

MONTHLY



STOCK PICKS

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December 2023 Review

- **Corporate Profit Warnings On the Rise** – December 2023 saw a rise in the number of profit warning announcements issued by listed firms. Kakuzi Plc, Express Kenya and Sanlam Plc project at least a 25% decline in net earnings in financial year 2023. The underlying reasons cited for this expected decline are adverse economic challenges, including rising input costs, lower consumer demand and rising finance costs.
- **Economic Growth Picked Up in Q3'23** – The Kenya National Bureau of Statistics in its [Q3'23 GDP Growth Report](#) estimates that growth accelerated to 5.9% compared to 4.3% recorded in Q3'22. The performance was mainly driven by strong growth in accommodation and food service activities (+26.00%), financial and insurance (+14.7%), information and communication (+7.3%) and agriculture (+6.7%). Electricity sector however, contracted by 1.9% while growth in transport and storage activities decelerated to 2.8% on account of rising energy costs.
- **Acorn Project II Medium Term Note Early Redemption** - During the month, Acorn Holdings issued a notice of an early repayment of its Notes valued at KES 573.4Mn in relation to Project 2 (USIU 4, Linden Properties LLP). The notes will be redeemed at an amount equal to the nominal value of the notes, together with accrued but unpaid interest from the preceding Interest Payment Date up to and including the Early Redemption Date on 5th January 2024.
- **Local Pump Prices Marginally Decrease** – EPRA released [new fuel prices for the December'23-January'24 pricing cycle](#). Petrol currently retails at KES 212.36/litre (KES -5.00), Diesel at KES 201.47/litre (KES -2.00) and Kerosene at KES 199.05/litre (KES -4.01). The decline in fuel prices came on account of a notable decline in landing costs – supported by a sizeable decline in oil prices across international markets. The regulator noted that the government opted to cross-subsidize the price of diesel with that of petrol to further cushion the economy.
- **Inflation Continued to Cool Off** - Headline inflation [decelerated to 6.6%](#) in December 2023, down from 6.8% recorded in November 2023 on account of a considerable deceleration in fuel inflation. Fuel inflation decelerated by an impressive 180bps to 13.7% in December 2023 from 15.5% a month prior. Food inflation increased by 10bps to 7.7% from 7.6% in November 2023 on account of increased seasonal demand. Core inflation (Non-Food-Non-Fuel) however increased 10bps to 3.4% pointing to underlying price pressures. We expect headline inflation to oscillate within CBK's upper bound target over the coming quarters.
- **December MPC Meeting** – The Central Bank of Kenya in its last Monetary Policy committee sitting in 2023 elected to [raise the Central Bank Rate by 200bps to 12.5%](#) from 10.5% to address exchange rates pressures and mitigate second round effects from soaring commodity prices. The committee also noted the acceleration in the banking sector's non-performing loan ratio to 15.3% in October 2023 from 15.0% in August 2023 while private sector credit demand accelerated 20bps to 12.5% in October 2023, from 12.2% in September 2023.
- **Shilling Continued Losing Streak Against USD** - The Kenya shilling depreciated further against the USD to close at KES 156.46 versus KES 153.06 at the end of November. We observed a faster decline in the month of December (-2.2%) compared to November (-1.7%). We expect the volatility on the local currency to ease due to replenished balance of payments account, supported by stabilizing dollar inflows from diaspora remittances and key export-earning sectors.

December'23 Equities Market Performance

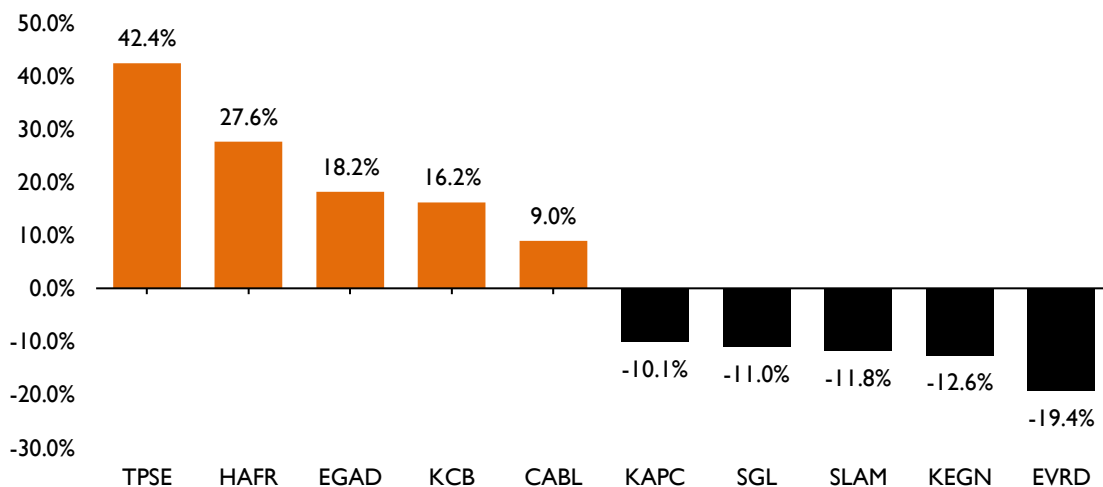
During the month of December, the indicative indices recorded a mixed trend with NASI increasing by 0.2%, NSE-20 increasing by 0.3% and NSE-10 decreasing by 0.5%. Foreigners remained net sellers taking the selling position to **KES 1.35Bn** taking the YTD net selling position to **KES 12.53Bn**, lower than the KES 24.04Bn recorded in 2022.

Equity turnover decreased 11.0% m/m to **KES 3.28Bn** from **KES 3.69Bn** in November while volumes traded also decreased 23.6% to **KES 208.36Mn**. Market capitalization was down 0.2% m/m to **KES 1.44Tn**. We expect market activity to remain above KES 3.00Bn/month in Q1'2024 owing to positive FY'23 net earnings results and dividend payment of some counters.

Top Gainers: TPS Eastern Africa was the top gainer in December'23 jumping (+42.4%) m/m to KES 16.45 from KES 1.55. Home Afrika was the second largest gainer jumping (+27.59%) m/m to KES 0.37 from KES 0.29. Other gainers included : Eaagads (+18.2%) m/m to KES 13.95 from KES 11.80, KCB (+16.1%)m/m to KES 21.90 from KES 18.85 and E.A Cables (+9.0%) to KES 0.97 from KES 0.89.

Top Losers: Eveready was the largest m/m decliner losing (-19.4%) to KES 1.08 from KES 1.34. Other top losers included : KenGen (-12.6%) m/m to KES 2.01 from KES 2.30, Sanlam (-11.8%) m/m to KES 6.00 from KES 6.80, Standard Group (-11.0%) m/m to KES 7.74 from KES 8.70 and Kapchorua Tea (-10.1%) m/m to KES 215.00 from KES 239.25 driven by the dividend book closure.

Chart 1: December'23 Top 5 Gainers and Losers



Source: NSE, AIB-AXYS Research

Table 1: Upcoming Dividends

Company	Interim Dividend	Final Dividend	Book Closure	Dividend Payment
Kengen Plc		KES 0.30	30-Nov-23	15-Feb-24
Umeme Limited	KES 0.93		9-Feb-24	29-Feb-24

Source: Company Releases, AIB-AXYS Research

Our Top Three Picks

BUY

I. Equity Group Holdings (EQTY)

We issue a buy recommendation to Equity Group Holdings on the back of a stable FY'23 earnings momentum. We anticipate the lender's growth to be driven by fast-growing regional subsidiaries, especially DRC and Rwanda units, as well as insurance cross-selling. We expect digital lending channels to enhance economies of scale and support cost rationalization. We further expect that growth in interest income will be propelled by continued loan repricing and organic credit demand. The current share price of KES 35.65 represents a YTD gain of 5.9% while its P/B ratio of 0.7x signals an attractive entry point for investors

II. CIC Insurance Group (CIC)

We issue a buy recommendation for CIC Insurance on account of its outsized earnings momentum as signaled by the 93.11% jump in net insurance results by HY'23, along with resilient growth in portfolio reinvestment returns over the same period. Furthermore, its transformational strategies aimed at leveraging digital tools as well as cost rationalization initiatives will help support sustainable profitability growth over coming quarters. The current share price of KES 2.19 represents a YTD discount of 2.2%, while its P/B ratio of 0.7x signals an attractive entry point for investors.

III. I&M Group (IMH)

We issue a buy recommendation for I&M Group on account of its remarkable earnings momentum. We anticipate the lender's growth to be bolstered by innovative customer value propositions - particularly unsecured personal lending and waivers on bank-to-mobile transaction fees. This coupled with the organic growth of its fast-growing subsidiaries, will propel balance sheet expansion over coming quarters. The current share price of KES 17.50 represents a YTD gain of 0.0% while its P/B ratio of 0.4x offers an attractive entry point for investors.

Table 2: Top 10 Highest Dividend Yields

Counter	31-Dec-22	29-Dec-23	2023 Change	Final Dividend	Total DPS	Div Yield
Kengen Plc	7.42	2.01	-37.58%	0.30	0.30	14.93%
Umeme Limited	142.75	16.00	115.63%	2.31	2.31	14.44%
Williamson Tea	460.00	208.00	30.00%	30.00	30.00	14.42%
British American Tobacco	12.30	407.50	-11.41%	52.00	57.00	13.99%
Standard Chartered Bank	3.22	162.00	13.49%	16.00	22.00	13.58%
Co-operative Bank of Kenya	160.00	11.40	-7.32%	1.50	1.50	13.16%
I&M Group Plc	17.00	17.50	2.94%	2.25	2.25	12.86%
Equity Group Holdings	102.00	33.65	-24.38%	4.00	4.00	11.89%
Absa Bank Kenya Plc	12.30	11.45	-6.91%	1.15	1.35	11.79%
Kapchorua Tea	31.50	215.00	89.85%	25.00	25.00	11.63%

** - Total DPS is a Trailing DPS based on the last FY declared dividend

Portfolio Performance

In December'23, our model portfolio (1.60%) continued to outperform the NSE-20 index (0.37%) and the NASI index (0.20%). Our model portfolio continued outperforming the NASI index on a YTD basis. On a YTD basis, the NSE-20 lost 10.44% while the NASI index lost 27.74% compared to our model portfolio which has lost 12.78%.

The portfolio performance was lifted by m/m gains recorded by **KCB, Stanbic, Absa, Standard Chartered, Bamburi and Diamond Trust Bank**. However huge declines by counters **Equity** and **Safaricom** weighed down on further gains in the overall portfolio performance. We observed foreigners remaining as net sellers following a deterioration in the buying position in some trading sessions in Q4'23. We expect another month of mixed performance largely driven by investors aligning themselves to dividend paying counters before book closures and foreigners remaining as net sellers. However, trading will remain largely concentrated in the blue-chip counters – SCOM, the Banking sector, and other select counters driven by the hunt for dividends.

Table 3: Portfolio Performance

December 2023 Performance	M/M	2023 Change
AIB-AXYS Africa Portfolio Performance	1.60%	-12.78%
NSE-20	0.37%	-10.44%
NASI	0.20%	-27.74%

Table 4: Portfolio Constituents

Counter	29-Dec-2023	Target Price	Upside	Δ 2023	Δ M/M	52 Week High	52 Week Low	Weighted YTD return	Weighted M/M return
KCB	21.90	25.50	16.4%	-42.5%	16.2%	39.20	15.75	-2.6%	1.0%
SBIC	108.75	121.10	11.4%	6.6%	6.6%	129.75	97.25	0.5%	0.5%
ABSA	11.45	14.70	28.6%	-6.9%	3.2%	12.95	10.10	-0.4%	0.2%
SCBK	162.00	169.80	4.8%	13.5%	2.7%	171.00	135.25	1.4%	0.3%
BAMB	35.85	40.10	11.9%	13.8%	2.3%	42.00	22.50	0.8%	0.1%
DTK	45.05	57.15	26.9%	-9.9%	2.0%	55.25	44.00	-0.6%	0.1%
JUB	185.00	235.85	27.5%	-6.9%	1.1%	200.00	148.25	-0.4%	0.1%
EABL	114.00	130.50	14.5%	-31.9%	0.7%	187.00	108.00	-3.2%	0.1%
IMH	17.50	20.85	19.1%	2.9%	0.3%	21.00	15.85	0.1%	0.0%
NCBA	38.95	46.75	20.0%	-1.0%	0.3%	41.70	30.70	-0.1%	0.0%
COOP	11.40	14.40	26.2%	-7.3%	0.0%	13.35	10.20	-0.4%	0.0%
SCOM	13.90	23.70	70.6%	-42.4%	-1.1%	24.50	11.65	-5.9%	-0.2%
EQTY	33.65	56.10	66.8%	-24.4%	-7.8%	46.90	33.65	-2.0%	-0.6%

Source: NSE, AIB-AXYS Research

Table 5: Recommendation Summary

Stock	Strengths	Risks	Recommendation
<p>ABSA Bank Kenya</p> <p>Current Price: KES 11.45 Target Price: KES 14.70 Upside: 28.6%</p>	<ul style="list-style-type: none"> Fast organic growth in loan book by Q3'23 supported a 26.0% y/y jump in lending income. Roll-out of risk-based loan pricing model to support further growth in interest income. Widening traction of digital channels like Timiza Digital Loans expected to leverage revenue growth. 	<ul style="list-style-type: none"> A notable acceleration in the NPL ratio to 8.8% - albeit lower than the hitherto industry average of 15.0%. 	BUY
<p>Co-operative Bank</p> <p>Current Price: KES 11.40 Target Price: KES 14.40 Upside: 26.2%</p>	<ul style="list-style-type: none"> Roll-out of risk-based pricing model to support to growth in lending income. Co-op Group's loan portfolio quality remains resilient due to its conservative distribution. Improved performance from Kingdom Bank with a 28.7% y/y increase in net earnings in Q3'23 to KES 0.78Bn. 	<ul style="list-style-type: none"> Rising cost of funds trimming down net interest margins. 	BUY
<p>Equity Group</p> <p>Current Price: KES 33.65 Target Price: KES 56.10 Upside: 66.8%</p>	<ul style="list-style-type: none"> Fast-growing subsidiaries, notably DRC and Rwanda units. Expanding trade finance channels supporting ecosystem lending to key economic sectors. Roll-out of risk-based credit pricing model led to a 31.3% y/y surge in lending income by Q3'23. 	<ul style="list-style-type: none"> Slowing performance of Kenyan Banking unit. Climbing NPL ratio to 12.2% by Q3'23 – albeit lower than industry average. 	BUY
<p>Diamond Trust Bank (DTB-K)</p> <p>Current Price: KES 45.05 Target Price: KES 57.15 Upside: 26.9%</p>	<ul style="list-style-type: none"> Fast-growth in inexpensive deposits supporting widening of net interest margins. Large disparity between prevailing market price and book value presents room for price discovery. Resilient asset quality despite a deteriorating credit scene. 	<ul style="list-style-type: none"> Rising brick-and-mortar expense likely to raise operating expenses. 	BUY
<p>KCB Group</p> <p>Current Price: KES 21.90 Target Price: KES 25.50 Upside: 16.4%</p>	<ul style="list-style-type: none"> Increase in interest income by 36.4% y/y in Q3'23 to KES 113.92Bn following the roll-out of risk-based lending and higher interest from government securities. Deepening digital uptake to upscale loan disbursement. Vigorous performance and growth of regional subsidiaries to drive long-term growth. 	<ul style="list-style-type: none"> Declining yet elevated NPL ratio remains above the industry average. Thinning capital buffers especially in Kenyan banking units. 	HOLD
<p>Stanbic Kenya</p> <p>Current Price: KES 108.75 Target Price: KES 121.10 Upside: 11.4%</p>	<ul style="list-style-type: none"> Double digit growth (+23.0%) in non-interest income in Q3'23 driven by supported by increased trade finance activity and forex trading income. The 6.2% decrease in gross NPLs by Q3'23 an industry outlier. 	<ul style="list-style-type: none"> Prevailing market price closely approaching book value, presenting narrow headroom for price discovery. 	HOLD
<p>NCBA Group</p> <p>Current Price: KES 38.95 Target Price: KES 46.75 Upside: 20.0%</p>	<ul style="list-style-type: none"> Sustained leadership in asset finance to propel aggressive demand growth. Accelerated digital uptake supporting cross-lending activities via platforms such as M-Shwari and Fuliza to upscale loan disbursement. 	<ul style="list-style-type: none"> Fading forex trading earnings momentum – however overall trailing earnings remain elevated. 	BUY

*** Current Price is as 29th December 2023

Stock	Strengths	Risks	Recommendation
Standard Chartered Bank Current Price: KES 162.00 Target Price: KES 169.80 Upside: 4.8%	<ul style="list-style-type: none"> Robust growth in wealth management demand accelerating deposit growth. Widening net interest margins on account of declining cost of funds – despite rising rate environment. 	<ul style="list-style-type: none"> Slower balance sheet growth. Loan book grew 5.5% while customer deposits declined by 4.4% in Q3'23. Prevailing market price currently above the book value per share 	HOLD
EABL Current Price: KES 114.00 Target Price: KES 130.50 Upside: 14.5%	<ul style="list-style-type: none"> Strong growth in premium brands and mainstream spirits Regional subsidiaries to report steady and robust growth Shift to digital channels for B2B and B2C distribution is key in driving sales volumes Current ratio improved to 1.04 from 0.82 back into safety territory. 	<ul style="list-style-type: none"> Declining gross sales on account of waning consumer demand Rising input costs weighing on gross margins. 	HOLD
Safaricom Plc Current Price: KES 13.90 Target Price: KES 23.70 Upside: 70.6%	<ul style="list-style-type: none"> Revenue growth expected to remain robust 7.3% y/y to KES 164.62Bn in HY'24. Ongoing traction of M-Pesa in Ethiopia will lead to accelerate customer growth and product cross-selling by the telco. Improving 4G subscriber mix, expected growth in both M-Pesa and data and expansion of Ethiopia operations expected 	<ul style="list-style-type: none"> Rising finance costs likely to weigh on profitability margins and consequently dividend payout ratio. 	HOLD
Jubilee Holdings Current Price: KES 185.00 Target Price: KES 235.85 Upside: 27.5%	<ul style="list-style-type: none"> Accelerated growth in long-term insurance business coupled with the roll-out of bancassurance partnerships. Stable dividend payment to the allure of investors Joint venture operations with Allianz unleash operational synergies. 	<ul style="list-style-type: none"> Slowing earnings momentum by HY'23 	BUY
Bamburi Cement Current Price: KES 35.85 Target Price: KES 40.10 Upside: 11.85%	<ul style="list-style-type: none"> Expected growth mainly driven by key infrastructure projects such as the Affordable Housing Agenda in Kenya. Admission of DRC to the EAC opens up the firm's access to a broader regional market 	<ul style="list-style-type: none"> Rising input costs and impact of weakening exchange rate on importable clinker requirements and fuel prices are likely to magnify operating costs. 	HOLD
I & M Holdings Current Price: 17.45 Target Price: 20.85 Upside: 19.5%	<ul style="list-style-type: none"> Innovative customer value propositions - particularly unsecured personal lending and waivers on bank-to-mobile transaction fee to support deposit growth Roll-out of risk-based credit pricing supported a 27.5% surge in interest income in Q3'23. Growth in the loan book by 24.3% y/y driven by investments in digital banking. 	<ul style="list-style-type: none"> Uptick in funding costs likely to compress net interest margins. Faster surge in NPLs on account of deteriorating credit conditions threatens asset quality. 	BUY

*** Current Price as of 29th December 2023

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