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Cyttonn FY'2019 Listed Banking Sector Earnings Performance Note

All listed banks in Kenya have released their FY'2019 results, recording an average core earnings per share growth of 9.9%, compared to a growth of 13.8% the previous year. The sector recorded a strong deposit growth, which came in at 12.8%, faster than the 10.3% growth recorded in FY'2018. Average loan growth came in at 13.2%, which was faster than the 4.3% recorded in FY'2018, indicating that there was an improvement in credit extension, with banks targeting select segments such as corporate entities and Small and Medium Enterprises (SMEs). 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:

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
I&M	26.6%	4.5%	12.0%	(0.5%)	6.3%	9.1%	34.8%	5.0%	7.6%	3.4%	76.3%	5.2%	19.5%
ABSA	21.2%	6.8%	11.0%	5.4%	7.7%	9.1%	31.4%	8.8%	14.6%	32.3%	82.0%	9.9%	16.7%
Equity	13.8%	12.2%	24.8%	8.6%	8.5%	19.0%	40.6%	16.1%	14.2%	6.2%	75.9%	23.3%	22.8%
COOP	12.4%	1.4%	0.8%	1.7%	8.5%	33.1%	5.9%	34.7%	8.7%	46.8%	80.1%	8.7%	19.2%
KCB	4.9%	12.2%	4.4%	15.0%	8.2%	22.6%	33.4%	39.0%	27.7%	41.0%	78.0%	17.4%	20.4%
SCBK	1.7%	(5.9%)	(22.4%)	0.4%	7.4%	0.3%	32.2%	(4.7%)	1.8%	0.9%	56.3%	8.5%	17.5%
Stanbic	1.6%	8.1%	7.1%	10.7%	5.2%	14.0%	46.1%	11.7%	2.4%	(12.7%)	85.1%	9.3%	13.6%
DTBK	1.6%	(6.9%)	(7.3%)	(6.5%)	5.6%	6.2%	23.6%	3.1%	(0.9%)	12.9%	71.1%	3.1%	12.9%
NCBA	(12.4%)	(34.1%)	(34.0%)	(34.2%)	3.3%	25.9%	60.0%	14.4%	10.9%	11.8%	65.9%	4.1%	11.8%
HF	N/A	(15.4%)	(16.7%)	(13.2%)	(0.2%)	6.4%	4.8%	91.2%	7.7%	43.3%	103.1%	(11.3%)	(1.1%)
FY'19 Mkt Weighted Average*	9.9%	4.8%	5.1%	4.9%	7.5%	17.2%	32.4%	18.7%	12.8%	19.9%	75.5%	13.2%	18.9%
FY'18 Mkt Weighted Average**	13.8%	6.5%	10.6%	2.6%	7.9%	3.8%	33.2%	(1.0%)	10.3%	9.1%	75.5%	4.3%	19.0%

*Market cap weighted as at 31/03/2020

**Market cap weighted as at 31/12/2018

Key takeaways from the table above include:

- i. All listed Kenyan banks have released results for FY'2018, and have recorded a 9.9% average increase in core Earnings Per Share (EPS), compared to a growth of 13.8% in FY'2018, and consequently, the Return on Average Equity (RoAE) declined marginally to 18.9%, from 19.0% in FY'2018. All listed banks apart from HF Group and NCBA have recorded growths in their core EPS, with I&M Holdings recording the highest growth of 26.6%, and the lowest being HF Group, which recording a loss per share of Kshs 0.3,
- ii. The sector recorded strong deposit growth, which came in at 12.8%, faster than the 10.3% growth recorded in FY'2018. Despite the relatively fast deposit growth, interest expenses growth of 5.1% was slower than the 10.6% growth recorded in FY'2018, indicating that banks have been able to mobilize relatively cheaper deposits after the September 2018 implementation of the Finance Act 2018, which saw the removal of the minimum interest rate payable on deposits, which stood at 70.0% of the Central Bank Rate (CBR). This helped mitigate high increments in interest expense, despite the relatively fast deposit growth,
- iii. Average loan growth came in at 13.2%, which was faster than the 4.3% recorded in FY'2018, indicating that there was an improvement in credit extension, with banks targeting select segments such as corporate entities and Small and Medium Enterprises (SMEs), the growth in loans was accelerated towards the tail end of FY'2019 following the repeal of interest rate cap in November 2019. Government securities, on the other hand, recorded a growth of 19.9% y/y, which was faster compared to the loans and the 9.1% growth recorded in FY'2018. This highlights banks' continued preference towards investing in government securities, which offer better risk-adjusted returns. Interest income increased by 4.8%, compared to a growth of 6.5% recorded in FY'2018. The slower 4.8% growth in interest income compared to the 6.5% recorded in FY'2018, may be attributable to the lower yields on interest earning assets compared to FY'2018. Consequently, the Net Interest Margin (NIM) in the banking sector currently stands at 7.5%, a decrease from the 7.9% recorded in FY'2018, despite the Net Interest Income increasing by 4.9% y/y, and,
- iv. Non-funded Income grew by 17.2% y/y, faster than 3.8% recorded in FY'2018. The growth in NFI was supported by the 18.7% average increase in total fee and commission income, which was faster than the (1.0%) growth recorded in FY'2018.

Highlights of Individual Bank's Performance

Eight of the ten listed banks recorded growth in core earnings per share, save for NCBA and HF group, which slipped to core losses.

Key to note: Results released by NCBA were on a prospective basis (a continuation of CBA) representing the 9 months performance of CBA Bank and 3 months performance of NCBA Bank (Merged bank); prior year comparatives are of those of CBA Bank. In our analysis, we have used the pro forma combined statements of the two Banks as a 2018 comparative. The highlights from the individual banks is as follows:

- i. Equity Holdings registered a 13.8% increase in its core earnings per share, to Kshs 6.0 from Kshs 5.3 in FY'2018, slower than our projections of an 17.6% increase to Kshs 6.2. The performance was driven by a 12.6% increase in total operating income. The variance in core earnings per share growth against our expectations was largely due to the 14.1% rise in total operating expenses to Kshs 44.3 bn from Kshs 38.8 bn in FY'2018, which was higher than our expectation of a 10.1% increase. For more information, see our [Equity Holdings FY'2019 Earnings Note](#),
- ii. I&M Holdings registered a 26.6% increase in its core earnings per share, to Kshs 13.0 from Kshs 10.3 (normalized EPS) in FY'2018, in line with our projections of a 28.2% increase to Kshs 13.2. The

- performance was driven by a 2.6% increase in total operating income, as well as a 17.8% decrease 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 income to Kshs 23.8 bn, from Kshs 23.2 bn in FY'2018, which was slower than our expectation of an 11.8% rise. For more information, see our [I&M Holdings FY'2019 Earnings Note](#),
- iii. Standard Chartered Bank Kenya registered a 1.7% increase in its core earnings per share, to Kshs 24.0, from Kshs 23.6 per share in FY'2018, below our expectation of a 9.8% increase to Kshs 25.9. The performance was driven by a 0.4% increase in total operating income, coupled with a 1.3% decline in total operating expenses. The variance in core earnings per share growth against our expectations was due to the 0.4% increase in total operating income, which was lower than our expectation of a 4.7% increase. For more information, see our [Standard Chartered Bank FY'2019 Earnings Note](#),
 - iv. Co-operative Bank of Kenya registered a 12.4% increase in its core earnings per share to Kshs 2.4 from Kshs 2.2 in FY'2018, which was not in line with our projections of a 4.1%. The performance was driven by a 10.9% increase in total operating income to Kshs 48.5 bn in FY'2019, from Kshs 43.7 in FY'2018, which outpaced the 8.2% increase in total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the 8.2% rise in total operating expenses to Kshs 27.8 bn in FY'2019, from Kshs 25.7 bn in FY'2018, which was not in line with our expectation of an 11.3% increase to Kshs 28.6 bn. For more information, see our [Co-operative Bank FY'2019 Earnings Note](#),
 - v. Diamond Trust Bank Kenya registered a 1.6% increase in core earnings per share, to Kshs 24.3, from Kshs 23.9 in FY'2018, slower than our expectation of a 3.7% increase to Kshs 24.8 per share. The performance was driven by an 8.7% decline in total operating expenses, which mitigated the 3.8% decline in total operating income. The variance in core earnings per share growth against our expectations was largely due to the slower 8.7% decline in total operating expense, against our 12.3% expectations. For more information, see our [Diamond Trust Bank FY'2019 Earnings Note](#),
 - vi. NCBA Group registered a 12.4% decline in core earnings per share, to Kshs 11.1 from Kshs 12.7 in FY'2018. The performance was driven by a 7.6% decline in total operating income to Kshs 33.7 bn from Kshs 36.4 bn in FY'2018, despite the 15.7% decline in total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the 34.2% decline in Net Interest Income to Kshs 13.3 bn, from Kshs 20.3 bn in FY'2018, against our expectation of a 9.7% increase in NII to Kshs 22.3 bn, The downside was however mitigated by a 15.7% decline in total operating expenses to Kshs 20.4 bn in FY'2019, from Kshs 24.2 bn in FY'2018. For more information, see our [NCBA Group FY'2019 Earnings Note](#),
 - vii. ABSA Bank of Kenya registered a 21.2% increase in core earnings per share to Kshs 1.65, from Kshs 1.37 in FY'2018, above our expectation of a 5.1% increase to Kshs 1.44. The performance was driven by a 6.5% increase in total operating income, despite the 2.1% increase in total operating expenses. The variance in core earnings per share growth against our expectations was largely due to the 8.5% increase in Loan Loss Provisions (LLP) to Kshs 4.2 bn, from Kshs 3.9 bn in FY'2018, against our expectation of a 31.4% increase in LLP to Kshs 5.1 bn. For more information, see our [ABSA Bank of Kenya FY'2019 Earnings Note](#),
 - viii. KCB Group registered a 4.9% increase in core earnings per share, to Kshs 7.8, from Kshs 7.5 in FY'2018, below our expectation of a 6.4% increase. The performance was driven by a 17.4% growth in total operating income to Kshs 84.3 bn, from Kshs 71.8 bn in FY'2018, coupled with a 24.9% rise in total operating expenses to Kshs 47.4 bn, from Kshs 37.9 bn in FY'2018. The variance in core earnings per share growth against our expectations was largely attributable to the 24.9% increase in total expenses to Kshs 47.4 bn, from Kshs 37.9 bn in FY'2018, which exceeded our expectations of a 10.8% increase. For more information, see our [KCB Group FY'2019 Earnings Note](#),
 - ix. Stanbic Holdings registered a 1.6% increase in core earnings per share to Kshs 16.1 from Kshs 15.9 in FY'2018, below our expectations of a 14.3% increase to Kshs 18.2. The variance was due to the 12.2%

- growth in total operating income to Kshs 24.8 bn in FY'2019 from Kshs 22.1 bn in FY'2018 which was slower than our projections of Kshs 26.7 bn. The growth was however mitigated by a 25.6% increase in total operating expenses to Kshs 13.9 bn, from Kshs 11.1 bn in FY'2018 which outpaced the growth in total operating Income. For more information, see our [Stanbic holdings FY'2019 Earnings Note](#),
- x. HF Group released their FY'2019 financial results, recording a loss per share of Kshs 0.3 in FY'2019, an improvement from a loss per share of Kshs 1.6 recorded in FY'2018, not in-line with our expectations of Kshs 0.3 earnings per share. The performance of the group can be attributed to a faster 17.1% decline in total operating expenses, which out-paced the 6.0% decline in total operating income. For more information, see our [HF Group FY'2019 Earnings Note](#).

We will release our Cyttonn FY'2019 Banking Sector Report on 3rd May, 2020, in which we will comprehensively analyze 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.