EFE Research – Barclays Bank Of Zimbabwe Limited Interim Results 2014 Review

Highlights:

- Interest Income up 7%
- Non-Interest Income up 6%
- Total Income up 9%
- Operating Income up +139%
- PBT up 127%
- PAT up 106%
- Advances increase 14%
- Deposits grow 3.6%

August 20, 2014

research@efesecurities.co.zw

STOCK STATISTICS			
Price:			4.50
52 Wk High:			4.50c
52 Wk Low:			5.00c
20 Day VWAP:			3.20c
P/E:			4.34
D/Y:			65.73
PBV:			2.81
EV/EBITDA:			76.70
Issued Shares:			2,153.14
Market Cap:			$96,891,308

Financials	FY.2013	HY.2014	2014 F
	$m	$m	$m
Net interest income	12.32	6.84	14.64
Non funded income	27.19	14.44	28.78
Impairment losses	(0.71)	(0.39)	(0.47)
Operating expenses	(33.89)	(18.40)	(37.85)
PBT	5.18	2.59	5.40
PAT	2.95	1.74	3.78

Statements of Financial position	FY.2013	HY.2014	2014 F
Customer Assets	130.53	106.67	106.74
Joint Venture Investment	15.28	15.39	15.57
Investment Property	5.69	5.69	5.71
Cash & Bank balances	130.53	106.67	106.74
Non Interest bearing Assets	0.13	0.08	0.13
Total Assets	**307.37**	**297.72**	**322.05**
Customer Liabilities	247.98	238.38	256.92
Other Liabilities	8.53	6.46	8.29
Equity	44.34	45.92	49.98

RATIOS	FY.2013	HY.2014	2014 F
Basic EPS (us cents)	0.14	0.08	0.18
Cost to income ratio	87.36	88.12	88.12
Loans to Deposit Ratio	0.47	0.47	0.51
ROA	0.960	0.584	1.173
ROE	6.66	3.78	7.56
Change In Deposits	7.78	(3.87)	7.78
Change In Advances	18.32	(3.75)	18.32
Change In PBT	354.48	(50.10)	108.60

Results for the half year to June 2014

Barclays' financial performance for the interim period yet again exhibited the bank's notional belief deeply enshrined in its safe banking model at a juncture where spiking non-performing loans in the Zimbabwean financial sector has been become of great concern. Net interest income grew by 19% to $6.84m on the comparable period against a 7% increase in Interest income. Total income came in at $20.8m while profit from operations soared 139% on firming margins of 12%. PBT and PAT resultantly came in at $2.58m and $1.74m respectively which is 127% and 106% up on last year. EPS grew by 100% to 0.08c from 0.04c in the 2013 interim period. The balance sheet grew by 2.8% to $297m

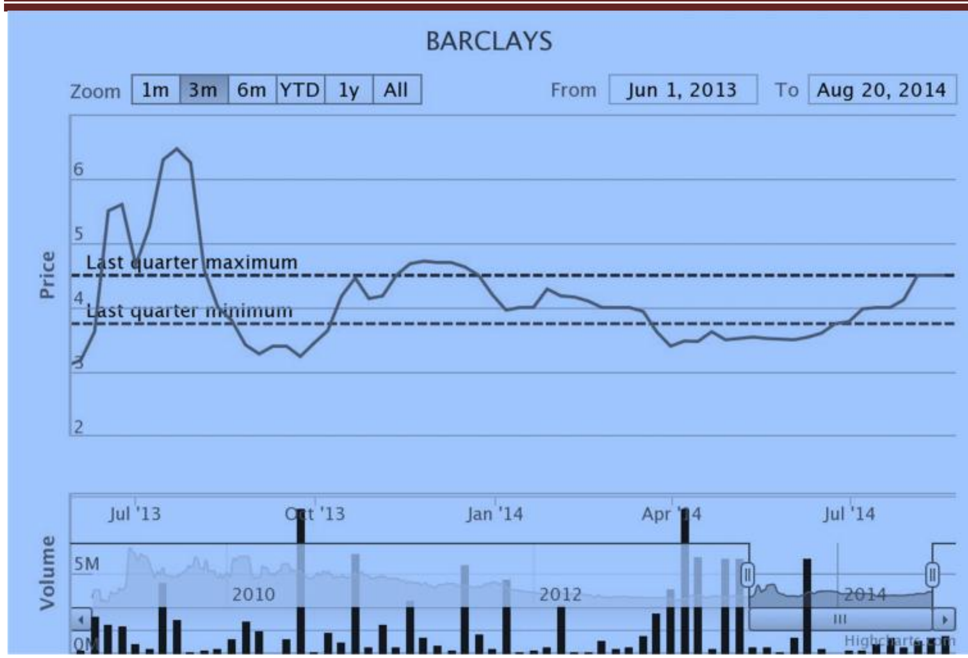
Operations review

Non funded income as per tradition continued to account for the larger share of the total income and contributed 77% of the $20.8 in total income achieved in the half year. On the other hand a marginal growth in interest income was in line with the safe banking model pursued by the bank which leverages on stringent lending complimented by a backdrop in interest yield. The group also managed to achieve a lower interest expense culminating from cheaper financing sources to deliver a higher net interest income position. Operating expenses were kept in check rising a marginal 2% on the back of cost efficiency measures pursued by the bank.

The loan book grew 14% year on year while deposits went up 3.5% to $238.7m. The bank achieved a stable LDR of 47% while impairing 2% in loans and attained a loan loss ratio of 0.7%. Capital adequacy stood at 17% which is a fair margin above the 12% required by the reserve bank. The bank also submitted a proposal in respect of the minimum capital threshold of $100m capitalization by 2020. The liquidity ratio closed the period at 54%. Going forward the bank aims to make banking become more convenient through further enhancements of e-commerce channels and sustenance of loans' growth while at the same time containing costs.

Comment

Generally the financial sector has been grossly infested by non-performing loans on the back of a debilitating macroeconomic situation. Tight liquidity has been a status quo which had a simultaneous negative impact on interest rates despite concerted measures to wield the yield curve lower. Credit risk therefore poses the greatest threat to the sector amid deposits of transitory nature. In the first quarter to March 2014 banking sector NPLs grew to 17% from 15% as at December 2013. Barclays bank has however drifted against the stormy financial



SOURCE EFE SECURITIES

Analysts	Contacts
Respect Gwenzi	**respectg@efesecurities.co.zw**
Phenias Mandaza	**pheniasm@efesecurities.co.zw**

waters leveraging on a conservative lending principle. At an attained NPLs ratio of 2% the bank exhibits unparalleled prudential risk practices as it focusses on maintaining a quality loan book.

A stable earnings growth by the bank will hinge on its ability to offer convenience to customers through innovative initiations and continuous e-commerce rejiggering. Earnings will also invariably be driven by the banks courage to grow its loan book while striking a balance with risk aversion. This will ensure avoidance of the paradox of the thrift and help sweat the bank's generous assets for a return. With the reserve bank having set new capital requirements the bank comfortably registered a 17% capital adequacy ratio to maintain a safe margin of 5% from the required rate. The bank achieved a liquidity ratio of 54% which sets its operational viability as sound while providing a cushion against possible runs and related risks. We believe the outright strength of Barclays remains its safe banking model and the synergies accrued from relations with parent bank which provides both a stabilizing effect as well as a platform for future growth.

Valuation

In valuing Barclays we assumed the bank will replicate its half year performance as we envisage no major boost in cash injection into the economy. Based on this full year revenues will come in at $42.95m which is a growth of 19% on the prior year. Impairments losses will remain stable at 0.47 while PBT and PAT will come in at $5.4m and $3.78m respectively to achieve An EPS of 0.18c. At this profit level a PER+1 of 25x will suffice which stands out way above peer average for the banking stocks. However Barclays has perennially traded at a premium to its local peers owing to its brand equity accruing from its international status coupled with the generally high quality earnings which have maintained a steadily growing momentum since dollarisation. Our view on the group is that they are a worthy investment with good potential returns in the medium term and even better potential should there be a significant turnaround in the underlying economy**. BUY**.

This document has been prepared by EFE Securities (Private) Limited (EFE), for the information of its clients. Although the statements of fact in this report have been obtained from sources that the company believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions and estimates included in this report constitute the company's judgment as of the date of this report and are subject to change without notice. The securities discussed and mentioned in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors they believe necessary. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. EFE and any of the individuals preparing this report may at any time have a long and/ or short position in any securities of companies in this report. In addition EFE may from time to time perform investment banking or other services for, or solicit investment banking or other business from any entity mentioned in this report. EFE may at times buy and sell shares on an agency or principal basis to its clients. Shares may rise or fall and investors may end up with a reduced amount from their initial capital invested. Additional information on EFE's recommended securities is available on request.