



LETSHEGO HOLDINGS
A pot of gold...

**IMARA
INVESTING
IN AFRICA**

Securities

Title	Equity Research
Edition	Letshego Holdings Report
Country	Botswana
Date	15 October 2010
Issued by	Imara Africa Securities

BUY

Current price (t)	195
Target price (t)	265

LIQUIDITY

Market cap. (Pm)	3,609.19
Market cap. (US\$m)	559.61
Shares (m)	1,841.42

SHARE PRICE PERFORMANCE

6 months (t)	22%
Relative change*	23%
12 months (t)	47%
Relative change*	42%
* relative to the DCI	

FINANCIALS	H1 '10	2010F	2011F
EPS (t)	11.8	25.0	29.4
DPS (t)	0.0	36.0	41.4
NAV/share (t)	82.0	89.3	109.6

FINANCIAL SUMMARY (Pm)

	H1 '10	2011F	2012F
Net interest income	325.4	657.7	780.0
Profit before tax	296.7	599.0	703.6
Profit for the period	221.4	461.3	541.7

RATIOS

RoAE (%)	16.8%	30.8%	29.6%
RoAA (%)	11.8%	22.5%	22.5%

VALUATION RATIOS

PBV (x)	2.4	2.2	1.8
PER (x)	8.4	7.8	6.6

Analyst:

Chandapiwa Majola
Tel: +267 3188660
Email: chandapiwa.majola@imara.co

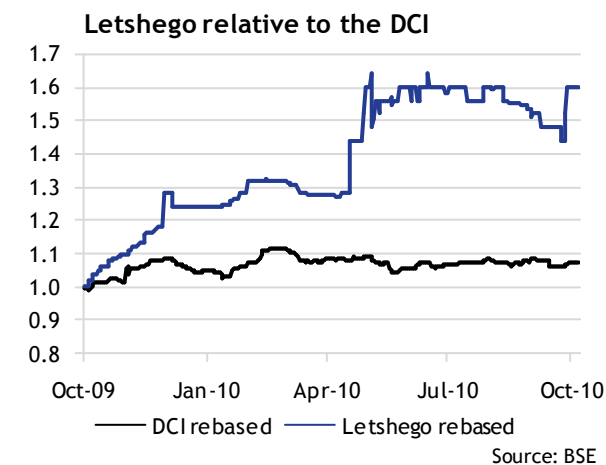
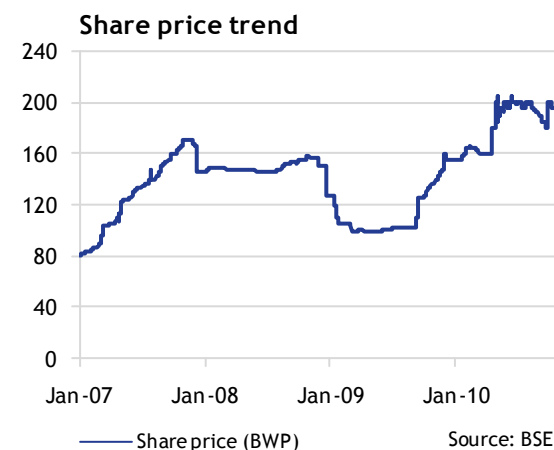
Letshego Holdings provides lending services, mainly to the public sector. Letshego loan repayments are deducted at salary source, thus reducing its exposure to credit risk. At the beginning of the financial year, the Group restructured and sold its insurance business, to enable management to focus on the core business of lending. The group operates in seven countries, namely Botswana, Mozambique, Namibia, Swaziland, Tanzania, Uganda and Zambia.

FINANCIAL PERFORMANCE

Letshego has released an excellent set of interim results. In an environment where the listed commercial banks have reported declines in profits and significant increases in impairments, the Group has recorded a 29.1% growth in net interest income, 38.5% growth in the bottom line and an 18.5% decline in impairments.

The cost to income ratio has declined from 25.9% in H1 2009 to 19.9%, driven by a 14.6% decline in staff costs. The Group has a lower staff base as a result of the sale of Legal Guard, hence the lower staff costs. Therefore a cost to income of around 20% is sustainable.

	Cost: Income	Impairments: Loans
Letshego	19.9%	0.8%
Barclays	43.4%	1.9%
FNBB	35.1%	0.8%
SCBB	57.5%	0.8%





Although some of the subsidiaries experienced declines in profitability, namely Swaziland, Tanzania and Zambia, all the six subsidiaries that were operating in the period were profitable. The impressive growth recorded in Botswana, Namibia and Uganda offset the performance of the other three markets, once again highlighting the benefits of geographic diversification. Botswana is still the leading contributor to profit before tax with a 67.1% contribution (H1 2009: 66.9%). Namibia overtook Tanzania and is now the second largest contributor to profit before tax at 13.9% (H1 2009: 6.9%). Tanzania contributed 7.0% (H1 2009: 9.0%), Swaziland 6.9% (H1 2009: 12.0%), Uganda 4.1% (H1 2009: 2.8%) and Zambia 1.0% (H1 2009: 2.3%).

Profit before tax increased by 39.8% to BWP 296.71 million, however profit before tax from lending activities increased by 44.9%.

FINANCIAL POSITION

The loan book has been increasing at an impressive rate, in the period under review it grew by 21.6% to BWP 1.86 billion, and has grown by 80.4% in two years. Although the loan book is expanding at a declining rate, we are confident that it will continue to grow in double-digit figures in the next three to five years, as the Group embarks on the second phase of its African expansion strategy. We also expect the net interest margin to improve as the Group penetrates markets with low banking penetration and hence limited access to funding.

Botswana accounts for 67.1% of the total loan book, followed by Namibia (13.9%), Tanzania (7.0%), Swaziland (6.9%), Uganda (4.1%) and Zambia (1.0%). The quality of the Botswana loan book is exceptional, with an impairment charge to loan book ratio of only 0.2%. Other markets with good quality loan books are Swaziland (2.2%) and Namibia (2.9%). The Group's impairment charge to loan book ratio has improved from 1.2% to 0.8%, mainly due to the improvement in collections in

Botswana, where the impairment charge fell from P7.8 million to P 1.4 million. Other markets which were more efficient at collections are Swaziland, Uganda and Namibia.

The Group has reduced its borrowings by more than P100 million, lowering the debt to equity ratio from 40.7% to 23.1%. Letshego has drawn down P106 million from the P240 million raised through the convertible loan. With access to the remaining P134 million, we anticipate that there will be no additional borrowings in the current financial year, thus, we expect the debt to equity ratio to remain around 20%.

OUTLOOK

Interest rates have been on the downward trajectory in all the markets that Letshego operates in, as a result we anticipate an increased appetite for loans. Given that the public sector is generally the major employer and is Letshego's primary target market, we expect the Group to continue growing as overall credit extension grows.

We anticipate that Letshego will have an even better second half of the year as the African expansion continues to yield favourable results. Letshego plans to increase its footprint, and is evaluating expansion opportunities in Ghana, Kenya, Lesotho, Nigeria and Zimbabwe.

Letshego treads cautiously when implementing new products and as a result we are confident that it will maintain its high quality loan book.

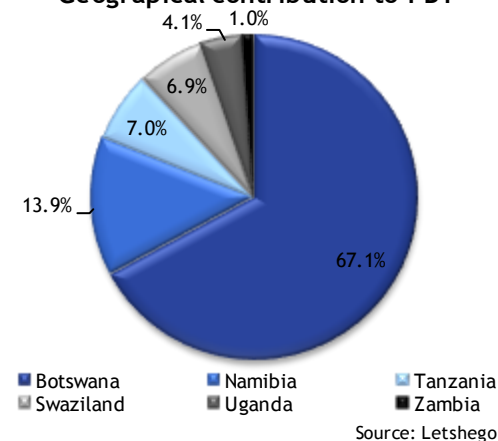
VALUATION AND RECOMMENDATION

Using the relative valuation technique, we value the counter at P2.65, which places Letshego at a 36% discount.

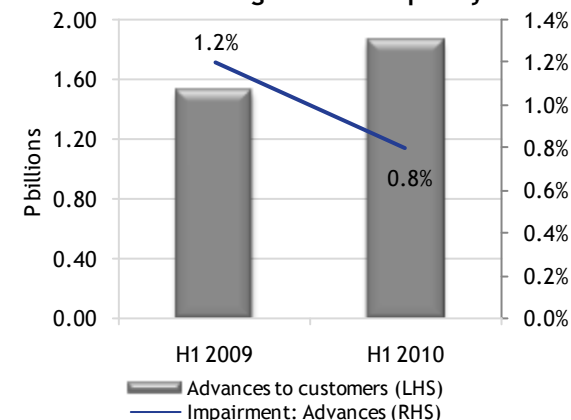
We maintain our **BUY** recommendation.

GRAPHICAL ANALYSIS

Geographical contribution to PBT



Loan book growth and quality





FINANCIAL HISTORY

YEAR END	31-Oct	31-Oct	31-Jan	31-Jan	31-Jan	31-Jan	31-Jan	5 yr CAGR
31 JANUARY	2005	2006	2008	2009	2010	2011F	2012F	
INCOME STATEMENT (Pm)								
Interest income	134.7	170.4	222.7	398.3	588.8	706.5	833.7	45%
Interest expense	(7.0)	(12.0)	(27.6)	(72.2)	(50.9)	(48.8)	(53.7)	64%
Net interest income	127.7	158.4	195.1	326.1	537.9	657.7	780.0	43%
<i>% change</i>		24%	23%	67%	65%	22%	19%	
Fee and commission income	11.0	22.7	51.8	87.8	120.7	116.5	122.3	82%
<i>% change</i>		107%	128%	69%	37%	-4%	5%	
Other operating income	2.0	4.3	4.5	4.6	2.0	11.3	12.5	
Total income	140.7	185.4	251.5	418.6	660.6	785.6	914.8	47%
<i>% change</i>		32%	36%	66%	58%	19%	16%	
Staff costs	(14.4)	(21.0)	(35.2)	(54.5)	(80.3)	(76.3)	(83.9)	54%
<i>% change</i>		46%	68%	55%	47%	-5%	10%	
Other operating costs	(11.4)	(22.4)	(29.7)	(45.9)	(67.5)	(79.0)	(86.9)	56%
Impairment loss	5.2	(3.3)	(12.5)	(29.4)	(50.2)	(31.3)	(40.5)	
PBT	120.0	138.7	174.0	288.7	462.6	599.0	703.6	40%
<i>% change</i>		16%	25%	66%	60%	29%	17%	
Taxation	(24.8)	(32.1)	(38.8)	(69.6)	(125.2)	(137.8)	(161.8)	50%
PAT	95.2	106.7	135.2	219.1	380.0	461.3	541.7	41%
<i>% change</i>		12%	27%	62%	73%	21%	17%	
EPS (thebe)	5.2	5.8	7.4	12.0	20.8	25.3	29.7	41%
<i>% change</i>		12%	27%	62%	73%	21%	17%	
Dividend payout ratio	31%	31%	38%	25%	14%	14%	14%	
NAV per share	13.2	17.7	25.2	36.6	73.8	90.2	110.6	
<i>% change</i>		34%	42%	45%	102%	22%	23%	
BALANCE SHEET (Pm)								
Advances to customers	317.95	430.54	787.93	1,342.56	1,682.26	2,018.71	2,382.08	52%
<i>% change</i>		35%	83%	70%	25%	20%	18%	
Borrowings	69.01	97.93	306.73	644.39	377.64	348.76	383.64	53%
<i>% change</i>		42%	213%	110%	-41%	-8%	10%	
Share capital and reserves	241.66	323.56	459.67	667.07	1,347.50	1,645.09	2,018.24	54%
<i>% change</i>		34%	42%	45%	102%	22%	23%	
TOTAL ASSETS	328.02	445.00	811.92	1,401.02	1,915.42	2,190.28	2,615.16	55%
<i>% change</i>		36%	82%	73%	37%	14%	19%	
Net interest margin (%)	32%	27%	19%	18%	22%	21%	21%	
Cost to income ratio	18%	23%	26%	24%	22%	20%	23%	
RoAE (%)	47%	38%	35%	39%	38%	31%	30%	
RoAA (%)	35%	28%	22%	20%	23%	22%	23%	
Effective tax rate (%)	21%	21%	23%	22%	24%	25%	23%	
Total Debt : Equity (%)	29%	29%	30%	67%	97%	28%	21%	



<p>Imara Africa Securities Ground Floor Plot 64511 Showgrounds Gaborone Botswana Tel: +267 3188660 Fax: +267 3188113</p>	<p>Imara Securities Angola SCVM Limitada Rua Rainha Ginga 74, 13th Floor, Luanda Angola Tel: +244 222 372 029/36 Fax: +244 222 332 340</p>	<p>Capital Securities Ground Floor Plot 64511 Showgrounds Gaborone Botswana Tel: +267 3188886 Fax +267 3188887</p> <p><i>Members of the Botswana Stock Exchange</i></p>	<p>Imara Edwards Securities (Pvt.) Ltd. Tendeseka Office Park 1st Floor Block 2 Samora Machel Avenue Harare Zimbabwe Tel: +263 4 790590 Fax: +263 4 791435</p> <p>4 Fanum House Cnr. Leopold Takawira/Josiah Tongogara Street Bulawayo Zimbabwe Tel: +263 9 74554 Fax: +263 9 66024</p> <p><i>Members of the Zimbabwe Stock Exchange</i></p>	<p>Imara S P Reid (Pty) Ltd Imara House 257 Oxford Road Illovo 2146 P.O. Box 969 Johannesburg 2000 South Africa Tel: +27 11 550 6200 Fax: +27 11 550 6295</p> <p><i>Members of the JSE Securities Exchange</i></p>	<p>Stockbrokers Malawi Ltd Able House Cnr. Hanover Avenue/ Chilembwe Road Blantyre Malawi Tel: +265 1822803</p> <p><i>Members of the Malawi Stock Exchange</i></p>	<p>Namibia Equity Brokers (Pty) Ltd 1st Floor City Centre Building, West Wing Levinson Arcade Windhoek Namibia Tel: +264 61 246666 Fax: +264 61256789</p> <p><i>Members of the Namibia Stock Exchange</i></p>	<p>Stockbrokers Zambia Ltd 2nd Floor, Design House P O Box 38956 Lusaka Zambia Tel: +260 1227303 Fax: +2601221055</p> <p><i>Members of the Lusaka Stock Exchange</i></p>
--	---	---	--	--	--	---	--

This research report is not an offer to sell or the solicitation of an offer to buy or subscribe for any securities. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by Imara Edwards Securities (Pvt.) Ltd. ("Imara") from sources that it believes to be reliable, but no representation or warranty is made or guarantee given by Imara or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of Imara as of the date of this report only and are subject to change without notice. Neither Imara nor any other member of the Imara group of companies including their respective associated companies (together "Group Companies"), nor any other person, accepts any liability whatsoever for any loss howsoever arising from any use of this report or its contents or otherwise arising in connection therewith. Each recipient of this report shall be solely responsible for making its own independent investigation of the business, financial condition and prospects of companies referred to in this report. Group Companies and their respective affiliates, officers, directors and employees, including persons involved in the preparation or issuance of this report may, from time to time (i) have positions in, and buy or sell, the securities of companies referred to in this report (or in related investments); (ii) have a consulting, investment banking or broking relationship with a company referred to in this report; and (iii) to the extent permitted under applicable law, have acted upon or used the information contained or referred to in this report including effecting transactions for their own account in an investment (or related investment) in respect of any company referred to in this report, prior to or immediately following its publication. This report may not have been distributed to all recipients at the same time. This report is issued only for the information of and may only be distributed to professional investors (or, in the case of the United States, major US institutional investors as defined in Rule 15a-6 of the US Securities Exchange Act of 1934) and dealers in securities and must not be copied, published or reproduced or redistributed (in whole or in part) by any recipient for any purpose.

© Imara Africa Securities 2010