

Personal Financial Planning, & Cytonn Weekly #08/2020

Equities

Market Performance

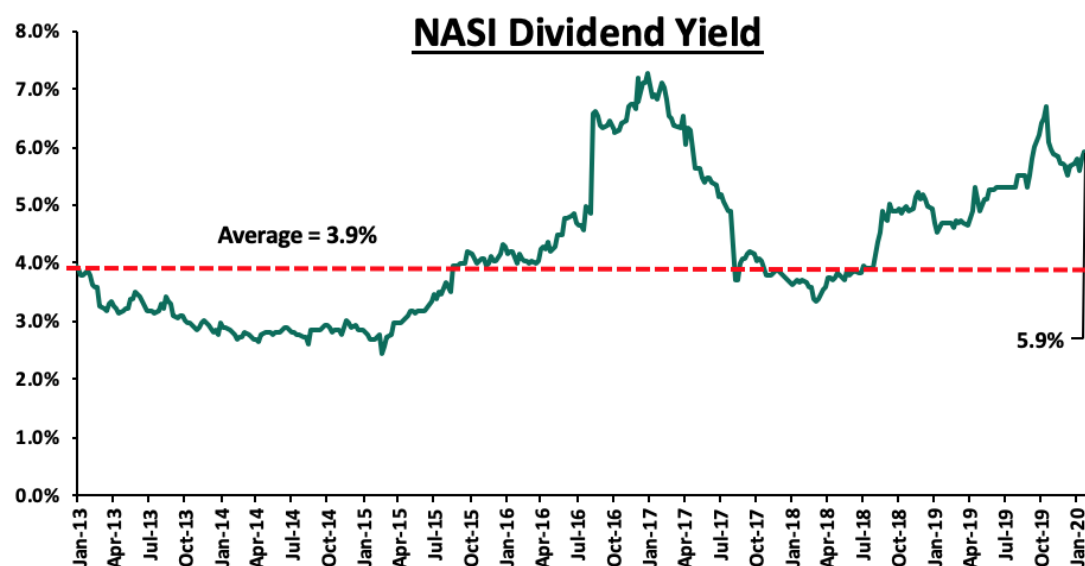
During the week, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 2.5%, 2.3%, and 2.2%, respectively, taking their YTD performance to losses of 4.8%, 5.9%, and 4.5%, for the NASI, NSE 20 and NSE 25, respectively. The performance in NASI was driven by losses recorded by large-cap stocks such as EABL, Safaricom, Bamburi and ABSA of 5.9%, 3.5%, 2.7% and 1.9%, respectively.

Equities turnover decreased by 25.5% during the week to USD 24.3 mn, from USD 32.6 mn recorded the previous week, taking the YTD turnover to USD 214.5 mn. Foreign investors turned net sellers for the week, with a net selling position of USD 12.2 mn from a net selling position of USD 9.6 mn recorded the previous week.

The market is currently trading at a price to earnings ratio (P/E) of 10.9x, 17.9% below the historical average of 13.2x, and a dividend yield of 5.9%, 2.0% 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 10.9x is 12.1% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 31.0% 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





Weekly Highlight

During the week, Safaricom opened talks with a consortium of undisclosed investors who would be involved in the bid for one of the two Ethiopian telecom licenses due to the high entry costs expected to scale above Kshs 100.0 bn. In November 2019, the company entered into a joint bid with Vodacom (which owns a 35.0% stake in Safaricom), however, more telecommunication firms such as Vodafone (which also owns a 5.0% stake) are expected to join the partnership ahead of Safaricom's bid set to be lodged in April this year. The Ethiopian Government, which owns 100.0% of Ethio Telecom's shares indicated that they would sell a minority stake of up to 49.0% to investors in order to improve the Ethiopian economy through an increase in private investments and competition in the government-controlled economy. Due to its high population of approximately 108.0 mn and a forecasted GDP growth rate of 10.8% for the fiscal year 2019/2020, the Ethiopian market is a hub for telecommunication investment with Ethio Telecom having an approximate 43.6 mn subscribers. As of September 2019, only commercial banks and microfinance institutions provided mobile money services in Ethiopia, and the entry of Safaricom would see to the further disruption of services offered traditionally by financial institutions. Safaricom's plan to introduce mobile money services in the country will, in our view, help improve financial inclusion spurring more innovations in key sectors such as agriculture, promoting economic growth and development. Further, Safaricom's entry into the Ethiopian market would diversify the group's customer base as well as increase its revenue from mobile money services, currently the largest component of the firm's business, as the firm moves towards globalizing M-Pesa.

Universe of Coverage

Banks	Price at 14/02/2020	Price at 21/02/2020	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Kenya Reinsurance	3.0	3.0	(0.3%)	(1.7%)	3.0	4.8	15.1%	76.2%	0.3x	Buy
Diamond Trust Bank	108.3	112.0	3.5%	2.8%	109.0	189.0	2.3%	71.1%	0.5x	Buy
I&M Holdings***	53.3	54.5	2.3%	0.9%	54.0	75.2	7.2%	45.1%	0.9x	Buy
KCB Group***	50.5	50.0	(1.0%)	(7.4%)	54.0	64.2	7.0%	35.4%	1.4x	Buy
Jubilee Holdings	355.8	352.5	(0.9%)	0.4%	351.0	453.4	2.6%	31.2%	1.2x	Buy
Sanlam	18.0	16.7	(7.5%)	(3.2%)	17.2	21.7	0.0%	30.3%	0.7x	Buy

Banks	Price at 14/02/2020	Price at 21/02/2020	w/w change	YTD Change	Year Open	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Co-op Bank***	15.0	14.9	(1.0%)	(9.2%)	16.4	18.1	6.7%	28.6%	1.3x	Buy
Equity Group***	50.0	49.5	(0.9%)	(7.5%)	53.5	56.7	4.0%	18.6%	1.9x	Accumulate
Standard Chartered	200.0	201.8	0.9%	(0.4%)	202.5	211.6	9.4%	14.3%	1.5x	Accumulate
Liberty Holdings	9.5	9.5	0.0%	(8.0%)	10.4	10.1	5.3%	11.0%	0.8x	Accumulate
ABSA Bank***	13.2	13.0	(1.9%)	(3.0%)	13.4	13.0	8.5%	8.9%	1.7x	Hold
NCBA	35.9	35.8	(0.1%)	(2.8%)	36.9	37.0	4.2%	7.5%	0.8x	Hold
CIC Group	2.6	2.7	4.3%	0.0%	2.7	2.6	4.9%	3.3%	0.9x	Lighten
Stanbic Holdings	105.3	106.0	0.7%	(3.0%)	109.3	103.1	4.5%	1.8%	1.1x	Lighten
Britam	8.7	8.1	(7.1%)	(10.2%)	9.0	6.8	0.0%	(16.4%)	0.8x	Sell
HF Group	5.8	5.3	(8.0%)	(18.0%)	6.5	4.2	0.0%	(20.8%)	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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