

MONTHLY MARKET COMMENTARY (May 2022): NASI ends at the lowest levels since Feb 2017 & NASI's PE discount to its historical average reaches an 11-year high

KEY HIGHLIGHTS

EQUITIES

- Last month, market turnover nearly doubled at KES 10.8bn (USD 92.3m), buoyed by rebound in trading by both foreign (+86.8% m/m) and local institutions (+108.9% m/m).
- Advance-decline ratio worsened to -0.5x (-0.4x in April 2022) for the fourth straight month as laggards outnumbered advancers by 2X.
- Compounded by Safaricom's heavy monthly loss (-22.8% m/m) and significant weighting (51.8% of total NSE market cap), the NASI (-14.3% m/m) registered a record monthly decline to settle at 128.75 – the lowest levels since February 2017.
- Similarly, the NSE 20 came off 6.6% m/m – the largest monthly dip in the last 27 months - to end at 1,681.80.
- Besides Safaricom, other large-cap stocks that detracted NASI return were Equity bank (-5.0% m/m), EABL (-2.1% m/m) and Co-op bank (-11.0% m/m), on account of foreign investors' sell-off.
- On the back of the suppressed share prices, for the fifth successive month, the NASI trailing PE ratio weakened by 15.0% m/m to 9.9x by the end of May 2022 to mark the lowest levels since 2011. Consequently, the NASI trailing PE discount to its 18-year average printed at 28.0%, the widest discount since 2011 (38.2%).
- Sustaining a 3-month net selling streak, foreigners net outflows stood at USD 36.1m (KES 4.2bn) – a 6-month high. Safaricom (USD 26.0m, KES 3.0bn), EABL (USD 4.4m, KES 522.4m) and Equity bank (USD 2.9m, KES 342.4m) posted the highest net foreign outflows. On the other hand, Stanbic bank (USD 0.2m, KES 26.5m) and Nairobi Business Ventures (USD 0.2m, KES 18.7m) saw the highest net foreign inflows.
- Declining for the fifth month in a row, equities allocation by pension funds dropped to a 14-year low of 13.0% in May 2022 relative to an estimated figure of 14.7% in April 2022. While local institutions remained net buyers, the net inflows couldn't offset the impact of the share price declines.
- For the second consecutive month, the foreign portfolio holdings as a % of CBK forex reserves fell to 28.5% in May 2022, down from 32.2% recorded in April 2022. Notably, foreign portfolio holding came down 13.9% m/m to touch an 8-year low, after decreasing for the past fourth months. And CBK FX reserves continued to decline for the fifth straight month, albeit modestly. CBK FX reserves stand at USD 8.2bn, representing 4.88 months of import cover.
- Among the key SSA equities market we track, on a YTD basis to May 2022, only Nigeria (+28.0%) has earned positive USD returns. YTD to April 2022, foreign investors have remained overall net sellers in most SSA markets, with the exception of S.Africa. On net foreign outflows front, Kenya, Nigeria, and Egypt have recorded outflows of USD 28.9m, USD 36.8m and USD 388.5m, respectively. S.Africa's net inflows closed at USD 0.9bn.

FIXED INCOME

- The bond market witnessed declined activity in May 2022 largely due successive primary markets that soaked up KES liquidity. The on-the-run 10yr (FXD1/2022/10Yr) garnered secondary market interest at the 13.500%-13.525% level, while the longer on-the-run 25yr, FXD1/2021/25Yr largely traded between 13.950%-14.100%.
- 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 13.050%-13.200%, while the existing 16yr, IFB1/2021/16Yr traded between 13.000%-13.500%. The shorter 11yr, IFB1/2020/11Yr, traded 12.500%-13.000%, while the 9yr, IFB1/2020/9Yr realizing levels 12.500%-12.850% as demand dwindled.

- During the month, Treasury opted to issue a new eighteen (18) year infrastructure bond, IFB1/2022/18Yr, targeting KES 75.0bn (with KES 25.0bn green-shoe option). The coupon rate was market determined.
- The IFB1/2022/18Yr yielded 13.742% and had a cut-off yield of 13.990%. Treasury managed to raise a total of KES 73.8bn from the auction to offset a redemption of 35.3b on 13th June 2022.
- In the eleventh (11) month of FY2021/22, we estimate that Treasury has borrowed ~KES 575.3bn versus ~KES 499.5bn (up 15.2%).

MARKET OUTLOOK

EQUITIES:

- As inflationary pressures continue to pose risks to corporates profit margins and household incomes, we guide investors to find opportunities within defensive stocks. We advocate for a BUY on Safaricom, which is trading close to a 3-year low and below its 12-month low. Our thesis is backed by its commanding market shares as well as its strength in brand and pricing power. With inflationary pressures triggering a hike in policy rates, we expect the banks to benefit from higher market yields. We expect loan yields to reprice faster than cost of funding, boosting margins. In addition, we expect better yields on the government securities. We like Equity bank and KCB bank at current levels.

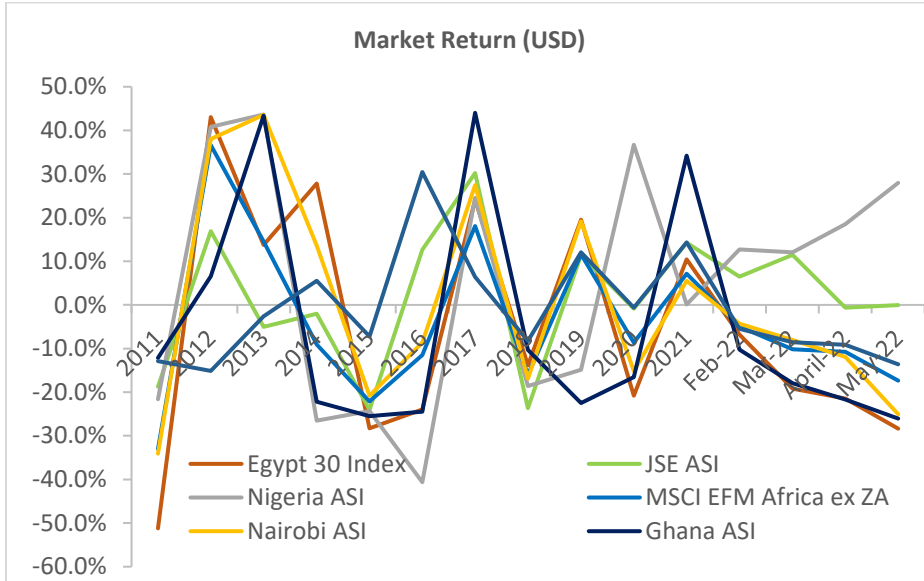
FIXED INCOME:

- Money market liquidity toward mid-June 2022 will decline significantly due to large primary bond auctions and tax liabilities. Treasury proposed to tap the following bonds: FXD1/2022/3Yr and FXD1/2022/15Yr, to raise KES 25.0bn for the end of June 2022. These bonds have a yield of 11.766% and 13.942% respectively and the closure date for bids is Friday 24-Jun-22.

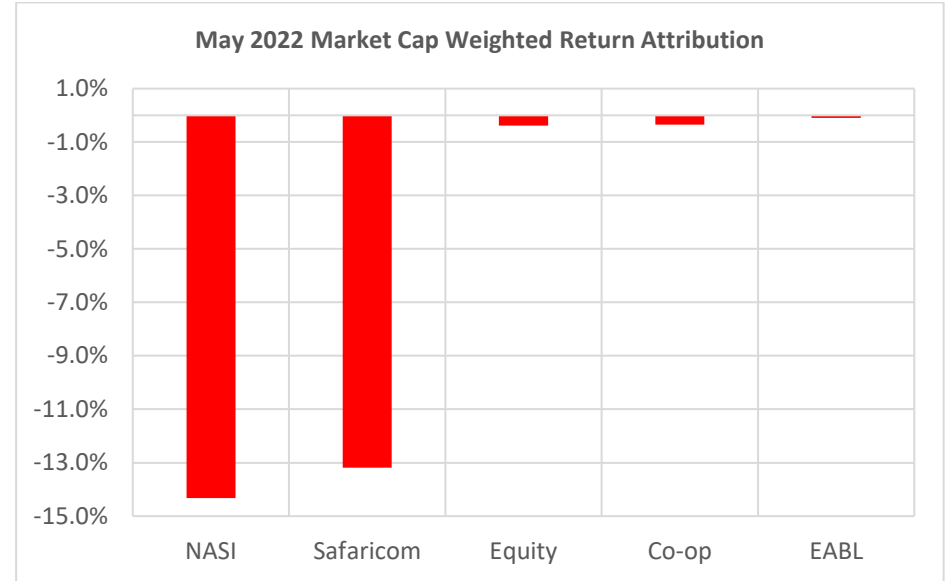
MONTHLY MARKET STATISTICS

	May-21	June-21	July-21	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22
Equities													
Market Capitalisation (USD bn)	24.2	25.1	25.5	25.9	25.1	25.0	22.7	22.9	22.4	21.9	21.1	20.2	17.2
NASI return (KES)	0.5%	2.1%	2.3%	2.7%	-2.2%	-0.2%	-7.9%	1.6%	-1.9%	-1.9%	-2.8%	-3.6%	-14.3%
NSE 20 return (KES)	0.3%	3.0%	2.4%	2.4%	0.5%	-3.4%	-4.6%	1.7%	-0.7%	-0.1%	-2.1%	-2.5%	-6.6%
Gainers/Decliners ratio (x)	(0.3)	0.9	1.3	0.4	(0.4)	(0.7)	(0.7)	0.8	(0.2)	(0.4)	(0.4)	(0.4)	(0.5)
MSCI EFM ex. ZA (KES)	0.4%	0.3%	2.7%	-0.2%	0.3%	5.1%	-3.6%	-2.8%	-0.7%	-3.6%	-3.3%	-1.1%	-6.6%
Equity Turnover (KES bn)	14.2	14.0	9.3	11.9	10.2	10.3	15.6	10.5	8.2	10.0	9.6	5.9	10.8
Equity Turnover (USD m)	131.6	129.4	85.4	107.9	92.6	92.4	138.5	92.5	72.6	87.6	83.9	50.5	92.3
Avg. daily value traded (USD m)	6.6	6.16	4.07	4.90	4.21	4.86	6.30	4.40	3.46	4.38	3.65	2.81	4.62
Foreign institutions participation (%)	56.3	54.2	55.7	48.2	49.6	49.6	50.7	57.1	59.6	56.6	47.5	62.4	63.3
Local institutions participation (%)	30.1	31.9	29.6	37.4	38.3	25.7	39.5	31.9	28.3	33.3	38.4	24.5	27.8
Local individuals' participation (%)	13.2	13.4	14.3	14.1	11.7	9.5	9.4	10.9	12.0	9.7	13.7	12.6	8.2
Local institutions net flow (USD m)	16.1	3.8	1.8	(10.6)	8.9	8.8	7.9	29.4	5.2	(4.4)	15.7	14.6	34.5
Foreign institutions net flow (USD m)	(6.7)	(10.6)	1.5	15.9	(8.5)	(8.4)	(8.8)	(25.3)	(3.7)	1.9	(12.8)	(14.1)	(35.6)
Fixed Income													
Bond Turnover (KES bn)	107.0	96.6	95.8	174.3	118.2	66.2	65.8	53.2	48.4	54.9	87.6	71.4	58.9
Bond Turnover (USD m)	994.9	895.7	881.8	1,586	1,070	596	585	470	426	482	762	616	504
T-Bill performance rate	136.2%	150.7%	107%	174%	67%	58%	88%	69%	103%	94%	91%	59%	92%
T-Bill allotment rate	64.0%	52.0%	87%	77%	100%	94%	93%	85%	93%	94%	94%	100%	94%
T-Bill offer fill rate	87.1%	78.4%	92%	134%	67%	54%	82%	58%	95%	88%	85%	59%	86%
T-Bond performance rate	126.6%	216.4%	140%	72%	202%	93%	168%	103%	111%	176%	80%	95%	86%
T-Bond allotment rate	64.8%	30.3%	76%	98%	71%	94%	83%	92%	93%	75%	65%	91%	81%
T-Bond offer fill rate	82.0%	65.7%	107%	70%	142%	87%	139%	95%	104%	132%	52%	87%	70%
5-year m/m yield change (bps)	-10	-10	-10	-10	40	45	50	40	45	50	98	100	85
2 year-91D yield spread (bps)	246	259	282	249	240	253	247	249	271	330	359	410	356
5 year-364D yield spread (bps)	134	277	307	308	301	260	206	204	186	178	221	255	237
5 year-2-year yield spread (bps)	90	105	120	150	160	140	135	155	135	95	110	75	95
5 yr Bond-5 yr IFB yield spread (bps)	20	50	75	90	160	175	130	150	130	130	158	155	115
10 year-2-year yield spread (bps)	280	295	320	330	320	290	270	265	245	210	193	145	220
FTSE NSE KES Gov. bond price index USD return	0.0%	-0.2%	-1.2%	-1.2%	-0.3%	-0.7%	-1.2%	-1.1%	--0.1%	--0.1%	0.5%	-2.2%	-0.8%
Average monthly KES/USD	107.6	107.85	108.6	109.9	110.5	111.2	112.5	113.1	113.6	113.8	114.95	115.77	116.74

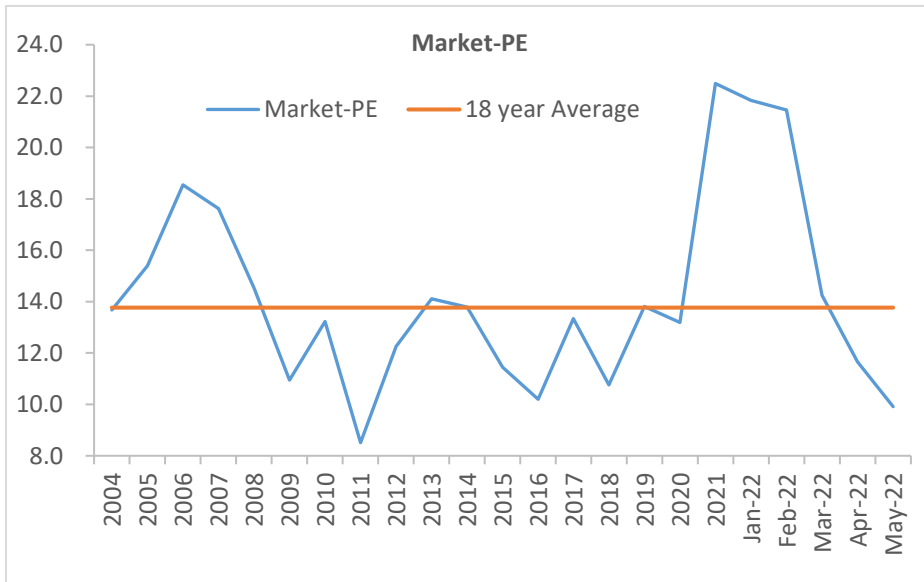
Ytd, Nigeria emerges the winner; most other peers remain in red



Safaricom losses key drag to NASI return in the month of May

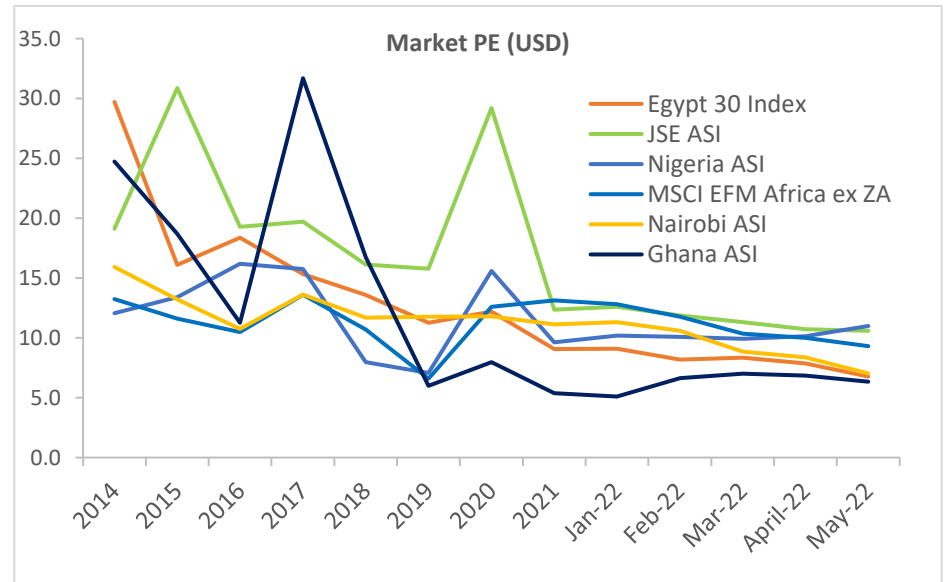


NASI PE ratio contracts by 15.0% m/m - discount of 28.0% to its historical avg.



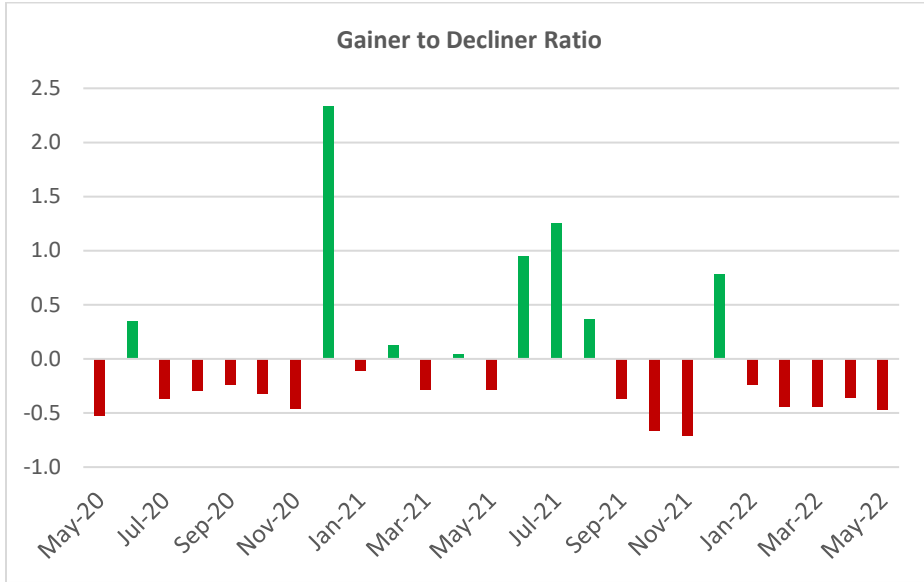
(As reported by the NSE)

Trailing market PEs remain at significant discounts to 8-year average of 39.3%

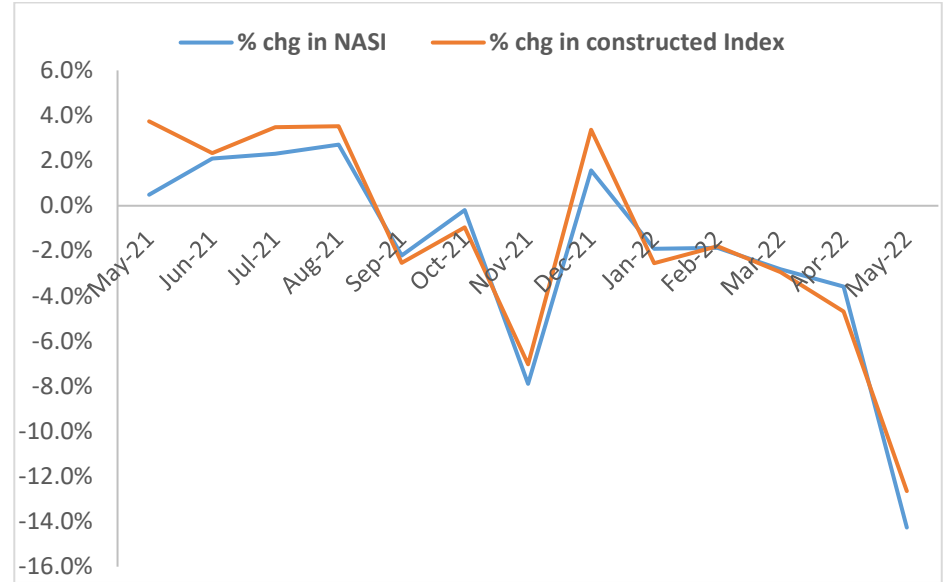


(As reported by Bloomberg)

Downward pressure on stock prices intensifies, decliners outweigh gainers 2X

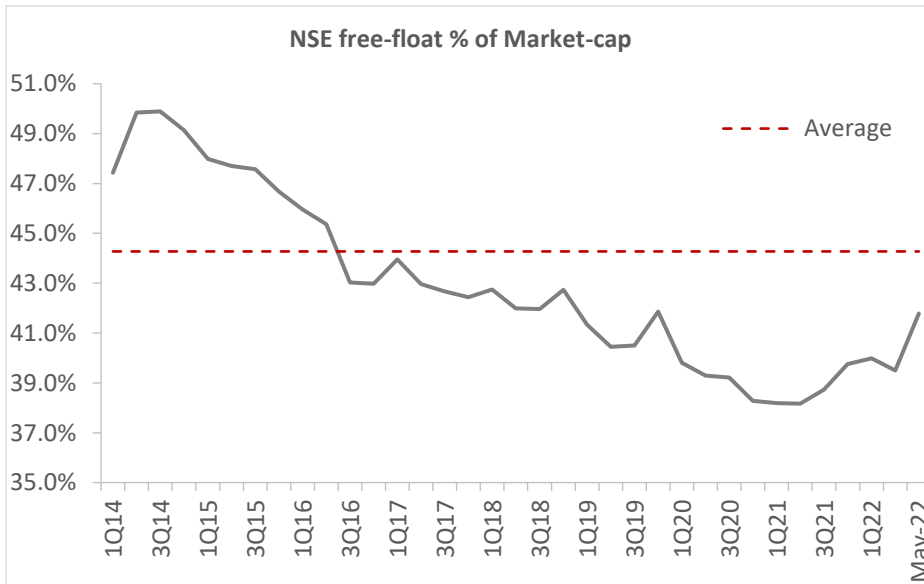


Poor returns by large-cap stocks mainly pull back the NASI

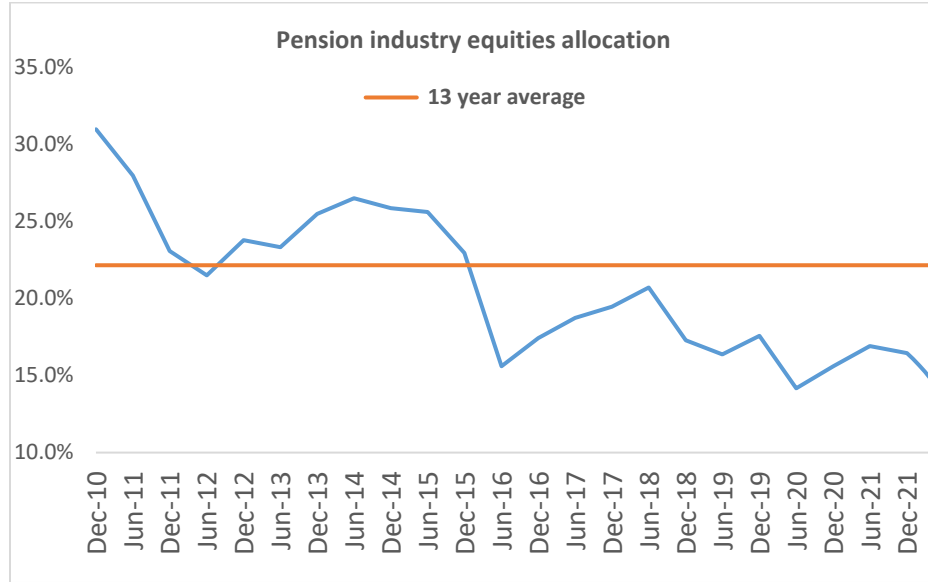


*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

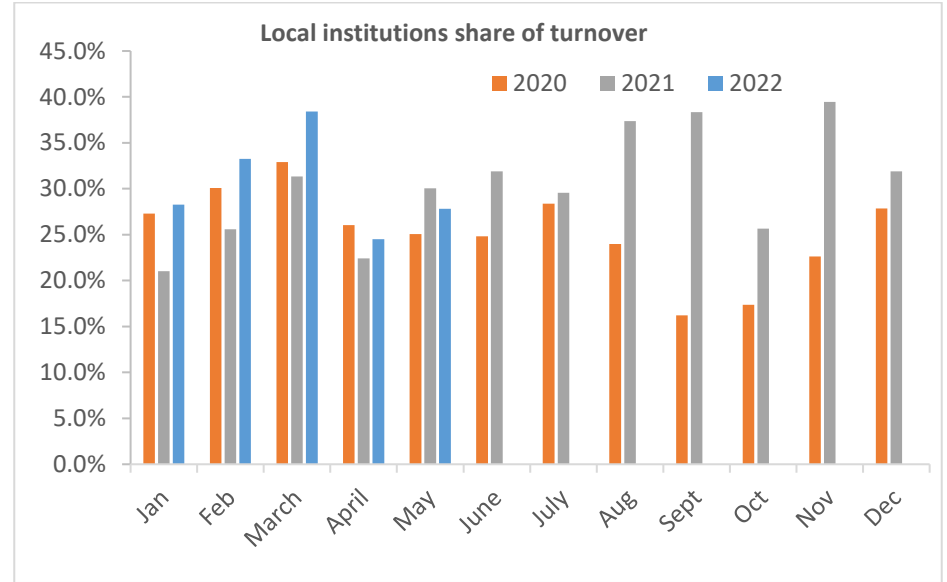
NSE free float as a % of market cap at highest levels since 4Q19, decline in mkt cap



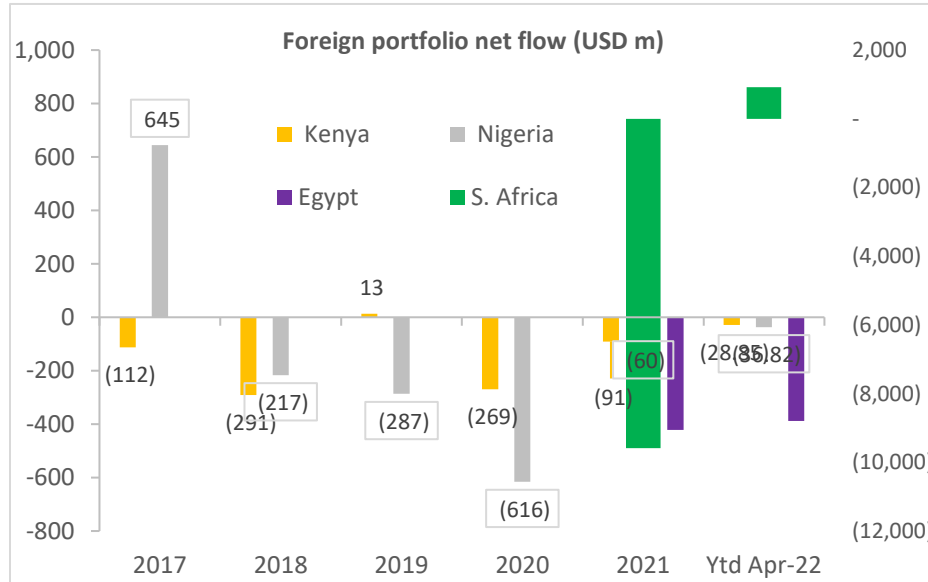
Equities allocation hit a 14-year low, largely driven by weakness in share prices



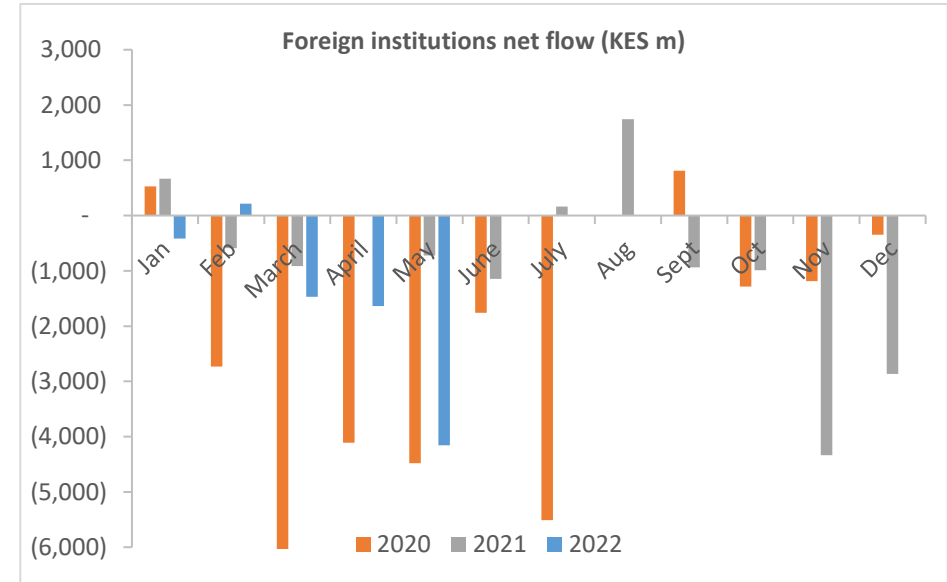
Local institutions' activity rebound from its 12-month low



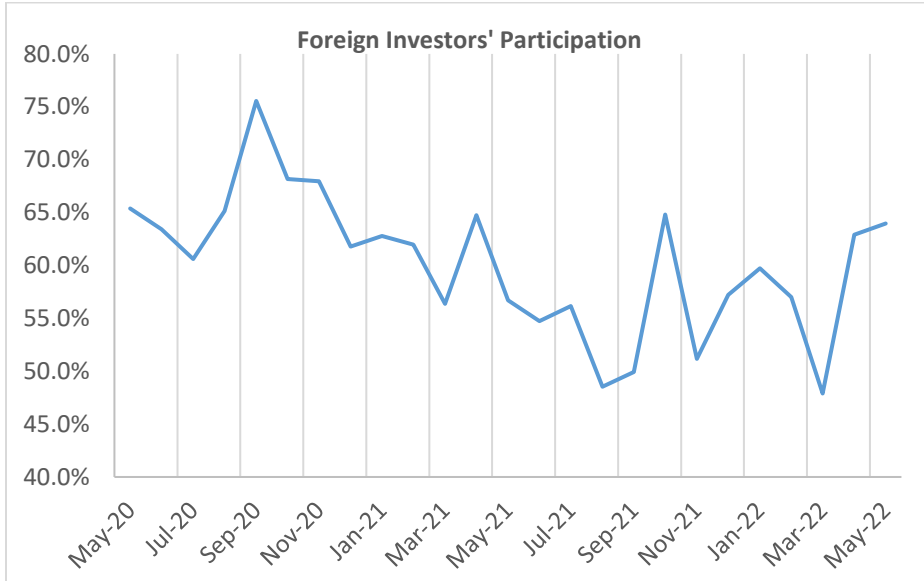
YTD to April 22, foreigners remain net sellers, S. Africa is the exception



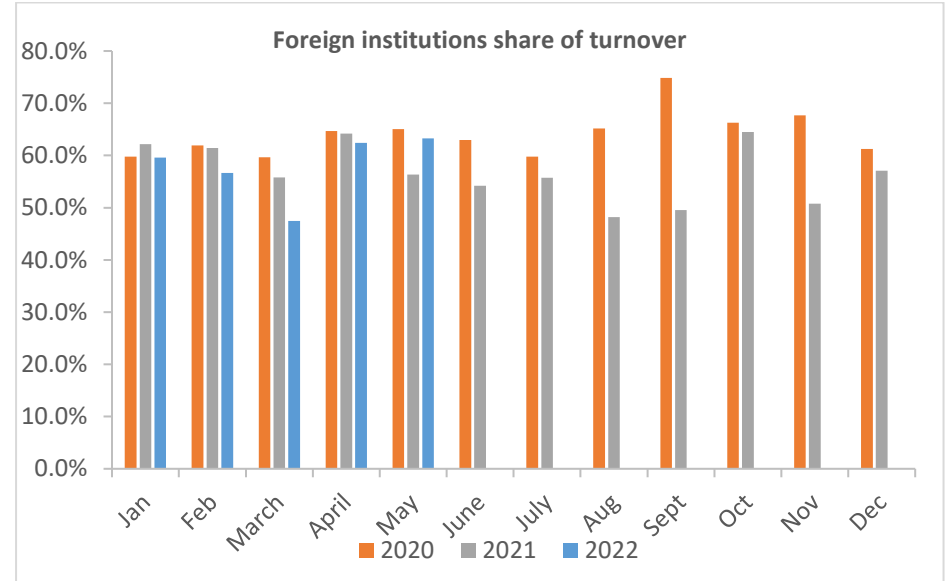
Foreign institutions emerge net sellers for the third consecutive month



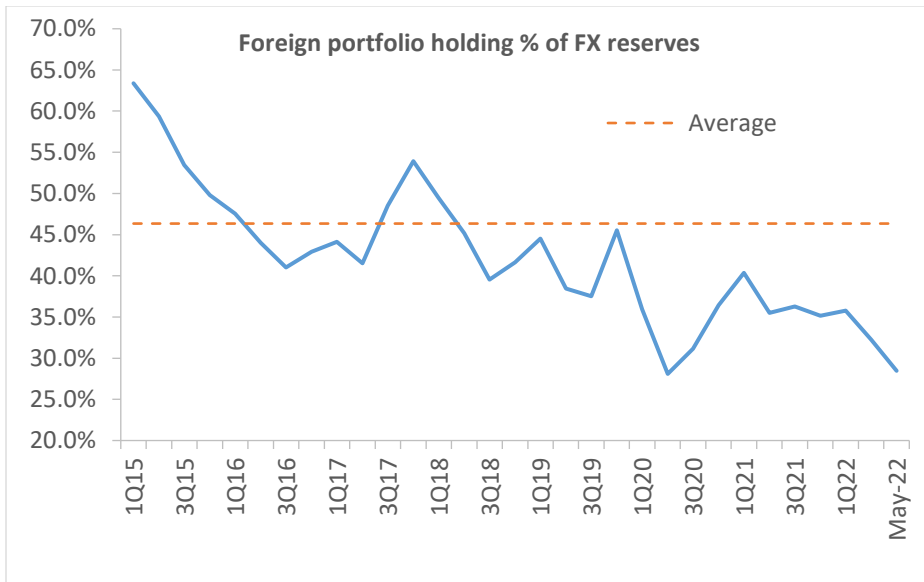
Foreign investors' participation levels remain at a 7-month high



Foreign institutions' activity rises m/m to remain at a 7-month high



Foreign portfolio/FX reserves at the lowest levels since 2Q20, falling foreign holdings



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	Apri-22	May-22
Safaricom	45.4%	46.8%	45.0%	44.8%	44.3%	45.4%	45.9%	45.7%	46.3%	45.2%	43.8%	43.4%	42.2%
Equity bank	43.8%	41.8%	41.2%	38.2%	37.5%	36.1%	36.1%	36.5%	36.7%	36.8%	37.4%	37.3%	37.1%
EABL	40.4%	42.0%	41.2%	39.9%	39.8%	38.2%	37.1%	36.7%	33.8%	33.2%	32.0%	31.8%	30.9%
KCB bank	27.5%	26.7%	22.8%	19.6%	18.3%	16.1%	14.5%	13.9%	14.1%	13.2%	13.4%	13.3%	13.0%
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%	56.5%	56.4%
KenGen	49.4%	51.2%	51.6%	51.5%	51.2%	50.3%	49.8%	49.1%	49.3%	51.5%	49.7%	49.7%	49.6%
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%	41.9%	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%	35.2%	35.1%
Centum Investment	13.7%	14.8%	14.7%	14.5%	13.8%	12.5%	11.9%	11.0%	10.9%	10.9%	9.6%	9.5%	9.2%
StanChart bank	9.8%	11.3%	11.2%	10.7%	13.8%	12.5%	9.5%	7.1%	6.0%	5.4%	5.5%	5.6%	5.6%
Britam Insurance	76.5%	78.6%	75.2%	14.6%	10.8%	10.8%	14.0%	13.7%	13.7%	17.0%	13.7%	13.7%	13.7%
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

	May-21	June-21	July-21	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22
Safaricom	(173)	(1,058)	442	2,724	(804)	154	(4,710)	(1,562)	(834)	(719)	(1,400)	(1,391)	(3,034)
Equity Bank	(70)	767	36	325	160	(250)	1,053	(578)	376	605	(82)	(70)	(342)
EABL	102	(385)	(146)	(1,009)	(787)	(139)	(344)	(294)	(129)	(113)	(121)	(128)	(522)
KCB bank	(494)	(134)	(38)	(80)	384	(687)	(286)	(419)	89	367	101	(116)	(260)
BK Group	0	(39)	(21)	-	(2)	0	0	0	2	0	-	25	(1)
BAT	(12)	(49)	(37)	(124)	(17)	(48)	(15)	2	49	(24)	(0)	(14)	(6)
Britam	2	0	(10)	0	3	(0)	0	-	-	-	0	0	0
I&M bank	4	(1)	3	6	(0)	(3)	(0)	1	(0)	2	(10)	(4)	1
Jubilee	1	(5)	(4)	(3)	34	(10)	(8)	(7)	(4)	(10)	(2)	(3)	4
Stanbic bank	-	0	(0)	0	13	(4)	67	(0)	(0)	(34)	64	47	26
DTB bank	(4)	3	(20)	0	1	1	27	(1)	(1)	(7)	(0)	(2)	(9)
KenGen	(8)	(8)	(0)	8	6	12	17	12	(0)	2	(11)	5	(7)
WPP ScanGroup	(5)	(0)	(22)	(34)	(10)	0	4	0	-	7	0	(0)	0
Centum	(9)	(25)	1	(0)	(11)	(43)	0	(53)	0	6	(13)	(3)	(17)
StanChart bank	(40)	(58)	(64)	(83)	5	(12)	(46)	(4)	(2)	4	(4)	3	3
BBK bank	(3)	(10)	35	33	62	11	(72)	0	0	59	6	(13)	(1)
Co-op Bank	(6)	(48)	(1)	19	0	(1)	(24)	9	6	43	(0)	(1)	(47)
NSE	3	11	0	1	1	0	(1)	10	17	(0)	(0)	(10)	(9)
Market	(782)	(1,196)	155	1,721	(942)	(1,021)	(4,294)	(2,874)	(423)	187	(1,451)	(1,653)	(4,207)

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

Disclaimer

Note: Readers should be aware that Kestrel Capital (EA) Ltd does and seeks to do business with companies covered in its research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions.

The opinions and information portrayed in this report may change without prior notice to investors. This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of Kestrel Capital (EA) Ltd.

Directors, staff of Kestrel Capital (EA) Ltd and their family members, may from time to time hold shares in the company it recommends to either buy or sell and as such the investor should determine for themselves the applicability of this recommendation.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by Kestrel Capital or any employee of Kestrel Capital as to the accuracy of the information contained and opinions expressed herein.

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