IJG
Securities (Pty) Ltd.
Member of the NSX

FNB NAMIBIA HOLDINGS

1H15 Initial Impression

FEBRUARY 2015

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Target Price (c)	3163
Current Price (c)	2668

Year End 30 June	2013A	2014A	F2015	F2016
Net interest income (N$m)	985	1,138	1,284	1,451
Non-interest income (N$m)	869	1,087	1,250	1,438
Profit (N$m)	608	785	919	1,075
HEPS (c)	229	295	349	408
DPS (c)	100	109	122	143
DY (%)	3.7	4.1	4.6	5.4
P/E (x)	11.6	9.1	7.7	6.5
P/BV (x)	3.1	2.5	2.1	1.7

Source: FNB, IJG

Recommendation	BUY
NSX Code	FNB
Market Cap (N$m)	7,139
Shares in Issue (m)	267.6
Free float (%)	40
52 week high (c)	2668
52 week low (c)	2211
Expected Total Return (%)	23.1

1H15 Initial Impression

FNB Namibia released its results for first half of the year ended 31 December 2014. The firm posted excellent results, with profit for the period up by 29.4% to N$495.6million, and earnings per share up by 28.5% to 187.2c. Headline earnings per share saw similar growth of 28.6%. As such, headline earnings for the six months ended 31 December 2014 also stands at 187.2 cps. On account of these strong results, FNB Namibia has announced an interim dividend of 71cps for the 6 month period, up 29.1% from the 55cps dividend declared for the same period of 2013.

Over the period, return on average equity improved to 35.0% from 32.9% in 2013 while return on average assets was 3.7%, up from 3.4% in 2013 and cost to income ratio improved to 43.8% from 47.3%.

Net interest income (after impairments) grew by 23.4% on an annual basis, to N$675m, while non-interest income expanded by a sizable 21.2%, to N$643m. The growth in interest income is partially due to extremely strong growth in private sector credit extension, off an ever increasing base, as well as favorable margins due to interest rate movements and expectations through 2014. Advances increased from N$18.8bn to N$21.6bn over the 12 month period, representing growth of 14.9%. Total PSCE growth over this period totaled 16.5%, suggesting a slight loss in market share for FNB Namibia, however from a high base. Nevertheless, FNB Namibia's advances represent 31.2% of total advances registered with the bank of Namibia, well above the natural market share of the company given the number of established commercial banks in the country.

On the other hand, the increase in non-interest income was driven by increased volumes and values of transactions, leading to greater income from fees and commissions. Over the six month period to December 2014, an 11% increase in the number of accounts was witnessed, coupled with an 11% increase in transaction volumes. This drove a 23.1% increase in fee and commission income. The company noted that "mobile banking transactions have increased at double the rate of traditional branch volumes. Although this erodes revenue to a certain extent, we are pleased to pass on the benefits of our strategy to encourage innovative electronic banking."

Total operating expenses are up 14.9% to N$602 million year on year, driven by staffing costs, which increased 18.2% as the staff contingent increased 8%, an 8% wage increase was agreed upon with the union and a training levy was imposed on Namibian businesses.

The overall credit quality of FNB Namibia advances remains extremely sound, with the ratio of non-performing loans to average gross advances improving over the year to 0.67%, from 0.96% in December 2013. Non-performing loans decreased by 18% to N$139.7 million, from N$170.9 million a year ago. This is particularly impressive given the fact that Namibia hiked interest rates by 50 basis points through the 2014 calendar year, which would usually result in a slight uptick in non-performing loans.

Overall, the FNB Namibia 1H15 results are impressive, and look set to exceed our full-year forecasts for the company should this performance continue through 2H15. We are thus currently reviewing our FNB Namibia pricing model; and as such have left forecasts unchanged for the time being. We will release a more in depth note pending detailed analysis of the figures reported and discussions with management.

Share Price (c)

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