



Capricorn Group Limited FY21 Initial Impression September 2021



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Capricorn Group Ltd

FY21 Initial Impression

Target Price (c)* 1227

Current Price (c) 1285

Year End 30 June	FY19A	FY20A	FY21A	FY21E	FY22E	Recommendation	HOLD
Net Interest Income (N\$ million)	2,034	2,184	2,255	2,084	2,214	NSX Code	CGP
Non-Interest Income (N\$ million)	1,275	1,425	1,476	1,525	1,586	Market Cap (N\$ m)	6,672
Profit after Tax (N\$ million)	1,015	1,012	1,024	965	1,028	Shares in Issue (m)	519
HEPS (c)	182	157	173	153	162	Free Float (%)	26.1
DPS (c)	66	50	60	61	65	52-Week High	1350
DY (%)	5.1	3.9	4.7	4.8	5.1	52-Week Low	1000
P/E	7.2	8.6	7.4	8.3	7.8	Expected Total Return (%)	0.2%
P/B	1.1	1.0	0.9	0.8	0.8		

Source: Capricorn Group, IJG Securities

FY21 Initial Impression

Capricorn Group Ltd (CGP) released results for the year ended 30 June 2021 (FY21). Profit after tax from continuing operations posted moderate growth of 1.2% y/y to N\$1.02 billion and headline earnings per share increased from 157.2 cps to 173.4 cps. ROE for the year came in at 14.2%, while the ROE from continuing operations amounted to 14.8% (FY20: 15.7%). A final dividend of 38 cps was declared, bringing the total dividends for the financial year to 60 cps (FY20: 50 cps).

CGP restated their FY20 statement of comprehensive income due to interest on loans and advances in stage 3 and the corresponding increase in the impairment unwind on expected credit losses for stage 3 not being recognised in accordance with IFRS 9.

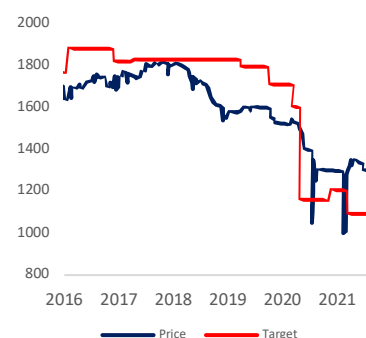
(N\$ million)	FY20 (Restated)	FY21	Δ %
Interest and Similar Income	4,725.9	4,057.4	14.1%
Interest and Similar Expenses	(2,541.9)	(1,802.1)	-29.1%
Net Interest Income	2,184.0	2,255.3	3.3%
Credit Impairment Losses	(407.4)	(443.7)	8.9%
Net Interest Income after Credit Impairment Losses	1,776.5	1,811.6	2.0%
Non-Interest Income	1,424.7	1,475.9	3.6%
Operating Income	3,201.2	3,287.5	2.7%
Operating Expenses	(1,900.9)	(1,996.9)	5.1%
Operating Profit	1,300.4	1,290.5	-0.8%
Share of Joint Arrangement's Results after Tax	2.8	-	-100.0%
Share of Associates' Results after Tax	63.7	103.6	62.6%
Profit before Income Tax	1,366.9	1,394.1	2.0%
Income Tax Expense	(354.8)	(369.8)	4.2%
Profit from Continuing Operations	1,012.1	1,024.3	1.2%
Loss from Discontinued Operations	(155.7)	(41.3)	-73.5%
Profit for the Period	856.4	983.0	14.8%

Source: Capricorn Group

The results were driven by a sharp contraction in interest expenses of 29.1% y/y or N\$739.8 million to N\$1.80 billion following last year's interest rate cuts by the BoN, and a 62.6% y/y increase in share of associates' results to N\$103.6 million. Paratus Group was the biggest driver of this increase, reporting a N\$29.7 million increase in CGP's share of profit after tax, followed by Sanlam Namibia, recording an N\$11.7 million increase. CGP completely disposed of its 17.7% stake in Paratus Namibia Holdings during the period, management explains that this was done in line with their initial intention to only have one investment at Paratus Group to benefit from the company's diversification into Africa.

Total assets contracted by 0.6% y/y to N\$56.0 billion. Gross loans and advances increased by 2.4% or N\$997.9 million to N\$42.1 billion, more or less in line with PSCE growth of 2.55% over the same period, and slightly more aggressive than the other listed banks. Bank Windhoek grew its gross advances by 4.0% y/y, attributable to sturdy commercial and mortgage loans and overdrafts growth. The decline in total assets is primarily due to a N\$1.52 billion decline in assets held for sale, following the disposal of Cavmont. Normalising for this sees total assets increase by 2.2% y/y in FY21. Placements with other banks posted a strong increase of 19.1% y/y to N\$3.57 billion, as did cash and balances with the central bank at 45.1% y/y to N\$1.32 billion, reversing the decline recorded in this line item in FY20. Entrepo, CGP's microlending subsidiary, saw its net interest income increase by 16.1% y/y and grew its loans and advances book by 16.0% y/y.

CGP Share Price vs Target Price (c)



Dividends

A final dividend of 38 cents per share has been declared.

- Last Day to Trade: 01 October 2021
- Ex-Dividend Date: 04 October 2021
- Record Date: 08 October 2021
- Payment Date: 22 October 2021





0.0005	4.85%
0.0003	13.04%
0.0001	50.00%
0.0003	14.29%
0.0005	12.50%

Deposits grew by 2.2% to N\$40.2 billion, with current account deposits increasing by 16.1% y/y to N\$8.91 billion and was largely offset by a 39.9% y/y decline in savings accounts to N\$1.59 billion. NCDs increased by 16.2% y/y to N\$8.66 million.

Non-performing loans increased from 4.7% to 5.2% of total advances, increasing by 28.1% y/y to N\$2.46 billion. Impairments charges rose by 8.9% y/y from an upward revised N\$407.4 million in FY20 to N\$443.7 million in FY21, coming in higher than our forecast of N\$360.7 million for the year. This resulted in CGP's credit loss ratio increasing from 0.99% at FY20 to 1.05% at FY21.

Non-interest income displayed steady growth of 3.6% y/y to N\$1.48 billion, stemming primarily from strong growth in fee and commission income of 13.3% y/y, which management states is driven by increased transaction volumes, assisted by a behavioural pricing methodology. Capricorn Asset Management posted asset management fees growth of 17.2% y/y. Trading revenues however suffered a decline of 49.7% y/y, with management noting that this is due to base effects after forex volatility dropped in FY21. Net insurance premium income rose by N\$10.3 billion or 6.7% y/y and was partially offset by a N\$4.8 billion (15.5%) increase in net claims and benefits paid.

Operating expenses increased by 5.1% y/y to N\$2.00 billion, quicker than inflation of 4.1% y/y over the same period. Staff costs, which make up the largest portion of expenses, increased by 2.9% y/y, or N\$32.0 million to N\$1.12 billion. Depreciation expenses increased by 22.2% to N\$157.6 million and the other operating expenses line item recorded an increase of 36.1% to N\$77.2 million. CGP's cost-to-income ratio increased from 59.4% at FY20 to 60.7% at FY21.

Overall, CGP's diversified portfolio assisted the group in reporting reasonably resilient results given the economic environment. Pending further analysis of the FY21 results and management discussions, we maintain our **HOLD** recommendation on CGP. Our target price and recommendation will be revised with our full review of the FY21 results, as will the forecasts in the table at the top of the page.



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