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# Real Estate Investment Trusts (REITs) Progress in Kenya & Cytonn Weekly #50/2022

## Equities

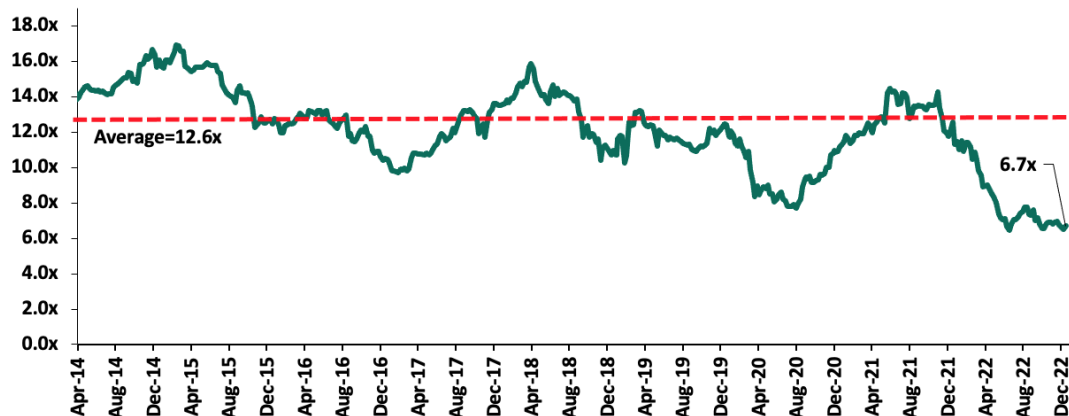
### Market Performance:

During the week, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 gaining by 1.6%, 0.4% and 1.2%, respectively, taking YTD performance to losses of 23.1%, 13.7% and 16.8% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by gains recorded by large cap stocks such as BAT, NCBA Group, Safaricom and ABSA Bank of 4.5%, 2.8%, 2.7% and 1.3%, respectively. The gains were however weighed down by losses recorded by large cap stocks such as Standard Chartered Bank Kenya and Bamburi of 4.8% and 1.0%, respectively.

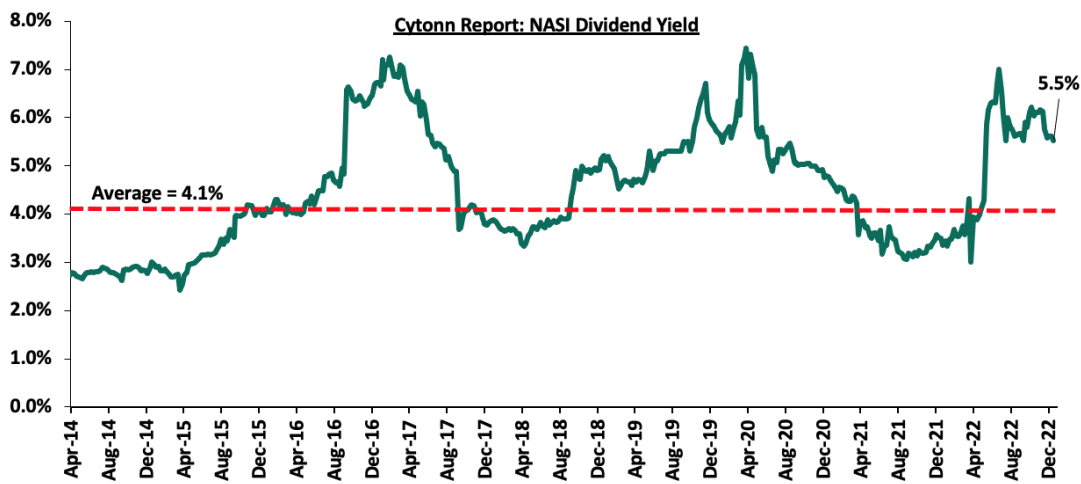
During the week, equities turnover declined by 15.2% to USD 7.7 mn from USD 9.1 mn recorded the previous week, taking the YTD turnover to USD 777.8 mn. Additionally, foreign investors remained net sellers, with a net selling position of USD 2.0 mn, from a net selling position of USD 3.5 mn recorded the previous week, taking the YTD net selling position to USD 197.3 mn.

The market is currently trading at a price to earnings ratio (P/E) of 6.7x, 46.9% below the historical average of 12.6x, and a dividend yield of 5.5%, 1.4% 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;

**Cytonn Report: NASI P/E**



Month	P/E Ratio (x)
Apr-14	14.0x
Aug-14	15.0x
Dec-14	16.0x
Apr-15	15.0x
Aug-15	14.0x
Dec-15	12.0x
Apr-16	13.0x
Aug-16	12.0x
Dec-16	10.0x
Apr-17	11.0x
Aug-17	12.0x
Dec-17	13.0x
Apr-18	15.0x
Aug-18	12.0x
Dec-18	11.0x
Apr-19	12.0x
Aug-19	11.0x
Dec-19	10.0x
Apr-20	8.0x
Aug-20	7.0x
Dec-20	11.0x
Apr-21	14.0x
Aug-21	12.0x
Dec-21	10.0x
Apr-22	7.0x
Aug-22	6.7x
Dec-22	6.7x



## Weekly Highlights:

### I. KCB Group completes acquisition of Trust Merchant Bank (TMB)

During the week, KCB Group **announced** that it had completed acquisition of the 85.0% stake in Trust Merchant Bank (TMB), after receiving all the regulatory approvals. This comes after KCB Group entered into a **definitive agreement** with the shareholders of TMB in August 2022 to acquire 85.0% of the shares in the Democratic Republic of Congo (DRC)- based lender, with an option to acquire the remaining stake after two years. This acquisition makes KCB Group the second Kenyan banking group to enter the DRC banking market after Equity Group Holdings, with KCB Group now having its presence in seven countries. For this acquisition, KCB Group has not disclosed the actual value of the deal but as highlighted in our **Cyttonn Weekly 31/2022**, KCB Group had cited that they would pay a cash consideration based on the net asset value of TMB at completion of the proposed transaction using a Price to Book (P/B) multiple of 1.5x. As such, we estimate that KCB made a payment of around Kshs 15.7 bn at the trading multiple of 1.5x given TMB's **book value** of FC 208.4 bn (Kshs 12.4 bn) as of 2020. Notably, the P/B multiple is higher than the 9-year acquisitions average P/B of 1.3x as well as the current average P/B of the listed banking stocks of 0.8x. The acquisition has seen KCB Group take over 109 branches from TMB, taking its total branch network to 607, from the current 498 branches, and take its total assets to more than Kshs 1.5 tn.

TMB's balance sheet recorded expansion with total assets growing at a 4-year CAGR of 35.7% to Kshs 139.7 bn in 2020, from Kshs 41.2 bn in 2016. However, the Bank's profitability declined significantly by 92.3% to Kshs 0.1 bn in 2020, from Kshs 1.4 bn in 2019, mainly due to the COVID-19 pandemic and its related impacts on the cost of risk. Consequently, Return on Equity (ROE) and Return on Assets (ROA) declined to 0.9% and 0.1% in 2020, from 13.6% and 1.3% in 2019, respectively. In light of the recent TMB's performance, we expect this acquisition to provide an opportunity for KCB Group to extend its expertise, experience and prudence in management to help unlock the potential that TMB holds. TMB recorded a cost to income ratio of 76.0% in 2020 and could largely benefit from the larger group's management quality, with KCB Group's Cost to income ratio coming in at 53.0% in Q3'2022, a 2.2% improvement from 55.2% in Q3'2021. Additionally, we expect to see growing linkages between customers in the region as well as improved operational efficiencies which will deliver tangible value to shareholders.

The table below shows a summary of TMB's performance and Key financial ratios;

## Cytonn Report: Trust Merchant Bank (TMB) Performance and Ratios

	2016	2017	2018	2019	2020
Total Assets ( Kshs bn)	41.2	61.1	88.1	105.2	139.7
Net Profit (Kshs bn)	0.04	0.7	1.2	1.4	0.1
Cost to Income Ratio	88.6%	70.9%	68.2%	72.0%	76.0%
Return on Equity (ROE)	0.9%	10.2%	14.5%	13.6%	0.9%
Return on Assets (ROA)	0.1%	1.2%	1.4%	1.3%	0.1%

Source: TMB Bank Financial Report 2020

In our view, we expect the completed acquisition to positively contribute towards the Group's regional presence and participation and thus provide income diversification from a geographical perspective. Notably, the Group recorded a 20.9% increase in Profit Before Tax (PBT) to Kshs 43.3 bn in Q3'2022, from Kshs 35.8 bn recorded in Q3'2021, with subsidiaries outside KCB Bank Kenya contributing 16.3% to the PBT during the period, up from 15.2% during similar period in 2021. As such, the acquisition presents an opportunity for increased profitability as the Group expects the bank to help drive business growth in the future. Additionally, we expect KCB Group to take advantage of TMB's insurance subsidiary-Afrissur SA in diversifying its offerings in DRC's insurance sector with the country having one of the lowest insurance penetration in African at a paltry 1.0%. Further, we expect this to contribute to KCB's distribution networks and market share as well as accelerate its growth, given the low banking penetration which was estimated to be around 6.0% in 2019 as compared to 29.6% bank account holding in Kenya, in a similar period.

Below is a summary of the deals in the last 9 years that have either happened, been announced or expected to be concluded:

### Cytonn Report: Banking sector Deals and Acquisitions

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
KCB Group PLC	Trust Merchant Bank (TMB)	12.4	85.0%	15.7	1.5x	Dec-22
Equity Group	Spire Bank	Unknown	Undisclosed	Undisclosed	N/A	Sep-22*
Access Bank PLC (Nigeria)	Sidian Bank	4.9	83.4%	4.3	1.1x	June-22*
KCB Group	Banque Populaire du Rwanda	5.3	100.0%	5.6	1.1x	August-21
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.0%	3.6	1.1x	April-21
KCB Group**	ABC Tanzania	Unknown	100%	0.8	0.4x	Nov-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.0%	1	0.3x	Aug-20

## Cytonn Report: Banking sector Deals and Acquisitions

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/By Multiple	Date
Commercial International Bank	Mayfair Bank Limited	1.0	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	7.0	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	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	3.0	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
<b>Average</b>			<b>74.5%</b>		<b>1.3x</b>	
* Announcement Date						
** Deals that were dropped						

Universe of coverage:

Company	Price as at 09/12/2022	Price as at 16/12/2022	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	200.0	200.0	0.0%	(36.9%)	305.9	0.5%	53.5%	0.4x	Buy
KCB Group***	36.9	37.3	0.9%	(18.2%)	52.5	2.7%	43.6%	0.6x	Buy
Britam	5.0	5.0	0.0%	(33.9%)	7.1	0.0%	42.4%	0.8x	Buy
Kenya Reinsurance	1.9	1.9	(1.6%)	(18.8%)	2.5	5.4%	40.3%	0.1x	Buy
Co-op Bank***	12.1	12.0	(0.8%)	(7.7%)	15.5	8.3%	37.3%	0.7x	Buy
Equity Group***	45.0	45.5	1.1%	(13.7%)	58.4	6.6%	34.8%	1.1x	Buy
I&M Group***	16.8	17.1	2.1%	(20.1%)	20.8	8.8%	30.5%	0.4x	Buy
ABSA Bank***	12.0	12.2	1.3%	3.4%	15.5	1.6%	28.8%	1.0x	Buy
Stanbic Holdings	92.0	92.8	0.8%	6.6%	108.6	9.7%	26.8%	0.8x	Buy
NCBA***	35.1	36.1	2.8%	41.8%	43.4	5.5%	25.7%	0.8x	Buy
Sanlam	8.9	9.6	7.9%	(16.9%)	11.9	0.0%	24.1%	1.0x	Buy
Diamond Trust Bank***	48.3	48.5	0.4%	(18.5%)	57.1	6.2%	24.0%	0.2x	Buy
Standard Chartered***	146.0	139.0	(4.8%)	6.9%	164.8	4.3%	22.9%	0.9x	Buy
Liberty Holdings	4.5	5.7	27.1%	(19.5%)	6.8	0.0%	18.8%	0.4x	Accumulate
CIC Group	1.9	2.0	1.0%	(9.7%)	2.3	0.0%	18.4%	0.7x	Accumulate
HF Group	3.1	3.2	1.6%	(16.1%)	3.5	0.0%	11.0%	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.*

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