investment Group released their results for the year ended 30 June 2019. All in all, the results are slightly above our expectations. Profit after tax increased by 8.7% y/y to N$1.015 billion while total comprehensive income increased by 3.8% y/y to N$1.024 billion. However, given the first-time inclusion of Entrepo and two once off items in the previous financial year, normalised earnings increased by 15.3% y/y.

The gains were largely top line driven as net interest income increased by 17.3% to N$2.133 billion. This was achieved by increasing interest income by 11.7% to N$4.471 billion while containing the increase in interest expense to 7.5% y/y or N$2.608 billion. Gross loans and advances grew by 6.5% y/y, compared to Namibian private sector credit extension of 7.4% y/y over the same period. Most of the new loans extended were Namibian commercial loans. Bank Windhoek contributed 8.3% of the growth as its net interest margin improved from 4.2% to 4.3% due to a lower cost of funding.

	June 2019 N$'000 Reviewed	June 2018 N$'000 Audited	% Change
Interest and similar income	**4,740,554**	4,244,215	11.7%
Interest and similar expenses	**(2,607,681)**	(2,425,318)	7.5%
Net interest income	**2,132,873**	1,818,897	17.3%
Impairment charges on loans and advances	**(114,547)**	(80,840)	41.7%
Net interest income after loan impairment charges	**2,018,326**	1,738,057	16.1%
Non-interest income	**1,359,484**	1,225,168	11.0%
Operating income	**3,377,810**	2,963,225	14.0%
Operating expenses	**(2,052,038)**	(1,795,108)	14.3%
Operating profit	**1,325,772**	1,168,117	13.5%
Share of joint arrangement's results after tax	**3,675**	1,148	220.1%
Share of associates' results after tax	**72,657**	83,236	-12.7%
Profit before income tax	**1,402,104**	1,252,501	11.9%
Income tax expense	**(386,805)**	(318,066)	21.6%
Profit for the year	**1,015,299**	934,435	8.7%
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Change in value of financial assets at FVTOCI	**7,263**	44,026	-83.5%
Foreign exchange differences	**1,339**	7,779	-82.8%
Total comprehensive income for the year	**1,023,901**	986,240	3.8%

CGP Share Price vs Target Price



Dividends

Notice is hereby given that a final dividend of 36 cents per ordinary share was declared for the period ended 30 June 2019.

Taking into account the interim dividend of 30 cents per share, this represents a total dividend of 66 cents per ordinary share for the year ended 30 June 2019

- Last day to trade: 6 September 2019
- Ex Date: 9 September 2019
- Record date: 13 September 2019
- Payment date: 27 September 2019

Impairment charges increased by 41.7% y/y, which was also largely expected due to the implementation of IFRS 9 combined with the current economic slowdown. Additionally, the bank had to impair some of its Zambian treasury bills and government bonds following the downgrade of the Zambian sovereign rating.

Not unexpectedly, Entrepo was a major contributor to net interest income, contributing 5.0% of the 17.3% total growth. Entrepo's profit for the year amounted to N$ 171.8 million or 16.9% of the group's total profit for the year. This was above management's guidance of a 15.0% contribution.

Bank Gaborone's net interest margin decreased from 3.8% to 3.5% as funding costs increased in Botswana. According to the statements, Cavmont Bank showed improvement compared to the prior year with a significantly reduced operating loss. However, profit after tax in the "other" category, which includes asset management and the Zambian banking operations, declined from N$46.7 million to a loss of N$13.9 million.

Non-interest income also showed robust growth despite the tough economic environment. Non-interest income increased by 11.0% y/y to N$1.359 billion but by 22.6% when normalised for the effect of once off items. The growth was driven largely by income from underwriting activities, Entrepo included for the first full year, and profitable forex trading activities across all three banks. Capricorn Asset Management also performed well as its income increased by 11.3% to N$118.2 million.

Operating expenses grew by 14.3% y/y to N$2.052 billion. According to the statements, the increase being largely due to an increase in staff costs, up 15.6% y/y. This was expected given the expansion at the Capricorn Private Wealth department, capacity building in the IT department and inclusion of Entrepo. Additionally, operational banking expenses grew by 18.6% y/y.

The group remains well capitalised with its total risk-based capital adequacy ratio of 14.9%, slightly down from the 15.3% recoded in FY18. This is well above the minimum regulatory capital requirement of 10.0%.

Overall performance for the period was better than expected. However, as mentioned, it seems a large amount of the contribution has been due to the Entrepo acquisition. Pending a meeting with management and full review of the results we maintain our **HOLD** recommendation on CGP. Our target price will be updated in our full FY19 review.

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