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Initiation of Coverage

Sub Saharan Africa Region| Botswana | Microfinance

Equity Research — **November 11, 2011**

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Ticker: LETSHEGO: BG
Exchange: BSE
Current Price: (BWP) 1.36

Target Price: (BWP) 2.08

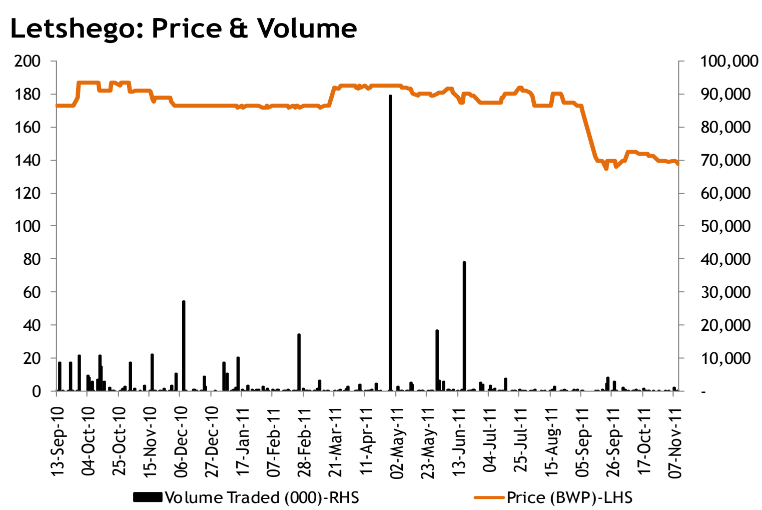
COMPANY VALUATION			
Bloomberg Code			LETSHEGO:BG
Current Price (BWP)			1.36
Current Price (USD)			0.19
Target Price (BWP)			2.08
Target Price (USD)			0.29
Upside/Downside			52.9%
Share Price Performance			
6 Months (BWP)		1.85	-26.5%
12 Months (BWP)		1.82	-25.4%
52- Week High			1.87
52-Week Low			1.35
Key Company Information			
Market Cap (BWPm)			2,700
Market Cap (USDm)			371.2
Shares (m)			1,985
Free Float			25%
Ave. Daily vol ('000)			1,742
Financial Year End			31-Jan
Sector			Financial
Company web			www.letshego.com
Financial Summary (BWP 000)	**A2011**	**F2012**	**F2013**
Interest Income	588,836	721,900	851,565
Interest Expense	(50,935)	(42,959)	(99,870)
Net Interest Income	537,901	678,941	751,695
Operating Income	823,156	925,951	1,137,271
NI Before Impairments & Tax	665,673	724,565	878,156
Profit before taxation	626,716	707,034	790,503
Profit for the year	473,337	537,346	600,782
EPS (Thebe)	25.8	26.3	29.4
DPS (Thebe)	2.7	4.2	6.5
NAV/share (Thebe)	86.0	99.8	101.9
Dividend Cover	9.5	6.2	4.5
Ratios	**A2011**	**F2012**	**F2013**
Gearing	28.9%	49.8%	49.3%
RoaA	21.0%	18.1%	16.0%
RoaE	29.5%	27.9%	29.1%
Cost/Income Ratio	23.2%	26.8%	27.5%
PBV (x)	1.6	1.4	1.3
PER (x)	5.3	5.2	4.6
Earnings Yield	19.0%	19.3%	21.6%
Dividend Yield	2.0%	3.1%	4.8%
Exchange Rate			
1 BWP = USD 0.137500			
USD 1.00 = BWP 7.27273			
1 BWP = 100 Thebe			

We initiate coverage on an *"emerging giants"*, Letshego Holdings, a pan-African micro finance institution that operates in various SSA countries such as Botswana, Mozambique, Namibia, Swaziland, Tanzania, Uganda and Zambia with a 12-month target price of BWP 2.08, implying 53% upside on the current price.

While fortunes may be thwarted in Botswana (its key market), we are of the view that Botswana is an ex-growth market at this stage (market penetration of 30.4%) and the real opportunity lies in the new SSA markets such as Kenya, Mozambique and Zambia. Of course, rewards will flow in the long term but we think "smart money" should be buying the dips and adding to core positions.

Moving towards a "Capitec Bank" Business Model. We think that Letshego's business model is gravitating towards Capitec Bank. Capitec Bank is a deposit taking retail bank that offers a range of personal loans through its network of 474 branches throughout South Africa and has over 3.2m clients.

We think the strategy will solve a common "Micro financing Paradox" that a significant portion of the micro finance institution's funding is sourced from banks, who are also competitors within the market. A cheaper source of funding through deposits would therefore be a point of strength for Letshego as it gears up its pan African expansion drive.



Source: Nova Capital Research

According to Peter Lynch, one should go for a business that any idiot can run - because sooner or later, any idiot probably is going to run it. We think Micro financing is an uncomplicated business, particularly in Africa.

INVESTMENT HIGHLIGHTS

Top investor Warren Buffet once wrote, in a letter to shareholders that, *"The best solution is to avoid consumer debt if at all possible. The only types of debt that make any reasonable sense are student loan debts, mortgage debt on a reasonable small home, and car debt on your very first car. After that, you should do everything in your power to avoid further debt*". Our observations are that while credit is generally accessible to ordinary consumers in the developed world; the picture is completely different in most developing countries, particularly in Africa. However, within the Sub Saharan context, a company that has made a lot of headway in providing the so-called "*reasonable debt"* is indeed Letshego Holdings, a microfinance institution registered in Botswana and with operations in various SSA countries.

Sometimes bad news should be viewed as an investor's best friend. It lets one buy a stock at a marked-down price….

Turning out to be an "Air-Pocket Stock" following some "Bad News"…

Letshego's share price has taken a dip in recent trading sessions following news flow that the government of Botswana will cease facilitating the deduction at source, of loan and other repayments from public sector employees' wages, effective 1 December 2011. Botswana remains a key market for Letshego, accounting for c60% of its loan book
(with more than 95% of loans extended to government employees). Of course, this development could have a direct negative impact on the company in the form of increased loan impairment charges and operating expenses associated with alternative collection methods.

Underlying sentiment remains positive but the usual emerging market speed bumps are to be expected.

A change in outlook NOT a downgrade…

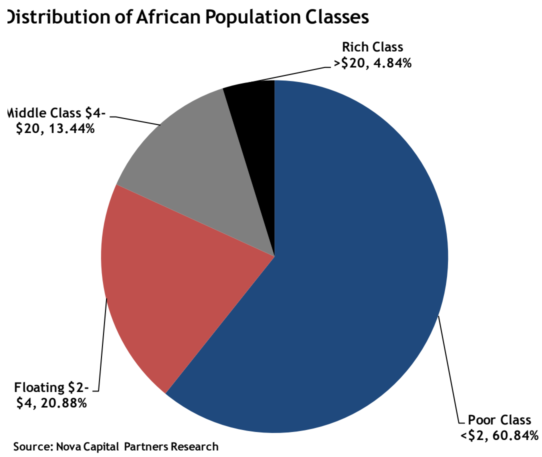
Following, the recent news flow, *Moody's* has changed its outlook on Letshego from "stable" to "negative". The rating agency ascribes a Ba3 long-term issuer rating on the company. The "glitter" around Letshego has traditionally been the efficient loan recovery method which ensures recoveries of around 95%. In fact, the group's regional initiatives have also been prompted by the company's ability to recover loans at source through the Central Registry in various jurisdictions.

In the meantime, the market has been left to wonder and wander as management engages policy makers.

Will alternative repayment mechanisms suffice?

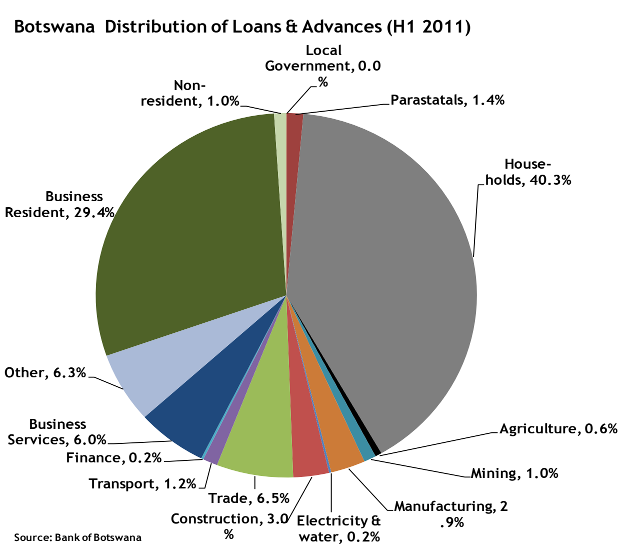
Management has assured stakeholders that should the revocation come into effect, Letshego Botswana will look into alternative methods for the collection of contractual monthly loan repayments. In addition, management is also looking to engage with the relevant authorities to obtain more clarity and a resolution to the matter. An important point is that Letshego already maintains direct debit agreements with all customers and can, in theory, convert to receiving loan repayments directly from customer's bank accounts. However, performing direct debit collections for around 35,000 accounts could initially prove an operational hitch. In addition, direct debt collections may also limit the company's ability to quickly effect credit risk management changes in its portfolio.

Quite clearly, Letshego's share price has taken a knock and is trading near its 52-week lows. However, on a mark to market basis, Letshego is a clear favourite. We like the fact that the cost to income ratio is significantly lower despite the group's pan African expansion drive. In addition, impairment ratios are broadly expected to remain below its peers given the group-wide recovery levels of about 95%. Letshego has traditionally maintained a cautious approach to lending and we therefore expect the quality of the loan book to remain, largely clean. We see an opportune moment to gain exposure in the counter.



LENDING RATES (% p.a)	2005	2006	2007	2008	2009	2010	2011*
Bank of Botswana							
Bank Rate	14.50	15.00	14.50	15.00	10.00	9.50	9.50
Monthly Average Overnight Rate	11.50	12.00	11.13	11.64	6.61	5.52	4.57
Repo Rate	15.50	16.00	13.50	14.00	9.00	8.50	8.50
Reserve Repo Rate	11.50	12.00	9.50	10.00	5.00	4.50	4.50
Commercial and Merchant Banks							
Prime lending rate	16.00	16.50	16.00	16.50	11.50	11.00	11.00
Average return on advances	17.48	17.38	18.12	19.56	15.41	14.39	15.39
Mortgage	17.47	17.08	15.81	16.69	11.96	11.33	11.33
Non-Bank Financial Corporations							
Short term loans	19.25	19.50	19.25	19.25	15.50	15.25	15.25
Mortgage	16.00	16.25	16.00	15.38	10.63	10.19	10.19
Other Financial Corporations							
All round lending	15.95	12.90	18.65	19.82	19.58	19.24	…

Source: Bank of Botswana
* July 2011



AN OVERVIEW OF MICROFINANCE IN AFRICA

We estimate that over three billion people in developing countries across the globe are still without effective access to loan and deposit services. In our view, the problem is particularly acute in Sub-Saharan Africa, where a large part of the population does not have a formal relationship with a financial institution. However, the good news is that microfinance institutions are increasing, being fuelled by a burgeoning middle class in Africa and improved economic and political fundamentals. According the Microfinance Information Exchange (MIX), microfinance institutions in Africa are looking to meet the needs of an increasing number of vulnerable people such as farmers, traders and micro-entrepreneurs. The micro finance industry is growing (although disparately) largely due to improved access to commercial funds, and to a lesser extent equity. Letshego Holdings is an interesting case-study of a microfinance institution that has grown over the years and pursued regional growth in Sub Saharan Africa.

A MACRO-ECONOMIC OVERVIEW OF BOTSWANA

Interestingly, Botswana has the highest credit rating in Africa and remains one of the most preferred investment destinations for most emerging market investors. We note that the openness of the country's political system has been a significant factor in Botswana's stability and economic growth. Each election since independence has been freely and fairly contested and has been held on schedule.

Speaking of the economy, concerns stem on the country's over reliance on diamond revenues. This was evident during the Global Financial Crisis (GFC), when GDP declined by 9.2% from BWP 91.7bn in 2008 to BWP 83.2bn in 2009. Mining is the main economic activity and traditionally contributes about 40% to GDP. However, over the past decade there has been an emphasis on diversifying the economy beyond and away from mining (mainly diamonds), through stimulating new sources of economic activity such as financial and business services, tourism, as well as some manufacturing and agricultural activities.

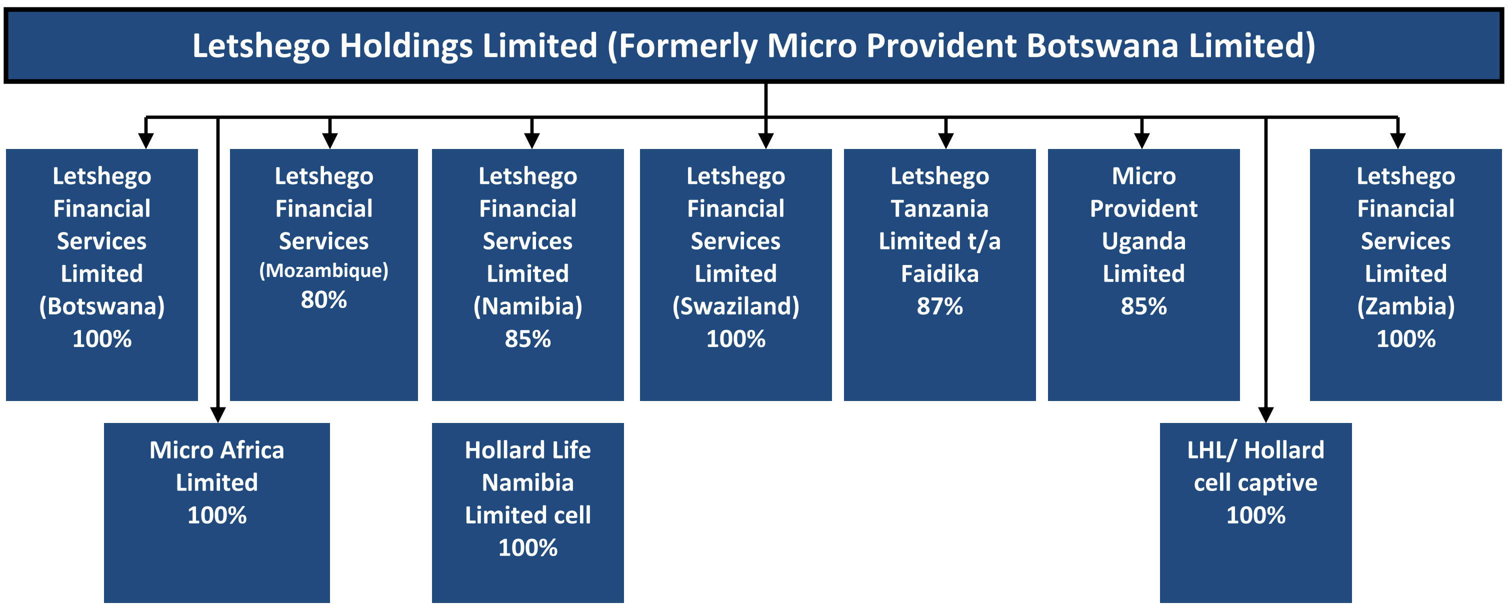
THE FINANCIAL SECTOR

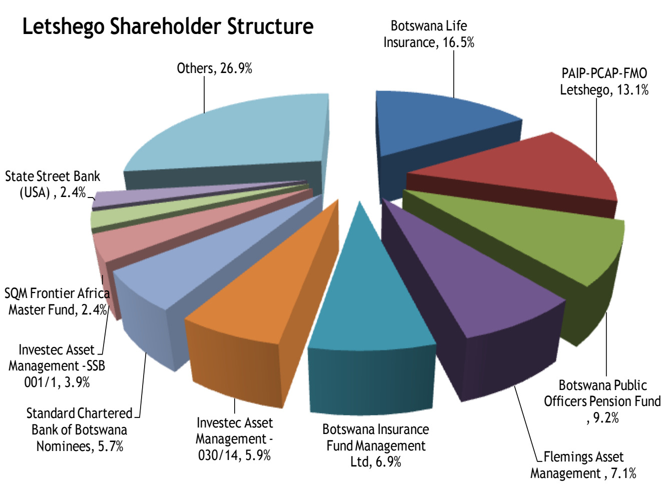
The main players in Botswana's banking sector are the commercial banks, such as African Banking Corporation (now BancABC), Bank Gaborone, Bank of Baroda, Barclays Bank of Botswana, Capital Bank, First National Bank of Botswana, Stanbic Bank and Standard Chartered Bank Botswana. Botswana's banking sector was indirectly affected by the GFC (through job losses in other sectors). However, there was no apparent decline in the bank's lending practices.

Botswana is interesting in the sense that recent credit growth has been driven by the growth of retail lending (mostly unsecured lending) as opposed to corporate lending. As a result, bank lending to households is high by the standards of low-income countries (at approximately 40.3% of total loans and advances as of H1 2011). Unsecured personal loans in Botswana stand at c10% of GDP, compared to 6.0% for South Africa, Zambia's 3.0%, India's 3.5% and China's mere 0.3%. In other African countries, lending to households tends to be dominated by lending for mortgages. In Botswana, however, mortgages account for a relatively small share of household borrowing, indicating that the majority of household borrowing is for consumption purposes rather than for investment. Botswana banks have however remained profitable despite most of their assets being unsecured loans.

LETSHEGO HOLDINGS COMPANY PROFILE

Established in 1998 and listed on the Botswana Stock Exchange (BSE), Letshego Holdings (formerly known as Micro Provident Botswana Limited) is a provider of unsecured consumer loans to formally employed individuals (mostly civil servants). The company is IFSC accredited and has operations in various SSA countries such as Botswana, Mozambique, Namibia, Swaziland, Tanzania, Uganda, Zambia and more recently Kenya. Letshego has two main product offerings; that is personal loan finance and vehicle finance. The group offers personal loans from BWP 500 up to BWP 150,000, allowing its customers to repay their debt over as long as 60 months. In addition, it also offers simple vehicle finance (for both second hand and new vehicles) of up to BWP 100,000 and repayments can be made over 48 months. Personal loan financing is the "cash cow" as it contributes approximately 95% to group revenue, whilst vehicle finance makes up the remainder.





Source: Nova Capital Equity Research

Comparing Letshego with other Micro Finance companies such as Blue Financial Services is like comparing apples to oranges…

Letshego's business model is unique when compared to other micro-finance institutions such as Blue Financial Services in that it has traditionally focused on civil servants and employed a model that ensures that loan repayments are deducted at source through the payroll systems of participating employers. It is against the same payroll deduction business model that Letshego has pursued a pan African expansion plan to ensure continued growth and geographic diversification.

SHAREHOLDER STRUCTURE

The share capital of Letshego consists of 1,984,997,936 ordinary shares. Letshego's major shareholders are mainly developmental financial institutions and funds such as the International Finance Corporation (IFC), the Netherlands Development Finance Company (FMO)/ Kingdom Zephyr, Sanlam and Investec. However, some shares are owned by investors registered through asset management companies or trustees/funds. As of 31 July 2011, management estimates that approximately 80% of the total share capital was owned by residents of Botswana while c20% was in the hands of non-residents.

ANALYSIS OF MANAGEMENT

BOARD OF DIRECTORS

Cuthbert Moshe Lekaukau
Chairman
LLB; LLM; Commonwealth Certificate in Legislative rafting
Appointed to the Board: 2002
Nationality: Botswana

John Alexander Burbidge
Non-Executive Director
CA
Appointed to the Board: 2002
Nationality: UK

Margaret Dawes
Non-Executive Director
CA
Appointed to the Board: 2009
Nationality: South Africa

Gaffar Hassam
Non-Executive Director
FCCA, MBA (Oxford Brookes)
Appointed to the Board: 2009
Nationality: Malawi

Idris Mohammed
CFA; BSc (Industrial Engineering); MBA
Appointed to the Board: 2010
Nationality: USA

Legodile E Serema
Non-Executive Director
BSc (University of Minnesota); Various marketing qualifications
Appointed to the Board: 2009
Nationality: Botswana

Jan A Claassen
Group Managing Director
BCom; LLB; Advanced Executive Programme (UNISA)
Appointed to the Board: 2003
Nationality: South Africa

Dumisani Ndebele
Director: Risk and Compliance
BAcc (Hons); MBA (University of Derby) (UK); FCCA; FCPA
Appointed to the Board: 2004
Nationality: Botswana

REGIONAL CEOs

Frederick W Mmelesi
CEO (Botswana)
AAT; MBA; EDP
Nationality: Botswana
Joined Letshego: 1999

Melissa Huang-Williams
CEO (Mozambique)
CPA
Nationality: USA
Joined Letshego: 2010

Willem Steenkamp
CEO (Namibia)
BA; DEd
Nationality: Namibia
Date Joined: 2003

Mbuso Dlamini
CEO (Swaziland)
BCom; CA (SA)
Nationality: Swaziland
Joined Letshego: 2010

Marion Moore
CEO (Tanzania)
CPA; CISA
Nationality: South Africa
Joined Letshego: 2007

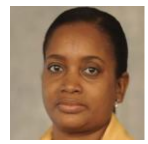
Geoffrey Kitakule
CEO (Uganda)
MBA; MSc Comp Science; Bachelor of Statistics; Master of Laws in IT & Telecoms
Nationality: Uganda
Joined Letshego: 2008

Brian Ballack
CEO (Zambia)
BCom Banking
Nationality: RSA
Joined Letshego: 2010

GROUP EXECUTIVES

Colm Patterson
Group CFO
FCA (Ireland); CPA
Nationality: Ireland
Joined Letshego: 2007

Lydia Andries
Group Head of Corp Strategy
BSc & Msc Actuarial Science
Nationality: Botswana
Joined Letshego: 2008

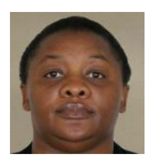


Portia Ketshabile
Group HR Manager
Diploma in Personnel and Training Management; MDP
Nationality: Botswana
Joined Letshego: 2001

Shawn Bruwer
Group Chief Information Officer
BCom; CIMA
Nationality: Namibia
Joined Letshego: 2006

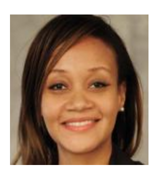
Barati Rwelengera
Group Risk & Compliance Manager
AAT; ACCA; CPA; (Botswana)
Nationality: Botswana
Joined Letshego: 2008

Onkemetse Mtonga
Group Business Development Manager
Bachelor of Accounting, ACCA
Nationality: Botswana
Joined Letshego: 2010



Annie Chaka
Group Information Technology Manager
MBL
Nationality: Zimbabwe
Joined Letshego: 2000

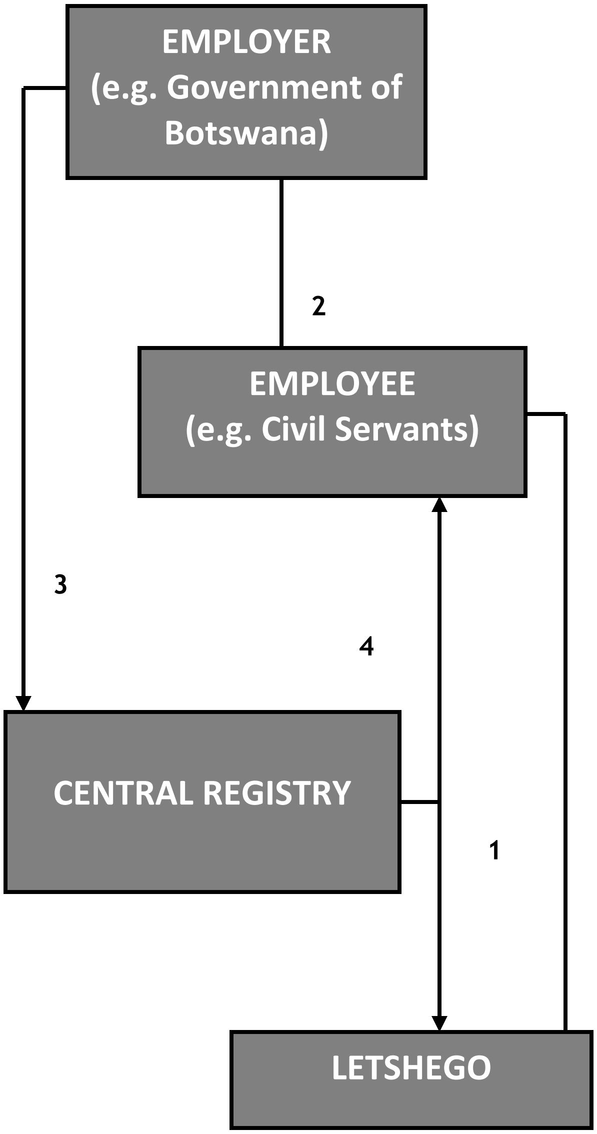
Mythri Sambasivan George
Group Finance Manager
CIMA; ACCA; ACPA
Nationality: India
Joined Letshego: 2010



Duduetsang Olsen
Group Business Process Manager
BBA; MSc Strategic Management
Nationality: Botswana
Joined Letshego: 2009

Based on our own assessment of management skills qualifications and experience, we rate Letshego's management as "good". Generally, management has a good track record given the company's growth within Sub Saharan Africa over the years. As a Botswana Stock Exchange (BSE) listed entity and also having a listing of its bonds on the Johannesburg Stock Exchange (JSE), the company upholds strong corporate governance principles. It is also worth noting that the group has also directed its efforts towards implementing the recommendations of the King III report ("King III") introduced by the Institute of Directors (South Africa). Letshego, in our view strives to maintain high standards of business ethics and integrity.

The Payroll Deduction Model-Flow Diagram



1. Business relationship between civil servants/private sector employees and Letshego, the micro-lender.

2. Employer/ Employee relationship.

3. Employer processes salaries through a Central Registry.

4. Central Registry acts as intermediary between employer and employees and deducts loan repayment amount and transfers to micro-lender whilst the balance is transferred to the employees. The Central Registry also recovers its fee (based on the loan repayment amount).

THE DIRECT PAYROLL DEDUCTION MODEL

The recent development…

As afore-mentioned, the Government of Botswana has decided to cease facilitating the deduction of loan repayments to micro lenders and telcos. Micro lenders will be adversely affected as their business has been thriving on the lower default rates on repayments. Mobile phone companies will also be affected given that they had also put in place airtime purchase arrangements that ensure that money is deducted from source at month-end. Our enquiries reveal that there is a general "outcry" within the government that there is excessive lending (or rather reckless lending) to consumer clients. As a result, the government is withdrawing from managing the micro-lenders' risks through Central Registries. It appears that the government is likely to tighten regulatory controls, particularly within the micro finance sector.

Letshego considers central registries as "best practice"…

Generally, the use of central registries is viewed as best practice. India, for example has also introduced central registers as a mechanism aimed at controlling fraud and also regulating the pace in the growth of consumer credit. Central registries are service providers that are normally "privately" owned and are independent from the lenders. The main function is to act as a regulator by approving loans and maintaining a data base of consumer loans, repayment history and security pledged as collateral. Central registries also monitor indebtedness and therefore are critical in providing useful credit-related information. Letshego management also considers the set up of central registries as ideal and therefore actively promotes the setting of these, particularly in the various jurisdictions that it operates.

A central registry also prevents frauds in loan cases involving multiple lending from different banks on the same immovable property, monitor repayment and credibility. Transactions relating to securitisation and reconstruction of financial assets and those relating to mortgage by deposit of title deeds to secure any loan or advances granted by banks and financial institutions can also be registered in the central registry. Most importantly, central registries are considered as market best practice as they encourage secured creditors to provide the much-needed credit to the productive sectors so as to help sustain economic growth and development.

The payroll deduction model remains a core part of the model…

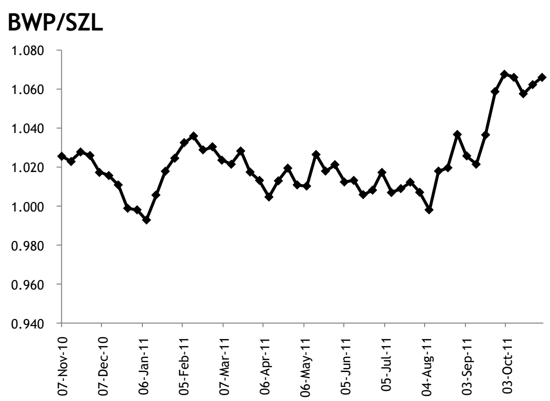
An important point is that Letshego has grown rapidly due to its efficient credit management infrastructure, which has over the years ensured a fast credit approval. The revocation, will of course take some pace off the micro lender's expansion programme given the likely high impairment levels in future. However, the payroll deduction model remains a core part of Letshego's business model. Central Registries are currently in place in Botswana, Namibia, Swaziland and Uganda and may also be introduced in Tanzania and Zambia.

A Change of Strategy?

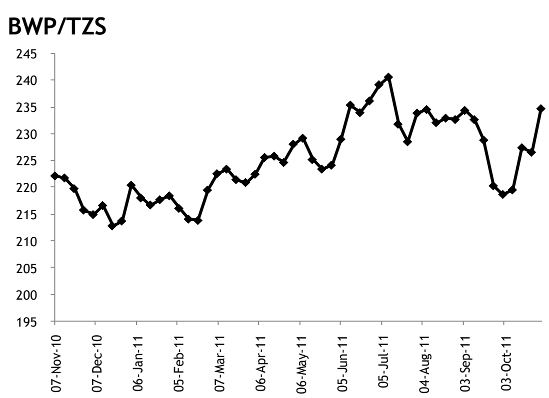
Letshego is likely to change its strategy in Botswana of collecting the normal monthly loan repayments to other alternative collection methods such as electronic debit orders. According to management, all existing customers in Botswana have already signed direct debit mandates and therefore the change-over process should not be "cumbersome". However, management has hinted that the process of changing over to a new collection will require some extra resources, though not significant.

Geographical Location of Operational Units

Nova Capital Equity Research/Company Reports



Source: Nova Capital Equity Research



Source: Nova Capital Equity Research

Letshego Financial Services Limited (Botswana)

Botswana operations bringing home the bacon…

Botswana is Letshego's main market having been established as the group's first in 1998. Botswana currently constitutes about 66% of the loan book and 65% of profit before tax. With a total population of about 1.98m people, it is estimated that approximately 539,000 people are formally employed, of which around 112,000 government employees are. Letshego currently has about 34,000 customers in Botswana, implying a market penetration of about 30.4%. It is a no-brainer that improvements in civil servant salaries provide a boost in net advances growth. The Botswana business remains one of the fully developed operations with a total of four main branches and seven satellite offices. As of July 2011, the net advances book stood at BWP 1.73bn with the lowest cost to income ratio of 8.6% and commendable collection rate of 96%.

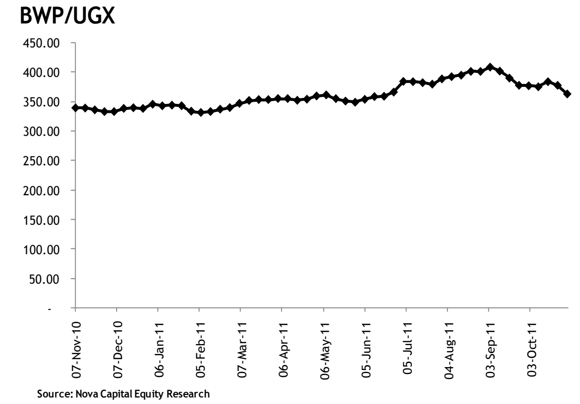
Until the formation of the Non-Banking Financial Institutions Regulatory Authority (NBFIRA) in Botswana, micro-lenders were not regulated. As a result, micro-lenders such as Letshego and Blue Financial Services benefited from the "laxity" as they had access to payrolls of the public service. However, the recent development that the government of Botswana will cease acting as an intermediary between microfinance institutions (MFIs) and civil servants for the collection of microloans could spell out a new paradigm shift for micro-lenders such as Letshego.

Letshego Financial Services Limited (Swaziland)

Letshego Financial Services Swaziland currently trades as a non-deposit taking financial institution, after being registered by the Central Bank of Swaziland. It previously traded as MP Swaziland Financial Services and was registered as a micro lender and regulated by the Credit Financing and Money Lending Act of 1991. Letshego Swaziland operations commenced in February 2006. With a population size in the order of 1.2m people for Swaziland, it is estimated that approximately 100,000 are formally employed. In addition, government employees are estimated at around 35,000. Letshego currently has a total of 6,275 customers, implying a market penetration of 18%. The low penetration of 18%, compared with 30.4% for Botswana signifies that there is still potential for growth in the market. At a net advances book of BWP 167.9m, Swaziland constitutes about 7.0% of the group's loan book and c7.0% of profit before tax. Latest figures indicate a cost to income ratio 13.1% for the division and collection stats of about 99%.

Letshego Tanzania Limited t/a Faidika

Broadly speaking, the East African Community (EAC) is increasing its population and as a result, there is a growing middle class in the region. Increased integration in the EAC is likely to provide a solid investment case for companies operating in the region. It is our view that Tanzania is a key growth market for Letshego. Tanzanian operations commenced in July 2006 and have been showing steady growth with a total of 13 branches and 77 satellite offices. With a population of around 45,0m for Tanzania, estimates indicate that 3.87m are formally employed, of which 573,000 government employees are. Letshego currently has 39,000 customers (market penetration of around 7.0%). As of 31 July 2011, the net advances book stood at BWP 145.5m (5.6% of total advances book) and the division contributed 6.0% to profit before tax. However, the cost to income ratio was above average at approximately 41.9%, while collections were at 97%.

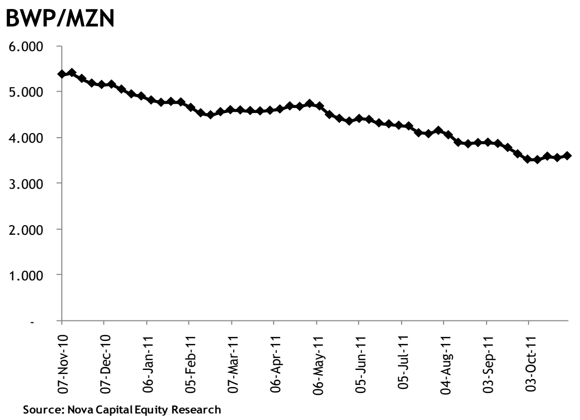


Micro Provident Uganda Limited

Economic prospects in Uganda remain positive despite political set-backs experienced early this year. GDP is projected to increase to 6.3% in 2011 and 7.6% in 2012 benefiting from the emergence of a fledgling oil industry. The potential impact on Uganda's economy of the discovery (commercial production now expected to begin early 2012), will be massive. Oil revenues are likely to exceed one third of total government revenues and contribute up to 8% of GDP, and thus can be expected to alter meaningfully Uganda's productive, fiscal and financial landscape. Letshego commenced its operations in Uganda in November 2005 and has developed a fairly wide network of 13 branches and 16 satellite offices, with about 30,000 customers (market penetration estimated at 12% based on total government employees of 250,000). As of 31 July 2011, the net advances book stood at BWP 92.4m (3.6% of the group's loan book). Furthermore, the operation had a cost to income ratio 39.5% and contributed 3.1% to profit before tax. Collection rates were high at c99%.

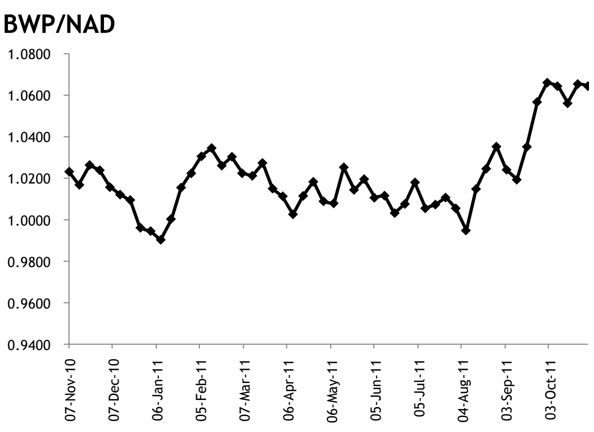
Letshego Financial Services (Mozambique)

Letshego Mozambique is one of the latest additions to Letshego's stable having been launched in February 2011. However, there has been some progress in terms of re-aligning the business with group operations. Letshego has also secured a government salary deduction code in Mozambique. Furthermore, in order to mitigate against language barriers, a Portuguese speaking team has been put in place to facilitate market penetration. The division is currently in the cost recovery phase as shown by its cost to income ratio of about 240%. The division currently operates through a single branch with a net advances book BWP 53.8m (2.1% of total loan book). However, market statistics are encouraging. With a population of approximately 23,4m, 9.6m are formally employed, of which around 180,000 are government employees. Letshego Mozambique currently has approximately 2,900 customers, signifying a market penetration of just 2.0%. We think there is significant scope to grow on the back of a positive economic outlook driven by increased mining activity in Mozambique.

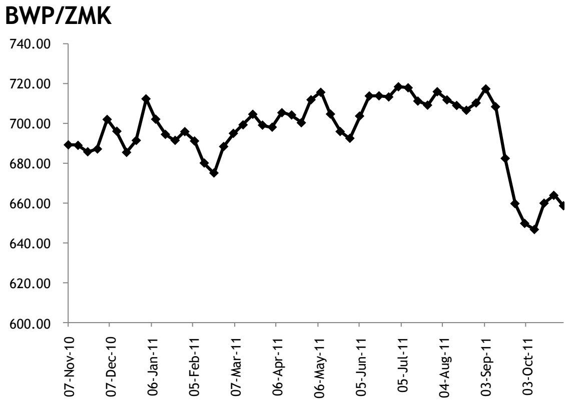


Letshego Financial Services Limited (Namibia)

The purchase of Eduloan (Namibia) (Proprietary) Limited for a consideration of NAD 41.6m in 2008 was the first acquisition that the Letshego undertook as prior to that all its subsidiaries were established on a 'green field' basis. Edu-Loan Namibia has grown over the years and remains focused on financing education. It is worth noting that Letshego has also capitalized on Edu-loan South Africa's relationship with South African universities and other higher learning institutions in the Southern Africa region.



Namibia's economy is largely hinged on the global commodity cycle with mining providing more than 50% of foreign exchange earnings. Rich alluvial diamond deposits make Namibia a primary source for gem-quality diamonds. In addition, it is the world's fifth-largest producer of uranium, and the producer of large quantities of lead, zinc, tin, silver, and tungsten. As the commodity prices recover, we expect growth to accelerate to c4.0%. With a population of c2.2m, it is estimated that 300,000 are formally employed, of which 80,000 government employees are. With a clientele base of around 43,000, we estimate a market penetration of around 53%. Letshego Namibia currently operates through seven branches and a single satellite office. Net advances as of July 2011 stood at BWP 409.2m (16% of total loans), with a cost to income ratio 25.2% and collection statistics of about 99%.



Source: Nova Capital Equity Research

Letshego Financial Services Limited (Zambia)

Prospects looking good as Michael Sata is declared new president…

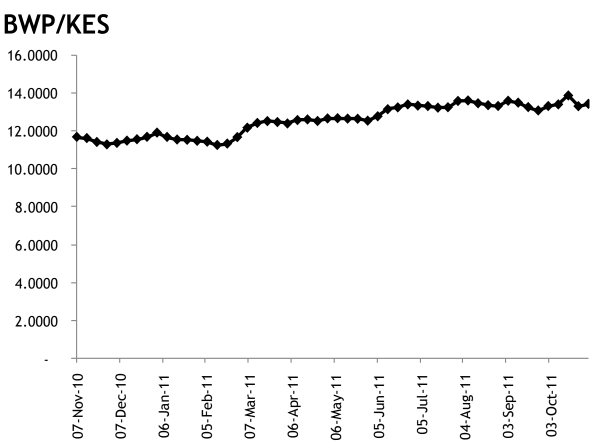
Zambia has created a new record for itself in Africa by successfully concluding "free and fair" elections, with opposition Patriotic Front (PF) president Michael Sata winning the presidential elections. While Sata's campaign "mantra" was largely inclined on labour market reforms and a sterner approach towards foreign investors and equitable distribution of wealth, we expect the Zambian economy to continue on a positive growth trajectory. In 2010, GDP growth was 7.1%, marking twelve consecutive years of positive GDP growth averaging 5.12% p.a. A projected 2011 GDP growth rate of c6.5% is expected to be driven by key sectors such as manufacturing, transport, communication and construction,

The recovery in global trade has seen strong demand for commodities from BRIC nations such as India, China and Brazil. Agriculture and mining have been the key growth drivers in Zambia. For example, the increased copper production of about 720,000 metric tonnes on the back of buoyancy in global copper prices that averaged cUSD 7,600/MT in 2010 was a major contributor to growth. Furthermore, the country recorded bumper maize production in the agricultural sector of about 2.8m MT (2009: 1.9m MT) and increased production from NTE's (non-traditional exports) such as tobacco, sugar and cotton.

Zambian operations commenced in October 2007. Despite the fact that Letshego Zambia remains relatively small in the market, we think it is well positioned to take advantage of the economic growth in Zambia. With an estimated population size of 13.3m and approximately 500,000 formally employed individuals, government employees are estimated at around 150,000. The company currently has about 1,834 customers (market penetration of 1.0%). As of 31 July 2011, the net advances book was BWP 7.3m (representing 0.3% of the group's loan book). In addition, the division contributed 0.7% to profit before tax, with an above average cost to income ratio 71.2% and collection rate of about 93%.

Micro Africa Limited: Letshego at the "end-game" for final approvals on the MAL acquisition...

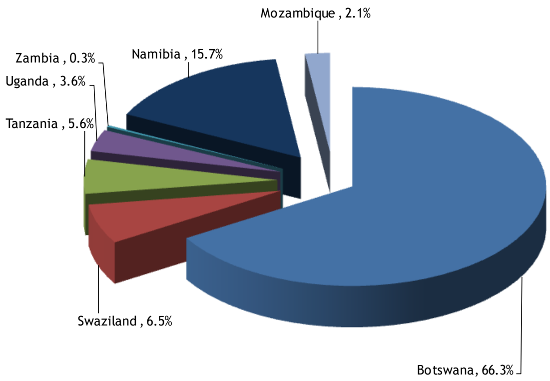
In line with the Pan-African expansion, Letshego finalised the acquisition of a 62.52% interest in the issued share capital of Micro Africa Limited (MAL) for USD 3.3m. MAL is a private company incorporated in Kenya and has been operating in the country since 2000 with subsidiaries in Rwanda, South Sudan, Uganda and an associated company in Tanzania. According to management, the company has a loan book valued at USD 7.2m, 21 branches and a customer base of over 17,000. It is expected that the controlling share purchase of Micro Africa Limited will be finalised by the 31 October 2011.



Source: Nova Capital Equity Research

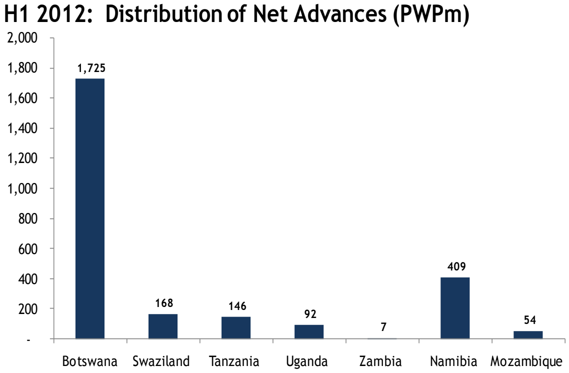
Short to medium term economic prospects in Kenya are currently "bleak" given the drought, inflationary pressures (around 17.3% y-o-y) and high interest rates. Increased food insecurity is likely to raise food prices in the short to medium term thereby raising the inflation rate further and political uncertainties surrounding the soon- to-be held elections in the country could further dampen foreign investments. While we have our concerns however, we strongly feel that the MAL acquisition will position Letshego on a level footing with other micro finance contenders in the East African region.

H1 2012: Net Advances



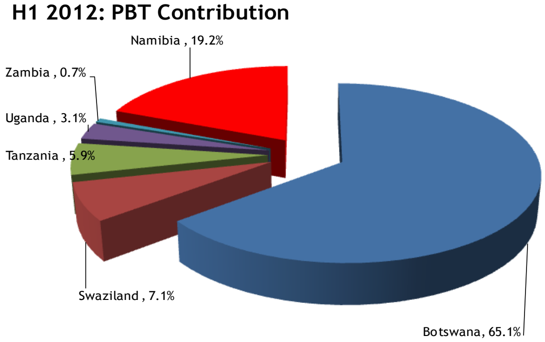
Source: Nova Capital Equity Research

H1 2012: Distribution of Net Advances (PWPm)



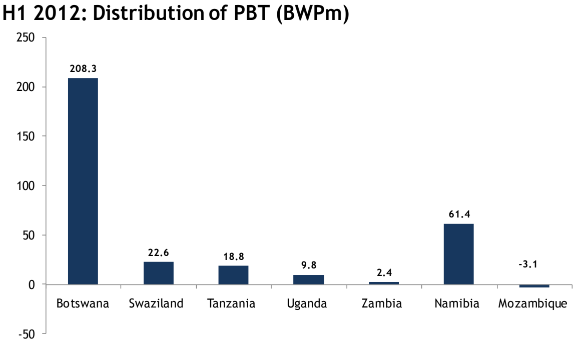
Source: Nova Capital Equity Research

H1 2012: PBT Contribution



Source: Nova Capital Equity Research

H1 2012: Distribution of PBT (BWPm)



Source: Nova Capital Equity Research

OVERVIEW OF H1 2012 FINANCIAL PERFOMANCE

A perennial performer. H1 2012 results were broadly in line with our expectations as net interest income was up 21% to BWP 393.7m (USD 54.1m). The biggest talking point of the financials was that performance was driven by the massive growth in net advances of 40% to BWP 2.6bn (USD 358.0m). Furthermore, operating income was up 17.2% to BWP 456.6m (USD 62.7m) on the back of an increase in commission and fee income.

Botswana, Namibia and Swaziland were the star performers. The 40% growth in net loans was largely driven by continued strong performance in three countries in particular, signifying underlying business growth in customer numbers. These were Botswana (net book of BWP 1.72b, up 34%), Namibia (net book up 58% to BWP 409.0m) and Swaziland (net book of BWP 128.4m, up 31%). Other operations such as Uganda (+ 20%) and Tanzania (+12%) also posted healthy book growth in local currency terms, but were slightly dampened by the continued weakening of the currencies against the BWP.

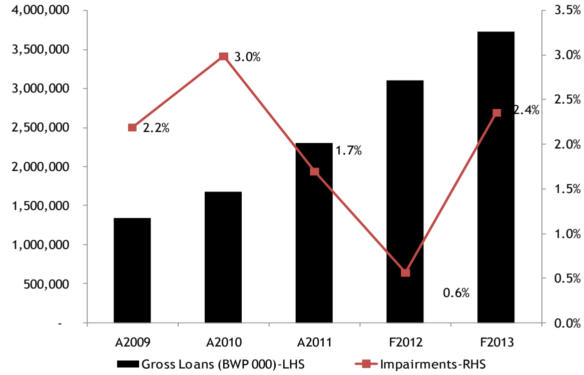
Income Statement (BWP 000)	H1 2011	H1 2012	%Δ
Interest income	343,419	423,664	23.4%
Interest expense	(18,026)	(29,948)	66.1%
Net interest income	**325,393**	**393,716**	21.0%
Premium income		29,066	
Insurance fees		(3,167)	
Net interest and insurance income	**325,393**	**419,615**	29.0%
Fee and commission income	58,390	30,987	-46.9%
Other operating income	5,668	6,001	5.9%
Operating income	**389,451**	**456,603**	17.2%
Employee benefits	(38,290)	(51,603)	34.8%
Other operating expenses	(39,120)	(51,674)	32.1%
Insurance claims expense		(6,536)	
Claim mitigation reserve movement		(306)	
Net income before impairment and taxation	**312,041**	**346,484**	11.0%
Impairment of advances	(15,328)	(3,038)	-80.2%
Profit before taxation	**296,713**	**343,446**	15.8%
Income taxation	(75,357)	(41,434)	-45.0%
Profit for the period	**221,356**	**302,012**	36.4%

Botswana remains the main market. Letshego Botswana, which currently offers loans of up to BWP 200,000 (USD 26,500) and is collecting repayments totaling approximately BWP 66.0m (USD 8.7m) per month from civil servants, remains a significant contributor to earnings given that it constitutes 66% of the loan book and contributes 65% to profit before tax. However, this is expected to change in the long term as operations in other regional markets begin to gain momentum. In H1 2012, 35% of profit before tax was generated outside of Botswana versus 29% in 2010.

Total operating expenses up on the back of start-up operations. Letshego experienced a surge in opex largely due to Mozambican branch start-up costs. Other costs were related to the upgrading of branches in Tanzania, once-off legal and related costs associated with the establishment of the Group's JSE-listed medium term notes programme.

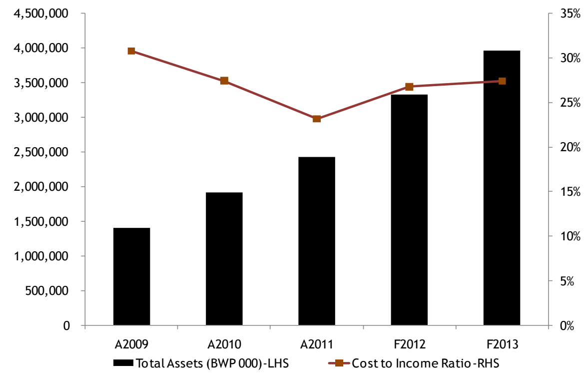
Low impairment charge. The total impairment expense for H1 2012 was 80% lower than H1 2011 due to the introduction of credit default risk insurance in Namibia and Swaziland and improved collections (c95%) in Uganda, Tanzania and Zambia.

Gross Loans Vs Impairments



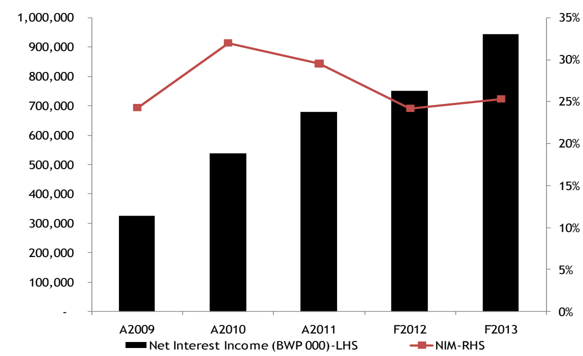
Source: Nova Capital Equity Research

Total Assets Vs Cost/Income Ratio



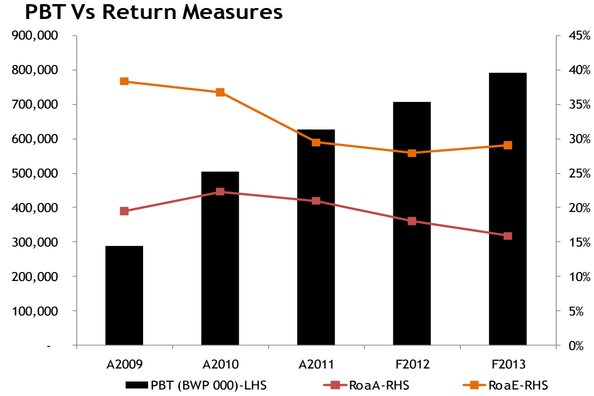
Source: Nova Capital Equity Research

Net Interest Income Vs NIM



Source: Nova Capital Equity Research

PBT Vs Return Measures



Balance Sheet (BWP 000)	H1 2011	H1 2012	%Δ
Assets			
Cash and cash equivalents	112,643	220,139	95.4%
Advances to customers	1,862,879	2,601,117	39.6%
Other receivables	51,787	50,871	-1.8%
Short term investments		22,684	
PPE and intangible assets	6,184	8,395	35.8%
Goodwill	27,824	27,824	0.0%
Deferred taxation	7,996	8,984	12.4%
	2,069,313	**2,940,014**	42.1%
Liabilities and equity			
Liabilities			
Trade and other payables(incl. tax)	182,673	78,936	-56.8%
Borrowings	348,760	832,761	138.8%
	531,433	**911,697**	71.6%
Shareholders' Equity			
Stated capital	412,814	669,876	62.3%
Foreign currency translation reserve	(2,431)	(45,056)	1753.4%
Share-based payment reserve	7,701	5,203	-32.4%
Retained earnings	1,092,392	1,353,642	23.9%
Minority interest	27,404	44,652	62.9%
	1,537,880	**2,028,317**	31.9%
	2,069,313	**2,940,014**	42.1%

Impairment expense (annualized) on average loans and advances to customers was a mere 0.3% versus 1.8% in 2010. One of Letshego's main strength, in our view is its strong collection and recovery focus in all countries. We opine that this has largely been possible through the company's business model that ensures zero-rate default levels.

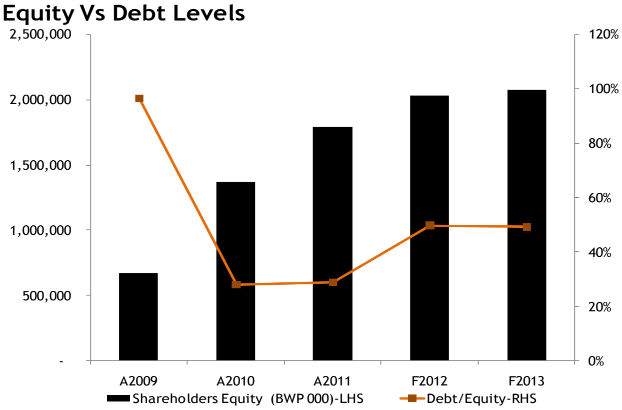
Double-digit growth on the bottom line. Overall, Letshego registered an overall increase of 16% in profit before tax. Furthermore, a lower tax charge for the period led to a 36% increase in the profit after tax (2010: BWP 221.4m) and an increase in the basic earnings per share from 12.1 thebe to 15.7 thebe.

Funding remains a key issue. Looking at the balance sheet, we note that total borrowings increased by 139% to BWP 832.8m (2010: BWP 348.8m) leading to an increase in the debt to equity ratio from 23% in 2010 to 41%. However, management believes that the gearing levels are generally low relative to the industry. However, we also note that the Group's interest-earning assets remain the largest component of total assets at 97% of BWP 2.94bn, and comprise BWP 2.6bn in net customer loans, and BWP 242.8m in cash and cash equivalents and short-term investments. The group also managed to raise about BWP 2.59m, after divesting a 15% shareholding in Micro Provident Uganda Limited to a Ugandan citizen. However, the introduction of a 15% minority shareholder in Micro Provident Uganda is largely in line with the Group's practice of encouraging local participation in regional operating subsidiaries.

OPERATIONAL REVIEW

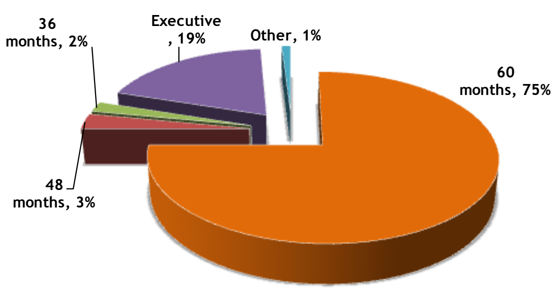
Regulations may continue rocking the boat in Botswana. Letshego continues to promote the establishment of independent Central Registries as it believes that it is an emerging model of best practice in the industry. Following on the intention of the Government of the Republic of Botswana to cancel existing agreements with the two Central Registries in Botswana, Letshego has engaged the relevant authorities so as to obtain more clarity and resolution in the matter.

Equity Vs Debt Levels



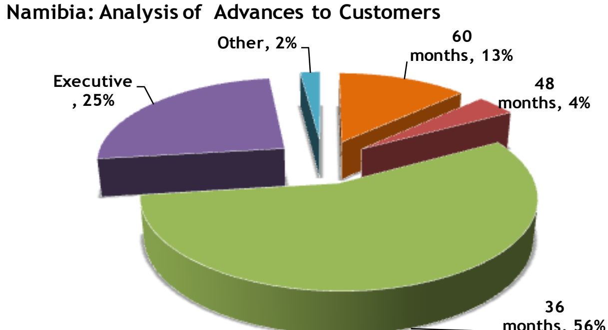
Source: Nova Capital Equity Research

Botswana: Analysis of Advances to Customers



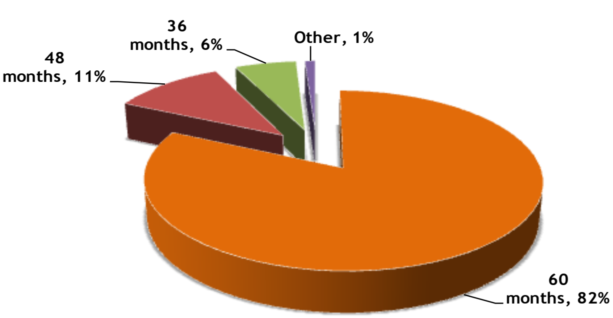
Source: Nova Capital Equity Research

Namibia: Analysis of Advances to Customers



Source: Nova Capital Equity Research

Swaziland: Analysis of Advances to Customers



Source: Nova Capital Equity Research

Global rating may open up funding channels. An interesting point is that Letshego is a globally-rated company. In June 2011, a credit rating of Ba3 (long term global scale rating with a 'stable' outlook) was obtained by Letshego Holdings Limited from independent ratings agency, Moody's Investor Services. However, the outlook of the Moody's credit rating was changed from 'stable' to 'negative' during September 2011 as a result of the government on Botswana announcement of cancelling existing agreements with the two Central Registries in Botswana. On the other hand, Letshego has also concluded (in July 2011), the listing of Medium Term Notes ("MTN") on the Johannesburg Stock Exchange (JSE).

Looking to upgrade systems. Letshego recently finalised the selection of a new integrated core debtors' and banking system in July 2011. Already, progress with the design and implementation of a system has started. We think this move is appropriate given the group's aspirations of developing into a fully fledged bank in the long term.

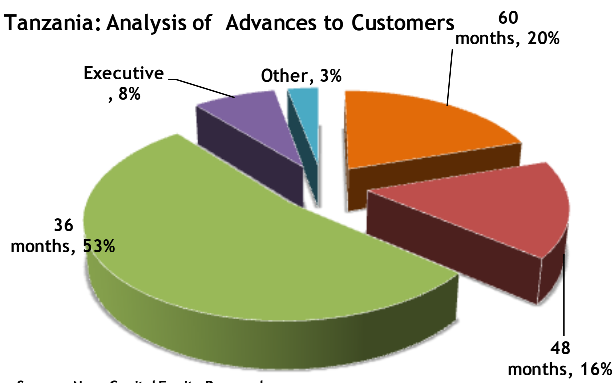
Competitive threats looming. There has generally been an increase of new players in the micro-lending space in SSA. This, in our view has stiffened competition for Letshego. In Botswana, the main competitors are mostly commercial banks such as Barclays and FNB. It is worth noting that while most of these players do not follow the same collection model as Letshego; their presence still eats away at Letshego's market share. This has also been heightened by the fact that even competitors that initially did not use the payroll deduction model have since adopted a similar model. However, Letshego's approval turnaround and disbursement within 48hrs remains its competitive edge. Its peers (mostly banking institutions) take up to a week to disburse funds. Within each of the African countries in which the group operates, Letshego also competes with several small, local "cash loan" operators who collect repayments directly from clients in cash. However, there are a few competing companies with significant penetration across several countries. These include companies such as Real People Ltd, an unlisted entity that operates an unsecured consumer lending model with formally employed sector in Southern and Eastern Africa. Another one is Bayport Management Limited (BML), which was established in 2002 as a non-listed holding company, domiciled on the island of Mauritius and offering unsecured credit products in Ghana, South Africa, Tanzania, Uganda and Zambia. In markets such as Kenya, banks such as Equity Bank Kenya (EBK) are also competitors. It is worth mentioning that Equity Bank Kenya (EBK) began in 1984 as a building society servicing tea and coffee farmers, before expanding into a top micro-lender and later into a fully fledged commercial bank listed on the Nairobi Stock Exchange.

COMPANY STRATEGY & OUTLOOK

Focus on core competencies...

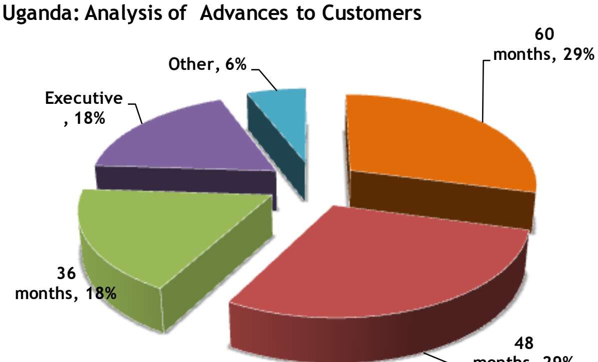
Letshego has over the years experienced rapid growth and evolved from being just a consumer lending entity to a fully fledged financial services company. However, the group continues to focus on consumer finance as its main business line. We recall that in January 2010, the group sold its stake in Letshego Guard and Letshego Guard Insurance Company to Botswana Insurance Holdings Limited (BIHL) for BWP 57.0m. The rationale of the transaction was to focus on its core business of lending. We think the group's strategy of focusing on micro-lending has and will continue to pay dividends for Letshego, given the growth in the loan book. Average yields on customer loans remain attractive at around 30%, versus an average cost of debt on the company's book of about 12%.

Tanzania: Analysis of Advances to Customers



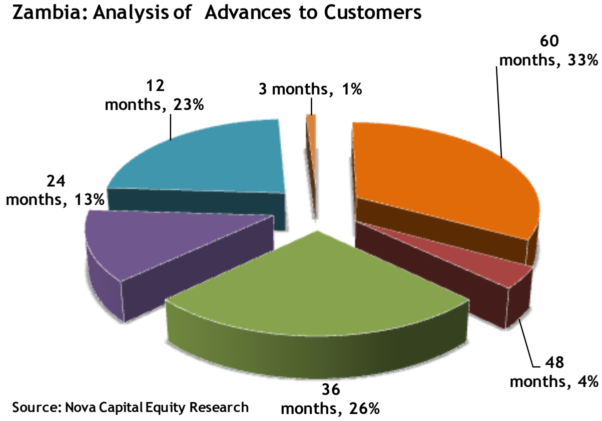
Source: Nova Capital Equity Research

Uganda: Analysis of Advances to Customers



Source: Nova Capital Equity Research

Zambia: Analysis of Advances to Customers



Source: Nova Capital Equity Research

Moving into main stream banking operations...
Our enquiries reveal that management is "on its toes" and is looking at options of transforming the group into a broader based financial institution. Already, the group has acquired a new banking system and also holds a micro finance banking license in Mozambique. Letshego is also at different stages of two banking license application processes.

Deposit taking to solve the "Micro financing Paradox". The move towards main stream banking services strategy will ensure that Letshego will transform into a deposit-taking entity and therefore open paths for further financial service diversification. Most importantly however, we expect this to solve a common "Micro financing Paradox" that a significant portion of the micro finance institution's funding is sourced from banks, who are also competitors within the market. Overall, we expect that a banking licence would mitigate other risks such as shrinkage of the civil service.

Moving towards a "Capitec Bank" Business Model. We think that Letshego's business model is gravitating towards Capitec Bank. Capitec Bank is a deposit taking retail bank that offers a range of personal loans through its network of 474 branches throughout South Africa and over 3.2m clients and about 6,350 employees. Capitec was established on 1 March 2001 and listed on the JSE Limited on 18 February 2002. The retail banking group has generally focused on providing "easy and affordable banking services" to its clients and has employed the use of innovative technology in its offerings.

"As a group, we want to diversify, we don't want to disturb the existing business, but rather add to the Letshego business. In theory, it could be a banking arm which can then run next to the consumer lending business," we quote Letshego Group Managing Director, Jan Claasen, in an interview, describing the micro-lenders strategy of introducing banking services. It would appear that the existing model and structure will not change significantly but the process would rather include the addition of a specialized banking arm. We think Letshego could "hit the jackpot", should it pursue such a strategy given the low banking penetration levels in most SSA countries that it operates.

Peter Lynch once said, "The person that turns over the most rocks wins the game. And that's always been my philosophy". We think Letshego's "brave" stance of venturing into new African markets is one of its key strengths and may in the long term transform into significant income streams for the group. Following contact with management, we expect Letshego to continue pursuing a pan-African expansion strategy, particularly in countries such as Lesotho, Ghana, Zimbabwe, and Nigeria. The acquisition of a controlling stake in Micro Africa Limited in East Africa will assist in the aim of both regional expansion as well as capturing increased market share in new markets such as Kenya, Rwanda and South Sudan. That said, we like the fact that the group has been "dotting its i's and crossing its t's" in as far as regional expansion is concerned without necessarily "rushing" into unknown territories.

LETSHEGO SWOT ANALYSIS

Strengths

Well established in several African countries- the group has expanded quickly and has already obtained "first-mover" advantage in numerous markets;
Excellent track-record through its broad product range;
Strong and experienced management team;
Strong asset quality (low NPLs and high recoveries) - the payroll deduction model, which is facilitated via electronic collections through a Central Registry largely mitigates potential repayment risk on the company's unsecured loan portfolio;
Conservative gearing levels;
Attractive return measure (RoaE and RoaA) relative to peers;
Innovative product offerings- Letshego Swaziland, for example has introduced tailor-made products in that market that include creating a package where a highly indebted person can consolidate all their debt into one manageable loan;
Strict control of normal operational expenditure in the more established business units ensures low cost: income ratios.

Weaknesses

Narrow franchise;
Key markets such as Botswana and Swaziland are considered ex-growth;
Competition from local players who have cultural affinities with the target market;
Widespread network could prove difficult to manage;
Relatively longer term nature of Letshego's receivables, with around 70% of loans extended at five-year maturities;
Major risk if payroll deduction is discontinued in the main markets.

Opportunities

Further expansion into Africa e.g. in East Africa through the MAL acquisition;
Rollout of full product range into all countries in the region;
Move to transform into a retail banking institution also presents new opportunities.

Threats

While the group does not have any hard currency denominated liabilities (such as the USD, GBP and Euro), volatility in the currency markets may also have an impact on regional operations;
Margin pressure is expected in Botswana owing to increased regulations and impairments;
Increased competition - success in Africa attracting new entrants;
Political instability in several African countries (exposure to country risks);
High risks associated with unsecured lending in SSA;
Operational capacity may be limited by an inability to access wholesale funding;
Increased micro-lending regulations in Africa.

COMPARATIVE VALUATION

BANKING SECTOR COMPARATIVES

Bank	Market Cap (USDm)	PER(T+1)	Div Yield (T+1)	PBV (T+1)	NIM	Cost/Income	NPL/Advances	RoaE	RoaA
Letshego	371	5.2	3.1%	1.4	29.5%	23.2%	1.7%	29.5%	21.0%
Botswana									
Barclays Botswana	784	8.4	5.9%	4.1	8.7%	39.0%	1.8%	45.3%	4.9%
First National Bank of Botswana	1,074	14.8	3.8%	5.4	4.0%	39.2%	2.6%	43.7%	3.5%
Stanchart Botswana	412	11.8	7.6%	3.3	5.0%	38.7%	1.5%	44.2%	2.4%
Kenya									
Kenya Commercial Bank	854	6.2	5.9%	1.2	7.0%	66.0%	10.0%	21.1%	2.9%
Barclays Bank Kenya	1,056	8.8	7.1%	2.1	10.0%	52.4%	6.9%	14.0%	2.1%
Stanchart Kenya	760	9.3	6.3%	2.8	10.0%	48.1%	0.9%	27.8%	3.3%
Nigeria									
Zenith Bank	2,484	6.1	0.6%	1.0	7.5%	64.3%	3.3%	12.1%	2.1%
First Bank	1,980	4.9	5.0%	0.9	8.2%	64.9%	3.8%	11.9%	1.3%
Guaranty Trust Bank	2,448	8.0	6.4%	1.7	8.2%	51.5%	3.6%	23.5%	3.5%
Stanbic IBTC	1,163	15.0	6.1%	2.2	7.0%	70.2%	6.4%	11.1%	2.7%
UBA	772	6.2	1.4%	0.6	4.8%	75.3%	10.8%	2.1%	0.0%
Access Bank Nigeria	596	4.3	3.0%	0.5	8.2%	70.0%	8.8%	7.2%	1.5%
First City Merchant Bank	434	6.1	6.2%	0.5	6.9%	76.8%	5.4%	7.9%	1.6%
Skye Bank	416	3.9	18.8%	0.6	7.6%	65.4%	6.8%	12.5%	1.5%
Diamond Bank	312	8.5	-0.1%	0.4	9.6%	62.3%	10.9%	-1.9%	0.2%
Average		8.2	5.6%	1.8	7.5%	58.9%	5.6%	18.8%	2.2%

Source: Nova Capital Equity Research

MICROFINANCE COMPARATIVES

Bank	Listing	Mkt Cap/ BV (USDm)	PER	Div Yield	Cost/Income	Loan Loss Provisions/Advances	Loans/Total Assets	RoaA	RoaE
Letshego	**BSE**	371	5.3	2.0%	23.2%	1.7%	94.6%	21.0%	29.5%
Banco Parana	Sao Paulo SE	667	9.0	3.8%	61.0%	3.2%	49.4%	4.4%	16.9%
SKS Microfinance	Mumbai Sensex	618	19.2	n/a	64.0%	0.4%	74.0%	4.9%	21.5%
African Bank International Ltd	JSE	3,605	14.6	5.2%	42.0%	18.0%	66.0%	5.1%	15.5%
Real People	Not listed	122	13.0	2.4%	112.0%	17.5%	29.0%	4.1%	13.3%
Bayport Management Limited	Not listed	16	2.5	n/a	93.0%	11.8%	93.0%	6.0%	108.0%
Average			11.7	3.8%	74.4%	10.2%	62.3%	4.9%	35.0%

Source: Letshego/ Nova Capital Equity Research

We have evaluated the Letshego share using two separate matrices. First, we compared Letshego with regional banking groups in Botswana, Kenya and Nigeria. Though Letshego is not a deposit taking financial institution, we think our method is justified given the group's aspirations to become one. However, our findings are that Letshego offers above-average returns (RoaA and RoaE), that are firmly in the 20s, versus an average RoaA of 2.2% and RoaE of 19%. In addition, the micro finance business is also attractive on the basis of healthy net interest margins (NIM) of around 26% and a below-average cost to income ratio of 23% versus an average of 59% for regional banking stocks. Second, we compare Letshego with similar micro-finance institutions (both listed and unlisted) operating in emerging markets. These include African Bank International Limited, which is listed on the JSE and offers unsecured loans to lower and middle income segments and Bayport Management Limited, which is domiciled in Mauritius.

On a mark to market basis, Letshego is a clear favourite as it remains the cheapest on a standout 5.3x historic PER against an average of 11.4x. We also like the fact that the cost to income ratio is significantly lower despite the group's pan African expansion drive. Furthermore, the low impairment ratios are largely due to the business model which ensures that group-wide recovery levels are maintained at about 95% While impairments are likely to increase on the back of new regulations in Botswana (the key market), we welcome the group's initiatives of introducing credit-risk insurance in some of its markets.

Based on our FY 2012 estimates, we expect the group to register an eps of 26.3 thebe. Applying this to our adjusted PER average of 8.0x (for microfinance institutions), an educated guess would put the counter on a target price of BWP 2.08, implying 53% potential upside on the current trading price. We note that the share price had de-rated on the back of "negative news flow" in Botswana. However, we see an opportune moment to gain exposure.

LETSHEGO FINANCIAL SUMMARY

Income Statement (BWP 000)	A2005	A2006	A2008	A2009	A2010	A2011	F2012	F2013	5-Yr CAGR
Interest Income	134,735	170,352	278,357	398,311	588,836	721,900	851,565	1,064,456	40%
Interest Expense	(7,040)	(11,986)	(34,485)	(72,196)	(50,935)	(42,959)	(99,870)	(120,843)	44%
Net Interest Income	127,695	158,366	243,872	326,115	537,901	678,941	751,695	943,613	40%
Premium income	-	-	-	-	-	30,696	58,423	61,344	
Insurance fees	-	-	-	-	-	(2,358)	(4,257)	(4,683)	
Net Interest & Insurance income	127,695	158,366	243,872	326,115	537,901	707,279	805,860	1,000,274	41%
Operating Income	140,723	185,391	314,315	418,563	703,180	823,156	925,951	1,137,271	42%
Net Income before impairment and taxation	114,885	141,995	233,108	318,111	555,397	665,673	724,565	878,156	42%
Impairment (charge)/write-back	5,155	(3,262)	(15,666)	(29,421)	(50,191)	(38,957)	(17,531)	(87,653)	
Profit before taxation	120,040	138,733	217,442	288,690	505,206	626,716	707,034	790,503	39%
Taxation	(24,806)	(32,072)	(48,481)	(69,626)	(125,206)	(153,379)	(169,688)	(189,721)	44%
Profit for the year	95,234	106,661	168,961	219,064	380,000	473,337	537,346	600,782	38%
Income Statement Growth Measures									
Gross Interest Income Growth		*26%*	*63%*	*43%*	*48%*	*23%*	*18%*	*25%*	
Net Interest Income Growth		*24%*	*54%*	*34%*	*65%*	*26%*	*11%*	*26%*	
Operating Income Growth		*32%*	*70%*	*33%*	*68%*	*17%*	*12%*	*23%*	
Op exp growth (%)		*68%*	*87%*	*24%*	*47%*	*7%*	*28%*	*29%*	
NI Before Impairments & Tax Growth		*24%*	*64%*	*36%*	*75%*	*20%*	*9%*	*21%*	
PBT Growth		*16%*	*57%*	*33%*	*75%*	*24%*	*13%*	*12%*	
PAT Growth		*12%*	*58%*	*30%*	*73%*	*25%*	*14%*	*12%*	
Balance Sheet (BWP 000)	**A2005**	**A2006**	**A2008**	**A2009**	**A2010**	**A2011**	**F2012**	**F2013**	**5-Yr CAGR**
Assets									
Cash and cash equivalents	5,496	4,276	9,201	5,165	104,462	51,848	58,588	67,376	57%
Advances to customers	317,951	430,543	787,926	1,342,557	1,682,257	2,298,880	3,103,488	3,724,186	49%
Property, plant and equipment	2,196	3,874	4,384	7,152	6,610	7,045	9,400	10,575	26%
Total Assets	328,023	444,999	811,919	1,401,021	1,915,421	2,430,230	3,330,292	3,970,485	49%
Liabilities and Shareholders Equity									
Trade and other payables	17,006	19,345	31,109	80,114	129,698	109,200	283,439	863,864	45%
Taxation	351	4,161	12,818	5,042	38,769	28,100	32,315	37,162	140%
Borrowings	69,007	97,929	306,725	644,385	377,638	505,174	986,580	996,446	49%
Total Liabilitites	86,364	121,435	350,652	729,541	546,105	642,474	1,302,334	1,897,472	49%
Shareholders' Equity									
Total Equity attributable to Equity Holders	241,659	323,564	459,673	667,067	1,347,498	1,749,601	1,980,264	2,022,934	49%
Minority interest	-	-	1,594	4,413	21,818	38,155	47,694	50,078	
Total shareholders equity	241,659	323,564	461,267	671,480	1,369,316	1,787,756	2,027,958	2,073,012	49%
Total Liabilities & Equity	328,023	444,999	811,919	1,401,021	1,915,421	2,430,230	3,330,292	3,970,485	49%
Balance Sheet Growth Measures									
Growth in Advances		*35%*	*83%*	*70%*	*25%*	*37%*	*35%*	*20%*	
Total Assets Growth		*36%*	*82%*	*73%*	*37%*	*27%*	*37%*	*19%*	
Growth in Borrowings		*42%*	*213%*	*110%*	*-41%*	*34%*	*95%*	*1%*	
Growth in Total Liabilities		*41%*	*189%*	*108%*	*-25%*	*18%*	*103%*	*46%*	
Growth in Shareholder's Equity		*34%*	*43%*	*46%*	*104%*	*31%*	*13%*	*2%*	
Ratio Analysis									
Basic EPS (thebe)	63.5	71.0	112.0	144.6	21.2	25.8	26.3	29.4	
DPS (thebe)	16.0	18.0	28.0	30.0	2.9	2.7	4.2	6.5	
Dividend Cover	4.0	3.9	4.0	4.8	7.2	9.5	6.2	4.5	
Dividend Yield	11.8%	13.2%	20.6%	22.1%	2.2%	2.0%	3.1%	4.8%	
Cost/Income Ratio	20.2%	27.4%	33.3%	30.8%	27.5%	23.2%	26.8%	27.5%	
Asset Quality Ratios									
Impairments/gross loans	-1.6%	0.8%	2.0%	2.2%	3.0%	1.7%	0.6%	2.4%	
Impairments/ PBT	-4.3%	2.4%	7.2%	10.2%	9.9%	6.2%	2.5%	11.1%	
Capitalisation Ratios									
Equity/Total Assets	74%	73%	57%	48%	71%	74%	61%	52%	
Loans/Total Assets	97%	97%	97%	96%	88%	95%	93%	94%	
Return Ratios									
RoaA	29%	28%	27%	20%	22%	21%	18%	16%	
RoaE	39%	38%	43%	38%	37%	30%	28%	29%	
Capital Structure									
Debt/Equity Ratio	29%	30%	67%	97%	28%	29%	50%	49%	
Margins									
Net Interest Income Margin	40%	37%	31%	24%	32%	30%	24%	25%	
PBT Margin	89%	81%	78%	72%	86%	87%	83%	74%	
PAT Margin	71%	63%	61%	55%	65%	66%	63%	56%	
Effective Tax Rate	21%	23%	22%	24%	25%	24%	24%	24%	

Notes: In 2007, the Group changed its financial year-end from October to January. As a consequence 2008 was a 15 month period.

MODEL ASSUMPTIONS

- For FY 2012, we expect financial performance for H2 2012 to be in line with H1 2012, as per management guidance;
- We expect the growth in earnings to be largely driven by the growth in the loan book as well as management efforts of controlling costs;
- We expect impairments to increase in FY 2013, reflecting the effect of the new collection methods in Botswana;
- We expect a gradual rise in the company's cost to income ratio on the back of transformational costs associated with new collection methods in Botswana s well as the group's strategy of converting to a deposit-taking banking unit. Transformational costs include installation of IT platforms, cash handling training, and installation of security features.
- We do not expect MAL, the Kenyan unit to contribute significantly to profitability in the short term.
- We expect the Debt/Equity Ratio to gradually increase as the company funds its expansion drive, largely through debt financing;