

Role of Trustees in the Capital Markets in Kenya, & Cytonn Weekly #31/2021

Equities

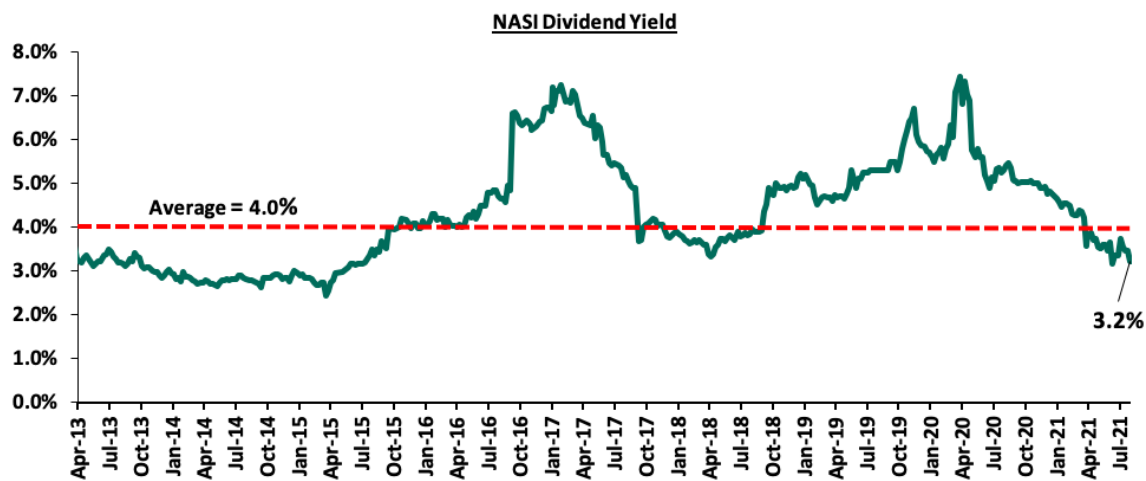
Markets Performance

During the week, the equities market recorded a mixed performance, with NASI and NSE 25 gaining by 0.6% and 0.7%, respectively, while NSE 20 remained unchanged, taking their YTD performance to gains of 17.4%, 5.4% and 14.9% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by gains recorded by banking stocks such as KCB Group, Equity Group and Standard Chartered Bank Kenya (SCBK) which gained by 2.3%, 2.2% and 1.2%, respectively. The gains were however weighed down by losses recorded by stocks such as BAT, ABSA and NCBA which declined by 2.4%, 1.4% and 1.3%, respectively.

During the week, equities turnover decreased by 12.0% to USD 13.7 mn, from USD 15.6 mn recorded the previous week, taking the YTD turnover to USD 740.7 mn. Foreign investors remained net sellers, with a net selling position of USD 2.2 mn, from a net selling position of USD 1.3 mn recorded the previous week, taking the YTD net selling position to USD 28.4 mn.

The market is currently trading at a price to earnings ratio (P/E) of 12.8x, 1.3% below 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 1.4x, 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 12.8x is 65.7% 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	14.5x
Oct-15	13.5x
Jan-16	13.0x
Apr-16	13.5x
Jul-16	13.0x
Oct-16	11.5x
Jan-17	10.5x
Apr-17	11.5x
Jul-17	12.5x
Oct-17	13.5x
Jan-18	14.5x
Apr-18	15.5x
Jul-18	14.5x
Oct-18	12.5x
Jan-19	11.5x
Apr-19	12.5x
Jul-19	11.5x
Oct-19	11.0x
Jan-20	10.5x
Apr-20	8.5x
Jul-20	8.0x
Oct-20	9.5x
Jan-21	11.5x
Apr-21	12.5x
Jul-21	12.8x



Universe of Coverage

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

Company	Price as at 30/07/2021	Price as at 06/08/2021	w/w change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
I&M Group***	23.0	22.6	(1.7%)	(49.7%)	44.9	29.8	10.0%	42.1%	0.3x	Buy
Kenya Reinsurance	2.6	2.6	0.4%	11.7%	2.3	3.1	7.8%	27.9%	0.3x	Buy
NCBA***	26.6	26.2	(1.3%)	(1.5%)	26.6	29.5	5.7%	18.3%	0.7x	Accumulate
Sanlam	11.0	10.8	(1.8%)	(16.9%)	13.0	12.4	0.0%	14.8%	1.0x	Accumulate
Standard Chartered***	129.5	131.0	1.2%	(9.3%)	144.5	134.5	8.0%	10.7%	1.0x	Accumulate
ABSA Bank***	9.9	9.8	(1.4%)	2.9%	9.5	10.7	0.0%	9.2%	1.1x	Hold
Co-op Bank***	13.6	13.7	0.7%	8.8%	12.6	13.8	7.3%	8.4%	0.9x	Hold
Diamond Trust Bank***	65.8	65.8	0.0%	(14.3%)	76.8	70.0	0.0%	6.5%	0.3x	Hold
KCB Group***	45.7	46.8	2.3%	21.7%	38.4	48.6	2.1%	6.1%	1.1x	Hold
Equity Group***	48.9	50.0	2.2%	37.9%	36.3	51.2	0.0%	2.4%	1.5x	Lighten
Stanbic Holdings	85.0	92.5	8.8%	8.8%	85.0	90.5	4.1%	1.9%	0.9x	Lighten
Liberty Holdings	9.1	9.1	0.0%	17.7%	7.7	8.4	0.0%	(7.3%)	0.7x	Sell
Jubilee Holdings	379.0	370.0	(2.4%)	34.2%	275.8	330.9	2.4%	(8.1%)	0.8x	Sell
HF Group	3.8	3.8	(0.8%)	19.4%	3.1	3.2	0.0%	(14.7%)	0.2x	Sell
Britam	7.9	7.9	0.5%	12.9%	7.0	6.7	0.0%	(15.2%)	1.5x	Sell
CIC Group	3.0	3.1	4.7%	46.9%	2.1	1.8	0.0%	(41.9%)	1.1x	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 1.4x), 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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