Cytonn SSA Financial Services Research Weekly Note 29th October 2018

Executive Summary

In this week's research note, we highlight the performance of the listed banks in the Sub-Saharan Africa Financial Services Sector, looking at their market performance, earnings results, the latest developments in the Sub Saharan Africa Banking Sector during the week, and our equities universe of coverage. Over the week, the markets recorded mixed performance with NASI and GGSECI declining by 0.6% and 1.6%, while NGSEASI gained 0.5%;

Section I: Market Performance:

During the week, the equities markets recorded mixed performance with NASI and GGSECI declining by 0.6% and 1.6%, while NGSEASI gained 0.5%. This takes their YTD performance to (13.2%), (14.7%) and 2.4% for the NASI NGSEASI and GGSECI, respectively.

Below is a summary of top gainers and losers in our universe of coverage for last week:

Summary of Top Gainers and Losers in Universe of Coverage for Week Ending 19th October 2018					
Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
Bank of Baroda	Uganda	11.1%	Ecobank Ghana	Ghana	(13.2%)
Zenith Bank	Nigeria	4.8%	HF Group	Kenya	(7.6%)
Equity Group	Kenya	4.6%	NIC Group	Kenya	(7.1%)
Stanbic IBTC	Nigeria	2.2%	CAL Bank	Ghana	(5.5%)
Stanbic Bank	Uganda	1.5%	I&M Holdings	Kenya	(5.3%)

Kenya

The NASI declined by 0.6% last week, driven by declines in the consumer discretionary, consumer staples, investments and communication segments that registered weighted declines of 3.3%, 2.2%, 1.5% and 1.0% over the week, respectively. In our universe of coverage, Equity Group and KCB Group gained 4.6% and 0.7%, while HF Group and NIC Group declined by 7.6% and 7.1%, respectively. Equities turnover increased by 203.6% to USD 80.5 mn from USD 26.5 mn the previous week, bringing the YTD turnover to USD 1.6 bn as foreign investors remained net sellers with net weekly outflows decreasing by 9.6% to USD 11.7 mn, from USD 12.9 mn recorded previously.

Nigeria

The Nigerian All Share index gained 0.5% during the week, largely driven by gains in the Energy, Industrials and Financials segments with weighted gains of 4.1%, 3.6% and 1.0% respectively. For our financial services universe of coverage, Zenith Bank and Stanbic IBTC gained by 4.8%, and 2.2% respectively, while Access Bank declined by 4.2%. Total turnover for the week increased by 0.8% to USD 42.1 mn from USD 41.7 mn the previous week.

Ghana

The GSE Composite Index declined by 1.6%, with most declines mainly coming from the financial services segment of the bourse while the majority of other counters remaining flat with little trading activity taking place during the week. In our universe of coverage for Ghana, Ecobank CAL Bank and Standard Chartered declined by 13.2%, 5.5% and 3.8%, respectively. There were no gainers. Total turnover for the week increased by 677.3% to USD 4.1 mn from USD 0.2 mn recorded previously.

Section II: Earnings Releases:

UBA Bank released financial results for Q3'2018, with core EPS growing by 1.3% during the period. Performance was driven by a 0.6% increase in total operating income, despite a 0.7% increase in total operating expenses. Key highlights include:

- Total operating income increased by 0.6% to NGN 238.4 bn in Q3'2018 from NGN 236.9 bn in Q3'2017. This was due to a 3.6% increase in Non-Funded Income (NFI) to NGN 87.7 bn from NGN 84.6 bn in Q3'2017, despite a 1.0% decrease in Net Interest Income (NII) to NGN 150.7 bn from NGN 152.3 bn in Q3'2017,
- Interest income increased by 13.0% to NGN 268.9 bn from NGN 238.1 bn in Q3'2017 bn. The interest income on loans and advances increased marginally by 0.6% to NGN 150.1 bn from NGN 149.2 bn in Q3'2017 as a result of a marginal increase of loans to individuals and corporates that grew by 1.4% to NGN 147.3 bn from NGN 145.2 bn in Q3'2017. Interest income on government securities increased by 32.0% to NGN 109.5 from NGN 83.0 in Q3'2017, as the bank grew its investment in treasury bills by 47.7% to NGN 69.7 bn in Q3'2018 from NGN 47.2 bn in Q3'2017. The yield on interest earning assets declined slightly to 12.0% in Q3'2018 from 12.2% in Q3'2017, due to a faster growth of interest earning assets that grew by 19.1% to NGN 3.2 tn in Q3'2018 from NGN 2.7 tn in Q3'2017 compared to interest income that grew by 13.0% to NGN 268.9 bn in Q3'2018 from NGN 238.1 bn in Q3'2017,
- Interest expense increased by 37.8% to NGN 118.2 bn from NGN 85.8 bn in Q3'2017 attributed to a 44.1% growth in interest expense on customer deposits to NGN 79.1 bn from NGN 54.9 bn in Q3'2017, coupled with a 61.7% increase in interest expense on borrowings to NGN 25.4 bn from NGN 15.7 bn in Q3'2017. Interest expense on deposits and placements from banking institutions increased by 9.1% to NGN 6.0 bn from NGN 5.5 bn in Q3'2017. Other interest expense declined by 20.4% to NGN 7.7 bn in Q3'2018 from NGN 9.7 bn in Q3'2017. The cost of funds thus increased to 4.4% from 3.8% in Q3'2017. Net Interest Margin(NIM) declined to 6.9% from 7.8% in Q3'2017,
- Non-Funded Income (NFI) increased by 3.6% to NGN 87.7 bn from NGN 84.6 bn in Q3'2017. The growth in NFI was driven by a 9.4% increase in net fee and commission income to NGN 51.1 bn from NGN 46.7 bn in Q3'2017, and a 22.0% increase in other operating income to NGN 4.2 bn from NGN 3.5 bn. The growth in NFI was, however, weighed down by a 6.0% decrease in net trading and foreign exchange income to NGN 32.4 bn from NGN 34.5 bn in Q3'2017. The current revenue mix stands at 63:37 funded to non-funded income as compared to 64:36 in Q3'2017. The proportion of NFI to total revenue increased owing to the faster growth in NFI as compared to NII,
- Total operating expenses increased by 0.7% to NGN 159.8 bn from NGN 158.6 bn, largely driven by a 3.8% increase in staff expenses to NGN 53.3 bn in Q3'2018 from NGN 51.3 bn in Q3'2017, and a 16.1% increase in depreciation and amortization to NGN 8.6 bn in Q3'2018 from NGN 7.4 bn in Q3'2017. The slow growth on expenses was also due to a 17.3% decline in Loan Loss Provision (LLP) to NGN 10.7 bn in Q3'2018 from NGN 12.9 bn in Q3'2017,
- The cost to income ratio remained unchanged at 67.0% in Q3'2018. Without LLP, the Cost to income ratio increased to 62.5% in Q3'2018 from 61.5% in Q3'2017,
- Profit before tax increased by 1.0% to NGN 79.1 bn, up from NGN 78.3 bn in Q3'2017. Profit after tax increased by 1.3% to NGN 61.7 bn in Q3'2018 from NGN 60.9 bn in Q3'2017.

- The balance sheet recorded an expansion as total assets increased by 19.5% to NGN 4.5 tn from NGN 3.8 tn in Q3'2017. This growth was largely driven by a 47.3% increase in investment securities to NGN 1.6 tn in Q3'2018 from NGN 1.1 tn in Q3'2017, coupled with a 18.2% increase in cash and bank balances to 974.6 bn in Q3'2018 from NGN 824.3 bn in Q3'2017,
- The loan book increased marginally by 0.2% to NGN 1.63 tn in Q3'2018 from NGN 1.62 tn in Q3'2017,
- Total liabilities rose by 22.5% to NGN 4.0 bn in Q3'2018 from NGN 3.3 tn in Q3'2017, driven by a 26.1% increase in total deposits to NGN 3.2 tn in Q3'2018 from NGN 2.5 tn in Q3'2017. Deposits per branch increased by 26.1% to NGN 3.2 bn from NGN 2.52 bn in Q3'2017, as the bank shifted focus from branch expansion to alternate channels on the back of its digitization drive,
- The faster growth in deposits as compared to loans led to a decline in the loan to deposit ratio to 50.2% in Q3'2018 from 63.3% in Q3'2017,
- Gross non-performing loans increased by 148.1% to NGN 117.6 bn in Q3'2018 from NGN 47.4 bn in Q3'2017. Consequently, the NPL ratio increased to 7.2% in Q3'2018 from 2.9% IN Q3'2017. Impairment charge on financial assets however decreased by 17.3% to NGN 10.7 bn in Q3'2018 from NGN 12.9 bn in Q3'2017 indicating increased confidence to offset the risk of loan recoveries. In January 2018, the bank transitioned to IFRS 9 from IAS 39 and consequently changed the credit loss model to determine impairment loss on financial assets. The increase in the non-performing loans was attributed to bad loans to customers that grew by 147.8% to NGN 117.6 bn in Q3'2018 from NGN 47.8 bn in Q3'2017,
- Shareholders' funds increased marginally by 0.3% to NGN 509.3 bn in Q3'2018 from NGN 507.6 bn in Q3'2017,
- UBA Bank is currently sufficiently capitalized with a total capital to risk weighted assets ratio of 21.0%, above the statutory requirement by 6.0%,
- UBA Bank currently has a return on average assets of 1.5% and a return on average equity of 12.6%.

We expect the bank's growth to be propelled further by

I. Continued digitization and innovation that is likely to enhance operational efficiency through cost rationalization, grow revenues by broadening the transaction volume growth and improve customer satisfaction. The Bank's new channel offering, Leo, is likely promote customer feedback and put the bank in a prime position to increase its share of its existing customers' wallet, and consequently increase its non-funded income.
II. A recent drive by the Bank to re-engineer its global offices in New York, London and Paris is likely to enable the bank to take advantage of existing and new opportunities such as attractive inorganic growth via acquisitions in these markets.

Guaranty Trust Bank released financial results for Q3'2018, with core EPS growing by 13.3% during the period. Performance was driven by a 7.4% increase in total operating income, which outpaced the 4.2% increase in the total operating expenses. Key highlights include:

- Total operating income increased by 7.4% to NGN 267.9 bn in Q3'2018 from NGN 249.5 bn in Q3'2017. This was due to a 62.2% increase in Non-Funded Income (NFI) to NGN 97.2 bn from NGN 59.9 bn in Q3'2017, which outweighed the 10.0% decline in Net Interest income (NII) to NGN 170.6 bn from NGN 189.6 bn in Q3'2017,
- Interest income decreased by 4.3% to NGN 237.5 bn from NGN 248.3 bn in Q3'2017. The interest income on loans and advances decreased by 6.7% to NGN 143.6 bn from NGN 153.8 bn in Q3'2017. Interest income on government securities and other investment securities decreased by 1.3% to NGN

78.0 bn in Q3’2018 from NGN 79.1 bn in Q3’2017. The yield on interest earning assets however improved to 14.3% in Q3’2018 from 12.3% in Q3’2017, due to a faster 78.8% decrease in government securities that have a lower yield than loans,

- Interest expense increased by 14.0% to NGN 66.9 bn from NGN 58.7 bn in Q3’2017, following an 22.4% increase in the interest expense on customer deposits to NGN 54.6 bn from NGN 44.6 bn in Q3’2017. Interest expense on financial liabilities held for trading decreased by 9.6% to NGN 1.4 bn from NGN 1.5 bn in Q3’2017. Interest expenses on debt securities decreased by 25.1% to NGN 4.3 bn in Q3’2018 from NGN 5.8 bn in Q3’2017. The cost of funds thus increased to 3.6% from 3.2 % in Q3’2017. Net Interest Margin improved to 14.0% from 12.3% in Q3’2017,
- Non-Funded Income (NFI) increased by 62.2% to NGN 97.2 bn from NGN 59.9 bn in Q3’2017. The growth in NFI was driven by a 101.9% increase in net gain in financial instruments held for trading to NGN 20.1 bn from NGN 9.9 bn in Q3’2017. The growth was also aided by growth in other income, which expanded by 226.8% to NGN 39.3 bn from NGN 12.0 bn in Q3’2017. The growth in NFI was weighed down by a 0.4% decrease in fee and commission income on loans and advances to NGN 37.8 bn from NGN 38.0 bn in Q3’2017. The current revenue mix stands at 64:36 funded to non-funded income as compared to 76:24 in Q3’2017. The proportion of NFI to total revenue increased owing to the decline in NII coupled with the increase in NFI,
- Total operating expenses increased by 4.2% to NGN 103.6 bn from NGN 99.5 bn in Q3’2017, largely driven by a 14.2% increase in staff costs to NGN 28.1 bn from NGN 24.6 bn in Q3’2017, coupled with a 10.9% increase in other operating expenses to NGN 73.8 bn in Q3’2018 from NGN 66.5 bn in Q3’2017. Loan Loss Provision(LLP) however decreased by 79.2% to NGN 1.7 bn from NGN 8.4 bn in Q3’2017,
- The cost to income ratio improved to 38.7% from 39.9% in Q3’2017. However, without LLP, the Cost to Income Ratio (CIR) deteriorated to 38.0% from 36.5% in Q3’2017,
- Profit before tax increased by 9.5% to NGN 164.3 bn, up from NGN 150.0 bn in Q3’2017. Profit after tax increased by 13.3% to NGN 142.2 bn in Q3’2018 from NGN 125.6 bn in Q3’2017.
- The balance sheet recorded an expansion as total assets increased by 6.9% to NGN 3.4 tn from NGN 3.2 tn in Q3’2017. This growth was largely driven by a 37.4% increase cash and bank balances to NGN 827.3 bn from NGN 602.1 bn in Q3’2017. Government securities on the other hand declined by 78.8% NGN 118.7 bn from 561.1 bn in Q3’2017,
- The loan book decreased by 11.1% to NGN 1.3 tn in Q3’2018 from NGN 1.4 tn in Q3’2017,
- Total liabilities rose by 10.2% to NGN 2.9 tn from NGN 2.6 tn in Q3’2017, driven by an 18.0% increase in total deposits to NGN 2.2 tn from NGN 1.9 tn in Q3’2017. Deposits per branch increased by 21.7% to NGN 10.0 bn from NGN 8.2 bn in Q3’2017, with the faster growth attributed to the bank’s closure of 7 branches ,
- The faster growth in deposits as compared to loans led to a decline in the loan to deposit ratio to 56.7% from 75.3% in Q3’2017,
- Gross Non-Performing Loans (NPLs) increased by 31.7% to NGN 77.5 bn in Q3’2018 from NGN 58.8 bn in Q3’2017. Consequently, the NPL ratio deteriorated to 5.6% in Q3’2018 from 3.9% in Q3’2017. General Loan Loss Provisions (LLPs) increased by 75.7% to NGN 121.0 bn from NGN 68.9 bn in Q3’2017.Thus, the NPL coverage increased to 156.2% in Q3’2018 from 117.1% in Q3’2017, due to the relatively faster increase in the loan loss provisions,
- Shareholders’ funds decreased by 8.7% to NGN 521.9 bn in Q3’2018 from NGN 571.6 bn in Q3’2017,weighed down by the 33.5% decline in retained earnings to 85.3 bn from 128.4 bn,
- Guaranty Trust Bank currently has a return on average assets of 5.6% and a return on average equity of 34.2%.

We expect the bank’s growth to be further propelled by

I. Channeled diversification is likely to further improve on efficiency with emphasis on alternative channels of transactions, as the bank rides on the digital revolution wave across its domicile in Nigeria, and other regional subsidiaries in Kenya, Ghana, UK, Tanzania, Liberia, Uganda, Gambia, Ivory Coast, Sierra Leone and Rwanda , thereby further improving the cost to income ratio by cost rationalization and revenue expansion. This will likely propel the bank's prospects of achieving sustainable growth, as it employs its successful business model across its various regional subsidiaries which will also lead to Non Funded Income expansion in the process, and,
II. The ongoing economic recovery in various Sub Saharan Africa Countries where the country operates will likely lead in the bank reducing its portion of Non-Performing Loans, thereby enable the bank increase its lending, thereby possibly resulting in interest income expansion.

Zenith Bank released financial results for Q3'2018, with core EPS growing by 21.4% during the period. Performance was driven by a 9.9% decrease in total operating expense, despite by a 1.9% decrease in the total operating income. Key highlights include:

- Core earnings per share increased by 21.4% to NGN 6.1 from NGN 5.1 in Q3'2017, above our expectation of a 6.5% increase to NGN 5.4. Performance was driven by a 9.9% decrease in total operating expense, despite by a 1.9% decrease in the total operating income. The variance in core earnings per share growth against our expectations was largely due to a 13.4% growth in Net Interest Income (NII) to NGN 228.5 bn. We expected a 6.5% growth in NII to NGN 214.7 bn from NGN 201.5 bn in Q3'2017,
- Total operating income decreased by 1.9% to NGN 364.1 bn in Q3'2018 from NGN 371.0 bn in Q3'2017. This was due to a 20.0% decrease in Non-Funded Income (NFI) to NGN 135.5 bn from NGN 169.5 bn in Q3'2017, despite a 13.4% increase in Net Interest Income (NII) to NGN 228.5 bn from NGN 201.5 bn in Q3'2017,
- Interest income decreased by 6.3% to NGN 339.1 bn from NGN 361.8 bn in Q3'2017. The interest income on loans and advances decreased by 11.2% to NGN 214.1 bn from NGN 241.1 bn in Q3'2017. Interest income on government securities decreased by 0.4% to NGN 116.1 bn in Q3'2018 from NGN 116.6 bn in Q3'2017. Interest income on placement with banks and discount houses however increased by 111.7% to NGN 8.9 bn from NGN 4.2 bn in Q3'2017. The yield on interest earning assets thus declined to 12.1% from 12.6% in Q3'2017, driven by the 6.3% decrease in interest income and a 2.5% increase in average interest earning assets to NGN 3.7 tn from NGN 3.6 tn in Q3'2017,
- Interest expense decreased by 31.0% to NGN 110.5 bn from NGN 160.3 bn in Q3'2017, following a 57.4% decrease in the interest expense on customer deposits to NGN 54.1 bn from NGN 127.0 bn in Q3'2017. Interest expense on borrowed funds increased by 69.7% to NGN 56.5 bn from NGN 33.3 bn in Q3'2017. The cost of funds thus decreased to 4.2% from 5.9% in Q3'2017. The Net Interest Margin thus improved to 7.6% from 6.9% in Q3'2017,
- Non-Funded Income (NFI) decreased by 20.0% to NGN 135.5 bn from NGN 169.5 bn in Q3'2017. The decline in NFI was driven by a 35.3% decrease in trading income to NGN 52.9 bn from NGN 81.8 bn in Q3'2017. The decline was further driven by a 24.1% decrease in other income to NGN 12.6 bn from NGN 16.6 bn in Q3'2017, coupled with a 1.5% decline in fees and commissions income to NGN 70.0 bn from NGN 71.0 bn in Q3'2017. The current revenue mix stands at 63:37 funded to non-funded income as compared to 54:45 in Q3'2017. The proportion of non-funded income to total revenue declined owing to the growth in NII as compared to the decline NFI,
- Total operating expenses declined by 9.9% to NGN 196.8 bn from NGN 218.4 bn, largely driven by a 69.5% decrease in impairment charge for credit loss to NGN 14.3 bn in Q3'2018 from NGN 47.1 bn in

Q3’2017, coupled with a 3.8% decrease in personnel expenses to NGN 51.7 bn in Q3’2018 from NGN 53.7 bn in Q3’2017. Other expenses however increased by 11.1% to NGN 130.7 bn from NGN 117.6 bn in Q3’2017,

- The cost to income ratio improved to 54.0% from 58.9% in Q3’2017. Without LLP however, the cost to income ratio increased to 50.1% from 46.2% in Q3’2017,
- Profit before tax increased by 9.7% to NGN 167.3 bn, up from 152.6 bn in Q3’2017. Profit after tax increased by 11.6% to NGN 144.2 bn in Q3’2018 from NGN 129.2 bn in Q3’2017.
- The balance sheet recorded an expansion as total assets increased by 9.5% to NGN 5.6 tn from NGN 5.1 tn in Q3’2017. This growth was largely driven by a 93.0% increase in investment securities to NGN 590.3 bn from NGN 305.9 bn in Q3’2017. The investment securities were categorized into debt and equity securities, with the debt securities consisting of 91.7% of total investment securities while the equity securities consisted of 8.3%. Debt securities increased by 138.2% to NGN 541.2 bn in Q3’2018 from NGN 227.2 bn in Q3’2017. Equity securities increased by 225.2% to NGN 15.1 bn from NGN 49.1 bn in Q3’2017,
- The loan book decreased by 15.4% to NGN 1.8 tn in Q3’2018 from NGN 2.2 tn in Q3’2017. The decline was driven by a 60.7% decrease in overdrafts to NGN 230.8 bn from NGN 587.1 bn in Q3’2017. This was offset by a 9.4% increase in term loans to NGN 1.4 tn from NGN 1.3 tn in Q3’2017 and a 7.7% increase in on-lending facilities to NGN 399.4 bn from NGN 371.0 bn in Q3’2017,
- Total liabilities rose by 10.9% to NGN 4.8 tn from NGN 4.4 tn in Q3’2017, driven by a 21.9% increase in borrowings and debt security to NGN 842.7 bn from NGN 691.3 bn in Q3’2017. Customer deposits increased by 7.0% to NGN 3.3 tn in Q3’2018 from NGN 3.1 tn in Q3’2017. The increase in customer deposits was driven by a 29.1% increase in savings to NGN 460.8 bn from NGN 356.9 bn in Q3’2017 and a 16.7% increase in demand deposits to NGN 1.8 tn from NGN 1.6 tn in Q3’2017.The increase was offset by declines of 19.6% in term deposits to NGN 432.9 bn from NGN 538.5 bn in Q3’2017 and a decrease of 7.3% in domiciliary deposits to NGN 570.9 bn from NGN 615.6 bn in Q3’2017,
- The growth in deposits as compared to the decrease in loans led to a decline in the loan to deposit ratio to 55.7% from 70.4% in Q3’2017,
- Shareholders’ funds increased marginally by 1.3% to NGN 776.4 bn in Q3’2018 from NGN 766.5 bn in Q3’2017. This was driven by other reserves, which increased by 6.4% to NGN 194.8 bn from NGN 183.1 bn in Q3’2017. This was offset by a 0.6% decline in retained earnings to NGN 310.8 bn from NGN 312.6 bn in Q3’2017,
- Zenith Bank currently has a return on average assets of 3.6% and a return on average equity of 25.0%.

Below is a summary of the Nigerian banks’ earnings metrics for Q3’2018:

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income (NFI) Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth In Govt Securities	Loan Growth	LDR	Cost of Funds	Return on Average Equity
Zenith	21.4%	(6.3%)	(31.0%)	13.4%	7.6%	(20.0%)	37.0%	(1.5%)	7.0%	93.0%	(15.4%)	55.7%	4.2%	25.0%
GT Bank	13.3%	(4.3%)	14.0%	(10.0%)	14.0%	62.2%	36.0%	(0.4%)	18.0%	(78.8%)	(11.1%)	56.7%	3.6%	34.2%
UBA Bank	1.3%	13.0%	37.8%	(1.0%)	6.9%	3.6%	37.0%	9.4%	26.1%	47.3%	0.2%	50.2%	4.4%	12.6%
Weighted Average Q3'2018	**9.3%**	**(1.8%)**	**0.7%**	**(0.4%)**	**6.9%**	**16.3%**	**23.1%**	**0.3%**	**9.6%**	**(1.4%)**	**(7.1%)**	**35.2%**	**2.5%**	**17.9%**

Section III: Latest Developments in the Sub Saharan Africa Banking Sector during the week:

Kenya

During the Week, the Official Monetary and Financial Institutions Forum (OMFIF) in association with Absa Group Limited released the Absa Africa Financial Markets Index report 2018. The report evaluated financial market development in 20 Africa countries, as well as highlighting markets with clearest growth prospects. The report mainly analysed and ranked countries on six different pillars:

a) Market depth,
b) Access to foreign exchange,
c) Market transparency, tax and regulatory environment,
d) Capacity of local investors,
e) Macroeconomic opportunity,
f) Legality and enforceability of standard financial markets master agreements.

The top five highest ranked financial markets in Africa according to the index are: South Africa, Botswana, Kenya, Mauritius and Nigeria, respectively. Kenya climbed two spots to position three due to ease of access to foreign exchange as well as implementation of proper foreign trading policies such as reducing capital controls, which has boosted its performance. Overall, Kenya had a score of 65% and was ranked at position 3, an improvement from position 5 last year. It ranked #1 on access to foreign exchange with a score of 93%, #8 on market depth with a score of 44%, #7 on capacity of local investors with a score of 33% and #6 on the macroeconomic opportunity with a score of 65%.

Key take-outs from the report include:

- Countries are progressing with policies that support the development of financial markets across the continent. An example is Mozambique's 'financial sector development strategy' that stood out among the frameworks introduced over the past year. Such initiatives have boosted performance for the index as a whole,
- The greatest area for improvement for the continent remains the 'capacity of local investors'. This is mainly due to lack of knowledge and expertise of pension fund trustees and other asset owners and this hinders the development of new financial products,
- 'Market Transparency, Tax and Regulatory Environment' and 'Macroeconomic Opportunity' are the highest-ranking pillars in the industry, and,
- Foreign exchange liquidity remains low in Africa, with just three countries (South Africa, Kenya and Ghana) recording interbank foreign exchange turnover of above USD 20.0 bn.

We are of the view that the following need to be addressed to facilitate growth in the number of investors in the country and facilitate growth in the number of new listings as well as develop the number of new products in the NSE:

i. Harmonizing tax incentives - We are of the view that tax incentives available to banks should also be made available to non-bank funding entities and new products such as unit trusts;
ii. Embarking on privatization of some of the state corporations through listing, this will increase the number of IPOs by state owned enterprises hence attracting a good number of private companies to list in the market; and
iii. Awareness programs aimed at enhancing literacy on capital markets. This will increase the knowledge of local investors on the new products available in the market.

For more information on Unlocking New listings on the Nairobi Bourse, see Cytonn Weekly #40

Corporate Governance Changes:

Liberty Holdings Ltd announced the resignation of Dr. Susan Mboya Kidero as the board chair.

Following the resignation, the following are the changes on the Corporate Governance metrics for Liberty Holdings Ltd:

- The board size has decreased to 5 from 6 hence an improvement of the metric score to 1 from 0.5 since the board consists of an odd number of members from an even number, raising the possibility that there will be no tie in case board members decide to vote on a decision;
- Gender diversity has declined to 0% from 16.7% since there is no longer a female member in the board;
- Ethnic diversity has improved to 60% from 66.7% since there are 2 out of 5 members of the board from the same ethnic group, a change from 2 out of 6; and;
- The proportion of non-executive members has changed to 80.0% from 83.3%;

Overall, the comprehensive score has remained the same at 77.1% and remains joint at position 9 with BAT, EABL and Jubilee Holdings in the 2018 Cytonn Corporate Governance Index.

KCB Group announced the appointment of Mr. Andrew Wambari Kairu as the new chairman, replacing Mr. Ngeny Biwott who held the position for five years.

Following the appointment to the KCB Group Board, the following are the implications on the Corporate Governance metrics for KCB Group;

- The board size has remained the same at 9 since Mr. Andrew Kairu was a non-independent director of KCB Bank Kenya and now joins the KCB Group board;
- Gender diversity has remained the same at 77.8%;
- Ethnic diversity has remained the same at 77.8%, since there are 2 out of 9 members of the board from the same ethnic group;
- The proportion of non-executive members has remained at 77.8%;

Overall, the comprehensive score has remained the same at 85.4% and remains joint at position 1 with NSE and Safaricom in the 2018 Cytonn Corporate Governance Index.

Ghana

Banks required to reduce license classes or risk closure upon failure to reach new minimum capital requirement: Commercial banks that may not be able to meet the GHS 400 mn minimum capital requirement by December 2018 will be required to apply for a reduction in their license classes from a universal bank status or risk closure, according to the Bank of Ghana (BoG). The BoG has a tier system made up of the universal banks, savings and loans, rural banks and microfinance institutions, which allows institutions to alter their status to a given class within the tier system, depending on the capital requirement needs. The move aims to ensure that the owners of those banks are able to maintain their businesses as going concerns. The BoG, however, notes that there is still room for the banks that are yet to meet the requirements to explore mergers with larger lenders who may assist in recapitalization in order to meet the minimum capital requirement by the end of the year.

Section IV: Equities Universe of Coverage:

The week-on-week performance, valuation and expected return of the companies in our SSA universe of coverage is highlighted in the table below:

Banks	Price as at 19/10/2018	Price as at 26/10/2018	w/w change	YTD Change	LTM Change	Target Price	Dividend Yield	Upside/Downside	P/TBv Multiple
NIC Bank***	24.8	23.0	(7.1%)	(31.9%)	(31.2%)	48.8	4.3%	116.5%	**0.6x**
Diamond Trust Bank	164.0	158.0	(3.7%)	(17.7%)	(11.2%)	283.7	1.6%	81.2%	**0.9x**
KCB Group	38.3	38.5	0.7%	(9.9%)	0.7%	61.3	7.8%	67.0%	**1.2x**
Union Bank Plc	5.0	5.1	1.0%	(35.3%)	(17.6%)	8.2	0.0%	61.4%	**0.5x**
I&M Holdings***	95.0	90.0	(5.3%)	(29.1%)	(27.4%)	138.6	3.9%	57.9%	**0.9x**
Ecobank	8.0	6.9	(13.2%)	(9.2%)	0.1%	10.7	0.0%	55.5%	**1.5x**
Ghana Commercial Bank***	5.4	5.3	(0.9%)	5.0%	26.2%	7.7	7.2%	52.8%	**1.2x**
Zenith Bank***	22.9	24.0	4.8%	(6.4%)	(6.7%)	33.3	11.3%	50.1%	**1.1x**
Equity Group	38.3	40.0	4.6%	0.6%	10.3%	56.2	5.0%	45.5%	**1.9x**
UBA Bank	8.2	8.0	(1.8%)	(22.3%)	(14.1%)	10.7	10.6%	44.4%	**0.5x**
Co-operative Bank	14.6	14.6	(0.3%)	(9.1%)	(9.6%)	19.9	5.5%	42.3%	**1.3x**
CRDB	150.0	150.0	0.0%	(6.3%)	(11.8%)	207.7	0.0%	38.5%	**0.5x**
CAL Bank	1.1	1.0	(5.5%)	(3.7%)	13.2%	1.4	0.0%	34.6%	**0.9x**
Barclays	10.5	10.4	(0.5%)	8.3%	13.7%	12.5	9.6%	29.8%	**1.4x**
HF Group***	5.9	5.5	(7.6%)	(47.6%)	(46.0%)	6.6	6.4%	27.5%	**0.2x**
Access Bank	8.3	8.0	(4.2%)	(23.9%)	(16.3%)	9.5	5.0%	24.5%	**0.5x**
Standard Chartered	187.0	178.0	(4.8%)	(14.4%)	(17.2%)	196.3	7.0%	17.3%	**1.4x**
Stanbic Bank Uganda	32.5	33.0	1.5%	21.1%	20.0%	36.3	3.5%	13.5%	**2.3x**
SBM Holdings	6.3	6.1	(1.9%)	(18.1%)	(17.9%)	6.6	4.9%	11.7%	**0.9x**
Bank of Kigali	289.0	289.0	0.0%	(3.7%)	1.4%	299.9	4.8%	8.6%	**1.6x**
Guaranty Trust Bank	36.8	37.0	0.5%	(9.2%)	(11.9%)	37.1	6.5%	6.8%	**2.3x**
Stanbic Holdings	90.0	90.1	0.1%	11.2%	14.0%	92.6	2.5%	5.3%	**0.9x**
National Bank	5.0	5.0	0.0%	(46.5%)	(45.4%)	4.9	0.0%	(2.0%)	**0.4x**
Bank of Baroda	126.0	140.0	11.1%	23.9%	27.3%	130.6	1.8%	(4.9%)	**1.2x**
Stanbic IBTC Holdings	45.0	46.0	2.2%	10.8%	4.4%	37.0	1.3%	(18.3%)	**2.4x**
Standard Chartered	26.0	25.0	(3.8%)	(1.0%)	49.1%	19.5	0.0%	(22.2%)	**3.1x**
FBN Holdings	9.1	9.0	(1.1%)	2.3%	46.3%	6.6	2.8%	(23.6%)	**0.5x**
Ecobank Transnational	17.0	16.8	(1.5%)	(1.5%)	(1.5%)	9.3	0.0%	(44.6%)	**0.6x**

**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. For full disclosure, Cytonn and/or its affiliates holds a significant stake in NIC Bank, ranking as the 5th largest shareholder*

***** Stock prices are in respective country currency*

We are "NEUTRAL" on equities since the markets are currently trading below historical P/E averages. Pockets of value continue to exist, with a number of undervalued sectors like Financial Services, which provide an attractive entry point for medium and long-term investors, and with expectations of higher corporate earnings this year, we are "POSITIVE" for investors with a long-term investment horizon.