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Nairobi Metropolitan Area (NMA) Residential Report 2022, & Cytonn weekly #23/2022

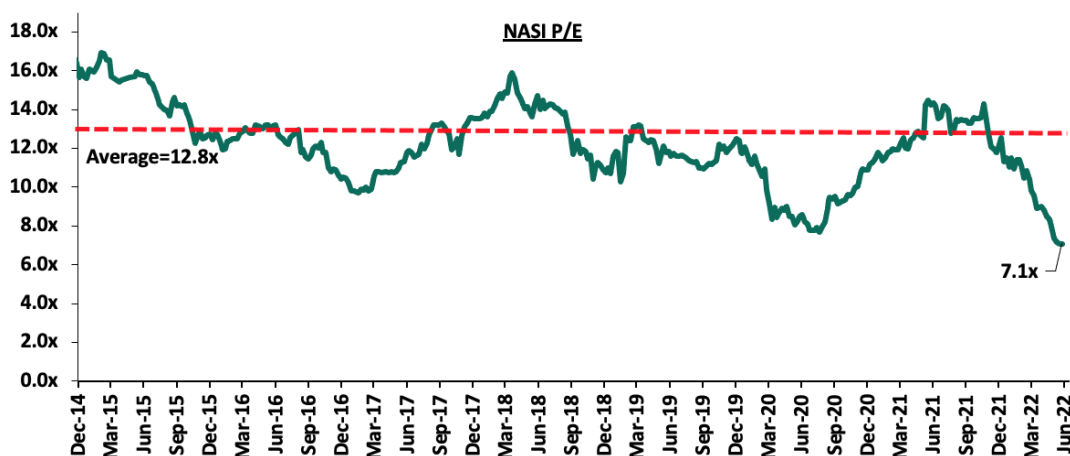
Equities

Markets Performance

During the week, the equities market recorded a mixed performance, with NASI gaining by 0.4%, while NSE 20 and NSE 25 declined by 1.4% and 0.7% respectively. This week's performance took the indices' YTD performance to losses of 22.3%, 19.0% and 12.4% for NASI, NSE 25 and NSE 20 respectively. The equities market performance was driven by gains recorded by stocks such as ABSA Bank and Bamburi of 9.5% and 5.3% respectively, while Safaricom and BAT Kenya both gained by 1.9%. The gains were however weighed down by losses recorded by large cap stocks such as Diamond Trust Bank (DTB-K), Equity Group, EABL and NCBA Group which declined by 9.1%, 5.2%, 4.8% and 4.7%, respectively.

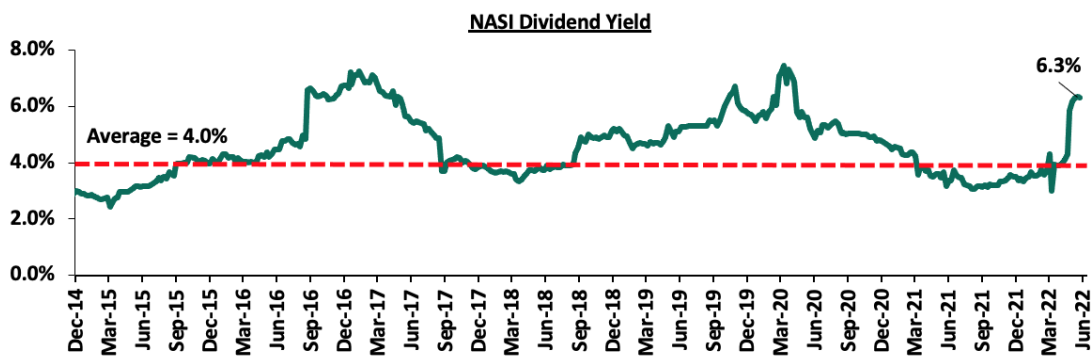
During the week, equities turnover declined by 4.2% to USD 16.8 mn, from USD 17.6 mn recorded the previous week, taking the YTD turnover to USD 412.7 mn. Foreign investors remained net sellers, with a net selling position of USD 7.1 mn, from a net selling position of USD 5.4 mn recorded the previous week, taking the YTD net selling position to USD 76.0 mn.

The market is currently trading at a price to earnings ratio (P/E) of 7.1x, 44.7% 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:



The chart displays the historical Price-to-Earnings (P/E) ratio for the Nairobi Metropolitan Area (NMA) from December 2014 to June 2022. The y-axis represents the P/E ratio in multiples (x), ranging from 0.0x to 18.0x. A horizontal red dashed line indicates the historical average P/E ratio of 12.8x. The current P/E ratio is 7.1x, which is significantly below the historical average. The chart shows a general downward trend in the P/E ratio over the period, with a notable dip around late 2020 and a recovery in early 2021.

Date	NASI P/E Ratio
Dec-14	15.5x
Mar-15	16.5x
Jun-15	15.5x
Sep-15	14.5x
Dec-15	13.5x
Mar-16	13.5x
Jun-16	13.5x
Sep-16	12.5x
Dec-16	10.5x
Mar-17	10.5x
Jun-17	11.5x
Sep-17	12.5x
Dec-17	13.5x
Mar-18	15.5x
Jun-18	14.5x
Sep-18	13.5x
Dec-18	11.5x
Mar-19	13.5x
Jun-19	12.5x
Sep-19	11.5x
Dec-19	12.5x
Mar-20	11.5x
Jun-20	8.5x
Sep-20	8.5x
Dec-20	11.5x
Mar-21	13.5x
Jun-21	13.5x
Sep-21	12.5x
Dec-21	11.5x
Mar-22	8.5x
Jun-22	7.1x



Weekly Highlights;

I. Central Bank of Kenya Credit Survey Report - Q1'2022

During the week, the Central Bank of Kenya (CBK), released the Commercial Banks' Credit Survey Report for the quarter ended March 2022. The quarterly Credit Officer Survey is undertaken by the CBK to identify the potential drivers of credit risk in the banking sector. For the quarter ended 31st March 2022, 38 operating commercial banks and 1 mortgage finance company participated in the Commercial Banks Credit Survey. The report highlights that the banking sector's loan book recorded an 11.2% y/y growth, with gross loans increasing to Kshs 3.4 tn in March 2022, from Kshs 3.0 tn in March 2021. On a q/q basis, the loan book increased by 4.1% from Kshs 3.2 tn in December 2021. Other key take-outs from the report include:

- i. The aggregate balance sheet recorded a 10.4% increase y/y to Kshs 6.1 tn in Q1'2022, from Kshs 5.5 tn in Q1'2021, attributable to an 11.2% increase in gross loans to Kshs 3.4 tn, from Kshs 3.0 tn in Q1'2021 coupled with an 8.1% growth in deposits to Kshs 4.5 tn in Q1'2022, from Kshs 4.1 tn in Q1'2021. Quarterly, the balance sheet grew by 1.6% to Kshs 6.1 tn in March 2022, from Kshs 6.0 tn in December 2021,
- ii. Asset quality in the banking sector improved, with the Gross NPL ratio declining to 14.0% in Q1'2022, from 14.6% in Q1'2021. However q/q, the Gross NPL ratio deteriorated from 13.1% in Q4'2021. The deterioration in asset quality in Q1'2022 is attributable to the deterioration of business environment in Q1'2022 following continued inflationary pressures and currency depreciation risks as a result of the Russia - Ukraine conflict. Some of the key sectors that have been adversely affected include Personal and Household, Real Estate, Transport and Communication, Tourism, and Trade sectors,
- iii. The capital adequacy remained sufficient with the ratio remaining unchanged at 18.9%, as was recorded in March 2021. During the quarter, the total capital increased by 1.1% and the total risk weighted assets increased by 4.4% bringing the capital adequacy ratio to 18.9%, 4.4% points above the minimum statutory limit of 14.5%,
- iv. IFRS 9 implementation had an adverse effect on the banking sector's capital adequacy as a result of increased provisioning due to the challenging business environment. Commercial banks have therefore injected additional capital to accommodate the expected increase in credit losses, and,
- v. Average liquidity in the banking sector declined to 55.0% in March 2022, from 56.3% in March 2021 and 56.2% in December 2021. This was 35.0% points above the minimum statutory ratio of 20.0%.

Despite the continued and renewed recovery efforts by the Kenyan Banking sector that has seen increased profits, mainly attributable to reduced provisioning levels, the sector is set to face increased pressure from the elevated credit risk in the country. This is mainly on the back of the increased inflationary pressures in the country, with the y/y inflation increasing to 7.1%, a 27-month high, coupled with the increased currency depreciation risks which have seen Kenya's Purchasing Managers Index decline to 48.2 in May 2022, from 53.7 recorded at the end of December 2021, signaling a deterioration in business environment. Further, we expect the heated electioneering

period in the build up to the August 2022 elections to sustain the elevated credit risk.

II. Centum Investments sells its 83.4% shareholding in Sidian Bank to Access Bank PLC

During the week, Centum Investment Company PLC, **announced** that it had entered into a binding agreement to sell its 83.4% shareholding in Sidian Bank to Access Bank PLC, for a consideration of Kshs 4.3 bn subject to relevant approval from the Central bank of Kenya and the Competition Authority of Kenya. The price consideration from Access Bank translates to a Price to Book Value (P/B) of 1.1x, which is lower than the 8-year acquisitions average P/B of 1.3x, but higher than the current average P/B of the listed banking stocks of 0.9x. Access Bank will take over the 43 branches that Sidian Bank currently holds, adding to its current network of 28 branches through its subsidiary Access Bank Kenya with a view of merging the two entities. Below is a table showing the combined pro-forma financials for the banks upon approval of the transaction;

Combined Pro-forma Balance Sheet

Balance Sheet	Access Bank Kenya	Sidian Bank	Combined Entity
Net Loans (Kshs bn)	3.4	23.3	26.7
Total assets (Kshs bn)	14.0	43.2	57.2
Customer deposits (Kshs bn)	9.2	26.7	35.9
Number of branches	28	43	71

*Figures as of March 2022

The acquisition adds to Access Bank's foray into the Kenyan Banking sector and follows the acquisition of Transnational Bank, completed in February 2020. This highlights increased investor confidence and sentiments about the Kenyan Banking sector which has continued to be strong and resilient despite the challenges posed by the COVID-19 pandemic and global geopolitical tensions that both led to a deterioration of the business environment. Further, we expect sustained consolidation activity in the Kenyan Banking sector, as weaker banks are merged with the big banks to form a stronger banking system. The COVID-19 pandemic exposed the weak banks in the industry which might need to be acquired by larger banks in order to boost their capital adequacy and liquidity ratios to the required minimum statutory levels. We also expect to see Kenyan banks continue to diversify into other African regions as they look to reduce their reliance on the Kenyan Market.

Below is a summary of the deals in the last 8-years that have either happened, been announced or expected to be concluded:

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
Access Bank PLC	Sidian Bank	4.1	83.4%	4.3	1.1x	June-22*
KCB Group	Banque Populaire du Rwanda	5.3	100.0%	5.6	1.1x	August-21
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.0%	3.6	1.1x	April-21

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
KCB Group**	ABC Tanzania	Unknown	100%	0.8	0.4x	Nov-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.0%	1	0.3x	Aug-20
Commercial International Bank	Mayfair Bank Limited	1	51.0%	Undisclosed	N/D	May-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC.	1.9	100.0%	1.4	0.7x	Feb-20*
Equity Group **	Banque Commerciale Du Congo	8.9	66.5%	10.3	1.2x	Nov-19*
KCB Group	National Bank of Kenya	7	100.0%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23	0.7x	Sep-19
Oiko Credit	Credit Bank	3	22.8%	1	1.5x	Aug-19
CBA Group**	Jamii Bora Bank	3.4	100.0%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.2%	5.1	1.0x	Jan-18
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.0%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.0%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.0%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.0%	1.3	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	3	100.0%	5	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.0%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.0%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.0%	8.6	3.2x	Nov-13
Average			76.7%		1.3x	

* Announcement Date

** Deals that were dropped

Cytonn coverage:

Company	Price as at 03/06/2022	Price as at 10/06/2022	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
I&M Group***	17.0	17.0	0.0%	(20.6%)	25.4	8.8%	58.1%	0.5x	Buy
Kenya Reinsurance	2.1	2.1	0.5%	(7.4%)	3.2	4.7%	54.7%	0.2x	Buy
Liberty Holdings	5.5	5.2	(5.1%)	(26.1%)	7.8	0.0%	49.4%	0.4x	Buy
Jubilee Holdings	266.0	265.0	(0.4%)	(16.3%)	379.4	5.3%	48.5%	0.5x	Buy
Co-op Bank***	11.0	10.9	(0.5%)	(16.2%)	14.6	9.2%	43.0%	0.8x	Buy
Diamond Trust Bank***	55.0	50.0	(9.1%)	(16.0%)	65.6	6.0%	37.2%	0.2x	Buy
KCB Group***	38.7	39.0	0.8%	(14.4%)	50.5	7.7%	37.2%	0.8x	Buy
Equity Group***	45.5	43.2	(5.2%)	(18.2%)	56.2	7.0%	37.1%	1.1x	Buy
Standard Chartered	123.8	123.8	0.0%	(4.8%)	147.1	11.3%	30.1%	1.0x	Buy
Britam	6.3	6.1	(3.5%)	(19.8%)	7.7	0.0%	27.1%	1.0x	Buy
ABSA Bank***	10.5	11.5	9.5%	(2.1%)	13.4	9.6%	26.3%	1.2x	Buy
NCBA	26.5	25.2	(4.7%)	(1.0%)	28.2	11.9%	23.8%	0.6x	Buy
Sanlam	13.9	13.0	(6.5%)	12.6%	15.9	0.0%	22.3%	1.4x	Buy
Stanbic Holdings	104.0	100.8	(3.1%)	15.8%	107.2	8.9%	15.3%	0.9x	Accumulate
CIC Group	2.0	2.0	1.5%	(6.5%)	2.1	0.0%	3.4%	0.7x	Lighten
HF Group	3.1	3.0	(4.2%)	(21.8%)	2.5	0.0%	(16.8%)	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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