National Housing Development Fund (NHDF), & Cytonn Weekly #19/2023

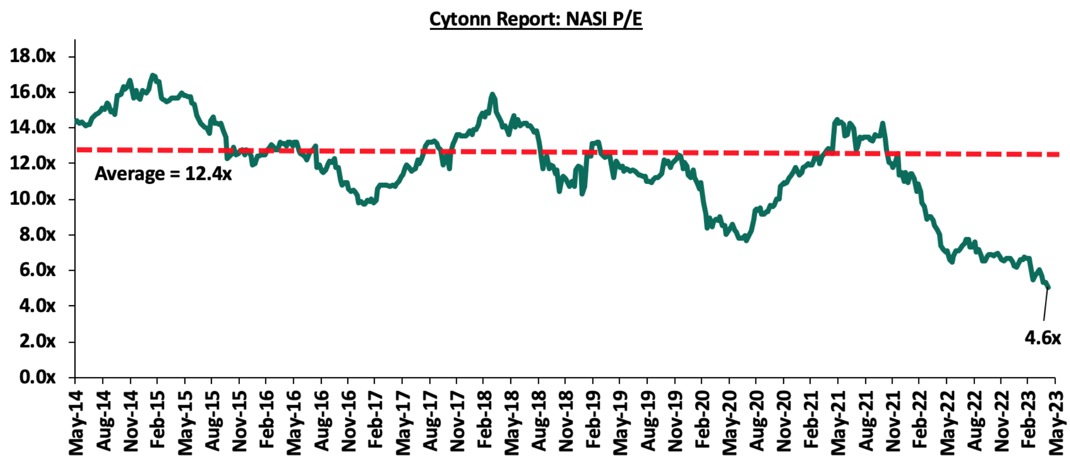
Equities

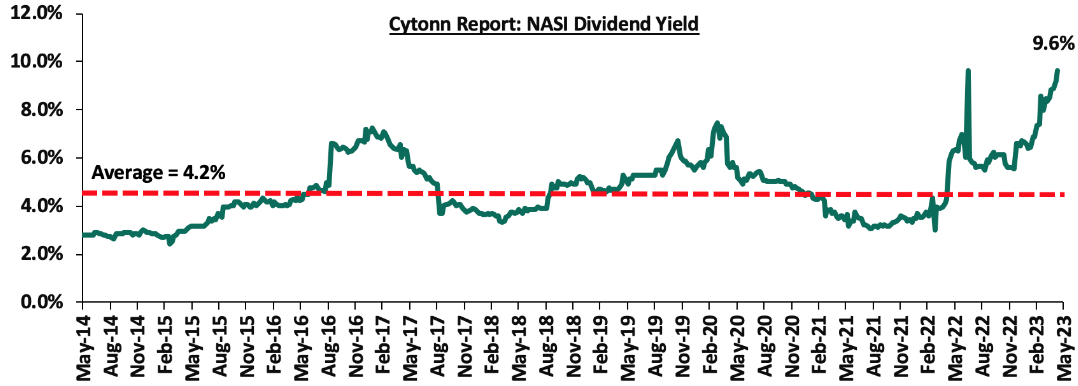
Market Performance:

During the week, the equities market was on a downward trajectory with NASI, NSE 20 and NSE 25 declining by 9.2%, 4.1% and 8.0%, respectively, taking the YTD performance to losses of 26.5%, 12.1% and 20.2% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large cap stocks such as Safaricom of 15.9%, as well as banking stocks such as Equity Group, KCB Group and Co-operative Bank of 10.4%, 9.8% and 6.3%, respectively. The losses were however mitigated by gains recorded by stock such as Bamburi and ABSA Bank of 3.2% and 1.0%, respectively.

During the week, equities turnover increased by 56.9% to USD 10.3 mn, from USD 6.6 mn, recorded the previous week, taking the YTD turnover to USD 396.7 mn. Foreign investors remained net sellers for a fourth consecutive week, with a net selling position of USD 3.5 mn, from a net selling position of USD 2.7 mn recorded the previous week, taking the YTD net selling position to USD 49.3 mn.

The market is currently trading at a price to earnings ratio (P/E) of 4.6x, 62.9% below the historical average of 12.4x. The dividend yield stands at 9.6%, 5.4% points above the historical average of 4.2%. Key to note, NASI's PEG ratio currently stands at 0.6x, an indication that the market is undervalued relative to its future growth. A PEG ratio greater than 1.0x indicates the market is 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. **Safaricom Plc FY'2023 Financial Performance**

During the week, Safaricom Plc released its FY'2023 financial performance for the year ended 31 March 2023, highlighting that profit after tax declined by 22.2% to Kshs 52.5 bn in FY'2023, from Kshs 67.5 bn in FY'2022, mainly attributable to a 34.2% increase in operating expenses to Kshs 74.1 bn in FY'2023, up from Kshs 55.2 bn in FY'2022. The increase in operating expenses was mainly driven by injection of Kshs 55.8 bn capital investment expenditure into Safaricom's subsidiary in Ethiopia during the fourth quarter of FY'2023.The tables below shows the breakdown of the group's financial statements from the report;

Cytonn Report: Safaricom Plc Summarized Income Statement

Income Statement	**FY'2022 Kshs (bn)**	**FY'2023 Kshs (bn)**	**Y/Y Change**
Total Revenue	298.1	310.9	4.3%
Operating Expenses	(55.2)	(74.1)	34.2%
EBITDA	**149.1**	**139.9**	**(6.2%)**
Depreciation &Amortization	(39.9)	(54.9)	37.4%
Net Finance and other costs	(6.4)	(7.1)	10.1%
Profit before income tax	**102.2**	**88.3**	**(13.6%)**
Income Tax Expenses	(34.7)	(35.9)	3.3%
Profit After Tax	**67.5**	**52.5**	**(22.2%)**
Dividend Per Share	**1.4**	**1.2**	**(13.7%)**
Earnings Per Share	**1.7**	**1.6**	**(10.9%)**

Source: Safaricom FY'2023 Financial Statements

Cytonn Report: Safaricom Plc Summarized Balance Sheet

Balance Sheet	**FY'2022 Kshs (bn)**	**FY'2023 Kshs (bn)**	**Y/Y Change**
Current Assets	65.3	72.4	11.0%
Non-Current Assets	281.5	436.8	55.1%
Total Assets	**346.8**	**509.2**	**46.8%**

Cytonn Report: Safaricom Plc Summarized Balance Sheet

Balance Sheet	FY'2022 Kshs (bn)	FY'2023 Kshs (bn)	Y/Y Change
Current Liabilities	98.2	140.4	43.0%
Non-Current Liabilities	68.9	105.5	53.0%
Total Liabilities	**167.1**	**245.8**	**47.1%**
Total Equity	**179.7**	**263.4**	**46.6%**

Source: Safaricom FY'2023 Financial Statements

Key take outs from the report include;

i. Total revenue increased by 4.2% to Kshs 310.9 bn in FY'2023 from Kshs 298.1 bn recorded in FY'2022. The increase in revenue was majorly driven by 5.2% growth in services revenue to Kshs 295.7 bn in FY'2023, from Kshs 281.1 bn recorded in FY'2022, coupled with a 42.7% increase in other incomes growths to Kshs 3.8 bn, from Kshs 2.6 bn recorded in FY'2022,
ii. The main revenue stream, MPESA revenue grew by 8.8% to Kshs 117.2 bn, from Kshs 107.7 bn in FY'2022 despite the slowdown in business activity due to adverse macroeconomic environment of the country in the financial year 2023. Similarly, mobile data revenue and fixed service and wholesale transit revenue increased by 10.6% and 20.1% to Kshs 53.6 bn and Kshs 13.5 bn in FY'2023, from Kshs 48.4 bn and 11.2 bn, respectively, recorded in FY'2022,
iii. Earnings Before interest, taxes, depreciation & amortization (EBITDA) declined by 6.2% to Kshs 139.9 bn from Kshs 149.1 bn recorded in FY'2022, largely attributable to 34.2% increase in operating expenses to Kshs 74.1 bn from Kshs 55.2 bn recorded in FY'2022, and,
iv. Net finance and other cost recorded a y/y increase of 10.1% to Kshs 7.1 bn from Kshs 6.4 bn recorded in FY'2022.

Safaricom has continued to exhibit declining performance for a third consecutive financial year, evidenced by declines in both its Earnings per share (EPS) and dividend per share (DPS) of 10.7% and 13.7% to Kshs 1.6 and Kshs 1.2, from Kshs 1.7 and Kshs 1.4, respectively, recorded at the end of FY'2022. The declining performance is attributable to the adverse business environment worsened by the high inflation rate averaging at 8.3% during the period under review and the impacts of persistent geopolitical tensions as well as uncertainties that surrounded the 2022 general election. Additionally, on year to date basis, Safaricom's counter has lost 44.9% of its share value, adding to the 36.7% value loss recorded in 2022. The loss is mainly attributable to increased sell off by foreign investors as they exited the market due to continued hike of interest rates in developed economies such as United States making dollar investments more appealing and thus lowering their appetite for risky investments in emerging markets such as Kenya. Despite the decline in performance, Safaricom continues to remain a strong long-term proposition, owing to its 65.7% of overall Kenya's market share and over 97.0% market share in mobile money subscribers. Additionally, we expect that the introduction of mobile money services in Ethiopia's subsidiary will significantly gain traction and boost the Group's performance by increasing service revenue, given that mobile money services constituted 39.7% of the total service revenue. However, the Group's performance is expected to be weighed down if proposed Finance Bill 2023 is passed. This is because the mobile service provider will have to incur additional costs as the bill proposes an increase in exercise duty on person-to-person (P2Ps) transfers to 15.0%, from the current 12.0%. This will act as a disincentive to subscribers as the increased costs will be passed on to them.

II. **Central Bank of Kenya Credit Survey Report Q1'2023**

The Central Bank of Kenya (CBK), recently released the Commercial Banking Sector Credit Survey

Report for the quarter ended March 2023. The CBK undertakes the quarterly credit survey to identify potential drivers of credit risk particularly in the banking sector, given that credit risk is the most significant factor affecting lending with the financial system. For the quarter ended 31 March 2023, 38 operating commercial banks and 1 mortgage finance company participated in the Commercial Banks Credit Officer Survey. The report highlighted that the banking sector's loan book recorded a 13.9% y/y growth, with gross loans increasing to Kshs 3.9 tn in Q1'2023, from Kshs 3.1 tn in Q1'2022. On a q/q basis, gross loans increased by 4.8% to Kshs 3.9 tn in Q1'2023, from Kshs 3.7 tn in Q4'2022. The increase in gross loans was largely witnessed in the Financial Services, Transport and Communication and Manufacturing sectors.

Other key take-outs from the report include:

i. Profit before Tax (PBT) recorded a y/y increase of 13.6% to Kshs 65.1 bn in Q1'2023, from Kshs 57.3 bn in Q1'2022. Similarly, on a q/q basis, PBT increased by Kshs 13.8% to Kshs 65.1 bn from Kshs 57.2 bn in Q4'2022, attributable to a decline in quarterly expenses by Kshs 5.2 bn, coupled with an increase in quarterly income by Kshs 2.7 bn,
ii. The aggregate balance sheet recorded a y/y increase of 11.0% to Kshs 6.8 tn in Q1'2023, from Kshs 6.1 tn in Q1'2022. The expansion in the balance sheet is attributable to an 8.1% increase in deposits to Kshs 4.8 tn in Q1'2023, from Kshs 4.5 tn in Q1'2022. On a q/q basis, the aggregate balance sheet recorded a 2.7% increase to Kshs 6.8 tn in Q1'2023, from Kshs 6.6 tn in Q4'2022,
iii. The asset quality remained unchanged, with Gross Non-Performing Loans (NPLs) ratio coming in at 14.0% in Q1'2023, similar to what was recorded in Q1'2022. However, on a q/q basis, the asset quality deteriorated by 0.7% points to 14.0% in Q1'2023, from 13.3% recorded in Q4'2022, attributable to 10.9% increase in gross NPLs, which outpaced a 4.8% increase in gross loans. The increase in gross NPLs is attributable to subdued economic activities in most sectors of the economy on the back of political unrests witnessed in the quarter under review. Additionally, the deterioration in the business environment evidenced by an Purchasing Manger's Index (PMI) averaging at 49.3 in Q1'2023, down from an average PMI of 50.9 recorded in Q4'2022, also contributed to the rise in gross non-performing loans,
iv. The Capital adequacy remained sufficient at 18.4%, 3.9% points above the minimum statutory of 14.5%. However, it was a decline of 0.5% points from 18.9% recorded in Q1'2022 and further 0.6% points decline from 19.0% recorded in Q4'2022,
v. The Return on Equity (ROE) increased to 27.0% in Q1'2023, from 25.1% in Q1'2022. Similarly, on a q/q basis, ROE increased by 1.4% points to 27.0% in Q1'2023, from 25.6% recorded in Q4'2022, attributable to the increase in the cumulative quarterly profit of the banking sector, and,
vi. Liquidity in the banking sector remained well above the minimum statutory of 20.0% despite declining to 49.9% in Q1'2023, from 55.0% in Q1'2022. Also on a q/q basis it marginally declined by 0.9% points to 49.9%, from 50.8% recorded in Q4'2022.

We expect to see cautious lending by banking sector mainly due to the elevated credit risks as evidenced by deterioration of asset quality with the NPL ratio increasing to 14.0%, up from 13.3% recorded in the previous quarter. Additionally, we expect credit uptake to be weighed down by high cost of borrowing as a result of high lending rates, currently at 12.7%, up from 12.2%, occasioned by the tightened monetary policy stance. Further, we expect most sectors in the economy to be adversely impacted by the subdued consumer demand due to high commodity prices on the back of the high inflation at 7.9% in April 2023, thus elevating the risk of loan defaults. However, the banking sector remains well positioned, as the high lending rates are expected to increase their earnings.

III. **Earnings Release**

Stanbic Holdings Q1'2023 Financial Performance

During the week, Stanbic Holdings released their Q1'2023 financial results. Below is a summary of the performance:

Balance Sheet	**Q1'2022**	**Q1'2023**	**y/y change**
Net Loans and Advances	206.5	230.3	11.5%
Government Securities	45.5	49.9	9.7%
Total Assets	**331.0**	**391.6**	**18.3%**
Customer Deposits	**235.1**	**291.0**	**23.8%**
Deposits Per Branch	**9.0**	**9.7**	**7.3%**
Total Liabilities	**282.5**	**335.5**	**18.8%**
Shareholders' Funds	**48.6**	**56.1**	**15.5%**

Key Ratios	**Q1'2022**	**Q1'2023**	**% point change**
Loan to Deposit ratio	87.8%	79.1%	(8.7%)
Return on average equity	16.2%	20.7%	4.5%
Return on average assets	2.3%	3.0%	0.7%

Income Statement	**Q1'2022**	**Q1'2023**	**y/y change**
Net interest Income	3.7	5.4	44.7%
Net non-interest income	3.0	5.7	89.3%
Total Operating income	**6.8**	**11.2**	**64.7%**
Loan loss provision	(0.5)	(1.1)	132.9%
Total Operating expenses	**(3.8)**	**(5.7)**	**47.0%**
Profit before tax	2.9	5.5	87.8%
Profit after tax	**2.1**	**3.9**	**84.3%**
Core EPS	**5.3**	**9.8**	**84.3%**

Income Statement Ratios	**Q1'2022**	**Q1'2023**	**% point change**
Yield from interest-earning assets	2.2%	2.8%	0.6%
Cost of funding	2.4%	2.8%	0.4%
Net Interest Margin	6.3%	7.2%	0.9%
Net Interest Income as % of operating income	55.3%	48.6%	(6.7%)
Non-Funded Income as a % of operating income	44.7%	51.4%	6.7%

Income Statement Ratios	**Q1’2022**	**Q1’2023**	**% point change**
Cost to Income Ratio	56.8%	50.7%	(6.1%)
CIR without LLP	49.6%	40.5%	(9.1%)
Cost to Assets	1.0%	1.2%	0.2%

Capital Adequacy Ratios	**Q1’2022**	**Q1’2023**	**% points change**
Core Capital/Total Liabilities	18.2%	16.9%	(1.3%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	**10.2%**	**8.9%**	**(1.3%)**
Core Capital/Total Risk Weighted Assets	14.4%	14.6%	0.2%
Minimum Statutory ratio	10.5%	10.5%	
Excess	**3.9%**	**4.1%**	**0.2%**
Total Capital/Total Risk Weighted Assets	16.3%	17.8%	1.5%
Minimum Statutory ratio	14.5%	14.5%	
Excess	**1.8%**	**3.3%**	**1.5%**
Liquidity Ratio	40.0%	45.6%	5.6%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**20.0%**	**25.6%**	**5.6%**
Adjusted Core Capital/Total Deposit Liabilities	**18.2%**	**16.9%**	**(1.3%)**
Adjusted Core Capital/Total Risk Weighted Assets	**14.4%**	**14.6%**	**0.2%**
Adjusted Total Capital/Total Risk Weighted Assets	**16.3%**	**17.8%**	**1.5%**

Key Take outs

Earnings Growth- Core earnings per share rose by 84.3% to Kshs 9.8, from Kshs 5.3 in Q1’2022, lower than our projected growth to Kshs 8.5 in Q1’2023, with the variance stemming from the lenders’ increased loan loss provision by 132.9% to Kshs 1.1 bn, from Kshs 0.5 bn in Q1’2022 which is in contrast to our projection of a 32.3% increase to Kshs 0.6 bn. The lender’s overall performance was driven by the 64.7% growth in total operating income to Kshs 11.2 bn, from Kshs 6.8 bn in Q1’2022. However, the performance was weighed down by a 47.0% growth in total operating expenses to Kshs 5.7 bn, from Kshs 3.8 bn in Q1’2022,

Increased Provisioning – On the back of high credit risk occasioned by the deteriorated business environment, the bank increased its provisions holdings to cover for the anticipated losses in the future, with its provisions increasing by 132.9% to Kshs 1.1 bn from Kshs 0.5 bn recorded in Q1’2022. The high credit risk is further evidenced by the 19.3% increase in bank’s gross non-performing loans to Kshs 29.3 bn in Q1’2023, from Kshs 24.6 bn recorded in Q1’2022. Consequently, the NPL coverage increased to 66.7%, from 59.1% recorded in Q1’2022, and,

Revenue diversification – Stanbic Bank’s non-funded income (NFI) increased by 89.3% to Kshs 5.7 bn, from Kshs 3.0 bn in Q1’2022, mainly driven by a 147.7% increase in the foreign exchange trading income to Kshs 4.3 bn, from Kshs 1.7 bn in Q1'2022, highlighting the group's increased foreign exchange margins. Notably, the revenue mix shifted to 49:51 from 55:45 for the funded to Non-funded income owing to the 89.3% growth in Non-Funded Income which outpaced 44.7% growth in the Net Interest Income, indicating increased revenue diversification efforts by the Lender.

For a comprehensive analysis, please see our Stanbic Holdings Q1'2023 Earnings Note

Asset Quality

The table below is a summary of the listed banks that have released their Q1'2023 results:

	Q1'2023 NPL Ratio*	Q1'2022 NPL Ratio**	% point change in NPL Ratio	Q1'2023 NPL Coverage*	Q1'2022 NPL Coverage**	% point change in NPL Coverage
Stanbic Bank	11.7%	11.1%	0.6%	66.7%	59.1%	7.6%
Mkt Weighted Average	**11.7%**	**12.5%**	**(0.8%)**	**66.7%**	**65.1%**	**1.6%**

***Market cap weighted as at 12/05/2023**

****Market cap weighted as at 17/06/2022**

Key take-outs from the table include;

i. Asset quality for the listed banks that have released improved during the Q1'2023, with market weighted average NPL declining by 0.8% points to 11.7%, from a 12.5% in Q1'2022. The improvement was despite the fact that Stanbic Holding's asset quality declined by 0.6% points to 11.7%, up from 11.1% in Q1'2022, and,
ii. Market weighted average NPL Coverage for the listed banks increased by 1.6% points to 66.7% in Q1'2023, from 65.1% recorded in Q1'2022, attributable to a 7.6% points increase in Stanbic Holding's NPL coverage to 66.7%, from 59.1% in Q1'2022.

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 Holdings	84.3%	49.1%	59.7%	44.7%	7.2%	89.3%	51.4%	17.7%	23.8%	9.7%	79.1%	11.5%	20.7%
Q1'23 Mkt Weighted Average*	**84.3%**	**49.1%**	**59.7%**	**44.7%**	**7.2%**	**89.3%**	**51.4%**	**17.7%**	**23.8%**	**9.7%**	**79.1%**	**11.5%**	**20.7%**
Q1'22 Mkt Weighted Average**	**37.9%**	**17.8%**	**17.1%**	**17.7%**	**7.3%**	**21.4%**	**35.9%**	**21.7%**	**9.5%**	**17.6%**	**73.9%**	**17.2%**	**21.9%**

***Market cap weighted as at 12/05/2023**

****Market cap weighted as at 17/06/2022**

Key take-outs from the table include;

i. The listed banks recorded an 84.3% growth in core Earnings per Share (EPS) in Q1'2023, compared to the weighted average growth of 37.9% in Q1'2022, an indication of sustained performance despite the tough operating environment experienced in Q1'2023,
ii. Non-Funded Income grew by 89.3% compared to market weighted average growth of 21.4% in Q1'2022, an indication of increased revenue diversification efforts by the banks that have released their Q1'2023 financial results, and,
iii. The Banks recorded a deposit growth of 23.8%, higher than the market weighted average deposit growth of 9.5.5% in Q1'2022, highlighting increased investment risk in the country's business environment.

Universe of coverage:

Company	Price as at 05/05/2025	Price as at 12/05/2025	w/w change	YTD Change	Year Open 2023	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Liberty Holdings	4.2	3.7	(11.1%)	(26.8%)	5.0	6.8	0.0%	82.9%	**0.3x**	**Buy**
Jubilee Holdings	185.8	180.0	(3.1%)	(9.4%)	198.8	305.9	6.7%	76.6%	**0.3x**	**Buy**
Britam	4.2	4.1	(0.7%)	(20.8%)	5.2	7.1	0.0%	72.8%	**0.7x**	**Buy**
KCB Group* **	31.6	28.5	(9.8%)	(25.7%)	38.4	45.5	7.0%	66.7%	**0.4x**	**Buy**
NCBA* **	33.5	32.1	(4.2%)	(17.7%)	39.0	48.7	13.3%	65.3%	**0.6x**	**Buy**
ABSA Bank* **	10.1	10.2	1.0%	(16.4%)	12.2	15.1	13.2%	61.7%	**0.8x**	**Buy**
Standard Chartered* **	142.8	135.3	(5.3%)	(6.7%)	145.0	195.4	16.3%	60.7%	**0.9x**	**Buy**
I&M Group* **	16.9	17.0	0.6%	(0.6%)	17.1	24.5	13.3%	57.8%	**0.4x**	**Buy**
Kenya Reinsurance	1.8	1.8	0.6%	(2.7%)	1.9	2.5	11.0%	48.9%	**0.1x**	**Buy**
Equity Group* **	45.6	40.8	(10.4%)	(9.4%)	45.1	56.3	9.8%	47.9%	**0.8x**	**Buy**
Co-op Bank* **	12.8	12.0	(6.3%)	(0.8%)	12.1	15.9	12.5%	45.0%	**0.5x**	**Buy**
CIC Group	1.9	1.7	(6.5%)	(9.4%)	1.9	2.3	7.5%	41.6%	**0.6x**	**Buy**
Sanlam	8.6	8.6	0.0%	(10.2%)	9.6	11.9	0.0%	38.5%	**0.9x**	**Buy**
Diamond Trust Bank* **	53.8	50.8	(5.6%)	1.8%	49.9	64.6	9.9%	37.2%	**0.3x**	**Buy**
Stanbic Holdings	117.3	112.0	(4.5%)	9.8%	102.0	131.8	11.3%	28.9%	**0.7x**	**Buy**
HF Group	3.8	3.8	(0.3%)	19.4%	3.2	4.5	0.0%	18.4%	**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 0.6x), 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.

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