

Cytonn H1'2021 Markets Review

Equities

Market Performance:

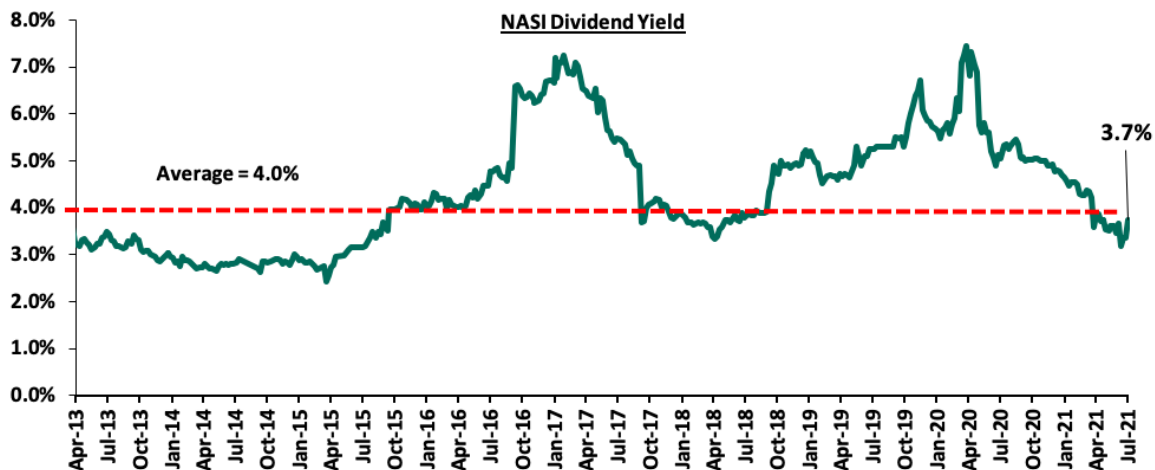
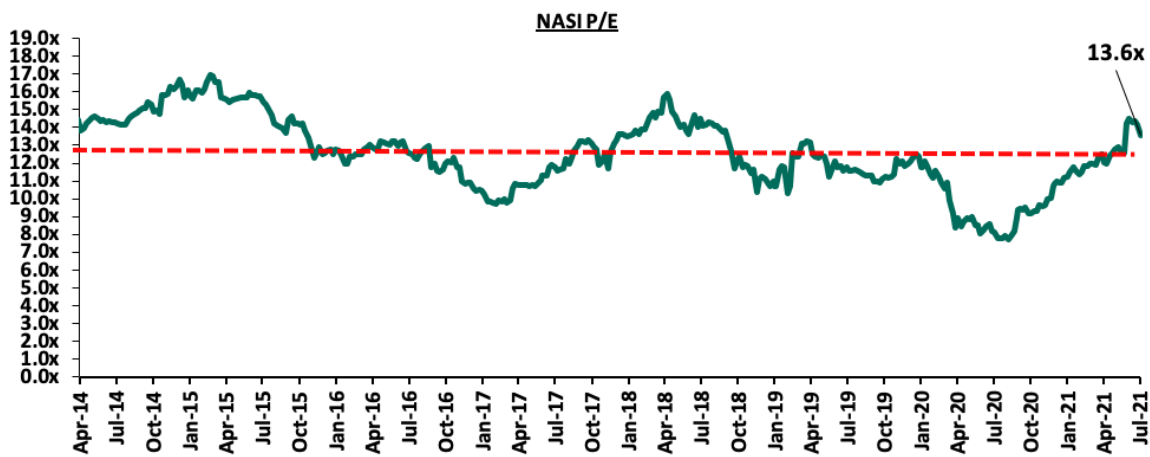
During Q2'2021, the equities market was on an upward trajectory, with NASI, NSE 25 and NSE 20 gaining by 9.4%, 6.8% and 4.4%, respectively, taking their H1'2021 to gains of 14.1%, 10.5%, and 3.2% for NASI, NSE 25 and NSE 20 respectively. The equities market performance during the quarter was driven by gains recorded by large cap stocks such as Equity Group, EABL, and Safaricom of 17.9%, 14.4%, and 14.3%, respectively.

Equities turnover declined by 20.7% in H1'2021 to USD 641.2 mn, from USD 808.8 mn in H1'2020. Foreign investors remained net sellers in H1'2021 with a net selling position of USD 27.6 mn, from a net selling position of USD 216.5 mn recorded in H1'2020.

During the week, the equities market recorded mixed performance with NSE 20 and NSE 25 gaining by 1.5% and 0.9%, respectively, while NASI declined marginally by 0.2%, taking their YTD performance to gains of 12.6%, 10.9% and 3.0%, for NASI, NSE 25 and NSE 20, respectively. The equities market performance was mainly driven by gains recorded by large-cap stocks such as Bamburi, BAT Kenya and Cooperative Bank, of 8.1%, 4.2%, and 3.1%, respectively. The gains were however weighed down by losses recorded by ABSA Bank, KCB Group and Diamond Trust Bank (DTB-K), which declined by 5.2%, 3.1% and 1.7%, respectively.

During the week, equities turnover declined by 24.2% to USD 23.7 mn from USD 31.3 mn recorded the previous week, taking the YTD turnover to USD 652.4 mn. During the week, foreign investors turned net buyers, with a net buying position of USD 2.5 mn, from a net selling position of USD 0.7 mn recorded the previous week, taking the YTD net selling position to USD 25.6 mn.

The market is currently trading at a price to earnings ratio (P/E) of 13.6x, 4.9% above the historical average of 12.9x, and a dividend yield of 3.7%, 0.3% points below the historical average of 4.0%. Key to note, NASI's PEG ratio currently stands at 1.5x, 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 8.7x and a PEG ratio of 1.0x. The current P/E valuation of 13.6x is 76.0% 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.



Listed Banks' FY'2020 and Q1'2021 Performance

During the first half of 2021, the listed banking sector released their FY'2020 and Q1'2021 results, recording earnings growth of (26.8%) and 28.4% in their core EPS in FY'2020 and Q1'2021, respectively. For more information, kindly see our FY'2020 and Q1'2021 Banking Sector Reports.

Key Half-Year Highlights:

During the first half of 2021;

- i. Liberty Holdings Limited (Liberty), a financial services and property holding company announced plans to buy an additional 84.2 mn shares in Liberty Kenya Holdings Plc (LK), which represents 15.8% of the company. The planned acquisition will increase the company's stake to 73.5% (393.6 mn ordinary shares) from the current 57.7% (309.3 mn ordinary shares), retaining Liberty's status as the biggest shareholder of the insurer. The total cost of this transaction is Kshs 926.6 mn, with Liberty Holdings Limited buying each share at Kshs 11.0. For more information, please see *Cytonn Weekly #09/2021*,
- ii. The Central Bank of Kenya (CBK) announced that the **emergency measures on restructuring of loans for bank borrowers** put in place in March 2020, expired on 2nd March 2021. The emergency measures were meant to cushion the borrowers from the adverse effects of the pandemic which would affect their ability to service loans such as the reduction in disposable income. For more information, please see *Cytonn Weekly #12/2021*,
- iii. The Central Bank of Kenya (CBK) announced that Chase Bank Limited (In Receivership) (CBLIR) would be **liquidated**, following the recommendation made by Kenya Deposit Insurance Corporation (KDIC). The liquidation measure comes five years after CBK appointed the Kenya Deposit Insurance Corporation (KDIC) as the receiver for Chase Bank Limited on 7th April 2016. On 7th April 2021, KDIC submitted a receiver's reports to CBK indicating that given the weak financial position of CBLIR, liquidation of the bank was the only plausible option and therefore, effective 16th April 2021, CBK appointed KDIC as the Liquidator of CBLIR. For more information, please

see Cytonn Weekly #15/2021,

- iv. I&M Holdings PLC announced that it completed the 90.0% acquisition of Orient Bank Limited Uganda (OBL) share capital, after receiving all the required regulatory approvals. As highlighted in our Cytonn Weekly #50/2020, I&M Holdings was set to pay Kshs 3.6 bn for the deal. Additionally, I&M Holdings will take over 14 branches from OBL, taking its total branches to 80, from 66 branches as at the end of 2020. For more information, please see Cytonn Weekly #18/2021,
- v. KCB Group disclosed that it had made an offer to the Banque Populaire du Rwanda Plc (BPR) shareholders' to raise its acquisition stake in the bank from 62.1% to 100.0%. As highlighted in our Cytonn Weekly #48/2020, the 62.1% BPR acquisition would see KCB pay a cash consideration based on the net asset value of the BPR at completion of the transaction using a price to book multiple of 1.1x. According to the latest BPR financials, the bank had a book value of Rwf 47.3 bn (Kshs 5.1 bn), and thus at the trading multiple of 1.1x, we expect KCB Group to pay Kshs 5.6 bn. For more information on the acquisition, see our Cytonn Weekly #19/2021,
- vi. In May 2021, Equity Group disclosed that it had acquired an additional 7.7% stake valued at Kshs 996.0 mn, in Equity bank Congo (EBC) from the German Sovereign Wealth Fund (KfW). The acquisition raised the total ownership in EBC to 94.3%, indicating that they are currently valuing the company at Kshs 14.2 bn. This follows the recent acquisition of 66.5% stake in Banque Commerciale Du Congo (BCDC) by Equity Group at a cost of Kshs 10.2 bn in August 2020. For more information, please see Cytonn Weekly #20/2021,
- vii. Safaricom Plc announced that the Ethiopian Communications Authority (ECA) had approved a bid for an Ethiopia Telco License which was submitted by a consortium consisting of Safaricom, Vodacom Group Ltd, Vodafone Group Plc (UK), CDC Group Plc and Sumitomo Corporation. The consortium's financial bid of USD 850.0 mn (Kshs 91.8 bn) will allow the consortium to operate a telecommunications network in Ethiopia, but will not include a license to operate mobile money. For more information, please see Cytonn Weekly #21/2021, and,

Nation Media Group (NMG) issued a share buyback circular to shareholders, proposing to buy back of up to 10.0% (20.7 mn shares) of its issued and paid-up share capital in accordance with Part XVI, Section 447 of the Companies Act, 2015 of the laws of Kenya. This would reduce the company's outstanding shares to 186.7 mn shares, from 207.4 mn shares. Key to note, NMG is the first company in the Nairobi Securities Exchange (NSE) to undertake a share repurchase program. The share buyback has since been approved by the shareholders in their AGM held on 25th June 2021. For more information, please see Cytonn Monthly - May 2021.

Company	Price as at 25/06/2021	Price as at 02/07/2021	w/w change	q/q change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
I&M Group***	21.1	21.6	2.1%	(56.3%)	(52.0%)	44.9	29.8	10.4%	48.7%	0.3x	Buy
Kenya Reinsurance	2.4	2.4	0.4%	1.2%	4.8%	2.3	3.1	4.1%	32.2%	0.3x	Buy
NCBA***	25.2	25.0	(0.6%)	1.4%	(6.0%)	26.6	29.5	6.0%	24.0%	0.6x	Buy
Sanlam	10.0	10.2	2.0%	(7.4%)	(21.5%)	13.0	12.4	0.0%	21.6%	0.9x	Buy
Diamond Trust Bank***	60.0	59.0	(1.7%)	(5.6%)	(23.1%)	76.8	70.0	0.0%	18.6%	0.3x	Accumulate
KCB Group***	43.9	42.5	(3.1%)	3.3%	10.7%	38.4	48.6	2.4%	16.7%	1.0x	Accumulate
ABSA Bank***	9.9	9.4	(5.2%)	12.5%	(1.3%)	9.5	10.7	0.0%	13.8%	1.1x	Accumulate
Stanbic Holdings	81.3	83.0	2.2%	(0.3%)	(2.4%)	85.0	90.5	4.6%	13.6%	0.8x	Accumulate
Standard Chartered***	130.0	130.0	0.0%	(8.5%)	(10.0%)	144.5	134.5	8.1%	11.5%	0.9x	Accumulate
Co-op Bank***	13.0	13.4	3.1%	4.5%	6.8%	12.6	13.8	7.5%	10.4%	0.9x	Accumulate
Equity Group***	46.6	46.7	0.2%	17.9%	28.8%	36.3	51.2	0.0%	9.6%	1.4x	Hold

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Liberty Holdings	8.5	7.7	(9.4%)	5.1%	0.0%	7.7	8.4	0.0%	9.1%	0.6x	Hold
Britam	7.4	7.2	(2.4%)	3.1%	2.6%	7.0	6.7	0.0%	(6.7%)	1.3x	Sell
Jubilee Holdings	310.0	375.5	21.1%	29.6%	36.2%	275.8	330.9	2.4%	(9.5%)	0.8x	Sell
HF Group	3.6	3.9	7.4%	(3.5%)	24.2%	3.1	3.2	0.0%	(17.9%)	0.2x	Sell
CIC Group	2.1	2.4	13.7%	3.8%	13.7%	2.1	1.8	0.0%	(25.0%)	0.8x	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 Group YTD and Q/Q 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 1.5x), 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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