Kenya’s Private Sector Credit Growth, & Cytonn Weekly #45/2022

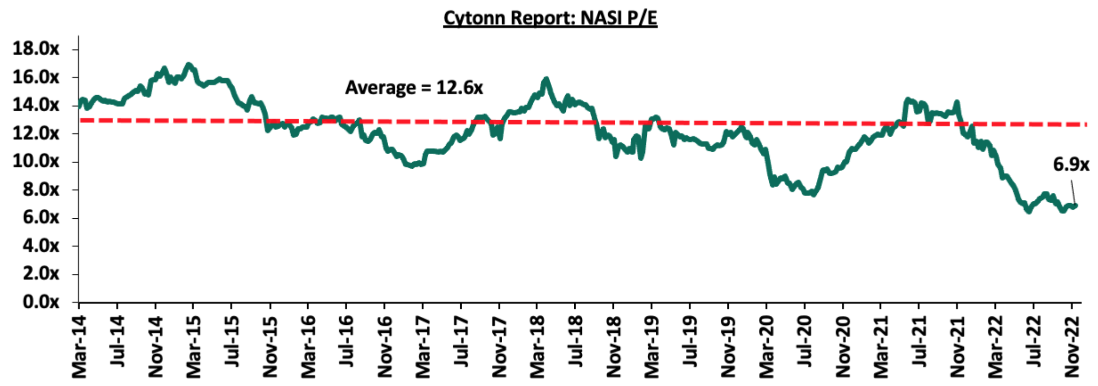
Equities

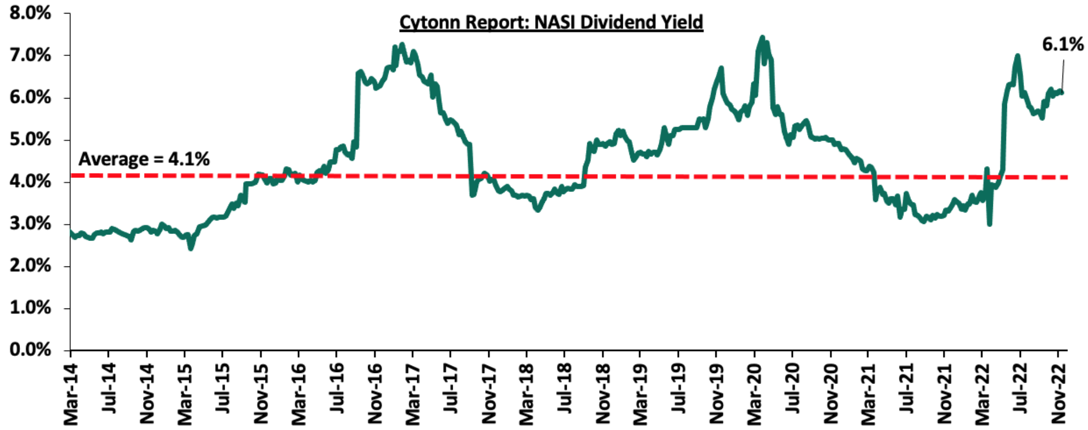
Market Performance:

During the week, the equities market recorded mixed performance with NASI gaining by 0.4% while NSE 20 and NSE 25 declined by 0.5% and 0.2% respectively, taking YTD performance to losses of 23.3%, 12.9% and 17.8% for NASI, NSE 20 and NSE 25 respectively. The equities market performance was mainly driven by gains recorded by stocks such as ABSA Bank, NCBA Group and Safaricom of 2.6%, 1.9% and 1.8%, respectively. The gains were however weighed down by losses recorded by large stocks such as EABL, Equity Group, Bamburi and KCB Group of 4.3%, 1.3%, 1.2%, and 1.1% respectively;

During the week, equities turnover increased by 6.1% to USD 9.7 mn from USD 9.2 mn recorded the previous week, taking the YTD turnover to USD 723.0 mn. Additionally, foreign investors remained net sellers, with a net selling position of USD 2.2 mn, from a net selling position of USD 0.8 mn recorded the previous week, taking the YTD net selling position to USD 186.2 mn.

The market is currently trading at a price to earnings ratio (P/E) of 6.9x, 45.3% 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:

Safaricom H1’2023 Financial Performance

During the week, Safaricom Plc released its H1’2023 financial results for the period ending 30th September 2022, highlighting that the profit after tax declined by 18.6% to Kshs 30.2 bn, from 37.1 bn recorded in H1’2022, largely attributable to a 32.2% increase in operating expenses to Kshs 31.0 bn from Kshs 23.4 bn recorded in H1’2022 due to commencement of operations in Ethiopia. The tables below shows the breakdown of the group’s financial statements from the report;

Cytonn Report: Safaricom PLC H1’2023 Summarised Income statement

Income Statement	H1'2022 Kshs (bn)	H1'2023 Kshs (bn)	Y/Y Change
Total Revenue	**146.4**	**153.4**	**4.8%**
Operating Costs	(69.0)	(79.4)	15.1%
EBITDA	**77.4**	**74.0**	**(4.4%)**
Depreciation & Amortization	(19.5)	(22.8)	16.9%
Net Finance and other costs	(3.2)	(3.0)	(6.3%)
Profit before income tax	**54.7**	**48.2**	**(11.9%)**
Income tax expense	(17.6)	(18.0)	2.3%
Profit after Tax	**37.1**	**30.2**	**(18.6%)**

Source: Safaricom H1’FY22/23 financial report

Cytonn Report: Safaricom PLC H1’2023 Summarised Balance Sheet

Balance Sheet	H1'2022 Kshs (bn)	H1'2023 Kshs (bn)	Y/Y Change
Current Assets	65.3	68.1	4.3%
Non-Current Assets	281.5	311.3	10.6%
Total Assets	**346.8**	**379.4**	**9.4%**
Current liabilities	98.2	112.2	14.3%
Non-Current liabilities	68.9	80.4	16.7%

Cytonn Report: Safaricom PLC H1'2023 Summarised Balance Sheet

Balance Sheet	H1'2022	H1'2023	Y/Y Change
Total Liabilities	**167.1**	**192.6**	**15.3%**
Total Equity	**179.7**	**186.8**	**4.0%**

Source: Safaricom H1'FY22/23 financial report

Key take outs from the report include;

1. Total revenue increased by 4.8% to Kshs 153.4 bn in H1'2023 from Kshs 146.4 bn recorded in H1'2022. The increase in revenue was majorly driven by 4.6% increase in service revenue to Kshs 144.8 bn from Kshs 138.4 bn recorded in H1'2022 with MPESA revenue and mobile data revenue increasing by 8.8% and 11.3% to Kshs 56.9 bn and Kshs 26.3 bn in H1'2023 from Kshs 52.3 bn and Kshs 23.6 bn recorded in H1'2022, respectively,
2. Earnings Before interest, taxes, depreciation & amortization (EBITDA) declined by 4.4% to Kshs 74.0 bn from Kshs 77.4 bn recorded in H1'2022, largely attributable to a 32.2% increase in operating expenses to Kshs 30.9 bn from Kshs 23.4 bn recorded in H1'2022, and,
3. Net finance and other cost recorded a y/y increase of 6.3% to Kshs 3.0 bn from Kshs 3.2 bn recorded in H1'2022.

Additionally, its Ethiopian subsidiary recorded a total revenue of Kshs 98.3 mn, with service revenue coming at Kshs 9.1 mn and operating cost at Kshs 6.0 bn leading to a loss after tax of Kshs 7.3 bn which weighed down on the group's overall performance.

Despite a 10.0% decline in the firm's core earnings to Kshs 0.84 in H1'2023, from Kshs 0.92 in H1'2022, Safaricom continues to remain a strong long-term proposition, owing to its 65.8% of market share in Kenya and over 97.0% market share in mobile money subscribers through M-Pesa, with M-Pesa recording an 8.6% year on year growth in one month active customers to 31.2 mn in H1'2023. Additionally, the Ethiopian subsidiary is expected to gain further traction after the firm officially launched its operation in October 2022 with the firm expecting to tap into Ethiopian market with a population of more than 117.9 mn people as of 2021. Further, we are of the view that the expected approval of a mobile money license coupled with resolution of Ethiopia's internal conflict set the Ethiopian subsidiary in a good position to turn around its financials. However, the adverse macroeconomic situation is likely to weigh on the group's overall performance during this period when it is aggressively expanding its network in Ethiopia. This is due to high import costs of gadgets and equipment as a results of global inflationary pressures that have caused commodity prices to soar

Universe of coverage:

Company	Price as at 04/11/2022	Price as at 11/11/2022	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
KCB Group* **	37.2	36.8	(1.1%)	(19.3%)	53.5	8.2%	53.7%	**0.6x**	**Buy**
Jubilee Holdings	215.0	210.0	(2.3%)	(33.7%)	305.9	0.5%	46.2%	**0.4x**	**Buy**
Co-op Bank* **	11.8	11.9	0.9%	(8.8%)	15.6	8.4%	40.1%	**0.7x**	**Buy**
Kenya Reinsurance	1.9	1.9	(0.5%)	(18.3%)	2.5	5.3%	39.6%	**0.2x**	**Buy**

Company	Price as at 04/11/2022	Price as at 11/11/2022	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Equity Group* **	45.7	45.1	(1.3%)	(14.5%)	59.7	6.7%	38.9%	**1.1x**	**Buy**
ABSA Bank* **	11.4	11.7	2.6%	(0.4%)	14.9	1.7%	29.1%	**1.0x**	**Buy**
Liberty Holdings	5.2	5.0	(4.2%)	(29.5%)	6.8	0.0%	35.5%	**0.4x**	**Buy**
I&M Group* **	17.0	17.2	0.9%	(19.9%)	20.5	8.7%	28.5%	**0.4x**	**Buy**
Diamond Trust Bank* **	48.3	48.5	0.4%	(18.5%)	59.5	6.2%	28.9%	**0.2x**	**Buy**
Sanlam	9.3	8.7	(6.6%)	(24.5%)	11.9	0.0%	36.6%	**0.9x**	**Buy**
Britam	5.8	5.7	(0.7%)	(24.3%)	7.1	0.0%	24.5%	**0.9x**	**Buy**
Standard Chartered* **	136.8	137.0	0.2%	5.4%	155.0	10.2%	23.4%	**0.9x**	**Buy**
NCBA* **	31.1	31.7	1.9%	24.6%	35.2	6.3%	17.2%	**0.7x**	**Accumulate**
CIC Group	2.0	2.0	(2.0%)	(10.1%)	2.3	0.0%	19.0%	**0.7x**	**Accumulate**
HF Group	3.3	3.1	(5.5%)	(19.2%)	3.5	0.0%	14.0%	**0.2x**	**Accumulate**
Stanbic Holdings	100.0	100.0	0.0%	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.

Liason House, StateHouse Avenue
The Chancery, Valley Road
www.cytonn.com