LETSHEGO HOLDINGS (NAMIBIA) LTD

1H20 Initial Impression

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Letshego Holdings (Namibia) Ltd

1H20 Initial Impression

Target Price (c)	***437***
Current Price (c)	267

Year End 31 December	2017	2018	2019	F2020	F2021
Net interest income (N$ million)	471	479	579	638	646
Non-interest income (N$ million)	207	255	230	255	271
Profit after tax (N$ million)	385	381	451	509	518
Normalised HEPS (c)	71.7	76.2	77.0	90.9	92.9
DPS (c)	19.2	23.5	22.5	26.4	26.9
DY (%)	4.8	6.7	8.3	9.8	9.9
P/E	5.2	4.6	3.2	3.0	2.9
P/B	1.1	0.8	0.6	0.5	0.5

Recommendation	BUY
NSX Code	LHN
Market Cap (N$m)	1,335
Shares in Issue (m)	500
Free float (%)	22
52 week high	342
52 week low	230
Expected Total Return (%)	63.7%

Source: LHN, IJG Securities

1H20 Initial Impression

Letshego Holdings (Namibia) Ltd (LHN) released interim results for the period ended 30 June 2020 (1H20). Earnings and headline earnings per share decreased by 36.2% y/y from 47cps to 30cps, while profit after tax contracted by 37.2% y/y to N$147.6 million. Taking the preference share dividend into account sees earnings per share dropping to 24.4cps and profit after tax contracting by 38.4% y/y. Total income fell by 22.7% y/y. The lower profit has resulted in LHN's ROE falling from 17% in 1H19 to 11% in 1H20 and ROA declining from 15% to 9%.

The company pays dividends annually, and as such no interim dividend has been declared. Management do however state in the results release that the current economic climate calls for "a more prudent approach in the preservation of capital", hinting that the future dividend payout ratio may be lower than in the past.

The main culprit for the decline in earnings was a significant decline in revenue from the cell captive arrangement. Management ascribes this to higher loan write-offs as well as reduced insurance cover premiums. This is somewhat baffling as the majority of LHN's advances book are government employees who, unlike most of their private sector counterparts, received their full salaries despite the lockdown period and did not lose their jobs. The directors themselves said in the Annual Report released earlier this year that that they do not expect any major adverse effects on LHN's advances portfolio as a result of the COVID-19 outbreak.

Advances to customers rose by N$478.4 million or 18.0% y/y, bringing the total advances to customers to N$3.14 billion, in line with our expectations. The credit impairment charge increased by 15.2% y/y to N$11.4 million in 1H19, resulting in a loan loss ratio of 0.4% according to LHN.

Despite the relatively strong growth in advances, interest income from advances only recorded an increase of 0.6% y/y to N$302.5 million. This was below our expectations. Management notes that the decline was driven by yield compression as the Bank of Namibia reduced interest rates several times since the beginning of the year. This remains strange to us as the interest rates that LHN charges customers are fixed and the lower rates should only affect new loans issued or renegotiated loans, in our opinion. Net interest income increased 1.2% y/y to N$251.5 million when including the preference share dividends paid out (for comparative purposes).

Operating expenses were relatively well contained, although still increasing at a faster rate than revenue. Total operating expenses rose by 2.8% y/y to N$105.6 million in 1H20. The largest of these increases was employee benefit expenses which increased by 21.2% y/y to N$36.3 million. LHN's cost to income ratio resultantly increased from 24.1% at 1H19 to 32.6% at 1H20.

LHN's banking operations continue to grow steadily with the bank's deposit customers increasing from 12,590 at FY19 to 19,973 at 1H20. Deposits due to customers increased by N$22.7 milion in the past six months to N$66.0 million as at June 2020. LHN remains highly capitalised with a reported total capital adequacy ratio of 81.0% in 1H20, down from the 95.1% in 1H19. Tier 1 capital increased from 75.0% in 1H19 to 76.2% in 1H20, while Tier 2 decreased from 20.1% in 1H19 to 4.8% in 1H20.

Overall the results are disappointing and below our expectations for the most part. The fact that LHN recorded higher loan write-offs are worrisome as the deduction code should have prevented this, coupled with growth in interest income that is not keeping up with growth in the advances book. Pending further analysis of the 1H20 results and much needed management discussions, we maintain our **BUY** recommendation on LHN. Our target price and recommendation will be revised with our full report on the 1H20 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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