	BARAKA Capital Ltd RSE Member in association with **Hartland-Peel** **Africa Equity Research**	**E-mail:** **Telephone:** **Website:** **E-mail:** **Telephone:**	dgathaara@barakacapital.com research@barakacapital.com +250 788 381130 or +250 255 120337 www.hartland-peel.com christopher.hartland-peel@hartland-peel.com +44 (0) 208 502 0102

RWANDA — BANK OF KIGALI

Prepared by: Christopher W. Hartland-Peel

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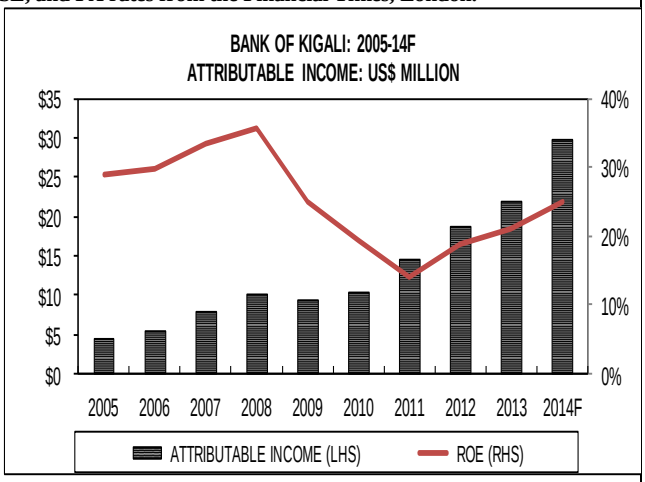
Q1 2014 earnings up 40% to RWF 4.9bn (US$7.2m). P/E 12.8, P/B 2.73 times.
FY2014 earnings forecast up 36% to RWF 20.1bn (US$29.5m). P/E 10.3, P/B 2.56 times.

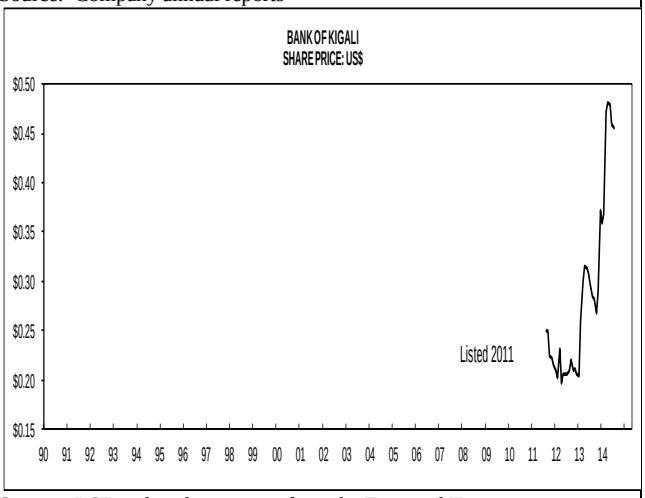
KEY COMPANY INFORMATION		
Listed	Rwanda	
Market capitalisation	US$304m	
Main shareholders	Govt of Rwanda RSSB Public	30% 33% 37%
Year end	December	
Sector	Commercial bank	
FX rate to US$	RWF 681	

SHARE INFORMATION		
P/E:12 month trailing		12.8 times
Dividend yield		4.8%
Dividend cover		2.00 times
Price/Book		2.73 times
Share price June 11, 2014	RWF	310
	US$	$0.46

Sources: All information, graphs, tables and data have been sourced from company annual/interim reports, share prices from the Rwanda SE, and FX rates from the Financial Times, London.



Source: Company annual reports



Source: RSE and exchange rates from the Financial Times.

Q1 2014: 3 MONTH EARNINGS HIGHLIGHTS

- **Bank of Kigali's three month attributable earnings to March 2014 were up 40% at RWF 4.9bn (US$7.2m).**
- **Highlights were:**
  - **(i) Net interest margin/total assets down 50bp at 8.5% on loans & advances up 6%.**
  - **(ii) Loan charge-off rate 2.7% vs 3.1%.**
  - **(iii) NPL's stable at 6.9%.**
  - **(iv) Cost/income ratio improved to 46.6% vs 48.3%.**
  - **(v) Other income/net interest income down 1pp at 54%.**
  - **(vi) Tax charge of 22% vs 21%.**
- **<u>Recommendation</u>: UNDERVALUED. Bank of Kigali has a forecast Price/Book ratio of 2.56 times and with its 25% ROE looks undervalued compared with its peers. We see value to RWF 400, up 29%.**

Valuation Drivers		
FY2014F earnings growth	Yes	Up 36%
FY2014F ROE	Yes	Up 4pp to 25%
Forecast P/B relative to ROE	Neutral	Premium to sector
FY2014F dividend growth	Yes	Up 36%

- **<u>Issues/Comments</u>:**
  - (i) **<u>Disclosure</u>:** Good quarterly reporting by Bank of Kigali.
  - (ii) **<u>Interest rates</u>:** Interest rates stable.
  - (iii) **<u>Rwanda sovereign bond issue</u>:** This gives comfort to investors for the medium-term.
- **<u>Forecast Assumptions</u>:**

December year end	2012	2013	2014F
Rwanda GDP growth (IMF)	8.0%	5.0%	7.5%
Loan growth	50%	7%	18%
Total asset growth	12%	31%	20%
Net interest income/total assets	7.4%	8.3%	8.0%
Bad debt charge-off rate	2.0%	4.6%	3.3%
Cost/income ratio	52.8%	48.3%	47.0%
Tax rate	19%	21%	20%
Dividend payout ratio	50%	50%	50%

- **<u>Impact</u>:** Attributable earnings to rise 36% and the ROE to increase 4pp to 25%. This is above both the cost of capital (15%) and inflation (5%).
- The Rwanda macro-environment is supportive with IMF annual GDP growth forecast at 7.5% to 2018.

Strengths	Weaknesses
• Rwanda's biggest bank with good branch & ATM network. • Improving ROE. • Operating expenses in Q1 2014 up 21% vs 25% income growth. • Increased loan growth forecast for 2014 (18% vs 7% in 2013).	• Operating expenses have increased 36% CAGR over last 5 years vs 30% for operating income. • Non-interest income declining in % terms since 2012.
Opportunities	**Threats**
• Good country GDP growth, rising per capita incomes and regional growth opportunities.	• Competition with the arrival of both Kenyan and Nigerian banks.

Bank of Kigali: Company and Sector

Q1 2014 income statement and key operating ratios.

1. Q1 2014 Earnings Highlights

	Q1 2013	Q! 2014
Interest income	9,600	12,400
Interest expense	2,000	2,800
	7,600	9,600
Bad debt charge	1,700	1,600
	5,900	8,000
Other income	4,200	5,200
Operating expenses	5,700	6,900
Income before tax (ZKw million)	4,400	6,300
Taxation	900	1,400
Effective tax rate	20.5%	22.2%
Attributable to shareholders	3,500	4,900
Bad debt charge off to loans & advances	3.1%	2.7%
Growth of loans & advances		6.0%
Growth of total assets		34.9%
Cost/income ratio	48.3%	46.6%
Other income/net interest income	55.3%	54.2%
Operating expenses/total assets	6.8%	6.1%
Net interest income/total assets	9.0%	8.5%
Shareholders equity	64,900	75,800
Long-term debt	16,400	41,200
Loans & advances	208,800	221,400
Provisions for bad debts	10,400	15,200
Provisions/loans & advances	4.7%	6.4%
Deposits	213,800	296,800
Loans & advances/deposits	97.7%	74.6%
Loans & advances/total assets	62.1%	48.8%
Fixed assets	21,600	20,300
Total assets	336,400	453,900
Shareholders equity	$102	$111
Total assets (US$ million)	$529	$667
Loans & advances (US$ million)	$328	$325
Deposits (US$ million)	$336	$436
Capital adequacy	21.8%	25.6%

Bad debt charge-off down sharply.

Cost/income ratio down to 46.6%.

Net interest income/total asset margin down to 8.5%.

Total assets up 34% over Q1 2013.

25% capital adequacy.

Future prospects and impact of performance exceeding forecast assumptions.

Impact of change in net interest margin.

Impact of change in cost/income ratio.

2. For investors, we believe Bank of Kigali's stock market performance will be a blend of possibly conflicting issues. Amongst these are:

	Event	Sensitivity impact
2.1	**Net Interest margin** Bank of Kigali's Q1 2014 net interest margin/total assets was 8.5% vs 8.3% for all of 2013. We are assuming for our forecast a margin of 8.0%. Should the net interest/total assets margin remain higher than the 8.0% we have used in the forecast this will be positive.	A 0.1% increase of the net interest margin/total assets ratio is worth RWF 510m (US$0.75m) increasing the forecast EPS to RWF 30.59, up 38% (vs 36% in the forecast).
2.2	**Cost/income ratio** Bank of Kigali's operating costs in Q1 2014 rose less than operating income at 21% vs 25%. However, over the five years to 2013 operating expenses rose at a compound rate of 36% vs a 31% increase of operating income. Should the Q1 2014 lower operating expense growth continue, this will be positive.	A 1% decline of the cost/ income ratio is worth RWF 600m (US$0.9m) increasing the forecast EPS to RWF 30.84, up 39% (vs 36% in the forecast).

2.3	**Bad debts & loan loss charge-off** The Q1 2014 loan loss charge-off rate was 2.7%, significantly below the 3.1% in Q1 2013. In our forecast assumptions we assume a loan charge-off rate of 3.3%.	A 0.1% decline in the loan loss charge-off rate in our forecast reduces the bad debt charge-off by RWF 250m (US$0.3m) increasing the forecast EPS to RWF 30.39, up 37% (vs 36% in the forecast).

Impact of change in loan loss charge-off.

Largest bank in Rwanda.

3. Bank of Kigali is the largest bank in Rwanda, and one of three Rwandan controlled banks which collectively have 58% of Rwanda's banking assets. Bank of Kigali has:
   - 3.1. 33% total banking assets.
   - 3.2. 32% of loans.
   - 3.3. 29% of deposits.

Kenyan and Nigerian banks operational in Rwanda.

4. Foreign banks, which have 42% of banking assets, include:
   - 4.1. Kenya: KCB, Equity Bank & I&M Bank.
   - 4.2. Nigeria: Access Bank and Guaranty Trust Bank.
   - 4.3. Pan African: ETI.

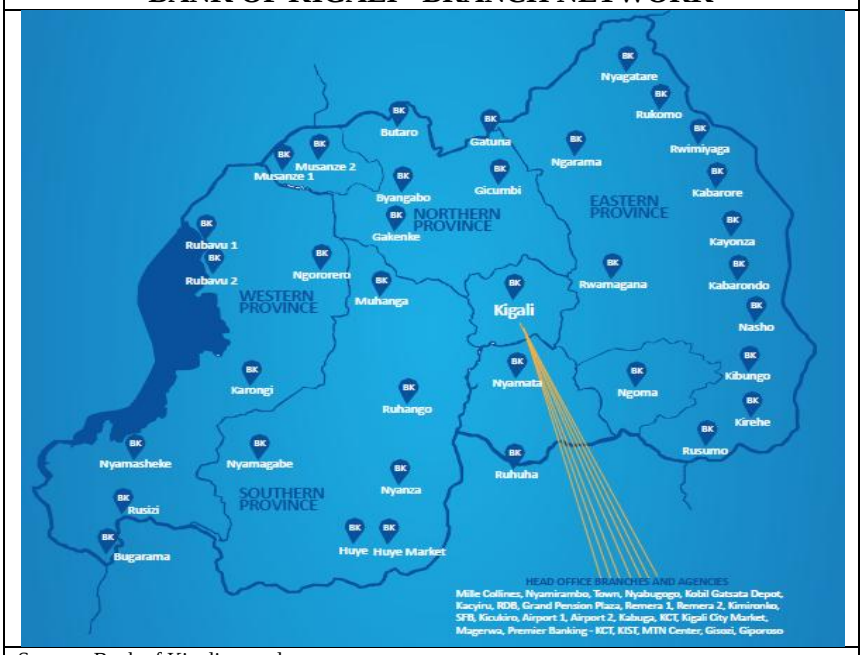
100% of earnings are generated in Rwanda.

5. Bank of Kigali is primarily a Rwandan bank with 100% of earnings generated in Rwanda. It has recently opened a representative office in Nairobi, Kenya.

Branch & ATM network.

6. Bank of Kigali has 66 branches and 65 ATM's.

BANK OF KIGALI - BRANCH NETWORK



Source: Bank of Kigali annual report.

Bank of Kigali has an A1+ rating from GCR of South Africa.

7. Bank of Kigali has a short-term A1+ and long-term AA- credit rating from Global Credit Rating of South Africa.

25% capital adequacy.

8. 25% capital adequacy. This can be regarded as high and permits a high single obligor limit.

NPL's as a % of loans are trending down.

9. Non-performing loans have been declining modestly since 2010 and at December 2013 were circa 7% of loans and advances with a provisioning level of 88%.

	2010	2011	2012	2013	2014F
Non-performing loans - gross	9,003	10,893	12,608	14,621	17,175
As % of total loans	8.5%	8.3%	6.5%	6.9%	6.9%
Bad debt provisions/NPL's	45.8%	69.1%	70.7%	88.2%	82.0%

Source: Bank of Kigali annual reports. .

Loan charge-off rate stable at 3.5%.

10. The loan charge-off rate has averaged 3.1% over the past five years - 2013's loan charge-off rate was 4.3%. Q1 2014's charge-off rate was 2.7%.

Cost/income ratio 48%.

11. Bank of Kigali's 2013 cost/income ratio was 48% and compares favourably with regional banks. Q1 2014's cost/income ratio was 46.6%

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Capital raised in FY2011at IPO.

Strong Rwanda GDP growth but current a/c deficit. Inflation presently at a three year low.

CAGR over five years to 2013:
Net interest income: 30%.
Operating expenses: 36%.

Tax stable in the low 20% range.
Attributable income up 21% compound over 5 years to 2013.

Cost/income ratio low at 48%.

Shareholders' equity up 150% in four years.

Loan growth 20% compound since 2010.
Bad debts trending lower.

Capital adequacy at 25% (Q1 2014).
NPL's trending down.

Forecast 2014 P/E at 10.3.

Dividend cover maintained at 2.0 times.

Leverage rising modestly.
ROE rising.

Quarterly earnings rising with low volatility.

US$ earnings forecast to rise 35% in 2014 to US$30m.

RWANDA STOCK MARKET	BANK OF KIGALI				
Year end	December 2010	2011	2012	2013	2014F
Year end share price - Rwanda Fr	150	127	129	243	310
Increase	0.0%	-15.3%	1.6%	88.4%	27.6%
Year end share price (US$)	$0.25	$0.21	$0.20	$0.36	$0.46
Increase	-3.9%	-16.8%	-2.8%	76.0%	26.7%
Issued shares (million) - year end	0.046	667.3	667.3	667.3	667.3
		1 for 11,000 bonus IPO issue			
Issued shares (million) - weighted	500.5	566.1	667.3	667.3	667.3
Issued shares (million) - adjusted	500.5	667.3	667.3	667.3	667.3
Market capitalisation - RFr million	75,075	84,752	86,086	162,163	206,874
US$ exchange rate - period end	594	604	631	676	681
Market capitalisation - US$ million	$126.4	$140.3	$136.3	$239.9	$304.0
Rwanda macro data					
GDP growth (IMF)	7.2%	8.2%	8.0%	5.0%	7.5%
GDP per capita - US$ (IMF)	$562	$622	$681	$698	$741
Govt. budget surplus/(deficit) to GDP	0.4%	-1.9%	-1.7%	-2.5%	-3.1%
Current a/c surplus/(deficit) to GDP	-5.4%	-7.2%	-11.4%	-7.3%	-11.5%
Inflation rate	0.2%	8.3%	4.6%	4.6%	4.6%
Interest income	16,948	22,671	32,070	45,200	
Interest expense	4,197	6,076	8,339	10,000	
	12,751	16,595	23,731	35,200	40,550
Bad debt charge	1,802	4,594	3,647	9,100	8,214
	10,949	12,001	20,084	26,100	32,336
Other income	8,382	12,859	14,675	18,600	22,303
Operating expenses	10,649	14,207	20,292	26,000	29,541
Income before tax	8,682	10,654	14,467	18,700	25,098
Taxation	2,503	1,965	2,686	3,900	5,020
Effective tax rate	28.8%	18.4%	18.6%	20.9%	20.0%
Attributable to shareholders	6,179	8,689	11,781	14,800	20,079
Dividend	0	4,338	5,893	7,407	10,039
Bad debt charge off to loans & advances	1.7%	3.5%	1.9%	4.3%	3.3%
Growth of loans & advances	31.5%	21.4%	50.3%	7.5%	18.0%
Growth of total assets	30.2%	45.6%	12.1%	30.9%	20.0%
Cost/income ratio	50.4%	48.2%	52.8%	48.3%	47.0%
Other income/net interest income	65.7%	77.5%	61.8%	52.8%	55.0%
Operating expenses/total assets	5.4%	4.9%	6.3%	6.2%	5.8%
Net interest income/total assets	6.4%	5.8%	7.4%	8.3%	8.0%
Shareholders equity	31,870	61,584	63,107	70,800	80,839
Long-term debt	0	4,998	5,944	34,200	50,000
Loans & advances	101,403	123,130	185,066	199,000	234,820
Provisions for bad debts	4,124	7,532	8,910	12,900	14,089
Provisions/loans & advances	3.9%	5.8%	4.6%	6.1%	5.7%
Deposits	135,677	181,019	208,424	280,500	330,990
Loans & advances/deposits	74.7%	68.0%	88.8%	70.9%	70.9%
Loans & advances/total assets	51.3%	42.8%	57.3%	47.1%	46.3%
Fixed assets	18,313	19,554	21,627	21,000	23,000
Total assets	197,748	287,899	322,794	422,400	506,880
Shareholders equity	$54	$102	$100	$105	$119
Total assets (US$ million)	$333	$477	$511	$625	$745
Loans & advances (US$ million)	$171	$204	$293	$294	$345
Deposits (US$ million)	$228	$300	$330	$415	$486
Capital adequacy	20.1%	28.1%	22.4%	23.1%	24.0%
Non-performing loans - gross	9,003	10,893	12,608	14,621	17,175
As % of total loans	8.5%	8.3%	6.5%	6.9%	6.9%
Bad debt provisions/NPL's	45.8%	69.1%	70.7%	88.2%	82.0%
Period end P/E	12.2	8.3	7.3	11.0	10.3
Earnings per share - published	135,802	15.35	17.65	22.18	30.09
- adjusted	12.35	15.35	17.65	22.18	30.09
EPS growth	16.9%	24.3%	15.0%	25.6%	35.7%
Dividend per share - declared	0.00	6.50	8.83	11.10	15.04
- adjusted	0.00	6.50	8.83	11.10	15.04
Dividend growth	n.a.	n.m.	35.8%	25.7%	35.5%
Dividend yield	0.0%	5.1%	6.8%	4.6%	4.9%
Dividend cover	n.a.	2.00	2.00	2.00	2.00
Book value per share	64	92	95	106	121
Share price to book value	2.36	1.38	1.36	2.29	2.56
Return on total assets	3.1%	3.0%	3.6%	3.5%	4.0%
Leverage (total assets/equity)	6.2	4.7	5.1	6.0	6.3
ROE	19.4%	14.1%	18.7%	20.9%	24.8%
EARNINGS					
Q1	850	1,915	3,200	3,500	4,900
Q2	1,360	1,985	2,800	3,800	
H1	2,210	3,900	6,000	7,300	
Q3	1,861	1,900	2,900	3,500	
9 months	4,071	5,800	8,900	10,800	
Q4	2,108	2,889	2,881	4,000	
	6,179	8,689	11,781	14,800	19,600
EARNINGS PER SHARE					
Q1	1.70	2.87	4.80	5.24	7.34
Q2	2.72	2.97	4.20	5.69	
H1	4.42	5.84	8.99	10.94	
Q3	3.72	2.85	4.35	5.24	
9 months	8.13	8.69	13.34	16.18	
Q4	4.21	4.33	4.32	5.99	
	12.35	13.02	17.65	22.18	
Attributable income (US$ million)	$10.4	$14.4	$18.7	$21.9	$29.5
	12.3%	38.3%	29.7%	17.3%	34.8%

Sources: Company annual reports.

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The following Tables and Charts set out Bank of Kigali's position relative to listed Regional commercial banks.

EAST AFRICAN BANKS - SUMMARY AND ANALYSIS

Shares prices as of 06-Jun-14	Share price	Market cap US$ m	P/E Historic	---- Dividend --- Yield	Cover	Price/ book	Attrib earnings US$m	Shareholders equity US$m	Total assets US$m	Loans & advances US$m	Deposits US$m	Year end
RWANDA												
Bank of Kigali	310	306	14.1	3.6%	2.00	2.94	$22	$105	$625	$294	$415	Dec-13
KENYA												
Equity Bank	41.75	1,763	11.6	3.6%	2.39	3.00	$154	$597	$3,218	$1,986	$2,255	Dec-13
Barclays Kenya	16.50	1,022	11.8	4.2%	2.00	2.77	$88	$375	$2,396	$1,372	$1,751	Dec-13
KCB Bank	49.00	1,648	10.1	4.1%	2.43	2.26	$166	$741	$4,536	$2,639	$3,542	Dec-13
Standard Chartered Kenya	312.00	1,100	10.6	4.6%	2.03	2.89	$105	$387	$2,554	$1,503	$1,793	Dec-13
Coop Bank Kenya	21.50	1,027	9.9	2.3%	4.35	2.45	$105	$426	$2,679	$1,588	$2,033	Dec-13
I & M Holdings	131.00	586	10.3	1.9%	5.07	2.86	$55	$254	$1,636	$1,065	$1,126	Dec-13
Diamond Trust Bank	238.00	597	11.0	0.9%	10.29	2.50	$55	$243	$1,930	$1,286	$1,492	Dec-13
NIC Bank	59.50	368	10.0	1.7%	5.96	1.88	$35	$174	$1,258	$830	$968	Dec-13
CFC Stanbic	132.00	595	10.2	1.0%	9.53	1.61	$59	$376	$1,659	$1,203	$1,510	Dec-13
National Bank Kenya	30.00	96	20.1	0.7%	7.46	0.80	$5	$121	$780	$329	$641	Dec-12
Housing Finance Kenya	38.25	100	9.8	3.7%	2.80	1.71	$9	$60	$476	$352	$266	Dec-12
Total/Weighted average		$8,903	10.8	3.2%	3.93	2.54	$837	$3,754	$23,122	$14,151	$17,377	
UGANDA												
Stanbic Bank Uganda	35	710	17.6	4.5%	1.28	4.42	$40	$161	$1,285	$561	$709	Dec-13
DFC Uganda	1,230	121	10.0	3.0%	3.32	2.25	$11	$50	$372	$206	$220	Dec-12
Bank of Baroda Uganda	110	44	4.4	2.9%	7.88	0.82	$7	$29	$152	$58	$110	Dec-08
		$875					$59	$240	$1,809	$825	$1,039	
TANZANIA												
CRDB Bank	320	418	8.3	4.4%	2.77	1.85	$53	$237	$2,242	$1,256	$1,906	Dec-13
NMB	3,300	991	12.5	2.7%	2.94	3.50	$83	$297	$2,076	$1,028	$1,613	Dec-13
Dar Community Bank	480	20	4.8	5.8%	3.60	1.97	$2	$10	$63	$36	$41	Dec-11
		$1,429					$139	$544	$4,381	$2,320	$3,560	

Shares prices as of 06-Jun-14	Share price	Market cap US$ m	ROE	Leverage (assets/ equity)	Cost/ income ratio	Non-interest income to nterest income	Net Interest margin/ total assets	Loans/ total assets ratio	Loan loss provisions/ Total loans	NPL's/ Total loans	Capital adequacy	Year end
RWANDA												
Bank of Kigali	310	306	20.9%	6.0	48.3%	52.8%	8.3%	47.1%	6.1%	6.9%	23.1%	Dec-13
KENYA												
Equity Bank	41.75	1,763	25.8%	5.4	48.5%	58.0%	9.5%	61.7%	2.4%	4.8%	18.6%	Dec-13
Barclays Kenya	16.50	1,022	23.5%	6.4	52.9%	48.1%	9.1%	57.3%	2.4%	4.1%	16.6%	Dec-13
KCB Bank	49.00	1,648	22.4%	6.1	54.0%	51.9%	8.4%	58.2%	2.9%	8.4%	18.7%	Dec-13
Standard Chartered Kenya	312.00	1,100	27.2%	6.6	39.6%	42.8%	7.4%	58.8%	1.7%	5.2%	17.0%	Dec-13
Coop Bank Kenya	21.50	1,027	24.8%	6.3	59.5%	49.7%	8.1%	59.3%	3.3%	7.6%	15.7%	Dec-13
I & M Holdings	131.00	586	21.5%	6.4	37.9%	38.7%	6.3%	65.1%	2.0%	6.0%	16.9%	Dec-13
Diamond Trust Bank	238.00	597	22.7%	7.9	43.3%	30.7%	6.6%	66.6%	2.1%	0.8%	17.1%	Dec-13
NIC Bank	59.50	368	20.3%	7.2	42.5%	52.8%	5.1%	65.9%	2.4%	4.4%	15.6%	Dec-13
CFC Stanbic	132.00	595	15.8%	4.4	50.7%	114.8%	5.3%	72.5%	1.2%	9.9%	12.6%	Dec-13
National Bank Kenya	30.00	96	4.0%	6.4	75.4%	59.4%	7.1%	42.2%	5.3%	11.8%	27.3%	Dec-12
Housing Finance Kenya	38.25	100	14.5%	8.0	50.5%	14.6%	4.8%	74.0%	1.2%	7.6%	19.1%	Dec-12
Total/Weighted average		$8,903	23.2%	6.2	49.4%	52.9%	7.9%	56.4%	2.4%	6.0%	17.2%	
UGANDA												
Stanbic Bank Uganda	35	710	25.1%	8.0	59.8%	80.5%	7.6%	43.7%	2.7%	2.9%	16.7%	Dec-13
DFC Uganda	1,230	121	22.5%	7.4	51.2%	26.7%	8.3%	55.5%	2.9%	5.2%	17.0%	Dec-12
Bank of Baroda Uganda	110	44	24.0%	5.3	34.7%	35.9%	6.8%	38.2%	1.4%	1.6%	31.5%	Dec-08
		$875	24.7%	7.8	57.4%	70.8%	7.7%	45.0%	2.7%	3.2%	17.5%	
TANZANIA												
CRDB Bank	320	418	22.5%	9.5	57.0%	51.5%	6.6%	56.0%	1.7%	6.0%	14.5%	Dec-13
NMB	3,300	991	28.1%	7.0	52.4%	34.6%	10.0%	49.5%	2.1%	2.1%	22.0%	Dec-13
Dar Community Bank	480	20	19.7%	6.0	60.9%	11.0%	11.5%	57.8%	3.1%	3.6%	33.6%	Dec-11
		$1,429	26.3%	7.7	53.9%	39.2%	9.0%	51.5%	2.0%	3.2%	20.0%	

Sources: Company annual reports and country stock exchanges.

= P/E <10.0, Dividend yield >5%, Price/Book <1.50 times, ROE > 25%, Leverage < 5 times, Cost/income ratio < 50%, NPL's < 10%, Capital adequacy > 20%

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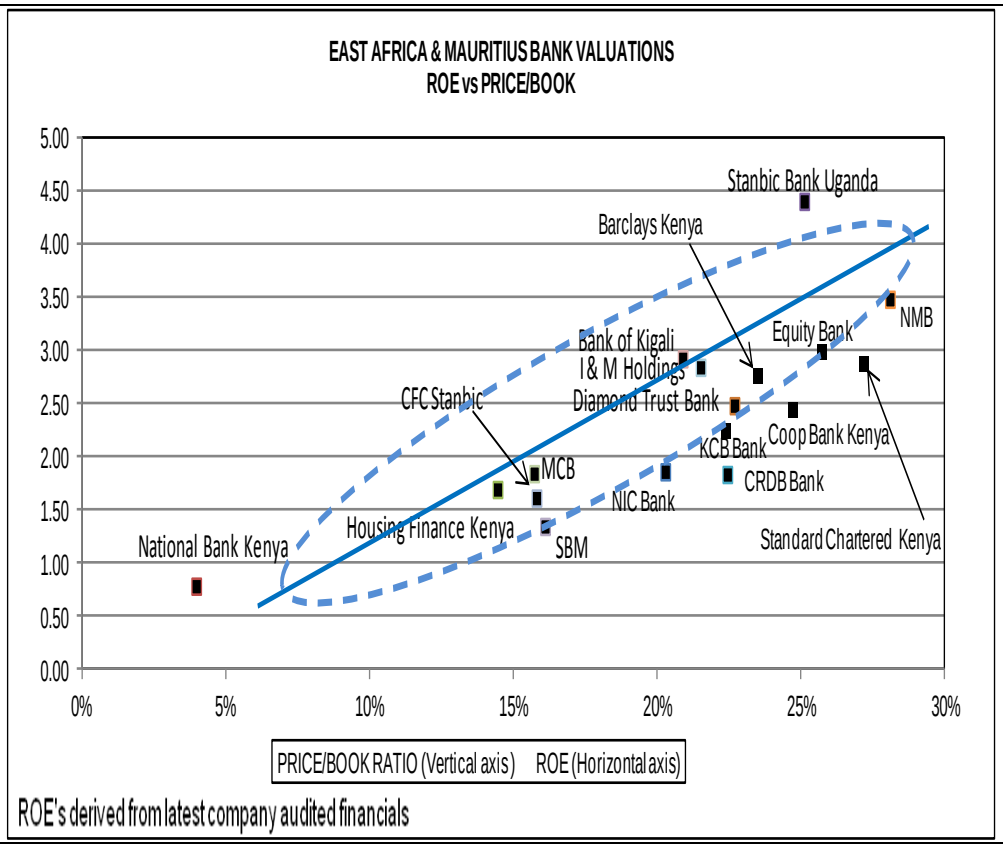
EAST AFRICA COMMERCIAL BANKS
ROE vs PRICE/BOOK RATIOS



Comment:
East Africa's commercial banks have a low dispersion when ranked according to ROE and Price/Book.

For every 10% of ROE the price/book ratio rises 1.75 times.

Bank of Kigali is close to the trend line.

However, we believe Bank of Kigali's share price has value up to RWF 400 based on the forecast 38% earnings growth in 2014 and the 25% ROE (implying a Price/Book value of 3.30 times) when ranked against other regional banks.

Source: Company annual reports and country stock exchange.

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