National Housing Development Fund (NHDF), & Cytonn Weekly #21/2019

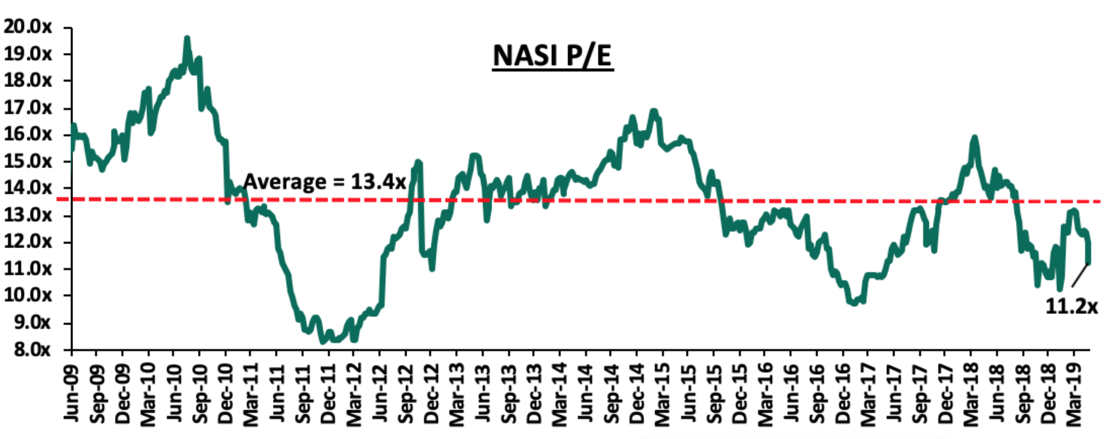
Equities

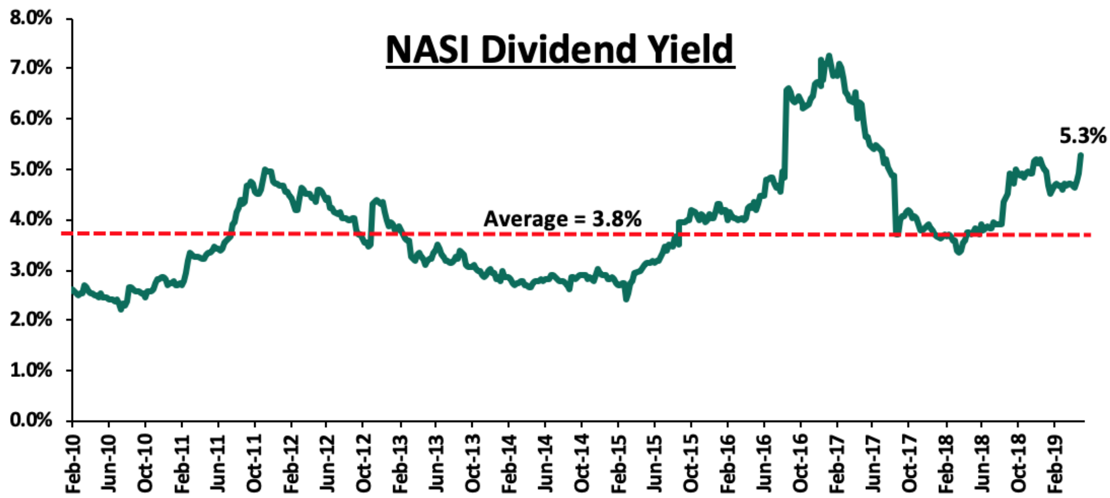
Market Performance:

During the week, the equities market recorded a mixed performance with NASI and NSE 25 gaining by 0.3% and 0.4%, respectively, while NSE 20 declined by 0.9%, taking their YTD performance to gains/ (losses) of 3.8%, (6.8%) and (0.3%), for NASI, NSE 20 and NSE 25, respectively. The performance of NASI was driven by gains in large cap stocks such as KCB, Standard Chartered Bank of Kenya, and Safaricom, which recorded gains of 7.4%, 2.9% and 1.7%, respectively. The gain in the NASI was however weighed down by declines in NIC Group, Bamburi, EABL and Co-operative Bank, which recorded declines of 5.1%, 4.9%, 3.4% and 3.4%, respectively.

Equities turnover declined by 22.9% during the week to USD 24.9 mn, from USD 32.3 mn the previous week, taking the YTD turnover to USD 629.5 mn. Foreign investors remained net buyers for the week, with a net buying position of USD 5.2 mn, a 37.0% increase from a net buying position of USD 3.8 mn last week.

The market is currently trading at a price to earnings ratio (P/E) of 11.2x, 16.0% below the historical average of 13.4x, and a dividend yield of 5.3%, above the historical average of 3.8%. With the market trading at valuations below the historical average, we believe there is value in the market. The current P/E valuation of 11.2x is 15.7% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 35.2% 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.





Earnings Releases

Co-operative Bank Kenya released their Q1’2019 financial results

Co-operative Bank released their financial results with core earnings per share increasing by 4.4% to Kshs 0.61, from Kshs 0.59 in Q1’2018, in line with our projections. The performance was driven by a 1.7% increase in total operating income, coupled with a 1.2% decline in total operating expenses. Total operating income increased by 1.7% to Kshs 11.1 bn, from Kshs 10.9 bn in Q1’2018. This was driven by a 19.1% increase in Non-Funded Income (NFI) to Kshs 4.2 bn, from Kshs 3.5 bn in Q1’2018, which outpaced the 6.5% decline in Net Interest Income (NII) to Kshs 6.9 bn, from Kshs 7.4 bn in Q1’2018.

- Interest income declined by 2.9% to Kshs 10.1 bn, from Kshs 10.4 bn in Q1’2018. This was caused by a 14.1% decline in interest income from loans and advances to Kshs 7.2 bn, from Kshs 8.4 bn in Q1’2018, which outweighed the 39.6% increase in interest income from government securities to Kshs 2.8 bn from Kshs 2.0 bn in Q1’2018, and the 267.6% increase in interest income from placement assets to Kshs 0.1 bn from Kshs 0.03 bn in Q1’2018. The yield on interest-earning assets thus declined to 11.9%, from 12.3% in Q1’2018,
- Interest expense rose by 6.2% to Kshs 3.2 bn, from Kshs 3.0 bn in Q1’2018, largely due to the 4.1% increase in the interest expense on customer deposits to Kshs 2.8 bn, from Kshs 2.7 bn in Q1’2018, coupled with a 30.0% increase in other interest expenses to Kshs 0.4 bn, from Kshs 0.3 bn in Q1’2018. However, interest expenses on placement liabilities declined by 82.2% to Kshs 3.2 mn, from Kshs 17.8 mn in Q1’2018. The cost of funds declined to 3.7%, from 4.0% in Q1’2018, owing to a 7.1% increase in interest bearing liabilities to Kshs 343.7 bn, from Kshs 320.6 bn in Q1’2018, which grew faster than the 6.2% increase in interest expense. As a result, the Net Interest Margin (NIM) rose to 8.7%, from 8.6% in Q1’2018,
- Non-Funded Income rose by 19.1 % to Kshs 4.2 bn, from Kshs 3.5 bn in Q1’2018. The increase was mainly driven by the 33.6% increase in total fees and commissions to Kshs 3.4 bn, from Kshs 2.6 bn in Q1’2018, which management attributed to increased usage of the firm’s alternative transaction channels. The improvement in NFI was however weighed down by the 15.3% decline in forex trading income to Kshs 0.6 bn, from Kshs 0.8 bn in Q1’2018, and the 35.5% decline in other income to Kshs 0.1 bn, from Kshs 0.2 bn in Q1’2018. As a consequence, the revenue mix shifted to 62:38, from 68:32 in Q1’2018 owing to the fast growth in NFI coupled with the decline in NII,
- Total operating expenses declined by 1.2% to Kshs 6.0 bn, from Kshs 6.1 bn in Q1’2018, largely driven by the 34.3% decrease in Loan Loss Provisions (LLP) to Kshs 0.5 bn from Kshs 0.8 bn in Q1’2018, which outpaced the 1.5% increase in other operating expenses to Kshs 2.74 bn, from Kshs 2.70 bn in Q1’2018, and the 5.6% increase in staff costs to Kshs 2.8 bn, from Kshs 2.6 bn in

Q1’2018,

- The Cost to Income Ratio (CIR) improved to 54.2%, from 55.8% in Q1’2018. Without LLP, the cost to income ratio deteriorated to 49.7% from 48.8% in Q1’2018, highlighting the decline cost of risk to 4.5% from 7.0% in Q1’2018, implying a lower provisioning amount relative to the total operating income,
- Profit before tax increased by 4.4% to Kshs 5.1 bn, up from Kshs 4.9 bn in Q1’2018. Profit after tax grew by 4.4% to Kshs 3.6 bn in Q1’2019, from Kshs 3.4 bn in Q1’2018,
- The balance sheet recorded an expansion as total assets increased by 7.0% to Kshs 425.7 bn, from Kshs 397.8 bn in Q1’2018. Growth was supported by a 33.1% growth in government securities to Kshs 103.9 bn, from Kshs 78.1 bn, coupled with the 10.1% increase in other assets to Kshs 18.8 bn from Kshs 17.1 bn in Q1’2018,
- The loan book shrunk by 0.5% to Kshs 251.6 bn, from 252.8 bn in Q1’2018, which management attributed to the repayment of a Kshs 10.0 bn loan by a single client,
- Total liabilities rose by 6.8% to Kshs 351.5 bn from Kshs 329.1 bn in Q1’2018, driven by a 7.4% increase in customer deposits to Kshs 317.8 bn, from Kshs 295.9 bn in Q1’2018. Deposits per branch increased by 7.4% to Kshs 2.1 bn from Kshs 1.9 bn in Q1’2018, as the number of branches remained unchanged,
- Borrowings rose by 14.9% to Kshs 23.7 bn from Kshs 20.7 bn in Q1’2018,
- The fast growth in deposits coupled with the decline in loans, led to a decline in the loan to deposit ratio to 79.2%, from 85.4% in Q1’2018,
- Gross Non-Performing Loans (NPLs) increased by 4.8% to Kshs 29.7 bn in Q1’2019, from Kshs 28.4 bn in Q1’2018. The NPL ratio thus deteriorated to 11.1% in Q1’2019, from 10.9% in Q1’2018. Management attributed the deterioration in asset quality to players in the manufacturing sector, agriculture and trade sectors. General Loan Loss Provisions increased by 37.6% to Kshs 10.9 bn, from Kshs 7.9 bn in Q1’2018. Thus, the NPL coverage improved to 52.2% in Q1’2019 from 30.6% in Q1’2018,
- Shareholders’ funds increased by 7.1% to Kshs 72.8 bn in Q1’2019 from Kshs 67.9 bn in Q1’2018, supported by a 4.7% increase in the retained earnings to Kshs 58.5 bn, from Kshs 55.9 bn, and the increase in the statutory loan loss reserve to Kshs 0.9 bn from a zero balance in Q1’2018,
- Co-operative Bank remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 15.6%, 5.1% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 15.9%, exceeding the statutory requirement of 14.5% by 1.4% points. Adjusting for IFRS 9, the core capital to risk weighted assets stood at 16.1%, while total capital to risk-weighted assets came in at 16.5%, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.2%, and a Return on Average Equity (ROaE) of 18.3%.

Key Take-Outs:

1. The bank’s asset quality deteriorated, with the NPL ratio deteriorating to 11.1%, from 10.9% in Q1’2018. The main sectors that contributed to the NPLs were manufacturing, agriculture, trade, and building & construction, which contributed 46.0%, 20.0%, 23.0% and 19.0% of the NPLs, respectively. We note that the bank has maintained its stringent credit standards, with management noting that they continue to cherry pick loans to issue, in a bid to tame the rising NPLs. This consequently affected the associated interest income. Furthermore, the bank shifted its focus to government security investments, which recoded a 33.1% growth y/y. The increase however failed to mitigate declines in funded income, largely due to the decline in yields on government securities, and,
2. The bank recorded a strong NFI growth y/y, supported by an improvement in the fee and commission income. Transactional income segment recorded an improvement aided by a 5.6% increase in the number of agency banking transactions to 11.3 mn from 10.7mn in Q1’2018, which lead to an 8.7% increase in revenue to 125.0 mn from 115.0 mn. The bank’s mobile banking

platform recorded a 25.0% increase in the number of transactions to 10.0 mn from 8.0 mn, and as a consequence, commission income increased by 98.9% to Kshs 744.0 mn, from Kshs 374.0 mn in Q1'2018.

For more information, please see our Co-operative Bank Q1'2019 Earnings Note

During the week, KCB Group released the Q1'2019 financial results

KCB group released their financial results with core earnings per share increasing by 11.4% to Kshs 1.9, from Kshs 1.7 in Q1'2018, in line with our expectations. The performance was driven by a 10.6% increase in total operating income to Kshs 18.8 bn, from Kshs 17.0 bn in Q1'2018, which outpaced the 8.2% increase in total operating expenses to Kshs 10.3 bn, from Kshs 9.5 bn in Q1'2018.

- Total operating income increased by 10.6% to Kshs 18.8 bn from Kshs 17.0 bn in Q1'2018. This was due to an 11.2% increase in Net Interest Income (NII) to Kshs 12.7 bn from Kshs 11.4 bn in Q1'2018, coupled with the 9.2% increase in Non-Funded Income (NFI) to Kshs 6.0 bn, from Kshs 5.5 bn in Q1'2018,
- Interest income increased by 7.1% to Kshs 16.8 bn, from Kshs 15.7 bn in Q1'2018. This was driven by a 7.3% growth in interest income from government securities to Kshs 3.2 bn from Kshs 3.0 bn in Q1'2018, and a 6.4% increase in interest income on loans and advances to Kshs 13.4 bn, from Kshs 12.6 bn in Q1'2018. The yield on interest-earning assets however declined to 11.4% from 11.8% in Q1'2018 attributed to a decline in yields on government securities as well as a decline in lending rates due to the 100 bps CBR cuts last year,
- Interest expenses declined by 4.1% to Kshs 4.1 bn, from Kshs 4.2 bn in Q1'2018, following a 5.9% decline in the interest expense on customer deposits to Kshs 3.6 bn, from Kshs 3.8 bn in Q1'2018, which outpaced the 12.0% rise in interest expense on placement liabilities to Kshs 493.9 mn, from Kshs 440.9 mn in Q1'2018. The cost of funds however remained unchanged at 3.1%. The Net Interest Margin (NIM) declined to 8.5%, from 8.9% in Q1'2018,
- Non-Funded Income (NFI) increased by 9.2% to Kshs 6.0 bn, from Kshs 5.5 bn in Q1'2018. The increase was mainly driven by an 11.6% rise in total fees and commissions income to Kshs 4.0 bn, from Kshs 3.6 bn in Q1'2018. The growth was however weighed down by the 5.4% decline in forex trading income to Kshs 0.98, from Kshs 1.03 bn in Q1'2018. As a result, the revenue mix shifted to 68:32 from 67:33, due to the faster growth in NII compared to NFI,
- Total operating expenses increased by 8.2% to Kshs 10.3 bn, from Kshs 9.5 bn, largely driven by a 93.8% rise in Loan Loss Provisions (LLP) to Kshs 1.2 bn in Q1'2019, from Kshs 0.6 bn in Q1'2018, coupled with a 4.1% rise in staff costs to Kshs 4.6 bn in Q1'2019, from Kshs 4.5 bn in Q1'2018,
- Due to the faster growth of total operating income that outpaced the growth in operating expenses, Cost to Income Ratio (CIR) improved to 54.7%, from 55.9% in Q1'2018. Without LLP, the cost to income ratio also improved, to 48.5%, from 52.4% in Q1'2018,
- Profit before tax increased by 13.5% to Kshs 8.5 bn, up from Kshs 7.5 bn in Q1'2018. Profit after tax grew by 11.4% to Kshs 5.8 bn in Q1'2019, from Kshs 5.2 bn in Q1'2018 as the effective tax rate increased to 32.0% from 30.7% in Q1'2018,
- The balance sheet recorded an expansion as total assets increased by 12.1% to Kshs 725.7 bn, from Kshs 647.5 bn in Q1'2018. This growth was largely driven by a 19.0% increase in investment in government and other securities to Kshs 133.3 bn, from Kshs 112.1 bn in Q1'2018, coupled with a 10.9% increase in their loan book to Kshs 464.3 bn, from Kshs 418.6 bn in Q1'2018,
- Total liabilities rose by 10.7% to Kshs 606.2 bn, from Kshs 547.8 bn in Q1'2018, driven by an 11.2% increase in deposits to Kshs 552.2 bn, from Kshs 496.4 bn in Q1'2018. Deposits per branch increased by 13.4% to Kshs 2.1 bn from Kshs 1.9 bn in Q1'2018, with the number of branches having reduced to 258 from 263 in Q1'2018,
- The faster growth in deposits as compared to loans led to a decline in the loan to deposit ratio to 84.1% from 84.3% in Q1'2018,
- Gross Non-Performing Loans (NPLs) declined by 11.3% to Kshs 38.8 bn in Q1'2019 from Kshs

43.8 bn in Q1’2018. The NPL ratio thus improved to 8.0% from 9.9% in Q1’2018. General Loan Loss Provisions declined by 26.1% to Kshs 15.2 bn, from Kshs 14.4 bn in Q1’2018. The NPL coverage consequently declined to 51.0% in from 58.6% in Q1’2018,

- Shareholders’ funds increased by 19.9% to Kshs 119.5 bn in Q1’2019, from Kshs 99.6 bn in Q1’2018, as retained earnings grew by 35.1% y/y to Kshs 91.0 bn, from Kshs 67.3 bn in Q1’2018,
- KCB Group is currently sufficiently capitalized with a core capital to risk-weighted assets ratio of 18.6%, 8.1% above the statutory requirement. In addition, the total capital to risk-weighted assets ratio was 20.0%, exceeding the statutory requirement by 5.5%. Adjusting for IFRS 9, the core capital to risk weighted assets stood at 19.3%, while total capital to risk-weighted assets came in at 20.8%, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.6%, and a Return on Average Equity (ROaE) of 22.4%.

Key Take-Outs:

1. The bank’s asset quality improved, with the NPL ratio improving to 8.0% from 9.9% in Q1’2018. The improved NPL ratio was mainly attributed to an improvement in the corporate loan book’s NPL ratio to 10.5% in Q1’2019 from in 14.8% in Q1’2018, as well as the SME and Micro loan book, which improved to 15.6% in Q1’2019, down from 16.3% in Q1’2018, respectively, and,
2. There was an improvement in operational efficiency as evidenced by the improvement in the Cost to Income Ratio (CIR) to 54.7%, from 55.9% in Q1’2018 and to 48.5% from 52.4% in Q1’2018. This has mainly been driven by increased innovation and digitization has seen with 91% of total transactions performed outside the branch comprising of 56.0% on mobile, 27.0% on agency, internet and POS and 8.0% on the ATM which has facilitated the faster growth of transactional income outpacing the growth in operating expenses.

For more information please see our **KCB Group Q1’2019 Earnings Note**

Standard Chartered Bank Kenya released their Q1’2019 financial results

Standard Chartered Bank of Kenya released their financial results with core earnings per share increasing by 31.0% to Kshs 7.0 from Kshs 5.3 in Q1’2018, which was in line with our expectation of a 30.0% increase to Kshs 6.9. The performance was driven by a 3.7% increase in total operating income, coupled with an 11.8% decline in total operating expenses.

- Total operating income increased by 3.7% to Kshs 7.4 bn, from Kshs 7.1 bn in Q1’2018. The rise was due to a 5.6% increase in Non-Funded Income (NFI) to Kshs 2.4 bn, from Kshs 2.3 bn in Q1’2018, coupled with a 2.8% increase in Net Interest Income (NII) to Kshs 5.0 bn, from Kshs 4.8 bn in Q1’2018,
- Interest income declined by 6.4% to Kshs 6.4 bn, from Kshs 6.8 bn in Q1’2018. This was driven by a 12.4% decline in interest income from government securities to Kshs 2.7 bn, from Kshs 3.1 bn in Q1’2018. Interest on loans and advances however remained unchanged at Kshs 3.4 bn. Consequently, the yield on interest-earning assets declined to 10.6%, from 11.4% in Q1’2018,
- Interest expense declined by 28.8% to Kshs 1.4 bn, from Kshs 2.0 bn in Q1’2018, following a 23.3% decline in interest expense on customer deposits to Kshs 1.3 bn, from Kshs 1.7 bn in Q1’2018. Consequently, cost of funds declined to 3.4%, from 3.6% in Q1’2018, with the Net Interest Margin (NIM) also declining to 7.8%, from 8.0% in Q1’2018,
- Non-Funded Income (NFI) increased by 5.6% to Kshs 2.4 bn, from Kshs 2.3 bn in Q1’2018. The increase was mainly driven by a 37.2% rise in foreign exchange trading income to Kshs 817.8 mn, from Kshs 595.9 mn, coupled with a 5.8% rise in fees and commissions on loans and advances to Kshs 76.4 mn, from Kshs 72.2 mn. The revenue mix remained unchanged at to 68:32 funded to non-funded income,
- Total operating expenses declined by 11.8% to Kshs 3.8 bn, from Kshs 4.3 bn, largely driven by a 61.0% decline in loan loss provisions to Kshs 415.1 mn, from Kshs 1.1 bn in Q1’2018. The large

decline in loan loss provisions was however mitigated by a 14.3% rise in staff costs to Kshs 1.8 bn, from Kshs 1.6 bn in Q1'2018,

- The Cost to Income Ratio (CIR) improved to 51.9%, from 61.0% in Q1'2018. Without LLP, the cost to income deteriorated albeit maginally to 46.3%, from 46.0% in Q1'2018,
- Profit before tax increased by 27.8% to Kshs 3.5 bn, from Kshs 2.8 bn in Q1'2018. Profit after tax grew by 31.2% to Kshs 2.4 bn in Q1'2019, from Kshs 1.8 bn in Q1'2018, as the effective tax rate declined to 31.6% from 33.7% in Q1'2018,
- The balance sheet recorded an expansion as total assets increased by 2.5% to Kshs 301.4 bn, from Kshs 294.0 bn in Q1'2018. Growth was supported by a 13.9% growth in government securities to Kshs 142.3 bn, from Kshs 125.0 bn, coupled with the 3.3% increase in loan book to Kshs 117.6 bn, from Kshs 113.8 bn in Q1'2018,
- Total liabilities rose by 1.8% to Kshs 252.2 bn from Kshs 247.7 bn in Q1'2018, driven by the 0.3% increase in customer deposits to Kshs 232.8 bn from Kshs 232.0 bn in Q1'2018. Deposits per branch increased by 6.2% to Kshs 6.9 bn from Kshs 6.4 bn in Q1'2018, as the number of branches declined by 2 to 34 from 36 in Q1'2018. The bank does not have any borrowings,
- The fast growth in loans compared to the deposits loans led to a rise in the loan to deposit ratio to 50.5% from 49.1% in Q1'2018,
- Gross Non-Performing Loans (NPLs) increased by 19.2% to Kshs 21.2 bn in Q1'2019, from Kshs 17.8 bn in Q1'2018. The NPL ratio thus deteriorated to 15.9% in Q1'2019, from 14.0% in Q1'2018. Management attributed the deterioration in asset quality to players in the manufacturing sector, real estate and trade sectors. General Loan Loss Provisions increased by 15.6% to Kshs 8.0 bn, from Kshs 6.9 bn in Q1'2018. The NPL coverage however improved to 76.5% in Q1'2019, from 75.2% in Q1'2018, as the interest in suspense rose by 27.5% to Kshs 8.2 bn, from Kshs 6.4 bn in Q1'2018,
- Shareholders' funds increased by 6.2% to Kshs 49.1 bn in Q1'2019, from Kshs 46.3 bn in Q1'2018, supported by a 7.3% increase in retained earnings to Kshs 30.3 bn, from Kshs 28.3 bn,
- Standard Chartered Bank Kenya remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 16.1%, 5.6% points above the statutory requirement. In addition, the total capital to risk-weighted assets ratio came in at 18.8%, exceeding the statutory requirement by 4.3% points. Adjusting for IFRS 9, the core capital to risk weighted assets stood at 16.1%, while total capital to risk-weighted assets came in at 19.0%, and,
- The bank currently has a Return on Average Assets (ROaA) of 2.9%, and a Return on Average Equity (ROaE) of 18.2%.

Key Take-Outs:

1. There was a decline in the bank's operating efficiency as the cost to income ratio without LLP deteriorated to 46.3%, from 46.0% in Q1'2018. The deterioration was largely attributable to a 14.3% rise in staff costs to Kshs 1.8 bn, from Kshs 1.6 bn in Q1'2018, as the bank incurred a one-off expense in its staff layoff program, and,
2. The bank's asset quality deteriorated, with the NPL ratio rising to 15.9% from 14.0% in Q1'2018. The deteriorating NPL ratio is attributable to a 19.2% rise in gross non-performing loans to Kshs 21.2 bn from Kshs 17.8 bn in Q1'2018 due to recovery problems of loans made to key troubled sectors such as real estate and manufacturing. The bank's increased allocation to government securities did not seem to bear fruit, as interest income from government securities declined by 12.4%, affected by the decline in government yields. The bank's funded income recorded a growth, largely supported by the faster decline in interest expenses, with the bank presumably adjusting interest payable on deposits after a removal of the minimum payable amount in the Finance Act 2018.

For more information, please see our Standard Chartered Bank of Kenya Q1'2019 Earnings Note

Key Take-Outs:

The table below highlights the performance of the banks that have released so far, showing the performance using several metrics, and the key take-outs of the performance.

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-funded income Growth	NFI to Total Operating Income	Growth in Total Fee and Commissions	Deposit Growth	Growth in Govt Securities	Cost to Income	Loan to Deposit ratio	Loan Growth	Cost of Funds	Return on average equity
Stanbic	N/A	12.9%	2.2%	19.3%	4.9%	17.7%	49.0%	61.5%	29.0%	(8.8%)	53.0%	75.9%	12.6%	3.2%	14.3%
SCBK	31.2%	(6.4%)	(28.8%)	2.8%	7.8%	5.6%	32.4%	(10.0%)	0.3%	13.9%	51.9%	50.5%	3.3%	3.4%	18.2%
KCB	11.4%	7.1%	(4.1%)	11.2%	8.5%	9.2%	32.3%	11.6%	11.2%	18.9%	54.7%	84.1%	10.9%	3.1%	22.4%
Equity	4.9%	6.5%	7.4%	6.3%	8.6%	6.9%	40.8%	3.2%	12.1%	13.0%	49.8%	71.3%	12.7%	2.6%	22.8%
Co-op	4.4%	(2.9%)	6.2%	(6.5%)	8.7%	19.1%	37.7%	33.6%	7.4%	33.1%	54.2%	79.2%	(0.5%)	3.7%	18.3%
NIC	(4.3%)	1.3%	(7.9%)	9.4%	5.9%	7.2%	29.1%	6.2%	5.0%	10.3%	65.2%	78.3%	2.1%	5.1%	12.2%
Q1'2019 Mkt cap Weighted Average	**7.3%**	**3.1%**	**(3.2%)**	**6.7%**	**7.7%**	**9.6%**	**35.4%**	**11.6%**	**9.3%**	**15.0%**	**55.4%**	**74.4%**	**7.0%**	**3.6%**	**18.6%**
Q1'2018 Mkt cap Weighted Average	**14.4%**	**9.3%**	**11.4%**	**8.1%**	**8.1%**	**9.5%**	**37.1%**	**12.2%**	**9.4%**	**25.0%**	**56.6%**	**76.8%**	**6.1%**	**3.6%**	**18.4%**

Key takeaways from the table above include:

i. Six banks have released their Q1'2019 financial results, recording a 7.3% average increase in core Earnings Per Share (EPS), compared to a growth of 14.4% in Q1'2018 for the entire banking sector,

ii. The banks that have released results have recorded a deposit growth of 9.3%, marginally slower than the 9.4% growth recorded in Q1'2018. Despite the relatively fast deposit growth, interest expenses declined by 3.2%, indicating that banks have been mobilizing relatively cheaper deposits. Furthermore, in September 2018, an implementation of the Finance Act 2018 saw the removal of the minimum interest rate payable on deposits, which stood at 70.0% of the Central Bank Rate (CBR). This helped mitigate high increments in interest expense, despite the relatively fast deposit growth,

iii. Average loan growth came in at 7.0%, which was faster than the 6.1% recorded in Q1'2018, indicating that there was an improvement in credit extension, with banks targeting select segments such as corporate entities and Small and Medium Enterprises (SMEs). Government securities on the other hand recorded a growth of 15.0% y/y, which was faster compared to the loans, albeit slower than 25.0% recorded in Q1'2018. This highlights banks' continued preference towards investing in government securities, which offer better risk-adjusted returns. Interest income increased by 3.1%, compared to a growth of 9.3% recorded in Q1'2018. The slower growth in interest income despite the increased allocations to both loans and government securities may be attributable to the decline in yields on loans owing to the 100-bps decline in the CBR, and the decline in yields on government securities, and consequently, the Net Interest Margin (NIM) declined to 7.7% from 8.1% in Q1'2018, and,

iv. Non-Funded Income grew by 9.6% y/y, faster than 9.5% recorded in Q1'2018. The growth in NFI was supported by the 11.6% average increase in total fee and commission income, albeit slower than the 12.2% growth recorded in Q1'2018. The fee and commission income were however subdued by the implementation of the Effective Interest Rate (EIR) model under IFRS 9 in 2018, which requires banks to amortize the fees and commissions on loans, over the tenor of the loan.

Weekly Highlights

The Central Bank of Kenya (CBK), in conjunction with five commercial banks (NIC Group, KCB Group, Diamond Trust Bank Kenya (DTBK), Co-operative Bank Kenya and Commercial Bank of Africa (CBA)), have come up with a mobile loan facility targeting Micro Small and Medium Enterprises (MSMEs). The facility dubbed "Stawi" targets small business owners who don't have access to formal credit because of the informal nature of their businesses and lack of collateral. The amounts available to the users will range from Kshs 30,000 to Kshs 250,000, with a repayment period of between 1 – 12 months. The facility will attract an interest rate of 9.0%, per annum and other charges such as a 4.0% facilitation, a 0.7% insurance fee of the disbursed amount, and an excise duty of 20% on the facilitation fee. The pilot phase of the facility will run for 2-weeks, and will involve 3,500 traders registered by Stawi agents. We expect that an increased uptake of the facility would be beneficial to the banks funding the facility, as they would be able to ring in additional interest and fee income. The facility is expected to enable MSMEs that find it difficult to access funding from banks, to access financing, even those that do not have formal banking. Since the inception of the Banking (Amendment) Act 2015 MSMEs have found it difficult to access funding with banks citing inability to price them within the set margins. We however expect uptake of the facility to be strong, as it has been the case for other micro-lending platforms.

Universe of Coverage

Below is a summary of our SSA universe of coverage:

Banks	Price as at 17/05/2019	Price as at 24/05/2019	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
UBA Bank	6.0	5.8	(4.2%)	(25.3%)	10.7	14.8%	100.9%	**0.4x**	**Buy**
Diamond Trust Bank	121.0	122.0	0.8%	(22.0%)	241.5	2.1%	100.1%	**0.6x**	**Buy**
Zenith Bank	19.6	19.0	(3.1%)	(17.6%)	33.3	14.2%	89.6%	**0.8x**	**Buy**
CRDB	120.0	120.0	0.0%	(20.0%)	207.7	0.0%	73.1%	**0.4x**	**Buy**
CAL Bank	0.8	0.8	0.0%	(16.3%)	1.4	0.0%	70.7%	**0.7x**	**Buy**
Access Bank	6.5	5.8	(10.1%)	(14.7%)	9.5	6.9%	70.7%	**0.4x**	**Buy**
Co-operative Bank	11.9	11.5	(3.4%)	(19.6%)	18.5	8.7%	69.6%	**1.0x**	**Buy**
NIC Group	31.6	30.0	(5.1%)	7.9%	48.8	3.3%	66.0%	**0.8x**	**Buy**
Equity Group	36.4	36.5	0.1%	4.6%	58.1	5.5%	64.9%	**1.6x**	**Buy**
KCB Group***	36.3	39.0	7.4%	4.1%	60.0	9.0%	62.8%	**1.0x**	**Buy**
GCB Bank	5.0	5.0	0.2%	9.1%	7.7	7.6%	61.4%	**1.2x**	**Buy**
Ecobank	6.8	7.2	5.9%	(4.0%)	10.7	0.0%	49.0%	**1.6x**	**Buy**
I&M Holdings	60.0	60.0	0.0%	(29.4%)	83.9	5.8%	45.6%	**0.6x**	**Buy**
Barclays Bank	10.5	10.4	(1.0%)	(5.0%)	13.1	10.6%	36.5%	**1.4x**	**Buy**
National Bank	3.9	4.0	1.5%	(24.8%)	5.2	0.0%	30.0%	**0.3x**	**Buy**
Guaranty Trust Bank	30.6	31.1	1.6%	(9.7%)	37.1	7.7%	27.0%	**1.9x**	**Buy**
Stanbic Bank Uganda	30.0	30.0	(0.0%)	(3.3%)	36.3	3.9%	24.8%	**2.1x**	**Buy**
Stanbic Holdings	97.5	100.0	2.6%	10.2%	115.6	5.9%	21.5%	**1.0x**	**Buy**
Union Bank Plc	7.0	7.0	0.0%	25.0%	8.2	0.0%	16.4%	**0.7x**	**Accumulate**
Standard Chartered	181.3	186.5	2.9%	(4.1%)	203.8	6.7%	16.0%	**1.4x**	**Accumulate**
SBM Holdings	5.9	6.0	1.4%	0.0%	6.6	5.0%	15.1%	**0.9x**	**Accumulate**
Bank of Kigali	274.0	276.0	0.7%	(8.0%)	299.9	5.0%	13.7%	**1.5x**	**Accumulate**
Bank of Baroda	129.0	130.0	0.8%	(7.1%)	130.6	1.9%	2.4%	**1.1x**	**Lighten**
FBN Holdings	7.0	7.1	0.7%	(11.3%)	6.6	3.5%	(2.4%)	**0.4x**	**Sell**
Ecobank Transnational	10.0	10.1	0.5%	(40.9%)	9.3	0.0%	(7.7%)	**0.4x**	**Sell**
Stanbic IBTC Holdings	44.1	42.1	(4.5%)	(12.3%)	37.0	1.4%	(10.6%)	**2.2x**	**Sell**
Standard Chartered	21.8	21.8	0.0%	3.8%	19.5	0.0%	(10.7%)	**2.7x**	**Sell**
HF Group	4.4	4.2	(4.5%)	(24.2%)	2.9	8.3%	(22.6%)	**0.2x**	**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***

We are Positive on equities for investors as the sustained price declines has 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.