FNB NAMIBIA HOLDINGS

FY15 Results Review

OCTOBER 2015

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# FNB Namibia Holdings	Target Price (c)	4720
FY15 Results Review	Current Price (c)	4251

Year End 30 June	2014	2015	F2016	F2017	F2018
Net interest income (N$m)	1,120	1,403	1,643	1,868	2,074
Non-interest income (N$m)	1,087	1,260	1,467	1,687	1,940
Profit (N$m)	785	999	1,169	1,365	1,557
HEPS (c)	294.7	377.6	442.0	516.2	588.5
DPS (c)	109	183	194	227	259
DY (%)	2.6	4.3	4.6	5.3	6.1
P/E (x)	14.4	11.3	9.6	8.2	7.2
P/BV (x)	4.0	3.3	2.7	2.3	1.9

Source: FNB, IJG

Recommendation	
NSX Code	FNB
Market Cap (N$m)	11,375
Shares in Issue (m)	267.6
Free float (%)	40
52 week high (c)	4500
52 week low (c)	2513
Expected total return	15.6%

FY15 Results Review

FNB Namibia released its results for the financial year ended 30 June 2015. The firm once again posted phenomenal results, with profit for the year up 27.3% to just under N$1 billion, 3.6% above our already aggressive expectation of N$964 million. Headline earnings per share climbed 28.0%, 3.2% ahead of expectations, to 377.6cps. Return on average equity rose to 32.2% from 30.9% in FY14, while return on average assets was 3.6%, up from 3.2% in FY14. On account of these strong results, FNB Namibia announced a final dividend of 112cps. This reflects a notable increase in the dividend payout ratio, which is now at 48.5%, up from 36.9% in FY14, reflecting the strong balance sheet position of the bank.

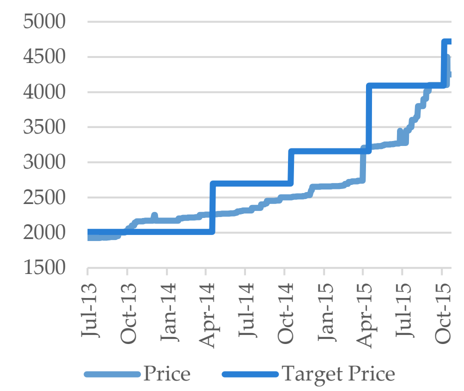
Net interest income (after impairments) grew by 27.7% on an annual basis, to N$1,453m, while non-interest income expanded by 15.9%, to N$1,260m. The growth in net interest income was driven by two factors, firstly, growth in loans and advances, which expanded by 14.2% over the year; and secondly, an improvement in the net interest margin, up from 4.4% in FY14 to 4.9% in FY15. This improvement comes about due to relatively more rapid increases in interest rates in Namibia vis-à-vis south Africa, as (some) deposits are priced off South African interest rates, while loans tend to be priced off Namibian rates. Non-interest income growth was driven by a number of factors, however is primarily ascribable to a notable increase in electronic transactions, which according to the company, grew 17% over the year. Moreover, the company notes that "traditional activities now contribute only 10% of total volumes". From a combined transactional volume perspective, transactions increased 15%, due to a 10% increase in customer numbers and an 8% increase in active accounts.

The bank's operating costs increased by 14.3%, to N$1.2 billion, however due to significantly stronger growth in income, the bank's cost to income ratio improved to 43.9%, from 46.9% in FY14. The main cost increases were driven by staff costs, which climbed 16.7%, due to wage increases and a larger staff complement. Operating costs also reflect continued investment in infrastructure, with new branches added at the Grove Mall and in Kuisebmund, while the Okahandja and Maerua Mall branches were relocated. In addition, 46 additional ATMs were installed though the year.

Despite a 170% increase in impairment losses, the ratio of these losses to total advances remains minute, at just 0.22%. Total impairment losses totaled N$49.9m in FY15, from N$18.4m in FY14. As mentioned, however, this is negligible when compared to total advances of N$22.8 billion. The ratio of non-performing loans to gross advances improved to 0.74%, from 0.80% in FY15. This represents an increase in non-performing loans of 4.8%, to N$171 million, from N$164 million in FY14, well below the increase in advances over the period. Thus, the asset quality of the bank remains excellent, as attested to by these highly favorable ratios, despite increasing interest rates.

Based on a required **rate of return of 14.12%,** a highly conservative **long-term growth rate for the company of 10.0%,** and a **dividend pay-out ratio of 44%,** broadly in line with historic pay-out ratios, we believe a **PE of 10.7x can be justified** on this share. Given **expected earnings growth of 17.1% in FY16,** taking **total earnings to c442/share,** we derive **a target price of N$c4720/share.** Coupled with an **expected dividend of 194cps,** we expect a **total return of 15.6% in FY16.** This price and dividend means a **dividend yield of 4.1%.** We thus **maintain** our **BUY** recommendation on FNB Namibia, which remains our **most preferred locally listed stock.**

Share Price (c)



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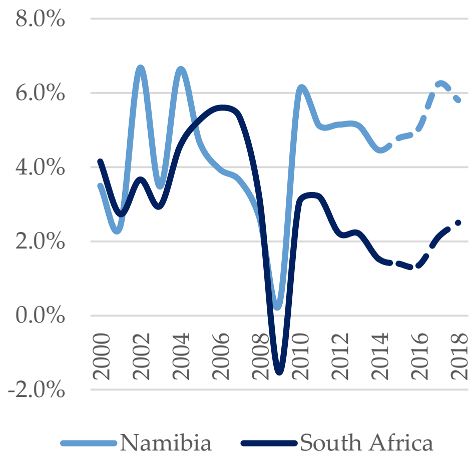
Namibia vs. South Africa GDP Growth (Constant Prices)



Source: IMF WEO October 2015

Macro backdrop

The Global and Namibian Economies

Prior to 2010, the economies of Namibia and neighboring South Africa followed fairly coherent paths, with growth showing extremely similar trends and performance. However, following the recession in 2009, the economy of Namibia fast rebounded to pre-crisis rates, while the economy of South Africa has yet to fully regain its feet. In Namibia, this growth stemmed from three key sources, namely historically low interest rates, vast Government spending and abnormally high levels of FDI, broadly to fund the construction of three new mines. Low interest rates drove major expansion in outstanding private sector credit, with total outstanding claims almost doubling in the four years from 2011 to 2015. On the Government side, major spending increases were seen, directed at both capital projects and, particularly, wage payments. In addition, Government cut income tax rates, both for corporates and individuals, in 2013, effectively putting more funds back into the pockets of the public. At the same time, three new mines were built in whole or in part between 2013 and 2015, with large multipliers and employment generation. These three factors drove major increases in GDP, particularly the consumption and investment components thereof. These two key components of GDP have resulted in a period of strong growth for the domestic economy, with average real growth over the past five years of 5.2%, when compared to average growth since Independence of 4.2%. This above-trend growth rate has, as is to be expected, resulted in some imbalances appearing in the local economy when viewed more holistically.

The most notable of these imbalances is a sizable deterioration of the country's external position, and a drying-up of banking sector liquidity. Historically low interest rates through a period of strong growth have resulted in strong growth in credit issuance, and an uptick in household debt levels. However, this has been supported by strong growth in household incomes, meaning that debt-to-income ratios remain broadly manageable. As is the aim of low interest rates, saving has been disincentivised while borrowing and spending incentivised. As such, the banking sector has seen a major increase in their loan-to-deposit ratios and loan-to-funding ratios. This is due to both the numerator increasing, and the denominator increasing notably more slowly. In addition, due to the small open nature of the Namibian economy, much of the credit issued is used to purchase imported goods, particularly cars, consumer electronics and furniture. This has taken a sizable toll on the external position of the country, as these purchases do not net-off in the balance of payments, thus representing a net outflow. As funds have left the local economy, a tightening of liquidity conditions have been seen, largely on account of the multiplier effects between currency in circulation and the broad money supply. In addition, major net outflows of Namibia Dollars into Angola following the launch of a direct-exchange agreement with the Angolan central bank, has also put liquidity pressure on the local economy.

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Funding costs

The cost of funding has increased across the board over the past 12 months, as demand for government securities has weakened following major increases in the supply of debt, and limited demand for such through the interest rate hiking cycle. As such, spreads have widened across the curve. As most of the financial entities looking to raise debt securities are considered higher risk than Government, these entities have had to pay up for debt funding. On the deposits side, slow increases in interest rates in Namibia and South Africa have seen deposit rates increasing, albeit fairly marginally.

Credit demand and supply

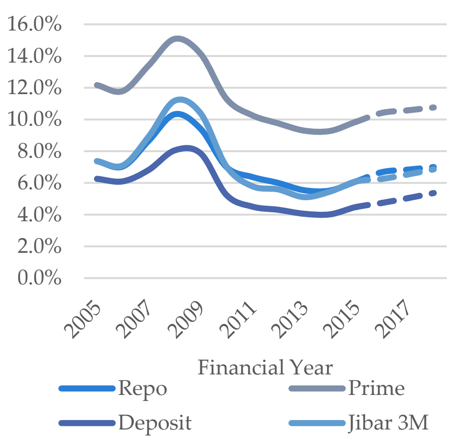
Demand for credit remains strong in the Namibian market, despite the increasing interest rate environment. However, the supply of credit, particularly to households, has started to slow. This is largely driven by liquidity constraints within many of the commercial banks, and preference being given to commercial borrowers over retail borrowers. However, at just over 15% year on year growth, credit extension growth remains strong. Should the liquidity situation worsen, however, we can expect to see a rapid slowdown in credit growth.

Interest Rates

The developing interest rate environment in Namibia and South Africa remains difficult to call. On the South African side, slow and slowing growth and structural challenges suggest that lower interest rates are warranted. However, longer-term inflation pressures remain to the upside and given the structural nature of growth constraints, lower interest rates are unlikely to provide much relief. Nevertheless, recent statements from the South African Reserve Bank have been extremely dovish, despite the latest rate hike taking place just three months ago.

In Namibia, interest rates appear to remain on an upward trajectory for the immediate future, particularly on account of the extremely weak external position in the country. The preserve of the external position, as measured by the hard-currency reserves of the country, remains the primary mandate of the Bank of Namibia, due to the link between hard currency reserves and the exchange rate peg with the South African rand (as part of the CMA agreement, Namibia has to maintain sufficient hard currency reserves to cover currency in circulation). Following historically low interest rates thorough much of the past three years, major growth in credit extension, coupled with expansive fiscal policy, drove deterioration in hard-currency reserves.[1] As reserves are now well below the prudential benchmark of three months of import cover, higher interest rates are warranted and required to stem the net outflow of funds from the economy, be it through the current or capital accounts. Moreover, higher interest rates may present an opportunity to attract investment inflows into Namibia to help to support the Government deficit and the external position.

Interest rates



Source: NSA, IJG Securities

[1] Claims that the decline in reserves was driven by mining sector imports on account of the construction of new mines in the country are incorrect, as these mines and thus imports were FDI funded, meaning the imports (on the current account side of the balance of payments) are netted off in the capital and financial account. This means that there is no negative impact on the balance of payments as a whole, and thus on the reserve position.

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On the other hand, however, after extremely strong growth for the past half decade, the Namibian economy is on the brink of a slowdown, which will likely require lower interest rates to support the economy. This situation illustrates the importance of getting interest rate policy correct, as not only do low interest rates cause fast growth in credit and erode the external position, but the maintenance of policy space to counteract endogenous or exogenous risks, remains critical to a smooth functioning economy.

The current knife-edge situation in South Africa and Namibia means that we broadly maintain our base case scenario for interest rate increases in both countries. However, increases in the repo rate are expected to be moderate and dispersed over a period of months. In total, we expect to see rates lift by just 25 basis points in FY16, which increase already took place in July.

In Namibia, we expect interest rates to continue to increase by a further 25 basis points in FY16, taking the Namibian repo spread over South Africa to 75 basis points. In FY17, on the back of inflation concerns as base effects from falling oil prices are rolled out, we expect a further 50 basis point increase in South Africa. However, expected growth slowdowns in Namibia mean that the Bank of Namibia can be expected to allow the spread to close up once again.

Fiscal Policy

Following five years of expansive budgets, in late 2015 the Minister of Finance announced that Government was going to look to reduce spending over coming months. This was driven by a number of factors, but most notably that the large deficit was proving difficult and increasingly costly to fund. In addition to this, it appears that after a number of years of strong growth, a high revenue base was generated and forecasted growth in revenue for Governments FY16 year may have been somewhat ambitious. Going forward, SACU receipts from the SACU customs pool are expected to decline, as the South African and global economies have been fairly lacklustre for a number of years, thus slowing trade flows. Moreover, should commodity prices weaken further, mining tax income and royalties may decline, while personal income tax, corporate income tax and VAT may all see slower growth going forward should the economy start to slow.

Given the size of Government in Namibia as well as its influence on the consumptive activity of the country, a sizable slowdown in spending would be likely to cause the economy to slow. However, at the same time, Government cannot continue to spend heavily on non-productive activities without creating long-term sustainability risks for the country, particularly on the side of debt sustainability and the external position. As such, it is believed that the Government will slow spending in the immediate future, but not dramatically so. Thereafter, we expect to see a reprioritisation of expenditure towards large infrastructure projects, given the immanent infrastructure backlog in key areas such as housing, water and electricity.

Outlook

The outlook for South Africa remains challenging, with commodity prices, social challenges and energy shortages hampering the development of the economy. Moreover, the current fiscal position of Government, given the general macroeconomic situation, remains somewhat precarious as policy makers seek to balance the mandates of prudent fiscal management with providing much needed services

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and investment into the economy, notably social and economic infrastructure.

For Namibia, however, the outlook remains somewhat more positive, despite some general challenges. A slowing of Government activity, coupled with infrastructure challenges and lower commodity prices are likely to put pressure on the local economy from a growth and sustainability perspective. Nevertheless, the bulk of these challenges are highly manageable, and as such the outlook for Namibia remains broadly positive, should policy makers make the correct decisions for long-term sustainability.

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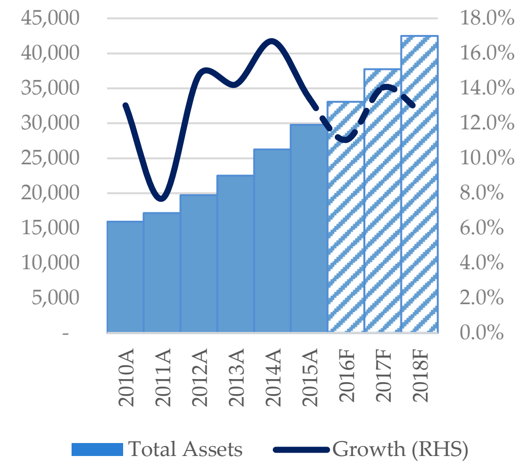
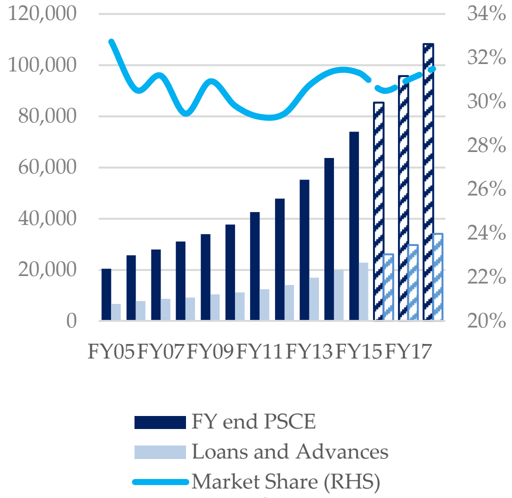
FNB Total Assets (N$ Million)



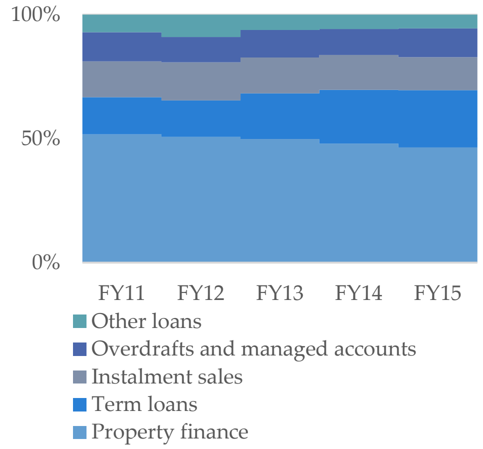
Source: FNB Namibia, IJG Securities

FNB Loans and Advances (N$ Million)



Source: FNB Namibia, IJG Securities

Advances Breakdown



Source: FNB Namibia, IJG Securities

Asset base

Asset growth

FNB's asset base has seen exceptional growth over the last decade, driven by major expansion in their loan book, particularly. Total assets have grown at a rate exceeding 10% per annum (CAGR) for much of the last decade. In FY15, assets expanded by 13.4%, driven by strong loan book growth. Through the year, advances to customers grew by 14.2%, taking the company's total advances to customers past the N$20 billion mark for the first time. At N$22.8 billion, the advances of FNB are second only to those of Bank Windhoek (N$23.6 billion), the largest loan book in the country.

The loan book makes up 76.7% of total assets of FNB Namibia. Other primary assets include advances to banks and other financial institutions (5.3%), investment securities and other investments (11.3%) and property plant and equipment –PPE- (2.9%). With regards to property plant and equipment, the asset value on the bank's balance sheet has more than doubled over the past two years, largely on account of the construction of the FNB Freedom Plaza in central Windhoek, estimated to cost some N$425m. Through FY15, an additional N$297.6 million worth of PPE was added to the company's FY14 balance of NN551.6 million, taking FY15 yearend PPE to N$849.2 million.

In addition to the above, FNB Namibia sits on a fairly large cash position – N$795 million as of the end of FY15. Following the completion of a number of notable investments made by FNB Namibia over the past few years, we believe there will be some consolidation in spending towards PPE and intangibles, notably buildings and technology.

Advances breakdown

FNB's advances remain highly concentrated in property financing, with 46.5% of total advances falling into this category. However, this is down from well over 50% just five years ago. Give the long-term nature of these loans, asset-liability duration matching for FNB remains key, and will become increasingly challenging should the bank need to become Basel III compliant in the future. However, the interest rate received on mortgage loans tends to be notably higher than the average lending rate. In general, the mortgage lending rate tends to exceed the prime rate by approximately 100 basis points.

The strongest growth in advances in the FNB loan book, as a percent of total advances, over the past half-decade has been term loans. These loans have grown from N$1.9 billion in value in FY11, to N$5.3 billion in value in FY15. As such, these loans now make up the second largest loan category for the bank. Installment loans represent the third largest loan category for the bank, and have remained fairly constant as a percent of total loans over the last five years.

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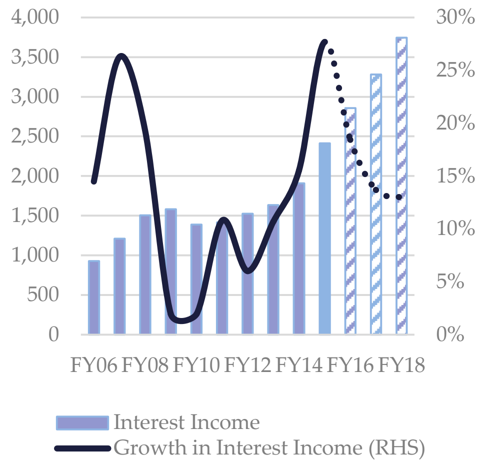
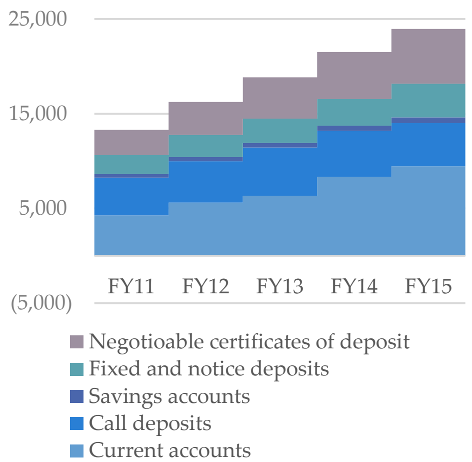
Interest Income (N$ Million)



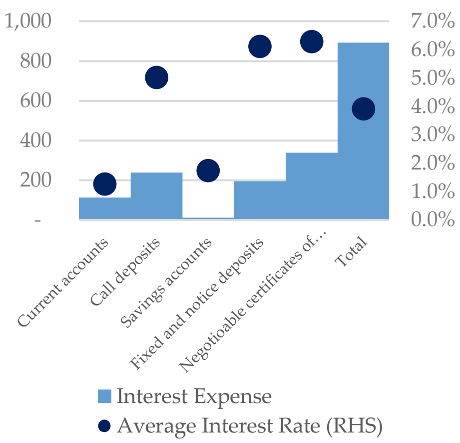
Source: FNB Namibia, IJG Securities

Funding Mix (N$ Million)



Source: FNB Namibia, IJG Securities

Interest Expense (N$ Million)



Source: FNB Namibia, IJG Securities

Net Interest Income

Interest Income

FNB Namibia has experienced phenomenal growth in interest income over the past half-decade. This was initially driven by fast declining interest rates through 2009 and a rapid expansion of PSCE in the country, followed by strong growth in FNB's market share. Over the past 18 months, however, much of this interest growth has been driven by increasing interest rates in Namibia and South Africa, as both countries enter the early phases of a hiking cycle. Given the major growth in the asset base, this expansion in interest rates drives major increases in interest income for the country. Total interest income for FY15 increased to N$2.41 billion, from N$1.91 billion in FY14, representing growth of 27.7%, the strongest growth seen in more than a decade.

Funding mix

FNB Namibia funds all of its loans from conventional deposits, carrying virtually no debt securities on its balance sheet. In total, the company has N$390 million worth of debt securities in issue, namely the FNB X22 and FNB J22 notes. The former is a fixed rate note (8.88%), while the latter is a JIBAR linked floating rate note (1.65%+3M JIBAR). These instruments were raised as Tier two capital, rather than loan-funding.

FNB's loan-book funding is thus effectively 100% deposit based. Of these deposits, current accounts make up the largest portion of total deposits, at N$9.45 billion in FY15, followed by negotiable certificates of deposit (NCDs) at N$5.77 billion and call deposits at N$4.56 billion.

Interest Expense

On the interest expense side of net interest income, increasing interest rates and the need to fund the strong loan-book growth resulted in a sizable increase in the bank's loan-funding costs. Between FY14 and FY15, FNB's interest expense expanded by N$189 million, from N$772 million to N$960 million. This expansion represents growth of 24.5%.

The different categories of deposits attract notably different rates of interest, with current and saving deposits attracting below 2% interest per year, at 1.3% and 1.7% respectively. NCDs receive the highest rate of interest, at an average rate of 6.3% in FY15, followed by fixed and notice deposits (6.1%) and call deposits (5.0%). On a weighted average basis, the interest rate paid by the bank for customer deposits was 3.9% in FY15 (excluding deposits from banks and other financial institutions)[2]. Key to note is the fact that current accounts represent just under 40% of total deposits at FNB by value, and are the cheapest funding source available to the bank by a country mile.

Going forward, interest expenses are expected to continue to increase in the immediate future, as the Bank of Namibia looks to protect the external position of the country with higher interest rates, however longer term growth in interest expenses is expected to slow, as interest rate increases slow and even reverse.

[2] Interest rates are calculated based on interest expenses in FY15 relative to average deposit liabilities between FY14 and FY15.

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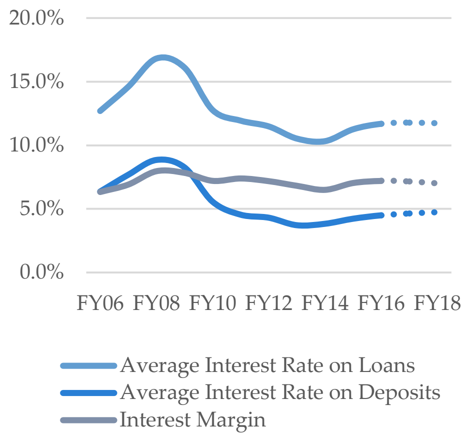
Interest Margin



Source: FNB Namibia, IJG Securities

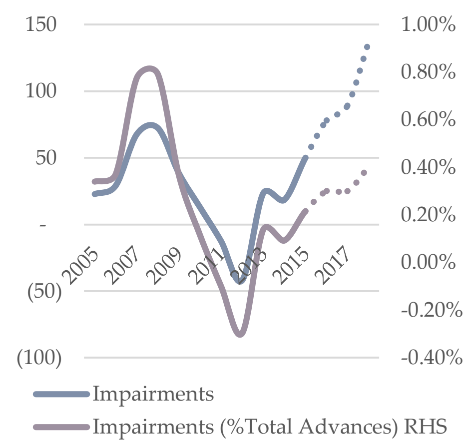
Interest Margin

The net interest margin of FNB Namibia has been notably above the market average, driven by the two factors earlier mentioned. The banks' funding is relatively cheap when compared to many competitors, as it carries few debt securities on its balance sheet, and has a large percentage of its deposits in the form of current accounts, on which the lowest average rate of interest is paid. While just under 40% of total funding, these loans represent just 12.6% of the total funding cost.

On the loan side, FNB Namibia is highly concentrated in long-term mortgage loans, with these loans making up approximately 46.5% of total loans. On average, mortgage loans attract a higher rate of interest than shorter loans. As a result of the relatively low funding cost for FNB Namibia and the relatively high average interest rate charged on loans, the company's interest margin is well above the country average. Over the past decade, this margin has fluctuated between 6.3 and 8.0%. On average, the interest margin achieved by FNB Namibia has been 230 basis points above the market average over the past 10 years.

Going forward, we expect to see a slight reduction in the net interest margin, as interest rate increases slow and even reverse. However, the margin is expected to remain competitive when compared to the other players in the local industry, from 6.6 to 7.2% between FY16 and FY18.

Impairments (N$ Million)



Source: FNB Namibia, IJG Securities

Impairment losses

Impairment losses remain negligible on the FNB Namibia loan book, totaling just 22 basis points in FY15, at N$49.9 million on the N$23.2 billion dollar loan book. Going forward, we expect to see a slight pickup in impairment losses as interest rates increase and household disposable income growth slows. Nevertheless, while we do expect to see impairment losses double over the next two to three years, as a percent of the total loan book, this remains negligible. In total, we expect to see impairments losses at 30 basis points of the total book in FY16 and FY17, increasing to 40 basis points in FY18.

The negligible level of impairment losses speaks to the asset quality of the bank, and the caution taken when it comes to granting loans to customers.

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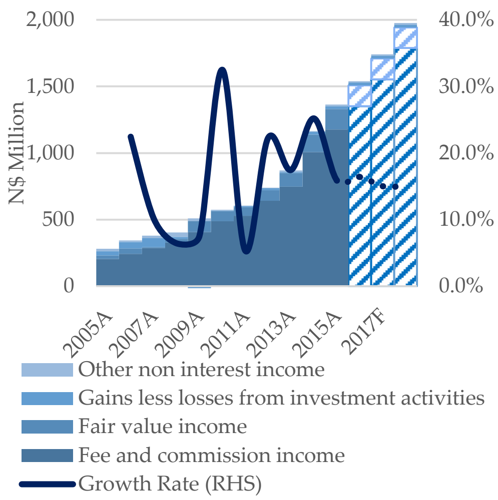
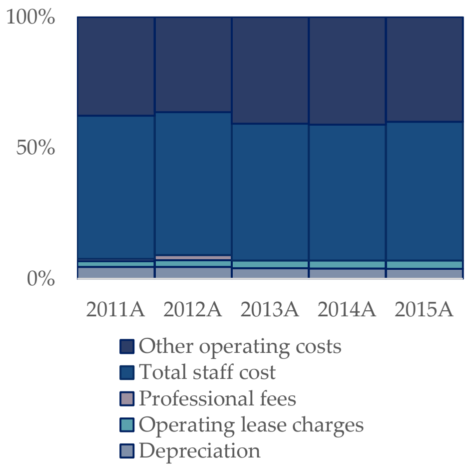
Non-interest income



Source: FNB Namibia, IJG Securities

Operating costs breakdown



Source: FNB Namibia, IJG Securities

Non-interest income

FNB's non-interest income has shown stellar growth, increasing 15.9% in FY15 to N$1.26 billion, continuing the strong trend witnessed the past ten years. The strong growth has led to the increased significance of non-interest income within FNB's earnings, making it one of the bank's strongest attributes.

The growth seen in non-interest income has been primarily on the back of net fee and commission income. This growth comes from many sources, however of late has been driven by strong expansion in electronic channels, albeit off a large base. In addition to the electronic channels, the bank is constantly adding new branches, ATMs and other infrastructure to increase its market coverage. FNB Namibia has approximately 800,000 customers in Namibia, the majority retail, who transact on a regular basis. Virtually every transaction with the bank incurs a charge, which while individually fairly small, becomes significant given the vast number of transactions done.

Towards the end of the FY15, the introducsion of Kwanza-Namibia Dollar trading in the north of Namibia provided a pleasant contribution to trading income for the bank, which according to management, helped to offset some of the losses from the reduction in cash deposit fees.

Going forward, we expect to see continued strong growth in non-interest income by FNB Namibia, driven by higher transaction volumes, particularly through digital channels. Moreover, as interest income growth is expected to slow going forward, we believe non-interest revenue may grow to surpass interest income as the primary revenue source for FNB Namibia. The restrictions on cash deposit fees by the Bank of Namibia, however, may result in slowing growth in the FY16 financial year. Nevertheless, the company is well positioned to offset this loss in income through other revenue channels.

Operating expenses

FNB Namibia's operating expenses increased by 14.3% between FY14 and FY15. As such, operating costs stood at N$1.22 billion in the FY15 financial year, from N$1.07 billion the year before. This increase in expenses was notably below revenue growth, meaning that increased efficiencies were realized. As such, the cost to income ratio for the bank fell to 43.9%, from 47.3% in FY14.

Staff costs make up the largest cost item for the bank, representing more than 50% of total costs. Further cost reduction strategies are being implemented by the bank not only to reduce staff costs in the long run (without forced redundancies), but also to reduce costs associated with large branches. Notable amongst these is the strategy to introduce automatic deposit machines. The large retail footprint of FNB Namibia means that many customers, particularly in the lower income segment of the market, require cash-handling services from the bank. However, with the introduction of EWallet and automatic deposit machines, the bank believes it can reduce footfall through the branches, thus reducing the need for large numbers of tellers and large areas of floor space.

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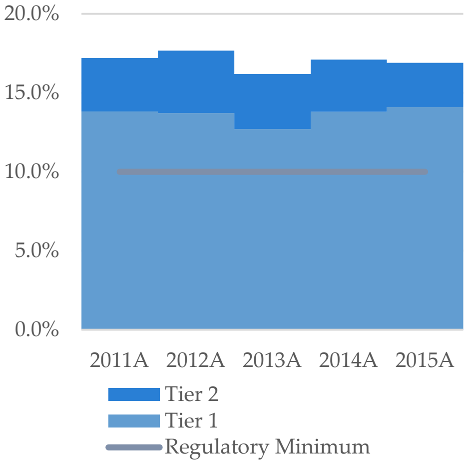
Capital as % of RWA



Source: FNB Namibia, IJG Securities

Capital adequacy

FNB Namibia remains more than adequately capitalized, with Tier two capital of 2.8% of risk weighted assets (RWA) and Tier 1 capital of 14.1% of risk weighted assets.

Outlook and key risks

FNB Namibia remains an extremely well run and managed business with an exceptional track record to prove it. However, the company is fairly mature, and unlikely to continue to grow at the pace seen over the past 10 years. This maturity, however, does come with sizable benefits, as the size of the customer base and loan books mean that the bank will continue to generate strong revenues without major intervention.

Nevertheless, there are still sizable components of the business that have significant headroom for growth, most notably the RMB investment banking division, and some of the more premium segments of the retail market. The bank remains focused on pursuing growth in their investment and insurance segments of the business as well, noting the introduction of Ashburton Investments to the local portfolio.

Three key challenges face the business going forward.

1. The macroeconomic environment looks set to take a turn for the worse, with growth expected to slow over coming years. As such, household disposable income growth is likely to slow, which may present some pressure on highly indebted consumers. This, coupled with increasing interest rates and low liquidity is likely to drive a slowdown in credit extension growth and may drive an increase in NPLs and impairment losses.
2. The introduction of new banking licenses into the Namibian market may see an increase in competition for FNB Namibia, both from a deposit perspective, loan perspective and transactional services perspective. While FNB Namibia is highly entrenched in the market and likely to be able to weather any storm of this nature that comes its way, funding costs, particularly, may come under pressure. One new entrant, particularly, presents a genuine threat to FNB Namibia, namely Letshego. The reason for this is that unlike other entrants, Letshego already has a sizable customer base in Namibia through their micro-loan scheme and Government deduction code. Many of these customers are also FNB Namibia customers, and may be tempted to move across to Letshego Bank once it opens its doors.
3. Basel III is likely to be introduced in Namibia over the next three years. As this regulation comes into force, FNB Namibia, like all the domestic banks, is going to have to alter its funding mix, particularly given the long duration of its loan book, which is highly concentrated in mortgage loans. Long duration funding is likely to be expensive when compared to current funding, which may put further pressure on margins.

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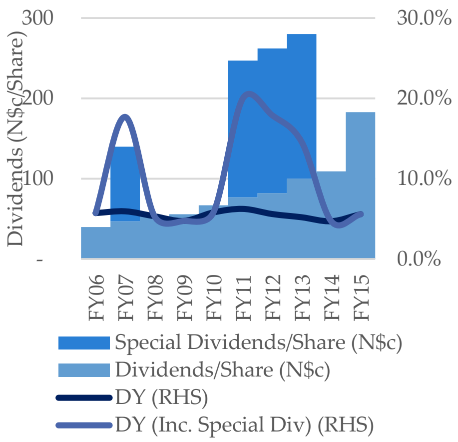
Shareholder return

Over the past 10 years, the shareholder return generated by FNB Namibia has been exceptional in the Namibian listed equity space, with the share price increasing by 446% between the end of FY04 and FY15, reflecting compounded annual growth rate of 18.5% on the share price alone.

On average, the share has traded on a dividend yield of 5.5%, however since 2005, three special dividends have been declared, in FY07, FY11, FY12 and FY13. When included, these special dividends pushed the dividend yield for the company up to 17.7%, 20.0%, 17.9% and 14.5% in the four respective years.

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Dividends/Share (N$c)	32	40	47	53	56	67	77	82	100	109	183
Special Dividends/Share (N$c)			93				170	180	180		
Total Dividends/Share (N$c)	32	40	140	53	56	67	247	262	280	109	183
Share Price (EOY) (N$c)	600	700	792	996	1,180	1,156	1,236	1,466	1,925	2,316	3,278
Dividend Yield	5.3%	5.7%	5.9%	5.3%	4.7%	5.8%	6.2%	5.6%	5.2%	4.7%	5.6%
Dividend Yield (Inc. Special Div)	5.3%	5.7%	17.7%	5.3%	4.7%	5.8%	20.0%	17.9%	14.5%	4.7%	5.6%

Dividend yield



Source: FNB Namibia, IJG Securities

From a total return perspective, of the N$41.15/share made by the investor in FNB Namibia over the past 10 years, N$14.37 came in the form of dividend payments (not reinvested), while the remaining N$26.78 came in the form of share price movement. From a total return perspective, without reinvesting dividends, the share returned 586% over the past 10 years, a CAGR of 21.2%.

Following the close of the FY15 financial year, the FNB Namibia share price has climbed a further 29.7% at the time of writing, standing at N$42.51/share having peaked at N$45.00 a few days earlier.

The phenomenal performance in the share price has been driven by two factors. Firstly, strong and sustained earnings growth by the company over the past decade, with earnings growth of 17.1% PA, but also major undervaluation of the share in FY13 and FY14, due to limited trading thereof. In FY15, however, a number of large-block sellers moved the market price for the share back in-line with fundamental value.

Going forward, we expect to see continued share price growth and a healthy dividend yield, however now that the share is closer to fair value, we do not believe we will see the major rerating in FY16 that we saw in FY15.

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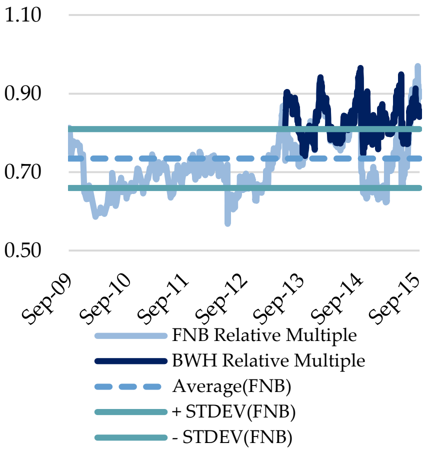
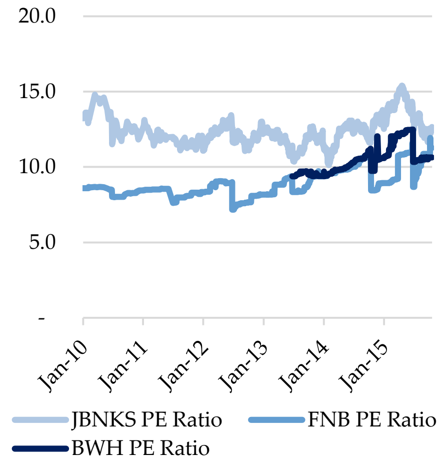
JBanks Relative Multiple



Source: Bloomberg, IJG Securities

PE Ratios



Source: IJG Securities

Valuation and recommendation

Both of the domestically listed banks have seen large moves in share prices over the past year, and despite strong earnings growth, have repriced on a multiple basis. As such, the multiples on both FNB Namibia and Bank Windhoek Holdings have increase well beyond one standard deviation of the norm, when compared to the South African JBanks Index. Nevertheless, it can be argued that the Namibian banks were undervalued historically from a multiple perspective, usually trading on PEs of approximately 75% of those of the JBanks Index. Given the relatively strong earnings growth of the two domestically listed banks, this relatively low PE multiple makes little sense. As of mid-October, however, both FNB Namibia and Bank Windhoek Holdings were trading more-or-less in line with the JBanks multiple, with Bank Windhoek Holdings being at a slight discount.

At the time of writing, FNB Namibia was trading on a historic PE of 11.3x, slightly below the South African JBank Index (at 12.7x), but well above Bank Windhoek Holdings (10.6x). Despite the phenomenal growth in the share price over recent years, at a PE multiple of 11.3x and earnings growth exceeding 26% in FY15, we remain more than comfortable with the share price, and see some further headroom for growth going forwards.

For the purpose of valuing the company, we establish a required rate of return, or **cost of equity, of 14.12%,** up from 11.6% in 1H15, largely on account of a major increase in the risk-free rate, as the yield on Government securities have spiked up over recent months. Based on this cost of equity, a highly conservative **long-term growth rate for the company of 10.0%,** and a **dividend pay-out ratio of 44%**, broadly in line with historic pay-out ratios, we believe a **PE of 10.7x can be justified** on this share. Given **expected earnings growth of 17.1% in FY16**, taking **total earnings to c442/share**, we derive **a target price of N$c4720/share**. Coupled with an **expected dividend of 194cps**, we expect a **total return of 15.6% in FY16**. This price and dividend means a **dividend yield of 4.1%.**

We thus **maintain** our **BUY** recommendation on FNB Namibia, which remains our **most preferred locally listed stock.**

Income Statement

Year End June (N$ 000)	2014A	2015A	2016F	2017F	2018F
Net interest income before impairment of advances	**1,138,002**	**1,452,867**	**1,721,013**	**1,956,703**	**2,210,220**
Interest and similar income	1,909,521	2,413,043	2,858,078	3,280,707	3,744,575
Interest expenditure and similar charges	(771,519)	(960,176)	(1,137,066)	(1,324,004)	(1,534,355)
Impairment losses of advances	(18,433)	(49,882)	(78,084)	(88,967)	(136,327)
Net interest income	**1,119,569**	**1,402,985**	**1,642,929**	**1,867,735**	**2,073,893**
Fee and commission income	1,006,502	1,175,640	1,351,986	1,554,784	1,788,001
Net fee and commission income	**1,087,351**	**1,260,061**	**1,466,905**	**1,686,941**	**1,939,982**
Net insurance premium income	125,795	153,944	188,410	228,501	278,884
Operating Income	**2,261,636**	**2,734,680**	**3,202,764**	**3,672,420**	**4,164,282**
Operating expenses	(1,069,398)	(1,221,986)	(1,425,230)	(1,626,882)	(1,832,284)
Operating Profit before taxation	**1,192,795**	**1,513,252**	**1,777,534**	**2,045,538**	**2,331,998**
Indirect tax	(21,971)	(26,611)	(32,742)	(37,678)	(42,955)
Profit before tax	**1,170,824**	**1,486,641**	**1,744,792**	**2,007,860**	**2,289,043**
Direct tax	(386,216)	(487,979)	(575,781)	(642,515)	(732,494)
Profit for the year	**784,608**	**998,662**	**1,169,011**	**1,365,345**	**1,556,549**

Balance Sheet

N$ 000	2014A	2015A	2016F	2017F	2018F
Cash and short-term funds	867,579	795,225	1,530,491	1,496,350	1,307,166
Due from banks and other financial institutions	1,766,327	1,585,029	1,806,770	2,620,298	3,011,357
Derivative financial instruments - trading	92,031	158,644	180,838	206,043	236,793
Advances - at amortized cost	19,990,782	22,833,693	26,028,067	29,655,782	34,081,669
Investment securities and other investments	2,833,146	3,365,927	2,451,955	2,613,641	2,707,484
Accounts receivable	140,446	185,614	172,916	180,475	173,443
Re-insurance assets	572	191	467	476	385
Investment in associate companies	3,168	3,726	3,726	3,726	3,726
Current taxation	341	664	664	664	664
Deferred taxation assets	3,115	3,897	3,897	3,897	3,897
PPE	551,620	849,171	891,630	936,211	983,022
Intangible assets	6,700	2,534	2,534	2,534	2,534
TOTAL ASSETS	**26,255,827**	**29,784,315**	**33,073,955**	**37,720,097**	**42,512,139**
Deposit and current accounts	21,522,377	23,951,813	26,697,572	30,477,400	34,287,075
Due to banks and other financial institutions	812,964	1,020,016	1,067,903	1,121,298	1,177,363
Derivative financial instruments - trading	109,281	172,188	172,188	172,188	172,188
Creditors and accruals	294,364	431,781	268,769	276,785	286,222
Policyholder liabilities under insurance contracts	62,993	69,770	76,747	84,422	92,864
Current taxation	57,494	49,774	49,774	49,774	49,774
Employee liabilities	150,098	167,830	187,970	210,526	235,789
Deferred taxation liabilities	70,432	110,904	110,904	110,904	110,904
Long term liabilities	392,622	392,635	390,000	390,000	390,000
Other Liabilities	6,030	2,060	-	-	-
TOTAL LIABILITIES	**23,478,655**	**26,395,464**	**29,021,827**	**32,893,296**	**36,802,178**
Ordinary shares	1,299	1,301	1,301	1,301	1,301
Share premium	161,998	148,518	148,518	148,518	148,518
Reserves	2,582,614	3,198,854	3,862,131	4,636,804	5,519,964
Total ordinary shareholder's funds	2,745,911	3,348,673	4,011,950	4,786,623	5,669,783
Non-controlling interest	31,261	40,178	40,178	40,178	40,178
Total equity	**2,777,172**	**3,388,851**	**4,052,128**	**4,826,801**	**5,709,961**

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