



Cytonn Financial Services Daily Note 9th November, 2017

In today's trading session, the Financial Services sector stocks were on a downward trend with the sector's capitalization decreasing slightly by 0.2% to Kshs 773.5 bn from Kshs 775.2 bn recorded yesterday. This performance was attributed to losses by Equity Group and Barclays, with both counters losing 0.1%, despite a 0.1% gain by both KCB Group and Britam.

Co-operative Bank released Q3'2017 earnings, registering a decline in core Earnings per Share (EPS) by 24.6% to Kshs 1.6 from Kshs 2.2 in Q3'2016. This decline was attributed to a 4.3% decline in operating revenue, coupled with a 0.7% increase in operating expenses. Moreover, the bonus share issue of one ordinary share for every five ordinary shares held also resulted in the earnings per each share being diluted. The 4.3% decline in operating revenue was attributed to a 7.3% drop in Net Interest Income due to the effects of capping of interest rates, despite a 2.7% growth in Non-Funded Income. Co-operative Bank results were in line with our expectations, albeit registering a smaller increase in Non-Funded Income (NFI) than expected. The bank was able to keep its operating expenses in check with a minimal increase in operating expenses, attributed to reaping results from its Soaring Eagle Transformation Strategy. The bank remains optimistic that this strategy will further lead to reduction in operating costs to achieve a targeted 45.0% cost-to-income ratio in FY'2018 from the current 47.6%. We are of the view that in addition to cost efficiency brought about by the Soaring Eagle Transformation Strategy, Co-operative bank has untapped opportunity in the alternative revenue streams to drive NFI growth, just like its peers such as Equity Group and KCB Group.

Below is a summary of top gainers and losers for the day.

Top Gainers		Top Losers	
National Bank	5.0%	Jubilee Insurance	(3.3%)
Britam	1.8%	Stanbic Holdings	(1.8%)
Liberty Holdings	1.7%	Barclays Bank	(1.0%)