

# Kenya Listed Banks Q1'2018 Report, & Cytonn Weekly #24/2018

## Equities

### Market Performance:

During the week, the equities market recorded mixed performance with NASI gaining 0.9%, while NSE 20 and NSE 25 both declined by 0.1%. This takes the YTD performance of the NASI, NSE 20 and NSE 25 to 4.1%, (9.8%) and 6.3%, respectively. This week's performance was mixed, with gains by KCB Group, Safaricom, NIC Group and Bamburi of 1.0%, 0.8%, 0.7% and 0.6%, respectively; being offset by declines in Co-operative Bank, East Africa Breweries, Equity Group of 2.9%, 2.7%, and 1.0%, respectively. For the last twelve months (LTM), NASI and NSE 25 have gained 17.2% and 13.1%, respectively, while NSE 20 has declined by 4.5%.

Equities turnover declined by 4.0% this week to USD 32.3 mn from USD 33.6 mn the previous week, with foreign investors making up the bulk of market activity during the 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 14.7x, 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 14.7x is 50.0% above the most recent trough valuation of 9.8x experienced in the first week of February 2017, and 77.1% 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.



### Weekly Highlights:

Global rating agency Fitch has assigned KCB Group a Long -Term Issuer Default Ratings (IDRs) of B+ with a stable outlook. According to Fitch, the rating comes on the back of the Group's solid earnings and profitability, and a healthy funding profile characterized by stable, low-cost customer deposits. The agency recognized KCB's strong company profile, underpinned by its leading retail and corporate franchise in the country, in addition to the bank's robust management quality. However, Fitch noted the banks' deteriorating asset quality, coupled with a challenging domestic operating environment for the Group. KCB Group's non-performing loans increased by 36.2% y/y to Kshs 43.8 bn from Kshs 32.2 bn in Q1'2017. Owing to KCB Group's business activities being concentrated in Kenya, neither KCB Group nor KCB Bank can be rated above Kenya's (sovereign) rating of (B+). The stable outlook therefore reflects the stable outlook on the Kenyan sovereign rating. KCB's strategy hinges on consolidating its position in existing markets and growing their customer base by utilizing digital banking channels. The rating underlines the bank's ability to meet its financial commitments as it focuses on improving its competitive position in key products and services across its subsidiaries in the region.

### Equities Universe of Coverage:

Below is our Equities Universe of Coverage:

<b>Banks</b>	<b>Country-Currency</b>	<b>Price as at 8/06/2018</b>	<b>Price as at 14/06/2018</b>	<b>w/w change</b>	<b>YTD Change</b>	<b>LTM Change</b>	<b>Target Price*</b>	<b>Dividend Yield</b>	<b>Upside/Downside**</b>	<b>P/TBv Multiple</b>
Ghana Commercial Bank	Ghanaian Cedi	5.9	5.2	(13.0%)	2.4%	(0.6%)	7.7	7.4%	56.7%	<b>1.3x</b>
NIC Bank***	Kenya Shilling	35.0	35.3	0.7%	4.4%	25.1%	54.1	2.8%	56.3%	<b>0.8x</b>
Diamond Trust Bank	Kenya Shilling	195.0	195.0	0.0%	1.6%	30.0%	280.1	1.3%	45.0%	<b>1.1x</b>
I&M Holdings	Kenya Shilling	120.0	120.0	0.0%	(5.5%)	18.8%	169.5	2.9%	44.2%	<b>1.2x</b>
Zenith Bank	Nigerian Naira	27.1	26.4	(2.4%)	3.0%	20.6%	33.3	10.2%	36.4%	<b>1.1x</b>
Union Bank Plc	Nigerian Naira	5.6	6.2	10.7%	(20.5%)	17.6%	8.2	0.0%	31.5%	<b>0.6x</b>
CRDB	Tanzania Shilling	160.0	160.0	0.0%	0.0%	(5.9%)	207.7	0.0%	29.8%	<b>0.5x</b>
KCB Group	Kenya Shilling	48.0	48.5	1.0%	13.5%	27.6%	60.9	4.1%	29.7%	<b>1.5x</b>
Barclays	Kenya Shilling	11.9	11.9	(0.4%)	23.4%	24.7%	14.0	8.4%	26.6%	<b>1.5x</b>
HF Group***	Kenya Shilling	8.0	8.5	6.3%	(18.3%)	(7.0%)	10.2	3.8%	23.8%	<b>0.3x</b>
Co-operative Bank	Kenya Shilling	17.5	17.0	(2.9%)	6.3%	17.2%	19.7	4.7%	20.6%	<b>1.5x</b>
Stanbic Bank Uganda	Uganda Shilling	32.0	31.5	(1.6%)	15.6%	21.2%	36.3	3.7%	18.9%	<b>2.0x</b>
Equity Group	Kenya Shilling	49.5	49.0	(1.0%)	23.3%	23.3%	55.5	4.1%	17.3%	<b>2.5x</b>
CAL Bank	Ghanaian Cedi	1.3	1.3	(0.8%)	15.7%	76.4%	1.4	0.0%	12.0%	<b>1.0x</b>
UBA Bank	Nigerian Naira	11.0	11.0	0.5%	6.8%	24.6%	10.7	13.6%	10.9%	<b>0.7x</b>
Bank of Kigali	Rwandan Franc	289.0	290.0	0.3%	(3.3%)	18.4%	299.9	4.8%	8.2%	<b>1.6x</b>
Ecobank	Ghanaian Cedi	11.3	10.2	(9.7%)	34.2%	60.3%	10.7	0.0%	5.2%	<b>2.9x</b>
Stanbic Holdings	Kenya Shilling	94.0	91.5	(2.7%)	13.0%	28.0%	85.9	5.7%	(0.4%)	<b>1.1x</b>
Standard Chartered	Kenya Shilling	200.0	200.0	0.0%	(3.8%)	(3.4%)	184.3	6.3%	(1.6%)	<b>1.6x</b>
Guaranty Trust Bank	Nigerian Naira	41.2	41.5	0.9%	1.8%	17.2%	37.2	5.8%	(4.5%)	<b>2.3x</b>
Access Bank	Nigerian Naira	10.7	10.6	(0.9%)	1.4%	4.8%	9.5	3.8%	(6.6%)	<b>0.7x</b>
SBM Holdings	Mauritian Rupee	7.5	7.4	(1.1%)	(1.3%)	1.1%	6.6	4.1%	(7.3%)	<b>1.1x</b>
Bank of Baroda	Ugandan Shilling	160.0	160.0	0.0%	41.6%	46.8%	130.6	1.6%	(16.8%)	<b>1.4x</b>
Stanbic IBTC Holdings	Nigerian Naira	48.2	49.0	1.7%	18.1%	58.0%	37.0	1.2%	(23.3%)	<b>2.5x</b>
Standard Chartered	Ghanaian Cedi	27.0	27.0	(0.1%)	6.9%	63.6%	19.5	0.0%	(27.9%)	<b>3.4x</b>
FBN Holdings	Nigerian Naira	10.6	10.9	2.8%	23.3%	54.1%	6.6	2.3%	(36.6%)	<b>0.6x</b>
Ecobank Transnational	Nigerian Naira	20.0	20.0	0.0%	17.6%	58.1%	9.3	0.0%	(53.6%)	<b>0.7x</b>
National Bank	Kenya Shilling	6.5	6.9	7.0%	(26.2%)	(18.8%)	2.8	0.0%	(59.4%)	<b>0.4x</b>

*\*Target Price as per Cytonn Analyst estimates, prices in respective local currencies*

*\*\*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.***

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