Kenya Listed Banking Sector Earnings Performance– FY’2018

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Cytonn FY’2018 Listed Banking Sector Earnings Performance Note

All listed banks in Kenya released their FY’2018 results, recording an average core earnings per share growth of 13.8%, compared to a decline of 1.0% the previous year. The sector recorded weaker deposit growth, which came in at 10.3%, slower than the 12.5% growth recorded in FY’2017. Average loan growth came in at 4.3%, which was lower than the 6.1% recorded in FY’2017, indicating that there was an even slower credit extension to the economy, due to sustained effects of the interest rate cap. In this note we highlight each of the bank’s performance, and provide a summary of the performance of listed banking sector.

Overall Sector Performance

The table below highlights the performance of the banking sector, showing the performance using several metrics, and the key take-outs of the performance:

Summary of Performance of Listed Banks – FY’2018															
Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-funded income Growth	NFI to Total Operating Income	Growth in Total Fee and Commissions	Deposit Growth	Growth in Govt Securities	Cost to Income	Loan to Deposit ratio	Loan Growth	Cost of Funds	Return on Average equity
Stanbic	45.7%	13.8%	19.2%	14.0%	5.0%	18.3%	45.1%	15.5%	13.5%	3.7%	59.5%	79.7%	22.1%	3.5%	14.3%
NBK	33.5%	(10.5%)	(10.9%)	(22.6%)	6.5%	(30.3%)	24.8%	(72.5%)	4.9%	89.0%	94.3%	48.3%	(8.8%)	2.8%	0.1%
KCB	21.8%	4.1%	14.1%	0.9%	8.2%	(0.1%)	32.0%	(25.3%)	7.6%	9.1%	52.8%	84.8%	7.9%	3.2%	21.9%
SCBK	17.1%	2.3%	(3.0%)	4.5%	7.5%	4.9%	32.2%	19.7%	5.1%	(10.7%)	58.6%	52.9%	(6.1%)	3.3%	17.5%
I&M	17.1%	6.4%	17.3%	0.3%	7.0%	32.8%	32.8%	59.1%	25.9%	(20.0%)	53.0%	78.2%	9.0%	4.9%	17.4%
Co-op	11.6%	6.6%	(0.2%)	9.5%	9.5%	(4.4%)	29.5%	(3.0%)	6.5%	10.4%	58.8%	80.2%	(3.3%)	3.8%	18.3%
BBK	7.1%	7.0%	31.6%	0.9%	8.6%	14.7%	30.6%	6.7%	11.5%	58.9%	66.4%	85.5%	5.3%	3.5%	16.8%
Equity	4.8%	10.0%	8.9%	10.3%	8.5%	(6.3%)	38.4%	(16.6%)	13.3%	1.9%	57.7%	70.3%	6.5%	2.7%	22.5%
DTBK	2.3%	1.8%	2.0%	1.8%	6.2%	3.0%	21.3%	5.7%	6.2%	2.6%	56.9%	68.3%	(1.5%)	4.9%	13.1%
NIC	2.0%	4.8%	14.1%	(1.8%)	5.7%	11.4%	30.5%	9.2%	4.0%	12.9%	61.7%	81.7%	(1.4%)	5.2%	12.1%
HF	N/A	(15.2%)	(9.1%)	(23.9%)	4.2%	(2.0%)	36.8%	23.3%	(5.3%)	75.0%	(118.2%)	125.1%	(12.5%)	7.4%	(5.5%)
2018 Mkt cap Weighted Average	**13.8%**	**6.4%**	**10.6%**	**5.2%**	**7.9%**	**3.8%**	**33.3%**	**(1.0%)**	**10.3%**	**8.0%**	**57.5%**	**75.8%**	**4.3%**	**3.5%**	**18.9%**
2017 Mkt cap Weighted Average	**(1.0%)**	**(2.4%)**	**2.6%**	**(3.8%)**	**8.4%**	**9.1%**	**33.6%**	**13.4%**	**12.5%**	**22.2%**	**61.1%**	**80.0%**	**6.1%**	**3.6%**	**17.6%**

Key takeaways from the table above include:

i. All listed Kenyan banks have released results for FY'2018, and have recorded a 13.8% average increase in core Earnings Per Share (EPS), compared to a decline of 1.0% in FY'2017, and consequently, the Return on Average Equity (RoAE) increased to 18.9%, from 17.6% in FY'2017. All listed banks apart from HF Group have recorded growths in their core EPS, with Stanbic Holdings recording the highest growth of 45.7%, and the lowest being HF Group, which recording a loss per share of Kshs 1.7,

ii. The sector recorded weaker deposit growth, which came in at 10.3%, slower than the 12.5% growth recorded in FY'2017. Despite the slower deposit growth, interest expenses increased by 10.6%, indicating banks have been mobilizing expensive deposits. However, with the removal of the limit of interest payable on deposits, the associated interest expenses on deposits is expected to improve in 2019, and possibly improve the cost of funds,

iii. Average loan growth came in at 4.3%, which was lower than the 6.1% recorded in FY'2017, indicating that there was an even slower credit extension to the economy, due to sustained effects of the interest rate cap. Government securities on the other hand recorded a growth of 8.0% y/y, which was faster compared to the loans, albeit slower than 22.2% recorded in FY'2017. This indicates that banks' continued preference towards investing in government securities, which offer better risk-adjusted returns. Interest income increased by 6.4%, compared to a decline of 2.4% recorded in FY'2017, as banks adapted to the interest rate cap regime, with increased allocations in government securities. The Net Interest Income (NII) thus grew by 2.5% compared to a decline of 3.8% in FY'2017,

iv. The average Net Interest Margin in the banking sector currently stands at 7.9%, down from the 8.4% recorded in FY'2017, despite the Net Interest Income increasing by 5.2% y/y. The decline was mainly due to the faster 8.0% increase in allocation to relatively lower yielding government securities, coupled with the decline in yields on loans due to the 100 bps Central Bank Rate (CBR) decline, and,

v. Non-funded Income grew by 3.8% y/y, slower than 9.1% recorded in FY'2017. The growth in NFI was weighed down as total fee and commission declined by 1.0%, compared to the 13.4% growth recorded in FY'2017. The fee and commission income continued to be subdued by the slow loan growth, coupled with the implementation of the Effective Interest Rate (EIR) model under IFRS 9, which requires banks to amortize the fees and commissions on loans, over the tenor of the loan.

Highlights of Individual Bank's Performance

Ten of the Eleven listed banks recorded growth in core earnings per share, save for HF group which slipped to core losses. The hilights from the individual banks is as follows;

- Equity Holdings registered a 4.8% increase in its core earnings per share, to Kshs 5.25 from Kshs 5.0 in FY'2017, slower than our projections of an 11.3% increase to Kshs 5.6. The performance was driven by a 3.3% increase in total operating income, which outpaced the 1.4% increase in total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the 1.4% rise in total operating expenses to Kshs 38.8 bn from Kshs 38.3 bn in FY'2017, which was contrary to our expected 3.9% decline. For more information, see our Equity Holdings FY'2018 Earnings Note
- I&M Holdings registered a 17.1% increase in its core earnings per share, to Kshs 20.6 from Kshs 17.6 in FY'2017, higher than our projections of a 15.3% increase to Kshs 20.3. The performance was driven by an 8.8% increase in total operating income, which outpaced the 2.6% increase in total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the 2.6% rise in total operating expenses to Kshs 12.3 bn from Kshs 12.0 bn in FY'2017, which was slower than our expectation of a 5.9% rise. For more information, see our I&M Holdings FY'2018 Earnings Note

- National Bank of Kenya registered a 33.5% increase in its core earnings per share, to Kshs 1.6, from Kshs 1.2 in FY'2017, exceeding our expectation of an 11.3% increase to Kshs 1.4. However, the core performance was due to the stripping out of an exceptional expense of Kshs 0.5 bn. The bank registered a 98.3% decline in profit after tax to Kshs 7.0 mn from Kshs 0.4 bn in FY'2017. The performance was as a result of a 12.4% decline in total operating income to Kshs 8.0 bn, from Kshs 9.2 bn in FY'2017, which outpaced the 9.6% decline in the total operating expenses to Kshs 7.6 bn, from Kshs 8.4 bn in FY'2017. The variance in core earnings per share growth against our expectations was largely due to the faster 9.6% decline in total operating expenses to Kshs 7.6 bn, from Kshs 8.4 bn previously, exceeding our expectation of a 0.6% decline. For more information, see our NBK FY'2018 Earnings Note
- HF Group registered a loss per share of Kshs 1.7 in FY'2018, from a core earnings per share of Kshs 0.4 recorded in FY'2017, which exceeded our expectations of a loss per share of Kshs 0.2. The performance was as a result of a 17.1% decline in total operating income, coupled with a 6.2% rise in the total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the 17.1% decline in total operating income to Kshs 3.6 bn, from Kshs 4.3 bn in FY'2017, which outpaced our expectation of a 10.4% decline. For more information, see our HF Group FY'2018 Earnings Note
- Standard Chartered Bank Kenya registered a 17.1% increase in its core earnings per share, to Kshs 23.6, from Kshs 20.1 per share in FY'2017, in line with our expectation of a 16.0% increase to Kshs 23.3. The performance was driven by a 4.6% increase in total operating income, coupled with a 3.0% decline in total operating expenses. The variance in core earnings per share growth against our expectations was due to the 3.0% decline in total operating expenses to Kshs 16.8 bn, from Kshs 17.3 bn in FY'2017, which slightly exceeded our expectation of a 2.0% decline For more information, please see our Standard Chartered Bank FY'2018 Earnings Note
- Co-operative Bank of Kenya registered an 11.6% increase in its core earnings per share to Kshs 2.2 from Kshs 1.9 in FY'2017, in line with our projections. The performance was driven by a 5.0% increase in total operating income, which outpaced the 1.4% increase in total operating expenses. For more information, please see our Co-operative Bank FY'2018 Earnings Note
- Diamond Trust Bank Kenya registered a 2.3% increase in core earnings per share, to Kshs 25.3, from Kshs 24.8 in FY'2017, slower than our expectation of a 6.3% increase to Kshs 26.3 per share. The performance was driven by a 2.0% increase in total operating income, coupled with the 2.5% decline in total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the slower than expected growth in total operating income, that expanded by 2.0%, against the expected 2.9%, coupled with the 4.2% points increase in the effective tax rate to 35.6% from 31.4% in FY'2017. For more information, please see our Diamond Trust Bank FY'2018 Earnings Note
- NIC Group registered a 2.0% increase in core earnings per share, to Kshs 6.0 from Kshs 5.9 in FY'2017, below our expectation of a 3.9% increase to Kshs 6.1 per share. The performance was driven by a 1.9% increase in total operating income, which outweighed the 0.6% increase in total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the 0.6% rise in total operating expenses to Kshs 9.4 bn, from Kshs 9.3 bn in FY'2017, which was not in line with our expectation of a 2.1% decline. For more information, please see our NIC Group FY'2018 Earnings Note
- Barclays Bank of Kenya reistered a 7.1% increase in core earnings per share to Kshs 1.4, from Kshs 1.3 in FY'2017, above our expectation of a 2.7% increase to Kshs 1.31. The performance was driven by a 4.7% increase in total operating income, despite the 5.8% increase in total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the 24.3% increase in Loan Loss Provisions (LLP) to Kshs 3.9 bn, from Kshs 3.1 bn in FY'2017, against our

expectation of a 4.1% decline in LLP to Kshs 3.0 bn. For more information, please see our Barclays Bank of Kenya FY'2018 Earnings Note

- KCB Group reistered a 21.8% increase in core earnings per share, to Kshs 7.8, from Kshs 6.4 in FY'2017, above our expectation of a 19.4% increase to Kshs 7.7. The performance was driven by a 0.6% increase in total operating income, coupled with a 10.2% decline in total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the 10.2% decline in total operating expenses to Kshs 37.9 bn, from Kshs 42.3 bn in FY'2017 largely driven by the 50.2% decline in Loan Loss Provisions (LLP) to Kshs 2.9 bn from Kshs 5.9 bn, which exceeded our expectation of a 4.2% decline. For more information, please see our KCB Group FY'2018 Earnings Note
- Stanbic Holdings registered a 45.7% increase in core earnings per share to Kshs 15.9 from Kshs 10.9 in FY'2017, exceeding our expectations of a 12.8% increase to Kshs 12.3. The increase was driven by a 15.9% growth in total operating income, coupled with a 4.0% decline in total operating expenses. For more information, please see our Stanbic Holdings FY'2018 Earnings Note

We will release our Cytonn FY'2018 Banking Sector Report on 14th April, 2019, in which we will comprehensively analyse these results as well as employ additional metrics in order to determine which banks are the most attractive and stable for investment from a franchise value and from a future growth opportunity perspective.