



CBZ FULL YEAR ENDED 31 DECEMBER 2016 ANALYSIS

Market Data

Current Share price (USc)	10.50
Target Price (USc)	14.45
Shares in Issue	696,589,130.00
Market cap(US\$)	73,141,858.65
Year High	11
Year Low	10.5
EPS (USc)	4.53
P/E	2.32
Final Dividend (USc)	0.23
Dividend Payout Ratio	10.15%

Income Statement	FY2016	FY 2015	% Change
Interest Income	181,182,497.00	203,921,398.00	-11%
Non interest income	69,078,973.00	62,582,558.00	10%
Total Income	158,985,195.00	182,252,102.00	-13%
Operating Income	48,340,819.00	64,395,313.00	-25%
Impairment charges	19,847,256.00	23,510,196.00	-16%
Profit After Tax	23,785,461.00	35,237,325.00	-32%
Net Interest margin (%)	3.70	5.00	-26%

Financial Position	FY2016	FY 2015	% Change
Total Assets	2,086,609,040.00	1,974,358,536.00	6%
Total advances	1,007,172,157.00	1,020,968,516.00	-1%
Total Deposits	1,777,154,753.00	1,684,277,828.00	6%
Loan to Deposit ratio	61.90%	65.10%	-5%
Equity	282,564,411.00	261,408,953.00	8%
Return on Equity	8.70	14.30	-39%
Amounts written off	32,673,507.00	24,281,047.00	35%
Non Performing Loans	70,622,426.00	76,071,314.00	-7%
NPL ratio (%)	6.60%	6.90%	-4%
Security cover(times)	1.70	1.80	-6%

CBZ Total Income Down 13% whilst PAT Plunges 32%

CBZ Total Income took a 13% knock in 2016 due to a decline in interest income and net underwriting income. The decline in interest income was a result of the RBZ policy directive to lower lending rates to a maximum of 15% in 2016 (excluding administration costs) in order to lower borrowing costs for the productive sector. Interest income was further affected by the lower loan to deposit levels as the overall banking sector has become more conservative in its lending due to the reduced paying capacity of most borrowers. Contribution of interest income to total income rose from 34% in 2015 to 43% in 2016. Bad debts written off were 35% higher to \$32.6 million and net interest margins shrunk to 3.7% from the 5% recorded in 2015. Underwriting income was also under severe pressure due to poor performance of the CBZ Life division as is shown in the Table below;

Table 1: CBZ Business Units Total Income distribution

	Total Income (\$millions)		
	2016	2015	% Change
CBZ Bank	118.30	139.7	-15%
CBZ Life	6.20	7.7	-19%
CBZ Insurance	3.4	3.4	0%
CBZ Asset Management	2.1	2.1	0%

Source: CBZ 2016 Financial Results

Table 2: CBZ Business Units Net Profit distribution

	Profit After Tax (\$millions)		
	2016	2015	% Change
CBZ Bank	18.70	26.20	-29%
CBZ Life	2.6	4.5	-42%
CBZ Insurance	0.91	1.1	-17%
CBZ Asset Management	0.1	0.2	-50%

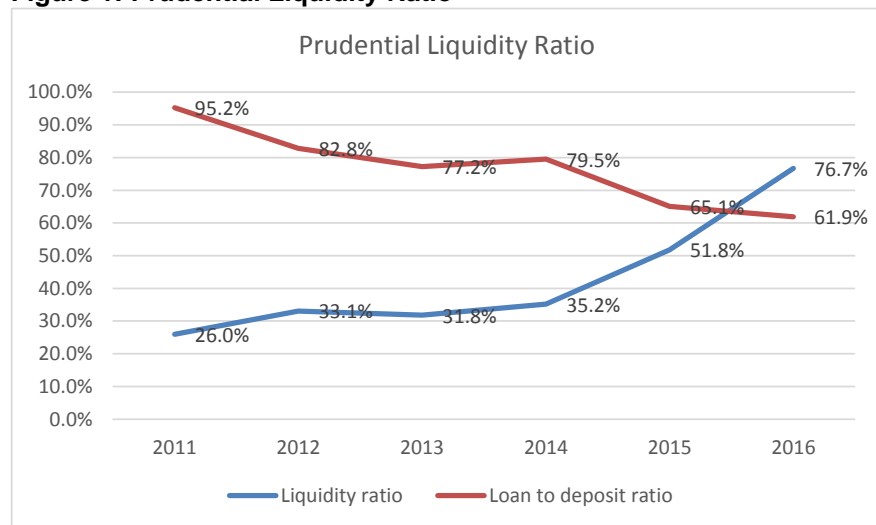
Source: CBZ 2016 Financial Results

Operating expenditure was however 6% lower than in 2015 due to various cost management measures by the Group. Profit after tax was 32% lower at \$23.8million due to a depressed performance across all business units as is shown in Table 2.

Total Assets recorded a 6% growth mainly attributed to an increase in Treasury Bills of about \$288.5 million and higher cash balances. Total advances were 1% lower at \$1 billion whilst deposits grew by 6% to \$1.8 billion. Overall the loan to deposit ratio declined by 5%. The bank recorded a 35% increase in loans written off to \$32.6 million which further supports its case to reduce its level of advances. Non-performing loans were however much improved recording a 7% decline in absolute terms whilst the NPL ratio was down 4%. The bank continues to have adequate security cover of 1.7 times despite its 6% reduction and all of its business units are adequately capitalized. A final dividend equal to its interim dividend of 0.23 cents was declared leading to a total payout ratio of 10%.

The graphs below indicates the trend of the Prudential liquidity and Non-performing loan ratios.

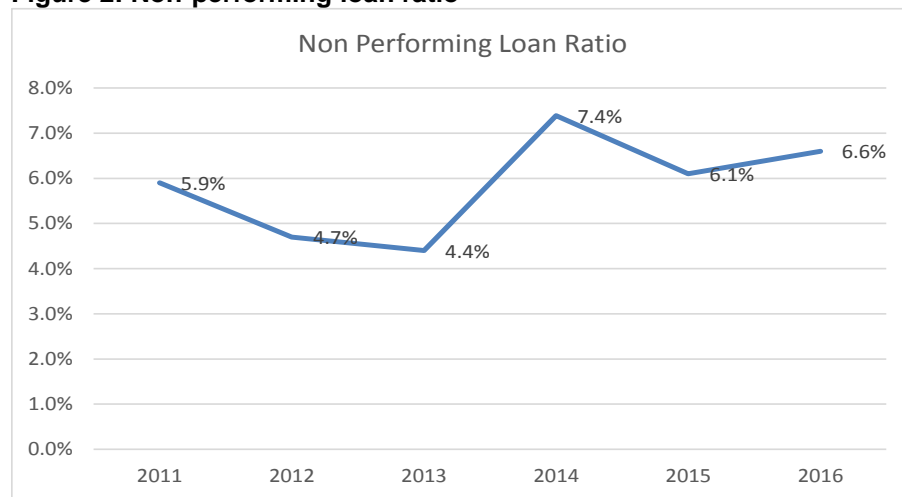
Figure 1: Prudential Liquidity Ratio



Source: CBZ 2016 Financial Results

Figure 1 indicates an overall substantial decline in the loan to deposit ratio over the years that has resultantly led to a rising trend in the liquidity ratio.

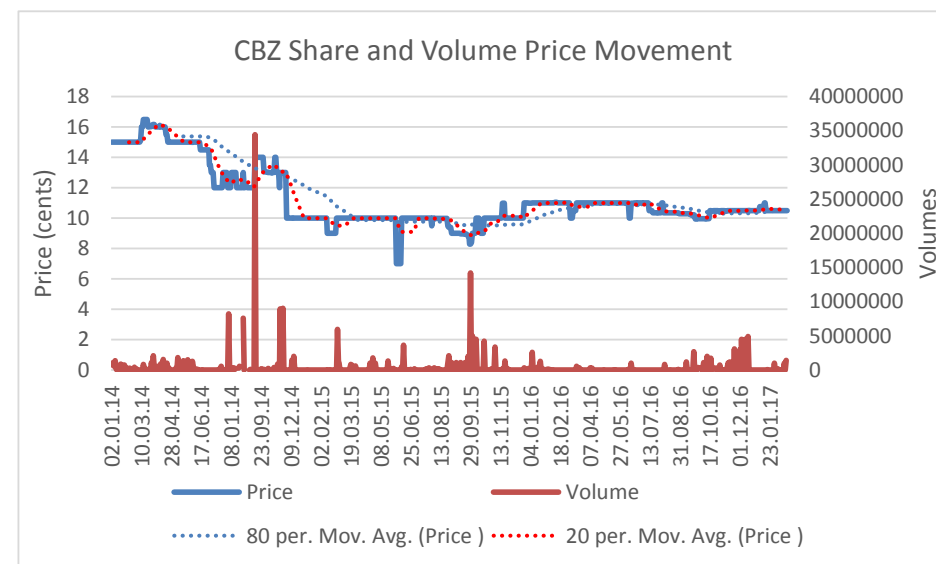
Figure 2: Non-performing loan ratio



Source: CBZ 2016 Financial Results

The graph above indicates that the NPL ratio is 0.7% higher than it was in 2011 which explains the declining loan to deposit ratio over the years. There has however been an improvement from the 7.4% peak in NPLs in 2014 to the current 6.6%.

Technical Analysis



The graph above indicates that the CBZ stock has generally been stable since the later part of 2014 where it declined from a peak of 16 cents to settle at prices between 10cents and 11cents which have been prevailing to date. This low volatility in a market that was characterized by a substantial decline in share prices in 2015 and a greater part of 2016 can be attributed to the strong overall financial performance of the CBZ Group and the somewhat thinly traded volumes. The long and short term moving averages also indicate an almost unanimous movement since 2015 and in the short term both these indicators do not exhibit any signs of reversing this trend and we can therefore expect continued low volatility in the price movement.

Investment Case

- The portfolio of the group allows for a diversity in its income streams and less reliance on core banking activities in an environment with falling interest rates and high default levels.
- The bank has extended its diversification activities to include the development of residential stands in various parts of the country. Residential property has become a key income earning asset for most institutions due to the relatively stable yields obtaining in that sector. In 2016, the Victoria Falls residential stands were sold out and they completed the hospital development in Baines, Harare. Further residential developments are currently underway in Harare, Marondera and in Bulawayo.
- CBZ bank continues to hold a commanding position in deposits of \$1.8 billion (29% market share). In 2016, \$26 billion worth of transactions were processed through its banking systems and it currently has 367 000 active bank accounts. All these factors continue to support growth of its non-interest income which is where the bank is currently looking towards to achieve growth.
- All of its banking and nonbanking subsidiaries are currently adequately capitalized.
- The Group's NPLs indicates visible improvement since 2014, a sign of improved credit risk management and benefits of ZAMCO.
- The Group has an adequate security cover of 1.7 times over its loans that is mostly made up of mortgage bonds, cessions and Notarial General Covering bonds.

Investment Concerns

- The recent policy directive to further lower lending rates to 12% p.a is expected to put additional strain on the bank's interest income. Interest income currently contributes 51% to total income.
- The quality of the assets used in the security cover comes into question given the 35% increase in loans written off in 2016.
- The significant exposure that the bank has to treasury bills makes the bank highly susceptible to rollover risk as government's treasury department currently carries substantial domestic and external debt.
- The use of bond notes and the depletion of nostro accounts contains the risk of reducing the real value of USD deposits that every bank carries. This risk has significantly reduced confidence that the public has in the country's banking system.

Valuation and Recommendation

The Relative Valuation method was used in the valuation of CBZ with the use of three matrices that is Price to Earnings (P/E), Price to Book Value (P/BV) and Price to Total Income (P/TI). The counter has a trailing P/E of 2.3x against an industry average of 2.2x, its trailing P/BV is 0.26x against an industry average of 0.52x and a trailing P/TI of 0.46x against an industry average of 0.55x. These matrices indicate that the CBZ share is undervalued relative to its industry average when looking at its P/BV and its P/TI. We therefore arrive at a current fair value of 14.45c which gives us an upside potential of 37.6% from its current price of 10.5 cents.

