

Kenya Retail Real Estate Sector Report 2019 & Cytonn Weekly #41/2019

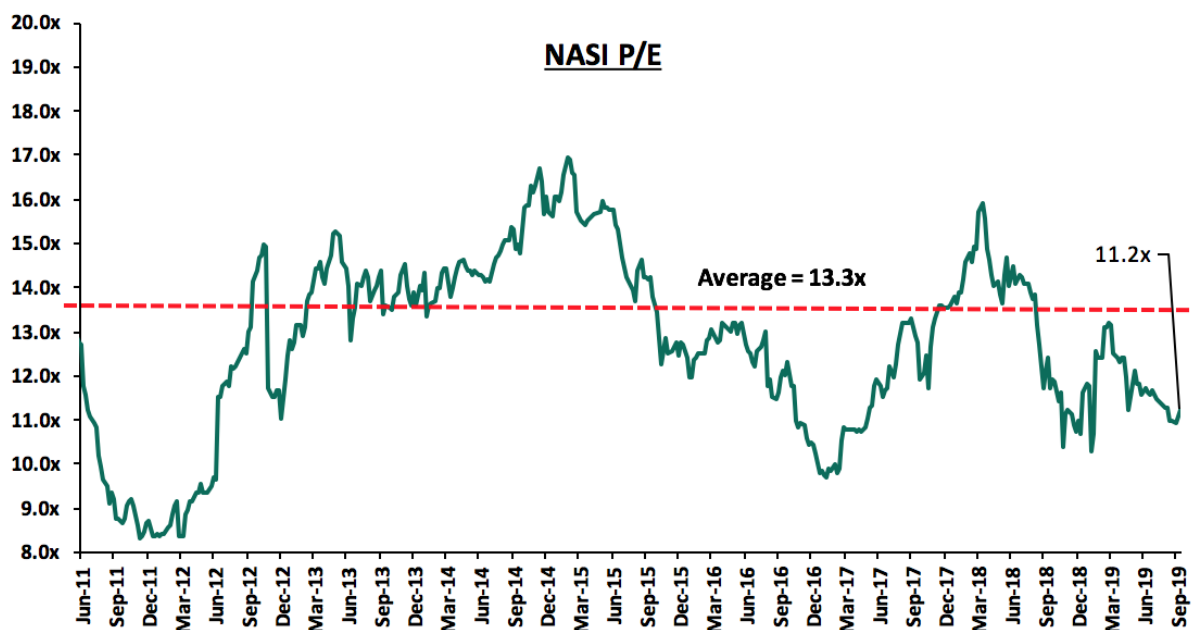
Equities

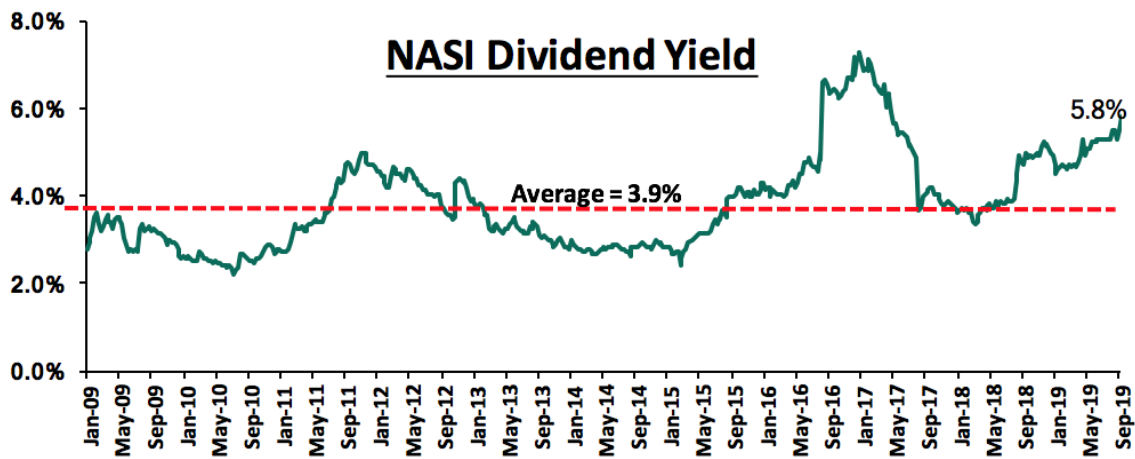
Market Performance

During the week, the equities market recorded mixed performance with NASI and NSE 20 gaining by 0.3% and 0.7%, respectively, while the NSE 25 declined by 0.2%, taking their YTD performance to gains/losses of 5.1%, (13.4%) and (1.5%), for NASI, NSE 20 and NSE 25, respectively. The performance in NASI was driven by gains in Safaricom, Co-operative Bank, and Bamburi, which gained by 1.4%, 0.4%, and 0.8%, respectively.

Equities turnover decreased by 47.7% during the week to USD 13.4 mn, from USD 25.6 mn the previous week, taking the YTD turnover to USD 1,097.6 mn. Foreign investors remained net sellers for the week, with a net selling position of USD 0.4 mn, from a net buying position of USD 2.2 mn the previous week.

The market is currently trading at a price to earnings ratio (P/E) of 11.2x, 15.7% below the historical average of 13.3x, and a dividend yield of 5.8% above the historical average of 3.9%. With the market trading at valuations below the historical average, we believe there is value in the market. The current P/E valuation of 11.2x is 15.5% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 34.9% 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 Highlight

During the week, Atlas Mara, which trades on the London Stock Exchange, announced the revaluation of four African banks in Rwanda, Zambia, Mozambique, and Tanzania that are expected to be acquired by Equity Group. The acquisition is set to be via a share swap where Equity Group will offer 6.3% of its shares worth Kshs 10.7 bn to acquire the four banks at a price per share of Kshs 42.4, which is a premium of 17.4% to the current price per share of Kshs 36.1. Equity Group will receive 62.0% of the share capital of Rwanda's Banque Populaire

du Rwanda, and 100.0% of African Banking Corporation Mozambique, African Banking Corporation of Zambia, and African Banking Corporation of Tanzania. This deal will ensure Equity Group penetrates into these four African markets. The bank's subsidiaries in Rwanda and Tanzania are expected to merge with the Atlas Mara banks once acquired in a bid to save on costs and enhance economies of scale. The four banks had deposits totalling Kshs 96.0 bn at the end of 2018, compared to Equity Group's deposit base of Kshs 479.4 bn as at H1' 2019. This transaction gives Atlas Mara an opportunity to acquire a stake in Equity Group Holdings, which is one of the most profitable banks in the region. Atlas Mara could also receive further unspecified compensation from Equity Group in the future on condition that there is improved performance in the four banks being traded. In our view, Kenya's banking sector consolidation and acquisitions will continue to happen leading to a more stable and safer banking sector. Equity Group is still currently trying to simultaneously acquire a controlling stake in Banque Commerciale du Congo (BCDC) in a cash transaction, and which together with other acquisition deals is expected to make the bank one of the largest in the region. Similarly, in Q1'2019, KCB Group opened a representative office in Ethiopia as the country promotes foreign investment in its financial services sector, and also revealed plans to open a representative office in China to leverage on the trade links between China and the East Africa region. Further, the bank announced plans to acquire a bank both in Rwanda and the Democratic Republic of Congo, looking to expand its presence beyond East Africa. We expect to see the rest of the banking industry pursue inorganic growth strategies beyond Kenya, in order to grow their customer base, revenues, and balance sheet, as Kenya's banking sector continues to operate under a capped interest rate regime.

Universe of Coverage

Below is a summary of our universe of coverage:

Banks	Price at 4/10/2019	Price at 11/10/2019	w/w change	YTD Change	Target Price *	Dividend Yield	Upside/Downside **	P/TBv Multiple	Recommendation
I&M Holdings***	45.1	46.1	2.1%	5.9%	79.8	7.8%	81.0%	0.8x	Buy

Banks	Price at 4/10/2019	Price at 11/10/2019	w/w change	YTD Change	Target Price *	Dividend Yield	Upside/Downside **	P/TBv Multiple	Recommendation
Sanlam	17.4	17.4	0.0%	(14.8%)	29.0	0.0%	66.7%	0.8x	Buy
Diamond Trust Bank	115	114.8	(0.2%)	(27.2%)	175.6	2.3%	55.3%	0.6x	Buy
KCB Group ***	41.9	41.8	(0.1%)	12.1%	61.4	8.3%	55.1%	1.1x	Buy
Equity Group ***	37.9	36.1	(4.7%)	7.5%	53.0	5.3%	52.2%	1.6x	Buy
NIC Group	29.5	29.0	(1.5%)	7.7%	37.9	3.3%	34.0%	0.6x	Buy
Co-operative Bank	12.1	12.1	0.4%	(16.8%)	15.0	8.4%	32.3%	1.0x	Buy
Britam	7.0	6.9	(1.1%)	(30.2%)	8.8	4.9%	31.7%	0.7x	Buy
CIC Group	3.1	3.0	(1.6%)	(20.5%)	3.8	4.2%	30.9%	1.2x	Buy
Kenya Reinsurance	3.0	3.0	1.3%	(17.2%)	3.8	5.2%	29.0%	0.1x	Buy
Barclays Bank ***	11.2	11.1	(1.3%)	0.0%	12.6	10.0%	23.9%	1.4x	Buy
Jubilee holdings	346.0	350.0	1.2%	(13.5%)	418.5	2.6%	22.1%	1.0x	Buy
Liberty Holdings	9.7	9.8	0.2%	(24.7%)	11.3	5.1%	20.9%	0.7x	Buy
Standard Chartered	198.0	195.5	(1.3%)	2.7%	208.0	6.3%	12.6%	1.5x	Accumulate
Stanbic Holdings	96.3	96.0	(0.3%)	5.8%	100.5	6.1%	10.8%	1.1x	Accumulate
HF Group	6.9	6.9	0.0%	27.1%	2.8	0.0%	(60.2%)	0.2x	Sell

*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

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.

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