FIRSTRAND NAMIBIA LTD
FY18 Initial Impression
September 2018

Research Analyst:

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FirstRand Namibia Ltd

FY18 Initial Impression

Target Price (c)*	4529
Current Price (c)	4450

Year End 30 June	2016	2017	2018	F2019	F2020
Net interest income (N$m)	1,654	1,765	1,821	1,856	1,912
Non-interest income (N$m)	1,507	1,554	1,796	1,799	1,967
Profit (N$m)	1,218	1,113	1,061	1,080	1,135
HEPS (c)	460	419	398	407	428
DPS (c)	213	204	204	210	212
DY (%)	4.5	4.3	4.6	4.6	4.7
P/E (x)	10.3	11.3	11.2	11.2	10.7
P/B (x)	3.1	2.7	2.3	2.1	2.1

Recommendation*	HOLD
NSX Code	FNB
Market Cap (N$m)	11,908
Shares in Issue (m)	262.2
Free float (%)	24.0
P/B (x)	2.3
52 week high	4677
52 week low	4450
Expected Total Return (%)*	

Source: FirstRand Namibia, IJG
Forecasts adjusted on initial impression
** Target price unchanged pending review*

FY18 Initial Impression

FirstRand Namibia Ltd (previously FNB Namibia Holdings) released its results for the year ending 30 June 2018. Headline earnings per share for the year fell by 4.4% to 397.9cps (FY17: 416.2cps), resulting in a drop in the return on average equity to 22.1% versus 25.6% in FY17. Earnings per share have been falling for two years now, albeit off of a high base in FY16. Profit before tax decreased by 5.2% (improving from the 11.9% decrease in the half year numbers), due to a 116.5% increase in impairments to N$128.3m and a 19.1% increase in operating expenses. Normalised profit before tax decreased by 3.8% (9% decrease in 1H18).

Advances grew by 1.0% to N$28.53bn from N$28.26bn. Annual PSCE growth came in at 6.4% in June 2018 suggesting that FirstRand lost market-share over the period (PSCE growth and cumulative bank advances growth have differed substantially in recent periods resulting in difficulty comparing the PSCE growth rate to advances growth of a single bank – advances growth outpaced PSCE in 2017 which supports our market-share view). The sector analysis reveals decreases in advances to government and public authorities (-20.4%), mining (-51.7%), manufacturing and commerce (-8.9%), and other services (-2.2%). Increases in advances to individuals (5.2% or N$913.2m), agriculture (17.2%), building and property (12.6%), and transport and communication (15.5%) were recorded. Mortgage loans increased by 4.3%, now making up 46% of the advances book (FY17: 44.5%).

Interest income grew by 9.1% to N$3,583m, while interest expense grew by 15.9% to N$1,763m. The net interest margin (NIM) thus contracted for the third year in a row. Net interest income grew by 3.1% to N$1,821m. Interest expense growth was largely driven by large increases in interest paid on term deposits (32.7%), call deposits (17.4%), and fixed and floating notes (102.5%).

NPLs increased by 42.0% to N$481.5m or 1.7% of gross advances (FY17: 1.4%). NPLs have decreased slightly from the 1H18 results. Mortgage NPLs grew by 43.8% to N$304.5m, making up a disproportionately large share of total NPLs (63.2%). NPLs remain well within acceptable levels despite the economic climate within which the bank operates. Impairments increased by 116.5% to N$128.3m (FY17: 59.3m), or 0.44% of gross advances. FirstRand's impairments, like NPLs, remain below industry averages despite the large increases in the current period.

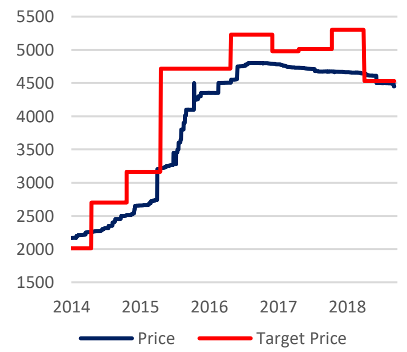
Normalised non-interest revenue (NIR) grew at 11.2% y/y with fee and commission income growing by 12.0%. NIR in relation to total income has increased as the NIM has contracted, and now makes up 49% of gross revenue.

Operating expenses increased by 19.1% to N$1,981m (11.5% increase on a normalized basis). Total staff costs increased by 17.7% as salaries and wages increased by 16.8%, contributions to employee benefits grew by 11.5% and share-based payments more than doubled. Computer and processing related costs, which makes up the largest non-staff related cost, increased by 20.9%. The impairment of the EBank trademark and software contributed N$39.3m to opex in the period and should be seen as a once off drag on performance.

The banking operations remain well capitalized with a total capital adequacy of 18.7% (tier 1 capital of 16.2%), up from 17.2% in FY17, and well above the regulatory requirement of 10%. FirstRand may be overcapitalized at present although this is likely prudent due to the economic climate and regulatory changes on the horizon.

We maintain our **HOLD** recommendation on FirstRand pending the release of our full report and management consultations.

FNB Share Price vs Target Price



Dividends

Dividend (final): 113c/share

Declaration date: 07 August 2018

Last day to trade: 14 September 2018

Ex-date: 17 September 2018

Record date: 21 September 2018

Payment date: 05 October 2018

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