Kenya Listed Banks FY'2019 Report, & Cytonn Weekly #16/2020

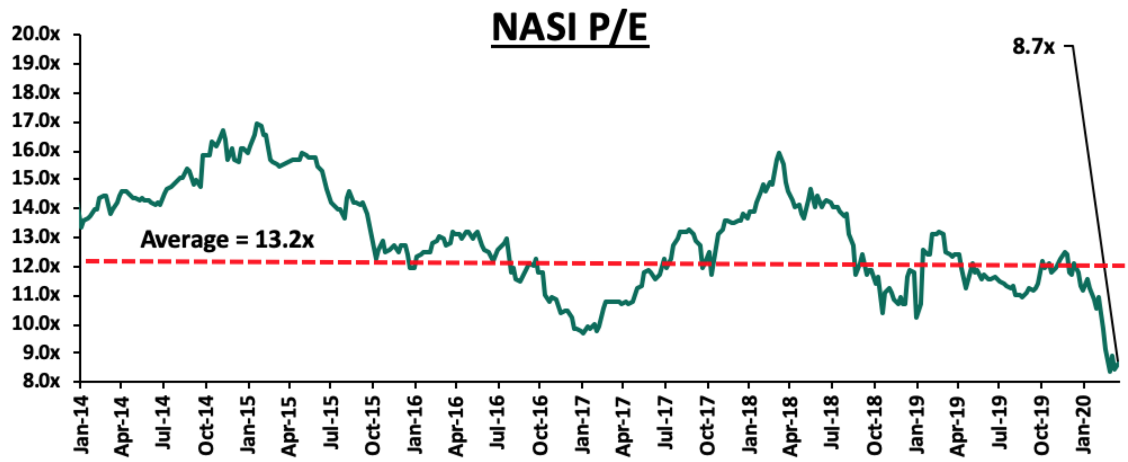
Equities

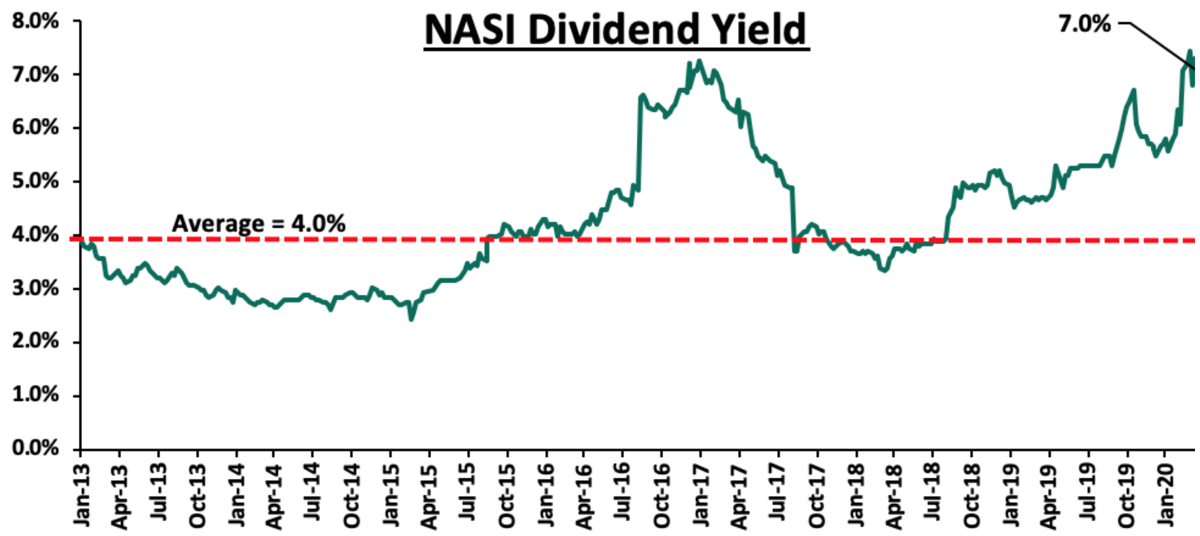
Market Performance

During the week, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 increasing by 3.7%, 0.3% and 2.5%, respectively, taking their YTD performance to losses of 18.3%, 25.6%, and 23.3%, for the NASI, NSE 20 and NSE 25, respectively. The losses recorded by NSE 20 and NSE 25, breach the threshold of a bear market, which is a condition in which securities prices fall by 20.0% or more. The performance of the NASI was driven by gains recorded by large-cap stocks such as Safaricom, ABSA, SCBK, and EABL of 6.3%, 4.0%, 2.3%, and 2.1%, respectively.

Equities turnover decreased by 13.5% during the week to USD 22.5 mn, from USD 26.0 mn recorded the previous week, taking the YTD turnover to USD 502.3 mn. Foreign investors remained net sellers for the week, with the net selling position decreasing marginally by 0.4% to USD 8.35 mn, from a net selling position of USD 8.39 mn recorded the previous week. The trend reflects the global equity markets with foreign investors disposing riskier assets in favor of safe havens.

The market is currently trading at a price to earnings ratio (P/E) of 8.7x, 34.1% below the historical average of 13.2x, and a dividend yield of 7.0%, 3.0% points above the historical average of 4.0%. With the market trading at valuations below the historical average, we believe there is value in the market. The current P/E valuation of 8.7x is 10.3% below the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 4.8% above the previous trough valuation of 8.3x experienced in December 2011. The charts below indicate the historical P/E and dividend yields of the market.





Weekly Highlight:

During the week, ABSA Bank Kenya announced that it had restructured loans amounting to Kshs 8.3 bn, which is equivalent to 4.3% of its net loans, which stood at Kshs 194.9 bn at the end of FY'2019, to shield its customers and provide relief from financial distress occasioned by the COVID-19 pandemic. This is in line with measures previously announced by the Central Bank of Kenya (CBK) and Kenya Bankers Association (KBA) to cushion the economy against the impact of the COVID-19 pandemic. Previously, the lender had also announced that it would pay all suppliers invoices within 14 days with invoices of Kshs 1.0 mn and below being paid within 7 days. The lender also announced it would give loan breaks to the select customers who apply and are negatively affected by the pandemic. The loan moratorium will be for a period of up to three months, during which loan instalments shall not be collected. The moratorium also gives customers an option to request an extension of the relief period to a maximum of 12 months. Further, customers can extend their credit life insurance cover (a type of life insurance policy designed to pay off a borrower's outstanding debts if the borrower dies) for three months at no additional cost. This move mirrors that of Stanbic Bank that instructed large corporate customers to contact it for assessment and restructuring of their loans based on their respective industry circumstances and Standard Chartered Bank Kenya, who also announced a three-month repayment break on personal loans and mortgages to its customers. In our view, restructuring the loans will ensure working capital is available to their customers as they mitigate the tough operating environment as a result of the ongoing COVID-19 pandemic, which has impacted their customers' normal operations. However, given the impact of the pandemic on not only the Kenyan economy but also the global economy, we expect a rise in non-performing loans because of persistent inactivity in businesses as the pandemic strains the financial health of the borrowers.

During the week, the CBK barred unregulated digital mobile lenders such as Tala, from forwarding names of loan defaulters to Credit Reference Bureaus (CRBs). Equally, the Central Bank also stopped the blacklisting of borrowers owing less than Kshs 1,000. The suspension came on the backdrop of, the Central Bank governor, Dr. Patrick Njoroge announcing the suspension of CRB listing for loans defaulted from 1st April 2020 as part of the Central Bank's measures to cushion businesses and individuals from the impact of COVID-19. The Central Bank cited the misuse of the Credit Information Sharing (CIS) mechanism and poor responsiveness to customer complaints led to the suspension of the unregulated digital mobile lenders. The move will see approximately 1.0 mn borrowers removed from the CRB. We continue to note and applaud the recent efforts by the Central

Bank to crack the regulatory whip in the financial services sector specifically the banking sector as it seeks to enhance consumer protection and enhance stability in the sector. In our view, this will enhance the borrower's chances of being able to borrow more, however, we also expect the unregulated lenders to shy away from issuing loans.

Universe of Coverage

Banks	Price at 09/04/2020	Price at 17/04/2020	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Diamond Trust Bank	85.5	85.0	(0.6%)	(22.0%)	109.0	179.7	3.2%	114.6%	**0.4x**	**Buy**
Kenya Reinsurance	2.7	2.5	(4.9%)	(16.5%)	3.0	4.8	4.3%	94.1%	**0.2x**	**Buy**
Equity Group* **	32.8	33.0	0.5%	(38.4%)	53.5	55.3	7.6%	75.4%	**1.2x**	**Buy**
KCB Group* **	34.5	34.6	0.3%	(35.9%)	54.0	55.8	10.1%	71.4%	**0.9x**	**Buy**
Jubilee Holdings	274.7	281.5	2.5%	(19.8%)	351.0	453.4	3.2%	64.3%	**0.9x**	**Buy**
Co-op Bank* **	12.5	12.4	(0.4%)	(24.2%)	16.4	18.2	8.1%	54.8%	**1.0x**	**Buy**
NCBA	28.0	28.2	0.7%	(23.6%)	36.9	39.4	6.2%	46.2%	**0.7x**	**Buy**
Sanlam	15.0	15.0	0.0%	(12.8%)	17.2	21.7	0.0%	44.7%	**1.3x**	**Buy**
I&M Holdings* **	51.0	52.8	3.4%	(2.3%)	54.0	73.6	4.8%	44.4%	**0.7x**	**Buy**
ABSA Bank* **	9.9	10.3	4.0%	(23.2%)	13.4	12.6	10.7%	33.7%	**1.2x**	**Buy**
Standard Chartered	182.3	186.5	2.3%	(7.9%)	202.5	223.6	10.7%	30.6%	**1.4x**	**Buy**
Stanbic Holdings	93.8	95.0	1.3%	(13.0%)	109.3	109.8	7.4%	23.0%	**1.0x**	**Buy**
CIC Group	2.3	2.2	(4.4%)	(19.4%)	2.7	2.6	0.0%	22.2%	**0.8x**	**Buy**
Liberty Holdings	8.5	8.4	(1.2%)	(19.2%)	10.4	10.1	0.0%	20.4%	**0.7x**	**Buy**
Britam	7.0	6.7	(4.3%)	(25.6%)	9.0	6.8	3.7%	4.5%	**0.7x**	**Lighten**
HF Group	4.2	4.2	(1.2%)	(35.8%)	6.5	4.3	0.0%	3.6%	**0.2x**	**Lighten**

***Target Price as per Cytonn Analyst estimates**
****Upside/ (Downside) is adjusted for Dividend Yield**
*****Banks in which Cytonn and/or its affiliates are invested in**

We are "Positive" on equities for investors as the sustained price declines have seen the market P/E decline to below its historical average. We expect increased market activity, and possibly increased inflows from foreign investors, as they take advantage of the attractive valuations, to support the positive performance.

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