

MONTHLY



Monthly Stock Picks

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STOCK PICKS

MAY 2023 STOCK PICKS

April'23 Review

- **FY'22 Earnings Season** – During the month, we had earnings releases from Nation Media, Sanlam, Jubilee, Total, Sameer, Crown, TPS East Africa and Bamburi. Nation Media's FY'22 results were a (35.41%) decline in PAT to KES 0.32Bn driven by lower turnover resulting from a decrease in consumer spending. Sanlam FY'22 net earnings decreased by (11.08%) to KES 8.21Bn driven by poor performance in general business in the wake of difficult macro economic conditions. Jubilee FY'22 net earnings decreased by (5.95%) to KES 20.65Bn driven by lower premiums. Total FY'22 results were a (10.76%) decline in PAT to KES 2.44Bn resulting from higher cost of sales and higher taxes. TPS FY'22 results were a 159.41% increase in PAT to KES 9.38Bn after an increase in sales. Bamburi FY'22 results were a (86.88%) decline in PAT to KES 0.18Bn attributed to a decline in turnover impacted by the slowdown in cement demand. Others that released but without dividend payments were; Eveready, WPP Scangroup, Flame Tree Group, Standard Group, Home Afrika and East African Cables.
- **CEO Appointments** – During the month, we observed a top-level change at KCB with the appointment of Annastacia Kimtai as the Managing Director of KCB Bank Kenya in a move that has separated the Group's operations from the Kenyan Banking subsidiary in compliance with regulations established by the CBK. Additionally, Bamburi Cement announced top level changes with replacements for the CEO and CFO positions.
- **Inflation Marginally Decreases Contrary to Expectations** - The headline inflation for the [month of April marginally decreased to 7.90%](#) from 9.20% in March on the back of increased agricultural production following the onset of the short rains. Food inflation decreased to 10.10% from 13.40% in March, and housing utilities and transport indices increased marginally to 9.60% and 9.80% y/y respectively. Non-Food-Non-Fuel (Core Inflation) decreased to 4.10% from 4.40% in March. The CPI increased 50bps to 131.83 from 131.18 in March 2023. We expect headline inflation to remain under pressure and above the CBK's upper target at least until the end of Q2'23.
- **Shilling Continued Losing Streak against USD** - Kenya shilling continued to depreciate further against the USD to close at **KES 135.91** versus **KES 132.33** at the end of March. We observed a slower decline in the month of April (-2.70%) compared to March (-4.32%). We expect the shilling to remain under pressure due to the increased dollar demand from importers on the back of prevailing high global commodity prices, reduced dollar inflows and dollar strength against frontier currencies.
- **Eveready East Africa share acquisition** – During the month, InvestAfrica-FZCO and East Africa Batteries entered a sale of shares agreement by means of a private transaction for the acquisition of 73,425,029 Eveready East Africa ordinary shares. At the completion of the transaction, InvestAfrica will hold 35% of Eveready East Africa issued shares. Following the conclusion of the transaction, InvestAfrica intends to provide management and technical support to Eveready.

What does May Hold?

- **May MPC meeting** – The next meeting of the Monetary Policy Committee (MPC) will be held in May 2023. We expect the committee to consider the impact of the previous hikes as well as the prevailing macro factors.
- **FY'22 Earnings Season**- In the month of May, we await the release of FY'23 results for Safaricom. We expect positive results from the Telco mainly from operations in Ethiopia and Mpesa Revenue and we recommend to local investors to take advantage of the current share price decline.
- **Listed Companies AGM**- In the month of May, several listed companies will be holding their AGM's where we anticipate continued use of virtual meetings. Some of the listed companies that will hold their AGM's include Co-operative Bank (COOP), Standard Chartered (SCBK), Stanbic (SBIC), Umeme (UMME) , Bank of Kigali (BKG) and Liberty Holdings (LBTY).
- **Q1'23 Banking Results** – We expect the release of Q1'23 results from the banking sector where we anticipate a strong performance driven by increase in Interest income and Non-Funded Income (impact from return of bank to mobile charges). We anticipate an increase in NPLs largely attributable to trade and manufacturing sectors.

Table 1: Summary Corporate Actions in April

Company		Corporate Action and Our Comments
1.	KCB	<ul style="list-style-type: none"> The board of KCB appointed Annastacia Kimtai as the Managing director of KCB Bank Kenya in line with CBK regulations. We believe this move will allow new Managing Director to solely focus on the Kenyan subsidiary
2.	ABSA Bank	<ul style="list-style-type: none"> The board of ABSA publicly announced the appointment of Abdi Mohamed as the Managing Director and CEO that will be in effect from May 2023. This was against our expectations of Yusuf Omari, who was the interim CEO, being appointed permanently as he is an insider who had served for a long time within the group
3.	Trans Century	<ul style="list-style-type: none"> TCL announced the commencement of trading of new ordinary shares from their recently concluded rights issue. The rights issue successfully generated funds from the sale indicated strong investor confidence. We anticipate that following the successful completion of the rights issue TCL, the counter will trade well on the bourse

Table 2: Upcoming Dividends

Counter	Special Dividend	Final Dividend	Book Closure	Dividend Payment
KCB Group Plc		KES 1.00	6 th April 2023	26 th May 2023
Limuru Tea Plc		KES 2.50	14 th April 2023	30 th June 2023
I&M Group Plc		KES 2.25	20 th April 2023	25 th May 2023
Standard Chartered		KES 16.00	21 st April 2023	25 th May 2023
NCBA Group Plc		KES 2.25	28 th April 2023	31 st May 2023
Absa Bank Kenya Plc		KES 1.15	28 th April 2023	25 th May 2023
CIC Insurance Group Plc		KES 0.13	8 th May 2023	26 th May 2023
BOC Gases		KES 4.45	28 th April 2023	21 st July 2023
Diamond Trust Bank Kenya Ltd		KES 5.00	12 th May 2023	15 th June 2023
Equity Group Holdings Plc		KES 4.00	19 th May 2023	30 th June 2023
Stanbic Holdings Plc		KES 12.60	19 th May 2023	TBA
Co-operative Bank of Kenya Plc		KES 1.50	24 th May 2023	9 th June 2023
B.A.T Kenya Plc		KES 52.00	26 th May 2023	15 th June 2023
Bamburi		KES 0.75	27 th May 2023	27 th July 2023
Kakuzi Plc		KES 24.00	31 st May 2023	15 th June 2023
Nairobi Securities Exchange Plc		KES 0.20	31 st May 2023	31 st July 2023
Jubilee Holdings	KES 3.00	KES 9.00	14 th June 2023	26 th June 2023
Total		KES 1.51	15 th June 2023	31 st July 2023
Kenya Re Insurance		KES 0.20	16 th June 2023	28 th July 2023
Nation Media Group		KES 1.50	16 th June 2023	31 st July 2023
BK Group Plc		KES 3.91	22 nd June 2023	1 st July 2023
Umeme Limited		KES 2.24	27 th June 2023	20 th July 2023
Crown Paints		KES 4.00	28 th June 2023	TBA

Table 3: Summary of FY'22 Results

Company	Final DPS	Comment
1. Nation Media Group	KES 1.50	<ul style="list-style-type: none"> PAT decreased (35.41%) y/y to KES 0.32Bn attributed to lower turnover resulting from decrease in consumer spending from tough economic conditions. We observed that PAT was further brought down by higher print raw materials costs due to the deprecating shilling. A total dividend of KES 2.50 is to be paid out similar to FY'21.
2. Sanlam	-	<ul style="list-style-type: none"> Net Revenue decreased 11.08% y/y to KES 8.21Bn attributed to poor performance in the general business. Premiums and insurance claims declined with an increase in fair value losses on financial assets. We expect the joint venture with Allianz to push the Kenyan subsidiary to profitability. No dividend was declared.
3. Jubilee	KES 12.00	<ul style="list-style-type: none"> PAT decreased (3.80%) y/y to KES 6.57Bn attributed to lower gross written premiums. We observed a decrease in operating expenses, a decline in insurance receded and an increase in investment income. Declaration of a special dividend of KES 3.00 took the final dividend to KES 12.00, a (14.29%) decline from FY'21.
4. Total	KES 1.31	<ul style="list-style-type: none"> PAT decreased (10.76%) y/y to KES 2.44Bn attributed to increased cost of sales and higher taxes. Net revenue increased due to increased fuel prices which was offset by increased operating costs and finance costs. A final dividend of KES 1.31 was declared which was similar to FY'21.
5. TPS Eastern Africa	-	<ul style="list-style-type: none"> PAT increased 159.41% y/y to KES 0.38Bn attributed to increased revenue from improved sales. We observed an improvement in TPS' cash flow position as well as an uptick in overall balance sheet. No dividend was declared.
6. Bamburi	KES 0.75	<ul style="list-style-type: none"> PAT decreased (86.88%) y/y to KES 0.18Bn attributed to a decline in turnover that resulted from a slowdown in cement demand. We observed an increase in operating and finance costs resulting from an increase in energy and raw material costs. A final dividend of KES 0.75 was declared which was a (79.05%) decline from FY'21.

April'23 Equities Market Performance

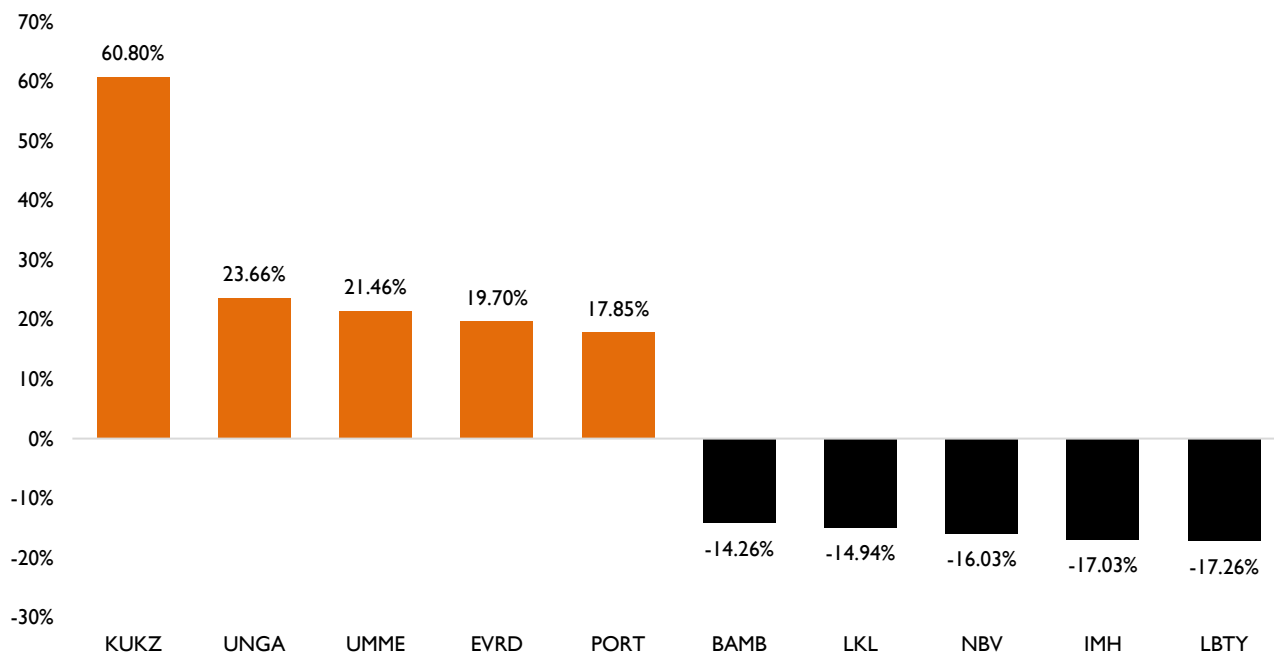
During the month of April, all indicative indices were on a downward trend with NASI and NSE-20 declining by 4.54% and 2.66%, respectively. Foreign investors remained as net sellers with the selling position decreasing by 84.93% to **KES 0.28Bn** taking the YTD Net selling position to **KES 5.39Bn**. If the same trend continues, the total foreign net selling position for 2023 is likely to surpass the **KES 24.04Bn** recorded in 2022.

Equity turnover decreased 56.28% m/m to **KES 4.23Bn** from **KES 9.65Bn** in March while volumes traded also decreased 66.03% to **KES 198.06Mn**. Market capitalization was down 4.56% m/m to **KES 1,676.09Bn**. We expect market activity to remain above KES 5.00Bn/month, in Q2'2023, owing to the impressive FY'22 earnings season and dividend declaration from players in the banking sector.

Top gainers: Driven by an attractive dividend and positive FY'22 results, Kakuzi (KUKZ) was the largest gainer in April'23 (+60.80%) jumping to KES 424.50 from KES 264.00. The company recorded improved FY'22 results with a 164.53% growth in profit and a higher dividend of 9.09% (KES 24.00 vs KES 22.00 in FY'21). UNGA also jumped 23.66% m/m to KES 23.00 from KES 18.60 reversing the previous months decline. Other gainers included: Umeme (+21.46%) driven by higher dividend, Eveready (+19.70%) despite the wider loss in FY'22 results and E.A Portland Cement (+17.85%).

Top Losers: Liberty Holdings was the largest m/m decliner (-17.26%) despite the increase in net earnings in FY'22. Other top losers were; I&M (-17.03%) following the book closure on final dividend, Nairobi Business Ventures (16.03%), Longhorn Publishers (-14.94%) and Bamburi (-14.26%) driven by negative investor sentiment due to lower FY'22 results.

Chart 1: April '23 Top 5 Gainers and Losers



Our Top Three Picks

- a) **Safaricom (SCOM)** – We continue to recommend a BUY of the telco as the current share price represents an attractive entry point and a long-term value-play. The current share price at KES 16.50 represents a 31.68% decline so far in 2023 and is 113.64% below our target price of KES 35.35. We expect the telco to report strong FY'23 results within the month with increase in revenue from operations in Ethiopia and Mpesa Revenue. We view the separation of Mpesa from the Telco business as beneficial for both entities with the mobile platform free to pursue new growth opportunities. We anticipate that Safaricom will create a non-performing holding company that will inherit the current Safaricom Plc listing. We expect that CBK will issue a Payment Services Bank (PSB) license for Mpesa to operate as a payment provider and hence we do not expect any significant impact on the group's operations. We maintain our recommendation that local investors continue taking advantage of foreign investors exits as we believe that the counter is still trading below its potential.
- b) **Equity Bank (EQTY)** – We recommend a BUY on the lender driven by positive FY'22 net earnings results and the purchase of additional stake in their DRC subsidiary. This move highlights the lenders efforts to expand its profit share from its subsidiaries. The lender has also been focusing on new growth opportunities in their non-interest income. The higher dividend payout in FY'22, KES 4.00 vs KES 3.00 in FY'21 encouraged investors and lead to the recent rally in share price. On the downside, increased non-performing loans (NPL's) have remained detrimental to profitability, capital structure and investor confidence as lenders attempt to make the necessary provisioning. We see long-term value in holding EQTY as the current share price at KES 45.80 is lower than our target price of KES 57.92 representing an upside potential of 26.46%, hence providing an attractive entry point for long term capital gains and expected future dividend payout. We recommend investors to position themselves to gain from the dividend announcement and the continued price rally before the book closure on 19th May 2023.
- c) **Jubilee (JUB)** – We recommend a BUY on the underwriter on the back of expected synergies following the partnership with Allianz – in the general business. The underwriter has continued to have a commanding market share in the general insurance business. Key advantage that JUB has over other underwriters is the diversified portfolio which includes investments in energy (Bujagali power Plant in Uganda) and Infrastructure (SEACOM which is a submarine fibre optic cable project). We noted an increase in investment income, decreased insurance claims and decreased reinsurance ceded in FY'22. On the downside, there was a decline in gross written premiums resulting in a decline in net earnings. The announcement of a total dividend payout of KES 12.00 received increased investor interest and lead to the recent rally in share price. We expect the counter to continue its well performing path as the current share price at KES 180.00 is lower than our target price and provides an attractive entry point.

Portfolio Performance

In April'23, our model portfolio (-3.59%) continued to outperform the NASI index (-4.54%) while falling below the NSE-20 (-2.66%). However, our model portfolio has outperformed both benchmark indices on a YTD basis. On a YTD basis, the NASI and NSE-20 indices have lost 15.56% and 5.80%, respectively, compared to our model portfolio which has lost 4.91%.

The portfolio performance was lifted by m/m gains recorded by **NCBA Bank, Diamond Trust Kenya and Stanbic**. However, huge declines by counters such as **I & M Bank, Bamburi and Standard Chartered** weighed down on further gains in the overall portfolio performance. We observed foreigners remaining net sellers despite an improvement in the buying position in some trading sessions in Q1'2023. 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 are driven by the hunt for dividends.

Table 4: Portfolio Performance

April '23 Performance	M/M	YTD
AIB-AXYS Africa Portfolio Performance	-3.59%	-4.91%
NSE-20	-2.66%	-5.80%
NASI	-4.54%	-15.56%

Table 5: Portfolio Constituents

Counter	28-Apr-2023	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighted YTD Return	Weighted M/M Return
NCBA	39.50	44.10	11.65%	0.38%	7.63%	40.00	23.60	0.04%	0.76%
DTK	54.75	59.21	8.15%	9.50%	6.83%	59.00	44.00	0.57%	0.41%
SBIC	116.00	113.09	-2.51%	13.73%	5.45%	114.00	90.00	1.10%	0.44%
JUB	180.00	235.85	31.03%	-9.43%	1.69%	274.75	148.25	-0.57%	0.10%
COOP	13.30	15.15	13.91%	8.13%	1.14%	13.15	10.70	0.49%	0.07%
EQTY	45.80	57.92	26.46%	2.92%	0.66%	53.25	37.90	0.23%	0.05%
ABSA	12.15	14.83	22.06%	-1.22%	-5.08%	12.80	9.70	-0.07%	-0.30%
EABL	158.75	197.51	24.42%	-5.22%	-6.62%	187.00	110.00	-0.52%	-0.66%
KCB	32.85	48.53	47.73%	-13.78%	-7.46%	44.05	30.00	-0.83%	-0.45%
SCOM	16.50	35.25	113.64%	-31.68%	-8.84%	35.45	16.35	-4.43%	-1.24%
SCBK	149.00	168.53	13.11%	4.38%	-12.35%	170.00	121.00	0.44%	-1.24%
BAMB	24.05	35.28	46.69%	-23.65%	-14.26%	38.35	26.75	-1.42%	-0.86%
IMH	17.30	23.94	38.38%	1.76%	-17.03%	21.00	16.50	0.07%	-0.68%

Source: NSE, AIB-AXYS Research

Table 6: Recommendation Summary

Stock	Positives	Negatives	Recomm
ABSA Bank Kenya Current Price: KES 12.15 Target Price: KES 14.83 Upside: 22.06%	<ul style="list-style-type: none"> Growing loan book in FY'22 by 21.07% thus improving interest income by 27.50% Improving cost to income ratio to 39.69% due to investment in technology and reduced reliance on branches. Increased traction of digital channels such as WhatsApp Banking and Timiza loans app expected to drive future growth. Recent launch of the offshore wealth Management Program 	<ul style="list-style-type: none"> Gross NPLs grew 13.62% y/y to KES 22.52Bn, raising asset quality concerns Cost of risk was up 27bps to close FY'22 at 2.28% 	BUY
Co-operative Bank Current Price: KES 13.30 Target Price: KES 15.15 Upside: 13.91%	<ul style="list-style-type: none"> 32.63% growth in non-funded income in FY'22 mainly driven by increased forex trading income Growth in loan book through a focus on MSME lending, better subsidiary performance, and focus on improved digital channels Improved performance from kingdom bank with an 86.86% increase in the PAT to KES 930.17Mn 	<ul style="list-style-type: none"> Gross NPLs increased 5.23% y/y to KES 52.33Bn, with the cost of risk remaining constant at 2.56% 	HOLD
Equity Group Current Price: KES 45.80 Target Price: KES 57.92 Upside: 26.46%	<ul style="list-style-type: none"> Non-Funded Income grew 34.46% y/y to KES 59.94Bn mainly driven by trade finance lending and Forex trading. DRC acquisition is proving to be fruitful with a 45.00% growth in PAT Investment in Trade finance which is a promising new frontier 	<ul style="list-style-type: none"> Higher Eurobond yields expose the lender to a huge mark-to-market loss Uganda subsidiary is struggling compared to other regional businesses 	BUY
Diamond Trust Bank (DTB-K) Current Price: KES 54.75 Target Price: KES 59.21 Upside: 8.15%	<ul style="list-style-type: none"> Enhanced digital transactions increased interest income in FY'22 Increased investment in innovation is a good indication of their shift to digitization Net Interest Income increased 14.48% to KES 22.89Bn mainly driven by the current market uptick in the bond yield of government papers. 	<ul style="list-style-type: none"> Asset quality concerns persist as Gross NPLs increased by 28.15% Historically low ROE and ROA are a downside to investors' perception 	HOLD
KCB Group Current Price: KES 32.85 Target Price: KES 48.53 Upside: 47.73%	<ul style="list-style-type: none"> Improvement regional subsidiaries' contribution to PBT Heavy investment in digital platforms driving double-digit growth in loan book DRC acquisition is likely to expose KCB to a huge reserve of foreign exchange currency given the high usage of dollars in DRC 	<ul style="list-style-type: none"> Increased Gross NPLs to KES 161.02 albeit decrease in provisions Thin capital buffers point to a need to recapitalize but is not an imminent concern 	BUY
Stanbic Kenya Current Price: KES 116.00 Target Price: KES 113.09 Upside: -2.51%	<ul style="list-style-type: none"> Double-digit growth (+31.81%) in non-interest income in FY'22 after growth in digital channels Growth in the loan book by 16.36% y/y steered by a resumption in lending and investments in digital banking. 	<ul style="list-style-type: none"> Increased Gross NPLs by 26.42% y/y to KES 28.45Bn 	SELL
NCBA Group Current Price: KES 39.50 Target Price: KES 44.10 Upside: 11.65%	<ul style="list-style-type: none"> Maintained front in digital lending through digital platforms such as M-Shwari and Fuliza to drive loan book growth Improved operational efficiencies to see cost synergies of a merged entity Gross NPLs fell 11.75% y/y to KES 39.13Bn, 	<ul style="list-style-type: none"> Huge capital expenditure expected given the bank's intention to expand to 8 other African countries 	HOLD

*** Current Price is as at 28th April 2023

Stock	Positives	Negatives	Recomm
Standard Chartered Bank Current Price: KES 149.00 Target Price: KES 168.53 Upside: 13.11%	<ul style="list-style-type: none"> Performance from the Wealth Management and financial markets driving non-interest income Non-Funded Income grew 13.53% y/y to KES 11.75Bn mainly driven by trade finance lending and Forex trading The proposed interim dividend of KES 16.00 is a key positive 	<ul style="list-style-type: none"> Multiples are trading above sector and market average indicating overvaluation Compared to peers, we have observed a slow balance sheet growth. Loan book grew 10.67% while customer deposits grew by 5.05% in FY'22 	HOLD
EABL Current Price: KES 158.75 Target Price: KES 197.51 Upside: 24.42%	<ul style="list-style-type: none"> Strong growth in new frontier and mainstream spirits Expected growth and improved performance from regional subsidiaries Shift to digital channels for B2B and B2C distribution is key in driving sales volumes Diageo share purchase offer points to undervaluation and is a boost of confidence 	<ul style="list-style-type: none"> Proposed tax law on mainstream alcohol may affect gross sales if passed. Current ratio worsened to 0.82 from 0.85 and remains below the recommended 1.00 	BUY
Safaricom Plc Current Price: KES 16.50 Target Price: KES 35.75 Upside: 113.64%	<ul style="list-style-type: none"> Revenues increased 4.82% y/y to 153.45 Bn in HY'23 with slowdown in MPESA & Voice Revenue reported due to election uncertainty and revised MTR rates. Improving 4G subscriber mix, expected growth in both Mpesa and Data and expansion to Ethiopia expected to make the telco more attractive. Reintroduction of Bank to Mpesa charges likely to drive Safaricom's bottom line upwards. 	<ul style="list-style-type: none"> Increased CAPEX from entry into Ethiopian market likely to reduce dividends in the short term Increased inflationary environment has led to reduced disposable income and reduced consumer purchasing power 	BUY
Jubilee Holdings Current Price: KES 180.00 Target Price: KES 235.85 Upside: 31.03%	<ul style="list-style-type: none"> Stable growth in investment income as a result of its diversified portfolio Lower operating due to operational efficiencies and cost control Stable dividend payment to the allure of investors Joint venture operations with Allianz 	<ul style="list-style-type: none"> 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 	BUY
Bamburi Cement Current Price: KES 24.05 Target Price: KES 35.28 Upside: 46.69%	<ul style="list-style-type: none"> Volume growth in Kenya and Uganda has greatly contributed to increased turnover in the year ended December 2021. Expected growth mainly driven by key infrastructure projects in Kenya and Uganda. Admission of DRC to the EAC will open up regional markets 	<ul style="list-style-type: none"> Increasing energy costs, imported clinker and fuel prices are likely to increase operating costs Surging cement prices are likely to slow down consumption 	BUY

*** Current Price is as at 28th April 2023

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