

Kenya Mortgage Refinancing Company Update & Cytonn Weekly #17/2019

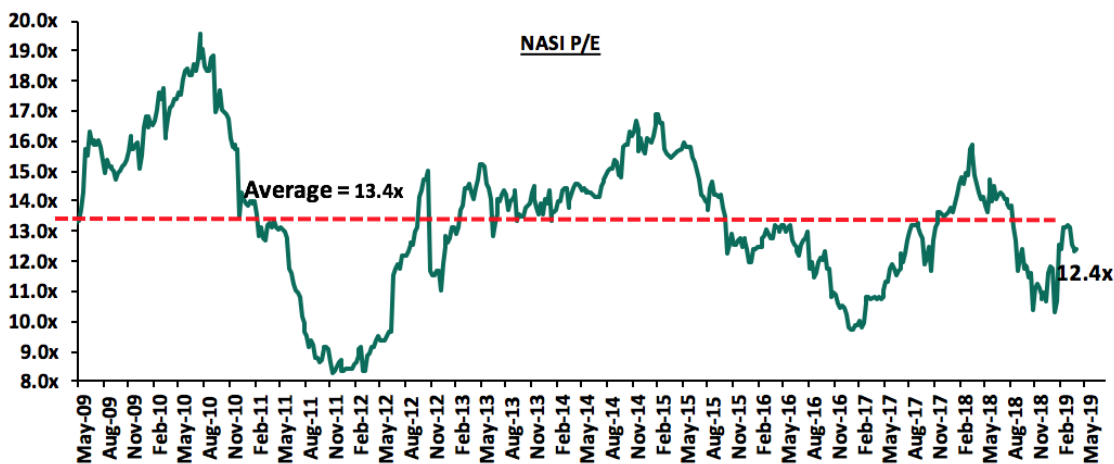
Equities

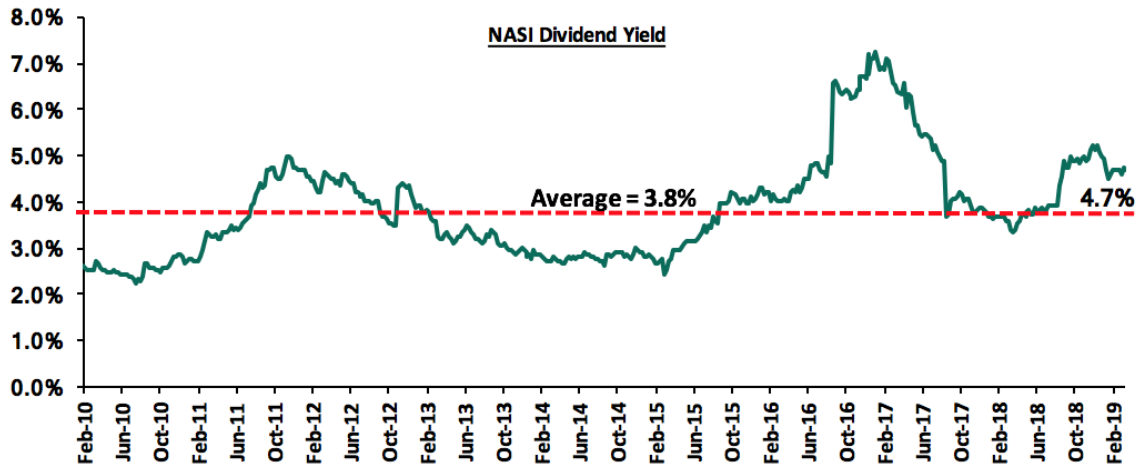
Market Performance:

During the week, the equities market recorded mixed performance with NASI having gained by 0.3%, NSE 20 having recorded a 0.4% decline, and NSE 25 remained unchanged, taking their YTD performance to gains of 0.9%, 13.0% and 11.4%, for NSE 20, NASI and NSE 25, respectively. The performance of NASI was driven by gains in large cap stocks such as Standard Chartered Bank and EABL, which gained by 3.2% and 2.7%, respectively.

Equities turnover declined by 25.5% during the week to USD 8.9 mn, from USD 12.0 mn the previous week, taking the YTD turnover to USD 518.0 mn. Foreign investors were net buyers for the week, with the net buying position coming in at USD 5.0 mn, from last week's net selling position of USD 0.9 mn.

The market is currently trading at a price to earnings ratio (P/E) of 12.4x, 7.0% 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 there is still value in the market. The current P/E valuation of 12.4x is 28.1% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 49.8% 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

Co-operative Bank of Kenya launched the Co-op Bank Property Hub under its mortgage division, which will offer property sales and mortgage origination to its clients. The Property Hub will serve the clients who have property to sell and connect them to the Co-operative Bank clients who want to buy property. The bank will also offer mortgages to the buyers of the property. The lender intends to leverage on its contacts with key institutions and the cooperative movements that largely own the bank to boost the property sales for its clients. The bank has been trying to diversify its revenue streams since the enactment of the Banking (Amendment) Act 2015 that capped interest rates chargeable on loans, and we expect the new product to increase the banks Non-Funded Income (NFI), as it eyes fee income from the sale of the property as well as the processing of mortgage loans, which should aid in increasing its NFI, with the contribution of NFI to total operating income coming in at 30.0% as at FY'2018, below the industry average of 33.2%. A recovery in NFI should buffer the bank's profitability in the event of a decline in interest revenue, or a decline in specific NFI segments such as fees and commissions on loans due to reduced lending.

Diamond Trust Bank Kenya (DTBK) announced that it has partnered with SWIFT, a leading provider of secure financial messaging services, in order to provide real time cross border payments to its clients. DTBK will be the first East African Bank to go live on the SWIFT global payment innovation service, a service that is carrying out over USD 300 bn worth of transactions a day, in over 148 currencies. There has been increased demand for faster and cheaper cross border payment avenues, and we have seen strides by players in the Kenyan market to solve the challenges that arise with cross border money transfer, as evidenced by various partnerships such as;

- ?. **Family Bank and SimbaPay Partnership:** Simba pay is a London-based financial technology, which in November 2018 partnered with Family Bank, a move which enabled Mpesa users to send money to over 1 bn active WeChat subscribers in China, and,
 - i. **Safaricom and PayPal Partnership:** This April 2018 partnership made it possible for Mpesa users to move money to PayPal accounts in up to 25 currencies.

We view this as a strategic move by DTBK as it is likely to attract corporate and trade clients to the bank, given the convenience of SWIFT's global presence. Given the increasing number and value of trade deals between the East Africa regional block and Asia, this would likely place the bank strategically to be a financial intermediary for clients who require cross border payments services. Thus, the bank will likely increase its fee and commission income from the increased transactions, consequently improving its Non-Funded Income currently at 21.0% of total operating income, which is below the industry average of 33.2% as at FY'2018.

Universe of Coverage:

Below is a summary of our SSA universe of coverage:

Banks	Price as at 18/04/2019	Price as at 26/04/2019	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/E [†] Multiple	Recommendation
CEB Bank	4.0	4.0	1.0%	(13.0%)	4.6	7.7	9.5%	102.5%	0.5x	Buy
Diamond Trust Bank	130.0	122.0	(6.2%)	(22.0%)	156.5	241.5	2.1%	100.1%	0.7x	Buy
Zenith Bank	20.9	21.4	2.3%	(7.4%)	21.1	33.3	12.6%	68.7%	0.9x	Buy
UBA Bank	6.7	6.9	3.0%	(11.0%)	7.7	10.7	12.4%	68.6%	0.4x	Buy
CRDB	125.0	125.0	0.0%	(16.7%)	150.0	207.7	0.0%	66.2%	0.4x	Buy
NIC Group	36.8	33.0	(10.5%)	18.5%	27.8	48.8	3.0%	51.1%	1.0x	Buy
Access Bank	6.9	6.6	(3.0%)	(2.9%)	6.8	9.5	6.1%	50.0%	0.4x	Buy
H&M Holdings	112.8	115.0	2.0%	35.3%	85.0	167.7	3.0%	48.9%	1.1x	Buy
Equity Group	41.9	41.5	(1.0%)	19.1%	34.9	58.1	4.8%	44.8%	2.0x	Buy
CAL Bank	1.0	1.0	(5.8%)	(1.0%)	1.0	1.4	0.0%	44.3%	0.9x	Buy
Co-operative Bank	14.2	13.6	(4.2%)	(5.2%)	14.3	18.5	7.4%	43.9%	1.2x	Buy
KCB Group***	45.0	45.3	0.7%	21.0%	37.5	60.0	7.7%	40.2%	1.4x	Buy
Ecobank	7.8	7.8	0.0%	4.0%	7.5	10.7	0.0%	37.6%	1.7x	Buy
Stanbic Bank Uganda	29.0	29.0	0.0%	(6.5%)	31.0	36.3	4.0%	29.1%	2.1x	Buy
Stanbic Holdings	99.0	96.3	(2.8%)	6.1%	90.8	115.6	6.1%	26.2%	1.0x	Buy
Union Bank Plc	6.8	6.8	0.0%	21.4%	5.6	8.2	0.0%	19.9%	0.7x	Accumulate
Barclays Bank	12.0	11.9	(0.4%)	8.7%	11.0	13.1	8.4%	18.5%	1.6x	Accumulate
SBM Holdings	5.8	5.9	1.0%	(1.3%)	6.0	6.6	5.1%	16.7%	0.8x	Accumulate
Guaranty Trust Bank	34.8	34.2	(1.7%)	(0.7%)	34.5	37.1	7.0%	15.5%	2.2x	Accumulate
Bank of Kigali	265.0	274.0	3.4%	(8.7%)	300.0	299.9	5.1%	14.5%	1.5x	Accumulate
Natwest Bank	4.7	5.0	6.2%	(6.0%)	5.3	5.2	0.0%	4.0%	0.3x	Lighten
Standard Chartered	206.0	208.0	1.0%	6.9%	194.5	203.8	6.0%	4.0%	1.7x	Lighten
Bank of Burundi	130.0	129.0	(0.8%)	(7.5%)	140.0	130.6	1.9%	3.2%	1.1x	Lighten
Standard Chartered	19.0	19.0	0.0%	(8.5%)	21.0	19.5	0.0%	2.4%	2.4x	Lighten
FIN Holdings	7.7	7.3	(5.2%)	(8.8%)	8.0	6.6	3.4%	(5.1%)	0.4x	Sell
Ecobank Transnational	10.8	10.8	0.0%	(36.5%)	17.0	9.3	0.0%	(14.1%)	0.4x	Sell
Stanbic BIC Holdings	46.2	47.0	1.7%	(2.0%)	48.0	37.0	1.3%	(20.0%)	2.4x	Sell
IF Group	4.4	4.3	(1.1%)	(22.4%)	5.5	2.9	8.1%	(24.4%)	0.2x	Sell

*Target Price as per Cyttonn Analyst estimates
 **Upside / (Downside) is adjusted for Dividend Yield
 ***Banks in which Cyttonn neither its affiliate holds a stake.
 ****Stock prices indicated in respective country currencies

We are “Positive” on equities since the sustained share 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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