



# OCTOBER STOCK PICKS

## September Review

- NSE Market Capitalization declined a further **6.58%** in September driven by foreign investor sell-offs despite the peaceful conclusion of the August elections. Other than the elections factors, foreign investors' exits have contributed to an NSE market decline fuelled by rising yields in developed markets following benchmark rate hikes with the US Fed hiking the benchmark rate by another 75bps in the September meeting.
- The government announced the full withdrawal of petrol subsidy and a partial withdrawal of diesel and kerosene subsidies. Subsequently, the Energy and Petroleum Regulation Authority (EPRA) reviewed upwards the maximum retail prices of super petrol, diesel and kerosene to KES 179.30, KES 165.00 and KES 145.94 per litre, respectively. The increase was reflected in the end-of-the-month inflation print. We expect the declining global oil prices to be reflected in the November or December review given the 30-45 day time lag.
- **Safaricom (SCOM)** - Safaricom Telecommunications announced the start of a phased commercial launch in Ethiopia has now spread to a total of eight cities. The telco looks to reach 25 cities with a target of April 2023. We view the start of operations as a positive to the share price given the impact the news of the Ethiopian entry had on the share price in 2021.
- CBK's Monetary Policy Committee met on 29th September and elected to hike the CBR by 75bps to 8.25%. The Committee noted the need to control the rising inflationary pressures which are expected to remain elevated in the near term and remain above the upper target of 7.50%.
- **Presidential Elections Petition** –The seven-judge Supreme court bench issued their decision on Monday 5<sup>th</sup> September where the August 9<sup>th</sup> election presidential results as declared by the IEBC were upheld. Thereafter the president-elect was sworn in bringing to an end a period of uncertainty. The new government is just taking shape and we expect key policy decisions to influence economic performance.
- Inflation rate for the month of August 2022 was **9.20%** compared to 8.50% recorded the previous month. Major indices increased y/y; Food and Non-Alcoholic Beverages Index (**15.50%**); Household maintenance index (**10.70%**), and Transport index (**10.20%**).
- Kenya shilling continued to depreciate against the USD, losing **0.60%** on a m/m basis to close at a historical high of KES 120.73. On a YTD basis, the shilling has depreciated **6.71%** against the USD compared to **3.64%** in 2021. This is mainly attributable to; the strengthening of the dollar had gained 16.71% by end of Q3'22, increased dollar demand from energy importers following high global oil prices, and depressed earnings from agriculture and horticulture.

## What does October hold?

- We expect the release of Q2'2022 GDP figures from the National treasury. We foresee a better y/y economic performance on the back of a better macroeconomic environment amid the electioneering period.
- We anticipate that the cost of living will continue to rise based on higher food and fuel prices and the recent implementation of tax adjustments by KRA.

## Our Top Three Picks

- a) **Safaricom (SCOM)** – We continue to recommend a **BUY** on the telco as the current share price represents an attractive entry point and a long-term value-play. The current share price of KES 24.95 represents a -34.26% decline so far in 2022 and is 51.54% below our target price of **KES 37.81**. We observed a further decline, during the month of September (-10.73%), despite a strong momentum at the start of the month. The slump was largely driven by foreign trading as support by local institutional investors was not enough. During the month, SCOM together with the other Fuliza loan product partners, KCB and NCBA Group, announced up to a 50.00% interest reduction in Fuliza borrowing tariffs as well as a reduction in daily maintenance fee for transactions. However, Fuliza-related fees account for a minor percentage of the total revenues of all the partners. Additionally, we also foresee larger volumes as more borrowers will be enticed to use a “cheaper” Fuliza thus canceling out any revenue losses recorded. We remain positive on the counter expecting increased revenue from operations in Ethiopia as the telco expands and partnerships around Mpesa brand.
- b) **Limuru Tea (LIMT)** – We recommend a **SELL** on the tea grower largely on account of the expected continuation of profit-taking from investors after delays in the conclusion of the Ekaterra acquisition. Following the announcement of the proposed takeover, some of the shareholders filed complaints with the regulator, CMA. Given the lack of quorum at the CMA dispute tribunal, we expect the determination of the complaints to be delayed. Additionally, we are likely to see Ekaterra Kenya suspend the takeover pending further consultations. Indeed, the share price rally in July (+44.40%) to a high of KES 462.50 was hinged on the proposed takeover and any threat to delay or suspend it, might see the counter retreat. The counter lost 17.65% in September to close at KES 420.00, a fete we expect will be repeated in October dropping below the KES 400 levels.
- c) **Sanlam Kenya (SLAM)** – We recommend profit taking, **SELL**, driven by continued loss-making trend as seen in the KES 287.75Mn loss in HY'22 results. Even though this was an improvement from the previous year's performance, we remain pessimistic about the company's performance given the challenges facing the insurance sector; slowed premiums growth, reduced investment income, and tightened regulatory environment. However, the underwriter's joint venture with Allianz is expected to provide headroom for growth and is likely to support future company performance. The current share price at **KES 9.94** represents a 13.94% YTD decline, a 13.57% m/m loss in September, and is near the mid-range of the 52-week low of KES 9.00.

**Table 1: Upcoming Corporate Actions**

Counter	Interim Dividend (KES)	Final Dividend (KES)	Book Closure	Dividend Payment
Jubilee Holdings	KES 1.00		9-Sept- 22	11-Oct-22
East African Breweries Plc		KES 7.25	15-Sep-22	30-Oct-22
NCBA Group	KES 1.00		15-Sep-22	30-Oct-22
ABSA Bank	KES 0.20		21-Sep-22	12-Oct-22
BOC Gases			30-Sep-22	22-Oct-22
Centum Investments Plc		KES 0.59	TBA	TBA

Source: NSE, AIB-AXYS Research

## September Equities Market Performance

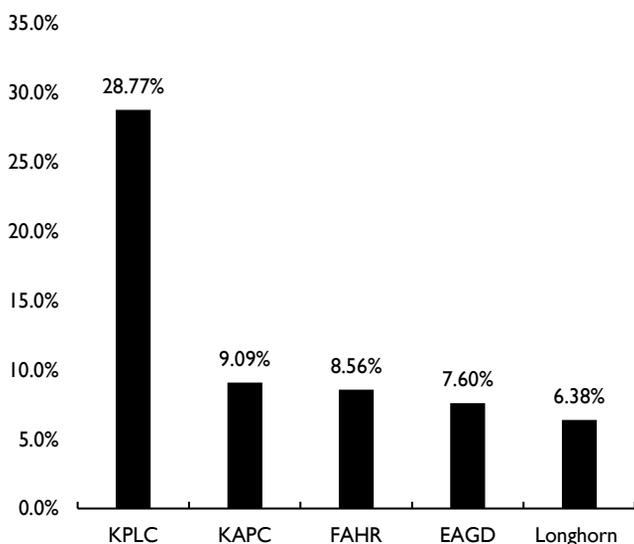
During the month of September, the indicative indices recorded losses with the NSE-20 and NASI losing 1.91% and 6.58%, respectively. Foreign investors remained as net sellers with the selling position increasing by 41.10% to **KES 2.34Bn** taking the total YTD foreign net selling position to **KES 19.13Bn**.

Equity turnover increased by 71.22% to **KES 9.15Bn** from **KES 5.34Bn** in August, while volumes traded also increased 69.47% to KES 350.90Mn. Market capitalization declined 6.58% m/m to **KES 2,000.82Bn** hence reducing the YTD loss to -22.86%.

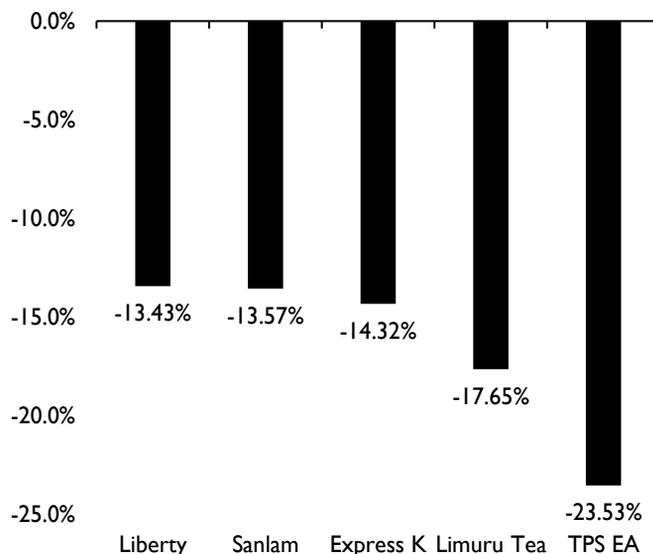
**Top gainers** - KPLC was the largest gainer m/m (+28.77%) jumping to KES 1.88 from KES 1.46 having touched a high of KES 2.08, driven by local trading after revelations of top shareholding relating to top government officials. However, the company fundamentals remain weak with corporate governance and operating challenges. Other gainers included; Kapchorua Tea (+9.09%), Fahari I-REIT (+8.56%), and Egaads (+7.60%). We see the gains from Fahari as investors taking advantage of the low valuations given the expected positive H2'22 following the gradual recovery of commercial real estate. However, in the HY'22 results for manufacturing companies, we continued to see the impact of the rising commodity prices on input prices and operating expenses.

**Top Losers** - TPS Serena (-23.53%) was the largest decliner m/m driven by local trading following the slow recovery in the hospitality sector and recent news on debt conversion by the majority shareholder. Other top losers were; Limuru Tea (-17.65%), Express Kenya (-14.32%) and Sanlam Kenya (-13.57%). We continue to view the current valuations for the majority of the counters as historical lows and provide attractive entry points.

Graph 1: September'22 Top 5 Gainers



Graph 2: September'22 Top 5 Losers



Source: NSE, AIB-AXYS Research

## Portfolio Performance

During the month, our model portfolio lost 2.95% on an m/m basis taking the YTD performance to -10.80%. Indicative indices also lost with NSE-20 reversing the August gains by declining 1.91% while NASI's losing streak continued with a further 6.58% loss, effectively taking the YTD loss to -9.72% and -22.86%, respectively.

The portfolio performance was weighed down by m/m losses by **SCOM**, **EABL**, and **JUB**. However, improved performance by **NCBA** and **KCB** helped support against a further decline in the overall portfolio performance. We observed foreigners remaining net sellers in line with our expectations of a potential pullback following the gains made in July and August. We expect another month of mixed performance largely driven by the performance from SCOM, banking sector stocks, and other blue chips.

Table 2: Portfolio Performance

	M/M	YTD
AIB-AXYS Africa Portfolio Performance	-2.95%	-10.80%
NSE-20	-1.91%	-9.72%
NASI	-6.58%	-22.86%

Table 3: Portfolio Constituents

Counter	30-Sep-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighted YTD return	Weighted M/M return
BAMB	34.10	45.28	32.79%	-10.26%	-1.59%	39.80	30.85	-0.72%	-0.11%
NSE	7.38	10.05	36.18%	-7.75%	-2.89%	9.90	6.60	-0.47%	-0.17%
SBIC	100.00	102.92	2.92%	14.61%	0.25%	108.00	86.00	0.88%	0.02%
NCBA	30.30	33.29	9.87%	20.24%	4.12%	33.25	23.00	1.21%	0.25%
COOP	11.85	14.99	26.50%	-8.49%	-4.44%	14.00	10.30	-0.51%	-0.27%
JUB	245.00	325.85	33.00%	-22.65%	-5.04%	360.00	240.25	-1.36%	-0.30%
SCOM	24.95	37.81	51.54%	-34.26%	-10.73%	44.00	23.00	-4.80%	-1.50%
EABL	142.00	197.51	39.09%	-13.94%	-5.96%	172.00	110.00	-0.84%	-0.36%
KNRE	1.98	2.28	15.15%	-13.91%	-3.41%	2.50	1.94	-0.83%	-0.20%
EQTY	46.45	63.23	36.12%	-11.94%	-3.23%	54.50	38.75	-0.72%	-0.19%
DTK	50.00	60.02	20.04%	-15.97%	0.00%	63.75	48.00	-0.96%	0.00%
SCBK	136.75	145.19	6.17%	6.63%	0.18%	148.75	121.00	0.40%	0.01%
KCB	41.45	52.45	26.54%	-8.80%	1.47%	47.00	34.00	-0.53%	0.09%
IMH	17.00	23.53	38.41%	-19.43%	0.00%	22.80	16.50	-1.36%	0.00%
ABSA	11.45	14.03	22.53%	-3.38%	-3.38%	12.95	9.02	-0.20%	-0.20%

**Table 4: Recommendation Summary**

Stock	Positives	Negatives	Recomm
<b>Equity Group</b> <b>Current Price: KES 46.45</b> <b>Target Price: KES 63.23</b> <b>Upside: 36.12%</b>	<ul style="list-style-type: none"> <li>NPL ratio improved 258bps to 8.85% and the gross NPLs declined by 1.88%</li> <li>Non-Interest income grew 24.45% to KES 25.84Bn mainly driven by trade finance lending and Forex trading</li> <li>DRC acquisition is proving to be fruitful with an 89% growth in PAT to KES 3.00Bn</li> </ul>	<ul style="list-style-type: none"> <li>Higher Eurobond yields expose the lender to a huge mark-to-market loss</li> <li>Tanzania subsidiary is struggling compared to other regional businesses</li> </ul>	BUY
<b>KCB Group</b> <b>Current Price: KES 41.45</b> <b>Target Price: KES 52.45</b> <b>Upside: 26.54%</b>	<ul style="list-style-type: none"> <li>Loan-to-deposit ratio was up 316bps to 80.38% driven by growth in mobile loans</li> <li>Heavy investment in digital platforms driving double-digit growth in loan book</li> <li>Acquired subsidiaries in DRC which will drive balance sheet and income growth</li> </ul>	<ul style="list-style-type: none"> <li>Increased Gross NPLs in H1 to a historical high of KES 173.42Bn</li> <li>Cost to income ratio worsened 131bps y/y to 45.66%</li> <li>DRC acquisition is likely to affect Dividend payment</li> </ul>	BUY
<b>ABSA Bank Kenya</b> <b>Current Price: KES 11.45</b> <b>Target Price: KES 14.03</b> <b>Upside: 22.53%</b>	<ul style="list-style-type: none"> <li>Growing loan book in HY'22 by 19.49% thus improving interest income by 20.30%</li> <li>Improving cost to income ratio due to investment in technology and reduced reliance on branches.</li> <li>Absa Life Assurance's profit growth of 84% is a positive contribution to non-funded income.</li> <li>Increased traction of digital channels such as WhatsApp Banking and Timiza loans app expected to drive future growth.</li> </ul>	<ul style="list-style-type: none"> <li>Gross NPLs grew by 7.88% in HY'22 compared to HY'21</li> <li>Non-banking subsidiaries are still in the investment phase</li> </ul>	BUY
<b>Co-operative Bank</b> <b>Current Price: KES 11.85</b> <b>Target Price: KES 14.99</b> <b>Upside: 26.50%</b>	<ul style="list-style-type: none"> <li>Kingdom Bank's application of the KES 20Bn from CBK is expected to boost COOP's interest income.</li> <li>28.82% growth in non-funded income in HY'22</li> <li>Growth in loan book through a focus on SME lending and mobile loans</li> <li>Reduced NPLs and loan loss provisioning in Q1 showcasing proper credit management.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of interim dividend despite an improvement in net earnings</li> <li>Absorption of Jamii Bora's bad loan book which may take time to recover in a tough business environment</li> </ul>	BUY
<b>Stanbic Kenya</b> <b>Current Price: KES 100.00</b> <b>Target Price: KES 102.92</b> <b>Upside: 2.92%</b>	<ul style="list-style-type: none"> <li>Double-digit growth (+25.34%) in non-interest income in HY'22 after growth in digital channels</li> <li>Growth in the loan book by 17.545 y/y steered by a resumption in lending and investments in digital banking.</li> </ul>	<ul style="list-style-type: none"> <li>Observed some level of opacity in the balance sheet composition as customer deposits reduced as loan book grew in HY'22</li> </ul>	HOLD
<b>NCBA Group</b> <b>Current Price: KES 30.30</b> <b>Target Price: KES 33.29</b> <b>Upside: 9.87%</b>	<ul style="list-style-type: none"> <li>Maintained front in digital lending through digital platforms such as M-Shwari and Fuliza to drive loan book growth</li> <li>Improved operational efficiencies to see cost synergies of a merged entity</li> </ul>	<ul style="list-style-type: none"> <li>Huge capital expenditure from the opening of physical branches.</li> <li>Huge exposure to government securities could expose the lender to higher fair value losses</li> </ul>	HOLD
<b>Diamond Trust Bank (DTB-K)</b> <b>Current Price: KES 50.00</b> <b>Target Price: KES 60.02</b> <b>Upside: 20.04%</b>	<ul style="list-style-type: none"> <li>Enhanced digital transactions increased interest income in HY'22</li> <li>Increased investment in innovation is a good indication of their shift to digitization</li> <li>Net Interest Income increased 13.33% to KES 11.13Bn mainly driven by a 22.41% jump in income from government papers</li> </ul>	<ul style="list-style-type: none"> <li>Asset quality concerns persist as Gross NPLs increased by 43.02%</li> <li>CTI ratio worsened 81bps to 46.12% despite enhanced digital transactions</li> </ul>	BUY

\*\*\* Current Price is as at 30<sup>th</sup> September 2022

Stock	Positives	Negatives	Recomm
<b>Standard Chartered Bank</b> <b>Current Price: KES 136.75</b> <b>Target Price: KES 145.19</b> <b>Upside: 6.17%</b>	<ul style="list-style-type: none"> <li>Performance from the Wealth Management and financial markets driving non-interest income</li> <li>Yields from assets were up 21bps while the cost of funds remained flat at 1.49%</li> </ul>	<ul style="list-style-type: none"> <li>Cost to income ratio deteriorated by 333bps to 56.80% which is a point of concern</li> <li>NPL ratio worsened marginally to 15.41%</li> </ul>	HOLD
<b>EABL</b> <b>Current Price: KES 142.00</b> <b>Target Price: KES 197.51</b> <b>Upside: 39.09%</b>	<ul style="list-style-type: none"> <li>Strong growth in new frontier and mainstream spirits</li> <li>Expected growth and improved performance from regional subsidiaries</li> <li>Shift to digital channels for B2B and B2C distribution is key in driving sales volumes</li> </ul>	<ul style="list-style-type: none"> <li>Proposed tax law on mainstream alcohol may affect gross sales if passed.</li> <li>The current ratio at 0.85 is below the recommended 1.00</li> </ul>	BUY
<b>Safaricom Plc</b> <b>Current Price: KES 24.95</b> <b>Target Price: KES 37.81</b> <b>Upside: 51.54%</b>	<ul style="list-style-type: none"> <li>M-PESA Visa undercut banks on forex charges which will boost the mobile money revenues for Safaricom</li> <li>M-PESA launched interest free loans for buying goods</li> <li>Safaricom made KED 50Bn profit from M-Pesa unit.</li> <li>M-PESA linked pay bill with Telkom and Airtel money to enhance seamless transactions.</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory risk in Kenya, geopolitical risk in Ethiopia and competition from payment platforms will weigh down on growth</li> <li>Increased CAPEX from entry into Ethiopian market likely to reduce dividends in the short term</li> </ul>	BUY
<b>Jubilee Holdings</b> <b>Current Price: KES 245.00</b> <b>Target Price: KES 325.85</b> <b>Upside: 33.00%</b>	<ul style="list-style-type: none"> <li>Stable growth in investment income as a result of its diversified portfolio</li> <li>Lower operating due to operational efficiencies and cost control</li> <li>Stable dividend payment to the allure of investors</li> <li>Joint venture operations with Allianz</li> <li>Had the best claims settlement record in the first quarter</li> </ul>	<ul style="list-style-type: none"> <li>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</li> </ul>	BUY
<b>NSE Plc</b> <b>Current Price: KES 7.38</b> <b>Target Price: KES 10.05</b> <b>Upside: 32.24%</b>	<ul style="list-style-type: none"> <li>Plans to acquire stakes in regional bourses to supplement revenues will be positive for the bourse.</li> <li>Increased fees from new products. The launch of M-Akiba bond and the Ibuka program has helped the NSE diversify its revenues.</li> </ul>	<ul style="list-style-type: none"> <li>Foreign investor exits activity has seen investor wealth at the bourse drop significantly</li> <li>Decline in turnover caused lower transaction levy</li> </ul>	BUY
<b>Bamburi Cement</b> <b>Current Price: KES 34.10</b> <b>Target Price: KES 45.28</b> <b>Upside: 32.79%</b>	<ul style="list-style-type: none"> <li>Volume growth in Kenya and Uganda has greatly contributed to increased turnover in the year ended December 2021.</li> <li>Expected growth mainly driven by key infrastructure projects in Kenya and Uganda.</li> <li>Admission of DRC to the EAC will open up regional markets</li> </ul>	<ul style="list-style-type: none"> <li>Increasing energy costs, imported clinker and fuel prices are likely to increase operating costs</li> <li>Surging cement prices are likely to slow down consumption</li> </ul>	BUY
<b>Kenya Re</b> <b>Current Price: KES 1.98</b> <b>Target Price: KES 2.28</b> <b>Upside: 15.15%</b>	<ul style="list-style-type: none"> <li>Investment in Zep-Re and its other subsidiary provides a positive outlook on future investment income.</li> </ul>	<ul style="list-style-type: none"> <li>Lower earnings due to loss of business as increased claims and rebates forced insurers to renegotiate their insurance contract with their customers</li> </ul>	BUY

\*\*\* Current Price is as at 30<sup>th</sup> September 2022

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