Nairobi Metropolitan Area (NMA) Serviced Apartments Report 2022, & Cytonn Weekly #47/2022

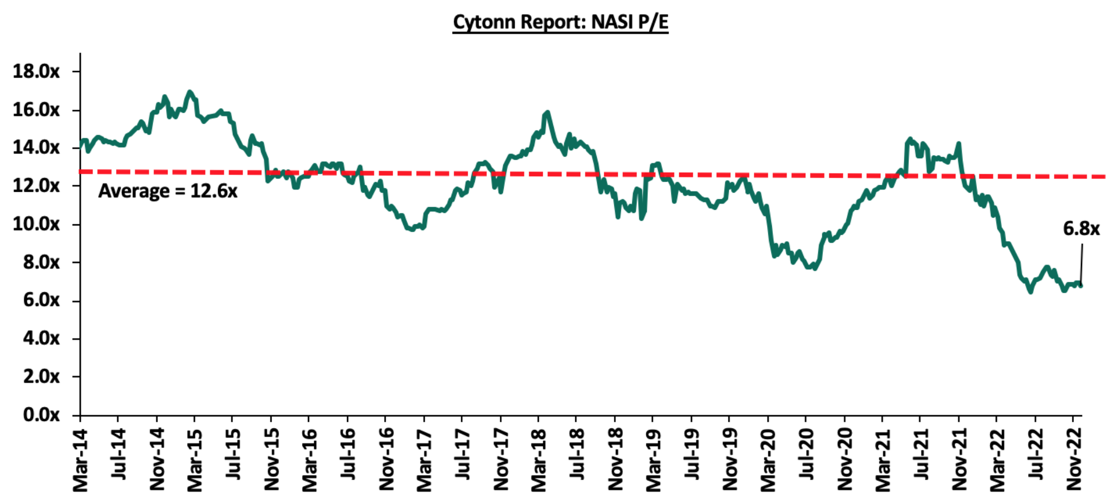
Equities

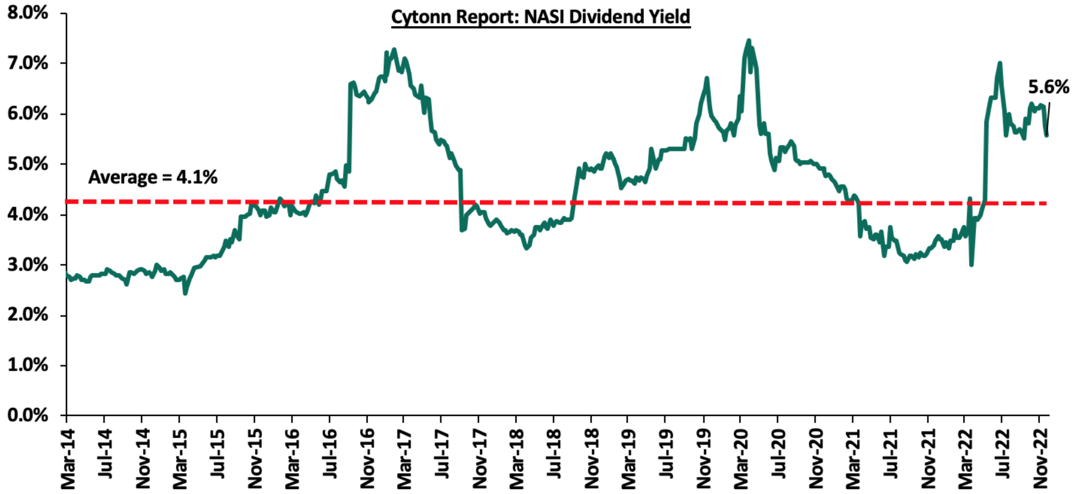
Market Performance:

During the week, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 1.3%, 0.8%, and 0.7%, respectively, taking YTD performance to losses of 23.8%, 13.7% and 17.3% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by stocks such as KCB Group, Bamburi, Safaricom and Equity Group of 3.1%, 2.6%, 2.4% and 1.8% respectively. The losses were however mitigated by gains recorded by banking stocks such as NCBA Group, Cooperative Bank, and Standard Chartered Bank by of 7.4%, 3.7 and 3.1% respectively.

During the week, equities turnover declined by 28.2% to USD 11.5 mn from USD 16.0 mn recorded the previous week, taking the YTD turnover to USD 750.6 mn. Additionally, foreign investors remained net sellers, with a net selling position of USD 3.9 mn, from a net selling position of USD 1.8 mn recorded the previous week, taking the YTD net selling position to USD 186.9 mn.

The market is currently trading at a price to earnings ratio (P/E) of 6.8x, 46.3% below the historical average of 12.6x, 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 0.9x, an indication that the market is undervalued 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:

Earnings Release

During the week, Equity Group, NCBA Group, Standard Chartered Bank Kenya, I&M Group, Stanbic Holdings Plc, and Diamond Trust Bank Kenya (DTB-K) Ltd released their Q3'2022 financial results. Below is a summary of their performance;

a. **Equity Group**

Balance Sheet Items (Kshs bn)	Q3'2021	Q3'2022	y/y change
Government Securities	233.2	233.0	(0.1%)
Net Loans and Advances	559.0	673.9	20.6%
Total Assets	**1,184.3**	**1,363.7**	**15.2%**
Customer Deposits	875.1	1,007.3	15.1%
Deposits per Branch	2.6	2.8	9.6%
Total Liabilities	**1,020.9**	**1,209.7**	**18.5%**
Shareholders' Funds	**156.3**	**147.5**	**(5.6%)**

Balance Sheet Ratios	Q3'2021	Q3'2022	% points y/y change
Loan to Deposit Ratio	63.9%	66.9%	3.0%
Return on average equity	22.2%	31.3%	9.1%
Return on average assets	3.0%	3.7%	0.7%

Income Statement (Kshs bn)	Q3'2021	Q3'2022	y/y change
Net Interest Income	48.5	59.8	23.4%
Net non-Interest Income	32.0	42.2	32.0%
Total Operating income	**80.5**	**102.1**	**26.9%**
Loan Loss provision	(5.1)	(9.7)	87.9%
Total Operating expenses	(43.8)	(57.7)	31.7%
Profit before tax	36.6	44.3	21.0%

Income Statement (Kshs bn)	Q3'2021	Q3'2022	y/y change
Profit after tax	**26.9**	**34.4**	**27.9%**
Core EPS	**7.1**	**9.1**	**27.9%**

Income Statement Ratios	Q3'2021	Q3'2022	% points y/y change
Yield from interest-earning assets	9.6%	10.1%	0.5%
Cost of funding	2.8%	2.9%	0.1%
Cost of risk	6.4%	9.5%	3.1%
Net Interest Margin	7.0%	7.3%	0.3%
Net Interest Income as % of operating income	60.3%	58.6%	(1.7%)
Non-Funded Income as a % of operating income	39.7%	41.4%	1.7%
Cost to Income Ratio	54.5%	56.6%	2.1%
Cost to Income Ratio without LLP	48.1%	47.1%	(1.0%)
Cost to Assets	3.7%	3.8%	0.1%

Capital Adequacy Ratios	Q3'2021	Q3'2022	% Points Change
Core Capital/Total Liabilities	15.3%	16.9%	1.6%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**7.3%**	**8.9%**	**1.6%**
Core Capital/Total Risk Weighted Assets	13.5%	16.1%	2.6%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**3.0%**	**5.6%**	**2.6%**
Total Capital/Total Risk Weighted Assets	16.8%	20.7%	3.9%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**2.3%**	**6.2%**	**3.9%**
Liquidity Ratio	59.5%	51.8%	(7.7%)
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**39.5%**	**31.8%**	**(7.7%)**
Adjusted core capital/ total deposit liabilities	15.3%	16.9%	1.6%
Adjusted core capital/ total risk weighted assets	13.5%	16.1%	2.6%
Adjusted total capital/ total risk weighted assets	16.8%	20.7%	3.9%

Key take-outs from the earnings release include;

- **Earnings Growth:** Core earnings per share increased by 27.9% to Kshs 9.1 in Q3'2022, from Kshs 7.1 recorded in Q3'2021, higher than our projections of a 24.2% increase to Kshs 8.8. The performance was driven by a 26.9% growth in total operating income to Kshs 102.1 bn, from Kshs 80.5 bn in Q3'2021 higher than our projections of 17.1%. However, the performance was weighed down by the 31.7% growth in total operating expenses to Kshs 57.7 bn, from Kshs 43.8 bn in Q3'2021,

- **The Group's diversification strategy deemed profitable** - The Group's geographical diversification strategy has continued to emerge as a net positive, with the bank's various subsidiaries in Uganda, DRC, Rwanda, Tanzania, and South Sudan cumulatively contributing 32.0% to the bank's total profitability and 42.0% to the group's total asset base. Cumulatively, the group's subsidiaries, excluding Equity Bank Kenya Ltd, recorded an 71.9% growth in their Profit after Tax (PAT) to Kshs 11.0 bn, from Kshs 6.4 bn in Q3'2021, with the Equity BCDC in DRC recording a 113.7% growth in PAT to Kshs 4.7 bn from Kshs 2.2 bn in Q3'2021, mainly driven by favorable operating business environment coupled with low banking penetration which providing more opportunities for profitability. However, concerns remain high on the high NPL levels in the group's Tanzanian subsidiary of 23.1% and we expect the group to improve its credit assessment in the country to bring down the high NPL ratio,
- **Increased Provisioning** – The Group increased its Loans Loss Provision (LLPs) by 87.9% to Kshs 9.7 bn in Q3'2022, from Kshs 5.1 bn recorded in Q3'2021 aimed at mitigating increased credit risk on the back of the elevated inflationary pressures. Additionally, the NPL coverage increased to 63.0%, from 60.6% in Q3'2021 as a result of a 5.9% increase in general provisions to Kshs 28.6 bn from Kshs 27.0 bn in Q3'2021. We expect the high provisioning to cushion the Group against high credit risk on the tough operating business environment which has curtailed recovery in some sectors locally and the high NPL ratios in some of the group's subsidiaries,
- **Improved efficiency levels** – The group's cost to income ratio without LLP improved, declining by 1.0% to 47.1%, from 48.1% in Q3'2021, an indication of improved efficiency,
- **Increased Lending** – Q3'2022 was characterized by a 20.6% growth in loans with investments in government securities declining by 0.1%, highlighting the Group's strategy to increase lending despite the tough operating business environment. Notably, the Group diversified risk by extending credit to various sectors in the economy with high lending recorded in sectors such as personal household, trade and real estate at 23.0%, 22.0% and 14.0%, respectively. Additionally, 43.0% of the Group's loan book comprised of Loans extended to Small and Medium Enterprises (SMEs) operating in sectors such as real estate, trade and agriculture among others which we expect to support their recovery from the effect of the pandemic.

For a comprehensive analysis, please see our Equity Group's Q3'2022 Earnings Note

b. **NCBA Group**

Balance Sheet Items (Kshs bn)	Q3'2021	Q3'2022	y/y change
Net Loans and Advances	238.2	266.1	11.7%
Government Securities	189.6	206.8	9.1%
Total Assets	**562.6**	**595.4**	**5.8%**
Customer Deposits	447.6	462.1	3.2%
Deposits per branch	5.0	4.4	(12.5%)
Total Liabilities	487.7	514.5	5.5%
Shareholders' Funds	**74.8**	**80.9**	**8.1%**

Balance Sheet Ratios	Q3'2021	Q3'2022	% points change
Loan to Deposit Ratio	53.2%	57.6%	4.4%
Return on average equity	13.8%	21.2%	7.4%
Return on average assets	1.8%	2.8%	1.0%

Income Statement (Kshs bn)	Q3'2021	Q3'2022	y/y change
Net Interest Income	20.2	23.2	15.1%

Income Statement (Kshs bn)	**Q3'2021**	**Q3'2022**	**y/y change**
Net non-Interest Income	16.1	22.5	40.1%
Total Operating income	**36.3**	**45.8**	**26.2%**
Loan Loss provision	9.2	8.3	(9.2%)
Total Operating expenses	**24.7**	**26.9**	**8.9%**
Profit before tax	11.1	18.2	64.5%
Profit after tax	**6.5**	**12.8**	**96.2%**
Core EPS	**4.0**	**7.8**	**96.2%**

Income Statement Ratios	**Q3'2021**	**Q3'2022**	**% points change**
Yield from interest-earning assets	10.0%	10.1%	0.1%
Cost of funding	4.1%	4.4%	0.3%
Net Interest Spread	5.9%	5.7%	(0.2%)
Net Interest Margin	6.1%	6.0%	(0.1%)
Cost of Risk	25.3%	18.2%	(7.1%)
Net Interest Income as % of operating income	55.7%	50.8%	(4.9%)
Non-Funded Income as a % of operating income	44.3%	49.2%	4.9%
Cost to Income Ratio	68.0%	58.7%	(9.3%)
Cost to Income Ratio without LLP	42.7%	40.5%	(2.2%)

Capital Adequacy Ratios	**Q3'2021**	**Q3'2022**	**% points change**
Core Capital/Total Liabilities	16.8%	16.9%	0.1%
Minimum Statutory ratio	8.0%	8.0%	
Excess	**8.8%**	**8.9%**	**0.1%**
Core Capital/Total Risk Weighted Assets	19.0%	18.4%	(0.6%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**8.5%**	**7.9%**	**(0.6%)**
Total Capital/Total Risk Weighted Assets	19.1%	18.4%	(0.7%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**4.6%**	**3.9%**	**(0.7%)**
Liquidity Ratio	61.7%	55.6%	(6.1%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**41.7%**	**35.6%**	**(6.1%)**
Adjusted core capital/ total deposit liabilities	**17.5%**	**17.5%**	**(0.1%)**
Adjusted core capital/ total risk weighted assets	**19.8%**	**19.0%**	**(0.9%)**
Adjusted total capital/ total risk weighted assets	**19.9%**	**19.0%**	**(0.8%)**

Key take-outs from the earnings release include;

- **Earnings Growth:** Core earnings per share rose by 96.2% to Kshs 7.8, from Kshs 4.0 in Q3'2021, higher than our expectations of a 60.5% increase to Kshs 6.4. The performance was driven by the 26.2% growth in total operating income to Kshs 45.8 bn, from Kshs 36.3 bn in Q3'2021, which outpaced the 8.9% growth in total operating expenses to Kshs 26.9 bn, from Kshs 24.7 bn in Q3'2021,
- **Improvement in Asset Quality** - The group's asset quality improved, with the gross non-performing loans ratio declining to 12.6% from 17.0% recoded in Q3'2021, attributable to gross non-performing loans declining by 20.9% to Kshs 36.4 bn from Kshs 46.0 bn recorded in Q3'2021. This follows the bank's announcement to write off more than Kshs 5.5 bn of the non-performing loans under its digital lending platforms, a move in line with the Central Bank of Kenya credit repair framework which will see mobile phone digital borrowers removed from negative listing on credit reference bureaus, and,
- **Significant increase in Non-Funded Income** – The banks NFI recorded a y/y increase of 40.1% to Kshs 22.5 bn in Q3'2022, mainly attributable to a significant increase in Foreign Exchange income by 162.9% to Kshs 9.2 bn, from Kshs 3.5 bn recorded in Q3'2022.
- **Decline in Deposits per Branch** – As part of the Group's growth strategy to increase its footprint in the market, there was an increase in the number of branches by 8 branches to 105 branches in Q3'2022 from 97 branches in Q3'2021. As such, this resulted to a 4.6% decline in deposits per branch to Kshs 4.4 bn in Q3'2022, from Kshs 4.6 bn in Q3'2021.

For a comprehensive analysis, please see our NCBA Group's Q3'2022 Earnings Note

c. **Standard Chartered Bank Kenya**

Balance Sheet Items (Kshs bn)	Q3'2021	Q3'2022	y/y change
Net loans	131.7	136.1	3.3%
Government Securities	99.0	112.0	13.2%
Total Assets	**330.7**	**366.1**	**10.7%**
Customer Deposits	258.4	286.1	10.7%
Deposits per Branch	7.2	13.0	81.2%
Total Liabilities	**277.6**	**310.6**	**11.9%**

Balance Sheet Ratios	Q3'2021	Q3'2022	% y/y change
Loan to deposit ratio	51.0%	47.6%	(3.4%)
Return on Average Equity	14.5%	21.0%	6.5%
Return on Average Assets	2.3%	3.3%	1.0%

Income Statement (Kshs bn)	Q3'2021	Q3'2022	y/y change
Net Interest Income	14.7	15.8	7.3%
Net non-Interest Income	7.6	8.8	16.1%
Total Operating income	**22.3**	**24.6**	**10.3%**
Loan Loss provision	2.7	0.6	(76.8%)
Total Operating expenses	**13.4**	**12.3**	**(8.3%)**
Profit before tax	8.9	12.3	38.2%
Profit after tax	**6.4**	**8.7**	**37.1%**
Core EPS	**16.8**	**23.1**	**37.1%**

Income Statement Ratios	Q3'2021	Q3'2022	y/y change
Yield from interest-earning assets	8.0%	7.3%	(0.7%)
Cost of funding	1.5%	1.1%	(0.4%)
Net Interest Spread	6.5%	6.2%	(0.3%)
Net Interest Margin	6.7%	6.3%	(0.4%)
Cost of Risk	12.0%	2.5%	(9.5%)
Net Interest Income as % of operating income	66.1%	64.3%	(1.8%)
Non-Funded Income as a % of operating income	33.9%	35.7%	1.8%
Cost to Income Ratio	60.1%	49.9%	(10.2%)

Capital Adequacy Ratios	Q3'2021	Q3'2022	% points change
Core Capital/Total Liabilities	16.2%	14.5%	(1.7%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**8.2%**	**6.5%**	**(1.7%)**
Core Capital/Total Risk Weighted Assets	15.6%	15.4%	(0.2%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**5.1%**	**4.9%**	**(0.2%)**
Total Capital/Total Risk Weighted Assets	17.7%	17.7%	(0.0%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**3.2%**	**3.2%**	**(0.0%)**
Liquidity Ratio	67.4%	71.9%	4.5%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**47.4%**	**51.9%**	**4.5%**
Adjusted core capital/ total deposit liabilities	16.2%	14.5%	(1.7%)
Adjusted core capital/ total risk weighted assets	15.6%	15.5%	(0.2%)
Adjusted total capital/ total risk weighted assets	17.7%	17.7%	-

Key take-outs from the earnings release include;

- **Earnings Growth:** Core earnings per share rose by 37.1% to Kshs 23.1, from Kshs 16.8 in Q3’2021, lower than our expectations of a 50.1% increase to Kshs 25.2, with the variance stemming from the 10.3% increase in total operating income, which was lower than our projection of a 27.5% increase. The performance was driven by the 10.3% growth in total operating income to Kshs 24.6 bn, from Kshs 22.3 bn in Q3’2021, coupled with an 8.3% decline in total operating expenses to Kshs 12.3 bn, from Kshs 13.4 bn in Q3’2021,
- **Deterioration of the Asset Quality** - The group’s asset quality deteriorated slightly, with the NPL ratio increasing to 15.4% in Q3’2022, from 15.3% in Q3’2021. The decline in asset quality was attributable to the faster 4.4% increase on gross non-performing loans as compared to the 3.4% growth in gross loans. This is despite the easing credit risk in the country with the banking sector Gross NPL ratio easing slightly to 13.8% in October from 14.2% in August 2022. Key to note, on a q/q basis, Standard Chartered Bank’s Asset quality remained unchanged at 15.4% recorded in Q2’2022,
- **Cautious Lending** – Q3’2022 was characterized by a faster 16.4% growth in government

securities as compared to the 3.3% rise in net loans, highlighting the bank preference to government lending in light of the high credit risks among corporate and individuals in the economy.

For a comprehensive analysis, please see our Standard Chartered Bank Kenya's Q3'2022 Earnings Note

d. **I&M Group**

Balance Sheet Items (Kshs bn)	Q3'2021	Q3'2022	y/y change
Government Securities	117.5	114.4	(2.6%)
Net Loans and Advances	207.6	231.2	11.4%
Total Assets	**399.1**	**428.7**	**7.4%**
Customer Deposits	288.7	308.0	6.7%
Deposits per Branch	3.2	3.7	14.4%
Total Liabilities	**326.9**	**355.2**	**8.7%**
Shareholders' Funds	**68.0**	**68.4**	**0.6%**

Balance Sheet Ratios	Q3'2021	Q3'2022	y/y change
Loan to Deposit Ratio	71.9%	75.1%	3.2%
Return on average equity	14.3%	13.9%	(0.4%)
Return on average assets	2.5%	2.3%	(0.2%)

Income Statement (Kshs bn)	Q3'2021	Q3'2022	y/y change
Net Interest Income	14.0	16.2	15.6%
Non-Interest Income	6.2	8.8	43.0%
Total Operating income	**20.2**	**25.0**	**24.0%**
Loan Loss provision	(2.8)	(3.6)	27.5%
Total Operating expenses	**(12.5)**	**(14.9)**	**19.1%**
Profit before tax	8.1	10.4	28.9%
Profit after tax	**5.7**	**7.2**	**25.1%**
Earnings per share (Kshs)	**3.5**	**4.3**	**25.1%**

Income Statement Ratios	Q3'2021	Q3'2022	Y/Y Change
Yield from interest-earning assets	9.8%	10.5%	0.7%
Cost of funding	4.0%	4.2%	0.2%
Net Interest Spread	5.8%	6.3%	0.5%
Net Interest Income as % of Total Income	69.3%	64.6%	(4.7%)
Non-Funded Income as a % of Total Income	30.7%	35.4%	4.7%
Cost to Income	62.1%	59.7%	(2.4%)

Income Statement Ratios	Q3'2021	Q3'2022	Y/Y Change
Cost to Income Ratio without provisions	48.1%	45.3%	(2.8%)
Cost to Assets	2.4%	2.6%	0.2%
Net Interest Margin	6.0%	6.6%	0.6%

Capital Adequacy Ratios	Q3'2021	Q3'2022	% points change
Core Capital/Total deposit Liabilities	20.3%	20.7%	0.4%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**12.3%**	**12.7%**	**0.4%**
Core Capital/Total Risk Weighted Assets	15.9%	15.3%	(0.7%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**5.4%**	**4.8%**	**(0.7%)**
Total Capital/Total Risk Weighted Assets	20.7%	20.1%	(0.6%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**6.2%**	**5.6%**	**(0.6%)**
Liquidity Ratio	49.4%	46.6%	2.8%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**29.4%**	**26.6%**	**(2.8%)**
Adjusted Core Capital/Total Deposit Liabilities	**20.4%**	**20.7%**	0.3%
Adjusted Core Capital/Total Risk Weighted Assets	**16.0%**	**15.3%**	(0.7%)
Adjusted Total Capital/Total Risk Weighted Assets	**20.7%**	**20.1%**	(0.6%)

Key take-outs from the earnings release include;

- **Earnings Growth:** Core earnings per share increased by 25.1% to Kshs 4.3 in Q3’2022, from Kshs 3.5 in Q3’2021, higher than our projections of a 18.7% increase to Kshs 4.1. The performance was driven by a 24.0% increase in total operating income to Kshs 25.0 bn in Q3’2022, from Kshs 20.2 bn in Q3’2021, which outpaced the 19.1% increase in the total operating expenses to Kshs 14.9 bn in Q3’2022, from Kshs 12.5 bn in Q3’2021,
- **Improvement in Asset Quality** – The group’s asset quality improved, with the NPL ratio reducing to 9.5% in Q3’2022, from 10.2% in Q3’2021, owing to the 11.4% growth in gross loans to Kshs 231.2 bn, from Kshs 207.6 bn in Q3’2021, which outpaced the 4.2% increase in gross non-performing loans. The improved asset quality was attributable to the continued economic recovery which has seen more business pick up given that the group’s loan book constituted 71.0% and 19.0% corporate and business loans respectively as of Q3’2022. The group has also embarked on proactive credit management strategies that have seen increased loan repayments,
- **Increase in Non-Funded Income-** Non-Funded Income increased by 43.0% to Kshs 8.8 bn in Q3’2022, from Kshs 6.2 bn in Q3’2021, mainly driven by a 219.6% increase in the foreign exchange trading income to Kshs 3.8 bn in Q3’2022 from Kshs 1.2 bn in Q3’2021 due to increased foreign exchange trading margins. Additionally, fees and commissions from loans and advances increased by 17.1% to Kshs 1.6 bn, from Kshs 1.4 bn in Q3’2021 in tandem with a 14.5% increase

in Net loans and advances to Kshs 18.5 bn, from Kshs 16.2 bn in Q3'2021. I&M Group's total fees and commissions increased by 26.0% to Kshs 4.3 bn in Q3'2022, from Kshs 4 bn in Q3'2021, and,

- **Improved Efficiency** - The group enhanced their efficiency levels evidenced by an improvement in Cost to Income Ratio (CIR) improving to 59.7% in Q3'2022, from 62.1% in Q3'2021 owing to the 24.0% increase in the total operating income which outpaced the 19.1% increase in the total operating expenses. Without LLP, the Cost to Income ratio improved as well to 45.3%, from 48.1% in Q3'2021.

For a comprehensive analysis, please see our I&M Kenya's Q3'2022 Earnings Note

e. **Stanbic Holdings Plc**

Balance Sheet	Q3'2021	Q3'2022	y/y change
Net Loans and Advances	176.6	236.9	34.1%
Government Securities	45.6	63.0	38.3%
Total Assets	**295.0**	**371.4**	25.9%
Customer Deposits	212.9	267.3	25.6%
Deposits per Branch	8.5	10.7	25.6%
Total Liabilities	**250.3**	**321.0**	28.3%
Shareholders' Funds	**44.7**	**50.4**	12.6%

Balance Sheet Ratios	Q3'2021	Q3'2022	% point change
Loan to Deposit ratio	83.0%	88.6%	5.7%
Return on average equity	27.3%	25.1%	(2.2%)
Return on average assets	3.7%	3.4%	(0.3%)

Income Statement (Kshs bn)	Q3'2021	Q3'2022	y/y change
Net interest Income	10.0	12.7	26.8%
Net non-interest income	7.5	10.3	37.5%
Total Operating income	**17.5**	**23.0**	**31.4%**
Loan loss provision	(1.5)	(2.9)	88.7%
Total Operating expenses	**(10.5)**	**(13.3)**	**27.2%**
Profit before tax	7.0	9.7	37.7%
Profit after tax	**5.1**	**7.0**	**36.8%**
Core EPS	**12.9**	**17.7**	**36.8%**

Income Statement Ratios	Q3'2021	Q3'2022	y/y change
Yield from interest-earning assets	6.6%	6.4%	(0.2%)
Cost of funding	2.9%	3.0%	0.1%
Net Interest Margin	6.2%	5.6%	(0.6%)
Net Interest Income as % of operating income	57.4%	55.4%	(2.0%)
Non-Funded Income as a % of operating income	42.6%	44.6%	2.0%
Cost to Income Ratio	59.8%	57.9%	(1.9%)
CIR without LLP	51.1%	45.4%	(5.7%)
Cost to Assets	3.0%	2.8%	(0.2%)

Capital Adequacy Ratios	Q3'2021	Q3'2022	% points change
Core Capital/Total Liabilities	19.5%	17.2%	(2.3%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**11.5%**	**9.2%**	**(2.3%)**
Core Capital/Total Risk Weighted Assets	15.5%	13.4%	(2.1%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**5.0%**	**2.9%**	**(2.1%)**
Total Capital/Total Risk Weighted Assets	17.5%	16.2%	(1.3%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**3.0%**	**1.7%**	**(1.3%)**
Liquidity Ratio	44.2%	39.9%	(4.3%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**24.2%**	**19.9%**	**(4.3%)**
Adjusted Core Capital/Total Deposit Liabilities	**19.6%**	**17.2%**	**(2.4%)**
Adjusted Core Capital/Total Risk Weighted Assets	**15.6%**	**13.4%**	**(2.2%)**
Adjusted Total Capital/Total Risk Weighted Assets	**17.6%**	**16.2%**	**(1.4%)**

Key take-outs from the earnings release include;

- **Earnings Growth:** Core earnings per share rose by 36.8% to Kshs 17.7, from Kshs 12.9 in Q3’2021, higher than our expectations of an 18.5% increase to Kshs 15.3. The performance was driven by the 31.4% growth in total operating income to Kshs 23.0 bn, from Kshs 17.5 bn in Q3’2021, which outpaced the 27.2% growth in total operating expenses to Kshs 13.3 bn, from Kshs 10.5 bn in Q3’2021, and,
- **Increased Provisioning** – On the back of high credit risk, which has seen the bank’s gross non-performing loans increasing by 18.0% to Kshs 25.6 bn in Q3’2022, from Kshs 21.7 bn in Q3’2021, the banks increased its provisions holdings to cover for the anticipated losses in the future, with its provisions increasing by 35.6% to Kshs 11.1 bn from Kshs 8.2 bn recorded in Q3’2021. Consequently, the gross non-performing loan coverage increased to 63.4%, from 54.9% recorded in Q3’2021.

For a comprehensive analysis, please see our Stanbic Holdings Plc’s Q3’2022 Earnings Note

f. **Diamond Trust Bank-Kenya**

Balance Sheet Items (Kshs bn)	Q3'2021	Q3'2022	y/y change
Government Securities	115.1	135.1	17.4%
Net Loans and Advances	205.6	243.7	18.5%
Total Assets	**434.4**	**507.5**	**16.8%**
Customer Deposits	323.7	359.7	11.1%
Deposits per Branch	2.5	2.7	9.4%
Total Liabilities	**359.9**	**429.5**	**19.3%**

Balance Sheet Items (Kshs bn)	Q3'2021	Q3'2022	y/y change
Shareholders' Funds	**67.5**	**70.1**	**3.9%**

Balance Sheet Ratios	Q3'2021	Q3'2022	y/y change
Loan to Deposit Ratio	63.5%	67.7%	4.2%
Return on average equity	6.8%	8.0%	1.2%
Return on average assets	1.1%	1.2%	0.1%

Income Statement (Kshs bn)	Q3'2021	Q3'2022	y/y change
Net Interest Income	14.7	16.8	14.1%
Non-Interest Income	4.8	6.9	43.5%
Total Operating income	**19.5**	**23.7**	**21.3%**
Loan Loss provision	3.1	4.0	30.5
Total Operating expenses	12.1	14.7	21.5%
Profit before tax	7.4	8.9	20.2%
Profit after tax	**5.2**	**6.3**	**21.1%**
Earnings per share (Kshs)	**18.6**	**22.5**	**21.1%**

Income Statement Ratios	Q3'2021	Q3'2022	Y/Y Change
Yield from interest-earning assets	9.5%	9.7%	0.2%
Cost of funding	3.1%	3.2%	0.1%
Net Interest Spread	6.4%	6.5%	0.1%
Net Interest Income as % of Total Income	75.5%	71.0%	(4.5%)
Non-Funded Income as a % of Total Income	24.5%	29.0%	4.5%
Cost to Income	62.0%	62.1%	0.1%
Cost to Income Ratio without provisions	46.3%	45.2%	(1.1%)
Cost to Assets	4.7%	4.8%	0.1%
Net Interest Margin	5.5%	5.7%	0.2%

Capital Adequacy Ratios	Q3'2021	Q3'2022	% points change
Core Capital/Total deposit Liabilities	22.2%	21.9%	(0.3%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**14.2%**	**13.9%**	**(0.3%)**
Core Capital/Total Risk Weighted Assets	20.7%	20.0%	(0.7%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**10.2%**	**9.5%**	**(0.7%)**
Total Capital/Total Risk Weighted Assets	22.1%	21.1%	(1.0%)

Capital Adequacy Ratios	Q3'2021	Q3'2022	% points change
Minimum Statutory ratio	14.5%	14.5%	
Excess	**7.6%**	**6.6%**	**(1.0%)**
Liquidity Ratio	60.1%	60.5%	0.4%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**40.1%**	**40.5%**	**0.4%**
Adjusted Core Capital/Total Deposit Liabilities	22.3%	21.8%	(0.5%)
Adjusted Core Capital/Total Risk Weighted Assets	20.9%	20.0%	(0.9%)
Adjusted Total Capital/Total Risk Weighted Assets	22.2%	21.1%	(1.1%)

Key take-outs from the earnings release include;

- **Earnings Growth:** Core earnings per share increased by 21.1% to Kshs 22.5 in Q3’2022, from Kshs 18.6 in Q3’2021, higher than our projections of 15.2% increase to Kshs 21.4. The performance was driven by a 21.3% increase in total operating income to Kshs 23.7 bn in Q3’2022, from Kshs 19.5 bn in Q3’2021. However, this increase in total operating income was weighed down by the 21.5% increase in the total operating expenses to Kshs 14.7 bn in Q3’2022, from Kshs 12.1 bn in Q3’2021,
- **Deteriorating Asset Quality** – The group’s asset quality deteriorated, with the NPL ratio increasing to 12.7% in Q3’2022, from 11.9% in Q3’2021, owing to the 28.1% growth in gross non-performing loans, which outpaced the 18.5% increase in net loans and advances to Kshs 243.7 bn, from Kshs 205.6 bn in Q3’2021. The increase in NPLs can be attributed to the increase in credit risk in the Kenya’s banking sector, with sector’s gross NPLs to gross loans ratio increasing to 14.7% in Q2’2022 from 14.0% in Q1’2022.

For a comprehensive analysis, please see our DTB-K’s Q3’2022 Earnings Note

Asset Quality

The table below is a summary of the asset quality for the listed banks that have released their Q3’2022 results

Cytonn Report: Listed Banking sector Asset Quality

Bank	Q3'2021 NPL Ratio**	Q3'2022 NPL Ratio*	Q3'2021 NPL Coverage**	Q3'2022 NPL Coverage*	% point change in NPL Ratio	% point change in NPL Coverage
Equity Group	9.5%	9.5%	60.6%	63.0%	-	2.4%
I&M Holdings	10.2%	9.5%	70.6%	75.4%	(0.7%)	4.8%
Stanbic Bank	11.5%	10.1%	54.9%	63.4%	(1.4%)	8.5%
NCBA Group	17.0%	12.7%	70.2%	65.3%	(4.3%)	(4.9%)

Cytonn Report: Listed Banking sector Asset Quality

Bank	Q3'2021 NPL Ratio**	Q3'2022 NPL Ratio*	Q3'2021 NPL Coverage**	Q3'2022 NPL Coverage*	% point change in NPL Ratio	% point change in NPL Coverage
Diamond Trust Bank	11.9%	12.7%	40.0%	45.2%	0.8%	5.2%
Co-operative Bank of Kenya	14.6%	14.0%	65.5%	69.3%	(0.6%)	3.8%
Standard Chartered Bank Kenya	15.3%	15.4%	82.8%	82.4%	0.1%	(0.4%)
KCB	13.7%	17.8%	63.4%	52.8%	4.1%	(10.6%)
Mkt Weighted Average	**12.6%**	**12.9%**	**64.6%**	**64.0%**	**0.3%**	**(0.6%)**

***Market cap weighted as at 25/11/2022**

****Market cap weighted as at 10/12/2021**

Key take-outs from the table include;

i. Asset quality for the listed banks that have released deteriorated during the period, with the weighted average NPL ratio increasing by 0.3% points to a market cap weighted average of 12.9%, from an average of 12.6% in Q3’2021. This is mainly skewed by a deterioration in KCB’s NPL ratio to 17.8% in Q3’2022 from 14.0% in Q3’2021, following reclassification of 9 large accounts as NPLs in H1’2022 and,
ii. NPL Coverage for the listed banks declined to a market cap weighted average of 64.0% in Q3’2022, from 64.6% recorded in Q3’2021, mainly skewed by reduced NPL coverage by KCB Group and DTB-K following NPLs growth outpacing provisions growth.

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;

Cytonn Report: Listed Banking Sector Performance Q3’2022

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
NCBA Group	96.2%	13.3%	10.8%	15.1%	6.0%	40.1%	49.2%	5.2%	3.2%	9.1%	57.6%	11.7%	21.2%
Co-op Bank	47.0%	10.5%	7.2%	11.7%	8.2%	28.3%	38.6%	31.7%	4.9%	(5.7%)	77.6%	9.4%	22.5%
Standard Chartered	37.1%	4.1%	(12.6%)	7.3%	6.3%	16.1%	35.7%	-13.4%	10.7%	13.2%	47.6%	3.3%	21.0%
Stanbic Holdings	36.8%	3.1%	19.2%	26.8%	5.6%	37.5%	44.6%	8.1%	25.6%	38.3%	88.6%	34.1%	25.1%
Equity Group	27.9%	25.6%	31.3%	23.6%	7.3%	32.0%	41.4%	28.6%	15.1%	(0.1%)	66.9%	20.6%	31.3%
I&M Holdings	25.1%	17.3%	20.0%	15.6%	6.6%	43.0%	35.4%	26.0%	6.7%	(2.6%)	75.1%	11.4%	13.9%
KCB	21.4%	13.6%	28.4%	9.1%	8.1%	30.2%	33.2%	17.3%	7.4%	6.9%	80.1%	16.4%	22.6%
DTB-K	21.1%	15.4%	17.2%	43.5%	5.7%	43.5%	29.0%	24.5%	11.1%	17.4%	67.7%	18.5%	8.0%
Q3'22 Mkt Weighted Average*	**36.9%**	**15.5%**	**19.5%**	**16.7%**	**7.2%**	**31.6%**	**39.1%**	**18.6%**	**10.7%**	**5.8%**	**70.3%**	**16.1%**	**24.4%**

Cytonn Report: Listed Banking Sector Performance Q3’2022

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
Q3'21 Mkt Weighted Average**	102.0%	15.9%	14.9%	16.9%	7.3%	14.3%	35.2%	11.1%	14.3%	11.7%	69.7%	12.4%	18.7%

***Market cap weighted as at 25/11/2022**

****Market cap weighted as at 10/12/2021**

Key take-outs from the table include:

i. The listed banks recorded a 36.9% weighted average growth in core Earnings per Share (EPS), compared to a weighted average increase of 102.0% in Q3’2021,
ii. The Banks recorded a weighted average deposit growth of 10.7%, slower than the 14.3% growth recorded in Q3’2021, an indication of reduced investment risk in the business environment,
iii. Interest income grew by 15.5%, compared from a growth of 15.9% recorded in Q3’2021, with Net Interest Margin (NIM) standing at 7.2%, 0.1% points lower than the 7.3% recorded in Q3’2021, and,
iv. Non-Funded Income grew by 31.6%, compared to the 14.3% growth recorded in Q3’2021, pointing to increased revenue diversification efforts by the banking sector.

Universe of coverage:

Company	Price as at 18/11/2022	Price as at 25/11/2022	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	187.8	200.0	6.5%	(36.9%)	305.9	0.5%	53.5%	**0.4x**	**Buy**
KCB Group* **	38.8	37.6	(3.1%)	(17.5%)	53.5	2.7%	44.9%	**0.6x**	**Buy**
Liberty Holdings	4.8	4.8	(0.2%)	(31.9%)	6.8	0.0%	40.3%	**0.4x**	**Buy**
Kenya Reinsurance	1.8	1.9	2.2%	(18.3%)	2.5	5.3%	39.6%	**0.2x**	**Buy**
Equity Group* **	46.8	46.0	(1.8%)	(12.9%)	59.7	6.5%	36.4%	**1.1x**	**Buy**
Sanlam	9.0	8.8	(2.7%)	(24.2%)	11.9	0.0%	36.0%	**0.9x**	**Buy**
Co-op Bank* **	12.0	12.5	3.7%	(4.2%)	15.6	8.0%	33.3%	**0.7x**	**Buy**
Diamond Trust Bank* **	47.4	47.0	(0.8%)	(21.0%)	59.5	6.4%	33.0%	**0.2x**	**Buy**
I&M Group* **	17.0	17.0	0.0%	(20.6%)	20.5	8.8%	29.6%	**0.4x**	**Buy**
ABSA Bank* **	11.7	11.7	(0.4%)	(0.9%)	14.9	1.7%	29.6%	**1.0x**	**Buy**
Britam	5.8	5.5	(4.8%)	(27.0%)	7.1	0.0%	29.0%	**0.9x**	**Buy**
CIC Group	1.9	1.9	1.1%	(12.0%)	2.3	0.0%	21.5%	**0.7x**	**Buy**
Stanbic Holdings	97.5	95.0	(2.6%)	9.2%	99.9	9.5%	14.6%	**0.7x**	**Accumulate**
NCBA* **	30.6	32.9	7.4%	29.1%	35.2	6.1%	13.1%	**0.8x**	**Accumulate**
Standard Chartered* **	138.8	143.0	3.1%	10.0%	155.0	4.2%	12.6%	**0.9x**	**Accumulate**
HF Group	3.0	3.2	5.0%	(17.1%)	3.5	0.0%	11.1%	**0.2x**	**Accumulate**

***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 discount to its future growth (PEG Ratio at 0.9x), 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 to continue weighing down the economic outlook in the short term.