Stockbrokers Botswana | Research

Stockbrokers Botswana Ltd.

Letshego Holdings Limited

Microlending

Final Results

Buy

P10.00 **USD 1.45**

June 16, 2009

Trading & Liquidity

Mkt cap (Pm)	1,825
Mkt cap (US$m)	264
DCI Mkt weight	7.6%
Shares in issue (m)	182.5
Free float	100%
Annual Liquidity	7.5%
12 month high	1580
12 month low	990

Codes

BSE	LETSHEGO
Reuters	LET.BT
Bloomberg	LETSHEGO BG
ISIN No	BW 0322

Results

Date of last report	October 20, 2008
	P15.40 BUY
Last results	Finals - Apr 09
Expected results	Interim - Oct 09

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Letshego Holdings Limited, which changed its name from Micro Provident Botswana Limited, has posted remarkable results for the year ended 31 January 2009. On an annualised basis, interest income went up by 78.9% to P398m. Interest expense rose by 161.7% to P72.2m. Net interest income increased by 67.2% to P326m.

Fee and commission income went up by 65.9% to P86m, while total operating income went up by 66.5% to P419m. Operating expenses also increased significantly. Staff costs rose by 54.8% to P55m, while other operating costs went up by 54.5% to P46m.

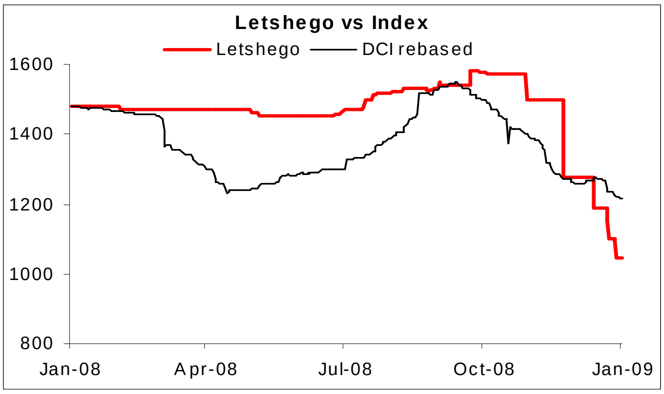
The impairment of loans and advances more than doubled to P29m. Pre-tax profit rose by 66.0% to P289m, while the tax charge of P70m translated to an effective tax rate of 21.1%. EPS went up by 61.7% to P1.45.

The loan book has passed the P1bn mark, up 70.3% to P1.3bn. During the 12 months under review, several developments took place. These include adoption of Letshego Holdings Limited as the name of the holding company, an offer for the subscription of 30million shares as well as the acquisition of Eduloan Namibia (Pty) Limited.

The current economic environment points towards challenging times ahead. On a positive note, however, the Bank of Botswana has been very proactive with regards to the interest rate environment, having reduced the bank rate by 200bp since the beginning of the year. We derive a fair valuation of P12.68 and maintain our BUY recommendation.

Key Financials

Year ended January (P)	2007	2008	2009F
Net interest income (m)	195	326	372
Growth	24%	67%	14%
Earnings per share	0.90	1.45	1.43
P/E Ratio (x)	11.1	6.9	7.0
Earnings growth	27%	62%	19%
Dividend per share	0.28	0.30	0.48
Dividend yield	2.4%	2.6%	4.1%
Net Asset Value	3.04	4.43	4.63
P / NAV (x)	3.3	2.3	2.2
Return on avg Equity	35%	39%	34%
Return on avg Assets	22%	20%	16%
Cost / income ratio	26%	24%	25%



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Overview

Letshego's strategy is to expand to African markets with good opportunities

Letshego Holdings Limited has established itself in the unsecured consumer lending market. The company's strategy is to expand regionally into markets that offer opportunities for growth. This is a commendable effort given that Botswana only has a population of about 1.8m, which can be a hindrance to growth.

Over the past few years, the company has expanded into several African markets like Uganda, Tanzania, Swaziland and Zambia. The growth into the region has been via two methods; establishment on "green field" basis and acquiring existing businesses, the acquisition of Eduloan Namibia being the first. As a result of this expansion, the company's revenue and profitability have grown significantly.

Group revenue up by P441m over the past 5 years

Group revenue over the past five years has increased by about P441m. Earnings have more than tripled and the share price has performed remarkably well. During the year, the company adopted Letshego Holdings Limited as the name of the holding company. Subsequent to year end, the company raised P360m through an offer for subscription of 30million shares at a price of P12.00 per share.

New main branches and satellite offices opened

The company continued to grow the business, with six new main branches and 38 satellite offices. The purchase of Eduloan Namibia was the first acquisition that the company has undertaken. This has contributed about 1.8% to operating income over a five-month period. We expect this contribution to increase in FY10, reflecting results of a whole financial year (ie 12months).

Regulatory authority established

On the regulatory front, the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) was established in Botswana to play a role in the formalisation of the unsecured consumer lending market. Management has welcomed the move as a positive development and are confident that they will be able to comply with the regulations that the NBFIRA will introduce to the market.

FY09 reflected substantial growth

The results for the year ended 31 January 2009 indicated an increase of 67.2% to P326m on net interest income. This was on the back of significant growth in the loan book, as a result of the regional expansion. Fee and commission income rose by 65.9% to P86m. Staff costs and other operating costs rose by 54.8% and 54.5% respectively. EPS increased by 62.1% to P1.45.

We recommend a BUY

The current economic environment is expected to be challenging to all sectors of the economy, as well as the region as whole. Letshego's business strategy is however expected to overcome the challenge. The Group's fundamentals remain strong, and our DDM fair valuation of P12.68, point to us maintaining our BUY recommendation on the counter.

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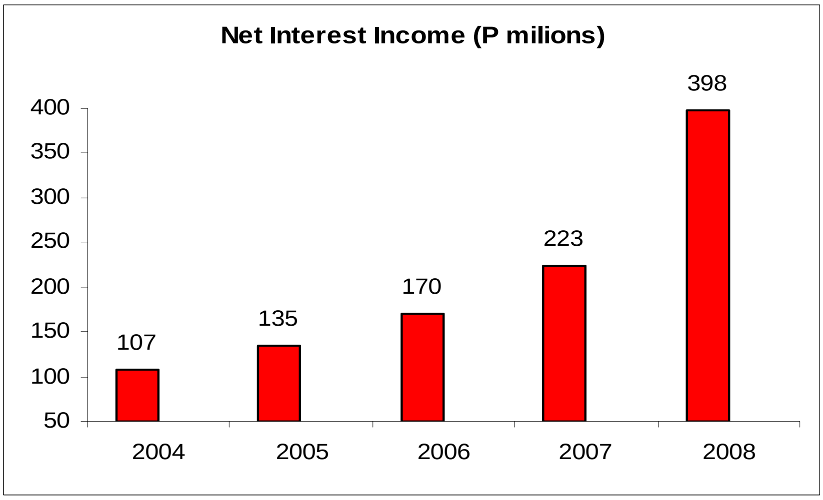
Income statement

Interest income up 27.9% to P1.36m

On an annualised basis, Letshego has recorded a net interest income growth of 67.2% to P326.1m. This was on the back of a 78.9% increase in interest income, driven by a considerable growth in the loan book, which grew by 70.4%. Botswana continues to dominate contribution to net interest income, with its loan book currently standing at 68.2% of the total.

Expansion into the African region has been the major driver of the loan book

Net interest income has shown phenomenal growth over the past five years, recording an increase of about P291m from P107m to P398m. This has been driven by the company's growth over the years, which included entering new markets in the African region like Swaziland, Zambia, Tanzania and others. Going forward, we expect this growth to continue as the company continues to identify new markets in which they can either establish themselves on a "green-field basis" or through acquisitions of existing businesses.



Source: Company reports

Growth in new markets is expected to drive net interest income

We expect NII to grow by 17-22%. This will be driven by, among others, growth in other markets where Letshego is consolidating itself. The recent interest rate cuts by the Bank of Botswana, which are geared towards stimulating economic activity, may augur well for the company in a case where that is achieved, and the resultant effect is net increase in employment in the economy.

Non-interest income covers 92.0% of operating costs

Fee and commission income went up by 65.9% to P85.9m. This has also been attributed to the growth that resulted from expansion. Other operating income also registered significant growth, up 42.9% to P6.5m. In FY09 Letshego's non-interest income covered 92.0% of operating costs compared to 86.0% in FY08. This represents an improvement of 6.0 percentage points. Total operating income increased by 66.5% to P418.6m.

Increase in headcount propels growth in staff costs

Costs were under a lot of pressure during this period. Staff costs went up by 54.7% to P54.5m. This was driven by the increase in headcount from 273 in FY08 to 389 in FY09, as more branches were opened during the period.

Cost-to-income ratio to dropped marginally…to be maintained at around 24.0%

Other operating expenses also registered a considerable growth, up 54.5% to P45.9m. This significant growth was also fuelled by the business' growth, which saw 6 new main branches and 38 satellite branches being opened. Despite this, the cost-to-income ratio dropped, albeit marginally, to 24.0%. As the company grows further, the growth in personnel and other operating expenses will be inevitable. Management has however, indicated that they intend to maintain the cost-to-income ratio at 25.0% to 30.0%.

Impairment charge at 2.2% of the loan book

The impairment charge more than doubled. This was however in line with expectations, given the significant growth in the loan book. The charge currently stands at 2.2% of the loan book (FY08: 1.6%). We believe that the impairment charge as a percentage of the loan book will not rise significantly, even in light of the prevailing economic turmoil, because the bulk of Letshego's business is with civil servants, whose chances of default and retrenchment are minimal. We therefore expect it to hover around 2.0% in FY10.

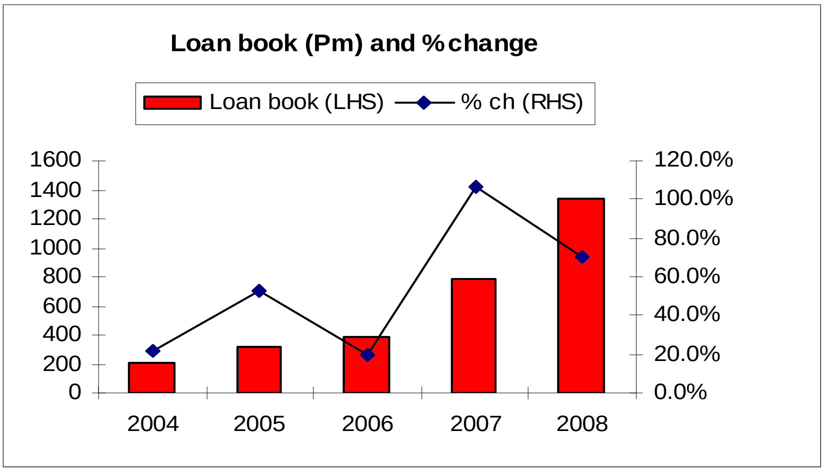
Earnings up 61.7% to P1.45

The tax for the year was P69.6m, translating to an effective tax rate of 24.1%. Letshego's IFSC accreditation offers it an opportunity to benefit from lower taxation. The effect of this will however be felt as the contribution of the subsidiaries outside Botswana increases because the tax advantage applies to profits generated outside the country. After-tax profit stood at P219.1m, representing an EPS rise of 61.7% to P1.45. Subsequent to year end, Letshego issued an additional 30million shares, which if taken into consideration result in an earnings growth of 35.0%, which is still commendable.

Balance Sheet

Loan book rose by 70.4% to P1.3bn

The balance sheet also registered significant growth, with total assets up 72.6% to P1.4bn. This was driven by a 70.4% growth in loans and advances to P1.3bn. The growth in the loan book was driven by, among others, the civil service salary increments that were effected during the financial year, increase in loan amounts up to P100K as well as the extension of repayment periods.



Source: Company Reports

Borrowings more than doubled…additional shares were issued

Share capital and reserves went up by 45.1% to P667.0m. Borrowings more than doubled to P644.3m (FY08: P306.7m). The borrowings were needed to fund the loan book, but have resulted in an increase of about 29.9 percentage points in the debt-to-equity ratio to 96.6%. As mentioned earlier, subsequent to year end Letshego issued an additional 30 million share which have now brought the debt-to-equity ratio to 62.0% (FY08: 67.0%).

Outlook

The acquisition of Eduloan

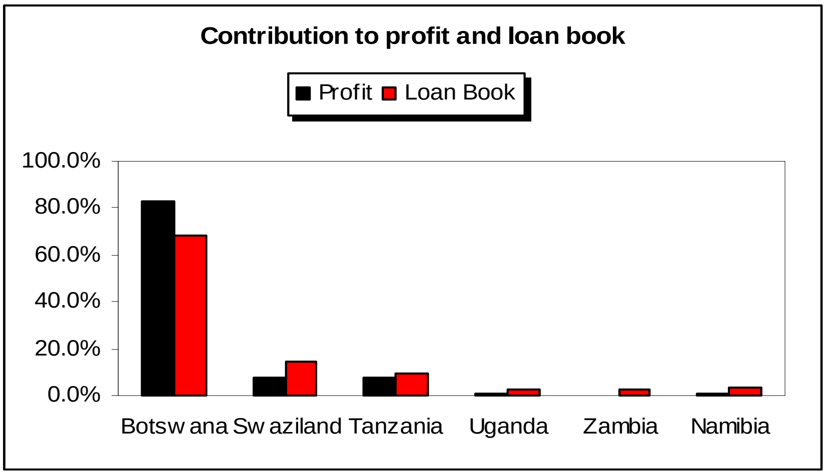
The acquisition of Eduloan is expected to drive growth

Letshego Holdings Limited acquired Eduloan (Namibia) (Pty) Limited for a final consideration of N$41.6m. This was funded from internal funds. Eduloan contributed about P7.6m to operating income, which represents about 1.8%, over a 5-month period. Eduloan's loan book stood at P42m at year end, which represents about 9.8% of the non-Botswana loan book. Eduloan has the same business model as that of Letshego, so integrating it will not be much of a problem. Eduloan will help to drive Letshego's growth in the short and long term.

Botswana dominates market share

Botswana continues to dominate contribution to the Group but this is expected to decline with time

Botswana continues to dominate contribution to the group's operating income and earnings. For the period under review, the Botswana operation contributed 77.5% to total operating income and 82.8% to pre-tax profit. Going forward, however, Botswana's contribution to total profitability of the group is expected to decline as non-Botswana subsidiaries continue to grow and increase their contribution to the group. All of the non-Botswana subsidiaries have now turned profitable.



Source: Company Reports

Offer for subscription

Subsequent to year end, Letshego made an offer for the subscription of 30,000,000 shares. A total of 20,803,836 shares were applied for. The remainder of the shares were allocated to Botswana Insurance Fund Management Limited, the underwriter of the offer. The proceeds of this share offer will be used to fund the company's growth initiatives.

Economic downturn to pose challenges

Economic slow down to constrain growth

The global economic downturn has had a significant negative impact on the Botswana economy. The mining sector has been the hardest hit as a result of the slowdown in trade on the back of falling commodity prices. This has resulted in a decline in government revenue, which has effectively led to constrained spending. The closure of some of the mining houses has resulted in redundancies and consequent lay-offs.

Valuation and recommendation

We derive a DDM fair valuation of P12.68. This represents a premium of 26.8% on the current trading price. The counter currently trades on a PER of 6.9 times and offers a dividend yield of 2.6%. We maintain our BUY recommendation.

Financials

Year to October (Pm)	2007	2008	% ch	2009F	% ch
Income Statement					
Interest income	222.7	398.3	*78.9%*	489.5	*23%*
Financing costs	(27.6)	(72.2)	*161.7%*	(117.1)	*62%*
Net interest income	**195.1**	**326.1**	***67.2%***	**372.4**	***14%***
Other operating income	56.4	92.4	*64.0%*	121.6	*31%*
Total operating costs	(65.0)	(100.5)	*54.6%*	(121.9)	*21%*
EBIT before provisions	**186.5**	**318.1**	***70.6%***	**372.1**	***17%***
Provisions	(12.5)	(29.4)	*134.8%*	(28.3)	*-4%*
Pre-tax profit	**174.0**	**288.7**	***66.0%***	**343.8**	***19%***
Taxation	(38.8)	(69.6)	*79.5%*	(82.9)	*19%*
Profit after tax	**135.2**	**219.1**	***62.1%***	**260.8**	***19%***
Balance Sheet					
Shareholder's Funds	461.3	671.5	*45.6%*	845.4	*26%*
Interest Bearing Debt	306.7	644.4	*110.1%*	866.6	*34%*
Current Liabilities	43.9	85.2	*93.9%*	100.4	*18%*
Total Funds Employed	**811.9**	**1,401.0**	***72.6%***	**1,812.4**	*29%*
Net Advances	787.9	1,342.6	*70.4%*	1,649.9	*23%*
Other Assets	23.0	32.1	*39.6%*	136.2	*324%*
Total Assets Employed	**811.9**	**1,401.0**	**72.6%**	**1,812.4**	*29%*
Key Ratios					
Earnings per share (t)	90.1	144.6		142.9	
Dividend per share (t)	28.3	30.0		47.6	
NAV per share (t)	304.4	443.1		463.3	