



Kenya's Cost of Credit, & Cytonn Monthly - January 2022

Equities

Markets Performance

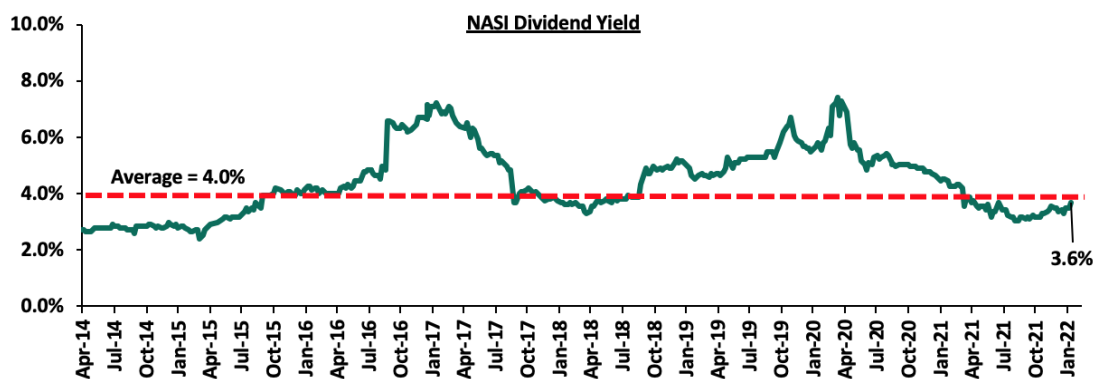
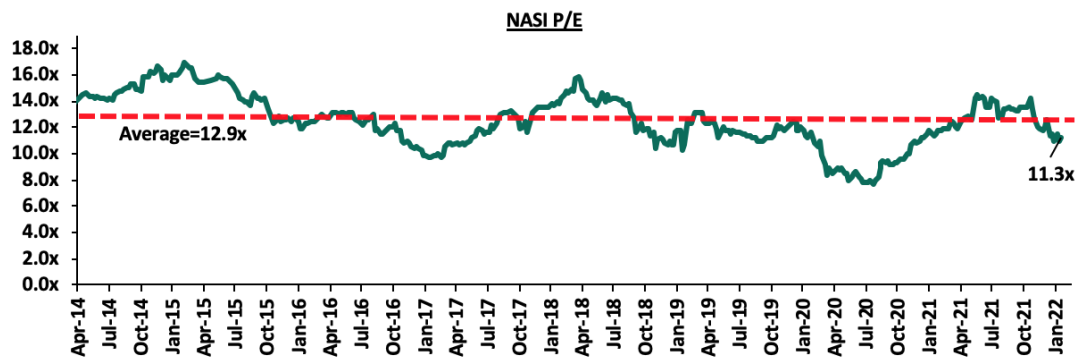
During the month of January, the equities market was on a downwards trajectory, with NASI, NSE 20 and NSE 25 declining by 1.9%, 0.7% and 1.7%, respectively. The equities market performance was driven by losses recorded by large cap stocks such as Equity, Safaricom, Diamond Trust Bank (DTB-K) and KCB of 4.3%, 2.8%, 2.1% and 1.0%, respectively. The losses were however mitigated by gains recorded by BAT, Standard Chartered Bank, Bamburi and NCBA which gained by 6.0%, 2.9%, 2.4% and 1.6%, respectively.

During the week, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 gaining by 3.7%, 1.4% and 3.2%, respectively, taking their YTD performance to losses of 0.1% and 0.7% for NASI and NSE 20, respectively, while NSE 25 gained marginally by 0.04%. The equities market performance was driven by gains recorded by large cap stocks such as Equity Group, Safaricom, KCB, Bamburi, and Standard Chartered Bank of 5.5%, 5.0%, 4.9%, 3.6%, and 3.2%, respectively. The gains were however weighed by losses recorded by stocks such as Stanbic Holdings of 5.2%.

Equities turnover declined by 21.5% during the month to USD 72.7 mn, from USD 92.6 mn recorded in December 2021. Foreign investors remained net sellers during the month, with a net selling position of USD 3.7 mn, compared to December's net selling position of USD 25.5 mn.

During the week, equities turnover increased by 19.9% to USD 27.7 mn, from USD 23.1 mn recorded the previous week, taking the YTD turnover to USD 95.3 mn. Foreign investors turned net buyers, with a net buying position of USD 4.6 mn, from a net selling position of USD 1.3 mn recorded the previous week, taking the YTD net selling position to USD 0.8 mn.

The market is currently trading at a price to earnings ratio (P/E) of 11.3x, 12.4% below the historical average of 12.9x, and a dividend yield of 3.6%, 0.4% points below the historical average of 4.0%. Key to note, NASI's PEG ratio currently stands at 1.5x, 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 11.3x is 46.9% 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.



Monthly highlights

- i. 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. For more information, please see our Cytonn Weekly #01/2022,
- ii. 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 10th January 2022. For more information, please see our Cytonn Weekly #02/2022, and,
- iii. The Central Bank of Kenya (CBK) recently released the Quarterly Economic Review for the period ending 30th September 2021, highlighting that the banking sector's total assets increased by 10.6% to Kshs 5.8 tn, from Kshs 5.3 tn in September 2020. The sector's Profit before Tax (PBT) increased by 68.2% to Kshs 49.1 bn, from Kshs 29.2 bn recorded in September 2020. For more information, please see our Cytonn Weekly #04/2022.

Universe of coverage:

Company	Price as at 28/01/2022	Price as at 04/02/2022	w/w change	m/m change	YTD Change	Year Open 2022	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	2.2	2.2	0.0%	(1.7%)	(3.1%)	2.3	3.3	9.0%	58.4%	0.2x	Buy
Jubilee Holdings	302.3	300.0	(0.7%)	(4.2%)	(5.3%)	316.8	371.5	3.0%	26.8%	0.5x	Buy
I&M Group***	21.0	21.1	0.2%	(0.5%)	(1.6%)	21.4	24.4	10.7%	26.5%	0.6x	Buy
Sanlam	9.7	9.7	0.4%	(15.7%)	(15.7%)	11.6	12.1	0.0%	24.3%	1.0x	Buy

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Britam	7.0	7.1	0.6%	(5.1%)	(6.6%)	7.6	8.3	0.0%	18.2%	1.2x	Accumulate
Stanbic Holdings	92.0	87.3	(5.2%)	3.2%	0.3%	87.0	94.7	4.4%	12.9%	0.8x	Accumulate
Liberty Holdings	7.0	6.9	(1.4%)	(4.9%)	(2.3%)	7.1	7.8	0.0%	12.7%	0.5x	Accumulate
KCB Group***	44.8	47.0	4.9%	(1.0%)	3.2%	45.6	51.4	2.1%	11.4%	1.0x	Accumulate
Standard Chartered***	131.8	136.0	3.2%	2.9%	4.6%	130.0	137.7	7.7%	9.0%	1.1x	Hold
NCBA***	25.4	25.8	1.4%	1.6%	1.2%	25.5	26.4	5.8%	8.3%	0.6x	Hold
Co-op Bank***	13.0	13.0	0.4%	0.0%	0.0%	13.0	13.1	7.7%	8.2%	1.0x	Hold
Equity Group***	50.3	53.0	5.5%	(4.3%)	0.5%	52.8	56.6	0.0%	6.8%	1.4x	Hold
Diamond Trust Bank***	58.5	60.0	2.6%	(2.1%)	0.8%	59.5	61.8	0.0%	3.0%	0.3x	Lighten
ABSA Bank***	11.8	11.9	1.3%	0.0%	1.3%	11.8	11.9	0.0%	0.1%	1.2x	Lighten
CIC Group	2.2	2.3	0.4%	(1.8%)	3.7%	2.2	2.0	0.0%	(9.2%)	0.8x	Sell
HF Group	3.6	3.6	0.3%	(12.1%)	(5.5%)	3.8	3.0	0.0%	(17.7%)	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 1.5x), we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value. We expect the discovery of new COVID-19 variants, the upcoming Kenyan general elections and the slow vaccine rollout to continue weighing down the economic outlook. On the upside, we believe that the relaxation of the lockdown measures in the country will lead to improved investor sentiments in the economy.

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