



APRIL STOCK PICKS

March Review

- The Energy and Petroleum Regulation Authority (EPRA) reviewed the maximum retail prices of super petrol and diesel upwards by KES 5.00 per litre to **KES 134.72** and **KES 115.60**, respectively. The prices of kerosene remained unaffected. The hike was attributable to rising global prices of crude oil and a partial withdrawal of the fuel subsidy to relieve some pressure off the Petroleum Development Levy. Internationally, OPEC members and their allies refused to deviate from their plan for gradual output hikes, effectively standing back from the supply crisis engulfing the global crude oil market.
- Locally, the Central Bank of Kenya maintained the CBR at **7.00%** for the thirteenth time in a row, going against the hawkish stance of regional and global MPCs. The Bank cited that the inflation rate remained within its target region, supported by governmental intervention. The Bank acknowledged that prevailing global risks could have an impact on the local economy.
- Globally, the Central Banks in the USA, UK, Egypt, Ghana, Rwanda among others raised their benchmark interest rates, with the view of maintaining price stability and taming rising inflation occasioned by rising energy and commodity prices and disrupted supply chains, adversely affected by the Russia-Ukraine conflict; with further rate hikes anticipated in the coming months.
- The inflation rate increased y/y to **5.56%** from **5.08%** in February. The food and non-alcoholic beverage index increased m/m to **9.92%**, the price of electricity reduced by **11.13%**; while that of LPG gas increased by **38.18%**; core inflation increased to **2.2%**
- A majority of companies released their FY'21 Results, with the Banking sector posting an overall improved performance and a return to dividend payment, on the back of reduced loan loss provisioning and increased operational efficiency pointing towards economic recovery from the pandemic. However, activity on the majority of counters remained muted despite dividend announcements.

What does April hold?

- Safaricom's (**SCOM**) long-awaited regional expansion into the Ethiopian market is likely to be finalized, with operations set to begin within the month. This is expected to excite investors based on the growth prospects of the most populous Horn of Africa nation and Safaricom's stellar reputation in the telecommunication sector.
- National Treasury will present the FY 2022/23 Budget Statement to the National Assembly, two months ahead of the traditional schedule, seeking public expenditure approval before Parliament's term ends.
- Russia—Ukraine war is expected to continue having adverse effects on emerging and frontier equity markets as investors seek safer investments away from these markets. Rising global energy, commodity prices, and disrupted supply chains will affect the local prices of fertilizer ahead of the planting season, which will negatively affect agricultural productivity and food inflation in the coming months.

Upcoming Corporate Actions

Name	Interim/Special	Final	Book Closure	Dividend Payment
East African Breweries	KES 3.75		28-Feb-22	27-Apr-22
Car & General	1:1 Bonus Issue		24-Mar-22	8-Apr-22
Nairobi Securities Exchange	KES 0.50	KES 0.40	29-Mar-22	15-Jul-22
I&M Holdings		KES 1.50	21-Apr-22	26-May-22
BAT Kenya	KES 3.50	KES 50.00	22-Apr-22	24-May-22
ABSA Bank (K)		KES 1.10	25-Apr-22	26-May-22
KCB Group	KES 1.00	KES 2.00	25-Apr-22	TBA
Standard Chartered Bank	KES 5.00	KES 14.00	27-Apr-22	25-May-22
NCBA Group	KES 0.75	KES 2.25	29-Apr-22	5-May-22
Equity Group		KES 3.00	20-May-22	30-Jun-22
Stanbic Holdings	KES 1.70	KES 7.30	20-May-22	TBA
Co-operative Bank		KES 1.00	30-May-22	17-Jun-22
Kakuzi		KES 22.00	31-May-22	30-Jun-22
Kenya Re Insurance		KES 0.10	17-Jun-22	29-Jul-22
BK Group		KES 3.22	22-Jun-22	1-Jul-22
Jubilee Holdings Limited	KES 5.00	KES 9.00	22-Jun-22	25-Jul-22
Umeme Ltd		KES 1.73*	24-Jun-22	22-Jul-22
TotalEnergies		KES 1.31	24-Jun-22	30-Jul-22
Diamond Trust Bank		KES 3.00	30-Jun-22	28-Jul-22
ILAM Fahari I-REIT		KES 0.50	TBA	30-Apr-22

* Exchange Rate as at 28-Mar-22

Top 10 Highest Dividend Yields

Security	31-Mar-2022	Δ YTD	Total Dividend	Dividend Yield
NSE	KES 7.82	-2.25%	KES 1.40	17.90%
SCBK	KES 143.75	12.09%	KES 19.00	13.22%
NCBA	KES 25.85	2.58%	KES 3.00	11.61%
BAT	KES 496.25	12.40%	KES 53.50	10.78%
BKG	KES 29.95	3.28%	KES 3.22	10.75%
KAPC	KES 99.75	4.45%	KES 10.00	10.03%
ABSA	KES 12.45	5.06%	KES 1.10	8.84%
SBIC	KES 103.00	18.05%	KES 9.00	8.74%
FAHR	KES 5.90	-5.75%	KES 0.50	8.47%
BAMB	KES 35.75	-5.92%	KES 3.00	8.39%

Source: Company Filings, NSE, AIB-AXYS Research

Portfolio Performance

During the month, our model portfolio was up 0.5% on a m/m and -1.8% on a YTD basis, outperforming the NASI and NSE-20 indices. The portfolio was buoyed by the performance of banking counters such as SCBK, SBIC, NCBA and ABSA but weighed down by SCOM and EABL. We had anticipated the announcement of banks' FY'21 results and return to dividend payments to reverse the dip in the previous month.

Table 2: Portfolio Performance

	M/M	YTD
AIB-AXYS Africa Portfolio Performance	0.5%	-1.8%
NSE-20	-2.3%	-2.9%
NASI	-4.6%	-6.4%

Graph 1: Portfolio Performance vs Indices

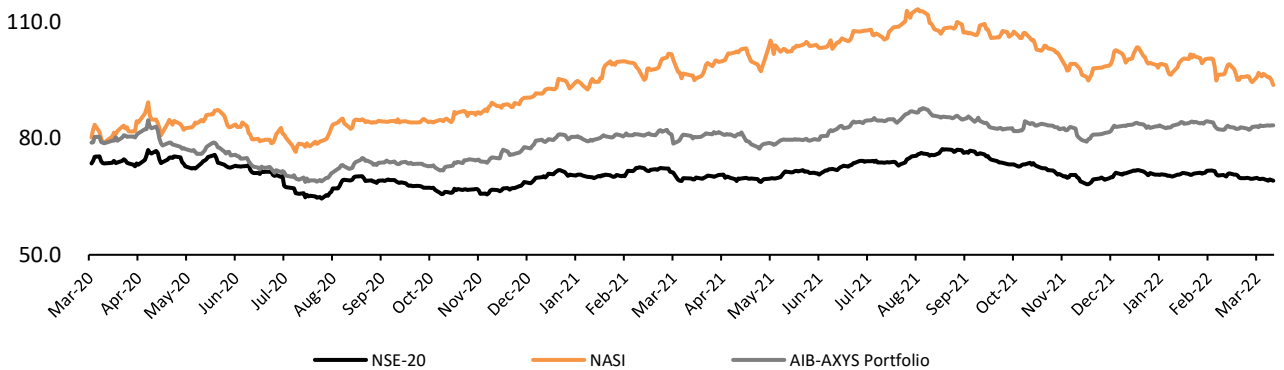


Table 3: Portfolio Constituents

Counter	31-Mar-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighting	Weighted YTD return	Weighted M/M return
Safaricom	34.15	38.81	13.6%	-10.0%	-5.0%	44.95	34.15	14.0%	-1.4%	-0.7%
Bamburi	35.75	45.28	26.7%	-5.9%	-3.5%	43.15	33.55	7.0%	-0.4%	-0.2%
I&M	20.90	24.62	17.8%	-0.9%	0.0%	50.00	20.00	7.0%	-0.1%	0.0%
ABSA	12.45	13.04	4.7%	5.1%	4.6%	12.55	8.62	6.0%	0.3%	0.3%
Co-op	12.85	14.99	16.7%	-0.8%	-0.4%	13.95	11.60	6.0%	0.0%	0.0%
DTK	59.00	66.12	12.1%	-0.8%	4.0%	69.00	54.75	6.0%	-0.1%	0.2%
EABL	150.00	205.21	36.8%	-9.1%	-5.7%	193.75	148.25	6.0%	-0.5%	-0.3%
EQTY	50.50	61.17	21.13%	-4.3%	1.0%	54.25	37.50	6.0%	-0.3%	0.1%
Jubilee	272.00	325.85	19.80%	-14.1%	-2.5%	390.00	270.50	6.0%	-0.8%	-0.2%
KCB	44.05	52.45	19.1%	-3.1%	-2.1%	49.90	39.70	6.0%	-0.2%	-0.1%
Kenya RE	2.25	3.28	45.8%	-2.2%	-0.9%	2.68	2.22	6.0%	-0.1%	-0.1%
NCBA	25.85	28.29	9.4%	2.6%	8.4%	28.15	23.00	6.0%	0.2%	0.5%
NSE	7.82	10.05	28.5%	-2.3%	0.5%	10.15	7.00	6.0%	-0.1%	0.0%
Stanbic	103.00	105.00	1.94%	18.1%	8.4%	104.25	76.00	6.0%	1.1%	0.5%
StanChart	143.75	140.75	-2.1%	12.1%	8.9%	144.50	124.00	6.0%	0.7%	0.5%
NSE-20	1,846.74			-2.9%	-2.3%					
NASI	155.74			-6.4%	-4.6%					

Source: AIB-AXYS Research

Equity Group

Target Price: KES 61.17

Upside: 21.13%

Recommendation: BUY

Tailwinds

- Expansion to DRC will be a key growth driver leveraging on its strength in lending to SMEs who form part of the mining and trade business in the country
- High liquidity ratio of 63.40% positions to take up any opportunities that may arise as the East African economy continues to recover
- Non-banking subsidiaries and the use of digital channels to drive Non-interest Income
- Approval of its risk-based pricing model to reduce loan loss provisioning

Headwinds

- Yield on assets and cost of funding declined leading to a margin squeeze also reducing the Net interest margin (NIM)
- Revenue mix continues to favour Interest Income

KCB Group

Target Price: KES 52.45

Upside: 19.07%

Recommendation: BUY

Tailwinds

- Double digit growth in loan book fueling growth in interest income
- Consolidation of acquired subsidiaries (Rwanda with a target on DRC) in the region to drive balance sheet and income growth
- Income growth to be largely driven by fees and commissions from digital channels

Headwinds

- Deteriorating asset book quality with NPL ratio at 16.59% owing to elevated NPL ratios in subsidiaries such as NBK, South Sudan and Kenya from sectors such as manufacturing, construction and hospitality
- A surge in loan loss provisions on the back of historical asset quality concerns

Absa Group

Target Price: KES 13.04

Upside: 4.74%

Recommendation: HOLD

Tailwinds

- Growing NII (+8.0% y/y) supported loan income growth and reduced placement expenses.
- Lowest NPLs (7.94%) in the industry and an improving NPL Coverage at 77.73%
- Improving cost to income ratio (-309 bps y/y to 45.1%) due to investment in technology and reduced reliance on branches.
- Increased traction of digital channels such as WhatsApp Banking and Timiza loans app.

Headwinds

- Marginal reduction in yields from interest-earning assets, which could be mitigated by approval of the risk-based pricing model.

Co-operative Bank

Target Price: KES 14.99

Upside: 16.65%

Recommendation: BUY

Tailwinds

- Proactive credit management that has improved NPL Ratio and Coverage to 62.60%
- Cost to income ratio improved 821bps y/y to 49.91%, powered by the banks push for alternative channels with 94% of transactions happening outside the branch
- Strong performance from non-banking subsidiaries such as Asset management and insurance
- Loan book growth through a focus on SME lending, partnerships and mobile loans

Headwinds

- Synergies from the acquisition of Jamii Bora are expected to take longer given the tough operating environment
- Absorption of Jamii Bora's bad loan book which may take time to recover in a tough business environment

Stanbic Holdings

Target Price: KES 105.00

Upside: 1.94%

Recommendation: HOLD

Tailwinds

- Double-digit growth in PAT (+38.82% y/y)
- Expected growth in the loan book steered by an increase in corporate banking as well as secured personal lending segments.
- Introduction of the digital product UNAYO to drive savings, investments and lending

Headwinds

- Cost to Income ratio which included impairment provisioning worsened by 874bps driven by the rising staff costs
- Customer deposits reduction is a point of concern
- Asset quality concerns as NPL Ratio Coverage worsened to 58.12%

NCBA Group

Target Price: 28.29

Upside: 9.44%

Recommendation: HOLD

Tailwinds

- Improved efficiency through a positive CTI ratio underpinned by merger synergy benefits
- Group to retain front in digital lending through platforms such as M-Shwari and Fuliza
- Improved operational efficiencies to see cost synergies of a merged entity

Headwinds

- Asset quality remains worrisome with NPL ratio at 16.02%, above the industry average.

I&M Holdings

Target Price: KES 24.62

Upside: 17.80%

Recommendation: BUY

Tailwinds

- Increased income from loans and government securities
- Improved performance from regional subsidiaries
- Growth of income from non-banking activities

Headwinds

- Elevated provisions due to their exposure to risky sectors likely to impact asset quality

Diamond Trust Bank

Target Price: KES 66.12

Upside: 12.07%

Recommendation: HOLD

Tailwinds

- CTI ratio improved to 46.86% mainly on the back of enhanced digital transactions (88.00% of transactions are outside the branch with Kenya at 93.00%)
- Increased investment in innovation is a good indication of their shift to digitization

Headwinds

- NPL ratio increased 249 bps to 12.86% driven by the slow recovery in some sectors as the NPL Coverage worsened to 41.67%
- Observed lending apathy with a muted loan book growth in the last five years

Standard Chartered Bank

Target Price: KES 145.19

Upside: -2.09%

Recommendation: SELL

Tailwinds

- Cost to income ratio improving 1621bps to 56.80%, underpinned the bank's push for digital transaction channels
- Wealth management has been a key focus with the bank increasing its products
- NFI to Total income ratio improvement driven mainly by income from financial markets, custodial and wealth management businesses

Headwinds

- The bank's higher NPL ratio (15.99%), which remains higher than the industry average (13.10%) remains a source of concern
- Slow growth in loan book and customer deposits are likely to impact lending in future

EABL

Target Price: KES 205.21

Upside: 36.81%

Recommendation: BUY

Tailwinds

- Recovery in sales expected as the general economy recovers
- Stable growth in Tanzania given lax regulations on social gatherings
- Packaging of bottled beer brands in carton packs to allow take away the option to boost beer sales

Headwinds

- Recovery in sales pegged on regulatory conditions in the respective subsidiaries
- Reduced sales in Senator Keg hence a decline in topline

Jubilee Holdings

Target Price: KES 325.85

Upside: 19.07%

Recommendation: BUY

Tailwinds

- Stable dividend payment to the allure of investors
- Stable growth in investment income despite effects of the pandemic (+41.0% y/y)
- Operational efficiencies and cost control measures have seen lower operating costs (-2.7% y/y)
- Allianz deal allows JHL to focus on growing footprint in General insurance

Headwinds

- Decline in consumer disposable income due to a slowdown in economic activity and job losses may see a slowdown in insurance premiums growth while seeing a rise in claims and surrenders

Safaricom

Target Price: 38.81

Upside: 13.65%

Recommendation: HOLD

Tailwinds

- M-PESA to be a key revenue driver growth mainly due to the ongoing partnerships with financial services providers as well as e-commerce players
- Data revenue to be driven by mobile data and FTTH, supported by the investments in both 4G and 5G networks
- Ethiopian entry provides an exciting investment opportunity driven by a low mobile penetration

Headwinds

- Regulatory risk in Kenya, geopolitical risk in Ethiopia and competition from payment platforms will weigh down on growth
- Increased CAPEX from entry into Ethiopian market likely to reduce dividends in the short term

NSE

Target Price: KES 10.05

Upside: 28.52%

Recommendation: BUY

Tailwinds

- Declining operating costs (-25.3% y/y to KES 467.2M)
- Increased fees from new products. The launch of M-Akiba bond and the Ibuka program has helped the NSE diversify its revenues. Revenues from these sources are expected to increase as the uptake of these products increases
- Attractive dividend yield

Headwinds

- Lower transaction levy as turnover declines
- Reducing income from data vending as demand for data decreases

Bamburi Cement

Target Price: KES 45.28

Upside: 26.66%

Recommendation: BUY

Tailwinds

- Increased cement demand as the government continues its infrastructure projects and economic activity picks up.
- Due to the border issues with Rwanda, Bamburi isn't exporting to the country. Volumes could increase if the border between Uganda and Rwanda is reopened.
- In this tough operating environment, Bamburi has focused on reducing costs which have led to an increase in efficiency.
- Lower commodity prices (the global price of clinker has declined) is likely to reduce the cost of goods.

Headwinds

- Lower revenue due to a decrease in cement prices in both Kenya and Uganda.
- Increased competition could further depress prices.
- Cheaper products are cannibalizing on the premium brands. This is likely to reduce revenue growth.

Kenya Re

Target Price: KES 3.28

Upside: 45.78%

Recommendation: BUY

Tailwinds

- The compulsory reinsurance business accounts for 35% of the re-insurers earnings ensuring a steady flow of revenues and stability in the topline
- Stable dividend payout despite the prevailing pandemic

Headwinds

- Regional expansion may be delayed due to the pandemic
- Lower earnings due to loss of business as increased claims and rebates forced insurers to renegotiate their insurance contract with their customers



AIB AXYS
AFRICA

www.aib-axysafrica.com

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CONTACTS:

Research Desk
Solomon Kariuki
Research Analyst

Kevin Omondi

Equities Dealing
Bernard Kung'u

Benard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Bond Dealing
Crispus Otieno

Titus Marenje

Email: research@aib-axysafrica.com

Email: trading@aib-axysafrica.com

Email: trading@aib-axysafrica.com

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Research Tel: 2212206, 0711047000, DL: 0711047105 Mobile: 0736 801 550 Fax: 020 2210500

The Promenade, 5th Floor, General Mathenge Road, P. O. Box 11019 - 00100 Nairobi.

Email: research@aib-axysafrica.com Website: www.aib-axysafrica.com

Facebook: AIBAXYSAfrica Twitter: @AIB_AXYSAfrica