



FIRSTRAND NAMIBIA LTD

Update

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FirstRand Namibia Ltd Update

Target Price (c)* **4694**
Current Price (c) **3348**

Year End 30 June	2017	2018	F2019	F2020	F2021	Recommendation*	BUY
Net interest income (N\$m)	1,765	1,821	1,996	2,196	2,423	NSX Code	FNB
Non-interest income (N\$m)	1,554	1,796	1,932	2,090	2,266	Market Cap (N\$m)	8,959
Profit (N\$m)	1,113	1,061	1,112	1,207	1,335	Shares in Issue (m)	267.6
HEPS (c)	419	398	419	455	503	Free float (%)	24.0
DPS (c)	204	204	210	228	252	P/B (x)	1.8
DY (%)	4.3	4.6	6.3	6.8	7.5	52 week high	4496
P/E (x)	11.2	11.2	8.0	7.4	6.7	52 week low	3348
P/B (x)	2.7	2.3	1.6	1.6	1.4	Expected Total Return (%)*	46.5

Source: FirstRand Namibia, IJG

Forecasts adjusted on initial impression

* Target price unchanged pending review

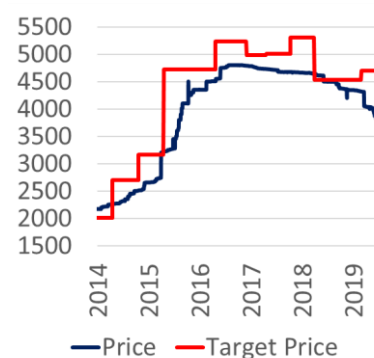
FirstRand Namibia has seen its price drop significantly since the start of the year. The share price has declined by 22.9% YTD and by 25.5% y/y. Given the current economic backdrop, a decline in price for a banking stock is not unexpected. However, compared to its listed Namibian and South African peers, it appears as if the selloff may be overdone.

Given that the South African banking index ("JBNKS") is down 9.1% YTD and 9.5% y/y, while Capricorn Investment Group ("CGP") has seen its price decline 6.2% y/y and has seen a price increase of 3.2% YTD, the sharp drop in FNB's price seems disproportionate.

In this note we briefly explore the relative price multiples as well as historical performance to establish whether there is relative value in the current share price. We also note that impairment charges are likely to be elevated given the low levels of growth in the economy and present a simple sensitive analysis of our target price to changes in the percentage impairment charge relative to the size of the advances book.

We conclude that, should the FY19 results not differ materially from our initial expectations, that the current share price presents an attractive buying opportunity. However, our target price will be updated pending the release of the full year results.

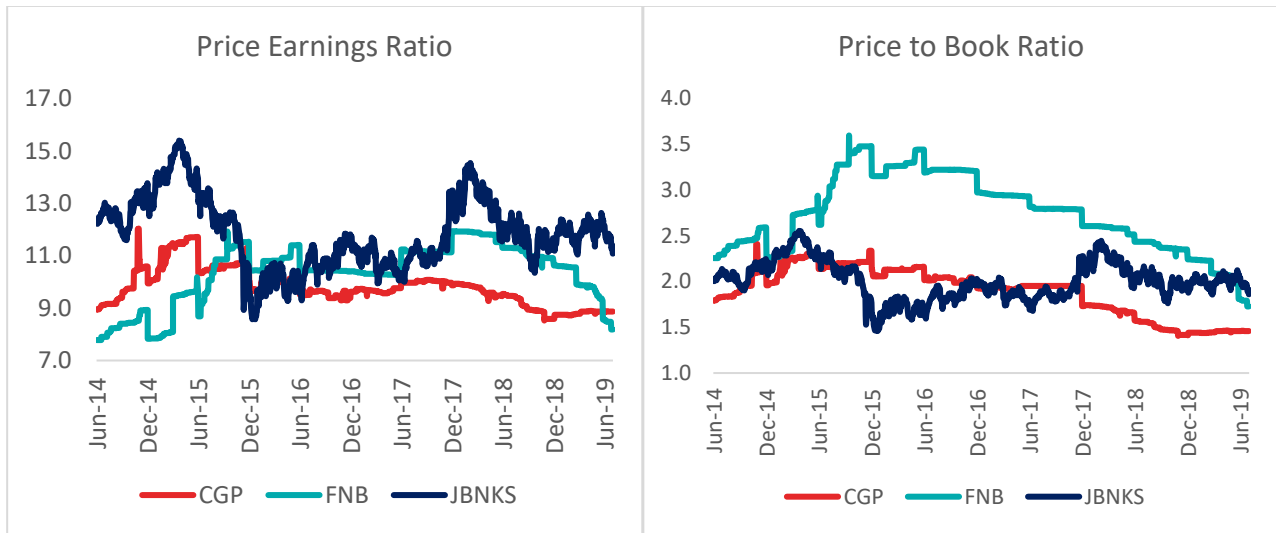
FNB Share Price vs Target Price



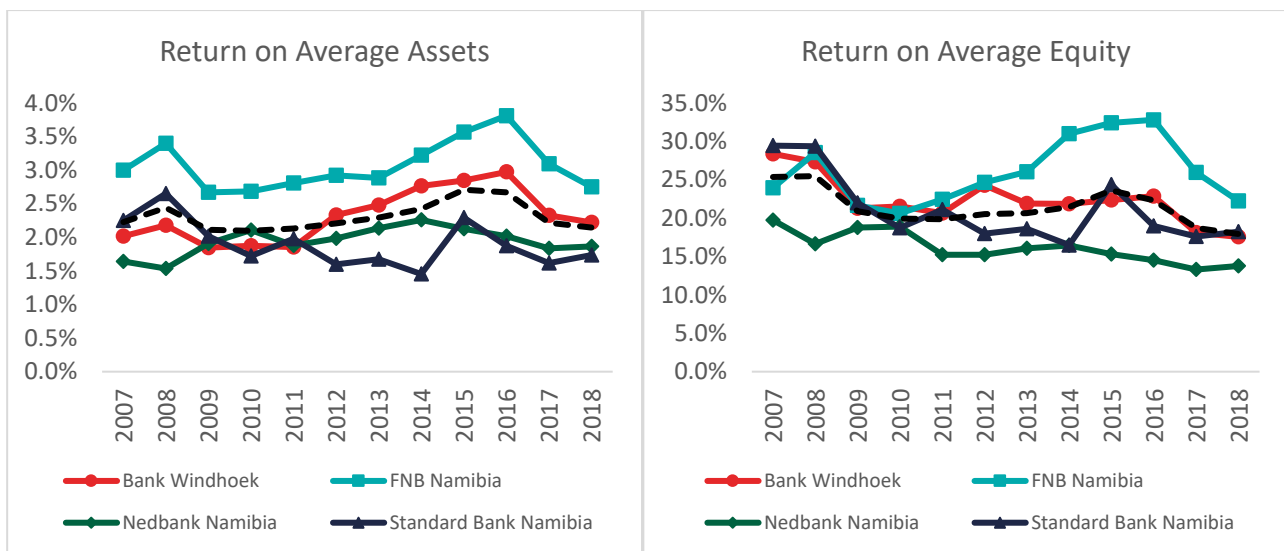


Relative Value in FNB Shares

FNB's price to earnings ratio has dipped below that of Capricorn Investment Group for the first time since 2015 and currently trades at a 26.1% discount to the JBNKS' PE. Similarly, its price to book ratio has dipped below the JBNKS and trades at a PB discount to the JSE for the first time since 2015. Given that there have not been big fundamental changes at FirstRand Namibia, this strikes us as quite odd.



Compared to the Namibian peers, FNB has consistently outperformed its peers based on return on average assets. Over the last 10 years FNB has averaged a ROE of 26.0% compared to the industry average of 20.6%, while its ROA averaged 3.0% compared to the industry average of 2.3%. This has largely been to a lower than average cost to income ratio and a low cost of funding.

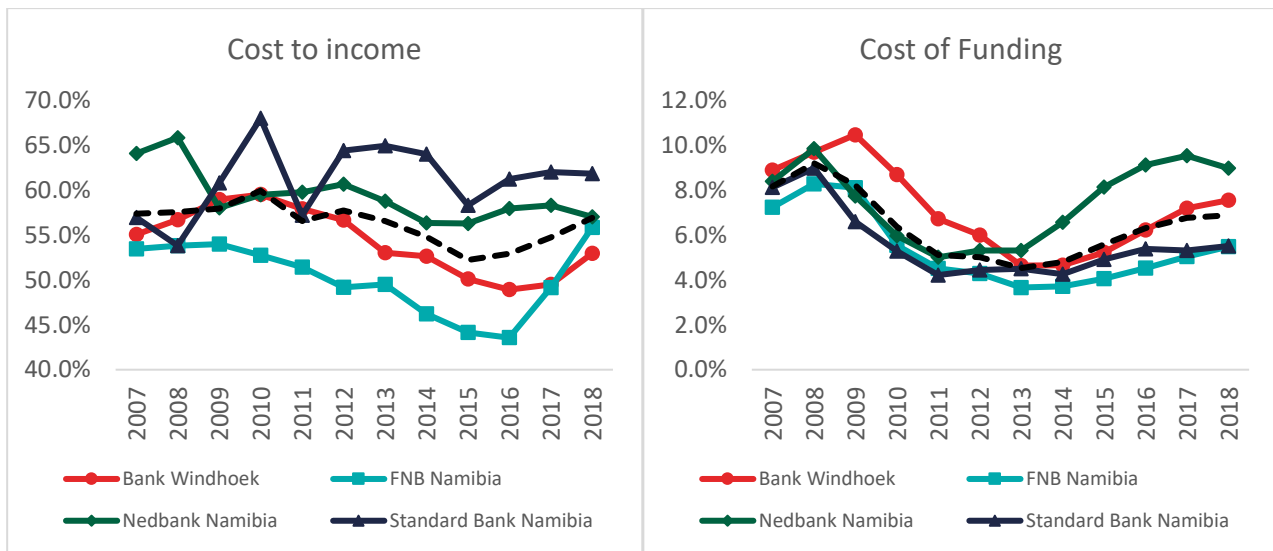


FNB's cost to income ratio has increased quite dramatically in the last two years. This has largely been a function of increased compliance costs, improvements in cyber security and a drive to digitalise operations. Management pointed to a slow return to a cost to income ratio of 50% over the medium term. A target which seems very



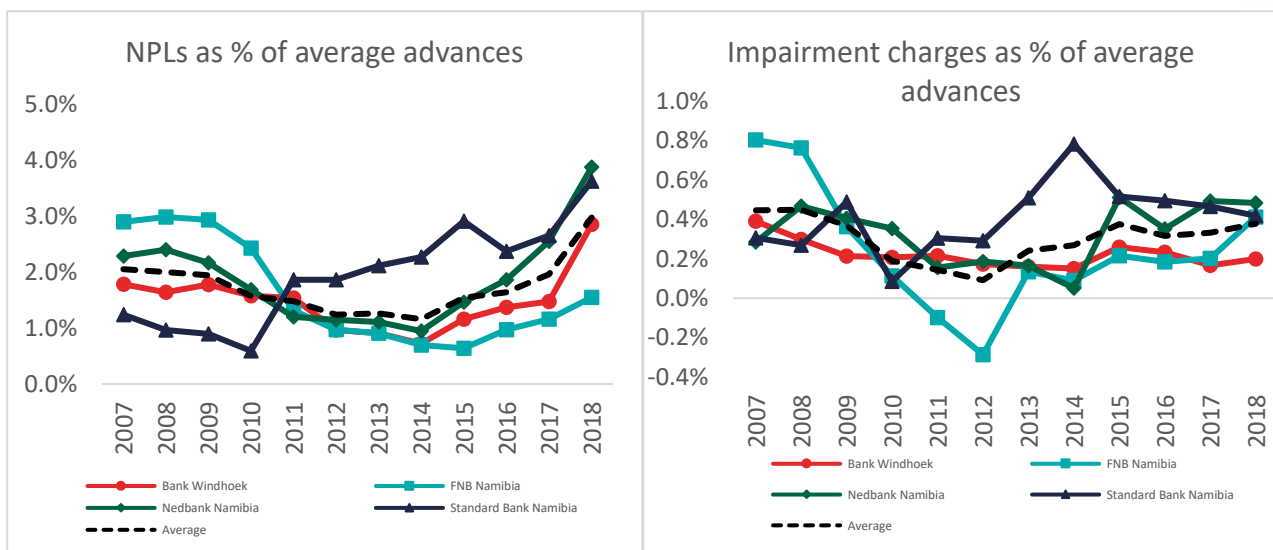
0,0005	4,85%
0,0003	13,04%
4,01	50,00%
0,0003	14,29%
0,0005	12,50%

attainable, especially if there is an uptick in income growth combined with the current focus on expense management.



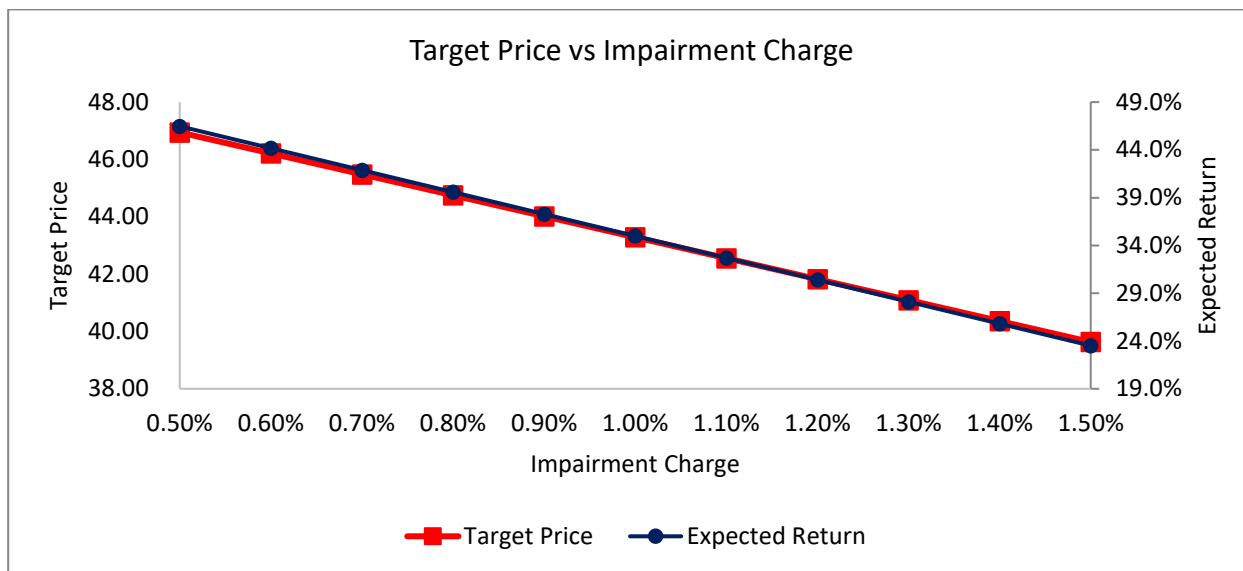
Additionally, a large base of retail deposits has been a source of cheap and stable funding. This meant that FNB has historically had a lower cost of funding and higher net interest margin than its local competitors. With the addition of its 'Savings Pocket' we expect FNB to maintain a healthy market share of the retail deposits.

FNB has also had the best non-performing loan book when compared to its Namibian peers. As a result, impairment charges have generally been lower than the rest of the market, except in the last year, where impairments have been in line with the industry average. Management have indicated that their NPLs were relatively concentrated in their SME book and that they can deduce that small businesses are feeling the brunt of the recession.



0,0005	4,85%
0,0003	13,04%
0,501	50,00%
0,0003	14,29%
0,0005	12,50%

We see impairment charges as the biggest risk factor for the target price as our expectation for advances growth and non-interest income growth are reasonably moderate. However, with the implementation of IFRS 9, impairment charges may be quite volatile from year to year. As a result, we have done a simple sensitivity analysis on our target price assuming different impairment charges over the next three years, other things held constant.



As can be seen in the graph above, there is still some upside despite impairment charges increasing up to threefold. Seeing as FNB are due to release their results late August / early September and 1H results did not surprise to the downside; we are cautiously optimistic that the FY19 results will materialise in line with expectations. In which case the current price would be an attractive buying opportunity. Our target price will be updated pending the release of the full year results, which will be followed by an in-depth analysis of the results.



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