



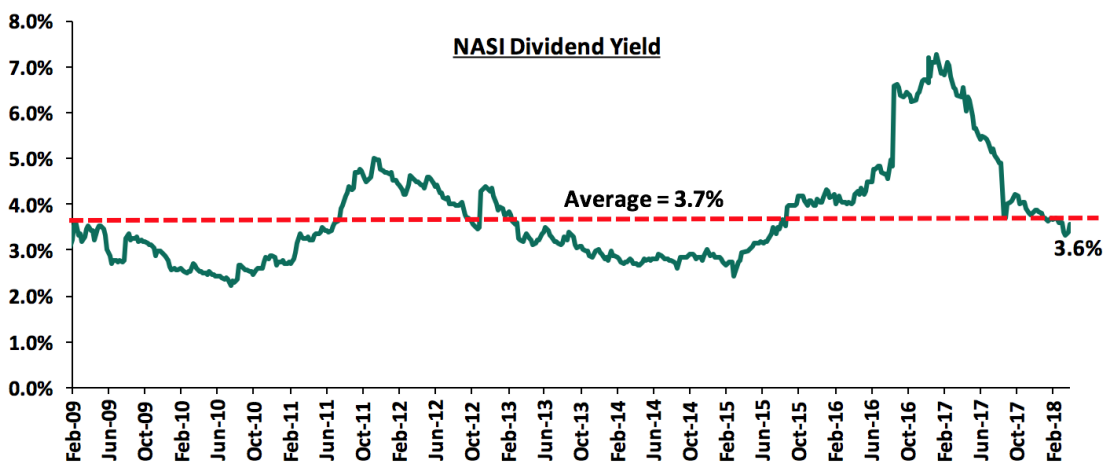
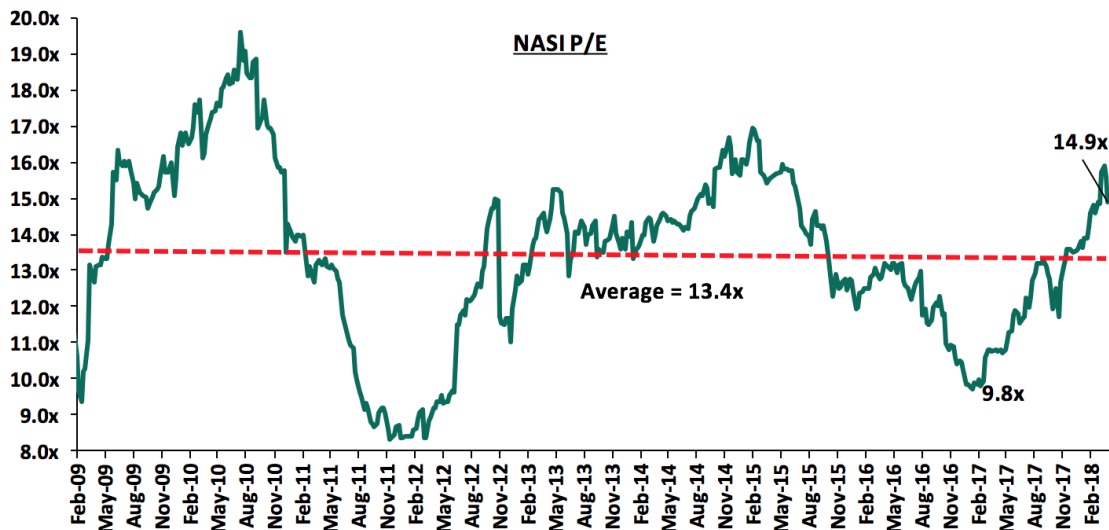
Affordable Housing in Kenya, & Cytonn Weekly #16/2018

Equities

During the week, the equities market was on a downward trend with NASI, NSE 20 and NSE 25 losing 4.5%, 2.5% and 3.6%, respectively, taking their YTD performance to 6.7%, 0.0% and 11.4%, for NASI, NSE 20 and NSE 25, respectively. This week's performance was driven by losses in Equity Group, Safaricom Ltd and BAT that declined by 8.1%, 6.5%, and 6.3%, respectively. For the last twelve months (LTM), NASI, NSE 20 and NSE 25 have gained 36.6%, 17.8%, and 34.9%, respectively.

Equities turnover increased by 30.8% to USD 41.2 mn, from USD 31.5 mn the previous week. We expect the market to remain stable 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 14.9x, which is 11.2% above the historical average of 13.4x, and a dividend yield of 3.6%, lower than the historical average of 3.7%. The current P/E valuation of 14.9x is 52.0% above the most recent trough valuation of 9.8x experienced in the first week of February 2017, and 79.5% 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, SBM Bank Kenya Limited completed the acquisition of certain assets and liabilities of Chase Bank Limited that was under receivership. The agreement for the acquisition between the Central Bank of Kenya (CBK), Kenya Deposit Insurance Corporation (KDIC) and SBM Bank Kenya provides that there will be a transfer of 75% of the value of all deposits currently under moratorium at Chase Bank Limited to SBM Kenya Ltd. The deal will also see the transfer of a majority of staff and branches of Chase Bank Limited to SBM Bank Kenya Limited. The remaining 25% of deposit value will remain with Chase Bank Limited. The 75% of moratorium deposits that will be transferred to SBM Bank is subject to the following conditions:

- i. 25% of each transferred deposit will be held in a current account with SBM, with no interest payable and unrestricted withdrawal,
- ii. 25% will be held in a savings account with SBM Bank, at a deposit interest rate of 6.7% per annum, with unrestricted withdrawal, and,
- iii. the remainder of each transferred deposit will be held in a fixed deposit account at an interest rate of 6.7% per annum. The deposits will mature in tranches, with a third maturing every year to a maximum of three years for those held in the fixed deposit account. Non-moratorium depositors will also be transferred to SBM Bank and will continue to have unrestricted access to their deposits.

The completion of the acquisition is positive for the Kenyan banking sector because this is the first time in Kenya that a bank has been successfully brought out of receivership. Given that the transaction value and stake are yet to be disclosed, we shall be updating our transactions multiples once more details of the acquisition are disclosed. The recent bank acquisitions are as highlighted below:

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bns)	Transaction Stake	Transaction Value (Kshs bns)	P/Bv Multiple	Date
DTB Kenya	Habib Bank Limited Kenya	2.4	100.0%	1.8	0.8x	Mar - 2017
SBM Holdings	Fidelity Commercial Bank	1.8	100.0%	2.8	1.6x	Nov - 2016
M Bank	Oriental Commercial Bank	1.8	51.0%	1.3	1.4x	Jun - 2016
I&M Holdings	Giro Commercial Bank	2.9	100.0%	5.0	1.7x	Jun - 2016
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.0%	2.6	2.3x	Mar - 2015
Centum	K-Rep Bank	2.1	66.0%	2.5	1.8x	Jul - 2014
GT Bank	Fina Bank Group	3.9	70.0%	8.6	3.2x	Nov - 2013
Average			80.3%		1.8x	

KCB Group received USD 80 mn of the USD 100 mn long-term line of credit advanced by the African Development Bank (AFDB). The credit is to be used to facilitate financing to Micro, Small and Medium Enterprises (MSMEs) as well as deserving corporate businesses across the agribusiness value chain and the energy sector. Banks have been receiving funding from external development financing institutions to facilitate onward lending to MSMEs. Victoria Commercial Bank (VCB) also received USD 5 mn of Subordinated tier 2 Compliant loan from Swedfund, a Swedish development finance institution, to boost its capital base, which will improve the bank's lending capacity to Small and Medium Enterprises (SMEs). The time horizon mismatch between issued loans, that tend to be relatively long term, and deposits that tend to be of a relatively shorter term, results in an asset liability mismatch by tenor, and to balance this out, banks have been obtaining attractively priced credit facilities from external development finance institutions. Development finance institutions have been lending to banking institutions in Kenya, especially those engaged in providing finance to MSMEs, as it contributes to societal impact whilst providing attractive financial returns. Previous issues such as that of the International Finance Corporation (IFC) to Co-operative bank were priced at The London Inter-Bank Offered rate (LIBOR), plus a premium, which was unspecified. The current 12-month LIBOR rate is at 2.8%.

Below is a summary of credit extended to banking institutions in the country in 2018:

	Issuer	Bank	Amount of Loan (Kshs bn)	Term of Credit
1	IFC	Cooperative Bank	15.2	7-years
2	Africa Development Bank	Kenya Commercial Bank	10.4	Not specified
3	SwedFund	Victoria Commercial Bank	0.5	Not specified

Issuer	Bank	Amount of Loan (Kshs bn)	Term of Credit
Total		26.1	

There has been a general increase in the size of the loans disbursed following the enactment of the Banking (Act) Amendment law. According to the Central bank the average size of the loans disbursed rose to Kshs 600,000 from Kshs 400,000. This could be an indicator that the quality of the loans disbursed could be much better as there are a few people who qualify for the loans. The downside to this is that the people who much need the loans have been locked out and this is reflected in the private sector credit growth that has slowed to 2.1% compared to the 5-year average of 14%. There has been lots of pressure to repeal or amend the Interest rate cap law, as it has not achieved the intended outcome of making credit affordable. A repeal of the law would inject some much-needed credit growth stimulus into the private sector. For more on the effects of the interest rate cap, see our Update on the Interest Rate Cap Effects on Credit Growth.

Below is our Equities Universe of Coverage:

all prices in Kshs unless stated otherwise

No.	Company	Price as at 13/04/18	Price as at 20/04/18	w/w Change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/(Downside)**	P/TBv Multiple
1.	NIC Group***	44.0	42.5	(3.4%)	17.2%	60.4%	61.6	2.8%	47.8%	0.8x
2.	Union Bank Plc	6.3	6.1	(2.4%)	(21.8%)	40.6%	8.2	0.0%	33.6%	0.7x
3.	Zenith Bank	26.1	27.0	3.4%	5.3%	86.1%	33.3	10.0%	33.4%	1.4x
4.	Diamond Trust Bank	210.0	212.0	1.0%	10.4%	68.3%	272.9	1.2%	30.0%	1.2x
5.	Ghana Commercial	6.5	6.3	(3.1%)	24.6%	21.0%	7.7	6.0%	28.7%	1.7x
6.	KCB Group	52.5	52.0	(1.0%)	21.6%	52.9%	63.7	5.8%	28.2%	1.6x
7.	CRDB	170.0	170.0	0.0%	6.3%	(8.1%)	207.7	5.7%	27.9%	0.7x
8.	I&M Holdings	129.0	125.0	(3.1%)	(1.6%)	38.9%	151.2	2.8%	23.8%	1.4x
9.	Stanbic Bank Uganda	31.0	31.0	0.0%	13.8%	19.2%	36.3	0.0%	17.0%	2.0x
10.	Co-operative Bank	19.3	18.5	(3.9%)	15.6%	60.9%	20.5	4.3%	15.2%	1.7x
11.	National Bank	8.3	7.5	(9.1%)	(19.8%)	34.2%	8.6	0.0%	14.6%	0.5x
12.	Barclays Bank	13.0	13.0	(0.4%)	34.9%	61.9%	13.7	7.7%	13.5%	1.6x
13.	Equity Group	55.5	51.0	(8.1%)	28.3%	55.7%	54.3	3.9%	10.5%	2.5x
14.	Bank of Kigali	290.0	289.0	(0.3%)	(3.7%)	18.0%	299.9	4.3%	8.1%	1.7x
15.	UBA Bank	10.7	11.2	5.2%	8.7%	115.4%	10.7	7.6%	3.1%	1.0x
16.	Stanbic Holdings	91.0	90.0	(1.1%)	11.1%	55.2%	87.1	5.8%	2.6%	1.1x

all prices in Kshs unless stated otherwise

No.	Company	Price as at 13/04/18	Price as at 20/04/18	w/w Change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/(Downside)**	P/TBv Multiple
17.	Ecobank GH	11.3	11.3	0.5%	48.8%	54.7%	10.7	7.3%	2.2%	4.0x
18.	HF Group***	12.1	11.9	(1.7%)	14.4%	17.8%	11.0	2.9%	(4.8%)	0.4x
19.	Bank of Baroda	135.0	140.0	3.7%	23.9%	27.3%	130.6	0.0%	(6.7%)	1.1x
20.	SBM Holdings	7.7	7.6	(1.8%)	1.3%	(1.8%)	6.6	5.3%	(8.4%)	0.9x
21.	Access Bank	11.5	11.2	(2.2%)	7.2%	78.6%	9.5	5.8%	(9.4%)	0.8x
22.	Guaranty Trust Bank	44.1	44.9	1.8%	10.1%	80.1%	37.2	6.0%	(11.0%)	2.7x
23.	Standard Chartered KE	240.0	236.0	(1.7%)	13.5%	18.0%	192.6	7.2%	(11.2%)	1.9x
24.	Stanbic IBTC Holdings	49.0	49.0	0.0%	18.1%	151.3%	37.0	1.0%	(23.4%)	2.9x
25.	CAL Bank	1.9	1.9	0.0%	71.3%	208.3%	1.4	0.0%	(24.3%)	1.2x
26.	Stanchart GH	35.1	35.1	0.1%	39.1%	122.0%	19.5	2.8%	(41.8%)	5.0x
27.	FBN Holdings	12.3	12.9	4.9%	46.0%	256.0%	6.6	1.6%	(46.8%)	0.7x
28.	Ecobank Transnational	18.4	19.5	6.0%	14.7%	164.2%	9.3	3.1%	(49.3%)	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 growth this year, we are “POSITIVE” for investors with a long-term investment horizon.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com
Generated By Cytonn Report

A product of **Cytonn Technologies**