



## NSE Bear Market – Buy The Dip

17<sup>th</sup> June 2022

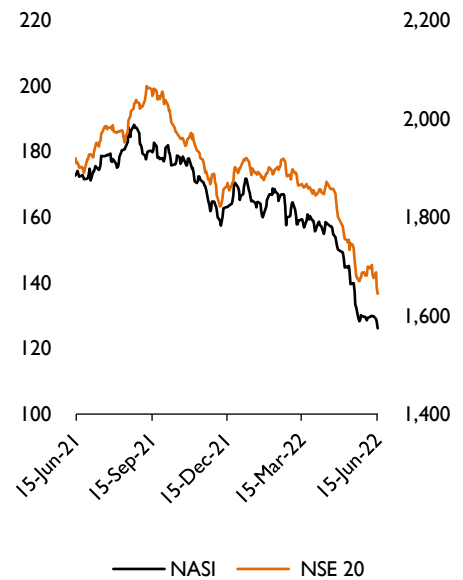
Expectation is the root of all heartache as we have barely gotten over the recent market shocks than global macro and geopolitical challenges replaced pandemic-related uncertainty as key drivers of foreign investor sentiments. As we approach the end of H1'22, our observations of the NSE Equities market point to a bear market - characterized by periods of losses in the market, greater than 20%. The current NASI YTD performance is **-24.22%** (NSE-20 has lost 13.56% YTD) sitting deep in the bear territory. From our analysis, a sizeable percentage of the listed counters are trading at all-time slumps and closer to their 52-week lows.

We have observed that the market P/E valuation has been declining (see graph 3) currently trading below the 5-year historical average of 11.75x with the current P/E standing at 6.60x. In comparison to other regional markets, the NSE current valuation metrics point to an undervaluation on most of the counters.

### Major drivers of the current bear run include:

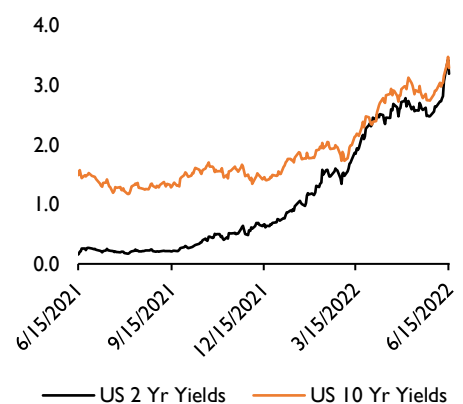
- **Global factors shaping investor sentiments** – Following the pandemic-related disruptions, supply chain normalization has taken longer than anticipated coupled with the Russia-Ukraine war that has further thrown things off balance. As such, global investor sentiments on emerging markets, Kenya included, have been dim compounded by the increase in the prices of oil.
- **Are Local elections a key concern?** – During the year, investors have been faced with a double whammy of global inflationary pressure and monetary policy activities that the local elections have also taken a share of the blame in the current turmoil. On a similar period comparison basis between January and June of 2017 and 2022, we observed that 2017 had a foreign net sale position of **KES 876.74Mn** compared to the current **KES 9.61Bn**(see graph 7). Therefore, we believe that election-related fears are not a key driver (though still one of the factors) of foreign exits as compared to the other two drivers.
- **Developed markets monetary policy decisions driving investor risk appetite** – The US Fed, Bank of England, ECB and Bank of Japan began their rate hike cycles earlier in the year, which subsequently translates to an increase in bond yields in those markets, strengthening of the USD and a better equities market performance. The 2-year US Treasury Note, which is regarded as the most sensitive to Fed policy, has spiked **239bps** to **3.16%** on a YTD basis. Therefore, higher yields in developed markets have made foreigners experience a flight to safety through a sell-what-you-can strategy as they seek to enjoy the comfort of their current returns back home.

Graph 1: NSE-20 vs NASI 1 Year Price Movement



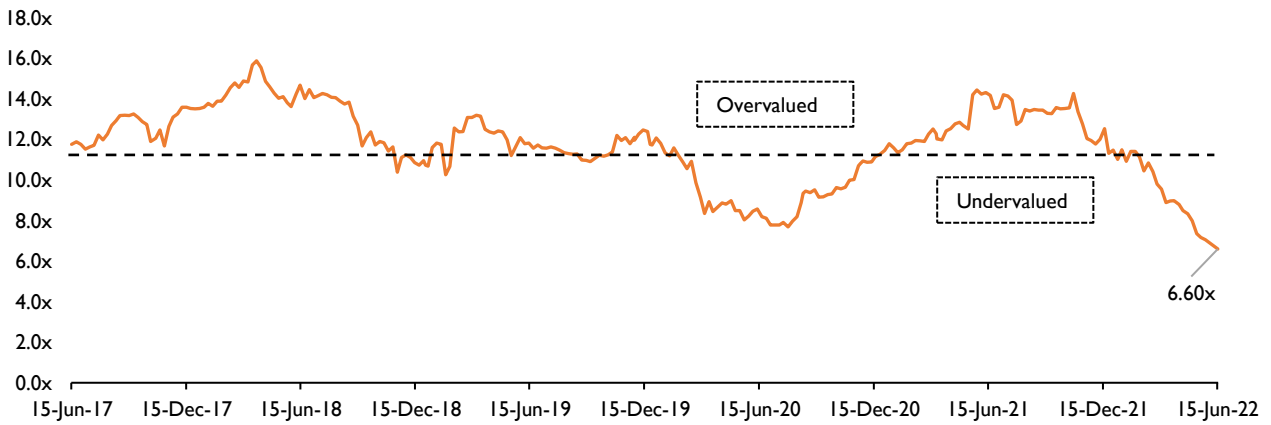
Source: NSE

Graph 2: US 2 Yr vs 10 Yr Yields Movement



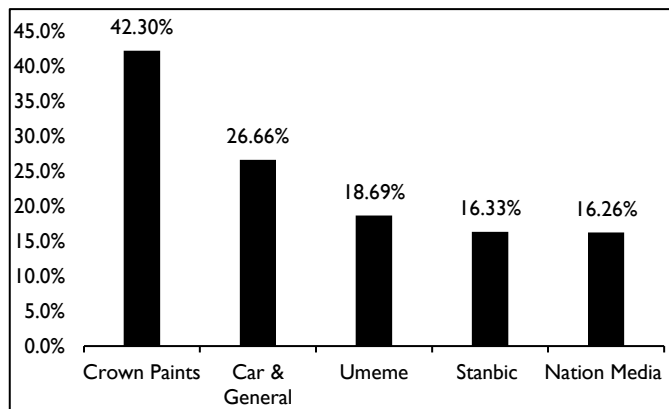
Source: Bloomberg

Graph 3: 5-Year Historical NASI P/E



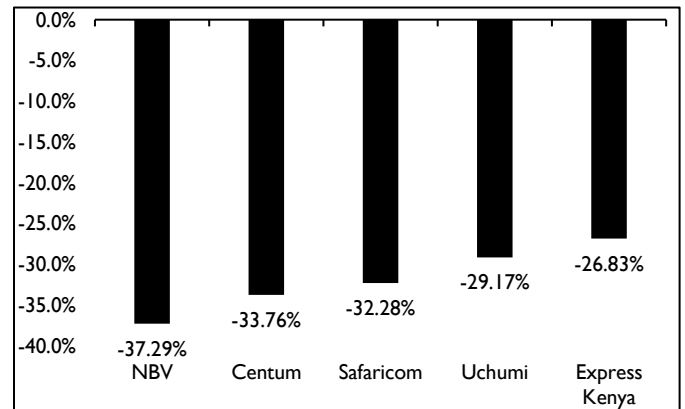
Source: Bloomberg, AIB-AXYS Analyst Estimates

Graph 4: NSE YTD Top Gainers



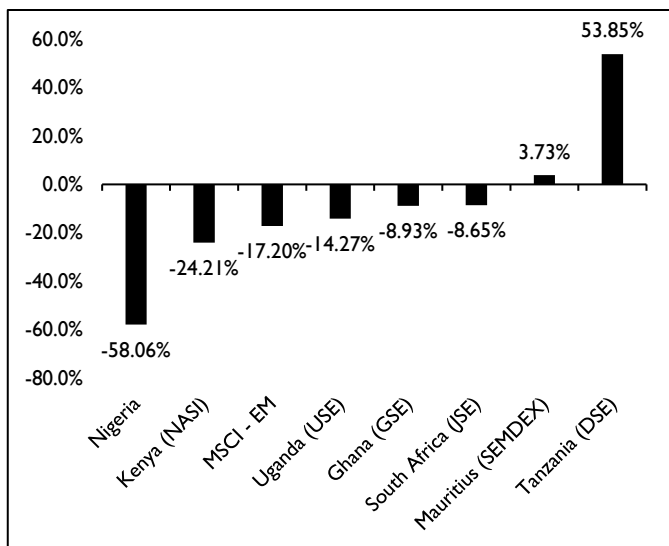
Source: NSE, AIB-AXYS Analyst Estimates

Graph 5: NSE YTD Top Losers



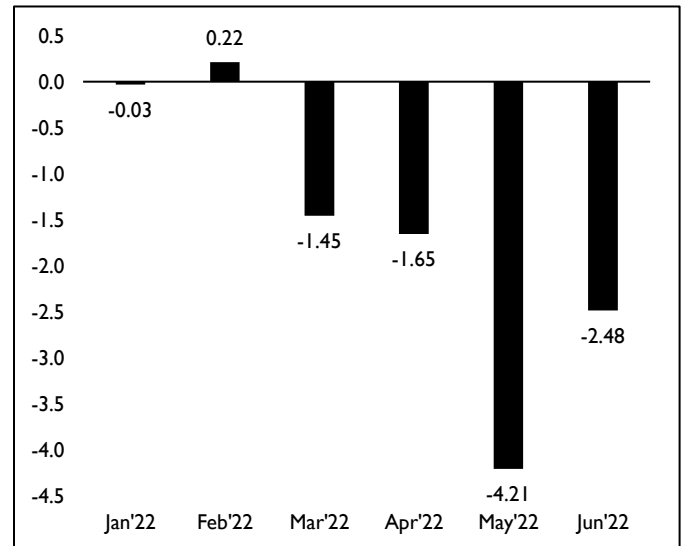
Source: NSE, AIB-AXYS Analyst Estimates

Graph 6: NASI vs African Peers YTD Performance



Source: Bloomberg, AIB-AXYS Analyst Estimates

Graph 7: 2022 YTD Foreign Net Position (KES Bn)



Source: NSE, AIB-AXYS Analyst Estimates

## Where is the Opportunity?

Our outlook for the rest of the year remains mostly tidy based on our view of the local market having incredible wealth creation opportunities that will play out in the long term. Therefore, in the current depressed environment, we recommend investors to:

- **Buy the dip** – We urge local investors to take advantage of the foreign exits by taking up positions at the current valuations. Overall, most of the listed counters are fundamentally sound with religious dividend payments; are pursuing growth opportunities and have historically delivered value. The emergence of underdog counters that have been previously overlooked by investors: Crown Paints and Car & General at YTD gains of 42.30 % and 23.71%, respectively.
- **Align with Dividend-Paying counters** – With expectations of an eventual recovery investors should take up dividend-paying counters (see Table 2) whose dividend yields are likely to cool off any negative returns already recorded.

Table 1 : Top picks

Counter	15-Jun-2022	Target Price	Upside	Δ YTD	52 Week High	52 Week Low	Rating
SCOM	25.70	37.53	46.03%	-32.28%	44.95	25.70	BUY
NSE	7.04	10.05	42.76%	-12.00%	10.15	7.00	BUY
EABL	128.75	180.21	39.97%	-21.97%	193.75	128.75	BUY
KCB	38.65	52.45	35.71%	-14.96%	49.90	35.00	BUY
IMH	16.75	22.62	35.04%	-20.62%	23.25	16.75	BUY
EQTY	40.95	55.17	34.73%	-22.37%	54.25	40.95	BUY
DTK	50.00	66.12	32.24%	-15.97%	69.00	49.00	BUY
BAMB	34.40	45.28	31.63%	-9.47%	39.80	32.15	BUY
COOP	10.80	13.99	29.54%	-16.60%	13.95	10.80	BUY
ABSA	10.90	13.04	19.63%	-8.02%	12.70	9.40	BUY
JUB	265.00	315.85	19.19%	-16.34%	390.00	248.50	BUY
NCBA	25.00	28.29	13.16%	-0.79%	28.15	23.00	HOLD
SCBK	124.50	140.75	13.05%	-2.92%	146.25	123.75	HOLD
KNRE	2.08	2.28	9.62%	-9.57%	2.68	2.01	HOLD
SBIC	101.50	105.00	3.45%	16.33%	108.00	80.00	HOLD

Source: NSE, Company Filings, AIB-AXYS Analyst Estimates

Table 2 : Top Dividend Yielding Counters

Counter	15 June 2022 (KES)	Total Dividend (KES)	Dividend Yield (%)
UMME	8.00	1.77	22.13%
SCBK	124.50	19.00	15.26%
NCBA	24.00	3.00	12.50%
BAT	430.00	53.50	12.44%
KAPC	89.00	10.00	11.24%
BKG	30.70	3.22	10.49%
BAMB	34.40	3.58	10.41%
ABSA	10.90	1.10	10.09%
FAHR	6.00	0.60	10.00%
CRWN	43.40	4.00	9.22%

Source: NSE, Company Filings, AIB-AXYS Analyst Estimates



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