

### ***A Trading Opportunity...but Uncertainty Persists***

## **Bank Sector Update-H106**

**29<sup>th</sup> September 2006**

Banks continue to face a myriad of challenges in an environment which has seen a rapid reduction in financial intermediation as is natural in a hyperinflationary environment. Further challenges for the sector have come in the form of regulatory risks. We undertake the following analysis with a view to ascertaining the sector's future prospects. The listed institutions to be analysed are **ABC, Barclays, CBZ, CFX, FBCH, Finhold, Kingdom, and NMB**. For comparative purposes the two largest non-listed banks **Standard Chartered** and **Stanbic** are included in the analysis.

### **Sector Statistics**

Capitalisation	Total Assets*	Weighting	PER	PER (+1)	PBV	ROE	ROA	Cost/ Income
Z\$263bn U\$179mn	Z\$315,5bn U\$1.002bn	6.33%	16.1x	3.7x	12.4x	51%	5%	67%

**Exchange Rate:** Official US\$1:Z\$250 Implied OM Rate US\$1:Z\$1,466

\*At H106 for all banks incl. non-listed.

### **Sector Recommendation:**

**Short-term; Overweight**

**Medium-term; Underweight**

### **Additional Notes**

Finhold's prior comparatives are for the nine months to June 2005 for the Income Statement items, while balance sheet comparatives are with the end of December 2005. Stanbic's balance sheet comparatives are for the end of December 2005.

### **Holding Companies**

- **African Banking Corporation (ABCH);** Includes Stockbrokers, Asset Management, and Finance House (all in Zimbabwe) Geographical spread- Botswana, Malawi, Tanzania, Zambia, Mozambique (commercial banking, finance houses & merchant banking entities);
- **CBZ Holdings;** Datvest Asset Management & CBZ Bank (commercial bank);
- **Kingdom Financial Holdings;** Discount House (DCZ), Stockbrokers, Asset Management, Meikles Financial Services (51% stake), Kingdom Bank (commercial bank);
- **FBCH;** Stockbrokers, Reinsurance, Building Society, & FBC Bank (commercial bank)
- **Finhold;** Syfrets Asset Management, & Zimbank (commercial bank)

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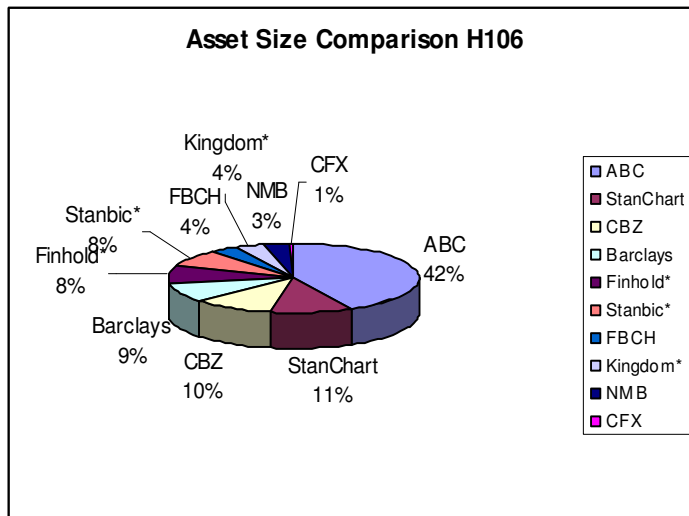
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## Balance Sheet Growth (ranked in order of size as at 30<sup>th</sup> June 2006)

	H106 (Z\$ 000's)	H105 (Z\$ 000's)	% Change
ABC	133,044,504	5,570,424	2288%
StanChart	34,381,426	5,395,278	537%
CBZ	33,035,000	4,490,000	636%
Barclays	29,545,000	4,210,000	602%
Finhold*	25,354,960	8,445,948	200%
Stanbic*	24,448,016	10,478,625	133%
FBCH	11,703,000	1,013,000	1055%
Kingdom*	11,446,990	2,719,707	321%
NMB	10,462,309	491,530	2029%
CFX	2,104,546	784,455	168%

*\*Comparatives to end of December 2005.*



A notable feature of bank balance sheets at present remains the increasing liquidity of assets, in the absence of significant lending in the present environment; particularly in H106 which saw a high interest rate regime in place. The continued decline in GDP coupled with hyperinflation has seen a notable reduction in financial intermediation particularly in the last 18 months. Given the high statutory reserves and constricted lending, many of the banks had liquid assets contributing over 50% of total assets. In particular the larger commercial banks with significant retail deposits

ABCH's notable increase in its asset base is attributable to the massive devaluation experienced by the local currency, which enhanced the value of its assets which are based regionally. In Pula terms the group's asset base rose by 3% to BWP1,948 million on the prior comparable period. 89% of the group's assets lie outside Zimbabwe, with ABC Botswana contributing 41%.

## Profitability (ranked in order of % growth)

	PAT H106 (Z\$ 000's)	PAT H105 (Z\$ 000's)	% Change
NMB	391,920	(6,770)	-
Kingdom	851,333	20,970	3960%
ABC	3,210,006	79,704	3927%
FBCH	1,989,000	61,000	3161%
CBZ	2,762,000	236,000	1070%
Stanbic	1,309,032	121,828	974%
StanChart	1,566,540	244,740	540%
Finhold	325,748	69,539	368%
Barclays	284,000	120,000	137%
CFX*	(179,718)	204,184	-188%

A clear theme in the first half was the inhibited profitability of the larger banks, again due to increases in statutory reserves combined with high accommodation rates (up to 900%) which impacted cost of funding. Particularly affected was Barclays which recorded a 137% increase in PAT significantly below average Y-o-Y inflation of 954.9%. Thus the top performers were

the mid-tier banks who were better placed to adjust their portfolios accordingly. Thus the likes of FBCH, Kingdom, and NMB recorded profits significantly ahead of inflation. Mention has to go to CBZ whose performance was enhanced by Datvest Asset Management, which recorded a 1,962% increase in its bottom-line on the prior period to Z\$536 billion for H106. ABCH earnings were bolstered by a 132% increase in non-interest income emanating from its trading portfolio in Zimbabwe and forex trading in the region. Once again the group's Zimbabwean subsidiary was the star performer contributing 84% of headline earnings. CFX's losses can be attributed to the fact that the bank emerged from curatorship on the 1<sup>st</sup> March and started operating in April.

### **Net Interest Income & Gross Interest Margins** (ranked in order of % growth in net interest income)

	<b>Net Interest Income</b>			<b>Gross Interest Margins</b>	
	H106 (Z\$ 000's)	H105 (Z\$ 000's)	% Change	H106	H105
NMB	588,305	18,741	3039%	12%	11%
FBCH	3,341,000	121,000	2661%	42%	46%
ABC	3,892,986	247,968	1470%	12%	25%
Stanbic	2,017,521	146,519	1277%	20%	38%
Kingdom	1,381,622	108,721	1171%	17%	23%
StanChart	4,480,387	541,070	728%	43%	70%
CBZ	3,324,000	464,000	616%	21%	36%
Finhold	893,587	349,513	156%	3%	16%
Barclays	168,000	411,000	-59%	1%	38%
CFX	96,670	285,247	-66%	26%	74%
			<b>Average</b>	<b>39%</b>	<b>38%</b>

Gross interest margins were subdued, again due to the high statutory reserves and increases in funding costs. Again the table highlights split in performance between the larger commercial banks and the mid-tier entities. Barclays performance was inhibited by a 2,390% increase in interest costs to Z\$8,341 million for H106.

<b>Net interest Income/Total Assets</b>	H106	H105
ABC	3%	4%
Barclays	1%	10%
CBZ	10%	10%
CFX	5%	36%
FBCH	29%	12%
Finhold	4%	4%
Kingdom	12%	4%
NMB	6%	4%
Stanbic	8%	1%
StanChart	13%	10%
	<b>9%</b>	<b>10%</b>

General trend in the industry was a reduction in net interest margins, as banks battled with liability management. However FBCH, Kingdom, NMB, StanChart managed to increase their net interest margins. Going forward the present low interest margins should see an enhancement of margins. Especially as many of the banks at year-end were holding considerable portfolios of Treasury Bills. Another added boon will be the earnings effect of CPI-linked paper.

Banks with considerable portfolios of CPI-linked paper include Barclays with CPI-linked paper worth Z\$2.7 billion at H106, which will significantly enhance earnings in H206 especially given the massively reduced funding costs.

## Other Income & Sources of Income (ranked in order of % growth in other income)

	H106 (Z\$ 000's)	FY04 (Z\$ 000's)	% Change	% of Total Income FY05
ABC	7,990,866	162,360	4822%	67%
NMB	651,037	20,770	3035%	53%
Kingdom	852,202	55,014	1449%	38%
Barclays	1,635,000	127,000	1187%	91%
CBZ	1,945,000	163,000	1093%	37%
FBCH	677,000	60,000	1028%	17%
Stanbic	1,917,560	221,166	767%	49%
StanChart	1,120,135	195,702	472%	20%
Finhold	793,529	150,448	427%	47%
CFX	107,791	(28,055)	-484%	53%
<b>Average</b>				<b>47%</b>

The relative relaxation in foreign exchange management coupled with a significant devaluation in the local currency helped to augment forex trading income for a number of the banks. Overall banks have kept a healthy balance between non-interest and interest income. Barclay's 91% contribution is simply a function of the paucity of the net interest income earned in the period under review; ZW\$ devalued by +900% in period under review. However with controls having been returned to the market, foreign currency related income may be limited going forward. The incentive for banks to expand beyond core activities has been reinforced by the dearth of lending opportunities, thus the likes of FBCH saw contributions of 21% of pre-tax profits from its building society, reinsurance arm and stockbroking. CBZ's relatively recent acquisition of Datvest Asset Management is increasingly becoming a considerable contributor to the holdings company. Funds under management grew by an impressive 1,606% in excess of average inflation to Z\$18.9 billion at H106, which aided a massive rise in fee and commission income from Z\$3 million H105 to Z\$263 million for H106. ABCH experienced a 132% increase in other income to BWP19,450 million, mostly emanating from trading activities in Zimbabwe.

## Operating Expenses & Cost to Income Ratio (ranked in order of % growth in operating expenses)

Operating Expenses				Cost to Income Ratio	
	H106 (Z\$ 000's)	H105 (Z\$ 000's)	% increase	H106	H105
ABC	5,532,138	256,824	2054%	49%	66%
FBCH	1,185,000	86,000	1278%	30%	51%
NMB	531,557	46,291	1048%	43%	4%
Stanbic	1,295,062	125,699	930%	33%	33%
StanChart	2,836,545	311,635	810%	51%	70%
Kingdom	953,805	107,562	787%	43%	66%
CBZ	1,069,000	141,000	658%	20%	22%
CFX	384,179	53,008	625%	260%	23%
Barclays	1,263,000	286,000	342%	70%	53%
Finhold	1,133,260	300,329	277%	68%	69.7%
<b>Average</b>				<b>67%</b>	<b>46%</b>

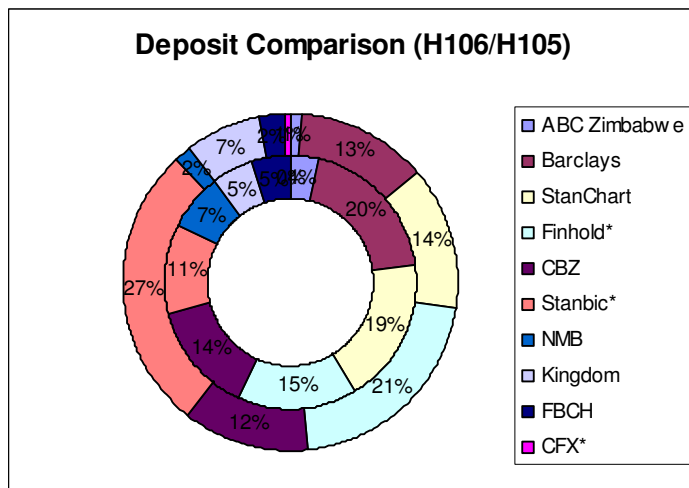
In real terms ABCH experienced a decline in operating expenditure from BWP86,509 million in the prior period to BWP80,795 million. This was partly attributable to a marginal decline in the headcount to 345 from 364 in the prior period. Staff costs as a portion of total costs fell

from 63% to 55%. However, going forward the group intends to ramp up its marketing costs to support growth targets. CFX's high cost to income ratio was attributable to high initial start-up costs following resumption of business, as well as reduced income as the company operated for 3 months in H106. Generally most of the institutions managed to keep costs below average Y-o-Y inflation. CBZ staff complement rose by 12% in the period under review, however the group experienced a drop in its cost to income ratio. Kingdom continued to keep staff costs under control following recent restructuring efforts; staff costs as a % of total costs declined to 49% from 57%. Going forward the industry will be effected by industry-wide increments awarded to staff in July (300%) and further increments set for November.

## Deposits & Advances (ranked in order of size of deposits as at FY05)

	Deposits			Advances		
	H106 (Z\$ 000's)	H105 (Z\$ 000's)	% Change	H106 (Z\$ 000's)	H105 (Z\$ 000's)	% Change
ABC	89,128,890	3,551,256	2410%	52,316,268	1,502,568	3382%
Barclays	25,530,000	3,384,000	654%	4,004,000	629,000	537%
StanChart	24,475,434	3,701,432	561%	7,787,657	718,897	983%
Finhold*	20,372,358	5,569,176	266%	4,031,276	1,075,364	275%
CBZ	19,081,000	3,260,000	485%	6,220,000	1,295,000	380%
Stanbic*	15,165,916	7,386,055	105%	3,813,791	626,807	508%
NMB	9,631,527	476,041	1923%	3,506,872	248,412	1312%
Kingdom*	6,941,274	1,906,251	264%	2,759,301	887,045	211%
FBCH	6,358,000	649,000	880%	633,000	117,000	441%
CFX	179,446	168,569	6%	22,992	78,701	-71%
			<b>572%</b>			<b>508%</b>

\*Comparatives to end of December 2005.



Inner ring represents H106, outer ring H105.

In terms of deposits the top five local banks continue to control the majority of deposits. The major change in market shares within that group was Barclays whose share deposits escalated to 20%, to the detriment of CBZ, Finhold, Kingdom, and Stanbic. FBCH's impressive increase in deposits was attributable to a large rise in money market deposits. In terms of customer (demand) deposits Standard Chartered retains number 1 market share with deposits worth Z\$23 million, followed by Barclays with Z\$18 million.

The high statutory reserves clearly affected the larger banks who rely more on retail deposits as the major source of funding, and due to that they were unable to adequately restructure their books. NMB's massive increase in deposits is partly due to the continued loyalty of its customer base. The majority of ABCH's deposits lie outside the country, approximately 95%, with Botswana contributing 56% of the total. NMB has been partly aggressive in its lending activities, growing its book significantly ahead of average Y-o-Y inflation. CBZ remains at the forefront of availing concessionary financing with ASPEF funding making up Z\$3 billion of the loan book. Barclays ASPEF lending amounted to Z\$902 million, while the bank has also secured an offshore line of credit worth US\$11 million. Another bank to secure offshore lines

of credit was Kingdom, worth an estimated US\$10 million. Kingdom's book bolstered by the increase in the MFS debtors book to Z\$1.07 billion.

## Provisioning

	Provisioning			% of Loan Book	
	H106 (Z\$ 000's)	H105 (Z\$ 000's)	% Change	H106	H105
ABC	1,365,960	29,520	4527%	3%	2%
Barclays	106,000	59,000	80%	3%	9%
CBZ	144,000	110,000	31%	2%	8%
CFX*	(827)	28,803	-103%	-4%	4%
FBCH	26,000	7,000	271%	4%	6%
Finhold	53,589	6,810	687%	1%	1%
Kingdom	48,314	18,219	165%	2%	2%
NMB	226,214	2,994	7456%	6%	1%
Stanbic	403,460	52,768	665%	11%	8%
StanChart	165,862	10,089	1544%	2%	1%
				3%	4%

\*ABC takes into account devaluation.

In accordance with the general decline in lending in recent times, general provisioning has witnessed a decline. However with the RBZ now promoting a more expansionary policy to stimulate domestic credit growth H206 should see increased lending. However prudence will be critical as overall the state of the economy remains grim. ABCH's NPL's at H106 amounted to BWP104,487 million of which Microfinance Zambia contributed 35%.

## Solvency & Liquidity Ratios

	Solvency Ratio		Liquidity Ratio	
	H106	H105	H106	H105
ABC	12%	291%	73%	92%
Barclays	7%	49%	44%	71%
CBZ	15%	11%	103%	87%
CFX	56%	40%	143%	320%
FBCH	28%	18%	87%	97%
Finhold	12%	16%	72%	108%
Kingdom*	24%	14%	115%	78%
NMB	7%	139%	68%	35%
Stanbic*	17%	17%	106%	51%
StanChart	10%	15%	45%	67%

## Capital Adequacy Ratios

	CAR (Tier 1 & 2)	
	H106	H105
ABC	69%	50%
Barclays	22%	43%
CBZ	39%	28%
CFX*	4%	107%
FBCH	37%	15%
Finhold	34%	28%
Kingdom	115%	27%
NMB	12%	0.2%
Stanbic	32%	26%
StanChart	18%	43%

All the banks reviewed have capital adequacy ratios significantly above the stipulated regulatory minimum, reflective of the increasingly liquid nature of assets on banks balance sheets. In terms of meeting the new capital requirements of US\$10 million (or Z\$2.5 billion) all banks are compliant as at the deadline of 30<sup>th</sup> September 2006. The following undertook successful rights offers; Kingdom, CFX, and NMB.

## Outlook; Recent Monetary Policy Developments

The recent Monetary Policy Statement delivered by the RBZ signalled the authorities' intention to institute an expansionary monetary policy, with the dropping of statutory reserves as well as the reduction in the accommodation rate to 300% and 350% for secured and unsecured respectively. This will effectively open the door for increased credit availed to the private sector, which had been tamed for the past few years, given the tight monetary policy implemented in early 2004, and the subsequent erratic interest rate policy. Invariably the government has been the main borrower in the economy, as evidenced by the growth in credit to government of 927.5% compared to 455% growth for the private sector.

The recent high yields on Treasury Bills availed in H106 exacerbated the domestic debt situation. Given this scenario H206 has seen interest rates drop significantly, while the tenor of Treasury Bills has lengthened considerably at markedly reduced yields. In a further effort to ensure that credit is availed to the productive sector, as well as to ensure that the longer-dated paper is taken up, the RBZ introduced new 'sweeping' arrangements, whereby banks in surplus positions could have funds swept up at 0% for periods ranging from 90 days to 270 days. While the short term effect may see increased credit availability, the longer term effects could see renewed instability in the sector.

## Company Statistics

Counter	ABC	Barclays	CBZ	CFX	FBCH	Finhold	Kingdom	NMB	Totals/ Averages
Rec.	Buy	Acc.	Acc.	Reduce	Acc.	Hold	Hold	Spec. Buy	
Price (ZW\$)	270	30	125	2.9	80	120	60	13	
Price (US\$)	0.18	0.02	0.09	0.00	0.05	0.08	0.04	0.01	
Market Cap (ZW\$bn)	30.631	56.214	85.518	4.377	27.630	17.199	26.220	15.820	263.339
Market Cap(US\$mn)	20.884	38.327	58.306	2.984	18.653	11.726	17.876	10.786	179.000
Weighting	0.74%	1.35%	2.06%	0.11%	0.66%	0.41%	0.63%	0.38%	6.33%
PER	7.6	44.6	20.6	-12.2	12.0	28.5	15.4	12.3	16.1
DY	0%	0.0%	0.5%	0%	0.07%	0%	0%	0%	
EPS (+1)	Z\$148.54	Z\$10.62	Z\$31.50	Z\$1.00	\$31.44	Z\$31.12	\$8.56	\$3.07	
PER (+1)	1.82	2.82	3.97	2.90	2.54	3.86	7.01	4.24	3.65
Target Price	3,187.77	228.01	675.98	0.82	674.72	667.95	183.62	147.06	
PBV	1.89	27.09	17.15	3.69	8.48	5.34	9.62	23.20	12.06
US\$ PER	0.62	3.61	1.67	-0.99	0.97	2.30	1.25	0.99	1.30
	\$	\$	\$	\$	\$	\$	\$	\$	
NAV US\$	51.35	6.59	15.83	3.77	10.24	10.23	8.66	2.17	
PBV US\$	0.41	5.82	3.68	0.79	1.82	1.15	2.07	4.98	2.59
Total Income(US\$ mn)	160.316	34.807	67.357	1.722	43.863	17.571	24.377	16.378	
US\$ Price/Total Income	0.13	1.10	0.87	1.73	0.43	0.67	0.73	0.66	0.79
PE Relative	0.16	0.93	0.43	(0.25)	0.25	0.59	0.32	0.26	0.34
Total Assets (US\$mn)	422.375	93.790	104,869.000	6.680	37.151	80.489	36.338	33.212	
PAT (US\$mn)	45.254	11.279	34.858	(3,029.000)	20,984.000	5.488	14.434	6.010	

**Exchange Rates; Average Implied OM Rate Z\$118.71 to 1US\$, Implied Rate at H106 Z\$315.01 to 1US**

## Recommendation

Invariably banks remain the most discounted sector, in terms of value, due in no small part to their intrinsic link to the economy which continues to decline. However the second half is set to deliver windfall earnings, as funding costs have reduced significantly while the majority still hold high-yielding Treasury Bills availed in H106. Banks who had managed to attain CPI-linked paper will see even greater enhanced earnings. However looking ahead the sector is poised to experience further difficulties in the face of regulatory uncertainty, particularly in light to the recent changes in RBZ's liquidity management system, which will see some banks acquire significant portfolios of paper yielding nothing for extended periods of time in a hyperinflation environment thus effectively shrinking their balance sheets. For now we recommend traders **OVERWEIGHT** the sector in the short-term.

## Regional Comparatives

Bank	Country	Market Cap (US\$m)	PER(x)	PBV(x)
<b>Barclays</b>	Botswana	715	17.7	2.7
<b>FNBB</b>	Botswana	617	15.7	2
<b>Stanchart</b>	Botswana	726	20.9	0.97
			<b>18.1</b>	<b>1.89</b>
<b>NBM</b>	Malawi	111	11.1	11.8
<b>FMB</b>	Malawi	77	18.2	0.7
<b>Stanbic</b>	Malawi	30.5	10	11.1
			<b>13.1</b>	<b>7.867</b>
<b>MCB</b>	Mauritius	542	10.8	1.6
<b>SBM</b>	Mauritius	382	10.6	1.4
			<b>10.7</b>	<b>1.5</b>
<b>FNB</b>	Namibia	248	8.9	1.6
<b>Stanchart</b>	Zambia	117.6	10	4
<b>ABCH</b>	Zimbabwe	21	0.62	0.41
<b>Barclays</b>	Zimbabwe	38	3.61	5.82
<b>CBZ</b>	Zimbabwe	58	1.67	3.68
<b>CFX</b>	Zimbabwe	3	-0.99	0.79
<b>FBCH</b>	Zimbabwe	19	0.97	1.82
<b>Finhold</b>	Zimbabwe	12	2.30	1.15
<b>Kingdom</b>	Zimbabwe	18	1.25	2.07
<b>NMB</b>	Zimbabwe	11	0.99	4.98
			<b>1.3</b>	<b>2.6</b>

*Zimbabwe statistics are US\$ adjusted.*

# Technical Analysis

## Financial Index relative to Industrial Index (Daily)



- **Broad five year trend remains negative; set to test shorter-term resistance which if crossed will give a new technical buy signal.**

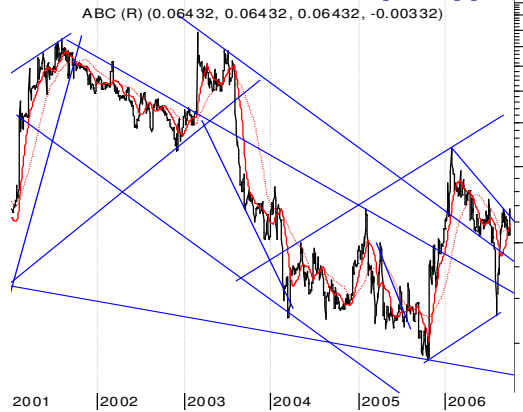
## Financial Index relative Implied OM Rate (Daily)



- **Testing definitive 5 year resistance.**

# Technical Relatives

## ABCH relative to Index (Daily)



➤ Has in the past year crossed above all bearish resistance levels.

## Barclays relative to Index (Daily)



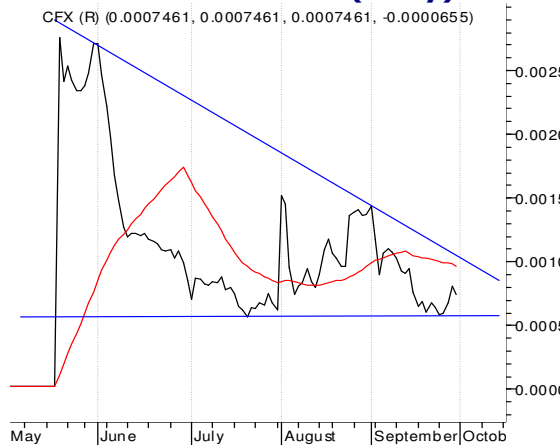
➤ Testing bearish resistance, break out would suggest future outperformance.

## CBZ relative to Index (Daily)



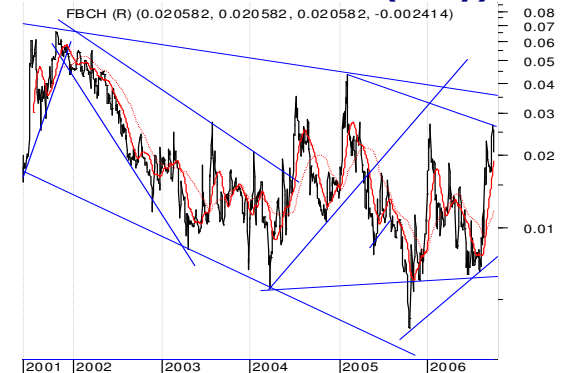
➤ Following break of short-term resistance outperforming the Index

## CFX relative to Index (Daily)



➤ Since re-listing has been underperforming the Index.

## FBCH relative to Index (Daily)



➤ Volatile chart; flagging towards long term resistance.

## Finhold relative to Index (Daily)



➤ Following test of long term support; has flagged above resistance to create a new technical buy signal.

### Kingdom relative to Index (Daily)



➤ **In a steep bear trend for much of the last 5 years; showing signs of recovery.**

### NMB Relative to Index (Daily)



➤ **Overall trend remains bearish.**

### Key:

**Black Line-**  
**Red Line-**  
**Average**  
**Blue Lines-**

**Security**  
**30 Day Moving**  
**Trend lines**

Comments and Recommendations are based entirely on technical analysis which may contradict with fundamental recommendations.

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