



The Role of Kenya's Capital Market on Economic Growth, & Cytonn Weekly #01/2021

Equities

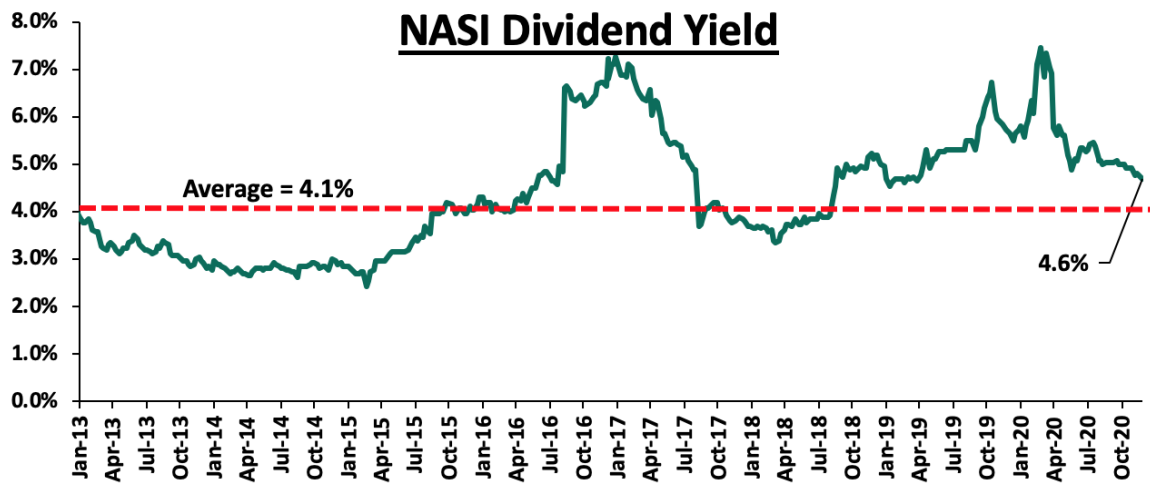
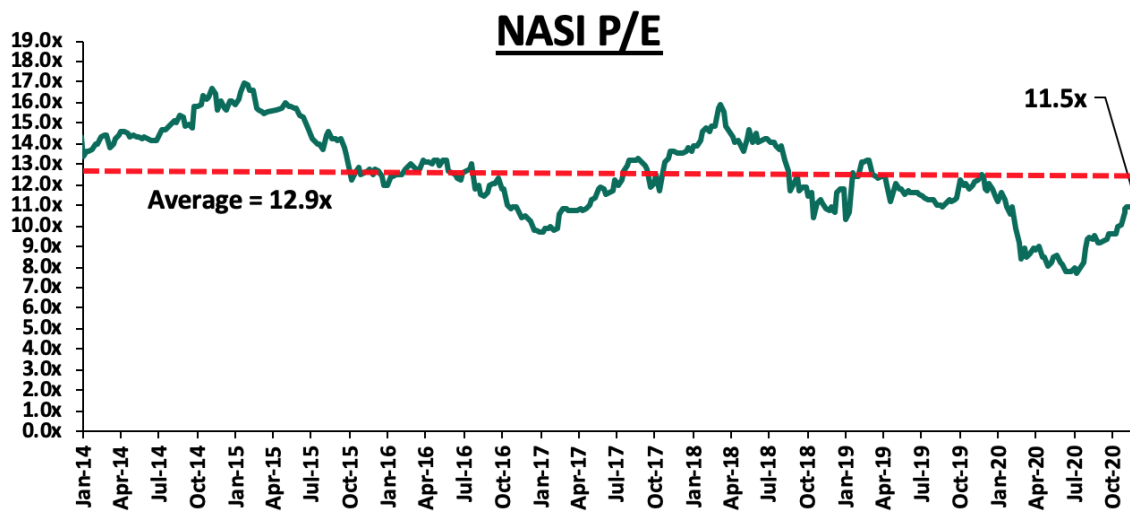
Market Performance

During the week, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 gaining by 1.4%, 1.5% and 0.8% respectively, taking their YTD performance to gains of 1.4%, 1.3% and 1.0%, for NASI, NSE 20 and NSE 25, respectively. The equities market performance was driven by gains recorded by large-cap stocks such as BAT, Co-operative Bank, Bamburi and Diamond Trust Bank (DTB-K) of 8.4%, 4.0%, 3.6% and 3.3% respectively. The gains were however weighed down by losses recorded by other large-cap stocks such as NCBA Group, Standard Chartered Bank and ABSA Bank of 4.3%, 2.9% and 1.9%, respectively.

Equities turnover increased by 239.7% during the week to USD 14.6 mn, from USD 4.3 mn recorded the previous week, taking the YTD turnover to USD 14.6 mn. Foreign investors turned net sellers during the week, with a net selling position of USD 1.9 mn, from a net buying position of USD 0.5 mn recorded the previous week, taking the YTD net selling position to USD 1.9 mn.

The market is currently trading at a price to earnings ratio (P/E) of 11.5x, 11.2% below the 11-year historical average of 12.9x. The average dividend yield is currently at 4.6%, unchanged from what was recorded the previous week and 0.5% points above the historical average of 4.1%.

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 11.5x is 49.1% above the most recent valuation trough of 7.7x experienced in the first week of August 2020. The charts below indicate the market's historical P/E and dividend yield.



Company	Price at 31/12/2020	Price at 8/1/2021	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Diamond Trust Bank***	75.0	77.5	3.3%	1.0%	76.8	105.1	3.5%	39.1%	0.3x	Buy
Kenya Reinsurance	2.3	2.5	6.9%	7.4%	2.3	3.3	4.4%	37.5%	0.3x	Buy
Sanlam	13.0	12.0	(7.3%)	(7.7%)	13.0	16.4	0.0%	36.7%	1.1x	Buy
I&M Holdings***	45.0	46.0	2.2%	2.6%	44.9	60.1	5.5%	36.2%	0.7x	Buy
KCB Group***	38.1	38.3	0.5%	(0.3%)	38.4	46.0	9.1%	29.2%	1.0x	Buy
Equity Group***	36.6	36.0	(1.5%)	(0.7%)	36.3	43.0	5.6%	25.0%	1.1x	Buy
Liberty Holdings	7.7	7.9	2.6%	2.6%	7.7	9.8	0.0%	24.1%	0.6x	Buy
ABSA Bank***	9.7	9.5	(1.9%)	(0.4%)	9.5	10.5	11.6%	22.4%	1.2x	Buy
Britam	7.3	7.4	2.2%	6.0%	7.0	8.6	3.4%	19.3%	0.8x	Accumulate
Co-op Bank***	12.5	13.0	4.0%	3.6%	12.6	14.5	7.7%	19.2%	1.0x	Accumulate
Standard Chartered***	144.3	140.0	(2.9%)	(3.1%)	144.5	153.2	8.9%	18.4%	1.1x	Accumulate

Company	Price at 31/12/2020	Price at 8/1/2021	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Stanbic Holdings	85.0	80.3	(5.6%)	(5.6%)	85.0	84.9	8.8%	14.6%	0.8x	Accumulate
Jubilee Holdings	284.0	291.5	2.6%	5.7%	275.8	313.8	3.1%	10.7%	0.7x	Accumulate
NCBA***	26.8	25.6	(4.3%)	(3.8%)	26.6	25.4	1.0%	0.2%	0.7x	Lighten
CIC Group	2.1	2.1	(1.4%)	(0.5%)	2.1	2.1	0.0%	0.0%	0.8x	Sell
HF Group	3.3	3.4	1.8%	7.6%	3.1	3.0	0.0%	(11.2%)	0.1x	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 the Equities markets in the short term but “Bullish” in the medium to long term. We expect the recent discovery of a new strain of COVID-19 coupled with the introduction of strict lockdown measures in major economies to continue dampening the economic outlook. However, we believe there exist pockets of value in the market, with a bias on financial services stocks given the resilience exhibited in the sector. The sector is currently trading at historically cheaper valuations and as such, presents attractive opportunities for investors.

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