



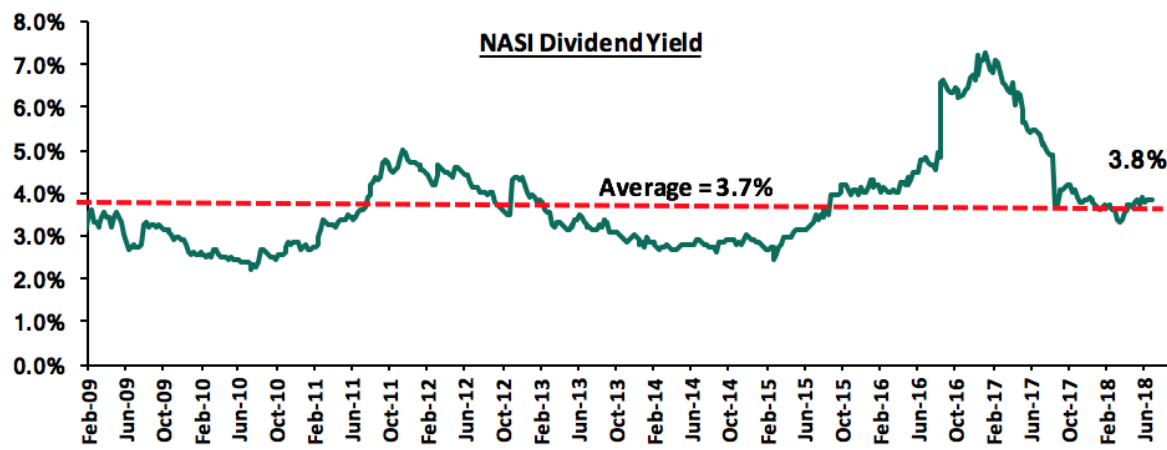
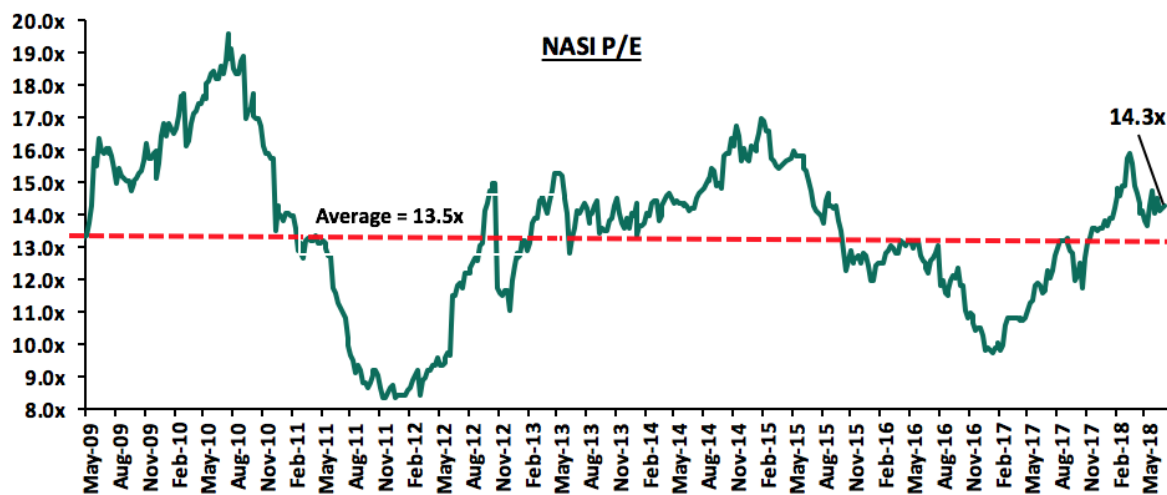
Kisumu Real Estate Investment Opportunity, & Cytonn Weekly #28/2018 Equities

Market Performance:

During the week, the equities market recorded mixed performance, with NASI, and NSE 25 gaining 0.6% and 1.3%, respectively, while NSE 20 declined by 0.6%, taking their YTD performance to 0.7%, (10.7%) and 4.3%, for NASI, NSE 20 and NSE 25; respectively. This week's performance was driven by marginal gains in large-cap counters in the financial sector; with NIC Group, Diamond Trust Bank, Equity Group and Barclays gaining 0.7%, 0.5%, 0.5%, and 0.4%, respectively. For the last twelve months (LTM), NASI, NSE 20 and NSE 25 have gained 11.7%, (10.0%) and 8.7%, respectively.

Equities turnover increased by 4.2% this week to USD 20.4 mn from USD 19.6 mn the previous week, with foreign investors dominating 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 14.3x, which is 6.0% above the historical average of 13.5x, and a dividend yield of 3.8%, which is higher than 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.



Weekly Highlights:

Pro Credit Bank, a subsidiary of Equity Group with operations in the Democratic Republic of Congo, has changed its name to Equity Bank Congo, three years after Equity first announced the acquisition of the SME-focused lender. Equity first acquired a 79.0% stake in Pro Credit Bank in September 2015 for Kshs 4.5 bn in a share swap deal that saw the bank issue 70.8 mn shares to investors exiting the subsidiary. The transaction effectively valued the DRC-based lender at Kshs 5.7 bn, equivalent to Kshs 80.5 per share. Equity Group then acquired another 7.0% stake for Kshs 2.2 bn in cash, an indication of its confidence in the future prospects of the bank. Equity is among Kenyan lenders with ambitious growth strategies to gain market share in retail banking both locally and in the Eastern Africa market, as they seek fresh income streams in the wake of a tighter regulatory environment in the local market, which has capped the pricing of loans to 4.0% above the Central Bank Rate(CBR).

The implementation of the "Robin Hood" tax of 0.05% on transactions worth Kshs 500,000 and above has been suspended by the High Court, following a move by the Kenya Bankers Association (KBA) seeking to suspend the implementation of the tax. Justice Wilfrida Okwany, in the conservatory orders issued on Thursday, noted that the petition raised fundamental constitutional concerns, among them being the principle of public participation. The Attorney-General, Mr. Kihara Kariuki, had termed the quest to suspend the Robin Hood tax premature as Parliament has not passed the relevant Bill into law. The Attorney General took the position in response to KBA's opposition to the tax on grounds that there was no stakeholder engagement prior to the operationalization of the law as required by the Constitution. The AG and the Kenya Revenue Authority (KRA), argued that Parliament has already invited public participation on the Finance Bill 2018, according banks an opportunity to present their views on the Bill.

Equities Universe of Coverage:

Below is our Equities Universe of Coverage:

Banks	Price as at 20/07/2018	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple
Ghana Commercial Bank***	5.0	0.2%	(0.8%)	7.7	7.6%	62.0%	1.2x
NIC Bank***	34.8	0.0%	3.0%	54.1	2.9%	58.6%	0.8x
I&M Holdings***	114.0	3.6%	9.6%	169.5	3.2%	57.3%	1.1x
Zenith Bank***	23.0	(4.2%)	(10.3%)	33.3	11.3%	50.1%	1.0x
Diamond Trust Bank***	196.0	0.5%	2.1%	280.1	1.3%	45.0%	1.1x
Union Bank Plc	5.8	(2.5%)	(25.6%)	8.2	0.0%	37.0%	0.6x
Ecobank	8.2	2.1%	7.5%	10.7	0.0%	34.1%	2.3x
KCB Group***	48.3	1.0%	12.9%	60.9	6.3%	33.8%	1.5x
Barclays	11.5	0.4%	19.8%	14.0	8.7%	31.0%	1.4x
CRDB	160.0	0.0%	0.0%	207.7	0.0%	29.8%	0.5x
HF Group***	8.5	0.0%	(18.3%)	10.2	3.8%	23.8%	0.3x
UBA Bank	9.6	(4.5%)	(7.3%)	10.7	15.0%	22.0%	0.7x
Co-operative Bank	16.8	(1.2%)	5.0%	19.7	4.7%	20.6%	1.5x
Equity Group	49.5	1.5%	24.5%	55.5	4.1%	17.9%	2.5x
Stanbic Bank Uganda	33.0	3.1%	21.1%	36.3	3.7%	17.0%	2.0x
Bank of Kigali	290.0	0.0%	(3.3%)	299.9	4.8%	8.2%	1.6x
CAL Bank	1.3	(0.8%)	19.4%	1.4	0.0%	7.7%	1.1x
Stanbic Holdings	92.0	2.2%	13.6%	85.9	5.8%	1.3%	1.1x
Guaranty Trust Bank	38.0	(4.4%)	(6.7%)	37.2	6.0%	(0.3%)	2.2x
Access Bank	10.1	(1.0%)	(3.3%)	9.5	3.9%	(2.9%)	0.7x
Standard Chartered	204.0	0.5%	(1.9%)	184.3	6.2%	(3.1%)	1.6x
SBM Holdings	7.3	2.8%	(2.1%)	6.6	4.2%	(3.9%)	1.0x
Bank of Baroda	140.0	(3.4%)	23.9%	130.6	1.7%	(8.2%)	1.3x
Standard Chartered	26.0	0.0%	3.0%	19.5	0.0%	(25.2%)	3.3x
Stanbic IBTC Holdings	48.8	(5.2%)	17.6%	37.0	1.2%	(27.0%)	2.7x
FBN Holdings	9.1	(13.0%)	2.8%	6.6	2.4%	(33.8%)	0.6x
Ecobank Transnational	20.7	1.5%	21.5%	9.3	0.0%	(54.4%)	0.7x

National Bank 5.6 (9.8%) (40.6%) 2.8 0.0% (54.5%) **0.4x**

***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**

******Stock prices indicated in respective country currencies**

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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