

Kenya Listed Banks Q1'2021 Report, & Cytonn Weekly #23/2021

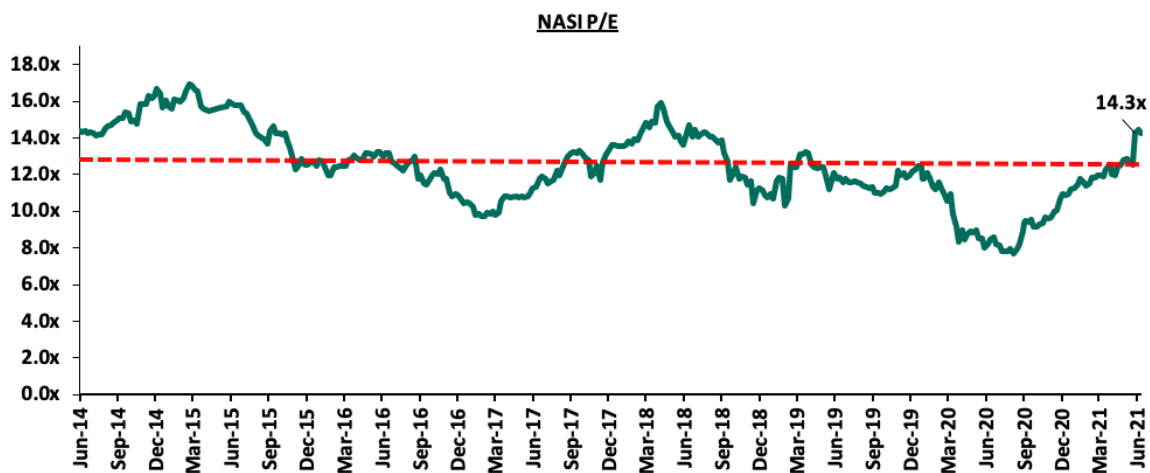
Equities

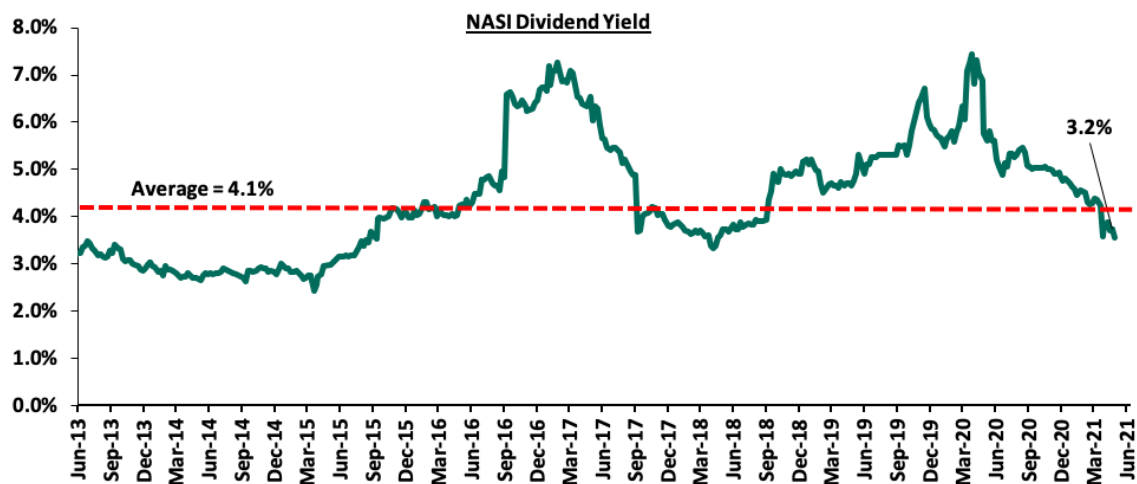
Markets Performance

During the week, the equities market was on an upward trajectory, with NSE 20 gaining by 0.2%, while NASI and NSE 25 both gained by 1.4%, taking their YTD performance to gains of 2.1%, 13.3% and 9.8% for NSE 20, NASI and NSE 25, respectively. The equities market performance was mainly driven by gains recorded by large-cap stocks such as ABSA Bank Kenya, Equity Group and Safaricom of 3.3%, 2.8%, and 1.9%, respectively. The gains were however weighed down by losses recorded by stocks such as Bamburi which declined by 6.2%.

During the week, equities turnover increased by 107.9% to USD 44.7 mn, from USD 21.5 mn recorded the previous week, taking the YTD turnover to USD 575.5 mn. Foreign investors remained net sellers, with a net selling position of USD 7.2 mn, from a net selling position of USD 1.7 mn recorded the previous week, taking the YTD net selling position to USD 24.7 mn.

The market is currently trading at a price to earnings ratio (P/E) of 14.3x, 10.4% above the historical average of 12.9x, and a dividend yield of 3.2%, 0.9% points below the historical average of 4.1%. Key to note, NASI's PEG ratio currently stands at 1.6x, an indication that the market is trading at a premium to its future earnings growth. Basically, a PEG ratio greater than 1.0x indicates the market may be overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued. Excluding Safaricom, the market is trading at a P/E ratio of 12.4x and a PEG ratio of 1.4x. The current P/E valuation of 14.3x is 85.2% above the most recent trough valuation 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.





Universe of Coverage

Below is a summary of our universe of coverage and the recommendations:

Company	Price at 04/06/2021	Price as at 11/06/2021	w/w change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
I&M Holdings***	22.0	21.5	(2.3%)	(52.1%)	44.9	29.8	10.5%	49.1%	0.3x	Buy
Sanlam	10.5	9.3	(11.4%)	(28.5%)	13.0	12.4	0.0%	33.3%	0.8x	Buy
Kenya Reinsurance	2.5	2.5	(0.4%)	7.8%	2.3	3.1	4.0%	28.5%	0.3x	Buy
Liberty Holdings	7.0	6.8	(2.6%)	(11.4%)	7.7	8.4	0.0%	23.2%	0.5x	Buy
Co-op Bank***	12.3	12.3	0.4%	(2.0%)	12.6	13.8	8.1%	20.3%	0.9x	Buy
Diamond Trust Bank***	60.0	59.0	(1.7%)	(23.1%)	76.8	70.0	0.0%	18.6%	0.3x	Accumulate
Stanbic Holdings	80.0	80.0	0.0%	(91.5%)	85.0	90.5	4.8%	17.9%	0.8x	Accumulate
NCBA***	26.1	26.3	0.8%	(1.1%)	26.6	29.5	5.7%	17.9%	0.7x	Accumulate
KCB Group***	42.3	42.6	0.8%	10.9%	38.4	48.6	2.3%	16.4%	1.0x	Accumulate
Equity Group***	42.9	44.1	2.8%	21.5%	36.3	51.2	0.0%	16.2%	1.3x	Accumulate
Standard Chartered***	130.0	130.0	0.0%	(10.0%)	144.5	134.5	8.1%	11.5%	0.9x	Accumulate
Jubilee Holdings	280.0	306.3	9.4%	11.1%	275.8	330.9	2.9%	11.0%	0.6x	Accumulate
ABSA Bank***	9.8	10.1	3.3%	6.1%	9.5	10.7	0.0%	5.9%	1.1x	Hold
Britam	7.1	7.3	2.0%	3.7%	7.0	6.7	0.0%	(7.7%)	1.3x	Sell
HF Group	3.7	3.8	3.0%	19.7%	3.1	3.2	0.0%	(14.9%)	0.2x	Sell
CIC Group	2.1	2.1	2.4%	0.5%	2.1	1.8	0.0%	(15.1%)	0.7x	Sell

*Target Price as per Cytonn Analyst estimates

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

***For Disclosure, these are stocks in which Cytonn and/or its affiliates are invested in

Key to note, I&M Holdings YTD share price change is mainly attributable to counter trading ex-bonus issue.

We are "Neutral" on the Equities markets in the short term. With the market currently trading at a premium to its future growth (PEG Ratio at 1.6x), we believe that investors should reposition towards companies with a strong earnings growth and are trading at discounts to their intrinsic value. Additionally, we expect the recent discovery of new strains of COVID-19 coupled with the introduction of strict lockdown measures in major economies to continue dampening the economic outlook.

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