Kenya Economic Update: 2023, & Cytonn Weekly #10/2023

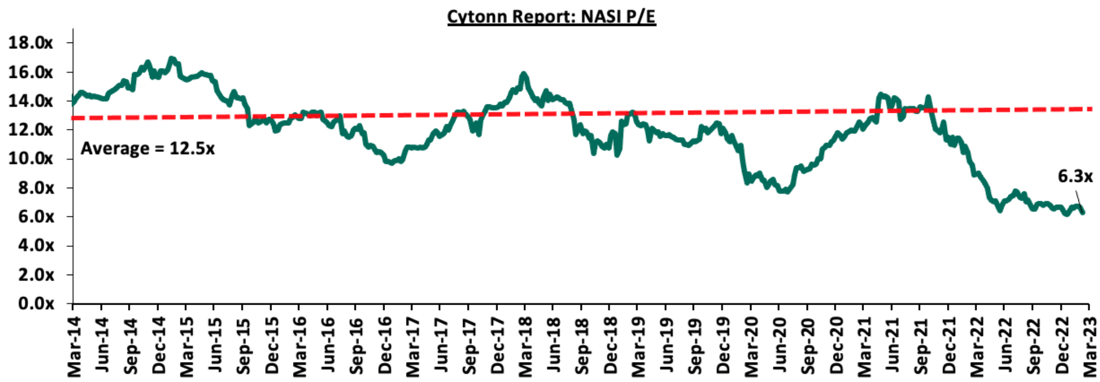
Equities

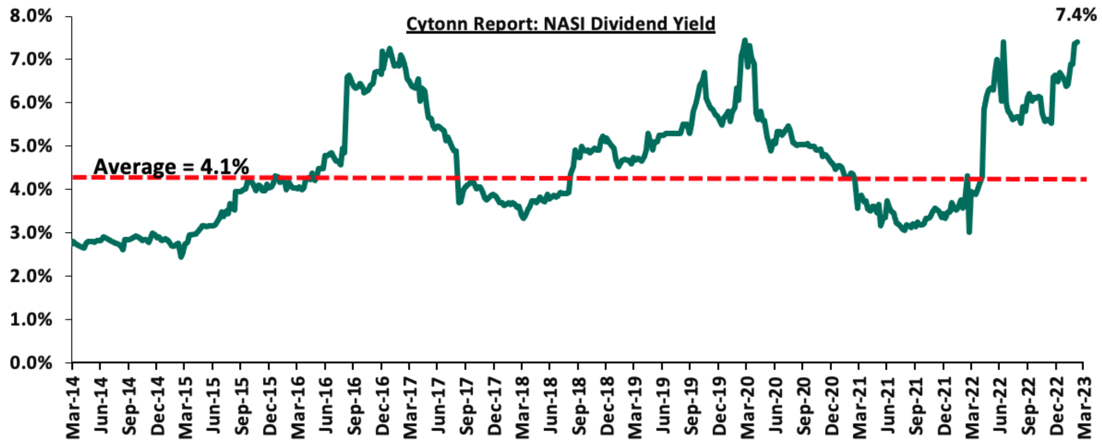
Market Performance:

During the week, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 6.6%, 1.6% and 4.3%, respectively, taking the YTD performance to losses of 7.4%, 4.0%, and 4.5% for NASI, NSE 20, and NSE 25, respectively. The downward trajectory of the Kenyan equities market was mainly attributable to capital flight as foreign investors moved to developed markets with the Fed expected to further hike their interest. Additionally, the equities market performance during the week was mainly driven by losses recorded by large cap stocks such as Safaricom, Equity Group, EABL and KCB Group of 12.2%, 4.8%, 3.1% and 2.3%, respectively. The losses were however mitigated by gains recorded by other large cap stocks such as Standard Chartered Bank of Kenya (SCBK), Bamburi and ABSA Bank of 2.6% and 1.8% and 1.2%, respectively.

During the week, equities turnover increased by 49.8% to USD 11.8 mn from USD 7.9 mn recorded the previous week taking the YTD turnover to USD 115.6 mn. Foreign investors turned net sellers, with a net selling position of USD 2.9 mn, from a net buying position of USD 0.8 mn recorded the previous week, taking the YTD net selling position to USD 28.0 mn.

The market is currently trading at a price to earnings ratio (P/E) of 6.3x, 49.7% below the historical average of 12.5x, and a dividend yield of 7.4%, 3.3% points above the historical average of 4.1%. Key to note, NASI's PEG ratio currently stands at 0.8x, 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 highlight

I. **Earnings Release**

During the week, Stanbic Holdings released their FY'2022 financial results. Below is a summary of the performance;

Balance Sheet	FY'2021	FY'2022	y/y change
Net Loans and Advances	229.3	266.8	16.4%
Government Securities	40.6	58.0	42.9%
Total Assets	**328.9**	**399.8**	**21.6%**
Customer Deposits	254.6	304.3	19.5%
Deposits Per Branch	9.8	10.1	3.6%
Total Liabilities	**272.4**	**337.6**	**23.9%**
Shareholders' Funds	**56.5**	**62.2**	**10.2%**

Key Ratios	FY'2021	FY'2022	% point change
Loan to Deposit ratio	90.1%	87.7%	(2.4%)
Return on average equity	13.3%	15.3%	2.0%
Return on average assets	2.2%	2.5%	0.3%

Income Statement	FY'2021	FY'2022	y/y change
Net interest Income	14.4	18.9	31.8%
Net non-interest income	10.6	13.1	23.7%
Total Operating income	**25.0**	**32.1**	**28.4%**
Loan loss provision	(2.5)	(4.9)	95.9%
Total Operating expenses	**(15.2)**	**(19.9)**	**30.7%**
Profit before tax	9.8	12.2	24.8%
Profit after tax	**7.2**	**9.1**	**25.7%**
Core EPS	**18.2**	**22.9**	**25.7%**

Income Statement Ratios	FY'2021	FY'2022	y/y change
Yield from interest-earning assets	7.0%	8.0%	1.0%
Cost of funding	2.4%	2.5%	0.1%
Net Interest Margin	5.0%	5.9%	0.9%
Net Interest Income as % of operating income	57.5%	59.1%	1.6%
Non-Funded Income as a % of operating income	42.5%	40.9%	(1.6%)
Cost to Income Ratio	61.0%	62.1%	1.1%
CIR without LLP	50.9%	46.7%	(4.2%)
Cost to Assets	3.9%	3.7%	(0.2%)

Capital Adequacy Ratios	FY'2021	FY'2022	% points change
Core Capital/Total Liabilities	18.2%	16.5%	(1.7%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**10.2%**	**8.5%**	**(1.7%)**
Core Capital/Total Risk Weighted Assets	15.3%	13.8%	(1.5%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**4.8%**	**3.3%**	**(1.5%)**
Total Capital/Total Risk Weighted Assets	17.3%	16.8%	(0.5%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**2.8%**	**2.3%**	**(0.5%)**
Liquidity Ratio	47.9%	45.2%	(2.7%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**27.9%**	**25.2%**	**(2.7%)**
Adjusted Core Capital/Total Deposit Liabilities	**18.3%**	**16.5%**	**(1.8%)**
Adjusted Core Capital/Total Risk Weighted Assets	**15.4%**	**13.8%**	**(1.6%)**
Adjusted Total Capital/Total Risk Weighted Assets	**17.3%**	**16.8%**	**(0.5%)**

Key take-outs from the earnings release include:

Earnings growth: Core earnings per share rose by 25.7% to Kshs 22.9, from Kshs 18.2 in FY’2021, lower than our projected growth to Kshs 25.8 in FY’2022, with the variance brought on by the lenders’ increased loan loss provision to Kshs 4.9 bn from Kshs 2.5 bn in FY’2021 which is in contrast to our projection of a 16.1% increase to Kshs 2.9 bn. The lender disclosed that its decision to significantly increase its loan loss provision is mainly due to elevated credit risk as a result of challenging economic environment which might impair loan repayments by its customers. The lender’s overall performance was driven by the 28.4% growth in total operating income to Kshs 32.1 bn, from Kshs 25.0 bn in FY’2021. However, it was weighed down by a 30.7% growth in total operating expenses to Kshs 19.9 bn, from Kshs 15.2 bn in FY’2021

Increased Provisioning: The Bank’s provisions increased by 38.9% to Kshs 12.2 bn from Kshs 8.8

bn recorded in FY’2021, mainly on the back of high credit risk brought on by deteriorated business environment, which necessitated increased provisioning to cover for the anticipated losses in the future. The high credit risk is further evidenced by the 26.4% increase in bank’s gross non-performing loans to Kshs 28.4 bn in FY’2022, from Kshs 22.5 bn recorded in FY’2021. Consequently, the NPL coverage increased to 63.1%, from 58.1% recorded in FY’2021, and,

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

Asset Quality

The table below is a summary of the listed banks that have released their FY’2022 results:

	FY'2022 NPL Ratio*	FY'2021 NPL Ratio**	% point change in NPL Ratio	FY'2022 NPL Coverage*	FY'2021 NPL Coverage**	% point change in NPL Coverage
Stanbic Holdings	10.0%	9.3%	0.7%	63.1%	58.1%	5.0%
Mkt Weighted Average	**10.0%**	**12.3%**	**(2.3%)**	**63.1%**	**65.5%**	**(2.4%)**

***Market cap weighted as at 10/03/2023**

****Market cap weighted as at 14/04/2022**

Key take-outs from the table include;

i. Asset quality for the listed banks improved as evidenced by a 2.3% points decline in market weighted average NPL ratio to 10.0%, from a 12.3% in FY’2021. The listed banks’ asset quality was however skewed by deterioration in Stanbic holdings’ asset quality with its NPL ratio increasing by 0.7% points to 10.0% from 9.3% in FY’2021, and,
ii. Market weighted average NPL Coverage for the listed banks declined by 2.4% points to 63.1% in FY’2022, from 65.5% recorded in FY’2021. However, Stanbic Holdings’ NPL coverage increased by 5.0% points to 63.1% in FY’2022 from 58.1% in FY’2021 as the lender increased its provisioning due to credit impairment on some of its issued loans.

Summary performance

The table below highlights the performance listed banks, showing the performance using several metrics:

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	25.7%	31.8%	15.2%	31.8%	5.9%	23.7%	40.9%	(0.5%)	19.5%	42.9%	87.8%	16.4%	15.3%
FY'22 Mkt Weighted Average*	**25.7%**	**31.8%**	**15.2%**	**31.8%**	**5.9%**	**23.7%**	**40.9%**	**(0.5%)**	**19.5%**	**42.9%**	**87.8%**	**16.4%**	**15.3%**
FY'21 Mkt Weighted Average**	**82.9%**	**13.8%**	**11.5%**	**15.2%**	**7.1%**	**10.9%**	**34.7%**	**16.6%**	**13.5%**	**18.1%**	**69.7%**	**13.5%**	**20.2%**

***Market cap weighted as at 10/03/2023**

****Market cap weighted as at 14/04/2022**

Key take-outs from the table include;

i. Stanbic Holdings recorded a 25.7% growth in core Earnings per Share (EPS) in FY’2022, compared to the listed banking sector’s market weighted average growth of 82.9% in FY’2021,
ii. The Banks’ Interest income grew by 31.8% compared to the market weighted average growth of 13.8% in FY’2021, while Non-Funded Income grew by 23.7% compared to market weighted average growth of 10.9% in FY’2021,
iii. The Bank recorded a deposit growth of 19.5%, higher than the market weighted average deposit

growth of 13.5% in FY’2021, highlighting increased investment risk in the business environment, and,

iv. Stanbic Holdings loan book grew by 16.4% in FY’2022 compared to market weighted average growth of 13.5% in FY’2021, taking its loan to deposit ratio to 87.8% compared to a 69.7% market weighted average loan to deposit ratio in FY’2021.

Universe of coverage:

KenyaReinsurance

KCBGroup***

Britam

Sanlam

Equity Group***

Liberty Holdings

ABSABank***

Co-opBank***

I&M Group***

Diamond Trust Bank***

CIC Group

Standard Chartered***

HF Group

*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

****FY'2021 Total dividends excluding (Stanbic Holdings updated with FY2022 Dividend)

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 0.8x), 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 equities 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