

MONTHLY MARKET COMMENTARY (Nov 2022): NASI and NSE 20 at the lowest levels in the last 6 months; NASI PE dips to an 11-year low

KEY HIGHLIGHTS

EQUITIES

- Last month, equity turnover recovered by 8.0% m/m to end at KES 6.5bn (USD 53.4m) as foreign investors returned to the market – participation levels hit a 6-months high.
- For the third straight month, the Advance-Drop ratio deteriorated to -0.5x as laggards outweighed gainers by 1.9x.
- Erasing the prior gains, the NASI gave back 1.8% m/m to 126.48 and the NSE 20 edged down 2.4% m/m to 1,637.55, both finishing at 6-months low.
- Safaricom (-3.0% m/m) and Equity bank (-2.2% m/m) were the key detractors to NASI performance. NCBA bank (+5.4% m/m) and StanChart bank (+4.3% m/m) supported the market, driven by local institutional buying and an interim dividend announcement, respectively.
- Sector-wise, the telco sector (-1.5% m/m) reversed its prior month fortunes and the insurance sector (-0.2% m/m) continued to underperform for the second successive month. However, the banking sector (+0.2%) reversed the losses registered the previous month.
- With dampened investor sentiment, the NASI trailing PE ratio compressed by 2.0% m/m to stand at 9.3x (an 11-year low) by close of November 2022. As a result, the PE discount to its 18-year average enlarged to 32.6%.
- Sustaining a 9-month selling streak, foreign investors' net outflows came in at USD 7.3m (KES 887.2m) - the lowest levels in the last 11 months. BAT Kenya (USD 3.1m, KES 374.3m), Safaricom (USD 2.1m, KES 260.4m), EABL (USD 1.2m, KES 149.5m) and Equity bank (USD 0.9m, KES 111.9m) recorded the highest net foreign outflows. On the other hand, ABSA bank experienced the highest net foreign inflows at USD 0.9m (KES 109.6m).
- Owing to reduced local institutional inflows and share price erosion, equities' allocation by pension funds declined to 12.7% in November 2022 (a 6-months low), down from 13.0% printed the prior month.
- After CBK forex reserves (-3.0% m/m) and foreign portfolio holdings (-2.6% m/m) decreased in almost equal measure, foreign portfolio holdings as a % of CBK forex reserves was little changed at 29.2% in November 2022.
- Among the key SSA equities markets that we track, on a YTD basis to November 2022, only Nigerian equities has returned positive performance in USD terms and stood out as the best performer at 6.3%. YTD to October 2022, foreign investors remained overall net sellers in most SSA markets. On net foreign outflows front, Kenya, Egypt and S.Africa have recorded outflows of USD 203.9m, USD 840.2m and USD 3,818.2m, respectively. Notably, foreign investors are now overall net buyers in Nigeria at USD 15.6m.

FIXED INCOME

- The bond market witnessed reduced activity in November 2022 as the month hosted multiple primary auctions that shifted the secondary market yield curve higher therefore comprising sales. The on-the-run 3yr (FXD1/2022/3Yr) traded through a broad range of 12.200%-12.300%, while the longer on-the-run 10yr, FXD1/2022/10Yr largely traded between 13.850%-13.925%.
- 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 18yr, IFB1/2022/18Yr, traded largely between 13.750%-13.950%, while the existing 19yr, IFB1/2022/19Yr traded between 13.600%-13.950%. The shorter 11yr, IFB1/2020/11Yr, traded 13.000%-13.500%, while the 9yr, IFB1/2020/9Yr realizing levels 12.500%-13.000% as demand dwindled.
- During the month, Treasury opted to reopen FXD1/2008/20Yr and FXD1/2022/25Yr targeting KES 40.0bn. The coupon rates were 13.750% and 14.188% respectively.
- The bonds yielded 13.830% and 14.439% with a cut-off yield of 13.990% and 14.490% respectively. Treasury managed to raise a total of KES 24.3bn from the auction.
- In the fifth (5) month of FY2022/23, we estimate that Treasury has borrowed ~KES 158.2bn versus ~KES 313.6bn (down 49.5%).

MARKET OUTLOOK

EQUITIES:

- In our view, risks to the macro-outlook tilt more to the downside. In the short term, we expect inflation to remain elevated, yields to trend upwards as a result, and the KES to be under pressure. Amidst such as an environment, we continue to favour the banking sector premised on margins expansion and recovery in fee & commission income. Within our coverage universe, we have BUYs on all the banks, apart from StanChart bank where we maintain a HOLD recommendation.

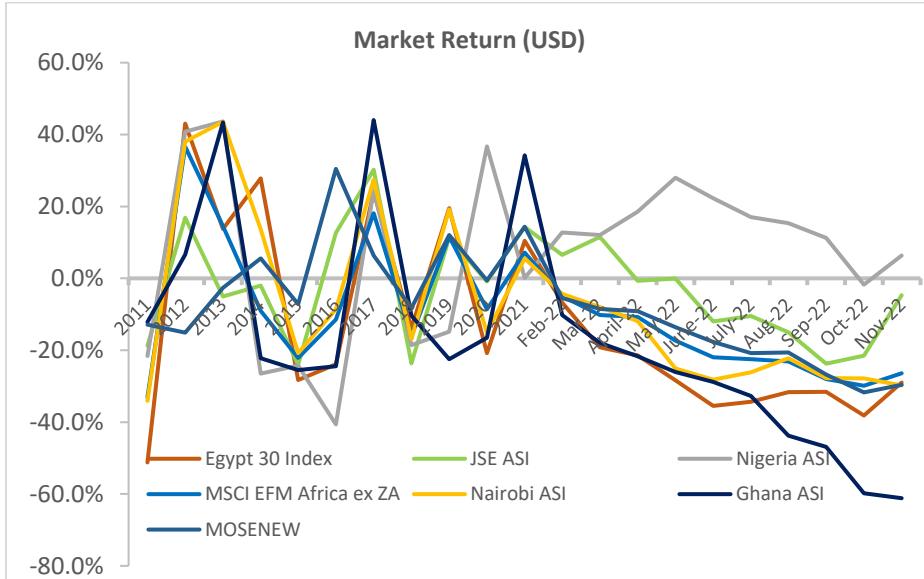
FIXED INCOME:

- Money market liquidity toward the end of December 2022 has declined due to consistent primary auctions sucking out liquidity week after week. Treasury proposed to tap IFB1/2022/6Yr in the week leading to 26th December to raise KES 20bn. Concurrently they proposed to reopen two Treasury bonds namely, FXD1/2020/5Yr and FXD1/2022/15Yr in January 2023, to raise KES 50bn. The bonds currently have a yield of 12.300% and 13.925% based on the NSE yield curve and will be issued on 16-Jan-23.

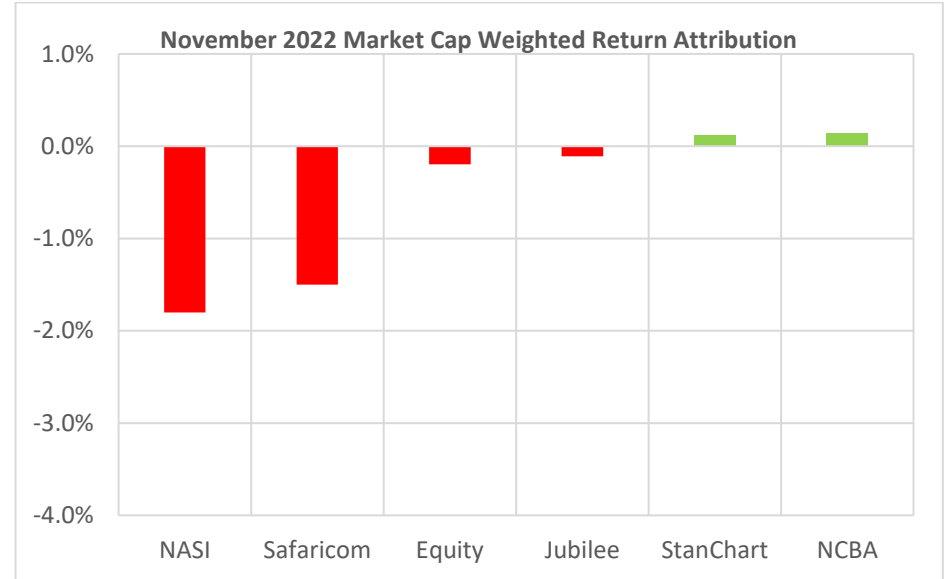
MONTHLY MARKET STATISTICS

	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22	June-22	July-22	Aug-22	Sep-22	Oct-22	Nov-22
Equities													
Market Capitalisation (USD bn)	22.7	22.9	22.4	21.9	21.1	20.2	17.2	16.5	18.5	17.8	16.6	16.5	16.2
NASI return (KES)	-7.9%	1.6%	-1.9%	-1.9%	-2.8%	-3.6%	-14.3%	-3.3%	13.3%	-2.5%	-6.6%	0.3%	-1.8%
NSE 20 return (KES)	-4.6%	1.7%	-0.7%	-0.1%	-2.1%	-2.5%	-6.6%	-4.1%	5.5%	2.9%	-1.9%	-2.3%	-2.4%
Gainers/Decliners ratio (x)	(0.7)	0.8	(0.2)	(0.4)	(0.4)	(0.4)	(0.5)	(0.4)	1.1	3.0	(0.6)	(0.6)	(0.5)
MSCI EFM ex. ZA (KES)	-3.6%	-2.8%	-0.7%	-3.6%	-3.3%	-1.1%	-6.6%	-4.7%	0.1%	0.1%	-5.7%	-2.2%	3.1%
Equity Turnover (KES bn)	15.6	10.5	8.2	10.0	9.6	5.9	10.8	9.6	8.0	5.3	9.4	6.0	6.5
Equity Turnover (USD m)	138.5	92.5	72.6	87.6	83.9	50.5	92.3	81.5	67.4	44.5	77.8	49.6	53.5
Avg. daily value traded (USD m)	6.30	4.40	3.46	4.38	3.65	2.81	4.62	3.88	3.37	2.02	3.71	2.61	2.43
Foreign institutions participation (%)	50.7	57.1	59.6	56.6	47.5	62.4	63.3	56.9	50.0	46.5	34.1	44.1	59.4
Local institutions participation (%)	39.5	31.9	28.3	33.3	38.4	24.5	27.8	33.0	35.2	31.4	47.1	33.9	28.9
Local individuals' participation (%)	9.4	10.9	12.0	9.7	13.7	12.6	8.2	9.3	14.2	18.4	16.9	21.6	10.7
Local institutions net flow (USD m)	7.9	29.4	5.2	(4.4)	15.7	14.6	34.5	37.7	19.5	9.1	12.6	13.5	5.8
Foreign institutions net flow (USD m)	(8.8)	(25.3)	(3.7)	1.9	(12.8)	(14.1)	(35.6)	(42.7)	(25.4)	(13.5)	(19.7)	(19.2)	(6.9)
Fixed Income													
Bond Turnover (KES bn)	65.8	53.2	48.4	54.9	87.6	71.4	58.9	65.4	61.9	68.4	66.7	56.7	53.6
Bond Turnover (USD m)	585	470	426	482	762	616	504	555	521	570	553	467	441
T-Bill performance rate	88%	69%	103%	94%	91%	59%	92%	84%	94%	73%	106%	92%	168%
T-Bill allotment rate	93%	85%	93%	94%	94%	100%	94%	66%	92%	93%	75%	84%	80%
T-Bill offer fill rate	82%	58%	95%	88%	85%	59%	86%	96%	28%	68%	80%	77%	135%
T-Bond performance rate	168%	103%	111%	176%	80%	95%	86%	97%	93%	98%	92%	56%	171%
T-Bond allotment rate	83%	92%	93%	75%	65%	91%	81%	93%	26%	78%	85%	85%	85%
T-Bond offer fill rate	139%	95%	104%	132%	52%	87%	70%	80%	40%	77%	78%	48%	146%
5-year m/m yield change (bps)	50	40	45	50	98	100	85	354	323	42	10	58	53
2 year-91D yield spread (bps)	247	249	271	330	359	410	356	233	243	276	262	290	276
5 year-364D yield spread (bps)	206	204	186	178	221	255	237	75	85	292	302	347	313
5 year-2-year yield spread (bps)	135	155	135	95	110	75	95	80	120	130	135	140	135
5 yr Bond-5 yr IFB yield spread (bps)	130	150	130	130	158	155	115	205	220	82	93	120	105
10 year-2-year yield spread (bps)	270	265	245	210	193	145	220	84	94	213	228	173	175
FTSE NSE KES Gov. bond price index USD return	-1.2%	-1.1%	--0.1%	--0.1%	0.5%	-2.2%	-0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Average monthly KES/USD	112.5	113.1	113.6	113.8	114.95	115.77	116.74	117.83	118.76	120.01	120.73	121.33	121.44

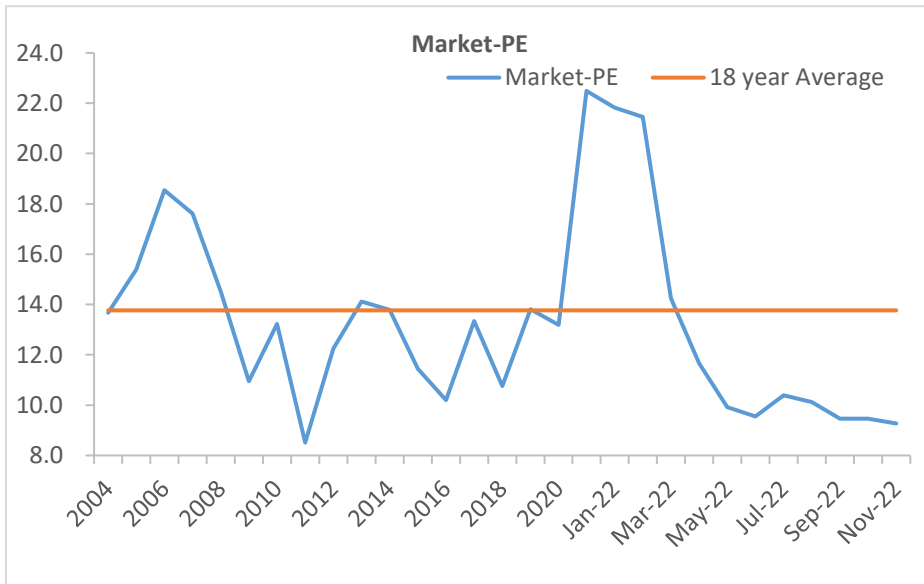
Ytd, Nigeria recovers to positive territory, peer comparable remain in red



Safaricom and Equity bank largely weigh on NASI return

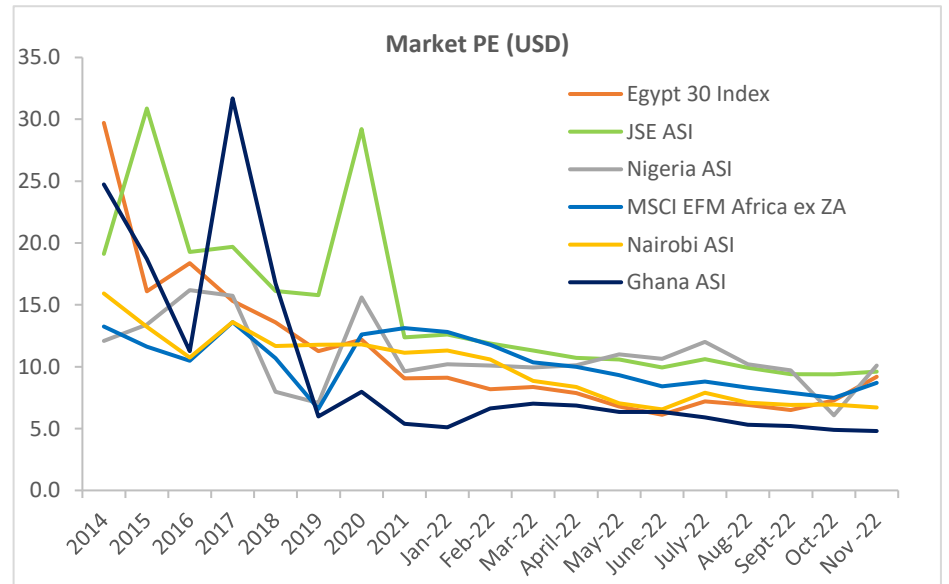


NASI PE ratio contracts by 2.0% m/m, discount to historical avg. reaches 32.6%



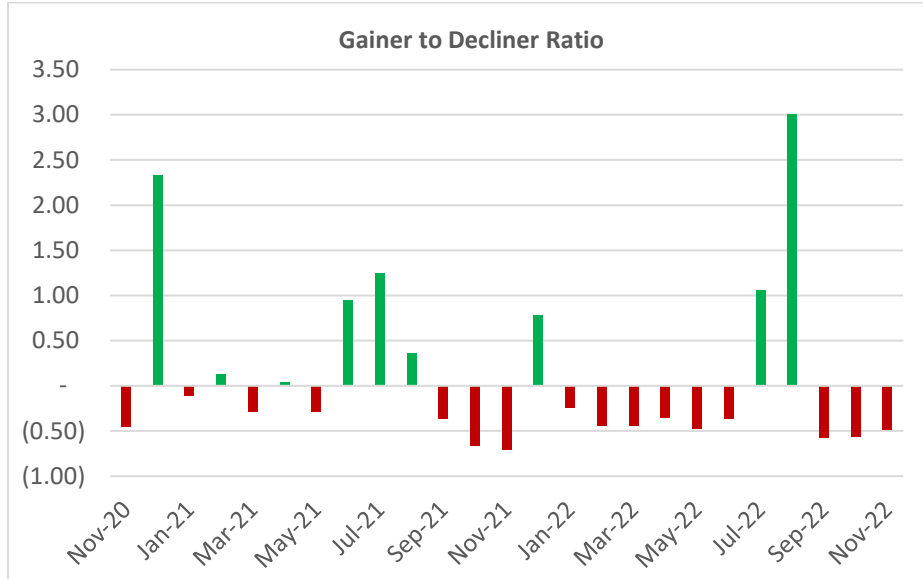
(As reported by the NSE)

NASI trailing PE expands its discount against MSCI EFM Africa ex ZA to 23.0%

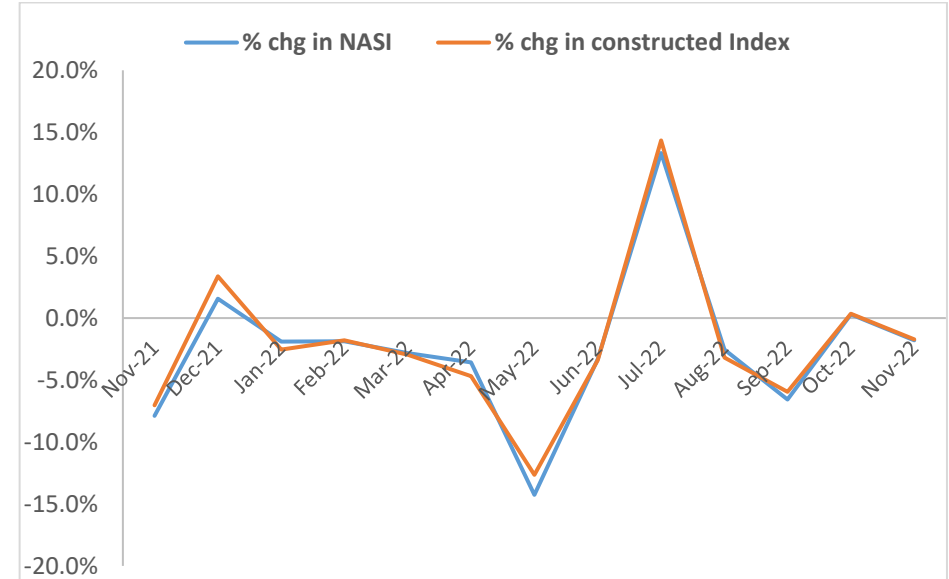


(As reported by Bloomberg)

Downward pressure persists for the third consecutive month

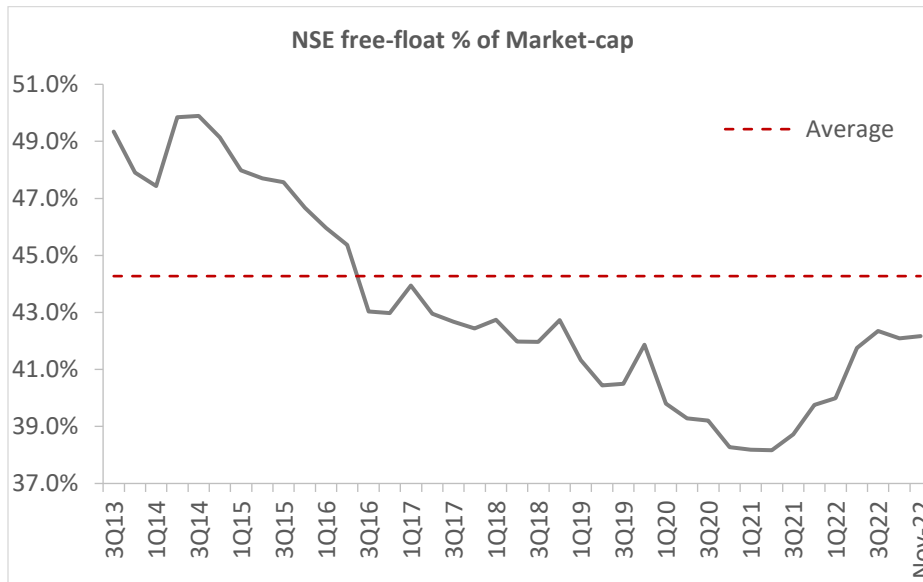


Large-cap stocks (Safaricom & Equity bank) detract NASI return

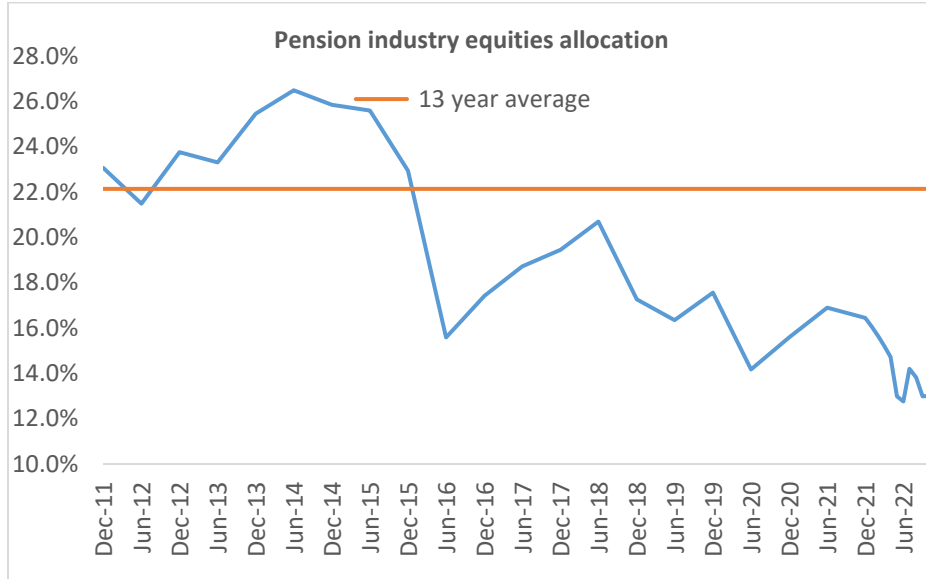


*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

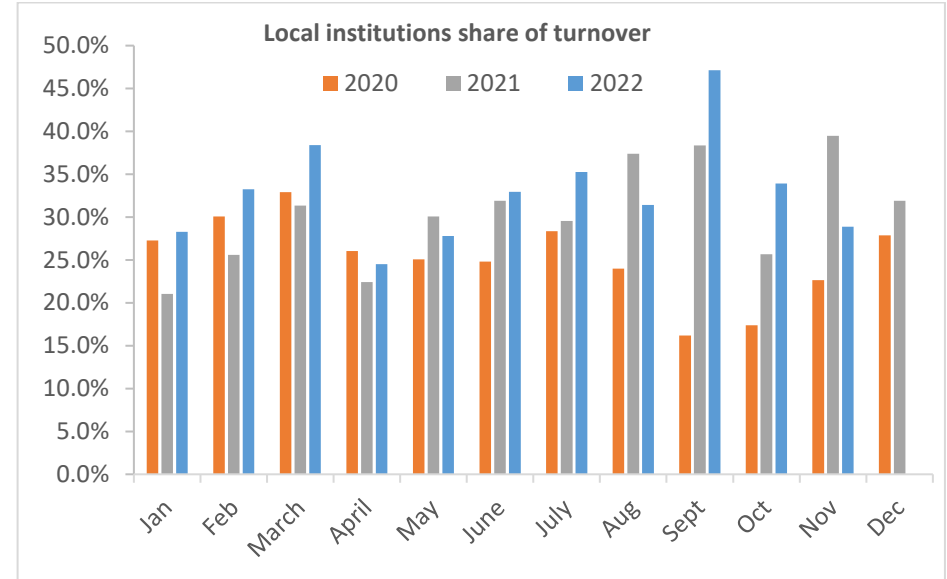
NSE free float as a % of market cap increases modestly month-on-month



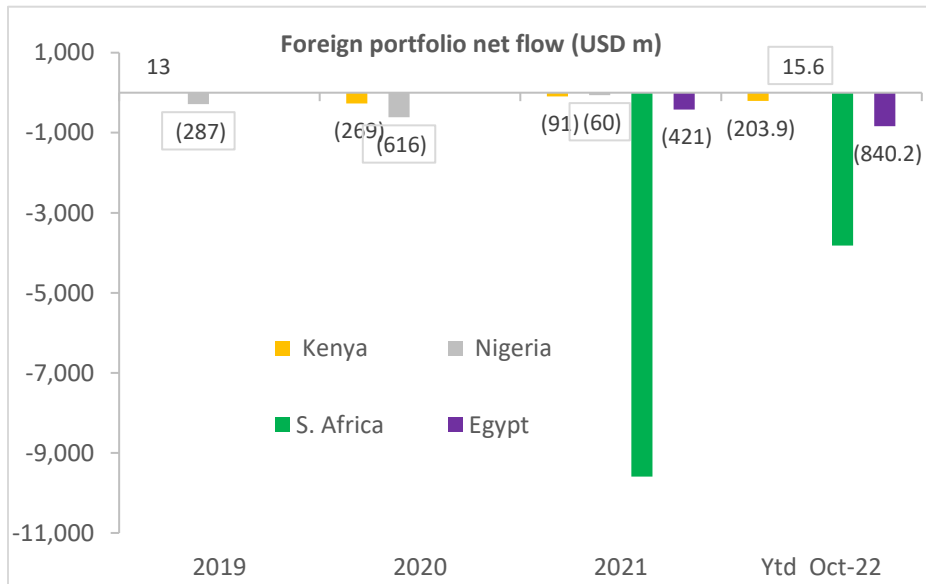
Equities allocation falls to a 6-month low, reduced local inflows & share price erosion



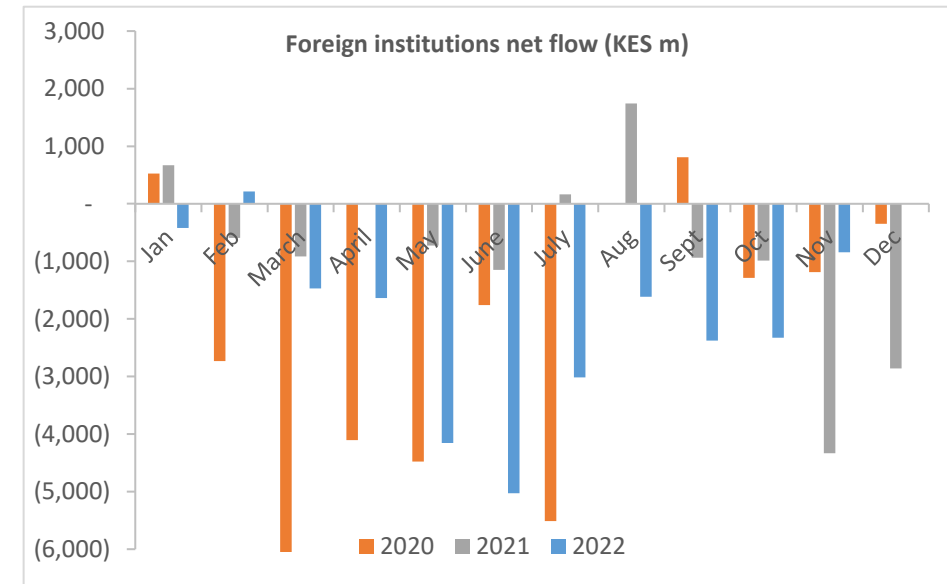
Local institutions' activity levels dips to a 6-month low



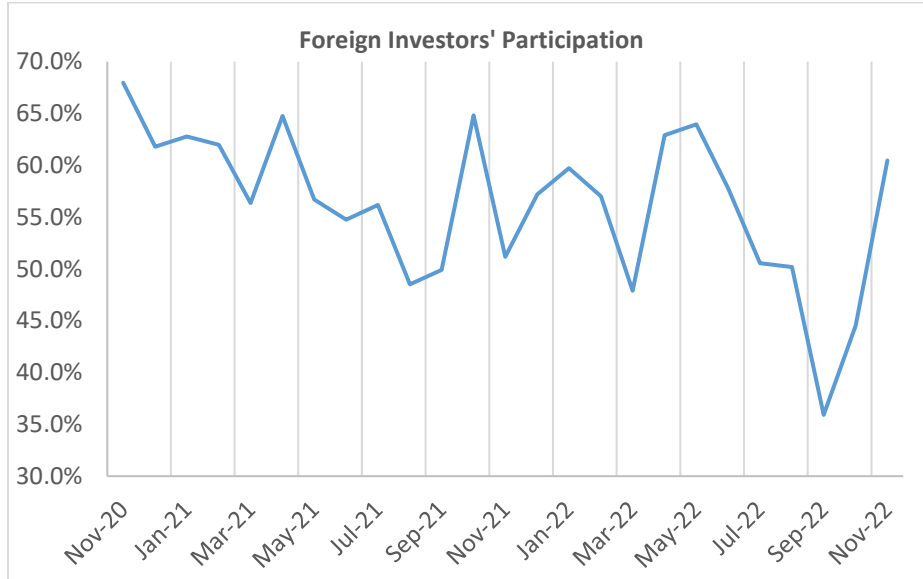
YTD to Oct 22, Nigeria marks net foreign inflows



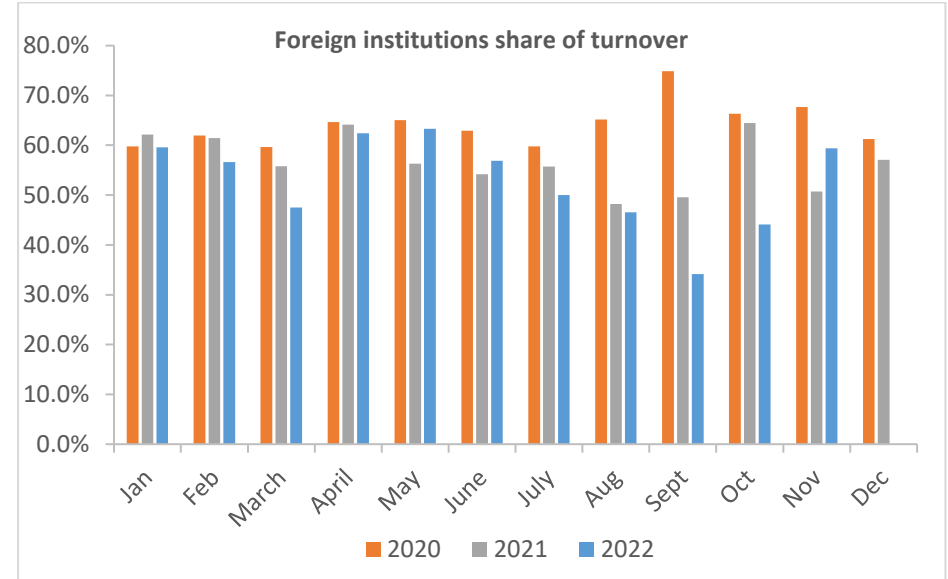
Foreign institutions remain net sellers for the ninth straight month



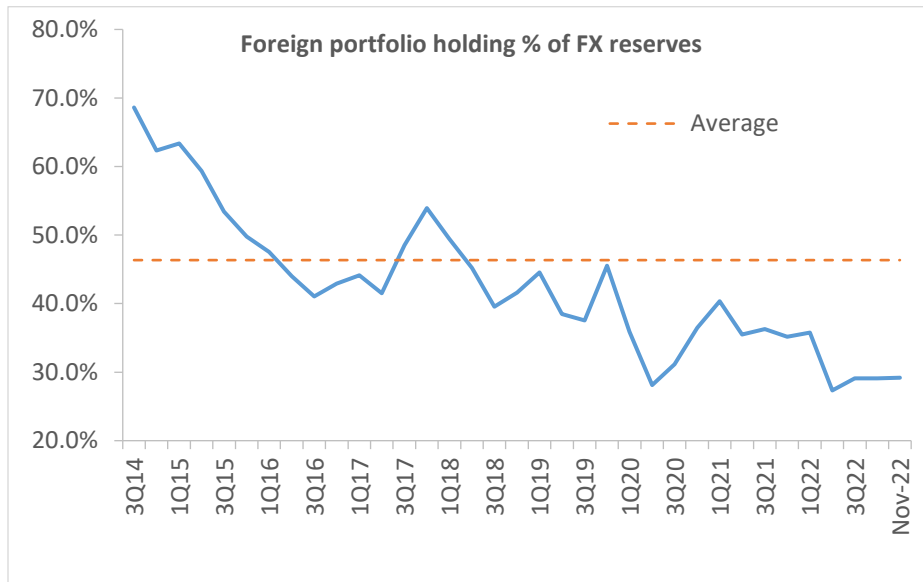
Foreign investors' participation levels further bounces to a 6-month high



Foreign institutions' activity levels rebounds to a 6-month high



Foreign portfolio/FX reserves grow slightly month-on-month



FOREIGN FREE FLOAT TO TOTAL FREE FLOAT PER COUNTER

Foreign free float/total free float	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q21	1Q22	2Q22	3Q22	Oct-22	Nov-22
Safaricom	44.8%	44.3%	45.4%	45.9%	45.7%	46.3%	45.2%	43.8%	40.8%	40.4%	39.1%	38.4%	38.3%
Equity bank	38.2%	37.5%	36.1%	36.1%	36.5%	36.7%	36.8%	37.4%	36.5%	36.2%	36.1%	35.9%	35.8%
EABL	39.9%	39.8%	38.2%	37.1%	36.7%	33.8%	33.2%	32.0%	30.5%	30.4%	30.4%	30.3%	30.1%
KCB bank	19.6%	18.3%	16.1%	14.5%	13.9%	14.1%	13.2%	13.4%	12.9%	12.0%	11.5%	11.4%	11.4%
BK Group	100.0%	99.9%	99.6%	99.5%	98.9%	98.8%	83.8%	98.8%	98.9%	98.9%	98.9%	98.9%	98.9%
BAT Kenya	62.6%	62.1%	59.8%	58.5%	57.7%	56.8%	56.5%	56.5%	56.3%	55.7%	55.6%	55.5%	53.4%
KenGen	51.5%	51.2%	50.3%	49.8%	49.1%	49.3%	51.5%	49.7%	49.5%	49.3%	48.5%	48.2%	48.1%
I&M bank	32.6%	32.6%	32.7%	32.7%	16.4%	16.4%	18.2%	16.4%	16.3%	16.3%	16.6%	16.6%	16.6%
Jubilee Insurance	44.7%	45.2%	45.2%	45.4%	45.5%	45.7%	45.4%	45.4%	45.4%	45.4%	45.5%	45.5%	45.5%
Stanbic bank	43.6%	41.5%	40.6%	40.7%	40.7%	40.8%	41.9%	41.6%	42.1%	42.1%	42.4%	42.4%	42.4%
DTB bank	36.0%	35.7%	35.5%	35.3%	35.2%	35.0%	35.7%	35.3%	35.7%	35.7%	35.6%	35.6%	35.6%
Centum Investment	14.5%	13.8%	12.5%	11.9%	11.0%	10.9%	10.9%	9.6%	9.0%	8.6%	8.6%	8.6%	8.6%
StanChart bank	10.7%	13.8%	12.5%	9.5%	7.1%	6.0%	5.4%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Britam Insurance	14.6%	10.8%	10.8%	14.0%	13.7%	13.7%	17.0%	13.7%	13.6%	13.5%	13.4%	13.4%	13.4%
WPP ScanGroup	95.5%	80.6%	78.1%	78.1%	76.5%	65.1%	72.8%	66.9%	66.9%	66.9%	66.9%	66.9%	66.9%

Companies with foreign free float holding of over USD 10

MONTHLY NET FOREIGN FLOWS PER COUNTER

	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22	June-22	July-22	Aug-22	Sept-22	Oct-22	Nov-22
Safaricom	(4,710)	(1,562)	(834)	(719)	(1,400)	(1,391)	(3,034)	(3,719)	(1,181)	(1,220)	(2,101)	(1,651)	(260)
Equity Bank	1,053	(578)	376	605	(82)	(70)	(342)	(1,007)	(549)	(183)	65	(489)	(112)
EABL	(344)	(294)	(129)	(113)	(121)	(128)	(522)	(183)	(103)	38	11	(71)	(150)
KCB bank	(286)	(419)	89	367	101	(116)	(260)	(98)	(967)	(224)	(360)	(74)	(60)
BK Group	0	0	2	0	-	25	(1)	(0)	(8)	(2)	(0)	0	(2)
BAT	(15)	2	49	(24)	(0)	(14)	(6)	(23)	(105)	(11)	(1)	(14)	(374)
Britam	0	-	-	-	0	0	0	(7)	(5)	(8)	(0)	(0)	(2)
I&M bank	(0)	1	(0)	2	(10)	(4)	1	(3)	2	1	30	1	0
Jubilee	(8)	(7)	(4)	(10)	(2)	(3)	4	(1)	(1)	1	9	(0)	(2)
Stanbic bank	67	(0)	(0)	(34)	64	47	26	(0)	-	(0)	33	(1)	-
DTB bank	27	(1)	(1)	(7)	(0)	(2)	(9)	47	(4)	(10)	9	(0)	(4)
KenGen	17	12	(0)	2	(11)	5	(7)	(8)	(11)	(28)	(21)	(16)	(8)
WPP ScanGroup	4	0	-	7	0	(0)	0	-	-	(0)	-	-	(0)
Centum	0	(53)	0	6	(13)	(3)	(17)	(8)	(19)	(1)	(0)	(0)	0
StanChart bank	(46)	(4)	(2)	4	(4)	3	3	(11)	2	1	(1)	(1)	(1)
BBK bank	(72)	0	0	59	6	(13)	(1)	(0)	1	(3)	0	0	110
Co-op Bank	(24)	9	6	43	(0)	(1)	(47)	(3)	(15)	5	16	(1)	(5)
NSE	(1)	10	17	(0)	(0)	(10)	(9)	0	0	(0)	(3)	(1)	(1)
Market	(4,294)	(2,874)	(423)	187	(1,451)	(1,653)	(4,207)	(5,036)	(2,972)	(1,656)	(2,337)	(2,319)	(887)

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

Fixed Income Sales & Trading

Alexander Muiruri
alexanderm@kestrelcapital.com

Edwin Muthaura
edwinm@kestrelcapital.com

CEO & Executive Director

Francis Mwangi, CFA
francism@kestrelcapital.com