



LETSHEGO HOLDINGS (NAMIBIA) LTD

FY20 Initial Impression

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Letshego Holdings (Namibia) Ltd

FY20 Initial Impression

Target Price (c) 247

Current Price (c) 220

Year End 31 December	2018	2019	2020	F2020	F2021	Recommendation	HOLD
Net interest income (N\$ million)	479	579	496	510	563	NSX Code	LHN
Non-interest income (N\$ million)	255	230	168	100	134	Market Cap (N\$ m)	1,100
Profit after tax (N\$ million)	381	451	341	281	358	Shares in Issue (m)	500
HEPS (c)	76.2	80.2	68.2	49.5	71.6	Free float (%)	22
DPS (c)	23.5	22.5	TBA	15.7	17.9	52 week high	300
DY (%)	6.7	8.3	TBA	6.5	6.7	52 week low	219
P/E	4.6	3.4	3.9	4.4	4.3	Expected Return (%)	12.3%
P/B	0.8	0.6	0.4	0.5	0.5		

Source: LHN, IJG Securities

FY20 Initial Impression

Letshego Holdings (Namibia) Ltd (LHN) released unaudited unreviewed results for the year ended 31 December 2020 (FY20). Earnings and headline earnings per share declined by 15.0% y/y from 80cps (restated) in FY19 to 68cps, while profit after tax contracted by 14.9% y/y to N\$341.4 million. Total income fell by 6.7% y/y. The lower profit has resulted in LHN's ROE falling from 19.9% in FY19 to 15.0% in FY20 and ROA declining from 11.7% to 8.8%.

Pending the release of the full audited financial statements, LHN did not declare a dividend with this results release. We do, however, expect LHN to declare a final dividend of around 17.07cps (FY19: 22.50 cps), based on the company's historic pay-out ratio.

In 1H18, LHN converted an intercompany loan due to LHL (parent company in Botswana) to preference shares. During 2019, it was discovered that the conversion did not comply with the Companies Act and the Listing Requirements of the Namibia Stock Exchange. According to LHN, the company had one of two choices: either go through a court process to validate the conversion or to reverse the transaction. LHN elected to go down the second route, reversing the preference shares back to an intercompany loan, thereby restating the financials from FY18 onwards (Please see page two of this report of the impact of the restatements on the financial statements). For the purposes of determining EPS and HEPS movements IJG has been viewing these numbers as before the conversion to preference shares due to the impact on dividends and earnings being similar (bar some tax implications) whereas LHN did not explicitly announce these earnings ratios as earnings attributable to ordinary shareholders.

Growth in advances to customers surprised to the upside, increasing by N\$685.6 million or 23.4% y/y, bringing the total advances to customers to N\$3.62 billion. Most of this growth was achieved in the second half of the year. As was the case last year, the strong growth in advances has not translated into substantially higher interest income from lending activities, which increased by only 3.4% y/y to N\$620.2 million. Net interest income fell by 2.0% y/y to N\$495.7 million. Microloans are issued at a fixed rate, but the fact that a significant portion of the book is repriced (roughly 46% every six months) with top ups means that LHN is not immune to the margin compression caused by interest rate cuts.

Cell captive income came in at N\$167.8 million, above our very conservative forecast of N\$100.3 million. It is however still down 27.1% y/y from the N\$230.0 million reported in FY19. From a prior discussion with management, regulatory changes late in 2019 prevented LHN from charging customers insurance premiums for several months. Management have however informed us that LHN have once again been able to charge insurance premiums since April 2020.

Total operating expenses grew by 9.8% y/y to N\$234.7 million in FY20, outpacing the growth in revenue. The largest of these increases was employee benefit expenses which increased by 10.2% y/y to N\$70.4 million. LHN's cost to income ratio resultantly increased from 26.1% at FY19 to 29.8% at FY20.

LHN reported very strong deposit growth in the last six months. Current account deposits almost tripled, increasing from N\$32.8 million at 1H20 to N\$102.6 million, while term deposits increased from N\$30.0 million to N\$85.3 million. The company's cash position also strengthened considerably during the last six months, increasing from N\$139.4 million at 1H20 to N\$468.3 million at FY20. This stems from an increase in a loan from FNB. Given the relatively small increase in interest expense, it is likely that the funds came in towards the end of the financial year and would likely have been utilised soon afterwards as the loan matured in the beginning of March this year.

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.



Overall, LHN's earnings came in in-line with our expectations, with advances growth exceeding our forecasts. Pending further analysis of the FY20 results and management discussions, we maintain our **HOLD** recommendation on LHN. Our target price and recommendation will be revised with our full report on the FY20 results, as will the forecasts in table at the top of the page.

Restated Income Statement (N\$ '000)

	FY19 (Restated)	Change from Original	FY20
Interest Income from Lending Activities	599,896	-	620,240
Credit Impairment Charge	-9,236	-	-31,278
Interest After Impairment	590,660	-	588,962
Other Interest Income	25,302	-	5,465
Interest Expense	-110,011	-73,393	-98,748
Net Interest Income after Impairment	505,951	-73,393	495,679
Fee Income	2,102	-	6,798
Other Operating Income	229,999	-	167,757
Employee Benefits	-63,889	-	-70,430
Other Operating Expenses	-149,954	-	-164,305
Operating Profit before Taxation	524,209	-73,393	435,499
Taxation	-123,011	+23,486*	-94,087
Profit for the Year	401,198	-49,908	341,412

*This indicates a tax benefit.

Extract from Balance Sheet (N\$ '000)

	FY18 (Restated)	Change from Original	FY19 (Restated)	Change from Original	FY20
LIABILITIES					
Intercompany Payables	922,929	+799,530	617,197	+476,245	587,411
Total Liabilities	1,404,125	+800,005	1,036,006	+477,467	1,787,396
SHAREHOLDERS' EQUITY					
Non-Controlling Interests	215,085	-795,258	215,085	-465,258	215,085



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