

Cyttonn SSA Financial Services Research Weekly (25th - 29th June)

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 last week of June (Week 26).

Section I: Market Performance:

During the last week of June, the equities markets had mixed performance, with NGSEASI and NASI rising 1.1% and 0.9%, while GGSECI lost 0.4%. This takes the YTD performance of NASI, NGSEASI and GGSECI to 1.9%, (0.3%) and 11.6%, respectively.

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

Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
Stanbic IBTC Holdings	Nigeria	6.7%	National Bank	Kenya	(5.3%)
Union Bank Plc	Nigeria	3.4%	Equity Group	Kenya	(4.6%)
Diamond Trust Bank	Kenya	1.5%	Zenith Bank	Nigeria	(3.5%)
SBM Holdings	Mauritius	1.4%	Bank of Baroda	Uganda	(3.2%)
GCB Bank	Ghana	0.6%	KCB Group	Kenya	(3.1%)

Kenya

NASI rose 0.9% during the week, attributable to gains registered in large cap stocks such as Bamburi, EABL and Safaricom, that rose 4.5%, 2.8% and 1.7%, respectively. However, the financial services sector was on a decline owing to uncertainty on whether the interest rate cap will be repealed or just reviewed. In the banking sector, Diamond Trust Bank was the only gainer during the week, rising 1.5%, while the biggest decliners were National Bank, Equity Group and KCB Group, which lost 5.3%, 4.6%, and 3.1%, respectively.

Nigeria

The Nigerian All Share Index outperformed Kenya and Ghana during the week, rising 1.1%, largely driven by gains in the financial services and manufacturing sectors. The Financial Services Industry took up the bulk of the trades, accounting for 74% of the Naira 21.6 bn (USD 60 mn) turnover during the week. In our Financial Services universe of coverage, Stanbic IBTC Holdings and Union Bank Plc led gains, rising 6.7% and 3.4%, respectively, while Zenith Bank was the biggest loser, declining 3.5%.

Ghana

The GSE Composite Index was the worst performer during the week, declining by 0.4%, driven by declines in Tullow Oil and PZ Cussons Ghana in the Oil& Gas and Consumer sector that declined by 5.0% and 3.2%, respectively. The Financial Services sector performance was flat, with gains by GCB Bank of 0.6% matched with a decline of 0.6% in Ecobank, while CAL Bank and Standard Chartered Bank remained unchanged during the week.

Section II:

There was no earnings released during the week.

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

- 1. Banks in Kenya expect bad loans to fall in the second quarter:** The proportion of Non-Performing loans to gross loans (NPL ratio) in Kenya's banking sector rose to 12.4% in April from 10.7% in December, largely due to a rise in bad loans in the Real Estate, Manufacturing and Trade sectors. However, according to the Central Bank of Kenya's credit officers survey for the quarter ending March, nearly half of the commercial banks expect the level of non-performing loans to decline by the end of the current quarter due to intensified credit collection in key sectors and improving business conditions, and,
- 2. Kenya Q1'2018 GDP growth came in at 5.7%:** Kenya released economic growth statistics for the first quarter of 2018, registering a growth of 5.7%, higher than the consensus projected 2018 GDP growth rate of 5.4%, and Q1'2017's growth rate of 5.0%. The faster pace of economic growth was attributed to improved weather conditions, and a boost in business and consumer confidence. Sectors that contributed to the high economic growth were Real Estate and Education sectors that grew by 6.8% and 6.7%, respectively, and,
- 3. Kenya Banker's Association (KBA) issues enhanced regulations on transactions:** Bank customers planning to transact Kshs 10 mn and above in cash will now be required to give a three-day notice and get clearance from branch managers, following a new directive from the KBA aimed at sealing loopholes for money laundering and financing of terror.

Nigeria

- 1. Inactive bank accounts in Nigeria continue to rise owing to reforms in the banking sector:** The Nigeria Interbank Settlement System (NIBSS) revealed that the number of inactive bank accounts rose by 4.3% to 38.3 mn in Q1'2018 from 36.7 mn in Q4'2017, owing to anti-fraud reforms carried out by banks. The number of inactive accounts are expected to continue rising as banks continuously review their policies and platforms to discourage and expose fraudsters, and,
- 2. Nigeria Q1'2018 GDP recorded a growth of 2.0%:** Growth in Sub-Saharan Africa's largest economy did not meet expectations, coming in at 2.0% vs expectations of a 2.6% growth. The softer growth came from lower than expected oil output due to infrastructure challenges affecting production.

Ghana

- 1. Zenith Bank Ghana and Prudential Life Insurance partner to launch Bancassurance products:** The partnership will grow Zenith bank's Non-Funded Income, and increase the insurance penetration in Ghana. They have subsequently launched four innovative Bancassurance solutions to protect Ghanaians, namely the Zenith Life, Education, Farewell and Hospital Cash Plans, and,
- 2. Ghana Q1'2018 GDP recorded a growth of 6.8%:** Ghana released economic growth statistics for the first quarter of 2018, registering a growth of 6.8%, higher than Q1'2017's growth rate of 6.7%. Economic growth was driven by the Services sector and Agriculture sector that rose by 60.6% and 11.9%, 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:

Bank	Price as at 22/06/2018 ****	Price as at 29/06/2018 ****	w/w change	YTD Change	LTM Change	Target Price *	Dividend Yield	Upside/Downside **	P/TBv Multiple
GCB Bank***	5.2	5.2	0.6%	2.6%	(0.4%)	7.7	7.4%	57.3%	1.2x
NIC Bank***	36.5	35.5	(2.7%)	5.2%	21.1%	54.1	2.7%	51.0%	0.9x
I&M Holdings	116.0	115.0	(0.9%)	(9.4%)	11.7%	169.5	3.0%	49.1%	1.2x
Diamond Trust Bank	196.0	199.0	1.5%	3.6%	24.4%	280.1	1.3%	44.2%	1.1x
Zenith Bank	25.9	25.0	(3.5%)	(2.5%)	19.6%	33.3	10.4%	39.1%	1.1x
Union Bank Plc	5.9	6.1	3.4%	(21.8%)	17.1%	8.2	0.0%	38.1%	0.6x
KCB Group***	47.8	46.3	(3.1%)	8.2%	23.3%	60.9	6.3%	33.8%	1.5x
CRDB	160.0	160.0	0.0%	0.0%	(8.6%)	207.7	0.0%	29.8%	0.5x
Ecobank	8.5	8.5	(0.6%)	11.2%	32.8%	10.7	0.0%	26.2%	2.4x
Barclays	11.9	11.8	(1.3%)	22.4%	18.7%	14.0	8.4%	26.1%	1.5x
HF Group***	8.5	8.4	(0.6%)	(19.2%)	(12.9%)	10.2	3.8%	24.5%	0.3x
Equity Group	48.5	46.3	(4.6%)	16.4%	21.7%	55.5	4.1%	18.6%	2.5x
Co-operative Bank	17.5	17.5	0.0%	9.4%	26.1%	19.7	4.6%	17.1%	1.5x
Stanbic Bank Uganda	32.0	32.0	0.0%	17.4%	18.5%	36.3	3.7%	17.0%	2.0x
UBA Bank	10.6	10.5	(0.9%)	1.9%	10.9%	10.7	14.2%	15.1%	0.7x
CAL Bank	1.2	1.2	0.0%	13.0%	64.0%	1.4	0.0%	14.8%	1.0x
Bank of Kigali	290.0	286.0	(1.4%)	(4.7%)	16.7%	299.9	4.8%	8.2%	1.6x
Stanbic Holdings	92.0	92.0	0.0%	13.6%	28.7%	85.9	5.7%	(0.9%)	1.1x
Standard Chartered	201.0	198.0	(1.5%)	(4.8%)	(4.3%)	184.3	6.2%	(2.1%)	1.6x
Guaranty Trust Bank	40.7	40.5	(0.5%)	(0.6%)	13.4%	37.2	5.9%	(2.7%)	2.3x
SBM Holdings	7.2	7.3	1.4%	(2.9%)	0.3%	6.6	4.2%	(4.5%)	1.0x
Access Bank	10.4	10.4	(0.5%)	(1.0%)	8.4%	9.5	3.8%	(4.8%)	0.7x
Bank of Baroda	155.0	150.0	(3.2%)	32.7%	38.9%	130.6	1.6%	(14.1%)	1.3x
Stanbic IBTC Holdings	48.8	52.0	6.7%	25.3%	60.3%	37.0	1.2%	(22.9%)	2.5x
Standard Chartered	27.0	27.0	0.0%	6.9%	59.5%	19.5	0.0%	(27.9%)	3.4x
FBN Holdings	10.7	10.6	(0.5%)	20.5%	71.0%	6.6	2.3%	(35.4%)	0.6x
Ecobank Transnational	20.2	20.0	(1.0%)	17.6%	50.3%	9.3	0.0%	(54.1%)	0.7x
National Bank	6.6	6.3	(5.3%)	(33.2%)	(32.1%)	2.8	0.0%	(57.6%)	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

****Share prices in respective country local 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.