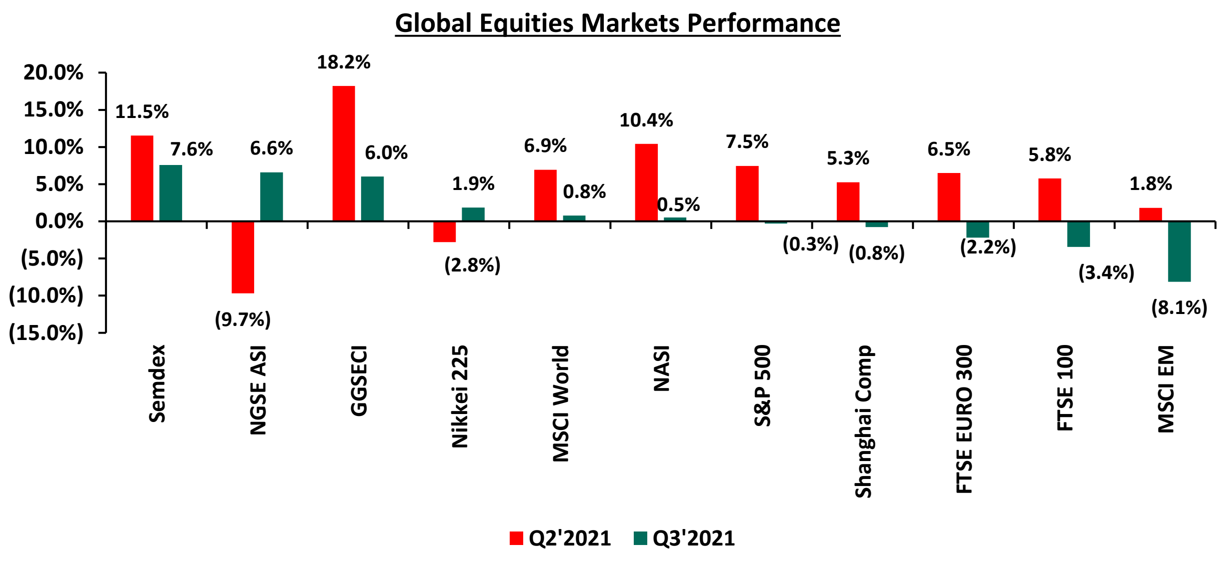
Cytonn Q3’2021 Equities Markets Review Note

In 2020, the Global Equities market witnessed increased capital flight as investors sought for safer havens following the spread of the COVID-19 pandemic. During the period, indices such as FTSE 100 and NASI declined by 11.7% and 15.0%, respectively. However, following the gradual recovery witnessed in most regions in Q3’2021, we have seen the Equities Market continue to recover with most indices being on an upward trajectory. Despite this positive recovery, the discovery of new strains of COVID-19, uneven vaccine rollout and supply chain constraints will lead to some economies recovering slower than others. In this note, we will analyze the Q3’2021 Equities Market in the following sections;

i. Global Markets Review,
ii. SSA Regional Review,
iii. Kenya’s Equities Market, and,
iv. Conclusion

Section I: Global Markets review

During Q3’2021, Global Equities Markets posted a mixed performance with SEMDEX recording the highest q/q gain of 7.6%, albeit slower that the 11.5% gain recorded in Q2’2021. The gains made by the Mauritian Index are attributable to improved investor confidence in the economy as Mauritius currently has a high vaccination rate of 68.0% of the total population, against the global vaccination rate of 35.7%. The MSCI Emerging Markets was the largest decliner, declining by 8.1% in Q3’2021, compared to a gain of 1.8% in Q2’2021, attributable to continued supply chain disruptions and the re-imposition of COVID-19 restrictions in some economies following the emergence of the third wave. The graph below highlights the performance of the Global Equities Markets in Q3’2021 as compared to Q2’2021;

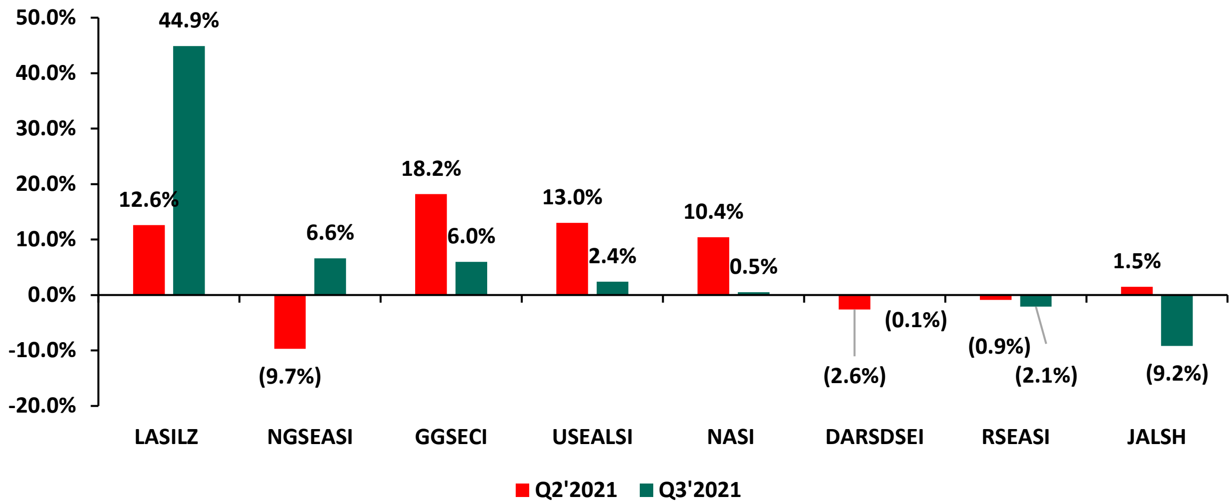


Source: Cytonn Research, 2021

Section II: Sub-Saharan Africa Review

In Q3’2021, the Sub-Saharan Africa (SSA) Equities Markets posted a mixed performance, with a majority of the economies recording positive gains attributable to increased investor confidence following the economic recovery and improvement of business environments in the region. The Zambia Stock Market (LASILZ), was the largest gainer q/q, recording gains of 44.9% in Q3’2021, compared to a gain of 12.6% in Q2’2021. The strong performance can be attributed to the increase in global copper prices that have hit historical highs in 2021, attracting foreign investors in Zambia. The South African Index (JALSH), was the largest decliner, declining by 9.2% in Q3'2021, a reversal from a gain of 1.5% in Q2'2021. The decline by the JALSH was mainly as a result of tightened COVID-19 restrictions in South Africa during the quarter as a result of a surge in COVID-19 infection rates emanating from the spread of the Delta variant. Below is a graph highlighting the performance of the Sub-Saharan Africa Equities markets in Q3'2021 as compared to Q2'2021;

Sub-Saharan Africa Equities Markets Performance

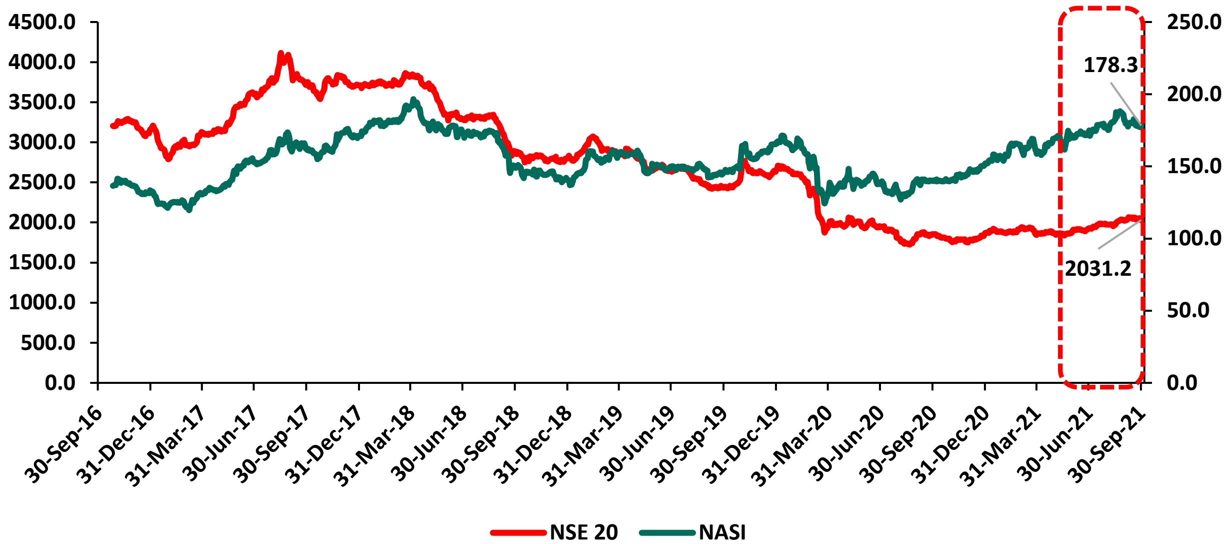


Source: Cytonn Research, 2021

Section III: Kenya Equities Markets Review

During Q3'2021, the equities market was on an upward trajectory, with NASI, NSE 25 and NSE 20 gaining by 2.8%, 3.8% and 5.4%, respectively. The equities market performance during the quarter was driven by gains recorded by large cap stocks such as Equity Group, KCB Group, Bamburi and ABSA Bank Kenya, which gained by 13.4%, 9.6%, 6.7% and 6.4%, respectively. The gains were however weighed down by losses recorded by other large cap stocks such as EABL and Cooperative Bank, which declined by 5.5% and 3.3%, respectively. Equities turnover declined by 18.9% to USD 286.2 mn, from USD 352.7 mn in Q2'2021. Foreign investors turned net buyers during the quarter, with a net buying position of USD 8.7 mn, from a net selling position of USD 18.7 mn in Q2'2021. The graph below highlights the performance of the NASI and NSE 20 indices during the quarter;

NASI/NSE 20 Price movements



Source: NSE

The table below highlights the major gainers and decliners during the quarter in NSE 20;

Equities Security	H1'2021	Q3'2021	q/q Change
Equity	44.75	50.75	13.4%
KCB	42.65	46.75	9.6%
Bamburi	35.15	37.50	6.7%
ABSA	9.92	10.55	6.4%
Diamond Trust Bank- Kenya	59.25	62.25	5.1%
NCBA	25.50	26.00	2.0%
Safaricom	41.45	42.10	1.6%
BAT	450.00	451.00	0.2%
EABL	180.75	170.75	(3.3%)
Co-operative Bank of Kenya Ltd	13.80	13.35	(5.5%)

The key take outs from the above table include:

i) The Banking sector recorded strong gains during the quarter, with Equity Group, KCB, ABSA, Diamond Trust Bank-Kenya (DTB-K) and NCBA recording gains of 13.4%, 9.6%, 6.4%, 5.1% and 2.0%, respectively. The strong performance was driven by the renewed investor optimism in the Banking Sector following the release of their H1'2021 financial results with most banks reporting higher profits, as compared to a similar period last year. The listed banking sector's Core Earnings per Share (EPS) recorded a weighted increase of 136.0% in H1'2021, from a weighted decline of 33.6% recorded in H1'2020. The significant growth in earnings is attributable to reduced provisioning levels by the listed banks following the relatively stable business operating environment during the period,

ii) The Manufacturing sector remained subdued during the quarter, with EABL recording a decline of 3.3%, while BAT recorded a marginal gain of 0.2%. EABL's performance is mainly due to the coronavirus restrictions that were put in place which saw the reduced operating hours for bars and restaurants in Kenya while BAT's performance is attributable improving investor confidence in the counter as their

Profits before Tax increased by 7.9% to Kshs 2.8 bn in H1’2021, from Kshs 2.6 bn from H1’2020, despite the 5.0% increase in excise duty on cigarettes,

iii) On the Construction front, Bamburi gained by 6.7% during the quarter, as a result of investors’ expectations that the continued recovery of the construction sector will lead to an increase in profitability for the cement manufacturer. In its H1’2021 results, Bamburi Cement reported a significant increase of 420.7% in Profits before tax to Kshs 1.1 bn in June 2021, from Kshs 228.0 bn in June 2020. The increase in profits was partly attributable to increased demand in Cement for the construction of the Nairobi Expressway project and Thwake Dam along the Kitui - Makueni border, and,

iv) In the Telecommunication Sector, Safaricom continued to exert its dominance in the bourse, with its market cap closing the quarter at 61.5% of the entire bourse. The counter gained by 1.6% during the quarter driven by the increased investor demand for the stock following the recent acquisition of a Telecommunications Operator License by the Global Partnership for Ethiopia. This license will allow Safaricom to set up operations in Ethiopia for 15 years.

Section IV: Conclusion

As the global economy continues to rebound gradually in 2021, we expect to see increased investor flows into the Equities Markets as investors take advantage of the cheap valuations in most stocks. We expect investors to continue to be biased towards stocks that continue to register quick recovery and robust earnings growth on the back of their strong fundamentals. However, the Equities market performance will continue to be weighed down by the threat of a resurgence in COVID-19 infections. Closer home, the Kenyan equities market has been on an upward trajectory, with NASI gaining by 15.7% on a YTD basis as investors capitalized on the low valuations in the market and the strong performance of some large cap stocks in the banking, telecommunications and construction sectors.

We remain “Neutral” on the Kenyan Equities markets in the short term. With the market trading at a premium to its future growth (PEG Ratio at 1.5x), we believe that investors should continue to reposition towards companies with a strong earnings growth and are trading at discounts to their intrinsic value. Additionally, we expect the recent discovery of new strains of COVID-19 coupled with the introduction of strict lockdown measures in major economies to continue dampening the economic outlook.