

Cytonn SSA Financial Services Research Weekly (13th- 17th August)

In this weekly research note, we highlight the performance of the listed banks in the Sub-Saharan Africa Financial Services Sector, looking at their market performance, earnings results and sector specific news that occurred during the third week of August (Week 33).

Section I: Market Performance:

During the third week of August, the equities markets registered mixed performance, with NASI rising 1.0%, GGSECI remaining flat, while NGSEASI lost 0.5%. This takes the YTD performance of NASI, NGSEASI and GGSECI to 2.0%, (7.8%) and 11.1%, respectively.

Below is a summary of top gainers and losers for the week:

Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
Stanbic Holdings	Kenya	8.2%	Bank of Baroda	Uganda	(14.3%)
Ecobank	Ghana	8.0%	UBA Bank	Nigeria	(11.6%)
Union Bank Plc	Nigeria	5.4%	Barclays Bank	Kenya	(4.4%)
Zenith Bank	Nigeria	3.3%	Access Bank	Nigeria	(4.0%)
CAL Bank	Ghana	3.3%	SBM Holdings	Mauritius	(4.0%)

Kenya

NASI was the best performer this week, rising by 1.0% attributable to gains registered in Safaricom, which rose by 2.7%. Equity turnover rose by 54.9% w/w to USD 26.8 mn. Foreign investors remained net sellers during the week, with outflows of USD 4.8 mn, retaining their net selling position for the last 3 months. The banking sector declined during the week, despite most large Tier I banks releasing H1'2018 results where they recorded positive core EPS growth. Stanbic Holdings was the biggest gainer rising 8.2%, while Barclays Bank, Equity Group and HF Group experienced declines of 4.4%, 2.9% and 1.3%, respectively.

Nigeria

The Nigerian All Share index was the worst performer during the week, declining by 0.5% driven by a decline in the financial services sector and oil and gas sector stocks. The financial services industry took up the bulk of the trades, accounting for 65% of the Naira 8.3 bn (USD 26.9 mn) turnover during the week. Our financial services universe of coverage registered declines, with UBA Bank, Access Bank and Guaranty Trust Bank losing 11.6%, 4.0%, and 2.6%, respectively. Union Bank and Zenith Bank registered gains of 5.4% and 3.3%, respectively.

Ghana

The GSE Composite Index remained flat during the week, with gains in the banking sector stocks countered by declines in the oil and gas sector stocks. The financial services sector registered gains, with Ecobank, CAL bank and GCB bank rising by 8.0%, 3.3% and 2.5%, respectively.

Section II: Earnings Releases:**Kenya****Equity Group Holdings released H1'2018 results:**

Equity Group Holdings released H1'2018 results, with core earnings per share increasing by 17.6% to Kshs 2.9 from Kshs 2.5 in H1'2017, below our expectation of a 20.7% increase to Kshs 3.0. Performance was driven by a 5.9% increase in total operating income, coupled with a 1.9% decrease in the total operating expenses. The variance in core earnings per share growth against our expectations was largely due to a slower growth in Non-Funded Income (NFI), which grew by 1.5% to Kshs 13.2 bn, against our expectation of an 8.3% growth to Kshs 14.1 bn.

For a comprehensive analysis, see our [Equity Group Holdings H1'2018 Earnings Note](#).

KCB Group PLC released H1'2018 results during the week:

KCB Group PLC released H1'2018 results, with core earnings per share increasing by 18.0% to Kshs 7.9 from Kshs 6.7 in H1'2017, exceeding our expectation of a 9.4% increase to Kshs 7.3. Performance was driven by a 2.9% increase in total operating income, coupled with a 6.8% decline in total operating expenses. The variance in core earnings per share growth against our expectations was largely due to a 58.9% decline in Loan Loss Provisions (LLP) to Kshs 0.8 bn. We had expected a 9.5% decline in LLP to Kshs 1.8 bn from Kshs 2.0 bn in H1'2017.

For a comprehensive analysis, see our [KCB Group PLC H1'2018 Earnings Note](#)

Co-operative Bank Kenya released H1'2018 results during the week:

Co-operative Bank released H1'2018 results, with core earnings per share increasing by 7.6% to Kshs 2.0 from Kshs 1.9 in H1'2017, in line with our expectation of a 6.1% increase to Kshs 2.0. Performance was driven by a 6.3% increase in total operating income, despite a 5.5% increase in total operating expenses.

For a comprehensive analysis, see our [Cooperative Bank H1'2018 Earnings Note](#)

Barclays Bank Kenya released H1'2018 results during the week;

Barclays Bank released H1'2018 results, with core earnings per share increasing by 6.2% to Kshs 0.69 from Kshs 0.65 in H1'2017, which was lower than our expectation of a 12.7% increase to Kshs 0.73. Performance was driven by a 4.8% increase in total operating income, despite a 6.0% increase in the total operating expenses. Variance in core earnings per share growth against our expectation was due to a 26.9% increase y/y in Loan Loss Provisions (LLPs). We had expected a 20.9% decrease in LLPs to Kshs 1.1 bn, but came in at Kshs 1.7 bn.

For a comprehensive analysis, see our [Barclays Bank H1'2018 Earnings Note](#)

Section III: Latest Developments in the Sub Saharan Africa Banking Sector:**Kenya**

1. **Pesa Link transfers Kshs 81 bn in first 17 months since launch:** The interbank money transfer platform Pesa Link, which was launched in February 2017 by Integrated Payment Services Ltd (IPSL), a subsidiary of Kenya Bankers Association (KBA), has transacted Kshs 81 bn to date. Pesa Link was set up to rival telco's

mobile money services, currently dominated by Safaricom’s M-Pesa. The platform facilitates direct bank transfers to the 30 banks that have subscribed, and can handle person-to-person transfers from as low as Kshs 10 to a maximum of Kshs 999,999.

2. **Victoria Commercial Bank receives credit upgrade to BBB+:** Victoria Commercial Bank, a Tier III lender, has been rated as BBB+(KE) on long-term basis, up from BBB(KE), by Global Credit Ratings (GCR) with a stable outlook. The short term rating has been maintained at A2(KE) on the back of good earnings and capital levels. GCR has however raised concern at the lender’s lack of product diversity and low number of clients, which implies lower systemic importance relative to larger peers. Victoria Commercial Bank commenced its operations in 1987, and targets small and medium-sized enterprises.

Nigeria

1. **Stanbic IBTC Holdings lists 64.2 mn scrip shares:** Stanbic IBTC Holdings Plc has listed about 64.2 mn ordinary shares of 50 kobo each to raise its total outstanding shares to about 10.1 bn ordinary shares of 50 kobo each. The supplementary shares were due to the scrip dividend scheme offered by the holding company to eligible shareholders who elected to receive new ordinary shares in lieu of 50 kobo cash dividend declared for the business year ended December 31, 2017.

Ghana

1. **Consolidated Bank Ghana starts servicing customers:** Consolidated Bank Ghana, the bank formed to take over operations of 5 dissolved banks, namely (i) Construction Bank, (ii) Royal Bank, (iii) UniBank, (iv) Sovereign Bank and (v) Beige Bank, has started operations and servicing its customers. With a stated capital of GHS 450 mn, a branch network of 175 and presence in most regions of Ghana, the Consolidated Bank called on its customers to exercise patience and support it make the synchronization as brief as possible without disrupting or diluting its commitment to providing outstanding services to all stakeholders.

Section IV: Equities Universe of Coverage:

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

Banks	Price as at 10/08/2018	Price as at 17/08/2018	w/w change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple
NIC Bank***	34.8	34.8	0.0%	3.0%	5.5%	54.1	2.9%	58.6%	0.8x
Zenith Bank***	22.9	23.6	3.3%	(8.0%)	2.6%	33.3	11.4%	57.3%	1.0x
Ghana Commercial Bank***	5.2	5.3	2.5%	5.0%	3.1%	7.7	7.2%	56.5%	1.3x
I&M Holdings***	116.0	115.0	(0.9%)	10.6%	(7.3%)	169.5	3.0%	49.2%	1.2x
Union Bank Plc	5.6	5.9	5.4%	(25.0%)	12.3%	8.2	0.0%	46.8%	0.6x
Diamond Trust Bank***	194.0	197.0	1.5%	2.6%	3.7%	280.1	1.3%	45.7%	1.1x
HF Group***	8.0	7.9	(1.3%)	(24.0%)	(27.0%)	10.2	4.1%	31.6%	0.3x
UBA Bank	9.5	8.4	(11.6%)	(18.9%)	(10.2%)	10.7	18.0%	31.2%	0.6x
CRDB	160.0	160.0	0.0%	0.0%	(20.0%)	207.7	0.0%	29.8%	0.5x
Ecobank	8.3	9.0	8.0%	17.9%	40.8%	10.7	0.0%	29.3%	2.4x
KCB Group***	49.5	49.5	0.0%	15.8%	12.5%	60.9	6.1%	29.1%	1.6x
Barclays	12.6	12.0	(4.4%)	25.0%	11.6%	14.0	8.3%	19.9%	1.6x
Co-operative Bank	17.2	17.1	(0.6%)	6.9%	(2.0%)	19.7	4.7%	19.2%	1.5x

CAL Bank	1.2	1.3	3.3%	17.6%	59.5%	1.4	0.0%	13.8%	1.0x
Stanbic Bank Uganda	33.0	33.0	0.0%	21.1%	21.1%	36.3	3.5%	13.5%	2.1x
Equity Group	51.5	50.0	(2.9%)	25.8%	15.6%	55.5	4.0%	11.8%	2.6x
Bank of Kigali	290.0	290.0	0.0%	(3.3%)	15.1%	299.9	4.8%	8.2%	1.6x
Guaranty Trust Bank	39.0	38.0	(2.6%)	(6.7%)	(5.1%)	37.1	6.3%	1.4%	2.2x
Access Bank	10.0	9.6	(4.0%)	(8.1%)	(1.3%)	9.5	4.2%	(0.8%)	0.7x
SBM Holdings	7.0	6.7	(4.0%)	(10.7%)	(15.0%)	6.6	4.5%	(1.5%)	1.0x
Standard Chartered	205.0	206.0	0.5%	(1.0%)	(12.0%)	184.3	6.1%	(4.0%)	1.6x
Bank of Baroda	140.0	120.0	(14.3%)	6.2%	9.1%	130.6	2.1%	(4.6%)	1.2x
Stanbic Holdings	98.0	106.0	8.2%	30.9%	28.5%	85.9	2.1%	(10.2%)	1.2x
Stanbic IBTC Holdings	49.4	50.1	1.4%	20.6%	35.3%	37.0	1.2%	(23.8%)	2.5x
Standard Chartered	26.1	26.1	(0.0%)	3.2%	15.2%	19.5	0.0%	(25.3%)	3.3x
FBN Holdings	9.6	9.8	2.1%	11.4%	63.3%	6.6	2.6%	(28.4%)	0.5x
National Bank	6.0	6.1	0.8%	(35.3%)	(48.7%)	2.8	0.0%	(53.3%)	0.4x
Ecobank Transnational	21.2	21.1	(0.5%)	23.8%	16.9%	9.3	0.0%	(56.1%)	0.8x

We are “NEUTRAL” on equities for investors with a short-term investment horizon since the market has rallied and brought the market P/E slightly above its’ historical average. However, pockets of value exist, with a number of undervalued sectors such as Financial Services, which provide an attractive entry point for long-term investors, and with expectations of higher corporate earnings this year, we are “POSITIVE” for investors with a long-term investment horizon.