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Exotix valuation as at 28 June 2010

Recommendation	BUY
Target price (BWP)	4.5
Upside / (downside) %	125
Forecast dividend yield %	2.2
Total return %	152.2

Key company information

Market capitalisation (USDm)	520
Free float %	75%
Share price as at 28 June	BWP 2.0
BWP / USD	7.01
Financial year end	January
Sector	Financials

Market performance in BWP

-1M return	0.0%
-3M return	25.4%
YTD return	29.0%
3M average trading volume USDk	168

Source: Bloomberg, Company filings, Exotix estimates

Investment summary table

BWPm	FY10A	FY11F	FY12F
Net interest inc. (BWPm)	537,901	717,604	953,228
Op. profit before impairment	512,829	674,285	900,291
Net income (BWPm)	380,000	473,919	620,097
EPS (BWP)	0.21	0.26	0.34
% change	44.1	24.5	31.4
BVPS (BWP)	0.74	0.97	1.27
% change	68	31	31
DPS (BWP)	0.03	0.04	0.05
% change	0.0	29.9	32.8
PE ratio (x)	9.60	6.96	5.29
P/book (x)	2.71	1.86	1.42
Dividend yield (%)	1.50	2.16	2.83

Source: Company filings, Exotix estimates

LETSHEGO – NOT FEELING BLUE AT ALL

- We remain bullish on Letshego in Botswana and maintain our BUY recommendation and target price of BWP4.50, 125% upside to the current price of BWP2.00 (see *Letshego (BUY) 10 years of profitable lending to SSA civil servants* dated 28 April 2010, available on request).
- Competitor Blue Financial (BFS SJ, ZAR 12, UR) updated the market on 23 June, which confirmed that it plans to raise ZAR463m in new capital, including new equity ZAR 163m (for a 65% stake), and its full-year loss of ZAR1bn.
- While Blue operates in the sub-Saharan Africa (SSA) consumer finance space, its model is radically different from Letshego's. Fiscal 2010 has shown how much less risky and more profitable Letshego is in three key areas: FX funding risk, client base/NPLs and growth.

Blue Financial's recently released FY results for year-end February 2010 make dismal reading. The company made a loss of ZAR1.0bn (US\$133m) as a result of loan impairments, goodwill write-offs and high operating costs. Seventy-five percent of its assets are in South Africa and the balance in SSA. Botswana (33%) and Zambia (12%) are its largest SSA operations outside of SA in terms of total assets.

Blue is in negotiations with Mayibuye, a South African group, to recapitalise the operations through a combination of new equity (ZAR163m for a 65% stake), new debt facilities of ZAR300m and to restructure its debt.

We initiated coverage on Botswana-listed Letshego in April with a BUY recommendation and target price of BWP4.50, 150% above the then price of BWP1.80.

A comparison between Blue and Letshego is telling. The management teams faced at two key issues - client base and funding model - and made different choices. We think calendar 2009 made the impact of those choices stark and underlines the long-term wisdom of Letshego's management:

Key choice 1: choosing the right clients/products: Letshego stuck to its model and continues to make relatively short-term loans to civil servants (97% of its customers) with repayment directly deducted from government payrolls. Blue extended its products to the broader public and offered 15+ year mortgages. Blue's LLPs were 36% of total loans while Letshego's were 1.8%.

Key choice 2: choosing the right funding base: 2009 saw sharp forex moves, with SSA currencies weakening sharply against the dollar. Blue posted ZAR137m in forex losses, while Letshego has continued with its highly conservative funding policy of local currency only.

Recommendations and opinions in this report, unless otherwise stated, are based on a combination of discounted cash flow analysis, ratio analysis, industry knowledge, logical extrapolations, peer group analysis and company specific and market technical elements (events affecting both the financial and operational profile of the company). Forecasting of company sales and earnings are based on segmented top-bottom models using subjective views of relevant future market developments. In addition, company guidance and financial guidance is taken into account where applicable. This report is on a stock under "active coverage". All prices provided within this research report are taken from the close of business on the day prior to the issue date unless explicitly stated.

Table 1: Letshego versus Blue Financial year-end 2010

	Blue Financial Y/E Feb 2010	Letshego Y/E Jan 2010
Share Price	ZAR 12	BWP 2.0
Market cap (28 June, 2010)	\$10m	\$520m
Trailing PE (x)	loss	9.6
Dividend yield	nil	1.5%
Price/book	negative	2.71
Attributable earnings	(\$133m)	\$54m
Shareholders' equity	(\$3m)	\$198m
Loans and advances	\$247m	\$102m
Goodwill	\$58m	\$4m
Total assets	\$200m	\$281m
Cost/income ratio	130.2%	22.4%
Net interest margin/total assets	18.3%	28.1%
Loans/total assets	51.1%	87.8%
Loan loss provisions/loans	35.9%	1.8%
NPLs	n.d.	3%
Capital adequacy	negative	73%
ROE	negative	27.5%

Source: Company data, Exotix

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This research has been produced by David Aserkoff who is the strategist (the "**Analyst**").

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Trading recommendations as at 31 March 2010

Buy	5
Sell	2
Hold	2

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Exotix published research

Date	Author	Category	Title
28 June 2010	David Aserkoff, CFA	Strategy	Exotix Weekly Briefing: EMTA consensus expects Greek default (which is not in the price) so we stick to Dubai Inc. for good value with local buyers.
23 June 2010	Stuart Culverhouse	Sovereign	Exotix Sovereign Research: Nigeria - Naira update
21 June 2010	David Aserkoff, CFA	Strategy	Exotix Weekly Briefing: The quietest rally we can remember, but still 36 bps room for EMBI to tighten to our fair value.
14 June 2010	David Aserkoff, CFA	Strategy	Low-risk/high-return ... or how to outperform bear markets by holding high-yielding frontier market bonds. Initiate Venezuela with Neutral,
9 June 2010	Stuart Culverhouse	Sovereign	Exotix Trip Report: African Development Bank - 2010 Annual Meetings, Abidjan
8 June 2010	Ronak Gadhia	Kenya Equity	Exotix Equity Research - Kenya Banks: In the Fast Lane
7 June 2010	David Aserkoff, CFA	Strategy	Weekly Briefing: More volatile oil, but stable warrants? Downgrade Nigerian oil warrants from HOLD to SELL, Reiterate SELL on Venezuela Oil Warrants
1 June 2010	David Aserkoff, CFA & Stuart Culverhouse	Strategy	Weekly Briefing: Positive mood in Africa.
24 May 2010	David Aserkoff, CFA	Strategy	Weekly Briefing: Wide credit spreads with on-time, in full bond repayments – Reiterate BUY Dubai Inc.
20 May 2010	David Aserkoff, CFA	Nigeria Equity	Nigerian Bank Sector Overview: The Music Has Started And It is Time to Start Dancing
18 May 2010	Stuart Culverhouse	Sovereign	Mongolia Country Report
17 May 2010	David Aserkoff, CFA	Strategy	Weekly Briefing: I have nothing to offer but blood, toil, sweat, tears... and perhaps another 39 bps of EMBI tightening.
13 May 2010	Ronak Gadhia	Kenya Equity	Co-op Bank 1Q10 Earnings Above Forecast, Maintain BUY
12 May 2010	Andre Andrijanovs	Corporate	DIFCI 2012 Sukuk - Another Test Of Dubai's Support
10 May 2010	David Aserkoff, CFA	Strategy	We'll take the side of Europe's \$1tn gamble and buy oversold frontier markets again
5 May 2010	Francisco Velasco	Sovereign	Argentina Untendered: a guide to the final terms
5 May 2010	David Aserkoff, CFA & Stuart Culverhouse	Sovereign	Greece: The First Emerging Market Crisis of the Eurozone
4 May 2010	David Aserkoff, CFA	Strategy	Weekly Briefing: Greece: The First Emerging Market Crisis of the Eurozone
30 April 2010	Ronak Gadhia	Kenya Equity	KCB 1Q10 Results below expectations, Maintain BUY.
29 April 2010	Stuart Culverhouse	Sovereign	Republic of Congo - Strong external accounts to support the Eurobond
28 April 2010	Binta Drave	Sub-Saharan Equity	Letshego (BUY) 10 years of profitable lending to SSA civil servants
27 April 2010	David Aserkoff, CFA	Strategy	Weekly Briefing: The Big Issue is who is smarter: Issuers? Or Investors?
23 April 2010	Ronak Gadhia	Kenya Equity	Equity Bank 1Q10 earnings above forecast, Maintain HOLD.
19 April 2010	David Aserkoff, CFA	Strategy	Weekly Briefing: What's north of Greece and west of Ukraine and yields 10%? Bosnia B's 10.36%.
16 April 2010	Francisco Velasco	Sovereign	Argentina Untendered Final Offer – The Train Leaves the Station
12 April 2010	David Aserkoff, CFA	Strategy	Weekly Briefing: Ageing Frontier Rally Rejuvenated by Greek bailout
12 April 2010	Francisco Velasco	Corporate	Newland International Properties Corp. (TOCLUB) update
6 April 2010	David Aserkoff, CFA	Strategy	Weekly Briefing: Argentina Untendered is more about Argentina than it is about the Untendered. Downgrade to HOLD.
29 March 2010	Stuart Culverhouse	Sovereign	Cote d'Ivoire - A decade of default comes to an end
29 March 2010	David Aserkoff, CFA	Strategy	Weekly Briefing: Dubai is the next best Frontier
26 March 2010	Andre Andrijanovs	Corporate	Dubai – Back to Normal?
24 March 2010	Francisco Velasco	Sovereign	Argentine Untendered Update – Italian Filing Worth USD 52.6
22 March 2010	David Aserkoff, CFA	Strategy	Weekly Briefing: Argentina GDP Warrants Added to Top 5 Picks
19 March 2010	Francisco Velasco	Sovereign	Argentine GDP Warrants: Still an Attractive Option
18 March 2010	Ronak Gadhia	Kenya Equity	East Africa Cement: Concrete Growth

All research available on request.

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