The Nairobi Metropolitan Area (NMA) Mixed-Use Developments Report, & Cytonn Weekly #43/2022

Equities

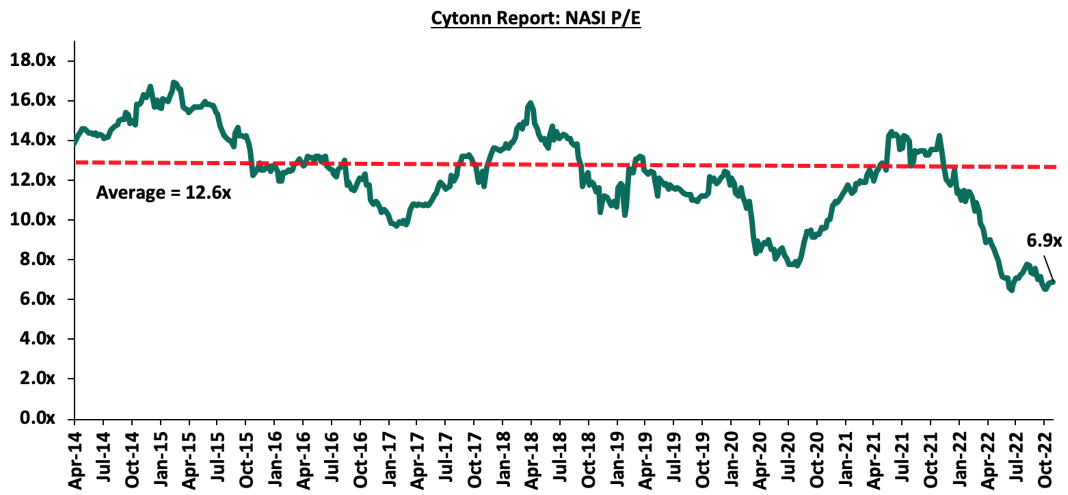
Market Performance:

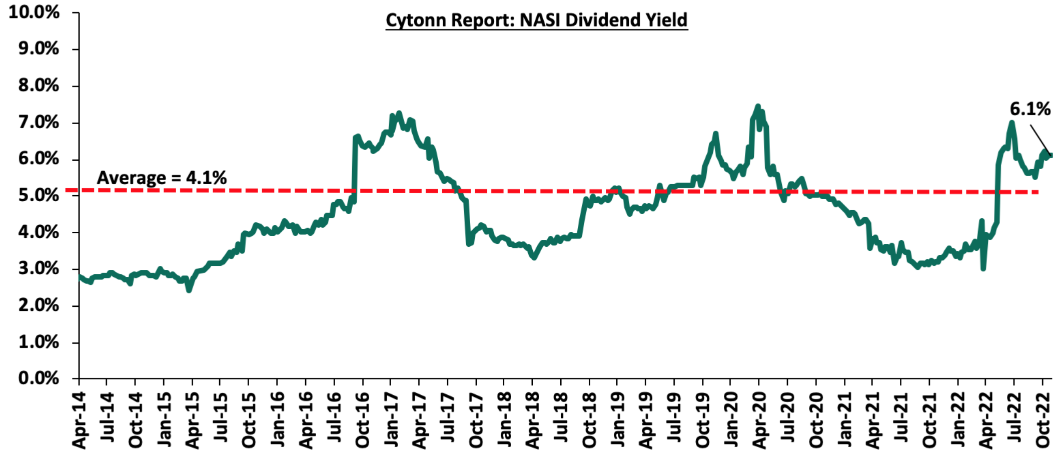
During the week, the equities market recorded mixed performance with NASI and NSE 25 gaining by 0.1% and 0.4% respectively while NSE 20 declined by 1.4%, taking their YTD performance to losses of 23.1%, 12.2% and 16.9%, for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by gains recorded by banking stocks such as NCBA Group, Equity Group, and KCB Group of 6.6%, 3.2% and 3.1%, respectively. The gains were however weighed down by losses recorded by other banking stocks such as ABSA Bank of 3.9% while Co-operative Bank and DTB-K both declined by 1.7% each;

During the week, equities turnover increased by 154.3% to USD 13.2 mn from USD 5.2 mn recorded the previous week, taking the YTD turnover to USD 704.1 mn. Additionally, foreign investors remained net sellers, with a net selling position of USD 5.8 mn, from a net selling position of USD 1.0 mn recorded the previous week, taking the YTD net selling position to USD 183.2 mn.

The market is currently trading at a price to earnings ratio (P/E) of 6.9x, 45.5% below the historical average of 12.6x, 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;





Weekly Highlight:

CMA announces gazettement of Investments-Based Crowdfunding regulations

During the week, the Cabinet Secretary for the National Treasury and Planning, through the Capital Markets Authority (CMA) announced the gazettement of the amended The Capital Markets (Investments-Based Crowdfunding) Regulations 2022, that were first issued for public review in July 2021. The regulations seek to regulate the raising of money from many individual or entities through the internet based portals, referred to as crowdfunding platforms while seeking to increase the access to funding for the Micro, Small and Medium Enterprises (MSMEs), startups and businesses while protecting investor's interest. Notably, the platform operator's annual regulatory fee was reduced by 50.0% to Kshs 100,000.0 from Kshs 200,000.0. Guidelines that remained unchanged include;

i. The Crowdfunding Platform Operator will pay an application and license fee of Kshs 10,000.0 and Kshs 100,000.0 respectively to obtain an approval and licensing from the CMA, and must have a minimum paid up share capital of Kshs 5.0 mn and a minimum capital of Kshs 10.0 mn,
ii. The Investors eligible through crowdfunding include sophisticated investors and retail investors, but the retail investors are subject to the investors limits per the Platform Operator, which is up to a maximum Kshs 100,000.0,
iii. The issuers include MSME(s) that are incorporated in Kenya with a minimum of 2 years' operating track record, and startups with good operating track record, but the aggregate amount shall be a maximum of Kshs 100.0 mn within a 12-month duration, and,
iv. For the Crowdfunding transactions, the offering document through the platform should be made available to the investors at least 14 days before the beginning of the period, and the offering shall not remain open for more than 60 days. Additionally, if the issuer is unable to meet the minimum threshold for the targeted amount, the offer shall be withdrawn with effective refunding to the investors done within 48 hours. Furthermore, the operator of the Crowdfunding platform can only begin a fresh crowdfunding not earlier than 90 days of the said withdrawal.

Key to note, all existing crowdfunding platforms in the country shall be required to obtain a license within the next one year after the commencement of the regulations. For more information on the Crowdfunding regulations, please see our Cytonn Weekly #32/2021

In our view, the gazettement of the Investments-based Crowdfunding regulations is commendable as they will allow for licensing, regulating and authorizing crowdfunding platforms and the operators, which will not only ensure that Investment Based Crowdfunding platforms are managed well within a legal and regulatory framework, but also investors using such platforms will be protected. We expect that this will provide an alternative means of financing for SMEs and MSMEs, helping them to grow and expand operations. Reduction of the annual regulatory fee for the Crowdfunding Platforms is also commendable, as this will reduce the cost of running such platform, and paving way for more platforms increasing access to the much needed financing to startups and enterprises. Currently in Kenya, according to the World Bank, banks provide 99.0% of capital for business financing, with Capital Markets and other sources providing a paltry 1.0% yet in developed markets, banks only provide 40.0% of the capital in the economy while other sources provide 60.0%. Therefore, we urge the regulatory bodies to continue looking into and working with shareholders to ease the regulations that put barriers to other Capital Markets products. A vibrant capital markets will not only ease business financing for SMEs and MSMEs, but also attract higher Foreign Direct Investments inflows which will contribute to both markets and economic growth, in a country which has continued to suffer from foreign investor exits, with the net outflows increasing by 819.0% to Kshs 19.3 bn in the nine months to September 2022 up from Kshs 2.1 bn in a similar period in 2021.

Universe of coverage:

Company	Price as at 21/10/2022	Price as at 28/10/2022	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
KCB Group* **	36.6	37.7	3.1%	(17.2%)	53.5	8.0%	49.9%	**0.6x**	Buy
Co-op Bank* **	12.0	11.8	(1.7%)	(9.2%)	15.6	8.5%	40.7%	**0.7x**	Buy
Sanlam	9.1	8.5	(6.4%)	(26.4%)	11.9	0.0%	40.1%	**0.9x**	Buy
Kenya Reinsurance	1.9	1.9	2.2%	(17.0%)	2.5	5.3%	37.4%	**0.2x**	Buy
ABSA Bank* **	11.6	11.2	(3.9%)	(5.1%)	14.9	1.8%	35.4%	**1.0x**	Buy
Equity Group* **	45.4	46.8	3.2%	(11.3%)	59.7	6.4%	33.9%	**1.1x**	Buy
Jubilee Holdings	237.5	230.0	(3.2%)	(27.4%)	305.9	0.4%	33.5%	**0.4x**	Buy
I&M Group* **	17.0	16.7	(1.5%)	(22.0%)	20.5	9.0%	32.0%	**0.4x**	Buy
Diamond Trust Bank* **	49.0	48.2	(1.7%)	(19.1%)	59.5	6.2%	29.8%	**0.2x**	Buy
Britam	6.2	5.6	(9.4%)	(25.7%)	7.1	0.0%	26.7%	**0.9x**	Buy
Liberty Holdings	5.9	5.5	(6.8%)	(22.1%)	6.8	0.0%	22.7%	**0.4x**	Buy
Standard Chartered* **	138.5	138.8	0.2%	6.7%	155.0	10.1%	21.8%	**0.9x**	Buy
CIC Group	2.0	2.0	(2.0%)	(9.2%)	2.3	0.0%	17.8%	**0.7x**	Accumulate
HF Group	3.0	3.0	2.7%	(20.3%)	3.5	0.0%	15.5%	**0.2x**	Accumulate
NCBA* **	30.3	32.3	6.6%	26.7%	35.2	6.2%	15.2%	**0.7x**	Accumulate
Stanbic Holdings	98.0	100.0	2.0%	14.9%	99.9	9.0%	8.9%	**0.8x**	Hold

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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