Cytonn Monthly – November 2021

Executive Summary

Fixed Income: Fixed Income: During the month of November, T-bills remained undersubscribed, with the overall subscription rate coming in at 87.9%, an increase from the 57.9% recorded in October 2021. The increase in the subscription rate is partly attributable to the ample liquidity in the money market, with the average interbank rate declining to 5.0%, from the 5.3% recorded in October 2021. Overall subscription rates for the 91-day, 182-day and 364-day papers came in at 112.0%, 64.8% and 101.4%, an increase from 97.5%, 62.1% and 37.9%, respectively, in October 2021. The yields on the 91-day, 182-day and 364-day papers increased by 15.0 bps, 30.0 bps and 59.0 bps to 7.1%, 7.7% and 8.7%, respectively;

In the Primary Bond Market, the government re-opened one bond, FXD1/2019/20 and issued a new 5 year bond, FXD1/2021/5. The bonds recorded an oversubscription of 168.3%, attributable to the ample liquidity in the market coupled with the bonds attractive yields. The yields on the two bonds were 13.5% and 11.3%, for FXD1/2019/20 and FXD1/2021/5, respectively;

During the week, the Monetary Policy Committee (MPC) retained the Central Bank Rate at 7.0%, for the eleventh consecutive time in line with our expectations. The inflation rate for the month of November declined to 5.8%, from the 6.5% recorded in October driven by a higher base effect and the slight month on month decline of the 0.2% in the transport index. Additionally, during the week, Real People Kenya Limited (The Issuer), issued a notice to the holders of the Kshs 1.3 bn floating rate Senior Unsecured Notes of the Kshs 5.0 bn Medium Term Note (MTN) program that was issued in 2015;

Equities: During the month of November, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 7.9%, 4.6% and 5.7%, respectively. The equities market performance was driven by losses recorded by stocks such as Safaricom, EABL and Diamond Trust Bank (DTB-K) of 11.3%, 7.8% and 4.7%, respectively. The losses were however mitigated by gains recorded by ABSA Bank and NCBA which gained by 8.3% and 2.5%, respectively;

During the month, the Capital Market Authority (CMA) released guidelines on share buybacks for listed companies, following the issue of proposed guidelines on share buy-backs, in June 2020, which have been in the process of revision following public participation. Additionally, during the month, the listed banks released their Q3'2021 results, with the core Earnings per Share (EPS) growing by 102.2%, compared to a weighted average decline of 32.4% in Q3'2020 for the listed banking sector. The performance is however largely skewed by the strong performance from ABSA Bank, NCBA Group and KCB;

Real Estate: During the month of November, four industry reports were released, namely; Africa Office Market Dashboard Report Q3'2021 by Knight Frank, House Price Index Q3'2021 and Land Price Index Q3'2021 by Hass Consult, and, Quarterly GDP Report Q1'2021 and Q2'2021 by Kenya National Bureau of Statistics' (KNBS);

In the residential sector, Almond Real Estate, a local real estate firm, began the construction of 60- one and two bedroom apartments dubbed Kitisuru Heights Phase II, in Kitisuru Estate. Additionally, the Capital Markets Authority (CMA) approved the issuance of a Kshs 3.9 bn Medium Term Note (MTN) programme for Urban Housing Renewal Development Limited. Also, the government through the Ministry of Transport, Infrastructure Housing, Urban Development and Public Works, launched the construction of the Stoni Athi River Waterfront City housing project, in Machakos County;

In the retail sector, Artcaffe Group, an international restaurant chain, announced plans to open 4 new outlets in Nairobi by the end of the year;

In the infrastructure sector, the Italian government through its Ambassador to Kenya, Alberto Pieri, announced plans to spend Kshs 780.0 mn on revamping dilapidated roads in Malindi such as the Mjanaheri-Ngomeni road that links Malindi to the Italian space agency San Marco;

Company updates

Investment Updates:

- Weekly Rates:
    - Cytonn Money Market Fund closed the week at a yield of 10.58%. To invest, just dial *809#;
    - Cytonn High Yield Fund closed the week at a yield of 14.03% p.a. To invest, email us at sales@cytonn.com and to withdraw the interest you just dial *809#;
- We continue to offer Wealth Management Training Monday through Saturday, from 9:00 am to 11:00 am, through our Cytonn Foundation. The training aims to grow financial literacy among the general public. To register for any of our Wealth Management Trainings, click here;
- If interested in our Private Wealth Management Training for your employees or investment group, please get in touch with us through wmt@cytonn.com;
- Any CHYS and CPN investors still looking to convert are welcome to consider one of the five projects currently available for conversion, click here for the latest conversion term sheet;
- Cytonn Insurance Agency acts as an intermediary for those looking to secure their assets and loved ones' future through insurance namely; Motor, Medical, Life, Property, WIBA, Credit and Fire and Burglary insurance covers. For assistance, get in touch with us through insuranceagency@cytonn.com;
- Cytonnaire Savings and Credit Co-operative Society Limited (SACCO) provides a savings and investments avenue to help you in your financial planning journey. To enjoy competitive investment returns, kindly get in touch with us through clientservices@cytonn.com;

Real Estate Updates:

- For an exclusive tour of Cytonn's real estate developments, visit: Sharp Investor's Tour, and for more information, email us at sales@cytonn.com;
- Phase 3 of The Alma is now ready for occupation. To rent please email properties@cytonn.com;
- We have 8 investment-ready projects, offering attractive development and buyer targeted returns; See further details here: Summary of Investment-ready Projects;
- For recent news about the group, see our news section here;

Hospitality Updates:

- We currently have promotions for Staycations. Visit cysuites.com/offers for details or email us at sales@cysuites.com;
- Share a meal with a friend during the Sunday Brunch at The Hive Restaurant at Cysuites Hotel and Apartment. Every Sunday from 11.00 AM to 4.00 PM at a price of Kshs 2,500 for Adults and Kshs 1,500 for children under 12 years;

Fixed Income

Money Markets, T-Bills & T-Bonds Primary Auction:

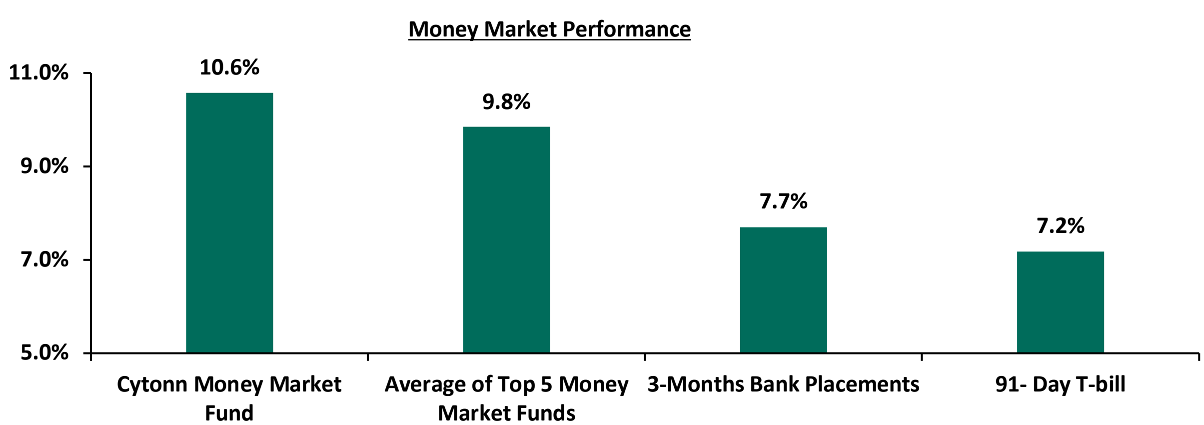
During the month of November, T-bills remained undersubscribed, with the overall subscription rate coming in at 87.9%, an increase from the 57.9% recorded in October 2021. The increase in the subscription rate is partly attributable to the ample liquidity in the money market, with the average interbank rate declining to 5.0%, from the 5.3% recorded in October 2021. Overall subscription rates for the 91-day, 182-day and 364-day papers came in at 112.0%, 64.8% and 101.4%, an increase from 97.5%, 62.1% and 37.9%, respectively, in October 2021. The yields on the 91-day, 182-day and 364-day papers increased by 15.0 bps, 30.0 bps and 59.0 bps to 7.1%, 7.7% and 8.7%, respectively. For the month of November, the government accepted a total of Kshs 98.2 bn, out of the Kshs 105.5 bn worth of bids received, translating to a 93.0% acceptance rate.

During the week, T-bills recorded an undersubscription, with the overall subscription rate coming in at 95.2%, an increase from the 64.6% recorded the previous week, partly attributable to the ample liquidity in the money markets. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 8.7 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 217.3%, a significant increase from the 98.4% recorded the previous week. The oversubscription is partly attributable investors having a bias towards the shorter-dated paper in order to avoid duration risk given the current rising political temperatures preceding the elections in August 2022. The subscription rate for the 364-day paper declined to 89.0%, from 90.4% recorded the previous week, while the subscription rate for the 182-day paper increased to 52.5%, from 25.2% recorded the previous week. The yields on the 91-day, 182-day and 364-day papers increased by 5.1 bps, 1.9 bps and 7.2 bps, to 7.2%, 7.9% and 9.0%, respectively. The government continued to reject expensive bids accepting Kshs 19.5 bn of the Kshs 22.8 bn worth of bids received, translating to an acceptance rate of 85.6%.

In the Primary Bond Market, the government re-opened one bond, FXD1/2019/20 and issued a new 5 year bond, FXD1/2021/5, for the month of November. The bonds recorded an oversubscription of 168.3%, attributable to the ample liquidity in the market coupled with the bonds attractive yields. The coupons for the two bonds were; 12.9% and 11.3%, and the weighted average yield for the issues were; 13.5% and 11.3%, for FXD1/2019/20 and FXD1/2021/5, respectively. The government sought to raise Kshs 50.0 bn for budgetary support, received bids worth Kshs 84.2 bn and accepted bids worth Kshs 69.5 bn, translating to an 82.6% acceptance rate. Investors preferred the shorter-tenure issue i.e. FXD1/2021/5, which received bids worth Kshs 66.6 bn, representing 79.1% of the total bids received, owing to the higher returns on a risk-adjusted basis.

For the month of December, the government has re-opened two bonds, namely; FXD4/2019/10 and FXD1/2018/20, with effective tenors of 8.0 years, and 16.4 years, respectively, in a bid to raise Kshs 40.0 bn for budgetary support. The period of sale for the issue runs from 22nd November to 7th December 2021. The coupon rates are 12.3% and 13.2% for FXD4/2019/10 and FXD1/2018/20, respectively. We expect investors to prefer the shorter dated paper, FXD4/2019/10, as they search for higher returns on a risk-adjusted basis. The bonds are currently trading in the secondary market at yields of 12.3% and 13.0%, for FXD4/2019/10 and FXD1/2018/20, respectively, and as such, our recommended bidding range for the two bonds is: 12.1%-12.5% for FXD4/2019/10 and 12.8%-13.2% for FXD1/2018/20 within which bonds of similar tenor are trading at.

In the money markets, 3-month bank placements ended the week at 7.7% (based on what we have been offered by various banks), while the yield on the 91-day T-bill increased by 5.1 bps to 7.2%. The average yield of the Top 5 Money Market Funds remained relatively unchanged at 9.8% while the yield on the Cytonn Money Market Fund increased marginally by 0.01% points to 10.58%, from 10.57% recorded the previous week.



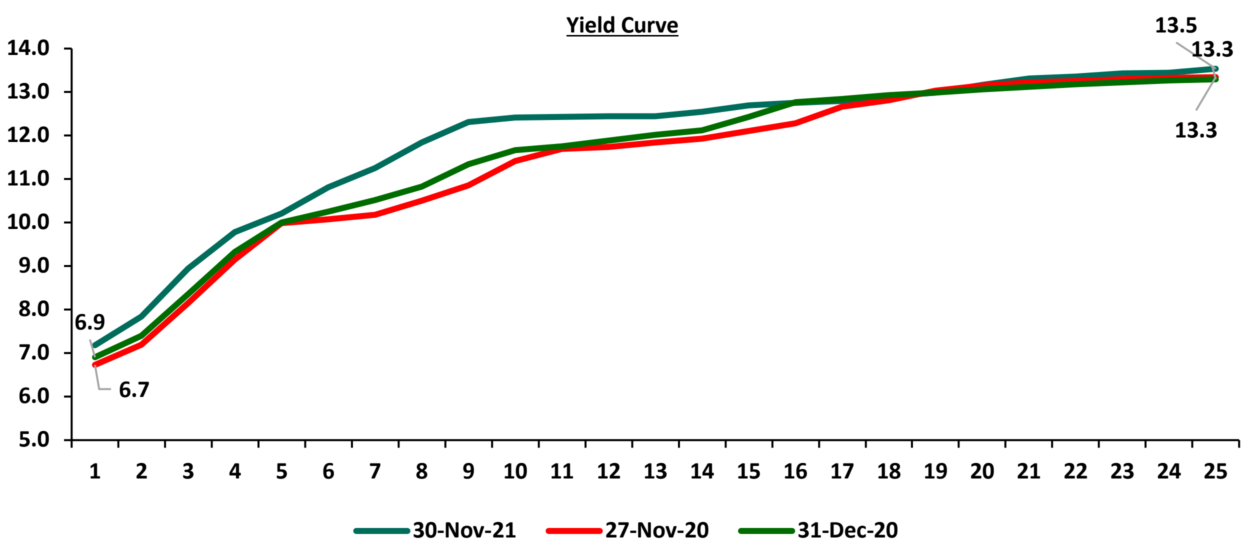
The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 3rd December 2021:

Money Market Fund Yield for Fund Managers as published on 3rd December 2021		
Rank	**Fund Manager**	**Effective Annual Rate**
1	Cytonn Money Market Fund	10.58%
2	Zimele Money Market Fund	9.91%
3	Nabo Africa Money Market Fund	9.70%
4	Madison Money Market Fund	9.54%
5	Sanlam Money Market Fund	9.50%
6	CIC Money Market Fund	9.26%
7	Apollo Money Market Fund	8.95%
8	GenCapHela Imara Money Market Fund	8.95%
9	Co-op Money Market Fund	8.74%
10	Dry Associates Money Market Fund	8.66%
11	British-American Money Market Fund	8.50%
12	Orient Kasha Money Market Fund	8.37%
13	ICEA Lion Money Market Fund	8.37%
14	NCBA Money Market Fund	8.33%
15	Old Mutual Money Market Fund	7.41%
16	AA Kenya Shillings Fund	6.83%

Source: Business Daily

Secondary Bond Market:

In the month of November, the yields on government securities in the secondary market remained relatively stable with the FTSE NSE bond index declining marginally by 0.1%, to close the month at Kshs 96.6, from Kshs 96.7 recorded in October 2021, bringing the YTD performance to a decline of 1.4%. The secondary bond turnover increased marginally by 0.2% to Kshs 63.8 bn, from Kshs 63.6 bn recorded in October. On a year on year basis, bonds turnover increased by 41.7% to Kshs 867.7 bn, from Kshs 612.1 bn worth of T-bonds transacted over a similar period last year. The chart below shows the yield curve movement during the period;



Liquidity:

Liquidity in the money markets eased in the month of November, with the average interbank rate declining to 5.0%, from 5.3% recorded in October attributable to government payments which offset tax remittances. During the week, liquidity in the money market remained ample, with the average interbank rate remaining unchanged at 5.2%, as was recorded the previous week. The average interbank volumes traded declined by 31.2% to Kshs 7.0 bn, from Kshs 9.7 bn recorded the previous week.

Kenya Eurobonds:

During the month, the yields on the Eurobonds were on an upward trajectory with the 10-year Eurobond issued in 2014 and 12-year Eurobond issued in 2019 increasing by 0.7% points and 0.4% points to 4.4% and 7.1%, from 3.7% and 6.7%, respectively, as was recorded in October 2021. Additionally, the 10-year Eurobond issued in 2018, 30-year Eurobond issued in 2018, 7-year Eurobond issued in 2019 and 12-year Eurobond issued in 2021 all increased by 0.5% points to 6.2%, 8.4%, 6.0% and 7.0%, from 5.7%, 7.9%, 5.5% and 6.5%, respectively, as recorded in October 2021.

During the week, yields on Eurobonds recorded mixed performance, with yields on the 10-year issue issued in 2014, 10-year bond issued in 2018, 30-year bond issued in 2018, and 12-year bond issued in 2019 all increasing by 0.1% points to 4.4%, 6.1%, 8.3% and 7.1%, respectively, while yields on the 7-year bond issued in 2019 and 12-year bond issued in 2021 declined by 0.3% and 0.1% to 5.5% and 6.9%, respectively. Below is a summary of the performance:

Kenya Eurobond Performance						
	2014	2018		2019		2021
Date	10-year issue	10-year issue	30-year issue	7-year issue	12-year issue	12-year issue
31-Dec-20	3.9%	5.2%	7.0%	4.9%	5.9%	-
29-Oct-21	3.7%	5.7%	7.9%	5.5%	6.7%	6.5%
26-Nov-21	4.3%	6.0%	8.2%	5.8%	7.0%	6.9%
29-Nov-21	4.4%	6.1%	8.3%	5.9%	7.1%	6.9%
30-Nov-21	4.4%	6.2%	8.4%	6.0%	7.1%	7.0%
1-Dec-21	4.6%	6.1%	8.4%	5.9%	7.1%	6.9%
2-Dec-21	4.4%	6.1%	8.3%	5.5%	7.1%	6.9%
Weekly Change	**0.1%**	**0.1%**	**0.1%**	**(0.3%)**	**0.1%**	**(0.1%)**
M/m Change	**0.7%**	**0.5%**	**0.5%**	**0.5%**	**0.4%**	**0.5%**
YTD Change	**0.5%**	**0.9%**	**1.3%**	**0.6%**	**1.2%**	**-**

Source: CBK

Kenya Shilling:

During the month, the Kenya Shilling depreciated by 1.1% against the US Dollar to close the month at Kshs 112.5, from Kshs 111.2 recorded at the end of October 2021. Notably, the shilling hit an all-time low during the month of November, driven by the increased dollar demand from oil and merchandise importers on the back of increased global oil prices against slower recovery of exports and tourism sector.

During the week, the Kenyan shilling depreciated marginally by 0.2% against the US dollar to close the week at Kshs 112.6, from Kshs 112.4 recorded the previous week, mainly attributable to increased dollar demand from general importers. Key to note, these is the lowest the Kenyan shilling has ever depreciated against the dollar. On a YTD basis, the shilling has depreciated by 3.2% against the dollar, in comparison to the 7.7% depreciation recorded in 2020. We expect the shilling to remain under pressure for the remainder of 2021 as a result of:

a. Rising uncertainties in the global market due to the Coronavirus pandemic, which has seen investors continue to prefer holding their investments in dollars and other hard currencies and commodities,

b. Increased demand from merchandise traders as they beef up their hard currency positions in anticipation for more trading partners reopening their economies globally,
c. Widening current account deficit which stood at 5.4% of GDP in the 12-months to October 2021 compared to the 4.8% of GDP in the 12 months to October 2020 attributable to a higher import bill which offset increased receipts from agricultural and services exports and remittances,
d. Rising global crude oil prices on the back of supply constraints at a time when demand is picking up with the easing of COVID-19 restrictions and as economies reopen. Key to note, risks abound this global recovery following the emergence of the new COVID-19 Omicron variant. We are of the view that should the variant continue to spread, most nations will respond swiftly by adopting stringent containment measures to curb the spread.

The shilling is however expected to be supported by:

i. The Forex reserves, currently at USD 8.7 bn (equivalent to 5.3-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, and the EAC region's convergence criteria of 4.5-months of import cover. In addition, the reserves were boosted by the USD 1.0 bn proceeds from the Eurobond issued in July, 2021 coupled with the USD 407.0 mn IMF disbursement and the USD 130.0 mn World Bank loan financing received in June, 2021, and,
ii. Improving diaspora remittances evidenced by a 28.2% y/y increase to USD 337.4 mn in October 2021, from USD 263.1 mn recorded over the same period in 2020, which has continued to cushion the shilling against further depreciation.

Weekly Highlights:

I. November MPC Meeting

The Monetary Policy Committee (MPC) met on Monday, 29th November 2021 to review the outcome of its previous policy decisions and recent economic developments, and to decide on the direction of the Central Bank Rate (CBR). The MPC retained the CBR at 7.00%, in line with our expectations, for the eleventh consecutive time. Below are some of the key highlights from the meeting:

i. Inflation remains well anchored and within the Government's target range of 2.5%-7.5%. The overall inflation declined to 6.5% in October 2021, from 6.9% in September, mainly attributable to decrease in fuel prices with Super Petrol prices decreasing by 3.7% to Kshs 129.7 per litre, from Kshs 134.7 per litre. Diesel and Kerosene prices also declined by 4.3% and 6.6% to Kshs 110.6 and Kshs 103.5 per litre, from Kshs 115.6 and Kshs 110.8 per litre, respectively,
ii. Private sector credit growth has been recovering, having grown by 7.8% in October 2021 as compared to 7.0% in August 2021. The key sectors that have experienced increased lending include consumer durables at 16.5%, manufacturing at 10.9% and transport and communications at 9.6%,
iii. The recently released GDP data pointed to a strong economic rebound in H1'2021 with real GDP growing by 10.1% in Q2'2021, compared to a 4.7% contraction in Q2'2020. The economic growth reflects the recovery in economic activities following the easing of COVID-19 restrictions,
iv. The current account deficit to GDP is estimated at 5.4% in the 12 months to October, a 0.6% points increase from 4.8% recorded over the same period in 2020. Exports of goods remained strong, growing by 10.8% in the 10 months to October 2021 compared to a similar period in 2020. Receipts from exports of horticulture and manufactured goods increased by 19.1% and 35.3%, respectively, in period January to October 2021 compared to a similar period in 2020. However, receipts from tea exports declined by 6.2%, partly attributable to the impact of accelerated purchases in 2020, and,
v. The Economic Stimulus Programme and Economic Recovery Strategy implemented by the Government to shield the economy from adverse effects of COVID-19 are expected to continue boosting domestic

demand. The MPC also noted that the rebound in revenue performance reflects strong economic recovery and improvement of the business environment.

The MPC concluded that the current accommodative monetary policy stance remains appropriate and therefore decided to retain the Central Bank Rate (CBR) at 7.00%. The Committee will meet again in January 2022, but remains ready to re-convene earlier if necessary.

II. November Inflation

The y/y inflation for the month of November declined for the second consecutive month to 5.8%, from the 6.5% recorded in October, lower than our expectations of 6.0% - 6.4%. On a m/m basis, the inflation rates increased by 0.5%, driven by a 0.9% increase in food & non-alcoholic beverages coupled with a 0.5% increase in housing, water, electricity, gas and other fuels. Notably, the transport index was the only decliner on a m/m basis, declining by 0.2%, given that fuel prices remained unchanged at Kshs 129.7 per litre for Super Petrol, Kshs 110.6 per litre for Diesel and Kshs 103.5 per litre for Kerosene during the month. The table below shows a summary of both the year on year and month on month commodity groups' performance;

Major Inflation Changes – November 2021			
Broad Commodity Group	**Price change m/m (November-21/October-21)**	**Price change y/y (November-21/ November-20)**	**Reason**
Food & Non-Alcoholic Beverages	0.9%	9.9%	The m/m increase was mainly contributed by increase in prices of sugar, cooking oil and potatoes among other food items. The increase was however mitigated by a decline in prices of tomatoes, kales and carrots
Housing, Water, Electricity, Gas and other Fuel	0.5%	6.2%	The m/m increase was as a result of increase in the cooking gas and single room house rent. The increase was however mitigated by a decline in electricity price
Transport Cost	(0.2%)	8.1%	The m/m decline was as a result of the remained unchanged for super petrol, diesel and kerosene in the month of November
Overall Inflation	**0.5%**	**5.8%**	**The m/m increase was due to a 0.9% increase in the Food & Non-Alcoholic Beverages index coupled with a 0.5% increase in housing, water, electricity, gas and other fuels**

Source: KNBS

Going forward, we expect the inflation rate to remain within the government's set range of 2.5% - 7.5%. Despite the decline in November's inflations rates, we anticipate inflation pressures to remain elevated in the short term as global fuel prices continue to rise due to supply bottlenecks. Key to note, the emergence of the new Omicron COVID-19 variant is a concern since it could lead to adoption of new containment measures in various countries further disrupting the supply chains and consequently increase the fuel prices. However, we expect continued pressure on the government to keep the inflation under control before the next IMF evaluation test date which is this month.

III. Real People Medium Term Note Restructuring

During the week, Real People Kenya Limited (The Issuer), issued a notice to the holders of the Kshs 1.3 bn floating rate Senior Unsecured Notes of the Kshs 5.0 bn Medium Term Note (MTN) program that was issued in 2015 after approval by the Capital Markets Authority, CMA, on June 25th 2015. In the meetings held by the Noteholders on various occasions since 3rd August 2018, the noteholders had resolved to extend the MTNs maturity, with the issuer indicating that these extensions would allow the firm to look for a strategic investor to buy a stake in the firm and help settle the debt. Real People Kenya has received a formal expression of interest from Chike Africa, a company registered in Port Louis, Mauritius to restructure the distressed notes with some of the following conditions;

i. The Noteholders will agree to an immediate 70.0% haircut on the principal amount of the Notes outstanding that 30.0% of the principal amount outstanding will be repaid to the Noteholders in three equal instalments,
ii. Chike will acquire 100.0% of the shares of the Issuer from the shareholders for a nominal consideration, and,
iii. Chike will subscribe for the amount of USD 6.0 million in a maximum of two tranches of USD 3.0 million each.

The meeting with the noteholders will be held on 21st December 2021 for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as Extraordinary Resolutions:

1) **Resolution 1:**
    a. The Noteholders consent to the Meeting being convened at a shorter notice than the 21 days' clear day notice required under the Trust Deed.
2) **Resolution 2:**
    a. 70.0% of the principal amount of each outstanding Note be waived, cancelled and forgiven, and each Noteholder consequently waives, cancels and forgives payment by the Issuer of the Forgiven Debt and further waives any claim or demand with respect to the Forgiven Debt,
    b. The Maturity Date for the Restructured Notes be extended to 28th February 2025,
    c. The principal amount outstanding on the Restructured Notes shall be redeemed in three equal tranches on 28th February 2023, 28th February 2024, and, 28th February 2025, and,
    d. The Issuer shall utilize any proceeds of any tax refund received by it from the Kenya Revenue Authority (KRA) towards the settlement of the outstanding principal amount of the Restructured Notes. The Issuer shall make such payment as soon as possible upon receipt of the tax refund, but in any event no later than fourteen days after such receipt. Upon such redemption, the outstanding amount of the Restructured Notes shall be redeemed in accordance with the schedule set out in resolution 2(c).
3) **Resolution 3:**
    a. The interest accrued and payable on the Restructured Notes for the period commencing 3rd August 2020 and ending on 28th February 2022 be waived,
    b. Interest on the outstanding principal amount of the Restructured Notes shall begin accruing with effect from 1st March 2022, and,
    c. Interest on the Restructured Notes shall be calculated and determined and paid on the 28th February 2023, 28th February 2024, and, 28th February 2025.
4) **Resolution 4:**
    a. The Trustee be authorized to concur to the modifications referred to in these Extraordinary Resolutions and execute all documents, notices, forms, instruments, consents or agreements, amendments to the Trust Deed, the pricing supplement and the Conditions required to give effect to these Extraordinary Resolutions on such terms and conditions as the Trustee may in its discretion decide.

In our view, although the proposal offers a solution for noteholders whose maturity dates have been extended 6 times, the 70.0% haircut, which would amount to approximately Kshs 0.9 bn, would represent a significant loss to investors and in turn dampen investor confidence in public markets. Key to note, the Noteholders had been offered an equity stake in the company in order to decrease the liability and interest expense while also boosting working capital as it scouted for a strategic partner. The Real People MTN adds to the list of regulated entities that have led to losses for investors in Kenya, amounting to approximately Kshs 209.4 bn, and further debunks the myth that regulated products are always safer. The table below highlights some of the regulated products that have recently run into trouble leading to billions of losses:

Shareholders' Loss for Regulated Entities Largely Due to Poor Corporate Governance				
Firm	Peak Share Price	Current Share Price	No. of Shares (bn)	Loss in Value (Kshs bn)
Kenya Airways**	58.0	3.8	1.5	81.5
Mumias Sugar	20.7	0.3	1.5	31.2
Athi River Mining (ARM)	33.0***	5.6*	1.0	27.4
Transcentury	57.0	1.4	0.4	22.2
Uchumi*	10.9	0.3	0.4	3.9
Imperial Bank				36.0
Chase Bank				4.8
CMC Motors				1.2
Real People Kenya				0.9
Amana Capital				0.3
Total				**209.4**

**Last trading price before suspension*
***Peak share price since the 2012 rights issue*
****Represents the median share price for the 10 years to the suspension*

Source: Cytonn Research, NSE, Reuters

In our view, the Capital Markets Authority (CMA) should put in place sufficient mechanisms to protect investors' funds in the capital markets, such as a Capital Markets Compensation Fund which would pool funds from market transactions and step in to compensate investors in the event of losses or illiquidity. Currently, investors in the capital markets are only protected by the Investor Compensation Fund (ICF), which only secures investors from failure of a licensed broker or dealer to meet contractual obligations.

Monthly Highlights:

i. The Kenya Revenue Authority (KRA) released the Revenue Performance as at October 2021, highlighting that the cumulative total revenue collected for the current fiscal year was Kshs 631.1 bn, against the target of Kshs 603.9 bn, representing an out-performance rate of 104.5%, partly attributable to improved business performance following the relaxation of COVID-19 containment measures. For more information, see our Cytonn Weekly #44/2021,
ii. The headline Purchasing Manager's Index (PMI) for the month of October 2021 increased to 51.4, from 50.4 recorded in September 2021, an indication that business activities in the country strengthened and new business continued to grow. Notably, this is the highest PMI recorded in the five months leading to October 2021, attributable to a moderate improvement in business conditions and a significant increase in new business volumes on the back of increased customer spending. For more information, see our Cytonn Weekly #44/2021,
iii. The International Monetary Fund (IMF) and the Kenyan authorities reached a staff level agreement on the second review of the 38-month Extended Fund Facility (EFF) and Extended Credit Facility (ECF) - funded program. IMF noted that subject to the completion of the review by the IMF Board, Kenya would access approximately USD 264.0 mn (Kshs 29.5 bn), bringing the total support from IMF to Kenya to USD 984.0 mn (Kshs 109.8 bn) in 2021. For more information, see our Cytonn Weekly #44/2021,
iv. The Kenya National Bureau of Statistics released the Quarterly Gross Domestic Product Report, highlighting that the Kenyan economy recorded a 10.1% growth in Q2'2021, up from a 0.7% growth in Q1'2021 and the 4.7% contraction recorded in Q2'2020, pointing towards an economic rebound. Consequently, the average GDP growth rate for the 2 quarters in 2021 is a growth of 5.4%, an increase

from the 0.2% decline registered during a similar period of review in 2020. For more information, see our Cytonn Weekly #45/2021 and our GDP Note,

v. The National Treasury released the Draft 2022 Budget Policy Statement, projecting a 7.7% increase in the target Excise Duty for FY'2021/2022 to Kshs 259.6 bn, from Kshs 241.0 bn as highlighted in the original budget estimates. The increase in the Excise duty revenue collection target follows the publishing of the Legal Notice 217 of 2021, which allowed the Kenya Revenue Authority, (KRA) to adjust the specific rates of excise duty upwards by 5.0% in line with average annual inflation rate for the FY'2020/2021. For more information, see our Cytonn Weekly #46/2021, and,

vi. The National Treasury gazetted the revenue and net expenditures for the first four months of FY'2021/2022, highlighting that the total revenue collected as at the end of October 2021 amounted to Kshs 598.5 bn, equivalent to 33.7% of the original estimates of Kshs 1.8 tn and is 101.1% of the prorated estimates of Kshs 591.9 bn, while the total expenditure amounted to Kshs 906.9 bn, equivalent to 28.4% of the original estimates of Kshs 3,193.0 bn, and is 85.2% of the prorated expenditure estimates of Kshs 1.1 tn. For more information, see our Cytonn Weekly #46/2021.

Rates in the fixed income market have remained relatively stable due to the tightened but sufficient levels of liquidity in the money markets. The government is 16.6% ahead of its prorated borrowing target of Kshs 291.3 bn having borrowed Kshs 339.5 bn of the Kshs 658.5 bn borrowing target for the FY'2021/2022. We expect a gradual economic recovery going into FY'2021/2022 as evidenced by KRAs collection of Kshs 598.5 bn in revenues during the first four months of the current fiscal year, which is equivalent to 101.1% of the prorated revenue collection target. However, despite the projected high budget deficit of 7.5% and the lower credit rating from S&P Global to 'B' from 'B+', we believe that the support from the IMF and World Bank will mean that the interest rate environment will remain stable since the government is not desperate for cash.

Equities

Markets Performance

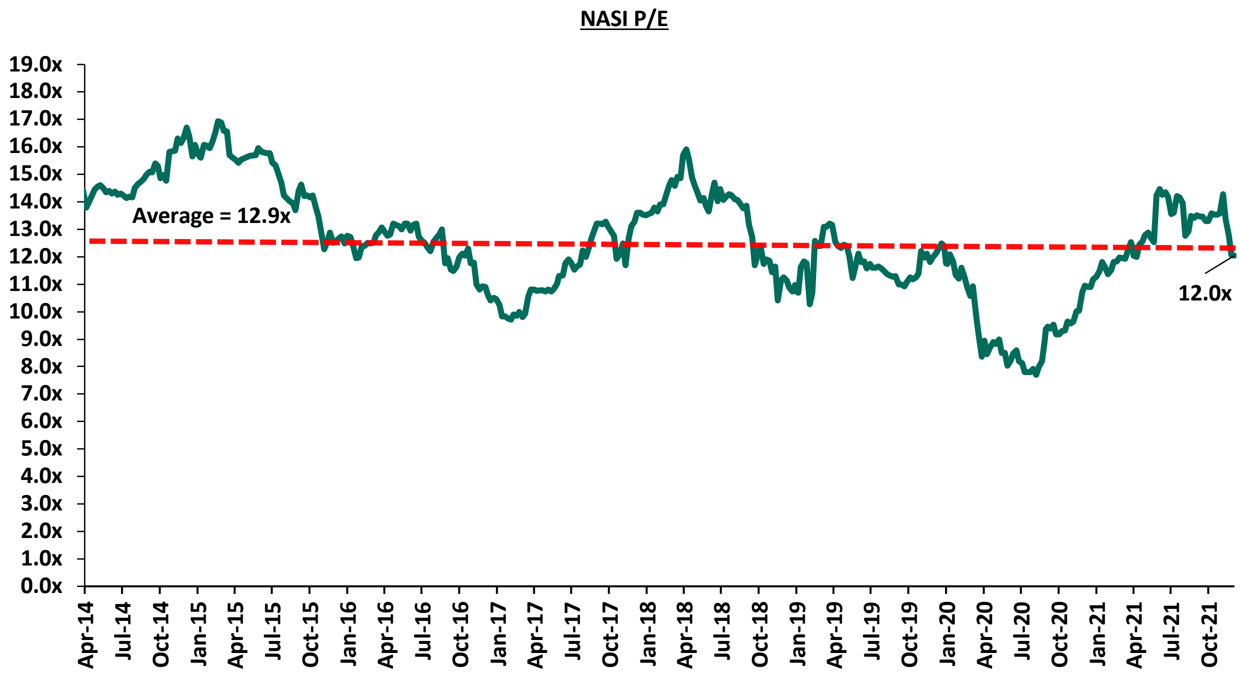
During the month of November, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 7.9%, 4.6% and 5.7%, respectively. The equities market performance was driven by losses recorded by stocks such as Safaricom, EABL and Diamond Trust Bank (DTB-K) of 11.3%, 7.8% and 4.7%, respectively. The losses were however mitigated by gains recorded by ABSA and NCBA which gained by 8.3% and 2.5%, respectively.

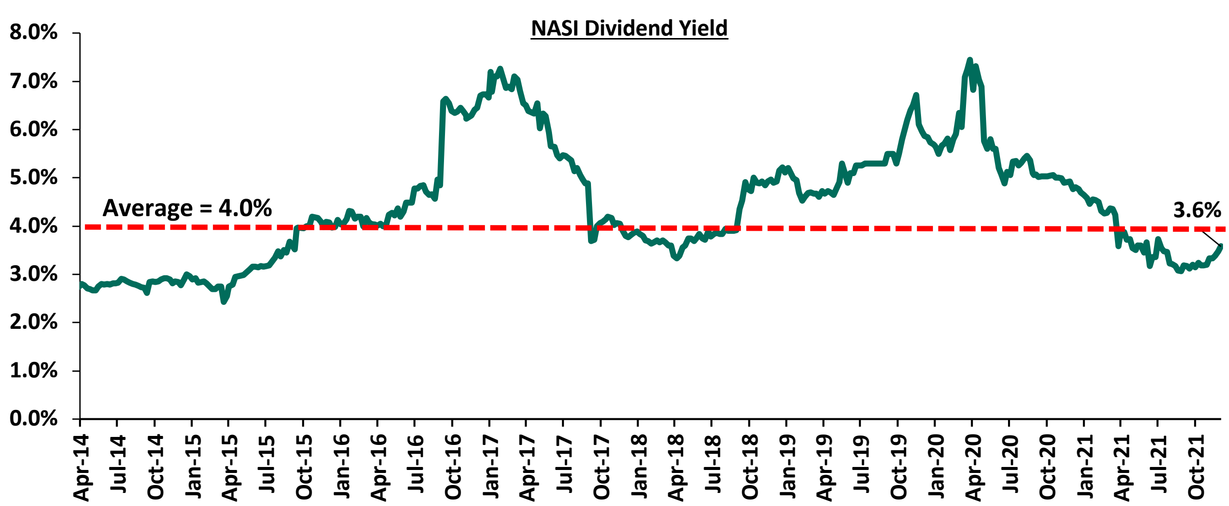
During the week, the equities market was on a downward trajectory, with NASI, NSE 20 and NSE 25 declining by 5.0%, 2.9% and 5.3%, respectively, taking their YTD performance to gains of 5.3% and 3.6% for NASI and NSE 25, respectively, while NSE 20 declined by 1.8% on a YTD basis. The equities market performance was driven by losses recorded by banking stocks such as Equity, KCB and Co-operative bank of 9.5%, 6.2% and 4.5%, respectively. The decline was however mitigated by gains recorded by other banking stocks such NCBA and Standard Chartered Bank, which gained by 2.1% and 1.2% respectively.

Equities turnover increased by 50.0% during the month to USD 139.0 mn, from USD 92.6 mn recorded in October 2021. Foreign investors remained net sellers during the month, with a net selling position of USD 38.3 mn, compared to October's net selling position of USD 9.2 mn.

During the week, equities turnover decreased by 40.4% to USD 31.6 mn, from USD 53.1 mn recorded the previous week, taking the YTD turnover to USD 1.2 bn. Foreign investors remained net sellers, with a net selling position of USD 5.7 mn, from a net selling position of USD 23.4 mn recorded the previous week, taking the YTD net selling position to USD 68.0 mn.

The market is currently trading at a price to earnings ratio (P/E) of 12.0x, 7.5% below the historical average of 12.9x, and a dividend yield of 3.6%, 0.4% points below the historical average of 4.0%. Notably, this week's P/E is the lowest it has been since February 2021. Key to note, NASI's PEG ratio currently stands at 1.4x, an indication that the market is trading at a premium to its future earnings growth. Basically, a PEG ratio greater than 1.0x indicates the market may be overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued. Excluding Safaricom which is currently 60.4% of the market, the market is trading at a P/E ratio of 11.4x and a PEG ratio of 1.3x. The current P/E valuation of 12.0x is 55.5% above the most recent trough valuation of 7.7x experienced in the first week of August 2020. The charts below indicate the historical P/E and dividend yields of the market.





Monthly highlights

i. MTN Uganda announced that it had received a no objection from Kenya's Capital Markets Authority for marketing its Initial Public Offer (IPO) in Kenya, following the opening of the IPO in Uganda on 11th

October 2021. To increase participation and ease the application process, MTN embraced the use of an online portal and MyMTN app through which investors across East Africa can apply for the IPO. MTN Uganda however announced later that it did not meet its fundraising target, raising USD 150.6 mn from the sale of only 2.9 bn shares from the 4.5 bn offered. For more information, please see our Cytonn Weekly #44/2021,

ii. I&M Group PLC announced the rebranding of Uganda's Orient Bank Limited (OBL) to I&M Bank (Uganda) Limited following the launch of the bank's operations in Uganda. This comes six months after I&M Holding PLC announced the completion of the 90.0% acquisition of Orient Bank Limited Uganda (OBL) on 30th April 2021 and after receiving all the required regulatory approvals. For more information, please see our Cytonn Weekly #45/2021,

iii. HF Group announced the invitation of strategic investors to acquire a stake in the Company following a Proposed Transaction disclosure in their published FY'2020 Financial Statements. The Proposed transaction aims to inject capital into the company so as to increase its liquidity and enable expansion into mainstream banking, including retail and SME lending, while also reducing reliance on the Real Estate market segment. For more information, please see our Cytonn Weekly #45/2021,

iv. The Capital Market Authority (CMA) released guidelines on share buybacks for listed companies, following the issue of proposed guidelines on share buy-backs in, June 2020, which have been in the process of revision following public participation. The guidelines are in line with Part XVI, Section 447 of the Companies Act, 2015, that introduced a share buyback option for publicly traded companies and aims to enhance investor protection, promote liquidity and ensure transparency in share buyback transactions. For more information, please see our Cytonn Weekly #46/2021,

v. The Central Bank of Kenya (CBK), released the Commercial Banks' Credit Survey Report for the quarter ended September 2021, highlighting that the banking sector's loan book recorded an 8.5% y/y growth, with gross loans increasing to Kshs 3.2 tn in September 2021, from Kshs 2.9 tn in September 2020. On a q/q basis, the loan book increased by 2.5% from Kshs 3.1 tn in June 2021. For more information, please see our Cytonn Weekly #46/2021, and,

vi. The National Bank of Kenya (NBK) was de-listed from the Nairobi Securities Exchange (NSE) following the successful takeover of 100.0% of all the ordinary shares of National Bank of Kenya (NBK) through a share swap of 1 ordinary share of KCB for every 10 NBK shares, after the Capital Markets Authority approved the acquisition in September 2019. For more information, please see our Cytonn Weekly #47/2021.

Weekly highlights:

I. KCB terminates the proposed acquisition of ABC Tanzania

During the week, KCB announced the termination of their initial plans to acquire a 100.0% stake in African Banking Corporation Limited (ABC Tanzania) following the failure to receive certain regulatory approvals. In November 2020, KCB Group and Atlas Mara Limited came to an agreement for KCB to acquire a 62.1% stake in Banque Populaire Du Rwanda (BPR) and a 100.0% stake in Africa Banking Corporation Tanzania Limited (BancABC), subject to shareholder and regulatory approval in the respective countries. The transaction would have seen KCB spend collectively USD 56.9 mn (Kshs 6.4 bn) in the acquisition of Banque Populaire du Rwanda Plc (BPR) Rwanda and African Banking Corporation (ABC) Tanzania. For more details, see our Cytonn Weekly #29/2021.

As highlighted in our Cytonn Weekly #48/2020, we believed that given the poor performance of ABC Tanzania over the past years, the acquisition would have been a net negative for the Group in the short term, as KCB worked towards saving the struggling bank. However, despite the cancellation of the acquisition plans, KCB has assured its shareholders that it will continue pursuing attractive regional expansion opportunities to enhance their regional participation and accelerate growth.

Below is a summary of the deals in the last 7 years that have either happened, been announced or expected to be concluded:

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bn)	Transaction Stake	Transaction Value (Kshs bn)	P/Bv Multiple	Date
I&M Holdings PLC	Orient Bank Limited Uganda	3.3	90.0%	3.6	1.1x	April-21
KCB Group	Banque Populaire du Rwanda	5.3	100.0%	5.6	1.1x	August 2021
KCB Group**	ABC Tanzania	Unknown	100%	0.8	0.4x	Nov-20*
Co-operative Bank	Jamii Bora Bank	3.4	90.0%	1	0.3x	Aug-20
Commercial International Bank	Mayfair Bank Limited	1	51.0%	Undisclosed	N/D	May-20*
Access Bank PLC (Nigeria)	Transnational Bank PLC.	1.9	100.0%	1.4	0.7x	Feb-20*
Equity Group **	Banque Commerciale Du Congo	8.9	66.5%	10.3	1.2x	Nov-19*
KCB Group	National Bank of Kenya	7	100.0%	6.6	0.9x	Sep-19
CBA Group	NIC Group	33.5	53%:47%	23	0.7x	Sep-19
Oiko Credit	Credit Bank	3	22.8%	1	1.5x	Aug-19
CBA Group**	Jamii Bora Bank	3.4	100.0%	1.4	0.4x	Jan-19
AfricInvest Azure	Prime Bank	21.2	24.2%	5.1	1.0x	Jan-18
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	N/A	Dec-18
SBM Bank Kenya	Chase Bank Ltd	Unknown	75.0%	Undisclosed	N/A	Aug-18
DTBK	Habib Bank Kenya	2.4	100.0%	1.8	0.8x	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.0%	2.8	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.0%	1.3	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	3	100.0%	5	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.0%	2.6	2.3x	Mar-15
Centum	K-Rep Bank	2.1	66.0%	2.5	1.8x	Jul-14
GT Bank	Fina Bank Group	3.9	70.0%	8.6	3.2x	Nov-13
Average			**76.7%**		**1.3x**	
*** Announcement Date** **** Deals that were dropped**						

II. Earnings Releases

During the week, I&M Holdings released their Q3'2021 financial results. Below is a summary of their performance;

I. I&M Holdings

I&M Holdings Q3'2021 Key Highlights			
Balance Sheet			
Balance Sheet Items	**Q3'2020 (Kshs bn)**	**Q3'2021 (Kshs bn)**	**y/y change**
Government Securities	91.4	117.5	28.6%
Net Loans and Advances	185.7	207.6	11.8%
Total Assets	**344.7**	**399.1**	**15.8%**
Customer Deposits	252.8	288.7	14.2%
Deposits per branch	3.6	3.2	(10.2%)
Total Liabilities	280.8	326.9	16.4%

Shareholders' Funds	**60.5**	**68.0**	**12.5%**
Income Statement			
Income Statement Items	**Q3'2020 (Kshs bn)**	**Q3'2021 (Kshs bn)**	**y/y change**
Net Interest Income	10.4	14.0	34.5%
Net non-Interest Income	6.4	6.2	(3.5%)
Total Operating income	**16.8**	**20.2**	**20.0%**
Loan Loss provision	(2.1)	(2.8)	31.4%
Total Operating expenses	(9.7)	(12.5)	28.7%
Profit before tax	6.5	8.1	24.6%
Profit after tax	**4.6**	**5.7**	**25.1%**
Core EPS	**2.8**	**3.5**	**25.1%**
Key Ratios			
Income statement ratios	**Q3'2020**	**Q3'2021**	**% point change**
Yield from interest-earning assets	9.6%	9.8%	0.2%
Cost of funding	4.6%	4.0%	(0.6%)
Net Interest Margin	5.3%	6.0%	0.7%
Non-Performing Loans (NPL) Ratio	11.2%	10.2%	(1.0%)
NPL Coverage	66.8%	70.6%	3.8%
Cost to Income With LLP	57.9%	62.1%	4.2%
Loan to Deposit Ratio	73.4%	71.9%	(1.5%)
Cost to Income Without LLP	45.1%	48.1%	3.0%
Return on average equity	14.5%	14.3%	(0.2%)
Return on average assets	2.5%	2.5%	0.0%
Equity to assets	18.5%	18.1%	(0.4%)
Capital Adequacy Ratios	**Q3'2020**	**Q3'2021**	**% Points change**
Core Capital/Total Liabilities	20.2%	20.3%	0.1%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	**12.2%**	**12.3%**	**0.1%**
Core Capital/Total Risk Weighted Assets	16.5%	15.9%	(0.6%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	**6.0%**	**5.4%**	**(0.6%)**
Total Capital/Total Risk Weighted Assets	21.3%	20.7%	(0.6%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	**6.8%**	**6.2%**	**(0.6%)**

Key take-outs from the earnings release include;

i. Core earnings per share increased by 25.1% to Kshs 3.5, from Kshs 2.8 in Q3'2020, not in line with our expectations of a 48.5% increase to Kshs 6.8. The increase was mainly driven by a 20.0% increase in Total Operating Income to Kshs 20.2 bn, from Kshs 16.8 bn in Q3'2020, with the performance being weighed down by 28.7% increase in Total Operating Expenses to Kshs 12.5 bn, from Kshs 9.7 bn recorded in Q3'2020. The variance in our projections can be attributed to the 31.4% increase in Loan Loss Provisions (LLP), against our expectation of a 2.3% decline,

ii. Interest income rose by 15.7% to Kshs 22.8 bn, from Kshs 19.7 bn in Q3'2020 driven by a 76.2% growth in interest income from government securities to Kshs 6.5 bn, from Kshs 3.7 bn in Q3'2020 coupled with a 2.5% increase in interest income from loans and advances to Kshs 16.2 bn, from Kshs 15.8 bn in Q3'2020. The growth in interest income was however weighed down by a 34.0% decline in interest income from placements to Kshs 0.2 bn, from Kshs 0.3 bn in Q3'2020,

iii. The Yield on Interest-Earning Assets (YIEA) increased to 9.8%, from 9.6% in Q3'2020, largely attributable to the 11.6% growth in trailing Interest Income, which grew faster than the 9.8% growth in average interest earning assets. Trailing Interest Income refers to the performance of the interest income for the past 12 consecutive months,

iv. Interest expense declined by 5.2% to Kshs 8.9 bn, from Kshs 9.3 bn in Q3'2020, following an 8.8% decline in Interest expense on deposits to Kshs 7.5 bn, from Kshs 8.2 bn in Q3'2020. The decline in interest expense was however weighed down by a 32.8% growth in the interest expense on placements to Kshs 0.7 bn, from Kshs 0.5 bn in Q3'2020,

v. Cost of funds declined by 0.6% points to 4.0%, from 4.6% recorded in Q3'2020, following a 5.2% decline in trailing interest expense, coupled with a 10.9% increase in average interest bearing liabilities. Trailing interest expense refers to the performance of the interest expense for the past 12 consecutive months,

vi. Total operating expenses rose by 28.7% to Kshs 12.5 bn, from Kshs 9.7 bn in Q3'2020, driven by a 31.4% increase in Loan Loss Provisions (LLP) to Kshs 2.8 bn, from Kshs 2.1 bn in Q3'2020 coupled with a 22.9% increase in staff costs to Kshs 4.3 bn, from Kshs 3.5 bn in Q3'2020. The increase in the group's LLP is on account of the lender catering for the Manufacturing, Trade, Real Estate and Personal/Household sectors which remain adversely impacted by the COVID-19 pandemic and jointly constitute 79.0% of the group's loan portfolio,

vii. The balance sheet recorded an expansion as total assets grew by 15.8% to Kshs 399.1 bn, from Kshs 344.7 bn in Q3'2020. The growth was supported by a 28.6% increase in government securities to Kshs 117.5 bn, from Kshs 91.4 bn in Q3'2020, coupled with an 11.8% loan book expansion to Kshs 207.6 bn, from Kshs 185.7 bn in Q3'2020. The increased allocation to government securities seen during the period was partly attributable to the elevated credit risk associated with lending to customers,

viii. Total liabilities rose by 16.4% to Kshs 326.9 bn, from Kshs 280.8 bn in Q3'2020, driven by an 73.3% increase in borrowings to Kshs 20.3 bn, from Kshs 11.7 bn in Q3'2020, with the increase in borrowings mainly attributable to a USD 50.0 mn (Kshs 5.6 bn) and USD 10.0 mn (Kshs 1.1 bn) loan from The International Finance Corporation (IFC) to I&M Bank Kenya and I&M Bank Rwanda, respectively, to expand lending to MSMEs in the region in addition to serving as an additional capital buffer for the group. Customer deposits rose by 14.2% to Kshs 288.7 bn, from Kshs 252.8 bn in Q3'2020,

ix. Deposits per branch decreased by 10.2% to Kshs 3.2 bn from Kshs 3.6 bn in Q3'2020, with the number of branches increasing to 89 from 70 branches in Q3'2020,

x. Gross non-performing loans increased by 0.7% to Kshs 22.7 bn in Q3'2021, from Kshs 22.6 bn in Q3'2020. The banks' asset quality improved, with the NPL ratio declining to 10.2% in Q3'2021, from 11.2% in Q3'2020, attributable to the faster 11.4% increase in Gross Loans, which outpaced the 0.7% growth in gross Non-Performing loans. Key to note, the lender's NPL ratio of 10.2% is the lowest it has been since Q3'2017, signifying the sustained improvement in the group's loan book performance,

xi. The NPL coverage also improved to 70.6% in Q3'2021, from 66.8% in Q3'2020, as general Loan Loss Provisions increased by 14.8% to Kshs 12.1 bn, from Kshs 10.5 bn in Q3'2020, and,

xii. I&M Holdings Plc remains sufficiently capitalized with a core capital to risk-weighted assets ratio of 15.9%, 5.4% points above the statutory requirement. In addition, the total capital to risk-weighted assets ratio came in at 20.7%, exceeding the statutory requirement by 6.2% points. Adjusting for IFRS 9, the core capital to risk-weighted assets stood at 16.0%, while total capital to risk-weighted assets came in at 20.7%.

For a comprehensive analysis, please see our I&M Holdings Q3'2021 Earnings Note

Asset Quality

The table below is a summary of the asset quality for the listed banking sector

Bank	Q3'2020 NPL Ratio**	Q3'2021 NPL Ratio*	% point change in NPL Ratio	Q3'2020 NPL Coverage**	Q3'2021 NPL Coverage*	% point change in NPL Coverage
HF Group	25.4%	23.0%	(2.4%)	58.2%	60.0%	1.8%
NCBA Group	14.1%	17.0%	2.9%	58.3%	70.2%	11.9%
Standard Chartered Bank Kenya	14.8%	15.3%	0.5%	78.2%	82.8%	4.6%
Co-operative Bank of Kenya	13.2%	14.6%	1.4%	50.1%	65.5%	15.4%
KCB	15.3%	13.7%	(1.6%)	58.5%	63.4%	4.9%
Diamond Trust Bank	8.7%	11.9%	3.2%	62.5%	40.0%	(22.5%)
Stanbic Bank	12.3%	11.5%	(0.8%)	61.8%	54.9%	(6.9%)
I&M Holdings	11.2%	10.2%	(1.0%)	66.8%	70.6%	3.8%
Equity Group	10.8%	9.5%	(1.3%)	52.0%	60.6%	8.6%
ABSA Bank Kenya	7.6%	8.1%	0.5%	64.9%	75.5%	10.6%
Mkt Weighted Average	**12.3%**	**12.0%**	**(0.3%)**	**58.6%**	**65.3%**	**6.7%**
*Market cap weighted as at 03/12/2021						
**Market cap weighted as at 01/12/2020						

Key take-outs from the table include;

i. Asset quality for the listed banks in Q3’2021 improved, with the weighted average NPL ratio declining by 0.3% points to a market cap weighted average of 12.0%, from an average of 12.3% for the listed banking sector in Q3’2020. The improvement in asset quality is attributable to declining credit risk on the back of increased business activities in 2021 driven by the gradual economic recovery,

ii. NPL Coverage for the listed banks increased to a market cap weighted average of 65.3% in Q3’2021, from 58.6% recorded in Q3’2020, as the banks increased their provisioning levels to proactively manage risks given the COVID-19 operating environment, and,

iii. Diamond Trust Bank recorded a decline in their NPL coverage despite the NPL ratio rising, which would suggest modest provisioning.

Summary Performance

The table below highlights the performance of the banks that have released so far, showing the performance using several metrics, and the key take-outs of the performance;

Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth in Government Securities	Loan to Deposit Ratio	Loan Growth	Return on Average Equity
ABSA	328.3%	1.3%	(19.1%)	8.6%	7.0%	5.2%	32.0%	11.9%	9.0%	(5.6%)	85.2%	9.50%	21.1%
NCBA Group	159.0%	9.8%	(1.3%)	19.1%	6.2%	(0.2%)	44.3%	(4.3%)	11.2%	(14.1%)	53.2%	(4.6%)	11.8%
KCB	131.4%	16.2%	10.8%	17.9%	8.4%	10.3%	29.4%	1.2%	11.2%	6.9%	75.9%	12.9%	22.7%
Equity	78.6%	28.7%	45.0%	23.3%	7.0%	28.8%	39.7%	34.2%	26.6%	25.8%	63.9%	23.2%	22.2%
Stanbic	43.2%	0.5%	(7.3%)	12.2%	6.2%	4.2%	42.6%	(8.5%)	(5.8%)	(17.4%)	83.0%	11.2%	14.0%
SCBK	33.7%	(2.5%)	(23.3%)	2.8%	6.7%	19.1%	33.9%	17.9%	6.4%	(6.8%)	51.0%	0.1%	14.5%
I&M	25.1%	15.7%	(5.2%)	34.5%	6.0%	(3.5%)	30.7%	12.8%	14.2%	28.6%	71.9%	11.8%	14.3%
HF Group	22.0%	(18.4%)	(21.2%)	(14.8%)	3.9%	12.2%	24.7%	27.5%	(1.3%)	(9.5%)	92.2%	(7.9%)	(19.0%)
DTB-K	20.1%	6.0%	6.2%	5.9%	5.4%	(4.9%)	24.5%	0.3%	12.3%	(2.7%)	63.5%	0.0%	6.8%
Co-op	18.0%	21.6%	22.4%	21.3%	8.5%	15.6%	35.4%	9.4%	12.0%	35.9%	72.9%	7.8%	14.2%
Q3'21 Mkt Weighted Average*	**102.2%**	**15.8%**	**13.5%**	**18.0%**	**7.3%**	**14.3%**	**35.3%**	**13.9%**	**14.3%**	**11.6%**	**69.6%**	**12.4%**	**18.6%**
Q3'20 Mkt Weighted Average**	**(32.4%)**	**10.8%**	**8.2%**	**11.7%**	**7.0%**	**2.1%**	**35.9%**	**(7.9%)**	**23.1%**	**47.4%**	**65.6%**	**15.0%**	**13.0%**
*Market cap weighted as at 03/12/2021													
**Market cap weighted as at 01/12/2020													

Key takeaways from the table above include:

i. The listed banks recorded a 102.2% weighted average growth in core Earnings per Share (EPS), compared to a weighted average decline of 32.4% in Q3'2020 for the listed banking sector. The performance is however largely skewed by the strong performance from ABSA Bank, NCBA Group and KCB,
ii. The Banks have recorded a weighted average deposit growth of 14.3%, slower than the 23.1% growth recorded in Q3'2020,
iii. Interest expense grew at a faster pace by 13.5%, compared to the 8.2% growth in Q3'2020, while cost of funds declined, coming in at a weighted average of 2.7% in Q3'2021, from 2.9% in Q3'2020, owing to the faster growth in average interest-bearing liabilities, an indication that the listed banks were able to mobilize cheaper deposits,
iv. Average loan growth came in at 12.4%, 2.6% points lower than the 15.0% growth recorded in Q3'2020. The loan growth was however higher than the 11.6% growth in government securities, an indication of the banks resumption in lending to businesses following the improving operating environment,
v. Interest income grew by 15.8%, compared to a growth of 10.8% recorded in Q3'2020. Notably, the weighted average Yield on Interest Earning Assets (YIEA) increased to 9.8%, from the 9.5% recorded in Q3'2020 for the listed banking sector, an indication of the increased allocation to higher-yielding assets by the sector during the period. Consequently, the Net Interest Margin (NIM) now stands at 7.3%, 0.3% points higher than the 7.0% recorded in Q3'2020 for the whole listed banking sector, and,
vi. Non-Funded Income grew by 14.3%, compared to the 2.1% growth recorded in Q3'2020. This can be attributable to the faster growth in the fees and commission which grew by 13.9% compared to a decline of 7.9% in Q3'2020, following the expiry of the waiver on fees on mobile transactions.

We shall be releasing our Q3'2021 Banking Report on 12th December 2021.

Universe of coverage:

We are currently reviewing our target prices for the banking sector coverage ahead of our Q3'2021 Banking Report.

Company	Price as at 26/11/2021	Price as at 03/12/2021	w/w change	m/m change	YTD Change	Year Open 2021	Target Price*	Dividend Yield	Upside/ Downside**	P/TBv Multiple	Recommendation
Kenya-Re	2.4	2.3	(1.7%)	(3.7%)	0.4%	2.3	3.3	8.6%	51.6%	**0.2x**	Buy
Britam	7.4	6.9	(6.5%)	(9.5%)	(0.9%)	7.0	8.3	0.0%	20.2%	**1.2x**	Buy
Jubilee Holdings	340.0	339.8	(0.1%)	(5.6%)	23.2%	275.8	371.5	2.6%	12.0%	**0.6x**	Accumulate
Liberty Holdings	6.8	7.0	2.6%	(18.0%)	(9.4%)	7.7	7.8	0.0%	11.4%	**0.5x**	Accumulate
Sanlam	11.0	11.5	4.5%	0.0%	(11.5%)	13.0	12.1	0.0%	5.3%	**1.2x**	Hold
CIC Group	2.3	2.2	(6.1%)	(12.5%)	2.4%	2.1	2.0	0.0%	(5.4%)	**0.8x**	Sell

***Target Price as per Cytonn Analyst estimates**
****Upside/ (Downside) is adjusted for Dividend Yield**
*****For Disclosure, these are stocks in which Cytonn and/or its affiliates are invested in**
Key to note, I&M Holdings YTD share price change is mainly attributable to the counter trading ex-bonus issue

We are "Neutral" on the Equities markets in the short term. With the market currently trading at a premium to its future growth (PEG Ratio at 1.4x), we believe that investors should reposition towards companies with a strong earnings growth and are trading at discounts to their intrinsic value. We expect the discovery of new COVID-19 variants coupled with slow vaccine rollout in developing economies to continue weighing down the economic outlook. On the upside, we believe that the recent relaxation of lockdown measures in the country will lead to improved investor sentiments in the economy.

<u>Real Estate</u>

I. Industry Reports

During the month, the following industry reports were released and the key take-outs were as follows:

#	Theme	Report	Key Take-outs
1	General Real Estate	Quarterly GDP Report for Q1'2021 and Q2'2021 by Kenya National Bureau of Statistics	• Real Estate sector grew by 4.9% in Q2'2021 compared to a growth of 4.6% recorded in Q2'2020 and a 4.5% growth recorded in Q1'2021. The Construction sector recorded a growth of 6.5% in Q2'2021 compared to 8.2% growth in Q2'2020. This performance represented a 1.3% points drop from the 7.8% growth recorded in Q1'2021. For more information, see Cytonn Weekly #45/2021.
2	Commercial Office Sector	Africa Office Market Dashboard Report Q3'2021 by Knight Frank	• Major cities in Africa recorded a 49.0% q/q increase in office demand, and, • Nairobi City recorded the highest q/q increase in office asking rents by 9.0% to Kshs 1,458 (USD 13.0), from Kshs 1,324 (USD 11.8) per SQM. For more information, see Cytonn Weekly #46/2021.
3	Residential Sector	House Price Index Q3'2021 by Hass Consult	• Residential properties within the Nairobi Metropolitan Area recorded a 1.0% q/q price appreciation and a 1.1% y/y price correction. For more information, see Cytonn Weekly #46/2021.
4	Land Sector	Land Price Index Q3'2021 by Hass Consult	• Land prices in the Nairobi Metropolitan Area appreciated on a q/q and y/y basis by 0.3% and 0.8%, respectively. For more information, see Cytonn Weekly #46/2021.

The overall Real Estate sector performance continues to record improved performance supported by; i) increased development activities thereby supporting the overall growth of the sector, ii) increased demand for residential units and office spaces, and, iii) investor confidence in the land sector which has continued to show resilience despite the pandemic.

II. Residential Sector

a. Launch of the construction of Kitisuru Heights Phase II project, in Kitisuru

During the week, Almond Real Estate, a local real estate firm, began the construction of 60-one and two bedroom apartments dubbed Kitisuru Heights Phase 2, in Kitisuru Estate. This comes after the completion and opening of Kitisuru Heights phase one project in April 2021, comprising of studio and one bedroom units. Almond Real Estate also has an upcoming project dubbed Variant Homes in Gikambura-Kamangu area, comprising of 3-bedroom serviced bungalows. The increased construction activities by Almond is an indication of their confidence in the Kenyan Real Estate market and the recovery of the economy. Below is the summary of the sales prices of the Kitisuru Heights Phase 2 project which is expected to be completed in June 2023;

Kitisuru Heights Phase II			
Typology	Unit size (SQM)	Unit Price (Kshs)	Price per SQM (Kshs)
1	46	3.0mn	65,217
2	69	4.5mn	65,217
Average			**65,217**

Source: Cytonn Research

The decision by Almond Real Estate to maintain Kitisuru as its project destination is supported by;

i. **Strategic location** with the area being approximately 12.5 km from Nairobi CBD,
ii. **Consumer preference** which drives demand for the units due to their affordability. The average price of the units at Kshs 65,217 per SQFT is lower than the upper mid-end market average of Kshs 127,634 per SQFT in Q3'2021, and,
iii. **Adequate infrastructure and amenities** servicing the area such as Kitisuru Road.

In terms of performance, according to the Cytonn Q3'2021 Markets Review, apartments in the upper mid end segment, where Kitisuru belongs, recorded an average total returns of 6.1% in Q3'2021, 0.1% points higher than overall performance of apartments which recorded average returns of 6.0%. Price appreciation also came in at 0.9%, which is 0.2% points higher than the market average of 0.7% in Q3'2021, further supporting the developer's decision to re-invest in Kitisuru due to the impressive returns. The table below shows the performance summary of apartments within Nairobi Metropolitan Area in Q3'2021;

Nairobi Metropolitan Area Residential Apartments Performance Summary Q3'2021			
Segment	**Average of Rental Yield Q3'2021**	**Average of Price Appreciation Q3'2021**	**Average of Total Returns Q3'2021**
Upper Mid-End	5.2%	0.9%	**6.1%**
Lower Mid-End	5.3%	0.8%	**6.1%**
Satellite Towns	5.3%	0.5%	**5.8%**
Average	**5.3%**	**0.7%**	**6.0%**

Source: Cytonn Research 2021

b. CMA approves Kshs 3.9 bn Corporate Bond for investing in Affordable Housing

During the week, the Capital Markets Authority (CMA) approved the issuance of a Kshs 3.9 bn Medium Term Note (MTN) programme for Urban Housing Renewal Development Limited. The MTN which has a Kshs 600.0 mn green-shoe option, an 18-month tenor, and an interest rate of 11.0% p.a will be used to finance the construction of the ongoing Pangani Affordable Housing Project.

The Kshs 25.0 bn affordable housing project in Pangani is a Public Private Partnership project between the Nairobi City County Government and Tecnofin Kenya Limited, comprising of 1,562 units. The construction of the Pangani Affordable Housing Project commenced in May 2020 and is expected to be completed by December 2022, with 160 units already rolled out to tenants. The table below shows the summary of the project selling prices;

Pangani Affordable Housing Project			
Typology	**Unit size (SQM)**	**Unit Price (Kshs)**	**Price per SQM (Kshs)**
1	24	1.0mn	41,667
2	45	2.5mn	55,556
3	60	3.0 mn	50,000
3-Duplex	90	10.0 mn	111,111
Average			**64,584**

Source; Boma Yangu Portal

We expect to see a high oversubscription for the bond given the increased appetite for the corporate bond market and the high liquidity in the market. We note that the previous corporate bonds issued over the last 6 months have been oversubscribed, an indication of the improved investor confidence in the corporate bond market. For instance, EABL and Family Bank corporate bonds were oversubscribed by 344.5% and 147.3%, respectively. We believe that this corporate bond comes at the right time given that the performance of the Affordable Housing initiative continues to be weighed down due to financial constraints that has seen most projects stall. Therefore with its approval, we expect the construction of the project to be fast tracked in order for the government to realize its objective, as well as boost investor confidence in the affordable housing initiative.

c. Launch of the construction of the Stoni Athi River Waterfront City housing project, in Machakos

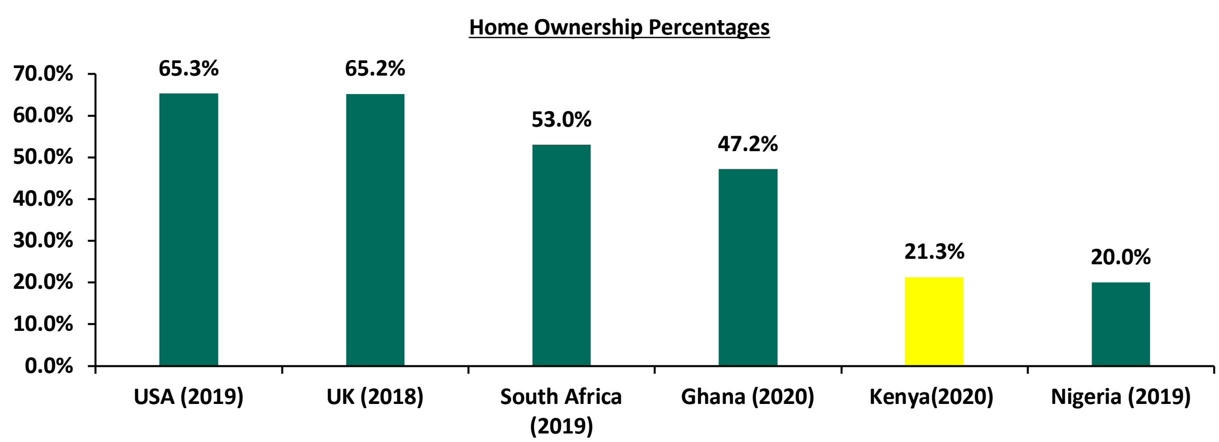
The government through the Ministry of Transport, Infrastructure Housing, Urban Development and Public Works, launched the construction of the Stoni Athi River Waterfront City housing project, in Machakos County. The affordable housing project worth Kshs 20.0 bn is being developed by the National Housing Corporation (NHC) and will comprise of 10,500 units targeting the low, middle, and high-income earners. They will be distributed as;

i) 5,000 units developed under the affordable housing initiative and ranging between Kshs 1.0 mn and Kshs 3.0 mn per unit, and
ii) 5,500 targeting the high and middle-income earners and ranging between Kshs 2.0 mn and Kshs 8.0 mn.

Affordable housing initiative continues to gain momentum in the country as evidenced by the 324,617 current registered applicants in the Boma Yangu Portal. Moreover, the government of Kenya continues to support the initiative through various strategies such as Public Private Partnerships, which have proven to be a cost effective measure for implementing projects such as the Kitui Affordable Housing Project. Other affordable housing projects include; i) Park Road Project in Ngara, ii) Buxton Housing Project in Mombasa, and, iii) Starehe Affordable Housing, among others. Despite this, there are challenges that continues to impede the performance of the initiative such as financial constraints leading to projects stalling, coupled with inadequate infrastructure.

Upon completion, the two projects are expected to; i) provide low cost homes to residents targeting affordable developments, ii) improve living standards of residents through easing the accessibility to decent homes, and, iii) improve the low home ownership rates in Kenya, which is currently at 21.3% in urban areas as at 2020, compared to other African countries such as South Africa and Ghana at 53.0% and 47.2%, respectively.

The graph below shows the home ownership percentages of different countries compared to Kenya;



Source: Centre for Affordable Housing Africa, Federal Reserve Bank

Other notable highlights in the Residential sector during the month include;

i. Kenya Mortgage Refinance Company (KMRC), a treasury backed mortgage lender, announced that it is holding talks with the Kenya Bankers Association (KBA) and other relevant stake holders in the financial sector, to develop a secondary mortgage market in the country. For more information, see Cytonn Weekly #47/2021, and,
ii. Unity Homes, a Kenyan-British housing developer began the construction of 640 two- and three-bedroom apartments dubbed Unity East at Tatu City in Ruiru. For more information, see Cytonn Weekly # 44/2021.

We expect the residential sector to continue recording more development activities driven by the launching of various projects by developers coupled with the efforts by the government to make mortgages available through KMRC.

III. Retail Sector

During the week, Artcaffe Group, an international restaurant chain, announced plans to open 4 new outlets in Nairobi by the end of the year. The new outlets will be located at Britam Tower in Upperhill and Shell Petrol stations along Eastern Bypass, Southern Bypass and Rhapta road. This will bring the retailer's total operating outlets within Nairobi County to 39, with the Northern Bypass outlet being opened on 3rd December 2021. The decision to open the new outlets in Nairobi is supported by; i) stiff competition from close rivals such as Java Group, Subway, and Kentucky Fried Chicken (KFC), ii) positive demographics facilitating demand for goods and services, with Nairobi's population growth rate currently at 4.1% against Kenya's 2.3%, and, iii) increased financial muscle with Emerging Capital Partners (ECP) having acquired majority of its shares worth Kshs 3.5 billion in 2018. The move by the retailer also signifies improved investor confidence in the Kenyan retail market.

Notable highlights during the month include;

i. Papa John's International Inc. announced a partnership deal with Kitchen Express to open 60 new fast-food outlets in Kenya and Uganda from 2022. For more information, see Cytonn Weekly #47/2021, and,
ii. Chandarana Foodplus, a local retailer opened a new outlet at new Golden Life Mall in Nakuru, bringing its total operational outlets countrywide to 22. For more information, see Cytonn Weekly # 44/2021.

We expect the performance of the Retail sector to be driven by; i) continued uptake of spaces by local and international retailers such as Carrefour and Chandarana Foodplus, ii) Infrastructure developments opening areas for investments and as well as promoting accessibility, and, iii) positive demographics. However, factors such as e-commerce and the existing oversupply at 3.0 mn SQFT in the Nairobi Metropolitan Area (NMA) and 1.7 mn SQFT in Kenya retail market, are expected to impede performance of the sector.

IV. Mixed-Use Developments (MUDs)

Notable highlights during the month include;

i. Tatu City, a Mixed-Use developer, announced a partnership deal with Stecol Corporation, a Chinese construction and engineering firm, to develop supporting infrastructure in the final phase of Kijani Ridge located in Ruiru, Kiambu County. The project's cost is estimated at Kshs 1.0 bn and is expected to be completed by the end of 2022. For more information, see Cytonn Weekly #47/2021, and,
ii. Sheria Savings and Credit Cooperative Society (SACCO) announced plans to begin construction of Sheria Towers in Upperhill, Nairobi before the end of 2021. The Kshs 2.0 bn project will comprise of residential units, shopping centers, and commercial offices sitting on a one-acre piece of prime land along Matumbato Close near their offices. For more information, see Cytonn Weekly #45/2021.

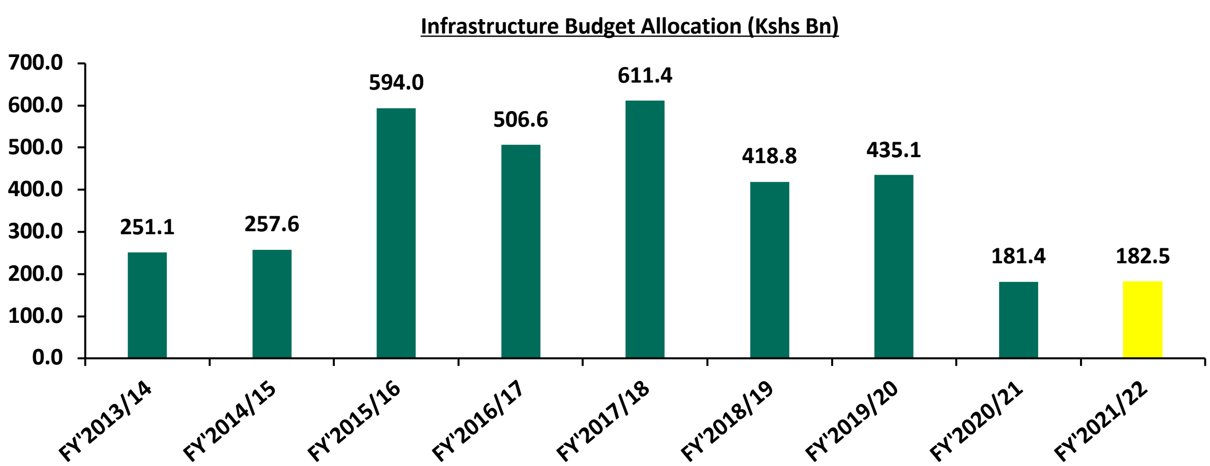
We expect MUDs to register more activities due to their convenience hence driving demand and uptake, as well as Kenya's positive demographics. However, their performance is expected to be weighed down by; i) existing oversupply at 7.3 mn SQFT in the NMA office market, 3.0 mn SQFT in the NMA retail market and 1.7 mn SQFT in Kenya retail market, and, ii) longer construction timelines due to their complex nature which in the long run which may affect project returns.

V. Infrastructure

During the week, the Italian government through its Ambassador to Kenya, Alberto Pieri, announced plans to spend Kshs 780.0 mn on revamping dilapidated roads in Malindi such as the Mjanaheri-Ngomeni road that links Malindi to the Italian space agency San Marco. Additionally, Hon. John Mwangemi, Kenya Ports Authority (KPA) director announced that the tarmacking of the 1.2 Km Mbaraki-Nyerere Road project, and the 11.0 km Kipevu road in Mombasa County commenced on 30th November 2021. Financing of the Kipevu road project worth Kshs 1.5 bn will be done by the Kenya Ports Authority, and United Kingdom (UK) through TradeMark East Africa (TMEA) which has already contributed Kshs 0.5 bn. On the other hand, Mbaraki-Nyerere Road project worth Kshs 0.9 bn will be financed by UK and Danish International Development Agency through TradeMark East Africa who will inject 0.5 bn. The remaining Kshs 44.6 mn will be provided by Mombasa County Government. The completion of the three projects is expected to;

i. Ease transport services by curbing traffic snarl ups along the respective areas, which will enhance faster movement of goods and services,
ii. Promote trade activities in the surrounding areas,
iii. Ease accessibility to major tourist destinations in Mombasa and Malindi which are major tourism destinations in Kenya, and,
iv. Boost real estate investments in the areas.

Kenyan government continues to support the infrastructure sector by initiating and implementing various projects across the country such as; i) Nairobi Expressway, ii) Western Bypass, and iii) Nairobi Commuter Rail project. In the FY'2021/22, the government allocated Kshs 182.5 bn to the infrastructure sector through the Ministry of Transport, Infrastructure Housing, Urban Development and Public Works. This is a 0.6% points increase to Kshs 181.4 bn in FY'2020/21. The graph below shows the budget allocation to the infrastructure sector over last nine financial years;



Source: National Treasury of Kenya

Notable highlights during the month include;

i. Kenya National Highways Authority (KeNHA) announced that they had contracted Victoria Engineering Company, to tarmac the 35.8 Km Kopasi River- Lomut – Sigor- Marich link road, in West Pokot County, at a cost of Kshs 4.4 bn. The road is expected to be done by October 2024 and will connect to the Kitale – Lodwar- South Sudan Highway at Marich Pass. For more information, see Cytonn Weekly #47/2021,

ii. Kenya Urban Roads Authority (KURA) announced the commencement of the conversion of the 32.0 Km Eastern Bypass into a dual carriage way at a cost of Kshs 12.5 bn. For more information, see Cytonn Weekly #46/2021,

iii. The Kenya National Highway Authority, (KeNHA) announced commencement of construction of the 29.0 Km Kinango-Kwale road in Kwale County. The Kshs 3.0 bn project being undertaken by China Civil Engineering Construction Corporation is set to be completed by December 2024. For more information, see Cytonn Weekly #45/2021, and,

iv. Transport Cabinet Secretary, Hon. James Macharia commissioned the construction of the 54.0 Km Mto Mwagodi-Mbale-Wundanyi-Bura road. The upgrading of the road to bitumen standard is to be done through Kenya Rural Roads Authority (KeRRA) at a cost of Kshs 2.2 bn, and expected to be completed by the end of 2024. For more information, see Cytonn Weekly # 44/2021.

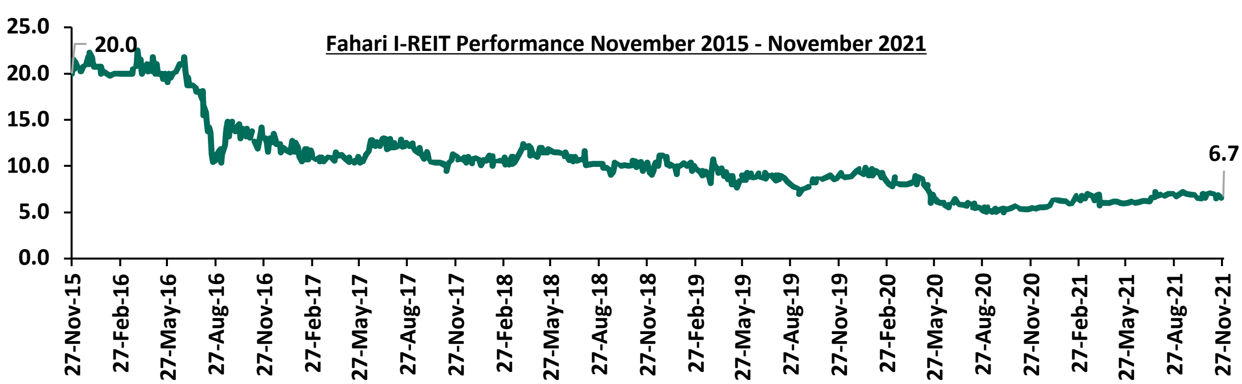
We expect continued construction and revamp activities to be witnessed in the infrastructure sector due to government's aggressive focus to initiate and implement projects through various strategies such as; i) Public Private Partnerships, ii) issuing of infrastructure bonds, and iii) priority of projects through budget allocations.

VI. Listed Real Estate

In the Nairobi Stock Exchange, ILAM Fahari I-REIT closed the month trading at an average price of Kshs 6.7 per share, maintaining its previous month closing price. This represented a 15.5% Year-to-Date (YTD) increase from the Kshs 5.8 per share recorded at the beginning of the year. However, on Inception-to-Date (ITD) basis, the REIT's performance declined by 66.5% from Kshs 20.0.

In the Unquoted Securities Platform, Acorn DREIT closed the month trading at Kshs 20.1 while the I-REIT closed at Kshs 20.6 per unit. This performance represented a 0.5% and 3.0% gain for the DREIT and I-REIT, respectively, from the Kshs 20.0 Inception price. The volumes traded for the D-REIT and I-REIT came in at 5.4 mn and 12.3 mn shares, respectively, with a turnover of Kshs 108.9 mn and Kshs 254.1 mn, respectively since Inception-to-Date. On a Week-to-Date (WTD) basis, the I-REIT retained its closing price at Kshs 20.6 per share, whereas the D-REIT recorded a 0.1% increase from Kshs 20.2 per share realized the previous week.

Kenyan REIT continues to record subdued performance due to; i) a general lack of knowledge on the financing instrument, ii) general lack of interest of the REIT by investors, iii) high minimum investments amounts set at Kshs 5.0 mn for D-REITs, and, iv) lengthy approval processes to get all the necessary requirements thus discouraging those interested in investing in it. The graph below shows Fahari I-REIT's performance from November 2015 to November 2021:



We expect the Kenyan real estate sector to continue recording increased activities driven by; i) improved economic environment promoting growth of the sector, ii) increased demand for office spaces, iii) increased residential development activities, iv) aggressive expansion by international retailers, v) more development

activities and demand for MUD's as a result of their convenience, and vi) government's continued focus on the infrastructure developments that drive property investments. Despite this, the low of investor appetite in Real Estate Investments Trusts (REITs) continues to be a challenge facing the real estate sector.