



EFE Research - CBZ Holdings Interim Results 2014 Review

Highlights:

- Interest Income down 6.65%
- Non-Interest Income up 16.16%
- Total Income up 0.55%
- Operating Income down -14.45%
- PBT down -26.52%
- PAT down -19.6%
- Advances increase 1.5%
- Deposits grow 9.4%

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STOCK STATISTICS

Price:	12.00
52 Wk High:	16.50
52 Wk Low:	12.00
20 Day VWAP:	12.05
P/E:	1.83
D/Y:	0.03
PBV:	0.51
EV/EBITDA:	14.53
Issued Shares Mn	684,810.59
Market Cap \$000	82,177.27

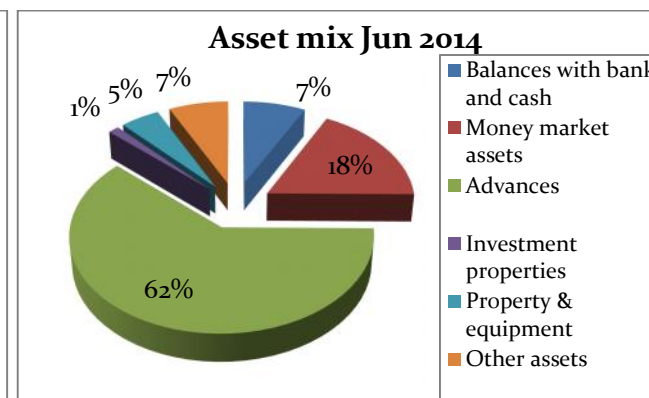
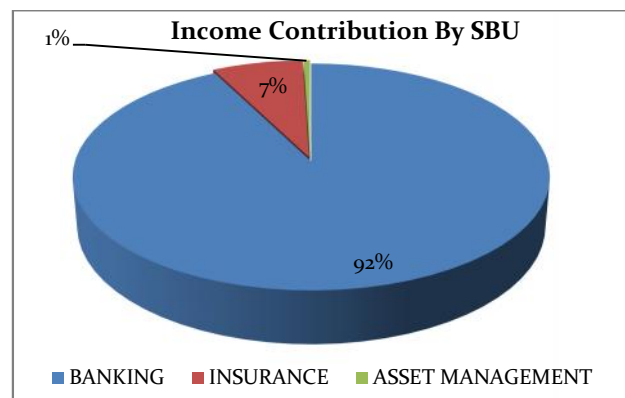
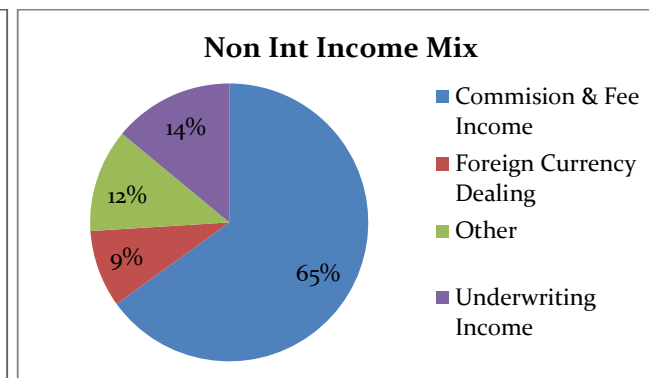
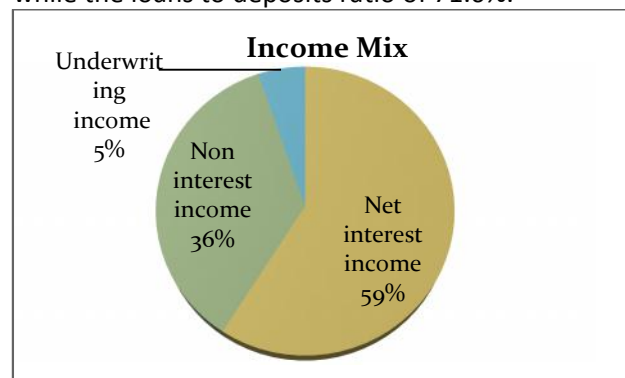
Financials	FY.2012	FY.2013	HY.2014	2014 F
	\$m	\$m	\$m	\$m
Net interest income	95.34	95.27	41.01	104.58
Non funded income	44.07	48.11	24.80	50.36
Other income	4.72	7.17	3.76	7.64
Impairment losses	(4.63)	(19.45)	(7.58)	(22.23)
Operating expenses	(83.30)	(88.81)	(46.39)	(99.30)
PBT	55.56	42.22	14.92	40.38
PAT	45.02	36.65	12.83	34.73
OCI	5.06	3.21	-	-
TCI	50.09	39.87	12.83	34.73

Statements of Financial position	FY.2012	FY.2013	HY.2014	2014 F
Customer Assets	854.69	1,028.12	1,043.97	1,100.09
Investment Securities	2.18	11.80	12.24	12.24
Interest Bearing Assets	24.90	175.13	298.85	298.85
Investment Property	20.34	21.85	21.92	21.92
Cash & Bank balances	180.19	152.61	127.06	161.79
Other Assets	52.22	71.08	84.43	84.43
Non-Interest bearing Assets	6.80	5.58	6.78	6.78
Total Assets	1,223.09	1,558.67	1,693.37	1,870.40
Customer Liabilities	1,032.35	1,332.56	1,457.18	1,625.73
Other Liabilities	30.06	20.26	19.75	19.75
Equity	160.68	205.85	216.44	251.18

RATIOS	FY.2012	FY.2013	HY.2014	2014 F
Basic EPS (us cents)	7.39	6.30	4.10	5.05
Cost to income ratio	57.80	59.00	66.70	61.08
NFI to Total Income	33.90	36.70	35.60	35.68
Loans to Deposit Ratio	0.83	0.77	0.72	0.68
ROA	4.90	3.00	1.80	2.22
ROE	32.20	20.00	11.80	14.53
Change In Deposits	24.40	29.10	9.40	22.00
Change In Advances	8.10	20.30	1.50	7.00
Change In PBT	45.40	(24.00)	(26.52)	(4.37)
Change In PAT	48.40	(18.60)	(19.61)	(5.23)

CBZ reported reduced profitability for the interim period to June 2014 as the group focused managing credit quality through continuous review of asset quality complemented by maintenance of a prudential provision system. Net interest income for the period came in at \$41.0m which was combined with non-funded income of \$24.8m and net non-underwriting income of \$3.8m to leave the group sitting with \$69.6m in total income. Operating profit declined 14.1% and closed the period at \$23.2m from which a \$7.6m charge for impairment coupled with a transfer to the life fund of \$684,659 were taken out to leave the group with before tax profits of \$14.9m. The group then achieved after tax profits of \$12.8m representing a basic earnings per share of 4.13 US cents from which they awarded their shareholders with a dividend per share of 0.183 US cents. Total assets stood at \$1.7bn while deposits grew 9.4% to \$1.5bn against a 1.5% growth in advances to \$1.0bn of which \$66.8m were deemed none performing. The group's equity as at the end of the reported period amounted to \$215.7m.

The group's operating profit was affected by higher depreciation charges and administration costs that saw the cost to income ratio creep up 590bp to 66.7%. Having provisioned \$50.1m the provision coverage ratio was 0.75 times though the security coverage ratio was 1.47 times as the group's security on the loan book is valued at 1.5bn. Loans past due but not yet impaired classified as special mention loans amounted to \$250.5m having grown from the \$139.5m reported at full year. The group achieved a liquidity ratio of 32.3% while the loans to deposits ratio of 71.6%.





Source: EFE Securities

In the outlook period the group intends to develop and dispose the \$68.7m land bank while focus will also be on consolidating the mortgage business by securing long term funding. The group expects to strive for enhanced credit quality as well as diversification of income streams through new product development and focusing on our technological investments. By the end of the year total assets are forecast to grow by 20% on the back of a forecast growth in deposits of 22%. Advances are expected to close the year up 8% while the other aggregates funds under management and total income are expected to grow 10% and 8% by close of the ensuing financial year.

Valuation and Recommendation

CBZ has always enjoyed the first move advantage since dollarization with aggressive lending making them the market leader in terms of the advances aggregate. Similarly the bank has also enjoyed a domineering position leading the pack on the deposits front. Its strong balance sheet had previously been assumed to be the cover against any negative eventualities in the industry however the growing economy wide NPL's position are increasingly becoming a real concern for the group considering its market leadership on this measure. With the group forecasting assets to grow at 20%, their balance sheet is expected to grow to \$1.8bn and applying our forecast ROA of 2.2% we forecast the group's earnings to come in at \$34.7m. CBZ continues to indicate undemanding valuations that currently places the group at a trailing PBV of 0.51x and a trailing P/E of 1.83x, and a PE+1 of 2.38x which comparing quite favourably against the averages for its peers on the ZSE of 0.70x and 3.40x respectively. Even though the group has attractive reported capital levels which are well above the required thresholds we believe that this attraction is heavily negated by the non-performing loans inclusive of the special mention loans whose combined total is well above the reported capital for the group. Investors should find it worthwhile to seek value elsewhere in the listed financial services stocks.

NOTES:

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