

# Kenya Public Debt 2020 & Cytonn Weekly #29/2020

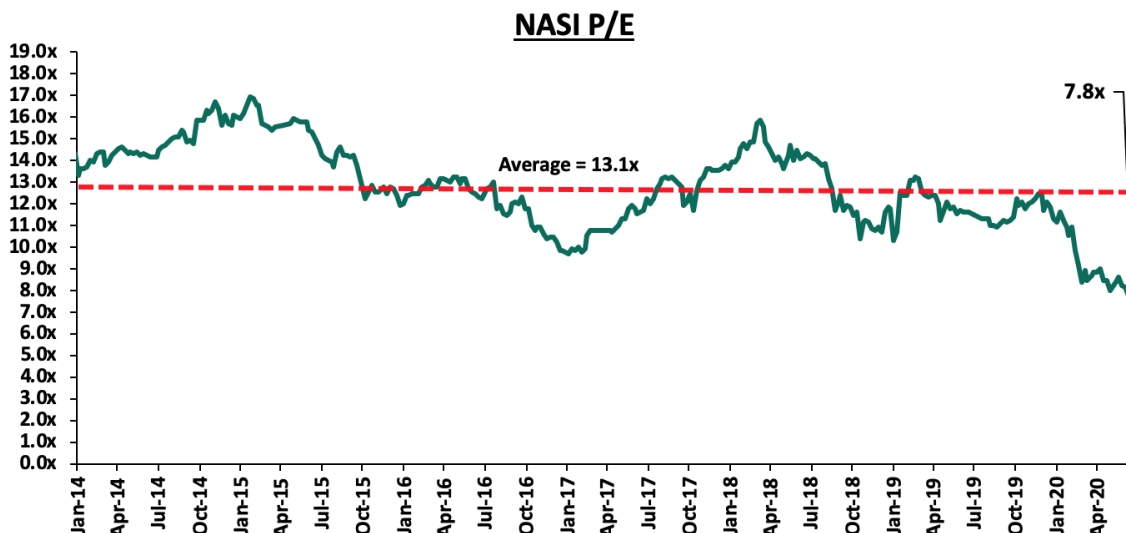
## Equities

### Market Performance

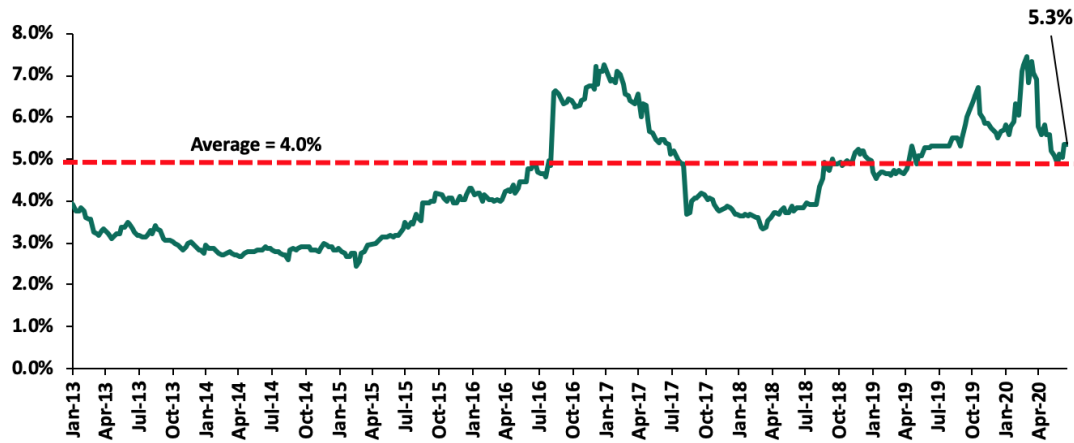
During the week, the equities market recorded mixed performance, with NSE 20 and NSE 25 recording gains of 0.4% and 0.5%, respectively, while NASI recorded a decline of 0.1%, taking their YTD performance to losses of 20.5%, 28.1%, and 24.2%, for NASI, NSE 20 and NSE 25, respectively. The NASI performance was driven by losses recorded by large-cap stocks, with the highest declines being recorded in NCBA, Bamburi, ABSA and Safaricom, which lost by 4.5%, 3.9%, 3.4% and 1.8%, respectively. However, the decline was slowed down by gains recorded by other large-cap stocks, with the highest gains being recorded in Equity Group, KCB and EABL, which gained by 6.8%, 3.5% and 1.3%, respectively.

Equities turnover declined by 20.3% during the week to USD 31.9 mn, from USD 40.1 mn recorded the previous week, taking the YTD turnover to USD 889.4 mn. Foreign investors remained net sellers during the week, with the net selling position decreasing by 12.3% to USD 16.5 mn, from a net selling position of USD 18.8 mn recorded the previous week, taking the YTD net selling position to USD 253.4 mn.

The market is currently trading at a price to earnings ratio (P/E) of 7.8x, 40.4% below the historical average of 13.1x. The average dividend yield is currently at 5.3%, unchanged from the previous week, and 1.3% points above the historical average of 4.0%. With the market trading at valuations below the historical average, we believe there are pockets of value in the market for investors with higher risk tolerance and are willing to wait out the pandemic. The current P/E valuation of 7.8x is at par with the most recent valuation trough of 7.8x experienced in the second week of July 2020. The charts below indicate the historical P/E and dividend yields of the market.



## NASI Dividend Yield



### Weekly Highlight

During the week, Equity Group disclosed it was seeking to raise up to Kshs 50.0 bn in long term debt from international financiers in the next three years as it seeks to boost its liquidity and capital positions. This is reflective of the trend by local banks, which are increasingly seeking loans from global financiers such as the International Finance Corporation (IFC) and European Investment Bank, which offer relatively favorable terms of debt including lower interest rates and longer maturities. As highlighted in our *Cytonn Weekly #28/2020*, mortgage financier HF Group is also seeking to raise Kshs 1.0 bn additional tier II capital from global financiers. In Q1'2020 Equity group's borrowing stood at Kshs 52.6 bn, with the Kenyan subsidiary receiving an additional Kshs 5.3 bn from the International Finance Corporation (IFC) to be used for onward lending to Small and Medium Enterprises (SMEs) impacted by the pandemic. The group anticipates the impact of the pandemic to last for at least 18 months and with Kshs 22.9bn (43.5%) of the Kshs 52.6 bn of long-term borrowing expected to mature in March 2023, it is our view that the additional liquidity injection will boost the group's liquidity and capital position in both the short and long term as it tries to mitigate effects of the pandemic. The lender has already taken a proactive strategy in preserving its capital and liquidity to enable it to respond appropriately to the ongoing pandemic through suspending its FY'2019 dividend payment, as well as abandoning its regional expansion deal with Atlas Mara as highlighted in our *Cytonn Weekly #26/2020*.

### Universe of Coverage:

Company	Price at 10/07/2020	Price at 17/07/2020	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
<b>Diamond Trust Bank***</b>	70.0	69.0	(1.4%)	(36.7%)	109.0	175.0	3.9%	157.5%	<b>0.4x</b>	<b>Buy</b>
<b>Kenya Reinsurance</b>	2.0	2.4	20.0%	(20.8%)	3.0	4.6	4.6%	96.3%	<b>0.2x</b>	<b>Buy</b>
<b>KCB Group***</b>	34.1	35.3	3.5%	(34.7%)	54.0	56.2	9.9%	69.4%	<b>0.9x</b>	<b>Buy</b>
<b>Co-op Bank***</b>	11.9	11.9	0.0%	(27.5%)	16.4	18.0	8.4%	60.3%	<b>1.0x</b>	<b>Buy</b>
<b>I&amp;M Holdings***</b>	49.0	49.9	1.7%	(7.7%)	54.0	76.3	5.1%	58.2%	<b>0.8x</b>	<b>Buy</b>
<b>ABSA Bank***</b>	9.5	9.2	(3.4%)	(31.2%)	13.4	13.2	12.0%	55.8%	<b>1.3x</b>	<b>Buy</b>
<b>Stanbic Holdings</b>	79.0	78.5	(0.6%)	(28.1%)	109.3	111.2	9.0%	50.6%	<b>1.0x</b>	<b>Buy</b>
<b>Equity Group***</b>	31.9	34.0	6.8%	(36.4%)	53.5	50.7	0.0%	49.1%	<b>1.2x</b>	<b>Buy</b>
<b>NCBA***</b>	26.4	25.2	(4.5%)	(31.6%)	36.9	35.6	1.0%	42.3%	<b>0.8x</b>	<b>Buy</b>

Company	Price at 10/07/2020	Price at 17/07/2020	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	229.0	250.0	9.2%	(28.8%)	351.0	334.8	3.6%	37.5%	0.9x	Buy
Standard Chartered***	161.5	160.0	(0.9%)	(21.0%)	202.5	202.7	7.8%	34.5%	1.5x	Buy
Sanlam	13.5	14.0	3.7%	(18.6%)	17.2	18.4	0.0%	31.4%	1.3x	Buy
Liberty Holdings	7.9	7.9	0.5%	(23.7%)	10.4	9.8	0.0%	24.5%	0.7x	Buy
Britam	7.0	7.5	7.1%	(16.7%)	9.0	7.6	3.3%	4.7%	0.7x	Lighten
HF Group	4.5	4.0	(11.1%)	(38.1%)	6.5	4.0	0.0%	0.0%	0.2x	Sell
CIC Group	2.3	2.4	4.4%	(12.3%)	2.7	2.1	0.0%	(10.7%)	0.8x	Sell

\*Target Prices as per Cytonn Analyst estimates

\*\*Upside/ (Downside) is adjusted for Dividend Yield

\*\*\*Companies in which Cytonn and/or its affiliates are invested in

*We are "Neutral" on equities for investors because, despite the sustained price declines, which have seen the market P/E decline to below its historical average presenting investors with attractive valuations in the market, the economic outlook remains grim.*

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