# Kenya Listed Commercial Banks Review

# Cytonn Q3'2022 Banking Sector Report

## "Revenue Diversification Spurs Earnings Growth"

Cytonn

9th December, 2022

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# I. Introduction to Cytonn

# About Us

Cytonn Investments is an alternative investment manager, with real estate development capability, and a primary focus on private equity and real estate investments in the high growth Kenyan Region. Cytonn has a unique strategy of coupling two compelling demand areas - the lack of high yielding investment products and the lack of institutional grade real estate. We provide high yielding investment instruments to attract funding from investors, and we deploy that funding to largely pre-sold investment grade real estate. With offices in Kenya and Washington, DC - USA, we are primarily focused on offering alternative investment solutions to global and local institutional investors, individual high net-worth investors, and diaspora investors interested in the East-African region. Real estate investments are made through our development affiliate, Cytonn Real Estate, where we currently have over Kshs. 82 billion (USD 820 mn) of projects under mandate across ten projects. In private equity, we invest in banking, education, and hospitality.

**82** Over Kshs. 82 billion worth of projects under mandate

**3** Three offices across 2 continents

**500** Over 500 staff members, including Cytonn Distribution

**10** 10 investment ready projects in real estate

## A unique franchise differentiated by:

**Independence & Investor Focus**

Focused on serving the interest of clients, which is best done on an independent platform to minimize conflicts of interest

**Alternative Investments**

Specialized focus on alternative assets - Real Estate, Private Equity, and Structured Solutions

**Strong Alignment**

Every staff member is an owner in the firm. When clients do well, the firm does well; and when the firm does well, staff do well

**Committed Partners**

Strong global and local partnerships in financing, land and Cytonn Real Estate, our development affiliate

# Why We Exist

Africa presents an attractive investment opportunity for investors seeking attractive and long-term returns. Despite the alternative markets in Africa having high and stable returns, only a few institutional players serve the market. Cytonn is focused on delivering higher returns in the alternative markets, while providing the best client service and always protecting our clients' interests.

**WE SERVE THREE MAIN CLIENT SEGMENTS:**

- High Net-worth Individuals through Cytonn Private Wealth. This is done through our captive Distribution Network
- East Africans in the Diaspora through Cytonn Diaspora
- Global and Local Institutional Clients. These clients are served from our Investment & Fundraising Team

**WE INVEST OUR CLIENT FUNDS IN:**

- Real Estate, and Real Estate Related Businesses
- Private Equity
- Fixed Income Structured Solutions
- Equities Structured Solutions

**We collect funds from our clients** → **We invest them in high growth opportunities** → **We deliver the best possible returns**

# Our Business Structure

**Cytonn Investments Management Plc**

- **Cytonn Capital Partners** (Private Markets)
  - Private Offers and Real Estate Investments
  - Cytonn Hospitality
  - Superior Homes Kenya
- **Cytonn Asset Managers** (Regulated by CMA & RBA)
  - Unit Trust Funds
  - Cytonn Africa Financial Fund
  - Cytonn Advisory
  - Pension Fund Management
- **Cytonn Real Estate**
  - Research and Deal Origination
  - Project Management
  - Quality Assurance/ Control
  - Cytonn Procurement - Cymatt
  - Cytonn Real Estate Legal
  - Cytonn Properties
  - Cytonn Centre for Affordable Housing
- **Other Strategic Initiatives**
  - Cytonn Distribution
  - East African Forum for Alternative Investments

# II. Kenya Economic Review and Outlook

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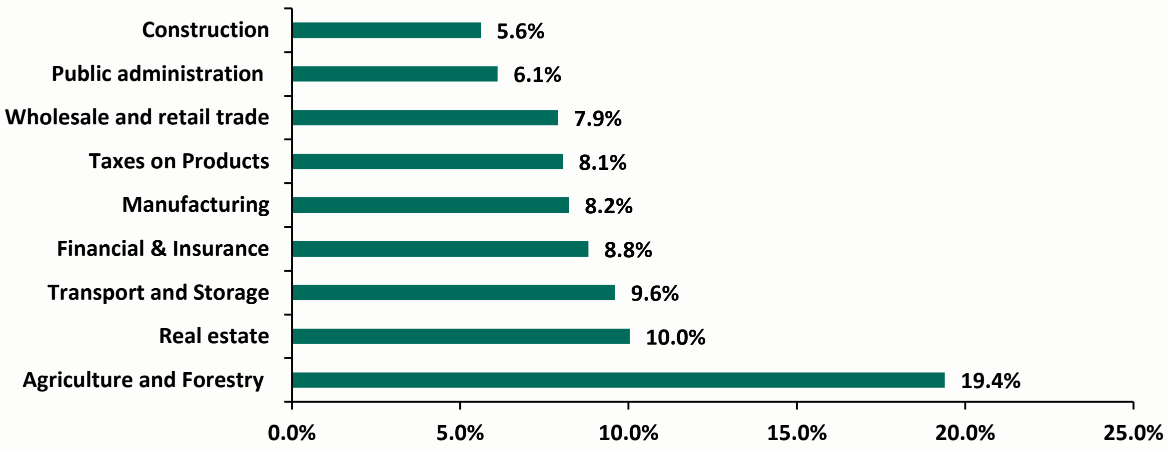
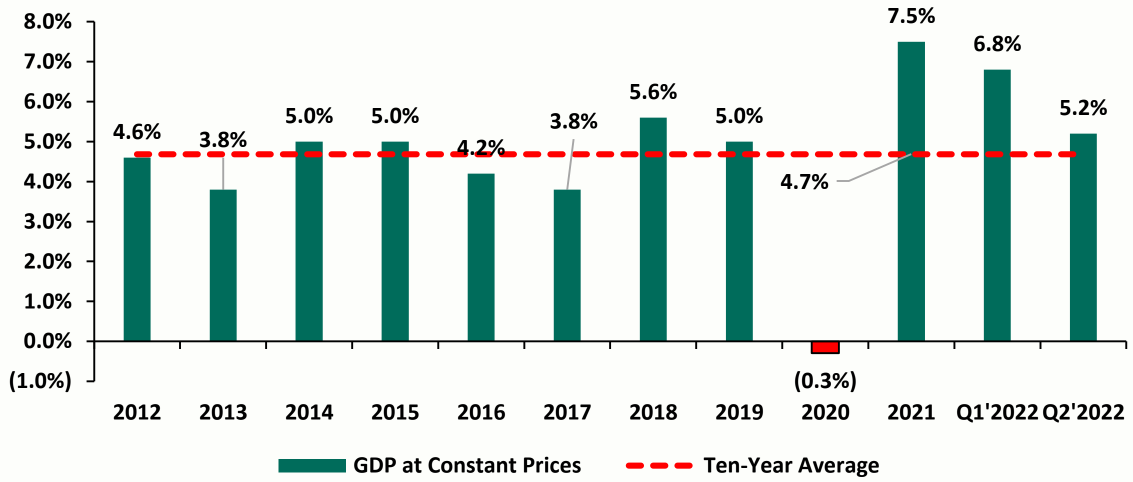
# We expect gradual economic improvement in 2022

Cytonn Report: Q2’2022 GDP Contribution by sector




Cytonn Report: GDP Growth Rates




*Source: KNBS*

- The Kenyan Economy recorded a 5.2% expansion in Q2’2022, lower than the 6.8% and 11.0% growth recorded in Q1’2022 and Q2’2021, respectively pointing towards sustained economic recovery. The performance was largely supported by significant growth recorded in sectors like Mining and Quarrying (22.6%), Accommodation and Food Services activities (22.0%), Financial and Insurance (11.6%) and transportation and storage (7.1%), among others,
- The biggest gainer in terms of sectoral contribution to GDP was Financial and Insurance sector, increasing by 0.5% points to 8.8% from 8.3% in Q2’2021, while Agriculture and Forestry was the biggest loser, declining by 1.5% points to 19.4% in Q2’2022, from 20.9% in Q2’2021

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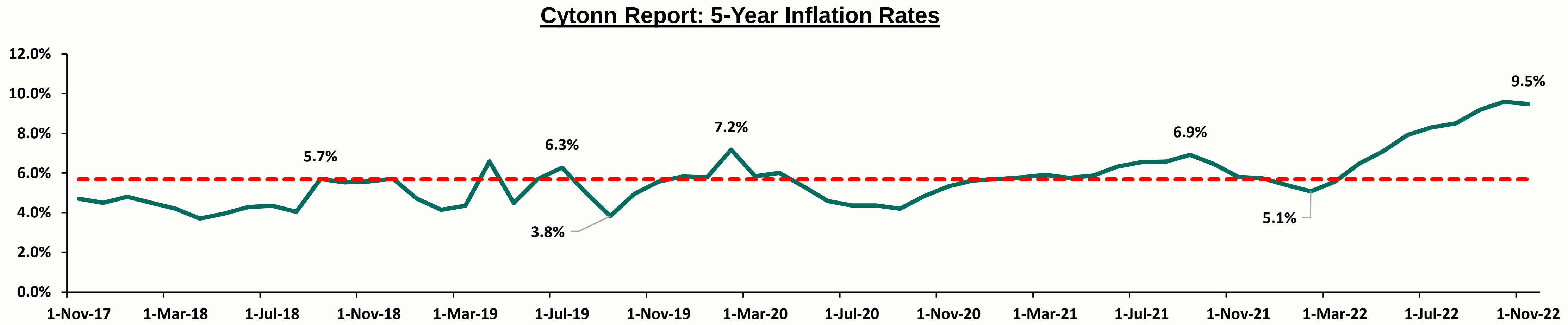
# Inflation

## Inflation has averaged 8.7% in Q3'2022 compared to 6.7% in a similar period in 2021




**Source: KNBS*

- The average inflation rate increased to 8.7% in Q3'2022 compared to 6.7% in a similar period in 2021 mainly attributable to the surge in food and fuel prices. Inflation for the month of November 2022 marginally declined by 0.1% to 9.5%, from 9.6% recorded in October 2022. The high inflation rate was mainly attributable to a 15.4%, 11.7% and 6.1% increase in the food and non-alcoholic beverages index, transport as well as housing, water, electricity, gas and other fuels index
- Going forward, we expect inflationary pressures to remain elevated on the back of high fuel prices. With fuel being a major input in most businesses, we expect the high fuel prices to continue contributing to the elevated cost of production consequently elevating prices of commodities

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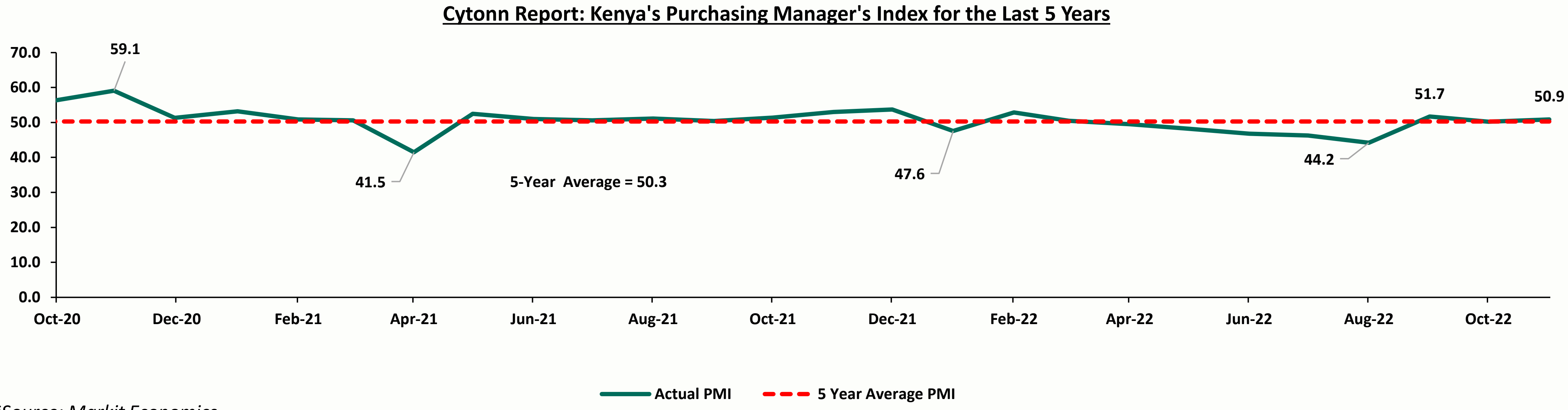
# Stanbic PMI Index

## The PMI for the last three months averaged 50.9




**Source: Markit Economics*

- Kenya's general business environment has continued to improve with the average PMI for the last three months coming at 50.9, higher than the 50.0 threshold, pointing towards an improvement in business environment
- Going forward, we expect the general business environment to remain subdued in the short term owing primarily to the high cost of living arising from the elevated inflationary pressures which has led to reduced consumer spending

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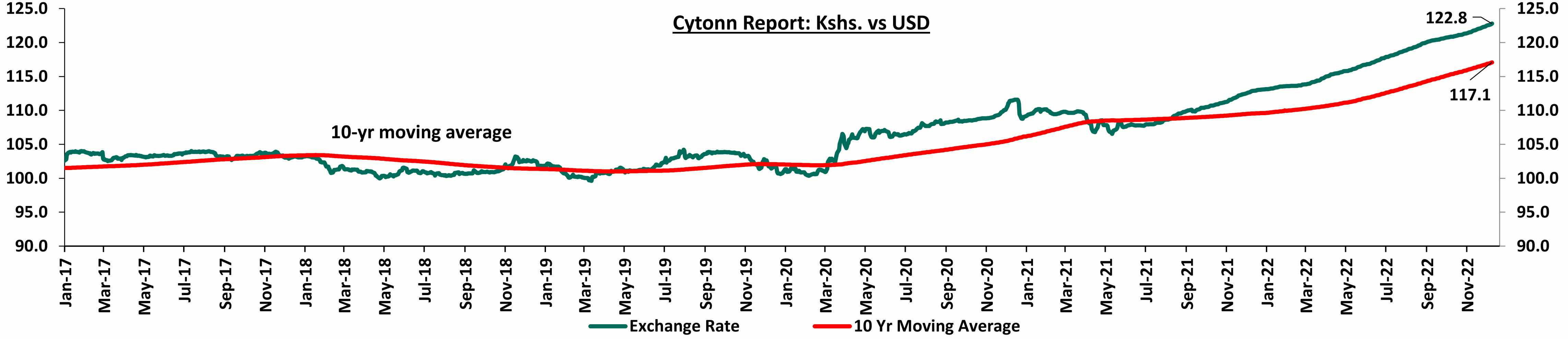
# Currency

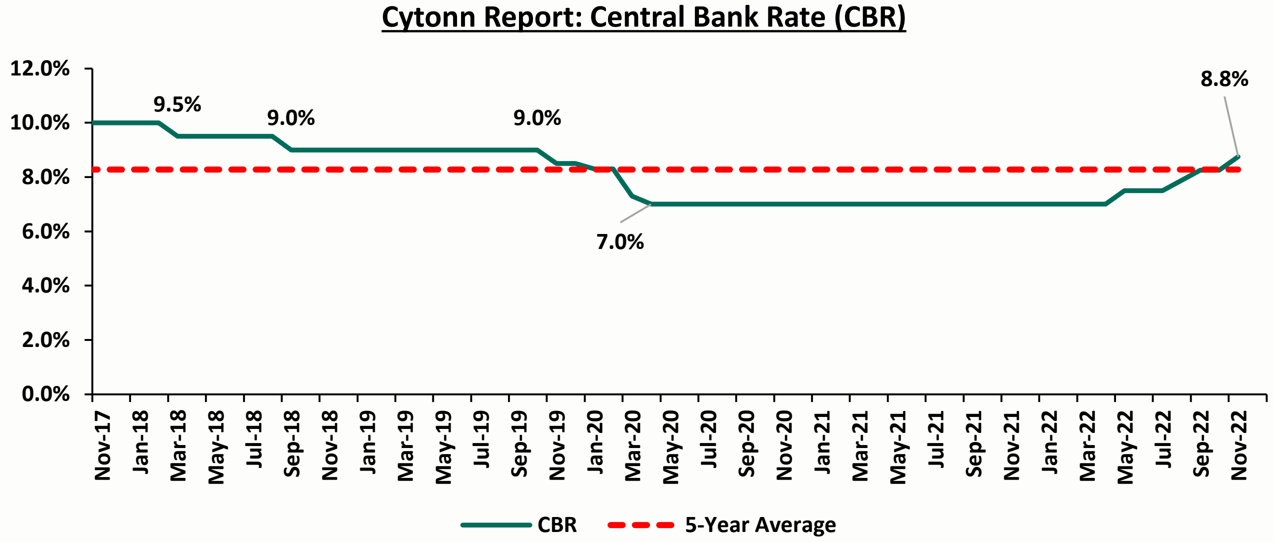
## Year-to-date, the Kenyan shilling has depreciated by 8.5% against the US Dollar (as of 09th Dec 2022)

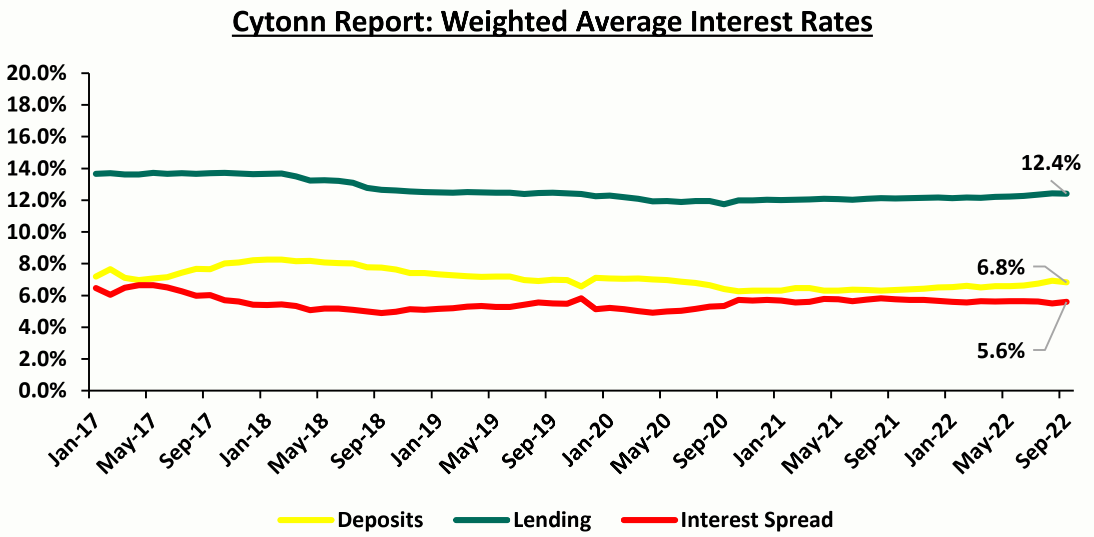



**Source: Central Bank of Kenya*

- The Kenya Shilling has depreciated against the US Dollar by 8.5% year to date, to close at Kshs 122.8, from Kshs 113.1 at the beginning of the year, marking an all-time low. The depreciation is partly attributable to increased dollar demand from the oil and energy sectors against a slower supply of hard currency,
- Going forward, we expect the Kenyan Shilling to remain under significant pressure in the medium term as demand for the dollar continues to increase in the oil and energy sector and as traders beef up their hard currency positions in anticipation for higher demand for the dollar during the festive season. The local currency is however expected to be supported by the sufficient Forex reserves

# Interest Rates and Monetary Policy




- The Monetary Policy Committee met in November and decided to hike the Central Bank Rate by 75.0 bps to 8.75%, from the previous 8.25%, with an aim to anchor inflationary pressures. Notably, this is the highest the CBR has been since November 2019,
- The Committee noted the sustained inflationary pressures, the elevated global risks such as interest rate hikes in advanced economies and their potential impact on the domestic economy, laid grounds for a further tightening of the monetary policy in order to anchor inflation expectations. Key to note, the increase in the CBR led to an increase in the commercial bank's lending rates to 12.4% in September 2022, from 12.1% seen in January 2022

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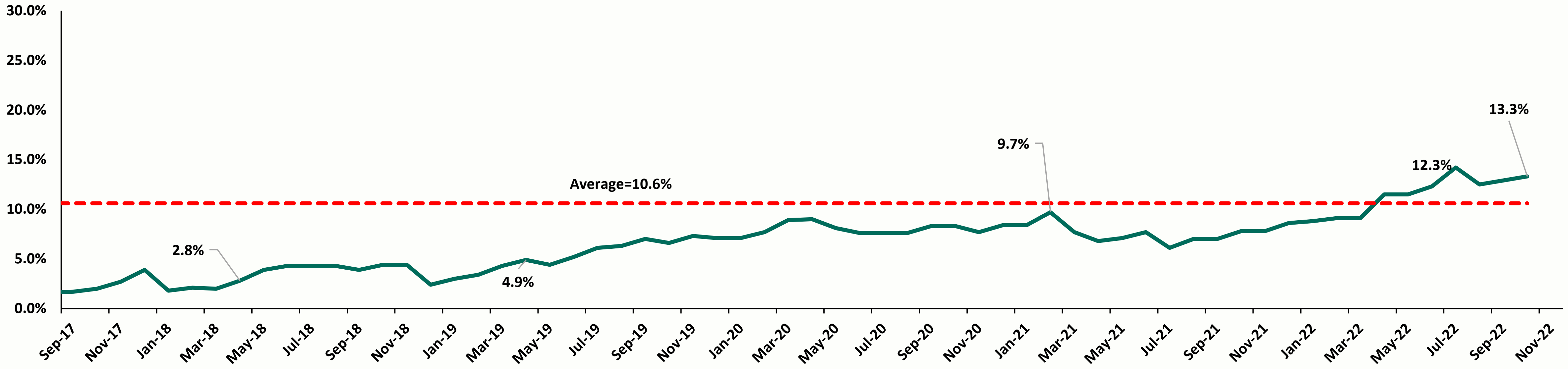
# Private Sector Credit growth




**Cytonn Report: Private Sector Credit Growth**

**Source: KNBS*

- Private sector credit growth continues to recover, having grown by 13.3% in October 2022, as compared to 7.8% in the same period last year, indicating that demand has improved as a result of increased economic activities coupled with the operationalization of the Credit Guarantee Scheme
- We however expect private sector credit to remain subdued as commercial banks are expected to increase lending rates following the MPC's decision to hike the Central Bank Rate by 50.0 bps to 8.75% in November 2022, from the previous 8.25%

# III. Banking Sector Overview

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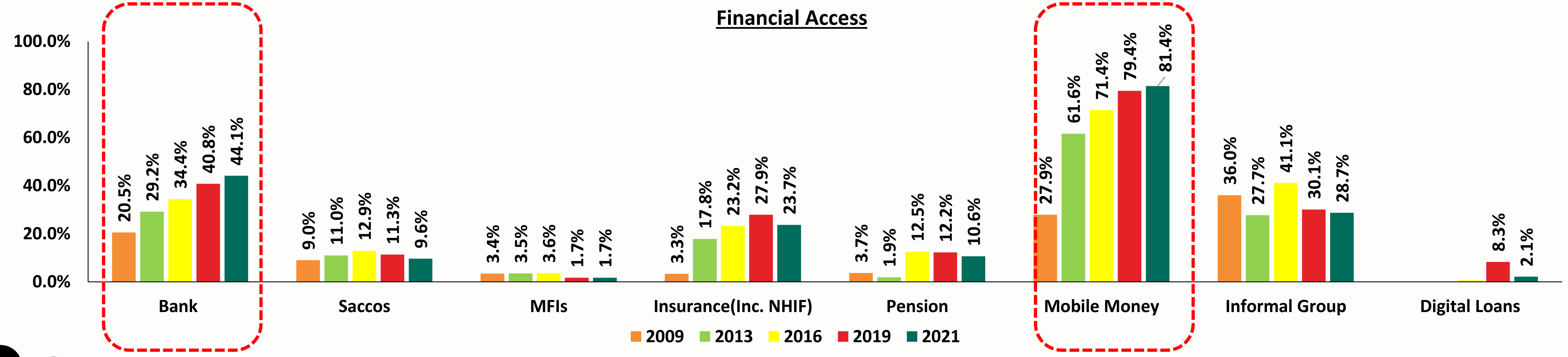
# Kenyan Banking Sector Overview

## Financial Inclusion in Kenya continues to rise, having expanded to 83.7% in 2021, from 82.9% in 2019

- In Kenya there are a total of 38 commercial banks, 1 mortgage finance company, 1 mortgage refinance company, 14 microfinance banks, 9 representative offices of foreign banks, 68 foreign exchange bureaus, 18 money remittance providers and 3 credit reference bureaus
- Financial inclusion in Kenya has continued to rise, with 83.7% of the adult population able to access formal financial services. This has largely been driven by digitization, with Mobile Financial Services (MFS), transfer and lending, rising to be the preferred method to access financial services. According to the 2021 FinAccess Household Report, the banking services including mobile banking stood at 44.1% as of 2021 from 40.8% in 2019 attributable to the increased usage of mobile banking accounts; whose proportion rose to 34.4% in 2021 from 25.3% in 2019

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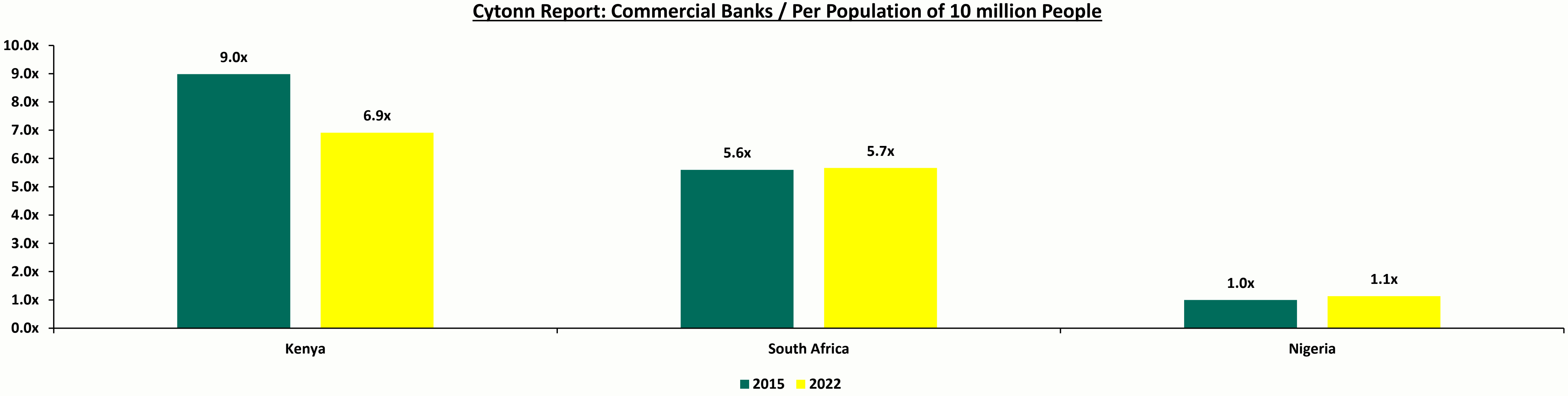
*Source: Central Bank of Kenya, FinAccess report*

# Kenyan Banking Sector Overview

## Kenya still remains overbanked as the number of banks remains relatively high compared to the population




- The number of commercial banks in Kenya currently stands at 38, compared to 43 banks in FY'2015
- The ratio of the number of banks per 10 million population in Kenya now stands at 6.9x, which is a reduction from 9.0x in FY'2015, demonstrating continued consolidation of the banking sector. However, despite the ratio improving, Kenya still remains overbanked as the number of banks remains relatively high compared to the population

# Recent Developments in the Kenyan Banking Sector

**Regulation:**

- **Risk-based Lending-** The Central Bank of Kenya has been working on a risk-based lending model to price loans since the Interest Cap law was repealed in 2019. The model's main goal is to allow banks to lend in line with the estimated risks of each borrower. Notably, as of November 2022, at least 23 of the banks had their models approved by the CBK, with Equity Bank being the first commercial bank to roll out the risked-based lending. However, the approval rate for the models has been gradual in a bid to avoid causing distress to customers through high interest rates. Additionally, the full implementation has also been slowed down as a result of insufficient data to assess client's risk profile

- **Regulation of Digital Lenders:** The Central Bank of Kenya (CBK) enacted the law to regulate digital lenders, granting the bank the authority to license and oversee previously unregulated digital credit providers. The regulations were published on 18th March 2022, and allowed digital lenders a period of six months to acquire licences from CBK and are aimed at protecting borrowers from uncharacterized practices of unregulated digital credit providers, particularly their high costs, unethical debt collection practices, and misuse of personal information. The application period for licencing by all operating unregulated digital credit providers elapsed on 17th September 2022, with the CBK announcing approval of only 10 digital credit providers out of the 288 which had applied to be licenced. For more information see our Cytonn Weekly #49/2021

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# Recent Developments in the Kenyan Banking Sector

**1. Regulation Continuation:**

- **Credit Repair Framework:** In November 2022, the Central Bank of Kenya (CBK) announced the roll out of a Credit Repair Framework by commercial banks, microfinance banks, and mortgage finance companies. The main objective of the Framework is to improve the credit standing of mobile phones digital borrowers who had been adversely listed with Credit Reference Bureaus (CRBs) for failing to service their mobile loans. The Framework will cover loans with a repayment period of 30 day or less, with the institutions expected to provide a discount of at least 50.0% of the non-performing mobile phone digital loans outstanding as at the end of October 2022. As such this is expected to increase access to credit and other financial services by borrowers operating in personal and micro-enterprises sectors which were largely affected by the Covid-19 pandemic

- **Reintroduction of charges for mobile money and bank account transactions:** In December 2022, the central Bank of Kenya (CBK) announced the reintroduction of charges effective 1st January 2023 for transactions between mobile wallets and bank accounts which were waived in March 2020, as an emergency response to facilitate use of mobile money and reduce handling of hard cash during Covid-19 pandemic period. However, the new charges will be significantly lower than the charges that applied before the pandemic aimed at supporting financial system, facilitate a transition towards sustainable growth of the mobile money ecosystem while ensuring affordability of payment services for Kenyans

# Recent Developments in the Kenyan Banking Sector…..

**2. Regional Expansion through Mergers and Acquisitions:**

Kenyan banks are looking at having an extensive regional reach. In Q3'2022, there were two acquisition by KCB Group Plc and Equity Group Holdings as follows:

- On 2nd August 2022, KCB Group PLC, announced that it had entered into a final agreement with shareholders of Trust Merchant Bank (TMB) to acquire an 85.0% stake in the Democratic Republic of Congo (DRC)- based lender, with an option to acquire the remaining stake after two years. Key to note, the P/B multiple is higher than the 8-year acquisitions average P/B of 1.2x as well as the current average P/B of the listed banking stocks of 1.0x. We estimate a payment of Kshs 15.7 bn by KCB at the trading multiple of 1.5x given TMB's book value of FC 208.4 bn (Kshs 12.4 bn) as of 2020. For more information, please see our Cytonn Weekly #31/2022
- On 12th September 2022, Equity Group Holdings Plc through Equity Bank (Kenya) Limited, announced that it had entered into an Assets and Liabilities purchase agreement with Spire Bank Limited for purchase of certain assets and liabilities. For more information, please see our Cytonn Weekly #37/2022. However, the agreement has been frozen by the Employment and Labor Relations Court following dispute over the fate of employees in Spire bank

# Recent Developments in the Kenyan Banking Sector….

## Consolidation continues in the banking sector, with the most recent being that of Equity's acquisition of Spire Bank

| Acquirer | Bank Acquired | Book Value at Acquisition (Kshs bn) | Transaction Stake | Transaction Value (Kshs bn) | P/Bv Multiple | Date |
|---|---|---|---|---|---|---|
| Equity Group | Spire Bank | Unknown | Undisclosed | Undisclosed | N/A | Sept-22* |
| KCB Group PLC | Trust Merchant Bank (TMB) | 12.4 | 85.0% | 15.7 | 1.5x | August-22 |
| Access Bank PLC (Nigeria) | Sidian Bank | 4.9 | 83.4% | 4.3 | 1.1x | June-22* |
| KCB Group | Banque Populaire du Rwanda | 5.3 | 100.0% | 5.6 | 1.1x | August 2021 |
| I&M Holdings PLC | Orient Bank Limited Uganda | 3.3 | 90.0% | 3.6 | 1.1x | April-21 |
| KCB Group** | ABC Tanzania | Unknown | 100% | 0.8 | 0.4x | Nov-20* |
| Co-operative Bank | Jamii Bora Bank | 3.4 | 90.0% | 1 | 0.3x | Aug-20 |
| Commercial International Bank | Mayfair Bank Limited | 1 | 51.0% | Undisclosed | N/D | May-20* |
| Access Bank PLC (Nigeria) | Transnational Bank PLC. | 1.9 | 100.0% | 1.4 | 0.7x | Feb-20* |
| Equity Group ** | Banque Commerciale Du Congo | 8.9 | 66.5% | 10.3 | 1.2x | Nov-19* |
| KCB Group | National Bank of Kenya | 7 | 100.0% | 6.6 | 0.9x | Sep-19 |
| CBA Group | NIC Group | 33.5 | 53%:47% | 23 | 0.7x | Sep-19 |
| Oiko Credit | Credit Bank | 3 | 22.8% | 1 | 1.5x | Aug-19 |
| CBA Group** | Jamii Bora Bank | 3.4 | 100.0% | 1.4 | 0.4x | Jan-19 |
| AfricInvest Azure | Prime Bank | 21.2 | 24.2% | 5.1 | 1.0x | Jan-18 |
| KCB Group | Imperial Bank | Unknown | Undisclosed | Undisclosed | N/A | Dec-18 |
| SBM Bank Kenya | Chase Bank Ltd | Unknown | 75.0% | Undisclosed | N/A | Aug-18 |
| DTBK | Habib Bank Kenya | 2.4 | 100.0% | 1.8 | 0.8x | Mar-17 |
| SBM Holdings | Fidelity Commercial Bank | 1.8 | 100.0% | 2.8 | 1.6x | Nov-16 |
| M Bank | Oriental Commercial Bank | 1.8 | 51.0% | 1.3 | 1.4x | Jun-16 |
| I&M Holdings | Giro Commercial Bank | 3 | 100.0% | 5 | 1.7x | Jun-16 |
| Mwalimu SACCO | Equatorial Commercial Bank | 1.2 | 75.0% | 2.6 | 2.3x | Mar-15 |
| Centum | K-Rep Bank | 2.1 | 66.0% | 2.5 | 1.8x | Jul-14 |
| GT Bank | Fina Bank Group | 3.9 | 70.0% | 8.6 | 3.2x | Nov-13 |
| **Average** | | | **74.5%** | | **1.3x** | |

*** Announcement Date**

**** Deals that were dropped**

# Recent Developments in the Kenyan Banking Sector….

**3. Asset Quality:**

- Asset quality for listed banks deteriorated in Q3’2022, with the Gross Non-Performing Loan ratio (NPL) increasing marginally by 0.1% points to 12.3%, from 12.2% in Q3’2021. The deterioration of the Assets quality was mainly skewed by an increase in KCB Group’s NPL ratio to 17.8% in Q3’2022, from 13.7% in Q3’2021, attributable to the continued high exposure to corporate loans at 47.8% in Q3’2022, which have been impacted by delayed recovery from COVID-19, increased inflationary pressures and pending government bills. However, according the Quarterly Economic Review Q3’2022 released by the Central Bank of Kenya, the asset quality for the entire banking sector improved, with Gross NPL ratio declining by 1.0% points to 13.7% in Q3’2022, from 14.7% recorded at the end of Q2’2022. The improvement in asset quality was mainly driven by 4.4% decline in gross Non-Performing Loans (NPLs), coupled with a 2.5% increase in gross loans in the period under review. Going forward, we expect credit risk to remain elevated in the short term given the soaring inflationary pressures which are expected to continue to weigh on the business environment

# Recent Developments in the Kenyan Banking Sector….

- **Capital Raising:** In Q3'2022, listed banks continued to borrow from international institutions to not only strengthen their capital position but also boost their ability to lend to the perceived riskier Micro Small and Medium Sized Enterprises (MSMEs) segment. In the period under review, the International Finance Corporation (IFC) disclosed a plan to extend USD 150.0 mn (Kshs 18.0 bn) to KCB Group in form of a senior unsecured loan in August. The loan facilities to both banks is aimed at supporting the growth of the banks' climate finance portfolio which entails clients in sectors such as manufacturing, real estate and agriculture. For more information see our Cytonn Monthly August 2022
- Additionally, the International Finance Corporation (IFC) disclosed that it would extend USD 100.0 mn (Kshs 12.2 bn) to Diamond Trust Bank (DTB) under the WCS COVID-19 FIGE response facility in form of a senior debt investment with 24-month maturity and renewable once on an aggregate of up to 36 months. For more information, please see our Cytonn Weekly #46/2022

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# Banking Sector Growth Drivers

- **Revenue Diversification: :** In Q3'2022, Non-Funded Income (NFI) recorded a 30.1% weighted average growth, an increase from the 14.3% growth recorded in Q3'2021, with many banks diversifying their revenue sources. Additionally, weighted average contribution of NFI contribution to total operating income increased to 38.1% in Q3'2022, from the 35.2% weighted average contribution recorded in Q3'2021. We therefore believe that there exists an opportunity for the sector to further increase NFI contribution to revenue given the continuous adoption of digital channels by banks and their clients after the pandemic has created more revenue opportunities for the sector. Additionally, the reintroduction of charges for transactions between bank accounts and mobile money wallets as from January 2023, is expected to continue spurring NFI growth in the medium-long term due to the increased adoption of digital channels, which present an avenue for an increase in fees on transactions

- **Growth in Interest income:** We expect interest income growth to remain a key driver in the banking industry, evidenced by the 16.4% growth recorded in Q3'2022, higher than the 15.9% growth recorded in Q3'2021. Additionally, we believe that as more banks continue to get approvals for their risk-based lending models, the banks will be able to effectively price their risk, expand loan books and consequently increase the interest income

# Banking Sector Growth Drivers….

- **Further Consolidation:** Consolidation remains a key theme going forward with the current environment offering opportunities for larger banks with a sufficient capital base to expand and take advantage of the market's low valuations, as well as further consolidate out smaller and weaker banks.Bigger banks are also more profitable and have better deposit growth coupled with cheaper cost of funds compared to smaller banks. As such, consolidation will help the smaller banks meet the minimum capital requirement and also expand big bank’s asset base

- **Regional Expansion:** Majority of the bigger banks have continued to cushion over 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 on expansion which has largely contributed to their increased asset base as well as earnings growth. As aforementioned, KCB Group recently announced the acquisition of Trust Merchant Bank (TMB) in DRC, while Equity Group is in the process of completing acquisition of Spire Bank. As such, we expect to see continued expansion trend aimed at revenue optimization. Additionally, Ethiopian government recently announced opening up of the financial sector to foreign investors, which provides a great opportunity for Kenyan banks to expand their operations into the Ethiopian market

# Banking Sector Growth Drivers….

- **Integration of Climate-Related Risk Management**: The release of Guidance on Climate-Related Risk Management report by the Central Bank of Kenya (CBK) is driving banks to channel their long term financing into environmental-friendly assets that are more sustainable and have lower risk of damage loss as a result of climate change. Banks will also lend to clients whose activities do not pose an environmental risk and will ultimately lead to improvement of collateral quality. Key to note, Equity Group and KCB Group have sourced for loans from International Finance Corporation (IFC) aimed at supporting the growth of the bank's climate finance portfolio

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# IV. Listed Banking Sector Metrics

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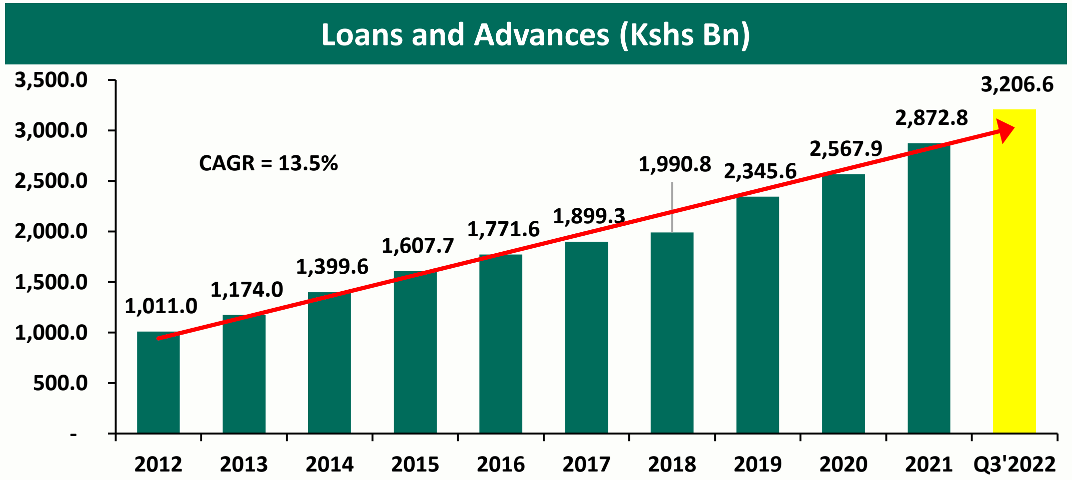
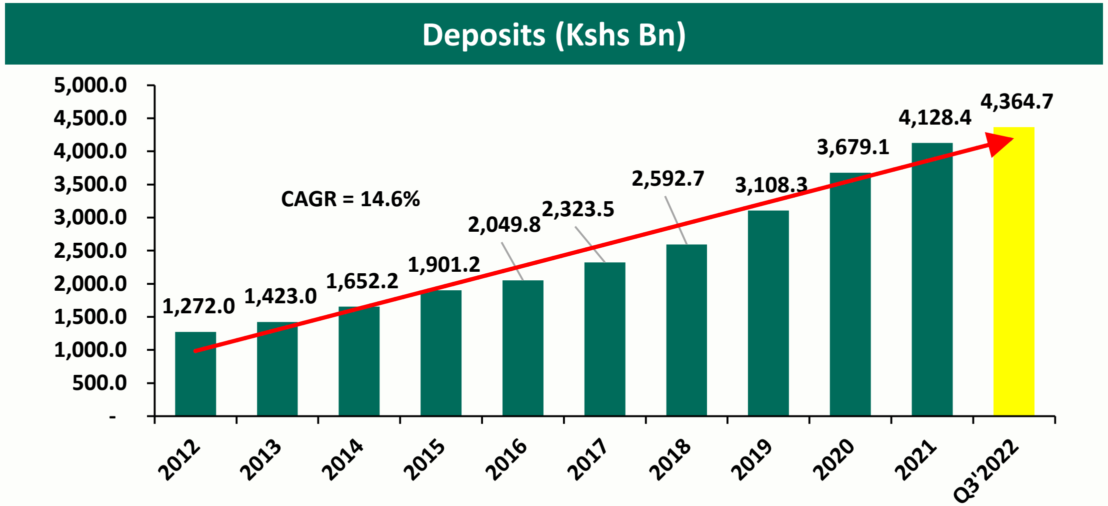
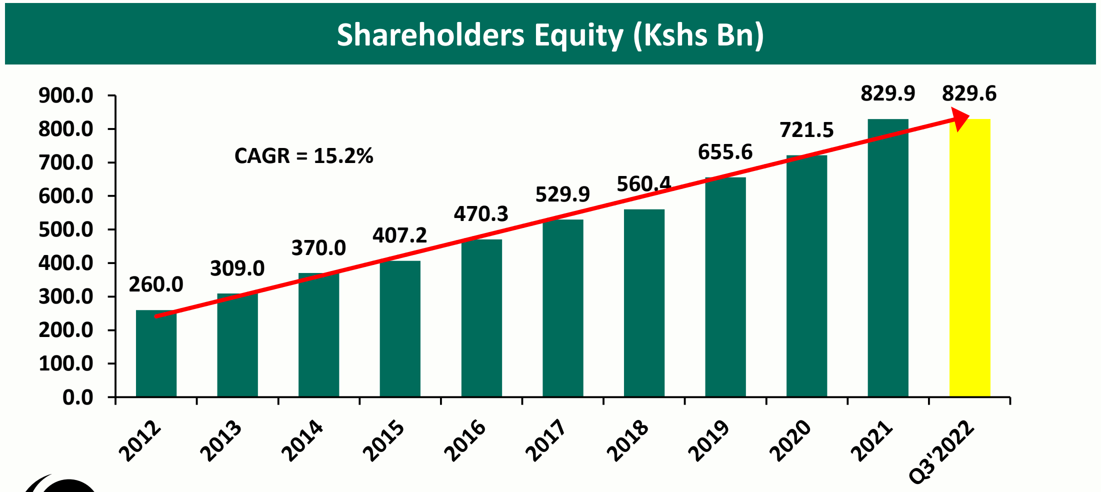
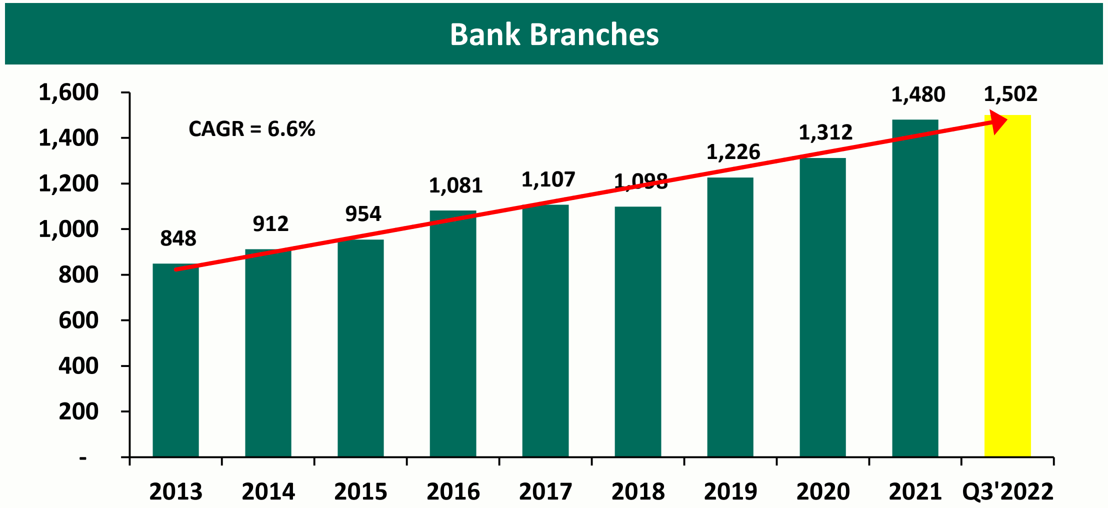
# Listed Banking Sector Metrics

## Deposits grew at a faster rate of 14.6% in Q3'2022, as compared to the 13.5% growth in loans

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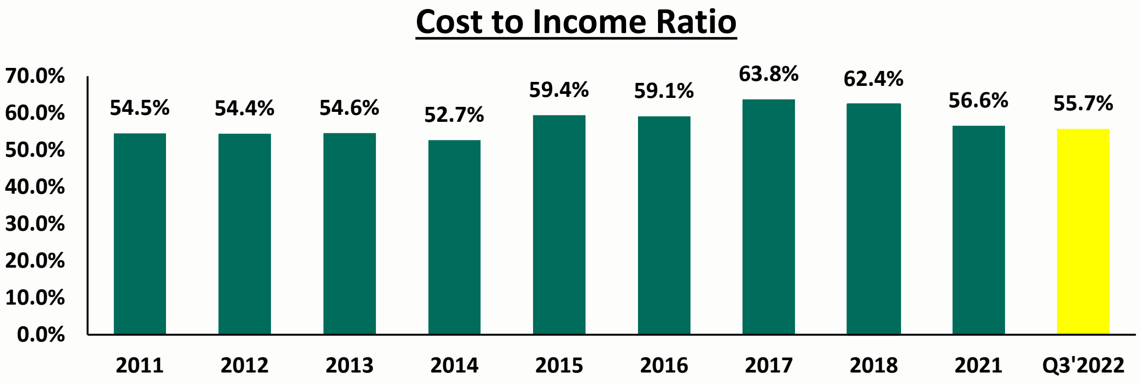
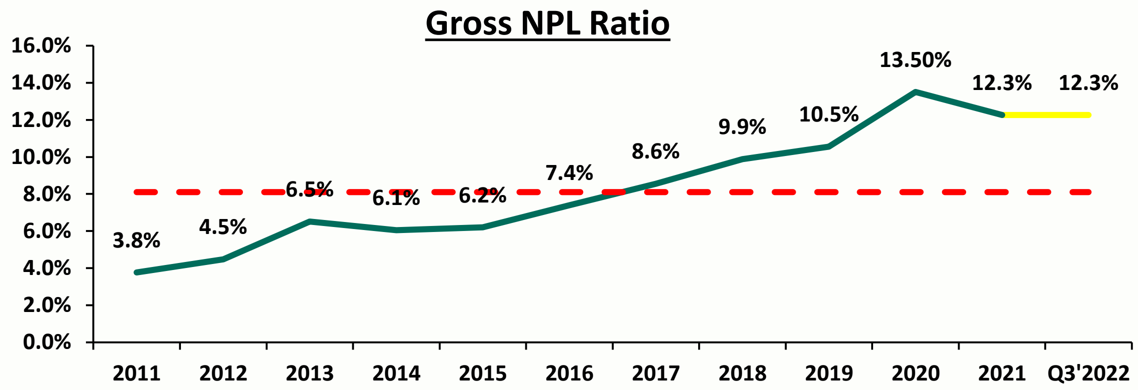
# Listed Banking Sector Metrics

## Banks’ asset quality deteriorated during the Q3’2022 due to the elevated credit risk

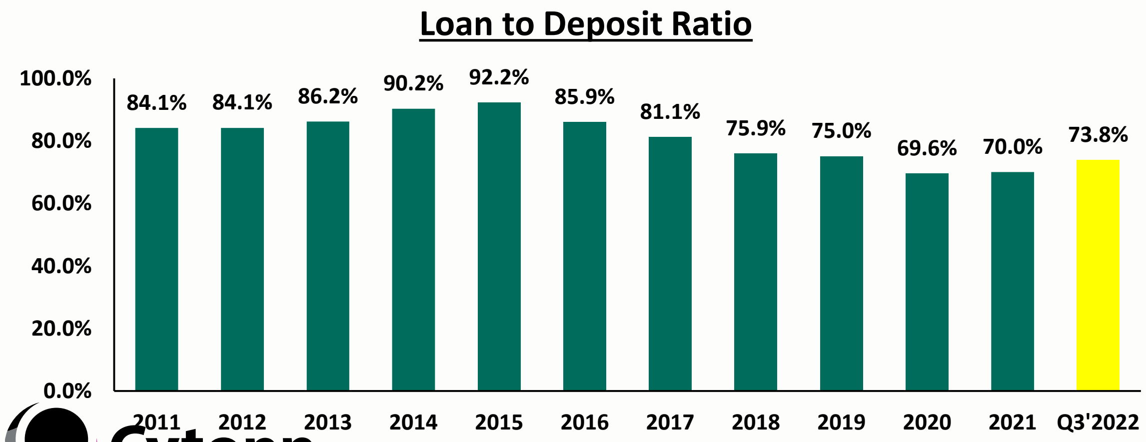
### Cost to Income Ratio



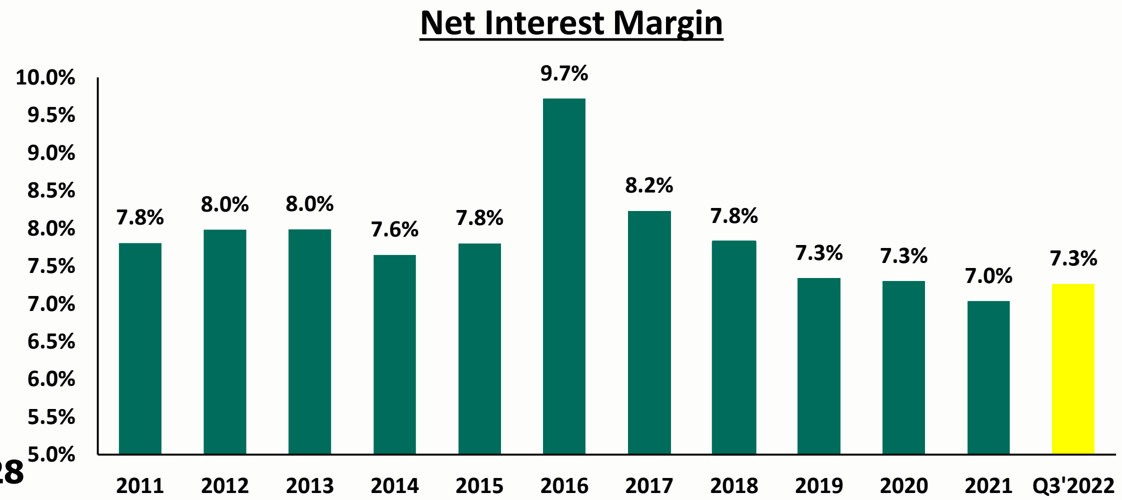

### NPL Ratio




### Loan to Deposit Ratio




### Net Interest Margin

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# Listed Banking Earnings and Growth Metrics

## Kenya's listed banking sector core EPS rose by 36.3% in Q3'2022, compared to a growth of 102.0% in Q3'2021

| 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 | 110.8% | 6.8% | 0.7% | 13.9% | 4.7% | 66.1% | 32.4% | (3.6%) | 3.5% | 51.2% | 90.7% | 1.7% | 0.5% |
| NCBA | 96.2% | 13.3% | 10.8% | 15.1% | 6.0% | 40.1% | 49.2% | 5.2% | 3.2% | 9.1% | 57.6% | 11.7% | 21.2% |
| Co-op | 47.0% | 10.5% | 7.2% | 11.7% | 8.5% | 28.3% | 38.6% | 31.7% | 2.8% | (5.7%) | 77.6% | 9.4% | 22.5% |
| SCBK | 37.1% | 4.1% | (12.6%) | 7.3% | 6.3% | 16.1% | 35.7% | (13.4%) | 10.7% | 13.2% | 47.6% | 3.3% | 21.0% |
| Stanbic | 36.8% | 3.1% | 19.2% | 26.8% | 6.2% | 37.5% | 44.6% | 8.1% | 25.6% | 38.3% | 88.6% | 34.1% | 25.1% |
| ABSA | 30.1% | 24.7% | 22.4% | 25.3% | 7.6% | 16.4% | 30.4% | (1.2%) | 4.6% | 10.5% | 103.0% | 26.4% | 23.2% |
| Equity | 27.9% | 25.6% | 31.3% | 23.6% | 7.3% | 32.0% | 41.4% | 28.6% | 15.1% | (0.1%) | 66.9% | 20.6% | 31.3% |
| I&M | 25.1% | 17.3% | 20.0% | 15.6% | 6.6% | 43.0% | 35.4% | 26.0% | 6.7% | (2.6%) | 75.1% | 11.4% | 13.9% |
| KCB | 21.4% | 13.6% | 28.4% | 9.1% | 8.1% | 30.2% | 33.2% | 17.3% | 7.4% | 6.9% | 80.1% | 16.4% | 22.6% |
| DTB-K | 21.1% | 15.4% | 17.2% | 43.5% | 5.7% | 43.5% | 29.0% | 24.5% | 11.1% | 17.4% | 67.7% | 18.5% | 8.0% |
| **Q3'22 Mkt Weighted Average*** | **36.7%** | **16.4%** | **19.6%** | **17.6%** | **7.3%** | **30.1%** | **38.1%** | **16.2%** | **9.7%** | **6.5%** | **73.7%** | **17.1%** | **24.2%** |
| **Q3'21 Mkt Weighted Average**** | **102.0%** | **15.9%** | **14.9%** | **16.9%** | **7.3%** | **14.3%** | **35.2%** | **11.4%** | **14.3%** | **11.7%** | **69.7%** | **12.4%** | **18.7%** |
| *Market cap weighted as at 08/12/2022 | | | | | | | | | | | | | |
| **Market cap weighted as at 10/12/2021 | | | | | | | | | | | | | |

*Market cap weighted average as at 8th December 2022

**Market cap weighted average as at 12th December 2021

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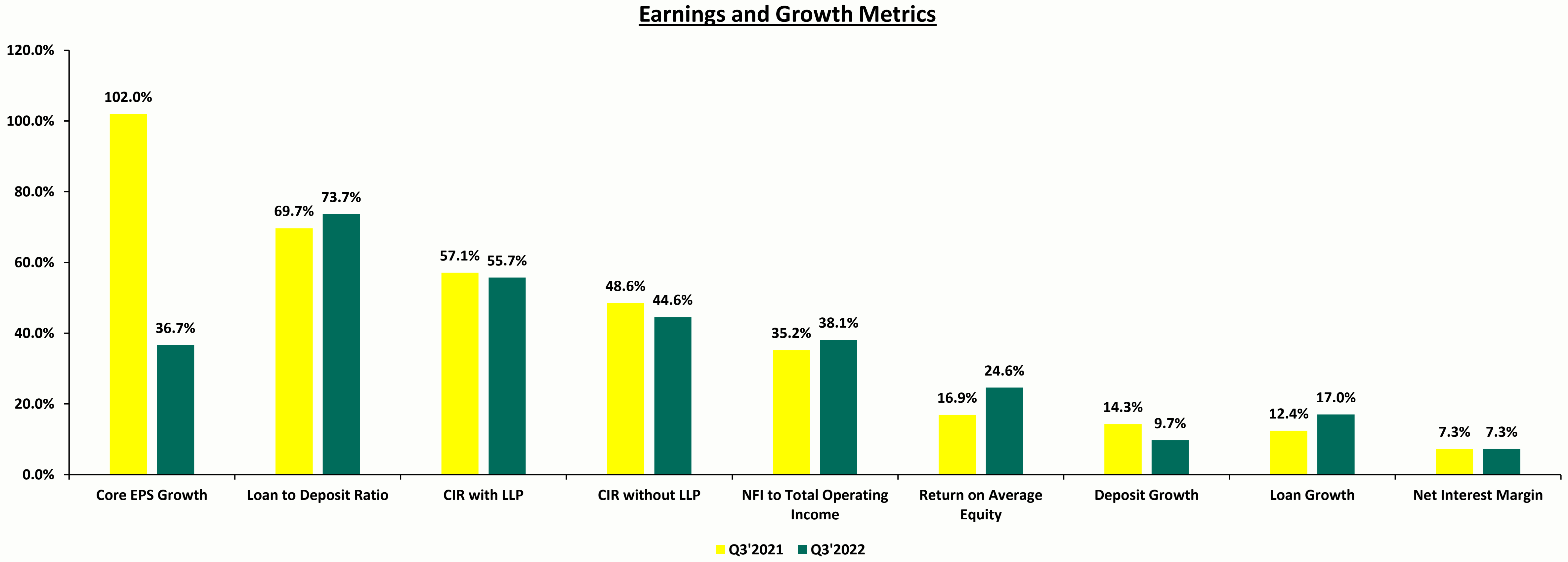
# Takeout from Key Operating Metrics

## Kenya's listed banking sector core EPS rose by 36.3% in Q3'2022, compared to a growth of 102.0% in Q3'2021

- The The listed banks recorded a 36.3% weighted average growth in core Earnings per Share (EPS), compared to a weighted growth of 102.0% recorded in Q3'2021 when the sector was recovering from a lower base. The performance during the period was mainly attributed to a 30.1% growth in non-funded income coupled with a 17.6% growth in net interest
- The listed continued to implement their revenue diversification strategies as evidenced by non-funded income growth of 30.1% in Q3'2022 compared to 14.3% growth recoded in Q3'2021. The performance was mainly driven by 16.2% growth in total fees and commissions, which was an increase from 11.4% growth recorded during the same period last year
- The Banks recorded a weighted average deposit growth of 9.8%, slower than the 14.3% growth recorded in Q3'2021, an indication of reduced investment risk in the business environment
- Interest income grew by 16.4%in Q3'2022, compared to a growth of 15.9% recorded in Q3'2021 while the weighted average Yield on Interest Earning Assets (YIEA) remained relatively unchanged at 9.9%, similar to what was recorded in in Q3'2021 for the listed banking sector. On the other hand, the Net Interest Margin (NIM) also remained unchanged at 7.3%, as was recorded in Q3'2021 for the whole listed banking sector.

# Listed Banks Earnings and Growth Metrics Cont…

## Revenue diversification has been witnessed in the banking sector as evidenced by the increase in the NFI contribution to Total Operating Income to 38.1% in Q3’2022, from 35.2% in Q3’2021

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# Listed Banks Operating Metrics

## The sectors asset quality deteriorated during the period, as evidenced by the 0.1% points increase in the NPL ratio to 12.3%, from 12.2% recorded in Q3’2021

| Bank | Deposit/Branch (bn) | Gross NPL Ratio | NPL Coverage | Tangible Common Ratio | Non Funded Income/Revenue |
|---|---|---|---|---|---|
| Absa Bank | 3.4 | 6.6% | 80.0% | 12.4% | 30.4% |
| Equity Bank | 2.8 | 9.5% | 63.0% | 10.0% | 41.4% |
| I&M Holdings | 3.7 | 9.5% | 75.4% | 14.6% | 35.4% |
| Stanbic Bank | 10.7 | 10.1% | 63.4% | 13.4% | 44.6% |
| NCBA Group | 4.4 | 12.6% | 65.3% | 12.8% | 49.2% |
| DTBK | 2.7 | 12.7% | 45.2% | 13.7% | 29.0% |
| Coop Bank | 2.4 | 14.0% | 69.3% | 15.2% | 38.6% |
| SCBK | 13.0 | 15.4% | 82.4% | 14.2% | 35.7% |
| KCB Group | 1.9 | 17.8% | 52.8% | 14.3% | 33.2% |
| HF Group | 1.8 | 20.3% | 77.2% | 13.8% | 32.4% |
| **Weighted Average Q3'2022** | **4.2** | **12.3%** | **65.7%** | **12.8%** | **38.1%** |
| **Weighted Average Q3'2021** | **3.3** | **12.2%** | **65.7%** | **13.8%** | **35.2%** |

*Market cap weighted average as at 8th December 2022

**Market cap weighted average as at 12th December 2021

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# Listed Banks Trading Metrics

## The listed banking sector has continued to trade at cheaper prices compared to historical averages, as it is currently trading at an average P/TBV of 0.9x and average P/E of 3.7x

| Bank | No. of shares (bn) | Market Cap (Kshs bn) | P/E | Price* | P/TBV |
|---|---|---|---|---|---|
| DTBK | 0.3 | 13.4 | 2.4x | 48.1 | 0.2x |
| I&M Holdings | 1.7 | 27.8 | 2.9x | 16.8 | 0.5x |
| KCB Group | 3.2 | 120.8 | 3.1x | 37.6 | 0.7x |
| Stanbic Bank | 0.4 | 37.6 | 3.2x | 95.0 | 0.8x |
| Coop Bank | 5.9 | 71.6 | 3.3x | 12.2 | 0.8x |
| NCBA Group | 1.6 | 57.7 | 3.5x | 35.0 | 0.8x |
| Equity Bank | 3.8 | 170.0 | 3.6x | 45.1 | 1.3x |
| SCBK | 0.4 | 55.2 | 4.8x | 146.0 | 1.1x |
| Absa Bank | 5.4 | 65.2 | 4.9x | 12.0 | 1.1x |
| HF Group | 0.4 | 1.3 | 33.0x | 3.3 | 0.2x |
| **Weighted Average Q3'2022*** | | | **3.7x** | | **0.9x** |
| **Weighted Average Q3'2021**** | | | **5.1x** | | **0.9x** |

*P/E calculation for HF used normalized earnings over a period of 5 years*

**Prices as at 8th December 2022*

***Prices as at 12th December 2021*

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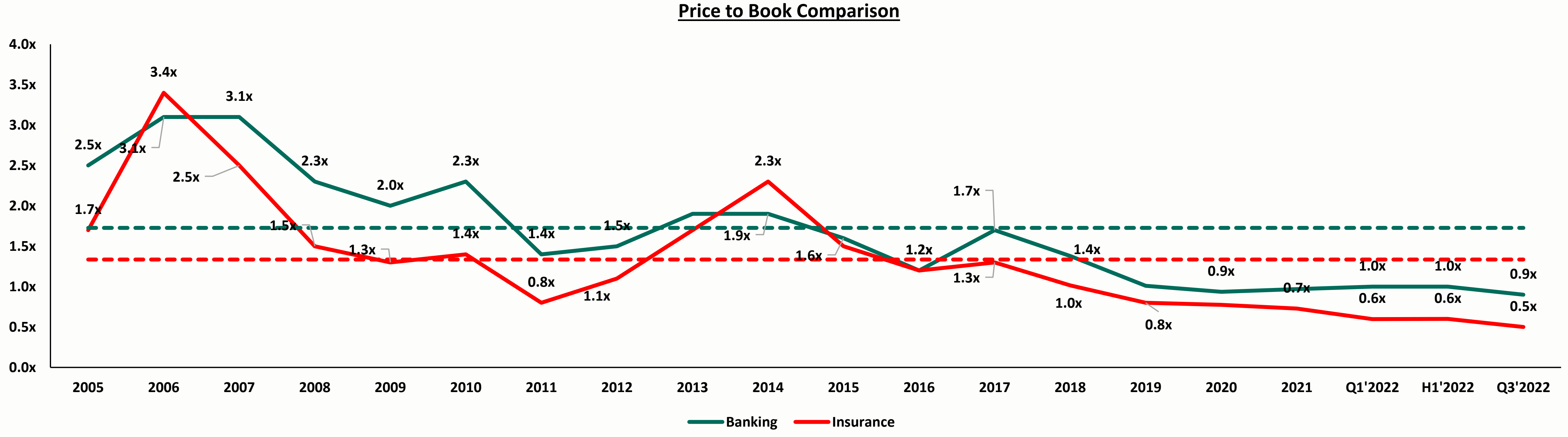
# Listed Banks & Insurance Trading Metrics

**Listed banks are trading at an average P/B of 0.9x, higher than the insurance sector, which is priced at 0.5x. Both sectors are trading below their 15-year averages of 1.7x and 1.3x, respectively**

**15 year Price to Book Value: Banking and Insurance**




**On a price to book valuation, listed banks are currently priced at a P/BV of 0.9x, higher than listed insurance companies at 0.5x, with both lower than their historical averages of 1.7x for the banking sector and 1.3x for the insurance sector**

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# V. Banks Valuation Reports

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# Ranking by Franchise Value

**Co-op emerged top in the franchise ranking having had the highest Net Interest Margin of 8.5% against a market average of 7.3%**

| Rank | Bank | LDR | CIR | ROACE | NIM | PEG ratio | PTBV | Deposits/ Branch | Gross NPL Ratio | NPL Coverage | Tangible Common Ratio | Non Interest Income/ Revenue | Camel Rating | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Coop Bank | 4 | 5 | 5 | 1 | 3 | 6 | 8 | 7 | 5 | 1 | 4 | 4 | 53 |
| 2 | I&M Holdings | 5 | 8 | 8 | 5 | 4 | 3 | 4 | 3 | 4 | 2 | 6 | 3 | 55 |
| 3 | KCB Group | 2 | 2 | 3 | 2 | 1 | 4 | 9 | 9 | 9 | 3 | 7 | 6 | 57 |
| 4 | Equity Bank | 8 | 4 | 1 | 4 | 2 | 10 | 6 | 2 | 8 | 10 | 3 | 2 | 60 |
| 5 | Absa Bank | 7 | 3 | 2 | 3 | 9 | 9 | 5 | 1 | 2 | 9 | 9 | 1 | 60 |
| 6 | SCBK | 10 | 1 | 6 | 6 | 8 | 8 | 1 | 8 | 1 | 4 | 5 | 7 | 65 |
| 7 | Stanbic Bank | 1 | 6 | 7 | 7 | 6 | 5 | 2 | 8 | 7 | 7 | **2** | **9** | 67 |
| 8 | NCBA Group | 9 | 7 | 4 | 8 | 7 | 7 | 3 | 5 | 6 | 8 | 1 | 5 | 70 |
| 9 | DTBK | 6 | 9 | 9 | 9 | 5 | 2 | 7 | 6 | 10 | 6 | 10 | 8 | 87 |
| 10 | HF Group | 3 | 10 | 10 | 10 | 10 | 1 | 10 | 10 | 3 | 5 | 8 | 10 | 90 |

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# Valuation Summary of Listed Banks

## KCB Group presents the highest upside with a total potential return of 48.1%

*(all values in Kshs )*

| Bank | Current Price | Target Price | Upside/(Downside) | Dividend Yield | Total Potential Return |
|---|---|---|---|---|---|
| Equity Bank | 45.1 | 58.4 | 29.5% | 6.7% | 36.2% |
| DTBK | 48.1 | 57.1 | 18.9% | 6.2% | 25.1% |
| KCB Group | 37.6 | 52.5 | 39.6% | 8.5% | 48.1% |
| Stanbic Holdings | 95.0 | 108.6 | 14.4% | 7.9% | 22.3% |
| Coop Bank | 12.2 | 15.3 | 25.0% | 9.8% | 34.8% |
| SCBK | 146.0 | 164.8 | 12.9% | 9.6% | 22.5% |
| I&M Holdings | 16.8 | 20.8 | 23.9% | 10.4% | 34.3% |
| Absa Bank | 12.0 | 15.5 | 28.8% | 10.8% | 39.6% |
| NCBA Group Plc | 35.0 | 43.4 | 24.0% | 11.4% | 35.4% |
| HF Group | 3.3 | 3.6 | 9.4% | 0.0% | 9.4% |

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# Cytonn Banking Report - Comprehensive Ranking

## KCB Group Holdings emerged top of the ranking in terms of comprehensive ranking

*(all values in Kshs unless stated otherwise)*

| Bank | Franchise Value Rank | Intrinsic Value Rank | Weighted Rank | H1'2022 | Q3'2022 |
|---|---|---|---|---|---|
| KCB Group Plc | 3 | 1 | 1.8 | 4 | 1 |
| Equity Group Holdings Ltd | 4 | 2 | 2.8 | 1 | 2 |
| Co-operative Bank of Kenya Ltd | 1 | 5 | 3.4 | 2 | 3 |
| ABSA | 4 | 3 | 3.4 | 3 | 3 |
| I&M Holdings | 2 | 6 | 4.4 | 5 | 5 |
| NCBA Group Plc | 8 | 4 | 5.6 | 9 | 6 |
| SCBK | 6 | 8 | 7.2 | 7 | 7 |
| DTBK | 9 | 7 | 7.8 | 8 | 8 |
| Stanbic Bank/Holdings | 7 | 9 | 8.2 | 6 | 9 |
| HF Group Plc | 10 | 10 | 10 | 10 | 10 |

# VI. Appendix

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# A. Tier I Banks

# I. Equity Group Holdings

# Equity Group Summary of Performance –Q3’2022

- Profit before tax increased by 21.0% to Kshs 44.3 bn, from Kshs 36.6 bn in Q3’2021 with the effective tax rate declining to 22.4% from 26.6% in Q3’2021
- Total Operating Income rose by 26.9% to Kshs 102.1 bn, from Kshs 80.5 bn recorded in Q3’2021 driven by a 23.4% increase in Net Interest Income (NII) to Kshs 59.8 bn, from Kshs 48.5 bn in Q3’2021, coupled with a 32.0% increase in Non-Funded Income (NFI) to Kshs 42.2 bn, from Kshs 32.0 bn in Q3’2021
- The balance sheet recorded an expansion as total assets increased by 15.2% to Kshs 1,363.7 bn in Q3’2022, from Kshs 1,184.3 bn recorded in Q3’2021
- The Group’s Gross Non-Performing Loans (NPLs) increased by 20.8% to Kshs 67.9 bn in Q3’2022, from Kshs 56.2 bn recorded in Q3’2021, while Gross loans increased by 20.8% to Kshs 716.6 bn, from 593.1 bn in Q3’2021, leaving the NPL ratio relatively unchanged at 9.5%, similar to what was recorded in Q3’2021

Going forward, we expect the bank’s growth to be driven by:

I. **Innovation and digitization continue to enhance high value transaction** - Increased innovation and digitization have seen 99.0% of all transactions of the bank being done on alternative channels, with mobile and internet transactions taking up 81.2% of all transactions, and agency banking contributing 6.3% of all transactions. In terms of the value of transactions, digital banking, branches and diaspora remittances contributed 46.9%, 27.3% and 4.9%, respectively. This highlights the transformation of branches to handle high-value transactions which aid the bank by offering its ecosystem banking products to retail and SME clients

II. **Continued expansion** through acquisition of other banks in Kenya as well as in the region, with Equity Bank Kenya in the process of acquiring Spire Bank Limited. Additionally, Ethiopian government recently decided to open up the financial sector to foreign investors which provide a great opportunity for Equity Group to expand its operations into the untapped market

# Financial Statements Extracts

## Equity Group's PAT is expected to grow at a 5-year CAGR of 23.6%

| Income Statement | 2019 | 2020 | 2021 | 2022f |
|---|---|---|---|---|
| Net Interest Income | 45.0 | 55.1 | 68.8 | 92.2 |
| Non Funded Income | 30.8 | 38.5 | 44.6 | 49.7 |
| **Total Operating Income** | 75.8 | **93.7** | **113.4** | 141.8 |
| Loan Loss Provision | (5.3) | (26.6) | (5.8)) | (11.3) |
| Other Operating Expenses | (39.0) | (46.0) | (55.7) | (67.5) |
| **Total Operating Expenses** | **(44.3)** | **(72.7)** | **(61.5)** | **(78.8)** |
| Profit Before Tax | 31.5 | 22.2 | 51.9 | 63.0 |
| **% PAT Change YoY** | **13.8%** | **(10.9%)** | **99.4%** | **10.1%** |
| EPS | 6.0 | 5.3 | 10.6 | 11.7 |
| DPS | - | - | 3.0 | 3.0 |
| Cost to Income (with LLP) | 58.5% | 77.6% | 54.2% | 55.6% |
| **NIM** | **8.4%** | **7.6%** | **6.8%** | **7.6%** |
| ROaE | 22.0% | 16.5% | 26.6% | 25.3% |
| ROaA | 3.6% | 2.4% | 3.5% | 3.2% |
| **Balance Sheet** | **2019** | **2020** | **2021** | **2022e** |
| Net Loans and Advances | 366.4 | 477.8 | 587.8 | 733.9 |
| Government Securities | 138.6 | 175.7 | 228.5 | 256.2 |
| Other Assets | 168.7 | 361.5 | 488.7 | 486.4 |
| **Total Assets** | **673.7** | **1,015.1** | **1,304.9** | **1476.4** |
| Customer Deposits | 482.8 | 740.8 | 959.0 | 1083.6 |
| Other Liabilities | 79.2 | 135.7 | 169.7 | 205.9 |
| **Total Liabilities** | **561.9** | **876.5** | **1,128.7** | **1289.5** |
| **Shareholders Equity** | **110.7** | **132.2** | **169.2** | **180.3** |
| **Number of Shares** | **3.8** | **3.8** | **3.8** | **3.8** |
| Book value Per share | 29.3 | 35.0 | 44.8 | 47.8 |
| **% Change in BPS YoY** | **17.7%** | **19.5%** | **28.0%** | **6.6%** |

# Valuation Summary

## Equity Group is undervalued with a total potential return of 36.2%

| Valuation Summary: | Implied Price | Weighting | Weighted Value |
|---|---|---|---|
| DDM | 65.7 | 40.0% | 26.3 |
| Residual Income | 57.0 | 35.0% | 20.0 |
| PBV Multiple | 40.1 | 15.0% | 6.0 |
| PE Multiple | 61.2 | 10.0% | 6.1 |
| | | | |
| **Target Price** | | | **58.4** |
| **Current Price** | | | **45.1** |
| | | | |
| Upside/(Downside) | | | 29.6% |
| Dividend Yield | | | 6.7% |
| **Total Potential Return** | | | **36.2%** |

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# II. KCB Group

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# KCB Group Summary of Performance – Q3’2022

- Profit before tax increased by 20.9% to Kshs 43.3 bn, from Kshs 35.8 bn in Q3’2021, with the effective tax rate declining slightly to 29.3%, from 29.6% in Q3’2021. The performance was driven by the 15.3% growth in total operating income to Kshs 92.1 bn, from Kshs 79.9 bn in Q3’2021, which outpaced the 10.8% growth in total operating expenses to Kshs 48.8 bn, from Kshs 44.1 bn in Q3’2021. Similarly, Profit after tax increased by 21.4% to Kshs 30.6 bn in Q3’2022, from Kshs 25.2 bn in Q3’2021
- Total operating income increased by 15.3% to Kshs 92.1 bn, from Kshs 79.9 bn in Q3’2021, driven by a 9.1% increase in Net Interest Income (NII) to Kshs 61.6 bn, from Kshs 56.4 bn in Q3’2021, coupled with a 30.2% increase in Non-Funded Income (NFI) to Kshs 30.6 bn, from Kshs 23.5 bn in Q3’2021
- Total operating expenses increased by 10.8% to Kshs 48.8 bn, from Kshs 44.1 bn in Q3’2021, largely driven by a 14.5% increase in staff costs to Kshs 21.3 bn, from Kshs 18.6 bn in Q3’2021. The increase in expenses was mitigated by a 22.1% decline in Loan Loss Provisions (LLP), to Kshs 7.3 bn, from Kshs 9.3 bn in Q3’2021
- The group’s Asset Quality deteriorated, with the NPL ratio increasing to 17.8% in Q3’2022, from 13.7% in Q3’2021, attributable to the faster 52.1% growth in Non-Performing loans, which outpaced the 17.3% growth in gross loans
- Going forward, we expect the bank’s growth to be driven by:

i. **Geographical Diversification** – The bank has been aggressively expanding in the region, as evidenced by the completion of the acquisition of Banque De Populaire du Rwanda (BPR) in Rwanda in 2021. In September, KCB shareholders approved the proposal to acquire 85.0% majority stake in Democratic Republic of Congo’s Trust Merchant Bank. This is expected to boost KCB’s regional presence and participation, as well as accelerate its growth

# Financial Statements Extracts

## KCB Group's PAT is expected to grow at a 5-year CAGR of 19.0%

| Income Statement | 2019 | 2020 | 2021 | 2022f |
|---|---|---|---|---|
| Net Interest Income | 56.1 | 67.9 | 77.7 | 91.1 |
| Non Funded Income | 28.2 | 28.5 | 30.9 | 36.8 |
| **Total Operating Income** | **84.3** | **96.4** | **108.6** | **127.9** |
| | | | | |
| Loan Loss Provision | 8.9 | 27.5 | 13.0 | 13.6 |
| Other Operating Expenses | 38.5 | 43.2 | 47.8 | 57.5 |
| **Total Operating Expenses** | **47.4** | **70.7** | **60.5** | **71.1** |
| Profit Before Tax | 36.9 | 25.7 | 47.8 | 56.7 |
| **% PAT Change YoY** | **4.9%** | **(22.1%)** | **74.3%** | **16.2%** |
| EPS | 7.8 | 6.1 | 10.6 | 12.4 |
| DPS | 3.5 | 1.0 | 2.0 | 2.2 |
| Cost to Income (with LLP) | 56.2% | 73.3% | 56.0% | 55.6% |
| **NIM** | **8.2%** | **8.5%** | **8.4%** | **8.1%** |
| ROE | 20.7% | 14.4% | 21.8% | 27.0% |
| ROA | 3.1% | 2.1% | 3.2% | 4.1% |
| **Balance Sheet** | **2019** | **2020** | **2021** | **2022f** |
| Net Loans and Advances | 539.7 | 595.3 | 675.5 | 868.5 |
| Government Securities | 164.9 | 208.8 | 270.8 | 329.3 |
| Other Assets | 194.0 | 183.8 | 193.4 | 273.6 |
| **Total Assets** | **898.6** | **987.8** | **1,139.7** | **1471.4** |
| Customer Deposits | 686.6 | 767.2 | 837.1 | 1070.7 |
| Other Liabilities | 82.2 | 78.2 | 129.0 | 177.9 |
| **Total Liabilities** | **768.8** | **845.4** | **966.2** | **1248.6** |
| **Shareholders Equity** | **129.7** | **142.4** | **171.7** | **220.4** |
| **Number of Shares** | **3.2** | **3.2** | **3.2** | **3.2** |
| Book value Per share | 40.4 | 44.3 | 53.4 | 68.6 |
| **% Change in BPS YoY** | **7.5%** | **9.8%** | **20.6%** | **28.4%** |

# Valuation Summary

**KCB Group is undervalued with a total potential return of 42.3%**

| Valuation Summary | Implied Price | Weighting | Weighted Value |
|---|---|---|---|
| DDM | 44.1 | 40% | 17.6 |
| Residual Income | 54.2 | 20% | 10.8 |
| PBV Multiple | 58.6 | 10% | 5.9 |
| PE Multiple | 60.6 | 30% | 18.2 |
| **Target Price** | | | **52.5** |
| **Current Price** | | | **37.6** |
| Upside/(Downside) | | | 39.6% |
| Dividend Yield | | | 2.7% |
| **Total Return** | | | **42.3%** |

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# III. Co-operative Bank

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# Co-operative Bank Summary of Performance – Q3’2022

- The bank registered a 47.0% increase in profit after tax to Kshs 17.1 bn in Q3’2022, from Kshs 11.6 bn in Q3’2021, driven by a 17.6% increase in total operating income to Kshs 52.2 bn in Q3’2022, from Kshs 44.4 bn in Q3’2021, which outpaced the 6.0% increase in the total operating expenses to Kshs 29.6 bn in Q3’2022, from Kshs 28.0 bn in Q3’2021,
- Total operating income rose by 17.6% to Kshs 52.2 bn in Q3’2022, from Kshs 44.4 bn in Q3’2021 mainly driven by an 11.7% increase in Net Interest Income coupled with a 28.3% growth in Non-Funded Income (NFI),
- Total operating expenses increased by 6.0% to Kshs 29.6 bn in Q3’2022, from Kshs 28.0 bn in Q3’2021, largely driven by an 8.1% increase in staff costs to Kshs 10.8 bn, from Kshs 10.0 bn in Q3’2021 coupled with a 9.9% increase in other operating expenses to Kshs 13.1 bn, from Kshs 11.9 bn in Q3’2021. The increase in total operating expenses was mitigated by a 5.3% decline in Loan Loss Provisions (LLP) to Kshs 5.7 bn, from Kshs 6.0 bn in Q3’2021,
- The balance sheet recorded an expansion as total assets grew by 4.9% to Kshs 622.1 bn in Q3’2022, from Kshs 592.9 bn in Q3’2021,
- The group’s asset quality improved, with the NPL ratio reducing to 14.0% in Q3’2022, from 14.6% in Q3’2021, owing to the 9.5% growth in gross loans to Kshs 371.1 bn, from Kshs 338.7 bn in Q3’2021, which outpaced the 4.7% increase in gross non-performing loans. The improved asset quality was attributable to the continued economic recovery which has seen more business pick up and more people going back to their jobs given that the group’s loan book constituted 50.5% personal consumer loans as of H1’2022
- Going forward, we expect the bank’s growth to be driven by:

**Focus  on diversification:** The bank’s continued concentration on channel diversification will likely see it continue generating more profit, as they will continue to record increased usage and traffic. As of Q2’2022, 94.0% of the transactions were done on the alternative channels such as mobile and internet, increasing Non-Funded Income by 28.3% to Kshs 20.2 bn in Q3’2022, from Kshs 15.7 bn in Q3’2021

# Financial Statements Extracts

## Co-operative Bank's PAT is expected to grow at a 5-year CAGR of 9.1%

| Income Statement | 2019 | 2020 | 2021 | 2022f |
|---|---|---|---|---|
| **Net Interest Income** | 31.3 | 36.3 | 41.0 | 42.7 |
| Non Funded Income | 17.2 | 17.5 | 19.4 | 24.6 |
| **Total Operating Income** | **48.5** | **53.8** | **60.4** | **67.4** |
| Loan Loss Provision | (2.5) | (8.1) | (7.9) | (7.8) |
| Other Operating Expenses | (25.3) | (31.3) | (30.2) | (31.6) |
| **Total Operating Expenses** | **(27.8)** | **(39.4)** | **(38.1)** | **(39.4)** |
| Profit Before Tax | 20.7 | 14.3 | 22.6 | 28.1 |
| **% PAT Change YoY** | **12.4%** | **(24.4%)** | **53.0%** | **19.0%)** |
| EPS | 2.1 | 1.6 | 2.4 | 2.9 |
| DPS | 1.0 | 1.0 | 1.0 | 1.0 |
| Cost to Income (with LLP) | 57.4% | 73.2% | 63.0% | 58.5% |
| **NIM** | **8.5%** | **8.5%** | **8.5%** | **8.2%** |
| ROE | **19.2%** | **12.5%** | **17.3%** | 18.5% |
| ROA | **3.3%** | **2.1%** | **3.0%** | 3.2% |
| **Balance Sheet** | **2019** | **2020** | **2021** | **2022** |
| Net Loans and Advances | 266.7 | 286.6 | 310.2 | 339.9 |
| Government Securities | 117.8 | 161.9 | 184.9 | 190.2 |
| Other Assets | 72.5 | 88.4 | 85.5 | 102.8 |
| **Total Assets** | **457.0** | **536.9** | **579.8** | 632.9 |
| Customer Deposits | 332.8 | 378.6 | 407.7 | 441.0 |
| Other Liabilities | 43.3 | 66.3 | 71.3 | 79.4 |
| **Total Liabilities** | **376.2** | **444.9** | **479.0** | 520.4 |
| **Shareholders Equity** | 79.3 | 90.7 | 100.2 | 112.2 |
| **Number of Shares** | 5.87 | 5.87 | 5.87 | 6.9 |
| Book value Per share | 13.5 | 15.5 | 17.1 | 16.3 |
| **% Change in BPS YoY** | **13.6%** | **14.4%** | **10.5%** | **11.9%** |

# Valuation Summary

## Co-operative Bank is undervalued with a total potential return of 26.9%

| Valuation Summary | Implied Price | Weighting | Weighted Value |
|---|---|---|---|
| DDM | 17.0 | 40% | 6.8 |
| Residual income | 14.3 | 35% | 5.0 |
| PBV Multiple | 14.5 | 20% | 2.9 |
| PE Multiple | 15.6 | 5% | 0.8 |
| **Target Price** | | | **15.5** |
| **Current Price** | | | **12.2** |
| Upside/(Downside) | | | 26.9% |
| Dividend Yield | | | 0.0% |
| **Total Return** | | | **26.9%** |

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# IV. NCBA Bank

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# NCBA Bank Summary of Performance – Q3’2022

- Profit before tax increased by 64.5% to Kshs 18.2 bn, from Kshs 11.1 bn in Q3’2021, with the effective tax rate declining to 29.6%, from 41.0% in Q3’2021. Similarly, Profit after tax increased by 96.2% to Kshs 7.8 bn from Kshs 4.0 bn in Q3’2021
- Total operating income increased by 26.2% to Kshs 45.8 bn, from Kshs 36.3 bn in Q3’2021, driven by a 15.1% increase in Net Interest Income (NII) to Kshs 23.2 bn, from Kshs 20.2 bn in Q3’2021, coupled with a 40.1% increase in Non-Funded Income (NFI) to Kshs 22.5 bn, from Kshs 16.1 bn in Q3’2021,
- Total operating expenses increased by 8.9% to Kshs 26.9 bn, from Kshs 24.7 bn in Q3’2021, largely driven by a 19.9% increase in staff costs to Kshs 7.1 bn, from Kshs 5.9 bn in Q3’2021. The increase in staff costs was mitigated by a 9.2% decline in Loan Loss Provisions (LLP), to Kshs 8.3 bn, from Kshs 9.2 bn in Q3’2021
- The balance sheet recorded an expansion as total assets grew by 5.8% to Kshs 595.4 bn, from Kshs 562.6 bn in Q3’2021
- The group’s asset quality improved, with the gross non performing ratio declining to 12.6% from 17.0% recoded in Q3’2021, with gross non-performing loans declining by 20.9% to Kshs 36.4 bn from Kshs 46.0 bn recorded in Q3’2021
- Going forward, we expect the bank’s growth to be driven by:
- **Leveraging on digitization:** The group has continued to embrace digital lending and currently controls the largest share in digital lending market in Kenya. The bank boost of the popular mobile lending and credit products Mshwari and Fuliza and it recently announced plans to expand into eight African markets using the mobile and digital banking platforms. Currently, the group is already awaiting license to start lending in Ghana at the beginning of Q1’2023. Having recorded strong performance in Q3’2022, we expect that the move will have be a key driver to its interest income

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# Financial Statements Extracts

## NCBA Group's PAT is expected to grow at a 5-year CAGR of 28.4%

| Income Statement | 2019 | 2020 | 2021 | 2022f |
|---|---|---|---|---|
| Net Interest Income | 13.3 | 25.5 | 27.0 | 29.3 |
| Non Funded Income | 20.3 | 20.9 | 22.1 | 26.5 |
| **Total Operating Income** | **33.7** | **46.4** | **49.2** | **55.8** |
| Loan Loss Provision | (6.3) | (20.4) | (12.7) | (12.8) |
| Other Operating Expenses | (14.1) | (19.6) | (20.8) | (23.1) |
| **Total Operating Expenses** | **(20.4)** | **(40.0)** | **(33.4)** | **(35.8)** |
| Profit Before Tax | 11.3 | 5.0 | 15.0 | 19.3 |
| **Profit After Tax** | 7.8 | 4.6 | 10.2 | 13.5 |
| **% PAT Change YoY** | **(12.4%)** | **(41.7%)** | **123.7%** | **31.8%** |
| EPS | 11.1 | 2.8 | 6.2 | 8.2 |
| DPS | 0.3 | 2.3 | 3.0 | 0.2 |
| Cost to Income (with LLP) | 60.5% | 86.2% | 68.1% | 64.2% |
| **NIM** | **3.3%** | **5.8%** | **5.9%** | 5.6% |
| ROE | 11.8% | 6.6% | 13.6% | 17.1% |
| ROA | 1.7% | 0.9% | 1.8% | 2.2% |
| **Balance Sheet** | **2019** | **2020** | **2021** | **2022f** |
| Net Loans and Advances | 249.4 | 248.5 | 244.0 | 268.6 |
| Government Securities | 145.0 | 163.5 | 196.1 | 216.8 |
| Other Assets | 100.5 | 116.0 | 151.0 | 144.2 |
| **Total Assets** | 494.8 | 528.0 | 591.1 | 629.6 |
| Customer Deposits | 378.2 | 421.5 | 469.9 | 497.4 |
| Other Liabilities | 49.3 | 33.9 | 43.2 | 52.6 |
| **Total Liabilities** | 427.6 | 455.4 | 513.1 | 550.0 |
| **Shareholders Equity** | 67.0 | 72.4 | 77.9 | 79.6 |
| **Number of Shares** | 0.7 | 1.5 | 1.5 | 1.6 |
| Book value Per share | 44.7 | 43.9 | 47.3 | 48.3 |
| **% Change in BPS YoY** | **1.5%** | **(1.8%)** | **7.6%** | **2.2%** |

# Valuation Summary

## NCBA Group is undervalued with a total potential return of 32.6%

| Valuation Summary | Implied Price | Weighting | Weighted Value |
|---|---|---|---|
| DDM Integrated | 42.1 | 40% | 16.8 |
| Residual Valuation | 53.1 | 35% | 18.6 |
| PBV Multiple | 30.4 | 20% | 6.1 |
| PE Multiple | 38.3 | 5% | 1.9 |
| **Target Price** | | | **43.4** |
| **Current Price** | | | **35.0** |
| Upside/(Downside) | | | 24.0% |
| Dividend Yield | | | 8.6% |
| **Total Potential Return** | | | **32.6%** |

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# V. Standard Chartered Bank Kenya

Cytonn

# SCBK's Summary of Performance – Q3'2022

- Profit before tax increased by 38.2% to Kshs 12.3 bn, from Kshs 8.9 bn in Q3'2021, with the effective tax rate rising slightly to 29.1%, from 28.6% in Q3'2021. Similarly, Profit after tax increased by 37.1% to Kshs 8.7 bn in Q3'2022, from Kshs 6.4 bn in Q3'2021
- Total operating income increased by 10.3% to Kshs 24.6 bn, from Kshs 22.3 bn in Q3'2021, driven by a 7.3% increase in Net Interest Income (NII) to Kshs 15.8 bn, from Kshs 14.7 bn in Q3'2021, coupled with a 16.1% increase in Non-Funded Income (NFI) to Kshs 8.8 bn, from Kshs 7.6 bn in Q3'2021,
- Total operating expenses declined by 8.3% to Kshs 12.3 bn, from Kshs 13.4 bn in Q3'2021, largely driven by a 76.8% decrease in Loan Loss Provision (LLP) to Kshs 0.6 bn, from Kshs 2.7 bn in Q3'2021
- The balance sheet recorded an expansion as total assets grew by 10.7% to Kshs 366.1 bn, from Kshs 330.7 bn in Q3'2021
- The group's asset quality deteriorated slightly, with the NPL ratio increasing to 15.4% in Q3'2022, from 15.3% in Q3'2021. The decline in asset quality was attributable to the faster 4.4% increase on gross non-performing loans which outpaced the 3.4% growth in gross loans

Going forward, we expect the bank's growth to be driven by:

i. **Revenue Diversification –** We expect the bank to continue to grow its revenue through the non-funded income as evidenced by the 16.1% growth of non-funded income to Kshs 8.8 bn, from 7.6 bn in Q3'2021, on the back of 66.0% increase in foreign exchange trade income to Kshs 4.2 bn, from Kshs 2.5 bn in Q2'2021, coupled with the introduction of SC shilingi fund evidenced by a 9.8% growth in other incomes to Kshs 1.0 bn, from Kshs 0.9 bn

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# Financial Statements Extracts

## SCBK's PAT is expected to grow at a 5-year CAGR of 26.2%

| Income Statement | 2019 | 2020 | 2021 | 2022f |
|---|---|---|---|---|
| Net Interest Income | 19.5 | 19.1 | 18.8 | 22.2 |
| Non Funded Income | 9.2 | 8.3 | 10.4 | 12.0 |
| **Total Operating Income** | **28.7** | **27.4** | **29.2** | **34.2** |
| Loan Loss Provision | (0.6) | (3.9) | (2.1) | (2.7) |
| Other Operating Expenses | (16.0) | (16.1) | (14.5) | (17.1) |
| **Total Operating Expenses** | **(16.5** | **(20.0)** | **(16.6)** | **(19.8)** |
| Profit Before Tax | 12.2 | 7.4 | 12.6 | 14.4 |
| **% PAT Change YoY** | **1.7%** | **(33.9%)** | **66.2%** | **20.1%** |
| EPS | 24.0 | 14.4 | 24.0 | 28.8 |
| DPS | 20.0 | 10.5 | 19.0 | 16.0 |
| Cost to Income (with LLP) | 57.6% | 73.0% | 56.8% | 57.8% |
| **NIM** | **7.4%** | **6.8%** | **6.4%** | **7.0%** |
| ROaE | 17.5% | 11.0% | 17.4% | 19.2% |
| ROaA | 2.8% | 1.7% | 2.7% | 3.1% |
| **Balance Sheet** | **2019** | **2020** | **2021** | **2022f** |
| Net Loans and Advances | 128.7 | 121.5 | 126.0 | 140.5 |
| Government Securities | 99.6 | 99.8 | 95.6 | 112.9 |
| Other assets | 73.8 | 104.3 | 113.3 | 119.9 |
| **Total Assets** | **302.1** | **325.6** | **334.9** | **373.2** |
| Customer Deposits | 228.4 | 256.5 | 265.5 | 288.9 |
| Other Liabilities | 25.9 | 18.2 | 16.2 | 24.7 |
| **Total Liabilities** | **254.4** | **274.7** | **281.7** | **313.6** |
| **Shareholders Equity** | **47.8** | **50.9** | **53.2** | **59.7** |
| **Number of shares** | **0.4** | **0.4** | **0.4** | **0.3** |
| Book value Per share | 119.5 | 135.0 | 141.2 | 158.2 |
| **% Change in BPS YoY** | **2.6%** | **12.9%** | **4.6%** | **12.1%** |

# Valuation Summary

## SCBK is undervalued with a total potential return of 26.6%

| Valuation Summary | Implied Price | Weighting | Weighted Value |
|---|---|---|---|
| DDM | 193.4 | 40% | 77.4 |
| Residual Income | 148.6 | 35% | 52.0 |
| PBV Multiple | 142.7 | 20% | 28.5 |
| PE Multiple | 139.9 | 5% | 7.0 |
| | | | |
| **Target Price** | | | **164.9** |
| **Current Price** | | | **146.0** |
| Upside/(Downside) | | | 12.9% |
| Dividend Yield | | | 13.7% |
| **Total Return** | | | **26.6%** |

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# VI. Diamond Trust Bank Kenya

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# DTBK's Summary of Performance – Q3'2022

- Profit before tax and exceptional items rose by 20.2% to Kshs 8.9 bn, from Kshs 7.4 bn in Q3'2021, with the effective tax rate increasing to 38.3% in Q3'2022, from 34.0% seen in Q3'2021. Similarly, the bank recorded a 21.1% increase in profit after tax to Kshs 6.3 bn in Q3'2022, from Kshs 5.2 bn in Q3'2021
- Total operating income rose by 21.3% to Kshs 23.7 bn in Q3'2022, from Kshs 19.5 bn in Q3'2021 mainly driven by an 14.1% increase in Net Interest Income (NII) to Kshs 16.8 bn, from Kshs 14.7 bn in Q3'2021 coupled with a 43.5% growth in Non-Funded Income (NFI) to Kshs 6.9 bn, from Kshs 4.8 bn in Q3'2021
- Total operating expenses increased by 21.5% to Kshs 14.7 bn in Q3'2022, from Kshs 12.1 bn in Q3'2021, largely driven by an 20.0% increase in staff costs to Kshs 4.4 bn, from Kshs 3.6 bn in Q3'2021 coupled with a 17.3% increase in other operating expenses to Kshs 6.3 bn, from Kshs 5.4 bn in Q3'2021,
- The balance sheet recorded an expansion as total assets grew by 16.8% to Kshs 507.5 bn in Q3'2022, from Kshs 434.4 bn in Q3'2021
- The Bank's asset quality deteriorated, with the NPL ratio increasing to 12.7% in Q3'2022, from 11.9% in Q3'2021, owing to the 28.1% growth in gross non-performing loans, which outpaced the 18.5% increase in net loans and advances to Kshs 243.7 bn, from Kshs 205.6 bn in Q3'2021
- Going forward, we expect the bank's growth to be driven by:

i. **Digitization:** Through its agile digital platforms, the bank has been able to have majority of the bank's transactions done through mobile transactions. Additionally, Kshs 3.5 bn is geared to be invested in digital transformation in 2022-2024 with Kshs 2.4 bn already invested in 2018-2021. The continued leverage on technology to improve customer experience is expected to expedite service delivery to its customers

# Financial Statements Extracts

## DTBK's PAT is expected to grow at a 5-year CAGR of 42.7%

| Income Statement | 2019 | 2020 | 2021 | 2022f |
|---|---|---|---|---|
| Net Interest Income | 18.7 | 18.1 | 20.0 | 19.9 |
| Non Funded Income | 5.8 | 6.1 | 6.3 | 8.0 |
| **Total Operating Income** | **24.5** | **24.2** | **26.3** | **27.9** |
| Loan Loss Provision | (1.3) | (7.3) | (7.6) | (6.8) |
| Other Operating Expenses | (11.9) | (12.3) | (12.3) | (12.9) |
| **Total Operating Expenses** | **(13.2)** | **(19.7)** | **(19.9)** | **( 19.7)** |
| Profit Before Tax | 11.3 | 4.7 | 6.6 | 8.4 |
| **% PAT Change YoY** | **2.6%** | **(51.5%)** | **25.1%** | **51.3%** |
| EPS | 26.0 | 12.6 | 15.8 | 23.9 |
| DPS | 2.7 | 0.0 | 3.0 | 3.0 |
| Cost to Income (With LLP) | 54.0% | 81.3% | 75.6% | 70.6% |
| **NIM** | **5.6%** | 5.0% | 5.1% | **4.6%** |
| ROE | 12.9% | 5.8% | 6.8% | 9.4% |
| ROA | 1.9% | 0.9% | 1.0% | 1.4% |
| **Balance Sheet** | **2019** | **2020** | **2021** | **2022f** |
| Net Loans and Advances | 199.1 | 208.6 | 220.4 | 254.6 |
| Government Securities | 130.3 | 148.4 | 169.0 | 86.2 |
| Other Assets | 56.8 | 68.1 | 67.4 | 180.8 |
| **Total Assets** | **386.2** | **425.1** | **456.8** | **521.7** |
| Customer Deposits | 280.2 | 298.2 | 331.5 | 370.1 |
| Other Liabilities | 41.5 | 58.5 | 50.8 | 68.3 |
| **Total Liabilities** | **321.7** | **356.7** | **382.3** | **438.4** |
| Shareholders Equity | 58.9 | 62.0 | 67.3 | 75.4 |
| Number of Shares | 0.3 | 0.3 | 0.3 | 0.3 |
| Book value Per share | 210.5 | 221.6 | 240.7 | 269.7 |
| **% Change in BPS YoY** | **9.7%** | **5.3%** | **8.6%** | **12.0%** |

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# Valuation Summary

## DTBK is undervalued with a total potential return of 25.3%

| Valuation Summary: | Implied Price | Weighting | Weighted Value |
|---|---|---|---|
| DDM | 78.0 | 40.0% | 31.2 |
| Residual Income | 16.3 | 35.0% | 5.7 |
| PBV Multiple | 81.4 | 20.0% | 16.3 |
| PE Multiple | 78.9 | 5.0% | 3.9 |
| **Target Price** | | | **57.2** |
| **Current Price** | | | **48.0** |
| Upside/(Downside) | | | 19.1% |
| Dividend yield | | | 6.3% |
| **Total return** | | | **25.3%** |

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# VII. ABSA Bank Kenya

# ABSA Bank's Summary of Performance – Q3'2022

- Profit before tax and exceptional items increased by 27.6% to Kshs 15.1 bn in Q3'2022, from Kshs 11.9 bn in Q3'2021. Similarly, profit after tax increased by 30.1% to Kshs 10.7 bn in Q3'2022, from Kshs 8.2 bn in Q3'2021 with the effective tax rate declining to 29.2%, from 30.6% in Q3'2021,
- Total operating income rose by 22.5% to Kshs 33.4 bn, from Kshs 27.3 bn recorded in Q3'2021 driven by a 25.3% increase in Net Interest Income (NII) to Kshs 23.3 bn, from Kshs 18.6 bn in Q3'2021, coupled with a 16.4% gain in Non-Funded Income (NFI) to Kshs 10.2 bn, from Kshs 8.7 bn in Q3'2021,
- Total operating expenses increased by 18.5% to Kshs 18.3 bn in Q3'2022, from Kshs 15.4 bn in Q3'2021, mainly attributable to a 47.9% increase in Loan Loss Provisions (LLPs) to Kshs 5.0 bn, from Kshs 3.4 bn in Q3'2021, coupled with an 8.7% increase in staff costs to Kshs 7.4 bn from Kshs 6.8 bn in Q3'2021
- Cost to Income Ratio (CIR) improved to 54.7%, from 56.6% in Q3'2021, owing to 22.5% increase in total operating income, which outpaced the 18.5% growth in total operating expenses. Similarly, Without LLP the cost to income ratio improved significantly, declining by 4.4% points to 39.7%, from 44.1% in Q3'2021, an indication of improved efficiency
- The balance sheet recorded an expansion as total assets grew by 17.0% to Kshs 481.3 bn in Q3'2022, from Kshs 411.4 bn in Q3'2021
- The bank's asset quality improved, with the NPL ratio declining by 1.5% points to 6.6% in Q3'2022, from 8.1% in Q3'2021, owing to the faster 25.3% growth in Gross Loans, as compared to the 2.0% increase in Gross Non-Performing Loans (NPLs)
- Going forward, we expect the bank's growth to be driven by:

i. **Diversification –** This is expected to reduce the bank's reliance on interest income as well as increasing the bottom line. It has continued to grow its product offerings to include business lines such as to Banc-assurance, Investment banking advisory and Asset Management which will continue growing the Non-Funded Income (NFI). The bank has also diversified in its digital offerings especially after the COVID-19 leading to 92.0% of all transactions happening outside. The uptake of "Timiza" which is a digital banking App, has also accelerated leading to higher Non-Interest Income

# Financial Statements Extracts

## Absa Bank's PAT is expected to grow at a 5-year CAGR of 11.2%

| Income Statement | 2019 | 2020 | 2021 | 2022f |
|---|---|---|---|---|
| Net Interest Income | 23.2 | 23.4 | 25.3 | 29.0 |
| Non Funded Income | 10.6 | 11.1 | 11.7 | 14.6 |
| **Total Operating Income** | **33.8** | **34.5** | **36.9** | **43.6** |
| Loan Loss Provision | (4.2) | (9.0) | (4.7) | (5.7) |
| Other Operating Expenses | (17.3) | (16.7) | (16.7) | (17.9) |
| **Total Operating Expenses** | **(21.5)** | **(25.7)** | **(21.4)** | **(23.6)** |
| Profit Before Tax | 10.8 | 8.9 | 15.6 | 20.0 |
| **% PAT Change YoY** | **0.5%** | **(44.2%)** | **161.2%** | **28.7%** |
| EPS | 1.4 | 0.7 | 2.0 | 2.6 |
| DPS | 1.1 | 0.0 | 1.1 | 1.1 |
| Cost to Income (with LLP) | 63.6% | 74.4% | 57.9% | 54.2% |
| Cost to Income (without LLP) | 51.2% | 48.2% | 45.1% | 41.1% |
| **NIM** | **7.7%** | **7.1%** | **7.1%** | **7.2%** |
| ROaE | 16.7% | *9.1% | 21.1% | 22.4% |
| ROaA | 2.1% | 1.1% | 2.7% | 3.1% |

| Balance Sheet | 2019 | 2020 | 2021 | 2022f |
|---|---|---|---|---|
| Net Loans and Advances | 194.9 | 208.9 | 234.2 | 291.8 |
| Government Securities | 123.0 | 126.1 | 132.6 | 136.0 |
| Other Assets | 56.1 | 44.5 | 61.9 | 58.5 |
| **Total Assets** | **374.0** | **379.4** | **428.7** | **486.4** |
| Customer Deposits | 237.7 | 253.6 | 268.7 | 282.2 |
| Other Liabilities | 91.1 | 79.3 | 103.5 | 136.0 |
| **Total Liabilities** | **328.8** | **332.9** | **372.2** | **418.1** |
| **Shareholders Equity** | **45.2** | **46.5** | **56.5** | **68.3** |
| **Number of shares** | **5.4** | **5.4** | **5.4** | **5.4** |
| Book value Per share | 8.3 | 8.6 | 10.4 | 12.6 |
| **% Change in BPS YoY** | **2.2%** | **2.9%** | **21.4%** | **46.8%** |



*Excluding exceptional costs associated with the change of brand, ABSA's FY'2020 ROaE came in at 13.5%

# Valuation Summary

## Absa Bank is undervalued with a total potential return of 39.1%

| Valuation Summary: | Implied Price | Weighting | Weighted Value |
|---|---|---|---|
| *DDM* | 17.1 | 40% | 6.8 |
| *Residual Income* | 16.2 | 35% | 5.7 |
| *PBV Multiple* | 10.1 | 20% | 2.0 |
| *PE Multiple* | 9.2 | 10% | 0.9 |
| ***Target Price*** | | | **15.5** |
| ***Current Price*** | | | **11.9** |
| Upside/(Downside) | | | 29.9% |
| Dividend Yield | | | 9.2% |
| ***Total Return*** | | | **39.1%** |

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# VIII. Stanbic Holdings

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# Stanbic Holdings' Summary of Performance – Q3'2022

- Profit before tax increased by 37.7% to Kshs 9.7 bn, from Kshs 7.0 bn in Q3'2021, similarly, tax expenses increased to Kshs 2.7 bn in Q3'2022 from Kshs 1.9 bn recorded in Q3'2021 leading to a 36.8% increase in profit after tax to Kshs 7.0 bn in Q3'2022, from Kshs 5.1 bn in Q3'2021
- Total operating income increased by 31.4% to Kshs 23.0 bn, from Kshs 17.5 bn in Q3'2021, driven by a 26.8% increase in Net Interest Income (NII) to Kshs 12.7 bn, from Kshs 10.0 bn in Q3'2021, coupled with a 37.5% increase in Non-Funded Income (NFI) to Kshs 10.3 bn, from Kshs 7.5 bn in Q3'2021
- Total operating expenses increased by 27.2% to Kshs 13.3 bn, from Kshs 10.5 bn in Q3'2021, driven by a 14.4% increase in staff costs to Kshs 5.1 bn in Q3'2022, from Kshs 4.5 bn in Q3'2021. Additionally, loan loss provisions increased by 88.7% to Kshs 2.9 bn from Kshs 1.5 bn recorded in Q3'2022
- The balance sheet recorded an expansion as total assets grew by 25.9% to Kshs 371.4 bn, from Kshs 295.0 bn in Q3'2021
- Asset Quality - The bank's Asset Quality improved, with NPL ratio declining to 10.1% in Q3'2022, from 11.5% in Q3'2021, attributable to 34.2% increase in Gross loans, which outpaced the 18.0% increase in gross non-performing loans recorded in Q3'2021
- Revenue Diversification - The bank's NFI recorded a y/y increase of 37.5% to Kshs 10.3 bn in Q3'2022 mainly attributable to significant increase in Foreign Exchange income by 162.9% to Kshs 9.2 bn from Kshs 3.5 bn recorded in Q3'2022

Going forward, the factors that would drive the bank's growth would be:

**Digital transformation.** The bank improvement in its financial performance is attributable to its digital transformation strategy through mobile banking which has led to increase in transactions. Through mobile banking the banks has been able to grow its customer base which has been driving its profitability. In our view, we expect the inclusivity and wide customer reach through mobile banking will be a key driver in the bank's growth

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# Financial Statements Extracts

## Stanbic Holdings' PAT is expected to grow at a 5-year CAGR of 12.9%

| Income Statement | 2019 | 2020 | 2021 | 2022f |
|---|---|---|---|---|
| Net Interest Income | 13.3 | 12.8 | 14.4 | 17.6 |
| Non Funded Income | 11.4 | 10.4 | 10.6 | 13.6 |
| **Total Operating Income** | **24.7** | **23.2** | **25.0** | **31.2** |
| Loan Loss Provision | (3.2) | (4.9) | (2.5) | (2.9) |
| **Total Operating Expenses** | **(13.9)** | **(12.1)** | **(12.7)** | **(16.6)** |
| Profit Before Tax | 7.7 | 6.2 | 9.8 | 14.6 |
| **% PAT Change YoY** | **1.6%** | **(18.6%)** | **38.8%** | **4.7%** |
| EPS | 16.1 | 13.1 | 18.2 | 25.8 |
| DPS | 7.1 | 3.8 | 9.0 | 7.5 |
| Cost to Income (with LLP) | 56.2% | 52.2% | 50.9% | 53.3% |
| **NIM** | **5.2%** | **4.7%** | **5.0%** | **5.6%** |
| ROaE | 13.6% | 10.3% | 13.3% | 17.9% |
| ROaA | 2.1% | 1.6% | 2.2% | 2.8% |
| **Balance Sheet** | **2019** | **2020** | **2021** | **2022f** |
| Net Loans and Advances | 191.2 | 196.3 | 229.3 | 245.9 |
| Other Assets | 112.4 | 132.3 | 99.6 | 149.3 |
| **Total Assets** | **303.6** | **328.6** | **328.9** | **395.2** |
| Customer Deposits | 224.7 | 260.0 | 254.6 | 283.8 |
| Borrowings | 9.1 | 5.5 | 5.7 | 13.6 |
| Other Liabilities | 20.8 | 11.4 | 12.1 | 40.1 |
| **Total Liabilities** | **254.6** | **276.9** | **272.4** | **337.6** |
| Shareholders Equity | 49.0 | 51.7 | 56.5 | 57.6 |
| No of Ordinary Shares | 0.4 | 0.4 | 0.4 | 0.4 |
| Book value Per share | 124.0 | 130.9 | 142.8 | 145.7 |
| **% Change in BVPS** | **9.9%** | **5.5%** | **9.1%** | **2.0%** |

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# Valuation Summary

**Stanbic Holdings is undervalued with a total potential return of 22.3%**

| Valuation Summary: | Implied Price | Weighting | Weighted Value |
|---|---|---|---|
| DDM Integrated | 139.6 | 40% | 55.8 |
| Residual Income | 97.2 | 35% | 34.0 |
| PBV Multiple | 71.6 | 20% | 14.3 |
| PE Multiple | 90.5 | 5% | 4.5 |
| **Target Price** | | | **108.7** |
| **Current Price** | | | **95.0** |
| Upside/(Downside) | | | 14.4% |
| Dividend Yield | | | 7.9% |
| **Total return** | | | **22.3%** |

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# IX. I&M Group

# I&M Group Summary of Performance – Q3’2022

- Profit before tax and exceptional items rose by 28.9% to Kshs 10.4 bn, from Kshs 8.1 bn in Q3’2021, with the effective tax rate increasing to 31.2% in Q3’2022, from 29.1% seen in Q3’2021. Similarly, the Group recorded a 25.1% increase in profit after tax to Kshs 7.2 bn in Q3’2022, from Kshs 5.7 bn in Q3’2021
- Total operating income rose by 24.0% to Kshs 25.0 bn in Q3’2022, from Kshs 20.2 bn in Q3’2021 mainly driven by a 15.6% increase in Net Interest Income (NII) to Kshs 16.2 bn, from Kshs 14.0 bn in Q3’2021 coupled with a 43.0% growth in Non-Funded Income (NFI) to Kshs 8.8 bn, from Kshs 6.2 bn in Q3’2021
- Total operating expenses increased by 19.1% to Kshs 14.9 bn in Q3’2022, from Kshs 12.5 bn in Q3’2021, largely driven by a 10.2% increase in staff costs to Kshs 4.8 bn, from Kshs 4.3 bn in Q3’2021 coupled with a 21.8% increase in other operating expenses to Kshs 6.6 bn, from Kshs 5.4 bn in Q3’2021,
- The balance sheet recorded an expansion as total assets grew by 7.4% to Kshs 428.7 bn in Q3’2022, from Kshs 399.1 bn in Q3’2021, mainly attributable the 11.4% growth in net loans and advances to Kshs 231.2 bn in Q3’2022, from Kshs 207.6 bn in Q3’2021
- The group’s asset quality improved, with the NPL ratio reducing to 9.5% in Q3’2022, from 10.2% in Q3’2021, owing to the 11.4% growth in gross loans to Kshs 231.2 bn, from Kshs 207.6 bn in Q3’2021, which outpaced the 4.2% increase in gross non-performing loans

Going forward, we expect the bank’s growth to be driven by:

i. **Enhanced Digitization** – The bank’s continued concentration on digital channels for transactions will likely see it continue generating more profit, as they will continue to record increased usage and traffic. As of Q3’2022, 74.0% of the Group’s transactions were executed digitally that saw the increase of the value of digital transactions to Kshs 1.2 bn in Q3’2022 from Kshs 308.0 mn in Q3’2021

ii. **Expansion to Retail and MSMEs lending**: We expect an increase in the Group’s loaning to the MSME sector, that will continue to boost the Bank’s profitability

# Financial Statements Extracts

## I&M Group's PAT is expected to grow at a 5-year CAGR of 5.0%

| Income Statement | 2019 | 2020 | 2021 | 2022f |
|---|---|---|---|---|
| Net Interest Income | 15.5 | 15.6 | 20.9 | 22.3 |
| Non- Funded Income | 8.3 | 8.6 | 8.7 | 11.5 |
| **Total Operating Income** | **23.8** | **24.2** | **29.6** | **33.8** |
| Loan Loss Provision | 0.6 | 2.5 | (4.2) | (5.2) |
| Other Operating Expenses | 9.5 | 10.1 | (13.5) | (15.6) |
| **Total Operating Expenses** | **(10.1)** | **(12.6)** | **(17.7)** | **(20.8)** |
| Profit Before Tax | 14.6 | 11.0 | 12.4 | 13.6 |
| **% PAT Change YoY** | **26.6%** | **(21.9%)** | **2.5%** | **10.1%** |
| EPS | 13.0 | 10.2 | 4.9 | 5.7 |
| DPS | 2.6 | 2.3 | 1.5 | 1.8 |
| Cost to Income (with LLP) | 42.4% | 52.0% | 59.9% | 61.5% |
| **NIM** | **5.9%** | **5.4%** | **6.3%** | **6.0%** |
| ROaE | 19.5% | 13.2% | 12.2% | 12.4% |
| ROaA | 3.4% | 2.3% | 2.1% | 2.1% |
| **Balance Sheet** | **2019** | **2020** | **2021** | **2025F** |
| Government securities | 53.9 | 101.7 | 125.5 | 132.4 |
| Net Loans and Advances | 175.3 | 187.4 | 210.6 | 231.4 |
| Other Assets | 86.0 | 69.0 | 79.0 | 88.0 |
| **Total Assets** | **315.3** | **358.1** | **415.2** | **451.8** |
| Customer Deposits | 229.7 | 262.7 | 296.7 | 320.5 |
| Other Liabilities | 24.7 | 27.4 | 44.4 | 51.2 |
| **Total Liabilities** | **254.4** | **290.0** | **341.1** | **371.7** |
| Shareholders Equity | 57.7 | 64.2 | 69.6 | 75.0 |
| Number of Shares | 0.8 | 0.8 | 1.7 | 1.7 |
| Book Value Per Share | 69.8 | 77.6 | 42.1 | 45.4 |
| **% BVPS Change YoY** | **(39.7%)** | **11.2%** | **(45.8%)** | **7.8%** |

# Valuation Summary

## I&M Group is undervalued with a total potential return of 34.4%

| Valuation Summary: | Implied Price | Weighting | Weighted Value |
|---|---|---|---|
| DDM Integrated | 21.2 | 40.0% | 8.5 |
| Residual income | 17.6 | 35.0% | 6.2 |
| PBV Multiple | 25.4 | 20.0% | 5.1 |
| PE Multiple | 22.2 | 5.0% | 1.1 |
| **Target Price** | | | **20.8** |
| **Current Price** | | | **16.8** |
| Upside/(Downside) | | | 24.0% |
| Dividend yield | | | 10.4% |
| **Total return** | | | **34.4%** |

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# B. Tier II Bank

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# I. HF Group

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# HF Group Summary of Performance – Q3’2022

- Profit before tax increased by 114.0% to Kshs 0.1 bn, from a loss before tax of Kshs 0.5 bn in Q3’2021. Notably, the Group posted a profit after tax of Kshs 61.5 mn in Q3’2022, up from a loss of Kshs 569.9 mn in Q3’2021, becoming the third consecutive quarter that HF Group has registered a profit after tax
- Total operating income increased by 26.8% to Kshs 2.3 bn, from Kshs 1.8 bn in Q3’2021, driven by a 66.1% increase in Non-Funded Income (NFI) to Kshs 0.8 bn, from Kshs 0.5 bn in Q3’2021, coupled with a 13.9% increase in Net Interest Income (NII) to Kshs 1.6 bn, from Kshs 1.4 bn in Q3’2021
- Total operating expenses declined by 4.7% to Kshs 2.2 bn, from Kshs 2.4 bn in Q3’2021, largely driven by a 12.8% decrease in Loan Loss Provision (LLP) to Kshs 0.15 bn, from Kshs 0.17 bn in Q3’2021. The reduction in provisioning can be attributed to a reduction in Real Estate credit risk, evidenced by reduction in Gross Non-performing loans by 4.7% to Kshs 75.6 bn in September 2022, from Kshs 79.4 bn in June 2022
- The balance sheet recorded an expansion as total assets grew by 5.6% to Kshs 55.1 bn, from Kshs 52.2 bn in Q3’2021,
- Improved Asset Quality - The group’s asset quality improved significantly, with the NPL ratio improving to 20.3% in Q3’2022, from 22.0% in Q3’2021, attributable to the 5.9% decline in gross non-performing loans to Kshs 8.5 bn, from Kshs 9.0 bn in Q3’2021, coupled with 2.3% growth in Gross loans during the quarter,
- Going forward, we expect the bank’s growth to be driven by:

i. We maintain our view that HF Group as a conventional bank has a long way to go, despite the injection of tier II capital of Kshs 1.0 bn by the majority shareholder Britam Holdings in H1’2021 and three consecutive quarters of profitability. They will either have to adjust their business model, or couple up with a strong bank with a sizeable asset base, and a strong deposit gathering capability, to capitalize on HF’s strength in real estate and mortgage

# Financial Statements Extracts

## HF's PAT is expected to grow at a 5-year CAGR of (172.9%) to profitability in 2025

| Income Statement | 2019 | 2020 | 2021 | 2022f |
|---|---|---|---|---|
| Net Interest Income | 2.0 | 1.9 | 1.8 | 1.9 |
| Non- Funded Income | 1.4 | 0.5 | 0.5 | 1.0 |
| **Total Operating Income** | **3.4** | **2.4** | **2.4** | **2.9** |
| Loan Loss Provision | (0.4) | (0.4) | (0.3) | (0.2) |
| Other Operating Expenses | (3.2) | (3.6) | (2.9) | (2.5) |
| **Total Operating Expenses** | **(3.5)** | **(4.1)** | **(3.2)** | **(2.7)** |
| Profit Before Tax | (0.1) | (1.7) | (0.9) | 0.2 |
| **% PAT Change YoY** | **(81.6%)** | **1443.7%** | **65.1%** | **(118.7%)** |
| EPS | (0.3) | (4.4) | (1.5) | 0.3 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 |
| Cost to Income | 104.2% | 153.1% | 136.3% | 94.5% |
| **NIM** | **4.3%** | **4.2%** | **4.2%** | 4.4% |
| ROaE | (1.1%) | (18.1%) | (7.2%) | 1.4% |
| ROaA | (0.2%) | (3.0%) | (1.1%) | 0.2% |
| **Balance Sheet** | **2019** | **2020** | **2021** | **2022f** |
| Net Loans and Advances | 38.6 | 37.0 | 34.7 | 36.6 |
| Government securities | 4.6 | 7.1 | 6.6 | 9.0 |
| Other Assets | 13.3 | 11.3 | 11.7 | 9.5 |
| **Total Assets** | **56.5** | **55.4** | **52.9** | **55.2** |
| Customer Deposits | 37.4 | 39.9 | 37.7 | 40.2 |
| Other Liabilities | 8.8 | 6.9 | 7.2 | 6.9 |
| **Total Liabilities** | **46.2** | **46.9** | **44.9** | **47.1** |
| Shareholders Equity | 10.2 | 8.6 | 8.0 | 8.1 |
| Number of Shares | 0.4 | 0.4 | 0.4 | 0.4 |
| Book Value Per Share | 26.6 | 22.3 | 20.7 | 20.9 |
| **% BVPS Change YoY** | **(1.5%)** | **(16.2%)** | **(6.9%)** | **1.1%** |

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# Valuation Summary

## Housing Finance is undervalued with a total potential return of 8.4%

| Valuation Summary | Implied Price | Weighting | Weighted Value |
|---|---|---|---|
| Residual Income | 3.7 | 60% | 2.2 |
| PTBV Multiple | 3.5 | 35% | 1.2 |
| PE Multiple | 2.1 | 5% | 0.1 |
| **Fair Value** | | | **3.5** |
| **Current Price** | | | **3.3** |
| Upside/(Downside) | | | 8.4% |
| Dividend Yield | | | 0.0% |
| **Total return** | | | **8.4%** |

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# Feedback Summary

## During the preparation of this Q3'2022 Banking Sector Report, we shared with the subject companies the operating metrics that were used in the Report for their confirmation and verification

- Below is a summary of the banks we were able to acquire feedback from and those that went unresponsive:

| Bank | Operating Metrics Shared | Sent Feedback |
|---|---|---|
| Co-operative Bank of Kenya | Yes | Unresponsive |
| Standard Chartered Bank Kenya | Yes | Unresponsive |
| I&M Group | Yes | Yes |
| Stanbic Holdings | Yes | Unresponsive |
| Diamond Trust Bank | Yes | Unresponsive |
| KCB Group | Yes | Yes |
| NCBA Group | Yes | Yes |
| Housing Finance Group | Yes | Unresponsive |
| Equity Group Holdings | Yes | Unresponsive |
| Absa Bank Kenya | Yes | Responsive |

# Licensed Financial Institutions

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# I. Banks and Mortgage Finance Institutions

# Licensed Banks in Kenya

| # | Bank | # | Bank |
|---|---|---|---|
| 1 | ABSA Bank Kenya | 20 | Gulf African Bank Limited |
| 2 | Access Bank Kenya | 21 | Habib Bank A.G Zurich |
| 3 | African Banking Corporation Limited | 22 | I&M Bank Limited |
| 4 | Bank of Africa Kenya Limited | 23 | Kingdom Bank Kenya Limited |
| 5 | Bank of Baroda (Kenya) Limited | 24 | KCB Bank Kenya Limited |
| 6 | Bank of India | 25 | Mayfair CIB Bank Limited |
| 7 | Citibank N.A Kenya | 26 | Middle East Bank (K) Limited |
| 8 | Consolidated Bank of Kenya Limited | 27 | M-Oriental Bank Limited |
| 9 | Co-operative Bank of Kenya Limited | 28 | National Bank of Kenya Limited |
| 10 | Credit Bank Limited | 29 | NCBA Bank Kenya PLC |
| 11 | Development Bank of Kenya Limited | 30 | Paramount Bank Limited |
| 12 | Diamond Trust Bank Kenya Limited | 31 | Prime Bank Limited |
| 13 | DIB Bank Kenya Limited | 32 | SBM Bank Kenya Limited |
| 14 | Ecobank Kenya Limited | 33 | Sidian Bank Limited |
| 15 | Equity Bank Kenya Limited | 34 | Spire Bank Ltd |
| 16 | Family Bank Limited | 35 | Stanbic Bank Kenya Limited |
| 17 | First Community Bank Limited | 36 | Standard Chartered Bank Kenya Limited |
| 18 | Guaranty Trust Bank (K) Ltd | 37 | UBA Kenya Bank Limited |
| 19 | Guardian Bank Limited | 38 | Victoria Commercial Bank Limited |

# Licensed Banks in Kenya

**Licensed Mortgage Finance Institution**

1. HFC Limited

**Authorized Non-operating Bank Holding Companies**

1. Bakki Holdco Limited
2. Equity Group Holdings Limited
3. HF Group Limited
4. I&M Group
5. KCB Group
6. M Holdings Limited
7. NCBA Group
8. Stanbic Group Holdings

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# II. Micro-Finance Institutions

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# Licensed Microfinance Banks in Kenya

| # | Microfinance Bank | # | Microfinance Bank |
|---|---|---|---|
| 1 | Caritas Microfinance Bank Limited | 8 | Remu Microfinance Bank Limited |
| 2 | Century Microfinance Bank Limited | 9 | SMEP Microfinance Bank Limited |
| 3 | Choice Microfinance Bank Limited | 10 | Sumac Microfinance Bank Limited |
| 4 | Daraja Microfinance Bank Limited | 11 | U & I Microfinance Bank Limited |
| 5 | Faulu Microfinance Bank Limited | 12 | Uwezo Microfinance Bank Ltd |
| 6 | Kenya Women Microfinance Bank Limited | 13 | Maisha Microfinance Bank Limited |
| 7 | Rafiki Microfinance Bank Limited | | |

*Source : CBK*

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# Thank You!

## For More Information

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# Q&A / AOB

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