

Special Interest Group Funds in Kenya, & Cytonn Weekly #28/2024

Equities

Market Performance:

During the week, the equities market was on an upward trajectory, with NSE 20 gaining the most by 2.2% while NSE 10, NSE 25, and NASI gained by 1.9%, 1.9%, and 0.9% respectively, taking the YTD performance to gains of 24.6%, 21.9%, 19.6% and 12.4% for NSE 10, NSE 25, NASI and NSE 20 respectively. The equities market performance was driven by gains recorded by large-cap stocks such as Bamburi, KCB Group, and EABL of 37.9%, 6.7%, and 4.7% respectively. The performance was, however, weighed down by losses recorded by large-cap stocks such as Safaricom and ABSA bank of 1.4%, and 1.1% respectively;

During the week, equities turnover increased by 15.4% to USD 8.7 mn from USD 7.6 mn recorded the previous week, taking the YTD total turnover to USD 364.6 mn. Foreign investors became net sellers with a net selling position of USD 0.2 mn, from a net buying position of USD 0.6 mn recorded the previous week, taking the YTD foreign net buying position to USD 7.0 mn.

The market is currently trading at a price-to-earnings ratio (P/E) of 5.4x, 54.8% below the historical average of 11.9x. The dividend yield stands at 7.9%, 3.4% points above the historical average of 4.5%. 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;



Universe of Coverage:

Cytonn Report: Equities Universe of Coverage

Company	Price as at 05/07/2024	Price as at 12/07/2024	w/w change	YTD Change	Year Open 2024	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	168.0	176.3	4.9%	(4.7%)	185.0	260.7	8.1%	56.0%	0.3x	Buy
Diamond Trust Bank***	46.4	46.5	0.2%	3.8%	44.8	65.2	10.8%	51.1%	0.2x	Buy
Equity Group***	42.0	43.3	3.1%	26.6%	34.2	60.2	9.2%	48.3%	0.9x	Buy
NCBA***	41.1	41.2	0.2%	6.0%	38.9	55.2	11.5%	45.5%	0.8x	Buy
Co-op Bank***	12.7	13.0	2.4%	14.1%	11.4	17.2	11.6%	44.4%	0.6x	Buy
Stanbic Holdings	113.0	115.0	1.8%	8.5%	106.0	145.3	13.3%	39.7%	0.8x	Buy
KCB Group***	32.0	34.2	6.7%	55.6%	22.0	46.7	0.0%	36.6%	0.5x	Buy
ABSA Bank***	14.1	13.9	(1.1%)	20.3%	11.6	17.3	11.2%	35.6%	1.1x	Buy

Cytonn Report: Equities Universe of Coverage

Company	Price as at 05/07/2024	Price as at 12/07/2024	w/w change	YTD Change	Year Open 2024	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Standard Chartered***	193.8	194.5	0.4%	21.4%	160.3	233.1	14.9%	34.8%	1.3x	Buy
Britam	6.0	5.7	(5.0%)	10.5%	5.1	7.5	0.0%	32.0%	0.8x	Buy
CIC Group	2.2	2.2	3.7%	(2.6%)	2.3	2.8	5.8%	31.4%	0.7x	Buy
I&M Group***	21.7	21.7	0.2%	24.4%	17.5	25.5	11.8%	29.3%	0.4x	Buy

Target Price as per Cytonn Analyst estimates

**Upside/ (Downside) is adjusted for Dividend Yield

***For Disclosure, these are stocks in which Cytonn and/or its affiliates are invested in

Weekly Highlights

I. Amsons Industries (K) Intent to Acquire 100% shareholding of Bamburi Cement Plc

During the week, Amsons Industries (K) Limited of Tanzania **announced** its intention to acquire 100.0% of the ordinary shares of Bamburi Cement Plc with a par value of Kshs 5.0 each for a cash consideration. The offer value of Kshs 23.6 bn translates to a purchase price of Kshs 65.0 per share, which is 42.4% above the price of 45.7 as at one month ago. This offer has been made in accordance to the Capital Markets (Take-overs & Mergers) Regulations, 2002. This acquisition, if successful, will make Amsons Industries (K) Limited the sole owner of Bamburi Cement Plc.

The Tanzania-based company is a direct investment company, that has ventured into energy, construction, food, and agri-industry, with operations in Zambia, Malawi, Mozambique, Democratic Republic of Congo, and Burundi. As it stands, Amsons Industries does not own any shares, directly or indirectly in Bamburi.

With the Kshs 23.6 bn, this deal will represent a 42.4% premium on the closing price of Bamburi cement shares of Kshs 45.7 recorded on 9th July 2024, a day before the announcement was made. It shall also be a gain of 52.9% of the Kshs 42.5 weighted average share price of Bamburi cement for the past 30 days leading to the announcement of the deal. The deal's Price to Earning before interest, tax, depreciation and amortization (P/EBITDA) stands at 6.0x.

Additionally, the notice indicated that Bamburi Cement directors may declare a special dividend for its shareholders in relation to the proceeds received from the completed divestment of Bamburi shareholding in Hima Cement Limited. Earlier this year, Bamburi Cement Plc **announced** the successful completion of the sale of 1.3 mn ordinary shares in Hima Cement Limited, representing 70.0% of the total shares owned by Bamburi Cement Plc through its parent company Himcem Holdings Limited, to Sarrai Group Limited and Rwimi Holdings Limited. This deal injected an estimated Kshs 12.0 bn in the company's books.

The notice indicated that Amsons Limited already got an undertaking from two existing shareholders of Bamburi as part of the offer; Fincem Holding Limited and Kencem Holding Limited. In the agreement, should this offer achieve acceptance of 75% or more of the ordinary shares, Amsons Limited will evaluate the continued listing of the cement company, and shall apply for delisting from the market. If delisted, this will amplify the challenges that the stock market has been facing with subdued listing, reducing the number of listings from the current 66 to 65.

Given the 42.4% premium on the last recorded share price and an additional dividend payment which will drive up capital gains for the shareholders, we anticipate and project that the deal will achieve an acceptance rate above 75.0%.

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 for 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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