# Cytonn SSA Financial Services Research Weekly (6th- 10th 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 second week of August (Week 32).

**Section I: Market Performance:**

During the second week of August, the equities markets registered mixed performance, with NASI and GGSECI rising 1.0% and 0.3%, respectively, while NGSEASI lost 2.9%. This takes the YTD performance of NASI, NGSEASI and GGSECI to 1.0%, (7.3%) and 11.2%, respectively.

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

| Top Gainers | | | Top Losers | | |
|---|---|---|---|---|---|
| **Company** | **Country** | **Change** | **Company** | **Country** | **Change** |
| Stanbic Holdings | Kenya | 7.1% | SBM Holdings | Mauritius | (5.9%) |
| KCB Group | Kenya | 6.3% | HF Group | Kenya | (5.3%) |
| Equity Group | Kenya | 4.6% | FBN Holdings | Nigeria | (4.0%) |
| Barclays Bank | Kenya | 3.4% | CAL Bank | Ghana | (3.1%) |
| National Bank | Kenya | 3.4% | Guaranty Trust Bank | Nigeria | (2.6%) |

## Kenya

NASI registered gains during the week, rising by 1.0%, attributable to gains registered in the banking sector, with Stanbic Holdings, KCB Group and Equity Group registering the biggest gains of 7.1%, 6.3% and 4.6%, respectively. Equity turnover declined by 44.1% w/w to USD 17.3 mn, which was the lowest weekly turnover thus far in 2018. Foreign investors remained net sellers during the week, retaining their net selling position for the last 3 months. The banking sector registered gains on anticipation of good earnings performance in H1'2018, with Stanbic Holdings registering a 104.5% growth in core earnings per share during the period. HF Group and Diamond Trust Bank experienced declines of 5.3%, and 1.0%, respectively.

## Nigeria

The Nigerian All Share index was the worst performer during the week, declining by 2.9% driven by a decline in the oil and gas sector stocks. The financial services industry took up the bulk of the trades, accounting for 63% of the Naira 5.3 bn (USD 14.6 mn) turnover during the week. Our financial services universe of coverage registered declines, with FBN Holdings, Guaranty Trust Bank and Zenith Bank losing 4.0%, 2.6%, and 1.0%, respectively.

## Ghana

The GSE Composite Index gained 0.3% during the week, driven by gains in the consumer goods sector. The banking sector registered mixed performance, with gains registered in GCB Bank and Ecobank Ghana that rose 1.4% and 0.6%, respectively, while CAL bank declined by 3.1%.

**Section II: Earnings Releases:**

**Kenya**

**Stanbic Holdings released H1'2018 results:**

Stanbic Holdings released H1'2018 results, with core earnings per share increasing by 104.5% to Kshs 9.0 from Kshs 4.4 in H1'2017, exceeding our expectation of a 14.6% growth to Kshs 5.0. The performance was driven by a 21.9% increase in total operating income, coupled with a 14.0% decrease in the total operating expenses. Growth in operating income was largely driven by a 34.0% increase in Non-Funded Income (NFI); and the decrease in operating expenses was largely driven by an 86.7% reduction in LLP.

For a comprehensive analysis, see our Stanbic Holdings H1'2018 Earnings Note.

**Nigeria**

**Zenith Bank released H1'2018 results:**

Zenith Bank released H1'2018 results, with core earnings per share increasing by 8.5% to NGN 2.6 from NGN 2.4 in H1'2017. The performance was driven by a 15.1% decrease in total operating expenses to NGN 140.1 bn from NGN 165.0 bn in H1'2017, which offset a 3.8% decrease in total operating income to NGN 247.5 bn from NGN 257.2 bn in H1'2017. The decrease in operating expenses was largely driven by a 77.1% reduction in credit loss impairment (LLP).

For a comprehensive analysis, see our Zenith Bank H1'2018 Earnings Note.

**FBN Holdings released H1'2018 results:**

FBN Holdings released H1'2018 results, with core earnings per share increasing by 15.7% to NGN 0.9 from NGN 0.8 in H1'2017. Performance was driven by a 4.0% decrease in the total operating expenses to NGN 170.3 bn from NGN 177.4 bn in H1'2017, which offset a 1.7% decrease in total operating income to NGN 209.2 bn from NGN 177.4 bn in H1'2017. The decrease in operating expenses was largely driven by a 15.4% reduction in credit loss impairment (LLP).

For a comprehensive analysis, see our FBN Holdings H1'2018 Earnings Note.

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

**Kenya**

1. **HF Group set to lay off additional staff in restructuring process:** HF Group is set to lay off some employees in a downsizing move that will see it merge some staff positions. The restructuring will result in a merger of jobs, redundancy and creation of new roles for its recently launched digital banking strategy. The lay-offs will target up to 9.0% of the workforce, which translates to about 36 employees as per the closing employee register of 400 staff in December 2017. The latest lay-off plans will bring the total number of employees laid off by HF Group to 112 in the last two years, since December 2016. The lender joins the growing list of financial institutions that have undertaken downsizing measures in the past two years, including KCB Group, Barclays Bank, Family Bank, Standard Chartered, National Bank, Sidian Bank and First Community Bank. The total number of lay-offs has risen to 1,642 employees since the amendment of the Banking Act (Amendment) 2015, which capped interest rates on loans at 4.0% above the benchmark CBR

rate. Below is a summary of the banking sector restructuring since the introduction of the interest rate cap:

| Kenya Banking Sector Restructuring | | | |
|---|---|---|---|
| No. | Bank | Staff Lay-off | Branches Closed |
| 1 | Bank of Africa | 0 | 12 |
| 2 | Barclays Bank | 301 | 7 |
| 3 | Ecobank | 0 | 9 |
| 4 | Equity Group | 400 | 7 |
| 5 | Family Bank | Unspecified | 0 |
| 6 | First Community Bank | 106 | 0 |
| 7 | KCB Group | 223 | Unspecified |
| 8 | National Bank | 150 | 0 |
| 9 | NIC Group | 32 | Unspecified |
| 10 | Sidian Bank | 108 | 0 |
| 11 | I&M Holdings | 0 | Unspecified |
| 12 | Standard Chartered | 300 | 4 |
| 13 | HF Group | 112 | 0 |
| Total | | 1,732 | 39 |

**Nigeria**

2. **First Bank of Nigeria redeems its USD 300 mn Eurobond note:** First Bank of Nigeria (FBN) is set to repay a USD 300.0 mn, 8.25% Eurobond note beginning 7th August, two years before the debt matures in 2020. According to FBN, the repayment demonstrates its balance sheet strength and ample forex liquidity, underlining its strong franchise and deep market access. The bank notes that despite the bond being a subordinated Tier 2 instrument, the debt will be redeemed without any impact to its capital ratios due to the robust capital base underlined by the surplus Tier 2 capital. This is the second time FBN will call and prepay bondholders following its debut USD 175.0 mn, 9.75% debt issued in 2007, which was called in 2012. First Bank is not planning to issue any debt in Eurobond markets in the near term following the planned redemption.

**Ghana**

1. **Bank of Ghana to enforce Anti- Money Laundering laws with fines:** Banks and Specialized Deposit Taking institutions (SDIs) that fail to comply with the Central Bank's Anti-Money Laundering regulations risk paying as much as 60,000 GHS in fines. This follows the implementation of the Bank of Ghana's laws on Anti-Money Laundering, in a bid to combat financial crimes.

**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 10/08/2018 | w/w change | YTD Change | Target Price* | Dividend Yield | Upside/ Downside** | P/TBv Multiple |
|---|---|---|---|---|---|---|---|
| NIC Bank*** | 34.8 | 0.7% | 3.0% | 54.1 | 2.9% | 59.7% | **0.8x** |
| Ghana Commercial Bank*** | 5.2 | 1.4% | 2.4% | 7.7 | 7.5% | 58.8% | **1.2x** |
| Zenith Bank*** | 23.6 | (1.0%) | (8.0%) | 33.3 | 11.3% | 51.0% | **1.0x** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| I&M Holdings*** | 115.0 | 0.0% | 10.6% | 169.5 | 3.0% | 50.4% | **1.2x** |
| Diamond Trust Bank*** | 197.0 | (1.0%) | 2.6% | 280.1 | 1.3% | 42.1% | **1.1x** |
| Union Bank Plc | 5.9 | 0.0% | (25.0%) | 8.2 | 0.0% | 39.3% | **0.6x** |
| KCB Group*** | 51.0 | 6.3% | 19.3% | 60.9 | 6.3% | 33.1% | **1.5x** |
| Ecobank | 8.3 | 0.6% | 9.2% | 10.7 | 0.0% | 30.1% | **2.3x** |
| CRDB | 160.0 | 0.0% | 0.0% | 207.7 | 0.0% | 29.8% | **0.5x** |
| UBA Bank | 9.5 | 0.0% | (8.3%) | 10.7 | 15.9% | 29.1% | **0.6x** |
| Barclays | 12.1 | 3.4% | 26.0% | 14.0 | 8.5% | 28.2% | **1.5x** |
| HF Group*** | 8.0 | (5.3%) | (23.1%) | 10.2 | 3.8% | 24.5% | **0.3x** |
| Co-operative Bank | 17.2 | 1.5% | 7.5% | 19.7 | 4.7% | 20.9% | **1.5x** |
| Equity Group | 51.5 | 4.6% | 29.6% | 55.5 | 4.1% | 16.8% | **2.5x** |
| Stanbic Bank Uganda | 33.0 | 0.8% | 21.1% | 36.3 | 3.6% | 14.3% | **2.1x** |
| CAL Bank | 1.2 | (3.1%) | 13.9% | 1.4 | 0.0% | 10.2% | **1.1x** |
| Bank of Kigali | 290.0 | 0.0% | (3.3%) | 299.9 | 4.8% | 8.2% | **1.6x** |
| Access Bank | 10.0 | 0.0% | (4.3%) | 9.5 | 4.0% | (1.0%) | **0.7x** |
| Guaranty Trust Bank | 39.0 | (2.6%) | (4.3%) | 37.2 | 6.0% | (1.1%) | **2.3x** |
| Standard Chartered | 205.0 | 2.5% | (1.4%) | 184.3 | 6.3% | (1.6%) | **1.6x** |
| Stanbic Holdings | 98.0 | 7.1% | 21.0% | 85.9 | 2.5% | (3.7%) | **1.1x** |
| Bank of Baroda | 140.0 | 0.0% | 23.9% | 130.6 | 1.8% | (4.9%) | **1.2x** |
| SBM Holdings | 7.0 | (5.9%) | (6.9%) | 6.6 | 4.0% | (7.5%) | **1.1x** |
| Stanbic IBTC Holdings | 49.4 | (0.9%) | 18.9% | 37.0 | 1.2% | (24.5%) | **2.6x** |
| Standard Chartered | 26.1 | 0.2% | 3.2% | 19.5 | 0.0% | (25.2%) | **3.3x** |
| FBN Holdings | 9.6 | (4.0%) | 9.1% | 6.6 | 2.5% | (31.2%) | **0.6x** |
| National Bank | 6.0 | 3.4% | (35.8%) | 2.8 | 0.0% | (51.7%) | **0.4x** |
| Ecobank Transnational | 21.2 | 0.2% | 24.4% | 9.3 | 0.0% | (56.0%) | **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.***