



Cytonn Monthly-January 2021

Equities

Markets Performance

During the month of January, the equities market was on an upward trajectory, with NASI, NSE20 and NSE 25 gaining by 2.3%, 0.7% and 0.6%, respectively. The equities market performance was driven by gains recorded by large cap stocks such as BAT, Bamburi and Safaricom, which gained by 12.5%, 11.1% and 4.7%, respectively. The gains were however weighed down by losses recorded by banking stocks such as NCBA Group, KCB Group and Standard Chartered Bank, which declined by 7.5%, 5.9% and 4.0%, respectively.

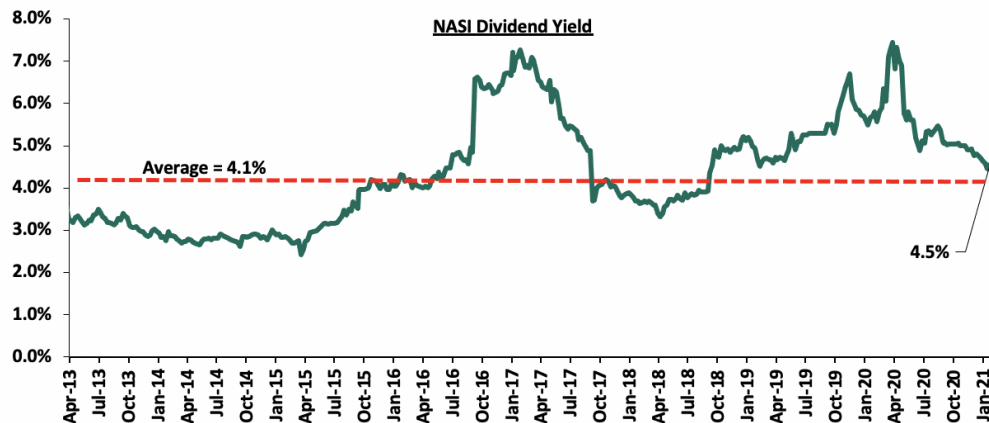
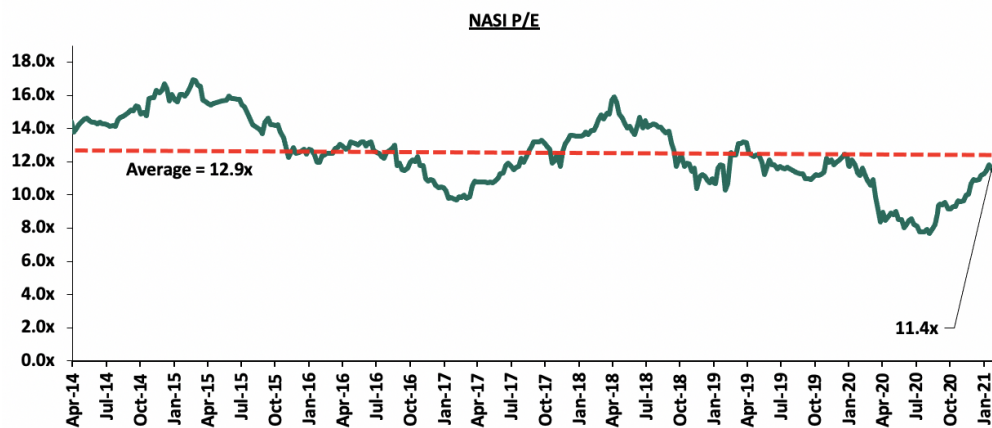
During the week, the equities market was on a downward trajectory, with NSE 20 declining by 2.0% while both NASI and NSE 25 declined by 1.6%, taking their YTD performance to gains of 2.3%, 0.5%, and 0.7%, for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large-cap stocks such as Bamburi, NCBA Group, Equity Group and ABSA Bank of 8.7%, 2.6%, 1.9%, and 1.5%, respectively. The losses were however mitigated by gains recorded by large-cap stocks such as Diamond Trust Bank (DTB-K), BAT and Safaricom, which gained by 4.1%, 2.1% and 0.8%, respectively.

Equities turnover declined by 12.7% during the month to USD 80.5 mn, from USD 92.3 mn recorded in December 2020. Foreign investors turned net buyers during the month, with a net buying position of USD 5.6 mn, compared to December's net selling position of USD 3.2 mn.

During the week, equities turnover declined by 5.0% to USD 22.9 mn, from USD 24.1 mn recorded the previous week, taking the YTD turnover to USD 80.5 mn. Foreign investors remained net buyers, with a net buying position of USD 0.7 mn, from a net buying position of USD 0.2 mn recorded the previous week, taking the YTD net buying position to USD 5.6 mn.

The market is currently trading at a price to earnings ratio (P/E) of 11.4x, 12.0% below the 11-year historical average of 12.9x. The average dividend yield is currently at 4.5%, 0.1% points below what was recorded the previous week, and 0.4% 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 11.4x is 47.7% above the most recent 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.



Monthly Highlight:

- The Insurance Regulatory Authority (IRA), recently released the Q3'2020 Insurance Industry Report highlighting that the industry's gross premium rose by 2.6% to Kshs 179.4 bn, from Kshs 174.9 bn recorded in Q3'2019, with the general insurance business contributing to 58.6% of the industry's premium income, a 1.6% points decline from the 60.2% contribution witnessed in Q3'2019. The regulator noted that the COVID-19 pandemic had impacted the insurance sector mainly through reduced returns from the capital markets and a rise in insurance claims in the long term insurance business class. For more information, please see Cytonn Weekly#03/2021.

Universe of Coverage

| Company | Price at 22/01/2021 | Price at 29/01/2021 | w/w change | YTD Change | Year Open | Target Price* | Dividend Yield | Upside/Downside** | P/TBv Multiple | Recommendation |
|-----------------------|---------------------|---------------------|------------|------------|-----------|---------------|----------------|-------------------|----------------|----------------|
| Diamond Trust Bank*** | 73.0 | 76.0 | 4.1% | (1.0%) | 76.8 | 105.1 | 3.6% | 41.8% | 0.3x | Buy |
| KCB Group*** | 36.0 | 35.9 | (0.4%) | (6.6%) | 38.4 | 46.0 | 9.8% | 38.1% | 1.0x | Buy |
| Kenya Reinsurance | 2.5 | 2.5 | (1.6%) | 6.9% | 2.3 | 3.3 | 4.5% | 38.1% | 0.3x | Buy |
| I&M Holdings*** | 46.0 | 47.0 | 2.2% | 4.8% | 44.9 | 60.1 | 5.4% | 33.3% | 0.7x | Buy |
| Liberty Holdings | 7.4 | 7.5 | 1.1% | (2.6%) | 7.7 | 9.8 | 0.0% | 30.7% | 0.6x | Buy |
| Sanlam | 14.0 | 13.0 | (7.1%) | 0.0% | 13.0 | 16.4 | 0.0% | 26.2% | 1.1x | Buy |
| ABSA Bank*** | 9.5 | 9.3 | (1.5%) | (2.1%) | 9.5 | 10.5 | 11.8% | 24.5% | 1.2x | Buy |
| Equity Group*** | 37.2 | 36.5 | (1.9%) | 0.7% | 36.3 | 43.0 | 5.5% | 23.3% | 1.1x | Buy |
| Co-op Bank*** | 12.6 | 12.6 | 0.0% | 0.4% | 12.6 | 14.5 | 7.9% | 23.0% | 1.0x | Buy |
| Standard Chartered*** | 138.8 | 138.5 | (0.2%) | (4.2%) | 144.5 | 153.2 | 9.0% | 19.6% | 1.1x | Accumulate |
| Britam | 7.5 | 7.5 | (0.8%) | 6.6% | 7.0 | 8.6 | 3.4% | 18.6% | 0.8x | Accumulate |
| Jubilee Holdings | 280.0 | 280.0 | 0.0% | 1.5% | 275.8 | 313.8 | 3.2% | 15.3% | 0.7x | Accumulate |
| Stanbic Holdings | 77.8 | 80.0 | 2.9% | (5.9%) | 85.0 | 84.9 | 8.8% | 14.9% | 0.8x | Accumulate |
| NCBA*** | 25.4 | 24.8 | (2.6%) | (7.0%) | 26.6 | 25.4 | 1.0% | 3.6% | 0.7x | Lighten |
| CIC Group | 2.2 | 2.1 | (3.7%) | (1.9%) | 2.1 | 2.1 | 0.0% | 1.4% | 0.8x | Lighten |

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|----------|------------------------|------------------------|---------------|---------------|--------------|------------------|-------------------|-----------------------|-------------------|----------------|
| HF Group | 3.9 | 3.9 | (0.8%) | 22.9% | 3.1 | 3.0 | 0.0% | (22.3%) | 0.1x | Sell |

*Target Price as per Cytonn Analyst estimates

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

***Banks in which Cytonn and/ or its affiliates are invested in

We are “Neutral” on the Equities markets in the short 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 maintain our bias towards a “Bullish” equities markets in the medium to long term. 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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