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Securities

Title	Equity Research
Edition	Letshego Holdings Report
Country	Botswana
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LETSHEGO HOLDINGS

A pot of gold…

BUY			
Current price (t)			195
Target price (t)			265
LIQUIDITY			
Market cap. (Pm)			3,609.19
Market cap. (US$m)			559.61
Shares (m)			1,841.42
SHARE PRICE PERFORMANCE			
6 months (t)			22%
Relative change*			23%
12 months (t)			47%
Relative change*			42%
* relative to the DCI			
FINANCIALS	**H1 '10**	**2010F**	**2011F**
EPS (t)	11.8	25.0	29.4
DPS (t)	0.0	36.0	41.4
NAV/share (t)	82.0	89.3	109.6

FINANCIAL SUMMARY (Pm)			
	H1 '10	**2011F**	**2012F**
Net interest income	325.4	657.7	780.0
Profit before tax	296.7	599.0	703.6
Profit for the period	221.4	461.3	541.7
RATIOS			
RoAE (%)	16.8%	30.8%	29.6%
RoAA (%)	11.8%	22.5%	22.5%
VALUATION RATIOS			
PBV (x)	2.4	2.2	1.8
PER (x)	8.4	7.8	6.6

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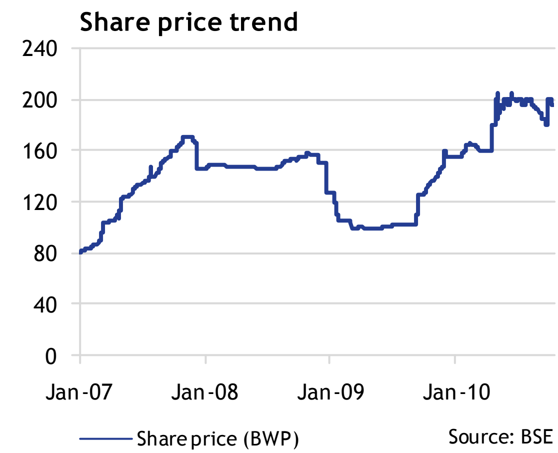
Letshego Holdings provides lending services, mainly to the public sector. Letshego loan repayments are deducted at salary source, thus reducing its exposure to credit risk. At the beginning of the financial year, the Group restructured and sold its insurance business, to enable management to focus on the core business of lending. The group operates in seven countries, namely Botswana, Mozambique, Namibia, Swaziland, Tanzania, Uganda and Zambia.

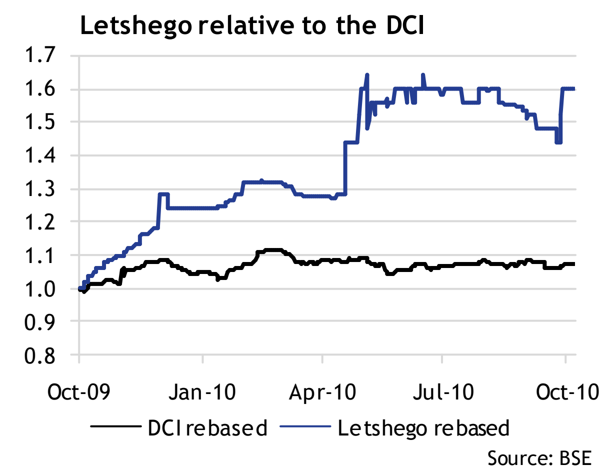
FINANCIAL PERFORMANCE

Letshego has released an excellent set of interim results. In an environment where the listed commercial banks have reported declines in profits and significant increases in impairments, the Group has recorded a 29.1% growth in net interest income, 38.5% growth in the bottom line and an 18.5% decline in impairments.

The cost to income ratio has declined from 25.9% in H1 2009 to 19.9%, driven by a 14.6% decline in staff costs. The Group has a lower staff base as a result of the sale of Legal Guard, hence the lower staff costs. Therefore a cost to income of around 20% is sustainable.

	Cost: Income	Impairments: Loans
Letshego	**19.9%**	**0.8%**
Barclays	43.4%	1.9%
FNBB	35.1%	0.8%
SCBB	57.5%	0.8%





Although some of the subsidiaries experienced declines in profitability, namely Swaziland, Tanzania and Zambia, all the six subsidiaries that were operating in the period were profitable. The impressive growth recorded in Botswana, Namibia and Uganda offset the performance of the other three markets, once again highlighting the benefits of geographic diversification. Botswana is still the leading contributor to profit before tax with a 67.1% contribution (H1 2009: 66.9%). Namibia overtook Tanzania and is now the second largest contributor to profit before tax at 13.9% (H1 2009: 6.9%). Tanzania contributed 7.0% (H1 2009: 9.0%), Swaziland 6.9% (H1 2009: 12.0%), Uganda 4.1% (H1 2009: 2.8%) and Zambia 1.0% (H1 2009: 2.3%).

Profit before tax increased by 39.8% to BWP 296.71 million, however profit before tax from lending activities increased by 44.9%.

FINANCIAL POSITION

The loan book has been increasing at an impressive rate, in the period under review it grew by 21.6% to BWP 1.86 billion, and has grown by 80.4% in two years. Although the loan book is expanding at a declining rate, we are confident that it will continue to grow in double-digit figures in the next three to five years, as the Group embarks on the second phase of its African expansion strategy. We also expect the net interest margin to improve as the Group penetrates markets with low banking penetration and hence limited access to funding.

Botswana accounts for 67.1% of the total loan book, followed by Namibia (13.9%), Tanzania (7.0%), Swaziland (6.9%), Uganda (4.1%) and Zambia (1.0%). The quality of the Botswana loan book is exceptional, with an impairment charge to loan book ratio of only 0.2%. Other markets with good quality loan books are Swaziland (2.2%) and Namibia (2.9%). The Group's impairment charge to loan book ratio has improved from 1.2% to 0.8%, mainly due to the improvement in collections in Botswana, where the impairment charge fell from P7.8 million to P 1.4 million. Other markets which were more efficient at collections are Swaziland, Uganda and Namibia.

The Group has reduced its borrowings by more than P100 million, lowering the debt to equity ratio from 40.7% to 23.1%. Letshego has drawn down P106 million from the P240 million raised through the convertible loan. With access to the remaining P134 million, we anticipate that there will be no additional borrowings in the current financial year, thus, we expect the debt to equity ratio to remain around 20%.

OUTLOOK

Interest rates have been on the downward trajectory in all the markets that Letshego operates in, as a result we anticipate an increased appetite for loans. Given that the public sector is generally the major employer and is Letshego's primary target market, we expect the Group to continue growing as overall credit extension grows.

We anticipate that Letshego will have an even better second half of the year as the African expansion continues to yield favourable results. Letshego plans to increase its footprint, and is evaluating expansion opportunities in Ghana, Kenya, Lesotho, Nigeria and Zimbabwe.

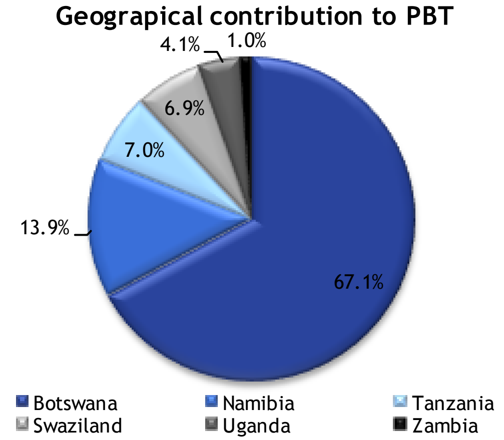
Letshego treads cautiously when implementing new products and as a result we are confident that it will maintain its high quality loan book.

VALUATION AND RECOMMENDATION

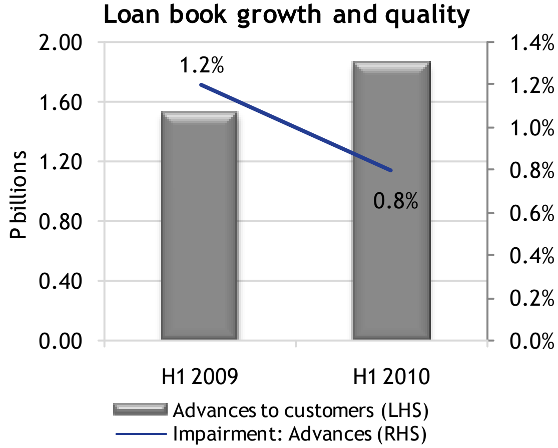
Using the relative valuation technique, we value the counter at P2.65, which places Letshego at a 36% discount.

We maintain our **BUY** recommendation.

GRAPHICAL ANALYSIS



Source: Letshego



Source: Letshego

FINANCIAL HISTORY

YEAR END	31-Oct	31-Oct	31-Jan	31-Jan	31-Jan	31-Jan	31-Jan	
31 JANUARY	**2005**	**2006**	**2008**	**2009**	**2010**	**2011F**	**2012F**	**5 yr CAGR**
INCOME STATEMENT (Pm)								
Interest income	134.7	170.4	222.7	398.3	588.8	706.5	833.7	45%
Interest expense	(7.0)	(12.0)	(27.6)	(72.2)	(50.9)	(48.8)	(53.7)	64%
Net interest income	**127.7**	**158.4**	**195.1**	**326.1**	**537.9**	**657.7**	**780.0**	43%
% change		*24%*	*23%*	*67%*	*65%*	*22%*	*19%*	
Fee and commission income	11.0	22.7	51.8	87.8	120.7	116.5	122.3	82%
% change		*107%*	*128%*	*69%*	*37%*	*-4%*	*5%*	
Other operating income	2.0	4.3	4.5	4.6	2.0	11.3	12.5	
Total income	**140.7**	**185.4**	**251.5**	**418.6**	**660.6**	**785.6**	**914.8**	47%
% change		*32%*	*36%*	*66%*	*58%*	*19%*	*16%*	
Staff costs	(14.4)	(21.0)	(35.2)	(54.5)	(80.3)	(76.3)	(83.9)	54%
% change		*46%*	*68%*	*55%*	*47%*	*-5%*	*10%*	
Other operating costs	(11.4)	(22.4)	(29.7)	(45.9)	(67.5)	(79.0)	(86.9)	56%
Impairment loss	5.2	(3.3)	(12.5)	(29.4)	(50.2)	(31.3)	(40.5)	
PBT	**120.0**	**138.7**	**174.0**	**288.7**	**462.6**	**599.0**	**703.6**	40%
% change		*16%*	*25%*	*66%*	*60%*	*29%*	*17%*	
Taxation	(24.8)	(32.1)	(38.8)	(69.6)	(125.2)	(137.8)	(161.8)	50%
PAT	**95.2**	**106.7**	**135.2**	**219.1**	**380.0**	**461.3**	**541.7**	41%
% change		*12%*	*27%*	*62%*	*73%*	*21%*	*17%*	
EPS (thebe)	5.2	5.8	7.4	12.0	20.8	25.3	29.7	41%
% change		*12%*	*27%*	*62%*	*73%*	*21%*	*17%*	
Dividend payout ratio	31%	31%	38%	25%	14%	14%	14%	
NAV per share	13.2	17.7	25.2	36.6	73.8	90.2	110.6	
% change		34%	42%	45%	102%	22%	23%	
BALANCE SHEET (Pm)								
Advances to customers	317.95	430.54	787.93	1,342.56	1,682.26	2,018.71	2,382.08	52%
% change		35%	83%	70%	25%	20%	18%	
Borrowings	69.01	97.93	306.73	644.39	377.64	348.76	383.64	53%
% change		42%	213%	110%	-41%	-8%	10%	
Share capital and reserves	241.66	323.56	459.67	667.07	1,347.50	1,645.09	2,018.24	54%
% change		34%	42%	45%	102%	22%	23%	
TOTAL ASSETS	**328.02**	**445.00**	**811.92**	**1,401.02**	**1,915.42**	**2,190.28**	**2,615.16**	55%
% change		36%	82%	73%	37%	14%	19%	
Net interest margin (%)	32%	27%	19%	18%	22%	21%	21%	
Cost to income ratio	18%	23%	26%	24%	22%	20%	23%	
RoAE (%)	47%	38%	35%	39%	38%	31%	30%	
RoAA (%)	35%	28%	22%	20%	23%	22%	23%	
Effective tax rate (%)	21%	21%	23%	22%	24%	25%	23%	
Total Debt : Equity (%)	29%	29%	30%	67%	97%	28%	21%	

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