

Affordable Housing in the Nairobi Metropolitan Area (NMA), & Cytonn Weekly #01/2022

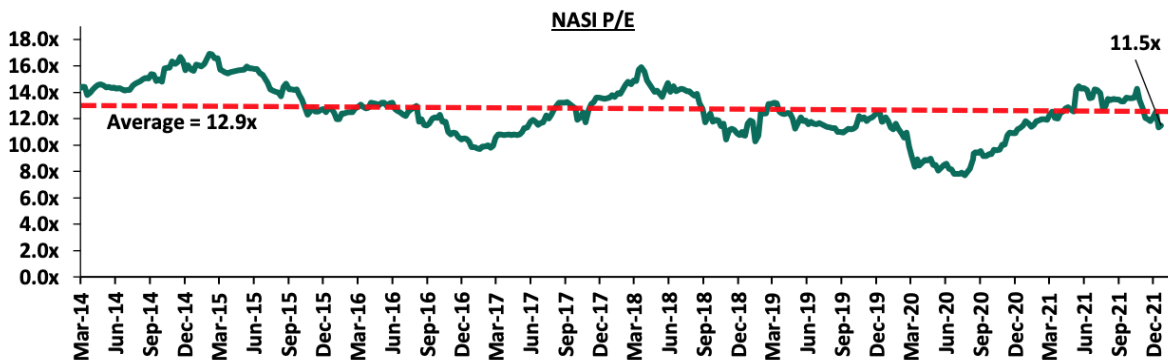
Equities

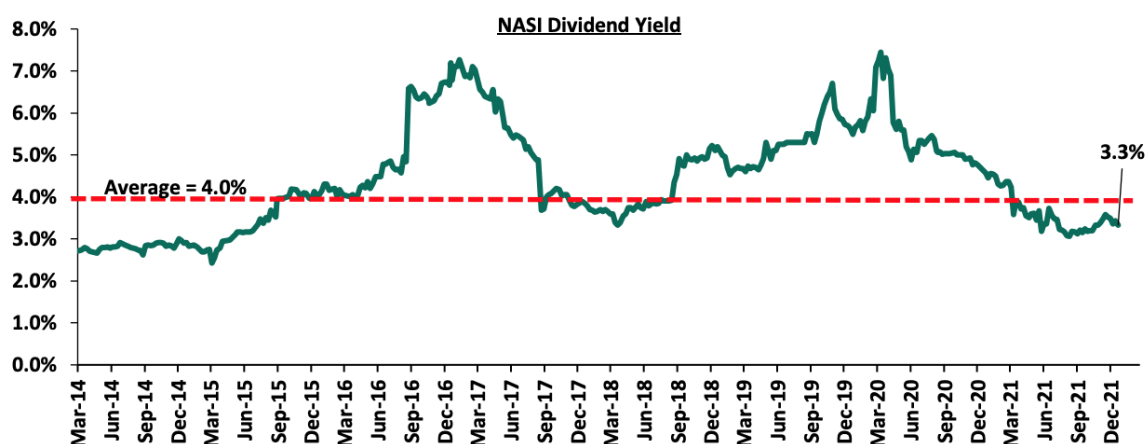
Markets Performance

During the week, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 gaining by 3.2%, 0.9%, and 2.0%, respectively, taking their YTD performance to gains of 2.8%, 0.3% and 1.7% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was driven by gains recorded by large cap stocks such as Safaricom, NCBA, Standard Chartered Bank and KCB of 5.1%, 3.0%, 1.8% and 1.2%, respectively. The gains were however weighed down by losses recorded by Jubilee, ABSA and EABL of 2.1%, 0.4% and 0.2%, respectively.

During the week, equities turnover increased by 179.2% to USD 16.9 mn, from USD 6.1 mn recorded the previous week, taking the YTD turnover to USD 16.9 mn. Foreign investors turned net buyers, with a net buying position of USD 3.2 mn, from a net selling position of USD 1.5 mn recorded the previous week, taking the YTD net buying position to USD 3.2 mn.

The market is currently trading at a price to earnings ratio (P/E) of 11.5x, 11.1% below 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 1.3x, 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 11.5x is 49.2% 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:

I. International Finance Corporation to disburse USD 165.0 mn (Kshs 18.6 bn) loan facility to Equity Bank Kenya

During the week, the International Finance Corporation (IFC) disclosed that it would disburse USD 165.0 mn (Kshs 18.6 bn) to Equity Bank Kenya Limited in form of a 7-year Tier 2 subordinated loan. This amount is expected to be used to shore up the Bank's Tier 2 capital and for onward lending to climate smart projects and Small and Medium Enterprises (SMEs) in Kenya. The investment in Equity Bank comes after the IFC and IFC Financial Institutions Growth Fund (IFC FIG Fund) entered into a share purchase and sale agreement with Britam Holdings to acquire a combined 6.7% of Equity Group shares, making the consortium the 2nd largest shareholder in Equity Group. For more information on the Britam's share purchase and sale agreement, please see our Cytonn Weekly 52/2021.

The Kenyan Banking sector has been benefitting from facilities extended from Development Finance Institutions such as the IFC and the African Development Bank (ADB) which have been providing loan facilities for onward lending to support SME's recovery from the pandemic. The table below highlights the disclosed loan facilities that banks secured for capital injection and lending to the MSMEs in 2021:

| Bank | Amount Borrowed For Onward Lending in 2021 (Kshs bn) | Purpose |
|------------------|--|------------------------------------|
| Equity Bank | 86.5* | MSME lending |
| KCB Bank | 16.4 | MSME lending |
| Cooperative Bank | 17.3 | MSME lending and Tier II Capital** |
| I&M Bank | 5.4 | MSME lending and Tier II Capital** |
| Total | 125.6 | |

*Includes a Kshs 2.6 bn grant offered by European Investment Bank (EIB)

**Tier II Capital refers to a bank's supplementary capital which includes senior debt (debt that a company must repay first before going out of business) with a tenure of not less than five years

In addition to seeking funding to lend to the SMEs, we expect more capital raising activities by the Banking sector especially the smaller banks as they seek to maintain the minimum capital adequacy and liquidity levels as required by the CBK. Amounts extended from the CBK to banks as liquidity support increased significantly by 50.1% to Kshs 55.5 bn in June 2021 as compared to Kshs 36.9 bn

in June 2020, highlighting the need for the smaller banks to raise capital and consolidate to achieve regulatory requirements.

Universe of coverage:

| Company | Price as at 31/12/2021 | Price as at 07/01/2022 | w/w change | YTD Change | Year Open 2022 | Target Price* | Dividend Yield | Upside/Downside** | P/TBv Multiple | Recommendation |
|-----------------------|------------------------|------------------------|------------|------------|----------------|---------------|----------------|-------------------|----------------|----------------|
| Kenya Reinsurance | 2.3 | 2.3 | 0.0% | 0.4% | 2.3 | 3.3 | 8.7% | 52.9% | 0.2x | Buy |
| I&M Group*** | 21.1 | 21.4 | 1.4% | 0.0% | 21.4 | 24.4 | 10.5% | 24.4% | 0.6x | Buy |
| Jubilee Holdings | 316.8 | 310.0 | (2.1%) | (2.1%) | 316.8 | 371.5 | 2.9% | 22.7% | 0.6x | Buy |
| KCB Group*** | 45.5 | 46.0 | 1.2% | 1.0% | 45.6 | 51.4 | 2.2% | 13.8% | 0.9x | Accumulate |
| Standard Chartered*** | 128.3 | 130.5 | 1.8% | 0.4% | 130.0 | 137.7 | 8.0% | 13.6% | 1.0x | Accumulate |
| Stanbic Holdings | 87.3 | 87.0 | (0.3%) | 0.0% | 87.0 | 94.7 | 4.4% | 13.3% | 0.8x | Accumulate |
| Britam | 7.5 | 7.5 | 0.3% | (0.5%) | 7.6 | 8.3 | 0.0% | 10.9% | 1.2x | Accumulate |
| Liberty Holdings | 7.0 | 7.0 | 0.6% | (0.3%) | 7.1 | 7.8 | 0.0% | 10.5% | 0.5x | Accumulate |
| Co-op Bank*** | 13.0 | 13.0 | 0.0% | (0.4%) | 13.0 | 13.1 | 7.7% | 8.6% | 1.0x | Hold |
| NCBA*** | 25.2 | 26.0 | 3.0% | 2.0% | 25.5 | 26.4 | 5.8% | 7.5% | 0.6x | Hold |
| Equity Group*** | 52.8 | 53.0 | 0.5% | 0.5% | 52.8 | 56.6 | 0.0% | 6.8% | 1.4x | Hold |
| Sanlam | 11.6 | 11.6 | 0.0% | 0.0% | 11.6 | 12.1 | 0.0% | 4.8% | 1.2x | Lighten |
| Diamond Trust Bank*** | 59.5 | 60.0 | 0.8% | 0.8% | 59.5 | 61.8 | 0.0% | 3.0% | 0.3x | Lighten |
| ABSA Bank*** | 11.9 | 11.8 | (0.4%) | 0.4% | 11.8 | 11.9 | 0.0% | 0.9% | 1.2x | Lighten |
| CIC Group | 2.2 | 2.1 | (3.6%) | (1.8%) | 2.2 | 2.0 | 0.0% | (4.0%) | 0.7x | Sell |
| HF Group | 3.9 | 3.8 | (2.3%) | 0.3% | 3.8 | 3.0 | 0.0% | (22.5%) | 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

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 1.3x), 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.

Liason House, StateHouse Avenue

The Chancery, Valley Road

www.cytonn.com

Generated By Cytonn Report

A product of Cytonn Technologies