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South African Financials

UBS Evidence Lab inside: Tracking progress of the challenger banks through banking app downloads

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Monthly analysis of app downloads, key indicator of traction in retail banking

This UBS Evidence Lab tool allows us to track mobile banking app downloads on a monthly basis – this edition includes data up to the end of August 2020 (> [Access Dataset](#)). Mobile banking is a key component of retail banking with app downloads providing additional insights into competitive trends. We continue to see steady impact of new entrants that have a share of app downloads of 10.25% YTD August 2020 vs. a similar share last year.

New entrants – continued steady progress

There are no big changes in trends, but the new players continue to show steady progress, mainly TymeBank, Old Mutual and Discovery Bank. Discovery Bank's share may appear small (1.7% YTD, 1.45% in Aug-20), but it is targeting a relatively small number of higher income clients and represents 30% of the downloads of the large incumbent bank Absa, for example.

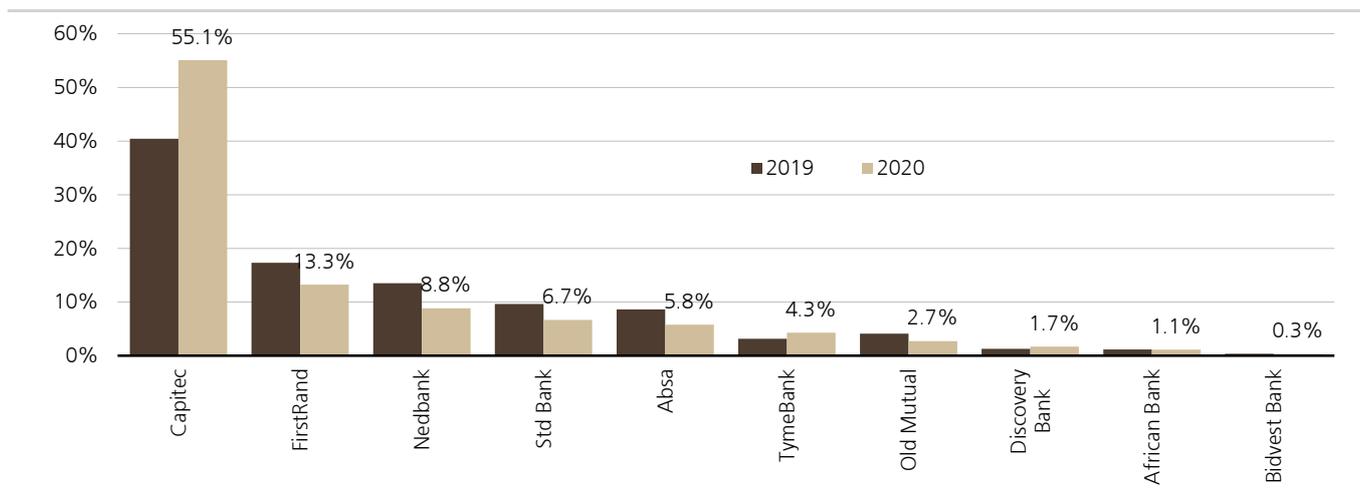
Incumbents – Capitec's strong performance continues to stand out

App downloads is only one indicator and could be affected by new app launches, etc, but Capitec's high share of app downloads continues to stand out at 62% in Aug-20 and 55% YTD while it also has the highest download ranking on the iPhone store among the banks. All the incumbent universal banks are experiencing lower download shares, including FNB of FirstRand.

Takeaways – new entrants continue with steady progress

Although the impact of new entrants is not yet that evident, client gains continue in a relatively stagnant SA banking market. Capitec and Discovery look like the biggest threat to the big universal banks to us.

Figure 1: Mobile banking app download share YTD Aug-20 vs. last year (%)



Source: UBS Evidence Lab (> [Access Dataset](#)), Sensor Tower

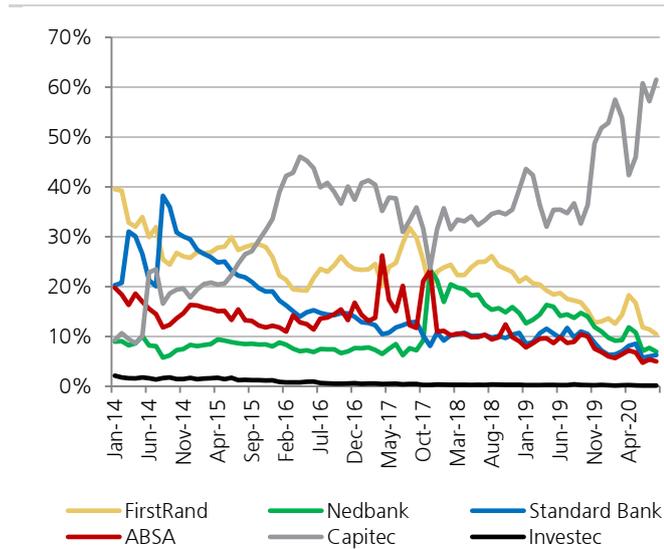
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Tracking mobile app popularity

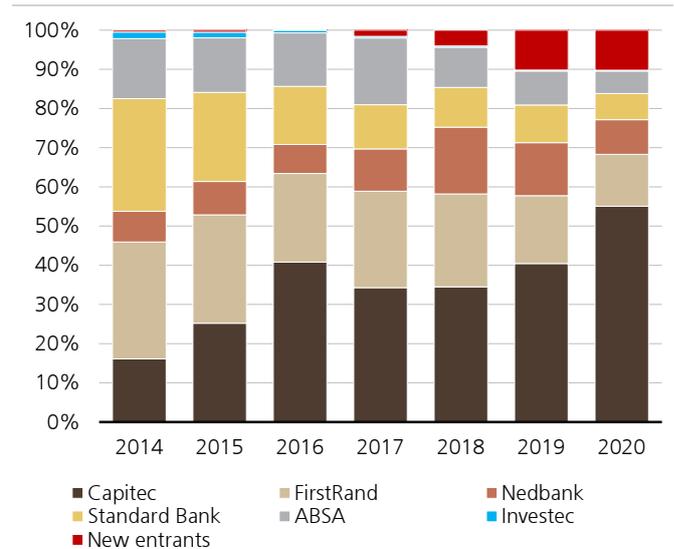
Given the recent and continued entrance of new players in retail banking in South Africa, we see mobile bank app downloads as a key indicator to track. As described in the methodology further below, UBS Evidence Lab tracks daily app downloads of mobile banking apps in the iOS and Google Play store in South Africa. We show the share of mobile banking app downloads in the charts below – new entrants are averaging ~10% YTD to August 2020 (similar share in 2019).

Figure 2: Incumbents share of mobile banking app downloads in SA



Source: UBS Evidence Lab ([> Access Dataset](#)), Sensor Tower

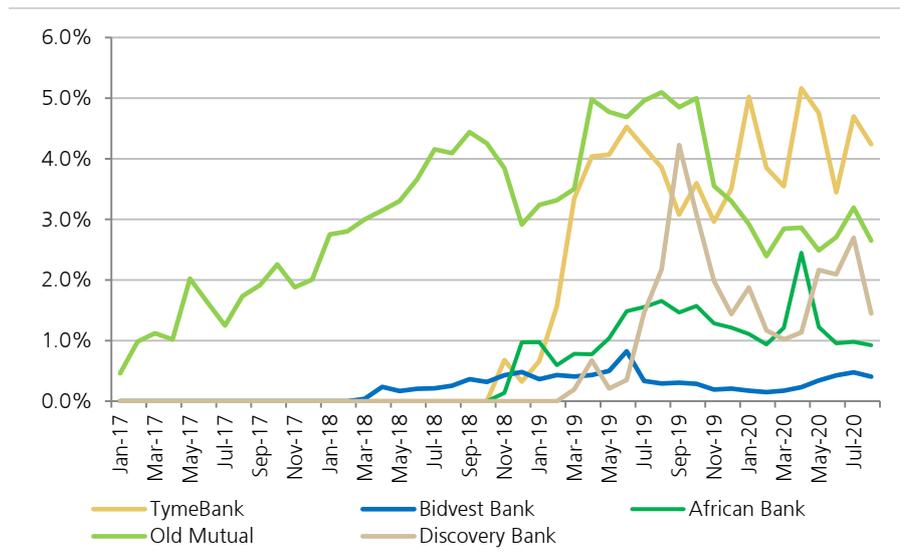
Figure 3: Share of mobile banking app downloads in SA on an annual basis



Source: UBS Evidence Lab ([> Access Dataset](#)), Sensor Tower

The chart below shows the monthly mobile banking app download share of new entrants – we are seeing more of the same with the new entrant shares remaining relatively stable with TymeBank making the most gains.

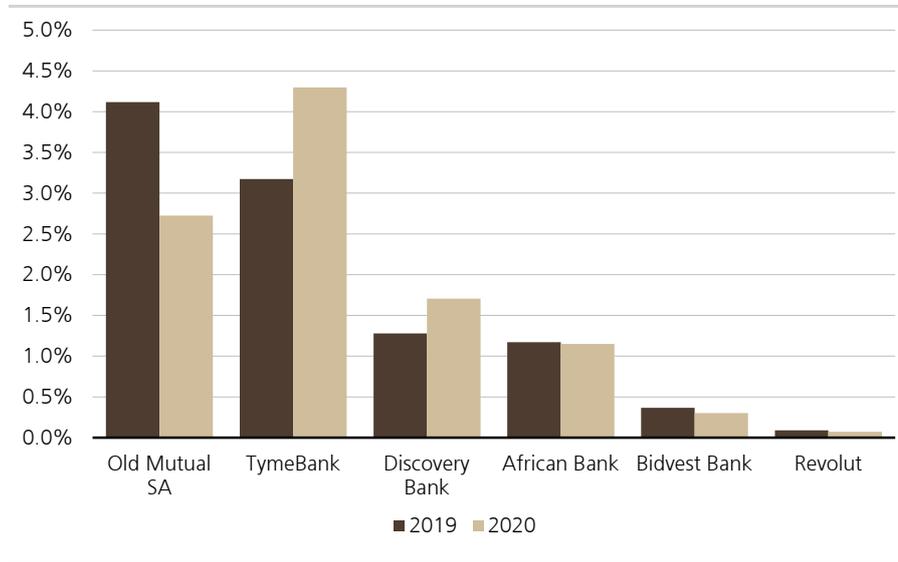
Figure 4: New entrants share of mobile banking app downloads



Source: UBS Evidence Lab ([> Access Dataset](#)), Sensor Tower

We summarise the annual and year-to-date download share of mobile app downloads of the new entrants in the chart below. It shows the relatively high share of Old Mutual and TymeBank while Discovery Bank has picked up to 1.7% vs. 1.3% last year, its focus being the smaller (by number) middle to higher income segment.

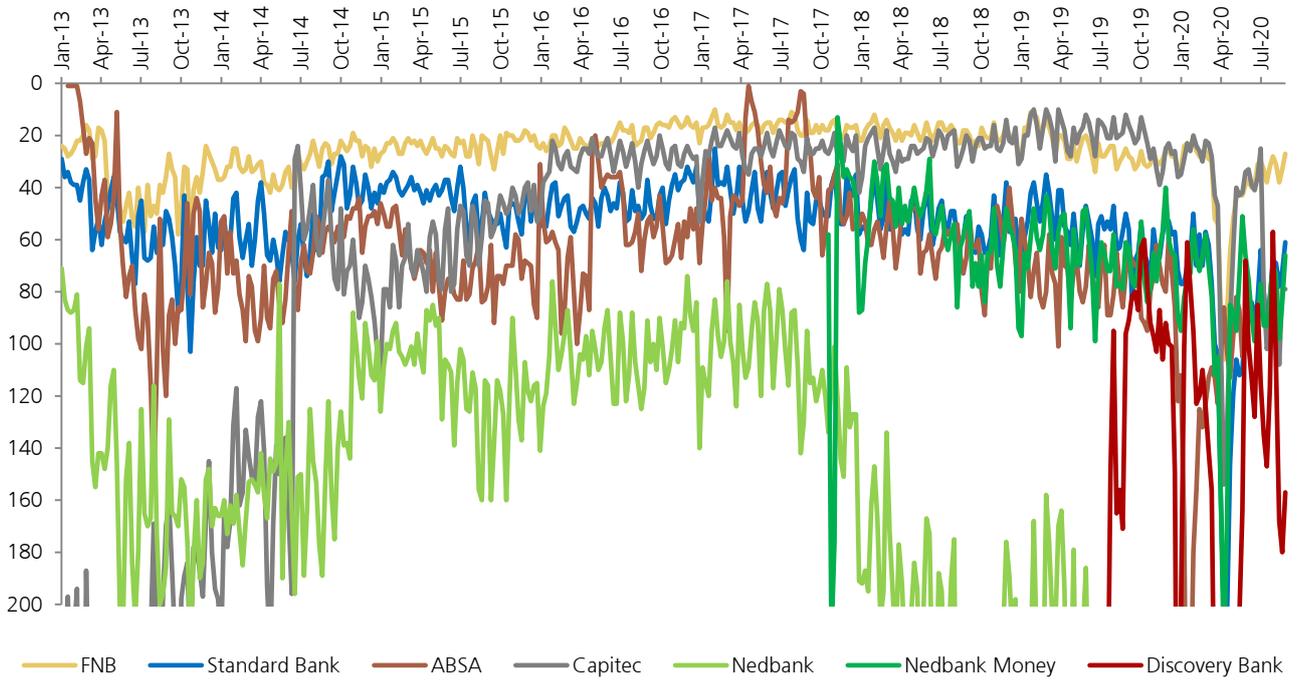
Figure 5: Challenger banks annual and year-to-date download share of mobile banking apps in South Africa



Source: UBS Evidence Lab ([> Access Dataset](#)), Sensor Tower

In the chart overleaf we show the overall ranking of iPhone banking apps among all app categories on iOS. Ranking here refers to the download share rather than a ranking of the functionality or quality of the app itself. FNB continues to dominate the more affluent client segments that have iPhones while Capitec punches above its weight, reflective of increasing traction in this segment. Discovery's momentum has subsided somewhat on the iOS, but it remains early days.

Figure 6: iPhone app all categories download rankings (1 indicates top download share on iOS for iPhone among all apps on the store)



Source: UBS Evidence Lab ([> Access Dataset](#)), Sensor Tower

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UBS Evidence Lab uses App Analytics by Sensor Tower, a leading provider of market intelligence and insights for the global app economy to help answer questions related to company performance and mobile app strategy. UBS Evidence Lab tracks daily rankings and downloads data for thousands of mobile applications in the iOS and Google Play store across more than 50 geographies. Daily download estimates are provided by an algorithm trained on this ranking data and the actual download numbers of 50,000+ apps. Rankings data is aggregated by week and download share estimates are aggregated by month. This report leverages the following UBS Evidence Lab asset: South Africa Mobile Banking & Payments App Monitor.

App Rankings and Share of Downloads are complementary analyses:

1) App rankings provides information about the relative popularity and changes in popularity of an app or service across countries. The app rankings are the actual rankings that are provided in the iOS store and are aggregated by week. All ranking data is country-specific. Additionally, there are distinct ranking charts for downloads and gross revenue (based on in-app purchases only) as well as for the iPhone and iPad devices. Rankings will typically be provided across all apps (within a country, ranking type, and device) and also for a specific category of interest (e.g. Lifestyle) with the category determined on the basis of its classification within the iOS app store. Note that trends in the iOS store have been found to be reflective of trends in the Google Play store.

2) App downloads are a derived number that are based on the algorithm created by Sensor Tower (UBS Evidence Lab's data provider). Sensor Tower has the actual download and gross revenue numbers for 50K+ apps and uses this to train an algorithm that estimates app downloads and gross revenue on the basis of app rankings. For the app download analyses, the download levels across multiple apps are aggregated into a service-level metric. Actual numbers are not provided – but instead share of downloads. Share of downloads can be used to provide insights into the relative popularity of competing services. For the app download analyses, UBS Evidence Lab typically aggregates iOS and Google Play. For China analyses, download analysis is iOS only. Other iOS-only analyses will be clearly labelled.

App discovery is a key differentiating factor for analyses and is the process whereby all of the apps across the iOS and Google Play stores to be included in a defined competitive set are identified. First all of the services (or mapped names) to be included are identified based on a robust classification system that includes definitions of key dimensions and key exclusions. To provide a better view of historical performance, it is aimed to include important services dating back to the beginning of 2014. All of the active and inactive apps associated with the service are then identified. For the final step, the competitive set is validated with the research analyst sponsoring the initial project. Caveats (and rebuttals) to consider include: (1) not all users of these services will download the mobile application; and (2) there can be a potential disconnect between mobile application downloads and usage. However, UBS Evidence Lab believes that the two metrics are highly correlated – especially in the medium to long term. Despite these caveats, it believes this data can be leveraged to assess the competitive position and popularity of competing services.

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Investing in South African banks exposes investors to the following key risks: 1) macroeconomic conditions that affect the outlook for revenue and earnings, 2) the level of interest rates that drive net interest margins and credit losses, and 3) regulatory risks with the banking sector being highly regulated.

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Valuation methodology for banks: Multi-stage economic profit model.

Valuation methodology for insurers: On a sum-of-the-parts basis.

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Buy	FSR is > 6% above the MRA.	49%	32%
Neutral	FSR is between -6% and 6% of the MRA.	39%	30%
Sell	FSR is > 6% below the MRA.	13%	20%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2020.

1: Percentage of companies under coverage globally within the 12-month rating category.

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