FIRSTRAND NAMIBIA LTD
1H21 Initial Impression
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FirstRand Namibia Holdings

1H21 initial Impression

Year End 30 June	FY20A	FY21E	FY22E	FY23E
Net interest income (N$m)	2,013	2,016	2,179	2,354
Non-interest income (N$m)	1,905	2,007	2,119	2,232
Profit (N$m)	833	973	1,065	1,161
HEPS (c)	311	364	398	434
DPS (c)	154	182	199	217
DY (%)	6.7	7.9	8.6	9.4
P/E (x)	7.4	6.3	5.8	5.3
P/BV (x)	1.2	1.1	1.0	1.0

Target Price (c)	***2520***
Current Price (c)	2307
Recommendation	**HOLD**
NSX Code	FNB
Market Cap (N$m)	6,173
Shares in Issue (m)	268
Free float (%)	24.0
52 week high	3339
52 week low	2015
Expected Total Return (%)	17.1

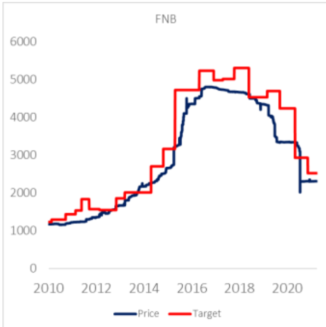
1H21 Initial Impression

FirstRand Namibia released their interim results for the period ended 31 December 2020. Profit after tax decreased by 9.4% y/y, while headline earnings per share declined by 9.9% y/y. The group posted an impressive ROE of 21.5% and declared an interim dividend of 94cps (-9.6% y/y). Although a decline in earnings was expected seeing as the first half of FY20 was unaffected by the then unknown-pandemic, the results exceeded our expectations. This was largely due to the fact that the group was able to reduce operating expenditure by 4.6% y/y, while IJG expected a moderate increase. The group's cost to income ratio remained essentially flat, increasing to only 51.1% from 50.9%.

N$ Million	FY20	FY19	%Δ
Interest and similar income	3,858.1	3,864.7	-0.2%
Interest expense and similar charges	-1,844.6	-1,852.5	-0.4%
NII before impairment of advances	**2,013.4**	**2,012.2**	**0.1%**
Impairment and fair value of credit of advances	-559.7	-214.8	160.5%
NII after impairment of advances	**1,453.8**	**1,797.4**	**-19.1%**
Net insurance premium income	161.1	167.2	-3.7%
Net claims and benefits paid	-77.5	-86.2	-10.1%
Non-interest income	1,905.0	1,820.2	4.7%
Income from operations	**3,442.4**	**3,698.6**	**-6.9%**
Operating expenses	-2,173.7	-2,069.0	5.1%
Operating profit	1,268.7	1,629.6	-22.1%
Share of (losses) / profit of associates after tax	-14.2	2.8	-616.6%
Income before tax	**1,254.5**	**1,632.4**	**-23.1%**
Indirect tax	-44.7	-47.4	-5.6%
Profit before tax	**1,209.7**	**1,585.0**	**-23.7%**
Income tax expense	-376.4	-499.2	-24.6%
Profit for the year	**833.4**	**1,085.8**	**-23.3%**

Total assets posted modest growth of 2.2% to N$44.8 billion, however, net advances contracted by 3.7% y/y to N$30.3 billion. This was well below private sector credit extension of 1.6% y/y. Property finance was the only category which posted growth, increasing by 4.6% y/y to N$14.6 billion. Overdrafts and cash managed accounts declined by 12.6% y/y to N$3.7 billion, while term loans declined by 1.1% y/y and instalment sales credit contracted by 6.0% y/y. Seeing as overall loan growth was muted, investment securities increased by 11.8% y/y or N$874.7 million to N$8.3 billion. Deposits on the other hand, continued to grow, increasing by 3.5% to N$37.2 billion. Much of the increase came from retail deposits, which increased by 15.6% y/y

FNB Share Price vs Target Price



Dividends

Dividend (interim): 94/share

Declaration date: 10 February 2021

Last day to trade: 09 April 2021

Ex-date: 12 April 2021

Record date: 16 April 2021

Payment date: 30 April 2021

to N$4.2 billion. Wholesale funding, on the other hand, was decreased by 41.2% y/y to total N$5.2 billion.

Net interest income was materially affected by the sharp decrease in interest rates over the last 12 months, declining by 14.0% y/y to N$907.6 million. Although interest income declined by 24.1% y/y due to lower interest rates, the change in funding mix allowed interest expense to drop by 34.9%.

Impairment charges were in line with our expectations at 0.98% of total advances. IJG expects an impairment charge of 1.0% for the full year. According to the financial statements, the six months' build up of non-performing loans is marginally better than expectations, but the group has decided to not adjust its provisioning methodology and assumptions. NPLs as a proportion of total advances stood at 5.1%.

According to the financial statements, transactional volumes have rebounded with total financial transactions increasing by 6.3% y/y and are back to pre-COVID levels. Additionally, the group managed to increase non-fee income (fair value gains and investment income) by an impressive 43.0% y/y to N$128.8 million. As a result, total non-interest revenue posted growth of 3.4% y/y. The strategy of digital migration continues to show results as banking app transactions have increased by 112% and POS swipes have increased by 11.2% y/y. In branch transactions, however, continue to decline, and were down by 6.3% y/y. The insurance segment contributed N$21.5 million to earnings as premium income increased by 3.9% y/y while claims were down by 11.3% y/y.

Operating costs were a pleasant surprise, declining by 4.6% y/y to N$1.0 billion which meant that the cost to income ratio was not severely impacted. Staff cost increases were moderate, increasing by 1.5% y/y to N$591.5 million, in line with inflation. Most of the savings were from the other operating cost line, which decreased by 13.9% y/y from N$386.5 million to N$332.9 million.

FirstRand reported a good set of results for the first half of FY21. Although there was little growth in advances, the group made up for the shortfall by increases in non-interest revenue and well controlled expenditure. The ROE of 21.5% is very impressive in the current economic climate, especially seeing as the group remains very well capitalised as its capital adequacy ratio stood at 18.9%. The share price is still below IJG's estimation of fair value and we do see some value in the stock. However, the Namibian macroeconomic outlook remains bleak and risks are skewed to the downside. For the time being, we maintain our **HOLD** recommendation on FirstRand pending management consultations and the release of our full report in which our target price and forecasts will be revised.

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