LETSHEGO HOLDINGS (NAMIBIA) LTD

FY17 Initial Impression

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Letshego Holdings (Namibia) Ltd

FY17 Initial Impression

Target Price (c)*	***497***
Current Price (c)	398

Year End 30 June	2015	2016	F2017	F2018	F2019
Net interest income (N$ million)	286	331	391	443	504
Non-interest income (N$ million)	194	230	265	302	341
Profit after tax (N$ million)	272	330	356	405	459
HEPS (c)	54	66	71	81	92
DPS (c)			-	20	23
DY (%)	-	-	-	5.0	5.8
P/E	7.0	5.8	5.4	4.7	4.1
P/B	1.6	1.3	1.1	0.9	0.8

Recommendation*	BUY
NSX Code	LHN
Market Cap (N$m)	1,990
Shares in Issue (m)	500
Free float (%)	22
52 week high	405
52 week low	380
Expected Total Return (%)*	30.9%

Source: LHN, IJG
unchanged from Initiation Report

Letshego Holdings (Namibia) Ltd (LHN) released results for the full year ended 31 December 2017 (FY17). Earnings per share increased by 16.8% from 66cps to 77cps, and headline earnings per share increased by 8.7%. Revenue and advances both grew by 14% y/y, while profit after tax increased by 16.8% y/y. Contrary to expectations a dividend was declared for FY17, amounting to 19.2cps.

Total revenues for FY17 were 0.6% less than anticipated in the IPO Prospectus (prospectus) last year. However, by most other measures the income statement performance surpassed the prospectus expectations. Net interest income after impairments beat expectations by 18.3%, operating profit before tax was 8.2% above expectations and profit for the year came in 13.8% above expectations. Considering the tough economic environment last year these results are very positive from one of the country's newest listings.

LHN's FY17 results compare well to FY16. Interest income increased by 25.2%, while net interest income after impairments increased by 42.2%. Profit before tax, increased by 16.8%, in line with basic earnings per share.

Operating expenses increased by a relatively large 16.1%. The cost to income ratio increased from 23% in FY16 to 24% in FY17. Some of the costs associated with the listing of LHN are once off costs while some of the operating cost increases are likely to continue to grow as LHN moves into the formal banking space (salaries and wages, and rental, etc).

Advances increased by 14.4% (N$305.5m) in FY17 to N$2.42bn, and due to improvement in the quality of loans and advances and high recovery rates for impairments, an impairment release of N$9.6m was recognised. Advances growth was well above that of private sector credit extension in 2017.

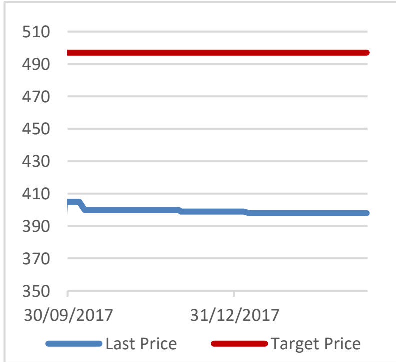
Deposits due to customers are included in funding sources for the first time, contributing N$90.2m. These consist almost exclusively of term deposits in FY17. The first current accounts have also been opened during the year but are insignificant at present. An unsecured loan of N$63.6m, bearing interest at prime plus 0.3%, was extended to LHN from an undisclosed commercial bank. This loan matures on 31 January 2019. In addition to these funding sources intercompany payables due to Letshego Holdings Limited increased by N$107.7m.

LHN reported a total capital adequacy ratio of 68.8% in FY17, down from 71.8% in FY16. This is a positive development as the business is overcapitalised at present. We would expect this ratio to continue to decline as LHN grows its deposit base. Retained earnings make up the bulk of tier 1 capital.

Non-performing loans decreased from 4.4% in FY16 to 3.9% in FY17. Recoveries in FY17 surpassed amounts written off, and due to strong recoveries over the last two periods an impairment charge release of N$9.5m was recognised. This indicates an improvement in the quality of the advances book according to management.

Pending a full review of the LHN results our LHN target price remains unchanged in this initial impression. This report does thus not constitute a change in recommendation which will only be updated in the full review.

LHN Share Price vs Target Price (c)



Dividends

Notice is hereby given that a dividend of 19.2 cents per ordinary share was declared for the period ended 31 December 2017.

- Last day to trade: 6 April 2018

- Payment date (on or about): 30 April 2018

***Please note that the author of this report holds a position in LHN.**

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