



FEBRUARY 2023 STOCK PICKS

January'23 Review

- **Corporate Profit Warnings Return** - The month of January saw the announcement of an expectation of a greater than 25% decline in prior year PAT from companies such as Eveready and Kenya Airways. Other listed counters that have reported a profit warning in the recent past include; Standard Group, Crown Paints, NSE, and Flame Tree Group.
- **EABL Recorded a Flat PAT Growth and Diageo Received Regulatory approval**- EABL [announced flat HY'23 earnings](#) with the PAT maintaining at KES 8.70 Bn despite an 8.08% y/y increase in revenue to KES 104.66 Bn. Interim DPS was maintained at KES 3.75. Diageo Kenya [received the requisite regulatory approval](#) for its proposed acquisition of up to 118.39 Mn ordinary shares in EABL (representing a maximum of 14.97% of the issued share capital of EABL) using a partial tender offer at an Offer Price of KES 192.00. The regulator also approved Diageo's exemption from the requirement to make a mandatory offer to acquire all the issued shares in EABL.
- **Centum's Exit of Sidian Bank Collapsed** – Centum's [sale of its 83.40% stake in Sidian Bank](#) to Access bank of Nigeria collapsed following the lapse of the share price agreement's long stop date. We believe the deal collapsed largely due to both parties' valuation differences. The deal collapsing could mean reduced cash flow to support the intended share buyback and also keeping in mind Centum RE's bond maturity in December 2023.
- **Inflation Continued to Cool off** - The [headline inflation declined for the third straight month](#) to 9.00% from 9.10% recorded in December 2022. The CPI increased 0.23% to 128.99 in January 2023 from 128.99 in December 2022. Meanwhile, the food and non-alcoholic beverages index y/y increased reduced to 12.80% from 13.80% in December 2022. We expect headline inflation to remain under pressure and above the CBK's upper target at least until Q2'23.
- **MPC Retained CBR at 8.75%** – During the month, the Central Bank's MPC in line with our expectations [maintained the CBR at 8.75%](#) following an observation that the effects of the November hike were still being transmitted. We expect declining inflation to delay further hikes in the coming meetings.
- **Shilling Continued Losing Streak against USD** - Kenya shilling continued to depreciate by a further 83bps against the USD to close at **KES 124.40** versus **KES 123.37** to the dollar at the end of December 2022. We expect the shilling to remain under pressure due to dollar demand from energy importers, reduced dollar inflows, and the aggressively growing government debt.

What does February Hold?

- **FY'22 Earnings Season** - In the month of January, we expect FY'22 results from BAT which is a perennial dividend-paying counter, however, the increased cost of input raw materials coupled with tough economic times reducing sales revenue are likely to see a reduction and/or slower profit growth. That notwithstanding, we expect the counter to still pay an additional final dividend of KES 50.00 taking the total dividend to KES 55.00.

Table 1: Upcoming Corporate Actions

Counter	Interim Dividend	Final Dividend	Book Closure	Dividend Payment
Kengen Plc		KES 0.20	26 th January 2023	30 th March 2023
Car & General		KES 0.80	24 th February 2023	23 rd March 2023
EABL	KES 3.75		16 th February 2023	28 th April 2023

January Equities Market Performance

During the month of January, the indicative indices opened the year on a negative with both the NSE-20 and NASI declining 1.12% and 1.22% m/m to close at 1657.22 and 125.91 respectively. Foreign investors remained as net sellers with the selling position increasing by 71.17% to **KES 2.86Bn**, if the same trend continues the total foreign net selling position for 2023 is likely to surpass the **KES 24.04Bn** recorded in 2022.

Equity turnover increased by 74.62% m/m to **KES 7.80Bn** from **KES 4.47Bn** in December, while volumes traded shot up 103.54% to KES 332.34Mn. We attribute the increased market activity to focus on blue chips led by banking sector counters. Market capitalization declined 1.23% m/m to **KES 1961.63Bn** mainly supported by a late rally from SCOM. We expect market activity to continue increasing for the next four months (To remain above KES 9.00Bn/month) owing to the commencement of the FY'22 earnings season with expectations of higher dividends in the banking sector.

Top gainers: Driven by the ongoing rights issue, Trans Century was the largest gainer m/m (+38.71%) jumping to KES 1.29 from KES 0.93. We observed increased local investor participation largely by providing support following net foreign sales with Safaricom being a beneficiary. Other gainers included; Kenya Orchards (+31.73%) driven by local demand, Umeme (+23.08%) who we expected to record a decline following the announcement that the Ugandan government will not renew the current power concession expiring in 2025.

Top Losers: Car & General (-24.13%) was the largest decliner m/m driven by an underwhelming dividend that we believe has irked investors. Other top losers were; Liberty (-18.93%), NBV (-14.85%), and Sanlam (-12.94%). 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.

February Equities Outlook – We expect investors to take profit on NCBA, EABL and some of the January top gainers. As per our earlier expectations, we believe the NCBA share price has peaked and will decline at least until the FY'22 results are announced. We recommend an entry point near the KES 30.00 regions. Diageo Kenya's is expected to finalize the earlier tender offer on EABL at KES 192.00 which is a 8.94% premium on the January 31st closing price. We recommend a BUY on EABL given the KES 3.75 interim dividend and the possibility of a share price increase as tender offer closure approaches

January '23 Top 10 Gainers

Counter	M/M Change (%)
Trans Century	38.71%
Kenya Orchards	31.73%
Umeme	30.46%
EA Cable	13.10%
Sameer Plc	10.95%
StanChart Bank	10.16%
Williamson Tea	9.38%
ABSA New Gold	8.18%
Stanbic Holdings	7.84%
Eaagads	6.67%

January '23 Top 10 Losers

Counter	M/M Change (%)
Car Gen	-24.13%
Liberty	-18.93%
NBV	-14.85%
Sanlam	-12.94%
Olympia	-11.82%
TPS Serena	-10.11%
NCBA Group	-8.77%
Jubilee Holdings	-8.18%
Kengen	-8.07%
Bamburi Cement	-7.94%

Portfolio Performance

In the first month of the year, our model portfolio outperformed both benchmark indices on an m/m basis by recording a -0.04% decline. On a comparative basis, the NASI and NSE-20 indices lost 1.22% and 1.12%, respectively.

The portfolio performance was lifted by m/m gains recorded by **SCBK**, **SBIC** and **EABL**. However, declines by counters such as **NCBA**, **BAMB**, and **JUB** weighed down on further gains in the overall portfolio performance. We observed foreigners remaining net sellers despite an improvement in the buying position in some trading sessions during the month of January. We expect another month of mixed performance largely driven by investors aligning themselves to dividend paying counters as the earnings season begins later this month. However, trading will remain largely concentrated in the blue-chip counters – SCOM, Banking sector and other select counters.

Table 3: Portfolio Performance

January '23 Performance	M/M	YTD
AIB-AXYS Africa Portfolio Performance	-0.04%	-0.04%
NSE-20	-1.12%	-1.12%
NASI	-1.22%	-1.22%

Table 4: Portfolio Constituents

Counter	31-Jan-2023	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low
NCBA	35.90	43.29	20.58%	-8.77%	-8.77%	40.00	23.00
SBIC	110.00	112.92	2.65%	7.84%	7.84%	112.00	82.00
ABSA	12.40	14.03	13.15%	0.81%	0.81%	13.40	9.00
DTK	50.00	60.02	20.04%	0.00%	0.00%	65.50	44.50
COOP	12.45	14.99	20.40%	1.22%	1.22%	14.00	10.00
EABL	176.25	197.51	12.06%	5.22%	5.22%	180.00	110.00
BAMB	29.00	35.28	21.66%	-7.94%	-7.94%	39.80	29.10
KCB	38.10	52.45	37.66%	0.00%	0.00%	48.00	32.50
IMH	17.00	23.53	38.41%	0.00%	0.00%	23.00	16.00
JUB	184.00	235.85	28.18%	-7.42%	-7.42%	330.00	180.00
SCOM	23.40	35.25	50.64%	-3.11%	-3.11%	41.00	20.60
SCBK	157.25	165.19	5.05%	10.16%	10.16%	155.25	115.00
EQTY	44.00	62.12	41.18%	-1.12%	-1.12%	56.00	38.75

Table 5: Recommendation Summary

Stock	Positives	Negatives	Recomm
Equity Group Current Price: KES 44.00 Target Price: KES 62.12 Upside: 41.18%	<ul style="list-style-type: none"> NPL ratio was 9.47% below the latest industry average of 13.20% 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 38.10 Target Price: KES 52.45 Upside: 37.66%	<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 1-2.00 final 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 12.40 Target Price: KES 14.03 Upside: 13.15%	<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% 	HOLD
Co-operative Bank Current Price: KES 12.45 Target Price: KES 14.99 Upside: 20.40%	<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 110.00 Target Price: KES 112.92 Upside: 2.65%	<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 	HOLD
NCBA Group Current Price: KES 35.90 Target Price: KES 43.29 Upside: 20.58%	<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 	BUY
Diamond Trust Bank (DTB-K) Current Price: KES 50.00 Target Price: KES 60.02 Upside: 20.04%	<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 31st January 2023

Stock	Positives	Negatives	Recomm
Standard Chartered Bank Current Price: KES 157.25 Target Price: KES 165.19 Upside: 5.05%	<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 176.25 Target Price: KES 197.51 Upside: 12.06%	<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. • Current ratio worsened to 0.82 from 0.85 and remains below the recommended 1.00 	HOLD
Safaricom Plc Current Price: KES 23.40 Target Price: KES 35.75 Upside: 50.64%	<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 184.00 Target Price: KES 235.85 Upside: 28.18%	<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
Bamburi Cement Current Price: KES 29.00 Target Price: KES 35.28 Upside: 21.66%	<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

*** Current Price is as at 31st January 2023

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