Cytonn SSA Financial Services Research Weekly (9th - 13th 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 second week of July (Week 28).

Section I: Market Performance:

During the second week of July, the equities markets registered mixed performance, with GGSECI rising 1.0%, while NGEASI and NASI lost 0.6% and 1.0%, respectively. This takes the YTD performance of NASI, NGSEASI and GGSECI to 0.0%, (2.7%) and 11.2%, respectively.

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

Top Gainers			Top Losers		
Company	**Country**	**Change**	**Company**	**Country**	**Change**
Ecobank	Ghana	5.3%	NIC Group	Kenya	(4.8%)
KCB Group	Kenya	2.7%	National Bank	Kenya	(4.7%)
Equity Group	Kenya	2.1%	I&M Holdings	Kenya	(4.3%)
HF Group	Kenya	1.2%	Guaranty Trust Bank	Nigeria	(4.2%)
Barclays Bank	Kenya	0.9%	UBA Bank	Nigeria	(3.4%)

Kenya

NASI was the worst performer during the week, declining by 1.0%, attributable to declines registered in large caps East African Breweries and Safaricom that lost 4.1% and 1.7%, respectively. NASI is now flat YTD. Equity turnover declined by 18.7% w/w to USD 19.5 mn, with foreign investors remaining net sellers. The banking sector performance was mixed, with large caps KCB Group, Equity Group and Barclays Bank recording gains of 2.7%, 2.1%, and 0.9%, respectively, while NIC Group and I&M Holdings lost 4.8% and 4.3%, respectively.

Nigeria

The Nigerian All Share index lost 0.6%, 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 69% of the Naira 17.3 bn (USD 62.5 mn) turnover during the week. Our financial services universe of coverage registered poor performance, with Guaranty Trust Bank, UBA Bank, Access Bank and Zenith Bank all registering declines of 4.2%, 3.4%, 1.9% and 1.2%, respectively.

Ghana

The GSE Composite Index was the only index to register gains during the week, rising by 1.0%, driven by gains in the financial services sector. The banking sector performance was positive owing to gains in Ecobank that rose 5.3% outpacing the decline in Standard Chartered Bank of 2.3%. GCB Bank and CAL Bank remained unchanged.

Section II:

There was no earnings released during the week.

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

Kenya

1. **Barclays Kenya rebrands to Absa Group:** Barclays Africa Group Limited changed its name to Absa Group as the London-based Barclays Plc exited the African market to concentrate on European and United States markets. Barclays Plc had acquired a majority stake of 56.4% in Absa Group in 2005, gradually increased its stake to 62.0%, but reduced to 14.9% after selling to the large institutional investor Public Investment Corporation of South Africa (PIC). The Kenyan banking unit has however stated its intention to continue operations as Barclays Bank of Kenya until 2020, when it will complete the rebranding process. The move to separate with the London based parent company presents an opportunity for the lender to explore new business ideas and products that were initially hampered by the restrictions imposed by the parent group.
2. **Non-Performing Loans to increase due to economic shocks:** Global rating agency Moody's estimates that Non-Performing Loans (NPLs) in the banking sector are likely to increase on account of delayed impact of the various shocks experienced in the economy last year. This was mainly due to the prolonged electioneering period coupled with a prolonged drought that affected agriculture, the country's main GDP contributor. The agency estimates that the industry NPL increased to 11.0% in Q1'2018, as the effects of the economic slump experienced in 2017 spilled over to the current year. The sector's NPL has been steadily increasing since 2015, from the then average of 6.0% to the current estimated 11.0%. However, even with the current improving business environment, the agency does not expect much credit expansion, as loan growth will expand over the next 12-18 months but will remain inhibited by the interest rate cap. Thus, credit growth is expected to remain below 5.0% as banks adopt tighter lending criteria in a bid to tame the high number of NPLs, and owing to the current low risk-adjusted returns from loans as lending.

Nigeria

1. **FBN Holdings to redeem USD 300 mn 8.3% debt note:** First Bank of Nigeria Limited plans to exercise its option to call USD 300 mn, 8.3% subordinated notes raised from the international debt markets before the due date of August 2020. In the notice to the Nigerian Stock Exchange (NSE) dated 6th July, 2018, First Bank seeks to call and pay holders of the note upfront at the next callable date of 7th August, 2018. According to the company secretary, Seye Kososko, the bank made the decision as a liquidity management exercise, just as it demonstrates the strength of First Bank's foreign currency liquidity and robust capital base, while further enhancing the efficiency of the balance sheet. The notes are held by FBN Finance Company B.V., which will exercise its option to call the USD 300 mn notes. In August 2003, the bank issued a USD 300.0 mn Eurobond following an investor roadshow in the UK and USA as it sought to tap the global capital markets for a seven-year callable subordinated instrument with a yield guidance of 8.5%.
2. **Nigeria's inflation rate to rise in second half of 2018:** The International Monetary Fund (IMF) has predicted that Nigeria's inflation rates will rise in H2'2018 as consumer spending increases and agricultural output drops. According to senior resident representative and mission chief for Nigeria, Amine Mati, a rise in inflation coupled with reduced oil and non-oil output would put significant pressure on Nigeria's macro-economic environment despite crude oil prices inching higher, making it vulnerable to shocks. The Bretton Woods institution noted that GDP growth would pick up to about

2.0% in 2018, weighed down by lower than expected oil production and relatively weak growth in the agricultural sector. Higher oil prices and short-term portfolio inflows have provided relief from external and fiscal pressures. However, activity in the non-oil and non-agricultural sectors remains weak as lower purchasing power weighs on consumer demand and credit risk continues to limit bank lending.

Ghana

1. **GCB Bank declares dividend:** GCB Bank Limited sought the approval of shareholders to declare a dividend of 10 pesewas (GHS 0.1) per share for FY'2017, in its Annual General Meeting held on 6th July, 2018. The bank is declaring the dividend despite a 26.3% dip in its profit after tax (PAT) to GHS 234.6 mn in 2017 from GHS 318.1 mn in 2016. The dividend of 10 pesewas per share will add up to a total payout of GHS 26.5 mn, which is a drop from the FY'2016 pay-out of GHS 100.7 mn, or 38 pesewas (GHS 0.38) per share. The dividends are payable on the July 30th, 2018. So far, GCB bank is the only listed bank on the Ghana Stock Exchange to pay dividends to shareholders for FY'2017. The Chairman of the bank, Mr. Jude Kofi Arthur, disclosed the bank's plans of expanding beyond the shores of Ghana, targeting specific niche markets and leveraging on technology to grow the bottom line of the bank. GCB bank also seeks to diversify into investment banking by creating strategic alliances with partners.
2. **Central Bank urged to adopt interest rate cap policy:** The Centre for Economic and Business Research (CEBRE) is calling upon the Bank of Ghana (BoG) to put pressure on commercial banks to reduce lending rates, in a bid to bring down the cost of borrowing and encourage economic expansion. Executive Director, Gordon Newlove Asamoah, said capping the lending rates will reduce non-performing loans (NPLs) at commercial banks. In the past, the Bank of Ghana has managed to reduce the policy rate to 17.0% in May 2018 from 26.0% in November 2016. However, the banks are yet to react with the corresponding drop in lending rates. Businesses are still accessing loans at very high-interest rates of 25.0% to 30.0% p.a., making the cost of doing business in Ghana very costly, hence non-competitive.

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 6/07/2018	Price as at 13/07/2018	w/w change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple
Ghana Commercial Bank***	5.0	5.0	0.0%	(1.0%)	(3.8%)	7.7	7.6%	62.0%	1.2x
NIC Group***	36.5	34.8	(4.8%)	3.0%	12.4%	54.1	2.7%	51.0%	0.9x
I&M Holdings***	115.0	110.0	(4.3%)	5.8%	2.8%	169.5	3.0%	50.4%	1.2x
Zenith Bank***	24.3	24.0	(1.2%)	(6.4%)	8.6%	33.3	11.1%	48.2%	1.1x
Diamond Trust Bank***	195.0	195.0	0.0%	1.6%	15.4%	280.1	1.3%	45.0%	1.1x
Ecobank	7.6	8.0	5.3%	5.3%	25.7%	10.7	0.0%	41.2%	2.2x
KCB Group***	46.5	47.8	2.7%	11.7%	23.2%	60.9	6.5%	37.4%	1.5x
Union Bank Plc	6.0	6.0	0.0%	(23.7%)	31.1%	8.2	0.0%	37.0%	0.6x
Barclays	11.4	11.5	0.9%	19.3%	19.9%	14.0	8.8%	32.2%	1.4x
CRDB	160.0	160.0	0.0%	0.0%	(22.0%)	207.7	0.0%	29.8%	0.5x
HF Group***	8.4	8.5	1.2%	(18.3%)	(11.0%)	10.2	3.8%	25.2%	0.3x
Equity Group	47.8	48.8	2.1%	22.6%	30.0%	55.5	4.2%	20.4%	2.4x
Co-operative Bank	17.1	17.0	(0.6%)	6.3%	21.4%	19.7	4.7%	19.9%	1.5x
UBA Bank	10.4	10.0	(3.4%)	(2.9%)	11.1%	10.7	14.5%	17.9%	0.7x
Stanbic Bank Uganda	32.0	32.0	0.0%	17.4%	17.4%	36.3	3.7%	17.0%	2.0x
Bank of Kigali	288.0	290.0	0.7%	(3.3%)	17.4%	299.9	4.8%	9.0%	1.6x
CAL Bank	1.3	1.3	0.0%	20.4%	74.8%	1.4	0.0%	7.7%	1.1x

Stanbic Holdings	91.0	90.0	(1.1%)	11.1%	17.6%	85.9	5.8%	0.2%	1.1x
Standard Chartered	204.0	203.0	(0.5%)	(2.4%)	(5.6%)	184.3	6.1%	(3.5%)	1.6x
Guaranty Trust Bank	41.5	39.8	(4.2%)	(2.5%)	7.7%	37.2	5.8%	(4.5%)	2.3x
SBM Holdings	7.2	7.1	(0.8%)	(4.8%)	(5.8%)	6.6	4.2%	(4.7%)	1.0x
Access Bank	10.4	10.2	(1.9%)	(2.4%)	4.1%	9.5	3.8%	(4.8%)	0.7x
Bank of Baroda	149.0	145.0	(2.7%)	28.3%	34.3%	130.6	1.7%	(10.7%)	1.3x
Standard Chartered	26.6	26.0	(2.3%)	3.0%	58.9%	19.5	0.0%	(26.8%)	3.3x
Stanbic IBTC Holdings	52.0	51.5	(1.0%)	24.1%	64.5%	37.0	1.1%	(27.7%)	2.7x
FBN Holdings	10.5	10.4	(1.0%)	18.2%	68.3%	6.6	2.4%	(34.5%)	0.6x
Ecobank Transnational	20.5	20.4	(0.7%)	19.7%	44.3%	9.3	0.0%	(54.7%)	0.7x
National Bank	6.5	6.2	(4.7%)	(34.2%)	(39.1%)	2.8	0.0%	(56.6%)	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*
***** 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.