



Capricorn Group Limited FY22 Initial Impression September 2022



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Capricorn Group Ltd

FY22 Initial Impression

Target Price (c)*	1275
Current Price (c)	1300

Year End 30 June	FY20	FY21	FY22	FY22E	FY23E	Recommendation*	HOLD
Net Interest Income (N\$ m)	2,184	2,255	2,337	2,402	2,591	NSX Code	CGP
Non-Interest Income (N\$ m)	1,425	1,476	1,669	1,624	1,721	Market Cap (N\$ m)	6,230
Profit after Tax (N\$ m)	1,012	1,024	1,146	1,186	1,303	Shares in Issue (m)	519
HEPS (c)	149	173	205	201	221	Free Float (%)	26.1
DPS (c)	50	60	72	66	71	52-Week High (c)	1400
DY (%)	3.9	4.5	5.5	5.0	5.5	52-Week Low (c)	1050
P/E (x)	8.6	7.8	6.3	6.6	6.0	Expected Total Return*	5.5%
P/B (x)	1.0	1.0	0.9	0.9	0.8		

Source: Capricorn Group Limited, IJG Securities

FY22 Initial Impression

Capricorn Group Ltd (CGP) released its results for the year ended 30 June 2022 (FY22). Profit after tax rose by 11.9% y/y to N\$1.15 billion and headline earnings per share increased from 173.4 cps to 205.4 cps. ROE improved from 14.8% in FY21 to 15.3% in FY22. A final dividend of 40 cps was declared, bringing the total dividends for the financial year to 72 cps (FY21: 60 cps).

(N\$ '000)	FY21	FY22	Δ %
Interest and Similar Income	4 057 427	4 187 290	3.2%
Interest and Similar Expenses	(1 802 124)	(1 850 174)	2.7%
Net Interest Income	2 255 303	2 337 116	3.6%
Credit Impairment Losses	(443 748)	(367 303)	-17.2%
NII after Credit Impairment Losses	1 811 555	1 969 813	8.7%
Non-Interest Income	1 475 911	1 668 966	13.1%
Operating Expenses	(1 996 935)	(2 131 123)	6.7%
Operating Profit	1 290 531	1 507 656	16.8%
Share of Associates' Results after Tax	103 613	67 697	-34.7%
Profit before Income Tax	1 394 144	1 575 353	13.0%
Income Tax Expense	(369 843)	(429 472)	16.1%
Profit after Taxation	1 024 301	1 145 881	11.9%

Source: CGP

Interest income grew by 3.2% y/y or N\$129.9 million to N\$4.19 billion, outpacing growth in interest expenses of 2.7% or N\$48.1 million to N\$1.85 billion. As a result, net interest income (NII) grew by 3.6% y/y or N\$81.8 million to N\$2.34 billion. Bank Windhoek's NII increased by 7.4%, whereas Bank Gaborone experienced a 7.6% y/y decline in NII "due to poor market liquidity driving higher cost of funding". The results release mentions that Entrepo has kept interest rates unchanged during FY22 "to assist clients with affordability", despite the 100bps worth of increases in the repo rate during 2H22. The microlending space in Namibia has become very competitive in recent years, which could partially explain the company's decision to not increase rates to avoid losing market share. Entrepo's loans are also issued at a fixed rate which would further explain the unchanged interest rate on existing loans.

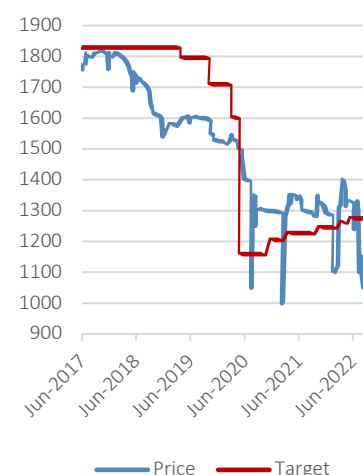
CGP reported robust advances growth of 6.1% y/y to N\$44.7 billion, well ahead of normalised PSCE growth of 2.8% y/y over the same period. Almost all categories recorded strong growth, with term loans growing by 7.1% y/y, mortgage loans increasing by 6.2% y/y and instalment finance climbing by 18.2% y/y. Overdrafts fell by 0.2% y/y and preference shares declined by 29.3% y/y.

Deposits grew by a sturdy 8.6% y/y to N\$43.6 billion, with most of the increase coming in during the second half of the financial year. The increase was primarily driven by a 14.4% y/y increase in current account deposits to N\$10.2 billion and a 9.4% y/y increase in term and notice deposits to N\$14.7 billion. NCDs increased by 7.0% y/y to N\$9.26 billion.

Non-performing loans declined from 5.4% to 5.0% of total advances, declining by 0.9% y/y to N\$2.44 billion. Impairment charges fell by 17.2% y/y to N\$367.3 million, coming in in-line with our forecast of N\$366.0 million for the year. This resulted in CGP's credit loss ratio improving from 1.07% at FY21 to 0.85% at FY22.

CGP posted strong non-interest revenue growth of 13.1% y/y or N\$193.1 million to N\$1.67 billion, making it the largest contributor to the higher earnings. Fee and commission income rose by 8.6% y/y

CGP Share Price vs Target Price (c)



Dividends

CGP declared a final dividend of 40 cents per share.

- Last Day to Trade: 07 October 2022
- Ex-Dividend Date: 10 October 2022
- Record Date: 14 October 2022
- Payment Date: 26 October 2022



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

or N\$90.0 million to N\$1.14 billion, which management attributed to an increase in transaction volumes witnessed at both Bank Windhoek and Bank Gaborone. Net trading income climbed by 112.4% y/y to N\$210.6 million. Capricorn Asset Management posted asset management fees growth of 3.7% y/y. Net insurance premium income from Entrepo fell marginally by 1.2% y/y to N\$161.3 million. Net claims and benefits paid increased by 36.3% y/y.

Operating expenses increased by 6.7% y/y to N\$2.13 billion, compared to inflation of 6.0% y/y over the same period. Staff costs, which make up the largest portion of expenses, increased by 7.7% y/y, or N\$86.6 million to N\$1.21 billion, which management said was due to increasing capacity in the group's IT and cyber security teams. Operational banking expenses rose by 23.4%, due to the increased transaction volumes. CGP's cost-to-income ratio improved marginally from 60.7% at FY21 to 58.6% at FY22.

Overall, CGP's diversified portfolio delivered impressive results given that the economic environment remained challenging, with earnings coming in in line with our forecasts, but advances and deposit growth ahead of expectations. Pending further analysis of the FY22 results and management discussions, we maintain a **HOLD** recommendation on CGP. Our target price and recommendation will be revised with our full review of the FY22 results, as will the forecasts in the table at the top of the page.



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