# FIRSTRAND NAMIBIA LTD
## FY19 Initial Impression
## September 2019

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# FirstRand Namibia Ltd

## 1H19 Initial Impression

| | |
|---|---|
| ***Target Price (c)**** | **4694** |
| Current Price (c) | 3339 |

| Year End 30 June | 2017 | 2018 | 2019 | F2020 | F2021 |
|---|---|---|---|---|---|
| Net interest income (N$m) | 1,765 | 1,821 | 2,012 | 2,196 | 2,423 |
| Non-interest income (N$m) | 1,554 | 1,796 | 1,820 | 2,090 | 2,266 |
| Profit (N$m) | 1,113 | 1,061 | 1,086 | 1,207 | 1,335 |
| HEPS (c) | 419 | 398 | 410 | 455 | 503 |
| DPS (c) | 204 | 204 | 208 | 228 | 252 |
| DY (%) | 4.3 | 4.6 | 6.2 | 6.8 | 7.5 |
| P/E (x) | 11.2 | 11.2 | 8.1 | 7.3 | 6.6 |
| P/B (x) | 2.7 | 2.3 | 1.7 | 1.6 | 1.5 |

| Recommendation* | BUY |
|---|---|
| NSX Code | FNB |
| Market Cap (N$m) | 8,935 |
| Shares in Issue (m) | 267.6 |
| Free float (%) | 24.0 |
| P/B (x) | 1.7 |
| 52 week high | 4450 |
| 52 week low | 3339 |
| Expected Total Return (%)* | |

*Source: FirstRand Namibia, IJG*
** Target price unchanged pending review*

### FY19 Initial Impression

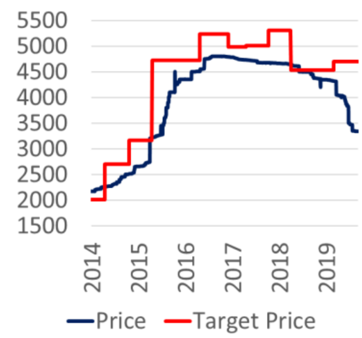
FirstRand Namibia released their results for the year ended 30 June 2019. All in all, the results seemed to be more or less in line with our expectations, with headline and basic earnings both increasing by 3.0% y/y. Profit after tax increased by 2.4% y/y to N$1.086 billion. However, despite the economic backdrop, the group was able to maintain a return on equity of 20.8%. This indicates that the overall business model remains resilient to the current recessionary environment. Unexpectedly, the company announced a special dividend of 250cps on top of the 117cps ordinary final dividend.

| N$'000 | FY19 | FY18 | % Change |
|---|---|---|---|
| Interest and similar income | 3,864,700 | 3,583,400 | 7.9% |
| Interest expense and similar charges | -1,852,478 | -1,762,644 | 5.1% |
| **Net interest income before impairments** | **2,012,222** | **1,820,756** | **10.5%** |
| Impairment and fair value of credit advances | -214,809 | -128,261 | 67.5% |
| **Net interest income after impairments** | **1,797,413** | **1,692,495** | **6.2%** |
| Non-interest income | 1,820,161 | 1,795,926 | 1.3% |
| Net insurance premium income | 167,217 | 185,015 | -9.6% |
| Net claims and benefits paid | -86,201 | (96151) | -10.3% |
| **Income from operations** | **3,698,590** | **3,577,285** | **3.4%** |
| Operating expenses | -2,068,996 | -1,981,249 | 4.4% |
| **Net income from operations** | **1,629,594** | **1,596,036** | **2.1%** |
| Share of profit from associates after tax | 2,758 | 1102 | 150.3% |
| **Income before tax** | **1,632,352** | **1,597,138** | **2.2%** |
| Indirect tax | -47,372 | -45,841 | 3.3% |
| **Profit before tax** | **1,584,980** | **1,551,297** | **2.2%** |
| Direct tax | -499,170 | -490,589 | 1.7% |
| **Profit for the period** | **1,085,810** | **1,060,708** | **2.4%** |

Total assets grew by 12.0% y/y or N$ 4.279 billion to N$44.140 billion, which was funded by strong growth in deposits. Deposits increased by 13.8% y/y or N$4.340 billion. However, the loan book grew by only 6.2% y/y or by N$1.766 billion. This is compared to overall private sector credit extension of 7.4% y/y over the same period.

This means that N$2.541 billion, more than half of the increase in deposits, found its way into investment securities made up mainly of government bonds and treasury bills. Total investment securities now total N$7.807 billion and make up 17.7% of the balance sheet. This is one of the few cases where having too much money is a bad thing, as the returns on risk

### FNB Share Price vs Target Price




### Dividends

Dividend (final): 117c/share

Dividend (special): 250c/share

Declaration date: 13 August 2019

Last day to trade: 13 September 2019

Ex-date: 16 September 2019

Record date: 20 September 2019

Payment date: 04 October 2019

free securities are lower than the prime linked rates charged on traditional lending and the idle cash lowers returns on equity.

Interest and similar income grew by 7.9% y/y while interest expense only grew by 5.1% y/y, which meant net interest income before impairments grew by 10.5% y/y to N$2.012 billion. Impairments, however, were substantially higher than our expectations and management guidance. Total impairment charges increased by 67.5% y/y or by N$86.5 million and translates to 0.71% of total gross advances. Increasing impairments has been an industry wide trend and is symptomatic of the current economic environment. As a result, net interest income after impairment of advances increased by 6.2% y/y.

Non-interest income showed disappointing growth of only 1.3% y/y to N$1.820 billion, although the low growth could be partially explained by the once off gains on sale of property and equipment in the previous period. The lion's share of noninterest revenue is still made up of fee and commission income, which grew by 4.4% to N$1.600 billion.

Operating expenses were well contained, growing by only 4.4% y/y, to N$2.069 billion. This was in line with inflation which printed at 3.9% in June. Staff costs grew by 6.2% y/y to N$1.126 billion and make up 54% of operating expenses. However, the low growth could also be partly explained by the N$51.0 million once off impairment related to the EBank transaction in FY18. As a result, the normalised cost to income ratio increased to 52.9% from 50.3% in FY18.

Seeing as the bank increased their holdings of short-term liquid securities, the total risk-based capital adequacy ratio of the group improved from 19.1% to 19.9%. With this in mind, the special dividend makes a lot of sense. Seeing as the bank cannot find enough lending opportunities in the current market, while deposits continue to grow, it is best to return cash to investors rather than diluting the return on equity by being overcollateralized. Arguably, a share buyback would be a viable alternative to achieve the same goal.

In summary, the results were far from shooting the lights out, however there are clear signs of resilience despite the challenging environment. Advances continue to grow (albeit at a slower pace), cost of funding remains well managed and operating expenses were well contained. Although much depends on the macroeconomic circumstances going forward, the company remains well positioned should Namibia return to growth and private sector credit growth pick up over the next couple of years. We continue to see value in the stock at current levels and maintain our **BUY** recommendation on FirstRand pending management consultations and the release of our full report in which our target price will be revised.

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