13 February 2014

Bank Windhoek Holdings

1H14 Initial Impression

Target Price (c)	1020
Current Price (c)	1035

Year End 30 June	2010A	2011A	2012A	2013A	F2014
Net interest income (N$m)	568	671	783	914	1 039
Non-interest income (N$m)	374	403	463	523	670
Profit (N$m)	281	328	414	516	586
HEPS (c)	63	74	87	108	115
P/E (x)#	16.4	14.0	11.9	9.6	8.1
DPS (c)	13	23	25	33	39
DY (%)	1.2	2.2	2.4	3.1	4.4
P/B (x)*	3.6	2.5	2.2	2.0	1.7

Source: BWH, IJG
#Based on HEPS and current share price
**Based on current share price*

Recommendation	Hold
NSX Code	BWH
Market Cap (N$m)	5 230
Shares in Issue (m)	505
Free float (%)	18
52 week high (c)	1060
52 week low (c)	950
Expected Total Return (%)	0.8

1H14 Initial Impression

BWH released its results for first half of the year ended 31 December 2013. The firm delivered good results on the back of advances growth, increased non-interest revenue and cost containment. HEPS rose 22.7% y/y to 61.2c and the group declared a dividend of 23cps.

Net interest income added 16.8% to N$523m on the back of 13.8% growth in the interest earning assets and a 0.1ppt increase in the net interest margin. The increase in margin was a function of a 1.6% decrease in cost of funding as opposed to a slower 0.8% decrease in yield on interest earning assets. The decrease in cost of funding is attributed to the change in composition of funding after the NSX listing and the JSE bond listing. Non-interest income totaled N$340m, up 30.5% y/y, and contributed 39.8% to income from operations, up from the 37.3% contributed in 1H13. Newly acquired CUTM, accounted for 36% or N$28.7m to the increase in noninterest income.

With operating expenses at N$458m BWH has managed to improve the cost-to-income ratio from 54.1% in FY13 to 53.7% in 1H14. According to the results presentation this was a result of increased efficiencies and focused efforts to contain costs, with the inclusion of CUTM expenses, once-off listing expenses and investments in IT, being the major contributors to the operating expense increase.

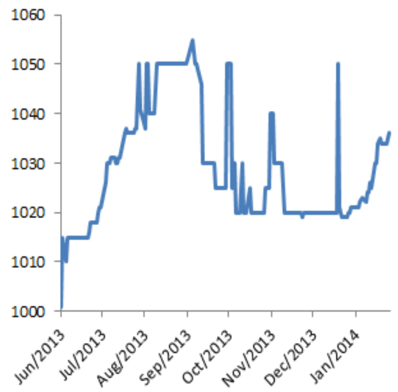
Share of profits from JV's and associates increased by 86.3% to N$51.8m, contributing 16.2% to profit after tax, up from 11.2% in the same period last year.

Profit for the period rose by 28.3% to N$319m. Basic EPS increased 22.7% to 63.8cps and ordinary interim DPS amounted to 23c, representing a 26.0% escalation from the ordinary dividend of 18,25cps declared the previous corresponding period.

BWH managed to grow its asset base by 12.9% to N$22.8bn and loans and advances by 13.4% to N$18.7bn. This indicates that loans and advances increased N$2.2bn in 1H14. Total PSCE grew N$4.4n over the 6 months, implying market share for BWH of 50.0%.

The overall health of the bank's balance sheet remains good and shows signs of improvement on an already high base with the impairment ratio remaining flat at 10bps and NPL as a percent of advances improving to 76bps, from 90bps. The bank also managed to improve its capital adequacy ratios, with Tier 1 capital at 12.3%, Tier 2 capital at 4.1% and total capital adequacy of 16.4%. This said, the bottom of the interest rate cycle is likely to be the inflection point for impairments and NPLs

BWH closing price



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Valuation and Recommendation

The share price has performed remarkably well since listing, increasing 18.3% on the IPO price of N$8.75 to today's close of N$10.35.

At N$10.35 per share the stock is starting to exhibit relative attractiveness, while from an absolute bottom up perspective the share still offers attractive attributes in an environment where there exists a shortage of investable securities.

	BWH	FNB
Price	1035c	2211c
Forward PE	8.1x	8.5x
Forward DY	4.4%	4.8%
Forward PB	1.7x	2.2x

Source: IJG Research

We are currently reviewing our BWH valuation model; and as such have left our forecasts and target price unchanged and retain our HOLD recommendation. We will release a detailed report following management discussions.

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