



December STOCK PICKS

November Review

- During the month, listed commercial banks released their 3Q22 financial results. The results signalled recovery in the banking sector as the lender's asset quality improved albeit still a concern with the Cost to Income Ratio Less provisioning well above the 40% mark for majority of the banks . Most Lenders recorded a significant increase in Non-Funded Income compared to Net Interest Income mainly driven by increased income from fees and commissions on loans and advances. The ongoing dollar shortage on the forex market created market inefficiencies for the lenders, as seen by the significant growth of forex trading income. Despite the stellar performance recorded during the quarter, only two banks declared an interim dividend, KCB & SCBK.
- Safaricom, KenGen and Centum also released their financial results. Safaricom's HY23 net earnings increased 4.82% y/y to 153.45 Bn which included KES 98.30 Mn in revenue from its Ethiopian subsidiary. KenGen's FY21 net earnings increasing by 157.87% y/y to KES 4.72Bn due to additional income from drilling projects in Ethiopia and Djibouti. KenGen announced a final dividend of KES 0.20, 33.33% lower than KES 0.30 announced a year earlier. Centum HY22 net loss increased by 94.94% y/y to (KES 1.29Bn) attributable to the 88.98% y/y increase in loss from Real Estate Operations. The company announced a proposed share buy back plan of 10% of the issued shares via on market purchases although pending regulatory approval.
- The headline inflation declined after eight straight months of continuous increase to 9.50% in November from 9.59% recorded in October. The CPI declined 0.43% to 127.31 in November 2022 from 127.86 in October 2022. Meanwhile, the food and non-alcoholic beverages index increased by 15.40% y/y was slower than in October. We expect headline inflation to remain under pressure and above the CBK's upper target in December.
- The MPC met on the 23rd November 2022 against the backdrop of The COVID-19 pandemic, elevated global inflationary pressures, heightened geopolitical tensions, elevated commodity prices, and actions taken by governments around the world in response to these developments. The MPC examined the results of its earlier decisions as well as the steps taken to lessen their negative economic effects and financial disruptions that led to 50bps raise in the Central Bank Rate (CBR) from 8.25% to 8.75%.
- Kenya shilling continued to depreciate against the USD, losing **0.92%** on a m/m basis to close at a historical high of KES 122.45. On a YTD basis, the shilling has depreciated **8.30%** against the USD 8.85% y/y, and 11.22% from the same period in 2020. This is mainly attributable to; the strengthening of the dollar, increased dollar demand from energy importers following high global oil prices, and depressed earnings from agriculture and horticulture.

What does December hold?

In the month of December, we expect business activity to continue rising as the festive season approaches. However, the elevated inflation is likely to dampen investor consumption (reduced purchasing power) thus reducing allocations to investments.

Table 1: Upcoming Corporate Actions

Counter	Final Dividend (KES)	Book Closure	Dividend Payment
Carbacid Investments	KES 1.70	25-Nov-22	16-Dec-22
Transcentury PLC	Rights Issue 5:1	13-Dec-22	28-Feb-23
KCB Group	KES 1:00	8-Dec-22	13-Jan-23
Standard Chartered Bank Kenya	KES 6.00	15-Dec-22	29-Dec-22

Source: NSE, AIB-AXYS Research

Table 2: NSE Market continues to lag behind regional peers with huge YTD losses

Index	Country	YTD (%)	Current P/E (1 yr Trailing)	Trailing Div Yield
NSEASI	Kenya	-24.05%	6.63x	6.93%
DARSDEI	Tanzania	-1.29%	3.24x	3.24%
BRVM	West Africa	-5.96%	0.39x	5.13%
NGSE	Nigeria	12.73%	2.00x	5.50%
GGSECI	Ghana	-11.81%	0.23x	7.13%

Source: NSE, Bloomberg, AIB-AXYS Research

***YTD is as at 2nd December 2022

Our Top Three Picks

- a) **Safaricom (SCOM)** – We continue to recommend a **BUY** on the telco as the prevailing price levels represent an attractive entry point and a long-term value-play. The current share price of KES 23.65 represents a 37.68% decline so far in 2022 and is 32.91% below our target price of **KES 35.25**. The telco released its HY'23 results posting an 18.40% decline in PAT as driven by a 32.20% increase in operating expenses as a result of the commencement of full commercial operations in Ethiopia. However, Revenues increased 4.82% y/y to 153.45 Bn which included KES 98.30 Mn in revenue from its Ethiopian subsidiary. However, the slowdown in MPESA revenue was observed attributable to lower usage before, during, and after the election period and a decline in voice revenue due to the revised Mobile Termination Rates from KES 0.99 to KES 0.58. Additionally, a high inflation environment has left customers with a reduced disposable income affecting consumption but as the economy stabilizes and election jitters die down, we expect the telco to report stronger revenue performance in FY23.
- b) **East African Breweries (EABL)** – In October, Diageo Kenya issued a notice to acquire an additional 118.39 Mn shares of EABL from all existing shareholders. Currently, Diageo Kenya owns 50.03% of the issued share capital of EABL. If successful Diageo will own 65% of the issued shares of EABL. Additionally, Diageo applied to CMA for an exemption from the takeover offer as they intend to keep EABL as a listed entity. If approved and the exemption granted by CMA, the tender offer will open to shareholders on the register of EABL at the close of business on 16th January 2023. The news excited investors with the share price jumping 23.91% to close at KES 171.00 on the day of the announcement. However, the demand has cooled off with the share price closing the month at KES 166.00 (- 0.75% m/m). We expect the counter to continue gaining in the coming trading sessions, in line with our **BUY** recommendation with a target price of KES 197.51.
- c) **KCB Group**– We recommend a **BUY** on the lender following the declaration of a KES 1.00 in the recently released Q3'22 results. At the Current Market Price, the stock is trading at a reasonable valuation of 3.55x P/E against an industry median of 3.60x and a P/B multiple of 0.64x. Given the recent expansion to the DRC Congo & the projected expansion in Ethiopia, we remain positive on KCB's long-term growth prospects. Additionally, we have observed a significant investment in digital platforms, which is driving the loan book's double-digit growth as well as the expansion projects currently underway. With the current growth rate, we expect the lender to close FY'22 with a PAT of KES 39 - 41.00Bn maintaining a similar payout ratio to FY'21, the end-year total dividend payment is likely to fall between KES 3.0-4.0.

November Equities Market Performance

During the month of November, the indicative indices recorded a downward trend with the NSE-20 shedding 2.40% and NASI dropping 1.80% to 1637.55 and 126.48 respectively. Foreign investors remained as net sellers with the selling position declining by 61.74% to **KES 0.89Bn** taking the total YTD foreign net selling position to **22.35Bn**

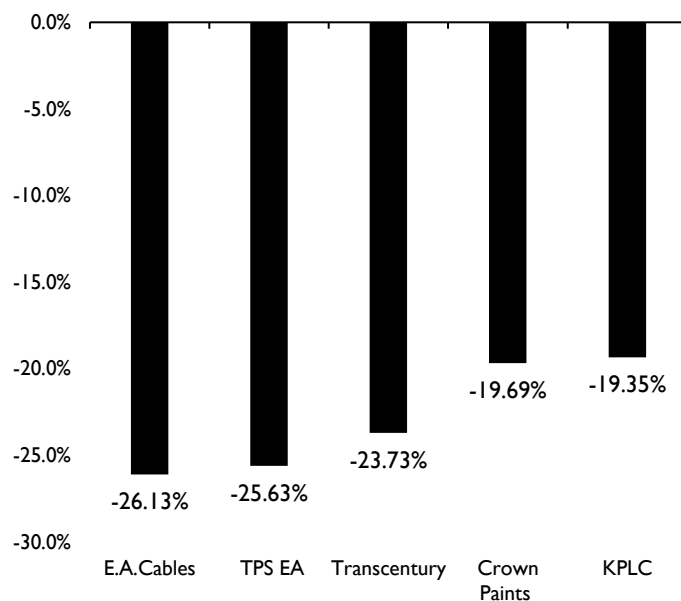
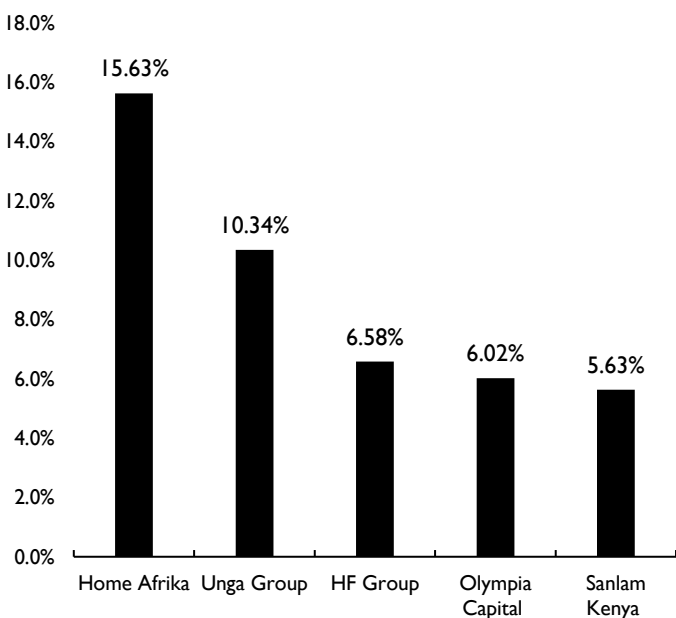
Equity turnover increased by 9.08% m/m to **KES 6.43Bn** from **KES 5.90Bn** in October, while volumes traded also retreated 5.45% to KES 236.86Mn. Market capitalization declined 1.80% m/m to **KES 1970.63Bn** taking the YTD loss to 24.02%

Top gainers - Home Afrika was the largest gainer m/m (+15.63%) jumping to KES 0.37 from KES 0.32 which we attribute to speculative trading from local investors. Other gainers included; Unga Group Ltd(+10.34%) as investors expect a positive earnings release in the coming weeks, SCBK (+4.34%) driven by the announcement of a proposed dividend of KES 6.00 in the recently released earnings release and Absa Bank (+3.56%) driven by positive Q3'22 results.

Top Losers – E.A Cables Ltd (-26.13%) was the largest decliner m/m driven by local trading following continued poor performance and lack of growth prospects for the company. Other top losers were; TPS Eastern Africa (-25.63%) driven by poor financial performance, Trans century (-23.73%), and Crown Paints (-19.69%). We continue to view the current valuations for majority of the counters as historically low thus providing an attractive entry point with the potential for maximum future upside.

Graph 1: November'22 Top 5 Gainers

Graph 2: November'22 Top 5 Losers



Source: NSE, AIB-AXYS Research

Portfolio Performance

During the month, our model portfolio outperformed both benchmark indices on an m/m basis taking the YTD performance to -8.24%. Indicative indices recorded a downward trend with NASI shredding 1.80% and NSE-20 declined 2.40%, effectively taking the YTD loss to 24.02% and 13.93%, respectively.

The portfolio performance was lifted by m/m gains recorded by **NCBA**, **SCBK** and **ABSA**. However, declines by counters such as **BAMBURI**, **KENYA RE**, and **JUBILEE** weighed down on further gains 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, and banking sector stocks following the recent earnings releases.

Table 3: Portfolio Performance

November'22 Performance	M/M	YTD
AIB-AXYS Africa Portfolio Performance	-0.80%	-8.24%
NSE-20	-2.40%	-13.93%
NASI	-1.80%	-24.02%

Table 4: Portfolio Constituents

Counter	30-Nov-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighted YTD return
EABL	166.00	197.51	18.98%	0.61%	-0.75%	174.75	110.00	0.06%
NCBA	33.20	36.12	8.80%	31.75%	5.40%	33.25	23.00	3.17%
SCBK	144.25	144.00	-0.17%	12.48%	4.34%	148.75	121.00	1.25%
SCOM	24.35	35.25	44.76%	-35.84%	-2.99%	41.80	23.00	-5.02%
EQTY	45.65	62.12	36.08%	-13.46%	-2.25%	54.50	38.75	-1.08%
IMH	17.00	24.20	42.35%	-19.43%	0.00%	22.80	16.50	-0.78%
COOP	12.00	14.30	19.17%	-7.34%	1.69%	14.00	10.30	-0.44%
ABSA	11.65	14.10	21.03%	-1.69%	3.56%	12.95	9.02	-0.10%
BAMB	31.40	45.28	44.20%	-17.37%	-5.99%	39.50	30.85	-1.04%
KNRE	1.74	2.28	31.03%	-24.35%	-9.84%	2.50	1.80	-0.49%
SBIC	93.50	102.92	10.07%	7.16%	-2.86%	108.00	86.25	0.43%
DTK	48.70	56.03	15.05%	-18.15%	1.99%	62.00	46.05	-0.73%
NSE	6.86	10.05	46.50%	-14.25%	-2.28%	9.44	6.50	-0.29%
JUB	200.00	325.85	62.93%	-36.86%	-13.04%	350.00	219.00	-2.21%
KCB	38.00	51.70	36.05%	-16.39%	0.93%	47.50	34.00	-0.98%

Source: NSE, AIB-AXYS Research

Table 5: Recommendation Summary

Stock	Positives	Negatives	Recomm
Equity Group Current Price: KES 46.7 Target Price: KES 62.12 Upside: 36.08%	<ul style="list-style-type: none"> NPL ratio was 9.47% below the latest industry average of 14.20% while NPL coverage improved 234bps to 62.95%. Non-Funded Income grew 32.04% y/y to 42.22Bn mainly driven by trade finance lending and Forex trading. DRC acquisition is proving to be fruitful with a 26.62% growth in PAT 	<ul style="list-style-type: none"> Higher Eurobond yields expose the lender to a huge mark-to-market loss Tanzania subsidiary is struggling compared to other regional businesses 	BUY
KCB Group Current Price: KES 38.00 Target Price: KES 51.70 Upside: 36.05%	<ul style="list-style-type: none"> Loan-to-deposit ratio was up 844bps y/y to 82.27% driven by growth in mobile loans. 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. Proposed Payment of KES 1.00 Interim Dividend 	<ul style="list-style-type: none"> Increased Gross NPLs to 149.29 albeit decrease in provisions Cost to income ratio worsened 161bps y/y to 45.12% 	BUY
ABSA Bank Kenya Current Price: KES 11.65 Target Price: KES 14.10 Upside: 21.03%	<ul style="list-style-type: none"> Growing loan book in Q3'22 by 26.35% thus improving interest income by 25.30% 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 2.05% y/y to KES 20.04Bn, raising asset quality concerns Rising Liquidity risk as evidenced above-market average Loan to Deposit Ratio of 102.98% and a declining liquidity ratio of 25.80% against a required minimum of 20.00% 	BUY
Co-operative Bank Current Price: KES 12.00 Target Price: KES 14.30 Upside: 19.17%	<ul style="list-style-type: none"> 28.25% growth in non-funded income in Q3'22 mainly driven by increased forex trading income (+71.58%) & fees and commissions (+31.70%) Growth in loan book through a focus on MSME lending, better subsidiary performance and focus on improved digital channels Loan loss provisions declined 5.29% y/y to KES 5.73Bn indicating reduced lending risk 	<ul style="list-style-type: none"> Lack of interim dividend despite an improvement in net earnings Gross NPLs increased 4.70% y/y to KES 51.81Bn, leading to the NPL ratio declining to 13.96%. 	BUY
Stanbic Kenya Current Price: KES 93.50 Target Price: KES 102.92 Upside: 10.02%	<ul style="list-style-type: none"> Double-digit growth (+37.54%) in non-interest income in Q3'22 after growth in digital channels Growth in the loan book by 34.15% y/y steered by a resumption in lending and investments in digital banking. 	<ul style="list-style-type: none"> Increased Gross NPLs by 18.05% y/y to 25.62Bn and a 88.70% increase in Loan Loss Provisions to 2.86Bn 	BUY
NCBA Group Current Price: KES 33.20 Target Price: KES36.12 Upside: 8.80%	<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 20.85% y/y to KES 36.41Bn, 	<ul style="list-style-type: none"> Huge capital expenditure expected given the bank's intention to expand to 8 other African countries. Lack of an interim dividend is likely to provide minimal upside potential until the release of FY'22 	HOLD
Diamond Trust Bank (DTB-K) Current Price: KES 48.70 Target Price: KES 56.03 Upside: 15.05%	<ul style="list-style-type: none"> Enhanced digital transactions increased interest income in Q3'22 Increased investment in innovation is a good indication of their shift to digitization Net Interest Income increased 14.10% to KES 16.81Bn 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 	BUY

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

Stock	Positives	Negatives	Recomm
Standard Chartered Bank Current Price: KES 140.75 Target Price: KES 144.25 Upside: 2.31%	<ul style="list-style-type: none"> Performance from the Wealth Management and financial markets driving non-interest income Non-Funded Income grew 16.11% y/y to 8.78Bn mainly driven by trade finance lending and Forex trading. The proposed interim dividend of KES 6.00 is likely to push the share price upwards. 	<ul style="list-style-type: none"> Cost to income ratio deteriorated by 125bps to 47.40% raising operational efficiency concerns. Loan-to-deposit ratio declined to 47.57% attributable to faster growth in customer deposits(+10.72% compared to Loan book growth (+3.28%) 	HOLD
EABL Current Price: KES 166.00 Target Price: KES 197.51 Upside: 18.98%	<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. The current ratio at 0.85 is below the recommended 1.00 	BUY
Safaricom Plc Current Price: KES 24.35 Target Price: KES 35.25 Upside: 44.76%	<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 200.00 Target Price: KES 325.85 Upside: 62.93%	<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
NSE Plc Current Price: KES 6.86 Target Price: KES 10.05 Upside: 46.50%	<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 Has already announced a profit warning for FY'22 meaning lower DPS 	BUY
Bamburi Cement Current Price: KES 31.40 Target Price: KES 45.28 Upside: 44.20%	<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 1.74 Target Price: KES 2.28 Upside: 31.03%	<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 November 2022

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