

Cytonn SSA Financial Services Research Weekly Note 24th 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 NASI and GGSECI declining by 8.0% and 2.4%, respectively, while NGSEASI gained by 1.1%. This takes the YTD performance of NASI, NGSEASI and GGSECI to declines of 13.1%, 15.5% and 1.5%, respectively.

Below is a summary of top gainers and losers in our universe of coverage for last week:

Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
Union Bank Plc	Nigeria	16.0%	Co-operative Bank	Kenya	(14.0%)
UBA Bank	Nigeria	8.1%	Equity Group	Kenya	(10.9%)
National Bank	Kenya	4.8%	I&M Holdings	Kenya	(10.9%)
Access Bank	Nigeria	4.5%	Bank of Baroda	Uganda	(10.0%)
Zenith Bank	Nigeria	3.7%	KCB Group	Kenya	(7.9%)

Kenya

NASI declined by 8.0% last week, driven by declines in large cap counters such as Co-operative Bank, Equity Group, Safaricom, Bamburi Cement and KCB Group that declined by 9.4% and 8.6% respectively. In our universe of coverage, Co-operative Bank, Equity Group, I&M Holdings and KCB Group declined by 14.0%, 10.9%, 10.9% and 7.9%, respectively. Equities turnover increased by 4.5% to USD 27.2 mn from USD 26.0 mn the previous week, with the YTD turnover standing at USD 1.4 bn. Foreign investors remained net sellers, with net weekly outflows increasing by 99.2% to USD 8.1 mn from USD 4.1 mn previously.

Nigeria

The Nigerian All Share index gained 1.1% during the week, largely driven by gains in Union Diagnostic, First Aluminium Nigeria and Forte Oil Plc, which gained 26.7%, 23.3% and 22.9%, respectively; which were offset by declines in the insurance sector, with Standard Alliance Insurance and Axamansard Insurance declining by 20.0% and 19.1%. respectively. For our financial services universe of coverage, the biggest gainers were Union Bank, UBA Bank, Access Bank and Zenith Bank, which gained by 16.0%, 8.1%, 4.5% and 3.7%, respectively. Total turnover for the week increased by 6.4% to USD 53.8 mn from USD 50.6 mn during the week, bringing the YTD turnover to USD 2.0 bn.

Ghana

The GSE Composite Index gained by 4.5% during the week, driven by gains mainly in SIC Insurance, Ecobank Transnational and Fan Milk Limited, which declined 10.0%, 4.8% and 3.0%, respectively. In our universe of coverage for Ghana, Ghana Commercial Bank declined by 0.6%.

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**

Finance Bill 2018 signed into law: The Finance Bill 2018 was signed into law by President Uhuru Kenyatta on Friday 21st September, 2018, after Members of Parliament passed the proposed amendments to the Bill. The President had earlier failed to assent to the Bill, referring it back to the National Assembly for reconsideration due to the reservations he had, mainly on the postponement of VAT on fuel by another 2 years to September 2020 as earlier voted by the National Assembly. Key to note, however, is that the President did not voice concerns on the proposal to scrap off the base deposit rate of 70.0% of the Central Bank Rate (CBR) while retaining the cap on loan pricing at 4.0% above the CBR, therefore it was not part of Parliament's reconsiderations. This means that the assented Finance Bill 2018 does away with the floor on customer deposits, thereby giving lenders free will to price deposits at lower rates compared to the initial requirement of 70.0% of the prevailing CBR. We are of the view that the new legislation will mean increased net interest margins (NIM) for banks due to reduced interest expense on deposits going forward.

Nigeria

Central Bank of Nigeria revokes Skye Bank's operating license: The Central Bank of Nigeria (CBN) revoked the operating license of Skye Bank following the suspension of its shares from the Nigeria Stock Exchange. The CBN transferred the defunct bank's assets and liabilities to a newly licensed bridge bank called Polaris Bank. The bank's license was revoked as a result of failure of shareholders to recapitalize the bank since 2016, hence forcing the bank to borrow to meet its obligations and to rely on the CBN for liquidity support. According to the CBN's governor, Mr. Godwin Emefiele, the focus of the action was to salvage depositors' funds in order to ensure that the bank continued as a going concern, being a systemically important bank. In addition, the CBN intended to stem the imminent job losses to staff should the bank take the liquidation option. Meanwhile, the Nigeria Deposit Insurance Corporation (NDIC) sold Polaris Bank to the Asset Management Corporation of Nigeria (AMCON), which will with the mandate to stabilize the bank as well as return it to profitability for the purpose of selling it to interested third party investors. In this regard AMCON is set to inject NGN 786.0 bn into Polaris Bank in order to offset the bank's negative asset value of NGN 786.0 bn, hence bringing its net asset value to zero. The bank was formed in 2006 through the merger of five banks, namely, Prudent Bank, Bond Bank, Reliance Bank, Cooperative Bank and EIB International Bank.

Ghana

OmniBank and Sahel Sahara Bank set for a merger: OmniBank Ghana Limited and BSIC Ghana Limited, which trades as Sahel Sahara Bank, have informed the Bank of Ghana (BoG) of their intention to merge their businesses by December 2018. The banks have signed a Memorandum of Understanding (MoU) to govern their intention to merge and commence the process to meet all requirements for final BoG approval. Subsequently, the two banks have begun integrating their operations into one entity after the BoG granted a letter of 'no

objection’ to their earlier decision to merge. The purpose of the merger is to help the combined entity meet the statutory requirement of GHS 400.0 mn before the stated deadline of December 2018. When concluded the merged bank will also have 46 branches across the country and a customer base of more than 150,000. Omnibank is primarily an SME bank with a stated capital of GHS 141.6 mn and an asset base of GHS 603.0 mn, while Sahel is a retail bank with stated capital of GHS 71.6 bn and assets of GHS 622.9 mn.

ECB to proceed with IPO to raise GHS 400.0 mn statutory capital: Energy Commercial Bank (ECB) has received regulatory approval from the Securities and Exchange Commission (SEC) to proceed with an Initial Public Offering (IPO) that will see it meet the GHS 400.0 mn minimum capital requirement for banks. The bank seeks to raise GHS 340 mn from the public which represents about 50.0% of the company’s 100 mn outstanding shares, translating to an initial price of approximately GHS 3.4 per share. The bank has been in operation for 7 years, over which it has maintained healthy capital adequacy (CAR 20.6%) and liquidity ratios, thereby ensuring safety of depositors’ funds and maximizing returns to shareholders. IC Securities is the Transaction Adviser and is expected to market the shares to many investors within the country. Energy Commercial Bank presently operates 12 branches in Ghana, and if successful, the bank will be the eleventh commercial bank to list on the Ghana Stock Exchange. ECB has assets of GHS 363.2 bn, with at stated capital position of GHS 60.0 bn.

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 14/09/2018	Price as at 21/09/2018	w/w change	YTD Change	LTM Change	Target Price	Dividend Yield	Upside/Downside
NIC Bank	28.5	26.5	(7.0%)	(21.5%)	(27.1%)	48.8	3.8%	87.9%
Zenith Bank	20.1	20.8	3.7%	(18.9%)	(5.5%)	33.3	13.0%	73.2%
KCB Group	41.3	38.0	(7.9%)	(11.1%)	(11.6%)	61.3	7.9%	69.2%
Diamond Trust Bank	181.0	172.0	(5.0%)	(10.4%)	(5.5%)	283.7	1.5%	66.5%
I&M Holdings	101.0	90.0	(10.9%)	(10.0%)	(29.7%)	138.6	3.9%	57.9%
Ghana Commercial Bank	5.3	5.3	(0.6%)	5.1%	23.5%	7.7	7.2%	52.5%
Equity Group	43.5	38.8	(10.9%)	(2.5%)	(3.1%)	56.2	5.2%	50.2%
Co-operative Bank	16.1	13.9	(14.0%)	(13.4%)	(17.6%)	19.9	5.8%	49.5%
UBA Bank	7.4	8.0	8.1%	(22.3%)	(6.4%)	10.7	10.6%	44.4%
Union Bank Plc	5.0	5.8	16.0%	(25.6%)	0.2%	8.2	0.0%	40.5%
Barclays	10.2	10.2	0.0%	5.7%	(2.9%)	12.5	9.9%	33.0%
Ecobank	8.1	8.1	0.4%	7.0%	27.8%	10.7	0.0%	32.0%
CRDB	160.0	160.0	0.0%	0.0%	(8.6%)	207.7	0.0%	29.8%
Access Bank	7.8	8.2	4.5%	(22.0%)	(16.0%)	9.5	4.9%	21.5%
CAL Bank	1.2	1.2	0.0%	9.3%	34.9%	1.4	0.0%	18.6%
Guaranty Trust Bank	34.8	34.7	(0.1%)	(14.8%)	(10.9%)	37.1	6.9%	13.8%
Stanbic Bank Uganda	33.0	33.0	0.0%	21.1%	21.1%	36.3	3.5%	13.5%
Bank of Kigali	290.0	290.0	0.0%	(3.3%)	3.6%	299.9	4.8%	8.2%
Standard Chartered	199.0	195.0	(2.0%)	(6.3%)	(18.8%)	196.3	6.4%	7.1%
Bank of Baroda	140.0	126.0	(10.0%)	11.5%	14.5%	130.6	2.0%	5.6%
Stanbic Holdings	95.5	90.0	(5.8%)	11.1%	14.6%	92.6	2.5%	5.4%

SBM Holdings	6.6	6.6	(0.6%)	(12.5%)	(16.1%)	6.6	4.6%	4.6%
HF Group	6.5	6.7	3.1%	(35.6%)	(32.7%)	6.6	5.2%	3.7%
National Bank	5.2	5.5	4.8%	(41.7%)	(45.5%)	4.9	0.0%	(10.1%)
Stanbic IBTC Holdings	42.3	42.0	(0.6%)	1.2%	6.3%	37.0	1.4%	(10.5%)
FBN Holdings	9.0	8.6	(4.4%)	(2.3%)	60.1%	6.6	2.9%	(20.0%)
Standard Chartered	26.0	26.0	0.0%	3.1%	52.1%	19.5	0.0%	(25.2%)
Ecobank Transnational	18.0	18.0	0.0%	5.9%	0.0%	9.3	0.0%	(48.4%)

**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.