Letshego Holdings Ltd

AFRICAN ALLIANCE SECURITIES

Company results | Equity research | Botswana | Banks and financials

FY11 results - in line with expectations

19 April 2011

Letshego published FY11 results with EPS up by 14.8% to BWP 0.23, slightly shy of our FY11 estimate of BWP 0.24. The performance was underpinned by growing contribution from regional subsidiaries, as well as better than expected loan growth from Botswana. Further, a marginal decline in the NIM during the year was offset by improvements in the cost base, lower provisioning and new revenue contribution from the newly introduced comprehensive insurance in Namibia. Letshego's share is cheap relative to local banking stocks, trading on a PE and PB of 7.9x and 2.3x respectively versus banking sector weighted averages of 10.6x and 3.5x respectively. **We maintain a BUY recommendation on the counter, with a FV of BWP 2.17, 17.3% higher than the current share price.**

- **Strong revenue growth and new revenue line.** Net interest income grew 26.2% y/y on the back of strong growth in interest income (+22.6%) and lower interest expense (-15.7%).However, the net interest margin slid 90bp to31.4%. . A new contribution to income (BWP 28.3m) also came from a recently introduced credit insurance loan product in Namibia. It is somewhat surprising that Letshego has re-entered this market following the disposal in FY10 of its Botswana credit insurance subsidiary.

- **Improving impairments and efficiencies.** Impairments have recovered faster than we expected (1.9% vs our estimate of 3%). Apart from Tanzania and Zambia, all subsidiaries reported improvements in their impairment charge. Zambia's impairments were up 230bp to 17.2%, albeit on a lower average book (down an estimated 30% to BWP 24m) as a result of new legislation introduced in FY10. Impairments in Tanzania were up 180bp to 4.5%, with the loan book increasing by a marginal 3.7%. We believe this market will continue to be a difficult market owing to ongoing logistical issues. Overall, cost efficiencies were reported across the group with the CIR contracting by 330bp to 19.1%. Uganda was particularly impressive, reporting the biggest improvement in CIR (39.7% vs 70.7%).

- **Improving contribution from regional operations.** While Botswana still continues to register robust growth, in both PBT (+39.2%) and loan growth (+34.4%), regional contribution has grown to 31% of PBT from 26% in FY10. Namibia has been the star performer, with growth of 230.9% and 107.4% in PBT and the loan book respectively, and we expect it will continue to be the main driver of growth in FY12. However, we expect loan growth in the market to slow to 50% in FY12 as market share grows. Uganda too, which has historically been problematic, registered a strong improvement (PBT up to BWP 15.6m from BWP 1.2m and loan book up 53.5%). The growth in PBT was a result of improved cost efficiencies (CIR: 39.7% versus 70.7%, volume driven), lower provisioning and better collections. A new management team was put in place in October 2010.

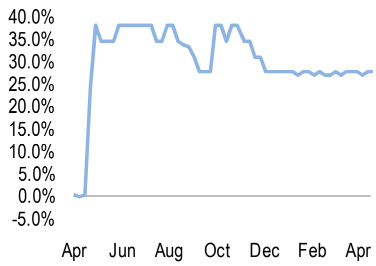
- **ROaA likely to come under pressure, but substantial scope to increase ROaE.** While ROaA is likely to come under pressure in FY12 (forecast: 26.4% versus 28.8% in FY10) owing to lower spreads and margins, Letshego still has the capacity to improve ROaE substantially owing its relatively low gearing (debt-to-equity of 28.3%). Management has a proven track record of adequately deploying capital to grow shareholder returns. The company has indicated that it will continue to pursue initiatives to raise capital to deploy in new and existing markets to grow the business.

BUY

Current price	BWP	1.85
Fair value	BWP	2.17
Upside/(downside)	%	17.3

Market cap	BWPm	3,406.6
Market cap	USDm	519.2
Daily value traded (last 12 mths)	USDm	0.3
Free float	%	100
Bloomberg		LETSHEGO BG
Reuters		LETS BT

Price performance (BWP)



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

Takeaways from the results presentation held on 18-Apr-11:

Key growth areas have been identified as Uganda, Namibia, Tanzania and Mozambique, and to some extent Botswana. As such, management has indicated that it will continue to raise capital to deploy in these markets for growth. Letshego's ability to raise borrowing remains strong and management recently received shareholder approval (11-Apr-11) to raise borrowing of up to 2x equity. Further, management is exploring the possibility of applying for a banking license to be able to mobilise deposits as a funding source. However, in our view this strategy is still at the early stages and is not likely to materialize in the medium term.

Management is studying the possibility of entering Ghana and Nigeria. However, no timeline has been provided with management stating only that expansion will be done when the time is right. Mostly likely, the next addition to the group regional operations will be Lesotho. Zimbabwe is also on the cards, but the timing is currently bad according to management.

Challenges in Zambia remain, largely owing to a failure in government payment systems. No lending took place in FY11, but lending has resumed in FY12, albeit on a reduced scale. Uganda and Tanzania are expected to perform well this year, while Namibia will also continue to prove to be a worthwhile investment for the group.

Margin pressure is expected in Botswana owing to expected regulation by the Non-Bank Financial Institutions Regulator Authority, increasing competition and a low interest rate environment. Loan growth is not expected to be as strong as in FY11, however it is anticipated to come in between 15-20% on the back of loan top-ups and, to a lesser extent, minimal new volume growth.

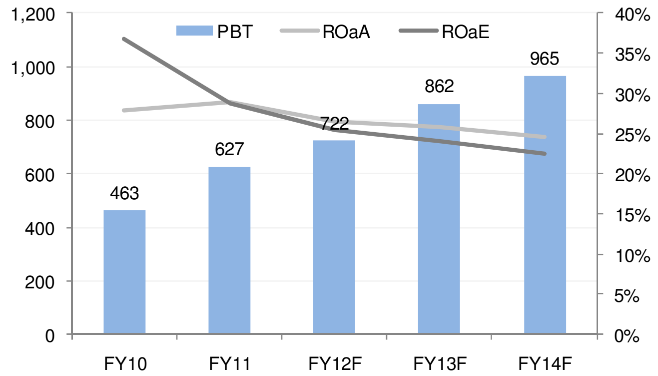
RESULTS REVIEW

Solid interest income growth driven by a 37% increase in loan book .New revenue line from insurance income in Namibia. Cost efficiencies and lower provisioning combined to achieve solid PBT (+36%) growth.

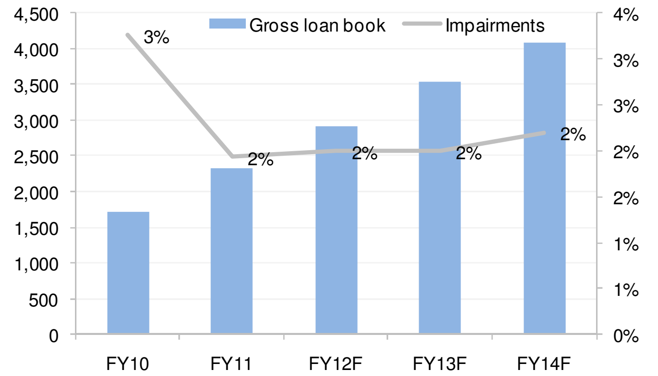
	FY09A	FY10A	*y/y % chg*	AA forecast FY10F
Interest income	589	722	*22.6*	737
Interest income	-51	-43	*-15.7*	-30
Net interest income	538	679	*26.2*	707
Premium income	-	31	*nm*	0
Insurance fees	-	-2	*nm*	0
Net interest and insurance ome	538	707	*31.5*	707
Fee and commission income	118	110	*-7.4*	145
Other operating income	4	6	*46.1*	2
Total operating income	661	823	*24.6*	853
Operating expenses	-148	-147	*0.8*	-163
Claims expense	-	-8	*nm*	-
Insurance claim mitigation erve	-	-3	*nm*	-
Net income before impairments	513	666	*29.8*	691
Impairments	-50	-39	*-22.4*	-58
Profit before tax	463	627	*35.5*	633
Profit from sale of Legal Guard	43	-	*-100*	-
Income tax	-125	-153	*22.5*	-171
Profit for the year	380	473	*24.6*	462
Minorities	10	16	*67.1*	11
Attributable income	370	457	*23.4*	451
Weighted shares in issue	1,792	1,837		
YE shares in issue	1,792	1,841		
Basic EPS	0.21	0.26	*21.5*	0.25
Diluted EPS	0.20	0.23	*14.8*	0.24

Source: Company fillings, African Alliance Research

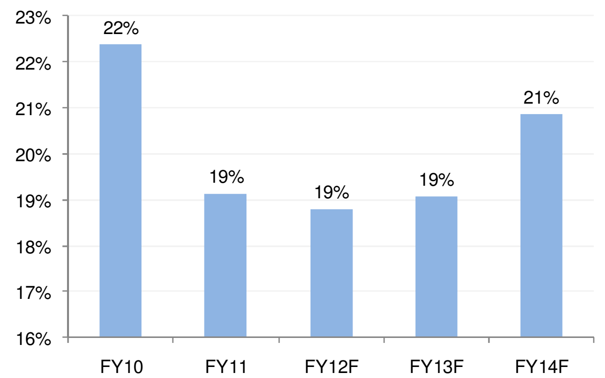
PBT (BWP) vs. ROA and ROE (RHS)



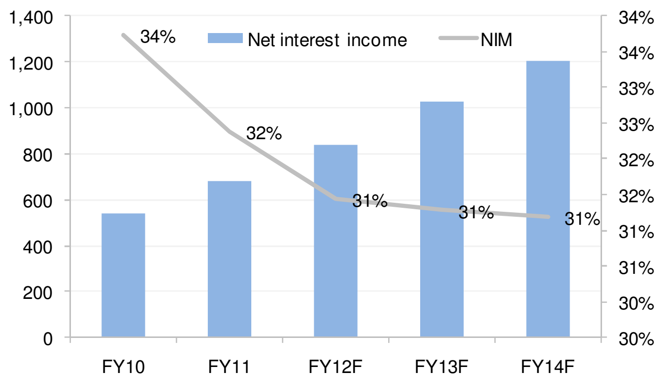
Gross loans (BWP) vs. Impairments (RHS)



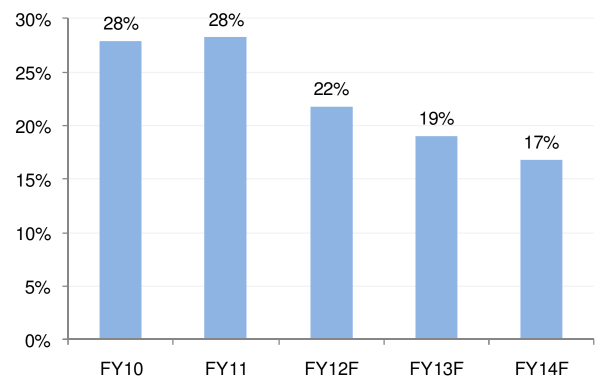
Cost to income ratio



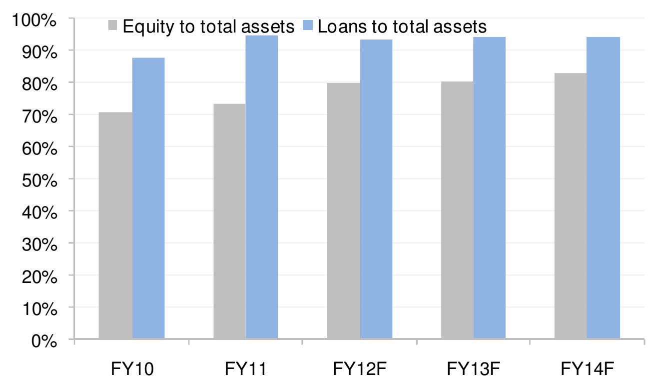
Net interest (BWP) vs. NIM (RHS)



Debt to equity



Capitalisation



FINANCIALS

Forecast 13% CAGR in diluted EPS over FY12-FY14

INCOME STATEMENT					
Year to Jan (BWPm)	FY10A	FY11A	FY12F	FY13F	FY14F1
Interest income	589	722	895	1,088	1,266
Interest income	-51	-43	-56	-60	-61
Net interest income	538	679	839	1,028	1,205
NIR	123	144	154	175	190
Total operating income	661	823	993	1,203	1,395
Operating expenses	-148	-158	-187	-229	-291
Net income before impairments	513	666	775	927	1,049
Impairments	-50	-39	-52	-64	-84
Profit before tax	463	627	722	862	965
Profit from sale of Legal Guard	43	-	-	-	-
Income tax	-125	-153	-181	-216	-241
Profit for the year	380	473	542	647	724
Minorities	10	16	18	20	22
Attributable income	370	457	524	627	702
Weighted shares in issue	1,792	1,837			
YE shares in issue	1,792	1,841			
Basic EPS	0.21	0.26	0.29	0.30	0.34
Diluted EPS	0.20	0.23	0.25	0.30	0.34

Source: Company fillings, African Alliance Research

Forecast 20% CAGR in loans and advances over FY12-FY14

Debt to equity allows capacity to increase borrowings to fund growth

BALANCE SHEET					
31 Jan (BWPm)	FY10A	FY11A	FY12F	FY13F	FY14F
Cash and cash equivalents	104	52	57	68	41
Advances to customers	1,682	2,299	2,843	3,443	3,943
Other receivables	123	72	124	116	187
Fixed assets	7	7	13	17	20
Total assets	1,915	2,430	3,038	3,645	4,192
Trade and payables	169	137	74	165	136
Borrowings	378	505	530	557	585
Shareholders' funds	1,369	1,788	2,433	2,924	3,471
Total equity and liabilities	1,915	2,430	3,038	3,645	4,192

Source: Company fillings, African Alliance Research

KEY RATIOS

Margin pressure expected as borrowings rise

31 Jan	FY10A	FY11A	FY12F	FY13F	FY14F
DY (%)	1.6	7.3	3.6	4.0	4.5
PE (x)	9.1	7.9	7.3	6.1	5.4
PB (x)	2.5	1.9	1.5	1.4	1.1
NIM (%)	33.7	32.4	31.4	31.3	31.2
Impairments (%)	3.3	1.9	2.0	2.0	2.2
ROA (%)	27.9	28.8	26.4	25.8	24.6
ROE (%)	36.7	28.8	25.4	24.0	22.6
CIR (%)	22.4	19.1	18.8	19.1	20.9
Debt to equity (%)	27.9	28.3	21.8	19.1	16.8

Source: Company fillings, African Alliance Research

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