



Kenya Listed Banks FY'2021 Report, & Cytonn Weekly #15/2022

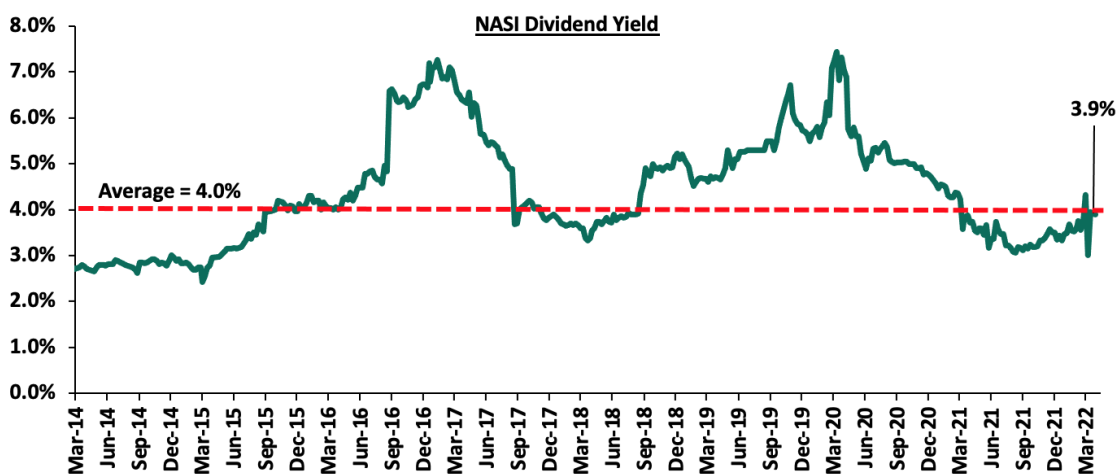
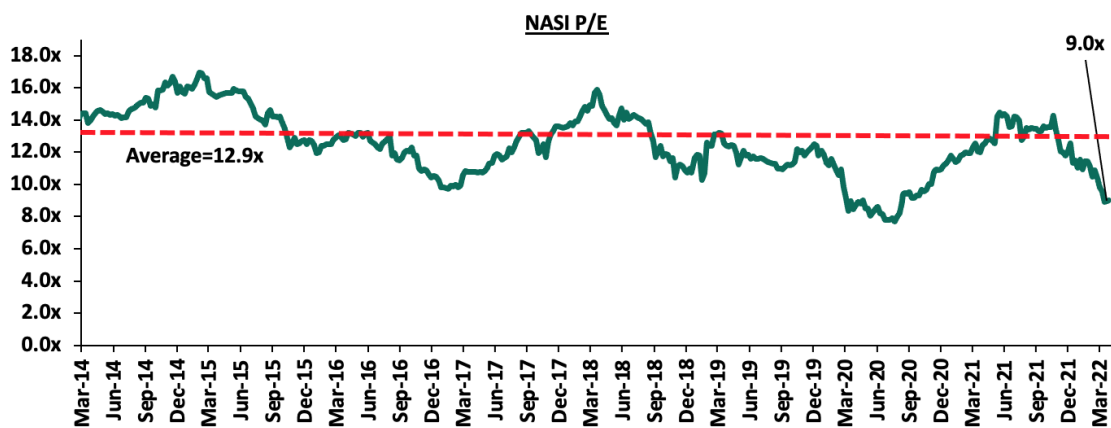
Equities

Markets Performance

During the week, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 gaining by 0.6%, 1.2% and 0.7%, respectively, taking their YTD performance to losses of 5.3%, 2.2% and 4.5% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was driven by gains recorded by large cap stocks such as Bamburi and Equity Group of 5.8% and 1.4%, respectively while ABSA and Co-operative Bank both gained by 1.2%. The gains were however weighed down by losses recorded by other large cap stocks such as EABL and BAT of 1.2% and 0.9%, respectively.

During the week, equities turnover increased by 20.4% to USD 11.6 mn, from USD 9.6 mn recorded the previous week, taking the YTD turnover to USD 269.4 mn. Foreign investors remained net sellers, with a net selling position of USD 5.0 mn, from a net selling position of USD 2.7 mn recorded the previous week, taking the YTD net selling position to USD 22.4 mn.

The market is currently trading at a price to earnings ratio (P/E) of 9.0x, 30.2% below the historical average of 12.9x, and a dividend yield of 3.9%, 0.1% 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. 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 9.0x is 16.8% 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 Highlights:

Equity Group Invests USD 100.0 mn (Kshs 11.5 bn) in its Congo Subsidiary

During the week, Equity Group Holdings Plc announced that it has injected USD 100.0 mn (Kshs 11.5 bn) to its subsidiary in the Democratic Republic of Congo (DRC), Equity BCDC, in order to fund development projects as well as large manufacturing and mining companies in the DRC given the country's diverse and immense natural resources as well as the sectors contribution to economic growth. Notably, the two sectors contribute only 7.0% to the Group's loan book, thus providing an opportunity that the bank can tap into, to diversify its revenues. The additional funding adds to the Kshs 17.4 bn that Equity had already invested in Equity BCDC by the end of 2021, making it the subsidiary with the highest investment after Kenya, where Equity's value of investment stood at Kshs 40.7 bn as of December 2021. Additionally, the Group announced a USD 1.6 bn (Kshs 184.7 bn) trade investment commitment in the Democratic Republic of Congo by 26 Kenyan investors including Small and Medium Enterprises (SMEs) and entrepreneurs. The increased interest by Kenyan investors in DRC follows the signing of the accession treaty into the East African Community (EAC) after admission as the seventh member of the EAC regional block on 8th March 2022. This will allow free movement to the other countries and consequently effective trade.

According to the World Bank, DRC's interest rate spread in 2020 stood at of 19.8%, higher than Kenya's spread of 5.0% during the same period and as such, we believe that these spreads will continue to attract more Kenyan banks into the market. Some of the companies that have shown interest in investing in DRC include Rentco Africa, Optiven Group, Greenlight Planet, Jumbo Foam, BIDCO, Geomaps, Nyanja Associates, Kenya Builders and Concreate Company among others.

In the recently released FY'2021 Equity Group Financial results, the group's geographical diversification strategy continued to emerge as a net positive, with the bank's various subsidiaries in Uganda, DRC, Rwanda, Tanzania, and South Sudan cumulatively contributing 19.7% to the bank's

total profitability and 32.7% to the group's total asset base with Equity BCDC contributing 10.0% of the Group's Profit after tax and 32.2% of the total assets. The firm has also been making efforts to make clients navigate through the tough operating environment brought about by the pandemic having collectively received approximately Kshs 38.0 bn to boost credit flows and liquidity to MSMEs since the pandemic began. As such, we believe that Equity Group will continue to register growth in earnings and revenues as well as expansion in the asset base.

Cytonn Coverage:

Company	Price as at 08/04/2022	Price as at 14/04/2022	w/w change	YTD Change	Year Open 2022	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	2.2	2.2	(2.2%)	(4.4%)	2.3	3.2	4.6%	49.7%	0.2x	Buy
Jubilee Holdings	273.5	267.8	(2.1%)	(15.5%)	316.8	381.7	5.2%	47.8%	0.5x	Buy
I&M Group***	20.4	20.4	0.0%	(4.7%)	21.4	25.4	7.4%	31.8%	0.6x	Buy
Liberty Holdings	6.0	5.9	(1.0%)	(15.9%)	7.1	7.7	0.0%	28.9%	0.4x	Buy
KCB Group***	43.0	43.5	1.0%	(4.6%)	45.6	50.5	6.9%	23.1%	0.9x	Buy
Co-op Bank***	12.7	12.9	1.2%	(1.2%)	13.0	14.6	7.8%	21.3%	1.0x	Buy
Diamond Trust Bank***	56.5	57.0	0.9%	(4.2%)	59.5	65.6	5.3%	20.3%	0.2x	Buy
Britam	6.7	6.6	(1.5%)	(12.4%)	7.6	7.9	0.0%	18.9%	1.1x	Accumulate
Equity Group***	49.3	50.0	1.4%	(5.2%)	52.8	56.2	6.0%	18.3%	1.3x	Accumulate
ABSA Bank***	12.3	12.4	1.2%	5.5%	11.8	13.4	8.9%	17.1%	1.2x	Accumulate
NCBA***	26.9	26.9	0.0%	5.5%	25.5	28.2	11.2%	16.2%	0.6x	Accumulate
Standard Chartered***	143.5	144.3	0.5%	11.0%	130.0	147.1	9.7%	11.6%	1.1x	Accumulate
Stanbic Holdings	104.0	104.3	0.2%	19.8%	87.0	107.2	8.6%	11.5%	0.9x	Accumulate
Sanlam	11.0	11.0	0.0%	(4.8%)	11.6	12.1	0.0%	9.6%	1.2x	Hold
CIC Group	2.1	2.1	(1.4%)	(4.6%)	2.2	1.9	0.0%	(9.0%)	0.7x	Sell
HF Group	3.0	3.0	(1.3%)	(21.1%)	3.8	2.5	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 1.2x), 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 COVID-19 containment measures in the country will lead to improved investor sentiments.

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