

# Understanding Collective Investment Schemes, & Cytonn Weekly #39/2020

## Equities

### Market Performance

During the week, the equities market was on an upward trajectory, with NSE 20 recording marginal gains of 0.01%, while both NASI and NSE 25 gained by 0.1%, taking their YTD performance to losses of 15.6%, 20.9%, and 30.4%, for NASI, NSE 25 and NSE 20, respectively. The performance was driven by gains recorded by large-cap stocks, with the highest gains being recorded in BAT, NCBA Group, KCB Group and ABSA, which gained by 6.4%, 3.8%, 2.6% and 1.6%, respectively. The gains were however weighed down by declines recorded by stocks such as Bamburi and Diamond Trust Bank (DTB-K) which both declined by 4.0%.

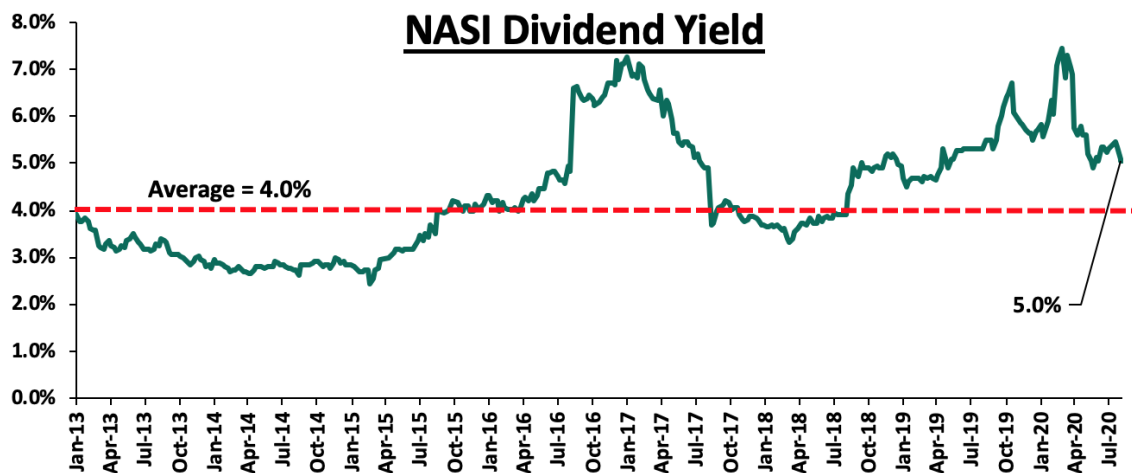
Equities turnover declined by 33.1% during the week to USD 31.7 mn, from USD 47.4 mn recorded the previous week, taking the YTD turnover to USD 1.1 bn. Foreign investors turned net sellers during the week, with a net selling position of USD 3.6 mn, from a net buying position of USD 7.6 mn recorded the previous week, taking the YTD net selling position to USD 254.4 mn.

The market is currently trading at a price to earnings ratio (P/E) of 9.2, 29.5% below the 11-year historical average of 13.0x. The average dividend yield is currently at 5.0%, unchanged from the previous week and 1.0% 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 9.2x is 19.1% above the most recent valuation trough of 7.7x experienced in the first week of August 2020. The charts below indicate the historical P/E and dividend yields of the market.

**NASI P/E**

Date	NASI P/E Ratio
Jan-14	13.5x
Apr-14	14.5x
Jul-14	15.5x
Oct-14	16.5x
Jan-15	17.0x
Apr-15	16.0x
Jul-15	14.5x
Oct-15	13.0x
Jan-16	12.5x
Apr-16	13.0x
Jul-16	12.0x
Oct-16	10.5x
Jan-17	10.0x
Apr-17	11.0x
Jul-17	12.5x
Oct-17	13.5x
Jan-18	14.5x
Apr-18	16.0x
Jul-18	14.0x
Oct-18	11.5x
Jan-19	12.5x
Apr-19	11.5x
Jul-19	11.0x
Oct-19	12.0x
Jan-20	11.0x
Apr-20	8.0x
Jul-20	9.2x



### Universe of Coverage:

Company	Price at 18/09/2020	Price at 25/09/2020	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Diamond Trust Bank***	62.5	60.0	(4.0%)	(42.7%)	109.0	119.4	3.9%	95.0%	0.3x	Buy
Kenya Reinsurance	2.2	2.3	4.5%	(26.4%)	3.0	4.0	4.6%	84.0%	0.2x	Buy
Sanlam	12.3	13.1	6.5%	(28.5%)	17.2	18.4	0.0%	49.6%	1.2x	Buy
Jubilee Holdings	220.0	220.0	0.0%	(37.3%)	351.0	313.8	3.6%	46.2%	0.5x	Buy
NCBA***	22.2	23.1	3.8%	(39.8%)	36.9	30.7	1.0%	39.3%	0.6x	Buy
I&M Holdings***	45.0	44.4	(1.3%)	(16.7%)	54.0	57.8	5.1%	33.6%	0.7x	Buy
KCB Group***	37.9	38.9	2.6%	(29.8%)	54.0	46.4	9.9%	32.4%	0.8x	Buy
Equity Group***	36.2	36.1	(0.1%)	(32.4%)	53.5	44.5	5.9%	29.0%	0.9x	Buy
Standard Chartered***	164.5	159.8	(2.9%)	(18.8%)	202.5	197.2	7.8%	27.7%	1.2x	Buy
Co-op Bank***	12.0	11.9	(0.8%)	(26.6%)	16.4	14.2	8.4%	26.8%	0.8x	Buy
Liberty Holdings	8.0	7.8	(2.5%)	(22.9%)	10.4	9.8	0.0%	22.8%	0.6x	Buy
Stanbic Holdings	75.0	76.0	1.3%	(31.4%)	109.3	84.9	9.0%	22.2%	0.6x	Buy
ABSA Bank***	9.8	10.0	1.6%	(26.3%)	13.4	10.8	12.0%	21.7%	1.2x	Buy
Britam	7.4	7.2	(1.6%)	(18.2%)	9.0	8.6	3.3%	20.2%	0.8x	Buy
CIC Group	2.2	2.1	(3.7%)	(19.8%)	2.7	2.1	0.0%	(2.3%)	0.7x	Sell
HF Group	4.4	4.0	(8.2%)	(32.4%)	6.5	4.1	0.0%	(6.2%)	0.2x	Sell

\*Target Price as per Cytonn Analyst estimates

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

\*\*\*For Disclosure, these are banks 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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