



# Housing Finance– Rights Issue Note

10<sup>th</sup> February, 2015

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## RECOMMENDATION: EXERCISE RIGHTS

### Rights Issue Statistics

<b>New shares:</b>	<b>116,666,667</b>
<b>Offer Price:</b>	<b>KES 30.00</b>
<b>Allotment:</b>	<b>1 new for every 2 shares held</b>
<b>Proceeds:</b>	<b>KES 3.5billion</b>
<b>Beginning of trading:</b>	<b>February 9<sup>th</sup>, 2015</b>
<b>Closing date:</b>	<b>March 2<sup>nd</sup> 2015</b>

### Table of Key events

<b>Commencement of trading in rights:</b>
<b>19<sup>th</sup> February 2015</b>
<b>Last date for immobilization of rights:</b>
<b>2<sup>nd</sup> March 2015</b>
<b>Last day for trading in rights:</b>
<b>2<sup>nd</sup> March 2015</b>
<b>Closing date:</b>
<b>13<sup>th</sup> March 2015</b>
<b>Results announcement:</b>
<b>26<sup>th</sup> March 2015</b>
<b>Final payment via letters of undertaking:</b>
<b>30<sup>th</sup> March 2015</b>
<b>Electronic crediting of CDS accounts:</b>
<b>14<sup>th</sup> April 2015</b>
<b>Listing and commencement of Trading:</b>
<b>15<sup>th</sup> April 2015</b>

## SUMMARY

Housing Finance (HF) is seeking to raise KES 3.5billion through a rights issue by issuing 116,666,667 new ordinary shares at an Offer Price of KES 30.00(28.9% discount) per share in the ratio of 1:2.

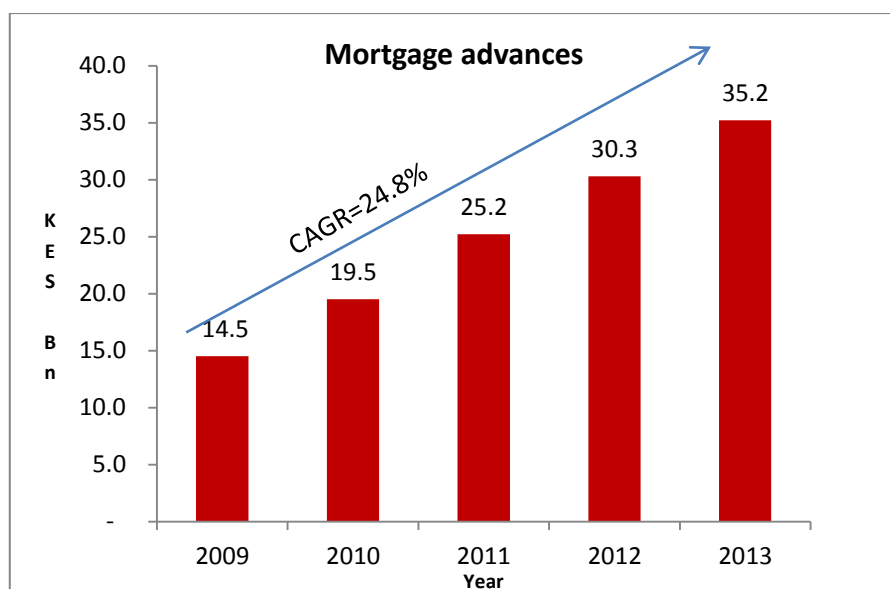
We expect the additional capital to boost the company's capitalization and spur business growth. **We therefore advise investors to take up their rights.**

Proceeds from the rights issue are expected to increase lending capacity and fund growth and expansion in line with the company's growth strategy.

## INVESTMENT CONSIDERATIONS

Our investment recommendation to participate is premised on the following:

### 1. Loan Book Growth



Source: Annual reports

The company's mortgage advances grew at a Compounded Annual Growth Rate (CAGR) of 24.8% from KES 14.5 billion (FY2009) to stand at KES 33.1billion (FY2013). Customer deposits grew at a CAGR of 21.4% from KES 12.2 billion (FY2009) to stand at KES 26.5 billion (FY2013).

Profit after tax grew at a CAGR of 43.6% from KES 234.2 million in 2009 to KES 995.2 million as at 2013.

With the anticipated additional branches, we expect the bank to be able to generate more deposits spurring loan book growth and consequently boosting earnings.

Going forward, we expect that a marginal reduction in interest rates following the recent reduction of the KBRR rate (8.5% from 9.1%) may spur loan uptake.

Total capital/Total risk weighted assets at 21.6% as at FY2013

## 2. Capital Adequacy Ratios

We expect the additional capital to boost the capital adequacy ratios. Total capital/Total risk weighted assets stood at 21.6% as at FY2013, well above the new minimum statutory requirement of 14.5%.

## 3. Asset Quality

Housing Finance has significantly improved the quality of its loan book over the years. Gross non-performing loans (NPLs) as a percentage of gross loans and advances stood at 9.1% (FY2013) compared to 12.5% (FY2009). HF identifies credit risk as one of its largest risk. Considerable resources, expertise and control are devoted to managing it, with a Credit Risk Department at the management level.

	2009	2010	2011	2012	2013
<b>Gross NPLs/Gross Loans &amp; advances</b>	12.5%	7.5%	6.3%	7.7%	9.1%
<b>Gross Provisions/Gross NPLs</b>	32.9%	26.1%	30.4%	27.8%	27.4%
<b>Net Loans &amp; advances/Total Assets</b>	79.5%	66.6%	79.1%	74.0%	74.3%

Source: Annual reports

An additional 7 branches set to be rolled out in 2015 expected to be strategic deposit mobilization centers

## 4. Growth and Expansion Plans

- a) **Retail Footprint:** In line with its business growth, HF is seeking to expand by increasing its retail footprint. It currently has 14 branches spread across major urban centres in Kenya and 2 Sales and Services centres. With branches already open at Sameer Business Park and Thika Road Mall, an additional 7 branches are set to be rolled out in 2015. We expect this to be strategic deposit mobilisation centres as well as sources of non-funded income via over the counter transactions.
- b) **New market initiatives:** HF was awarded a trustee licence for the Real Estate Investment Trusts (REITs) at the NSE. We expect fees and commissions generated from REITs to boost HF's non-funded income.

## **5. Increased Demand for Housing**

According to the World Bank, current demand for housing is 200,000 units per annum against a supply of 35,000 units. We are of the opinion that a growing middle income population represents an increasing demand for decent housing that could create mortgage financing opportunities. However, we remain concerned about the high cost of mortgages, with the weighted average mortgage interest rate standing at 16.3% (3Q2014) compared to 14.1% in 2010.

### **RECOMMENDATION**

We expect the additional capital to boost the company's capitalization and spur business growth. We therefore advise investors to take up their rights.