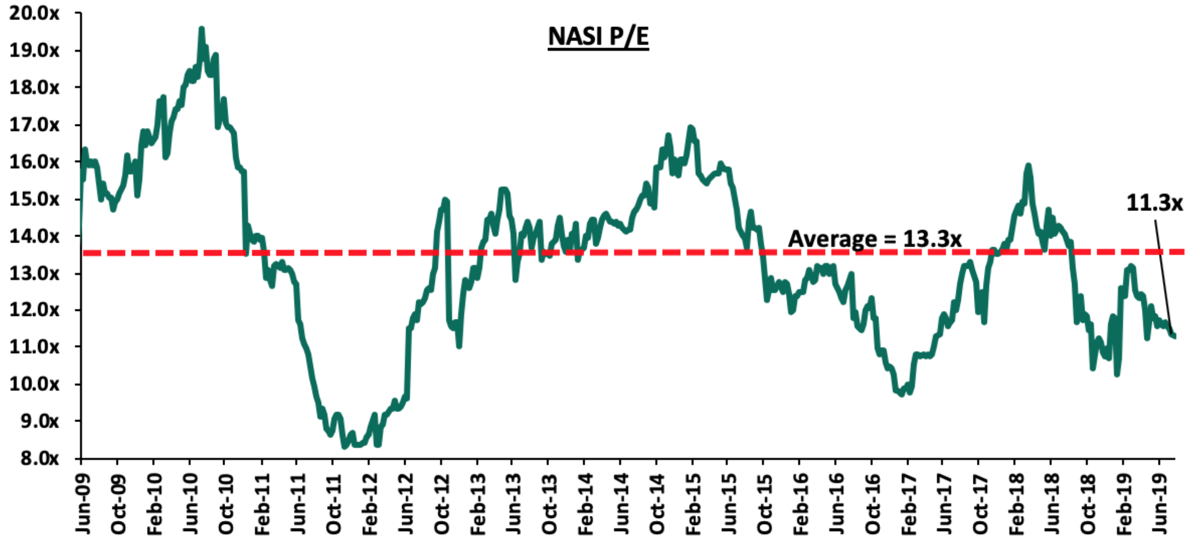
Investment Options for Your Pension Upon Retirement, & Cytonn Weekly #34/2019

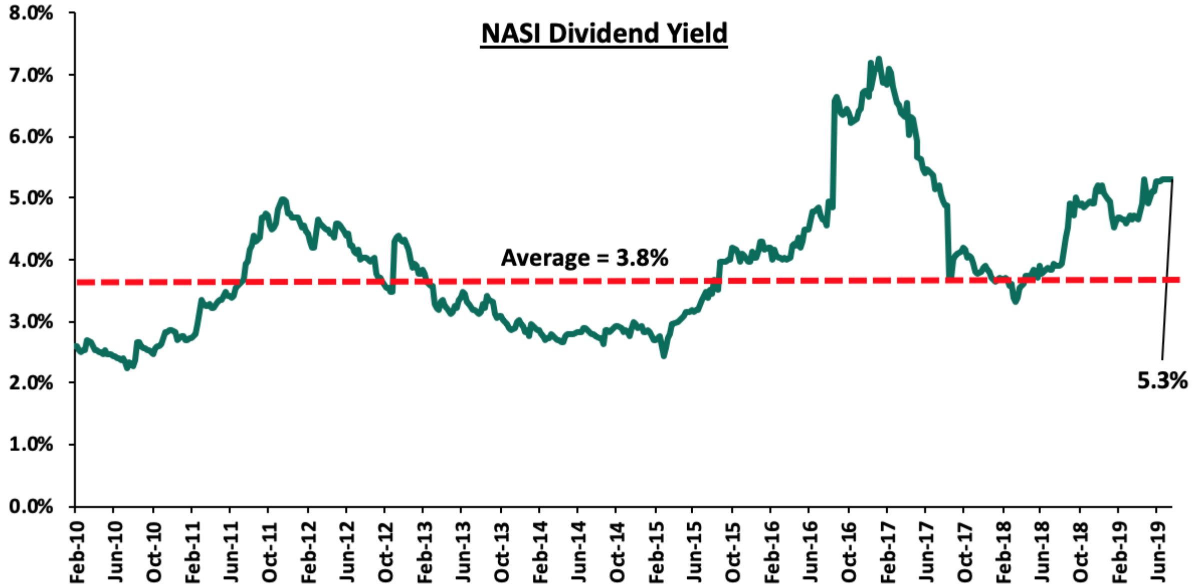
Equities

During the week, the equities market was on a downward trend with NASI, NSE 20 and NSE 25 declining by 1.0%, 2.5% and 1.2%, respectively, taking their YTD performance to gains/losses of 6.6%, (12.6%) and 0.1%, for NASI, NSE 20 and NSE 25, respectively. The performance in NASI was driven by declines in Co-operative Bank, Bamburi Cement, Safaricom PLC and Standard Chartered Bank, which fell by 3.8%, 2.8%, 2.4% and 1.4%, respectively.

Equities turnover increased by 14.4% during the week to USD 29.5 mn, from USD 25.8 mn the previous week, taking the YTD turnover to USD 945.4 mn. Foreign investors remained net buyers for the week, with a net buying position of USD 11.6 mn, from USD 22,762.3 the previous week.

The market is currently trading at a price to earnings ratio (P/E) of 11.3x, 15.0% 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 11.3x is 16.5% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 36.1% 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.





During the week, the Institute of Certified Public Accountants of Kenya (ICPAK) issued a proposal to the National Assembly Finance Committee during public hearings on the Finance Bill pushing for a two-year extension of the rate cap law arguing that its full benefits are yet to be realized. The ICPAK public tax committee chairman, Mr. Phillip Mwema, noted that the rate cap law had instilled discipline among borrowers, without affecting the operations of banks and the banking industry at large, which continues to be profitable. On the contrary, a section of the National Assembly Finance Committee rallies behind the proposal by the Treasury and the Kenya Bankers Association (KBA), to have the rate cap law reviewed in order to allow banks to price loans based on the risk profile of borrowers, and as a result, boost private sector lending whose growth has remained below 5.0% in the regime of capped interest, with banks unable to price a majority of Micro, Small and Medium Enterprises within the set margins.

There is a proposal in the Finance Bill 2019 to make the following amendments to Section 33B of the Banking Act:

i. A bank or a financial institution shall set the maximum interest chargeable for a loan facility in Kenya at no more than four percentage points per annum above the Central Bank Rate of Kenya,
ii. When a bank or financial institution issues a credit facility to a micro and small enterprise, or an unsecured individual member of the public, the bank or financial institution may set an interest rate at no more than six percentage points per annum above the four percentage points set under subsection (i), and

iii. A person shall not enter into an agreement or arrangement to borrow or lend directly or indirectly at an interest rate in excess of that prescribed by law.

Given the strong resistance by MPs against attempts to repeal the rate cap law in the Finance Bill 2018, we are not overly optimistic about a possible reversion of the law. However, we expect a possible review in the form of a change in the benchmark from the Central Bank Rate (CBR), and an increase in the margin. We continue to advocate for a repeal or at least a significant review of the Banking (Amendment) Act, 2015, given the current regulatory framework has hampered credit growth, evidenced by the continued decline of private sector credit growth, which came in at 5.2% as at June 2019, below the 5-year average of 11.2%.

Earnings Releases

Diamond Trust Bank H1’2019 results

Diamond Trust Bank released their H1’2019 financial results, recording an 11.0% growth in core earnings per share to Kshs 13.9 from Kshs 12.5 in H1’2018, higher than our expectation of a 6.3% increase to Kshs 13.3. Performance was driven by cost-cutting measures and efficiency evidenced by a 14.4% decrease in total operating expenses to Kshs 6.2 bn from Kshs 7.3 bn, which outpaced the decline in total revenue that fell 4.0% to Kshs 12.2 bn from Kshs 12.7 bn. Highlights of the performance from H1’2018 to H1’2019 include:

- Total operating income decreased by 4.0% to Kshs 12.2 bn, from Kshs 12.7 bn in H1’2018. This was due to a 7.5% decrease in Net Interest Income (NII) to Kshs 9.2 bn from Kshs 9.9 bn in H1’2018, despite the 8.5% growth in Non-Funded Income (NFI) to Kshs 3.0 bn, from Kshs 2.7 bn in H1’2018,
- Interest income decreased by 6.6% to Kshs 16.3 bn from Kshs 17.5 bn in H1’2018. The interest income on loans and advances decreased by 10.4% to Kshs 9.9 bn from Kshs 11.1 bn in H1’2018. Interest income on government securities decreased by 0.6% to Kshs 6.27 bn in H1’2019, from Kshs 6.31 bn in H1’2018. The yield on interest earning assets declined to 10.3% in H1’2019, from 11.1% in H1’2018, due to declining yields on government securities, and lower interest on loans due to a relatively lower Central Bank Rate (CBR) currently at 9.0%,
- Interest expense decreased by 5.5% to Kshs 7.2 bn from Kshs 7.6 bn in H1’2018, as interest expense on customer deposits decreased by 11.4% to Kshs 6.1 bn, from Kshs 6.8 bn in H1’2018. Interest expense on deposits from other banking institutions increased by 6.1% to Kshs 394.6 mn, from Kshs 371.9 mn in H1’2018. The cost of funds decreased to 4.8% from 5.0% in H1’2018. The Net Interest Margin declined to 5.8% from 6.3% in H1’2018,
- Non-Funded Income increased by 8.5% to Kshs 3.0 bn, from Kshs 2.7 bn in H1’2018. The increase in NFI was driven by a 59.1% increase in other income to Kshs 0.3 bn from Kshs 0.2 bn in H1’2018, coupled with a 25.3% increase in forex trading income to Kshs 1.0 bn from Kshs 0.8 bn in H1’2018. Fees and commissions on loans decreased by 15.6% to Kshs 0.6 bn from Kshs 0.7 bn in H1’2018, while other fees rose marginally by 2.1% to Kshs 1.1 bn from Kshs 1.0 bn in H1’2018. The revenue mix shifted to 76:24 funded to non-funded income in H1’2019, from 78:22 in H1’2018, owing to the increase in NFI coupled with the decrease in NII,
- Total operating expenses decreased by 14.4% to Kshs 6.2 bn from Kshs 7.3 bn, largely driven by a 68.1% decrease in loan loss provision (LLP) to Kshs 0.5 bn in H1’2019, from Kshs 1.7 bn in H1’2018. However, staff costs increased by 6.2% to Kshs 2.2 bn in H1’2019, from Kshs 2.1 bn in H1’2018. Other operating expenses declined by 1.1% to Kshs 3.47 bn from Kshs 3.51 bn in H1’2018,
- The cost to income ratio improved to 51.2%, from 57.4% in H1’2018. Without LLP, however, the cost to income ratio deteriorated to 46.8% from 44.2% in H1’2018,
- Profit before tax increased by 10.2% to Kshs 6.0 bn, up from Kshs 5.4 bn in H1’2018. Profit after tax increased by 10.0% to Kshs 4.1 bn in H1’2019, from Kshs 3.8 bn in H1’2018, as the effective tax rate increased slightly to 30.6%, from 30.5% in H1’2018.

Balance Sheet:

- The balance sheet recorded a marginal decrease with total assets coming in at Kshs 375.9 bn from Kshs 376.1 bn in H1'2018. This decrease was largely driven by a 14.4% decrease in government securities to Kshs 108.4 bn in H1'2019, from Kshs 126.8 bn in H1'2018,
- The loan book contracted by 3.8% to Kshs 190.8 bn in H1'2019, from Kshs 198.2 bn in H1'2018. Growth was registered in other assets which grew by 59.4% to Kshs 13.4 bn, from Kshs 8.4 bn in H1'2018,
- Total liabilities fell by 2.4% to Kshs 313.4 bn, from Kshs 321.1 bn in H1'2018, driven by a 53.6% decrease in placements to Kshs 8.7 bn, from Kshs 18.7 bn in H1'2018, coupled with a 22.0% decrease in borrowings to Kshs 13.2 bn, from Kshs 16.9 bn in H1'2018,
- Deposits increased by 0.5% to Kshs 283.1 bn from Kshs 281.8 in H1'2018. Deposits per branch increased by 5.1% to Kshs 2.2 bn from Kshs 2.1 bn in H1'2018, with the branches decreasing to 131 in H1'2019 from 137 in H1'2018,
- The faster growth in deposits compared to the loan growth led to a decline in the loan to deposit ratio to 67.4% from 70.4% in H1'2018,
- Gross non-performing loans decreased by 1.0% to Kshs 15.1 bn in H1'2019, from Kshs 15.3 bn in H1'2018. However, the NPL ratio deteriorated to 7.6% in H1'2019, from 7.3% in H1'2018, owing to the faster decline in loans, which contracted by 3.8%. General loan loss provisions decreased by 36.7% to Kshs 5.4 bn, from Kshs 8.5 bn in H1'2018. The NPL coverage thus decreased to 50.3% in H1'2019, from 70.7% in H1'2018 due to the decrease in general loan loss provisions,
- Shareholders' funds increased by 13.9% to Kshs 56.9 bn in H1'2019, from Kshs 50.0 bn in H1'2018,
- DTB Kenya Limited is currently sufficiently capitalized with a core capital to risk weighted assets ratio of 18.9%, 8.4% above the statutory requirement. In addition, the total capital to risk weighted assets ratio was 21.1%, exceeding the statutory requirement by 6.6%. Adjusting for IFRS 9, the core capital to risk weighted assets stood at 19.6%, while total capital to risk weighted assets came in at 21.8%, indicating that the bank's total capital relative to its risk-weighted assets decreased by 0.7% due to the impact of IFRS 9,
- DTB currently has a return on average assets of 2.0% and a return on average equity of 13.9%.

Key Take-Outs:

a. The bank recorded a relatively weaker earnings performance with total operating income declining by 4.0%. This was largely due to the depressed performance of funded income, with the bank recording declining interest income on loans and advances and government securities. The expansion from the bottom line was largely due to a faster decline in total operating expenses, which was largely derived from the steep 68.1% decline in Loan Loss Provisions (LLP).
b. The bank recorded an improved performance on the NFI income segment, which recorded an 8.5% growth y/y, largely supported by the 59.1% growth in other income, coupled with the 25.3% growth in forex trading income. Consequently, NFI contribution to total income rose to 24.5% from 22.6% in H1'2019. This however remains below the current industry average of 36.8%.

For more information, please see our Diamond Trust Bank Earnings Note.

NIC Group H1'2019 results

NIC Group released their H1'2019 financial results, recording an 8.6% growth in core earnings per share, driven by a 12.5% increase in operating income to Kshs 8.2 bn from Kshs 7.3 bn, despite the 18.0% increase in operating expenses to Kshs 5.2 bn from Kshs 4.4 bn. Highlights of the performance from H1'2018 to H1'2019 include:

- Total operating income increased by 12.5% to Kshs 8.2 bn in H1'2019 from Kshs 7.3 bn in H1'2018. This was driven by a 7.7% increase in Net Interest Income (NII) to Kshs 5.5 bn from

Kshs 5.1 bn in H1’2018, coupled with a 23.9% increase in Non-Funded Income (NFI) to Kshs 2.7 bn from Kshs 2.1 bn in H1’2018,

- Interest income increased marginally to Kshs 9.7 bn from Kshs 9.6 bn in H1’2018. Interest income on government securities increased by 3.8% to Kshs 3.4 bn in H1’2019 from Kshs 3.3 bn in H1’2018. The yield on interest earning assets however declined to 10.8% in H1’2019 from 10.9% in H1’2018, due to declining yields on government securities, and lower interest on loans due to a relatively lower Central Bank Rate (CBR) currently at 9.0%,
- Interest expense decreased by 7.0% to Kshs 4.1 bn from Kshs 4.4 bn in H1’2018, as interest expense on customer deposits decreased by 8.7% to Kshs 3.3 bn from Kshs 3.7 bn in H1’2018. The cost of funds fell to 5.1% from 5.4% in H1’2018. The Net Interest Margin remained at 6.0%,
- Non-Funded Income increased by 23.9% to Kshs 2.7 bn from Kshs 2.1 bn in H1’2018. The increase in NFI was driven by a 29.3% increase in Fees and commissions to Kshs 0.8 bn from Kshs 0.6 bn in H1’2018, coupled with a 67.8% increase in other income to Kshs 0.6 bn from Kshs 0.4 bn in H1’2018. Forex trading income also rose by 7.6% to Kshs 735.0 mn from Kshs 683.0 mn in H1’2018. The revenue mix shifted to 67:33 funded to non-funded income from 70:30 in H1’2018, owing to the increase in NFI coupled with the decline in NII,
- Total operating expenses increased by 18.0% to Kshs 5.2 bn from Kshs 4.4 bn, largely driven by a 29.6% increase in loan loss provision (LLP) to Kshs 1.4 bn in H1’2019 from Kshs 1.1 bn in H1’2018. Staff costs also increased by 9.1% to Kshs 1.9 bn in H1’2019 from Kshs 1.7 bn in H1’2018,
- The cost to income ratio deteriorated to 63.9% from 60.9% in H1’2018. Without LLP, the cost to income ratio also deteriorated to 46.3% from 45.6% in H1’2018,
- NIC Group incurred an exceptional item of Kshs 255.2 mn following the integration, advisory and legal expenses related to the merger with CBA,
- Profit before tax and exceptional items increased by 4.0% to Kshs 3.0 bn from Kshs 2.8 bn in H1’2018. Profit after tax declined by 4.2% to Kshs 1.9 bn in H1’2019 from Kshs 2.0 bn in H1’2018,
- The bank declared an Interim dividend of Kshs. 0.25 per share, which will be paid in October 2019. Assuming a final dividend payout of Kshs 1.25, the dividend yield translates to 4.4% at the current price of Kshs 28.4.

Balance Sheet

- The balance sheet recorded an expansion with total assets growth of 6.6% to Kshs 214.1 bn from Kshs 201.0 bn in H1’2018. This growth was largely driven by an 8.1% increase in government securities to Kshs. 60.3 bn from Kshs. 55.7 bn in H1’2018,
- The loan book expanded by 3.1% to Kshs 118.5 bn in H1’2019 from Kshs 115.0 bn in H1’2018,
- Total liabilities rose by 4.6% to Kshs 176.4 bn from Kshs 168.7 bn in H1’2018, driven by a 3.5% increase in customer deposits to Kshs 152.3 bn from Kshs 147.1 bn in H1’2018. Deposits per branch increased by 6.1% to Kshs 3.7 bn from Kshs 3.6 bn in H1’2018, with the branches decreasing to 41 in H1’2019 from 42 in H1’2018,
- The faster growth in deposits compared to the growth in loans led to a slight decline in the loan to deposit ratio to 77.8% from 78.2% in H1’2018,
- Gross non-performing loans increased by 12.3% to Kshs 18.1 bn in H1’2019 from Kshs 16.2 bn in H1’2018. Consequently, the NPL ratio deteriorated to 14.3% in H1’2019 from 13.1% in H1’2018. General Loan loss provisions decreased by 25.0% to Kshs 5.1 bn from Kshs 6.8 bn in H1’2018. Consequently, the NPL coverage deteriorated to 44.5% in H1’2018 from 52.2% in H1’2018,
- Shareholders’ funds increased significantly by 17.7% to Kshs 37.4 bn in H1’2019 from Kshs 31.8 bn in H1’2018, mainly driven by a 17.1% increase in retained earnings to Kshs 30.9 bn from Kshs 26.4 bn reported in H1’2018,
- NIC Group is currently sufficiently capitalized with a core capital to risk weighted assets ratio of 20.4%, 9.9% above the statutory requirement. In addition, the total capital to risk weighted assets ratio was 21.9%, exceeding the statutory requirement by 7.4%. Adjusting for IFRS 9, the core

capital to risk weighted assets stood at 19.4%, while total capital to risk weighted assets came in at 20.8%,
- NIC Group currently has a return on average assets of 2.1% and a return on average equity of 12.0%.

Key Take-Outs:

a. NIC Group's non-funded income increased by 23.9% for the period ending 30th June 2019. This shows improved diversification with the bank improving its alternative sources of income, but assuming the change is sustainable, which is too early to tell. This led to an increment in the bank's NFI contribution to total income to 32.5%, which is still lower than the industry average of 36.8%,
b. The bank's NPL Ratio declined to 14.3% as the gross non-performing loans increased by 12.3%, outpacing loan growth of 3.1%. Despite this, the bank's provisions also decreased by 25.0%. This performance in NPL's shows the continued deterioration in the quality of loans that local banks hold and consequently, the increasing level of risk that that comes with high NPLs,
c. The Bank has a relatively low ROA of 2.1% and an ROE of 12.0% in H1'2019 compared to the market average of 17.5%. This was mainly driven by the decline in profits during the period under review.

For more information, please see our NIC Group Earnings Note.

Co-operative Bank H1'2019 Results

Co-operative Bank released their H1'2019 financial results, recording a 4.6% growth in core earnings per share to Kshs 1.1 bn, from Kshs 1.0 bn in H1'2018. The performance was driven by a 5.5% increase in total operating income, which outpaced the 5.2% increase in total operating expenses. Highlights of the performance from H1'2018 to H1'2019 include:

- Total operating income increased by 5.5% to Kshs 23.0 bn from Kshs 21.8 bn in H1'2018, driven by a 25.1% increase in Non-Funded Income to Kshs 8.8 bn from Kshs 7.0 bn in H1'2018, which outweighed the 3.8% decline in Net Interest Income to Kshs 14.3 bn from Kshs 14.8 bn in H1'2018,
- Interest income declined by 1.7% to Kshs 20.4 bn, from Kshs 20.8 bn in H1'2018. This was driven by a 9.1% decline in interest income from loans and advances to Kshs 14.7 bn from Kshs 16.1 bn in H1'2018, which outweighed the 21.7% increase in interest income from government securities to Kshs 5.5 bn from Kshs 4.5 bn in H1'2018. The yield on interest-earning assets thus declined to 11.9%, from 12.2% in H1'2018,
- Interest expense rose by 3.5% to Kshs 6.2 bn, from Kshs 6.0 bn in H1'2018, largely due to a 38.8% rise in other interest expenses to Kshs 794.9 mn from Kshs 572.8 mn. Interest expense on customer deposits however remained flat at Kshs 5.4 bn, while interest expenses on placement liabilities declined by 26.2% to Kshs 21.0 mn, from Kshs 28.4 mn in H1'2018. The cost of funds declined to 3.7%, from 3.9% in H1'2018, owing to an 8.8% increase in interest bearing liabilities to Kshs 346.6 bn, from Kshs 318.6 bn in H1'2018, which grew faster than the 3.5% increase in interest expense. The Net Interest Margin (NIM) declined to 8.4%, from 8.6% in H1'2018, due to the decline in NII despite the rise in the average interest earning assets,
- Non-Funded Income rose by 25.1 % to Kshs 8.8 bn from Kshs 7.0 bn in H1'2018. The increase was mainly driven by the 38.1% increase in total fees and commissions to Kshs 7.1 bn, from Kshs 5.1 bn in H1'2018, which management attributed to increased usage of the firm's alternative transaction channels. The improvement in NFI was however weighed down by the 22.1% decline in forex trading income to Kshs 1.0 bn from Kshs 1.2 bn in H1'2018. As a consequence, the revenue mix shifted to 62:38, from 68:32 in H1'2018 owing to the fast growth in NFI coupled with the decline in NII,
- Total operating expenses increased by 5.2% to Kshs 12.6 bn, from Kshs 12.0 bn in H1'2018,

largely driven by the 8.1% rise in Loan Loss Provisions (LLP) to Kshs 1.2 bn from Kshs 1.1 bn in H1'2018, coupled with the 3.1% increase in other operating expenses to Kshs 5.7 bn, from Kshs 5.5 bn in H1'2018, and the 6.8% increase in staff costs to Kshs 5.7 bn, from Kshs 5.3 bn in H1'2018,

- The Cost to Income Ratio (CIR) improved marginally to 54.8%, from 54.9% in H1'2018. Without LLP, the cost to income ratio also improved to 49.6% from 49.9% in H1'2018,
- Profit before tax increased by 4.6% to Kshs 10.4 bn, up from Kshs 10.0 bn in H1'2018. Profit after tax grew by 4.6% as well to Kshs 7.5 bn in H1'2019, from Kshs 7.1 bn in H1'2018.

Balance Sheet

- The balance sheet recorded an expansion as total assets increased by 7.8% to Kshs 429.6 bn, from Kshs 398.4 bn in H1'2018. Growth was supported by a 14.2% growth in government securities to Kshs 95.0 bn, from Kshs 83.1 bn, coupled with the 2.6% increase in the loan book to Kshs 257.6 bn from Kshs 251.1 bn in H1'2018,
- Total liabilities rose by 8.4% to Kshs 357.2 bn from Kshs 329.6 bn in H1'2018, driven by a 9.0% increase in customer deposits to Kshs 323.6 bn, from Kshs 297.0 bn in H1'2018. Deposits per branch increased by 8.3% to Kshs 2.1 bn from Kshs 1.9 bn in H1'2018, despite the number of branches increasing to 156 from 155 in H1'2018 as deposits grew at a faster rate,
- Borrowings rose by 16.5% to Kshs 21.5 bn from Kshs 18.4 bn in H1'2018,
- The fast 9.0% growth in deposits which outpaced the 2.6% growth in loans, led to a decline in the loan to deposit ratio to 79.6%, from 84.6% in H1'2018,
- Gross Non-Performing Loans (NPLs) increased by 8.3% to Kshs 30.6 bn in H1'2019, from Kshs 28.2 bn in H1'2018. The NPL ratio thus deteriorated to 11.2% in H1'2019, from 10.9% in H1'2018. Management attributed the deterioration in asset quality to players in the manufacturing sector, agriculture, real estate and trade sectors. General Loan Loss Provisions increased by 37.8% to Kshs 10.9 bn, from Kshs 7.9 bn in H1'2018. Thus, the NPL coverage improved to 51.4% in H1'2019 from 31.0% in H1'2018,
- Shareholders' funds increased by 4.4% to Kshs 71.0 bn in H1'2019 from Kshs 68.0 bn in H1'2018, supported by a 4.8% increase in the retained earnings to Kshs 62.2 bn, from Kshs 59.4 bn in H1'2018,
- Co-operative Bank remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 16.0%, 5.5% points above the statutory requirement of 10.5%. In addition, the total capital to risk-weighted assets ratio came in at 16.3%, exceeding the statutory requirement of 14.5% by 1.8% points. Adjusting for IFRS 9, the core capital to risk weighted assets stood at 16.4%, while total capital to risk-weighted assets came in at 16.7%, and,
- The bank currently has a Return on Average Assets (ROaA) of 3.2%, and a Return on Average Equity (ROaE) of 18.8%.

Key Take-Outs:

a. The bank's asset quality deteriorated, with the NPL ratio deteriorating to 11.2%, from 10.9% in H1'2018. The main sectors that contributed to the NPLs were trade, personal consumer, manufacturing and real estate, which contributed 33.0%, 19.0%, 14.0% and 11.0% 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 NPL,
b. 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 4.5% increase in the number of agency banking transactions to 23.0 mn from 22.0 mn in H1'2018, which lead to an 8.7% increase in revenue to 250.0 mn from 230.0 mn. The bank's mobile banking platform recorded a 26.3% increase in the number of transactions to 24.0 mn from 19.0 mn, and as a consequence, commission income increased by 133.6% to Kshs 1.9 bn, from Kshs 782.0 mn in

H1’2018. This led to an increment in the bank’s NFI contribution to total income to 38.0%, which is higher than the industry average of 36.8%.

For more information, please see our Co-operative Bank Earnings Note.

The table below summarizes the performance of listed banks that have released their H1’2019 results:

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 Fees & Commissions	Deposit Growth	Growth in Government Securities	Loan to Deposit Ratio	Loan Growth	Return on Average Equity
Stanbic Holdings	14.4%	10.5%	5.2%	19.5%	5.1%	10.1%	47.8%	53.2%	10.3%	8.1%	74.4%	15.0%	15.3%
Diamond Trust Bank	11.0%	(6.6%)	(5.5%)	(7.5%)	5.8%	8.5%	24.5%	(15.6%)	0.5%	14.4%	67.4%	(3.8%)	13.9%
Equity Group	9.1%	9.2%	14.3%	7.6%	8.5%	25.6%	44.0%	16.1%	16.5%	13.0%	70.0%	16.7%	22.1%
NIC Group	8.6%	0.9%	(7.0%)	7.7%	6.0%	23.9%	32.5%	29.3%	3.5%	8.1%	77.8%	3.1%	12.0%
KCB Group	5.0%	4.3%	1.6%	5.2%	8.2%	14.7%	34.1%	3.5%	7.3%	20.3%	85.0%	13.6%	22.7%
Co-operative Bank	4.6%	(1.7%)	3.5%	(3.8%)	8.4%	25.1%	38.0%	38.1%	9.0%	14.2%	79.6%	2.6%	18.8%
H1'2019 Mkt Weighted Average*	**8.8%**	**2.8%**	**2.0%**	**4.8%**	**6.0%**	**18.0%**	**36.8%**	**20.8%**	**7.9%**	**13.0%**	**75.7%**	**7.9%**	**17.5%**
H1'2018 Mkt Weighted Average**	**19.0%**	**7.9%**	**12.0%**	**6.4%**	**8.1%**	**6.9%**	**34.3%**	**4.6%**	**10.0%**	**14.9%**	**73.8%**	**3.8%**	**19.5%**

***Market cap weighted as at 23/08/2019**

****Market cap weighted as at 31/08/2018**

Key takeaways from the table above include:

i. The six listed Kenyan banks that have released recorded an 8.8% average increase in core Earnings Per Share (EPS), compared to an increase of 19.0% in H1’2018. Consequently, the Return on Average Equity (RoAE) decreased to 17.5%, from 19.5% in H1’2018,
ii. The sector recorded weaker deposit growth, which came in at 7.9%, slower than the 10.0% growth recorded in H1’2018. Interest expenses also increased at a slower pace of 2.8%, compared to 7.9% in H1’2018, indicating banks have been able to mobilize relatively cheaper deposits,
iii. Average loan growth came in at 7.9%, which was faster than the 3.8% recorded in H1’2018, indicating that there was an improvement in credit extension to the economy. Government securities on the other hand recorded a growth of 13.0% y/y, which was faster compared to the loans, but a decline from the 14.9% recorded in H1’2018. This highlights that banks are beginning to adjust their business models back to private sector lending as opposed to investing in government securities, as the yields on government securities declined during the year. Interest income increased by 2.8%, slower than the increase of 7.9% recorded in H1’2018. Consequently, the Net Interest Income (NII) grew by 4.8% compared to a growth of 6.4% in H1’2018,
iv. The average Net Interest Margin in the banking sector currently stands at 6.0%, down from the 8.1% recorded in H1’2018, despite the Net Interest Income increasing by 4.8% y/y. The decline was mainly due to the 13.8% increase in allocation to relatively lower yielding government securities, coupled with the decline in yields on loans due to the 100 bps decline in the Central Bank Rate (CBR), and,
v. Non Funded Income grew by 18.0% y/y, faster than the 6.9% recorded in H1’2018. The growth in NFI was boosted by the total fee and commission income which improved by 20.8%, compared to the 4.6% growth recorded in H1’2018, owing to the faster loan growth.

Universe of Coverage

Below is a summary of our SSA universe of coverage:

Banks	Price as at 16/08/2019	Price as at 23/08/2019	w/w change	YTD Change	Target Price	Dividend Yield	Upside/ Downside	P/TBv Multiple	Recommendation
Diamond Trust Bank	119.0	118.8	(0.2%)	(24.1%)	228.4	2.2%	96.1%	**0.6x**	**Buy**
CRDB	100.0	100.0	0.0%	(33.3%)	207.7	0.0%	88.8%	**0.3x**	**Buy**
UBA Bank	5.6	6.0	8.1%	(22.1%)	10.7	14.2%	86.7%	**0.4x**	**Buy**
Zenith Bank	16.6	18.6	12.0%	(19.3%)	33.3	14.5%	82.8%	**0.8x**	**Buy**
KCB Group ***	39.8	40.0	0.5%	6.8%	60.4	8.8%	66.7%	**1.1x**	**Buy**
GCB Bank	5.0	4.5	(9.1%)	(2.2%)	7.7	8.4%	65.0%	**1.1x**	**Buy**
I&M Holdings	49.0	46.0	(6.1%)	8.2%	81.5	7.6%	55.8%	**0.8x**	**Buy**
Access Bank	6.1	6.7	9.9%	(2.2%)	9.5	6.0%	52.2%	**0.4x**	**Buy**
Co-operative Bank	11.9	11.5	(3.8%)	(19.9%)	17.1	8.7%	50.8%	**1.0x**	**Buy**
Equity Group ***	39.2	39.9	1.7%	14.3%	53.7	5.0%	42.8%	**1.7x**	**Buy**
NIC Group	28.2	28.4	0.5%	2.0%	42.5	4.4%	42.4%	**0.6x**	**Buy**
CAL Bank	1.0	1.0	(1.0%)	1.0%	1.4	0.0%	40.0%	**0.8x**	**Buy**
Barclays Bank ***	10.8	10.7	(0.9%)	(2.7%)	12.8	10.3%	32.8%	**1.3x**	**Buy**
Stanbic Bank Uganda	28.8	28.8	(0.2%)	(7.3%)	36.3	4.1%	29.1%	**2.0x**	**Buy**
SBM Holdings	5.7	5.7	1.4%	(3.7%)	6.6	5.2%	22.8%	**0.8x**	**Buy**
Guaranty Trust Bank	26.0	27.3	5.0%	(20.8%)	37.1	8.8%	21.6%	**1.7x**	**Buy**
Stanbic Holdings	98.5	93.5	(5.1%)	3.0%	113.6	6.3%	21.0%	**1.0x**	**Buy**
Ecobank	8.5	7.8	(8.3%)	3.3%	10.7	0.0%	19.2%	**1.7x**	**Accumulate**
Union Bank Plc	6.8	7.0	2.9%	25.0%	8.2	0.0%	16.4%	**0.7x**	**Accumulate**
Standard Chartered	197.0	194.0	(1.5%)	(0.3%)	200.6	6.4%	9.6%	**1.4x**	**Hold**
Bank of Kigali	274.0	273.0	(0.4%)	(9.0%)	299.9	5.1%	8.5%	**1.5x**	**Hold**
FBN Holdings	4.7	5.0	7.5%	(37.1%)	6.6	5.0%	6.2%	**0.3x**	**Hold**
Bank of Baroda	128.0	130.0	1.6%	(7.1%)	130.6	1.9%	3.4%	**1.1x**	**Lighten**
Standard Chartered	19.0	18.1	(4.8%)	(13.9%)	19.5	0.0%	2.3%	**2.3x**	**Lighten**
National Bank	3.8	3.8	1.3%	(28.6%)	3.9	0.0%	(4.8%)	**0.2x**	**Sell**
Stanbic IBTC Holdings	32.0	35.0	9.4%	(27.0%)	37.0	1.7%	(6.4%)	**1.8x**	**Sell**
Ecobank Transnational	6.0	7.8	30.3%	(54.4%)	9.3	0.0%	(15.6%)	**0.3x**	**Sell**
HF Group	3.5	3.8	7.7%	(32.1%)	2.9	0.0%	(27.7%)	**0.2x**	**Sell**
Average			**2.1%**					**1.0x**	
High			**30.3%**					**2.3x**	
Low			**(9.1%)**					**0.2x**	

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 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.