



LETSHEGO HOLDINGS (NAMIBIA) LTD

FY19 Initial Impression

March 2020



Research Analyst:

Danie van Wyk
danie@ijg.net
+264 61 383 534

Letshego Holdings (Namibia) Ltd

FY19 Initial Impression

Target Price (c) 437

Current Price (c) 249

Year End 31 December	2017	2018	2019	F2019	F2020	Recommendation	BUY
Net interest income (N\$ million)	471	479	579	535	542	NSX Code	LHN
Non-interest income (N\$ million)	207	255	230	261	269	Market Cap (N\$m)	1,245
Profit after tax (N\$ million)	385	381	451	416	419	Shares in Issue (m)	500
Normalised HEPS (c)	71.7	76.2	77.0	83.2	83.9	Free float (%)	22
DPS (c)	19.2	23.5	22.6*	25.6	25.9	52 week high	385
DY (%)	4.8	6.7	9.1*	7.7	7.8	52 week low	249
P/E	5.2	4.6	3.2	4.0	3.9	Expected Total Return (%)	75.5%
P/B	1.1	0.8	0.6	0.8	0.7		

Source: LHN, IJG Securities

*Forecasted – more info in the Dividends section

FY19 Initial Impression

Letshego Holdings (Namibia) Ltd (LHN) released **unaudited** results for the full year ended 31 December 2019 (FY19). Earnings and headline earnings per share decreased by 4.3% y/y from 94cps to 90 cps, and profit after tax fell by 3.8% y/y to N\$451.1 million. The lower profit has resulted in LHN's ROE falling from 20% to 16% and ROA declining from 15% to 13% in FY19.

On the 6th of February, LHN announced that the company's auditors, Ernst and Young resigned on 5 February 2020 with immediate effect. According to the SENS announcement, the Bank of Namibia (BoN) had declined the application for the appointment of Ernst and Young. PricewaterhouseCoopers was subsequently nominated as auditors, pending regulatory approval from the BoN. This event has resulted in LHN only being able to release unaudited full-year results. Management has decided to postpone a final dividend announcement until the audited financial statements for the year are released. We, however, expect LHN to declare a final dividend of around 22.55cps (FY18: 23.5cps), based on the company's historic payout ratio.

Advances to customers rose by N\$354.7 million or 13.9% y/y, bringing the total advances to customers to N\$2.9 billion, coming in well-above our expectations. The credit impairment charge fell by 49.3% y/y to N\$9.2 million in FY19. Non-performing loans increased from 3.6% to 3.9% of gross advances during the period.

The double-digit growth in advances has unfortunately not translated into substantially higher interest income from lending activities, which increased by only 0.5% y/y to N\$599.9 million. This was below our expectations. It is possible that the majority of the advances were only extended towards the end of the reporting period, meaning that the increase in interest income will likely only be seen in future reporting periods. Net interest income increased 2.2% y/y to N\$579.3 million.

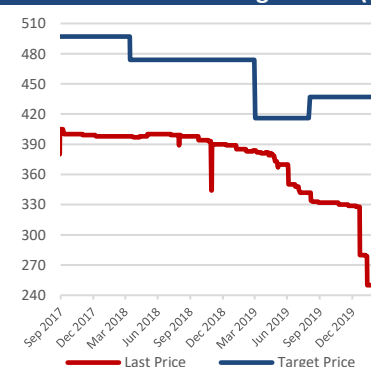
Operating expenses rose by N\$18.6 million or 9.2% y/y to N\$213.8 million. The largest of these increases was employee benefit expenses which increased by 29.7% y/y to N\$63.9 million. LHN's cost to income ratio increased from 23% in FY18 to 26% in FY19, as a result of operating expenses increasing at a quicker rate than income.

The company's banking operations seem to be picking up steam slowly, but surely. The bank's deposit customers increased from 2,126 to 12,459 in FY19. Deposits due to customers fell from N\$74.7 million in FY18 to N\$43.4 million at FY19, but is higher than the N\$14.2 million reported in 1H19. The value of card transactions increased from N\$10 million in FY18 to N\$154 million in FY19, while card transaction volumes increased from 20,952 to 162,918. According to the results, LHN currently has 4 deposit-taking and 12 non-deposit-taking branches.

LHN now discloses irredeemable preference shares of N\$215.1 million under non-controlling interest. It should be noted that these aren't newly issued preference shares. The shares have been a part of LHN's non-controlling interest since the company's IPO in 2017. The only difference is that LHN now specifically discloses it as irredeemable preference shares. LHN previously only disclosed redeemable preference shares which originated from the intercompany loan conversion. No additional preference shares were redeemed in the second half of the year, after N\$330.8 million worth was redeemed in 1H19.

Overall the results were more or less in line with our expectations, with growth in advances exceeding our expectations, but profit after tax falling short. Pending further analysis of the FY19 results and management discussions, we maintain our BUY recommendation on LHN. Our target price and recommendation will be revised with our full report on the FY19 results, as will the table at the top of the page.

LHN Share Price vs Target Price (c)



Dividends

Notice pertaining to a final dividend will be made at the time of release of the audited financial statements for the year.

IJG Holdings

Group Chairman
Mathews Hamutenya
Tel: +264 (61) 256 699

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

Group Financial Manager
Helena Shikongo
Tel: +264 (61) 383 528
helena@ijg.net

IJG Securities

Managing Director
Lyndon Sauls
Tel: +264 (61) 383 514
lyndon@ijg.net

Equity & Fixed Income Dealing
Leon Maloney
Tel: +264 (61) 383 512
leon@ijg.net

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

Dylan van Wyk
Tel: +264 (61) 383 529
dylan@ijg.net

Financial Accountant
Tashiya Josua
Tel: +264 (61) 383 511
tashiya@ijg.net

Financial Accountant
Gift Kafula
Tel: +264 (61) 383 536
gift@ijg.net

Danie van Wyk
Tel: +264 (61) 383 534
danie@ijg.net

Settlements & Administration
Annetjie Diergaardt
Tel: +264 (61) 383 515
anne@ijg.net

IJG Wealth Management

Managing Director
René Olivier
Tel: +264 (61) 383 522
rene@ijg.net

Portfolio Manager
Ross Rudd
Tel: +264 (61) 383 523
ross@ijg.net

Money Market & Administration
Emilia Uupindi
Tel: +264 (61) 383 513
emilia@ijg.net

Wealth Manager
Andri Ntema
Tel: +264 (61) 383 518
andri@ijg.net

Wealth Administration
Lorein Kazombaruru
Tel: +264 (61) 383 521
lorein@ijg.net

Wealth Administration
Madeline Olivier
Tel: +264 (61) 383 533
madeline@ijg.net

Wealth Manager
Wim Boshoff
Tel: +264 (61) 383 537
wim@ijg.net

IJG Capital

Managing Director
Herbert Maier
Tel: +264 (61) 383 522
herbert@ijg.net

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

Business Analyst
Mirko Maier
Tel: +264 (61) 383 531
mirko@ijg.net

Business Analyst
Lavinia Thomas
Tel: +264 (61) 383 532
lavinia@ijg.net

Business Analyst
Fares Amunkete
Tel: +264 (61) 383 527
fares@ijg.net

IJG Advisory

Director
Jolyon Irwin
Tel: +264 (61) 383 500
jolyon@ijg.net

Business Associate
Jason Hailonga
Tel: +264 (61) 383 529
jason@ijg.net

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4th Floor, 1@Steps, C/O Grove and Chasie Street, Kleine Kuppe, Windhoek
P O Box 186, Windhoek, Namibia
Tel: +264 (61) 383 500 www.ijg.net

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