



Foreign investor holdings fall at NSE on selling spree

- The volume of shares held by foreign investors at the Nairobi Securities Exchange (NSE) has dropped in the past one year following sustained selling by the investors in a bear market.
- According to the Capital Markets Authority (CMA) foreign investors held 18% of the issued shares at the Nairobi bourse by the end of June, down from 20.9% in June 2019.
- The stock exchange currently has 98.6Bn issued shares, meaning that the foreign held stock stands at 17.7Bn units, with the remainder (88%) in the hands of local and East African investors.
- In the first half of the year, foreign investors made net sales worth KES.21.4Bn, part of a global sell-off that saw investors dump stocks and seek shelter in fixed income assets in the wake of the coronavirus economic fallout.
- However, while local investors have the lion's share of stock holdings, it is the foreign counterparts who dominate traded turnover at the bourse, with the CMA raising concern over the inactivity of locals.
- In the first six months of the year, the foreign investors accounted for 63% of total traded turnover at the NSE.

Our View

- **The decline in foreign investor holdings at NSE is attributable to “flight to safety” to developed markets deemed to be safe haven spots in the wake of COVID-19 pandemic and global economic uncertainty.**
- Foreign investors may continue exiting the market opting to stock their investments closer home and in high net countries but are expected to be back to buy at lower prices therefore more participation is expected.
- East African institutions and individuals have stepped in, lifting their shareholding as foreign investors continue to be net sellers.
- Even though local and East African investors hold the greatest shares in terms of quantity their participation remain low with most of the accounts remaining dormant.
- While foreign investor participation at NSE remains high the sustainability of the bourse is equally dependent on participation by domestic investors both retail and institutional.
- CMA and NSE need to come up with strategic investor education initiatives aimed at increasing local investor participation at the bourse.
- We expect a decline in FY2020 financial performance of many companies listed on the NSE with several companies expected to issue profit warnings and this will reduce the attractiveness of the bourse.