

Kenya's FY'2021/2022 Budget Review, & Cytonn Weekly #24/2021

Equities

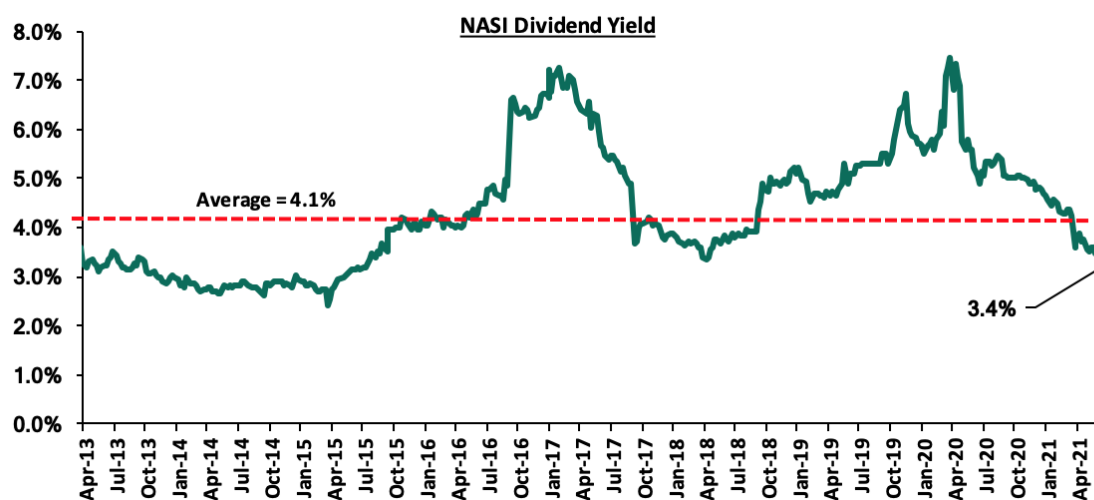
Markets Performance

During the week, the equities market recorded mixed performance, with NSE 20 declining by 0.6%, while NASI and NSE 25 remained relatively unchanged increasing marginally by 0.03% and 0.1%, respectively. This week's performance took their YTD performance to gains of 1.5%, 13.4% and 9.9% for NSE 20, NASI and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large-cap stocks such as BAT, NCBA Group and EABL of 3.1%, 2.7%, and 0.5%, respectively.

During the week, equities turnover declined by 50.9% to USD 21.9 mn, from USD 44.7 mn recorded the previous week, taking the YTD turnover to USD 597.4 mn. Foreign investors remained net sellers, with a net selling position of USD 2.7 mn, from a net selling position of USD 7.2 mn recorded the previous week, taking the YTD net selling position to USD 27.4 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 3.4%, 0.7% 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 10.2x and a PEG ratio of 1.1x. The current P/E valuation of 14.3x is 86.2% 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.

Date	P/E Ratio
Apr-14	13.5x
Jul-14	14.5x
Oct-14	16.0x
Jan-15	17.0x
Apr-15	15.5x
Jul-15	14.0x
Oct-15	13.0x
Jan-16	12.5x
Apr-16	13.0x
Jul-16	12.5x
Oct-16	11.5x
Jan-17	10.5x
Apr-17	11.0x
Jul-17	12.5x
Oct-17	13.5x
Jan-18	14.5x
Apr-18	15.5x
Jul-18	14.0x
Oct-18	11.0x
Jan-19	10.5x
Apr-19	11.5x
Jul-19	11.0x
Oct-19	10.5x
Jan-20	11.0x
Apr-20	8.5x
Jul-20	7.7x
Oct-20	9.5x
Jan-21	11.5x
Apr-21	14.3x



Universe of Coverage

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

Company	Price as at 11/06/2021	Price as at 18/06/2021	w/w change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
I&M Holdings***	21.5	21.8	1.4%	(51.4%)	44.9	29.8	10.3%	47.0%	0.3x	Buy
Kenya Reinsurance	2.5	2.4	(2.8%)	4.8%	2.3	3.1	4.1%	32.2%	0.3x	Buy
Sanlam	9.3	9.7	4.7%	(25.1%)	13.0	12.4	0.0%	27.3%	0.8x	Buy
NCBA***	26.3	25.6	(2.7%)	(3.8%)	26.6	29.5	5.9%	21.1%	0.7x	Buy
Co-op Bank***	12.3	12.3	(0.4%)	(2.4%)	12.6	13.8	8.2%	20.8%	0.9x	Buy
Diamond Trust Bank***	59.0	59.0	0.0%	(23.1%)	76.8	70.0	0.0%	18.6%	0.3x	Accumulate
Stanbic Holdings	80.0	80.0	0.0%	(5.9%)	85.0	90.5	4.8%	17.9%	0.8x	Accumulate
KCB Group***	42.6	42.6	(0.1%)	10.8%	38.4	48.6	2.4%	16.6%	1.0x	Accumulate
Liberty Holdings	6.8	7.2	6.2%	(6.0%)	7.7	8.4	0.0%	16.0%	0.5x	Accumulate
Equity Group***	44.1	44.8	1.6%	23.4%	36.3	51.2	0.0%	14.4%	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	306.3	309.5	1.1%	12.2%	275.8	330.9	2.9%	9.8%	0.6x	Hold
ABSA Bank***	10.1	10.1	0.0%	6.1%	9.5	10.7	0.0%	5.9%	1.1x	Hold
Britam	7.3	7.3	0.8%	4.6%	7.0	6.7	0.0%	(8.5%)	1.3x	Sell
HF Group	3.8	3.6	(3.5%)	15.6%	3.1	3.2	0.0%	(11.8%)	0.2x	Sell
CIC Group	2.1	2.1	0.0%	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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