



MARCH STOCK PICKS

February Review

- Escalating tensions in Eastern Europe culminated in Russia's invasion of Ukraine. The crisis has hurt global equity markets and commodity prices. Crude oil prices including Brent and Murban crude surpassed the **\$100 per barrel** mark. Locally, pump prices remained unchanged cushioned by the fuel subsidy programme which will likely remain under immense pressure due to the rising prices of crude oil.
- During the month, **British American Tobacco (BAT)** released its FY'21 results with the net income surging **38.74%** to **KES 7.62Bn**. The impressive results were mainly driven by growth in the domestic market and reduced operating expenses. BAT's board proposed a final dividend of **KES 50.00** per share (Total dividend of **KES 53.50**). Book closure will be on **24th April 2022** and payment on **24th May 2022**, subject to shareholder approval.
- Safaricom (SCOM)** announced an attractive special dividend of **KES 0.64** per share. We remain confident in the company's strong fundamentals and maintain a positive outlook as it embarks on setting up operations in Ethiopia in the coming month. Book closure will be on **17th March 2022** and payment on **31st March 2022**.
- During the month, **ILAM Fahari I-REIT** and **UNGA Group** issued profit warnings, joining Kakuzi, Limuru Tea, Sanlam and Liberty Holdings which have also issued profit warnings during the year.
- We released the Kenya Power Sector Coverage report, focusing on **KENGEN** and **KPLC**, available [here](#).

What does March hold?

- We await the release of FY21 results for the Banking and Insurance sectors, and Bamburi among others. We anticipate favourable results with a return to dividend payments across the banking sector. Therefore, we expect investors to continue taking positions in the banking sector stocks.
- We anticipate that the Russia—Ukraine crisis will continue to have adverse effects on emerging and frontier equity markets as investors seek safer investments away from these markets; and on the global prices of crude oil, energy, fertilizer and wheat.
- The CBK Monetary Policy Committee will be meeting, during the month, to review the effects of the last policy decision and decide on the CBR direction.

Table 1: Corporate Actions

Name	Interim/Special	Final	Book Closure	Dividend Payment
Safaricom PLC	KES 0.64		17-Feb-22	31-Mar-22
British American Tobacco (K)	KES 3.75	KES 50.00	22-Apr-22	24-May-22
East African Breweries Plc	KES 3.75		28-Feb-22	27-Apr-22
Sasini Plc		KES 0.50	22-Feb-22	15-Mar-22
Car and General (K) Ltd		KES 3.20	25-Feb-22	24-Mar-22

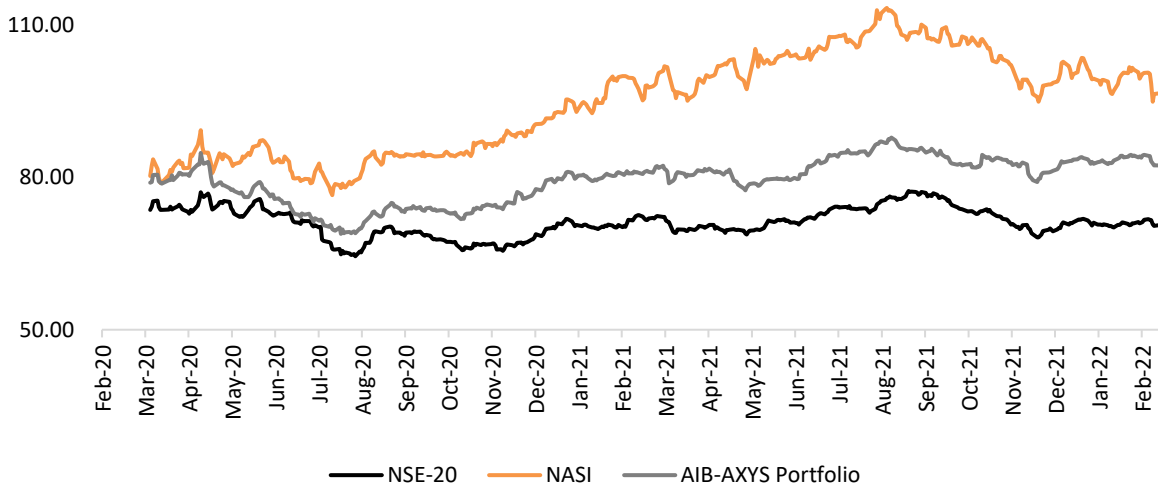
Portfolio Performance

During the month, our model portfolio was down 1.8% on a M/M and 2.4% on a YTD basis, outperforming the NASI index but trailing the NSE-20 index. The portfolio was weighed down by the performance of counters such as SCOM, NCBA and JUB. There was a positive performance from Stanbic Bank (SBIC). We anticipate the announcement of banks' results and return to dividend payments this month will reverse this performance.

Table 2: Portfolio Performance

	M/M	YTD
AIB-AXYS Africa Portfolio Performance	-1.8%	-2.4%
NSE-20	-0.1%	-0.8%
NASI	-1.9%	-3.7%

Graph 1: Portfolio Performance vs Indices



Source: AIB-AXYS Research

Table 3: Portfolio Constituents

Counter	28-Feb-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week Low	52 Week High	Weighting	Weighted YTD return	Weighted M/M return
Safaricom	35.95	38.81	8.0%	-5.3%	-2.6%	34.55	44.95	14.0%	-0.7%	-0.4%
Bamburi	37.05	45.28	22.2%	-2.5%	-4.8%	33.55	43.15	7.0%	-0.2%	-0.3%
I&M	20.90	36.49	74.6%	-0.9%	-0.5%	20.35	50.00	7.0%	-0.1%	0.0%
ABSA	11.90	12.07	1.4%	0.4%	0.4%	8.62	12.20	6.0%	0.0%	0.0%
COOP	12.90	14.99	16.2%	-0.4%	-0.4%	11.60	13.95	6.0%	0.0%	0.0%
DTK	56.75	79.00	39.2%	-4.6%	-2.6%	54.75	76.75	6.0%	-0.3%	-0.2%
EABL	159.00	205.21	29.1%	-3.6%	-3.6%	148.25	193.75	6.0%	-0.2%	-0.2%
EQTY	50.00	50.60	1.2%	-5.2%	-1.0%	37.50	54.25	6.0%	-0.3%	-0.1%
Jubilee	279.00	394.85	41.5%	-11.9%	-8.1%	261.75	390.00	6.0%	-0.7%	-0.5%
KCB	45.00	52.45	16.6%	-1.0%	0.0%	37.95	49.90	6.0%	-0.1%	0.0%
Kenya RE	2.27	3.28	44.5%	-1.3%	0.4%	2.22	2.68	6.0%	-0.1%	0.0%
NCBA	23.85	30.29	27.0%	-5.4%	-6.8%	22.95	28.15	6.0%	-0.3%	-0.4%
NSE	7.78	10.05	29.2%	-2.8%	-2.5%	7.74	10.15	6.0%	-0.2%	-0.2%
Stanbic	95.00	102.92	8.3%	8.9%	5.6%	76.00	96.25	6.0%	0.5%	0.3%
StanChart	132.00	145.19	10.0%	2.9%	0.0%	124.00	144.50	6.0%	0.2%	0.0%
NSE-20	1,886.75			-0.8%	-0.1%					
NASI	160.25			-3.7%	-1.9%					

Source: AIB-AXYS Research

We have placed all the Banking Stocks under review until FY'21 Results are released. However, our general view is a BUY recommendation based on the expectation of return to dividend payment for almost all Banking counters. We will update individual counters as results come in.

Equity Group

Target Price: KES 50.60

Upside: 1.2%

Tailwinds

- Expansion in Congo is expected to grow the group's business by leveraging on its strength in lending to SMEs who form part of the mining and trade business in the country while expanding its reach to the corporates.
- The halt of dividend payment in FY19 and FY20 has seen the group enhance its capital ratios
- A high liquidity ratio of 59.3% positions to take up any opportunities that may arise as the East African economy continues to recover
- The enactment of the dividend policy with a commitment to payout 30%-50% of all profit after tax is likely to increase investors' sentiments on the counter.

Headwinds

- High exposure in the SME sector is likely to further deteriorate asset quality, especially with the government effecting new containment measures
- Ballooning provisions eating into the bottom-line with the cost of risk at 4.0%

KCB Group

Target Price: KES 52.45

Upside: 16.6%

Tailwinds

- Double digit growth in loan book fueling growth in interest income
- Cost of funds has remained stable at 2.7% despite strong growth in customer deposits (+11.7% y/y to KES 767.2B)
- Growing Net Interest Margin (+40 bps y/y to 8.3%)
- Declining Cost to Income ratio (-110 bps y/y to 44.8%).

Headwinds

- Deteriorating asset book quality with NPL ratio at 16.2%
- A surge in loan loss provisions on the back of Covid-induced economic struggle with an expected cost risk of 3.5%.

Absa Group

Target Price: KES 12.07

Upside: 1.4%

Tailwinds

- Growing NFI (+9.67% y/y) supported by forex trading income and introduction of new products
- Declining cost of funds (-40 bps y/y to 2.5%)
- Improving cost to income ratio (-300 bps y/y to 48.2%) due to investment in technology and reduced reliance on branches.
- Introduction of new channels such as WhatsApp Banking and Timiza loans App.

Headwinds

- Marginal growth in interest income as yields on interest-earning assets decline

Co-operative Bank

Target Price: KES 14.99

Upside: 16.2%

Tailwinds

- Declining cost of funds (-40% y/y to 3.3%) despite double-digit growth in deposits
- Diverse loan book to shield growth despite the shutdown in some sectors of the economy
- Low exposure to the high-risk sectors that have been largely affected by the prevailing pandemic.
- Optimization of operations through digitization has seen a continued increase in mobile transactions.

Headwinds

- Synergies from the acquisition of Jamii Bora 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

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Stanbic Holdings

Target Price: KES 102.92

Upside: 8.3%

Tailwinds

- Double-digit growth in PAT (+38.82% y/y)
- Expected growth in the loan book steered by an increase in corporate banking as well as secured personal lending segments.
- Expected growth in non-funded income on the back of an increase in fees and commissions following the resumption of fees on mobile transactions.

Headwinds

- Declining Deposits (-2.07%) to limit ability to lend
- Rising Cost to income (+90 bps y/y to 2.5%) due to a % increase in staff costs

NCBA Group

Target Price: 30.29

Upside: 27.0%

Tailwinds

- Conglomerate of various segments to solidify their presence in the East African market
- Group to retain front in digital lending through platforms such as M-Shwari and Fuliza
- Improved operational efficiencies to see cost synergies of a merged entity

Headwinds

- Asset quality to remain worrisome with NPL ratio at 16.1%, this may be further worsened by exposure to the SME sector

I&M Holdings

Target Price: KES 36.49

Upside: 74.6%

Tailwinds

- Recovery in Mauritius as the rolling out of vaccines sees the tourism and hospitality industry recover.
- Stable growth in loan book and deposits despite a tough operating environment
- Modest Cost to Income ratio of 41.8%

Headwinds

- Elevated provisions due to their exposure to risky-sectors

Diamond Trust Bank

Target Price: KES 79.00

Upside: 39.2%

Tailwinds

- Growing NFI (+6.1 % y/y) as the bank continues to grow its forex trading income
- Increased investment in innovation a good indication of their shift to digitization

Headwinds

- Increasing cost to income ratio due to the high staff cost (38% of total cost)
- Growing NPLs ratio due to its exposure to high-risk sectors

Standard Chartered Bank

Target Price: KES 145.19

Upside: 10.0%

Tailwinds

- Digital banking a key driver for growth as usage of the platforms increase
- Wealth management has been a key focus with the bank increasing its products.
- NFI to Total income ratio improved to 35% in 1Q21.

Headwinds

- Banks higher NPL ratio, which was higher than the industry average pre-pandemic, remains a source of concern.

EABL

Target Price: KES 205.21

Upside: 29.1%

Recommendation: BUY

Tailwinds

- Recovery in sales expected as the general economy recovers
- Stable growth in Tanzania given lax regulations on social gatherings
- Packaging of bottled beer brands in carton packs to allow take away option to boost beer sales

Headwinds

- Recovery in sales pegged on regulatory conditions in the respective subsidiaries
- Reduced sales in Senator Keg hence a decline in topline

Jubilee Holdings

Target Price: KES 394.85

Upside: 41.5%

Recommendation: BUY

Tailwinds

- Stable dividend payment to the allure of investors
- Stable growth in investment income despite effects of the pandemic (+12.7% y/y)
- Operational efficiencies and cost control measures have seen lower operating costs (-2.5% y/y)
- Allianz deal allows JHL to focus on growing footprint in General insurance

Headwinds

- Decline in consumer disposable income due to a slowdown in economic activity and job losses may see slowdown in insurance premiums growth while seeing a rise in claims and surrenders

Safaricom

Target Price: 38.81

Downside: 8.0%

Recommendation: BUY

Tailwinds

- 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
- Data revenue to be driven by mobile data and FTTH, supported by the investments in both 4G and 5G networks
- Ethiopian entry provides an exciting investment opportunity driven by a low mobile penetration

Headwinds

- 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

NSE

Target Price: KES 10.05

Upside: 29.2%

Recommendation: BUY

Tailwinds

- Declining operating costs (-25.3% y/y to KES 467.2M)
- Increased fees from new products. The launch of M-Akiba bond and the Ibuka program has helped the NSE diversify its revenues. Revenues from these sources are expected to increase as the uptake of these products increases
- Attractive dividend yield

Headwinds

- Lower transaction levy as turnover declines
- Reducing income from data vending as demand for data decreases

Bamburi Cement

Target Price: KES 45.28

Upside: 22.2%

Recommendation: BUY

Tailwinds

- Increased cement demand as the government continues its infrastructure projects and economic activity picks up.
- Due to the border issues with Rwanda, Bamburi isn't exporting to the country. Volumes could increase if the border between Uganda and Rwanda is reopened.
- In this tough operating environment, Bamburi has focused on reducing costs which have led to an increase in efficiency.
- Lower commodity prices (the global price of clinker has declined) is likely to reduce the cost of goods.

Headwinds

- Lower revenue due to a decrease in cement prices in both Kenya and Uganda.
- Increased competition could further depress prices.
- Cheaper products are cannibalizing on the premium brands. This is likely to reduce revenue growth.

Kenya Re

Target Price: KES 3.28

Upside: 44.5%

Recommendation: BUY

Tailwinds

- The compulsory reinsurance business accounts for 35% of the re-insurers earnings ensuring a steady flow of revenues and stability in the topline
- Stable dividend payout despite the prevailing pandemic

Headwinds

- Regional expansion may be delayed due to the pandemic
- Lower earnings due to loss of business as increased claims and rebates forced insurers to renegotiate their insurance contract with their customers

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