FNB NAMIBIA HOLDINGS

1H18 Initial Impression

February 2018

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Target Price (c)	5302
Current Price (c)	4658

Year End 30 June	2016	2017	F2018	F2019	F2020
Net interest income (N$m)	1,654	1,765	1,914	2,172	2,499
Non-interest income (N$m)	1,507	1,554	1,705	1,953	2,219
Profit (N$m)	1,218	1,113	1,201	1,407	1,690
HEPS (c)	460	419	453	531	638
DPS (c)	213	204	217	253	306
DY (%)	4.5	4.3	4.6	5.4	6.6
P/E (x)	10.3	11.2	10.3	8.8	7.3
P/BV (x)	3.1	2.7	2.4	2.1	2.1

Recommendation	BUY
NSX Code	FNB
Market Cap (N$m)	12,464
Shares in Issue (m)	267.6
Free float (%)	24
52 week high (c)	4748
52 week low (c)	4658
Expected total return	18.5%*
*subject to revision	

Source: FNB, IJG, Bloomberg

1H18 Initial Impression

FNB Namibia released its results for the six months ending 31 December 2017. A trading statement from the company dated 31 January 2018 advised shareholders that the group's unaudited earnings for the half year would be down 10% to 15%. Earnings per share for the period fell by 12.5% to 198cps (1H17: 226.3cps), resulting in a drop in the return on average equity to 25.6%. Half year EPS decreased by 0.1% in 1H17, making this the second decrease in half year EPS from a 1H16 peak of 226.5cps. Profit before tax decreased by 11.9% due to an increase in impairments, a tightening net interest margin, and increased costs associated with the funding and integration of Pointbreak and EBank. Profit before tax, normalised for Pointbreak and EBank, decreased by 9%. These results are below our expectations, reflecting a further squeeze in the net interest margin as well as continued cost increases related to staff and systems.

Advances grew by 5.8% to N$28.55 billion from N$26.99 billion in 1H17. Annual PSCE growth came in at 5.1% in December meaning FNB grew market-share over the period. The growth in advances was largely driven by homeloans which grew by 6.3% over the period. Growth in overdrafts (12%) and term loans (9.8%) underpinned advances growth, while instalment credit was reduced by 5.2%.

Interest income grew by 12% to N$1.791 billion, while interest expense grew by 24.2% to N$884.7 million. The net interest margin contracted further as a result. The increase in interest expense stems from a large increase in the utilisation of term deposits, as well as the increased use of fixed and floating rate notes as a source of funding. Interest paid on term deposits increased by 42.8%, and interest expense on fixed and floating rate notes grew seven-fold to N$63 million.

Non-performing loans increased by 80% y/y to N$489 million. While this is a rapid rate of increase the ratio of non-performing loans to gross advances ended at 1.7%, which is within management's risk appetite and below the industry average. Tighter economic conditions have placed consumers under pressure which may not change in the short term. This is a potential risk area to be monitored. Impairment losses increased to N$76.1 million or 0.26% of gross advances, well within acceptable levels. Particularly low impairments through the income statement in 1H17 does skew the EPS comparison with that period somewhat.

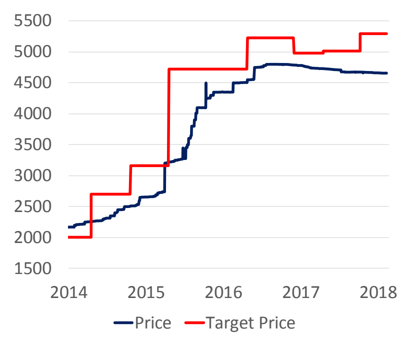
Total operating income was split 51.4% to 48.6% between non-interest income and net-interest income (after impairments). This is a reversal of the prior period results where interest income made up the bulk of total operating income. Non-interest income grew by 12.8% while net interest income (after impairments) fell by 5%. The number of active accounts increased by 6.3% and transactional volumes grew by 8%. Banking non-interest income reflected strong growth in consumer segments but stagnation in the business and corporate consumer segment.

Operating expenses grew by 20.5% as a result of investment in risk and compliance as well as the integration of the investment and wealth entities. Excluding the acquired entities would have seen operating expenses grow by 11%. Overall staff costs increased by 20.7% which includes the Pointbreak and EBank related costs for the first time. Much of these cost increases are likely to be once off with a continued push toward self-service channels which should come through in the results in future periods.

FNB remains well capitalized with a total capital adequacy of 17.3% (tier 1 capital of 13.8%), up from 17.2 % in 1H17, and well above the regulatory requirement of 10%.

These results are below our forecasts and expectations, but pending further analysis of the results and management discussion, we maintain our **BUY** recommendation whilst urging caution on FNB Namibia. Our target price and estimates will be updated in the full 1H18 report.

Share Price (c)



Dividends

Dividend (interim): 91c/share

Declaration date: 30 January 2018

Ex-date: 26 February 2018

Record date: 2 March 2018

Payment date: 16 March 2018

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