

# Off-Plan Real Estate, & Cytonn Weekly #21/2023

## Equities

### Market Performance:

During the week, the equities market recorded mixed performance with NASI and NSE 25 declining by 0.6% and 1.2% respectively, while NSE 20 gained by 1.4%, taking the YTD performance to losses of 23.1%, 11.2% and 19.0% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large cap stocks such as Co-operative bank, Equity Group, Diamond Trust Bank (DTB-K) and BAT of 6.9%, 3.9%, 2.2% and 1.8%, respectively. The losses were however mitigated by gains recorded by stock such as Bamburi, NCBA Group, Standard Chartered bank and ABSA bank of 9.2%, 6.1%, 4.1% and 3.8% respectively.

During the week, equities turnover declined by 14.8% to USD 10.2 mn, from USD 12.0 mn, recorded the previous week, taking the YTD turnover to USD 418.8 mn. Foreign investors remained net sellers with a net selling position of USD 1.7 mn, from a net selling position of USD 1.4 mn recorded the previous week, taking the YTD net selling position to USD 52.4 mn.

The market is currently trading at a price to earnings ratio (P/E) of 4.9x, 60.3% below the historical average of 12.4x. The dividend yield stands at 9.2%, 5.0% 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 Highlights:

#### I. Shorecap III, LP acquires 20.0% stake in Credit Bank Plc

During the week, Central Bank of Kenya (CBK) **announced** the acquisition of 20.0% stake of Credit Bank Plc by Shorecap III, LP a Private Equity fund registered under the laws of Mauritius, with Equator Capital Partners LLC as the managers of the fund. The acquisition will be effective 15 June 2023 and this comes after CBK's approval on 24 April 2023 and approval by the Cabinet Secretary for the National Treasury and Planning on 28 April 2023. Notably, the search for a potential investor by Credit Bank started in 2018 with the company having sought shareholder's authorization to enter into discussion with potential investors interested in buying its shares. The value of the deal was not disclosed by the CBK, however, Shorecap III, LP will take over 7,289,928 ordinary shares which constitute of 20.0% of the ordinary shares of the Bank. This move comes after Oikocredit acquired 22.8% stake of the lender in August 2019, after paying a cash consideration of Kshs 1.0 bn, with the transaction trading at price to book (P/B) multiple of 1.5x.

Credit Bank Plc currently has 17 branches with its balance sheet recording expansion as its total assets grew at a 5-year CAGR of 7.6% to Kshs 25.8 bn in 2022, from Kshs 17.9 bn in 2018. In FY'2022, the Bank's net loans came in at Kshs 17.45 bn, while Customer deposits was at Kshs 17.54 bn, translating to a loan to deposit ratio of 99.5%, reflecting the bank's current inability to amass deposits. Additionally, the Bank's profitability has declined significantly to a loss of Kshs 1.7 mn in 2022, from a profit of Kshs 0.1 bn in 2021, mainly due to 3.8% decline in total operating income coupled with the 14.4% increase in total operating expenses. Key capital ratios such as the Core capital to deposit liabilities ratio came in at 9.4% in FY'2022, only 1.4% points above the regulatory limit of 8.0%. The core capital to risk weighted assets came in at 7.4% in FY'2022, 3.1% points below the regulatory limit of 10.5%. Similarly, the Capital adequacy ratio came in at 14.9% in FY'2022, slightly above the regulatory requirement of 14.5%. The liquidity ratio came in 20.5%, only 0.5% points above the regulatory requirement of 20.0%. Further, other ratios have also been adverse, such as the asset quality, with the bank having Non-Performing loan (NPL) ratio of 27.4% in FY'2022, 14.1% points above the banking sector average of 13.3% during the same period. The table below summarizes Credit Bank's Performance and Key Financial Ratios;

### Cytonn report: Summary of Credit Bank Plc Financials

	FY'2018	FY'2019	FY'2020	FY'2021	FY'2022
<b>Balance Sheet Summary (Kshs bn)</b>					
Net Loans	13.0	15.2	15.6	15.5	17.5
<b>Total Assets</b>	<b>17.9</b>	<b>21.7</b>	<b>23.2</b>	<b>26</b>	<b>25.8</b>
Customer Deposits	13.1	16.8	17.6	20.4	17.5
<b>Total Liabilities</b>	<b>15.0</b>	<b>18.6</b>	<b>20.0</b>	<b>22.6</b>	<b>22.5</b>
Shareholders' Funds	2.9	3.0	3.2	3.4	3.3
<b>Income Statement Summary (Kshs mn)</b>					
Total Operating income	1,719.4	1,794.9	1,754.1	1,638.3	1,575.3
Total Operating expenses	1,376.5	1,492.0	1,736.0	1,423.9	1,629.3
<b>Profit After Tax (PAT)</b>	<b>248.5</b>	<b>393.8</b>	<b>92.1</b>	<b>138.1</b>	<b>(1.7)</b>
<b>Balance Sheet Ratios</b>					
Loan to Deposit	99.3%	90.6%	88.6%	75.9%	99.5%
ROaE	8.6%	13.4%	2.9%	4.2%	(0.1%)
ROaA	1.4%	2.0%	0.4%	0.6%	(0.01%)
<b>Income Statement Ratios:</b>					
Yield on Interest Earning Assets	1.8%	2.3%	0.5%	0.6%	(0.01%)
Net Interest Margin	6.6%	5.4%	5.6%	4.3%	3.6%
Cost to Income Ratio	73.0%	75.5%	82.6%	84.0%	92.9%
<b>Capital Adequacy Ratios:</b>					
Core Capital liabilities ratio	20.0%	16.9%	16.3%	8.2%	9.4%
Minimum Statutory requirement	8.0%	8.0%	8.0%	8.0%	8.0%
<b>Excess/Deficit</b>	<b>12.0%</b>	<b>8.9%</b>	<b>8.3%</b>	<b>0.2%</b>	<b>1.4%</b>
Core Capital risk weighted assets ratio	14.0%	14.1%	13.0%	7.9%	7.4%

### Cytonn report: Summary of Credit Bank Plc Financials

	FY'2018	FY'2019	FY'2020	FY'2021	FY'2022
Minimum Statutory requirement	10.5%	10.5%	10.5%	10.5%	10.5%
<b>Excess/Deficit</b>	<b>3.5%</b>	<b>3.6%</b>	<b>2.5%</b>	<b>(2.6%)</b>	<b>(3.1%)</b>
Total Capital risk weighted ratio	14.5%	15.0%	14.5%	15.8%	14.9%
Minimum Statutory requirement	14.5%	14.5%	14.5%	14.5%	14.5%
<b>Excess/Deficit</b>	<b>0.0%</b>	<b>0.5%</b>	<b>0.0%</b>	<b>1.3%</b>	<b>0.4%</b>
<b>Liquidity ratios:</b>					
Liquidity ratio	21.0%	26.0%	26.5%	39.4%	20.5%
Minimum Statutory requirement	20.0%	20.0%	20.0%	20.0%	20.0%
<b>Excess/Deficit</b>	<b>1.0%</b>	<b>6.0%</b>	<b>6.5%</b>	<b>19.4%</b>	<b>0.5%</b>
<b>Asset quality ratios:</b>					
Gross Non-Performing Loan Ratio	8.3%	10.1%	11.9%	27.2%	27.4%
NPL Coverage Ratio	36.8%	35.8%	65.4%	59.7%	63.1%

In light of the recent Credit Bank's performance, we expect the completed acquisition to boost the Bank's capital adequacy and liquidity ratios to above the minimum statutory requirements and positively impact the bank's operations. The acquisition is also a welcome move as it ensures that the bank's customer deposits are protected and will bring stability to the bank. Additionally, the completed transaction will enhance diversification and strengthen the resilience of the Kenyan banking sector. Going forward, we expect to see more acquisition and consolidation activities in the Kenya's banking sector as larger banks and other companies with sufficient capital base take over smaller and weaker banks.

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
Shorecap III	Credit Bank Plc	3.0	20.0%	Undisclosed	N/A	Jun-23
Premier Bank Limited	First Community Bank	2.8	62.5%	Undisclosed	N/A	Mar 27
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*

## 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
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
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

## 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
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**

## II. Earnings Releases

### a. KCB Group Plc

During the week, KCB Group Plc released their Q1'2023 financial results. Below is a summary of the performance:

Balance Sheet Items (Kshs bn)	Q1'2022	Q1'2023	y/y change
Net Loans and Advances	704.4	928.8	31.9%
Government Securities	240.6	252.1	4.8%
<b>Total Assets</b>	<b>1,166.9</b>	<b>1,630.6</b>	<b>39.7%</b>
Customer Deposits	845.8	1,196.6	41.5%
Deposit per Branch	1.7	2.0	15.6%
<b>Total Liabilities</b>	<b>983.2</b>	<b>1,415.8</b>	<b>44.0%</b>
<b>Shareholders' Funds</b>	<b>181.8</b>	<b>208.1</b>	<b>14.5%</b>

Balance Sheet Ratios	Q1'2022	Q1'2023	% y/y change
Loan to Deposit Ratio	83.3%	77.6%	(5.7%)
Return on average equity	22.9%	20.9%	(2.0%)
Return on average assets	3.5%	2.9%	(0.6%)

Income Statement (Kshs bn)	Q1'2022	Q1'2023	y/y change
Net Interest Income	19.7	22.1	11.8%
Net non-Interest Income	9.3	14.8	59.2%
<b>Total Operating income</b>	<b>29.0</b>	<b>36.9</b>	<b>26.9%</b>

<b>Income Statement (Kshs bn)</b>	<b>Q1'2022</b>	<b>Q1'2023</b>	<b>y/y change</b>
Loan Loss provision	(2.1)	(4.1)	98.4%
Total Operating expenses	(15.0)	(23.0)	53.3%
Profit before tax	14.0	13.9	(1.3%)
<b>Profit after tax</b>	<b>9.9</b>	<b>9.8</b>	<b>(1.0%)</b>
<b>Core EPS</b>	<b>3.07</b>	<b>3.0</b>	<b>(1.0%)</b>

<b>Income Statement Ratios</b>	<b>Q1'2022</b>	<b>Q1'2023</b>	<b>y/y change</b>
Yield from interest-earning assets	11.4%	10.2%	(1.2%)
Cost of funding	3.0%	3.2%	0.2%
Net Interest Spread	8.4%	7.1%	(1.3%)
Net Interest Margin	8.6%	7.3%	(1.3%)
Cost of Risk	7.1%	11.2%	4.1%
Net Interest Income as % of operating income	68.0%	59.9%	(8.1%)
Non-Funded Income as a % of operating income	32.0%	40.1%	8.1%
Cost to Income Ratio	51.7%	62.4%	10.7%

<b>Capital Adequacy Ratios</b>	<b>Q1'2022</b>	<b>Q1'2023</b>	<b>% points change</b>
Core Capital/Total Liabilities	19.7%	15.0%	(4.7%)
Minimum Statutory ratio	8.0%	8.0%	
<b>Excess</b>	<b>11.7%</b>	<b>7.0%</b>	<b>(4.7%)</b>
Core Capital/Total Risk Weighted Assets	19.2%	13.6%	(5.6%)
Minimum Statutory ratio	10.5%	10.5%	
<b>Excess</b>	<b>8.7%</b>	<b>3.1%</b>	<b>(5.6%)</b>
Total Capital/Total Risk Weighted Assets	22.8%	17.0%	(5.8%)
Minimum Statutory ratio	14.5%	14.5%	
<b>Excess</b>	<b>8.3%</b>	<b>2.5%</b>	<b>(5.8%)</b>
Liquidity Ratio	36.9%	43.7%	6.8%
Minimum Statutory ratio	20.0%	20.0%	
<b>Excess</b>	<b>16.9%</b>	43.7%	6.8%
Adjusted core capital/ total deposit liabilities	19.7%	15.0%	(4.7%)
Adjusted core capital/ total risk weighted assets	19.3%	13.6%	(5.7%)
Adjusted total capital/ total risk weighted assets	22.9%	17.0%	(5.9%)

**Key Take-Outs:**

**Decline in Earnings:** Core earnings per share declined by 0.1% to Kshs 3.03 from Kshs 3.07 in Q1'2022, mainly as a result of the 53.3% growth in total operating expense to Kshs 23.0 bn, from Kshs 15.0 bn in Q1'2022, which outpaced the 26.9% growth in total operating Income to Kshs 36.9 bn, from Kshs 29.0 bn in Q1'2022,

**Improved Lending** – The Group's loan book increased in Q1'2023 as seen by a significant 31.9% growth in loans to Kshs 928.8 bn from Kshs 704.4 bn in Q1'2022, mainly attributable to increased lending boosted by the recent acquisitions with the Group's Congo subsidiary, Trust Merchant Bank, contributing 6.8% of the loan book during the period under review,

**Revenue diversification** – The Group's Non-Funded income increased by 59.2% to Kshs 14.8 bn, from Kshs 9.3 bn in Q1'2022, which resulted to a shift in revenue mix to 60:40 from 68:32 funded to non-funded income. The increase was mainly attributable to a 38.0% increase in non-funded income from digital channels due to increased usage of internet banking, mobile banking and merchant POS terminal, coupled with 52.1% increase in Forex trading income to Kshs 2.6 bn, from Kshs 1.7 bn in Q1'2023, and,

**Increased Customer Deposit** – KCB customer deposit increased significantly hitting Kshs 1.2 tn mark for the first time. Customer deposits increased by 41.5% to Kshs 1,196.6 bn from Kshs 845.8 bn in Q1'2022 mainly attributable to the completion of the acquisition of TMB Bank and the organic growth in the existing business.

For a comprehensive analysis, please see our KCB Group Plc Q1'2023 Earnings Note

#### b. NCBA Group

During the week, NCBA Group Plc released their Q1'2023 financial results. Below is a summary of the performance:

<b>Balance Sheet (Kshs bn)</b>	<b>Q1'2022</b>	<b>Q1'2023</b>	<b>y/y change</b>
Net Loans and Advances	243.9	287.2	17.7%
Government Securities	194.7	207.1	6.4%
<b>Total Assets</b>	<b>587.4</b>	<b>628.8</b>	<b>7.1%</b>
Customer Deposits	465.5	499.7	7.3%
Deposits Per Branch	4.5	5.8	<b>7.3%</b>
<b>Total Liabilities</b>	<b>507.1</b>	<b>540.9</b>	<b>6.7%</b>
<b>Shareholders' Funds</b>	<b>80.2</b>	<b>87.9</b>	<b>9.6%</b>

<b>Key Ratios</b>	<b>Q1'2022</b>	<b>Q1'2023</b>	<b>% point change</b>
Loan to Deposit Ratio	52.4%	57.5%	5.1%
Government Securities to Deposit ratio	41.8%	41.4%	(0.4%)
Return on average equity	14.0%	18.4%	4.4%
Return on average assets	1.9%	2.5%	0.6%

<b>Income Statement (Kshs bn)</b>	<b>Q1'2022</b>	<b>Q1'2023</b>	<b>y/y change</b>
Net Interest Income	7.1	8.4	18.0%
Net non-Interest Income	6.1	7.2	18.5%
<b>Total Operating income</b>	<b>13.1</b>	<b>15.5</b>	<b>18.2%</b>
Loan Loss provision	2.5	2.0	(22.6%)
<b>Total Operating expenses</b>	<b>8.1</b>	<b>9.2</b>	<b>12.8%</b>
Profit before tax	4.8	6.4	31.9%
<b>Profit after tax</b>	<b>3.4</b>	<b>5.1</b>	<b>48.5%</b>
<b>Core EPS</b>	<b>2.1</b>	<b>3.1</b>	<b>48.5%</b>

<b>Income Statement Ratios</b>	<b>Q1'2022</b>	<b>Q1'2023</b>	<b>% point change</b>
Yield from interest-earning assets	9.8%	10.4%	0.6%
Cost of funding	4.3%	4.6%	0.3%
Net Interest Spread	5.5%	5.7%	0.2%
Net Interest Margin	5.7%	6.0%	0.3%
Cost of Risk	19.2%	12.6%	(6.6%)
Net Interest Income as % of operating income	53.9%	53.8%	(0.1%)
Non-Funded Income as a % of operating income	46.1%	46.2%	0.1%
Cost to Income Ratio	61.7%	58.9%	(2.8%)
Cost to Income Ratio without LLP	42.5%	46.3%	3.8%

<b>Capital Adequacy Ratios</b>	<b>Q1'2022</b>	<b>Q1'2023</b>	<b>% points change</b>
Core Capital/Total Liabilities	15.9%	16.8%	0.9%
Minimum Statutory ratio	8.0%	8.0%	
<b>Excess</b>	<b>7.9%</b>	<b>8.8%</b>	<b>0.9%</b>
Core Capital/Total Risk Weighted Assets	18.0%	17.7%	(0.3%)
Minimum Statutory ratio	10.5%	10.5%	
<b>Excess</b>	<b>7.5%</b>	<b>7.2%</b>	<b>(0.3%)</b>
Total Capital/Total Risk Weighted Assets	18.0%	17.8%	(0.2%)
Minimum Statutory ratio	14.5%	14.5%	
<b>Excess</b>	<b>3.5%</b>	<b>3.3%</b>	<b>(0.2%)</b>
Liquidity Ratio	63.0%	53.1%	(9.9%)
Minimum Statutory ratio	20.0%	20.0%	
<b>Excess</b>	<b>43.0%</b>	<b>33.1%</b>	<b>(9.9%)</b>



<b>Capital Adequacy Ratios</b>	<b>Q1'2022</b>	<b>Q1'2023</b>	<b>% points change</b>
Adjusted core capital/ total deposit liabilities	16.0%	16.8%	0.8%
Adjusted core capital/ total risk weighted assets	18.6%	17.7%	(0.9%)
Adjusted total capital/ total risk weighted assets	18.6%	17.8%	(0.8%)

#### **Key Take-Outs:**

**Strong earnings growth** - Core earnings per share rose by 48.5% to Kshs 3.1, from Kshs 2.1 in Q1'2022, driven by 18.2% growth in total operating income to Kshs 15.5 bn from Kshs 13.1 bn in Q1'2022. The lender's growth in total operating income was driven by 18.0% growth in Net Interest Income to Kshs 8.4 bn, from Kshs 7.1 bn in Q1'2022, coupled with an 18.5% increase in Non-Funded Income to Kshs 7.2 bn from Kshs 6.1 bn in Q1'2022,

**Improved Asset Quality** - The Group's Asset Quality improved, with Gross NPL ratio declining to 12.8% in Q1'2023, from 16.3% in Q1'2022. This was mainly attributable to 11.9% decrease in Gross non-performing loans to Kshs 39.7 bn, from Kshs 45.1 bn in Q1'2022, coupled with 12.0% increase in gross loans to Kshs 309.7 bn, from Kshs 276.7 bn recorded in Q1'2022, and,

**Aggressive lending** - The Group's increased its lending in Q1'2023 with the loan book recording a 17.7% increase to Kshs 287.2 bn, from Kshs 243.9 bn in Q1'2022, highlighting the Group's aggressive lending despite the tough operating business. Consequently, the loan to deposit ratio increased by 5.1% to 57.1% from 52.4% in Q1'2022.

For a comprehensive analysis, please see our NCBA Group Plc Q1'2023 Earnings Note

#### **Summary performance:**

##### **Asset Quality:**

The table below highlights the Asset Quality of the listed banks:

	<b>Q1'2023 NPL Ratio*</b>	<b>Q1'2022 NPL Ratio**</b>	<b>% point change in NPL Ratio</b>	<b>Q1'2023 NPL Coverage*</b>	<b>Q1'2022 NPL Coverage**</b>	<b>% point change in NPL Coverage</b>
Equity Group	10.0%	9.0%	1.0%	62.0%	66.0%	(4.0%)
Stanbic Bank	11.7%	11.1%	0.6%	66.7%	59.1%	7.6%
NCBA Group	12.8%	16.3%	(3.5%)	56.8%	72.6%	(15.8%)
Co-operative Bank of Kenya	14.1%	13.9%	0.2%	62.2%	65.3%	(3.1%)
Standard Chartered Bank Kenya	14.4%	15.4%	(1.0%)	86.8%	81.8%	5.0%
KCB Group	17.1%	16.9%	0.2%	57.3%	52.7%	4.6%
<b>Mkt Weighted Average</b>	<b>13.2%</b>	<b>12.5%</b>	<b>0.7%</b>	<b>63.7%</b>	<b>65.1%</b>	<b>(1.4%)</b>

\*Market cap weighted as at 26/05/2023

\*\*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 their Q1'2023 financial results has deteriorated with market weighted average NPL ratio increasing by 0.7% points to 13.2%, from a 12.5% in Q1'2022. The deterioration was largely driven by deterioration in Equity Group's, Stanbic bank's, and KCB Group's asset quality with their NPL ratios increasing by 1.0%, 0.6% and 0.2% points to 10.0%, 11.7%, and 17.1%, from 9.0%, 11.1%, and 16.9%, respectively recorded in Q1'2022, and,
- ii. Market weighted average NPL Coverage for the listed banks decreased by 1.4% points to 63.7% in Q1'2023, from 65.1% recorded in Q1'2022. The decrease was mainly attributable to decrease in NCBA Group's, Equity Group's and Co-operative Bank's NPL coverage by 15.8%, 4.0% and 3.1% points to 56.8%, 62.0% and 62.2%, from 72.6%, 66.0% and 65.3%, respectively in Q1'2022.

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	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%
NCBA	48.5%	21.0%	25.2%	18.0%	6.0%	18.5%	46.2%	9.1%	7.3%	6.4%	57.5%	17.7%	18.4%
SCB-k	47.2%	34.1%	(5.4%)	40.1%	7.3%	55.5%	35.9%	13.3%	14.2%	(6.2%)	45.3%	7.0%	23.0%
Equity	7.9%	21.6%	46.9%	12.1%	7.4%	54.3%	45.9%	39.2%	23.3%	(7.7%)	68.1%	23.1%	26.8%
Co-op	4.7%	11.2%	32.2%	3.9%	8.5%	10.8%	39.7%	9.7%	2.2%	(2.3%)	85.8%	11.0%	20.7%
KCB	(1.0%)	26.0%	67.7%	11.8%	7.3%	59.2%	40.1%	65.5%	41.5%	4.8%	77.6%	31.9%	20.9%
<b>Q1'23 Mkt Weighted Average*</b>	<b>22.2%</b>	<b>25.2%</b>	<b>41.6%</b>	<b>18.0%</b>	<b>7.3%</b>	<b>48.5%</b>	<b>43.1%</b>	<b>32.4%</b>	<b>21.6%</b>	<b>(0.7%)</b>	<b>69.3%</b>	<b>19.9%</b>	<b>22.6%</b>
<b>Q1'22 Mkt Weighted Average**</b>	<b>37.9%</b>	<b>17.8%</b>	<b>17.1%</b>	<b>17.7%</b>	<b>7.3%</b>	<b>21.4%</b>	<b>35.9%</b>	<b>21.7%</b>	<b>9.5%</b>	<b>17.6%</b>	<b>73.9%</b>	<b>17.2%</b>	<b>21.9%</b>

\*Market cap weighted as at 26/05/2023

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

Key take-outs from the table include;

- i. The listed banks recorded a 22.2% 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 48.5% compared to market weighted average growth of 21.4% in Q1'2022, mainly due to growth in forex related fees occasioned by the wide spreads in the dollar exchange rate during the quarter, and,
- iii. The Banks recorded a weighted average deposit growth of 21.6%, higher than the market weighted average deposit growth of 9.5% in Q1'2022, highlighting increased investment risk in the business environment.

Universe of coverage:

Company	Price as at 19/05/2023	Price as at 26/05/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
<b>Jubilee Holdings</b>	179.8	178.0	(1.0%)	(10.4%)	305.9	6.7%	78.6%	<b>0.3x</b>	<b>Buy</b>
<b>Britam</b>	4.2	4.2	(0.2%)	(20.0%)	7.1	0.0%	71.2%	<b>0.7x</b>	<b>Buy</b>
<b>I&amp;M Group***</b>	17.0	15.9	(6.8%)	(7.0%)	24.5	14.2%	68.7%	<b>0.3x</b>	<b>Buy</b>
<b>Liberty Holdings</b>	4.0	4.1	2.8%	(19.2%)	6.8	0.0%	65.8%	<b>0.3x</b>	<b>Buy</b>
<b>Equity Group***</b>	38.4	36.9	(3.9%)	(18.1%)	56.3	10.8%	63.5%	<b>0.7x</b>	<b>Buy</b>
<b>Diamond Trust Bank***</b>	46.0	45.0	(2.2%)	(9.7%)	64.6	11.1%	54.7%	<b>0.2x</b>	<b>Buy</b>
<b>Kenya Reinsurance</b>	1.8	1.8	(2.2%)	(5.9%)	2.5	11.4%	54.0%	<b>0.1x</b>	<b>Buy</b>
<b>NCBA***</b>	32.6	34.6	6.1%	(11.2%)	48.7	12.3%	53.2%	<b>0.7x</b>	<b>Buy</b>
<b>KCB Group***</b>	30.9	31.1	0.6%	(19.0%)	45.5	6.4%	53.0%	<b>0.5x</b>	<b>Buy</b>
<b>Sanlam</b>	8.0	7.8	(2.5%)	(18.6%)	11.9	0.0%	52.7%	<b>0.8x</b>	<b>Buy</b>
<b>ABSA Bank***</b>	10.4	10.8	3.8%	(11.5%)	15.1	12.5%	52.7%	<b>0.8x</b>	<b>Buy</b>

Company	Price as at 19/05/2023	Price as at 26/05/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Co-op Bank***	12.3	11.4	(6.9%)	(5.8%)	15.9	13.2%	52.6%	0.5x	Buy
Standard Chartered***	140.0	145.8	4.1%	0.5%	195.4	15.1%	49.1%	0.9x	Buy
Stanbic Holdings	110.0	98.3	(10.7%)	(3.7%)	131.8	12.8%	46.9%	0.7x	Buy
CIC Group	1.7	1.9	11.2%	(1.6%)	2.3	6.9%	30.3%	0.7x	Buy
HF Group	4.2	4.3	2.4%	36.2%	4.5	0.0%	3.7%	0.2x	Lighten

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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