CAPRICORN GROUP
FY20 Initial Impression
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Research Analyst:

Dylan van Wyk
dylan@ijg.net
+264 61 383 500

Capricorn Group

FY20 Initial Impression

Year End 30 June	2019	2020	F2021	F2022
Net interest income (N$m)	2,034	2081	2,000	2,249
Non-interest income (N$m)	1,275	1,425	1,556	1,665
Profit (N$m)	1,015	856	878	1,164
HEPS (c)	182	157	157	208
DPS (c)	66	50	57	75
DY (%)	5.1	3.8	4.3	5.8
P/E (x)	7.2	8.4	8.3	6.3
P/BV (x)	1.1	1.1	1.0	0.9

Target Price (c)	***1159***
Current Price (c)	1302
Recommendation	**SELL**
NSX Code	CGP
Market Cap (N$m)	6,760
Shares in Issue (m)	519
Free float (%)	26.2
52 week high	1600
52 week low	1050
Expected Total Return (%)	(7.2)

Source: CGP, IJG

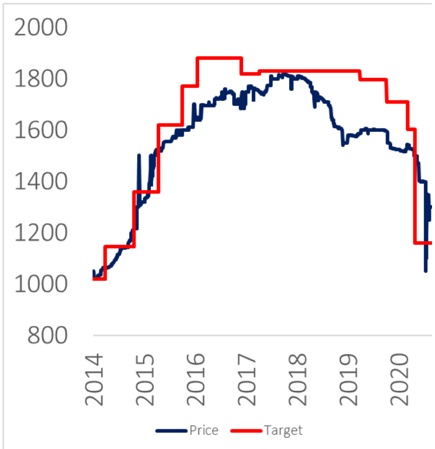
Capricorn Group released its results for the financial year ended 30 June 2020. The results were remarkably robust given the toll the pandemic has taken on the Namibian economy. Profit after tax from continuing operations declined by 2.2% y/y, while headline earnings per share declined by 13.4% mainly due to the effect of a N$152.4 million loss on the discontinued operations following the sale of Cavmont Capital Holdings Zambia to Access Bank (Zambia). ROE dropped to 12.6% from 16.3% in FY19, however, ROE on continued operations was at an impressive 15.1%. A final dividend of 20 cps was declared, bringing the total dividends for the financial year to 50cps.

	FY20	FY19	Δ%
Interest and similar income	4,623	4,548	1.7%
Interest and similar expenses	-2,542	-2,514	1.1%
Net interest income	2,081	2,034	2.3%
Credit impairment losses	-304	-124	146.1%
Net interest income after credit impairment losses	1,777	1,910	-7.0%
Non-interest income	1,425	1,275	11.7%
Operating income	3,201	3,185	0.5%
Operating expenses	-1,901	-1,839	3.4%
Operating profit	1,300	1,347	-3.4%
Share of joint arrangement's results after tax	3	4	-23.3%
Share of associates' results after tax	64	73	-12.3%
Profit before income tax	1,367	1,423	-3.9%
Income tax expense	-355	-388	-8.5%
Profit from continuing operations	1,012	1,035	-2.2%
Loss from discontinued operations	-156	-20	684.2%
Profit for the period	856	1,015	-15.6%

Source: CGP, IJG

The results were driven by strong top-line growth as net interest income increased by 2.3% y/y and non-interest income delivered growth of 11.7%. The growth in net interest income was underpinned by a 5.3% y/y increase in advances, bringing the size of the advances book to N$40.08 billion. Bank Windhoek laid a solid foundation for advances growth, up 4.5%y/y, while Entrepo grew its microlending book by 18.3% and Bank Gaberone also saw a 22.5% increase in its advances. However, this was offset by margin contraction in its biggest market following the sharp 275 basis point decline in the Namibian repo rate in the second half of the financial year. Bank Windhoek's net interest margin contracted from 4.6% to 4.3%. According to the financial statements, the contraction in margin was mitigated by the "bank's very active and deliberate repricing of the funding book." However, the decline in the repo rate acted in Entrepo's favour, as its loans are issued at a fixed interest rate, leading to liabilities repricing quicker than assets and its margin expanding.

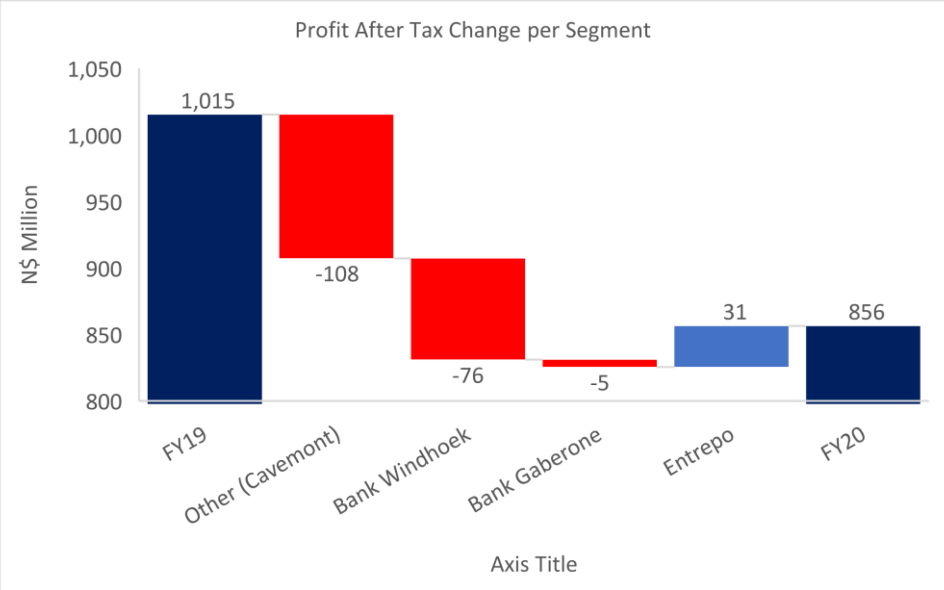
CGP Share Price vs Target Price



Dividends

Notice is hereby given that a final dividend of 20 cents per ordinary share was declared for the period ended 30 June 2020

- Last day to trade: 09 October 2020
- Ex Date: 12 October 2020
- Record date: 16 October 2020
- Payment date: 30 October 2020



Source: CGP, IJG

Non-performing loans increased from 4.14% to 4.68%, below the industry average which stood at 5.2% at the end of March. As a result, impairment charges were substantially lower than peers at only 0.76% of gross advances. The N$304.4 million impairment charge was split roughly 55:45 between base charges from the application of the IFRS 9 model and the COVID-19 economic overlay. This resulted in the NPL coverage ratio increasing from 47.3 to 49.0%.

Non-interest revenue also displayed impressive growth of 11.7% y/y, supported by a 2.4% y/y and 6.3% y/y increase in Bank Windhoek's and Bank Gaberone's non-interest income respectively. Further growth was driven by Capricorn Asset Management, which saw a 14.6% y/y increase in its management fees to N$135.4 million and Entrepo which saw a 17.6% y/y increase its insurance income to N$153.0 million. Additionally, the group's investment into Paratus Namibia dis well as it doubled its profit from last year.

Group operating expenses were relatively well contained, increasing by 3.4% y/y to N$1.90 billion, resulting in the cost to income ratio declining to 59.4% from 60.8%. This ratio is expected to improve markedly with the disposal of the loss making Cavemont. Employee costs, which make up 56% of expenditure, increased by 6.2% y/y due to increased IT headcount., while technology costs increased by 36.6% y/y mainly due to the weakening of the operating currencies against the US dollar.

Overall, the resulsts are reasonably resilient given the economic environment. Once again the Namibian Banking operations provided a solid base and the other subsidiaries delivered well on growth in profits, despite the pandemic. However the strong performance of the Banking operations is due to a quite low credit impairment charge relative to its peers, which begs the question if the current provisioning is prudent enough.

Although the share price has rerated since the start of the year, the share price is still above our optimistic and middle case target prices released in May. Pending a meeting with management and full review of the results we maintain our **SELL** recommendation on CGP. Our target price will be updated in our full FY20 review.

TEAM NAMIBIA MEMBER

IJG Holdings

Group Chairman	Group Managing Director	Group Financial Manager	Group Compliance Officer
Mathews Hamutenya Tel: +264 (61) 256 699	Mark Späth Tel: +264 (61) 383 510 mark@ijg.net	Helena Shikongo Tel: +264 (61) 383 528 helena@ijg.net	Zanna Beukes Tel: +264 (61) 383 535 zanna@ijg.net

IJG Securities

Managing Director Lyndon Sauls Tel: +264 (61) 383 514 lyndon@ijg.net	**Equity & Fixed Income Dealing** Leon Maloney Tel: +264 (61) 383 512 leon@ijg.net	**Sales and Research** Eric van Zyl Tel: +264 (61) 383 530 eric@ijg.net	Dylan van Wyk Tel: +264 (61) 383 529 dylan@ijg.net
Financial Accountant Tashiya Josua Tel: +264 (61) 383 511 tashiya@ijg.net	**Financial Accountant** Gift Kafula Tel: +264 (61) 383 536 gift@ijg.net	Danie van Wyk Tel: +264 (61) 383 534 danie@ijg.net	

IJG Wealth Management

Managing Director René Olivier Tel: +264 (61) 383 522 rene@ijg.net	**Portfolio Manager** Ross Rudd Tel: +264 (61) 383 523 ross@ijg.net	**Money Market & Administration** Emilia Uupindi Tel: +264 (61) 383 513 emilia@ijg.net	**Wealth Manager** Andri Ntema Tel: +264 (61) 383 518 andri@ijg.net
Wealth Administration Lorein Kazombaruru Tel: +264 (61) 383 521 lorein@ijg.net	**Wealth Administration** Madeline Olivier Tel: +264 (61) 383 533 madeline@ijg.net	**Wealth Manager** Wim Boshoff Tel: +264 (61) 383 537 wim@ijg.net	

IJG Capital

Managing Director Herbert Maier Tel: +264 (61) 383 522 herbert@ijg.net	**Portfolio Manager** Jakob de Klerk Tel: +264 (61) 383 517 jakob@ijg.net	**Business Analyst** Mirko Maier Tel: +264 (61) 383 531 mirko@ijg.net	**Business Analyst** Lavinia Thomas Tel: +264 (61) 383 532 lavinia@ijg.net
Business Analyst Fares Amunkete Tel: +264 (61) 383 527 fares@ijg.net			

IJG Advisory

Director
Jolyon Irwin
Tel: +264 (61) 383 500
jolyon@ijg.net