

Education Investment Plans in Kenya, & Cytonn Weekly #29/2023

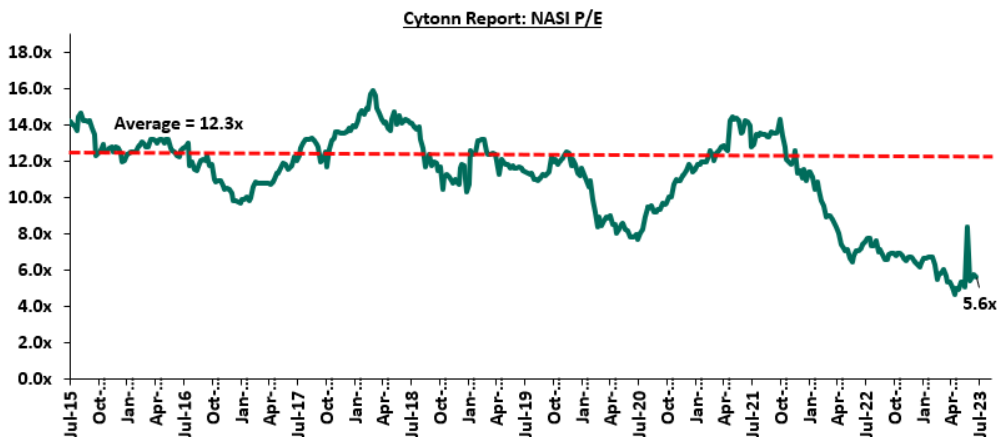
Equities

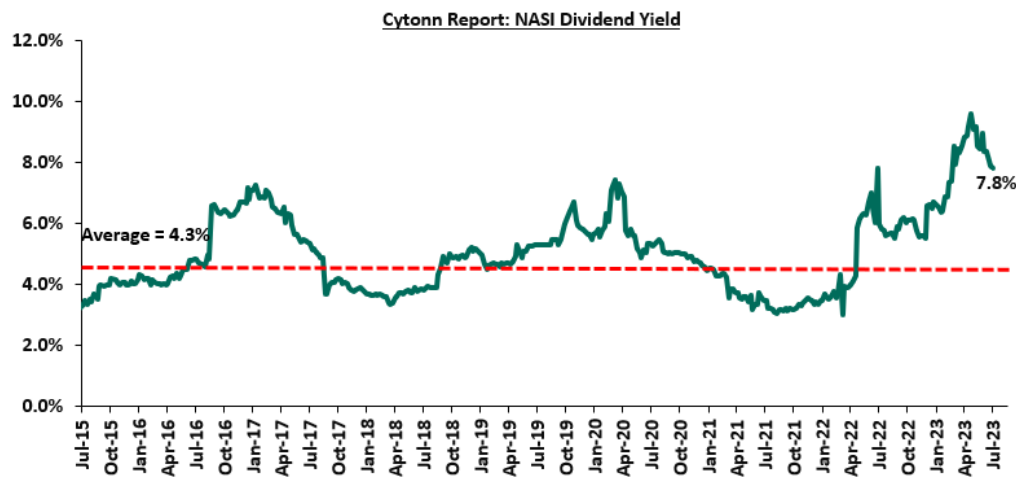
Market Performance:

During the week, the equities market was on a downward trajectory with NASI, NSE 20 and NSE 25 declining by 2.9%, 0.7% and 1.3% respectively, taking the YTD performance to losses of 13.1%, 3.7% and 8.7% for NASI, NSE 20 and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large-cap stocks such as Safaricom, NCBA, Bamburi and KCB Group of 6.3%, 3.3%, 2.5%, and 2.0% respectively. The losses were however mitigated by gains recorded by stocks such as Equity Group and Absa Bank of 3.3% and 1.2% respectively;

During the week, equities turnover decreased by 4.1% to USD 5.7 mn from USD 5.9 mn, recorded the previous week, taking the YTD turnover to USD 476.2 mn. Foreign investors remained net buyers for the sixth consecutive week with a net buying position of USD 1.5 mn, from a net buying position of USD 0.5 mn recorded the previous week, taking the YTD net selling position to USD 253.9 mn.

The market is currently trading at a price to earnings ratio (P/E) of 5.6x, 54.6% below the historical average of 12.3x. The dividend yield stands at 7.8%, 3.5% points above the historical average of 4.3%. 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;





Weekly Highlight

I. DEG-Led Consortium Loan Facility to Cooperative Bank

Recently, the Cooperative Bank of Kenya disclosed that it had received a USD 100.0 mn (Kshs 13.8 bn) loan facility with a maturity of 7 years from the consortium of financial institutions led by DEG which is aimed at providing loans to Micro Small and Medium Enterprises (MSMEs) operating in Kenya. The consortium comprises DEG- Deutsche Investitions is a German lending institution that offers financing, advice, and support to private sector enterprises operating in developing and emerging-market countries such as Kenya, The Africa Agriculture & Trade Investment Fund (AATIF), Micro Small Medium Enterprises Bonds (MSMEB), European Development Finance Institutions namely Finnfund, Norfund, and the co-financing facility European Financing Partners (EFP).

This becomes the first credit facility organized by DEG to the Cooperative bank of Kenya, following other similar fundings from International Finance Cooperation (IFC) of USD 75 mn (Kshs 8.25 bn) and USD 105 mn (Kshs 10.8 bn) in 2021 and 2016 respectively, which were geared towards boosting lending to MSMEs.

In addition to credit provisions to MSMEs, the facility will help to:

- I. Enhance the bank's assets and liability match where long-term loans can be financed using the long-term debt,
- II. Diversify the bank's asset and funding portfolio,
- III. Expand the bank's client base, especially among MSMEs, and,
- IV. Boost the bank's competitive position on account of affordable lending.

Universe of coverage:

Company	Price as at 14/07/2023	Price as at 21/07/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	1.9	1.8	(2.2%)	(3.2%)	2.5	11.0%	49.7%	0.1x	Buy
Jubilee Holdings	190.0	185.3	(2.5%)	(6.8%)	260.7	6.5%	47.2%	0.3x	Buy
KCB Group***	30.2	29.6	(2.0%)	(22.9%)	41.3	6.8%	46.4%	0.5x	Buy
Liberty Holdings	4.2	4.3	3.1%	(15.1%)	5.9	0.0%	38.3%	0.3x	Buy
NCBA***	39.9	38.6	(3.3%)	(1.0%)	48.9	11.0%	37.7%	0.8x	Buy

Company	Price as at 14/07/2023	Price as at 21/07/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Co-op Bank***	12.1	12.0	(1.2%)	(1.2%)	15.0	12.6%	37.7%	0.6x	Buy
ABSA Bank***	12.2	12.4	1.2%	1.2%	14.7	10.9%	29.7%	1.0x	Buy
Standard Chartered***	161.8	162.5	0.5%	12.1%	183.9	13.5%	26.7%	1.1x	Buy
Sanlam	8.4	8.2	(2.4%)	(14.4%)	10.3	0.0%	25.5%	2.3x	Buy
Diamond Trust Bank***	47.7	47.8	0.2%	(4.2%)	54.6	10.5%	24.8%	0.2x	Buy
Equity Group***	43.1	44.5	3.3%	(1.3%)	51.2	9.0%	24.1%	1.0x	Buy
HF Group	4.5	4.8	5.5%	51.4%	5.8	0.0%	21.8%	0.2x	Buy
CIC Group	2.0	2.2	10.6%	15.2%	2.5	5.9%	19.5%	0.7x	Accumulate
Stanbic Holdings	120.0	119.0	(0.8%)	16.7%	127.9	10.6%	18.0%	0.9x	Accumulate
Britam	5.1	5.2	0.8%	(0.4%)	6.0	0.0%	15.3%	0.7x	Accumulate
I&M Group***	18.1	18.9	4.1%	10.6%	19.5	11.9%	15.2%	0.4x	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.