

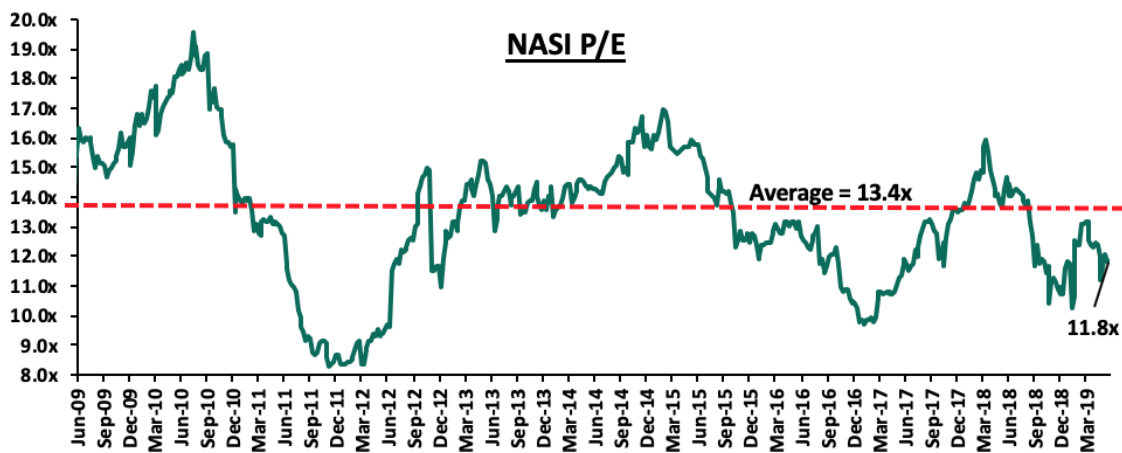
Kenya Listed Banks Q1'2019 Report, & Cytonn Weekly #24/2019

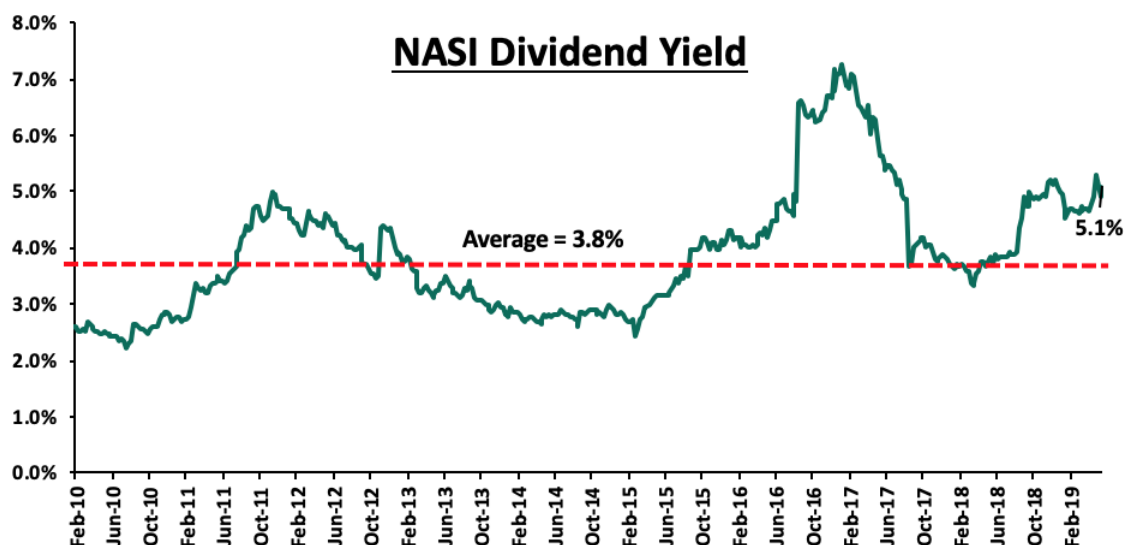
Equities

During the week, the equities market was on an upward trend with NASI, NSE 20 and NSE 25 gaining by 0.1%, 1.1% and 0.6%, respectively, taking their YTD performance to gains/(losses) of 6.8%, (4.5%), and 2.4% for NASI, NSE 20 and NSE 25, respectively. The gain in the NASI was driven by gains in NIC Group, Standard Chartered Bank Kenya and BAT which gained by 4.1%, 2.1% and 1.6%, respectively. The gains were however subdued by declines in large cap stocks such as Bamburi, Barclays Bank Kenya (BBK), Diamond Trust Bank Kenya (DTBK) and Co-operative Bank, which declined by 3.7%, 1.9%, 1.5% and 1.2%, respectively.

Equities turnover increased by 186.9% during the week to USD 37.0 mn, from USD 12.9 mn the previous week, taking the YTD turnover to USD 717.0 mn. Foreign investors turned net sellers for the week, with a net selling position of USD 5.9 mn, from last week's net buying position of USD 0.3 mn.

The market is currently trading at a price to earnings ratio (P/E) of 11.8x, 11.4% below the historical average of 13.4x, and a dividend yield of 5.1%, 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 11.8x is 11.5% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 37.3% 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, Equity Group opened a commercial representative office in Addis Ababa, Ethiopia, which is expected to commence operations in July. This is in line with the bank's strategy to expand into 10 African countries within the year. Expansion into the Ethiopian market is the first phase of the regional expansion drive to attain Pan African status. With a strong retail and digital banking expertise, the Ethiopian market presents a vast untapped market for the bank to exploit, with an estimated population of 105.0 mn. The ongoing shift in reforms to more liberal policies by the current regime should see more banks venture into the country, with KCB Group also highlighting its plan to venture into the market. Equity Goup intends to venture into other African countries through an acquisition of various subsidiaries of Atlas Mara Ltd, an estimated Ksh 10.7 bn deal, which we analyzed in our **April monthly note**. The venture will affirm the bank's position as the biggest bank in Kenya by customers. Kenyan banks have been expanding their operations into neighbouring countries in search for growth, to diversify their earnings as competition intensifies in the local market, as margins remains compressed under the current interest cap regime.

The Central Bank of Kenya (CBK) instructed commercial banks to file weekly reports on individuals exchanging old notes, in an effort to curb the circulation of counterfeit money. As noted in our **note** the ongoing demonetization exercise is expected to be conducted until October 2019, in an attempt at (i) clean up circulation of counterfeit currency, (ii) cleaning up proceeds of corruption held in cash, and, (iii) bring back into circulation monies held in cash. The Central Bank has increased its oversight of the banking sector, with the enforcement of strict anti-money laundering rules, with banks expected to comply with the strict regulations, as they mitigate reputation damage and downside regulatory risks. We are of the view that during the transition period to the new currency, banks may see increased demand for digital banking services, as customers increase their preference of digital transactions. This should presumably lead to higher transactional revenue for banks during that period.

Universe of Coverage

Below is a summary of our SSA universe of coverage:

Banks	Price as at 7/06/2019	Price as at 14/06/2019	w/w change	YTD Change	Target Price	Dividend Yield	Upside/Downside	P/TBv Multiple	Recommendation
Diamond Trust Bank	120.0	120.0	0.0%	(23.3%)	228.4	2.2%	92.5%	0.6x	Buy
UBA Bank	6.3	6.2	(0.8%)	(19.5%)	10.7	13.7%	86.3%	0.4x	Buy

Banks	Price as at 7/06/2019	Price as at 14/06/2019	w/w change	YTD Change	Target Price	Dividend Yield	Upside/Downside	P/TBv Multiple	Recommendation
CRDB	120.0	115.0	(4.2%)	(23.3%)	207.7	0.0%	80.6%	0.4x	Buy
Zenith Bank	20.4	20.1	(1.2%)	(12.8%)	33.3	13.4%	79.2%	0.9x	Buy
GCB Bank	5.1	4.6	(8.9%)	0.0%	7.7	8.3%	76.1%	1.1x	Buy
CAL Bank	0.8	0.8	0.0%	(17.3%)	1.4	0.0%	72.8%	0.7x	Buy
KCB Group	39.5	39.5	0.0%	5.5%	60.4	8.9%	61.8%	1.0x	Buy
Access Bank	6.3	6.4	1.6%	(5.9%)	9.5	6.3%	54.7%	0.4x	Buy
I&M Holdings	58.0	55.0	(5.2%)	29.4%	81.5	6.4%	54.5%	1.0x	Buy
Co-operative Bank	12.5	12.3	(1.2%)	(14.0%)	17.1	8.1%	46.8%	1.0x	Buy
Equity Group	40.0	40.0	0.0%	14.8%	53.7	5.0%	39.1%	1.7x	Buy
NIC Group	30.6	31.8	4.1%	14.4%	42.5	3.1%	36.8%	0.6x	Buy
Barclays Bank	10.5	10.3	(1.4%)	(5.9%)	12.8	10.7%	34.9%	1.2x	Buy
Guaranty Trust Bank	30.4	30.9	1.6%	(10.3%)	37.1	7.8%	27.8%	1.9x	Buy
Stanbic Bank Uganda	29.1	30.0	3.2%	(3.2%)	36.3	3.9%	24.8%	2.1x	Buy
Stanbic Holdings	98.3	98.0	(0.3%)	8.0%	113.6	6.0%	21.8%	1.1x	Buy
SBM Holdings	5.9	5.7	(2.7%)	(4.4%)	6.6	5.3%	20.4%	0.8x	Accumulate
Union Bank Plc	7.0	6.9	(1.4%)	23.2%	8.2	0.0%	18.1%	0.7x	Accumulate
Standard Chartered	190.0	194.0	2.1%	(0.3%)	200.6	6.4%	9.9%	1.4x	Accumulate
Bank of Kigali	265.0	290.0	9.4%	(3.3%)	299.9	4.8%	8.2%	1.6x	Accumulate
Ecobank	8.0	10.0	25.0%	33.3%	10.7	0.0%	7.3%	2.2x	Accumulate
Bank of Baroda	128.2	128.0	(0.2%)	(8.6%)	130.6	2.0%	4.0%	1.1x	Lighten
FBN Holdings	7.0	7.0	0.0%	(12.6%)	6.6	3.6%	(1.0%)	0.4x	Sell
Ecobank Transnational	10.0	10.0	0.0%	(41.2%)	9.3	0.0%	(7.2%)	0.4x	Sell
Standard Chartered	21.7	21.6	(0.2%)	2.9%	19.5	0.0%	(9.9%)	2.7x	Sell
National Bank	4.4	4.4	(0.9%)	(17.3%)	3.9	0.0%	(10.4%)	0.3x	Sell
Stanbic IBTC Holdings	42.5	42.0	(1.2%)	(12.4%)	37.0	1.4%	(10.5%)	2.2x	Sell
HF Group	4.4	4.4	0.0%	(20.6%)	2.9	0.0%	(34.1%)	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 are invested in*

*****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.

Liason House, StateHouse Avenue

The Chancery, Valley Road

www.cytonn.com

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