Securities (Pty) Ltd.
Member of the NSX

FNB NAMIBIA HOLDINGS
1H16 Results Review
APRIL 2016

FNB Namibia Holdings

1H16 Results Review

Target Price (c)	5230
Current Price (c)	4508

Year End 30 June	2014	2015	F2016	F2017	F2018
Net interest income (N$m)	1,138	1,453	1,633	1,862	2,003
Non-interest income (N$m)	1,087	1,260	1,464	1,693	1,956
Profit (N$m)	785	999	1,178	1,344	1,549
HEPS (c)	295	378	445	508	586
DPS (c)	109	183	205	244	281
DY (%)	2.4	4.1	4.5	5.4	6.2
P/E (x)	15.3	11.9	10.1	8.9	7.7
P/BV (x)	4.2	3.5	2.7	2.4	2.0

Recommendation	
NSX Code	FNB
Market Cap (N$m)	12,063
Shares in Issue (m)	267.6
Free float (%)	40
52 week high (c)	4550
52 week low (c)	3221
Expected total return	18.5%

Source: FNB, IJG

1H16 Results Review

FNB Namibia released its results for the first half of the financial year ending 30 June 2016. Profit for the period increased by 20.5% to N$597.4 million, from N$495.6 million in the same period of FY15. Earnings per share increased by 21% to 226.5 cents, from 187.2 cents in the same period of FY15. Net interest income grew from N$815.5 million, from N$705.5 million in the first half of FY15, while non-interest income expanded from N$643.9 million, to N$744.2 million. As such, total income from operations expanded from N$1.36 billion to N$1.57 billion. Operating expenses grew from N$602.4 million to N$677.6 million over this period. Due to the fact that income grew at a rate of 15.5%, while expenses expanded by just 12.5%, the cost to income ratio of the company improved to 42.4%.

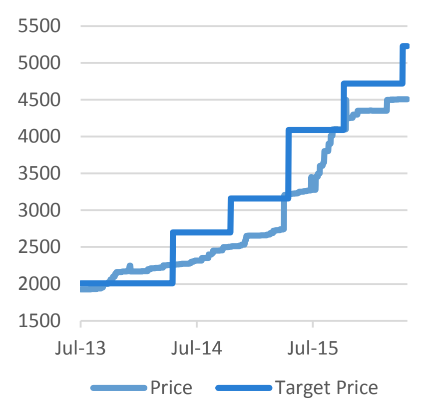
N$'Million	1H16	1H15	Change
Interest and similar income	1,377.74	1,166.65	18.1%
Interest expense and similar charges	(562.28)	(461.15)	21.9%
Net interest income before impairment of advances	815.47	705.50	15.6%
Net interest income after impairment of advances	783.73	675.44	16.0%
Non-interest revenue	744.17	643.89	15.6%
Income from operations	1,567.78	1,357.22	15.5%
Operating expenses	(677.60)	(602.44)	12.5%
Profit before tax	874.77	742.72	17.8%
Profit for the period	597.36	495.64	20.5%

The bank appears to be making a concerted effort to increase the duration of its funding, both by increasing NCDs, and by paying up for call and term deposits, the average cost of which have both increased notably over the past year. As such, the average cost of funding (excluding tier two liabilities) increased from 373 basis points in 1H15 to 398 basis points in 1H16. At the same time, the average rate charged on advances expanded from 908 basis points in 1H15 to 967 basis points in 1H16, implying a widening of the net interest margin of 34 basis points.

Non-interest income expanded by 15.6% to N$744.2 million in 1H16, from N$643.9 million in 1H15. This was driven by growth in fair value gains, largely derived from forex trading. Over the year, forex trading income increased by 46.4%, while total fair value gains expanded by 34.5%. In addition, fee and commission income expanded by 11.9%, or by some N$65.9 million.

Total operating expenditure increased by 12.5% to N$677.5 million, from N$602.4 million in 1H15. Staff related costs, which amount to more than 50% of operating expenses, were up 11.0%. Staff numbers grew by 7.4%, while the average salary increased by 8.6%.

Share Price (c)



Analyst

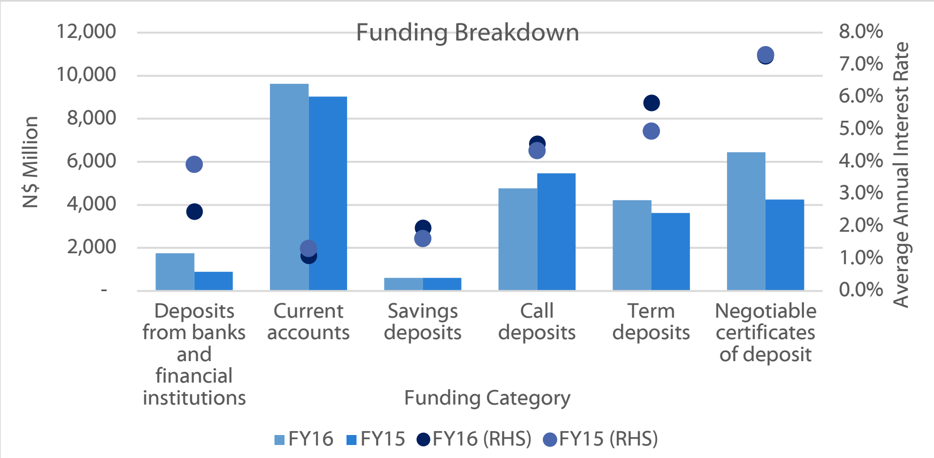
Rowland Brown
+264 61 383 513
rowland@ijg.net.

Dividends

Dividend (interim): 91c/share
Declaration date: 29 January 2016
Ex-date: 22 February 2016
Record date: 26 February 2016
Payment date: 16 March 2016

Disclaimer

The report author holds a small long position in FNB Namibia.



The group's total assets grew by 15.6% to N$32.5 billion. Advances grew 15.1%, well ahead of total PSCE growth, which expanded by 13.6% over the one year period. As such, the book now stands at N$24.9 billion, making it the second largest loan book in the country, after that of Bank Windhoek.

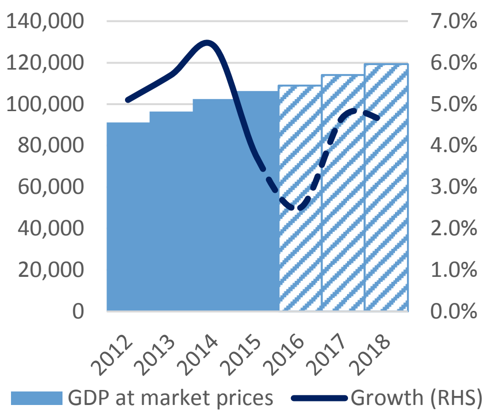
The bank's asset remain of a high quality, with total impairments for 1H16 of N$31.7 million, up slightly from N$30.1 million in 1H15. As a percent of the total book, this represents just 27 basis points, up from 20 basis points in the same period of the previous financial year. Non-performing loans have increased more dramatically, as is to be expected as we move through an interest rate hiking cycle, but remain extremely low. From a level of 75 basis points in 1H15, NPLs now stand at 92 basis points of the total book.

FNB remains well capitalised with a total capital adequacy ratio of 15.8%, unchanged from December 2014 and well above the regulatory requirement of 10%. Tier one capital, however, has been increased to 13.1%, from 12.4% in 1H15.

The bank declared an interim dividend of 91cps, up from 71cps in 1H15. This represents an increase of 28.2%, and a payout ratio of 40.2%, up from 37.9% in 1H15.

For the purpose of valuing the company, we establish a **cost of equity, of 12.9%,** up from 11.6% in 1H15, largely on account of a major increase in the risk-free rate. Based on this cost of equity, a highly conservative **long-term growth rate for the company of 9.0%,** and a **dividend pay-out ratio of 46%**, we believe a **PE of 11.7x can be justified** on this share. Given **expected earnings growth of 18.0% in FY16**, taking **total earnings to c445/share**, we derive **a target price of N$c5230/share**. Coupled with an **expected final dividend of 114cps**, we expect a **total return of 18.7% in 2H16**. We thus **maintain** our **BUY** recommendation on FNB Namibia, which remains our **most preferred locally listed stock**.

Namibia Real GDP (N$ Million)



Source: NSA, IJG Securities

Macro backdrop

The Global and Namibian Economies

Growth environment:

The Namibian economy performed admirably over the five years from 2010 to 2014. Over this period, growth averaged over 5.6%, compared to average growth since independence of 4.3%. This abnormally strong growth was driven by three key factors. Firstly, Namibia has been through a prolonged period of historically low interest rates which drove unprecedented uptake of credit by the private sector; secondly, major fiscal expansion from 2011 until now, driving money into the pockets of the public, as well as major civil works programmes; finally, unprecedented levels of foreign direct investment into the country, driven by the consecutive construction of three FDI funded mines.

These factors resulted in a consumption and construction boom, which saw a major expansion in the local economy, with the economy rebasing from a N$83 billion dollar economy to a close to N$160 billion dollar economy in a period of six years.

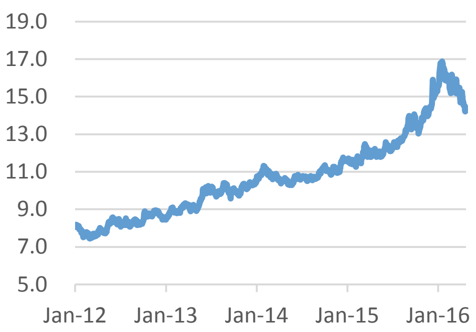
However, subsequently, the macroeconomic environment in Namibia has started to deteriorate, as a combination of factors have come together to dampen growth and drive imbalances within the local economy. The unwinding of historically low interest rates, lower levels of Government spending, less foreign direct investment into the country, fewer Angolan retail tourists, a reduction in diamond output, weak commodity prices, drought, potential water supply constraints and a high base, are a notable few. As such, growth for the current year is expected to stand well below the recent levels, however off the ever-higher base.

Inflation

Inflation expectations for the upcoming fiscal year are notably higher than was the case in 2015. There are a number of reasons for this. Firstly, major rand weakening through 2015 has driven up the cost of imports into the Common Monetary Area (CMA) in rand terms; secondly, oil prices, which fell dramatically through 2014 and 2015, now appear to be stabilising, and the pass-through of base effects is likely to see an upward rebasing in inflation; third, rand weakness and other factors have driven up costs for many services in the country, including many critical utilities such as electricity and water; fourth, drought and poor harvests in the region mean that food prices are likely to increase, particularly if basic grain imports are required; and fifth, increasing interest rates are likely to see some pass-through of increased borrowing costs to consumers, and reduce consumer disposable income.

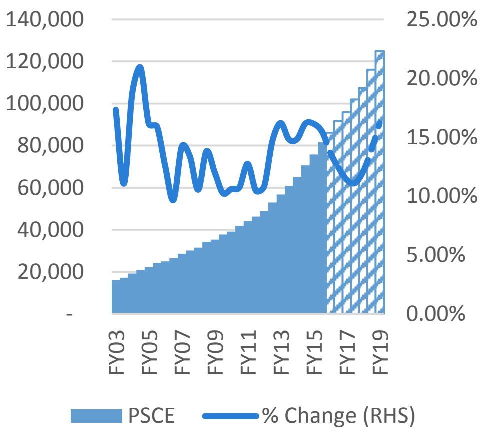
As a result of the above, the real value spend of consumers is likely to be reduced, as disposable incomes come under pressure. This pressure is likely to drive increased demand for credit, as well as large wage settlement demands, both in the private and public sectors.

USDZAR



Source: Bloomberg

Private Sector Credit Extension



Source: Bank of Namibia, IJG Securities

Exchange Rate

After major Rand weakness through 2015, some Rand recovery is expected in 2016 and beyond. This is largely due to the fact that the Rand has now depreciated far from fair value, as calculated using long term purchasing power parity. The Rand weakness has been largely driven by weak export numbers and thus a sizable current account deficit; increasing interest rates in the US and thus fund-flow reversals out of EM economies; and weak sentiment following a series of political gaffes. However, while the South African political and economic situation remains fragile on an absolute basis, on a relative basis, the country is faring little worse than much of the rest of the world, and continues to offer relatively attractive yields to international investors.

Funding costs

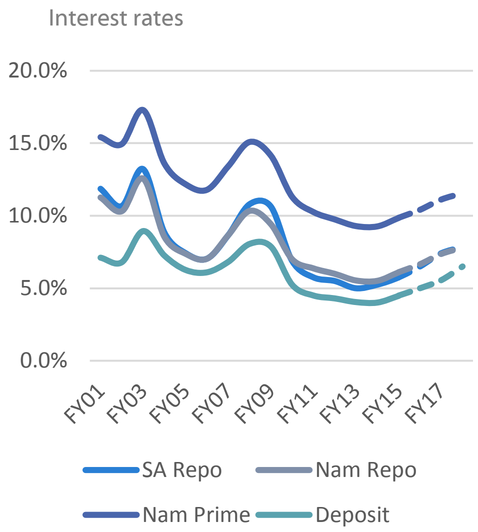
The cost of funding has increased across the board over the past 12 months, as demand for government securities has weakened following major increases in the supply of debt, and limited demand for such through the interest rate hiking cycle. As such, spreads have widened across Government yield curve. As most of the financial entities looking to raise debt securities are considered higher risk than Government, these entities have had to pay up for debt funding. On the deposits side, slow increases in interest rates in Namibia and South Africa have seen deposit rates increasing, albeit fairly marginal.

Credit demand and supply

As we move through an interest rate hiking cycle, private sector credit extension, one of the key drivers of growth in the Namibian economy over recent years, is likely to come under ever increasing pressure. Strong growth in credit extension through the trough of the cycle has left many consumers highly indebted, and many corporates with heavily leveraged balance sheets.

In addition, after an extended period of extremely low interest rates, liquidity in the Namibian banking sector has fallen to relatively low levels as sustained long periods of low interest rates mean that borrowing has been incentivised, while saving has been disincentivized. This has put the loan to funding ratios of the commercial banks under a fair amount of pressure. In addition to this, Government, previously a key provider of liquidity in market came under severe financial pressure in the back end of 2015, and thus did not have the funds that they used to have to deposit with the commercial banks (often via local authorities or state owned enterprises). As well as this, government has become relatively slow when it comes to paying contractors, particularly for civil works, which meant fewer deposits from such individuals and entities into commercial banks. Private sector credit extension growth for 2015, however, remained fairly strong at 13.6%, driven by mortgage loans.

Going forward, both the demand and supply side of credit are expected to remain under pressure in 2016 and the first half of 2017, and PSCE growth is expected to slow considerably, particularly driven by the reluctance of commercial banks to lend to heavily indebted households in a low liquidity and rising interest rate environment.



Source: Bank of Namibia, IJG Securities

Interest Rates

Interest rates in South Africa and Namibia have been at or near historically low levels since the global financial crisis. Rates bottomed out in 2012 with the Namibia repo rate dropping to 5.5% during the year. Since then, the Bank of Namibia has administered six rate hikes of 25 basis points each, taking the current repo rate to 7.0%.

Our expectation is for the repo rate to remain at 7.0% to the end of the current financial year, thus averaging 6.7% for FY16. Thereafter, we expect to see a continued, but slow, rise in rates through the FY17 financial year, with the rate ending the year at 7.75%, and averaging 7.48% through the year. We expect to see rates start to top out through FY18.

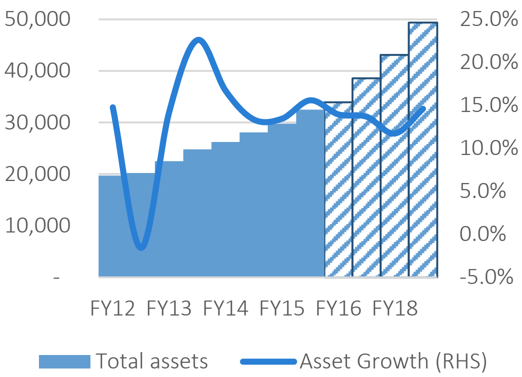
The above scenarios assume that South Africa will be downgraded to a "junk" rating during 2016. Standard and Poor's is likely to be the first ratings agency to issue a sub-investment grade rating. Standard and Poor's and Fitch Ratings' decisions to downgrade their respective outlooks and ratings in December effectively opened both agencies up to a ratings downgrade should the South African outlook change.

Outlook

The outlook for South Africa remains challenging, with commodity prices, social challenges and energy shortages hampering the development of the economy. Moreover, the current fiscal position of Government, given the general macroeconomic situation, remains somewhat precarious as policy makers seek to balance the mandates of prudent fiscal management with providing much needed services and investment into the economy, notably social and economic infrastructure.

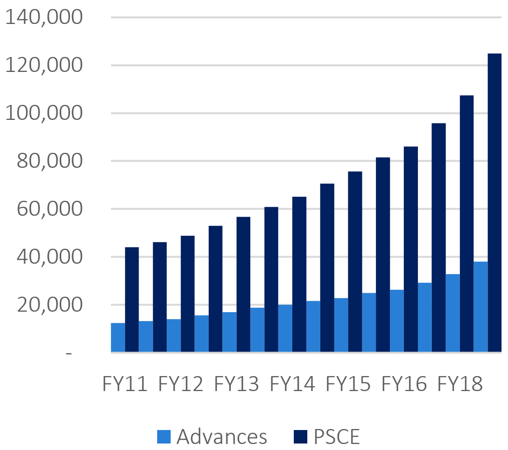
For Namibia, however, the outlook remains somewhat more positive, despite some general challenges. A slowing of Government activity, coupled with infrastructure challenges and lower commodity prices are likely to put pressure on the local economy from a growth and sustainability perspective. Nevertheless, the bulk of these challenges are highly manageable, and as such the outlook for Namibia remains broadly positive, should policy makers make the correct decisions for long-term sustainability. Nevertheless, we expect 2016 and the first half of 2017 to be challenging for Namibia, but expect to ride this storm out relatively unscathed should the correct policy action be taken by the Ministry of Finance and Bank of Namibia.

FNB Total Assets (N$ Million)



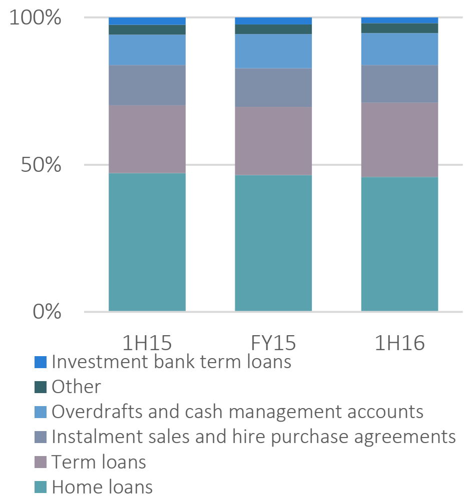
Source: FNB Namibia, IJG Securities

FNB Loans and Advances (N$ Million)



Source: FNB Namibia, IJG Securities

Advances Breakdown



Source: FNB Namibia, IJG Securities

Asset base

Asset growth

FNB's asset base has seen exceptional growth over the last decade, driven by major expansion in their loan book, particularly. Total assets have grown at a rate exceeding 10% per annum (CAGR) for much of the last decade. In FY15, assets expanded by 13.4%, driven by strong loan book growth. The first half of the FY16 saw a continuation of this strong growth, with assets up 15.6% percent year on year. This growth was driven, particularly, by strong loan growth over the period.

The loan book makes up 76.7% of total assets of FNB Namibia. Other primary assets include advances to banks and other financial institutions (6.0%), investment securities and other investments (9.2%) and property plant and equipment –PPE- (2.8%). With regards to property plant and equipment, the asset value on the bank's balance sheet has more than doubled over the past two years, largely on account of the construction of the FNB Freedom Plaza in central Windhoek, estimated to cost some N$425m. Over the past year, the company's PPE has increased by N$164 million. In addition to the above, FNB Namibia sits on a fairly large cash position of N$1.08 billion as of the end of 1H16.

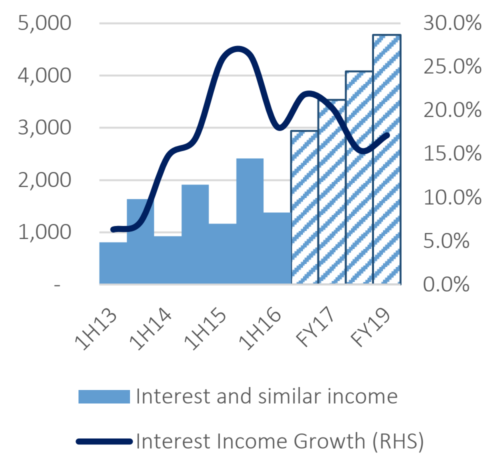
Following the completion of a number of notable investments made by FNB Namibia over the past few years, we believe there will be some consolidation in spending towards PPE and intangibles, notably buildings and technology.

Advances breakdown

FNB's advances remain highly concentrated in property financing, with 45.9% of total advances falling into this category. However, a notable effort to reduce the weighting of mortgages as a percentage of the total book has been seen over the past few years. Just five years ago, this category of loans made up more than 50% of the total loan book. That said, despite the smaller weighting of mortgage loans seen in the overall book, the bank continues to see good growth in home loans, just at a rate below average growth. Given the long-term nature of these loans, asset-liability duration matching for FNB remains key, and will become increasingly challenging should the bank need to become Basel III compliant in the future. However, the interest rate received on mortgage loans tends to be notably higher than the average lending rate. In general, the mortgage lending rate tends to exceed the prime rate by approximately 100 basis points.

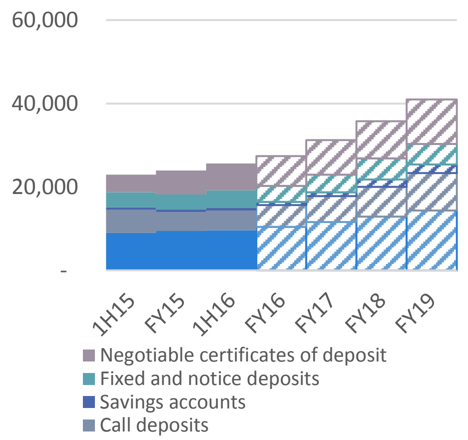
The strongest growth in advances in the FNB loan book, as a percent of total advances, over the past half-decade has been term loans. These loans have grown from N$1.9 billion in value in FY11, to N$6.3 billion in value as of end 1H16. As such, these loans now make up the second largest loan category for the bank. Installment loans represent the third largest loan category for the bank, at N$3.2 billion, and have remained fairly constant as a percent of total loans over the last five years.

Interest Income (N$ Million)



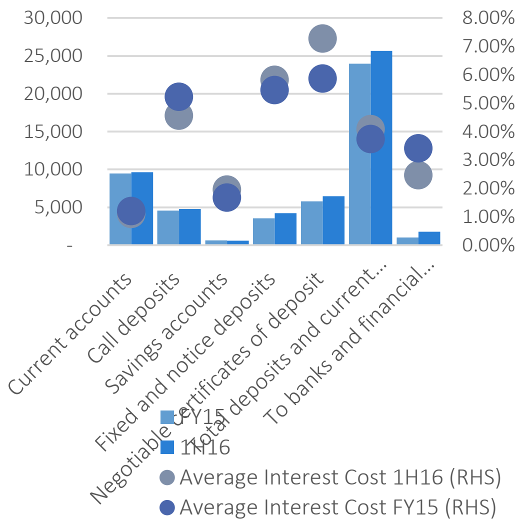
Source: FNB Namibia, IJG Securities

Funding Mix (N$ Million)



Source: FNB Namibia, IJG Securities

Interest Bearing Assets and Expense (N$ Million)



Source: FNB Namibia, IJG Securities

Net Interest Income

Interest Income

FNB Namibia has experienced phenomenal growth in interest income over the past half-decade. This was initially driven by fast declining interest rates through 2009 and a rapid expansion of PSCE in the country, followed by strong growth in FNB's market share. Over the past 24 months, however, much of this interest growth has been driven by increasing interest rates in Namibia and South Africa. Given the major growth in the asset base, this expansion in interest rates drives major increases in interest income for the country's banks. Total interest income for 1H16 increased 18.1% over that of 1H15, to a total of almost N$1.4 billion. For the full year, we expect to see even stronger interest income growth of 21.9%, taking total interest income to N$2.9 billion. This strong growth is driven by increasing interest rates on a sizable loan book, as well as some advances growth.

Funding mix

FNB Namibia funds all of its loans from conventional deposits, carrying virtually no debt securities on its balance sheet. In total, the company has N$390 million worth of debt securities in issue, namely the FNB X22 and FNB J22 notes. The former is a fixed rate note (8.88%), while the latter is a JIBAR linked floating rate note (1.65%+3M JIBAR). These instruments were raised as Tier two capital, rather than loan-funding.

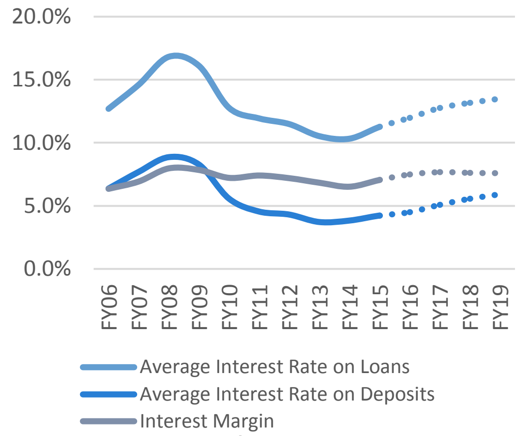
FNB's loan-book funding is thus effectively 100% deposit based. Of these deposits, current accounts make up the largest portion of total deposits, at N$9.62 billion (37.5%) in 1H16, followed by negotiable certificates of deposit (NCDs) at N$6.45 billion (25.1%), and call deposits at N$4.77 billion (18.6%). Over the past 12 months, large increases in longer-term funding have been seen, most notably with regards to NCDs (up 51.9%) and fixed and notice deposits (up 16.6%). This is on account of efforts to extend funding duration as per Basel III, as well as the low liquidity environment seen in the country over this period and new market entrants competing for available funding. As is to be expected, this longer duration funding in a more competitive environment, drives up the cost of funding for the bank.

Interest Expense

On the interest expense side of net interest income, increasing interest rates and the need to fund the strong loan-book growth resulted in a sizable increase in the bank's loan-funding costs over the past 18 months. For the first half of FY16, the company's interest expense was more than N$100 million greater than over the same period in the prior year. This 21.9% increase in interest expense is notably larger than interest income growth over the period. Moreover, the expectation for the full year sees even higher interest expense growth, of 36.1%, compared to interest income growth of 21.8%, resulting in a margin squeeze on current loans.

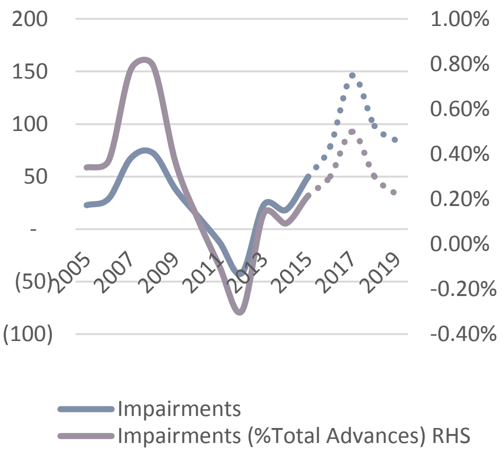
The different categories of deposits attract notably different rates of interest, with current and saving deposits attracting below 2% interest per year, at 1.09% and 1.95% respectively. NCDs receive the highest rate of interest, at an average rate of 7.27% in 1H16, followed by fixed and notice

Interest Margin



Source: FNB Namibia, IJG Securities

Impairments (N$ Million)



Source: FNB Namibia, IJG Securities

deposits (6.38%) and call deposits (4.56%). On a weighted average basis, the interest rate paid by the bank for customer deposits was 4.08% in 1H16 (excluding deposits from banks and other financial institutions). Key to note is the fact that current accounts represent 37.5% of total deposits at FNB by value, and are the cheapest funding source available to the bank by a country mile.

Going forward, interest expenses are expected to continue to increase in the immediate future, as the Bank of Namibia looks to protect the external position of the country with higher interest rates, however longer term growth in interest expenses is expected to slow, as interest rate increases slow.

Interest Margin

The net interest margin of FNB Namibia has been notably above the market average, driven by the two factors earlier mentioned. The banks' funding is relatively cheap when compared to many competitors, as it carries few debt securities on its balance sheet, and has a large percentage of its deposits in the form of current accounts, on which the lowest average rate of interest is paid. At 37.5% of total funding, these loans represent just 10.0% of the total funding cost.

On the loan side, FNB Namibia is highly concentrated in long-term mortgage loans, with these loans making up approximately 45.9% of total loans. On average, mortgage loans attract a higher rate of interest than shorter loans. As a result of the relatively low funding cost for FNB Namibia and the relatively high average interest rate charged on loans, the company's interest margin is well above the country average. Over the past decade, this margin has fluctuated between 6.3 and 8.0%. On average, the interest margin achieved by FNB Namibia has been 230 basis points above the market average over the past 10 years.

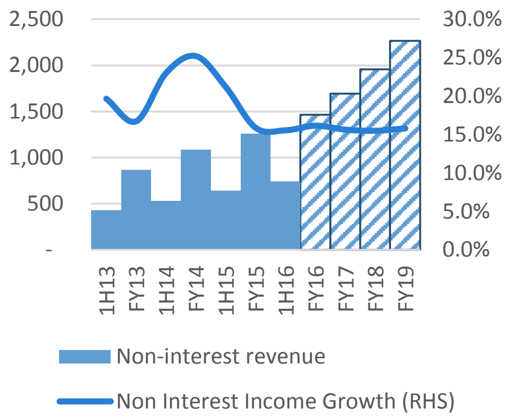
Going forward, we expect to see a slight increase in the net interest margin, driven primarily by loan growth exceeding funding growth, thus driving an increase in the loan-to-funding ratio. Thus, the margin is expected to remain competitive when compared to the other players in the local industry, at over 7% for the next two years.

Impairment losses

Impairment losses remain negligible on the FNB Namibia loan book, totaling just 13 basis points in 1H16, or N$31.7 million on the N$24.9 billion dollar loan book. We expect to see impairments increase slightly in the second half of the year, to a full year level of 30bp, or N$78.7 million. Thereafter, we expect to see a notable pickup in impairments in FY17, as increasing interest rates and slow national growth squeeze local households and businesses. Nevertheless, while impairments are expected to nearly double to N$146 million, this remains a negligible 0.5% of the advances of FNB Namibia. Thereafter, we expect to see impairments stabilize at between 20 and 30bps of the book.

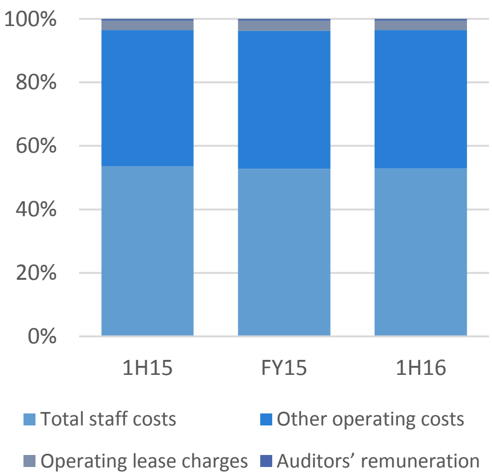
The negligible level of impairment losses speaks to the asset quality of the bank, and the caution taken when it comes to granting loans to customers.

Non-interest income (N$ Million)



Source: FNB Namibia, IJG Securities

Operating costs breakdown



Source: FNB Namibia, IJG Securities

Non-interest income

FNB's non-interest income has shown stellar growth, increasing 15.6% in 1H16 when compared to 1H15. The first half saw non-interest income of N$744 million, compared to N$644 million in the first half of FY15. The on-going strong growth in non-interest income has led to the increased significance of this income within FNB's earnings, making it one of the bank's strongest attributes.

The growth seen in non-interest income has been primarily on the back of net fee and commission income. This growth comes from many sources, however of late has been driven by strong expansion in electronic channels, albeit off a large base. In addition to the electronic channels, the bank is constantly adding new branches, ATMs and other infrastructure to increase its market coverage. FNB Namibia has approximately 800,000 customers in Namibia, the majority retail, who transact on a regular basis. Virtually every transaction with the bank incurs a charge, which while individually fairly small, becomes significant given the vast number of transactions done.

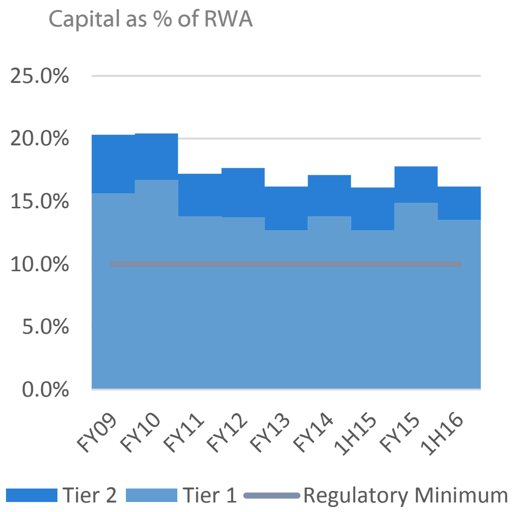
For the past 12 months, non-interest income has been buoyed by Kwanza trading (particularly in 2H15), which has now come to an end.

Going forward, we expect to see continued strong growth in non-interest income by FNB Namibia, driven by transaction volumes, particularly through digital channels. Moreover, as interest income growth is expected to slow going forward, we believe non-interest revenue may grow to surpass interest income as the primary revenue source for FNB Namibia. The restrictions on cash deposit fees by the Bank of Namibia, however, may result in slowing growth in the FY16 financial year. Nevertheless, the company is well positioned to offset this loss in income through other revenue channels, as was seen in 1H16.

Operating expenses

FNB Namibia's operating expenses increased by 12.5% between 1H15 and 1H16. As such, operating costs for the first half stood at N$678 million, compared to N$602 million in the first half of FY15. Once again, the bank has shown excellent cost containment in the first quarter, with operating expenses growing at a notably lower rate than revenue, meaning that the cost to income ratio for the bank fell from 43.9% in FY15, to 42.4% in 1H16.

Staff costs make up the largest cost item for the bank, representing more than 50% of total costs. Further cost reduction strategies are being implemented by the bank not only to reduce staff costs in the long run (without forced redundancies), but also to reduce costs associated with large branches. Notable amongst these is the strategy to introduce automatic deposit machines. The large retail footprint of FNB Namibia means that many customers, particularly in the lower income segment of the market, require cash-handling services from the bank. However, with the introduction of EWallet and automatic deposit machines, the bank believes it can reduce footfall through the branches, thus reducing the need for large numbers of tellers and large areas of floor space.



Source: FNB Namibia, IJG Securities

Capital adequacy

FNB Namibia remains more than adequately capitalized, with Tier two capital of 2.7% of risk weighted assets (RWA) and Tier 1 capital of 13.1% of risk weighted assets.

Outlook and key risks

FNB Namibia remains an extremely well run and managed business with an exceptional track record to prove it. However, the company is fairly mature, and unlikely to continue to grow at the pace seen over the past 10 years. This maturity, however, does come with sizable benefits, as the size of the customer base and loan books mean that the bank will continue to generate strong revenues without major intervention.

Nevertheless, there are still sizable components of the business that have significant headroom for growth, most notably the RMB investment banking division, and some of the more premium segments of the retail market. The bank remains focused on pursuing growth in their investment and insurance segments of the business as well, noting the introduction of Ashburton Investments to the local portfolio.

Three key challenges face the business going forward.

1. The macroeconomic environment in the country has deteriorated notably over the past 6 months. This is expected to continue for another 12 to 18 months, before government spending and interest rates stabilize, and local and regional mining entities adapt to current commodity prices. As such, household disposable income growth is likely to slow, which may present some pressure on highly indebted consumers. This, coupled with increasing interest rates and low liquidity is likely to drive a slowdown in credit extension growth and is expected to drive an increase in NPLs and impairment losses.
2. The introduction of new banking licenses into the Namibian market may see an increase in competition for FNB Namibia, both from a deposit perspective, loan perspective and transactional services perspective. While FNB Namibia is highly entrenched in the market and likely to be able to weather any storm of this nature that comes its way, funding costs, particularly, may come under pressure. One new entrant, particularly, presents a genuine threat to FNB Namibia, namely Letshego. The reason for this is that unlike other entrants, Letshego already has a sizable customer base in Namibia through their micro-loan scheme and Government deduction code. Many of these customers are also FNB Namibia customers, and may be tempted to move across to Letshego Bank once it opens its doors.
3. Basel III is likely to be introduced in Namibia over the next three years. As this regulation comes into force, FNB Namibia, like all the domestic banks, is going to have to alter its funding mix, particularly given the long duration of its loan book, which is highly concentrated in mortgage loans. Long duration funding is likely to be expensive when compared to current funding, which may put further pressure on margins.

Shareholder return

Over the past 10 years, the shareholder return generated by FNB Namibia has been exceptional in the Namibian listed equity space, with the share price increasing by 626% between the end of FY05 and 1H16, reflecting compounded annual growth rate of 20.8% on the share price alone.

	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	1H16
Dividends/Share (N$c)	32	40	47	53	56	67	77	82	100	109	183	91
Special Dividends/Share (N$c)			93				170	180	180			
Total Dividends/Share (N$c)	32	40	140	53	56	67	247	262	280	109	183	91
Share Price (EOY) (N$c)	600	700	792	996	1,180	1,156	1,236	1,466	1,925	2,316	3,278	4,355
Dividend Yield	5.3%	5.7%	5.9%	5.3%	4.7%	5.8%	6.2%	5.6%	5.2%	4.7%	5.6%	4.1%*
Dividend Yield (Inc. Special Div)	5.3%	5.7%	17.7%	5.3%	4.7%	5.8%	20.0%	17.9%	14.5%	4.7%	5.6%	4.1%*

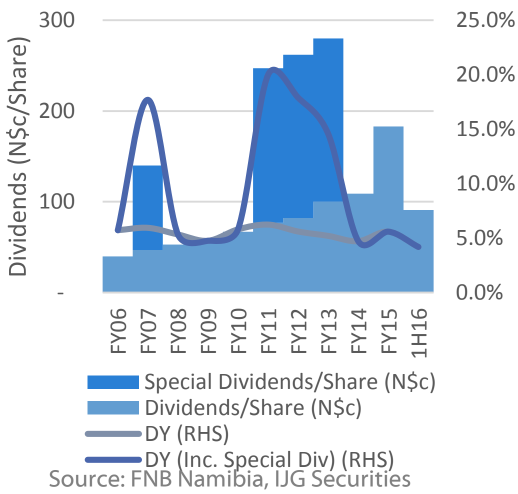
*assuming, conservatively, the same dividend in 2H16

On average, the share has traded on a dividend yield of 5.5%, however since 2005, three special dividends have been declared, in FY07, FY11, FY12 and FY13. When included, these special dividends pushed the dividend yield for the company up to 17.7%, 20.0%, 17.9% and 14.5% in the four respective years.

The phenomenal performance in the share price has been driven by two factors. Firstly, strong and sustained earnings growth by the company over the past decade, with earnings growth of 17.1% PA, but also major undervaluation of the share in FY13 and FY14, due to limited trading thereof. In FY15 and 1H16, however, a number of large-block sellers moved the market price for the share back in-line with fundamental value.

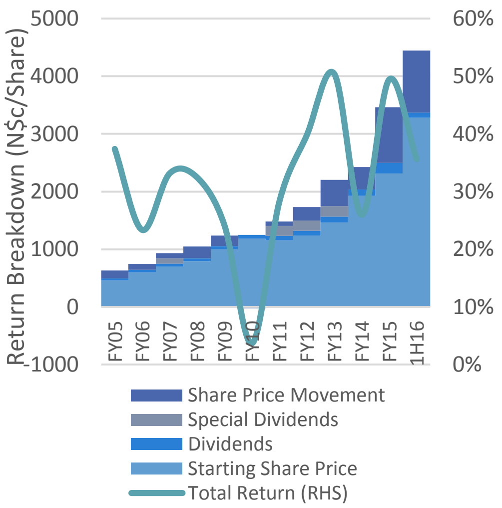
Going forward, we expect to see continued share price growth and a healthy dividend yield, however now that the share is closer to fair value, we do not believe we will see the major rerating in FY16 that we saw in FY15.

Dividend yield



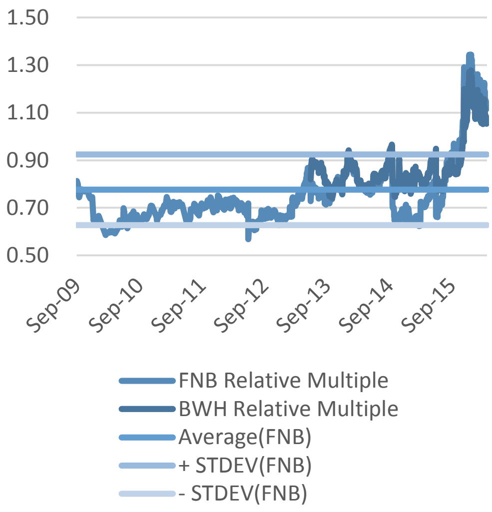
Source: FNB Namibia, IJG Securities

Return Breakdown



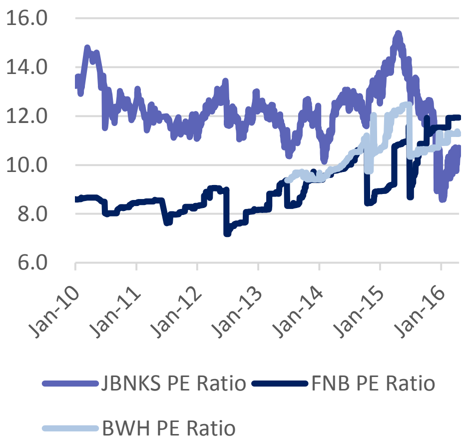
Source: FNB Namibia, IJG Securities

JBanks Relative Multiple



Source: Bloomberg, IJG Securities

PE Ratios



Source: IJG Securities

Valuation and recommendation

Both of the domestically listed banks have seen large moves in share prices over the past year, and despite strong earnings growth, have repriced on a multiple basis. As such, the multiples on both FNB Namibia and Bank Windhoek Holdings have increase well beyond one standard deviation of the norm, when compared to the South African JBanks Index. Nevertheless, it can be argued that the Namibian banks were undervalued historically from a multiple perspective, usually trading on PEs of approximately 75% of those of the JBanks Index. Given the relatively strong earnings growth of the two domestically listed banks, this relatively low PE multiple makes little sense. However, as of mid-April 2016, however, both FNB Namibia and Bank Windhoek Holdings were trading at significant premiums, from a multiple perspective, to their South African counterparts. This was largely on account of the fact that a sizable de-rating in multiple has been seen in South Africa, notably on account of the finance minister debacle of late 2015. While the local banks multiples have crept upwards, the JBanks multiple has fallen from over 15x in mid-2015, to a low of 8.5x in early 2016. We believe that this decline in multiple reflects the poor sentiment in and on South Africa, resulting from the recent political gaffes there seen, as well as the weak exchange rate and increasing interest rates. However, we do not believe that the same sentiment is witnessed in Namibia, and FNB Namibia, particularly, has no hard currency debt to reprice on the exchange rate move. Moreover, regulated capital in Namibia is only likely to increase going forward, and as such we are comfortable with the current multiples seen on the local banks.

At the time of writing, FNB Namibia was trading on a historic PE of 11.9x, compared to the South African JBank Index at 10.4x, and Bank Windhoek Holdings at 11.3x.

For the purpose of valuing the company, we establish a **cost of equity, of 12.9%,** up from 11.6% in 1H15, largely on account of a major increase in the risk-free rate. Based on this cost of equity, a highly conservative **long-term growth rate for the company of 9.0%,** and a **dividend pay-out ratio of 46%**, we believe a **PE of 11.7x can be justified** on this share. Given **expected earnings growth of 18.0% in FY16**, taking **total earnings to c445/share**, we derive **a target price of N$c5230/share**. Coupled with an **expected final dividend of 114cps**, we expect a **total return of 18.7% in 2H16**. We thus **maintain** our **BUY** recommendation on FNB Namibia, which remains our **most preferred locally listed stock**.

Income Statement

Year End June (N$ 000)	1H15	FY15	1H16	FY16	FY17	FY18	FY19
Interest and similar income	1,166,653	2,413,043	1,377,743	2,940,550	3,536,803	4,082,245	4,782,283
Interest expense and similar charges	(461,154)	(960,176)	(562,275)	(1,307,071)	(1,674,404)	(2,079,392)	(2,515,529)
Net interest income before impairment of advances	705,499	1,452,867	815,468	1,633,479	1,862,400	2,002,853	2,266,754
Impairment of advances	(30,062)	(49,882)	(31,739)	(78,731)	(146,178)	(98,319)	(83,766)
Net interest income after impairment of advances	675,437	1,402,985	783,729	1,554,748	1,716,221	1,904,534	2,182,988
Non-interest revenue	643,885	1,260,061	744,167	1,463,790	1,692,984	1,955,600	2,264,975
Net insurance premium income	73,785	153,944	91,709	183,418	222,563	266,542	318,097
Net claims and benefits paid	(35,888)	(82,310)	(51,821)	(95,950)	(118,654)	(128,570)	(169,343)
Income from operations	1,357,219	2,734,680	1,567,784	3,106,006	3,513,115	3,998,105	4,596,717
Operating expenses	(602,441)	(1,221,986)	(677,595)	(1,342,413)	(1,501,857)	(1,679,204)	(1,930,621)
Net income from operations	754,778	1,512,694	890,189	1,763,592	2,011,258	2,318,901	2,666,096
Share of profit from associate after tax	409	558	524	558	558	558	558
Income before tax	755,187	1,513,252	890,713	1,764,150	2,011,816	2,319,459	2,666,653
Indirect tax	(12,472)	(26,611)	(15,948)	(31,896)	(35,086)	(41,401)	(48,853)
Profit before tax	742,715	1,486,641	874,765	1,732,254	1,976,730	2,278,058	2,617,800
Direct tax	(247,076)	(487,979)	(277,403)	(554,321)	(632,554)	(728,978)	(837,696)
Profit for the period	495,639	998,662	597,362	1,177,933	1,344,176	1,549,079	1,780,104

Balance Sheet

N$ 000	1H15	FY15	1H16	FY16	FY17	FY18	FY19
Cash and cash equivalents	1,058,699	795,225	1,081,503	1,451,226	2,283,421	3,235,852	3,088,957
Due from banks and other financial institutions	1,168,016	1,585,029	1,964,969	1,837,054	2,046,495	2,294,121	2,665,284
Derivative financial instruments	152,231	158,644	322,047	173,114	187,369	202,797	219,496
Advances	21,634,217	22,833,693	24,912,020	26,243,631	29,235,639	32,773,151	38,075,487
Investment securities	3,172,569	3,365,927	3,003,391	3,050,917	3,436,393	3,870,573	4,359,611
Accounts receivable	158,777	185,614	278,817	190,914	203,530	214,719	221,995
Investments in associate	3,577	3,726	4,250	4,250	4,250	4,250	4,250
Property and equipment	741,966	849,171	906,295	996,925	1,096,617	1,206,279	1,326,907
Intangible assets	4,617	2,534	451	2,534	2,534	2,534	2,534
Deferred income tax asset	3,371	3,897	4,277	3,480	3,480	3,480	3,480
Reinsurance assets	930	191	1,066	645	645	645	645
Tax asset	2,846	664	664	664	664	664	664
TOTAL ASSETS	28,101,816	29,784,315	32,479,750	33,955,353	38,501,036	43,809,064	49,969,309
Deposits	22,970,271	23,951,813	25,664,392	27,424,826	31,264,302	35,816,384	41,009,759
Due to banks and other financial institutions	894,264	1,020,016	1,748,608	1,051,739	1,021,811	940,357	937,007
Derivative financial instruments	173,187	172,188	308,682	172,688	193,997	207,816	233,461
Short trading positions		26,693	32,386	25,000	25,000	25,000	25,000
Creditors and accruals	218,557	431,781	295,714	268,769	276,785	286,222	295,659
Tax liability	99,342	49,774	105,975	50,000	50,000	50,000	50,000
Employee liabilities	129,139	167,830	136,769	130,563	130,563	130,563	130,563
Deferred income tax liability	72,986	110,904	85,901	85,901	85,901	85,901	85,901
Policyholders liabilities under insurance contracts	57,402	69,770	67,214	78,381	86,219	94,841	104,325
Finance lease obligation	4,070	2,060					
Tier two liabilities	392,695	392,635	392,706	390,000	390,000	390,000	390,000
TOTAL LIABILITIES	25,011,913	26,395,464	28,838,347	29,677,867	33,524,578	38,027,085	43,261,675
Capital and reserves	3,057,326	3,348,673	3,602,826	4,238,910	4,937,881	5,743,403	6,669,057
Non-controlling interests	32,577	40,178	38,577	38,577	38,577	38,577	38,577
Total equity	3,089,903	3,388,851	3,641,403	4,277,487	4,976,458	5,781,980	6,707,634

Managing Director
Romé Mostert
Tel: +264 (61) 383 520
rome@ijg.net

Director
Mark Späth
Tel: +264 (61) 383 510
mark@ijg.net

Sales and Research
Rowland Brown
Tel: +264(61) 383513
rowland@ijg.net

Jan-Hendrik Conradie
Tel: +264 (61) 383 523
janhendrik@ijg.net

Eric van Zyl
Tel: +264 (61) 383 530
eric@ijg.net

Money Market & Administration
Tashiya Shekutamba
Tel:+264 (61) 383 511
tashiya@ijg.net

Financial Manager
Jakob de Klerk
Tel: +264 (61) 383 517
jakob@ijg.net

IJG Direct
Naïke Burger
Tel: +264 (61) 383 515
naike@ijg.net

Equity & Fixed Income Dealing
Nigel Mubita
Tel: +264 (61) 383 514
nigel@ijg.net

Leon Maloney
Tel:+264 (61) 383 521
leon@ijg.net