

Cytonn SSA Financial Services Research Weekly (2nd - 6th July)

In this weekly 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 and sector specific news that occurred during the first week of July (Week 27).

Section I: Market Performance:

During the first week of July, the equities markets was on a downward trend, with NGSEASI, GGSECI and NASI losing 1.7%, 1.3% and 0.8%, respectively. This takes the YTD performance of NASI, NGSEASI and GGSECI to 1.0%, (1.6%) and 10.1%, respectively.

Below is a summary of top gainers and losers for the week:

Top Gainers			Top Losers		
Company	Country	Change	Company	Country	Change
Standard Chartered Bank	Ghana	14.9%	Ecobank	Ghana	(10.1%)
CAL Bank	Ghana	6.6%	GCB Bank	Ghana	(3.5%)
Equity Group	Kenya	3.2%	Zenith Bank	Nigeria	(2.8%)
National Bank	Kenya	3.2%	Union Bank	Nigeria	(2.5%)
Standard Chartered	Kenya	3.0%	Co-operative Bank	Kenya	(2.3%)

Kenya

NASI declined 0.8% during the week, attributable to declines registered in Safaricom of 2.5%. However, the banking sector registered gains, with Equity Group, Standard Chartered Bank and NIC Group gaining 3.2%, 3.0% and 2.8%, respectively. Large cap decliners in the Banking sector were Co-operative Bank and Diamond Trust Bank that declined 2.3% and 2.0%, respectively.

Nigeria

The Nigerian All Share was the worst performer during the week, declining by 1.7%, largely driven by declines in the oil and gas sector and consumer goods sectors. The financial services industry took up the bulk of the trades, accounting for 65% of the Naira 16.6 bn (USD 46.1 mn) turnover during the week. In our financial services universe of coverage, Ecobank Transnational and Guaranty Trust Bank led gains, each rising 2.5%, while Zenith Bank, Union Bank and UBA Bank were the biggest losers, declining 2.8%, 2.5% and 1.4%, respectively.

Ghana

The GSE Composite Index declined by 1.3% during the week, driven by declines in the financial services sector. The banking sector performance was mixed with gains in Standard Chartered Bank and CAL Bank at 14.9% and 6.6%, respectively, being matched by declines in Ecobank and GCB bank, which lost 10.1% and 3.5%, respectively.

Section II:

There was no earnings released during the week.

Section III: Latest Developments in the Sub Saharan Africa Banking Sector:**Kenya**

1. **Robin Hood tax takes effect:** Commercial banks have begun implementing Treasury's new Robin Hood tax of 0.05% on bank transfers of above Kshs 500,000 that was proposed in the 2018/19 Budget presented to Parliament. Some lenders have communicated to customers notifying them of the new fee adjustment that took effect from 1st July 2018. Treasury Secretary Henry Rotich also proposed to raise the excise duty on mobile transfers to 12.0% from 10.0% as part of broader measures that are projected to generate Kshs 27.5 bn in extra revenues for the state. The extra revenue to be generated from the recently proposed taxes will be used to finance the government's Big Four Agenda, which focuses on four key pillars of (i) affordable housing, (ii) universal healthcare, (iii) manufacturing, and (iv) food security.

Nigeria

1. **Financial Inclusion in Nigeria remains a key concern:** According to the "Exposure Draft of the National Financial Inclusion Strategy Refresh," released by the Central Bank of Nigeria (CBN) over the weekend, the country is not likely to meet its financial inclusion target set by 2022. As stipulated in the National Financial Inclusion Strategy (NFIS) of 2012, the central Bank of Nigeria (CBN) had set an overall financial inclusion target of 80% of the adult population and a formal financial inclusion rate of 70% of the adult population by 2022. However, as at end of 2016, financial inclusion stood at 58.4% for Nigeria's adults, while only 48.6% of all adults managed to use formal financial services. The CBN however noted an improving trend attributed to entry of other stakeholders in the push for financial inclusion through Fintech innovations and introduction of new products in the market mainly targeted at small and medium sized enterprises (SMEs), and other financial excluded groups such as women and micro-enterprises.

Ghana

1. **GCB Bank shareholders vote to transfer GHS 400 mn to the income surplus account:** GCB bank held their Annual General Meeting where the shareholders voted to transfer GHS 400 mn from its income surplus account to the stated capital account in a bid to meet Bank of Ghana's GHS 400 mn capital requirement. This will bring the banks' total stated capital to GHS 500 mn, GHS 100 mn above the minimum stated capital requirement for commercial banks, which was increased to GHS 400 mn from GHS 120 mn earlier, with the compliance deadline set at 31st December 2018.
2. **Bank of Ghana releases their April 2018 Banking Sector report:** The Bank of Ghana (BOG) released their April 2018 banking sector report, which covered developments in the Ghanaian banking sector from April 2017 to the end of April 2018. Total assets in the banking sector recorded a slower 15.7% y/y growth to GHS 97.8 bn, compared to the 31.1% growth recorded in April 2017. The slower asset growth was attributed to a 0.5% decline in net loans and advances to GHS 30.8 bn from GHS 31.0 bn, while investment securities rose by 41.5% to GHS 35.1 bn from GHS 24.8 bn. Asset quality remains a key concern with the Non-Performing Loans ratio deteriorating to 23.5% from 19.8% in April 2017. The industry's Net Income stood at GHS 782 mn, registering a growth of 5.8%, compared to 9.4% as at April 2017. This performance was driven by a 0.3% growth in Net Interest Income to GHS 2.4 bn, coupled with a 16.4% growth in Non-Funded Income to GHS 985.4 mn.

Section IV: Equities Universe of Coverage:

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

Banks	Country Currency	Price as at 6/07/2018	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple
Ghana Commercial Bank***	Ghanaian Cedi	5.0	(3.5%)	(1.0%)	7.7	7.3%	56.4%	1.3x
NIC Bank***	Kenya Shilling	36.5	2.8%	8.1%	54.1	2.8%	55.2%	0.8x
I&M Holdings***	Kenya Shilling	115.0	0.0%	10.6%	169.5	3.0%	50.4%	1.2x
Zenith Bank	Nigerian Naira	24.3	(2.8%)	(5.2%)	33.3	10.8%	44.1%	1.1x
Diamond Trust Bank***	Kenya Shilling	195.0	(2.0%)	1.6%	280.1	1.3%	42.1%	1.1x
KCB Group***	Kenya Shilling	46.5	0.5%	8.8%	60.9	6.5%	38.2%	1.5x
Union Bank Plc	Nigerian Naira	6.0	(2.5%)	(23.7%)	8.2	0.0%	33.6%	0.6x
CRDB	Tanzanian Shilling	160.0	0.0%	0.0%	207.7	0.0%	29.8%	0.5x
Barclays	Kenya Shilling	11.4	(3.4%)	18.2%	14.0	8.5%	27.7%	1.5x
Ecobank	Ghanaian Cedi	7.6	(10.1%)	0.0%	10.7	0.0%	27.0%	2.4x
Equity Group	Kenya Shilling	47.8	3.2%	20.1%	55.5	4.3%	24.3%	2.3x
HF Group***	Kenya Shilling	8.4	(1.2%)	(19.2%)	10.2	3.8%	23.8%	0.3x
Co-operative Bank	Kenya Shilling	17.1	(2.3%)	6.9%	19.7	4.6%	17.1%	1.5x
Stanbic Bank Uganda	Ugandan Shilling	32.0	0.0%	17.4%	36.3	3.7%	17.0%	2.0x
UBA Bank	Nigerian Naira	10.4	(1.4%)	0.5%	10.7	14.3%	16.2%	0.7x
CAL Bank	Ghanaian Cedi	1.3	6.6%	20.4%	1.4	0.0%	14.8%	1.0x
Bank of Kigali	Rwandan Franc	288.0	0.7%	(4.0%)	299.9	4.8%	9.7%	1.6x
Standard Chartered	Kenya Shilling	204.0	3.0%	(1.9%)	184.3	6.3%	(0.6%)	1.5x
Stanbic Holdings	Kenya Shilling	91.0	(1.1%)	12.3%	85.9	5.7%	(0.9%)	1.1x
Guaranty Trust Bank	Nigerian Naira	41.5	2.5%	1.8%	37.2	5.9%	(2.2%)	2.3x
Access Bank	Nigerian Naira	10.4	0.5%	(0.5%)	9.5	3.9%	(4.3%)	0.7x
SBM Holdings	Mauritian Rupee	7.2	(1.1%)	(4.0%)	6.6	4.1%	(5.8%)	1.0x
Bank of Baroda	Ugandan Shilling	149.0	(0.7%)	31.9%	130.6	1.7%	(11.3%)	1.3x
Standard Chartered	Ghanaian Cedi	26.6	14.9%	5.3%	19.5	0.0%	(15.9%)	2.9x
Stanbic IBTC Holdings	Nigerian Naira	52.0	0.0%	25.3%	37.0	1.1%	(27.7%)	2.7x
FBN Holdings	Nigerian Naira	10.5	(0.9%)	19.3%	6.6	2.4%	(35.1%)	0.6x
Ecobank Transnational	Nigerian Naira	20.5	2.5%	20.6%	9.3	0.0%	(53.6%)	0.7x
National Bank	Kenya Shilling	6.5	3.2%	(31.0%)	2.8	0.0%	(55.2%)	0.4x

*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

We are “NEUTRAL” on equities for investors with a short-term investment horizon since the market has rallied and brought the market P/E slightly above its’ historical average. However, pockets of value exist, with a number of undervalued sectors such as Financial Services, which provide an attractive entry point for long-term investors, and with expectations of higher corporate earnings this year, we are “POSITIVE” for investors with a long-term investment horizon.