



Letshego Holdings Limited

Sector: Microlending

Interim Results – Positive Outlook

Business Status

Letshego Holdings Limited, the Pan African micro lender remains one of the few companies on the local bourse which has been able to grow into the continent successfully. The market is ready and willing and the management is capable. Currently it operates subsidiaries in seven countries, most of which are already operating profitably. Operations outside Botswana have continued to contribute more to the bottom-line, though Botswana through its high interest margins continues to be the biggest contributor.

Collecting approximately P40 million from Botswana monthly and paying out about P22 million monthly the company's business seems to be impeded only by funding. Funding continues to be a challenge especially with the appetite for credit showing signs of improvement to pre-recession levels.

Operationally Botswana and Swaziland are the easiest operations especially with collections done through software assistance. In other countries especially in the North, operations are more difficult with some involving huge manual paper processing for collections. Tanzania for example is very difficult because it does not even have DHL, cheques travel by bus often.

Africa Sub Sahara is hungry for credit. The masses have been traditionally not well served by the banks, with long turnaround times for short loans and stiffer terms and conditions. This has presented itself as a perfect opportunity for Letshego. Even though Letshego is charging very high interest rates (up to 48% nominal interest rate in Botswana), still remains a lender of last resort to many because of its short turnaround time and less stringent conditions. On premium loans the company is competing at par with commercial banks.

Risks

The biggest risk in investing in Letshego stock is the inherent currency risk from the diversified African currencies which are very susceptible to fluctuations, especially against the US dollar. As witnessed in the latest result release, the Ugandan and Tanzanian Shillings depreciated by 48% and 17% respectively. However Letshego does business in a well diversified country mix, minimizing the impact of currency volatility. Letshego profit before tax (PBT) for the half year ending July '09 has grown at an impressive 65% even though Ugandan operations have incurred a 300% loss, reflecting the effect of diversified portfolio.

Strong Buy

P13.25

USD 2.02

October 19, 2009

Trading & Liquidity

Mkt cap (Pm)	2,405
Mkt cap (US\$m)	366
DCI Mkt weight	8.7%
Shares in issue (m)	182.5
Free float	77%
Annual Liquidity	10.3%
12 month high	1580
12 month low	990

Codes

BSE	LETSHEGO
Reuters	LET.BT
Bloomberg	LETSHEGO BG
ISIN No	BW 0322

Results

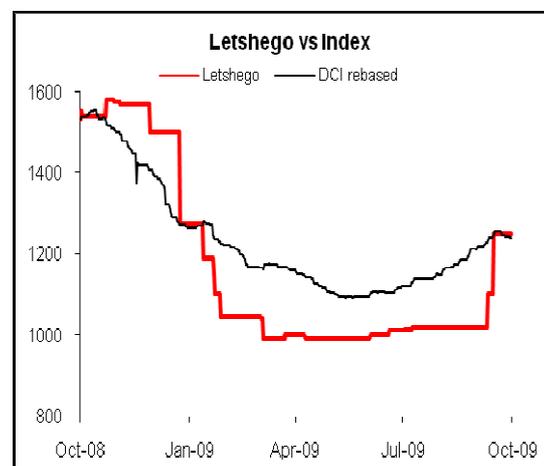
Date of last report	June 16, 2009
	P10.00 BUY
Last results	Interims – Oct 09
Expected results	Final - April 10

Analysts

Mothibi Mosimanegape	mothibi@sbb.bw
Kgomotso Beleme	kgomotso@sbb.bw

Sales

Kennedy Kgomanyane	kennedy@sbb.bw
Rosi Mmatli	rosi@sbb.bw





Outlook

The sale of Letshego Guard (Pty) Limited and Letshego Guard Insurance Company Limited to Botswana Insurance Holdings Limited in September 09 will provide synergy to the business, as management will focus on their core business of lending. It will also help boost profitability as the company will obtain better utilization of assets through higher profit margins in lending than insurance. The average yield on loans is 30% to 40%, second only to hire purchase (approximately 90%). Even though the legal insurance division was doing well it has lately complained of the high instances of family matters which affected profit margins.

The results for the half year ending July 09 reflect solid performance. Profit for the period has grown by 65% and coupled with the expected cash from sale of subsidiary we expect good earnings for year ending 2010 as follows:

Amounts in P 'million	YE '09	YE '10E	Change (%)
Interest Income (gross)	398	510	28%
Earnings	219	330	51%

Valuation

We derive a Free Cash flow valuation of **P17.16**.

Recommendation

STRONG BUY

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