

**Cytonn SSA Financial Services Research Weekly Note 17<sup>th</sup> 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 recorded mixed performance, with NGSEASI and NASI declining by 6.2% and 3.6% respectively, while GGSECI gained by 4.5%. This takes the YTD performance of NASI, NGSEASI and GGSECI to (5.6%), (16.4%) and 1.0%, respectively.

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

Top Losers		
Company	Country	Change
Access Bank	Nigeria	(13.8%)
Ecobank Ghana	Ghana	(9.9%)
CAL Bank	Ghana	(9.2%)
Barclays Kenya	Kenya	(7.7%)
Ecobank Transnational	Nigeria	(7.7%)

There were no gainers during the week.

**Kenya**

NASI declined by 3.6% last week, attributable to declines registered in large cap stocks such as Bamburi Cement, Barclays Bank of Kenya, Diamond Trust Bank (DTB) and Safaricom Plc, that declined by 9.4%, 7.7%, 3.7% and 3.6%, respectively. Equities turnover decreased by 6.4% to USD 26.0 mn, from USD 24.5 mn the previous week, with the YTD turnover standing at USD 1.3 bn. Foreign investors remained net sellers during the week, with a net selling position of USD 4.1 mn.

**Nigeria**

The Nigerian All Share index declined by 6.2%, largely driven by declines in Cement Company of North Nigeria, Universal Insurance, Forte Oil and Consolidated Hallmark Insurance, which declined by 26.8%, 24.2%, 16.7% and 15.8%, respectively. For our financial services universe of coverage, the biggest decliners were Access Bank and Ecobank Transnational. Which declined by 13.8% and 7.7%. Total turnover for the week increased by 90.2% to USD 50.6 mn from USD 26.6 mn during the week, bringing the YTD turnover to USD 1.9 bn.

**Ghana**

The GSE Composite Index gained by 4.5% during the week, driven by gains mainly in the oil and gas and minerals sectors. Aluworks, Ecobank Transnational (Ghana), Ghana Oil and MTN registered gains of 14.0%, 10.0%, 1.7% and 1.3%, respectively. In our universe of coverage for Ghana, Ecobank Ghana and CAL Bank declined by 9.9%

and 9.2% respectively. 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**

**Five Banks Fined for Alleged Involvement in Corruption Scandal:** Five banks implicated in the National Youth Service (NYS) Scandal, where Kshs 9.0 bn was lost in a graft scandal that saw several companies receive payments for goods not delivered, have been fined a collective Kshs 392.5 mn. The banks, which include KCB Group, Equity Group Holdings, Standard Chartered Bank of Kenya (SCBK), Co-operative Bank and Diamond Trust Bank (DTB), have been granted a period of two-weeks to seal the loopholes that aided the occurrence of the fraud without notice to the relevant authorities. The Central Bank of Kenya ordered the banks to submit an action plan aimed at thwarting such lapses within the two-weeks. KCB Group has been levied with the highest penalty for allegedly channeling money stolen from the Government through the NYS scam. The bank will be required to pay Kshs 149.5 mn for processing amounts of up to Kshs 639.0 mn. This is despite the bank processing lower amounts than its peers. Standard Chartered Bank processed Kshs 1.6 bn, but was fined Kshs 77.5 mn, while Equity Bank processed Kshs 886.0 mn, and was fined Kshs 89.5 mn. Co-operative Bank was found culpable for helping divert Kshs 263.0 mn and will have to pay a fine of Kshs 20.0 mn. Diamond Trust Bank will pay Kshs 56.0 mn for transferring Kshs 162.5 mn to NYS suspects' accounts. The banks seemed to have done little to no due diligence on the customers they handed cash to and sometimes handed over large sums of money without appropriate documentation. This comes after it was revealed that some of the companies under investigation opened accounts a few hours before the NYS money was credited. Banks, which are required to report large transactions, contravened their mandate by not reporting transactions that exceeded Kshs 1.0 mn to the Financial Reporting Centre. The CBK Governor indicated that the investigation would now be handed to the Directorate of Criminal Investigations and the Office of the Director of Public Prosecutions to pursue criminal culpability where, if an individual is found guilty of contravening the Crime and Anti-Money Laundering Act, they face an imprisonment term not exceeding 14-years or may be fined Kshs 5.0 mn. This comes after the Kenya Bankers Association (KBA) introduced stringent rules where bank customers planning to withdraw or deposit Kshs 10 mn and above in cash will now be required to give a three-days' notice and get clearance from branch managers. The KBA, in a circular, directed bank managers to ensure customers also provide supporting evidence for their source of cash when depositing and its use while withdrawing. These rules are aimed at combatting any money laundering and financial crimes that have become increasingly prevalent. We are of the view that increased emphasis on due diligence on customers conducting bank transfers of significant amounts, supported with appropriate documentation, will aid in combating the vice that has bedeviled the country.

#### **Nigeria**

**Central Bank of Nigeria Introduces Penalties on Delayed Electronic Transactions:** The Central Bank of Nigeria (CBN) has introduced penalties for delays in processing of electronic payments. According to the CBN any failed electronic funds transfer (EFT) not reversed into the customer’s account within 24 hours shall attract a fine of NGN 10,000. The CBN stated this in a circular on regulation on instant inter-bank electronic funds transfer services in Nigeria which was issued to financial institutions, financial service providers and other stakeholders. It also stated that delayed application of inbound EFTs into beneficiary’s accounts beyond 4 minutes would attract a penalty fee of NGN 10,000 per item. The circular obliged entities that erroneously receive value contrary to the customer’s instructions to refund the amount, provided the customer requested for a reversal in writing, within 14 working days of the transaction. Where funds were not available, the receiving entities are directed to notify the customer immediately. Consequences of not funding the account within the stipulated 24 hours include watch-listing in the banking industry, credit reference bureau and reporting to law enforcement agencies. We are of the view that the new regulations will help streamline the payments process in the financial sector by reducing unnecessary bottlenecks, hence facilitating access to financial services and deepening financial inclusion in the country.

**Ghana**

**S&P Raises Ghana’s Rating to ‘B’:** Standard & Poor’s (S&P) Global Ratings raised its long-term foreign and local currency sovereign credit ratings on Ghana to 'B' from 'B-', according a stable outlook. The improved rating is attributed to improved banking sector stability as well as lower inflation, which reflects the effectiveness of the Bank of Ghana’s monetary policy. Having peaked at a seven-year high of 19.2% y/y in March 2016, headline inflation has continued to decline to 9.9% by August 2018, supported by a relatively tight monetary policy stance. According to the S&P, though the policy has been from a slow base, it will support the inflation-targeting framework over the period. The Bank of Ghana (BoG) has been embarking on its policy regime which aims at bringing inflation down to 8.0% with an allowance of 2.0% upside or downside. This has included a reduction in the policy rate from 26.0% in November 2015 to 17.0% as at July this year. Meanwhile, the rating agency has warned that it could lower Ghana’s ratings if economic growth is significantly lower than expected and if fiscal deficits grow larger than expectations. We are of the view that the ongoing consolidation in the banking sector will aid the BoG’s efforts to execute an inflation-targeting monetary policy, hence strengthening Ghana’s financial sector and the economy as a whole.

**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 7/09/2018	Price as at 14/09/2018	w/w change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple
Zenith Bank***	20.9	20.1	(4.1%)	(21.8%)	(9.7%)	33.3	13.5%	79.7%	0.9x
NIC Bank***	29.5	28.5	(3.4%)	(15.6%)	(21.6%)	48.8	3.5%	74.7%	0.8x
Union Bank Plc	5.3	5.0	(5.7%)	(35.9%)	(16.7%)	8.2	0.0%	63.0%	0.6x
Diamond Trust Bank***	188.0	181.0	(3.7%)	(5.7%)	(0.5%)	283.7	1.4%	58.2%	1.1x
UBA Bank	7.9	7.4	(6.3%)	(28.2%)	(16.9%)	10.7	11.5%	56.1%	0.5x
KCB Group***	42.8	41.3	(3.5%)	(3.5%)	(1.8%)	61.3	7.3%	55.9%	1.4x
Ghana Commercial Bank***	5.4	5.3	(0.2%)	5.7%	20.3%	7.7	7.1%	51.7%	1.3x
I&M Holdings***	102.0	101.0	(1.0%)	1.0%	(19.8%)	138.6	3.5%	40.7%	1.0x
Equity Group	44.3	43.5	(1.7%)	9.4%	11.5%	56.2	4.6%	33.8%	2.1x

Barclays	11.0	10.2	(7.7%)	5.7%	(1.9%)	12.5	9.9%	33.0%	1.5x
Ecobank	9.0	8.1	(9.9%)	6.6%	27.3%	10.7	0.0%	32.5%	2.0x
CRDB	160.0	160.0	0.0%	0.0%	(8.6%)	207.7	0.0%	29.8%	0.5x
Co-operative Bank	16.7	16.1	(3.3%)	0.6%	(3.3%)	19.9	5.0%	28.6%	1.5x
Access Bank	9.1	7.8	(13.8%)	(25.4%)	(19.6%)	9.5	5.1%	26.9%	0.6x
CAL Bank	1.3	1.2	(9.2%)	9.3%	34.9%	1.4	0.0%	18.6%	1.1x
Guaranty Trust Bank	35.0	34.8	(0.7%)	(14.7%)	(8.1%)	37.1	6.9%	13.7%	2.2x
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
HF Group***	6.5	6.5	0.0%	(37.5%)	(35.9%)	6.6	4.9%	6.5%	0.2x
Standard Chartered	203.0	199.0	(2.0%)	(4.3%)	(16.7%)	196.3	6.3%	4.9%	1.6x
SBM Holdings	6.6	6.6	0.0%	(12.0%)	(14.9%)	6.6	4.5%	3.9%	0.9x
Stanbic Holdings	96.0	95.5	(0.5%)	17.9%	18.6%	92.6	2.4%	(0.7%)	0.9x
National Bank	5.5	5.2	(5.5%)	(44.4%)	(52.7%)	4.9	0.0%	(5.8%)	0.4x
Bank of Baroda	144.0	144.0	0.0%	27.4%	30.9%	130.6	1.7%	(7.6%)	1.3x
Stanbic IBTC Holdings	45.0	42.3	(6.1%)	1.8%	5.6%	37.0	1.4%	(11.0%)	2.3x
FBN Holdings	9.0	9.0	0.0%	2.3%	56.3%	6.6	2.8%	(23.6%)	0.5x
Standard Chartered	26.0	26.0	0.0%	3.1%	51.8%	19.5	0.0%	(25.2%)	3.3x
Ecobank Transnational	19.5	18.0	(7.7%)	5.9%	0.0%	9.3	0.0%	(48.4%)	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.**