Kenya’s Listed Banks Q1’2023 Report, & Cytonn Weekly #24/2023

Executive Summary

Fixed Income: During the week, T-bills were undersubscribed, with the overall subscription rate coming in at 94.2%, down from an oversubscription rate of 138.0% recorded the previous week. Investor’s preference for the shorter 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 18.2 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 454.9%, albeit lower than the 725.5% recorded the previous week. The subscription rates for the 182-day increased to 26.6%, from 18.9% recorded the previous week. However, the subscription rate for the 364-day decreased to 17.5%, from 22.0% recorded the previous week. The government rejected expensive bids, accepting bids worth Kshs 10.6 bn out of the Kshs 22.6 bn total bids received, translating to an acceptance rate of 46.8%. The yields on the government papers were on an upward trajectory, with the yields on the 364-day, 182-day and 91-day papers increasing by 12.6 bps, 10.1 bps and 22.6 bps to 11.7%, 11.6% and 11.6%, respectively;

In the primary bond market, the government sought to raise Kshs 60.0 bn to fund infrastructural projects by offering an infrastructure bond IFB1/2023/007 with tenor to maturity of 7.0 years. In line with our expectations, the bond was oversubscribed, receiving bids worth Kshs 220.5 bn, against the offered Kshs 60.0 bn, translating to an oversubscription rate of 367.5%, partly attributable to the attributable to the investor preference to the Infrastructure bonds as they are tax free;

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya effective 15 June 2023 to 14 July 2023. Notably, retail fuel prices for Diesel and Super Petrol per litre declined by 0.7% and 0.4% to Kshs 167.28 and Kshs 182.04, from Kshs 168.40 and 182.70 respectively. However, the retail price per litre for Kerosene increased by Kshs 0.2% to Kshs 161.48 from Kshs 161.13;

Additionally, during the week, the National Treasury gazetted the revenue and net expenditures for the eleven months of FY’2022/2023 ending 31 May 2023, highlighting that revenue collected as at the end of May 2023 amounted to Kshs 1,812.2 bn, equivalent to 82.7% of the revised estimates of Kshs 2,192.0 bn and 90.2% of the prorated estimates of Kshs 2,009.3 bn;

Equities: During the week, the equities market was on a downward trajectory with NASI, NSE 20 and NSE 25 declining by 5.2%, 1.8% and 3.8% respectively, taking the YTD performance to losses of 21.2%, 6.6% and 16.0% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large-cap stocks such as Safaricom, KCB Group, Diamond Trust Bank (DTB-K) and EABL of 10.2%, 7.4%, 4.6% and 3.9% respectively. The Losses were however mitigated by gains recorded by stocks such as Bamburi and Stanbic of 5.7% and 1.1%, respectively;

Also, during the week, Equity Group Holdings Plc (EGH) announced that it had entered into a binding agreement with Government of Rwanda, Rwanda Social Security Board and other investors of Compagnie Generale De Banque (Cogebanque) Plc Limited to acquire a 91.9% stake in the Rwanda based lender;

Real Estate: During the week, Housing Finance Company (HFC), the banking subsidiary of HF Group, announced a partnership deal with Kigutha Farmers Limited, to develop a Kshs 1.4 bn gated community housing project dubbed *‘Barista Gardens’* located in Kamiti Corner, Kiambu County. In the hospitality sector, Pan Pacific Hotels Group, a subsidiary of Singapore-listed UOL Group Limited, one of Asia’s most established hotel and property companies, opened a luxurious hotel facility dubbed *‘Pan Pacific Serviced Suites Nairobi’* located at the Global Trade Centre (GTC) in Westlands, Nairobi. In the Regulated Real Estate Funds, under the Real Estate Investment Trusts (REITs) segment, Fahari I-REIT closed the week trading at an average price of Kshs 6.2 per share in the Nairobi Securities Exchange, representing a 1.3% increase from Kshs 6.1 per share recorded the previous week. On the Unquoted Securities Platform as at 16 June 2023, Acorn D-REIT and I-REIT closed the week trading at Kshs 23.9 and Kshs 21.6 per unit, respectively, a 19.4% and 7.9% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. In addition, Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 13.7%, representing 0.1% points increase from the 13.6% yield recorded the previous week;

Focus of the Week: Following the release of the Q1'2023 results by Kenyan banks, the Cytonn Financial Services Research Team undertook an analysis of the financial performance of the listed banks and identified the key factors that shaped the performance of the sector;

Company Updates

Investment Updates:

- Weekly Rates:
    - Cytonn Money Market Fund closed the week at a yield of 11.78%. To invest, dial *809# or download the Cytonn App from Google Playstore here or from the Appstore here;
    - Cytonn High Yield Fund closed the week at a yield of 13.71% p.a. To invest, email us at sales@cytonn.com and to withdraw the interest, dial *809# or download the Cytonn App from Google Playstore here or from the Appstore here;
- We continue to offer Wealth Management Training every Wednesday, from 9:00 am to 11:00 am. The training aims to grow financial literacy among the general public. To register for any of our Wealth Management Trainings, click here;
- If interested in our Private Wealth Management Training for your employees or investment group, please get in touch with us through wmt@cytonn.com;
- Cytonn Insurance Agency acts as an intermediary for those looking to secure their assets and loved ones' future through insurance namely; Motor, Medical, Life, Property, WIBA, Credit and Fire and Burglary insurance covers. For assistance, get in touch with us through insuranceagency@cytonn.com;
- Cytonn Asset Managers Limited (CAML) continues to offer pension products to meet the needs of both individual clients who want to save for their retirement during their working years and Institutional clients that want to contribute on behalf of their employees to help them build their retirement pot. To more about our pension schemes, kindly get in touch with us through pensions@cytonn.com;

Real Estate Updates:

- For more information on Cytonn's real estate developments, email us at sales@cytonn.com;
- Phase 3 of The Alma is now ready for occupation and the show house is open daily. To join the waiting list to rent, please email properties@cytonn.com;
- For Third Party Real Estate Consultancy Services, email us at rdo@cytonn.com;
- For recent news about the group, see our news section here;

Hospitality Updates:

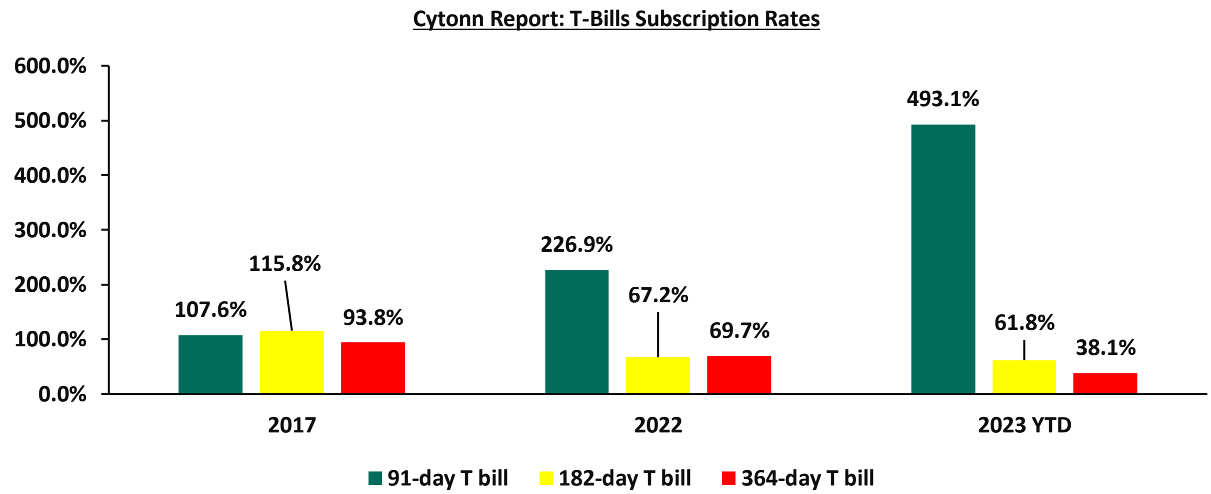
- We currently have promotions for Staycations. Visit cysuites.com/offers for details or email us at sales@cysuites.com;

Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills were undersubscribed, with the overall subscription rate coming in at 94.2%, down from an oversubscription rate of 138.0% recorded the previous week. Investor's preference for the shorter 91-day paper persisted as they sought to avoid duration risk, with the paper receiving bids worth Kshs 18.2 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 454.9%, albeit lower than the 725.5%

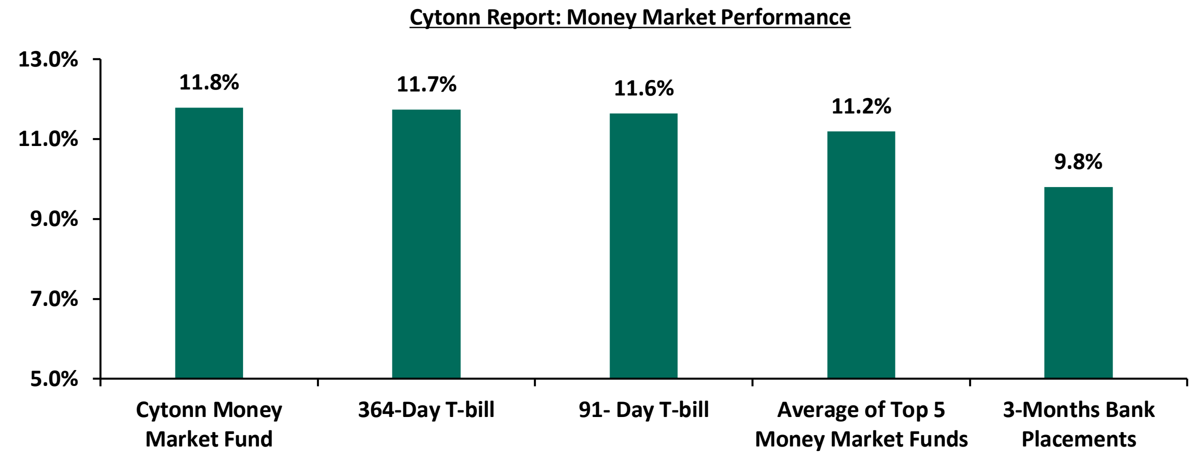
recorded the previous week. The subscription rates for the 182-day increased to 26.6%, from 18.9% recorded the previous week. However, the subscription rate for the 364-day decreased to 17.5%, from 22.0% recorded the previous week. The government rejected expensive bids, accepting bids worth Kshs 10.6 bn out of the Kshs 22.6 bn total bids received, translating to an acceptance rate of 46.8%. The yields on the government papers were on an upward trajectory, with the yields on the 364-day, 182-day and 91-day papers increasing by 12.6 bps, 10.1 bps and 22.6 bps to 11.7%, 11.6% and 11.6%, respectively. The chart below compares the overall average T- bills subscription rates obtained in 2017, 2022 and 2023 Year to Date (YTD):



In the primary bond market, the government sought to raise Kshs 60.0 bn to fund infrastructural projects by offering an infrastructure bond IFB1/2023/007 with tenor to maturity of 7.0 years. In line with our expectations, the bond was oversubscribed, receiving bids worth Kshs 220.5 bn, against the offered Kshs 60.0 bn, translating to an oversubscription rate of 367.5%, partly attributable to the attributable to the investor preference to the Infrastructure bonds as they are tax free. The government accepted bids worth Kshs 213.4 bn, translating to an acceptance rate of 96.8%. Key to note, both the weighted average yield of accepted bids and the coupon rate came at 15.8%.

Money Market Performance:

In the money markets, 3-month bank placements ended the week at 9.8% (based on what we have been offered by various banks), while the yields on the 364-day and 91-day paper increased by 12.6 bps and 22.6 bps to 11.7% and 11.6% respectively. The yield of Cytonn Money Market Fund increased by 17.0 bps to 11.8%, up from 11.6% recorded in the previous week, while the average yields of Top 5 Money Market Funds decreased by 8.0 bps to 11.2%, down from 11.3% recorded the previous week.



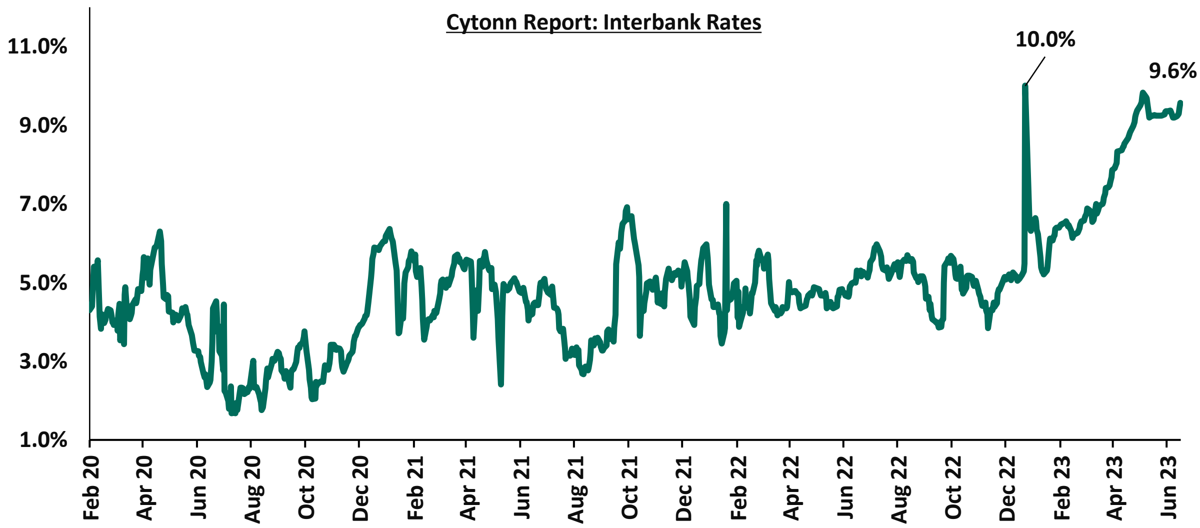
The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 16 June 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 16 June 2023		
Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund (dial *809# or download the Cytonn app)	11.8%
2	Etica Money Market Fund	11.5%
3	Enwealth Money Market Fund	11.4%
4	Apollo Money Market Fund	10.9%
5	Madison Money Market Fund	10.9%
6	GenAfrica Money Market Fund	10.8%
7	Jubilee Money Market Fund	10.8%
8	Dry Associates Money Market Fund	10.8%
9	Kuza Money Market fund	10.6%
10	AA Kenya Shillings Fund	10.6%
11	Co-op Money Market Fund	10.5%
12	KCB Money Market Fund	10.5%
13	Old Mutual Money Market Fund	10.3%
14	NCBA Money Market Fund	10.2%
15	Sanlam Money Market Fund	10.1%
16	Nabo Africa Money Market Fund	10.0%
17	Zimele Money Market Fund	9.9%
18	GenCap Hela Imara Money Market Fund	9.9%
19	ICEA Lion Money Market Fund	9.6%
20	CIC Money Market Fund	9.6%
21	British-American Money Market Fund	9.5%
22	Orient Kasha Money Market Fund	9.3%
23	Absa Shilling Money Market Fund	9.1%
24	Mali Money Market Fund	8.4%
25	Equity Money Market Fund	8.2%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets tightened, with the average interbank rate increasing to 9.4% from 9.3% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded declined by 25.0% to Kshs 17.2 bn, from Kshs 22.9 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Source: CBK

Kenya Eurobonds:

During the week, the yields on Eurobonds recorded were on a downward trajectory, with the yield on the 10-year Eurobond issued in 2014 declining the most, having declined by 1.3% points to 13.1% from 14.4% recorded the previous week. The downward trajectory of the Eurobond yields is partly attributable to the enhanced fiscal consolidation measures taken by the government. The table below shows the summary of the performance of the Kenyan Eurobonds as of 15 June 2023;

Cytonn Report: Kenya Eurobonds Performance						
	2014	2018		2019		2021
Date	10-year issue	10-year issue	30-year issue	7-year issue	12-year issue	12-year issue
Amount Issued (USD)	2.0 bn	1.0 bn	1.0 bn	0.9 bn	1.2 bn	1.0 bn
Years to Maturity	1.1	4.8	24.8	4.0	9.0	11.1
Yields at Issue	6.6%	7.3%	8.3%	7.0%	7.9%	6.2%
2-Jan-23	12.9%	10.5%	10.9%	10.9%	10.8%	9.9%
1-Jun-23	15.5%	11.9%	11.5%	13.0%	11.9%	11.0%
8-Jun-23	14.4%	11.7%	11.3%	12.5%	11.7%	10.8%
9-Jun-23	14.4%	11.5%	11.2%	12.2%	11.5%	10.7%
12-Jun-23	13.9%	11.5%	11.2%	12.1%	11.4%	10.6%
13-Jun-23	13.0%	11.2%	11.0%	11.7%	11.3%	10.4%
14-Jun-23	12.8%	11.0%	10.9%	11.4%	11.1%	10.3%
15-Jun-23	13.1%	11.0%	11.0%	11.3%	11.1%	10.3%
Weekly Change	(1.3%)	(0.7%)	(0.4%)	(1.2%)	(0.6%)	(0.5%)
MTD change	(1.3%)	(0.7%)	(0.4%)	(1.2%)	(0.6%)	(0.5%)
YTD Change	0.2%	0.5%	0.1%	0.4%	0.3%	0.4%

Source: Central Bank of Kenya (CBK) and National Treasury

Kenya Shilling:

During the week, the Kenya Shilling depreciated by 0.5% against the US dollar to close the week at Kshs 139.9, from Kshs 139.2 recorded the previous week, partly attributable to the persistent dollar demand from importers, especially in the oil and energy sectors. On a year-to-date basis, the shilling has depreciated by 13.3% against the dollar, adding to the 9.0% depreciation recorded in 2022. We expect the shilling to remain under pressure in 2023 as a result of:

i. High global crude oil prices on the back of persistent supply chain bottlenecks coupled with high demand,
ii. An ever-present current account deficit estimated at 4.9% of GDP in twelve months to January 2023, from 5.6% recorded in a similar period last year, and,
iii. The need for government debt servicing, which continues to put pressure on forex reserves given that 67.3% of Kenya's external debt was US Dollar denominated as of March 2023, and,

The shilling is however expected to be supported by:

i. Diaspora remittances standing at a cumulative USD 1,688.0 mn in 2023 as of May 2023, albeit 1.8% lower than the USD 1,718.6 mn recorded over the same period in 2022, and,

ii. The tourism inflow receipts that came in at USD 268.1 bn in 2022, a significant 82.9% increase from USD 146.5 bn inflow receipts recorded in 2021.

Key to note is that Kenya's forex reserves decreased marginally during the week by 1.0% to USD 7.46 bn as of June 15, 2023, from USD 7.53 bn as of June 8, 2023. As a result, the country's month of import cover declined to 4.1 months of import cover, which is above the statutory requirement of maintaining at least 4.0 months of import cover, albeit lower than the 4.2 months of import cover recorded the previous week. The chart below summarizes the evolution of Kenya months of import cover over the last 10 years:

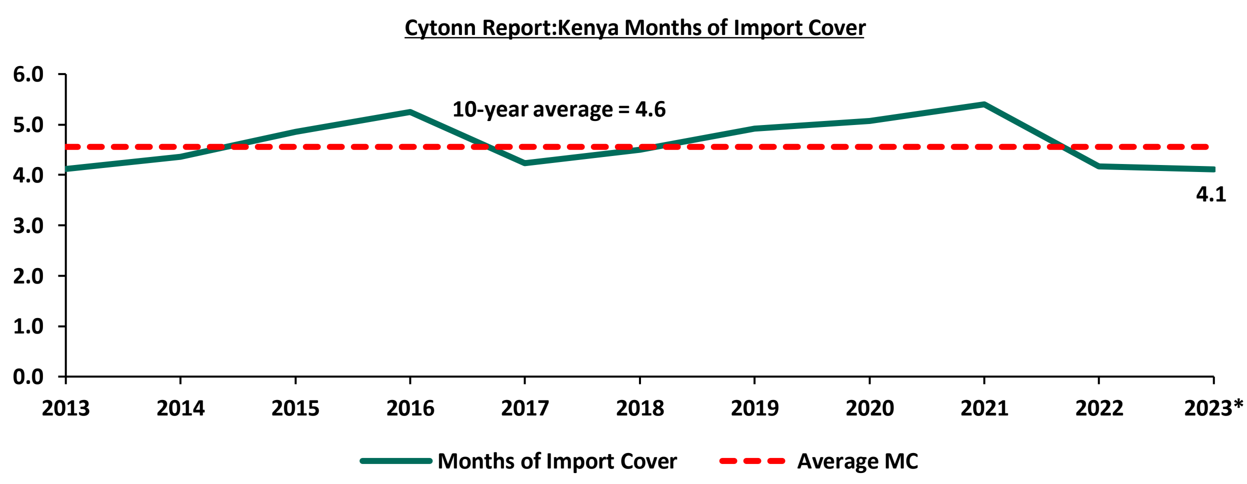


Figure as at 15 June 2023

Weekly Highlights:

I. Fuel Prices

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya effective 15 June 2023 to 14 July 2023. Notably, fuel prices declined by 0.7% and 0.4% to Kshs 167.28 and Kshs 182.04, from Kshs 168.40 and 182.70 per litre for Diesel and Super Petrol, respectively. However, the prices for Kerosene increased by 0.2% to Kshs 161.48, from Kshs 161.13 per litre.

Other key take-outs from the performance include;

i. The average landing cost per cubic meter for Super petrol and Kerosene decreased by 1.1% and 0.8% to USD 716.2 and USD 693.7 in May 2023, from USD 724.0 and USD 699.5 in April 2023. Diesel landing cost per cubic meter increased by 0.8% to USD 693.9 from USD 688.1 in April 2023
ii. The Free on Board (FOB) Murban crude oil declined by 4.6% to USD 79.6, from USD 83.4 in April 2023, and
iii. The Kenyan Shilling depreciated against the US Dollar by 1.8% to Kshs 141.4 in May 2023, compared to the mean monthly exchange rate of Kshs 139.0 recorded in April 2023.

Fuel prices in the country remain elevated despite the global fuel prices dropping by 11.8% to USD 74.2 per barrel as of 15 June 2023, from a high of USD 84.1 per barrel recorded on 1 April 2023 and the average landed costs declining during the month of May except for Diesel. Notably, the elevated fuel prices are mainly on the back of the government's decision to completely remove fuel subsidy program coupled with the continued currency depreciation being experienced in the economy hence elevating the cost of fuel importation. However, we expect the cost of fuel import to ease in the short term as a result of the current government-government dealing involving firms such as the Saudi Aramco (ARAMCO), Abu Dhabi National Oil Company (ADNOC) and Emirates National Oil Company (ENOC) to supply Kenya with diesel and super petrol on credit. Going forward, we maintain the view that the government needs to implement long term strategies to buffer foreign reserves and resuscitate the currently weakened interbank forex market, with the Kenyan shilling having recorded an 13.3% depreciation on year to date basis.

ii. Revenue and Net Exchequer for FY'2022/2023

The National Treasury gazetted the revenue and net expenditures for the eleven months of FY'2022/2023, ending 31 May 2023. Below is a summary of the performance:

Cytonn Report: FY'2022/2023 Budget Outturn - As at 31 May 2023						
Amounts in Kshs billions unless stated otherwise						
Item	12-months Original Estimates (A)	Revised Estimates (B)	Actual Receipts/Release (C)	Percentage Achieved of the Revised Estimates (D) = C/B	Prorated (E) = B *(11/12)	% achieved of the Prorated (F)= C / E
Opening Balance			0.6			
Tax Revenue	2,071.9	2,108.3	1,740.4	82.5%	1,932.6	90.1%
Non-Tax Revenue	69.7	83.7	71.1	85.0%	76.7	92.8%
Total Revenue	**2,141.6**	**2,192.0**	**1,812.2**	**82.7%**	**2,009.3**	**90.2%**
External Loans & Grants	349.3	520.6	311.8	59.9%	477.2	65.3%
Domestic Borrowings	1,040.5	886.5	464.7	52.4%	812.6	57.2%
Other Domestic Financing	13.2	13.2	15.5	117.4%	12.1	128.0%
Total Financing	**1,403.0**	**1,420.3**	**792.0**	**55.8%**	**1,302.0**	**60.8%**
Recurrent Exchequer issues	1,178.4	1,266.0	975.1	77.0%	1,160.5	84.0%

CFS Exchequer Issues	1,571.8	1,552.9	1,130.1	72.8%	1,423.5	79.4%
Development Expenditure & Net Lending	424.4	393.8	191.1	48.5%	361.0	52.9%
County Governments + Contingencies	370.0	399.6	305.3	76.4%	366.3	83.3%
Total Expenditure	**3,544.6**	**3,612.3**	**2,601.6**	**72.0%**	**3,010.3**	**86.4%**
Fiscal Deficit excluding Grants	**1,403.0**	**1,420.3**	**789.5**	**55.6%**	1,302.0	60.6%
GDP estimates as of 2022			**13,368.3**			
Fiscal Deficit as a percentage of GDP			**5.9%**			
Total Borrowing	**1,389.8**	**1,407.1**	**776.4**	**55.2%**	**1,289.9**	**60.2%**

The key take-outs from the report include:

a. Total revenue collected as at the end of May 2023 amounted to Kshs 1,812.2 bn, equivalent to 82.7% of the revised estimates of Kshs 2,192.0 bn for FY'2022/2023 and is 90.2% of the prorated estimates of Kshs 2,009.3 bn. We note that the government has not been able to meet its prorated revenue targets eleven months into the FY'2022/2023, partly attributable to the tough macroeconomic environment in the country as a result of elevated inflationary pressures with May 2023 inflation rate coming in at 8.0%, above the CBK target range of 2.5%-7.5%. Despite the poor performance, the government revised the revenue target upwards indicating that the government believes its revenue collection strategies will bear fruit before the end of the current financial year. Cumulatively, tax revenues amounted to Kshs 1,740.4 bn, equivalent to 82.5% of the revised estimates of Kshs 2,108.3 bn and 90.1% of the prorated estimates of Kshs 1,932.6 bn,

b. Total financing amounted to Kshs 792.0 bn, equivalent to 55.8% of the revised estimates of Kshs 1,420.3 bn and is equivalent to 60.8% of the prorated estimates of Kshs 1,302.0 bn. Additionally, domestic borrowing amounted to Kshs 464.7 bn, equivalent to 52.4% of the revised estimates of Kshs 886.5 bn and is 57.2% of the prorated estimates of Kshs 812.6 bn,

c. The total expenditure amounted to Kshs 2,601.6 bn, equivalent to 72.0% of the revised estimates of Kshs 3,612.3 bn, and is 86.4% of the prorated expenditure estimates of Kshs 3,010.3 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 975.1 bn, equivalent to 77.0% of the revised estimates of Kshs 1,266.0 bn and 84.0% of the prorated estimates of Kshs 1,160.5 bn, and development expenditure amounted to Kshs 191.1 bn, equivalent to 48.5% of the revised estimates of Kshs 393.8 bn and is 52.9% of the prorated estimates of Kshs 361.0 bn,

d. Consolidated Fund Services (CFS) Exchequer issues (refers to the Consolidated Fund established in the Kenya's constitution into which development partners deposit funds before disbursing to the Exchequer accounts for projects such as servicing of public debt, payment of pensions and gratuities, salaries and allowances and subscription to International Organizations) came in at Kshs 1,130.1 bn, equivalent to 72.8% of the revised estimates of Kshs 1,552.9 bn, and 79.4% of the prorated amount of Kshs 1,423.5 bn. The cumulative public debt servicing cost amounted to Kshs 1,019.8 bn which is 74.9% of the revised estimates of Kshs 1,361.0 bn, and is 89.9% of the prorated estimates of Kshs 1,134.2 bn. Notably, the Kshs 1,019.8 bn debt servicing cost is equivalent to 56.3% of the actual revenues collected as at the end of May 2023, which is 26.3% points above IMF's recommended threshold of 30.0%. As such, the current budget deficit is 5.9% of GDP, 0.2% points above the government's projected budget deficit of 5.7% of GDP in FY'2022/2023, further emphasizing on how much public debt servicing weighs on the country's expenditure. Additionally, Recurrent Exchequer issues came in at Kshs 975.1 bn equivalent to 77.0% of the revised estimates of Kshs 1,266.0 bn and are 84.0% of the prorated estimates of Kshs 1,160.5 bn, and,

e. Total Borrowings as at the end of May 2023 amounted to Kshs 776.4 bn, equivalent to 55.2% of the revised estimates of Kshs 1,407.1 bn for FY'2022/2023, and are 64.4% of the prorated estimates of

Kshs 1,134.2 bn. The cumulative domestic borrowing target of Kshs 886.5 bn comprises of adjusted Net domestic borrowings of Kshs 425.1 bn and Internal Debt Redemptions (rollovers) of Kshs 461.4 bn.

The government has been unable to meet its prorated revenue targets for the eleven months of the FY'2022/2023, mainly on the back of the tough economic situation exacerbated by the elevated inflationary pressures that have remained above the CBK target range of 2.5%-7.5%, with the year on year inflation rate in May 2023 coming in at 8.0%, up from 7.9% recorded in April 2023. Additionally, the currency depreciation currently being experienced in the economy has resulted in high consumer prices as companies pass the high cost of import and production to consumers. Despite the May 2023 Purchasing Managers Index (PMI) coming in at 49.4, higher than 47.2 in April 2023, it remained below the 50-threshold mark indicating persistent deterioration in the country's business environment denting revenue collection efforts. In light of this, the government is yet to fully benefit from the strategies put in place to improve revenue collection such as expanding the revenue base and sealing tax leakages, and suspension of all tax relief payments. Going forward, we assert that the government revenue targets are relatively ambitious, owing to the tough economic conditions evidenced by the deteriorating business environment with the PMI index averaging 48.9% in 2023.

Rates in the Fixed Income market have been on upward trend given the continued government's demand for cash and the highly tightened liquidity in the money market. The government is 33.7% ahead of its prorated borrowing target of Kshs 412.3 bn having borrowed Kshs 551.2 bn of the revised domestic borrowing target of Kshs 425.1 bn for the FY'2022/2023. Additionally, the total budget deficit as of May 2023 amounted to Kshs 789.5 bn, equivalent to 55.6% of the revised estimates of Kshs 1,420.3 bn and 60.6% of the prorated estimates of Kshs 1,302.0 bn. As such, the current budget deficit is 5.9% of GDP, 0.2% points above the government's projected budget deficit of 5.7% of GDP in FY'2022/2023. Further, revenue collections are lagging behind, with total revenue as at May 2023 coming in at Kshs 1.8 tn in the FY'2022/2023, equivalent to 82.7% of its revised target of Kshs 2.2 tn and 90.2% of the prorated target of Kshs 2.0 tn. Therefore, we expect a continued upward readjustment of the yield curve in the short and medium term, with the government looking to bridge the fiscal deficit through the domestic market. Owing to this, our view is that investors should be biased towards short-term fixed-income securities to reduce duration risk

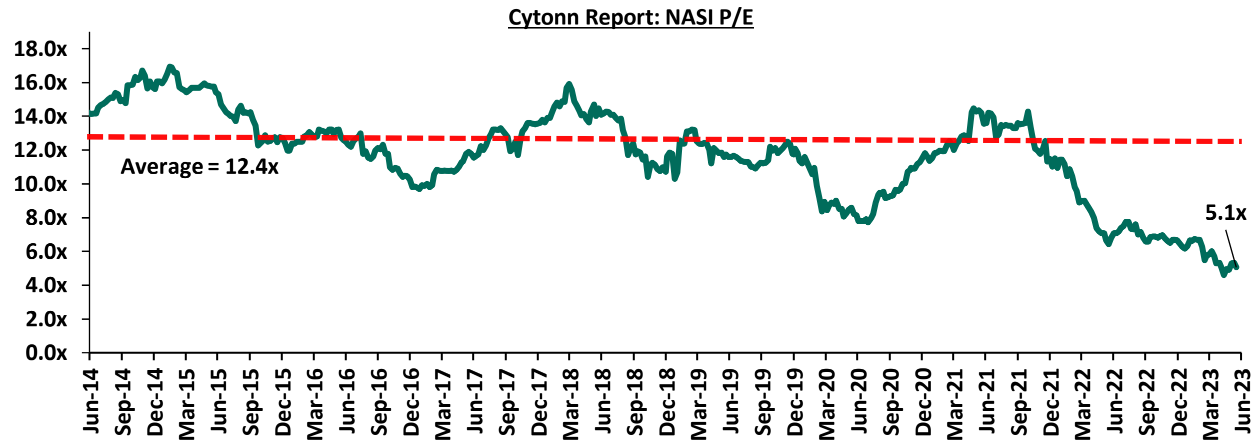
Equities

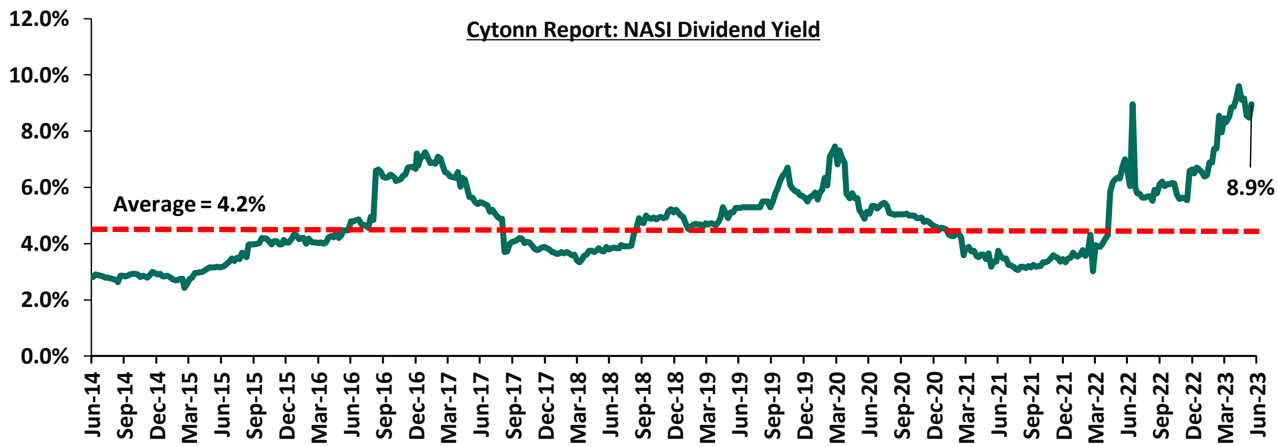
Market Performance:

During the week, the equities market was on a downward trajectory with NASI, NSE 20 and NSE 25 declining by 5.2%, 1.8% and 3.8% respectively, taking the YTD performance to losses of 21.2%, 6.6% and 16.0% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large-cap stocks such as Safaricom, KCB Group, Diamond Trust Bank (DTB-K) and EABL of 10.2%, 7.4%, 4.6% and 3.9% respectively. The Losses were however mitigated by gains recorded by stocks such as Bamburi and Stanbic of 5.7% and 1.1%, respectively.

During the week, equities turnover increased significantly by 167.2% to USD 11.8 mn, from USD 4.4 mn, recorded the previous week, taking the YTD turnover to USD 442.1 mn. Foreign investors turned net buyers with a net buying position of USD 0.2 mn, from a net selling position of USD 0.4 mn recorded the previous week, taking the YTD net selling position to USD 53.6 mn.

The market is currently trading at a price to earnings ratio (P/E) of 5.1x, 59.1% below the historical average of 12.4x. The dividend yield stands at 8.9%, 4.7% points above the historical average of 4.2%. Key to note, NASI's PEG ratio currently stands at 0.6x, an indication that the market is undervalued relative to its future growth. A PEG ratio greater than 1.0x indicates the market is overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued. The charts below indicate the historical P/E and dividend yields of the market;





Weekly Highlight

Equity Group Holdings Plc acquires 91.9% stake in Cogebanque

During the week, Equity Group Holdings Plc (EGH) announced that it had entered into a binding agreement with Government of Rwanda, Rwanda Social Security Board and other investors of Compagnie Generale De Banque (Cogebanque) Plc Limited to acquire a 91.9% stake in the Rwanda based lender. Upon the completion of the acquisition, EGH plans to eventually merge the business of the Cogebanque with that of its Rwandan Subsidiary, Equity Bank Rwanda Plc. Additionally, EGH intends to make an offer to the remaining shareholders to acquire all the shares in Cogebanque in a move that will make EGH take over 100.0% of the issued shares of Cogebanque.

For this acquisition, EGH will pay an aggregate cash consideration of USD 48.1 mn (Kshs 6.7 bn), translating to a Price to Book Value (P/B) of 1.3x given Cogebanque's Book value of Fwr 47.4 bn (Kshs 5.7 bn) as of 2022. Key to note, the P/B multiple is the same as the 10-year acquisitions average P/B of 1.3x, however it is higher than the current average P/B of the listed banking stocks of 0.7x. The acquisition will see EHG take over 28 branches from Cogebanque, taking its total branch network to 382, from the current 354 branches. Below is a table showing the combined pro-forma financials for the banks upon completion of the transaction;

Cytonn Report: Combined Pro-forma Balance Sheet			
Balance Sheet	**Equity Group	*Cogebanque	Combined Entity
Net Loans (Kshs bn)	756.3	16.8	773.1
Customer Deposits (Kshs bn)	1,111.2	22.6	1,133.8
Total Assets (Kshs bn)	1,537.7	35.3	1,572.9
Total Liabilities Kshs bn)	1,347.0	29.6	1,376.6
No. of Branches	354	28	382

***Figures for the period ended 31st March 2023, *Figures for the period ended 31th December 2022*

Source: Equity Group Holdings Plc and Cogebanque Financial Statements

In our view, the proposed acquisition of Cogebanque by Equity Group Holdings Plc will see the group increase its footprint in the region in line with its expansion strategy. By expanding its distribution networks and market share, the acquisition presents an opportunity for increased profitability as the Group expects the bank to help drive business growth in the future. Additionally, we believe that this deal will lead to the growth in the Group's interest income which stood at Kshs 32.4 bn in Q1'2023 given that the bank being acquired rely heavily on funded income at a mix of 90:10, according to their FY'2022 financial results.

Below is a summary of the deals in the last 10 years that have either happened, been announced or expected to be concluded:

Cytonn Report: Banking sector Deals and Acquisitions						
Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
Equity Group	Cogebanque Plc Ltd	5.7	91.90%	6.7	1.3x	Jun-23
Shorecap III	Credit Bank Plc	3	20.00%	Undisclosed	N/A	Jun-23
Premier Bank Limited	First Community Bank	2.8	62.50%	Undisclosed	N/A	Mar-23
KCB Group PLC	Trust Merchant Bank (TMB)	12.4	85.00%	15.7	1.5x	Dec-22
Equity Group	Spire Bank	Unknown	Undisclosed	Undisclosed	N/A	Sep-22*
Access Bank PLC (Nigeria)*	Sidian Bank	4.9	83.40%	4.3	1.1x	June-22*
KCB Group	Banque Populaire du Rwanda	5.3	100.00%	5.6	1.1x	Aug-21
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.00%	3.6	1.1x	Apr-21
KCB Group**	ABC Tanzania	Unknown	100%	0.8	0.4x	Nov-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.00%	1	0.3x	Aug-20
Commercial International Bank	Mayfair Bank Limited	1	51.00%	Undisclosed	N/D	May-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC.	1.9	100.00%	1.4	0.7x	Feb-20*
Equity Group **	Banque Commerciale Du Congo	8.9	66.50%	10.3	1.2x	Nov-19*
KCB Group	National Bank of Kenya	7	100.00%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23	0.7x	Sep-19
Oiko Credit	Credit Bank	3	22.80%	1	1.5x	Aug-19
CBA Group**	Jamii Bora Bank	3.4	100.00%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.20%	5.1	1.0x	Jan-18
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.00%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.00%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.00%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.00%	1.3	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	3	100.00%	5	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.00%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.00%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.00%	8.6	3.2x	Nov-13
Average			**75.0%**		**1.3x**	

Average: 2013 to 2018			73.5%		1.7x	
Average: 2019 to 2023			75.8%		0.9x	
* Announcement Date ** Deals that were dropped						

Universe of coverage:

Company	Price as at 9/06/2023	Price as at 16/06/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Liberty Holdings	4.4	3.9	(9.9%)	(22.2%)	5.9	0.0%	51.0%	0.3x	Buy
Equity Group***	37.9	37.2	(2.0%)	(17.5%)	51.2	10.8%	48.5%	0.8x	Buy
Jubilee Holdings	187.5	184.3	(1.7%)	(7.3%)	260.7	6.5%	48.0%	0.3x	Buy
KCB Group***	31.8	29.5	(7.4%)	(23.2%)	41.3	6.8%	46.9%	0.5x	Buy
CIC Group	2.0	1.9	(4.6%)	(2.6%)	2.5	7.0%	41.4%	0.6x	Buy
ABSA Bank***	11.6	11.6	0.0%	(5.3%)	14.7	11.7%	38.7%	0.9x	Buy
Kenya Reinsurance	2.0	2.0	(0.5%)	5.9%	2.5	10.1%	36.9%	0.2x	Buy
NCBA***	39.9	39.3	(1.5%)	0.9%	48.9	10.8%	35.1%	0.8x	Buy
Co-op Bank***	12.2	12.2	0.0%	0.8%	15.0	12.3%	34.8%	0.6x	Buy
Sanlam	7.9	7.8	(1.5%)	(18.8%)	10.3	0.0%	32.3%	2.2x	Buy
Diamond Trust Bank***	48.0	45.8	(4.6%)	(8.1%)	54.6	10.9%	30.1%	0.2x	Buy
I&M Group***	17.0	17.0	0.0%	(0.6%)	19.5	13.3%	28.1%	0.4x	Buy
Standard Chartered***	160.3	160.8	0.3%	10.9%	183.9	13.7%	28.1%	1.1x	Buy
Stanbic Holdings	110.0	111.3	1.1%	9.1%	127.9	11.3%	26.3%	0.8x	Buy
Britam	5.0	5.0	(0.6%)	(4.8%)	6.0	0.0%	20.6%	0.7x	Buy
HF Group	4.5	5.0	9.7%	57.5%	5.8	0.0%	17.1%	0.2x	Accumulate
Target Price as per Cytonn Analyst estimates **Upside/ (Downside) is adjusted for Dividend Yield ***For Disclosure, these are stocks in which Cytonn and/or its affiliates are invested in									

We are "Neutral" on the Equities markets in the short term due to the current tough operating environment and huge foreign investor outflows, and, "Bullish" in the long term due to current cheap valuations and expected global and local economic recovery.

With the market currently trading at a discount to its future growth (PEG Ratio at 0.6x), we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value. We expect the current high foreign investors sell-offs to continue weighing down the equities outlook in the short term.

Real Estate

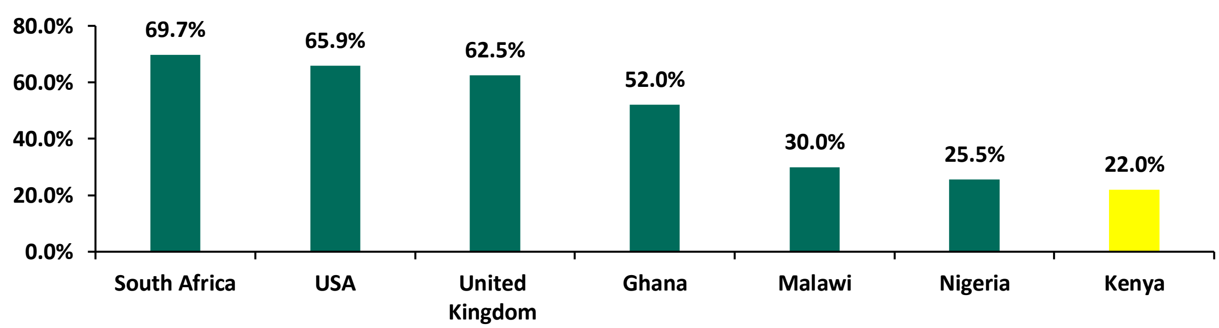
I. Residential Sector

During the week, Housing Finance Company (HFC), the banking subsidiary of HF Group, announced a partnership deal with Kigutha Farmers Limited, to develop a Kshs 1.4 bn gated community housing project dubbed *'Barista Gardens'* located in Kamiti Corner, Kiambu County. The Joint-Venture (JV) deal will see the farmers holding provide a 58-acre piece of land, which will consist of serviced plots for buyers to develop 180 housing units within the gated community. This comes with four pre-designed house plans, that will provide buyers with design options, but still maintain a uniform character as well as access to social and commercial amenities. On the other hand, HFC will provide end-user financing, project management expertise and sales support. The project is well placed within Kiambu, which has continued to record positive performance in terms of property appreciations owing to; i) the area's strategic location as it is linked by the Thika Superhighway, Northern and Eastern Bypasses and other major highways making it easily accessible and convenient for residents, ii) a large population of high-middle income residents with higher purchasing power and disposable incomes, iii) serene environment offering an idyllic countryside lifestyle which appeals to high-end buyers looking to distance themselves from the busy and fast-paced environment of urban areas, and, iv) proximity to social amenities such as Kiambu mall, Two Rivers malls and international learning institutions such as Braeburn Schools making it ideal for high-class households, and, v) development of major economic and residential-zoned projects initiated in the region such as Tatu City Special Economic Zone, Kofinaf Tatu Residences, Northlands Smart City and many more.

HFC also recently entered into a JV deal with Madison Insurance to develop a Master Planned Community project dubbed '*Villakazi Homes*' in Athi River, Machakos County, as highlighted in our Cytonn Weekly #07/2023. The partnership will see Madison Insurance provide 100.0 acres of land valued at Kshs 3.0 bn, which will consist serviced plots for the development of over 600 residential units, and amenities such as social spaces, commercial and education facilities. This comes as HFC is transitioning from capital intensive Real Estate developments to more strategic partnerships for development of affordable housing concepts that include end user financing and adding value to land owners through development partnerships

Upon completion, we expect that the '*Barista Gardens'* project will contribute towards bridging the gap in Kenya's residential sector, marked by a housing stock deficit which stands at 200,000 units annually or 80.0%, against an annual supply of 50,000 units. In addition, we anticipate that the continued partnerships by HFC will further support Kenya's mortgage market, thereby boosting the country's home ownership rates which have remained subdued, standing at 22.0% in urban centers, in comparison to other countries such as South Africa and Ghana with rates of 69.7% and 52.0% respectively. The graph below shows the urban home-ownership rate in Kenya compared to select countries as of 2022;

Cytonn Report: Urban Home Ownership Percentages (2022)



Source: Centre for Affordable Housing Africa, US Census Bureau, UK Office for National Statistics

The emergence of *'Barista Gardens'* in Kiambu County and other upscale master-planned projects such as *'Lukenya Conservancy Living'* in Machakos County by Superior Homes Developers, *'Villakazi Homes'* in Machakos County by Madison Insurance and HFC, and *'Kofinaf Tatu Residences'* in Kiambu County by Tatu City indicate a promising future for the residential Real Estate sector in Kenya. These developments are expected to enhance the vibrancy and desirability of the local market, as well as attract international investors with the sector undergoing diversification and a growing demand for luxurious amenities, community-focused initiatives, conservation-oriented projects, and eco-friendly developments in satellite towns. This trend will also provide investors and buyers with a range of options to choose from. Furthermore, the availability of affordable land for development in these areas, coupled with limited supply in Nairobi City and other major urban centers across the country, will attract high-end buyers and investors, thereby fostering further growth and progress. In addition to the favorable market conditions, upcoming improvements in infrastructure will contribute to the accessibility and attractiveness of these satellite towns. As a result, Real Estate investments in these areas will become more appealing, creating opportunities for development and investment in regions that were previously considered less habitable.

II. Hospitality Sector

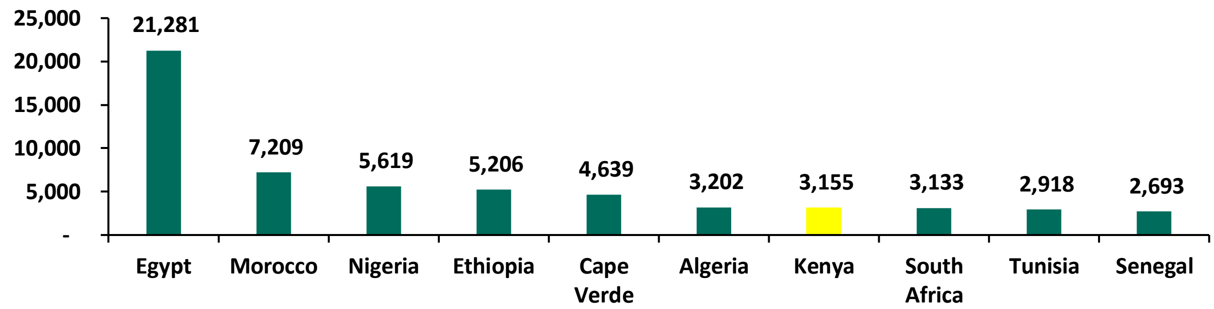
During the week, Pan Pacific Hotels Group, a subsidiary of Singapore-listed UOL Group Limited, one of Asia's most established hotel and property companies, opened a luxurious hotel facility dubbed *'Pan Pacific Serviced Suites Nairobi'* located at the Global Trade Centre (GTC) in Westlands, Nairobi. Marking the first entry by the global hospitality brand in Africa, the facility comprises of 175 high-end one-to-four-bedroom penthouse suites ranging from 82.0 SQM to 309.0 SQM, and various amenities for residents. The decision by Pan Pacific Hotels Group to set up the facility in Westlands was marked by; i) the strategic location of the GTC complex near the Nairobi CBD and to other upscale business nodes such as Upper hill and Spring Valley among others, ii) convenient access to infrastructure through the Nairobi Expressway promoting direct connectivity to and from the Jomo Kenyatta International Airport (JKIA), and other major roads such as Waiyaki Way, easing accessibility from the city's key areas, iii) availability of various social amenities such as shopping malls, food courts and well organized delivery service companies easily accessible by residents within the GTC complex, iv) Nairobi's prominence as a travel destination bolstered by Kenya's majestic tourism heritage which attracts international arrivals, and, v) Westlands' attractiveness in investment of serviced apartments in Nairobi Metropolitan Area (NMA) offering the best rental yields of 9.3% compared to the market average of 6.2%. The table below highlights the performance of the various nodes within the NMA;

Cytonn Report: NMA Serviced Apartments Performance per Node - 2022								
Node	**Studio**	**1 Bed**	**2 Bed**	**3 bed**	**Monthly Charge/ SQM (Kshs)**	**Occupancy**	**Devt Cost/SQM (Kshs)**	**Rental Yield**
Westlands	193,633	284,376	343,828	353,350	3,916	70.7%	209,902	**9.3%**
Kilimani	173,062	248,122	287,174	449,987	2,937	69.3%	202,662	**7.2%**
Kileleshwa & Lavington	150,000	250,000	417,593	498,803	2,811	66.3%	206,132	**6.6%**
Limuru Road	145,713	308,725	327,424	344,500	2,976	60.6%	231,715	**5.8%**
Nairobi CBD	171,000	162,680	271,707	268,620	2,348	66.2%	224,571	**5.2%**
Upperhill		201,533	347,950	554,800	2,225	65.4%	209,902	**5.0%**
Thika Road		82,381	208,088	295,000	1,800	62.1%	200,757	**4.2%**
Average	**166,682**	**219,688**	**314,823**	**395,008**	**2,716**	**65.8%**	**212,234**	**6.2%**

Source: Cytonn Research

The facility's opening also aligns with Pan Pacific Hotels Group's global expansion strategy to take up a share of Africa's hospitality market, by competing with other local and international hospitality brands in Kenya such as; Dusit International, Marriot Bonvoy Hotels, Hilton Hotels, Villa Rosa Kempinski, Radisson Blu Hotels, PrideInn Group, among many others. This is as the Kenya's hospitality sector has been on a sustained recovery trend, with the performance in terms of room occupancies and international arrivals trending to pre-COVID-19 levels. As a result, Kenya is set to see the addition of 3,155 new hotel rooms from 2023, which will further stamp the country's position as a global tourism hub within Sub-Saharan Africa, further driving the hospitality sector. The graph below shows number of hotel rooms in the pipeline in various African countries;

Cytonn Report: Number of New Hotels Rooms in the Pipeline in Africa



Source: Hotel Chain Development Pipelines in Africa 2022

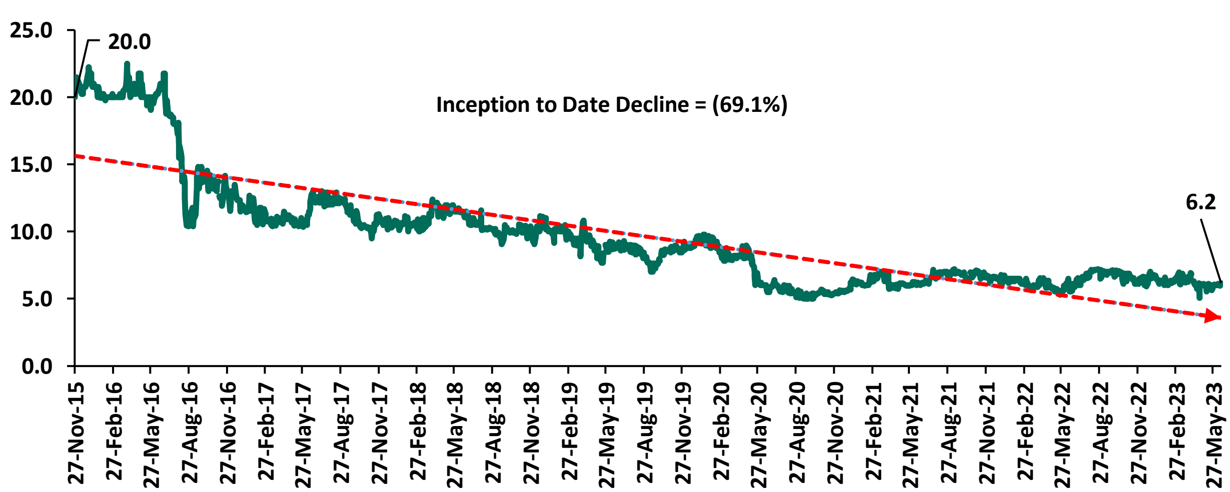
We expect continued uptrend in the hospitality sector's performance, supported by; i) continued hotel openings, expansions, mergers and acquisitions, signifying investor appetite and confidence in a bid to gain market dominance, ii) recognition of Kenya's hospitality market such as in the Africa Wealth Report 2023, and positive accolades awarded to Kenyan-based hotel brands such as the World Travel Awards 2022, MICE Awards, Fodor Finest Hotels, among others, boosting investor confidence in the sector, and, iii) intensive marketing of Kenya's tourism industry through national platforms such as the Magical Kenya and Kenya Tourism Board under the Ministry of Tourism Strategy 2021-2025. However, the existing travel advisories regarding insecurity in certain regions of the country by the United Kingdom (UK), United States of America (USA), Irish, and Canadian governments issued in February 2023 and increasing operational costs on the back of inflationary pressure will further weigh down the optimum performance of the hospitality sector.

III. Regulated Real Estate Funds

a) Real Estate Investment Trusts (REITs)

In the Nairobi Securities Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.2 per share. The performance represented a 1.3% increase from Kshs 6.1 per share recorded the previous week, taking it to an 8.8% Year-to-Date (YTD) decline from Kshs 6.8 per share recorded on 3 January 2023. In addition, the performance represented a 69.1% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 10.5%. The graph below shows Fahari I-REIT's performance from November 2015 to 16 June 2023;

Cytonn Report: Fahari I-REIT Perfomance (November 2015 - 16th June 2023)



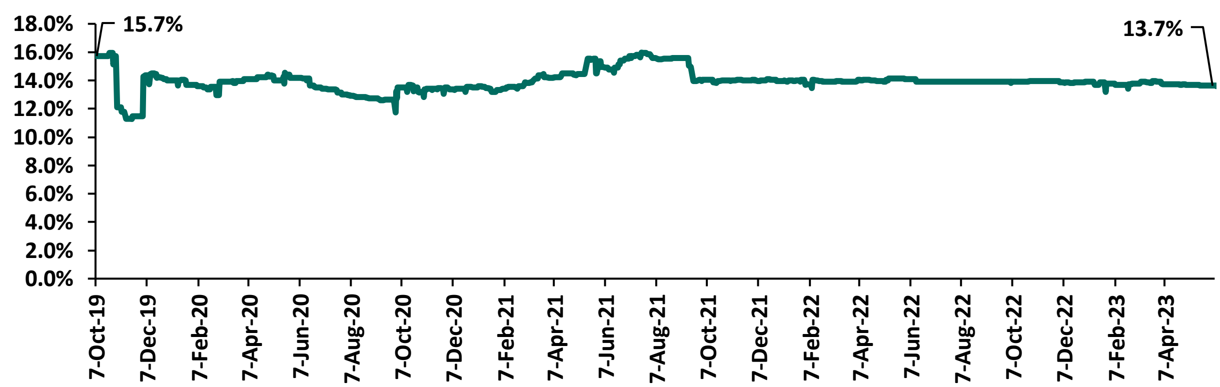
In the [Unquoted Securities Platform](), Acorn D-REIT and I-REIT traded at Kshs 23.9 and Kshs 21.6 per unit, respectively, as at 16 June 2023. The performance represented a 19.4% and 7.9% gain for the D-REIT and IREIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 30.1 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 620.7 mn, respectively, since inception in February 2021.

REITs provide numerous advantages, including; access to more capital pools, consistent and prolonged profits, tax exemptions, diversified portfolios, transparency, liquidity and flexibility as an asset class. Despite these benefits, the performance of the Kenyan REITs market remains limited by several factors such as; i) insufficient investor understanding of the investment instrument, ii) time-consuming approval procedures for REIT creation, iii) high minimum capital requirements of Kshs 100.0 mn for trustees, and, iv) high minimum investment amounts set at Kshs 5.0 mn discouraging investments.

b) Cytonn High Yield Fund (CHYF)

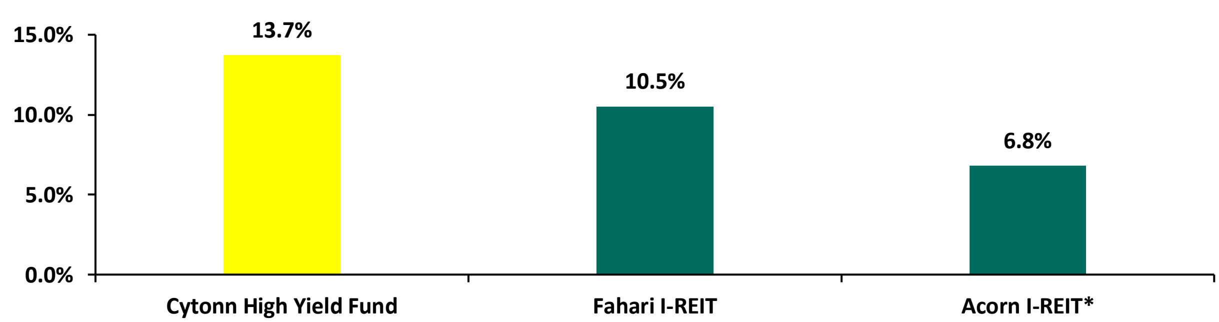
Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 13.7%, representing a 0.1% points increase from the 13.6% yield recorded the previous week. The performance also represented a 0.2% points Year-to-Date (YTD) decline from 13.9% yield recorded on 1 January 2023, and 2.0% points Inception-to-Date (ITD) loss from the 15.7% yield. The graph below shows Cytonn High Yield Fund's performance from October 2019 to 16 June 2023;

Cytonn Report: Cytonn High Yield Fund Yield Performance (October 2019 - 16 June 2023)



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 13.7%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 10.5%, and 6.8% respectively. As such, the higher yields offered by CHYF makes the fund one of the best alternative investment resource in the Real Estate sector. The graph below shows the yield performance of the Regulated Real Estate Funds:

Cytonn Report: Real Estate Regulated Funds Yield Performance June 2023



**FY'2022*

Source: Cytonn Research

We expect the performance of Kenya's Real Estate sector to remain on an upward trajectory, supported by factors such as; i) initiation and development of housing projects expected to boost the residential sector, ii) relatively positive demographics in the country increasing demand for housing, and, iii) continued opening of hospitality facilities amid investor confidence in the sector owing to the recovery of the market from the pandemic period, However, the existing oversupply of physical space in select sectors, rising costs of construction on the back of rising inflation, and low investor appetite for REITs are expected to continue hindering optimal the performance of the sector.

Focus of the Week: Kenya Listed Banks Q1'2023 Report

Following the release of the Q1'2023 results by Kenyan banks, the Cytonn Financial Services Research Team undertook an analysis on the financial performance of the listed banks and identified the key factors that shaped the performance of the sector. For the earnings notes of the various banks, click the links below:

i. Equity Group Q1'2023 Earnings Note
ii. KCB Group Q1'2023 Earnings Note
iii. Standard Chartered Bank Kenya Q1'2023 Earnings Note
iv. ABSA Bank Kenya Q1'2023 Earnings Note
v. NCBA Group Q1'2023 Earnings Note
vi. Co-operative Bank Q1'2023 Earnings Note
vii. Diamond Trust Bank Kenya (DTB-K) Q1'2023 Earnings Note
viii. I&M Group Holdings Q1'2023 Earnings Note
ix. Stanbic Holdings Q1'2023 Earnings Note
x. HF Group Q1'2023 Earnings Note

The core earnings per share (EPS) for the listed banks recorded a weighted growth of 25.0% in Q1'2023, compared to a weighted growth of 37.9% recorded in Q1'2022, an indication of sustained performance despite the tough operating environment occasioned by elevated inflationary pressures experienced during the period. The performance in Q1'2023 was supported by a 48.1% growth in non-funded income coupled with a 20.1% growth in net interest income. Additionally, the listed banks continued to implement their revenue diversification strategies, as evidenced by Non-Funded Income (NFI) weighted average growth of 48.1% in Q1'2023 compared to a weighted average growth of 21.4% in Q1'2022. The growth in NFI was largely driven by the increase in foreign exchange income recorded by the banks during the period as a result of increased dollar demand in the country. However, the listed banks' asset quality deteriorated marginally, with the weighted average NPL ratio increasing by 0.1% points to 12.6% in Q1'2023, from 12.5% in Q1'2022. We note that the NPL ratio still remains higher than the 10-year average of 9.6%.

The report is themed **"Sustained Profitability Despite Challenging Business Environment**" where we assess the key factors that influenced the performance of the banking sector in Q1'2023, the key trends, the challenges banks faced, and areas that will be crucial for growth and stability of the banking sector going forward. As such, we shall address the following:

i. Key Themes that Shaped the Banking Sector Performance in Q1'2023,
ii. Summary of the Performance of the Listed Banking Sector in Q1'2023,
iii. The Focus Areas of the Banking Sector Players Going Forward, and,
iv. Brief Summary and Ranking of the Listed Banks based on the outcome of our analysis.

Section I: Key Themes That Shaped the Banking Sector Performance in Q1'2023

Below, we highlight the key themes that shaped the banking sector in Q1’2023 which include; regulation, regional expansion through mergers and acquisitions, and asset quality:

1. **Regulation:**
    a) **Risk based Lending:** Since the repeal of the Interest Cap Law in 2019, the Central Bank of Kenya has been developing a risk-based lending model aimed at pricing loans. The model's primary purpose is to enable banks to lend based on the anticipated risks of each borrower. Furthermore, this represents a shift away from the negative listing of defaulters and toward a new credit score rating system that does not deny borrowers credit based on the quality of their credit bureau reference ratings. The approach targets riskier borrowers, with the majority operating in micro, small, and medium-sized businesses that have struggled to obtain conventional credit. Notably, as of May 2023, 33 of the banks in the country had their models approved by the CBK, with Equity Bank being the first commercial bank to implement risk-based lending. However, the approval process of the models has been gradual in a bid to avoid causing distress to customers through high interest rates. Further, the full deployment has been slowed due to a lack of data to analyse the client's risk profile, and,
    b) **Foreign Exchange Code:** The Central Bank of Kenya announced the issuance of the Foreign Exchange Code (the FX Code) on 22 March 2023 to commercial banks, in a move to regulate wholesale transactions of the foreign exchange market in Kenya. The measure was in response to the wide variation of exchange rate spread in the market, as discussed in our currency review note. The FX Code aims to promote a robust and transparent foreign currency market through the following reporting guidelines;
        i. **Compliance with FX Code**- All market participants (commercial banks and foreign exchange brokers) will be required to conduct a self-assessment and submit to the CBK a report on an institution’s level of compliance with the FX Code by 30 April 2023. Further, all market participants will be required to submit to CBK a detailed compliance implementation plan that is approved by its Board by 30 June 2023, and each participant must be fully compliant with the aforementioned code by 31 December 2023,
        ii. **Reporting Mechanism**- All market participants will be required to submit a quarterly report to CBK, on the level of compliance to the FX Code within 14 days after the end of every calendar quarter, with the first report due by July 14, 2023,
        iii. **In the event of non-compliance**, CBK may take appropriate enforcement and other administrative action including monetary penalties as provided for under the Banking Act against any market participant, and,
        iv. **Prohibitive Practices**- The FX Code is majorly to identify practices that are geared towards market disruptions such as price quotations or manipulating price movements creating artificial delays, or false impression on market depth and liquidity by any market participants will result in heavy penalties. Additionally, market participants are not to engage in position or points parking (artificial transactions to conceal positions or transfer profits or losses).
2. **Regional Expansion through Mergers and Acquisitions**: Kenyan banks are continuously looking at having an extensive regional reach and in Q1’2023, there were three completed acquisition done by Commercial International Bank (Egypt) S.A.E (CIB), Equity Group Holdings Plc and Premier Bank Limited Somalia as follows:
    a) On 30 January 2023, the Central Bank of Kenya (CBK) announced that Commercial International Bank (Egypt) S.A.E (CIB) had completed acquisition of additional 49.0% shareholding of Mayfair CIB Bank Limited (MBL) at Kshs 5.0 bn following the earlier acquisition of 51.0% stake in MBL announced in April 2020. As such, MBL is now a fully owned subsidiary of CIB,
    b) On 31 January 2023, Equity Group Holdings PLc, through Equity Bank Kenya Limited (EBKL) announced that it had completed the acquisition of certain assets and liabilities of the local Bank, Spire Bank Limited after obtaining all the required regulatory approvals. The completion of the acquisition followed the Assets and Liabilities Purchase Agreement, which was announced in September 2022, as

highlighted in our Cytonn Weekly #37/2022. As such, Equity Bank Kenya Limited took over Spire Banks's 12 branches as well as all existing depositors in Spire Bank, other than remaining deposits from its largest shareholder, Mwalimu Sacco. For more information, please see our Cytonn Monthly-January 2023, and,

c) On 17 March 2023 the Central Bank of Kenya (CBK) announced that Premier Bank Limited Somalia (PBLS) had completed acquisition of 62.5% shareholding of First Community Bank Limited (FCB) effective 27 March 2023. This came after receiving regulatory approvals from the CBK and the Cabinet Secretary for the National Treasury. FCB, which has been in operation since June 2008, is classified as a tier 3 bank in Kenya with 18 branches and a market share of 0.3% as at December 2022. The acquisition by Premier Bank Limited Somalia (PBLS), came at a time when FCB has been struggling to meet regulatory Capital adequacy requirements. For more information, please see our Cytonn Weekly #11/2023.

The following are Mergers and Acquisitions that happened after Q1'2023:

a) On 22 May 2023, the Central Bank of Kenya (CBK) announced the acquisition of 20.0% stake of Credit Bank Plc by Shorecap III, LP a Private Equity fund registered under the laws of Mauritius, with Equator Capital Partners LLC as the managers of the fund. The value of the deal was not disclosed by the CBK, however, Shorecap III, LP will take over 7,289,928 ordinary shares which constitute of 20.0% of the ordinary shares of the Bank. The acquisition came after Oikocredit acquired 22.8% stake of the lender in August 2019, after paying a cash consideration of Kshs 1.0 bn, with the transaction trading at price to book (P/B) multiple of 1.5x. For more information, please see our Cytonn Weekly #21/2023, and,

b) On 14 June 2023 Equity Group Holdings Plc (EGH) announced that it had entered into a binding agreement with Government of Rwanda, Rwanda Social Security Board and other investors of Compagnie Generale De Banque (Cogebanque) Plc Limited to acquire a 91.9% stake in the Rwanda based lender. Upon the completion of the acquisition, EGH plans to eventually merge the business of the Cogebanque with its Rwandan Subsidiary, Equity Bank Rwanda Plc. Additionally, EGH intends to make an offer to the remaining shareholders to acquire all the shares in Cogebanque in a move that will make EGH take over 100.0% of the issued shares of Cogebanque.

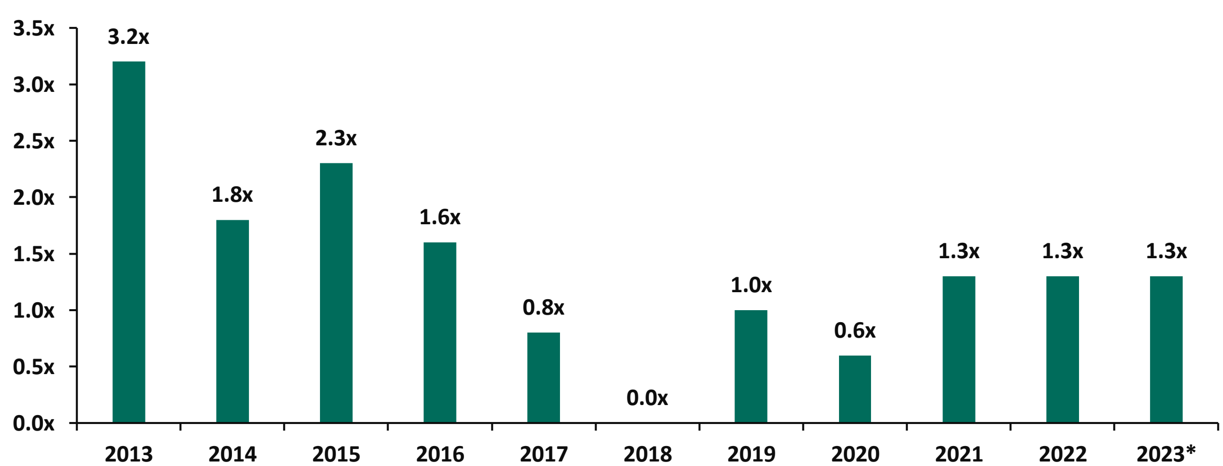
Below is a summary of the deals in the last 10 years that have either happened, been announced or expected to be concluded:

Cytonn Report: Banking sector Deals and Acquisitions						
Acquirer	**Bank Acquired**	**Book Value at Acquisition (Kshs bn)**	**Transaction Stake**	**Transaction Value (Kshs bn)**	**P/Bv Multiple**	**Date**
Equity Group	Cogebanque PLC ltd	5.7	91.90%	6.7	1.3x	Jun-23
Shorecap III	Credit Bank Plc	3	20.00%	Undisclosed	N/A	Jun-23
Premier Bank Limited	First Community Bank	2.8	62.50%	Undisclosed	N/A	Mar-23
KCB Group PLC	Trust Merchant Bank (TMB)	12.4	85.00%	15.7	1.5x	Dec-22
Equity Group	Spire Bank	Unknown	Undisclosed	Undisclosed	N/A	Sep-22*
Access Bank PLC (Nigeria)*	Sidian Bank	4.9	83.40%	4.3	1.1x	June-22*
KCB Group	Banque Populaire du Rwanda	5.3	100.00%	5.6	1.1x	Aug-21
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.00%	3.6	1.1x	Apr-21
KCB Group**	ABC Tanzania	Unknown	100%	0.8	0.4x	Nov-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.00%	1	0.3x	Aug-20
Commercial International Bank	Mayfair Bank Limited	1	51.00%	Undisclosed	N/D	May-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC.	1.9	100.00%	1.4	0.7x	Feb-20*
Equity Group **	Banque Commerciale Du Congo	8.9	66.50%	10.3	1.2x	Nov-19*
KCB Group	National Bank of Kenya	7	100.00%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23	0.7x	Sep-19

Oiko Credit	Credit Bank	3	22.80%	1	1.5x	Aug-19
CBA Group**	Jamii Bora Bank	3.4	100.00%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.20%	5.1	1.0x	Jan-18
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.00%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.00%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.00%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.00%	1.3	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	3	100.00%	5	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.00%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.00%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.00%	8.6	3.2x	Nov-13
Average			**75.0%**		**1.3x**	
Average: 2013 to 2018			**73.5%**		**1.7x**	
Average: 2019 to 2023			**75.8%**		**0.9x**	
*** Announcement Date**						
**** Deals that were dropped**						

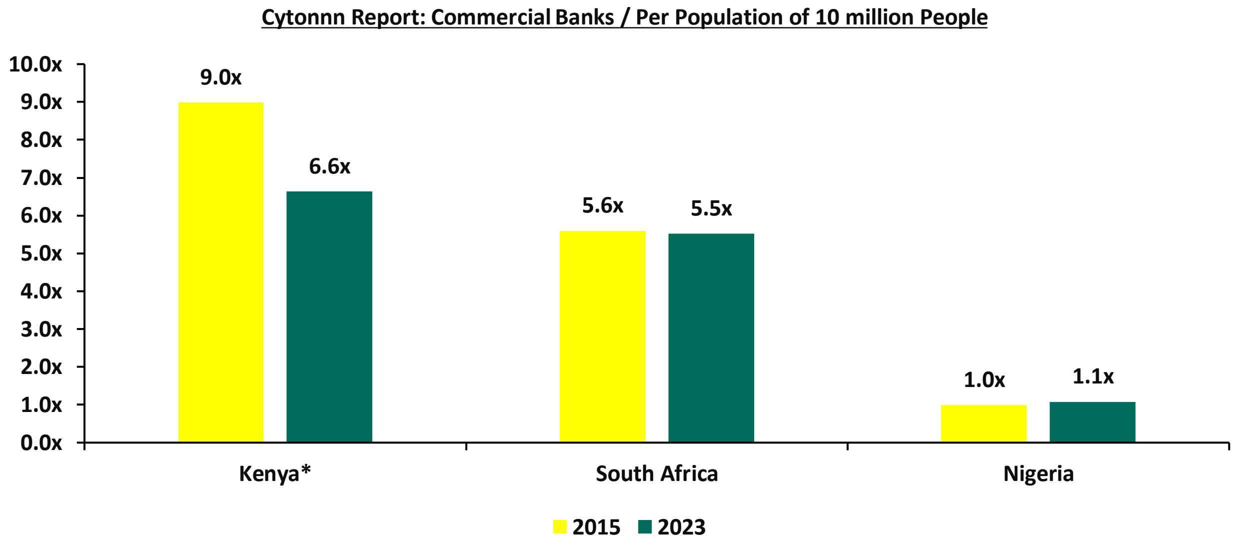
So far in 2023, the average acquisition valuations for banks have remained unchanged at 1.3x, similar to what was recorded in 2022. As such, the valuations still remain low compared to historical prices paid, as highlighted in the chart below;

Cytonn Report: Kenya Banking Sector: Yearly Average Price to Book Acquisition Multiple



**Data as of June 2023*

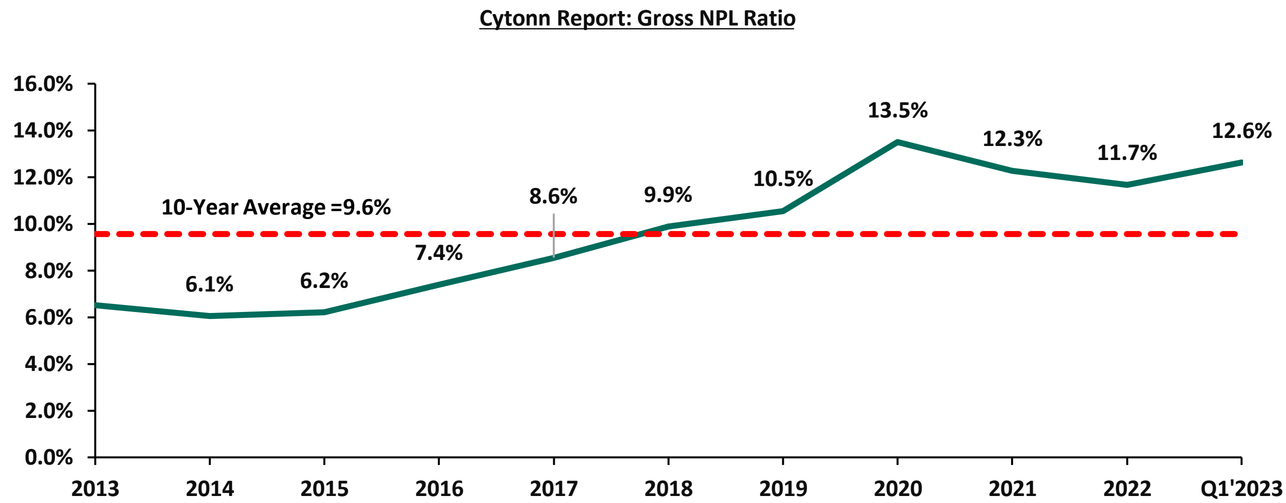
As at the end of Q1’2023, the number of commercial banks in Kenya stood at 38, same as in Q1’2022 but lower than 43 licensed banks in FY’2015. The ratio of the number of banks per 10 million populations in Kenya now stands at 6.6x, which is a reduction from 9.0x in FY’2015 demonstrating continued consolidation in the banking sector. However, despite the ratio improving, Kenya still remains overbanked as the number of banks remains relatively high compared to the African major economies. To bring the ratio to 5.5x, we ought to reduce the number of banks from the current 38 banks to 32 banks. For more on this see our topical.



*Source: World Bank, Central Bank of Kenya, South Africa Reserve Bank, Central Bank of Nigeria; * Data as of June 2023*

3. **Asset Quality:** Asset quality for listed banks deteriorated marginally in Q1'2023, with the weighted average Gross Non-Performing Loan ratio (NPL) increasing by 0.1% points to 12.6%, from 12.5% recorded in Q1'2022. The performance remained 3.0% points above the ten-year average of 9.6%. The slight deterioration in asset quality in Q1'2023 was mainly driven by 1.8% points increase in ABSA Bank's NPL ratio to 9.4%, from 7.6% in Q1'2022, coupled with 1.0% points increase in Equity Group NPL ratio to 10.0% from 9.0% in Q1'2022. The deterioration in ABSA Bank asset quality was mainly attributable to a 59.8% increase in gross non-performing loans to Kshs 31.1 bn in Q1'2023, from Kshs 19.5 bn in Q1'2022 which outpaced the 28.1% increase in gross loans to Kshs 329.9 bn from 257.5 bn in Q1'2022. However, the deterioration in listed banks asset quality was mitigated by an improvement in NCBA Group's Asset quality, with their NPL ratio declining by 3.5% points to 12.8%, from 16.3% in Q1'2022, mainly attributable to 11.9% decrease in Gross non-performing loans to Kshs 39.7 bn, from Kshs 45.1 bn in Q1'2022, coupled with a 12.0% increase in gross loans to Kshs 309.7 bn from Kshs 276.7 bn in Q1'2022. A total of 4 out of the ten listed Kenyan banks recorded improvement in asset quality, despite the deteriorated general business environment which was evidenced by the average Purchasing Managers Index coming at 49.3 in Q1'2023, lower than the average of 50.3 recorded in the same period in 2022. Additionally, according to the May 2023 MPC Press Release, the NPL ratio for the entire banking sector stood at 14.6% in April 2023, 0.5% points increase from 14.1% recorded in April 2022, an indication of further deterioration in the sector's asset quality. Going forward, we expect credit risk to remain elevated in the short to medium term mainly on the back of tough operating environment occasioned by elevated inflationary pressures as well as

sustained depreciation of the Kenya shilling. The chart below highlights the asset quality trend for the listed banks:



The table below highlights the asset quality for the listed banking sector:

Cytonn Report: Listed Banks Asset Quality						
	Q1'2023 NPL Ratio*	Q1'2022 NPL Ratio**	% point change in NPL Ratio	Q1'2023 NPL Coverage*	Q1'2022 NPL Coverage**	% point change in NPL Coverage
ABSA Bank Kenya	9.4%	7.6%	1.8%	63.9%	76.2%	(12.3%)
Equity Group	10.0%	9.0%	1.0%	62.0%	66.0%	(4.0%)
I&M Holdings	10.6%	10.0%	0.6%	65.8%	72.1%	(6.3%)
Stanbic Bank	11.7%	11.1%	0.6%	66.7%	59.1%	7.6%
Diamond Trust Bank	12.3%	12.6%	(0.3%)	45.9%	42.2%	3.7%
NCBA Group	12.8%	16.3%	(3.5%)	56.8%	72.6%	(15.8%)
Co-operative Bank of Kenya	14.1%	13.9%	0.2%	62.2%	65.3%	(3.1%)
Standard Chartered Bank Kenya	14.4%	15.4%	(1.0%)	86.8%	81.8%	5.0%
KCB	17.1%	16.9%	0.2%	57.3%	52.7%	4.6%
HF Group	19.9%	20.5%	(0.6%)	81.4%	76.1%	5.3%
Mkt Weighted Average	**12.6%**	**12.5%**	**0.1%**	**63.7%**	**65.1%**	**(1.4%)**
*Market cap weighted as at 15/06/2023						
**Market cap weighted as at 17/06/2022						

Key take-outs from the table include;

i. Asset quality for the listed banks deteriorated marginally during the period, with the market-weighted average NPL ratio increasing by 0.1% points to 12.6%, from 12.5% in Q1’2022. The deterioration was largely driven by deterioration in ABSA Bank’s and Equity Group’s asset quality with their NPL ratios increasing by 1.8% and 1.0% points to 9.4% and 10.0%, from 7.6% and 9.0%, respectively recorded in Q1’2022

ii. ABSA Bank had the highest NPL Ratio jump by 1.8% points to 9.4% in Q1’2023 from 7.6% in Q1’2022, attributable to a 59.8% increase in gross non-performing loans to Kshs 31.1 bn in Q1’2023 from Kshs 19.5 bn in Q1’2022 which outpaced the 28.1% increase in gross loans to Kshs 329.9 bn in Q1’2023 from 257.5 bn in Q1’2022,

iii. NCBA Group recorded the highest improvement in its asset quality with the NPL ratio declining by 3.5% points to 12.8% from 16.3% recoded in Q1’2022. The improvement in asset quality was mainly attributable to an 11.9% decline in gross non-performing loans to Kshs 39.7 bn in Q1’2023 from Kshs 45.1 bn in Q1’2022, coupled with a 12.0% increase in gross loans to Kshs 309.7 bn in Q1’2023 from 276.7 bn in Q1’2022, and,

iv. Market weighted average NPL Coverage for the listed banks declined by 1.4% points to 63.7% in Q1’2023, from 65.1% recorded in Q1’2022. The decrease was mainly attributable to decrease in NCBA Group’s, ABSA Bank’s, Equity Group’s and I&M Group’s NPL coverage by 15.8%, 12.3% and 6.3% points to 56.8%, 63.9% and 65.8%, from 72.6%, 76.2% and 72.1%, respectively in Q1’2022

Section II: Summary of the Performance of the Listed Banking Sector in Q1’2023:

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

Cytonn Report: Listed Banks Performance in Q1’2023													
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 Fees & Commissions	Deposit Growth	Growth in Government Securities	Loan to Deposit Ratio	Loan Growth	Return on Average Equity
HF Group	143.5%	15.1%	9.1%	21.0%	5.0%	8.7%	30.4%	(29.7%)	7.4%	31.4%	89.7%	6.2%	3.8%
Stanbic Bank	84.3%	49.1%	59.7%	44.7%	7.2%	89.3%	51.4%	17.7%	23.8%	9.7%	79.1%	11.5%	20.7%
Absa Bank	50.7%	38.3%	46.8%	36.0%	8.3%	49.3%	32.5%	29.7%	15.3%	(1.8%)	99.7%	27.7%	25.5%
NCBA Group	48.5%	21.0%	25.2%	18.0%	6.0%	18.5%	46.2%	9.1%	7.3%	6.4%	57.5%	17.7%	18.4%
SCBK	45.7%	34.1%	(5.4%)	40.1%	7.3%	55.5%	35.9%	13.3%	14.2%	(6.2%)	45.3%	7.0%	23.0%
DTBK	11.3%	32.1%	49.2%	20.7%	5.4%	59.1%	29.6%	26.5%	17.9%	3.1%	66.8%	20.3%	9.1%
Equity Bank	7.9%	21.6%	46.9%	12.1%	7.4%	54.3%	45.9%	39.2%	23.3%	(7.7%)	68.1%	21.3%	26.8%
Coop Bank	4.7%	11.2%	32.2%	3.9%	8.5%	10.8%	39.7%	9.7%	2.2%	(2.3%)	85.8%	11.0%	20.7%
KCB Group	(1.0%)	26.2%	67.7%	11.8%	7.3%	59.2%	40.1%	65.5%	41.5%	4.8%	77.6%	31.9%	20.9%
I&M Holdings	(2.0%)	18.3%	20.2%	17.0%	6.3%	58.8%	36.4%	16.6%	4.9%	(13.3%)	79.4%	18.0%	14.4%
Q1'23 Mkt Weighted Average*	**25.0%**	**26.2%**	**40.2%**	**20.1%**	**7.3%**	**48.1%**	**41.3%**	**30.0%**	**19.0%**	**(1.2%)**	**73.1%**	**19.6%**	**22.1%**
Q1'22 Mkt Weighted Average**	**37.9%**	**17.8%**	**17.1%**	**17.7%**	**7.3%**	**21.4%**	**35.9%**	**21.7%**	**9.5%**	**17.6%**	**73.9%**	**17.2%**	**21.9%**
*Market cap weighted as at 15/06/2023													
**Market cap weighted as at 17/06/2022													

Key takeaways from the table include:

i. Listed banks recorded a 25.0% growth in core Earnings per Share (EPS) in Q1’2023, compared to the weighted average growth of 37.9% in Q1’2022, an indication of sustained performance despite the tough operating environment experienced in Q1’2023 on the back of elevated inflationary pressures. The performance during the period was mainly supported by a 48.1% weighted average growth in non-funded income, coupled with a 20.1% weighted average growth in net interest income,

ii. The listed banks continued to implement their revenue diversification strategies, as evidenced by non-funded income weighted average growth of 48.1% in Q1’2023 compared to a weighted average growth of 21.4% in Q1’2022. The performance was largely supported by the increase in foreign exchange income recorded by the banks during the period as a result of increased dollar demand in the country,

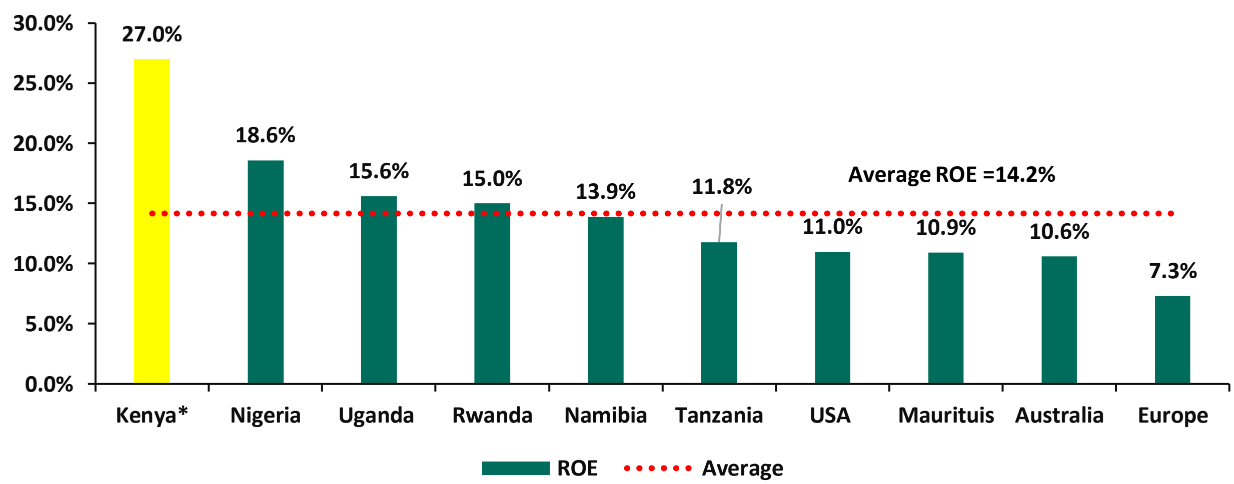
iii. Listed banks investments in government securities slowed down in Q1’2023, having recorded a market weighted average decline of 1.2% compared to a 17.6% growth recorded in Q1’2022. The slowed growth of investment in Kenya government securities is partly attributable to the increased perceived risk of default by the government, mainly on the back of high debt sustainability concerns given the current high public debt stock as well as the upcoming Eurobond maturity in June 2024,

iv. The listed banks Net loans and advances to customers recorded a weighted average growth of 19.6% in Q1’2023 compared to 17.2% in Q1’2023, an indication of increased lending despite the elevated credit risk,

v. Interest income recorded a weighted average growth of 26.2% in Q1’2023, compared to 17.8% in Q1’2022. Similarly, interest expenses recorded a market weighted average growth of 40.2% in Q1’2023 compared to a growth of 17.1% in Q1’2022. As such, net interest income recorded a weighted average growth of 20.1% in Q1’2022 compared to 17.7% in Q1’2022,

vi. The listed banks recorded a 22.1% weighted average growth on return on average equity (RoaE), 0.2% higher than the 21.9% growth recorded in Q1’2022. Additionally, the entire banking sector’s Return On Equity (ROE) recorded 1.9% points increase to 27.0% in Q1’2023, from 25.1% recorded in Q1’2022. As such, the Kenyan banking sector continues to record high profitability compared to other economies in the world, as highlighted in the chart below:

Cytonn Report: Banking Sector Return on Equity (ROE)



*Source: Online research, * Figure as of Q1’2023*

Section III: Outlook of the banking sector:

The banking sector continued to showcase sustained performance despite the tough operating environment occasioned by elevated inflationary pressures, as evidenced by the increase in their profitability, with the Core Earnings Per Share (EPS) growing by 25.0%, majorly supported by the Non-Funded income as banks continued to implement their revenue diversification strategies. However, in the short to medium term, we expect profitability to be weighed down by the expected increase in provisioning aimed at cushioning banks from the elevated credit risk arising from the deteriorated business environment. As such, we expect the future performance of the banking sector to be mainly supported by the following key factors**:**

I. **Regional Expansion and Further Consolidation:** Consolidation remains a key theme going forward, with the current environment offering opportunities for well-capitalized banks to expand and take advantage of the market's low valuations, as well as further consolidate out smaller and less-capitalized banks. Notably, the majority of the bigger banks have continued to cushion unsystematic risks specific to the local market by expanding their operations into other African nations. Banks such as KCB and Equity Group have been leveraging expansion and consolidation, which has largely contributed to their increased asset base as well as earnings growth. As such, we expect to see a continued expansion trend aimed at revenue optimization. Additionally, the Ethiopian government opened up the financial sector to foreign investors, which provides a great opportunity for Kenyan banks to expand their operations into this untapped market,

II. **Revenue Diversification:** In Q1'2023, non-funded income (NFI) recorded a 48.1% weighted average growth compared to a 21.4% weighted growth in Q1'2023, with many banks diversifying their revenue sources. Consequentially, the weighted average contribution of NFI to total operating income came in at 41.3% in Q1'2023, 5.4% points higher than the 35.9% weighted average growth contribution recorded in Q1'2022. As such, there exists an opportunity for the sector to further increase NFI contributions to revenue given the continuous adoption of digitization. Additionally, the reinstatement of charges for transactions between bank accounts and mobile money wallets is also expected to continue spurring NFI growth due to the increased adoption of digital channels, and,

III. **Growth in Interest income:** Going forward, we expect interest income growth to remain a key driver in the banking industry, as evidenced by the weighted average growth of 26.2% in Q1'2023, compared to 17.8% recorded in Q1'2022. Additionally, the continued approval of banks risk-based lending models will enable banks to effectively price their risk, expand loan books, and consequently increase their interest income.

Section IV: **Brief Summary and Ranking of the Listed Banks:**

As per our analysis of the banking sector from a franchise value and a future growth opportunity perspective, we carried out a comprehensive ranking of the listed banks. For the franchise value ranking, we included the earnings and growth metrics as well as the operating metrics shown in the table below in order to carry out a comprehensive review of the banks:

Cytonn Report: Listed Banks Earnings, Growth and Operating Metrics								
Bank	Loan to Deposit Ratio	Cost to Income (With LLP)	Return on Average Capital Employed	Deposits/ Branch (bn)	Gross NPL Ratio	NPL Coverage	Tangible Common Ratio	Non-Funded Income/Revenue
Absa Bank	99.7%	53.7%	10.1%	3.7	9.4%	63.9%	13.1%	32.5%
NCBA Group	57.5%	58.9%	7.6%	4.8	12.8%	56.8%	13.2%	46.2%
Equity Bank	68.1%	57.9%	9.6%	3.1	10.0%	62.0%	11.2%	45.9%
KCB Group	77.6%	62.4%	7.1%	2.0	17.1%	57.3%	11.6%	40.1%
SCBK	45.3%	47.6%	9.7%	9.5	14.4%	86.8%	14.5%	35.9%
Coop Bank	85.8%	54.9%	7.6%	2.3	14.1%	62.2%	16.9%	39.7%
Stanbic Bank	79.1%	50.7%	10.5%	9.7	11.7%	66.7%	14.2%	51.4%
DTBK	66.8%	61.7%	5.1%	3.1	12.3%	45.9%	13.0%	29.6%
I&M Holdings	79.4%	63.0%	4.7%	3.9	10.6%	65.8%	15.5%	36.4%
HF Group	89.7%	90.0%	1.1%	1.8	19.9%	81.4%	14.5%	30.4%
Weighted Average Q1'2023	**73.1%**	**56.7%**	**8.5%**	**4.3**	**12.6%**	**63.7%**	**13.2%**	**41.3%**
Market cap weighted as at 15/06/2023								

The overall ranking was based on a weighted average ranking of Franchise value (accounting for 60.0%) and intrinsic value (accounting for 40.0%). The Intrinsic Valuation is computed through a combination of valuation techniques, with a weighting of 40.0% on Discounted Cash-flow Methods, 35.0% on Residual Income and 25.0%

on Relative Valuation, while the Franchise ranking is based on banks operating metrics, meant to assess efficiency, asset quality, diversification, and profitability, among other metrics. The overall Q1’2023 ranking is as shown in the table below:

Cytonn Report: Listed Banks Q1’2023 Rankings					
Bank	Franchise Value Rank	Intrinsic Value Rank	Weighted Rank	Q1’2022	Q1’2023
Equity Group Holdings Ltd	5	1	2.6	1	1
ABSA Bank	3	3	3.0	5	2
Co-operative Bank of Kenya Ltd	2	5	3.8	4	3
KCB Group Plc	7	2	4.0	2	4
NCBA Group Plc	8	4	5.6	6	5
Stanbic Bank/Holdings	1	9	5.8	8	6
I&M Holdings	4	8	6.4	3	7
SCBK	6	7	6.6	7	8
DTBK	9	6	7.2	9	9
HF Group Plc	10	10	10.0	10	10

Major Changes from the Q1’2023 Ranking are:

1. ABSA Bank’s rank improved to position 2 in Q1’2023 from position 5 in Q1’2022, majorly driven by a strong franchise score driven by improvement in the bank’s management quality, with the cost to income ratio with LLPs declining by 2.9% to 53.7% in Q1’2023, from 56.6% in Q1’2022. Similarly, the cost to income ratio without LLPs declined by 8.3% points to 36.3% in Q1’2023, from 44.6% in Q1'2022,
2. NCBA Group’s rank improved to position 5 in Q1’2023, from position 6 in Q1’2022, mainly attributable to a 3.5% points decline in the group’s NPL ratio to 12.8% from 16.3% recorded in Q1’2022, as well as an increase in the group’s return on average equity to 18.4%, from 14.0% in Q1’2022. Additionally, the group’s net interest margin increased to 6.0%, from the 5.7% recorded in Q1’2022,
3. I&M Group’s rank declined to position 7 in Q1’2023, from position 3 in Q1’2022, mainly due to a deterioration in the group’s asset quality as the gross NPL ratio rose to 10.6%, from the 10.0% recorded in Q1’2022. Additionally, there was a deterioration in operating efficiency, with the cost-to income ratio with LLPs increasing by 11.0% points to 63.0% from 52.0% recorded in Q1’2022, while the cost-to ratio without LLPs also increased by 0.3% to 45.8% from 45.5% in Q1’2022, and,
4. KCB Group’s rank declined to position 4 in Q1’2023, from position 2 in Q1’2022, mainly due to a deterioration in management quality, with the cost-to income ratio with LLPs increasing by 10.7% points to 62.4% from 51.7% recorded in Q1’2022, while the cost-to income without LLP also increased by 6.7% to 51.2% from 44.5% in Q1'2022. Additionally, the Group’s asset quality deteriorated with the NPL ratio increasing to 17.1%, from 16.9% recorded in Q1’2022.

For more information, see our Cytonn Q1’2023 Listed Banking Sector Review