

Cytonn Monthly - July 2021

Equities

Markets Performance

During the month of July, the equities market was on an upward trajectory, with the NASI, NSE 20 and NSE 25 gaining by 2.3%, 2.4%, and 3.1%, respectively, bringing the year to date performance to gains of 16.8%, 5.4% and 14.1% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was driven by gains recorded by large-cap stocks such as Diamond Trust Bank Kenya (DTB-K), Equity Group, and Bamburi, which gained by 11.0%, 9.3%, and, 8.1% respectively. The gains were however weighed down by losses recorded by Co-operative Bank, which declined by 1.8%.

During the week, the equities market was on a downward trajectory, with the NASI, NSE 20 and NSE 25 declining by 0.8%, 0.4%, and 0.1%, respectively, taking their YTD performance to gains of 16.8%, 5.4% and 14.1% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large-cap stocks such as Bamburi and EABL which both declined by 2.7% and Safaricom, which declined by 2.0%. The losses were however mitigated by gains recorded by banking stocks such as Co-operative Bank, KCB Group and Equity group which gained by 3.4%, 2.6% and 2.2%, respectively.

Equities turnover declined by 33.7% during the month to USD 85.8 mn, from USD 129.4 mn recorded in June 2021. Foreign investors turned net buyers during the month, with a net buying position of USD 1.4 mn, compared to June's net selling position of USD 11.1 mn.

During the week, equities turnover decreased by 8.2% to USD 15.6 mn, from USD 17.0 mn recorded the previous week, taking the YTD turnover to USD 727.0 mn. Foreign investors turned net sellers, with a net selling position of USD 1.3 mn, from a net buying position of USD 0.4 mn recorded the previous week, taking the YTD net selling position to USD 26.2 mn.

The market is currently trading at a price to earnings ratio (P/E) of 14.0x, 7.9% above the historical average of 12.9x, and a dividend yield of 3.2%, 0.8% 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 12.1x and a PEG ratio of 1.4x. The current P/E valuation of 14.0x is 81.2% 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.



Monthly Highlights:

- Atlas Mara Limited **disclosed** that the Rwandese Authorities had approved the sale of Banque Populaire du Rwanda (BPR) to KCB Group, and that the parties are now in the process of

finalizing the pre-completion conditions. KCB Group and Atlas Mara Limited had signed a **definitive agreement** in November 2020 for KCB's acquisition of a 62.1% stake in BPR and a 100.0% stake in Africa Banking Corporation Tanzania Limited (BancABC), subject to shareholder approval and regulatory approval in the respective countries. In May 2021, KCB Group disclosed that it made an offer to the remaining BPR shareholders to raise its acquisition stake in the bank to 100.0% from 62.1% and received **shareholders' approval** for the acquisitions, with only regulatory approval pending for the finalization of the transactions. Regulatory approval is however still pending with respect to the KCB's acquisition of BancABC from Atlas Mara. For more information, see our **Cytonn Weekly #29/2021**,

- The Central Bank of Kenya (CBK) released the **Quarterly Economic Review** for the period ending 31st March 2021, highlighting that the banking sector remained stable and resilient in the midst of a pandemic during the period. According to the report, the sector's total assets increased by 2.0% to Kshs 5.5 tn in March 2021, from Kshs 5.4 tn in December 2020. The increase was mainly attributable to an 8.1% increase in placements coupled with a 5.2% increase in loans and advances in March 2021. For more information, see our **Cytonn Weekly #29/2021**, and,
- 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 fulfilment of all license obligations. For more information, see our **Cytonn Weekly #28/2021**.

Universe of Coverage

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

Company	Price at 23/7/2021	Price at 30/7/2021	w/w change	m/m change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
I&M Group***	22.2	23.0	3.6%	5.0%	(48.8%)	44.9	29.8	9.8%	39.7%	0.3x	Buy
Kenya Reinsurance	2.5	2.6	2.0%	4.0%	11.3%	2.3	3.1	7.8%	28.4%	0.3x	Buy
NCBA***	26.2	26.6	1.5%	4.1%	(0.2%)	26.6	29.5	5.6%	16.8%	0.7x	Accumulate
Sanlam	11.6	11.0	(5.2%)	10.0%	(15.4%)	13.0	12.4	0.0%	12.7%	1.0x	Accumulate
Standard Chartered***	129.5	129.5	0.0%	(0.2%)	(10.4%)	144.5	134.5	8.1%	12.0%	0.9x	Accumulate
Stanbic Holdings	87.5	85.0	(2.9%)	4.9%	0.0%	85.0	90.5	4.5%	10.9%	0.8x	Accumulate
Co-op Bank***	13.1	13.6	3.4%	(1.8%)	8.0%	12.6	13.8	7.4%	9.2%	0.9x	Hold
KCB Group***	44.6	45.7	2.6%	7.2%	19.0%	38.4	48.6	2.2%	8.5%	1.1x	Hold
ABSA Bank***	9.9	9.9	0.8%	0.2%	4.4%	9.5	10.7	0.0%	7.6%	1.1x	Hold
Diamond Trust Bank***	65.0	65.8	1.2%	11.0%	(14.3%)	76.8	70.0	0.0%	6.5%	0.3x	Hold
Equity Group***	47.9	48.9	2.2%	9.3%	34.9%	36.3	51.2	0.0%	4.7%	1.4x	Lighten
Liberty Holdings	9.6	9.1	(5.2%)	4.6%	17.7%	7.7	8.4	0.0%	(7.3%)	0.7x	Sell
Jubilee Holdings	370.0	379.0	2.4%	8.1%	37.4%	275.8	330.9	2.4%	(10.3%)	0.8x	Sell
Britam	7.7	7.9	2.1%	8.6%	12.3%	7.0	6.7	0.0%	(14.8%)	1.5x	Sell
HF Group	3.9	3.8	(1.8%)	(2.3%)	20.4%	3.1	3.2	0.0%	(15.3%)	0.2x	Sell
CIC Group	2.6	3.0	16.1%	37.0%	40.3%	2.1	1.8	0.0%	(39.2%)	1.0x	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 the 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.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com
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