Cytonn SSA Financial Services Research Weekly (20th- 24th 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 fourth week of August (Week 34).

Section I: Market Performance:

During the fourth week of August, the equities markets registered mixed performance, with NASI and GGSECI losing 0.9% and 0.1%, respectively, while NGSEASI gained 0.5%. This takes the YTD performance of NASI, NGSEASI and GGSECI to 1.0%, (7.4%) and 11.0%, respectively.

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

Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
Bank of Baroda	Uganda	20.8%	I&M Holdings	Kenya	(8.7%)
Standard Chartered	Ghana	1.7%	Zenith Bank	Nigeria	(7.0%)
Stanbic Holdings	Kenya	0.9%	Access Bank	Nigeria	(6.3%)
GCB Bank	Ghana	0.8%	NIC Group	Kenya	(5.8%)
Ecobank	Ghana	0.1%	HF Group	Kenya	(5.1%)

Kenya

NASI was the worst performer this week, declining by 0.9% attributable to losses registered in the financial services sector. Equity turnover declined by 35.9% w/w to USD 17.2 mn. Foreign investors remained net sellers during the week, with outflows of USD 1.0 mn, retaining their net selling position for the last 3 months. The banking sector declined during the week, with I&M Holdings, NIC Group and HF Group registering the biggest declines of 8.7%, 5.8% and 5.1%, respectively. Stanbic Holdings was the only gainer, rising 0.9%.

Nigeria

The Nigerian All Share index was the only gainer during the week, rising by 0.5% driven by gains in the oil and gas sector stocks. The financial services industry took up the bulk of the trades, accounting for 65% of the Naira 10.2 bn (USD 28.1 mn) turnover during the week. Our financial services universe of coverage registered declines, with Zenith Bank, Access Bank, Union Bank, UBA Bank, and Guaranty Trust Bank losing 7.0%, 6.3%, 5.1%, 4.2% and 1.3%, respectively.

Ghana

The GSE Composite Index declined slightly by 0.1% 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 Standard Chartered Bank, GCB Bank and Ecobank rising by 1.7%, 0.8% and 0.1%, respectively.

Section II: Earnings Releases:

<u>**Kenya**</u>

Standard Chartered Bank Kenya released H1'2018 results during the week;

Standard Chartered Bank released H1'2018 results, with core earnings per share growth of 30.3% to Kshs 13.0 from Kshs 10.0 in H1'2017, slightly higher than our expectation of a 26.0% increase to Kshs 12.6. The improvement in performance was driven by a 9.0% rise in total operating income coupled with a 4.5% decline in total operating expenses.

For a comprehensive analysis, see our Standard Chartered Bank H1'2018 Earnings Note

NIC Group Plc released H1'2018 results during the week;

NIC Group released H1'2018 results, with core earnings per share declining by 2.1% to Kshs 2.8 from Kshs 2.9 in H1'2017, which fell below our expectation of a 7.5% growth to Kshs 3.1. The variance in core earnings per share growth against our expectations was largely due to a 4.9% decrease in net interest income (NII) against a projected 11.1% increase to Kshs 6.0 bn. The performance was driven by a 1.7% decline in operating income to Kshs 7.3 bn from Kshs 7.4 bn in H1'2017, which declined faster than a 1.2% decline in operating expenses to Kshs 4.4 bn from Kshs 4.5 bn.
For a comprehensive analysis, see our NIC Group H1'2018 Earnings Note

National Bank of Kenya released H1'2018 results during the week;

National Bank released H1'2018 results, with core earnings per share growth of 39.3% to Kshs 0.7 from Kshs 0.5 in H1'2017, compared to our expectation of a 54.9% increase to Kshs 0.8. The variance in core earnings per share growth against our expectations was largely due to a decrease of 120.3% in loan loss provisions (LLP) to Kshs 0.1 bn against a projected increase of Kshs 38.2% to Kshs 0.3 bn. Performance was driven by a 10.1% decrease in total operating income, which outpaced the 8.3% decrease in the total operating expenses.
For a comprehensive analysis, see our National Bank H1'2018 Earnings Note

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

<u>**Kenya**</u>

1. **The Second Reading of the Finance Bill, 2018 passes with no repeal of the interest rate cap:** The committee on Finance and planning tabled their proposals in the National Assembly during the second reading of the Finance Bill, 2018. The proposals were based on the comments received during public awareness and stake-holder participation conducted between 1st – 3rd August 2018, following the first reading of the Finance Bill, 2018 on 3rd July 2018, which proposed the repeal of section 33B of the Banking Act, which would result in the elimination of the Central Bank's powers to enforce an interest rate cap in banks and other financial institutions. Based on the deliberations, the committee was of the view that there is no justification for the repeal the interest rate cap, as there was no effort by banks to address the issue of high credit risk pricing. The committee also proposed the removal of the 70.0% minimum limit on deposits, pegged on the Central Bank Rate (CBR) and instead, leave the decision of the interest rate to be given on deposits at the discretion of the banks and customers.
2. **The Central Bank of Kenya downgrades the banking sector to "Satisfactory" from "Strong":** The Central Bank of Kenya (CBK) has downgraded the banking sector rating to "satisfactory", from a previous rating of "strong" in 2016. According to the Bank Supervision Annual Report 2017 released by the regulator, the

downgrade was as a result of a decline in capital adequacy, as well as a deterioration in asset quality in the sector. Specifically:

i. core capital to total risk-weighted assets (TRWA) for the banking sector declined to 16.5% in 2017 from 17.0% in the 2016 financial year,
ii. total capital relative to total risk-weighted assets (TRWA) declined to 18.8% from 19.8% over the same period,
iii. core capital as a ratio of total deposit liabilities also declined to 18.9% in 2017 from 20.0% in 2016, and,
iv. non-performing loans (NPLs) for the year increased by 23.4% to Kshs 264.6 bn from Kshs 214.3 bn in December 2016 consequently, the NPL ratio increased to 12.3% in December 2017 from 9.3% in December 2016.

Nigeria

1. **Absa targets Nigeria for Investment Banking** - Absa Group Limited's corporate and investment banking unit is targeting Nigeria and other African markets in a bid to boost earnings and recover lost market share. Following a split from its former parent, Barclays Plc, Absa rebranded its operations in South Africa, reshuffled management and refreshed its strategy with the ambition of doubling its market share in Africa and regaining lost market share in South Africa. The separation from Barclays Plc provides Absa with ample growth opportunities to take advantage of as it will not be constrained by capital restrictions or reporting requirements. Absa Group has a presence in 11 African countries. The group will also focus on expanding its commercial property finance and financial markets businesses alongside the investment banking division. To achieve this growth, the bank is seeking opportunities for partnerships and acquisitions in existing territories such as Nigeria, and markets where it does not have a direct presence such as Angola, Egypt and Ivory Coast. Absa Group will not limit its acquisitions and partnerships to traditional banks, but will also scout for opportunities among telecommunications firms, insurers and companies that hold large data deposits, as it intends to build a payments hub across Africa.
2. **Boosting Financial Inclusion in Nigeria** - Diamond Bank Plc is helping to boost financial inclusion after extending NGN 1.0 bn worth of credit to 550 Small and Medium-Scale Enterprises (SMEs) under the cash flow-based SME lending scheme. The bank has disbursed a total of NGN 267.0 mn during the pilot phase of the scheme, and additional NGN 750.0 mn in the period between June and August 2018. Remarkably, all the loans disbursed under the scheme to the SMEs are performing despite the recipients being first-time borrowers. The initiative, launched in January 2017 in partnership with the Women's World Banking (WWB), is a cash flow-based MSME lending methodology with a strategic focus on cash flow, net asset capacity, character and business proficiency of SMEs in order to determine their credit worthiness. Diamond Bank is emerging to be a lead influence in developing innovative ways of advancing financial inclusion through innovating solutions tailored to boost credit growth to the SME market segment in Nigeria. Its strategy is to boost financial inclusion by providing solutions that deliver superior customer experience as well as create life-style-focused products, processes and channels; with the aim of positioning the bank as the most profitable and fastest growing retail bank in Nigeria by the 2020.

Ghana

1. **Ghana banks struggle to meet new Minimum Capital requirements:** At least 15 banks are yet to announce their progress towards meeting the new minimum capital requirement of GHS 400.0 mn,

with four months to the deadline. Six banks, including the Consolidated Bank, Republic Bank, Access Bank, Zenith Bank, Barclays Bank as well as GCB Bank, have reached the minimum requirement target, with 7 others undertaking various measures to recapitalize such as raising extra capital from the stock market, injecting fresh capital from existing shareholders or adding their income surplus to their stated capital. Recently, Ecobank, Cal Bank and Standard Chartered have transferred GHS 190.0 mn, GHS 250.0 mn and GHS 302.0 million, respectively, from their income surplus (retained earnings) to their stated capital. However, they are yet to finalize the process with an official certification from the Registrar General's Department. Meanwhile, Omnibank and Sahel Sahara banks are in a merger process with the aim of recapitalizing in order to meet the minimum capital requirement and to avoid abrupt last minute changes.

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 17/08/2018	Price as at 24/08/2018	w/w change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple
NIC Bank***	34.8	32.8	(5.8%)	(3.0%)	(2.0%)	54.1	3.1%	58.7%	**0.8x**
Zenith Bank***	23.6	22.0	(7.0%)	(14.4%)	(5.0%)	33.3	12.3%	53.5%	**1.0x**
Ghana Commercial Bank***	5.3	5.3	0.8%	5.7%	4.5%	7.7	7.1%	52.8%	**1.3x**
I&M Holdings***	115.0	105.0	(8.7%)	1.0%	(16.0%)	169.5	3.3%	50.7%	**1.2x**
UBA Bank	8.4	8.0	(4.2%)	(22.3%)	(17.6%)	10.7	18.8%	46.9%	**0.6x**
Diamond Trust Bank***	197.0	193.0	(2.0%)	0.5%	1.6%	280.1	1.3%	43.5%	**1.1x**
Union Bank Plc	5.9	5.6	(5.1%)	(28.8%)	(7.5%)	8.2	0.0%	39.3%	**0.6x**
HF Group***	7.9	7.5	(5.1%)	(27.9%)	(27.3%)	10.2	4.3%	33.4%	**0.3x**
CRDB	160.0	160.0	0.0%	0.0%	(20.0%)	207.7	0.0%	29.8%	**0.5x**
KCB Group***	49.5	48.0	(3.0%)	12.3%	6.1%	60.9	6.3%	29.3%	**1.6x**
Barclays	12.0	11.8	(2.1%)	22.4%	11.4%	14.0	8.5%	25.2%	**1.5x**
Co-operative Bank	17.1	16.6	(2.9%)	3.8%	(0.6%)	19.7	4.8%	20.0%	**1.5x**
Ecobank	9.0	9.0	0.1%	18.0%	41.0%	10.7	0.0%	19.8%	**2.5x**
Equity Group	50.0	50.0	0.0%	25.8%	15.6%	55.5	4.0%	15.0%	**2.5x**
Stanbic Bank Uganda	33.0	33.0	0.0%	21.1%	21.1%	36.3	3.5%	13.5%	**2.1x**
Bank of Baroda	120.0	145.0	20.8%	28.3%	31.8%	130.6	1.7%	10.6%	**1.0x**
CAL Bank	1.3	1.3	0.0%	17.6%	48.1%	1.4	0.0%	10.2%	**1.1x**
Bank of Kigali	290.0	290.0	0.0%	(3.3%)	13.7%	299.9	4.8%	8.2%	**1.6x**
Guaranty Trust Bank	38.0	37.5	(1.3%)	(8.0%)	(7.6%)	37.1	6.4%	4.0%	**2.1x**
Access Bank	9.6	9.0	(6.3%)	(13.9%)	(10.1%)	9.5	4.4%	3.4%	**0.6x**
SBM Holdings	6.7	6.7	0.0%	(10.7%)	(14.8%)	6.6	4.5%	2.4%	**1.0x**
Standard Chartered	206.0	206.0	0.0%	(1.0%)	(11.2%)	184.3	10.6%	(4.5%)	**1.6x**
Stanbic Holdings	106.0	107.0	0.9%	32.1%	30.5%	85.9	2.1%	(16.9%)	**1.3x**
Stanbic IBTC Holdings	50.1	49.5	(1.1%)	19.3%	28.5%	37.0	1.2%	(24.9%)	**2.6x**
Standard Chartered	26.1	26.5	1.7%	5.0%	16.2%	19.5	0.0%	(25.3%)	**3.3x**
FBN Holdings	9.8	9.7	(1.5%)	9.7%	61.4%	6.6	2.6%	(29.8%)	**0.5x**

National Bank	6.1	6.1	0.0%	(35.3%)	(47.4%)	2.8	0.0%	(53.7%)	**0.4x**
Ecobank Transnational	21.1	20.0	(5.0%)	17.6%	11.1%	9.3	0.0%	(55.9%)	**0.8x**

**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*

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.