Cytonn SSA Financial Services Research Weekly Note 10th September 2018

Executive Summary

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, earning results and sector specific news that occurred during the first week of September.

Section I: Market Performance:

During the week, the equities markets were on a downward trend, with NGSEASI, NASI and GGSECI declining by 1.7%, 2.3% and 4.8%, respectively. This takes the YTD declines of NASI, NGSEASI and GGSECI to 2.0%, 10.9% and 3.3%, respectively.

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

Top Gainers			Top Losers		
Company	**Country**	**Change**	**Company**	**Country**	**Change**
CAL Bank	Ghana	**18.2%**	HF Group	Kenya	**(16.1%)**
I&M Holdings	Kenya	**2.0%**	Union Bank Plc	Nigeria	**(9.4%)**
Co-operative Bank	Kenya	**0.9%**	Stanbic IBTC Holdings	Nigeria	**(6.3%)**
FBN Holdings	Nigeria	**0.6%**	Guaranty Trust Bank	Nigeria	**(5.4%)**
Ecobank	Ghana	**0.2%**	National Bank of Kenya	Kenya	**(5.2%)**

Kenya

NASI declined by 2.3% last week, attributable to declines registered in large cap stocks such as Safaricom Plc and KCB Group, which declined by 5.2% and 5.0%, respectively. Banking sector counters also posted declines, with NIC Group and Equity Group both declining by 1.7%, while Diamond Trust Bank and Standard Chartered declined by 1.1% and 1.0%, respectively. Equities turnover decreased by 8.6% to USD 24.5 mn, from USD 26.8 mn the previous week, taking the YTD turnover to USD 1.3 bn. Foreign investors remained net sellers during the week, with a net selling position of USD 5.4 mn.

Nigeria

The Nigerian All Share index declined by 1.7%, largely driven by declines in the manufacturing sector and financial services sectors. In the manufacturing sector, PZ Cussons and United Africa Company of Nigeria (UACN) declined by 10.0% and 9.1%, respectively. For our financial services universe of coverage, the biggest decliners were Union Bank, Stanbic IBTC Holdings and Guaranty Trust Bank which declined by 9.4%, 6.3% and 5.4%, respectively. Total turnover for the week was USD 26.6 mn during the week, bringing the YTD turnover to USD 1.9 bn.

Ghana

The GSE Composite Index declined by 4.8% during the week, driven by declines mainly in the oil and gas sector and the financial services sector. SocGen Ghana, Ecobank Transnational (ETI), Benso Oil Palm and Ghana Oil registered declines of 15.3%, 4.8%, 3.3% and 2.3%, respectively, while CAL Bank gained by 18.2. Total turnover for the week was USD 0.7 mn (GHS 3.6 mn), bringing the YTD turnover to USD 57.8 mn.

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

Banks saved from mandatory capital increments: Legislators have rejected amendments to the Finance Bill (2018) that would have required commercial banks to increase their minimum core capital to Kshs 5.0 bn, from Kshs 1.0 bn, over the next 4-years. The Bill would have required banks to increase core capital in three phases over the 4-years: (i) to a minimum of Kshs 2.0 bn by December 2019, (ii) to Kshs 3.5 bn by December 2020, and (iii) to Kshs 5.0 bn by December 2021. This was the second time in 3-years that Parliament rejected the proposal, having rejected a similar move in August 2015. According to Mr Jude Njomo, the legislator who proposed the Bill, the changes were necessary to create financial stability following the collapse of Imperial Bank and Chase Bank. The MPs based their arguments on the premise that the amendment would likely force mergers and acquisitions, as small lenders struggle to survive as they faced difficulties in raising the minimum statutory capital of Kshs 1.0 bn. According to data from the Central Bank of Kenya, 23 of the 43 local banks had less than Kshs 5.0 bn core capital by December 2017. The Treasury has supported consolidation among lenders in the past by suggesting increments in core capital, arguing that it would lead to stronger and better-capitalised lenders to support more investment. We are of the view that the minimum core capital should be increased in order to promote stability in the banking sector as well as create room for cost reduction from economies of scale, which may translate to lower lending rates.

Equity to roll out cross-border financial services platform: Equity Group plans to roll out an e-commerce money transfer and payments platform that will serve its customers across the region, through its subsidiary, Finserve, in November 2018. The platform, dubbed 'mKey', will ride on the bank's regional network in Rwanda, Tanzania, DR Congo, Uganda and South Sudan. The move will help the bank offer more products and services, reduce operational costs as well as attract tech-savvy young population segments to use mobile internet for a range of services including paying for utilities, transfer of cash, buying goods and paying for services, in addition to borrowing of loans ranging from Kshs 300 to Kshs 1.0 mn. Finserve, a wholly owned mobile virtual network operator, employs 18 people that support Equity's 13 mn clients. The subsidiary will also be deployed in Nigeria and Ethiopia by December 2019, and will be used to push products to a global audience in order to enhance the uptake of loans, savings, sale and buying of securities and forex trading. Upon full deployment, the platform is expected to increase the bank's Non-Funded Income (NFI) streams by enabling users perform end-to-end transactions on the mKey platform, hence increasing transactional volumes and fee income for Equity Group. In our view, the mKey platform will boost Equity Group's earnings going forward as the bank leverages on technology to reduce operational redundancies and increase efficiency, in addition to increasing revenue earned from the fee income streams.

Nigeria

Stanbic IBTC to issue new shares in place of dividends: Stanbic IBTC Holdings Plc could issue up to 211.7 mn ordinary shares of 50 kobo (NGN 0.5) each as scrip dividend shares if shareholders opt for shares instead of a cash dividend. The bank had announced an interim dividend pay-out of NGN 10.1 billion for the first half of 2018, or NGN 1.0, which is 66.7% above the 60 kobo (NGN 0.6) paid for H1'2017. This follows a resolution passed at an extraordinary general meeting (EGM) held in August 2016, suggesting that shareholders may choose to receive dividends either in cash or as new ordinary shares in the company, up until the year 2020. The board of directors indicated that the reference price to be used for the conversion of the cash-to-scrip shares option would be NGN 47.75 per share, implying a total of 211.7 mn shares for the total pay-out of NGN 10.1 bn cash dividend. Under the conversion programme, the reference price to be used in determining any scrip dividend allotment shall be the volume weighted average price (VWAP) of the company's shares on the NSE for the five business days after the company closes its books for dividends. The qualification date for the interim dividend was August 28, 2018 while the payment date for the dividend is September 26, 2018. The increase in total pay-out came after the firm reported a 78.7% increase in profit after tax (PAT) to NGN 43.1 bn from NGN 24.1 bn in H1'2017.

Ghana

Consolidated Bank to lay off employees: Consolidated Bank may close 100 branches in a drive to streamline its operations to minimise cost and remain profitable. The bank, which took over some selected assets and liabilities of the five collapsed banks – UniBank, Sovereign, Construction, Beige and Royal banks – currently has 191 branches spread over nine regions in the country. As part of the new bank's business rationalisation programme to reduce its current operational costs of about GHS 60 mn per month and reduce staff numbers to an acceptable minimum, it has already served notice of its intention to part ways with 1,700 of the current 3,700 members of staff. The bank has asked some staff members to re-apply for their jobs. The bank was established on August 1 as an indigenous bank with 100.0% government ownership, in order to absolve depositors from suffering losses following insolvency of the five banks. The bank is capitalised with GHS 450 mn – above the Bank of Ghana's revised minimum capital requirement of GHS 400 mn. It has subsequently issued a bond of GHS 5.76 bn to be used as cover for customer deposits of the five collapsed banks.

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 31/08/2018	Price as at 7/09/2018	w/w change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple
NIC Bank***	30.0	29.5	(1.7%)	(12.6%)	(20.4%)	54.1	3.4%	83.7%	**0.7x**
I&M Holdings***	100.0	102.0	2.0%	2.0%	(17.1%)	169.5	3.4%	72.9%	**1.0x**
Zenith Bank***	21.2	20.9	(1.2%)	(18.5%)	(12.0%)	33.3	12.9%	70.5%	**0.9x**
Ghana Commercial Bank***	5.4	5.4	0.0%	5.9%	7.0%	7.7	7.1%	51.4%	**1.3x**
Diamond Trust Bank***	190.0	188.0	(1.1%)	(2.1%)	6.2%	280.1	1.4%	48.8%	**1.1x**
UBA Bank	8.1	7.9	(2.5%)	(23.3%)	(10.4%)	10.7	10.8%	42.9%	**0.5x**
KCB Group***	45.0	42.8	(5.0%)	0.0%	1.2%	60.9	7.0%	42.4%	**1.4x**

Union Bank Plc	5.9	5.3	(9.4%)	(32.1%)	(13.1%)	8.2	0.0%	39.3%	**0.6x**
HF Group***	7.8	6.5	(16.1%)	(37.5%)	(38.6%)	10.2	4.9%	36.5%	**0.3x**
Barclays	11.0	11.0	0.0%	14.6%	6.3%	14.0	9.1%	36.4%	**1.5x**
CRDB	160.0	160.0	0.0%	0.0%	(20.0%)	207.7	0.0%	29.8%	**0.5x**
Equity Group	45.0	44.3	(1.7%)	11.3%	12.7%	55.5	4.5%	27.9%	**2.1x**
CAL Bank	1.1	1.3	18.2%	20.4%	48.6%	1.4	0.0%	27.3%	**0.9x**
Co-operative Bank	16.5	16.7	0.9%	4.1%	1.8%	19.7	4.8%	24.2%	**1.5x**
Ecobank	9.0	9.0	0.2%	18.3%	41.3%	10.7	0.0%	19.6%	**2.0x**
Stanbic Bank Uganda	33.0	33.0	0.0%	21.1%	21.1%	36.3	3.5%	13.5%	**2.3x**
Bank of Kigali	290.0	290.0	0.0%	(3.3%)	3.6%	299.9	4.8%	8.2%	**1.6x**
Guaranty Trust Bank	37.0	35.0	(5.4%)	(14.1%)	(9.2%)	37.1	6.9%	7.1%	**2.3x**
Access Bank	9.4	9.1	(3.2%)	(13.4%)	(5.7%)	9.5	4.4%	6.0%	**0.6x**
SBM Holdings	6.6	6.6	0.0%	(12.0%)	(14.7%)	6.6	4.5%	3.9%	**0.9x**
Standard Chartered	205.0	203.0	(1.0%)	(2.4%)	(13.2%)	184.3	6.2%	(3.9%)	**1.7x**
Bank of Baroda	144.0	144.0	0.0%	27.4%	30.9%	130.6	1.7%	(7.6%)	**1.3x**
Stanbic Holdings	100.0	96.0	(4.0%)	18.5%	20.0%	85.9	2.3%	(11.8%)	**1.0x**
Stanbic IBTC Holdings	48.0	45.0	(6.3%)	8.4%	12.8%	37.0	1.3%	(21.6%)	**2.5x**
FBN Holdings	9.0	9.0	0.6%	2.3%	56.3%	6.6	2.8%	(23.1%)	**0.5x**
Standard Chartered	26.0	26.0	0.0%	3.0%	19.1%	19.5	0.0%	(25.2%)	**3.3x**
National Bank	5.8	5.5	(5.2%)	(41.2%)	(49.5%)	2.8	0.0%	(51.7%)	**0.4x**
Ecobank Transnational	19.6	19.5	(0.3%)	14.7%	8.3%	9.3	0.0%	(52.5%)	**0.7x**

**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 are in respective country currency*

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.