

Q2'2023 Unit Trust Funds Performance, & Cytonn Weekly #39/2023

Equities

Market Performance:

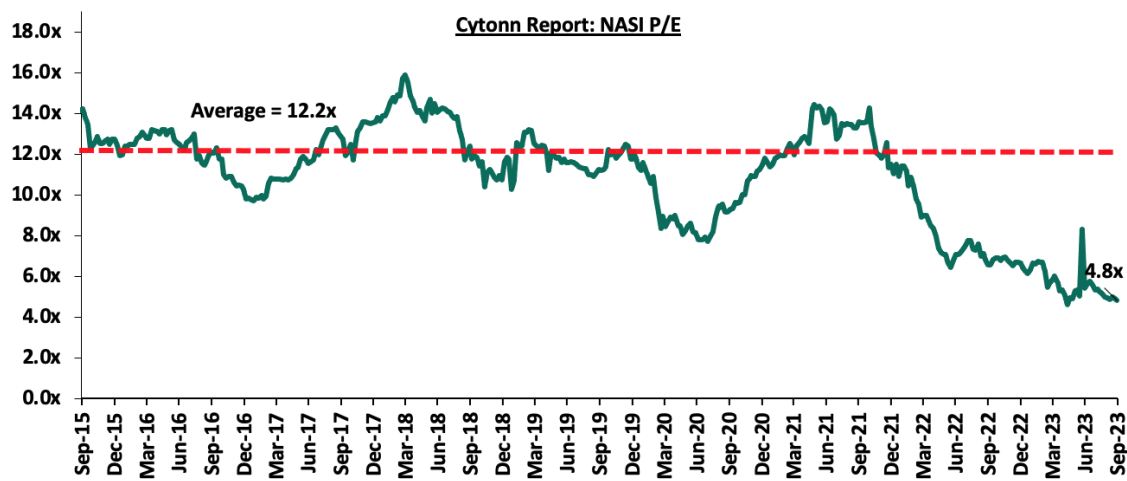
During the week, the equities market was on a downward trajectory, with NSE 10 declining the most by 1.8%, while NASI, NSE 20 and NSE 25 declined by 1.6%, 0.7% and 1.3% respectively, taking the YTD performance to losses of 25.2%, 9.9%, and 21.2% for NASI, NSE 20, and NSE 25, respectively. The equities market performance was mainly driven by losses recorded by large-cap stocks such as KCB Group, Equity Group, Safaricom of 6.7%, 3.7% and 2.7% respectively. The losses were however mitigated by gains recorded by stocks such as Stanbic Bank, NCBA Group and Standard Chartered Bank-Kenya of 3.8%, 1.6% and 1.2% respectively,

During the week, equities turnover decreased by 60.9% to USD 3.5 mn from USD 8.9 mn recorded the previous week, taking the YTD total turnover to USD 572.7 mn. Foreign investors remained net sellers for the fifth consecutive week with a net selling position of USD 0.5 mn, from a net selling position of USD 3.9 mn recorded the previous week, taking the YTD foreign net selling position to USD 282.1 mn.

The market is currently trading at a price to earnings ratio (P/E) of 4.8x, 60.7% below the historical average of 12.2x. The dividend yield stands at 9.1%, 4.8% points above the historical average of 4.3%. Key to note, NASI's PEG ratio currently stands at 0.6x, 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 Dividend Yield

Date	Dividend Yield (%)
Sep-15	4.0%
Dec-15	4.0%
Mar-16	4.0%
Jun-16	4.5%
Sep-16	6.5%
Dec-16	7.0%
Mar-17	7.0%
Jun-17	6.0%
Sep-17	4.0%
Dec-17	4.0%
Mar-18	3.5%
Jun-18	3.5%
Sep-18	4.5%
Dec-18	4.5%
Mar-19	4.5%
Jun-19	5.0%
Sep-19	5.0%
Dec-19	6.5%
Mar-20	7.0%
Jun-20	5.0%
Sep-20	5.0%
Dec-20	4.5%
Mar-21	4.0%
Jun-21	3.5%
Sep-21	3.5%
Dec-21	3.5%
Mar-22	4.0%
Jun-22	9.0%
Sep-22	6.0%
Dec-22	6.5%
Mar-23	8.5%
Jun-23	9.1%
Sep-23	9.1%



Universe of coverage:

Company	Price as at 22/09/2023	Price as at 29/09/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
KCB Group***	22.4	20.9	(6.7%)	(45.6%)	41.3	9.6%	107.5%	0.4x	Buy
Liberty Holdings	3.8	3.6	(4.3%)	(28.6%)	5.9	0.0%	64.4%	0.3x	Buy
Jubilee Holdings	180.8	185.8	2.8%	(6.5%)	260.7	6.5%	46.8%	0.3x	Buy
Equity Group***	36.9	35.6	(3.7%)	(21.1%)	51.2	11.3%	55.2%	0.8x	Buy
Kenya Reinsurance	1.8	1.8	(3.3%)	(5.3%)	2.5	11.3%	53.1%	0.1x	Buy
Sanlam	7.2	6.5	(8.9%)	(31.7%)	10.3	0.0%	57.3%	1.8x	Buy
NCBA***	37.3	37.9	1.6%	(2.8%)	48.9	11.2%	40.3%	0.8x	Buy
Co-op Bank***	11.8	11.8	0.0%	(2.5%)	15.0	12.7%	39.4%	0.6x	Buy
ABSA Bank***	11.9	12.0	0.8%	(2.0%)	14.7	11.3%	34.1%	1.0x	Buy
HF Group	4.5	4.4	(2.2%)	38.4%	5.8	0.0%	33.3%	0.2x	Buy
Stanbic Holdings	111.0	115.3	3.8%	13.0%	127.9	10.9%	21.9%	0.8x	Buy
Standard Chartered***	163.0	165.0	1.2%	13.8%	183.9	13.3%	24.8%	1.1x	Buy
Diamond Trust Bank***	48.0	48.1	0.2%	(3.5%)	54.6	10.4%	23.9%	0.2x	Buy
I&M Group***	17.5	17.1	(2.6%)	0.0%	19.5	13.2%	27.3%	0.4x	Buy
CIC Group	2.1	2.1	0.5%	12.0%	2.5	6.1%	22.9%	0.7x	Buy
Britam	4.9	5.0	2.9%	(4.0%)	6.0	0.0%	19.6%	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 0.6x), 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.