

MONTHLY MARKET COMMENTARY (June 2023): Foreign portfolio holdings as a % of CBK forex reserves at a new low of 20.1% in 2Q23

KEY HIGHLIGHTS

EQUITIES

- In June, equity turnover declined by 33.0% m/m to settle at KES 4.1bn (USD 29.1m). Liquidity was biased towards fixed income as the government ramped up its borrowing to meet its annual target – was about 47% behind schedule moving into June. YoY, however, market turnover was up 9.5% y/y.
- With the advance/decline ratio improving to 1.8x, up from 1.0x, the NASI halted a 3-month losing streak, recouping 3.2% m/m to finish at 107.00, down from an 8-year low. Similarly, breaking a 5-months falling streak, the NSE 20 regained 1.8% m/m to end at 1,574.92.
- While there was wide share price appreciation, Safaricom was the top contributor to the positive market return – edged up 5.4% m/m – on account of foreign demand. Driven by foreign investors' sell-off, KCB bank shed 7.6% m/m, extending its monthly losses to the fourth consecutive month, largely weighing on the returns.
- Over slight improvements on investors' sentiments, the NASI trailing PE ratio stood at 7.8x, up from 7.6x, reflecting a 3.2% month-on-month increase. Compared to its 18-year average of 13.5x, the trailing PE is now at a 42.3% discount – has remained at a discount for the last six months.
- After fifteen months of net selling, foreign investors emerged as net buyers at USD 0.8m (KES 113.4m). EABL (USD 1.2m, KES 169.6m), Stanbic bank (USD 0.9m, KES 129.2m) and Safaricom (USD 0.2m, KES 34.9m) recorded the highest net foreign inflows. On the other hand, KCB bank (USD 0.8m, KES 109.0m), BAT Kenya (USD 0.7m, KES 102.3m) and Equity bank (USD 0.6m, KES 77.5m) saw the highest net foreign outflows.
- On account of share price gains, equities' allocation by pension funds notched up to 11.7% in June 2023, up from 11.4% printed in the month of May 2023 – however, local institutions were net sellers.
- As foreign portfolio holdings sustained decline for the last six successive quarters, foreign portfolio holdings as a % of CBK forex reserve marked a new low of 20.1% in 2Q23 – the lowest levels since 1Q14 – down from 26.6% registered in 1Q23. On a positive note, though, we don't foresee net foreign outflows significantly weighing on KES.
- Among the key SSA equities markets that we cover, on a YTD basis to June 2023, on account of the Naira devaluation, the Nigerian (-27.9%) equities was relegated to a laggard measured by returns in USD – previously in May, Nigeria (+8.6%) was the best performer. Next is Kenyan equities negative return of 26.3%. On the other hand, Morocco equities emerged as the best performer at 13.9%. YTD to June 2023, foreign investors remained overall net sellers across most SSA markets. Kenya, Egypt, S.Africa and Nigeria posted outflows of USD 110m, USD 226m, USD 2,919m and USD 2m, respectively.

FIXED INCOME

- The bond market witnessed reduced activity in June 2023 as all eyes were on the infrastructure bond which sucked out all the money market liquidity. The on-the-run 15yr (FXD1/2013/15Yr) traded through a broad range of 14.500%-14.800%, while the longer on-the-run 20yr, FXD2/2018/20Yr largely traded between 14.800%-15.200%.
- The infrastructure bonds witnessed better demand, as offshore demand returned to the secondary market following the improvement in FX liquidity. The latest on-the-run 7yr, IFB1/2023/7Yr, traded largely between 15.300%-15.650%, while the existing 15yr, IFB1/2018/15Yr traded between 15.000%-15.500%. The shorter 11yr, IFB1/2020/11Yr, traded 14.300%-14.800%, while the 9yr, IFB1/2020/9Yr realizing levels 14.000%-14.500% as demand dwindled.
- During the month, Treasury opted to issue a new five (5) year FXD1/2023/5Yr and reopen the FXD1/2016/10Yr targeting KES 40.0bn. The coupon rate for the 5yr was market determined, while the FXD1/2016/10Yr had a pre-existing coupon rate of 15.039%.
- The 3yr and 5yr bond yielded 16.328% and 16.844% respectively with an estimated cut-off yield of 16.490% and 16.990% respectively. Treasury managed to raise a total of KES 38.6bn with any offset in maturities for July 2023.
- In the twelfth (12) month of FY2022/23, we estimate that Treasury had borrowed ~KES 436.4bn versus ~KES 597.1bn (down 26.9%).

MARKET OUTLOOK

EQUITIES:

- We expect increased activity on the banking stocks ahead of the 1H23 results. Of note, is the expected higher cost of risk, elevated rates benefiting margins & capital erosion from AFS losses, and implications of KES weakening on FX income. We also expect Bamburi Cement to release 1H23 results – we foresee higher input costs and KES weakness to negatively impact margins and volumes to be depressed from subdued demand and reduced infrastructure projects. Looking ahead, we expect the current interest rate and credit cycle to dampen investors' sentiment in the short-term. Over the long-term, we foresee opportunities within the banking stocks – we like Equity bank and KCB bank.

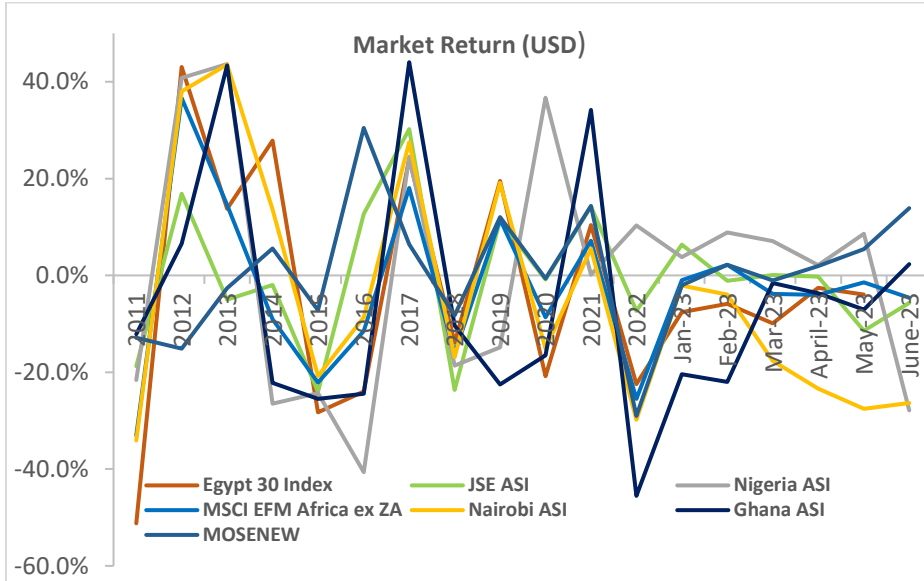
FIXED INCOME:

- Money market liquidity toward mid-June 2023 was square following the announcement of a Kes 20.0bn tap sale of FXD1/2016/10Yr and FXD1/2023/5Yr. The Central Bank of Kenya (CBK) is offering KES 40bn by issuing new FXD 1/2023/2 and re-opening FXD 1/2023/5 (4.9 years). The coupon rate for FXD 1/2023/2 will be market determined and FXD 1/2023/5 stands at 16.844%. We expect the 2-year bond to average 17.30%, with cut off at 17.99% and the 5-year bonds to average 18.00%, with cut off at 18.99%. We expect bids of about KES 20bn and accepted amount of KES 15.0bn.

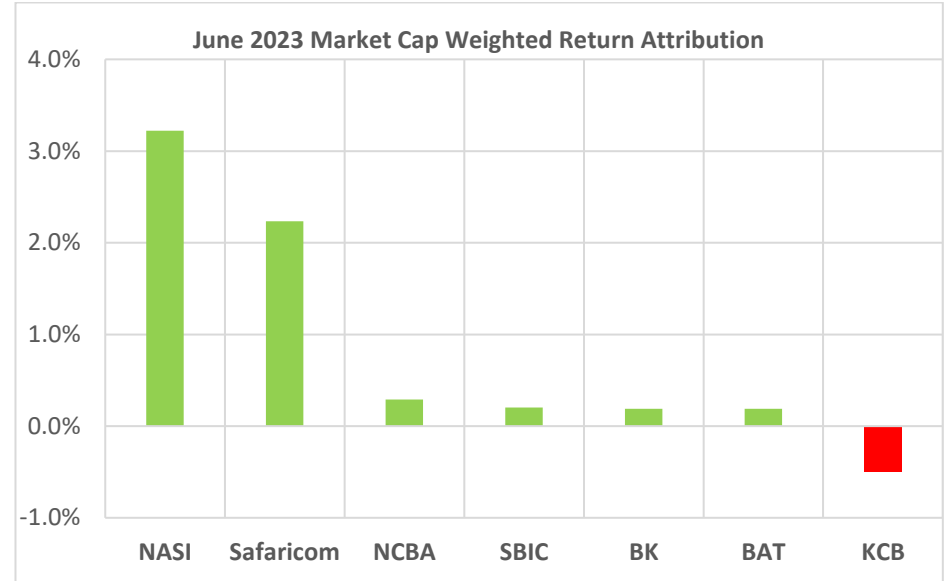
MONTHLY MARKET STATISTICS

	June-22	July-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	April-23	May-23	June-23
Equities													
Market Capitalisation (USD bn)	16.5	18.5	17.8	16.6	16.5	16.2	13.6	13.2	15.5	13.3	12.5	11.7	11.9
NASI return (KES)	-3.3%	13.3%	-2.5%	-6.6%	0.3%	-1.8%	0.8%	-1.2%	0.1%	-10.5%	-4.5%	-3.7%	3.2%
NSE 20 return (KES)	-4.1%	5.5%	2.9%	-1.9%	-2.3%	-2.4%	2.4%	-1.1%	-0.6%	-1.5%	-2.7%	-2.0%	1.8%
Gainers/Decliners ratio (x)	(0.4)	1.1	3.0	(0.6)	(0.6)	(0.5)	0.9	(0.4)	0.5	(0.1)	(0.1)	-	0.8
MSCI EFM ex. ZA (KES)	-4.7%	0.1%	0.1%	-5.7%	-2.2%	3.1%	2.9%	1.1%	3.9%	-1.8%	0.8%	2.1%	3.2%
Equity Turnover (KES bn)	9.6	8.0	5.3	9.4	6.0	6.5	4.9	7.8	4.6	32.4	4.2	6.1	4.1
Equity Turnover (USD m)	81.5	67.4	44.5	77.8	49.6	53.5	40.0	62.1	36.3	244.8	31.6	44.0	29.1
Avg. daily value traded (USD m)	3.88	3.37	2.02	3.71	2.61	2.43	2.11	2.96	1.73	10.64	1.86	2.0	1.5
Foreign institutions participation (%)	56.9	50.0	46.5	34.1	44.1	59.4	58.8	50.7	39.5	29.5	46.2	45.6	38.9
Local institutions participation (%)	33.0	35.2	31.4	47.1	33.9	28.9	29.3	36.7	43.4	64.3	30.8	32.8	35.1
Local individuals' participation (%)	9.3	14.2	18.4	16.9	21.6	10.7	11.2	11.6	14.6	5.6	21.9	20.1	24.4
Local institutions net flow (USD m)	37.7	19.5	9.1	12.6	13.5	5.8	12.4	19.1	1.3	85.6	(0.2)	2.5	(1.8)
Foreign institutions net flow (USD m)	(42.7)	(25.4)	(13.5)	(19.7)	(19.2)	(6.9)	(13.6)	(22.7)	(3.2)	(78.6)	(2.3)	(9.7)	1.1
Fixed Income													
Bond Turnover (KES bn)	65.4	61.9	68.4	66.7	56.7	53.6	48.0	44.7	47.1	70.7	37.3	64.3	45.7
Bond Turnover (USD m)	555	521	570	553	467	441	389	355	372	534	279	465	326
T-Bill performance rate	84%	94%	73%	106%	92%	168%	93%	105%	167%	114%	110%	116%	99%
T-Bill allotment rate	66%	92%	93%	75%	84%	80%	79%	98%	85%	88%	96%	98%	83%
T-Bill offer fill rate	96%	28%	68%	80%	77%	135%	73%	103%	142%	100%	105%	114%	82%
T-Bond performance rate	97%	93%	98%	92%	56%	171%	69%	99%	53%	104%	27%	117%	319%
T-Bond allotment rate	93%	26%	78%	85%	85%	85%	85%	83%	91%	88%	64%	99%	97%
T-Bond offer fill rate	80%	40%	77%	78%	48%	146%	59%	82%	48%	91%	71%	116%	309%
5-year m/m yield change (bps)	354	323	42	10	58	53	70	70	68	60	30	88	100
2 year-91D yield spread (bps)	233	243	276	262	290	276	273	276	273	293	308	408	413
5 year-364D yield spread (bps)	75	85	292	302	347	313	322	302	286	289	306	359	371
5 year-2-year yield spread (bps)	80	120	130	135	140	135	143	123	115	98	100	53	60
5 yr Bond-5 yr IFB yield spread (bps)	205	220	82	93	120	105	103	88	50	-23	-30	-8	-15
10 year-2-year yield spread (bps)	84	94	213	228	173	175	168	148	180	155	145	105	100
Average monthly KES/USD	117.83	118.76	120.01	120.73	121.33	121.44	123.37	125.91	126.85	132.33	133.66	138.49	140.52

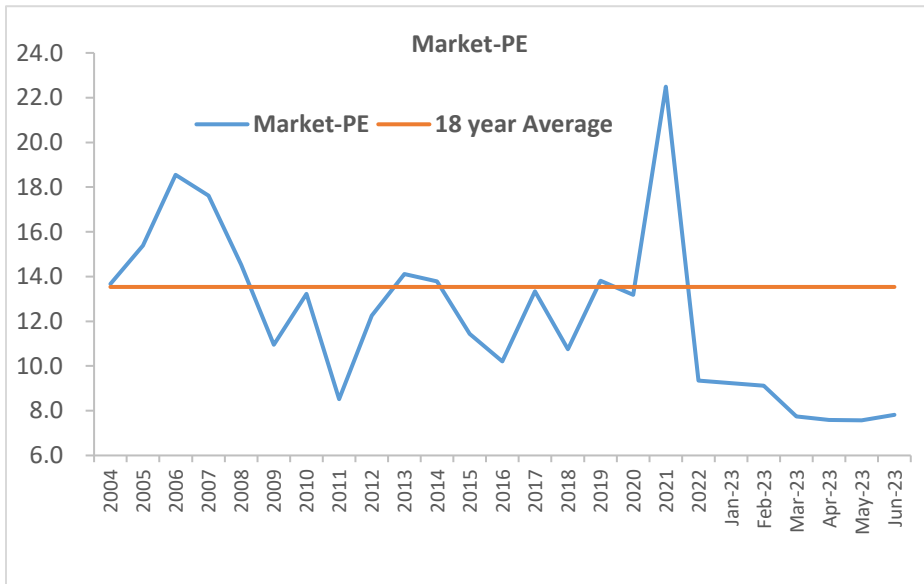
Ytd, Morocco equities outperform; Nigeria relegated over currency devaluation



Safaricom key support to NASI positive return in June

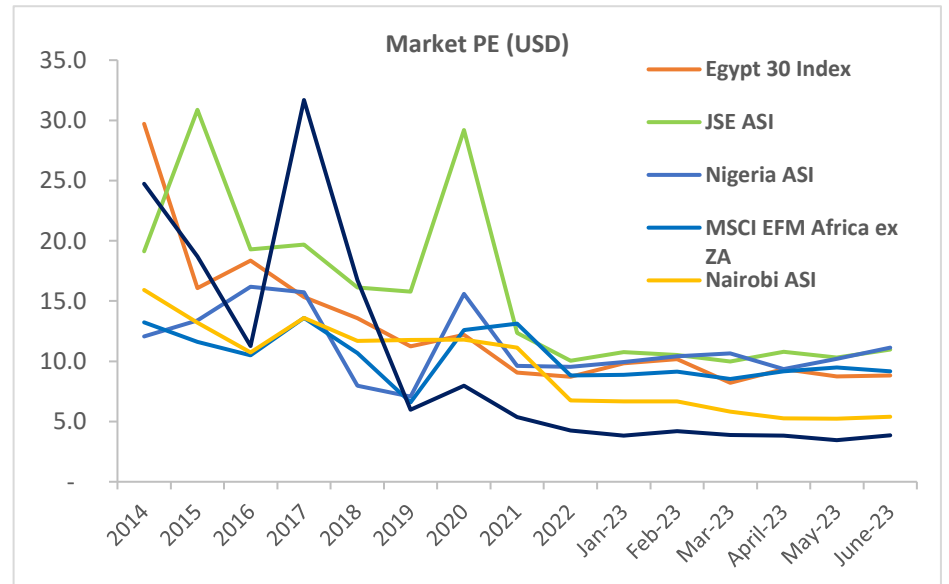


NASI PE improves slightly m/m, at 42.3% discount to historical avg.



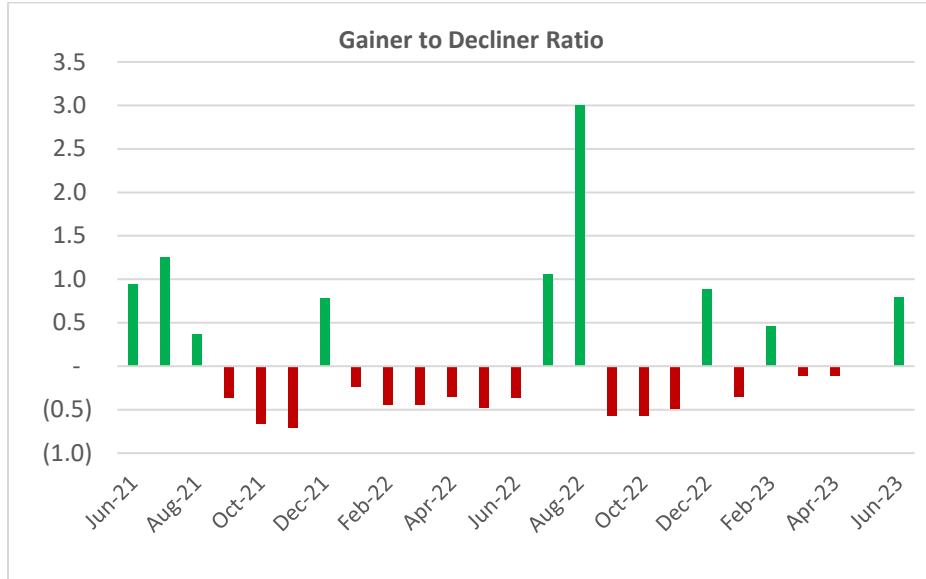
(As reported by the NSE)

Trailing PE at discounts to their 9-year averages – avg. discount of 47.9%

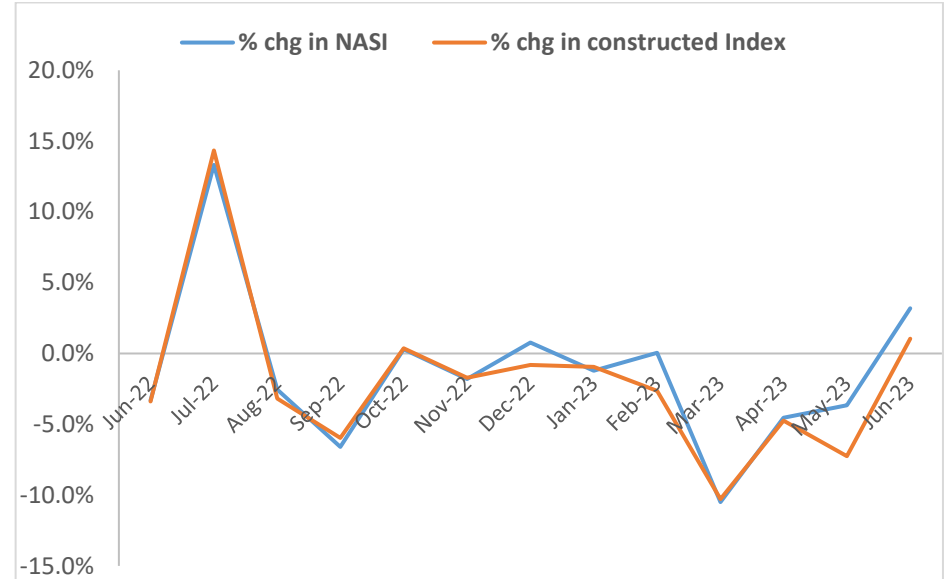


(As reported by Bloomberg)

Upward momentum as gainers outpace laggards by 1.8x

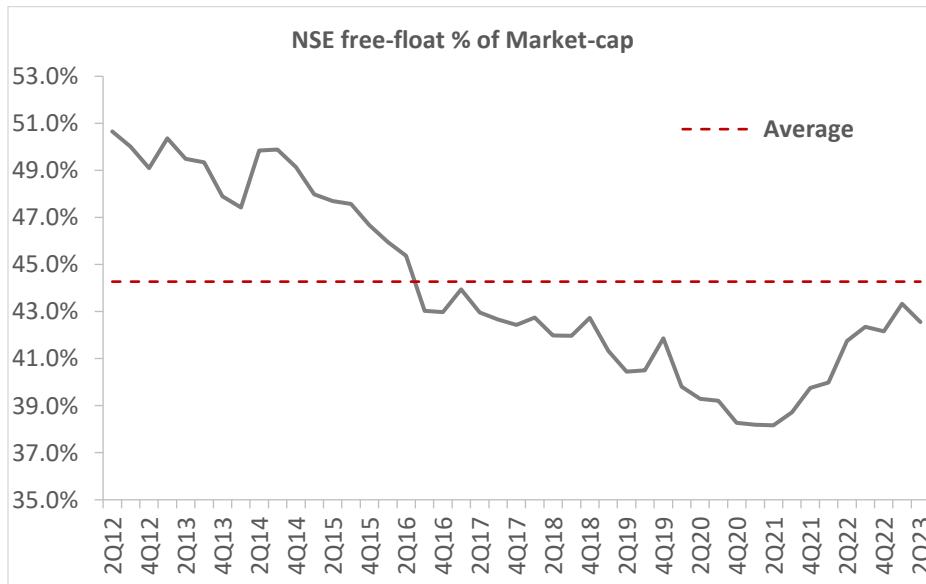


Broad-based advancements boost NASI return

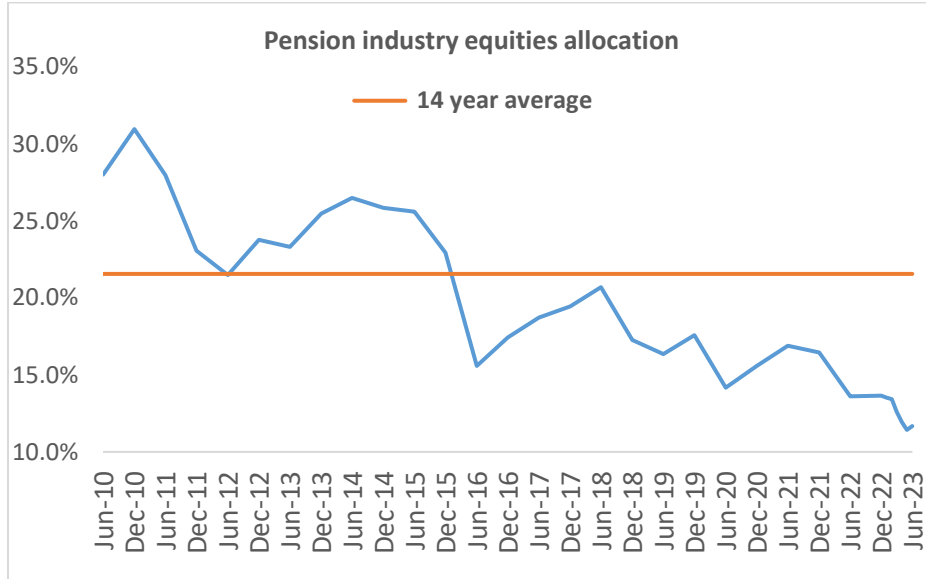


*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

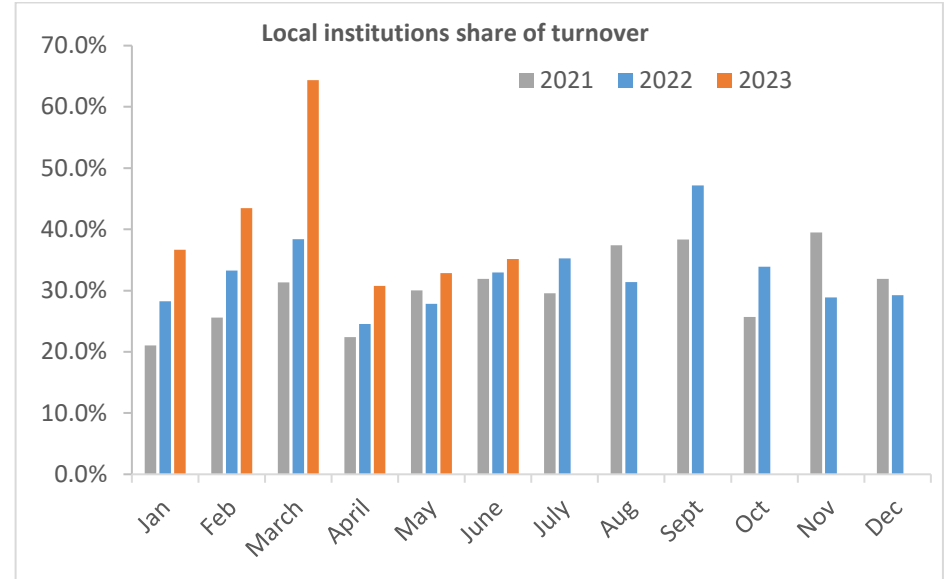
NSE free float as a % of market cap decline quarter-on-quarter



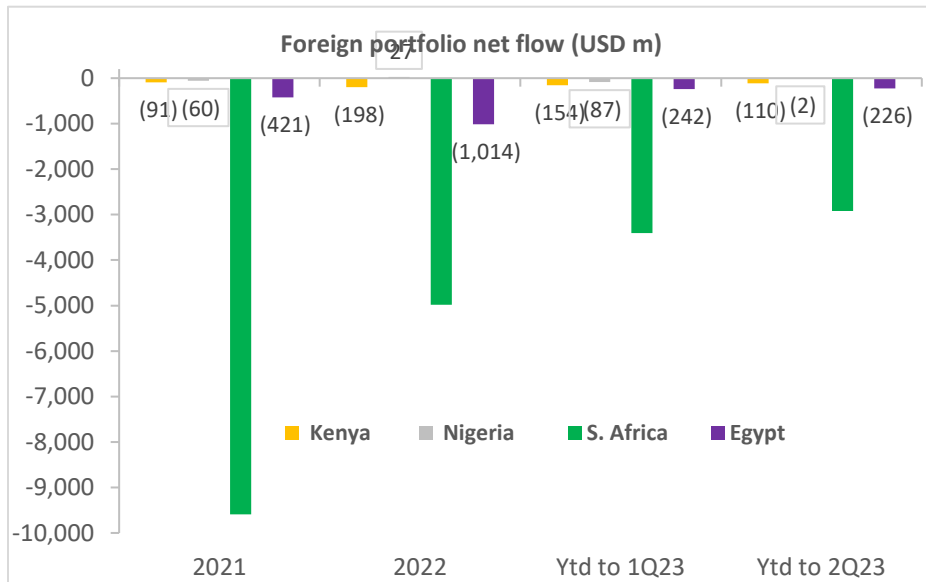
Equities allocation rise marginally month-on-month, driven by share price gains



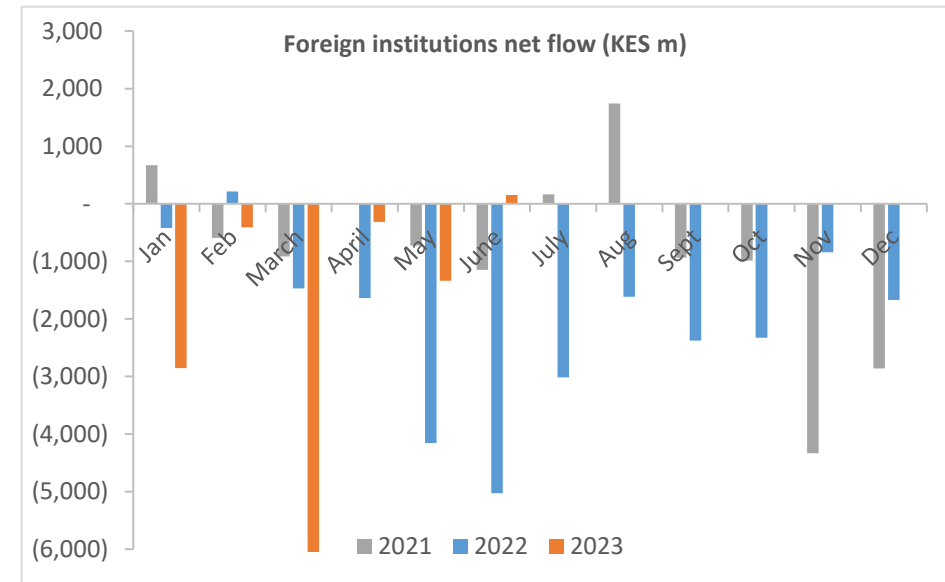
Local institutions' participation levels at a 3-month high



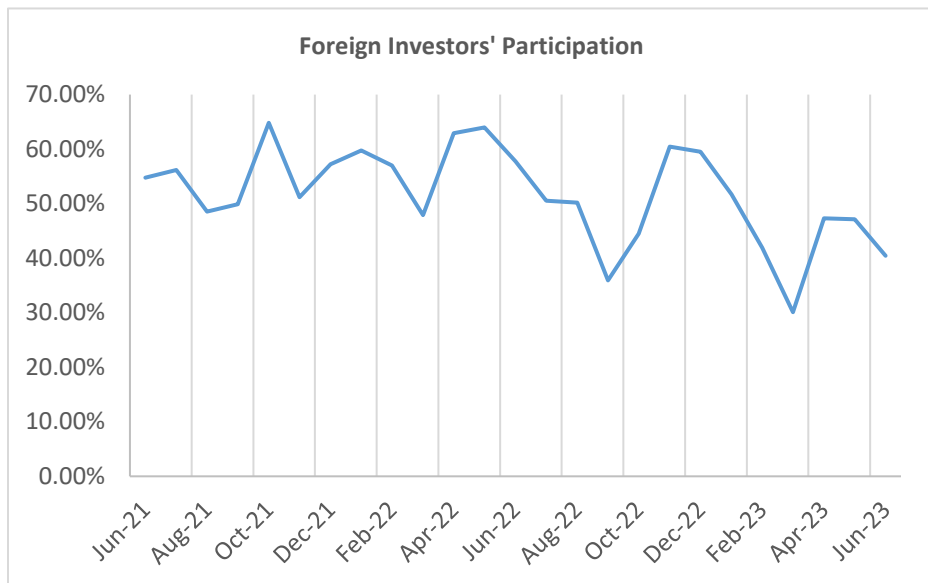
YTD to June 2023, foreign investors remain net sellers across markets in our universe



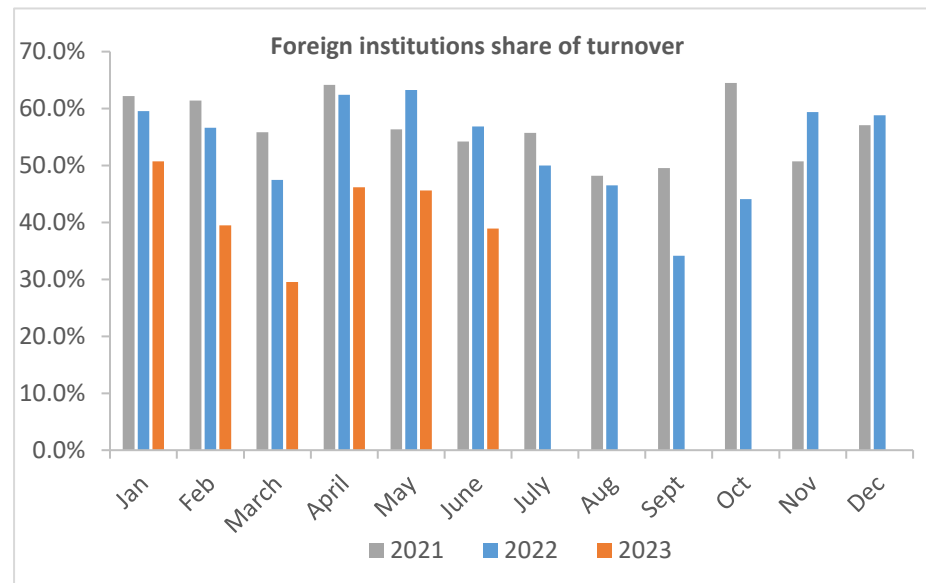
Foreign institutions break a 15-month net selling streak – turned net buyers



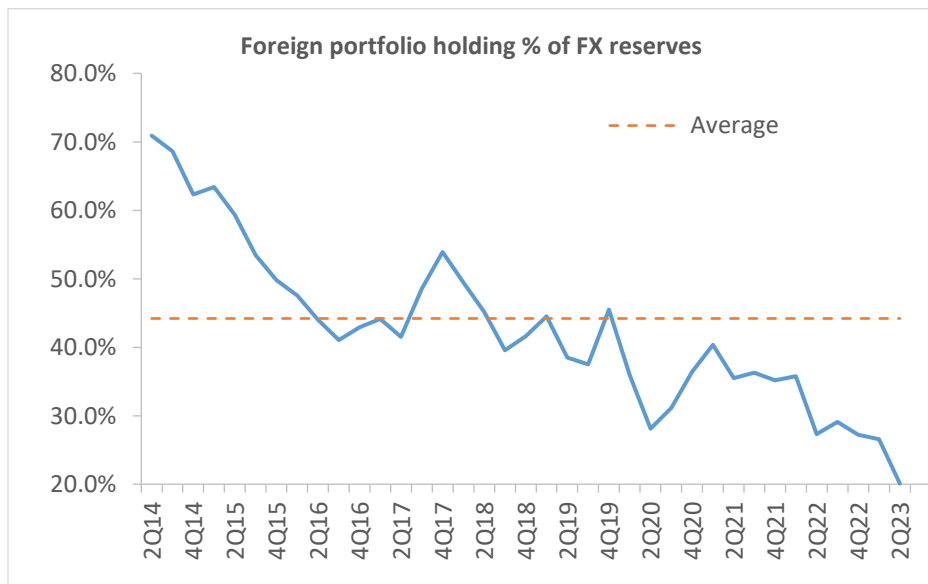
Foreign investors' participation levels at a 3-month low



Foreign institutions' activity decrease to a 3-month low



Foreign portfolio as a % of FX reserves at a record low, 6 straight quarters of decline



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	1Q23	2Q23
Safaricom	44.3%	45.4%	45.9%	45.7%	46.3%	45.2%	43.8%	40.8%	40.4%	39.1%	40.1%	36.6%	35.7%
Equity bank	37.5%	36.1%	36.1%	36.5%	36.7%	36.8%	37.4%	36.5%	36.2%	36.1%	36.7%	35.5%	35.7%
EABL	39.8%	38.2%	37.1%	36.7%	33.8%	33.2%	32.0%	30.5%	30.4%	30.4%	16.1%	42.3%	42.8%
KCB bank	18.3%	16.1%	14.5%	13.9%	14.1%	13.2%	13.4%	12.9%	12.0%	11.5%	11.4%	11.4%	11.3%
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%	48.5%	46.6%
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%	47.9%
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%	16.4%
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%	45.6%
Stanbic bank	41.5%	40.6%	40.7%	40.7%	40.8%	41.9%	41.6%	42.1%	42.1%	42.4%	42.7%	43.4%	44.3%
DTB bank	35.7%	35.5%	35.3%	35.2%	35.0%	35.7%	35.3%	35.7%	35.7%	35.6%	36.4%	35.3%	35.1%
Centum Investment	13.8%	12.5%	11.9%	11.0%	10.9%	10.9%	9.6%	9.0%	8.6%	8.6%	9.0%	8.5%	8.5%
StanChart bank	10.8%	10.8%	9.5%	7.1%	6.0%	5.4%	5.5%	5.5%	5.5%	5.5%	5.4%	5.6%	5.7%
Britam Insurance	14.4%	14.1%	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

	June-22	July-22	Aug-22	Sept-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	April-23	May-23	June-23
Safaricom	(3,719)	(1,181)	(1,220)	(2,101)	(1,651)	(260)	(684)	(647)	(129)	(1,982)	(531)	(1,046)	35
Equity Bank	(1,007)	(549)	(183)	65	(489)	(112)	(473)	(216)	(92)	360	436	(77)	(77)
EABL	(183)	(103)	38	11	(71)	(150)	(176)	54	2	(9,226)	(98)	119	170
KCB bank	(98)	(967)	(224)	(360)	(74)	(60)	(160)	(23)	200	33	(2)	12	(109)
BK Group	(0)	(8)	(2)	(0)	0	(2)	(0)	(3)	-	-	(1)	-	25
BAT	(23)	(105)	(11)	(1)	(14)	(374)	(140)	(86)	(415)	(240)	(83)	(150)	(102)
Britam	(7)	(5)	(8)	(0)	(0)	(2)	(2)	1	-	-	-	-	0
I&M bank	(3)	2	1	30	1	0	(1)	0	7	(5)	(8)	(10)	(6)
Jubilee	(1)	(1)	1	9	(0)	(2)	(3)	(2)	(2)	3	16	(1)	(2)
Stanbic bank	(0)	-	(0)	33	(1)	-	(0)	32	99	0	0	-	129
DTB bank	47	(4)	(10)	9	(0)	(4)	(5)	(3)	(16)	(1)	(1)	(5)	(5)
KenGen	(8)	(11)	(28)	(21)	(16)	(8)	(1)	(0)	(1)	0	(3)	(0)	(1)
WPP ScanGroup	-	-	(0)	-	-	(0)	(0)	0	0	0	0	-	(0)
Centum	(8)	(19)	(1)	(0)	(0)	0	0	0	(3)	(2)	(1)	(0)	(0)
StanChart bank	(11)	2	1	(1)	(1)	(1)	(2)	0	12	(0)	(1)	8	11
BBK bank	(0)	1	(3)	0	0	110	(0)	39	43	123	0	25	16
Co-op Bank	(3)	(15)	5	16	(1)	(5)	(1)	0	(0)	5	(1)	(21)	3
NSE	0	0	(0)	(3)	(1)	(1)	(1)	(4)	(1)	(0)	(3)	(1)	5
Market	(5,036)	(2,972)	(1,656)	(2,337)	(2,319)	(887)	(1,664)	(859)	(382)	(10,692)	(283)	(1,312)	154

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

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