

# **Letshego Holdings Limited**

## **Group Interim Results 2020**

**Andrew Fening Okai**  
Group Chief Executive

**Tuesday, 1 September 2020**

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## HALF YEAR REVIEW 2020



### Financial Highlights

- Operating Environment
- COVID-19 Update
- Financial Performance



### Plan 6 Update

- DAS and MSE
- Digital Channels
- Deposit Growth

## STRATEGIC OUTLOOK



### Transforming our business

- Our Vision
- 5 Strategic Conversations
- Creating a future organisation



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STRATEGIC OUTLOOK



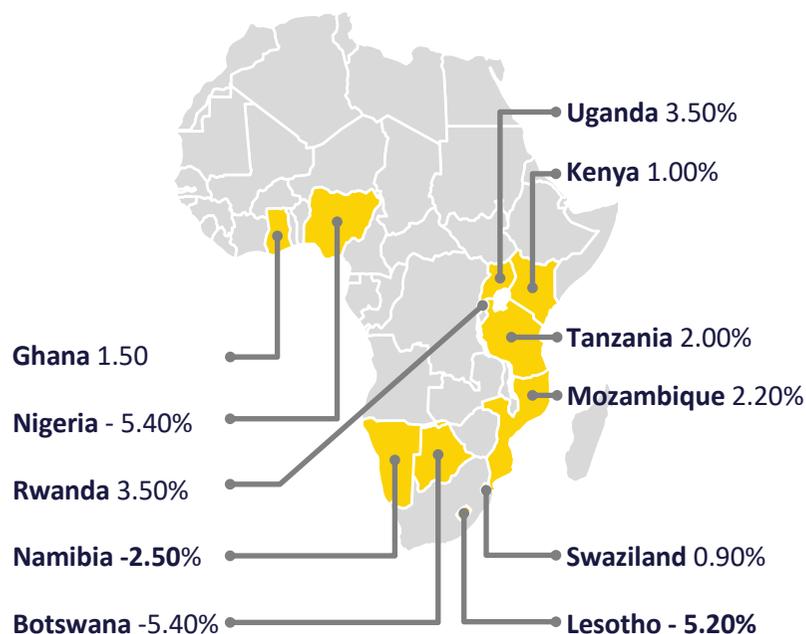
### Transforming our business

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# Economic outlook : Muted recovery as economic activity opens up and countries adapt to COVID-19 as a new normal



## IMF 2020 GDP Growth Outlook



Source: International Monetary Fund

## Sub Saharan Africa Monthly Outlook End Of 2020

Country	Currency	Exchange rate	Average Inflation %	Policy Interest Rate %
Botswana	BWP/USD	12.58	2.2	3.5
Ghana	GHS/USD	5.97	8.6	14
Kenya	KES/USD	107.78	5.5	6.75
Mozambique	MZN/USD	75	4.42	10.25
Nigeria	NGN/USD	420	13.69	12.5
South Africa	ZAR/USD	18.15	3.4	3.25
Tanzania	TZS/USD	2,400.00	4.17	6
Uganda	UGX/USD	3,775.00	3.87	6.5

Source: Bloomberg, Fitch Solutions. Last updated: July 7 2020

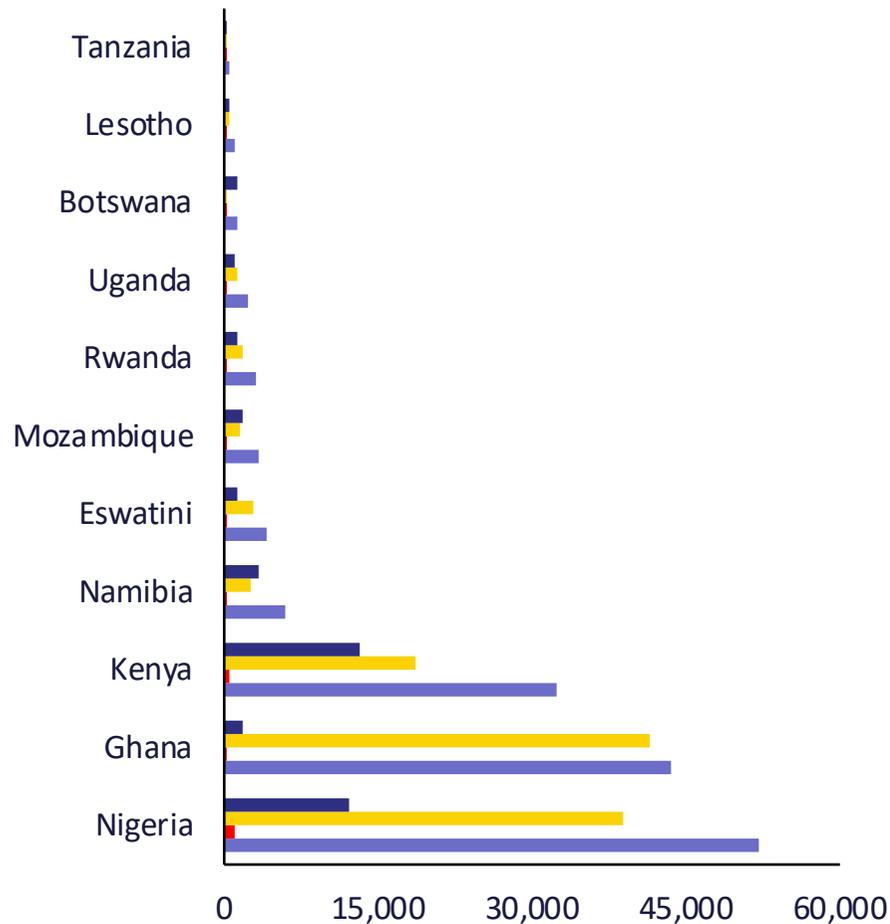
The outlook for 2020 for sub-Saharan Africa is considerably worse than was anticipated in April and subject to much uncertainty. Economic activity this year is now projected to contract by 3.2%, reflecting weaker external environment and measures to contain the COVID-19 outbreak. Growth is projected to recover to 3.4% in 2021 subject to the continued gradual easing of restrictions

IMF revised growth forecasts for sub-Saharan Africa, with GDP now expected to decline by -3.2% in 2020 from -1.6% previously forecasted in April 2020. The most impacted economies will be Botswana, Nigeria, Lesotho and Namibia, whilst the least affected will be Rwanda, Uganda, Mozambique, Tanzania, Ghana, Kenya and Swaziland managing to avoid recessions.

## Economic recovery post lockdown has been uneven

### COVID impact on Letshego Footprint

■ Active ■ Recoveries ■ Deaths ■ Total Cases



Source: CDC; John Hopkins



COVID impact better than expected. Mortality is low at 1% in Letshego countries (2% for Africa) with a good recovery rate of 73% (76% for Africa)



We are seeing a steady rise in COVID-19 infections in markets that were initially low (Lesotho, Botswana, Uganda, Rwanda, Mozambique, Eswatini and Namibia) Respective governments responses to flatten the curve seem to be working very well.



Letshego's Pandemic Response proactive and robust. Prioritising lives and livelihoods W-Curve plans implemented. Compliance with National Health protocols

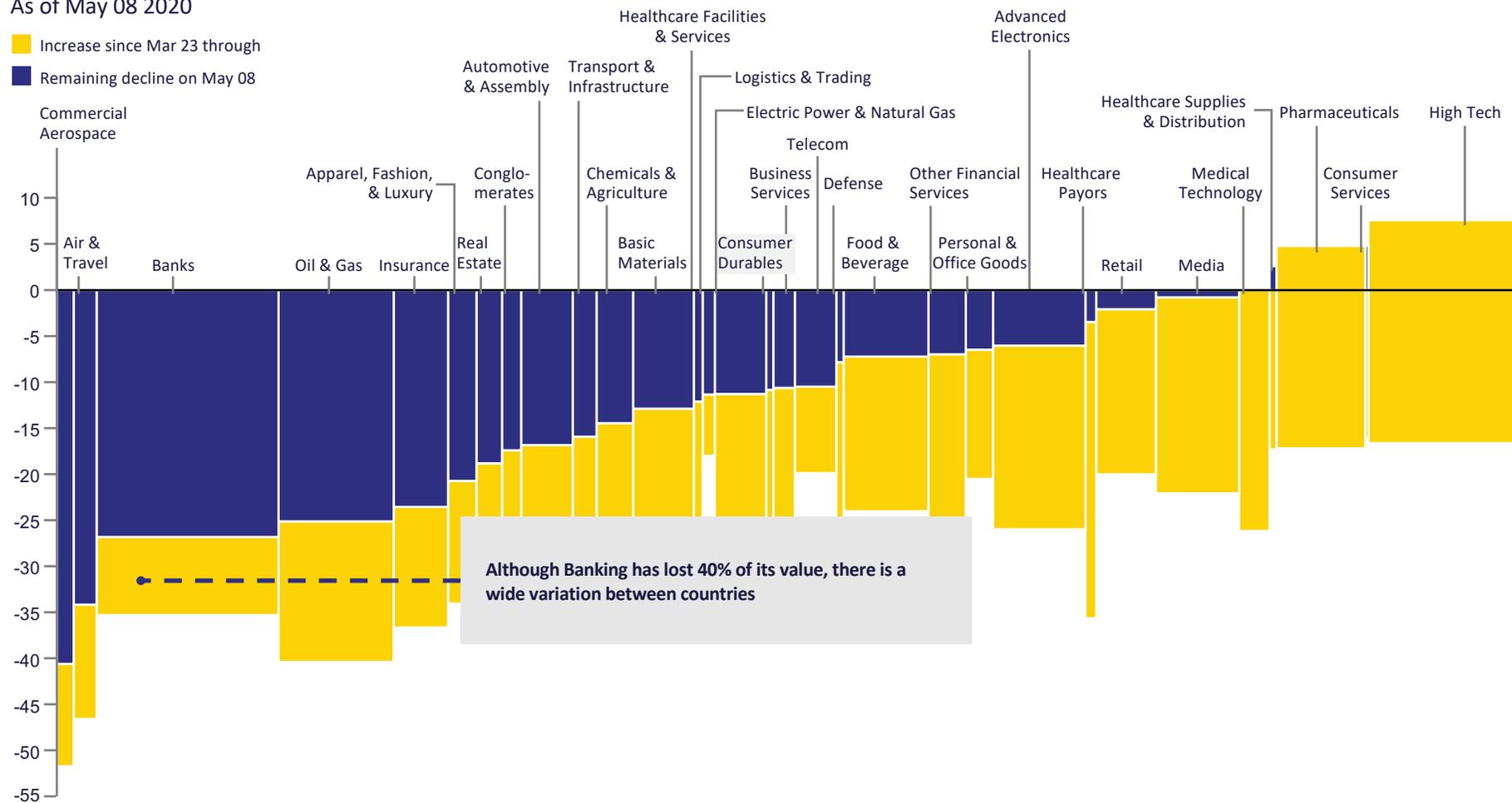
# Banking is among industries with the highest lost value, whereas most industries have recovered most of their share price drop



## Weighted average year-to-date local currency shareholder returns by industry in percent<sup>1</sup>.

Width of bars is starting market cap in \$

As of May 08 2020



<sup>1</sup>Data set includes global top 5000 companies by market cap in 2019, excluding some subsidiaries, holding companies and companies who have delisted since  
Source: Corporate Performance Analytics, S&CF Insights, S&P

# In this context, African banks are expected to face revenue decline of ~15-35% by 2021



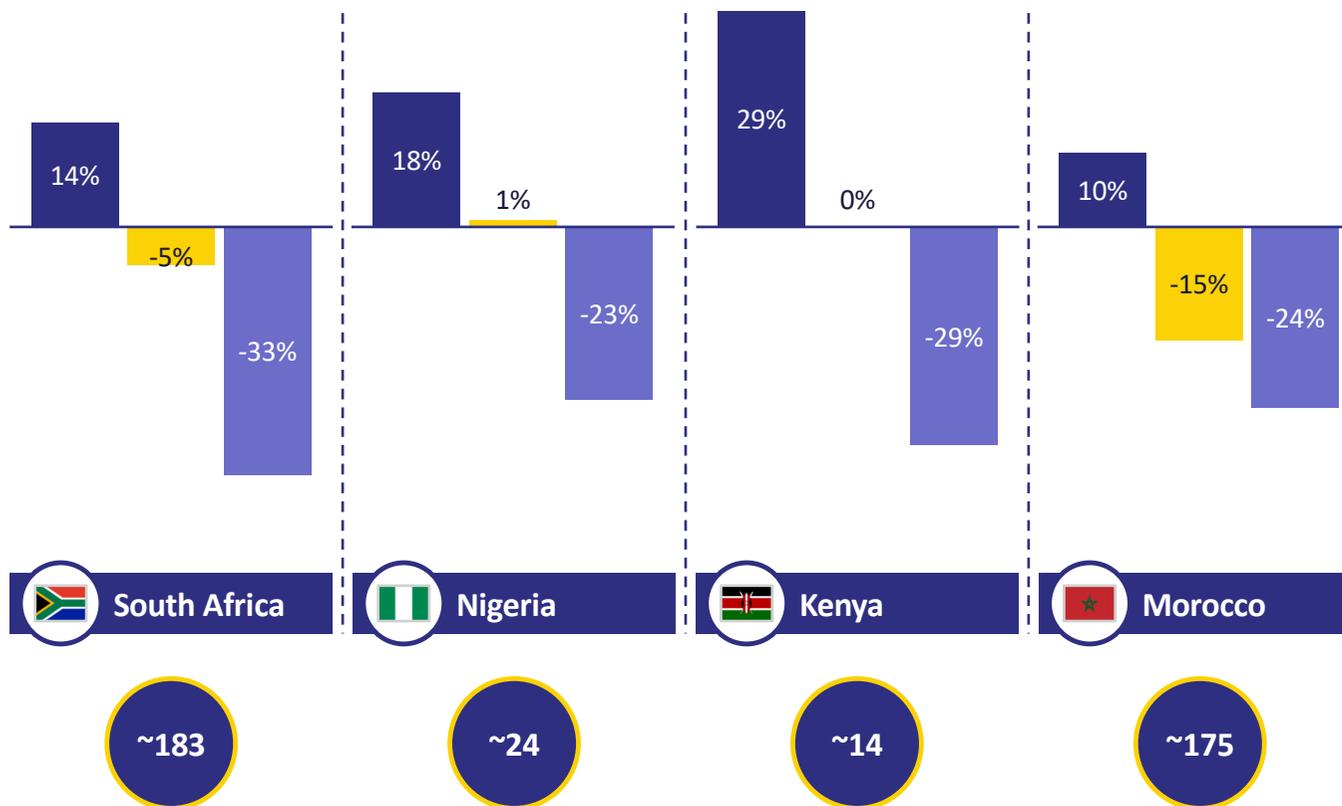
## Impact of COVID on banking revenue after risk cost

%-change between 2019 and 2021

Forecast as of May 27

● No. of COVID cases per 1 million people, as of May 12<sup>th</sup> 2020

● Pre-Covid ● A3 (Virus contained) ● A1 (Virus resurgent)



## Key insights

- Revenue after risk cost expected to decline by up to ~15-35% in the 4 main countries in scenario A1 (virus recurrence) between 2019 and 2021
- Even in the more moderate case with virus containment (A3) revenue is expected to decline by up to ~5% in South Africa and ~3% in Morocco. Results show a persistent growth in Nigeria under this scenario
- Nigeria and Kenya have significantly lower number of cases relative to their population, which correlates partially with reduced impact of COVID

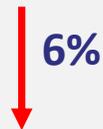
# Income Statement Highlights H1 2020



## Net Interest Income

H1 2020: **P973mn**

H1 2019: P1.037mn



## Impairment Charge

H1 2020: **P71mn**

H1 2019: P 117mn



## Profit before Tax

H1 2020: **P483mn**

H1 2019: P 600mn



## Cost to income



H1 2019: 41%

## Loan loss ratio



H1 2019: 2.5%

## Return on equity



H1 2019: 17%

# Income Statement Commentary

	H1 2020	H2 2019	Change %
Net interest income	973	1,037	(6%)
Non funded income	90	183	(51%)
<b>Operating income</b>	<b>1,063</b>	<b>1,220</b>	<b>(13%)</b>
Operating costs	(510)	(503)	(1%)
<b>Pre - provision profits</b>	<b>553</b>	<b>717</b>	<b>(23%)</b>
Expected credit losses	(71)	(117)	39%
<b>Profit before tax</b>	<b>483</b>	<b>600</b>	<b>(20%)</b>
Tax charge	(205)	(236)	13%
<b>Profit after tax</b>	<b>278</b>	<b>364</b>	<b>(24%)</b>

## Key Messages



Net interest income better than **expected against backdrop of COVID-19 impact in Q2**, demonstrating business resilience



NFI reduction due to **lower transactional volumes**, and Namibia regulatory adjustment. NFI starting to show recovery in line with other business streams.



**Operating Expenditure largely flat**, increasing by only 1%. Other Operating Expenditure down 6% year on year



**Credit impairment charge reduced by 39%**, supported by improvement in mobile loan impairments from P62million last year, to P2million this half year.



**ETR up to 42% from 39% at 31 December 2019**, due to lower profit before tax and prior year adjustments. Without prior year adjustments, ETR would have been 39%. Actual tax charge is down 13%



Basic Earnings per Share (thebe)

12.3

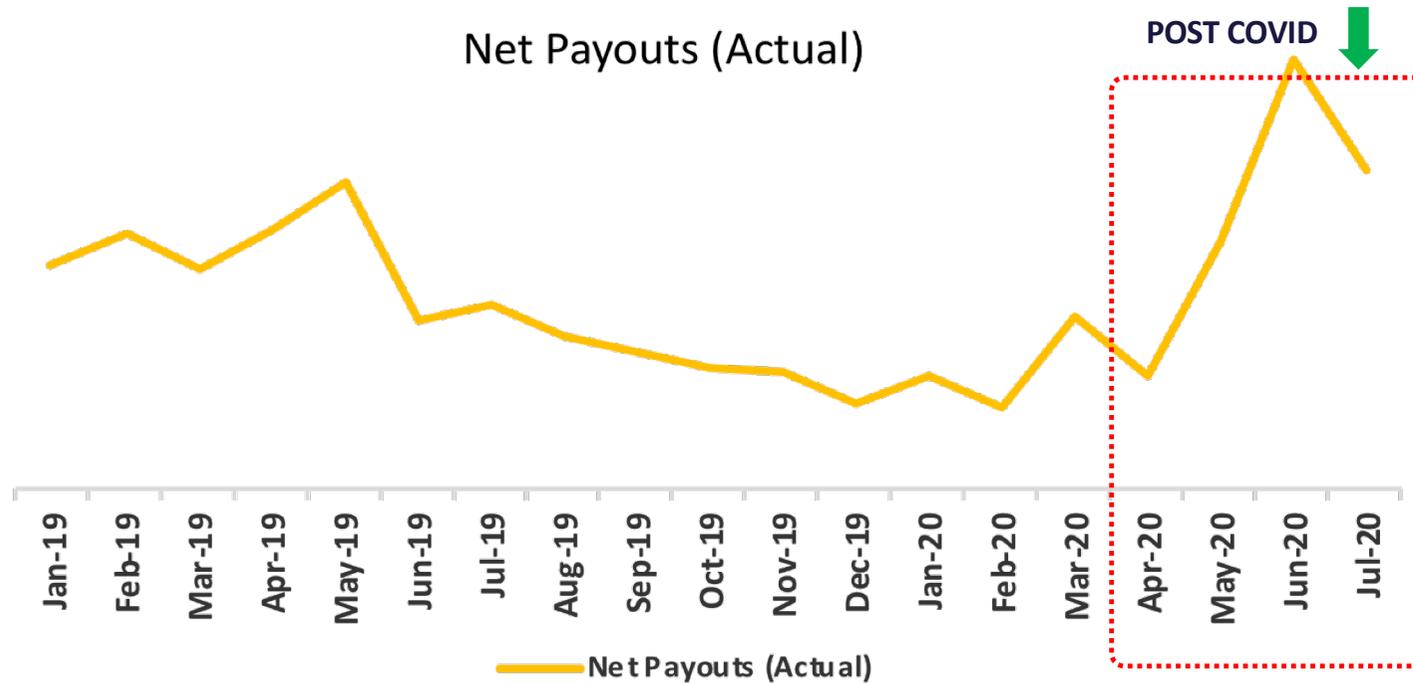
15.4

(20%)

# DAS Business show resilience despite the pandemic



## Overall DAS Performance



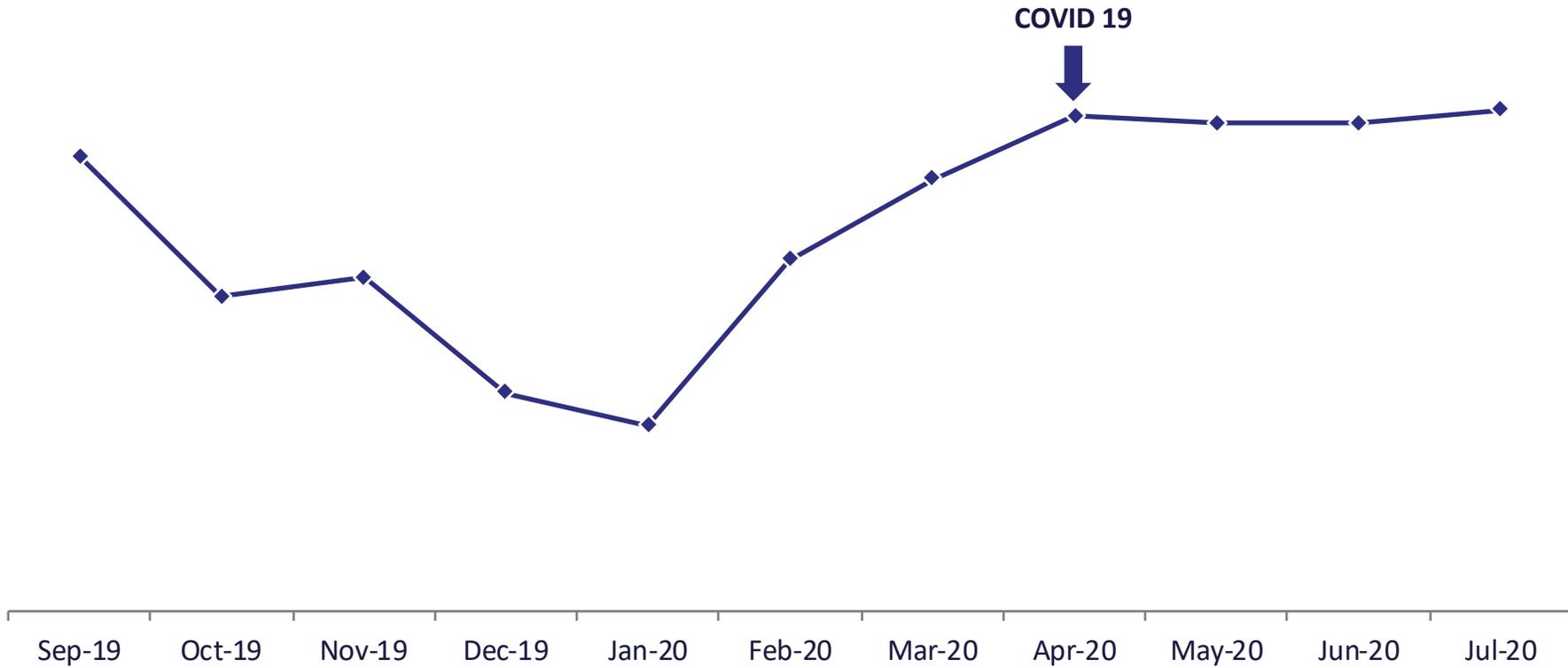
<b>38%</b> New Customers (June 2019 – 36%)	<b>8.5%</b> YOY Growth Net Loan Book	<b>98%</b> Collection Rate (2019: 87%)	<b>9.6%</b> YOY PBT Decline
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# Challenging half for MSEs



The MSE book we started growing from January to April this year is flat due to COVID 19 impact.

## Net loan book growth



<b>25%</b> YOY decline customer #s	<b>30%</b> Decline in Disbursements	<b>3%</b> Net loan Book Growth	<b>5%</b> YOY PBT Decline
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# Balance Sheet Highlights H1 2020



## Total Assets

H1 2020: **P10.6bn**

H1 2019: P10.4bn



## Net Advances

H1 2020: **P9.3bn**

H1 2019: P9.1bn



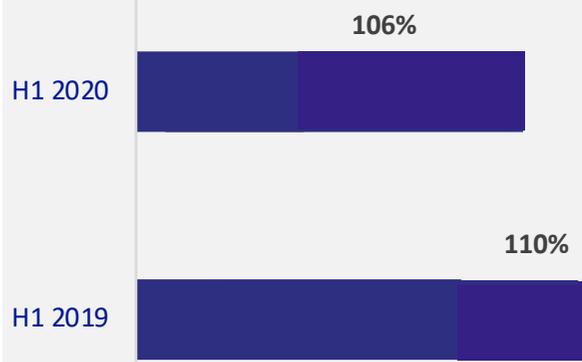
## Customer deposits

H1 2020: **P499mn**

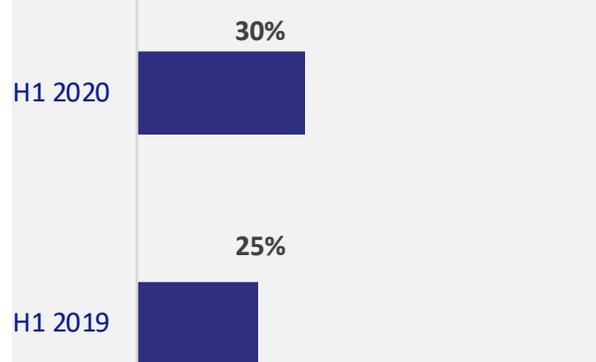
H1 2019: P306mn



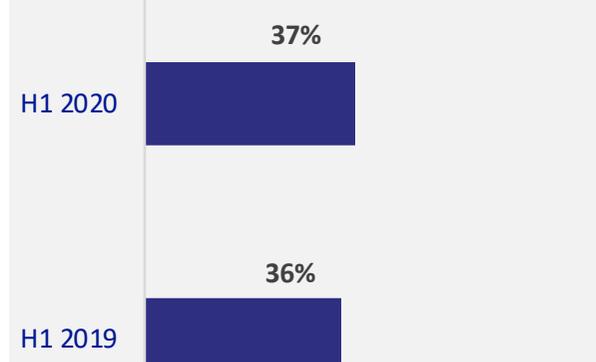
## Debt to Equity



## Dividend payout ratio



## Capital Adequacy



# Balance Sheet Commentary



	H1 2020	H2 2019	Change %
Cash & Cash Equivalents	624	461	35%
Net advances to customers	9,256	9,116	2%
Other Assets	718	817	(12%)
<b>Total Assets</b>	<b>10,598</b>	<b>10,394</b>	<b>(2%)</b>
Customer deposits	499	306	63%
Borrowings	4,809	4,796	-
Other Liabilities	767	947	(20%)
<b>Shareholders Funds</b>	<b>4,198</b>	<b>4,007</b>	<b>5%</b>
Non-controlling interest	325	338	(4%)
<b>Total Liabilities &amp; Equity</b>	<b>10,598</b>	<b>10,394</b>	<b>2%</b>

## Key Messages



**Cash and Cash equivalent up 35% year on year** with 85% comprising cash balances ( H1:2019 68%) but down from P945m FY 2019.



**Net advances to customer up 2% year on year** with a 32% increase in net payouts between May and June 2020, showing sales recovery from Covid-19 lockdowns.



**Although starting off a low base customer deposits increased by 63%**, mainly driven by growth in corporate deposits in Mozambique.



**Borrowings flat year on year** , with considerable focus on changing the deposit mix, reducing cost of funds and increasing longer dated funding from DFIs



**Shareholders funds strong** at P4,198m and up 5% year on year.



Debt: Equity Ratio

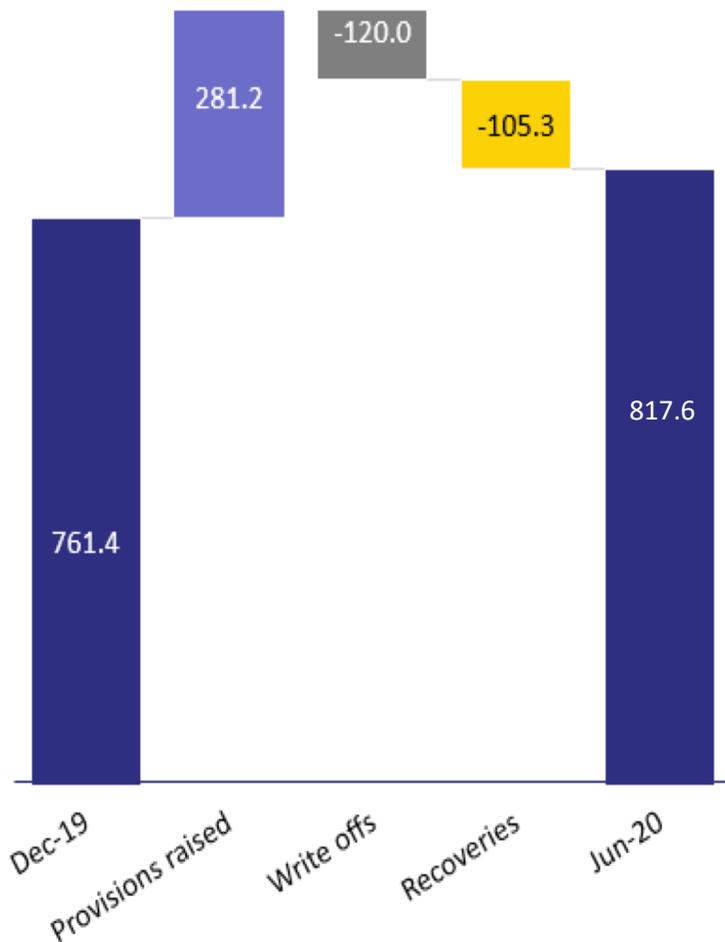
106%

110%

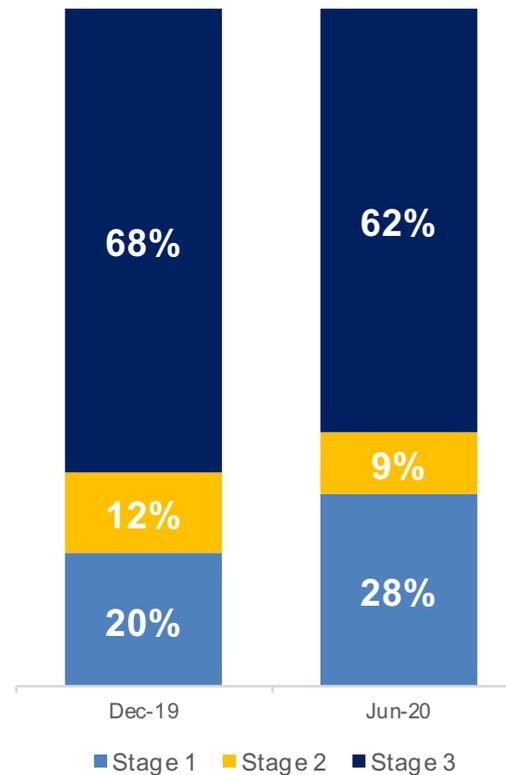
# Expected Credit Losses (ECL): Stable Impairment Coverage; ECL increase in downside macroeconomic environment



## ECL movement



## ECL Split



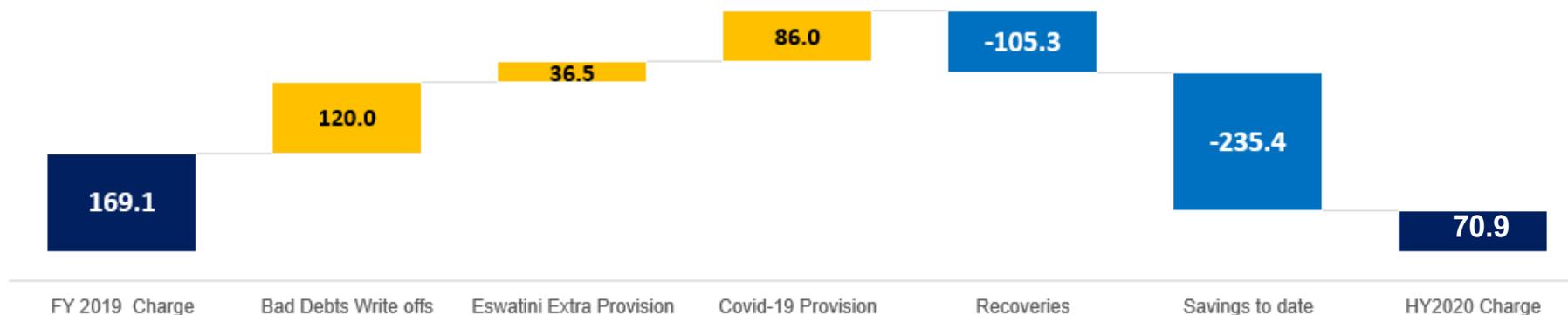
## Key Highlights

- Overall impairment coverage remained stable at 8% from 2019
- Loan loss rate moving from 1.4% from 1.7% full year 2019, with increase in average advances that increased from P9.69 billion in 2019 to P10.06 billion at H1 2020
- Stage 1** - Growth in DAS portfolios after affordability rules were adjusted
- Stage 2**- Increase in accounts having significant increase in credit risk at the back of sectoral risk in MSE portfolio
- Stage 3** - Reduction driven by mobile loans but increase noted in Eswatini at the back of specific defaults

## Credit Impairment Charges: Effective risk management, satisfactory performance in a difficult pandemic period



### H1 2020 Impairment Charge Bridge



HY2020 Impairment Charge is favourable by 39% in comparison to same time last year ( Jun20: P70.9m ,Jun19 :P116.7m)

Turnaround strategy in mobile lending resulted in Ghana Qwikloans impairment charge reducing by 97% as compared to same period last year ( Jun20: P2.1m ,Jun19 :P61.2m)

Additional specific provision taken in Eswatini to increase Stage 2 and 3 cover to 100% for UNISWA .

Annualised loan loss rate (LLR) for HY 2020 is 1.4% compared to 2.5% same period last year .

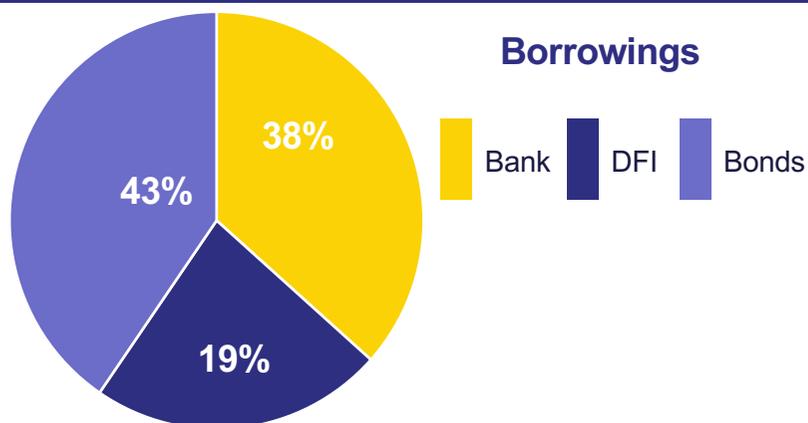
Covid-19 provisions – Stress testing led to staging amendments and therefore additional provision taken to cover 7% of Portfolio on repayment Holiday ( P686m Exposure at Risk )

Forward Looking Provisions – All macro economic outlook variables stretched to downside in our ECL models . These include CPI, unemployment rate ,GDP and Inflation ..

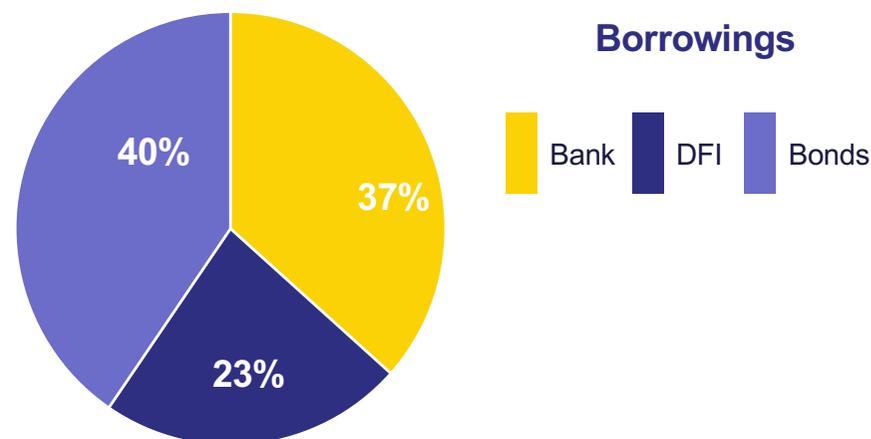
# We continue to diversify our funding structure



## Funding Mix 31 December 2019



## Funding Mix June 2020



## Funding

- Increase in DFI funding year on year
- 49% of funding maturing within one year with approximately 90% indicating rollovers
- Increased Interest from DFIs and MIVs
- Rolled over/ refinanced 4 out of 22 maturing credit lines
- Put in place 19 new funding lines and, drew down P160mn
- Issued P82.5mn on the BSE Bond Programme
- Headroom under Security Sharing Agreement (SSA) to P830mn (2019: P940mn)

## Credit Rating

- Ba3 (stable) outlook issuer rating affirmed by Moody's
- Ba2 Corporate Family Rating (CFR) assigned

## Deposit Mobilisation

- 63% increase in year on year deposits
- Call and term deposits make up 68% of total (H1 2019 :52%)
- Mozambique continues to lead in deposit mobilisation

## Liquidity Coverage Ratio

- 29% H1 2020, 31% FY 2019
- Cash reserves on hand >P500mn

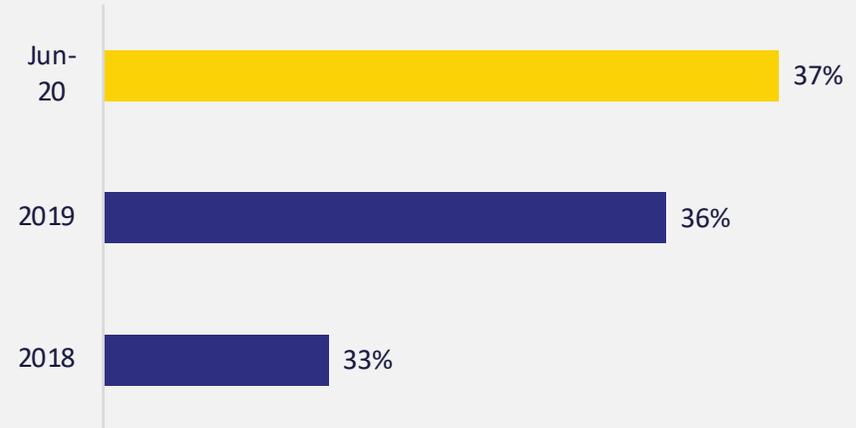
# Maintained strong capital levels to support loan growth and buffer economic headwinds



## Regulatory capital

- Group maintains a CAR which is higher than minimum regulatory capital requirements for regulated entities across all our operations
- CAR 2020: 37%, (2019: 36%)
- Subsidiaries adequately capitalised with plans to capitalise LBT

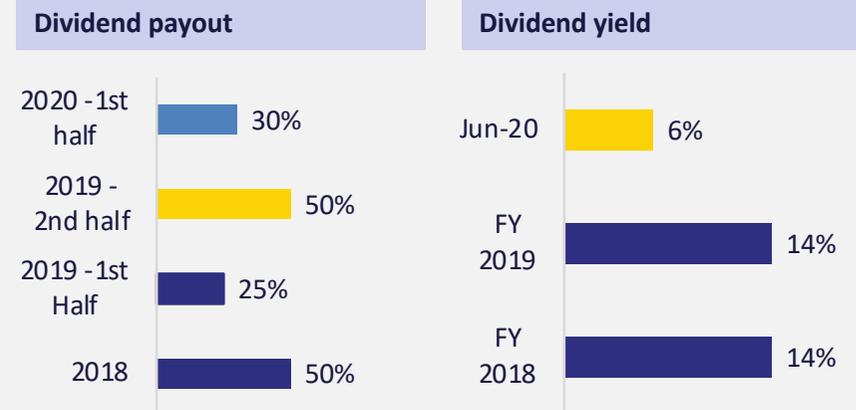
## Capital Adequacy Ratio



## Dividend policy

- Dividend pay out ratio has been increased to 30% of PAT ( H1 2019:25%)
- Dividend yield at 6%

## Dividend Policy



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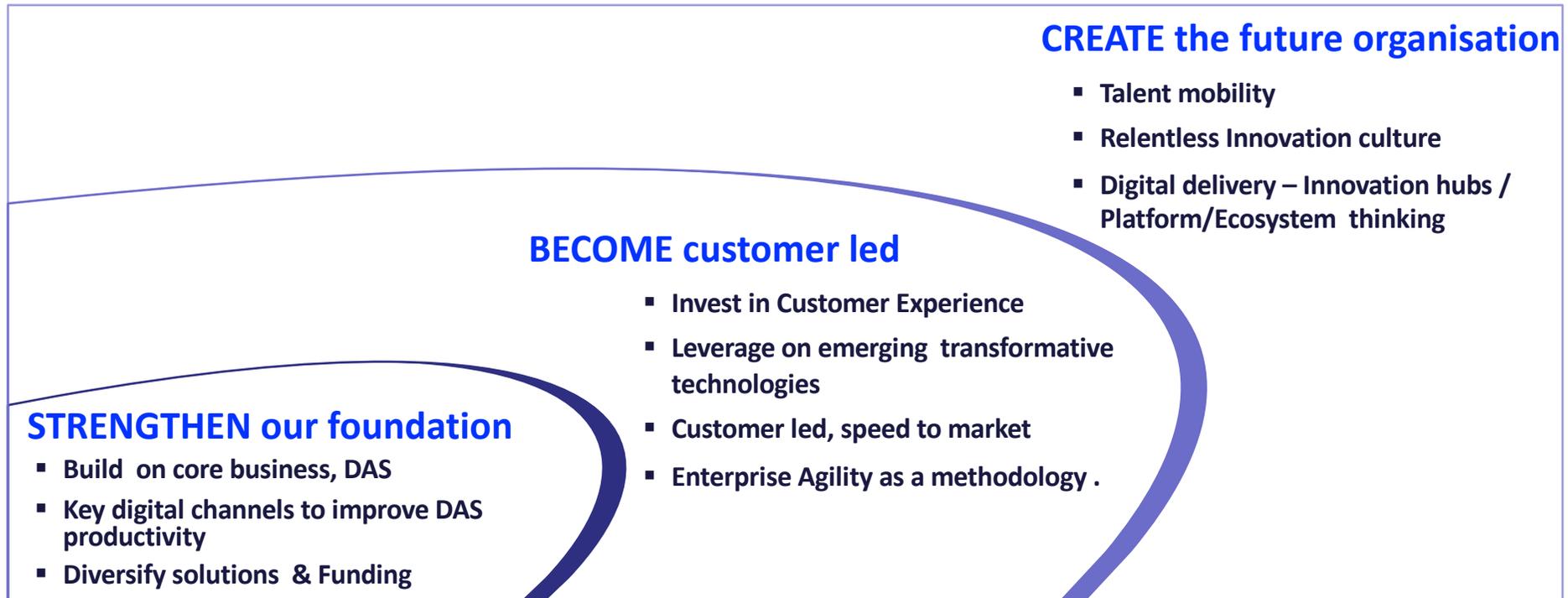
# Our 6-2-5 Plan to 'Return to growth'



## Creating a world class Retail Financial services organisation

Short term: Leverage on our strengths to deepen impact

Medium /Long term : Customer ; Talent, Innovation and technology



PRODUCTIVITY OF SOLUTIONS

TRANSFORMATIVE TECHNOLOGIES

PLATFORM THINKING





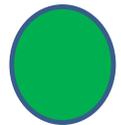
## Digital

- Digitised DAS and SME customer journey. WhatsApp & Web loan applications implemented across the group in March.
- Achieved 30% Digital adoption** in June.



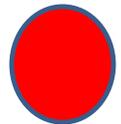
## Deposits

- Fixed Retail channels customer journeys.
- Achieved 63% deposits growth YOY** with Retail deposit contribution to total deposit book now at **55%**



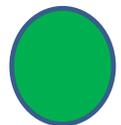
## MSE

- Design a compelling value proposition for MSE lending solution.
- Not yet Achieved** as MSE sector more affected by the pandemic but action carried forward to propose approach for MSE.



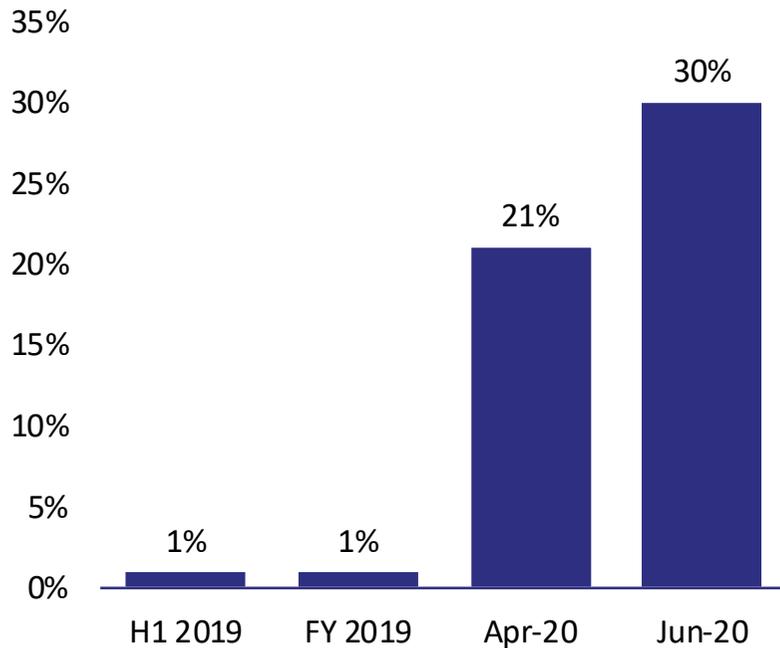
## Partnerships

- Run acquisition tailored campaigns with strategic Partners.
- Achieved : 46% growth on savers** from mobile saving wallet in Tanzania and community commerce project in Mozambique.
- Achieved : 585k savers** as at end of June

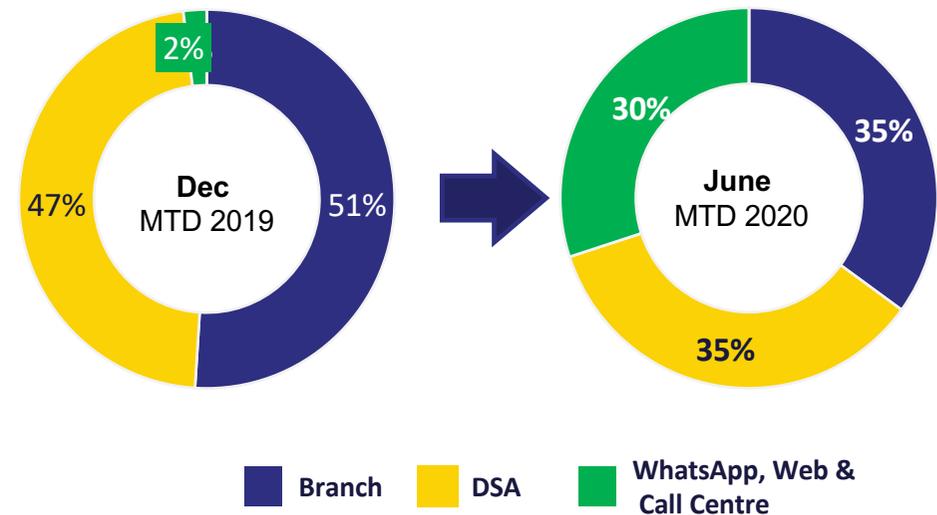


# Growing Digital adoption over period

Growth of Digital adoption



Channel contribution (%) to Loan Sales



WhatsApp, Web implemented in March supported by Call centre are fastest growing channels



**30%** Digital Adoption

1. **Deliberate management action** in the first half has mitigated downside risk, despite COVID-19 environment
2. **Dividend payment** indicative of business resilience, against backdrop of regulatory guidance and market trends
3. **Digital Agenda** is demonstrating potential upside value for second half, while navigating through W-Curve scenarios
4. Letshego has benefited from **regional governments' commitment** to sustain public sector employment
5. **Second Half performance** expected to endure economic headwinds, with impact still heightened for the MSE sector

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Our **Transformational strategy** presented today encompasses the different areas that Letshego has been working on over the last few months



# Now is the right time to review our strategy and position Letshego to capture growth

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3 months ago the world looked very different...

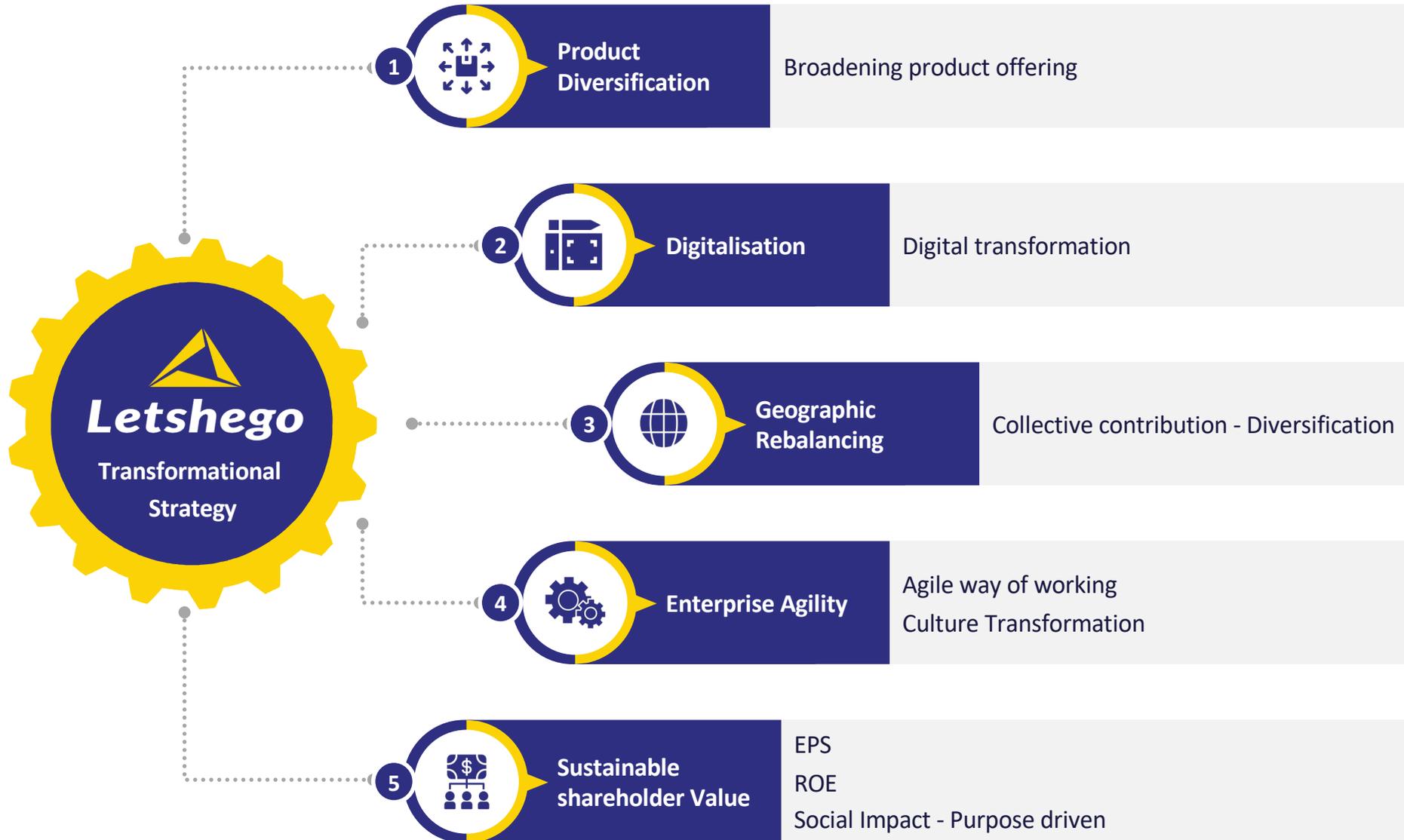
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To be a **world-class retail financial services** organisation  
**meeting the needs of mass and middle income**  
individuals and small companies

Capture 5-10%	Build 7	Serve 3
<p><b>Market share</b> target in all product-segment combinations across our existing markets</p> <p>Leverage our strength in the DAS product and government employee segment and go <b>Big</b> to capture new <b>market leading</b> positions</p>	<p><b>Product offerings</b> to deliver <b>unique value propositions</b> in DAS loans, non-DAS loans, savings, domestic transfers, remittances, insurance and cards</p> <p><b>Build</b> a comprehensive product offering <b>Beyond</b> financial inclusion catering to changing consumer preferences</p>	<p>Core customer segments through <b>customer acquisition and retention strategies</b> tailored to Mass Individual and Middle Individual Segments &amp; MSEs through the Group's <b>Digital Transformation</b></p> <p><b>Diversify</b> our <b>customer segments</b> and introduce <b>Digital</b> as our "new normal" to increase our reach through end-to-end digital customer solutions</p>

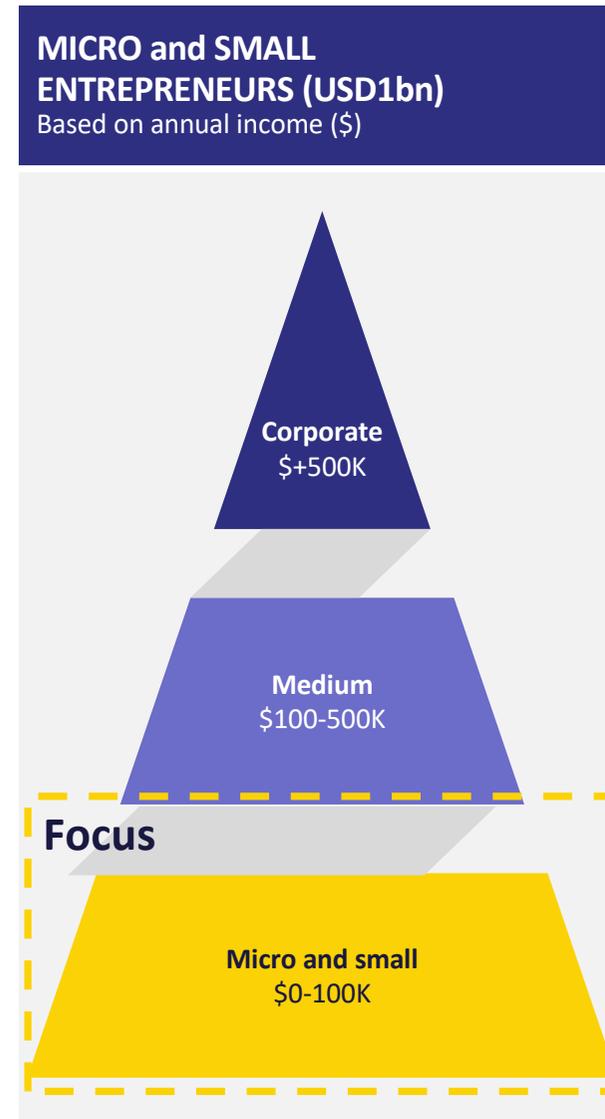
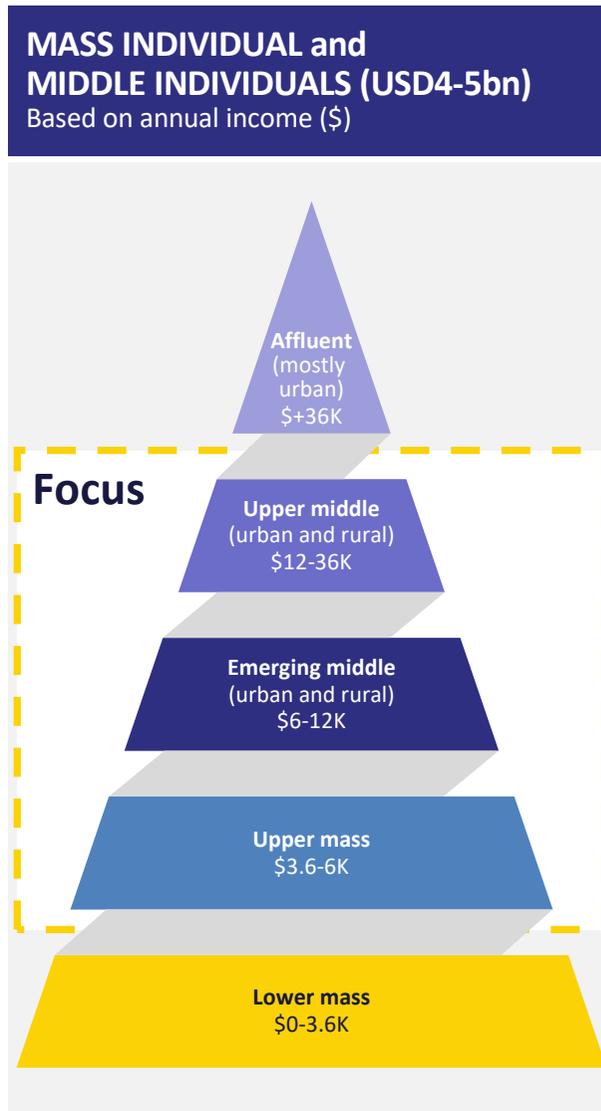
# 5 transformational Strategic Conversations



# 5 transformational Strategic Conversations



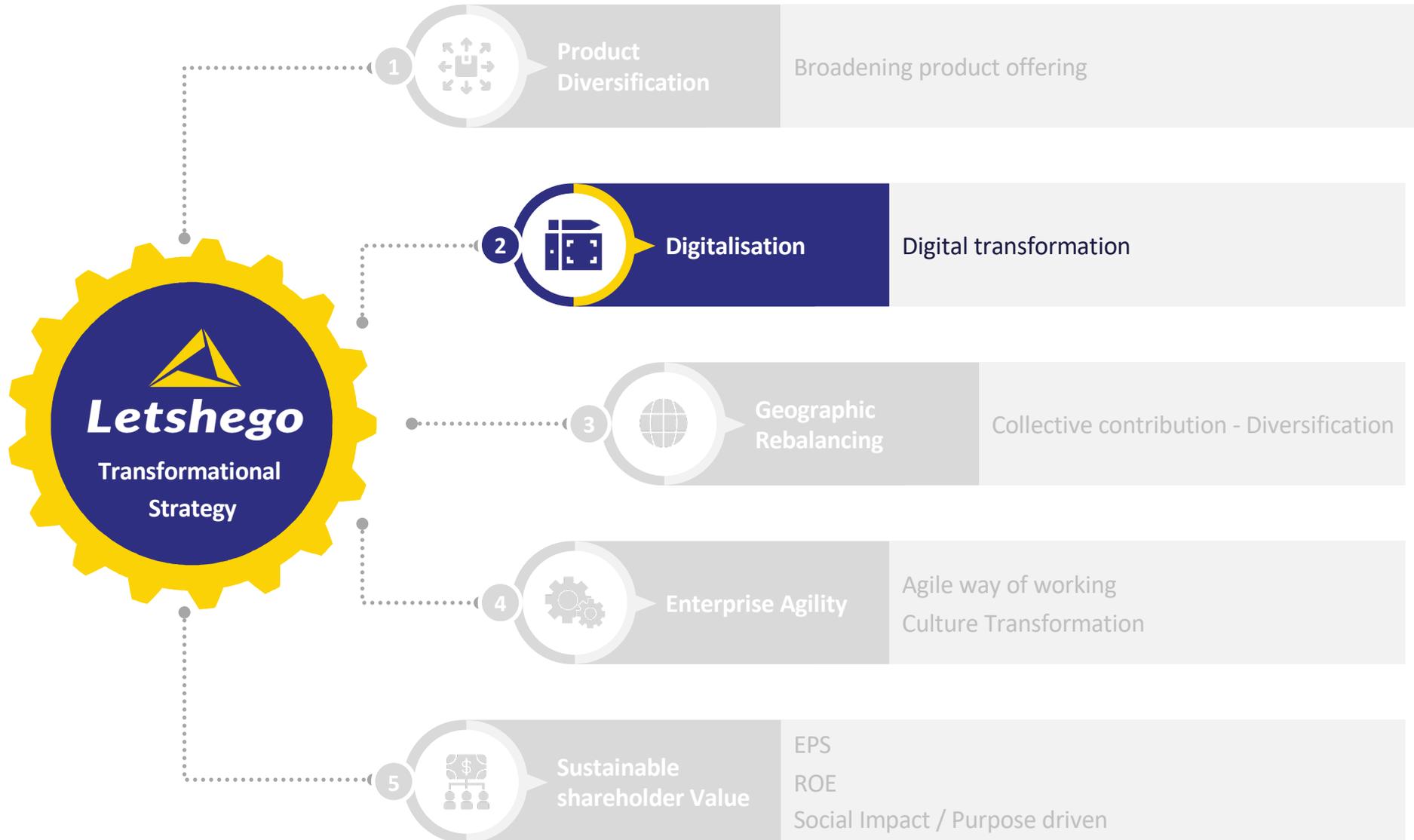
To build Letshego's strategy, we took an outside-in perspective on the retail market – segment opportunities in Mass and Middle Individuals and MSE  Letshego



To capture this opportunity, Letshego will focus on a beyond-banking value proposition that caters to the Mass and Middle income segments' and MSE needs



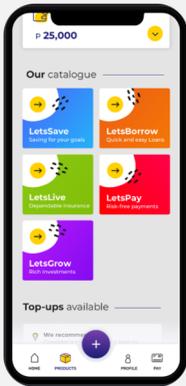
# 5 transformational Strategic Conversations



# New product offering will be anchored around a distinctive integrated mobile platform that goes BEYOND BANKING (incl. USSD)



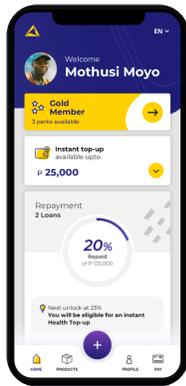
Instant access to products



Transact Save Borrow Insure



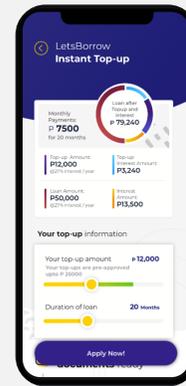
User-friendly for our target segments



Designed around core customer needs



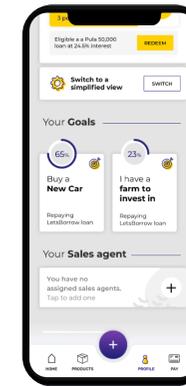
Enhanced customer engagement through personalisation



Community-driven and social banking experience



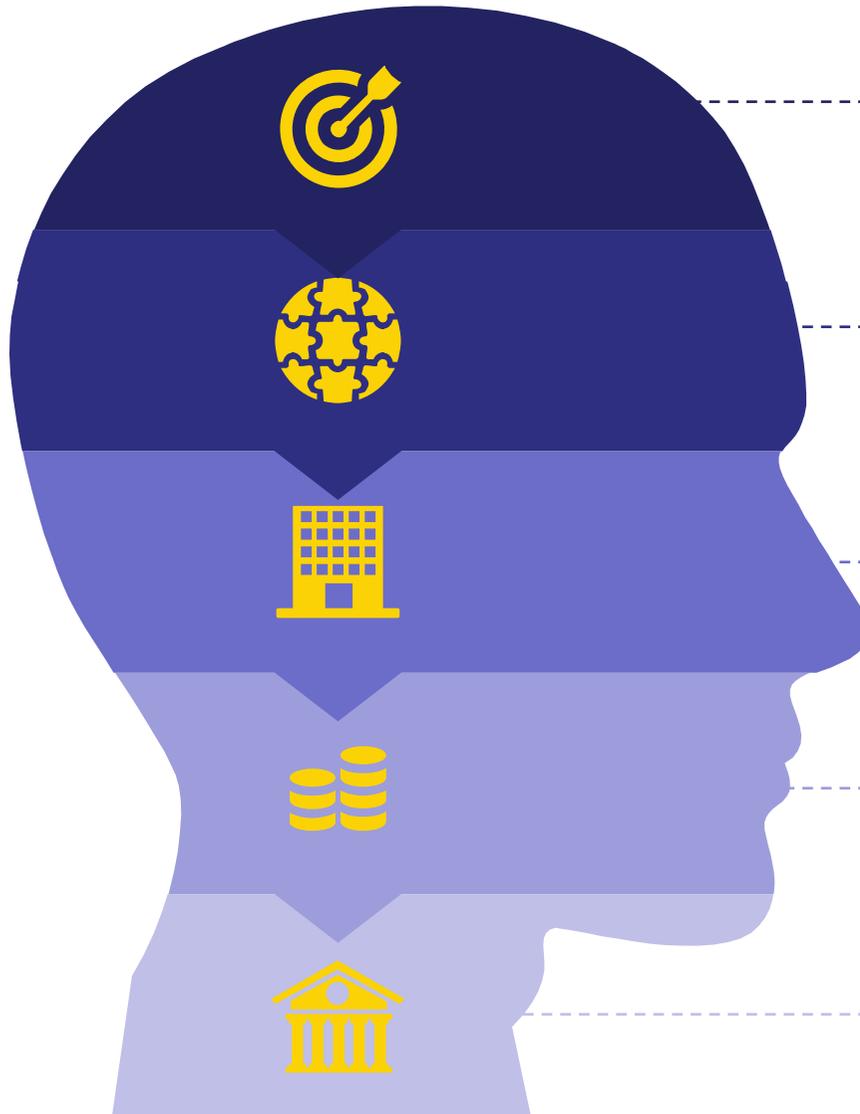
Value-adding services to complement the core financial offering



Value-added services

USSD available for main functionalities

# Layered thinking on architectural choices, infrastructure and tooling will jump start our digital transformation



1 Focus on building the customer experience layer

2 Reuse existing components but build micro-services layer

3 Invest in tooling and infrastructure

4 Focus on developing a holistic data strategy

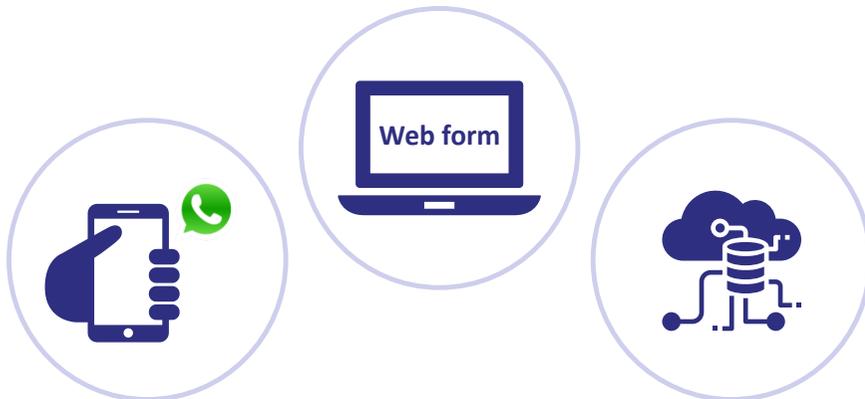
5 Invest in data governance and foundational data architecture



Our Strategic partners will help fast track the implementation of our Digital agenda



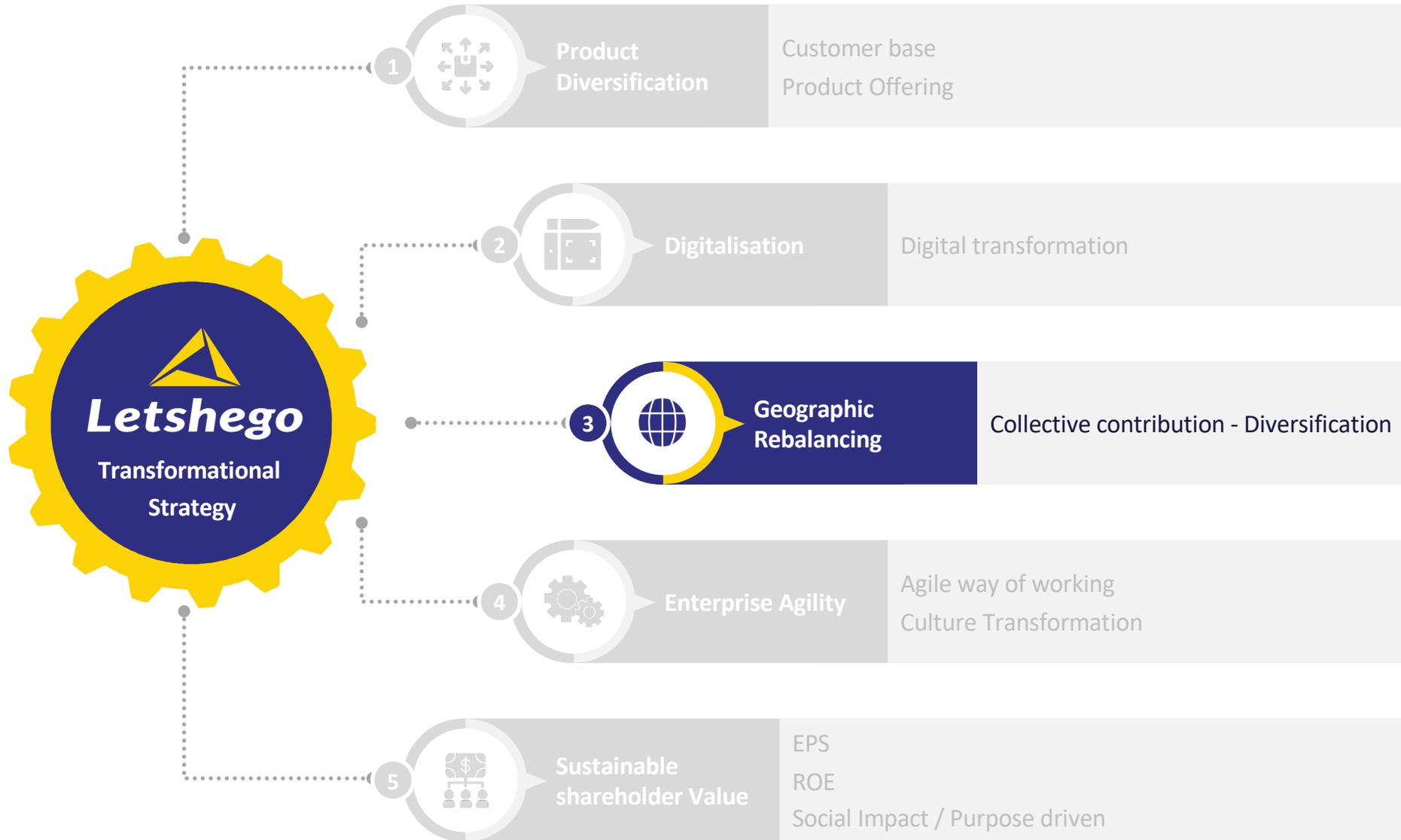
## Build our Platform



## Accelerate our innovation

- Start-up Innovation Digital Pitch days
- Start-up Innovation Challenges
- Hackthons
- Incubation & Acceleration Programs

# 5 transformational Strategic Conversations

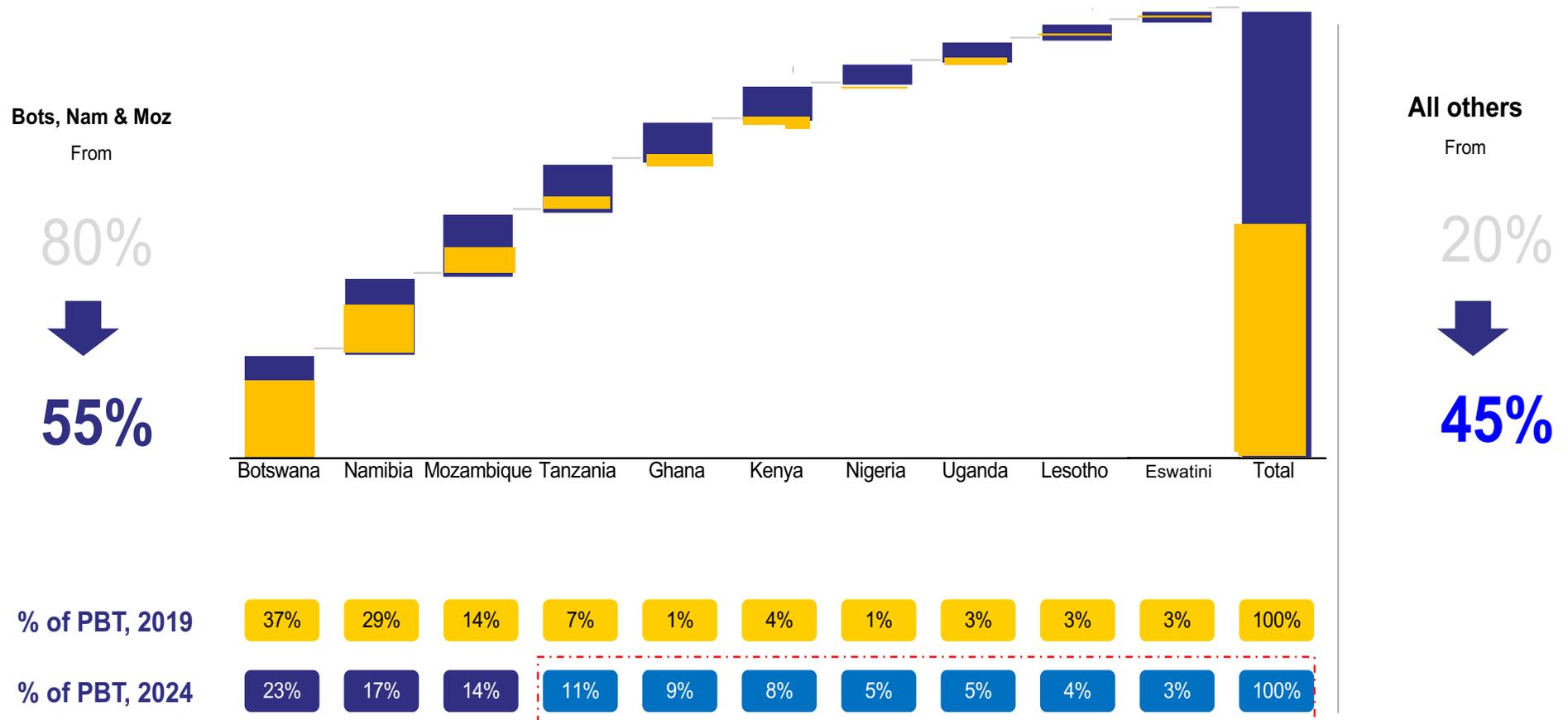


# High growth geographies are expected to increase their contribution by 2024, decreasing the Group's dependency on a few geographies



PBT, million BWP

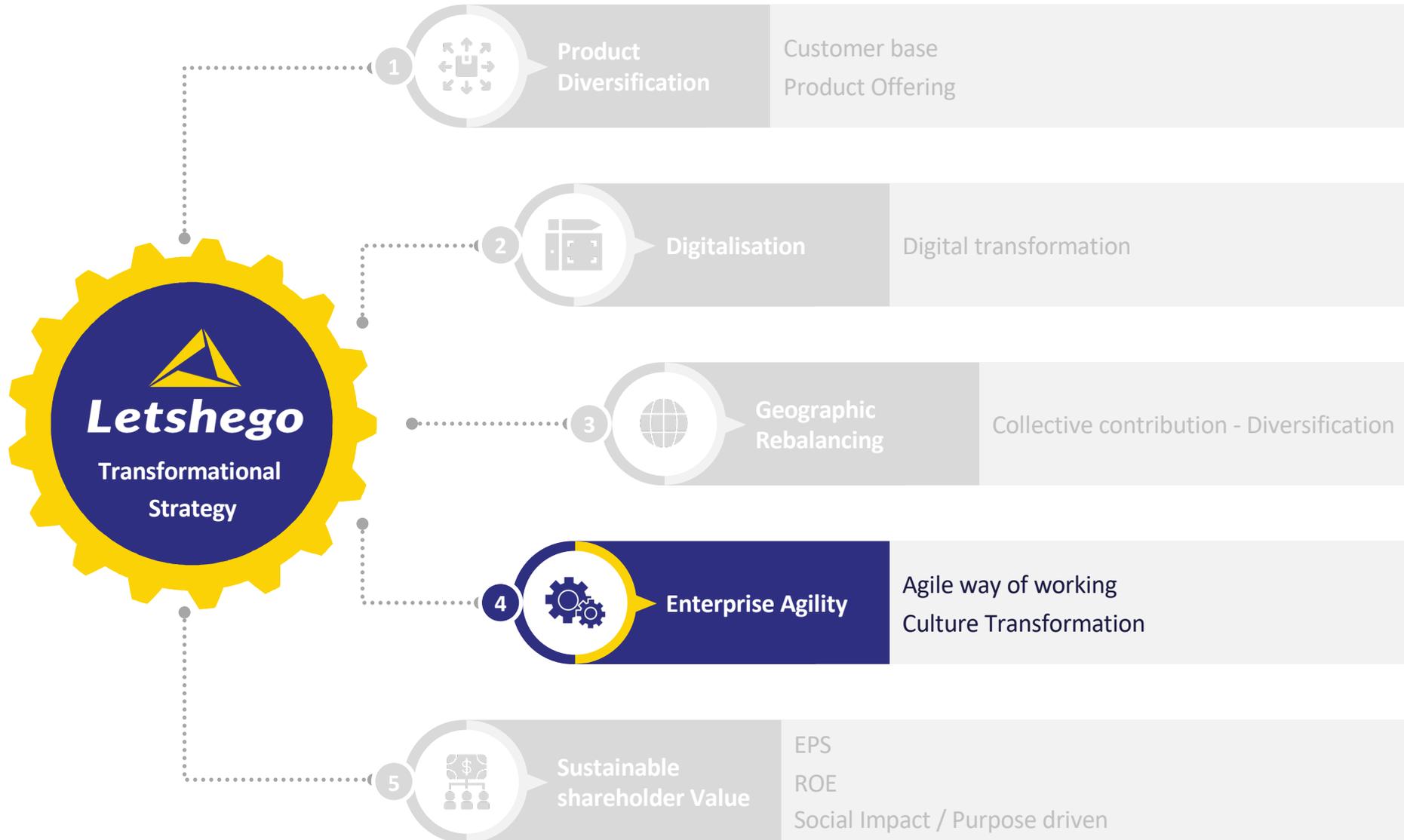
x Growth in contribution to PBT



Our first half efforts have already shown results on rebalancing in East and West Africa

\*Rwanda not reflected due to current minimal contribution

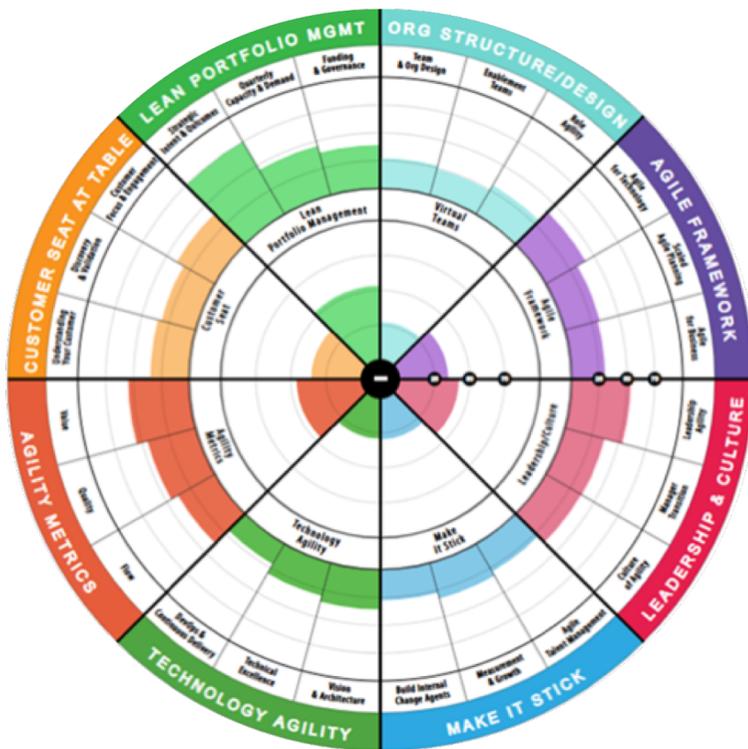
# 5 transformational Strategic Conversations



# Agility is a Science: The target outcomes are clear and include 8 elements



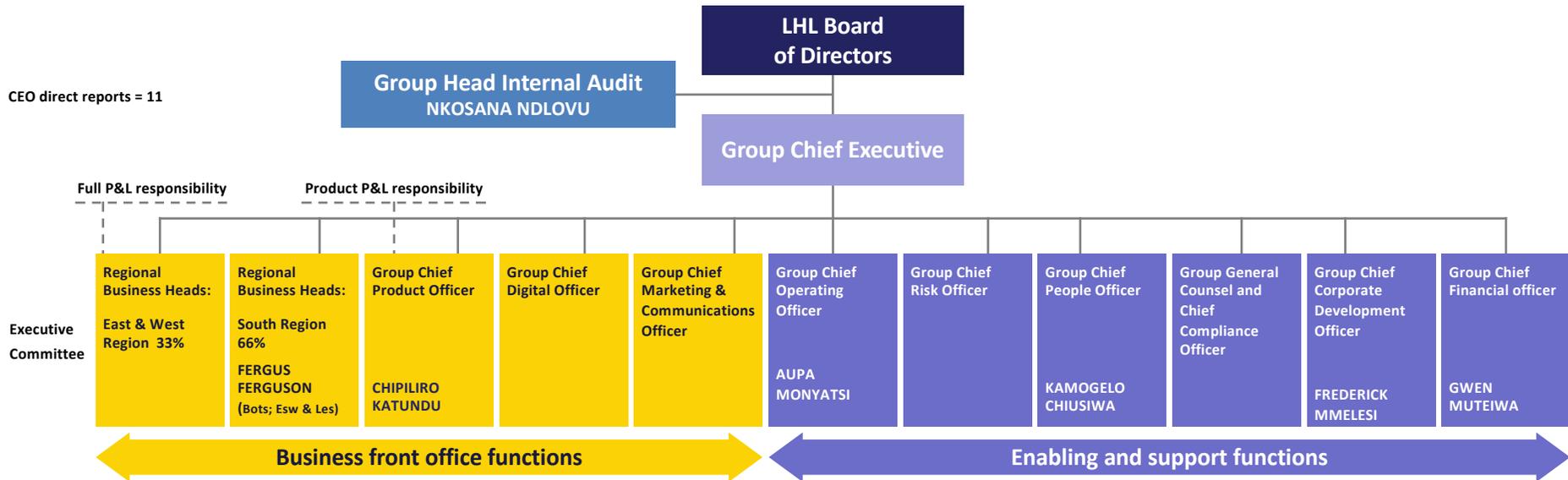
## Diagnostic



## Outcome

	Increased customer satisfaction & loyalty		Accelerated innovative solutions for real-world challenges
	Simplified delivery structures & practices		Improved collaboration & Agile ways of working
	Increased revenue, margins, market share, & sustained profitability		Increased strategic alignment & adaptability
	Improved adaptive core tech capabilities		Increased Employee Engagement & Empowerment

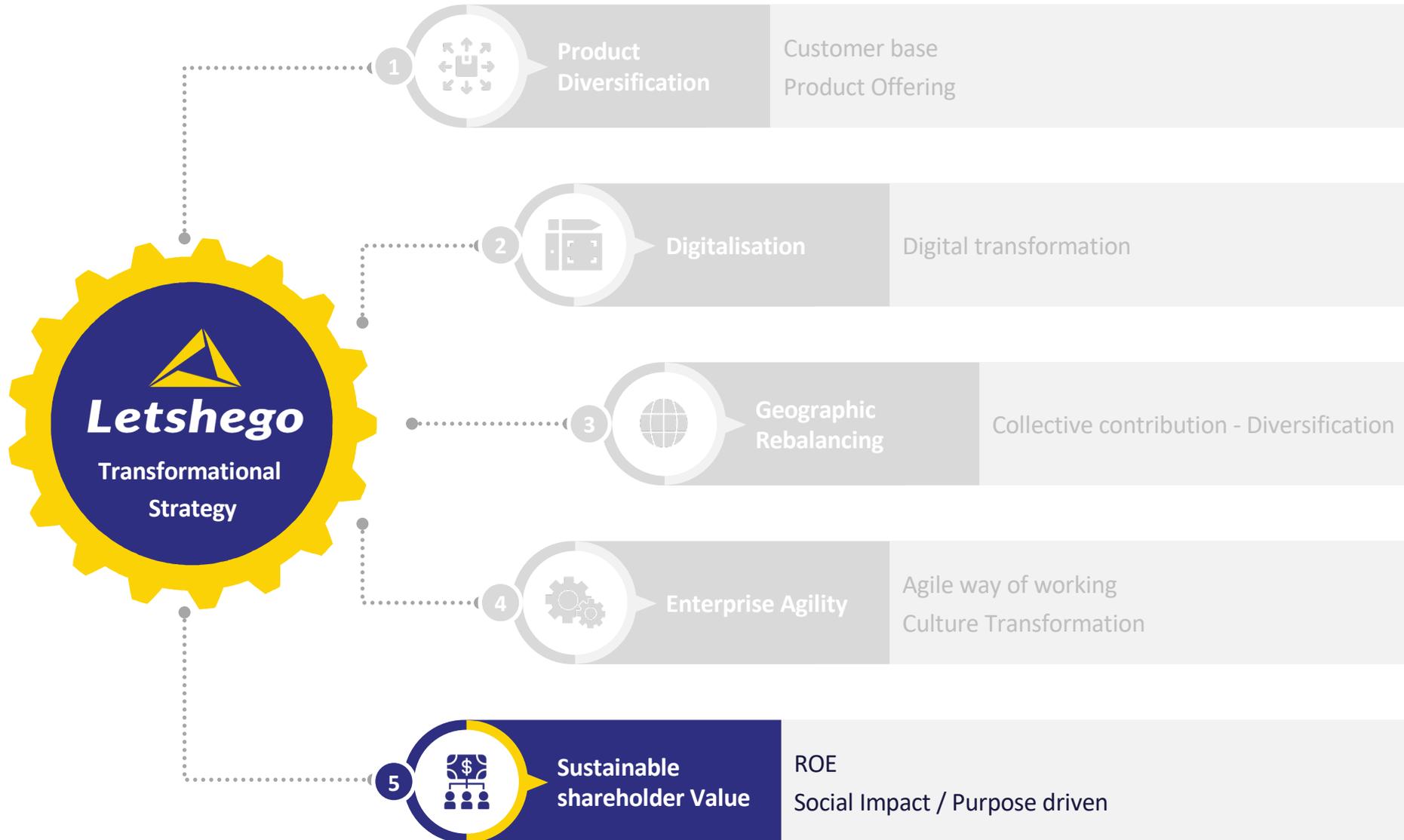
# Organisational Design increases proximity of geographies to CEO and shifts P&L responsibility to Regional and Product Execs



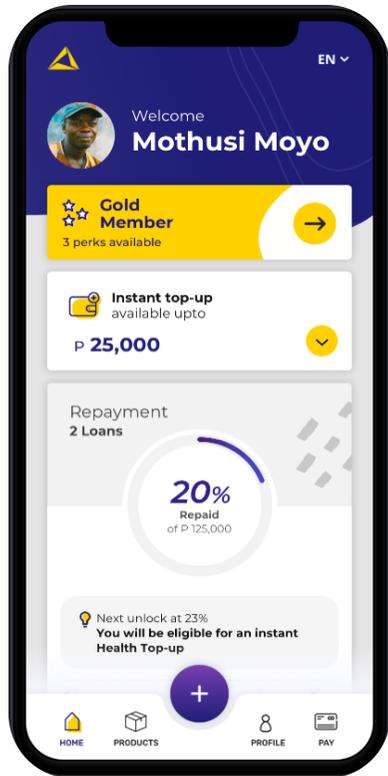
- Organisational Structure**
- Efficiency and In-house capabilities**
- Establish accountability and "One-company way of working"**

- I Align organisational structure with key strategic objectives
- II Establish clear P&L accountabilities and balance responsibilities across executives
- III Define role of Holding Company, bring P&L closer to Group CEO and improve interaction with geographies
- IV Optimise spans and layers - reduce duplication
- V Ensure right skillset for all positions as well as role-clarity to drive accountability

# 5 transformational Strategic Conversations



# Delivering on this roadmap will mean significantly transforming Letshego Group



7 Core product groups

**Agile** ways of working embedded into the organisation

80% Digitisation

Reinforced **culture** to sustain change over time

>20% Return on Equity

Align  
**Org Design**

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