



Out of the Ordinary®



Investec

Investec Bank
Limited (SA)

06 February 2020

Sector Research

Kenyan Banks

Sector review

Shooting for the stars

We are overweight Kenyan banks. The banks under our coverage benefit most from the repeal of the interest rate cap as their low funding costs relative to the sector allow them to compete more aggressively for sparse high quality borrowers. On average, we have increased our TPs and ROE estimates by c. 27% and c. 3% respectively. We upgrade KCB to Buy (prev: Hold), downgrade Equity Group to Hold (prev: Buy) and retain our Buy on Co-op. We prefer Kenyan banks to Nigerian banks owing to the reduced regulatory friction.

Priced at 3 February

Company	Rec	Price	Target
Equity Group	Hold	KES50.25	KES52.20
KCB Group	Buy	KES52.00	KES58.70
Co-operative Bank	Buy	KES15.15	KES17.30

- **No pain, no gain:** Tough secular forces (competition from Safaricom and mobile lenders; interest rate caps) in the past three years drove a structural shift in KCB and Co-op's business models. Driving agency and digital banking distribution models has allowed them to sustain their existing economies of scale at a lower cost; new product offerings have supported significant NIR growth in the past two years.
- **Same objectives, different approaches, and vastly different outcomes:** The Central Bank of Kenya (CBK) and Central Bank of Nigeria (CBN) share similar objectives, but the actions taken to achieve these differ radically. Key differences:
 1. Cash Reserve Ratios: 5.25% (Kenya) vs 27.5% (Nigeria).
 2. Monetary policy stance: opaque and unorthodox (Nigeria) vs conventional and accommodative (Kenya).
- **KCB:** In spite of the NBK overhang, we believe KCB's cost containment efforts at group level will continue to support a cost-to-income ratio of below 50%; improving profitability of its digital products and distribution channel will offset rising CLRs that weigh on earnings growth.
- **Co-op:** Despite being the laggard amongst its peers, Equity group and KCB, Co-op has delivered strong NIR growth in the 9M19a from its digital offerings which we expect to continue in the medium term. We forecast rising ROEs as existing clients are migrated to cheaper digital and agent channels which should contain y/y cost growth.
- **Valuation:** On our numbers KCB trades at a FY20e PB of 1.2x (historical avg. of 1.47x) while Co-op is on a PB of 1.0x (historical avg. of 1.75x). Equity group trades at a FY20e PB of 1.4x (historical avg. of 2.08x).

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Summary

We upgrade KCB to Buy (prev: Hold), downgrade Equity Group to Hold (prev: Buy) and retain our Buy recommendation on Co-op. In contrast to Nigeria, the current policy dynamic in Kenya, on balance, remains supportive of real earnings growth in the medium term. Following the repeal of the interest rate cap, we have increased our target prices by c. 27%, on average, across our coverage banks.

Figure 1: Summary recommendations and target prices

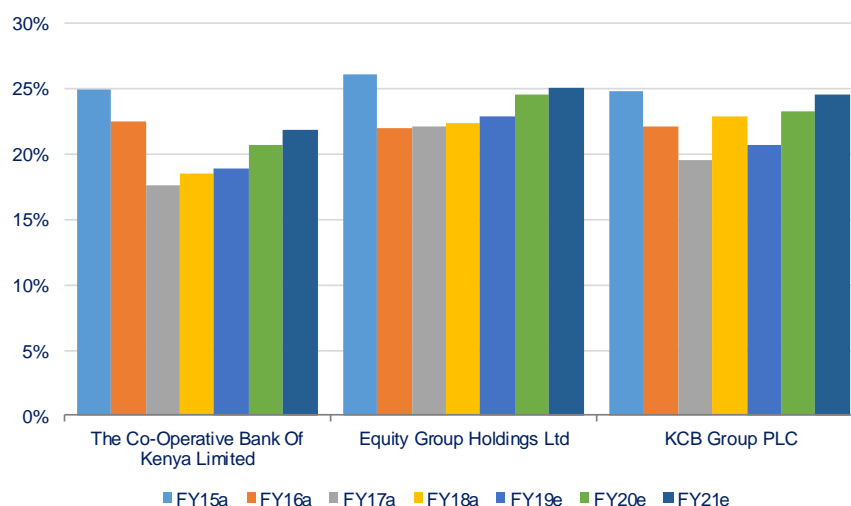
Bank	LCY	Rec.	ISL TP + 12m	Consensus TP + 12m	12m LCY return	12m USD return	Current price (LCY)	Dividend yield FY20e	P/B (x) FY20e	P/E (x) FY20e	ROE FY20e
The Co-Operative Bank Of Kenya Limited	KES	Buy	17.30	16.92	22.3%	16.0%	15.15	8%	1.0	5.4	21%
Equity Group Holdings Ltd	KES	Hold	52.20	52.97	10.1%	5.4%	50.25	6%	1.4	6.5	24%
KCB Group PLC	KES	Buy	58.70	56.71	22.2%	15.9%	51.50	8%	1.2	5.7	23%

Source: Investec Securities estimates / Thomson Reuters consensus estimates – 03 Feb 2020

Investment thesis

We don't shy away from the headwinds to growth in the Kenyan economy that will impact on bank performance. However, Kenyan banks' growth potential, in contrast to their Nigerian peers, is not hampered by volatile and unconventional policy dynamics which undermine the independence of banks' long-term strategic and capital allocation decisions.

Figure 2: ROE trajectory



Source: Investec Securities estimates

Our target prices and earnings estimates reflect:

- We don't see a monetary policy or regulatory driven threat to the balance sheet structure of Kenyan banks. ([Policy transparency and predictability](#))
- Credible NII growth supported by our coverage banks' cheap funding base relative to the sector allowing them to compete more aggressively for new credit in a market short of high quality borrowers. ([Revenue generation](#))
- Strong growth in NIR with the expectation that this will be sustained by our coverage banks' ongoing drive to strengthen their digital and agency banking distribution channels. We see no immediate threat to NIR from a regulatory perspective. ([Revenue generation](#))

The CAK in approving KCB's acquisition of NBK require KCB to maintain 90% of the workforce of the combined entity for a period of 18 months post the merger.

KCB Group Plc | Buy | Target Price - KES58.70

We expect improved NII from increased loan growth and declined funding costs to offset increased costs arising from the acquisition of NBK. The NBK cost base remains a challenge to shrink in the short term given the ruling by the Competition Authority of Kenya (CAK). But, we believe KCB's demonstrated cost management abilities at a group level will contain cost growth. We see this in combination with sustained NIR growth from digital channels supports positive JAWS to FY21e.

KCB FY19e ROA and ROE are distorted by the inclusion of three months' earnings and the full balance sheet of NBK.

We expect KCB's ROE to improve from c. 21% (FY19e) to c. 25% (FY21e). As a result we value KCB at a 12m TP of KES58.70 (prev: KES42.50). Combined with a 6% depreciation in the USD/KES our TP suggests potential upside of c. 15.9% in USD.

Figure 3: KCB estimate changes

Income Statement (KES'bn)	FY19e			FY20e			FY21e		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net interest income	50.8	52.9	4%	57.4	58.8	2%	65.2	66.2	2%
Non-interest income	26.7	28.0	5%	29.3	31.2	6%	32.6	34.6	6%
Income	77.4	80.9	5%	86.7	89.9	4%	97.8	100.8	3%
Impairment Charge	(6.3)	(9.7)	54%	(7.3)	(7.1)	-4%	(7.4)	(8.0)	8%
Expense	(36.9)	(36.3)	-2%	(41.3)	(40.2)	-3%	(42.4)	(41.1)	-3%
Other	-	-	0%	-	-	0%	-	0.0	0%
Tax	(10.3)	(10.5)	2%	(11.4)	(12.8)	12%	(14.4)	(15.5)	8%
Profit After Tax	23.9	24.4	2%	26.6	29.9	12%	33.6	36.2	8%

Balance Sheet (KES'bn)									
Advances (Net)	544	515	-5%	563	579	3%	615	648	5%
Customer deposits	681	680	0%	736	735	0%	795	794	0%

Per share statistics									
Dil. HEPS (KES)	7.5	8.0	7%	8.3	9.7	18%	10.5	11.8	13%
DPS (KES)	3.50	3.50	0%	3.76	3.95	5%	4.76	4.79	1%

Source: Investec Securities estimates

Co-operative Bank of Kenya Limited | BUY | Target Price – KES17.30

Overall, we expect Co-op to continue to benefit from strong NIR generation driving revenue growth as costs are contained below inflation. We believe Co-op will continue to deliver positive JAWS to FY21e as existing clients are migrated to cheaper digital and agent channels containing y/y cost growth, while improved transaction volumes should drive sustained NIR growth.

We expect Co-op's ROE to improve from c. 19% (FY19e) to c. 22% (FY21e). As a result we value Co-op at a 12m TP of KES17.30 (prev: KES13.80). Combined with a 6% depreciation in the USD/KES our TP suggests potential upside of c. 15% in USD.

Figure 4: Co-op estimate changes

Income Statement (KES'bn)	FY19e			FY20e			FY21e		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net interest income	29.0	28.4	-2%	31.4	32.1	2%	34.1	36.8	8%
Non-interest income	17.1	19.0	11%	19.1	22.0	15%	20.9	24.3	16%
Income	46.1	47.3	3%	50.5	54.1	7%	55.0	61.1	11%
Impairment Charge	(2.7)	(2.8)	3%	(3.2)	(3.5)	11%	(3.4)	(4.0)	17%
Expense	(24.6)	(24.9)	1%	(25.9)	(27.0)	4%	(27.0)	(28.6)	6%
Other	0.0	0.0	-40%	0.1	0.0	-37%	0.1	0.0	-34%
Tax	(5.6)	(5.9)	4%	(6.5)	(7.1)	10%	(7.4)	(8.6)	16%
Profit After Tax	13.2	13.7	4%	15.1	16.5	10%	17.3	20.0	16%

Balance Sheet (KES'bn)									
Advances (Net)	259	280	8%	279	320	15%	301	364	21%
Customer deposits	328	334	2%	352	370	5%	379	411	9%

Per share statistics									
Dil. HEPS (KES)	2.2	2.3	4%	2.6	2.8	10%	2.9	3.4	16%
DPS (KES)	1.00	1.00	-1%	1.15	1.20	5%	1.32	1.42	8%

Source: Investec Securities estimates

Equity Group Limited | Hold | Target Price – KES52.20

We like Equity Group, but believe the good news has been priced in. We are unable to identify significant positive or negative catalysts for the share to rerate or derate materially. We believe Equity Group's strong ROA, ROE and low funding costs support a Hold (previously Buy) recommendation.

We expect Equity Group's ROE to improve from c. 23% (FY19e) to c. 25% (FY21e). As a result we value Equity Group at a 12m TP of KES52.20 (prev: KES44.20). Combined with a 6% depreciation in the USD/KES our TP suggests potential upside of c. 5% in USD.

Figure 5: Equity estimate changes

Income Statement (KES'bn)	FY19e			FY20e			FY21e		
	Old	New	Δ	Old	New	Δ	Old	New	Δ
Net interest income	43.5	44.0	1%	50.1	53.5	7%	58.0	62.9	8%
Non-interest income	29.8	30.1	1%	32.6	34.8	7%	36.0	39.0	8%
Income	73.3	74.0	1%	82.6	88.3	7%	94.0	101.9	8%
Impairment Charge	(3.1)	(3.0)	-3%	(4.6)	(5.1)	9%	(5.2)	(5.9)	12%
Expense	(38.6)	(37.9)	-2%	(42.0)	(41.4)	-1%	(45.8)	(45.3)	-1%
Other	-	-	0%	-	0.0	0%	0.0	-	-100%
Tax	(9.5)	(10.0)	5%	(10.8)	(12.5)	16%	(12.9)	(15.2)	18%
Profit After Tax	22.1	23.2	5%	25.2	29.2	16%	30.1	35.5	18%

Balance Sheet (KES'bn)									
Advances (Net)	344	368	7%	388	425	10%	435	487	12%
Customer deposits	473	486	3%	530	549	4%	594	621	5%

Per share statistics									
Dil. HEPS (KES)	5.8	6.1	5%	6.6	7.7	16%	7.9	9.3	18%
DPS (KES)	2.00	2.25	12%	2.20	3.08	40%	3.16	3.73	18%

Source: Investec Securities estimates

Common policy objectives include: (1) Stimulating growth in the real economy, in particular across agriculture, manufacturing, and Micro, Small and Medium-sized Enterprises (MSMEs); (2) Increasing financial inclusion and financial literacy levels; (3) Containing inflation within target ranges.

Policy transparency and predictability

While the Nigerian banking sector enters a period of draconian and unorthodox policy measures, the Kenyan banking sector's shackles have been removed with the repeal of the interest rate cap. Importantly, we stress that the implementation of interest rate caps in 2016 was driven by MPs in the National Assembly much to the chagrin of the CBK and National Treasury.

Notably, the Central Bank of Kenya (CBK) and Central Bank of Nigeria (CBN) share common objectives. But, the actions taken to achieve this goal differ significantly (Figure 6).

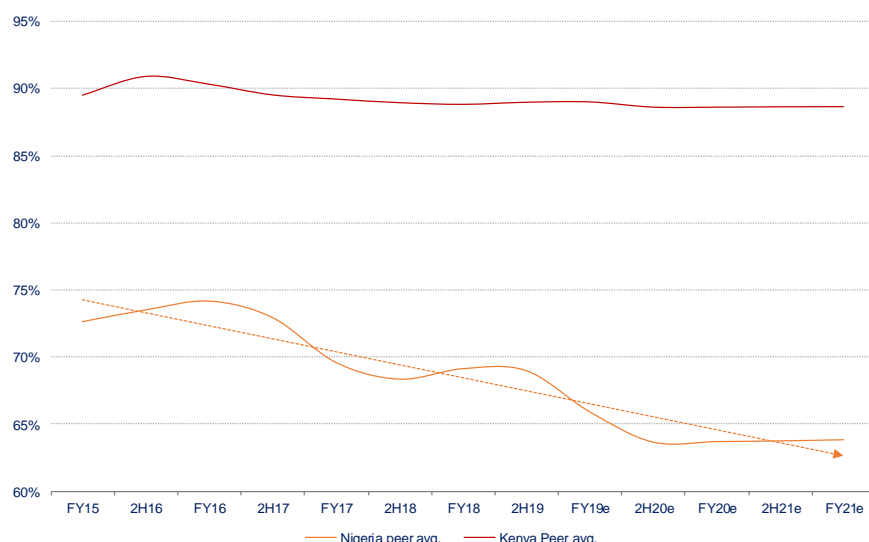
Figure 6: Relative policy environments, Nigeria vs Kenya

Key feature	Nigeria	Kenya
Minimum LDR	65%	None
Cash Reserve Ratio	27.50%	5.25%
Bank charges	Broad downward revisions across all product types, with electronic banking products most affected. Bank charges on certain products and services have been shifted to a cost-recovery basis. <i>This is a new dynamic for Banks.</i>	New and amended bank charges are approved on a product-by-product basis for each individual bank by the CBK under the Banks Act (2016), Banks Regulations (2006) and Prudential Guidelines (2013). <i>This is the prevailing dynamic for banks.</i>
Monetary policy stance	Opaque, following unconventional (heterodox) methods to achieving macroeconomic stability.	Dovish, following conventional methods to achieving macroeconomic stability.

Source: Investec Securities estimates / Central Bank of Nigeria / Central Bank of Kenya

The outcome of the Kenyan policy dynamic is a sustained balance sheet structure in terms of interest earning capacity (Figure 7).

Figure 7: Interest-bearing assets as % of total assets



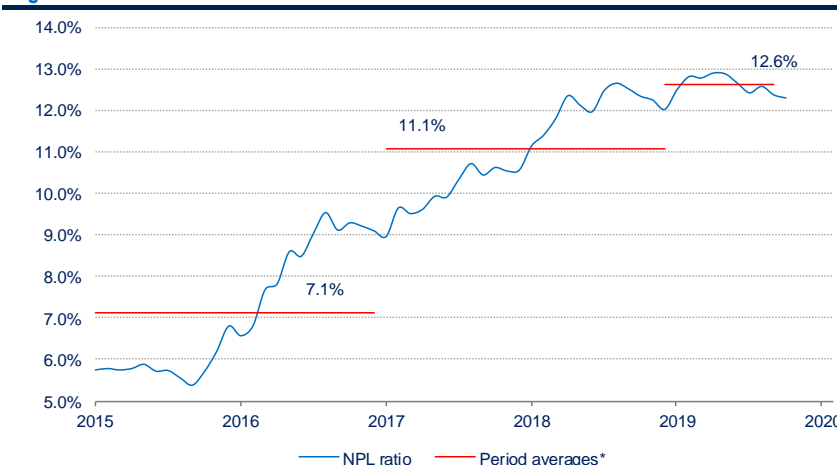
Source: Investec Securities estimates / Company accounts

Revenue generation

Net interest income

We expect improved loan volumes to be the main driver of interest income growth with the repeal of the interest rate cap. We see interest yields on customer loans increasing marginally in the near term given the increased scrutiny on bank lending behaviour from government and the CBK post repeal. Poor asset quality remains a bugbear for the sector (Figure 8), and in our view will deter a broader part of the sector from aggressively extending new credit to the private sector.

Figure 8: Sector NPLs

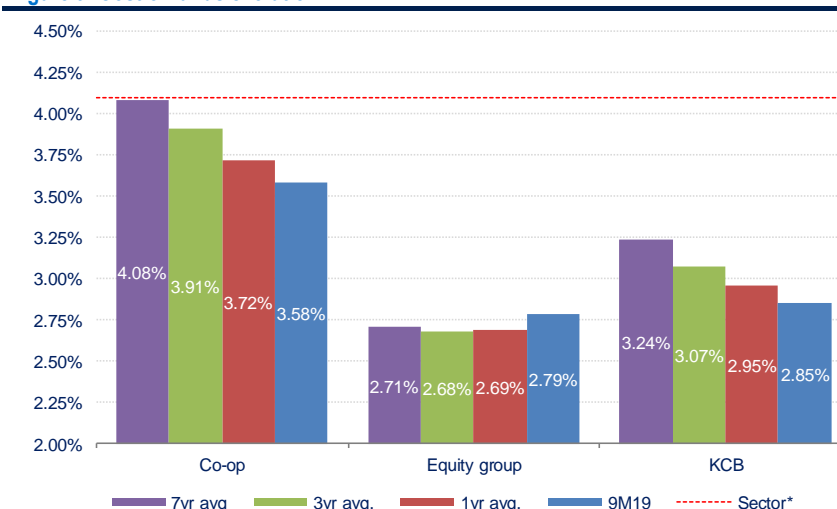


Source: Investec Securities estimates / CBN / Last observation as at Oct-19

*Period averages are for: Jan-15 to Dec-16; Jan-17 to Dec-18; Jan-19 to Oct-19

But, we see our coverage banks better positioned to capture market share of new loans given their strong funding cost positioning relative to the sector (Figure 9).

Figure 9: Cost of funds evolution



Source: Investec Securities estimates / Company accounts / Bank Supervision Annual Report 2018

*Sector cost of funds as at FY18

Equity group remains best positioned of our coverage banks with the lowest funding cost of c. 279bps. But, at 9M19a Co-op has shown a significant improvement in reducing the overall cost of its funding base supporting NIM expansion in the medium term.

Non-interest revenue

The secular forces (increased competition from Safaricom; interest rate caps) drove a structural shift in Kenyan banks business models which, in our view, have positioned them for credible growth in the medium terms post repeal. The shift to agency, mobile and internet banking by both KCB and Co-op following on the success of Equity Group has yielded improvements to their NIR.

KCB has seen the biggest improvement in increasing volumes through mobile distribution channels (KCB M-Pesa, Fuliza, Stawi and KCB Mobi loan), which now represents c. 75% of its total transactional volumes (Figure 10).

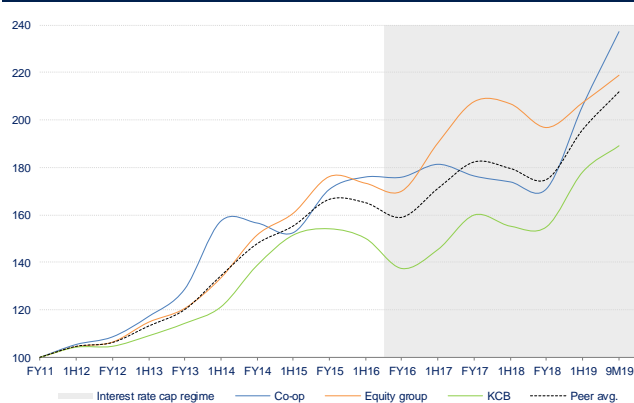
Figure 10: Volumes through mobile distribution channels, % of total volumes



Source: Investec Securities estimates / Company accounts

While, Co-op may not be at the level of KCB and Equity Group, its shift to c. 34% above its two-year average of c. 26% from MCo-op cash has driven a significant improvement in fees and commissions (F&C) growth (Figure 11). And significantly improved its ability to monetise its customer deposits and loans (Figure 12).

Figure 11: Fees and commissions (F&C) index, FY11=100

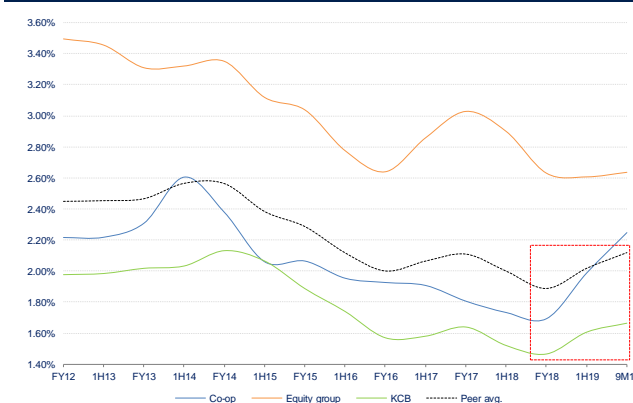


Source: Investec Securities estimates / Company accounts

Index based on trailing 12m F&C

Fees & commissions includes: F&C on loans and advances; and Other F&C

Figure 12: F&C as % of avg. gross loans and deposits



Source: Investec Securities estimates / Company accounts

KCB Group Plc earnings and estimates

Figure 13: KCB summary financials

Income Statement (KES'bn)	FY18	YOY % Δ	FY19e	YOY % Δ	FY20e	YOY % Δ	FY21e	3yr FWD CAGR	3yr HIST CAGR
Net interest income	48.8	8%	52.9	11%	58.8	13%	66.2	11%	8%
Consensus		6%	51.8	9%	56.7	27%	72.2	14%	
Non-interest income	23.0	22%	28.0	11%	31.2	11%	34.6	15%	-1%
Consensus		22%	28.0	11%	31.2	11%	34.6	15%	
Income	71.8	13%	80.9	11%	89.9	12%	100.8	12%	5%
Consensus		10%	78.8	20%	94.2	16%	109.6	15%	
Impairment Charge	(2.9)	228%	(9.7)	-27%	(7.1)	13%	(8.0)	40%	-15%
Consensus		124%	(6.6)	69%	(11.2)	9%	(12.2)	61%	
Expense	(35.0)	4%	(36.3)	11%	(40.2)	2%	(41.1)	5%	4%
Consensus		7%	(37.6)	19%	(44.8)	8%	(48.3)	11%	
Other	-	0%	-	0%	-	0%	0.0	0%	0%
Tax	(9.9)	6%	(10.5)	22%	(12.8)	21%	(15.5)	16%	13%
Consensus		5%	(10.4)	11%	(11.5)	28%	(14.7)	14%	
Profit After Tax	24.0	2%	24.4	22%	29.9	21%	36.2	15%	7%
Consensus		1%	24.3	9%	26.4	18%	31.3	9%	

Balance Sheet (KES'bn)									
Advances (Net)	456	13%	515	12%	579	12%	648	12%	10%
Consensus		14%	520	11%	577.46	14%	655.95	13%	
Customer deposits	537	27%	680	8%	735	8%	794	14%	8%
Consensus		25%	670.5	11%	743.7	11%	827.4	15%	

Per share statistics									
Dil. HEPS (KES)	7.8	2%	8.0	22%	9.7	21%	11.8	15%	6%
Consensus		1%	7.9	13%	8.9	18%	10.6	11%	
DPS (KES)	3.50	0%	3.50	13%	3.95	21%	4.79	11%	21%
Consensus		-3%	3.41	14%	3.90	8%	4.23	6%	

Source: Investec Securities estimates / Thomson Reuters consensus estimates – 03 Feb 2020

Co-operative Bank earnings and estimates

Figure 14: Co-operative Bank summary financials

Income Statement (KES'bn)	FY18	YOY % Δ	FY19e	YOY % Δ	FY20e	YOY % Δ	FY21e	3yr FWD CAGR	3yr HIST CAGR
Net interest income	30.8	-8%	28.4	13%	32.1	15%	36.8	6%	10%
Consensus		0%	30.7	16%	35.6	17%	41.5	10%	
Non-interest income	12.9	47%	19.0	16%	22.0	10%	24.3	23%	-1%
Consensus		47%	19.0	16%	22.0	10%	24.3	23%	
Income	43.7	8%	47.3	14%	54.1	13%	61.1	12%	6%
Consensus		5%	45.7	14%	52.3	16%	60.5	11%	
Impairment Charge	(1.8)	52%	(2.8)	25%	(3.5)	13%	(4.0)	29%	-3%
Consensus		52%	(2.8)	64%	(4.6)	12%	(5.2)	41%	
Expense	(23.9)	5%	(24.9)	8%	(27.0)	6%	(28.6)	6%	7%
Consensus		7%	(25.5)	10%	(28.1)	12%	(31.5)	10%	
Other	0.2	-83%	0.0	20%	0.0	21%	0.0	-37%	-24%
Tax	(5.4)	8%	(5.9)	20%	(7.1)	21%	(8.6)	17%	14%
Consensus		3%	(5.6)	11%	(6.2)	20%	(7.4)	11%	
Profit After Tax	12.7	8%	13.7	20%	16.5	21%	20.0	16%	3%
Consensus		8%	13.7	10%	15.0	15%	17.3	11%	

Balance Sheet (KES'bn)									
Advances (Net)	245	14%	280	14%	320	14%	364	14%	5%
Consensus		8%	265	11%	294.70	13%	332.07	11%	
Customer deposits	306	9%	334	11%	370	11%	411	10%	5%
Consensus		10%	336.2	11%	371.6	11%	410.8	10%	

Per share statistics									
Dil. HEPS (KES)	2.2	8%	2.3	20%	2.8	21%	3.4	16%	-3%
Consensus		6%	2.3	16%	2.7	19%	3.2	13%	
DPS (KES)	1.00	0%	1.00	20%	1.20	18%	1.42	12%	8%
Consensus		0%	1.00	16%	1.16	8%	1.26	8%	

Source: Investec Securities estimates / Thomson Reuters consensus estimates – 03 Feb 2020

Equity Group Limited earnings and estimates

Figure 15: Equity Group summary financials

Income Statement (KES'bn)	FY18	YOY % Δ	FY19e	YOY % Δ	FY20e	YOY % Δ	FY21e	3yr FWD CAGR	3yr HIST CAGR
Net interest income	41.4	6%	44.0	22%	53.5	18%	62.9	15%	7%
Consensus		8%	44.8	30%	58.4	24%	72.3	20%	
Non-interest income	25.9	16%	30.1	16%	34.8	12%	39.0	15%	6%
Consensus		16%	30.1	16%	34.8	12%	39.0	15%	
Income	67.3	10%	74.0	19%	88.3	15%	101.9	15%	6%
Consensus		9%	73.3	24%	91.3	21%	110.4	18%	
Impairment Charge	(3.7)	-20%	(3.0)	71%	(5.1)	15%	(5.9)	16%	15%
Consensus		11%	(4.1)	45%	(6.0)	20%	(7.2)	25%	
Expense	(35.1)	8%	(37.9)	9%	(41.4)	9%	(45.3)	9%	6%
Consensus		3%	(36.0)	16%	(41.8)	18%	(49.3)	12%	
Other	-	0%	-	0%	0.0	-100%	-	0%	0%
Tax	(8.6)	15%	(10.0)	26%	(12.5)	21%	(15.2)	21%	9%
Consensus		9%	(9.4)	34%	(12.7)	25%	(15.8)	22%	
Profit After Tax	19.8	17%	23.2	26%	29.2	21%	35.5	21%	5%
Consensus		3%	20.4	15%	23.5	15%	26.9	11%	

Balance Sheet (KES'bn)									
Advances (Net)	297	24%	368	16%	425	15%	487	18%	3%
Consensus		20%	357	25%	447.32	21%	540.80	22%	
Customer deposits	423	15%	486	13%	549	13%	621	14%	12%
Consensus		16%	492.4	16%	570.8	16%	662.2	16%	

Per share statistics									
Dil. HEPS (KES)	5.2	17%	6.1	26%	7.7	21%	9.3	21%	4%
Consensus		13%	5.9	33%	7.8	23%	9.7	23%	
DPS (KES)	2.00	12%	2.25	37%	3.08	21%	3.73	23%	0%
Consensus		9%	2.17	20%	2.60	23%	3.21	17%	

Source: Investec Securities estimates / Thomson Reuters consensus estimates – 03 Feb 2020

For full disclosures about any company mentioned herein, please visit:
<https://securities.investec.com/research/library/gl/market/all/research/published>

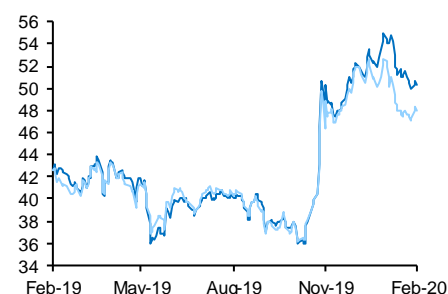
Equity Group Holdings Ltd (EQTY.NR)

	HOLD		Summary Financials		Year end: 31 December				
	KES	USD	(KESm)		2017	2018	2019E	2020E	2021E
Price:	50.25	0.5	Income Statement						
Target Price:	52.20	0.50	Net interest income		37,568.0	41,422.2	43,967.7	53,486.6	62,891.9
Forecast Total Return:	10.1%	5.4%	Other operating income		27,592.0	25,861.4	30,072.3	34,812.2	39,001.2
Market Cap:	190bn	2bn	Total operating income		65,160.0	67,283.6	74,039.9	88,298.9	101,893.1
Average daily volume:		3m	Net insurance claims		0.0	0.0	0.0	0.0	0.0
			Net operating income pre impairments		65,160.0	67,283.6	74,039.9	88,298.9	101,893.1
			Impairments		(3,431.0)	(3,713.5)	(2,977.9)	(5,079.2)	(5,864.7)
			Net operating income		61,729.0	63,570.0	71,062.0	83,219.6	96,028.5
			Expenses		(34,848.0)	(35,107.1)	(37,860.3)	(41,443.4)	(45,307.1)
			Operating income		26,881.0	28,462.9	33,201.8	41,776.2	50,721.4
			JVs and associates		0.0	0.0	0.0	0.0	0.0
			Profit before tax pre-exceptionals		26,881.0	28,462.9	33,201.8	41,776.2	50,721.4
			Exceptionals		0.0	0.0	0.0	0.0	0.0
			Profit before tax		26,881.0	28,462.9	33,201.8	41,776.2	50,721.4
			Tax		(7,965.0)	(8,639.0)	(9,960.5)	(12,532.9)	(15,216.4)
			Profit after tax		18,916.0	19,823.9	23,241.2	29,243.4	35,505.0
			Minorities/Preference dividends		(49.0)	(133.3)	(180.8)	(227.4)	(276.1)
			Profit attributable		18,867.0	19,690.7	23,060.5	29,015.9	35,228.8
			EPS (reported)		5.0	5.2	6.1	7.7	9.3
			DPS (KSh)		2.0	2.0	2.2	3.1	3.7
			Average number of group shares (m)		3,774.0	3,774.0	3,774.0	3,774.0	3,774.0
			Total number of shares in issue (m)		3,774.0	3,774.0	3,774.0	3,774.0	3,774.0
			Balance sheet						
			Customer loans		279,092.0	297,226.9	368,121.3	425,343.9	487,176.6
			Customer deposits		373,143.0	422,758.5	486,172.3	549,374.7	620,793.4
			RWAs		444,103.0	493,817.2	582,154.8	667,613.9	763,824.7
			Core tier 1 capital ratio (%)		19.7	15.9	17.3	17.5	18.0

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Price performance



	1m	3m	12m
Price	(8.6)	5.5	18.1
Price rel to MSCI africa frontier index	(9.0)	3.2	12.7

Source: FactSet

Source: Company accounts, Investec Securities estimates

KCB Group PLC (KCB.NR)

BUY			Summary Financials		(KESm)		Year end: 31 December				
	KES	USD	Income Statement	2017	2018	2019E	2020E	2021E			
Price:	51.5	0.51	Net interest income	48,384.8	48,830.5	52,966.2	59,801.0	68,222.7			
Target Price:	58.70	0.55	Other operating income	23,000.0	22,973.6	28,446.8	33,558.9	37,421.3			
Forecast Total Return:	22.2%	15.9%	Total operating income	71,384.8	71,804.1	81,413.0	93,359.9	105,644.0			
Market Cap:	165bn	2bn	Net insurance claims	0.0	0.0	0.0	0.0	0.0			
Average daily volume:		1.6m	Net operating income pre impairments	71,384.8	71,804.1	81,413.0	93,359.9	105,644.0			
			Impairments	(5,914.0)	(2,944.4)	(9,660.8)	(7,515.5)	(8,430.6)			
			Net operating income	65,470.8	68,859.7	71,752.2	85,844.4	97,213.3			
			Expenses	(36,358.0)	(35,000.9)	(37,141.6)	(43,968.4)	(45,158.8)			
			Operating income	29,112.8	33,858.8	34,610.6	41,876.0	52,054.5			
			JVs and associates	0.0	0.0	0.0	0.0	0.0			
			Profit before tax pre-exceptionals	29,112.8	33,858.8	34,610.6	41,876.0	52,054.5			
			Exceptionals	0.0	0.0	0.0	0.0	0.0			
			Profit before tax	29,112.8	33,858.8	34,610.6	41,876.0	52,054.5			
			Tax	(9,409.0)	(9,863.9)	(10,383.2)	(12,562.8)	(15,616.4)			
			Profit after tax	19,703.8	23,995.0	24,227.4	29,313.2	36,438.2			
			Minorities/Preference dividends	0.0	0.0	0.0	0.0	0.0			
			Profit attributable	19,703.8	23,995.0	24,227.4	29,313.2	36,438.2			
			EPS (reported)	6.4	7.8	7.5	9.1	11.3			
			DPS (KSh)	3.0	3.5	3.5	4.1	5.2			
			Average number of group shares (m)	3,066.0	3,066.0	3,213.0	3,213.0	3,213.0			
			Total number of shares in issue (m)	3,066.0	3,066.0	3,213.0	3,213.0	3,213.0			
Target Price Basis			Balance sheet	2017	2018	2019E	2020E	2021E			
Valuation using a Gordon Growth Model. We base the target price on a terminal value and add back the value of all dividends in order to account for all expected cash flows to the investor. To calculate the terminal value, we calculate the 3 year expected book value by the expected terminal P/B multiple. We base the terminal value on a standard Gordon Growth equation, using an adjusted historic ROE, growth factor and the cost of equity.			Customer loans	422,685.0	455,880.3	515,424.7	586,606.3	662,322.6			
			Customer deposits	499,549.0	537,459.6	680,423.9	734,857.8	793,646.4			
			RWAs	554,302.9	607,822.8	728,635.7	809,356.8	887,976.5			
			Core tier 1 capital ratio (%)	15.4	18.1	15.6	15.8	16.6			
Key Risks											
1. Earlier than expected and blunt implementation of banking legislation/regulation. 2. Systematic risks linked to lower sector profitability 3. Macro volatility exposure on the regional book 4. Slower than anticipated asset growth due to unfavourable asset pricing											

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Price performance



	1m	3m	12m
Price	(6.4)	1.0	25.5
Price rel to MSCI africa frontier index	(6.8)	(1.4)	18.6

Source: FactSet

Source: Company accounts, Investec Securities estimates

The Co-Operative Bank Of Kenya Limited (COOP.NR)

BUY			Summary Financials		(KESm)		Year end: 31 December			
	KES	USD	Income Statement	2017	2018	2019E	2020E	2021E		
Price:	15.15	0.15	Net interest income	28,105.0	30,784.7	28,352.9	32,121.2	36,849.7		
Target Price:	17.30	0.16	Other operating income	13,492.0	12,893.5	18,968.2	22,014.4	24,267.6		
Forecast Total Return:	22.3%	16.0%	Total operating income	41,597.0	43,678.3	47,321.1	54,135.6	61,117.4		
Market Cap:	89bn	1bn	Net insurance claims	5.0	6.0	7.0	8.0	8.0		
Average daily volume:		882k	Net operating income pre impairments	41,602.0	43,684.3	47,328.1	54,143.6	61,125.4		
			Impairments	(3,601.0)	(1,840.7)	(2,795.6)	(3,505.6)	(3,969.5)		
			Net operating income	38,001.0	41,843.5	44,532.5	50,638.0	57,155.8		
			Expenses	(21,726.0)	(23,851.8)	(24,937.3)	(27,033.6)	(28,553.4)		
			Operating income	16,275.0	17,991.7	19,595.2	23,604.4	28,602.5		
			JVs and associates	130.0	171.4	28.8	34.7	42.0		
			Profit before tax pre-exceptionals	16,400.0	18,157.1	19,616.9	23,631.1	28,636.5		
			Exceptionals	0.0	0.0	0.0	0.0	0.0		
			Profit before tax	16,400.0	18,157.1	19,616.9	23,631.1	28,636.5		
			Tax	(4,993.0)	(5,424.6)	(5,885.1)	(7,089.3)	(8,591.0)		
			Profit after tax	11,407.0	12,732.5	13,731.9	16,541.8	20,045.6		
			Minorities/Preference dividends	0.0	0.0	0.0	0.0	0.0		
			Profit attributable	11,407.0	12,732.5	13,731.9	16,541.8	20,045.6		
			EPS (reported)	1.9	2.2	2.3	2.8	3.4		
			DPS (KSh)	0.8	1.0	1.0	1.2	1.4		
			Average number of group shares (m)	5,867.0	5,867.0	5,867.0	5,867.0	5,867.0		
			Total number of shares in issue (m)	5,867.0	5,867.0	5,867.0	5,867.0	5,867.0		
			Balance sheet	2017	2018	2019E	2020E	2021E		
			Customer loans	253,861.0	245,410.3	279,867.1	320,202.8	363,993.1		
			Customer deposits	287,371.7	306,117.0	333,667.6	370,371.0	411,111.8		
			RWAs	359,980.7	370,529.0	429,048.7	465,627.0	502,599.6		
			Core tier 1 capital ratio (%)	15.8	16.5	14.9	15.7	16.7		

Target Price Basis

Valuation using a Gordon Growth Model. We base the target price on a terminal value and add back the value of all dividends in order to account for all expected cash flows to the investor. To calculate the terminal value, we calculate the 3 year expected book value by the expected terminal P/B multiple. We base the terminal value on a standard Gordon Growth equation, using an adjusted historic ROE, growth factor and the cost of equity.

Key Risks

1. Earlier than expected and blunt implementation of banking legislation/regulation. 2. Systematic risks linked to lower sector profitability 3. Macro volatility exposure on the regional book 4. Slower than anticipated asset growth due to unfavourable asset pricing

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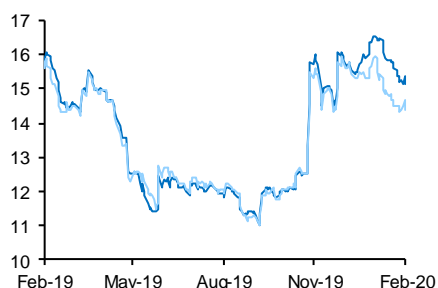
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Price performance



	1m	3m	12m
Price	(8.5)	(3.8)	(2.9)
Price rel to MSCI africa frontier index	(8.9)	(5.9)	(7.3)

Source: FactSet

Source: Company accounts, Investec Securities estimates

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Stock ratings for European/Hong Kong stocks

	Expected total return 12m performance	Count	All stocks % of total	Corporate stocks	
				Count	% of total
Buy	greater than 10%	213	68%	95	45%
Hold	0% to 10%	75	24%	6	8%
Sell	less than 0%	23	7%	0	0%

Source: Investec Securities estimates

Stock ratings for Indian stocks

	Expected total return 12m performance	Count	All stocks % of total	Corporate stocks	
				Count	% of total
Buy	greater than 15%	80	56%	1	1%
Hold	5% to 15%	50	35%	0	0%
Sell	less than 5%	14	10%	0	0%

Source: Investec Securities estimates

Stock ratings for African* stocks

	Expected total return 12m performance	Count	All stocks % of total	Corporate stocks	
				Count	% of total
Buy	greater than 15%	33	50%	7	21%
Hold	5% to 15%	19	29%	3	16%
Sell	less than 5%	14	21%	2	14%

Source: Investec Securities estimates

*For African countries excluding South Africa, ratings are based on the 12m implied US dollar expected total return (ETR). This is derived from the expected local currency (LCY) ETR by making assumptions on the 12month forward exchange rates for the respective currencies. For South African stocks, ratings are based on the ETR in rand terms.

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Company disclosures

Equity Group Holdings Ltd

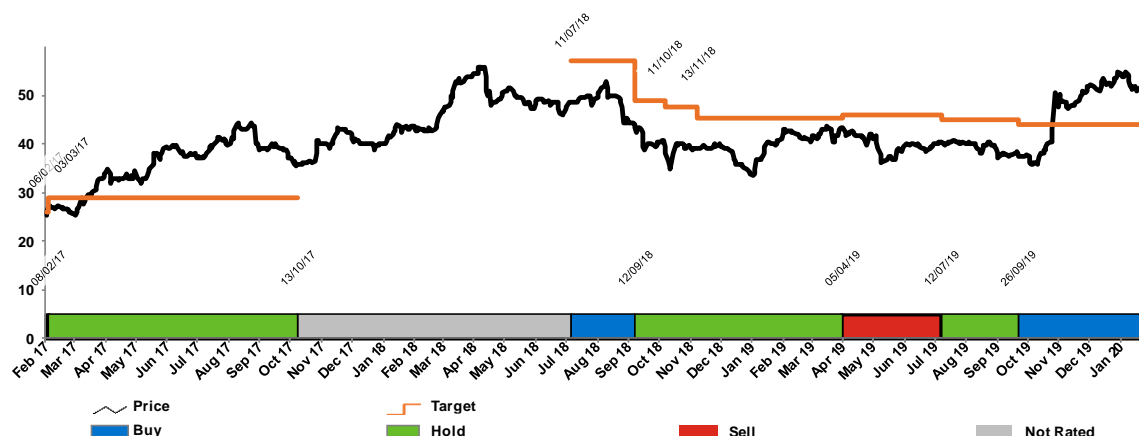
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The Co-Operative Bank Of
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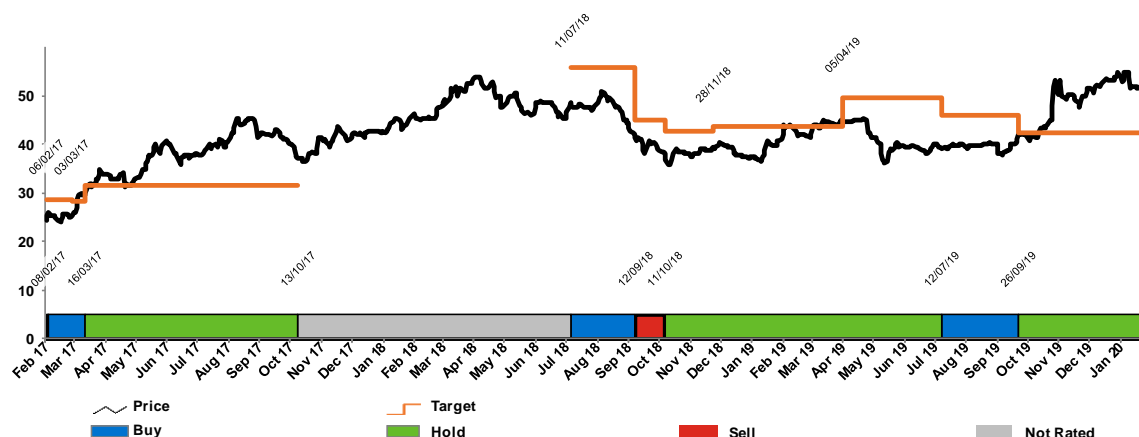
Recommendation history (for the last 3 years to previous day's close)

Equity Group Holdings Ltd (EQTY.NR) – Rating Plotter as at 05 Feb 2020



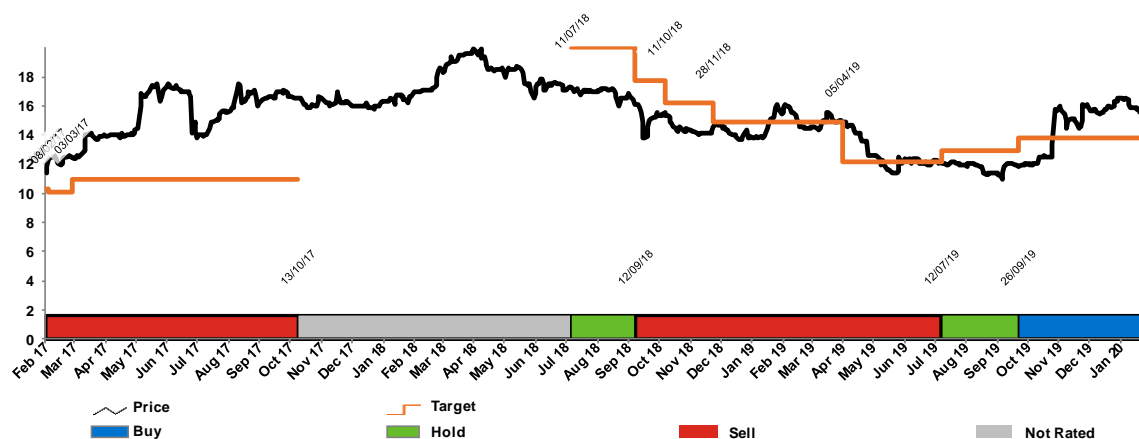
Source: Investec Securities / FactSet

KCB Group PLC (KCB.NR) – Rating Plotter as at 05 Feb 2020



Source: Investec Securities / FactSet

The Co-Operative Bank Of Kenya Limited (COOP.NR) – Rating Plotter as at 05 Feb 2020



Source: Investec Securities / FactSet

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