



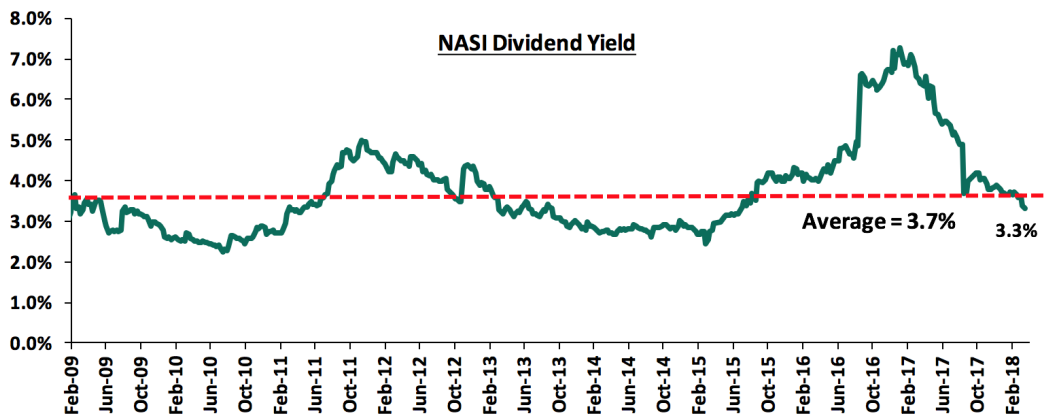
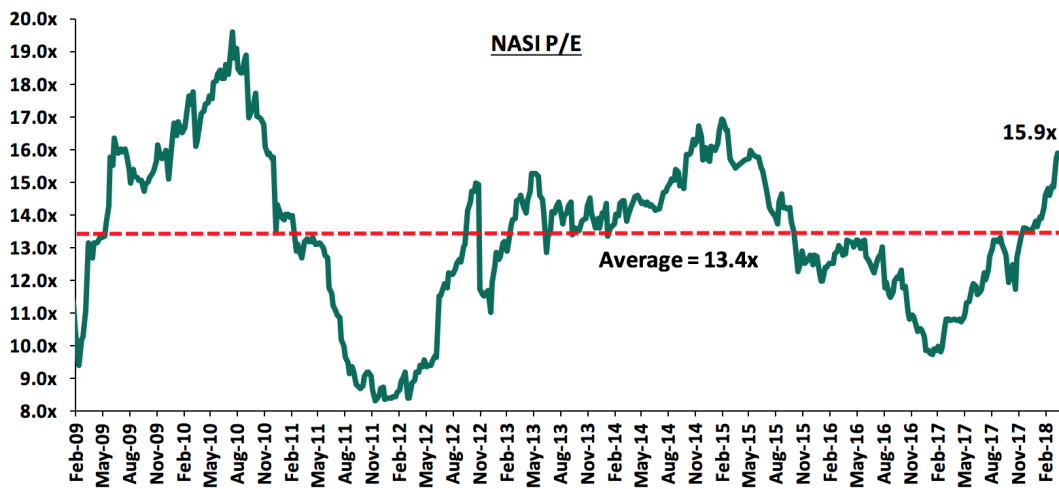
The Kenya Mortgage Refinancing Company, & Cytonn Weekly #14/2018

Equities

During the week, the equities market exhibited mixed trends with NASI and NSE 25 gaining 1.9% and 0.5%, respectively, while NSE 20 lost 0.6% taking their YTD performance to 13.9%, 16.7% and 3.1% for NASI, NSE 25 and NSE 20, respectively. This week's performance was driven by gains in Safaricom and KCB Group that rose 4.0% and 3.8%, respectively. For the last twelve months (LTM), NASI, NSE 20 and NSE 25 have gained 46.9%, 23.2% and 41.7%, respectively.

Equities turnover decreased by 25.9% to USD 28.3 mn, from USD 38.2 mn the previous week. We expect the market to remain supported by positive investor sentiment this year, as investors take advantage of the attractive stock valuations in select counters.

The market is currently trading at a price to earnings ratio (P/E) of 15.9x, which is 18.7% above the historical average of 13.4x, and a dividend yield of 3.3%, lower than the historical average of 3.7%. The current P/E valuation of 15.9x is 63.9% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 91.6% above the previous trough valuation of 8.3x experienced in December 2011. The charts below indicate the historical P/E and dividend yields of the market.



The Nairobi Securities Exchange (NSE) board reviewed the list of floated companies that constitute the NSE 20 and NSE 25 share indices to ensure that it reflects an accurate picture of market performance. CIC Insurance Group, Sasini Ltd, and Stanbic Holdings Plc were dropped from the NSE 20 index and replaced with Kenya-Reinsurance, NIC Group Plc, and Nairobi Securities Exchange Plc. The NSE 20 Index new constituents were measured on: trading activity, market capitalization, shares traded, number of deals and turnover during the period under review. The weighting ratio for the aforementioned parameters were 4:3:2:1, respectively. Nairobi Securities Exchange Plc replaced HF Group in the NSE 25 share index.

Following the review, the respective Index constituent companies are highlighted in the table below:

Sector	NSE 25 Constituents	NSE 20 Constituents
Commercial & Service Sector	1. Nation Media Group 2. WPP Scangroup Limited	1. Nation Media Group 2. WPP Scangroup Limited
Banking Sector	3. KCB Group Plc 4. Cooperative Bank 5. Diamond Trust Bank 6. Barclays Bank of Kenya 7. Equity Group Holdings Plc 8. NIC Group Plc 9. Stanbic Holdings Plc 10. I&M Holdings 11. Standard Chartered Bank	3. KCB Group Plc 4. Cooperative Bank 5. Diamond Trust Bank 6. Barclays Bank of Kenya 7. Equity Group Holdings Plc 8. NIC Group Plc

Sector	NSE 25 Constituents	NSE 20 Constituents
Manufacturing & Allied Sector	12.East African Breweries 13.British American Tobacco 14.ARM Cement Plc 15.Bamburi Cement Limited	9. East African Breweries 10.British American Tobacco 11.ARM Cement Plc 12.Bamburi Cement Limited
Energy & Petroleum Sector	16.KenolKobil Limited 17.Kenya Power & Lighting Ltd 18.Kengen Limited	13.KenolKobil Limited 14.Kenya Power & Lighting Ltd 15.Kengen Limited
Insurance Sector	19.Britam Holdings Plc 20.Kenya Reinsurance Ltd 21.CIC insurance Group Limited 22.Liberty Kenya Holdings	16.Britam Holdings Plc 17.Kenya Reinsurance Ltd
Telecommunication and Technology Sector	23.Safaricom Plc	18.Safaricom Plc
Investment Sector	24.Centum Investment Co.	19.Centum Investment Co.
Investment Services Sector	25.Nairobi Securities Exchange	20.Nairobi Securities Exchange

I&M Holdings has completed a full buyout of Youjays Insurance Brokers for an undisclosed amount. This move was made in a bid to strengthen the Group's bancassurance business. Youjays Insurance Brokers deals in both life and general insurance products and has been in operation since 1987. It has a portfolio of about Kshs 400 mn in premiums with a clientele of 400 firms. I&M Holdings acquired Giro Bank in February 2017 and bought a controlling 65% stake in a corporate finance advisory firm, Burbidge Capital. The acquisition of these businesses should support growth in the bank's Non-Funded Income (NFI), with I&M Holdings reporting a 15.9% growth in NFI in FY'2017 to Kshs 5.8 bn from Kshs 5.0 bn in FY'2016, outpacing the increase in Net Interest Income that came in at 0.6%; however, it is not clear whether growth in NFI is driven by fees from the acquired non-banking businesses. The revenue mix stood at 73:27 funded to non-funded income compared to 76:24 recorded last year. In our view, this is a positive move by I&M Holdings aimed at diversifying its revenue streams by focusing on NFI especially in the current regime of interest rate caps.

Mobile money subscribers will be able to transfer and receive money across Safaricom and Airtel networks following a successful pilot interoperability test, in a bid to enhance customer experience and reduce the dominance by Safaricom's mobile money. Telkom through its T-Kash will join Airtel Money and Safaricom's M-pesa at a later date. The number of active mobile transfer subscriptions stood at 28.1 million and the registered agents stood at 184,537 according to the Communication Authority of Kenya sector statistics for the first quarter of 2017/18, with M-pesa having a market share of 80.8%. Equitel money came in second with a market share of 6.8%, while MobiKash came in third with 6.3%. Safaricom also accounted for 67.0% of all mobile money agents, which translates to 123,640 agents.

Below is our Equities Universe of Coverage:

all prices in Kshs unless stated otherwise										
No.	Company	Price as at 29/03/18	Price as at 06/04/18	w/w Change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/ (Downside)**	P/TBs Multiple
1	NIC Group**	41.3	40.8	(1.2%)	20.7%	64.6%	61.4	51.1%	53.7%	0.6x
2	Diamond Trust Bank	219.0	214.0	(2.3%)	11.5%	72.6%	281.7	12%	32.9%	1.3x
3	Ghana Commercial	6.1	6.1	0.2%	20.8%	19.8%	7.7	6.2%	32.8%	1.7x
4	Zenith Bank	29.3	27.3	(6.8%)	6.5%	95.9%	33.3	9.9%	31.9%	1.4x
5	I&M Holdings	123.0	120.0	(4.9%)	(5.5%)	29.7%	139.4	2.9%	28.3%	1.3x
6	CRDB	170.0	170.0	0.0%	6.3%	(8.1%)	207.7	3.7%	27.9%	0.7x
7	Union Bank Plc	6.7	6.7	(0.7%)	(14.7%)	53.2%	8.2	0.0%	22.8%	0.7x
8	Stanbic Bank Uganda	30.0	30.3	0.8%	11.0%	16.3%	36.1	0.0%	19.9%	2.0x
9	KCB Group	52.0	54.0	3.8%	26.3%	63.6%	59.7	3.6%	16.1%	1.6x
10	Bank of Baroda	290.0	290.0	0.0%	(3.3%)	18.9%	299.9	4.2%	7.7%	1.7x
11	Bankias	12.6	13.0	3.2%	34.9%	44.3%	12.8	3.7%	6.6%	1.6x
12	Bank of Baroda	120.0	123.0	4.2%	10.6%	13.6%	130.6	0.0%	4.5%	1.1x
13	Ecobank	11.2	11.2	0.4%	47.4%	33.4%	10.7	7.3%	3.1%	4.0x
14	HF Group**	11.7	11.8	0.8%	33.9%	33.8%	11.7	4.0%	2.8%	0.8x
15	Co-operative Bank	19.6	19.8	1.0%	23.8%	72.8%	18.6	4.0%	(2.0%)	1.7x
16	UBA Bank	11.8	11.9	1.3%	15.3%	106.6%	10.7	7.1%	(2.9%)	1.0x
17	Standard Chartered KE	239.0	239.0	0.4%	10.1%	1.9%	203.1	7.4%	(4.8%)	1.8x
18	Stanbic Holdings	92.5	91.0	(1.6%)	12.3%	44.4%	79.0	3.8%	(7.4%)	1.1x
19	SBB Holdings	7.7	7.7	(0.3%)	2.1%	7.9%	6.6	3.2%	(9.2%)	0.9x
20	Guaranty Trust Bank	44.7	44.1	(1.3%)	8.2%	74.0%	37.2	6.1%	(9.5%)	2.1x

all prices in Kshs unless stated otherwise

No.	Company	Price as at 29/03/18	Price as at 06/04/18	w/w Change	YTD Change	LTM Change	Target Price*	Dividend Yield	Upside/ (Downside)**	P/TV Multiple
21	CAL Bank	1.5	1.6	7.2%	51.9%	234.7%	1.4	0.0%	(14.6%)	1.2x
22	Access Bank	11.1	12.0	8.6%	14.8%	93.3%	9.5	3.4%	(15.4%)	0.8x
23	Equity Group	54.0	54.3	0.9%	37.4%	87.7%	42.0	3.7%	(18.7%)	2.4x
24	Stanbic HFV Holdings	48.5	48.0	(1.0%)	12.3%	168.7%	37.0	1.0%	(21.9%)	2.9x
25	National Bank	9.2	9.0	(2.2%)	(4.3%)	49.2%	5.6	0.0%	(37.4%)	0.5x
26	StanChart Ghana	35.1	35.1	1.0%	39.0%	147.2%	19.5	3.2%	(41.4%)	3.0x
27	Ecobank Transnational	18.4	17.0	(4.0%)	0.0%	19.4%	9.3	3.6%	(41.8%)	0.9x
28	FBN Holdings	12.5	12.2	(2.8%)	38.4%	298.7%	6.6	1.7%	(43.8%)	0.7x

**Target Prices as per Cytonn Analyst estimates*
***Upside / (Downside) is adjusted for Dividend Yield*
****Banks in which Cytonn and/or its affiliates holds a stake. For full disclosure, Cytonn and/or its affiliates holds a significant stake in NIC Bank, ranking as the 5th largest shareholder*

We are “NEUTRAL” on equities for investors with a short-term investment horizon since the market has rallied and brought the market P/E slightly above its’ historical average. However, pockets of value exist, with a number of undervalued sectors like Financial Services, which provide an attractive entry point for long-term investors, and with expectations of higher corporate earnings this year, we are “POSITIVE” for investors with a long-term investment horizon.

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