Cytonn SSA Financial Services Research Weekly (23rd- 27th 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 fourth week of July (Week 30).

Section I: Market Performance:

During the fourth week of July, the equities markets registered mixed performance, with NASI and NGEASI both rising 0.1%, while GGSECI lost 0.2%. This takes the YTD performance of NASI, NGSEASI and GGSECI to 0.7%, (4.2%) and 10.7%, respectively.

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

Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
FBN Holdings	Nigeria	10.5%	I&M Holdings	Kenya	(7.0%)
National Bank	Kenya	4.5%	Union Bank Plc	Nigeria	(3.4%)
Guaranty Trust Bank	Nigeria	4.2%	CAL Bank	Ghana	(2.3%)
Zenith Bank	Nigeria	3.0%	KCB Group	Kenya	(1.6%)
Diamond Trust Bank	Kenya	2.0%	Stanbic Holdings	Kenya	(1.6%)

Kenya

NASI registered slight gains during the week, rising by 0.1%, attributable to gains registered in the manufacturing sector, with large caps British American Tobacco and East African Breweries gaining by 3.3% and 2.7%, respectively. Equity turnover declined by 13.5% w/w to USD 17.6 mn, which was the lowest weekly turnover thus far in 2018. Foreign investors remained net sellers during the week. The banking sector registered mixed performance, with large caps Diamond Trust Bank, Co-operative Bank and Equity Group rising 2.0%, 1.2% and 1.0%, respectively, while I&M Holdings, KCB Group and Stanbic Holdings experienced declines of 7.0%, 1.6% and 1.6%, respectively.

Nigeria

The Nigerian All Share index gained 0.1% during the week, driven by a rebound in the financial services sector and consumer goods sectors. The financial services industry took up the bulk of the trades, accounting for 58% of the Naira 16.7 bn (USD 46.4 mn) turnover during the week. Our financial services universe of coverage registered positive performance, with FBN Holdings, Guaranty Trust Bank, Zenith Bank, and UBA Bank rising by 10.5%, 4.2%, 3.0%, and 1.6%, respectively. Union Bank, Access Bank and Ecobank Transnational declined by 3.4%, 0.5% and 0.5%, respectively 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 registered mixed performance, with gains registered in GCB Bank and Ecobank Ghana that rose 1.0% and 0.5%, respectively. Standard Chartered Bank remained flat, while CAL bank declined by 2.3%.

Section II:

There was no earnings released during the week.

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

Kenya

1. **KCB Group offers second bid to acquire Imperial Bank Limited (in receivership):** KCB Group offered its second bid to acquire a stake in the troubled lender Imperial Bank Limited (IBL), which is under receivership. Diamond Trust Bank (DTB), which had also expressed interest, pulled out of the deal, putting KCB Group in pole position to acquire a stake in the troubled lender. IBL was put under receivership in August 2015, with a loan book of Kshs 41.0 bn and deposits of Kshs 58.0 bn. KCB Group had submitted an offer in April, whose details were not disclosed, but both banks were tasked with revising their offers, with DTB declining to participate further. Kenya Deposit Insurance Corporation (KDIC) highlighted that it had received the revised proposal from KCB Group, while the other bidder had withdrawn from the process. The Central Bank of Kenya (CBK) and KDIC will engage KCB Group in discussions with the aim of maximizing the value for depositors. In April, the bidders were tasked to disclose the oversight frameworks they planned to implement, the type of transaction they intended to proceed with, and the financial resources that could be deployed to compete the transaction. The impending resolution of the matter, which could possibly result in the bank's removal from receivership, will be welcomed by customers, whose deposits have been locked in the bank since August 2015. We note that the process needs to be expedited as the transaction falls way behind the expected timelines shared by the CBK, who, in September 2017, had scheduled to have a winning bidder by February 2018. If successful, this would mark the second instance a bank is brought out of receivership, after the recently concluded deal that saw SBM Kenya complete the acquisition of certain assets and Liabilities of Chase Bank Limited (under Receivership).

Nigeria

1. **Central Bank of Nigeria maintains the Monetary Policy Rate (MPR) at 14.0%:** The Monetary Policy Committee (MPC) of the Central Bank of Nigeria maintained its Monetary Policy Rate (MPR) at 14.0% to counter inflationary risk and introduce an initiative aimed at increasing liquidity to businesses. The MPR has been stable at 14.0% since July 2016. Year-on-year inflation, according to the CBN, declined to 11.2% in June 2018 from 11.6% in May 2018, well above the 6.0%-9.0% target, while the month-on-month inflation rate increased by 1.2% in June, faster than the 1.1% in May 2018. The Committee expressed concern on the threat posed by the incessant herdsmen-farmers conflict in some key food producing states and the negative impact on food supply chains, which would continue to exert upward pressure on food prices. External reserves stood at USD 47.2 bn as at 23rd July 2018, with further increases expected in the near term due to the recent increase in crude oil prices. The Central Bank is looking for ways to boost credit to the economy while keeping inflation low in its efforts to stimulate economic recovery. Large companies were encouraged to issue commercial paper at lower yields, which the Bank could invest in if need be, in order to create jobs. In addition, a differentiated dynamic cash reserves requirement (CRR) regime would be implemented to extend cheap long-term credit as a way to incentivize banks to increase lending to the agriculture and manufacturing sectors at 9.0% interest rates. The Committee opined that the Central Bank should continue to encourage deposit money banks (DMBs) to increase the flow of credit to the real economy to consolidate economic recovery.
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 maintains its benchmark interest rate at 17.0%:** The Monetary Policy Committee (MPC) of the Bank of Ghana (BoG) maintained its benchmark interest rate (Monetary Policy Rate) at 17.0%. The BoG attributed the decision to the rising inflation, which was a result of the depreciating local currency on the back of tightening monetary conditions in the US leading to rising yield rates and a strengthening US dollar. Annualized inflation rose to 10.0% in June 2018 from a five-year low of 9.6% in April 2018, mainly driven by the effects of higher prices of petroleum and transportation costs. However, the BoG noted that the relative price changes would not be significant enough to alter the inflation trajectory over the medium-term. The local currency, which had been stable in the first four months, depreciated 5.8% in the year to 19th July compared to a depreciation of 3.9% over a similar period in 2017, on the backdrop of increased forex demand from the corporate and energy sectors, together with the external geopolitical pressures. Total public debt declined to 63.8% of GDP (GH¢ 154.3 bn) at the end of May 2018, from 67.3% of GDP (GH¢ 137.3 bn) in May 2017. The total debt stock comprised of 47.0% domestic debt (GH¢ 72.6 bn), and 53.0% external debt (GH¢ 81.7 bn). The Gross International Reserves (GIR) stood at USD 7.3 bn at the end of June 2018, equivalent to 3.9 months of import cover, which will provide enough buffer against external shocks and remain adequate to enable the BoG address any external vulnerabilities.
2. **Ghana's private sector holds the biggest share of Non-Performing Loans recorded in the banking sector:** The latest banking sector report released by the Bank of Ghana shows that the private sector holds the biggest share of non-performing loans (NPLs) recorded in Ghana's banking sector. According to the BoG, the non-performing loans increased by 20.7% to GHS 8.6 bn in April 2018 from GHS 7.2 bn in April 2017. As a result, the NPLs to total loans ratio (NPL ratio) increased to 23.5% from 19.8% over the review period. The private sector's share of NPLs amounted to GHS 7.8 bn, or 90.1% of total NPLs, whereas the public sector accounted for GHS 0.8 bn (9.9%) in non-performing loan obligations. An examination into the sectoral contribution to the NPLs revealed that the commerce and finance sectors accounted for the highest portion at 29.2%, followed by the services and the mining/quarrying sectors at 13.4% and 3.5%, respectively.

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	Price as at 27/07/2018	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/(Downside)**	P/TBv Multiple
Ghana Commercial Bank***	5.0	5.1	1.0%	0.2%	7.7	7.6%	61.7%	**1.2x**
NIC Bank***	34.8	34.8	0.0%	3.0%	54.1	2.9%	58.6%	**0.8x**
Zenith Bank***	23.0	23.7	3.0%	(7.6%)	33.3	11.7%	56.6%	**1.0x**
I&M Holdings***	114.0	106.0	(7.0%)	1.9%	169.5	3.1%	51.8%	**1.1x**

Diamond Trust Bank***	196.0	200.0	2.0%	4.2%	280.1	1.3%	44.2%	**1.1x**
Union Bank Plc	5.8	5.6	(3.4%)	(28.2%)	8.2	0.0%	40.5%	**0.6x**
KCB Group***	48.3	47.5	(1.6%)	11.1%	60.9	6.2%	32.4%	**1.5x**
Ecobank Ghana	8.2	8.2	0.5%	8.0%	10.7	0.0%	31.3%	**2.3x**
Barclays	11.5	11.6	0.4%	20.3%	14.0	8.7%	30.4%	**1.4x**
CRDB	160.0	160.0	0.0%	0.0%	207.7	0.0%	29.8%	**0.5x**
UBA Bank	9.6	9.7	1.6%	(5.8%)	10.7	15.7%	27.7%	**0.6x**
HF Group***	8.5	8.5	0.0%	(18.3%)	10.2	3.8%	23.8%	**0.3x**
Co-operative Bank	16.8	17.0	1.2%	6.3%	19.7	4.8%	22.0%	**1.5x**
Equity Group	49.5	50.0	1.0%	25.8%	55.5	4.0%	16.2%	**2.5x**
Stanbic Bank Uganda	33.0	33.0	0.0%	21.1%	36.3	3.5%	13.5%	**2.1x**
CAL Bank	1.3	1.3	(2.3%)	16.7%	1.4	0.0%	8.5%	**1.1x**
Bank of Kigali	290.0	290.0	0.0%	(3.3%)	299.9	4.8%	8.2%	**1.6x**
Guaranty Trust Bank	38.0	39.6	4.2%	(2.8%)	37.2	6.3%	4.3%	**2.1x**
Stanbic Holdings	92.0	90.5	(1.6%)	11.7%	85.9	5.7%	(0.9%)	**1.1x**
Access Bank	10.1	10.1	(0.5%)	(3.8%)	9.5	4.0%	(2.0%)	**0.7x**
Standard Chartered	204.0	204.0	0.0%	(1.9%)	184.3	6.1%	(3.5%)	**1.6x**
Bank of Baroda	140.0	140.0	0.0%	23.9%	130.6	1.8%	(4.9%)	**1.2x**
SBM Holdings	7.3	7.3	0.0%	(2.1%)	6.6	4.1%	(6.5%)	**1.0x**
Stanbic IBTC Holdings	48.8	48.7	(0.3%)	17.2%	37.0	1.2%	(23.0%)	**2.5x**
FBN Holdings	9.1	10.0	10.5%	13.6%	6.6	2.8%	(24.0%)	**0.5x**
Standard Chartered	26.0	26.0	0.0%	3.0%	19.5	0.0%	(25.2%)	**3.3x**
National Bank	5.6	5.8	4.5%	(38.0%)	2.8	0.0%	(49.5%)	**0.4x**
Ecobank Transnational	20.7	20.6	(0.5%)	20.9%	9.3	0.0%	(55.1%)	**0.7x**

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.