FEBRUARY STOCK PICKS

January Review

- During the month, Sasini released its FY21 results with the net income surging to KES 573Mn compared to KES 12Mn that was recorded the previous year. The increase was mainly driven by higher sales especially for coffee, reduced cost and a weaker shilling which boosted the margins of their exports. Additionally, EABL released its HY22 results indicating a significantly improved performance with the profit after tax up by 130.43% y/y to KES 54.9Bn.The positive results were attributed to reopening of the economy and lifting of the gathering restrictions that contributed to increased alcohol consumption. Additionally, we observed an equal momentum growth across all markets led by mainstream spirits.
- Car and General announced a dividend payout of KES 3.20 and a one for one bonus share which is to be credited on 8th April 2022 subject to approval. This was after it posted strong FY21 results which saw its net income increase to KES 887Mn compared to KES 274Mn, recorded the previous year.
- During the month we observed four companies issue a profit warning. The companies include; Kakuzi, Limuru Tea, Sanlam and Liberty which was an indication of lagging effects of the pandemic on the particular sectors.
- The MPC held its first meeting of the year, during the month, and retained the CBR at 7.00% for the twelfth time. The committee noted a faster growth in imports(25.4%) than exports(11.1%) fueled by increased cost of oil imports as compared to reduced earnings in key exports such as tea. We expect the MPC to maintain the current benchmark rate at least until the second half of the year before a marginal hike later in the year.
- Inflation in January dropped to 5.39% from 5.73% in December. The decrease was mainly attributed to 0.75% decline in housing utilities due to a reduction in prices of electricity during the month. However, food inflation increased by 1.07% m/m due to reduced agricultural production that drove prices of food items such as maize flour up.
- KRA announced a 105.12% revenue over performance for 1H of FY2021/22 collecting revenues of KES 976.66Bn against a target of KES 929.13Bn. This is attributable to enhanced revenue collection measures, increased use of alternative dispute resolution measures and technological enhancement. We expect the exchequer to be more persistent in enforcing revenue collection. However, the authority has a lot on their hands as the government is still aggressively borrowing to fund fiscal deficit.

What does February hold for us?

- We expect investors to continue taking positions in the banking sector in anticipation of good FY21 results which are likely to see a return to dividend payments.

Table 1: Corporate Actions

Name	Interim/Special	Final	Book Closure	Dividend Payment
Kengen PLC		KES 0.30	16-Dec-21	10-Feb-22
Car and General (K) Ltd		KES 3.20	25-Feb-22	24-Mar-22
Sasini Plc		KES 0.50	22-Feb-22	15-Mar-22
East African Breweries Plc	KES 3.75		28-Feb-22	27-Apr-22

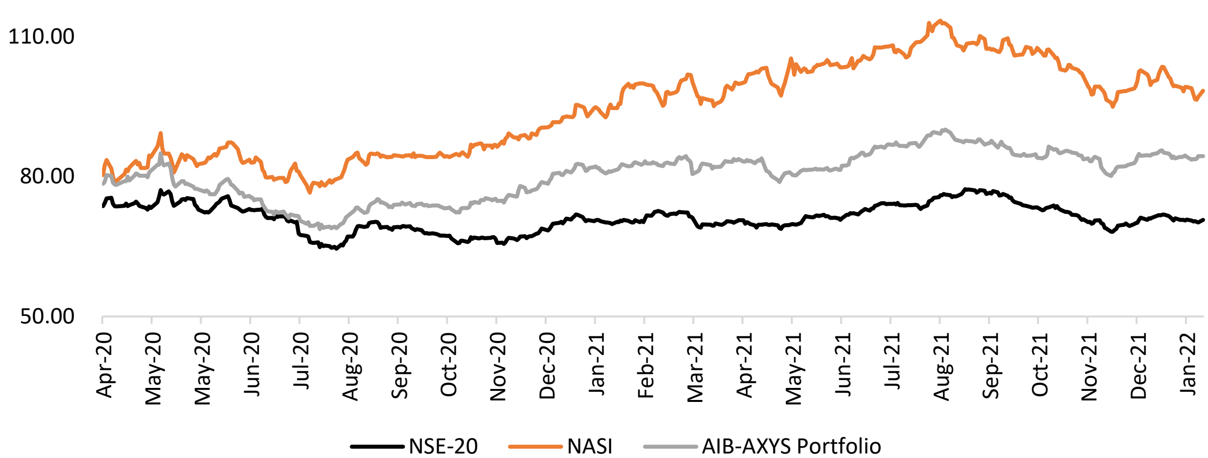
Portfolio Performance

During the month of January, our model portfolio was up 1.3% on a M/M and YTD basis, out performing both benchmark indices. The performance was driven by gains on counters such as EABL, Bamburi and the banking counters owing to declaration of interim dividends and anticipated good FY21 results for banks.

Table 2: Portfolio Performance

	M/M	YTD
AIB-AXYS Africa Portfolio Performance	1.3%	1.3%
NSE-20	-0.7%	-0.7%
NASI	-1.9%	-1.9%

Graph 1: Portfolio Performance vs Indices



Source: AIB-AXYS Research

Table 3: Portfolio Constituents

Counter	31-Jan-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week Low	52 Week High	Weighting	Weighted YTD return	Weighted M/M return
Safaricom	36.90	38.81	5.2%	-2.8%	-2.8%	34.25	44.95	14.0%	-0.4%	-0.4%
Equity	50.50	50.60	0.2%	3.1%	3.1%	36.00	54.25	6.0%	0.2%	0.2%
KCB	45.00	52.45	16.6%	3.7%	3.7%	35.70	49.90	6.0%	0.2%	0.2%
NCBA	25.60	30.29	18.3%	3.6%	3.6%	22.95	28.15	6.0%	0.2%	0.2%
COOP	12.95	14.99	15.8%	6.1%	6.1%	11.60	13.95	6.0%	0.4%	0.4%
DTK	58.25	79.00	35.6%	4.0%	4.0%	54.75	77.50	6.0%	0.2%	0.2%
SCB	132.00	145.19	10.0%	2.9%	2.9%	124.00	144.50	6.0%	0.2%	0.2%
ABSA	11.85	12.07	1.9%	7.2%	7.2%	8.62	11.85	6.0%	0.4%	0.4%
I&M	21.00	36.49	73.8%	1.0%	1.0%	20.35	50.00	7.0%	0.1%	0.1%
Stanbic	90.00	102.92	14.4%	-2.4%	-2.4%	74.00	95.25	6.0%	-0.1%	-0.1%
EABL	165.00	205.21	24.4%	7.8%	7.8%	148.25	193.75	6.0%	0.5%	0.5%
Bamburi	38.90	74.66	91.9%	10.4%	10.4%	33.55	46.35	7.0%	0.7%	0.7%
NSE	7.98	10.05	25.9%	-7.6%	-7.6%	7.74	10.15	6.0%	-0.5%	-0.5%
Jubilee	303.50	394.85	30.1%	-10.7%	-10.7%	261.75	390.00	6.0%	-0.6%	-0.6%
Kenya Re	2.26	3.28	45.1%	-3.0%	-3.0%	2.22	2.70	6.0%	-0.2%	-0.2%
NSE-20	1,889.33			-0.7%	-0.7%					
NASI	163.29			-1.9%	-1.9%					

Source: AIB-AXYS Research

Equity Group

Target Price: KES 50.60
Upside: 0.2%
Recommendation: HOLD

Tailwinds

- Expansion in Congo is expected to grow the group's business by leveraging on its strength in lending to SMEs who form part of the mining and trade business in the country while expanding its reach to the corporates.
- The halt of dividend payment in FY19 and FY20 has seen the group enhance its capital ratios
- A high liquidity ratio of 59.3% positions to take up any opportunities that may arise as the East African economy continues to recover
- The enactment of the dividend policy with a commitment to payout 30%-50% of all profit after tax is likely to increase investors' sentiments on the counter.

Headwinds

- High exposure in the SME sector likely to further deteriorate asset quality especially with government effecting new containment measures
- Ballooning provisions eating into the bottom-line with cost of risk at 4.0%

KCB Group

Target Price: KES 52.45
Upside: 16.6%
Recommendation: BUY

Tailwinds

- Double digit growth in loan book fueling growth in interest income
- Cost of funds has remained stable at 2.7% despite strong growth in customer deposits (+11.7% y/y to KES 767.2B)
- Growing Net Interest Margin (+40 bps y/y to 8.3%)
- Declining Cost to Income ratio (-110 bps y/y to 44.8%).

Headwinds

- Deteriorating asset book quality with NPL ratio at 16.2%
- A surge in loan loss provisions on the back of Covid-induced economic struggle with an expected cost risk of 3.5%.
- Cost savings on merger with NBK may take longer to be realized given the tough operating environment due to the prevailing pandemic.

Absa Group

Target Price: KES 12.07
Upside: 1.9%
Recommendation: HOLD

Tailwinds

- Growing NFI (+9.67% y/y) supported by forex trading income and introduction of new products
- Declining cost of funds (-40 bps y/y to 2.5%)
- Improving cost to income ratio (-300 bps y/y to 48.2%) due to investment in technology and reduced reliance on branches.
- Introduction of new channels such as WhatsApp Banking and Timiza loans App.

Headwinds

- Marginal growth in interest income as yields on interest earning assets decline

Co-operative Bank

Target Price: KES 14.99
Upside: 15.8%
Recommendation: BUY

Tailwinds

- Declining cost of funds (-40% y/y to 3.3%) despite double-digit growth in deposits
- Diverse loan book to shield growth despite shutdown in some sectors of the economy
- Low exposure to the high-risk sectors that have been largely affected by the prevailing pandemic.
- Optimization of operations through digitization has seen continued increase in mobile transactions.

Headwinds

- Synergies from the acquisition of Jamii Bora 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 102.92
Upside: 14.4%
Recommendation: HOLD

Tailwinds

- Double-digit growth in deposits (+15.7% y/y)
- Expected growth in the loan book steered by an increase in corporate banking as well as secured personal lending segments.
- Expected growth in non-funded income on the back of an increase in fees and commissions following the resumption of fees on mobile transactions.

Headwinds

- Growing NPL ratio (12.8%) to decrease asset book quality
- Rising cost of risk (+90 bps y/y to 2.5%) due a 54.8% increase in provisions

NCBA Group

Target Price: 30.29
Upside: 18.3%
Recommendation: BUY

Tailwinds

- Conglomerate of various segments to solidify presence in the East African market
- 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 to remain worrisome with NPL ratio at 16.1%, this may be further worsened by exposure to the SME sector

I&M Holdings

Target Price: KES 36.49
Upside: 73.8%
Recommendation: BUY

Tailwinds

- Recovery in Mauritius as the rolling out of vaccines sees the tourism and hospitality industry recover.
- Stable growth in loan book and deposits despite a tough operating environment
- Modest Cost to Income ratio of 41.8%

Headwinds

- Elevated provisions due to their exposure to risky-sectors

Diamond Trust Bank

Target Price: KES 79.00
Upside: 35.6%
Recommendation: BUY

Tailwinds

- Growing NFI (+6.1 % y/y) as the bank continues to grow its forex trading income
- Increased investment in innovation a good indication of their shift to digitization

Headwinds

- Increasing cost to income ratio due to the high staff cost (38% of total cost)
- Growing NPLs ratio due to its exposure to high-risk sectors

Standard Chartered Bank

Target Price: KES 145.19
Upside: 10.0%
Recommendation: HOLD

Tailwinds

- Digital banking a key driver for growth as usage of the platforms increase
- Wealth management has been a key focus with the bank increasing its products.
- NFI to Total income ratio improved to 35% in 1Q21.

Headwinds

- Banks higher NPL ratio, which was higher than the industry average pre-pandemic, remains a source of concern.

EABL

Target Price: KES 205.21
Upside: 24.4%
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 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 394.85
Upside: 30.1%
Recommendation: BUY

Tailwinds

- Stable dividend payment to the allure of investors
- Stable growth in investment income despite effects of the pandemic (+12.7% y/y)
- Operational efficiencies and cost control measures have seen lower operating costs (-2.5% 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 slowdown in insurance premiums growth while seeing a rise in claims and surrenders

Safaricom

Target Price: 38.81
Downside: 5.2%
Recommendation: BUY

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, geo political 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: 25.9%
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 have 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 74.66
Upside: 91.9%
Recommendation: BUY

Tailwinds

- Increased cement demand as 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 efficiencies.
- Lower commodity prices (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: 45.1%
Recommendation: BUY

Tailwinds

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

Headwinds

- Regional expansion may be delayed die 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

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