Post Elections Economic Focus, & Cytonn Weekly #33/2022

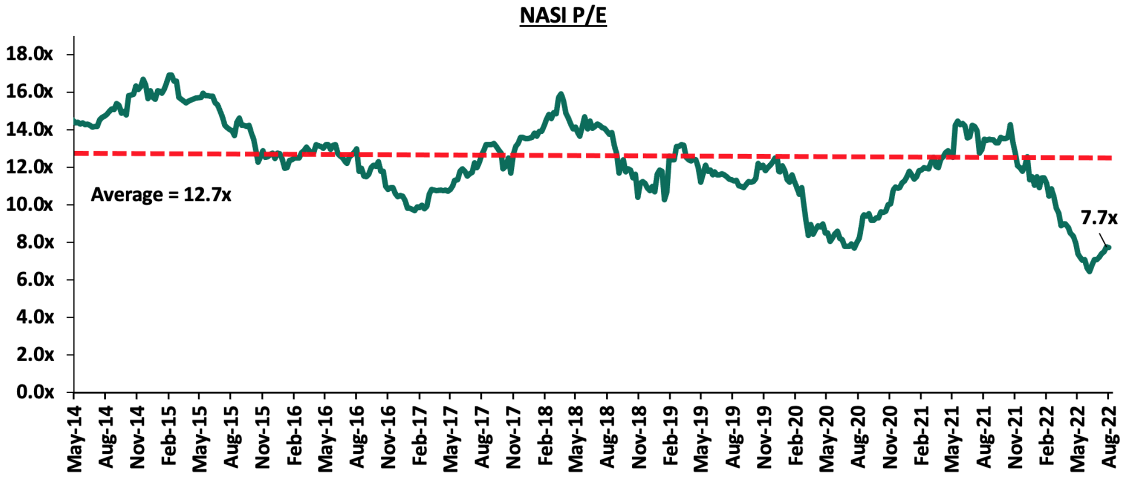
Equities

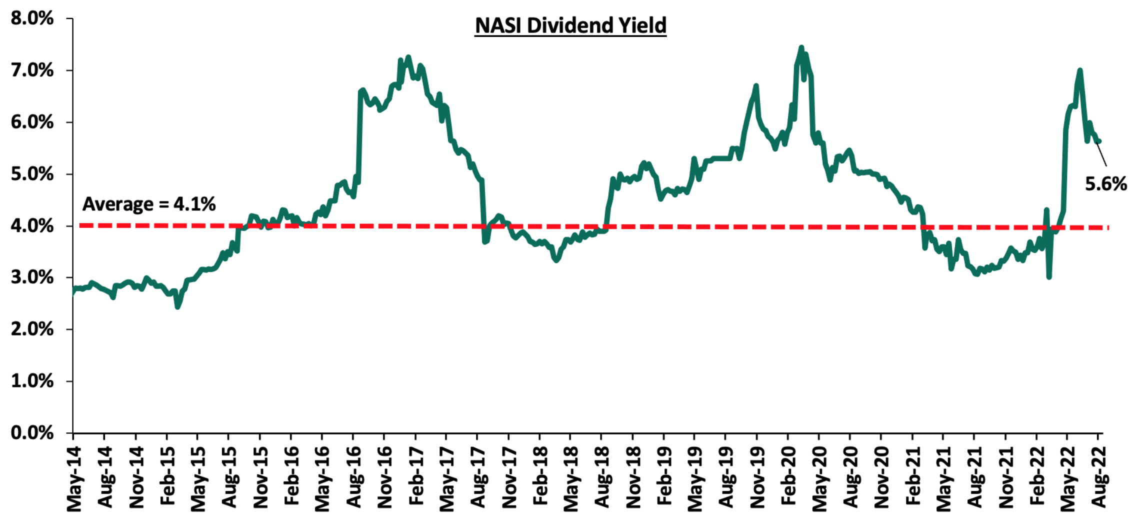
Markets Performance

During the week, the equities market was on a downward trajectory with NASI, NSE 20 and NSE 25 declining by 0.4%, 1.1% and 1.0%, respectively, taking their YTD performance to losses of 12.4%, 7.1% and 9.9%, for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large-cap stocks such as Equity Group, EABL, Co-operative Bank, NCBA Bank and BAT of 5.0%, 2.2%, 1.6%, 1.5% and 1.0%, respectively. The losses were however mitigated by gains recorded by stocks such as ABSA, Bamburi, KCB Group and Safaricom of 2.9%, 2.1%, 0.5% and 0.3% respectively.

During the week, equities turnover declined by 1.2% to USD 9.0 mn, from USD 9.1 mn recorded the previous week, taking the YTD turnover to USD 565.3 mn. Additionally, foreign investors turned net buyers, with a net buying position of USD 0.2 mn, from a net selling position of USD 4.1 mn recorded the previous week, taking the YTD net selling position to USD 139.2 mn.

The market is currently trading at a price to earnings ratio (P/E) of 7.7x, 39.2% below the historical average of 12.7x, and a dividend yield of 5.6%, 1.5% points above the historical average of 4.1%. Key to note, NASI's PEG ratio currently stands at 1.0x, an indication that the market is fairly valued relative to its future growth. 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 charts below indicate the historical P/E and dividend yields of the market:





Weekly Highlight:

Earnings Release

During the week, the Standard Chartered Bank of Kenya Plc, Stanbic Holdings and I&M Holdings released their H1'2022 financial results. Below is a summary of their performance;

I. **Standard Chartered Bank of Kenya Plc**

Balance Sheet Items (Kshs bn)	H1'2021	H1'2022	y/y change
Net loans	130.3	128.5	(1.3%)
Government Securities	101.4	103.6	2.1%
Total Assets	**345.6**	**364.3**	**5.4%**
Customer Deposits	278.2	286.9	3.1%
Deposits per Branch	11.1	13.0	17.2%
Total Liabilities	**293.9**	**307.9**	**4.7%**
Shareholder's Funds	**51.7**	**56.4**	**9.1%**

Balance sheet ratios	H1'2021	H1'2022	y/y change
Loan to Deposit Ratio	46.8%	44.8%	(2.0%)
Return on average equity	13.7%	17.7%	4.0%
Return on average assets	2.1%	2.7%	0.6%

Income Statement (Kshs bn)	H1'2021	H1'2022	y/y change
Net Interest Income	9.1	10.0	9.9%
Net non-Interest Income	5.0	5.5	10.9%
Total Operating income	**14.1**	**15.6**	**10.2%**
Loan Loss provision	0.6	0.1	(83.1%)
Total Operating expenses	**7.3**	**8.0**	**9.2%**
Profit before tax	6.8	7.6	11.4%
Profit after tax	**4.9**	**5.4**	**10.9%**
Core EPS	**12.9**	**14.3**	**10.9%**

Income Statement Ratios	H1'2021	H1'2022	y/y change
Yield from interest-earning assets	7.7%	7.3%	(0.4%)
Cost of funding	1.5%	1.1%	(0.4%)
Net Interest Spread	6.3%	6.3%	0.0%
Net Interest Margin	6.4%	6.4%	0.0%
Cost of Risk	4.5%	0.7%	(3.8%)
Net Interest Income as % of operating income	64.6%	64.4%	(0.2%)
Non-Funded Income as a % of operating income	35.0%	36.0%	1.0%
Cost to Income Ratio	51.8%	51.3%	(0.5%)
Cost to Income Ratio without LLP	47.3%	50.6%	3.3%
Cost to Assets	2.0%	2.2%	0.2%

Capital Adequacy Ratios	H1'2021	H1'2022	% Change
Core Capital/Total Liabilities	15.1%	14.6%	(0.6%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**7.1%**	**6.6%**	(0.6%)
Core Capital/Total Risk Weighted Assets	15.9%	15.4%	(0.5%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**5.4%**	**4.9%**	**(0.5%)**
Total Capital/Total Risk Weighted Assets	18.3%	17.7%	(0.5%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**3.8%**	**3.2%**	**(0.5%)**
Liquidity Ratio	70.1%	73.6%	3.6%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**50.1%**	**53.6%**	**3.6%**
Adjusted Core Capital/Total Liabilities	15.2%	14.6%	(0.6%)
Adjusted Core Capital/Total RWA	15.9%	15.5%	(0.4%)
Adjusted Total Capital/Total RWA	18.3%	17.8%	(0.5%)

Key take-outs from the earnings release include;

- Core earnings per share increased by 10.9% to Kshs 14.3, from Kshs 12.9 recorded in H1’2021, lower than our projections of a 19.8% increase to Kshs 15.5, with the variance stemming from a faster increase in operating expenses. The performance was driven by a 10.2% increase in total operating income to Kshs 15.6 bn, from Kshs 14.1 bn recorded in H1’2021. However, the increase was weighed down by an 9.2% increase in total operating expenses to Kshs 8.0 bn, from Kshs 7.3 bn recorded in H1’2021,
- Total operating income rose by 10.2% to Kshs 15.6 bn, from Kshs 14.1 bn recorded in H1’2021 driven by a 9.9% growth in Net Interest Income (NII) to Kshs 10.0 bn, from Kshs 9.1 bn in H1’2021 coupled with a 10.9% gain in Non - Funded Income (NFI) to Kshs 5.5 bn, from Kshs 5.0 bn in H1’2021,
- Interest income increased by 4.4% to Kshs 11.5 bn, from Kshs 11.0 bn in H1’2021, driven by a

4.9% increase in interest income from Loans & Advances to Kshs 6.0 bn, from Kshs 5.7 bn in H1’2021, coupled with a 0% increase in interest income from Government Securities to Kshs 4.8 bn in H1’2022, from Kshs 4.6 bn in H1’2021. Interest income from placements in other banks also increased by 3.3% to Kshs 744.0 mn, from 720.5 mn in H1’2021. The Yield on Interest-Earning Assets (YIEA) declined to 7.3%, from 7.7% in H1’2021, attributable to a 0.3% decline in the trailing interest income, coupled with a 5.2% increase in the average interest earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,

- Interest expense declined by 21.4% to Kshs 1.5 bn, from Kshs 1.9 bn in H1’2021, following a 22.9% decline in interest expense on customer deposits to Kshs 1.3 bn, from Kshs 1.7 bn in H1’2021 coupled with a 5.3% decline in other interest expenses to Kshs 132.9 mn from Kshs 140.3 mn in H1’2021. The bank was able to mobilize cheaper deposits with the Cost of funding declining by 0.4% points to 1.1%, from 1.5% in H1’2021, owing to the 23.3% decline in trailing interest expense coupled with the 5.3% increase in the average interest-bearing liabilities. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months. Net Interest Margin (NIM) marginally declined to 6.35%, from 6.39% in H1’2021 attributable to the faster 5.2% growth in average interest-earning assets compared to the 4.6% gain in the trailing Net Interest Income (NII) compared,
- Non-Funded Income (NFI) increased by 10.9% to Kshs 5.5 bn, from Kshs 5.0 bn in H1’2021, mainly driven by a 33.6% rise in Foreign Exchange Trading income to Kshs 2.3 bn in H1’2022, from Kshs 1.7 bn in H1’2021, given the continued depreciation of the Kenyan shilling. However, the performance was weighed down by a 6.1% decrease in income from other Fees and Commissions to Kshs 2.4 bn, from Kshs 2.6 bn in H1’2021. Similarly, the bank’s total fees and commissions declined by 6.2% to Kshs 2.5 bn, from Kshs 2.7 bn in H1’2021. As a result, the revenue mix shifted to 64:36 from 65:35 in H1’2021, funded to non-funded income, owing to the slower 9.9% increase in Net Interest Income (NII), compared to a 10.9% increase in Non - Funded Income (NFI),
- Total operating expenses increased by 9.2% to Kshs 8.0 bn in H1’2022, from Kshs 7.3 bn in H1’2021, mainly attributable to an 11.5% increase in staff costs to Kshs 3.6 bn, from Kshs 3.2 bn recorded in H1’2021 coupled with an 24.1% increase in other operating expenses to Kshs 4.3 bn from Kshs 3.5 bn in H1’2021. However, Loan Loss Provisions(LLPs) have continued to decline having reduced by 83.1% to Kshs 108.2 mn in H1’2022, from Kshs 638.5 mn in H1’2021 as uncertainty in the business environment continues to ease,
- Cost to Income Ratio (CIR) marginally improved to 51.3%, from 51.8% in H1’2021 owing to 10.2% increase in total operating income to Kshs 15.6 bn from Kshs 14.1 bn in H1’2021 which outpaced the 9.2% increase in total operating expenses to Kshs 8.0 bn from Kshs 7.3 bn in H1’2021. Without LLP, Cost to Income ratio deteriorated to 50.6%, from 47.3% in H1’2021, an indication of reduced efficiency levels, and,
- Profit before tax increased by 11.4% to Kshs 7.6 bn, from Kshs 6.8 bn in H1’2021. Profit after tax increased by 10.9% to Kshs 5.4 bn in H1’2022, from Kshs 4.9 bn recorded in H1’2021 with the effective tax rate remaining unchanged at 29.6%.
- The balance sheet recorded an expansion as total assets grew by 5.4% to Kshs 364.3 bn in H1’2022, from Kshs 345.6 bn in H1’2021, largely driven by a 2.1% increase in investments in government and other securities to Kshs 103.6 bn, from Kshs 101.4 bn in H1’2021. Additionally, there was a 20.1% increase in placements to Kshs 85.1 bn, from Kshs 70.9 bn in H1’2022. The loan book however, declined by 1.3% to Kshs 128.5 bn, from Kshs 130.3 bn recorded in H1’2021, partly attributable to the bank’s cautious lending owing to the relatively high non-performing loans,
- Total liabilities increased by 4.7% to Kshs 307.9 bn, from Kshs 293.9 bn in H1’2021 driven by a 3.1% decline in customer deposits to Kshs 286.9 bn, from Kshs 278.2 bn in H1’2021. Deposits per branch rose by 17.2% to Kshs 13.0 bn, from Kshs 11.1 bn in H1’2021 with the number of branches reducing to 22 from 25 in H1’2021. The reduced number of branches was part of the Bank’s

strategy in cost cutting as it focuses on digitization,

- The Loan to deposits ratio declined by 2.0% to 44.8% in H1'2022 from 46.8% recorded in H1'2021 attributable to the 1.3% decrease in net loans,
- Gross Non-Performing Loans (NPLs) declined by 0.5% to Kshs 22.7 bn in H1'2022, from Kshs 22.9 bn recorded in H1'2021 owing to the gradual recovery of the economic environment. The NPL ratio however increased marginally to 15.41%, from 15.36% recorded in H1'2021, attributable to the faster decline in Gross loans, as compared to the decline in Gross Non-Performing Loans (NPLs),
- General Loan Loss Provisions increased by 9.7% to Kshs 9.9 bn, from Kshs 9.0 bn in H1'2021. Consequently, the NPL coverage increased to 83.9%, from 81.4% in H1'2021, as the provisions (after adding back interest suspense) increased by 2.5% in H1'2022 compared to the 0.5% decline in the Gross Non-Performing Loans during the same period. The increase in the NPL Coverage indicates sufficient provisioning,
- Shareholders' funds increased by 9.1% to Kshs 56.4 bn, from Kshs 51.7 bn recorded in H1'2021, mainly attributable to the 4.4% increase in retained earnings to Kshs 36.8 bn, from Kshs 35.2 bn in H1'2021,
- Standard Chartered is currently sufficiently capitalized with a core capital to risk-weighted assets ratio of 15.4%, 4.9% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio was 17.7%, exceeding the statutory requirement of 14.5% by 3.2% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 15.5% while total capital to risk-weighted assets came in at 17.8%, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.7%, and a Return on Average Equity (ROaE) of 17.7%.

For a comprehensive analysis, please see our Standard Chartered Bank of Kenya Plc's H1'2022 Earnings Note

II. **Stanbic Holdings**

Balance Sheet	H1'2021	H1'2022	y/y change
Net Loans	207.6	244.0	17.5%
Total Assets	329.5	341.6	3.7%
Deposits	260.0	258.2	(0.7%)
Liabilities	**276.0**	**283.4**	2.7%
Shareholders' Funds	**53.5**	**58.2**	8.8%

Balance sheet ratios	H1'2021	H1'2022	% point change
Loan to Deposit ratio	79.9%	94.5%	14.6%
Return on average equity	17.6%	20.1%	2.5%
Return on average assets	2.8%	3.3%	0.5%

Income Statement (Kshs bns)	H1'2021	H1'2022	y/y change
Net interest Income	6.9	8.3	20.9%
Net non-interest income	5.5	6.9	25.1%
Total Operating income	**12.4**	**15.2**	**22.8%**
Loan loss provision	(1.5)	(1.3)	(16.1%)

Income Statement (Kshs bns)	H1'2021	H1'2022	y/y change
Total Operating expenses	**(7.6)**	**(8.6)**	**13.7%**
Profit before tax	4.8	6.6	37.1%
Profit after tax	**3.5**	**4.8**	**36.9%**

Income Statement Ratios	H1'2021	H1'2022	y/y change
Yield from interest-earning assets	3.2%	3.8%	0.6%
Cost of funding	2.6%	2.3%	(0.3%)
Net Interest Margin	4.4%	5.4%	1.0%
Net Interest Income as % of operating income	55.7%	54.9%	(0.8%)
Non-Funded Income as a % of operating income	44.3%	45.1%	0.8%
Cost to Income Ratio	48.9%	48.2%	(0.7%)
Cost to Income Ratio without LLP	36.8%	40.0%	3.2%

Capital Adequacy Ratios	H1’2021	H1’2022
Core Capital/Total Liabilities	18.2%	18.1%
Minimum Statutory ratio	8.0%	8.0%
Excess	**10.2%**	**10.1%**
Core Capital/Total Risk Weighted Assets	16.1%	14.0%
Minimum Statutory ratio	10.5%	10.5%
Excess	**5.6%**	**3.5%**
Total Capital/Total Risk Weighted Assets	18.1%	16.2%
Minimum Statutory ratio	14.5%	14.5%
Excess	**3.6%**	**1.7%**
Liquidity Ratio	53.3%	35.9%
Minimum Statutory ratio	20.0%	20.0%
Excess	**33.3%**	**15.9%**
Adjusted Core Capital/Total Deposit Liabilities	18.4%	18.1%
Adjusted Core Capital/Total Risk Weighted Assets	15.9%	14.0%
Adjusted Total Capital/Total Risk Weighted Assets	18.0%	16.2%

Key take-outs from the earnings release include;

- Profit after tax increased by 36.9% to Kshs 4.8 bn in H1’2022, from Kshs 3.5 bn in H1’2021. The performance was driven by a 22.8% increase in total operating income to Kshs 15.2 bn in H1’2022, from Kshs 12.4 bn in H1’2021. The increase was however weighed down by the 13.7% increase in total operating expenses to Kshs 8.6 bn, from Kshs 7.6 bn in H1’2021,
- The 22.8% increase in total operating income to Kshs 15.2 bn in H1’2022 from Kshs 12.4 bn in H1’2021 was mainly driven by a 20.9% increase in Net-Interest Income (NII) to Kshs 8.3 bn, from Kshs 6.9 bn in H1’2021, coupled with a 25.9% increase in Non-Funded Income (NFI) to Kshs 6.9 bn, from Kshs 5.5 bn in H1’2021,
- The bank’s interest income grew by 14.8% to Kshs 11.2 bn, from Kshs 9.8 bn in H1’2021 mainly

attributable to a 22.0% increase in interest income from loans and advances to Kshs 8.7 bn, from Kshs 7.1 bn in H1'2021. The growth in interest income was however weighed down by a 6.9% decline in interest income from government securities to Kshs 2.3 bn, from Kshs 2.4 bn in H1'2021. The Yield on Interest-Earning Assets (YIEA) increased to 3.8%, from 3.2% in H1'2021 following the 8.3% growth in the trailing interest income coupled with the 4.3% decline in average interest earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,

- Stanbic Bank's interest expenses declined by 2.2% to Kshs 3.18 bn, from Kshs 3.25 bn in H1'2021, with interest expense on customer deposits declining by 4.5% to Kshs 2.7 bn, from Kshs 2.8 bn in H1'2021. Consequently, the cost of funds, declined to 2.3%, from 2.6% in H1'2021, owing to the 14.0% decline in trailing interest expense which outpaced the 5.0% decline in average interest bearing liabilities. Net Interest Margin increased to 5.4%, from 4.4% in H1'2021 on the back of the 18.1% increase in the trailing Net Interest Income to Kshs 15.8 bn from Kshs 13.4 bn in H1'2021 coupled with the 4.3% decline in average interest earning assets to Kshs 293.4 bn in H1'2022 from Kshs 306.7 bn in H1'2021,
- Non-Funded Income (NFI) rose by 25.1% to Kshs 6.9 bn, from Kshs 5.5 bn in H1'2021 driven by a 46.1% increase in foreign exchange trading income to Kshs 4.2 bn in H1'2022 from Kshs 2.9 bn in H1'2021, coupled with a 12.3% increase in other fees and commissions income to Kshs 2.0 bn from Kshs 1.8 bn in H1'2021, coupled with. Total fees and commission increased by 11.1% to Kshs 2.1 bn in H1'2022, from Kshs 1.9 bn in H1'2021. The revenue mix shifted to 55:45, funded to non-funded income, from 56:44 in H1'2021, owing to the faster 25.1% increase in Non-Funded Income (NFI) which outpaced the 20.9% increase in Net interest income (NII) in H1'2022,
- Total Operating Expenses increased by 13.7% to Kshs 8.6 bn in H1'2022, from Kshs 7.6 bn in H1'2021, attributable to an 18.1% increase in the bank's staff costs to Kshs 3.5 bn in H1'2022, from Kshs 2.9 bn recorded in H1'2021 coupled with a 20.1% increase in other expenses to Kshs 3.6 bn, from Kshs 3.0 bn in H1'2021. The increase in total operating expenses was however mitigated by a 16.1% decline in Loan Loss Provisions (LLP) to Kshs 1.3 bn in H1'2022, from Kshs 1.5 bn in H1'2021, and,
- Cost to income ratio with LLP improved to 48.2%, from 48.9% in H1'2021, attributable to the 22.8% increase in total operating income to Kshs 15.2 bn in H1'2022, from Kshs 12.4 bn in H1'2021 which outpaced the 13.7% increase in total operating expenses to Kshs 8.6 bn, from Kshs 7.6 bn in H1'2021. However, without LLP, the Cost to income ratio deteriorated to 40.0% in H1'2022, from 36.8% in H1'2021, pointing towards deteriorating efficiency in the bank.

- The balance sheet recorded an expansion as total assets grew by 3.7% to Kshs 341.6 bn, from Kshs 329.5 bn in H1'2021. The increase was largely driven by a 17.5% increase in net loans to Kshs 244.0 bn, from Kshs 207.6 bn in H1'2021, as Stanbic focused more on lending in H1'2022 due to an improvement in the business environment as evidenced by the 16.1% reduction in the group's Loan Loss Provisions (LLPs). The increase was however weighed down by a 36.1% decline in investment securities to Kshs 52.6 bn, from Kshs 82.2 bn in H1'2021,
- Total liabilities increased by 2.7% to Kshs 283.4 bn, from Kshs 276.0 bn in H1'2021, largely driven by a 10.9% increase in borrowings to Kshs 6.0 bn, from Kshs 5.4 bn in H1'2021. However, the bank's deposits declined by 0.7% to Kshs 258.2 bn from Kshs 260.0 bn in H1'2021. Deposits per branch declined by 0.7% to Kshs 10.3 bn, from Kshs 10.4 bn in H1'2021, as the number of branches remained unchanged at 25,
- The bank's Gross Non-Performing Loans (NPLs) increased by 16.3% to Kshs 24.1 bn, from Kshs 20.7 bn in H1'2021, taking the NPL ratio to 9.4% in H1'2022, from 9.5% in H1'2021. The improvement in the group's asset quality is attributable to the 18.0% growth in gross loans which outpaced the 16.3% increase in Gross Non-Performing Loans (NPLs),
- General Loan Loss Provisions increased by 22.2% to Kshs 8.9 bn, from Kshs 7.3 bn in H1'2021. Consequently, the NPL coverage ratio increased to 56.0% in H1'2022, from 51.2% in H1'2021, an indication of increased provisioning levels by the bank,

- Shareholders’ funds increased by 8.8% to Kshs 58.2 bn in H1’2022, from Kshs 53.5 bn in H1’2021, largely due to the 12.8% increase in the retained earnings to Kshs 42.4 bn, from Kshs 37.6 bn in H1’2021,
- Stanbic Bank is currently sufficiently capitalized with a core capital to risk weighted assets ratio of 14.0%, 3.5% points above the statutory requirement of 10.5%. In addition, the total capital to risk weighted assets ratio stood at 16.2%, exceeding the statutory requirement of 14.5% by 1.7% points. Adjusting for IFRS 9, core capital to risk weighted assets ratio was at 14.0% while total capital to risk weighted assets came in at 16.2%, and,
- Stanbic Bank currently has a return on average assets of 3.3% and a return on average equity of 20.1%.

For a comprehensive analysis, please see our Stanbic Holdings’ H1’2022 Earnings Note

III. **I&M Holdings Plc**

Balance Sheet Items	H1'2021	H1'2022	y/y change
Government Securities	103.5	121.4	17.2%
Net Loans and Advances	204.5	231.1	13.0%
Total Assets	**382.6**	**439.7**	**14.9%**
Customer Deposits	276.8	313.2	13.2%
Total Liabilities	312.5	368.2	17.8%
Shareholders’ Funds	**65.9**	**66.5**	**1.0%**

Balance Sheet Ratios	H1'2021	H1'2022	% y/y change
Loan to Deposit Ratio	73.9%	73.8%	(0.1%)
Return on average equity	14.5%	13.3%	(1.3%)
Return on average assets	2.5%	2.1%	(0.4%)

Income Statement	H1'2021	H1'2022	y/y change
Net Interest Income	8.9	10.5	18.7%
Net non-Interest Income	3.9	5.1	28.2%
Total Operating income	**12.8**	**15.6**	**21.6%**
Loan Loss provision	1.1	1.3	24.4%
Total Operating expenses	**7.2**	**8.6**	**19.3%**
Profit before tax	5.9	7.2	22.5%
Profit after tax	**4.2**	**4.9**	15.9%
Core EPS	**2.6**	**3.0**	15.9%

Income Statement Ratios	H1'2021	H1'2022	y/y change
Yield from interest-earning assets	9.5%	10.2%	0.7%
Cost of funding	4.1%	4.0%	(0.1%)
Net Interest Margin	5.7%	6.4%	0.7%
Net Interest Income as % of operating income	69.2%	67.5%	(1.7%)
Non-Funded Income as a % of operating income	30.8%	32.5%	1.7%

Income Statement Ratios	H1'2021	H1'2022	y/y change
Cost to Income Ratio with LLP	56.3%	55.2%	(1.1%)
Cost to Income Ratio without LLP	48.1%	46.8%	(1.3%)
Cost to Assets	1.6%	1.7%	0.1%

Capital Adequacy Ratios	H1'2021	H1'2022	% Points Change
Core Capital/Total Liabilities	20.7%	19.9%	(0.8%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**12.7%**	**11.9%**	(0.8%)
Core Capital/Total Risk Weighted Assets	15.9%	15.0%	(0.9%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**5.4%**	**4.5%**	(0.9%)
Total Capital/Total Risk Weighted Assets	20.7%	19.8%	(0.9%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**6.2%**	**5.3%**	(0.9%)
Liquidity Ratio	48.3%	48.8%	0.5%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**28.3%**	**28.8%**	0.5%
Adjusted Core Capital/Total Liabilities	***20.8%***	***20.0%***	(0.8%)
Adjusted Core Capital/Total RWA	***15.9%***	***15.1%***	(0.9%)
Adjusted Total Capital/Total RWA	***20.8%***	***19.8%***	(0.9%)

Key take-outs from the earnings release include;

- Core earnings per share increased by 15.9% to Kshs 3.0 in H1’2022, from Kshs 2.6 recorded in H1’2021 higher than our expectations of a 13.0% to Kshs 2.9 bn. The performance was mainly attributable to the 21.6% increase in the total operating income to Kshs 15.6 bn in H1’2022 from Kshs 12.8 bn in H1’2021. The performance was however weighed down by a 19.3% increase in total operating expenses to Kshs 8.6 bn, from Kshs 7.2 bn in H1’2021,
- Total operating income increased by 21.6% to Kshs 15.6 bn from Kshs 12.8 bn in H1’2021 owing to an 18.7% increase in the Net Interest Income (NII) to Kshs 10.5 bn in H1’2022 from Kshs 8.9 bn in H1’2021, coupled with a 28.2% increase in the Non-Funded Income (NFI) to Kshs 5.1 bn in H1’2022, from Kshs 3.9 bn that was recorded in H1’2021,
- Interest income grew by 19.3% to Kshs 17.5 bn from Kshs 14.6 bn in H1’2021, driven by a 16.1% increase in interest income from loans and advances to Kshs 12.0 bn, from Kshs 10.4 bn recorded in H1’2021. Additionally, interest income from government securities increased by 26.2% to Kshs 5.2 bn in H1’2022, from Kshs 4.1 bn in H1’2021. Consequently, the Yield on Interest-Earning Assets increased to 10.2% from 9.5% in H1’2021, attributable to a faster 22.2% increase in trailing interest income, as compared to the 13.8% increase in average interest earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,
- Interest expense increased by 20.2% to Kshs 6.9 bn from Kshs 5.8 bn in H1’2021, attributable to a 16.9% increase in interest expense on deposits to Kshs 5.6 bn, from Kshs 4.8 bn recorded in H1’2021, coupled with a 33.6% growth in interest expense on placements from other institutions to Kshs 0.7 bn from Kshs 0.5 bn in H1’2021. The cost of funds declined by 0.1% points to 4.0% from 4.1% recorded in H1’2022, following a 15.4% increase in average interest bearing liabilities,

which outpaced the 13.1% increase in trailing interest expense. The Net Interest Margin (NIM) increased by 0.7% points to 6.4%, from 5.7% in H1’2021, driven by the 28.4% increase in the trailing net Interest Income (NII) which outpaced the 13.8% growth in average interest earning assets,

- Non-Funded Income (NFI) grew by 28.2% to Kshs 5.1 bn from the Kshs 3.9 bn that was recorded in H1’2021, driven by a 147.7% growth in Foreign Exchange Trading income to Kshs 1.9 bn from Kshs 0.8 bn in H1’2021, mainly due to the continued depreciation of the Kenyan shilling. Additionally, other fees and commissions increased by 3% to Kshs 1.9 bn from Kshs 1.3 bn in H1’2021. Fees and commission on loans also increased by 9.9% to Kshs 1.0 bn from Kshs 0.9 bn in H1’2021 taking the total fees and commissions to Kshs 2.9 bn, a 30.1% increase from Kshs 2.2 bn recorded in H1’2021,
- Total operating expenses rose by 19.3% to Kshs 8.6 bn from Kshs 7.2 bn in H1’2021, largely driven by a 10.8% increase in staff costs to Kshs 3.0 bn, from Kshs 2.7 bn in H1’2021, coupled with a 24.4% increase in other operating expenses to Kshs 4.3 bn, from Kshs 3.4 bn in H1’2021. Additionally, Loan Loss Provisions (LLPs) increased by 24.4% to Kshs 1.3 bn, from Kshs 1.1 bn in H1’2021, attributable to the relatively high non-performing loans,
- Cost to Income Ratio (CIR) improved to 55.2%, from 56.3% in H1’2022 attributable to the faster 21.6% increase in total operating income which outpaced the 19.3% increase in the total operating expenses to Kshs 8.6 bn from Kshs 7.2 bn in H1’2021. Also, without LLP, cost to income ratio improved to 46.8% from 48.1% in H1’2021, an indication of improved efficiency,
- Profit before tax increased by 22.5% to Kshs 7.2 bn, up from Kshs 5.9 bn in H1’2021. Profit after tax increased by 15.9% to Kshs 4.9 bn, up from Kshs 4.2 bn in H1’2021, with the effective tax rate increasing to 30.0%, from 29.1% in H1’2021.
- The balance sheet recorded an expansion as total assets grew by 14.9% to Kshs 439.7 bn, from Kshs 382.6 bn in H1’2021, attributable to a 13.0% growth in the loan book to Kshs 231.1 bn, from Kshs 204.5 bn in H1’2021, coupled with a 17.2% increase in government and other securities to Kshs 121.4 bn, from Kshs 103.5 bn in H1’2021,
- Total liabilities rose by 17.8% to Kshs 368.2 bn from Kshs 312.5 bn in H1’2021, driven by a 13.2% rise in customer deposits to Kshs 313.2 bn from Kshs 276.8 bn in H1’2021. Deposits per branch declined by 13.2% to Kshs 3.6 bn from Kshs 4.2 bn in H1’2021, with the number of branches increasing to 86 branches from 66 branches in H1’2021,
- The slower 13.0% growth in loans as compared to the 13.2% growth in deposits led to a marginal decline in the loan to deposits ratio to 73.8% from 73.9% in H1’2021,
- Gross non-performing loans increased by 1.5% to Kshs 23.3 bn in H1’2022, from Kshs 22.9 bn in H1’2021. However, the NPL ratio declined to 9.5% in H1’2022 from 10.4% in H1’2021, attributable to the faster 12.6% increase in gross Loans. The NPL coverage also declined to 59.2% in H1’2022 from 67.2% in H1’2021, as general Loan Loss Provisions increased by 17.0% to Kshs 18.0 bn from Kshs 15.4 bn in H1’2021.
- Shareholders’ funds increased by 1.0% to Kshs 66.5 bn in H1’2022 from Kshs 65.9 bn in H1’2021, supported by a 15.9% increase in retained earnings to Kshs 4.9 bn from Kshs 4.2 bn in H1’2021,
- I&M Holdings Plc remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 15.0%, 4.5% points above the statutory requirement. In addition, the total capital to risk-weighted assets ratio came in at 19.8%, exceeding the statutory requirement by 5.3% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 15.1%, while total capital to risk-weighted assets came in at 19.8%, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.1%, and a Return on Average Equity (ROaE) of 13.3%.

For a comprehensive analysis, please see our I&M Holdings Plc' H1’2022 Earnings Note

Asset Quality

The table below is a summary of the asset quality for the listed banks

	H1'2021 NPL Ratio**	H1'2022 NPL Ratio*	H1'2021 NPL Coverage**	H1'2022 NPL Coverage*	% point change in NPL Ratio	% point change in NPL Coverage
I&M Holdings	10.4%	9.4%	67.2%	59.2%	(1.0%)	(8.0%)
Stanbic Bank	9.5%	10.4%	51.2%	56.0%	0.9%	4.8%
Standard Chartered Bank Kenya	15.4%	15.4%	81.4%	83.9%	0.0%	2.5%
Mkt Weighted Average	**12.1%**	**12.2%**	**67.3%**	**68.0%**	**0.1%**	**0.8%**

***Market cap weighted as at 19/8/2022**

Key take-outs from the table include;

i. Asset quality for the listed banks deteriorated during the period, with the weighted average NPL ratio increasing by 0.1% points to a market cap weighted average of 12.2%, from an average of 12.1% for the listed banking sector in H1'2021, and,
ii. NPL Coverage for the listed banks increased to a market cap weighted average of 68.0% in H1'2022, from 67.3% recorded in H1'2021, as the banks increased their provisioning levels to proactively manage risks brought about by the emergence of new COVID-19 variants coupled with the slow recovery of some sectors such as tourism, agriculture and manufacturing.

Summary Performance

The table below highlights the performance of the listed banks, showing the performance using several metrics, and the key take-outs of the performance;

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth in Government Securities	Loan to Deposit Ratio	Loan Growth	Return on Average Equity
Stanbic Holdings	36.9%	14.8%	(2.2%)	20.9%	5.4%	25.1%	45.1%	11.1%	(0.7%)	(36.1%)	94.5%	17.5%	20.1%
I&M Holdings	15.9%	19.3%	20.2%	18.7%	0.7%	28.2%	32.5%	30.1%	13.2%	17.2%	73.8%	13.0%	13.3%
Standard Chartered	10.9%	4.4%	(21.4%)	9.9%	6.4%	10.9%	35.6%	(6.2%)	3.1%	2.1%	44.8%	(1.3%)	17.7%
H1'22 Mkt Weighted Average*	**21.3%**	**11.7%**	**(4.5%)**	**15.9%**	**4.7%**	**20.1%**	**38.2%**	**8.7%**	**4.2%**	**(7.8%)**	**69.5%**	**8.8%**	**17.5%**
H1'21 Mkt Weighted Average**	**136.0%**	**15.0%**	**10.8%**	**17.6%**	**7.4%**	**19.2%**	**35.6%**	**16.6%**	**18.4%**	**12.4%**	**68.8%**	**11.7%**	**16.9%**

***Market cap weighted as at 19/09/2022**

****Market cap weighted as at 09/09/2021**

Key takeaways from the table above include:

i. The listed banks recorded a 21.3% weighted average growth in core Earnings per Share (EPS), compared to a weighted average increase of 136.0% in H1'2021 for the listed banking sector,
ii. The Banks have recorded a weighted average deposit growth of 4.2%, slower than the 18.4% growth recorded in H1'2021, an indication of reduced investment risk in the business environment,
iii. Interest income grew by 11.7%, compared to a growth of 15.0% recorded in H1'2021 while the weighted average Yield on Interest Earning Assets (YIEA) declined to 6.8%, from the 9.9% recorded in H1'2021 for the listed banking sector. On the other hand, the Net Interest Margin (NIM) now stands at 4.7%, 2.7% points lower than the 7.4% recorded in H1'2021 for the whole listed banking sector, and,
iv. Non-Funded Income grew by 20.1%, compared to the 19.2% growth recorded in H1'2022.

Universe of coverage:

Company	Price as at 05/08/2022	Price as at 12/08/2022	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	252.5	252.3	(0.1%)	(20.4%)	379.4	5.6%	56.0%	**0.5x**	**Buy**
Kenya Reinsurance	2.1	2.2	3.3%	(5.7%)	3.2	4.6%	51.8%	**0.2x**	**Buy**
I&M Group* **	17.0	17.0	(0.3%)	(20.8%)	22.3	8.8%	40.4%	**0.5x**	**Buy**
Sanlam	11.7	11.7	0.0%	0.9%	15.9	0.0%	36.5%	**1.2x**	**Buy**
Diamond Trust Bank* **	50.8	50.3	(1.0%)	(15.5%)	62.4	6.0%	30.1%	**0.2x**	**Buy**
KCB Group* **	43.1	43.3	0.5%	(5.0%)	52.2	6.9%	27.6%	**0.9x**	**Buy**
Britam	6.3	6.1	(2.5%)	(19.0%)	7.7	0.0%	25.8%	**1.0x**	**Buy**
NCBA* **	26.2	25.8	(1.5%)	1.4%	29.1	11.6%	24.4%	**0.6x**	**Buy**
Stanbic Holdings	98.8	99.0	0.3%	13.8%	109.8	9.1%	20.0%	**0.9x**	**Buy**
Co-op Bank* **	12.8	12.6	(1.6%)	(3.1%)	14.1	7.9%	19.8%	**0.9x**	**Accumulate**
Equity Group* **	50.5	48.0	(5.0%)	(9.0%)	54.4	6.3%	19.6%	**1.2x**	**Accumulate**
ABSA Bank* **	12.0	12.4	2.9%	5.1%	13.6	8.9%	19.0%	**1.2x**	**Accumulate**
Standard Chartered* **	139.3	138.3	(0.7%)	6.3%	137.0	10.1%	9.2%	**1.1x**	**Hold**
Liberty Holdings	6.0	7.2	20.0%	2.0%	7.8	0.0%	8.3%	**0.5x**	**Hold**
CIC Group	2.0	2.1	2.5%	(5.5%)	2.1	0.0%	2.4%	**0.7x**	**Lighten**
HF Group	3.5	3.6	2.9%	(5.3%)	2.8	0.0%	(22.2%)	**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**

We are "Neutral" on the Equities markets in the short term due to the current adverse operating environment and huge foreign investor outflows, and, "Bullish" in the long term due to current cheap valuations and expected global and local economic recovery.

With the market currently trading at a fair value to its future growth (PEG Ratio at 1.0x), we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value. We expect the current high foreign investors sell-offs, the upcoming Kenyan general elections and the slow vaccine rollout to continue weighing down the economic outlook in the short term.