

Nairobi Metropolitan Area (NMA) Serviced Apartments Report 2021, & Cytonn Weekly #44/2021

Equities

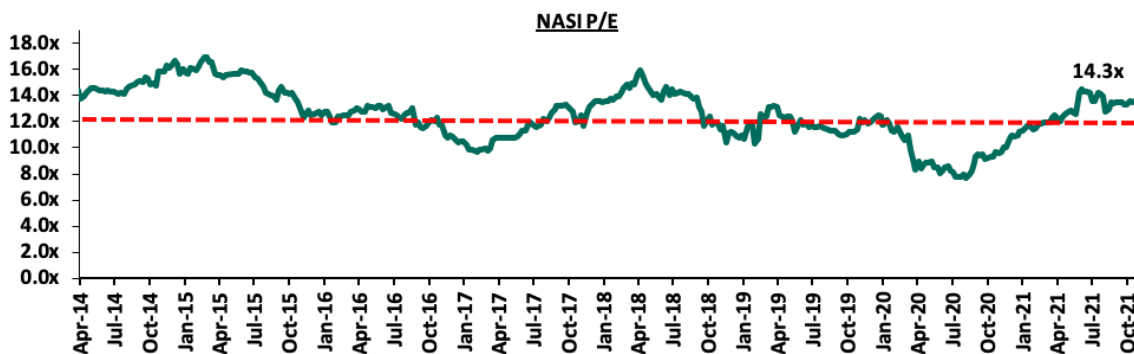
Markets Performance

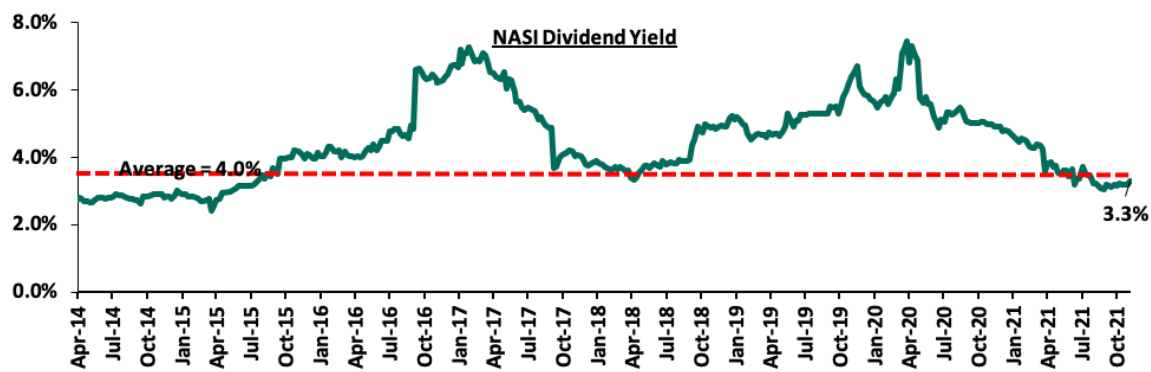
During the week, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 3.9%, 0.6% and 2.4%, respectively, taking their YTD performance to gains of 12.4%, 4.1% and 10.2% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was driven by losses recorded by large cap stocks such as Safaricom and Diamond Trust Bank (DTB-K) of 6.1% and 3.0%, respectively. The decline was however mitigated by gains recorded by stocks such as EABL, ABSA and Equity which gained by 1.8%, 0.5% and 0.4%, respectively.

During the week, equities turnover declined by 5.7% to USD 16.5 mn, from USD 17.5 mn recorded the previous week, taking the YTD turnover to USD 1.0 bn. Foreign investors remained net sellers, with a net selling position of USD 0.3 mn, from a net selling position of USD 1.9 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 14.3x, 10.4% above the historical average of 12.9x, and a dividend yield of 3.3%, 0.7% 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, which is currently 61.7% of the market, the market is trading at a P/E ratio of 12.2x and a PEG ratio of 1.4x. The current P/E valuation of 14.3x is 85.5% 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.





Weekly Highlight:

During the week, MTN Uganda announced that it had received a no objection from Kenya’s Capital Markets Authority for marketing its Initial Public Offer (IPO) in Kenya, following the opening of the IPO in Uganda on 11th October 2021. The MTN Uganda IPO is expected to close on 22nd November 2021 and the listing of MTN Uganda shares on the Uganda Stock Exchange (USE) will commence on 6th December 2021. The telco is selling 4.5 bn ordinary shares to the public, which represents 20.0% of the company’s 22.4 bn shares. MTN International will remain the highest shareholders with 76.0% of the total shares while Charles Mbire will hold 4.0% of the shares. MTN Uganda is currently selling the shares at Ushs 200 per share, equivalent to Kshs 6.3 per share. At the price of Ushs 200 (Kshs 6.3), MTN Uganda is trading at an estimated price to book multiple of 6.0x, compared to Safaricom which is trading at price to book multiple of 13.4x, presenting better value for investors. The IPO is open to Ugandan investors, Kenyans and citizens from other East African Countries. Investors can apply for at least of 500 shares which will cost a minimum of Ushs 100,000 (Kshs 3,139) per investor. Additionally, all East African investors who apply for the shares will receive 5 bonus shares for every 100 shares they are allocated.

To increase participation and ease the application process, MTN has embraced use of an online portal and MyMTN app through which investors across East Africa can apply for the IPO. Kenyan investors are required to open a Securities Central Depository (SCD) account at the Uganda Securities Exchange (USE) to apply for the MTN Uganda IPO through the online platforms. Although MTN Uganda has plans to expand in East Africa having listed on Rwanda Securities Exchange, the firm is not planning to cross-list with Nairobi Securities Exchange (NSE) in the near future as anticipated.

Uganda has a population of around 45.7 mn people with a mobile penetration of 68.0% as at June 2021, compared to Kenya, which has mobile penetration rate of 132.2% as at 31st March 2021 according to the Communications Authority of Kenya. We believe that this regional cross-border IPO will provide Kenyan investors a wider scope of investment opportunities and will set standards for East Africa’s Capital Market participation in regional cross-border offerings within a structured framework.

Universe of coverage:

Company	Price as at 29/10/2021	Price as at 05/11/2021	w/w change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
I&M Group***	21.5	21.8	1.4%	(51.5%)	44.9	32.0	10.3%	57.5%	0.6x	Buy
Kenya Reinsurance	2.4	2.3	(4.1%)	0.4%	2.3	3.1	8.6%	42.2%	0.2x	Buy
NCBA***	24.1	24.1	0.0%	(9.4%)	26.6	31.0	6.2%	34.9%	0.6x	Buy
ABSA Bank***	10.2	10.3	0.5%	7.7%	9.5	13.8	0.0%	34.6%	1.2x	Buy
KCB Group***	44.0	43.5	(1.0%)	13.3%	38.4	53.4	2.3%	25.1%	0.9x	Buy

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Co-op Bank***	12.5	12.5	0.0%	(0.4%)	12.6	14.1	8.0%	20.8%	0.9x	Buy
Standard Chartered***	130.0	129.8	(0.2%)	(10.2%)	144.5	145.4	8.1%	20.2%	1.0x	Buy
Diamond Trust Bank***	58.8	57.0	(3.0%)	(25.7%)	76.8	67.3	0.0%	18.1%	0.3x	Accumulate
Stanbic Holdings	94.0	87.0	(7.4%)	2.4%	85.0	96.6	4.4%	15.4%	0.8x	Accumulate
Equity Group***	49.7	49.9	0.4%	37.7%	36.3	57.5	0.0%	15.2%	1.4x	Accumulate
Liberty Holdings	8.0	7.5	(6.3%)	(2.6%)	7.7	8.4	0.0%	12.0%	0.6x	Accumulate
Sanlam	11.5	12.4	7.8%	(4.6%)	13.0	12.4	0.0%	0.0%	1.1x	Sell
Jubilee Holdings	360.0	343.8	(4.5%)	24.7%	275.8	330.9	2.6%	(1.1%)	0.7x	Sell
Britam	8.0	7.8	(1.8%)	11.7%	7.0	6.7	0.0%	(14.3%)	1.4x	Sell
HF Group	3.8	3.8	0.3%	21.7%	3.1	3.1	0.0%	(18.8%)	0.2x	Sell
CIC Group	2.6	2.4	(6.3%)	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 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. We expect the discovery of new COVID-19 variants coupled with slow vaccine rollout in developing economies to continue weighing down the economic outlook. On the upside, we believe that the recent relaxation of lockdown measures in the country will lead to improved investor sentiments in the economy.

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