Letshego Holdings Limited

Results note

Equity research | Botswana | Banks and Financial Services

FY10 RESULTS NOTE

Letshego Holdings (Letshego) has released FY10 January results with core EPS (adjusted for the after tax profit of BWP 35m from the sale of Legal Guard and excluding currency translation differences) up 33.3% to BWP 0.193 (adjusted for the 10:1 share split; ex date Monday, 19 April), and in line with our EPS estimate of BWP 0.192. A dividend (final) of BWP 0.03 has been declared (last date to register is 30 April 2010 with payment on or about 7 May 2010). Results for FY10 include 11 months of the BWP 360m capital raising (effective end Feb-09) and 12 months of Letshego Namibia/Eduloan (acquired in Dec-08).

- **Botswana: loan growth still strong but 2H10 h/h profit growth slows to 9%.** Botswana (including group treasury operations) accounted for 74% of group FY10 PBT. While Botswana's 1H10 h/h loan growth (12%) was maintained in 2H10 (11%), 2H10 PBT grew only 9% h/h. In our opinion, this is a result of a high base effect with 1H10 margins unsustainably high owing to a positive endowment effect. Going forward, we forecast y/y loan growth slowing to 15-20% with further pressure on margin if proposed pricing regulations are enacted in their current form (please refer to our report dated 30 March 2010 for more detail).

- **Swaziland: profitability challenges ahead.** Despite Swaziland's loan book declining 23% y/y (-20% h/h), PBT still grew 109% y/y due to a higher average loan book in FY10 versus FY09. However, this will not be the case in FY11 and PBT will come under pressure. The implementation of a central register has had the effect of shrinking the market (payroll deductions are now limited to 1 per employee) and the recovery in the Swaziland loan book will likely be at lower levels than historically reported.

- **Strong loan growth from Namibia but Tanzania disappoints.** Exceptional loan book growth (+286% y/y) from Namibia although the 2H did see a significant h/h slow down (+53%) owing to the base effect. Further high real growth in profit from Namibia is expected for FY11 on the back of good expect loan growth (+35%). Despite strong market fundamentals, Tanzania's loan book growth has disappointed (+8% y/y) due to new government regulations requiring supervisors to authorize public sector employee loans. While Letshego management is bullish on a resumption of loan growth for FY11, we are less optimistic. A solution to the current bottleneck would be the implementation of a central registry but this will take time. Tanzania holds significant potential if volumes can grow.

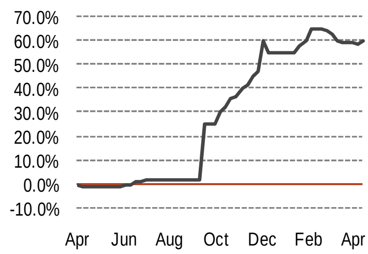
- **Recommendation.** Factoring in estimated share dilution arising from the draw down of the recently approved convertible note issue (USD 36m), we maintain our forecast for FY11 core EPS growth of 10% to BWP 0.21. Letshego's price has appreciated 12.5% from Friday, 16 April (BWP 16.00 pre 10:1 share split), based on the current traded price of BWP 1.80. Due to ST price action, we downgrade our recommendation from **BUY** to **HOLD.** We estimate a FY11 FPE and FPB of 8.6x and 1.9x respectively. Plans regarding excess capital will hopefully be announced during FY11.

HOLD

19 APRIL 2009

Current price	BWP	1.80
Market cap	BWPm	3,283.2
	USDm	484.2
Daily value traded	BWPm	0.85
(last 12 mths)	USDm	0.12

PRICE PERFORMANCE



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African Alliance Research is available to our clients at http://research.africanalliance.com or through Bloomberg (AARD <GO>), ThomsonReuters, or Factset.

SUMMARY TABLES

INCOME STATEMENT

12m to Jan (BWPm)	FY09A	FY10F	%ch
Interest income	398.3	588.8	47.8
Interest expense	-72.2	-50.9	-29.4
Net interest income	**326.1**	**537.9**	**64.9**
Other income	92.4	122.7	32.8
Total income	**418.6**	**660.6**	**57.8**
Operating expenses	-100.5	-147.8	47.1
Operating profit before impairment	**318.1**	**512.8**	**61.2**
Impairments	-29.4	-50.2	70.6
Profit before once off item	**288.7**	**462.6**	**60.3**
Once off item	-	42.6	100
Profit before tax	**288.7**	**505.2**	**75.0**
Taxation	-69.6	-125.2	79.8
Profit after tax	**219.1**	**380**	**73.5**
Core EPS – excluding once off item (BWP)	1.45	1.93	33.3
EPS (BWP)	1.45	2.12	46.7

Source: Company data, African Alliance

BALANCE SHEET

As at 31 Jan (BWPm)	FY09	FY10	%ch
Assets			
Cash and cash equivalents	5.2	104.5	>1000
Advaces to customers	1,342.6	1,682.3	25.3
Other assets	46.1	122.1	164.9
Property, plant and equipment	7.2	6.6	-8.3
Total assets	**1,401.2**	**1,915.4**	**36.8**
Liabilities			
Trade and other payables	80.1	129.7	61.9
Taxation	5.0	38.8	669.0
Borrowings	644.4	377.6	-41.4
Shareholder’s equity	671.5	1,369.2	103.9
Total equity and liabilities	**1,401.2**	**1,915.4**	**36.2**

Source: Company data, African Alliance

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