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LETSHEGO HOLDINGS ANALYSIS OF FINANCIAL RESULTS FOR THE YEAR ENDED 31 JANUARY 2011

OVERVIEW OF FINANCIAL RESULTS

Letshego Holdings released another good set of financial results in line with our expectations. Interest income came in 23% higher at P722mn (FY10: P589mn) tracking notable improvement in the group's overall loan book. Fees and commission income however, came down by 7% to P110mn (FY10: P118mn), while profit after tax firmed by 25% to P473.3mn (FY10: P380.0mn). Cost were well maintained with the cost to income ratio falling to 19% from 21% (FY:10) The group's loan book expanded by 37% to reach P2.3bn following increases in advances across the group's operations. Botswana operations remains the most significant market for the group, contributing 67% of the total loan book and 66% of the groups profit before tax. The overall performance of other regional operations were excellent with the exception of Zambia.

Good results in line with expectations

Botswana operations the most profitable

We maintain our **BUY** recommendation on **Letshego**, based on a target price of P2.33 which is 30.2% above the current market price of P1.79 (17 May 2011). Our new target price is lower than our previous target price of P3.11 due to the prevailing lower interest rate environment, the emergence of aggressive competition in the industry and lower growth assumptions in the group's key markets such as Botswana as they mature. We maintain that the underlying fundamentals for Letshego remains strong as shown by a 34% growth in non Botswana profit before tax, low gearing and low cost to income.

Target price of P2.33

OVERVIEW OF OPERATIONS

Botswana

Botswana operations continue to contribute significantly to the group's overall performance, contributing around 67% of the group's overall loan book and around 66% of the group's profit before tax (PBT). Total net income grew modestly by 34% to P424mn (FY10: P316mn). Impairments of advances dropped by 6% to P23mn (FY10: P25mn) as the group improved its loan book.

Net income up 34%

Namibia

Namibia operations performed well with net income from lending jumping by 78% to P102mn (FY10: P57mn) mainly due to significant growth in the country's loan book, which soared by 108% to P339mn (FY09: P163mn). Impairments of advances fell to P2mn as compared to P8mn registered in the same period last year.

Good performance from Namibia operations

Swaziland

Swaziland operations were below expectations with profit before tax (PBT) declining slightly by 10% to P43mn (FY09: P48mn) on the back of a decline in net income from lending and increase in other operating expenses due to rebranding and relicensing of operations in the country. Net advances however, grew by 16% to P171mn as compared to P147mn registered in 2010, representing a 7% contribution to the group's overall loan book.

Swaziland operations below expectations

Uganda

Micro provident Uganda performed well with the loan book growing by 56% to P99mn (FY10: P64mn), contributing 4.2% towards the groups aggregate loan book. Profit before tax (PBT) quickened to P16mn as compared to just P1mn recorded in the prior financial year.

Uganda operations contributing 4.2% of the groups loan book

Zambia

Zambia's performance was below expectations as net advances weakened significantly by 72% to P12mn (FY10: P37mn). Against this background, Zambia contribution towards the overall loan book fell to 0.5% from 1.6% the prior year.

Zambia performance below expectations

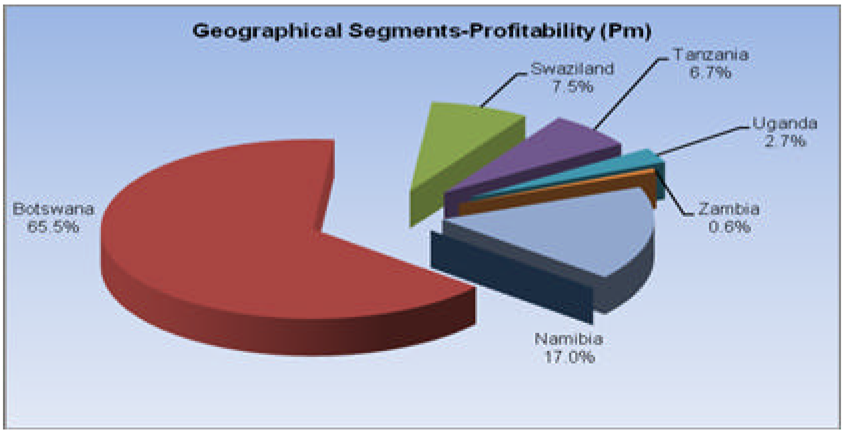
Mozambique

Mozambique operations did not trade during the financial year but only resumed operations on 11 February 2011. As a result, a loss of P1.5mn was incurred during the period.

Tanzania

Tanzania operations were relatively flat during the financial period under review with profit before tax (PBT) increasing marginally by 0.6%

to P37.9mn as compared to P37.7mn recorded in 2010. The loan book was also relatively unchanged growing slightly by 5% to P148mn (FY10: P141mn).



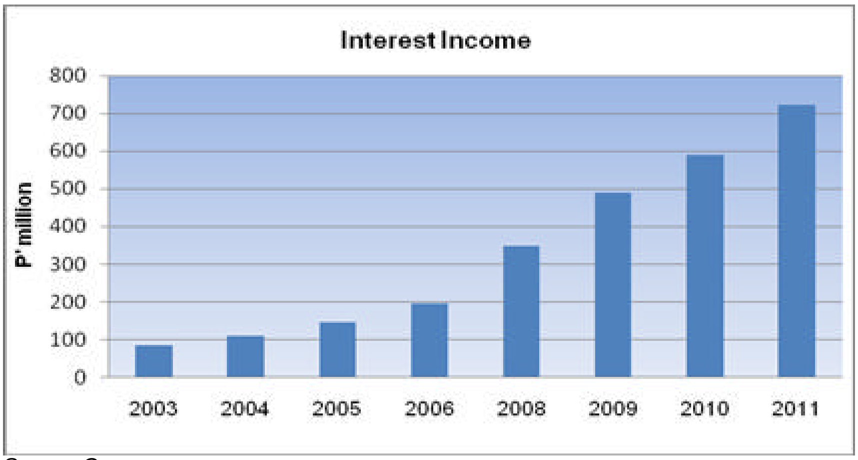
Source: Company

GROUP INCOME STATEMENT

Interest income up on growth in loan book

Interest income was 23% higher at P722mn (FY10: P589mn) in line with the improvement in the group's overall loan book. Net interest income came in 26% higher at P679mn (FY10: P538mn). Insurance premium income contributed P30.1mn, while insurance fees came in at P2.4mn, resulting in net interest and insurance income of P707.3mn (FY10: P538mn). Fees and commission income came down slightly by 7% to P110mn (FY10: P118mn), while other operating income rose by 46% to P6.2mn (FY10: P4.3mn). Reflecting on these conditions, the group's operating income was up by 25% to P823mn (FY10: P661mn).

Fees and commission income down 7%



Source: Company

Expenses were kept under check, with employee benefits coming down by 9% to P73mn (FY10: P80mn), whilst other operating income firmed by 9% to P74mn (FY10: P68mn) and claim expenses came in at P8.1mn. As a result cost to income ratio dropped from 22% in the previous financial year to 19% during the period under review on the back of increase in total revenue and a decline in employee benefits. Net income before impairments and taxation went up by 30% to P666mn (FY10: P513mn). Impairments continued on a downward trend, dropping by 22% to P39mn as compared to P50mn registered in the same period last year due to the group's effective central registry loan payment system.

Expenses kept under check

Cost to income down to 19% from 22%

Source: Company

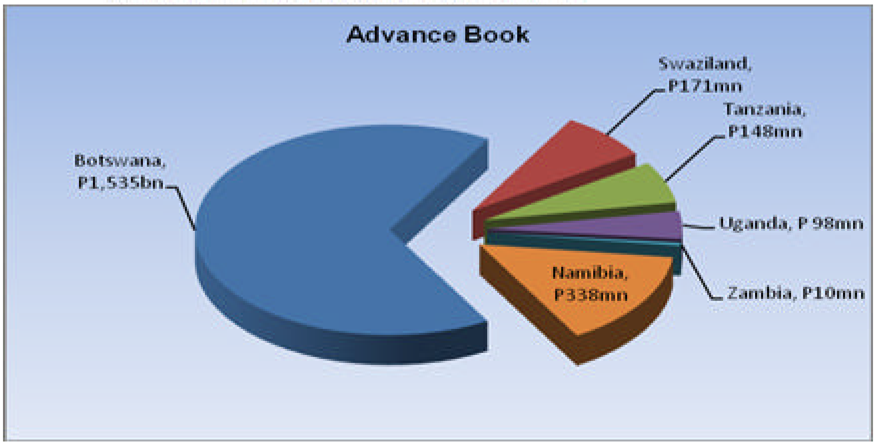
Profit before tax (PBT) went up by 35% to P627mn (FY10: P463mn), whilst profit after tax (PAT) persisted with the upward trend since 2003 as shown by the graph above, rising by 25% to P473mn (FY10: P380mn) after accounting for P153mn income tax expense (FY10: P125mn).

PAT up by 35%

GROUP BALANCE SHEET

Total assets rose notably by 27% to P2.4bn (FY10: 1.9bn) due to significant growth in advances to customers which grew by 37% to P2.3bn (FY10: P1.7bn). The rise in the loan book was mainly due to significant growth in advances in Namibia, Botswana, Uganda and Swaziland.

Loan book grew by 37% to P2.3bn

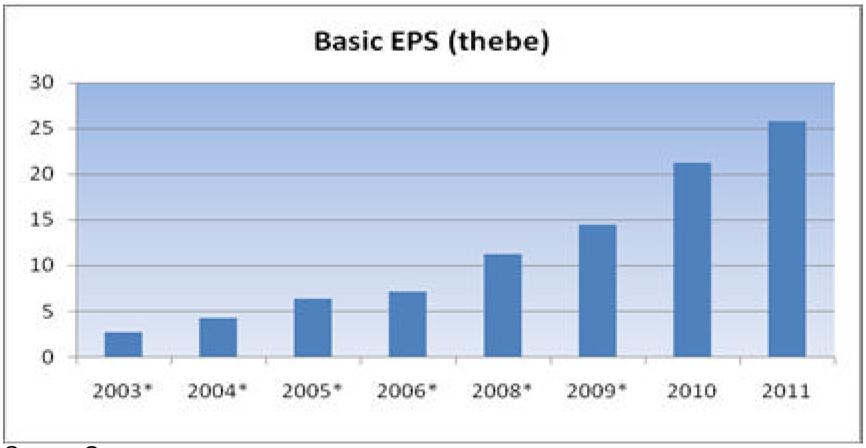


Source: Company

As alluded to before, Botswana still remain the group's largest market, contributing around 66% to the group's overall profitability. Botswana also contributed 67% to the group's total loan book followed by Namibia and Swaziland at 15% and 7% respectively. Tanzania and Uganda contributed 6% and 4% apiece. Zambia contributed the smallest portion at 0.5%.

Debt equity ratio at 28.9%

On the liabilities side, total liabilities increased by 18% to P642mn (FY10: P546mn) due to an increase in borrowings which rose by 34% to P505mn (FY10: P378mn). The debt to equity ratio, however, increased marginally to 28.9% as compared to 28% recorded in the previous financial year.



Source: Company

Although the group's cash flow position dropped as compared to the previous year, it remained healthy with a positive balance of cash and cash equivalents of P52mn (FY10: P104mn) after provision for impairments, movements in working capital, taxation and dividends paid.

Healthy cash flow position

OUTLOOK

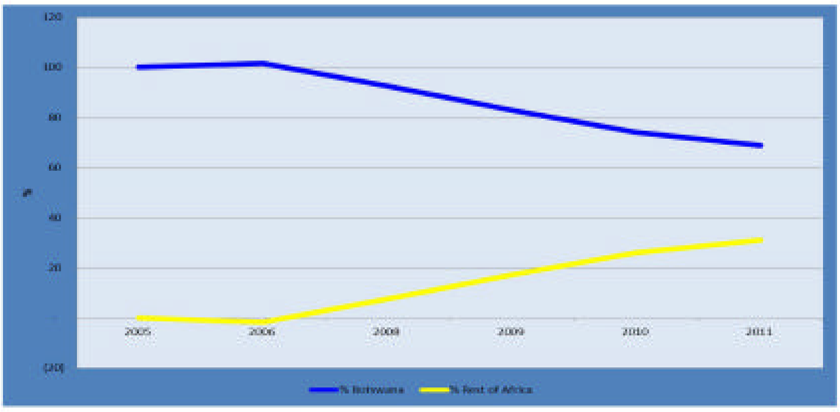
Once again Letshego released a good set of financial results with profit for the year coming in 25% higher at P473mn as compared to P380mn in the prior financial year. Management has indicated that they will continue to grow and expand throughout the African continent, with potential future expansion into East Africa in countries such as Ghana and Nigeria. Management have also indicated that they will continue to focus on growing the business in countries they already operate in so as to expand the market share. With around 67% contribution to the group's total loan book and around 66% to the group's overall profitability, Botswana remains the group's most significant market. It is our view that Botswana's market is reaching maturity and we expect the growth to slow down in the coming years. In addition competition is intensifying with the entrance of new players such as *Bayport Financial Services* and commercial banks becoming more aggressive in retail lending. In addition, there is a risk of increased bureaucracy from the recently set up non-bank regulator. The positive side is non Botswana operations which are growing and have contributed around 34% to the group's profit before tax (PBT). Going forward, it is our view that the future success of Letshego lies in growing non Botswana operations to diversify regional earnings.

Potential future expansion into East Africa

Botswana contribution to slow as the market matures

Non Botswana operations performing well

Geographical Diversification of Profit Before Tax



Source: Company

Measures to reduce impairments

To ensure quality loan book, management noted that they will continue to establish effective credit control measures to limit impairments charges. To date, Letshego has been successful with the central registry system in the countries in which it is available and the collection rate has been averaging 99% per month. Furthermore management have indicated that they will invest in building strong relationship with necessary stakeholders such as employers, unions and registries.

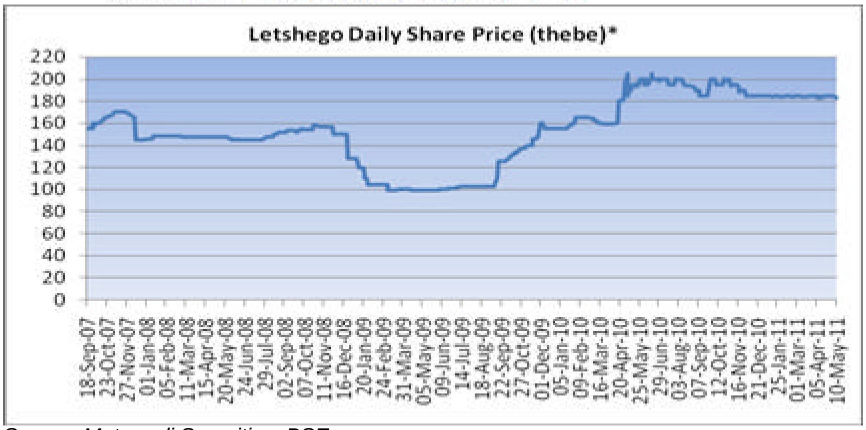
Challenges in securing favourable lines of credit

Additionally management cited the need to look into utilising the existing staff complement, branch network and technology platform to drive efficiencies and new opportunities as well as introducing comprehensive credit insurance in all respective countries. Being non deposit taking, Letshego challenges lies in the ability to constantly ensure lines of funding at optimum costs to finance the growing assets base of the business. Management have however, indicated that lines of credit from commercial banks and development finance institutions are already in place. Management have also indicated that they are exploring the need to acquire a banking license in future for deposit base.

Need for as banking license being explored

TRADING & LIQUIDITY

At P1.79 (17 May), Letshego is down 3.2% on a YTD, while the Domestic Companies Index (DCI) is up 7.84% on a YTD.

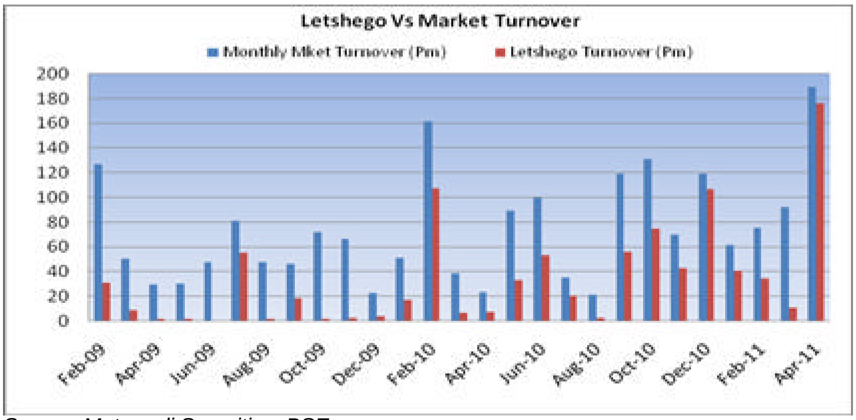


Source: Motswedi Securities, BSE

- *= After adjusting the 10:1 share split effected on the 19th of April 2010*

Letshego the most liquid stock on the BSE

In terms of liquidity, Letshego has been the most liquid stock on the local bourse reflecting investors huge appetite for the shares. For example, a monthly average of P45.9mn worth of shares have been traded on the stock for the 12 month period ending 31 January 2011 as compared to a market average of P81.0mn that was traded during the same period.



Source: Motswedi Securities, BSE

VALUATION

New target price of P2.33

We maintain our **BUY** recommendation on **Letshego**, based on a target price of P2.33 which is 30.2% above the current market price of P1.79 (17 May). Our new target price is lower than our previous target price of P3.11 due to the prevailing lower interest rate environment, the emergence of aggressive competition in the industry and lower growth assumptions in the group's key markets such as Botswana as they mature. In the short term, we expect Letshego share price to soften to levels between P1.70 & P1.73 due to market corrections following the non elective script dividend offer. Going forward, we expect the stock to pick up as the underlying fundamentals remains strong as shown by a 34% growth in non Botswana profit before tax, low gearing and low cost to income.

Strong underlying fundamentals

Trading & Liquidity	
Market Cap	BWP3.6 billion
Market Cap	US$514 million
Shares in Issue	1,970,323,240
Year End	January
Free Float	79%
Target Price	P2.33
12 month high	P2.05
12 month low	P1.80
Reuters Code	LETS.BG
Bloomberg Code	LETS.BG
ISIN No.	BW 000 000 0322
BSE Code	LETSHEGO
RECOMMENDATION: BUY	

Source: Motswedi Securities, BSE

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