

Cytonn SSA Financial Services Research: CAFF Weekly Note #24/2019

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Executive Summary

During the week, Equity Group opened a commercial representative office in Addis Ababa, Ethiopia, which is expected to commence operations in July, in line with the bank’s strategy to expand into 10 African countries within the year. In Nigeria, Titan Trust Bank Ltd, a newly licensed bank by the Central Bank of Nigeria, is set to commence its operations in Nigeria.

Section I: Market Performance

During the week, the equities markets recorded a mixed performance with NASI gaining by 0.1%, NGSEASI and GGSECI declining by 1.3% and 7.1% respectively. This takes the YTD performance of NASI, NGSEASI and GGSECI to 6.8 %, (4.4%) and (6.9%) 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
Bank of Kigali	Rwanda	9.4%	GCB Bank	Ghana	(8.9%)
NIC Group	Kenya	4.1%	I&M Holdings	Kenya	(5.2%)
Standard Chartered	Kenya	2.1%	Union Bank	Nigeria	(1.4%)
Guaranty Trust Bank	Nigeria	1.6%	Stanbic IBTC	Nigeria	(1.2%)
Access Bank	Nigeria	1.6%	Co-operative Bank	Kenya	(1.2%)

Kenya

During the week, the equities market was on an upward trend with NASI, NSE 20 and NSE 25 gaining by 0.1%, 1.1% and 0.6%, respectively, taking their YTD performance to gains/(losses) of 6.8%, (4.5%), and 2.4% for NASI, NSE 20 and NSE 25, respectively. The gain in NASI was driven by gains in NIC Group, Standard Chartered Bank Kenya and BAT, which gained by 4.1%, 2.1% and 1.6%, respectively. In our universe of coverage, the largest gainers were NIC Group and Standard Chartered Bank Kenya (SCBK), which recorded gains of 4.1% and 2.1%, respectively while the largest decliners were I&M Holdings and Co-operative Bank, which recorded declines of 5.2% and 1.2%, respectively.

Nigeria

The Nigerian All Share Index (NGSEASI) declined by 1.3%, driven by declines recorded in various sectors such as industrial goods (4.2%) and consumer goods (1.7%), offsetting the gains in the Insurance sector of 0.9% and Oil & Gas sector at 0.3%. This takes the YTD performance of the NGSEASI to a decline of 4.4%. For our universe of coverage, the largest gainers were Guaranty Trust Bank and Access Bank where both recorded gains of 1.6%, respectively, while the largest decliners were Union Bank and Stanbic IBTC that recorded losses of 1.4% and 1.2%, respectively.

Ghana

The GSE Composite Index recorded a decline of 7.1%, driving YTD losses to (6.9%). In our universe of coverage, there were no gainers while the only decliner was Ghana Commercial Bank (GCB), which recorded a decline of 8.9%, with other counters remaining flat during the week.

Section II:

There were no earnings released during the week.

Section III:

Kenya

During the week, Equity Group opened a commercial representative office in Addis Ababa, Ethiopia, which is expected to commence operations in July. This is in line with the bank's strategy to expand into 10 African countries within the year. Expansion into the Ethiopian market is the first phase of the regional expansion drive to attain Pan African status. With a strong retail and digital banking expertise, the Ethiopian market presents a vast untapped market for the bank to exploit, with an estimated population of 105.0 mn. The ongoing shift in reforms to more liberal policies by the current regime should see more banks venture into the country, with KCB Group also highlighting its plan to venture into the market. Equity Group intends to venture into other African countries through an acquisition of various subsidiaries of Atlas Mara Ltd, an estimated Kshs 10.7 bn deal. The venture will affirm the bank's position as the biggest bank in Kenya by customers. Kenyan banks have been expanding their operations into neighbouring countries in search for growth, to diversify their earnings as competition intensifies in the local market, and as margins remain compressed under the current interest cap regime.

The Central Bank of Kenya (CBK) instructed commercial banks to file weekly reports on individuals exchanging old notes, in an effort to curb the circulation of counterfeit money. The ongoing demonetization exercise is expected to be conducted until October 2019, in an attempt to (i) clean up circulation of counterfeit currency, (ii) cleaning up proceeds of corruption held in cash, and, (iii) bring back into circulation monies held in cash. The Central Bank has increased its oversight of the banking sector, with the enforcement of strict anti-money laundering rules, with banks expected to comply with the strict regulations, as they mitigate reputation damage and downside regulatory risks. We are of the view that during the transition period to the new currency, banks may see increased demand for digital banking services, as customers increase their preference of digital transactions. This should presumably lead to higher transactional revenue for banks during that period.

Nigeria

Titan Trust Bank Ltd, a newly licensed bank by the Central Bank of Nigeria (CBN) is expected to begin its operations in Nigeria. The bank will be managed by seasoned banker Mr. Tunde Lemo, who is a former deputy governor of the Central Bank of Nigeria, as Chairman. The Chief Executive Officer and Managing Director of the bank is Mr. Mudassir Amray, a former executive of global banking giant Citi Bank. The new bank will also have Mr. Andrew Ojei who was the pioneer Managing Director of Zenith Bank and is presently a Fellow of The Institute of Chartered Accountants of Nigeria as well as a Fellow and Council Member of The Institute of Credit Administration of Nigeria as its director. The bank intends to focus on various segments of banking such as retail, commercial, SME, and digital banking, as it seeks to take advantage of the various gaps existent within these segments. The bank indicated that it will leverage on digital platforms to penetrate the Nigerian market, as that is dominated by the large tier 1 banks. We are of the view that the expertise and experience of the bank's management will be crucial to a successful deployment of the bank's operations in the sector. We however expect the bank to experience various challenges in the short term, given the markets strong brand loyalty as well as continued preference for

the larger banks, that are perceived as more stable. We expect the bank to commence its operations with heavy inclination towards corporate and commercial banking, as they leverage on the relationships, knowledge and experience of the bank's management.

Ghana

There were no highlights.

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 7/06/2019	Price as at 14/06/2019	w/w change	YTD Change	Target Price	Dividend Yield	Upside/Downside	P/TBv Multiple	Recommendation
Diamond Trust Bank	120.0	120.0	0.0%	(23.3%)	228.4	2.2%	92.5%	0.6x	Buy
UBA Bank	6.3	6.2	(0.8%)	(19.5%)	10.7	13.7%	86.3%	0.4x	Buy
CRDB	120.0	115.0	(4.2%)	(23.3%)	207.7	0.0%	80.6%	0.4x	Buy
Zenith Bank	20.4	20.1	(1.2%)	(12.8%)	33.3	13.4%	79.2%	0.9x	Buy
GCB Bank	5.1	4.6	(8.9%)	0.0%	7.7	8.3%	76.1%	1.1x	Buy
CAL Bank	0.8	0.8	0.0%	(17.3%)	1.4	0.0%	72.8%	0.7x	Buy
KCB Group	39.5	39.5	0.0%	5.5%	60.4	8.9%	61.8%	1.0x	Buy
Access Bank	6.3	6.4	1.6%	(5.9%)	9.5	6.3%	54.7%	0.4x	Buy
I&M Holdings	58.0	55.0	(5.2%)	29.4%	81.5	6.4%	54.5%	1.0x	Buy
Co-operative Bank	12.5	12.3	(1.2%)	(14.0%)	17.1	8.1%	46.8%	1.0x	Buy
Equity Group	40.0	40.0	0.0%	14.8%	53.7	5.0%	39.1%	1.7x	Buy
NIC Group	30.6	31.8	4.1%	14.4%	42.5	3.1%	36.8%	0.6x	Buy
Barclays Bank	10.5	10.3	(1.4%)	(5.9%)	12.8	10.7%	34.9%	1.2x	Buy
Guaranty Trust Bank	30.4	30.9	1.6%	(10.3%)	37.1	7.8%	27.8%	1.9x	Buy
Stanbic Bank Uganda	29.1	30.0	3.2%	(3.2%)	36.3	3.9%	24.8%	2.1x	Buy
Stanbic Holdings	98.3	98.0	(0.3%)	8.0%	113.6	6.0%	21.8%	1.1x	Buy
SBM Holdings	5.9	5.7	(2.7%)	(4.4%)	6.6	5.3%	20.4%	0.8x	Buy
Union Bank Plc	7.0	6.9	(1.4%)	23.2%	8.2	0.0%	18.1%	0.7x	Accumulate
Standard Chartered	190.0	194.0	2.1%	(0.3%)	200.6	6.4%	9.9%	1.4x	Accumulate
Bank of Kigali	265.0	290.0	9.4%	(3.3%)	299.9	4.8%	8.2%	1.6x	Accumulate
Ecobank	8.0	8.0	0.0%	33.3%	10.7	0.0%	7.3%	2.2x	Accumulate
Bank of Baroda	128.2	128.0	(0.2%)	(8.6%)	130.6	2.0%	4.0%	1.1x	Lighten
FBN Holdings	7.0	7.0	0.0%	(12.6%)	6.6	3.6%	(1.0%)	0.4x	Sell
Ecobank Transnational	10.0	10.0	0.0%	(41.2%)	9.3	0.0%	(7.2%)	0.4x	Sell
Standard Chartered	21.7	21.6	(0.2%)	2.9%	19.5	0.0%	(9.9%)	2.7x	Sell
National Bank	4.4	4.4	(0.9%)	(17.3%)	3.9	0.0%	(10.4%)	0.3x	Sell
Stanbic IBTC Holdings	42.5	42.0	(1.2%)	(12.4%)	37.0	1.4%	(10.5%)	2.2x	Sell
HF Group	4.4	4.4	0.0%	(20.6%)	2.9	0.0%	(34.1%)	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.