

Analysis of new CMA guidelines to Collective Investments Schemes, & Cytonn Weekly #41/2020

Equities

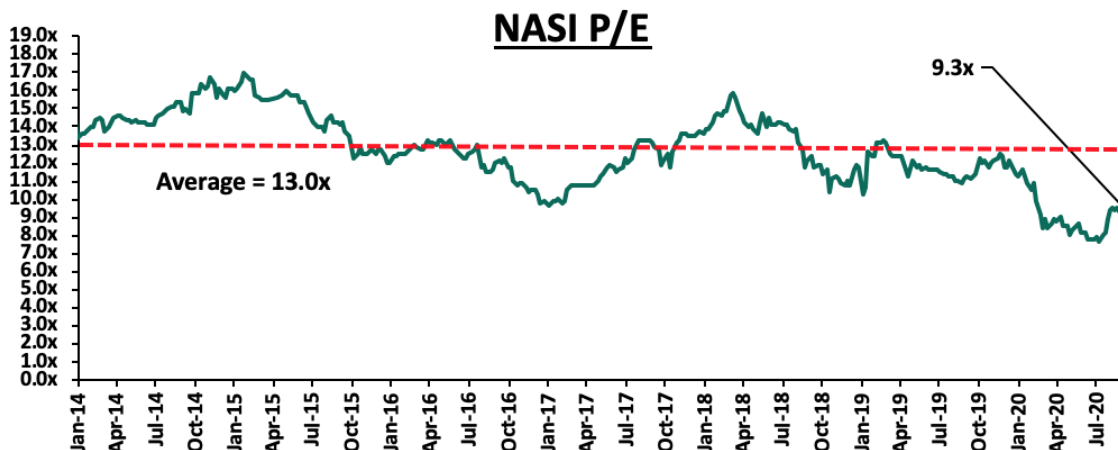
Market Performance

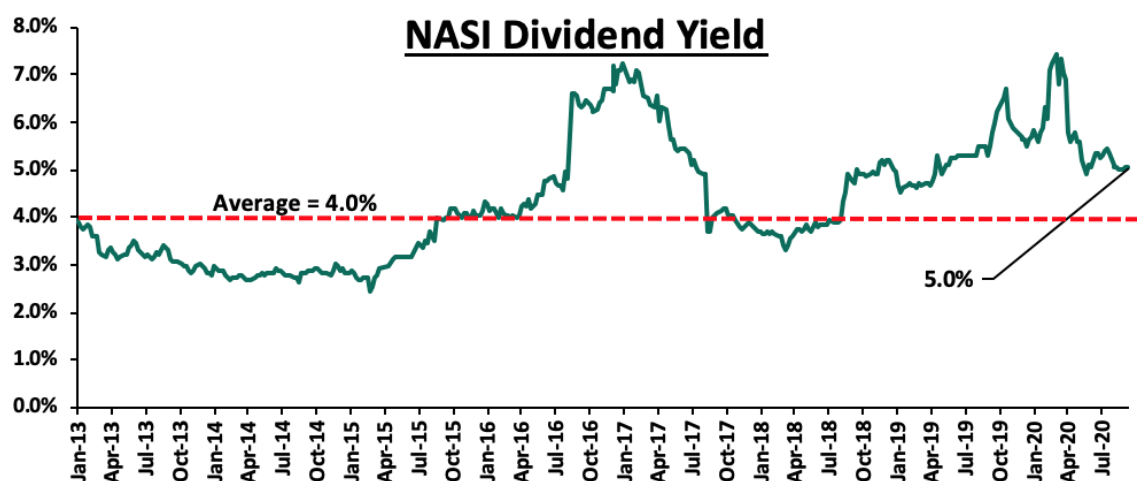
During the week, the equities market was on a downward trajectory, with NASI, NSE 25 and NSE 20 all recording losses of 0.1%, 0.5% and 0.8%, respectively, taking their YTD performance to losses of 15.8%, 21.3%, and 30.8%, for NASI, NSE 25 and NSE 20, respectively. The performance was mainly driven by losses recorded by large-cap stocks such as ABSA, BAT and Equity Group, which declined by 4.1%, 3.0% and 2.9%, respectively.

Equities turnover declined by 22.6% during the week to USD 10.9 mn, from USD 14.0 mn recorded the previous week, taking the YTD turnover to USD 1.2 bn. Foreign investors remained net sellers during the week, with a net selling position of USD 2.0 mn, from a net selling position of USD 2.8 mn recorded the previous week, taking the YTD net selling position to USD 259.2 mn.

The market is currently trading at a price to earnings ratio (P/E) of 9.3x, 28.5% 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 9.3x is 20.6% 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.





Weekly Highlight

During the week, ABSA disclosed that it would be offering unsecured loans to Micro, Small and Medium Enterprises (MSMEs) in a bid to support businesses recover from the effects emanating from the COVID-19 pandemic. The bank, through the recently launched 'ABSA One Account' will offer unsecured loans of up-to Kshs 10.0 mn to businesses and a maximum of Kshs 5.0 mn to individuals. This efforts by ABSA mirror the partnership seen earlier last week between Equity Group and Proparco, a French Development Finance Institution, whereby Equity disclosed that it would be issuing USD 100.0 mn (Kshs 108.5 bn) loans to support MSMEs affected by the pandemic in Kenya. The tough operating environment brought about by the pandemic has increased cash constraints by businesses and households with most businesses struggling to keep afloat due to the subdued revenues. The move by the two lenders to support the struggling private sector during this subdued operating environment is commendable. The Central Bank has been keen to cushion the economy from the pandemic through efforts such as reducing the Cash Reserve Ratio (CRR) to 4.25% from 5.25% in a bid to improve liquidity in the money market. However, despite these efforts, private sector growth has remained muted as banks shy away from lending due to the elevated credit risk. As such, we look forward to see whether these efforts by ABSA and Equity will be transmitted to the intended parties given that despite the CBK's efforts, private sector credit growth has remained muted. Additionally, we believe that the banking sectors asset quality still remains a concern as most businesses continue to struggle to meet their loan repayment requirements further elevating credit risks.

Universe of Coverage:

Company	Price at 02/10/2020	Price at 09/10/2020	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Diamond Trust Bank***	61.3	63.8	4.1%	(41.5%)	109.0	119.4	4.2%	91.5%	0.3x	Buy
Kenya Reinsurance	2.4	2.4	(1.7%)	(22.1%)	3.0	4.0	4.7%	74.2%	0.2x	Buy
Sanlam	12.5	12.0	(4.0%)	(30.2%)	17.2	18.4	0.0%	53.3%	1.2x	Buy
I&M Holdings***	43.6	43.6	0.1%	(19.3%)	54.0	57.8	5.8%	38.4%	0.7x	Buy
NCBA***	22.7	22.6	(0.2%)	(38.7%)	36.9	30.7	1.1%	36.9%	0.6x	Buy
Liberty Holdings	7.6	7.3	(3.9%)	(29.3%)	10.4	9.8	0.0%	33.9%	0.6x	Buy
Equity Group***	36.0	34.9	(2.9%)	(34.8%)	53.5	44.5	5.7%	33.2%	0.9x	Buy
Co-op Bank***	11.7	11.5	(1.7%)	(29.7%)	16.4	14.2	8.7%	32.2%	0.8x	Buy
KCB Group***	38.5	38.1	(1.0%)	(29.4%)	54.0	46.4	9.2%	31.0%	0.8x	Buy
Standard Chartered***	161.0	161.5	0.3%	(20.2%)	202.5	197.2	7.7%	29.8%	1.2x	Buy

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com
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