Banks Performances Improve as ZAMCO takes over NPL's

The just ended reporting season was a frenetic but welcome development for the market that had grown accustomed to the depressing reports both specific to the market and the exogenous economic environment. Given the lamentations of the challenges in the environment, the market had clearly discounted many companies from any worthwhile financial performances. Alas, companies reported surprisingly better financials as they seemingly weathered the storms of the economy that have been hyped and were projected in the falling aggregate demand for much of 2015. The banking sector was one of those that was highly in focus given the real threat of rising sector wide non-performing loans which threatened to rock to the core and the very existence of certain institutions. While celebrating the much improved financials, the impetus from the acquisition of non-performing loans by the reserve bank backed ZAMCO could be viewed as a key driver to the recovery of most of these institutions. In this review we glean through the listed banks financials assessing the various key measures and determine which amongst them present a sound investment option in the face of the recently released financials.

Performance Ratios

Stock Name	NPL Ratio	Cost/ Income	NII /Total Income	Loans/Deposit
Barclays	1.20	83.40	36.00	60.29
CBZH	6.90	64.00	40.80	60.62
FBCH	6.90	74.00	44.69	78.37
NMB	13.19	61.00	47.00	87.74
ZBFH	20.07	78.00	76.00	36.92

The operating environment remained ensnared with the ever present default risk as the generally dominating individuals' category for loans faced ever increasing challenges in the economy. The NPL ratios for most of the banks trended southwards largely buoyed by ZAMCO which took over these non-performing positions. On the listed space Barclays, as expected, continued to enjoy the most favourable ratio on this front sitting at a mere 1.2% ratio. The only other banks to do relatively well in this measure were FBC and CBZ that both reported a ratio of 6.9% while, even higher ratios were reported in NMB with 13.19% and ZB trailed the cluster on 20.07%. Both NMBZ and ZB reported worrying levels of NPL ratio especially when considering they both had swapped some of the bad loans to ZAMCO.

NMBZ reported the most favourable cost to income ratio at 61% while, CBZ had a commendable 64% ratio though we would expect the group to do even better by taking advantage of the synergies within its diverse structure to minimise certain costs by centralisation. Barclays had the highest cost to income ratio at 83.40% while, FBCH and ZBFH reported 74% and 78% respectively.

On loans to deposits, NMBZ appears the most aggressive in terms of lending out funds at its disposal and sat at a loans to deposit ratio of 87.74% with FBCH following on 78.37% which in our view places them at a higher risk premium to their peers. A plus for the duo, however, vests in the fact that lines of credit command a significant portion of their deposit and these of course come with security of tenure compared to the demand deposits that dominate deposits of other players. CBZ and Barclays sat at almost similar ratios of 60.29% and 60.62%. ZB closed the year 2015 in the most favourable position on liquidity and sat at a loans to deposit ratio of 36.92% which is the best in the listed banks cluster. Surprisingly, ZB despite having the smallest loan book, notwithstanding the highest NPL ratio, has the bulk of its revenue being driven by interest income that makes a 76% contribution to this aggregate. The rest of the peers lag at below 50% with Barclays sitting at the tail end of this cluster on 36% Net Interest Income to Total Income ratio.

Returns

Stock Name	ROA	ROE
Barclays	1.31	7.50
CBZH	2.20	14.30
FBCH	4.69	17.22
NMB	1.77	12.00
ZBFH	2.00	13.00

FBCH has shown the most resilience in sweating the resources entrusted to them and reported a 17.22% return to the shareholders of the group while achieving 4.69% return on the assets at their disposal. On both measures CBZ came second after posting 14.3% ROE and 2.2% ROA. The remaining slots were taken up by ZBFH, NMBZ and Barclays in that order.

Performance against current Price

Stock Name	PBV	Mkt Cap /TA	PE
Barclays	1.07	0.19	15.00
CBZH	0.29	0.04	2.15
FBCH	0.42	0.11	2.45
NMB	0.29	0.04	2.66
ZBFH	0.08	0.01	0.59

Barclays continued to enjoy the huge premium it has long enjoyed on the market with all its performance measures as marked to current market prices emerging well ahead of its peers. This has always been the traditional trend exhibited in the group which is often attributed to the group's brand equity, though the recent decision by parent Barclays PLC to divest from its investments in Africa, including Zimbabwe will certainly even out the playing field on the valuations. Though this pull is expected to take a while that talk alone has already been seen to have a bearing on the direction of the price of the group since the beginning of the current year. This disparity is more pronounced on the PE matrix where Barclays is perched at 15x compared to the peers that are all indicating lower than 3x multiples. Similarly, the PBV ratio for Barclays reflects a premium to its peers while the Market Cap to total Assets is also well ahead. CBZ, FBCH and NMBZ have relatively moderate ratios, ZBFH is by far proving the cheapest in the cluster which could partly be attributed to the loss warning in 2014 that culminated in a price crush which the group never recovered from leaving its 2015 financials well out of sync with the current price.

Target Prices

	Target price			Moderation		
Stock Name	**PBV**	**Mkt Cap /TA**	**PE**	**Average**	**Factor**	**EFE Target Price**
Barclays	1.09	1.12	0.82	1.01	1.99	2.01
CBZH	16.40	20.40	13.17	16.66	0.93	15.51
FBCH	6.73	4.08	6.92	5.91	0.93	5.50
NMB	5.67	6.17	3.67	5.17	0.87	4.49
ZBFH	15.26	17.19	13.10	15.19	0.80	12.14

We valued the five listed banks based on the average outcome from each of the valuation matrices of PBV, Market Capitalization to Total Assets and the PE multiples. In arriving at our target prices we determine a moderation factor that considers the non-performing loans ratio in each of these companies as well as the various unique conditions attached to each of the banks.

From the outset it goes without saying that Barclays sits at the top end of the spectrum enjoying a huge premium to its peers on all three measures. However considering the decision by Barclays Plc to eventually divest form the local entity, this premium is likely to fall away, though this should be partially compensated with a more aggressive sweating of the assets at their disposal as the group is expected to relax the overbearing influence of the outgoing parent's approach. Moreover the withdrawal is not immediate and thus for the short to medium term the group should still enjoy this premium though with increased uncertainty. Having considered all Barclays is certainly overvalued as we arrived at a target price of $0.0201.

On the other end of the spectrum sits ZBFH which on all the three measures considered is presented as the cheapest or undervalued banking group in the cluster and we believe that the group offers an opportunity for better returns for investors relative to its peers. The group is given the lowest moderation factor in our model for its higher NPL's though its low loans/deposit ratio would likely mitigate any shortcomings, therefore we believe its fair value per share should be $0.1214.

CBZ is also slightly undervalued relative to the market average with our moderated fair value pegged at $0.1551 presenting a fairly decent 41% upside. The group's huge loan book and level of provisioning on same remains a sticking point on its value though its expanse which makes it a leader in the cluster and indeed the sector should fortify and enable it to weather any storms. NMBZ also appears undervalued on the face of the matrices at hand with our NPL's based factor of 0.87 being the second lowest in the whole cluster with its higher loans to deposits ratio making them a slightly risky proposition though investors can take comfort in the dominance of the lines of credit in their deposits. Our fair value per share estimate for the group is set at $0.0449 being a potential 18% gain on the group's price.

The post results rally in FBCH, in a way, tipped the group beyond its peer average valuations though the PBV and PE based matrices present the group as the only one trading closest to its fair value. Its low Market Cap to Total Assets ratio dragged the group's valuation down to our fair value estimate of $0.0550 indicating a possibility of a downward revision on the current price for the group.

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