

Nairobi Metropolitan Area (NMA) Infrastructure Report 2021, & Cytonn Weekly #51/2021

Equities

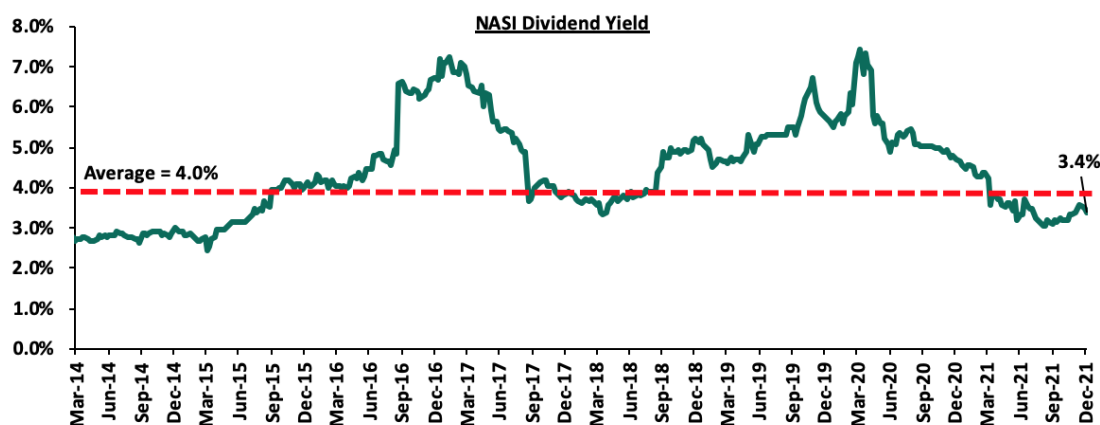
Markets Performance

During the week, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 gaining by 4.8%, 2.5%, and 4.6%, respectively, taking their YTD performance to gains of 12.2%, 1.6% and 10.3% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was driven by gains recorded by large cap stocks such as EABL, Safaricom and Bamburi of 13.3%, 5.4% and 4.4%, respectively. Additionally, the gains recorded in the equities market during the week are attributable to increased buying activity from local institutional investors as they rebalance their portfolios for the end of the year. The gains were however weighed down by a marginal 0.3% loss recorded by Equity group.

During the week, equities turnover declined by 25.4% to USD 15.3 mn, from USD 20.5 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 5.6 mn, from a net selling position of USD 4.3 mn recorded the previous week, taking the YTD net selling position to USD 90.4 mn.

The market is currently trading at a price to earnings ratio (P/E) of 12.6x, 2.9% below the historical average of 12.9x, and a dividend yield of 3.4%, 0.6% 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 12.6x is 63.0% 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.

Month	P/E Ratio
Mar-14	14.0x
Jun-14	14.5x
Sep-14	15.0x
Dec-14	16.0x
Mar-15	16.5x
Jun-15	15.5x
Sep-15	14.5x
Dec-15	13.5x
Mar-16	13.0x
Jun-16	13.5x
Sep-16	12.5x
Dec-16	11.5x
Mar-17	11.0x
Jun-17	12.0x
Sep-17	13.0x
Dec-17	14.0x
Mar-18	15.0x
Jun-18	14.5x
Sep-18	13.5x
Dec-18	12.5x
Mar-19	13.0x
Jun-19	12.0x
Sep-19	11.5x
Dec-19	10.5x
Mar-20	8.5x
Jun-20	8.0x
Sep-20	9.5x
Dec-20	11.5x
Mar-21	12.5x
Jun-21	13.5x
Sep-21	13.0x
Dec-21	12.6x



Universe of coverage:

Company	Price as at 17/12/2021	Price as at 24/12/2021	w/w change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	2.2	2.3	3.2%	(0.9%)	2.3	3.3	8.7%	53.6%	0.2x	Buy
I&M Group***	20.8	21.5	3.4%	(52.1%)	44.9	24.4	10.5%	23.9%	0.6x	Buy
Jubilee Holdings	329.8	310.3	(5.9%)	12.5%	275.8	371.5	2.9%	22.6%	0.6x	Buy
Britam	7.1	7.0	(0.8%)	0.6%	7.0	8.3	0.0%	18.5%	1.2x	Accumulate
KCB Group***	44.1	45.2	2.5%	17.7%	38.4	51.4	2.2%	15.8%	0.9x	Accumulate
Standard Chartered***	126.5	128.0	1.2%	(11.4%)	144.5	137.7	8.2%	15.8%	1.0x	Accumulate
Co-op Bank***	12.3	12.5	1.2%	(0.8%)	12.6	13.1	8.0%	12.9%	0.9x	Accumulate
Liberty Holdings	7.2	7.0	(2.8%)	(8.6%)	7.7	7.8	0.0%	10.5%	0.5x	Accumulate
Equity Group***	48.7	48.5	(0.3%)	33.8%	36.3	52.5	0.0%	8.3%	1.3x	Hold
NCBA***	25.1	25.8	2.8%	(3.2%)	26.6	26.4	5.8%	8.3%	0.6x	Hold
Stanbic Holdings	92.5	92.0	(0.5%)	8.2%	85.0	94.7	4.1%	7.1%	0.8x	Hold
Sanlam	11.5	11.6	0.4%	(11.2%)	13.0	12.1	0.0%	4.8%	1.2x	Lighten
Diamond Trust Bank***	57.0	59.5	4.4%	(22.5%)	76.8	61.8	0.0%	3.8%	0.3x	Lighten
ABSA Bank***	11.2	11.6	3.1%	21.3%	9.5	11.9	0.0%	3.0%	1.2x	Lighten
CIC Group	2.1	2.2	2.8%	4.3%	2.1	2.0	0.0%	(7.1%)	0.8x	Sell
HF Group	3.7	3.9	4.3%	24.2%	3.1	3.0	0.0%	(24.3%)	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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