

# Review of the Interest Rate Cap, & Cytonn Weekly #25/2019

## Equities

During the week, the equities market was on a downward trend with NASI, NSE 20 and NSE 25 declining by 1.7%, 2.2% and 2.2%, respectively, taking their YTD performance to gains/(losses) of 5.0%, (6.6%), and 0.2% for NASI, NSE 20 and NSE 25, respectively. The performance in the NASI was driven by declines in EABL, NIC Group, and Bamburi that declined by 5.1%, 4.1%, and 2.5%, respectively.

Equities turnover decreased by 27.3% during the week to USD 26.9 mn, from USD 37.0 mn the previous week, taking the YTD turnover to USD 743.8 mn. Foreign investors remained net sellers for the week, with a net selling position of USD 0.7 mn, from USD 5.9 mn the previous week.

The market is currently trading at a price to earnings ratio (P/E) of 11.6x, 13.2% below the historical average of 13.3x, and a dividend yield of 5.3%, 1.5% points 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 11.6x is 19.4% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 39.4% 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, Safaricom and Equity Bank reached a financing deal enabling Safaricom's suppliers, dealers and agents to access up to Kshs 200.0 mn unsecured short-term loans to manage cash flow positions ahead of payment. Safaricom had 1,164 suppliers and 440 active dealers in the financial year ended March 2019 and 156,000 M-Pesa agents. The size of the loan to be accessed and terms will be subjected to individual firm's credit grading. Suppliers, dealers and agents who provide information on local purchase orders or contractor financing, bid bonds, performance guarantees, advance payment guarantees and back-to-back letters of credit before they start supplying will access a maximum unsecured loan of Kshs 100,000. In our view, the financing deal will benefit Safaricom as the thousands of Safaricom suppliers, dealers and agents targeted will be able to provide the telco better services as a result of better cashflows and hence an increase in their operational efficiency. The financing deal will also be beneficial to Equity Bank as it will enable them to grow their loan book, which grew by 12.7% to Kshs 305.5 bn in Q1'2019, from Kshs 271.1 bn in Q1'2018, as well as grow their Non-Funded Income (NFI) which grew by 6.8% to Kshs 7.2 bn in Q1'2019, from Kshs 6.7 bn in Q1'2018. The financing deal is an indicator of Equity Bank's aggressiveness evidenced by Equity Bank having the second highest NFI contribution to total operating income as reported in our **Kenya Listed Banks Q1'2019 Report**. We expect banks to continue focusing on revenue diversification in the current regime of compressed interest margins. Focus on Non-Funded Income (NFI) is likely to continue, as banks aim to grow transactional income via alternative channels such as agency banking, internet, and mobile technologies.

KCB Group served National Bank of Kenya (NBK) with take-over documents to acquire a 100% stake of ordinary shares of the Company upon conversion of the preference shares into ordinary shares. Under the take-over documents, KCB intends to satisfy the offer price consideration through a share swap of 1 ordinary share of KCB for every 10 ordinary shares of NBK, for more information see our **Cytonn Weekly #16/2019**. National Bank of Kenya (NBK) says it will negotiate to ensure that staff do not lose their jobs in the looming takeover by KCB. NBK currently has 1,356 staff. KCB said that part of the takeover will involve streamlining human resource in the post-acquisition period, raising fears of staff-layoffs of NBK employees. The exact number of staff who will be retained is yet to be determined as the takeover documents are yet to be filed with the Competition Authority of Kenya (CAK), who are mandated to consider public interest that includes jobs and substantial lessening of competition. There are instances when CAK has compelled firms to retain staff of target companies for a certain period. The regulator in May 2019 approved the Commercial Bank of Africa (CBA) and NIC Group Plc merger on condition that they retain their respective staff for at least a year. The agency in 2014 ordered Britam to retain at least 85 employees of its acquisition target Real Insurance's 105 staff. In our view, the merger if it goes through, will result in closing of branches and staff layoffs as KCB restructures the business to achieve operational efficiency. NBK's staff costs increased by 5.3% to Kshs 1.0 bn in Q1'2019, from Kshs 0.9 bn in Q1'2018. We expect banks to continue focusing on operational efficiency with cost containment likely to continue being a focus area. We thus expect continued restructuring, possible leading to staff layoffs, as staff headcount demands reduce, on increased usage of mobile and internet channels.

## Universe of Coverage

Below is a summary of our SSA universe of coverage:

Banks	Price as at 14/06/2019	Price as at 21/06/2019	w/w change	YTD Change	*Target Price	Dividend Yield	**Upside/Dow nside	P/TBv Multiple	Recommendation
Diamond Trust Bank	120.0	116.0	(3.3%)	(25.9%)	228.4	2.2%	99.1%	0.6x	Buy
Zenith Bank	20.1	20.0	(0.5%)	(13.2%)	33.3	13.5%	80.1%	0.9x	Buy
UBA Bank	6.2	6.4	3.7%	(16.5%)	10.7	13.2%	79.6%	0.4x	Buy
CRDB	115.0	120.0	4.3%	(20.0%)	207.7	0.0%	73.1%	0.4x	Buy
***KCB Group	39.5	39.0	(1.3%)	4.1%	60.4	9.0%	63.9%	1.0x	Buy
GCB Bank	4.6	5.0	8.7%	8.7%	7.7	7.6%	62.0%	1.2x	Buy
I&M Holdings	55.0	54.3	(1.4%)	27.6%	81.5	6.5%	56.7%	1.0x	Buy
CAL Bank	0.8	0.9	14.8%	(5.1%)	1.4	0.0%	50.5%	0.8x	Buy
Co-operative Bank	12.3	12.1	(1.6%)	(15.4%)	17.1	8.3%	49.2%	1.0x	Buy
Access Bank	6.4	6.9	7.3%	1.0%	9.5	5.8%	44.1%	0.4x	Buy
NIC Group	31.8	30.5	(4.1%)	9.7%	42.5	3.3%	42.6%	0.6x	Buy
Equity Group	40.0	39.3	(1.9%)	12.6%	53.7	5.1%	41.8%	1.7x	Buy
Ecobank	10.0	7.8	(21.8%)	4.3%	10.7	0.0%	37.2%	1.7x	Buy
Barclays Bank	10.3	10.4	1.0%	(5.0%)	12.8	10.6%	33.6%	1.3x	Buy
Guaranty Trust Bank	30.9	31.2	1.1%	(9.3%)	37.1	7.7%	26.5%	2.0x	Buy
Stanbic Bank Uganda	30.0	30.0	0.0%	(3.2%)	36.3	3.9%	24.8%	2.1x	Buy
SBM Holdings	5.7	5.7	0.0%	(4.4%)	6.6	5.3%	20.4%	0.8x	Buy
Stanbic Holdings	98.0	100.0	2.0%	10.2%	113.6	5.9%	19.4%	1.1x	Accumulate
Union Bank Plc	6.9	7.0	0.7%	24.1%	8.2	0.0%	17.3%	0.7x	Accumulate
Bank of Kigali	290.0	275.0	(5.2%)	(8.3%)	299.9	5.0%	14.1%	1.5x	Accumulate
Standard Chartered	194.0	192.0	(1.0%)	(1.3%)	200.6	6.5%	11.0%	1.4x	Accumulate
Bank of Baroda	128.0	129.0	0.8%	(7.9%)	130.6	1.9%	3.2%	1.1x	Lighten
FBN Holdings	7.0	7.0	0.1%	(12.5%)	6.6	3.6%	(1.1%)	0.4x	Sell
National Bank	4.4	4.0	(9.1%)	(24.8%)	3.9	0.0%	(1.4%)	0.2x	Sell
Standard Chartered	21.6	20.5	(5.1%)	(2.4%)	19.5	0.0%	(5.1%)	2.6x	Sell

Banks	Price as at 14/06/2019	Price as at 21/06/2019	w/w change	YTD Change	*Target Price	Dividend Yield	**Upside/Downdside	P/TBv Multiple	Recommendation
Stanbic IBTC Holdings	42.0	39.9	(5.0%)	(16.8%)	37.0	1.5%	(5.8%)	2.1x	Sell
Ecobank Transnational	10.0	11.4	13.5%	(33.2%)	9.3	0.0%	(18.2%)	0.4x	Sell
HF Group	4.4	4.3	(3.4%)	(23.3%)	2.9	0.0%	(31.8%)	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.*

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