



# The IMF Precautionary Credit Facility 2018, & Cytonn Weekly #35/2018

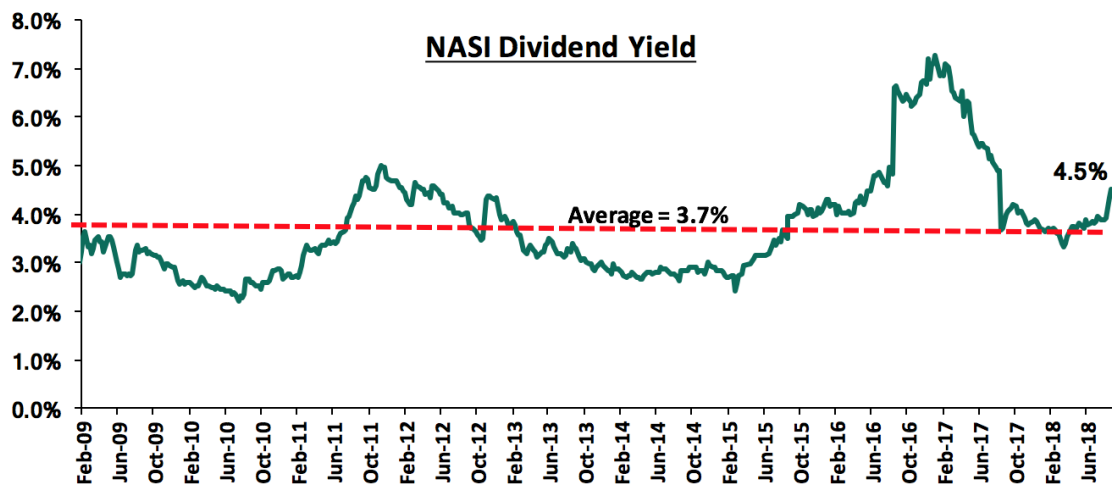
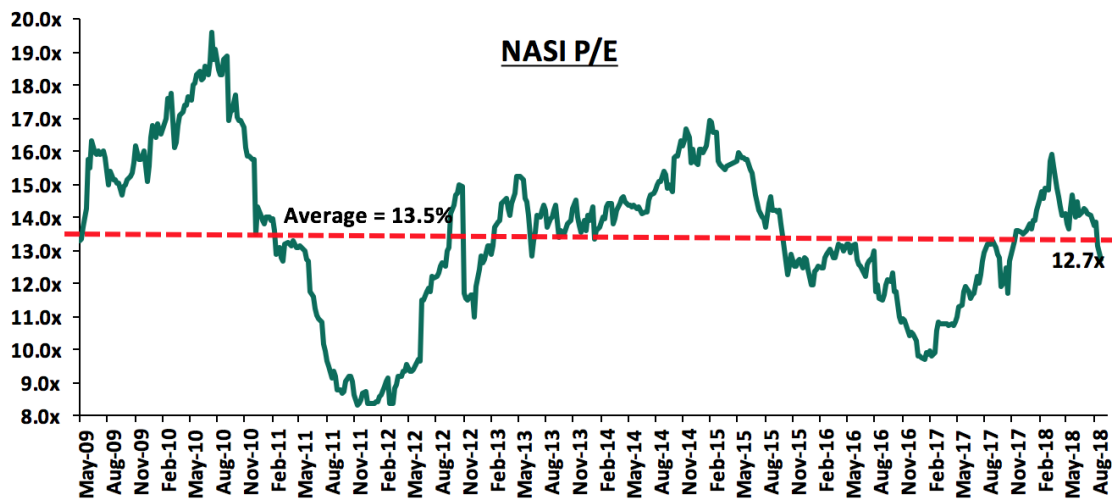
## Equities

### **Market Performance:**

During the week, the equities market was on a downward trend with NASI, NSE 20 and NSE 25 declining by 3.4%, 3.4% and 3.0%, respectively, taking their YTD performance to declines of 7.6%, 19.4% and 8.2%, respectively. This week's performance was driven by declines in large cap stocks such as Bamburi Cement, Barclays Bank of Kenya, Diamond Trust Bank and Safaricom that declined by 9.4%, 7.7%, 3.7% and 3.6%, respectively. For the last twelve months (LTM), NASI, NSE 20 and NSE 25 have declined by 3.9%, 21.5% and 5.8%, respectively.

Equities turnover increased by 6.4% to USD 26.0 mn from USD 24.5 mn the previous week. During the week, foreign investors remained net sellers, with net sales of USD 4.1 mn. We expect the market to remain supported by positive investor sentiment this year, as investors take advantage of the current attractive stock valuations in select counters.

The market is currently trading at a price to earnings ratio (P/E) of 12.7x, which is 5.9% below the historical average of 13.5x, and a dividend yield of 4.5%, higher than the historical average of 3.7%. The current P/E valuation of 12.7x is 29.6% above the most recent trough valuation of 9.8x experienced in the first week of February 2017, and 53.0% 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:

Five banks implicated in the National Youth Service (NYS) Scandal, where Kshs 9.0 bn was lost in a graft scandal that saw several companies receive payments for goods not delivered, have been fined a collective Kshs 392.5 mn. The banks, which include KCB Group, Equity Group Holdings, Standard Chartered Bank of Kenya (SCBK), Co-operative Bank and Diamond Trust Bank (DTB), have been granted a period of two-weeks to seal the loopholes that aided the occurrence of the fraud without notice to the relevant authorities. The Central Bank of Kenya ordered the banks to submit an action plan aimed at thwarting such lapses within the two-weeks. KCB Group has been levied with the highest penalty for allegedly channeling money stolen from the Government through the NYS scam. The bank will be required to pay Kshs 149.5 mn for processing amounts of up to Kshs 639.0 mn. This is despite the bank processing lower amounts than its peers. Standard Chartered Bank processed Kshs 1.6 bn, but was fined Kshs 77.5 mn, while Equity Bank processed Kshs 886.0 mn, and was fined Kshs 89.5 mn. Co-operative Bank was found culpable for helping divert Kshs 263.0 mn and will have to pay a fine of Kshs 20.0 mn. Diamond Trust Bank will pay Kshs 56.0 mn for transferring Kshs 162.5 mn to NYS suspects' accounts. The banks seemed to have done little to no due diligence on the customers they handed cash to and sometimes handed over large sums of money without appropriate documentation. This comes after it was revealed that some of the companies under investigation opened accounts a few hours before the NYS money was credited. Banks, which are required to report large transactions, contravened their mandate by not reporting transactions that exceeded Kshs 1.0 mn to the Financial Reporting Centre. The CBK Governor indicated that the investigation would now be handed to the Directorate of Criminal Investigations and the Office of the Director of Public Prosecutions to pursue criminal culpability where, if an individual is found guilty of

contravening the Crime and Anti-Money Laundering Act, they face an imprisonment term not exceeding 14-years or may be fined Kshs 5.0 mn. This comes after the Kenya Bankers Association (KBA) introduced stringent rules where bank customers planning to withdraw or deposit Kshs 10 mn and above in cash will now be required to give a three-days' notice and get clearance from branch managers. The KBA, in a circular, directed bank managers to ensure customers also provide supporting evidence for their source of cash when depositing and its use while withdrawing. These rules are aimed at combatting any money laundering and financial crimes that have become increasingly prevalent. We are of the view that increased emphasis on due diligence on customers conducting bank transfers of significant amounts, supported with appropriate documentation, will aid in combating the vice that has bedeviled the country.

### Equities Universe of Coverage:

Below is our Equities Universe of Coverage:

| Banks                    | Price as at 7/09/2018 | Price as at 14/09/2018 | w/w change | YTD Change | LTM Change | Target Price* | Dividend Yield | Upside/Downside** | P/TBv Multiple |
|--------------------------|-----------------------|------------------------|------------|------------|------------|---------------|----------------|-------------------|----------------|
| Zenith Bank***           | 20.9                  | 20.1                   | (4.1%)     | (21.8%)    | (9.7%)     | 33.3          | 13.5%          | 79.7%             | <b>0.9x</b>    |
| NIC Bank***              | 29.5                  | 28.5                   | (3.4%)     | (15.6%)    | (21.6%)    | 48.8          | 3.5%           | 74.7%             | <b>0.8x</b>    |
| Union Bank Plc           | 5.3                   | 5.0                    | (5.7%)     | (35.9%)    | (16.7%)    | 8.2           | 0.0%           | 63.0%             | <b>0.6x</b>    |
| Diamond Trust Bank***    | 188.0                 | 181.0                  | (3.7%)     | (5.7%)     | (0.5%)     | 283.7         | 1.4%           | 58.2%             | <b>1.1x</b>    |
| UBA Bank                 | 7.9                   | 7.4                    | (6.3%)     | (28.2%)    | (16.9%)    | 10.7          | 11.5%          | 56.1%             | <b>0.5x</b>    |
| KCB Group***             | 42.8                  | 41.3                   | (3.5%)     | (3.5%)     | (1.8%)     | 61.3          | 7.3%           | 55.9%             | <b>1.4x</b>    |
| Ghana Commercial Bank*** | 5.4                   | 5.3                    | (0.2%)     | 5.7%       | 20.3%      | 7.7           | 7.1%           | 51.7%             | <b>1.3x</b>    |
| I&M Holdings***          | 102.0                 | 101.0                  | (1.0%)     | 1.0%       | (19.8%)    | 138.6         | 3.5%           | 40.7%             | <b>1.0x</b>    |
| Equity Group             | 44.3                  | 43.5                   | (1.7%)     | 9.4%       | 11.5%      | 56.2          | 4.6%           | 33.8%             | <b>2.1x</b>    |
| Barclays                 | 11.0                  | 10.2                   | (7.7%)     | 5.7%       | (1.9%)     | 12.5          | 9.9%           | 33.0%             | <b>1.5x</b>    |
| Ecobank                  | 9.0                   | 8.1                    | (9.9%)     | 6.6%       | 27.3%      | 10.7          | 0.0%           | 32.5%             | <b>2.0x</b>    |
| CRDB                     | 160.0                 | 160.0                  | 0.0%       | 0.0%       | (8.6%)     | 207.7         | 0.0%           | 29.8%             | <b>0.5x</b>    |
| Co-operative Bank        | 16.7                  | 16.1                   | (3.3%)     | 0.6%       | (3.3%)     | 19.9          | 5.0%           | 28.6%             | <b>1.5x</b>    |
| Access Bank              | 9.1                   | 7.8                    | (13.8%)    | (25.4%)    | (19.6%)    | 9.5           | 5.1%           | 26.9%             | <b>0.6x</b>    |
| CAL Bank                 | 1.3                   | 1.2                    | (9.2%)     | 9.3%       | 34.9%      | 1.4           | 0.0%           | 18.6%             | <b>1.1x</b>    |
| Guaranty Trust Bank      | 35.0                  | 34.8                   | (0.7%)     | (14.7%)    | (8.1%)     | 37.1          | 6.9%           | 13.7%             | <b>2.2x</b>    |
| Stanbic Bank Uganda      | 33.0                  | 33.0                   | 0.0%       | 21.1%      | 21.1%      | 36.3          | 3.5%           | 13.5%             | <b>2.3x</b>    |
| Bank of Kigali           | 290.0                 | 290.0                  | 0.0%       | (3.3%)     | 3.6%       | 299.9         | 4.8%           | 8.2%              | <b>1.6x</b>    |
| HF Group***              | 6.5                   | 6.5                    | 0.0%       | (37.5%)    | (35.9%)    | 6.6           | 4.9%           | 6.5%              | <b>0.2x</b>    |
| Standard Chartered       | 203.0                 | 199.0                  | (2.0%)     | (4.3%)     | (16.7%)    | 196.3         | 6.3%           | 4.9%              | <b>1.6x</b>    |
| SBM Holdings             | 6.6                   | 6.6                    | 0.0%       | (12.0%)    | (14.9%)    | 6.6           | 4.5%           | 3.9%              | <b>0.9x</b>    |
| Stanbic Holdings         | 96.0                  | 95.5                   | (0.5%)     | 17.9%      | 18.6%      | 92.6          | 2.4%           | (0.7%)            | <b>0.9x</b>    |
| National Bank            | 5.5                   | 5.2                    | (5.5%)     | (44.4%)    | (52.7%)    | 4.9           | 0.0%           | (5.8%)            | <b>0.4x</b>    |
| Bank of Baroda           | 144.0                 | 144.0                  | 0.0%       | 27.4%      | 30.9%      | 130.6         | 1.7%           | (7.6%)            | <b>1.3x</b>    |
| Stanbic IBTC Holdings    | 45.0                  | 42.3                   | (6.1%)     | 1.8%       | 5.6%       | 37.0          | 1.4%           | (11.0%)           | <b>2.3x</b>    |
| FBN Holdings             | 9.0                   | 9.0                    | 0.0%       | 2.3%       | 56.3%      | 6.6           | 2.8%           | (23.6%)           | <b>0.5x</b>    |

| Banks                 | Price as at 7/09/2018 | Price as at 14/09/2018 | w/w change | YTD Change | LTM Change | Target Price* | Dividend Yield | Upside/Downside** | P/TBv Multiple |
|-----------------------|-----------------------|------------------------|------------|------------|------------|---------------|----------------|-------------------|----------------|
| Standard Chartered    | 26.0                  | 26.0                   | 0.0%       | 3.1%       | 51.8%      | 19.5          | 0.0%           | (25.2%)           | 3.3x           |
| Ecobank Transnational | 19.5                  | 18.0                   | (7.7%)     | 5.9%       | 0.0%       | 9.3           | 0.0%           | (48.4%)           | 0.7x           |

*\*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 are in respective country currency*

***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.***

Liason House, StateHouse Avenue

The Chancery, Valley Road

www.cytonn.com

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