

15 March 2018

## MOBILE MONEY

### Alipay extends its Frontier Asia footprint as battle for mobile money intensifies

- **Alipay (not rated) has entered the Pakistan mobile payments sector** with its [purchase](#) of a 45% stake in Telenor Microfinance Bank for US\$185mn. With Alipay's existing investments in Paytm in India, its potential bKash deal in Bangladesh, exposure to Sri Lanka and Vietnam (as well as its presence in Hong Kong, Malaysia and Thailand), the firm is building a significant cross-border mobile money presence in frontier and emerging Asia.
- **Potential implications for UBL and BRAC.** The entry of Alipay into Pakistan is negative for [UBL](#)'s Omni branchless platform, in our view, as it will intensify the competitive environment. We note that Omni's fee income declined by 19% in 2017 due to price competition. Although UBL has a recognised brand, we think significant investment is required to successfully compete. On the other hand, we think [BRAC](#) stands to gain more than it loses from any fintech-driven disruption, due to its c51% stake in bKash, the pre-eminent platform in Bangladesh. In Table 1 we apply the Alipay Pakistan transaction multiples to both these names.
- **Mobile money is a long-term threat to conventional banking.** Large unbanked populations have traditionally been regarded as strong structural growth drivers for frontier banks. This view is increasingly under threat, however, with mobile money gaining popularity and already-established operators such as Alipay active across several markets. In [general](#), we see telcos being better-placed in the mobile money race. However, the regulatory landscape remains key to the trajectory of industry development. That said, the experience in Kenya suggests that even where a telco has taken a significant lead, banks are still able to establish a presence in the mobile payments ecosystem (Table 2).
- **Pakistan.** The microfinance banks, through which mobile money players are operating, could potentially capture deposits market share, which would raise bank funding costs and limit ability to lend. Bank fee income could also be negatively affected, as more transactions are channelled via mobile money. Within our coverage, UBL is most exposed to this threat; UBL Omni has a c13% share of branchless banking transactions.
- **Bangladesh.** With the central bank requiring mobile money balances to be deposited with banks, the threat of mobile money driving tighter system liquidity appears limited. Given the bank-led model, we see further market share gains by Alipay-bKash (assuming that a [deal](#) that has been reported in the press for some time is ultimately completed). Telcos such as Telenor-owned Grameenphone could lose if e-commerce turns out to be a success for Alipay-bKash.
- **Sri Lanka.** Mobile money operators are more likely to tag along with the conventional banks, in our view, as in the case of [Sampath](#) Bank launching the Alipay app. The risk for the banks is that once fintech operators gain popularity, they may adopt a more direct approach to customer acquisition/servicing.

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- **Vietnam.** Mobile phone companies have entered this space as traditional revenue sources decline. Most commercial banks (SOCBs and JSCBs) have been quick to realise e-money prospects (as well as the long-term operational efficiency benefits) and are increasingly focusing on developing/improving their online banking services – mostly via partnership with solution providers, for example [VPBank-Timo](#) and Maritime Banks-MEED.
- **India.** Mobile money, especially Paytm, was given a strong boost from demonetisation. However, the central bank has recently tightened KYC regulations, which has slowed near-term growth. Longer term, we think mobile money will grow from strength to strength due to the inherent geographic challenges in the country (large rural population).
- **Natural extension from mobile money to e-commerce:** As highlighted in our [mobile money](#) write-up at the turn of the year, we think e-commerce is a natural extension of mobile money, with various possible last-mile delivery solutions in play. With Alipay/Alibaba's expertise in this segment and Paytm's aggressive e-commerce bid in India, we see potential for similar deployments in its other markets as well. Other potential mobile money business model extensions include trade finance and remittances, for which Alipay's cross-border footprint could prove extremely advantageous.
- **Telenor deal valuation in a frontier banks context:** Table 1 shows the implied valuations of UBL and BRAC Bank's mobile money deployments from the Telenor/Alipay deal using active users and transaction values. While we accept these are relatively crude valuation metrics, the numbers appear to align with the US\$732mn we have used in our BRAC Bank sum-of-the-parts valuation.

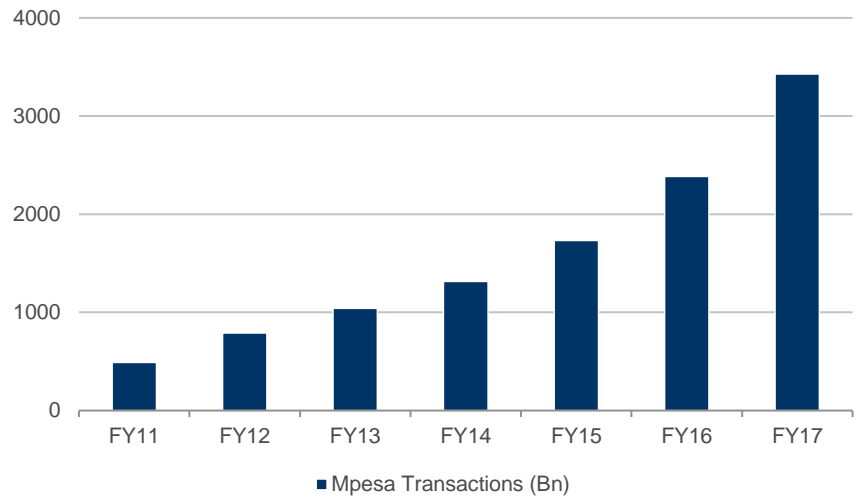
**Table 1: Mobile money implied valuations from Telenor/Alipay deal**

Holding company	Active accounts			Transaction value			Holding company valuation (US\$m)
	Active accounts (mn)	Valuation based on active account (US\$m)	% of holding co. mkt cap	Transaction value (US\$m)	Valuation based on transaction value (US\$m)	% of holding co. mkt cap	
Telenor Microfinance Bank (Easypaisa)	6.9	410		11,055	410		410
United Bank Limited (UBL Omni)	1.4	84	4%	3,098	115	5%	2,150
BRAC Bank* (bKash)	12.6	744	37%	23,023	854	42%	933

Source: Newspaper reports, Exotix calculations \*Account and transaction market share assumed to be 60% on central bank annual data

- **Alipay is clearly ahead in South Asia:** While the mobile payments war rages between Alipay and Tencent in South-East Asia, Alipay seems to be a few steps ahead as far as South Asia is concerned, with stakes in Paytm (>50% transaction market share), Telenor Microfinance (c44% transaction market share) and bKash (c60% transaction market share; deal not confirmed).
- **Kenya presents an interesting case study.** With a favourable regulatory environment, [Safaricom's](#) large customer base and extensive agency network continue to give MPesa a competitive advantage over banks, but the latter have still been able to develop their own niches. Indeed, we note that various deployments of mobile money have now begun to contribute to banks' fees and commission income, following increased usage (more than 50% of bank transactions are now via mobile phones). Within the banks space, [Equity Bank](#) has a first mover advantage but other tier 1 banks have been making significant strides to close the gap.

**Figure 1: MPesa has experienced substantial volume growth...**



Source: Company data

**Table 2: ...but Kenyan banks have still been able to monetise mobile payments**

	2015	2016	2017*
Equitel transaction value growth	37%	270%	41%
KCB transaction numbers growth	98%	N/A	67%
Co-op Bank mobile banking transaction	65%	61%	25%

Source: Company data \*9M 17 numbers for Equitel and Co-op Bank

**Table 3: Exotix frontier banks coverage (banks discussed in the note are highlighted)**

	Rating	Share price	Target price	ETR
BRAC Bank	HOLD	88.9	100.0	14%
Eastern Bank	HOLD	39.2	49.0	29%
Islami Bank	SELL	29.2	18.0	-37%
Prime Bank	SELL	21.0	20.0	0%
UCBL	SELL	19.9	16.0	-20%
<b>Bangladesh banks</b>				<b>-1%</b>
CIB	HOLD	87.2	85.0	-1%
Credit Agricole Egypt	BUY	47.5	60.0	35%
<b>Egyptian banks</b>				<b>4%</b>
CAL Bank	HOLD	1.2	1.5	22%
Ecobank Ghana	HOLD	11.2	13.0	17%
Ghana Commercial Bank	BUY	5.0	10.0	107%
Stanchart Ghana	SELL	34.5	24.0	-30%
<b>Ghanaian banks</b>				<b>10%</b>
Barclays Kenya	BUY	12.0	12.5	11%
CFC Stanbic Holdings	BUY	83.0	90.0	15%
Cooperative Bank	HOLD	19.1	16.5	-10%
Diamond Trust Bank	HOLD	211.0	195.0	-6%
Equity Bank	N/R	49.3	-	
Kenya Commercial Bank	BUY	51.5	51.0	5%
NIC Bank	BUY	37.8	45.0	22%
<b>Kenyan banks</b>				<b>2%</b>
National Bank of Kuwait	HOLD	0.8	0.9	20%
Mauritius Commercial Bank	BUY	277.5	286.5	6%
State Bank of Mauritius	HOLD	7.6	6.8	-6%
<b>Mauritian banks</b>				<b>3%</b>
Attijariwafa Bank	HOLD	510.0	317.0	-36%
BMCE	SELL	235.0	152.0	-33%
<b>Moroccan banks</b>				<b>-35%</b>
Access Bank	HOLD	12.4	9.5	-17%
Diamond Bank	SELL	2.0	1.0	-50%
First Bank of Nigeria	BUY	11.3	10.0	-8%
First City Monument Bank	HOLD	2.5	1.2	-48%
Fidelity Bank	SELL	2.8	1.0	-59%
Guaranty Trust Bank	HOLD	47.3	44.5	-1%
Stanbic IBTC	HOLD	49.2	47.0	-2%
UBA	BUY	11.9	12.0	9%
Wema Bank	HOLD	0.9	0.5	-44%
Zenith Bank	BUY	29.9	31.5	13%
<b>Nigerian banks</b>				<b>-2%</b>
Bank Muscat	BUY	0.4	0.5	27%
Allied Bank	BUY	92.0	135.7	56%
Bank Alfalah	BUY	49.7	53.4	11%
Habib Bank	BUY	200.9	216.4	11%
MCB Bank	HOLD	209.7	201.6	4%
National Bank of Pakistan	HOLD	48.2	49.8	7%
United Bank	BUY	190.8	232.3	28%
<b>Pakistan banks</b>				<b>17%</b>
Bank of Kigali	HOLD	295.0	315.0	11%
Commercial Bank of Ceylon	HOLD	135.0	125.0	-3%

	Rating	Share price	Target price	ETR
Hatton National Bank	HOLD	240.7	265.0	13%
National Development Bank	SELL	135.0	110.0	-16%
Sampath Bank	HOLD	303.0	315.0	5%
<b>Sri Lankan banks</b>				<b>3%</b>
CRDB	SELL	190.0	155.0	-13%
NMB	HOLD	2,750.0	2,440.0	-8%
<b>Tanzanian banks</b>				<b>-9%</b>
Stanbic Uganda	BUY	29.0	35.0	25%
Stanchart Zambia	SELL	2.8	1.4	-48%
Zanaco	HOLD	1.0	1.2	28%
<b>Zambian banks</b>				<b>-31%</b>
BIDV	HOLD	41,700.0	25,500.0	-38%
Sacombank	SELL	16,200.0	6,590.0	-59%
Vietcombank	SELL	73,900.0	29,960.0	-59%
Vietinbank	HOLD	36,500.0	21,200.0	-42%
VPBank	BUY	63,800.0	53,100.0	-17%
<b>Vietnamese banks</b>				<b>-45%</b>
Barclays Zimbabwe	SELL	0.1	0.0	-92%
CBZ Holdings	SELL	0.2	-	-100%
<b>Zimbabwean banks</b>				

Source: Exotix forecasts, market data

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Buy	49	Sell	36	Hold	55
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