



Cytonn Q3'2022 Markets Review

Equities

Market Performance:

During Q3'2022, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 gaining by 3.2%, 6.5% and 5.0%, respectively, taking their YTD performance to losses of 23.2%, 10.3% and 17.4% for NASI, NSE 20 and NSE 25 respectively. The equities market performance during the quarter was driven by gains recorded by large cap banking stocks such as NCBA which gained by 28.4% as well as ABSA and Standard Chartered Bank (SCBK) of 9.6% each, while Co-operative Bank gained by 8.7%. The gains were however weighed down by losses recorded by other large cap stocks such as Bamburi of 0.7%.

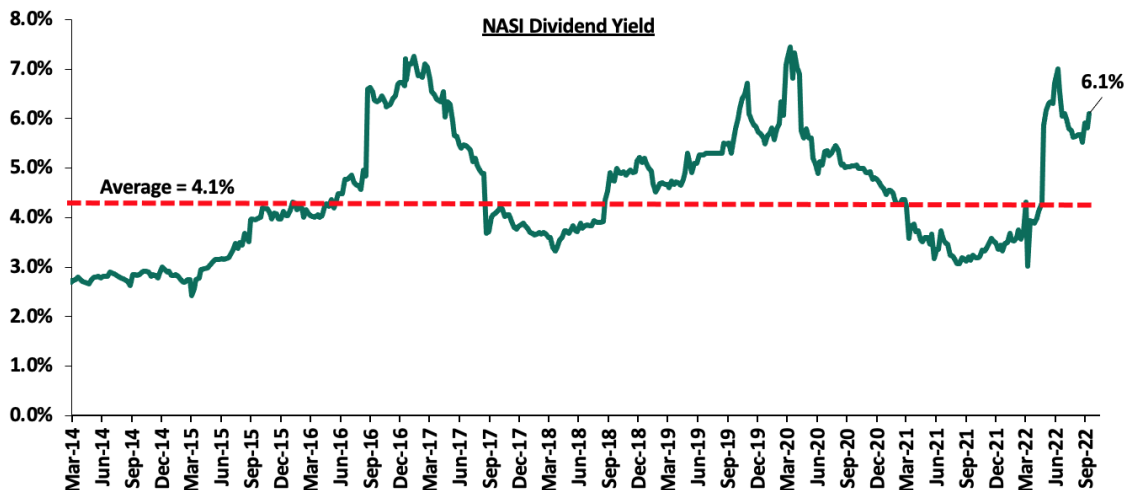
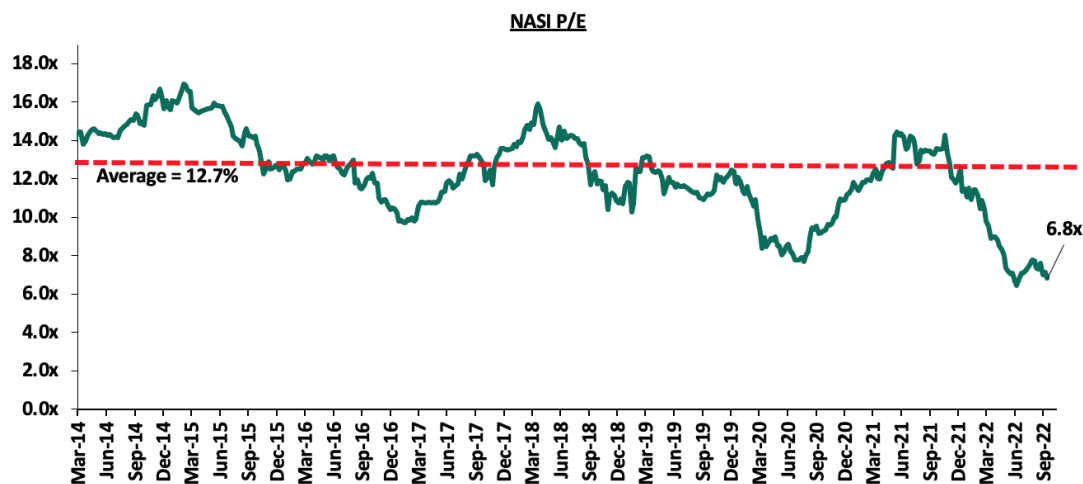
During Q3'2022, equities turnover declined by 14.3% to USD 190.3 mn, from USD 222.0 mn in Q2'2022. Additionally, foreign investors remained net sellers in Q3'2022 with a net selling position of USD 58.4 mn, from a net selling position of USD 91.1 mn recorded in Q2'2022.

During the week, the equities market was on a downward trajectory with NASI, NSE 20 and NSE 25 declining by 4.8%, 1.6% and 2.8%, respectively. The equities market performance was mainly driven by losses recorded by large-cap stocks such as Safaricom, NCBA, BAT and Co-operative Bank of 8.9%, 8.2%, 2.1% and 1.7%, respectively. The losses were however mitigated by gains recorded by other large cap stocks such as KCB Group of 5.9%.

During the week, equities turnover declined by 29.1% to USD 14.4 mn from USD 20.3 mn recorded the previous week, taking the YTD turnover to USD 656.3 mn. Foreign investors remained net sellers, with a net selling position of USD 4.9 mn, from a net selling position of USD 6.8 mn recorded the previous week, taking the YTD net selling position to USD 164.2 mn.

The market is currently trading at a price to earnings ratio (P/E) of 6.8x, 46.3% below the historical average of 12.7x, and a dividend yield of 6.1%, 2.0% points above the historical average of 4.1%. 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;



Listed Banks' H1'2022 Performance

During the third quarter of 2022, the listed banking sector released their H1'2022 results, recording y/y earnings growth of 34.0% in their core EPS in H1'2022, compared to a weighted average increase of 136.0% in H1'2021. The performance was largely skewed by the strong EPS growth from NCBA and Co-operative Bank of 66.9% and 55.7%, respectively. For more information, please see our Kenya Listed Banks H1'2022 Report.

Key Q3'2022 Highlights:

During Q3'2022;

- i. The Insurance Regulatory Authority of Kenya (IRA) released the **Quarterly Insurance Industry Report** for the period ending 31st March 2022 highlighting that the industry's gross premiums rose by 11.6% to Kshs 88.4 bn, from Kshs 79.3 bn recorded in Q1'2021, with the general insurance business contributing 61.0% of the industry's premium income, a 0.2% points decline from the 61.2% contribution witnessed in Q1'2021. For more information, please see our **Cytonn Weekly #31/2022**,
- ii. KCB Group announced that it had entered into a final agreement with shareholders of Trust Merchant Bank (TMB) to acquire an 85.0% stake in the Democratic Republic of Congo (DRC)-based lender, with an option to acquire the remaining stake after two years. For more information please see our **Cytonn Weekly #31/2022**,
- iii. The International Finance Corporation (IFC) disclosed that it would extend USD 150.0 mn (Kshs 18.0 bn) to KCB Group in form of a senior unsecured loan with a maturity of 7-years and a grace period of 2-years. The credit facility was aimed at supporting the growth of the bank's climate finance portfolio which entails clients in sectors such as manufacturing, real estate and agriculture. For more information please see our **Cytonn Monthly-August 2022**,

- iv. The Central Bank of Kenya (CBK) released the Quarterly Economic Review for the period ending 30th June 2022, highlighting that the sector's total assets increased by 2.4% to Kshs 6.2 tn in June 2022, from Kshs 6.1 tn in March 2022. The sector's recorded a 9.3% increase in Profit before Tax (PBT) to Kshs 62.6 bn in Q2'2022, from Kshs 57.3 bn in Q1'2022. For more information please see our Cytonn Weekly #36/2022, and,
- v. Equity Group Holdings Plc through Equity Bank (Kenya) Limited, announced that it had entered into an Assets and Liabilities purchase agreement with Spire Bank Limited for purchase of certain assets and liabilities. In the deal which was anchored in Equity's plan to support economic recovery post COVID-19, Equity Bank Kenya Limited would acquire approximately 20,000 deposit customers with deposits totaling Kshs 1.3 bn, and 3,700 loan customers with outstanding loan balances at Kshs 1.7 bn, with a net carrying value of Kshs 0.9 bn after adjusting for statutory loan loss provisions of Kshs 0.8 bn. For more information, please see our Cytonn Weekly #37/2022.

For notable market highlights from H1'2022, please see our Cytonn H1'2022 Markets Review

Universe of Coverage:

Company	Price as at 23/09/2022	Price as at 30/09/2022	w/w change	q/q change	YTD Change	Year Open 2022	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Re	2.1	2.0	(4.3%)	(2.9%)	(13.5%)	2.3	3.2	5.1%	65.6%	0.2x	Buy
Sanlam	10.0	9.9	(0.6%)	(17.2%)	(13.9%)	11.6	15.9	0.0%	60.0%	1.0x	Buy
Jubilee	245.3	245.0	(0.1%)	(3.9%)	(22.7%)	316.8	379.4	0.4%	55.3%	0.4x	Buy
Equity***	47.1	46.5	(1.4%)	8.0%	(11.9%)	52.8	62.2	6.5%	40.5%	1.1x	Buy
Co-op ***	12.1	11.9	(1.7%)	7.7%	(8.8%)	13.0	15.6	8.4%	40.1%	0.7x	Buy
KCB ***	39.2	41.5	5.9%	6.3%	(9.0%)	45.6	53.5	7.2%	36.3%	0.7x	Buy
Liberty	6.3	5.8	(7.9%)	7.4%	(17.8%)	7.1	7.8	0.0%	34.5%	0.4x	Buy
ABSA ***	11.5	11.5	0.0%	8.0%	(2.6%)	11.8	14.9	1.7%	31.9%	1.0x	Buy
I&M ***	16.9	17.0	0.6%	0.0%	(20.6%)	21.4	20.5	8.8%	29.6%	0.4x	Buy
Britam	6.3	6.0	(4.8%)	4.6%	(21.2%)	7.6	7.7	0.0%	29.2%	1.0x	Buy
DTB-K***	49.8	50.0	0.4%	0.6%	(16.0%)	59.5	59.5	6.0%	25.0%	0.2x	Buy
SCBK***	137.8	136.8	(0.7%)	10.3%	5.2%	130.0	155.0	10.2%	23.6%	0.9x	Buy
NCBA***	33.0	30.3	(8.2%)	27.8%	19.1%	25.5	35.2	6.6%	22.6%	0.7x	Buy
Stanbic	100.0	100.0	0.0%	1.0%	14.9%	87.0	99.9	9.0%	8.9%	0.8x	Hold
HF Group	3.3	3.4	3.0%	2.1%	(11.1%)	3.8	3.6	0.0%	5.9%	0.2x	Hold
CIC Group	2.1	2.0	(2.9%)	0.5%	(7.4%)	2.2	2.1	0.0%	4.5%	0.7x	Lighten

*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 due to the current adverse operating environment and huge foreign investor outflows, and, "Bullish" in the long term due to current cheap valuations and expected global and local economic recovery.

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 current high foreign investors sell-offs, the upcoming Kenyan general elections and the slow vaccine rollout to continue weighing down the economic outlook in the short term.