

Kenya Listed Banks H1'2022 Report, & Cytonn Weekly #36/2022

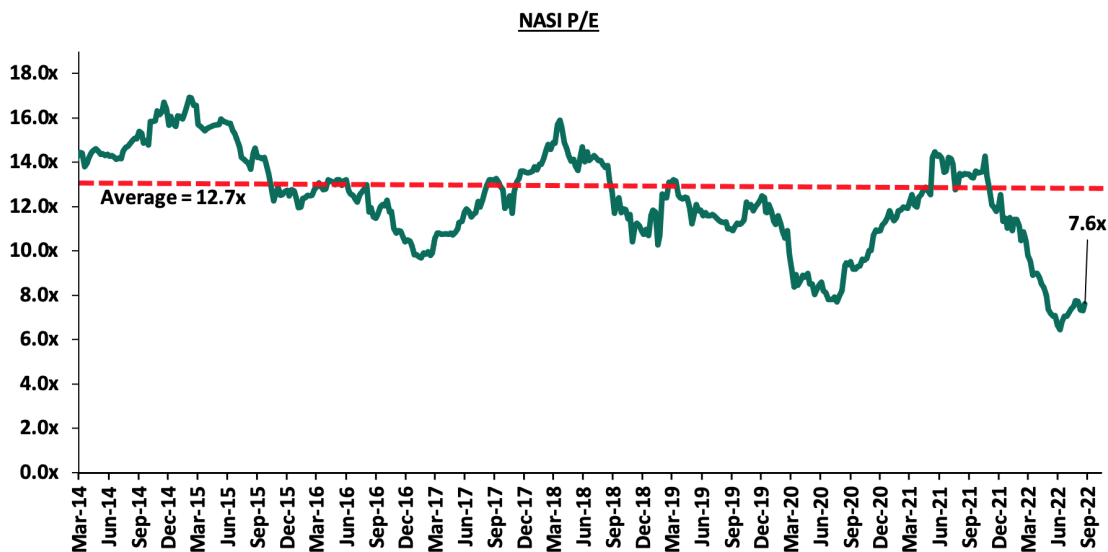
Equities

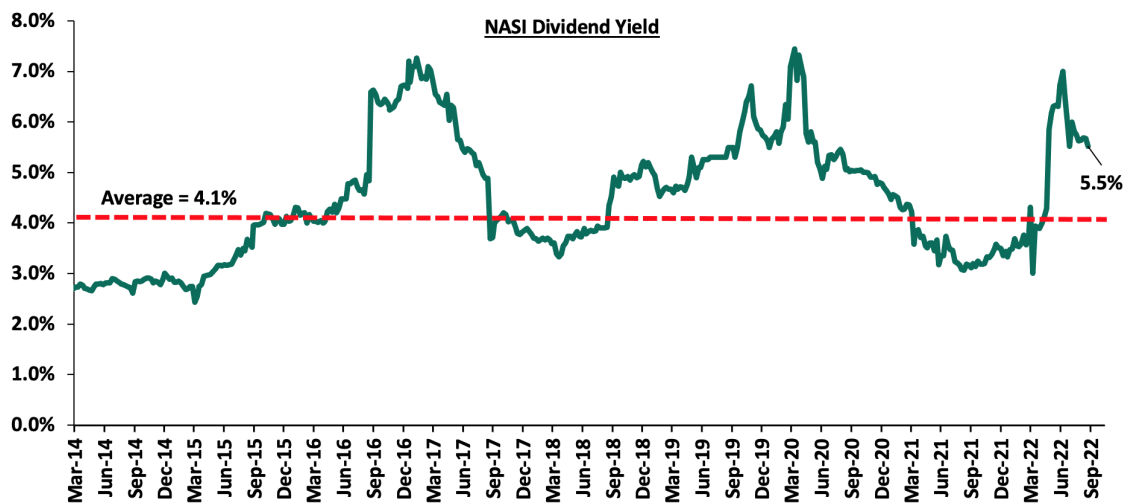
Markets Performance

During the week, the equities market was on an upward trajectory with NASI, NSE 20 and NSE 25 gaining by 2.6%, 1.4% and 2.1% respectively, taking their YTD performance to losses of 15.2%, 6.6% and 11.2%, for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by gains recorded by large-cap stocks such as NCBA, Safaricom, KCB, and Standard Chartered of 9.3%, 4.3%, 3.9% and 1.8%, respectively. The gains were however weighed down by losses recorded by EABL and ABSA which declined by 0.6% and 0.4%, respectively.

During the week, equities turnover declined by 11.1% to USD 13.5 mn, from USD 15.1 mn recorded the previous week, taking the YTD turnover to USD 600.2 mn. Foreign investors remained net sellers, with a net selling position of USD 0.6 mn, from a net selling position of USD 6.0 mn recorded the previous week, taking the YTD net selling position to USD 147.9 mn.

The market is currently trading at a price to earnings ratio (P/E) of 7.6x, 42.5% below the historical average of 12.7x, and a dividend yield of 5.5%, 1.2% 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 at par 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 Highlights:

Q2'2022 Quarterly Economic Review

During the week, the Central Bank of Kenya (CBK) released the Quarterly Economic Review for the period ending 30th June 2022, highlighting that the banking sector remained stable and resilient during the period. According to the report, the sector's total assets increased by 2.4% to Kshs 6.2 tn in June 2022, from Kshs 6.1 tn in March 2022. The increase was mainly attributable to a 3.3% increase in loans and advances to Kshs 3.5 tn as well as a 15.9% increase in balances in CBK by Kshs 33.1 bn and a 9.1% increase in other assets by Kshs 25.5 bn. On a yearly basis, total assets increased by 10.0% to Kshs 6.2 tn, from Kshs 5.7 tn in Q2'2021. Notably, loans and advances accounted for 50.8% of total assets in Q2'2022, which was an increase from 50.2% of total assets recorded in the Q1'2022.

Other key take-outs from the report include:

- i. The banking sector recorded a 9.3% increase in Profit before Tax (PBT) to Kshs 62.6 bn in Q2'2022, from Kshs 57.3 bn in Q1'2022, with the increase in profitability mainly attributable to a higher increase in quarterly income by Kshs 15.8 bn and a lower increase in quarterly expenses by Kshs 10.6 bn. On a yearly basis, PBT increased by 24.0%, to Kshs 62.6 bn, from Kshs 50.5 bn recorded in Q2'2021,
- ii. The sector's Return on Asset (ROA) remained unchanged at 3.0% from Q1'2022. Year on year, ROA increased by 0.3% to 3.0% in Q2'2022 from 2.7% in Q2'2021. Additionally, Return On Equity (ROE) recorded a 1.7% points increase to 26.8% in June 2022, from 25.1% in March 2022, and, a 4.1% points increase from 22.7% recorded in Q2'2021,
- iii. Lending increased by 3.3% to Kshs 3.5 tn in Q2'2022, from Kshs 3.4 tn in Q1'2022, attributable to an increase in credit granted for working capital purposes, and loans granted to individual borrowers. On a yearly basis, lending was up by 12.3% to Kshs 3.5 tn, from Kshs 3.1 tn in Q2'2021,
- iv. Deposits recorded a 3.3% increase to Kshs 4.6 tn in June 2022, from Kshs 4.5 tn in March 2022, attributable to a 2.6% increase in local currency deposits which increased to Kshs 3.38 tn in June 2022. Compared to last year, deposits increased by 8.6% to Kshs 4.6 tn in Q2'2022, from Kshs 4.2 tn in Q2'2022. Key to note, customers deposits remain the main source of funding for banks, accounting for 73.9% of the sector's total liabilities and shareholder's funds as at Q1'2022, 0.7% higher than the 73.2% recorded in Q1'2022 and 0.9% lower than the 74.8% recorded in Q2'2021,
- v. Credit risk remained elevated in the sector since the gross NPLs to gross loans ratio increased to 14.7% in Q2'2022 from 14.0% in Q1'2022. The gross Non-Performing Loans (NPLs) also increased by 8.6% to Kshs 514.4 bn in Q2'2022 from 473.7 bn in Q1'2022. Energy and water sector registered the highest increase in NPLs by 33.5% (Kshs 5.4 bn) as a result of a challenging

- operating environment. In addition, the asset quality also deteriorated compared with last year as the gross NPL ratio increased by 0.7% points to 14.7% in Q2'2022 from 14.0% in Q2'2021,
- vi. The sector's NPL coverage ratio decreased to 43.3% in Q2'2022, from 49.6% in Q1'2022, despite the increase in Non-Performing Loans. We expect provisioning levels to increase during Q3 and Q4'2022 due to the increasing credit risk brought by the tough operating environment,
 - vii. The banking sector remained adequately capitalized, with the aggregate Core Capital to Total Risk weighted Assets ratio decreasing marginally to 16.1% in Q2'2022 from 16.2 in Q1'2022, and 0.4% lower than the 16.5% recorded in Q2'2021. The core capital to Total Risk-Weighted Assets ratio was 5.6% points above the CBK's minimum statutory ratio of 10.5%. On the other hand, Total Capital to Total Risk-Weighted Asset ratio, decreased slightly by 0.1% points to 18.8% in Q2'2022, from 18.9% in Q1'2022, and, down by 0.1% points from 18.9% recorded in Q2'2021. The Q2'2021 Total Capital to Total Risk-Weighted Assets ratio was 4.3% points above the CBK's minimum statutory ratio of 14.5%, and,
 - viii. The sector remained sufficiently liquid during the period under review, despite the liquidity ratio decreasing to 52.5% in Q2'2022 from 55.0% in Q1'2022. Year on year, the ratio decreased by 4.3% points from 56.8% recorded in Q2'2021. This was a 32.5% points above the minimum statutory level of 20.0%. The decrease in the banking sector's liquidity is attributable to 3.7% increase in short term liabilities, as compared to a 1.1% decrease in total liquid assets between the periods under review.

The continued increase in profitability of the Kenyan banking sector highlights the sector's resilience in the face of the macroeconomic conditions in the country and the deteriorated business environment, highlighted by the decline in PMI to 46.8 in June 2022, from 50.5 in March 2022. Additionally, the sector remains sufficiently capitalized and with adequate liquidity levels above the minimum statutory requirements, evidenced by the capital adequacy and liquidity ratios remaining above the minimum statutory ratios. However, we take note of the elevated credit risk, with the Gross NPLs increasing by 8.6% to Kshs 514.4 bn in June 2022 from Kshs 473.7 bn in March 2022, taking the Gross NPL Ratio to 14.7%, from 14.0% in Q1'2022. This is largely attributable to the deteriorated business environment as a result of the increased inflationary pressures emanating from imported inflation bill such as fuel and energy inflation, persistent supply constraints due to Ukraine-Russia conflict, depreciating local currency and the high government pending bills which have increased by 40.4% to Kshs 504.7 bn in June 2022 from the previous financial year. Overall, we expect the banking sector to remain resilient boosted by the CBK's efforts to improve their liquidity positions by maintaining the Cash Reserve Ratio at 4.25%, proactive monitoring of the loan book by commercial banks and improved capital adequacy across the sector.

Universe of coverage:

Company	Price as at 02/09/2022	Price as at 09/09/2022	w/w change	m/m change	YTD Change	Year Open 2022	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Jubilee	240.3	245.0	2.0%	(3.4%)	(22.7%)	316.8	379.4	0.4%	55.3%	0.4x	Buy
Kenya Re	2.1	2.2	2.4%	5.0%	(6.1%)	2.3	3.2	4.7%	52.5%	0.2x	Buy
Sanlam	10.6	10.9	3.3%	(12.1%)	(5.6%)	11.6	15.9	0.0%	45.9%	1.1x	Buy
KCB Group***	40.9	42.5	3.9%	(0.7%)	(6.8%)	45.6	56.8	7.1%	40.9%	0.9x	Buy
Equity ***	48.2	48.6	0.9%	0.3%	(7.9%)	52.8	64.8	6.2%	39.5%	1.3x	Buy
I&M Group***	17.0	17.0	0.0%	0.0%	(20.6%)	21.4	21.2	8.8%	33.5%	0.5x	Buy
Co-op Bank***	12.4	12.6	1.6%	3.8%	(3.5%)	13.0	14.8	8.0%	25.9%	0.9x	Buy
DTB-K***	50.0	50.5	1.0%	2.0%	(15.1%)	59.5	59.5	5.9%	23.8%	0.2x	Buy
ABSA Bank***	12.0	12.0	(0.4%)	8.6%	1.7%	11.8	14.4	1.7%	22.2%	1.2x	Buy
SCBK***	136.5	139.0	1.8%	2.6%	6.9%	130.0	155.0	10.1%	21.6%	1.1x	Buy

Company	Price as at 02/09/2022	Price as at 09/09/2022	w/w change	m/m change	YTD Change	Year Open 2022	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Stanbic	100.0	93.5	(6.5%)	4.7%	7.5%	87.0	99.9	9.6%	16.5%	0.8x	Accumulate
Britam	6.5	6.7	4.0%	6.6%	(10.8%)	7.6	7.7	0.0%	14.2%	1.1x	Accumulate
NCBA***	30.2	33.0	9.3%	21.0%	29.7%	25.5	35.2	6.1%	12.7%	0.8x	Accumulate
Liberty	7.2	7.5	3.9%	28.2%	5.7%	7.1	7.8	0.0%	4.6%	0.6x	Lighten
HF Group	3.5	3.6	1.1%	5.7%	(6.3%)	3.8	3.6	0.0%	1.1%	0.2x	Lighten
CIC Group	2.0	2.1	3.9%	0.0%	(2.3%)	2.2	2.1	0.0%	(0.9%)	0.7x	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 par 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.

Liason House, StateHouse Avenue

The Chancery, Valley Road

www.cytonn.com

Generated By Cytonn Report

A product of Cytonn Technologies