IJG
Securities (Pty) Ltd.
Member of the NSX

FNB NAMIBIA HOLDINGS

1H16 Initial Impression

FEBRUARY 2016

FNB Namibia Holdings

1H16 Initial Impression

Target Price (c)	4720
Current Price (c)	4352

Year End 30 June	2014	2015	F2016	F2017	F2018
Net interest income (N$m)	1,120	1,403	1,643	1,868	2,074
Non-interest income (N$m)	1,087	1,260	1,467	1,687	1,940
Profit (N$m)	785	999	1,169	1,365	1,557
HEPS (c)	294.7	377.6	442.0	516.2	588.5
DPS (c)	109	183	194	227	259
DY (%)	2.5	4.2	4.5	5.2	5.9
P/E (x)	14.8	11.5	9.8	8.4	7.4
P/BV (x)	4.1	3.4	2.8	2.4	2.0

Source: FNB, IJG

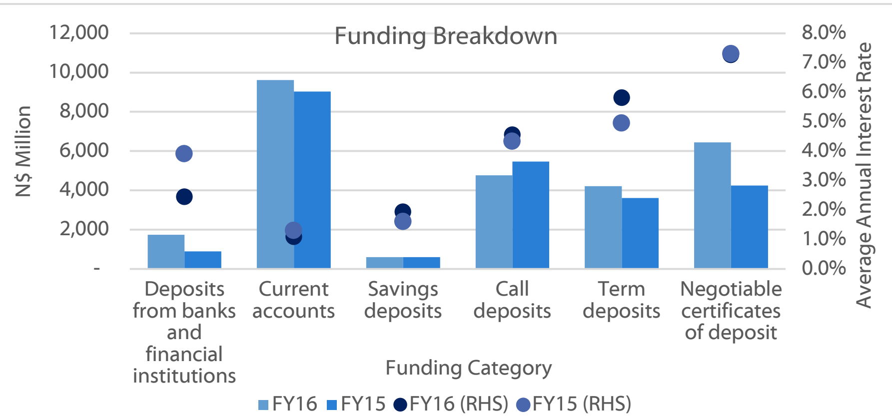
Recommendation	
NSX Code	FNB
Market Cap (N$m)	11,646
Shares in Issue (m)	267.6
Free float (%)	40
52 week high (c)	4500
52 week low (c)	2668
Expected total return	12.9%

FY15 Results Review

FNB Namibia released its results for the first half of the financial year ending 30 June 2016. Profit for the period increased by 20.5% to N$597.4 million, from N$495.6 million in the same period of FY15. Earnings per share increased by 21% to 226.5 cents, from 187.2 cents in the same period of FY15. Net interest income grew from N$815.5 million, from N$705.5 million in the first half of FY15, while non-interest income expanded from N$643.9 million, to N$744.2 million. As such, total income from operations expanded from N$1.36 billion to N$1.57 billion. Operating expenses grew from N$602.4 million to N$677.6 million over this period. Due to the fact that income grew at a rate of 15.5%, while expenses expanded by just 12.5%, the cost to income ratio of the company improved to 42.4%.

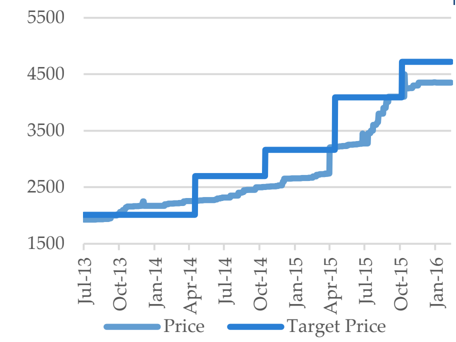
N$'Million	1H16	1H15	Change
Interest and similar income	1,377.74	1,166.65	18.1%
Interest expense and similar charges	(562.28)	(461.15)	21.9%
Net interest income before impairment of advances	815.47	705.50	15.6%
Net interest income after impairment of advances	783.73	675.44	16.0%
Non-interest revenue	744.17	643.89	15.6%
Income from operations	1,567.78	1,357.22	15.5%
Operating expenses	(677.60)	(602.44)	12.5%
Profit before tax	874.77	742.72	17.8%
Profit for the period	597.36	495.64	20.5%

The bank appears to be making a concerted effort to increase the duration of its funding, both by increasing NCDs, and by paying up for call and term deposits, the average cost of which have both increased notably over the past year. As such, the average cost of funding (excluding tier two liabilities) increased from 373 basis points in 1H15 to 398 basis points in 1H16. At the same time, the average rate charged on advances expanded from 908 basis points in 1H15 to 967 basis points in 1H16, implying a widening of the net interest margin of 34 basis points.



Non-interest income expanded by 15.6% to N$744.2 million in 1H16, from N$643.9 million in 1H15. This was driven by growth in fair value gains, largely derived from forex trading. Over the year, forex trading income increased by 46.4%, while total fair value gains

Share Price (c)



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Dividends

Notice is hereby given that an interim dividend for the 6 months ended 31 December 2015 of 91 cents per ordinary share was declared on 29 January 2016.

The last day to trade shares on a cum dividend basis will be on 19 February 2016 and the first day to trade ex-dividend will be 22 February 2016. The record date will be 26 February 2016 and the payment date 16 March 2016.

Dividend (interim): 91c/share
Declaration date: 29 January 2016
Ex-date: 22 February 2016
Record date: 26 February 2016
Payment date: 16 March 2016

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expanded by 34.5%. In addition, fee and commission income expanded by 11.9%, or by some N$65.9 million.

Total operating expenditure increased by 12.5% to N$677.5 million, from N$602.4 million in 1H15. Staff related costs, which amount to more than 50% of operating expenses, were up 11.0%. Staff numbers grew by 7.4%, while the average salary increased by 8.6%.

The group's total assets grew by 15.6% to N$32.5 billion. Advances, grew 15.1%, well ahead of total PSCE growth which expanded by 13.6% over the one year period. As such, the book now stands at N$24.9 billion, making it the second largest loan book in the country, after that of Bank Windhoek.

The bank's asset remain of a high quality, with total impairments for 1H16 of N$31.7 million, up slightly from N$30.1 million in 1H15. As a percent of the total book, this represents just 27 basis points, up from 20 basis points in the same period of the previous financial year. Non-performing loans have increased more dramatically, as is to be expected as we move through an interest rate hiking cycle, but remain extremely low. From a level of 75 basis points in 1H15, NPLs now stand at 92 basis points of the total book.

FNB remains well capitalised with a total capital adequacy ratio of 15.8%, unchanged from December 2014 and well above the regulatory requirement of 10%. Tier 1 capital, however, has been increased to 13.1%, from 12.4% in 1H15.

The bank declared an interim dividend of 91cps, up from 71cps in 1H15. This represents an increase of 28.2%, and a payout ratio of 40.2%, up from 37.9% in 1H15. The share will go ex-dividend on the 22 February 2016, and the payment date will be the 16 March 2016.

These results are largely in-line with our forecast and expectations, and pending further analysis of the 1H16 results and management discussion, we **maintain** our **BUY** recommendation on FNB Namibia, which remains our **most preferred locally listed stock**.

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