



Cytonn H1'2023 Markets Review

Equities

Market Performance:

During Q2'2023, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 5.1%, 2.9% and 8.0%, respectively, taking their H1'2023 to losses of 16.0%, 6.0% and 13.0% for NASI, NSE 20 and NSE 25 respectively. The equities market performance during the quarter was driven by losses recorded by large caps such as KCB Group, Equity Group and Bamburi of 17.5%, 15.9% and 10.3%, respectively.

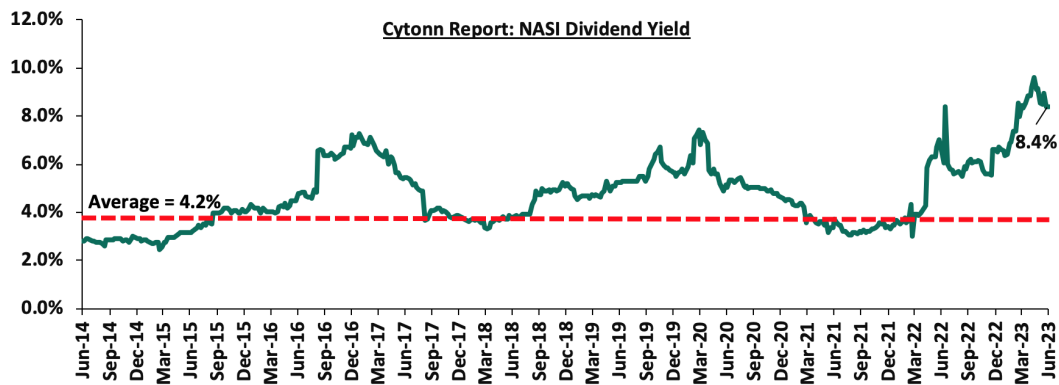
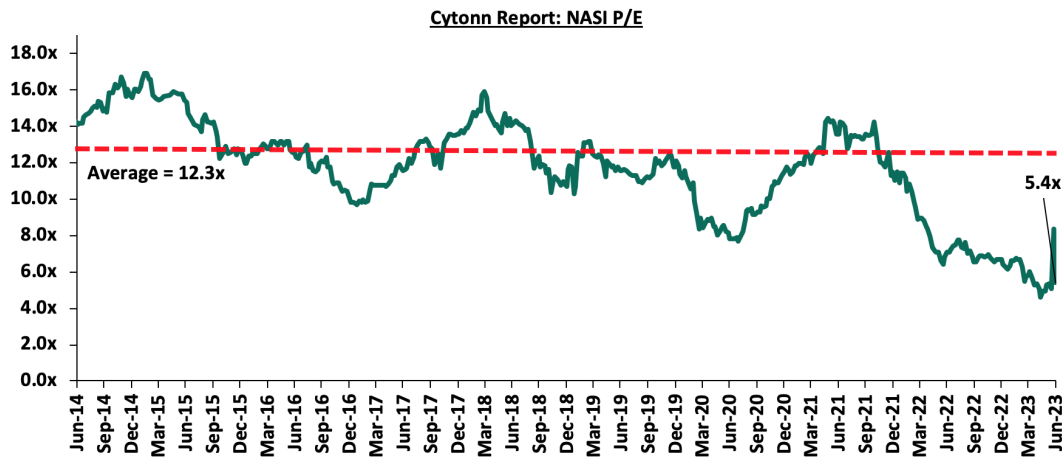
Equities turnover declined by 2.7% in H1'2023 to USD 453.4 mn, from USD 466.0 mn in H1'2022. Foreign investors remained net sellers in H1'2023 with a net selling position of USD 52.0 mn, from a net selling position of USD 105.9 mn recorded in H1'2022.

During the week, the equities market recorded mixed performance with NASI and NSE 20 declining by 0.2% and 0.5%, while NSE 25 gained by 0.4%, taking their YTD performance to losses of 16.0%, 6.0% and 13.0% for NASI, NSE 20 and NSE 25 respectively. The equities market performance was mainly driven by losses recorded by large-cap stocks such as Co-operative Bank and Standard Chartered bank of 0.8% each, while KCB Group and NCBA Bank declined by 0.7% and 0.3% respectively. The losses were however mitigated by gains recorded by East African Breweries Limited (EABL) and Equity Group of 2.0% each, while British American Tobacco gained by 1.8%.

During the week, equities turnover declined by 41.1% to USD 4.2 mn from USD 7.1 mn recorded the previous week, taking the YTD turnover to USD 453.4 mn. Foreign investors remained net buyers, with a net buying position of USD 1.1 mn, from a net buying position of USD 0.5 mn recorded the previous week, taking the YTD net selling position to USD 52.0 mn.

The market is currently trading at a price to earnings ratio (P/E) of 5.4x, 56.3% below the historical average of 12.3x, and a dividend yield of 8.4%, 4.2% points above the historical average of 4.2%. Key to note, NASI's PEG ratio currently stands at 0.7x, 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;



Listed Banks' FY'2022 and Q1'2023 Performance

During the first half of 2023, the listed banking sector released their FY'2022 and Q1'2023 results, recording y/y earnings growth of 26.6% and 25.0% in their core EPS in FY'2022 and Q1'2023, respectively. For more information, please see our FY'2022 and Q1'2023 Banking Sector Reports.

Kenya Listed Insurance FY'2022 Performance

During the first half of 2023, the listed insurance sector released their FY'2022 results, recording weighted Core EPS growth of 377.4%, compared to a weighted growth of 89.2%, in FY'2021. The sustained growth in earnings was attributable to increased premiums during the period following continued recovery by the sector from the impacts of the COVID-19 pandemic, coupled with higher yields from government papers. For more information, please see our Kenya Listed Insurance FY'2022 Report.

Key Half-Year Highlights:

During the first half of 2023;

- 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 30 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,

- 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](#),
- iv. 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](#),
- v. 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](#),
- vi. 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](#),
- vii. 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](#),
- viii. The Central Bank of Kenya (CBK) **announced** that Premier Bank Limited Somalia (PBLs) had completed acquisition of 62.5% shareholding of First Community Bank Limited (FCB) effective 27 March 2023 For more information, please see our [Cytonn Weekly #11/2023](#),
- ix. Diageo UK, through its wholly-owned indirect subsidiary Diageo Kenya, **announced** that it had successfully completed the partial tender offer to acquire an additional 15.0% stake in East African Breweries Plc (EABL). For more information, please see our [Cytonn Weekly #12/2023](#),
- x. Safaricom Plc released its FY'2023 **financial performance** for the year ended 31 March 2023, recording a 22.2% decline in Profit After Tax (PAT) to Kshs 52.5 bn from Kshs 67.5 bn in FY'2022, majorly attributed to a 34.2% increase in operating expenses to Kshs 74.1 bn in FY'2023, up from Kshs 55.2 bn in FY'2022. The increase in operating expenses was mainly driven by injection of Kshs 55.8 bn capital investment expenditure into Safaricom's subsidiary in Ethiopia during the fourth quarter of FY'2023. For more information, please see our [Cytonn Weekly #19/2023](#),
- xi. The Central Bank of Kenya (CBK) released the **Commercial Banking Sector Credit Survey report** for the quarter ended March 2023, highlighting that the banking sector's loan book recorded a 13.9% y/y growth, with gross loans increasing to Kshs 3.9 tn in Q1'2023, from Kshs 3.1 tn in Q1'2022. For more information, please see our [Cytonn Weekly #19/2023](#),
- xii. The Central Bank of Kenya (CBK) **announced** the acquisition of 20.0% stake of Credit Bank Plc by Shorecap III, LP a Private Equity fund registered under the laws of Mauritius effective 15 June 2023. For more information, please see our [Cytonn Weekly #21/2023](#),
- xiii. Equity Group Holdings Plc (EGH) **announced** that it had entered into a binding agreement with Government of Rwanda, Rwanda Social Security Board and other investors of Compagnie Generale De Banque (Cogebanque) Plc Limited to acquire a 91.9% stake in the Rwanda based lender. For more information, please see our [Cytonn Weekly #24/2023](#), and,
- xiv. The Central Bank of Kenya (CBK) released the **Quarterly Economic Review** for the period ending 31 March 2023, highlighting that the banking sector remained stable and resilient during the period on the back of strong liquidity and capital adequacy, with the total assets increased by 2.7% to Kshs 6.8 tn in March 2023, from Kshs 6.6 tn in December 2022. For more information, please see our [Cytonn Weekly #25/2023](#).

Universe of Coverage:

Company	Price as at 23/06/2023	Price as at 30/06/2024	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
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Company	Price as at 23/06/2023	Price as at 30/06/2024	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	180.0	180.0	0.0%	(9.4%)	260.7	6.7%	51.5%	0.3x	Buy
Kenya Reinsurance	1.8	1.8	(0.6%)	(3.7%)	2.5	11.1%	50.6%	0.1x	Buy
KCB Group***	29.5	29.3	(0.7%)	(23.6%)	41.3	6.8%	47.6%	0.5x	Buy
Liberty Holdings	3.6	4.1	12.5%	(19.6%)	5.9	0.0%	46.2%	0.3x	Buy
Equity Group***	37.5	38.3	2.0%	(15.1%)	51.2	10.5%	44.2%	0.8x	Buy
Sanlam	8.0	7.3	(8.5%)	(23.8%)	10.3	0.0%	41.0%	2.1x	Buy
CIC Group	1.9	1.9	0.0%	(0.5%)	2.5	6.8%	38.4%	0.6x	Buy
NCBA***	39.0	38.9	(0.3%)	(0.3%)	48.9	10.9%	36.7%	0.8x	Buy
ABSA Bank***	11.8	11.8	0.4%	(3.3%)	14.7	11.4%	35.8%	1.0x	Buy
Co-op Bank***	12.3	12.2	(0.8%)	0.8%	15.0	12.3%	34.8%	0.6x	Buy
Standard Chartered***	161.8	160.5	(0.8%)	10.7%	183.9	13.7%	28.3%	1.1x	Buy
I&M Group***	17.0	17.1	0.9%	0.3%	19.5	13.2%	27.0%	0.4x	Buy
Stanbic Holdings	112.0	111.3	(0.7%)	9.1%	127.9	11.3%	26.3%	0.8x	Buy
Diamond Trust Bank***	49.6	49.9	0.6%	0.0%	54.6	10.0%	19.5%	0.2x	Accumulate
Britam	5.2	5.0	(3.5%)	(3.5%)	6.0	0.0%	18.9%	0.7x	Accumulate
HF Group	5.0	5.0	0.4%	59.4%	5.8	0.0%	15.7%	0.2x	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 0.7x), 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, the upcoming Kenyan general elections and the slow vaccine rollout to continue weighing down the economic outlook in the short term.

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