

Master-Planned Communities, & Cytonn Weekly #06/2020

Equities

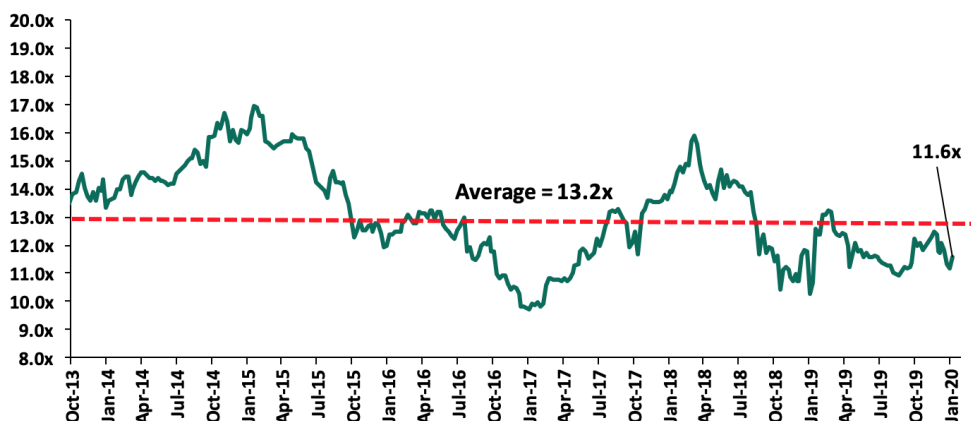
Market Performance

During the week, the equities market was on an upward trajectory, with NASI, NSE 20 and NSE 25 recording gains of 4.0%, 0.1% and 2.6%, respectively, taking their YTD performance to gains/ (losses) of 1.3%, (2.0%) and 0.6%, for the NASI, NSE 20 and NSE 25, respectively. The performance in NASI was driven by gains recorded by large-cap stocks such as Safaricom, Equity, Standard Chartered Bank Kenya and EABL of 8.0%, 4.0%, 4.0% and 3.5%, respectively.

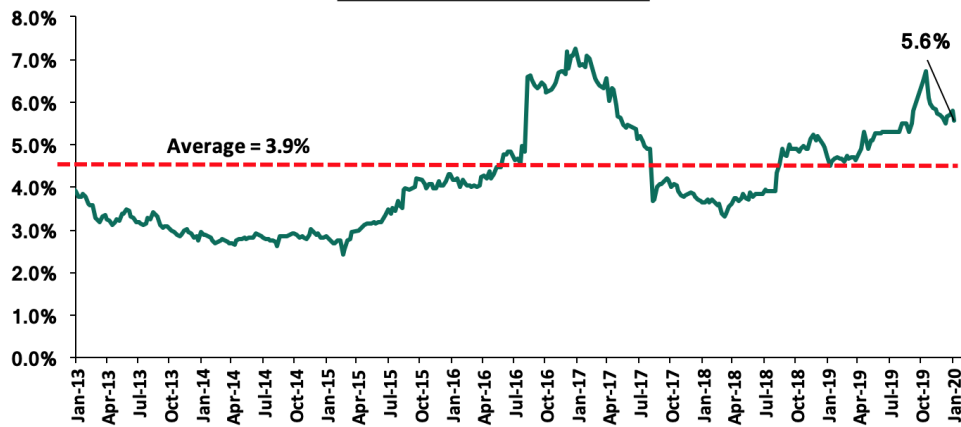
Equities turnover increased by 43.2% during the week to USD 35.6 mn, from USD 24.8 mn recorded the previous week, taking the YTD turnover to USD 157.5 mn. Foreign investors turned net buyers for the week, with a net buying position of USD 1.1 mn from a net selling position of USD 3.9 mn recorded the previous week.

The market is currently trading at a price to earnings ratio (P/E) of 11.6x, 12.1% below the historical average of 13.2x, and a dividend yield of 5.6%, 1.7% 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 11.6x is 19.6% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 39.8% 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 P/E



NASI Dividend Yield



Weekly Highlight

During the week, Standard Chartered Bank Kenya and insurer Sanlam introduced a new funeral cover, Farewell Insurance Plan, which will give policyholders an option of cashing in part of the premiums paid. Policyholders can be reimbursed up to six-months' worth of premiums after making payments for four-years. As noted in our H1'2019 Listed Insurance Report, the insurance sector has benefited from convenience and efficiency through the adoption of alternative channels for both distribution and premium collection such as Bancassurance and improved agency networks in efforts to deepen insurance penetration levels, which is still low at 2.4% of GDP as of 2019, compared to the 2018 continental average of 3.5%. The insurance sector continues to undergo transition mainly on the digital transformation and regulatory front, which is critical for stability and sustainability of a conducive business environment for one of the key sectors of Kenya's economy. We are of the view that insurance companies have a lot they can do to register considerable growth and improve the level of penetration in the country. On that premise, we recommend that;

- I. The synergy between banks and insurance companies to offer Bancassurance services should continue, so as to boost penetration levels in the country. Insurance companies should leverage more on the penetration of bank products to push insurance products to consumers, and,
- II. Insurance companies should continue adopting mobile and digital underwriting platforms that enhance convenience to customers in taking insurance policies thus raising the uptake of insurance products. The integration of digital platforms to allow for policy payments will enhance the collection of insurance premiums, given the high level of mobile phone penetration in the country, at 91.0% in 2019, which will help eliminate premium undercutting. Technology and innovation capabilities are set to continue being the key drivers of growth for Sub-Saharan Africa in the coming years.

Universe of Coverage

Banks	Price at 31/01/2020	Price at 07/02/2020	w/w change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	3.0	3.0	(0.3%)	3.0	4.8	15.1%	75.6%	0.3x	Buy
Diamond Trust Bank	112.0	114.5	2.2%	109.0	189.0	2.3%	67.3%	0.6x	Buy
I&M Holdings***	55.0	55.5	0.9%	54.0	75.2	7.0%	42.5%	0.9x	Buy
KCB Group***	52.3	51.3	(1.9%)	54.0	64.2	6.8%	32.1%	1.4x	Buy

Banks	Price at 31/01/2020	Price at 07/02/2020	w/w change	Year Open	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Jubilee Holdings	360.0	352.0	(2.2%)	351.0	453.4	2.6%	31.4%	1.1x	Buy
Co-op Bank***	15.3	14.9	(2.6%)	16.4	18.1	6.7%	28.6%	1.3x	Buy
Sanlam	17.6	17.7	0.9%	17.2	21.7	0.0%	22.6%	0.7x	Buy
Equity Group***	50.0	52.0	4.0%	53.5	56.7	3.8%	12.9%	2.0x	Accumulate
Standard Chartered	198.0	206.0	4.0%	202.5	211.6	9.2%	11.9%	1.6x	Accumulate
Liberty Holdings	10.3	9.5	(7.8%)	10.4	10.1	5.3%	11.2%	0.8x	Accumulate
NCBA	36.1	36.4	0.8%	36.9	37.0	4.1%	5.8%	0.8x	Hold
CIC Group	2.9	2.6	(8.7%)	2.7	2.6	5.0%	5.7%	0.9x	Hold
Barclays Bank***	13.1	13.4	2.3%	13.4	13.0	8.2%	5.6%	1.7x	Hold
Stanbic Holdings	114.0	105.3	(7.7%)	109.3	103.1	4.6%	2.5%	1.1x	Lighten
Britam	8.8	8.7	(1.1%)	9.0	6.8	0.0%	(22.0%)	0.9x	Sell
HF Group	5.6	5.8	2.9%	6.5	4.2	0.0%	(27.1%)	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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