



Cytonn Monthly – July 2024

Equities

Market Performance:

During the month of July 2024, the equities market was on a downward trajectory, with NSE 10 declining the most by 1.7%, while NSE 25, NSE 20, and NASI declined by 1.6%, 1.3%, and 0.8% respectively. The equities market performance was driven by losses recorded by large-cap stocks such as Safaricom, Equity, and Standard Chartered Group of 8.1%, 4.1%, and 3.0% respectively. The losses were, however, mitigated by gains recorded by large-cap stocks such as Bamburi, EABL, and Stanbic of 48.3%, 7.7%, and 1.5% respectively.

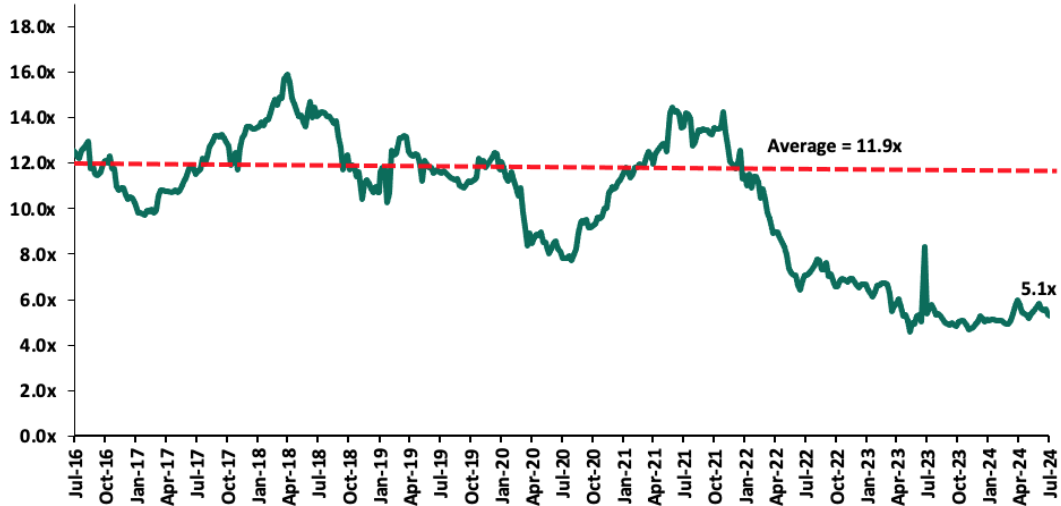
During the week, the equities market was on a downward trajectory, with NSE 10 and NSE 25 being the biggest decliners by 1.0% each, while NASI and NSE 20 declined by 0.9% each, taking the YTD performance to gains of 18.2%, 16.0%, 12.3%, and 10.0% for NSE 10, NSE 25, NASI, and NSE 20 respectively. The equities market performance was driven by losses recorded by large-cap stocks such as NCBA, KCB, and BAT of 4.5%, 3.1%, and 2.9% respectively. The performance was, however, supported by gains recorded by large-cap stocks such as Bamburi, EABL, and Stanbic of 2.0%, 1.6%, and 0.9% respectively.

Equities turnover increased by 11.6% in the month of July 2024 to USD 45.0 mn, from USD 40.3 mn recorded in June 2024. Foreign investors became net sellers, with a net selling position of USD 4.8 mn, from a net buying position of USD 3.6 mn recorded in June 2024.

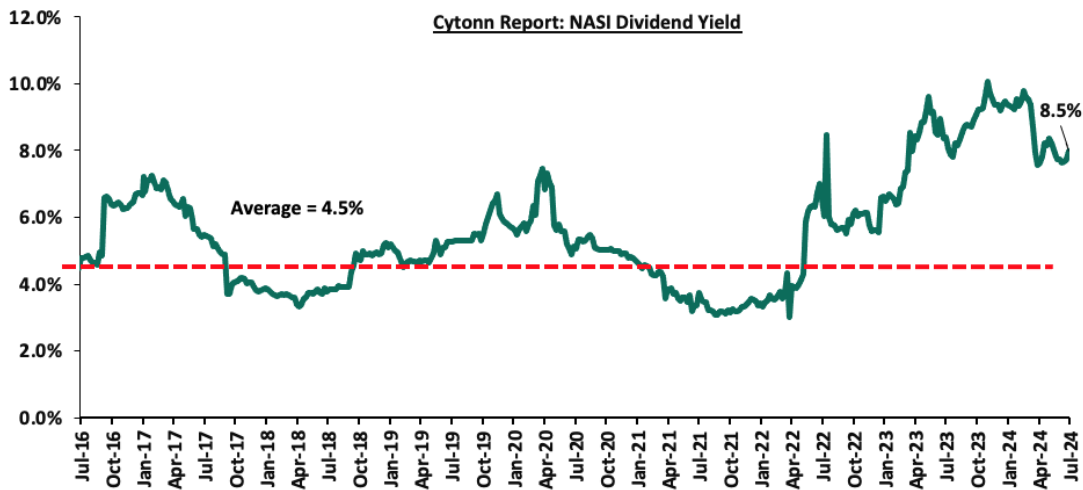
During the week, equities turnover decreased by 23.2% to USD 9.3 mn from USD 12.1 mn recorded the previous week, taking the YTD total turnover to USD 395.7 mn. Foreign investors remained net sellers with a net selling position of USD 2.5 mn, from a net selling position of USD 2.6 mn recorded the previous week, taking the YTD foreign net buying position to USD 1.0 mn.

The market is currently trading at a price-to-earnings ratio (P/E) of 5.1x, 57.2% below the historical average of 11.9x. The dividend yield stands at 8.5%, 3.9% points above the historical average of 4.5%. 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 P/E



Cytonn Report: NASI Dividend Yield



Universe of Coverage:

Cytonn Report: Equities Universe of Coverage

Company	Price as at 26/07/2024	Price as at 26/07/2024	w/w change	YTD Change	Year Open 2024	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	164.0	160.0	(2.4%)	(13.5%)	185.0	260.7	8.9%	71.8%	0.3x	Buy
Equity Group***	41.3	40.5	(2.1%)	18.3%	34.2	60.2	9.9%	58.7%	0.8x	Buy
NCBA***	40.9	39.1	(4.5%)	0.5%	38.9	55.2	12.2%	53.5%	0.8x	Buy
Diamond Trust Bank***	46.5	46.0	(1.0%)	2.8%	44.8	65.2	10.9%	52.6%	0.2x	Buy
KCB Group***	31.8	30.8	(3.1%)	40.3%	22.0	46.7	0.0%	51.5%	0.5x	Buy
Co-op Bank***	12.9	12.9	(0.4%)	13.2%	11.4	17.2	11.7%	45.5%	0.6x	Buy
Stanbic Holdings	115.5	116.5	0.9%	9.9%	106.0	145.3	13.2%	37.9%	0.8x	Buy
CIC Group	2.1	2.1	2.4%	(6.6%)	2.3	2.8	6.1%	36.9%	0.7x	Buy
I&M Group***	20.7	20.7	0.0%	18.3%	17.5	25.5	12.3%	35.8%	0.4x	Buy
ABSA Bank***	14.1	14.0	(0.4%)	21.2%	11.6	17.3	11.1%	34.6%	1.1x	Buy
Britam	5.7	5.7	(1.0%)	10.5%	5.1	7.5	0.0%	32.0%	0.8x	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

Monthly Highlights

- i. During the month, Amsons Industries (K) Limited **announced** its intention to acquire 100% of the ordinary shares of Bamburi Cement Plc with a par value of Kshs 5.0 each for a cash consideration. The offer placed is of a total value of Kshs 23.6 bn, translating to a purchase price of Kshs 65.0 per share. 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; For more details please see our **Cytonn Weekly #28/2024**, and,
- ii. During the month, British American Tobacco Kenya Plc released their H1'2024 financial results, recording a 24.3% decline in Profits after Tax (PAT) to Kshs 2.1 bn, from Kshs 2.8 bn recorded in H1'2023. The decline in PAT was majorly attributed to the 6.5% decrease in Gross Sales to Kshs 19.6 bn in H1'2024 from Kshs 21.0 bn recorded in H1'2023. For more details, please see our **Cytonn Weekly #30/2024**.

Weekly Highlights

I. Centum Investments Company PLC FY'2024 Financial Performance

During the week, Centum Investments Company PLC released their FY'2024 financial results for the period ending 31st March 2024, recording a significant 135.6% increase in the Profits After Tax (PAT) to Kshs 2.6 bn in FY'2024, from a loss of Kshs 7.3 bn in FY'2023. The increase was mainly attributable to a 294.9% increase in profit from the finance and investment operations business to Kshs 2.1 bn in FY'2024, from a loss of Kshs 1.1 bn in FY'2023, coupled with a significant 130.5% increase in profit from their Real Estate business to Kshs 1.5 bn, from a loss of Kshs 5.1 bn in FY'2023. However, the performance was weighed down by a significant 493.1% increase in loss in their trading business to Kshs 0.7 bn in FY'2024 from Kshs 0.1 bn in FY'2023. The tables below show the breakdown of the Group's financial performance;

Cytonn Report: Centum Investments Company PLC Income Statement

Income Statement	FY'2023	FY'2024	y/y change
	(Kshs. Bn)	(Kshs. Bn)	(%)
Trading Business			
Sales	2.0	2.6	32.3%
Cost of sales	(1.2)	(2.1)	68.6%
Gross Profit	0.7	0.5	(29.9%)
Operating and Administrative expenses	(0.7)	(1.0)	39.7%
Finance Costs	(0.1)	(0.2)	65.0%
Profit/(loss) from Trading Business	(0.1)	(0.7)	493.1%
Real Estate Business			
Sales and other income	4.5	7.9	75.7%
Cost of sales	(1.9)	(3.5)	89.5%
Gross profit	2.6	4.3	65.8%
Operating expenses	(0.9)	(0.8)	(6.5%)
Finance and other costs	(6.8)	(2.0)	(71.0%)
Profit/(loss) from Real Estate Business	(5.1)	1.5	130.5%
Finance and Investments services			

Cytonn Report: Centum Investments Company PLC Income Statement

Income Statement	FY'2023	FY'2024	y/y change
	(Kshs. Bn)	(Kshs. Bn)	(%)
Income from provision of financial services	6.4	4.0	(36.7%)
Investment and other income	0.2	4.1	1627.0%
Operating expenses	(3.0)	(2.6)	(15.6%)
Finance costs	(0.5)	(0.8)	64.1%
Other expenses	(4.2)	(2.7)	(34.7%)
Profit/(loss) from finance and investments business	(1.1)	2.1	294.9%
Profit/(loss) before tax for the year	(6.3)	2.9	146.5%
Income tax (expense)/credit	(1.1)	(0.3)	(71.4%)
Profit/(loss) after tax for the year	(7.3)	2.6	135.6%
Earnings Per Share	(6.3)	4.3	(167.6%)
Dividend per share	0.6	0.3	(46.7%)
Dividend yield	6.7%	3.6%	(3.1%)
Dividend payout ratio	(5.5%)	8.2%	13.6%

Source: Centum Investments Company PLC FY'2024 financial statements

Cytonn Report: Centum Investments PLC Balance Sheet

Balance Sheet	FY'2023	FY'2024	y/y change
	(Kshs. Bn)	(Kshs. Bn)	(%)
Investment Portfolio	60.5	66.5	10.0%
Assets held for sale	42.7	0.0	(100.0%)
Other assets	8.4	8.2	(2.6%)
Cash and cash equivalents	1.2	1.4	21.5%
Total assets	112.7	76.2	(32.4%)
Borrowings	19.7	16.6	(15.7%)
Other liabilities	18.6	19.8	6.3%
Liabilities directly associated with assets classified as held for sale	37.3	0.0	(100.0%)
Total liabilities	75.6	36.4	(51.9%)
Total Equity	37.1	39.8	7.2%
Total Equity and Liabilities	112.7	76.2	(32.4%)

Key take outs from the financial performance include;

- i. Profits from the Real Estate business increased significantly by 130.5% to Kshs 1.5 bn in FY'2024, from a loss of Kshs 5.1 bn recorded in FY'2023, mainly attributable to a 93.5% increase in residential unit sales to Kshs 3.7 bn in FY'2024 from Kshs 1.9 bn recorded in FY'2023 coupled with a 54.5% decline in finance costs from the Two Rivers investment operations to Kshs 0.9 bn in FY'2024 from Kshs 2.0 bn recorded in FY'2023,
- ii. Losses from the Group's trading business increased significantly by 493.1% to Kshs 0.7 bn in FY'2024, from a loss of Kshs 0.1 bn recorded in FY'2023, mainly attributable to a 68.6% increase in cost of sales to Kshs 2.1 bn in FY'2024 from Kshs 1.2 bn recorded in FY'2023, in addition to the 65.0% increase in finance costs to Kshs 0.2 bn in FY'2024 from Kshs 0.1 bn recorded in FY'2023,
- iii. The Group witnessed a significant 294.9% profit growth from finance and investments operations business to Kshs 2.1 bn, from Kshs the 1.1 bn loss recorded in FY'2023, mainly attributable to a Kshs 3.4 bn gain in the value of investment properties in the Two Rivers Special Economic Zone, coupled with a significant 1627.0% increase in investment and other income to Kshs 4.1 bn in FY'2024 from the 0.3 bn recorded in FY'2023,
- iv. The Group's balance sheet recorded a contraction, with the total assets decreasing by 32.4% to Kshs. 76.2 bn in FY'2024 from the Kshs 112.7 bn recorded in FY'2023. This is mainly attributable to a sale of assets worth Kshs 42.7 bn during the period, coupled with a 2.6% decrease in other assets to Kshs 8.2 bn in FY'2024 from Kshs 8.4 bn in FY'2023, and,
- v. Annualized Earnings per share increased significantly by 167.6% to Kshs 4.3, from the Kshs 6.3 loss per share in FY'2023, largely driven by a 135.6% increase in profit after tax to Kshs 2.6 bn, from Kshs 7.3 bn loss in FY'2023. Additionally, the board of directors has recommended a first and final dividend of Kshs 0.32 per share, a 46.7% decrease from the Kshs 0.6 dividend declared in FY'2023. This translates to a dividend payout ratio of 8.2% and a dividend yield of 3.6%. Key to note, Centum initiated the share buyback program on the 6th of February 2023 at an offer price of Kshs 9.03. As of 26th July 2024, 9.7 million shares had been purchased under the buyback program, comprising 24% of the volume traded. The ongoing share buyback is expected to contribute to an increase in Earnings per share by reducing the number of outstanding shares.

FY'2023/24 marked the close of the Centum 4.0 strategy period. The focus during this period was preservation of shareholder value against the backdrop of a difficult economic environment characterized by the Covid-19 pandemic, global geopolitical conflicts that disrupted supply chains and had a spiral effect in local and regional key economic indicators. Despite these headwinds, Centum managed to preserve shareholder value, achieving an increase in profit after tax for the year of Kshs 2.9 bn. We expect the Group's profitability to improve in the long-term following the Group's transition into the new strategy period named Centum 5.0, with a focus on optimizing the value of the current portfolio of investments. The company is working towards scaling up various businesses and monetizing them to realize a minimum of their carrying values. This strategic shift aims to enhance shareholder returns and stabilize financial performance amidst the prevailing economic challenges

II. East African Breweries Plc (EABL) FY'2024 Financial Performance

During the week, East African Breweries Plc (EABL) released their FY'2024 financial results for the period ending 30th June 2024, recording an 11.8% decline in the Profits After Tax (PAT) to Kshs 10.9 bn in FY'2024, from Kshs 12.3 bn in FY'2023. The decline was mainly attributable to an 18.4% increase in Operating costs to Kshs 25.0 bn in FY'2024, from Kshs 21.1 bn in FY'2023, coupled with the 84.3% increase in net finance costs to Kshs 8.2 bn, from Kshs 5.5 bn in FY'2023 that offset the 13.5% growth in Gross profit to Kshs 53.8 bn in FY'2024 from Kshs 47.4 bn in FY'2023. The tables below show the breakdown of the Group's financial performance;

Cytonn Report: East African Breweries Plc (EABL) Summarized Income Statement

Income Statement	FY'2023	FY'2024	Y/Y Change
	Kshs (bn)	Kshs (bn)	
Net revenue	109.6	124.1	13.2%
Cost of Sales	(62.2)	(70.3)	13.0%
Gross Profit	47.4	53.8	13.5%
Operating Costs	(21.1)	(25.0)	18.4%
Operating Profit	26.3	28.8	9.6%
Forex losses	(2.1)	(3.9)	84.3%
Net Finance Costs	(5.5)	(8.2)	49.0%
Profit Before Income Tax	18.7	16.8	(10.4%)
Income Tax Expenses	(6.4)	(5.9)	(7.6%)
Profit After Tax	12.3	10.9	(11.8%)
Earnings Per Share-Annualized	12.5	10.3	(17.4%)
Dividend Per Share	5.5	7.0	27.3%
Dividend yield	3.5%	4.5%	1.0%
Dividend payout ratio	35.3%	50.9%	15.6%

Source: East African Breweries Plc (EABL) FY'2024 financial statements

Cytonn Report: East African Breweries Plc (EABL) Summarized Balance Sheet

Balance Sheet	FY'2023	FY'2024	Y/Y Change
	Kshs (bn)	Kshs (bn)	
Current Assets	43.4	41.6	(4.3%)
Non-Current Assets	89.2	82.7	(7.3%)
Total Assets	132.6	124.2	(6.3%)
Short-term borrowings	8.9	5.6	(36.5%)
Other Current Liabilities	33.0	30.5	(7.6%)
Total Current Liabilities	41.9	36.1	(13.7%)
Long-term Borrowings	51.0	43.3	(15.1%)
Other Non-Current Liabilities	7.9	8.1	1.8%
Total Non-Current Liabilities	59.0	51.4	(12.9%)
Total Liabilities	100.8	87.5	(13.2%)
Total Equity	31.7	36.7	15.7%

Source: East African Breweries Plc (EABL) FY'2024 financial report

Key take outs from the financial performance include;

- i. Net revenue increased by 13.2% to Kshs 124.1 bn in FY'2024, from Kshs 109.6 bn recorded in FY'2023, mainly attributable to strategic pricing, a strong portfolio, and innovation launches. Further, EABL's diversified geographical footprint helped mitigate volatility. Notably, Kenya, Uganda, and Tanzania subsidiaries recorded strong growth registering 15.0%, 12.0%, and 9.0% increases in net revenue, respectively,
- ii. Operating costs increased by 18.4% to Kshs 25.0 bn, from Kshs 21.1 bn attributable to significant increases in interest rates and social unrest which disrupted operations in Kenya during the period of review,
- iii. Cost of sales increased by 13.0% to Kshs 70.3 bn, from Kshs 62.2 bn in FY'2023, mainly attributable to increased cost of inputs occasioned by heightened inflationary pressures coupled with the strained business and entrepreneurial environment in the group's region of operation,
- iv. The Group's balance sheet recorded a contraction, with the total assets decreasing by 6.3% to Kshs 124.2 bn in FY'2024 from Kshs 132.6 bn recorded in FY'2023 mainly attributable to a 7.3% decrease in non-current assets to Kshs 82.7 bn in FY'2024 from Kshs 89.2 bn in FY'2023. In addition, total liabilities recorded a 13.2% decline to Kshs 87.5 bn in FY'2024 from Kshs 100.8 bn in FY'2023, mainly driven by a 36.5% decrease in short-term borrowings to Kshs 5.6 bn in FY'2024 to Kshs 8.9 bn in FY'2023,
- v. The Group's short-term borrowing decreased by 36.5% to Kshs 5.6 bn, from Kshs 8.9 bn recorded in FY'2023, while the long-term borrowings decreased by 15.1% to Kshs 43.3 bn, from the Kshs 51.0 bn in FY'2023 an indication of the group's strategic shift in its debt financing, and,
- vi. Annualized Earnings per share decreased by 17.4% to Kshs 10.3, from Kshs 12.5 in FY'2023, largely driven by an 11.8% decrease in profit after tax to Kshs 10.9 bn, from Kshs 12.3 bn in FY'2023. Additionally, the board of directors has recommended a final dividend of Kshs 6.0 per share expected to be paid by 28th October 2024. If approved, the total dividend for the year will amount to Kshs 7.0 per share, a 27.3% increase from the Kshs 5.5 dividend per share paid out in FY'2023. This translates to a dividend payout ratio of 50.9% and a dividend yield of 4.5%.

Following the challenging macroeconomic environment arising from significant increases in interest rates, currency devaluation, cost inflation, and the impacts of El Niño rains and social unrest, EABL has experienced a strained financial performance as evidenced by the decline in profitability by 11.8% as well as the 17.4% decline in earnings per share in FY'2024. Key to note, EABL realized a significant 84.3% increase in foreign exchange losses owing to the aggressive depreciation of the local currencies in the Group's region of operation. For instance, the Tanzania Shilling and the Uganda Shilling depreciated by 9.1% and 1.1% respectively against the US Dollar for the period under review, while the Kenyan Shilling gained by 7.8% during the same period. In our view, the Group's earnings will be supported by the group's continued diversification efforts as evidenced by the commissioning of a Kshs 1.2 bn Microbrewery with new production facilities created to explore innovation and experimentation in Kenya. The launch of the Microbrewery has seen the business extend its innovation capability, to meet consumers' changing tastes and preferences. Additionally, EABL's outstanding advertising and promotions through various channels are expected to continue supporting revenue growth. Moreover, the Group's announcement of a final dividend of Kshs 6.0 per share for the period ending 30th June 2024 is expected to boost investors' confidence in the Group's stock.

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 0.8x), 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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