CBZ HALF YEAR ENDED 30 JUNE 2017 ANALYSIS

Market Data			
Current Share price (USc)			10.00
Recommendation			HOLD
Year high(Usc)			11.00
Year Low(Usc)			9.50
EPS			4.56
Interim Dividend(USc)			0.26
Dividend Payout			6%
Dividend Yield			3%
Income Statement	**HY 2017**	**HY 2016**	**% Change**
Interest Income	81,024,273.00	89,266,645.00	-9.2%
Non interest income	36,830,861.00	31,030,284.00	18.7%
Total Income	80,470,301.00	74,111,665.00	8.6%
Operating Income	27,353,641.00	21,237,258.00	28.8%
Impairement charges	15,393,843.00	9,086,165.00	69.4%
Profit After Tax	11,951,095.00	11,921,531.00	0.2%
Financial Position			
Total Assets	2,158,978,558.00	2,086,609,040.00	3.5%
Total advances	1,043,117,599.00	1,007,172,157.00	3.6%
Total Deposits	1,822,899,822.00	1,777,154,753.00	2.6%
Equity Attributable	293,188,891.00	282,564,411.00	3.8%
Return on Assets	1.10%	1.30%	-15.4%
Return on Equity	8.10%	8.70%	-6.9%
Loan to deposit	54.70%	61.90%	-11.6%
Non Performing Loans	6.21	7.16	-13.3%
Security	1.80	1.70	5.9%

CBZ Total Income 8.6% UP, PAT remains FLAT

CBZ total income grew by 8.6% supported by non-interest income which recorded an 18.7% growth. Interest income took a 9% knock due to a declining loan to deposit ratio and compressed margins after the latest regulation by the RBZ requiring banks to reduce lending rates to a maximum of 12% per annum. Contribution of non-interest income to total income grew from 41.9% in June 2016 to June 45.8% in June 2017.Operating expenditures experienced a slight increase of 0.6% leading to a 29% growth in operating income. A 69% increase in impairment charges however resulted in just a minor increase in after tax profit of 0.2% to $12 million. Shown below is the distribution of Total Income and Profits for the various segments;

Table 1: CBZ Business Units Total Income distribution

	Total Income ($millions)		
	2017	**2016**	**% Change**
CBZ Bank	62.80	52.60	19%
CBZ Life	3.00	3.20	-6%
CBZ Insurance	2.20	1.80	22%
CBZ Asset Management	1.00	1.00	0%

Source: CBZ HY 2017 Financial Results

Table 2: CBZ Business Units Net Profit distribution

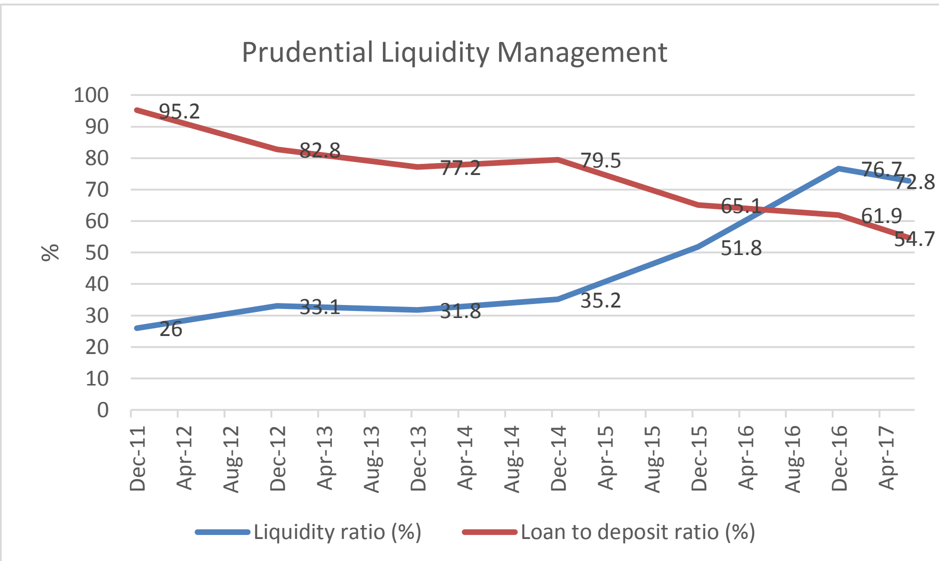
	Profit After Tax ($millions)		
	2017	**2016**	**% Change**
CBZ Bank	10.00	7.40	35%
CBZ Life	1.50	1.50	0%
CBZ Insurance	1.00	0.70	43%
CBZ Asset Management	0.10	0.10	0%

Source: CBZ HY 2017 Financial Results

The tables above indicates a strong performance from the banking and insurance divisions. Total Assets were up by 3.5% due to a 8.8% growth in treasury bills.

The bank justifies this increase in Treasury Bills (TBs) as a strategic move to increase income as most of these are acquired at significant discounts. Total advances were 3.6% lower at $1.04 billion whilst deposits grew by 2.6% to $1.82 billion. Loans written off were significantly higher from $4.2 million in June 2016 to $14.5 million in June 2017 whilst Non-performing loans reduced from 7.2% to 6.2%. The bank continues to have adequate security cover which improved from 1.7 to 1.8 times with all units adequately capitilised. An interim dividend of 0.26 cents was declared which was 10 % higher than in the same period last year. At an EPS of 4.56c, this translates to a dividend payout of 6% thus implying a high retention ratio to fund growth initiatives such as those in property development.

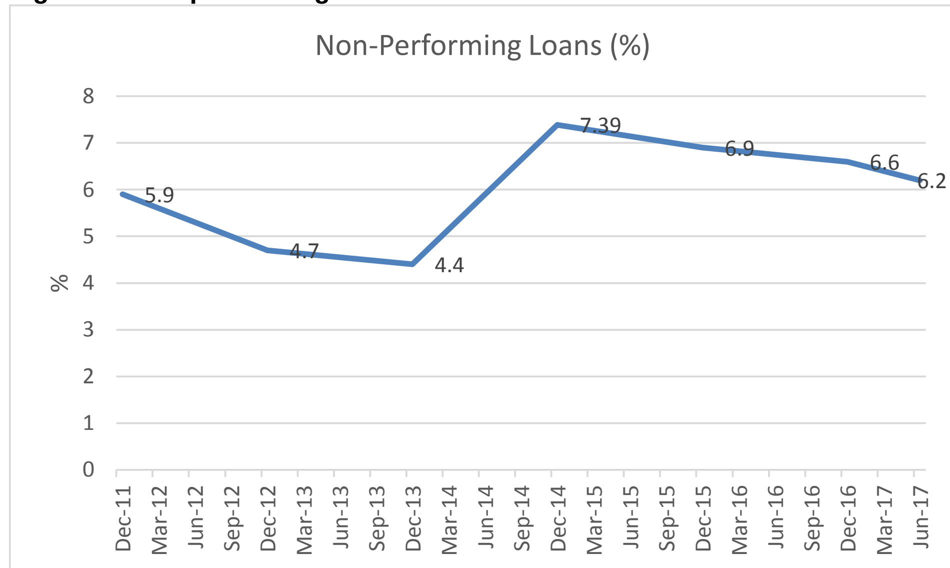
Figure 1: Prudential Liquidity Ratio



Source: CBZ 2017 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.

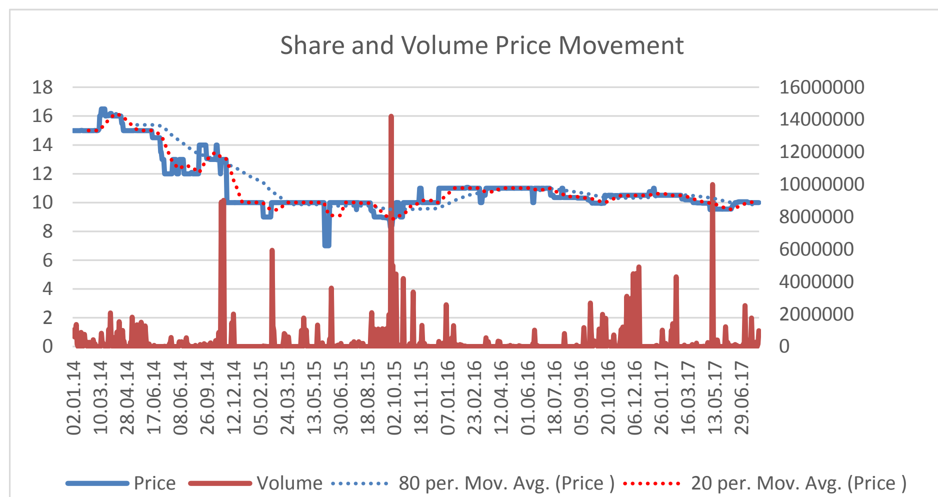
Figure 2: Non-performing loan ratio



Source: CBZ 2017 Financial Results

The graph above indicates that the NPL ratio has grown from 5.9% in 2011 to 6.2% in 2017 which explains the declining loan to deposit ratio over the years. However, there has been an improvement from the 7.4% peak in NPLs in 2014 to the current 6.2%.

Technical Analysis



The graph above indicates that the CBZ stock has generally been stable since the later part of 2014 and has been fluctuating around 10 cents a share. 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 Group. However, the share price has not responded to the current bullish run on the ZSE. We attribute this factor to the Group's over exposure to treasury bills which the market is generally viewing as a slightly risky asset given the growing government deficit. 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. The Group currently has developments in Gweru, Kwekwe, Harare, Bulawayo, Marondera, Victoria Falls and Mutare.
- The company has consistently paid a dividend twice each financial year.
- CBZ bank continues to hold a commanding position in deposits of $1.8 billion and 408 000 active accounts which comprises 13% of the banked population. In the HY 2017, $14 billion worth of transactions were processed through its banking systems. These factors continue to support growth of its non-interest income.
- The Bank and the asset management division have maintained their credit rating in the A division from 2015 whilst the insurance businesses have maintained a BBB+ rating since 2016.
- All of its banking and nonbanking subsidiaries are currently adequately capitalized.
- The Group's NPLs indicate visible improvement since 2014, a sign of improved credit risk management and benefits of ZAMCO.
- The Group has an adequate security cover of 1.8 times over its loans that is mostly made up of mortgage bonds, cessions and Notarial General Covering bonds.

Investment Concerns

- The regulatory mandate to further lower lending rates to 12% p.a has increased pressure on margins at a time when the banking sector is reducing its Loan to Deposit ratios due to the high credit risk environment.
- 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 is increasingly reducing the real value of USD deposits that every bank carries. This risk has diminished public and foreign investor confidence in the country's banking system.

Analyst Comment

The Group continues to exhibit a strong performance in an environment that has not been very favorable for the banking sector due to rising credit risk, RBZ regulatory control and growing skeptism in the country's banking system. Deposits have continued on an uptrend as has the number of active accounts, agents and total transactions thereby leading to the growth of non-interest income over the years. Further positive growth in income is expected due to the growing mortgage book through the Group's massive developments in residential property. The Group also continues to grow its capital especially for its banking division which has a capital of $179 million against a current regulatory minimum of $25 million.

The growing level of TBs has created concerns of rollover risk and possibilities of inadequate capital upon the implementation of IFRS 9. IFRS 9 will require banks to report their assets at market value which would lead to significant discounting of TB values. For CBZ, 26% of these TBs mature between 1 and 5 years whilst 64% mature beyond 5 years. This broadly means that the maturities are well spaced which should translate to a diminished rollover risk. In addition, CBZ is unlikely to become undercapitalized even after the implementation of IFRS 9 as it has very high capital levels.

However, credit risk management remains a concern as has been observed with the growing loan write offs and the impairment levels. Another key concern has been the current cash crisis that has resulted in the growing disparity between RTGS balances and actual cash levels in the economy thereby threatening the stability and confidence in the banking sector. In conclusion, we remain confident in the bank's strong balance sheet and the stability in its share price and we therefore continue to give a **HOLD** recommendation.