LETSHEGO HOLDINGS (NAMIBIA) LTD

1H18 Initial Impression

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Letshego Holdings (Namibia) Ltd

1H18 Initial Impression

Target Price (c)*	***479***
Current Price (c)	399

Year End 31 December	2015	2016	2017	F2018	F2019
Net interest income (N$ million)	286	331	471	502	544
Non-interest income (N$ million)	196	230	207	218	232
Profit after tax (N$ million)	272	330	385	423	439
HEPS (c)	54	66	71.7	78.6	81.6
DPS (c)			19.2	21.1	21.9
DY (%)	-	-	4.8	5.3	5.4
P/E	7.0	5.8	5.2	4.8	4.6
P/B	1.6	1.3	1.1	1.1	1.0

Recommendation	BUY
NSX Code	LHN
Market Cap (N$m)	1,995
Shares in Issue (m)	500
Free float (%)	22
52 week high	405
52 week low	380
Expected Total Return (%)	19.7%

Source: LHN, IJG
unchanged from FY17 Report

Letshego Holdings (Namibia) Ltd (LHN) released interim results for the period ended 30 June 2018 (1H18). Earnings and headline earnings per share increased by 34% y/y from 34.4cps to 46cps. Revenue increased by 17.0% y/y while profit after tax increased by 33.8%. The company pays dividends annually, and as such no interim dividend has been declared.

The 1H18 results are impressive when taking into consideration that domestic economic conditions remain challenging. Total revenue for 1H18 increased by 17.0% y/y to N$430.7 million, with interest income from lending activities increasing by 14.3% to N$293.3 million. Net interest income after impairments grew by a substantial 38.9% due to a large decrease in interest expense, which is the result of converting the loan from the parent into preference shares. The preference shares will pay dividends once a year, explaining the fall in interest expense. Adjusting net interest income for preference dividends sees the growth rate drop to around 20%, still indicating margin expansion.

Advances to customers grew by 11.0% y/y (N$248.6 million), bringing the total advances to customers to N$2.5 billion. The credit impairment charge decreased by 77.5% y/y from N$10.1 million to N$2.3 million for 1H18. This follows an impairment release of N$9.6 million for FY17. Growth in advances for the period was once again well above that of private sector credit extension.

Operating expenses increased by 23.2% in 1H18. The cost to income ratio decreased slightly from 24.3% in 1H17 to 23.6% in 1H18. As mentioned in our FY17 report, management expects this ratio to increase going forward as the company's banking operations are rolled out, but that it will remain within their threshold. Management are actively working on containing costs according to the initial results release.

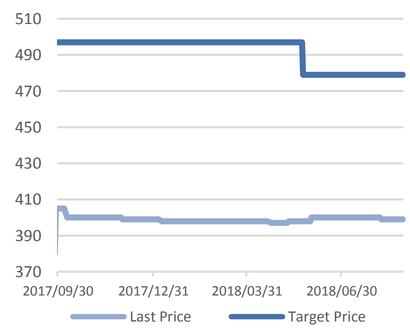
During the period, N$897.1 million of the intercompany loan from Letshego Holdings Limited was converted into 1,000 redeemable non-cumulative preference shares of N$1.00 par value each with a premium of N$897,052 each. The result of this conversion is an increase in the balance of non-controlling interest from N$215.1 million to N$1.1 billion, while intercompany payables decreased from N$907.1 million at FY17 to N$59.0 million in 1H18. A dividend of N$37.5 million was recognised in respect of these preference shares. The coupon rate remains the same as the interest rate on the loan at Namibian prime +2%. The conversion also results in a decrease in the company's debt to equity ratio from 59% to 7%.

Loans from commercial banks increased by N$74.6 million or 57.9% y/y to N$138.1 million. Deposits due to customers, which were included in the funding sources for the first time in FY17, have decreased from N$90.2 million to N$40.8 million in 1H18. Term deposits decreased by N$89.8 million to N$411,000, while current account deposits increased from N$25,000 to N$40.4 million.

LHN remains highly capitalised with a reported total capital adequacy ratio of 102.7% in 1H18, up from the 63.5% in 1H17 (due to the change in capital structure). Tier 1 capital decreased from 68.6% in FY17 to 66.1% in 1H18, while Tier 2 increased from 0.2% in FY17 to 36.6% in 1H18. The large increase in Tier 2 capital is due to the intercompany loan conversion to preference shares.

Pending further analysis of the 1H18 results and management discussions, we maintain our BUY recommendation on LHN. Our target price and recommendation will be revised with our half year report on the 1H18 results, as will the table at the top of the page.

LHN Share Price vs Target Price (c)



Dividends

No interim dividend has been declared.

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