

## INTRODUCTION

Letshego Holdings Limited was the first micro lending company to be established in Botswana to provide unsecured loans to formally employed clients. The company commenced trading in September 1998 after being incorporated in March of the same year and by September 2002 the company was listed on the Botswana Stock Exchange. The company provides unsecured loans to formally employed individuals from central and local governments, parastatals or quasi government and some private companies. These individuals have bank accounts but without access to financial services and lines of credit. Letshego is primarily servicing this market which commercial banks traditionally did not. The business model used is to enter into agreements with employers for them to facilitate the monthly loan repayment directly from the borrower's salary. This 'deduction at source' allows Letshego to have direct access to the borrowers salary for loan repayments. The company has achieved outstanding results over the past ten years in terms of number of people utilising their services. Besides Botswana, Letshego has operations in Tanzania, Swaziland, Zambia, Namibia and Uganda. To date, the group has 106 branches across the continent with a staff compliment of 389 employees and servicing 93,965 customers.

**First micro lending company to be established in Botswana.**

**Has achieved outstanding results over the past ten years.**

## AFRICA OPERATIONS

### 1. Swaziland

Micro Provident Swaziland was registered in 2005 and commenced trading on the 2<sup>nd</sup> of November 2006. MPSwaziland, as its trading name, currently has two branches; one in Mbabane and Manzini. The one in Manzini acts as a head office.

**MPSwaziland has two branches**

## 2. Tanzania

Micro Provident Tanzania Limited was registered in 2005 and trades as FAIDIKA with 15% local shareholding. The company operates with a business license and is not governed by any act. The company has more than 61 satellite offices dotted around Tanzania so as to reach most parts of the country. Tanzania is considered to be one of the most important and exciting target markets for the group, with a population of 40.4 million.

**Tanzania is considered to be one of the most important and exciting target markets for the group**

## 3. Uganda

Micro Provident Uganda Limited, was registered on the 8<sup>th</sup> of June, 2005 and commenced trading on the 1<sup>st</sup> of November 2005 under the trade name, MP Uganda Financial Services. MP Uganda's long term plan is to provide its products all over Uganda, but currently has 4 branches in Kampalaa, Mbarara, Jinja and Kabarole.

**Registered on the 8<sup>th</sup> of June 2005**

## 4. Zambia

Letshego Financial Services Limited (LFSZ) currently has one branch, situated in Lusaka, Zambia's Capital. The company was incorporated as a private company by shares in Zambia on 9 May 2006 and is licensed under the Bank of Zambia and trades as a Non-Bank Financial Institution. At present, LFSZ only deals in loans of direct origination by means of which an employer, government in this case, provides a salary deduction right to LFSZ. As the business grows and the branch network is rolled out, LFSZ intends to forge relations with the larger corporate and parastatal companies as well as mining companies.






**LFSZ currently has one branch...**

**5. Namibia**

Letshego Holdings Limited recently acquired Edu Loan Namibia and management believes that this business has excellent potential to add value to the Letshego group. Letshego is also targeting to increase its presence to other countries such as Ghana, Angola, Malawi, and Lesotho. The table below illustrates the profile of the markets where Letshego Holdings Limited operates.

**Recently acquired Edu Loan Namibia**

**The business has excellent potential to add value to the group**

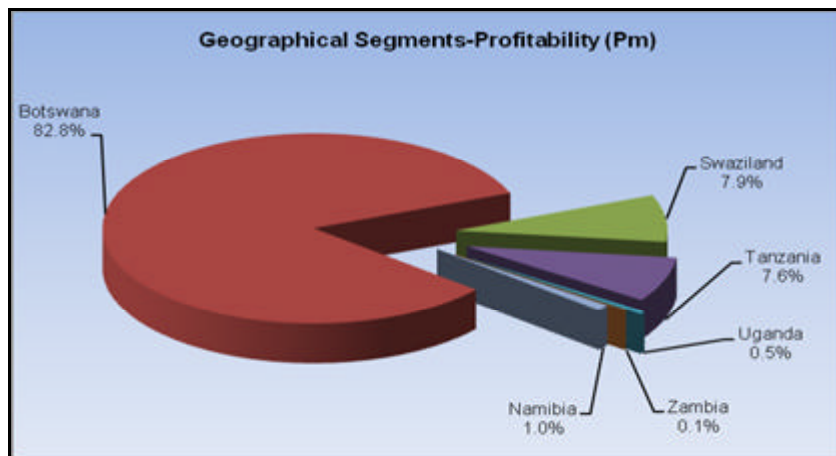
	Botswana	Tanzania	Swaziland	Zambia	Uganda
<b>Description</b>					
Population	1.6m	40.4m	1.1m	12.2m	32.0m
Formally Employed	0.3m	3.3m	0.1m	1.0m	2.8m
Letshego Addressable Market	120,000	564,000	50,500	400,000	300,000
Average take home salary per month	\$500	\$150	\$400	\$170	\$200
Average Loan Size (BWP)	20,000	4,500	17,500	5,500	4,000
HIV/AIDS rate	24.10%	6.50%	33.40%	17.00%	6.70%
Government payroll	Centralised	Decentralised	Centralised	Decentralised	Decentralised
Standard of English	Very Good	Very Good	Very Good	Very Good	Very Good
Prime interest rate	14.50%	17.00%	12.50%	19.5%	19.50%
VAT/GST	10%	20%	14%	16.00%	17.50%
Corporate tax rate	25%	30%	30%	35%	30%
Exchange control	No	No	Yes but accommodating	No	No

Source: Company

**6. Botswana**

Botswana operations continue to be the major contributor to revenue and profitability, contributing about 83% of the groups profits and accounts for 68% of the groups loan book.

**Botswana operations continue to be the major contributor to the group's profitability.**



Source: Company

## **NEW MARKETS**

The purchase of Eduloan (Namibia) (Proprietary) Limited for a consideration of N\$41.6 million was the first acquisition that the Group has undertaken as prior to this all the new subsidiaries were established on a 'green field' basis. The Directors believe that this business has excellent potential to add to the Letshego Group profile and profitability over time. An exercise to integrate policies and practices and to rebrand the business to more closely align it with that of Letshego is underway.

**Eduloan Namibia was the first acquisition that the group has undertaken**

**Acquisition expected to increase the group's profitability over time**

The group has also secured a government salary deduction code in Mozambique. The licensing and registration process has been completed and premises are being renovated with an expected start for business of mid to late 2009. In order to mitigate against language barriers, a Portuguese speaking team has been put in place to facilitate entry into the Mozambique market. Management has indicated that the group will continue with its Pan African expansion strategy by starting up new operations and target acquisitions across the continent. The group is also exploring new lines of credit, but we believe this might be more challenging in light of the current liquidity crisis and if they get any, might come at a huge premium.

**Secured a government salary deduction code in Mozambique**

**A Portuguese speaking team has been put in place...**

**Intends to proceed with its Pan African Expansion strategy**

## HISTORY AND DEVELOPMENT OF LETSHEGO

The timeline below shows the significant milestones in Letshego development.

- 1998 Mar:** Incorporates in Botswana.  
**Sept:** Commences trading.
- 2002 Sept:** Listed on the Botswana Stock Exchange on the 25<sup>th</sup> of September at P1.15 per share.
- 2004 Mar:** Letshego Guard launched.
- 2005 Nov:** Ugandan operations commences operations.
- 2006 Feb:** Swazi operations commence.  
**July:** Tanzanian operations commence.
- 2007 May:** Accreditation of IFSC status.  
**Oct:** Zambia operations commence.
- 2008 Mar:** 10 Year Anniversary.  
**Oct:** Shareholders approve change of name to Letshego Holdings Ltd.  
**Dec:** Acquisition of Edu Loan Namibia
- 2009 Jan:** Licence acquired for Mozambique.  
**Mar:** 30 million new Letshego Holdings shares issued on the Botswana Stock Exchange.

## INCOME STATEMENT

Total income for the 12 months ended 31 January 2009 came in at P398.3 million, an improvement from P278.4 million recorded during the 15 months period ended 31 January 2008. Interest expense stood at P72.2 million, while net interest income came in at P326.1 million.

**Total Income came in at P398.3 million**

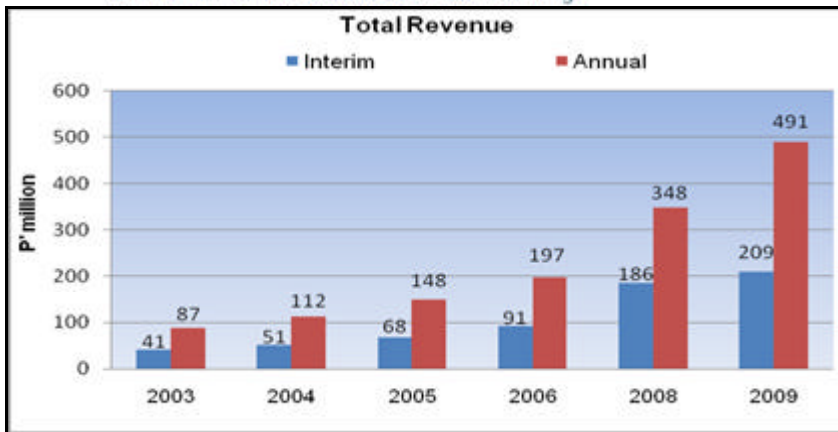
### Salient Features

	31 Jan 2008* (Pm)	31 Jan 2009 (Pm)
Interest Income	279	491
Impairments	12	29
Profit before Tax	174	288
Cost to Income Ratio	25.8%	24.0%
Bad debt Charge to loans	1.6%	2.3%
Loan Book	788	1,342
R.O.A	20.8%	20.6%
R.O.E	36.6%	38.7%
Dividend Yield	1.7%	2.6%
Dividend Cover	4 times	4 times

*\*=2008 is a 15 month period, but the data has been annualised*

Fee and commission income stood at P85.9 million, while other operating income came in at P6.5 million resulting in total operating income jumping by 66% on an annualised basis to P418.6 million. The cost to income ratio however, softened to 24% from 25.8%.

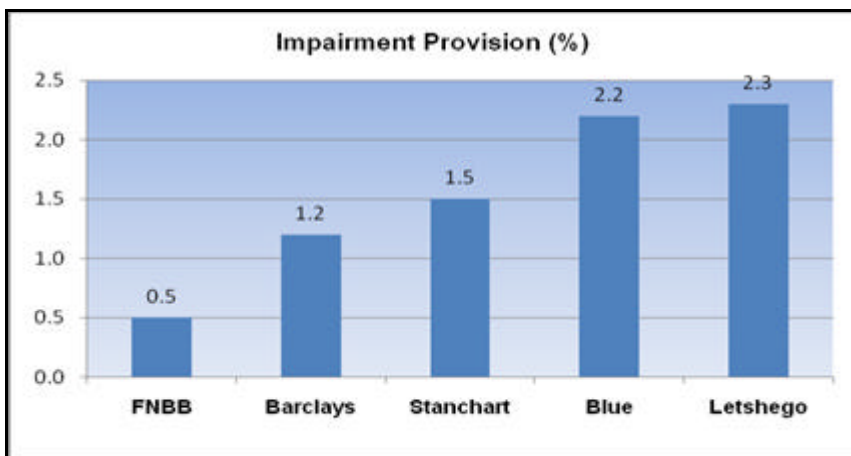
**Cost to income ration dropped to 24**



Source: Company

Operating income before impairment cost rose by an impressive 71% on an annualised basis to P318.1 million. Impairments on loans and advances to customers rose to P29.4 million from P15.7 million during the 2008 financial season due to the increase in the loan book, but the impairment charge was constant at 2.3%. However, according to our calculations, the impairment charge is the highest as compared to its peers as shown in the graph below.

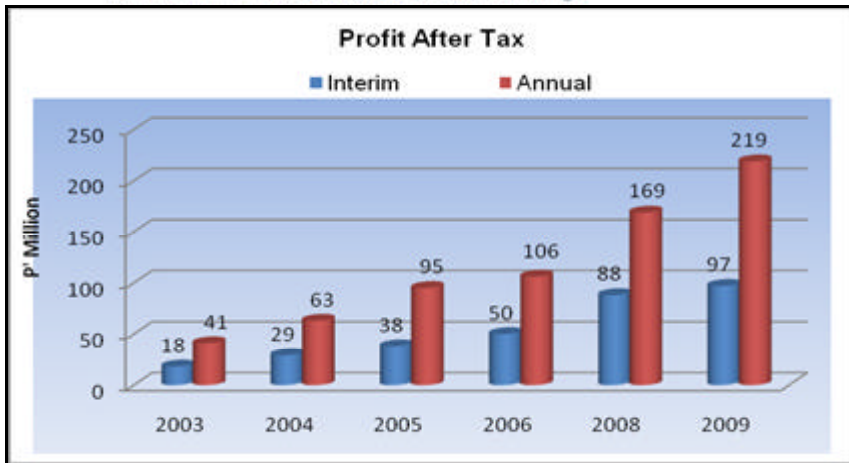
**Impairments rose to P29.4 million, but the ratio was constant at 2.3%**



Source: Company's latest Financial Statements

On an annualised basis, profit after tax rose by 62% to P219.1 million.





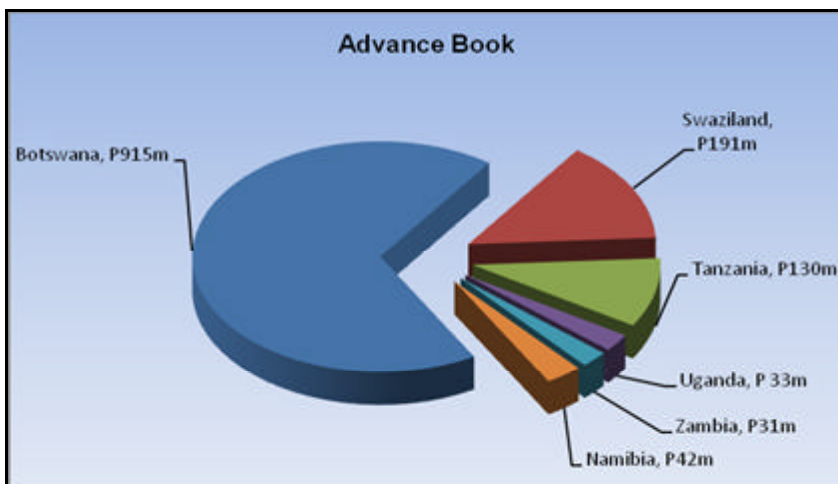
Source: Company

### BALANCE SHEET

Total assets grew by 73% to P1.4 billion on an annualised basis and this was mainly on the back of increases in advances to customers and positive good will. The advance book jumped by 70% on an annualised basis to P1.3 billion and Botswana was the biggest contributor, with a contribution of 68% towards the groups total advances as shown in the pie chart. Swaziland contributed 14%, followed by Tanzania 10% and recently acquired Namibia 3%. On the other hand Uganda and Namibia operations contributed 3% and 2% respectively.

**Total Assets grew by 73% to P1.4 billion**

**Botswana was the biggest contributor towards the group's total advances**



Source: Company



Total borrowings stood at P644.4 million (2008: P306.7m), representing a debt to equity ratio of 96%, which we believe is very high and needs to be checked. Even after adjusting for the Offer for Subscription which was concluded in March 2009, the ratio remains high at 62%. Meanwhile, the group declared a first and final gross dividend of 30 thebe per share for the year ending 31 January 2009.

**...a debt to equity ratio of 96%**

**A first a final gross dividend of 30 thebe per share was declared**

**OUTLOOK**

Management has indicated that the first quarter of this year has been relatively good with 5 out of 6 countries ahead of budget payouts. Management has also indicated that the group doesn't have any significant exposure to the mining sector, thus will not be affected directly from the current slump in mining activity. The group has a well established customer base, with 95% of the customers coming from the civil service and this sector is expected to be less volatile than the private sector as there are no signs of job losses in the public sector at this time. However, the freezing of salary increments in the public sector may hamper loan book growth going forward.

**The 2009 financial year has started on a positive note**

**The group does not have any direct exposure to the mining sector**

**Has a well established customer base**

The P360 million which has been raised in the Offer for Subscription will go a long way in enabling the group to continue with its organic and targeted acquisitions growth, which will likely see the group revenue base growing from other operations outside Botswana. It is our view, however, that extreme due diligence must be exercised in the group's Pan African Expansion strategy as some African economies are complicated and unpredictable especially on the political and economic sides. The debt to equity ratio at 96%, and subsequently 62% after adjusting for the Offer for Subscription is very high and needs to be checked. More regulation is likely to be introduced in the markets in which Letshego operations and this might be a

**...exercise due diligence in its Pan African Expansion strategy**

threat to the group if the regulations are punitive. Already in Botswana, the Botswana Non Bank Financial Institutions Regulatory Authority (NBFIRA) has been set up to oversee the regulation of non-bank financial institutions for the purpose of enhancing their safety and soundness while at the same time encouraging the highest standards in their conduct, as well as improving fairness, efficiency and stability of the financial system.

**Introduction of more regulation: might be a threat**

Looking ahead, the management believe that 31 January 2010 financial year will be one of consolidation and expect a slower growth in Botswana and Swaziland operations. However, Namibia, Uganda, Zambia and Tanzania are expected to show robust growth and consistent profitability. We believe the strength of Letshego lies in quick efficient service delivery, sound customer base, sound business model and a strong brand which the group has established in Botswana and being rolled out across the group in 6 countries.

**The year 2010 is expected to be a year of consolidation**

## **VALUATION**

Letshego currently trades at a 52 week low of P9.90 and our intrinsic valuations derive values of P13.15 using the **Discounted Cash Flow** (DCF) valuation. As a result, the counter is currently trading at a discount of 33%. Our intrinsic valuations give a sufficient range to underpin our target fair value of P13.15 and at the current trading price, we believe the counter is undervalued and accordingly our recommendation is **ACCUMULATE**.

**Offer an ACCUMULATE recommendation at the current price**

Trading & Liquidity	
Market Cap	BWP1.8 billion
Market Cap	US\$249.6 million
Shares in Issue	182,475,236
Year End	January
Free Float	38%
12 month high	P15.80
12 month low	P9.90
Reuters Code	LETS.BG
Bloomberg Code	LETS.BG
ISIN No.	BW 000 000 0322
BSE Code	LETSHEGO
<b>RECOMMENDATION: ACCUMULATE</b>	

**RESEARCH**

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