



Centum Investment sells 83.41% Stake in Sidian Bank

On Wednesday 8th June 2022, Centum Investment Company Plc announced that it has entered into a binding agreement with Access Bank Plc regarding a proposed purchase by Access Bank of Centum's entire equity stake in Sidian Bank Limited. Access Bank is a wholly owned subsidiary of Nigeria's largest lender, Access Holdings Plc. Currently, Centum holds **83.41%** of the issued shares of Sidian, directly in its own name (2.25% ownership of 98,99 shares) and indirectly through its wholly owned subsidiary, Bakki Holdco Limited (81.16% ownership of 3,564,388 shares). The transaction value is estimated at a total sum of **KES 4.30Bn**, where we expect might vary as the deal moves to later stages.

Good Deal or right time to exit? - The transaction comes in at a P/B multiple of **1.1x** which is 41.02% above the current average P/B for listed banks which is at **0.77x**. Additionally, if we consider the carrying value of **KES 2.78Bn** as at September 2021 the transaction value is a 54.79% higher. However, we view the sale as an exit from an investment where Centum could no longer derive value as the cumulative investment cost is **KES 4.77Bn**. Notably, we have no records of a dividend payment across the holding period and with the bank needing further capital injection following a **KES 180.00Mn** rights issue follow on investment in 1H'22.

Portfolio Rebalancing driven by exits - With the sale happening, we continue to see a mismatch between exits and acquisitions/new businesses across Centum's portfolio. The pandemic environment has made the deal climate unattractive more so for acquisition with our estimates been that Centum is looking to grow the marketable securities allocation, pay up some of the debt and build a cashflow war chest for when an attractive deal comes up. We do not foresee the exit shifting dynamics in terms of portfolio constitution as Real estate continue to make up 49.26% of total portfolio similar to September 2021. We suspect the gloomy outlook on the real estate market could be one of the driving factors of a poor sentiment on the counter as it has lost 32.77% and 40.75% on a YTD and LTM basis.

Access Bank's local consolidation - We expect that, if the deal is completed, Sidian will be merged with Access Bank's subsidiary in Kenya to create a larger entity with a balance sheet of **KES 57.19Bn**. As per Q1'22, Sidian had 54 branches while Access Bank has 28 branches, meaning they will have a combined branch network of 82 branches across the country. However, some branches might be casualties of proximity with closures expected while new locations might call for additional branches.

Table 1: Centum 5 – year Historical Exits

Year	Company	Stake	Investment (KES Bn)	Exit Proceeds (KES Bn)	Exit Multiple
2017	Kenya Wines Agencies Ltd	26.40%	0.30	1.10	3.20x
2018	Platcorp Holdings Ltd	25.00%	Undisclosed	1.40	Undisclosed
2019	GenAfrica	73.40%	1.10	2.30	1.90x
2020	Almasi Beverages Ltd	54.00%	0.70	10.70	1.00x

Table 2 : Q1'22 Results Analysis

Unaudited Financials	Sidian Bank Q1'22 (KES Mn)	y/y Growth	Access Bank Q1'22 (KES Mn)	y/y Growth
Interest income from loans	655.79	13.82%	85.63	-22.86%
Interest income from Gov't securities	313.40	65.50%	146.51	52.27%
Interest income	971.96	26.36%	266.62	22.18%
Interest expense	604.16	39.20%	102.25	141.46%
Net Interest Income	366.80	9.69%	164.37	-6.54%
Total non-interest income	445.39	18.21%	201.20	100.23%
Loan loss provision	95.00	153.35%	0	-100.00%
Total operating income	812.19	14.20%	365.56	32.28%
Total operating expenses	644.55	17.53%	256.86	34.86%
PBT	167.64	2.99%	108.71	26.57%
PAT	117.35	2.99%	108.71	26.57%
Loans and advances	23,317.91	13.31%	3,352.95	9.22%
Deposit liabilities	26,747.97	15.94%	9,227.56	29.48%
Gross NPL	2,835.46	17.93%	164.62	6.06%

Source: Company Releases, AIB-AXYS

Below are key observations from two banks Q1'22 unaudited results:

- **Net Interest Income** – Sidian's NII grew faster (+9.69% y/y) compared to Access Bank's decline (-6.54%) better performance from Sidian was driven by a 6.50% y/y growth in interest from government securities despite a rise in cost of deposit mobilization. Access bank recorded a decline interest from loans and higher cost of deposits. Sidian YIEA was at 6.57% while Access was at 2.98% with expensive deposits causing margin pressure.
- **Non- Interest Income** – Access bank doubled the non-funded income to **KES 200.20Mn** driven by foreign exchange gains compared to Sidian bank's growth (+18.21% to **KES 445.39Mn**). Continued use of alternative channels has seen players in the banking sector continue diversifying their sources of non-interest income.
- **Loan Loss provisioning** – Sidian went against industry practice by raising the loan loss provisioning by 153.35% y/y to **KES 95.00Mn** at a time when sector players are reducing provisioning after risks posed by the pandemic continue to fade. Access Bank maintained a zero provision despite the gross NPLs increasing 6.06% y/y.
- **Profit After Tax** – Access recorded the higher growth (+26.57%) in net income to **KES 108.71Mn** against Sidian's **KES 117.35 Mn** (+2.99% y/y growth), despite a higher increase in operating expenses. On an ROE basis Access has a higher 6.56% compared to Sidian's 2.40%. However, this was still below the listed bank's average of 17.43%.
- **Loans and Deposits** - Sidian had the higher growth in both Loans and also deposits as it is also larger in terms of branch network. Both will have a combined loan book and customer deposits of **KES 26.67Bn** and **KES 35.97Bn**, respectively, taking the combined loan to deposit ratio to 74.15%.
- **Asset Quality** - NPL ratio for both was below the current industry average of 14.10% with Sidian at 12.16% with Access at a healthy 4.90%. However, both recorded growths in Gross NPLs with Sidian at 17.93% to **KES 2.83Bn** compared to Access Bank's 6.06% increase to **KES 164.62Mn**.

Graph 1: Centum 1-Year Share Price Movement



Source: NSE, AIB-AXYS Analyst Estimates

How will the divestiture from Sidian affect Centum?

- Sidian was part of Centum’s focus to exit the low and non-dividend paying assets in order to invest the proceeds to higher cash flow generating assets and debt redemption
- We foresee the sale of its stake in Sidian means Centum continues to build its liquidity. The cash from the transaction allocated to partly offset Centum’s outstanding borrowings of **KES 26.13Bn** as at 1H’22, while the rest will be invested in cash generating assets such as marketable securities which stood at **KES 7.89Bn** in 1H’22, in line with Centum 4.0 Strategy. We believe that economic pressure from the pandemic is likely to expose high quality and relatively cheap targets across various sectors which Centum can accumulate.
- Following the announcement the counter has lost 4.90% to trade at **KES 9.51**. The company continues to trade at below the Net Asset Value (NAV) with the current price been a 84.68% discount from the **KES 62.09 NAV** as at 1H’22. Sidian was contributing around 6.80% to the total NAV and investors might be pricing-in the exit. Therefore, we maintain our **SELL** recommendation, in the near term, as we monitor the company’s performance in the coming reporting cycles.

Positioning in the banking sector in Kenya?

- Both Sidian and Access Bank are currently tier-three banks and the combination will see the merger become the largest tie-three lender with **KES 57.19Bn** worth of assets and a loan book of **KES 26.67Bn**. However, we do not expect any significant change in market share as the new entity will struggle to wrestle market share from Tier I and Tier II lenders. Acquisition of Sidian is a follow up to the acquisition of Transnational bank earlier in 2019 which paved way for entry into the Kenyan market.
- Access Bank Group Plc is one of the largest banks in Nigeria with a balance sheet of **KES 3.30Tn** and operations in 23 other markets across several continents. Therefore, we expect a major capital injection in the new entity .
- Market dynamics pressure brought by increased regulation, tough operating environment and the pandemic have created an increased need for consolidation among Kenya’s smaller lenders. We are likely to continue seeing further acquisitions and consolidations as banking sector players seek larger and more capital stable institutions.

Table 3 : Centum’s Remaining Portfolio

Sector	Company	Stake (%)
Financial Services	NABO Capital	100.00%
	ZOHARI Leasing	100.00%
Education	Longhorn Publishers	60.20%
Manufacturing	ISUZU East Africa	17.82%
Real Estate	Centum RE	100.00%
	Two Rivers	58.33%
Catering and Hospitality	NAS SERVAIR	15.00%
Security	Tribus	80.00%
Agriculture	Greenblade Growers Ltd	100.00%
Power	Akiira Geothermal	38.00%
Information Technology	TierData	100.00%

Source: Centum H1’22 Results



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