FNB NAMIBIA HOLDINGS

1H17 Initial Impression

FEBRUARY 2017

FNB Namibia Holdings	Target Price (c)	4720
1H17 Initial Impression	Current Price (c)	4747

Year End 30 June	2015	2016	F2017	F2018	F2019
Net interest income (N$m)	1,453	1,654	1,905	2,148	2,447
Non-interest income (N$m)	1,260	1,507	1,612	1,849	2,123
Profit (N$m)	999	1,218	1,330	1,503	1,724
HEPS (c)	378	436	503	568	652
DPS (c)	183	213	221	273	313
DY (%)	3.8	4.4	4.6	5.7	6.5
P/E (x)	12.7	11.0	9.5	8.4	7.4
P/BV (x)	3.7	3.1	2.6	2.2	1.9

Recommendation	
NSX Code	FNB
Market Cap (N$m)	12,702
Shares in Issue (m)	267.6
Free float (%)	40
52 week high (c)	4850
52 week low (c)	4352
Expected total return	8.6%

Source: FNB, IJG

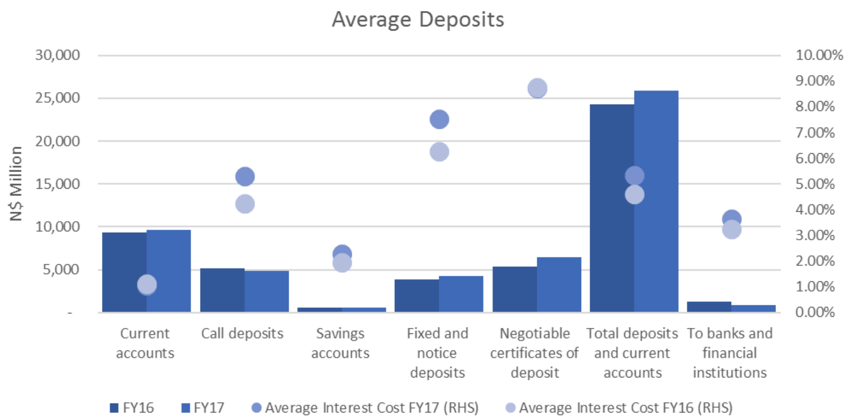
1H17 Results Review

FNB Namibia released its results for the six months ended 31 December 2016. Profit for the period increased by only 0.3% to N$599.2 million, from N$597.4 million in 1H16. Earnings per share decreased by 0.1% to 226.3 cents, from 226.5 cents in 1H16.

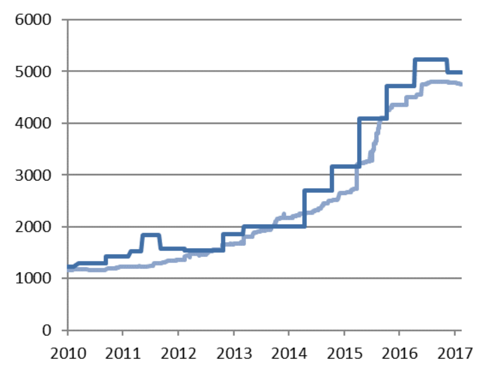
Net interest income grew to N$886.7 million from N$815.5 million, or 8.7%, while non-interest income expanded by 4.7%, from N$744.2 million to N$778.9 million. Total income from operations expanded by 8.1% from N$1.57 billion to N$1.70 billion while operating expenses grew by 16.9% from N$677.6 million to N$791.9 million over this period. Due to the fact that income grew at a rate of 8.1%, while expenses swelled by 16.9%, the cost to income ratio of the company deteriorated to 46.3% from 42.4% a year ago.

N$'Million	1H17	1H16	Change
Interest and similar income	1,598.77	1,377.74	16.0%
Interest expense and similar charges	-712.07	-562.28	26.6%
Net interest income before impairment of advances	886.70	815.47	8.7%
Net interest income after impairment of advances	873.30	783.73	11.4%
Non-interest revenue	778.88	744.17	4.7%
Income from operations	1,695.25	1,567.78	8.1%
Operating expenses	-791.86	-677.6	16.9%
Profit before tax	885.66	874.77	1.2%
Profit for the period	599.30	597.36	0.3%

Performance in 1H17 has been adversely influenced by a higher cost of funding. Although interest income grew by 16.0%, interest expense grew by 26.6% due to an increase in the cost of deposits. Due to a slower growth in customer deposits, more NCD's were issued pushing up the average interest rate paid which has squeezed the net interest margin.



Share Price (c)



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Dividends

Notice is hereby given that an interim dividend for the 6 months ended 31 December 2016 of 91 cents per ordinary share was declared on 31 January 2017.

Dividend (interim): 91c/share
Declaration date: 31 January 2017
Ex-date: 27 February 2017
Record date: 3 March 2017
Payment date: 15 March 2017

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Non-interest income expanded by 4.7%, from N$744.2 million in 1H16 to N$778.9 million in 1H17. The low growth figure was largely due to the high base set by the prior year's fair value gains from forex trading. Fair value gains decreased by 31.2%, from N$108.3 million to N$74.5 million. Net fee and commission income, on the other hand, expanded by 10.9%, or by some N$67.3 million.

Total operating expenditure increased by 16.7% to N$791.86.5 million, from N$677.6 million in 1H16. Staff related costs, which currently amount to more than 55% of operating expenses, were up 22.3%. Staff numbers grew by 9.2% while average salaries increased by 8.6%. Other operating costs, which make up a slightly more than 40% of operating expenses, were up by 7.8%, largely due to increased computer and processing related costs.

The group's total assets grew by 6.7% to N$34.7 billion. Advances grew 8.4%, in line with private sector credit extension which grew by 8.9%. PSCE growth has been slowing since mid-2015, thus a slowdown in advances was inevitable. As such, the book now stands at N$27.0 billion.

The bank's assets remain of a high quality, with total impairments for 1H17 of N$13.4 million, less than half of the N$31.7 million observed in 1H16. As a percent of the total book, this represents just 5 basis points, down from 13 basis points in the same period of the previous financial year. Non-performing loans have also remained quite stable, despite the difficult macroeconomic climate. From a level of 92 basis points in 1H16, NPLs now stand at 1.0% of the total book.

FNB remains well capitalized with a total capital adequacy ratio of 17.2%, comparable to the December 2015 figure and well above the regulatory requirement of 10%. Tier 1 capital, has been increased slightly to 13.4%, from 13.1% in 1H16.

The bank declared an interim dividend of 91cps, unchanged from 1H16. This represents a payout ratio of 40.2% also unchanged from 1H16. The share will go ex-dividend on the 27 February 2016, and the payment date will be 15 March 2016.

These results are slightly below our expectations but are not surprising given the current macroeconomic environment. The large increases in operating expenses, made up mostly of staff and IT costs, were largely to blame for the flat print in earnings. Pending further analysis of the 1H16 results and management discussion, we **maintain** our **HOLD** recommendation on FNB Namibia. Please not that our target price will be revised with our full report on the 1H17 results.

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