

**Cytonn SSA Financial Services Research Weekly Note #48/2018**

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**Executive Summary:** During the week, the equities market was on a decline with NASI, GGSECI and NGSEASI declining by 1.2%, 0.7% and 0.6%, respectively. This takes their YTD performance to (20.5%), (16.2%), and (11.7%) for the NGSEASI, NASI and GGSECI, respectively;

**Section I: Market Performance:**

During the week, the equities market was on a decline with NASI, GGSECI and NGSEASI declining by 1.2%, 0.7% and 0.6%, respectively. This takes their YTD performance to (20.5%), (16.2%), and (11.7%) for the NGSEASI, NASI and GGSECI, respectively.

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
HF Group	Kenya	19.0%	NIC Bank	Kenya	(12.7%)
Union Bank Plc	Nigeria	14.0%	CAL Bank	Nigeria	(4.1%)
Bank of Baroda	Uganda	7.4%	Bank of Kigali	Rwanda	(3.8%)
National Bank	Kenya	4.9%	Ecobank Transnational	Nigeria	(3.2%)
I&M Holdings	Kenya	1.2%	Co-operative Bank	Kenya	(2.4%)

**Kenya**

NASI declined by 1.2% during the week driven by declines in large cap stocks such as NIC Group, British American Tobacco (BAT), and Co-operative Bank, which declined by 12.6%, 7.4%, and 2.4%, respectively. Equities turnover increased by 127.5% during the week to USD 32.4 mn from USD 14.2 mn the previous week, taking the YTD turnover to USD 1.7 bn. Foreign investors remained net sellers for the week, with a net selling position of USD 6.4 mn, a 129.5% increase from last week's net selling position of USD 2.8 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 0.6% during the week, largely driven by declines in the consumer goods industry which declined by 2.8%. For our financial services universe of coverage, Union Bank, UBA Bank and Guaranty Trust Bank gained by 14.0%, 0.7% and 0.3%, respectively, while the biggest decliners were Ecobank Transnational, Zenith Bank, Stanbic IBTC Holdings which declined by 3.2%, 2.3% and 2.0%, respectively.

**Ghana**

The GSE Composite Index declined by 0.7% during the week, driven mainly by declines in the financial services segment. In our universe of coverage for Ghana, CAL Bank and Ghana Commercial Bank (GCB) declined by 4.1% and 0.4%, respectively.

**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) accepted a binding offer from KCB Group for the acquisition of Imperial Bank of Kenya (under Receivership). This brings the total deposits recovery to approximately Kshs 20.3 bn. The Kenya Deposit Insurance Corporation (KDIC) was appointed by CBK to assume control of the Imperial Bank in October 2015, following unsound business conditions. At the date of receivership, Imperial Bank held Kshs 58.0 bn in customer deposits with 52,398 deposit accounts, and operations in Kenya and Uganda. The additional 12.7% of eligible depositor balances acquired by KCB brings the total recovered sum to approximately 35.0% of original eligible deposits held. This transaction will be key to recovery of Imperial Bank depositors' wealth and going forward, we expect voluntary consolidation in the sector, as smaller banks with depleted capital positions and not serving a particular niche are acquired as their performance deteriorates due to the sustained effects of the Banking (Amendment) Act 2015. We note that the industry needs fewer but stronger players to ensure the sector remains stable.

The World Bank announced funding for the creation of an electronic registry that will allow the use of household goods, live animals and office equipment as collateral for commercial loans in a move aimed at boosting access to credit by personal and household credit consumers. The World Bank, through its private investment arm, International Finance Corporation (IFC), has disclosed its efforts with the government and bankers on the development of a collateral registry, which is expected to be deployed by June 2020. Kenya passed the Movable Property Security Rights Act in 2017 to help bank customers without common and costly forms of collateral to access credit. The objective of the project is to increase the reach of credit to individual consumers as well as Micro, Small and Medium enterprises (MSMEs), and the IFC intends to use Kshs 24.6 mn to raise awareness among customers, banks and other stakeholders for early adoption of the electronic registry. In the past, movable assets such as household goods and office equipment have been ignored by lenders as loan collaterals owing to lack of a central registry where they could log in their claim on the asset. This meant that ownership of a collateral could easily be transferred without the bank's knowledge, leaving it exposed in case of a default. Goods listed in the electronic registry, however, will have a unique identification number that will allow tracking of those that have been used to secure bank loans or collateral. With the implementation of a central registry, MSME's that have become increasingly deprived of credit owing to lack of assets categorized as collateral, will likely be able to gain access, as banks will be better placed to track the asset ownerships, thereby aiding in credit risk management, consequently lessening the stringent lending policies adopted by banks towards the secured lending segment with these assets listed in the registry and qualifying as collateral. In our view however, we remain conservative on the short-term effect this will have on loan growth to the private sector. Public education will be necessary in order for the key players (individual consumers, Micro, Small and Medium enterprises) to fully understand the service.

**Nigeria**

Nigerian banks' Non-Performing Loans (NPLs) stood at NGN 2.2 tn as at the end of September 2018, according to the National Bureau of Statistics. The NBS revealed that in the period under review, the country's gross loans stood at NGN 15.9 tn, while loans (after specific provisions) stood at NGN 13.3 tn, translating to an NPL ratio of 13.8%. According to the NBS, as of the end of June, NPLs stood at NGN 1.9 tn, representing an 15.8% increase, while gross loans and loans (after specific provisions) were NGN 15.5 tn and NGN 13.6 tn, respectively. Recently, the Asset Management Corporation of Nigeria said it was preparing to release another list of debtors. The corporation decided to expose the debtors following their failure to meet their debt obligations after several peaceful engagements. Asset quality remains a concern in the Nigerian Banking sector and we expect the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) to closely monitor lending activities.

A total volume of 126,878,501 ordinary shares of Stanbic IBTC Holdings Plc were listed on the Daily Official List of The Nigerian Stock Exchange on 11 December 2018. The additional shares of 50 kobo each resulted from the scrip dividend offered to eligible shareholders of Stanbic IBTC who elected to receive new ordinary shares in lieu of cash dividends with respect to the NGN 1.0 dividend declared for the half year ended 30 June 2018. With this listing, the total issued and fully paid up shares of the Company has now increased from 10.1 mn to 10.2 mn ordinary shares.

The Board of Access Bank Plc announced the signing of a Memorandum of Agreement (MoA) with Diamond Bank Plc regarding a potential merger that will create Nigeria and Africa's largest retail bank by customers. The proposed merger would involve Access Bank acquiring the entire issued share capital of Diamond Bank. According to the agreement reached by the Boards of the two financial institutions, Diamond Bank shareholders will receive a consideration of NGN 3.13 per share, comprising of NGN 1.0 per share in cash and the allotment of 2 New Access Bank ordinary shares for every 7 Diamond Bank ordinary shares held as at the Implementation Date. The offer represents a premium of 260% to the closing market price of NGN 0.87 per share of Diamond Bank on the Nigerian Stock Exchange ("NSE") as of December 13, 2018, the date of the final binding offer. Immediately following completion of the merger, Diamond Bank would be absorbed into Access Bank and it will cease to exist under Nigerian law. The current listing of Diamond Bank's shares on the NSE and the listing of Diamond Bank's global depositary receipts on the London Stock Exchange will be cancelled, upon the merger becoming effective. The proposed combination of the two institutions provides a prospect for all stakeholders in both businesses and will create a financial institution with the scale, strength and combined expertise to capitalize on the significant opportunities in Nigeria and sub-Saharan Africa more broadly.

**Ghana**

CAL Bank called an extraordinary meeting to plug its GHC 50.0 mn capital deficit. CAL Bank's board of directors will meet shareholders on December 17 at an extraordinary general meeting (EMG) in Accra to obtain an approval to transfer GHC 50.0 mn from its income surplus account to stated capital. The transfer is to help shore-up CAL Bank's stated capital to GHC 400.0 mn to enable the bank to meet the Bank of Ghana's new minimum capital requirement before the December 31 deadline. The bank currently has GHC 350.0 mn in stated capital.

Energy Commercial Bank and First Atlantic Bank signed a Memorandum of Understanding (MoU) to join forces while they search for another strategic investor to help them meet the 400 mn cedis minimum capital level. At present, an addition of the stated capital of the two banks shows that the figure will amount to GHC 228.7 mn.

This will be GHC 171.3 mn shy of the GHC 400 mn minimum requirement. Facing the risk of having their licenses revoked for non-compliance, we expect to witness more consolidation and capital raising efforts as banks aim to attain the minimum capital requirement threshold.

## 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:

Banks	Equities Universe of Coverage							
	Price as at 7/12/2018	Price as at 14/12/2018	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside	P/TBv Multiple
Equity Group	39.4	39.0	(1.1%)	(2.0%)	65.8	5.1%	72.1%	1.9x
Ghana Commercial Bank	4.8	4.8	(0.4%)	(5.3%)	7.7	7.9%	68.8%	1.1x
KCB Group	40.0	39.4	(1.4%)	(7.8%)	64.0	7.6%	67.8%	1.3x
I&M Holdings	85.0	86.0	1.2%	(32.3%)	138.6	4.1%	67.1%	0.9x
Diamond Trust Bank	148.0	148.3	0.2%	(22.8%)	231.0	1.8%	57.8%	0.9x
HF Group	4.6	5.5	19.0%	(47.1%)	6.9	6.4%	55.7%	0.2x
UBA Bank	7.5	7.6	0.7%	(26.7%)	10.7	11.3%	53.9%	0.5x
Zenith Bank	23.6	23.0	(2.3%)	(10.3%)	33.3	11.7%	53.2%	1.0x
Union Bank Plc	5.4	6.1	14.0%	(21.8%)	8.2	0.0%	52.3%	0.6x
Ecobank	7.5	7.5	0.0%	(1.3%)	10.7	0.0%	43.1%	1.6x
CAL Bank	1.0	0.9	(4.1%)	(13.0%)	1.4	0.0%	42.9%	0.8x
Co-operative Bank	14.5	14.1	(2.4%)	(11.9%)	19.4	5.7%	39.9%	1.2x
NIC Bank	30.0	26.6	(11.3%)	(21.2%)	40.7	3.8%	39.4%	0.7x
Barclays	10.8	10.8	0.5%	12.5%	13.9	9.3%	38.6%	1.5x
CRDB	150.0	150.0	0.0%	(6.3%)	207.7	0.0%	38.5%	0.5x
Access Bank	7.5	7.5	0.0%	(28.7%)	9.5	5.4%	32.9%	0.5x
Stanbic Bank Uganda	30.5	30.4	(0.4%)	11.5%	36.3	3.9%	22.8%	2.2x
Standard Chartered	194.0	194.8	0.4%	(6.4%)	219.9	6.4%	19.8%	1.6x
Stanbic Holdings	91.5	92.0	0.5%	13.6%	102.7	2.4%	14.7%	0.9x
SBM Holdings	6.0	6.0	0.0%	(20.0%)	6.6	5.0%	14.3%	0.9x
Guaranty Trust Bank	34.9	35.0	0.3%	(14.1%)	37.1	6.9%	13.2%	2.2x
Bank of Kigali	290.0	279.0	(3.8%)	(7.0%)	299.9	5.0%	8.4%	1.5x
Bank of Baroda	128.5	138.0	7.4%	22.1%	130.6	1.8%	3.5%	1.2x
Standard Chartered	20.3	20.3	0.2%	(19.6%)	19.5	0.0%	(3.9%)	2.5x
FBN Holdings	7.6	7.5	(2.0%)	(15.3%)	6.6	3.4%	(9.4%)	0.4x
National Bank	5.7	6.0	4.9%	(35.8%)	5.0	0.0%	(12.6%)	0.4x
Stanbic IBTC Holdings	46.5	45.6	(2.0%)	9.8%	37.0	1.3%	(19.1%)	2.3x
Ecobank Transnational	15.5	15.0	(3.2%)	(11.8%)	9.3	0.0%	(40.1%)	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. For full disclosure, Cytonn and/or its affiliates holds a significant stake in NIC Bank, ranking as the 5th largest shareholder

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

\*\*\*\*\*Kenyan banks placed under review

*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.*