

Company Update

Sub Saharan Africa Region | Botswana | Microfinance

Equity Research

December 08, 2011



Ticker: LETSHEGO: BG
Exchange: BSE
Current Price: (BWP) 1.60

Target Price: (BWP) 2.08

COMPANY VALUATION

Bloomberg Code	LETSHEGO:BG	
Current Price (BWP)	1.60	
Current Price (USD)	0.21	
Target Price (BWP)	2.08	
Target Price (USD)	0.29	
Upside/Downside	30.0%	

Share Price Performance

6 Months (BWP)	1.85	-13.5%
12 Months (BWP)	1.82	-12.2%
52- Week High	1.87	
52-Week Low	1.35	

Key Company Information

Market Cap (BWPm)	3,176	
Market Cap (USDm)	425.9	
Shares (m)	1,985	
Free Float	25%	
Ave. Daily vol ('000)	1,742	
Financial Year End	31-Jan	
Sector	Financial	
Company web	www.letshego.com	

Financial Summary (BWP 000)	A2011	F2012	F2013
Interest Income	588,836	721,900	851,565
Interest Expense	(50,935)	(42,959)	(99,870)
Net Interest Income	537,901	678,941	751,695
Operating Income	823,156	925,951	1,137,271
NI Before Impairments & Tax	665,673	724,565	878,156
Profit before taxation	626,716	707,034	790,503
Profit for the year	473,337	537,346	600,782
EPS (Thebe)	25.8	26.3	29.4
DPS (Thebe)	2.7	4.2	6.5
NAV/share (Thebe)	86.0	99.8	101.9
Dividend Cover	9.5	6.2	4.5

Ratios	A2011	F2012	F2013
Gearing	28.9%	49.8%	49.3%
RoaA	21.0%	18.1%	16.0%
RoaE	29.5%	27.9%	29.1%
Cost/Income Ratio	23.2%	26.8%	27.5%
PBV (x)	1.9	1.6	1.6
PER (x)	6.2	6.1	5.4
Earnings Yield	16.1%	16.4%	18.3%
Dividend Yield	1.7%	2.6%	4.1%

Exchange Rate

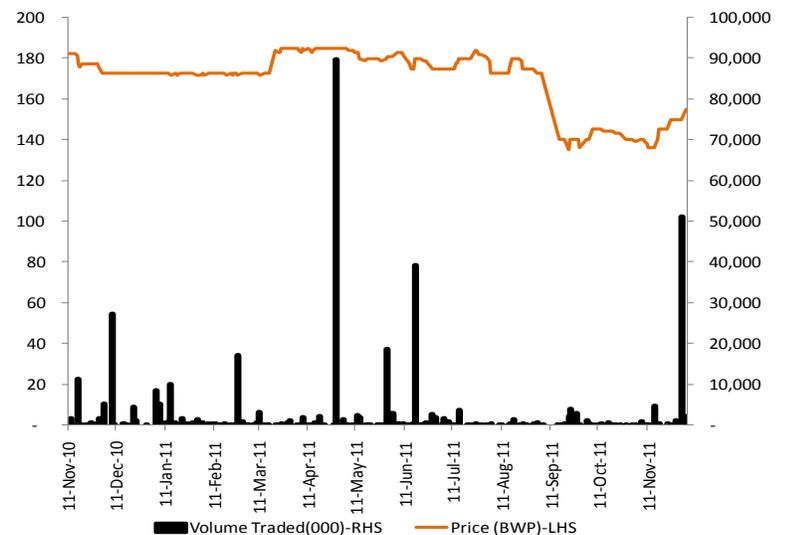
1 BWP = USD 0.134100
 USD 1.00 = BWP 7.45712
 1 BWP = 100 Thebe

Fortunes change as Government Shifts goal-post...

In this note, we re-iterate that one of Letshego's key competitive strength as a microfinance company operating in SSA has indeed been the 'deduction at source model', particularly in Botswana (its key market). Loan repayments are deducted directly from employees' salaries (mostly civil servants) through their employer's payroll system. We like the system since it guarantees low rates of default.

A life-line for Letshego Botswana as normal registry operations resume. In a recent announcement to stakeholders, Letshego advised that it was withdrawing a cautionary statement made in September 2011. The company had previously informed shareholders that Letshego Botswana had become aware of the intention of the Government of the Republic of Botswana to cease facilitating the deduction of Micro Lenders loan repayments from source effective 1 December 2011. It appears that after a review process with relevant stakeholders, the government had to resume normal central registry operations. While this demonstrates the "vulnerability" of Letshego's business model to regulatory shocks, we think the development is largely positive for the company as it has restored certainty with regards to loan recovery methods.

Letshego Holdings: Price Vs Volume



Economic Overview & Outlook on Consumer Lending in Botswana

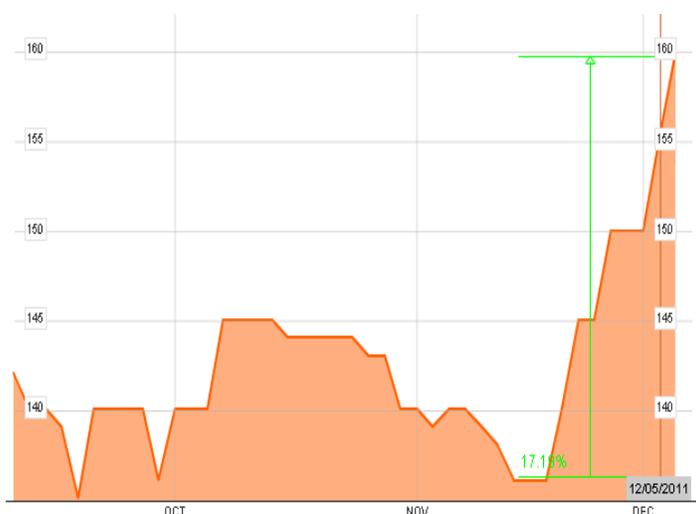
Despite the down turn in global markets as a result of the Euro zone debt crisis, Botswana's economy is expected to grow beyond the predicted 7.0% in 2012 due to increased investment in mining and infrastructure. While the country was affected by the 2008 economic downturn which saw the economy shrink in 2009 due to a substantial decline in diamond demand, the economy bounced back in 2010. However, we remain a view that the quality of growth will likely be affected by global economic conditions given Botswana's dependency on commodity-price cycles.

We however do not expect consumer lending to slow down within the economy. At a market penetration of c30% in Botswana, coupled by a relatively small population (2.0m) people, we still view the Botswana as an ex-growth market and envisage long term prospects in the new SSA markets such as Kenya and Mozambique.

Background of Developments

Letshego withdrew a cautionary announcement it issued in September 2011 after the Government of Botswana "threatened" it would no longer be the intermediary for collection and payment of credit between civil servants and corporates, a decision that has sent shock waves across unions and the corporate world. There was an outcry from affected stakeholders generally as civil servants; micro lenders and mobile phone companies were set to emerge the biggest losers from the decision. The deduction of repayment at source had generally provided a guarantee of a close to zero default-rate for most of the country's 120,000 civil service in accessing financial assistance in the form of micro-loans and union facilitated financial packages.

Letshego Holdings Share Price Movements (3 months)



Source: Bloomberg

Effect on the Share Price

The move by government had sent some investors into panic on fears that Letshego's quality of the loan book would be compromised, particularly in Botswana. The stock had taken a knock and was trading at historic lows of 135 thebe. However, the share price has recovered some 17% on news of withdrawing the cautionary.

Other developments on new acquisitions

According to management, Letshego is still finalizing an acquisition of a 62.52% interest in the issued share capital of Micro Africa Limited (MAL) for USD 3.3m. MAL is a private company incorporated in Kenya and has been operating in the country since 2000 with subsidiaries in Rwanda, South Sudan, Uganda and an associated company in Tanzania. Management has advised that the share purchase of will be finalised by the end of the year. The acquisition is strategic given that it will open up access to new markets such as South Sudan that exhibit massive growth prospects.

Capital Raising Initiatives

To ensure that access to funding does not impede Letshego's growth, management continues to explore alternatives such as the bond market, strategic alliances or even converting the company into a commercial bank that could take deposits.

A key advantage is that Letshego is a globally-rated company. In June 2011, a credit rating of Ba3 (long term global scale rating with a 'stable' outlook) was obtained by Letshego Holdings Limited from independent ratings agency, Moody's Investor Services. However, the outlook of the Moody's credit rating was changed from 'stable' to 'negative' during September 2011 as a result of the government on Botswana announcement of cancelling existing agreements with Central Registries in Botswana. We expect Moody to review its position given the new development. Worth noting is the fact that Letshego successfully concluded the listing of Medium Term Notes ("MTN") on the Johannesburg Stock Exchange (JSE) in July 2011. This, in our view places the group on a positive footing in future capital-raising endeavors.

Conclusion

We maintain our call. We remain bullish on Letshego and maintain a 12-month target price of BWP 2.08, implying 30% upside on the current price. The share price has already gained about 18% since we issued our Initiation of Coverage (IOC) research report in November 2011. We still see an opportunity gain exposure at current levels.

We also highlight that Letshego is a clear favourite on our sample of comparable micro finance stocks in SSA. Letshego offers above-average returns (RoA and RoE), that are firmly in the 20s. In addition, we like the below-average cost to income ratio of 23% versus an average of 59% for regional banking stocks.

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