

Kenya's Listed Banks Q1'2023 Report, & Cytonn Weekly #24/2023

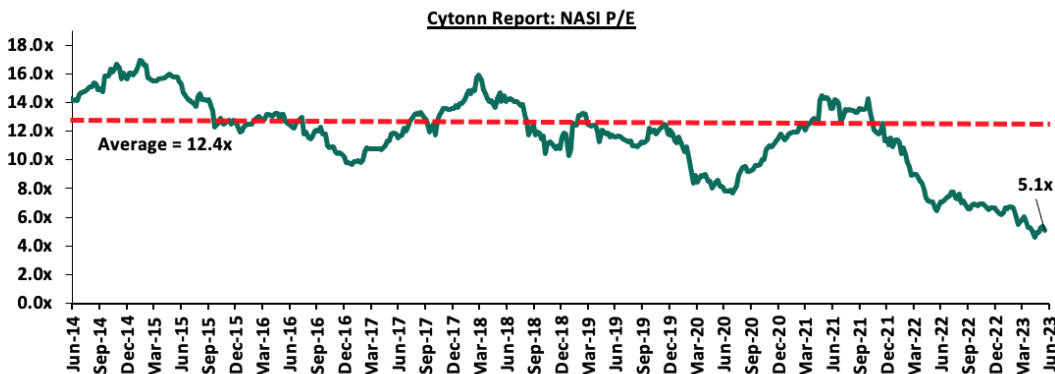
Equities

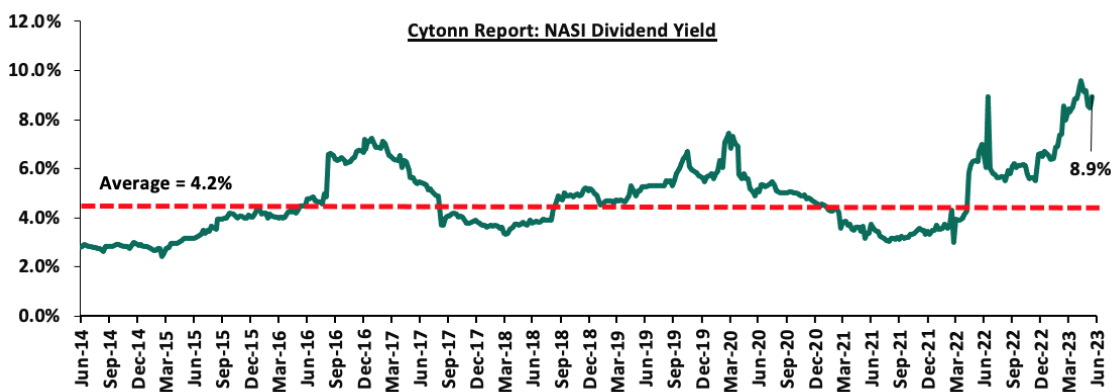
Market Performance:

During the week, the equities market was on a downward trajectory with NASI, NSE 20 and NSE 25 declining by 5.2%, 1.8% and 3.8% respectively, taking the YTD performance to losses of 21.2%, 6.6% and 16.0% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large-cap stocks such as Safaricom, KCB Group, Diamond Trust Bank (DTB-K) and EABL of 10.2%, 7.4%, 4.6% and 3.9% respectively. The Losses were however mitigated by gains recorded by stocks such as Bamburi and Stanbic of 5.7% and 1.1%, respectively.

During the week, equities turnover increased significantly by 167.2% to USD 11.8 mn, from USD 4.4 mn, recorded the previous week, taking the YTD turnover to USD 442.1 mn. Foreign investors turned net buyers with a net buying position of USD 0.2 mn, from a net selling position of USD 0.4 mn recorded the previous week, taking the YTD net selling position to USD 53.6 mn.

The market is currently trading at a price to earnings ratio (P/E) of 5.1x, 59.1% below the historical average of 12.4x. The dividend yield stands at 8.9%, 4.7% 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;





Equity Group Holdings Plc acquires 91.9% stake in Cogebanque

During the week, Equity Group Holdings Plc (EGH) announced that it had entered into a binding agreement with Government of Rwanda, Rwanda Social Security Board and other investors of Compagnie Generale De Banque (Cogebanque) Plc Limited to acquire a 91.9% stake in the Rwanda based lender. Upon the completion of the acquisition, EGH plans to eventually merge the business of the Cogebanque with that of its Rwandan Subsidiary, Equity Bank Rwanda Plc. Additionally, EGH intends to make an offer to the remaining shareholders to acquire all the shares in Cogebanque in a move that will make EGH take over 100.0% of the issued shares of Cogebanque.

For this acquisition, EGH will pay an aggregate cash consideration of USD 48.1 mn (Kshs 6.7 bn), translating to a Price to Book Value (P/B) of 1.3x given Cogebanque's Book value of Fwr 47.4 bn (Kshs 5.7 bn) as of 2022. Key to note, the P/B multiple is the same as the 10-year acquisitions average P/B of 1.3x, however it is higher than the current average P/B of the listed banking stocks of 0.7x. The acquisition will see EHG take over 28 branches from Cogebanque, taking its total branch network to 382, from the current 354 branches. Below is a table showing the combined pro-forma financials for the banks upon completion of the transaction;

Cytonn Report: Combined Pro-forma Balance Sheet

Balance Sheet	**Equity Group	*Cogebanque	Combined Entity
Net Loans (Kshs bn)	756.3	16.8	773.1
Customer Deposits (Kshs bn)	1,111.2	22.6	1,133.8
Total Assets (Kshs bn)	1,537.7	35.3	1,572.9
Total Liabilities Kshs bn)	1,347.0	29.6	1,376.6
No. of Branches	354	28	382

***Figures for the period ended 31st March 2023, *Figures for the period ended 31th December 2022*

Source: Equity Group Holdings Plc and Cogebanque Financial Statements

In our view, the proposed acquisition of Cogebanque by Equity Group Holdings Plc will see the group increase its footprint in the region in line with its expansion strategy. By expanding its distribution networks and market share, the acquisition presents an opportunity for increased profitability as the Group expects the bank to help drive business growth in the future. Additionally, we believe that this deal will lead to the growth in the Group's interest income which stood at Kshs 32.4 bn in Q1'2023 given that the bank being acquired rely heavily on funded income at a mix of 90:10, according to their FY'2022 financial results.

Below is a summary of the deals in the last 10 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
Equity Group	Cogebanque Plc Ltd	5.7	91.90%	6.7	1.3x	Jun-23
Shorecap III	Credit Bank Plc	3	20.00%	Undisclosed	N/A	Jun-23
Premier Bank Limited	First Community Bank	2.8	62.50%	Undisclosed	N/A	Mar-23
KCB Group PLC	Trust Merchant Bank (TMB)	12.4	85.00%	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	83.40%	4.3	1.1x	June-22*
KCB Group	Banque Populaire du Rwanda	5.3	100.00%	5.6	1.1x	Aug-21
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.00%	3.6	1.1x	Apr-21
KCB Group**	ABC Tanzania	Unknown	100%	0.8	0.4x	Nov-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.00%	1	0.3x	Aug-20
Commercial International Bank	Mayfair Bank Limited	1	51.00%	Undisclosed	N/D	May-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC.	1.9	100.00%	1.4	0.7x	Feb-20*
Equity Group **	Banque Commerciale Du Congo	8.9	66.50%	10.3	1.2x	Nov-19*
KCB Group	National Bank of Kenya	7	100.00%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23	0.7x	Sep-19
Oiko Credit	Credit Bank	3	22.80%	1	1.5x	Aug-19
CBA Group**	Jamii Bora Bank	3.4	100.00%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.20%	5.1	1.0x	Jan-18

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	Imperial Bank	Unknown	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.00%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.00%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.00%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.00%	1.3	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	3	100.00%	5	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.00%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.00%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.00%	8.6	3.2x	Nov-13
Average			75.0%		1.3x	
Average: 2013 to 2018			73.5%		1.7x	
Average: 2019 to 2023			75.8%		0.9x	

* Announcement Date

** Deals that were dropped

Universe of coverage:

Company	Price as at 9/06/2023	Price as at 16/06/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Liberty Holdings	4.4	3.9	(9.9%)	(22.2%)	5.9	0.0%	51.0%	0.3x	Buy
Equity Group***	37.9	37.2	(2.0%)	(17.5%)	51.2	10.8%	48.5%	0.8x	Buy
Jubilee Holdings	187.5	184.3	(1.7%)	(7.3%)	260.7	6.5%	48.0%	0.3x	Buy
KCB Group***	31.8	29.5	(7.4%)	(23.2%)	41.3	6.8%	46.9%	0.5x	Buy
CIC Group	2.0	1.9	(4.6%)	(2.6%)	2.5	7.0%	41.4%	0.6x	Buy
ABSA Bank***	11.6	11.6	0.0%	(5.3%)	14.7	11.7%	38.7%	0.9x	Buy

Company	Price as at 9/06/2023	Price as at 16/06/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	2.0	2.0	(0.5%)	5.9%	2.5	10.1%	36.9%	0.2x	Buy
NCBA***	39.9	39.3	(1.5%)	0.9%	48.9	10.8%	35.1%	0.8x	Buy
Co-op Bank***	12.2	12.2	0.0%	0.8%	15.0	12.3%	34.8%	0.6x	Buy
Sanlam	7.9	7.8	(1.5%)	(18.8%)	10.3	0.0%	32.3%	2.2x	Buy
Diamond Trust Bank***	48.0	45.8	(4.6%)	(8.1%)	54.6	10.9%	30.1%	0.2x	Buy
I&M Group***	17.0	17.0	0.0%	(0.6%)	19.5	13.3%	28.1%	0.4x	Buy
Standard Chartered***	160.3	160.8	0.3%	10.9%	183.9	13.7%	28.1%	1.1x	Buy
Stanbic Holdings	110.0	111.3	1.1%	9.1%	127.9	11.3%	26.3%	0.8x	Buy
Britam	5.0	5.0	(0.6%)	(4.8%)	6.0	0.0%	20.6%	0.7x	Buy
HF Group	4.5	5.0	9.7%	57.5%	5.8	0.0%	17.1%	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 tough 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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