

Equity research | Botswana | Banks and Financial Services

1H10 RESULTS NOTE

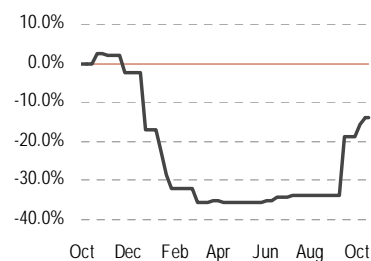
Letshego Holdings (Letshego) released 1H10 results (July 2009), reporting a 41.9% y/y growth in EPS to BWP 0.91 (12.7% growth h/h). Earnings were boosted by continued strong growth in the company's regional and local operations, which saw the loan book growing (+48.3% y/y and 14.1% h/h) to BWP 1.5bn. As a result interest income grew by a significant 65.7%, while the interest expense declined by 4.5% due to a 29.1% h/h decline in borrowings. Total income also increased by an impressive 71% to BWP 311.7m. While operating costs grew by almost the same margin (+79.7%), reflective of the investment in expanding the group's regional footprint, the cost to income ratio increased marginally by 120bp to 25.9%. Operating profit grew by 68.2%, while PBT growth was slightly lower at 64.7%, stunted by a 120% increase in impairments to BWP 18.8m. As a result, the ratio of impairments to average loans increased slightly (+50bp) to 1.5%. Whereas PAT increased by a higher margin (+64.8%), EPS growth of 41.9% came about as a result of a 20% share dilution owing to the 30m new share offer completed in March 2009.

- Regional subsidiaries' performances drive earnings growth.** With the exception of Uganda, regional subsidiaries continued to show robust growth (+162.4% and +84.9% growth in PBT and loan book respectively). Contributions to group PBT and loan book increased to 22.8% and 33.1% respectively (from 14.3% and 26.6% respectively). Uganda underperformed, turning from a PBT of BWP 1.1m to a loss of BWP 2.1m. We attribute the loss to a 30.3% h/h decline in the operation's advances, which was also compounded by a weakening local currency. As is expected, Swaziland recorded a 3.7% h/h decline in the loan book, owing to government's stance not to allow deductions on any new loans until a central registry is established. The subsidiary, however, reported a 121.5% growth in PBT to BWP 110.4m. A central registry is expected to be in place and operational by the end of 4Q09.
- Target market helps ride out the storm.** Serving the public sector market has proven to be a safety net for the group, which recorded only a marginal 50bp increase to 1.5% in the ratio of impairments to average loans (having reduced from 2% during 2H09). The group's exposure to the private sector is marginal (5%), and is mainly in Botswana. We believe the public sector will not face the strains of retrenchments, which are looming in Africa's private sector (predominantly driven by agriculture and mining related activity) and therefore do not anticipate any significant deterioration in asset quality.
- Proceeds of 30m share offer to boost position.** The BWP 353.7m (net of expenses) raised from the share offer helped reduce the debt to equity ratio to 40.4% from 96% as at 2H09. This positions the group with sufficient liquidity (a cash buffer of BWP 105.4m at July 2009) and ability to source more funding to drive growth. On the downside, however, the capital raising has resulted in the ROaE declining by 5.8% h/h to 38.3% as a result of the enlarged capital base.

20 OCTOBER 2009

Current price	BWP	13.25
Market cap	BWPm	2,405.5
	USDm	366.59
Daily value traded (last 12 mths)	BWPm	0.84
	USDm	0.11

PRICE PERFORMANCE



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SUMMARY TABLES

INCOME STATEMENT

6m to Jul (BWPm)	1H09	1H10	%ch
Interest income	167.4	277.4	65.7
Interest expense	-26.5	-25.3	-4.5
Net interest income	140.8	252.1	79.0
Fee and commission income	39.2	57.1	45.5
Other operating income	2.2	2.6	15.2
Operating income	182.3	311.7	71.0
Operating expenses	-44.9	-80.6	79.7
Staff costs	-23.8	-44.9	88.7
Other operating costs	-21.1	-35.7	69.5
Operating income before impairment	137.4	231.1	68.2
Impairment charge	-8.6	-18.8	120.0
Profit before tax	128.9	212.3	64.7
Taxation	-31.9	-52.5	64.6
Profit for the period	97.0	159.8	64.8
Weighted shares in issue (million)	151.5	176.1	
EPS (BWP)	0.64	0.91	41.9

Source: Company data, African Alliance

BALANCE SHEET

6m to Jul (BWPm)	1H09	1H10	%ch
Assets			
Cash and cash equivalents	3.7	105.4	+1000
Loans and advances	1,032.9	1,532.0	48.3
Other assets	15.0	60.6	301.3
Total assets	1,051.6	1,698.0	61.5
Liabilities			
Trade and other payables	47.5	91.0	91.8
Income tax	11.3	20.9	85.7
Borrowings	454.8	456.8	0.4
Shareholders' equity	538.0	1,129.3	109.9
Total equity and liabilities	1,051.6	1,698.0	10.7

Source: Company data, African Alliance

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