



Kenya FY'2021 Listed Insurance Report, & Cytonn Monthly – May 2022

Equities

Markets Performance

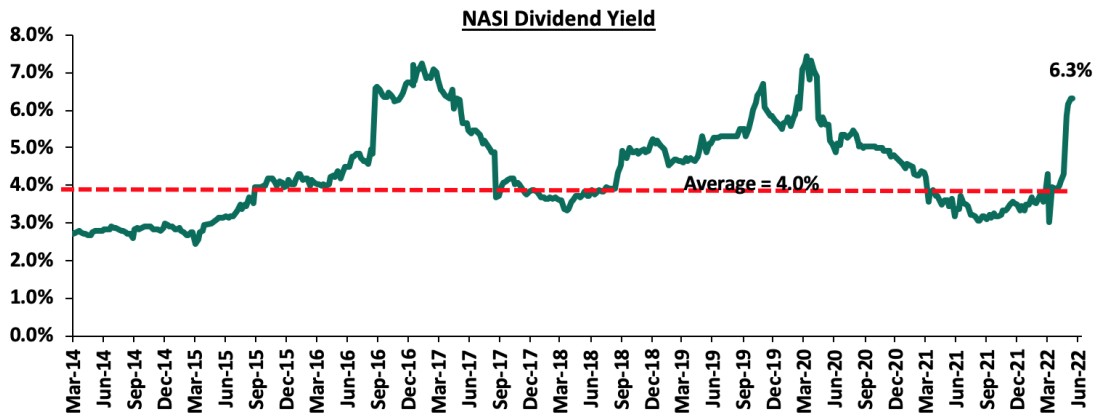
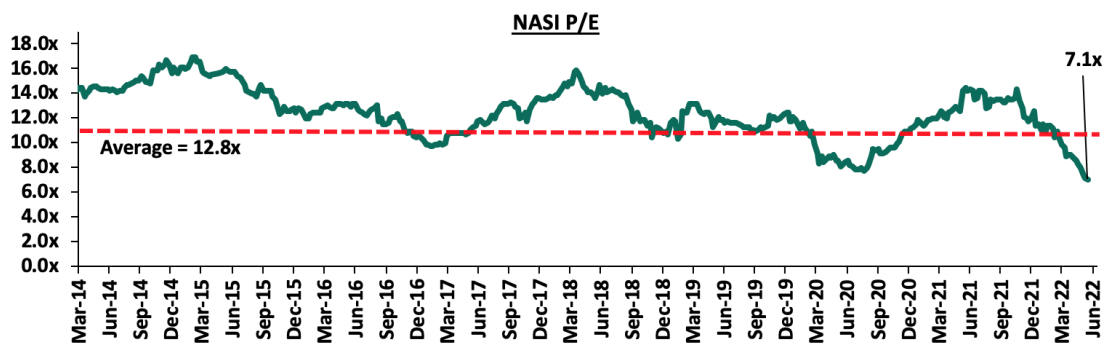
During the month of May, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 14.3%, 6.6% and 9.7%, respectively. The equities market performance was driven by losses recorded by large cap stocks such as Safaricom, Co-operative and Bamburi of 22.3%, 13.8% and 12.8%, respectively. The losses were however mitigated by gains recorded by stocks such as ABSA, KCB and NCBA of 5.2%, 3.3% and 1.7%, respectively.

During the week, the equities market recorded mixed performance, with NASI declining by 0.3%, NSE 20 increasing by 0.7% while NSE 25 remained unchanged taking the YTD performance to losses of 22.6%, 11.2% and 18.4% for NASI, NSE 20 and NSE 25 respectively. The performance was driven by losses recorded by large cap stocks such as Co-operative, Bamburi and NCBA which declined by 8.4%, 8.1%, 1.5%, respectively, while EABL and Safaricom both declined by 0.9%. The losses were however mitigated by gains recorded by banking stocks such as Diamond Trust Bank Kenya (DTB-K), ABSA, Equity Group and KCB Group of 10.0%, 4.5%, 3.4% and 1.8%, respectively.

Equities turnover increased by 83.0% during the month to USD 92.6 mn, from USD 50.6 mn recorded in April 2022. Foreign investors remained net sellers during the month, with a net selling position of USD 36.2 mn, compared to April's net selling position of USD 14.3 mn.

During the week, equities turnover decreased by 51.5% to USD 17.6 mn, from USD 36.3 mn recorded the previous week, taking the YTD turnover to USD 395.9 mn. Foreign investors remained net sellers, with a net selling position of USD 5.4 mn, from a net selling position of USD 14.2 mn recorded the previous week, taking the YTD net selling position to USD 68.9 mn.

The market is currently trading at a price to earnings ratio (P/E) of 7.1x, 44.9% below the historical average of 12.8x, and a dividend yield of 6.3%, 2.3% points above the historical average of 4.0%. Key to note, NASI's PEG ratio currently stands at 0.9x, an indication that the market is undervalued relative to its future 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 charts below indicate the historical P/E and dividend yields of the market:



Monthly highlights:

- i. The Capital Markets Authority (CMA) announced that it had made public the Draft Capital Markets Public Offers Listing and Disclosures Regulations 2022, which are meant to replace the Public Offers Listing and Disclosures Regulations 2002, which have been in place since 2002, with the only amendments done in 2016. The main aim of the Draft Regulations is to provide a more enabling environment in Kenya's Capital Markets in order to spur more listings in the Nairobi Securities Exchange. For more information, please see our *Cytonn Weekly #18/2022*,
- ii. Sanlam Limited, a South African financial services group listed on the Johannesburg Stock Exchange, **announced** that it had entered into a definitive Joint Venture agreement for a term of 10 years with Allianz SE, a global integrated financial services firm listed on the Frankfurt Stock Exchange with the aim to leverage on the two entities footprints in Africa and create a leading Pan-African financial services group, with an estimated equity value of Kshs 243.7 bn. For more information, please see our *Cytonn Weekly #18/2022*,
- iii. Equity Group and the International Finance Corporation (IFC) **signed** a partnership agreement in support of the sustainable development of Africa strategic plan by the Group which saw IFC and its partners commit USD 165.0 mn (Kshs 19.2 bn) towards Equity's 'Africa Recovery and Resilience Plan'. Also during the week, Safaricom Limited **released** their results for the year ended 31st March 2022, highlighting a core earnings per share increase of 1.8% to Kshs 1.74, from Kshs 1.71 in FY'2021 partly attributable to the 30.3% increase in M-PESA revenue to Kshs 107.7 bn, from Kshs 82.6 bn in FY'2021. Lastly, Equity Group, Stanbic Group, and HF Group released their Q1'2022 financial results, indicating an increase in Earnings per Share of 36.0%, 12.0% and 117.8%, respectively. For more information, please see our *Cytonn Weekly #19/2022*, and,
- iv. According to Equity Group Holdings (EGH) **annual report FY'2021**, as at the end of FY'2021, EGH made an initial Investment of Kshs 400.0 mn in Equity Group Insurance Holdings Limited, a non-operating insurance holding company incorporated in January 2022. Also during the week, Standard Chartered Bank of Kenya Plc released their Q1'2022 financial results, indicating an increase in Earnings per share of 15.6% to Kshs 7.3, from Kshs 6.3 recorded in Q1'2021. For more information, please see our *Cytonn Weekly #20/2022*.

Weekly Highlight

Standard Africa Holdings Limited completes acquisition of additional stake in Stanbic Holdings

During the week, Standard Africa Holdings Limited, (SAHL), the majority shareholder in Stanbic Holdings announced that it had completed the acquisition of additional shares in the company, raising its total shareholding to 296,188,531 shares equivalent to 74.9% of the company's ownership. This comes three months after SAHL received regulatory approval from the Capital Markets Authority, for further extension of the exemption from making a full take-over under the Capital Markets (Take over and Mergers) Regulations, 2002. SAHL had targeted to acquire a maximum of 10.6 mn ordinary shares in Stanbic to bring its total shareholding up to 75.0% of Stanbic Holdings' ordinary shares, and has since sought extensions to enable them meet their target. For more information, see our [Cyttonn Weekly #07/2022](#). After acquiring 74.9% of Stanbic Holdings, SAHL has ceased acquiring any additional shares in the entity. The table below highlights the performance of the share purchase as at 31st May 2022:

Period	Shares acquired	% acquired
December 2017	177,713,118.6	60.0%
March 2018 - July 2018	31,656,612.0	8.0%
July 2018 - November 2019	4,309,756.0	1.1%
November 2019 - December 2020	8,146,241.0	2.1%
January 2021 - December 2021	4,289,769.0	1.1%
January 2022 - May 2022	70073034.4	2.6%
Total	296,188,531.0	74.9%

Source: Stanbic Holdings Annual Reports

SAHL's completion of Stanbic Holdings acquisition, is expected to boost the positive sentiments about the Kenyan Banking industry and in turn increase investor confidence, especially at a period that has seen dwindling share prices as a result of increased sell-offs by foreign investors. Key to note, Stanbic Bank has continued to recover from the effects of the harsh business environment brought about by the COVID-19 pandemic and proves to be a profitable business with the Profits After Tax for Q1'2022 having increased by 12.0% to Kshs 2.1 bn, from Kshs 1.9 bn in Q1'2021. Further, Kenya being one of SAHL's strategic growth markets, we expect to see a number of innovative moves aimed at increasing the company's revenues and supporting its growth strategies. We also expect increased activity in share repurchase and buyback activity in the bourse from companies whose prices and valuations are currently low. The move by the CMA to allow for exemptions from making full take overs is also commendable as it allows for investors to increase their shareholding by carrying out on-market trading to acquire a higher stake, as compared to having to acquire the entire entities.

Universe of coverage:

Company	Price as at 27/05/2023	Price as at 31/05/2022	Price as at 03/06/2022	w/w change	m/m change	YTD Change	Year Open 2022	Target Price*	Dividend Yield	TBV/Share	P/Tbv Multiple	Recommendation
I&M Group***	17.1	17.1	17.0	(0.3%)	(6.3%)	(20.3%)	21.4	25.4	8.8%	36.3	0.5x	Buy

Company	Price as at 27/05/2023	Price as at 31/05/2022	Price as at 03/06/2022	w/w change	m/m change	YTD Change	Year Open 2022	Target Price*	Dividend Yield	TBV/Share	P/TBV Multiple	Recommendation
Kenya Reinsurance	2.1	2.1	2.1	2.9%	(4.7%)	(10.5%)	2.3	3.2	4.9%	12.4	0.2x	Buy
Jubilee Holdings	267.0	269.0	266.0	(0.4%)	1.1%	(15.7%)	316.8	379.4	5.2%	548.8	0.5x	Buy
Liberty Holdings	5.5	5.5	5.5	0.4%	(2.5%)	(22.4%)	7.1	7.8	0.0%	13.5	0.4x	Buy
Co-op Bank***	12.0	11.3	11.0	(8.4%)	(5.9%)	(8.1%)	13.0	14.6	8.4%	13.3	0.8x	Buy
ABSA Bank***	10.1	10.3	10.5	4.5%	0.7%	(14.5%)	11.8	13.4	10.9%	10.0	1.1x	Buy
KCB Group***	38.0	38.1	38.7	1.8%	1.5%	(16.6%)	45.6	50.5	7.9%	49.1	0.8x	Buy
Equity Group***	44.0	45.5	45.5	3.4%	(8.1%)	(16.6%)	52.8	56.2	6.8%	38.8	1.2x	Buy
Standard Chartered***	124.0	123.8	123.8	(0.2%)	(3.5%)	(4.6%)	130.0	147.1	11.3%	127.0	1.0x	Buy
Diamond Trust Bank***	50.0	54.8	55.0	10.0%	(9.1%)	(16.0%)	59.5	65.6	6.0%	231.5	0.2x	Buy
Britam	6.4	6.4	6.3	(2.5%)	(4.7%)	(14.8%)	7.6	7.7	0.0%	6.0	1.0x	Buy
NCBA***	26.9	25.6	26.5	(1.5%)	3.3%	5.5%	25.5	28.2	11.2%	41.7	0.6x	Accumulate
Sanlam	14.0	14.0	13.9	(0.7%)	37.9%	21.2%	11.6	15.9	0.0%	9.5	1.5x	Accumulate
Stanbic Holdings	108.0	104.8	104.0	(3.7%)	2.6%	24.1%	87.0	107.2	8.3%	111.7	0.9x	Accumulate
CIC Group	2.0	2.0	2.0	0.5%	(5.2%)	(8.3%)	2.2	2.1	0.0%	2.9	0.7x	Hold
HF Group	3.0	3.1	3.1	3.7%	(0.3%)	(21.3%)	3.8	2.5	0.0%	19.2	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 discount to its future growth (PEG Ratio at 0.9x), 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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