

MONTHLY MARKET COMMENTARY (Feb 2023): NASI PE ratio at a 12-year low; our estimate of equities allocation by pension funds at a record low

KEY HIGHLIGHTS

EQUITIES

- Last month, equity turnover fell by 41.1% m/m to settle at KES 4.6bn (USD 36.3m) – the previous month saw block trades in Safaricom.
- As gainers outpaced laggards at 1.5x, the Advance-Decline ratio improved to 0.5x compared to -0.4x registered in February 2023.
- Recouping some of the prior losses, the NASI recovered a modest 0.1% m/m to 125.98. However, the NSE 20 notched down 0.6% m/m to 1,646.56 – the second consecutive month of decline.
- Equity bank (+3.4% m/m), StanChart bank (+4.0% m/m) and I&M bank (+5.3% m/m) were the main winners in the month, driven by foreign demand. On the other hand, Safaricom (-0.4%) m/m), KenGen (-15.9% m/m) and EABL (-0.9% m/m) were the key drags in the market.
- Over continued weaker investor sentiment, the NASI trailing PE ratio contracted by 1.3% m/m to finish at 9.1x – a 12-year low – by end of February 2023, compared to 9.2x in January 2023. Consequently, the PE discount to its 18-year average widened further to 32.7% - the largest discount since 2011.
- For twelve straight months, foreigner investors' net outflows stood at USD 0.3m (KES 0.4bn). Safaricom (USD 5.1m, KES 647.3m), Equity bank (USD 1.7m, KES 216.2m) and BAT Kenya (USD 0.7m, KES 86.3m) marked the highest net foreign outflows. On the other hand, EABL (USD 0.4m, KES 54.0m), ABSA bank (USD 0.3m, KES 39.2m) and Stanbic bank (USD 0.3m, KES 31.8m) saw highest net foreign inflows.
- On account of modest local institutional inflows and share price gains, equities' allocation by pension funds declined to a record low of 11.8% in February 2022, down from 12.8% noted in the prior month.
- As CBK FX reserves dwindled (-5.7% m/m) – the lowest levels since 2015 - foreign portfolio holdings as a % of CBK forex reserves increased to 29.3% in February 2023, up from 28.3% registered in January 2023, exposing the KES to volatility on the back of potential foreign outflows.
- Among the key SSA equities markets that we cover, on a YTD basis to February 2023, the Nigerian equities (+8.9%) posted positive returns in USD, followed by Morocco equities (+2.2%). YTD to January 2023, foreign investors were overall net sellers across most SSA markets. On net foreign outflows front, Kenya, Egypt, S.Africa and Nigeria experienced outflows of USD 22.9m, USD 12.7m, USD 650.0m and USD 11,335.0m respectively.

FIXED INCOME

- The bond market witnessed reduced activity in February 2023 as the month hosted multiple primary auctions that shifted the secondary market yield curve higher therefore comprising sales. The on-the-run 10yr (FXD1/2017/10Yr) traded through a broad range of 13.650%-13.800%, while the longer on-the-run 10yr, FXD1/2023/10Yr largely traded between 14.100%-14.200%.
- The infrastructure bonds witnessed better demand, as offshore fire-sales continued during the month with local buyers taking up positions. The latest on-the-run 14yr, IFB1/2022/14Yr, traded largely between 13.750%-13.900%, while the existing 16yr, IFB1/2021/16Yr traded between 13.750%-13.850%. The shorter 11yr, IFB1/2020/11Yr, traded 13.300%-13.600%, while the 9yr, IFB1/2020/9Yr realizing levels 13.000%-13.400% as demand dwindled.
- During the month, Treasury opted to reopen FXD1/2017/10Yr and FXD1/2023/10Yr targeting KES 50.0bn. The coupon rates were 12.966% and 14.151% respectively.
- The bonds yielded 13.875% and 14.151% with a cut-off yield of 13.950% and 14.290% respectively. Treasury managed to raise a total of KES 29.0bn.
- In the eighth (8) month of FY2022/23, we estimate that Treasury has borrowed ~KES 247.3bn versus ~KES 467.9bn (down 47.1%).

MARKET OUTLOOK

EQUITIES:

- At current share price levels, we continue to advocate for buying opportunities within the banking sector – KCB, Equity, Co-op, DTB and I&M. Against historical industry average P/B levels of 1.3x, our forward FY23 P/B levels of 0.7 implies 46.2% discount. Compared to historical industry average dividend yields of 6.0%, our forward FY23 dividend yields of 13.1%, implies further boost to potential capital appreciation.
- Our analysis of market re-rating potential post period of distress - weak KES, elevated inflation & high interest rates – showed that the market returned an average of 23.8%, largely driven by market PE re-rating of 39.9%, on average. We examined 2012-2013, 2017, 2019, 2021 - periods that were preceded by dampened investor sentiments. Notably, NASI PE ratio of 9.1x is at a 12-year low.

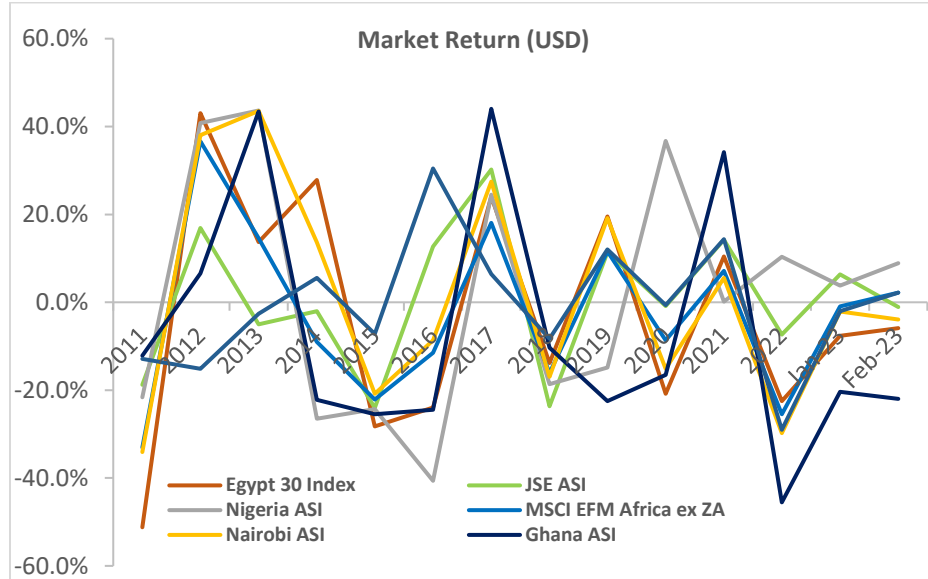
FIXED INCOME:

- Money market liquidity toward the end of March 2023 will remain tight due to consistent primary auctions sucking out liquidity week after week. Treasury proposed to tap the IFB1/2023/17Yr in the week leading to 20th March to raise KES 20bn. Concurrently they proposed to reopen FXD2/2018/10Yr, FXD1/2022/3Yr and FXD1/2019/15Yr in April 2023, to raise KES 50bn.

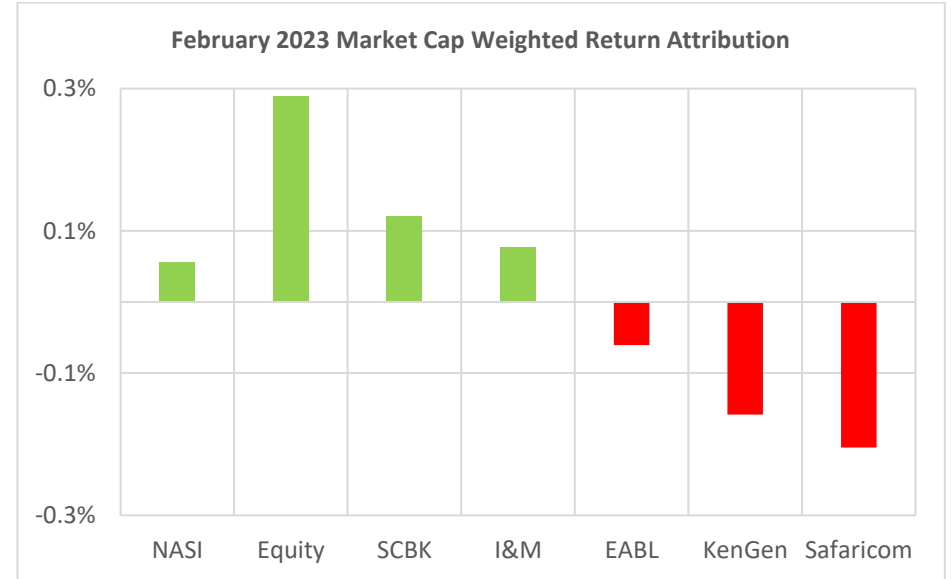
MONTHLY MARKET STATISTICS

	Feb-22	Mar-22	April-22	May-22	June-22	July-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-22	Feb-22
Equities													
Market Capitalisation (USD bn)	21.9	21.1	20.2	17.2	16.5	18.5	17.8	16.6	16.5	16.2	13.6	13.2	15.5
NASI return (KES)	-1.9%	-2.8%	-3.6%	-14.3%	-3.3%	13.3%	-2.5%	-6.6%	0.3%	-1.8%	0.8%	-1.2%	0.1%
NSE 20 return (KES)	-0.1%	-2.1%	-2.5%	-6.6%	-4.1%	5.5%	2.9%	-1.9%	-2.3%	-2.4%	2.4%	-1.1%	-0.6%
Gainers/Decliners ratio (x)	(0.4)	(0.4)	(0.4)	(0.5)	(0.4)	1.1	3.0	(0.6)	(0.6)	(0.5)	0.9	(0.4)	0.5
MSCI EFM ex. ZA (KES)	-3.6%	-3.3%	-1.1%	-6.6%	-4.7%	0.1%	0.1%	-5.7%	-2.2%	3.1%	2.9%	1.1%	3.9%
Equity Turnover (KES bn)	10.0	9.6	5.9	10.8	9.6	8.0	5.3	9.4	6.0	6.5	4.9	7.8	4.6
Equity Turnover (USD m)	87.6	83.9	50.5	92.3	81.5	67.4	44.5	77.8	49.6	53.5	40.0	62.1	36.3
Avg. daily value traded (USD m)	4.38	3.65	2.81	4.62	3.88	3.37	2.02	3.71	2.61	2.43	2.1068	2.9551	1.7289
Foreign institutions participation (%)	56.6	47.5	62.4	63.3	56.9	50.0	46.5	34.1	44.1	59.4	58.8	50.7	39.5
Local institutions participation (%)	33.3	38.4	24.5	27.8	33.0	35.2	31.4	47.1	33.9	28.9	29.3	36.7	43.4
Local individuals' participation (%)	9.7	13.7	12.6	8.2	9.3	14.2	18.4	16.9	21.6	10.7	11.2	11.6	14.6
Local institutions net flow (USD m)	(4.4)	15.7	14.6	34.5	37.7	19.5	9.1	12.6	13.5	5.8	12.4	19.1	1.3
Foreign institutions net flow (USD m)	1.9	(12.8)	(14.1)	(35.6)	(42.7)	(25.4)	(13.5)	(19.7)	(19.2)	(6.9)	(13.6)	(22.7)	(3.2)
Fixed Income													
Bond Turnover (KES bn)	54.9	87.6	71.4	58.9	65.4	61.9	68.4	66.7	56.7	53.6	48.0	44.7	47.1
Bond Turnover (USD m)	482	762	616	504	555	521	570	553	467	441	389	355	372
T-Bill performance rate	94%	91%	59%	92%	84%	94%	73%	106%	92%	168%	93%	105%	167%
T-Bill allotment rate	94%	94%	100%	94%	66%	92%	93%	75%	84%	80%	79%	98%	85%
T-Bill offer fill rate	88%	85%	59%	86%	96%	28%	68%	80%	77%	135%	73%	103%	142%
T-Bond performance rate	176%	80%	95%	86%	97%	93%	98%	92%	56%	171%	69%	99%	53%
T-Bond allotment rate	75%	65%	91%	81%	93%	26%	78%	85%	85%	85%	85%	83%	91%
T-Bond offer fill rate	132%	52%	87%	70%	80%	40%	77%	78%	48%	146%	59%	82%	48%
5-year m/m yield change (bps)	50	98	100	85	354	323	42	10	58	53	70	70	68
2 year-91D yield spread (bps)	330	359	410	356	233	243	276	262	290	276	273	276	273
5 year-364D yield spread (bps)	178	221	255	237	75	85	292	302	347	313	322	302	286
5 year-2-year yield spread (bps)	95	110	75	95	80	120	130	135	140	135	143	123	115
5 yr Bond-5 yr IFB yield spread (bps)	130	158	155	115	205	220	82	93	120	105	103	88	50
10 year-2-year yield spread (bps)	210	193	145	220	84	94	213	228	173	175	168	148	180
Average monthly KES/USD	113.8	114.95	115.77	116.74	117.83	118.76	120.01	120.73	121.33	121.44	123.37	125.91	126.85

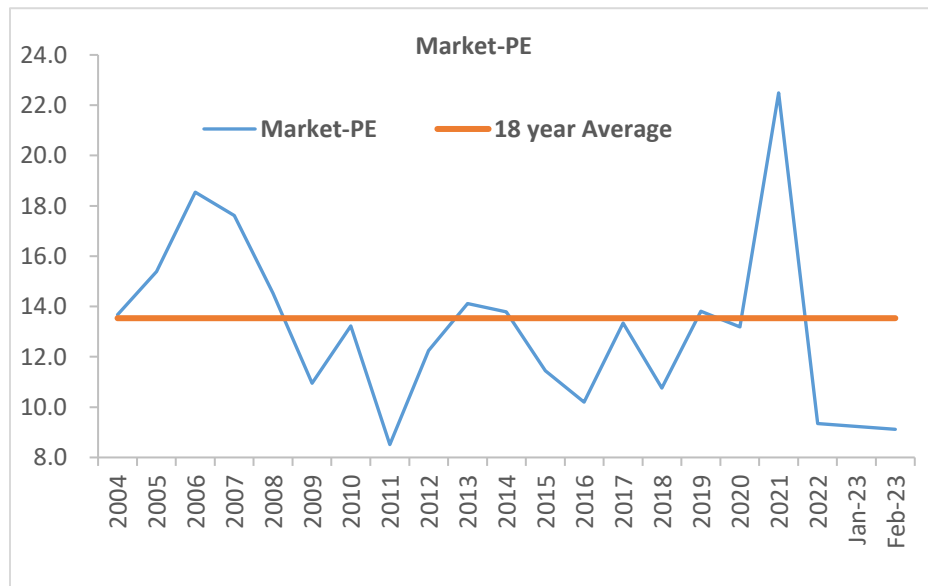
Ytd, Nigeria emerges as the winner; Ghana remains in negative territory



Safaricom key detractor to NASI return; Equity main support to equities performance

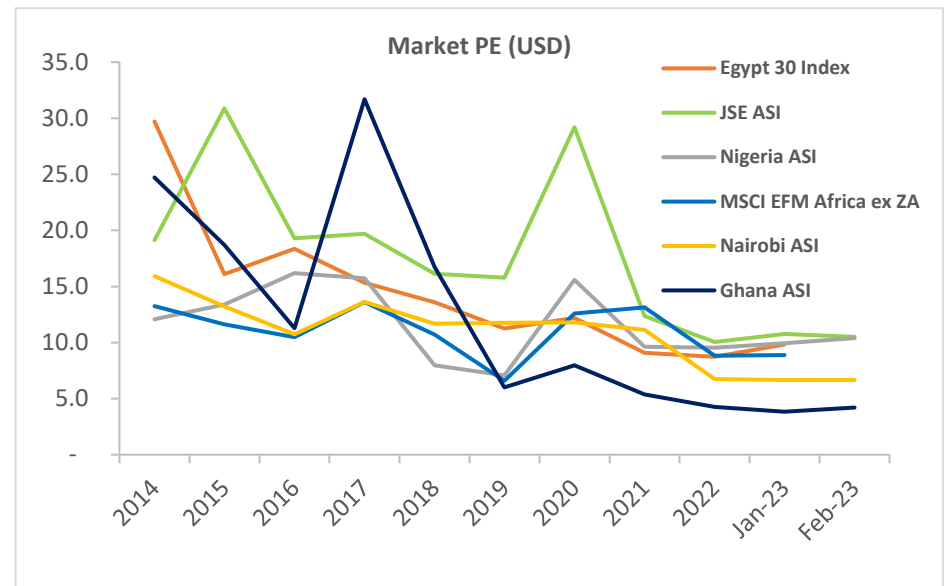


NASI PE ratio at a 12-year low, discount to historical at a 12-year low too



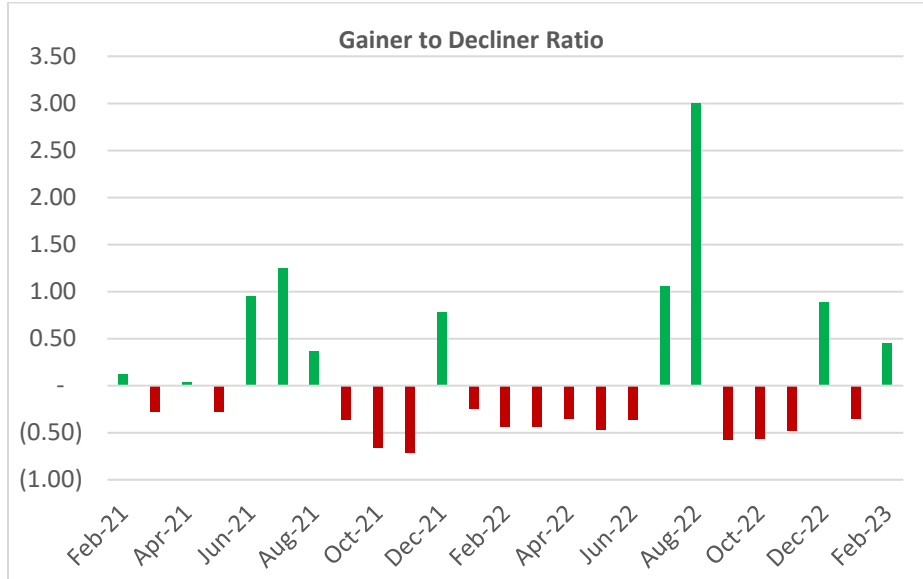
(As reported by the NSE)

Equities market at discounts to their 9-year average PEs, avg. discount of 37.0%

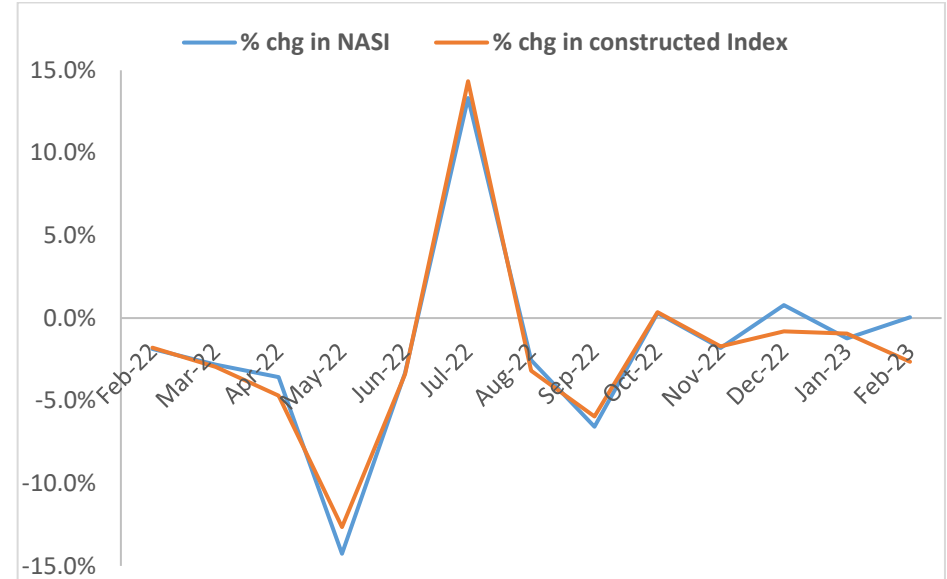


(As reported by Bloomberg)

Upward momentum as gainers exceeds laggards by 1.5x

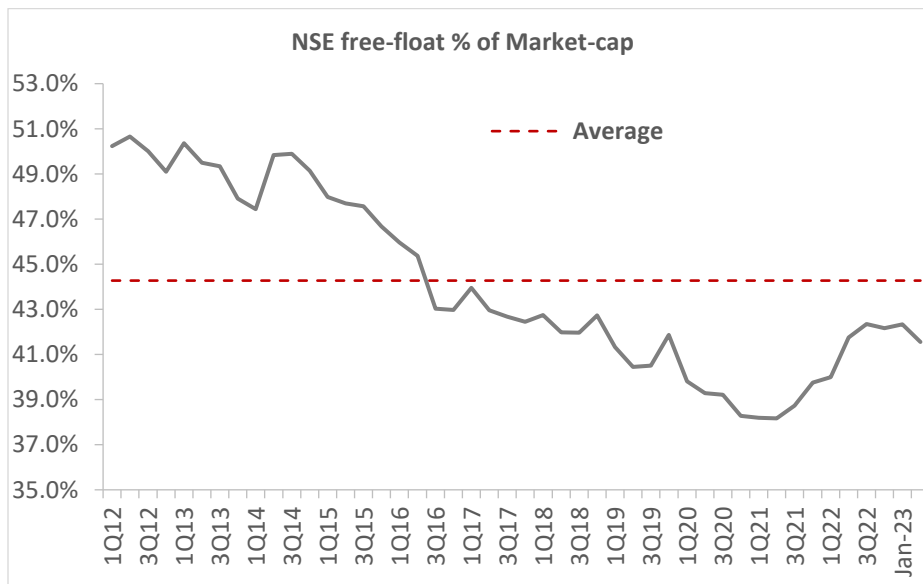


Safaricom largely weighed on NASI return, small caps supported the market

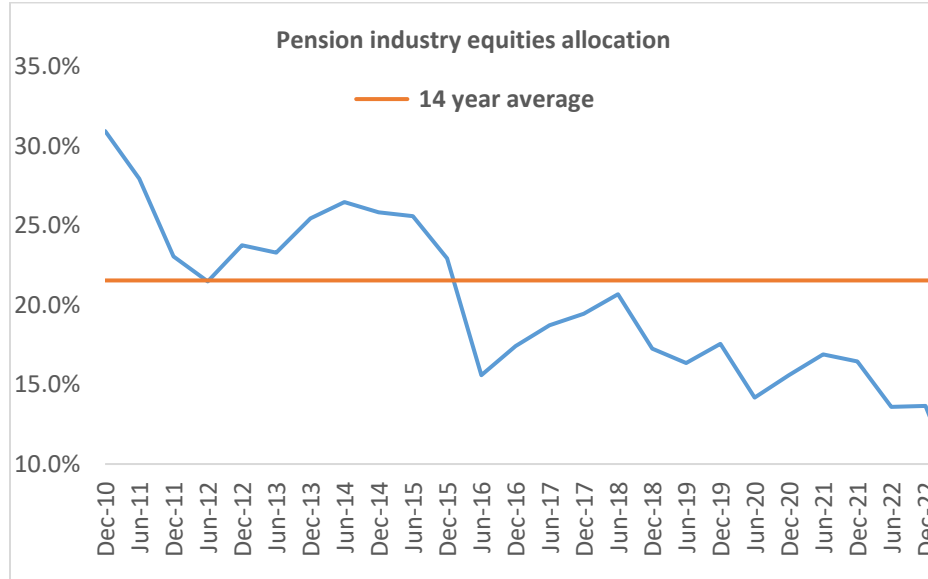


*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

NSE free float as a % of market cap at the lowest levels since 1Q22



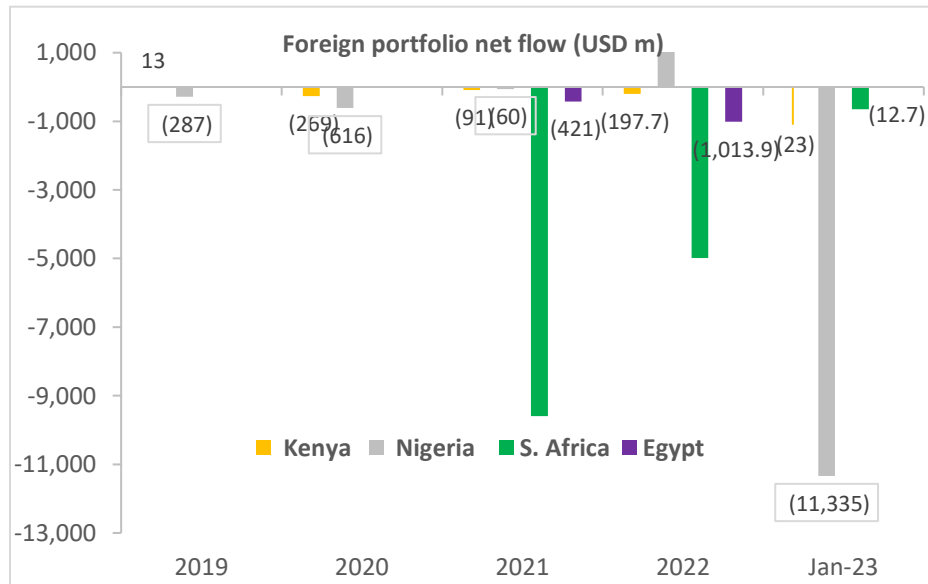
Equities allocation decline to a 14-year low, modest local inflows & share price gains



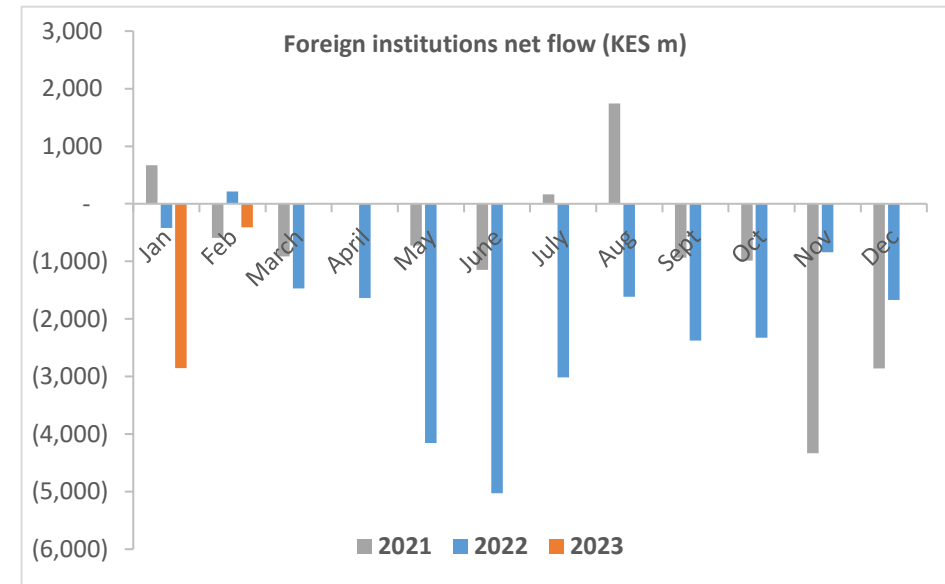
Local institutions' activity levels reaches a 6-month high



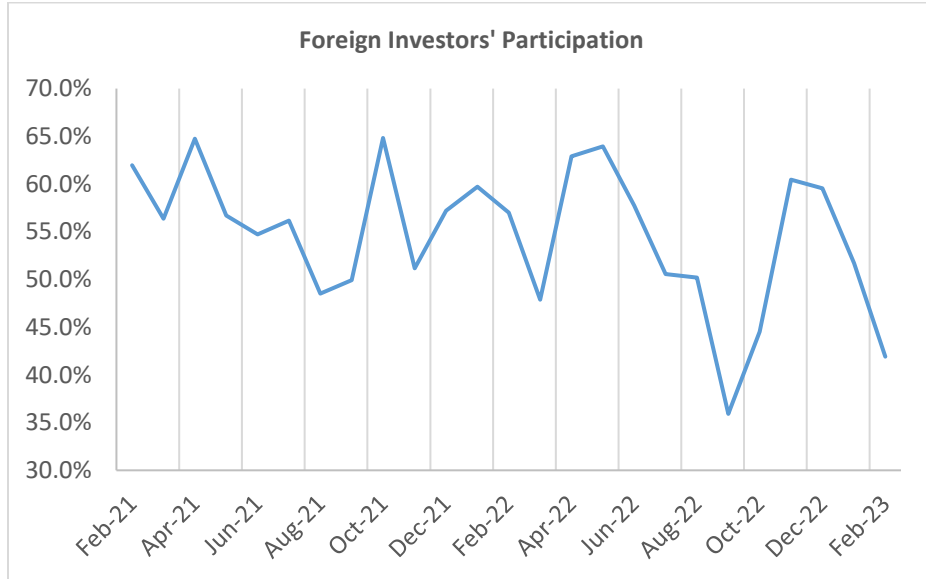
YTD to Jan 2023, Nigeria registers net foreign inflows



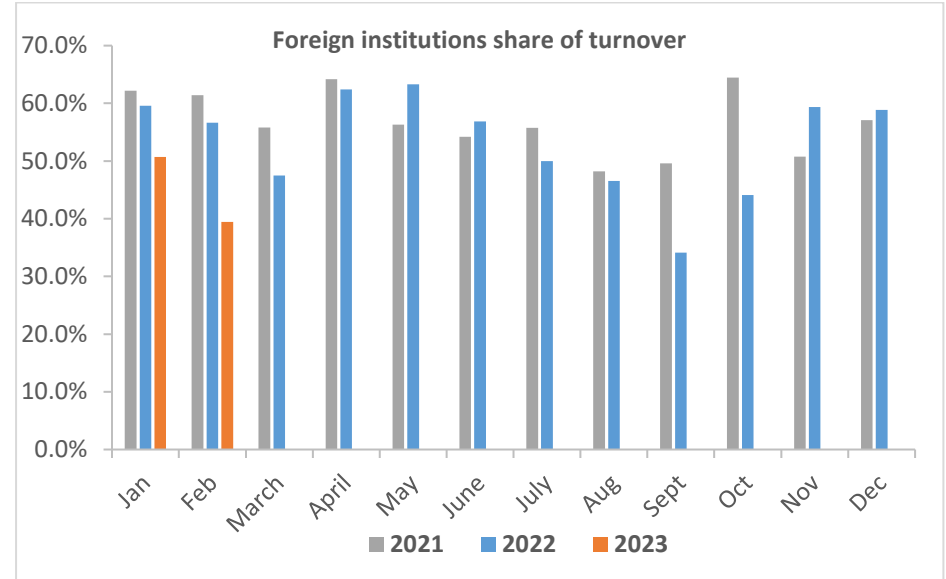
Foreign institutions remain net sellers for twelve consecutive months



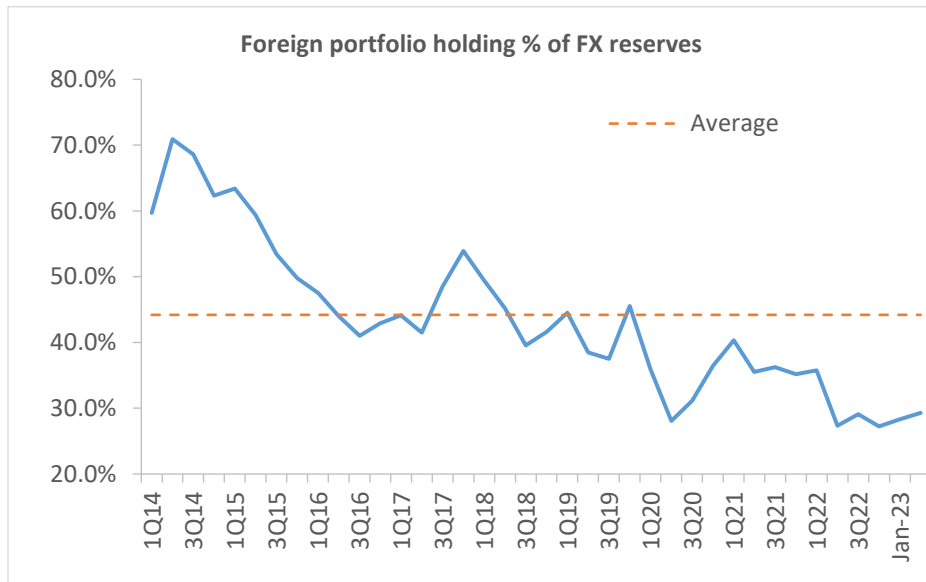
Foreign investors' participation levels touch a 6-month low



Foreign institutions' activity levels dips to the lowest levels since September 2022



Foreign portfolio as a % of FX reserves at the highest levels since 1Q22, lower KES risk



FOREIGN FREE FLOAT TO TOTAL FREE FLOAT PER COUNTER

Foreign free float/total free float	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q21	1Q22	2Q22	3Q22	4Q22	Jan-22	Feb-22
Safaricom	44.3%	45.4%	45.9%	45.7%	46.3%	45.2%	43.8%	40.8%	40.4%	39.1%	40.1%	37.8%	37.7%
Equity bank	37.5%	36.1%	36.1%	36.5%	36.7%	36.8%	37.4%	36.5%	36.2%	36.1%	36.7%	35.4%	35.3%
EABL	39.8%	38.2%	37.1%	36.7%	33.8%	33.2%	32.0%	30.5%	30.4%	30.4%	16.1%	29.9%	42.7%
KCB bank	18.3%	16.1%	14.5%	13.9%	14.1%	13.2%	13.4%	12.9%	12.0%	11.5%	11.4%	11.2%	11.4%
BK Group	99.9%	99.6%	99.5%	98.9%	98.8%	83.8%	98.8%	98.9%	98.9%	98.9%	87.4%	98.9%	98.9%
BAT Kenya	62.1%	59.8%	58.5%	57.7%	56.8%	56.5%	56.5%	56.3%	55.7%	55.6%	55.7%	52.1%	49.8%
KenGen	51.2%	50.3%	49.8%	49.1%	49.3%	51.5%	49.7%	49.5%	49.3%	48.5%	50.7%	48.0%	48.0%
I&M bank	32.6%	32.7%	32.7%	16.4%	16.4%	18.2%	16.4%	16.3%	16.3%	16.6%	33.3%	16.6%	16.7%
Jubilee Insurance	45.2%	45.2%	45.4%	45.5%	45.7%	45.4%	45.4%	45.4%	45.4%	45.5%	45.3%	45.4%	45.4%
Stanbic bank	41.5%	40.6%	40.7%	40.7%	40.8%	41.9%	41.6%	42.1%	42.1%	42.4%	42.7%	42.6%	43.4%
DTB bank	35.7%	35.5%	35.3%	35.2%	35.0%	35.7%	35.3%	35.7%	35.7%	35.6%	36.4%	35.5%	35.3%
Centum Investment	13.8%	12.5%	11.9%	11.0%	10.9%	10.9%	9.6%	9.0%	8.6%	8.6%	9.0%	8.6%	8.5%
StanChart bank	13.8%	12.5%	9.5%	7.1%	6.0%	5.4%	5.5%	5.5%	5.5%	5.5%	5.4%	5.5%	5.6%
Britam Insurance	10.8%	10.8%	14.0%	13.7%	13.7%	17.0%	13.7%	13.6%	13.5%	13.4%	16.7%	13.4%	13.4%
WPP ScanGroup	80.6%	78.1%	78.1%	76.5%	65.1%	72.8%	66.9%	66.9%	66.9%	66.9%	74.2%	66.9%	66.9%

Companies with foreign free float holding of over USD 10

MONTHLY NET FOREIGN FLOWS PER COUNTER

	Feb-22	Mar-22	April-22	May-22	June-22	July-22	Aug-22	Sept-22	Oct-22	Nov-22	Dec-22	Jan-22	Feb-22
Safaricom	(719)	(1,400)	(1,391)	(3,034)	(3,719)	(1,181)	(1,220)	(2,101)	(1,651)	(260)	(684)	(647)	(129)
Equity Bank	605	(82)	(70)	(342)	(1,007)	(549)	(183)	65	(489)	(112)	(473)	(216)	(92)
EABL	(113)	(121)	(128)	(522)	(183)	(103)	38	11	(71)	(150)	(176)	54	2
KCB bank	367	101	(116)	(260)	(98)	(967)	(224)	(360)	(74)	(60)	(160)	(23)	200
BK Group	0	-	25	(1)	(0)	(8)	(2)	(0)	0	(2)	(0)	(3)	-
BAT	(24)	(0)	(14)	(6)	(23)	(105)	(11)	(1)	(14)	(374)	(140)	(86)	(415)
Britam	-	0	0	0	(7)	(5)	(8)	(0)	(0)	(2)	(2)	1	-
I&M bank	2	(10)	(4)	1	(3)	2	1	30	1	0	(1)	0	7
Jubilee	(10)	(2)	(3)	4	(1)	(1)	1	9	(0)	(2)	(3)	(2)	(2)
Stanbic bank	(34)	64	47	26	(0)	-	(0)	33	(1)	-	(0)	32	99
DTB bank	(7)	(0)	(2)	(9)	47	(4)	(10)	9	(0)	(4)	(5)	(3)	(16)
KenGen	2	(11)	5	(7)	(8)	(11)	(28)	(21)	(16)	(8)	(1)	(0)	(1)
WPP ScanGroup	7	0	(0)	0	-	-	(0)	-	-	(0)	(0)	0	0
Centum	6	(13)	(3)	(17)	(8)	(19)	(1)	(0)	(0)	0	0	0	(3)
StanChart bank	4	(4)	3	3	(11)	2	1	(1)	(1)	(1)	(2)	0	12
BBK bank	59	6	(13)	(1)	(0)	1	(3)	0	0	110	(0)	39	43
Co-op Bank	43	(0)	(1)	(47)	(3)	(15)	5	16	(1)	(5)	(1)	0	(0)
NSE	(0)	(0)	(10)	(9)	0	0	(0)	(3)	(1)	(1)	(1)	(4)	(1)
Market	187	(1,451)	(1,653)	(4,207)	(5,036)	(2,972)	(1,656)	(2,337)	(2,319)	(887)	(1,664)	(859)	(382)

Companies with foreign free float holding of over USD 10mn, Amounts in KES M

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