WORLD / AFRICA / MOZAMBIQUE

Mozambique's banking sector regains stability

John Everington | 1/08/2019 12:02 am

Recovering from a currency collapse and the IMF's withdrawal has given Mozambique's banking sector a challenging few years, as John Everington discovers.

The past three years have not been easy for Mozambique's banks. Previously one of the world's most rapidly expanding economies, growth has slowed since the revelation in 2016 of a series of hidden government debts. This prompted the International Monetary Fund to cut off support to the country, triggering a collapse in the local currency and a default on its debts, plunging the wider economy into crisis.

"In the past three to four years Mozambique has been facing huge economic challenges," says José Reino da Costa, CEO of local bank Millennium bim. "Many companies have had financial difficulties, as have consumer clients, meaning that we've seen non-performing loans [NPLs] rising in the country."

Faced with such pressures, the Banco de Moçambique, the country's central bank, was forced to intervene to rescue Moza Banco, the country's fifth largest lender by assets, and revoke the licences of three lenders in 2017.

That same year, the central bank introduced tougher regulations for lenders, including lifting the required solvency ratio to 12% from 8%, and Tier 1 capital ratio to 10%. Banks are now required to have a daily liquidity ratio of no less than 25%, and to disclose data on metrics such as capital, asset quality, solvency ratios and credit risks on a more regular basis.

Welcome stabilisation

Fast-forward a few years, and the picture in 2019 looks far more stable for Mozambican lenders. Even as economic growth has continued to slow, no further banks have had their licences revoked. Moza Banco is on the verge of completing a restructuring, which has involved new external investment and a merger with Banco Terra Mozambique, another local lender.

"Our economy shows signs of stabilisation after a very complicated period," said Mozambique's president, Filipe Nyusi, at the inauguration in June of Moza Banco's new office building in the capital Maputo. "The balance of international reserves is at acceptable levels for the import of goods and services, excluding for the execution of bigger projects. This resilience of our economy is a result of the combined efforts of several sectors."

The country's six largest lenders – which between them hold between 85% and 90% of assets, loans and deposits – saw combined profits rise for the second consecutive year with returns on assets and returns on equity at their highest levels since 2011.

Yet banks' NPL ratios, while lower in 2018, remain near multi-year highs, with little sign of an immediate uptick in lending to the wider economy, in spite of lower interest rates. With 19 banks serving a population of about 28 million (alongside eight credit co-operatives and nearly 430 microfinance operators), further consolidation in the sector seems inevitable among smaller lenders.

Lower impairments

Mozambique's banking sector is dominated by lenders that are either subsidiaries of foreign banks or count international investors as their largest shareholders. Of the country's six largest banks – Banco Comercial e de Investimentos (BCI), Millennium bim, Standard Bank Mozambique, Barclays Bank Mozambique, Moza Banco and Banco Unico – only Moza Banco's majority shareholders are from Mozambique.

The combined net profit of the country's six largest banks grew to $285m in 2018, a 23% rise on 2017, according to figures compiled by analyst Eaglestone Securities. The growth in profits during 2018 came despite a slowdown in growth in net interest income (the largest contributor to revenues by far), which rose just 4.4%, compared with an average annual growth of 28.4% between 2012 and 2017. Total revenues rose 4.7% to $883m.

The rise in profits came largely through a significant drop in loan impairments following a spike in 2017, with Banco de Moçambique cutting rates by 325 basis points during 2018.

"Most banks significantly raised provisions in 2016 and 2017 to face the deterioration in credit quality and as a precaution to tackle a more challenging macro-environment," says Tiago Bossa Dionisio, assistant director of Eaglestone Securities. "This impact was largely reversed in 2018 and made a very meaningful contribution to the total net profit of the largest banks."

Interest rate cuts helped reduce NPLs in absolute terms by 13.2% to $199m. Yet while the NPL ratio for the sector fell to 5.95% in 2018 from 6.78% in 2017, the figure remains significantly higher than prior to 2016, when it stood at less than 3%.

Return on equity and return on assets rose to 19.3% and 3.47%, respectively, at the end of 2018, their highest levels since 2011. Costs meanwhile rose 7.7% year on year to $434m, ahead of 3.91% inflation, as branch expansion and staff hiring increased.

Credit to the nation?

While asset growth recovered in 2018 – rising 9.7% to $8.2bn compared with 4.7% in 2017 – the rate of increase remains significantly lower than the average of 17.6% recorded between 2010 and 2017. Loans fell by 3.4% to $3.2bn, their second consecutive year of decline, with loan-to-deposit ratios across the sector falling to a multi-year low of 49.6%.

Bankers forecast that lending is likely to remain subdued in the coming years, as the economy continues to struggle.

"Credit is not growing on either the offer or the demand side," says Millennium bim's Mr da Costa. "On the demand side you don't see clients coming to us because interest rates are very high, and they're already going through financial difficulties, so we don't really see credit growing."

But the signing in June of a final investment decision (FID) by Anadarko Petroleum for the $20bn development of the Area 1 Mozambique LNG project, the largest in Africa, may prove a catalyst for confidence in the economy, especially in lending to small and medium-sized enterprises (SMEs).

"SMEs was probably the segment where we've seen an important decrease in credit [in the past years]," says Paulo Sousa, CEO of BCI. "I think we've touched the lowest point on those portfolios. I think the signing of the FID is going to increase the level of confidence in investors and entrepreneurs. It won't have a direct impact immediately on the level of investment and consumption, but it will change confidence for sure."

Profits report

BCI, Mozambique's largest bank by assets, saw its consolidated net profits rise 73.4% to $65.8m in 2018, thanks to a 15.8% rise in operating income and a 54.7% drop in loan impairments after 2017's abnormally high level.

Millennium bim, the country's second largest bank, posted a 10.5% year-on-year increase in profits to $110.8m in 2018, with gains in net interest income and real estate asset sales balanced by a 21.6% increase in loan provisions.

Standard Bank Mozambique's profits were virtually unchanged at $90.9m for the year, with slight increases in revenue and costs cancelling each other out and lower loan impairments benefiting the bottom line. An improved loan position also benefited Barclays Bank Mozambique, helping the bank post a 25% rise in net profits to $22.5m in 2018 despite a 20% year-on-year decline in operating profit.

Banco Unico's profits fell 16.1% year on year to $7.1m, with operating income falling 22.2% and loan impairments rising.

Moza Banco meanwhile remained in the red for the third consecutive year in 2018, despite managing to trim losses by nearly 50% to 786m meticais ($12.7m). Revenues remained flat during the year, with rising fee income failing to offset a 5.6% drop in net interest income, while costs rose in line with efforts by the bank to get itself back on its feet.

Big changes

Faced with collapse in 2016 after a failed recapitalisation plan by its shareholders, the Banco de Moçambique intervened in Moza Banco, with the central bank's pension fund, Kuhanha, taking over the lender in 2017.

In June of that year, a more thorough restructuring programme began with a recapitalisation. Negative retained earnings were absorbed via the share capital, leading to a reduction in each share's nominal value by 80%.

New shares worth an equivalent of $53m were taken up by Arise, an African investment company owned by Rabobank, Dutch development bank FMO and Norway's Norfund, giving Arise a 29.5% stake in Moza Banco while Kuhanha retained 59.4%.

Under the terms of the plan, Moza Banco acquired 100% of BTM, owned by Arise, making Moza Banco the country's third largest bank by branch network.

"By the end of 2018, [we] successfully implemented all stages defined in the restructuring operation of the capital, except with regard to the integration of BTM into the Moza Banco structure, a process that is currently under way and expected to be completed by the end of the third quarter of this year," says Moza Banco chairman and CEO João Figueiredo.

More mergers to come?

The merger of Moza Banco and BTM has inevitably raised the prospect of further consolidation in the market, with smaller banks likely to struggle to comply with the central bank's tighter regulations.

"[Consolidation] is necessary because we're a very small country, and when you have small banks in a small country for sure they are struggling and they can't have good profitability on their capital," says Mr da Costa of Millennium bim.

But both he and Mr Sousa of BCI rule out acquiring smaller banks in the near future. "When considering an acquisition you need to see gains in complementarity, in terms of a type of client or a network [such a deal could bring], but we don't see any reason to do it on that side," says Mr da Costa. "Never say never, of course, but we have no plans now."

One bank for whom such a deal may be on the cards is FNB Mozambique, a subsidiary of South Africa's FirstRand Group. Previously holding a market share of about 3%, the bank is currently restructuring after a challenging three years.

"We were very exposed to SMEs, which was probably the most affected segment in the country, generally speaking," says deputy CEO Paulo Pereira. "We decided to focus [in our reorganisation] on the employment-generating sectors of Mozambique, a country that's undergoing a transformation itself. That means in essence focusing our business on corporates and large companies and all their value chains."

Once FNB Mozambique completes its restructuring in 2020, the bank may look at acquisitions or partnerships. "First we need to clean up our house and prepare the bank for scale," says Mr Pereira. "Once we've got that efficiency in place we can scale up. Do you scale up organically or otherwise? Everything is possible."

But in a market dominated by six large players, smaller banks may struggle to attract attention from larger lenders. Without the attraction of the scale of larger banks, smaller lenders may need to develop specialist offerings to make themselves appealing for acquisitions and partnerships.

"In addition to consolidation, the other thing the market needs is segmentation," says BCI's Mr Sousa. "For every bank to serve all segments of the market is not possible; the smaller banks need to find a nice segment that they can address with the right proposition."

Moza Banco is hopeful that the agribusiness lines of BTM, which it is currently integrating, will fulfil such a role.

One district, one branch

Despite the large number of banks operating in Mozambique, the country remains relatively underserved with physical bank branches, given the country's large landmass – divided into 10 provinces and 128 districts – and mainly rural population. Only 36% of Mozambicans live in cities.

The country's six largest banks added 19 branches in 2018, a slowdown on previous years, taking the total number nationwide to 555.

President Nyusi launched the One District, One Bank programme in August 2016, with the intention of having a physical branch in every district by the end of 2019. The country's two largest banks, BCI and Millennium bim, which operate two-thirds of the country’s bank branches between them, are taking the lead in this programme.

“For a country such as Mozambique, where the bankerisation rate is still very low, at about 30%… expanding the presence in rural areas is still a big concern,” say BCI’s Mr Sousa. “[One District, One Bank] has been an area where we’ve been a key bank and we are expanding and others are doing the same.”

Millennium bim’s Mr da Costa adds: “Financial inclusion has always been one of our main strategy points, and we are the sole bank that has a presence in all districts. We have about 196 branches in the big cities and the majority of districts in the country. We made a contract with the Ministry of Agriculture and Rural Development to deploy 12 more branches before the end of the year, so with that we will have more than 200 branches.”

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