



# FIRSTRAND NAMIBIA LTD

## 1H19 Initial Impression

### February 2019

*Research Analyst:*

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0,0005	4,85%
0,0003	13,04%
0,201	50,00%
0,0003	14,29%
0,0005	12,50%

## FirstRand Namibia Ltd

### 1H19 Initial Impression

<b>Target Price (c)*</b>	<b>4529</b>
Current Price (c)	4326

Year End 30 June	2016	2017	2018	F2019	F2020	Recommendation*	HOLD
Net interest income (N\$m)	1,654	1,765	1,821	1,856	1,912	NSX Code	FNB
Non-interest income (N\$m)	1,507	1,554	1,796	1,799	1,967	Market Cap (N\$m)	11,576
Profit (N\$m)	1,218	1,113	1,061	1,080	1,135	Shares in Issue (m)	267.6
HEPS (c)	460	419	398	407	428	Free float (%)	24.0
DPS (c)	213	204	204	210	212	P/B (x)	2.3
DY (%)	4.5	4.3	4.6	4.6	4.7	52 week high	4660
P/E (x)	10.3	11.3	11.2	11.2	10.7	52 week low	4200
P/B (x)	3.1	2.7	2.3	2.1	2.1	Expected Total Return (%)*	

Source: FirstRand Namibia, IJG

Forecasts adjusted on initial impression

\* Target price unchanged pending review

### 1H19 Initial Impression

First Rand Namibia released their results for the interim period ended 31 December 2018. Overall, the results were resilient in the face of a protracted economic downturn. Profit after tax increased by 5.2% y/y to N\$552.7 million while basic earnings per share increased by 5.5% to 208.9 cents per share. An interim dividend of 91 cents per share was declared, unchanged from the 2018 interim dividend declared.

N\$'000	2018	2017	% Change
<b>Net interest income before impairments</b>	<b>1,001,147</b>	<b>906,189</b>	<b>10.5%</b>
Impairment and fair value of credit advances	-117,190	-76,126	53.9%
<b>Net interest income after impairments</b>	<b>883,957</b>	<b>830,063</b>	<b>6.5%</b>
Non-interest income	935,149	878,943	6.4%
Net insurance premium income	78,892	89,278	-11.6%
Net claims and benefits paid	-43,475	-45,335	-4.1%
<b>Income from operations</b>	<b>1,854,523</b>	<b>1,752,949</b>	<b>5.8%</b>
Operating expenses	-1,020,094	-953,962	6.9%
<b>Net income from operations</b>	<b>834,429</b>	<b>798,987</b>	<b>4.4%</b>
Share of profit from associates after tax	1,366	562	143.1%
<b>Income before tax</b>	<b>835,795</b>	<b>799,549</b>	<b>4.5%</b>
Indirect tax	-23,480	-19,511	20.3%
<b>Profit before tax</b>	<b>812,315</b>	<b>780,038</b>	<b>4.1%</b>
Direct tax	-259,622	-254,528	2.0%
<b>Profit for the period</b>	<b>552,693</b>	<b>525,510</b>	<b>5.2%</b>

Net interest income grew by 10.5% y/y to N\$ 1,001.1 million supported by marginal growth in deposits and advances. Total advances, to banks and customers, grew by 3.6% y/y to N\$34.7 billion, while total deposits grew by 7.0% y/y to N\$31.1 billion.

Advances to customers increased by only 1.8% y/y to N\$29.1 billion, compared to PSCE growth of 7.4%. According to FNB, the below market growth was due to very low individual credit demand coupled with low mortgage advances growth. Mortgage loans increased year on year by 2.7% to N\$13.4 billion and constitute 45% of advances. Nonetheless, total interest income grew by 6.7%.

Retail funding made up the bulk of the increase in deposits, as call deposits increased by N\$1,084 million (or 15.7%). Savings accounts also displayed very strong growth of 26.5%. Fixed and notice deposits declined by 3.5% y/y while fixed and floating rate notes declined by 0.2% y/y. Negotiable certificates of deposits grew by 7.5%. As a result of strong increases in retail funding, and a curbing of more expensive forms of institutional funding, growth in interest expense was contained to 2.8%. This allowed for the 10.5% growth in net interest income.

### FNB Share Price vs Target Price



### Dividends

Dividend (interim): 91c/share

Declaration date: 31 January 2019

Last day to trade: 15 March 2019

Ex-date: 18 March 2019

Record date: 22 March 2019

Payment date: 05 April 2019

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0,0003	13,04%
0,301	50,00%
0,0003	14,29%
0,0005	12,50%

Non-performing loans increased to 2.31% of gross advances, up from 1.69%. Impairment losses increased as expected, mostly as a result of the implementation of IFRS 9. The total impairment charges increased year-on year to N\$ 117.2 million, an increase of N\$41.1 million. N\$18.0 million of this increase was directly attributable to IFRS 9 portfolio impairments. The impairment charge stood at 0.39% of gross advances, up from 0.26%, which is still reasonably low and remains within the bank's risk appetite.

Non-interest income increased by 6.4% which was primarily due to increases in fee and commission income of 7.2%. Fair value income declined by 14.4%, as fair value income from assets designated at fair value through profit or loss declined from N\$26.1 million to N\$18.0 million. Insurance premium income posted declines of 11.6% while claims also declined by 4.1%. The decline in premium income was attributed to low inflation in local premiums and increased competition in the insurance sector.

Operating costs increased by 6.9% to N\$ 1,020.1 million, causing the cost to income ratio to decline from 52.1% to 51.7%. On a normalised basis, adjusting for the closure of EBank in the base year, operating costs increased by 7.4%. Staff costs made up 54.5% of operating expenses and increased by 5.3%, slightly above NCPI of 5.1%. IT costs increased by 9.1% as a result of increases in data line capacity and lines for new ATMs.

All in all, these results do not paint a rosy picture of the state of the Namibian economy, but slightly exceeded expectations. Despite the challenges the bank seems to have contained costs and managed its cost of funding well. The subdued demand for credit, especially from individuals, is symptomatic of the prolonged recession, which has lasted much longer than initially expected. Pending further analysis of the 1H19 results and management discussion, we maintain our **HOLD** recommendation on FNB Namibia. Please note that our target price will be revised with our full report on the 1H19 results.



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