SBN HOLDINGS LIMITED
1H20 Initial Impression
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Standard Bank Namibia Holdings

1H20 Initial Impression

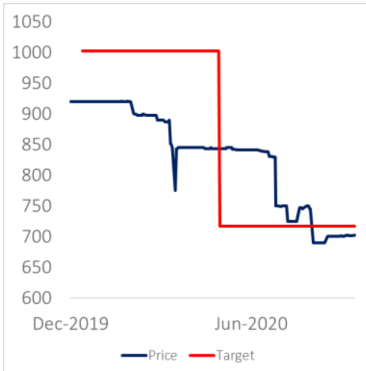
Year End 30 June	2019	F2020	F2021	F2022
Net interest income (N$m)	1,333	1,392	1,352	1,510
Non-interest income (N$m)	1,263	1,389	1,528	1,681
Profit (N$m)	613	603	639	809
HEPS (c)	117	115	122	155
DPS (c)	23	0	51	65
DY (%)	3.3	0	7.3	9.3
P/E (x)	6.0	6.1	5.7	4.5
P/BV (x)	0.9	0.8	0.7	0.7

Target Price (c)	***717***
Current Price (c)	702
Recommendation	SELL
NSX Code	SNO
Market Cap (N$m)	3,668
Shares in Issue (m)	522
Free float (%)	14.9
52 week high	921
52 week low	690
Exp Total Return (%)	2.2

Source: SNO, IJG, Bloomberg

Standard Bank Namibia Holdings Limited released their interim results for the period ended 30 June 2020 which evidenced the strain the company is under as a result of the COVID-19 pandemic and resultant lockdowns. Profit after tax declined by 19.6% y/y down from N$282.4 million to N$226.9 million for the half-year, with return on equity dipping down to 11.1% from the 16.7% recorded in 1H19. Earnings per share declined by 22.8% to 44 cps, while no interim dividends were declared.

Share vs Target Price



(N$'000)	1H20	1H19	Δ%
Net interest income	630 441	658 749	(4.3)
Non-interest revenue	586 539	608 475	(3.6)
Total income	**1 216 980**	**1 267 224**	**(4.0)**
Credit impairment charges	(151 180)	(178 482)	(15.3)
Net income before operating expenses	**1 065 800**	**1 088 742**	**(2.1)**
Operating expenses	(742 897)	(689 672)	7.7
Net income	**322 903**	**399 070**	**(19.1)**
Share of profit from investment		1 746	(100.0)
Profit before taxation	**322 903**	**400 816**	**(19.4)**
Taxation	(96 012)	(118 445)	(18.9)
Profit after taxation	**226 891**	**282 371**	**(19.6)**

Source: SNO

Gross loans and advances declined by 3.3% y/y to N$22.43 billion, with the personal and business banking segment seeing a decline of 0.3% y/y while corporate and investment banking saw a 13.2% y/y decrease in the size of their advances book. Deposits increased marginally, by 0.7% y/y to N$26.38 billion, with the growth emanating mostly from retail deposits such as current accounts (+16.9% y/y) and call deposits (+11.7% y/y) as well as term deposits (31.0% y/y), while relatively more expensive NCD funding declined by 28.5% y/y. The decline in the advances book, combined with a sharp decrease of 275 basis points in the repo rate during the reporting period, resulted in net interest income declining by 4.3% y/y.

The bank's non-performing loans have increased from 5.9% to 6.7% of total gross advances since the end of FY19. As a result, the credit impairment charge amounted to N$151.2 million or 1.3% of gross advances This is, however, 15.3% y/y lower due to the high base set in 1H19 following sector-specific impairments that resulted in a N$71 million impairment being raised.

Non-interest revenue was not unscathed, dropping by 3.6% y/y to N$586.5 million due to lower transactional volumes, resulting in a 6.7% y/y decline in net fee and commission income. The decline was driven by lower revenues and higher cost as fee and commission revenue declined by 4.7% y/y while fee and commission expenses increased by 5.0% y/y.

Operating expenses increased by 7.7% y/y to N$743 million, driving the cost to income ratio up to 61.0% from 54.9%. Most of the increases were due to higher IT expenses (+74.9% y/y), depreciation (+16.5% y/y) and amortisation (+48.4% y/y). Depreciation and amortisation were in line with the increase in intangible assets and property, while the higher IT spend was as a result of the upgrading of security and capabilities of digital channels. Staff costs, which make up 54% of total expenditure, declined by 1.0% due to a reduction in headcount.

The bank remains well capitalised with a capital adequacy ratio of 15.6%. Additionally, it would appear as if the company is in a comfortable liquidity position considering the increase in financial assets on the balance sheet and the currently favourable liquidity environment. However, the macroeconomic environment remains difficult and very uncertain, risk remains to the downside. Although the share price has declined substantially, it is not considerably below our middle case price target, updated in May. We maintain our **SELL** recommendation on SBN Holdings pending management consultations and the release of our full report in which our forecasts and target price will be revised.

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