

National Health Insurance Fund (NHIF) Review, & Cytonn Weekly #27/2023

Equities

Market Performance:

During the week, the equities market was on an upward trajectory, with NASI, NSE 20, and NSE 25 gaining by 4.1%, 2.7%, and 4.0%, respectively, taking the YTD performance to losses of 12.5%, 3.4%, and 9.6% for NASI, NSE 20, and NSE 25, respectively. The equities market performance was mainly driven by gains recorded by large-cap stocks such as Safaricom, Equity Group, BAT and Bamburi of 8.0%, 4.6%, 4.1%, and 2.8%, respectively. The gains were, however, weighed down by losses recorded by stocks such as KCB Group of 0.5%;

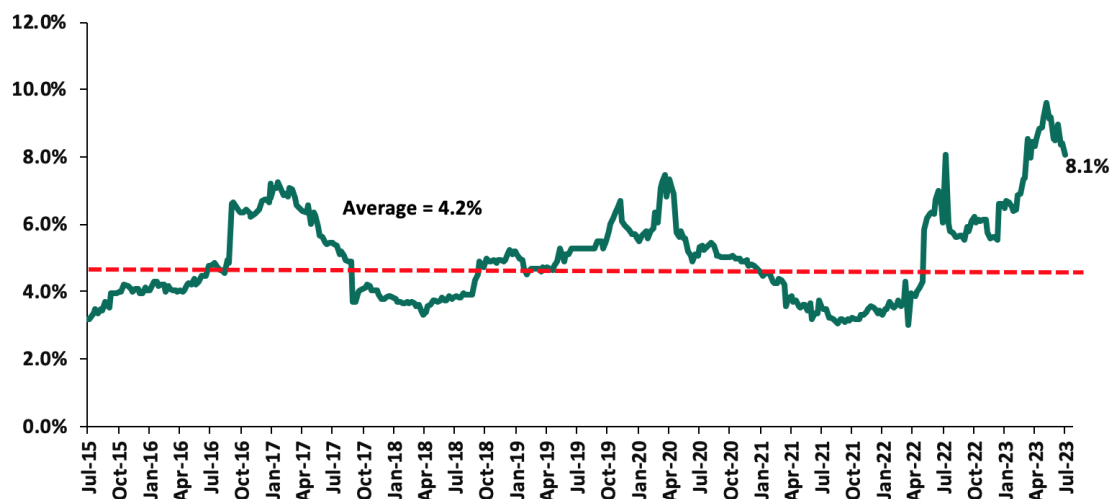
During the week, equities turnover increased by 169.0% to USD 11.3 mn from USD 4.2 mn, recorded the previous week, taking the YTD turnover to USD 464.7 mn. Foreign investors remained net buyers for a fourth consecutive week with a net buying position of USD 1.5 mn from a net buying position of USD 1.1 mn recorded the previous week, taking the YTD net selling position to USD 254.7 mn.

The market is currently trading at a price to earnings ratio (P/E) of 5.6x, 54.5% below the historical average of 12.3x. The dividend yield stands at 8.1%, 3.9% 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 is 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

Date	P/E Ratio (x)
Jul-15	14.0
Oct-15	12.5
Jan-16	12.5
Apr-16	13.0
Jul-16	12.5
Oct-16	11.0
Jan-17	10.0
Apr-17	11.0
Jul-17	12.5
Oct-17	13.0
Jan-18	15.0
Apr-18	14.0
Jul-18	12.5
Oct-18	11.0
Jan-19	12.5
Apr-19	11.0
Jul-19	11.0
Oct-19	12.5
Jan-20	11.0
Apr-20	8.0
Jul-20	8.0
Oct-20	11.0
Jan-21	12.5
Apr-21	14.0
Jul-21	13.0
Oct-21	11.0
Jan-22	8.0
Apr-22	7.0
Jul-22	7.0
Oct-22	7.0
Jan-23	6.0
Apr-23	5.6
Jul-23	5.6

Cytonn Report: NASI Dividend Yield



Universe of coverage:

Company	Price as at 30/06/2024	Price as at 7/07/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
KCB Group***	29.3	29.2	(0.5%)	(24.0%)	41.3	6.9%	48.4%	0.5x	Buy
Kenya Reinsurance	1.8	1.8	2.2%	(1.6%)	2.5	10.9%	47.3%	0.1x	Buy
Jubilee Holdings	180.0	189.0	5.0%	(4.9%)	260.7	6.3%	44.3%	0.3x	Buy
Liberty Holdings	4.1	4.2	4.7%	(15.9%)	5.9	0.0%	39.6%	0.3x	Buy
Equity Group***	38.3	40.0	4.6%	(11.2%)	51.2	10.0%	37.9%	0.9x	Buy
CIC Group	1.9	2.0	2.6%	2.1%	2.5	6.7%	34.9%	0.6x	Buy
Co-op Bank***	12.2	12.2	0.0%	0.8%	15.0	12.3%	34.8%	0.6x	Buy
NCBA***	38.9	39.4	1.4%	1.2%	48.9	10.8%	34.8%	0.8x	Buy
ABSA Bank***	11.8	12.1	2.5%	(0.8%)	14.7	11.2%	32.4%	1.0x	Buy
Sanlam	7.3	8.0	9.6%	(16.5%)	10.3	0.0%	28.6%	2.3x	Buy
Standard Chartered***	160.5	162.0	0.9%	11.7%	183.9	13.6%	27.1%	1.1x	Buy
HF Group	5.0	4.8	(4.0%)	53.0%	5.8	0.0%	20.5%	0.2x	Buy
Diamond Trust Bank***	49.9	50.0	0.3%	0.3%	54.6	10.0%	19.2%	0.2x	Accumulate
I&M Group***	17.1	18.5	8.2%	8.5%	19.5	12.2%	17.4%	0.4x	Accumulate
Stanbic Holdings	111.3	119.8	7.6%	17.4%	127.9	10.5%	17.3%	0.9x	Accumulate
Britam	5.0	5.1	1.6%	(1.9%)	6.0	0.0%	17.1%	0.7x	Accumulate

We are “Neutral” on the Equities markets in the short term due to the current tough 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 being undervalued 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 to continue weighing down the equities outlook in the short term.

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