

# Public-Private Partnerships (PPPs) in the Real Estate Industry in Kenya, & Cytonn Weekly #19/2021

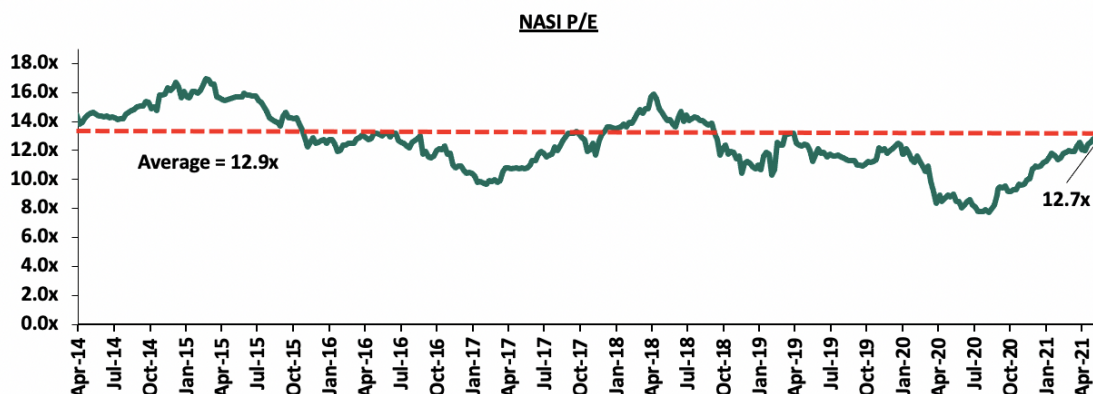
## Equities

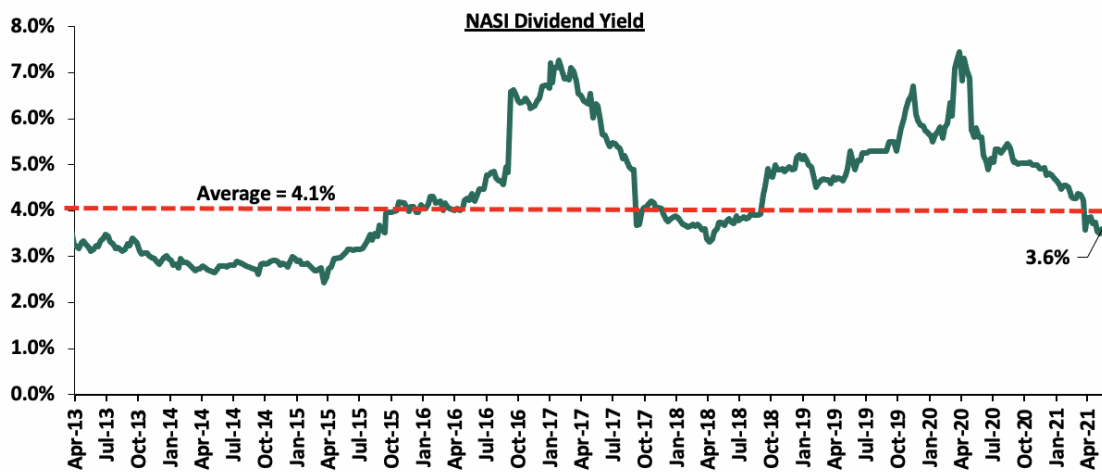
### Markets Performance

During the week, the equities market recorded mixed performance, with NSE 20 recording a marginal gain of 0.04% respectively, while NASI and NSE 25 declined by 3.1% and 3.7%. This week's performance took their YTD performance to gains of 9.0% and 5.2%, for NASI and NSE 25, respectively, and a loss of 0.5% for NSE 20. The equities market performance was driven by gains recorded by stocks such as DTB-K and BAT which gained by 1.2% and 0.7%, respectively. The gains were however weighed down by losses recorded by stocks such as Safaricom and Co-operative Bank which declined by 3.4% and 1.2%, respectively.

Equities turnover increased by 14.7% to USD 28.6 mn, from USD 24.9 mn recorded the previous week, taking the YTD turnover to USD 433.5 mn. Foreign investors turned net sellers during the week, with a net selling position of USD 5.4 mn, from a net buying position of USD 6.8 mn recorded the previous week, taking the YTD net selling position to USD 7.9 mn.

The market is currently trading at a price to earnings ratio (P/E) of 12.7x, which is 1.5% below the historical average of 12.9x, and a dividend yield of 3.6%, 0.5% points below the historical average of 4.1%. Key to note, NASI's PEG ratio currently stands at 1.4x, an indication that the market is trading at a premium to its future earnings growth. Basically, a PEG ratio greater than 1.0x indicates the market may be overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued. The current P/E valuation of 12.7x is 65.2% above the most recent trough valuation of 7.7x experienced in the first week of August 2020. The charts below indicate the historical P/E and dividend yields of the market.





### Weekly Highlight:

During the week, KCB Group disclosed that it had made an offer to the Banque Populaire du Rwanda Plc (BPR) shareholders to raise its acquisition stake in the bank from 62.1% to 100.0%. This deal comes months after KCB disclosed that it had entered into a **binding agreement** with Atlas Mara to acquire 62.1% stake in Banque Populaire du Rwanda Plc (BPR) in Rwanda and 100.0% stake in African Banking Corporation (ABC) Tanzania Limited. As highlighted in our **Cytonn Weekly #48/2020**, the 62.1% BPR acquisition would see KCB pay a cash consideration based on the net asset value of the BPR at completion of the transaction using a price to book multiple of 1.1x. According to the latest BPR financials, the bank had a book value of Rwf 47.3 bn (Kshs 5.1 bn), and thus at the trading multiple of 1.1x, we expect KCB Group to spend Kshs 5.6 bn to acquire BPR Rwanda. Collectively, KCB will spend a total of USD 56.9 mn (Kshs 6.1 bn) in the acquisition of Banque Populaire du Rwanda Plc (BPR) Rwanda and African Banking Corporation (ABC) Tanzania. Once complete, the move is expected to increase KCB Group's total assets to Kshs 1.02 tn, from Kshs 0.99 tn recorded in FY'2020, and increase its total branches to 552 from 359 as of FY'2020. The deal is subject to shareholders' approval and the regulatory approvals from authorities in the three countries; Kenya, Rwanda and Tanzania. BPR Rwanda is the third largest bank in Rwanda by assets with a market share of 9.4%. Given that KCB Group already has a Rwandan subsidiary, KCB Bank Rwanda, the acquisition of BPR will increase its market share in Rwandan banking sector to 14.9% from 5.5%, thereby becoming the second largest bank in the country by assets.

The move by KCB Group continues the trend seen by Kenyan banks of acquiring banks in the East African region in a bid to grow their assets and expand their regional reach; case in point, I&M Holdings which recently **announced** that it had completed the acquisition of 90.0% of Oriental Bank Uganda's share capital. We believe that KCB's expansion into Rwanda and Tanzania will present significant growth opportunities for the lender as the percentage of adults with bank accounts in Rwanda and Tanzania stood at 36.7% and 21.0%, compared to Kenya's 55.7%, according to the **Global Findex Report 2017**. Additionally, Rwandan banking sector's asset quality is superior to Kenya's having registered an average NPL ratio of 6.2% over the last 5 years and in FY'2020, the ratio stood at 4.5% compared to the average NPL ratio of 14.1% recorded by Kenya's banking sector and 14.8% recorded by KCB Group in FY'2020. As loans typically comprise the majority of a bank's assets, the superior asset quality in Rwanda can help KCB Group reduce the level of risk exposure to its loan book and increase profits as there will be more performing loans. Further, according to **data** by the World Bank, Rwanda and Tanzania recorded interest rate spreads of 8.9% and 9.9% in 2019, respectively, both higher than Kenya's 4.8% and KCB Group's 7.8% net interest spread over the same period; which means that the acquisitions could help boost the Group's funded income.

Below is a summary of the deals in the last 7 years that have either happened, been announced or expected to be concluded:

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.0%	3.6	1.1x	April-21
KCB Group	Banque Populaire du Rwanda, and, ABC Tanzania	4.5 (Banque Populaire du Rwanda, only. ABC Tanzania financials unknown)	100.0%	6.1	N/D	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

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
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
<b>Average</b>			<b>76.7%</b>		<b>1.2x</b>	
* Announcement Date						
** Deals that were dropped						

## Universe of Coverage

Below is a summary of our universe of coverage and the recommendations:

Company	Price at 07/5/2021	Price at 13/5/2021	w/w change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Standard Chartered***	131.8	132.0	0.2%	(8.7%)	144.5	164.4	8.0%	32.5%	0.9x	Buy
I&M Holdings***	42.6	24.3	(43.0%)	(45.8%)	44.9	29.9	9.3%	32.3%	0.3x	Buy
Diamond Trust Bank***	64.3	65.0	1.2%	(15.3%)	76.8	84.3	0.0%	29.7%	0.3x	Buy
Stanbic Holdings	81.0	83.0	2.5%	(2.4%)	85.0	99.4	4.6%	24.3%	0.8x	Buy
NCBA***	24.6	24.7	0.2%	(7.3%)	26.6	28.4	6.1%	21.3%	0.6x	Buy
KCB Group***	42.0	42.0	0.0%	9.2%	38.4	49.8	2.4%	21.1%	1.0x	Buy
Equity Group***	40.8	41.0	0.5%	13.0%	36.3	49.5	0.0%	20.9%	1.3x	Buy
Co-op Bank***	12.6	12.5	(1.2%)	(0.8%)	12.6	13.6	8.0%	17.3%	0.9x	Accumulate
ABSA Bank***	8.8	8.8	0.5%	(7.6%)	9.5	10.2	0.0%	15.9%	1.0x	Accumulate
HF Group	3.7	4.0	8.7%	27.4%	3.1	3.8	0.0%	(5.0%)	0.2x	Sell

\*Target Price as per Cytonn Analyst estimates

\*\*Upside/ (Downside) is adjusted for Dividend Yield

\*\*\*For Disclosure, these are stocks in which Cytonn and/or its affiliates are invested in.

Key to note, the I&M Holdings share price change is mainly attributable to counter trading ex-bonus issue.

*We are “Neutral” on the Equities markets in the short term. With the market currently trading at a premium to its future growth (PEG Ratio at 1.4x), we believe that investors should reposition towards companies with a strong earnings growth and are trading at discounts to their intrinsic value. Additionally, we expect the recent discovery of new strains of COVID-19 coupled with the introduction of strict lockdown measures in major economies to continue dampening the economic outlook.*

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