

MONTHLY MARKET COMMENTARY (July 2022): NASI recovers from a 5-year low on account of large-cap gains

KEY HIGHLIGHTS

EQUITIES

- For the second straight month, market turnover declined 16.7% m/m to settle at KES 8.0bn (USD 67.4m), ahead of Kenya's General Elections in August.
- Reversing a 6-months trend, the Advance-decline ratio improved to 1.1x (-0.4x in June 2022) as gainers exceeded losers by 2X.
- On account of large-cap gains, the NASI jumped 13.3% m/m to 141.05, down from a 5-year low and the NSE 20 edged upwards 5.5% m/m to 1,701.31.
- Key contributors to equities return were: Safaricom that traded up 20.0% m/m; Equity bank which notched upwards 11.6% m/m and EABL that closed 13.1% higher mainly buoyed by local demand.
- On the back of the improved share prices, after contracting for the last six months, the NASI trailing PE ratio expanded by 8.8% m/m to 10.4x by the end of July 2022. Consequently, the NASI trailing PE discount to its 18-year stood at 24.5%.
- For the fifth successive month, foreign investors net outflows came in at USD 25.0m (KES 3.0bn). Safaricom (USD 9.9m, KES 1.2bn), KCB bank (USD 8.1m, KES 966.5m) and Equity bank (USD 4.6m, KES 548.8m) marked the highest net foreign outflows. On the other hand, StanChart bank (USD 15.3k, KES 1.8m) and I&M bank (USD 12.9k, KES 1.5m) registered the highest net foreign inflows.
- Driven by continued net local institutions inflows and share price gains, equities allocation by pension funds increased to a 3-month high of 14.2% in July 2022 compared to an estimated print of 12.8% in June 2022.
- After hitting an 8-year low, the foreign portfolio holdings as a % of CBK forex reserves grew to 31.0% in July 2022, up from 27.3% seen in June 2022. Foreign portfolio holding increased 10.0% m/m after a significant decline the prior month as CBK forex reserves fell 3.0% m/m.
- Among the key SSA equities market we follow, on a YTD basis to June 2022, only Nigeria (+17.0%) has earned positive USD returns. YTD to June 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 106.0m, USD 5.9m, USD 528.7m and USD 1,138.3m, respectively.

FIXED INCOME

- The bond market witnessed declined activity in July 2022 largely due to a rising yield curve and successive primary markets that soaked up KES liquidity. The on-the-run 15yr (FXD2/2013/15Yr) garnered secondary market interest at the 13.000%-13.400% level, while the longer on-the-run 15yr, FXD2/2018/15Yr largely traded between 13.750%-13.900%.
- 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 18yr, IFB1/2022/18Yr, traded largely between 13.625%-13.750%, while the existing 19yr, IFB1/2022/19Yr traded between 13.600%-13.900%. The shorter 11yr, IFB1/2020/11Yr, traded 13.200%-13.400%, while the 9yr, IFB1/2020/9Yr realizing levels 12.500%-12.850% as demand dwindled.
- During the month, Treasury opted to reopen FXD2/2013/15Yr and FXD2/2018/15Yr targeting KES 20.0bn. The coupon rates were 12.000% and 12.750% respectively.
- The FXD2/2013/15Yr and FXD2/2018/15Yr yielded 13.214% and 13.888% respectively and had a cut-off yield of 13.390% and 13.990%. Treasury managed to raise a total of KES 9.3bn from the auction with no corresponding offset maturity on the value date.
- In the first (1) month of FY2022/23, we estimate that Treasury has borrowed ~KES 34.0bn versus ~KES 81.7bn (down 58.4%).

MARKET OUTLOOK

EQUITIES:

- We continue to favour banking stocks amid an environment of rising yields. We have BUYs on 7 out of 9 banking stocks in our coverage universe – at current levels, we expect these upside potentials for KCB (+58%), Equity (40%), Co-op (65%), ABSA (+20%), NCBA (+68%), I&M bank (92%), DTB (+158%), Stanbic (+11%). We estimate StanChart downside potential of 12% largely driven by de-rating. We further advocate for BUYs on EABL (42% upside) and BAT Kenya (24% upside) mainly on account of margins improvement driven by excise increments and management taking their own margins stakes. We also like Bamburi Cement (61% upside) mostly premised on commissioning of a clinker plant that we expect to drive margins as a result of locally producing its clinker.

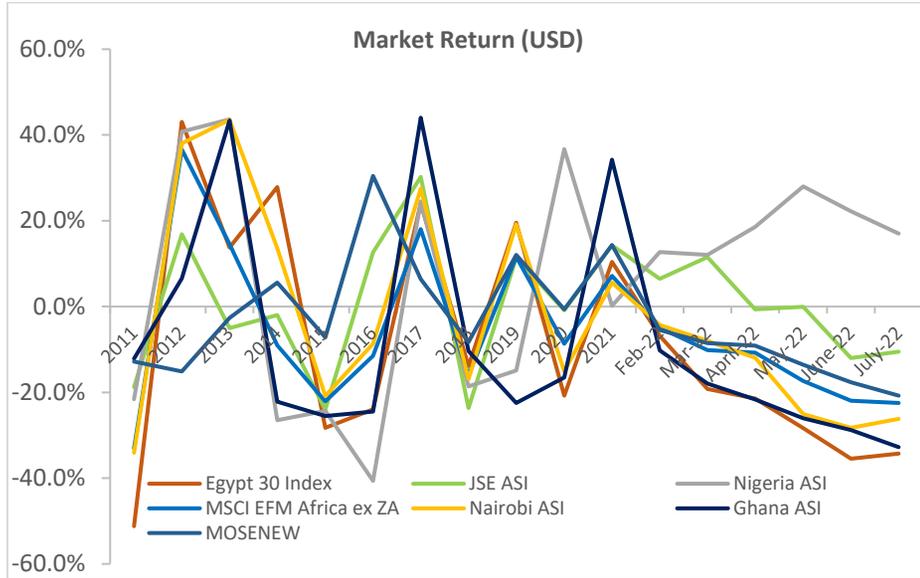
FIXED INCOME:

- Money market liquidity toward mid-July 2022 will decline significantly due to commercial bank conserving their cash reserve ratio. Treasury proposed to reopen the following bonds: FXD1/2022/3Yr, FXD2/2019/10Yr and FXD1/2021/20Yr, to raise KES 50.0bn for the end of August 2022. These bonds are expected to yield an average of 12.400%, 13.750% and 13.990% respectively and the closure date for bids is Tuesday, 16th August 2022.

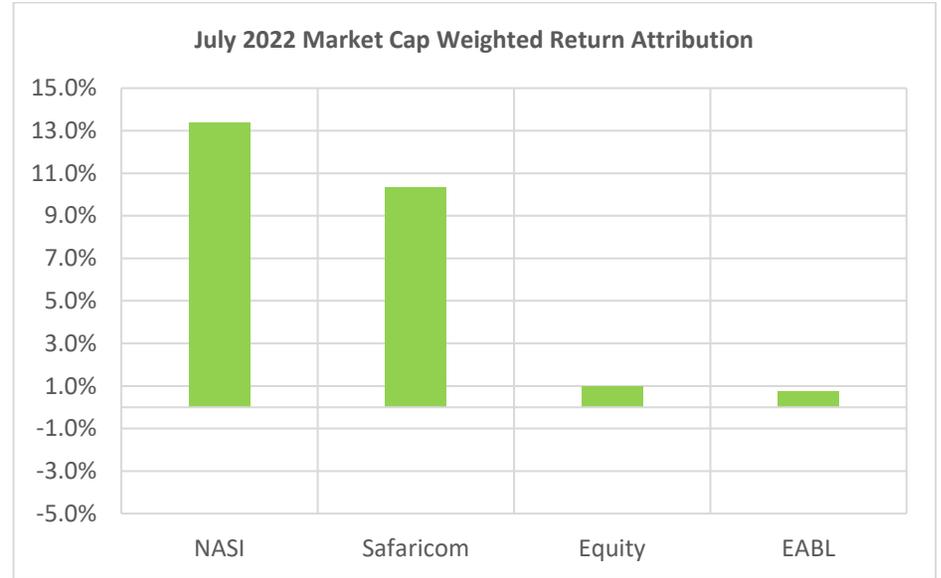
MONTHLY MARKET STATISTICS

	July-21	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22	June-22	July-22
Equities													
Market Capitalisation (USD bn)	25.5	25.9	25.1	25.0	22.7	22.9	22.4	21.9	21.1	20.2	17.2	16.5	18.5
NASI return (KES)	2.3%	2.7%	-2.2%	-0.2%	-7.9%	1.6%	-1.9%	-1.9%	-2.8%	-3.6%	-14.3%	-3.3%	13.3%
NSE 20 return (KES)	2.4%	2.4%	0.5%	-3.4%	-4.6%	1.7%	-0.7%	-0.1%	-2.1%	-2.5%	-6.6%	-4.1%	5.5%
Gainers/Decliners ratio (x)	1.3	0.4	(0.4)	(0.7)	(0.7)	0.8	(0.2)	(0.4)	(0.4)	(0.4)	(0.5)	(0.4)	1.1
MSCI EFM ex. ZA (KES)	2.7%	-0.2%	0.3%	5.1%	-3.6%	-2.8%	-0.7%	-3.6%	-3.3%	-1.1%	-6.6%	-4.7%	0.1%
Equity Turnover (KES bn)	9.3	11.9	10.2	10.3	15.6	10.5	8.2	10.0	9.6	5.9	10.8	9.6	8.0
Equity Turnover (USD m)	85.4	107.9	92.6	92.4	138.5	92.5	72.6	87.6	83.9	50.5	92.3	81.5	67.4
Avg. daily value traded (USD m)	4.07	4.90	4.21	4.86	6.30	4.40	3.46	4.38	3.65	2.81	4.62	3.88	3.37
Foreign institutions participation (%)	55.7	48.2	49.6	49.6	50.7	57.1	59.6	56.6	47.5	62.4	63.3	56.9	50.0
Local institutions participation (%)	29.6	37.4	38.3	25.7	39.5	31.9	28.3	33.3	38.4	24.5	27.8	33.0	35.2
Local individuals' participation (%)	14.3	14.1	11.7	9.5	9.4	10.9	12.0	9.7	13.7	12.6	8.2	9.3	14.2
Local institutions net flow (USD m)	1.8	(10.6)	8.9	8.8	7.9	29.4	5.2	(4.4)	15.7	14.6	34.5	37.7	19.5
Foreign institutions net flow (USD m)	1.5	15.9	(8.5)	(8.4)	(8.8)	(25.3)	(3.7)	1.9	(12.8)	(14.1)	(35.6)	(42.7)	(25.4)
Fixed Income													
Bond Turnover (KES bn)	95.8	174.3	118.2	66.2	65.8	53.2	48.4	54.9	87.6	71.4	58.9	65.4	61.9
Bond Turnover (USD m)	881.8	1,586	1,070	596	585	470	426	482	762	616	504	555	521
T-Bill performance rate	107%	174%	67%	58%	88%	69%	103%	94%	91%	59%	92%	84%	94%
T-Bill allotment rate	87%	77%	100%	94%	93%	85%	93%	94%	94%	100%	94%	66%	92%
T-Bill offer fill rate	92%	134%	67%	54%	82%	58%	95%	88%	85%	59%	86%	96%	28%
T-Bond performance rate	140%	72%	202%	93%	168%	103%	111%	176%	80%	95%	86%	97%	93%
T-Bond allotment rate	76%	98%	71%	94%	83%	92%	93%	75%	65%	91%	81%	93%	26%
T-Bond offer fill rate	107%	70%	142%	87%	139%	95%	104%	132%	52%	87%	70%	80	40
5-year m/m yield change (bps)	-10	-10	40	45	50	40	45	50	98	100	85	354	323
2 year-91D yield spread (bps)	282	249	240	253	247	249	271	330	359	410	356	233	243
5 year-364D yield spread (bps)	307	308	301	260	206	204	186	178	221	255	237	75	85
5 year-2-year yield spread (bps)	120	150	160	140	135	155	135	95	110	75	95	80	120
5 yr Bond-5 yr IFB yield spread (bps)	75	90	160	175	130	150	130	130	158	155	115	205	220
10 year-2-year yield spread (bps)	320	330	320	290	270	265	245	210	193	145	220	84%	94%
FTSE NSE KES Gov. bond price index USD return	-1.2%	-1.2%	-0.3%	-0.7%	-1.2%	-1.1%	--0.1%	--0.1%	0.5%	-2.2%	-0.8%	0.0%	0.0%
Average monthly KES/USD	108.6	109.9	110.5	111.2	112.5	113.1	113.6	113.8	114.95	115.77	116.74	117.83	118.76

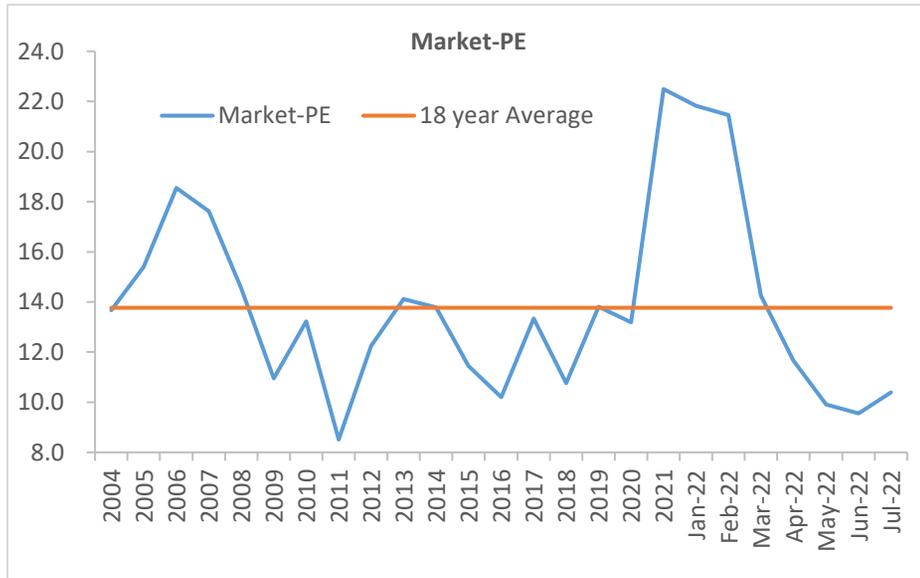
Ytd, Nigeria continues to outperform, most other peers post negative returns



Large-cap gains drive NASI positive return in the month of July

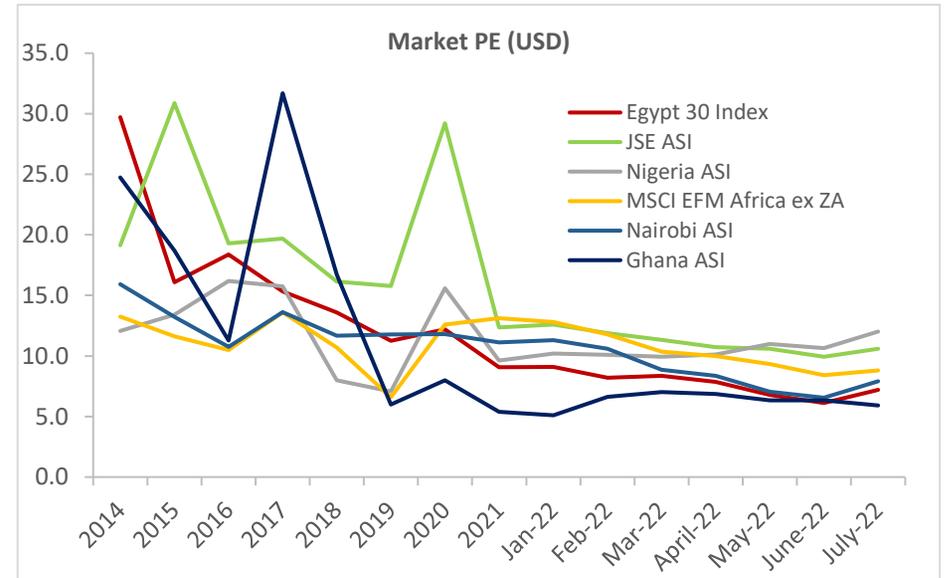


NASI PE ratio expands by 8.8 m/m - discount of 24.5% to its historical avg.



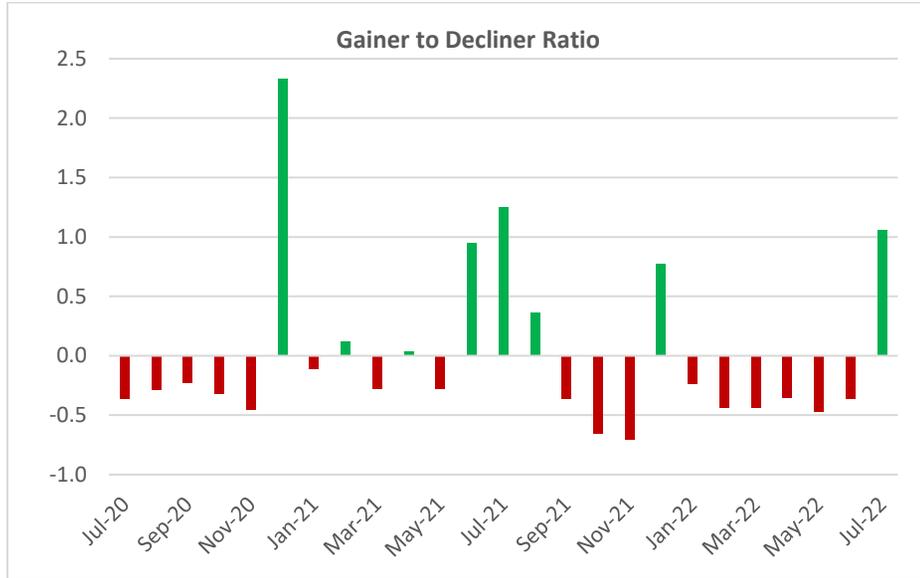
(As reported by the NSE)

Trailing market PEs remain at significant discounts to 8-year average of 37.5%

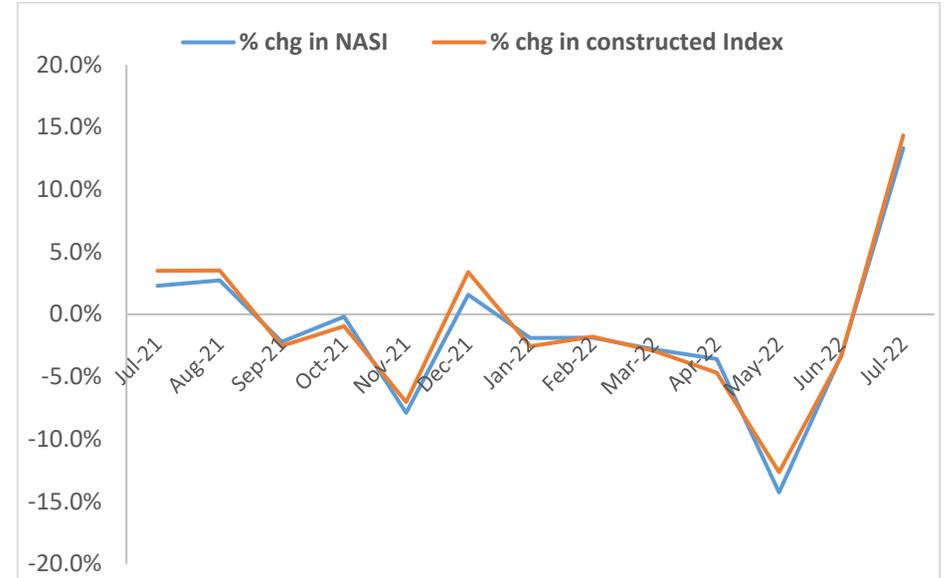


(As reported by Bloomberg)

Downward pressure on stock prices reversed, gainers outweigh losers 2X

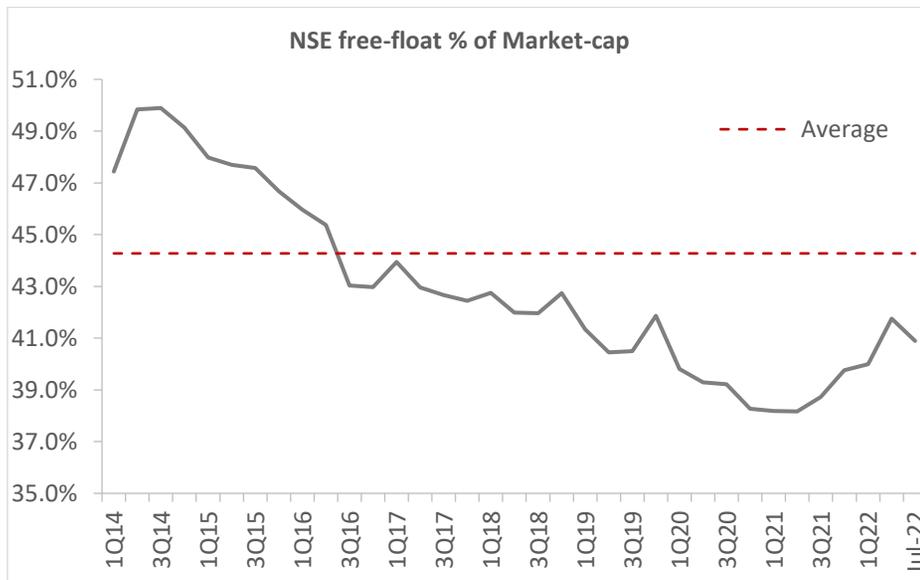


Improved returns driven by large-cap stocks, reversing the 2-month declining streak

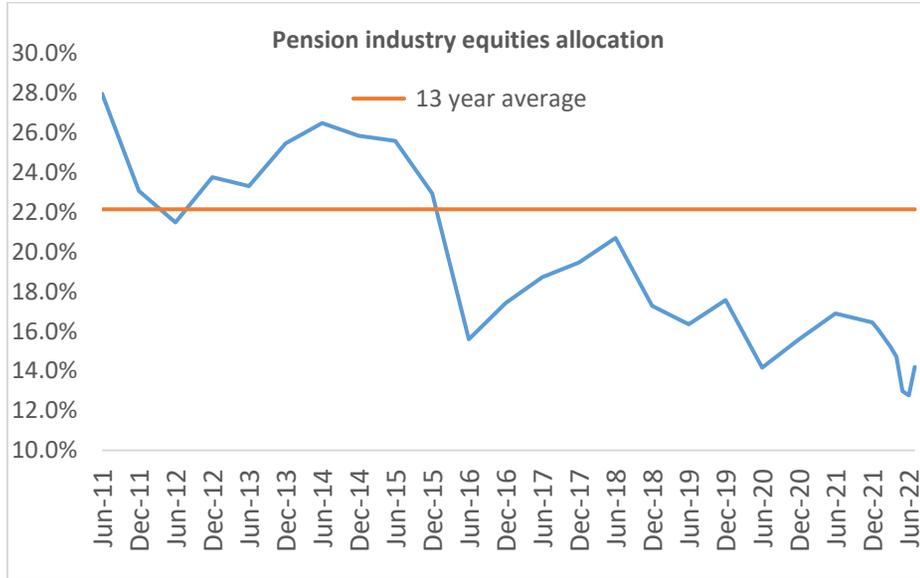


*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

NSE free float as a % of market cap declines from a 2-year high



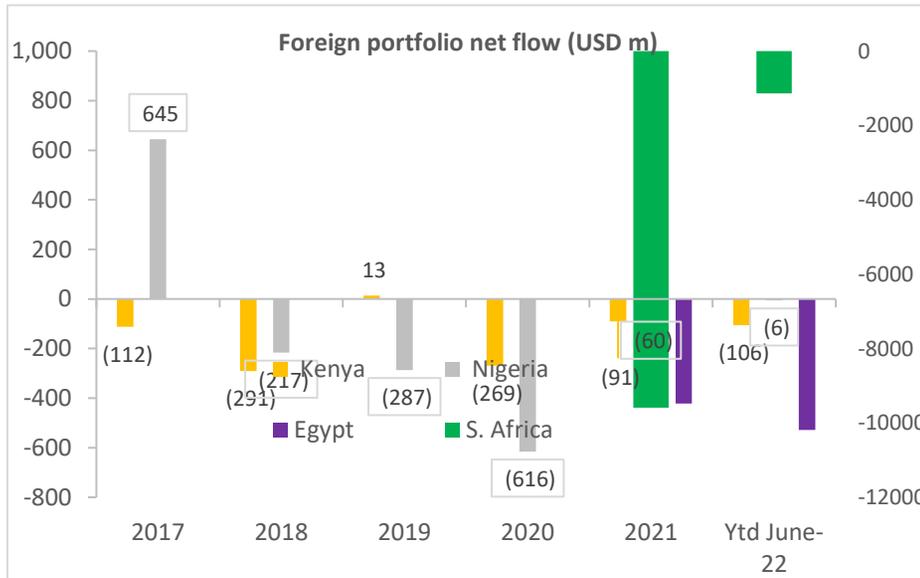
Equities allocation at a 3-month high, improved share prices & continued net inflows



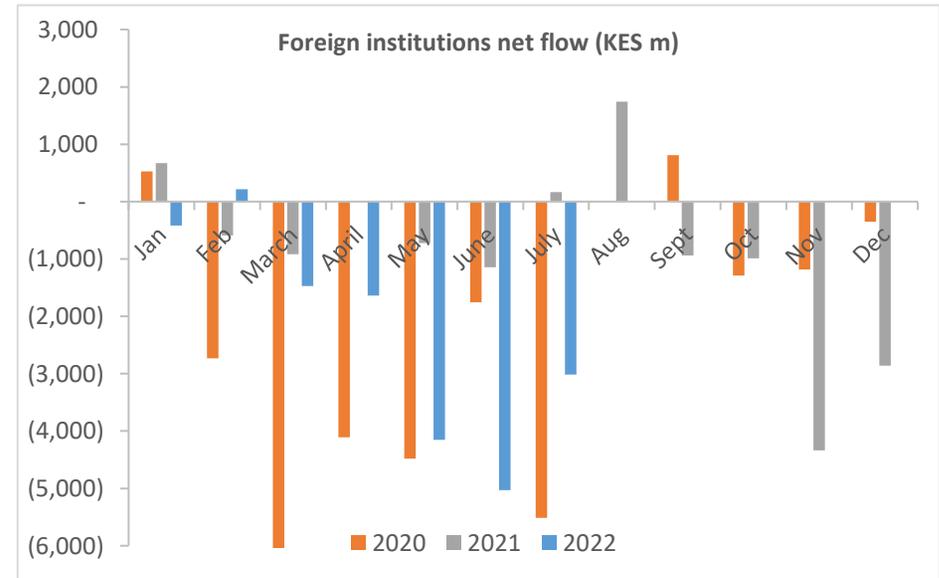
Local institutions' activity rebounds to a 5-month high



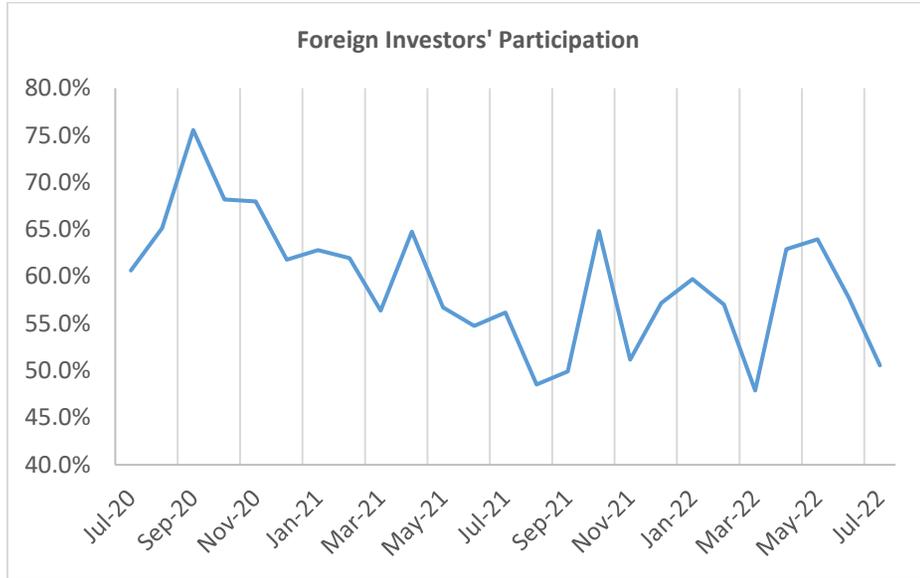
YTD to June 22, foreigners remain net sellers across key SSA markets



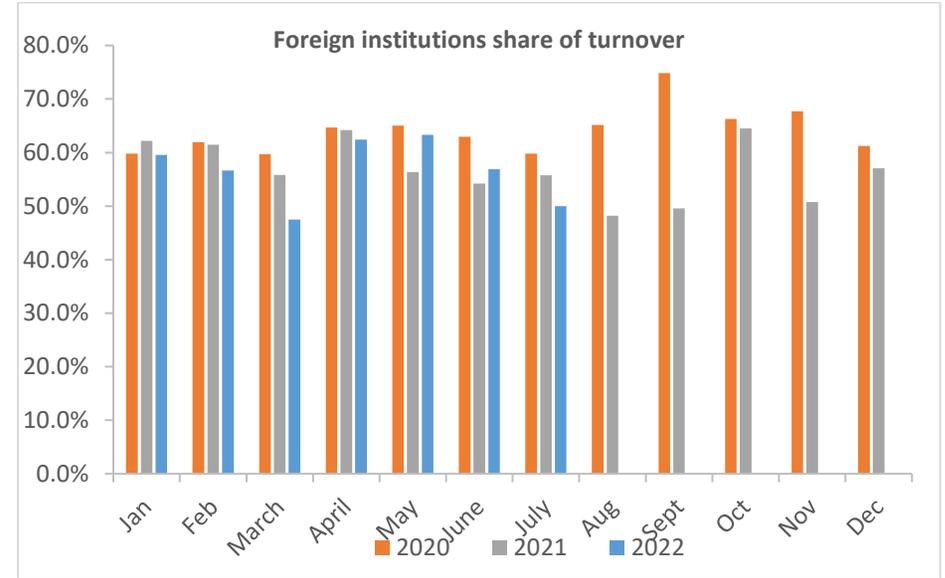
Foreign institutions emerge net sellers for the fifth consecutive month



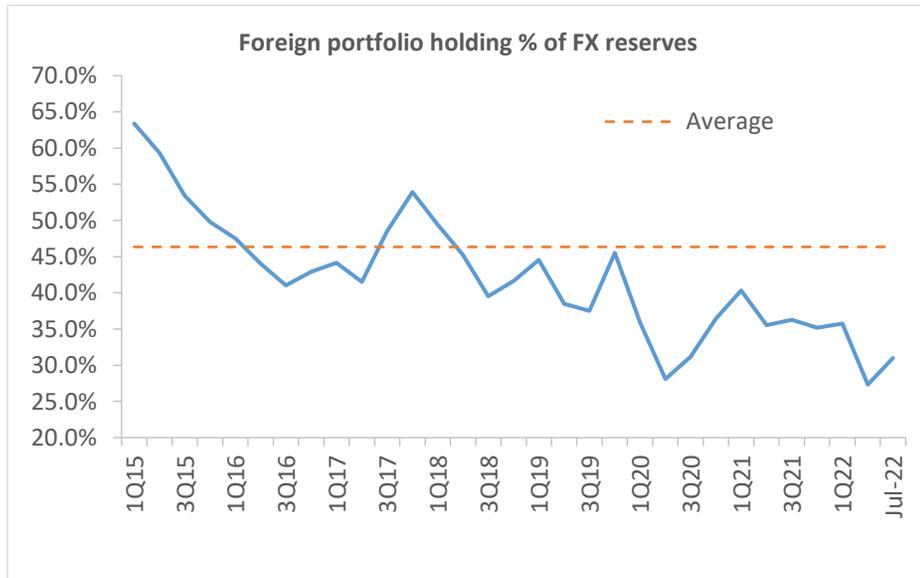
Foreign investors' participation levels dips to a 5-month low



Foreign institutions' activity declines m/m to a 5-month low



Foreign portfolio/FX reserves bounce back from its 8-year low



FOREIGN FREE FLOAT TO TOTAL FREE FLOAT PER COUNTER

Foreign free float/total free float	4Q18	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q21	1Q22	July-22
Safaricom	45.4%	46.8%	45.0%	44.8%	44.3%	45.4%	45.9%	45.7%	46.3%	45.2%	43.8%	40.8%	40.4%
Equity bank	43.8%	41.8%	41.2%	38.2%	37.5%	36.1%	36.1%	36.5%	36.7%	36.8%	37.4%	36.5%	36.2%
EABL	40.4%	42.0%	41.2%	39.9%	39.8%	38.2%	37.1%	36.7%	33.8%	33.2%	32.0%	30.5%	30.4%
KCB bank	27.5%	26.7%	22.8%	19.6%	18.3%	16.1%	14.5%	13.9%	14.1%	13.2%	13.4%	12.9%	12.0%
BK Group	100.0%	100.0%	100.0%	100.0%	99.9%	99.6%	99.5%	98.9%	98.8%	83.8%	98.8%	98.9%	98.9%
BAT Kenya	61.5%	64.0%	63.9%	62.6%	62.1%	59.8%	58.5%	57.7%	56.8%	56.5%	56.5%	56.3%	55.7%
KenGen	49.4%	51.2%	51.6%	51.5%	51.2%	50.3%	49.8%	49.1%	49.3%	51.5%	49.7%	49.5%	49.3%
I&M bank	32.8%	32.6%	32.6%	32.6%	32.6%	32.7%	32.7%	16.4%	16.4%	18.2%	16.4%	16.3%	16.3%
Jubilee Insurance	48.6%	45.3%	44.6%	44.7%	45.2%	45.2%	45.4%	45.5%	45.7%	45.4%	45.4%	45.4%	45.4%
Stanbic bank	50.3%	48.9%	46.5%	43.6%	41.5%	40.6%	40.7%	40.7%	40.8%	41.9%	41.6%	42.1%	42.1%
DTB bank	36.5%	35.1%	35.7%	36.0%	35.7%	35.5%	35.3%	35.2%	35.0%	35.7%	35.3%	35.7%	35.7%
Centum Investment	13.7%	14.8%	14.7%	14.5%	13.8%	12.5%	11.9%	11.0%	10.9%	10.9%	9.6%	9.0%	8.6%
StanChart bank	9.8%	11.3%	11.2%	10.7%	13.8%	12.5%	9.5%	7.1%	6.0%	5.4%	5.5%	5.5%	5.5%
Britam Insurance	76.5%	78.6%	75.2%	14.6%	10.8%	10.8%	14.0%	13.7%	13.7%	17.0%	13.7%	13.6%	13.5%
WPP ScanGroup	91.0%	95.4%	95.9%	95.5%	80.6%	78.1%	78.1%	76.5%	65.1%	72.8%	66.9%	66.9%	66.9%

Companies with foreign free float holding of over USD 10

MONTHLY NET FOREIGN FLOWS PER COUNTER

	July-21	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22	June-22	July-22
Safaricom	442	2,724	(804)	154	(4,710)	(1,562)	(834)	(719)	(1,400)	(1,391)	(3,034)	(3,719)	(1,181)
Equity Bank	36	325	160	(250)	1,053	(578)	376	605	(82)	(70)	(342)	(1,007)	(549)
EABL	(146)	(1,009)	(787)	(139)	(344)	(294)	(129)	(113)	(121)	(128)	(522)	(183)	(103)
KCB bank	(38)	(80)	384	(687)	(286)	(419)	89	367	101	(116)	(260)	(98)	(967)
BK Group	(21)	-	(2)	0	0	0	2	0	-	25	(1)	(0)	(8)
BAT	(37)	(124)	(17)	(48)	(15)	2	49	(24)	(0)	(14)	(6)	(23)	(105)
Britam	(10)	0	3	(0)	0	-	-	-	0	0	0	(7)	(5)
I&M bank	3	6	(0)	(3)	(0)	1	(0)	2	(10)	(4)	1	(3)	2
Jubilee	(4)	(3)	34	(10)	(8)	(7)	(4)	(10)	(2)	(3)	4	(1)	(1)
Stanbic bank	(0)	0	13	(4)	67	(0)	(0)	(34)	64	47	26	(0)	-
DTB bank	(20)	0	1	1	27	(1)	(1)	(7)	(0)	(2)	(9)	47	(4)
KenGen	(0)	8	6	12	17	12	(0)	2	(11)	5	(7)	(8)	(11)
WPP ScanGroup	(22)	(34)	(10)	0	4	0	-	7	0	(0)	0	-	-
Centum	1	(0)	(11)	(43)	0	(53)	0	6	(13)	(3)	(17)	(8)	(19)
StanChart bank	(64)	(83)	5	(12)	(46)	(4)	(2)	4	(4)	3	3	(11)	2
BBK bank	35	33	62	11	(72)	0	0	59	6	(13)	(1)	(0)	1
Co-op Bank	(1)	19	0	(1)	(24)	9	6	43	(0)	(1)	(47)	(3)	(15)
NSE	0	1	1	0	(1)	10	17	(0)	(0)	(10)	(9)	0	0
Market	155	1,721	(942)	(1,021)	(4,294)	(2,874)	(423)	187	(1,451)	(1,653)	(4,207)	(5,036)	(2,972)

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

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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

Sally Kotut
sallyk@kestrelcapital.com

Chris Miriti
chrism@kestrelcapital.com

Amanda Onyango
amandao@kestrelcapital.com

Research

Ephantus Maina
ephanusm@kestrelcapital.com

Maureen Kirigua, CFA
maureenk@kestrelcapital.com

Fixed Income Sales & Trading

Alexander Muiruri
alexanderm@kestrelcapital.com

Edwin Muthaura
edwinm@kestrelcapital.com

CEO & Executive Director

Francis Mwangi, CFA
francism@kestrelcapital.com