

Nairobi Metropolitan 2020 Residential Report, & Cytonn Weekly #30/2020

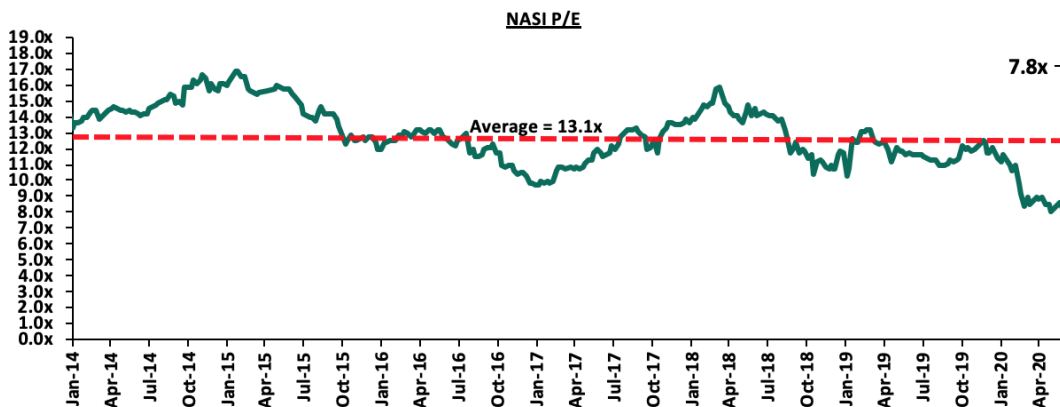
Equities

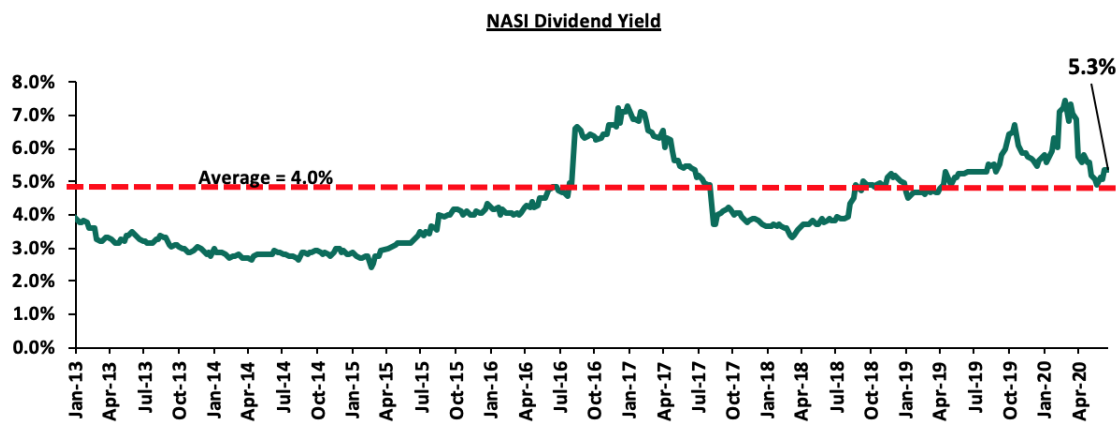
Market Performance

During the week, the equities market recorded mixed performance, with NASI and NSE 25 recording gains of 1.8% and 0.5%, respectively, while NSE 20 recorded losses of 0.2%, taking their YTD performance to losses of 19.1%, 28.9%, and 23.9%, for NASI, NSE 20 and NSE 25, respectively. The NASI performance was driven by gains recorded by large-cap stocks, with the highest gains being recorded in EABL, Safaricom, BAT and NCBA, which gained by 4.8%, 4.1%, 2.3% and 1.2%, respectively. However, the gains were slowed down by losses recorded by other large-cap stocks, with the highest losses being recorded by Co-operative Bank and Equity Group, which declined by 5.9% and 4.4%, respectively.

Equities turnover declined by 4.0% during the week to USD 30.7 mn, from USD 31.9 mn recorded the previous week, taking the YTD turnover to USD 920.1 mn. Foreign investors remained net sellers during the week, with the net selling position decreasing by 23.2% to USD 12.7 mn, from a net selling position of USD 16.5 mn recorded the previous week, taking the YTD net selling position to USD 266.0 mn.

The market is currently trading at a price to earnings ratio (P/E) of 7.8x, 40.3% below the historical average of 13.1x. The average dividend yield is currently at 5.3%, unchanged from the previous week, and 1.3% points above the historical average of 4.0%. With the market trading at valuations below the historical average, we believe there are pockets of value in the market for investors with higher risk tolerance and are willing to wait out the pandemic. The current P/E valuation of 7.8x is at par with the most recent valuation trough of 7.8x experienced in the second week of July 2020. The charts below indicate the historical P/E and dividend yields of the market.





Weekly Highlight

During the week, I&M Holdings plc issued a cautionary statement to its shareholders on its intention to acquire 90.0% of the share capital of Orient Bank Limited Uganda (OBL). Once completed, this will be the third bank acquisition in 2020 after the CBK gave a go-ahead to Nigerian lender, Access Bank PLC to acquire 100.0% stake in Transnational Bank PLC and the 90.0% acquisition of Jamii Bora Bank by Co-operative Bank. The proposed transaction will be subject to approval from the Central Bank of Kenya, Central Bank of Uganda, the Capital Markets Authority and the company shareholders. The transaction will see I&M spend more than Kshs 2.0 bn in the acquisition of the Ugandan Bank. Orient Bank recorded losses of Ushs 1.1 bn (Kshs 30.8 mn) in FY'2019 from profits of Ushs 5.6 bn (Kshs 162.2 mn) in FY'2018, while its book value stood at Ushs 114.1 bn (Kshs 3.3 bn) in FY'2019. The 2019 performance was mainly driven by an increase in the Total Operating Expenses to Ushs 97.2 bn (Kshs 2.8 bn) in FY'2019 from Ushs 81.6 bn (Kshs 2.4 mn) in FY'2018, largely driven by a 172.6% increase in Loan Loss Provisions to Ushs 17.9 bn (Kshs 523.7 mn) in FY'2019, from Ushs 6.6 bn (Kshs 192.1 mn) in FY'2018. The Banks Total Operating Income also declined by 2.0% to Ushs 87.7 bn (Kshs 2.56 bn) in FY'2019, from Ushs 89.5 bn (Kshs 2.61 bn) in FY'2018. In our view, the acquisition will be in line with I&M's expansion strategy and will also expand its operations in the Ugandan Market thus reducing its reliance on the Kenyan Market. Below is a table showing the combined pro forma financials for the banks:

Combined Pro forma Balance Sheet

Balance Sheet	I&M Holdings Plc Q1'20	Orient Bank Ltd FY'19*	Combined Entity (Kshs bn)
Net Loans and Advances	182.9	8.9	191.8
Total Assets	336.0	23.8	359.8
Customer Deposits	240.7	19.7	260.4
No of Branches	67	13	80

***Converted to Kshs (1 Ushs = 0.029 Kshs) as at 24th July**

This week also saw Access Bank Plc finalize the acquisition of 100.0% stake in Transnational Bank Plc. The Kshs 1.4 bn transaction comes months after the endorsement by the Competition Authority of Kenya and the Central Bank of Kenya in January as highlighted in our *Cytonn Weekly #49/2019*. Access Bank Nigeria will be among other Nigerian Banks such as Guaranty Trust Bank and United Bank of Africa already in the Kenyan market. The acquisition will see the Nigerian bank inject capital of an undisclosed amount to the loss making Transnational Bank as it seeks to return Transnational Bank to profitability. In Q1'2020, Transnational bank recorded losses of Kshs 2.5 mn, from Kshs 17.1 mn losses recorded in Q1'2019 and has assets worth Kshs 9.7 bn as at Q1'2020. In our view, the transaction will strengthen Kenya's banking sector given that Access Bank is the largest lender in

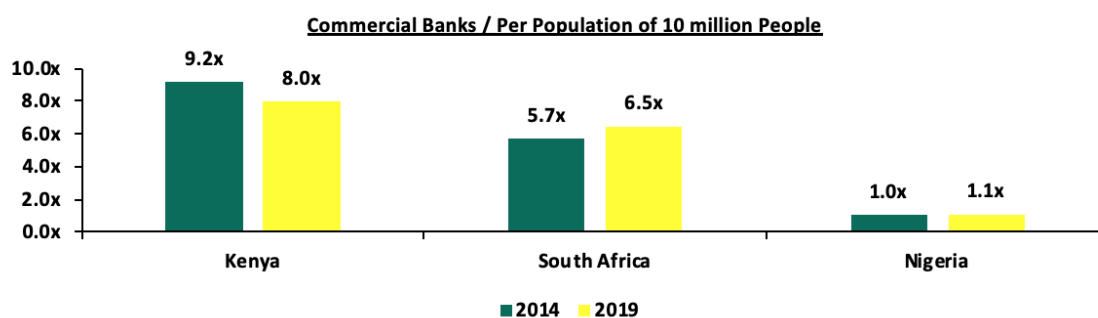
Nigeria with an asset base of USD 18.7 bn. We believe that continued bank consolidation efforts in Kenya, as highlighted in our Q1'2020 Banking Report, will lead to a stable banking sector, as consolidation continues to eliminate weaker banks. In our view, banks will continue to consolidate to form strategic partnerships and well-capitalized entities capable of navigating the relatively tough operating environment induced by stiff competition. The table below highlights the various transactions in the banking sector in the last 5-years that have either happened, been announced or expected to be concluded:

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs. Bns)	Transaction Stake	Transaction Value	P/Bv Multiple	Date
Commercial International Bank	Mayfair Bank Limited	1.0	51.0%	Undisclosed	N/A	May-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.0%	1.0	0.3x	Mar-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC.	1.9	100.0%	1.4	N/A	Feb-20
KCB Group	National Bank of Kenya	7.0	100.0%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23.0	0.7x	Sep-19
Oiko Credit	Credit Bank	3.0	22.8%	1.0	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-19
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	3.0	100.0%	5.0	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			75.9%		1.4x	

* Announcement Date

** Deals that were dropped

The chart below highlights the ratio of the number of banks per 10.0 mn people in Kenya, South Africa and Nigeria



The number of banks in Kenya will be 38, compared to 43 banks from 5-years ago. The ratio of the number of banks per 10.0 million people in Kenya now stands at 8.0x, compared with a ratio of 9.2x, 5 years ago. However, despite the ratio improving, Kenya still remains overbanked as the number of banks remains relatively high compared to the population.

Universe of Coverage:

We are currently reviewing our target prices for the Banking sector coverage.

We are “Neutral” on equities for investors because, despite the sustained price declines, which have seen the market P/E decline to below its historical average presenting investors with attractive valuations in the market, the economic outlook remains grim.

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