FNB NAMIBIA HOLDINGS

FY17 Initial Impression

SEPTEMBER 2017

FNB Namibia Holdings

FY17 Initial Impression

Target Price (c)	5012
Current Price (c)	4675

Year End 30 June	2015	2016	2017	F2018	F2019
Net interest income (N$m)	1,453	1,654	1,705	1,816	1,845
Non-interest income (N$m)	1,260	1,507	1,554	1,741	1,898
Profit (N$m)	999	1,218	1,113	1,317	1,339
HEPS (c)	378	436	416	497	505
DPS (c)	183	213	204	224	227
DY (%)	5.6	4.5	4.4	4.7	4.8
P/E (x)	8.7	10.9	11.2	9.5	9.4
P/BV (x)	2.5	3.1	2.7	2.3	2.0

Source: FNB, IJG, Bloomberg

Recommendation	HOLD
NSX Code	FNB
Market Cap (N$m)	12,510
Shares in Issue (m)	267.6
Free float (%)	24
52 week high (c)	4801
52 week low (c)	4673
Expected total return	9.6%

FY17 Initial Impression

FNB Namibia released its results for year ending 30 June 2017. The results were reflective of the recessionary economic conditions prevalent in Namibia and slowing private sector credit extension. The company's profit after tax decreased by 4.4% to N$1,086.3 million, while headline earnings per share decreased by 4.5% to 416.2 cps. Normalised earnings before tax, which adjusts for non-operational items and the impact of the acquisitions of EBank and Pointbreak, increased by 3.8% to N$1,768 million. An amount N$328.4 million appears in the cash flow statement as acquisition of investments in subsidiaries, which would suggest that this was the combined purchase price of EBank and Pointbreak. Although a decline in profit was expected, these results were below our expectations.

Advances grew by 9.6% to N$28.26 billion from N$25.78 billion in FY16. This was driven largely by a 32.9% increase in overdraft accounts which grew to N$3.50 billion from N$2.63 billion in FY16 as well as a 6.5% increase in home loans, which grew to N$12.58 billion from N$11.82 billion in FY16.

Interest income grew by 14.5% to N$3.29 billion, while interest expense grew by 25.1% to N$1.52 billion. As a result, the new interest margin contracted by 17 basis points from 7.11% to 6.94%. Over the year, the average rate of interest on loans (excluding interbank lending) was 12.16%, while the average funding costs was 5.22%. Deposits grew by 9.7% and the higher cost of funding was mainly due to a change in funding mix. Retail funding (current, call and savings accounts) declined by 2.3% and institutional funding (fixed deposits, floating rate notes and NCDs) increased by 25.0%.

The tough economic environment had a minimal effect on impairment losses, which increased to N$59.3 million or 0.22% of advances, up from 0.20% in FY16. However, non-performing loans have increased sharply, from 0.97% to 1.4% of total advances.

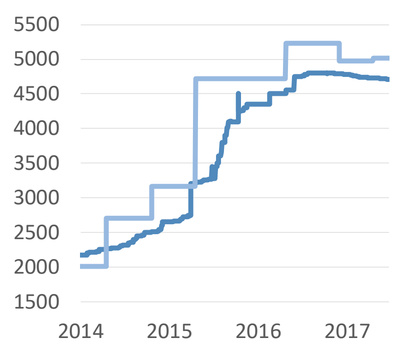
Total operating income was split 47.7% to 52.3% between non-interest income and net-interest income (after impairments). Non-interest revenue grew by 3.1% to N$1.55 billion from N$1.51 billion n FY16. The relatively slow growth figure being attributed to the high base set by forex trading activities. The number of active accounts increased by 4.0% to 908,349, while net fee and commission income grew by 12% as the adoption of electronic channels continues to gain momentum.

Operating expenses grew by 17.3% driven largely by increased staff costs, which increased by 21.1% and now make up 54.2% of total operating expenses. The increased staff cost was mainly as a result of expansion of the risk and compliance divisions as well as an increase in temporary staff working on regulatory projects. Additionally, depreciation increased by 20.2% while IT costs increased by 30.7%. The company's cost to income ratio has increased to 48.9% from 43.7% in FY16.

FNB remains well capitalized with a total capital adequacy of 17.2% (tier 1 capital of 14.7%), down from 17.8 % in FY16, and well above the regulatory requirement of 10%.

These results are below our forecasts and expectations, and pending further analysis of the integrated annual report and management discussion, we maintain our **HOLD** recommendation on FNB Namibia. Our target price and estimates will be updated in the full FY17 report.

Share Price (c)



Dividends

Dividend (final): 113c/share

Declaration date: 15 August 2017

Ex-date: 18 September 2017

Record date: 22 September 2017

Payment date: 5 October 2017

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