

Cytonn SSA Financial Services Research: November 2018 Monthly Note

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Executive Summary

During the month of November, the equities markets had mixed performances with the NASI gaining 1.2%, and NGSEASI and GGSECI declining by 4.9% and 7.0%, respectively. This takes the YTD performance of Kenya, Nigeria and Ghana to (14.7%), (19.3%), and (1.0%), respectively. For the weekly performance, NASI gained 1.2%, while NGSEASI and GGSECI declined by 2.5% and 0.2%, respectively.

Section I: Market Performance:

During the month of November, the equities markets had mixed performance with the NASI gaining 1.2%, and NGSEASI and GGSECI declining by 4.9% and 7.0%, respectively. This takes the YTD performance of Kenya, Nigeria and Ghana to (14.7%), (19.3%), and (1.0%), respectively. For the weekly performance, NASI gained by 1.2%, while NGSEASI and GGSECI declined by 2.5% and 0.2%.

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

November Top Gainers and Losers					
Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
National Bank	Kenya	15.6%	FBN Holdings	Nigeria	(11.3%)
Ecobank Ghana	Ghana	12.3%	Guaranty Trust Bank	Nigeria	(8.4%)
Standard Chartered	Kenya	3.8%	CAL Bank	Ghana	(7.7%)
Co-operative Bank	Kenya	3.5%	Standard Chartered	Ghana	(7.2%)
KCB Group	Kenya	3.3%	Ghana Commercial Bank	Ghana	(6.8%)

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

Weekly Top Gainers and Losers					
Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
Access Bank	Nigeria	4.7%	FBN Holdings	Nigeria	(6.6%)
I&M Holdings	Kenya	4.7%	HF Group	Kenya	(6.3%)
Co-operative Bank	Kenya	4.2%	Guaranty Trust Bank	Nigeria	(5.6%)
Standard Chartered	Kenya	2.7%	UBA Bank	Nigeria	(3.8%)
Union Bank Plc	Nigeria	2.0%	Zenith Bank	Nigeria	(3.3%)

Kenya

NASI gained by 1.2% during the month, driven by gains in the Consumer Staples, Communication and Materials segments; with weighted gains of 7.9%, 2.1% and 0.8%, respectively. The performance was driven by stocks such as National Bank, BAT, East Africa Breweries Limited (EABL), Standard Chartered Bank of Kenya Ltd,

Cooperative Bank Kenya and KCB Group, gained by 15.6% 9.3%, 8.6%, 3.8%, 3.5% and 3.3%, respectively. Equities turnover declined by 39.7% during the month to USD 100.7 mn from USD 167.1 mn in October, taking the YTD turnover to USD 1.7 bn. Foreign investors remained net sellers with the net selling position declining by 86.4% m/m to USD 5.9 mn from USD 43.2 mn in October. We expect the market to remain subdued in the near-term as international investors exit the broader emerging markets due to the expectation of rising US interest rates coupled with the strengthening of the US Dollar.

Nigeria

The Nigerian All Share Index (NGSEASI) declined by 4.9% during the month, largely driven by declines in the Utilities, Materials and Industrial segments; with weighted declines of 14.4%, 10.8% and 7.5%, respectively. In our universe of coverage, Union Bank Plc and Stanbic IBTC Holdings were the only gainers during the month gaining 2.0% and 1.6%, respectively, while the biggest decliners were FBN Holdings, Guaranty Trust Bank and UBA Bank, which declined by 11.3%, 8.4% and 5.1%, respectively. During the week, the NGSEASI declined by 2.5%, with FBN Holdings, Guaranty Trust Bank and UBA Bank declining by 6.6%, 5.6% and 3.8%, respectively while Access Bank and Union Bank gained by 4.7% and 2.0%, respectively.

Ghana

The GSE Composite Index declined by 7.0% during the month, driven by declines in the financial services sector. In our universe of coverage CAL Bank, Standard Chartered and Ghana Commercial Bank declined by 7.7%, 7.2% and 6.8%, respectively, while Ecobank was the only gainer, gaining by 12.3%. During the week, the Ghanaian index declined by 0.2%, with Ghana Commercial Bank and Standard Chartered gaining by 0.2%.

Section II: Earnings Releases:

Kenya Banks' Performance:

Listed banks in Kenya released their financial results for Q3'2018. Below is a summary of the banks' performance for the month:

Listed Banking Sector Operating Metrics														
Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income (NFI) Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth In Govt Securities	Loan Growth	LDR	Cost of Funds	Return on Average Equity
NBK	303.2%	(10.5%)	(11.5%)	(10.0%)	6.6%	(16.3%)	26.8%	(18.7%)	(4.7%)	3.2%	(17.1%)	51.7%	3.0%	3.2%
Stanbic Bank	46.7%	13.3%	19.7%	9.7%	6.2%	19.6%	47.0%	9.3%	20.3%	(17.6%)	16.3%	77.8%	2.2%	14.3%
SCBK	33.9%	4.8%	2.1%	5.9%	8.5%	9.7%	32.6%	31.2%	(8.0%)	(6.1%)	(2.8%)	50.6%	3.4%	18.6%
KCB Group	19.7%	5.1%	16.0%	1.8%	8.5%	2.6%	33.1%	(7.9%)	6.2%	15.3%	3.8%	82.6%	3.2%	21.7%
I&M	18.3%	3.3%	16.8%	(4.9%)	6.7%	38.4%	35.1%	30.1%	27.6%	(13.0%)	8.6%	78.1%	4.8%	17.2%
DTB	10.0%	3.0%	3.0%	2.9%	6.1%	6.3%	21.7%	7.4%	6.5%	17.7%	0.7%	70.0%	4.9%	13.3%
Co-op Bank	8.2%	3.5%	0.7%	4.7%	8.3%	4.3%	32.7%	(29.7%)	2.5%	16.9%	(2.0%)	85.9%	3.8%	17.6%
Equity Group	8.1%	8.6%	13.5%	7.2%	8.5%	(6.7%)	40.0%	(1.7%)	9.1%	24.1%	8.6%	71.7%	2.7%	22.2%
Barclays Bank	2.0%	7.7%	30.1%	2.1%	9.1%	14.0%	30.8%	5.5%	9.9%	29.5%	6.7%	81.0%	3.1%	16.5%
NIC	(3.3%)	5.5%	22.2%	(5.9%)	5.8%	7.2%	30.9%	5.7%	10.3%	16.2%	(3.1%)	79.3%	5.6%	12.1%
HF	(N/A)	(14.1%)	(11.7%)	(17.8%)	4.6%	(7.2%)	25.0%	(30.9%)	3.1%	429.5%	(11.3%)	90.7%	7.0%	(3.3%)
Weighted Average Q3'2018*	16.2%	6.1%	12.5%	3.8%	8.0%	5.9%	34.5%	0.6%	7.4%	14.6%	4.2%	75.3%	3.4%	18.8%

Weighted Average Q3'2017**	(9.3%)	(5.8%)	(0.5%)	(7.3%)	8.5%	10.9%	33.3%	10.5%	13.8%	10.3%	6.1%	77.7%	3.4%	17.5%
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*Market Capitalization weighted average as at 31/11/2018

** Market Capitalization weighted average as at 31/11/2017

For more information, see our [Cytonn Monthly – November 2018](#)

Nigeria Banks' Performance:

There were no earnings releases during the month.

Ghana Banks' Performance:

There were no earnings releases during the month.

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

Kenya

1. The Bank of Kigali Group successfully completed the sale of Kshs 7.0 bn rights, which paved the way for its cross-listing on the Nairobi Securities Exchange (NSE) on November 30, 2018. The existing shareholders exercised 103.6 mn rights out of the 222.2 mn units available in the issue, with the balance of 118.6 mn untaken rights sold to qualified institutional investors. Rwanda Stock Exchange (RSE) was allocated 146.2 mn shares, with the balance of 76.1 mn going to the Nairobi bourse. The rights issue increased The Bank of Kigali shares from 675.5 mn shares to 896.8 mn shares. The rights issue was a 3:1, 3 shares for every 1 share held. The shares were priced at a 6.6% discount at RWF 270.0 (Ksh 31.1) per unit, compared to the market value of RWF 289.0 (Kshs 33.9) as at 16th October 2018. The Capital Markets Authority (CMA) gave approval for the cross-listing, in what is a first for a Rwandese company on the Nairobi bourse. The Bank of Kigali Group was listed on the RSE in 2011, through an initial public offering (IPO). Bank of Kigali Group Plc is the holding company of Rwanda's largest commercial lender Bank of Kigali Plc, BK Insurance, BK Capital and technology services business BK TechHouse. Bank of Kigali Group's largest shareholders are the Government of Rwanda, Rwanda Social Security Board and international institutional investors who hold 29.5%, 25.1% and 14.0% respectively. The proceeds of the rights issue will go towards ensuring that its subsidiaries, particularly Bank of Kigali, are adequately capitalised to comply with capital adequacy requirements and to finance its growth strategy.
2. The Monetary Policy Committee (MPC) met on Tuesday 27th November 2018 to review the prevailing macroeconomic conditions and give direction on the Central Bank Rate (CBR). The MPC maintained the CBR at 9.0%, in line with our expectations as detailed in our [MPC Note](#), citing that inflation expectations were still well anchored within the target range and that the economy was operating close to its potential. The MPC noted that the current policy was still appropriate, but it would continue monitoring any perverse response to its previous decisions as well as developments in the global and domestic economy to take additional measures as necessary, See the [CBK Release](#). For more information see our [Cytonn Monthly – November 2018](#)

Nigeria

1. The Monetary Policy Committee of the Central Bank of Nigeria (CBN) voted to retain the Monetary Policy Rate at 14.0%, citing relative stability witnessed in domestic prices, output growth and the financial system. The MPC's decision to hold the rate underpinned its confidence in the various policies and administrative measures deployed by the Bank that have resulted in moderation in domestic price

levels and stability in the foreign exchange rate. The Committee has held the 14.0% rate since July 2016, before which it was at 12.0%; adding that the downside risks to growth and upside risks to inflation appears contained. The decision was endorsed by all 11 members of the MPC, who also voted to retain the asymmetric corridor of +200/-500 points around the MPR, retain the Cash Reserve Ratio (CRR) at 22.5% and to retain the liquidity ratio at 30.0%.

- Ecobank Transnational Incorporated announced the successful closure of USD 200.0 mn syndicated loan facility, arranged by Deutsche Bank. The issue was oversubscribed by 34.3% to a tune of USD 268.5 mn, and is due for payment in November 2019. The loan facility will increase Ecobank's funding options as well as maintain its strong market access.
- The Nigerian Stock Exchange (NSE) sanctioned eight banks with fines totaling NGN 102.6 mn following their failure to file their financial statements at the regulatory date, in the period to November 2018. The new sanction regime took effect on 1st January 2018, requiring companies to pay fines ranging from NGN 100,000.0 to more than NGN 100.0 mn as penalties for delay in the submission of corporate earnings reports. According to the policies, quoted companies should file their unaudited quarterly accounts no later than 30 calendar days after the relevant quarter. The table below summarizes the penalties placed on the banks by the Nigeria Stock Exchange:

Fines Imposed on Banks by the Nigerian Stock Exchange	
Bank	Amount (NGN mn)
Unity BankPlc	80.2
Diamond Bank Plc	7.3
Fidelity Bank Plc	6.2
Union Bnk	4.7
FBN Holdings	2.1
Sterling Bank Plc	1.3
Wema Bank Plc	0.8
First City Monument Bank Plc	0.1
Total	102.6

For more information, see our [Cytonn SSA Financial Services Research Weekly Note - 19th November 2018](#)

- The Central Bank of Nigeria (CBN) disclosed that it has so far resolved 13,715 complaints from banks' customers with banks refunding NGN 73.3 bn to their customers. According to the CBN, its intervention in about 13,715 complaints brought before it, which were resolved by its Consumer Protection Department, led to the return of NGN 66.5 bn, USD 18.5 mn, EUR 0.03 mn and GBP 9,085 to the complainants. As per Ibrahim Hassan, the Assistant Director of Consumer Protection Department of CBN, 25,043 cases of fraud were reported by deposit money banks (DMBs) in 2017 compared to 19,531 cases in 2016 representing a 28.2% increase in reported fraud cases in 2017. However, there was a 24.0% reduction in actual fraud loss value in 2017 compared to 2016 figures. Actual fraud loss value amounted to NGN 1.6 bn in 2017 from NGN 1.2 bn in 2016, with 83.0% of the losses in 2017 due to electronic fraud, while the remaining 17.0% were non-electronic. For more information, see our [Cytonn SSA Financial Services Research Weekly Note - 19th November 2018](#).

Ghana

- The Ghanaian Government's intervention in the banking sector in August this year, has secured a total of GHS 11.0 bn customer deposits and 2,661 jobs. This comes in the wake of efforts by the Bank of Ghana (BoG) to clean up the banking sector by flagging down insolvent and non-compliant banks. Among the reforms mooted by the BoG was for banks to increase minimum stated capital to GHS 400.0

mn from GHS 120.0 mn by December 2018. The BoG revoked the licences of two indigenous banks, UT Bank and Capital Bank, and further took measures to act over five banks that had liquidity challenges. In addition to the two banks, the table below summarizes the 5 other banks placed under receivership by the BoG:

Insolvent Banks placed under Receivership					
Bank	Capital Deficit (GHS bn, min. GHS 400.0 mn)	Capital Adequacy Ratio (CAR, min. 10.0%)	Liquidity Support from BoG (GHS bn)	NPL Ratio (%)	Net Assets (bn)
UniBank	(7.4)	(74.7)	3.1	89.0	(6.8)
The Royal Bank	(0.6)	(80.5%)	0.3	78.8	(0.5)
The Beige Bank Limited	(0.2)	(17.2%)	Undisclosed	72.8	
Sovereign Bank	Undisclosed	(11.0%)	0.012	Undisclosed	Undisclosed
The Construction Bank Limited	(0.4)	Undisclosed	Undisclosed	Undisclosed	Undisclosed

For more information, see our [Cytonn SSA Financial Services Research Weekly Note - 19th November 2018](#)

2. Societe Generale Ghana Limited (SOGE GH) announced the results of the rights issue that run between 3rd to 24th October, 2018. The exercise managed to raise GHS 165.4 mn from issuance of 204.2 mn shares, representing a success rate of 97.9%. The bank had planned to raise GHS 168.9 mn by issuing 208.6 mn shares at a price of GHS 0.81 per share, which translated to a 19.0% discount from the GHS 1.0 market price as at 2nd October 2018, for a ratio of 1 share for every 2.4 shares held. For more information, see our [Cytonn SSA Financial Services Research Weekly Note - 12th November 2018](#)

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:

Universe of Coverage										
Banks	Price as at 31/10/2018	Price as at 23/11/2018	Price as at 30/11/2018	w/w change	m/m change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple
NIC Bank***	23.0	22.8	22.8	0.0%	(1.1%)	(32.6%)	48.8	4.4%	118.9%	0.6x
Diamond Trust Bank	155.0	146.0	146.0	0.0%	(5.8%)	(24.0%)	283.7	1.8%	96.1%	0.8x
Ghana Commercial Bank***	5.2	4.8	4.8	0.2%	(6.8%)	(5.0%)	7.7	7.9%	68.8%	1.1x
KCB Group	38.3	38.8	39.5	1.9%	3.3%	(7.6%)	61.3	7.6%	62.8%	1.3x
I&M Holdings	90.0	85.0	89.0	4.7%	(1.1%)	(29.9%)	138.6	3.9%	59.7%	0.9x
Union Bank Plc	5.1	5.1	5.2	2.0%	2.0%	(34.0%)	8.2	0.0%	58.3%	0.5x
Zenith Bank***	23.5	24.0	23.2	(3.3%)	(1.3%)	(9.5%)	33.3	11.6%	55.3%	1.0x
UBA Bank	7.9	7.8	7.5	(3.8%)	(5.1%)	(27.2%)	10.7	11.3%	54.0%	0.5x
Equity Group	39.3	39.0	39.5	1.3%	0.6%	(0.6%)	56.2	5.1%	47.3%	1.9x
CAL Bank	1.0	1.0	1.0	0.0%	(7.7%)	(11.1%)	1.4	0.0%	45.8%	0.8x
Ecobank Ghana	6.7	7.5	7.5	0.0%	12.3%	(1.3%)	10.7	0.0%	43.1%	1.6x
Co-operative Bank	14.3	14.2	14.8	4.2%	3.5%	(7.8%)	19.9	5.4%	40.3%	1.3x
CRDB	150.0	150.0	150.0	0.0%	0.0%	(6.3%)	207.7	0.0%	38.5%	0.5x
HF Group	5.3	5.4	5.1	(6.3%)	(3.6%)	(51.3%)	6.6	6.9%	37.4%	0.2x
Access Bank	7.9	7.4	7.8	4.7%	(1.9%)	(25.8%)	9.5	5.2%	27.7%	0.5x
Barclays	10.7	11.0	10.8	(1.8%)	0.9%	12.0%	12.5	9.3%	25.6%	1.5x
Stanbic Bank Uganda	33.0	32.0	31.0	(3.1%)	(6.1%)	13.8%	36.3	3.8%	20.8%	2.2x
Guaranty Trust Bank	37.5	36.4	34.4	(5.6%)	(8.4%)	(15.7%)	37.1	7.0%	15.0%	2.1x
SBM Holdings	6.2	6.1	6.1	0.0%	(1.3%)	(18.4%)	6.6	4.9%	12.1%	0.9x
Bank of Kigali	290.0	290.0	290.0	0.0%	0.0%	(3.3%)	299.9	4.8%	8.2%	1.6x
Standard Chartered	186.0	188.0	193.0	2.7%	3.8%	(7.2%)	196.3	6.5%	8.2%	1.6x
Stanbic Holdings	92.0	92.5	91.5	(1.1%)	(0.5%)	13.0%	92.6	2.5%	3.7%	0.9x
FBN Holdings	8.0	7.6	7.1	(6.6%)	(11.3%)	(19.3%)	6.6	3.5%	(3.1%)	0.4x
Standard Chartered	21.8	20.2	20.2	0.2%	(7.2%)	(19.9%)	19.5	0.0%	(3.8%)	2.5x
Bank of Baroda	127.0	126.0	139.0	10.3%	9.4%	23.0%	130.6	1.8%	(4.2%)	1.2x
National Bank	5.0	5.8	5.7	(0.5%)	15.6%	(38.8%)	4.9	0.0%	(14.3%)	0.4x
Stanbic IBTC Holdings	47.3	49.0	48.0	(2.0%)	1.6%	15.7%	37.0	1.2%	(21.7%)	2.5x
Ecobank Transnational	16.0	15.8	16.0	1.3%	(0.3%)	(6.2%)	9.3	0.0%	(41.8%)	0.6x

*Target Price as per Cytonn Analyst estimates
 **Upside / (Downside) is adjusted for Dividend Yield
 ***Banks in which Cytonn and/or its affiliates holds a stake.
 ****Stock prices indicated in respective country currencies

We are “NEUTRAL” on equities since the markets are currently trading below historical P/E averages. However, pockets of value continue to exist, with a number of undervalued sectors like Financial Services, which provide an attractive entry point for medium and long-term investors, and with expectations of higher corporate earnings this year, we are “POSITIVE” for investors with a long-term investment horizon.