

Review of the Kenyan Shilling Performance, & Cytonn Weekly #50/2021

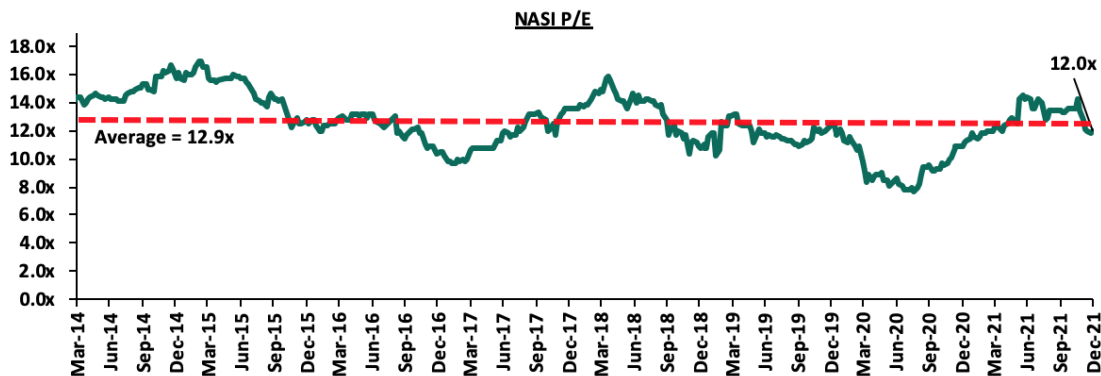
Equities

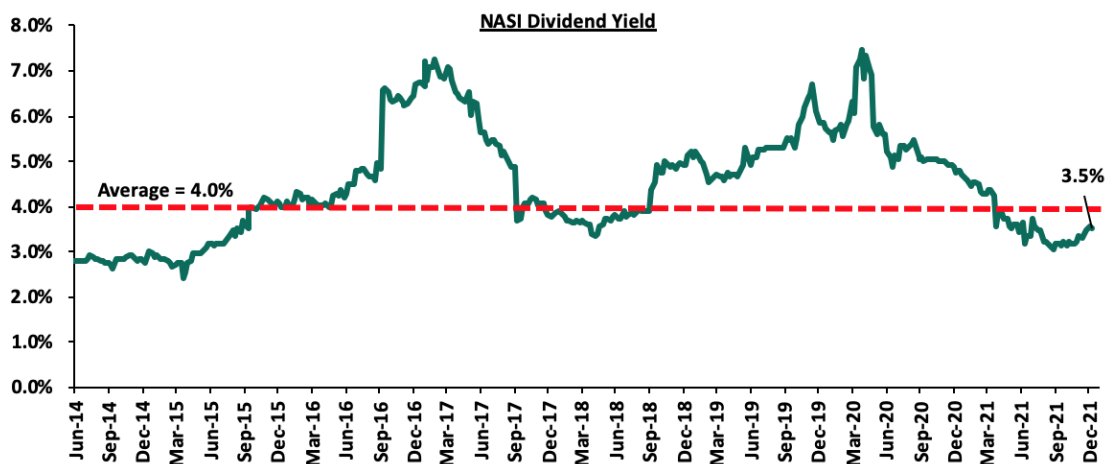
Markets Performance

During the week, the equities market recorded mixed performance, with NSE 25 and NASI gaining by 0.9% and 0.5%, respectively, while NSE 20 declined marginally by 0.1%. This week's performance took their YTD performance to gains of 7.6% and 6.3% for NASI and NSE 25, respectively, with NSE 20 shedding by 1.0% on a YTD basis. The equities market performance was driven by gains recorded by banking stocks such as NCBA, Equity and KCB of 4.2%, 2.4% and 2.0%, respectively. The gains were however weighed down by losses recorded by other large cap stocks such as EABL and Standard Chartered Bank (SCB-K) which declined by 0.5% and 0.4%, respectively.

During the week, equities turnover declined by 41.6% to USD 20.5 mn, from USD 35.0 mn recorded the previous week, taking the YTD turnover to USD 1.2 bn. Foreign investors remained net sellers, with a net selling position of USD 4.3 mn, from a net selling position of USD 12.5 mn recorded the previous week, taking the YTD net selling position to USD 84.8 mn.

The market is currently trading at a price to earnings ratio (P/E) of 12.0x, 7.0% below 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 1.4x, 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. The current P/E valuation of 12.0x is 56.2% 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.





Weekly highlight:

During the week, the Central Bank of Kenya (CBK), in collaboration with the Kenya National Bureau of Statistics (KNBS) and Financial Sector Deepening Trust (FSD) Kenya released the 2021 **FinAccess Household Survey**, highlighting that financial inclusion expanded by 0.8% points to 83.7% in 2021, from 82.9% in 2019. The Survey measures Financial Inclusion based on four main dimensions: Access, Usage, Quality and Impact/Welfare. Technological advances and innovations especially in mobile money and mobile banking has led to financial inclusion increasing significantly since the baseline survey conducted in 2006 when financial inclusion stood at 26.7%. During the period under review, mobile banking and bank services recorded the highest proportion of usage at 81.4% and 44.1%, from 79.4% and 40.8% in 2019, respectively. Other key highlights from the report are:

- i. 10.7% of those who reported to have borrowed, had defaulted (did not pay at all the loan borrowed), while those who indicated to have paid late on any loan taken/outstanding in 12 months to the Survey period was 38.2%. Mobile banking loans, digital loans and loans from friends/family recorded the highest rate of loan defaults at 50.9%, 46.3% and 41.8%, respectively,
- ii. 14.4% of respondents who had a performing loan from banks and financial institutions applied for loan restructuring, with 76.8% of them being successful, and the period granted ranging between 4 months to 1 year, and,
- iii. Mobile money users who reported loss of money stood at 47.4% in 2021, a significant increase from 8.4% in 2019, while loss of money through SACCOSs and Mobile Banking also increased to 15.6% and 11.5% in 2021, from 3.2% and 1.5% in 2019, respectively. The increase in risk of losing money was attributable to sending money to the wrong number, fraud and cyber-crime.

With financial inclusion increasing by 57.0% points to 83.7% over the last 15 years, we believe that the advancement in technological innovation will continue to drive growth in the Fintech industry. The COVID-19 pandemic created an acute demand for contactless financial solutions, and as a result, digital solutions proved essential in allowing clients to access their funds. However, we believe that the rate of loan defaults in the digital lending space will continue to be a concern in the medium term. Additionally, the suspension of the Credit Reference Bureau (CRB) listing by the CBK for loans under Kshs 5.0 mn will lead to opaqueness in the loan market and consequently lead to a slowdown of private sector credit as lenders become more risk averse.

Universe of coverage:

Company	Price as at 10/12/2021	Price as at 17/12/2021	w/w change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	2.3	2.2	(3.1%)	(3.9%)	2.3	3.3	9.0%	58.4%	0.2x	Buy

Company	Price as at 10/12/2021	Price as at 17/12/2021	w/w change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
I&M Group***	21.0	20.8	(0.7%)	(53.6%)	44.9	24.4	10.8%	28.0%	0.6x	Buy
KCB Group***	43.3	44.1	2.0%	14.8%	38.4	51.4	2.3%	18.7%	0.9x	Accumulate
Britam	7.0	7.1	1.7%	1.4%	7.0	8.3	0.0%	17.5%	1.2x	Accumulate
Standard Chartered***	127.0	126.5	(0.4%)	(12.5%)	144.5	137.7	8.3%	17.2%	1.0x	Accumulate
Jubilee Holdings	336.0	329.8	(1.9%)	19.6%	275.8	371.5	2.7%	15.4%	0.6x	Accumulate
Co-op Bank***	12.2	12.3	0.8%	(2.0%)	12.6	13.1	8.1%	14.3%	0.9x	Accumulate
NCBA***	24.1	25.1	4.2%	(5.8%)	26.6	26.4	6.0%	11.3%	0.6x	Accumulate
Diamond Trust Bank***	56.0	57.0	1.8%	(25.7%)	76.8	61.8	0.0%	8.4%	0.2x	Hold
Equity Group***	47.5	48.7	2.4%	34.2%	36.3	52.5	0.0%	8.0%	1.3x	Hold
Liberty Holdings	7.2	7.2	1.1%	(6.0%)	7.7	7.8	0.0%	7.4%	0.5x	Hold
Stanbic Holdings	92.3	92.5	0.3%	8.8%	85.0	94.7	4.1%	6.5%	0.8x	Hold
ABSA Bank***	11.1	11.2	1.4%	17.6%	9.5	11.9	0.0%	6.3%	1.1x	Hold
Sanlam	11.5	11.5	0.0%	(11.5%)	13.0	12.1	0.0%	5.3%	1.2x	Hold
CIC Group	2.2	2.1	(0.9%)	1.4%	2.1	2.0	0.0%	(4.5%)	0.7x	Sell
HF Group	4.0	3.7	(5.8%)	19.1%	3.1	3.0	0.0%	(21.0%)	0.2x	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. 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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