

Letshego

SSA Banks

Buy

Low Risk

11th July 2014

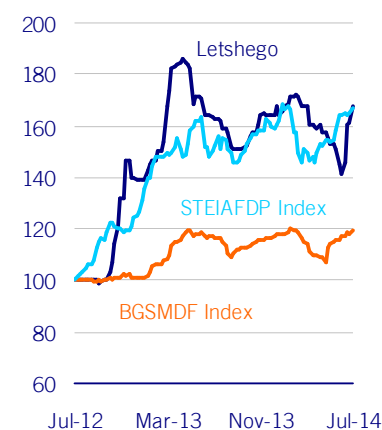
Botswana

Still Cheap!

(BWP 2.70 YE14 Price Target and Buy Recommendation maintained)

- **We reinforce our BUY recommendation on Letshego, with our YE14 Price Target of BWP2.70/share (upside of 15%).** The business remains a regional market leader in the provision of unsecured consumer finance via payroll lending to mostly government employees. Its key markets are Botswana, Namibia, Mozambique and Tanzania, which comprise c. 85% of total loans and 80% of total revenue. Since Letshego acquired Micro Africa in 2012, its East African operations now offer additional geographic and product diversification. Its footprint spans ten countries including Kenya and Rwanda with microfinance products such as group lending, MSME loans and housing microfinance.
- **Acquisition risk eliminated.** Letshego recently withdrew its cautionary statement on a possible transaction in East Africa, which fell through. This means that: (1) shareholders do not face transaction valuation risk, (2) potential integration hurdles will not materialise, (3) cost structures and leverage remain largely unaltered, and (4) management will continue to pursue organic growth of the portfolio in the MT. As such, we maintain our FY14^F EPS of BWP0.33, which implies 10% growth (11 months). We estimate EPS to post a 17% CAGR13-17^F, supported by competitive margins (NIM: c. 20%) and strong efficiency (CIR: c. 30%). Further, Letshego will maintain strong collections (97-100%), despite expanding its loan portfolio to higher risk segments.
- **Valuation and Triggers for the stock.** The stock went up 10% since we have initiated coverage (last May). In our opinion, Letshego's share remains undervalued on 2014^F P/E and P/B multiples of 7.1x and 1.3x, respectively (5.4x and 1.1x in 2015). Our YE14 PT incorporates a 10% illiquidity discount and it implies multiples 8.1x and 1.5x. The business is low risk and generates ROE of c. 20% vs. COE of c. 12%; while it holds strong potential to ramp up earnings in the MT via increased leverage.

Letshego vs. Botswana financial Sector Index vs. S&P Africa



Source: Bloomberg.

Stock data

Price (BWP):	2.36	Price Target (BWP):	2.70
N° of shares (mn):	2 168	Reuters/Bloomberg:	LET.BT/LETSHEGO BG
Market Cap (BWPmn):	5 115	Market Cap (USDmn):	583
Avg.Daily Vol. (BWP '000):	2 875	Avg.Daily Vol. (USD '000):	324
Debt/Equity '14	0.4 x	Free-float:	26%
EPS growth ('13-'17 ^F)	17%	ROE'14:	19%
Major shareholders:	Botswana Insurance Holdings (23%)		

Estimates	2012	2013	2014 ^F	2015 ^F	2016 ^F	2017 ^F
Diluted EPS (BWP)	0.33	0.30	0.33	0.43	0.50	0.57
P/E (x)	7.2	7.9	7.1	5.4	4.8	4.2
Dividend yield (%)	3.6%	3.1%	3.5%	4.6%	5.2%	6.0%
Adjusted P/BV (x)	1.7	1.5	1.3	1.1	0.9	0.7

Historical Recommendation

Date	Recommendation
14-May-14	Buy

(1) Initiating Coverage.

Source: BPI Capital Africa.

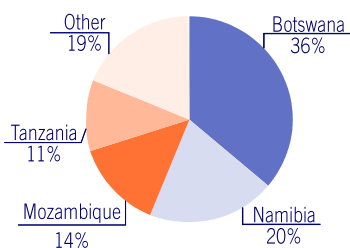
Income Statement

(BWPmn)	2012	2013	2014 ^F	2015 ^F	2016 ^F	2017 ^F	CAGR 13-17 ^F
Net interest income	966 015	1 113 688	1 220 069	1 575 658	1 798 812	2 055 439	17%
Dividends	2 733	3 334	4 244	5 440	6 256	7 195	21%
Commissions	132 907	134 236	200 917	257 526	296 154	340 577	26%
FX and trading	-	-	-	-	-	-	
Other	82 469	118 868	121 329	155 513	178 840	205 666	15%
Net Ope. revenue	1 184 124	1 370 126	1 546 560	1 994 137	2 280 063	2 608 878	17%
Personnel expenses	123 086	199 658	226 032	289 716	333 174	383 150	18%
Other admin exp	179 137	247 574	267 220	342 509	393 885	452 968	16%
Operating cash flow	881 901	922 894	1 053 308	1 361 911	1 553 004	1 772 760	18%
Depreciation	5 417	8 198	9 041	11 589	13 327	15 326	17%
Cost-to-income (inc.dep.)	26%	33%	32%	32%	32%	33%	
Operating profit	876 484	914 696	1 044 267	1 350 323	1 539 677	1 757 434	18%
Loan loss impairments	35 097	64 495	91 831	110 197	126 727	145 735	23%
Other provisions	-	-	-	-	-	-	
Extraordinaries	-	-1 060	-	-	-	-	
Profit before taxes	841 387	849 141	952 436	1 240 126	1 412 950	1 611 699	17%
Taxes	181 750	205 511	228 585	297 630	339 108	386 808	17%
Minorities	-	-	-	-	-	-	
Net profit	659 637	643 630	723 851	942 496	1 073 842	1 224 891	17%

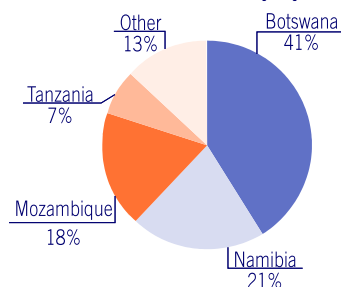
Balance Sheet

(BWPmn)	2012	2013	2014 ^F	2015 ^F	2016 ^F	2017 ^F	CAGR 13-17 ^F
Cash	316 613	310 525	258 025	440 788	546 508	655 810	21%
Short term deposits	490 641	-	-	-	-	-	
Loans to customers	3 336 204	4 427 757	5 433 789	6 205 168	7 092 254	8 112 402	16%
Tangible & intangible	76 964	115 355	132 256	151 521	174 249	200 386	15%
Other assets	58 756	116 528	126 267	158 408	182 169	209 495	16%
Total assets	4 279 178	4 970 165	5 950 338	6 955 885	7 995 180	9 178 093	17%
Total borrowings	1 277 395	1 249 871	1 317 572	1 652 954	1 900 898	2 186 032	15%
Other liabilities	141 340	216 027	533 898	382 152	164 654	-117 742	--
Shareholders' equity	2 860 443	3 504 267	4 098 867	4 920 778	5 929 628	7 109 802	19%
Total liabilities & sh. Equity	4 279 178	4 970 165	5 950 338	6 955 885	7 995 180	9 178 093	17%

Source: Company report; BPI Capital Africa.

Contribution of Revenue (%)

Source: BPI Capital Africa.

Contribution of Loans (%)

Source: BPI Capital Africa.

Valuation Summary

	BWP	Upside
DDM valuation	2.45	3%
P/B valuation	3.00	27%
YE14 Price Target	2.70	15%

Source: Bloomberg, BPI Capital Africa.

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	Low Risk	Medium Risk	High Risk
Buy	>15%	>20%	>25%
Hold	>0% and < 15%	>0% and < 20%	>0% and < 25%
Sell	< 0%	< 0%	< 0%

These investment ratings are not strict and should be taken as a general rule.

INVESTMENT RATINGS STATISTICS

As of 30th May BPI Capital Africa Equity Research's investment ratings were distributed as follows:

Buy	31%
Hold	44%
Sell	25%
Total	100%



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