



Unit Trust Funds (UTFs) Performance, Q3'2022, & Cytonn Monthly

Equities

Market Performance:

During the month of January, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 1.2%, 1.1% and 0.6%, respectively. The equities market performance was driven by losses recorded by large cap stocks such as NCBA Group, Bamburi, Safaricom and BAT of 8.8%, 7.9%, 3.1% and 2.2%, respectively. The losses were however mitigated by gains recorded by stocks such as Standard Chartered Bank of Kenya (SCBK), EABL and Co-operative Bank of 10.2%, 5.2% and 1.2%, respectively.

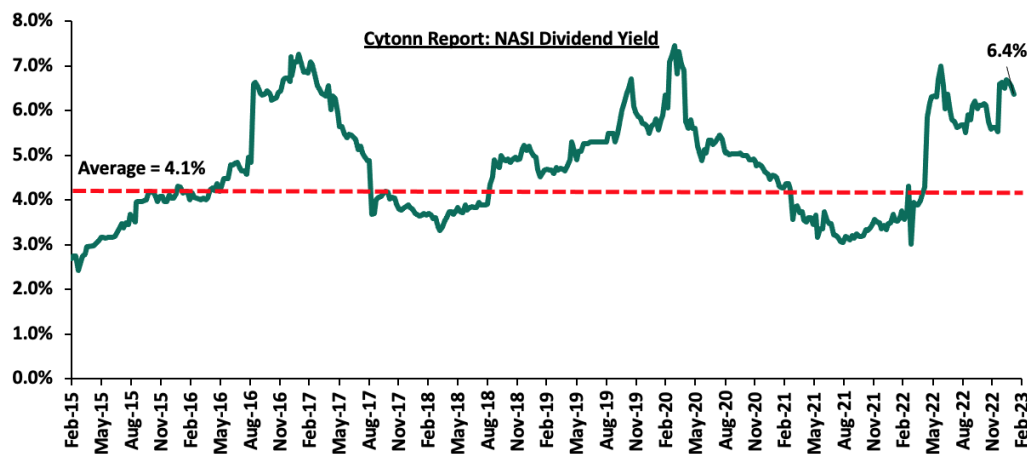
During the week, the equities market recorded mixed performance, with NASI and NSE 25 gaining by 2.5%, and 1.3%, respectively, while NSE 20 declined by 0.6%, taking the YTD performance to gains of 1.5% and 1.3% for NASI and NSE 25, respectively, and a decline of 0.7% for NSE 20. The equities market performance was mainly driven by gains recorded by large cap stocks such as Safaricom and EABL of 5.4% and 3.5%, respectively. The gains were however weighed down by losses recorded by large cap stocks such as NCBA Group, Diamond Trust Bank Kenya (DTB-K), Bamburi and Co-operative Bank of 4.1%, 2.6%, 1.4% and 1.2%, respectively.

Equities turnover increased by 70.1% in the month of January to USD 62.9 mn from USD 37.0 mn recorded in December 2022. Additionally, foreign investors remained net sellers, with a net selling position of USD 23.0 mn, compared to December's net selling position of USD 13.6 mn.

During the week, equities turnover declined by 18.7% to USD 6.9 mn from USD 8.4 mn recorded the previous week taking the YTD turnover to USD 67.9 mn. Additionally, foreign investors turned net sellers, with a net selling position of USD 0.2 mn, from a net buying position of USD 0.4 mn recorded the previous week, taking the YTD net selling position to USD 23.4 mn.

The market is currently trading at a price to earnings ratio (P/E) of 6.6x, 47.0% below the historical average of 12.5x, and a dividend yield of 6.4%, 2.3% 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



Monthly Highlights

- i. **Centum Investment Plc announced that it had terminated the Share Purchase Agreement (SPA) to sell its 83.4% stake in Sidian Bank Limited to Access Bank Plc. The termination was due to the lapse of time arising from expiry of the Long Stop Date and the two parties could not agree to extend the duration, as well as the set conditions between the two parties having not been met. For more information, please see our Cytonn Weekly #02/2023,**
- ii. The Insurance Regulatory Authority of Kenya (IRA) released the Quarterly Insurance Industry Report for the period ending 30th September 2022 highlighting that the industry's profits after tax declined by 3.3% to Kshs 6.2 bn in Q3'2022, from Kshs 6.4 bn recorded in Q3'2021. For more information, please see our Cytonn Weekly #03/2023, and,
- iii. East African Breweries Plc (EABL) released their H1'2023 financial results for the period ending 31st December 2022, recording a stagnation in the Profits After Tax (PAT) at Kshs 8.7 bn as was recorded in a similar period last year. For more information, please see our Cytonn 2023 Markets Outlook.

Weekly Highlights:

I. Equity Bank Kenya Limited completes acquisition of Spire Bank Limited

During the week, Equity Group Holdings PLC, through Equity Bank Kenya Limited (EBKL) announced that it had completed the acquisition of certain assets and liabilities of the troubled local Bank, Spire Bank Limited. This comes after receiving full regulatory approvals from the Central Bank of Kenya (CBK) and the Cabinet Secretary for the National Treasury and Planning as well as approvals from Board and Shareholders of Equity Bank Kenya, Mwalimu National Sacco and Spire Bank Limited.

The completion of the acquisition follows the Assets and Liabilities Purchase Agreement, which was announced in September 2022, as highlighted in our *Cytonn Weekly #37/2022*. As such, Equity Bank Kenya Limited has taken over Spire Banks’s 12 branches as well as all existing depositors in Spire Bank, other than remaining deposits from its largest shareholder, Mwalimu Sacco. Additionally, Spire Bank has transferred approximately 20,000 deposit customers to Equity Bank, and 3,700 loan customers that had an outstanding loan balances reported at a net carrying value after statutory loss provisions of Kshs 0.9 bn. However, Mwalimu Sacco, the sole shareholder in Spire Bank, will pay Equity Group Holdings Plc Kshs 510.7 mn to cover the difference between the distress bank’s assets and liabilities, hence the P/Bv multiple in the transaction is inconsequential. The table below shows the combined pro-forma financials for the two banks;

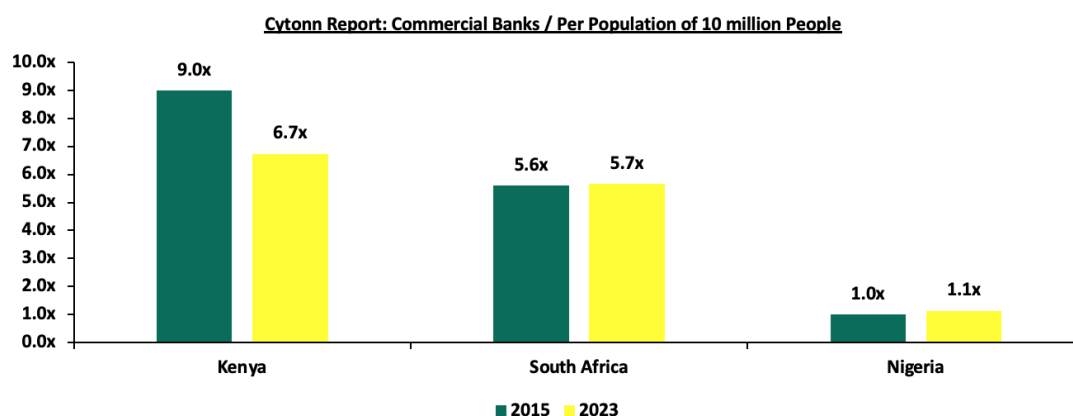
Cytonn Report: Combined Pro-forma Balance Sheet

Balance Sheet	**Equity Group	*Spire Bank	Combined Entity
Net Loans (Kshs bn)	673.9	1.7	675.6
Customer Deposits (Kshs bn)	1,007.3	1.3	1,008.6
Total Assets (Kshs bn)	1,363.7	3.6	1,371.3
Total Liabilities Kshs bn)	1,209.7	2.9	1,212.6
No. of Branches	337	12	349

***Figures for the period ended 30th September 2022, *Figures for the period ended 30th June 2022*

Source: Equity Bank and Spire Bank Unaudited Financial Statements

We expect the completed acquisition to support Equity Group’s concerted efforts to champion the post COVID-19 economic recovery and resilience of individuals, communities and the continent at large. Additionally, this will support the Central Bank of Kenya’s efforts to encourage further consolidation aimed at enhancing stability of the Kenyan banking sector as well as prevent collapse of struggling banking sector players. Additionally, with the acquisition of Spire Bank Kenya, the ratio of the number of banks per 10 million populations in Kenya now stands at 6.7x, which is a reduction from 6.9x recorded in H1’2022, demonstrating continued consolidation of the banking sector, as shown in the chart below;



Source: World Bank, Central Bank of Kenya, South Africa Reserve Bank, Central Bank of Nigeria,

Notably, also during the week, the CBK announced that Commercial International Bank (Egypt) S.A.E (CIB) had completed acquisition of additional 49.0% shareholding of Mayfair CIB Bank Limited (MBL) by) at Kshs 5.0 bn following the earlier acquisition of 51.0% stake in MBL announced in April 2020. Consequently, MBL is now a fully owned subsidiary of CIB. Going forward, we expect to see more consolidation activities in the Kenya’s banking sector as larger banks with a sufficient capital

base take over smaller and weaker banks. As such, we expect this will boost the tier 2 and tier 3 banks' capital adequacy and liquidity ratios to the required minimum statutory levels.

Below is a summary of the deals in the last 9 years that have either happened, been announced or expected to be concluded:

Cytonn Report: Summary of Bank's Acquisition Deals in Kenya

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
Equity Group	Spire Bank	0.01	Undisclosed	Undisclosed	N/A	Sep-22
KCB Group	Trust Merchant Bank	12.4	85.0%	15.7	1.5x	Aug-22
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	Aug-21
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.0%	3.6	1.1x	Apr-21
KCB Group**	ABC Tanzania	Unknown	100.0%	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	4.3	100.0%	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	7.0	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	3.0	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

Cytonn Report: Summary of Bank's Acquisition Deals in Kenya

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
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	3.0	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			78.9%		1.2x	
* Announcement Date						
** Deals that were dropped						

II. NSE amends trading rules to allow block trades

During the week, the Nairobi Securities Exchange (NSE) amended the trading rules for equity securities to allow for block trades, aimed at boosting liquidity in the bourse, after receiving approval from the Capital Markets Authority (CMA). Generally, a block trade is a big purchase or sale of shares, option contracts or bonds, usually negotiated privately outside the public markets, as this reduces the impact of such huge transactions on the price of the security being traded. Block trades will constitute the sale of shares whose total value exceeds Kshs 3.0 bn in value and constitute 5.0% or more of an issuer's total issued shares, but subject to a maximum of 25.0% of the issuer's total number of shares. Additionally, if the block trade is less than Kshs 3.0 bn in value, it should constitute more than 15.0% of the issuer's total issued shares but subject to the maximum of 25.0%.

The amendment, which was added to the other Boards in the Automated Trading System (ATS) within the Trading Rules for equity securities regulations approved in October 2019, is anchored on the fact that large transactions in the bourse may require other than the existing provision that guide price movement as well as require real time reporting of such huge transactions in order to maintain market transparency.

Additionally, block transaction trades shall be:

- i. Concluded within a 30.0% range based on the average security's price for the last one month, from the date of the execution, leading to the processing of the transaction by the NSE within 24 hours,
- ii. However, if the transaction is made outside the 30.0% range, the trading parties will be required to seek approval from the NSE before the execution of the transaction,

- iii. Reported as off market transactions, not affecting the market statistics with the exemption of the total equities market turnover, and,
- iv. If the parties agree to settle the transaction without the transfer of funds (Free of Payment), such a consent shall be filed with the Central Depository Securities Commission (CDSC) for action before the transaction is concluded.

In our view, we commend the move by both the NSE and the CMA to allow bigger transactions at the bourse as this will boost activity in the equities market by increasing its turnover as well as minimize volatility of the stocks' prices. The introduction of the new provision will also ensure a more flexible pricing option, allowing for a bigger 30.0% price range based on one-month price average. This will drive more liquidity since this will be higher than the current 2.0% above the prevailing best bid price of the affected security in the normal board or the previous average price, whichever is higher. Additionally, with the recent **launch** of fractional investing in November 2022 to allow purchase of portions of shares, we expect these efforts by the CMA to enhance trading at the NSE. However, we note that the equities market has continued to suffer from a decline in its equities turnover, with the equities turnover declining by 36.5% in 2022, attributable to reduced foreign participation following foreign investor outflows following interest hikes in advanced economies, as well as concerns on macroeconomic deterioration.

Universe of coverage:

Company	Price as at 27/01/2023	Price as at 03/02/2023	w/w change	m/m change	YTD Change	Year Open 2022	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	194.3	185.8	(4.4%)	(8.2%)	(6.5%)	198.8	305.9	0.5%	65.2%	0.3x	Buy
Kenya Reinsurance	1.8	1.8	(1.7%)	(2.2%)	(5.3%)	1.9	2.5	5.6%	47.5%	0.1x	Buy
Liberty Holdings	4.8	4.6	(4.2%)	(18.9%)	(8.7%)	5.0	6.8	0.0%	46.7%	0.3x	Buy
KCB Group***	38.5	38.2	(0.8%)	0.0%	(0.4%)	38.4	52.5	7.9%	45.3%	0.6x	Buy
Sanlam	8.3	8.3	0.0%	(12.9%)	(12.9%)	9.6	11.9	0.0%	42.8%	0.9x	Buy
Britam	5.2	5.1	(2.7%)	(2.3%)	(1.9%)	5.2	7.1	0.0%	39.6%	0.8x	Buy
ABSA Bank***	12.5	12.4	(0.4%)	0.8%	1.6%	12.2	15.5	12.1%	36.7%	1.0x	Buy
NCBA***	37.0	35.5	(4.1%)	(8.8%)	(8.9%)	39.0	43.4	12.0%	34.2%	0.8x	Buy
Equity Group***	45.4	45.8	0.9%	(1.1%)	1.7%	45.1	58.4	6.6%	34.0%	1.1x	Buy
Co-op Bank***	12.6	12.5	(1.2%)	1.2%	2.9%	12.1	15.5	8.0%	32.3%	0.7x	Buy
I&M Group***	17.0	17.2	0.9%	0.0%	0.6%	17.1	20.8	8.7%	30.1%	0.4x	Buy
Diamond Trust Bank***	51.3	49.9	(2.6%)	0.0%	0.1%	49.9	57.1	6.0%	20.5%	0.2x	Buy
CIC Group	1.9	2.0	5.8%	(2.1%)	4.7%	1.9	2.3	0.0%	16.0%	0.7x	Accumulate
Stanbic Holdings	112.0	110.8	(1.1%)	7.8%	8.6%	102.0	112.0	8.1%	9.3%	1.0x	Hold
Standard Chartered***	157.0	158.0	0.6%	10.2%	9.0%	145.0	166.3	3.8%	9.0%	1.1x	Hold
HF Group	3.3	3.2	(1.2%)	4.1%	2.9%	3.2	3.4	0.0%	5.9%	0.2x	Hold

Target Price as per Cyttonn Analyst estimates

**Upside/ (Downside) is adjusted for Dividend Yield

***For Disclosure, these are stocks in which Cyttonn 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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