

The Draft Financial Markets Conduct Bill, 2018, & Cytonn Weekly #23/2018

Equities

Market Performance:

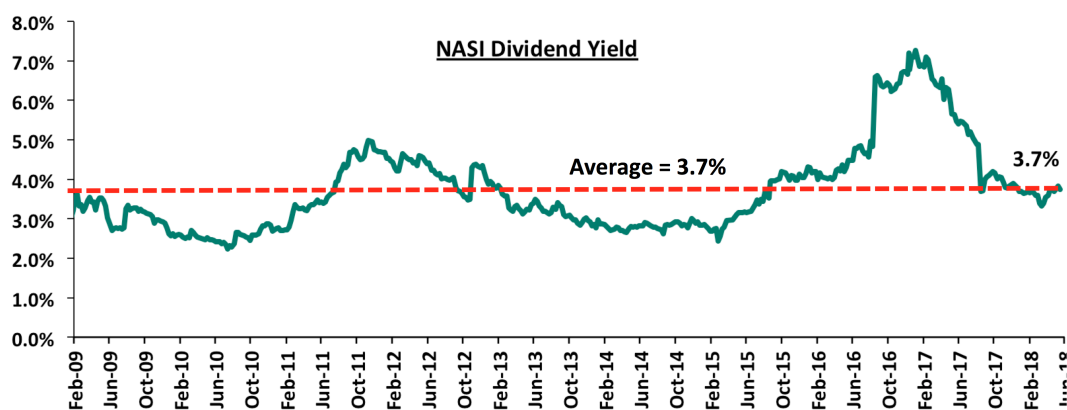
During the week, the equities market was on an upward trend with NASI, NSE 20 and NSE 25 gaining 2.6%, 0.5% and 2.4%, respectively. This takes the YTD performance of the NASI, NSE 20 and NSE 25 to 3.4%, (9.8%) and 4.4%, respectively. This week’s performance was driven by gains in large cap stocks in the telecoms and banking sector, with Safaricom, Equity Group, KCB Group, Cooperative Bank and Diamond Trust Bank appreciating by 5.3%, 4.8%, 4.3%, 2.9% and 2.6%, respectively. For the last twelve months (LTM), NASI and NSE 25 have gained 18.6% and 16.5%, respectively, while NSE 20 has declined by 3.6%.

Equities turnover increased by 3.1% this week to USD 33.6 mn from USD 32.6 mn the previous week. We expect the market to remain resilient this year supported by positive investor sentiment, 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 14.3x, which is above the historical average of 13.5x, and a dividend yield of 3.7%, consistent with the historical average of 3.7%. The current P/E valuation of 14.3x is 45.9% above the most recent trough valuation of 9.8x experienced in the first week of February 2017, and 72.3% 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.

NASI P/E

Month	P/E Ratio (x)
Jun-09	15.5
Sep-09	15.0
Dec-09	16.0
Mar-10	17.0
Jun-10	18.5
Sep-10	19.5
Dec-10	14.0
Mar-11	13.0
Jun-11	11.0
Sep-11	9.5
Dec-11	8.5
Mar-12	9.0
Jun-12	11.0
Sep-12	13.0
Dec-12	14.0
Mar-13	15.0
Jun-13	14.0
Sep-13	14.5
Dec-13	14.0
Mar-14	14.5
Jun-14	15.0
Sep-14	16.0
Dec-14	17.0
Mar-15	16.0
Jun-15	15.0
Sep-15	14.0
Dec-15	13.0
Mar-16	13.0
Jun-16	12.0
Sep-16	11.0
Dec-16	10.0
Mar-17	11.0
Jun-17	12.0
Sep-17	13.0
Dec-17	14.0
Mar-18	15.0
Jun-18	14.3



Weekly Highlights:

KCB Group and Liberty Life Assurance have collaborated to launch an insurance policy dubbed 'KCB Elimisha', through which customers can save for children's education for a minimum premium of Kshs 500. The policy will be underwritten by KCB Insurance Agency, which is a non-banking subsidiary of KCB Group Plc. Policyholders will be paid benefits within five to twenty years, ranging from between Kshs 50,000 and Kshs 40.0 mn, with double the guaranteed pay out in case of accidental death. Through the partnership, KCB Group expects to grow its non-interest revenue, which declined marginally to Kshs 5.5 bn in Q1'2018 from Kshs 5.6 bn in Q1'2017. The bank's Non-Funded Income (NFI) contribution to total income declined to 32.7% in Q1'2018 from 35.0% in Q1'2017, which is below the industry average of 33.6%; this is a very low number for such a strong brand that can be extended into lucrative fee income businesses such as investment advisory, investment banking, asset management and insurance. A number of banks have focussed on growing their NFI given the capping of interest rates that specifies a loan and deposit pricing framework, thus limiting growth in their net interest income. Hence, the partnership is set to boost KCB's NFI generated from its bancassurance business line and improve the bank's revenue diversification.

The Central Bank of Kenya (CBK) released data on national payment systems used by citizens. According to the CBK, the number of deals settled through card payments increased by 1.8% to 54.4 mn in Q1'2018 compared with 53.5 mn in Q1'2017, while the value of the payments increased by 2.0% to Kshs 350.6 bn in Q1'2018 from Kshs 343.6 bn in Q1'2017. Deals done via payment cards fell by 2.8% to 53.4 mn from 54.9 mn in Q1'2017, partly attributable to the shift to mobile transactions by retailers, as mobile transactions are deemed more secure compared to card payments. The number and value of mobile transactions continue to increase due to easier accessibility with the number of agents increasing by 24.2% to 196,002 in Q1'2018 from 157,855 in Q1'2017. The number of mobile transactions increased by 11.7% to 416.5 mn in Q1'2018 from 372.9 mn in Q1'2017, while the value of mobile payments rose by 6.9% to Kshs 961.0 bn from Kshs 899.1 bn in Q1'2017. Banks are increasingly pushing their customers to use alternative channels to perform transactions, in a bid to improve customer experience through easier accessibility of banking services, and increase their non-interest revenue in the wake of the interest rate cap.

Corporate Governance:

Bamburi Cement announced the resignation of two directors from its board; Jose Cantillana and Thibault Dornon, who was the alternate to Olivier Guitton. The company also gave notice of the appointment of Pierre Deleplanque to its board, effective 7th June 2018.

Following the changes:

- i. The board size has reduced to 9, an odd number, from 10 hence an improvement of the metric score to 1.0 from 0.5,
- ii. Gender diversity has improved slightly to 33.3% from 30.0%, which changes its score to 1.0 from

- 0.5 as it is greater than 33.0%,
- iii. Ethnic diversity improved marginally to 22.2% from 25.0%, hence the score remained the same at 1.0 since less than 30.0% are from one ethnicity,
- iv. The proportion of non-executive members has declined slightly to 66.7% from 70.0% previously but the score remains unchanged at 1.0 as it is still greater than 50.0%;

Overall, the comprehensive score has therefore improved to 70.8% from 66.7% previously, and the rank improved to 21 from 22 in the 2017 CGI report.

Equities Universe of Coverage:

Below is our Equities Universe of Coverage:

Banks	Price as at 31/05/2018	Price as at 8/06/2018	w/w change	YTD Change	LTM Change	Price as at 8/06/2017	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple
NIC Bank***	34.8	35.0	0.7%	3.7%	18.4%	29.6	56.0	2.9%	62.9%	0.8x
HF Group***	8.0	8.0	0.6%	(23.1%)	(14.2%)	9.3	11.7	4.0%	50.3%	0.3x
Union Bank Plc	5.6	5.6	0.9%	(28.2%)	6.5%	5.3	8.2	0.0%	45.5%	0.6x
DTB	190.0	195.0	2.6%	1.6%	38.3%	141.0	272.9	1.3%	41.3%	1.0x
I&M Holdings	108.0	120.0	11.1%	(5.5%)	29.0%	93.0	151.2	2.9%	28.9%	1.1x
KCB Group	46.0	48.0	4.3%	12.3%	20.0%	40.0	63.7	4.2%	36.8%	1.5x
CRDB	160.0	160.0	0.0%	0.0%	(15.8%)	190.0	207.7	0.0%	29.8%	0.5x
Ghana Commercial Bank	6.4	5.9	(6.9%)	17.6%	13.8%	5.2	7.7	6.4%	36.4%	1.4x
Co-operative Bank	17.0	17.5	2.9%	9.4%	20.4%	14.5	20.5	4.6%	21.9%	1.5x
Barclays	11.8	11.9	0.8%	24.0%	25.3%	9.5	13.7	8.4%	23.5%	1.5x
Equity Group	47.3	49.5	4.8%	24.5%	26.1%	39.3	54.3	4.0%	13.8%	2.5x
Stanbic Bank Uganda	31.5	32.0	1.6%	17.4%	23.1%	26.0	36.3	3.7%	17.0%	2.0x
UBA Bank	10.8	11.0	1.4%	6.3%	23.9%	8.8	10.7	13.7%	11.4%	0.7x
Bank of Kigali	289.0	289.0	0.0%	(3.7%)	18.0%	245.0	299.9	4.8%	8.6%	1.6x
Standard Chartered	202.0	200.0	(1.0%)	(3.8%)	(1.5%)	203.0	192.6	6.3%	2.5%	1.6x
Guaranty Trust Bank	40.5	41.2	1.6%	1.0%	22.7%	33.6	37.2	5.8%	(3.7%)	2.3x
Stanbic Holdings	95.5	94.0	(1.6%)	16.0%	31.5%	71.5	87.1	5.6%	(1.7%)	1.2x
CAL Bank	1.5	1.3	(13.1%)	16.7%	80.0%	0.7	1.4	0.0%	11.1%	1.1x
Access Bank	10.4	10.7	2.9%	2.4%	4.2%	10.3	9.5	3.7%	(7.5%)	0.7x
Ecobank	11.6	11.3	(2.8%)	48.7%	71.4%	6.6	10.7	0.0%	(5.0%)	3.2x
SBM Holdings	7.7	7.5	(2.3%)	(0.3%)	0.0%	7.5	6.6	4.0%	(8.3%)	1.1x
Bank of Baroda	160.0	160.0	0.0%	41.6%	45.5%	110.0	130.6	1.6%	(16.8%)	1.4x
Stanbic IBTC Holdings	46.1	48.2	4.6%	16.1%	66.2%	29.0	37.0	1.2%	(22.0%)	2.5x
Standard Chartered	26.0	27.0	3.9%	7.0%	67.6%	16.1	19.5	0.0%	(28.0%)	3.4x
FBN Holdings	10.2	10.6	3.9%	19.9%	59.4%	6.6	6.6	2.4%	(34.8%)	0.6x
Ecobank Transnational	19.5	20.0	2.6%	17.6%	59.5%	12.5	9.3	0.0%	(53.6%)	0.7x

*Target Price as per Cytton Analyst estimates

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

***Banks in which Cytton and/or its affiliates holds a stake. For full disclosure, Cytton 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.

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