Cytonn SSA Financial Services Research Weekly Note #01/2019

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Executive Summary: During the week, the equities market recorded mixed performances with NASI and NGSEASI declining by 3.5% and 1.3%, respectively, while GGSECI gained by 0.5%. The YTD performance for 2019 is (2.6%), (2.5%), and 0.4% for NASI, NGSEASI and GGSECI, respectively. The Central Bank of Kenya (CBK) announced a deficit of Kshs 4.6 bn in the year ended June 2018 when the strengthening of the shilling saw the institution book large unrealized losses on its dollar holdings;

Section I: Market Performance:

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

Weekly Top Gainers and Losers					
Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
FBN Holdings	Nigeria	6.0%	National Bank Kenya	Kenya	(11.9%)
UBA Bank	Nigeria	4.0%	Union Bank	Nigeria	(8.2%)
Stanbic Uganda	Uganda	3.8%	Ecobank	Ghana	(6.7%)
DTBK	Kenya	3.8%	Access Bank	Nigeria	(5.4%)
CAL Bank	Ghana	2.1%	Stanbic Holdings	Kenya	(5.3%)

Kenya

NASI declined by 3.5% during the week driven by decreases in large cap stocks such as Safaricom, EABL and Equity Group, which declined by 6.8%, 6.0%, and 4.1%, respectively. In our universe of coverage National Bank, Stanbic Holdings and Standard Chartered declined by 11.9%, 5.3% and 1.9%, respectively, while DTBK gained by 3.8%. Equities turnover increased by 157.0% during the week, to USD 10.7 mn from USD 4.2 mn the previous week, as market activity resumed after the Christmas holiday. YTD turnover for 2019 currently stands at USD 7.3 mn. Foreign investors remained net sellers for the week, with a net selling position of USD 2.8 mn, a 79.3% increase from last week's net selling position of USD 1.5 mn. 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 declined by 1.3% during the week, owing to drops in the utilities, Healthcare and Financial sectors. For our financial services universe of coverage, FBN Holdings and UBA Bank gained by 6.0% and 4.0 %, respectively while Union Bank and Access Bank declined by 8.2% and 5.4%, respectively.

Ghana

The GSE Composite Index gained by 0.5% during the week, driven mainly by gains in large cap stocks. Our universe of coverage delivered mixed results, with CAL Bank gaining by 2.1%, while Ecobank declined by 6.7%.

Section II: Earnings Releases

There were no earnings released during the week

Section III: Latest Developments in the Sub Saharan Africa Banking Sector during the week:

Kenya

The Central Bank of Kenya (CBK) posted a deficit of Kshs 4.6 bn in the year ended June 2018 when the strengthening of the shilling saw the institution book large unrealized losses on its dollar holdings. The bank had reported a surplus of Kshs 17.5 bn the year before. CBK's foreign exchange losses in the review period stood at Kshs 18.6 bn, overshadowing higher interest income and reduced interest and operating expenses. The shilling traded at 101.05 units to the dollar at the end of June 2018 compared to 103.71 units at the end of June 2017, representing an appreciation of 2.6%. The strengthening of the Kenya Shilling against the US dollar over the fiscal year 2017/18 was largely supported by strong foreign exchange inflows into the domestic market as well as investors seeking to participate in the securities market. Before factoring in relative currency movements, the bank had an operating surplus of Kshs 16.1 bn in the review period compared to Kshs 9.9 bn a year earlier. CBK's total interest income surged 39.1 % to Kshs 20.0 bn from Kshs 14.4 bn, boosted by higher reserves and rising interest rates on dollar-denominated fixed income assets. The bank's official reserves rose steadily to USD 8.9 bn in June 2018 compared USD 8.5 bn in June 2017. CBK's lending to the government and banks earned it interest income of Kshs 3.2 bn and Kshs 3.0 bn, respectively. Its interest expenses dropped 48.7% to Kshs 881.0 mn, partly due to the benchmark Central Bank Rate (CBR) dropping from 10.0% in 2017 to 9.0%.

Nigeria

The Central Bank of Nigeria, CBN, cash injection into the nation's foreign exchange market rose by 118% to about USD 48.0 bn in 2018 from USD 22.0 bn in 2017. The cash injections were dominated by the settlement of matured forward contracts estimated at USD 16 bn in 2018. The sharp increase was triggered by the decision of CBN to defend the Naira in the face of increased foreign exchange outflows due to foreign portfolio investors (FPIs) exiting the nation's financial markets to take advantage of the higher interest rate regime in the United States, following interest rate hikes by the Federal Reserve. Also during the year, the CBN increased weekly dollar sales to bureau exchanges (BDCs), by 75% to USD 75,000 per BDC from USD 40,000 per BDC, in a bid to address increased demand for dollars in the retail segment. Notwithstanding, the upsurge in intervention, the Naira depreciated in the Investors and Exporters (I&E) window by 1.0% to NGN 364.0 per dollar at the close of 2018 from NGN 360.3 per dollar at the close of 2017. Also reflecting the impact of the increased intervention, the nation's external reserve dropped to USD 43.1 bn at the close of 2018 from USD 47.8 bn on July 2018.

Ghana

The Ghanaian Government announced a special program to rescue five indigenous commercial banks that failed to reach the BoG's minimum capital requirement of GHC 400 mn. The Finance Ministry, in a statement issued, said a new entity called: the Ghana Amalgamated Trust (GAT) will support solvent and well-run indigenous banks, which were otherwise having difficulties meeting the new minimum capital requirement deadline, to meet their obligations. The beneficiaries of the GAT program are Agricultural Development Bank

(ADB), National Investment Bank (NIB), OmniBank Ghana Limited / Bank Sahel Sahara Ghana (OmniBank / BSIC), Universal Merchant Bank (UMB) and Prudential Bank. GAT has committed funds from pension funds and other investors, through a bond program, with proceeds of up to GHC 2.0 bn to be used for equity investment in the eligible indigenous banks, as determined by the investors. The bonds issued to the Pension Funds will be listed on the Ghana Fixed Income Market (GFIM) for liquidity purposes. The statement also disclosed that government's commitment to the initiative is to protect jobs, local enterprises, enhance the capacity of local banks and ensure strategic Ghanaian interests in the banking sector.

Section IV: Equities Universe of Coverage:

The week-on-week 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 28/12/2018**	**Price as at 04/01/2019**	**w/w change**	**YTD Change**	**LTM Change**	**Target Price***	**Dividend Yield**	**Upside/Downside****	**P/TBv Multiple**
Equity Group	36.0	35.2	(2.2%)	(11.4%)	(7.1%)	65.8	5.7%	74.6%	**1.7x**
KCB Group	38.0	37.4	(1.4%)	(12.5%)	(11.2%)	64.0	8.0%	70.5%	**1.2x**
Ghana Commercial Bank***	4.8	4.8	0.6%	(5.0%)	(5.0%)	7.7	7.9%	69.1%	**1.1x**
I&M Holdings	85.0	85.0	0.0%	(33.1%)	(33.1%)	138.6	4.1%	65.3%	**0.9x**
Diamond Trust Bank	149.0	150.3	0.8%	(21.7%)	(22.4%)	231.0	1.7%	57.5%	**0.9x**
Zenith Bank***	22.7	23.0	1.3%	(10.3%)	(11.0%)	33.3	11.7%	56.6%	**1.0x**
NIC Bank	27.4	27.9	1.8%	(17.5%)	(10.9%)	40.7	3.6%	56.6%	**0.7x**
UBA Bank	7.9	7.9	0.0%	(23.8%)	(23.8%)	10.7	10.8%	52.5%	**0.5x**
CAL Bank	1.0	1.0	0.0%	(11.1%)	1.6%	1.4	0.0%	48.9%	**0.8x**
Co-operative Bank	13.9	14.1	1.1%	(12.2%)	(12.9%)	19.4	5.7%	43.3%	**1.2x**
Ecobank	7.0	7.5	7.1%	(1.3%)	1.3%	10.7	0.0%	43.1%	**1.5x**
CRDB	150.0	150.0	0.0%	(6.3%)	(6.3%)	207.7	0.0%	38.5%	**0.5x**
Barclays	11.1	11.0	(0.9%)	14.6%	15.0%	13.9	9.1%	37.8%	**1.5x**
Union Bank Plc	5.6	5.6	0.0%	(28.2%)	(25.2%)	8.2	0.0%	33.6%	**0.6x**
Access Bank	7.1	6.8	(3.5%)	(34.9%)	(32.7%)	9.5	5.9%	33.4%	**0.5x**
HF Group	5.3	5.5	3.0%	(47.1%)	(44.3%)	6.9	6.4%	31.8%	**0.2x**
Stanbic Bank Uganda	31.5	31.0	(1.7%)	13.8%	15.7%	36.3	3.8%	23.2%	**2.2x**
SBM Holdings	5.9	5.9	0.0%	(20.8%)	(20.8%)	6.6	5.1%	14.4%	**0.8x**
Stanbic Holdings	88.5	95.0	7.3%	17.3%	9.3%	102.7	2.4%	14.0%	**0.9x**
Guaranty Trust Bank	33.8	34.3	1.5%	(15.8%)	(16.6%)	37.1	7.0%	13.0%	**2.1x**
Bank of Kigali	278.0	278.0	0.0%	(7.3%)	(7.3%)	299.9	5.0%	12.5%	**1.5x**
Standard Chartered	196.5	194.0	(1.3%)	(6.7%)	(5.1%)	192.0	6.4%	5.0%	**1.6x**
Bank of Baroda	140.0	140.0	0.0%	23.9%	23.9%	130.6	1.8%	(3.6%)	**1.2x**
Standard Chartered	20.0	21.0	5.0%	(16.8%)	(7.5%)	19.5	0.0%	(4.1%)	**2.5x**
FBN Holdings	7.9	7.6	(4.4%)	(14.2%)	(12.1%)	6.6	3.3%	(7.7%)	**0.4x**
National Bank	5.8	5.9	1.4%	(37.1%)	(38.6%)	5.0	0.0%	(16.7%)	**0.4x**
Stanbic IBTC Holdings	46.0	53.3	15.8%	28.3%	10.8%	37.0	1.1%	(17.6%)	**2.4x**
Ecobank Transnational	14.3	14.0	(1.8%)	(17.6%)	(16.2%)	9.3	0.0%	(38.1%)	**0.5x**

**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*

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We are "NEUTRAL" on equities for investors with a short investment horizon. However, pockets of value exist, with a number of undervalued sectors like Financial Services, which provide an attractive entry point for medium to long-term investors, and with expectations of higher corporate earnings supported by sectors such as banking sector, we are "POSITIVE" for investors with a long-term investment horizon.