

MONTHLY MARKET COMMENTARY (April 2023): NASI returns the worst performance amongst its peers

KEY HIGHLIGHTS

EQUITIES

- Last month, equity turnover fell by 87.0% m/m to stand at KES 4.2bn (USD 31.6m) – Diageo transaction was consummated in March, with large EABL trades.
- For the second month straight, the losers slightly outweighed winners, holding the downward pressure on the AD line.
- Owing to large-cap drops, the NASI was down 4.6% m/m to 107.63 – a 7-year low. Sustaining a 5-months falling streak, the NSE 20 (-2.7% m/m) concluded at 1,578.88.
- Safaricom (-8.8% m/m), EABL (-6.6% m/m) and KCB bank (-7.5% m/m) detracted returns. On the other hand, NCBA bank (+7.6% m/m) was the key support to the equities return.
- Notably, at a record 7.6x, the NASI trailing PE ratio came in 10.6% below its prior low of 8.5x in 2011, and 66.2% below its peak of 22.5x in 2021, reflecting suppressed investors' sentiments. Relative to its 18-year average of 13.5x, the trailing PE is at a wide discount of 44.0%.
- Foreign investors remained net sellers for the fourteenth consecutive month to end at USD 2.1m (KES 282.6m). Safaricom (USD 4.0m, KES 530.8m), EABL (USD 0.7m, KES 98.4m) and BAT Kenya (USD 0.6m, KES 83.4m) posted the highest net foreign outflows. On the other hand, Equity bank experienced the highest net foreign inflows at USD 3.2m (KES 436.3m).
- Driven by share price weakness, equities' allocation by pension funds further slid to 11.9% in April 2023, down from 12.6% registered in the month of March 2023 – local institutions marked minimal net inflows.
- Notably, the foreign portfolio holdings as a % of CBK forex reserves touched 25.2% in April 2023 – the lowest levels since 1Q14 – down from 26.6% recorded in 1Q23 on account of reduced foreign portfolio holdings – continued net foreign outflows and share price declines.
- Among the key SSA equities markets that we track, on a YTD basis to April 2023, the Nigerian equities (+2.1%) posted positive returns in USD, followed by Morocco equities (+1.9%). YTD to April 2023, foreign investors were overall net sellers across most SSA markets. Kenya, Egypt, S.Africa and Nigeria registered outflows of USD 106.3m, USD 196.5m, USD 1,290.4m and USD 40.5m, respectively.

FIXED INCOME

- The bond market witnessed reduced activity in April 2023 as big bondholders scrambled to the reverse repo markets to get liquidity as government spending was lacking. The on-the-run 15yr (FXD1/2013/15Yr) traded through a broad range of 14.200%-14.500%, while the longer on-the-run 20yr, FXD2/2018/20Yr largely traded between 14.600%-14.800%.
- 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 17yr, IFB1/2023/17Yr, traded largely between 14.350%-14.450%, while the existing 15yr, IFB1/2018/15Yr traded between 14.350%-14.500%. The shorter 11yr, IFB1/2020/11Yr, traded 14.000%-14.500%, while the 9yr, IFB1/2020/9Yr realizing levels 13.750%-14.000% as demand dwindled.
- During the month, Treasury opted to issue a new three (3) year bond, FXD1/2023/3Yr targeting KES 20.0bn. The coupon rate was market determined.
- The 3yr bond yielded 14.228% with a cut-off yield of 14.990% respectively. Treasury managed to raise a total of KES 20.3bn from the auction to offset KES 8.2bn in maturities.
- In the tenth (10) month of FY2022/23, we estimate that Treasury has borrowed ~KES 250.0bn versus ~KES 534.5bn (down 53.2%).

MARKET OUTLOOK

EQUITIES:

- Our bullish outlook for equities is medium-long term as weak investors' sentiments weigh on fundamentals. Concerns over further currency depreciation, potential rise in interest rates on account of tighter fiscal pressures (salary delays among civil servants & refinancing jitters) and elevated inflation, remain alive. In addition, the looming protests over the Finance Bill 2023 and political unrests will exacerbate investors' worries. However, as the macro and political environment improves, we expect multiple re-rating to largely drive returns. In our view, we also think banks still stand to benefit from the higher interest rate environment and possible repricing of loans, boosting margins and earnings growth - we advocate for BUYS on Equity (+59.8% upside), KCB (+99.3% upside) and Co-op (+62.6% upside) on account of stronger franchises, extensive branch coverage and better capital & liquidity levels.

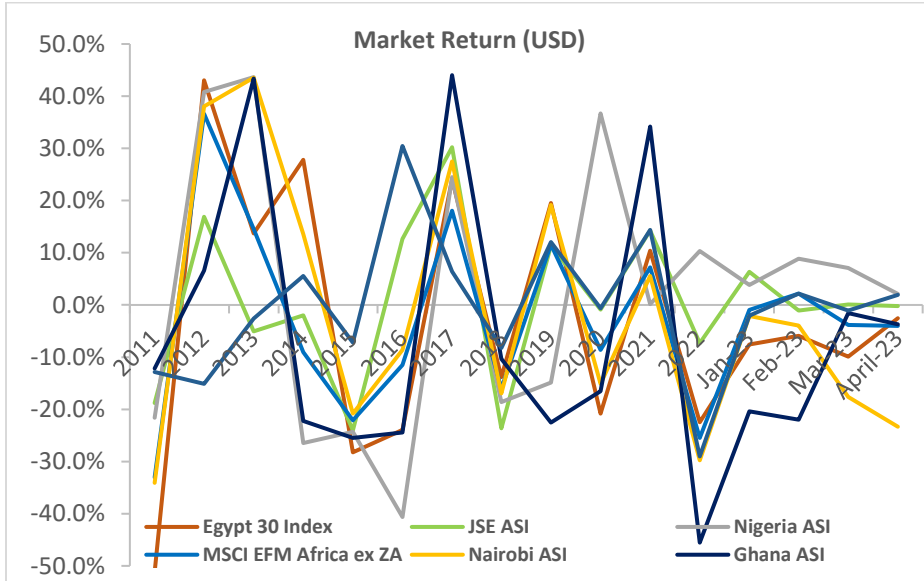
FIXED INCOME:

- Money market liquidity toward mid-May is improving slowly as government spending increases and will likely result in improved primary markets. The bond market forum (BMF) met on Wednesday 17th May, 2023 to decide on the June bond auction.

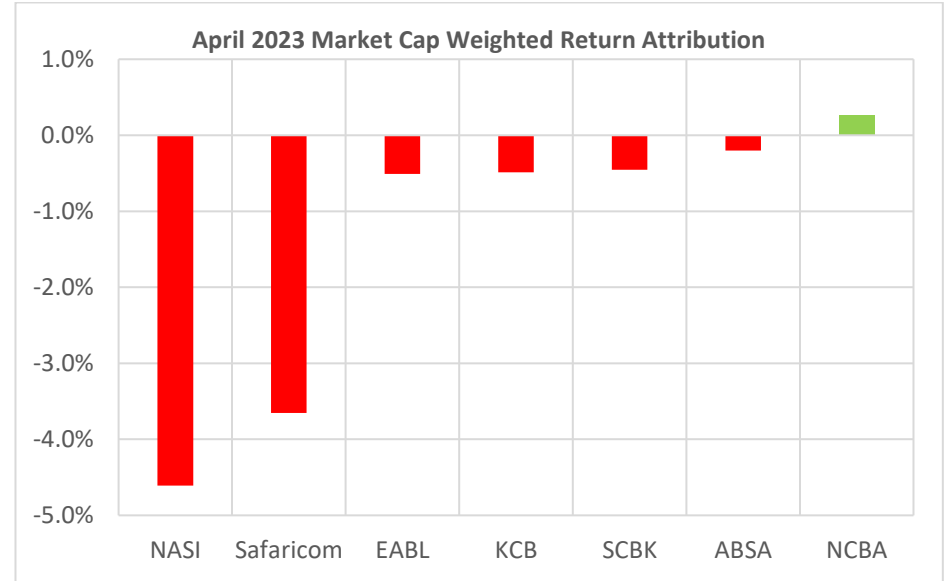
MONTHLY MARKET STATISTICS

	April-22	May-22	June-22	July-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	April-23
Equities													
Market Capitalisation (USD bn)	20.2	17.2	16.5	18.5	17.8	16.6	16.5	16.2	13.6	13.2	15.5	13.3	12.5
NASI return (KES)	-3.6%	-14.3%	-3.3%	13.3%	-2.5%	-6.6%	0.3%	-1.8%	0.8%	-1.2%	0.1%	-10.5%	-4.5%
NSE 20 return (KES)	-2.5%	-6.6%	-4.1%	5.5%	2.9%	-1.9%	-2.3%	-2.4%	2.4%	-1.1%	-0.6%	-1.5%	-2.7%
Gainers/Decliners ratio (x)	(0.4)	(0.5)	(0.4)	1.1	3.0	(0.6)	(0.6)	(0.5)	0.9	(0.4)	0.5	(0.1)	(0.1)
MSCI EFM ex. ZA (KES)	-1.1%	-6.6%	-4.7%	0.1%	0.1%	-5.7%	-2.2%	3.1%	2.9%	1.1%	3.9%	-1.8%	0.8%
Equity Turnover (KES bn)	5.9	10.8	9.6	8.0	5.3	9.4	6.0	6.5	4.9	7.8	4.6	32.4	4.2
Equity Turnover (USD m)	50.5	92.3	81.5	67.4	44.5	77.8	49.6	53.5	40.0	62.1	36.3	244.8	31.6
Avg. daily value traded (USD m)	2.81	4.62	3.88	3.37	2.02	3.71	2.61	2.43	2.11	2.96	1.73	10.64	1.86
Foreign institutions participation (%)	62.4	63.3	56.9	50.0	46.5	34.1	44.1	59.4	58.8	50.7	39.5	29.5	46.2
Local institutions participation (%)	24.5	27.8	33.0	35.2	31.4	47.1	33.9	28.9	29.3	36.7	43.4	64.3	30.8
Local individuals' participation (%)	12.6	8.2	9.3	14.2	18.4	16.9	21.6	10.7	11.2	11.6	14.6	5.6	21.9
Local institutions net flow (USD m)	14.6	34.5	37.7	19.5	9.1	12.6	13.5	5.8	12.4	19.1	1.3	85.6	(0.2)
Foreign institutions net flow (USD m)	(14.1)	(35.6)	(42.7)	(25.4)	(13.5)	(19.7)	(19.2)	(6.9)	(13.6)	(22.7)	(3.2)	(78.6)	(2.3)
Fixed Income													
Bond Turnover (KES bn)	71.4	58.9	65.4	61.9	68.4	66.7	56.7	53.6	48.0	44.7	47.1	70.7	37.3
Bond Turnover (USD m)	616	504	555	521	570	553	467	441	389	355	372	534	279
T-Bill performance rate	59%	92%	84%	94%	73%	106%	92%	168%	93%	105%	167%	114%	110%
T-Bill allotment rate	100%	94%	66%	92%	93%	75%	84%	80%	79%	98%	85%	88%	96%
T-Bill offer fill rate	59%	86%	96%	28%	68%	80%	77%	135%	73%	103%	142%	100%	105%
T-Bond performance rate	95%	86%	97%	93%	98%	92%	56%	171%	69%	99%	53%	104%	27%
T-Bond allotment rate	91%	81%	93%	26%	78%	85%	85%	85%	85%	83%	91%	88%	64%
T-Bond offer fill rate	87%	70%	80%	40%	77%	78%	48%	146%	59%	82%	48%	91%	71%
5-year m/m yield change (bps)	100	85	354	323	42	10	58	53	70	70	68	60	30
2 year-91D yield spread (bps)	410	356	233	243	276	262	290	276	273	276	273	293	308
5 year-364D yield spread (bps)	255	237	75	85	292	302	347	313	322	302	286	289	306
5 year-2-year yield spread (bps)	75	95	80	120	130	135	140	135	143	123	115	98	100
5 yr Bond-5 yr IFB yield spread (bps)	155	115	205	220	82	93	120	105	103	88	50	-23	-30
10 year-2-year yield spread (bps)	145	220	84	94	213	228	173	175	168	148	180	155	145
Average monthly KES/USD	115.77	116.74	117.83	118.76	120.01	120.73	121.33	121.44	123.37	125.91	126.85	132.33	133.66

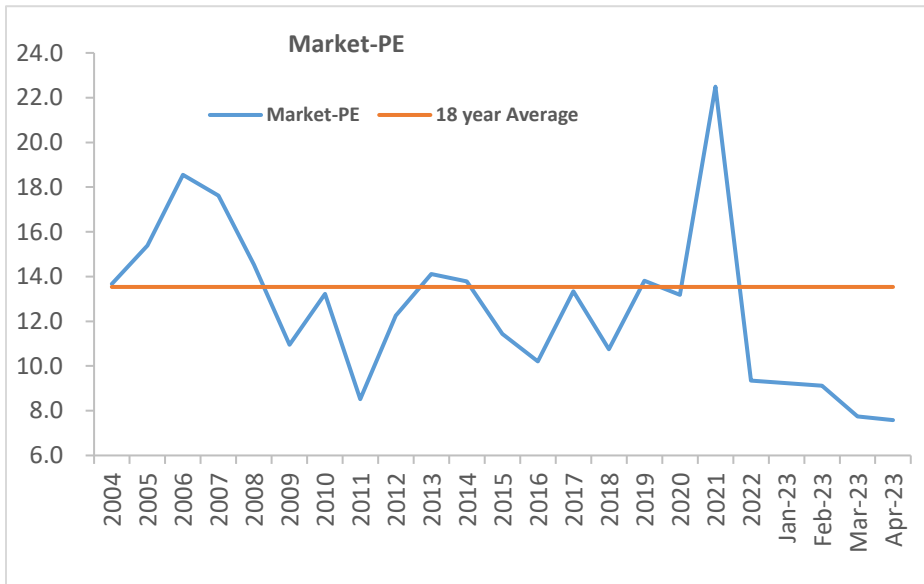
Ytd, Kenyan equities mark worst performance; only Nigeria equities in the green



Safaricom emerges as the key drag to NASI return, for the second straight month

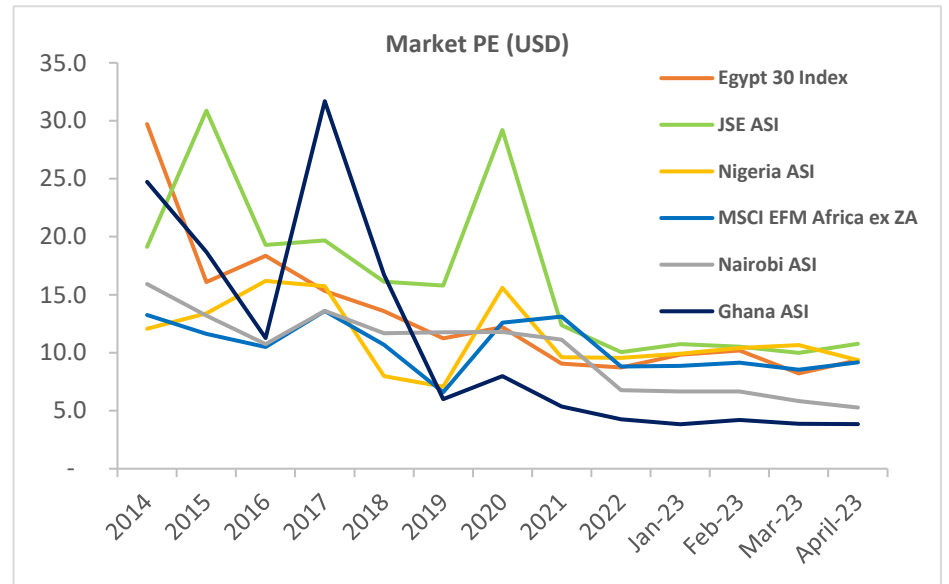


At 12-year low, NASI PE is 11% below its prior low & 66% below its peak



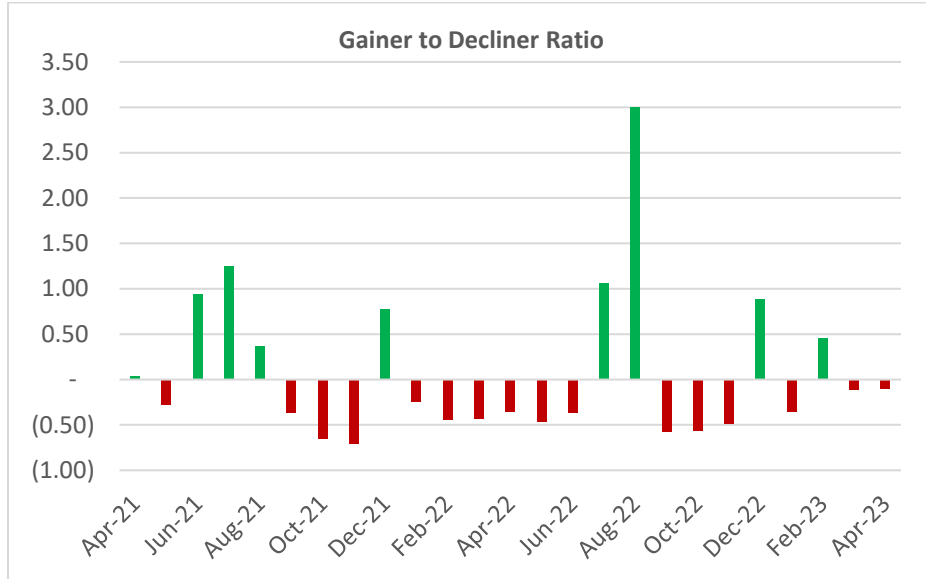
(As reported by the NSE)

NASI PE at the widest discount to MSCI EFM ex ZA since 2014 – 43% discount

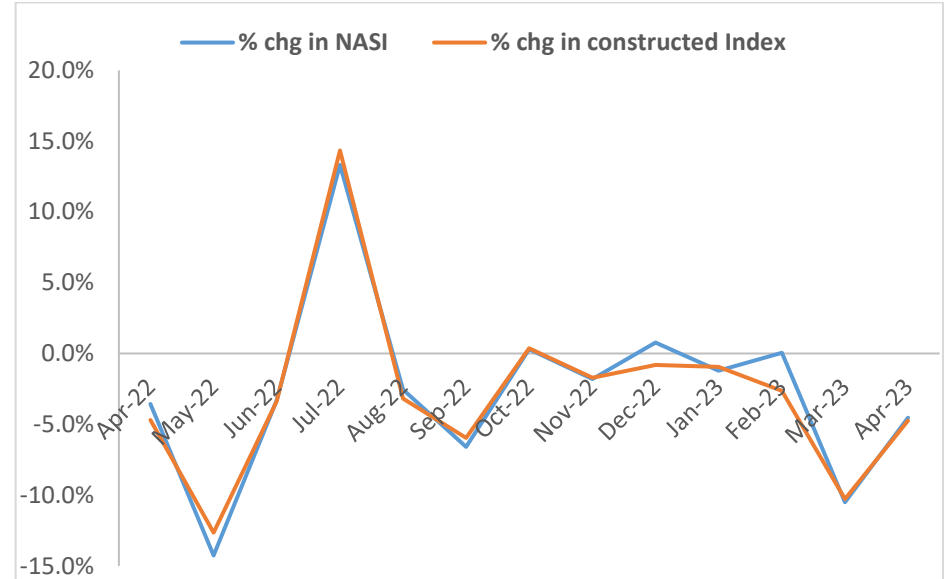


(As reported by Bloomberg)

Modest downward pressures persisted for the second successive month

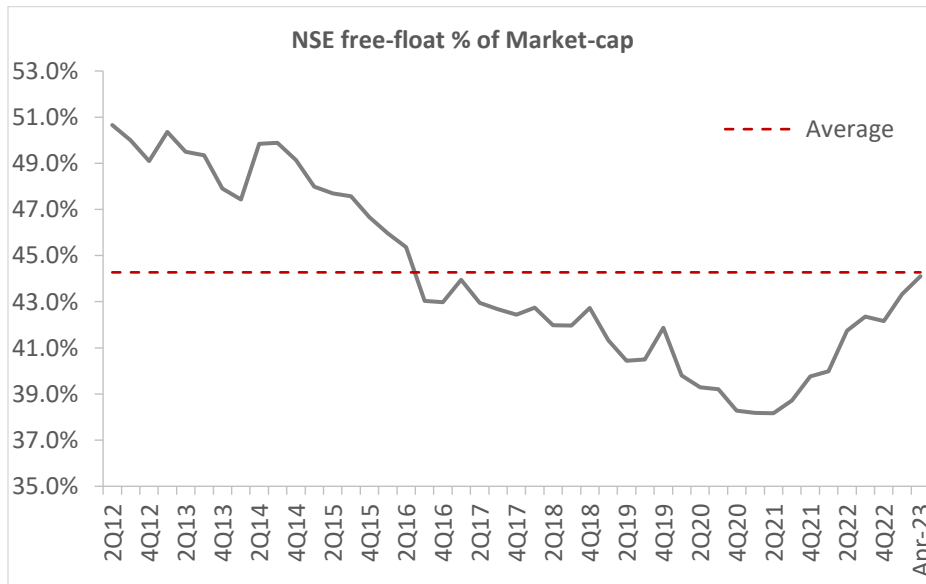


Large-cap stocks decline detract NASI return

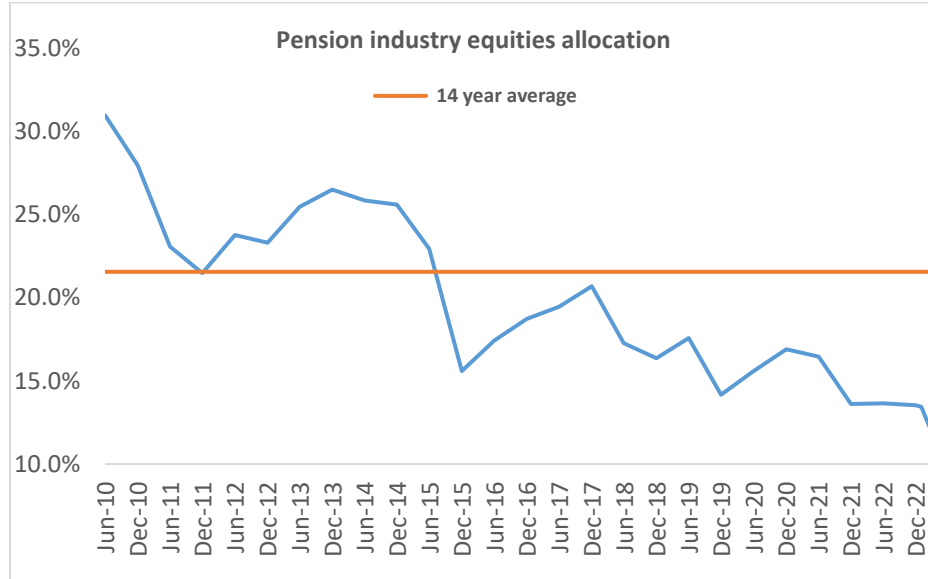


*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

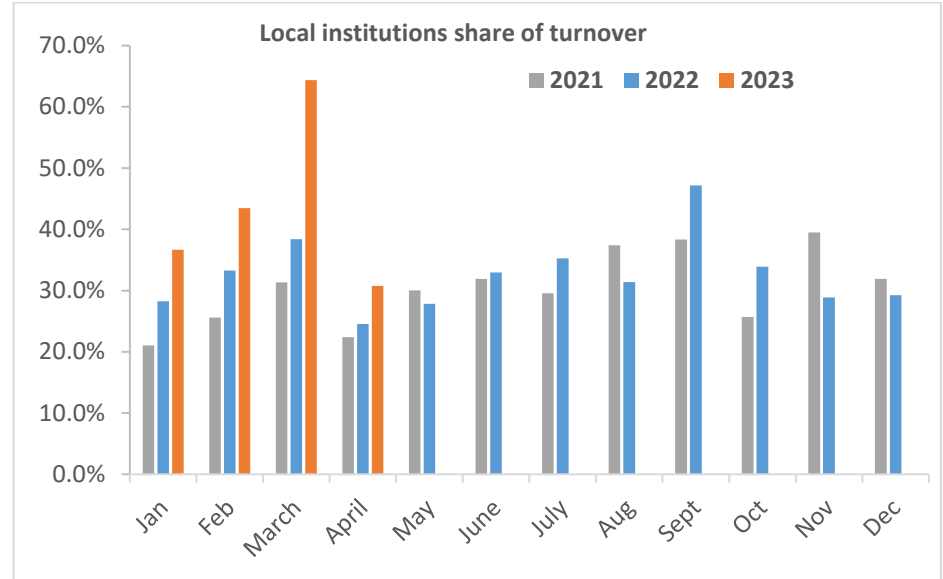
NSE free float as a % of market cap at the highest levels since 3Q22



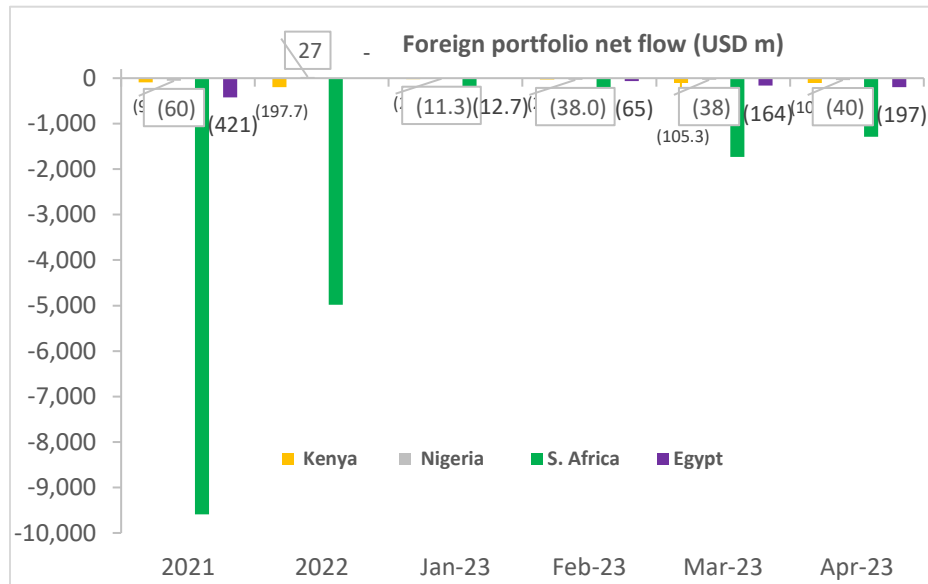
Equities allocation at a new record low, on account of share price erosions



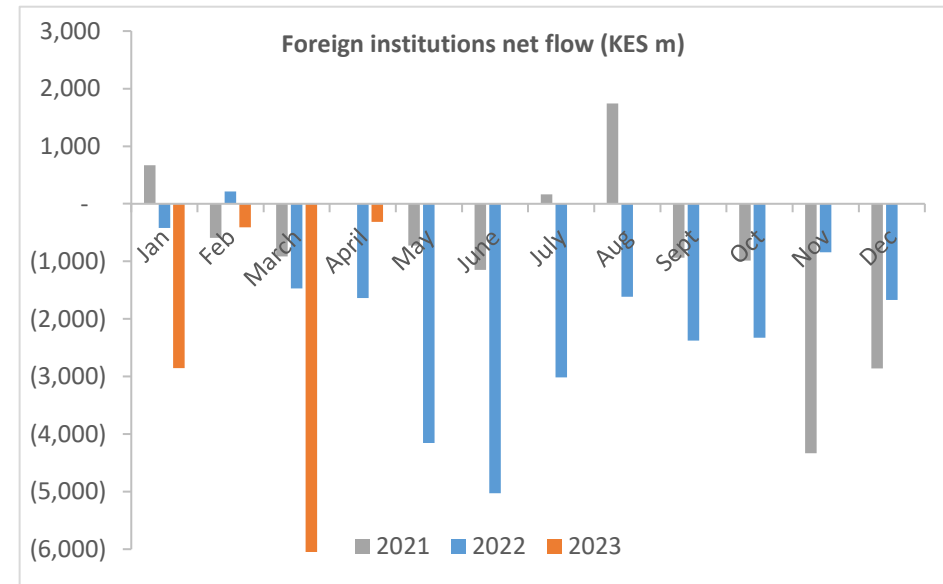
Local institutions' participation levels at a 4-month low



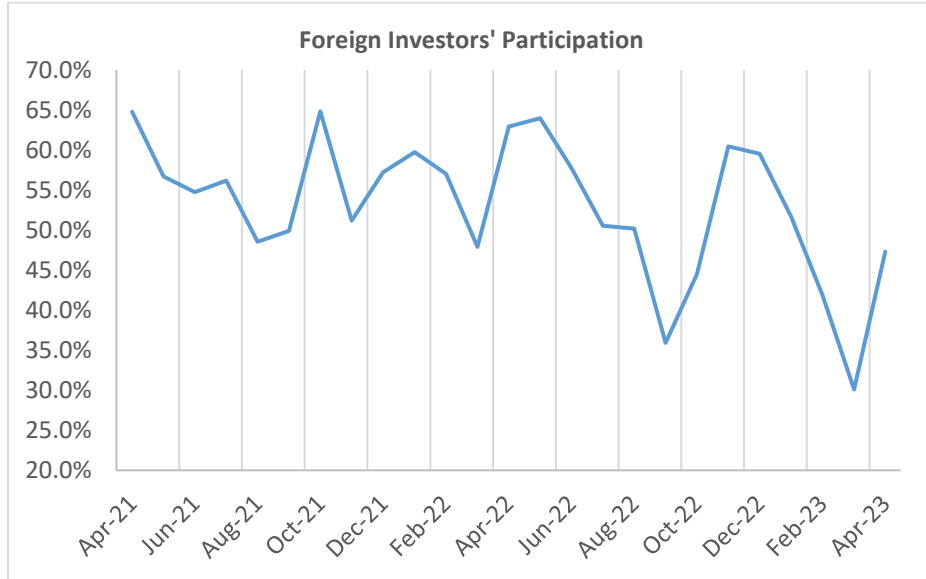
YTD to April 2023, foreign investors remain net sellers across the tracked markets



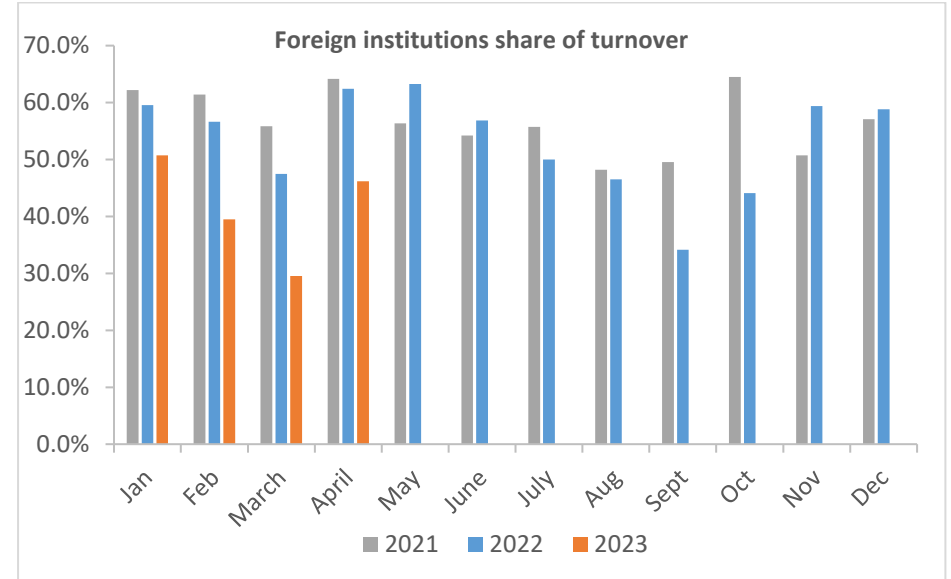
Foreign institutions emerge as net sellers for the fourteenth month in a row



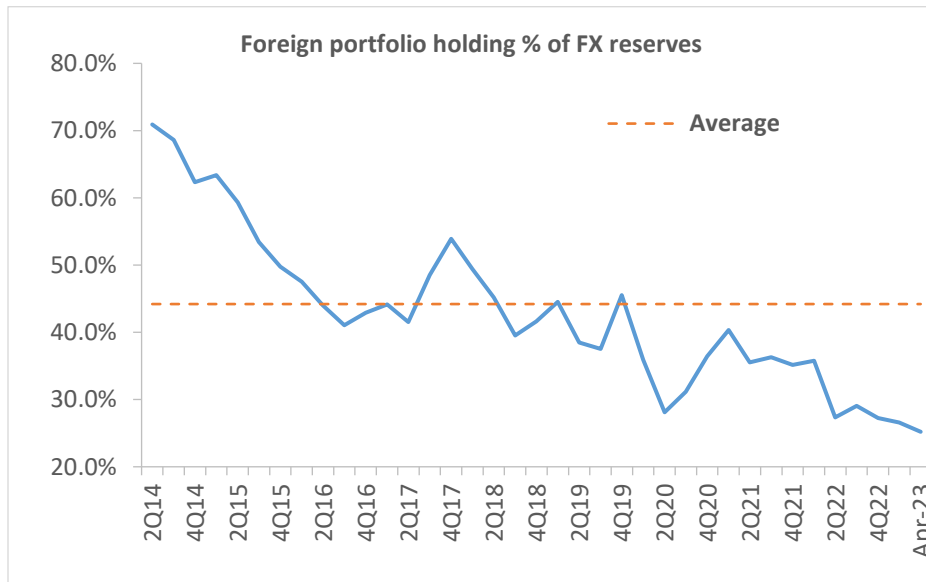
Foreign investors' participation levels at a 3-month high



Foreign institutions' activity rise to a 3-month high, up from a 7-year low



Foreign portfolio as a % of FX reserves at the lowest levels since 1Q14



FOREIGN FREE FLOAT TO TOTAL FREE FLOAT PER COUNTER

Foreign free float/total free float	1Q21	2Q21	3Q21	4Q21	1Q21	1Q22	2Q22	3Q22	4Q22	Jan-23	Feb-23	Mar-23	Apr-23
Safaricom	45.9%	45.7%	46.3%	45.2%	43.8%	40.8%	40.4%	39.1%	40.1%	37.8%	37.7%	36.6%	36.3%
Equity bank	36.1%	36.5%	36.7%	36.8%	37.4%	36.5%	36.2%	36.1%	36.7%	35.4%	35.3%	35.5%	35.8%
EABL	37.1%	36.7%	33.8%	33.2%	32.0%	30.5%	30.4%	30.4%	16.1%	29.9%	42.7%	42.3%	42.1%
KCB bank	14.5%	13.9%	14.1%	13.2%	13.4%	12.9%	12.0%	11.5%	11.4%	11.2%	11.4%	11.4%	11.4%
BK Group	99.5%	98.9%	98.8%	83.8%	98.8%	98.9%	98.9%	98.9%	87.4%	98.9%	98.9%	98.9%	98.8%
BAT Kenya	58.5%	57.7%	56.8%	56.5%	56.5%	56.3%	55.7%	55.6%	55.7%	52.1%	49.8%	48.5%	48.1%
KenGen	49.8%	49.1%	49.3%	51.5%	49.7%	49.5%	49.3%	48.5%	50.7%	48.0%	48.0%	48.0%	48.0%
I&M bank	32.7%	16.4%	16.4%	18.2%	16.4%	16.3%	16.3%	16.6%	33.3%	16.6%	16.7%	16.6%	16.6%
Jubilee Insurance	45.4%	45.5%	45.7%	45.4%	45.4%	45.4%	45.4%	45.5%	45.3%	45.4%	45.4%	45.4%	45.6%
Stanbic bank	40.7%	40.7%	40.8%	41.9%	41.6%	42.1%	42.1%	42.4%	42.7%	42.6%	43.4%	43.4%	43.4%
DTB bank	35.3%	35.2%	35.0%	35.7%	35.3%	35.7%	35.7%	35.6%	36.4%	35.5%	35.3%	35.3%	35.3%
Centum Investment	11.9%	11.0%	10.9%	10.9%	9.6%	9.0%	8.6%	8.6%	9.0%	8.6%	8.5%	8.5%	8.5%
StanChart bank	9.5%	7.1%	6.0%	5.4%	5.5%	5.5%	5.5%	5.5%	5.4%	5.5%	5.6%	5.6%	5.6%
Britam Insurance	14.0%	13.7%	13.7%	17.0%	13.7%	13.6%	13.5%	13.4%	16.7%	13.4%	13.4%	13.4%	13.4%
WPP ScanGroup	78.1%	76.5%	65.1%	72.8%	66.9%	66.9%	66.9%	66.9%	74.2%	66.9%	66.9%	66.9%	66.9%

Companies with foreign free float holding of over USD 10

MONTHLY NET FOREIGN FLOWS PER COUNTER

	April-22	May-22	June-22	July-22	Aug-22	Sept-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	April-22
Safaricom	(1,391)	(3,034)	(3,719)	(1,181)	(1,220)	(2,101)	(1,651)	(260)	(684)	(647)	(129)	(1,982)	(531)
Equity Bank	(70)	(342)	(1,007)	(549)	(183)	65	(489)	(112)	(473)	(216)	(92)	360	436
EABL	(128)	(522)	(183)	(103)	38	11	(71)	(150)	(176)	54	2	(9,226)	(98)
KCB bank	(116)	(260)	(98)	(967)	(224)	(360)	(74)	(60)	(160)	(23)	200	33	(2)
BK Group	25	(1)	(0)	(8)	(2)	(0)	0	(2)	(0)	(3)	-	-	(1)
BAT	(14)	(6)	(23)	(105)	(11)	(1)	(14)	(374)	(140)	(86)	(415)	(240)	(83)
Britam	0	0	(7)	(5)	(8)	(0)	(0)	(2)	(2)	1	-	-	-
I&M bank	(4)	1	(3)	2	1	30	1	0	(1)	0	7	(5)	(8)
Jubilee	(3)	4	(1)	(1)	1	9	(0)	(2)	(3)	(2)	(2)	3	16
Stanbic bank	47	26	(0)	-	(0)	33	(1)	-	(0)	32	99	0	0
DTB bank	(2)	(9)	47	(4)	(10)	9	(0)	(4)	(5)	(3)	(16)	(1)	(1)
KenGen	5	(7)	(8)	(11)	(28)	(21)	(16)	(8)	(1)	(0)	(1)	0	(3)
WPP ScanGroup	(0)	0	-	-	(0)	-	-	(0)	(0)	0	0	0	0
Centum	(3)	(17)	(8)	(19)	(1)	(0)	(0)	0	0	0	(3)	(2)	(1)
StanChart bank	3	3	(11)	2	1	(1)	(1)	(1)	(2)	0	12	(0)	(1)
BBK bank	(13)	(1)	(0)	1	(3)	0	0	110	(0)	39	43	123	0
Co-op Bank	(1)	(47)	(3)	(15)	5	16	(1)	(5)	(1)	0	(0)	5	(1)
NSE	(10)	(9)	0	0	(0)	(3)	(1)	(1)	(1)	(4)	(1)	(0)	(3)
Market	(1,653)	(4,207)	(5,036)	(2,972)	(1,656)	(2,337)	(2,319)	(887)	(1,664)	(859)	(382)	(10,692)	(283)

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

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