**Cytonn SSA Financial Services Research: CAFF Weekly Note #17/2019**

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**Executive Summary**

During the week, Co-operative Bank of Kenya launched the Co-op Bank Property Hub that will serve clients who have property to sell by connecting them to the Co-operative Bank clients who want to buy property, and also offering mortgages to the buyers of the property. In Nigeria, Ecobank Transnational Incorporated (ETI) highlighted its operational strategy, aimed at improving its asset quality, and increasing its presence in the Nigerian market. In Ghana, Barclays Bank launched its non-collateral based lending program for SMEs, aimed at improving their access to credit.

**Section I: Market Performance:**

During the week, the equities markets recorded a mixed performance with NASI and GGSECI gaining by 0.3%, 1.1%, respectively, while the NGSEASI declined by 1.2%. This takes the YTD performance of NASI, NGSEASI and GGSECI to 13.0%, (5.4%), and (4.6%), respectively.

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 |
| National Bank of Kenya | Kenya | 6.2% | NIC Group | Kenya | (10.5%) |
| Bank of Kigali | Rwanda | 3.4% | Diamond Trust Bank | Kenya | (6.2%) |
| UBA PLC | Nigeria | 3.0% | CAL Bank | Ghana | (5.8%) |
| Zenith Bank | Nigeria | 2.2% | FBN Holdings | Nigeria | (5.2%) |
| I&M Holdings | Kenya | 2.0% | Co-operative Bank | Kenya | (4.2%) |

**Kenya**

During the week, the equities market recorded mixed performance with NASI having gained by 0.3%, NSE 20 having recorded a 0.4% decline, and NSE 25 remained unchanged, taking their YTD performance to gains of 0.9%, 13.0% and 11.4%, for NSE 20, NASI and NSE 25, respectively. The performance of NASI was driven by gains in large cap stocks such as Standard Chartered Bank and EABL, which gained by 3.2% and 2.7%, respectively. Equities turnover declined by 25.5% during the week to USD 8.9 mn, from USD 12.0 mn the previous week, taking the YTD turnover to USD 518.0 mn. Foreign investors were net buyers for the week, with the net buying position coming in at USD 5.0 mn, from last week's net selling position of USD 0.9 mn.

**Nigeria**

The Nigerian All Share Index (NGSEASI) declined by 1.2%. The performance was due to declines of 11.8%, 9.1%, 6.9%, 5.2% and 4.2% in Utilities, Industrials, Health Care, Real Estate and Consumer Staples, respectively. This takes the YTD performance of the NGSEASI to a decline of 5.4%. For our universe of coverage, the largest gainers were UBA Plc and Zenith Bank, which recorded gains of 3.0% and 2.2%, respectively while the largest decliners were FBN Holdings, Access Bank and Guaranty Trust Bank, which recorded declines of 5.2%, 3.6% and 1.7%, respectively.

**Ghana**

The GSE Composite Index rose by 1.1% during the week, driving YTD gains to (4.6%). In our universe of coverage, Ghana Commercial Bank was the only gainer, gaining by 1.0%, with Standard Chartered Ghana and Ecobank Ghana remaining flat, and CAL bank the only decliner, with a decline of 5.8%.

**Section II: Earnings releases**

There were no earnings released during the week.

**Section III: Weekly Highlights:**

**Kenya**

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 will 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. The lender intends 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. The bank has been trying to diversify its revenue streams since the enactment of the Banking (Amendment) Act 2015 that capped interest rates chargeable on loans, and we expect the new product to increase the banks Non-Funded Income (NFI), as it eyes fee income from the sale of the property as well as the processing of mortgage loans, which should aid in increasing its NFI, with the contribution of NFI to total operating income coming in at 30.0% as at FY'2018, below the industry average of 33.2%. A recovery in NFI should buffer the bank's profitability in the event of a decline in interest revenue, or a decline in specific NFI segments such as fees and commissions on loans due to reduced lending.

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. There has been increased demand for faster and cheaper cross border payment avenues, and we have seen strides by players in the Kenyan market to solve the challenges that arise with cross border money transfer, as evidenced by various partnerships such as;

i. **Family Bank and SimbaPay Partnership:** Simba pay is a London-based financial technology, which in November 2018 partnered with Family Bank, a move which enabled Mpesa users to send money to over 1 bn active WeChat subscribers in China, and,
ii. **Safaricom and PayPal Partnership**: This April 2018 partnership made it possible for Mpesa users to move money to PayPal accounts in up to 25 currencies.

We view this as a strategic move by DTBK as it is likely to attract corporate and trade clients to the bank, given the convenience of SWIFT's global presence. Given the increasing number and value of trade deals between the East Africa regional block and Asia, this would likely place the bank strategically to be a financial intermediary for clients who require cross border payments services. Thus, the bank will likely increase its fee and commission income from the increased transactions, consequently improving its Non-Funded Income currently at 21.0% of total operating income, which is below the industry average of 33.2% as at FY'2018.

**Nigeria**

Banks in Nigeria continue to focus on managing their credit risk, with Ecobank Transnational Incorporated (ETI) becoming the latest bank to highlight its focus on reducing its exposure to credit risk. The bank's management issued its FY'2020 guidance on the bank's asset quality, estimating the Non-Performing Loans (NPL) ratio to come in at 5.0%, as the banks hopes to further de-risk its loan portfolio. The bank set up an asset quality management vehicle, which was also tasked with mitigating capital erosion and liquidity shortfalls. The improvement in asset quality is evident as shown by the improvement in Non-Performing Loans ratio to 9.6% in FY'2018 from 10.7% in FY'2017, which was aided by a mix of prudent credit extension and the recovery in the economy. This consequently boosted the bank's performance as shown by the 76.9% improvement in the net income to USD 322.0 mn from USD 182.0 mn. With the bank keen on shoring up its capital base, it will not reinstate its dividend payout, as it would be unsustainable, with the bank currently aiming to increase its commercial presence in Nigeria, which will require additional capital. We view the current strategic restructuring of the bank, and the sector as a whole, as one that is likely to continue supporting the sector's improved performance, with a majority of the players keen on achieving sustainable levels of growth. We note that the focus seems to be venturing into new business segments especially on the retail banking front, cost management and asset quality management. We expect the continuous focus on these areas to support the sector's performance and possibly ensure the sector remains buffered against adverse changes in the operating environment.

**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. However, we are of the view that the bank should be prudent in its risk assessment and consequently credit extension, to avoid running the risk of increasing the bad loans stock. The bank may use parameters such as daily remittances by SMEs to gauge a firm's credit risk profile. Given that the product removes the main hindrance for SMEs to access credit, we expect this to provide capital to be utilized in growing their ventures which should consequently catalyze economic growth.

**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 | Price as at 18/04/2019 | Price as at 26/04/2019 | w/w change | YTD Change | Year Open | Target Price* | Dividend Yield | Upside/ Downside** | P/TBv Multiple | Recommendation |
|---|---|---|---|---|---|---|---|---|---|---|
| GCB Bank | 4.0 | 4.0 | 1.0% | (13.0%) | 4.6 | 7.7 | 9.5% | 102.5% | **0.9x** | Buy |
| Diamond Trust Bank | 130.0 | 122.0 | (6.2%) | (22.0%) | 156.5 | 241.5 | 2.1% | 100.1% | **0.7x** | Buy |
| Zenith Bank | 20.9 | 21.4 | 2.2% | (7.4%) | 23.1 | 33.3 | 12.6% | 68.7% | **0.9x** | Buy |
| UBA Bank | 6.7 | 6.9 | 3.0% | (11.0%) | 7.7 | 10.7 | 12.4% | 68.6% | **0.4x** | Buy |
| CRDB | 125.0 | 125.0 | 0.0% | (16.7%) | 150.0 | 207.7 | 0.0% | 66.2% | **0.4x** | Buy |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| NIC Group | 36.8 | 33.0 | (10.5%) | 18.5% | 27.8 | 48.8 | 3.0% | 51.1% | **1.0x** | Buy |
| Access Bank | 6.9 | 6.6 | (3.6%) | (2.9%) | 6.8 | 9.5 | 6.1% | 50.0% | **0.4x** | Buy |
| I&M Holdings | 112.8 | 115.0 | 2.0% | 35.3% | 85.0 | 167.7 | 3.0% | 48.9% | **1.1x** | Buy |
| Equity Group | 41.9 | 41.5 | (1.0%) | 19.1% | 34.9 | 58.1 | 4.8% | 44.8% | **2.0x** | Buy |
| CAL Bank | 1.0 | 1.0 | (5.8%) | (1.0%) | 1.0 | 1.4 | 0.0% | 44.3% | **0.9x** | Buy |
| Co-operative Bank | 14.2 | 13.6 | (4.2%) | (5.2%) | 14.3 | 18.5 | 7.4% | 43.9% | **1.2x** | Buy |
| KCB Group*** | 45.0 | 45.3 | 0.7% | 21.0% | 37.5 | 60.0 | 7.7% | 40.2% | **1.4x** | Buy |
| Ecobank | 7.8 | 7.8 | 0.0% | 4.0% | 7.5 | 10.7 | 0.0% | 37.6% | **1.7x** | Buy |
| Stanbic Bank Uganda | 29.0 | 29.0 | 0.0% | (6.5%) | 31.0 | 36.3 | 4.0% | 29.1% | **2.1x** | Buy |
| Stanbic Holdings | 99.0 | 96.3 | (2.8%) | 6.1% | 90.8 | 115.6 | 6.1% | 26.2% | **1.0x** | Buy |
| Union Bank Plc | 6.8 | 6.8 | 0.0% | 21.4% | 5.6 | 8.2 | 0.0% | 19.9% | **0.7x** | Accumulate |
| Barclays Bank | 12.0 | 11.9 | (0.4%) | 8.7% | 11.0 | 13.1 | 8.4% | 18.5% | **1.6x** | Accumulate |
| SBM Holdings | 5.8 | 5.9 | 1.0% | (1.3%) | 6.0 | 6.6 | 5.1% | 16.7% | **0.8x** | Accumulate |
| Guaranty Trust Bank | 34.8 | 34.2 | (1.7%) | (0.7%) | 34.5 | 37.1 | 7.0% | 15.5% | **2.2x** | Accumulate |
| Bank of Kigali | 265.0 | 274.0 | 3.4% | (8.7%) | 300.0 | 299.9 | 5.1% | 14.5% | **1.5x** | Accumulate |
| National Bank | 4.7 | 5.0 | 6.2% | (6.0%) | 5.3 | 5.2 | 0.0% | 4.0% | **0.3x** | Lighten |
| Standard Chartered | 206.0 | 208.0 | 1.0% | 6.9% | 194.5 | 203.8 | 6.0% | 4.0% | **1.7x** | Lighten |
| Bank of Baroda | 130.0 | 129.0 | (0.8%) | (7.9%) | 140.0 | 130.6 | 1.9% | 3.2% | **1.1x** | Lighten |
| Standard Chartered | 19.0 | 19.0 | 0.0% | (9.5%) | 21.0 | 19.5 | 0.0% | 2.4% | **2.4x** | Lighten |
| FBN Holdings | 7.7 | 7.3 | (5.2%) | (8.8%) | 8.0 | 6.6 | 3.4% | (5.1%) | **0.4x** | Sell |
| Ecobank Transnational | 10.8 | 10.8 | 0.5% | (36.5%) | 17.0 | 9.3 | 0.0% | (14.1%) | **0.4x** | Sell |
| Stanbic IBTC Holdings | 46.2 | 47.0 | 1.7% | (2.0%) | 48.0 | 37.0 | 1.3% | (20.0%) | **2.4x** | Sell |
| HF Group | 4.4 | 4.3 | (1.1%) | (22.4%) | 5.5 | 2.9 | 8.1% | (24.4%) | **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 holds a stake.*

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

***We are "Positive" on equities for investors as the sustained price declines have 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.***