Cytonn Monthly - February 2021

Equities

Market Performance:

During the month of February, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 gaining by 6.3%, 1.8% and 5.5%, respectively. The equities market performance was driven by gains recorded by large-cap stocks such as BAT and EABL which gained by 20.5% and 10.9%, respectively, while Safaricom and KCB Group both recorded gains of 8.1%. The gains were however weighed down by losses recorded by some banking stocks such as Diamond Trust Bank (DTB-K) and Standard Chartered Bank which declined by 8.9%, and 2.7%, respectively.

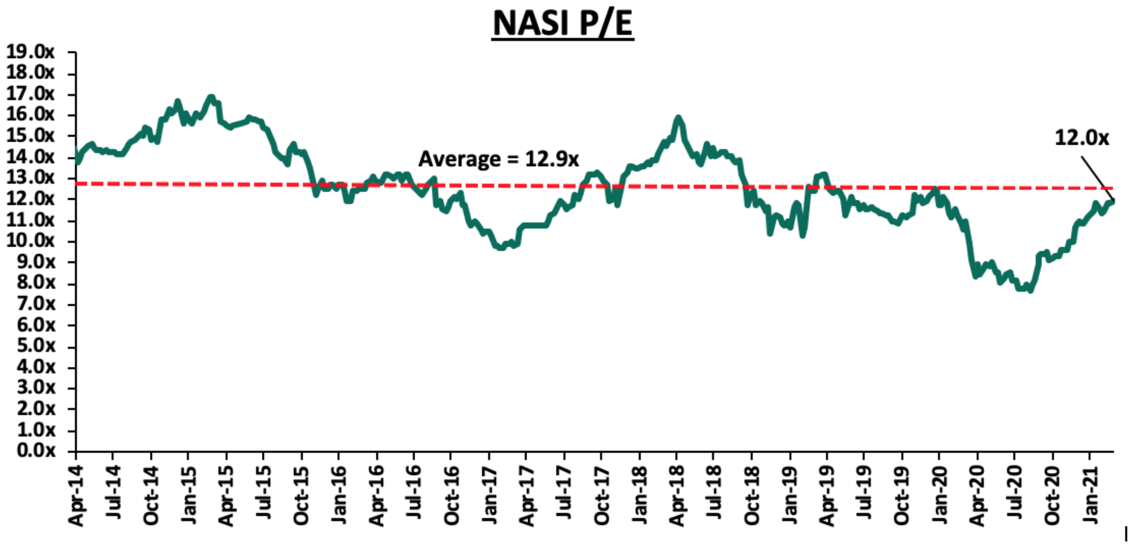
During the week, the equities market recorded mixed performance, with NSE 20 gaining by 1.4%, while NASI and NSE 25 shed by 0.1% and 0.4%, respectively, taking their YTD performance to gains of 8.8%, 6.3% and 2.3% for NASI, NSE 25 and NSE 20, respectively. The equities market performance was driven by gains recorded by large-cap stocks such as Bamburi, Cooperative Bank, and NCBA Group of 4.7%, 2.0% and 1.9%, respectively. The gains were however weighed down by losses recorded by stocks such as EABL, Diamond Trust Bank (DTB-K), KCB Group, and Equity Group which declined by 2.9%, 2.1%, 1.9%, and 1.4%, respectively.

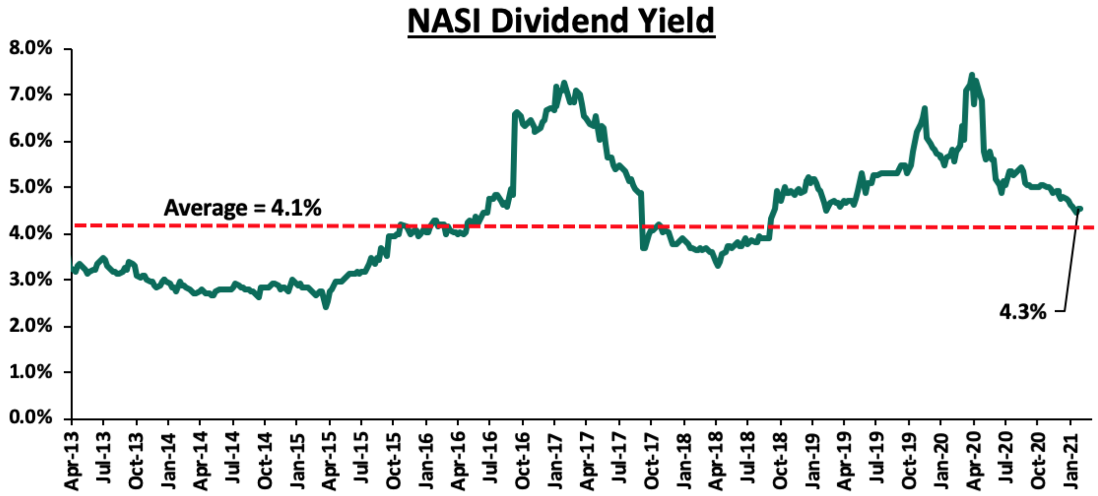
Equities turnover increased by 21.9% during the month to USD 98.1 mn, from USD 80.5 mn recorded in January 2021. Foreign investors turned net sellers during the month, with a net selling position of USD 5.6 mn, down from January's net buying position of USD 5.6 mn.

Equities turnover increased by 31.1% during the week to USD 29.0 mn, from USD 22.1 mn recorded the previous week, taking the YTD turnover to USD 178.6 mn. Foreign investors turned net buyers, with a net buying position of USD 0.1 mn, from a net selling position of USD 2.5 mn recorded the previous week, taking the YTD net selling position to USD 0.01 mn.

The market is currently trading at a price to earnings ratio (P/E) of 12.0x, 7.3% below the 11-year historical average of 12.9x. The average dividend yield is currently at 4.3%, unchanged from what was recorded the previous week, and 0.2% points above the historical average of 4.1%.

With the market trading at valuations below the historical average, we believe that there are pockets of value in the market for investors with higher risk tolerance. The current P/E valuation of 12.0x, the highest it has been since January 2020, is 55.5% 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.





Monthly Highlight:

- The Central Bank of Kenya (CBK), released the Commercial Banks' Credit Survey Report for the quarter ended December 2020. The quarterly Credit Officer Survey is undertaken by the CBK to identify the potential drivers of credit risk in the banking sector. According to the report, the banking sector's loan book recorded a 7.1% y/y growth compared to 8.8% the prior year, with gross loans increasing to Kshs 3.0 tn in December 2020, from Kshs 2.8 tn recorded in December 2019 while the aggregate balance sheet recorded a 12.5% increase y/y to Kshs 5.4 tn in FY'2020, from Kshs 4.8 tn in FY'2019. For more information, please see Cytonn Weekly#05/2021

Weekly Highlight:

During the week, Co-operative Bank Kenya disclosed that it had secured USD 15.0 mn (Kshs 1.6 bn) long-term loan from SwedFund for onward lending to Micro and Small Medium Enterprises (MSMEs). This comes weeks after the lender secured a 7-year long-term financing facility of USD 75.0 mn (Kshs 8.2 bn) from the International Finance Corporation (IFC), for a similar purpose. The lender disclosed that the facility will support MSME's which have been adversely affected by the pandemic. Following the disbursement of the intended loans to the MSMEs, the lender's loan book exposure to SMEs which stood at Kshs 17.6 bn (5.9% of the loan book as of Q3'2020) is set to increase. The move by Co-operative Bank to support the struggling MSMEs during this period is commendable as the loan facility will not only lead to the recovery of the MSME's but also lead to the lender's diversification of the assets through increased long-term funding that will support their deposit funding. Recently, in a similar move, Diamond Trust Bank also disclosed that it would advance Kshs 1.6 bn worth of loans to support the recovery of MSMEs, following the tough operating environment brought about by the pandemic. The table highlights some of the disclosed loan facilities that banks have secured to lend to the MSMEs in the last year:

No.	Bank	Amount of Loan intended for MSMEs recovery (Kshs bn)*
1	Equity Group	113.4
2	KCB Group	16.3
3	DTB Kenya	7.0
4	ABSA Bank Kenya	0.01
	Total	136.7

**Total amount of loans disclosed so far*

Cumulatively, approximately Kshs 136.7 bn has been availed to Kenyan Banks to support the recovery of SMEs in Kenya. Key to note, the above banks are among the lenders selected by the National treasury to provide financing to MSMEs through the Credit Guarantee Scheme. We believe that the financing facilities the lender's avail to businesses will aid in the reduction of the non-performing loans in the Banking Sector, consequently leading to the gradual improvement of the Banking sector's Asset Quality. However, given the elevated credit risk, we look forward to seeing whether these efforts by the lenders will be transmitted to the intended parties given that despite the Central Bank of Kenya's efforts, private sector credit growth has been muted.

Universe of Coverage:

Company	Price at 19/2/2021	Price at 26/2/2021	w/w change	m/m change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Diamond Trust Bank***	70.8	69.3	(2.1%)	(8.9%)	(9.8%)	76.8	105.1	3.9%	55.7%	0.3x	Buy
Sanlam	10.1	9.6	(5.1%)	(26.3%)	(26.3%)	13.0	14.0	0.0%	46.1%	0.8x	Buy
I&M Holdings***	44.8	45.0	0.3%	(4.4%)	0.2%	44.9	60.1	5.7%	39.4%	0.7x	Buy
Kenya Reinsurance	2.5	2.5	0.4%	0.8%	7.8%	2.3	3.3	4.4%	36.9%	0.3x	Buy
KCB Group***	39.5	38.8	(1.9%)	8.1%	0.9%	38.4	46.0	9.0%	27.7%	1.0x	Buy
Standard Chartered***	135.0	134.8	(0.2%)	(2.7%)	(6.7%)	144.5	153.2	9.3%	23.0%	1.1x	Buy
Liberty Holdings	7.5	8.0	7.8%	7.2%	4.4%	7.7	9.8	0.0%	21.9%	0.6x	Buy
Britam	7.0	7.3	4.0%	(2.4%)	4.0%	7.0	8.6	3.4%	21.6%	0.8x	Buy
Jubilee Holdings	265.3	266.0	0.3%	(5.0%)	(3.5%)	275.8	313.8	3.4%	21.3%	0.6x	Buy
ABSA Bank***	9.6	9.7	1.0%	4.3%	2.1%	9.5	10.5	11.3%	19.3%	1.2x	Accumulate
Co-op Bank***	12.8	13.1	2.0%	3.6%	4.0%	12.6	14.5	7.7%	18.8%	1.0x	Accumulate
Equity Group***	38.5	37.9	(1.4%)	3.8%	4.6%	36.3	43.0	5.3%	18.7%	1.1x	Accumulate
Stanbic Holdings	84.0	83.0	(1.2%)	3.8%	(2.4%)	85.0	84.9	8.5%	10.8%	0.8x	Accumulate
NCBA***	24.1	24.5	1.9%	(1.0%)	(7.9%)	26.6	25.4	1.0%	4.7%	0.6x	Lighten
CIC Group	2.1	2.3	8.5%	11.1%	9.0%	2.1	2.1	0.0%	(8.7%)	0.8x	Sell
HF Group	3.5	3.5	(0.6%)	(9.6%)	11.1%	3.1	3.0	0.0%	(14.0%)	0.2x	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" in 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 market 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.*