

Nairobi Metropolitan Area Commercial Office Report 2019 & Cytonn Weekly #14/2019

Equities

Market Performance:

During the week, the equities market recorded mixed performances with NASI and NSE 25 gaining by 1.2% and 1.3%, respectively, while NSE 20 remained flat, taking their YTD performance to gains of 13.5%, 0.5% and 12.3%, for NASI, NSE 20 and NSE 25, respectively. The performance in NASI was driven by gains in large cap stocks such as Equity Group, KCB Group and Safaricom, which gained by 4.0%, 1.7% and 1.6%, respectively.

Equities turnover declined by 10.4% during the week to USD 27.5 mn, from USD 30.7 mn the previous week, taking the YTD turnover to USD 473.8 mn. Foreign investors remained net buyers for the week, although the net buying position declined by 93.7% to USD 0.5 mn, from last week's net buying position of USD 7.2 mn.

The market is currently trading at a price to earnings ratio (P/E) of 12.5x, 6.7% below the historical average of 13.4x, and a dividend yield of 4.7%, above the historical average of 3.8%. With the market trading at valuations below the historical average, we believe that value exists in the market. The current P/E valuation of 12.5x is 28.9% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 50.6% 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

During the week, the Financial Access (FinAccess) Household Survey 2019 report was released. The survey, which was jointly conducted by the Kenya National Bureau of Statistics (KNBS), The Central Bank of Kenya (CBK) and Financial Sector Deepening (FSD) Kenya, highlighted the rise in the level of financial inclusion in Kenya with 82.9% of the adult population having access to formal financial services and products, up from 75.3% in 2016. Key take-outs from the report include:

- ?. 89.0% of the population can access both formal and informal financial services and products, an increase from the 82.5% inclusion in 2016. The rise in the level of financial inclusion has largely been attributable to increased innovation, and a proliferation of digital financial access channels such as mobile banking applications developed by various banks, agency banking, and digital

lending applications,

- i. Nairobi region maintained the highest level of formal inclusion, at 96.0%, followed by Mombasa, Central Rift Valley, and Central Kenya, with inclusions of 94.0%, 88.0%, and 85.0%. The rise in inclusion, cements Kenya's third position, after South Africa and Seychelles, which have 95.0%, and 90.0% inclusion, and,
- ii. In terms of use of financial services by channel, digital loan apps recorded the fastest growth, accounting for 8.3% of usage, from a paltry 0.6% usage in 2016. Mobile money, mobile banking and insurance recorded improvements to 79.4%, 25.3% and 27.9%, from 71.4%, 17.5% and 23.2% in 2016.

We note that despite the increased usage of mobile banking channels, the proportion of the population using the channels is still relatively low at 25.3%, which should provide significant growth runway for banks to exploit as they grow transactional income generated from these applications. Microfinance Institutions (MFIs) however recorded a decline in usage, to 1.7% from 3.6% in 2016, largely affected by the uptake of mobile banking products, rapid uptake of digital loans apps, and increasing role of mobile money. We are of the view that the rapid increase in digital lending apps' prominence should signal the need of regulation of this space. Going forward, we expect service and product providers to focus on innovation with the aim of improving the quality of products and services provided as competition increases.

KCB Group's bid to acquire Imperial Bank Limited under Receivership (IBLR), reached a significant milestone, with the acceptance of KCB Group's final offer by both the Central Bank of Kenya and the Kenya Deposit Insurance Corporation (KDIC). The transaction will see an additional 19.7% of deposits availed to depositors, an addition to the 35.0% availed, on the acceptance of the binding offer by KDIC and CBK in December 2018. The remaining deposit balances will be availed to depositors in three tranches, 12.5% after the official signing of the agreement, a further 12.5% one-year after the signing of the agreement, and 25.0% balance on the second, third and fourth anniversaries of the signing of the agreement. The split of the 25.0% deposits in the second, third and fourth anniversaries is however yet to be disclosed. The deposits will continue to earn interest in line with KCB's prevailing deposit rates on its products. However, the recovery does not include the realization of approximately Kshs 36.0 bn of loans, translating to 50.0% of the current loan balances, linked to ongoing litigation. KCB confirmed that it would take over five branches of IBLR, out of the 26 that IBLR had prior to going under receivership. We note that as the transaction nears completion, this would mark the second instance a bank is brought out of receivership, after the concluded deal that saw SBM Kenya complete the acquisition of certain assets and liabilities of Chase Bank Limited (under Receivership). We view this as a significant step towards instilling confidence on the existence of robust frameworks for the resolution of issues affecting the banking sector, which should consequently boost the sector's stability.

Universe of Coverage

Below is a summary of our SSA universe of coverage:

Kenyan banks have been excluded, as they are under review following the release of the FY'2018 results.

SUMMARY OF THE SSA UNIVERSE OF COVERAGE

Banks	Price as at 29/03/2019	Price as at 5/04/2019	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
GCB Bank	4.0	3.9	(1.5%)	(14.3%)	4.6	7.7	9.6%	105.6%	0.9x	Buy
UBA Bank	7.7	6.2	(19.5%)	(19.5%)	7.7	10.7	13.7%	86.3%	0.5x	Buy
Zenith Bank	21.8	20.4	(6.7%)	(11.7%)	23.1	33.3	13.3%	77.0%	1.0x	Buy
Access Bank	6.5	5.7	(11.6%)	(16.2%)	6.8	9.5	7.0%	73.7%	0.4x	Buy
CRDB	125.0	125.0	0.0%	(16.7%)	150.0	207.7	0.0%	66.2%	0.4x	Buy

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Banks	Price as at 29/03/2019	Price as at 5/04/2019	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Ecobank	8.0	8.0	0.0%	7.1%	7.5	10.7	0.0%	33.6%	1.8x	Buy
CAL Bank	1.1	1.1	0.0%	7.1%	1.0	1.4	0.0%	33.3%	0.9x	Buy
Union Bank Plc	6.7	7.0	5.3%	25.0%	5.6	8.2	0.0%	16.4%	0.7x	Accumulate
SBM Holdings	6.0	6.0	(0.3%)	0.0%	6.0	6.6	5.0%	15.1%	0.9x	Accumulate
Bank of Kigali	275.0	275.0	0.0%	(8.3%)	300.0	299.9	5.0%	14.1%	1.5x	Accumulate
Guaranty Trust Bank	36.1	35.0	(2.9%)	1.6%	34.5	37.1	6.9%	12.9%	2.3x	Accumulate
Bank of Baroda	130.0	130.0	0.0%	(7.1%)	140.0	130.6	1.9%	2.4%	1.1x	Lighten
Stanbic Holdings	100.0	100.0	0.0%	10.2%	90.8	92.6	5.9%	(1.6%)	1.0x	Sell
Standard Chartered Ghana	20.0	20.0	0.0%	(4.8%)	21.0	19.5	0.0%	(2.7%)	2.5x	Sell
Standard Chartered Bank Kenya	215.3	215.3	0.0%	10.7%	194.5	196.3	5.8%	(3.0%)	1.7x	Sell
FBN Holdings	8.2	7.4	(10.4%)	(7.5%)	8.0	6.6	3.4%	(6.4%)	0.5x	Sell
Stanbic IBTC	46.0	46.3	0.5%	(3.5%)	48.0	37.0	1.3%	(18.7%)	2.4x	Sell
Ecobank Transnational	13.2	11.6	(12.1%)	(31.8%)	17.0	9.3	0.0%	(20.0%)	0.5x	Sell

*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.

****Stock prices indicated in respective country currencies

Kenyan banks are currently under review following the release of the FY'2018 results

We are "Positive" on equities for investors as the sustained price declines have seen the market P/E decline to below its historical average. We expect increased market activity, and possibly increased inflows from foreign investors, as they take advantage of the attractive valuations, to support the positive performance.

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