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# Kenya H1'2022 Listed Insurance Report, & Cytonn Weekly #41/2022

## Equities

### Market Performance:

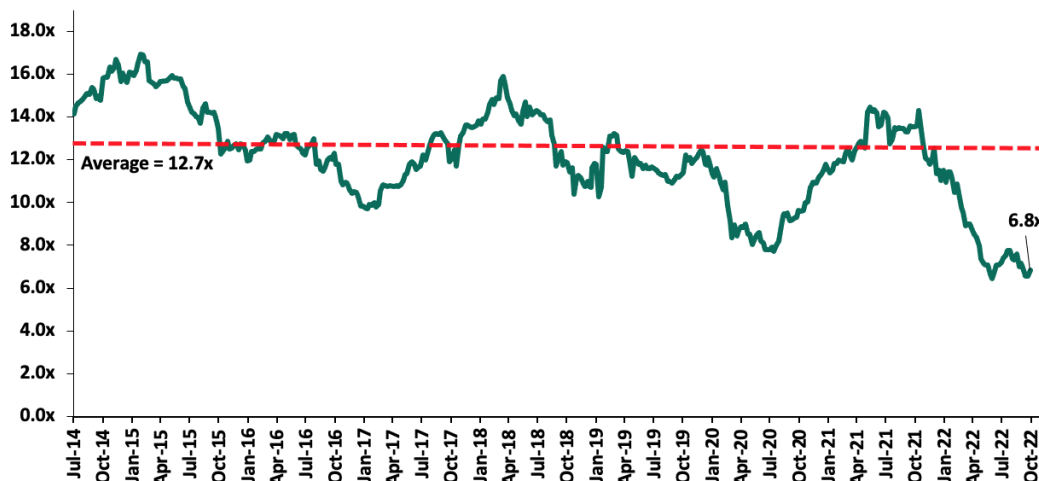
During the week, the equities market was on an upward trajectory with NASI, NSE 20 and NSE 25 increasing by 2.8%, 1.4% and 3.0%, respectively, taking their YTD performance to losses of 22.3%, 11.2% and 16.8%, for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by gains recorded by large-cap stocks such as EABL, Bamburi, Safaricom and Standard Chartered Bank of 24.1%, 3.8%, 3.2%, and 2.6% respectively. The 24.1% gain in EABL was driven by increased trading, following an announcement of plans by Diageo Kenya to acquire additional stake in EABL Plc at Kshs 192.0, a 39.1% premium on the Kshs 138.0 share price as at 13th October 2022. The gains were however weighed down by losses recorded by banking stocks such as NCBA Group, KCB Group and DTB-K of 4.5%, 2.0% and 1.0% respectively.

During the week, equities turnover declined by 57.3% to USD 8.8 mn from USD 20.7 mn recorded the previous week, taking the YTD turnover to USD 685.8 mn. Additionally, foreign investors turned net buyers, with a net buying position of USD 1.4 mn, from a net selling position of USD 13.6 mn recorded the previous week, taking the YTD net selling position to USD 176.4 mn.

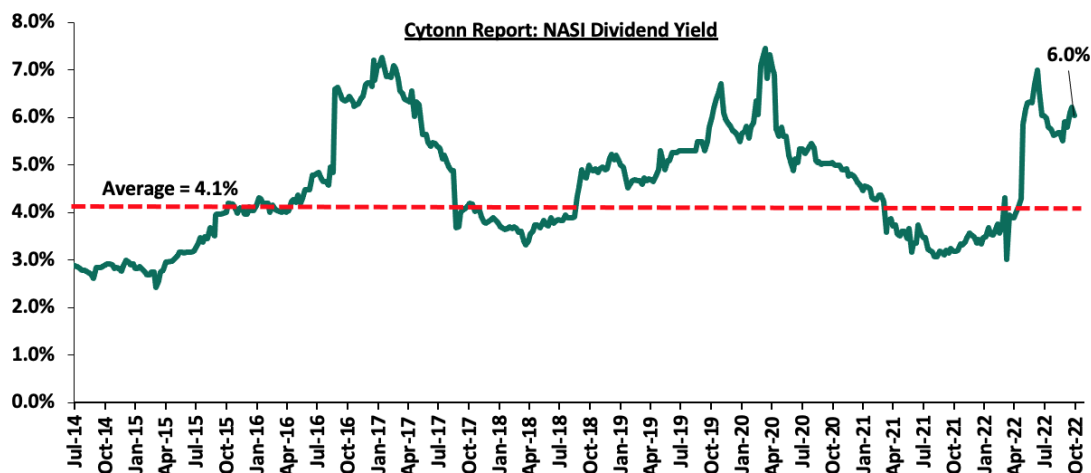
The market is currently trading at a price to earnings ratio (P/E) of 6.8x, 46.0% below the historical average of 12.7x, and a dividend yield of 6.0%, 1.9% points above the historical average of 4.1%. Key to note, NASI's PEG ratio currently stands at 0.9x, an indication that the market is undervalued 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;

**Cytonn Report: NASI P/E**



Date	P/E Ratio (x)
Jul-14	14.0
Oct-14	16.0
Jan-15	16.5
Apr-15	15.5
Jul-15	14.5
Oct-15	12.5
Jan-16	12.5
Apr-16	13.0
Jul-16	12.5
Oct-16	11.5
Jan-17	10.5
Apr-17	11.5
Jul-17	12.5
Oct-17	13.5
Jan-18	14.5
Apr-18	15.5
Jul-18	14.5
Oct-18	11.5
Jan-19	12.5
Apr-19	11.5
Jul-19	10.5
Oct-19	11.5
Jan-20	10.5
Apr-20	8.5
Jul-20	8.5
Oct-20	10.5
Jan-21	11.5
Apr-21	12.5
Jul-21	13.5
Oct-21	12.5
Jan-22	11.5
Apr-22	8.5
Jul-22	7.5
Oct-22	6.8



## Weekly Highlights:

### I. Diageo Kenya Plc announces plans to increase its stake in EABL Plc

During the week, Diageo UK, through Diageo Kenya, its wholly owned indirect subsidiary, **announced** that it served notice on East African Breweries Plc (EABL) of its intention to acquire an additional 15.0% stake to bring its shareholding in EABL to 65.0%, through a tender offer made to minority shareholders. Diageo will apply to the Capital Markets Authority (CMA), for an exemption from the requirement to make a Take-over Offer, and EABL will remain listed in the Nairobi Stock Exchange (NSE). In the terms of the transaction;

1. Diageo intends to acquire additional 118.4 mn shares, which will bring its total shareholding at EABL Plc to 514.0 mn shares, representing 65.0% shareholding, from the current 395.6 mn shares, representing 50.0% shareholding, The Table below shows the current shareholding in EABL Plc;

#### Cyttonn Report: EABL Plc Shareholders

No	Name	Number of shares (mn)	Percentage
1.	Diageo Kenya Limited	395.6	50.0
2.	Standard Chartered Nominees Non-Resd A/C KE004667	22.9	2.9
3.	Standard Chartered Nominees Non-Resd A/C KE10085	20.8	2.6
4.	Kenya Commercial Bank Nominees RESD A/C 915B	11.0	1.4
5.	Standard Chartered Nominees RESD A/C KE111401	8.3	1.0
6.	Stanbic Nominees LTD R6631578	7.9	1.0
7.	Standard Chartered Nominees RESD A/C KE003534	7.4	0.9
8.	Stanbic Nominees LTD A/C NR1031461	6.5	0.8
9.	Stanbic Nominees LTD A/C NR3530153-1	5.6	0.7
10	Others	304.8	38.7

## Cytonn Report: EABL Plc Shareholders

No	Name	Number of shares (mn)	Percentage
	<b>Total</b>	<b>790.8</b>	<b>100.0</b>

Source: EABL Annual Report for the year ending 30th June 2022

- Diageo will purchase each share at Kshs 192.0, which represents a 39.1% premium on the EABL's stock price of Kshs 138.0 a day before the announcement,
- The tender offer if approved by the concerned regulatory bodies will open on 30th January 2023 and close in two phases; with the first offer closing on 17th February 2023 and the second closing on 10th March 2023.

As per results for the year ended on 30th June 2022, EABL had an Earnings per share of Kshs 15.0. Using the closing trading price of Kshs 138.0 on 13th October 2022, a day prior to the announcement, this translated to a P/E multiple of 9.2x. The tender price of Kshs 192.0 will represent a P/E multiple of 12.8x. Additionally, the tender price represents an implied Total Enterprise value to unadjusted EBITDA multiple of 5.7x.

The move by Diageo to increase its shareholding in EABL reflects the strategic importance of EABL to the group, being a manufacturing sector market leader in the East African region. EABL continues to exhibit a strong financial performance evidenced by a Profit After Tax (PAT) of Kshs 15.6 bn in the year ended 30th June 2022, representing a 123.7% increase from Kshs 7.0 bn recorded in the year ended 30th June 2021. Using the average equity and assets of EABL, Return on average Equity came in at 75.5%, from 48.3% recorded in the year ended 30th June 2021, while its return on average Assets increased to 14.8% from 7.4% in the ended 30th June 2021. The Group also announced a final dividend per share of Kshs 7.25, adding to the interim dividend per share of Kshs 3.75 issued in H1'2021. We expect the proposed tender offer to continue to support EABL's share price which rallied by 23.2% to Kshs 170.0 on 14th October, from Kshs 138.0 on 13th October 2022. Key to note, the stock rallied to a YTD gain of 2.7%, reversing the YTD loss of 16.6% as at 13th October 2022.

Further, we expect granting of the exemption by the CMA under the **Take-over Regulations, 2002**, to continue to allow majority shareholders to increase their stake by offering tender offers to existing shareholders without having to carry out a full takeover. If approved, Diageo would follow in the steps of Standard Africa Holdings Limited which was granted an exemption to increase its shareholding in Stanbic Holdings to 75.0%. For more information, please see our **Cytonn Weekly #7 2022**.

## II. Sanlam Kenya Credit Ratings

Recently, Fitch Ratings, a global credit rating agency, **affirmed** Sanlam Life Insurance Limited's (Sanlam Life), an Insurance provider in Kenya, an Insurer Financial Strength (IFS) rating and Issuer Default Rating (IDR) at 'B' and its holding Company Sanlam Kenya Plc's (Sanlam Kenya) IDR at 'B-'. The table below summarizes the ratings;

### Cytonn Report: Fitch Sanlam Kenya Credit Ratings

Rating	June 2022	Oct 2022
IFS&IDR (Sanlam Life Kenya)	B	B
IFS&IDR (Sanlam Kenya Plc.)	B-	B-
Standalone Credit Quality(Sanlam Kenya Plc)	b-	ccc+

## Cytonn Report: Fitch Sanlam Kenya Credit Ratings

Rating	June 2022	Oct 2022
National Long Rating (Sanlam Life Kenya)	AA-	AA-
National Long Term Rating(Sanlam Kenya(Plc)	A+	A+
<b>Outlook</b>	<b>Negative</b>	<b>Stable</b>

Source: Fitch Ratings

According to Fitch Ratings, both Sanlam Life and Sanlam Kenya Plc's ratings were moved from Rating Watch Negative and assigned positive outlooks mainly due to the financial backing and support accorded by Sanlam Group (South Africa). Key to note, the group guarantees Sanlam Kenya's external debt and recently extended a credit facility of Kshs 1.1 bn. Further, Sanlam Kenya continues to hold strategic importance to its parent company, given Kenya's position as a financial hub in East Africa, and its role in the Sanlam Group's Pan-African Strategy. However, key concerns include Sanlam Kenya's weak standalone assessment driven by accumulated losses. In H1'2021, Sanlam Kenya reported an increase in the group's net loss by 82.1% to Kshs 288.8 mn, adding to a loss of 542.4 mn in FY'2021. Additionally, Sanlam Kenya exhibited weak financial leverage evidenced by deterioration of its financial leverage ratio to 93.0% in H1'2022 from 83.0% in H1'2021, mainly driven by an increase in debt by Kshs 1.1 bn though guaranteed by the parent company.

Despite affirmation of the credit ratings and stable outlook by Fitch Ratings, we are of the opinion that Sanlam Kenya's weak financial performance underscores the current unprofitability of core insurance business in Kenya. We expect the Insurance players to continuously look into portfolio optimization, product innovation and leveraging on technology and partnerships to enable them to return to profitability. However, we expect the expected joint venture **announced** by Sanlam Plc and Allianz SE in May 2022 will therefore increase the financial support to Sanlam Kenya and the combined operations will increase its market share in an industry that continues to suffer from low insurance penetration, which came in at a paltry 2.2% in 2021.

### Universe of coverage:

Company	Price as at 07/10/2022	Price as at 14/10/2022	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
<b>KCB Group***</b>	39.6	38.8	(2.0%)	(14.8%)	53.5	7.7%	45.6%	<b>0.6x</b>	<b>Buy</b>
<b>Equity Group***</b>	44.5	44.1	(0.9%)	(16.4%)	59.7	6.8%	42.1%	<b>1.0x</b>	<b>Buy</b>
<b>Co-op Bank***</b>	11.9	12.0	1.3%	(7.7%)	15.6	8.3%	38.3%	<b>0.7x</b>	<b>Buy</b>
<b>ABSA Bank***</b>	11.0	11.2	1.8%	(5.1%)	14.9	1.8%	35.4%	<b>1.0x</b>	<b>Buy</b>
<b>Kenya Reinsurance</b>	2.0	2.0	1.0%	(12.7%)	2.5	5.0%	30.5%	<b>0.2x</b>	<b>Buy</b>
<b>I&amp;M Group***</b>	16.9	17.0	0.6%	(20.6%)	20.5	8.8%	29.6%	<b>0.4x</b>	<b>Buy</b>
<b>Jubilee Holdings</b>	240.0	240.0	0.0%	(24.2%)	305.9	0.4%	27.9%	<b>0.4x</b>	<b>Buy</b>
<b>Diamond Trust Bank***</b>	49.4	48.9	(1.0%)	(17.8%)	59.5	6.1%	27.8%	<b>0.2x</b>	<b>Buy</b>
<b>Liberty Holdings</b>	5.2	5.5	5.8%	(22.4%)	6.8	0.0%	23.2%	<b>0.4x</b>	<b>Buy</b>
<b>Standard Chartered***</b>	134.8	138.3	2.6%	6.3%	155.0	10.1%	22.2%	<b>0.9x</b>	<b>Buy</b>

Company	Price as at 07/10/2022	Price as at 14/10/2022	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
CIC Group	2.0	1.9	(5.0%)	(12.4%)	2.3	0.0%	22.1%	0.7x	Buy
NCBA***	32.0	30.5	(4.5%)	19.8%	35.2	6.6%	21.8%	0.7x	Buy
Sanlam	9.9	9.9	(0.6%)	(14.5%)	11.9	0.0%	20.5%	1.0x	Buy
Britam	5.9	6.0	3.1%	(20.1%)	7.1	0.0%	17.9%	1.0x	Accumulate
HF Group	3.3	3.1	(6.3%)	(18.2%)	3.6	0.0%	15.1%	0.2x	Accumulate
Stanbic Holdings	97.0	97.3	0.3%	11.8%	99.9	9.3%	12.0%	0.8x	Accumulate

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 to continue weighing down the economic outlook in the short term.*

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