Cytonn SSA Financial Services Research: April 2019 Monthly Note

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Executive Summary

During the month, KCB Group highlighted its intention to acquire 100.0% of National Bank of Kenya (NBK) while Equity Group entered into an agreement with Atlas Mara to acquire subsidiaries in Rwanda, Tanzania, Zambia and Mozambique. In Nigeria, the Nigeria Deposit Insurance Agency (NDIC) set aside NGN 258.8 bn for the 2019 fiscal year, to be utilized for reimbursement of depositors' funds in the event of a closure of any licensed bank. In Ghana, Barclays Bank of Ghana unveiled its collateral-free loans program, with the target market being the SMEs.

Section I: Market Performance:

During the month of April, the equities markets were on a downward trend with NASI, NGSEASI and GGSECI declining by 0.2%, 6.1% and 3.0%, respectively. This takes the YTD performance of Kenya, Nigeria and Ghana to 14.0%, (4.4%), and (7.4%), respectively. For the weekly performance, markets had a mixed performance as NASI gained by 1.3%, while NGSEASI and GGSECI declined by 1.8% and 2.9%.

Below is a summary of top gainers and losers in our universe of coverage for the month:

Top Gainers			Top Losers		
Company	**Country**	**Change**	**Company**	**Country**	**Change**
I&M Holdings	Kenya	**26.4%**	HF Group	Kenya	**(33.2%)**
Access Bank	Nigeria	**21.9%**	Ecobank Transnational	Nigeria	**(25.4%)**
Ghana Commercial Bank	Ghana	**14.2%**	National Bank of Kenya	Kenya	**(18.7%)**
Barclays Bank of Kenya	Kenya	**6.7%**	Diamond Trust Bank	Kenya	**(17.6%)**
Stanbic Holdings	Kenya	**5.0%**	Co-operative Bank	Kenya	**(13.1%)**

Below is a summary of top gainers and losers in our universe of coverage for the week:

Top Gainers			Top Losers		
Company	**Country**	**Change**	**Company**	**Country**	**Change**
Ecobank Transnational	Nigeria	**8.0%**	Ecobank Ghana	Ghana	**(13.8%)**
I&M Holdings	Kenya	**7.2%**	Barclays Bank of Kenya	Kenya	**(11.3%)**
Stanbic Holdings	Kenya	**5.7%**	CAL Bank	Ghana	**(9.3%)**
Access Bank	Nigeria	**4.5%**	KCB Group	Kenya	**(8.8%)**
Union Bank Plc	Nigeria	**4.4%**	Co-operative Bank	Kenya	**(7.4%)**

Kenya

During the month of April, the equities market was on a downward trend, with NASI, NSE 20 and NSE 25 declining by 0.2%, 1.7% and 0.7%, respectively taking their YTD performance to 14.0%, 10.9% and (1.2%), respectively. The decline recorded in NASI was driven by declines in large cap stocks such as Co-operative Bank, NIC Group, Standard Chartered Bank Kenya (SCBK), and Bamburi, whose declines of 15.7%, 13.3%, 10.3% and 9.0%, respectively outweighed the gains made by EABL, Safaricom, Equity Group Holdings and Barclays Bank of 9.0%, 3.8%, 3.0% and 1.3%, respectively. For this week, markets recorded a mixed performance, with NASI gaining by 1.3% while NSE 20 and NSE 25 declined by 0.6% and 0.1%, respectively. The gain in NASI was largely due to gains recorded in large cap counters such as NIC Group and Safaricom, which recorded gains of 4.5% and 3.8%, respectively.

Nigeria

During the month of April, the equities market was on a downward trend, with the NGSEASI declining by 6.1%, taking the YTD performance to (4.4%). The declines were largely due to declines recorded in various sectors such as Health Care, Utilities, Materials, consumer staples and industrials which recorded declines of 8.9%, 8.3%, 6.1%, 5.5% and 3.9%, respectively. For this week, the NGSEASI declined by 1.8%, largely due to declines recorded in materials, communication services and financials which recorded declines of 3.6%, 2.4% and 1.8%, respectively.

Ghana

During the month of April, the Ghanaian market continued its downward trend, with the GGSECI declining by 3.0%, taking the YTD performance to (7.4%). The declines were largely due to increased foreign investor sell offs, owing to increased risk perception due to the non-renewal of IMF's credit facility leading to a 7.2% depreciation of the CEDI on a YTD basis. For this week, the GGSECI declined by 2.9%, with declines recorded in banking counters such as Ecobank Ghana and CAL bank which declined by 13.8% and 9.3%, respectively.

Section II: Earnings Releases:

There were no earnings releases during the month.

Section III: Latest Developments in the month of April, in the Sub Saharan Africa Banking Sector:

Kenya

During the month, the Financial Access (FinAccess) Household Survey 2019 report was released. The survey, which was jointly conducted by the Kenya National Bureau of Statistics (KNBS), the Central Bank of Kenya (CBK) and Financial Sector Deepening (FSD) Kenya, highlighted the rise in the level of financial inclusion in Kenya with 82.9% of the adult population having access to formal financial services and products, up from 75.3% in 2016. Key take-outs from the report were:

i. 89.0% of the population can access both formal and informal financial services and products, an increase from the 82.5% inclusion in 2016. The rise in the level of financial inclusion has largely been attributable to increased innovation, and a proliferation of digital financial access channels such as mobile banking applications developed by various banks, agency banking, and digital lending applications,

ii. Nairobi region maintained the highest level of formal inclusion, at 96.0%, followed by Mombasa, Central Rift Valley, and Central Kenya, with inclusions of 94.0%, 88.0%, and 85.0%, respectively. The rise in inclusion, cements Kenya's third position, after South Africa and Seychelles, which have 95.0%, and 90.0% inclusion, and,

iii. In terms of use of financial services by channel, digital loan apps recorded the fastest growth, accounting for 8.3% of usage, from a paltry 0.6% usage in 2016. Mobile money, mobile banking and insurance recorded improvements to 79.4%, 25.3% and 27.9%, from 71.4%, 17.5% and 23.2%, respectively, in 2016.

For more information, see our Cytonn Weekly #14/2019.

During the month, various banks continued their consolidation drive as highlighted below:

i. KCB Group's bid to acquire Imperial Bank Limited under Receivership (IBLR), reached a significant milestone, with the acceptance of KCB Group's final offer by both the Central Bank of Kenya and the Kenya Deposit Insurance Corporation (KDIC). The transaction will see an additional 19.7% of deposits availed to depositors, an addition to the 35.0% availed, on the acceptance of the binding offer by KDIC and CBK in December 2018. The remaining deposit balances will be availed to depositors in three tranches, 12.5% after the official signing of the agreement, a further 12.5% one-year after the signing of the agreement, and 25.0% balance on the second, third and fourth anniversaries of the signing of the agreement. For more information, see our Cytonn Weekly #14/2019,

ii. KCB Group announced its intention to acquire a 100% stake in the National Bank of Kenya (NBK), in line with our expectation of increased consolidation in the Kenya banking sector, as players with depleted capital positions become acquired by their larger counterparts or merge together to form well capitalized entities capable of navigating the relatively tough operating environment induced by price controls on lending rates, and exacerbated by the stiff competition. For a more detailed analysis of the transaction, please see our Kenya Listed Banks FY'2018 Report & Cytonn Weekly #16/2019,

iii. Shareholders of NIC Group and CBA Group approved the merger of the two banks in their respective Annual General Meetings, which were held during the month. The merger still needs approval from local and regional regulators including Bank of Tanzania, the Central Bank of Kenya, Capital Markets Authority and Competition Authority of Kenya. The banks expect that all the requisite approvals will be obtained by June, allowing shares of the merged entity to commence trading on the Nairobi Securities Exchange (NSE) on 17th July 2019. For more information on the merger, see our NIC Group and Commercial Bank of Africa (CBA) Merger Note, and,

iv. During the week, Equity Group entered into a binding term sheet with Atlas Mara Limited to acquire certain banking assets in 4 countries in exchange for shares in Equity Group. These include:

   a. 62.0% of the share capital of Banque Populaire du Rwanda (BPR);
   b. 100.0% of the share capital of Africa Banking Corporation Zambia (ABCZam) Ltd.;
   c. 100.0% of the share capital of Africa Banking Corporation Tanzania (ABCTz); and,
   d. 100.0% of the share capital of Africa Banking Corporation Mozambique Ltd (ABCMoz).

Equity will also pursue acquiring additional share capital in BPR from some or all of the remaining shareholders. The transaction will be funded by a share swap whereby Atlas Mara will be allotted 252.5 mn new shares of Equity Group, which translates to 6.3% of the proforma expanded issued share capital. This is equivalent to Kshs 10.0 bn using the closing price of Kshs 39.5 on 30th April 2019. Atlas Mara and Equity have also highlighted that there may be an additional capital injection by Atlas after the consummation of the transaction, The aggregate consideration to be paid by Equity remains subject to the completion of the confirmatory due diligence. The completion of the transaction is subject to the approval of various regulatory bodies such as the Central Bank of Kenya, Competition Authority of Kenya, and the respective central banks and competition authorities of the subsidiaries' domicile. Atlas has its holdings spread out across Sub Saharan region, with other subsidiaries in Dubai, Germany and Mauritius grouped in its corporate segment. The performance of Atlas as per the various regional subsidiaries that may be acquired by Equity Group as at FY'2018 is highlighted below:

Key line items	Southern Africa 2018 (USD 000)	Southern Africa 2017 (USD 000)	East Africa 2018 (USD 000)	East Africa 2017 (USD 000)	West Africa 2018 (USD 000)	West Africa 2017 (USD 000)	Corporate 2018(USD 000)	Corporate 2017(USD 000)	Total FY'2018	Total FY'2017	Percentage Change
Interest and similar income	200,958	200,650	59,509	64,162	-	-	(12,909)	1,691	247,558	266,503	**(7.1%)**
Interest and similar expense	(77,274)	(87,726)	(20,767)	(26,007)	-	-	(16,958)	(7,484)	(114,999)	(121,217)	**(5.1%)**
Net Interest Income	**123,684**	**112,924**	**38,742**	**38,155**	**-**	**-**	**(29,867)**	**(5,793)**	**132,559**	**145,286**	**(8.8%)**
Loan Impairment Charges	6,863	(12,725)	(6,628)	(9,540)	-	-	(445)	-	(210)	(22,265)	**(99.1%)**
Income/(Loss) from lending	130,547	100,199	32,114	28,615	-	-	(30,312)	(5,793)	132,349	123,021	**7.6%**
Non-Interest Income	69,908	68,769	13,492	15,979	-	-	15,409	30,419	98,809	115,167	**(14.2%)**
Total Operating Income	**200,455**	**168,968**	**45,606**	**44,594**	**-**	**-**	**(14,903)**	**24,626**	**231,158**	**238,188**	**(3.0%)**
Operating Expenses	(165,259)	(156,750)	(45,019)	(41,420)	-		(30,248)	(25,364)	(240,526)	(223,534)	**7.6%**
Net Income from Operations	35,196	12,218	587	3,174	-	-	(45,151)	(738)	(9,368)	14,654	**(163.9%)**
Share of profit from Associates	-		-		27,831	38,400	28,501	-	56,332	38,400	**46.7%**
Profit/Loss before tax	**35,196**	**12,218**	**587**	**3,174**	**27,831**	**38,400**	**(16,650)**	**(738)**	**46,964**	**53,054**	**(11.5%)**
Income tax expense	(7,737)	(3,735)	(1,944)	(240)	-	-	4,935	(1,293)	(4,746)	(5,268)	**(9.9%)**
Profit/Loss for after tax	**27,459**	**8,483**	**(1,357)**	**2,934**	**27,831**	**38,400**	**(11,715)**	**(2,031)**	**42,218**	**47,786**	**(11.7%)**

Key take outs from the table above is that:

i. Southern Africa segment, which includes Zambia, Zimbabwe, Botswana and Mozambique recorded an improved performance of a 223.7% net income growth, supported by the 30.3% income growth. With Equity Group acquiring the Zambian and Mozambique business, we are of the view that this would present Equity with the market to execute its successful retail strategy, as it has done across East and Central Africa, and

ii. The East Africa segment, which includes Rwanda and Tanzania recorded a negative performance as shown by the decline in the net income to a loss after tax of USD 1.4 mn, from USD 2.9 mn in FY'2017, as the slow 2.3% growth in income to USD 45.6 mn from USD 44.6 mn in FY'2017 was outpaced by the 8.7% growth in the total operating expenses to USD 45.0 mn from USD 41.4 mn in FY'2017. We view this market as one that Equity Group will likely encounter difficulties in accretion of value, given the relatively undeveloped markets.

Kenyan listed banks continued their revenue diversification drive by growing the Non-Funded Income (NFI) segment, with various banks launching several initiatives as highlighted below:

i. Co-operative Bank of Kenya launched the Co-op Bank Property Hub under its mortgage division, which will offer property sales and mortgage origination to its clients. The Property Hub intends to serve the clients who have property to sell and connect them to the Co-operative Bank clients who want to buy property. The bank will also offer mortgages to the buyers of the property as it expects to leverage on its contacts with key institutions and the cooperative movements that largely own the bank to boost the property sales for its clients. For more information, please see our Cytonn Weekly #17/2019,

ii. Diamond Trust Bank Kenya (DTBK) announced that it has partnered with SWIFT, a leading provider of secure financial messaging services, in order to provide real time cross border payments to its clients. DTBK will be the first East African Bank to go live on the SWIFT global payment innovation service, a service that is carrying out over USD 300 bn worth of transactions a day, in over 148 currencies. For more information, please see our Cytonn Weekly #17/2019, and,

Standard Chartered Bank Kenya (SCBK) launched an innovation hub lab in Nairobi dubbed Xcelerator in a bid to boost its revenue streams and diversify by riding on financial technology. SCBK plans to allocate Kshs 10.0 bn into supporting Financial Technology (FinTech) startups to scale up and generate innovative solutions to problems in the banking sector. StanChart views FinTech firms as partners amid their growing disruption of the local financial sector, a move likely to aid the bank in generating additional revenue. For additional information, please see our Cytonn Weekly #15/2019

Nigeria

The Nigeria Deposit Insurance Agency (NDIC) set aside NGN 258.8 bn for the 2019 fiscal year, to be utilized for reimbursement of depositors' funds in the event of a closure of any licensed bank. From the amounts set aside, NGN 109.7 mn will be provided to depositors in Deposit Money Banks, while NGN 149.1 bn would be provided to depositors in Primary Mortgage Banks (PMBs) and Micro Finance Banks (MFBs). The funds utilized are critical for ensuring that depositors are protected in the event of a failure in a bank, as was the case for Skye bank's depositors. For more information, please see our Cytonn SSA Financial Services Research – Weekly Note #15/2019.

Ecobank Transnational Incorporated (ETI) highlighted its plan to raise a USD 500 mn 5-year Eurobond. The debt is expected to be priced at comparatively high yields, estimated at "around 9.0%". The bank is expected to utilize the debt to fund its corporate obligations, as well as help to refinance the bank's debt obligations. ETI has obligations of USD 200.0 mn, expected to mature in November 2019. We noted that some of the large Nigerian banks have been raising capital from the Eurobond market, which are expected to be utilized in shoring up capital reserves, with the expectation of higher provisioning impairments, which will be brought about by the "contra cyclical" framework proposed by the CBN. For more information, please see our Cytonn SSA Financial Services Research – Weekly Note #15/2019

Ghana

Barclays Bank Ghana, in a drive to increase its Small and Medium Enterprise (SME) portfolio, unveiled its collateral-free loans program, with the target market being the SMEs. The product for the bank enables clients to borrow from the bank for their businesses without the need to offer collateral and historical financial records. With SMEs contributing approximately 70.0% of Ghana's GDP and constituting 92.0% of the businesses in Ghana, we view Barclays' move as one that should boost the bank's interest income if successfully implemented, given the large target market available. For more information, please see our Cytonn SSA Financial Services Research – Weekly Note #17/2019

Section IV: Equities Universe of Coverage:

The month-on-month performance, valuation and expected return of the companies in our SSA universe of coverage is highlighted in the table below:

Banks	Price as at 26/04/2019	Price as at 3/05/2019	w/w change	m/m change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
GCB Bank	4.0	4.0	0.0%	14.2%	(13.0%)	7.7	9.5%	102.5%	**0.9x**	**Buy**
Diamond Trust Bank	122.0	121.5	(0.4%)	(17.6%)	(22.4%)	241.5	2.1%	100.9%	**0.6x**	**Buy**
UBA Bank	6.9	6.7	(2.2%)	(10.5%)	(13.0%)	10.7	12.7%	72.4%	**0.5x**	**Buy**
Zenith Bank	21.4	21.0	(1.6%)	(10.9%)	(8.9%)	33.3	12.9%	71.5%	**1.0x**	**Buy**
CRDB	125.0	130.0	4.0%	(3.7%)	(13.3%)	207.7	0.0%	59.8%	**0.4x**	**Buy**
Ecobank	7.8	6.7	(13.8%)	0.6%	(10.4%)	10.7	0.0%	59.7%	**1.7x**	**Buy**
CAL Bank	1.0	0.9	(9.3%)	(8.2%)	(10.2%)	1.4	0.0%	59.1%	**0.8x**	**Buy**
Co-operative Bank	13.6	12.6	(7.4%)	(13.1%)	(12.2%)	18.5	8.0%	55.4%	**1.2x**	**Buy**
KCB Group***	45.3	41.3	(8.8%)	2.7%	10.3%	60.0	8.5%	53.8%	**1.4x**	**Buy**
NIC Group	33.0	32.7	(0.8%)	(12.5%)	17.6%	48.8	3.1%	52.3%	**0.9x**	**Buy**
Access Bank	6.6	6.9	4.5%	21.9%	1.5%	9.5	5.8%	43.5%	**0.4x**	**Buy**
Equity Group	41.5	42.0	1.1%	0.2%	20.4%	58.1	4.8%	43.3%	**2.0x**	**Buy**
I&M Holdings	115.0	123.3	7.2%	26.4%	45.0%	167.7	2.8%	38.9%	**1.2x**	**Buy**
Barclays Bank	11.9	10.6	(11.3%)	6.7%	(3.7%)	13.1	10.4%	34.6%	**1.6x**	**Buy**
Stanbic Bank Uganda	29.0	29.0	0.0%	0.0%	(6.5%)	36.3	4.0%	29.1%	**2.1x**	**Buy**
Stanbic Holdings	96.3	101.8	5.7%	5.0%	12.1%	115.6	5.7%	19.4%	**0.9x**	**Accumulate**
Guaranty Trust Bank	34.2	33.5	(2.2%)	(7.0%)	(2.9%)	37.1	7.2%	18.1%	**2.1x**	**Accumulate**
SBM Holdings	5.9	5.9	0.0%	(1.7%)	(1.3%)	6.6	5.1%	16.7%	**0.8x**	**Accumulate**
Union Bank Plc	6.8	7.1	4.4%	4.5%	26.8%	8.2	0.0%	14.8%	**0.7x**	**Accumulate**
Bank of Kigali	274.0	274.0	0.0%	(0.4%)	(8.7%)	299.9	5.1%	14.5%	**1.5x**	**Accumulate**
Standard Chartered	208.0	199.0	(4.3%)	0.1%	2.3%	203.8	6.3%	8.7%	**1.7x**	**Hold**
National Bank	5.0	4.8	(3.8%)	(18.7%)	(9.6%)	5.2	0.0%	8.1%	**0.4x**	**Hold**
Bank of Baroda	129.0	129.0	0.0%	(4.4%)	(7.9%)	130.6	1.9%	3.2%	**1.1x**	**Lighten**
Standard Chartered	19.0	19.0	0.0%	(9.5%)	(9.5%)	19.5	0.0%	2.4%	**2.4x**	**Lighten**
FBN Holdings	7.3	7.4	2.1%	(5.8%)	(6.9%)	6.6	3.4%	(7.0%)	**0.4x**	**Sell**
Stanbic IBTC Holdings	47.0	43.5	(7.4%)	(6.7%)	(9.3%)	37.0	1.4%	(13.6%)	**2.4x**	**Sell**
Ecobank Transnational	10.0	10.8	8.0%	(25.4%)	(36.5%)	9.3	0.0%	(14.1%)	**0.4x**	**Sell**
HF Group	4.3	4.0	(7.0%)	(33.2%)	(27.8%)	2.9	8.8%	(18.8%)	**0.2x**	**Sell**

**Target Price as per Cytonn Analyst estimates*

*** Upside/ (Downside) is adjusted for Dividend Yield*

****Banks in which Cytonn and/or its affiliates are invested in*

*****Stock prices indicated in respective country currencies*

We are "Positive" on equities for investors as the sustained price declines has seen the market P/E decline to below its historical average. We expect increased market activity, and possibly increased inflows from foreign investors, as they take advantage of the attractive valuations, to support the positive performance.