



IMARA

IMARA AFRICA SECURITIES

LETSHEGO HOLDINGS LIMITED

Letshego Holdings Limited is a leading provider of unsecured consumer loans to formally employed individuals, mainly those employed in the public sector. It is listed on the Botswana Stock Exchange and is IFSC accredited. Letshego operates in Botswana, Mozambique, Namibia, Swaziland, Tanzania, Uganda and Zambia. Letshego shares were split 1 for 10, effective 16th April 2010, and all figures in this report have incorporated the split.

FULL-YEAR RESULTS (31st JANUARY 2010)

- **Turnover.** Net interest income increased by 64.9% to P537.90 million, attributable to a 47.8% increase in interest income and a 29.4% decline in interest expense. Profit before tax and profit after tax increased by 75.0% to P505.21 million and 73.5% to P380.0 million respectively.
- **New markets.** The group is expected to start operating in Mozambique in the current financial year. This acquisition is expected to contribute to the Group's profitability over time.
- **New funds.** Letshego has entered into a Convertible Loan Note Subscription Agreement of US\$36 million. These funds will enable the Group to continue growing its loan book.
- **Lowest cost to income ratio.** Letshego has the lowest cost to income ratio of 22.4% compared to all its listed peers.
- **Consistently low non-performing loans.** Letshego's loan repayments are deducted directly from the borrower's salary and thus minimises credit risk. The quality of the loan book has deteriorated, though not as severely as that of commercial banks. This is because Letshego clients are predominantly employed in the public sector, which is characterised by stability and low staff turnover.

With increased geographical diversification, a sound business model and low credit risk, we value the counter at P2.60 using the relative valuation technique and reiterate our **BUY** recommendation.

FINANCIAL SUMMARY (Pm)

	2010	2011F	2012F
Net interest income	537.9	672.7	789.2
Profit before tax	462.6	573.7	653.2
Profit for the period	380.0	431.4	491.2

RATIOS

RoAE (%)	38%	28%	26%
RoAA (%)	23%	21%	21%

VALUATION RATIOS

PBV (x)	2.4	1.9	1.6
PER (x)	8.6	7.6	6.7
Dividend yield (%)	1.7%	2.0%	2.3%

EQUITY RESEARCH

BOTSWANA

28th APRIL 2010

MICRO-FINANCE

BUY

Current price (t)	180
Target price (t)	260

LIQUIDITY

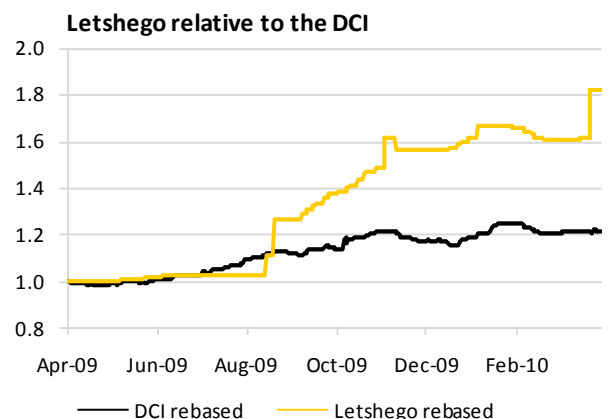
Market cap. (Pm)	3,284.55
Market cap. (US\$m)	481.35
Shares (m)	1,824.75
Average monthly shares traded (m)	1.24

SHARE PRICE PERFORMANCE

6 months (t)	32%
Relative change*	27%
12 months (t)	82%
Relative change*	62%

* relative to the DCI

FINANCIALS	2010	2011F	2012F
EPS (t)	20.8	23.6	26.9
DPS (t)	3.0	3.6	4.1
NAV/share (t)	73.8	94.1	114.1



Source: Botswana Stock Exchange

Analyst:
Chandapiwa Majola
Tel: +267 3188708
Email: cmajola@imaracapital.co.bw



IMARA

IMARA AFRICA SECURITIES

PERFORMANCE OVERVIEW

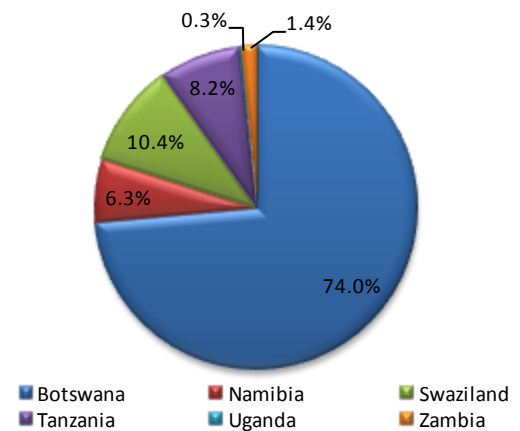
Sale of LG and LGICL

The Group finalised the sale of Legal Guard and Legal Guard Insurance Company Limited (LGICL), and realised a once-off profit of P42.5 million. Profit before tax increased by 75.0% to P505.21 million. Ignoring the sale of LG and LGICL, profit before tax increased by 60.3% to P462.64 million.

Contribution by country

Botswana remains the major contributor to profit before tax (74.0%) and advances (67.4%). However, Botswana's contribution to PBT has decreased from 92.4% in 2008, 82.8% in 2009 to 74.0% in 2010. The decreased contribution by Botswana is due to the significant increase in profitability from operations outside Botswana, notably, Swaziland, Tanzania and Namibia. Given the sale of LG and LGICL, and the growth in operations outside Botswana, we expect a continued decline in Botswana's percentage contribution to PBT.

Contribution to PBT



Diversification

Letshego started investing in operations outside Botswana in November 2005. These operations have grown significantly in under 5 years, and collectively contributed P120.4 million (26%) to PBT. Given the relatively low market penetration based on total government employees, there is scope for growth in these markets.

Mkt. penetration based on total govt. employees

Country	Mkt. penetration (%)
Botswana	33%
Namibia	34%
Swaziland	19%
Tanzania	6%
Uganda	6%
Zambia	3%

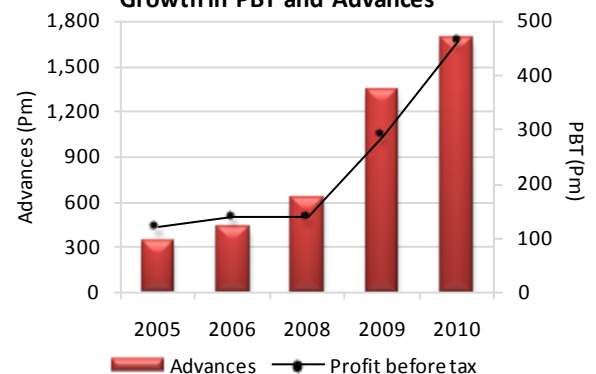
Consistent growth

Letshego has grown at a remarkable rate since inception. It has achieved in 12 years what many organisations have achieved in decades. Since listing on the Botswana Stock Exchange in 2002, Letshego's profit before tax has grown from P27.48 million to the current level of P462.64 million. Advances on the other hand have increased from P142.27 million to P1.68 billion over the same period.

Net interest margin

Letshego has the highest net interest margin (NIM) among its listed competitors, at 29.0%. The NIMs of Barclays, FNB, Standard Chartered are 8.6%, 5.2%, and 6.3% respectively. The loan book has grown more than 5-fold over the last 5 years.

Growth in PBT and Advances



Source: Letshego. Please note that the January 2008 figures were for a 15 month period and have been annualised.

COMPARATIVE ANALYSIS

	Market Cap (US\$m)	PER (x)	PBV (x)	Dividend yield (%)	Net interest margin	Cost: Income	Effective tax rate	Impairments: Loans	RoAE	RoAA	Loans: Equity
BOTSWANA											
Letshego	481.0	8.6	2.4	1.7%	21.5%	22.4%	24.8%	3.0%	37.7%	22.9%	1.2
Barclays	817.4	12.3	6.0	4.0%	8.6%	40.2%	24.4%	3.4%	53.4%	3.5%	6.3
FNB	964.9	16.7	6.5	3.4%	0.0%	39.3%	22.7%	0.8%	42.3%	3.4%	5.0
Stanchart	720.1	20.9	13.2	4.1%	6.3%	51.3%	17.5%	1.7%	66.5%	2.7%	12.1

OUTLOOK

Letshego aims to be the leading consumer finance provider in Africa, and is considering expanding to Ghana, Kenya, Nigeria, Lesotho and Zimbabwe.

The Group has already secured a Government salary deduction code in Mozambique, and expects to begin operating in the current financial year. We expect the Mozambiquan operation to make significant contributions to the Group's future performance, especially because commercial banks in Mozambique do not offer unsecured lending.

One of the major challenges the Group faces is that some countries it operates in do not have a Central Register, thereby increasing collection costs. The implementation of a Central Registry in Swaziland was completed in November 2009, and talks are underway for its introduction in Tanzania, Uganda, and Zambia. We expect the implementation of a Central Registry to lower collection costs and improve collection statistics in all markets.

The Group has entered into a Convertible Loan Note Subscription Agreement of US\$36 million. These funds will enable the Group to repay its short term loans, to address the maturity mismatch on the balance sheet, and grow the loan book. In addition, the Group wishes to obtain a formal credit rating and pursue initiatives to become a broader financial services organisation.

VALUATION AND RECOMMENDATION

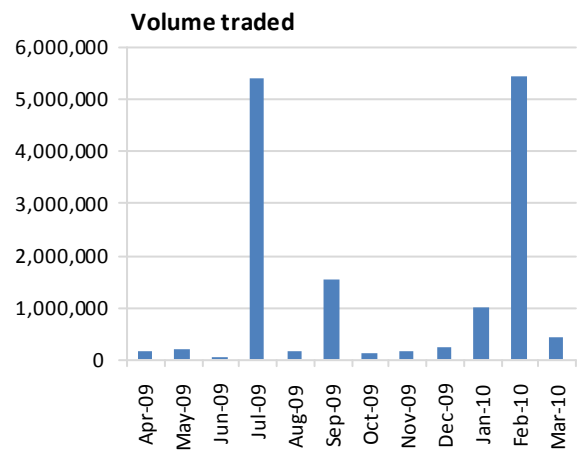
Letshego is one of the more liquid shares on the Botswana Stock Exchange, and we recommend that you add it to your portfolio.

Using the relative valuation technique, we value the counter at P2.60. Letshego is trading at a 44% discount, we reiterate our **BUY** recommendation.

Mozambique operations to commence

Central Registry implemented in Mozambique

Convertible Loan Note Subscription Agreement



Source: Botswana Stock Exchange

FINANCIAL HISTORY

YEAR END	31-Oct	31-Oct	31-Jan	31-Jan	31-Jan	31-Jan	31-Jan	5 yr CAGR
31 JANUARY	2005	2006	2008	2009	2010	2011F	2012F	
INCOME STATEMENT (Pm)								
Interest income	134.7	170.4	222.7	398.3	588.8	711.6	839.7	45%
Interest expense	(7.0)	(12.0)	(27.6)	(72.2)	(50.9)	(38.9)	(50.5)	64%
Net interest income	127.7	158.4	195.1	326.1	537.9	672.7	789.2	43%
<i>% change</i>		24%	23%	67%	65%	25%	17%	
Fee and commission income	11.0	22.7	51.8	87.8	120.7	138.8	152.7	82%
<i>% change</i>		107%	128%	69%	37%	15%	10%	
Other operating income	2.0	4.3	4.5	4.6	2.0	2.2	2.4	
Total income	140.7	185.4	251.5	418.6	660.6	813.7	944.3	47%
<i>% change</i>		32%	36%	66%	58%	23%	16%	
Staff costs	(14.4)	(21.0)	(35.2)	(54.5)	(80.3)	(96.3)	(115.6)	54%
<i>% change</i>		46%	68%	55%	47%	20%	20%	
Other operating costs	(11.4)	(22.4)	(29.7)	(45.9)	(67.5)	(84.4)	(105.5)	56%
Impairment loss	5.2	(3.3)	(12.5)	(29.4)	(50.2)	(59.3)	(70.0)	
PBT	120.0	138.7	174.0	288.7	462.6	573.7	653.2	40%
<i>% change</i>		16%	25%	66%	60%	24%	14%	
Taxation	(24.8)	(32.1)	(38.8)	(69.6)	(125.2)	(142.3)	(162.0)	50%
PAT	95.2	106.7	135.2	219.1	380.0	431.4	491.2	41%
<i>% change</i>		12%	27%	62%	73%	14%	14%	
EPS (thebe)	5.2	5.8	7.4	12.0	20.8	23.6	26.9	41%
<i>% change</i>		12%	27%	62%	73%	14%	14%	
Dividend payout ratio	31%	31%	38%	25%	14%	15%	15%	
NAV per share	13.2	17.7	25.2	36.6	73.8	94.1	114.1	
<i>% change</i>		34%	42%	45%	102%	27%	21%	
BALANCE SHEET (Pm)								
Advances to customers	317.95	430.54	787.93	1,342.56	1,682.26	1,976.65	2,332.45	52%
<i>% change</i>		35%	83%	70%	25%	18%	18%	
Borrowings	69.01	97.93	306.73	644.39	377.64	277.64	360.93	53%
<i>% change</i>		42%	213%	110%	-41%	-26%	30%	
Share capital and reserves	241.66	323.56	459.67	667.07	1,347.50	1,716.43	2,081.37	54%
<i>% change</i>		34%	42%	45%	102%	27%	21%	
TOTAL ASSETS	328.02	445.00	811.92	1,401.02	1,915.42	2,148.67	2,565.55	55%
<i>% change</i>		36%	82%	73%	37%	12%	19%	
Net interest margin (%)	32%	27%	19%	18%	22%	22%	22%	
Cost to income ratio	18%	23%	26%	24%	22%	22%	23%	
RoAE (%)	47%	38%	35%	39%	38%	28%	26%	
RoAA (%)	35%	28%	22%	20%	23%	21%	21%	
Effective tax rate (%)	21%	21%	23%	22%	24%	25%	25%	
Total Debt : Equity (%)	29%	29%	30%	67%	97%	28%	16%	

<p>Imara Africa Securities Block A, Unit 3 Millennium Office Park Kgale Hill Gaborone Botswana</p> <p>Tel: (267) 3188660 Fax: (267) 3188113</p>	<p>Capital Securities Ground Floor Plot 64511 Showgrounds Gaborone Botswana</p> <p>Tel: (267) 3188886 Fax: (267) 3188887</p> <p><i>Members of the Botswana Stock Exchange</i></p>	<p>Imara S P Reid (Pty) Limited Imara House 257 Oxford Road Illovo 2196 P O Box 969 Johannesburg 2000 South Africa</p> <p>Tel: (27) 11 550 6200 Fax: (27) 11 550 6295</p> <p><i>Members of the JSE Securities Exchange</i></p>	<p>Imara Edwards Securities (Pvt) Ltd Tendeseka Office Park 1st Floor Block 2 Samora Machel Avenue Harare Zimbabwe</p> <p>Tel: (263) 4790590 Fax: (263) 4791435</p> <p><i>Members of the Zimbabwe Stock Exchange</i></p>	<p>Stockbrokers Malawi Limited Able House Cnr. Hanover Avenue/ Chilembwe Road Blantyre Malawi</p> <p>Tel: (265) 622803 Fax: (265) 624353</p> <p><i>Members of the Malawi Stock Exchange</i></p>	<p>Stockbrokers Zambia Ltd 2nd Floor Stock Exchange Building Central Park Cnr Church & Cairo Rd P O Box 38956 Lusaka Zambia</p> <p>Tel: (260) 1232456 Fax: (260) 1224055</p> <p><i>Members of the Lusaka Stock Exchange</i></p>
---	---	--	---	---	--

This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by Imara Africa Securities (Pvt.) Ltd. ("Imara") from sources that it believes to be reliable, but no representation or warranty is made or guarantee given by Imara or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of Imara as of the date of this report only and are subject to change without notice. Neither Imara nor any other member of the Imara group of companies including their respective associated companies (together "Group Companies"), nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of companies referred to in this report. Group Companies and their respective affiliates, officers, directors and employees, including persons involved in the preparation or issuance of this report may, from time to time (i) have positions in, and buy or sell, the securities of companies referred to in this report (or in related investments); (ii) have a consulting, investment banking or broking relationship with a company referred to in this report; and (iii) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors (or, in the case of the United States, major US institutional investors as defined in Rule 15a-6 of the US Securities Exchange Act of 1934) and dealers in securities and must not be copied, published or reproduced or redistributed (in whole or in part) by any recipient for any purpose.

© Imara Africa Securities 2008

