

Real Estate Investment Trusts, REITS, as an Investment Alternative, & Cytonn Weekly #52

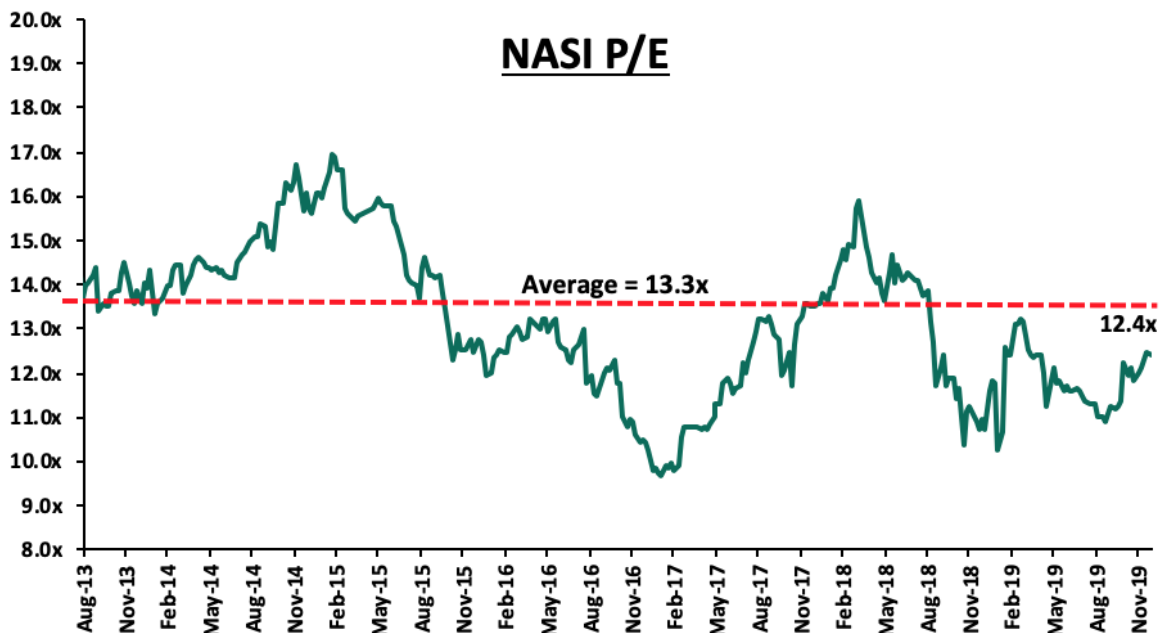
Equities

Market Performance

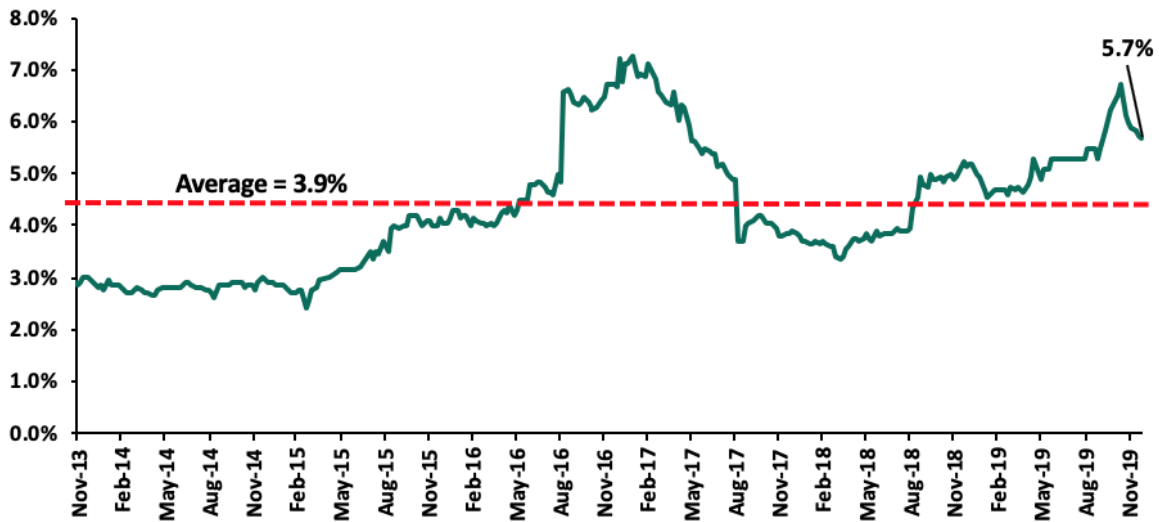
During the week, the equities market was on an upward trajectory with NASI, NSE 20 and NSE 25 recording gains of 0.9%, 2.4% and 1.1%, respectively, taking their YTD performance to gains/(losses) of 17.8%, (6.6%) and 14.4%, for the NASI, NSE 20 and NSE 25, respectively. The performance in NASI was driven by gains recorded by large-cap stocks in the banking sector such as Diamond Trust Bank Kenya, NCBA and Barclays, with gains of 9.9%, 7.2%, and 1.5%, respectively.

Equities turnover decreased by 84.9% during the week to USD 6.3 mn, from USD 41.8 mn recorded the previous week, taking the YTD turnover to USD 1,492.8 mn. Foreign investors remained net buyers for the week, with a net buying position of USD 0.3 mn, a 96.0% drop from a net buying position of USD 6.7 mn recorded the previous week.

The market is currently trading at a price to earnings ratio (P/E) of 12.4x, 6.5% below the historical average of 13.3x, and a dividend yield of 5.7%, 1.8% points 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 12.4x is 27.8% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 49.4% 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.



NASI Dividend Yield



Weekly Highlight

During the week, the Nairobi Securities Exchange announced the listing of Barclays Bank of Kenya's (BBK) single stock futures to the derivatives market, NEXT. Barclays Bank will be the sixth single stock listed at Next after Safaricom, KCB Group, Equity Bank, KenGen and EABL which all listed on the launch of the derivative market in July 2019. Single stock futures are futures contracts where the underlying security is an equity stock listed on the NSE, where one commits to buy or sell a single equity at a future date. These instruments give investors exposure to price movements on an underlying stock. BBK's investors will be required to pay an initial margin of Kshs 1,800.0 for one contract resulting to an exposure of 1,000 Barclays Bank Shares with the stocks having a three month expiry period from the day of trading. According to the Capital Market Soundness report Q3'2019, 349 contracts, worth Kshs 12.8 mn, were traded during the quarter under review with a majority of liquidity concentrated around Safaricom and banking counters, mainly KCB Group and Equity Bank. Safaricom accounted for 55.0% of the market's turnover while KCB accounted for 18.0%, followed by NSE 25 index at 17.0% while Equity Bank stood at 8.0%, during the quarter. In Q4'2019, 148 contracts, worth Kshs 7.1 mn, have been traded so far in the derivatives market, a 57.6% decline from the 349 recorded in Q3'2019 taking the total number of contracts traded in the derivatives market since inception to 497, with a total value of Kshs 19.9 mn. The NEXT derivatives market is expected to provide new opportunities to investors enabling them to diversify, manage risk and allocate capital efficiently. However, it still remains extremely small.

We believe increasing the number of single stock futures traded on the derivatives market will be beneficial in further opening Kenya's financial markets to domestic and international investors, which will, in turn, positively influence the performance of the economy. Thus, we recommend that the following should be taken into consideration;

- I. **Investor Education** - Investors, both foreign and domestic, would need to be informed of the workings of the derivatives market and the current offerings to ensure there is a larger rate of uptake in the derivatives market, and,
- II. **Products Offered in the Derivatives Exchange** - Given that the agricultural sector is the main backbone of the economy; it would be advisable to include a commodity derivatives market to support the entire agriculture value chain.

Universe of Coverage

Banks	Price at 20/12/2019	Price at 27/12/2019	w/w change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	2.88	3.09	7.3%	4.8	14.6%	69.9%	0.3x	Buy
Diamond Trust Bank	108.25	119.00	9.9%	189.0	2.2%	61.0%	0.6x	Buy
I&M Holdings***	50.25	53.00	5.5%	75.2	7.4%	49.2%	0.9x	Buy
Jubilee Holdings	341.00	350.00	2.6%	453.4	2.6%	32.1%	1.1x	Buy
KCB Group***	53.25	53.25	0.0%	64.2	6.6%	27.1%	1.4x	Buy
Sanlam	17.15	18.00	5.0%	21.7	0.0%	20.6%	0.7x	Buy
Co-op Bank***	15.75	15.90	1.0%	18.1	6.3%	20.1%	1.4x	Buy
Standard Chartered	200.75	200.00	(0.4%)	211.6	9.5%	15.3%	1.5x	Accumulate
Equity Group***	53.00	52.00	(1.9%)	56.7	3.8%	12.9%	2.0x	Accumulate
Barclays Bank***	13.10	13.30	1.5%	13.0	8.3%	6.0%	1.7x	Hold
NCBA	34.15	36.60	7.2%	37.0	4.1%	5.2%	0.8x	Hold
Liberty Holdings	9.72	10.35	6.5%	10.1	4.8%	2.1%	0.9x	Lighten
Stanbic Holdings	102.00	111.00	8.8%	103.1	4.3%	(2.8%)	1.2x	Sell
CIC Group	2.89	2.89	0.0%	2.6	4.5%	(4.2%)	1.1x	Sell
Britam	8.48	8.58	1.2%	6.8	0.0%	(21.3%)	0.9x	Sell
HF Group	5.92	5.92	0.0%	4.2	0.0%	(29.1%)	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 have 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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