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The Draft CMA Investments Regulations 2021, & Cytonn Weekly #37/2021

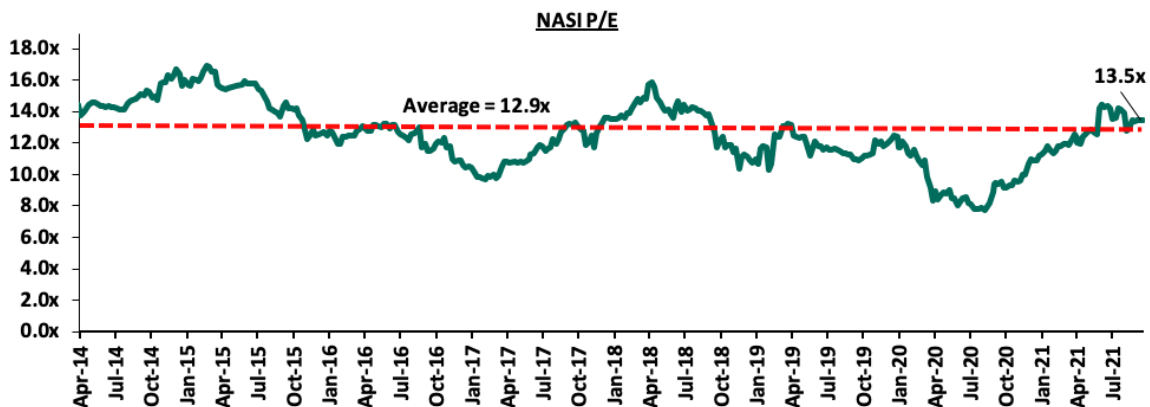
Equities

Markets Performance

During the week, the equities market recorded mixed performance, with NASI and NSE 25 recording gains of 1.4% and 1.7%, respectively, while NSE 20 declined marginally by 0.1%, taking their YTD performance to gains of 20.2%, 17.7% and 10.1% for NASI, NSE 25 and NSE 20, respectively. The equities market performance was mainly driven by gains recorded by large-cap stocks such as Equity Group, KCB Group and Safaricom, which gained by 4.4%, 4.2% and 1.6%, respectively. The gains were however weighed down by losses recorded by stocks such as BAT, Diamond Trust Bank (DTB-K) and Bamburi which declined by 2.6%, 2.0%, and 1.6%, respectively.

During the week, equities turnover increased by 22.0% to USD 22.2 mn, from USD 18.2 mn recorded the previous week, taking the YTD turnover to USD 884.8 mn. Foreign investors remained net buyers, with a net buying position of USD 1.9 mn, from USD 2.2 mn recorded the previous week, taking the YTD to a net selling position to USD 7.2 mn.

The market is currently trading at a price to earnings ratio (P/E) of 13.5x, 4.1% above the historical average of 12.9x, and a dividend yield of 3.1%, 0.9% 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, which is currently 61.5% of the market, the market is trading at a P/E ratio of 12.3x and a PEG ratio of 1.4x. The current P/E valuation of 13.5x is 74.8% 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.

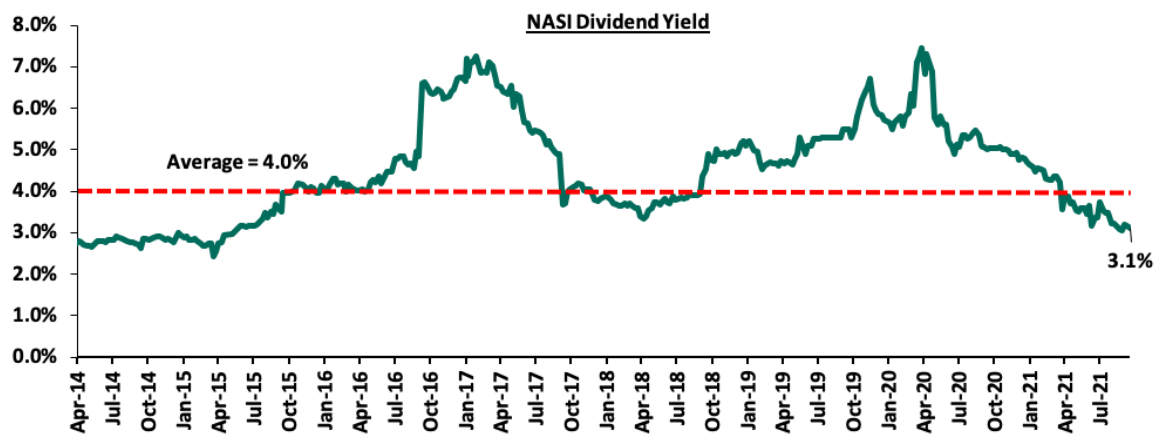


NASI P/E

Average = 12.9x

13.5x

Date	P/E Ratio (x)
Apr-14	13.5
Jul-14	14.5
Oct-14	15.5
Jan-15	16.5
Apr-15	15.5
Jul-15	14.5
Oct-15	13.5
Jan-16	12.5
Apr-16	13.5
Jul-16	12.5
Oct-16	11.5
Jan-17	10.5
Apr-17	11.5
Jul-17	12.5
Oct-17	13.5
Jan-18	14.5
Apr-18	15.5
Jul-18	14.5
Oct-18	13.5
Jan-19	12.5
Apr-19	11.5
Jul-19	10.5
Oct-19	11.5
Jan-20	10.5
Apr-20	9.5
Jul-20	8.5
Oct-20	9.5
Jan-21	10.5
Apr-21	11.5
Jul-21	13.5



Weekly Highlight:

During the week, Liberty Holdings Limited (Liberty), a financial services and property holding company **completed** the acquisition of 84.2 mn shares in Liberty Kenya Holdings Plc (Liberty Kenya), which represents 15.7% of the company's issued share capital. This follows the **June 2021 announcement** of Liberty Holdings intention to buy 49.5 mn ordinary shares from the Conrad N. Hilton Foundation, Kimberlite Frontier Africa Master Fund, L.P. and Vanderbilt University (the KFAMF Acquisition), and a further 34.7 mn ordinary shares from Coronation Africa Frontiers Fund and Coronation All Africa Fund (the Coronation Acquisition), which represented 9.3% and 6.5% of the company's shareholding, respectively. For more information, please see **Cytonn Weekly#09/2021**.

The completed acquisition has increased Liberty Holding's stake to 73.5% (393.6 mn ordinary shares), from the current 57.7% (309.3 mn ordinary shares), retaining Liberty Holding's status as the largest shareholder of Liberty Kenya. For the 15.7% acquisition, Liberty Holdings paid a cash consideration of Kshs 926.6 mn translating to a price of Kshs 11.0 compared to the market price of Kshs 8.0. They therefore paid a 37.5% premium to the market. The stock is currently trading at a price to book of 0.6x, lower than the 1.1x industry average. In our view, the acquisition by Liberty Holdings demonstrates increased confidence in Liberty Kenya's growth in the region and is in line with their strategy of growing the insurance business in the African continent more so the East African market. The move will result in Kenya and the wider East African region becoming a greater area of focus based on total capital invested and is likely to mean that the operating companies will attract higher priority attention to support and accelerate the operational changes required for the growth that is expected to trickle down to investors in the medium to long term.

Universe of Coverage:

Company	Price as at 10/09/2021	Price as at 17/09/2021	w/w change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
I&M Group***	22.5	22.7	0.7%	(49.5%)	44.9	32.0	9.9%	51.2%	0.3x	Buy
ABSA Bank***	10.4	10.4	(0.5%)	8.7%	9.5	13.8	0.0%	33.3%	1.2x	Buy
Kenya Reinsurance	2.5	2.5	0.4%	9.5%	2.3	3.1	7.9%	30.4%	0.3x	Buy
NCBA***	27.7	27.7	0.0%	3.9%	26.6	31.0	5.4%	17.5%	0.7x	Accumulate
Standard Chartered***	135.0	134.5	(0.4%)	(6.9%)	144.5	145.4	7.8%	15.9%	1.1x	Accumulate
KCB Group***	46.6	48.6	4.2%	26.4%	38.4	53.4	2.1%	12.0%	1.1x	Accumulate
Co-op Bank***	13.4	13.5	1.1%	7.6%	12.6	14.1	7.4%	11.9%	0.9x	Accumulate
Stanbic Holdings	89.3	91.0	2.0%	7.1%	85.0	96.6	1.9%	8.0%	0.9x	Hold
Equity Group***	51.0	53.3	4.4%	46.9%	36.3	57.5	0.0%	8.0%	1.5x	Hold

Company	Price as at 10/09/2021	Price as at 17/09/2021	w/w change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Sanlam	9.9	11.5	15.9%	(11.5%)	13.0	12.4	0.0%	7.8%	1.0x	Hold
Diamond Trust Bank***	64.0	62.8	(2.0%)	(18.2%)	76.8	67.3	0.0%	7.3%	0.3x	Hold
Liberty Holdings	7.6	8.0	4.7%	3.9%	7.7	8.4	0.0%	5.0%	0.6x	Hold
Jubilee Holdings	359.3	350.3	(2.5%)	27.0%	275.8	330.9	2.6%	(3.0%)	0.7x	Sell
Britam	8.3	8.3	(0.2%)	18.9%	7.0	6.7	0.0%	(19.5%)	1.5x	Sell
HF Group	3.8	3.9	3.4%	24.8%	3.1	3.1	0.0%	(20.9%)	0.2x	Sell
CIC Group	2.8	2.7	(3.2%)	28.4%	2.1	1.8	0.0%	(33.6%)	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 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 1.5x), 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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