



CBZ FULL YEAR ENDED 31 DECEMBER 2017 ANALYSIS

Market Data

Current Share price (USc)	10.40
Recommendation	WITHHELD
Fair Price (USc)	17.60
YoY High(USc)	24.90
YoY Low(USc)	9.54
EPS	5.36
P/E	1.94
Dividend(USc)	0.26
Dividend Payout	5%
Dividend Yield	3%

Income Statement	FY 2017	FY 2016	% Change
Interest Income	152,949,238.00	181,182,497.00	-15.6%
Non interest income	91,398,386.00	69,078,973.00	32.3%
Total Income	175,033,845.00	158,985,195.00	10.1%
Operating Income	63,128,806.00	48,340,819.00	30.6%
Impairment charges	(36,011,671.00)	(19,847,256.00)	81.4%
Profit After Tax	27,838,918.00	23,785,461.00	17.0%

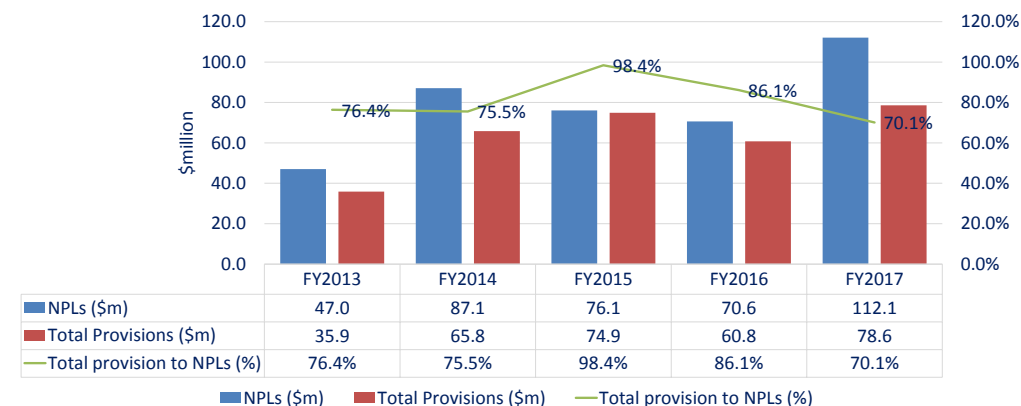
Financial Position

Total Assets	2,192,655,169.00	2,086,609,040.00	5.1%
Total advances	941,400,000.00	1,007,200,000.00	-6.5%
Total Deposits	1,853,700,000.00	1,777,200,000.00	4.3%
Equity Attributable	309,569,318.00	282,564,411.00	9.6%
Return on Equity	9.00%	8.70%	3.4%
Loan to deposit	55.00%	61.90%	-11.1%
Non Performing Loans	10.90	6.60	65.2%
Security	1.80	1.70	5.9%

CBZ Total Income Up 10% , PAT Up 17%

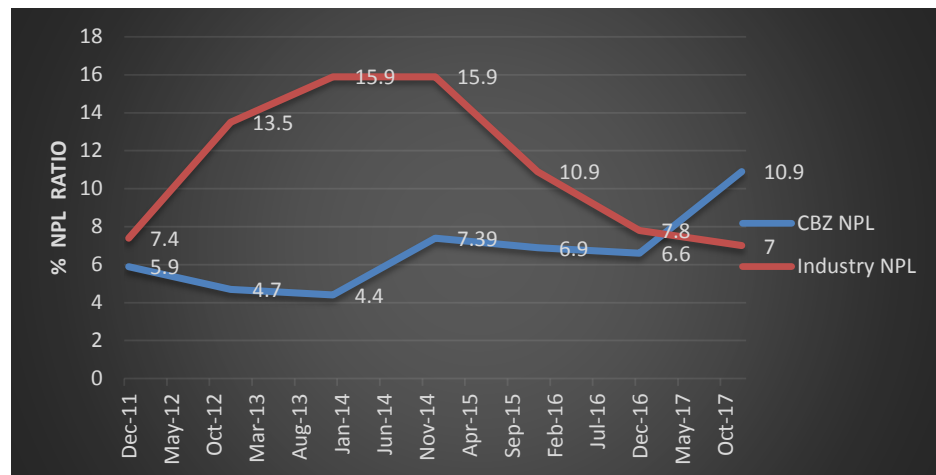
The Group's financial performance took an impressive turn from the slump in 2016 to record a 10% growth in Total Income bolstered by a 32% growth in non-interest income. The growing use of electronic and mobile payment systems in lieu of using cash has become a saving grace to the banking sector given the steady decline in interest income over the past few years. Supporting the growth in non-interest income was a 81% increase in POS machines and 92% increase in merchants and agents. In addition, 9% of total non-interest income was derived from property sales and rental income from the growing property portfolio. Interest Income was 16.5% lower being affected by the regulatory imposed decline in lending rates (from 15.7% in Dec 2016 to 12.5% in Dec 2017). It was also affected by the 6.5% drop in total advances whilst the Loan to Deposit ratio declined from 61.9% to 55%. The Group managed to keep a tight rein on operating costs recording only a 1.2% hike in operating expenditure and a decline of cost to income ratio from 69% to 63.9%. The NPLs however grew at alarming levels from \$70.6 million to \$112million, leading to an increase in NPL ratio from 6.6% to 10.9% with the greatest contributor to these NPLs being the agriculture sector which also has the largest allocation of advances. Given below is a graph that indicates the trend of NPLs since 2013.

Figure 1: Non-Performing Loan Trend



Source: CBZ 2018 Analyst Presentation

Figure 2: CBZ and Banking Sector NPL trend



Source: CBZ 2018 Analyst Presentation and 2018 MPS

The graph indicates that despite the sharp increase in the CBZ NPL ratio in 2017, the bank has performed relatively well in comparison to average banking sector NPL ratio. Provisions for impairment were subsequently increased in 2017 to \$78.6 million with the current charge for impairment increasing to \$36 million in line with the deteriorating loan book. Profit after tax came up much higher than total income, growing by 17% to \$27.8 million leading to an EPS of 5.36c. A final dividend of 0.26c per share (equal to the interim dividend) was declared leading to a total dividend that is 10% higher than in 2016.

The Tables below show the contribution of the various segments to Total income and PAT from the various segments:

Table 1: Total income by Segment

	Total Income (\$millions)		
	2017	2016	% Change
CBZ Bank	135.00	118.30	14%
CBZ Life	7.10	6.20	15%
CBZ Insurance	4.60	3.40	35%
CBZ Asset Management	2.90	2.10	38%

Table 2: Profit After Tax by Segment

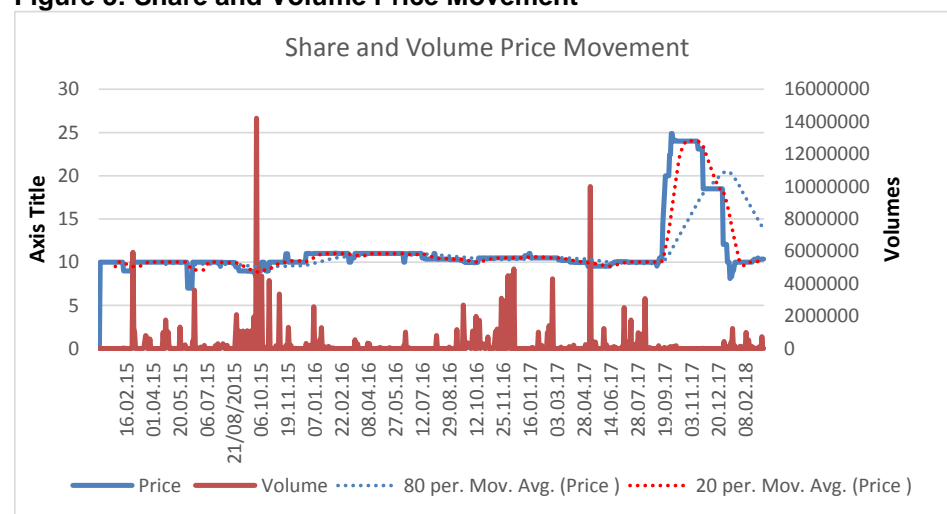
	Profit After Tax (\$millions)		
	2017	2016	% Change
CBZ Bank	25.40	18.70	36%
CBZ Life	3.70	2.60	42%
CBZ Insurance	2.40	0.90	167%
CBZ Asset Management	0.60	0.10	500%

The tables indicates that the overall positive growth in both the Total Income and PAT was a result of the contribution of all segments which recorded an impressive performance during the year.

Total Assets recorded a 5% growth mainly attributed to an increase in Treasury Bills to a total amount of \$899 million. TBs now constitute 41% of total assets whilst Total advances constitute 43% at \$941 million. 66% of these TBs have a maturity of 5 years and above whilst 26% have maturities between 1 year and 5 years.

Technical Analysis

Figure 3: Share and Volume Price Movement



Source: Platinum Research

The graph indicates that the CBZ share price has been trading at more or less the same price with only small fluctuations except for the once off major price hike in line with the ZSE bull-run in 2017. Even so, it can be noticed that the CBZ counter was a laggard in that rally, only recording a sizeable movement towards the fourth quarter of 2017 when the market had already recorded substantial gains. Following the subsequent sharp decline in the counter, the short term moving average has been trending below the long term average indicating a downtrend. However, the short term trend line is currently showing signs of turning up which could be an indication of a slight price recovery.

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 high regulator intervention in core banking activities such as lending rates and bank charges.
- The Group has revived CBZ Properties which is focusing on property and infrastructure development, property management and valuations. It is currently engaged in developing and selling residential stands in the low, medium and high density suburbs in Harare, Marondera, Bulawayo, Kwekwe, Gweru and in Mazowe. It is also undergoing infrastructure development for student accommodation in tertiary institutions and is looking into renewable energy.
- In its outlook, the Group expects to growth its advances by 19.7% and its total income by 31% supported by a strategic focus on contract farming and value chain financing, increasing advances towards the mining sector particularly in chrome, lithium, gold and export oriented entities. With this renewed focus to grow advances and the likely improvement in the economic prospects of the country, it is highly likely that a reasonable positive growth will be realized in interest income to augment growth in non-interest income.
- CBZ bank continues to hold a commanding position in deposits and advances with market shares of 23% and 24% respectively. In 2017, \$31.7 billion worth of transactions were processed through its banking systems and it currently has 458 000 active bank accounts. All these factors shall continue to support growth of its total income particularly non-interest income which has been a key driver of growth.
- All of its banking and nonbanking subsidiaries are currently adequately capitalized.
- All of its segments have maintained their credit ratings since 2015 with the exception of its Insurance segment which was upgraded one notch up from BBB to BBB+.
- The Group has an adequate security cover of 1.8 times over its loans that is mostly made up of cash, mortgage bonds and Notarial General Covering bonds.

Investment Concerns

- The significant increase in the NPL ratio to 10.9% (dollar amount up by \$41.5 million) brings about a key concern on the quality of the loan book with the greatest contributor being agriculture where the Group has consistently had a higher allocation in its advances. Given that the industry average NPL ratio is 7% and that CBZ is a market leader in advances, it is clear that the Group actually contributed substantially to elevating this ratio.
- Recoveries from the agriculture sector especially to fund government initiatives have historically been quite poor. As such, the Bank is likely to record high write offs in the future with regard to these elevated NPLs.
- The current substantial exposure in Treasury Securities (41% of total assets), is generally consistent with the rest of the banking sector. This has been necessitated by the lack of quality assets given the highly informalised economy. On average, the interest income earned on these financial instruments is 5% and given the high exposure on these securities (\$597 million maturing in 5 years and above), interest income growth could be muted in the event that higher yielding assets come into the market.
- The current investigations by the Office of Foreign Asset Control (OFAC) regarding historical transactions on behalf of ZB while it was still under sanctions are still ongoing. After initial negotiations the fine is said to be around \$385 million from \$3.8 billion. In its financial report, the bank indicated that it cannot reliably determine the terms and timing at which this situation will be resolved or the penalties, which could be significant. Management have also indicated that they are confident that the matter will likely be concluded with a caution and not a fee.

Valuation and Recommendation

The Group has made an impressive turnaround from the depressed performance in 2016 and has positioned itself adequately to survive the current macro-economic environment. The outlook presents exciting opportunities that are likely to support the lagging interest income and to further grow total income especially through infrastructure development. However, the substantial growth in NPLs remains a great concern and for now we shall keep a close watch on how the Group tackles this situation as this is a once off increase. In our valuation, we made use of the Relative Valuation method and the Dividend Discount Model. CBZ has a TTM (Twelve Month Trailing) P/E of 1.9x against an unadjusted industry P/E of 4.5x. We then adjusted the industry P/E downwards to 2.7x to reflect the fact that the bank has been lagging its industry in Total Income and PAT growth for

the past four years. Its 4 year average NPL however remains superior to that of the industry thus limiting the risk of the company. Its P/BV stands at 0.18x against an industry average of 0.39x after a downward adjustment using the same reasoning. The company has been growing its dividend by a steady 10% each year and therefore has a very stable dividend policy. Using the Dividend Discount method modeled under multi-stage growth to reflect the transitioning economy and the future growth prospects of the company we came to a fair value of 18c. Giving equal weighting to both methods gives us a fair value of 17.6 cents which is 79% upside to the current value. As the bank is currently trading under a cautionary regarding the OFAC issue and granted that management are presuming that the matter may likely be concluded with a caution and not a fee, we are currently **WITHOLDING** a recommendation until the final outcome of the matter.