



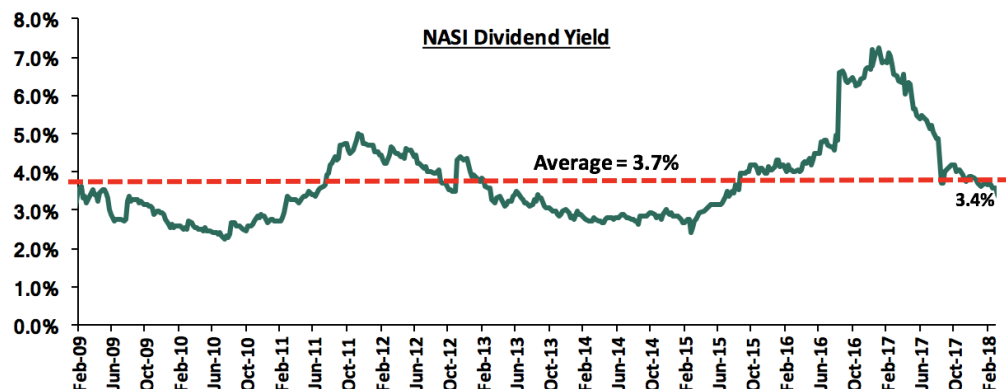
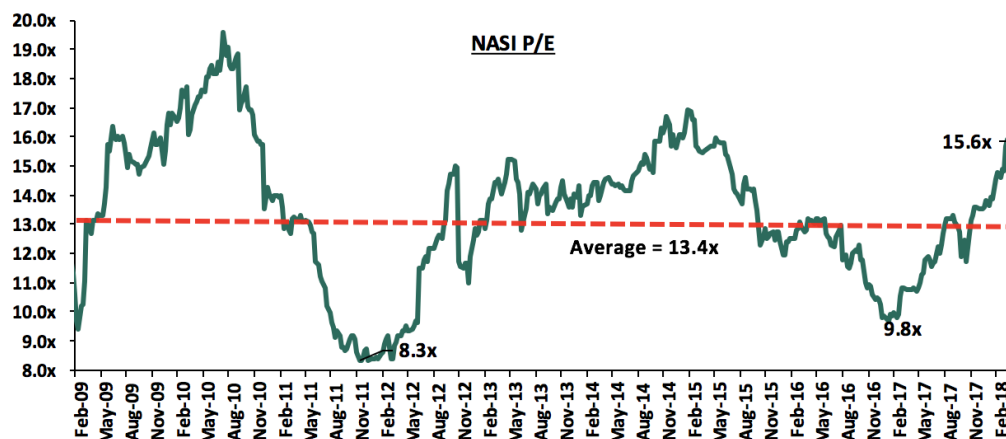
# Kenya Listed Banks FY'2017 Report, & Cytonn Weekly #15/2018

## Equities

During the week, the equities market was on a downward trend with NASI, NSE 20 and NSE 25 losing 1.8%, 0.4% and 0.9%, respectively, taking their YTD performance to 11.8%, 2.5% and 15.5%, for NASI, NSE 20 and NSE 25, respectively. This week's performance was driven by losses in KCB, BAT and Safaricom that declined by 4.5%, 4.1% and 3.9%, respectively, due to profit taking by investors. For the last twelve months (LTM), NASI, NSE 20 and NSE 25 have gained 41.7%, 22.6%, and 39.4%, respectively.

Equities turnover increased by 11.3% to USD 31.5 mn, from USD 28.3 mn the previous week. We expect the market to remain supported by positive investor sentiment this year, as investors take advantage of the attractive stock valuations in select counters.

The market is currently trading at a price to earnings ratio (P/E) of 15.6x, which is 16.4% above the historical average of 13.4x, and a dividend yield of 3.4%, lower than the historical average of 3.7%. The current P/E valuation of 15.6x is 60.8% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 88% 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.



During the week, Communications Authority of Kenya (CAK) released the telecommunications sector statistics of FY'2017/2018. The performance of the sector is as highlighted below:

Indicators	July-Sep	Oct-Dec	Percentage change
	Q1'2017/2018	Q2'2017/2018	From Q1 to Q2
Mobile Subscriptions (in millions)	41.0	42.8	4.4%
Fixed Subscriptions	71,118	69,861	(1.8%)
Mobile Penetration	90.4%	94.3%	4.3%
Data/ Internet Subscriptions (in millions)	30.9	33.0	8.0%
Mobile Money Subscriptions (in millions)	28.2	30.0	6.4%
Mobile Money Agents	184,537	198,234	7.4%

Indicators	July-Sep	Oct-Dec	Percentage change
	Q1'2017/2018	Q2'2017/2018	From Q1 to Q2
Value of Transactions (in Kshs billion)	1,659	1,763	63.7%

Source- CAK

Key highlights include:

- Mobile subscriptions rose by 1.8 mn new subscriptions, representing a 4.4% growth to 42.8 mn from 41.0 mn, and as a consequence mobile penetration increased to 94.3% from 90.4%,
- Safaricom registered a 2.8% decline in market share to 69.1% from 71.9% in Q1'2017/18. The market share for Airtel Networks Limited rose to 17.2% from 14.9% in the previous quarter. The two companies command an 86.3% market share, although Safaricom remains a dominant player in the sector,
- As at 31<sup>st</sup> December 2017, there were 607.4 million transactions with the overall value of the transactions standing at Kshs 1.8 trillion. Moreover, there were 308.6 million mobile commerce transactions value at Kshs 1.1 trillion. This translates to a person to person transfer amount of Kshs 596.4 million in Q2'2017/18, up from Kshs 544.2 million in Q1'2017/18,
- The total data/internet subscriptions rose by 8.0% to 33 mn subscriptions from 30.6 mn, following the rollout of the 4G network. Safaricom's market share in the segment decline by 3.2% from 76% in Q1'2017/18 to 72.8% in Q2'2017/18. Moreover, the market shares for Airtel Network limited and Telkom Kenya limited increased to 18.5% and 7.8% in Q2'2017/18 from 15.7% and 7.3%, respectively, in Q1'2017/18.

The mobile money segment continues to experience increased competition evidenced by a marginal reduction in Safaricom's market share by value of transactions to 79.9% in Q2'2017/2018, from 80.4% in Q1'2017/18. Equitel however registered a 0.5% increase in its market share from 19.4% in Q1 2017/2018 to 19.9% in Q2'2017/2018. The mobile money market overview is as shown in the table below:

Company	July-Sep		Oct-Dec		% Change in Market Share
	Value of transactions (Kshs bns)	Market Share	Value of transactions (Kshs bns)	Market Share	
M-Pesa	1,334.7	80.4%	1,409.8	79.9%	(0.5%)
Airtel Money	1.2	0.1%	1.6	0.1%	(0.0%)
Equitel	322.4	19.4%	350.0	19.9%	0.5%
MobiKash	0.1	0.0%	0.1	0.0%	0.0%
MobilePay	1.5	0.1%	1.5	0.1%	(0.0%)
<b>Total</b>	<b>1,659.9</b>	<b>100.0%</b>	<b>1,763.6</b>	<b>100.0%</b>	

Source- CAK

On the money transfer, we have seen great developments with;

- The transaction fees for cross-network money transfer transactions declining and matching the same network transfer charges. The cost of transferring between Kshs 101 and Kshs 500 from M-Pesa to Airtel Money declined by 75% to Kshs 11 from the previous Kshs 44. Furthermore, sending Kshs 1,100 from Airtel Money to M-Pesa will cost Kshs 15 compared to the previous Kshs 25, representing a 40% drop following the activation of the interoperability between Airtel and Safaricom. Mobile money subscribers will now be charged a similar amount when sending money to either an Airtel money or Safaricom Mpesa registered user, and,
- The amounts that can be transferred across networks increased since Safaricom raised the maximum transfer limit across networks to Kshs 70,000 from the initial Kshs 35,000.

The Central Bank of Kenya refined its capital waiver rules in accordance with the adoption of the IFRS 9 reporting standard, and stated that banks will have to take a full hit in the provisions for loans issued from 2019 onwards. According to the IFRS 9 reporting standard, banks are required to provide forward-looking provisioning for expected loan losses, rather than the previous retrospective method of provisioning. The initial drafted guidelines proposed a 5-year waiver period during which incremental provisions, emerging from the forward-looking provisions for expected credit losses, may be added to the earnings when computing core capital amounts. This move is likely to reduce capital positions for banks with poor asset quality, forcing them to raise capital in the near future, and lower tier banks that are constrained on capital will be the worst affected. We expect banks to adopt more stringent lending policies, thereby locking out risky borrowers, in order to mitigate the impact of expected credit losses on their respective capital positions.

The renewed push by the National Treasury and the Central Bank of Kenya to repeal the interest rate cap has been met with opposition from Parliament, who cite CBK's failure to enforce the law as required. The Banking Amendment Act 2015 that capped lending rates at 4 percentage points above the CBR and deposit rates at 70 percentage points of the CBR was enforced in August 2016, in a move which stifled growth in private sector credit, as banks were unable to price risky borrowers in the set margins and instead opted to devote funds to investments with higher returns on a risk adjusted basis, such as government paper. Repeal of the rates cap was one of a raft of changes promised by The National Treasury to the IMF during the negotiations of the credit standby facility. This puts the CBK and Treasury in an unfavorable position, as the repeal of the law requires a passing vote by the legislators, which may lead to the law remaining in effect for much longer.

Below is our Equities Universe of Coverage:

*all prices in Kshs unless stated otherwise*

No.	Company	Price as at 06/04/18	Price as at 13/04/18	w/w Change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/ (Downside)**	P/TBv Multiple
1.	NIC Group***	40.8	44.0	8.0%	30.4%	77.8%	61.6	2.3%	42.3%	<b>0.9x</b>
2.	Zenith Bank	27.3	26.1	(4.4%)	1.8%	86.4%	33.3	10.3%	38.0%	<b>1.4x</b>
3.	Union Bank Plc	6.7	6.3	(6.0%)	(19.9%)	44.0%	8.2	0.0%	30.4%	<b>0.7x</b>
4.	Diamond Trust Bank	214.0	210.0	(1.9%)	9.4%	69.4%	272.9	1.2%	31.2%	<b>1.2x</b>
5.	CRDB	170.0	170.0	0.0%	6.3%	(8.1%)	207.7	5.6%	27.8%	<b>0.7x</b>
6.	KCB Group	54.0	52.5	(2.8%)	22.8%	59.1%	63.7	5.7%	27.0%	<b>1.6x</b>
7.	Ghana Commercial	6.1	6.5	6.6%	28.5%	27.5%	7.7	5.8%	24.8%	<b>1.7x</b>

*all prices in Kshs unless stated otherwise*

No.	Company	Price as at 06/04/18	Price as at 13/04/18	w/w Change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/ (Downside)**	P/TBv Multiple
8.	Stanbic Bank Uganda	30.3	31.0	2.5%	13.8%	19.2%	36.3	3.2%	20.2%	2.0x
9.	I&M Holdings	120.0	129.0	7.5%	1.6%	39.5%	151.2	2.7%	19.9%	1.4x
10.	Barclays	13.0	13.0	0.4%	35.4%	45.3%	13.7	7.7%	12.9%	1.6x
11.	Co-operative Bank	19.8	19.3	(2.8%)	20.3%	68.0%	20.5	4.2%	10.8%	1.7x
12.	UBA Bank	11.9	10.7	(10.5%)	3.4%	84.9%	10.7	8.0%	8.5%	1.0x
13.	Bank of Kigali	290.0	290.0	0.0%	(3.3%)	18.9%	299.9	4.2%	7.7%	1.7x
14.	National Bank	9.0	8.3	(7.8%)	(11.8%)	37.5%	8.6	0.0%	4.2%	0.5x
15.	Ecobank GH	11.2	11.3	0.4%	48.0%	54.1%	10.7	7.3%	2.7%	4.0x
16.	Equity Group	54.5	55.5	1.8%	39.6%	70.8%	54.3	3.6%	1.5%	2.5x
17.	Stanbic Holdings	91.0	91.0	0.0%	12.3%	44.4%	87.1	5.8%	1.5%	1.1x
18.	Bank of Baroda	125.0	135.0	8.0%	19.5%	22.7%	130.6	0.0%	(3.3%)	1.1x
19.	HF Group***	11.8	12.1	3.0%	16.3%	19.2%	11.0	2.9%	(6.4%)	0.4x
20.	Guaranty Trust Bank	44.1	44.1	(0.1%)	8.1%	73.8%	37.2	6.1%	(9.4%)	2.7x
21.	SBM Holdings	7.7	7.7	1.0%	3.2%	9.0%	6.6	5.2%	(10.0%)	0.9x
22.	Access Bank	12.0	11.5	(4.6%)	9.6%	84.7%	9.5	5.7%	(11.3%)	0.8x
23.	Standard Chartered KE	229.0	240.0	4.8%	15.4%	8.6%	192.6	7.1%	(12.7%)	1.9x
24.	Stanbic IBTC Holdings	48.0	49.0	2.1%	14.5%	172.2%	37.0	1.0%	(23.4%)	2.9x
25.	CAL Bank	1.6	1.9	12.8%	71.3%	277.6%	1.4	0.0%	(24.3%)	1.2x
26.	Stanchart GH	35.2	35.1	(0.3%)	39.0%	127.1%	19.5	3.2%	(41.4%)	5.0x
27.	FBN Holdings	12.2	12.3	0.8%	39.2%	303.0%	6.6	1.6%	(44.3%)	0.7x
28.	Ecobank Transnational	17.0	18.4	8.2%	8.2%	111.5%	9.3	3.3%	(46.3%)	0.9x

*\*Target Price as per Cytonn Analyst estimates*

*\*\*Upside / (Downside) is adjusted for Dividend Yield*

*\*\*\*Banks in which Cytonn and/or its affiliates holds a stake. For full disclosure, Cytonn and/or its affiliates holds a significant stake in NIC Bank, ranking as the 5th largest shareholder*

***We are “NEUTRAL” on equities for investors with a short-term investment horizon since the market has rallied and brought the market P/E slightly above its’ historical average. However, pockets of value exist, with a number of undervalued sectors like Financial Services, which provide an attractive entry point for long-term investors, and with expectations of higher corporate earnings this year, we are “POSITIVE” for investors with a long-term investment horizon.***