

## MONTHLY MARKET COMMENTARY (OCT 2021): NSE 20 halts a 6-month gaining streak; banking stocks weigh on NASI return

### KEY HIGHLIGHTS

#### EQUITIES

- Last month, market turnover grew a modest 0.4% m/m to stand at USD 92.4m (KES 10.3bn). While local institutions pulled back from the market, foreign investors rebounded – foreign investors' participation levels hit a 12-month high of 64.8%, up from 49.9% the prior month.
- As the advance/decline ratio deteriorated further to -0.7x from -0.4x, the NASI lost another 0.2% m/m to settle at 177.96 as stock prices declined across board. Most stocks within the banking (only 2 counters gained m/m) and manufacturing sectors (losses led by EABL and BAT) ended the month in negative territory.
- Halting a 6-month winning streak, the NSE 20 (-3.4% m/m) registered the largest single monthly drop in the last seven months to finish at 1,961.33.
- For the second consecutive month, KCB bank traded down 6.0% m/m, Co-op bank marked down 6.4% m/m and Equity bank fell 2.1% m/m driven by foreign investors' sell-off. Sustaining a 5-month losing streak, EABL came off 2.8% m/m as foreign investors remained net sellers of the counter for the last five consecutive months.
- However, Safaricom returned 1.7% m/m, reversing the previous losses, on account of increased demand from foreign investors, offsetting some of the overall market losses.
- Consequently, for the second successive month, the market PE ratio compressed by 0.4% m/m to 20.9x by end of October 2021. However, at current levels, the market PE implies a 58.2% premium to its 17-year historical average.
- Foreign investors remained overall net sellers (USD 9.2m, KES 1.0bn) for the second month in a row. KCB bank (USD 6.1m, KES 687.2m), Equity bank (USD 2.2m, KES 249.5m) and EABL (USD 1.2m, KES 139.1m) posted the highest net foreign outflows. On the other hand, Safaricom (USD 1.4m, KES 154.2m) recorded the highest net foreign inflows.
- Equities allocation by pension funds reduced marginally to 16.4% in October 2021, down from 16.5% registered in September 2021 on account of modest share price declines. However, local institutions remained net buyers of equities for the second consecutive month.
- Foreign portfolio holding as a % of CBK reserves in October 2021 went up m/m to 37.0% (36.3% in September 2021) as CBK FX reserves declined another 2.8% m/m to USD 9.2bn. However, the foreign portfolio holdings fell 0.8% m/m to USD 3.4bn, driven by net foreign outflows and weakness in share prices.
- On a YTD basis, Ghana equities market continued its outperformance at 42.2% market return. While the Nigerian equities market lagged other comparable SSA markets, we note the YTD return by end of October 2021 turned to positive territory by returning 0.9%.

#### FIXED INCOME

- The bond market witnessed declined activity in October 2021 largely due to general illiquidity in the money markets. The on-the-run 15yr (FXD1/2013/15Yr) garnered secondary market interest at the 11.850%-11.900% level, while the longer on-the-run 25yr, FXD1/2021/25Yr largely traded between 13.700%-13.775%.
- The infrastructure bonds witnessed good demand for the long-dated issues as offshore investors took profit and local buyers took up positions. The latest on-the-run 21yr, IFB1/2021/21Yr, traded largely between 12.500%-12.650%, while the existing 18yr, IFB1/2021/18Yr traded between 12.250%-12.500%. The shorter 11yr, IFB1/2020/11Yr, traded 10.800%-11.000%, while the 9yr, IFB1/2020/9Yr realizing levels 10.800%-11.000% as demand dwindled.
- During the month, Treasury opted to issue a new FXD1/2021/5Yr and reopened FXD1/2019/20Yr, targeting KES 50.0bn (with KES 10.0bn green-shoe option). The coupon rate for the FXD1/2019/20Yr was 12.873%, while the coupon rate for FXD1/2021/5Yr was market determined.
- The FXD1/2021/5Yr and FXD1/2019/20Yr yielded 11.277% and 13.408% respectively and the cut-off yield were 11.450% and 13.599% respectively. Treasury managed to raise a total of KES 69.5bn from the auction without a corresponding maturity on 15<sup>th</sup> November 2021 to offset.
- In the fourth (4) month of FY2021/22, we estimate that Treasury has borrowed ~KES 266.3bn versus ~KES 269.3bn (down -1.1%).

## MARKET OUTLOOK

### EQUITIES:

- We advocate for a BUY on EABL predicated on top-line growth and margins improvement as on-trade business resumes and growth within the premium spirits business is sustained. We expect the increased volume performance and resumption in dividends in FY22 to drive share price performance. At current levels of KES 160.00 per share (a 7-month low), EABL is trading at 17.2% below its 2021 peak in June and just 7.9% above its 12-month low. Going by our prevailing fair value estimate of KES 235.00 per share, EABL potential upside stands at 46.9%. DTB bank is also trading near its 12-month low at the current levels of KES 57.50 per share and a price to book multiple of 0.2x, which provides an attractive entry point as we expect banks to outperform going forward, driven by loan growth, NIMs improvement and reduced cost of risk, boosting return on equity.

### FIXED INCOME:

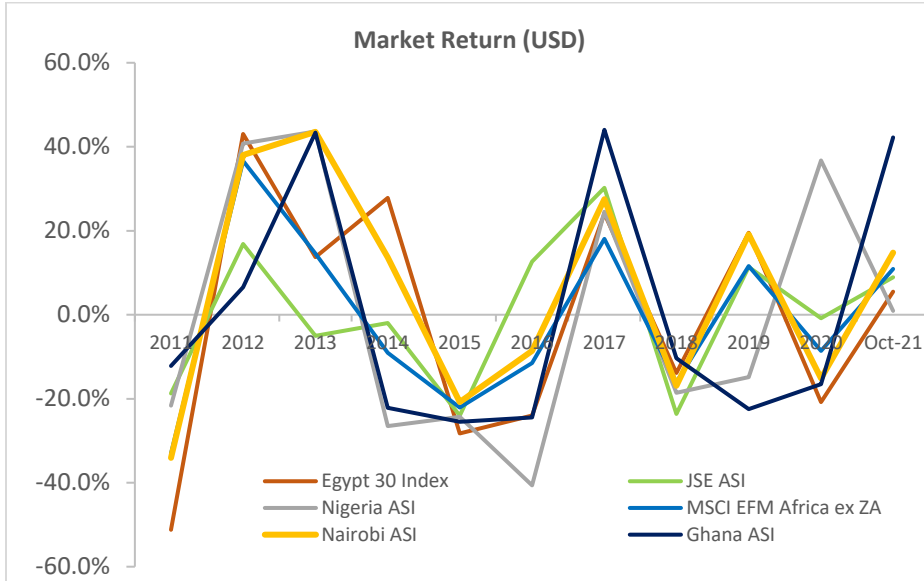
- Money market liquidity toward mid-November 2021 is improving as the new CRR cycle and the bond market forum is schedule to take place on Friday 19<sup>th</sup> November, 2021 to decide on the December 2021 bond issues.

MONTHLY MARKET STATISTICS

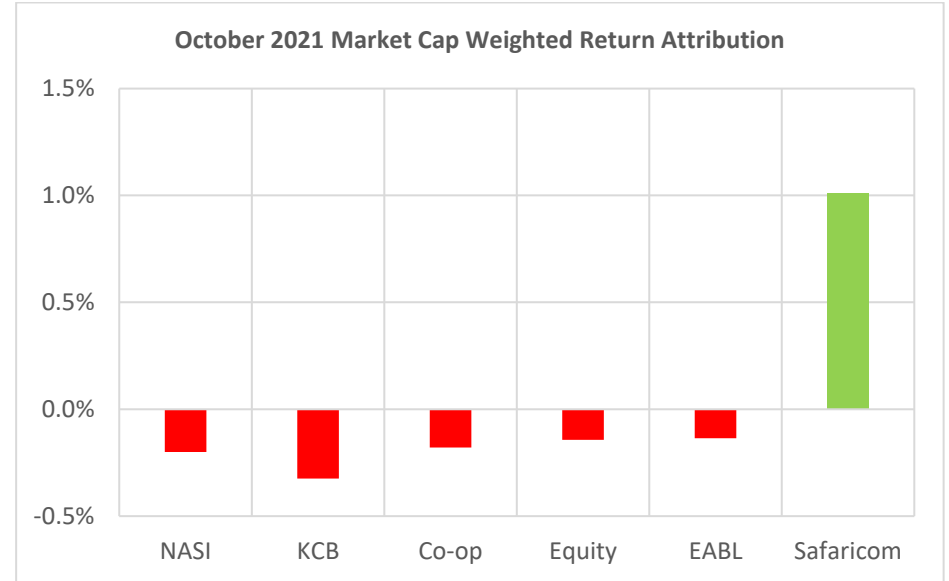
	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar -21	Apr-21	May-21	June-21	July-21	Aug-21	Sept-21	Oct-21
<b>Equities</b>													
Market Capitalisation (USD bn)	19.8	20.4	21.2	21.8	23.1	22.2	23.7	24.2	25.1	25.5	25.9	25.1	25.0
NASI return (KES)	0.1%	3.7%	4.8%	2.3%	6.3%	-4.1%	6.6%	0.5%	2.1%	2.3%	2.7%	-2.2%	-0.2%
NSE 20 return (KES)	-3.5%	-1.3%	6.2%	0.7%	1.8%	-3.6%	1.1%	0.3%	3.0%	2.4%	2.4%	0.5%	-3.4%
Gainers/Decliners ratio (x)	(0.3)	(0.5)	2.3	(0.1)	0.1	(0.3)	0.0	(0.3)	0.9	1.3	0.4	(0.4)	(0.7)
MSCI EFM ex. ZA (KES)	2.5%	5.9%	3.2%	2.5%	-1.2%	-3.3	3.1%	0.4%	0.3%	2.7%	-0.2%	0.3%	5.1%
Equity Turnover (KES bn)	5.9	11.4	10.2	8.9	10.8	12.1	9.9	14.2	14.0	9.3	11.9	10.2	10.3
Equity Turnover (USD m)	54.1	103.5	92.7	80.6	98.5	110.2	91.6	131.6	129.4	85.4	107.9	92.6	92.4
Avg. daily value traded (USD m)	2.6	4.9	4.2	4.0	4.9	4.8	4.6	6.6	6.16	4.07	4.90	4.21	4.86
Foreign institutions participation (%)	66.3	67.7	61.2	62.8	62.0	55.8	64.2	56.3	54.2	55.7	48.2	49.6	49.6
Local institutions participation (%)	17.4	22.6	27.9	21.0	25.6	31.3	22.4	30.1	31.9	29.6	37.4	38.3	25.7
Local individuals' participation (%)	14.5	9.4	10.4	16.2	12.4	12.3	12.8	13.2	13.4	14.3	14.1	11.7	9.5
Local institutions net flow (USD m)	12.4	16.4	6.6	(6.6)	1.7	8.0	1.7	16.1	3.8	1.8	(10.6)	8.9	8.8
Foreign institutions net flow (USD m)	(11.9)	(10.8)	(3.2)	6.1	(5.4)	(8.3)	0.0	(6.7)	(10.6)	1.5	15.9	(8.5)	(8.4)
<b>Fixed Income</b>													
Bond Turnover (KES bn)	62.7	48.5	58.1	54.4	77.0	67.6	67.6	107.0	96.6	95.8	174.3	118.2	66.2
Bond Turnover (USD m)	576.9	444.2	525.9	495.4	701.3	617.0	626.7	994.9	895.7	881.8	1,586	1,070	596
T-Bill performance rate	97.0%	96.6%	47.0%	70.5%	87.9%	115.6%	65.4%	136.2%	150.7%	107%	174%	67%	58%
T-Bill allotment rate	90.8%	96.0%	90.6%	93.1%	93.4%	87.8%	93.9%	64.0%	52.0%	87%	77%	100%	94%
T-Bill offer fill rate	88.0%	92.8%	42.6%	65.6%	82.1%	101.5%	61.4%	87.1%	78.4%	92%	134%	67%	54%
T-Bond performance rate	138.3%	106.5%	55.4%	248.7%	77.6%	97.4%	147.6%	126.6%	216.4%	140%	72%	202%	93%
T-Bond allotment rate	86.8%	96.5%	82.0%	73.4%	81.5%	99.2%	92.5%	64.8%	30.3%	76%	98%	71%	94%
T-Bond offer fill rate	120.1%	102.7%	45.4%	182.6%	63.3%	96.6%	136.6%	82.0%	65.7%	107%	70%	142%	87%
5-year m/m yield change (bps)	10	-20	20	35	10	0	0	-10	-10	-10	-10	40	45
2 year-91D yield spread (bps)	268	267	232	250	242	226	239	246	259	282	249	240	253
5 year-364D yield spread (bps)	250	210	216	209	159	134	123	134	277	307	308	301	260
5 year-2-year yield spread (bps)	110	85	125	111	125	125	110	90	105	120	150	160	140
5 yr Bond-5 yr IFB yield spread (bps)	75	65	60	60	50	40	30	20	50	75	90	160	175
10 year-2-year yield spread (bps)	270	260	275	251	285	305	300	280	295	320	330	320	290
FTSE NSE KES Gov. bond price index USD return	0.7%	-1.0%	-0.5%	-0.4%	0.0%	0.1%	1.2%	0.0%	-0.2%	-1.2%	-1.2%	-0.3%	-0.7%
Average monthly KES/USD	108.6	109.3	110.4	109.8	109.8	109.5	107.8	107.6	107.85	108.6	109.9	110.5	111.2
Foreign holdings in domestic debt stock*	4.8%	NA	NA	NA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign debt holding (KES bn) *	161.9	NA	NA	NA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Average Duration to Maturity:</b>													
All government securities (years)	5.6	5.6	5.6	5.6	5.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Treasury bonds only (years)	8.4	8.7	8.6	8.8	8.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

\*data currently unavailable

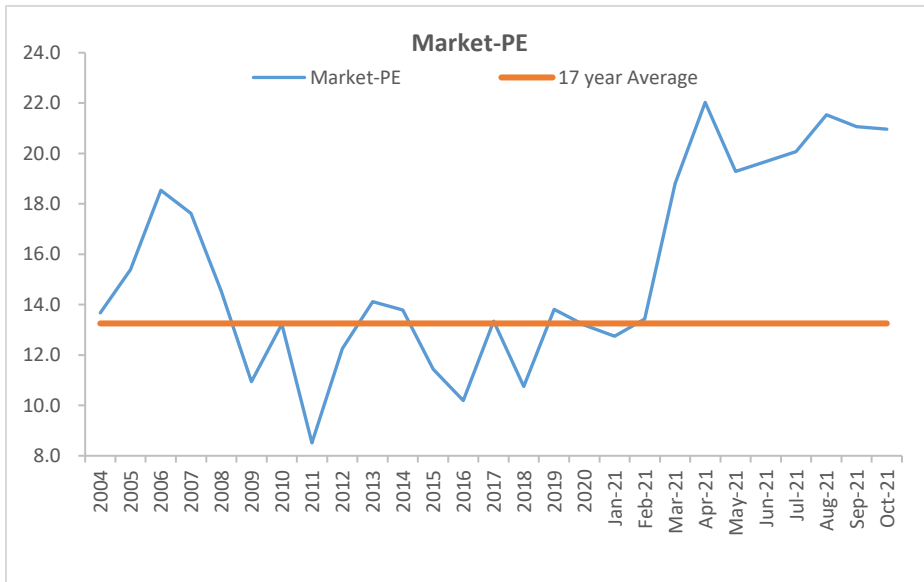
YTD, Egyptian and Nigerian equities return turn to positive territory



Most large cap stocks suffer losses, except for Safaricom, weighing on NASI return

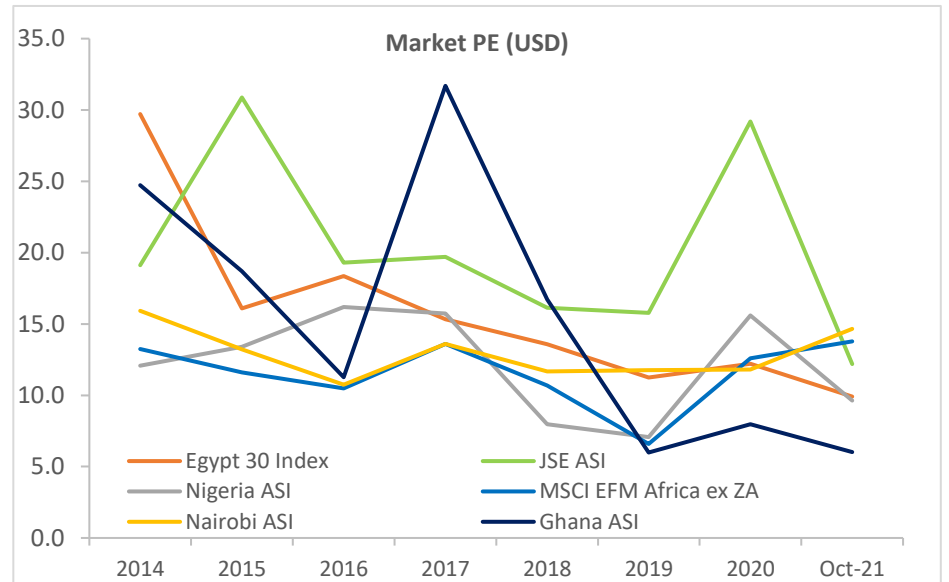


NASI PE ratio shrinks another 0.4% m/m, 58.2% premium above historical average



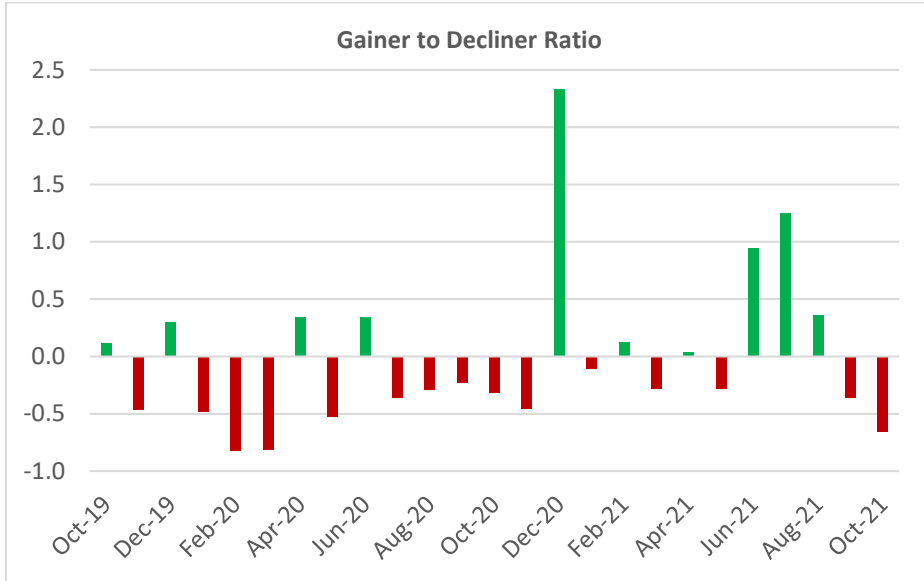
(As reported by the NSE)

NSE trailing PE at 6.4% premium to MSCI EFM Africa ex Za

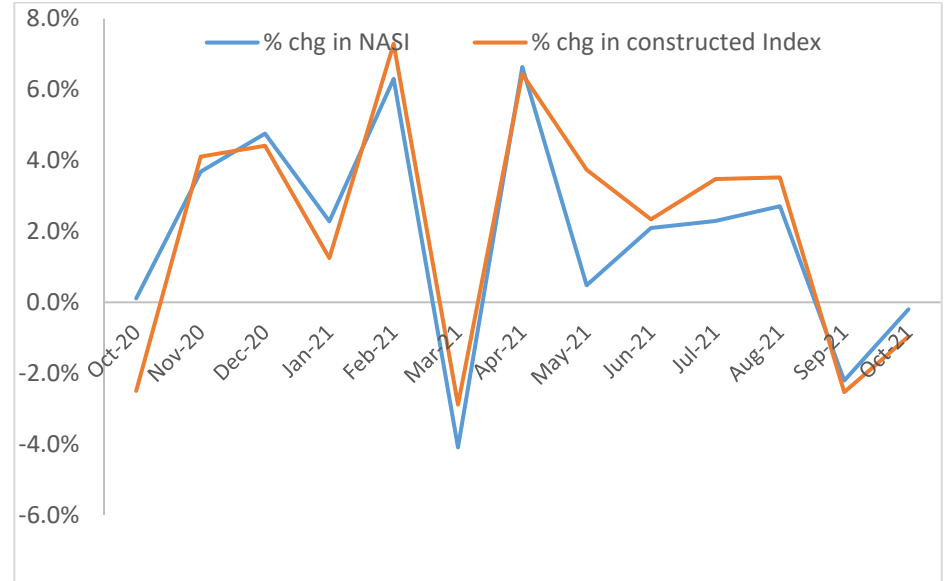


(As reported by Bloomberg)

Continued downward pressure on share prices, laggards outpace advancers by 2.9x

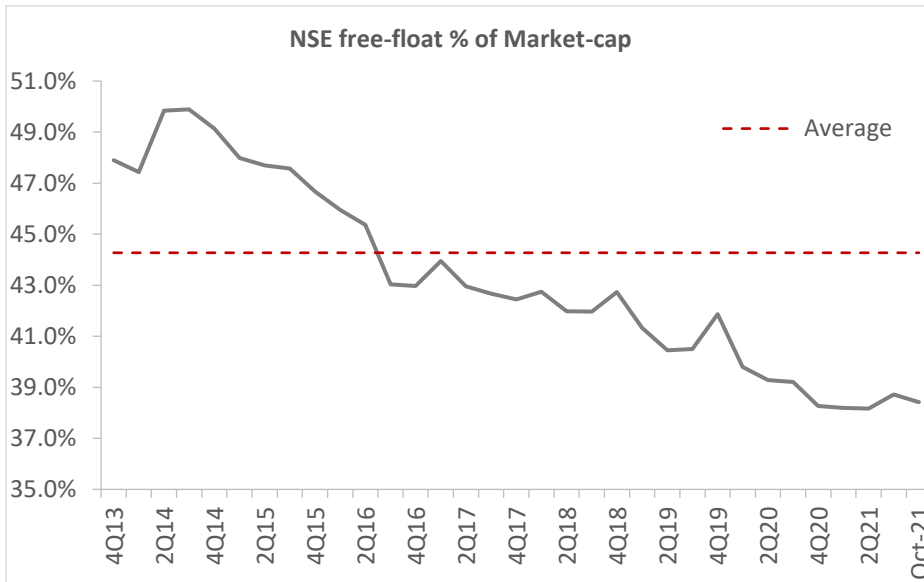


Share price declines across board, mainly driven by banking stocks

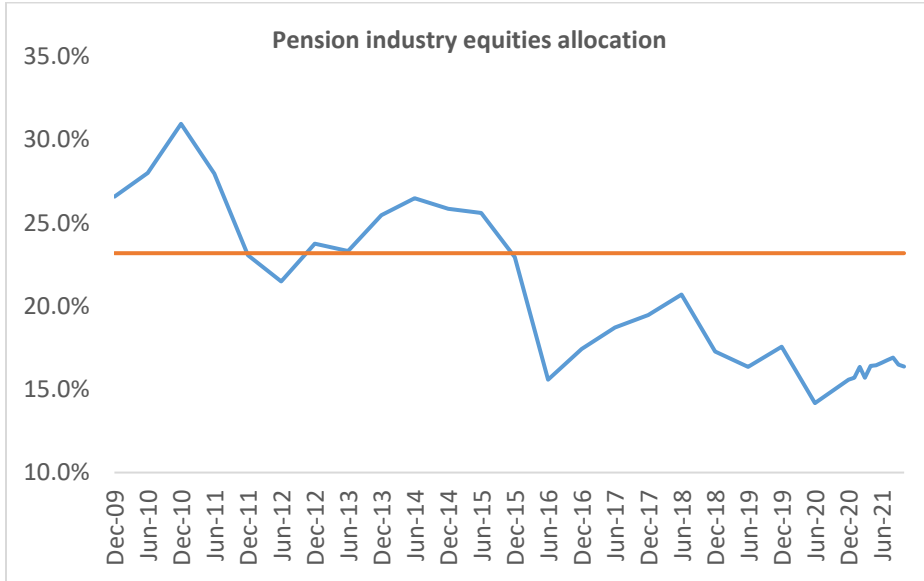


\*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

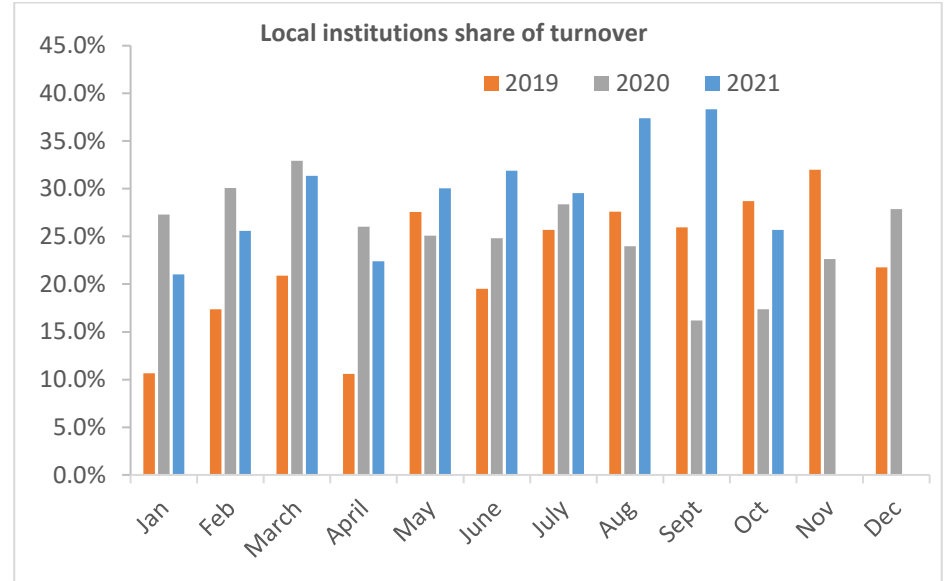
NSE free float as a % of market cap falls m/m, driven by reduced NSE free float



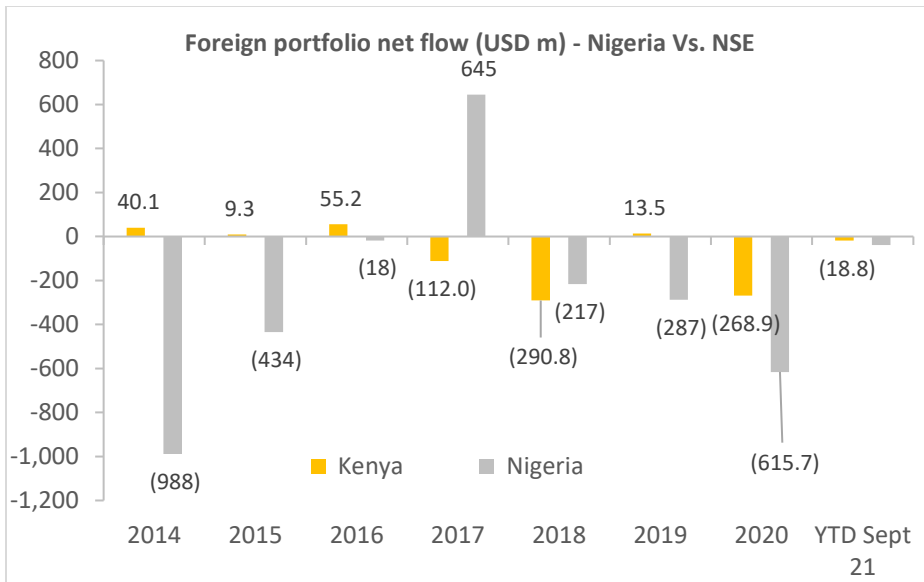
Equities allocation decline marginally m/m, largely driven by share price declines



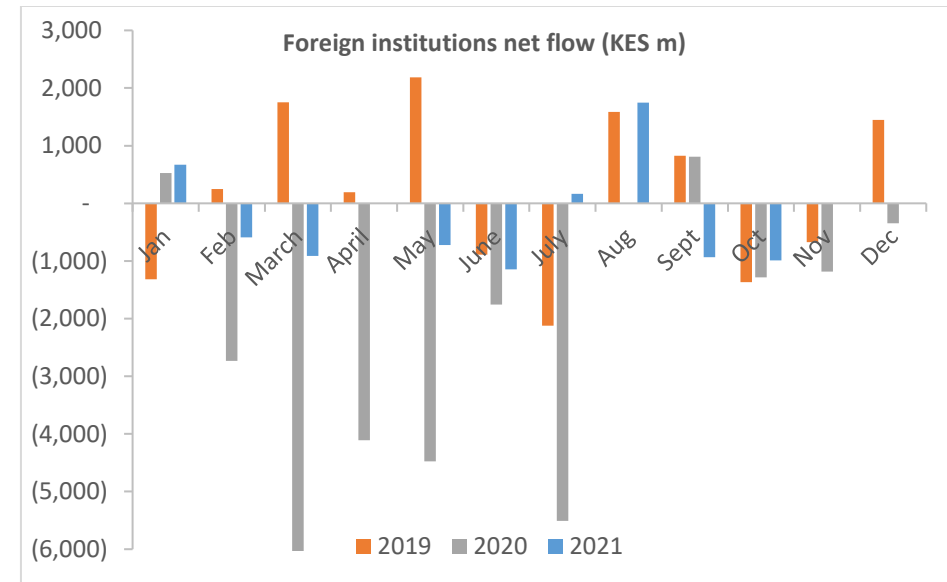
Local institutions' activity drops to a 7-month low, down from a 40-month high



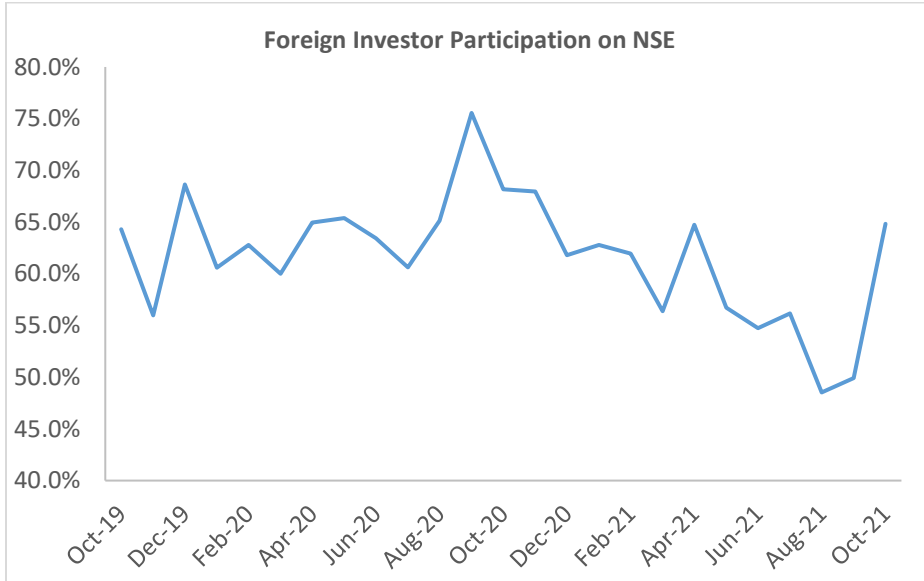
Foreign investors remain net sellers on Nigerian equities for the third straight month



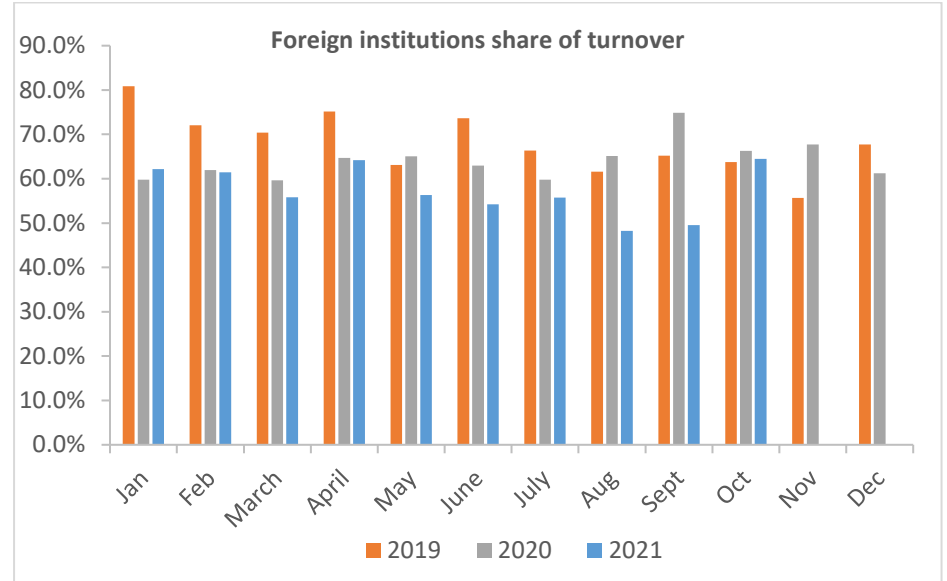
Foreign institutions remain net sellers for the second successive month



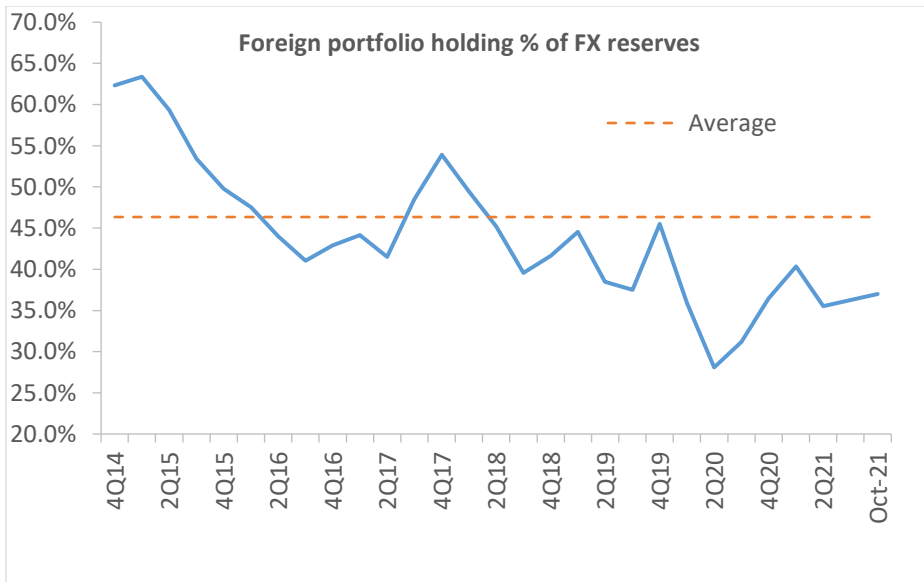
Foreign investors' participation hits a 12-month high



Foreign institutions share of turnover at the highest levels since Nov 2020



Foreign portfolio as a % of FX reserves rises m/m on the back of reduced FX reserves



**FOREIGN FREE FLOAT TO TOTAL FREE FLOAT PER COUNTER**

Foreign free float/total free float	4Q15	4Q16	4Q17	4Q18	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	Oct-21
Safaricom	50.1%	52.1%	50.4%	45.4%	46.8%	45.0%	44.8%	44.3%	45.4%	45.9%	45.7%	46.3%	46.3%
Equity bank	43.1%	46.2%	46.2%	43.8%	41.8%	41.2%	38.2%	37.5%	36.1%	36.1%	36.5%	36.7%	36.6%
EABL	52.5%	49.1%	45.0%	40.4%	42.0%	41.2%	39.9%	39.8%	38.2%	37.1%	36.7%	33.8%	33.6%
KCB bank	35.9%	34.4%	35.4%	27.5%	26.7%	22.8%	19.6%	18.3%	16.1%	14.5%	13.9%	14.1%	13.5%
BK Group	n/a	n/a	n/a	100.0%	100.0%	100.0%	100.0%	99.9%	99.6%	99.5%	98.9%	98.8%	98.8%
BAT Kenya	57.7%	60.1%	59.5%	61.5%	64.0%	63.9%	62.6%	62.1%	59.8%	58.5%	57.7%	56.8%	56.5%
KenGen	4.8%	24.2%	43.8%	49.4%	51.2%	51.6%	51.5%	51.2%	50.3%	49.8%	49.1%	49.3%	49.4%
I&M bank	33.5%	35.7%	33.6%	32.8%	32.6%	32.6%	32.6%	32.6%	32.7%	32.7%	16.4%	16.4%	16.4%
Jubilee Insurance	48.5%	48.7%	49.6%	48.6%	45.3%	44.6%	44.7%	45.2%	45.2%	45.4%	45.5%	45.7%	45.6%
Stanbic bank	44.3%	50.5%	56.2%	50.3%	48.9%	46.5%	43.6%	41.5%	40.6%	40.7%	40.7%	40.8%	40.8%
DTB bank	34.7%	34.7%	35.6%	36.5%	35.1%	35.7%	36.0%	35.7%	35.5%	35.3%	35.2%	35.0%	35.1%
Centum Investment	9.0%	10.4%	13.1%	13.7%	14.8%	14.7%	14.5%	13.8%	12.5%	11.9%	11.0%	10.9%	10.4%
StanChart bank	4.3%	3.6%	4.9%	9.8%	11.3%	11.2%	10.7%	13.8%	12.5%	9.5%	7.1%	6.0%	5.9%
Britam Insurance	49.8%	6.6%	24.2%	76.5%	78.6%	75.2%	14.6%	10.8%	10.8%	14.0%	13.7%	13.7%	13.7%
WPP ScanGroup	55.1%	64.8%	72.7%	91.0%	95.4%	95.9%	95.5%	80.6%	78.1%	78.1%	76.5%	65.1%	65.1%

*Companies with foreign free float holding of over USD 10m*



MONTHLY NET FOREIGN FLOWS PER COUNTER

	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	June-20	July-21	Aug-21	Sept-21	Oct-21	YTD
Safaricom	368	1,323	1,684	1,735	975	(764)	480	(173)	(1,058)	442	2,724	(804)	154	3,710
Equity Bank	(415)	(540)	(853)	(100)	(56)	218	(106)	(70)	767	36	325	160	(250)	925
EABL	(316)	(480)	(219)	(181)	(324)	(148)	(39)	102	(385)	(146)	(1,009)	(787)	(139)	(3,055)
KCB bank	(374)	(985)	(788)	(673)	(967)	49	(102)	(494)	(134)	(38)	(80)	384	(687)	(2,743)
BK Group	(4)	17	(79)	-	(21)	(0)	(98)	0	(39)	(21)	-	(2)	0	(181)
BAT	(34)	(286)	(13)	(61)	(3)	(179)	(74)	(12)	(49)	(37)	(124)	(17)	(48)	(604)
Britam	(12)	(16)	0	(31)	-	(14)	3	2	0	(10)	0	3	(0)	(47)
I&M bank	(22)	1	31	5	0	0	2	4	(1)	3	6	(0)	(3)	17
Jubilee	(1)	(0)	(1)	(10)	(25)	50	25	1	(5)	(4)	(3)	34	(10)	53
Stanbic bank	(56)	(30)	-	(1)	27	(15)	0	-	0	(0)	0	13	(4)	20
DTB bank	(2)	(17)	(7)	(7)	(5)	(14)	(4)	(4)	3	(20)	0	1	1	(49)
KenGen	(32)	(27)	(18)	(6)	(21)	(9)	(36)	(8)	(8)	(0)	8	6	12	(62)
WPP ScanGroup	(10)	(4)	(7)	(2)	(1)	0	(6)	(5)	(0)	(22)	(34)	(10)	0	(80)
Centum	(135)	14	-	(4)	(28)	(44)	(18)	(9)	(25)	1	(0)	(11)	(43)	(180)
StanChart bank	(6)	(4)	(27)	(40)	(209)	(42)	(81)	(40)	(58)	(64)	(83)	5	(12)	(624)
BBK bank	(55)	(147)	(22)	(16)	48	(5)	(0)	(3)	(10)	35	33	62	11	155
Co-op Bank	(19)	(40)	(43)	(4)	(1)	(27)	10	(6)	(48)	(1)	19	0	(1)	(59)
NSE	0	2	0	4	8	0	0	3	11	0	1	1	0	28
<b>Market</b>	<b>(1,128)</b>	<b>(1,186)</b>	<b>(354)</b>	<b>621</b>	<b>(621)</b>	<b>(976)</b>	<b>(31)</b>	<b>(782)</b>	<b>(1,196)</b>	<b>155</b>	<b>1,721</b>	<b>(942)</b>	<b>(1,021)</b>	<b>(3,071)</b>

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

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