FIRSTRAND NAMIBIA LTD
FY20 Initial Impression
September 2020

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FirstRand Namibia Holdings

FY20 initial Impression

Year End 30 June	2019	2020	F2021	F2022
Net interest income (N$m)	2,012	2,013	1,894	2,107
Non-interest income (N$m)	1,820	1,905	2,019	2,140
Profit (N$m)	1,086	833	905	1,123
HEPS (c)	410	315	342	424
DPS (c)	208	154	173	215
DY (%)	9.0	6.7	7.5	9.3
P/E (x)	5.6	7.3	6.7	5.4
P/BV (x)	1.1	1.2	1.1	1.0

Target Price (c)	***2928***
Current Price (c)	2302
Recommendation	SELL
NSX Code	FNB
Market Cap (N$m)	6,160
Shares in Issue (m)	268
Free float (%)	23.9
52 week high	3349
52 week low	2015
Expected Total Return (%)	29.4

FY20 Initial Impression

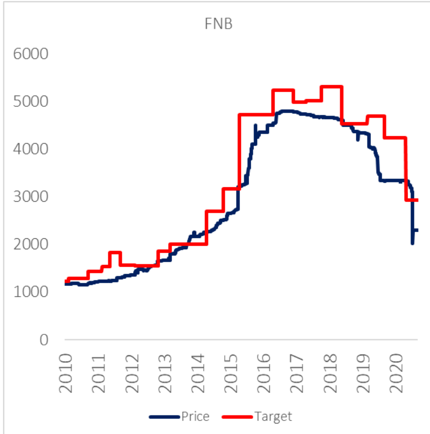
FirstRand Namibia released their results for the year ended 30 June 2020. The second half of the period under review was arguably one of the most difficult economic environments as the COVID-19 pandemic went global in February 2020. As a result profit after tax declined by 23.3% to N$833.4 million, mostly as a consequence of large impairment charges. Earnings per share decreased by 23.5% y/y to 313.4 cps and dividends declared decreased by 26.0% to 154 cps from 208cps in FY19.

As the CFO rightly points out in the results statement, FirstRand Namibia entered the crisis from a position of strength. This is mostly due to the fact that economic growth and credit extension had been slow in the preceding years, allowing the company to build up sufficient capital and liquidity to navigate the turbulent environment. Despite the challenges, FirstRand delivered a surprisingly robust 16.0% ROE over the financial year, although this is down from 20.8% in the preceding financial year.

N$ Million	FY20	FY19	%Δ
Interest and similar income	3,858.1	3,864.7	-0.2%
Interest expense and similar charges	- 1,844.6	- 1,852.5	-0.4%
NII before impairment of advances	**2,013.4**	**2,012.2**	**0.1%**
Impairment and fair value of credit of advances	- 559.7	- 214.8	160.5%
NII after impairment of advances	**1,453.8**	**1,797.4**	**-19.1%**
Net insurance premium income	161.1	167.2	-3.7%
Net claims and benefits paid	- 77.5	- 86.2	-10.1%
Non-interest income	1,905.0	1,820.2	4.7%
Income from operations	**3,442.4**	**3,698.6**	**-6.9%**
Operating expenses	- 2,173.7	- 2,069.0	5.1%
Operating profit	**1,268.7**	**1,629.6**	**-22.1%**
Share of (losses) / profit of associates after tax	- 14.2	2.8	-616.6%
Income before tax	**1,254.5**	**1,632.4**	**-23.1%**
Indirect tax	- 44.7	- 47.4	-5.6%
Profit before tax	**1,209.7**	**1,585.0**	**-23.7%**
Income tax expense	- 376.4	- 499.2	-24.6%
Profit for the year	**833.4**	**1,085.8**	**-23.3%**

The group's total assets increased by 3.9% or N$1.728 billion to N$45.9 billion. This was largely due to a large increase in intrabank advances, which increased by 58.4% y/y or N$1.639 billion to N$4.442 billion. Net advances declined by N$304.2 million largely due to highly increased impairments offset by a slight increase in gross advances. Investment securities increased by N$727.2 million. This was funded by a 7.1% y/y or N$2.541 billion increase in deposits, mainly from current, call accounts and fixed deposits, which increased by a massive N$4.730 billion, while wholesale funding like NCDs and FRNs was reduced by N$2.189 billion.

FNB Share Price vs Target Price



Dividends

Dividend (final): 50c/share

Declaration date: 19 August 2020

Last day to trade: 02 October 2020

Ex-date: 05 October 2020

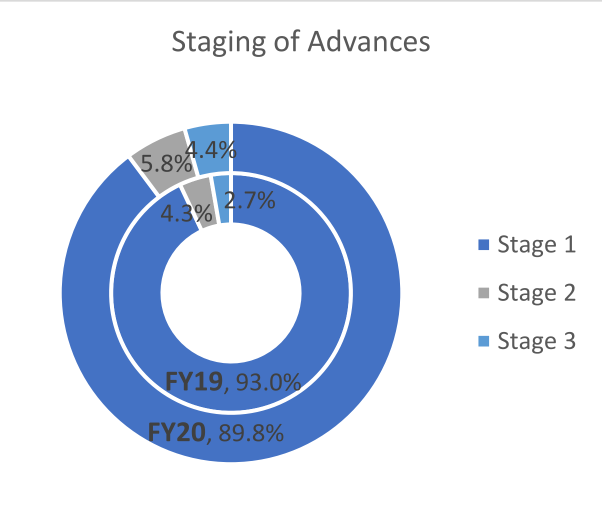
Record date: 09 October 2020

Payment date: 23 October 2020

Net interest income increased marginally by 0.1% y/y to N$2.013 billion. Interest income decreased by 0.2% y/y to N$3.858 billion. Following a 275 basis point reduction in the repo rate over the reporting period, this was largely expected. However, interest expense also decreased by 0.4% y/y, largely due to the shift in the portfolio mix, offsetting the decline. However, seeing as most of the rate cuts happened late in the financial year we expect to see the impact of margin compression to be more evident in next year's results.

Impairment charges were the driving factor of the reduction in profit, increasing by a monumental 160.5% y/y to N$559.7 million or 1.79% of gross advances. The sharp increase is due to the application of IFRS 9 which is based on forward-looking assumptions. These inputs have deteriorated significantly since the beginning of 2020. as travel restrictions, business interruptions, retrenchments and lower disposable incomes weigh on credit quality and economic growth. This brings the provisioning coverage ratio to 2.12% of the performing book, up from 1.18%.

Additionally there were relatively large moves between IFRS 9 stages, with loans classified as stage 2 and stage 3 increasing by N$499.1 million and N$524.9 million respectively. Non-performing, or stage 3 loans, increased from 2.7% to 4.4% of total gross advances, and currently total N$1.369 billion. Although a large increase, this is still below the industry level of non-performing loans, which according to Bank of Namibia data, stood at 5.2% at the end of March.



Source: FNB, IJG

Transactional banking continued to deliver good results as total non-interest revenue grew by 4.7% y/y to N$1.905 billion. This was underpinned by fee and commission income growth of 6.2% y/y as digital channels showed strong uptake. Users of the FNB app increased to 86,000 or 134% while in branch volumes declined by 9.0%. as COVID 19 regulations accelerated the uptake of digital channels. Insurance also posted a 3.2% y/y increase as claims paid out decreased by 10.1% y/y to N$77.5 million. Profits from associate decreased from N$2.8 million to a loss of N$14.2 million as Stimulus Investments posted losses of N$35.8 million.

Operating expenses were well contained, growing by 5.1% y/y to 2.174 billion. On a normalised basis (which excludes a N$51.5 million goodwill impairment on PointBreak group) expenditure grew by only 2.6%, roughly in line with inflation. Staff costs, which make up 55% of total expenditure, increased by 5.6% y/y.

FirstRand Namibia should be commended on the relatively resilient performance given the circumstances and management's commitment to delivering sustainable results is evident. Nonetheless, the financial effects, especially on net interest income, will only be felt fully in the next financial year and the climate will remain tough to navigate. This being said, the FNB share price has rerated substantially and the share may be trading below fair value. For the time being, we maintain our SELL recommendation on FirstRand pending management consultations and the release of our full report in which our target price and forecasts will be revised.

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