



JULY STOCK PICKS

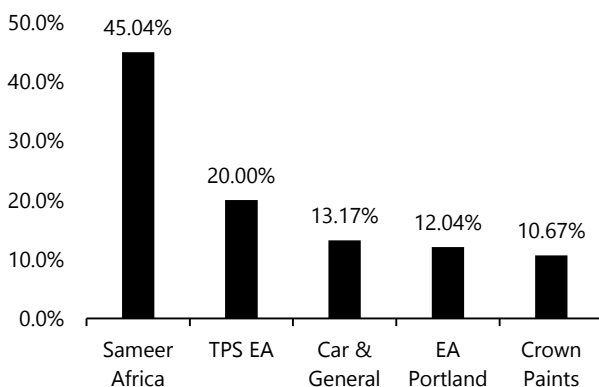
June Review

- The Energy and Petroleum Regulation Authority (EPRA) reviewed the maximum retail prices of super petrol, diesel and kerosene upwards by **KES 9.00** per litre to **KES 159.12**, **KES 140.00** and **KES 127.94** respectively. The increase was reflected in the end of the month inflation print. We expect further increases in the coming reviews as the global oil prices remains high.
- Stock market dipped further with the Market Capitalization declining **3.34%** in June due to the ongoing foreign investor sell-off that continues to persist as foreign investors flee to invest in 'safer' havens. Foreign exits have been fuelled by rising yields in developed markets following benchmark rate hikes. The NSE 20 and the NASI recorded downward m/m trends of **-4.10%** and **-3.32%**, further contributing to the market weakness.
- Inflation rate for June 2022 was **7.90%** compared to **7.10%** recorded in May 2022. Major indices increased y/y; Food and Non-Alcoholic Beverages Index (**13.80%**); Household index (**9.20%**); Transport index (**7.10%**) and Utilities index (**6.80%**).
- Kenya shilling continued to depreciate against the USD, losing **0.93%** on m/m basis. On a YTD basis, the shilling has depreciated **4.18%** against the USD compared to **3.64%** in 2021. This is mainly attributable to; strengthening of the dollar with the dollar index gaining 9.81% YTD, increased dollar demand on the back of elevated global oil prices, high demand for imports, reduced earnings from agriculture and horticulture, as well as, the slow recovery in the tourism sector.

What does July hold?

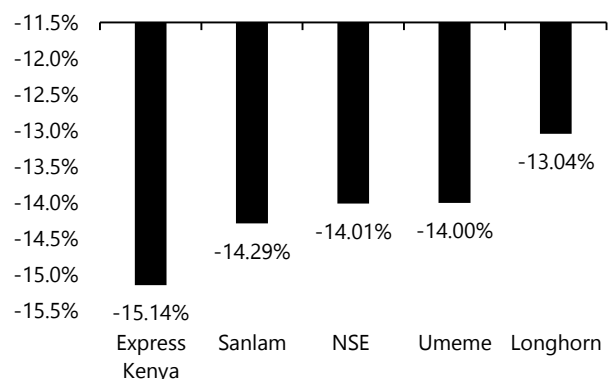
- MPC Meeting – The next Monetary Policy Meeting (MPC) will be held on July 27th 2022. With the rising inflation, we see a strong case for another 25-50 bps hike as the committee will be looking at taming the high inflation. Additionally, the US FED will also be meeting with expectations of another round of hikes, that is likely going to further contribute to foreigners sell off.

Graph 1: June'22 Top 5 Gainers



Source: NSE, AIB-AXYS Research

Graph 2: June'22 Top 5 Losers



Source: NSE, AIB-AXYS Research

June Equities Market Performance

During the month of June, we continued to see a decline in NSE's major indicative indices with the NASI and NSE-20 declining 3.32% and 4.10%, respectively. Foreign investors remained as net sellers with the selling position increasing 23.43% to KES 5.19Bn taking the total YTD foreign net selling position to KES 12.16Bn. We also observed a rally towards the end of the month as local investors provided much needed support, which we suspect was driven by end of quarter portfolio realignments. However, foreign investors remained as net sellers threatening any share price rally momentum that was building.

Sameer Africa (+45.04%) was the top gainer of the month mainly driven by local trading. TPSE (+20.00%) was also a key gainer even on the back of announcing a debt conversion agreement with its top shareholder, Aga Khan Foundation, which has dilutive potential for existing shareholders. On the other hand, Express Kenya (-15.14%) was the largest loser followed by Sanlam Kenya (-14.29%) which seems to be losing the rising momentum we had seen earlier in the year.

Graph 3: 5-year NSE Indicative Indices Performance



Source: NSE, AIB-AXYS Research

Historical low valuations justify an entry point - We have observed that the market P/E valuation has been declining currently trading at 6.80x below the 5-year historical average of 11.76x. Additionally, a number of counters are trading at their 5-year lows (See table 1). Indeed, the low valuations create a good entry position and with a long term outlook, this should provide an opportunity for wealth creation.

Table 1: Counters Trading Near Their 5-year Historical Lows

Stock	**Current Price (KES)	5-Year Low (KES)	Date of 5-Year Low
CIC Group	2.00	1.87	13 th January 2022
Centum Investments	9.90	9.02	16 th June 2022
Diamond Trust Bank	49.60	49.00	24 th May 2022
Fahari I-REIT	6.46	5.00	23 rd September 2020
Longhorn Kenya	3.11	2.74	28 th June 2020
Standard Chartered Bank	124.00	123.75	31 st May 2022
NSE	6.98	6.58	12 th August 2020

Source: Bloomberg, NSE, AIB-AXYS Research *** Current Price is as at 04th July 2022

Portfolio Performance

During the month, our model portfolio was down -3.10% on a m/m and -14.80% on a YTD basis, whereas the NASI and NSE-20 declined by -3.32% and -4.10% m/m. The portfolio was depressed by the poor performance of counters such as NSE, DTK, NCBA, SBIC, EQTY and KNRE, as a result of foreign investor selloff due to the uncertainties caused by the current Russia-Ukraine conflict, increased interest rates by the Feds making developed markets more attractive and the upcoming General Elections.

Table 2: Portfolio Performance

	M/M	YTD
AIB-AXYS Africa Portfolio Performance	-3.1%	-14.8%
NSE-20	-4.1%	-15.2%
NASI	-3.3%	-25.2%

Table 3: Portfolio Constituents

Counter	30-Jun-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighted YTD return	Weighted M/M return
BAMB	34.35	45.28	31.82%	-9.61%	5.69%	39.80	32.15	-0.67%	0.40%
NSE	7.12	10.05	41.15%	-11.00%	-14.01%	10.15	6.60	-0.66%	-0.84%
SBIC	98.75	105.00	6.33%	13.18%	-5.73%	108.00	80.00	0.79%	-0.34%
NCBA	23.60	28.29	19.87%	-6.35%	-7.63%	28.15	23.00	-0.38%	-0.46%
COOP	10.90	14.99	37.52%	-15.83%	-3.54%	13.95	10.70	-0.95%	-0.21%
JUB	259.50	325.85	25.57%	-18.07%	-3.53%	390.00	245.00	-1.08%	-0.21%
SCOM	24.95	37.53	50.42%	-34.26%	-4.04%	44.95	23.10	-4.80%	-0.57%
EABL	137.25	205.21	49.52%	-16.82%	-2.66%	188.25	137.25	-1.01%	-0.16%
KNRE	1.99	3.28	64.82%	-13.48%	-4.33%	2.68	1.94	-0.81%	-0.26%
EQTY	43.00	61.17	42.26%	-18.48%	-5.49%	54.25	39.00	-1.11%	-0.33%
DTK	49.95	66.12	32.37%	-16.05%	-8.77%	69.00	49.00	-0.96%	-0.53%
SCBK	124.75	140.75	12.83%	-2.73%	0.81%	146.25	123.75	-0.16%	0.05%
KCB	38.65	52.45	35.71%	-14.96%	1.44%	49.90	35.00	-0.90%	0.09%
IMH	17.00	24.62	44.82%	-19.43%	-0.29%	23.25	16.50	-1.36%	-0.02%
ABSA	10.45	13.04	24.78%	-11.81%	4.71%	12.70	9.40	-0.71%	0.28%
NSE-20	1,612.90			-15.2%	-4.1%				
NASI	124.50			-25.2%	-3.3%				

Table 4: Upcoming Corporate Actions

Name	Interim Dividend (KES)	Special Dividend (KES)	Final Dividend (KES)	Book Closure	Dividend Payment
KCB Group	KES 1.00		KES 2.00	25-Apr-22	7-Jul-22
Sasini	KES 1.00			2-Jun-22	14-Jul-22
Nairobi Securities Exchange		KES 1.00	KES 0.40	3-Jun-22	15-Jul-22
BOC Kenya			KES 2.90	27-May-22	19-Jul-22
Umeme Ltd			KES 1.77	24-Jun-22	22-Jul-22
Jubilee Holdings Limited	KES 1.00	KES 5.00	KES 9.00	22-Jun-22	25-Jul-22
Bamburi Cement			KES 3.58	26-May-22	26-Jul-22
Diamond Trust Bank			KES 3.00	30-Jun-22	28-Jul-22
Nation Media Group			KES 1.50	16-Jun-22	29-Jul-22
Kenya Re Insurance			KES 0.10	17-Jun-22	29-Jul-22
Total Energies			KES 1.31	24-Jun-22	30-Jul-22
Crown Paints			KES 4.00	28-Jun-22	15-Aug-22
Kapchorua Tea			KES 10.00	29-Jul-22	02-Aug-22
Williamson Tea			KES 20.00	29-Jul-22	02-Aug-22
Safaricom	KES 0.64		KES 0.75	TBA	TBA

Table 5: Top 10 Highest Dividend Yields

Security	30-Jun-2022	Δ YTD	Total Dividend	Dividend Yield
UMME	KES 6.88	-2.37%	KES 1.77*	26.90%
SCBK	KES 124.75	-3.31%	KES 19.00	15.32%
WTK	KES 124.00	0.58%	KES 20.00	15.30%
BAT	KES 407.75	-6.00%	KES 53.50	12.89%
NCBA	KES 23.60	-5.95%	KES 3.00	12.66%
BKG	KES 29.45	1.55%	KES 3.22	10.93%
BAMB	KES 34.35	-9.47%	KES 3.58	10.41%
ABSA	KES 10.45	-10.55%	KES 1.10	10.38%
FAHR	KES 6.00	-4.15%	KES 0.60	10.00%
KAPC	KES 107.00	13.35%	KES 10.00	9.24%
COOP	KES 10.90	-15.06%	KES 1.00	9.09%
SBIC	KES 98.75	13.47%	KES 9.00	9.09%

* Exchange Rate as at 30-Jun-22

Source: Company Filings, NSE, AIB-AXYS Research

Table 6: Recommendation Summary

Stock	Tailwinds	Head winds	Recomm
Equity Group Current Price: KES 43.00 Target Price: KES 61.17 Upside: 42.26%	<ul style="list-style-type: none"> Interest Income from Government securities grew by 58.69%. Equity's diversification in fast growing regions continues to provide high probability of growth for the lender 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 	<ul style="list-style-type: none"> Increased loan loss provisioning in Q1'22 could signal higher lending risk outlook Higher allocations to government securities are likely to expose a mark-to-market loss 	BUY
KCB Group Current Price: KES 38.65 Target Price: KES 52.45 Upside: 35.71%	<ul style="list-style-type: none"> Increased investment in Government securities which continue to boost interest income. Heavy investment in digital platforms driving double digit growth in loan book Consolidation of acquired subsidiaries (Rwanda with a target on DRC) in the region to drive balance sheet and income growth 	<ul style="list-style-type: none"> Increased Gross NPLs in Q1 pointing to the cash crisis in the economy that has increased the number of loan defaults. 	BUY
ABSA Bank Kenya Current Price: KES 10.45 Target Price: KES 13.04 Upside: 24.78%	<ul style="list-style-type: none"> Growing loan book in Q1'22 by 11.18% thus improving interest income by 15.56% Improving cost to income ratio due to investment in technology and reduced reliance on branches. Absa Life Assurance profit growth of 84% is a positive contribution to non-funded income. Increased traction of digital channels such as WhatsApp Banking and Timiza loans app expected to drive future growth. 	<ul style="list-style-type: none"> Gross NPLs grew by 12.92% in Q1'22 compared to Q1'21. Pending approval of risk-based pricing model 	BUY
Co-operative Bank Current Price: KES 10.90 Target Price: KES 14.99 Upside: 37.52%	<ul style="list-style-type: none"> Kingdom Bank's application of the KES 20Bn from CBK is expected to boost COOP's interest income. 41.67% growth in non-funded income in Q1'22 Growth in loan book through a focus on SME lending and mobile loans Reduced NPLs and loan loss provisioning in Q1 showcasing proper credit management. 	<ul style="list-style-type: none"> 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 	BUY
Stanbic Kenya Current Price: KES 98.75 Target Price: KES 105.00 Upside: 6.33%	<ul style="list-style-type: none"> Double-digit growth in net interest income in Q1'22 (+16.90% q/q) Growth in the loan book by (+30.71%q/q) steered by resumption in lending and investments in digital banking. 	<ul style="list-style-type: none"> Asset quality concerns as NPL Ratio Coverage worsened to 58.12% 	HOLD
NCBA Group Current Price: KES 23.60 Target Price: 28.29 Upside: 19.87%	<ul style="list-style-type: none"> Retains front in digital lending through platforms such as M-Shwari and Fuliza Reduces loan loss provisioning in Q1'22 Improved operational efficiencies to see cost synergies of a merged entity 	<ul style="list-style-type: none"> Inorganic balance sheet growth Huge capital expenditure from opening of physical branches. Increased NPLs in Q1'22 indicating the strain on asset quality 	BUY
Diamond Trust Bank (DTB-K) Current Price: KES 49.95 Target Price: KES 66.12 Upside: 32.37% *** Current Price is as at 30 th June 2022	<ul style="list-style-type: none"> Enhanced digital transactions increased interest income in Q1'22(11.58%q/q) Increased investment in innovation is a good indication of their shift to digitization Improved asset quality as a result of the recovery in the economy 	<ul style="list-style-type: none"> Observed lending apathy as loan book grew(1.98%q/q) and a bulk of interest income from government securities. 	BUY

Stock	Tailwinds	Head winds	Recomm
Standard Chartered Bank Current Price: KES 124.75 Target Price: KES 140.75 Upside: 12.83%	<ul style="list-style-type: none"> Immense growth in the Wealth management unit which grew by 21% in FY'21 Bank has invested heavily in digital transaction channels Reduced loan loss provisioning 	<ul style="list-style-type: none"> Performance from the wealth management and financial markets led to a flat non-interest income growth in Q1'22 	HOLD
EABL Current Price: KES 137.25 Target Price: KES 180.21 Upside: 31.30	<ul style="list-style-type: none"> Recovery in sales expected as the general economy recovers Expected growth and improved performance from regional subsidiaries. 	<ul style="list-style-type: none"> Proposed tax law on mainstream alcohol may affect gross sales if passed. Reduced sales in Senator Keg hence a decline in top line 	BUY
Safaricom Plc Current Price: 24.95 Target Price: 37.53 Upside: 50.42%	<ul style="list-style-type: none"> 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 e.g Visa Card Ethiopia's change in national payment laws and issuance of mobile money license is expected to ease penetration of MPESA into the Ethiopia market CBK efforts to increased financial inclusion and digital payments continue to drive mobile money transactions 	<ul style="list-style-type: none"> 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 	BUY
Jubilee Holdings Current Price: KES 259.50 Target Price: KES 325.85 Upside: 25.57%	<ul style="list-style-type: none"> Stable growth in investment income as a result of its diversified portfolio. Lower operating costs (-2.7% y/y) 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
NSE Plc Current Price: KES 7.12 Target Price: KES 10.05 Upside: 41.15%	<ul style="list-style-type: none"> Plans to acquire stakes in regional bourses to supplement revenues will be positive for the bourse. Increased fees from new products. The launch of M-Akiba bond and the Ibuka program has helped the NSE diversify its revenues. 	<ul style="list-style-type: none"> Foreign investor exits activity has seen investor wealth at the bourse drop significantly Decline in turnover caused lower transaction levy 	BUY
Bamburi Cement Current Price: KES 34.35 Target Price: KES 45.28 Upside: 31.82%	<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
Kenya Re Current Price: KES 1.99 Target Price: KES 3.28 Upside: 64.82%	<ul style="list-style-type: none"> Investment in Zep-Re and its other subsidiary provides a positive outlook on future investment income. 	<ul style="list-style-type: none"> Lower earnings due to loss of business as increased claims and rebates forced insurers to renegotiate their insurance contract with their customers 	BUY

*** Current Price is as at 30th June 2022

What is the Strategy?

Our outlook for the rest of the year remains mostly tidy based on solid company fundamentals even though the technical aspect remains challenged. We see the bear market persisting, at least until election results are clear, coupled with interplays in the geo-political and global macros fronts; which have washed away positive post pandemic sentiments on emerging markets. Therefore, in the current depressed environment we recommend to investors to;

- **Buy the dip** –We urge local investors to take advantage of the foreign exits by taking up positions at the current valuations. Overall, majority of the listed counters are fundamentally sound with a religious dividend payments, are pursuing growth opportunities and have historically delivered value. The emergence of underdog counters that have been previously overlooked by investors; Car & General and Crown Paints at a YTD gains of 30.34%, and 24.59% , respectively.
- **Align with Dividend Paying counters** - With expectations of an eventual recovery investors should take up dividend paying counters (see Table 5) whose dividend yields are likely to cool off any negative returns already recorded.

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