



SBN HOLDINGS LIMITED

FY20 Results Review

April 2021

Research Analyst:

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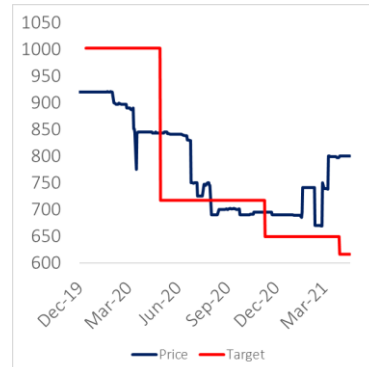
0,0005	4,85%
0,0003	13,04%
0,201	50,00%
0,0003	14,29%
0,0005	12,50%

Standard Bank Namibia Holdings FY20 Initial Impression					Target Price (c)	616
					Current Price (c)	800
Year End 30 June	FY20A	FY21E	FY22E	FY23E	Recommendation	SELL
Net interest income (N\$m)	1,174	1,297	1,338	1,378	NSX Code	SNO
Non-interest income (N\$m)	1,193	1,230	1,284	1,347	Market Cap (N\$m)	4,180
Profit (N\$m)	421	524	577	627	Shares in Issue (m)	522
HEPS (c)	81	100	110	120	Free float (%)	15.0
DPS (c)	35	42	46	50	52 week high	845
DY (%)	4.4	5.3	5.8	6.3	52 week low	669
P/E (x)	9.9	8.0	7.2	6.6	Expected Total Return (%)	-17.7
P/BV (x)	1.0	1.0	0.9	0.9		

Source: SNO, IJG, Bloomberg

- SNO's FY20 results were below IJG's expectations, largely due to top-line contraction which was greater than anticipated.
- PAT declined by 31.3% y/y due to the contraction in both NII and NIR.
- A final dividend of 14cps was declared, bringing the full-year dividend to 35cps.
- ROE stood at 10.4% for FY20.
- NII declined by 11.9% y/y as interest income declined by 21.8% y/y while interest expense was down 30.9%.
- NIR was down 5.6% y/y as lower transaction volumes impacted fee income.
- Credit impairment charges were up 6.2% y/y, on an already high base, and amounted to 1.01% of gross advances.
- Operating expenditure increased by 1.0% y/y as staff costs were trimmed by 7.3% y/y, however, IT costs were up by 50.8% y/y.
- The outlook for the Namibian economy is for a gradual recovery over the next few years.
- As economic growth is expected to remain muted, we do not expect SNO's top line to grow substantially over the next few years.
- Credit losses are expected to remain elevated, moderating to about 0.85% of the book by FY23.
- ROE is expected to recover gradually, but only reach 13.5% by FY23.
- IJG derived a one-year target price of 616cps for SNO, translating to a total return of -17.7% over the next twelve months.
- Even in the bull case scenario, the current 798cps price seems overvalued in IJG's opinion.
- Resultingly IJG maintains its **SELL** recommendation in SNO.

Share vs Target Price



Dividends

An ordinary dividend of 14 cents per share has been declared

Last day to Trade: 16 April 2021

Ex-Date: 19 April 2021

Record date: 23 April 2021

Payment date: 7 May 2021

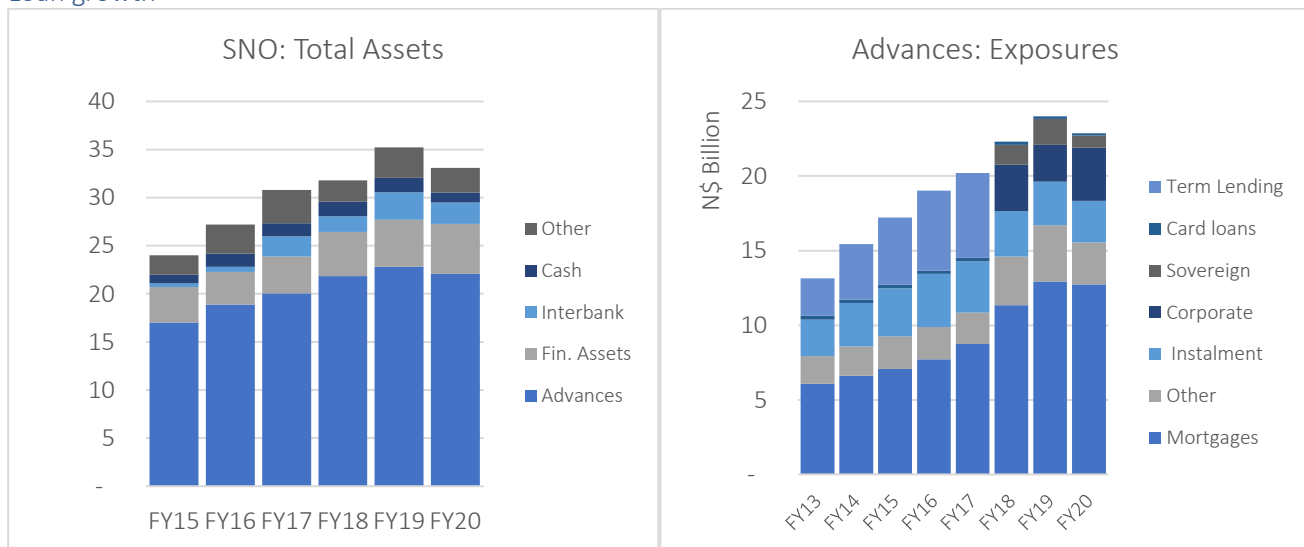


Key Drivers

Year End 30 June	FY19A	FY20A	FY21E	FY22E	FY23E
Advances Growth	4.4%	-3.2%	1.1%	1.9%	3.1%
NIM	4.3%	3.8%	4.2%	4.2%	4.3%
NIR Growth	12.2%	-5.6%	3.1%	4.4%	4.9%
CLR	1.05%	1.15%	1.05%	0.95%	0.85%
Cost Growth	2.50%	1.0%	2.0%	2.5%	3.0%
ROE	16.9%	10.4%	12.2%	12.9%	13.5%
HEPS	122	81	100	110	120
HEPS Growth	11.1%	-33.9%	24.5%	10.0%	8.8%

Source: SNO, IJG

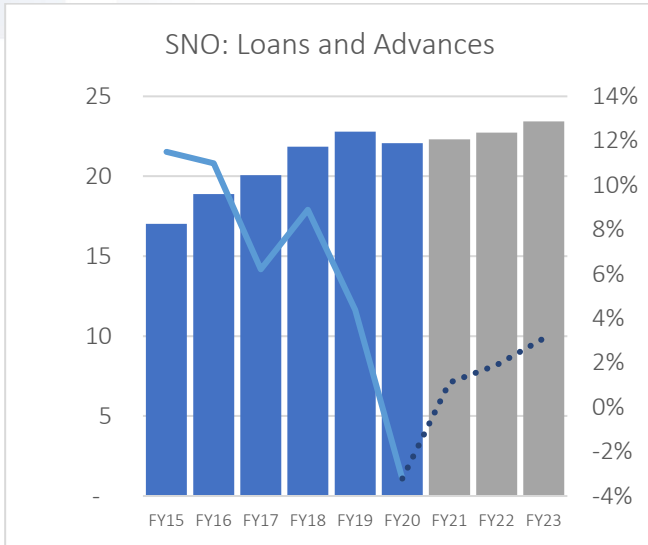
Loan growth



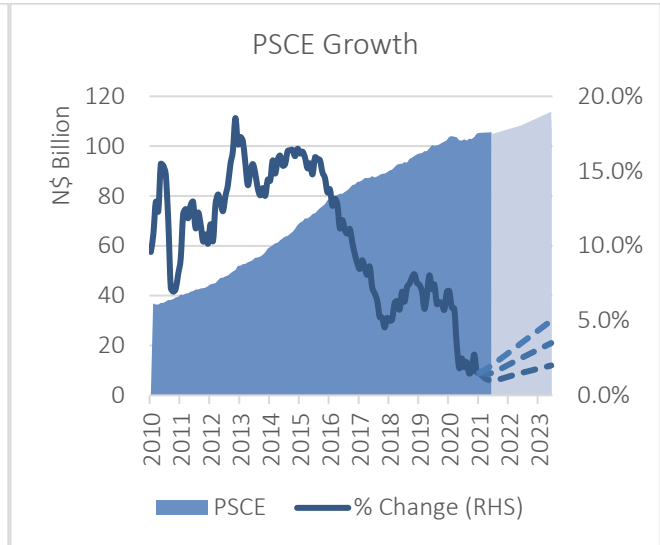
Source: SNO, IJG

Source: SNO, IJG

- SNO's total assets declined by 6.1% y/y or N\$2.13 billion in FY20.
- Gross loans and advances to customers contracted by 2.2% y/y to N\$22.87 billion:
 - Mortgages contracted by 1.6% y/y to N\$12.73 billion, below industry growth of 1.7% y/y.
 - Vehicle and asset finance loans were down 2.6% y/y to N\$2.80 billion, which compares well with overall PSCE instalment finance, which declined by 7.7% y/y.
 - Sovereign loans contracted by 53.4% y/y to N\$805.2 million, due to the maturity of a large facility in the first half of the financial year.
 - Other loans and advances were down by 24.8% y/y to N\$2.84 billion.
 - The corporate segment was the only category that posted growth, increasing by a 43.7% y/y or N\$1.08 billion to N\$3.56 billion.
- Interbank advances declined by 21.1% y/y to N\$2.24 billion.
- Due to slowing advances growth, financial assets increased by 5.9% y/y to N\$5.20 billion and now make up 15.7% of the balance sheet.
 - 51.6% of this is made up of treasury bills and government bonds, while
 - 48.4% of this is made up of Mutual funds and unit-linked investments.



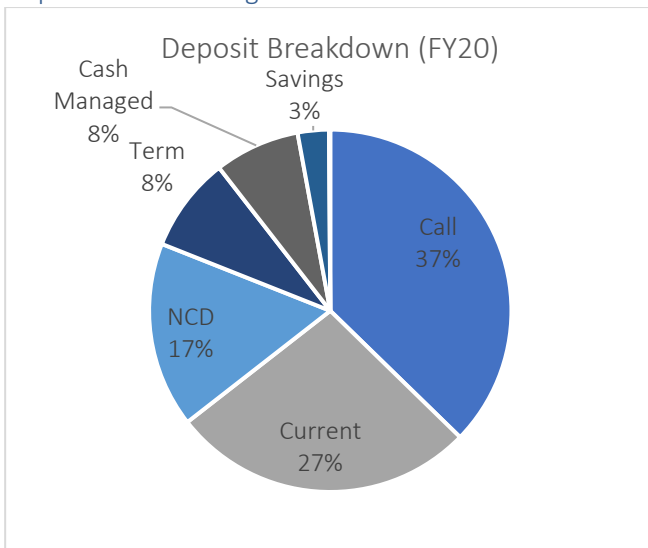
Source: SNO, IIG



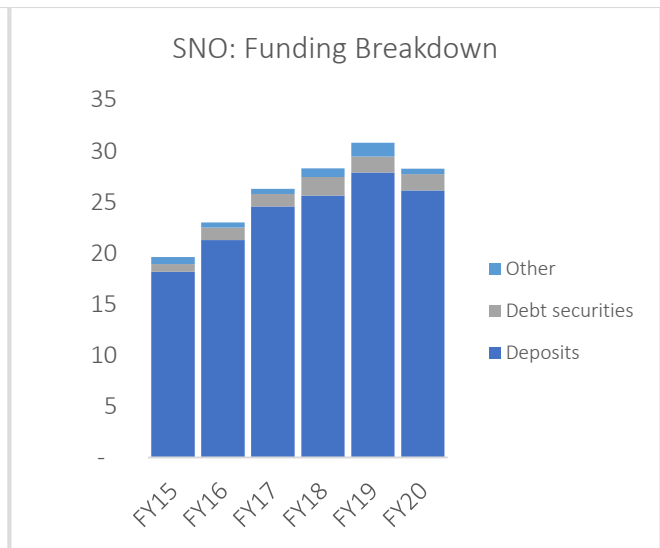
Source: BoN, IIG

- Low economic growth has translated into low PSCE growth, which amounted to 1.6% y/y as at 31 December 2020.
- IIG expects overall credit extension to remain subdued, increasing by less than 5% per annum over the next three years, with the base case looking at 1.5% - 3.5% annual growth.
- SNO's advances are expected to increase modestly, by 1.1% in FY21, increasing to 3.1% by FY23.
- IIG expects the corporate segment to continue being the driving force behind the growth, while mortgage loans and instalment credit will likely remain sluggish as household incomes will remain under pressure.

Deposits and Funding



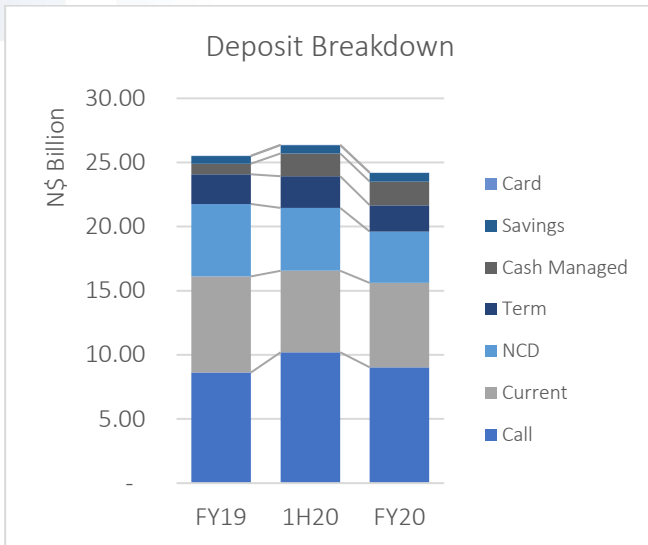
Source: SNO, IIG



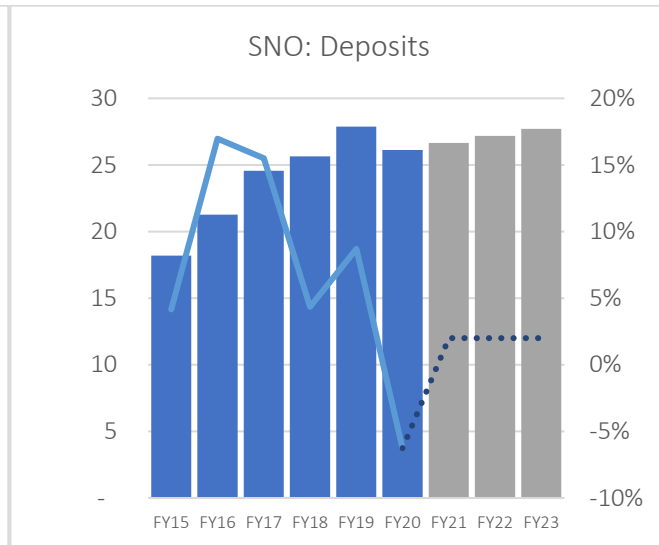
Source: SNO, IIG

- SNO's deposits from customers declined by 5.2% y/y to N\$24.21 billion.
- Interbank deposits were down 18.0% y/y to N\$1.91 billion.
- Cash managed accounts showed strong growth, up 123.2% y/y to N\$1.84 billion, and now make up 8.5% of total deposits.
- Call and current accounts decreased by 3.1% y/y to N\$15.61 billion, and make up 37.3% and 27.2% of the book, respectively.
 - SNO continues to have the best proportion of retail deposits relative to the other two listed Namibian banks with current, call and savings accounting for 67.3% of total deposits.
- NCD funding was cut by N\$1.65 billion or 29.2% y/y to N\$4.01 billion, now making up 16.5% of deposits, down from 22.2% in FY19.





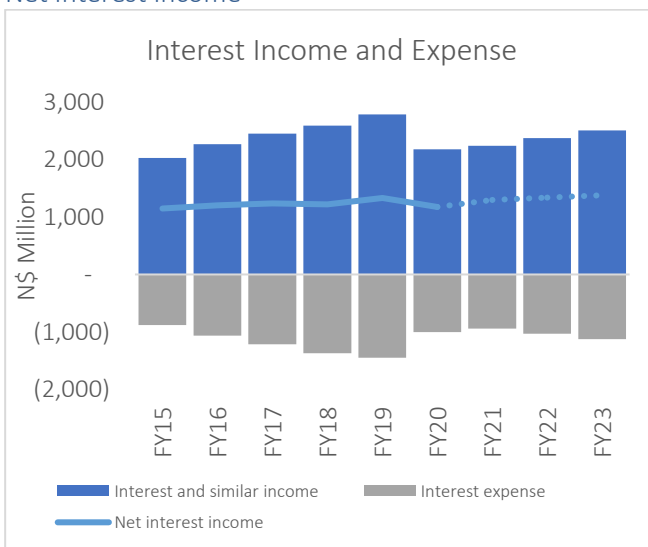
Source: SNO, IIG



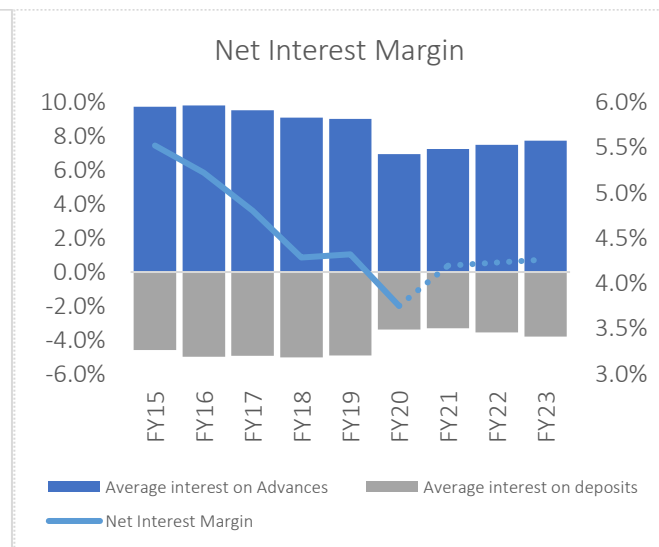
Source: SNO, IIG

- Debt securities were up 1.9% y/y as the N\$200.0 million nominal SBKN20 bond matured in October 2020 and was replaced with N\$300 million worth of SBNA23.
- In the FY21 financial year SNO will have the SBKN21, SBNA21 and SBNA22 maturing, which totals N\$1.21 billion nominal's worth of securities maturing in the current financial year.
 - IIG expects most of these exposures to be rolled for SNO to maintain adequate net stable funding under Basel III.
- We expect to see marginal growth of roughly 2.0% per annum in SNO's deposit book over the next three years.

Net Interest Income



Source: SNO, IIG



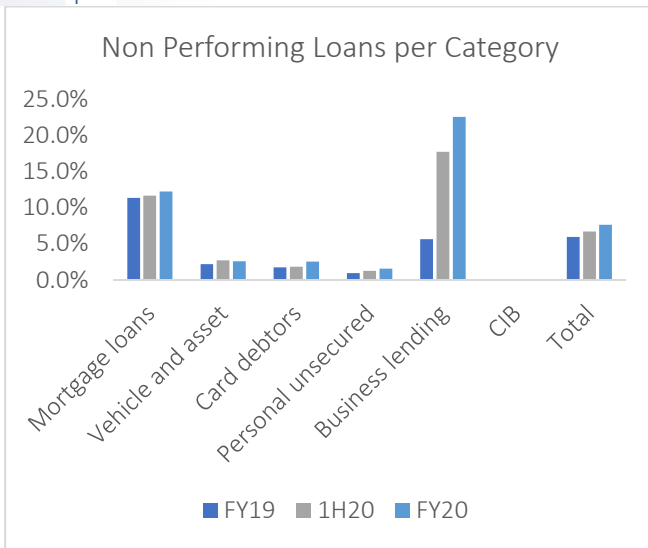
Source: SNO, IIG

- SNO's net interest margin was negatively impacted by the sudden reduction in interest rates in FY20.
- Interest income was down 21.8% y/y due to the lower repo rate.
- Interest expense was down 30.9% y/y due to the combination of a better funding mix and the reduction in interest rates.
- The NIM declined from 4.3% in FY19 to 3.8% in FY20 (based on IIG's calculations).
- IIG expects the NIM to improve slightly, as longer-term funding reprices, to around the 4.2% level in FY21, remaining steady thereafter.

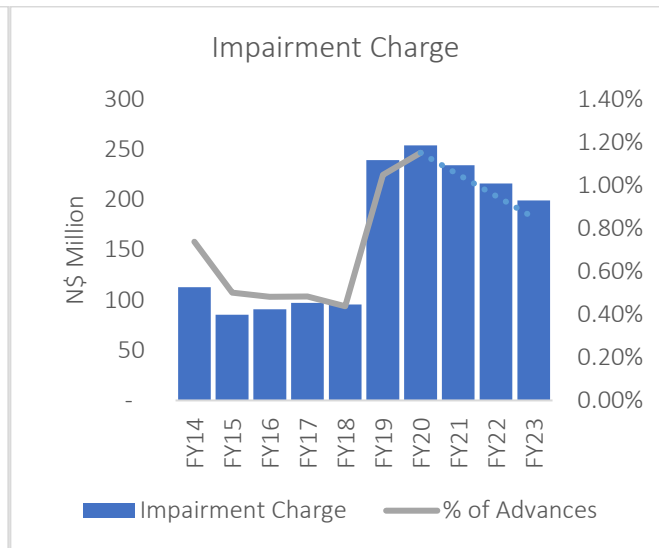




Impairments



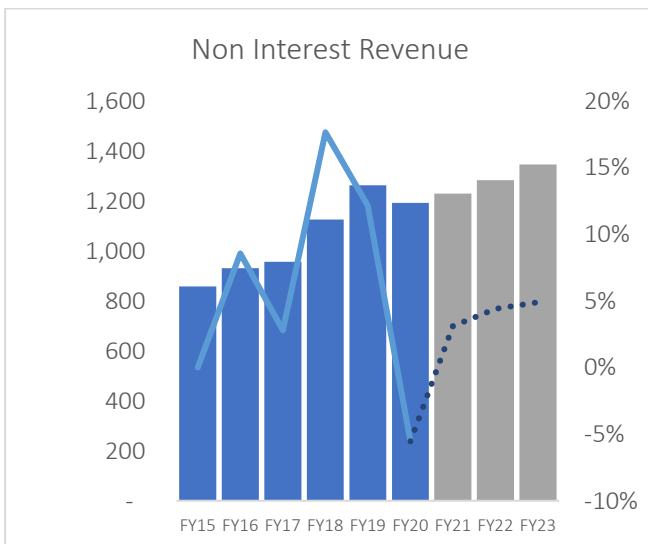
Source: SNO, IIG



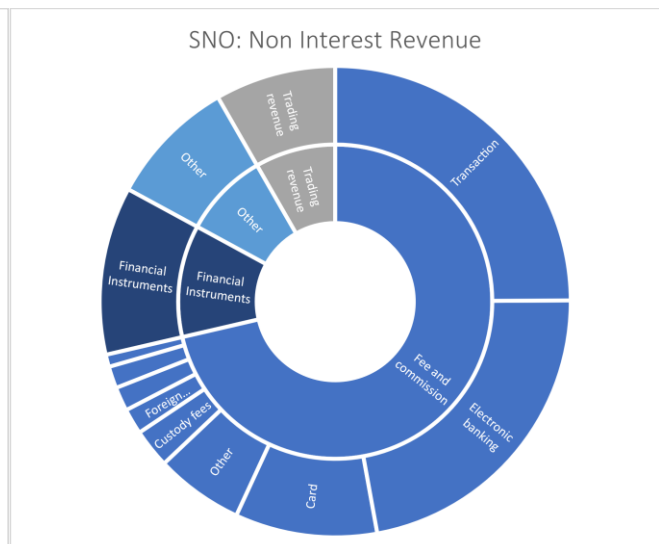
Source: SNO, IIG

- SNO’s nonperforming book increased further in FY20, following a sharp uptick in FY19.
- Total NPLs now sit at 7.6% of the total book, up from 5.9% a year ago.
- One large client in the real estate sector accounts for roughly 2.5 percentage points (or one third) of the NPLs.
- Currently, 12.2% of the mortgage book is nonperforming, while an alarming 22.6% of the PBB business lending book is more than 90 days in arrears.
- Mortgages account for 79.7% of total NPLs, and 60.1% of expected credit losses.
- FY20’s impairment charge increased by only 6.2% y/y to N\$253.9 million because of the high base set in FY19 as the one large client’s exposure was deemed nonperforming.
- We expect to see SNO’s impairment charge remain elevated but reduce as a proportion of the total book over the next three years as economic conditions are not expected to improve materially.
- The credit loss ratio is expected to moderate to 0.85% over the forecast horizon.

Non-Interest Revenue



Source: SNO, IIG



Source: SNO, IIG

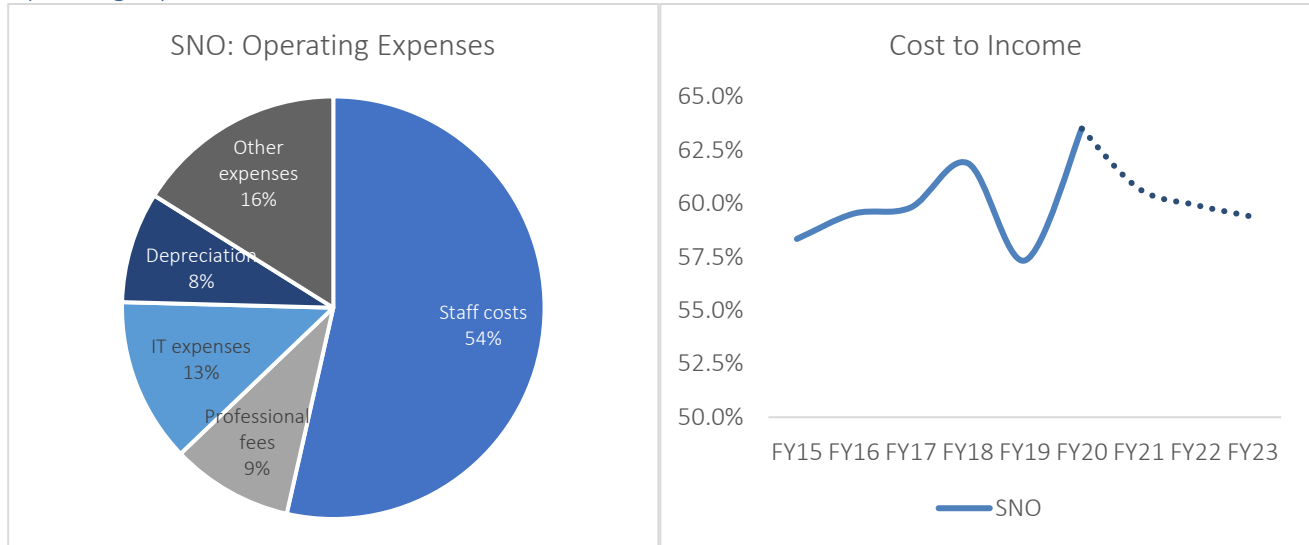
- NIR declined by 5.6% y/y from N\$1.26 billion to N\$1.19 billion in FY20.
- Decline mainly attributable to a decline in transactional volumes, with net fee and commission revenue down 3.7% y/y to N\$849.3 million.
 - Electronic banking and card transactions were down 0.45% y/y to N\$383.7 million.
 - Transaction based fee income declined by 11.0% y/y to N\$298.9 million.





- Trading revenue declined by 15.3% y/y to N\$99.6 million.
- Other NIR declined by 5.4% y/y to N\$105.4 million, largely due to lower profit share income.
- SNO has indicated that they will be pursuing a more transactionally focused business going forward as NII will remain depressed over the next few years.

Operating Expenditure

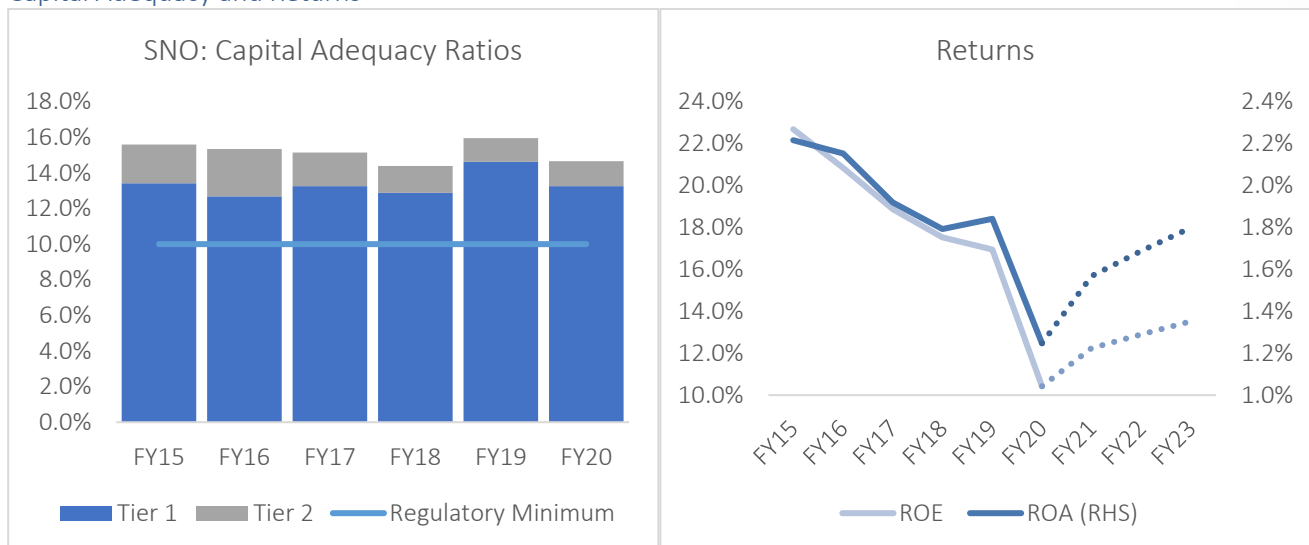


Source: SNO, IIG

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- Operating expenditure was well contained at only 1.0% y/y growth, totalling N\$1.50 billion for FY20.
- Staff costs were drastically reduced, declining by 7.3% y/y to N\$804.8 million.
 - Savings were due to a reduction in headcount as initially laid out in the IPO prospectus.
- On the other hand, IT-related costs increased substantially, up 50.8% y/y to N\$188.9 million.
 - According to the financial statements, the N\$63.6 million increase was to “enable the implementation of key digital transformation measures for a future-ready, agile and digital business”.
- Depreciation increased by 13.8% y/y to N\$127.6 million.
- The group’s cost to income ratio was negatively impacted, increasing to 63.5%, mostly due to the reduction in income.
- IIG expects the cost to income ratio to normalise to around the 60% level over the forecast horizon.
- IIG does not expect to see the original 55% cost to income target being achieved in the next five years.

Capital Adequacy and Returns



- SNO remains well capitalised, largely since risk-weighted assets are not increasing.





- Return on equity is expected to rebound from the current 10.4% to about 13.5% in FY23, which is below IJG's cost of equity of 15.2%

Valuation

	Value (N\$'000)	Price per Share	Price to Earnings	Forward PE	Price to Book	Forward PB	Dividend Yield	Forward DY	Weight
Residual Income	N\$3,842	7.35	9.1	7.3	0.9	0.9	4.8%	5.7%	25%
Dividend Discount	N\$3,079	5.89	7.3	5.9	0.7	0.7	5.9%	7.2%	25%
Justified Price to Earnings	N\$2,491	4.77	5.9	4.8	0.6	0.6	7.3%	8.8%	25%
Justified Price to Book	N\$3,462	6.63	8.2	6.6	0.8	0.8	5.3%	6.4%	25%
Weighted Average	N\$3,219	6.16	7.6	6.1	0.8	0.7	5.8%	7.0%	100%

- We derive a **target price of N\$616** per share based on our base case estimates.
- Coupled with expected dividends of 183cps over the next 12 months, we expect a **total return of -17.7%**.

	Bull Case			Bear Case		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Advances Growth	1.6%	2.4%	3.6%	0.6%	1.4%	2.6%
NIM	4.7%	4.7%	4.7%	3.7%	3.8%	3.8%
NIR Growth	3.1%	4.4%	4.9%	3.1%	4.4%	4.9%
CLR	0.85%	0.85%	0.85%	1.25%	1.25%	1.25%
Cost Growth	2.0%	2.5%	3.0%	2.0%	2.5%	3.0%
ROE	15.5%	15.9%	16.3%	9.1%	9.4%	9.6%
HEPS	126	134	141	75	82	88
HEPS Growth	56.2%	6.1%	5.4%	-7.0%	8.9%	7.5%

- IJG has also conducted a bull case and bear case scenario for SNO.
- Based on the above assumptions IJG calculates a **724 cps** target price given the **bull scenario** and a **547 cps** target price given the **bear scenario**.
- This translates to a **-2.9% total return given the bull case** and a **-27.7% total return given the bear case**.
- Based on our assessment of intrinsic value, we view the current share price as overvalued and retain our **SELL** recommendation on SNO.

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

Income Statement

Year-End June (N\$ 000)	FY19	FY20	FY21	FY22	FY23
<i>Interest and similar income</i>	2,784,482	2,178,139	2,240,558	2,371,637	2,505,445
<i>Interest expense and similar charges</i>	(1,451,939)	(1,003,677)	(944,039)	(1,034,117)	(1,127,236)
Net interest income before impairment of advances	1,332,543	1,174,462	1,296,519	1,337,520	1,378,210
% Growth	9.2%	-11.9%	10.4%	3.2%	3.0%
<i>Impairment of advances</i>	239,165	253,910	234,224	215,943	199,202
Net interest income after impairment of advances	1,093,378	920,552	1,062,295	1,121,577	1,179,008
<i>Non-interest revenue</i>	1,262,756	1,192,672	1,229,645	1,283,749	1,346,653
Income from operations	2,356,134	2,113,224	2,291,940	2,405,326	2,525,661
% Growth	4.7%	-10.3%	8.5%	4.9%	5.0%
<i>Operating expenses</i>	1,488,037	1,503,291	1,533,357	1,570,924	1,618,052
Net income from operations	868,097	609,933	758,583	834,402	907,609
<i>Share of profit from associate after tax</i>	3,929	(1,604)	-	-	-
Income before tax	872,026	608,329	758,583	834,402	907,609
<i>Indirect tax</i>	33,005	30,634	30,343	33,376	36,304
Profit before tax	839,021	577,695	728,240	801,026	871,305
<i>Direct tax</i>	225,523	156,510	203,907	224,287	243,965
Profit for the period	613,498	421,185	524,333	576,738	627,339
% Growth	11.1%	-31.3%	24.5%	10.0%	8.8%

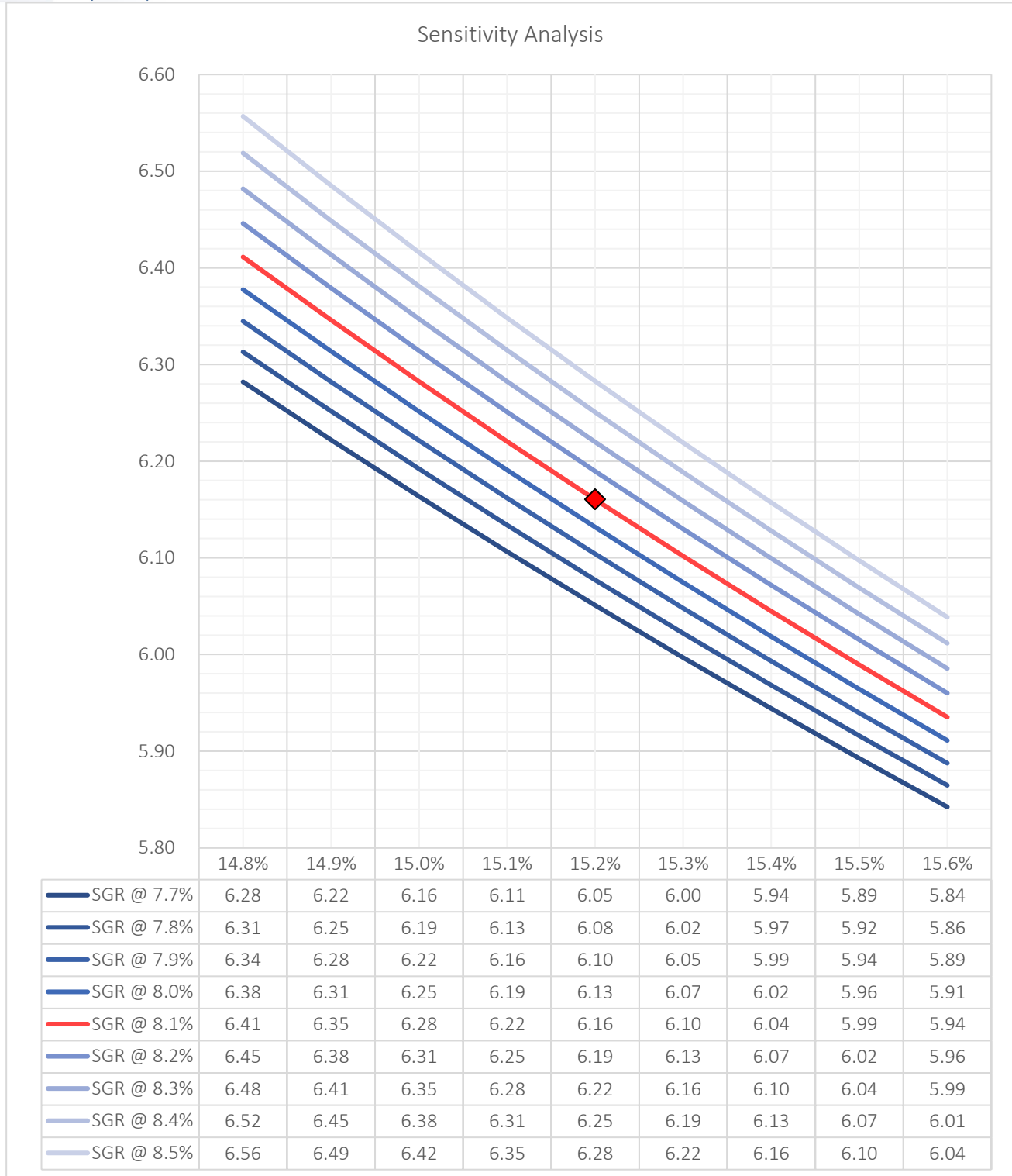
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1.001	50.00%
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Balance Sheet

Year-End June (N\$ 000)	Actual		Forecast		
	FY19	FY20	FY21	FY22	FY23
Cash and balances with central banks	1,526,148	1,035,972	1,139,569	1,253,526	1,378,879
Derivative asset	149,910	372,288	372,288	372,288	372,288
Trading assets	268,177	383,240	383,240	383,240	383,240
Pledged Assets	580,098	520,956	520,956	520,956	520,956
Investment securities	4,063,792	4,299,673	4,676,730	4,850,739	4,721,934
Loans and advances to customers	22,798,587	22,064,297	22,307,004	22,730,837	23,435,493
%Growth	4.4%	-3.2%	1.1%	1.9%	3.1%
Loans and advances to banks	2,836,906	2,238,427	2,238,427	2,238,427	2,238,427
Current taxation	80,181	99,525	99,525	99,525	99,525
Deferred taxation	301,100	300,882	300,882	300,882	300,882
Other assets	966,164	181,967	181,967	181,967	181,967
Intangible assets	503,765	500,769	500,769	500,769	500,769
Property, plant and equipment	1,121,668	1,083,502	1,083,502	1,083,502	1,083,502
Total assets	35,211,931	33,081,498	33,804,860	34,516,659	35,217,862
%Growth	10.7%	-6.1%	2.2%	2.1%	2.0%
Deposit and current accounts	27,866,820	26,119,815	26,642,211	27,175,056	27,718,557
%Growth	8.7%	-6.3%	2.0%	2.0%	2.0%
Derivative liability	142,511	362,123	362,123	362,123	362,123
Trading liabilities	14,881	230	230	230	230
Deferred taxation	256,431	282,788	282,788	282,788	282,788
Other liabilities	1,348,527	515,694	515,694	515,694	515,694
Debt securities issued	1,590,750	1,620,305	1,620,305	1,620,305	1,620,305
Total liabilities	31,219,920	28,900,955	29,423,351	29,956,196	30,499,697
Share capital	1,045	1,045	1,045	1,045	1,045
Share premium	642,189	642,189	642,189	642,189	642,189
Retained earnings	3,334,608	3,523,279	3,724,244	3,903,199	4,060,902
Equity attributable to non-controlling interest	14,169	14,030	14,030	14,030	14,030
Total equity	3,992,011	4,180,543	4,381,508	4,560,463	4,718,166
%Growth	21.3%	4.7%	4.8%	4.1%	3.5%

0,0005	4,85%
0,0003	13,04%
1,001	50,00%
0,0003	14,29%
0,0005	12,50%

Sensitivity Analysis



Source: IJG





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