Cytonn SSA Financial Services Research Weekly Note - 26th November 2018

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Executive Summary: During the week, the equities market was on a downward trend with NASI, NGSEASI and GGSECI declining by 0.2%, 1.3% and 4.0%, respectively. This takes their YTD performance to (15.2%), (18.0%), and (8.6%) for the NASI, NGSEASI, and GGSECI, respectively.

Section I: Market Performance:

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Below is a summary of top gainers and losers in our universe of coverage for last week:

Summary of Top Gainers and Losers for Week Ending 23th November 2018					
Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
Bank of Kigali	Rwanda	3.6%	Diamond Trust Bank	Kenya	(8.8%)
Stanbic IBTC Holdings	Nigeria	2.1%	I&M Holdings	Kenya	(5.6%)
FBN Holdings	Nigeria	2.0%	Barclays	Kenya	(5.2%)
Stanbic Holdings	Kenya	1.6%	CAL Bank	Ghana	(4.0%)
Bank of Baroda	Uganda	0.8%	Access Bank	Nigeria	(3.9%)

Kenya

NASI declined by 0.2% last week, driven by declines in large cap stocks such as Diamond Trust Bank Kenya Ltd, Barclays Bank of Kenya, NIC and EABL, which declined by 8.8%, 5.2%, 4.3% and 3.0%, respectively. In our financial services universe of coverage, Stanbic Holdings gained by 1.6%. The laggards included Diamond Trust Bank, I&M Holdings and Barclays, which declined by 8.8%, 5.6% and 5.2%, respectively. Equities turnover declined by 16.3% during the week to USD 16.3 mn, from USD 19.5 mn the previous week, taking the YTD turnover to USD 1.7 bn. Foreign investors turned net buyers for the week, with a net buying position of USD 1.1 mn, an increase from last week’s net selling position of USD 0.7 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 1.3% during the week, largely driven by declines in the utilities, industrials and materials segments. For our financial services universe of coverage, Stanbic IBTC and FBN Holdings gained 2.1% and 2.0%, while Access Bank declined by 3.9%. Total turnover for the week decreased by 100.5% to USD 63.6 mn (NGN 23.1 bn) from USD 31.7 mn (NGN 11.5 bn) the previous week, with trading mainly concentrated in the financial services sector.

Ghana

The GSE Composite Index declined by 4.0% during the week, driven mainly by laggards in the financial services segment. In our universe of coverage for Ghana, CAL Bank declined by 4.0% while Ghana Commercial Bank (GCB) declined by 2.2%. Total turnover for the week increased by 6.3% to USD 2.2 mn (GHS 10.8 mn) from USD 2.1 mn (GHS 10.1 mn) the previous week.

Section II: Earnings Releases

Barclays Bank of Kenya released their Q3'2018 financial results:

Barclays Bank of Kenya released their Q3'2018 financial results, with core Earnings per Share (EPS) increasing by 2.0% to Kshs 1.0, from Kshs 0.98 in Q3'2017, exceeding our expectation of a 1.5% decline to Kshs 0.97. The performance was driven by a 5.5% increase in total operating income, and was weighed down by the 8.3% increase in the total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the 14.0% growth in Non-Funded Income (NFI) to Kshs 7.4 bn from Kshs 6.5 bn in Q3'2017. We expected a 0.6% decline in NFI to Kshs 6.4 bn from Kshs 6.5 bn in Q3'2017. For more information, see our Barclays Bank of Kenya Q3'2018 Earnings Note

Standard Chartered Bank Kenya Ltd released their Q3'2018 financial results:

Standard Chartered Bank Kenya Ltd released their Q3'2018 financial results with core EPS increasing by 33.9% to Kshs 18.4, from Kshs 13.7 in Q3'2017, exceeding our expectation of an 18.9% increase to Kshs 16.3. The performance was driven by a 7.1% increase in total operating income, coupled with a 7.1% decline in the total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the faster 9.7% growth in Non-Funded Income (NFI) to Kshs 7.0 bn from Kshs 6.4 bn, coupled with a faster 49.6% decline in Loan Loss Provisions (LLP) to Kshs 1.9 bn, from Kshs 3.7 bn in Q3'2017. Important to note for Standard Chartered Bank is that the decline in the specific provisions that came despite a deterioration in asset quality, is due to banks being allowed to charge provisions through the balance sheet during the first year of the implementation of IFRS 9. We expected a slower 3.4% growth in NFI to Kshs 6.6 bn, from Kshs 6.4 bn in Q3'2017, and a slower 36.5% decline in LLP to Kshs 2.4 bn. For more information, see our Standard Chartered Bank Kenya Ltd Q3'2018 Earnings Note

Diamond Trust Bank Limited released the Q3'2018 results:

Diamond Trust Bank Limited released the Q3'2018 results with core EPS growing by 10.0% to Kshs 20.2, from Kshs 18.3 in Q3'2017, which was in line with our projections of a 10.3% growth. Performance was driven by a 3.6% increase in total operating income to Kshs 19.0 bn, from Kshs 18.4 bn in Q3'2017, coupled with a 0.1% decline in total operating expenses to Kshs 10.8 bn, from Kshs 10.9 bn. For more information, see our Diamond Trust Bank Q3'2018 Earnings Note

Stanbic Bank Kenya released their Q3'2018 results:

Stanbic Bank Kenya Ltd released their Q3'2018 financial results with profit after tax increasing by 46.7% to Kshs 4.7 bn in Q3'2018, from Kshs 3.2 bn in Q3'2017. The performance was driven by a 14.1% increase in total operating income and a 3.7% decline in operating expenses. For more information, please see the Stanbic bank Q3'2018 Earnings Update

The summary of the performance is highlighted in the table below:

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income (NFI) Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth In Govt Securities	Loan Growth	LDR	Cost of Funds	Return on Average Equity
Listed Banks Q3'2018 Growth Metrics														
Stanbic Bank	46.7%	13.3%	19.7%	9.7%	6.2%	19.6%	47.0%	9.3%	20.3%	(17.6%)	16.3%	77.8%	2.2%	14.3%
SCBK	33.9%	4.8%	2.1%	5.9%	8.5%	9.7%	32.6%	31.2%	(8.0%)	(6.1%)	(2.8%)	50.6%	3.4%	18.6%
KCB Group	19.7%	5.1%	16.0%	1.8%	8.5%	2.6%	33.1%	(7.9%)	6.2%	15.3%	3.8%	82.6%	3.2%	21.7%
DTB	10.0%	3.0%	3.0%	2.9%	6.1%	6.3%	21.7%	7.4%	6.5%	17.7%	0.7%	70.0%	4.9%	13.3%
Co-op Bank	8.2%	3.5%	0.7%	4.7%	8.3%	4.3%	32.7%	(29.7%)	2.5%	16.9%	(2.0%)	85.9%	3.8%	17.6%
Equity Group	8.1%	8.6%	13.5%	7.2%	8.5%	(6.7%)	40.0%	(1.7%)	9.1%	24.1%	8.6%	71.7%	2.7%	22.2%
Barclays Bank	2.0%	7.7%	30.1%	2.1%	9.1%	14.0%	30.8%	5.5%	9.9%	29.5%	6.7%	81.0%	3.1%	16.5%
Weighted Average Q3'2018*	**11.5%**	**6.1%**	**12.8%**	**4.3%**	**8.3%**	**2.2%**	**33.8%**	**(5.2%)**	**6.5%**	**19.5%**	**4.2%**	**77.3%**	**3.3%**	**19.6%**
Weighted Average Q3'2017**	**(7.8%)**	**(5.8%)**	**0.0%**	**(7.3%)**	**8.7%**	**11.3%**	**34.3%**	**12.5%**	**13.9%**	**10.4%**	**5.8%**	**76.0%**	**3.3%**	**18.2%**

*Weighted average as at 23rd November 2018
**Weighted average as at 23rd November 2017

Key take-outs from the table above include:

a. The listed banks that have released results for Q3'2018 have recorded an 11.5% average increase in core Earnings per Share (EPS), compared to a decline of 7.8% in Q3'2017. None of the banks that have released their results have recorded declines in core EPS. Stanbic Bank recorded the highest growth at 46.7% y/y, with Barclays Bank recording the slowest growth in core EPS, recording a 2.0% growth y/y,

b. The sector is recording weaker deposit growth, which came in at 6.5%, slower than the 13.9% growth recorded in Q3'2017. Despite the slower deposit growth, interest expenses increased by 12.8%, indicating banks have been mobilizing expensive deposits. Thus, the cost of funds rose, albeit marginally to 3.29%, from 3.27%,

c. Average loan growth was anaemic coming in at 4.2%, which was lower than 5.8% recorded in Q3'2017, indicating that there was an even slower credit extension in the economy, due to sustained effects of the interest rate cap. Government securities on the other hand recorded a growth of 19.5% y/y, which was faster compared to the loans, and faster than 10.4% recorded in Q3'2017. This indicates that banks' continued preference towards investing in government securities, which offer better risk-adjusted returns. Interest income increased by 6.1%, as banks adapted to the interest rate cap regime, with increased allocations in government securities,

d. The average Net Interest Margin in the banking sector currently stands at 8.3%, down from the 8.7% recorded in H1'2017, despite the Net Interest Income by increasing 4.3% y/y. The decline was mainly due to the faster 19.5% increase in allocation to relatively lower yielding government securities, and,

e. Non-funded Income grew by 2.2% y/y, slower than 11.3% recorded in Q3'2017. The growth in NFI was weighed down as total fee and commissions declined by 5.2%, slower than the 12.5% growth recorded in Q3'2017. The growth in fee and commission income continued to be subdued by the slow loan growth.

It is worth noting that some banks reduced their specific provisioning levels, even after experiencing a deterioration in asset quality. This is largely due to the fact that on implementation of IFRS 9, banks are allowed to charge an initial amount on their equity, hence reducing the specific provisioning demands for the quarter, even after the implementation of IFRS 9.

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

Nigeria

The Monetary Policy Committee of the Central Bank of Nigeria (CBN) voted to retain the Monetary Policy Rate at 14.0%, citing relative stability witnessed in domestic prices, output growth and the financial system. The MPC's decision to hold the rate underpinned its confidence in the various policies and administrative measures deployed by the Bank that have resulted in moderation in domestic price levels and stability in the foreign exchange rate. The Committee has held the 14.0% rate since July 2016, before which it was at 12.0%; adding that the downside risks to growth and upside risks to inflation appears contained. The decision was endorsed by all 11 members of the MPC, who also voted to retain the asymmetric corridor of +200/-500 points around the MPR, retain the Cash Reserve Ratio (CRR) at 22.5% and to retain the liquidity ratio at 30.0%.

Ecobank Transnational Incorporated announced the successful closure of USD 200.0 mn syndicated loan facility. The issue was oversubscribed by 34.3% to a tune of USD 268.5 mn, and is due for payment in November 2019. The loan facility will increase Ecobank's funding options as well as maintain its strong market access.

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 16/11/2018	Price as at 23/11/2018	w/w change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple
NIC Bank***	23.0	22.8	(1.1%)	(32.6%)	(31.4%)	48.8	4.4%	118.9%	**0.6x**
Diamond Trust Bank	160.0	146.0	(8.8%)	(24.0%)	(23.2%)	283.7	1.8%	96.1%	**0.8x**
Ghana Commercial Bank***	4.9	4.8	(2.2%)	(5.1%)	11.4%	7.7	7.9%	69.1%	**1.1x**
I&M Holdings	90.0	85.0	(5.6%)	(33.1%)	(32.5%)	138.6	4.1%	67.2%	**0.9x**
KCB Group	39.0	38.8	(0.6%)	(9.4%)	(10.4%)	61.3	7.7%	65.9%	**1.2x**
Union Bank Plc	5.1	5.1	0.0%	(35.3%)	(18.5%)	8.2	0.0%	61.4%	**0.5x**
Zenith Bank***	24.0	24.0	0.0%	(6.4%)	(4.0%)	33.3	11.3%	50.1%	**1.1x**
Equity Group	39.3	39.0	(0.6%)	(1.9%)	(9.3%)	56.2	5.1%	49.2%	**1.9x**
UBA Bank	7.8	7.8	0.0%	(24.3%)	(20.8%)	10.7	10.9%	48.1%	**0.5x**
Co-operative Bank	14.1	14.2	0.4%	(11.6%)	(14.2%)	19.9	5.7%	46.3%	**1.2x**
CAL Bank	1.0	1.0	(4.0%)	(11.1%)	3.5%	1.4	0.0%	45.8%	**0.8x**
Ecobank	7.5	7.5	0.0%	(1.3%)	9.3%	10.7	0.0%	43.1%	**1.6x**
CRDB	150.0	150.0	0.0%	(6.3%)	0.0%	207.7	0.0%	38.5%	**0.5x**
Access Bank	7.7	7.4	(3.9%)	(29.2%)	(26.0%)	9.5	5.4%	33.8%	**0.5x**
HF Group	5.5	5.4	(0.9%)	(48.1%)	(53.8%)	6.6	6.5%	28.7%	**0.2x**
Barclays	11.6	11.0	(5.2%)	14.1%	10.1%	12.5	9.1%	23.3%	**1.5x**
Stanbic Bank Uganda	32.8	32.0	(2.6%)	17.4%	17.4%	36.3	3.7%	17.0%	**2.3x**
SBM Holdings	6.2	6.1	(0.6%)	(18.4%)	(19.5%)	6.6	4.9%	12.1%	**0.9x**
Standard Chartered	190.0	188.0	(1.1%)	(9.6%)	(14.2%)	196.3	6.6%	11.1%	**1.5x**
Guaranty Trust Bank	36.9	36.4	(1.4%)	(10.7%)	(13.3%)	37.1	6.6%	8.5%	**2.3x**
Bank of Kigali	280.0	290.0	3.6%	(3.3%)	1.8%	299.9	4.8%	8.2%	**1.6x**
Bank of Baroda	125.0	126.0	0.8%	11.5%	14.5%	130.6	2.0%	5.6%	**1.1x**
Stanbic Holdings	91.0	92.5	1.6%	14.2%	13.5%	92.6	2.4%	2.5%	**0.9x**
Standard Chartered	20.2	20.2	(0.1%)	(20.1%)	(7.6%)	19.5	0.0%	(3.6%)	**2.5x**

FBN Holdings	7.5	7.6	2.0%	(13.6%)	9.4%	6.6	3.3%	(9.5%)	**0.4x**
National Bank	5.8	5.8	(0.9%)	(38.5%)	(45.2%)	4.9	0.0%	(14.8%)	**0.4x**
Stanbic IBTC Holdings	48.0	49.0	2.1%	18.1%	21.0%	37.0	1.2%	(23.3%)	**2.5x**
Ecobank Transnational	15.8	15.8	0.0%	(7.4%)	(4.5%)	9.3	0.0%	(41.1%)	**0.6x**

**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-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 like 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.