

CBZ FULL YEAR 2014 RESULTS ANALYSIS

Market Data

Current Share Price(USc)	10
Shares in Issue	687,231,691.00
Market cap(US\$)	61,850,652.00
YOY high	16.5
YOY Low	9
EPS	5.59
P/E	1.79
Total Dividend(USc)	0.39
YTD	-10.00%
YOY	-40.43%

Income Statement	FY2014	FY 2013	% Change
Interest Income	190,213,435.00	171,798,621.00	10.72
Net Interest Income	88,315,680.00	95,267,510.00	(7.30)
Non interest income	58,085,822.00	48,106,088.00	20.75
Total Income	154,569,292.00	150,544,815.00	2.67
Operating Income	55,906,337.00	61,731,799.00	(9.44)
Impairment charges	18,035,952.00	19,445,247.00	(7.25)
Profit After Tax	33,031,383.00	36,652,342.00	(9.88)

Financial Position

Total Assets	1,670,353,252.00	1,558,667,011.00	7.17
Total advances	1,125,938,280.00	1,028,118,742.00	9.51
Total Deposits	1,416,930,877.00	1,332,564,255.00	6.33
Equity	231,405,218.00	205,175,711.00	12.78
Return on Assets	2.30	3.00	(23.33)
Return on Equity	15.10	20.00	(24.50)
Amounts written off	4,451,137.00	32,399,040.00	(86.26)
Non Performing Loans	87,094,321.00	46,985,693.00	85.36
NPL ratio	7.39	6.10	21.15
Security cover(times)	1.60	1.40	14.29

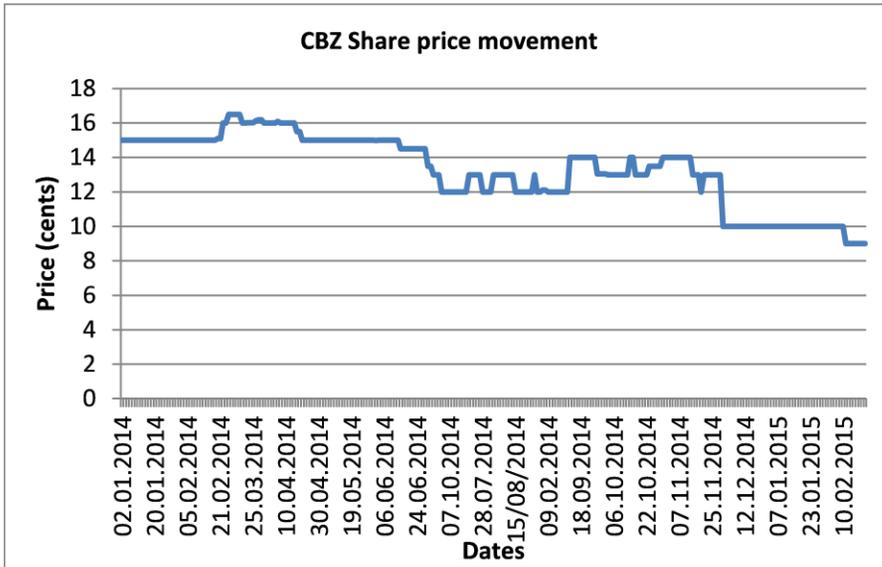
CBZ Revenue up 2.7%

CBZ Holdings saw a 10.72% increase in interest income to \$190million due to an improvement in its total advances and a 20.75% hike in its Non-interest income to \$58million due to increased transactional volumes. The overall effect to Total income was however muted by the high interest expenses due to increasing borrowing costs and a \$10million increases in operating expenditure which was mostly due to elevated staff costs and administration expenses. This ultimately affected the Profit after Tax which came off by 9.9% to 33 million. Charges for impairment reduced to \$18million although non-performing loans shot up by 85% to settle at an NPL ratio of 7.39%. It is of some comfort though to see that security cover has increased by 14% and that loan write offs came off significantly from \$32million to \$4.4 million in the year ended. The increase in the security cover should ensure that there is sufficient recovery in NPLs even though they are on the rise. The bank continues to lead in Total Deposits which showed a 6.3% improvement to \$1.4 billion commanding about 32% of Broad Money Supply which was at \$4.4billion as at 31 December 2014.

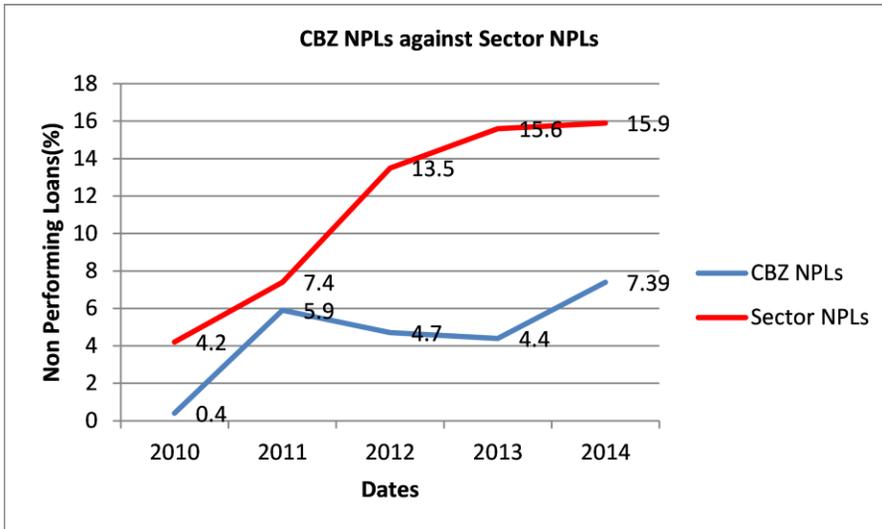
	CBZ Bank	CBZ Life Ltd	CBZ Insurance	CBZ Asset Mgt
Income(% Change)	0.30	6.10	(8.70)	9.50
PAT(% Change)	(6.90)	(21.10)	25.50	(0.25)

There was a positive income growth from all subsidiaries with the exception of CBZ Insurance and in the bottom line there was negative growth in all subsidiaries with the exception of CBZ Insurance. It can be noted therefore that the major challenge facing CBZ Holdings is cost management. The institution should be commended however for all initiatives undertaken that have resulted in a positive growth to its topline in such a tough operating environment. The group declared a final dividend of \$1 388 945 having declared an interim dividend of \$ 12 59 245 bringing the total to \$2 648 190.

CBZ share price movement



CBZ NPLs in comparison to Banking sector NPLs



The level of NPLs for CBZ have basically been on an uptrend since 2010 although there was quite a significant improvement between 2011 and 2013.

This uptrend can be attributed to the increase in the ratio of Total advances to Total deposits (up from 77.1% to 79.5%) and the tough economic environment. The efforts of the bank to increase interest income must be carefully examined as this is coming in with the cost of rising NPLs and an ultimate decline in net interest income from \$95.2 million to \$88.4million. The security cover which is at 1.6 times shows that the bank is taking adequate measures to ensure recovery of the non performing advances.

Investment case

- The bank dominates its sectorial peers in Total Deposits and in Capitalization which was at \$109.8million as at 31 December 2014.
- CBZ Holdings has shown strong resilience in revenue growth since 2009. Total income has growth by 33% since then to December 2014.
- Adequate security cover for its rising advances.
- Stable dividend payer.
- The resumption of the \$200million interbank facility is expected to improve liquidity.
- Product diversity which has seen positive contributions to the topline.
- Introduction of CBZ SmartCash, a low cost account, should see the bank greatly contributing to financial inclusion in the country and also increasing its deposits base. This should help the bank in achieving its goal to grow deposits by 10% in 2015.
- The establishment of Zimbabwe Asset Management Company and the Credit Reference Bureau in June 2015 should the see bank containing its level of NPLs in 2015.

Investment Concerns

- Rising levels of Non-performing Loans.
- Increasing operating expenditures.
- Rising interest income is being offset by rising expenses ultimately leading to lower net interest income which mutes the positive effect of increasing advances and deposits.
- Low levels of economic activity which are shrinking depositor base and pausing a threat to the paying ability of borrowers.

Recommendation

CBZ Holdings currently trades at a P/E of 1.79x whilst the sectorial average is 2.54x. In view of this using the P/E Multiple earnings approach this would suggest a fair value of 14.2c which then presents an upside potential of 42% at the current price of 10c 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.