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Currency and Interest Rates Review & Cytonn Weekly #01.2024

Equities

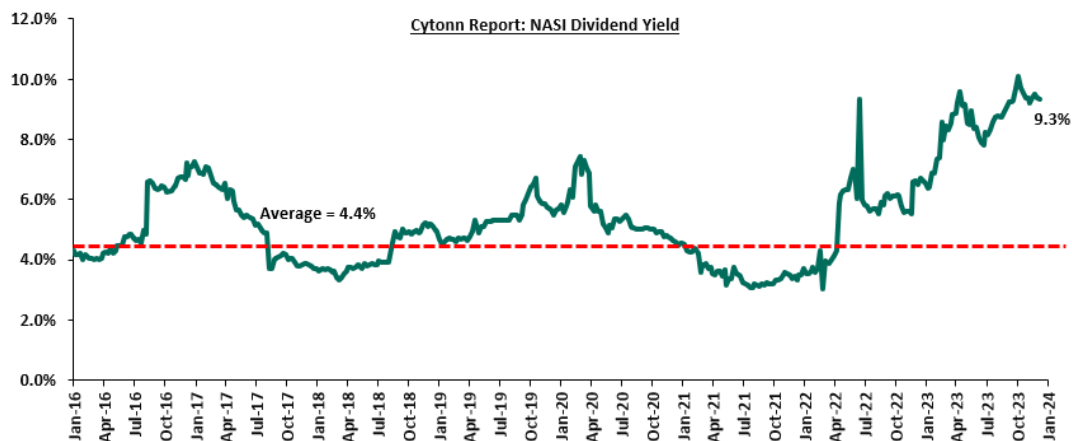
Market Performance:

During the week, the equities market was on an upward trajectory, with NSE 25 and NSE 10 gaining the most by 1.9% each, while NSE 20 and NASI gained by 1.1% and 0.5% respectively, taking the YTD performance to gains of 1.6%, 1.5%, 0.6% and 0.6% for NSE 25, NSE 10, NASI and NSE 20, respectively. The equities market performance was driven by gains recorded by large-cap stocks such as EABL, Equity Group, and BAT of 7.5%, 5.9%, and 5.2% respectively. The gains were, however, weighed down by losses recorded by large-cap stocks such as NCBA, Safaricom, and Cooperative Bank of 2.3%, 2.2%, and 1.3% respectively.

During the week, equities turnover decreased by 41.2% to USD 1.5 mn from USD 2.6 mn recorded the previous week, taking the YTD total turnover to USD 1.5 mn. Foreign investors remained net buyers for the second consecutive week with a net buying position of USD 0.2 mn, from a net buying position of USD 0.01 mn recorded the previous week, taking the YTD foreign net buying position to USD 0.2 mn.

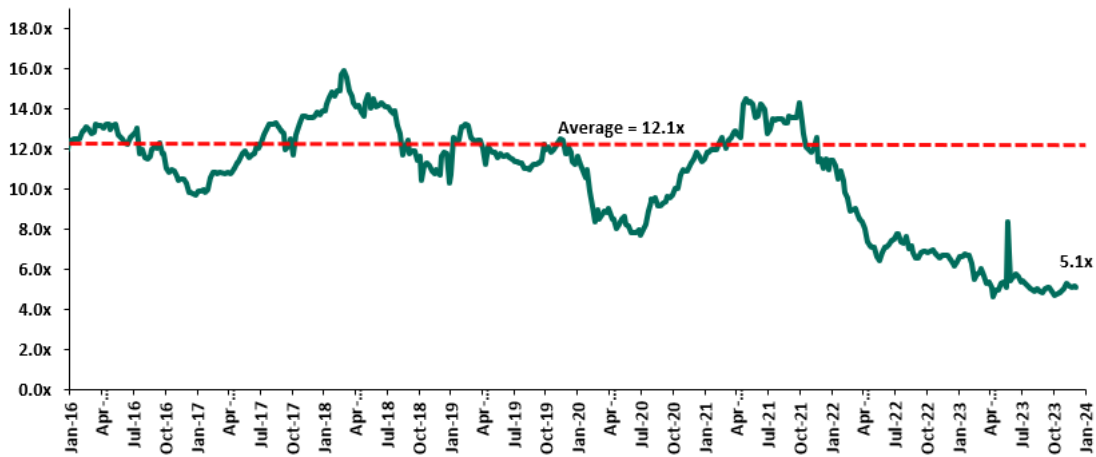
The market is currently trading at a price-to-earnings ratio (P/E) of 5.1x, 57.9% below the historical average of 12.1x. The dividend yield stands at 9.3%, 4.9% points above the historical average of 4.4%. Key to note, NASI's PEG ratio currently stands at 0.7x, an indication that the market is undervalued 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 Dividend Yield



Date	Dividend Yield (%)
Jan-16	~4.0%
Apr-16	~4.5%
Jul-16	~6.5%
Oct-16	~7.0%
Jan-17	~7.0%
Apr-17	~6.0%
Jul-17	~4.5%
Oct-17	~4.0%
Jan-18	~3.5%
Apr-18	~3.5%
Jul-18	~4.0%
Oct-18	~4.5%
Jan-19	~4.5%
Apr-19	~4.5%
Jul-19	~5.0%
Oct-19	~6.5%
Jan-20	~7.5%
Apr-20	~5.5%
Jul-20	~5.0%
Oct-20	~4.5%
Jan-21	~4.0%
Apr-21	~3.5%
Jul-21	~3.5%
Oct-21	~3.5%
Jan-22	~4.0%
Apr-22	~7.0%
Jul-22	~6.0%
Oct-22	~6.5%
Jan-23	~7.5%
Apr-23	~9.0%
Jul-23	~8.5%
Oct-23	~10.0%
Jan-24	9.3%

Cyttonn Report: NASI P/E



Universe of Coverage:

Cyttonn Report: Universe of Coverage

Company	Price as at 29/12/2023	Price as at 05/01/2024	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Sanlam	6.0	5.6	(6.7%)	(6.7%)	10.3	0.0%	83.8%	1.6x	Buy
Kenya Reinsurance	1.9	1.8	(2.7%)	(1.1%)	2.5	10.9%	48.1%	0.1x	Buy
Jubilee Holdings	185.0	185.0	0.0%	0.0%	260.7	6.5%	47.4%	0.3x	Buy
KCB Group***	21.9	22.6	3.0%	2.7%	31.2	8.9%	47.2%	0.4x	Buy
Liberty Holdings	3.7	4.2	14.4%	9.3%	5.9	0.0%	40.3%	0.3x	Buy
I&M Group***	17.5	17.5	0.0%	0.3%	22.1	12.9%	39.1%	0.4x	Buy
NCBA***	39.0	38.1	(2.3%)	(2.1%)	48.3	11.2%	38.1%	0.8x	Buy
ABSA Bank***	11.5	11.7	1.7%	0.9%	14.6	11.6%	36.9%	0.9x	Buy
Diamond Trust Bank***	45.1	46.5	3.2%	3.9%	58.5	10.8%	36.6%	0.2x	Buy
Co-op Bank***	11.4	11.3	(1.3%)	(0.9%)	13.8	13.3%	36.0%	0.5x	Buy
Equity Group***	33.7	35.7	5.9%	4.2%	42.8	11.2%	31.3%	0.8x	Buy
Stanbic Holdings	108.8	111.3	2.3%	5.0%	132.8	11.3%	30.7%	0.8x	Buy
Standard Chartered***	162.0	162.3	0.2%	1.2%	185.5	13.6%	27.9%	1.1x	Buy
Britam	4.8	4.9	3.1%	(3.9%)	6.0	0.0%	20.9%	0.7x	Buy
CIC Group	2.2	2.2	(1.8%)	(3.9%)	2.5	5.9%	19.5%	0.7x	Accumulate
HF Group	3.5	3.4	(3.7%)	(2.9%)	3.9	0.0%	16.4%	0.2x	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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