



EFE Research – CBZH Interim Results 2013 Review **LTBUY**

Thursday, August 29, 2013

CBZ Holdings Limited

Price	14.00
52 Wk High	16.50
52 Wk Low	-
20 Day VWAP	14.94
P/E	2.13
D/Y	0.02
PBV	0.60
EV/EBITDA	14.74
Issued Shares (m)	684.14
Market Cap (m)	95.78

	FY2012	HY2013	2013F
	\$000	\$000	\$000
Net Interest Income	95,338	43,925	91,748
Non Interest Income	44,073	21,349	46,255
Underwriting income	4,723	3,916	8,239
Total income	144,134	69,189	146,241
Operating expenditure	(83,300)	(42,094)	(88,972)
Operating income	60,835	27,095	57,270
Charge for impairment	(4,632)	(6,629)	(14,012)
Transfer to life fund	(647)	(164)	(347)
PBT	55,556	20,302	42,910
Tax	(10,531)	(4,339)	(8,134)
PAT	45,025	15,963	34,777
TOTAL ASSETS	1,223,093	1,350,181	1,350,181
TOTAL LIABILITIES	1,062,416	1,174,252	1,174,252
EQUITY	160,191	175,284	175,284
Deposit	1,032,352	1,155,829	1,155,829
Loans & Advances	854,690	917,353	917,353
EPS	7.19	2.85	6.20
Non Int Inc/ Total Inc	33.90	36.50	31.63
Cost/Income %	57.80	60.80	60.84
Annualised ROA	4.50	2.96	2.84
Annualised ROE	32.20	16.60	21.71
Deposit Growth	24.40	11.96	11.96
Advances Growth	8.10	7.30	7.33
PBT Change	45.40	(11.70)	(22.76)
PAT Change	48.40	(12.90)	(22.76)
P/E Ratio			
EFE Target Price			18.15
Rating			BUY

Source: EFE Securities

Company	PER	Source
ABC	6.90	ZSE
CBZH	1.77	ZSE
FBCH	3.97	ZSE
NMB	2.96	ZSE
ZBFH	2.25	ZSE
Average	3.57	

FINANCIAL REVIEW

In the period under review CBZ achieved interest income of \$78.8m which is 17% ahead of the comparable period last year. Net interest income growth was relatively constrained at 6% due to a higher expense growth. Total income for the six months was 6% up on last year at \$69m while operating income marginally firmed 1% to \$27m. Profit before tax shrunk 12% on the prior period to \$20.3m due to an increased impairment provision of \$6.6m a sharp 115% upsurge. After tax profit thus contracted 13% on previous comparable period at \$16m. At the reporting date total assets stood at \$1.35b while total equity and reserves were valued at \$175.9m. Cash & cash equivalents closed at \$0.22m

OPERATING ENVIRONMENT

Total deposits grew by 12% to \$1.16bn while advances added 7.3% to \$917m. The group achieved a loan to deposit ratio of 80% while they operated at a cost to income ratio of 60.8%. Noninterest income to total income was at 36.5%. Annualized return on assets of 2.96% whereas return on equity was much lower than comparable period of 23.6% at 16.6% due to the reduced profitability. The 13% drop in after tax profits was a result of reduced fee income after signing of the MoU with the Central Bank to that reduced charges for account holders. Going forward the group plans to double its lines of credit to \$400m so as to meet its annual performance targets. In the period under review CBZH has also sunk \$39m in building an office complex near Sam Levy's Village mainly for clients' convenience. All units of the group are currently adequately capitalized with combined capital at \$175.9m.

The operating environment has gone under a lot of transitions in the immediate past with regards to regulation and competition notwithstanding the liquidity challenges and the prospects imposed by technological advancements with regards to mobile banking. The signing earlier in the year of a MoU with the reserve bank defined a new era of contracted non-interest income notwithstanding the potential of harnessing increased deposits as induced by reduced banking transaction costs and increased discount rates. Also the opening up of the mobile banking platform lately is bound to increase fluidity in



Source: EFE Securities Database.

transacting and the amount of transactions processed and the expanse of their depositor base is rightly positioned to exploit this opportunity.

Valuation and Recommendation

In forecasting the future performance of CBZ we assumed the group's H1 performance would carry through to H1 taking cognizance of the H2 over H1 growth factor to come up with a to come up with net interest income, non interest income and Underwriting income of \$91.7m, \$46.3m, and \$8.2m. These should translate into Total income of 146.2m to which we applied a cost to income ratio of 61% attained in H1 to see a forecast operating income of \$57.3. From these we forecast that CBZ should be able to post PBT and PAT of \$42.9m and \$34.8m respectively.

This forecast indicates a depressed performance for the group relative to prior year however the group's price performance has consistently suffered an unfavorable market perception due to the humongous size of their loan book coupled with the increased market wide talk of non-performing loans. It is however our opinion that on a peer to peer comparison of the listed local banks that discount has been quite heavy on the group resulting in them reflecting the lowest price earnings multiple of 1.77x. The rally witnessed on the market in the early part of the year had seemingly excluded the banks however we believe that the next rally for the market will come from this sector once issues surrounding recapitalizations, market liquidity and non performing loans are corrected. To this end it is our belief that the investment into the group's shares should be for the longer horizon allowing for the above highlighted issues to correct even though we see potentially good upside returns. LTBUY.

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