

Real Estate Investment Trusts (REITs) Progress Update in Kenya, & Cytonn Weekly #07/2024

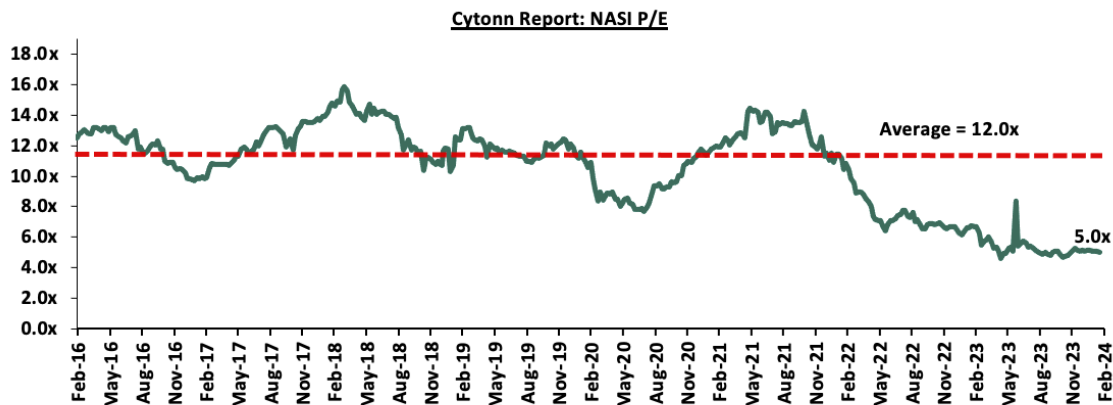
Equities

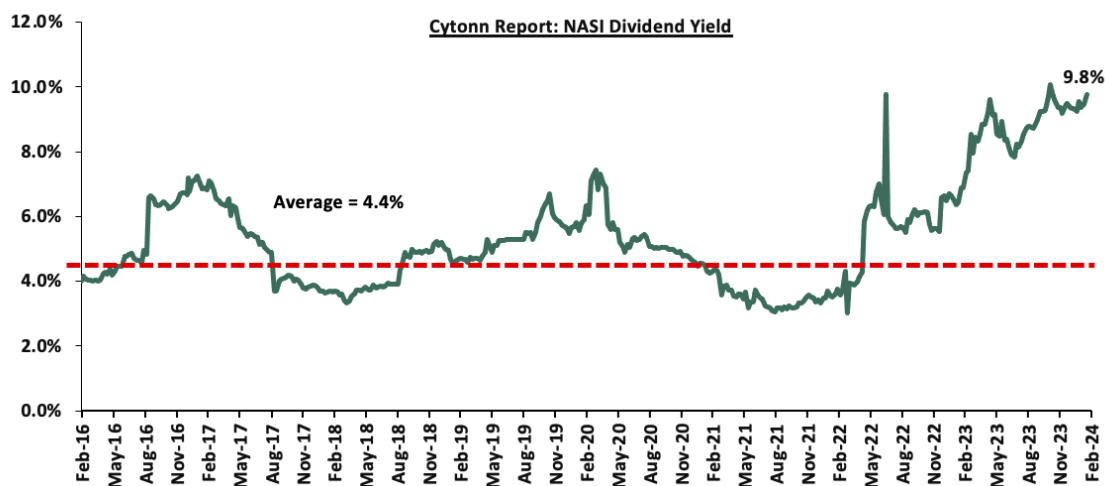
Market Performance:

During the week, the equities market recorded a mixed performance, with NSE 20 gaining by 0.3%, while NASI, NSE 10, and NSE 25 declined by 0.1%, 0.4%, and 0.5% respectively, taking the YTD performance to gains of 0.5%, 0.4% and 0.8% for NSE 25, NSE 10 and NSE 20 respectively while NASI declined by 1.0%. The equities market performance was driven by losses recorded by large cap stocks such as Diamond Trust Bank, NCBA Bank, and EABL of 6.7%, 3.5%, and 2.8% respectively. The losses were, however, mitigated by gains recorded by large-cap stocks such as Bamburi, Equity Group, and ABSA Bank of 2.3%, 1.3%, and 0.4% respectively.

During the week, equities turnover increased by 3.2% to USD 6.4 mn from USD 6.2 mn recorded the previous week, taking the YTD total turnover to USD 31.0 mn. Foreign investors remained net sellers for the sixth consecutive week with a net selling position of USD 0.4 mn, similar to the net selling position of USD 0.4 mn recorded the previous week, taking the YTD foreign net selling position to USD 1.9 mn.

The market is currently trading at a price-to-earnings ratio (P/E) of 5.0x, 58.4% below the historical average of 12.0x. The dividend yield stands at 9.8%, 5.4% points above the historical average of 4.4%. 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;





Universe of Coverage:

Cytonn Report: Universe of Coverage

Company	Price as at 09/02/2024	Price as at 16/02/2024	w/w change	YTD Change	Year Open 2024	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
KCB Group***	20.0	19.9	(0.5%)	(9.6%)	45.6	31.2	10.0%	67.2%	0.3x	Buy
Sanlam	6.6	6.8	2.7%	13.0%	11.6	10.3	0.0%	51.8%	1.9x	Buy
Jubilee Holdings	190.0	180.0	(5.3%)	(2.7%)	316.8	260.7	6.3%	51.1%	0.3x	Buy
Kenya Reinsurance	1.9	1.9	0.0%	0.0%	2.3	2.5	10.8%	46.5%	0.1x	Buy
NCBA***	37.6	36.3	(3.5%)	(6.6%)	25.5	48.3	11.3%	44.4%	0.7x	Buy
I&M Group***	17.4	17.4	(0.3%)	(0.6%)	21.4	22.1	12.9%	40.3%	0.4x	Buy
Diamond Trust Bank***	48.8	45.6	(6.7%)	1.8%	59.5	58.5	10.2%	38.7%	0.2x	Buy
ABSA Bank***	12.1	12.1	0.4%	4.8%	11.8	14.6	11.2%	31.9%	1.0x	Buy
CIC Group	2.1	2.0	(6.5%)	(12.7%)	2.2	2.5	6.1%	31.1%	0.6x	Buy
Stanbic Holdings	115.0	114.0	(0.9%)	7.5%	87.0	132.8	11.0%	27.4%	0.8x	Buy
Standard Chartered***	165.0	163.5	(0.9%)	2.0%	130.0	185.5	13.3%	26.8%	1.1x	Buy
Co-op Bank***	12.2	12.1	(0.8%)	6.6%	13.0	13.8	12.3%	26.3%	0.6x	Buy
Equity Group***	37.5	38.0	1.3%	11.0%	52.8	42.8	10.7%	23.5%	0.8x	Buy
Britam	4.7	5.0	6.2%	(2.9%)	7.6	6.0	0.0%	19.6%	0.7x	Accumulate
Liberty Holdings	5.5	5.5	0.4%	42.5%	7.1	5.9	0.0%	7.6%	0.4x	Hold
HF Group	3.8	3.9	2.1%	12.2%	3.8	3.9	0.0%	0.8%	0.2x	Lighten

Weekly Highlights:

I. British American Tobacco (BAT) Kenya Plc FY'2023 Financial Performance

During the week, British American Tobacco Kenya Plc released their FY'2023 financial results, recording a 19.2% decline in Profits after Tax (PAT) to Kshs 5.6 bn, from Kshs 6.9 bn recorded in FY'2022. The decline in PAT was majorly attributed to the 2.4% decrease in Gross Sales to Kshs 41.2 bn in FY'2023 from Kshs 42.2 bn recorded in FY'2022. The performance was further weighed down by the 5.5% increase in indirect taxes to Kshs 15.7 bn in FY'2023, from Kshs 14.9 bn recorded in

FY'2022 mainly driven by the upward revision of excise duty by 10.0% in July 2022 and a further 6.0% increment in October 2022. The tables below show the breakdown of BAT's financial performance;

Cytonn Report: British American Tobacco (BAT) Kenya Plc Summarized Income Statement

Income Statement	FY'2022	FY'2023	Y/Y Change
	Kshs (bn)	Kshs (bn)	
Gross Sales including Indirect Taxes	42.2	41.2	(2.4%)
Exercise Duty and Value-Added Taxes	(14.9)	(15.7)	5.5%
Net Revenue	27.4	25.6	(6.7%)
Cost of operations	(17.5)	(17.6)	0.8%
Profit from operations	9.9	7.9	(19.8%)
Net Finance Costs/Income	0.0	0.1	193.9%
Profit Before Income Tax	9.9	8.0	(19.1%)
Income Tax Expenses	(3.0)	(2.5)	(18.8%)
Profit After Tax	6.9	5.6	(19.2%)
Dividend Paid	5.7	5.0	(12.3%)
Earnings Per Share (Kshs)	68.9	55.7	(19.2%)

Source: British American Tobacco (BAT) Kenya Plc FY'2023 Financial Report

Cytonn Report: British American Tobacco (BAT) Kenya Plc Summarized Balance Sheet

Balance Sheet	FY'2022	FY'2023	Y/Y Change
	Kshs (bn)	Kshs (bn)	
Current Assets	11.9	12.2	3.3%
Non-Current Assets	12.1	11.8	(2.4%)
Total Assets	23.9	24.1	0.4%
Current Liabilities	5.5	5.8	5.8%
Non-Current Liabilities	2.1	2.0	(4.0%)
Total Liabilities	7.6	7.8	3.1%
Total Equity	16.4	16.3	(0.8%)

Source: British American Tobacco (BAT) Kenya Plc FY'2023 Financial Report

Key take outs from the financial performance include;

- i. Net revenue decreased by 6.7% to Kshs 25.6 bn in FY'2023, from Kshs 27.4 bn recorded in FY'2022, mainly driven by the 2.4% decline in gross sales to Kshs 41.2 bn in 2023, from Kshs 42.2 bn in 2022 coupled with the 5.5% increase in indirect taxes that came in at Kshs 15.7 bn in FY'2023, from Kshs 14.9 bn in FY'2022. Notably, the decrease in gross sales is attributed to the high inflationary pressures resulting in increased prices of factor inputs, and the continued erosion of the market share by illegal cigarettes,

- ii. Indirect Taxes increased by 5.5% to Kshs 15.7 bn, from Kshs 14.9 bn attributable to a cumulative 16.0% increase in exercise duty tax rates between the FY'2022 and FY'2023,
- iii. Cost of sales increased marginally by 0.8% to Kshs 17.6 bn in FY'2023, from Kshs 17.5 bn in FY'2022, largely driven by increased cost of inputs occasioned by the elevated inflationary pressures with annual inflation averaging 7.7% in 2023 coupled with the local currency depreciation which made the importation of inputs more costly,
- iv. The Group's current liabilities increased by 5.8% to Kshs 5.8 bn in FY'2023, from Kshs 5.5 bn recorded in FY'2022, mainly attributable to an increase in short-term loans despite the significant improvement of the net financial income to Kshs 0.1 bn in FY'2023, from a financial income of Kshs 0.03 bn recorded in FY'2022,
- v. Earnings per share decreased significantly by 19.2% to Kshs 55.7 in FY'2023, from Kshs 68.9 in FY'2022, mainly due to the 6.7% decline in net revenue to Kshs 25.6 bn in FY'2023, from Kshs 27.4 bn recorded in FY'2022, and,
- vi. The board of directors proposed a final dividend of Kshs 45.0 per share pending approval by shareholders at the Annual General Meeting to be held on 26th June 2024 with an expected book closure on 24th May 2024. The total dividend to be paid for the FY'2023 amounts to Kshs 50.0 per share, translating to a dividend yield of 11.9%, as at 16th February 2024.

In the face of a tough macroeconomic climate, BAT's PAT declined by 19.2% to Kshs 5.6 bn in FY 2023, down from Kshs 6.9 bn recorded in FY'2022. The challenging operating environment was characterized by local currency depreciation and high inflationary pressures eroding consumers' purchasing power, coupled with the fiscal policies that have increased excise taxes over the last 12 months. As a result, the increased taxes continue to weigh down on the Group's overall performance and profitability. In addition, regulatory uncertainty relating to BAT's modern oral product hindered the company from commercializing its nicotine pouch factory in Nairobi and resulted in supply chain disruptions for tobacco-free oral nicotine pouches. Going forward, we expect the Group's earnings to be supported by market expansion following the addition of Malawi, Mozambique, Angola, Zimbabwe, and Zambia to BAT Kenya's scope of operation resulting in increased export volumes. However, the regulatory uncertainty following the expiry of the temporary license to sell the nicotine pouches without standard-sized health warnings in July 2023, continues to hinder the supply and sale of the product, as well as the operationalization of its planned nicotine pouch production plant in Nairobi. Key to note, the Group's announcement of a final dividend of Kshs 45.0 per share for the period ending 31st December 2023, adding to the interim dividend of Kshs 5.0 per share brings the total dividend for FY'2023 to Kshs 50.0, translating to a 12.3% decline from Kshs 57.0 total dividend per share paid in FY'2022.

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 investor sell-offs to continue weighing down the equities outlook in the short term.