MMC CAPITAL BARCLAYS FY13 RESULTS REVIEW

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(Members Of The Zimbabwe Stock Exchange)

Rating	BUY
Date	13-Feb-14
Reuters code	BARC:ZI
Bloomberg code	BARC:ZH
Current Price US cent	4.2
Fair Value	5.8
Implied upside	39%
Shares in issue 'm	2,153.06
Market Cap US$'m	90.43
52 week range -cent	2.1c - 6.5c
Book Value US$m	42.43
Price to book	2.13

	FY2013	FY2012
Total Income	38.80	36.85
Key ratios:		
NFI:Total Income	70.1%	80.7%
Yield on earning assets	5.1%	3.7%
Average cost of funds	1%	1%
Net Interest Margin	4.2%	2.8%
Cost Income ratio	85%	90%
Return on Equity	6.7%	5.2%
Market cap $m	90.43	
EV $m	-40.01	
Valuation		Sector
PBk (+1)	1.96	2.73
ROE	6.7%	23.7%
Loan:Deposit	47%	78%

Nature of Business - Banking

Division	Activity
Retail	Incorporates direct debit facilities,savings & deposits,custody,credit& debit cards,consumer loans.
Corporate Banking	Overdrafts,loan & other credit facilities,foreign currency products
Treasury	Incorporates financial securities and foreign currency trading

Zimbabwe's second largest bank by market capitalisation, Barclays, released an impressive set of numbers for the year ended 31 December 2013. The group continued with its 'Safe-banking model' and a leaner structure which are yielding fruits.

Non funded income still dominating…

Barclays registered a 5.3% growth in its total income for the year to $38.8m from prior year. The growth in total income was mainly driven by the growth in the overall depositor base (+10.3%) which led to an increase in transactional activities and lending. The loan book expanded 25.4% to $115.5m whilst impairments remain below 1% relative to the industry average of c.16%. Non-funded income maintained its dominance in income contribution weighing in 70% compared to prior year's 81%. The decrease was due to the fact that the group managed to grow its loan book resulting in a 61% increase in net interest income (NII) to $12.3m from $7.6m (2012). The bank's net interest margin (NIM) improved to 4.2% from last year's 2.8% following a 1.4 percentage point improvement in the yield on interest earning assets as the cost of funds remained relatively flat.

The bank improved its product offering, a sign of improved innovation and this initiative will likely improve the Non Funded Income (NFI) growth going forward. NFI for the period under review, however came in lower at $27.2m compared to $29.7m in 2012. The decline was necessitated by a 20% decline in cash withdrawal fees.

An improving Cost to Income ratio

The group's Cost to Income ratio (CIR) improved by 5% to 85% in 2013 relative to 2012. Operating costs declined by 5 bps to $33.89m in the period under review. Retrenchment cost amounted to $206,103 and a post medical benefits credit to tune of $1.1m gave a breather to the cost base. The contribution of staff cost to total operating expenses declined by 2% to 53% in 2013 compared to 2012. Impairments grew by 34% to $0.712m mainly due to growth in the lending portfolio.

The improvement in the CIR ratio primarily came from the revenue/income growth as management highlighted it has fully optimised its cost structure. Thus into the future CIR decline will be from income growth. Overall Barclays reported a 51% growth in after tax profits to $2.95m from the $2.12m earned in FY12 leading to basic earnings per share of US 0.14 cents.

Flight to quality fuelling deposit growth

The group's statement of financial position showed a 10% growth in deposits from customers to $248m from the prior year's $225m. Deposits grew despite the decline in the economy's M3 supply due to depressed incomes growth and increased liquidity challenges. Of significance was the deposit mix with corporate depositors accounting for 61% of total deposits (55% in 2012) but the cost of funding remained low showing that the deposits are of a higher quality and relatively cheap.

The bank has mastered the art of studying the evolution of the financial services sector and it has managed to maintain a quality loan book. The group's loan to deposit ratio (LDR) increased by 6 percentage points to 47% which is still below local industry average of 78%. Trade and services deposits dominated in as far as deposits were concerned weighing in 32% (FY12:21%) followed by the retail and the transport and distribution sectors which chipped in 27% (FY12:33%) and 16% (FY12:17%) respectively. On the lending side, Barclays reduced its allocation to the Trade and services sector from 12% in FY12 to 7% of total loans in FY13. The group further reduced its exposure to the agricultural sector by 6% from 15% in 2012 to 9% in 2013. The bank increased its exposure to the retail based sectors of the economy by 3% to 17% as the fundamentals of these sectors remained attractive.

Liquid and well capitalised amidst a liquidity crisis

Barclays had a relatively strong liquidity position as reflected by the 53% liquidity ratio for the period under review. Sufficient liquidity for a bank entails an ability meet short term obligations when they fall due. The growth in the loan book resulted in a decline in the liquidity ratio from prior years' 58% but is still above the required 30%. The bank has enough liquidity to fend off the liquidity challenge that is besieging the sector.

The safe-banking model is partly the reason why the liquidity ratio is high and this is likely to be the long term scenario for Barclays.

With regard to capital adequacy the bank remained adequately capitalised with Tier 1 capital ratio of 12% compared to the statutory 10%.

Outlook and Valuation

According to management guidance, the group will be focussing on increasing the level of lending to more customer segments, leveraging on Barclays Group capacity. Broadening of e-channels will also remain a priority as the group seeks to increase penetration. We project a 3% growth in total income to $39.96m for the FY14. The CIR is likely to improve to around 80% driven by income growth and this is likely to see an attributable income of c.US$3.5m leading to basic earnings per share of US 0.16c. The growth in attributable earnings will continue to be guided by the bank's overall lending policy which we view is likely to remain the same.

With regard to valuation we have utilised the relative P/Bk metric based on a forward BVPS of US 2.14c and an Industry P/Bk of 2.73x (Reuters). We arrive at a fair value of 5.84 cents which yields 39% upside potential at the current price level of 4.2c. The major downside for Barclays is with regard to the indigenisation legislation. We maintain a **Long term Buy** tag stock.

Disclosure appendix

Analyst Certification

The following analyst(s) who is (are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: **Kudzanai Samudzi.**

Important disclosures

Stock ratings and basis for financial analysis

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Additional disclosures

1 This report is dated as at 14 February 2014

2 All market data included in this report are dated as at close of 13 February 2014, unless otherwise indicated in the report.

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