IJG
Securities (Pty) Ltd.
Member of the NSX

FNB NAMIBIA HOLDINGS

FY16 Initial Impression

SEPTEMBER 2016

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FNB Namibia Holdings	Target Price (c)	5230
FY16 Initial Impression	Current Price (c)	4801

Year End 30 June	2014	2015	2016	F2017	F2018
Net interest income (N$m)	1,138	1,453	1,654	1,862	2,003
Non-interest income (N$m)	1,087	1,260	1,507	1,693	1,956
Profit (N$m)	785	999	1,218	1,344	1,549
HEPS (c)	295	378	436	508	586
DPS (c)	109	183	213	244	281
DY (%)	2.3	3.8	4.4	5.1	5.9
P/E (x)	16.3	12.7	11.0	9.4	8.2
P/BV (x)	4.5	3.7	2.9	2.5	2.2

Recommendation	
NSX Code	FNB
Market Cap (N$m)	12,847
Shares in Issue (m)	267.6
Free float (%)	40
52 week high (c)	4850
52 week low (c)	4012
Expected total return	8.9%

Source: FNB, IJG

FNB Namibia released its results for year ending 30 June 2016. The company saw good growth given the current macroeconomic climate, with profit up 21.9% for the year, beating our expectations by 3.4%. Profit was, however, bolstered by the a once-off property sale to the value of N$67.3 million. As a result, headline earnings grew at a lower rate of 15.7%. Headline earnings per share just missed our expectations, coming in short by 2.1%. However, as we had not forecast the once of item, earnings per share beat our expectations by 3.2%.

The company's income was split 48.4% to 51.6% between non-interest income and net-interest income (after impairments). Overall, net interest income has shrunk as a percent of total income, from 52.7%, while non-interest income has increased from 47.3%. Over the year, net interest income (after impairments) expanded by 14.5%, while non-interest income is up 19.4%.

From a net-interest income perspective, interest income saw healthy growth of 18.9%, while the interest expense increased dramatically, by 26.6%. This increase in interest expense has been seen across much of the sector, driven by the current challenging funding conditions in the country, stretched loan to funding ratios, government crowding out and increased competition for funding. Over the year, the average rate of interest on loans (excluding interbank lending) was 11.81%, while the average funding costs (including the two debt instruments, accounted for as tier two liabilities, but excluding interbank borrowing) was 4.70%. This compares to an average lending rate of 11.27% and an average funding rate of 4.15% in the previous year. The value of loans outstanding increased by 12.9% over the year, driving overall asset growth of 14.8%. Deposits expanded by 16.0%. As such, the overall tightening of the net interest margin was driven by increased cost and volumes of deposits vis-à-vis advances. Surprisingly, given the current environment, impairment losses contracted when compared to last year, falling by 4.1%, from N$49.9 million to N$47.9 million. This was notably better than our forecast of N$78.7 million.

Non-interest income growth was driven by a number of factors. The largest growth in non-interest income came from "other non-interest income" under which the aforementioned sale of property was classified. However, on a weighted basis, the strongest growth was seen in net fee and commission income, which expanded by 13,5%, or by some N$144.8 million. According to the bank this was due to increased transaction volumes and accounts, particularly through electronic channels.

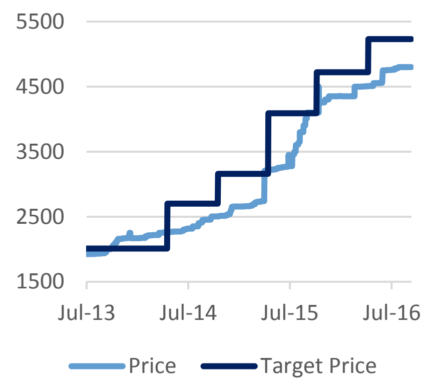
The groups operating expenses increased, but by a lesser amount than revenue, resulting in continued compression in the cost to income ratio, which now stands at 43.7%, from 43.9% in FY15. The bulk of the 16.0% increase was driven by staff costs (up 15.0%), as well as a major increase in depreciation thanks to the new head office in Windhoek.

FNB remains well capitalized with a total capital adequacy of 17.8% (tier 1 capital of 15.1%)., up from 17.4% in FY15, and well above the regulatory requirement of 10%.

As of the end of FY16, the company had N$2.1 billion worth of cash on their balance sheet, and currently has an outstanding cautionary announcement.

These results are largely in-line with our forecast and expectations, and pending further analysis of the FY results and management discussion, we **maintain** our **BUY** recommendation on FNB Namibia, which remains our **most preferred locally listed stock.**

Share Price (c)



Analyst

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Dividends

Notice is hereby given that a final dividend for the year ended 30 June 2016 of 122 cents per ordinary share was declared on 5 August 2016.

Last day to trade cum dividend: 16 September 2016
First day to trade ex-dividend: 19 September 2016.
Record date: 23 September 2016.
Payment date: 7 October 2016.

Disclaimer

The report author holds a small long position in FNB Namibia.

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