



LETSHEGO HOLDINGS (NAMIBIA) LTD

FY22 Initial Impression

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Letshego Holdings (Namibia) Ltd

FY22 Initial Impression

Target Price (c) 362
Current Price (c) 352

Year End 31 December	FY19A	FY20A	FY21A	FY22A	FY22E	FY23E	Recommendation	BUY
Net interest income (N\$ million)	506	483	483	443	459	467	NSX Code	LHN
Non-interest income (N\$ million)*	232	155	237	255	301	326	Market Cap (N\$ m)	1,325
Profit after tax (N\$ million)	401	321	303	350	283	366	Shares in Issue (m)	500
HEPS (c)	80.2	64.2	61.7	70.1	56.6	73.1	Free float (%)	22
DPS (c)	22.5	22.5	45.5	70.1	42.4	54.8	52 Week high (c)	352
DY (%)	8.3	11.3	23.9	20.0	14.1	15.7	52 Week low (c)	190
P/E	3.4	2.3	3.1	5.0	5.3	4.8	Expected Total Return (%)	18.4%
P/B	0.6	0.4	0.3	0.6	0.5	0.6		

Source: LHN, IJG Securities
*Fee and other income

FY22 Initial Impression

Letshego Holdings (Namibia) Ltd (LHN) released results for the year ended 31 December 2022 (FY22). Earnings and headline earnings per share rose by 15.6% y/y from 60.6cps in FY21 to 70.1 cps in FY22. Profit after tax grew from N\$303.2 million in FY21 to N\$350.4 million in FY22 on the back of improved non-interest income and shrinking management fees. LHN's ROE rose from 12.2% in FY21 to 13.6% in FY22 while ROA increased marginally from 5.49% to 5.67% over the period. LHN declared a final dividend of 44.89 cps payable on 15 June 2023, bringing the total dividend declared in respect of the FY22 year to 70.09 cps, registering a 100% pay-out ratio (FY21: 75%).

Total income rose by 17.3% y/y to N\$969.0 million in FY22, led by strong growth from non-interest income while interest income from lending activities came in somewhat underwhelming when compared to our expectations. Interest income from advances to customers rose by N\$49.0 million or 8.4% y/y to N\$631.4 million. Net interest income after impairments however fell by 8.4% y/y to N\$443 million, after accounting for a credit impairment of N\$10.4 million (FY21: N\$16.5 million) and borrowing costs of N\$214 million (FY21: N\$121 million). Other interest income saw a notable jump from N\$6.2 million in FY21 to N\$36.5 million in FY22 as a result of increased investment in government securities and rising interest rates amongst others. Dividend income from the cell captive arrangement reached N\$248.4 million, up by 21.4% y/y from the N\$204.6 million recorded in FY21. Fee income grew by an impressive 95% y/y to N\$46.6 million owing to increased transactional volumes from LHNs digital platform, a sign that LHN's investment in its "digital mall" is starting to pay off.

LHN again reported double digit growth on its advances book, although slowing for the second consecutive year running. The loan book (net of impairments) grew by 11.1% y/y (FY21:18.56%) to N\$4.75 billion. Most of the growth was achieved in the second half of the year, with the loan book expanding by N\$255.6 million during the final six months (FY21: N\$410.0 million), up by 16.8% when compared to 1H22. The company also reported a notable increase in its investments in government securities from N\$500.0 million in FY21 to N\$648.7 million in FY22, while maintaining a sizable cash position with cash and cash equivalents ending the year on N\$320.8 million (FY21: N\$287 million). Overall, LHN managed to shore up its asset base from N\$5.52 billion in FY21 to N\$6.18 billion in FY22, representing a 11.93% increase year-on-year.

LHN financed the asset growth through a combination of additional customer deposits, and borrowings. Deposits grew by 38.8% y/y to N\$535.7 million in FY22. Term deposits which account for the lion's share of the deposits grew by N\$144.2 million to N\$507.6 million, while current accounts deposits increased by 23.7% y/y to N\$28.1 million. During the year, LHN raised an additional N\$200.0 million through its listed bond program, bringing its total amount outstanding on the bond programme to N\$433.2 million at the end of FY22. Borrowings from commercial banks increased sharply during the year. Bank debt increased by N\$308.9 million in FY22, bringing the total debt due to commercial banks to N\$1.58 billion at the end of FY22. Intergroup borrowings saw a promising decline during the year. The company managed to reduce its reliance on this relatively expensive source of funding by N\$91.6 million leaving only N\$77.9 million

LHN Share Price vs Target Price (c)



Dividends

A final dividend of 44.89 cents per ordinary share has been declared.

- Last Day to Trade: 26 May 2023
- Ex-Dividend Date: 29 May 2023
- Record Date: 02 June 2023
- Payment Date: 15 June 2023





0,0005	4,85%
0,0003	13,04%
0,001	50,00%
0,0003	14,29%
0,0005	12,50%

remaining. Overall, borrowings increased by 27.4% y/y to N\$2.52 billion in total, most of which was issued during the first half of the year. Borrowing costs surged by 76.9% y/y to N\$214.4 million given the sharp rise in interest rates and growing floating rate funding base.

Total operating expenses contracted for the first time since LHN's listing and beat our expectations. LHN's total operating expenses fell by 2.7% y/y to N\$352.6 million in FY22. Most notable was the decline in management fees which fell by 38.1% y/y to N\$34.9 million due to improved cost allocation within the larger Letshego group according to management. Employee benefits, which make up about 25% of the total operating costs, increased by a composed 4.1% y/y to N\$84.3 million, the lowest annual employee benefit increase in percentage terms recorded by LHN since going public. LHN's cost-to-income ratio dropped partially as a result of the cost containments but at 37.93% (FY21: 44.2%) remained markedly higher than its historical average of about 27.0%.

Overall, LHN posted solid results with strong growth in advances and decent earnings performance. The non-lending side of the business delivered standout results with fee income and other income growth outpacing the decline in earnings from lending activities which deteriorated after taking into consideration the swelling borrowing costs. We expect LHN's net interest income to recover over the near term from the endowment effect which has yet to materialise in full in our view. We also expect LHN to continue focusing on growing the banking side of the business, in particular its affordable home loan business, and to leverage its digital platform for overall expansion in this market. In view of improved earnings projections, we have revised our target price for LHN upwards to N\$362 from N\$301 previously. Our target price is derived using a panel of standard valuation techniques, a cost of equity of 20.2% and a long-term sustainable return on equity of 17.0%. Coupled with total expected dividends of 54.8 cps in FY23, we derive a potential total return of 18.4%. Based on this, we maintain our **BUY** recommendation on LHN.



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