

## MONTHLY MARKET COMMENTARY (Oct 2022): EABL's rally largely drives NASI's positive return while financial institutions weigh on the market

### KEY HIGHLIGHTS

#### EQUITIES

- Last month, equity turnover fell 36.0% m/m to settle at KES 6.0bn (USD 49.6m) largely on account of local investors slowing down on their trading activities.
- The Advance-Decline ratio further worsened to -0.6x as decliners continued to outpace advancers by 2.3X.
- After two straight losses, the NASI inched up 0.3% m/m to 128.80 while the NSE 20 softened 2.3% m/m to 1,677.76 for the second successive month.
- EABL (+17.8% m/m), and in part Safaricom (+0.6% m/m), buoyed NASI return driven by local demand. Notably, EABL's rally was spurred by news of the intention by Diageo Kenya to acquire an additional 14.97% stake in EABL at an offer price of KES 192.00.
- However, as investors' sentiments across board was largely weak, especially across the banking (-0.8% m/m) and insurance (-0.1%) sectors, the NASI trailing PE ratio remained relatively unchanged at 9.6x by the end of October 2022. As a result, the PE discount to its 18-year average was little changed at 31.3%.
- Stretching their net selling streak to the eighth month, foreign investors' net outflows stood at USD 19.2m (KES 2.3bn). Safaricom (USD 13.7m, KES 1.7bn) and Equity bank (USD 4.0m, KES 489.1m) saw the highest net foreign outflows. On the other hand, Nairobi Business Ventures recorded the highest net foreign inflows at USD 28.8k (KES 3.5m).
- Equities' allocation by pension funds was fairly unchanged at 13.0% in October 2022 as equities return was modestly up. However, local institutions extended their net buying to the eighth month.
- Again, foreign portfolio holdings as a % of CBK forex reserves was steady at 29.1% in October 2022 as both foreign portfolio holdings and CBK forex reserves decreased in equal measure.
- Among the key SSA equities markets that we follow, on a YTD basis to October 2022, all markets have achieved negative USD returns. We however note that Nigeria equities continue to outperform the rest at -1.8% USD return. YTD to September 2022, foreign investors have remained overall net sellers in most SSA markets. On net foreign outflows front, Kenya, Nigeria, Egypt and S.Africa have registered outflows of USD 161.9m, USD 2.2m, USD 945.3m and USD 3,888.9m, respectively.

#### FIXED INCOME

- The bond market witnessed reduced activity in October 2022 as the month hosted two primary auctions that shifted the yield curve higher therefore comprising sales in the secondary market. The on-the-run 3yr (FXD1/2022/3Yr) traded through a broad range of 12.350%-12.400%, while the longer on-the-run 10yr, FXD1/2022/10Yr largely traded between 13.750%-14.000%.
- 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 13.500%-13.750%, while the existing 19yr, IFB1/2022/19Yr traded between 13.600%-13.750%. The shorter 11yr, IFB1/2020/11Yr, traded 12.800%-13.300%, while the 9yr, IFB1/2020/9Yr realizing levels 12.500%-13.000% as demand dwindled.
- During the month, Treasury opted to reopen FXD1/2022/25Yr targeting KES 20.0bn. The coupon rate was market determined.
- The bond yielded 14.188% and had a cut-off yield of 14.490%. Treasury managed to raise a total of KES 13.7bn from the auction.
- In the fourth (4) month of FY2022/23, we estimate that Treasury has borrowed ~KES 91.8bn versus ~KES 255.3bn (down 64.0%).

## MARKET OUTLOOK

### EQUITIES:

- We expect heightened activity on banking stocks as they announce their 3Q22 results during the month of November. Amidst an inflationary environment and the expected rise in yields, we continue to favour banking stocks – in our coverage universe, we have BUYs on all the counters, apart from Stanbic bank and StanChart bank where we have HOLD ratings. We also advocate for a BUY on Safaricom with fair value estimate of KES 35.20, implying 39.5% upside potential. YTD, Safaricom is down 36% and just 10% above its 12-month low.

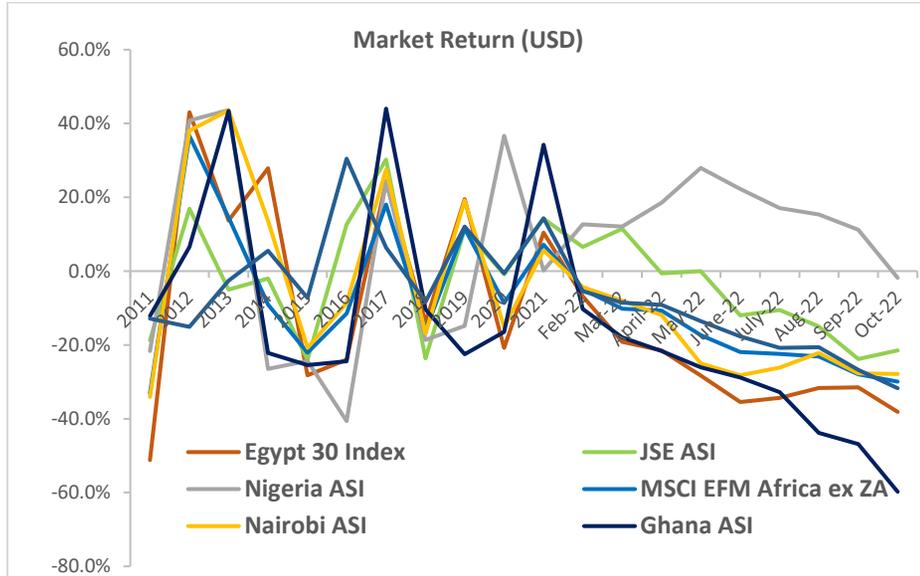
### FIXED INCOME:

- Money market liquidity toward mid-November 2022 has declined considerably following the high uptake in the recently concluded IFB auction. Treasury plans to host the Bond Market Forum on Tuesday 22<sup>nd</sup> November 2022 to propose the bond issue for the month of December 2022 of which we expect an earlier value date (likely 13-Dec-22).

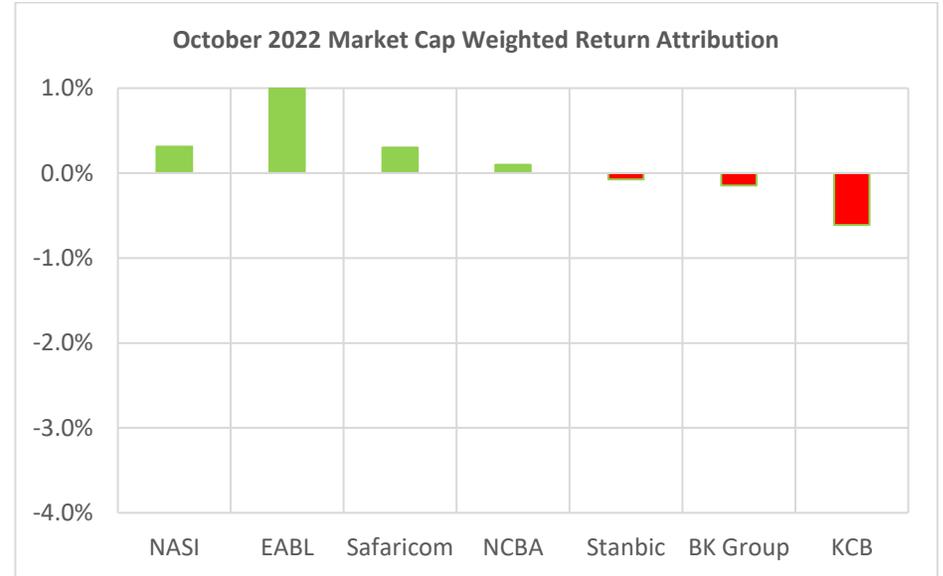
MONTHLY MARKET STATISTICS

	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22	June-22	July-22	Aug-22	Sep-22	Oct-22
<b>Equities</b>													
Market Capitalisation (USD bn)	25.0	22.7	22.9	22.4	21.9	21.1	20.2	17.2	16.5	18.5	17.8	16.6	16.5
NASI return (KES)	-0.2%	-7.9%	1.6%	-1.9%	-1.9%	-2.8%	-3.6%	-14.3%	-3.3%	13.3%	-2.5%	-6.6%	0.3%
NSE 20 return (KES)	-3.4%	-4.6%	1.7%	-0.7%	-0.1%	-2.1%	-2.5%	-6.6%	-4.1%	5.5%	2.9%	-1.9%	-2.3%
Gainers/Decliners ratio (x)	(0.7)	(0.7)	0.8	(0.2)	(0.4)	(0.4)	(0.4)	(0.5)	(0.4)	1.1	3.0	(0.6)	(0.6)
MSCI EFM ex. ZA (KES)	5.1%	-3.6%	-2.8%	-0.7%	-3.6%	-3.3%	-1.1%	-6.6%	-4.7%	0.1%	0.1%	-5.7%	-2.2%
Equity Turnover (KES bn)	10.3	15.6	10.5	8.2	10.0	9.6	5.9	10.8	9.6	8.0	5.3	9.4	6.0
Equity Turnover (USD m)	92.4	138.5	92.5	72.6	87.6	83.9	50.5	92.3	81.5	67.4	44.5	77.8	49.6
Avg. daily value traded (USD m)	4.86	6.30	4.40	3.46	4.38	3.65	2.81	4.62	3.88	3.37	2.02	3.71	2.61
Foreign institutions participation (%)	49.6	50.7	57.1	59.6	56.6	47.5	62.4	63.3	56.9	50.0	46.5	34.1	44.1
Local institutions participation (%)	25.7	39.5	31.9	28.3	33.3	38.4	24.5	27.8	33.0	35.2	31.4	47.1	33.9
Local individuals' participation (%)	9.5	9.4	10.9	12.0	9.7	13.7	12.6	8.2	9.3	14.2	18.4	16.9	21.6
Local institutions net flow (USD m)	8.8	7.9	29.4	5.2	(4.4)	15.7	14.6	34.5	37.7	19.5	9.1	12.6	13.5
Foreign institutions net flow (USD m)	(8.4)	(8.8)	(25.3)	(3.7)	1.9	(12.8)	(14.1)	(35.6)	(42.7)	(25.4)	(13.5)	(19.7)	(19.2)
<b>Fixed Income</b>													
Bond Turnover (KES bn)	66.2	65.8	53.2	48.4	54.9	87.6	71.4	58.9	65.4	61.9	68.4	66.7	56.7
Bond Turnover (USD m)	596	585	470	426	482	762	616	504	555	521	570	553	467
T-Bill performance rate	58%	88%	69%	103%	94%	91%	59%	92%	84%	94%	73%	106%	92%
T-Bill allotment rate	94%	93%	85%	93%	94%	94%	100%	94%	66%	92%	93%	75%	84%
T-Bill offer fill rate	54%	82%	58%	95%	88%	85%	59%	86%	96%	28%	68%	80%	77%
T-Bond performance rate	93%	168%	103%	111%	176%	80%	95%	86%	97%	93%	98%	92%	56%
T-Bond allotment rate	94%	83%	92%	93%	75%	65%	91%	81%	93%	26%	78%	85%	85%
T-Bond offer fill rate	87%	139%	95%	104%	132%	52%	87%	70%	80%	40%	77%	78%	48%
5-year m/m yield change (bps)	45	50	40	45	50	98	100	85	354	323	42	10	58
2 year-91D yield spread (bps)	253	247	249	271	330	359	410	356	233	243	276	262	290
5 year-364D yield spread (bps)	260	206	204	186	178	221	255	237	75	85	292	302	347
5 year-2-year yield spread (bps)	140	135	155	135	95	110	75	95	80	120	130	135	140
5 yr Bond-5 yr IFB yield spread (bps)	175	130	150	130	130	158	155	115	205	220	82	93	120
10 year-2-year yield spread (bps)	290	270	265	245	210	193	145	220	84	94	213	228	173
FTSE NSE KES Gov. bond price index USD return	-0.7%	-1.2%	-1.1%	--0.1%	--0.1%	0.5%	-2.2%	-0.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Average monthly KES/USD	111.2	112.5	113.1	113.6	113.8	114.95	115.77	116.74	117.83	118.76	120.01	120.73	121.33

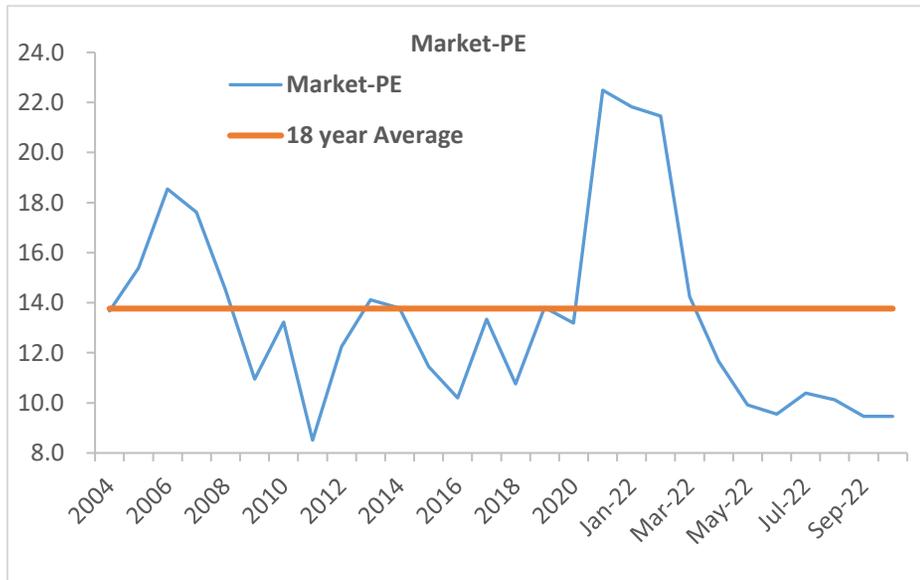
Ytd, Nigeria continued to outperform, though its return slid into negative territory



EABL and Safaricom support NASI positive return

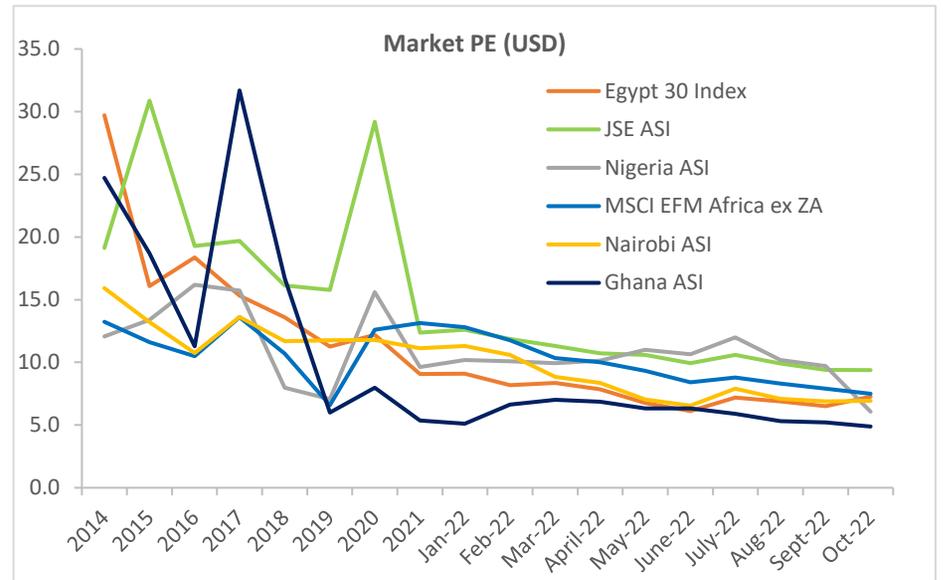


NASI PE ratio remains unchanged m/m after touching an 11-year low previously



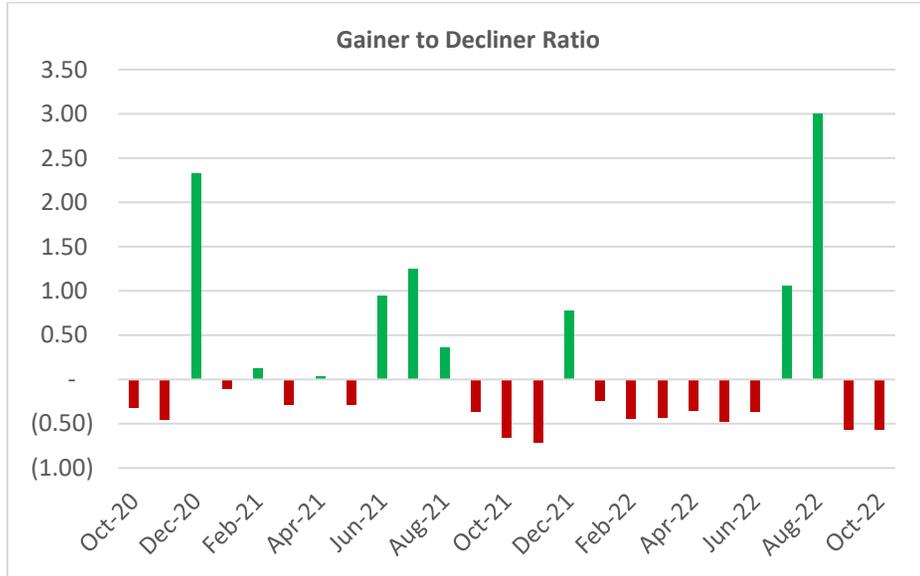
(As reported by the NSE)

NASI trailing PE at a discount of 7.3% against MSCI EFM Africa ex ZA

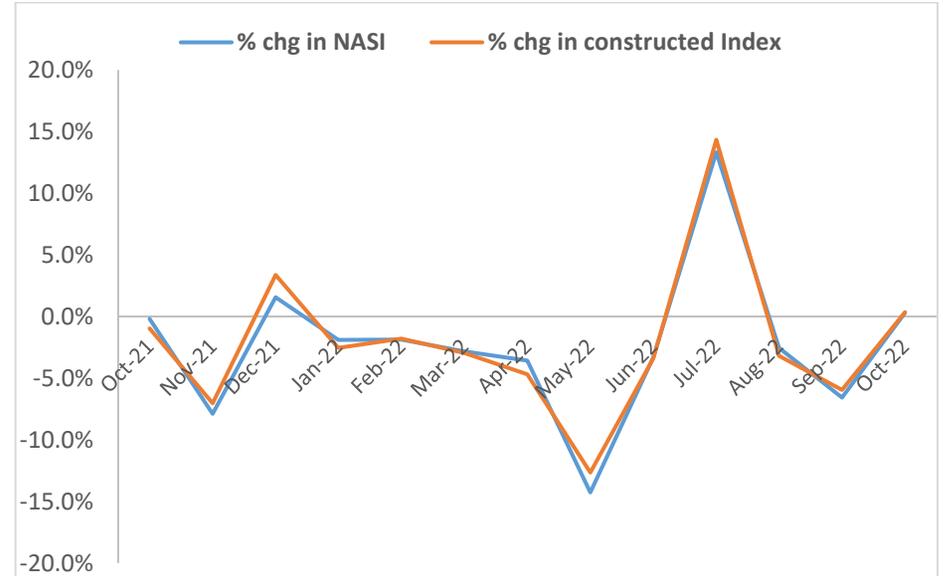


(As reported by Bloomberg)

Downward momentum sustains for the second straight month

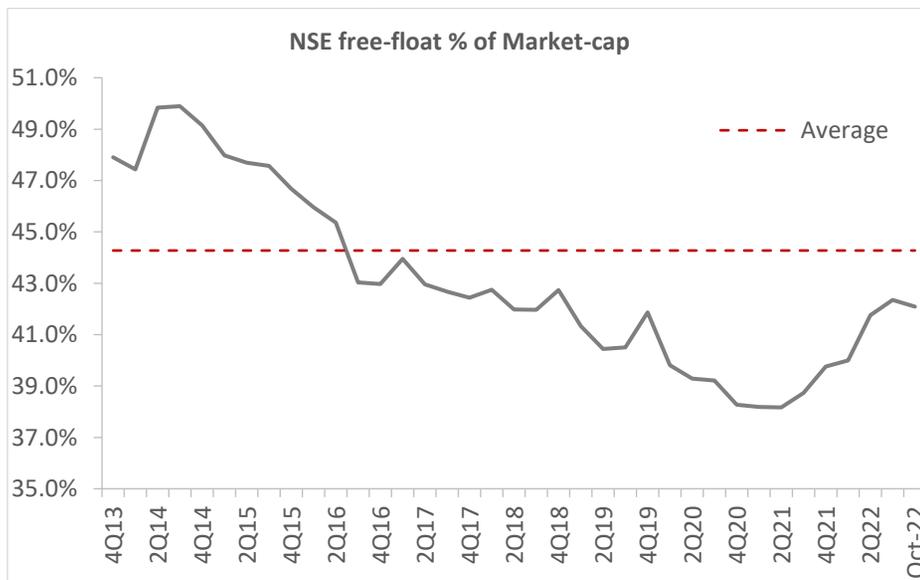


Large-cap stocks mainly weigh on NASI return

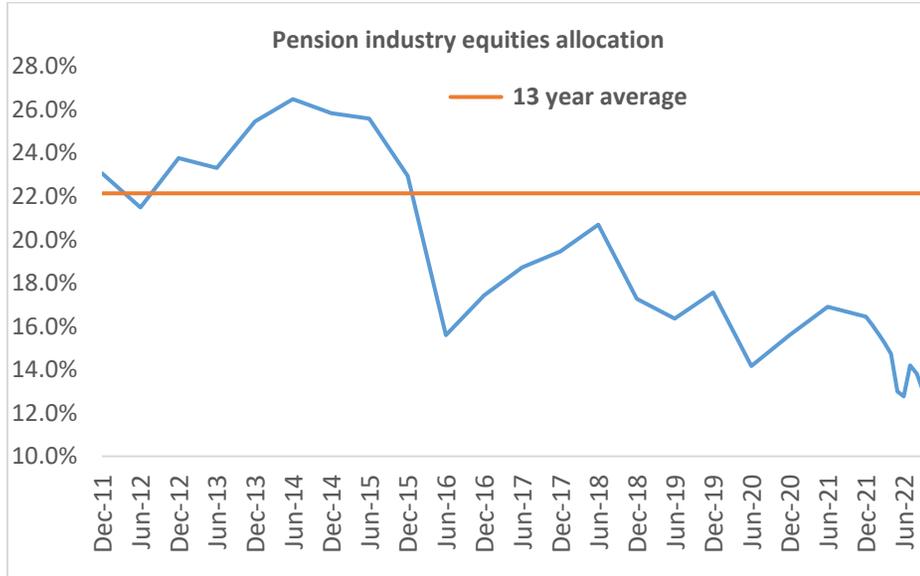


\*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

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



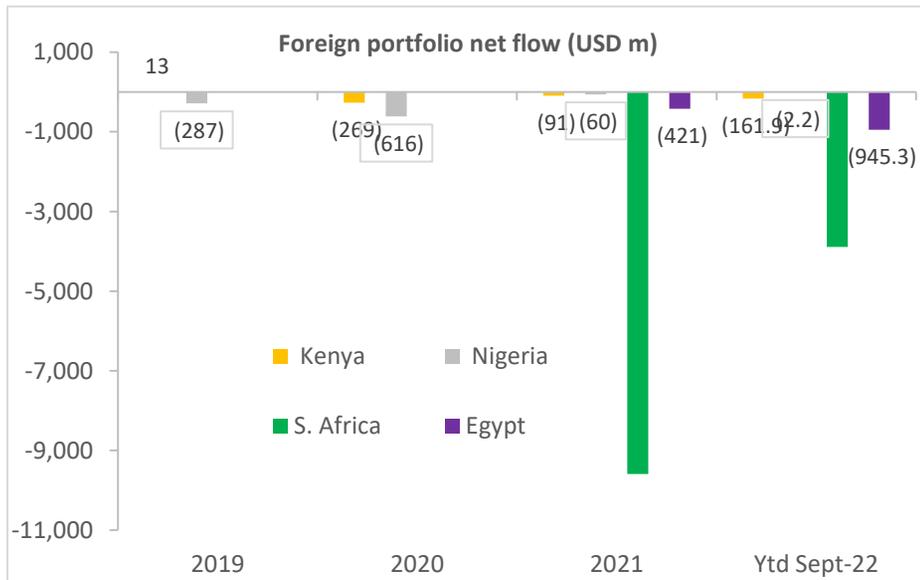
Equities allocation remains fairly steady after marking a 4-month low the prior month



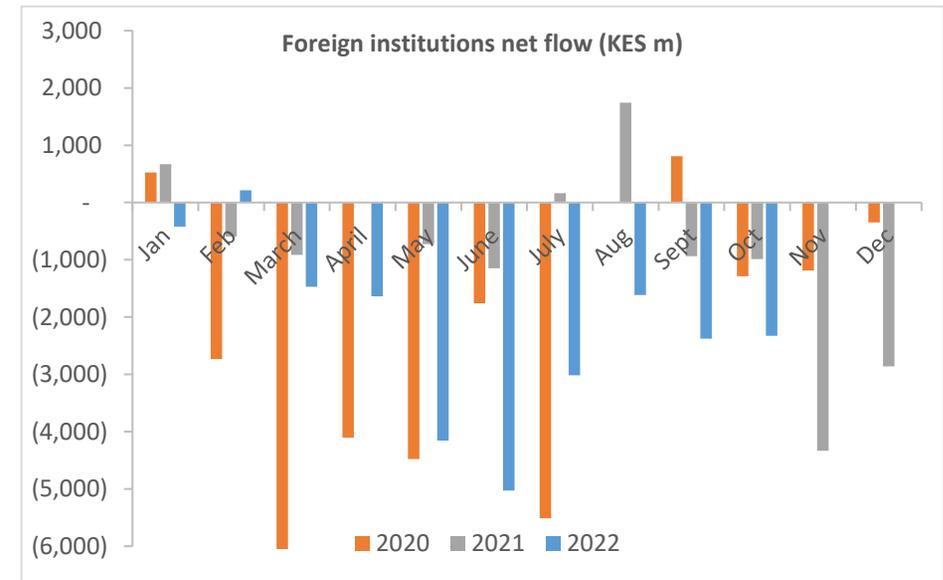
Local institutions' activity decline m/m after reaching a 7-month high



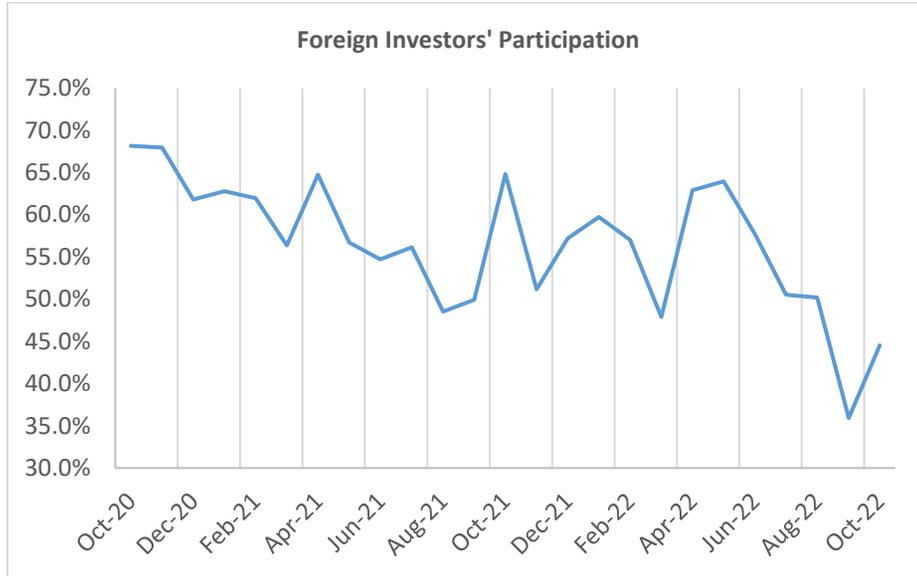
YTD to Sep 22, Nigeria records marginal net foreign sell-off



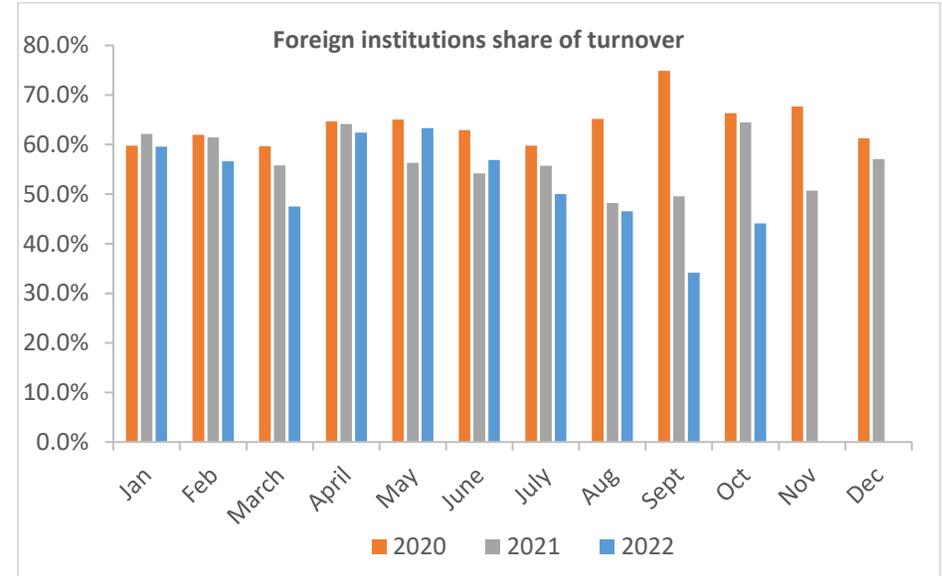
Foreign institutions emerge net sellers for the eighth consecutive month



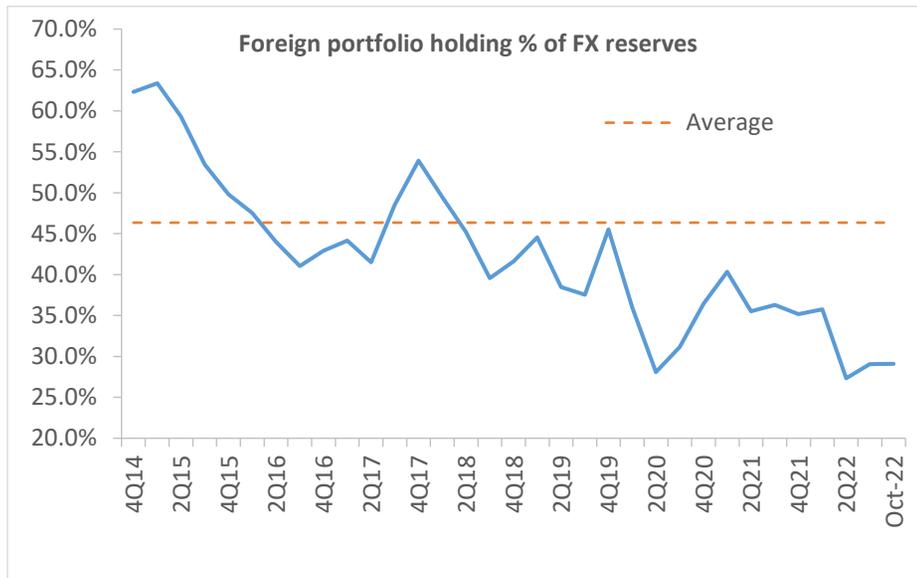
Foreign investors' participation levels increase m /m, up from a record low



Foreign institutions' activity levels rise m/m halting a 4-month declining streak



Foreign portfolio/FX reserves hold steady after touching an 8-year low previously



**FOREIGN FREE FLOAT TO TOTAL FREE FLOAT PER COUNTER**

<b>Foreign free float/total free float</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>4Q20</b>	<b>1Q21</b>	<b>2Q21</b>	<b>3Q21</b>	<b>4Q21</b>	<b>1Q21</b>	<b>1Q22</b>	<b>2Q22</b>	<b>3Q22</b>	<b>Oct-22</b>
Safaricom	45.0%	44.8%	44.3%	45.4%	45.9%	45.7%	46.3%	45.2%	43.8%	40.8%	40.4%	39.1%	38.4%
Equity bank	41.2%	38.2%	37.5%	36.1%	36.1%	36.5%	36.7%	36.8%	37.4%	36.5%	36.2%	36.1%	35.9%
EABL	41.2%	39.9%	39.8%	38.2%	37.1%	36.7%	33.8%	33.2%	32.0%	30.5%	30.4%	30.4%	30.3%
KCB bank	22.8%	19.6%	18.3%	16.1%	14.5%	13.9%	14.1%	13.2%	13.4%	12.9%	12.0%	11.5%	11.4%
BK Group	100.0%	100.0%	99.9%	99.6%	99.5%	98.9%	98.8%	83.8%	98.8%	98.9%	98.9%	98.9%	98.9%
BAT Kenya	63.9%	62.6%	62.1%	59.8%	58.5%	57.7%	56.8%	56.5%	56.5%	56.3%	55.7%	55.6%	55.5%
KenGen	51.6%	51.5%	51.2%	50.3%	49.8%	49.1%	49.3%	51.5%	49.7%	49.5%	49.3%	48.5%	48.2%
I&M bank	32.6%	32.6%	32.6%	32.7%	32.7%	16.4%	16.4%	18.2%	16.4%	16.3%	16.3%	16.6%	16.6%
Jubilee Insurance	44.6%	44.7%	45.2%	45.2%	45.4%	45.5%	45.7%	45.4%	45.4%	45.4%	45.4%	45.5%	45.5%
Stanbic bank	46.5%	43.6%	41.5%	40.6%	40.7%	40.7%	40.8%	41.9%	41.6%	42.1%	42.1%	42.4%	42.4%
DTB bank	35.7%	36.0%	35.7%	35.5%	35.3%	35.2%	35.0%	35.7%	35.3%	35.7%	35.7%	35.6%	35.6%
Centum Investment	14.7%	14.5%	13.8%	12.5%	11.9%	11.0%	10.9%	10.9%	9.6%	9.0%	8.6%	8.6%	8.6%
StanChart bank	11.2%	10.7%	13.8%	12.5%	9.5%	7.1%	6.0%	5.4%	5.5%	5.5%	5.5%	5.5%	5.5%
Britam Insurance	75.2%	14.6%	10.8%	10.8%	14.0%	13.7%	13.7%	17.0%	13.7%	13.6%	13.5%	13.4%	13.4%
WPP ScanGroup	95.9%	95.5%	80.6%	78.1%	78.1%	76.5%	65.1%	72.8%	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

	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	April-22	May-22	June-22	July-22	Aug-22	Sept-22	Oct-22
Safaricom	154	(4,710)	(1,562)	(834)	(719)	(1,400)	(1,391)	(3,034)	(3,719)	(1,181)	(1,220)	(2,101)	(1,651)
Equity Bank	(250)	1,053	(578)	376	605	(82)	(70)	(342)	(1,007)	(549)	(183)	65	(489)
EABL	(139)	(344)	(294)	(129)	(113)	(121)	(128)	(522)	(183)	(103)	38	11	(71)
KCB bank	(687)	(286)	(419)	89	367	101	(116)	(260)	(98)	(967)	(224)	(360)	(74)
BK Group	0	0	0	2	0	-	25	(1)	(0)	(8)	(2)	(0)	0
BAT	(48)	(15)	2	49	(24)	(0)	(14)	(6)	(23)	(105)	(11)	(1)	(14)
Britam	(0)	0	-	-	-	0	0	0	(7)	(5)	(8)	(0)	(0)
I&M bank	(3)	(0)	1	(0)	2	(10)	(4)	1	(3)	2	1	30	1
Jubilee	(10)	(8)	(7)	(4)	(10)	(2)	(3)	4	(1)	(1)	1	9	(0)
Stanbic bank	(4)	67	(0)	(0)	(34)	64	47	26	(0)	-	(0)	33	(1)
DTB bank	1	27	(1)	(1)	(7)	(0)	(2)	(9)	47	(4)	(10)	9	(0)
KenGen	12	17	12	(0)	2	(11)	5	(7)	(8)	(11)	(28)	(21)	(16)
WPP ScanGroup	0	4	0	-	7	0	(0)	0	-	-	(0)	-	-
Centum	(43)	0	(53)	0	6	(13)	(3)	(17)	(8)	(19)	(1)	(0)	(0)
StanChart bank	(12)	(46)	(4)	(2)	4	(4)	3	3	(11)	2	1	(1)	(1)
BBK bank	11	(72)	0	0	59	6	(13)	(1)	(0)	1	(3)	0	0
Co-op Bank	(1)	(24)	9	6	43	(0)	(1)	(47)	(3)	(15)	5	16	(1)
NSE	0	(1)	10	17	(0)	(0)	(10)	(9)	0	0	(0)	(3)	(1)
<b>Market</b>	<b>(1,021)</b>	<b>(4,294)</b>	<b>(2,874)</b>	<b>(423)</b>	<b>187</b>	<b>(1,451)</b>	<b>(1,653)</b>	<b>(4,207)</b>	<b>(5,036)</b>	<b>(2,972)</b>	<b>(1,656)</b>	<b>(2,337)</b>	<b>(2,319)</b>

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

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