

MONTHLY MARKET COMMENTARY (Sept 2022): NASI trailing PE dips to an 11-year low

KEY HIGHLIGHTS

EQUITIES

- Halting a 3-month declining streak, equity turnover surged 75.8% m/m to end at KES 9.4bn (USD 77.8m) driven by increased local trading.
- The Advance-Decline ratio deteriorated to -0.6x (3.0x in August 2022) as laggards exceeded gainers by 2.3X.
- On account of declines by large-cap stocks, the NASI came off 6.6% m/m to 128.41 for the second successive month. However, after two months of straight wins, the NSE 20 edged down 1.9% m/m to 1,717.68.
- Key detractors to NASI return remained Safaricom (-10.7% m/m) and EABL (-6.0% m/m) driven by foreign and local selling, respectively. Safaricom touched a 2-months low and EABL traded down to a 41-day low. On account of local demand, NCBA bank (+4.1% m/m) rallied for the third consecutive month and KCB bank (+1.5% m/m) finished higher in the month, supporting the equities market. We highlight that Safaricom, KCB bank and NCBA bank announced cuts on the maintenance fees of their FULIZA product.
- Notably, on weaker investor's sentiment, the NASI trailing PE ratio further contracted by 6.6% m/m to 9.6x by the end of September 2022 – touched an 11-year low. Consequently, the equities market cheapened as the PE discount to its 18-year average settled at 31.3% - have stayed in discount for the last six months.
- Foreigner investors emerged net sellers at USD 19.4m (KES 2.3bn) for the seventh month in a row. Safaricom (USD 17.4m, KES 2.1bn) and KCB bank (USD 3.0m, KES 359.6m) marked the highest net foreign outflows. On the other hand, Equity bank (USD 0.5m, KES 64.5m) and Stanbic bank (USD 0.3m, KES 32.7m) registered the highest net foreign inflows.
- For the second consecutive month, share price weakness drove down equities' allocation by pension funds to a 4-month low of 13.0% in September 2022 compared to an estimated 13.8% in August 2022. Notably though, local institutions were net buyer for the seventh successive month.
- The foreign portfolio holdings as a % of CBK forex reserves went up quarter on quarter to 29.1% in 3Q22, up from an 8-year low of 27.3% in 3Q22. Foreign portfolio holding decreased 1.0% m/m as CBK forex reserves declined faster at 7.0% m/m.
- Among the key SSA equities market we track, on a YTD basis to September 2022, only Nigeria (+11.2%) has posted positive USD returns. YTD to August 2022, foreign investors have remained overall net sellers in most SSA markets. On net foreign outflows front, Kenya, Nigeria, Egypt and S.Africa have recorded outflows of USD 143.3m, USD 3.9m, USD 945.3m and USD 3,888.9m, respectively.

FIXED INCOME

- The bond market witnessed improved activity in September 2022 due to rejections in the primary market that created demand in the secondary. The on-the-run 3yr (FXD1/2022/3Yr) traded through a broad range of 12.300%-12.450%, while the longer on-the-run 20yr, FXD1/2021/20Yr largely traded between 13.900%-14.000%.
- The infrastructure bonds witnessed poor demand, as offshore fire-sales resumed during the month with local buyers taking up positions. The latest on-the-run 18yr, IFB1/2022/18Yr, traded largely between 13.300%-13.650%, while the existing 19yr, IFB1/2022/19Yr traded between 13.300%-13.750%. The shorter 11yr, IFB1/2020/11Yr, traded 12.800%-12.900%, while the 9yr, IFB1/2020/9Yr realizing levels 12.500%-12.850% as demand dwindled.
- During the month, Treasury opted to reopen FXD1/2017/10Yr and FXD1/2020/15Yr targeting KES 40.0bn. The coupon rates were 12.966% and 12.756% respectively.
- The two bonds yielded 13.369% and 13.970% respectively and had a cut-off yields of 13.499% and 13.990% respectively. Treasury managed to raise a total of KES 15.1bn from the auction with no corresponding bond maturity during the month.

- In the third (3) month of FY2022/23, we estimate that Treasury has borrowed ~KES 106.5bn versus ~KES 249.5bn (down 57.3%).

MARKET OUTLOOK

EQUITIES:

- Following the hike in the Central Bank Rate (CBR) by 75bps to tame inflation, we expect yields in the market to trend upwards. As a consequence, we expect the banking sector to benefit from higher yields on government securities and wider net interest margins. While we expect downside risks emanating from elevated NPLs and higher cost of risk, we note that banks had built on their capital levels and NPL coverage. **We therefore continue to favour banking stocks – we have BUYs on listed banks in our universe apart from StanChart bank and Stanbic bank where we have HOLD recommendations.**

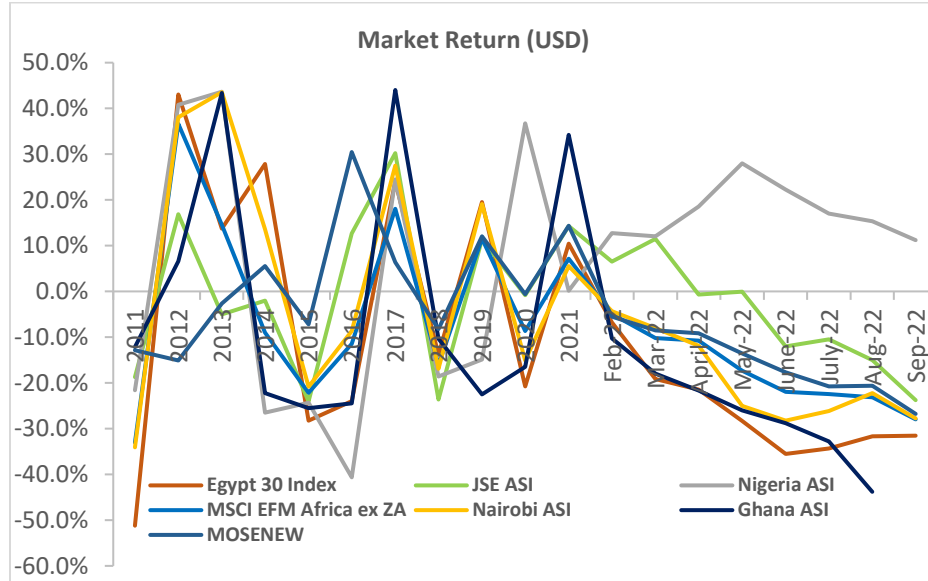
FIXED INCOME:

- Money market liquidity toward mid-October 2022 has improved following heavy Treasury Bond redemptions. However, most banks are still maintaining high liquidity levels in CRR (and 91D & 182D Tbills). Treasury proposed to issue a new FXD1/2022/25Yr, to raise KES 20.0bn for the end of October 2022. The bond is expected to yield an average of 13.990% and the value date for the bond is Monday, 17th October 2022.

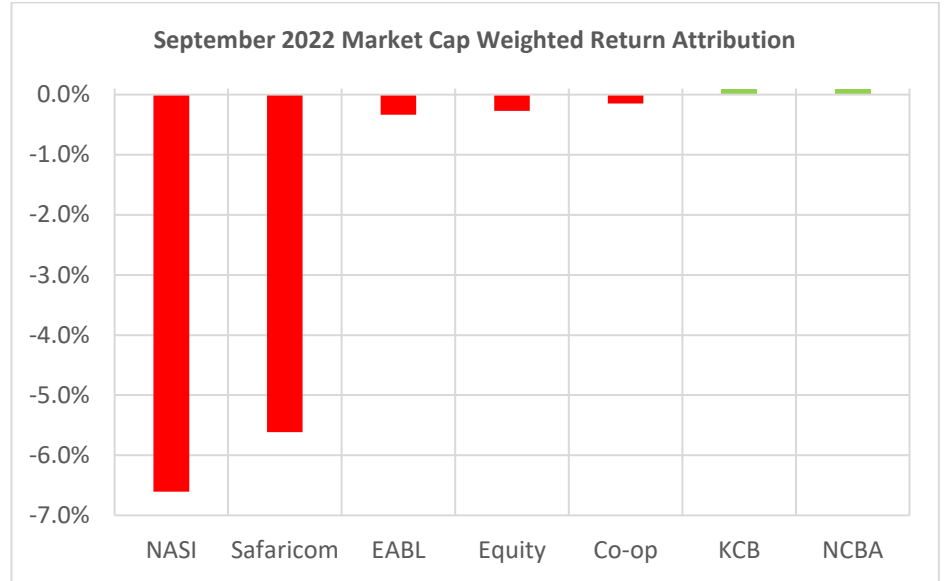
MONTHLY MARKET STATISTICS

	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22	June-22	July-22	Aug-22	Sep-22
Equities													
Market Capitalisation (USD bn)	25.1	25.0	22.7	22.9	22.4	21.9	21.1	20.2	17.2	16.5	18.5	17.8	16.6
NASI return (KES)	-2.2%	-0.2%	-7.9%	1.6%	-1.9%	-1.9%	-2.8%	-3.6%	-14.3%	-3.3%	13.3%	-2.5%	-6.6%
NSE 20 return (KES)	0.5%	-3.4%	-4.6%	1.7%	-0.7%	-0.1%	-2.1%	-2.5%	-6.6%	-4.1%	5.5%	2.9%	-1.9%
Gainers/Decliners ratio (x)	(0.4)	(0.7)	(0.7)	0.8	(0.2)	(0.4)	(0.4)	(0.4)	(0.5)	(0.4)	1.1	3.0	(0.6)
MSCI EFM ex. ZA (KES)	0.3%	5.1%	-3.6%	-2.8%	-0.7%	-3.6%	-3.3%	-1.1%	-6.6%	-4.7%	0.1%	0.1%	-5.7%
Equity Turnover (KES bn)	10.2	10.3	15.6	10.5	8.2	10.0	9.6	5.9	10.8	9.6	8.0	5.3	9.4
Equity Turnover (USD m)	92.6	92.4	138.5	92.5	72.6	87.6	83.9	50.5	92.3	81.5	67.4	44.5	77.8
Avg. daily value traded (USD m)	4.21	4.86	6.30	4.40	3.46	4.38	3.65	2.81	4.62	3.88	3.37	2.02	3.71
Foreign institutions participation (%)	49.6	49.6	50.7	57.1	59.6	56.6	47.5	62.4	63.3	56.9	50.0	46.5	34.1
Local institutions participation (%)	38.3	25.7	39.5	31.9	28.3	33.3	38.4	24.5	27.8	33.0	35.2	31.4	47.1
Local individuals' participation (%)	11.7	9.5	9.4	10.9	12.0	9.7	13.7	12.6	8.2	9.3	14.2	18.4	16.9
Local institutions net flow (USD m)	8.9	8.8	7.9	29.4	5.2	(4.4)	15.7	14.6	34.5	37.7	19.5	9.1	12.6
Foreign institutions net flow (USD m)	(8.5)	(8.4)	(8.8)	(25.3)	(3.7)	1.9	(12.8)	(14.1)	(35.6)	(42.7)	(25.4)	(13.5)	(19.7)
Fixed Income													
Bond Turnover (KES bn)	118.2	66.2	65.8	53.2	48.4	54.9	87.6	71.4	58.9	65.4	61.9	68.4	66.7
Bond Turnover (USD m)	1,070	596	585	470	426	482	762	616	504	555	521	570	553
T-Bill performance rate	67%	58%	88%	69%	103%	94%	91%	59%	92%	84%	94%	73%	106%
T-Bill allotment rate	100%	94%	93%	85%	93%	94%	94%	100%	94%	66%	92%	93%	75%
T-Bill offer fill rate	67%	54%	82%	58%	95%	88%	85%	59%	86%	96%	28%	68%	80%
T-Bond performance rate	202%	93%	168%	103%	111%	176%	80%	95%	86%	97%	93%	98%	92%
T-Bond allotment rate	71%	94%	83%	92%	93%	75%	65%	91%	81%	93%	26%	78%	85%
T-Bond offer fill rate	142%	87%	139%	95%	104%	132%	52%	87%	70%	80%	40%	77%	78%
5-year m/m yield change (bps)	40	45	50	40	45	50	98	100	85	354	323	42	10
2 year-91D yield spread (bps)	240	253	247	249	271	330	359	410	356	233	243	276	262
5 year-364D yield spread (bps)	301	260	206	204	186	178	221	255	237	75	85	292	302
5 year-2-year yield spread (bps)	160	140	135	155	135	95	110	75	95	80	120	130	135
5 yr Bond-5 yr IFB yield spread (bps)	160	175	130	150	130	130	158	155	115	205	220	82	93
10 year-2-year yield spread (bps)	320	290	270	265	245	210	193	145	220	84	94	213	228
FTSE NSE KES Gov. bond price index USD return	-0.3%	-0.7%	-1.2%	-1.1%	--0.1%	--0.1%	0.5%	-2.2%	-0.8%	0.0%	0.0%	0.0%	0.0%
Average monthly KES/USD	110.5	111.2	112.5	113.1	113.6	113.8	114.95	115.77	116.74	117.83	118.76	120.01	120.73

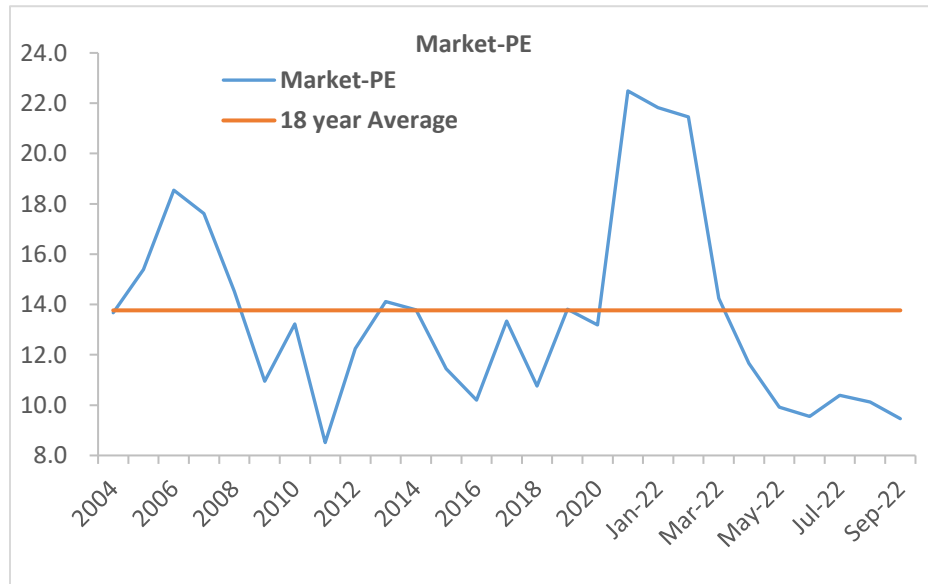
Ytd, Nigeria maintains its outperformance as net foreign selling is relatively less severe



Large-cap stocks weigh on NASI return in the month of September

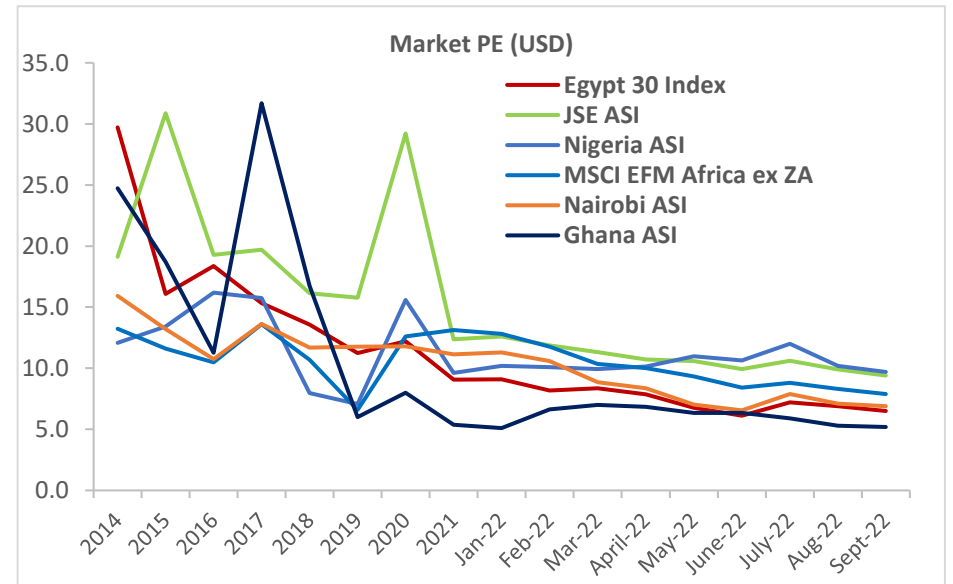


NASI PE ratio contract by 6.6% m/m to touch 11-year low



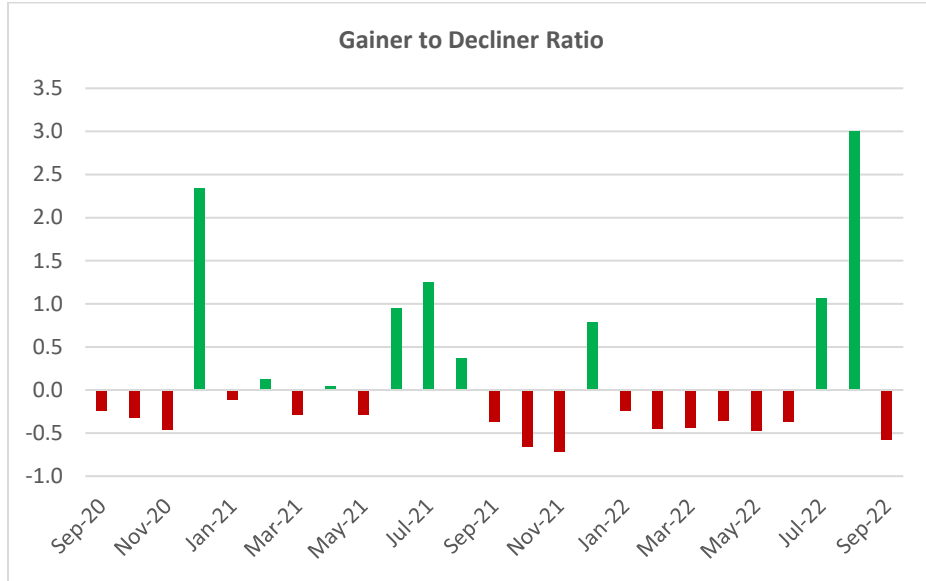
(As reported by the NSE)

Nigeria equities trailing PE at a slight premium of 0.8% compared to end of year 2021

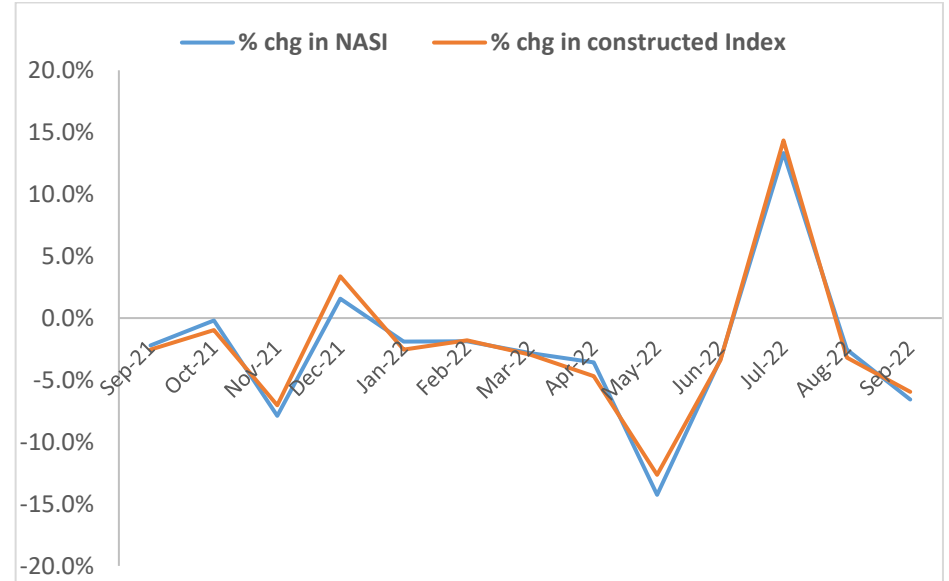


(As reported by Bloomberg)

Downward pressure on stock prices, laggards exceed advancers by 2X

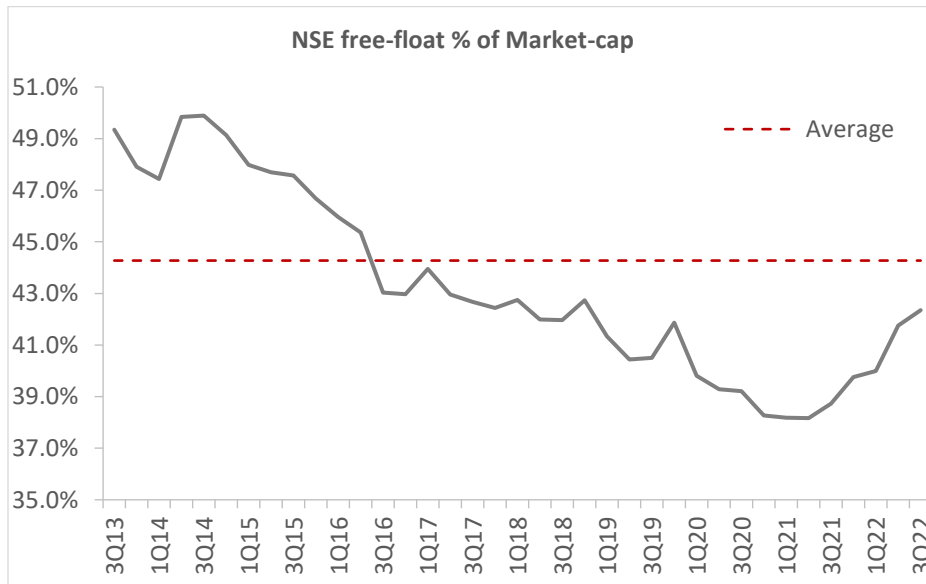


Large-cap stocks, largely Safaricom & EABL, weigh on NASI return

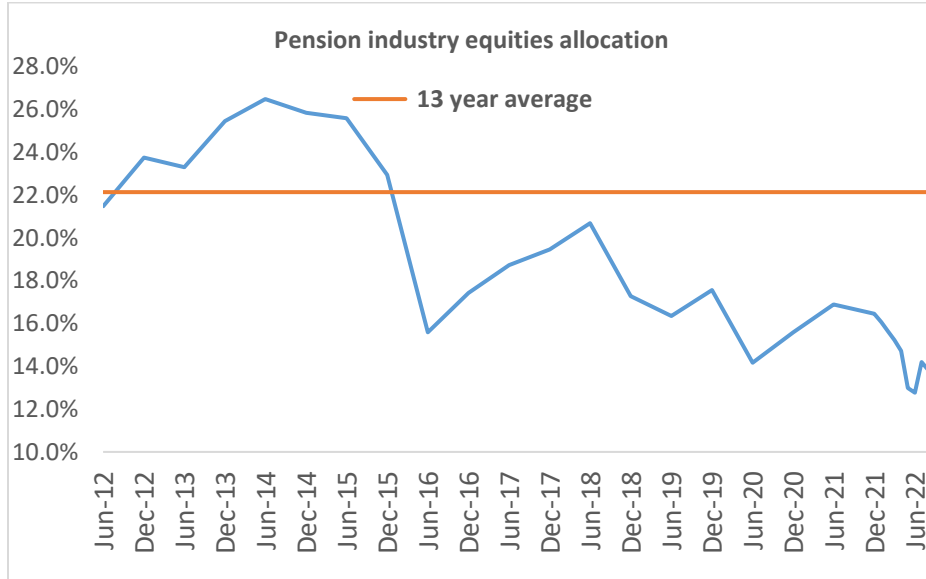


*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

NSE free float as a % of market cap trend up for the third straight quarter



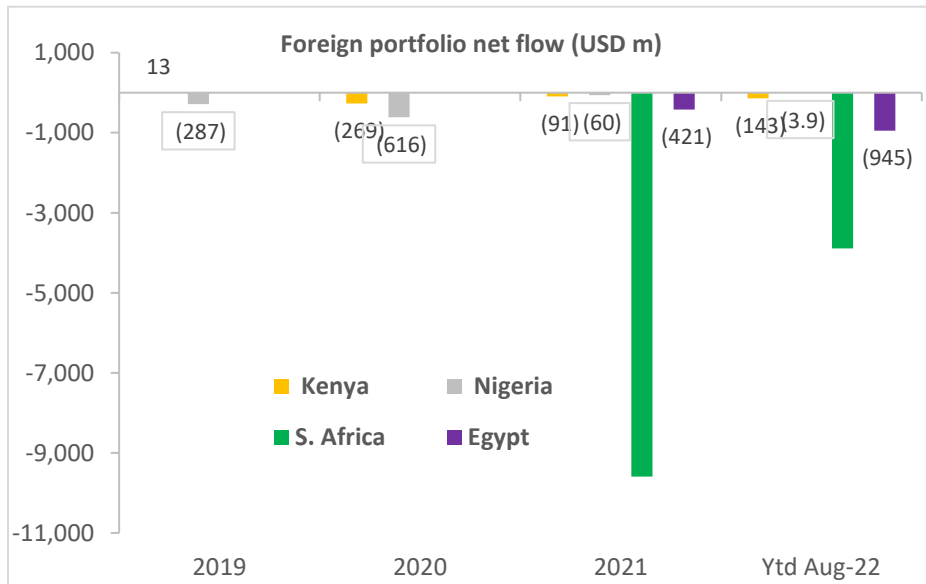
Equities allocation fall to a 4-month low driven by continued share price weakness



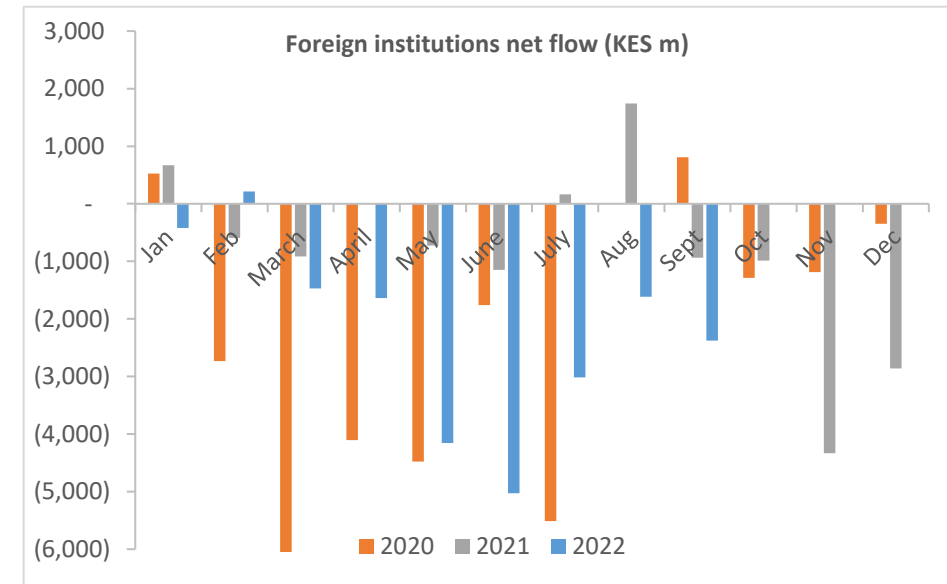
Local institutions' activity rebound to reach a 7-month high



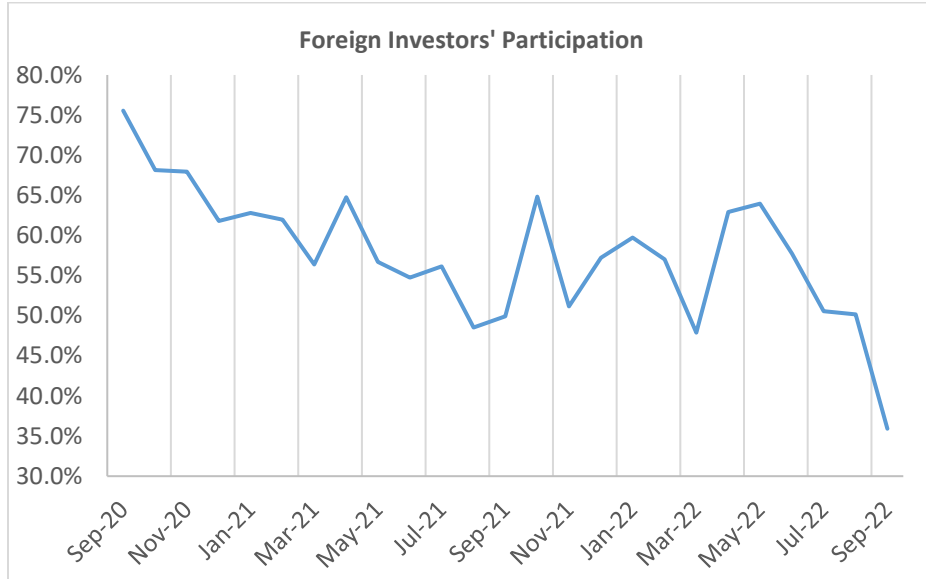
YTD to Aug 22, foreigners remain net sellers across key SSA markets



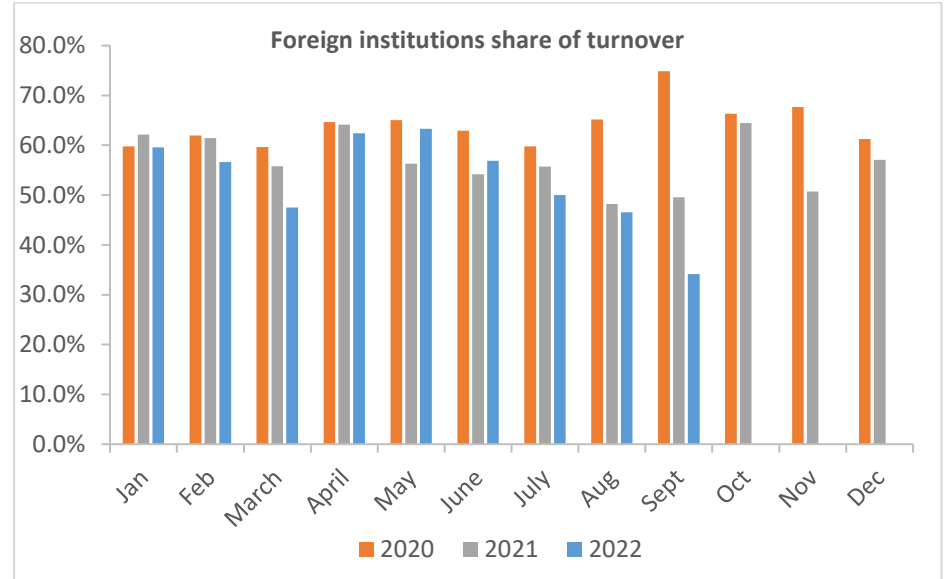
Foreign institutions emerge net sellers for the seventh successive month



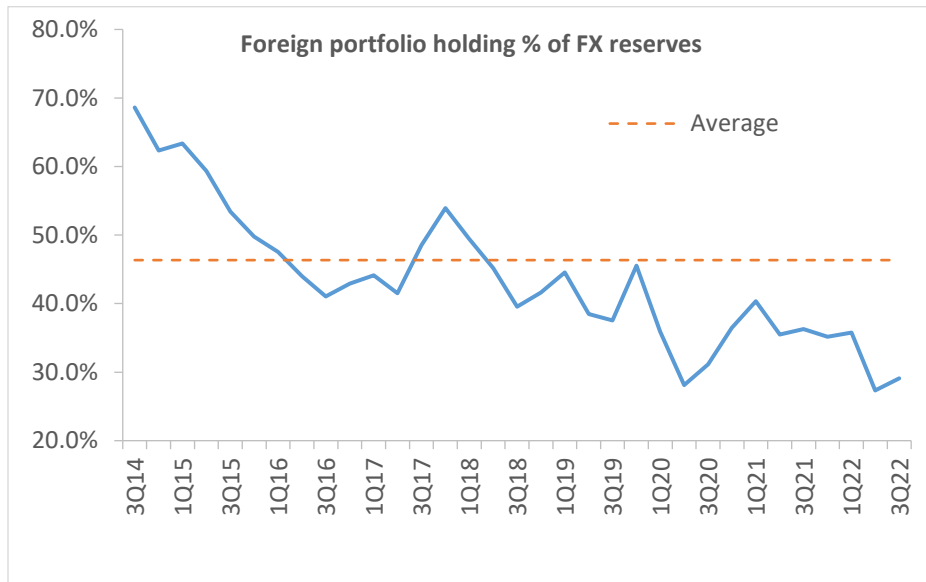
Foreign investors' participation levels dips to a record low



Foreign institutions' activity decline for the fourth month in a row to a 7-year low



Foreign portfolio/FX reserves increase quarter on quarter after hitting an 8-year low



FOREIGN FREE FLOAT TO TOTAL FREE FLOAT PER COUNTER

Foreign free float/total free float	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q21	1Q22	2Q22	3Q22
Safaricom	46.8%	45.0%	44.8%	44.3%	45.4%	45.9%	45.7%	46.3%	45.2%	43.8%	40.8%	40.4%	39.1%
Equity bank	41.8%	41.2%	38.2%	37.5%	36.1%	36.1%	36.5%	36.7%	36.8%	37.4%	36.5%	36.2%	36.1%
EABL	42.0%	41.2%	39.9%	39.8%	38.2%	37.1%	36.7%	33.8%	33.2%	32.0%	30.5%	30.4%	30.4%
KCB bank	26.7%	22.8%	19.6%	18.3%	16.1%	14.5%	13.9%	14.1%	13.2%	13.4%	12.9%	12.0%	11.5%
BK Group	100.0%	100.0%	100.0%	99.9%	99.6%	99.5%	98.9%	98.8%	83.8%	98.8%	98.9%	98.9%	98.9%
BAT Kenya	64.0%	63.9%	62.6%	62.1%	59.8%	58.5%	57.7%	56.8%	56.5%	56.5%	56.3%	55.7%	55.6%
KenGen	51.2%	51.6%	51.5%	51.2%	50.3%	49.8%	49.1%	49.3%	51.5%	49.7%	49.5%	49.3%	48.5%
I&M bank	32.6%	32.6%	32.6%	32.6%	32.7%	32.7%	16.4%	16.4%	18.2%	16.4%	16.3%	16.3%	16.6%
Jubilee Insurance	45.3%	44.6%	44.7%	45.2%	45.2%	45.4%	45.5%	45.7%	45.4%	45.4%	45.4%	45.4%	45.5%
Stanbic bank	48.9%	46.5%	43.6%	41.5%	40.6%	40.7%	40.7%	40.8%	41.9%	41.6%	42.1%	42.1%	42.4%
DTB bank	35.1%	35.7%	36.0%	35.7%	35.5%	35.3%	35.2%	35.0%	35.7%	35.3%	35.7%	35.7%	35.6%
Centum Investment	14.8%	14.7%	14.5%	13.8%	12.5%	11.9%	11.0%	10.9%	10.9%	9.6%	9.0%	8.6%	8.6%
StanChart bank	11.3%	11.2%	10.7%	13.8%	12.5%	9.5%	7.1%	6.0%	5.4%	5.5%	5.5%	5.5%	5.5%
Britam Insurance	78.6%	75.2%	14.6%	10.8%	10.8%	14.0%	13.7%	13.7%	17.0%	13.7%	13.6%	13.5%	13.4%
WPP ScanGroup	95.4%	95.9%	95.5%	80.6%	78.1%	78.1%	76.5%	65.1%	72.8%	66.9%	66.9%	66.9%	66.9%

Companies with foreign free float holding of over USD 10

MONTHLY NET FOREIGN FLOWS PER COUNTER

	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22	June-22	July-22	Aug-22	Sept-22
Safaricom	(804)	154	(4,710)	(1,562)	(834)	(719)	(1,400)	(1,391)	(3,034)	(3,719)	(1,181)	(1,220)	(2,101)
Equity Bank	160	(250)	1,053	(578)	376	605	(82)	(70)	(342)	(1,007)	(549)	(183)	65
EABL	(787)	(139)	(344)	(294)	(129)	(113)	(121)	(128)	(522)	(183)	(103)	38	11
KCB bank	384	(687)	(286)	(419)	89	367	101	(116)	(260)	(98)	(967)	(224)	(360)
BK Group	(2)	0	0	0	2	0	-	25	(1)	(0)	(8)	(2)	(0)
BAT	(17)	(48)	(15)	2	49	(24)	(0)	(14)	(6)	(23)	(105)	(11)	(1)
Britam	3	(0)	0	-	-	-	0	0	0	(7)	(5)	(8)	(0)
I&M bank	(0)	(3)	(0)	1	(0)	2	(10)	(4)	1	(3)	2	1	30
Jubilee	34	(10)	(8)	(7)	(4)	(10)	(2)	(3)	4	(1)	(1)	1	9
Stanbic bank	13	(4)	67	(0)	(0)	(34)	64	47	26	(0)	-	(0)	33
DTB bank	1	1	27	(1)	(1)	(7)	(0)	(2)	(9)	47	(4)	(10)	9
KenGen	6	12	17	12	(0)	2	(11)	5	(7)	(8)	(11)	(28)	(21)
WPP ScanGroup	(10)	0	4	0	-	7	0	(0)	0	-	-	(0)	-
Centum	(11)	(43)	0	(53)	0	6	(13)	(3)	(17)	(8)	(19)	(1)	(0)
StanChart bank	5	(12)	(46)	(4)	(2)	4	(4)	3	3	(11)	2	1	(1)
BBK bank	62	11	(72)	0	0	59	6	(13)	(1)	(0)	1	(3)	0
Co-op Bank	0	(1)	(24)	9	6	43	(0)	(1)	(47)	(3)	(15)	5	16
NSE	1	0	(1)	10	17	(0)	(0)	(10)	(9)	0	0	(0)	(3)
Market	(942)	(1,021)	(4,294)	(2,874)	(423)	187	(1,451)	(1,653)	(4,207)	(5,036)	(2,972)	(1,656)	(2,337)

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

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