

# Kenya Listed Banks Q3'2017 Report, & Cytonn Weekly #49/2017

## Equities

During the week, the equities market recorded mixed trends with NASI gaining 1.3%, while NSE 25 and NSE 20 recorded losses of 0.5% and 1.7%, respectively, taking their YTD performance to 31.4%, 23.9% and 17.7% for NASI, NSE 25 and NSE 20, respectively. This week's performance was driven by gains of 3.7% and 0.9% by KCB Group and Safaricom, respectively, while Equity Group and Co-operative Bank lost 3.0% and 1.8%, respectively. Since the February 2015 peak, the market has lost 1.3% and 31.8% for NASI and NSE 20, respectively.

Equities turnover increased by 20.6% to USD 32.7 mn from USD 27.1 mn the previous week. Foreign investors remained net buyers with a net inflow of USD 3.3 mn compared to a net inflow of USD 2.1 mn recorded the previous week. We expect the market to remain supported by improved investor sentiment once uncertainty dissipates, as investors take advantage of the attractive stock valuations.

The market is currently trading at a price to earnings ratio (P/E) of 13.4x, similar to the historical average of 13.4x, and a dividend yield of 3.8%, compared to a historical average of 3.7%. In our view, there still exist pockets of value in the market, with the current P/E valuation being 21.0% below the most recent peak of 16.9x in February 2015. The current P/E valuation of 13.4x is 37.8% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 60.9% above the previous trough valuation of 8.3x experienced in December 2011. The charts below indicate the historical P/E and dividend yields of the market.

Safaricom and Commercial Bank of Africa (CBA) plan to cut the lending rate on M-Shwari loans, a move aimed at defending their market share in the mobile micro loans segment that has attracted lenders including Equity Group, KCB Group and Co-operative Bank, which offer loans to their clients through their mobile banking apps. Other players in the segment include Tala and Branch, who disburse loans through android apps with the amount one can lend dependent on the borrower's M-PESA transaction history, and other factors such as size of payroll and frequency of payment. M-Shwari, which was rolled out 5-years ago to serve the section of the borrowers locked out of loans market for lack of collateral and a credit history, charges a one-off facility fee of 7.5% on the loan. As at March 2017, registered customers on M-Shwari stood at 18.3 mn from 14.0 mn in March 2017, while total cumulative loans issued under the platform grew by 17.0% y/y to Kshs 7.4 bn per month as at March 2017 from Kshs 6.3 bn per month in March 2016. Fees charged on the M-Shwari facility has been a key driver of growth in CBA's Non-Funded Income (NFI), with the bank reporting a 9.7% y/y growth in NFI to Kshs 8.1 bn in Q3'2017 from Kshs 7.4 bn in Q3'2016. Fees and commissions on loans and advances account for 56.3% of the bank's NFI and recorded a 9.9% growth to Kshs 4.6 bn in Q3'2017 from Kshs 4.2 bn in Q3'2016. CBA's gross non-performing loans increased slightly by 0.9% y/y to Kshs 12.9 bn in Q3'2017 from Kshs 12.8 bn. However, the increase may not be attributed to M-Shwari loans as the bank reported that the non-performing micro loans are still at acceptable levels. The reduction in fees is likely to result in growth in customer numbers hence driving the uptake of micro loans; especially in the current era of interest rates capping that has made most

banks prefer investment in government securities as opposed to lending to relatively riskier borrowers. This announcement comes even as Safaricom faces possible reduction in market share in the mobile operator segment following the recent entry by Jamii Telecom Limited (JTL), which seeks to offer low-cost data bundles and free on-network calls. JTL effectively becomes the fourth mobile operator in the market that has been dominated by Safaricom with a market share of 72.6%, while Airtel, Telkom and Finserve (Equitel) have market shares of 15.3%, 7.2% and 4.6%, respectively, according to the latest data by Communications Authority of Kenya. We however expect this to have minimal impact on Safaricom supported by the lock-in effects of the money transfer service, M-PESA, with Safaricom's share by value of transactions currently at 74.2%.

In order to ensure that the ranking of companies in the Cytonn Corporate Governance Report (Cytonn CGR) is up to date, we continually update the rankings whenever there are changes on any of the 24 metrics that we track and how they impact on the ranking. Below are board changes for this week:

- Mr. Mohamed Ahmed Mohamed was appointed as the acting Chief Executive Officer (CEO) of Uchumi Supermarkets following the resignation of Dr. Julius Kipng'etich. Mr. Mohamed was previously Uchumi's Chief Finance Officer (CFO). Uchumi's score has remained at 60.4% as no metric has been affected by the replacement of the CEO. The rank is therefore maintained at Position 34, and,
- Standard Bank Group has appointed Mr. Charles Mudiwa as CEO of Stanbic Bank Kenya, following reassignment of the former CEO, Mr. Philip Odera, to a new role within the group. Stanbic's score has maintained at 56.3%, ranking it at Position 41.

**Below is our Equities Universe of Coverage:**

<i>all prices in Kshs unless stated otherwise</i>								
No.	Company	Price as at 01/12/17	Price as at 08/12/17	w/w Change	YTD Change	Target Price*	Dividend Yield	Upside/ (Downside)**
1.	NIC***	37.3	36.0	(3.4%)	38.5%	61.4	3.5%	74.0%
2.	KCB Group***	40.8	42.3	3.7%	47.0%	59.7	7.1%	48.4%
3.	DTBK	194.0	192.0	(1.0%)	62.7%	281.7	1.4%	48.1%
4.	Barclays	9.9	9.8	(0.5%)	15.6%	12.8	10.2%	40.8%
5.	Liberty	13.8	12.4	(10.1%)	(6.1%)	16.4	0.0%	32.3%
6.	I&M Holdings	123.0	122.0	(0.8%)	35.6%	150.4	2.5%	25.7%
7.	Jubilee Insurance	470.0	469.0	(0.2%)	(4.3%)	575.4	1.9%	24.5%
8.	Kenya Re	20.3	20.3	0.0%	(10.0%)	24.4	3.7%	24.2%
9.	Co-op Bank	16.3	16.0	(1.8%)	21.2%	18.6	5.8%	22.0%
10.	CIC Group	6.0	5.6	(6.7%)	46.1%	6.2	1.8%	13.5%
11.	Equity Group	42.3	41.0	(3.0%)	36.7%	42.3	4.4%	7.6%
12.	Sanlam Kenya	30.0	30.0	0.0%	9.1%	31.4	1.0%	5.5%
13.	HF Group***	11.5	11.3	(1.7%)	(19.6%)	11.7	0.8%	5.0%
14.	Britam	15.2	14.9	(2.0%)	48.5%	15.2	1.5%	3.9%
15.	Stanbic Holdings	82.0	82.0	0.0%	16.3%	79.0	5.1%	1.4%
16.	Standard Chartered	215.0	211.0	(1.9%)	11.6%	201.1	4.2%	(0.5%)
17.	Safaricom	27.5	27.8	0.9%	44.9%	23.0	4.7%	(12.4%)
18.	NBK	10.1	9.8	(3.5%)	35.4%	5.6	0.0%	(42.9%)

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<b>*Target Price as per Cytonn Analyst estimates</b>								
<b>**Upside / (Downside) is adjusted for Dividend Yield</b>								
<b>***Banks in which Cytonn and/or its affiliates holds a stake</b>								
<b>For full disclosure, Cytonn and/or its affiliates holds a significant stake in KCB Group and NIC Bank, ranking as the 5th largest local institutional investor and the 9th largest shareholder, respectively</b>								

*We maintain a "NEUTRAL" view on equities for investors with short-term investment horizon since, despite the lower earnings growth prospects for this year, the market has rallied and brought the market P/E back to its' historical average. Pockets of value exist, with a number of undervalued sectors like Financial Services, which provide an attractive entry point for long-term investors and thus we are positive for investors with a long-term investment horizon.*

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