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Securities

LETSHEGO HOLDING LTD- FY 15 RESULTS

Price (BWP): 2.56
His EPS (BWP): 0.33
His PER: 7.75x
PBV: 1.37x
Dividend Yield: 6.45.%
Recommendation: BUY

Equity Research

Botswana

April 2015

Results Scorecard

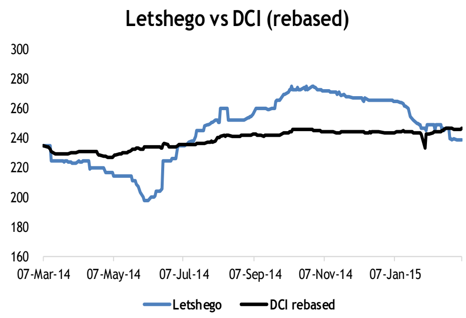
Total returns on display……

Letshego delivered a solid performance during the 11months ended 31 December 2014 reflected by a 20% annualised increase in EPS to 33.2 thebe on a 15% annualised increase in net interest income. What brought about the 11month reporting was that the board had decided to change the year end to 31 December to align their financial year to the calendar year. The period under review saw Letshego continue on its diversification strategy; geographically and by product offering. Strong growth came from outside Letshego's mainstay operation of Botswana, and in-roads were made in the non payroll business. Other highlights included an improved dividend payout, deposit taking operations commencing in Rwanda and Mozambique and a provisional license granted in Namibia.

Interest income grew by 25% to BWP 1.3bn (FY 14: BWP 1.2bn) as a result of a 28% increase in customer advances and an 11.0% increase in the overall customer base to 265,265. Interest expenses however went the opposite direction and spiked up by 192.6% to BWP 167.6m largely due to foreign exchange losses of BWP 1.8m compared to the BWP 50.0m gain recorded at FY 14. Interest spreads declined to 15.0% from 19.8% at FY 14 as average cost of lending increased to 9.4% (FY 14: 5.0%) while average lending rates remained relatively flat at 24.4% (FY 14: 24.8%). This translated to a reduction in NIMs to 19.6% from 23.5% at FY 14. Non-interest income grew by 34.7% to BWP 316.5m due to implying an improved NIR to 21.2% (FY 14: 18.72%). The CIR experienced a 425bps reduction to 28.95% on the back of total income growing at a faster rate than the 3.6% growth in OPEX. Cost of risk remained relatively low at 1.8% (FY 14: 1.7%) on a 55% increase in impairments to BWP 91.5m. PBT recorded a 24.5% increased to BWP 970.1m while PAT increased by 22.3% to BWP 721.9m after an effective tax charge of 25.6% (FY 14: 24.2%). Dividend for the year significantly increased to 16.5t (FY 14: 7.4t) implying an improved dividend payout ratio of 49.7% from 24.5% at FY 14.

Total assets grew by 27.5% to BWP 6.3bn fuelled by the 28.4% growth in customer advances to BWP 5.7bn which were 89.7% (FY 14: 89.1%) of total assets. A 55.0% increase in borrowings to BWP 1.9bn drove the 53.0% increase in total liabilities to BWP 2.9bn. The group began deposit taking in Mozambique and deposits on the balance sheet stood at BWP 4.0m. As at December 2014 funding composition was as follows; retained earnings 60.2%: debt 39.7%: deposits 0.1% compared to 66.9%: 33.1% :0% split at FY 14. This shift was largely as a result of the 55% increase in borrowings to BWP 1.9bn driven by a 321% increase in commercial bank funding to BWP 836.0m (FY 14: BWP 198.4m), resulting in a debt-equity ratio of 49.2% (FY : 36.7%). RoaE and RoaA both declined to 19.0% from 20.2% and 12.8% from 13.9% respectively and CAR was at 62% (FY 14: 68%).

			annualised
Income Statement (BWP'm)	**FY 15**	**FY 14**	**%ch**
Net interest income	1,177.61	1,113.69	15.35%
Non-interest income	316.53	256.44	34.66%
Total income	1,494.15	1,370.13	18.97%
Impairments	-91.48	-64.50	54.74%
Operating expenses	-432.53	-455.43	3.61%
Profit before tax	970.13	850.20	24.48%
Attributable earnings	674.92	601.15	22.47%
EPS (thebe)*	33.20	30.20	19.92%
DPS (thebe)*	16.50	7.40	122.97%
NAV/share (thebe)	187.41	161.67	15.92%
Balance sheet			
Cash on hand	320.54	310.53	3.23%
PP&E	51.76	53.99	-4.12%
Loans and Advances	5,686.80	4,427.76	28.44%
Other assets	329.57	231.88	42.13%
Total Assets	6,336.91	4,970.17	27.50%
Total Assets			
Deposits	4.00	-	N/A
Cash collateral	41.69	42.29	-1.42%
Borrowings	1,937.84	1,249.87	55.04%
Other Liabilities	258.75	173.73	48.93%
Shareholders funds	4,094.63	3,504.27	16.85%
Liabilities & Equity	6,336.91	4,970.17	27.50%
Ratios			
Net interest margin*	19.60%	23.50%	
Cost-income	28.95%	33.24%	
non interest- total income	21.18%	18.72%	
Cost of risk	1.81%	1.66%	
RoaE*	19.00%	20.22%	
RoaA*	12.77%	13.92%	
CAR	62.00%	68.00%	
PER (x)	7.20	7.78	
PBV (x)	1.28	1.45	
Div yield*	6.90%	3.15%	
Div cover (x)	2.01	4.08	
Payout ratio	49.70%	24.50%	



All geographic operations recorded solid loan book growth with the fastest Kenya (+139%) coming off a low base. Despite a 11% growth rate to BWP 2.0bn. Botswana's contribution to the overall loan book declined to 35% from 41% at FY 14 on the back of faster growth coming from outside the country. Botswana, Namibia and Mozambique's combined contribution to loan book was 79%, totaling BWP 4.5bn in absolute terms. The microfinance operation in Kenya, Rwanda and Uganda combined achieved loan book growth of 117% closing at BWP 370m and the non-payroll business made up 7% (FY 14: 4%) of the total loan book.

Letshego continues on its strategic focus to transform into a broader financial services group. For a mainly unsecured micro lender, a key strength of the group has been to maintain a quality book, mainly through the deduction at source payroll model. However, management reiterated that the group continues its efforts to diversify income streams by growing its non-payroll business. This side of the business generally bears a higher risk with cost of risk expectations between 4%-8% compared to 1%-3% on the payroll side. Nonetheless management gave guidance that the payroll side is still expected to remain the most significant part of assets with an approximate contribution to assets of about 70%-75% in the medium term. We commend group efforts to diversify funding, particularly sourcing funding in local currency to reduce overall cost of funds. Diversifying outside of Botswana is also on track and management confirmed that they look to continuing investing and growing operations in Mozambique, Tanzania and Namibia while seeking growth opportunities in other markets. These growth opportunities are met by the group's access to funding which is further emphasised by Moody's reaffirming Letshego's Ba3 credit rating in an environment where financial services ratings were being downgraded such as the downgrading of 5 South African banks after the collapsing of African Bank Limited.

Letshego currently trades at a PER and PBV of 7.30x and 1.28x respectively, which is generally lower than its deposit taking peers in Botswana. Generally, we buy the company's growth and diversification story. Furthermore we see Letshego's acquisition of deposit taking as a positive development which should assist the company to reduce its cost of funding over time. The increase in pay-out ratio to 50% has brought the counter to a 6.45% dividend yield, in line with the longest dated Botswana government bond; BW011 which expires in 2031 and yields 6.11%. Accordingly, the counter is an attract play on a total returns perspective and this motivates our maintained **BUY** call on the stock.

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