Letshego Holdings Limited

Management Meeting Note

AFRICAN ALLIANCE

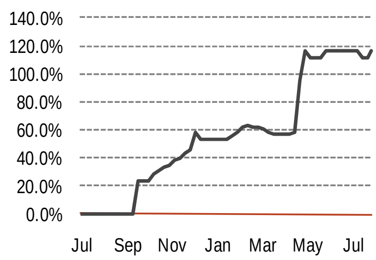
Equity research | Botswana | Banks and Financial Services

MANAGEMENT MEETING NOTE

09 JULY 2010

Current price	BWP	2.0
Market cap	BWPm	3,682.8
	USDm	541.01
Daily value traded	BWPm	1.21
(last 12 mths)	USDm	0.18

PRICE PERFORMANCE



We recently met with Colm Patterson, CFO of **Letshego Holdings (Letshego),** to get an update on trading for FY11 (Jan). Key takeaways from our meeting are:

- **Botswana loan and PBT growth to slow vis-à-vis FY09.** Botswana is on budget to grow loans 15-20% for FY11 (Jan). 1H11 loan growth is currently in line with 2H10 reported h/h loan growth of 11%. However, approximately 80% of loan growth is coming from loan top-ups rather than new business. For FY11, loan growth may still come in at the lower end of management's guidance as government employees have not received a salary increase in the 2010/11 fiscal year budget proposal and due to the potential cancellation of scarce skills allowances by government. Botswana's 1H11 PBT is likely to grow +/-25% y/y. No announcement has been made by either the Ministry of Finance or the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) regarding the proposed regulation of microlenders. NBFIRA made its submission in Dec-09.

- **Swaziland problematic.** Lending has not resumed in Swaziland following an interruption to business in FY10 as the Swazi government implemented a central registry. According to management, the loan book has declined a little further since FY10. No guidance is being provided with respect to earnings but we would expect a substantial decline in 1H11 PBT of up to 50%. Swaziland is currently being rebranded from "Swaziland Microprovident" to "Letshego Swaziland" and is now licensed as a non-deposit taking financial institution. Owing to this development, the operation will now be regulated under the Banking Act, the benefit of which is that it will not be subject to interest rate caps as is the case under the Microlenders Act.

- **Tanzania treading water, while Namibia still powering ahead.** Tanzania is still not fulfilling its potential owing to regulation introduced in 1H10 requiring employee supervisors to authorise loans. Unless this bottleneck is removed, loans are unlikely to grow more than 15% for FY11. To address the situation, Letshego is lobbying government to implement a central registry. On the other hand, Namibia continues to maintain its momentum with FY11 loan growth expected to be well above our estimated 35%.

- **Zambia returns remain low, while Uganda is improving.** After registering the highest impairments in the group in FY10 (14.9% of average loans), management indicates that conditions in Zambia have not improved in 1H11 and impairments are expected to be relatively at the same level as in FY10. Management projects PBT

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and loan book growth to be flat in FY11 due to a cautious approach in the market. New regulation in the market will restrict loan tenure to 12 months.

Payouts in Uganda have increased to between BWP 6m and BWP 7m per month, and management is targeting to achieve PBT of at least BWP 10m in FY11 (FY10: BWP 1.2m)

- **Mozambique could come on stream in 2H10, while Zimbabwe and Lesotho are being evaluated.** Barring any unforeseen circumstances (common in Africa), Mozambique is expected to commence operations during 2H11. Management is optimistic that this market offers excellent growth prospects as Letshego is the only microlender with a deduction code in Mozambique. However, delays encountered with regulators since announcement of entry into the market, could push commencement of operations into early FY12. Entry into Zimbabwe is being considered, but will only happen once the political situation stabilises and a local partner with a deduction code has been identified. Management is also evaluating prospects in the Lesotho market, although entry into the market is still distant.

- **Other developments.** So far, Letshego has drawn down USD 15m from its USD36m convertible note facility with private equity fund DPI. It has a further 18 months to drawdown the balance. On how the existing capital and any new lines of credit will be deployed, management indicate that the maturity mismatch on existing short-term funding lines and an increasing loan book tenor is being addressed – which suggests a pay down of some existing short-term debt. Further, management continues to reiterate that Letshego's strategy is to evolve into a broader financial services institution, which we suspect could involve the acquisition or establishment of deposit-taking institutions outside of Botswana. The recent approval for the Swaziland operation to be registered with the Central Bank of Swaziland also only fuels speculation that the group might be planning to broaden its scope by taking on deposits in the near term.

- **Going forward.** Management projects the group to grow the loan book between15% to 20% in FY11, with PBT growth projected to be well below the 75% registered in the previous year. Impairments are expected to stabilise at around 3% of average loans, owing mainly to a cautious approach to lending and more focus on collections. We forecast core EPS to grow by 14.1% and 23.4% in FY11 and FY12 respectively, with FY11 EPS growth largely impacted by share dilution from the convertible notes (strike of BWP 1.60) and maintain our **HOLD** recommendation.

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