

4 September 2018

SUB-SAHARAN
CONSUMER FINANCE

Price (BWP)	1.84
Current valuation metrics	
2017 P/E	6.0
2017 P/B	1.0
2017 D/Y	9.5%
Market cap (mn)	3945
Market cap (US\$m)	365
Price (BWP)	1.84

Market performance in BWP

YTD return (%)	-2%
3-month return (%)	-1%
1-yr return (%)	-3%

Share price performance



H1 18: setting the stage for future growth

- Underlying performance stronger than headline results suggest.** Despite 19% yoy pre-tax profit growth, Letshego Holdings reported H1 18 net profit to shareholders of BWP331mn, up just 3% yoy, reflecting higher deductions for tax and non-controlling interests. We think this is a respectable result and see the strong growth in access points and active clients as underpinning future franchise growth. The shares are trading at 6.0x 2017 PE, 1.0x PB and 9.5% DY.
- Operating income advanced 15% yoy.** Margins were broadly stable. Although small, fee income showed good (28% yoy) growth, while insurance income also rose by a healthy 28% yoy.
- Cost/ income ratio broadly stable,** at 39.6% (versus 38.8% in H1 17). Although salaries rose 21%, flat incentive payments limited overall employee cost growth to 8%, Other expenses rose more sharply; however, stripping out a BWP10mn writedown of redundant IT equipment resulted in an underlying growth rate of 22% yoy (versus 26% as reported), leading to an adjusted cost/ income ratio in line with H1 17.
- Credit risk costs and provisions coverage both improved.** The credit impairment charge fell 8% yoy, with the cost of risk declining by 57bps to 2.5% of gross loans. Provisions coverage rose to 95% from 70% at end-17, largely due to a BWP150mn day-one provision (taken straight to equity) upon implementation of IFRS9 at the beginning of the year.
- Balance sheet trends should support higher margins.** Customer lending grew 10% in net terms (+12% gross, +14% in local currency). Letshego is shifting its focus from government employees to the informal sector (BWP350mn such loans were written in Ghana alone, with good growth also in Tanzania), which should support margins (but also requires tighter vigilance). Loans to micro and small businesses have also grown.

Table 1: Letshego H1 18 results summary

BWPmn	H1 17	FY 17	yoy	H1 18A
Net interest income	869	1,782	14%	991
Total operating income	1,005	2,055	15%	1,156
Operating expenses	389	814	18%	458
Pre-provision profit	615	1,241	13%	698
Pre-tax profit	498	1,004	19%	590
Net profit to shareholders	321	638	3%	331
Net loans	7,395	7,769	13%	8,345
Customer deposit	102	228	235%	343
Total Assets	8,610	8,961	13%	9,759
ROA	7.8%	7.6%		7.1%
ROE	16.9%	16.7%		16.4%

Source: Company filings, Exotix estimates

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- **Underlying business drivers showing strong momentum.** Over the past year, the number of access points has increased from 307 to 858, largely driven by expansion in Mozambique. The number of borrowers increased from 345k to 546k during H1, and the number of savers from 120k to 167k. In addition, the product suite has been increased and deployed more widely across the network. All these factors embed the franchise with strong growth potential, in our view.
- **Conference call later today: 08.30 NYC, 13.30 London, 14.30 JHB, 16.30 UAE.** We are hosting Letshego's H1 18 results call. To register your interest email helen.penn@exotix.com.

Table 2: Letshego Holdings summary financials

BWPmn	2017		2018f		2019f		2020f		2021f		2022f	
Income statement												
Net interest income	1,782	14%	2,039	13%	2,312	15%	2,649	14%	3,012	12%	3,375	
Other operating income	273	17%	320	16%	372	16%	431	15%	494	14%	563	
Total operating income	2,055	15%	2,359	14%	2,684	15%	3,080	14%	3,506	12%	3,938	
Operating expenses	814	13%	922	12%	1,037	12%	1,158	11%	1,285	11%	1,426	
Pre-provision profit	1,241	16%	1,437	15%	1,648	17%	1,922	16%	2,221	13%	2,512	
Loan loss provisions	237	23%	293	17%	342	34%	457	27%	580	16%	671	
Net operating profit	1,004	14%	1,144	14%	1,306	12%	1,464	12%	1,641	12%	1,841	
Pre-tax profit	1,004	14%	1,144	14%	1,306	12%	1,464	12%	1,641	12%	1,841	
Net attributable income	638	18%	753	14%	862	13%	970	12%	1,091	13%	1,228	
Balance sheet												
Net loans	7,769	15%	8,920	13%	10,119	13%	11,386	11%	12,604	10%	13,889	
Interest-earning assets	7,822	15%	8,977	13%	10,178	12%	11,448	11%	12,669	10%	13,958	
Total assets	8,961	14%	10,215	14%	11,594	13%	13,102	12%	14,674	12%	16,435	
Total deposits	228	100%	457	75%	800	75%	1,399	50%	2,099	50%	3,148	
Total interest-bearing liabilities	4,240	19%	5,037	18%	5,937	16%	6,910	16%	8,015	17%	9,349	
Shareholders' funds	3,957	8%	4,293	9%	4,683	10%	5,128	10%	5,635	10%	6,211	
Per share data (BWP)												
EPS	0.292	20%	0.349	17%	0.408	14%	0.464	14%	0.527	14%	0.599	
BVPS	1.807	12%	2.022	10%	2.229	11%	2.465	11%	2.736	11%	3.046	
DPS	0.175	1%	0.176	16%	0.204	14%	0.232	14%	0.263	14%	0.300	
Ratios												
Revenue generation												
Net interest margin	21.24%		21.26%		21.21%		21.46%		21.69%		21.70%	
Revenues/ assets	24.5%		24.6%		24.6%		24.9%		25.2%		25.3%	
Gross asset yields	30.9%		31.1%		31.4%		31.7%		32.0%		32.3%	
Gross funding costs	12.2%		12.5%		12.7%		12.1%		11.4%		10.8%	
Operating efficiency												
Cost/ income	39.6%		39.1%		38.6%		37.6%		36.7%		36.2%	
Risk management												
Cost of risk	2.90%		3.10%		3.17%		3.74%		4.27%		4.46%	
NPLs/ gross loans	6.78%		4.01%		4.40%		4.93%		5.09%		5.46%	
Loan provisions/ NPLs	142%		139%		139%		139%		141%		140%	
Profitability												
ROA	7.60%		7.85%		7.90%		7.85%		7.85%		7.89%	
ROE	16.7%		18.3%		19.2%		19.8%		20.3%		20.7%	
Effective tax rate	32%		30%		30%		30%		30%		30%	
Dividend payout ratio	59%		50%		50%		50%		50%		50%	
Effective payout (incl buybacks)	65%		55%		55%		54%		54%		53%	
Liquidity and solvency												
Debt/ equity	93%		98%		100%		98%		97%		92%	
Shareholders' equity/ assets	44%		42%		40%		39%		38%		38%	

Source: Exotix research

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Trading recommendations as at 30 June 2018:

Buy	44	Sell	40	Hold	50
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