Nyeri Real Estate Investment Opportunity 2019, & Cytonn Weekly #08/2019

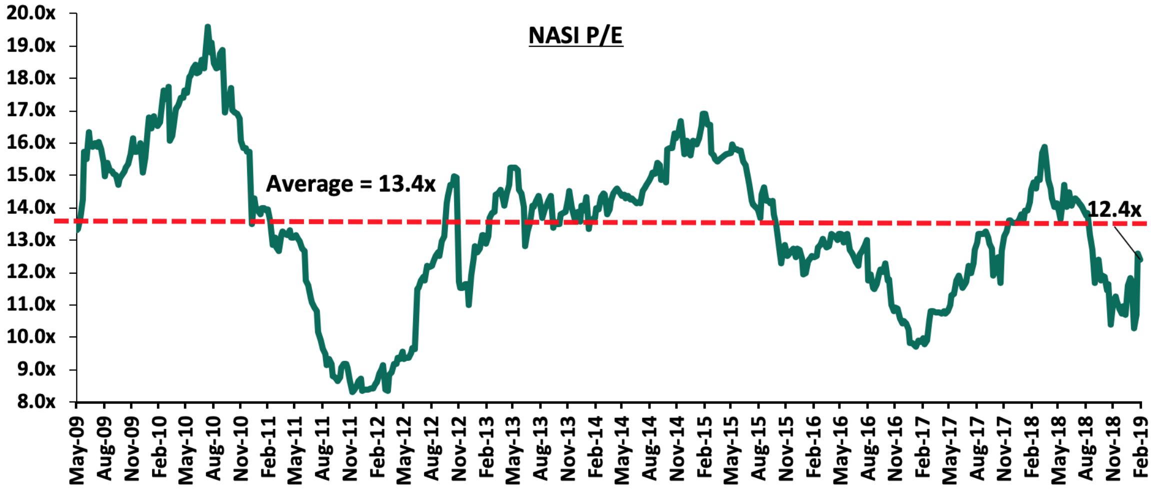
Equities

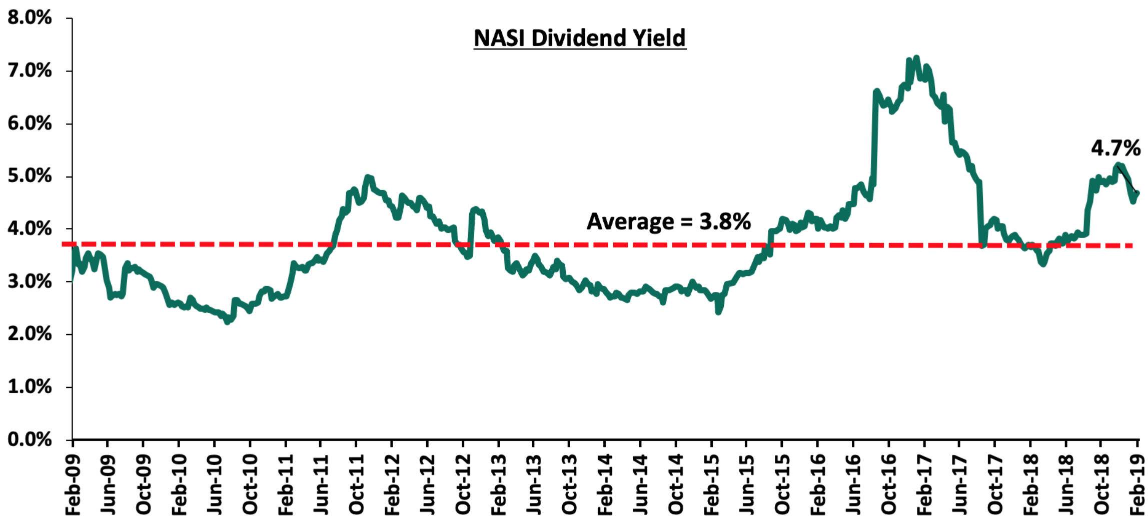
Market Performance

During the week, the equities market was on a declining trend with NASI, NSE 20 and NSE 25 declining by 1.9%, 2.2% and 2.8%, respectively, taking their year-to-date (YTD) gains to 9.8%, 5.1% and 9.6%, respectively. The decline in NASI was driven by declines in large cap stocks such as East Africa Breweries Limited (EABL), Co-operative Bank, British American Tobacco (BAT) and Equity Group, which declined by 9.8%, 6.1%, 4.7% and 2.7%, respectively.

Equities turnover decreased by 22.1% during the week to USD 23.1 mn from USD 29.7 mn the previous week, taking the YTD turnover to USD 0.3 bn. Foreign investors remained net buyers for the week, with a net purchase position of USD 5.4 mn, a 391.1% increase from last week's net purchase position of USD 1.1 mn.

The market is currently trading at a price to earnings ratio (P/E) of 12.4x, 7.4% below the historical average of 13.4x, and a dividend yield of 4.7%, above the historical average of 3.8%. With the market trading at valuations below the historical average, we believe there is value in the market. The current P/E valuation of 12.4x is 26.4% above the most recent trough valuation of 9.8x experienced in the first week of February 2017, and 49.1% 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.





Weekly Highlights

The Central Bank of Kenya (CBK) has published draft regulations for mortgage refinance companies (MRCs), setting the stage for creation of a State-backed firm that will advance cash to banks for onward lending to home buyers. Through CBK (Mortgage Refinance Companies) Regulations 2019, the regulator provides for establishment of non-deposit taking firms under the Companies Act, licensed by the CBK to conduct mortgage refinance business. The MRCs will be used to advance loans to primary mortgage lenders such as commercial banks, microfinance banks and Savings and Cooperative Societies (Sacco's) using funds from the capital markets so as to provide affordable mortgages to eligible individuals. Refinance firms are being fashioned as implementation vehicles for meeting Kenya's affordable housing plan that targets 500,000 decent, affordable housing units by the year 2022. According to the CBK, the regulations are intended to provide a clear framework for licensing, capital adequacy, liquidity management, corporate governance, risk management as well as reporting requirements of MRCs. The draft regulations for MRCs are almost similar to those of commercial banks. According to the draft, which will be subjected to public comments up to the end of the month, the details for the set-up of MRCs include:

i. Minimum core capital of MRCs will be at least Kshs 1.0 bn, which is the same level as that of commercial banks,
ii. The MRCs will be required to have a master servicing and refinancing agreement governing the lending operations between the mortgage refinance company and the participating primary mortgage lenders, and,
iii. CBK proposes that no MRC shall grant direct finance to any primary mortgage lender of amounts exceeding 25.0% of core capital.

The draft regulations come at a time the Housing Fund Regulations (2018) are also still in draft form and deductions are yet to be made from formal employees towards funding the housing projects. According to Housing PS Charles Hinga, the flagship low-cost housing plan has received Kshs 2.6 tn in investment pledges. In our view, the introduction of the MRCs should boost credit extension to the private sector, which would be instrumental in developing at least 500,000 affordable housing units by 2022, in line with the President's Big 4 Agenda.

Universe of Coverage

Below is a summary of our SSA universe of coverage:

Banks	Price as at 15/02/2019	Price as at 22/02/2019	w/w change	YTD Change	LTM Change	Target Price	Dividend Yield	Upside/Downside	P/TBv Multiple
GCB Bank***	4.2	4.1	(1.9%)	(10.9%)	(40.5%)	7.7	9.3%	97.6%	**1.0x**

Banks	Price as at 15/02/2019	Price as at 22/02/2019	w/w change	YTD Change	LTM Change	Target Price	Dividend Yield	Upside/Downside	P/TBv Multiple
Diamond Trust Bank	150.0	151.0	0.7%	(3.5%)	(28.1%)	283.7	1.8%	89.6%	**0.9x**
Access Bank	6.6	6.4	(3.0%)	(5.9%)	(50.4%)	9.5	6.7%	55.1%	**0.4x**
CRDB	135.0	135.0	0.0%	(10.0%)	(32.5%)	207.7	0.0%	53.9%	**0.5x**
CAL Bank	0.9	0.9	0.0%	(7.1%)	(18.1%)	1.4	0.0%	53.8%	**0.8x**
KCB Group***	43.5	42.0	(3.3%)	12.1%	(7.2%)	61.3	7.3%	53.3%	**1.3x**
I&M Holdings	95.5	93.8	(1.8%)	10.3%	(21.9%)	138.6	3.7%	51.5%	**0.9x**
UBA Bank	8.0	8.0	0.0%	3.9%	(38.5%)	10.7	11.9%	45.6%	**0.5x**
Ecobank	7.5	7.5	(0.3%)	(0.4%)	(29.8%)	10.7	0.0%	43.6%	**1.6x**
Zenith Bank	24.8	25.3	2.2%	9.8%	(20.3%)	33.3	11.8%	43.5%	**1.1x**
Co-operative Bank	15.6	14.6	(6.1%)	2.1%	(14.6%)	19.9	5.1%	41.4%	**1.3x**
Equity Group	42.5	41.4	(2.7%)	18.7%	(3.3%)	56.2	4.9%	40.8%	**2.0x**
Stanbic Bank Uganda	29.0	28.8	(0.8%)	(7.3%)	(0.9%)	36.3	3.9%	30.1%	**2.0x**
NIC Group	39.5	39.9	1.0%	43.5%	25.4%	48.8	2.9%	25.2%	**1.1x**
Barclays Bank	11.8	11.5	(2.5%)	5.0%	6.0%	12.5	8.7%	17.4%	**1.6x**
Union Bank Plc	6.9	7.0	1.4%	25.0%	2.2%	8.2	0.0%	16.4%	**0.7x**
SBM Holdings	6.0	6.0	0.0%	0.7%	(22.3%)	6.6	5.0%	14.3%	**0.9x**
Bank of Kigali	276.0	276.0	0.0%	(8.0%)	(6.4%)	299.9	5.0%	13.7%	**1.5x**
HF Group	6.5	6.3	(3.7%)	13.4%	(32.6%)	6.6	5.3%	10.4%	**0.2x**
Guaranty Trust Bank	38.0	38.0	0.1%	10.3%	(20.8%)	37.1	7.1%	4.8%	**2.4x**
Standard Chartered	204.3	200.0	(2.1%)	2.8%	(3.8%)	196.3	6.4%	4.6%	**1.6x**
Stanbic Holdings	94.3	91.8	(2.7%)	1.1%	11.9%	92.6	2.5%	3.4%	**0.9x**
Bank of Baroda	134.0	134.0	0.0%	(4.3%)	17.5%	130.6	1.9%	(0.7%)	**1.2x**
Standard Chartered	21.0	21.0	0.0%	0.0%	(28.6%)	19.5	0.0%	(7.3%)	**2.6x**
FBN Holdings	8.5	8.3	(1.8%)	4.4%	(31.1%)	6.6	3.4%	(16.7%)	**0.5x**
National Bank	5.7	6.1	6.7%	13.9%	(26.5%)	4.9	0.0%	(19.1%)	**0.4x**
Stanbic IBTC Holdings	48.5	48.5	0.0%	1.1%	5.4%	37.0	1.3%	(22.4%)	**2.5x**
Ecobank Transnational	14.4	14.2	(1.7%)	(16.8%)	(28.2%)	9.3	0.0%	(34.4%)	**0.5x**

* Target Price as per Cytonn Analyst estimates
** Upside/ (Downside) is adjusted for Dividend Yield
***Banks in which Cytonn and/or its affiliates are invested in
****Stock prices indicated in respective country currencies

We are "Positive" on equities for investors as the sustained price declines has seen the market P/E decline to below its historical average. We expect increased market activity, and possibly increased inflows from foreign investors, as they take advantage of the attractive valuations, to support the positive performance.