The Private Sector Credit Growth, & Cytonn Weekly #46/2023

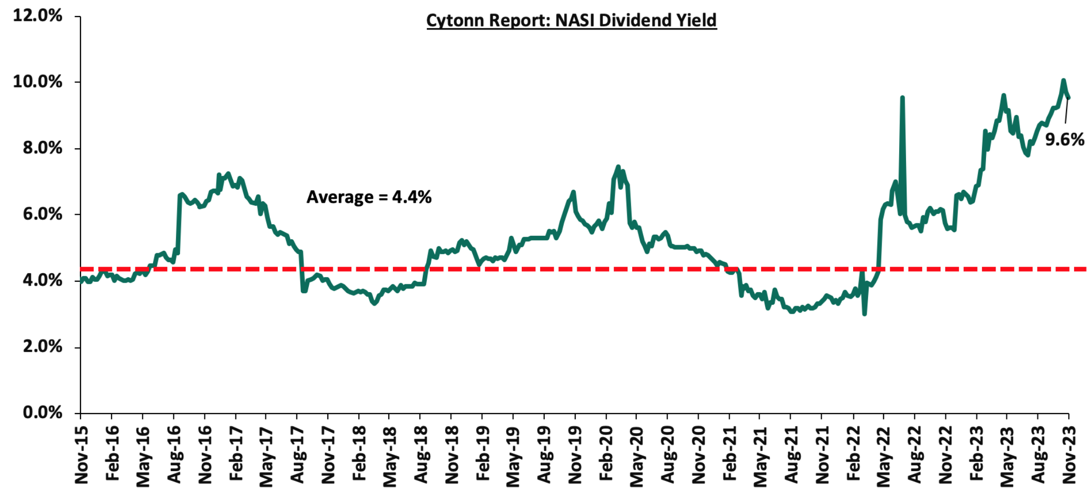
Equities

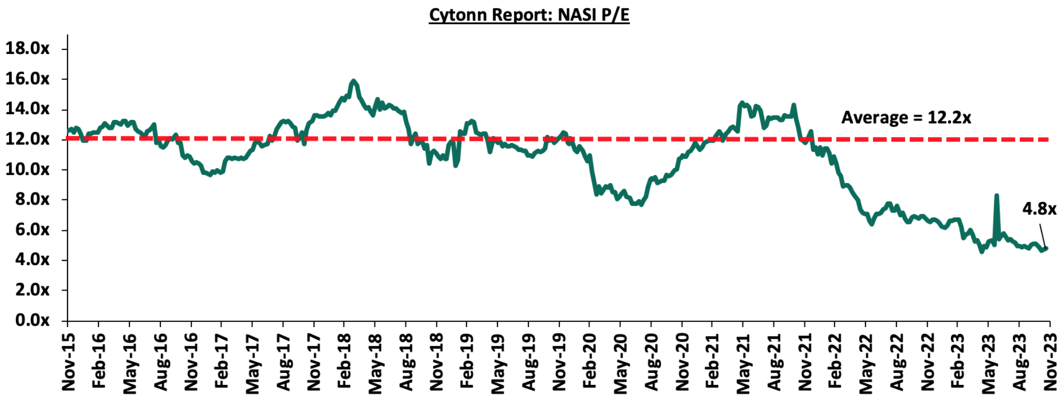
Market Performance:

During the week, the equities market was on an upward trajectory, with NSE 20 gaining the most by 3.7%, while NASI, NSE 25 and NSE 10 gained by 1.7%, 2.4% and 2.3% respectively, taking the YTD performance to losses of 28.9%, 24.6% and 12.1% for NASI, NSE 25, and NSE 20, respectively. The equities market performance was mainly driven by gains recorded by large-cap stocks such as Bamburi, KCB Group and cooperative Bank of 28.4%, 20.6% and 8.9% respectively. The gains were however weighed down by losses recorded by stocks such as EABL and Safaricom of 4.4% and 0.4% respectively.

During the week, equities turnover decreased by 72.3% to USD 2.9 mn, from USD 10.4 mn recorded the previous week, taking the YTD total turnover to USD 615.9 mn. Foreign investors remained net sellers for the sixth consecutive week with a net selling position of USD 0.5 mn, from a net selling position of USD 2.1 mn recorded the previous week, taking the YTD foreign net selling position to USD 288.0 mn.

The market is currently trading at a price to earnings ratio (P/E) of 4.8x, 60.5% below the historical average of 12.2x. The dividend yield stands at 9.6%, 5.2% points above the historical average of 4.4%. 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;





Universe of Coverage:

Cytonn Report: Equities Universe of Coverage

Company	Price as at 10/11/2023	Price as at 17/11/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
KCB Group* **	16.1	19.4	20.6%	(49.5%)	30.7	10.3%	69.0%	**0.3x**	**Buy**
Liberty Holdings	3.5	3.6	2.0%	(29.2%)	5.9	0.0%	65.8%	**0.3x**	**Buy**
Kenya Reinsurance	1.8	1.7	(2.9%)	(9.1%)	2.5	11.8%	59.4%	**0.1x**	**Buy**
Sanlam	6.8	6.8	0.0%	(29.0%)	10.3	0.0%	51.3%	**1.9x**	**Buy**
Jubilee Holdings	182.0	183.8	1.0%	(7.5%)	260.7	6.5%	48.4%	**0.3x**	**Buy**
ABSA Bank* **	10.8	11.1	2.8%	(9.4%)	14.8	12.2%	46.2%	**0.9x**	**Buy**
Diamond Trust Bank* **	44.1	45.0	2.2%	(9.7%)	58.1	11.1%	40.2%	**0.2x**	**Buy**
I&M Group* **	17.5	17.5	0.0%	2.6%	21.8	12.9%	37.4%	**0.4x**	**Buy**
NCBA* **	35.0	35.7	1.9%	(8.5%)	43.2	11.9%	33.1%	**0.7x**	**Buy**
Co-op Bank* **	10.7	11.6	8.9%	(4.1%)	13.5	12.9%	29.3%	**0.5x**	**Buy**
CIC Group	2.0	2.1	4.5%	9.4%	2.5	6.2%	25.8%	**0.7x**	**Buy**
Stanbic Holdings	100.8	104.3	3.5%	2.2%	118.2	12.1%	25.5%	**0.7x**	**Buy**
Standard Chartered* **	152.8	156.5	2.5%	7.9%	170.9	14.1%	23.3%	**1.1x**	**Buy**
Equity Group* **	37.3	38.0	1.9%	(15.6%)	42.6	10.5%	22.6%	**0.8x**	**Buy**
Britam	4.9	5.0	1.8%	(3.8%)	6.0	0.0%	19.4%	**0.7x**	**Accumulate**
HF Group	3.8	3.5	(8.2%)	10.2%	3.2	0.0%	(7.8%)	**0.2x**	**Sell**

Weekly Highlight

Earnings Release

I. Cooperative Bank Q3’2023 Financial Performance

During the week, Cooperative Bank released their Q3’2023 financial results. Below is a summary of the performance

Balance Sheet Items	Q3'2022	Q3'2023	y/y change
Government Securities	182.4	185.1	1.5%
Net Loans and Advances	335.2	378.1	12.8%
Total Assets	622.1	661.3	6.3%
Customer Deposits	432.0	432.8	0.2%
Total Liabilities	520.9	553.2	6.2%
Shareholders Funds	100.9	108.1	7.1%

Balance Sheet Ratios	Q3'2022	Q3'2023	y/y change
Loan to Deposit Ratio	77.6%	87.3%	9.8%
Return on average equity	22.5%	22.3%	(0.1%)
Return on average assets	3.6%	3.6%	0.0%

Income Statement	Q3'2022	Q3'2023	y/y change
Net Interest Income	32.0	32.8	2.5%
Non-Interest Income	20.2	20.6	2.1%
Total Operating income	**52.2**	**53.4**	**2.3%**
Loan Loss provision	(5.73)	(4.21)	(26.5%)
Total Operating expenses	(29.6)	(29.0)	(2.1%)
Profit before tax	22.7	24.7	8.6%
Profit after tax	**17.1**	**18.4**	**7.6%**
Earning per share	**2.9**	**3.1**	**7.6%**

Income Statement Ratios	Q3'2022	Q3'2023	Y/Y Change
Yield from interest-earning assets	11.4%	12.2%	0.8%
Cost of funding	3.2%	4.2%	1.0%
Net Interest Spread	8.2%	8.0%	(0.2%)
Net Interest Income as % of operating income	61.4%	61.5%	0.1%
Non-Funded Income as a % of operating income	38.6%	38.5%	(0.1%)
Cost to Income	56.8%	54.3%	(2.5%)
CIR without provisions	45.8%	46.4%	0.6%
Cost to Assets	3.84%	3.75%	(0.1%)
Net Interest Margin	8.5%	8.4%	(0.1%)

Capital Adequacy Ratios	Q3'2022	Q3'2023	% points change
Core Capital/Total deposit Liabilities	19.7%	23.1%	3.4%
Minimum Statutory ratio	8.0%	8.0%	
Excess	**11.7%**	**15.1%**	**3.4%**
Core Capital/Total Risk Weighted Assets	15.7%	17.9%	2.2%
Minimum Statutory ratio	10.5%	10.5%	
Excess	**5.2%**	**7.4%**	**2.2%**
Total Capital/Total Risk Weighted Assets	16.8%	22.1%	5.3%
Minimum Statutory ratio	14.5%	14.5%	

Capital Adequacy Ratios	Q3'2022	Q3'2023	% points change
Excess	**2.3%**	**7.6%**	**5.3%**
Liquidity Ratio	52.1%	50.3%	(1.8%)
Minimum Statutory ratio	20.0%	20.0%	
Excess	**32.1%**	**30.3%**	**(1.8%)**

Key Take-Outs:

1. **Earnings growth -** Core earnings per share (EPS) grew by 7.6% to Kshs 3.1, from Kshs 2.9 in Q3’2022, driven by the 2.3% growth in total operating income to Kshs 53.4 bn, from Kshs 52.2 bn in Q3’2022,
2. **Improved efficiency –** The bank’s total operating expenses decreased by 2.1% to Kshs 29.0 bn in Q3’2023 from Kshs 29.6 bn in Q3’2022, attributable to a 26.5% decrease in loan loss provisions to Kshs 4.2 bn, from Kshs 5.7 bn recorded in Q3’2022, coupled with a 3.5% decrease in other expenses to Kshs 12.6 bn from Kshs 13.1 bn in Q3’2022, which outpaced the slower 12.4% increase in staff costs to Kshs 12.2 bn, from Kshs 10.8 bn in Q3’2022, and,
3. **Asset quality Deterioration-** The bank’s asset quality deteriorated as evidenced by the NPL ratio increasing to 14.9% in Q3’2023 from 14.0% in Q3’2022, attributable to 19.5% increase in Gross non-performing loans to Kshs 61.9 bn, from Kshs 51.8 bn in Q3’2022, compared to the slower 12.3% increase in gross loans to Kshs 416.6 bn, from Kshs 371.1 bn recorded in Q3’2022.

For a more detailed analysis, please see the Cooperative Bank Q3’2023 Earnings Note

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 being undervalued 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.