



Kenya Listed Banks H1'2018 Report, & Cytonn Weekly #36/2018

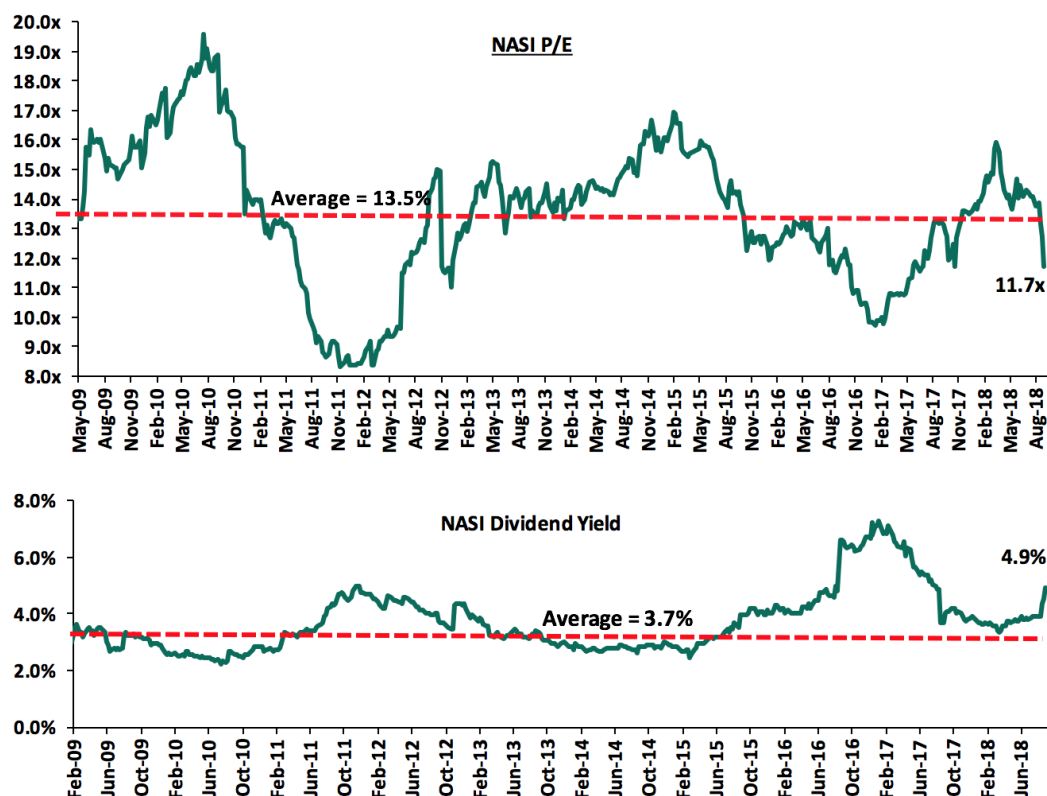
Equities

Market Performance:

During the week, the equities market was on a downward trend with NASI, NSE 20 and NSE 25 declining by 8.0%, 5.4% and 8.4%, respectively, taking their YTD performance to declines of 15.0%, 23.7% and 15.9%, respectively. This week's performance was driven by declines in large cap counters such as Co-operative Bank, Equity Group, Safaricom, Bamburi Cement and KCB Group that declined by 14.0%, 10.9%, 9.4%, 8.6% and 8.0%, respectively. For the last twelve months (LTM), NASI, NSE 20 and NSE 25 have declined by 12.4%, 25.0% and 15.9%, respectively.

Equities turnover increased by 4.5% to USD 27.2 mn from USD 26.0 mn the previous week, bringing the YTD turnover to USD 1.4 bn. Foreign investors remained net sellers, with net weekly outflows increasing by 99.2% to USD 8.1 mn from USD 4.1 mn previously. We expect the market to remain subdued in the near-term as international investors exit the broader emerging markets due to the expectation of rising US interest rates coupled with the strengthening US dollar.

The market is currently trading at a price to earnings ratio (P/E) of 11.7x, which is 13.3% below the historical average of 13.5x, and a dividend yield of 4.9%, higher than the historical average of 3.7%. The current P/E valuation of 11.7x is 19.4% above the most recent trough valuation of 9.8x experienced in the first week of February 2017, and 41.0% 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:

The Finance Bill 2018 was signed into law by President Uhuru Kenyatta on Friday 21st September, 2018, after Members of Parliament passed the proposed amendments to the Bill. The President had earlier failed to assent to the Bill, referring it back to the National Assembly for reconsideration due to the reservations he had, mainly on the postponement of VAT on fuel by another 2 years to September 2020 as earlier voted by the National Assembly. Key to note, however, is that the President did not voice concerns on the proposal to scrap off the base deposit rate of 70.0% of the Central Bank Rate (CBR) while retaining the cap on loan pricing at 4.0% above the CBR, therefore it was not part of Parliament’s reconsiderations. This means that the assented Finance Bill 2018 does away with the floor on customer deposits, thereby giving lenders free will to price deposits at lower rates compared to the initial requirement of 70.0% of the prevailing CBR. We are of the view that the new legislation will mean increased net interest margins (NIM) for banks due to reduced interest expense on deposits going forward.

Equities Universe of Coverage:

Below is our Equities Universe of Coverage:

Banks	Price as at 14/09/2018	Price as at 21/09/2018	w/w change	YTD Change	LTM Change	Target Price	Dividend Yield	Upside/Downside
NIC Bank	28.5	26.5	(7.0%)	(21.5%)	(27.1%)	48.8	3.8%	87.9%
Zenith Bank	20.1	20.8	3.7%	(18.9%)	(5.5%)	33.3	13.0%	73.2%
KCB Group	41.3	38.0	(7.9%)	(11.1%)	(11.6%)	61.3	7.9%	69.2%
Diamond Trust Bank	181.0	172.0	(5.0%)	(10.4%)	(5.5%)	283.7	1.5%	66.5%
I&M Holdings	101.0	90.0	(10.9%)	(10.0%)	(29.7%)	138.6	3.9%	57.9%

Banks	Price as at 14/09/2018	Price as at 21/09/2018	w/w change	YTD Change	LTM Change	Target Price	Dividend Yield	Upside/Downside
Ghana Commercial Bank	5.3	5.3	(0.6%)	5.1%	23.5%	7.7	7.2%	52.5%
Equity Group	43.5	38.8	(10.9%)	(2.5%)	(3.1%)	56.2	5.2%	50.2%
Co-operative Bank	16.1	13.9	(14.0%)	(13.4%)	(17.6%)	19.9	5.8%	49.5%
UBA Bank	7.4	8.0	8.1%	(22.3%)	(6.4%)	10.7	10.6%	44.4%
Union Bank Plc	5.0	5.8	16.0%	(25.6%)	0.2%	8.2	0.0%	40.5%
Barclays	10.2	10.2	0.0%	5.7%	(2.9%)	12.5	9.9%	33.0%
Ecobank	8.1	8.1	0.4%	7.0%	27.8%	10.7	0.0%	32.0%
CRDB	160.0	160.0	0.0%	0.0%	(8.6%)	207.7	0.0%	29.8%
Access Bank	7.8	8.2	4.5%	(22.0%)	(16.0%)	9.5	4.9%	21.5%
CAL Bank	1.2	1.2	0.0%	9.3%	34.9%	1.4	0.0%	18.6%
Guaranty Trust Bank	34.8	34.7	(0.1%)	(14.8%)	(10.9%)	37.1	6.9%	13.8%
Stanbic Bank Uganda	33.0	33.0	0.0%	21.1%	21.1%	36.3	3.5%	13.5%
Bank of Kigali	290.0	290.0	0.0%	(3.3%)	3.6%	299.9	4.8%	8.2%
Standard Chartered	199.0	195.0	(2.0%)	(6.3%)	(18.8%)	196.3	6.4%	7.1%
Bank of Baroda	140.0	126.0	(10.0%)	11.5%	14.5%	130.6	2.0%	5.6%
Stanbic Holdings	95.5	90.0	(5.8%)	11.1%	14.6%	92.6	2.5%	5.4%
SBM Holdings	6.6	6.6	(0.6%)	(12.5%)	(16.1%)	6.6	4.6%	4.6%
HF Group	6.5	6.7	3.1%	(35.6%)	(32.7%)	6.6	5.2%	3.7%
National Bank	5.2	5.5	4.8%	(41.7%)	(45.5%)	4.9	0.0%	(10.1%)
Stanbic IBTC Holdings	42.3	42.0	(0.6%)	1.2%	6.3%	37.0	1.4%	(10.5%)
FBN Holdings	9.0	8.6	(4.4%)	(2.3%)	60.1%	6.6	2.9%	(20.0%)
Standard Chartered	26.0	26.0	0.0%	3.1%	52.1%	19.5	0.0%	(25.2%)
Ecobank Transnational	18.0	18.0	0.0%	5.9%	0.0%	9.3	0.0%	(48.4%)

*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.

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