Cytonn SSA Financial Services Research Weekly (16th - 20th July)

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 third week of July (Week 29).

Section I: Market Performance:

During the third week of July, the equities markets registered mixed performance, with NASI rising 0.6%, while GGSECI and NGEASI lost 0.2% and 2.1%, respectively. This takes the YTD performance of NASI, NGSEASI and GGSECI to 0.7%, (4.3%) and 11.0%, respectively.

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

Top Gainers			Top Losers		
Company	**Country**	**Change**	**Company**	**Country**	**Change**
I&M Holdings	Kenya	3.6%	FBN Holdings	Nigeria	(13.0%)
Stanbic Bank	Uganda	3.1%	National Bank	Kenya	(9.8%)
SBM Holdings	Mauritius	2.8%	Stanbic IBTC Holdings	Nigeria	(5.2%)
Stanbic Holdings	Kenya	2.2%	UBA Bank	Nigeria	(4.5%)
Ecobank	Ghana	2.1%	Guaranty Trust Bank	Nigeria	(4.4%)

Kenya

NASI was the best performer during the week, rising by 0.6%, attributable to gains registered in the banking sector and large caps East African Breweries and Safaricom that rose by 6.3% and 0.9%, respectively. Equity turnover increased by 3.9% w/w to USD 20.4 mn, with foreign investors remaining net sellers. The banking sector registered gains, with large caps Equity Group, KCB Group and Standard Chartered Bank recording gains of 1.5%, 1.0% and 0.5%, respectively, while declines were in National Bank and Co-operative Bank, which lost 9.8% and 1.2%, respectively.

Nigeria

The Nigerian All Share index lost 2.1% during the week, largely driven by declines in the financial services sector and consumer goods sectors. The financial services industry took up the bulk of the trades, accounting for 63% of the Naira 14.8 bn (USD 41.5 mn) turnover during the week. Our financial services universe of coverage registered poor performance, with FBN Holdings, Stanbic IBTC Holdings, UBA Bank, Guaranty Trust Bank, Zenith Bank, Union Bank and Access Bank all registering declines of 13.0%, 5.2%, 4.5%, 4.4%, 4.2%, 2.5% and 1.0%, respectively. Only Ecobank Transnational gained in our financial services universe of coverage, rising by 1.5% during the week.

Ghana

The GSE Composite Index lost 0.2% during the week, driven by declines in the consumer goods sector. The banking sector performance was positive, with gains registered in Ecobank and GCB Bank that rose 2.1% and 0.2%, respectively. Standard Chartered bank remained flat, while CAL bank declined by 0.8%.

Section II:

There was no earnings released during the week.

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

Kenya

1. **Kenya's High Court suspends the 0.05% Robin-hood tax:** The implementation of the "Robin Hood" tax of 0.05% on transactions worth Kshs 500,000 and above has been suspended by the High Court, following a move by the Kenya Bankers Association (KBA) seeking to suspend the implementation of the tax. Justice Wilfrida Okwany, in the conservatory orders issued on Thursday, noted that the petition raised fundamental constitutional concerns, among them being the principle of public participation. The Attorney-General, Mr. Kihara Kariuki, had termed the quest to suspend the Robin Hood tax premature, as Parliament has not passed the relevant Bill into law. The Attorney General (AG) took the position in response to KBA's opposition to the tax on grounds that there was no stakeholder engagement prior to the operationalization of the law as required by the Constitution. The AG and the Kenya Revenue Authority (KRA) argued that Parliament has already invited public participation on the Finance Bill 2018, according banks an opportunity to present their views on the Bill.

Nigeria

1. **The gap in market share between Tier I and Tier II banks continues to increase:** According to a report by THISDAY, tier 1 banks continue to control a significant chunk of the market in terms of assets, gross earnings, loans and advances, and customer deposits. The gap between the tier 1 and tier 2 banks in the country, in terms of market share, has continued to widen. The five tier 1 banks reviewed included (i) Zenith Bank Plc, (ii) Guaranty Trust Bank (GTBank) Plc, (iii) United Bank for Africa (UBA) Plc, (iv) FBN Holdings Plc, and (v) Access Bank Plc. On the other hand, the eight tier 2 bank reviewed comprised of (i) Fidelity Bank Plc, (ii) Stanbic IBTC, (iii) Sterling Bank, (iv) First City Monument Bank (FCMB), (v) Ecobank, (vi) Diamond Bank, (vii) Union Bank, and (viii) Wema Bank Plc. The review showed that the total assets of the 13 banks increased by 11.2% to NGN 37.8 tn in FY'2017 from NGN 34.0 tn recorded in FY'2016. In addition, while the 13 banks combined gross earnings increased by 20.1% to NGN 4.6 tn in FY'2017, up from NGN 3.8 tn in FY'2016, the five tier 1 banks alone accounted for NGN 2.7 tn, equivalent to 59.0% of total earnings in 2017. Total loans and advances of the 13 banks stood at NGN 15.9 tn in 2017, 0.8% lower than the NGN 16.0 tn recorded in the previous year. However, even with improved earnings performance recorded in FY'2017, banks are expected to find it difficult to sustain their profitability, given the reduced yield on treasury bills and reduced lending to the private sector. Banks have remained cautious in risk assets creation as the Nigerian economy is yet to fully recover from the economic recession it suffered two years ago.

Ghana

1. **Consolidation picks up in Ghana as banks adapt to increased capital:** The Bank of Ghana (BoG) has said that at least 15 lenders in the country have met or are close to meeting new capital requirements ahead of the December deadline. The BoG raised the minimum capital threshold for lenders more than threefold to 400.0 mn cedis (USD 84.0 mn) in a move to strengthen the banking sector and encourage lending. Among Ghana's 34 registered lenders, six have met the requirement while another nine are "nearly there," said BoG Governor Ernest Addison. The remaining lenders are likely to explore talks for mergers, including BSIC Ghana Ltd., Premium Bank Ghana Ltd, and GN Bank, which are in the process

of completing a merger deal. The three Ghanaian lenders finalized talks for a merger and are awaiting approval from the regulator. The transaction will enable the three banks to meet the regulator's new minimum capital threshold of 400 million cedis (USD 84.0 mn) after they form a single larger unit. We expect more consolidation deals to take place before the end of the year as banks rush to meet the December deadline set by the BoG, which will further enable the sector to better withstand any shocks that may affect the banking sector. The move is also primed to enable banks have a higher risk tolerance, thereby stimulating lending especially to the private sector, which has been on a decline with banks adopting a cautious stance towards lending. The BoG is also changing the way lenders calculate their capital-adequacy ratios to comply with the Basel II framework.

2. **Access Bank Ghana raises less than targeted amount in share sale:** Access Bank Ghana Ltd. raised less than their targeted amount in the recently concluded share sale, which was aimed at meeting the new regulatory capital requirements. The Lagos-based bank sold stock worth 220.0 mn cedis (USD 46.0 mn), less than the 300 mn cedis it sought so as to meet the required capital level. The lender had 144.0 mn cedis in capital prior to the issuance and will possibly use retained earnings to meet the Bank of Ghana's capital thresholds. Shares in the bank have declined 12.0% over the last twelve months (LTM) and 3.3% YTD, valuing Access Bank Ghana at 413.0 mn cedis.

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 20/07/2018	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple
Ghana Commercial Bank***	5.0	0.2%	(0.8%)	7.7	7.6%	62.0%	**1.2x**
NIC Bank***	34.8	0.0%	3.0%	54.1	2.9%	58.6%	**0.8x**
I&M Holdings***	114.0	3.6%	9.6%	169.5	3.2%	57.3%	**1.1x**
Zenith Bank***	23.0	(4.2%)	(10.3%)	33.3	11.3%	50.1%	**1.0x**
Diamond Trust Bank***	196.0	0.5%	2.1%	280.1	1.3%	45.0%	**1.1x**
Union Bank Plc	5.8	(2.5%)	(25.6%)	8.2	0.0%	37.0%	**0.6x**
Ecobank	8.2	2.1%	7.5%	10.7	0.0%	34.1%	**2.3x**
KCB Group***	48.3	1.0%	12.9%	60.9	6.3%	33.8%	**1.5x**
Barclays	11.5	0.4%	19.8%	14.0	8.7%	31.0%	**1.4x**
CRDB	160.0	0.0%	0.0%	207.7	0.0%	29.8%	**0.5x**
HF Group***	8.5	0.0%	(18.3%)	10.2	3.8%	23.8%	**0.3x**
UBA Bank	9.6	(4.5%)	(7.3%)	10.7	15.0%	22.0%	**0.7x**
Co-operative Bank	16.8	(1.2%)	5.0%	19.7	4.7%	20.6%	**1.5x**
Equity Group	49.5	1.5%	24.5%	55.5	4.1%	17.9%	**2.5x**
Stanbic Bank Uganda	33.0	3.1%	21.1%	36.3	3.7%	17.0%	**2.0x**
Bank of Kigali	290.0	0.0%	(3.3%)	299.9	4.8%	8.2%	**1.6x**
CAL Bank	1.3	(0.8%)	19.4%	1.4	0.0%	7.7%	**1.1x**
Stanbic Holdings	92.0	2.2%	13.6%	85.9	5.8%	1.3%	**1.1x**
Guaranty Trust Bank	38.0	(4.4%)	(6.7%)	37.2	6.0%	(0.3%)	**2.2x**
Access Bank	10.1	(1.0%)	(3.3%)	9.5	3.9%	(2.9%)	**0.7x**
Standard Chartered	204.0	0.5%	(1.9%)	184.3	6.2%	(3.1%)	**1.6x**
SBM Holdings	7.3	2.8%	(2.1%)	6.6	4.2%	(3.9%)	**1.0x**
Bank of Baroda	140.0	(3.4%)	23.9%	130.6	1.7%	(8.2%)	**1.3x**
Standard Chartered	26.0	0.0%	3.0%	19.5	0.0%	(25.2%)	**3.3x**
Stanbic IBTC Holdings	48.8	(5.2%)	17.6%	37.0	1.2%	(27.0%)	**2.7x**
FBN Holdings	9.1	(13.0%)	2.8%	6.6	2.4%	(33.8%)	**0.6x**
Ecobank Transnational	20.7	1.5%	21.5%	9.3	0.0%	(54.4%)	**0.7x**

National Bank	5.6	(9.8%)	(40.6%)	2.8	0.0%	(54.5%)	**0.4x**

**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.