

HF Group FY16 Earnings Update

‘Dividend payout slashed as earnings deteriorate’

HF Group announced FY16 results recording 24.4% y/y decline in PAT to KES 905.8M, taking a beating in 4Q16 due to the rate cap (PAT down 71.6% q/q). Gross NPLs surged 51.2% y/y to KES 6.2B resulting in a 350 bps y/y worsening of the NPL ratio to 11.1%. Loan loss provisions rose 38.8% y/y to KES 699.2M, edging up its cost of risk by 30bps y/y to 1.3%. The company declared a total dividend of KES 0.50, down 61.5% y/y driving the dividend yield lower to 4.2%.

Net interest income rose 8.9% y/y to KES 3.9B (-18.9% q/q) primarily driven by a 309.6% y/y spike in government securities. This follows the trend of banks shifting their money to government securities in pursuit of better yields on long tenor securities.

Loans and advances edged up 2.7% y/y to KES 54.5B, further propelling interest income accounting for 9.3% y/y growth to KES 7.9B. Interest expenses rose 4.2% y/y to KES 4.7B (-6.8% q/q) despite customer deposits declining 8.6% y/y to KES 38.1B. This highlights higher rates offered to depositors, as cost of funds edged up 50bps y/y to 8.0% (-20 bps q/q).

The yield on interest earning assets accelerated much faster, gaining 100bps y/y to 14.3% (-140bps q/q). Consequently, this saw a 40bps y/y rise in Net Interest Margin (NIM) to 6.3% (-120 bps q/q).

All non-interest income lines took a downturn resulting in a 35.5% y/y dip in non-interest income to KES 755.5M, with a 93.5% y/y slump in foreign exchange income. Gross fees and commissions declined 6.3% y/y coupled with a 44.0% y/y drop in other income as housing projects faced headwinds. The decrease in other income was primarily attributable to reduced property sales. Management pointed out that the company’s property development unit HFDI has KES 1.0B worth of transactions tied up at the lands ministry where operations have slowed down.

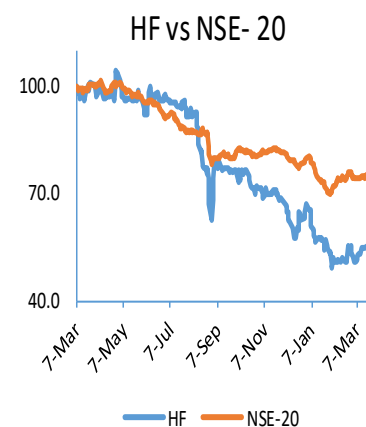
Total operating expenses marked a 1.3% y/y marginal rise to KES 2.6B owing to a 61.1% y/y rise in rental charges as the firm took up additional office space, coupled with a 64.0% surge in depreciation charges on fixed assets. These slightly weighed down its cost to income ratio (CTI) posting a 180bps y/y decrease to 56.3%, higher than the industry average.

Going forward, we remain concerned about the group’s ability to unlock the value of its real estate projects in the interim, owing to the stalemate and reforms at the lands office. Also, the bank took a major hit in 4Q16 with net interest income falling drastically. We may see this carrying on in FY17, further denting the group’s earnings. Despite trading at low multiples of 0.5x P/B and 4.6x P/E, its ROE at 8.0% does not whet the appetite.

Bloomberg Ticker :	HFCL KN
Reuters Ticker:	HFCL.NR

Share Statistics	
Current Price (KES)	11.80
Issued shares (M)	352.4
Market cap (USD M)	404.1
Year end	Dec
Foreign ownership (%)	2.3
Free float (%)	76.1
Av daily trading vol (USD k)	7,360

Price Trend



Source: Bloomberg

Research Analyst

Shaniza Kassam
skassam@apexafrica.com
+254 723 420204

	FY15	1Q16	2Q16	3Q16	4Q16	FY16	% chg y/y	% chg q/q
Income Statement	KES '000	KES '000	KES '000	KES '000	KES '000	KES '000		
Interest Income	8,098,136	2,300,857	2,196,200	2,191,320	1,919,122	8,607,499	6.3%	-12.4%
Interest Expense	4,486,182	1,299,104	1,114,809	1,169,283	1,090,188	4,673,384	4.2%	-6.8%
Net Interest Income	3,611,954	1,001,753	1,081,391	1,022,037	828,934	3,934,115	8.9%	-18.9%
Foreign Exchange Income	59,959	-7,863	5,569	5,859	348	3,913	-93.5%	-94.1%
Gross Fees and Commission	342,686	116,991	4,891	136,089	63,262	321,233	-6.3%	-53.5%
Other Income	768,444	132,683	-79,446	356,937	20,229	430,403	-44.0%	-94.3%
Non Interest Income	1,171,089	241,811	-68,986	498,885	83,839	755,549	-35.5%	-83.2%
Total Operating Income	4,783,043	1,243,564	1,012,405	1,520,922	912,773	4,689,664	-2.0%	-40.0%
Total Operating Expenses	2,608,766	636,207	428,337	1,013,638	564,436	2,642,618	1.3%	-44.3%
Loan Loss Provision Expense	503,771	136,895	168,103	189,808	204,360	699,166	38.8%	7.7%
Profit Before Tax & Exceptional Items	1,670,506	470,462	415,965	317,476	143,977	1,347,880	-19.3%	-54.6%
Exceptional Items	83,012	0			8,962	17,773	-78.6%	
Profit After Exceptional Items	1,753,518	470,462	415,965	317,476	152,939	1,365,653	-22.1%	-51.8%
Tax	556,549	143,046	122,882	109,038	84,858	459,824	-17.4%	-22.2%
Profit After Tax and Exceptional Items	1,196,969	327,416	293,083	208,438	68,081	905,829	-24.3%	-67.3%
EPS (KES)	3.40	0.93	0.83	0.59	0.19	2.57	-24.3%	-67.3%
DPS (KES)	1.30					0.50	-61.5%	
No. of shares	352,416	352,416	352,416	352,416	352,416	352,416		
Balance Sheet	FY15	1Q16	2Q16	3Q16	4Q16	FY16	% chg y/y	% chg q/q
Total Shareholders' Equity	10,622,641	10,996,740	9,444,788	11,221,967	11,289,262	11,289,262	6.3%	0.6%
Deposits due to Banks & Financial Institutions	0	0	563,541	773,277	624,701	624,701		-19.2%
Borrowed Funds	18,540,375	18,698,351	16,759,800	18,507,591	19,736,615	19,736,615	6.5%	6.6%
Customer Deposits	41,665,085	40,867,229	39,997,664	41,612,407	38,082,325	38,082,325	-8.6%	-8.5%
Total Liabilities	61,036,793	61,228,507	58,509,201	62,242,863	60,640,878	60,640,878	-0.6%	-2.6%
Total Equity and Liabilities	71,659,434	72,225,247	67,953,989	73,464,830	71,930,140	71,930,140	0.4%	-2.1%
Cash and CBK Balances	4,449,556	3,619,664	3,220,695	3,163,473	3,372,363	3,372,363	-24.2%	6.6%
Balances due from Banks & Financial Institutions	5,517,570	3,819,172	2,555,469	2,520,373	1,657,496	1,657,496	-70.0%	-34.2%
Government and Other Securities	2,150,981	4,167,436	3,714,869	5,575,307	4,085,550	4,085,550	89.9%	-26.7%
Net Loans and Advances	53,021,022	53,446,774	53,465,918	53,913,064	54,469,605	54,469,605	2.7%	1.0%
Fixed Assets	1,341,930	1,151,088	1,367,912	1,433,505	1,458,087	1,458,087	8.7%	1.7%
Total Assets	71,659,434	72,225,247	67,895,556	73,464,830	71,930,140	71,930,140	0.4%	-2.1%
Key Ratios	FY15	1Q16	2Q16	3Q16	4Q16	FY16	% chg y/y	% chg q/q
Gross NPL (KES M)	4,097,356	4,523,977	5,363,759	5,547,000	6,193,462	6,193,462	51.2%	11.7%
Interest In Suspense (KES M)	610,211	622,128	761,909	851,189	1,017,611	1,017,611	66.8%	19.6%
Total NPL (KES M)	3,487,145	3,901,849	4,601,850	4,695,811	5,175,851	5,175,851	48.4%	10.2%
Loan Loss Provision (KES M)	992,862	1,176,480	1,245,580	1,252,460	1,298,340	1,298,340	30.8%	3.7%
Net NPL	2,494,283	2,725,369	3,356,270	3,443,351	3,877,511	3,877,511	55.5%	12.6%
NPL Ratio	7.6%	8.3%	9.8%	10.1%	11.1%	11.1%	3.5%	1.1%
Cost of Risk	1.0%	1.0%	1.3%	1.4%	1.5%	1.3%	0.3%	0.1%
Loan to Deposits	127.3%	130.8%	133.7%	129.6%	143.0%	143.0%	15.8%	13.5%
Yield on Interest Earning Assets	13.3%	15.0%	14.7%	14.1%	12.7%	14.3%	1.0%	-1.4%
Cost of Funds	7.5%	8.7%	7.8%	7.7%	7.5%	8.0%	0.5%	-0.2%
NIM	5.9%	6.3%	6.9%	6.5%	5.3%	6.3%	0.4%	-1.2%
Non Funded/Total Income	24.5%	19.4%	-6.8%	32.8%	9.2%	16.1%	-8.4%	-23.6%
Cost to Income Ratio	54.5%	51.2%	42.3%	66.6%	61.8%	56.3%	1.8%	-4.8%
ROE	11.3%	11.9%	12.4%	7.4%	2.4%	8.0%	-3.2%	-5.0%
ROA	1.7%	1.8%	1.7%	1.1%	0.4%	1.3%	-0.4%	-0.8%
Core Capital/TRWA	17.9%	14.6%	14.6%	10.5%	15.7%	15.7%	-2.1%	5.2%
Total Capital/TRWA	20.5%	17.4%	17.1%	17.0%	17.7%	17.7%	-2.8%	0.7%
Liquidity Ratio	28.0%	26.9%	21.8%	23.8%	21.1%	21.1%	-7.0%	-2.8%
P/E (x)						4.6		
P/B (x)						0.4		
Dividend Yield						4.2%		

Disclaimer

ApexAfrica and its parent company Axys Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of ApexAfrica or Axys Group.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by Apex Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.

ApexAfrica Capital Ltd
A The Riverfront, 1st Floor, Prof. David Wasawo Drive, Off Riverside Drive | P.O. Box 43676-00100 | Nairobi | Kenya |
T: +254-20-2226440 | **Fax**: +254-20-2319092 | **Cell**: +254-723-420204|
W : www.apexafrica.com
Part of AXYS Group
W : www.axys-group.com