Faida Daily Report

FAIDA INVESTMENT BANK

2nd June 2020

Kenya Shilling Performance

KES	Value	Daily Change %	YTD Change %
US Dollar	106.7982	0.1%	(5.4%)
STG Pound	131.9976	(0.7%)	0.7%
EURO	118.9538	(1.0%)	(4.9%)

Source: CBK; Negative () = Depreciation, Positive = Appreciation

Market Summary

Index	Value	Daily Change %	YTD Change %
NASI	137.60	0.3%	(17.3%)
NSE 20	1,931.29	(0.9%)	(27.2%)
NSE 25	3,202.28	(0.1%)	(21.9%)

	Today	Previous	Daily Change %
Market Capitalization (KES Bn)	2,103.02	2,095.92	0.3%
Number of Shares Traded (Q)	25,179,600	36,124,200	(30.3%)
Equity Turnover (KES)	603,348,365	899,237,033	(32.9%)
Foreign Buys (%)	N/A	37.2%	
Foreign Sells (%)	N/A	64.4%	
Foreign Participation (%)	N/A	50.8%	

Source: NSE

Equities Performance

	Top Gainers	Price (KES)	Daily Change	YTD Change %	Volume Traded
1.	Eveready	1.10	10.0%	0.0%	1,600
2.	Uchumi	0.33	10.0%	13.8%	102,500
3.	Umeme	7.90	9.7%	(4.6%)	100
4.	Flame Tree	1.26	7.7%	(49.0%)	93,900
5.	Centum	24.00	4.1%	(18.6%)	7,800

	Top Losers	Price (KES)	Daily Change	YTD Change %	Volume Traded
1.	Kenya Airways	1.99	(10.0%)	(2.9%)	375,600
2.	NSE	7.30	(7.6%)	(40.9%)	113,500
3.	Sameer Africa	2.70	(7.5%)	(21.7%)	700
4.	Sasini	15.65	(6.6%)	(7.4%)	1,300
5.	Home Afrika	0.47	(6.0%)	(21.7%)	100,600

	Movers	Turnover (KES)	Volume (KES))	Price (KES)
1.	Safaricom	382,300,250	13,297,400	28.75
2.	Equity Group	78,894,045	2,250,900	35.05
3.	KCB Group	56,952,385	1,611,100	35.35
4.	EABL	30,801,375	188,100	163.75
5.	Absa Bank	24,224,400	2,243,000	10.80

Source: NSE

Market Commentary

The All Share Index gained marginally by 0.3% to close the day at 137.60 from the previous trading session. This was attributed to Safaricom gaining by 0.7% accounting for 63.3% of the day's traded value. The banking sector witnessed marginal declines for the day: Equity (-0.6%), I&M (-2.9%), KCB (-0.3%), Stanbic (-1.2%) which we attribute to foreign selling activity in the sector. As alluded to in Friday's report, we expect investors to adapt a wait and see approach as more clarity is provided this week on the possible relaxation of the country's COVID-19 containment efforts. As at 1st June, the president mentioned that he would issue more guidelines, seeking consultations with various stakeholders to provide an appropriate calendar for gradual resumption of the economy.

Recommendations

Counter	Recommendation	Price (KES)	Daily Change %	YTD Change %
KCB Group	Long-term Buy	35.35	(0.3%)	(34.5%)
Equity Group	Long-term Buy	35.05	(0.6%)	(34.5%)
Absa Kenya	Long-term Buy	10.80	0.0%	(19.1%)
Stanbic Holdings	Long-term Buy	84.00	(1.2%)	(23.1%)
StanChart	Sell	166.75	0.5%	(17.7%)
Safaricom	Hold	28.75	0.7%	(8.7%)
Bamburi	Sell	44.00	0.0%	(45.0%)

For more detailed information on the following recommendations, please click here:

Bonds Performance

	Today	Previous	Daily Change %
Total Deals	58	103	(43.7%)
Bond Turnover	756,215,410	4,713,676,044	(84.0%)

Actively Traded Bonds

GOK Bonds	Fixed Rate %	Traded Yield %	Value Traded (Mn)	DTM
IFB1/2019/16	11.7500	12.4712	250.0	5,606
FXD2/2019/15	12.7340	12.6947	150.0	5,074
FXD4/2019/10	12.2800	12.2000	125.0	3,450

Source: NSE; DTM = Days to Maturity

News Highlights

Housing Finance Loss Contracts by 99.6% y/y for 1Q2020

- HF's loss reduced by 99.6% y/y to KES 633,000 from an after tax loss of KES 158.3 million in 1Q2019. The performance was characterized by a 13.7% y/y increase in net interest income to KES 580.7 million and a 7.7% y/y decline in operating expenses (excluding provisions) to KES 689.6 million.
- Total interest income declined by 7.8% y/y to KES 1.2 billion (1Q2019: KES 1.4 billion). The decrease was mainly driven by a 10.8% y/y dip in income from loans and advances to KES 1.1 billion as the group's net loan book shrank by 8.5% y/y to KES 38.4 billion. The yield on loans fell marginally to 11.6% from 11.7% in 1Q2019.
- Income from government securities edged up by 24.6% y/y to KES 113.7 million as the group's holdings of government securities surged by 39.3% y/y to KES 5.0 billion. Yield on government securities dropped to 9.4% from 10.1% in 1Q2019
- Total interest expenses declined by 20.9% y/y to KES 664.1 million primarily owing to a 58.8% y/y decrease in other interest expenses to KES 148.0 million.
- Interest expenses from customer deposits grew by 5.9% y/y to KES 488.0 million as customer deposits edged up by 11.8% y/y to 38.0 billion. The cost of customer deposits declined to 5.2% (1Q2019: 5.4%).
- Consequently, net interest income rose by 13.7% y/y to KES 580.7 million. The net interest margin grew to 5.2% (1Q2019: 4.3%) due to a decline in interest earning assets (-5.3% y/y to KES 44.4 billion).
- Non-funded income fell by 2.0% y/y to KES 253.5 million predominantly due to a 61.9% plunge in fees and commissions on loans and advances to KES 24.4 million (1Q2019: KES 64.1 million).

    - Other fees and commissions grew by 57.4% y/y to KES 96.0 million.
    - Consequently, the contribution of non-funded income to total income dropped to 30.4% (1Q2019: 33.6%).
- Operating expenses (excluding provisions) declined by 7.7% y/y to KES 689.6 million owing to a 19.6% y/y dip in other expenses to KES 293.8 million
    - The cost to income ratio (excluding provisions) improved to 82.7% (1Q2019: 97.1%).
- Loan loss provisions fell by 23.4% y/y to KES 137.6 million as gross non-performing loans decreased by 5.8 y/y to KES 12.2 billion. The NPL ratio (net NPL/net loan book) improved to 15.2% (1Q2019: 18.6%).
- According to management, the financial statements had not been adjusted for the impact Covid-19 pandemic and measures will be taken to cushion against the impact and this may result in additional provisioning.
-

Commentary

- We express concern over:
    - The group's high NPL ratio which is still above industry average.
    - The decline in non-funded income. However, we note that this was on the back of reduced lending, which was prudent given the slowdown in the real estate sector. We are optimistic about the growth in fees and commission income which was likely due to the group's increased focus on digital banking
- We are optimistic about:
    - The group's efforts to contain costs which have resulted in an improvement in the cost-to-income ratio (C/I). However we note that this is still above industry average.
    - The declining cost of funds (previously the group had the highest cost of funding in the industry at 6.3% in 2018)
- In light of the Covid-19 pandemic we expect further contraction of the loan book. We opine that the pandemic may impact servicing of loans which could undo the progress made on improving asset quality.
- We affirm the **Sell** recommendation. As much as the bank has reduced losses, the high non-performing loans and high exposure to real estate remain a cause of concern. We expect the Covid-19 pandemic will further impact profitability of the bank in FY2020.

E-mail:

research@fib.co.ke

Recommendations Guide

LONG-TERM BUY: The Company has strong fundamentals. However, there are certain investments or strategies that would require an investor to have a long-term view of the company to allow for capital appreciation. Also, the company may be facing head wings which we view as short term

BUY: Strong fundamentals. Minimal risks to the catalysts/growth drivers

NEUTRAL: This is where the positives and negatives in a company almost balance out. You can accumulate for the long term.

SELL: Deteriorating fundamentals. Risks outweigh the catalyst/growth driver

HEAD OFFICE:

Crawford Business Park,
Ground Floor,
State House Road
Tel: 0207606026-37
P.O Box 45236-00100
Nairobi