

MONTHLY MARKET COMMENTARY (Oct 2023): NASI touches an 11-year low and its trailing PE hits a new record low

KEY HIGHLIGHTS

EQUITIES

- In October, equity turnover declined by 7.3% m/m to settle at KES 4.8bn (USD 32.2m) as local institutions shied away from the market – their turnover fell 29.7% m/m.
- Downward momentum sustained, with the advance/decline ratio worsening to -0.6x from -0.4x. Notably, the NASI marked an 11-year low after dropping 7.0% m/m to finish at 88.56 – after four straight losses. For the third successive month, the NSE 20 edged down 3.2% m/m to conclude at 1,461.07.
- Safaricom (-14.7% y/y), with four consecutive monthly falls, was the key detractor to equities return – attribution to return of negative 5.8% as foreigners sold off. KCB bank (-16.1% m/m) followed, with eight monthly slides as locals sold off - attribution to return of negative 0.7%.
- Subdued investors' sentiments saw the NASI trailing PE ratio register a new low of 6.7x, down from 7.2x - the multiple contracted 7.2% month-on-month. Compared to its 18-year average of 13.5x, the trailing PE stands at 50.6% discount, for the tenth straight month.
- For the second month in a row, foreign investors remained as net sellers at USD 3.8m (KES 0.6bn). Safaricom (USD 3.7m, KES 554.5m) and Co-op bank (USD 1.0m, KES 156.2m) experienced the highest net foreign outflows. On the other hand, Equity bank recorded the highest net foreign inflows at USD 1.0m (KES 132.0m).
- On account of continued erosion in share prices and reduced net local inflows, equities' allocation by pension funds posted a new record low of 9.5% in October 2023, down from 10.3%, a month earlier.
- Foreign portfolio holdings as a % of CBK forex reserves decreased to 34.8% in October 2023, down from 36.4% in the month of September 2023 as foreign portfolio holdings (-5.8% m/m) fell faster than CBK forex reserves (-1.5% m/m) – lowering risks of further KES depreciation from foreign outflows.
- Among the key SSA equities markets that we track, on a YTD basis to October 2023, Egyptian equities (USD return of 23.6%) emerged the best performer while Kenyan equities closed as the worst performer (USD return of -43.1%). YTD to September 2023, foreign investors stood out overall net sellers across most SSA markets. Kenya, Egypt, S.Africa and Nigeria noted outflows of USD 125.9m, USD 243.6m, USD 5,276.0m and USD 19.4m, respectively.

FIXED INCOME

- The bond market witnessed reduced activity in October 2023 due to a rising yield curve and tightening money market liquidity. The on-the-run 2yr (FXD1/2023/2Yr) traded through a broad range of 17.300%-17.500%, while the longer on-the-run 5yr, FXD1/2023/5Yr traded between 17.600%-18.500%.
- The infrastructure bonds witnessed poor demand, as market participants anticipated a potential November issuance. The latest on-the-run 7yr, IFB1/2023/7Yr, traded largely between 15.600%-15.850%, while the existing 15yr, IFB1/2018/15Yr traded between 15.800%-16.000%. The shorter 11yr, IFB1/2020/11Yr, traded 15.000%-15.500%, while the 9yr, IFB1/2020/9Yr realizing levels 15.200%-15.500% as demand dwindled.
- During the month, Treasury opted to issue a new infrastructure bond IFB1/2023/6.5Yr targeting KES 50.0bn. The coupon rate was market determined.
- The 6.5Yr IFB yielded 17.935% with an estimated cut-off yield of 18.090%. Treasury managed to raise a total of KES 67.1bn without any offset in maturities for November 2023.
- In the fourth (4) month of FY2023/24, we estimate that Treasury had borrowed ~KES 90.7bn versus ~KES 91.8bn (down 1.1%) a year earlier.

MARKET OUTLOOK

EQUITIES:

- We think the equities market still offer opportunities for long-term value, in defensive stocks and fundamentally sound companies. In the short-term, the investors' concerns owing to the sovereign and macro risks continue to weigh on the market, though. In our view, we advocate for select stocks in the banking sector – our forecasts had modelled in aggressive cost of risk numbers as we anticipated increased asset quality deterioration; we have BUYs on KCB, Co-op, I&M and DTB. We like EABL and BAT Kenya at current levels, trading close to their 12-month lows – potential for capital appreciation and dividends.

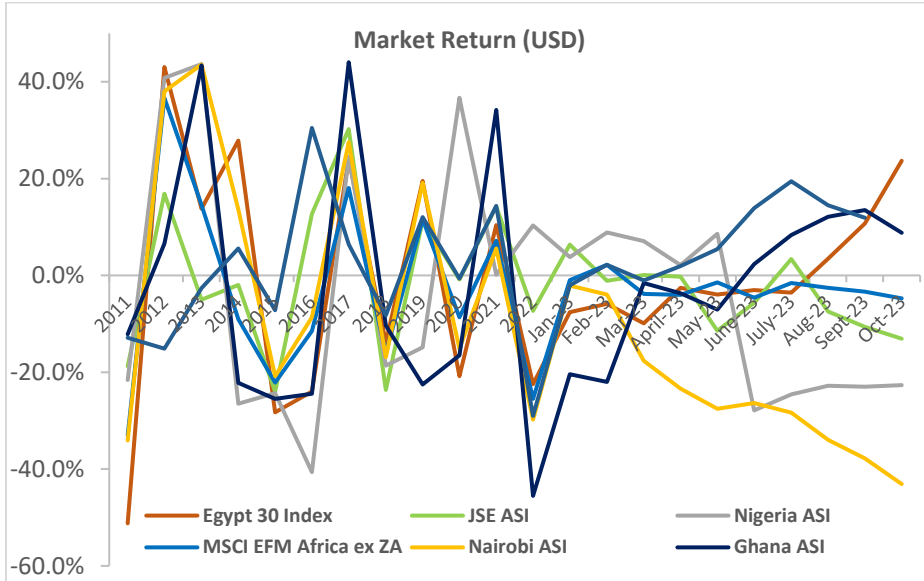
FIXED INCOME:

- Money market liquidity toward mid-November 2023 was very tight as CBK intervened with KES 142bn left outstanding in reverse repos. The Central Bank of Kenya (CBK) is offering a KES 25.0bn tap sale for the recently issued IFB1/2023/6.5Yr. The Bond Market Forum is expected to meeting on the 29th of November to discuss future bond issues.

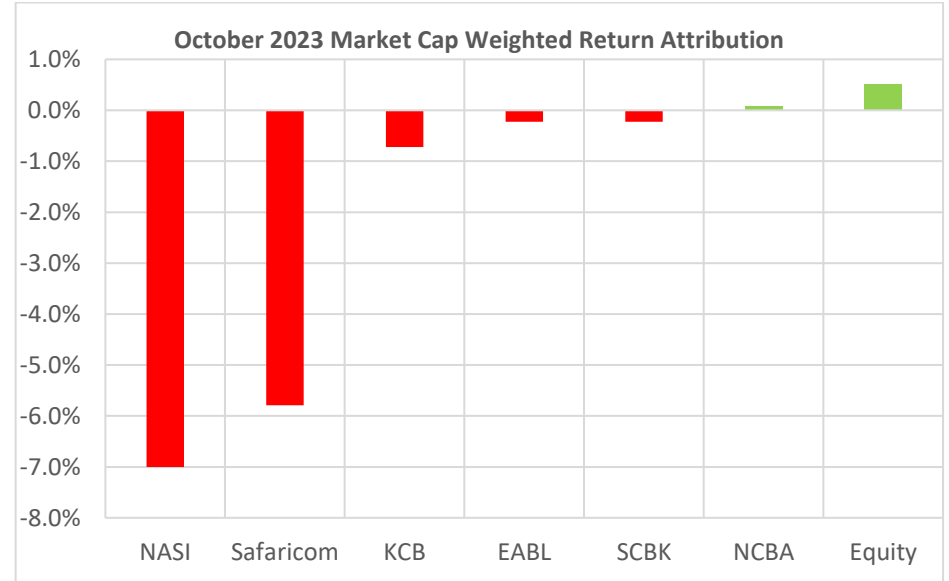
MONTHLY MARKET STATISTICS

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	April-23	May-23	June-23	July-23	Aug-23	Sept-23	Oct-23
Equities													
Market Capitalisation (USD bn)	16.5	16.2	13.6	13.2	15.5	13.3	12.5	11.7	11.9	11.5	10.6	10.0	9.2
NASI return (KES)	0.3%	-1.8%	0.8%	-1.2%	0.1%	-10.5%	-4.5%	-3.7%	3.2%	-1.4%	-5.9%	-4.0%	-7.0%
NSE 20 return (KES)	-2.3%	-2.4%	2.4%	-1.1%	-0.6%	-1.5%	-2.7%	-2.0%	1.8%	0.1%	-2.4%	-2.0%	-3.2%
Gainers/Decliners ratio (x)	(0.6)	(0.5)	0.9	(0.4)	0.5	(0.1)	(0.1)	-	0.8	0.0	(0.1)	(0.4)	(0.6)
MSCI EFM ex. ZA (KES)	-2.2%	3.1%	2.9%	1.1%	3.9%	-1.8%	0.8%	2.1%	3.2%	3.1%	2.6%	1.1%	0.2%
Equity Turnover (KES bn)	6.0	6.5	4.9	7.8	4.6	32.4	4.2	6.1	4.1	7.6	4.4	5.2	4.8
Equity Turnover (USD m)	49.6	53.5	40.0	62.1	36.3	244.8	31.6	44.0	29.1	53.6	30.1	35.2	32.1
Avg. daily value traded (USD m)	2.61	2.43	2.11	2.96	1.73	10.64	1.86	2.0	1.5	2.6	1.3	1.7	1.6
Foreign institutions participation (%)	44.1	59.4	58.8	50.7	39.5	29.5	46.2	45.6	38.9	47.2	46.4	44.0	54.4
Local institutions participation (%)	33.9	28.9	29.3	36.7	43.4	64.3	30.8	32.8	35.1	36.9	31.8	39.7	30.1
Local individuals' participation (%)	21.6	10.7	11.2	11.6	14.6	5.6	21.9	20.1	24.4	14.9	20.7	15.5	14.8
Local institutions net flow (USD m)	13.5	5.8	12.4	19.1	1.3	85.6	(0.2)	2.5	(1.8)	18.8	(8.0)	5.3	1.2
Foreign institutions net flow (USD m)	(19.2)	(6.9)	(13.6)	(22.7)	(3.2)	(78.6)	(2.3)	(9.7)	1.1	(21.2)	4.7	(8.0)	(3.9)
Fixed Income													
Bond Turnover (KES bn)	56.7	53.6	48.0	44.7	47.1	70.7	37.3	64.3	45.7	56.8	50.6	88.8	36.2
Bond Turnover (USD m)	467	441	389	355	372	534	279	465	326	399	348	600	240
T-Bill performance rate	92%	168%	93%	105%	167%	114%	110%	116%	99%	104%	132%	109%	115%
T-Bill allotment rate	84%	80%	79%	98%	85%	88%	96%	98%	83%	94%	96%	96%	84%
T-Bill offer fill rate	77%	135%	73%	103%	142%	100%	105%	114%	82%	98%	127%	104%	97%
T-Bond performance rate	56%	171%	69%	99%	53%	104%	27%	117%	319%	159%	125%	97%	31%
T-Bond allotment rate	85%	85%	85%	83%	91%	88%	64%	99%	97%	86%	56%	64%	62%
T-Bond offer fill rate	48%	146%	59%	82%	48%	91%	71%	116%	309%	137%	70%	62%	19%
5-year m/m yield change (bps)	58	53	70	70	68	60	30	88	100	320	103	-27	-15
2 year-91D yield spread (bps)	290	276	273	276	273	293	308	408	413	538	327	271	269
5 year-364D yield spread (bps)	347	313	322	302	286	289	306	359	371	591	356	208	204
5 year-2-year yield spread (bps)	140	135	143	123	115	98	100	53	60	155	57	-20	-40
5 yr Bond-5 yr IFB yield spread (bps)	120	105	103	88	50	-23	-30	-8	-15	155	248	200	193
10 year-2-year yield spread (bps)	173	175	168	148	180	155	145	105	100	-25	-155	-175	-210
Average monthly KES/USD	121.33	121.44	123.37	125.91	126.85	132.33	133.66	138.49	140.52	142.37	145.41	148.10	150.56

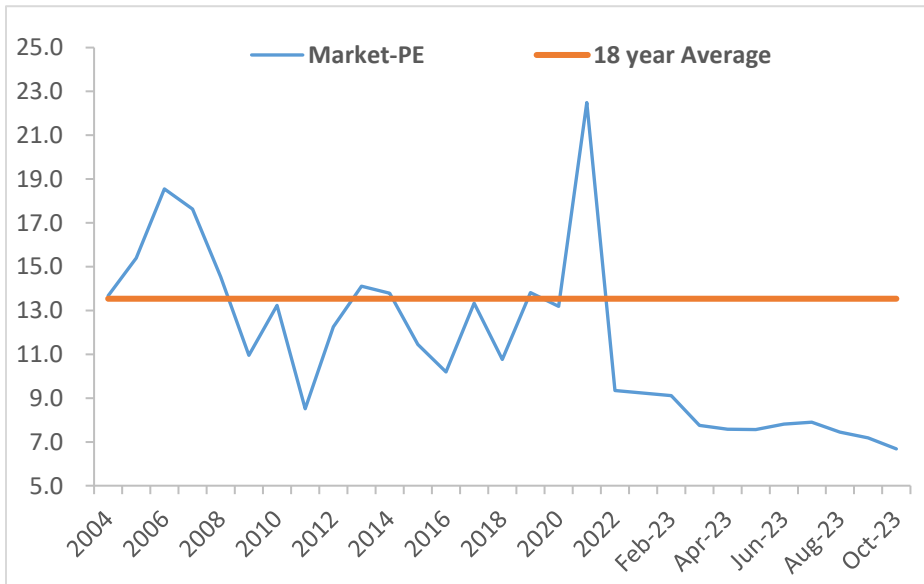
Ytd, Egyptian equities outperform while Kenyan equities emerge as key laggard



Safaricom largely detract NASI return

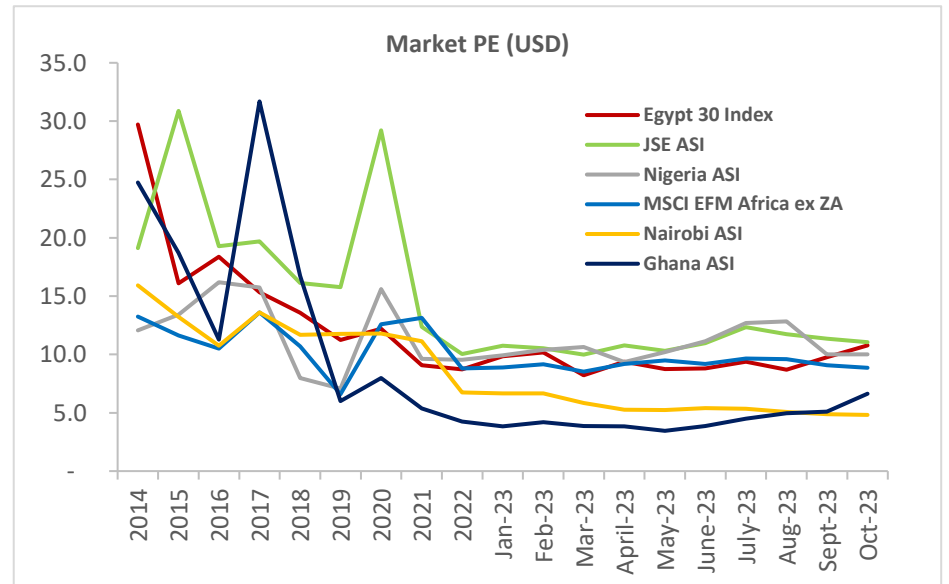


NASI PE at record lows, at 50.6% discount to historical average



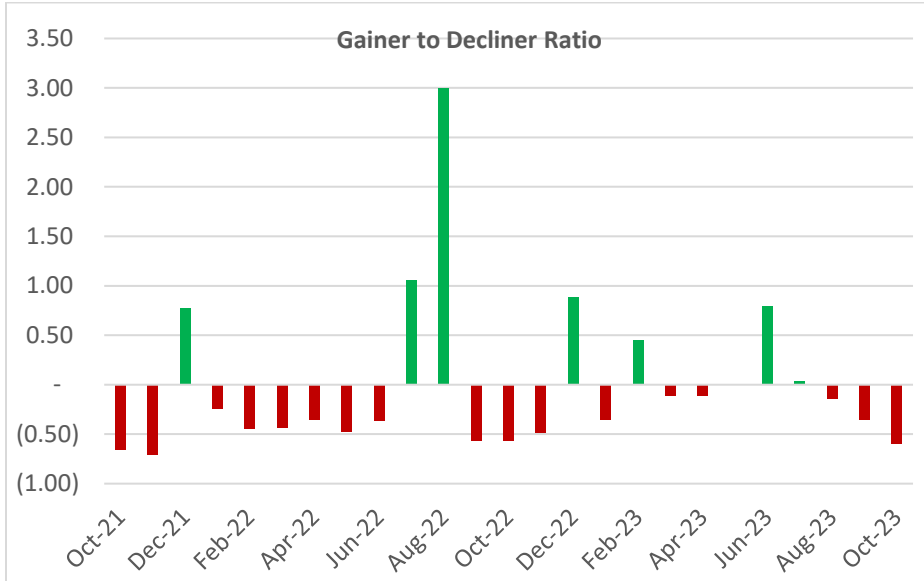
(As reported by the NSE)

Trailing PE at discounts to their 9-year averages – avg. discount of 45.6%

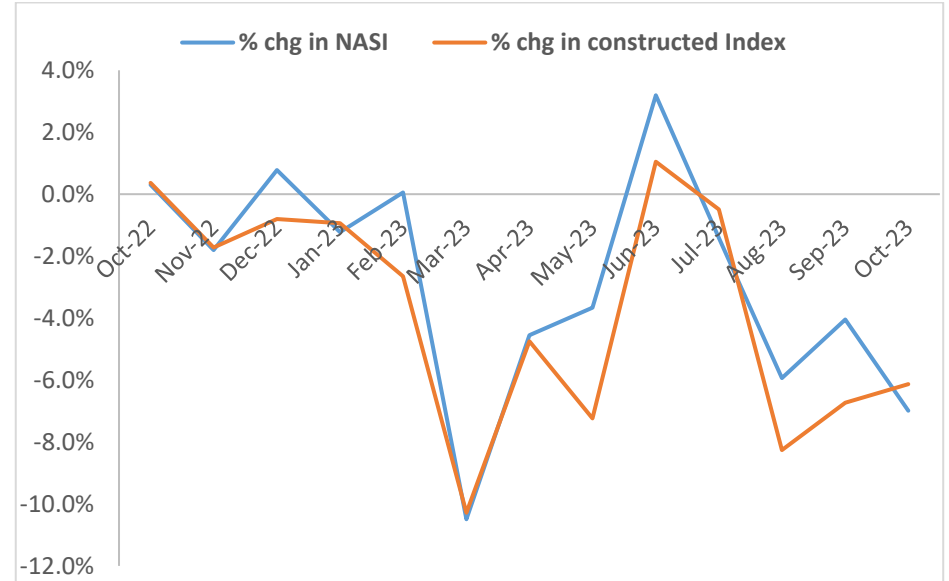


(As reported by Bloomberg)

Downward momentum continues for the third month straight

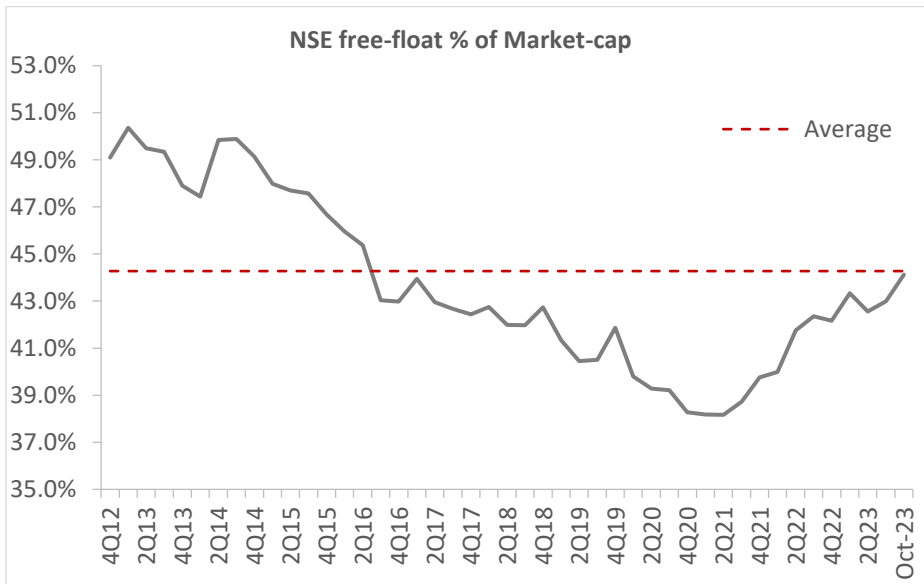


Large-cap stocks detract NASI return

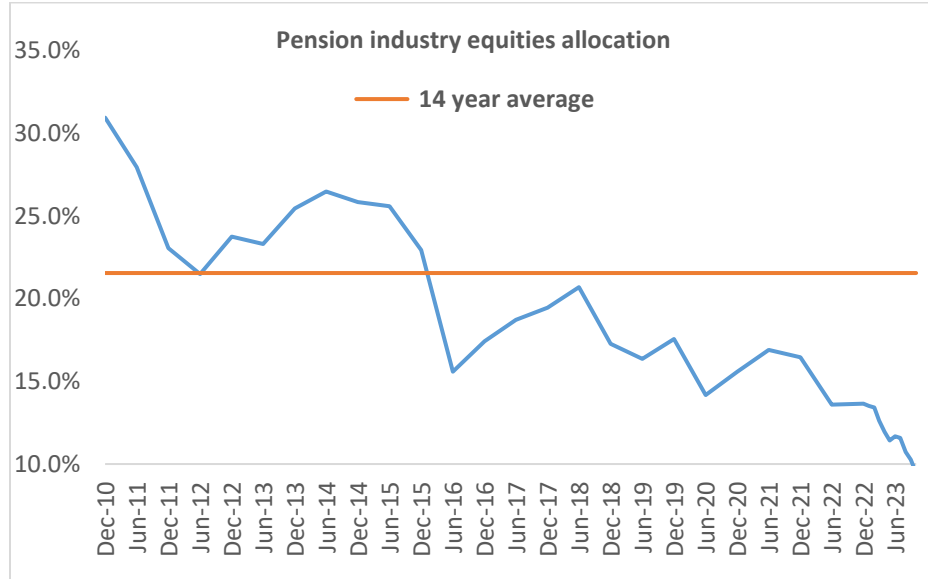


*Constituents of the constructed index: Safaricom, EABL, KCB, Co-op & Equity

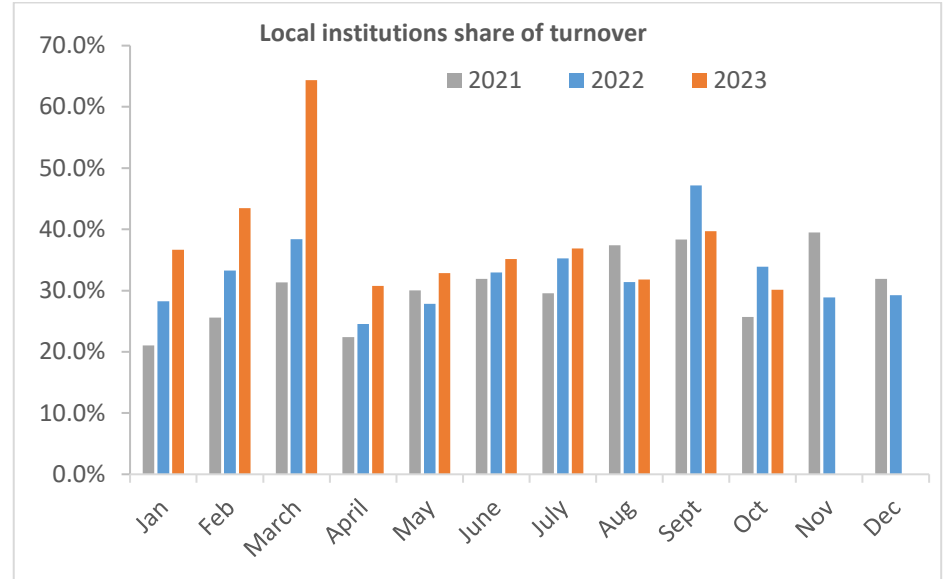
NSE free float as a % of market cap at highest levels since 2Q16



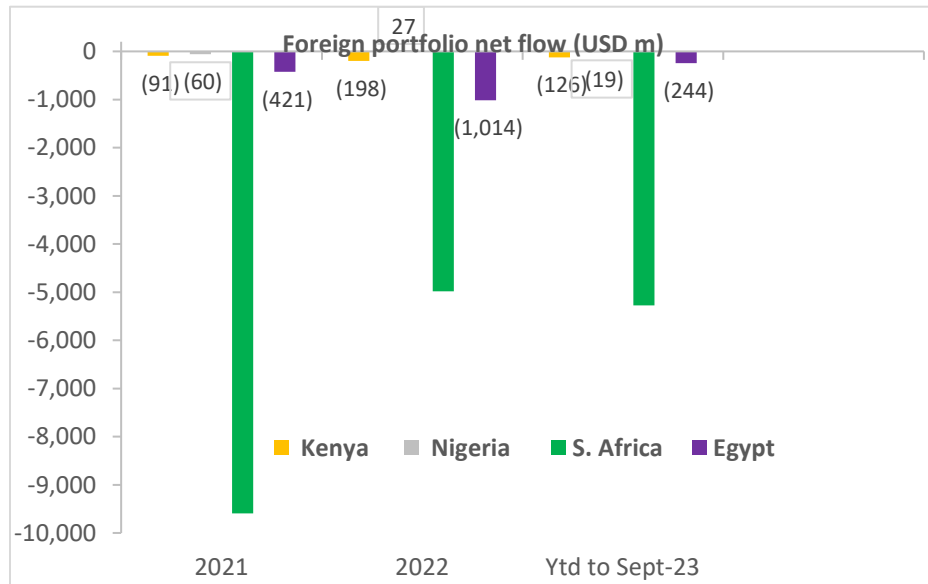
Equities allocation hit new record lows, share price losses & reduced net local inflows



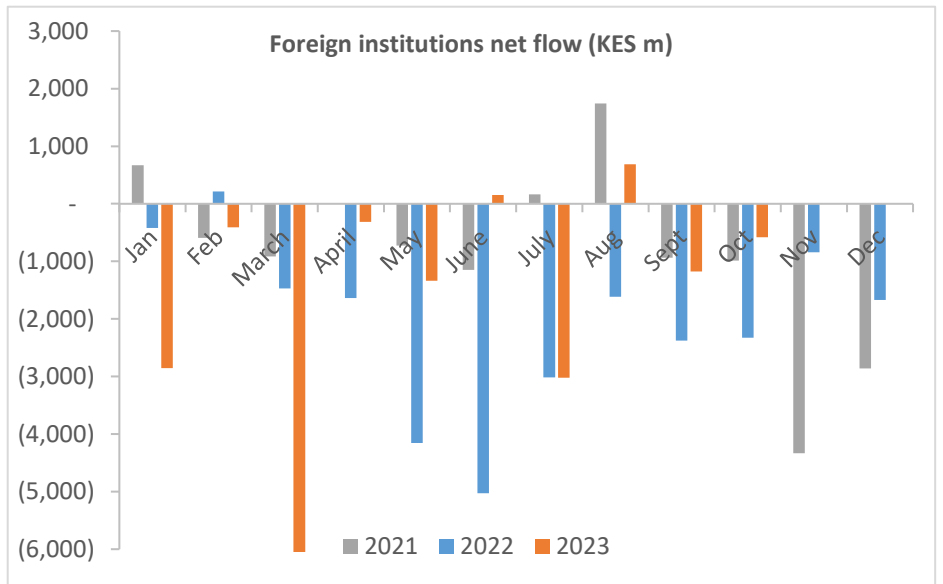
Local institutions' participation levels dip to a 10-month low



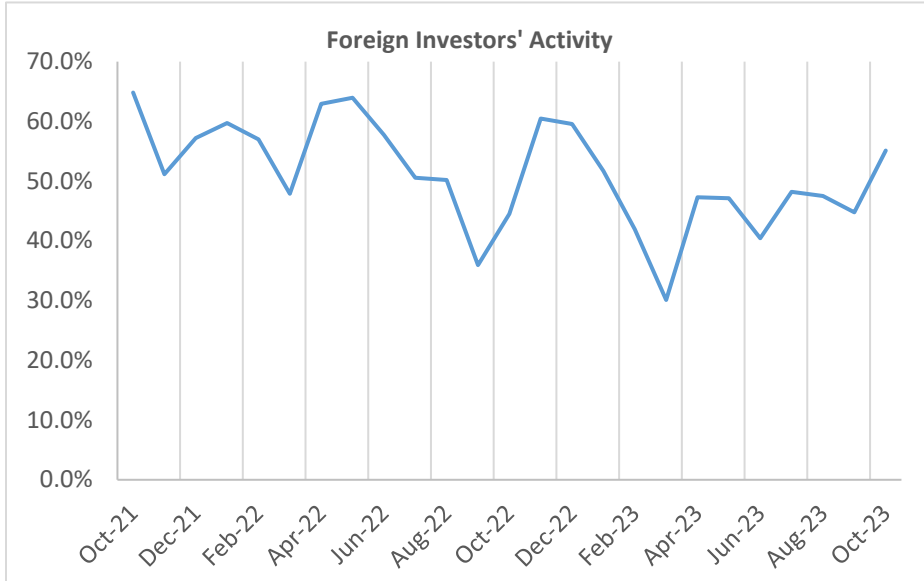
YTD to September 2023, foreign investors remain net sellers across markets



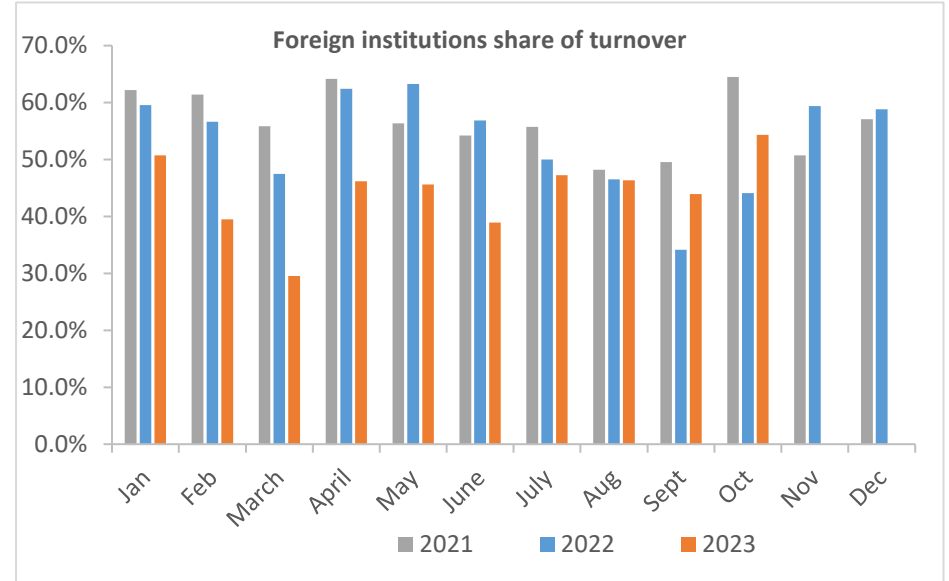
Foreign institutions remain net sellers for the second successive month



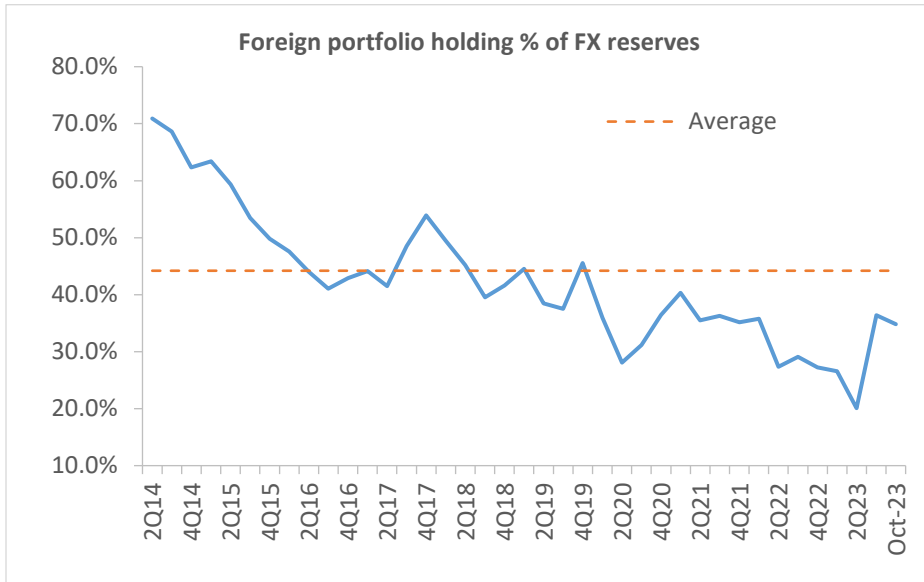
Foreign investors' participation levels at a 10-month low



Foreign institutions' activity rise to a 10-month high, up from a 3-month low



Foreign portfolio as a % of FX reserves decline week-on-week



FOREIGN FREE FLOAT TO TOTAL FREE FLOAT PER COUNTER

Foreign free float/total free float	1Q21	2Q21	3Q21	4Q21	1Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	Oct-23
Safaricom	45.9%	45.7%	46.3%	45.2%	43.8%	40.8%	40.4%	39.1%	40.1%	36.6%	35.7%	33.1%	32.7%
Equity bank	36.1%	36.5%	36.7%	36.8%	37.4%	36.5%	36.2%	36.1%	36.7%	35.5%	35.7%	36.1%	36.2%
EABL	37.1%	36.7%	33.8%	33.2%	32.0%	30.5%	30.4%	30.4%	16.1%	42.3%	42.8%	42.8%	42.8%
KCB bank	14.5%	13.9%	14.1%	13.2%	13.4%	12.9%	12.0%	11.5%	11.4%	11.4%	11.3%	11.2%	11.2%
BK Group	99.5%	98.9%	98.8%	83.8%	98.8%	98.9%	98.9%	98.9%	87.4%	98.9%	98.9%	98.9%	98.9%
BAT Kenya	58.5%	57.7%	56.8%	56.5%	56.5%	56.3%	55.7%	55.6%	55.7%	48.5%	46.6%	46.2%	46.3%
KenGen	49.8%	49.1%	49.3%	51.5%	49.7%	49.5%	49.3%	48.5%	50.7%	48.0%	47.9%	47.5%	47.2%
I&M bank	32.7%	16.4%	16.4%	18.2%	16.4%	16.3%	16.3%	16.6%	33.3%	16.6%	16.4%	16.5%	16.5%
Jubilee Insurance	45.4%	45.5%	45.7%	45.4%	45.4%	45.4%	45.4%	45.5%	45.3%	45.4%	45.6%	46.0%	46.0%
Stanbic bank	40.7%	40.7%	40.8%	41.9%	41.6%	42.1%	42.1%	42.4%	42.7%	43.4%	44.3%	44.4%	44.3%
DTB bank	35.3%	35.2%	35.0%	35.7%	35.3%	35.7%	35.7%	35.6%	36.4%	35.3%	35.1%	35.1%	35.1%
Centum Investment	11.9%	11.0%	10.9%	10.9%	9.6%	9.0%	8.6%	8.6%	9.0%	8.5%	8.5%	7.9%	7.7%
StanChart bank	9.5%	7.1%	6.0%	5.4%	5.5%	5.5%	5.5%	5.5%	5.4%	5.6%	5.7%	5.8%	5.8%
Britam Insurance	14.0%	13.7%	13.7%	17.0%	13.7%	13.6%	13.5%	13.4%	16.7%	13.4%	13.4%	13.4%	13.4%
WPP ScanGroup	78.1%	76.5%	65.1%	72.8%	66.9%	66.9%	66.9%	66.9%	74.2%	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-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	April-23	May-23	June-23	July-23	Aug-23	Sept-23	Oct-23
Safaricom	(1,651)	(260)	(684)	(647)	(129)	(1,982)	(531)	(1,046)	35	(3,348)	(21)	(835)	(555)
Equity Bank	(489)	(112)	(473)	(216)	(92)	360	436	(77)	(77)	311	525	(151)	132
EABL	(71)	(150)	(176)	54	2	(9,226)	(98)	119	170	(3)	27	(1)	(1)
KCB bank	(74)	(60)	(160)	(23)	200	33	(2)	12	(109)	(93)	19	(16)	31
BK Group	0	(2)	(0)	(3)	-	-	(1)	-	25	(0)	(0)	(0)	(0)
BAT	(14)	(374)	(140)	(86)	(415)	(240)	(83)	(150)	(102)	(52)	9	(13)	13
Britam	(0)	(2)	(2)	1	-	-	-	-	0	-	0	0	0
I&M bank	1	0	(1)	0	7	(5)	(8)	(10)	(6)	-	3	1	0
Jubilee	(0)	(2)	(3)	(2)	(2)	3	16	(1)	(2)	7	17	9	0
Stanbic bank	(1)	-	(0)	32	99	0	0	-	129	-	0	22	(15)
DTB bank	(0)	(4)	(5)	(3)	(16)	(1)	(1)	(5)	(5)	0	(1)	0	(1)
KenGen	(16)	(8)	(1)	(0)	(1)	0	(3)	(0)	(1)	(4)	(9)	(5)	(12)
WPP ScanGroup	-	(0)	(0)	0	0	0	0	-	(0)	0	-	(0)	-
Centum	(0)	0	0	0	(3)	(2)	(1)	(0)	(0)	-	0	(28)	(9)
StanChart bank	(1)	(1)	(2)	0	12	(0)	(1)	8	11	24	2	(1)	0
BBK bank	0	110	(0)	39	43	123	0	25	16	-	128	(44)	(2)
Co-op Bank	(1)	(5)	(1)	0	(0)	5	(1)	(21)	3	1	(13)	(77)	(156)
NSE	(1)	(1)	(1)	(4)	(1)	(0)	(3)	(1)	5	(0)	0	1	1
Market	(2,319)	(887)	(1,664)	(859)	(382)	(10,692)	(283)	(1,312)	154	(3,019)	672	(-1,193)	(571)

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

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