Cytonn SSA Financial Services Research Weekly Note #49/2018

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Executive Summary: During the week, the equities market recorded a mixed performance with the GGSECI gaining by 0.4%, the NASI declined by 1.2% while the NGSEASI remained flat. This takes their YTD performance to (20.5%), (17.7%), and (11.3%) for the NGSEASI, NASI and GGSECI, respectively. Imperial Bank depositors will have access to 12.7% of the deposits, following Kenya Commercial Bank's (KCB) announcement that it will acquire some prime Imperial Bank branches following a takeover of the collapsed lender's loan book;

Section I: Market Performance:

During the week, the equities market recorded a mixed performance with the GGSECI gaining by 0.4%, the NASI declined by 1.2%, and the NGSEASI remained flat. This takes their YTD performance to (20.5%), (17.7%), and (11.3%) 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
FBN Holdings	Nigeria	6.0%	Union Bank Plc	Nigeria	(8.2%)
UBA Bank	Nigeria	4.0%	Equity Group	Kenya	(7.6%)
Stanbic Bank	Uganda	3.8%	Ecobank	Ghana	(6.7%)
Barclays Bank	Kenya	2.8%	Access Bank	Nigeria	(5.4%)
NIC Group	Kenya	2.8%	Ecobank Transnational	Nigeria	(5.0%)

Kenya

NASI declined by 1.2% during the week driven by declines in large cap stocks such as East African Breweries Limited (EABL), Equity Group, and Bamburi, which declined by 11.1%, 7.6%, and 7.0%, respectively. Equities turnover declined by 31.3% during the week to USD 22.2 mn from USD 32.4 mn the previous week, taking the YTD turnover to USD 1.8 bn. Foreign investors remained net sellers for the week, with a net selling position of USD 4.2 mn, a 35.4% decline from last week's net selling position of USD 6.5 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 remained flat during the week, on minimal market activity. For our financial services universe of coverage, FBN Holdings, UBA Bank and Stanbic IBTC Holdings gained by 6.0%, 4.0% and 1.0%, respectively, while the biggest decliners were Union Bank, Access Bank, Ecobank Transnational, and Guaranty Trust Bank, which declined by 8.2%, 5.4%, 5.0%, and 3.4%, respectively.

Ghana

The GSE Composite Index gained by 0.4% during the week, driven mainly by gains in large cap stocks in the financial services segment. In our universe of coverage for Ghana, Ecobank, Standard Chartered and Ghana Commercial Bank (GCB) declined by 6.7%, 1.5% 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

Kenya Commercial Bank (KCB) will acquire some prime Imperial Bank branches following a takeover of the collapsed lender's loan book. Imperial Bank had 27 branches when it went into receivership. Financial details of the takeover are however yet to be made public. Depositors now have access to approximately 12.7% of deposit balances through KCB. Imperial Bank went in to receivership on October 13th, 2015, with Kshs 58.0 bn in customer deposits and 52,398 deposit accounts, and operations in Kenya and Uganda. The Central Bank of Kenya (CBK) appointed KCB as an agent of Kenya Deposit Insurance Corporation (KDIC), the Imperial Bank Limited in Receivership (IBLR) manager, to disburse the funds to depositors. We expect 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. We believe that the rate cap by the Banking Act has made businesses such as asset finance unattractive, probably one the reason that prompted the NIC / CBA merger, details of which we still await. Below is the list and metrics of recent bank deals:

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bns)	Transaction Stake	Transaction Value (Kshs bns)	P/Bv Multiple	Date
NIC Group	CBA Bank	30.6**	Undisclosed	Undisclosed	**N/A**	Dec-18*
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	**N/A**	Dec-18
SBM Bank Kenya	Chase Bank ltd	Unknown	75.0%	Undisclosed	**N/A**	Aug-18
DTBK	Habib Bank Limited Kenya	2.4	100.0%	1.8	**0.8x**	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.0%	2.8	**1.6x**	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.0%	1.3	**1.4x**	Jun-16
I&M Holdings	Giro Commercial Bank	3.0	100.0%	5.0	**1.7x**	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.0%	2.6	**2.3x**	Mar-15
Centum	K-Rep Bank	2.1	66.0%	2.5	**1.8x**	Jul-14
GT Bank	Fina Bank Group	3.9	70.0%	8.6	**3.2x**	Nov-13
Average			**80.30%**		**1.8x**	

** Announcement date*

*** Book Value as of the announcement date*

Nigeria

The Central Bank of Nigeria (CBN) in its Credit Conditions Survey report for Q4'2018 disclosed that banks will increase corporate lending rates in the first quarter of 2019, as demand increases driven by favorable economic conditions, changing sector-specific risks, improved liquidity conditions, market share objectives and changing appetite for risk. The CBN noted that while banks approved more loans to households in Q4'2018, more households defaulted on their loans leading to increased default rates for both secured and unsecured loans to households in the period. The report also showed that spreads between bank rates and Monetary Policy Rates (MPR) on approved new loans widened for all business classes except for loans to other non-financial corporations (OFCs), but were expected to widen for all business sizes in Q1'2019. We expect that the overall availability of credit to both the corporate and household sectors will increase in Q1'2019 compared to investment in government securities as banks eye relatively higher interest income and consequently higher yields on the interest earning assets. The level of Non-Performing Loans (NPLs) highlighted by the CBN in Q4'2018 would however necessitate banks to be more prudent and adopt more strict credit control measures to manage bad loans especially in the household sector in the coming year.

Following the announcement of a potential merger of Access Bank Plc and Diamond Bank Plc last week, Access Bank has indicated that it would raise up to USD 457.0 mn in new debt and equities capital to support ongoing business combination with Diamond Bank Plc. The capital raising will include a USD 250.0 mn tier II capital and a USD 207.0 mn rights issue, expected to be completed in H1'2019, in time for completion of the business combination that is scheduled for the end of H1'2019. The two banks have agreed on a strategic capital management plan in order to meet international standards of best practice and ensure a robust capital buffer, and expect to achieve a post-completion capital adequacy ratio (CAR) of 20% at the bank level and 22% at the group level.

Ghana

Shareholders of the Agricultural Development Bank (ADB) approved a deal to convert debt of GHc 150.0 mn to equity shares to help meet minimum capital requirements, a move that has since been endorsed by the Bank of Ghana (BoG). This move is likely to change the current ownership structure of the bank once completed. The two major shareholders of the bank are the Bank of Ghana through its representative, the Financial Investment Trust with 60.5% and the Ghanaian Government that owns 32.3% of the bank. The deal once completed will also provide the bank with an opportunity to increase financial support to the agricultural sector that is the bank's main focus area. Following Bank of Ghana's decision to raise the minimum capital requirement to GHC 400.0 mn from 120.0 mn in September 2018, and the requirement for banks to comply with the new rules by December 2018, we expect increased stability and resilience of the Ghanaian banking sector going forward, with the higher capital bases allowing banks to be more resilient, and have better capabilities of absorbing any external shocks that may arise.

Rating agency Fitch Ratings has upgraded the Long Term Issuer Default Rating (IDR) of UBA Ghana to "B" from "B-" with a stable outlook following a similar upgrade of the parent Bank, United Bank for Africa (UBA) Plc's Long Term IDR to "B+" from "B" in November 2018. Fitch Ratings noted that UBA Ghana Plc's ability to provide support, if required, has improved given the group's improving financial profile as reflected in the recent rating upgrade. Following the bank's upgrade, UBA Ghana now ranks at par with the sovereign rating and is the highest rating attainable by any local corporate entity in Ghana reflecting the bank's strong fundamentals as a premium bank in the Country.

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:

Equities Universe of Coverage								
Banks	Price as at 14/12/2018	Price as at 21/12/2018	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside	P/TBv Multiple
Equity Group	39.0	36.0	(7.6%)	(9.4%)	65.8	5.6%	74.5%	**1.7x**
KCB Group	39.4	38.0	(3.7%)	(11.2%)	64.0	7.9%	70.3%	**1.2x**
GCB Bank***	4.8	4.8	(0.4%)	(5.5%)	7.7	8.0%	69.1%	**1.1x**
I&M Holdings	86.0	85.0	(1.2%)	(33.1%)	138.6	4.1%	65.3%	**0.9x**
Diamond Trust Bank	148.3	149.0	0.5%	(22.4%)	231.0	1.7%	57.6%	**0.9x**
Zenith Bank***	23.0	22.7	(1.3%)	(11.5%)	33.3	11.9%	56.8%	**1.0x**
NIC Bank	26.6	27.4	2.8%	(19.0%)	40.7	3.7%	56.7%	**0.7x**
UBA Bank	7.6	7.9	4.0%	(23.8%)	10.7	10.8%	52.5%	**0.5x**
CAL Bank	0.9	1.0	2.1%	(11.1%)	1.4	0.0%	48.9%	**0.8x**
Co-operative Bank	14.1	13.9	(1.4%)	(13.1%)	19.4	5.8%	43.3%	**1.2x**
Ecobank	7.5	7.0	(6.7%)	(7.9%)	10.7	0.0%	43.1%	**1.5x**
CRDB	150.0	150.0	0.0%	(6.3%)	207.7	0.0%	38.5%	**0.5x**
Barclays	10.8	11.1	2.8%	15.6%	13.9	9.0%	37.7%	**1.5x**
Union Bank Plc	6.1	5.6	(8.2%)	(28.2%)	8.2	0.0%	33.6%	**0.6x**
Access Bank	7.5	7.1	(5.4%)	(32.5%)	9.5	5.7%	33.2%	**0.5x**
HF Group	5.5	5.3	(2.9%)	(48.7%)	6.9	6.6%	32.0%	**0.2x**
Stanbic Bank Uganda	30.4	31.5	3.8%	15.7%	36.3	3.7%	23.1%	**2.2x**
SBM Holdings	6.0	5.9	(1.0%)	(20.8%)	6.6	5.1%	14.4%	**0.8x**
Stanbic Holdings	92.0	88.5	(3.8%)	9.3%	102.7	2.5%	14.2%	**0.9x**
Guaranty Trust Bank	35.0	33.8	(3.4%)	(17.1%)	37.1	7.1%	13.1%	**2.1x**
Bank of Kigali	279.0	278.0	(0.4%)	(7.3%)	299.9	5.0%	12.5%	**1.5x**
Standard Chartered	194.8	196.5	0.9%	(5.5%)	192.0	6.4%	4.9%	**1.6x**
Bank of Baroda	138.0	140.0	1.4%	23.9%	130.6	1.8%	(3.6%)	**1.2x**
Standard Chartered	20.3	20.0	(1.5%)	(20.8%)	19.5	0.0%	(4.1%)	**2.5x**
FBN Holdings	7.5	7.9	6.0%	(10.2%)	6.6	3.2%	(7.8%)	**0.4x**
National Bank	6.0	5.8	(3.3%)	(38.0%)	5.0	0.0%	(16.7%)	**0.4x**
Stanbic IBTC Holdings	45.6	46.0	1.0%	10.8%	37.0	1.3%	(17.5%)	**2.4x**
Ecobank Transnational	15.0	14.3	(5.0%)	(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*

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.