Housing Finance – 1Q2013 Results Note

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Housing Finance 1Q2013 Earnings Update

Income statement (KES '000)	1Q2012	1Q2013	% Change
Interest income	**1,164,218**	**1,358,201**	**16.7%**
Interest expense	707,808	693,084	-2.1%
Net Interest Income	456,410	665,117	45.7%
Other operating income	65,080	79,064	21.5%
Total Income	**521,490**	**744,181**	**42.7%**
Operating expenses	330,555	464,272	40.5%
Loan loss provision	46,454	58,632	26.2%
Profit before tax (PBT)	**190,935**	**279,909**	**46.6%**
Profit after tax (PAT)	**133,676**	**195,630**	**46.3%**
Total comprehensive income for the year	**119,676**	**222,630**	**86.0%**
Earnings Per Share (EPS)	**2.32**	**3.39**	**46.1%**
Cost/Income Ratio	**63.4%**	**62.4%**	**-1.6%**
Balance Sheet (KES '000)	**FY2012**	**1Q2013**	**% Change**
ASSETS			
Kenya Government Securities (Held to maturity)	401,644	413,125	2.9%
Kenya Government Securities (Available for sale)	321,972	318,534	-1.1%
Deposits and balances due from local banking institutions	6,662,414	5,446,180	-18.3%
Loans and advances to customers (net)	30,293,711	31,690,282	4.6%
Total Assets	**40,956,577**	**42,859,031**	**4.6%**
LIABILITIES			
Customer deposits	22,937,649	24,553,822	7.0%
Borrowed funds	12,097,359	12,235,745	1.1%
Total Liabilities	**35,819,332**	**37,499,155**	**4.7%**
Shareholders' Funds	**5,100,742**	**5,359,876**	**5.1%**
Loan/deposit ratio	**132.1%**	**129.1%**	
Liquidity ratio	**24.2%**	**35.0%**	

Source: Company Release

Housing Finance announced a 46.6% increase in PBT

Housing Finance announced a 46.6% increase in Profit before tax (PBT) to KES 279 million (1Q2013) from KES 190 million (1Q2012). Profit after tax (PAT) grew by 46.3% to KES 195 million (1Q2013) from KES 134 million (1Q2012).

Interest income increased by 16.7% mainly attributable to growth in the loan book

Interest income growth supported by loan book and government securities: Interest income increased by 16.7% to KES 1.4 billion (1Q2013) from KES 1.2 billion (1Q2012). The growth was mainly attributable to the growth in the loan book (4.6% growth to KES 31.7 billion in 1Q2013) and an increase in interest income from government securities. Interest income on loans and advances grew by 28.0% to KES 1.2 billion in 1Q2013 from a similar period last year. Interest income on government securities grew by 68.0% to KES 24 million. Interest income from deposits and placements with banking institutions dropped by 41.6% to KES 116 million. This was due to an 18.3% drop in deposits and balances due from local banking institutions to KES 5.4 billion (1Q2013).

Yield on loans rose by 20bps to 3.8%

Yield on loans rose by 20 bps to 3.8% (1Q2013) while government securities yield dropped by 40 bps to 3.3%. Yield on placements with other banks dropped by 260 bps to 2.1%.

Total interest expenses dropped by 2.1% to KES 693 million

Interest expense dropped on the back of lower cost of funds: Total interest expenses dropped by 2.1% to KES 693 million (1Q2013) from KES 708 million (1Q2012). Interest expense on customer deposits dropped by 22.8% to KES 400 million (1Q2013) from KES 519 million (1Q2012). This was as a result of lower cost of funds experienced during the period. Cost of customer deposits dropped by 80 bps from 2.8% (1Q2012) to 1.6% (1Q2013). Other interest expenses grew by 54.6% to KES 293 million (1Q2013) from KES 189 million (1Q2012).

Fees and commissions on loans and advances dropped by 39.8%

Non-Interest income boosted by other fees and commissions: Total non-interest income increased by 21.5% to KES 79 million (1Q2013) from KES 65 million (1Q2012). Fees and commissions on loans and advances dropped by 39.8% to KES 20 million (1Q2013) despite a growth in loans and advances to customers. Other fees and commissions increased by 83.3% to KES 27 million (1Q2013) while other income grew by 89.4% to KES 32 million (1Q2013).

Staff costs rose by 29.7% to KES 209 million

Staff costs push up operating expenses: Total operating expenses increased by 40.5% to KES 464 million (1Q2013) from KES 331 million (1Q2012). The rise in operating expenses is attributable to a jump in staff costs that rose 29.7% to KES 209 million, a 41.0% increase in rental charges to KES 6 million and a 66.6% jump in other operating expenses to KES 166 million.

Loan loss provision increased by 26.2%

Increase in loan loss provision: Loan loss provision increased by 26.2% to KES 59 million (1Q2013) from KES 46 million (1Q2012). Gross non-performing loans/loan book stood at 8.5% as compared to 5.7% in the prior comparable period.

Improved operating efficiency: The cost/income ratio dropped by 100 bps to 62.4% in 1Q2013 signifying improved operating efficiency.

Loans and advances to customers grew by 4.6% to KES 42.9 billion

Total assets increased by 4.6% boosted by growth in the loan book: Kenya government securities (Held to maturity) increased by 2.9% to KES 413 million (1Q2013) from KES 402 million (FY2012). Kenya government securities (Available for sale) dropped by 1.1% to KES 319 million. Loans and advances to customers grew by 4.6% to KES 42.9 billion while deposits and balances due from local banking institutions dropped by 18.3% to KES 5.4 billion.

Customer deposits grew by 7.0%

Growth in customer deposits push up total liabilities: Total liabilities grew by 4.7% to KES 37.5 billion in 1Q2013 from KES 35.8 billion in FY2012. This was mainly due to a 7.0% growth in customer deposits to KES 24.5 billion and a 1.1% increase in borrowed funds to KES 12.2 billion.

Housing Finance has adopted a hybrid form of funding its mortgage book. The mixture of borrowed funds and customer deposits leaves the firm less exposed to interest rate volatility and a mismatch caused by short-term deposits used for long-term lending.

Loan deposit ratio at 129.1%

The loan/deposit ratio stood at 129.1% in 1Q2013. Due to the combinaton of debt and customer deposits, the loan/deposit ratio has constantly been above 100%.

Capital adequacy: Core capital/Total risk weighted assets dropped to 14.7% (1Q2013) from 19.1% (FY2012) but is still above the minimum statutory ratio of 10.50%. Core capital dropped by 5.7% to KES 3.9 billion. Total capital/Total risk weighted assets dropped to 22.5% (1Q2013) from 29.5% (FY2012).

Outlook

Housing finance has benefitted from the low cost of funds leading to decreased interest expenses on customer deposits and increased interest income. Going forward, the bank is likely to continue enjoying high interest spreads as lending rates are yet to drop.

Valuation and recommendation

We are **NEUTRAL** on the counter

We used the P/E multiple valuation approach using the sector P/E and our forcasted next 12 months EPS to arrive at KES 28.57 as our price target. We are **NEUTRAL** on the counter.