Emerging African Markets > Equity Research

4 September 2014

FNB Namibia Holdings

Leader of the pack

Target Price (c)	2700
Current Price (c)	2452

Year End 30 June	2012A	2013A	F2014	F2015	F2016
Net interest income (N$m)	890	985	1,138	1,285	1,417
Non-interest income (N$m)	787	869	1,087	1,166	1,247
Profit (N$m)	539	608	785	868	933
HEPS (c)	203.1	229.9	294.7	330.5	355.5
P/E (x)	12.1	10.7	8.3	7.4	6.9
DPS (c)	82	100	122	122	145
DY (%)	3.3	4.1	5.0	5.0	5.9
P/B (x)	2.8	2.9	2.4	2.0	1.7

**Includes a special dividend of 170c in FY11 and of 180c in FY12*

Source: FNB, IJG

Recommendation	BUY
NSX Code	FNB
Market Cap (N$m)	6 561
Shares in Issue (m)	267.6
Free float (%)	40
52 week high (c)	2452
52 week low (c)	1951
Expected Total Return (%)	15.1

Solid earnings growth, broadly in line

FNB released solid results for the year ended 30 June 2014, with headline earnings per share beating IJG forecasts by 3.4%, an increase on 2013 HEPS of 28.2%. Basic earnings per share are up 29.3% to 297.7c. The company continues to look relatively cheap from a price-to-earnings ratio perspective, with this ratio now standing at 8.3x. Moreover, a full year dividend of 122cps, up 22% on the dividend distribution in 2013, puts the company on an attractive dividend yield of 5.0x.

Income from operations increased by 20.4%, to N$2.262 billion, driven by large increases in both non-interest and interest income. Net interest income increased by 15.5% (or N$153m) on the back of strong growth in average advances, of 18%. The net interest margin deteriorated slightly over the period, partially due to the tightening of the spread between the Namibian and South African interest rates, but also due to the increased duration of FNB's funding base, thus putting the company in a strong position to benefit from future rate increases. Non-interest income expanded by 25.1% (or N$218m) on account of expansion in the use of electronic banking, predominantly.

Impairment losses remain low, currently at N$18.4 million, down from N$23.4 million in 2013. Non-performing loans decreased further, to N$141 million, just 0.9% of gross advances. This low level of non-performing loans, and thus impairment losses, is on account of the current low interest rate environment in the country, as well as prudent lending by the bank.

Cost control

Once again, FNB has shown notable increases in income while managing to contain costs with the result being a double-whammy effect on the company's bottom line. Cost increases of 13.3% were seen during 2014, compared to the increase in income of 20.4%. As such, profit before tax increased by 27.7%, to surpass the N$1 billion mark for the first time. As such, profit before tax now stands at N$1.171 billion, while profit after tax stands at N$785 million.

Market Share

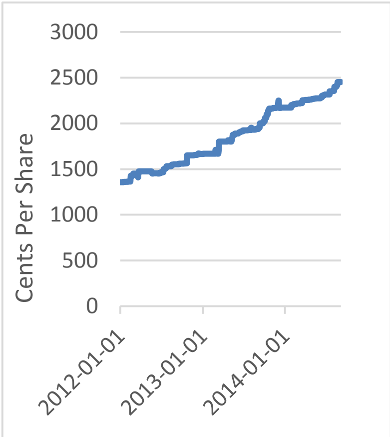
FNB continued to gain market share through FY14, with loans and advances increasing by 17.8%, relative to total PSCE growth of 15.4%. As such, total loans and advances are marginally below N$20 billion, compared to marginally below N$17 billion at year end, 2013. Thus, FNB's loan book is gaining ground against that of Bank Windhoek, however the latter remains the largest book in the country at present (N$20.2 billion).

Valuation and Recommendation

The share delivered a fantastic 46.2% return through FY14, however, we continue to see great potential for further upside, as the share price remains relatively low from a PE multiple and DY perspective. Thus FNB remains one of our most preferred stocks on the local index, and thus we maintain our **BUY** recommendations on the share.

We are currently reviewing our FNB valuation model; and as such have left our forecasts and target price unchanged, pending discussions with company management. We will release a detailed report in due course, following these discussions.

Share Price (c)



Source: Bloomberg, IJG

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