

Capital Markets Based Home Ownership Savings Plans, & Cytonn Weekly #03/2020

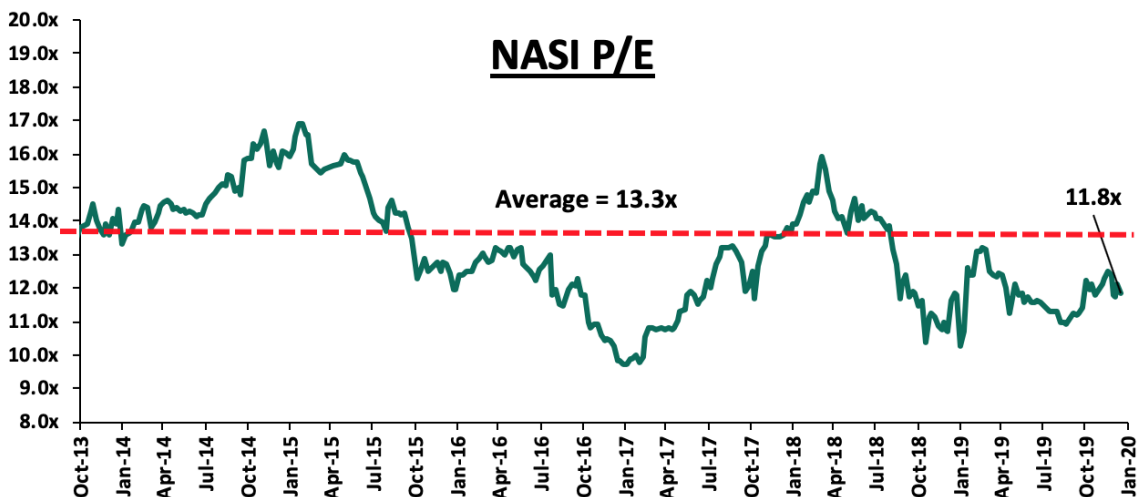
Equities

Market Performance

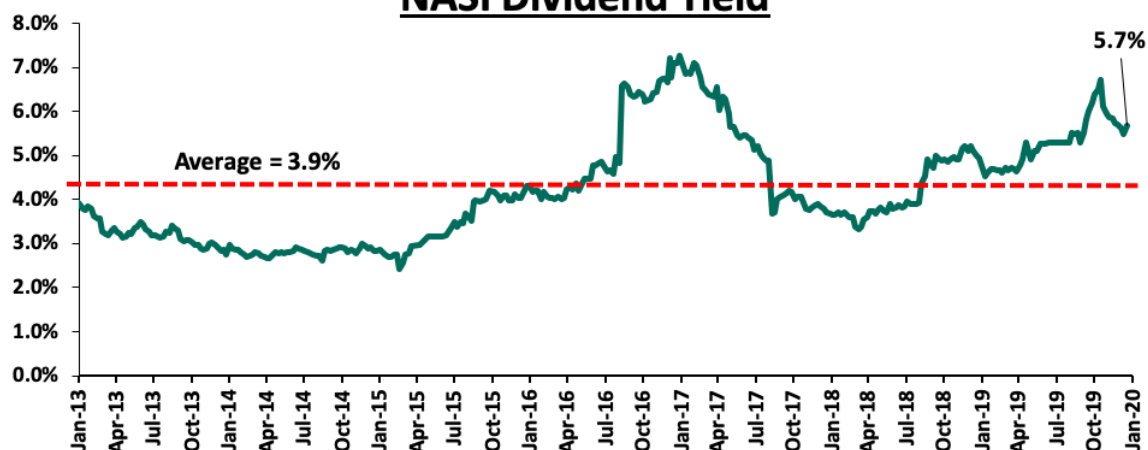
During the week, the equities market was on a downward trend with NASI, NSE 20 and NSE 25 recording declines of (3.0%), (1.2%) and (2.5%), respectively, taking their YTD performance to gains/(losses) of (0.1%), 0.6% and 0.04%, for the NASI, NSE 20 and NSE 25, respectively. The performance in NASI was driven by losses recorded by most large-cap stocks such as Equity Bank, KCB Group, BAT, Safaricom and Co-operative Bank of (6.4%), (5.9%), (4.0%), (4.0%) and (3.0%), respectively.

Equities turnover increased by 52.8% during the week to USD 40.2 mn, from USD 26.3 mn recorded the previous week, taking the YTD turnover to USD 69.0 mn. Foreign investors remained net buyers for the week, with a net buying position of USD 6.6 mn, a 726.4% increase from a net buying position of USD 0.8 mn recorded the previous week.

The market is currently trading at a price to earnings ratio (P/E) of 11.8x, 10.8% below the historical average of 13.3x, and a dividend yield of 5.7%, 1.8% points above the historical average of 3.9%. 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 21.9% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 42.4% 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.



NASI Dividend Yield



Weekly Highlight

During the week, the Central Bank of Kenya gave a go-ahead to Nigerian lender, Access Bank PLC to acquire a 100% stake in Transnational Bank PLC for an undisclosed amount, with Access Bank PLC targeting to enhance its corporate and retail banking business in Kenya through the acquisition. Access Bank is Nigeria's largest lender by assets with an asset base of USD 16.1 bn (equivalent to Kshs 1.6 tn). Once completed, this will be the first bank acquisition in 2020, with the deal expected to be completed in February 2020, and will be in line with our expectation of consolidation in the Kenyan banking sector as players with depleted capital positions become acquired by their larger counterparts or merge together to form well-capitalized entities capable of navigating the relatively tough operating environment induced by stiff competition, as highlighted in our Q3'2019 Banking Sector Report. Transnational Bank, a mid-tier lender, recorded a loss after tax of Kshs 23.3 mn in Q3'2019 with an asset base of Kshs 9.6 bn as at Q3'2019. The bank's shareholders' funds stood at Kshs 1.9 bn in Q3'2019. The deal will see Nigerian banks deepen their presence in Kenya with the United Bank of Africa (UBA) and Guarantee Trust Bank already in the market. Below is a summary of the deals in the last 5-years that have either happened, been announced or expected to be concluded. Transactions have been carried out at an average P/BV of 1.4x, compared to the current listed banking sector average of 1.5x:

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs. Bns)	Transaction Stake	Transaction Value	P/BV Multiple	Date
Access Bank PLC (Nigeria)	Transnational Bank PLC	1.9	100.0%	Undisclosed	N/A	Feb-20*
Oiko Credit	Credit Bank	3.0	22.8%	1.0	1.5x	Aug-19
KCB Group	National Bank of Kenya	7.0	100.0%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23.0	0.7x	Sep-19
CBA Group	Jamii Bora Bank	3.4	100.0%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.2%	5.1	1.0x	Jan-19
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.0%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.0%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.0%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.0%	1.3	1.4x	Jun-16

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs. Bns)	Transaction Stake	Transaction Value	P/BV Multiple	Date
I&M Holdings	Giro Commercial Bank	3.0	100.0%	5.0	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.0%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.0%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.0%	8.6	3.2x	Nov-13
Average			75.7%		1.4x	

* Completion date

Universe of Coverage

Banks	Price at 10/01/2020	Price at 17/01/2020	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	3.0	3.0	0.7%	(1.0%)	3.0	4.8	15.0%	75.0%	0.3x	Buy
Diamond Trust Bank	120.3	117.0	(2.7%)	7.3%	109.0	189.0	2.2%	63.8%	0.6x	Buy
I&M Holdings***	58.0	58.3	0.4%	7.9%	54.0	75.2	6.7%	35.8%	1.0x	Buy
KCB Group***	55.0	51.8	(5.9%)	(4.2%)	54.0	64.2	6.8%	30.8%	1.4x	Buy
Jubilee Holdings	360.0	360.0	0.0%	2.6%	351.0	453.4	2.5%	28.4%	1.2x	Buy
Sanlam	17.1	17.5	2.6%	1.7%	17.2	21.7	0.0%	24.0%	0.7x	Buy
Co-op Bank***	16.5	16.0	(3.0%)	(2.1%)	16.4	18.1	6.3%	19.4%	1.4x	Accumulate
Equity Group***	54.8	51.3	(6.4%)	(4.2%)	53.5	56.7	3.9%	14.5%	1.9x	Accumulate
Standard Chartered	206.0	204.5	(0.7%)	1.0%	202.5	211.6	9.3%	12.8%	1.5x	Accumulate
NCBA	36.5	36.3	(0.7%)	(1.6%)	36.9	37.0	4.1%	6.2%	0.8x	Hold
Barclays Bank***	13.3	13.5	1.5%	1.1%	13.4	13.0	8.1%	4.4%	1.8x	Lighten
Liberty Holdings	10.5	10.4	(0.5%)	0.5%	10.4	10.1	4.8%	1.6%	0.9x	Lighten
CIC Group	3.0	2.9	(4.3%)	7.5%	2.7	2.6	4.5%	(3.9%)	1.0x	Sell
Stanbic Holdings	107.8	112.8	4.6%	3.2%	109.3	103.1	4.3%	(4.3%)	1.2x	Sell
Britam	9.5	9.2	(3.4%)	2.2%	9.0	6.8	0.0%	(26.6%)	0.9x	Sell
HF Group	5.7	6.1	7.4%	(5.3%)	6.5	4.2	0.0%	(31.4%)	0.3x	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

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.

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