

# Off Plan Real Estate Investing, & Cytonn Weekly #02/2022

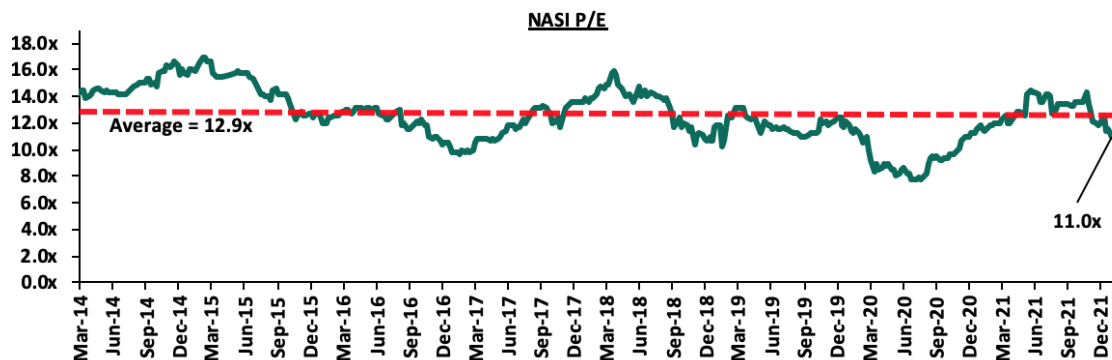
## Equities

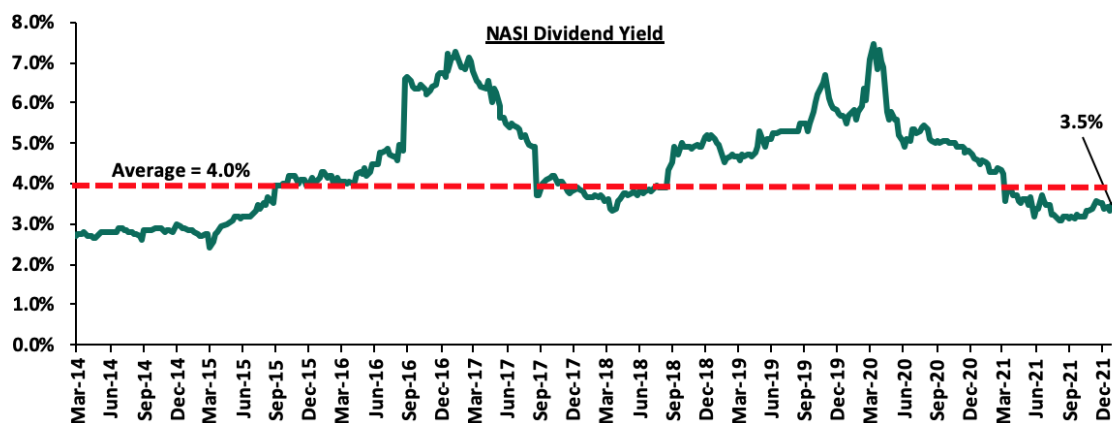
### Markets Performance

During the week, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 3.9%, 1.1% and 3.5%, respectively, taking the YTD performance to losses of 1.2%, 0.8% and 1.9% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was driven by losses recorded by large cap stocks such as Equity, Safaricom, EABL, KCB and Diamond Trust Bank (DTB-K) of 6.6%, 5.1%, 3.9%, 1.8% and 1.7%, respectively. The losses were however mitigated by marginal gains recorded by stocks such as ABSA, Stanbic Bank and NCBA of 0.4%, 0.3% and 0.2%, respectively.

During the week, equities turnover declined by 18.0% to USD 13.9 mn, from USD 16.9 mn recorded the previous week, taking the YTD turnover to USD 30.8 mn. Foreign investors turned net sellers, with a net selling position of USD 3.6 mn, from a net buying position of USD 3.2 mn recorded the previous week, taking the YTD net selling position to USD 0.4 mn.

The market is currently trading at a price to earnings ratio (P/E) of 11.0x, 14.7% 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 1.2x, 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 11.0x is 43.2% 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:

#### Equity Group Holdings announces the incorporation of Equity Group Insurance Holdings Limited

During the week, Equity Group Holdings (EGH), announced the completion of the incorporation of a subsidiary, Equity Group Insurance Holdings Limited, a non-operating insurance holding company and issuance of a life insurance license to Equity Life Assurance Kenya (ELAK) Limited. ELAK, which is fully owned by Equity Group Insurance Holdings Limited, will conduct and undertake long-term insurance business in Kenya. This came after EGH obtained the prerequisite approvals from its shareholders and the Central Bank of Kenya (CBK), before subsequent registration and licensing from the Insurance Regulatory Authority (IRA) on 10<sup>th</sup> January 2022.

EGH's decision to invest in the long-term insurance business as compared to general insurance is partly attributable to the weak performance and unprofitability of the general insurance business in Kenya. In Q3'2021, general insurance business in Kenya posted an underwriting loss of Kshs 4.1 bn which was a significant increase of 369.2% from the Kshs 0.9 bn loss posted in Q3'2020. The combined ratio for the general insurance business also remains adverse, coming in at 105.5% in Q3'2021, whereas that of long-term insurance came in at 91.8% pointing to higher profitability in the long-term insurance business. The table below shows a highlight of the performance of general insurance against long-term insurance in Q3'2021;

Metric	General Insurance	Long-term insurance
Claims ratio	68.6%	72.3%
Expense ratio	36.9%	19.5%
Combined ratio	105.5%	91.8%
Premiums growth (y/y)	14.2%	22.5%
Claims growth (y/y)	18.1%	27.8%

Source: Insurance Regulatory Authority

ELAK's entry in the long-term insurance business is expected to provide competition to the long-term insurance industry that is currently dominated by a few players. According to IRA's Q3'2021 Insurance Industry Report, the top 6 industry player's market share amounted to 69.9%, with the remaining 17 players amassing a paltry 30.1%. In our view, we expect ELAK to leverage on the larger EGH's foothold in the financial services sector, as well as Equity Bank Kenya's Banc assurance operations. However, the core insurance business in long-term insurance business in Kenya continues to deteriorate, with the claims ratio increasing to 72.3% in Q3'2021, from 69.8% in Q3'2020, attributable to a faster 27.8% increase in claims to Kshs 61.5 bn in Q3'2021, from Kshs

48.4 bn in Q3'2020 as compared to a 22.5% increase in net premiums to Kshs 85.0 bn in Q3'2021, from Kshs 69.4 bn in Q3'2020. The aggressive increase in claims may be attributable to higher pension payouts as a result of the pandemic's adverse effects on employment and income levels, as well as, higher life claims occasioned by cancellation of policies due to lower affordability.

#### Universe of coverage:

Company	Price as at 07/01/2022	Price as at 14/01/2022	w/w change	YTD Change	Year Open 2022	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	2.3	2.3	(1.3%)	(0.9%)	2.3	3.3	8.8%	54.9%	0.2x	Buy
I&M Group***	21.4	21.1	(1.6%)	(1.6%)	21.4	24.4	10.7%	26.5%	0.6x	Buy
Jubilee Holdings	310.0	310.0	0.0%	(2.1%)	316.8	371.5	2.9%	22.7%	0.6x	Buy
KCB Group***	46.0	45.2	(1.8%)	(0.9%)	45.6	51.4	2.2%	16.0%	0.9x	Accumulate
Sanlam	11.6	10.5	(9.1%)	(9.1%)	11.6	12.1	0.0%	15.3%	1.1x	Accumulate
Standard Chartered***	130.5	129.5	(0.8%)	(0.4%)	130.0	137.7	8.1%	14.4%	1.0x	Accumulate
Equity Group***	53.0	49.5	(6.6%)	(6.2%)	52.8	56.6	0.0%	14.4%	1.3x	Accumulate
Stanbic Holdings	87.0	87.3	0.3%	0.3%	87.0	94.7	4.4%	12.9%	0.8x	Accumulate
Britam	7.5	7.4	(1.6%)	(2.1%)	7.6	8.3	0.0%	12.7%	1.2x	Accumulate
Liberty Holdings	7.0	7.0	(1.1%)	(1.4%)	7.1	7.8	0.0%	11.7%	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***	26.0	26.0	0.2%	2.2%	25.5	26.4	5.8%	7.3%	0.6x	Hold
Diamond Trust Bank***	60.0	59.0	(1.7%)	(0.8%)	59.5	61.8	0.0%	4.7%	0.3x	Lighten
ABSA Bank***	11.8	11.9	0.4%	0.9%	11.8	11.9	0.0%	0.4%	1.2x	Lighten
CIC Group	2.1	2.2	3.3%	1.4%	2.2	2.0	0.0%	(7.1%)	0.8x	Sell
HF Group	3.8	3.6	(5.2%)	(5.0%)	3.8	3.0	0.0%	(18.2%)	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 1.2x), 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

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