FIRSTRAND
NAMIBIA

1H21 Results Review
March 2021

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FirstRand Namibia Holdings

1H21 initial Impression

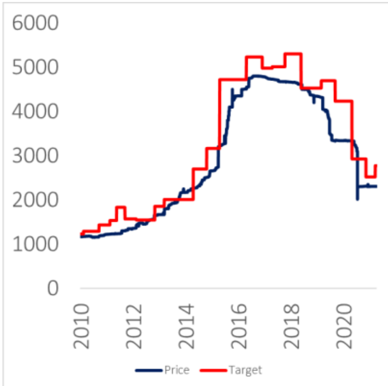
Year-End 30 June	FY20A	FY21E	FY22E	FY23E
Net interest income (N$m)	2,013	1,918	1,997	2,083
Non-interest income (N$m)	1,905	1,970	2,049	2,155
Profit (N$m)	833	978	1,049	1,125
HEPS (c)	311	365	392	420
DPS (c)	154	183	196	210
DY (%)	6.7	7.9	8.5	9.1
P/E (x)	7.4	6.3	5.9	5.5
P/BV (x)	1.2	1.1	1.0	1.0

Target Price (c)	***2715***
Current Price (c)	2311
Recommendation	BUY
NSX Code	FNB
Market Cap (N$m)	6,184
Shares in Issue (m)	268
Free float (%)	24.0
52 week high	3339
52 week low	2015
Expected Total Return (%)	25.4

1H21 Results Review

- FNB's 1H21 numbers were roughly in line with our expectations, with a positive surprise on operating expenditure, which declined by 4.6% y/y.
- Profit after tax declined by 9.4% y/y, while HEPS declined by 9.9%.
- A dividend of 94cps was declared, down 9.6% y/y from the 1H20 interim dividend.
- NII decreased by 14.0% y/y as the NIM was affected by a decline in interest rates.
- NIM is expected to remain around the 4.3% – 4.4% level over the next three years.
- NPLs increased marginally to 5.0% of the advances book.
- Impairments were in line with expectations, standing at 0.98% of advances for the half-year.
- IJG expects the full year CLR to come in at 1.0%, declining to 0.80% by FY23.
- NIR grew marginally (+3.4% y/y) and the insurance segment performed well given increases in premiums and lower claims.
- NIR is expected to continue showing modest growth of 3 – 5% over the next three years as digitalisation continues to drive revenues.
- The group is well capitalised at an 18.9% total capital adequacy ratio. This increases the odds of a special dividend, share buybacks or even some type of aquation in the future.
- Despite the excess capital, the groups posted an impressive ROE of 21.5% for the period.
- At the current share price, IJG sees value given the counter's resilience in the current economic environment.
- We upgrade our recommendation to a **BUY**, given the apparent discount to intrinsic value.

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

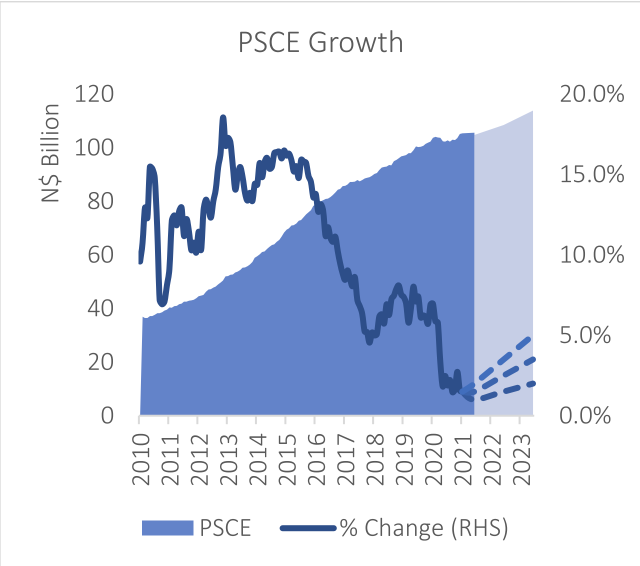
Record date: 16 April 2021

Payment date: 30 April 2021

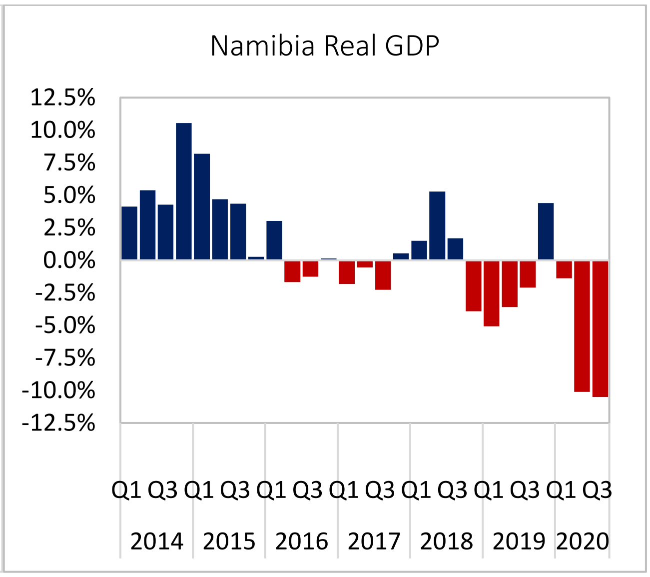
Key Earnings Drivers

Year End 30 June	FY19A	FY20A	FY21E	FY22E	FY23E
Advances Growth	6.2%	-1.0%	-1.8%	0.0%	2.1%
NIM	5.0%	4.7%	4.3%	4.4%	4.4%
NIR Growth	1.3%	4.7%	3.4%	4.0%	5.2%
CLR	0.71%	1.87%	1.00%	0.90%	0.80%
Cost Growth	4.4%	5.1%	0.0%	3.2%	4.2%
ROE	20.8%	16.0%	18.6%	18.2%	17.9%
HEPS	409.9	313.4	365.3	392.0	420.5
HEPS Growth	3.0%	-23.5%	16.6%	7.3%	7.3%

Loans and Advances Growth

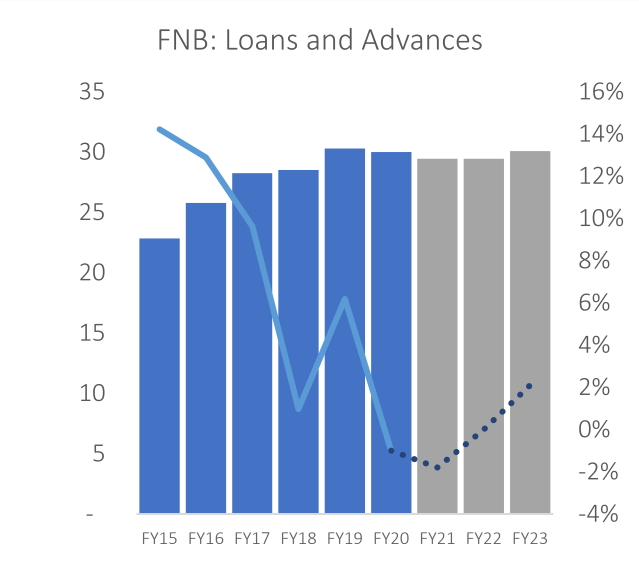


Source: BoN, IJG

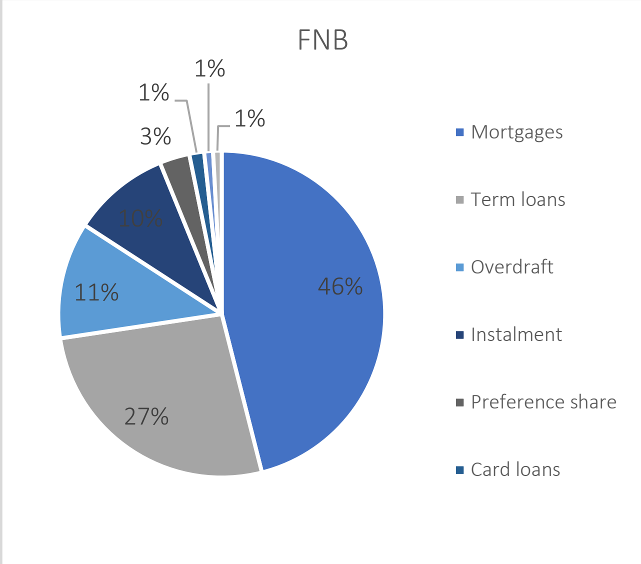


Source: NSA, IJG

- Private sector credit extension recorded growth of only 1.6% y/y in December 2020.
- PSCE growth is expected to remain below 5% over the next three years, with IJG's base case looking at 1.5%, 2.4% and 3.4% growth over the next three years.
- FNB's total assets increased by 2.2% to N$44.8 billion while loans and advances declined by 1.8% y/y to N$31.7 billion.
- The group provided debt relief on N$2.3 billion of performing advances representing 7.3% of total advances.
  - Property finance was the only category that displayed growth, increasing by N$638.5 million or 4.6% y/y to N$14.6 billion.
  - Overdrafts and cash managed accounts declined by N$529.3 million or 12.6% y/y to N$3.66 billion.
  - Term loans shrank by 1.1% y/y to N$8.43 million.
  - Instalment sales declined by 6.0% y/y to N$2.97 billion, new business at WesBank contracted by 26.7% y/y reflecting a material drop in applications.
- Investment securities increased by 11.8% y/y to N$8.30 billion, now making up 18.5% of the balance sheet.
  - The increase was driven mostly by Government bonds, which grew by N$1.24 billion or 52.9% y/y to N$3.59 billion.
  - According to management, these holdings lie in various portfolios and the overall duration of these bonds is low.
  - TB holdings declined by 6.6% y/y to N$4.30 billion, however, TB holdings declined sharply (-19.5%) from the N$5.34 billion held as at 30 June 2020



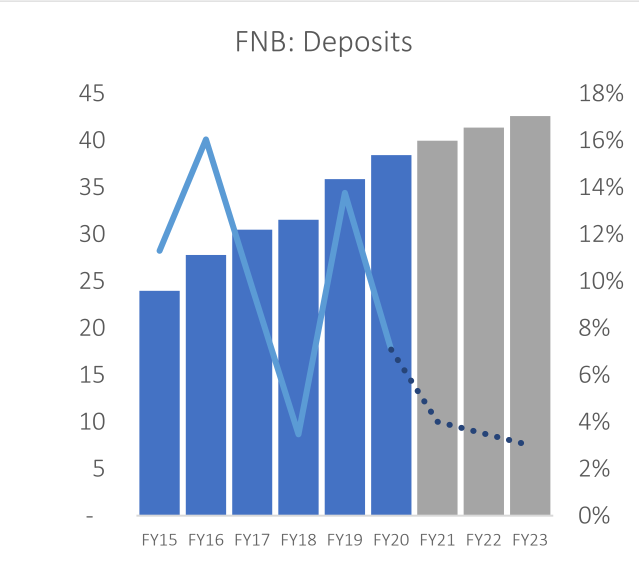
Source: FNB, IJG



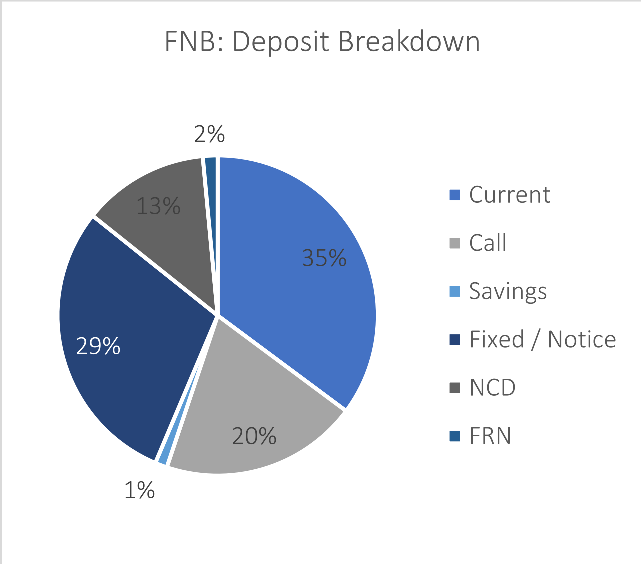
Source: FNB, IJG

- IJG expects gross advances to contact by just under 2.0% in FY21 but return to marginal growth around 2.0% by FY23.

Deposits Growth



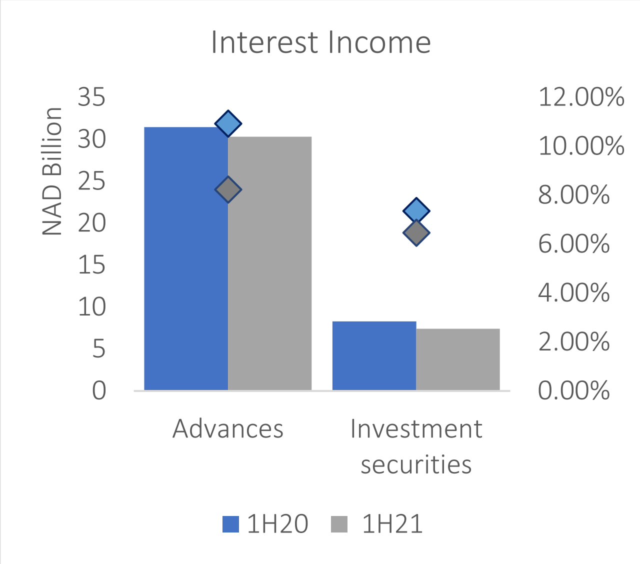
Source: FNB, IJG



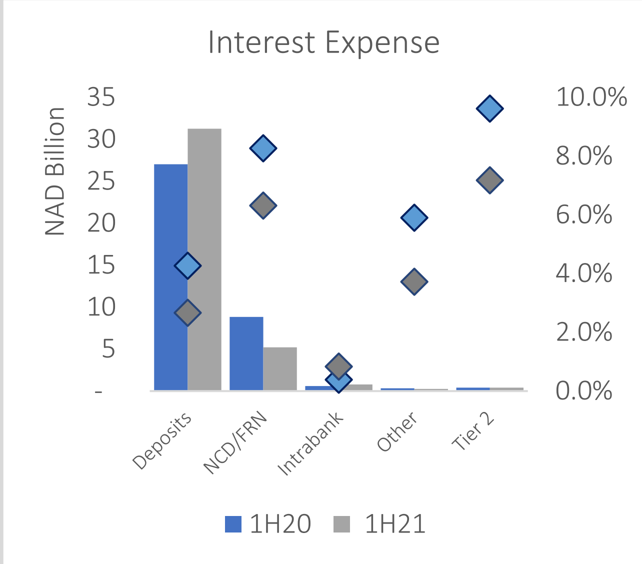
Source: FNB, IJG

- Deposits grew ahead of advances, growing by 1.6% y/y to N$36.5 billion.
  - This was driven by strong growth in Current call and savings accounts which grew by N$2.99 billion or 17.0% y/y collectively.
  - Large corporate deposits increased by 20.2% y/y.
  - Fixed and notice deposits increased by 13.1% y/y to N$10.7 billion.
  - NCD and FRN funding declined by 41.2% to N$5.21 billion as the group substituted high yield wholesale funding for low interest retail deposits.
- The split between deposits from customers (call, current, savings and notice deposits) and wholesale funding (NCDs and FRNs) improved from the 75:25 ratio a year ago to 86:14.
- We expect to a see a permanent shift in the overall funding mix going forward as consumer behaviour has changed following the pandemic, with individuals and corporates holding more cash.
- We expect deposit growth to grow marginally above advances over the next three years.

Net Interest Margin

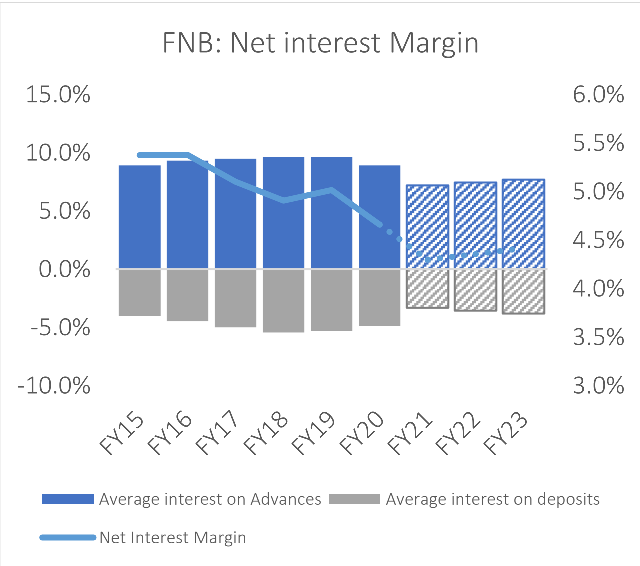


Source: FNB, IJG

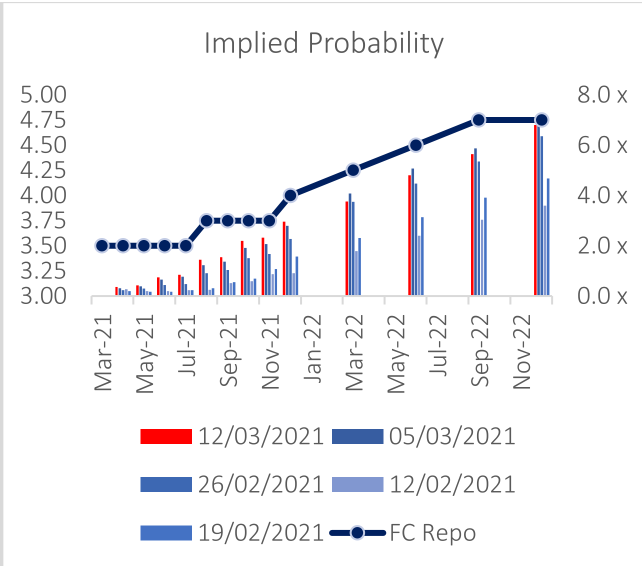


Source: FNB, IJG

- As expected, FirstRand's net interest margin contracted sharply following the 275 basis point decline in administered interest rates.
- Net interest income declined by 14.0% y/y as interest income was down by 24.1% y/y while interest expense declined by 34.9% y/y.
    - The change in funding mix offset some of the margin compression witnessed.
- The NIM for the half-year was 4.27%.



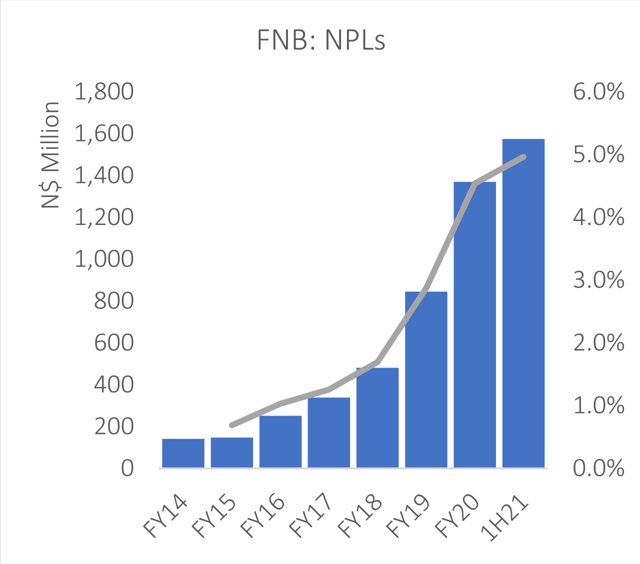
Source: FNB, IJG



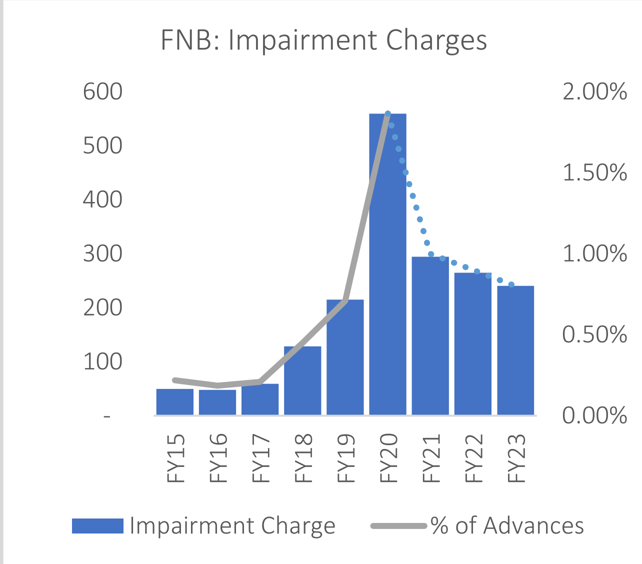
Source: FNB, IJG

- The average yield on investment securities stood at 6.5%, as investments in treasury bills were substituted for investments in longer-term government bonds.
- The South African FRA curve is pointing to sharp increases in interest rates over the next two years, currently pricing in 7x 25 basis point hikes.
- IJG believes this is unlikely given the current SA growth and inflation outlook and is only expecting a maximum increase of 50 bps over the next two years.
- IJG expects the net interest margin to contract from 4.7% in FY20 to about 4.3% in FY21, which should improve marginally to 4.4% by FY23.

Impairments



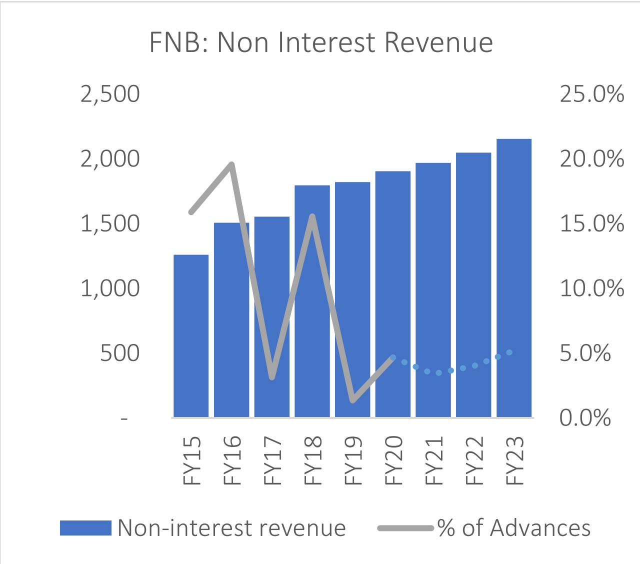
Source: FNB, IJG



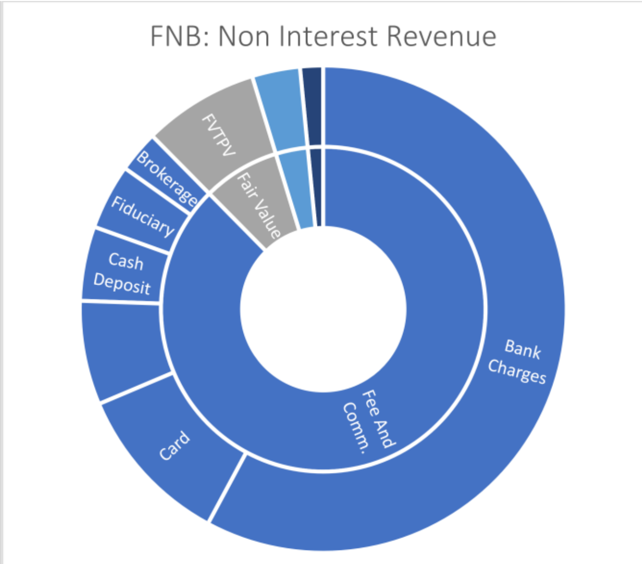
Source: FNB, IJG

- Impairment charges increased by 27.6% to N$150.6 million.
- This translated to a CLR of 0.98%, just below IJG's estimate of 1.00%.
- According to the financial statements, the build-up of NPLs over the period was marginally better than expected.
- Stage 3 advances increased by N$81.1 million over the six months, totalling N$1.57 billion or 5.0% of total advances.
- Stage 2 advances, however, increased sharply, by N$606.6 million, up from 9.5% to 11.4% of advances.
- Given the current environment, the group has decided not to alter its current assumptions and methodology.
- IJG expects the CLR for FY21 to amount to 1.00% of advances, declining to 0.80% by FY23.

Non-Interest Revenue



Source: FNB, IJG

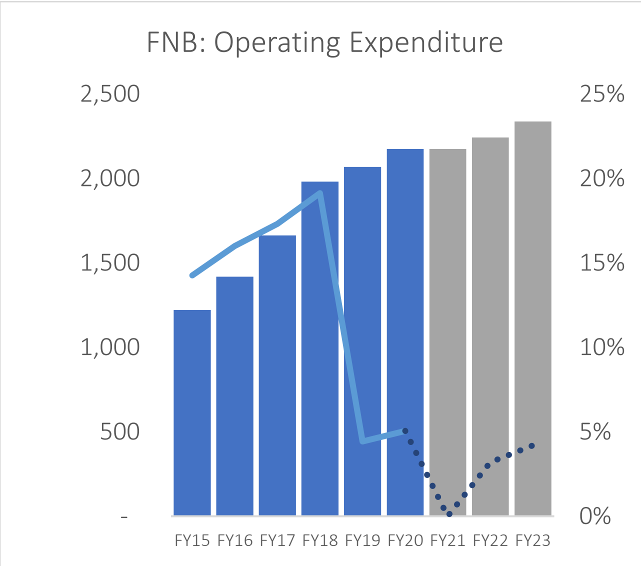


Source: FNB, IJG

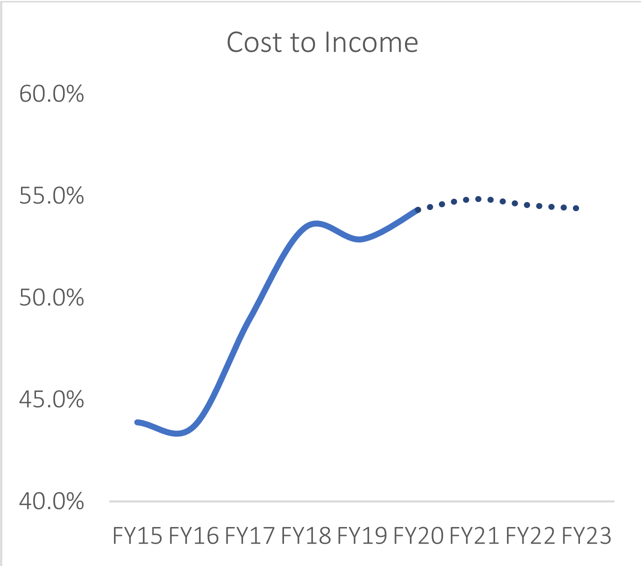
- NIR grew by 3.4% y/y as growth was inhibited by lower price increases effective 1 July 2020.
- Net fee and commission revenue reduced by 0.5%.
- According to the financial statements, transactional volumes have rebounded to pre-COVID levels, which is a very promising sign.

- According to management, transactions by individuals contributed most to the rebound, especially during December, while corporate transactional volumes remain under pressure.
- Other NIR performed well as fair value gains increased by 31.4% y/y to N$79.8 million, which was the main contributor to the y/y increase.
- The strategy of digital migration continues to make progress, as digital volumes continue to grow at the expense of in-branch and cash related NIR.
- Initiatives such as cash withdrawal at tills at retailers have assisted in growing NIR while keeping ATM costs to a minimum and increasing FNB's footprint.
- The insurance segment performed well increasing net premium income by 21.5% y/y as premium incomes grew by 3.9% y/y while claims paid decline by 11.3% y/y.
- The decline in claims was mostly due to more people working from home, which reduced vehicle accident claims as well as lower home contents claims.
- Management has pointed out that they do expect to see slightly higher claims following a large amount of rain we have seen, which may lead to higher home repair claims.
- Insurance income currently contributes 6.7% of earnings.

Operating Expenditure



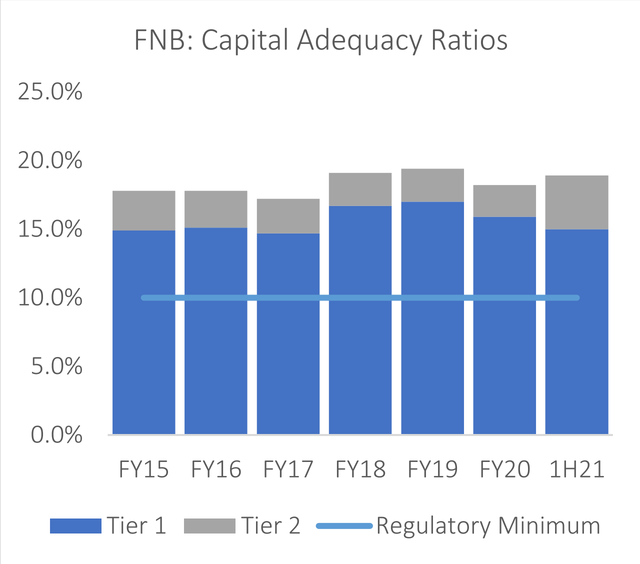
Source: FNB, IJG



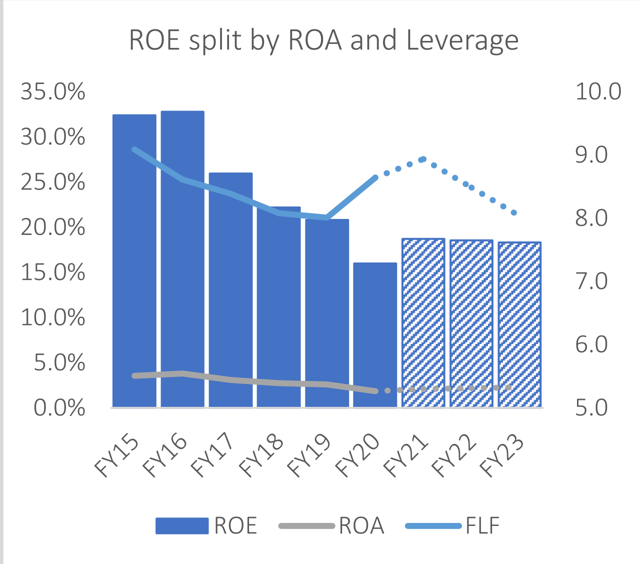
Source: FNB, IJG

- Operating expenditure decreased by 4.6% y/y to N$1.01 billion.
- A large amount of the savings was captured in the "other expenses" item, which decreased by 13.9% y/y or N$53.7 million to N$332.9 million.
- The half-year cost to income ratio was up slightly to 51.1%, which is impressive given the decline in revenue.
- Staff costs increased by 1.5% to N$591.5 million, making up 58% of operating expenditure.
  - No increases were granted to senior management.
  - Inflationary increases for non-managerial staff.
- We expect FirstRand to be able to keep their cost-to-income ratio below 55% going forward as it will likely be difficult to cut back on the current cost base further.

Capital Adequacy



Source: FNB, IJG



Source: FNB, IJG

- FirstRand remains more than adequately capitalised a total capital adequacy ratio of 18.9%.
- Given the slow advances growth and rapid accumulation of liquid assets, there is a possibility that FirstRand may declare a special dividend, a share buyback or even some type of acquisition to reinvest these funds at a similar ROE.
- However, the Bank of Namibia might be averse to a disbursement of capital to shareholders, as they might view this as decreasing the stability of the banking sector by reducing capital buffers.
- Shareholders, however, would likely prefer that these funds be paid out or applied to higher yielding assets.
- The group should be able to maintain an ROE of 18.3% to 18.7% over the next three years, given the status quo.

Valuation

	Value (NS'000)	Price per Share	Price to Earnings	Forward PE	Price to Book	Forward PB	Dividend Yield	Forward DY	Weight
Residual Income	N$7,978	29.81	9.6	8.2	1.6	1.5	5.2%	6.1%	25%
Dividend Discount	N$7,725	28.87	9.3	7.9	1.5	1.4	5.3%	6.3%	25%
Justified Price to Earnings	N$6,514	24.34	7.8	6.7	1.3	1.2	6.3%	7.5%	25%
Justified Price to Book	N$6,840	25.56	8.2	7.0	1.4	1.2	6.0%	7.1%	25%
Weighted Average	**N$7,264**	**27.15**	**8.7**	**7.4**	**1.5**	**1.3**	**5.7%**	**6.8%**	**100%**

- We derive a **target price of N$c2715** per share based on our base case estimates.
- Coupled with expected dividends of 183cps over the next 12 months, we expect a **total return of 25.5%.**

	Bull Case			Bear Case		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Advances Growth	-1.3%	0.5%	2.6%	-2.3%	-0.5%	1.6%
NIM	4.8%	4.8%	4.9%	3.8%	3.9%	3.9%
NIR Growth	3.4%	4.0%	5.2%	3.4%	4.0%	5.2%
CLR	0.80%	0.80%	0.80%	1.20%	1.20%	1.20%
Cost Growth	0.0%	3.2%	4.2%	0.0%	3.2%	4.2%
ROE	21.9%	20.8%	19.8%	15.4%	15.0%	14.6%
HEPS	432.4	456.6	482.7	298.7	314.1	330.2
HEPS Growth	38.0%	5.6%	5.7%	-4.7%	5.2%	5.1%

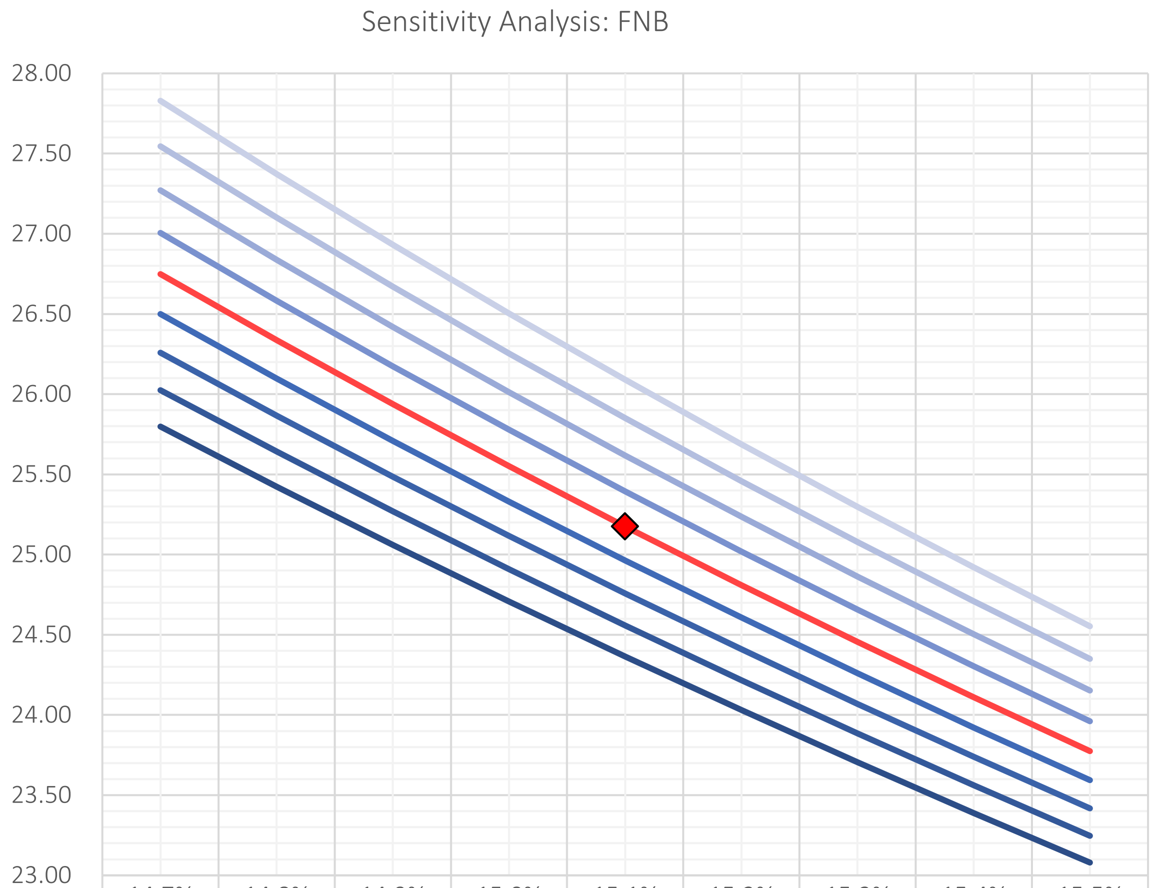
- IJG has also conducted a bull case and bear case scenario for FNB.
- Based on the above assumptions IJG calculates a **3010 cps** target price given the **bull scenario** and a **2291 cps** target price given the **bear scenario**.
- This translates to a **39.6% total return given the bull case** and a **5.6% total return given the bear case.**
- Based on our assessment of intrinsic value and the resilient performance of the group to date we upgrade our recommendation to a **BUY** on FNB, which is currently our preferred banking counter on the NSX.

Forecast Financials

Year End June (N$ 000)	FY19	FY20	FY21	FY22	FY23
Interest and similar income	3,864,700	3,858,058	3,213,905	3,415,232	3,630,884
Interest expense and similar charges	(1,852,478)	(1,844,619)	(1,295,427)	(1,418,339)	(1,547,434)
Net interest income before impairment of advances	2,012,222	2,013,439	1,918,477	1,996,893	2,083,450
% Growth	10.5%	0.1%	-4.7%	4.1%	4.3%
Impairment of advances	(214,809)	(559,672)	(294,539)	(265,085)	(240,579)
Net interest income after impairment of advances	1,797,413	1,453,767	1,623,939	1,731,809	1,842,871
Non-interest revenue	1,820,161	1,905,019	1,969,790	2,048,581	2,155,107
Net insurance premium income	167,217	161,092	144,983	130,485	117,436
Net claims and benefits paid	(86,201)	(77,467)	(69,720)	(62,748)	(56,473)
Income from operations	3,698,590	3,442,411	3,668,991	3,848,126	4,058,941
% Growth	3.4%	-6.9%	6.6%	4.9%	5.5%
Operating expenses	(2,068,996)	(2,173,695)	(2,173,695)	(2,243,253)	(2,337,470)
Net income from operations	1,629,594	1,268,716	1,495,296	1,604,873	1,721,471
Share of profit from associate after tax	2,758	(14,248)	2,137	2,116	2,158
Income before tax	1,632,352	1,254,468	1,497,433	1,606,989	1,723,629
Indirect tax	(47,372)	(44,724)	(59,897)	(64,280)	(68,945)
Profit before tax	1,584,980	1,209,744	1,437,536	1,542,709	1,654,684
Direct tax	(499,170)	(376,388)	(460,011)	(493,667)	(529,499)
Profit for the period	1,085,810	833,356	977,524	1,049,042	1,125,185
% Growth	2.4%	-23.3%	17.3%	7.3%	7.3%

	Actual	Forecast			
Year End June (N$ 000)	FY19	FY20	FY21	FY22	FY23
Cash and cash equivalents	1,390,195	1,115,109	1,200,000	1,200,000	1,200,000
Due from banks and other financial institutions	2,803,839	4,442,442	3,000,000	3,000,000	3,000,000
Derivative financial instruments	459,072	519,294	519,294	519,294	519,294
Advances	30,297,933	29,993,738	29,453,851	29,453,851	30,072,382
Investment securities	7,807,309	8,534,477	11,535,513	12,840,876	13,541,573
Accounts receivable	298,655	244,310	244,310	244,310	244,310
Investments in associate	28,079	-	-	-	-
Property and equipment	859,591	896,917	896,917	896,917	896,917
Intangible assets	162,552	94,684	94,684	94,684	94,684
Deferred income tax asset	28,943	26,210	26,210	26,210	26,210
Reinsurance assets	2,938	-	-	-	-
Tax asset	667	490	490	490	490
Total assets	**44,139,773**	**45,867,671**	**46,971,269**	**48,276,631**	**49,595,859**
Deposits	35,886,144	38,427,237	39,042,073	39,822,914	40,579,550
Due to banks and other financial institutions	427,776	117,948	117,948	117,948	117,948
Derivative financial instruments	480,490	534,035	534,035	534,035	534,035
Short trading positions	-	-	-	-	-
Creditors and accruals	385,631	528,298	528,298	528,298	528,298
Tax liability	185,530	58,886	58,886	58,886	58,886
Employee liabilities	248,927	207,103	207,103	207,103	207,103
Deferred income tax liability	400,842	256,706	256,706	256,706	256,706
Policyholders liabilities under insurance contracts	46,351	40,750	40,750	40,750	40,750
Tier two liabilities	402,804	402,774	402,774	402,774	402,774
Total liabilities	**38,725,541**	**40,867,435**	**41,482,271**	**42,263,112**	**43,019,748**
Capital and reserves	5,352,627	4,937,831	5,413,593	5,924,163	6,471,792
Non-controlling interests	61,605	62,405	75,405	89,356	104,320
Total equity	**5,414,232**	**5,000,236**	**5,488,998**	**6,013,519**	**6,576,112**
%Growth	7.9%	-7.6%	9.8%	9.6%	9.4%

Sensitivity Analysis



	14.7%	14.8%	14.9%	15.0%	15.1%	15.2%	15.3%	15.4%	15.5%
SGR @ 8.4%	25.80	25.42	25.06	24.71	24.36	24.03	23.71	23.39	23.08
SGR @ 8.5%	26.02	25.64	25.27	24.91	24.56	24.22	23.88	23.56	23.25
SGR @ 8.6%	26.26	25.87	25.49	25.12	24.76	24.41	24.07	23.74	23.42
SGR @ 8.7%	26.50	26.10	25.71	25.33	24.96	24.61	24.26	23.92	23.59
SGR @ 8.8%	26.75	26.34	25.94	25.55	25.18	24.81	24.46	24.11	23.77
SGR @ 8.9%	27.01	26.58	26.17	25.78	25.39	25.02	24.66	24.30	23.96
SGR @ 9.0%	27.27	26.84	26.42	26.01	25.62	25.24	24.86	24.50	24.15
SGR @ 9.1%	27.55	27.10	26.67	26.25	25.85	25.46	25.08	24.71	24.35
SGR @ 9.2%	27.83	27.37	26.93	26.50	26.09	25.69	25.30	24.92	24.55

Source: IJG

TEAM NAMIBIA MEMBER

IJG Holdings

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