

NSE MONTHLY MARKET WATCH

Local institutions emerge net buyers after 4 months of consecutive net selling

	June-18	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June-19
Equities													
Market Capitalisation (USD bn)	24.9	24.4	23.9	21.3	20.2	20.5	19.8	21.5	22.1	23.5	23.3	22.4	22.3
NASI return (KES)	1.1%	-2.2%	-1.7%	-10.7%	-3.6%	1.2%	-3.9%	7.1%	1.5%	3.3%	-0.2%	-4.7%	-0.2%
NSE 20 return (KES)	-1.4%	0.7%	-3.5%	-10.2%	-2.3%	-0.8%	1.3%	4.4%	-2.2%	-1.7%	-1.7%	-4.3%	-0.8%
Gainers/Decliners ratio (x)	(0.50)	(0.10)	(0.50)	(0.77)	(0.38)	(0.49)	(0.04)	0.55	(0.41)	(0.49)	(0.68)	(0.35)	0.35
MSCI EFM ex. ZA (KES)	-0.7%	-2.0%	-2.3%	-5.0%	-2.7%	0.5%	-2.0%	1.8%	2.2%	-0.5%	2.2%	-3.7%	1.7%
Equity Turnover (KES bn)	13.7	9.7	10.2	12.0	16.9	10.7	7.8	15.2	14.2	15.9	9.9	12.5	10.5
Equity Turnover (USD m)	135.5	96.7	101.8	118.4	167.1	104.7	76.6	149.2	141.4	158.6	97.7	123.5	103.6
Avg daily value traded (USD m)	6.8	4.4	4.6	5.9	7.6	4.8	4.3	6.8	7.1	7.6	4.9	5.6	5.2
Foreign institutions participation	68.0%	67.0%	61.6%	64.5%	74.6%	76.2%	73.4%	80.9%	72.1%	70.4%	75.1%	63.1%	73.7%
Local institutions participation	22.6%	21.6%	25.6%	25.3%	18.6%	16.7%	17.5%	10.7%	17.4%	20.9%	10.6%	27.6%	19.5%
Local individuals participation	8.6%	10.8%	12.3%	9.9%	6.3%	6.7%	8.8%	8.0%	10.3%	8.3%	13.6%	9.0%	6.3%
Local institutions net flow (USD m)	22.9	19.7	18.2	30.8	36.8	2.5	12.6	7.5	(9.0)	(13.0)	(1.1)	(22.9)	8.2
Foreign institutions net flow (USD m)	-23.1	-20.5	-14.2	-30.0	-42.4	-5.9	-17.3	-13.0	2.5	17.5	1.9	21.6	-8.8
Fixed Income													
Bond Turnover (KES bn)	58.7	48.7	44.8	40.2	53.7	42.0	44.8	47.4	48.3	62.4	70.5	57.3	73.7
Bond Turnover (USD m)	581.6	483.3	445.2	398.5	531.8	410.3	438.4	466.9	481.5	621.5	697.9	567.0	724.9
T-Bill performance rate	217.7%	157.4%	82.0%	157.5%	75.2%	84.1%	60.9%	187.7%	174.4%	272.9%	157.0%	82.6%	153.2%
T-Bill allotment rate	53.1%	74.4%	83.5%	75.9%	78.2%	92.6%	96.4%	66.8%	78.3%	66.9%	77.4%	89.8%	45.2%
T-Bill offer fill rate	115.6%	117.0%	68.5%	119.6%	58.8%	77.8%	58.8%	125.4%	136.6%	182.6%	121.6%	74.1%	69.3%
T-Bond performance rate	25.3%	34.7%	85.1%	81.2%	77.8%	80.2%	60.2%	254.9%	233.6%	58.8%	171.2%	141.7%	214.0%
T-Bond allotment rate	51.1%	75.9%	90.3%	81.8%	92.4%	74.3%	92.8%	37.7%	53.0%	55.5%	70.5%	82.6%	45.5%
T-Bond offer fill rate	12.9%	26.3%	76.8%	66.4%	71.9%	59.6%	55.9%	96.2%	123.9%	32.6%	120.7%	117.1%	97.3%
5 year m/m yield change (bps)	-25.0	-20	-40	0	-10	15	-5	-10	-30	-20	-15	-5	-5
2 year-91D yield spread (bps)	343	339	314	324	326	336	331	321	329	230	270	267	250
5 year-364D yield spread (bps)	131	179	139	173	178	188	145	140	151	139	134	129	120
5 year-2 year yield spread (bps)	70	80	65	55	55	75	75	97	75	80	80	85	80
5 yr Bond-5 yr IFB yield spread (bps)	45	40	10	0	30	5	5	30	20	10	15	35	25
10 year-2 year yield spread (bps)	145	169	180	182	173	165	165	192	195	210	215	225	200
FTSE NSE KES Gov. bond price index return (USD)	0.8%	0.3%	-0.2%	0.3%	-0.7%	-0.5%	0.6%	1.5%	1.2%	-0.3%	0.0%	0.0%	-0.8%
Average monthly KES/USD	101.0	100.7	100.6	101.0	101.1	102.4	102.3	101.6	100.2	100.4	101.0	101.2	101.7
Foreign holding component in total domestic debt stock	4.7%	4.6%	4.5%	4.3%	4.1%	4.1%	4.3%	4.1%	3.9%	3.9%	3.9%	3.9%	n/a
Average Duration to Maturity:													
All government securities (years)	4.13	4.07	4.09	4.11	4.11	4.42	4.41	4.5	4.5	4.5	4.6	4.7	4.7
Treasury bonds only (years)	6.31	6.38	6.35	6.38	6.43	6.91	6.90	7.0	7.0	6.8	7.0	7.3	7.3

Trading review

Equities:

- On a headline basis, the NASI returned -0.2% month on month largely weighed down by Kenya RE (-0.3%), EABL (-0.1%) as well as the banks (-0.3%). The index was mainly supported by Safaricom (+1.1%). The NASI outperformed the MSCI EFM ex ZA at 6.1% ytd compared to 4.2% ytd achieved by MSCI.
- We continue to see a discrepancy in our calculation of the NASI and the figure provided by the NSE. We have sought clarifications from the NSE on the same – we believe the difference is being driven by the differing treatment of I&M Holdings following the bank's bonus share issue.
- Turnover declined by 15.7% month on month mostly on account of reduced activity by local investors.
- NSE is currently trading at a slight discount of 0.9% to the historical 10 year average of 11.9x.
- We estimate pension funds allocation to equities dipped further to 17.1% in the month, on account of a further decline in the NASI. We believe net inflows into equities during June 2019, by pension funds, were not able to offset the decline in portfolio valuations as a result of a weaker equities market. We estimate pension fund assets have grown by 6.8% y/y to USD 12.3bn in June 2019 from USD 11.4bn in June 2018.
- Local institutions emerged net buyers (USD 8.2m) in June 2019 after 4 months of consecutive net selling while local individuals continued buying, albeit marginally. We expect that higher forward earnings yield (8.9%) compared to the 364 day T-bill (8.6%), the first time since 2011, will incentivise local institutional investors to increase allocations to equities in 2H19.
- Foreign institutions turned net sellers (USD 8.8m) in June 2019 after 4 months of consecutive net buying while foreign individuals continued selling for the fifth straight month. Foreign investor selling was largely focussed on the banking sector, with KCB, Equity, Barclays and DTB all seeing foreign investor outflows.

Fixed Income:

- The KES bond curve witnessed a narrower gaps between bids and offers as bidders chased yields down due to positive sentiments on the Kenyan economy both locally and abroad. Treasury Bill auctions attracted high bid volumes due to end year government spending flooding money markets.
- The infrastructure bonds witnessed strong demand in June from local buyers largely across the tenors but the momentum is likely to slow down as offshore buyers pull away from rich valuations.
- During the month, Treasury opted to propose the re-opening of FXD1/2012/15Yr and FXD1/2018/15Yr Treasury bonds, targeting KES 40bn, with a market determined coupon rate. The offer amount was set up to factor in future tap sales.
- The 8yr T bond yielded 11.593% with a cut-off rate of 11.630%, while the 14yr T bond yielded 12.456% with a cut-off rate of 11.630%. Treasury managed to raise a total of KES 38.9bn from the auction, which offset KES 36.9bn in bond maturities.
- In the twelve months of FY18/19, we estimate that Treasury has borrowed ~KES 253.1bn versus ~KES 300.5bn (down 15.8%).

Market outlook:

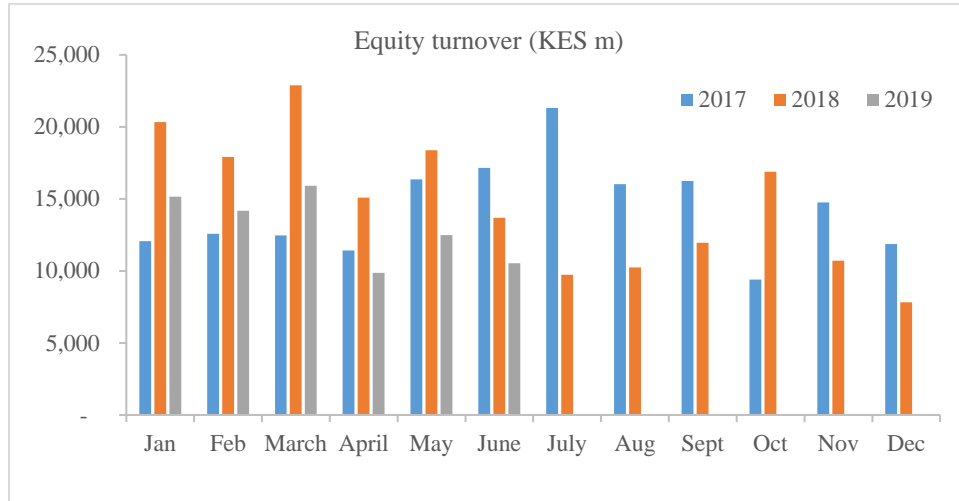
Equities:

- We expect the NASI to return 5.7% by the end of 2019 based on our estimated FY19 market EPS growth of 10.0% and a PE expansion of 2.5%. We estimate the NASI will close the year at 158.28. Our forecasts don't assume a reversal of the interest rate caps. We expect further upward re-rating if the interest rate caps are removed. We highlight Parliament will be debating the Finance Bill 2019 once they resume from recess on 23rd July 2019, which should provide further clarity on the potential of a modification or reversal of interest rate caps.
- As fixed income yields continue to decline, we expect local investors to increase allocation towards the equity market in 2H19, and specifically into 4Q19. We expect the banking sector to see the highest upside – indeed a number of banks in our coverage universe have upsides in the 20.0% - 30.0% range. We also remain bullish on EABL, with potential upside of 17.6% from the current trading price of KES 199.75.

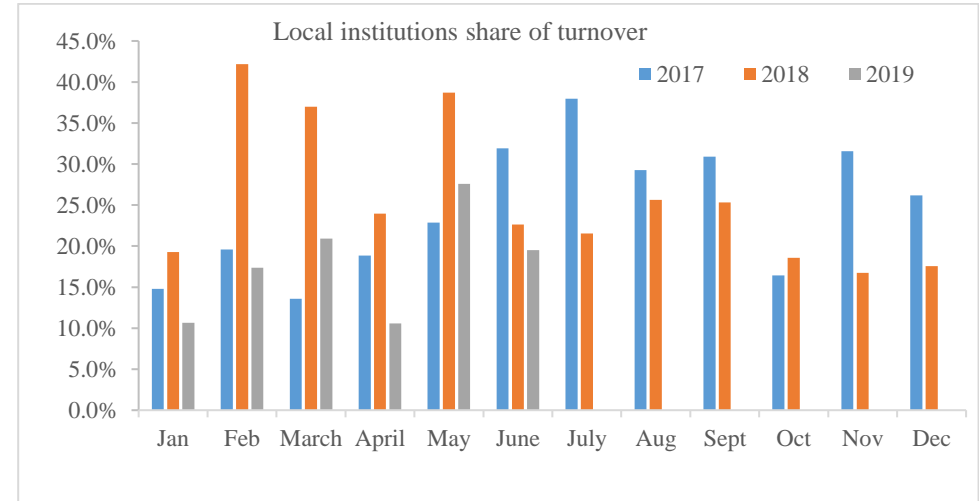
Fixed Income:

- Treasury will issue a new 15yr Treasury Bond, FXD3/2019/15Yr, in July 2019 targeting borrowing of KES 40bn. The auction period has been pushed to reflect a 29th July, 2019 settlement date. The yield curve shows a 15yr tenor at 12.350% but we expect primary yields to range between 12.400%-12.500%. The bond will be auctioned on 24th July, 2019 and has its coupon rate will be determined by accepted primary bids.

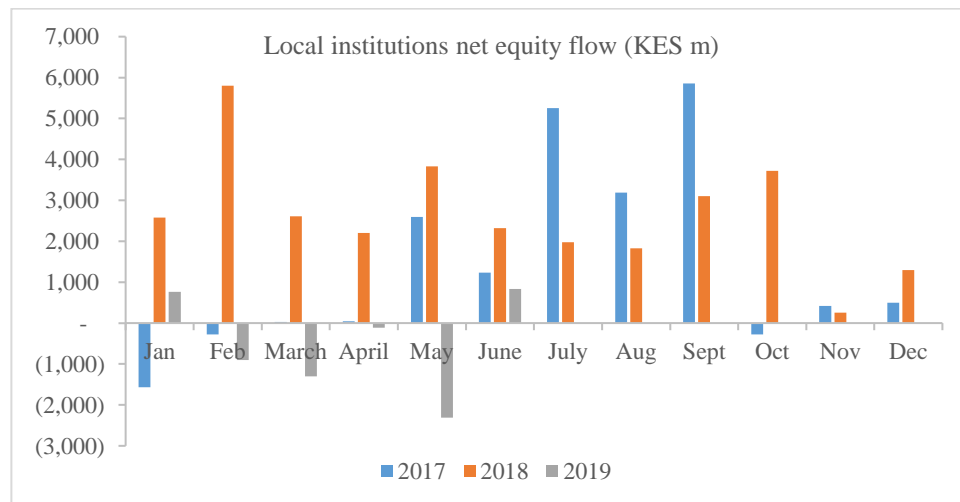
Equity turnover declines on the back of reduced activity by local investors



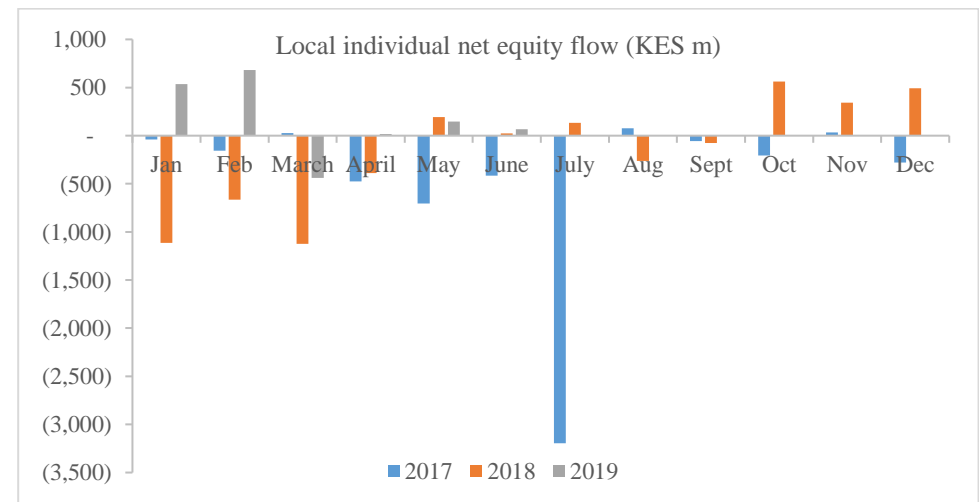
Local institutions participation declines ahead of quarterly reporting season



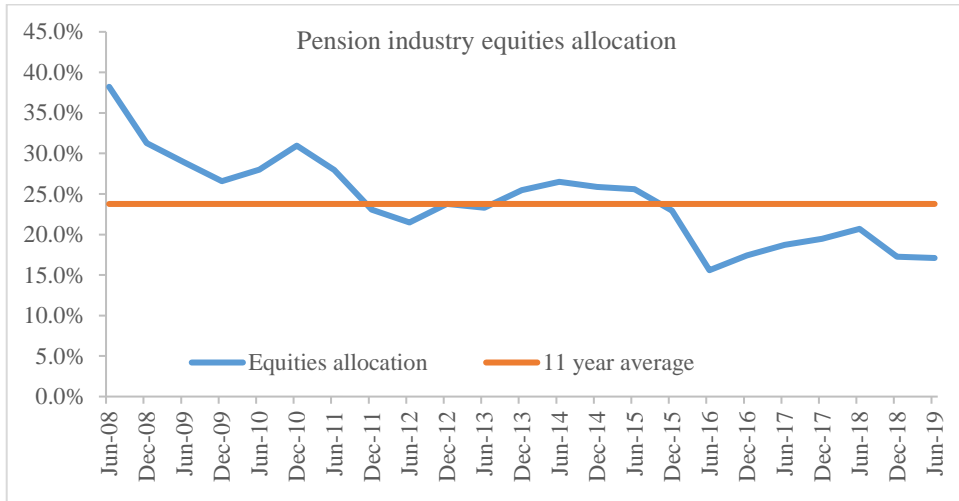
Local institutions turn net buyers



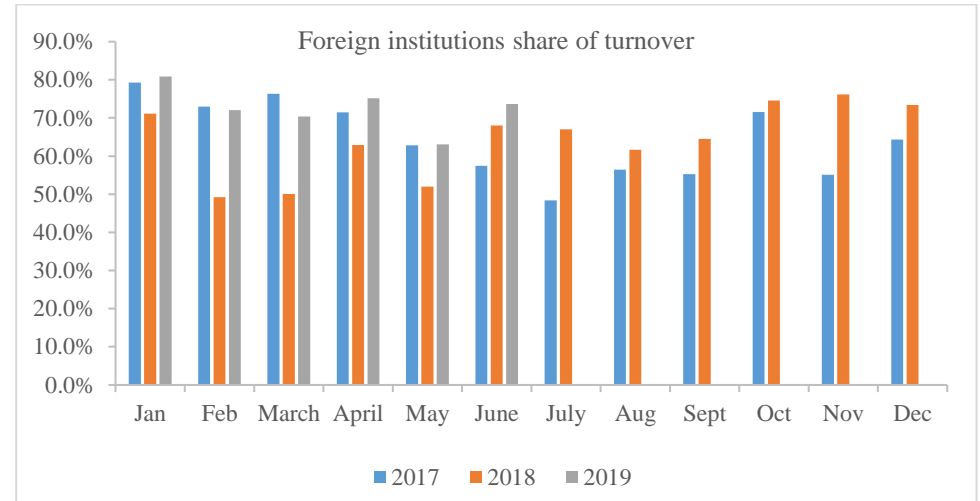
Local individuals' flows dips on reduced market activity



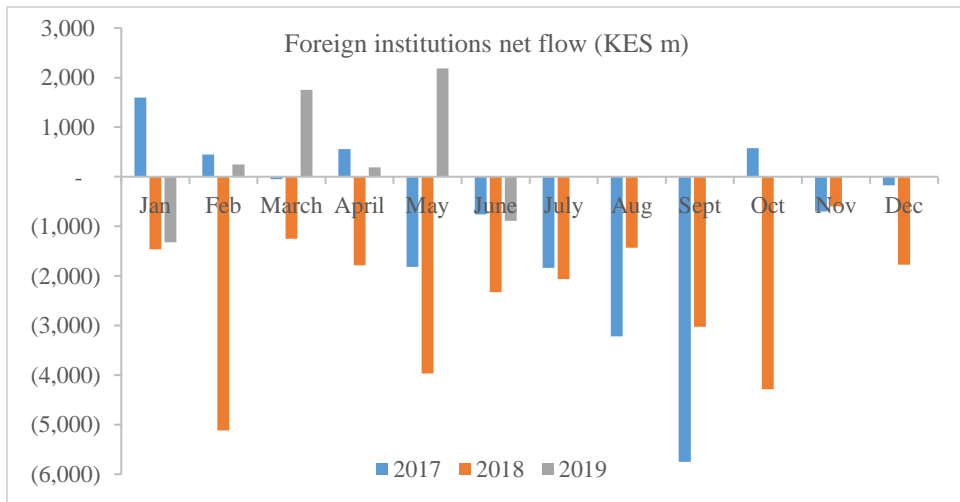
We estimate equity allocation by pension funds touched a 5 month low



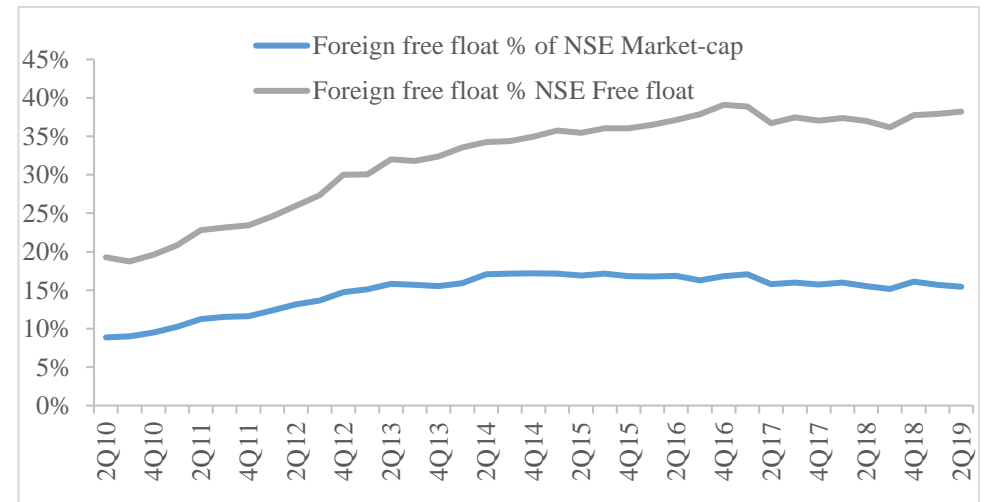
Foreign institutions participation goes up



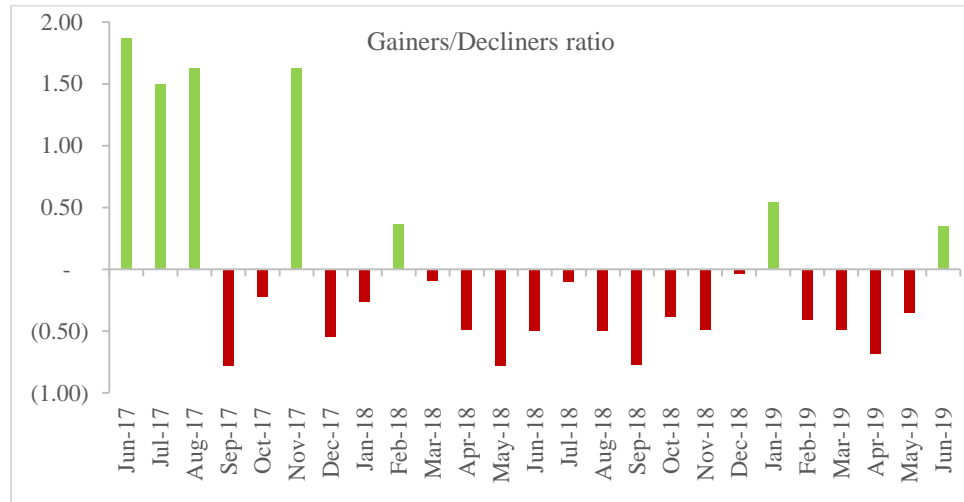
Foreign institutions turn net buyers



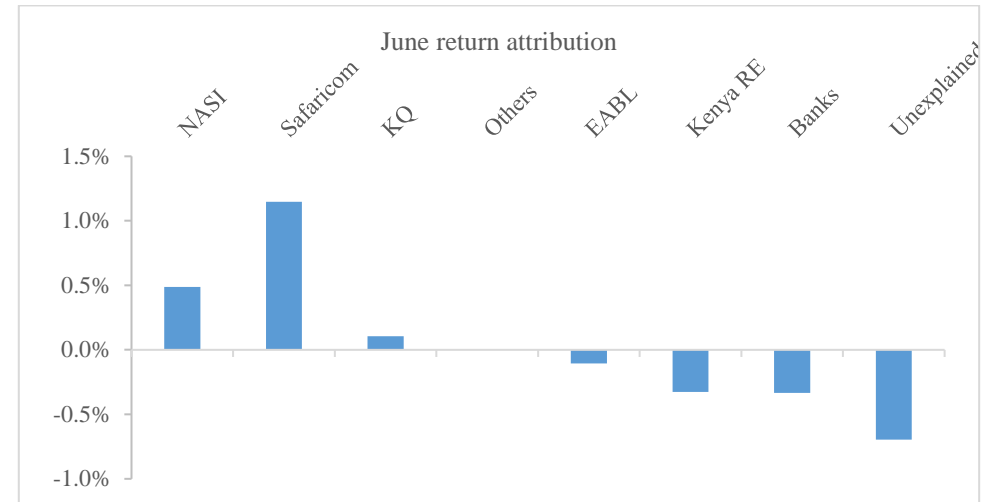
Price declines in large banks pulls down the ratios



Downward trend halts in the month of June

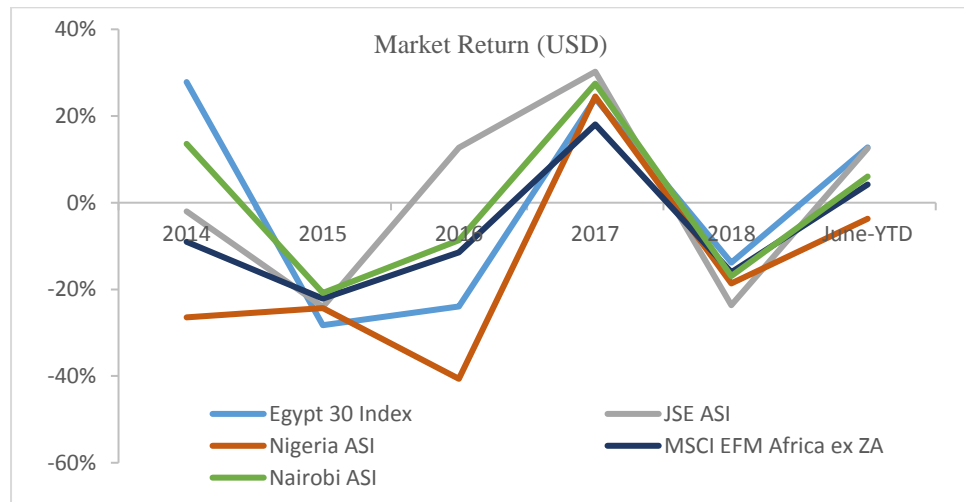


Banks and Kenya RE weigh down on the index

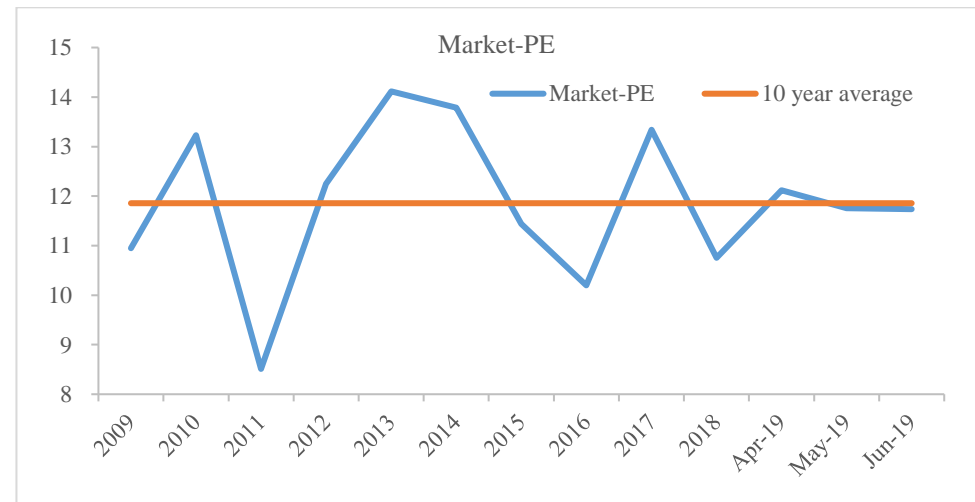


*Based on Kestrel estimates

NASI outperforms MSCI ex ZA index



Market PE trading at a slight discount to 10-year historical average



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Kestrel Capital E.A. Ltd.

Orbit Place, 2nd Floor
Westlands Road

Tel: +254 20 2251758

research@kestrelcapital.com
www.kestrelcapital.com

Bloomberg: KEST <GO>

Equity Sales & Trading

Christine Kuria
christinek@kestrelcapital.com

Sally Kotut
sallyk@kestrelcapital.com

Chris Miriti
chrism@kestrelcapital.com

Amanda Onyango
amandao@kestrelcapital.com

Research

Kishan Popat
kpopat@kestrelcapital.com

Ephantus Maina
ephantusm@kestrelcapital.com

Eugene Gikonyo
eugeneg@kestrelcapital.com

Fixed Income Sales & Trading

Alexander Muiruri
alexanderm@kestrelcapital.com

Edwin Muthaura
edwinm@kestrelcapital.com

Faith Kaimba
faithk@kestrelcapital.com

Justus Maangi
justusm@kestrelcapital.com

Advisory

Chirag Shah
chirags@kestrelcapital.com

Executive Director

Francis Mwangi
francism@kestrelcapital.com