

# Letshego

SSA Banks

**Buy**

Low-Risk

30th April 2015

**Botswana**

## Shareholder focus

(YE15 PT of BWP3.40; Buy Recommendation maintained)

► **FACT: Letshego recently announced a 10% share buyback (218mn shares) and issued a cautionary on the possible acquisition of a Tanzanian micro-finance bank.**

Management will seek approval for the share buyback and cancellation programme on 27 May, which at current market value represents c. BWP638mn (USD65mn) vs Letshego's FY14 B/S cash of BWP321mn. In Tanzania, the acquisition of a 75% stake in a deposit-taking institution will increase the number of countries in which Letshego can accept deposits (currently Mozambique, Namibia and Rwanda).

► **OPINION: We view both transactions as positive at first glance.** Firstly, the buyback (1) signals that the stock's valuation is currently undemanding, especially given its strong growth prospects (EPS CAGR14-18<sup>F</sup> of 15%); (2) represents a further improvement of shareholder returns, on top of the recent increase of its pay-out (from 25% to 50%), (3) should enhance B/S efficiency via increased leverage (FY14 debt/equity: 47% vs regional avg.: 100%): we anticipate that the buyback could result in an increase in leverage, as much as 80%; and (4) should be EPS accretive, despite the expected rise of financial costs. The risk, however, is that share liquidity remains low after the completion of the programme. Secondly, the potential acquisition fits well on the current growth strategy in East Africa, and should offer access to low cost deposits in an attractive region, and augments market share (Tanzania currently accounts for 5% of BWP5.7bn loans). However, there is acquisition pricing risk due to current high valuations of East African banks.

► **IMPACT: The share buyback should give further support to the share** and is a novelty in the SSA space (though common in SA and Europe). We have assumed three scenarios for the share buyback: (1) at current mkt value, (2) 10% premium and (3) YE15 PT (all other assumptions constant). Overall, the transaction will result in higher leverage, improve B/S efficiency and improve ROE. **We currently have a YE15 PT of BWP3.40. We reinforce our Buy recommendation.**

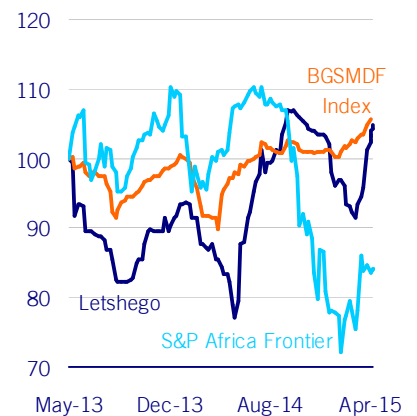
### Stock data

Price (BWP):	3.00	Price Target (BWP):	3.40
N° of shares (mn):	2 185	Reuters/Bloomberg:LET.BT / LETSHEGO BG	
Market Cap (BWPmn):	6 555	Market Cap (USDmn):	669
Avg. Daily Vol. (BWP '000):	3 141	Avg. Daily Vol. (USD '000):	340
Debt/Equity '15	0.5	Free-float:	50%
EPS growth ('14-'18 <sup>F</sup> )	15%	ROE'15:	19.0%
Major shareholders:	Botswana Insurance Holdings 23%		

### Estimates

	2013	2014	2015 <sup>F</sup>	2016 <sup>F</sup>	2017 <sup>F</sup>	2018 <sup>F</sup>
Diluted EPS (BWP)	0.30	0.33	0.39	0.44	0.51	0.58
P/E (x)	10.1	9.0	7.8	6.8	5.9	5.2
Dividend yield (%)	2.8	2.5	5.5	6.5	7.5	8.5
Adjusted P/BV (x)	2.1	1.9	1.6	1.4	1.2	1.0

### Letshego vs. Domestic Financial Sector Index vs. S&P Africa Frontier



Source: Bloomberg.

### Valuation Summary

	BWP
YE15 PB fair value	3.40
YE15 DDM fair value	3.45
<b>YE15 Price Target</b>	<b>3.40</b>

Source: BPI Capital Africa.

### Historical Recommendation

Date	Recommendation
14-May-14 <sup>(1)</sup>	Buy

(1) Initiating Coverage.

**Current assumptions**

	FY14	FY15 <sup>F</sup>	FY16 <sup>F</sup>	FY17 <sup>F</sup>
Borrowings (BWP '000)	1 937 844	2 550 607	2 933 199	3 373 178
Total equity (BWP '000)	4 094 633	4 727 061	5 454 244	6 495 362
Debt/Equity (%)	0.47	0.54	0.54	0.52
Financing cost (BWP '000)	167 582	257 611	296 253	340 691
Cost of funds	5.3%	5.0%	5.0%	5.0%
<b>EPS (BWP)</b>	<b>0.33</b>	<b>0.39</b>	<b>0.45</b>	<b>0.51</b>
<b>ROE</b>	<b>19.0%</b>	<b>19%</b>	<b>19%</b>	<b>19%</b>

Source: Company and BPI Capital Africa.

**Scenario 1 - Share buyback @ current market value (BWP3.00)**

	FY14	FY15 <sup>F</sup>	FY16 <sup>F</sup>	FY17 <sup>F</sup>
Borrowings (BWP '000)	1 937 844	3 206 078	3 588 669	4 028 649
Total equity (BWP '000)	4 094 633	4 062 280	4 752 225	5 753 001
Debt/Equity (%)	0.47	0.79	0.76	0.70
Financing cost (BWP '000)	167 582	274 162	362 456	406 894
Cost of funds	5.3%	5.0%	5.0%	5.0%
<b>EPS (BWP)</b>	<b>0.33</b>	<b>0.38</b>	<b>0.47</b>	<b>0.54</b>
<b>ROE</b>	<b>19.0%</b>	<b>20%</b>	<b>22%</b>	<b>21%</b>

Source: Company and BPI Capital Africa.

**Scenario 2 - Share buyback @ 10% premium (BWP3.30)**

	FY14	FY15 <sup>F</sup>	FY16 <sup>F</sup>	FY17 <sup>F</sup>
Borrowings (BWP '000)	1 937 844	3 271 625	3 654 216	4 094 196
Total equity (BWP '000)	4 094 633	4 030 627	4 757 811	5 785 275
Debt/Equity (%)	0.47	0.81	0.77	0.71
Financing cost (BWP '000)	167 582	275 817	369 076	413 514
Cost of funds	5.3%	5.0%	5.0%	5.0%
<b>EPS (BWP)</b>	<b>0.33</b>	<b>0.38</b>	<b>0.47</b>	<b>0.54</b>
<b>ROE (%)</b>	<b>19.0%</b>	<b>20%</b>	<b>22%</b>	<b>21%</b>

Source: Company and BPI Capital Africa.

**Scenario 3 - Share buyback @ YE15 PT (BWP3.40)**

	FY14	FY15 <sup>F</sup>	FY16 <sup>F</sup>	FY17 <sup>F</sup>
Borrowings (BWP '000)	1 937 844	3 293 474	3 676 065	4 116 045
Total equity (BWP '000)	4 094 633	4 060 108	4 745 088	5 740 174
Debt/Equity (%)	0.47	0.81	0.77	0.72
Financing cost (BWP '000)	167 582	276 369	371 283	415 721
Cost of funds	5.3%	5.0%	5.0%	5.0%
<b>EPS (BWP)</b>	<b>0.33</b>	<b>0.38</b>	<b>0.49</b>	<b>0.53</b>
<b>ROE</b>	<b>19.0%</b>	<b>20%</b>	<b>21%</b>	<b>20%</b>

Source: Company and BPI Capital Africa.

**Income Statement**

(BWP 000)	2013	2014	2015 <sup>F</sup>	2016 <sup>F</sup>	2017 <sup>F</sup>	2018 <sup>F</sup>	CAGR 14-18 <sup>F</sup>
<b>Net interest income</b>	<b>1 113 688</b>	<b>1 177 612</b>	<b>1 376 683</b>	<b>1 582 994</b>	<b>1 809 860</b>	<b>2 070 757</b>	<b>15%</b>
Dividends	-	-	-	-	-	-	-
Commissions	134 236	128 436	177 117	203 684	234 237	269 372	20%
FX and trading	-	-	-	-	-	-	-
Other	122 202	188 098	204 365	235 020	270 273	310 814	13%
Net operating revenue	1 370 126	1 494 146	1 758 166	2 021 698	2 314 371	2 650 944	15%
Personnel expenses	199 658	207 034	252 051	289 858	333 337	383 338	17%
Other admin exp	247 051	212 108	272 487	313 360	360 364	414 419	18%
Operating cash flow	923 417	1 075 004	1 233 628	1 418 479	1 620 669	1 853 187	15%
Depreciation	8 721	13 392	12 976	15 736	18 097	20 811	12%
Cost-to-income (incl. dep.)	33%	29%	31%	31%	31%	31%	-
<b>Operating profit</b>	<b>914 696</b>	<b>1 061 612</b>	<b>1 220 652</b>	<b>1 402 743</b>	<b>1 602 573</b>	<b>1 832 376</b>	<b>15%</b>
Loan loss impairments	64 495	91 480	109 312	125 709	144 565	166 250	16%
Other provisions	-	-	-	-	-	-	-
Extraordinaries	-	-1 060	-	-	-	-	-
<b>Profit before taxes</b>	<b>850 201</b>	<b>970 132</b>	<b>1 124 316</b>	<b>1 292 771</b>	<b>1 476 104</b>	<b>1 686 938</b>	<b>15%</b>
Taxes	205 511	248 280	281 079	323 193	369 026	421 734	14%
Minorities	-1 060	-	-	-	-	-	-
<b>Net profit</b>	<b>643 630</b>	<b>721 852</b>	<b>843 237</b>	<b>969 578</b>	<b>1 107 078</b>	<b>1 265 203</b>	<b>15%</b>

Source: Company and BPI Capital Africa.

**Balance sheet**

(BWP 000)	2013	2014	2015 <sup>F</sup>	2016 <sup>F</sup>	2017 <sup>F</sup>	2018 <sup>F</sup>	CAGR 14-18 <sup>F</sup>
Cash	310 525	320 544	327 935	670 445	626 447	720 415	22%
Short term deposits	-	-	-	-	-	-	-
Loans to customers	4 427 757	5 686 796	6 578 080	7 525 084	8 614 139	9 866 552	15%
Tangible & intangible	115 355	97 354	131 174	150 850	173 478	199 499	20%
Other assets	116 528	232 219	255 061	33 522	337 318	387 916	14%
<b>Total assets</b>	<b>4 970 165</b>	<b>6 336 913</b>	<b>7 292 250</b>	<b>8 379 902</b>	<b>9 751 382</b>	<b>11 174 381</b>	<b>15%</b>
Customer deposits	-	3 995	145 749	167 611	192 753	221 666	173%
Total borrowings	1 249 871	1 937 844	2 550 607	2 933 199	3 373 178	3 879 155	19%
Other liabilities	216 027	300 441	-131 167	-175 152	-309 912	-613 099	-
Shareholders' equity	3 504 267	4 094 633	4 727 061	5 454 244	6 495 362	7 686 659	17%
<b>Total liabilities &amp; sh. Equity</b>	<b>4 970 165</b>	<b>6 332 918</b>	<b>7 146 501</b>	<b>8 212 290</b>	<b>9 558 629</b>	<b>10 952 715</b>	<b>15%</b>

Source: Company and BPI Capital Africa.

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	Low Risk	Medium Risk	High Risk
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Hold	≥0% and < 15%	≥0% and < 20%	≥0% and < 25%
Sell	< 0%	< 0%	< 0%

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Hold	40%
Sell	19%
Total	100%



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