

Securities

Recommendation	HOLD		
Current Price (BWP)	4.63		
Highest Price - last 12 months	4.63		
Lowest Price - last 12 months	4.06		
PER (x)	15.15		
PBV (x)	2.55		
Div. yield (%)	3.89%		
Div. cover (x)	1.58		
Earnings Yield (%)	6.65%		
Income Statement (BWP'm)	FY 15	FY 14	%ch
Net interest income	909.9	890.9	2.13%
Non-interest income	376.3	386.3	-2.57%
Total income	1,286.2	1,277.2	0.71%
Impairments	-244.2	-150.4	62.35%
Operating expenses	-709.8	-701.9	1.13%
Profit before tax	332.2	424.8	-21.81%
Attributable earnings	260.5	335.9	-22.44%
EPS (thebe)*	30.6	39.4	-22.43%
DPS (thebe)*	19.4	23.5	-17.50%
NAV/share (thebe)	181.3	179.0	1.27%
Balance sheet			
Cash on hand	321.9	297.4	8.25%
Bank of Botswana Certificates	1,811.3	1,406.7	28.77%
PP&E	153.0	160.0	-4.37%
Loans and Advances	9,783.2	8,132.7	20.29%
Other assets	2,584.9	2,251.8	14.79%
Total Assets	14,654.3	12,248.6	19.64%
Total Assets			
Deposits	11,051.7	8,964.4	23.28%
Creditors and accruals	75.3	97.7	-22.90%
Debt securities in issue	352.2	522.9	-32.64%
Other Liabilities	171.2	187.8	-8.85%
Shareholders funds	1,545.0	1,525.7	1.27%
Liabilities & Equity	14,654.3	12,248.6	19.64%
Ratios			
Net interest margin	4.37%	5.21%	
Cost-income	55.20%	55.00%	
non interest- total income	29.26%	30.24%	
Loan-deposit ratio	88.52%	90.72%	
RoaE	17.0%	23.2%	
RoaA	1.94%	2.80%	
CAR	20.00%	18.40%	

Barclays Bank Botswana Ltd
Full Year Results to 31 December 2015

Turbulent times, compressed margins...

The operating environment was characterised by low interest rates and high consumer indebtedness owing to economic headwinds. As a result, Barclays' reported PAT of BWP 260.5m was 22.44% lower than the BWP 335.9m attained at FY 14. Highlights over the period included strong growth in loans and advances (L&A) and a solid CAR of 20%.

Despite the prevailing low interest environment, courtesy of the 150bps reduction in policy bank rates during FY 15, Barclays registered a moderate 4.24% increase in gross interest income to BWP 1.13bn anchored by a 20.29% jump in customer L&A. Interest expenses increased at a slower pace of 13.72% to BWP 225.1m partly driven by a 35.02% increase in term deposits and wholesale funding, which generally bear higher interest costs compared to core deposits. Net interest income therefore increased by 2.13% to BWP 909.9m. On the other hand, NIMs shrunk by 84bps to 4.37% (FY 14: 5.21%), on the back of thinner spreads (IAS calc. - FY 15: 7.76% vs. FY 14: 8.40%) mainly attributable to a 63bps y-o-y drop in our calculated average asset yields to 9.71% (FY 14: 10.34%). While a 31.32% increase in trading and investment income was recorded to BWP 103.9m (FY 14: BWP 79.1m), an 11.45% decrease in net fee and commission income owing to lower commission rates in bancassurance, anchored the 2.57% drop in NIR to BWP 376.3m.

The central bank's two year freeze on upward adjustments in bank charges which was implemented in January 2014 also weighed down NIR, and the result of this was a 0.98pp decrease in the NIR/total income ratio to 29.26% (FY 14: 30.24%), below the industry average of 39.60%. Total income grew by a marginal 0.71% to BWP 1.29bn

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Botswana

03 June 2016

Banking



with the largest contributor being the Retail and Business Banking sector which accounted for 73.80% of consolidated income.

Despite a significant 19.55% increase in administration costs and general expenses to BWP 340.5m vs. BWP 284.8m at FY 14, which management attributed to a 16% increase in general costs underpinned by prior year adjustments that couldn't be taken directly to retained earnings, operating expenses were broadly contained, only increasing by 1.13% to BWP 709.8m. Management articulated that staff costs decreased by 13.48% to BWP 324.3m vs. BWP 374.9m at FY 14, partly because of a once off adjustment made in FY 15 relating to staff pension costs. The company's CIR thus remained relatively flat at 55.20% (FY 14: 55.00%).

Impairment charges increased by 62.35% to BWP 244.2m vs. BWP 150.4m at FY 14 partly attributable to the liquidation of 2 mines during the period under review - due to economic challenges, which resulted in an increase in defaults (5% of the company's loan book is exposed to the mining sector). As a result, the cost of risk increased by 66bps to 2.50% vs. 1.84% at FY 14, above the market average of 2.0% as quoted by management. PBT thus declined by 21.81% to BWP 332.2m. A 64bps increase in the effective tax rate to 21.58% vs. 20.94% at FY 14 further eroded PAT by 22.44% to end the year at BWP 260.5m. The result of this was a significant decline in RoaE to 17.00% (FY 14: 23.20%) and RoaA to 1.94% (FY 14: 2.80%). A final dividend payment of 7.627 thebe was declared which brought the FY dividend to 19.36 thebe, implying a dividend yield of 4.11% (FY 14: 5.75%) at the current price.

The balance sheet grew by 19.64% to BWP 14.7bn, largely attributable to a 20.29% rise in loans and advances to BWP 9.8bn. NPLs grew by 10.88% to BWP 443.5m, however since loans grew at a faster pace, the NPL ratio dropped by 39bp to 4.53% at FY 15, still higher than the industry average of 3.6% for the same period. The central bank's 5pp cut in the primary reserve requirement from 10% to 5% eased liquidity conditions across the banking sector - BWP 2.3bn was consequently released into the market - which augmented the sector's loanable funds. Barclays registered a 28.77% increase in BoBC holdings to BWP 1.8bn (FY 14: BWP 1.4bn) despite the low yields on the 14 day and 91 day BoBCs, which fell to an average of 1.30% and 1.58% by year end from 3.09% and 3.27% at H1 15, respectively.

The Corporate and Investment Banking division's loan book recorded the fastest growth of 76.49% to BWP 2.8bn vs. BWP 1.6bn y-o-y, thus contributing 28.65% (FY 14: 19.52%) of the group's consolidated loan book in alignment with Barclays' strategy to grow asset market share and increase the transactional activity of the bank's corporate arm. Retail and Business Banking continued to be the largest contributor to the book, accounting for 71.35%, albeit recording a relatively lower 6.66% growth in loans and advances to BWP 7.0bn (FY 14: BWP 6.5bn). The group recorded an LDR of 88.52% (FY 14: 90.72%), but when we include borrowings the ratio goes down to a slightly more palatable 83.96% at FY 15.

Total deposits increased by 22.25% to BWP 13.1bn from FY 14, underpinned by the 23.28% growth in customer deposits to BWP 11.1bn. Retail deposits remained relatively flat y-o-y, down by 0.42% to BWP 4.9bn, while corporate deposits grew by 52.68% to BWP 6.1bn from BWP 4.0bn at FY 14, subsequently becoming the largest contributor to total deposits, accounting for 55.29% (FY 14: 44.65%) of the respective measure.

In order to further diversify the capital mix between Tier 1 and Tier 2 capital, the bank issued subordinated debt of BWP 250.0m to Barclays Africa Group Ltd which consequently underpinned the rise in total borrowings to BWP 255.8m at 31 December 2015.

The increase in balances with the Bank of Botswana and BoBc holdings by BWP 991.6m y-o-y anchored the 88.39% increase in liquid assets to BWP 3.6bn. As a result, Barclays' liquidity improved, mirrored by a 4.73pp rise in our calculated liquid asset ratio to 30.56% (FY 14: 25.83%), 20.56pp above the regulatory minimum of 10.0%. The bank's CAR improved to a solid 20.0% (FY 14: 18.40%) - 5pp above the minimum statutory requirement of 15.0%, due in part to the aforementioned capital raise of BWP 250.0m.

Outlook: Based on the bank's performance in H2 15, we are of view that Barclays' profitability is on a positive trajectory, despite facing economic headwinds and record low interest rates, with 66% of profit before tax for the year 2015 having been realised in the second half.

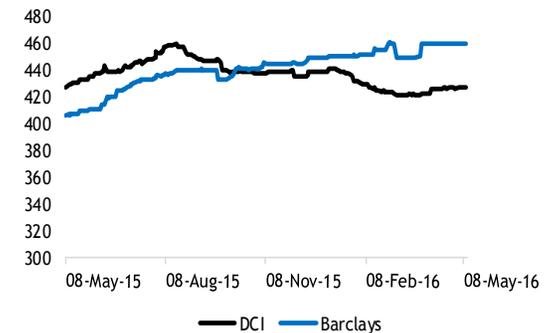
The launch of new products such as the *CashSend* product - which allows money to be sent to unbanked clients, should strengthen the Group's NIR, albeit there being similar product offerings in the market. Other efforts launched in FY 15, such as the introduction of mobile points of sale (m-Pos), the enhancement of its payment technology by extending online payments to services like purchase of prepaid electricity, as well as enabling cash deposits via the bank's ATM network should increase transactional activity, which should further boost NIR, as will the lifting of the historic moratorium on bank charges in FY 16.

Further innovation displayed by the bank included the introduction of paperless banking into the market, which enables customers to make deposits and/or withdrawals without the need to complete paper forms in branch. We believe that these enhancements will add value to the customer's banking experience, aiding customer retention.

Although Barclays Plc's decision to reduce its 62.3% stake in Barclays Africa Group Ltd, (Barclays Bank of Botswana Ltd's major shareholder), sowed a sense of uncertainty in the market for BBB, management has reiterated that currently this has no impact on its strategy.

Barclays' current PBV of 2.55x and PE of 15.15x are at a premium to its listed peer average, and using the relative valuation method, we arrive at a target price of BWP 4.35, which represents a 6.45% downside to its current price. Accordingly, we recommend a **HOLD** call on the stock.

Barclays vs. DCI (rebased)



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