INVESTMENT

PLAY 2023

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2022 was expected to be the year that economies around the world rebounded especially after Covid 19 ravaged the globe in 2020. However, this was short lived as the world saw in February the onset of the Russian-Ukrainian war. This in turn led to supply shocks across the world notably affecting the energy, food, transportation, metal and microchip industries as Russia and Ukraine are major exporters of the key resources. The continued Zero Covid Policy implemented by China further sent Supply shocks across the globe crippling both developed and developing markets.

The world events had a negative ripple effect on the rather recovering Kenyan economy. The announcement of the war triggered a panic sell-off of stocks by foreign investors to seek shelter in government securities or fixed income in developed nations in what is termed as flight-to-safety. The uncertainty surrounding the Kenyan election, soaring drought and the jump in interest rates in developed markets all contributed to the 61.75% foreign sales seen in the market during the year.

- **Economic Rebound:** In 2022, economic growth was lower than similar periods in 2021 but close to pre-pandemic levels. However, growth slowed in the first two quarters largely driven by slow down in economic activities ahead of the general elections in August'22. As seen in previous election cycles, business and investment decisions are delayed pending the outcome at the polls.

- **Inflationary Pressure to Persist:** Inflation declined in the last two months of 2022 closing the year at 9.10% from 9.50% recorded in November. However, we expect inflation to remain above the CBK upper target of 7.50% in H1'23 year but to gradually move back to the CBK target range thereafter. Despite the MPC recent rate hikes (150bps in 2022) to curb inflation, we believe that the current inflationary pressure will be cured using a combination of monetary and market forces as most of it is imported through a spillover of global inflationary challenges.

- **Currency to Remain Under Pressure:** The shilling significantly lost value against the dollar in 2022, declining by 9.04% y/y to close at KES 123.37 from KES 113.14 at the start of the year. Increased demand for the dollar from importers coupled with a rise in crude oil prices as well as uncertainty surrounding Kenya's general elections further led to the devaluation of the shilling against the dollar. We foresee KES remaining tilted to the downside and we expect the local currency to come under pressure in 2023.

- **Equities Market Outlook is Tidy:** Our outlook for 2023 remains mostly tidy based on our view of the local market having incredible wealth creation opportunities that will play out in the long term. We expect 2023 investors behavior to be driven by hunt for higher returns following the rise in the yield curve for fixed income assets coupled with hunt for higher real returns following the elevated inflation. As such, we believe that investors will not only be enticed by huge capital appreciation but also dividend payments.

06th January 2023

Sovereign Credit Rating:

Moody's: B2 (negative)

Fitch: B (negative)

S&P: B+ (negative)

GDP Growth (3Q22): 4.70%

Dec'22 Inflation: 9.10%

Interbank rate (05th Jan 2023); 6.35%

C.B.R: 8.75%

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Global Outlook

2022 began with utmost optimism before all assumptions went down the drain following the Russia-Ukraine war. Not long, thereafter that inflationary pressures emerged in forms last seen decades ago casting a shadow on major world economies. Subsequently, monetary policy committees led by the US Fed kicked off a string of benchmark rate hikes which had negative ramifications back home as foreign investors excited the local NSE market. The zero COVID policy in China for majority of 2022 has come at a cost to industrial output with lockdowns still happening in major Chinese cities.

We foresee the global economies to be driven by the following factors in 2023;

- ✓ **Recessionary Fears** – Analyst consensus across various markets are that there is a general expectation of mild to acute recessionary concerns in developed markets – both the US and the euro zone and slowed growth in China and other emerging markets. However, we are of the opinion that China might not board the recession train given that the expected reopening are expected to drive growth above the recession zone coupled with the low inflation figures, compared to other markets, recorded in China in 2022.

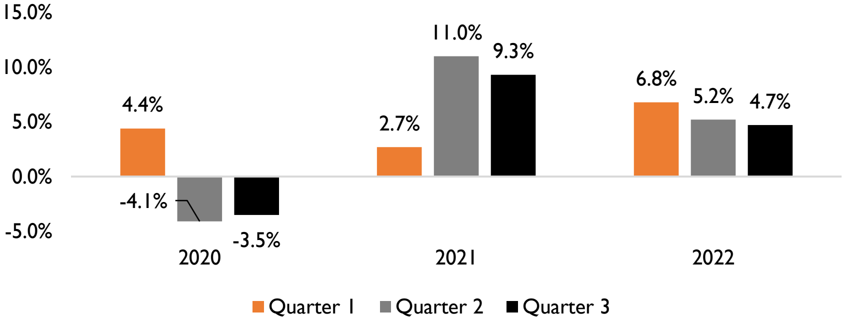
- ✓ **Monetary Policy Actions** – We expect the US Fed and other developed markets MPCs to go easy on one of the most aggressive tightening campaigns in decades. There are concerns, rightfully so, that the aggressive tightening could be breading the looming recession. From the global turn of events in Q4'22, we foresee an atmosphere of moderating but persistent price pressures guiding monetary policymakers to a steady, less aggressive, tightening path but remain committed to tighter policy. Further tightening will continue being a disadvantage to the local Equities market as safer havens open up in developed and more stable markets, pushing further foreign net selling positions.

- ✓ **Geopolitical Plays** – As witnessed by the effects of the Russia-Ukraine war, geopolitical plays will continue to be key drivers of global economic growth. The Russia-Ukraine war looks like it will continue for the foreseeable future meaning further strained relations between Russia and the Eurozone translating to further energy crisis likely to have an upward pressure on global fuel prices. We also expect US –China relations to remain stiff as battle for world dominance continues. Activities around moving trade away from the petrodollar is also likely to put many countries on a collision path with the US. Lastly, the US election in 2024 is likely to start playing out later this year as we expect Donald Trump to make a comeback in the path to dethrone President Biden.

Economic Performance

- **Economic Activity Remained Resilient:** In 2022, economic growth was lower than similar periods in 2021 but close to pre-pandemic levels. However, growth slowed in the first two quarters largely driven by slow down in economic activities ahead of the general elections in August'22. As seen in previous election cycles, business and investment decisions are delayed pending the outcome at the polls. We remain concerned with the decline in the agricultural sector activity which was largely driven by adverse weather conditions and the increase in farm inputs reducing production.

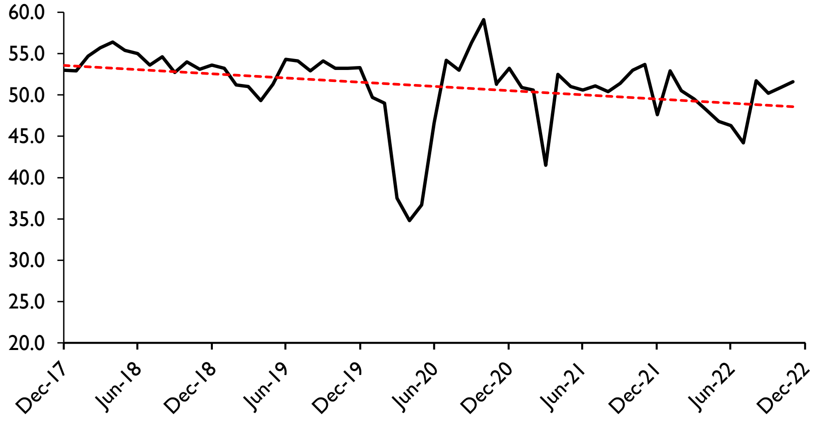
Graph 1: GDP Growth moderated in 2022



Source: KNBS

- **Improved growth across the year:** The PMI recorded a persistent decline for seven consecutive months, averaging 49.20 in 2022. August saw the lowest reading of the year, closing at 44.2 attributable to reduced business confidence leading up to the election period. Following a seven-month run of contraction, business conditions improved each of the last four months of the year with the private sector recording renewed expansion in business activity. We expect the PMI to remain above the 50-point threshold albeit cognizant of factors such as Global Inflationary pressures, recessionary fears in developed markets and geopolitical risks that are likely to revise the PMI figure downwards.

Graph 2: PMI Movements Indicated trends in the Manufacturing Sector

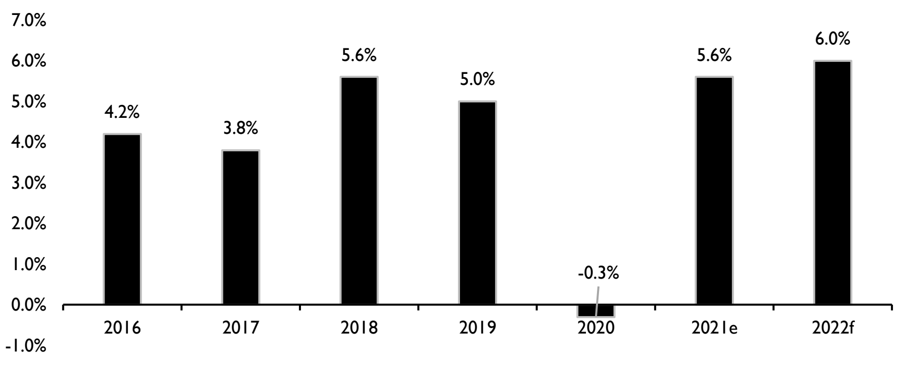


Source: Stanbic PMI

Growth momentum to Pick-up in 2023 but?.....

We foresee a pickup in economic activity and thus higher growth to range between 5.0% - 5.5%. The IMF estimates that Kenya's economy will grow by 5.30% in 2022 well below the National treasury's estimate of 6.00%. The growth will be driven by new government policies following a peaceful transition period, access to credit through an increase in private sector credit growth (Currently at 13.30%), and lower fuel prices as global oil prices have fallen below levels last seen before the Russia-Ukraine War. We foresee growth being largely concentrated in sectors that are still on a post-pandemic recovery path. PMI readings will also likely remain in or around the 50-point mark as factors of production continue to realign and producers.

Graph 3: GDP Growth to remain below 6.0%



Source: KNBS, IMF, AIB-AXYS Research

We foresee the following factors weakening the near-term growth prospects and dampening economic growth in 2023:

- ✓ **New Taxes Introduced through Finance Act 2022**: FY 22/23 budget included a KES 2.03T tax target to KRA with several amendments to Finance Act 2022 (Likely to see further recommendations in Finance Act 2023) expected to drive the achievement of this target. However, we are likely to see these taxes slow activity in affected sectors such as financial services, Real estate, ICT , as well as, dampening investor sentiments in the private markets. Delay in approving the draft National Tax policy will further likely inconvenience foreign direct investments (FDI).

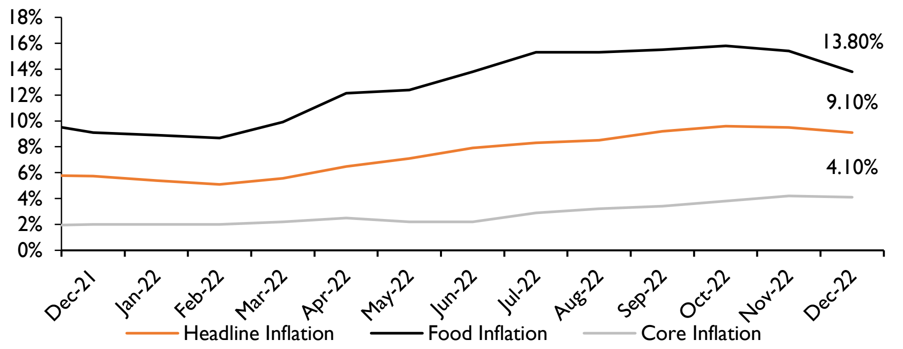
- ✓ **Reduced Agricultural production:** Agriculture continues to be the largest contributor to Kenya's economy. Another year of poor rainfall is likely to contribute to lower crop produce. Additionally, the increased cost of farm inputs is also likely to contribute to lower crop and animal yields. Further weighing down on economic growth which is largely attached to the sector's performance.

- ✓ **Global Challenges Spillovers:** Affairs in the global arena are likely to continue affecting economic activities back home as Kenya remains a Net importer (Current account deficit was at 5.50% of GDP as at Q3'22). Russia-Ukraine war look to continue into 2023, China COVID challenges are likely to affect industrial production, recessionary fears in developed markets and monetary policy activities of leading central banks are all possible contributors to a sluggish growth.

Inflation

- **Elevated inflationary pressure** - In 2022, average inflation increased 154bps to 7.64% compared to 6.10% in 2021, with slow increases in the first two quarters and a sharp increase in the third quarter to a record high of 9.59% recorded in November. The increase in inflation can be attributed to the sharp increase in the food index from poor agricultural sector performance. Additionally, higher fuel prices led to an increase in the transport, housing and utilities indices. Non-food non-fuel index (Core inflation) increased 210bps to 4.10% y/y in December 2022 from 2.00% in December 2021 and food inflation recorded a 471bps increase y/y to 13.80% from 9.09% recorded in December 2021.

Graph 4: Inflation remained elevated in H2'22

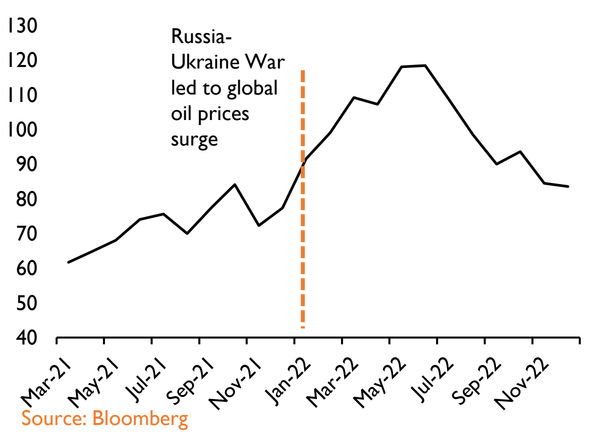


Source: KNBS, AIB-AXYS Research

Inflation to remain elevated in the near term: Inflation declined in the last two months of 2022 closing the year at 9.10% from 9.50% recorded in November. However, we expect inflation to remain above the CBK upper target of 7.50% in H1'23 year but to gradually move back to the CBK target range thereafter. Despite the MPC recent rate hikes (150bps in 2022) to curb inflation, we believe that the current inflationary pressure will be cured using a combination of monetary and market forces as most of it is imported through a spillover of global inflationary challenges.

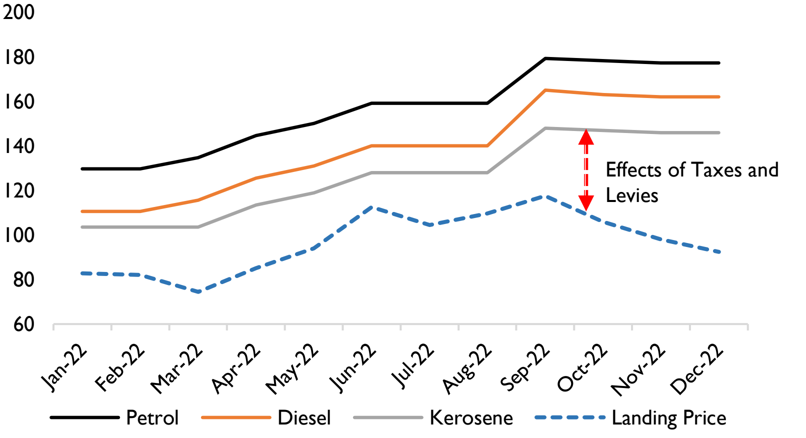
Factors such as; food production, removal of subsidies such as electricity and local pump prices will continue affecting the movements in the inflation figures.

Graph 5: Murban Crude Prices (USD) are declining



Source: Bloomberg

Graph 6: Local Pump Prices



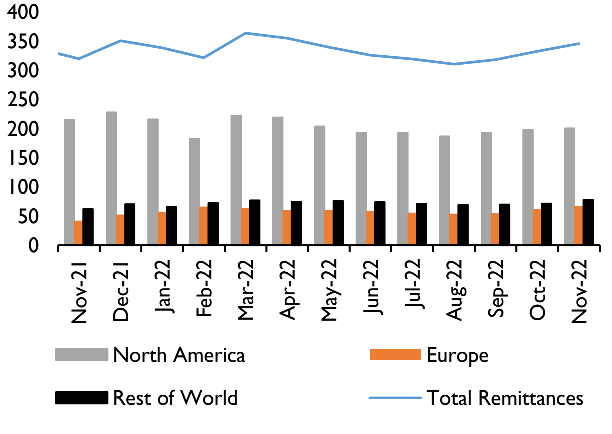
Source: EPRA, AIB-AXYS Research

Shilling's loosing streak against the USD to continue in 2023

The shilling significantly lost value against the dollar in 2022, declining by 9.04% y/y to close at KES 123.37 from KES 113.14 at the start of the year. Increased demand for the dollar from importers coupled with a rise in crude oil prices as well as uncertainty surrounding Kenya's general elections further led to the devaluation of the shilling against the dollar. We foresee KES remaining tilted to the downside and we expect the local currency to come under pressure in 2023 driven by:

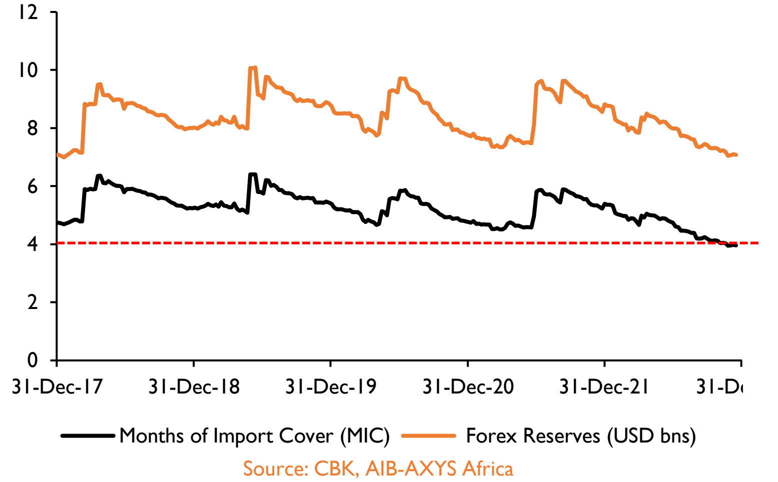
- ✓ **Global Oil Prices** – in Q3'22 Global oil prices retreated to pre – Russia-Ukraine war levels. Additionally, the announcement by OPEC+ members to cut oil supply to match expected reduced demand has not contributed to higher prices as earlier expected. Local dollar demand is often driven by oil importers and lower prices will be an advantage to the local currency.
- ✓ **Diaspora Remittances** – We expect inflows from Kenyans living abroad to continue supporting dollar supply (averaging at USD 333.69Mn/month in 2022). Recently, the middle east has been catching up as a key source of foreign currency owing to labour exports.
- ✓ **Agricultural Sector Earnings-** We expect earnings from key dollar earning crops such as Coffee, Tea and Horticulture to continue being a key source of foreign currency. Positive effects of the new the Avocado market in Asia is likely to be weighed down by recovery by key coffee and tea competitors (Brazil, Vietnam, Ethiopia) who had been struggling with low production.
- ✓ **Foreign Capital Inflows** – Inflow of dollar investments through FDIs, NSE Market and other capital inflows will be a key source of dollar supply helping KES sustain resistance.
- ✓ **USD Performance Against Other Currencies** – The dollar remained strong in 2022 by recording an 8.21% gain in the DXY index. A strong dollar will largely be driven by FOMC activities as they try to hunt down inflation. Additionally, low returns from other asset classes coupled with negative economic outlook could see investors opt to store their wealth in dollar form increasing dollar demand and raising the value. However, recessionary fears in the US and other developed markets could lead to a dollar decline.

Graph 7: Diaspora Remittance remained strong in 2022



Source: CBK

Graph 8: Forex Reserves were on a decline in 2022



Source: CBK, AIB-AXYS Africa

Fiscal Policy

Revenue collection lags prorated targets: For the first 4-month period of FY 22/23 revenue collection was below prorated target with a collection of KES 636.41Bn against a target of KES 713.86Bn (89.15% Performance). Non-tax revenue performed better then tax revenue. We suspect that lower tax collections were driven by the tough business operating environment which could reduce Import duty, income taxes, Pay as You Earn (PAYE) ,and VAT. KRA has come under pressure from the new administration to exceed the set tax targets. Tax enforcement efforts have faced legal hurdles in recent times including the abolishment of minimum tax by the courts. At the current rate, KRA will struggle to meet the revenue collection targets in H2 of FY 22/23 which largely depends on a thriving business environment.

Expenditure remains within the target: We observed a prorated budget under absorption in the first 4-month period of FY 22/23 driven by the transition period after elections. The change of guard from between governments could likely cause a slow budget spending. Total expenditure came in at KES 881.46Bn which was 74.60% of the meted expenditure estimates of KES 1,181.53Bn. However, we noted with concern the minimal disbursement to development expenditure with a 54.82% absorption lower than county disbursements (69.22%). We expect expenditure to pick up as the new government takes shape and implements their manifesto.

Decreasing debt position: The government tapped 52.90% equivalent to KES 247.41Bn from the prorated estimates of KES 467.67Bn. Domestic debt continues to dominate with a percentage of the total financing driven by investors embracing short term papers, the switch bonds and the tap sale of bonds are all initiatives to raise money. External commercial debt has been difficult to access given the high yields on frontier market sovereign papers hence the government turning to concessional borrowing from lenders such as IMF. Increased use of domestic debt has stifled the private credit market "the crowding out effect" as banks prefer lending to the government.

Table 1: Q1'FY2022/23 Budgetary results as of 31st October 2022

	Original Estimates	Actual Receipts	% Achieved	Prorated	% Achieved
Opening Balance		0.62			
Tax Revenue	2,071.92	607.95	29.34%	690.64	88.03%
Non-tax Revenue	69.66	27.85	39.97%	23.22	119.92%
Total revenue	**2,141.58**	**636.41**	**29.72%**	**713.86**	**89.15%**
External loans and Grants	349.33	107.38	30.74%	116.44	92.22%
Domestic Borrowings	1,040.46	124.71	11.99%	346.82	35.96%
Other Domestic Financing	13.23	15.32	115.83%	4.41	347.49%
Total Financing	**1,403.02**	**247.41**	**17.63%**	**467.67**	**52.90%**
Recurrent	1,178.40	358.65	30.44%	392.80	91.31%
CFS Exchequer Issues	1,571.81	359.90	22.90%	523.94	68.69%
Development Expenditure	424.39	77.54	18.27%	141.46	54.82%
County Govt	370.00	85.37	23.07%	123.33	69.22%
Total Expenditure	**3,544.60**	**881.46**	**24.87%**	**1,181.53**	**74.60%**
Fiscal deficit less Grants	(1,403.02)	(245.05)	17.47%	(467.67)	52.40%
Total Borrowing	**1,389.79**	**232.09**	**16.70%**	**463.26**	**50.10%**

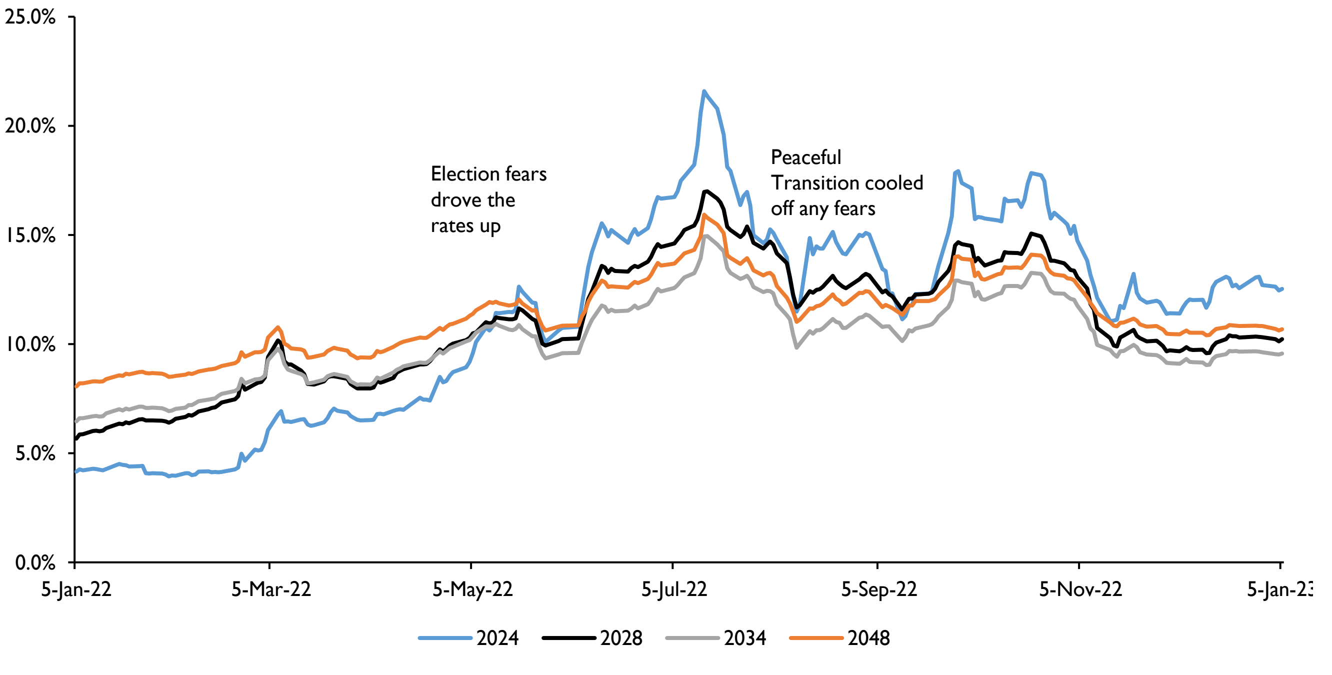
Source: National Treasury, AIB-AXYS Africa Analyst Estimates

Debt Sustainability Questions Persist

Fiscal deficit to GDP is estimated to come in at 5.80% in FY 22/23 lower than 6.20% and 6.2% recorded in the two prior fiscal years. However, the debt to GDP ratio has remained near the 70.00% level in 2022 higher than the IMF recommended level of 50.00% for a 'B' rated country. In the recent ratings downgrade, (B from B+ with a stable Outlook) Fitch Ratings observed that Kenyan external debt service will rise to 24.80% of current external receipts in 2024 from 16.60% in 2023, public debt –to-GDP will remain above 60.00% mark even as the government seeks fiscal consolidation and weaker foreign reserves will add pressure on external interest servicing.

External Eurobond Issuance is no longer a viable option – Yields on all the KENINT Eurobonds rose 2.0x in 2022 driven by increased risk perception on frontier markets, more so, Sub Saharan countries, election related fears and credit events in other frontier markets such as Ghana and Sri Lanka that eroded investor confidence. As such, the Eurobond issuance environment has become hostile for any new issuances as the current high yields would mean more expensive debt for issuers. We expect the yields to continue cooling off in 2023 but remained concerned on if the decline will be fast enough to allow Kenya issue a paper in early 2024 to repay the June 2024 USD 2.00Bn 2014-issue maturity.

Graph 9: Eurobond Yields Shot up in 2022



Source: Bloomberg, AIB-AXYS Africa Analyst Estimates

IMF Will be Around for Some More Time

During the year, the IMF announced completion of the third and fourth review under the ECF/EFF arrangements totaling to Special Drawing Rights (SDR) 1.66Bn signed in April 2021. The completion allows Kenya to immediately accessed SDR 515.67Mn (approximately USD 682.99Mn). Under the initial agreement, the funds were meant support Kenya's initiatives to mitigate the effects of the COVID-19 pandemic, assist address debt vulnerabilities, support broader economic reforms, improve governance and more recently; help in addressing global shocks resulting from the war in Ukraine.

In 2022, we also saw several other countries pursue IMF funding after the difficulties in Eurobond issuances in the international markets. The previous debt restructuring under the DSSA arrangement expired in late 2021/early 2022 leaving developing countries under risk of debt sustainability.

Table 2: IMF made two disbursements in 2022

Date	SDR Amount (Mn)	USD Amount (Mn)	KES Amount (Bn)
Apr-21	218.70	309.50	38.15
Dec-21	185.00	256.10	31.57
Jul-22	179.13	235.60	29.04
Dec-22	336.54	447.39	55.14
Total Disbursed So far	919.37	1,248.59	153.90
Total Amount Approved	1,655.00	2,340.00	288.43

***** USD/KES Exchange Rate is as at 23rd December 2022*

Source: IMF AIB-AXYS Africa Analyst Estimates

More Funding from IMF and Other Multilateral Lenders: As a debt sustainability measure the government has switched away from expensive commercial loans to more bilateral and multilateral borrowing. We therefore expect that the government's key sources of financing to come from development financing corporations such as the World Bank and the IMF. The Kenya Government still has two drawdowns left in the 38-month EEF/ECF agreement signed in 2021. In the recent review, the IMF noted that the recommendations given in the 2021 agreement are being implemented which is likely to open doors for further future funding.

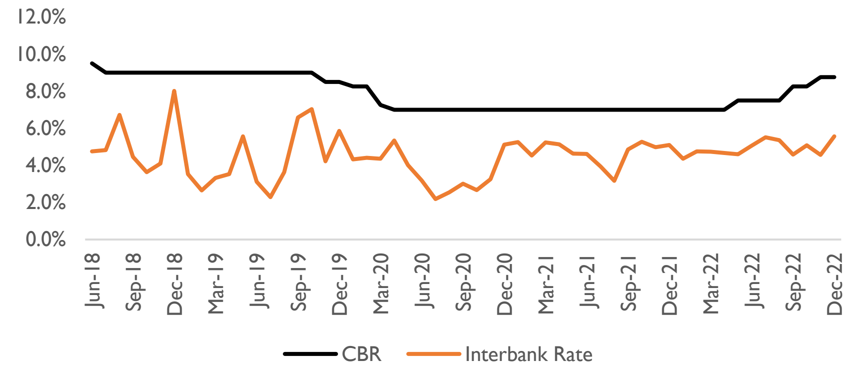
Multilateral borrowing likely to result in the following:

- ✓ **Lower interest payment:** These loans are concessional and tend to attract relatively lower interest rates over a longer period.
- ✓ **Focus on reducing the budget deficit:** The multilateral lending tends to come with conditions for the government to reduce the deficit by increasing revenue through an increase in taxes.

Monetary Policy

- **Tightening monetary policy:** During the year, the CBK Monetary Policy Committee (MPC) met six times and in three instances, the CBR was increased by a total of 150bps. The hikes were in line with our 2021 predictions of a hike in Q2'22 as the committee looked to tame the rising inflationary pressures, volatile financial markets and economic uncertainties. The Central Bank's monetary policy decisions seek to maintain price stability and support economic activity. We foresee the MPC hiking another two times in 2023, but maintain the CBR at below 10.00%, before awaiting the transmission effects later in the year. The recent cooling of inflation is likely to delay policy hikes in Q1'23.

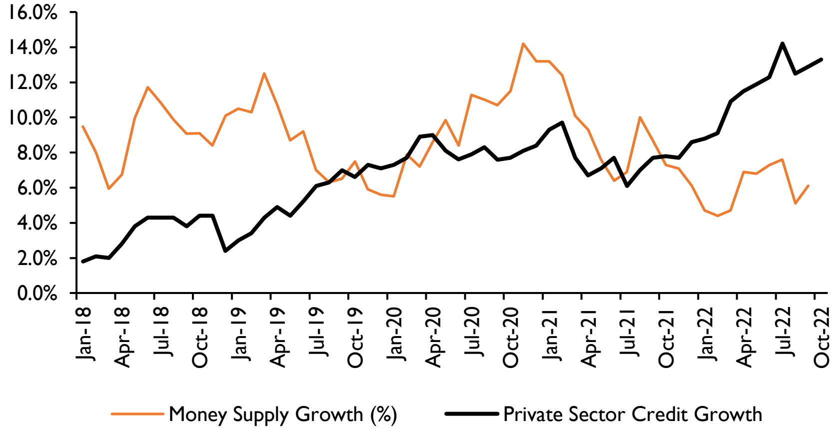
Graph 10: MPC hiked the Central Bank Rate by 150bps in 2022



Source: CBK, AIB-AXYS Africa research

- **Increased Private Sector Credit Growth:** During the year, credit growth in the private sector strengthened with the average for the first ten months rising by 406bps to 11.74% compared to a similar period in 2021. We attribute the increase to economic recovery in sectors such as manufacturing, trade, and business services. We expect growth of credit in the private sector in the near term following resilient economic activity and recent policy initiatives such as the credit repair framework and approval of the banking sector risk-based models. We do not foresee the Hustler Fund, for now, contributing significantly to economic growth through private sector credit provision. Until the ticket size is increased and the repayment ratio improves to ensure enough credit cycle the fund might not achieve the intended purpose.

Graph 11: Private Sector Credit Growth was on the rise in 2022

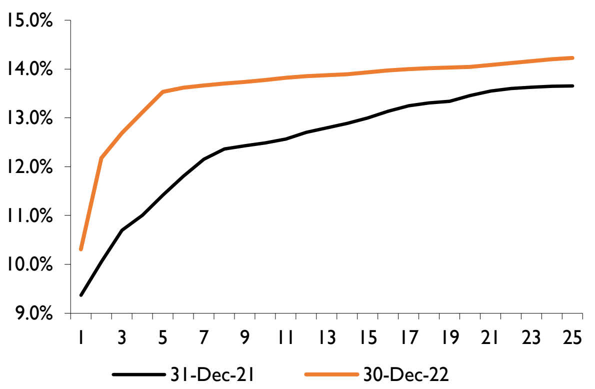


Source: CBK, AIB-AXYS Africa research

Interest Rates Outlook

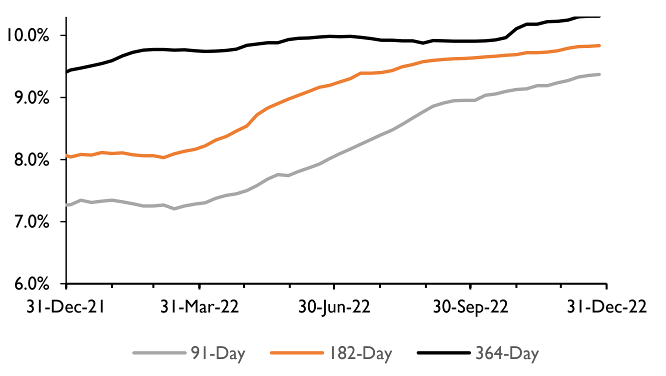
- **Gradual increase in short-term interest rate:** Due to pressure on tax collections and the growing fiscal deficit, the government's demand for debt remained high. The money market has experienced considerable of liquidity over the past year, which has contributed to keeping short-term interest rates low and stable. The monetary policy stance is tight to anchor inflation expectations notwithstanding the increasing threat of a high inflation outlook spurred on by rising global commodity prices and supply chain disruptions. We anticipate that the trend of rising short-term rates will continue. However, the performance in weekly auctions will still be based on the current liquidity trends at the time of the sale.

Graph 12: Yield Curve Steepened Across the Year



Source: NSE, AIB-AXYS Africa research

Graph 13: T-Bill Rates Were on a Race to 10.00%



Source: CBK, AIB-AXYS Africa research

Yield curve expected to steepen further: Due to the growing uncertainty in the local and global economies in 2022, investors sought higher returns as compensation for risks borne causing the yields on government securities to shift upward. Additionally, the investors seem to favor the short-term papers especially the 91-day paper. We noted that all the papers are on a race to cross the psychological 10% mark.

We foresee investors testing the government's resolve to control the rates. As such we expect aggressive bidding driven by;

- ✓ **Investors' increased preference for higher risk-adjusted returns** – From the performance of recent FXD issues and T-Bills investors bidding trends have shown a risk vs duration mismatch. The 25-year paper successfully crossed the elusive 14.00% level in the initial issue and we also expect investors to bid at the current YTM levels in this issue.
- ✓ **Inflation Remaining above CBK Upper Target** - Given the risks associated with the current high levels of local and global inflation, we anticipate that investors will make aggressive bids on this paper trying to compensate for a higher real rate of return. Local inflation closed the year at 9.10% a second decline after eight straight months of increase.
- ✓ **Debt Sustainability Questions** - The issuance of a switch bond could signify a negative outlook on debt sustainability down the road and could see investors demand for higher yields to compensate for the increased credit risk.

Equities Market

NSE Equities market was on a downward trajectory: Unlike 2021, the NSE Equities market in 2022 was on a decline with individual stories being the needle movers in the market. All indices closed the year in the red with NASI, NSE-20 and NSE-25 declining 23.42%. 11.90% and 16.30% to close at 127.47 points, 1676.10 points and 3,133.64 points, respectively. Market capitalization and equity turnover decreased by 23.40%, 31.38% while shares traded increased 1.93% respectively.

The wins were mostly concentrated in counters such as NCBA Group (51.35%), Olympia Capital (48.74%) and Car & General (39.76%) being the top gainers. Meanwhile, counters such as Centum (-41.13%), Jubilee Holdings (-37.25%), and Safaricom (-35.86%) were points of maximum pain for investors being the largest y/y losers.

Some factors that drove the equities market in 2022 include:

✓ **Corporate Actions** – Announcement of bonus shares (Car & General), dividends (NCBA, SCBK), rights issue (Trans century), share buy back (Centum) and take overs (Limuru Tea and EABL) were some of the key drivers of both upside and downsides in 2022. We expect the trend of corporate actions driving performance to continue is 2023 with more dividends, takeovers and bonus issues expect within the year.

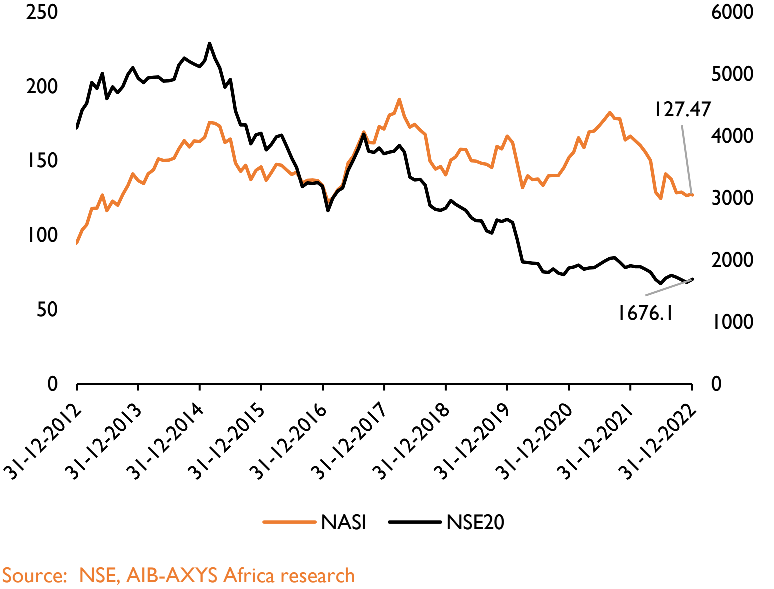
✓ **Foreign Investor participation** – Foreign investors remained as net sellers recording net outflows of USD 193.67Mn compared to a net selling position of USD 91.90Mn in 2021. The net foreign investor outflows may be attributed to the depreciation of the KES, increased investor risk aversion, and profit taking on several counters.

Table 3: Select SSA Local Currency Returns

Index	Country	2022 (%)
ZHIALLSH	Zimbabwe	83.83%
NGXINDX	Nigeria	19.98%
BRVM	West Africa	0.46%
DARSDSEI	Tanzania	-0.78%
RSEASI	Rwanda	-1.86%
SEMDEX	Mauritius	-9.86%
GGSECI	Ghana	-12.51%
UGSINDX	Uganda	-14.65%
NSEASI	Kenya	-23.42%

Source: Bloomberg, AIB-AXYS Africa research

Graph 14: NASI and NSE-20 were on a decline in 2022



Source: NSE, AIB-AXYS Africa research

Equities Outlook

Our outlook for 2023 remains mostly tidy based on our view of the local market having incredible wealth creation opportunities that will play out in the long term. We expect 2023 investors behavior to be driven by hunt for higher returns following the rise in the yield curve for fixed income assets coupled with hunt for higher real returns following the elevated inflation. As such, we believe that investors will not only be enticed by huge capital appreciation but also dividend payments.

- **Manufacturing, Commercial and Agriculture sectors Outlook** - The operating environment in 2022 was tough for companies in these sectors given the higher cost of operations due to local and global inflation factors, forex shortage and volatility and reduced consumer demand. Hence this sectors were the most affected in terms of profit warnings. We expect some of the challenges to carry over to 2023 with Agriculture expected to have a better year due to rainfall expectations, higher foreign earnings and new markets. Investors should consider agriculture sector stocks for their religious dividend payments.
- **Banking Sector Outlook** - We foresee another year of excellent results from the banking sector given the reduced lending risk hence lower impairment provisioning, return to loan book expansion, arbitrage opportunities in the forex market and the return bank to mobile money charges. However, a higher yield curve is likely to continue contributing to mark-to-market losses for the government securities holdings.
- **Telco sector Outlook** – We expect regulatory oversight to continue impacting SCOM both in Kenya and Ethiopia. Mpesa is also going to continue being SCOM's main revenue and growth driver though product innovations around it. We do not foresee any negative impact from the expected split .

Therefore, in the current depressed environment, we recommend investors to:

- **Keep an eye on overlooked counters** - The emergence of under–the-radar counters that have been previously overlooked by investors Olympia Capital and Limuru Tea with 2022 gains of 48.74%, and 31.25%, respectively.

- **Buy the dip** – We recommend investors to take advantage of the foreign exits by taking up positions at the current low valuations at 50% discount to the 5-year historical average (See graph 15). Overall, majority of the listed counters are fundamentally sound with a religious dividend payment, with growth opportunities and have historically delivered value.

- **Consider Dividend Paying counters -** With expectations of an eventual recovery investors should take up dividend paying counters whose dividend yields are likely to cool off any negative returns already recorded.

Graph 15: Current Valuations are Below the 5-year Historical Average Creating a Buyers Market

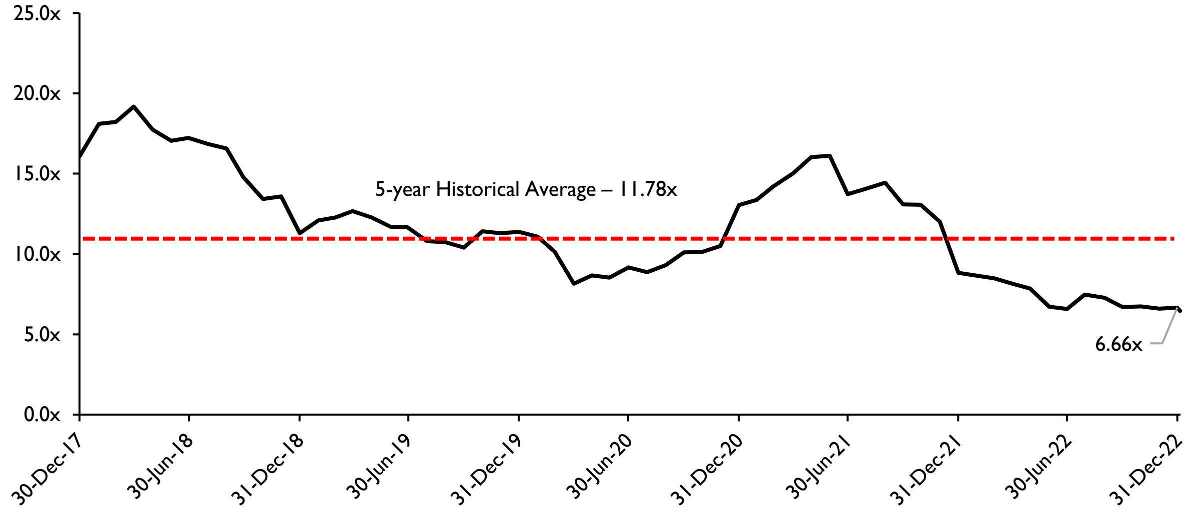


Table 4: Our Recommended Top Stock Picks for 2023

Counter	30-Dec-22	Target Price	Potential Upside	2022 Performance	52 Week High	52 Week Low	Recomm
NCBA	39.35	43.29	10.01%	56.15%	33.25	23.00	HOLD
SBIC	102.00	102.92	0.90%	16.91%	106.00	90.00	HOLD
ABSA	12.30	14.03	14.07%	3.80%	12.95	9.02	HOLD
DTK	50.00	60.02	20.04%	-15.97%	60.00	46.55	BUY
COOP	12.30	14.99	21.87%	-5.02%	14.00	10.30	BUY
EABL	167.50	197.51	17.92%	1.52%	194.00	110.00	BUY
BAMB	31.50	45.28	43.75%	-17.11%	39.50	30.85	BUY
KCB	38.10	52.45	37.66%	-16.17%	46.00	34.00	BUY
JUB	198.75	235.85	18.67%	-37.25%	280.00	187.75	BUY
SCOM	24.15	37.81	56.56%	-36.36%	45.25	23.00	BUY
SCBK	142.75	145.19	1.71%	11.31%	148.75	121.00	HOLD
EQTY	44.50	62.12	39.60%	-15.64%	53.50	38.75	BUY

Source: NSE, Company Fillings, AIB-AXYS Analyst Estimates

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