# Letshego

SSA Banks

## A Niche Champion

(Initiating Coverage)

**Buy**

Low-Risk

14th May 2014

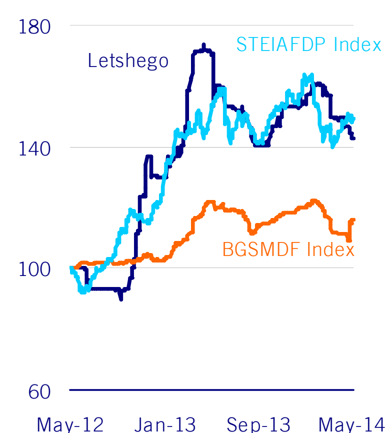
**Botswana**

- **We initiate coverage on Letshego with a BUY recommendation and a YE14 Price Target of BWP2.70/share, upside of 27%.** Letshego is a specialised microlender operating in ten SSA countries, which offers unsecured consumer finance to civil servants via deduction-at-source lending. Its proposition is high margins (NIM: c.20%), strong efficiency (CIR: c.30%) and superior collections (97-100%). Letshego has a conservative management team and strong presence in low-risk Botswana and Namibia (62% of total loans). Higher risk markets have proven successful, though expansion is undertaken cautiously. Funding is largely equity; which holds for strong LT growth potential via additional leverage, but forgoes current opportunities to transfer risk from investors.

- **Performance and outlook.** Letshego's 4yr historic ROE (26%) is attractive; but current excess equity, margin pressure and weaker efficiency, will dampen MT returns. FYE performance underscored current challenges, as PAT of BWP643mn (USD73mn) was muted y/y. Despite headwinds, loans grew 33% to BWP4.4bn. Portfolio quality was stable, but impairments increased, due to risk in S. Sudan. FYE changed to Dec from Jan; and FY14ᶠ earnings (11-months) will increase >10%, due to loan growth and normalised opex. **We forecast EPS CAGR13-17ᶠ of 17% on achieving scale in East Africa and product diversification in key markets.**

- **Valuation and triggers for the stock.** Letshego's share trades on undemanding multiples, given our estimated earnings growth outlook. Its 2014ᶠ P/E and P/B multiples are 6.4x and 1.2x. We worked out a sector 2014ᶠ P/B of 1.8x, for which we assigned a 10% discount for Letshego's exit multiple. ST triggers to our call are: (1) increased leverage to fund additional growth, (2) obtaining scale in East Africa and (3) increasing the interim dividend rate. Valuation risks are: (1) limited ST earnings visibility, (2) persisting integration costs and (3) rising pressure on margins.

**Letshego vs. Botswana Financial Sector Index vs. S&P Africa Frontier**




*Source: Bloomberg.*

### Stock data

| | | | |
|---|---|---|---|
| Price (BWP): | 2.14 | Price Target (BWP): | 2.70 |
| N° of shares (mn): | 2 168 | Reuters/Bloomberg: | LET.BT/ LETSHEGO BG |
| Market Cap (BWPmn): | 4 769 | Market Cap (USDmn): | 528 |
| Avg. Daily Vol. (BWP '000): | 2 021 | Avg. Daily Vol. (USD '000): | 228 |
| Debt/Equity '14: | 0.4 | Free-Float: | 26% |
| EPS growth ('13-'17ᶠ): | 17.4% | ROE'14: | 19.0% |
| Major shareholders: | | | Botswana Insurance Holdings 23% |

| **Estimates** | 2012 | 2013 | 2014ᶠ | 2015ᶠ | 2016ᶠ | 2017ᶠ |
|---|---|---|---|---|---|---|
| Diluted EPS (BWP) | 0.33 | 0.30 | 0.33 | 0.43 | 0.50 | 0.57 |
| P/E (x) | 6.5 | 7.2 | 6.4 | 4.9 | 4.3 | 3.8 |
| Dividend yield (%) | 4.0 | 3.5 | 3.9 | 5.1 | 5.8 | 6.6 |
| Adjusted P/BV (x) | 1.5 | 1.3 | 1.2 | 1.0 | 0.8 | 0.7 |

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# INVESTMENT CASE

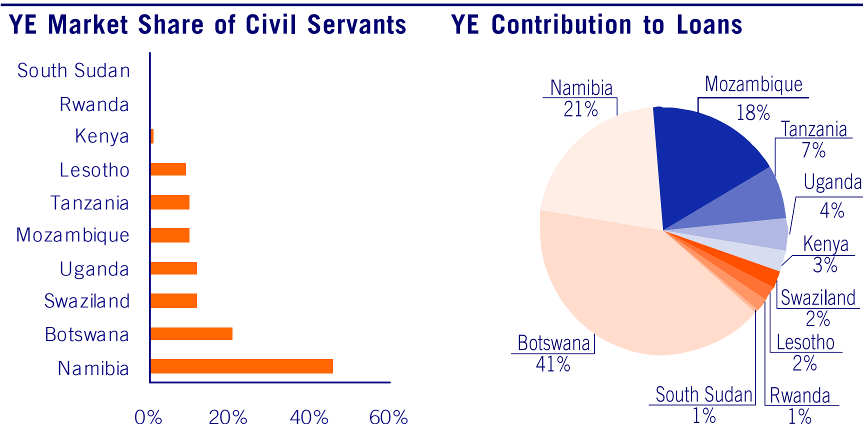
## Specialised Microlender with Low-risk Business Model

**Letshego is a specialised microlender offering unsecured ST and LT consumer finance for amounts ranging from BWP500 (USD55) to BWP200k (USD22.6k). Its business model is relatively low-risk and stable with a target market primarily consisting of civil servants, whose loan repayments are secured via a deduction-at-source mechanism or payroll lending**. The loan process involves Letshego, an independent central register and the Government payroll. Importantly, loan affordability checks are conducted by the central register on behalf of Letshego, for all applicants. If affordability is successful, Letshego disburses loans into customer bank accounts and in the following month makes a request for deductions from the Government payroll. The central register receives the instalments from the government payroll and makes a bulk disbursement to Letshego, which subsequently allocates repayments from each customer. The process effectively minimises risk, due to its ability to collate information on customers borrowing habits. In a sense, over-borrowed and defaulting customers are easily identified and excluded from financing.

## Dominant Franchise with Strong Market Share

**With a core business in lending to civil servants, Letshego has established a strong franchise that dominates in some of its markets**. Botswana is Letshego's oldest and largest market, with a loan book of BWP1.8bn (USD204mn). It has a 21% share of civil servants comprising about 32 000 individual customers; but there is limited room for additional growth. Namibia has a loan book of just under BWP1bn, which comprises 46% of market share and 43 000 customers. Despite its dominance in Namibia, management believes there is still significant headroom for growth. Mozambique is a fairly recent operation, which commenced operations in 2011. However, it has grown immensely and its loan book is valued at about BWP800mn, representing just 10% of lending to civil servants or 38 000 customers. Other significant markets are Tanzania, Uganda, Swaziland and Lesotho with market shares ranging from 9 -12% of lending to civil servants and high scope for further growth.

**YE Market Share of Civil Servants** | **YE Contribution to Loans**




*Source: Company report, BPI Capital Africa.*



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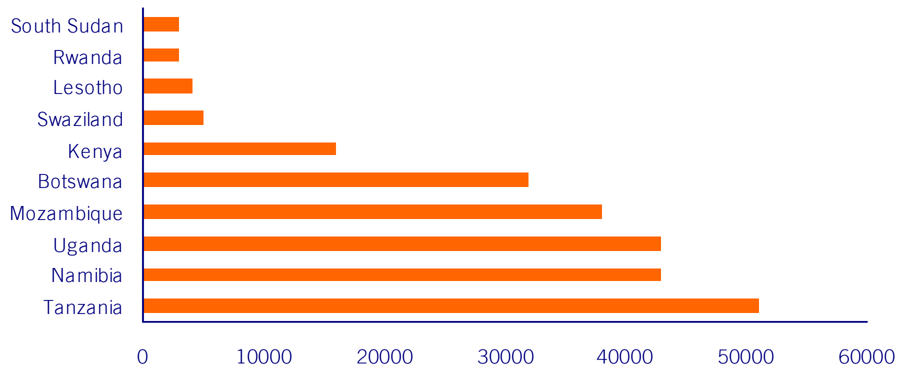
**YE Number of Customers**




*Source: Company report, BPI Capital Africa.*

## Regional Diversification Mitigates Risk

Having carved a niche in lending to civil servants from establishment in 1998, Letshego made its first foray into SSA by commencing operations in Uganda. Thereafter a number of franchises were established in Southern Africa and East Africa, and Letshego is now represented in ten countries. **Its regional diversification reduces country-related risk and in some offers significant opportunities for loan book growth.** On one hand, markets such as Botswana and Swaziland were previously impacted by increased regulation on deduction-at-source lending. Zambia and South Sudan, both small markets relative to Letshego's operations, experienced significant operational difficulties owing to either regulatory challenges or high political risk. The Zambia operation was exited in YE13 at a loss, while South Sudan has currently been reduced to collections. On the other, markets such as Namibia, Mozambique, Tanzania and Lesotho continue to strengthen Letshego's presence and growth potential. As such, the overall impact of regional diversification is positive for the business, since materialisation of risk in some markets would likely be mitigated by stable operations in others.

## Conservative Management

**Letshego has good quality and conservative management that has built a profitable business with relatively strong presence in Southern Africa and East Africa**. We believe that management upholds high standards of corporate governance, ethics, sustainable lending practices and prudent risk management. In addition, management's industry knowledge, skills and qualifications are of a high standard, and would ensure that the business remains profitable over the MT. Efforts to achieve additional expansion are undertaken on a sustainable basis; and though current initiatives reduce earnings visibility in the ST, we believe that management maintains good financial disclosure.

## Prudent Risk Management and Strong Asset Quality

**Moreover, management's prudent approach to risk has ensured a strong track record in loan collections and ensured superior asset quality**. The collections rate on deduction-at-source lending ranges from 97 - 100%, which reduces volatility of earnings, through lower impairments. The cornerstone of Letshego's risk management framework is the



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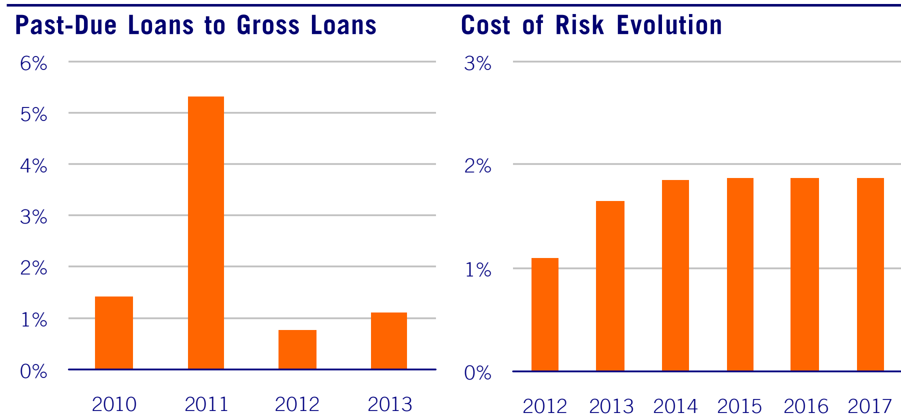
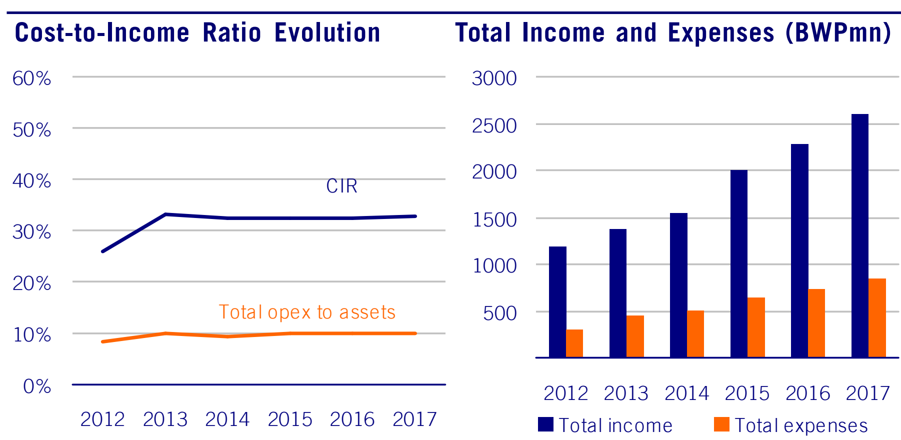
success of deduction-at-source lending; and management continues to advocate its use in markets where the business is present or seeks to enter. The challenge is that with additional expansion and absence of deduction-at-source lending in some markets, asset quality may come under pressure in the MT. We estimate FY14-17F average cost of risk of 1.9%, vs. Letshego's four-year historic average of 1.6%.




*Source: Company report, BPI Capital Africa; YE changed to December.*

## Efficient Operations

Management combines strong risk management with high efficiency in operations. Letshego operates on a lean distribution network, which comprises 250 branches and access points, a staff count of 800 and an additional 450 commission-based agents. In addition, Letshego has made substantial investments in its ICT infrastructure to increase operational efficiency in the MT. The business achieved an average four-year historic cost-to-income ratio (CIR) of 26% to last-reported YE. This is a considerably high level of efficiency compared to traditional banks, which typically range from 35% - 65%. However, efforts to expand the business may add pressure to efficiency levels in the MT, but we believe that management will continue to drive strong cost savings-where possible-to ensure sustained profitability. We estimate an average CIR14-17$^{F}$ of 32%, in view of current expansion initiatives and related integration costs. This translates to an opex CAGR13-17$^{F}$ of 17%.




*Source: Company report, BPI Capital Africa; YE changed to December.*



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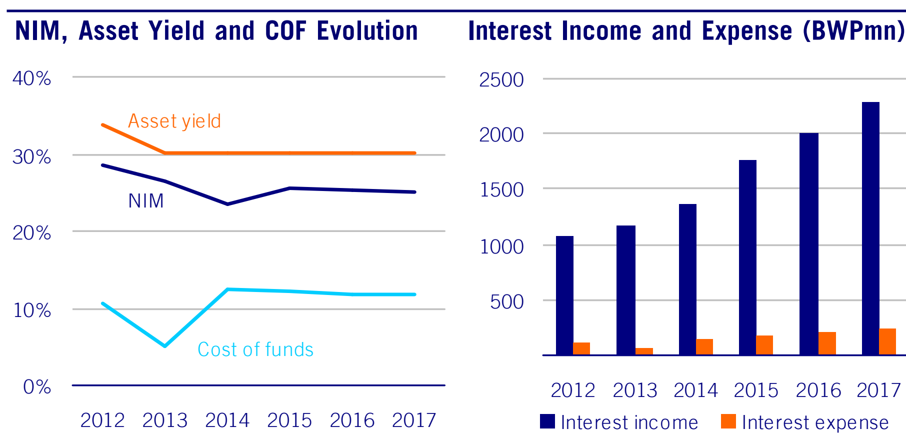
## High Margin Business

**Letshego offers a business model that achieves high interest spreads over the LT; testament to pricing in the microlending sector.** It focuses on a low-to-middle income segment, in which risk is considerably higher than other segments. As such, Letshego's pricing is commensurate with risk; and average asset yields are in excess of 33%. On the other hand, cost of funding (COF) is relatively high vs. traditional banks as funding is mainly sourced from equity and borrowings. We computed four-year historic average cost of borrowings of 8.8% to last-reported YE. Therefore, average interest spread and net interest margin (NIM) over a similar period were 25% and 30%. However, with rising competition and improved risk profiling of customers over time, we believe Letshego's margins will come under pressure over the MT. **We estimate average NIM14-17$^{F}$ of 25% and net interest income CAGR13-17$^{F}$ of 17%.**

**NIM, Asset Yield and COF Evolution** | **Interest Income and Expense (BWPmn)**




*Source: Company report, BPI Capital Africa; YE changed to December.*

## Strong Capitalisation Supports Growth

**Letshego has conservative gearing on its B/S and therefore significant scope for growth in the MT**. Its four-year historic average debt-to-equity ratio of 0.36x is reflective of a BWP360mn (USD41mn) capital call in YE09 as well as a recent BWP253mn loan-to-equity conversion. However, it is not uncommon for microlenders to achieve debt-to-equity ratios of up to 2.0x; hence Letshego is strongly positioned to raise additional debt to fund loan book growth in the MT. This would likely translate to stronger earnings growth and shareholder returns. Management has a LT target debt-to-equity ratio of 1.0x; but in the MT, current gearing levels are unlikely to change significantly. We have conservatively maintained estimated gearing in line with last-reported YE levels at an average FY14-17$^{F}$ debt-to-equity ratio of >0.30x.



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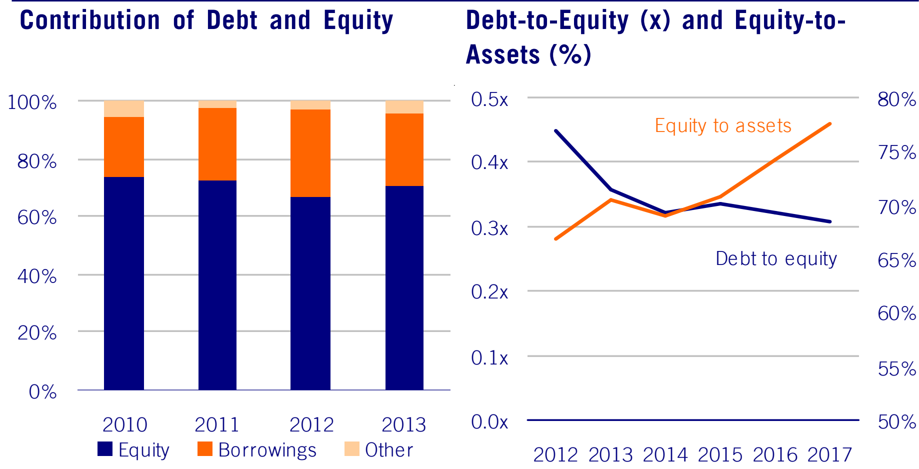


*Source: Company report, BPI Capital Africa; historic YE changed to December.*

## Potential Reduction to Cost of Funding

**Letshego's recent conversion to a microfinance bank in Mozambique is a key step towards LT reduction in COF.** Letshego has been pursuing deposit-taking licences in several countries for some time; and the Mozambique operation which was established in 2011 was the first to achieve deposit-taking status. The impact is likely to be minimal over the MT. However, should Mozambique be successful in testing new deposit and transaction products, this would likely be positive for Letshego's presence in other countries. Crucially, an increasing share of deposits to total liabilities, over time, will ultimately reduce Letshego's average COF and improve margins.

## Strong Headroom for Growth in East Africa

**Recent foray into East Africa via acquisition of Micro Africa presents strong LT growth opportunities for additional deposit-taking, product and customer diversification, as well as increased market share in the SSA microfinance sector.** Importantly, new business in East Africa anchors on an alternative microfinance model, which focuses on servicing lower income groups and microenterprises. Letshego has an opportunity to grow its position in products such as group lending and MSME loans and micro-housing finance. In the LT these products will add a significant contribution to loans and revenue.

According to management, countries such as Kenya, Tanzania and Uganda offer significant headroom for growth, though Rwanda is limited and South Sudan is currently facing significant country risk. We are optimistic of a significant impact from Kenya, despite that market being highly competitive. Letshego could capitalise its Kenyan position via acquisition of a small cap commercial bank. Overall, the East Africa region is estimated to achieve LT average GDP growth of 6.8% vs 5.4% for SSA. Therefore, its significance over the LT will be translated to a change in Letshego's operating structure.



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**Real GDP Growth**

| | 2010 | 2011 | 2012 | 2013 | 2014F | LT estimate |
|---|---|---|---|---|---|---|
| Kenya | 5.8% | 4.4% | 4.6% | 5.6% | 6.3% | 6.5% |
| Rwanda | 7.2% | 8.2% | 8.0% | 5.0% | 7.5% | 7.5% |
| Uganda | 6.2% | 6.2% | 2.8% | 6.0% | 6.4% | 7.4% |
| Tanzania | 7.0% | 6.4% | 6.9% | 7.0% | 7.2% | 6.9% |
| South Sudan | -- | -- | -47.6% | 24.4% | 7.1% | 5.8% |
| **Average** | **6.6%** | **6.3%** | **-5.1%** | **9.6%** | **6.9%** | **6.8%** |
| SSA | 5.6% | 5.5% | 4.9% | 4.9% | 5.4% | 5.4% |

*Source: IMF; BPI Capital Africa.*

## Excess Equity Risk

**In our opinion, Letshego's current excess equity; given a debt-to-equity ratio of c. 0.36x (four-year historic average) poses some risk to shareholders. Since loan portfolio expansion is mainly funded by equity, as highlighted by an equity-to-net loans ratio of 80% (four-year historic average), or borrowings-to-net loans ratio of < 30% (average), an unexpected occurrence of rapid deterioration in asset quality would place shareholders at risk**. A cross-check with Bayport Financial Services (a SSA competitor with a similar business model) indicated a four-year historic average equity-to-net loans ratio of c. 35% (average borrowings-to-net loans: 90%); which implies that a significant portion of risk is allocated to its sources of debt funding. Letshego does transfer potential risk to investors via deduction-at-source lending, which provides some surety against run-away NPLs. However, portfolio diversification, which should become more apparent in the MT, would result in added pressure to asset quality. Hence, investors may currently be pricing out potential risk as evidenced by relatively undemanding share price multiples. Moreover, excess equity in the funding structure, underscores current unexciting shareholder returns, (YE ROE: 20%). Nevertheless, Letshego holds a strong position to potentially achieve higher portfolio and earnings growth in the LT, on the back of increased leverage.

**Letshego Equity Story**

| Positives | Negatives |
|---|---|
| Cornerstone of business model is lending to civil servants via deduction-at-source code | Increased regulation on deduction-at-source lending may compromise asset quality |
| Achieving a 100% target collections rate has ensured limited stress to equity | Low visibility of ST earnings due to current expansion initiatives |
| High interest spreads and margins due to pricing on upper-end of interest spectrum | Declining shareholder returns due to faster growth in equity and assets relative to earnings |
| Efficiency in distribution and decentralised risk management supported by a strong finance function | Margins under pressure from rising competition |
| Strong capitalisation has funded a large part of loan book growth and LT target gearing of 1:1 will drive positive earnings | Ongoing rise of Botswana's household credit levels |
| Low downside risk to earnings due to stable proposition-strong asset quality, strong operating efficiency and conservative management | |
| Undemanding price multiples make the share attractive | |
| Good corporate governance and financial disclosure | |
| Expansion initiatives an opportunity for LT restructuring of the business | |

*Source: BPI Capital Africa.*

## Valuation and Recommendation Summary

**In a nutshell, we initiate coverage of Letshego with a YE14 Price Target of BWP2.70 per share, upside of 27% and BUY recommendation**. Letshego's business is dominant in Botswana and Namibia, both of which are relatively low-risk countries. In addition, its loan portfolio comprises mainly deduction-at-source lending and targets a stable market of civil servants. Current efforts to grow the business through country and product diversification are additional to its stronghold markets and tested product offering. As such, we currently rate Letshego as low risk.

**Valuation Summary**

| | BWP | Upside |
|---|---|---|
| DDM valuation | 2.45 | 13% |
| P/B valuation | 3.00 | 41% |
| **YE14 Price Target** | **2.70** | **27%** |

*Source: BPI Capital Africa.*

# VALUATION

**We have valued Letshego using a dividend discount model and P/B comparative valuation. We derive a YE14 Price Target of BWP2.70/share, upside of 27% to current market value.** The value is adjusted for a 10% liquidity discount (BPI Capital Africa's rule of thumb for SSA stocks with an average daily turnover below USD0.5m).

**Price levels**

| | BWP |
|---|---|
| YE14 PT | 2.70 |
| Current | 2.14 |
| FYE | 2.40 |
| 12-month high | 2.56 |
| 12-month low | 2.11 |
| Loan-to-equity conversion (YE13) | 1.60 |
| Private placement (YE09) | 2.50 |
| IPO (YE02) | 0.11 |

*Source: Bloomberg, BPI Capital Africa.*

## Valuation 1: Dividend Discount Model

We assume: (1) a weighted average Risk-free rate of 8.78%; (2) risk premium of 6.0%; (3) beta of 0.6; (4) long term growth rate of 5%, which comprises 2.5% real growth and 2.5% inflation; (5) 10-year explicit forecasts of earnings to which we apply the company's current dividend policy of 25% payout rate for 5-yrs up to 2018, and 35% over the next 5-yrs to 2023, to derive annual dividends, net of tax.

**DDM Valuation**

| | BWPmn |
|---|---|
| Discounted dividends | 1 963 061 |
| Perpetuity | 3 546 952 |
| Total | 5 510 013 |
| Shares in Issue | 2 167 540 |
| YE14 Fair Price (BWP) | 2.70 |
| **YE14 Price Target (BWP)** | **2.45** |
| Upside | 13% |

*Source: BPI Capital Africa.*

**DDM Assumptions**

| | |
|---|---|
| Risk free rate | 8.78% |
| Risk premium | 6.0% |
| Beta | 0.6 |
| Cost of equity (Ke) | 12.4% |
| Terminal growth (g) | 5.0% |
| Dividend tax | 7.5% |

*Source: BPI Capital Africa.*

**Dividend model**

| | Jun-14 | Jun-15 | Jun-16 | Jun-17 | Jun-18 | Jun-19 | Jun-20 | Jun-21 | Jun-22 | Jun-23 | Terminal |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Dividend | 69 361 | 180 963 | 235 624 | 268 461 | 306 223 | 443 694 | 497 160 | 550 709 | 642 856 | 703 832 | |
| Net dividend | 64 159 | 167 391 | 217 952 | 248 326 | 283 256 | 410 417 | 459 873 | 509 406 | 594 642 | 651 045 | |
| Period | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | |
| Ke | 12.4% | 12.4% | 12.4% | 12.4% | 12.4% | 12.4% | 12.4% | 12.4% | 12.4% | 12.4% | |
| Discount factor | 1.00 | 0.89 | 0.79 | 0.70 | 0.63 | 0.56 | 0.50 | 0.44 | 0.39 | 0.35 | |
| PV dividends | 64 159 | 148 956 | 172 590 | 174 986 | 177 619 | 190 845 | 266 409 | 262 604 | 255 736 | 249 158 | |
| g | | | | | | | | | | | 5% |
| Perpetuity | | | | | | | | | | | 10 137 012 |
| PV perpetuity | | | | | | | | | | | 3 546 952 |

*Source: BPI Capital Africa.*

**DDM Sensitivity Analysis (BWP/share)**

| Discount rate % | Growth rate %: 3% | 4% | 5% | 6% | 7% |
|---|---|---|---|---|---|
| **10%** | 2.73 | 3.03 | 3.44 | 4.04 | 4.99 |
| **11%** | 2.36 | 2.57 | 2.85 | 3.24 | 3.80 |
| **12%** | 2.07 | 2.23 | **2.45** | 2.69 | 3.05 |
| **13%** | 1.84 | 1.96 | 2.10 | 2.29 | 2.54 |
| **14%** | 1.65 | 1.74 | 1.85 | 1.99 | 2.16 |

*Source: BPI Capital Africa.*

### Dividend Payout Ratio Sensitivity Analysis

In our opinion, Letshego has a conservative dividend policy. In spite of a LT growth strategy, potential to maximise efficiency in use of equity is not being fully realised; while risk to investors is retained due to an equity-funded loan portfolio. We believe that Letshego would unlock value by increasing its dividend payout rate, and in turn reduce current excess equity. We tested three scenarios to evaluate the impact of a change in dividend payout on Letshego's DDM valuation. The base case scenario using the current 25% dividend payout (adjusted to 35% from 2019-2023) yields a YE14 PT of BWP2.45 per share. An intermediate case, with payout rates of 35% and 45% derives a YE14 PT of BWP3.85. A best case scenario with dividend payout rates of 50% and 60% would more than double our valuation to BWP5.20. We believe that our best case valuation is justified by current excess equity, but is least likely to occur as management pursues an expansion strategy for the business.

**DDM Sensitivity Analysis**

| Scenario | Dividend Payout | YE14 PT (BWP) |
|---|---|---|
| Best case | 50% - 60% | 5.20 |
| Interm. case | 35% - 45% | 3.85 |
| Base case | 25% - 35% | 2.45 |

*Source: BPI Capital Africa.*

## Valuation 2: P/B Comparative Valuation

We derived our P/B valuation using the following assumptions: (1) a sector 2014F P/B of 1.8x; (2) a subjective discount to sector P/B of 10% to arrive at an exit multiple for Letshego of 1.6x; (3) compute the exit multiple with Letshego's 2014F tangible NAV to derive our YE14 Price Target. Importantly, we did not apply a small caps discount of 10%, since we compared Letshego to companies which we consider to be relatively small cap. In a sense, our sector P/B multiple implies a small caps discount.

**P/B Comparative**

| | YE14 |
|---|---|
| Sector exit P/B (x) | 1.7 |
| Discount to sector P/B | 0.95 |
| Exit multiple (x) | 1.6 |
| Tangible NAV (BWP) | 1.86 |
| **YE14 Price Target (BWP)** | **3.00** |
| Upside | 41% |

*Source: BPI Capital Africa.*

### Deriving Market Multiples

We established our sector 2014F P/B multiple of 1.8x using the following criteria. We defined our sector by listed microlenders or consumer finance lenders. An extensive sample of > 50 companies was obtained from Bloomberg. We applied filters to clean the list, by excluding companies without earnings estimates available on Bloomberg and those that had market caps in excess of USD2.5bn. Letshego has a market cap of > 500mn. We then added a sample of commercial banks in SSA that have microlender or payroll deduction lending models. Given a smaller representative sector, we ran our Bloomberg valuation comparative to determine forward P/B, P/E and ROE ratios, as set out below:

**Market Multiples**

| Company | Country based | MCap (USDmn) | P/B (x) | | | | P/E(x) | | | | ROE (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | FYE | $14^F$ | $15^F$ | $16^F$ | FYE | $14^F$ | $15^F$ | $16^F$ | FYE | $14^F$ | $15^F$ | $16^F$ |
| IPF | Britain | 2 368 | 3.6 | 2.9 | 2.5 | 2.0 | 14.9 | 14.8 | 11.9 | 10.2 | 24.8 | 21.9 | 23.7 | 22.9 |
| Equity | Kenya | 1 720 | 2.9 | 2.5 | 2.1 | 1.7 | 11.3 | 9.8 | 8.3 | 6.8 | 28.1 | 27.7 | 27.9 | 27.8 |
| Capitec | South Africa | 2 462 | 2.6 | 2.3 | 2.0 | 1.7 | 12.6 | 11.5 | 9.9 | 7.9 | 22.4 | 21.7 | 21.2 | 22.3 |
| GCB | Ghana | 367 | 2.3 | 2.0 | 1.5 | 1.2 | 4.6 | 5.0 | 4.5 | 3.8 | 60.2 | 43.4 | 35.1 | 34.5 |
| BTPN | Indonesia | 2 099 | 2.3 | 2.0 | 1.6 | 1.4 | 11.8 | 10.6 | 8.7 | 7.6 | 24.2 | 20.6 | 20.5 | 19.6 |
| Credito | Mexico | 732 | 2.0 | 1.7 | 1.5 | 1.2 | 8.6 | 8.0 | 6.9 | 6.0 | 25.3 | 23.7 | 22.8 | 22.1 |
| FI | Mexico | 305 | 1.3 | 1.2 | 1.0 | 0.8 | 15.5 | 12.6 | 10.1 | | 8.6 | 10.2 | 12.3 | - |
| ABIL | South Africa | 1 266 | 1.1 | 0.9 | 0.9 | 0.8 | 25.9 | 10.1 | 9.1 | 5.2 | -39.3 | -3.0 | 11.8 | 17.6 |
| H&T | Britain | 105 | 0.7 | 0.7 | 0.7 | 0.6 | 12.6 | 16.7 | 11.7 | 10.2 | 5.6 | 4.5 | 5.9 | 6.3 |
| Eqdom | Morocco | 385 | 2.2 | - | - | - | 17.6 | 11.8 | 9.8 | 8.8 | 16.4 | - | - | - |
| **Average** | | **1 181** | **2.1** | **1.8** | **1.5** | **1.3** | **13.6** | **11.1** | **9.1** | **7.4** | **17.6** | **18.9** | **20.1** | **21.6** |
| Letshego (consensus) | Botswana | 528 | 1.4 | 1.3 | 1.1 | 0.9 | 7.6 | 10.4 | 8.7 | 7.3 | 19.5 | 21.4 | 20.6 | 20.0 |
| **Letshego (BPI)** | **Botswana** | **528** | **1.3** | **1.2** | **1.0** | **0.8** | **7.2** | **6.4** | **4.9** | **4.3** | **20.0** | **19.0** | **20.9** | **19.8** |

*Source: Bloomberg, Ranked by 2014F P/B.*

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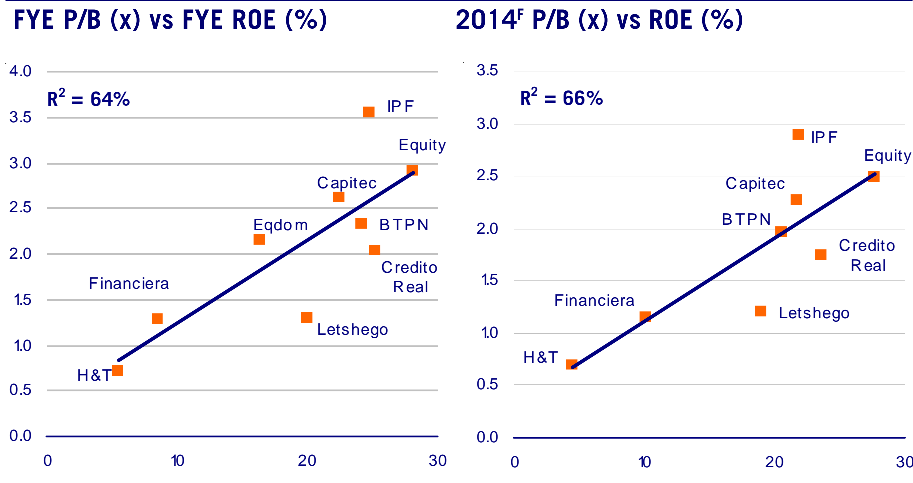
**FYE P/B (x) vs FYE ROE (%)** | **2014F P/B (x) vs ROE (%)**




*Source: Bloomberg; outliers excluded.*

## Justifying our P/B Exit Multiple

We determined that on average Letshego's forward P/B multiples were at a discount to the comparative sector. However, Letshego's ROE was marginally higher than sector, despite excess equity. This is because Letshego's business model is geared for high margins and high efficiency in operations. In addition, Letshego's strong position to deliver higher returns through an increase in gearing levels, would in the LT eliminate its current discount to sector P/B. On balance, we believe that a marginal discount of 5% to sector 2014F P/B justifies its exit multiple.

**Letshego vs. Sector**

| | P/BV (x) | | | ROE (%) | | |
|---|---|---|---|---|---|---|
| | Letshego | Sector | +/- | Letshego | Sector | +/- |
| FYE | 1.3 | 2.1 | -0.8 | 20.0 | 17.6 | 2.4 |
| 2014F | 1.2 | 1.8 | -0.6 | 19.0 | 18.9 | 0.1 |
| 2015F | 1.0 | 1.5 | -0.5 | 20.9 | 20.1 | 0.8 |
| 2016F | 0.8 | 1.3 | -0.5 | 19.8 | 21.6 | -1.8 |
| **Average** | **1.1** | **1.7** | | **19.9** | **19.6** | |

*Source: Bloomberg, BPI Capital Africa*

**Valuation Sanity-check**

| | 2013A | 2014F | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|
| Price Target/EPS (x) | 9.6 | 8.6 | 6.6 | 5.8 | 5.1 |
| P/E (x) | 7.2 | 6.4 | 4.9 | 4.3 | 3.8 |
| Price Target/NAV (x) | 1.7 | 1.5 | 1.2 | 1.0 | 0.8 |
| P/B (x) | 1.3 | 1.2 | 1.0 | 0.8 | 0.7 |
| Dividend/Price Target (%) | 2.7 | 3.1 | 4.0 | 4.6 | 5.2 |
| DY (%) | 3.5 | 3.9 | 5.1 | 5.8 | 6.6 |

*Source: Company report, BPI Capital; YE changed to December.*

## Valuation Triggers

(1) **Strong earnings run-rate and reliable guidance on ST earnings**. Management has not provided firm guidance on FY14F earnings growth; but a possible range would be 10 - 15%; which would be in line with our estimates.

(2) **Significant increase in gearing levels.** By increasing leverage Letshego would ramp up its loan book and drive stronger growth in ST earnings and shareholder returns. Management indicated that there may be some debt issuance by end of 1H14.

(3) **More attractive dividend payout rate.** We believe that Letshego should return some capital to shareholders by increasing its current dividend policy. The business currently has excess equity, which limits allocative efficiency in use of capital.

(4) **Increasing scale in the East Africa business.** A high cost base in the Micro Africa business requires a significant ST scaling of the loan book to increase efficiency and returns. Though Kenya is highly competitive, overall the region has high scope for growth in the ST.

(5) **Additional growth in Mozambique and Namibia.** Currently, these two markets are achieving significant growth in both contribution to group loans and revenue. Their impact on earnings in the ST could be stronger than anticipated.

## Valuation Risks

(1) **Limited earnings visibility in the ST.** Due to current expansion and a possible acquisition in the offing, Letshego would carry high forecast risk for FY14F earnings. As such, lower than expected earnings would impact our valuation.

(2) **Margins likely to remain under pressure in the ST.** Increasing competition in Letshego's core target market may have a greater impact on asset yields. In addition, high cost of funding may alter Letshego's sustainable margins.

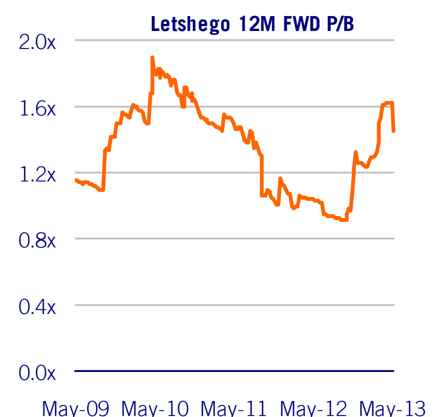
(3) **Expansion initiatives may impact on efficiency gains.** Higher costs base in Micro Africa business could result in higher than expected growth in expenses in the ST; unless significant scale is achieved. As such, Letshego's efficiency and productivity rations would deteriorate and translate into slower growth in earnings.

(4) **Broader product offering could impact on asset quality in the ST.** The comfort provided by deduction-at-source lending will be tested by Letshego's ability to control collections on alternative products such as MSME loans and non-deduction payroll lending. A rise in impairments in the ST will drive higher-than-expected provisioning and downplay current earnings estimates.

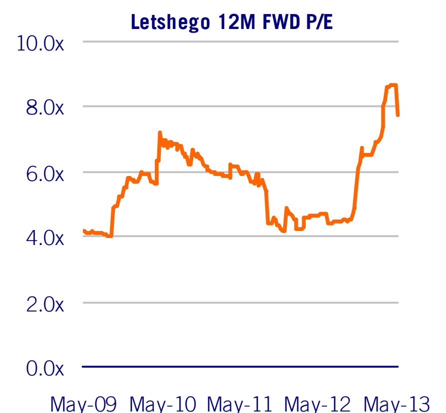
## Share Price Rating and Trading

Letshego has historic P/B and P/E average ratios of 1.3x and 5.6x. On current price of BWP2.14, the share is currently trading on 12-month trailing P/B and P/E ratios of 1.5x and 7.8x, which are both ahead of its historic averages. Notably, Letshego has a historic P/B range of 0.9x and 1.9x and on P/E its range is 4.0x and 8.7x.

**Historic P/B**




**Historic P/E**




*Source: Company report, BPI Capital.*



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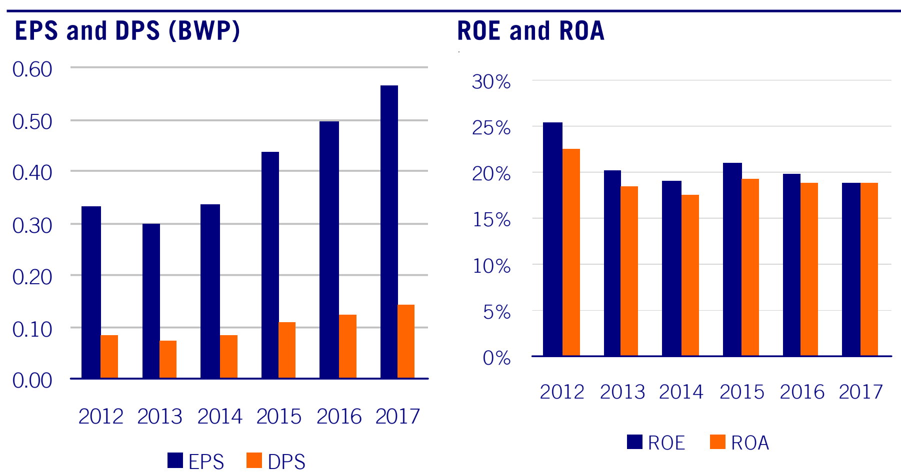
# PERFORMANCE ESTIMATES

## Earnings and Shareholder Returns

**We reiterate that ST earnings visibility is low owing to current repositioning of the business. In addition, Letshego changed reporting to a December year-end; hence its earnings will only be for 11-months.** We estimate FY14F EPS growth of 13% to BWP0.33 and EPS CAGR13-17$^{F}$ of 17%. Letshego is in a strong position to continue driving positive earnings as it largely seeks to consolidate expansion in East Africa and to diversify its product offering in established markets such as Botswana. Deduction-at-source code will remain an important element to the business proposition, and drive a significant level of revenue and earnings growth, especially in markets such as Mozambique, Lesotho and Namibia. Management guidance on total dividend payout is 25% over the MT. As such, we estimate DPS CAGR13-17$^{F}$ of 18%.

**Nevertheless, the outlook for Letshego's shareholder returns is modest in the MT, compared to its historic performance.** Shorter duration for reporting in FY14$^{F}$ impacted our earnings estimates; hence implied ROE and ROA are 19% and 17%. Some recovery is expected in FY15$^{F}$ as Letshego ramps up its earnings growth. However, due to current low gearing, Letshego is likely to achieve an average FY14-17$^{F}$ ROE and ROA of 20% and 19%.




*Source: Company report, BPI Capital; YE changed to December.*

We have provided consensus estimates available on Bloomberg. However, due to limited coverage of the stock, estimates provided on Bloomberg might be out-dated.

**Consensus EPS (BWP)**

| | 2014$^{F}$ | 2015$^{F}$ |
|---|---|---|
| Mean | 0.21 | 0.25 |
| Median | 0.21 | 0.25 |
| BPI estimates | 0.33 | 0.43 |

*Source: Bloomberg; BPI Capital Africa.*

## Loan Book Evolution and Net Interest Margin

In addition to strong loan growth achieved in the prior YE, we believe that Letshego will further consolidate gains in deduction-at-source code while increasing scale in its East Africa business. We estimate FY14$^{F}$ net loan growth of 23% to BWP5.4bn, which translates to a loans-to-assets ratio of 91% versus 89% previously. **According to management, FY14$^{F}$ net loan growth for East Africa and Southern Africa is 25% and 20%.** Further, we estimate net loans CAGR13-17$^{F}$ of 16%, which in our view is conservative as we maintain gearing levels relatively constant over the MT.



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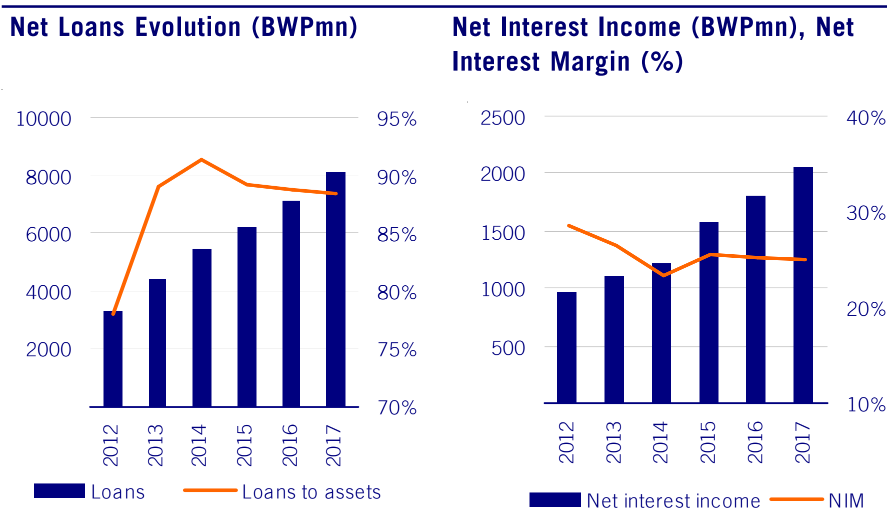
**We estimate lower FY14F NIM of 23%, due to a shorter reporting period and the impact of competition.** This implies net interest income growth of 10% to BWP1.2bn. According to management, the industry is currently facing declining margins as microlenders aggressively compete for market share; particularly in ex growth markets. A large number of traditional banks, especially in East Africa, are targeting low income individuals for both deposits and micro loans and are able to offer reduced interest rates. Regulatory pressures are also adding to the woes-such as concerns over fair pricing and affordability criteria. Nevertheless, we expect some recovery in pricing over the MT and our FY14-17F NIM is 25%. In addition, we estimate net interest income CAGR13-17F of 17%.

**Net Loans Evolution (BWPmn)** | **Net Interest Income (BWPmn), Net Interest Margin (%)**

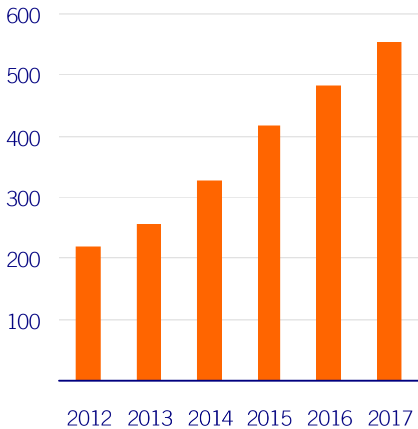



*Source: Company report, BPI Capital; YE changed to December.*

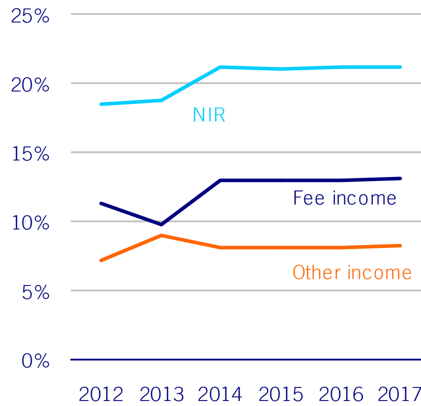
## Non-Interest Revenue

We estimate FY14F total NIR growth of 27% to BWP326mn, which translate to a contribution to total income of 21%. Key drivers of NIR are fees and insurance premiums, which generate a stable flow of annuity income for Letshego. The four-year historic contribution of fee income to total income was 10%. Due to a broader product offering and potential to offer transactional banking products in Mozambique, we estimate FY14-17F fee income contribution of 13%. Other income, which mainly consists of insurance premiums (revised classification), contributed an average of 7% to total income in the last four reporting periods. We estimate FY14-17F average contribution of other income to total income of 8%, owing to the impact of product diversification. Overall, we estimate total NIR CAGR13-17F of 21% vs 17% growth in net interest income.

**Non-Interest Revenue (BWPmn)**




**NIR Contribution to Total Income**

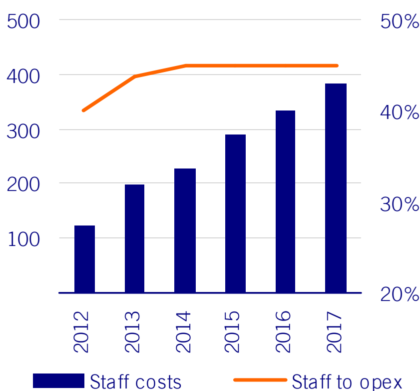



*Source: Company report, BPI Capital; YE changed to December.*

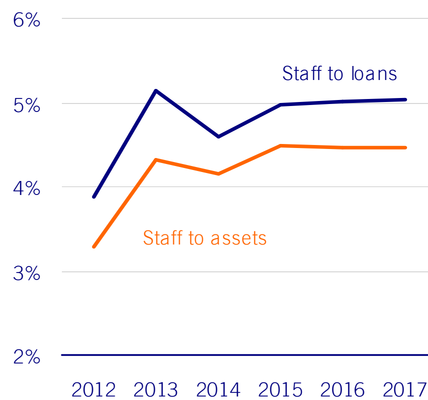
## Staff Productivity

**We estimate FY14F staff costs growth of 13% to BWP226mn and staff cost CAGR13-17F of 18% vs total opex growth of 17%.** Letshego's largest opex component is staff expenses, which contributed an average 43% to total opex over the last four reporting periods. The addition of Micro Africa is likely to increase the impact of staff costs to total opex in the MT, and we forecast higher average FY14-17F contribution of 45%. However, productivity measures will improve in FY14F due to a shorter financial reporting duration. We estimate staff costs to total assets and loans of 4.1% and 4.6%, but average estimates over FY14-17F are 4.4% and 4.9%.

**Staff Costs (BWPmn), Staff Costs to Opex (%)**




**Productivity Measures**




*Source: Company report, BPI Capital; YE changed to December.*



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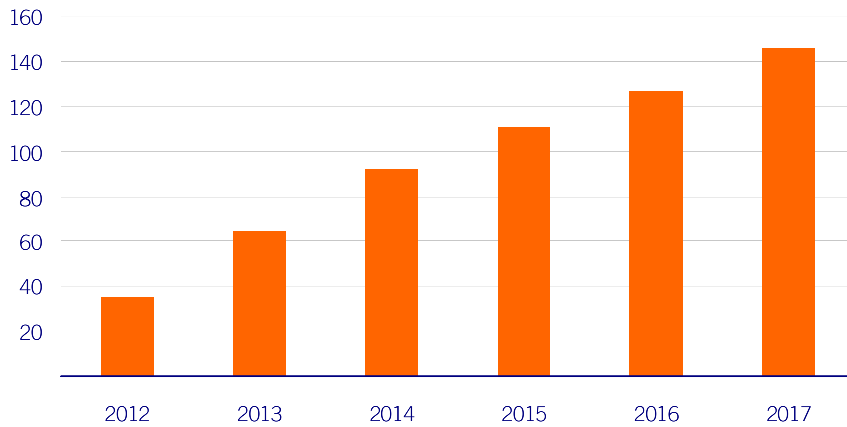
## Provisioning

Due to an expanded loan portfolio, which comprises non-deduction loans, we believe that asset quality may come under some pressure in the ST, driving provisioning levels higher. We estimate FY14F cost of risk of 1.8%, which implies an impairment allowance of BWP92mn, compared to BWP64mn in the prior year. In addition, we estimate average FY14-17F cost of risk of 1.9%.

**Impairment Allowance (BWPmn)**




*Source: Company report, BPI Capital; YE changed to December.*

## REGULATORY ENVIRONMENT

**We provide a brief assessment of regulatory intervention in the microlending industry, based on theories of financial sector regulation.** We emphasise the situation in Botswana, which comprises 13 licensed microlenders, and an additional 171 currently operating unlicensed. In other countries, regulation policy for microlenders is either in development phase or non-existent. As such, prudential and non-prudential regulation for commercial banks is often applied to microlenders. In Botswana, the sector is regulated by NBFIRA (Non-Bank Financial Institutions Regulatory Authority), a statutory body that was established in 2008. Apart from regulating other non-bank financial activity, **NBFIRA licenses microlenders, conducts on- and off-site monitoring and inspections, manages regulatory guidance and stakeholder issues and facilitates enforcement and prosecution.** Regulation of microlenders in Botswana is risk-based vs. a prescriptive compliance-based model. **As such, NBFIRA adopts a forward-looking approach while conducting the following actions in the sector:**

(1) **Monitoring behaviour, attitude and culture of microlenders in order to design regulatory interventions.** NBFIRA would look to identify microlenders who deliberately engage in abusive practices, such as unlawful detaining of customer ATM cards, repeated failure to disclose instalment amounts or fraudulent deduction of instalments ex post loan settlement.

(2) **Assessing the institutional setting of the regulatory system.** As a relatively new regulator, NBFIRA must balance its position between other authorities such as the finance ministry and central bank, while ensuring that it increases capacity to enhance its oversight function over larger and well-established microlenders. Importantly, NBFIRA may face policy conflicts with the finance ministry and central bank and has to act to synchronise its long term goals with the existing framework. Further, gaining acceptance of larger participants in the industry is crucial for setting the regulatory tone and enforceability of policy tools. NBFIRA should also be aware of possible regulatory arbitrage by small microlenders; in order to avoid implementation of microlending guidelines.

(3) **Applying regulatory tools and strategies available to ensure regulatory performance.** Regulatory tools are either sanction-based or incentive-based. Importantly, NBFIRA should be aware that the application of sanction-based tools such as deploying the services of police authorities to pursue unlicensed microlenders, could undermine the opportunity presented by incentive-based tools to educate and persuade offending operators to fall under regulation.

(4) **Measuring performance of the non-bank regulatory system.** Measurement of regulatory performance is crucial in defining current weaknesses and the extent of intervention in the microlending sector. In addition, quantifying performance would help to justify existence of the regulator and to set budgets for future regulatory activity. Thus far, NBFIRA displays strong accountability for its actions, through full disclosure and auditing resource usage.

(5) **Adapting to change.** The regulatory environment is constantly shifting and responsiveness to change ensures that emerging risks are mitigated. For example, as regulated microlenders acquire more knowledge about the significance of regulation, their lending practice may adapt to regulatory requirements or instead act to avoid regulation. Further, emergence of new technologies that increase

outreach of financial services, may impact on the use of traditional infrastructure, such as branches. NBFIRA should actively monitor and engage microlenders to ensure redesign of policy tools that match how microlenders would conform to regulation and how they apply new methods of product distribution.

**Further, we recently met with NBFIRA management in Gaborone and key takeaways from our meeting were as follows:**

(1) Despite current efforts to improve regulation, there remains a wide gap between commercial bank and microlending regulation in Botswana.

(2) Improved regulation of microlenders would broaden access to and usage of financial services for the under-banked and reduce abusive practice by lenders.

(3) Much effort is still required in policy design and implementation. Enforcement and prosecution capability is largely restrictive.

(4) Larger microlenders, especially, tend to disregard the role of the regulator and therefore make significant decisions without approval.

(5) The role of the regulator is not well-understood by microlenders.

(6) The funding relationship between local banks and microlenders poses a systemic risk to depositors.

(7) Financial literacy is relatively low and opens up opportunities for abusive practice by unregulated lenders.

(8) There are a significant number of unlicensed and unidentified microlenders operating in Botswana.

(9) Apart from the positive impact of deduction-at-source lending, individual borrowers still access non-regulated microloan products at levels beyond their ability to repay.

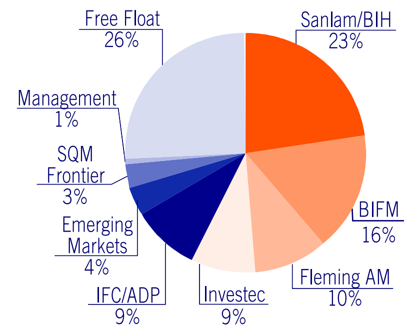
## COMPANY PROFILE

**Letshego is a specialised microlender company based in Botswana, whose business model entails extending unsecured short and long term personal loans to formally employed individuals (> 90% are civil servants), and commonly securing repayments via a deduction-at-source mechanism.** The company's flagship personal loans contribute approximately 95% of revenue and range from BWP 500 to BWP 200,000 with repayment periods of up to 5-years. A "vehicle finance" franchise makes up the balance of revenue, with loans of up to BWP100,000 on 4-year repayment schedules.

The company (formerly known as Micro Provident Botswana) was incorporated and commenced trading in Botswana in 1998, and was subsequently admitted to the Botswana Stock Exchange (BSE) in 2002, via a BWP 30mn private placement. Its main shareholders are insurance companies, development finance institutions (DFIs), pension fund management and asset management firms. They include Sanlam/ Botswana Insurance Holdings (BIH), International Finance Corporation (IFC), Investec and SQM Frontier. In 2013, IFC/ADP converted a BWP253mn loan into equity, obtaining 0.8% of total shares (post-issue) at a price of BWP1.60 per share (current market value BWP2.20).

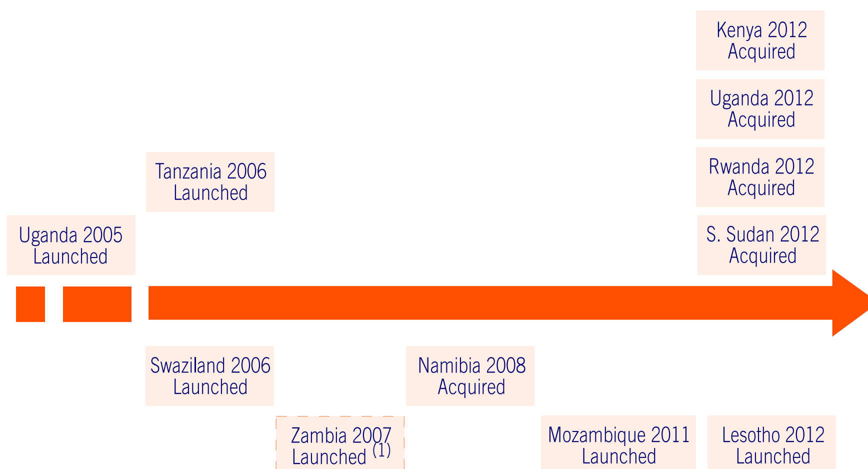
Buoyed by a strong institutional shareholder base, Letshego has sought diversified product and geographic growth. In 2004, Letshego launched an insurance company (Legal Guard), although this was later sold in 2010 to its strategic shareholder, BIH. In 2005, the first move to transform into a sub-Saharan operator was achieved, with establishment of a Ugandan operation. In following years, Letshego expanded into several other countries in Southern and East Africa reaching a presence in eleven. These included establishments in Tanzania and Swaziland, both in 2006 and (now disposed) Zambia in 2007. The first acquisition was in Namibia in 2008 via the purchase of Eduloan. Mozambique was established 3-years later and in 2012 a start-up in Lesotho followed. Still, in 2012, Letshego made a bold move into East Africa, via the acquisition of Micro Africa, which was represented in four countries-Kenya, Uganda, Rwanda and South Sudan.

**Key Shareholders**




*Source: Company report.*

**Operational Footprint**

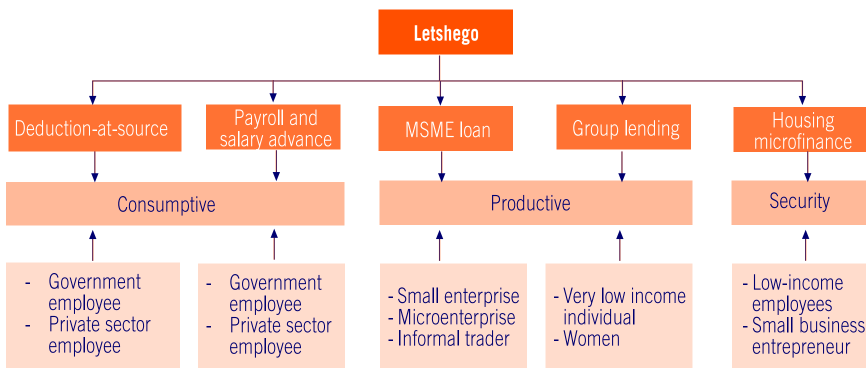



*Source: Company report, BPI Capital; Timeline not drawn to scale; (1) Zambia exited in YE13.*

## Business Model and Product Description

**Letshego offers unsecured consumer finance via deduction-at-source code, as the cornerstone of its business model.** With the exception of the Micro Africa business, lending via deduction-at-source is prevalent in all of Letshego's operations. Other loan products offered by Letshego include group lending, MSME loans, salary advance, government payroll loans (without deduction) and housing microfinance.

**Product Diversification**




*Source: Company report, BPI Capital Africa.*

## Unsecured Consumer Finance

**Unsecured loans depend on the application of deduction-at-source code and central registers.** Central registers are typically independent and manage a database of borrowers. In a sense, they are similar to credit bureaux, which sell data on customer loan repayment track records.

**Deduction-at-Source Code Explained:**

(1) Borrowers (civil servants) approach a Microlender for financing.

(2) The Microlender submits affordability requests to the Central Register. The requests contain details of each loan, personal and professional data on each civil servant and proposed monthly loan deduction amounts.

(3) The Central Register conducts a verification of affordability with the Government Payroll. A response to the verification query is transmitted from the Government Payroll to the Central Register. The Microlender is then informed of the outcome.

(4) On successful verification, the Microlender approves each loan and disburses loan amounts to each civil servant's account with a commercial bank.

(5) When the first instalments become due, the Microlender sends a verified and compliant deduction request to the Central Register. Together with requests from other Microlenders, the Central Register aggregates all deductions and conducts a cross-check, before submitting a request to the Government Payroll.



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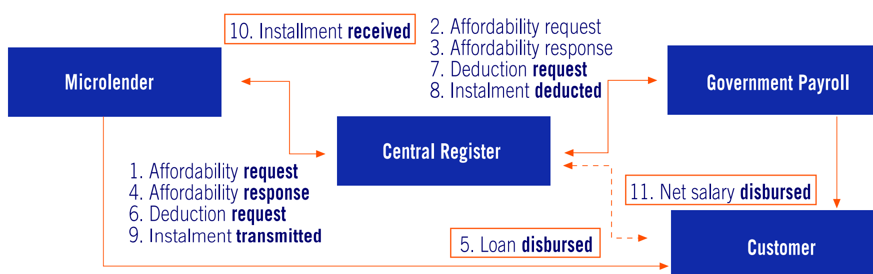
(6) The Government Payroll, in agreement with the request, deducts all required amounts from civil servant after-tax salaries. The Government Payroll is the source. All deductions are aggregated and transmitted to the Central Register. The Central Register bears the responsibility of disaggregating the transmitted amount.

(7) Each Microlender receives an allocation based on the verified amount and updates the civil servants' instalments. Instalments for each loan are equal over the duration of the repayment.

(8) Government Payroll disburses ex post deduction net salaries for each civil servant into respective bank accounts.

**Deduction-at-Source Mechanism**




*Source: Company report, BPI Capital Africa.*

**Benefits of Use of Deduction-at-Source Code**

In order to mitigate circumstances of default on unsecured loans, Letshego has thus far secured the use of deduction-at-source in most of the countries in which it operates. Hence, the benefits of its use can be surmised as follows:

(1) Central registers reduce problems of information asymmetry, such as adverse client selection (hidden information) and moral hazard (hidden action); owing to collating and sharing of client data and affordability checks.

(2) High risk perception is minimised; which is often a hindrance to providing loans to low-income segments.

(3) High administrative costs associated with small value loans are eliminated due to use of automated central registers.

(4) The lack of collateral is not a disincentive for providing loans, since targeted customers have a reliable flow of income

(5) Collection rates are high (97 - 100%) due to deductions being made before borrowers receive a salary.

### Risks of Using Deduction-at-Source Code

The risk of increased regulation, such as deduction-at-source being disallowed, poses a significant threat to Letshego's loan portfolio. The State may increase regulation owing to concerns over excessive borrowing by customers and poor levels of affordability of loan repayment. In South Africa, between 1998 and 2001, the withdrawal of deduction-at-source code had tragic consequences for some financial services providers. Another risk is that the State may tighten fiscal policy and reduce the size of the civil service. A loss of employment on a large scale would drive loan delinquency rates higher. Natural attrition (voluntary exit or death) in the civil service is also a risk to use of deduction-at-source code.

### Mitigating Risks of Using Deduction-at-Source Code

Given the risks, Letshego applies the following strategies: (1) on-going appraising to Governments of the use and benefits of deduction-at-source; (2) placing debit orders on stand-by for each customer bank account; (3) insuring against default and outstanding loan balances through life, retrenchment and permanent disability insurance and (4) adequate training and incentivisation of loan officers and sales agents, to improve client selection.

## Group Lending, MSME Loans and Others

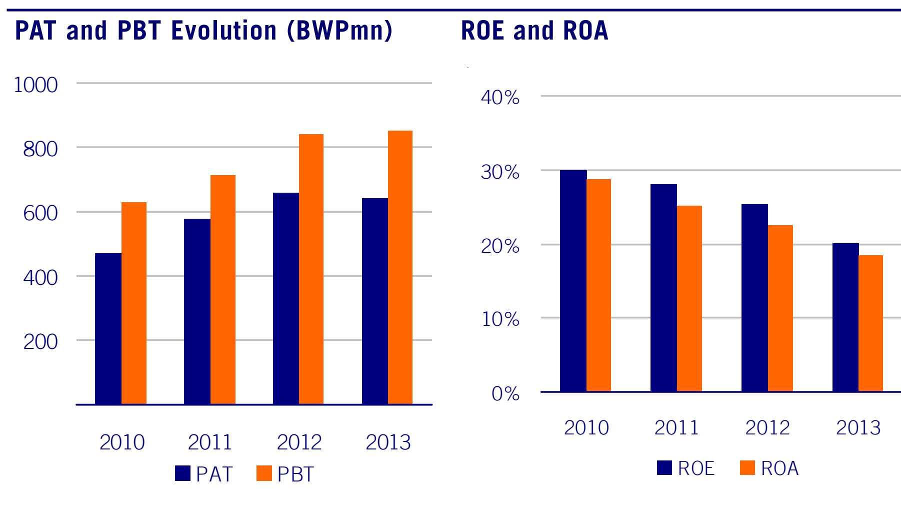
**Letshego will likely increase scale on group lending as the product is lucrative and is associated with low risk**. Group Lending contracts were popularised by Grameen Bank in Bangladesh in the 1980s and have since grown to various parts of the world. In East Africa, group lending is popular among microfinance banks, and targets low-income households participating in microenterprise initiatives. A group typically comprises of 5 individuals-typically women-who receive separate unsecured microloans of no more than USD250 at a time. A loan granted to each individual is secured by joint responsibility of the group and subsequent peer monitoring of use of loan proceeds. As such, group lending reduces problems of information asymmetry and high risk perception associated with low income households. **MSME loans are productive-use financing and target microenterprises, with a typically high-risk profile.** They vary in structure, but have high flexibility through use of non-conventional forms of security. **Salary advances and government payroll loans target employed individuals.** However, the risk profile of these loans is much higher as there is no application of a deduction code for loan repayments. Though such loans present another growth opportunity, it is likely that Letshego would ultimately alter terms of this portfolio to deduction-at-source contracts.

# HISTORIC GROUP PERFORMANCE

## Historic Net Income and Profitability

**Letshego achieved steady growth in net income over the past few years, owing to management's conservative approach in driving the business. PAT growth compounded over the last four reporting periods was 14%.** In the last reported period, net income was muted, as it declined by 2% y/y to BWP643mn, owing to the impact of expansion initiatives on operating efficiency. Slower growth in last reported net income resulted in a decline in ROE and ROA to 20% and 18%-from 25% and 22% in the comparable year. Historically, Letshego has maintained relatively high levels of profitability, with average ROE and ROA over the last four reporting periods of 26% and 24%. However, the business has experienced a negative trend in profitability due to faster growth in equity and assets relative to net income, as well as the broader impact of increasing pressure on margins and recent expansion initiatives.

**PAT and PBT Evolution (BWPmn)** | **ROE and ROA**




*Source: Company report.*

## Historic Leverage

**Letshego's historic gearing levels remain relatively conservative, despite a debt note issue of ZAR700mn (USD68mn) in YE12. Management has maintained a debt-to-equity ratio within a range of 0.3 - 0.5x over the past few years.** This compares with non-deposit microlenders which are typically highly geared with debt-to-equity ratios of up to 2.0x. Notably, total borrowings declined marginally to BWP1.25bn from BWP1.28bn in FY13, following a BWP253mn debt-to-equity conversion. Letshego has funded most of its loan growth via equity, for which a large part was acquired in a BWP360mn capital call in YE09. Shareholder equity and total assets grew by compounded annual growth of 27% over the last four reporting periods vs total borrowing growth of 35%.



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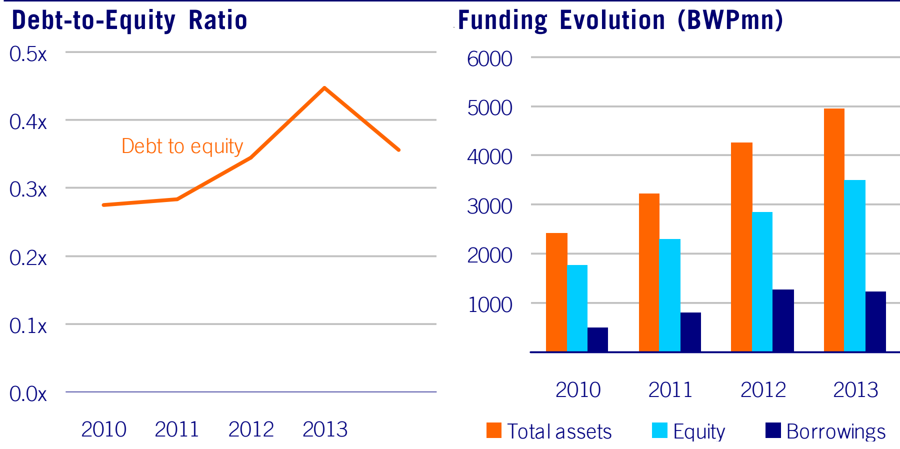
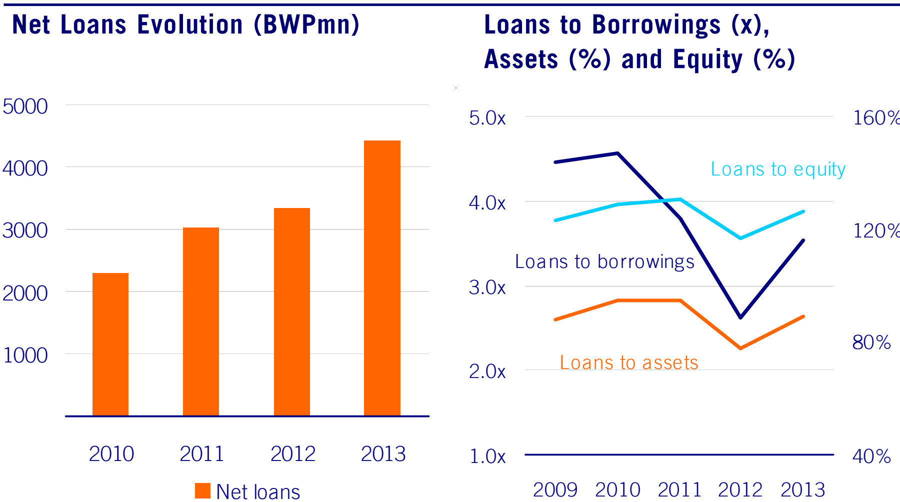



*Source: Company report.*

## Historic Loan Growth

**Efforts to grow the portfolio via regional operations paid off as Letshego delivered four-year compounded annual loan growth of 27%.** In FYE, Letshego surprised on the upside with strong net loans growth of 33% y/y to BWP4.4bn; more so because of growth in the Southern Africa region (especially Botswana, Namibia and Mozambique), which delivered growth of 38% y/y to BWP3.7bn versus 8% for East Africa to BWP685mn. As such, Southern Africa increased its contribution to total loans to 85% from 81% in FY13. Market indications have generally been that the Southern Africa region is mature, since there are many competitors and prevalent use of deduction-at-source lending in most countries in the region. Further, the risk of increased regulation was seen to likely inhibit future growth of payroll lending, especially in Botswana and Swaziland.




*Source: Company report.*



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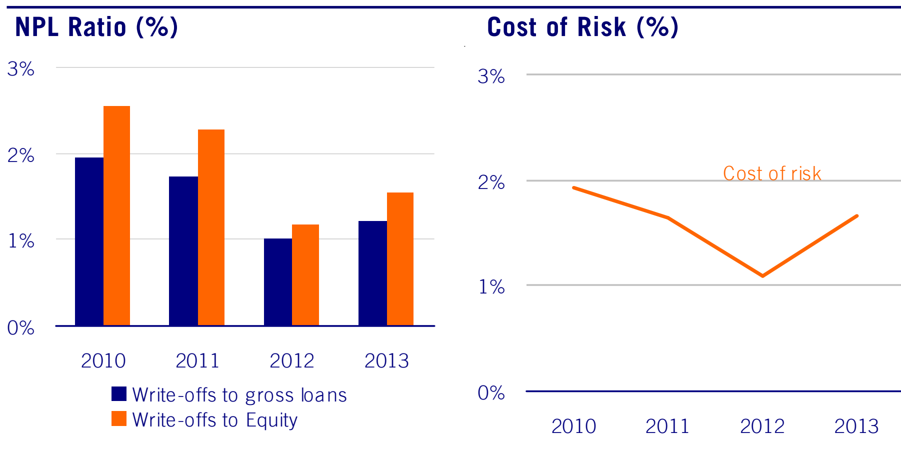
## Historic Asset Quality

**Despite rapid loan growth, asset quality has remained relatively strong owing to conservative risk management and low-risk products.** Management fully impairs a loan once a borrower misses two repayments. As such, NPLs are maintained at relatively low levels, although a stringent approach to managing recoveries is utilised. However, by substituting write-offs for NPLs, Letshego had an average NPL ratio of 1.5% over the last four reporting periods. Average cost of risk over a similar period was 1.6%. However, in the past FY provisioning increased to 1.7% owing to concerns over rising country risk in South Sudan.

**NPL Ratio (%)** | **Cost of Risk (%)**

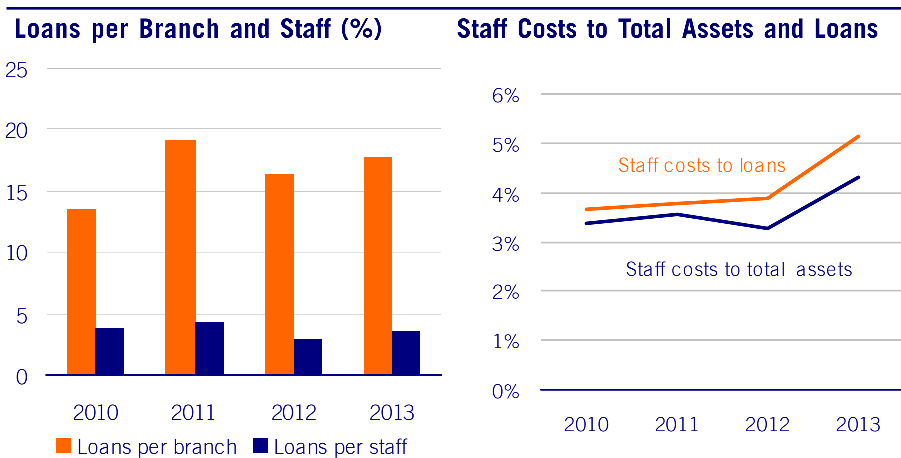



*Source: Company report.*

## Historic Productivity

**Growth in average loans per branch has largely been positive and the average value over the last four financial periods was USD17mn per branch.** Average loans per staff over a similar period were USD3.7mn and average borrowings per staff were USD1.0mn. Staff productivity can be measured by average staff costs to total assets and loans, which were 3.6% and 4.1% over the last four reporting periods.

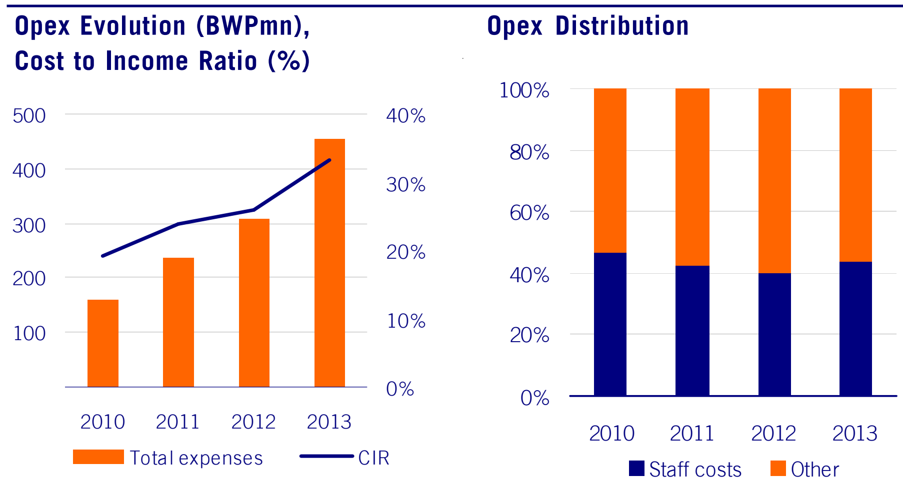
**Loans per Branch and Staff (%)** | **Staff Costs to Total Assets and Loans**




*Source: Company report.*

## Historic Operating Efficiency

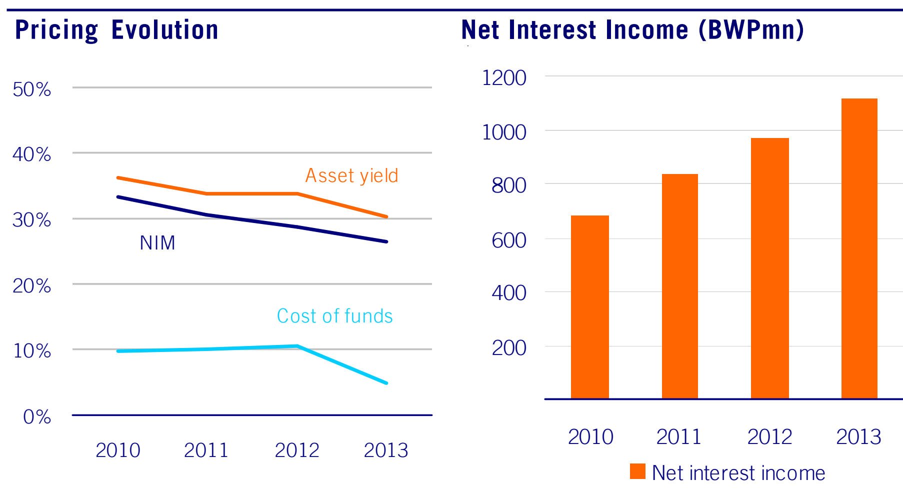
**Letshego's opex increased by a compound annual growth rate of 32% over the last four years, but the average cost-to-income ratio was 26% during that period.** In the last reported FYE, opex grew by a substantial 48% y/y to BWP455mn and cost-to-income ratio deteriorated to 33%. Cost increases were related to aggressive expansion into the region, modernisation of ICT infrastructure, widening of the distribution network to over 250 branches and acquisition of new staff.




*Source: Company report.*

## Historic Margins

**In addition to increasing pressure on opex, Letshego experienced declining margins due to increasing competition and regulatory pressures.** Letshego's average NIM over the last four reporting periods was 30%, and has had a negative trend. Despite margin pressure, net interest income maintained a positive trend and achieved a compound annual growth rate of 20% over the past four years.




*Source: Company report.*

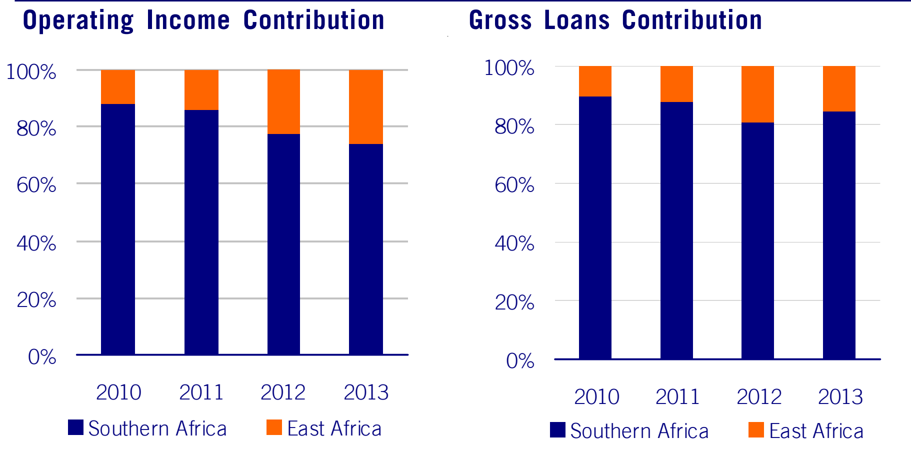
HISTORIC REGIONAL PERFORMANCE

**Letshego is present in Southern Africa and East Africa with operations spanning 10 countries.** Southern Africa consists of Botswana, Namibia, Lesotho, Mozambique and Swaziland; and East Africa is represented by Uganda, Tanzania, Kenya, Rwanda and South Sudan.

**Letshego Operations**

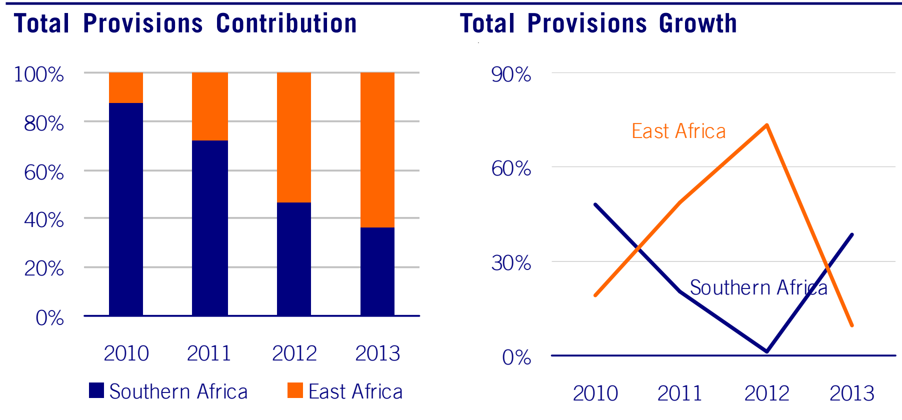
*Source: BPI Capital Africa.*

**Southern Africa is a dominant group, testament to Letshego's roots in Botswana.** Its average contribution to operating income in FY10-13 was 82%, although the trend has been negative post the acquisition of Micro Africa in YE12. Nevertheless, a higher share of operating income in Southern Africa was driven by strong loan book growth. The average FY10-13 contribution to gross loans in Southern Africa was 86%, and the impact of the additional East Africa portfolio has thus far not been substantial.




*Source: Company report.*

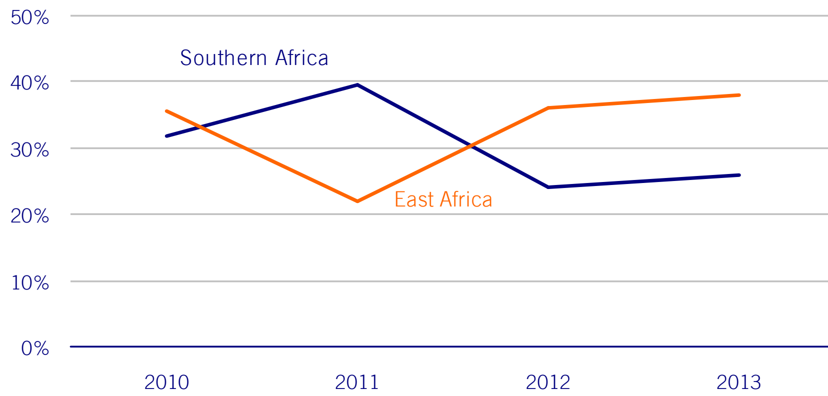
**Despite a relatively low contribution to gross loans, East Africa operations have taken the lion's share of total provisions, at 64% for FY13.** In addition East Africa provisions CAGR10-13 was 37% vs a 20% decline in Southern Africa.




*Source: Company report.*

**Further, a longer operating track record for Southern Africa has yielded stronger efficiency.** East Africa operations, which include the recent acquisition of Micro Africa, are currently experiencing integration issues, which have exerted pressure on opex. The average CIR10-13 for Southern Africa was 30% versus 33% for East Africa.

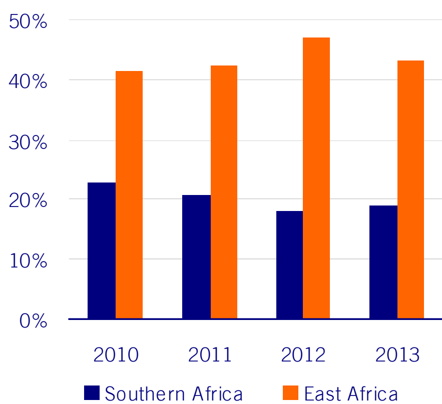
**Cost to Income Ratio**



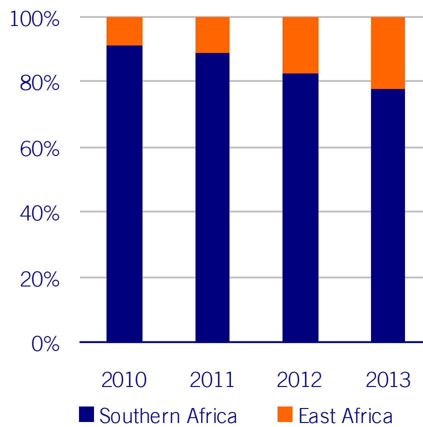

*Source: Company report.*

Nevertheless, **East Africa is the more profitable on ROA, due to a smaller asset base.** East Africa average ROA10-13 was 43% vs Southern Africa at 20%. Despite high profitability in East Africa, the majority of PBT is contributed by Southern Africa, comprising >85% of total PBT.

**ROA**




**PBT Contribution**




*Source: Company report .*



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## COUNTRY PROFILES AND OUTLOOK

**Letshego Main Markets - Macro landscape**

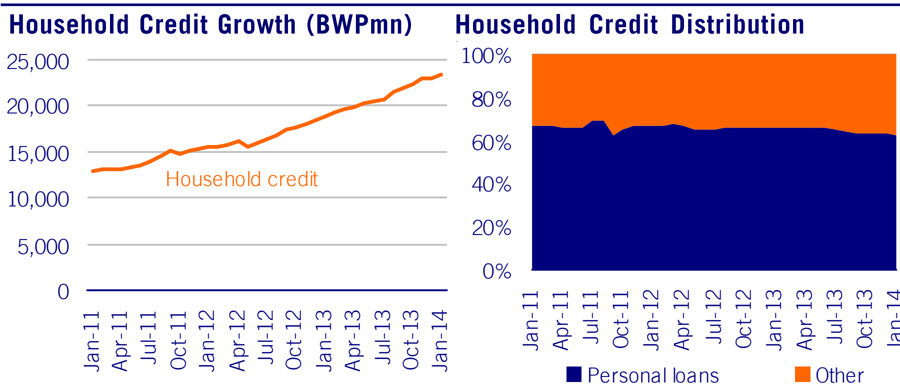
| | Botswana | Mozambique | Namibia | Swaziland | Lesotho | Tanzania | Uganda | Kenya | Rwanda | South Sudan |
|---|---|---|---|---|---|---|---|---|---|---|
| Population (000) | 2 079 | 25 860 | 2 174 | 1 093 | 1 906 | 46 277 | 36 824 | 44 351 | 10 641 | 10 882 |
| % urban | 62% | 31% | 38% | 21% | 28% | 27% | 16% | 24% | 19% | 18% |
| Labour force (000) | 1 308 | 10 550 | 928 | 424 | 874 | 25 590 | 17 400 | 19 670 | 4 446 | -- |
| Formally employed (000) | 539 | 1 120 | 300 | 100 | 539 | 3 870 | 556 | 2 127 | 490 | 506 |
| % in Government | 25% | 22% | 31% | 35% | 8% | 15% | 45% | 27% | 27% | 30% |
| Public debt (% of GDP) | 18% | 47% | 27% | 21% | 38% | 43% | 31% | 54% | 24% | 74% |
| GDP per capita (USD) | 7 136 | 593 | 5 667 | 3 313 | 1 194 | 703 | 626 | 1 016 | 698 | 1 262 |
| GDP growth (Dec-14) | 4.1% | 8.3% | 4.3% | 2.1% | 5.6% | 7.2% | 6.4% | 6.3% | 7.5% | 7.1% |
| Inflation (Dec-14) | 3.5% | 6.0% | 5.8% | 5.6% | 4.6% | 5.0% | 7.0% | 6.6% | 4.5% | 14.2% |

*Source: Company report, CIA, IMF; GDP per capital at current prices.*

### Botswana

**The domestic economy delivered relatively slow but stable growth over the last two years, largely due to fiscal restraint and slower non-mining activity.** Real GDP growth in YE13 was 3.9% versus 4.2% the previous year. Demand pressures were alleviated by modest State expenditure growth of just 2%, further driving slower non-mining (supply-side) GDP growth at 5.1% compared to 8.0% in YE12. With reduced demand pressures, inflation came to within the target band of 3 - 6%. Likewise, the pula appreciated against the South African rand, but the USD exchange rate was relatively stable. South Africa is Botswana's key trading partner.

With a stronger local currency and restraint on spending, State deposits with the central bank increased. The effect was a contracting of money supply in the economy. In contrast, YE13 private sector credit growth of 15.1% and an increase in net foreign assets had an expansionary effect on money supply. On balance, YE13 money supply expanded by 8.6%. Private sector credit growth was led by borrowing at household level - which delivered YE13 growth of 24.2% vs 21.0% in the previous year. The strong growth in household credit stabilised demand and supported economic activity. Key drivers of household credit growth were mortgages, up 43.3% y/y and personal loans 19.1%. However, as supply-side activities slowed, YE13 productive sector credit growth was a meagre 4.6%, albeit off a higher growth base of 26.8% in YE12.

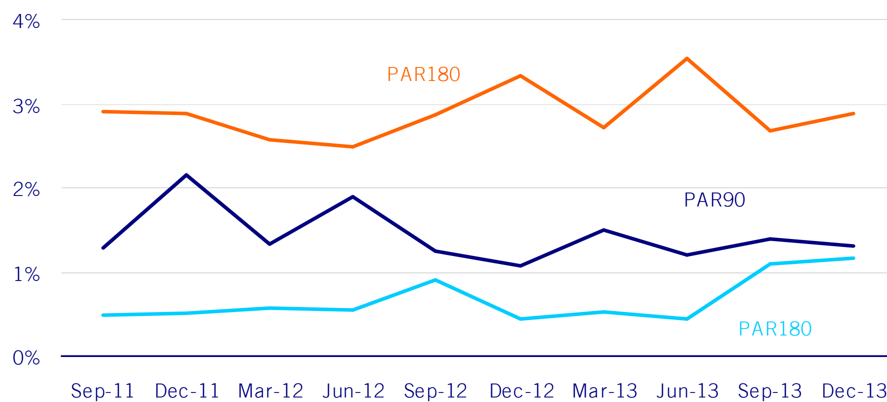



*Source: Central Bank.*

**Importantly, the significant increase in credit to households, mostly in the form of personal loans or consumer finance is, in a sense, concerning.** While the credit expansion is reflective of increased outreach or access to financial services, its poses potential systemic risk, should borrowers become overburdened with debt and default on repayments. According to the Bank of Botswana, funding sources for household credit, which is usually allocated in frequent small value loans, mainly consists of price-sensitive wholesale corporate deposits. Wholesale deposits represent c. 75% of total banking sector deposits and household credit comprises c. 60% of total banking sector loans.

Using data sourced from Bank of Botswana, **we measured household credit 'portfolio-at-risk' (PAR) for the banking sector, as a proxy for total household credit (including microlenders).** At different levels of up to 90 days, 180 days and over 180 days, the variable provides an indication of loans with outstanding payments as a % of total loans. It is a common measure applied by microlenders. For the period commencing Sep-11 to Dec-13, the averages of PAR90, PAR180 and PAR+180, were 1.4%, 2.9% and 0.7%. The lower average PAR+180 is likely an indication of subsequent arrear resolution via loan term renegotiation or write-offs.

**Portfolio at Risk for Household Credit**




*Source: Central Bank; BPI Capital Africa.*

**Portfolio at Risk for Household Credit**

| | PAR90 | PAR180 | PAR+180 |
|---|---|---|---|
| Sep-11 | 1.3% | 2.9% | 0.5% |
| Dec-11 | 2.1% | 2.9% | 0.5% |
| Mar-12 | 1.3% | 2.6% | 0.6% |
| Jun-12 | 1.9% | 2.5% | 0.6% |
| Sep-12 | 1.2% | 2.9% | 0.9% |
| Dec-12 | 1.1% | 3.3% | 0.4% |
| Mar-13 | 1.5% | 2.7% | 0.5% |
| Jun-13 | 1.2% | 3.5% | 0.4% |
| Sep-13 | 1.4% | 2.7% | 1.1% |
| Dec-13 | 1.3% | 2.9% | 1.2% |
| **Average** | **1.4%** | **2.9%** | **0.7%** |

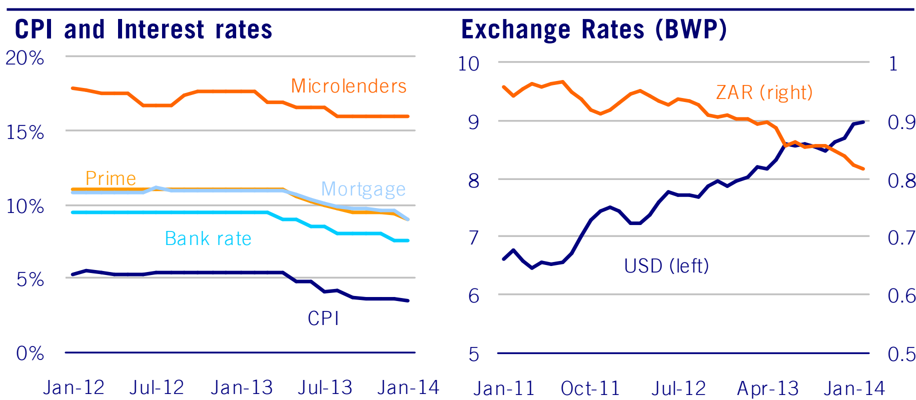
*Source: Central Bank and BPI Capital Africa.*

## Letshego Financial Services (Botswana)

Botswana was established in 1998 and is 100% owned by Letshego Holdings. **As a dominant microlender Letshego Botswana is the largest contributor to loans and operating income in the Group.** It controls c. 25% of market share of about 133 000 civil servants, with about 99% of the portfolio on deduction-at-source contracts. Likewise, the collection rate is on average 97%. However, with rising concern over household credit levels in Botswana, it is no surprise that consensus sentiment in the recent past is that Botswana is ex growth. Yet, Letshego Botswana has displayed resilience as its portfolio continues to expand and the business delivering relatively strong operating performance in FY14.

## Outlook for Botswana

**Botswana has a positive and stable MT outlook,** supported by growth in mining activity- largely the diamonds industry. Owing to demand-side pressure restraints and easing inflation (Jan-14: 3.5%), the central bank has maintained an expansionary stance on monetary policy by reducing the bank rate. The reduction occurred gradually over the last 24-months and reached a YE13 low of 7.5%. Prospects for relatively low inflation and a stable exchange rate remain strong in the MT. IMF estimates a YE14 inflation rate of 3.5%. However, risks to inflation include significant changes in State administered prices and government levies, an expansionary fiscal stance and external shocks from international food and oil prices. Albeit the risk of an over-indebted consumer, household credit is expected to continue to grow; supporting supply-side economic activity, particularly in sectors such as manufacturing, retail, agriculture, services and import distribution.




*Source: Central Bank.*

## Mozambique

**With estimated YE14 GDP growth of 8.3%, up from 7.1% the previous year, Mozambique is ranked among the top five fastest-growing SSA economies** (which include Sierra Leone, Chad, DRC and Côte d'Ivoire). Strong domestic performance is largely attributed to activity in extractive industries following coal and natural gas finds in recent years. The country has enjoyed strong FDI inflow in mining and large-scale infrastructure projects. IMF estimates that the coal and gas projects could, in each year add 200bp to GDP growth over a 10-year horizon; while FDI will likely reach 45% of national income. Infrastructure projects are in sectors such as electricity generation, minerals exploration, metals processing, rail and transportation.

Likewise, the Mozambican government has adopted an expansionary stance on fiscal policy to further stimulate rapid economic growth. Large increases in spending are therefore expected over the MT. Currently, the YE14 fiscal budget has an estimated deficit equivalent to 6% of GDP vs 5% in YE13. Monetary authorities have also responded with easing of policy, while capitalising on gains in inflation (YE13: 3.0% versus SSA average of 5.9%). The central bank, Banco de Moçambique, halved its key policy rate the Standing Lending Facility to 8.25% in Oct-13 from 16.00% in Jul-11, while maintaining the CRR at a comparably low 8.00% for about 24 months. Nigeria, for example has a CRR of 15% for corporate deposits and 75% for public sector deposits; a level set in order to sterilise excess liquidity in the Nigerian banking system.



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In Mozambique, however, the interest rate pass-through has remained largely ineffective as banking sector lending rates persist at relatively high levels. This scenario compromises efforts to stabilise pricing and may retrain credit growth in the MT. However, Mozambique has continued to exhibit strong private sector credit growth targeting business and households.

### Letshego Financial Services (Mozambique)

This is one of the latest additions to the stable and was established in 2011. The unit is among the fastest growing with over 20,000 borrowing customers all serviced on a deduction-at-source platform. Repayment collection rates have ranged from 97-98%, indicating relatively high quality of the loan book. **With solid gains on the lending front, Letshego Mozambique presents an exciting opportunity for the group as it is the first in the stable to accept deposits as a deposit microfinance bank. Whereas the group has not yet been successful in delivering full commercial banking in other regions (especially Botswana), the Mozambique operations commenced deposit-taking in Feb-14**. As such, this is a solid ground upon which the business will test its value offering-seamless transactional service facilities for traditional and new clients. Customers will effectively be able to save and borrow with Letshego, as well as conduct payments on a Letshego platform; and in a sense, Letshego would increase its share of wallet of the customer. Importantly, we view this as the first step towards a restructuring of Letshego's funding mix, currently dominated by shareholder equity.

## East Africa

Among other countries, the region consists of Kenya, Tanzania, Uganda, Rwanda, Burundi and South Sudan. **A key regional body called the East African Community has sought to broaden economic cooperation among member States and thus far delivered harmonisation of customs (in 2005) and established a common market (in 2010). Planned objectives include harmonisation of monetary policy and in the long run creation of a political federation**. The body is represented by all excepting South Sudan, which is at final stages of admission. The population of member States in the EAC is 141mn and GDP is estimated at USD100bn. Average real GDP for countries in the region was c. 4.3% over YE10-13 and is expected to reach 6.5% for YE14. Average inflation (excluding South Sudan in YE12) was 8.6% and should be c. 6.5% at YE14.

**Real GDP Growth**

| | 2010 | 2011 | 2012 | 2013 | 2014F |
|---|---|---|---|---|---|
| Kenya | 5.8% | 4.4% | 4.6% | 5.6% | 6.3% |
| Rwanda | 7.2% | 8.2% | 8.0% | 5.0% | 7.5% |
| Uganda | 6.2% | 6.2% | 2.8% | 6.0% | 6.4% |
| Tanzania | 7.0% | 6.4% | 6.9% | 7.0% | 7.2% |
| Burundi | 5.1% | 4.2% | 4.0% | 4.5% | 4.7% |
| South Sudan | -- | -- | -47.6% | 24.4% | 7.1% |
| **Average** | **6.3%** | **5.9%** | **-3.6%** | **8.8%** | **6.5%** |

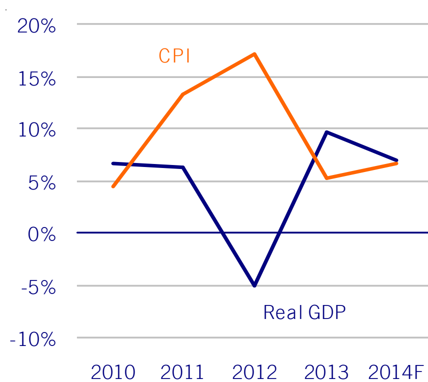
*Source: IMF.*

**Inflation Rate**

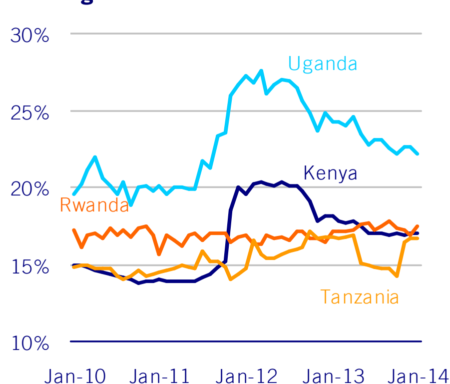
| | 2010 | 2011 | 2012 | 2013 | 2014F |
|---|---|---|---|---|---|
| Kenya | 4.3% | 14.0% | 9.4% | 5.7% | 6.6% |
| Rwanda | 2.3% | 5.7% | 6.3% | 4.2% | 4.1% |
| Uganda | 4.0% | 18.7% | 14.0% | 5.4% | 6.3% |
| Tanzania | 7.2% | 12.7% | 16.0% | 7.9% | 5.2% |
| Burundi | 4.1% | 14.9% | 12.0% | 8.8% | 5.9% |
| South Sudan | -- | -- | 45.1% | 0.0% | 11.2% |
| **Average** | **4.4%** | **13.2%** | ***11.5%** | **5.3%** | **6.5%** |

*Source: IMF; *excludes S. Sudan.*

**Growth and Price Trends**




**Lending Rates**




*Source: IMF.*

**Much of the growth in East Africa has been led by agriculture (such as tea and coffee production), tourism, manufacturing and importantly financial services and telecoms.** Regional initiatives to promote development of small-scale farming through provision of tailored financing such as microfinance credit guarantee schemes have been successfully applied to tea and coffee production. Excepting a few disturbances, particularly in Kenya, improving regional security and political reform have helped to drive stronger growth in tourist arrivals over the past decade, while a customs union and common market area designation have fostered growth of regional manufacturers and eased cross-border capital flows.

**The easing of capital flows has especially driven broader access to financial services in the region, led by Kenyan banks**. It is suggested that Kenya has among the highest levels of access to finance by the adult population, estimated at c. 70%, though a large part of access relates to payment facilities, which are not necessarily offered by formal banking institutions, such as the M-PESA payment platform. Nevertheless, development of banking and financial services among East African States, has exhibited a strong causal relationship with economic growth.

**Despite the gains achieved thus far, the region has not been without challenges.** Concerns over regional security, brought about by Al-Shabaab (a militant group based in Somalia) have had some negative ST term ramifications. Several sequences of drought in the past have restrained agricultural output and critically so, external shocks such as high food import bills and high crude oil prices between YE11-12 had a strong bearing on

inflation. With rising inflation, exchange rates also came under pressure. As such, most countries in the region experienced rising interest rates, as monetary authorities tightened policy to reign-in inflation and stabilised exchange rates. Uganda, for example, recorded the highest rise in lending rates by YE12 as GDP growth slowed to just 2.8% for that period, vs a regional average of 5.3%.

### Letshego Financial Services in East Africa

**Letshego's first venture into SSA was via the establishment of Uganda in 2005, which grew its customer base to over 32 000. However, the business has not been a star performer**. With a previous lack of sector regulation and economic challenges that followed, the business faced considerable loan collection challenges (previously at levels of c. 70%), had a change of management and faced increasing competition. Nevertheless, there have been some improvements to the sector and the business. Though regulation is still relatively non-existent, a central registry is in use in virtually all of Letshego’s deduction-at-source contracts. Pre-economic slowdown in YE11-12, the performance of loan collections had improved to about 98%. However, with the outturn of high interest rates, there was some delayed impact on risk asset quality, driving collections down to c. 85% in FY13.

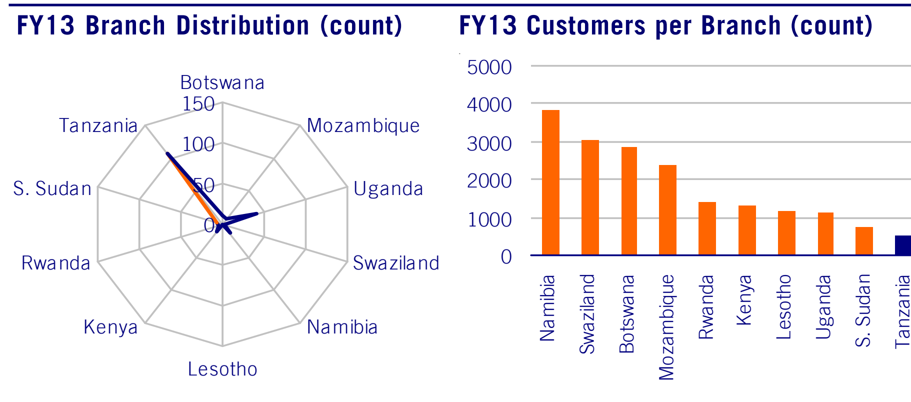
**The recent acquisition of Micro Africa in YE12 will likely be a game changer for Letshego's position in East Africa**. Effectively, the acquisition gives the business additional presence in Uganda, as well as other key economies in the region-Kenya, Rwanda and South Sudan, with a client base of over 42 000. The importance of the acquisition is that it essentially altered Letshego's virtually pure business proposition in unsecured consumer finance. With Micro Africa's portfolio, Letshego now offers a wider range of products, both for consumptive and productive purposes. The products include group lending schemes, SMME and housing microfinance. Though the acquired portfolio is currently minute relative to entire group loans, it presents a considerable opportunity for Letshego to seek growth; more so under the assumption of a mature Southern Africa region.

**There are concerns however, over management capability in maintaining a strong track record in asset quality, particularly as the business is now exposed to frequently problematic SMME loans while a large portion of the portfolio is not on deduction-at-source contracts**. In our opinion, Letshego's commendable risk management history has been largely shielded by benefits of deduction-at-source contracts. Even if consideration is that 'locally-employed management will get things done,' it is obvious that policy setting will be driven from Botswana. Letshego's first established subsidiary in Uganda has met with some challenges in the past, much because industry dynamics between Southern and East Africa have wide variation. As such, much remains to be seen on whether Letshego will successfully integrate the portfolios and continue to drive strong returns.

**Moreover, the Tanzania subsidiary that was established in 2006 has proven a success and largely supported growth of Letshego's presence in the region. Between FY11 and FY13, Tanzania grew its customer count by c. 50% to 53,579**. The entire loan book was managed on a deduction-at-source platform with collection rates only declining to 97% in FY13 owing to the delayed effect of previously high interest rates. According to management, Tanzania increased its revenue to 14% in FY13, from 8% in FY11. This is in contrast with Uganda (2005), which has maintained contribution at just 5% over the same period. Tanzania's FY13 branch network at 106 eclipses Letshego's

distribution in other countries. However, it is least productive as measured by a ratio of 505 customers per branch ratio versus an average of 1 836. Namibia on the other hand has the most productive branch network.

**FY13 Branch Distribution (count)** | **FY13 Customers per Branch (count)**




*Source: Company report.*

### Outlook for East Africa

**We believe East Africa has a strong outlook for growth with estimated average YE14 GDP growth of 6.5% vs 5.4% for SSA**. Initiatives introduced by EAC are gathering pace and macroeconomic and political reforms have been implemented in recent years. Further, Oil & Gas discoveries in Kenya and Uganda, for instance, could add windfall gains to the region. Large infrastructure projects are underway, such as the LAPSSET corridor project, which consists of Kenya, South Sudan and Ethiopia, but will have a positive downstream effect on the entire region. East Africa is a growth market, and FDI inflow will continue to rise in the MT.

## Namibia and the Rest of Southern Africa

**In contrast with EAC, much is to be desired of progress achieved by the Southern Africa Development Community (SADC)**. This regional body consists of 15 member States, including countries in which Letshego operates. However, economic integration is seen to be retreating owing to factors such as failure to create a free trade area, the negative impact of non-tariff barriers, bureaucratic obstacles, a lack of cohesion in macroeconomic policy design and potential national security concerns in some strained democracies. A notable achievement however, was the formation of a customs union (SACU) between South Africa, Botswana, Namibia, Lesotho and Swaziland. This helped to eliminate exchange rate risk and indirectly liberated capital flow.

### Letshego Financial Services (Namibia)

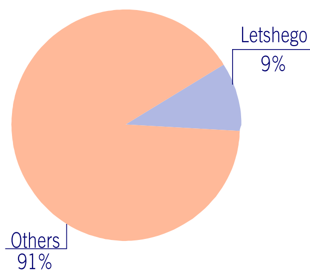
**It follows that there were no surprises, when in 2008 Letshego expanded into Namibia by undertaking its first acquisition, which would be a pivotal step in determining management ability to integrate operations**. The result was positive as the neighbouring business realigned its loan portfolio to the deduction-at-source platform from its erstwhile student-loan focus (Eduloan). Further, the Namibia operation continues to exhibit higher efficiency in distribution relative to peer subsidiaries. At FY13, Namibia

accounted for c. 20% of Letshego's 234 000 customers and revenue. The business remains an important investment for the group as it delivers strong annual growth to its loans portfolio, while maintaining best-in-class asset quality. Much is expected of this business in the MT, including conversion to a deposit microbank.

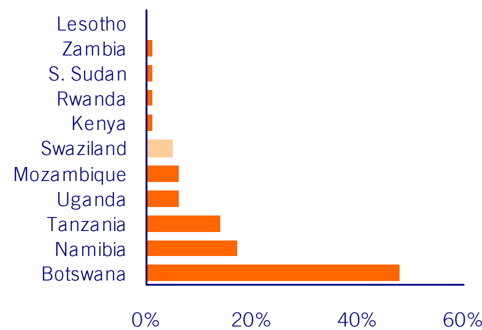
### Letshego Financial Services in the Rest of Southern Africa

**The Rest of Southern Africa consists of Swaziland (established 2006) and untested Lesotho, which commenced operations in 2012. Both countries represent relatively small markets with a combined civil service of no more than 80 000**-for which Letshego's subsidiaries' combined penetration at FY13 was c. 10%. In addition, their contribution to FY13 revenue was c. 5.1%, consisting largely of income from Swaziland.

**FYE Share of Swaziland and Lesotho Civil Servants**




**FYE Share of Revenue**




*Source: Company Report.*

**In 2009, the Swaziland State sanctioned microlenders after experiencing issues in payroll deductions.** On the one hand, the process of deduction and allocation was manual and often cumbersome, and on the other borrowers were over-committed to microlenders and exceeded the maximum allowable deductions on a monthly basis. This led to a situation where microlender deduction claims were often rejected, while numerous disputes with borrowers added pressure on the State to intervene. While asset quality was not spared among competing microlenders, Letshego continued to deliver 100% loan repayment collection. However, the business lost customers, owing to increased regulation and the subsequent introduction of an automated central register. As such, its FY13 customers declined to 6 035 from a peak of 8 971 in FY09, an indication that the Swaziland market is ex growth.

### Outlook for Southern Africa

**Letshego's FYE results surprised with strong loan portfolio growth from Southern Africa**-Botswana, Namibia and Mozambique. This was in contrast to market views that parts of the region, for example Botswana, were ex growth. As such, the market appears to be strong and further growth is expected in the MT. Moreover, in Mozambique, access to finance is still considerably low and with a new microfinance banking licence, Letshego is set to take off in that market. While management has not made mention of potential expansion into other markets in the Southern African region, we highlight opportunities in countries such as Angola, DRC and Madagascar as possible LT initiatives.



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## Ratio Estimates

| | 2012 | 2013 | 2014F | 2015F | 2016F | 2017F |
|---|---|---|---|---|---|---|
| **Profitability** | | | | | | |
| ROE (%) | 25 | 20 | 19 | 21 | 20 | 19 |
| ROA (%) | 22 | 18 | 17 | 19 | 19 | 19 |
| **Efficiency** | | | | | | |
| CIR (%) | 26 | 33 | 32 | 32 | 32 | 33 |
| Total costs to assets (%) | 8 | 10 | 9 | 10 | 10 | 10 |
| Effective tax rate (%) | 22 | 24 | 24 | 24 | 24 | 24 |
| Cost of Risk (%) | 1.1 | 1.7 | 1.8 | 1.9 | 1.9 | 1.9 |
| **Pricing** | | | | | | |
| NIM (%) | 29 | 27 | 23 | 26 | 25 | 25 |
| Asset yield (%) | 34 | 30 | 30 | 30 | 30 | 30 |
| Cost of funding (%) | 10.5 | 4.9 | 12 | 12 | 12 | 12 |
| NIR to total income (%) | 18 | 19 | 21 | 21 | 21 | 21 |
| **Leverage** | | | | | | |
| Debt to equity (x) | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Loans to equity (x) | 1.2 | 1.3 | 1.3 | 1.3 | 1.2 | 1.1 |
| Loans to borrowings (X) | 2.6 | 3.5 | 4.1 | 3.8 | 3.7 | 3.7 |
| Equity to loans (%) | 86 | 79 | 75 | 79 | 84 | 88 |
| Equity to assets (%) | 67 | 71 | 69 | 71 | 74 | 77 |

*Source: Company report; BPI Capital Africa.*



BPI

## Income Statement

| (BWPmn) | 2012 | 2013 | 2014F | 2015F | 2016F | 2017F | CAGR 13-17F |
|---|---|---|---|---|---|---|---|
| **Net interest income** | **966 015** | **1 113 688** | **1 220 069** | **1 575 658** | **1 798 812** | **2 055 439** | **17%** |
| Dividends | 2 733 | 3 334 | 4 244 | 5 440 | 6 256 | 7 195 | 21% |
| Commissions | 132 907 | 134 236 | 200 917 | 257 526 | 296 154 | 340 577 | 26% |
| FX and trading | - | - | - | - | - | - | |
| Other | 82 469 | 118 868 | 121 329 | 155 513 | 178 840 | 205 666 | 15% |
| Net operating revenue | 1 184 124 | 1 370 126 | 1 546 560 | 1 994 137 | 2 280 063 | 2 608 878 | 17% |
| Personnel expenses | 123 086 | 199 658 | 226 032 | 289 716 | 333 174 | 383 150 | 18% |
| Other admin exp | 179 137 | 247 574 | 267 220 | 342 509 | 393 885 | 452 968 | 16% |
| Operating cash flow | 881 901 | 922 894 | 1 053 308 | 1 361 911 | 1 553 004 | 1 772 760 | 18% |
| Depreciation | 5 417 | 8 198 | 9 041 | 11 589 | 13 327 | 15 326 | 17% |
| Cost-to-income (incl. dep.) | 26% | 33% | 32% | 32% | 32% | 33% | |
| **Operating profit** | **876 484** | **914 696** | **1 044 267** | **1 350 323** | **1 539 677** | **1 757 434** | **18%** |
| Loan loss impairments | 35 097 | 64 495 | 91 831 | 110 197 | 126 727 | 145 735 | 23% |
| Other provisions | - | | - | - | - | - | |
| Extraordinaries | - | -1 060 | - | - | - | - | |
| **Profit before taxes** | **841 387** | **849 141** | **952 436** | **1 240 126** | **1 412 950** | **1 611 699** | **17%** |
| Taxes | 181 750 | 205 511 | 228 585 | 297 630 | 339 108 | 386 808 | 17% |
| Minorities | - | - | - | - | - | - | |
| **Net profit** | **659 637** | **643 630** | **723 851** | **942 496** | **1 073 842** | **1 224 891** | **17%** |

## Balance Sheet

| (BWPmn) | 2012 | 2013 | 2014F | 2015F | 2016F | 2017F | CAGR 13-17F |
|---|---|---|---|---|---|---|---|
| Cash | 316 613 | 310 525 | 258 025 | 440 788 | 546 508 | 655 810 | 21% |
| Short term deposits | 490 641 | - | - | - | - | - | |
| Loans to customers | 3 336 204 | 4 427 757 | 5 433 789 | 6 205 168 | 7 092 254 | 8 112 402 | 16% |
| Tangible & intangible | 76 964 | 115 355 | 132 256 | 151 521 | 174 249 | 200 386 | 15% |
| Other assets | 58 756 | 116 528 | 126 267 | 158 408 | 182 169 | 209 495 | 16% |
| **Total assets** | **4 279 178** | **4 970 165** | **5 950 338** | **6 955 885** | **7 995 180** | **9 178 093** | **17%** |
| | | | | | | | |
| Total borrowings | 1 277 395 | 1 249 871 | 1 317 572 | 1 652 954 | 1 900 898 | 2 186 032 | 15% |
| Other liabilities | 141 340 | 216 027 | 533 898 | 382 152 | 164 654 | -117 742 | -- |
| Shareholders' equity | 2 860 443 | 3 504 267 | 4 098 867 | 4 920 778 | 5 929 628 | 7 109 802 | 19% |
| **Total liabilities & sh. Equity** | **4 279 178** | **4 970 165** | **5 950 338** | **6 955 885** | **7 995 180** | **9 178 093** | **17%** |

*(1)Historic YE retrospectively adjusted to December for comparability. Therefore Dec-12 = Jan-13 and Dec-13 = Jan-14.*

*Source: Company report; BPI Capital Africa.*

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# BPI Capital Africa

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(TOTAL RETURN IN 12-18 MONTHS):

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|---|---|---|---|
| Buy | ≥15% | ≥20% | ≥25% |
| Hold | ≥0% and < 15% | ≥0% and < 20% | ≥0% and < 25% |
| Sell | < 0% | < 0% | < 0% |

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| | |
|---|---|
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**BPI is also present in Africa through:**

in Angola (50.1% stake)

in Mozambique (30% stake)