



CBZ HALF YEAR ENDED 30 JUNE 2015 RESULTS SUMMARY

Market Data

Current Share price (USc)	9.98
Shares in Issue	687,231,691.00
Market cap(US\$)	68,585,723.00
YOY high(USc)	14.00
YOY Low(USc)	7.00
EPS	5.00
P/E	2.00
Dividend(USc)	0.0021
YTD	-0.19%
YOY	-23.23%

Income Statement	HY2015	HY 2014	% Change
Interest Income	101,485,746.00	90,907,906.00	11.64
Non interest income	27,391,236.00	24,798,402.00	10.46
Total Income	82,253,249.00	69,567,642.00	18.23
Operating Income	30,358,361.00	23,178,839.00	30.97
Impairment charges	(14,377,562.00)	(7,577,387.00)	89.74
Profit After Tax	13,739,836.00	12,832,385.00	7.07

Financial Position

Total Assets	1,964,310,289.00	1,670,353,252.00	17.60
Total advances	1,113,031,663.00	1,125,938,280.00	(1.15)
Total Deposits	1,695,561,810.00	1,416,930,877.00	19.66
Equity Attributable	241,880,606.00	231,405,218.00	4.53
Return on Assets	0.70%	0.77%	(9.35)
Return on Equity	5.64%	5.53%	1.99
Loan to deposit	69.90%	79.50%	(12.08)
Non Performing Loans	84,731,302.00	87,094,321.00	(2.71)
Security	1,721,474,666.00	1,585,945,028.00	8.55

Summary Highlights

- Total Income grew by 18% to \$82million from the same period in 2014 due to the increase in interest income, non-interest income and underwriting income, an indicator of a positive performance from all the group's segments.
- Operating income indicated a 31% increase to \$30.4million due to improved cost containment measures and higher total income.
- Impairment charges were 89% higher than the previous year at \$14.3 million inspite of the 2.7% decline in the level of Non-performing loans due to a prudent approach on asset quality.
- Profit after tax was 7% higher at \$13.7million resulting in a 21% increase in EPS to 5c per share.
- An interim dividend of \$1 456 505 which is 15.7% higher than the same period in 2014 was proposed. This is a signal that the Board of Directors is confident about the future earnings potential of the business.
- Total assets were 17.6% higher due to higher deferred tax assets and money market placements.
- Total advances were lower at \$1.1 billion which resulted in a lower loan to deposit ratio of 69.9%. This indicates that the bank is increasingly becoming quite conservative in its lending in order to manage credit risk in an environment characterized by high non-performing loans.
- The decline in advances improved the Group's liquidity position from 35.2% in December 2014 to 47.7% in the period under review against a regulatory requirement minimum of 30%.
- Total deposits stood at \$1.7 billion which constitutes 30% of total banking deposits as at 30 June 2015.
- A 20% increase in deposits is quite impressive in an environment that

is characterized by liquidity constraints. 43% of the deposits were demand deposits whilst 16% were deposits with maturities greater than a year. This picture fully captures the nature of the banking sector deposits given that CBZ is a market leader. Long term deposits of 16% are not conducive to support the productive sector which needs to thoroughly recapitalize in-order to increase productivity and capacity levels.

- In spite of the improvement in net income and profit after tax, Return to equity holders remains quite low at 5.6% relative to a benchmark of government treasury bills which have an average yield of 8%. The Group's historical and current performance is however quite impressive in the prevailing environment and as such we have a positive outlook on future performance of the company.
- As at 30 June 2015, the Group was capitalized to the tune of \$188 million and has already achieved the 2020 minimum level of capital requirement for tier 1 banks.
- Going forward the Group is expecting an 18% growth in its balance sheet for the year 2015 supported by a 20% growth in deposits and a modest 1% increase in advances.

Investment Case

- The bank dominates its sectorial peers in Total Deposits with a total market share of 26% of deposits. Deposits have grown by 374% since dollarisation
- The bank has already met the 2020 minimum level of capital requirements for tier 1 banks at \$188 million as at 30 June 2015.
- CBZ Holdings has shown strong resilience in revenue growth since 2009.
- Adequate security cover which grew by 7% for the reported period.
- Stable dividend payer which is an indicator that the directors of the company are optimistic about the future prospects of the Group.
- Diversity in income streams which has seen positive contributions to the topline and is an indicator of a sustainable performance.
- Attractive liquidity position of 35.2% against a regulatory minimum of 30%.

Investment Concerns

- Non-performing loans at 7.1% remain above the internationally accepted practices of 5%.
- Lines of credit have been on the down trend since 2013.
- Low levels of economic activity which are shrinking depositor base and posing a threat to the paying ability of borrowers.
- The share price has been affected by low investor interest in the country and has been fluctuating around 10c a share since the end of 2014 to date.

Recommendation

CBZ Holdings currently trades at a P/E of 1.65x against a sectorial average of 3.04x. This then suggests a fair value of 15.2c which then presents an upside potential of 69% at the current price of 9c a share. The recommendation given therefore is to **HOLD** the stock at the current price and funds permitting to increase exposure in the counter which is currently undervalued. The numbers also support this valuation given the positive growth in revenues and the strong financial position status of the bank.



