

Securities

Recommendation	HOLD		
Current Price (BWP)	4.90		
Highest Price - last 12 months	4.90		
Lowest Price - last 12 months	4.33		
PER (x)	10.95		
PBV (x)	2.47		
Div. yield (%)	4.21%		
Div. cover (x)	2.01		
Earnings Yield (%)	9.14%		
Income Statement (BWP'm)	H1 16	H1 15	%ch
Net interest income	499.6	423.3	18.02%
Non-interest income	149.9	125.2	19.76%
Total income	740.6	583.9	26.83%
Impairments	-95.9	-114.2	-16.04%
Operating expenses	-374.3	-358.7	4.34%
Profit before tax	270.4	111.0	143.66%
Attributable earnings	207.6	86.9	138.85%
EPS (thebe)*	44.8	35.1	27.55%
DPS (thebe)*	22.3	23.5	-5.00%
NAV/share (thebe)	198.3	177.5	11.73%
Balance sheet	H1 16	FY 15	
Cash on hand	280.1	321.9	-13.01%
Bank of Botswana Certificates	1,275.7	1,811.3	-29.57%
PP&E	147.1	157.2	-6.38%
Loans and Advances	10,461.0	10,150.1	3.06%
Total Assets	14,474.7	14,654.3	-1.23%
Deposits	10,967.7	11,481.9	-4.48%
Creditors and accruals	81.9	46.1	77.56%
Debt securities in issue	249.5	352.2	-29.15%
Shareholders funds	1,689.9	1,545.0	9.38%
Ratios			
Net interest margin	4.90%	4.70%	
Cost-income	51.00%	61.00%	
non interest- total income	20.25%	21.44%	
Cost of risk	2.31%	1.89%	
Loan-deposit ratio	95.38%	88.40%	
RoaE*	23.80%	21.78%	
RoaA*	2.78%	2.58%	
CAR	19.20%	18.40%	

Barclays Bank Botswana Ltd
Half Year Results to 30 June 2016

Robust growth in group earnings...

Barclays released a set of impressive results for the half year ended 30 June 2016. The bank registered a PAT of BWP 207.6m, 138.85% higher than the BWP 86.9m attained at H1 15. Other highlights included a significant improvement in the cost-income ratio to 51.00% (H1 15: 61.00%) and a solid capital adequacy ratio of 19.2%.

Net interest income rose by 18.02% to BWP 499.6m, despite the prevailing low interest rate environment which saw the bank rate cut by a further 50bps to 5.5% in August, the lowest in 25 years. Barclays registered a 7.62% increase in interest income to BWP 592.2m (H1 15: BWP 550.3m) anchored by a 14.58% growth in loans and advances to customers to BWP 10.5bn (H1 15: BWP 9.1bn). Interest expenses decreased by 27.05% to BWP 92.6m due to market stabilisation relative to the strained liquidity conditions experienced in the previous year as well as a reported change in the bank's deposit mix. NIMs strengthened by a marginal 2bps to 4.9% vs. 4.7% at H1 15.

Increased volumes from client acquisition and execution of cross selling opportunities during the period drove the 25.26% rise in fee and commission income to BWP 159.3m. Net trading and investing income - mainly derived from treasury activities, grew by 163.37% to BWP 89.3m. This translated into a 5pp improvement in the NIR/total income ratio to 32.54%, (the bank's long term target is 50%). Total income rose by 26.83% to BWP 740.6m, with the largest contributor being the Retail and Business Banking (RBB) segment with 71.84%. The Corporate and Investment Banking (CIB) segment registered a notable 57.21% growth in income to BWP 208.6m vs. BWP 132.7m at H1 15, underpinned by a 62.00% increase in the Markets business' income in an environment characterised by currency volatility.

Equity Research
Botswana
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Banking



Although administration and general expenses increased by 8.32% to BWP 166.9m, total operating expenses rose by a more muted 4.34%, thanks to various cost control programs and rationalisation activities. Accordingly, the CIR improved significantly to 51% (H1 15: BWP 61%) as a manifestation of efficient cost control and revenue growth. Impairment charges decreased by 16.04% to BWP 95.9m vs. BWP 114.2m at H1 15, attributed to improved collections and a greater focus on monitoring and control activities relating to debt collection.

On the back of all the preceding, PBT increased by 143.66% to BWP 270.4m. A 155bps rise in the effective tax rate to 23.24% weighed down PAT growth slightly to 138.85% as it closed at BWP 207.6m. Subsequently, TTM ROaE and ROaA improved to 23.80% (H1 15: 21.78%) and 2.78% (H1 15: 2.58%). An interim dividend of 14.669t per share was declared, payable on 21 October 2016 to those shareholders registered at the close of business on 7 October 2016. The aforementioned dividend brought the TTM dividend to 22.30t, implying a dividend yield of 4.24% (H1 15: 5.07%).

Barclays' balance sheet shrunk by 1.23% to BWP 14.5bn (FY 15: BWP 14.7bn), mainly weighed down by the 29.57% decrease in BoBC holdings to BWP 1.3bn vs. BWP 1.8bn at FY 15, which offset the 2.11% rise in customer loans and advances to BWP 10.0bn (FY 15: BWP 9.8bn). The NPL ratio shed 70bps y-o-y to 1.8%, attributed to an improved focus on monitoring and the aforementioned recoveries.

The CIB loan book registered the fastest y-t-d growth of 14.27% to BWP 3.2bn vs. BWP 2.8bn at FY 15, thus contributing 32.06%, (FY 15: 28.65%), to the group's consolidated loan book, augmenting Barclays' strategy to grow the asset market share and increase the transactional activity of its corporate arm. Although RBB continued to be the largest contributor to the book, its y-t-d 2.84% decrease in loans and advances to BWP 6.8bn (FY 15: BWP 7.0bn) saw its contribution to the consolidated loan book fall to 67.94% (FY 15: 71.35%). The group LDR was 95.37% (FY 15: 88.40%), while the loans/deposits and borrowings ratio was a slightly more palatable 91.18% at H1 16.

Total deposits decreased by 4.48% to BWP 11.0bn (FY 15: BWP 11.5bn), mainly on the back of a 5.30% y-t-d decline in customer deposits to BWP 10.5bn, which was contrary to peer trends (total customer deposits for listed commercial banks at H1 16 totalled BWP 39.2bn vs. BWP 37.3bn at FY 15). This translated into a 2.47% decrease in total liabilities to BWP 12.8bn vs. BWP 13.1bn at FY 15. Corporate deposits - the largest contributor to the bank's deposits at 54.45% of the total, registered a 6.74% decrease to BWP 5.7bn while retail deposits recorded a 3.52% drop to BWP 4.8bn.

Corporate derivative financial instrument liabilities decreased by 85.19% to BWP 17.9m vs. BWP 120.9m at FY 15 we assume on the back of a decline in forward foreign exchange contracts. Barclays' liquidity declined, mirrored by a 4.96pp decrease in its liquid asset ratio to 18.99% (FY 15: 23.95%), but was still 8.99pp above the regulatory minimum of 10.0%. The bank continues to be well capitalised with its regulatory capital position at BWP 1.9bn, representing a CAR ratio of 19.2%, (regulatory minimum: 15.0%).

Outlook: While the bank displayed a set of impressive financial results for H1 16 we note, however, the lower base effects relative to the comparative period (PAT of BWP 86.9m at H1 15, down 29.72% from BWP 123.7m at H1 14). Notwithstanding this, based on the bank's performance in the last 12 months - 66% of profit before tax for FY 15 was realised in H2 15 while a 143.66% y-o-y increase in PBT was attained in H1 16, we are of view that Barclays' profitability is on a sustainable positive trajectory.

The Bank of Botswana's Monetary Policy Committee cut the policy rate by a further 50 basis points in August 2016 to 5.5% in a bid to stimulate fragile economic growth. Headline inflation is currently at 2.8% year-on-year for the month of September 2016, below the 3% - 6% target range. On account of the low inflation outlook in the medium term we do not foresee an increase in bank rates, which would boost Barclays' net interest income. On the other hand, the lifting of the historic moratorium on bank charges in January 2016 should continue to strengthen NIR going forward, albeit to a lesser extent from 2017 as gains registered on fee and commission income at H1 16 were exceptional. This was due to the once-off effect of the lifting of the imposed fee moratorium, we expect these benefits to spill into H2 16 as well. Moreover, the bank recorded a 10% customer base growth during H1 16 and going forward this should lead to increased transactional activity further supporting NIR growth.

Barclays' corporate arm has strengthened significantly, registering a 28.23% 5 year CAGR of its loan book (BWP 3.2bn at H1 16 vs. BWP 923.7m at H1 11). Post balance sheet, the bank secured a USD 125.0m loan facility with the Overseas Private Investment Corporation (OPIC), the USA government's development finance arm, to channel funds into the diamond sector. The bank's efforts to vigorously grow its corporate loan book should augment its interest income going forward.

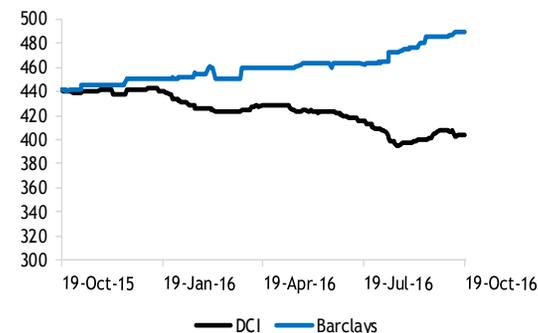
On a negative note, BCL, to which the bank had a reported exposure of USD 100.0m, was put into provisional liquidation, post balance sheet. Barclays noted, however, that its exposures to BCL were fully secured by the government of Botswana. We

will continue to follow developments on that front.

Having strengthened by 8.89% y-t-d, Barclays' current share price of BWP 4.90 puts it on PE and PBV ratios of 10.95x and 2.47x, respectively, which are at a discount to its listed peers. Although the CIB segment registered significant growth in earnings, the division's y-o-y increase was mainly underpinned by the improved performance of the naturally more volatile income from the Markets business. We note that this growth was partly attributable to the volatility in the currency markets, and therefore may not be sustainable to some extent.

We assign a **HOLD** recommendation on the stock while we closely watch how the bank's turnaround strategy unfolds.

Barclays vs. DCI (rebased)



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