

MONTHLY MARKET COMMENTARY (Feb 2022): NASI dips to a 12-month low and the NSE 20 marks a 10-month low, driven by declines in Safaricom and EABL

KEY HIGHLIGHTS

EQUITIES

- Last month, market turnover picked up by 20.9% from the previous month to end at USD 87.6m (KES 10.0bn), supported by local institutions trading, which touched a 3-month high.
- With further worsening of the advance/decline ratio to -0.4x (vs. -0.2x in Jan 2021), the NASI registered another decline of 1.9% m/m to finish at 160.25 - a 12-month low. For the second straight month, the NSE 20 marked down 0.1% to stand at 1,886.75 – a 10-month low.
- Safaricom (-2.6% m/m) and EABL (-3.6%) largely weighed on market performance. Notably, foreign investors sustained a 4-month net selling streak on Safaricom while extending their net foreign outflows on EABL to the ninth consecutive month.
- Investors continued to favour BAT Kenya, which achieved a monthly gain of 4.6%, following improved earnings performance in FY21 (EPS up 17.5% y/y) and the Board of Directors recommended a final DPS of KES 50.00, in addition to the interim DPS of KES 3.50. At current share price levels, the trailing dividend yield is 10.2%, which is relatively attractive in our view. Book closure date is set for 22nd April 2022.
- For the second successive month, the NSE trailing PE ratio contracted by 1.7% m/m to 21.5x by the end of February 2022. Compared to its 18-year historical average, the NSE PE is at a significant premium of 55.9%.
- Notably, after emerging net sellers for the last five months, foreign investors turned overall net buyers at USD 1.6m (KES 187.0m). Equity bank (USD 5.3m, KES 604.7m) and KCB bank (USD 3.2m, KES 367.3m) saw the highest net foreign inflows. On the other hand, Safaricom (USD 6.3m, KES 718.6m) and EABL (USD 1.0m, KES 112.7m) posted the highest net foreign outflows.
- As share prices eroded and local institutions recorded net outflows, equities allocation by pension funds dropped to an estimated 15.2% in February 2022 against an estimated 15.7% in January 2022, the lowest levels since June 2020.
- The foreign portfolio holdings as a % of CBK forex reserves further increased to 37.3%, up from 36.4% printed in the month of January 2022. Over the last two months, CBK forex reserves have declined faster at an average of 5.3%, than the foreign portfolio holdings (avg. of 2.4%).
- Among the key SSA equities market that we track, only S.Africa (+2.1%) and Nigeria (+1.3%) marked gains in the month of February 2022, in USD terms. Both benefited from local returns as their currencies weakened 0.3% and 0.5%, respectively. The poor run was similarly witnessed in the Frontier markets (-4.4%) and Emerging Markets (-2.7%) as measured by the MSCI Indices.
- Ytd to January 2022, foreign investors were overall net sellers in most SSA markets, with the exception of S.Africa. On net foreign outflows front, Kenya, Nigeria, and Egypt recorded outflows of USD 3.7m, USD 12.3m and USD 39.0m, respectively. S.Africa's net inflows came in at USD 454.4m.

FIXED INCOME

- The bond market witnessed declined activity in February 2022 largely due to general illiquidity in the money markets. The on-the-run 5yr (FXD1/2020/5Yr) garnered secondary market interest at the 11.200%-11.300% level, while the longer on-the-run 20yr, FXD1/2021/20Yr largely traded between 13.750%-13.850%.
- The infrastructure bonds witnessed poor demand for the long-dated issues as offshore investors took profit and local buyers took up positions. The latest on-the-run 19yr, IFB1/2022/19Yr, traded largely between 12.800%-13.000%, while the existing 16yr, IFB1/2021/16Yr traded between 12.300%-12.400%. The shorter 11yr, IFB1/2020/11Yr, traded 11.500%-12.000%, while the 9yr, IFB1/2020/9Yr realizing levels 11.000%-11.500% as demand dwindled.
- During the month, Treasury opted to issue a new IFB, IFB1/2022/19Yr, targeting KES 75.0bn (with KES 10.0bn green-shoe option). The coupon rate was market determined.
- The IFB1/2022/19Yr yielded 12.965% and the cut-off yield was 13.090% respectively. Treasury managed to raise a total of KES 98.6bn from the auction without a corresponding maturity on 21st February 2022 to offset.
- In the eighth (8) month of FY2021/22, we estimate that Treasury has borrowed ~KES 468.8bn versus ~KES 375.5bn (up 24.9%).

MARKET OUTLOOK

EQUITIES:

- With the expected spill-over effects of the high global oil prices, and the resultant inflationary pressures, we think investors should be biased towards the banking stocks (beneficiaries of high interest rates) and the utilities sector.
- In our view, we expect inflationary pressures to largely impact profit margins for manufacturers and depress sales volumes, owing to reduced household incomes.
- In our opinion, rising inflation could potentially lead to higher interest rates, benefitting the banks as loan yields expand faster than the cost of funding – at current share price levels, we have BUY ratings on KCB bank, Equity bank and DTB bank, implying upsides of 31%, 17% and 86%, respectively. KCB bank will be publishing its FY21 results this afternoon. We forecast KCB's FY21 EPS to grow by 38.5% y/y to KES 8.45 and announce a final DPS of KES 2.00, in addition to the declared interim DPS of KES 1.00.
- We believe KenGen remains cushioned against volatility in interest rates and currency, given its pricing structure, hence stands out as a defensive stock.

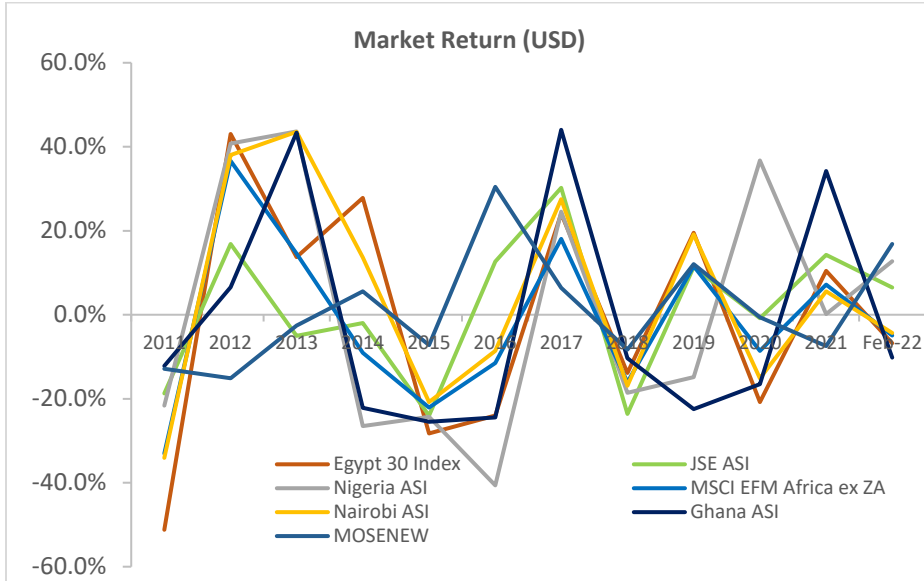
FIXED INCOME:

- Money market liquidity toward mid-March 2022 tightened as primary issues soaked up most liquidity in the secondary market. Treasury proposed to reopen three (3) tenors namely: - FXD1/2021/5Yr, FXD1/2020/15Yr and FXD1/2021/25Yr. We expected these bonds to average 11.500%, 13.250% and 13.900% respectively with cut-off possibly at 20-30bps higher. They averaged 11.997%, 13.732% and 13.973%, respectively. The CBK will be offering KES 31.5bn through a Tap Sale of Fixed coupons Treasury bonds namely; -the FXD1/2021/005, FXD1/2020/015 and FXD1/2021/025, with the period of sale running from 15th March 2022 to 18th March 2022. The average yield come in at 11.997%, 13.732% and 13.973%, respectively. We expect increased appetite for the FXD1/2020/015, whose coupon rate is at 12.756% - Adjusted Average Price (Per KES 100) of 95.124.

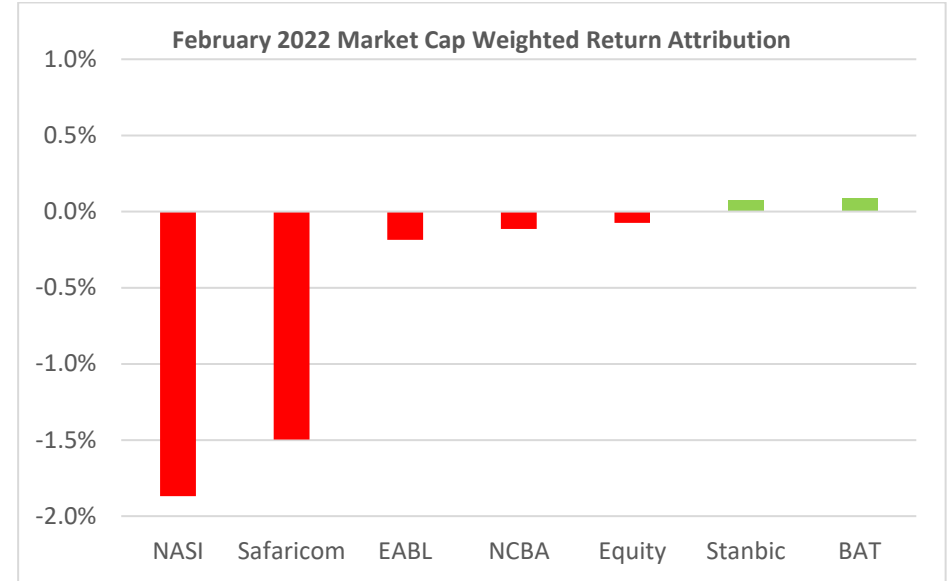
MONTHLY MARKET STATISTICS

	Feb-21	Mar -21	Apr-21	May-21	June-21	July-21	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
Equities													
Market Capitalisation (USD bn)	23.1	22.2	23.7	24.2	25.1	25.5	25.9	25.1	25.0	22.7	22.9	22.4	21.9
NASI return (KES)	6.3%	-4.1%	6.6%	0.5%	2.1%	2.3%	2.7%	-2.2%	-0.2%	-7.9%	1.6%	-1.9%	-1.9%
NSE 20 return (KES)	1.8%	-3.6%	1.1%	0.3%	3.0%	2.4%	2.4%	0.5%	-3.4%	-4.6%	1.7%	-0.7%	-0.1%
Gainers/Decliners ratio (x)	0.1	(0.3)	0.0	(0.3)	0.9	1.3	0.4	(0.4)	(0.7)	(0.7)	0.8	(0.2)	(0.4)
MSCI EFM ex. ZA (KES)	-1.2%	-3.3	3.1%	0.4%	0.3%	2.7%	-0.2%	0.3%	5.1%	-3.6%	-2.8%	-0.7%	-3.6%
Equity Turnover (KES bn)	10.8	12.1	9.9	14.2	14.0	9.3	11.9	10.2	10.3	15.6	10.5	8.2	10.0
Equity Turnover (USD m)	98.5	110.2	91.6	131.6	129.4	85.4	107.9	92.6	92.4	138.5	92.5	72.6	87.6
Avg. daily value traded (USD m)	4.9	4.8	4.6	6.6	6.16	4.07	4.90	4.21	4.86	6.30	4.40	3.46	4.38
Foreign institutions participation (%)	62.0	55.8	64.2	56.3	54.2	55.7	48.2	49.6	49.6	50.7	57.1	59.6	56.6
Local institutions participation (%)	25.6	31.3	22.4	30.1	31.9	29.6	37.4	38.3	25.7	39.5	31.9	28.3	33.3
Local individuals' participation (%)	12.4	12.3	12.8	13.2	13.4	14.3	14.1	11.7	9.5	9.4	10.9	12.0	9.7
Local institutions net flow (USD m)	1.7	8.0	1.7	16.1	3.8	1.8	(10.6)	8.9	8.8	7.9	29.4	5.2	(4.4)
Foreign institutions net flow (USD m)	(5.4)	(8.3)	0.0	(6.7)	(10.6)	1.5	15.9	(8.5)	(8.4)	(8.8)	(25.3)	(3.7)	1.9
Fixed Income													
Bond Turnover (KES bn)	77.0	67.6	67.6	107.0	96.6	95.8	174.3	118.2	66.2	65.8	53.2	48.4	54.9
Bond Turnover (USD m)	701.3	617.0	626.7	994.9	895.7	881.8	1,586	1,070	596	585	470	426	482
T-Bill performance rate	87.9%	115.6%	65.4%	136.2%	150.7%	107%	174%	67%	58%	88%	69%	103%	94%
T-Bill allotment rate	93.4%	87.8%	93.9%	64.0%	52.0%	87%	77%	100%	94%	93%	85%	93%	94%
T-Bill offer fill rate	82.1%	101.5%	61.4%	87.1%	78.4%	92%	134%	67%	54%	82%	58%	95%	88%
T-Bond performance rate	77.6%	97.4%	147.6%	126.6%	216.4%	140%	72%	202%	93%	168%	103%	111%	176%
T-Bond allotment rate	81.5%	99.2%	92.5%	64.8%	30.3%	76%	98%	71%	94%	83%	92%	93%	75%
T-Bond offer fill rate	63.3%	96.6%	136.6%	82.0%	65.7%	107%	70%	142%	87%	139%	95%	104%	132%
5-year m/m yield change (bps)	10	0	0	-10	-10	-10	-10	40	45	50	40	45	50
2 year-91D yield spread (bps)	242	226	239	246	259	282	249	240	253	247	249	271	330
5 year-364D yield spread (bps)	159	134	123	134	277	307	308	301	260	206	204	186	178
5 year-2-year yield spread (bps)	125	125	110	90	105	120	150	160	140	135	155	135	95
5 yr Bond-5 yr IFB yield spread (bps)	50	40	30	20	50	75	90	160	175	130	150	130	130
10 year-2-year yield spread (bps)	285	305	300	280	295	320	330	320	290	270	265	245	210
FTSE NSE KES Gov. bond price index USD return	0.0%	0.1%	1.2%	0.0%	-0.2%	-1.2%	-1.2%	-0.3%	-0.7%	-1.2%	-1.1%	--0.1%	--0.1%
Average monthly KES/USD	109.8	109.5	107.8	107.6	107.85	108.6	109.9	110.5	111.2	112.5	113.1	113.6	113.8

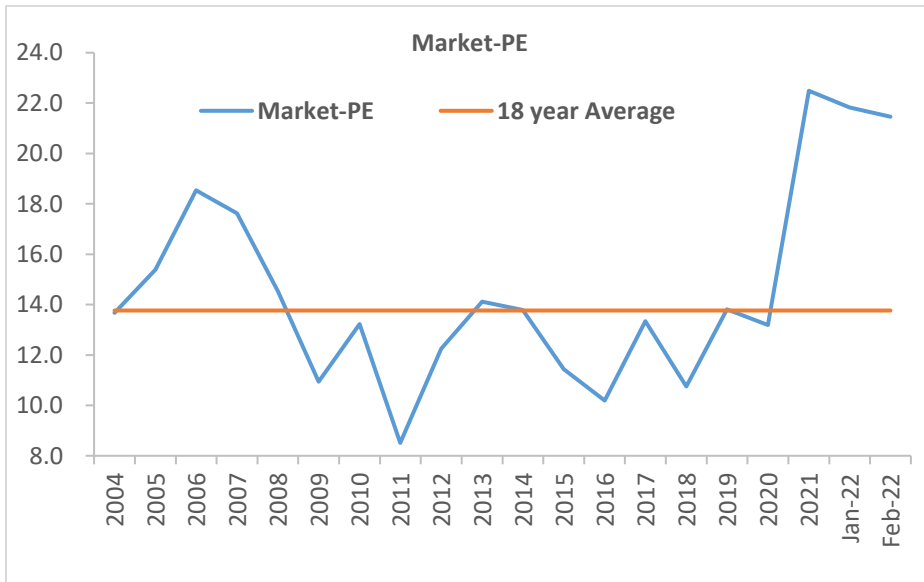
Ytd, Nigeria equities outperform while Ghana equities underperform peers



Safaricom & EABL key drags to NASI return, BAT supports the NASI on attractive Div.

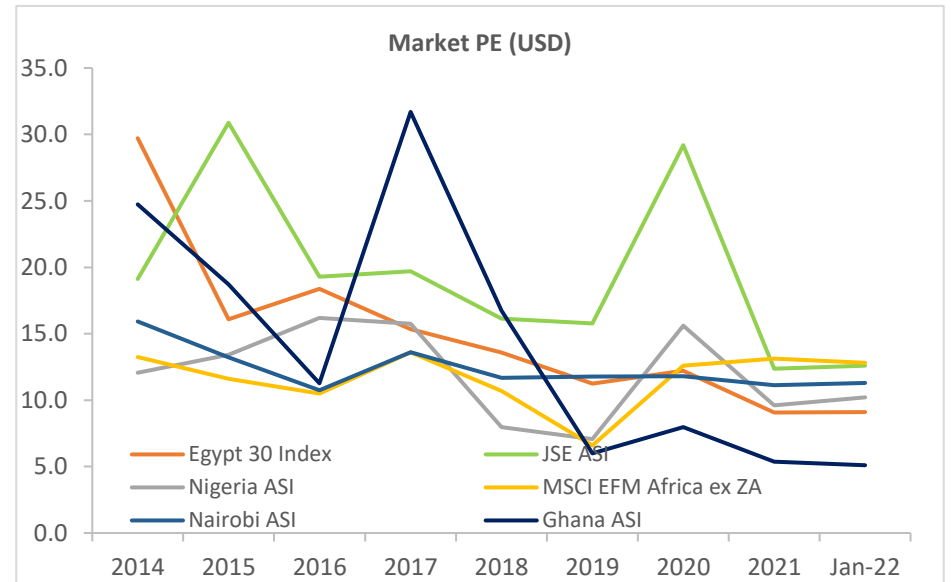


NASI PE ratio contracts further by 1.7%, 55.9% discount to its historical avg.



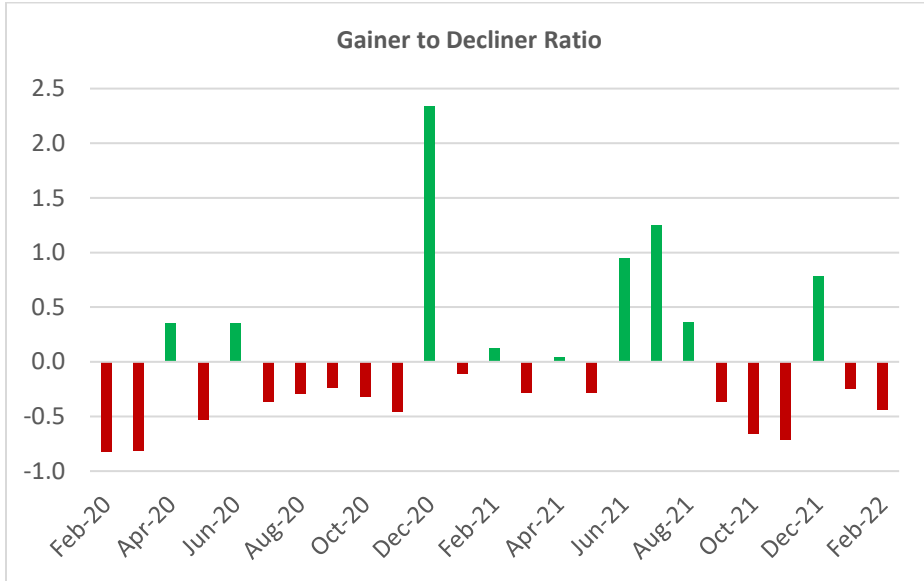
(As reported by the NSE)

Trailing NASI PE at 10.5% discount to MSCI EFM Africa ex ZA, down from 11.7%

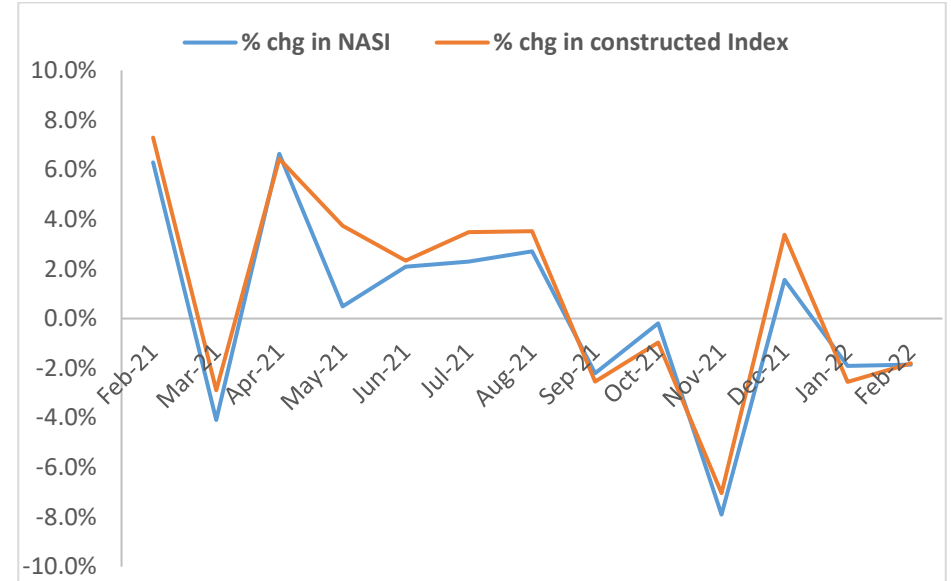


(As reported by Bloomberg)

Equities market continue to cool off, sustaining a downward momentum

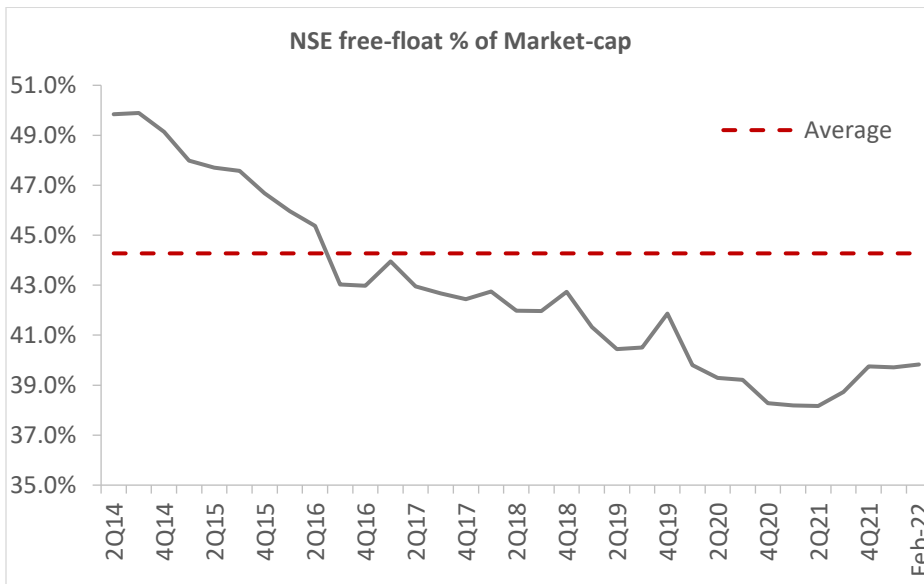


Broad based decline in stock prices weigh further on the NASI return

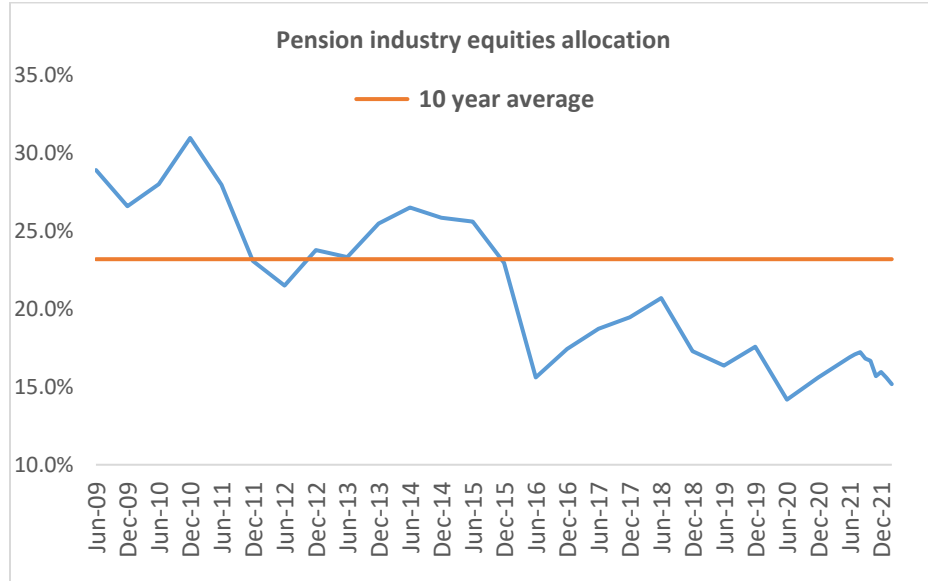


*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

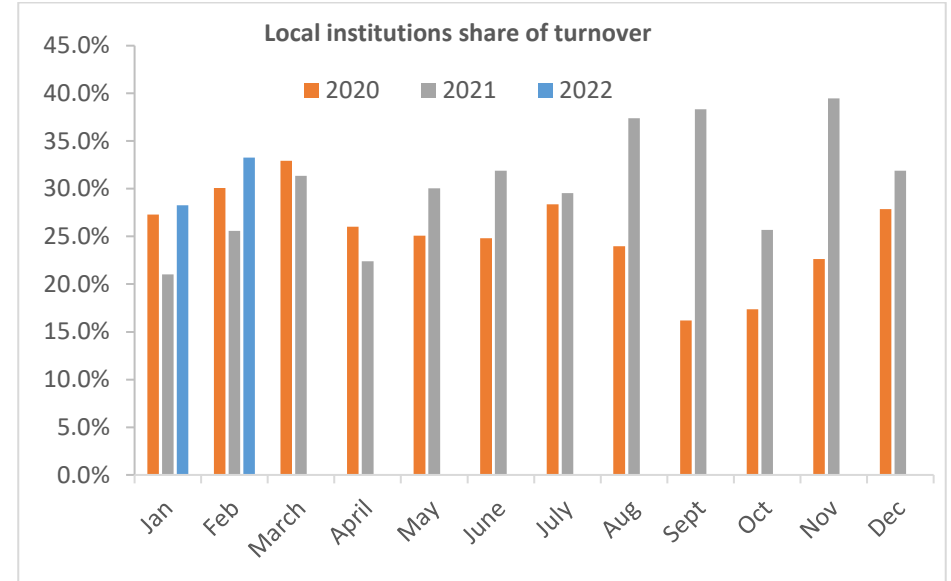
NSE free float as a % of market cap unchanged, both MKt Cap & free-float fall



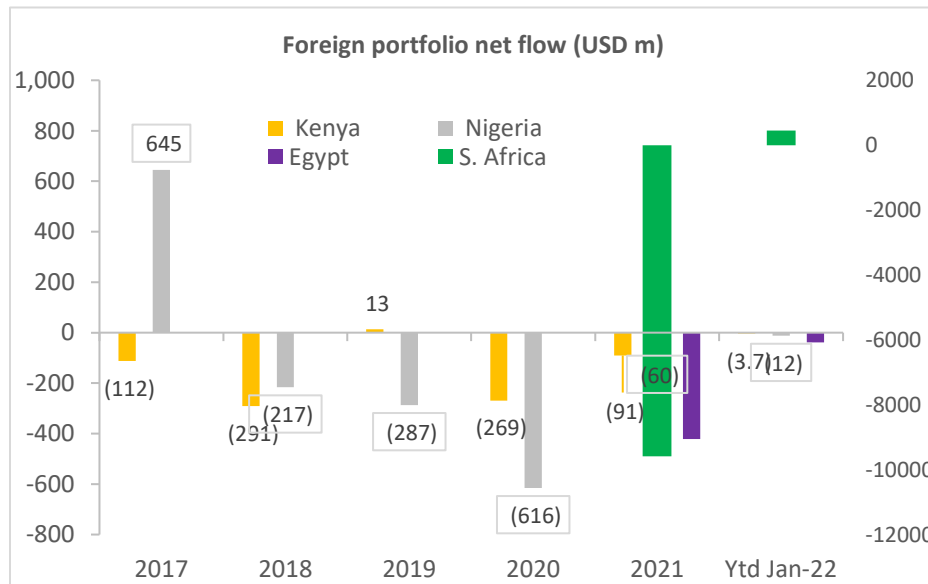
Equities allocation at the lowest levels since Jun 2020, net local outflows & price losses



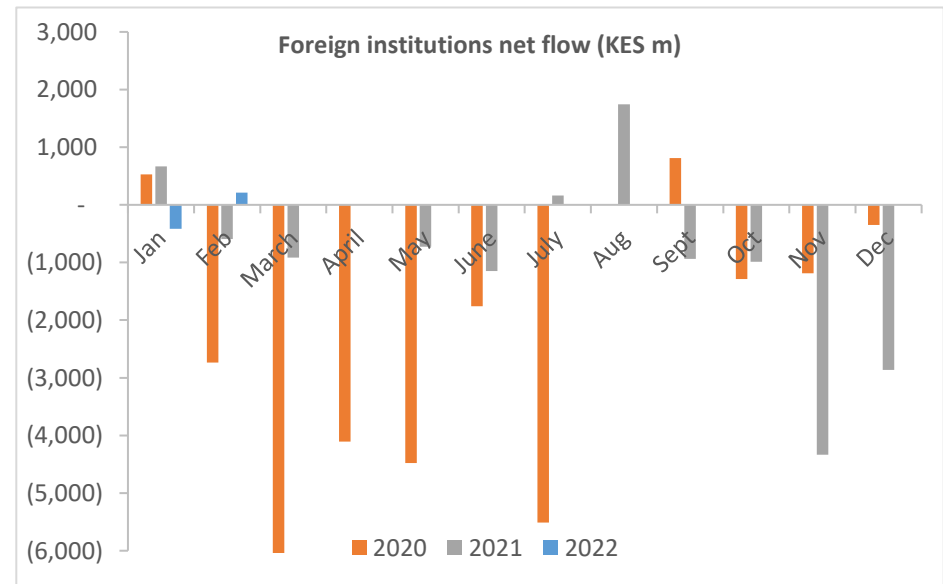
Local institutions' activity rebound to a 3-month high



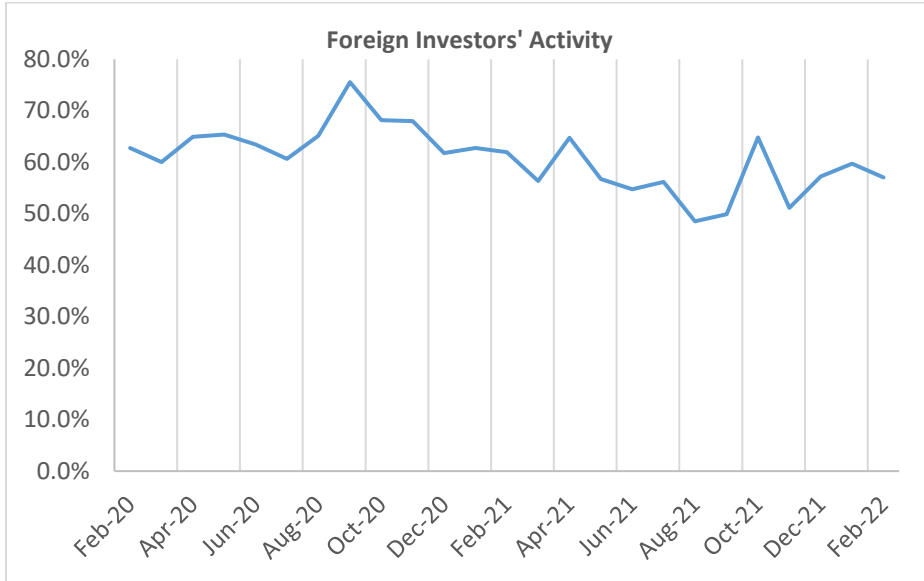
YTD to Jan 22, foreign investors end as net sellers in key mkts, S. Africa the exception



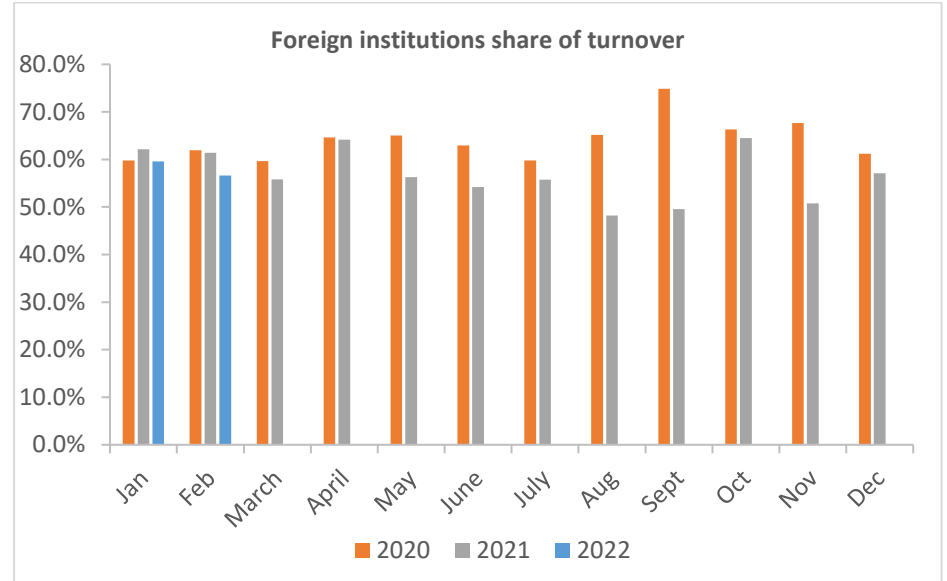
Foreign institutions turn net buyers after net selling over the last 5 months



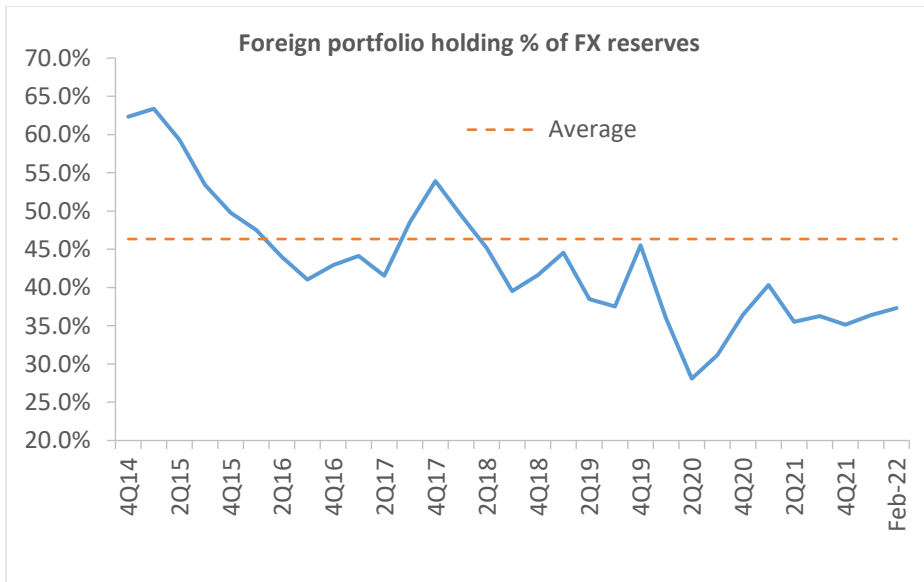
Foreign investors' participation levels mark a 2-month low



Foreign institutions' activity reduce m/m, hitting a 3-month low



Foreign portfolio as a % of FX reserves at the highest levels since 1Q21, declining reserves



FOREIGN FREE FLOAT TO TOTAL FREE FLOAT PER COUNTER

Foreign free float/total free float	4Q17	4Q18	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	Jan-22	Feb-22
Safaricom	50.4%	45.4%	46.8%	45.0%	44.8%	44.3%	45.4%	45.9%	45.7%	46.3%	45.2%	44.4%	44.2%
Equity bank	46.2%	43.8%	41.8%	41.2%	38.2%	37.5%	36.1%	36.1%	36.5%	36.7%	36.8%	37.1%	37.4%
EABL	45.0%	40.4%	42.0%	41.2%	39.9%	39.8%	38.2%	37.1%	36.7%	33.8%	33.2%	32.4%	32.2%
KCB bank	35.4%	27.5%	26.7%	22.8%	19.6%	18.3%	16.1%	14.5%	13.9%	14.1%	13.2%	13.0%	13.3%
BK Group	n/a	100.0%	100.0%	100.0%	100.0%	99.9%	99.6%	99.5%	98.9%	98.8%	83.8%	98.8%	98.8%
BAT Kenya	59.5%	61.5%	64.0%	63.9%	62.6%	62.1%	59.8%	58.5%	57.7%	56.8%	56.5%	56.7%	56.5%
KenGen	43.8%	49.4%	51.2%	51.6%	51.5%	51.2%	50.3%	49.8%	49.1%	49.3%	51.5%	49.8%	49.8%
I&M bank	33.6%	32.8%	32.6%	32.6%	32.6%	32.6%	32.7%	32.7%	16.4%	16.4%	18.2%	16.4%	16.4%
Jubilee Insurance	49.6%	48.6%	45.3%	44.6%	44.7%	45.2%	45.2%	45.4%	45.5%	45.7%	45.4%	45.5%	45.4%
Stanbic bank	56.2%	50.3%	48.9%	46.5%	43.6%	41.5%	40.6%	40.7%	40.7%	40.8%	41.9%	41.4%	41.1%
DTB bank	35.6%	36.5%	35.1%	35.7%	36.0%	35.7%	35.5%	35.3%	35.2%	35.0%	35.7%	35.3%	35.3%
Centum Investment	13.1%	13.7%	14.8%	14.7%	14.5%	13.8%	12.5%	11.9%	11.0%	10.9%	10.9%	9.7%	9.8%
StanChart bank	4.9%	9.8%	11.3%	11.2%	10.7%	13.8%	12.5%	9.5%	7.1%	6.0%	5.4%	5.5%	5.6%
Britam Insurance	24.2%	76.5%	78.6%	75.2%	14.6%	10.8%	10.8%	14.0%	13.7%	13.7%	17.0%	13.7%	13.7%
WPP ScanGroup	72.7%	91.0%	95.4%	95.9%	95.5%	80.6%	78.1%	78.1%	76.5%	65.1%	72.8%	65.8%	66.9%

Companies with foreign free float holding of over USD 10m

MONTHLY NET FOREIGN FLOWS PER COUNTER

	Feb-21	Mar-21	Apr-21	May-21	June-20	July-21	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
Safaricom	975	(764)	480	(173)	(1,058)	442	2,724	(804)	154	(4,710)	(1,562)	(834)	(719)
Equity Bank	(56)	218	(106)	(70)	767	36	325	160	(250)	1,053	(578)	376	605
EABL	(324)	(148)	(39)	102	(385)	(146)	(1,009)	(787)	(139)	(344)	(294)	(129)	(113)
KCB bank	(967)	49	(102)	(494)	(134)	(38)	(80)	384	(687)	(286)	(419)	89	367
BK Group	(21)	(0)	(98)	0	(39)	(21)	-	(2)	0	0	0	2	0
BAT	(3)	(179)	(74)	(12)	(49)	(37)	(124)	(17)	(48)	(15)	2	49	(24)
Britam	-	(14)	3	2	0	(10)	0	3	(0)	0	-	-	-
I&M bank	0	0	2	4	(1)	3	6	(0)	(3)	(0)	1	(0)	2
Jubilee	(25)	50	25	1	(5)	(4)	(3)	34	(10)	(8)	(7)	(4)	(10)
Stanbic bank	27	(15)	0	-	0	(0)	0	13	(4)	67	(0)	(0)	(34)
DTB bank	(5)	(14)	(4)	(4)	3	(20)	0	1	1	27	(1)	(1)	(7)
KenGen	(21)	(9)	(36)	(8)	(8)	(0)	8	6	12	17	12	(0)	2
WPP ScanGroup	(1)	0	(6)	(5)	(0)	(22)	(34)	(10)	0	4	0	-	7
Centum	(28)	(44)	(18)	(9)	(25)	1	(0)	(11)	(43)	0	(53)	0	6
StanChart bank	(209)	(42)	(81)	(40)	(58)	(64)	(83)	5	(12)	(46)	(4)	(2)	4
BBK bank	48	(5)	(0)	(3)	(10)	35	33	62	11	(72)	0	0	59
Co-op Bank	(1)	(27)	10	(6)	(48)	(1)	19	0	(1)	(24)	9	6	43
NSE	8	0	0	3	11	0	1	1	0	(1)	10	17	(0)
Market	(621)	(976)	(31)	(782)	(1,196)	155	1,721	(942)	(1,021)	(4,294)	(2,874)	(423)	187

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

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