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STERLING CAPITAL LIMITED

### Foreign investors cut KCB stake to new low

- Foreign investors have cut their stake in KCB to a new low of 14.1% in the wake of Covid-19 pandemic that saw them dump equities in search of safer alternative investments elsewhere.
- Foreigners have sold 161.2Mn shares between March and November last year, valued at about KES.6.2Bn when calculated by KCB's current share price of KES.38.
- The latest stake of foreigners, who now hold 452.3Mn shares, is in sharp contrast with 19.1% in March last year and end of 2017 when their stake was at 29.3%.
- Local individual and institutional investors (excluding National Treasury) have in turn snapped up most of the shares left by foreigners, rising their stake to a high of 66.2% at the end of November.
- Locals have taken up an additional 143.6Mn shares between March and November, raising their stake from 61.2% in March.
- Foreigners now hold the smallest stake in KCB with local institutional investors commanding 39.7% followed by local individuals (26.5%) and National Treasury (19.8%).
- KCB Group Q3 2020 net earnings fell by 43.1% to KES.10.8Bn on the back of increases in provisions for defaults.

### Our View

- **We expect a handful of foreign investors with high appetite for risk and a long-term investment horizon to take advantage of current low prices especially on blue chip stocks such as KCB.**
- The low uptake by foreign investors could be attributed to the expected slow recovery of the stock market that will result in low investment returns.
- Despite the subdued dividend outlook experienced by banks during the Covid-19 pandemic, KCB share price (KES.38) is highly discounted compared to fundamental valuations hence presenting an opportunity for positive returns to investors.
- We anticipate local investor trading to continue increasing following the recent downturn in the market, thus continue to take advantage of the shares prices trading below their valuation.
- High participation in the domestic debt market is also likely to occur due to the high liquidity resulting from the capital flight from the equity markets.
- We maintain a **BUY** recommendation on the stock guided by our fair value estimate of KES.47.80.

Source: Business Daily and Sterling Research