

Real Estate Bubble, & Cytonn weekly #28/2021

Equities

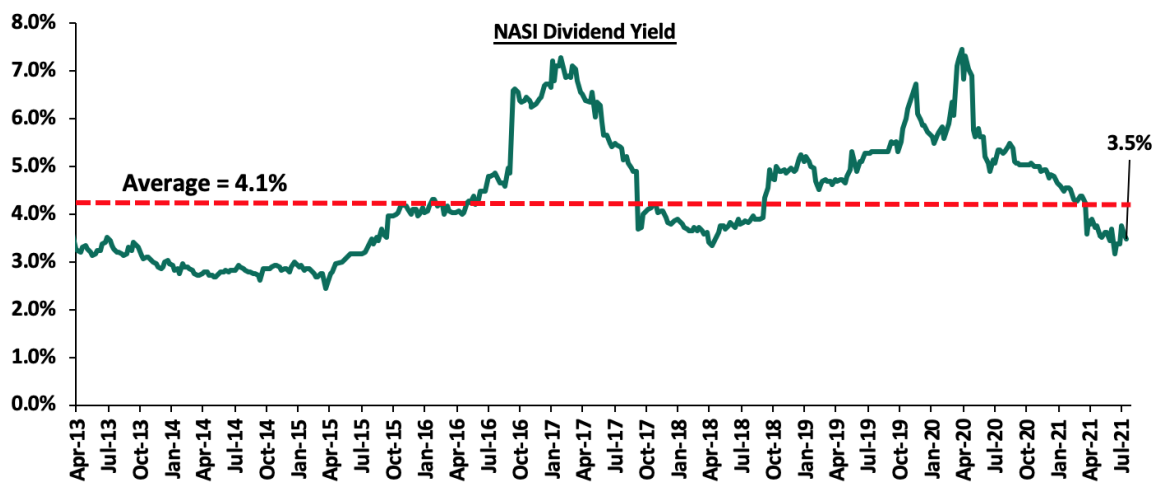
Markets Performance

During the week, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 gaining by 2.0%, 1.1% and 1.0%, respectively, taking their YTD performance to gains of 17.5%, 5.3% and 14.4% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by gains recorded by stocks such as Diamond Trust Bank (DTB-K), Bamburi and Safaricom of 12.3%, 4.7% and 3.3%, respectively. The gains were however weighted down by losses recorded by BAT and KCB Group which declined by 2.3% and 1.4%, respectively.

During the week, equities turnover declined by 32.5% to USD 16.9 mn, from USD 25.1 mn recorded the previous week, taking the YTD turnover to USD 694.4 mn. Foreign investors turned net buyers, with a net buying position of USD 1.0 mn, from a net selling position of USD 0.6 mn recorded the previous week, taking the YTD net selling position to USD 25.2 mn.

The market is currently trading at a price to earnings ratio (P/E) of 14.2x, 10.1% above the historical average of 12.9x, and a dividend yield of 3.5%, 0.5% points below the historical average of 4.0%. 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 12.7x and a PEG ratio of 1.4x. The current P/E valuation of 14.2x is 84.7% 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	14.0x
Jul-14	14.5x
Oct-14	15.5x
Jan-15	16.5x
Apr-15	15.5x
Jul-15	15.0x
Oct-15	13.0x
Jan-16	12.5x
Apr-16	13.0x
Jul-16	12.0x
Oct-16	11.0x
Jan-17	10.0x
Apr-17	11.0x
Jul-17	12.0x
Oct-17	13.0x
Jan-18	14.0x
Apr-18	15.5x
Jul-18	14.0x
Oct-18	11.0x
Jan-19	10.0x
Apr-19	11.0x
Jul-19	10.0x
Oct-19	11.0x
Jan-20	10.0x
Apr-20	8.0x
Jul-20	7.7x
Oct-20	9.0x
Jan-21	10.0x
Apr-21	11.0x
Jul-21	14.2x



Weekly Highlight:

During the week, the Ethiopian Communications Authority (ECA) **announced** the formal issuance of a Telecommunications Operator License to the Global Partnership for Ethiopia (GPE) consortium which had successfully bid USD 850.0 mn (Kshs 91.8 bn) for the telco license. The GPE consortium consists of Safaricom, Sumitomo Corporation, CDC Group Plc and Vodacom with shareholdings of 55.7%, 27.2%, 10.9% and 6.2%, respectively. GPE, which has been incorporated as Safaricom Telecommunications Ethiopia PLC, has been granted a nationwide full-service Telecommunications Service License valid for a period of 15 years, effective 9th July 2021, and is renewable for an additional term of 15 years subject to the fulfillment of all license obligations. The formal issuance of the license will make Safaricom the second telecommunications operator and the first private telecoms operator in Ethiopia. The telecommunications industry in Ethiopia is dominated by Ethio-Telecom, which is a State Owned Enterprise with 50.7 mn subscribers, translating to a mobile penetration rate of 43.3%. The entry of GPE marks a significant step in Ethiopia's liberalization of the communications sector. Safaricom Telecommunications Ethiopia plans to begin operations in 2022, with the aim of attracting 21.0 mn new mobile subscribers in the first year of operations.

On the flip side, the armed conflict in Ethiopia poses a challenge for the venture due to the current political instability in the country. Financing of the venture has also been complicated as a result of the conflict, with the US International Development Finance Corporation (DFC), which had agreed to offer financing of up to USD 500.0 mn (Kshs 54.1 bn), threatening to cancel the financing on account of the escalating conflict in the region. Key to note, Ethiopia is currently under sanctions by the United States and the financing for GPE had been provided as an exception to the consortium. The cancellation of the loan would force Safaricom to seek alternative financing at a higher cost or dig into its cash reserves, which could affect its Net Profit margins, which stood at 26.6% as at H1'2021.

Universe of Coverage:

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

Company	Price as at 09/07/2021	Price as at 16/07/2021	w/w change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
I&M Group***	21.6	21.5	(0.2%)	(52.1%)	44.9	29.8	10.5%	49.1%	0.3x	Buy
Kenya Reinsurance	2.4	2.5	3.3%	8.7%	2.3	3.1	4.0%	27.5%	0.3x	Buy
NCBA***	26.0	26.0	(0.2%)	(2.4%)	26.6	29.5	5.8%	19.5%	0.6x	Accumulate
Stanbic Holdings	80.0	82.8	3.4%	(2.6%)	85.0	90.5	4.6%	14.0%	0.8x	Accumulate
Sanlam	10.2	11.0	8.4%	(15.4%)	13.0	12.4	0.0%	12.7%	1.0x	Accumulate

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Standard Chartered***	129.5	129.8	0.2%	(10.2%)	144.5	134.5	8.1%	11.8%	0.9x	Accumulate
KCB Group***	45.5	44.9	(1.4%)	16.8%	38.4	48.6	2.2%	10.6%	1.1x	Accumulate
Co-op Bank***	13.5	13.5	0.0%	7.6%	12.6	13.8	7.4%	9.6%	0.9x	Hold
Liberty Holdings	8.0	7.8	(2.5%)	1.3%	7.7	8.4	0.0%	7.7%	0.6x	Hold
ABSA Bank***	10.1	10.0	(0.5%)	5.0%	9.5	10.7	0.0%	7.0%	1.1x	Hold
Diamond Trust Bank***	59.0	66.3	12.3%	(13.7%)	76.8	70.0	0.0%	5.7%	0.3x	Hold
Equity Group***	49.0	48.6	(0.9%)	33.9%	36.3	51.2	0.0%	5.5%	1.4x	Hold
Britam	7.5	7.5	0.3%	7.4%	7.0	6.7	0.0%	(10.9%)	1.4x	Sell
Jubilee Holdings	390.0	385.0	(1.3%)	39.6%	275.8	330.9	2.3%	(11.7%)	0.8x	Sell
HF Group	3.9	3.7	(5.1%)	17.8%	3.1	3.2	0.0%	(13.5%)	0.2x	Sell
CIC Group	3.4	2.6	(22.1%)	25.1%	2.1	1.8	0.0%	(31.8%)	0.9x	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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