

MONTHLY MARKET COMMENTARY (August 2022): NCBA bank rallies to a 30-month high; Safaricom's losses largely weighs on NASI return

KEY HIGHLIGHTS

EQUITIES

- For the third successive month, market turnover dipped 33.2% m/m to stand at KES 5.3bn (USD 44.5m).
- The Advance-Decline ratio further improved to 3.0x (1.1x in July 2022) as gainers outpaced decliners by 4X on the back of broad-based gains.
- However, losses among large-cap stocks saw the NASI shed 2.5% m/m to 137.46. On the other hand, the NSE 20 added another 2.9% m/m to 1,751.20, marking the second straight win.
- Safaricom (-6.7% m/m) and EABL (-2.7% m/m) were the key drags to NASI return mainly on account of foreign and local selling, respectively. On account of local demand, NCBA bank (+16.6% m/m) and ABSA bank (+7.2% m/m) trended upwards. Notably, key shareholders of NCBA bank secured additional stake and the Board of Directors recommended an interim dividend of KES 2.00 per share with respect to 1H22 results, which we believe drove NCBA bank's rally to a 30-month high.
- The NASI trailing PE ratio contracted by 2.6% m/m to 10.1x by the end of August 2022. As a result, the NASI trailing PE discount to its 18-year average came in at 26.4%, remaining at a discount for the last five months.
- Sustaining a 6-months net selling streak, foreigner investors' net outflows settled at USD 13.8m (KES 1.7bn). Safaricom (USD 10.2m, KES 1.2bn), KCB bank (USD 1.9m, KES 224.4m) and Equity bank (USD 1.5m, KES 183.4m) recorded the highest net foreign outflows. On the other hand, EABL posted the highest net foreign inflows at USD 0.3m (KES 37.8m).
- On the back of share price erosion among large-caps, equities allocation by pension funds decreased to 13.8% in August 2022 compared to an estimated 14.2% in July 2022. We however highlight those local institutions remained net buyers of equities for the sixth month in a row.
- The foreign portfolio holdings as a % of CBK forex reserves further increased to 31.4% in August 2022, up from 31.0% witnessed in July 2022. Foreign portfolio holding declined 3.4% m/m as CBK forex reserves further came down 4.7% m/m.
- Among the key SSA equities market we track, on a YTD basis to August 2022, only Nigeria (+15.3%) has achieved positive USD returns. YTD to July 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 131.0m, USD 111.6m, USD 601.3m and USD 2,451.4m, respectively.

FIXED INCOME

- The bond market witnessed declined activity in August 2022 due to uncertainty from the August general election, though T-bill primary markets were active. 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 13.850%-13.950%.
- The infrastructure bonds witnessed poor demand, but a supply squeeze allowed the IFB curve to rally during the month as local buyers took up positions. The latest on-the-run 18yr, IFB1/2022/18Yr, traded largely between 13.200%-13.650%, while the existing 19yr, IFB1/2022/19Yr traded between 13.300%-13.700%. The shorter 11yr, IFB1/2020/11Yr, traded 13.000%-13.400%, while the 9yr, IFB1/2020/9Yr realizing levels 12.500%-12.850% as demand dwindled.
- During the month, Treasury opted to reopen FXD1/2022/3Yr, FXD2/2019/10Yr and FXD1/2021/20Yr targeting KES 50.0bn. The coupon rates were 11.766%, 12.300% and 13.444% respectively.
- The three bonds yielded 12.445%, 13.884% and 13.963% respectively and had a cut-off yields of 12.790%, 13.990% and 13.990% respectively. Treasury managed to raise a total of KES 38.5bn from the auction, which was sufficient to offset KES 29.6bn in bond maturities.

- In the second (2) month of FY2022/23, we estimate that Treasury has borrowed ~KES 55.3bn versus ~KES 170.8bn (down 67.6%).

MARKET OUTLOOK

EQUITIES:

- We expect inflationary pressures arising from fuel and food inflation to dampen investors' sentiments on account of expected erosion of corporate margins and subdued consumer demand. The latest review by the Energy & Petroleum Regulatory (Epra) in September 2022 will see petrol, diesel and kerosene prices increase by 12.7%, 17.9% and 15.6%, respectively, driven by removal of subsidies on petrol and reduction in subsidies on diesel and kerosene. We also expect companies that manufacture excisable goods such as alcoholic beverages and tobacco products to pass on excise duty increments of approximately 10.0% effected in July 2022 and additional 6.3% in October 2022. **Amidst an inflationary environment, we continue to favour banking stocks and companies with relatively stronger pricing power. We have BUYs on listed banks apart from StanChart bank. We also like EABL and BAT Kenya on account of their comparably better pricing power.**

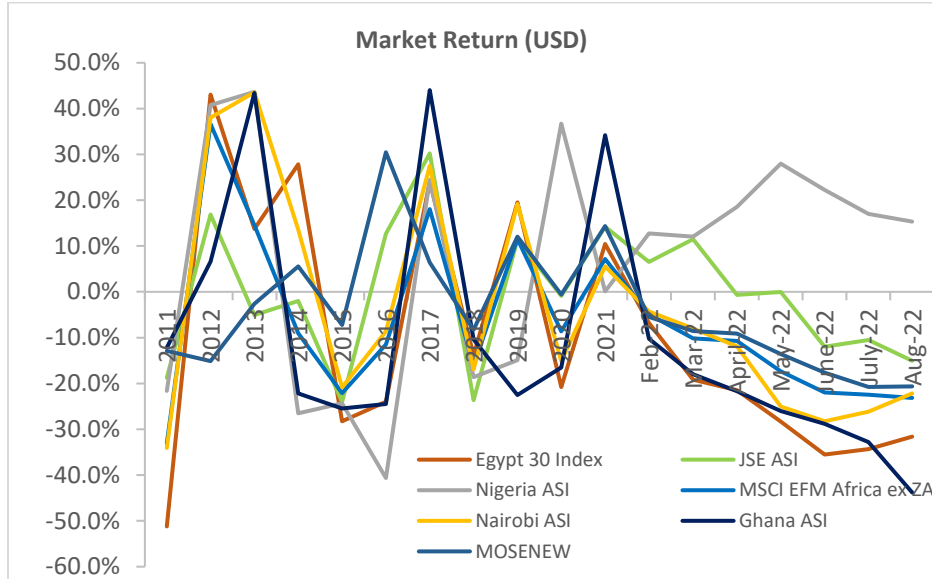
FIXED INCOME:

- Money market liquidity toward mid-September 2022 has improved following the conclusion of the recent elections. However, most banks are still maintaining high liquidity levels in CRR (and 91D Tbills). Treasury proposed to reopen the following bonds: FXD1/2022/10Yr and FXD1/2022/15Yr, to raise KES 50.0bn for the end of September 2022. These bonds are expected to yield an average of 13.850% and 13.975% respectively and the closure date for bids is Wednesday, 14th September 2022.

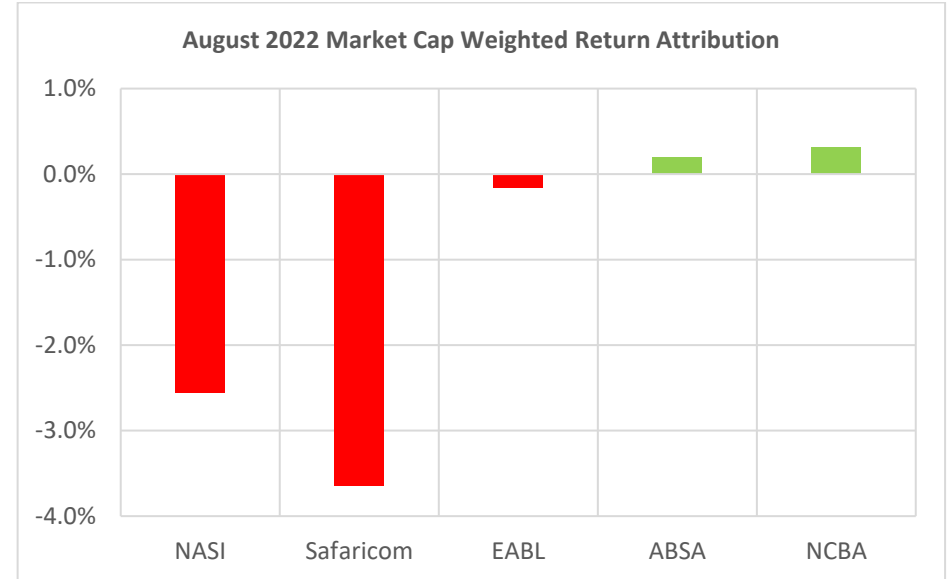
MONTHLY MARKET STATISTICS

	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22	June-22	July-22	Aug-22
Equities													
Market Capitalisation (USD bn)	25.9	25.1	25.0	22.7	22.9	22.4	21.9	21.1	20.2	17.2	16.5	18.5	17.8
NASI return (KES)	2.7%	-2.2%	-0.2%	-7.9%	1.6%	-1.9%	-1.9%	-2.8%	-3.6%	-14.3%	-3.3%	13.3%	-2.5%
NSE 20 return (KES)	2.4%	0.5%	-3.4%	-4.6%	1.7%	-0.7%	-0.1%	-2.1%	-2.5%	-6.6%	-4.1%	5.5%	2.9%
Gainers/Decliners ratio (x)	0.4	(0.4)	(0.7)	(0.7)	0.8	(0.2)	(0.4)	(0.4)	(0.4)	(0.5)	(0.4)	1.1	3.0
MSCI EFM ex. ZA (KES)	-0.2%	0.3%	5.1%	-3.6%	-2.8%	-0.7%	-3.6%	-3.3%	-1.1%	-6.6%	-4.7%	0.1%	0.1%
Equity Turnover (KES bn)	11.9	10.2	10.3	15.6	10.5	8.2	10.0	9.6	5.9	10.8	9.6	8.0	5.3
Equity Turnover (USD m)	107.9	92.6	92.4	138.5	92.5	72.6	87.6	83.9	50.5	92.3	81.5	67.4	44.5
Avg. daily value traded (USD m)	4.90	4.21	4.86	6.30	4.40	3.46	4.38	3.65	2.81	4.62	3.88	3.37	2.02
Foreign institutions participation (%)	48.2	49.6	49.6	50.7	57.1	59.6	56.6	47.5	62.4	63.3	56.9	50.0	46.5
Local institutions participation (%)	37.4	38.3	25.7	39.5	31.9	28.3	33.3	38.4	24.5	27.8	33.0	35.2	31.4
Local individuals' participation (%)	14.1	11.7	9.5	9.4	10.9	12.0	9.7	13.7	12.6	8.2	9.3	14.2	18.4
Local institutions net flow (USD m)	(10.6)	8.9	8.8	7.9	29.4	5.2	(4.4)	15.7	14.6	34.5	37.7	19.5	9.1
Foreign institutions net flow (USD m)	15.9	(8.5)	(8.4)	(8.8)	(25.3)	(3.7)	1.9	(12.8)	(14.1)	(35.6)	(42.7)	(25.4)	(13.5)
Fixed Income													
Bond Turnover (KES bn)	174.3	118.2	66.2	65.8	53.2	48.4	54.9	87.6	71.4	58.9	65.4	61.9	68.4
Bond Turnover (USD m)	1,586	1,070	596	585	470	426	482	762	616	504	555	521	570
T-Bill performance rate	174%	67%	58%	88%	69%	103%	94%	91%	59%	92%	84%	94%	73%
T-Bill allotment rate	77%	100%	94%	93%	85%	93%	94%	94%	100%	94%	66%	92%	93%
T-Bill offer fill rate	134%	67%	54%	82%	58%	95%	88%	85%	59%	86%	96%	28%	68%
T-Bond performance rate	72%	202%	93%	168%	103%	111%	176%	80%	95%	86%	97%	93%	98%
T-Bond allotment rate	98%	71%	94%	83%	92%	93%	75%	65%	91%	81%	93%	26%	78%
T-Bond offer fill rate	70%	142%	87%	139%	95%	104%	132%	52%	87%	70%	80%	40%	77%
5-year m/m yield change (bps)	-10	40	45	50	40	45	50	98	100	85	354	323	42
2 year-91D yield spread (bps)	249	240	253	247	249	271	330	359	410	356	233	243	276
5 year-364D yield spread (bps)	308	301	260	206	204	186	178	221	255	237	75	85	292
5 year-2-year yield spread (bps)	150	160	140	135	155	135	95	110	75	95	80	120	130
5 yr Bond-5 yr IFB yield spread (bps)	90	160	175	130	150	130	130	158	155	115	205	220	82
10 year-2-year yield spread (bps)	330	320	290	270	265	245	210	193	145	220	84	94	213
FTSE NSE KES Gov. bond price index USD return	-1.2%	-0.3%	-0.7%	-1.2%	-1.1%	--0.1%	--0.1%	0.5%	-2.2%	-0.8%	0.0%	0.0%	0.0%
Average monthly KES/USD	109.9	110.5	111.2	112.5	113.1	113.6	113.8	114.95	115.77	116.74	117.83	118.76	120.01

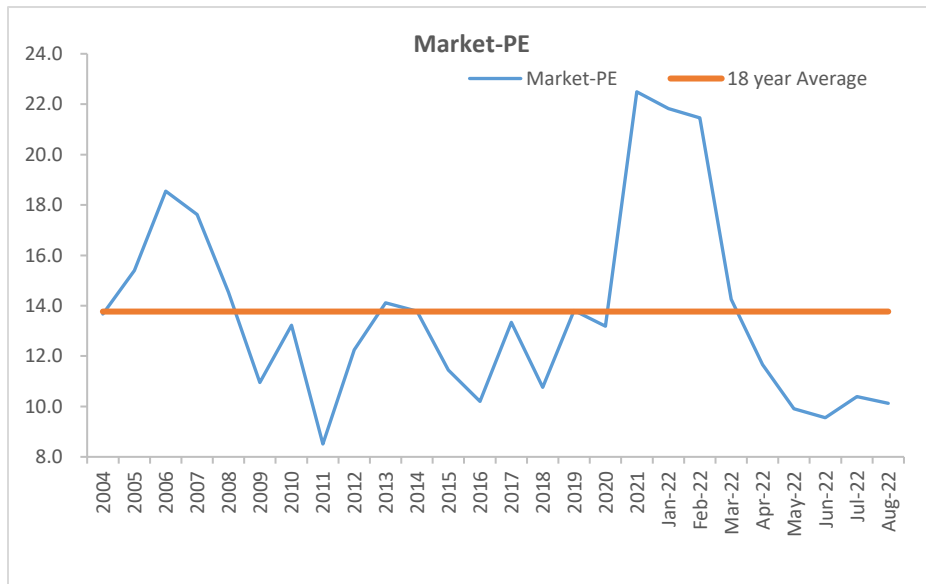
Ytd, Nigeria continues to outperform, most other peers are in negative territory



Large-cap stocks detract NASI return in the month of August

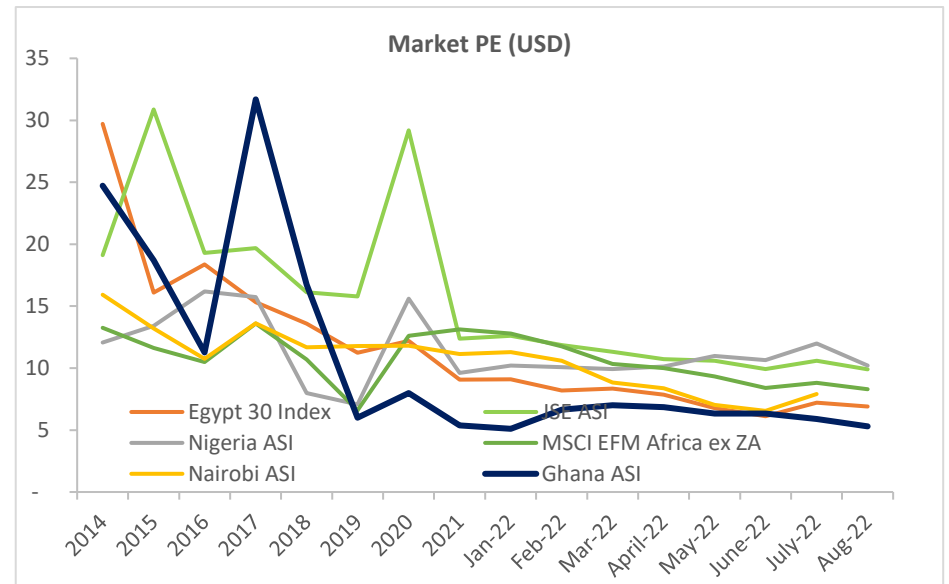


NASI PE ratio contracts by 2.6% m/m - discount of 26.4% to its historical avg.



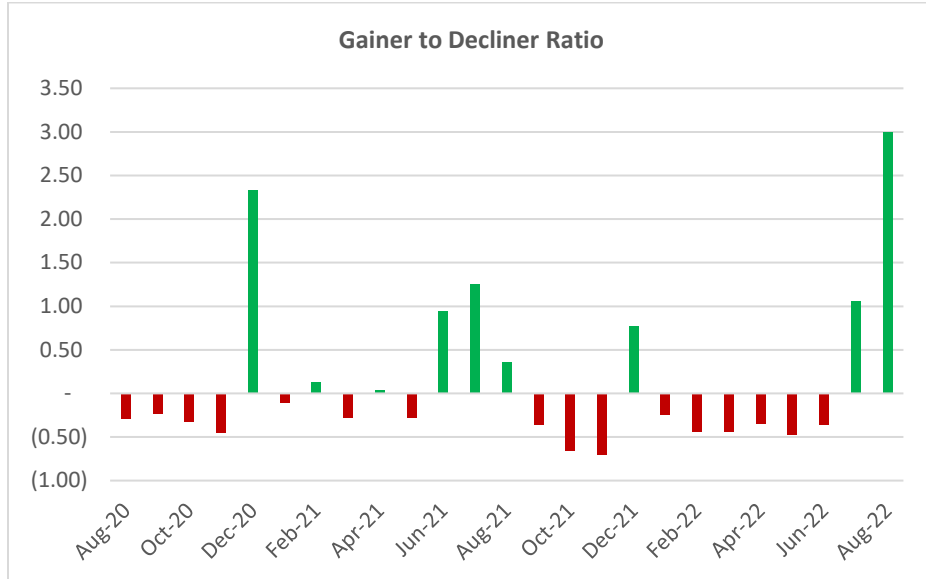
(As reported by the NSE)

Trailing market PEs remain at significant discounts to 8-year average of 43.3%

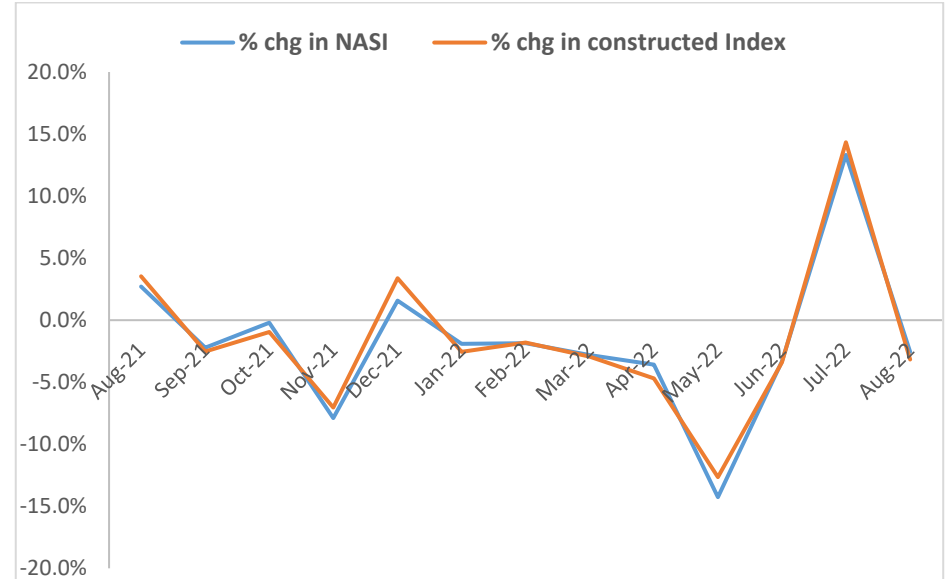


(As reported by Bloomberg)

Upward momentum sustained, gainers outpace losers by 4X

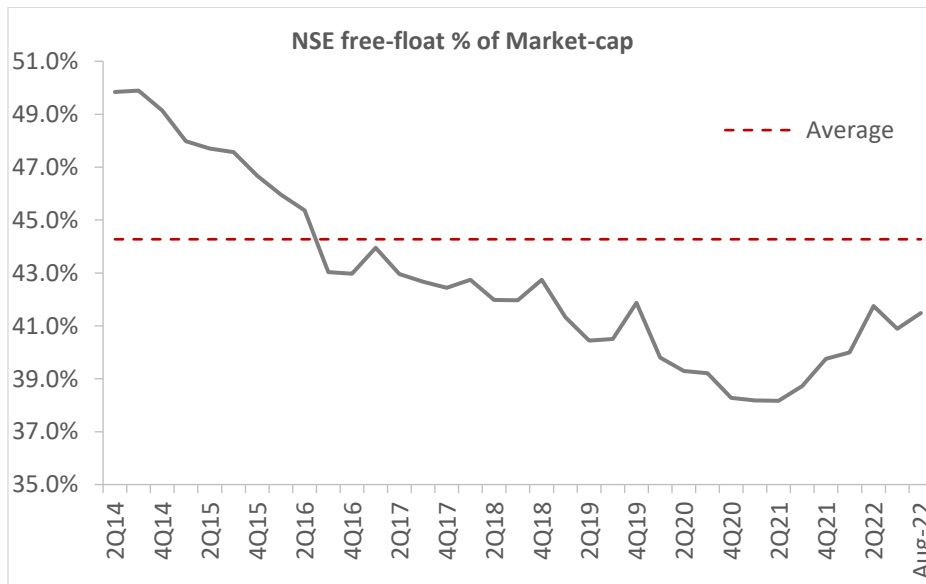


Large-cap stocks, mainly Safaricom & EABL, weigh on NASI return

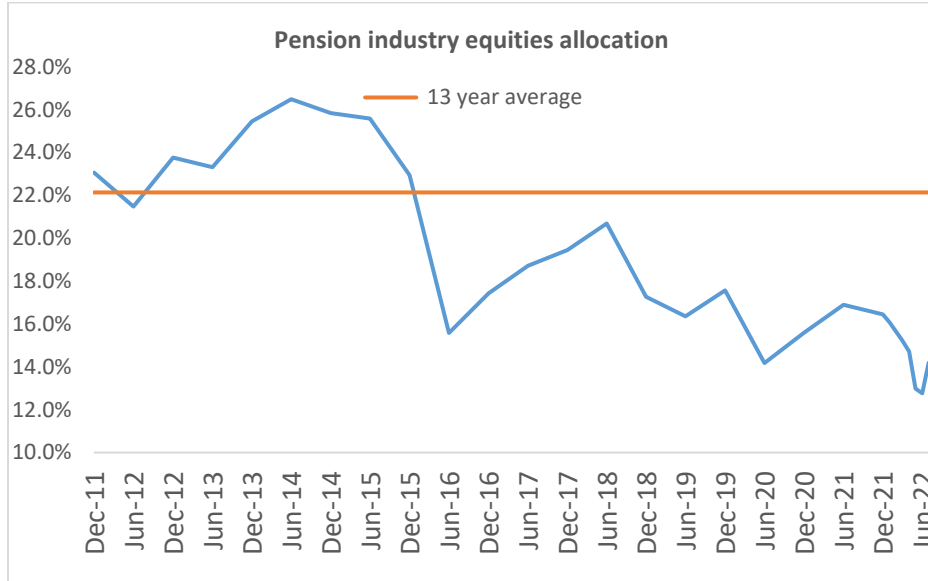


*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

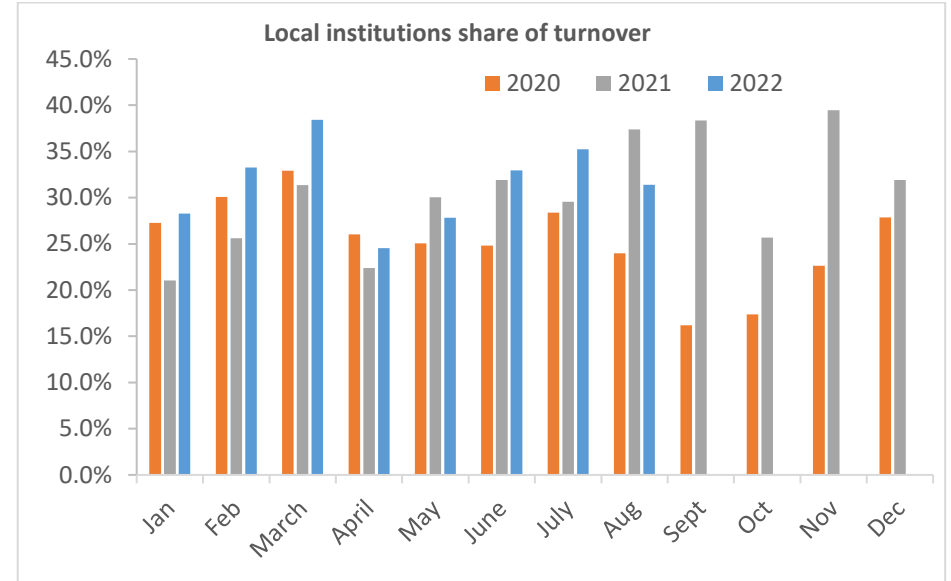
NSE free float as a % of market cap increase m/m from a 2-year high



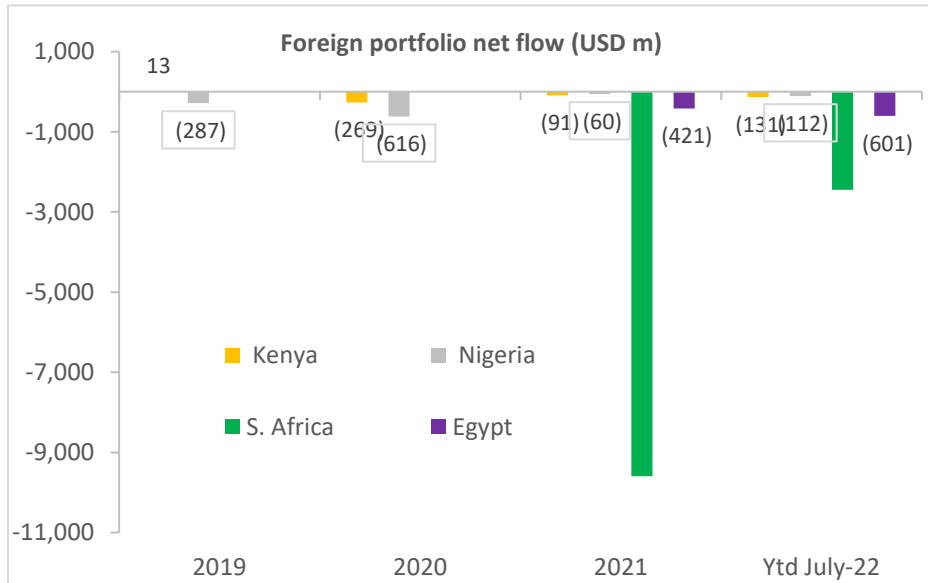
Equities allocation decline from a 3-month high, share price erosion on large caps



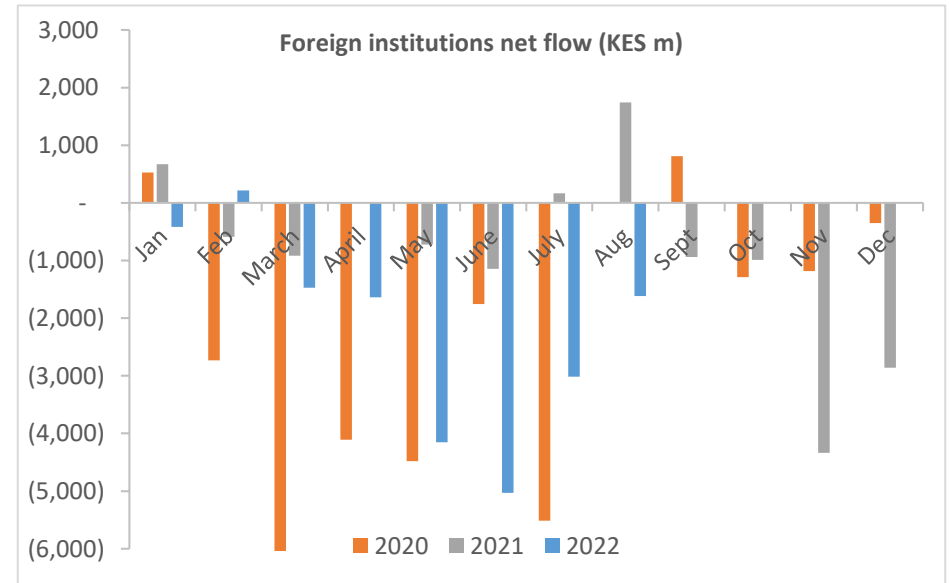
Local institutions' activity declines from a 5-month high



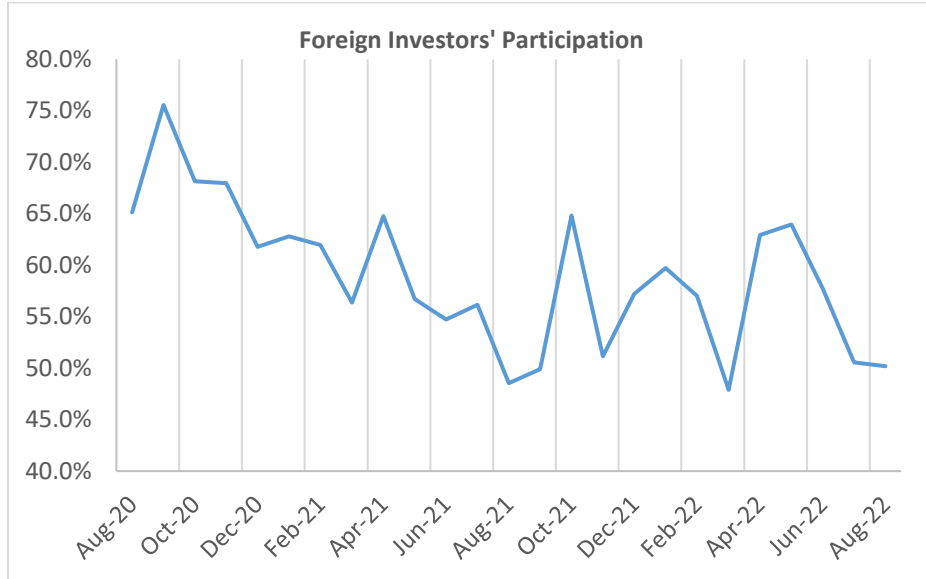
YTD to July 22, foreigners remain net sellers across key SSA markets



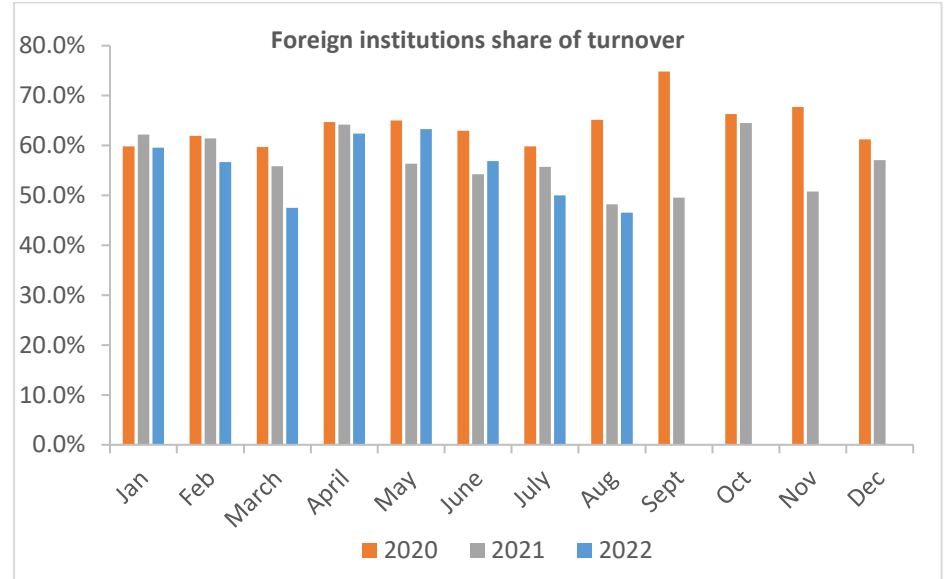
Foreign institutions remain net sellers for the sixth successive month



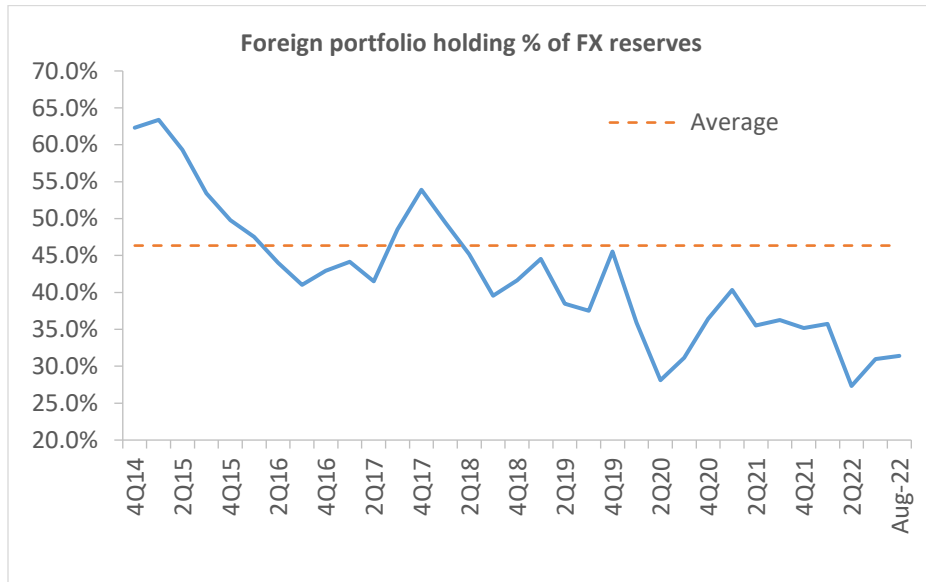
Foreign investors' participation levels decrease to a 6-month low



Foreign institutions' activity falls for the third straight month



Foreign portfolio/FX reserves increase m/m from an 8-year low the prior month



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	July-22	Aug-22
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%	39.9%
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%	11.8%
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%	48.8%
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%	16.3%
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%	45.4%
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%	42.1%
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%	35.5%
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

	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22	June-22	July-22	Aug-22
Safaricom	2,724	(804)	154	(4,710)	(1,562)	(834)	(719)	(1,400)	(1,391)	(3,034)	(3,719)	(1,181)	(1,220)
Equity Bank	325	160	(250)	1,053	(578)	376	605	(82)	(70)	(342)	(1,007)	(549)	(183)
EABL	(1,009)	(787)	(139)	(344)	(294)	(129)	(113)	(121)	(128)	(522)	(183)	(103)	38
KCB bank	(80)	384	(687)	(286)	(419)	89	367	101	(116)	(260)	(98)	(967)	(224)
BK Group	-	(2)	0	0	0	2	0	-	25	(1)	(0)	(8)	(2)
BAT	(124)	(17)	(48)	(15)	2	49	(24)	(0)	(14)	(6)	(23)	(105)	(11)
Britam	0	3	(0)	0	-	-	-	0	0	0	(7)	(5)	(8)
I&M bank	6	(0)	(3)	(0)	1	(0)	2	(10)	(4)	1	(3)	2	1
Jubilee	(3)	34	(10)	(8)	(7)	(4)	(10)	(2)	(3)	4	(1)	(1)	1
Stanbic bank	0	13	(4)	67	(0)	(0)	(34)	64	47	26	(0)	-	(0)
DTB bank	0	1	1	27	(1)	(1)	(7)	(0)	(2)	(9)	47	(4)	(10)
KenGen	8	6	12	17	12	(0)	2	(11)	5	(7)	(8)	(11)	(28)
WPP ScanGroup	(34)	(10)	0	4	0	-	7	0	(0)	0	-	-	(0)
Centum	(0)	(11)	(43)	0	(53)	0	6	(13)	(3)	(17)	(8)	(19)	(1)
StanChart bank	(83)	5	(12)	(46)	(4)	(2)	4	(4)	3	3	(11)	2	1
BBK bank	33	62	11	(72)	0	0	59	6	(13)	(1)	(0)	1	(3)
Co-op Bank	19	0	(1)	(24)	9	6	43	(0)	(1)	(47)	(3)	(15)	5
NSE	1	1	0	(1)	10	17	(0)	(0)	(10)	(9)	0	0	(0)
Market	1,721	(942)	(1,021)	(4,294)	(2,874)	(423)	187	(1,451)	(1,653)	(4,207)	(5,036)	(2,972)	(1,656)

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

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