Cytonn Monthly - May 2023

Equities

Market Performance:

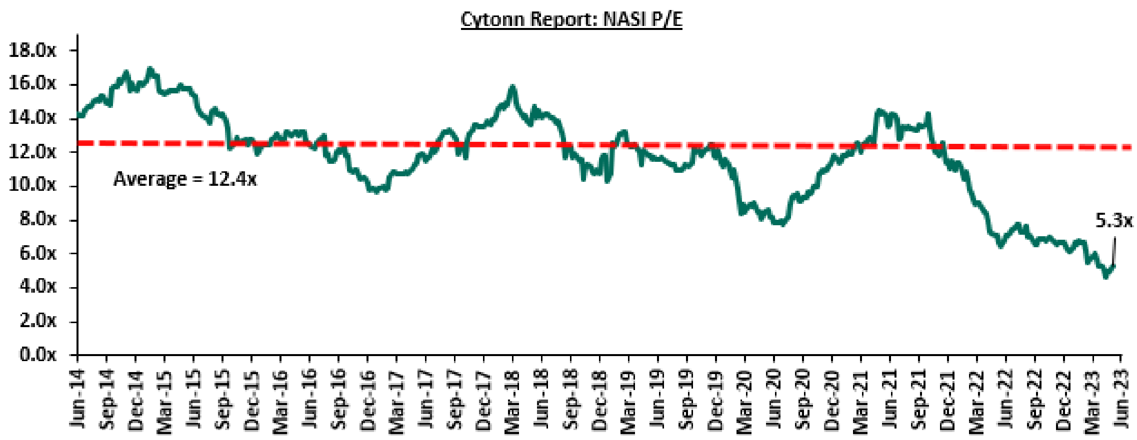
During the month of May, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 3.7%, 2.0% and 6.7% respectively. The equities market performance was driven by losses recorded by large cap stocks such as Equity Group, Diamond Trust Bank (DTB-K), BAT, Cooperative Bank, NCBA and ABSA Bank of 17.2%, 16.5%, 14.4%, 9.0%, 8.9% and 6.6%, respectively. The losses were however mitigated by gains recorded by large cap stocks such as Standard Chartered Bank of Kenya (SCBK) and Bamburi of 6.9% and 4.8%, respectively.

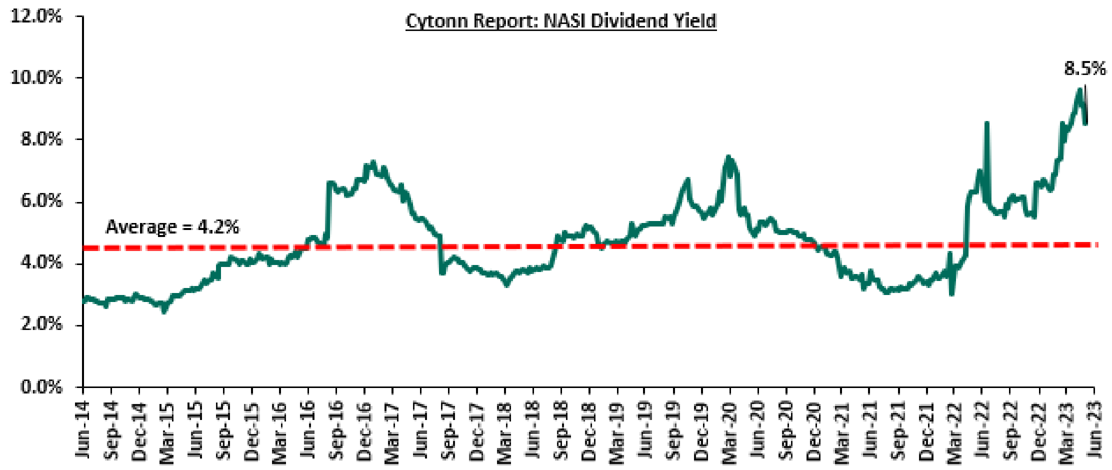
During the week, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 gaining by 7.3%, 4.6% and 6.3%, respectively, taking the YTD performance to losses of 17.5%, 7.1%, and 14.0% for NASI, NSE 20, and NSE 25, respectively. The equities market performance was mainly driven by gains recorded by large cap stocks such as Safaricom, Standard Chartered Bank of Kenya (SCBK), ABSA Bank and NCBA of 12.6%, 9.1%, 7.4% and 6.9%, respectively. The gains were however weighed down by losses recorded by other large cap stocks such as BAT and Bamburi of 5.6% and 3.2%, respectively.

Equities turnover increased by 41.1% in the month of May to USD 44.4 mn, from USD 31.4 mn recorded in April 2023. Foreign investors remained net sellers, with a net selling position of USD 9.6 mn, compared to April's net selling position of USD 2.1 mn.

During the week, equities turnover declined by 31.0% to USD 7.0 mn, from USD 10.2 mn recorded the previous week taking the YTD turnover to USD 425.9 mn. Foreign investors remained net sellers, with a net selling position of USD 1.0 mn, from a net selling position of USD 1.7 mn recorded the previous week, taking the YTD net selling position to USD 53.4 mn.

The market is currently trading at a price to earnings ratio (P/E) of 5.3x, 57.2% below the historical average of 12.4x, and a dividend yield of 8.5%, 4.3% points above the historical average of 4.2%. Key to note, NASI's PEG ratio currently stands at 0.7x, 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 Releases

a. **ABSA Bank**

During the week, ABSA Bank 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
Government Securities	136.7	134.3	(1.8%)
Net Loans and Advances	242.7	310.0	27.7%
Total Assets	**438.5**	**514.6**	**17.4%**
Customer Deposits	269.5	310.8	15.3%
Deposits per Branch	3.2	3.7	15.3%
Total Liabilities	**379.3**	**446.6**	**17.7%**
Shareholder's Funds	**59.2**	**68.0**	**14.9%**

Balance sheet ratios	Q1'2022	Q1'2023	% point change
Loan to Deposit Ratio	90.0%	99.7%	9.7%
Return on average equity	21.2%	25.3%	4.1%

Balance sheet ratios	Q1'2022	Q1'2023	% point change
Return on average assets	2.8%	3.4%	0.6%

Income Statement Items (Kshs bn)	Q1'2022	Q1'2023	y/y change
Net Interest Income	6.9	9.4	36.0%
Net non-Interest Income	3.0	4.5	49.3%
Total Operating income	**9.9**	**13.9**	**40.0%**
Loan Loss provision	(1.2)	(2.4)	103.3%
Total Operating expenses	**(5.6)**	**(7.4)**	**32.8%**
Profit before tax	**4.3**	**6.4**	49.4%
Profit after tax	**3.0**	**4.5**	**50.7%**
Core EPS	**0.5**	**0.8**	**50.7%**

Income statement ratios	Q1'2022	Q1'2023	% point change
Yield from interest-earning assets	9.1%	10.6%	1.5%
Cost of funding	2.6%	3.1%	0.5%
Net Interest Spread	0.7%	0.9%	0.2%
Cost of risk	11.9%	17.3%	5.4%
Net Interest Margin	7.1%	8.3%	1.2%
Cost to Income	56.6%	53.7%	(2.9%)
Cost to income (Without LLPs)	44.6%	36.3%	(8.3%)
Cost to Assets	1.0%	1.0%	(0.0%)
Net Interest Income as % of operating income	69.5%	67.5%	(2.0%)
Non-Funded Income as a % of operating income	30.5%	32.5%	2.0%

Capital Adequacy Ratios	Q1'2022	Q1'2023	% points change
Core Capital/Total Liabilities	18.4%	18.6%	0.2%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**10.4%**	**10.6%**	**0.2%**
Core Capital/Total Risk Weighted Assets	14.5%	14.1%	(0.4%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**4.0%**	**3.6%**	**(0.4%)**
Total Capital/Total Risk Weighted Assets	17.0%	18.1%	1.1%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**2.5%**	**3.6%**	**1.1%**

Capital Adequacy Ratios	Q1'2022	Q1'2023	% points change
Liquidity Ratio	36.7%	28.6%	(8.1%)
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	**16.7%**	**8.6%**	**(8.1%)**
Adjusted Core Capital/Total Liabilities	**18.5%**	**18.7%**	**0.2%**
Adjusted Core Capital/Total RWA	**14.6%**	**14.2%**	**(0.4%)**
Adjusted Total Capital/Total RWA	**17.1%**	**18.2%**	**1.1%**

Key Take-Outs:

Strong Earnings Growth – The Core earnings per share increased by 50.7% to Kshs 0.8 in Q1'2023, from Kshs 0.5 in Q1'2022, driven by a 40.0% increase in total operating income to Kshs 13.9 bn, from Kshs 9.9 bn recorded in Q1'2022. The Bank's increase in total operating income was driven by a 36.0% increase in Net Interest Income (NII) to Kshs 9.4 bn, from Kshs 6.9 bn in Q1'2022, coupled with a 49.3% gain in Non-Funded Income (NFI) to Kshs 4.5 bn, from Kshs 3.0 bn in Q1'2022,

Deterioration in Asset Quality - The bank's asset quality deteriorated, with the NPL ratio increasing by 1.8% points to 9.4% in Q1'2023, from 7.6% in Q1'2022, owing to the faster 59.8% growth in Gross Non-Performing Loans, as compared to the 28.1% increase in Gross Loans,

Increased Provisioning – The Bank increased its Loans Loss Provision (LLPs) by 103.3% to Kshs 2.4 bn in Q1'2023, from Kshs 1.2 bn recorded in Q1'2022 aimed at mitigating increased credit risk on the back of the deteriorating business environment as a result of the high inflationary pressures. The high credit risk is further evidenced by the 59.8% in Non-Performing Loans to Kshs 31.1 bn in Q1'2023, from Kshs 19.5 bn recorded in Q1'2022,

Improved efficiency levels – The Banks's cost to income ratio without LLP improved, declining by 2.9% to 53.7%, from 56.6% in Q1'2022, owing to 40.0% increase in total operating income, which outpaced the 32.8% growth in total operating expenses. Similarly, Without LLP the cost to income ratio improved significantly, declining by 8.3% points to 36.3%, from 44.6% in Q1'2022, an indication of improved efficiency, and,

Aggressive Lending – The Bank increased its lending in Q1'2023 with Loans and advances recording a 27.7% growth, highlighting the Bank's aggressive lending despite the tough operating business environment. Consequently, the loan to deposit ratio increased by 9.7% points to 99.7% from 90.0% in Q1'2022.

For a comprehensive analysis, please see our ABSA Bank Q1'2023 Earnings Note

b. **Diamond Trust Bank Kenya (DTB-K)**

During the week, Diamond Trust Bank Kenya (DTB-K) 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
Government Securities	127.7	131.6	3.1%
Net Loans and Advances	224.8	270.4	20.3%
Total Assets	**471.3**	**553.3**	**17.4%**
Customer Deposits	343.1	404.6	17.9%

Balance Sheet Items (Kshs bn)	**Q1'2022**	**Q1'2023**	**y/y change**
Deposits per Branch	2.7	3.1	17.0%
Total Liabilities	**394.7**	**470.8**	**19.3%**
Shareholders' Funds	**69.1**	**72.9**	**5.6%**

Balance Sheet Ratios	**Q1'2022**	**Q1'2023**	**y/y change**
Loan to Deposit Ratio	65.5%	66.8%	1.3%
Return on average equity	7.1%	9.9%	2.8%
Return on average assets	1.1%	1.4%	0.3%

Income Statement (Kshs bn)	**Q1'2022**	**Q1'2023**	**y/y change**
Net Interest Income	5.5	6.7	20.7%
Non-Interest Income	1.8	2.8	59.1%
Total Operating income	**7.3**	**9.5**	**30.0%**
Loan Loss provision	0.6	1.4	134.7%
Total Operating expenses	**3.9**	**5.9**	**50.4%**
Profit before tax	**3.4**	**3.6**	**8.0%**
Profit after tax	**2.4**	**2.6**	**11.3%**
Core Earnings per share (Kshs)	**8.5**	**9.5**	**11.3%**

Income Statement Ratios	**Q1'2022**	**Q1'2023**	**Y/Y Change**
Yield from interest-earning assets	9.0%	9.7%	0.7%
Cost of funding	1.0%	1.3%	0.3%
Net Interest Spread	8.0%	8.3%	0.3%
Net Interest Income as % of Total Income	75.8%	70.4%	(5.4%)
Non-Funded Income as a % of Total Income	24.2%	29.6%	5.4%
Cost to Income	53.3%	61.7%	8.4%
Cost to Income Ratio without provisions	45.3%	47.3%	2.0%
Cost to Assets	4.6%	4.7%	0.1%
Net Interest Margin	5.3%	5.4%	0.1%

Capital Adequacy Ratios	**Q1'2022**	**Q1'2023**	**% points change**
Core Capital/Total deposit Liabilities	21.7%	21.1%	(0.6%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	13.7%	13.1%	(0.6%)
Core Capital/Total Risk Weighted Assets	20.5%	19.3%	(1.2%)
Minimum Statutory ratio	10.5%	10.5%	

Capital Adequacy Ratios	Q1'2022	Q1'2023	% points change
Excess	10.0%	8.8%	(1.2%)
Total Capital/Total Risk Weighted Assets	21.8%	20.2%	(1.6%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	7.3%	5.7%	(1.6%)
Liquidity Ratio	58.3%	56.2%	(2.1%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**38.3%**	**36.2%**	**(2.1%)**
Adjusted Core Capital/Total Deposit Liabilities	21.8%	21.1%	(0.7%)
Adjusted Core Capital/Total Risk Weighted Assets	20.6%	19.3%	(1.3%)
Adjusted Total Capital/Total Risk Weighted Assets	21.8%	20.2%	(1.6%)

Key Take-Outs:

Earnings Growth - Core earnings per share increased by 11.3% to Kshs 9.5 in Q1'2023, from Kshs 8.5 in Q1'2022. The performance was driven by a 30.0% increase in total operating income to Kshs 9.5 bn in Q1'2023, from Kshs 7.3 bn in Q1'2022. However, the growth was weighed down by the 50.4% increase in the total operating expenses to Kshs 5.9 bn in Q1'2023, from Kshs 3.9 bn in Q1'2022,

Improved Asset Quality – The group's asset quality improved, with the NPL ratio declining to 12.3% in Q1'2023, from 12.6% in Q1'2022, owing to the faster 20.6% growth in gross loans, which outpaced the 17.2% increase in gross non-performing loans to Kshs 35.1 bn, from Kshs 30.0 bn in Q1'2022. The improvement in asset quality is attributable to proactive credit management strategies leading to increased loan repayment,

Improved Lending – The Bank increased its lending in Q1'2023 with Loans and advances recording a 20.3% growth to Kshs 270.4 bn in Q1'2023, from Kshs 224.8 bn in Q1'2022, highlighting the Bank's improved lending despite the tough operating business environment. Consequently, the loan to deposit ratio increased by 1.3% points to 66.8%, from 65.5% in Q1'2022, and,

Deterioration of efficiency levels – The Bank's efficiency level deteriorated with cost to income ratio without LLP increasing by 8.4% to 61.7%, from 53.3% in Q1'2022. Similarly, Without LLP, the Cost to Income ratio increased to 47.3%, from 45.3% in Q1'2022.

For a comprehensive analysis, please see our Diamond Trust Bank Kenya (DTB-K) Q1'2023 Earnings Note

c. **I&M Group**

During the week, I&M Group 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
Government Securities	83.9	72.7	(13.3%)
Net Loans and Advances	218.4	257.7	18.0%

Balance Sheet Items (Kshs bn)	Q1’2022	Q1’2023	y/y change
Total Assets	**430.8**	**472.6**	**9.7%**
Customer Deposits	309.4	324.7	4.9%
Deposits per Branch	3.5	3.9	12.5%
Total Liabilities	**355.6**	**388.2**	**9.2%**
Shareholders’ Funds	**70.5**	**79.0**	**12.0%**

Balance Sheet Ratios	Q1’2022	Q1’2023	y/y change
Loan to Deposit Ratio	70.6%	79.4%	8.8%
Return on average equity	13.1%	14.4%	1.3%
Return on average assets	2.2%	2.6%	0.4%

Income Statement (Kshs bn)	Q1’2022	Q1’2023	y/y change
Net Interest Income	5.2	6.1	17.0%
Net non-Interest Income	2.2	3.5	58.8%
Total Operating income	**7.4**	**9.6**	**29.4%**
Loan Loss provision	(0.5)	(1.6)	241.5%
Total Operating expenses	**(3.9)**	**(6.0)**	**56.7%**
Profit before tax	3.67	3.75	2.1%
Profit after tax	**2.71**	**2.66**	**(2.0%)**
Core EPS	**1.6**	**1.6**	**(2.0%)**

Income Statement Ratios	Q1’2022	Q1’2023	Y/Y Change
Yield from interest-earning assets	10.1%	10.3%	0.2%
Cost of funding	4.0%	4.2%	0.2%
Net Interest Margin	6.4%	6.3%	(0.1%)
Net Interest Income as % of operating income	70.3%	63.6%	(6.7%)
Non-Funded Income as a % of operating income	29.7%	36.4%	6.7%
Cost to Income Ratio	52.0%	63.0%	11.0%
CIR without LLP	45.5%	45.8%	0.3%
Cost to Assets	0.8%	0.9%	0.1%

Capital Adequacy Ratios	Q1'2022	Q1'2023	% points change
Core Capital/Total Liabilities	20.0%	22.0%	2.0%
Minimum Statutory ratio	8.0%	8.0%	
Excess	**12.0%**	**14.0%**	**2.0%**
Core Capital/Total Risk Weighted Assets	15.8%	15.6%	(0.2%)
Minimum Statutory ratio	10.5%	10.5%	

Capital Adequacy Ratios	Q1'2022	Q1'2023	% points change
Excess	**5.3%**	**5.1%**	(0.2%)
Total Capital/Total Risk Weighted Assets	20.6%	19.9%	(0.7%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**6.1%**	**5.4%**	**(0.7%)**
Liquidity Ratio	52.8%	46.2%	(6.6%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**32.8%**	**26.2%**	**(6.6%)**
Adjusted Core Capital/Total Liabilities	**21.0%**	**22.6%**	**1.6%**
Adjusted Core Capital/Total RWA	**16.6%**	**16.3%**	**(0.3%)**
Adjusted Total Capital/Total RWA	**21.5%**	**20.5%**	**(1.0%)**

Key Take-Outs:

Decline in Earnings- Core earnings per share declined by 2.0% to Kshs 2.66 from Kshs 2.71 in Q1’2022, mainly weighed down by the 56.7% increase in total operating expenses to Kshs 6.0 bn in Q1’2023 from Kshs 3.9 bn in Q1’2022, which outpaced the 29.4% increase in the total operating income to Kshs 9.6 bn in Q1’2023, from Kshs 7.4 bn in Q1’2022,

Increased Provisioning – The group’s provisioning increased by 241.5% to Kshs 1.6 bn from Kshs 0.5 bn recorded in Q1’2022, aimed at mitigating increased credit risk on the back of the deteriorated business environment as a result of the high inflationary pressures. This is evidenced by the 24.0% increase in Gross Non-Performing loans to Kshs 29.3 bn, from Kshs 23.6 bn in Q1’2022, and,

Revenue diversification – The Group’s Non-Funded income increased by 58.8% to Kshs 3.5 bn in Q1’2023, from Kshs 2.2 bn in Q1’2022, which resulted to a shift in revenue mix to 64:36 in Q1’2023 from 70:30 in Q1’2022. The increase was mainly attributable to increase in non-funded income from digital channels due to increased usage of internet banking and mobile banking, coupled with a 135.4% increase in foreign exchange income to Kshs 1.4 bn in Q1’2023 from Kshs 0.6 bn in Q1’2022.

For a comprehensive analysis, please see our I&M Group Q1’2023 Earnings Note

d. **HF Group**

During the week, HF Group released their Q1’2023 financial results. Below is a summary of the performance:

Below is a summary of HF Group Plc Q1’2023 performance:

Balance Sheet Items (Kshs bn)	Q1'2022	Q1'2023	y/y change
Net loans	34.8	37.0	6.2%
Government Securities	7.2	9.5	31.4%
Total Assets	**54.3**	**59.0**	**8.6%**
Customer Deposits	38.4	41.2	7.4%
Deposits Per Branch	1.7	1.9	7.4%
Total Liabilities	46.4	50.2	8.1%

Balance Sheet Items (Kshs bn)	Q1'2022	Q1'2023	y/y change
Shareholder's Funds	**7.9**	**8.8**	**11.7%**

Balance Sheet Ratios	Q1'2022	Q1'2023	y/y change
Loan to deposit ratio	90.8%	89.7%	(1.1%)
Return on Average Equity	(5.7%)	3.8%	9.5%
Return on Average Assets	(0.8%)	0.6%	1.4%

Income Statement (Kshs bn)	Q1'2022	Q1'2023	y/y change
Net Interest Income	0.5	0.6	21.0%
Net non-Interest Income	0.25	0.27	8.7%
Total Operating income	**0.8**	**0.9**	**17.0%**
Loan Loss provision	(0.1)	(0.1)	80.4%
Total Operating expenses	(0.7)	(0.8)	10.9%
Profit before tax	0.0	0.1	130.5%
Profit after tax	**0.03**	**0.1**	**143.5%**
Core EPS	**0.1**	**0.2**	**143.5%**

Income Statement Ratios	Q1'2022	Q1'2023	y/y change
Yield from interest-earning assets	9.2%	9.8%	0.6%
Cost of funding	4.7%	4.8%	0.1%
Net Interest Spread	4.5%	5.0%	0.5%
Net Interest Margin	4.4%	5.0%	0.6%
Cost of Risk	7.3%	11.3%	4.0%
Net Interest Income as % of operating income	67.3%	69.6%	2.3%
Non-Funded Income as a % of operating income	32.7%	30.4%	(2.3%)
Cost to Income Ratio	94.9%	90.0%	(4.9%)
Cost to Income Ratio without LLP	9.2%	9.8%	0.6%
Cost to Assets	4.7%	4.8%	0.1%

Capital Adequacy Ratios	Q1'2022	Q1'2023	% Change
Core Capital/Total Liabilities	8.0%	6.7%	(1.3%)

Capital Adequacy Ratios	Q1'2022	Q1'2023	% Change
Minimum Statutory ratio	8.0%	8.0%	
Excess	**0.0%**	**(1.3%)**	**(1.3%)**
Core Capital/Total Risk Weighted Assets	8.2%	7.2%	(1.0%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	**(2.3%)**	**(3.3%)**	**(1.0%)**
Total Capital/Total Risk Weighted Assets	12.1%	11.0%	(1.1%)
Minimum Statutory ratio	14.5%	14.5%	
Excess	**(2.4%)**	**(3.5%)**	**(1.1%)**
Liquidity Ratio	24.6%	24.7%	0.1%
Minimum Statutory ratio	20.0%	20.0%	
Excess	**4.6%**	**4.7%**	**0.1%**
Adjusted core capital/ total deposit liabilities	8.2%	6.9%	(1.3%)
Adjusted core capital/ total risk weighted assets	8.4%	7.3%	(1.1%)
Adjusted total capital/ total risk weighted assets	12.3%	11.2%	(1.1%)

Key Take Outs

Earnings Growth- Core earnings per share rose by 143.5% to Kshs 0.2, from Kshs 0.1 registered in Q1'2022. This was mainly attributable to the 17.0% growth in total operating income to Kshs 0.9 bn, from Kshs 0.8 bn in Q1'2022. However, the growth was weighed down by 10.9% increase in total operating expenses to Kshs 0.8 bn from Kshs 0.7 bn in Q1'2022,

Improved Asset Quality - The group's asset quality improved, with the gross NPL ratio improving to 19.9% in Q1'2023, from 20.5% in Q1'2022, attributable to the 7.0% increase in gross loans to Kshs 44.1 bn, from Kshs 41.2 bn in Q1'2022 which outpaced the with 4.1% growth in Gross Non-Performing loans during the year to Kshs 8.8, from Kshs 8.4 bn in Q1'2022,

Improved Efficiency – Cost to Income Ratio (CIR) improved by 4.9% points to 90.0%, from 94.9% in Q1'2022, attributable to the 17.0% increase in total operating income to Kshs 0.9 bn in Q1'2023, from Kshs 0.8 bn in Q1'2022, which outpaced the 10.9% increase in total operating expenses to Kshs 0.8 bn, from Kshs 0.7 bn recorded in Q1'2022, and,

Cautious Lending – HF Group's Q1'2023 result was characterized by a faster 31.4% growth in government securities to Kshs 9.5 bn from Kshs 7.2 bn as compared to the 6.2% rise in net loans to Kshs 37.0 bn from Kshs 34.8 bn in Q1'2022, depicting the group's adoption of conservative lending strategy to take advantage of the higher interest rates in Fixed Income.

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

Summary performance:

Asset Quality:

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

Cytonn Report: Listed Banks Asset Quality

Bank	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
ABSA Bank Kenya	9.4%	7.6%	1.8%	63.9%	76.2%	(12.3%)
Equity Group	10.0%	9.0%	1.0%	62.0%	66.0%	(4.0%)
I&M Holdings	10.6%	10.0%	0.6%	65.8%	72.1%	(6.3%)
Stanbic Bank	11.7%	11.1%	0.6%	66.7%	59.1%	7.6%
Diamond Trust Bank	12.3%	12.6%	(0.3%)	45.9%	42.2%	3.7%
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	17.1%	16.9%	0.2%	57.3%	52.7%	4.6%
HF Group	19.9%	20.5%	(0.6%)	81.4%	76.1%	5.3%
Mkt Weighted Average	**14.6%**	**12.5%**	**2.1%**	**62.1%**	**65.1%**	**(3.0%)**

***Market cap weighted as at 02/06/2023**

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

Key take-outs from the table include;

i. Asset quality for the listed banks deteriorated in Q1'2023 with market weighted average NPL ratio increasing by 2.1% points to 14.6%, from 12.5% in Q1'2022. The deterioration was largely driven by deterioration in ABSA Bank's and Equity Group's asset quality with their NPL ratios increasing by 1.8%, 1.0% points to 9.4% and 10.0%, from 7.6% and 9.0%, respectively recorded in Q1'2022,
ii. ABSA Bank had the highest NPL Ratio jump by 1.8% points to 9.4%, from 7.6% in Q1'2022. The deterioration in Asset Quality was mainly attributable to a significant 59.8% increase in Gross Non-Performing Loans (NPLs) to Kshs 31.1 bn in Q1'2023, from Kshs 19.5 bn recorded in Q1'2022, while Gross loans increased by 28.1% to Kshs 329.9 bn, from Kshs 257.5 bn in Q1'2022,
iii. NCBA Group recorded the highest improvement in its asset quality with the NPL ratio declining by 3.5% points to 12.8% in Q1'2023, from 16.3% in Q1'2022. This was largely due 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,
iv. Market weighted average NPL Coverage for the listed banks decreased by 3.0% points to 62.1% in Q1'2023, from 65.1% recorded in Q1'2022. The decrease was mainly attributable to decrease in NCBA Group's, ABSA Bank's, Equity Group's and I&M Group's NPL coverage by 15.8%, 12.3% and 6.3% points to 56.8%, 63.9% and 65.8%, from 72.6%, 76.2% and 72.1%, respectively in Q1'2022.

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

Cytonn Report: Listed Banks Performance in Q1'2023

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
HF Group	143.3%	15.1%	9.1%	21.0%	5.0%	8.7%	30.4%	(29.7%)	7.4%	31.4%	89.7%	6.2%	3.8%
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%
ABSA	50.7%	38.3%	46.3%	36.0%	8.3%	27.7%	32.5%	29.7%	15.3%	(1.8%)	99.7%	27.7%	25.5%
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%

Cytonn Report: Listed Banks Performance in Q1'2023

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
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%
DTB-K	11.3%	32.1%	49.2%	20.7%	5.4%	59.1%	29.6%	26.5%	17.9%	3.1%	66.8%	20.3%	9.1%
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%)	26.2%	67.7%	11.8%	7.3%	59.2%	40.1%	65.5%	41.5%	4.8%	77.6%	31.9%	20.9%
I&M Group	(2.0%)	18.3%	20.2%	17.0%	6.3%	58.8%	36.4%	16.6%	4.9%	(13.3%)	79.4%	18.0%	14.4%
Q1'23 Mkt Weighted Average*	**24.6%**	**26.5%**	**40.8%**	**20.2%**	**7.3%**	**46.8%**	**41.3%**	**30.7%**	**19.8%**	**(1.3%)**	**73.0%**	**20.5%**	**22.2%**
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 02/06/2023**

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

Key take-outs from the table include;

i. The listed banks recorded a 24.6% 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 46.8% 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 19.8%, higher than the market weighted average deposit growth of 9.5% in Q1'2022, highlighting increased investment risk in the business environment.

Monthly highlights:

i. 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.The performance was 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. For more information, please see our Cytonn Weekly #19/2023,
ii. The Central Bank of Kenya (CBK), recently released the Commercial Banking Sector Credit Survey Report for the quarter ended March 2023, highlighting 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. For more information, please see our Cytonn Weekly #19/2023, and,
iii. The 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. For more information, please see our Cytonn Weekly #21/2023.

Universe of coverage:

Cytonn Report: Universe of Coverage as of 28 April 2023

Company	Price as at 26/05/2023	Price as at 2/06/2023	w/w change	m/m change	YTD Change	Year Open 2023	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	178.0	180.0	1.1%	1.9%	(9.4%)	198.8	305.9	6.7%	78.6%	**0.3x**	**Buy**
Britam	4.2	4.6	10.3%	6.8%	(11.7%)	5.2	7.1	0.0%	71.2%	**0.7x**	**Buy**

Cytonn Report: Universe of Coverage as of 28 April 2023

Company	Price as at 26/05/2023	Price as at 2/06/2023	w/w change	m/m change	YTD Change	Year Open 2023	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
I&M Group* **	15.9	16.9	6.3%	(2.3%)	(1.2%)	17.1	24.5	14.2%	68.7%	**0.3x**	**Buy**
Liberty Holdings	4.1	4.0	(1.7%)	8.0%	(20.6%)	5.0	6.8	0.0%	65.8%	**0.3x**	**Buy**
Equity Group* **	36.9	38.2	3.4%	(17.2%)	(15.3%)	45.1	56.3	10.8%	63.5%	**0.7x**	**Buy**
Diamond Trust Bank* **	45.0	45.9	2.0%	(16.5%)	(7.9%)	49.9	64.6	11.1%	54.7%	**0.2x**	**Buy**
Kenya Reinsurance	1.8	1.9	10.2%	1.1%	3.7%	1.9	2.5	11.4%	54.0%	**0.1x**	**Buy**
NCBA* **	34.6	37.0	6.9%	(8.9%)	(5.0%)	39.0	48.7	12.3%	53.2%	**0.7x**	**Buy**
KCB Group* **	31.1	31.9	2.7%	(3.2%)	(16.8%)	38.4	45.5	6.4%	53.0%	**0.5x**	**Buy**
Sanlam	7.8	7.1	(8.5%)	(2.7%)	(25.5%)	9.6	11.9	0.0%	52.7%	**0.8x**	**Buy**
ABSA Bank* **	10.8	11.6	7.4%	(6.6%)	(4.9%)	12.2	15.1	12.5%	52.7%	**0.8x**	**Buy**
Co-op Bank* **	11.4	12.1	6.1%	(9.0%)	0.0%	12.1	15.9	13.2%	52.6%	**0.5x**	**Buy**
Standard Chartered* **	145.8	159.0	9.1%	6.9%	9.7%	145.0	195.4	15.1%	49.1%	**0.9x**	**Buy**
Stanbic Holdings	98.3	104.8	6.6%	(11.2%)	2.7%	102.0	131.8	12.8%	46.9%	**0.7x**	**Buy**
CIC Group	1.9	1.9	(0.5%)	8.1%	(2.1%)	1.9	2.3	6.9%	30.3%	**0.7x**	**Buy**
HF Group	4.3	4.3	0.5%	9.0%	36.8%	3.2	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 0.7x), 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.