Nairobi Metropolitan Area (NMA) Mixed-Use Developments Report 2024, & Cytonn Weekly #45/2024

Equities

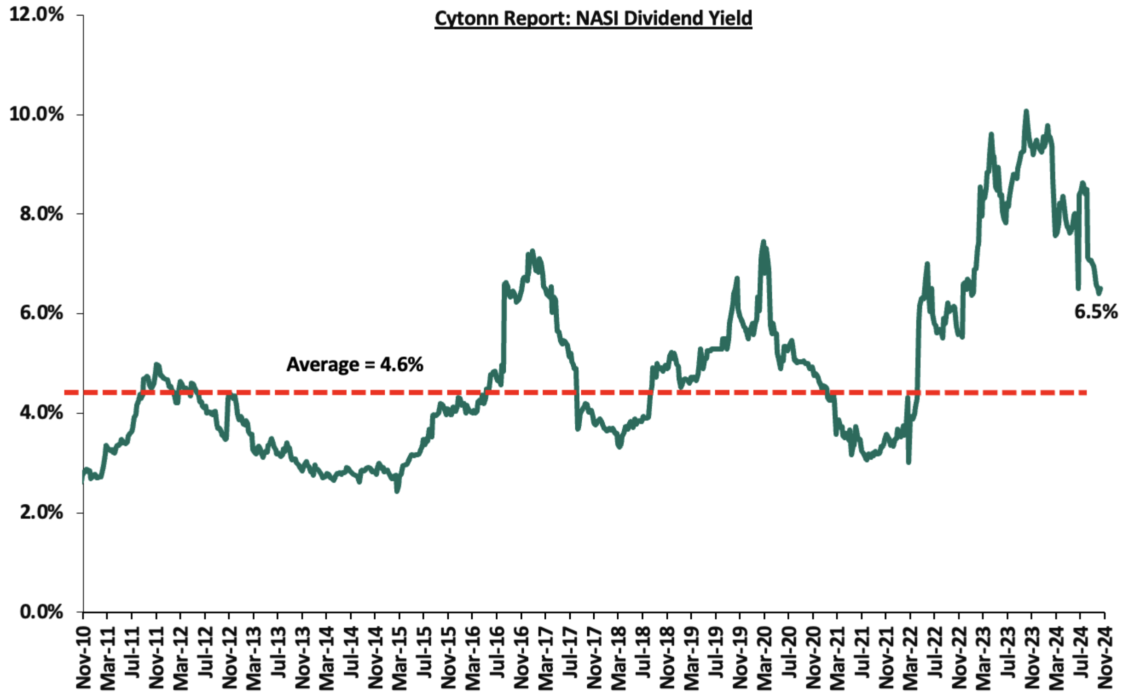
Market Performance:

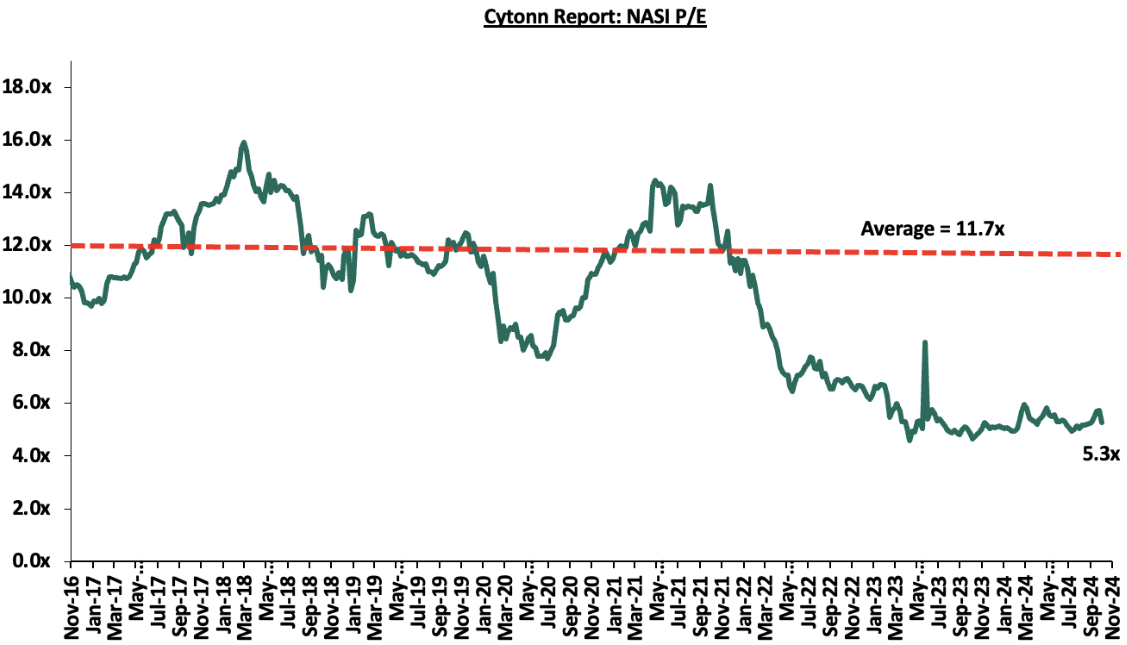
During the week, the equities market recorded a mixed performance, with NSE 20 gaining by 1.2%, while NASI, NSE 10, and NSE 25 declining by 1.7%, 0.1%, and 0.1% respectively, taking the YTD performance to gains of 35.8%, 33.5%, 27.7% and 25.7% for NSE 10, NSE 25, NSE 20 and NASI respectively. The equities market performance was mainly driven by gains recorded by EABL, Stanbic Bank, and Equity Group of 5.3%, 3.9%, and 1.6% respectively. The gains were however weighed down by losses recorded by large-cap stocks such as Safaricom, BAT, and DTB-K of 6.6%, 1.9%, and 1.9% respectively.

During the week, equities turnover increased by 36.9% to USD 12.0 mn from USD 8.8 mn recorded the previous week, taking the YTD turnover to USD 533.3 mn. Foreign investors remained net sellers for the fifth consecutive week, with a net selling position of USD 1.5 mn, from a net selling position of USD 1.7 mn recorded the previous week, taking the YTD net selling position to USD 3.9 mn.

The market is currently trading at a price-to-earnings ratio (P/E) of 3.4x, 71.4% below the historical average of 11.7x, and a dividend yield of 6.5%, 1.9% points above the historical average of 4.6%. Key to note, NASI's PEG ratio currently stands at 0.4x, an indication that the market is undervalued relative to its future growth. A PEG ratio greater than 1.0x indicates the market may be 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 31/10/2024	Price as at 08/11/2024	w/w change	YTD Change	Year Open 2024	Target Price*	Dividend Yield***	Upside/ Downside**	P/TBv Multiple	Average
Jubilee Holdings	170.0	163.0	(4.1%)	(11.9%)	185.0	260.7	8.8%	68.7%	**0.3x**	**Buy**
NCBA	44.1	43.3	(1.7%)	11.5%	2.3	55.2	11.0%	38.5%	**0.8x**	**Buy**
Diamond Trust Bank	53.0	52.0	(1.9%)	16.2%	34.2	65.2	9.6%	35.0%	**0.2x**	**Buy**
Equity Group	47.3	48.1	1.6%	40.5%	5.1	60.2	8.3%	33.6%	**0.9x**	**Buy**
Britam	5.5	5.7	2.5%	10.5%	38.9	7.5	0.0%	32.0%	**0.8x**	**Buy**

Cytonn Report: Equities Universe of Coverage

Company	Price as at 31/10/2024	Price as at 08/11/2024	w/w change	YTD Change	Year Open 2024	Target Price*	Dividend Yield***	Upside/ Downside**	P/TBv Multiple	Average
Co-op Bank	14.1	14.2	0.7%	25.1%	11.4	17.2	10.6%	31.7%	**0.7x**	**Buy**
CIC Group	2.2	2.3	4.1%	0.0%	44.8	2.8	5.7%	27.9%	**0.7x**	**Buy**
ABSA Bank	15.3	15.1	(1.6%)	30.3%	106.0	17.3	10.3%	25.2%	**1.2x**	**Buy**
Stanbic Holdings	129.0	134.0	3.9%	26.4%	11.6	145.3	11.5%	19.9%	**0.9x**	**Accumulate**
KCB Group	38.5	39.0	1.3%	77.7%	22.0	46.7	0.0%	19.6%	**0.6x**	**Accumulate**
Standard Chartered Bank	232.0	231.0	(0.4%)	44.1%	160.3	235.2	12.6%	14.4%	**1.5x**	**Accumulate**
I&M Group	28.1	28.0	(0.4%)	60.5%	17.5	26.5	9.1%	3.8%	**0.6x**	**Lighten**

***Target Price as per Cytonn Analyst estimates**
****Upside/ (Downside) is adjusted for Dividend Yield**
*****Dividend Yield is calculated using FY'2023 Dividends**

Weekly Highlights

I. Safaricom H1'2025 Financial Results

During the week, Safaricom Plc released its H1'2025 financial results for the period ending 30th September 2024, highlighting that the profit after tax (PAT) for the Group declined by 63.2% to Kshs 10.0 bn, from 27.2 bn recorded in H1'2024, largely attributable to a 34.6% increase in operating expenses to Kshs 114.4 bn from Kshs 84.9 bn recorded in H1'2024 mainly due to the ongoing operations in Ethiopia, which outpaced the 15.1% growth in total revenue to Kshs 189.4 bn in H1'2025, from Kshs 164.6 bn in H1'2024.

The tables below show the breakdown of the group's financial statements from the report;

Cytonn Report: Safaricom PLC Income Statement

Item (All figures in Bns)	H1'2024	H1'2025	y/y change
Total Revenue	**164.6**	**189.4**	**15.1%**
Operating costs	(84.9)	(114.4)	34.6%
EBITDA	**79.7**	**75.1**	**(5.8%)**
EBITDA Margin	**48.4%**	**39.6%**	**(8.8%)**
Depreciation & Amortization	(38.2)	(32.9)	(14.0%)
Operating Profit	**41.9**	**42.6**	**1.6%**
Net Finance Costs	(7.1)	(10.9)	53.3%
Profit Before Tax	**46.9**	**33.9**	**(27.9)%**
Profit After Tax	**27.2**	**10.0**	**(63.2)%**
Earnings Per Share	0.9	0.7	(17.7%)

Cytonn Report: Safaricom PLC Balance Sheet

Item (All figures in Bns)	H1'2024	H1'2025	y/y change
Current Assets	76.4	74.3	(2.8%)
Non-Current Assets	547.7	408.8	(25.4%)
Total Assets	**624.1**	**483.1**	**(22.6)%**
Current Liabilities	147.6	158.4	7.3%
Non-Current Liabilities	131.0	135.1	3.1%

Cytonn Report: Safaricom PLC Balance Sheet

Item (All figures in Bns)	H1'2024	H1'2025	y/y change
Total liabilities	**278.6**	**293.5**	**5.3%**
Shareholder funds	221.9	155.3	(30.0%)
Minority Interest	123.7	34.3	(72.2%)
Total Equity	**345.6**	**189.7**	**(45.1)%**

Key take outs from the report include;

1. Total revenue increased by 15.1% to Kshs 189.4 bn in H1'2025, from Kshs 164.6 bn in H1'2024, mainly attributable to the 13.1% increase in service revenue to Kshs 179.9 bn in H1'2025, from Kshs 159.1 bn in H1'2024. Notably, MPESA revenue increased by 16.6% to Kshs 77.2 bn, from Kshs 66.2 bn in H1'2024,
2. Voice revenue for the group increased by 4.5% to Kshs 40.9 bn, from Kshs 39.1 in H1'2024, while mobile data revenue increased by 21.5% to Kshs 37.6bn, from Kshs 30.9 in H1'2024,
3. Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by 5.8% to 75.1 bn in HY'2025 from 79.7 bn in H1'2024, owing to a 34.6% increase in operating costs to Kshs 114.4 bn in HY'2025, from Kshs 84.9 bn in H1'2024, which outpaced the 15.1% increase in total revenue. As such, EBITDA margin recorded an 8.8%-point decline to 39.6% in H1'2025 from 48.4% in H1'2024,
4. The Ethiopian subsidiary recorded a 159.9% increase in net losses after tax to Kshs 37.5 bn from a net loss of Kshs 14.4 bn in H1'2024, while the Kenyan business recorded a 14.1% increase in net profits to Kshs 47.5 bn, from 41.6 bn in H1'2024. As such, the Group recorded a 63.2% decline in net profit to Kshs 10.0 bn in H1'2025, from Kshs 27.2 bn in H1'2024,
5. The balance sheet recorded a contraction as total assets decreased by 22.6% to Kshs 483.1 bn, from Kshs 624.1 bn in H1'2024, mainly driven by a 49.5% decrease in intangible assets-goodwill to Kshs 103.0 bn, from Kshs 203.9 bn in H1'2024, and,
6. The Group's customers grew by 7.8% to 52.0 mn from 48.2 mn in H1'2024, while Safaricom's market share in Kenya declined to 65.4% as of June 2024, from 66.1% recorded same period last year.

Additionally, its Ethiopian subsidiary recorded a total revenue of Kshs 2.8 bn, with service revenue coming at Kshs 2.6 bn and operating cost at Kshs 28.8 bn leading to a loss after tax of Kshs 37.5 bn which weighed down on the group's overall performance.

Despite a 17.7% decline in the firm's core earnings to Kshs 0.70 in H1'2025, from Kshs 0.85 in H1'2024, Safaricom continues to remain a strong long-term proposition, owing to its 65.4% market share in Kenya and over 97.0% market share in mobile money subscribers through M-PESA, with M-PESA recording a 4.1% year on year growth in one-month active customers to 33.5 mn in H1'2025. Additionally, the Ethiopian subsidiary is expected to gain further traction with the firm expecting to tap into the Ethiopian market with a population of more than 133.2 mn people. However, the adverse macroeconomic situation, coupled with the ongoing depreciation of the Ethiopian Birr against the US dollar is likely to weigh on the group's overall performance during this period when it is aggressively expanding its network in Ethiopia.

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 0.4x), 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 foreign investors'

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

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