

Cytonn Weekly #42/2020

Equities

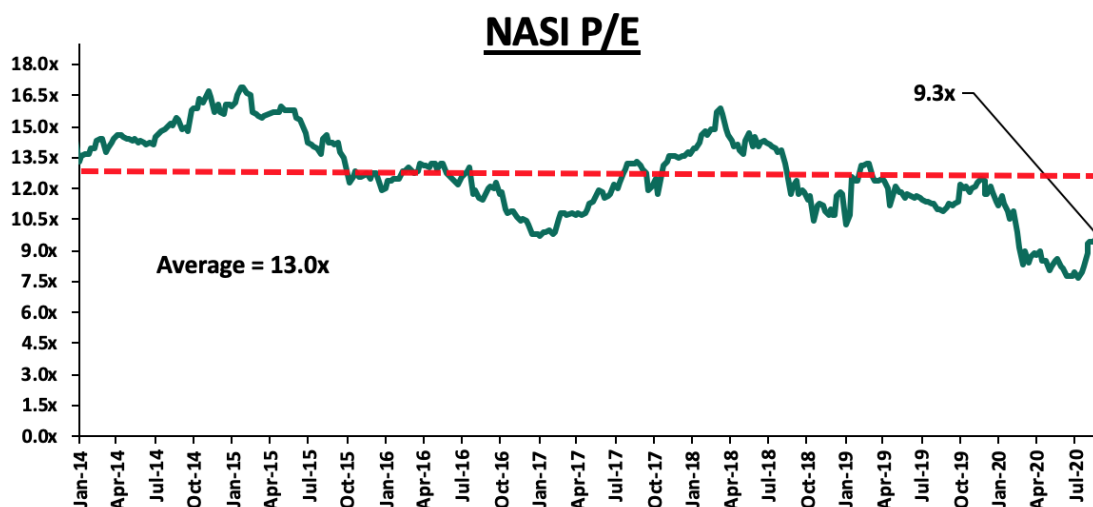
Market Performance

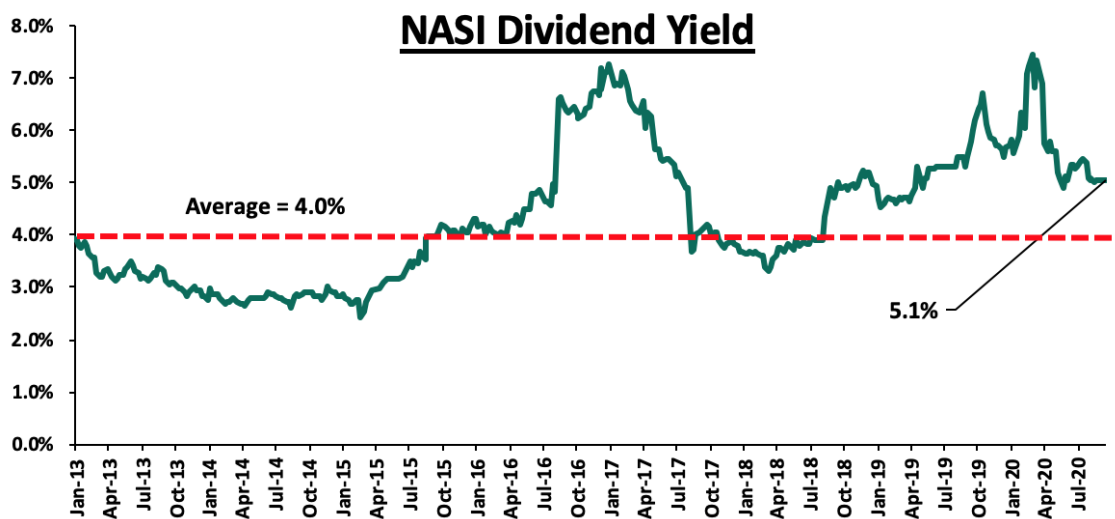
During the week, the equities market was on a downward trajectory, with NASI, NSE 25 and NSE 20 declining by 0.3%, 0.4% and 1.4%, respectively, taking their YTD performance to losses of 15.8%, 21.3%, and 30.8%, for NASI, NSE 25 and NSE 20, respectively. The performance was mainly driven by declines recorded by banking stocks such as KCB Group, Standard Chartered Bank (SCBK) and Diamond Trust Bank (DTB-K), which declined by 2.4%, 2.3% and 1.2%, respectively. The losses were however mitigated by gains recorded in other banking stocks such as NCBA Group, ABSA and Co-operative Bank of 1.5%, 2.3% and 2.6%, respectively.

Equities turnover increased by 11.2% during the week to USD 12.1 mn, from USD 10.9 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 4.0 mn, from a net selling position of USD 2.0 mn recorded the previous week, taking the YTD net selling position to USD 263.2 mn.

The market is currently trading at a price to earnings ratio (P/E) of 9.3x, 28.2% below the 11-year historical average of 13.0x. The average dividend yield is currently at 5.1%, 0.1% points above the 5.0% recorded the previous week and 1.1% 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 21.0% 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

In a Gazette Notice released on 9th October 2020, the Competition Authority of Kenya authorised the proposed transfer of various assets, including outstanding deposit balance amounting to Kshs 3.2 bn, loans and security portfolios together with all rights, titles from Imperial Bank Limited (IBL) to KCB Bank Kenya Limited. To offer validity to this commercial contract, KCB had earlier indicated that it would pay Kshs 10.8 for the acquisition of part of the Imperial Bank’s business. This move mirrors that of Mauritius’ SBM Holdings, which occurred on 10th May 2017, paying Kshs 100 for the take-over of Kenya Fidelity Commercial Bank (FCB).

The above is in line with our earlier analysis of the transaction in our *Cytonn Weekly #21/2020* report, on 22nd May 2020, following the approval by the Central Bank of Kenya on 4th May 2020 and the approval by the National Treasury and Planning on 14th May 2020, the Central Bank of Kenya (CBK) had **announced** the acquisition of assets valued at Kshs 3.2 bn and assumption of liabilities of the same value of Imperial Bank (Kenya) Limited (In Receivership) (IBLIR) by KCB Bank Kenya Limited effective 2nd June 2020. CBK had indicated that from 2nd June 2020, IBLs customers would be paid a total of Kshs 3.2 bn for 4 years. The payments commenced on 3rd September 2020 following approvals by IBLR receiver-manager, the Kenya Deposit Insurance Corporation (KDIC). Key to note, Imperial Bank had been placed under receivership (a process that can assist creditors to recover funds in default and can help troubled companies to avoid bankruptcy) on 13th October 2015 by CBK due to the inappropriate Banking practices noted by the Authority such as the misrepresentation of their financial statements.

Additionally, this move marks the resolution of IBL matters and as such, we believe that continued bank consolidation efforts in Kenya, as highlighted in our *H1’2020 Banking Report*, will lead to a stable banking sector, as consolidation continues to eliminate weaker banks.

Universe of Coverage:

| Company | Price at 09/10/2020 | Price at 16/10/2020 | w/w change | YTD Change | Year Open | Target Price* | Dividend Yield | Upside/Downside** | P/TBv Multiple | Recommendation |
|-----------------------|---------------------|---------------------|------------|------------|-----------|---------------|----------------|-------------------|----------------|----------------|
| Diamond Trust Bank*** | 63.8 | 63.0 | (1.2%) | (42.2%) | 109.0 | 119.4 | 4.3% | 93.8% | 0.3x | Buy |
| Kenya Reinsurance | 2.4 | 2.2 | (5.1%) | (26.1%) | 3.0 | 4.0 | 4.9% | 83.5% | 0.2x | Buy |
| Sanlam | 12.0 | 12.7 | 5.8% | (26.2%) | 17.2 | 18.4 | 0.0% | 44.9% | 1.2x | Buy |

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|-----------------------|---------------------|---------------------|------------|------------|-----------|---------------|----------------|-------------------|----------------|----------------|
| I&M Holdings*** | 43.6 | 43.5 | (0.2%) | (19.4%) | 54.0 | 57.8 | 5.9% | 38.7% | 0.7x | Buy |
| NCBA*** | 22.6 | 23.0 | 1.5% | (37.7%) | 36.9 | 30.7 | 1.1% | 34.9% | 0.6x | Buy |
| KCB Group*** | 38.1 | 37.2 | (2.4%) | (31.1%) | 54.0 | 46.4 | 9.4% | 34.1% | 0.8x | Buy |
| Equity Group*** | 34.9 | 35.0 | 0.1% | (34.7%) | 53.5 | 44.5 | 5.7% | 33.0% | 0.9x | Buy |
| Standard Chartered*** | 161.5 | 157.8 | (2.3%) | (22.1%) | 202.5 | 197.2 | 7.9% | 32.9% | 1.2x | Buy |
| Co-op Bank*** | 11.5 | 11.8 | 2.6% | (27.8%) | 16.4 | 14.2 | 8.5% | 28.8% | 0.8x | Buy |
| ABSA Bank*** | 9.4 | 9.6 | 2.3% | (27.9%) | 13.4 | 10.8 | 11.4% | 23.7% | 1.2x | Buy |
| Liberty Holdings | 7.3 | 8.0 | 9.3% | (22.7%) | 10.4 | 9.8 | 0.0% | 22.5% | 0.6x | Buy |
| Stanbic Holdings | 83.8 | 77.0 | (8.1%) | (29.5%) | 109.3 | 84.9 | 9.2% | 19.4% | 0.6x | Accumulate |
| Britam | 7.8 | 7.5 | (3.4%) | (16.7%) | 9.0 | 8.6 | 3.3% | 18.0% | 0.8x | Accumulate |
| Jubilee Holdings | 270.0 | 275.0 | 1.9% | (21.7%) | 351.0 | 313.8 | 3.3% | 17.4% | 0.5x | Accumulate |
| HF Group | 4.0 | 3.6 | (9.3%) | (43.8%) | 6.5 | 4.1 | 0.0% | 12.9% | 0.2x | Accumulate |
| CIC Group | 2.4 | 2.2 | (6.3%) | (16.4%) | 2.7 | 2.1 | 0.0% | (6.3%) | 0.7x | 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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