Stockbrokers Botswana Ltd.

Micro Provident Botswana Limited (t/a Letshego)

Buy

P14.70 **USD 2.22**

Financial Services Sector

August 4, 2008

Final Results

Micro Provident Botswana Limited t/a Letshego has changed its year end to 31 January, and has effectively posted results for a 15 months period. On an annualised basis, interest income rose by 30.7% to P223m.

Total operating costs went up by 52.2% to P64.5m, while other operating income more than doubled to close at P56.4m. As a result, the cost-to-income ratio rose by 3 percentage points to 26.0%. EPS went up 26.7% to 90 thebe.

The Botswana operation contributed about 92.4% to profit before tax. The group continued to make progress in its African expansion. The subsidiaries in Uganda, Tanzania and Swaziland are now fully operational. Zambia commenced its operations in October and is still experiencing some start up losses.

The unsecured consumer lending market is increasingly becoming competitive. Commercial banks are now aggressive in the unsecured lending market, posing a challenge to Letshego.

The Government of Botswana, which is by far the largest employer in the country increased civil service salaries by 15.0% effective from 1 April 2008. The government also decided to pay scarce skills allowance to some of its employees. These measures are expected to increase the amount of disposable income and are expected to have a positive effect on Letshego.

However, high levels of inflation have now become a threat to disposable income. The Bank of Botswana has had to increase the bank rate twice in less than a month.

We derive a DDM valuation of P17.71, which represents a premium of 20.5% on the current trading price. We therefore maintain our BUY recommendation.

Trading & Liquidity

Mkt cap (Pm)	2,227
Mkt cap (US$m)	337
DCI Mkt weight	8.0%
Shares in issue (m)	151.5
Free float	100%
Annual Liquidity	6.6%
12 month high	1700
12 month low	1400

Codes

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

Results

Date of last report	April 13, 2007
	P10.55 BUY
Last results	Finals - Jan 08
Expected results	Interims - Aug 08

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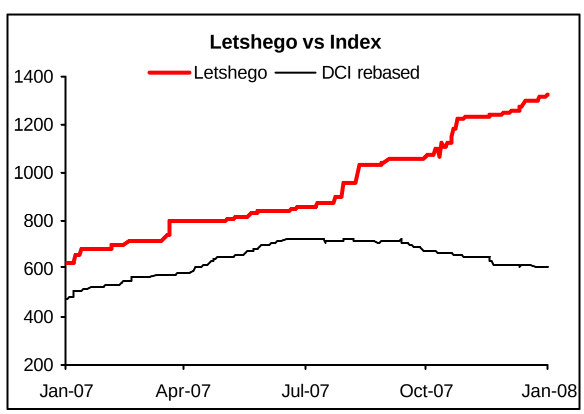
Key Financials

Year ended October (P)	2006	2007(ann)	2008F
Net interest income (m)	158	195	226
Growth	23%	24%	16%
Earnings per share	0.71	0.90	1.04
P/E Ratio (x)	20.7	16.3	14.1
Earnings growth	12%	27%	17%
Dividend per share	0.18	0.28	0.35
Dividend yield	1.0%	1.6%	2.0%
Net Asset Value	2.15	3.04	4.05
P / NAV (x)	6.8	4.8	3.6
Return on avg Equity	38%	35%	29%
Return on avg Assets	29%	22%	18%
Cost / income ratio	23%	26%	27%
Total Gearing	23%	66%	50%
Impairments & write offs as a % of advances	1.6%	1.7%	1.7%
Growth in advances	19%	106%	20%



Income statement

Interest income grew by 30.7% to P223m

Letshego has changed its financial year end to 31 January. The reported results are, therefore, for a 15 months period. On an annualised basis, interest income grew by 30.7% to P223m, driven by the growth in the loan book. Finance costs registered a growth of 117.3% to P 27.6m on the back of an increase in borrowings to meet the growth of the loan book, among others. Net interest income was up 23.7% to P195m.

Fee and commission income growth was impressive

The fee and commission income repeated the impressive growth that was achieved in 2006, up 128% on an annualised basis to P51.8m. Other operating income, which is largely made up of profit share from the legal expense insurance agency, only registered a growth of 5.2% to P4.5m.

Staff costs increased by 67.6% to P35.2m driven by, among others, an increase in the head count to meet the company's growth demands. Other operating expenses grew by about 37.3% to P29.7m. This was on the back of the investment in the branch network and the regional expansion.

Cost-to-income ratio up 3 percentage points

As a result of the escalation in costs, the cost-to-income ratio rose by 3 percentage points to 26.0%. The impairment charge also registered a significant rise, which is however in line with the considerable growth in the group's loan book.

Bottom line growth of 26.7% was achieved

The group achieved a bottom line growth of 26.7% to P135m, delivering an EPS of 80.8 thebe and a PER of 17.9x. The group declared and paid a total dividend of 28 thebe per share, reflecting a net dividend yield of 1.6% (FY06: 1.1%).

Balance Sheet

The balance sheet grew by 82%

The balance sheet recorded a growth of 82% to P811m. This was driven by the considerable growth in the loan book, a significant amount of which is attributable to the Botswana operation. During the year, the group secured two loan facilities with the International Finance Corporation (IFC) for USD20m and the Netherlands Finance Development for USD 7.5m.

Gearing up 40 percentage points

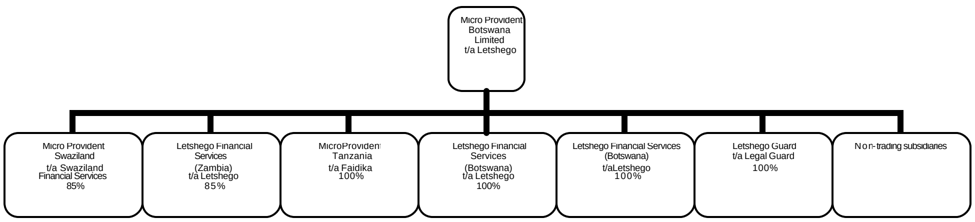
As a result of the increase in borrowings during the period under review, the gearing ratio went up by more than 40 percentage points to 66.5%. The loan book increased by P162.5m between 31 October 2006 and 31 January 2008. Micro Provident Botswana constituted about 77.0% of the loan book, followed by Swaziland at 12.7%. Going forward, we believe that Botswana's contribution to the loan book will decline as other operations' contribution increase.

Country	**Loan book (Pm)**	**% of total**
Botswana	606.4	77.0%
Swaziland	100.5	12.8%
Tanzania	57.6	7.3%
Uganda	20.3	2.6%
Zambia	3.1	0.4%

Source: Company reports

Group Overview

Letshego is in the business of unsecured consumer lending to formally employed individuals. The company is listed in the Botswana Stock Exchange, IFSC accredited and has operations in Botswana Swaziland, Tanzania, Uganda and Zambia.



Botswana

The Botswana operation continued to contribute significantly to both revenue and profit. The loan book was in excess of P600m. Competition in the unsecured lending market has now become a major challenge, with commercial banks now entering the market more aggressively. However, with the quick turnaround time and other service delivery initiatives it may be able to overcome the challenge.

Botswana continues to be the main contributor to revenue and profitability

Letshego Guard continues to grow and contribute to overall profitability. The number of policy holders increased by 8,000 between 31 October 2006 and 31 January 2008. During the period under review, Letshego Guard extended cover to include pre-existing matters.

Tanzania

Micro Provident Tanzania (MPT) Limited made a profit before tax of P1.5m for the 15 months ended 31 January 2008 compared to a loss of P1.1m for the 12 months ended 31 October 2006. The loan book increased to P57.6m during the period (2006: P0.9m). This is a significant achievement given the nature of the market and high cost structures in Tanzania.

MPT recorded a profit before tax of P1.5m

Uganda

Micro Provident Uganda (MPU) Limited recorded a loss of P230K, an improvement from the start-up loss of P1.7m recorded for the 12 months ended 31 October 2006. Operations are currently profitable on a monthly basis since November 2007. It is expected that the operation will start contributing to overall group profitability in the next financial year.

Uganda recorded a loss of P230K

Swaziland

Micro Provident Swaziland (MPS) Limited loan book stood at P100.5m at the end of the 15 months period. This represented an increase of more than 100% on prior year. About 94% of the loan book is made up of 36 month loans and because the market is maturing, product offering diversification is crucial in the growth of the loan book. New longer term and executive products have been introduced. The operation contributed about P17m to pre-tax profit for the 15 months period, which is quite significant compared to P532K for the 12 months ended 31 October 2006.

MPS loan book more than doubled

Zambia

Letshego Financial Services commenced operations in October 2007. The loss recorded for the period was P2.6m, with the loan book at P3.1m at the end of the financial year. We expect an improvement in the short to medium term.

Letshego Financial Services (Zambia) started operating in October 2007

Prospects - Botswana

Letshego in Botswana continues to perform to expectations and is consolidating itself as a market leader. Competition is very aggressive in the consumer lending market but Letshego remains focused in marketing its products and services. As a way of broadening their reach, Letshego has come up with new sales initiatives, namely direct sales agents and telesales facilities. Management is impressed with the performance of the new initiatives thus far.

Letshego continues to perform to expectations, despite challenges

Letshego has also taken steps to enter into agreements with the mining sector to offer Letshego loan products. The company is also investigating options to expand product offering to include all formally employed individuals.

Prospects – African Operations

Swaziland loan book up more than 100%

The Swaziland loan operation continues to perform beyond expectations, with the loan book up more than 100%. There is significant potential for growth in Tanzania and Uganda. Management and sales teams have been put in place to tap the growth potential and we expect increased levels of contribution to the group's revenue and profitability from these operations. The Zambian operation is still in its early days and experiencing start-up losses. We believe that this operation will improve and start to contribute to profitability in the medium term. The group is also actively pursuing further expansion opportunities in other African territories.

The group currently has the necessary financial facilities to fund the operations. Further funding options are however being evaluated in a bid to make sure that existing and new subsidiaries have adequate resources to meet the expected growth. The company has announced that from July onwards, shareholders will be given the option to receive shares in lieu of dividends.

Outlook

Civil service salary increment to boost disposable income

The government of Botswana recently increased civil service salaries by 15% across the board, and also decided to start paying scarce skills allowances of up to 40% to some of its employees. We expect that this will boost the level of disposable income in the economy and may lead to an increase in the demand for loan products and as a result drive the loan book.

Inflation remains a challenge in the short term

Inflation is however a major challenge in the short term. Driven by rising food and oil prices in international markets, inflation has been on upward trend since the last quarter of 2007. This poses a challenge to disposable income and may consequently negate gains that would have otherwise been achieved.

In response to the high levels of inflation, the Central Bank effected two rate hikes to curb consumer spending. The prime lending rate has consequently gone up 1 percentage point to 17.0%. This also has the potential to suppress the rate at which the loan book may grow.

The Board of Directors of the company have recently announced to shareholders that the interim financial results of the company are expected to be materially higher than the prior period. This has been attributed to the continued strong growth and performance across all existing businesses

Valuation and Recommendation

We derive a DDM valuation of P17.71 and maintain our BUY recommendation

The counter is currently trading on PER of 16.3x, with a net dividend yield of 1.5%. We derive a DDM valuation of P17.71, which represents a premium of 20.5% on the current trading price. We strongly believe that there is upside potential in the share price and maintain our BUY recommendation.

Letshego 8 July 2008

Financial Services Sector

Final Results

Stockbrokers Botswana Ltd.

Financials

Year to October (Pm)	2006	2007 (annualsed)	% ch	2008F	% ch
Income Statement					
Interest income	170.4	222.7	*30.7%*	267.2	*20%*
Financing costs	(12.7)	(27.6)	*117.3%*	(41.4)	*50%*
Net interest income	**157.7**	**195.1**	***23.7%***	**225.8**	***16%***
Other operating income	27.0	56.4	*108.5%*	73.1	*30%*
Total operating costs	(42.7)	(65.0)	*52.2%*	(77.6)	*19%*
EBIT before provisions	**142.0**	**186.5**	***31.3%***	**221.2**	***19%***
Provisions	(3.3)	(12.5)	*284.2%*	(16.2)	*29%*
Pre-tax profit	**138.7**	**174.0**	***25.4%***	**205.0**	***18%***
Taxation	(32.1)	(38.8)	*20.9%*	(45.7)	*18%*
Profit after tax	**106.7**	**135.2**	***26.7%***	**159.3**	***18%***
Balance Sheet					
Shareholder's Funds	322.3	461.3	*43.1%*	622.9	*35%*
Interest Bearing Debt	73.0	306.7	*320.3%*	306.7	*0%*
Current Liabilities	21.0	43.9	*109.6%*	40.5	*-8%*
Total Funds Employed	**416.3**	**811.9**	***95.1%***	**970.0**	*19%*
Net Advances	382.2	787.9	*106.1%*	945.5	*20%*
Other Assets	5.7	23.0	*304.2%*	23.5	*2%*
Total Assets Employed	**416.3**	**811.9**	**95.1%**	**970.0**	*19%*
Free Cash Flow					
Taxed EBIT after non cash adjust	106.7	135.2	*26.7%*	159.3	*18%*
Change in WC & funding	19.3	(69.2)	*-458.1%*	(50.1)	*-28%*
Free Cash Flow	**127.0**	**66.3**	***-47.8%***	**109.2**	***65%***
Key Ratios					
Earnings per share (t)	71.1	90.1		105.1	
Dividend per share (t)	18.1	28.3		35.0	
NAV per share (t)	214.9	304.4		411.0	
Earnings growth	11.9%	26.7%		17.9%	
Gross finance margin	92.5%	87.6%		84.5%	
Earnings margin	57.8%	53.8%		53.3%	
Net Gearing	22.6%	66.5%		49.2%	
Return on ave assets	28.7%	22.0%		17.9%	
Return on ave equity	37.8%	34.5%		29.4%	
ROCE	28.3%	18.4%		17.7%	
Cost / income ratio	23.1%	25.8%		26.0%	
Provisions & write-offs as a % of advances	1.6%	1.7%		1.7%	
Growth in advances	19.2%	106.3%		20.0%	