

Cytonn SSA Financial Services Research Weekly Note #50/2018

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Executive Summary: During the week, the equities market was on an upward trend with NASI, NGSEASI and GGSECI gaining by 1.9%, 1.1% and 1.0%, respectively. This takes their YTD performance to (16.1%), (19.6%), and (10.5%) for NASI, NGSEASI and GGSECI, respectively. Top shareholders of the National Bank of Kenya to relinquish preference shares in recapitalization exercise;

Section I: Market Performance:

During the week, the equities market was on an upward trend with the NASI, NGSEASI and GGSECI gaining by 1.9%, 1.1% and 1.0%, respectively. This takes their YTD performance to (16.1%), (19.6%), and (10.5%) for the NASI, NGSEASI and GGSECI, respectively.

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

Weekly Top Gainers and Losers					
Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
Stanbic IBTC	Nigeria	15.8%	FBN Holdings	Nigeria	(4.4%)
Stanbic Holdings	Kenya	7.3%	Access Bank	Nigeria	(3.5%)
Ecobank	Ghana	7.1%	Equity Group	Kenya	(2.2%)
Standard Chartered	Ghana	5.0%	Ecobank Transnational	Kenya	(1.8%)
HF Group	Kenya	3.0%	Stanbic Bank	Uganda	(1.7%)

Kenya

NASI gained by 1.9% during the week driven by increases in large cap stocks such as BAT, EABL, and NIC, which increased by 8.8%, 7.1%, and 2.0%, respectively. In our universe of coverage, Stanbic Holdings and HF Group gained 7.3% and 3.0%, while Equity Group declined by 2.2%. Equities turnover decreased by 81.2% during the week, to USD 4.2 mn, from USD 22.2 mn the previous week, owing to a shortened trading week due to the Christmas holiday, taking the YTD turnover to USD 1.8 bn. Foreign investors remained net sellers for the week, with a net selling position of USD 1.5 mn, a 63.0% decrease from last week’s net selling position of USD 4.2 mn. We expect the market to remain subdued in the near-term as international investors exit the broader emerging markets due to the expectation of rising US interest rates, coupled with the strengthening of the US Dollar.

Nigeria

The Nigerian All Share index gained by 1.1% during the week, driven by gains in financials and the oil sector. For our financial services universe of coverage, Stanbic IBTC Holdings, Guaranty Trust and Zenith gained by 15.8%, 1.5% and 1.3%, respectively, while the biggest decliners were FBN Holdings, Access Bank and Ecobank Transnational, which declined by 4.4%, 3.5% and 1.8%, respectively.

Ghana

The GSE Composite Index gained by 1.0% during the week, driven mainly by gains in large cap stocks in the financial services segment. In our universe of coverage for Ghana, Ecobank, Standard Chartered and Ghana Commercial Bank (GCB) gained by 7.1%, 5.0% and 0.6%, respectively.

Section II: Earnings Releases

There were no earnings released during the week

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

Kenya

Kenya’s National Treasury and the National Social Security Fund (NSSF) are said to be in talks on the possibility of relinquishing the preference shares they hold in National Bank of Kenya (NBK) thus paving way for a rights issue that would dilute the government’s stake in the state-owned institution. If successful, the move could result into recapitalization of the bank after the two major shareholders halted the initial plan to inject Kshs 4.2 bn in the form of a subordinated loan into the business, a proposal that had been in the pipeline since 2016. The two shareholders are currently considering the possibility of converting their preferred shares into ordinary shares. According to NBK’s annual report for the year ended 31st December 2017, the National Treasury and NSSF control a 22.5% and 48.1% shareholding in the bank, respectively, with a combined total of 239.0 mn ordinary shares of 338.8 mn issued shares. NBK is currently severely undercapitalized, operating below statutory capital requirements as highlighted below;

National Bank of Kenya Capital Adequacy		
Capital Adequacy Ratios	Q3'2017	Q3'2018
Core Capital/Total deposit Liabilities	9.1%	2.5%
Minimum Statutory ratio	8.0%	8.0%
Excess	1.1%	(5.5%)
Core Capital/Total Risk Weighted Assets	9.8%	2.6%
Minimum Statutory ratio	10.5%	10.5%
Excess	(0.7%)	(7.9%)
Total Capital/Total Risk Weighted Assets	11.3%	4.1%
Minimum Statutory ratio	14.5%	14.5%
Excess	(3.2%)	(10.4%)
Liquidity Ratio	34.0%	38.8%
Minimum Statutory ratio	20.0%	20.0%
Excess	14.0%	18.8%
Adjusted Core Capital/Total Risk Weighted Assets		3.1%
Adjusted Core Capital/Total Risk Weighted Assets		4.5%

We are of the view that the bank may need privatization as the core step to address the severe undercapitalization. With the National Treasury and NSSF relinquishing their preference shares and diluting their stakes in NBK, this will make the bank more attractive for a strategic investor who can inject capital and privatize the bank. Privatization would also bring about a shake-up in governance, which has also been a core factor in the bank’s recent run of poor performance. The bank’s efforts of a rights issue have long since been delayed and privatization offers the bank an easier capital-raising route. Another initiative would be the sale of non-core assets such as land owned.

Nigeria

The Central Bank of Nigeria (CBN) has deployed the Consumer Complaints Management System (CCMS), which is an automated system aimed at easing complaints management within banks so as to foster confidence in the financial sector. From 2nd January 2019, banks and other institutions offering financial services will be required to assign tracking numbers for every customer complaint, issue an acknowledgement to customers and upload complaints to the CCMS database on a daily basis. In our view, this new regulation will enable faster and more efficient complaint resolution, thereby improving customer confidence in Nigeria’s financial sector.

Ghana

There were no news for Ghana

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:

Universe Of Coverage									
Banks	Price as at 21/12/2018	Price as at 28/12/2018	w/w change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple
Equity Group	36.0	35.2	(2.2%)	(11.4%)	(7.1%)	65.8	5.7%	74.6%	1.7x
KCB Group	38.0	37.4	(1.4%)	(12.5%)	(11.2%)	64.0	8.0%	70.5%	1.2x
Ghana Commercial Bank***	4.8	4.8	0.6%	(5.0%)	(5.0%)	7.7	7.9%	69.1%	1.1x
I&M Holdings	85.0	85.0	0.0%	(33.1%)	(33.1%)	138.6	4.1%	65.3%	0.9x
Diamond Trust Bank	149.0	150.3	0.8%	(21.7%)	(22.4%)	231.0	1.7%	57.5%	0.9x
Zenith Bank***	22.7	23.0	1.3%	(10.3%)	(11.0%)	33.3	11.7%	56.6%	1.0x
NIC Bank	27.4	27.9	1.8%	(17.5%)	(10.9%)	40.7	3.6%	56.6%	0.7x
UBA Bank	7.9	7.9	0.0%	(23.8%)	(23.8%)	10.7	10.8%	52.5%	0.5x
CAL Bank	1.0	1.0	0.0%	(11.1%)	1.6%	1.4	0.0%	48.9%	0.8x
Co-operative Bank	13.9	14.1	1.1%	(12.2%)	(12.9%)	19.4	5.7%	43.3%	1.2x
Ecobank	7.0	7.5	7.1%	(1.3%)	1.3%	10.7	0.0%	43.1%	1.5x
CRDB	150.0	150.0	0.0%	(6.3%)	(6.3%)	207.7	0.0%	38.5%	0.5x
Barclays	11.1	11.0	(0.9%)	14.6%	15.0%	13.9	9.1%	37.8%	1.5x
Union Bank Plc	5.6	5.6	0.0%	(28.2%)	(25.2%)	8.2	0.0%	33.6%	0.6x
Access Bank	7.1	6.8	(3.5%)	(34.9%)	(32.7%)	9.5	5.9%	33.4%	0.5x
HF Group	5.3	5.5	3.0%	(47.1%)	(44.3%)	6.9	6.4%	31.8%	0.2x
Stanbic Bank Uganda	31.5	31.0	(1.7%)	13.8%	15.7%	36.3	3.8%	23.2%	2.2x
SBM Holdings	5.9	5.9	0.0%	(20.8%)	(20.8%)	6.6	5.1%	14.4%	0.8x
Stanbic Holdings	88.5	95.0	7.3%	17.3%	9.3%	102.7	2.4%	14.0%	0.9x
Guaranty Trust Bank	33.8	34.3	1.5%	(15.8%)	(16.6%)	37.1	7.0%	13.0%	2.1x
Bank of Kigali	278.0	278.0	0.0%	(7.3%)	(7.3%)	299.9	5.0%	12.5%	1.5x
Standard Chartered	196.5	194.0	(1.3%)	(6.7%)	(5.1%)	192.0	6.4%	5.0%	1.6x
Bank of Baroda	140.0	140.0	0.0%	23.9%	23.9%	130.6	1.8%	(3.6%)	1.2x
Standard Chartered	20.0	21.0	5.0%	(16.8%)	(7.5%)	19.5	0.0%	(4.1%)	2.5x
FBN Holdings	7.9	7.6	(4.4%)	(14.2%)	(12.1%)	6.6	3.3%	(7.7%)	0.4x

National Bank	5.8	5.9	1.4%	(37.1%)	(38.6%)	5.0	0.0%	(16.7%)	0.4x
Stanbic IBTC Holdings	46.0	53.3	15.8%	28.3%	10.8%	37.0	1.1%	(17.6%)	2.4x
Ecobank Transnational	14.3	14.0	(1.8%)	(17.6%)	(16.2%)	9.3	0.0%	(38.1%)	0.5x

*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.

****Stock prices indicated in respective country currencies

We are “NEUTRAL” on equities for investors with a short investment horizon. However, pockets of value exist, with a number of undervalued sectors like Financial Services, which provide an attractive entry point for medium to long-term investors, and with expectations of higher corporate earnings supported by sectors such as banking sector, we are “POSITIVE” for investors with a long-term investment horizon.