



Cytonn Monthly – February 2023

Equities

Market Performance:

During the month of February, the equities market recorded mixed performance, with NASI and NSE 25 gaining by 0.1% and 0.7%, respectively, while NSE 20 declined by 0.6%. The equities market performance was driven by gains recorded by large cap banking stocks such as Standard Chartered Bank of Kenya (SCBK), Equity Group, NCBA Group and Cooperative Bank of Kenya of 4.0%, 3.4%, 2.2% and 1.6% respectively. The gains were however weighed down by losses recorded by large cap stocks such as Bamburi and Stanbic Holdings of 5.2% and 4.5%, respectively.

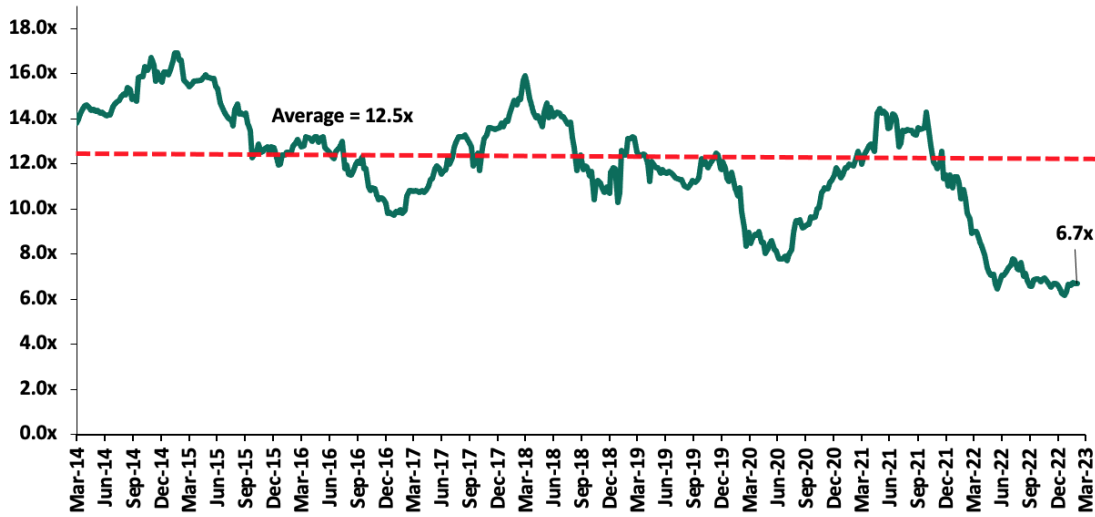
During the week, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 0.2%, 1.3% and 0.5%, respectively, taking the YTD performance to losses of 0.9%, 2.5%, and 0.2% for NASI, NSE 20, and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large cap stocks such as BAT Kenya, Equity Group and ABSA Bank of 5.4%, 1.7%, and 1.2% respectively. The losses were however mitigated by gains recorded by other large cap stocks such as Diamond Trust Bank Kenya (DTB-K), NCBA Group, Bamburi and Co-operative Bank of 3.8%, 2.3%, 2.0% and 1.6%, respectively.

Equities turnover declined by 41.7% in the month of February to USD 36.7 mn from USD 62.9 mn recorded in January 2023. Foreign investors remained net sellers, with a net selling position of USD 3.0 mn, compared to January's net selling position of USD 23.0 mn.

During the week, equities turnover increased by 22.7% to USD 7.9 mn from USD 6.4 mn recorded the previous week taking the YTD turnover to USD 103.8 mn. Foreign investors turned net buyers, with a net buying position of USD 0.8 mn, from a net selling position of USD 1.9 mn recorded the previous week, taking the YTD net selling position to USD 25.1 mn.

The market is currently trading at a price to earnings ratio (P/E) of 6.7x, 46.6% below the historical average of 12.5x, and a dividend yield of 7.4%, 3.3% 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



Cytonn Report: NASI Dividend Yield



Monthly Highlights

- i. **Equity Group Holdings Plc, through Equity Bank Kenya Limited (EBKL) announced that it had completed the acquisition of certain assets and liabilities of Spire Bank Limited after obtaining all the required regulatory approvals. For more information, please see our Cytonn Monthly January 2023,**
- ii. The Nairobi Stock 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). For more information, please see our Cytonn Monthly January 2023,
- iii. The Central Bank of Kenya (CBK) released the Commercial Banks' Credit Survey Report for the quarter ended December 2022, highlighting that the banking sector's loan book recorded a 15.6% y/y growth, with gross loans increasing to Kshs 3.7 tn in Q4'2022, from Kshs 3.2 tn in Q4'2021. For more information, please see our Cytonn Weekly #06/2023, and,
- iv. British American Tobacco Kenya Plc released their FY'2022 financial results, recording a 6.3% growth in Profits after Tax (PAT) to Kshs 6.9 bn, from Kshs 6.5 bn recorded in FY'2021, majorly attributed to the 5.5% increase in Gross Sales to Kshs 42.2 bn in FY'2022 from Kshs 40.0 bn recorded in FY'2021. For more information, please see our Cytonn Weekly #07/2023.

Universe of coverage:

Company	Price as at 24/02/2023	Price as at 03/03/2023	w/w change	m/m change	YTD Change	Year Open 2023	Target Price*	Dividend Yield****	Upside/Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	182.3	184.0	1.0%	0.3%	(7.4%)	198.8	305.9	7.6%	73.9%	0.3x	Buy
Kenya Reinsurance	1.8	1.7	(4.0%)	(1.1%)	(9.1%)	1.9	2.5	5.9%	53.5%	0.1x	Buy
KCB Group***	38.3	38.4	0.1%	0.4%	0.0%	38.4	52.5	7.8%	44.7%	0.6x	Buy
Britam	5.1	5.0	(2.7%)	1.6%	(3.8%)	5.2	7.1	0.0%	42.4%	0.9x	Buy
Sanlam	8.7	8.7	(0.7%)	4.6%	(9.6%)	9.6	11.9	0.0%	37.5%	0.9x	Buy
Equity Group***	46.0	45.2	(1.7%)	3.4%	0.2%	45.1	58.4	6.6%	35.9%	1.1x	Buy
Liberty Holdings	5.0	5.0	0.2%	9.9%	(0.8%)	5.0	6.8	0.0%	35.0%	0.4x	Buy
ABSA Bank***	12.6	12.4	(1.2%)	0.8%	1.6%	12.2	15.5	8.9%	33.5%	1.1x	Buy
Co-op Bank***	12.6	12.8	1.6%	1.6%	5.4%	12.1	15.5	7.8%	29.2%	0.7x	Buy
NCBA***	36.2	37.1	2.3%	2.2%	(4.9%)	39.0	43.4	8.1%	25.2%	0.8x	Buy
I&M Group***	18.0	18.0	0.0%	5.3%	5.6%	17.1	20.8	8.3%	24.0%	0.5x	Buy
Stanbic Holdings	109.0	100.0	(8.3%)	(4.5%)	(2.0%)	102.0	112.0	9.0%	21.0%	0.9x	Buy
Diamond Trust Bank***	48.1	50.0	3.8%	0.0%	0.2%	49.9	57.1	6.0%	20.4%	0.2x	Buy
CIC Group	2.0	2.0	(1.5%)	4.7%	3.7%	1.9	2.3	0.0%	17.2%	0.7x	Accumulate
Standard Chartered***	163.0	162.8	(0.2%)	4.0%	12.2%	145.0	166.3	11.7%	13.8%	1.1x	Accumulate
HF Group	3.6	3.3	(7.6%)	6.0%	4.4%	3.2	3.4	0.0%	4.3%	0.2x	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

****FY'2021 Total dividends

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 equities outlook in the short term.

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