AIB AXYS AFRICA

MONTHLY STOCK PICKS

APRIL 2023 STOCK PICKS

March'23 Review

- **FY'22 Earnings Season -** During the month, we had earnings releases from; the banking sector, Kakuzi, CIC, ILAM I-REIT, NSE, Umeme, Kenya Re, and Limuru Tea. Kakuzi's FY'22 net earnings improved 164.53% to KES 0.85Bn driven by pricing benefits in the export markets. ILAM I-REIT FY'22 results were a 104.12% increase in PAT to KES 86.16Mn after new tenants at Greenspan Mall. Umeme's FY'22 PAT increased 6.52% to KES 148.22Mn while LIMT's FY'22 earnings improved 218.73% to KES 11.35Mn. Others that released but without dividend payments were; Britam, Liberty, HF Group, Kenya Orchards, and Kenya Airways.

- **Additional Listings –** During the month, we witnessed a listing by the introduction of the Laptrust Imara I-REIT. The new listing becomes the second I-REIT listing at the NSE after Fahari I-REIT. Laptrust, the REIT sponsor, was established as a pension scheme for employees of the then Local government authorities (e.g. municipalities) who later transitioned to county governments. The REIT currently owns commercial and residential buildings in Nairobi and Eldoret. The units will be trading at KES 20.00 per unit with a minimum investment of 250,000 units translating to KES 5.00Mn. We view the listing as a positive step in providing diversification for investors as well as providing exit avenues for pension schemes. However, we find the minimum investment to be prohibitive to the participation of retail investors.

- **CEO Appointments** – During the month we observed several top-level changes including: 1) ABSA- The board of ABSA appointed Abdi Mohamed as the Managing Director and CEO following the exit of Jeremy Awori in Q3'22 2) Kenya Re - The board of Kenya Re appointed Dr. Hillary Wachinga as the Managing Director to replace Jaradiah Mwarania 3) Bamburi Cement - The board of Bamburi Cement appointed Mr. Mohit Kapoor as the Group CEO to replace Mr. Seddiq Hassani who has served for the last five years.

- **Inflation Maintained Contrary to Expectations -** The headline inflation for the month of March maintained at 9.20% similar to February. Food inflation increased to 13.40% from 13.30% in February, and the housing utilities and transport indices declined marginally to 7.50% and 12.60% y/y, respectively. Non-Food-Non-Fuel (Core Inflation) maintained at 4.40% similar to February. The CPI increased 81bps to 131.18 in March from 130.13 in February 2023. We expect headline inflation to remain under pressure and above the CBK's upper target at least until the end of Q2'23.

- **Shilling Continued Losing Streak against USD -** Kenya shilling continued to depreciate further against the USD to close at **KES 132.33** versus **KES 126.86** at the end of February. We observed a faster decline in the month of March (-4.32%) compared to February (-1.91%). We expect the shilling to remain under pressure due to dollar demand from energy importers, reduced dollar inflows, and dollar strength against frontier currencies.

- **Forex Code Introduced to Guide Interbank Forex Pricing -** The Central Bank of Kenya (CBK) announced the issuance of the Kenya Foreign Exchange Code (the FX Code) to commercial banks. The Code is expected to set out standards for commercial banks and promote the integrity and effective functioning of the wholesale forex market in Kenya. We believe the circulation of the code will facilitate better functioning of a flexible foreign exchange market.

- **March MPC Meeting -** Central Bank's MPC held the second meeting of 2023 where the Central Bank Rate (CBR) was increased by a further 75 bps to 9.50% from 8.75%. The committee also noted the banking sector non-performing loans increased to 14.0% in Feb'23 while private sector credit growth slowed to 11.70% from 12.70% in December 2022. Exports grew by 11.00% driven by growth in the manufacturing sector with imports growing slower by 2.10%, whilst diaspora remittances were 4.90% higher than in Feb'22. This increase will have implications for the banking sector with lenders revising their benchmark lending rate upwards further increasing the cost of credit.

What does April Hold?

- **FY'22 Earnings Season Continues** – In the month of April, we expect further releases of FY'22 results by companies such as Bamburi Cement, and Jubilee Holdings among others. We anticipate lower profits on the back of a tough operating environment in 2022 owing to the increase in the cost of inputs, currency depreciation, and changing consumer preferences.

Table 1: Summary Corporate Actions in March

	Company	Corporate Action and Our Comments
1.	EABL	• Diageo announced the finalization of the acquisition of additional shares of EABL taking the ownership to 65.00% of issued shares. Diageo bought 118.4Mn shares at KES 192.00/share at a total cost of KES 22.7Bn.
2.	Safaricom Plc	• The board of Safaricom issued an interim dividend of KES 0.58 for the financial year ending 31.03.23 lower than our expected KES 0.60. We view the lower DPS as a reflection of the expected decline in FY'23 PAT.
3.	ABSA Bank	• The board of ABSA appointed Abdi Mohamed as the Managing Director and CEO following the exit of Jeremy Awori in Q3'22. This was against our expectations of Yusuf Omari, the interim CEO, being appointed permanently as he is an insider who had served for a long time within the group.
4.	Trans Century	• The TCL shareholders held an extraordinary general meeting (EGM) where they approved the conversion of existing shareholder loans into ordinary shares of the company to be allotted pursuant to the rights offer. The conversion relates to an application made by the majority shareholder, Kuramo Capital, for conversion as stipulated in the EGM agenda. The conversion was approved by the shareholders during the EGM. We estimate Kuramo's shareholder debt at KES 1.90Bn as of FY'22 with no indications of how much of the debt was converted.

Table 2: Upcoming Dividends

Counter	Interim Dividend	Final Dividend	Book Closure	Dividend Payment
EABL	KES 3.75		16th February 2023	28th April 2023
ILAM FAHARI I-REIT		KES 0.65	6th April 2023	30th April 2023
KCB Group Plc		KES 1.00	6th April 2023	26th May 2023
Limuru Tea Plc		KES 2.50	14th April 2023	30th June 2023
I&M Group Plc		KES 2.25	20th April 2023	25th May 2023
Standard Chartered		KES 16.00	21st April 2023	25th May 2023
NCBA Group Plc		KES 2.25	28th April 2023	31st May 2023
Absa Bank Kenya Plc		KES 1.15	28th April 2023	25th May 2023
CIC Insurance Group Plc		KES 0.13	8th May 2023	26th May 2023
Diamond Trust Bank Kenya Ltd		KES 5.00	12th May 2023	15th June 2023
Equity Group Holdings Plc		KES 4.00	19th May 2023	30th June 2023
Stanbic Holdings Plc		KES 12.60	19th May 2023	TBA
B.A.T Kenya Plc		KES 52.00	26th May 2023	15th June 2023
Co-operative Bank of Kenya Plc		KES 1.50	24th May 2023	9th June 2023
Kakuzi Plc		KES 24.00	31st May 2023	15th June 2023
Nairobi Securities Exchange Plc		KES 0.20	31st May 2023	31st July 2023
Kenya Re Insurance		KES 0.20	16th June 2023	28th July 2023
Umeme Limited		KES 2.24	27th June 2023	20th July 2023
BK Group Plc		KES 3.91	22nd June 2023	1st July 2023

Source: NSE, Company Fillings, AIB-AXYS Research

Table 3: Summary of banking Sector Results

	Company	Final DPS	Comment
1.	ABSA	KES 1.10	• PAT increased 34.20% y/y to KES 14.59Bn attributed to growth in net interest and non-interest income, following an impressive loan book growth and new revenue streams. A total dividend of KES 1.35 is to be paid out representing a 22.73% increase from KES 1.10 paid out in FY21
2.	CO-OP	KES 1.50	• PAT increased 33.25% to KES 22.04Bn powered by growth in non-interest income attributed to forex trading income and fees from loans. A final dividend of KES 1.50 was declared representing a 50.00% increase from KES 1.00 paid out in FY21
3.	DTB	KES 5.00	• PAT shot up 55.08% y/y to KES 6.06Bn powered by growth in net interest income and non-interest income. With substantial increases in the loan book and customer deposits. Operating expenses growth was driven by increase in staff costs and other operating expense
4.	Equity Group	KES 4.00	• PAT increased 15.35% y/y KES 46.10Bn driven by growth in net interest and non-interest income, attributed to an increase in interest from government securities and forex trading income. A final dividend of KES 4.00 was declared representing a 33.33% increase from KES 3.00 paid out in FY'21.
5.	I & M Group	KES 2.25	• PAT jumped 34.32% y/y to KES 11.58Bn attributed to growth in operating income items from an increase in interest from government securities and forex trading income. We also observed a faster loan book growth than customer deposits. However, there was an increase in operating expenses, impairment provisioning, and a decline in asset quality through higher non-performing loans.
6.	NCBA Group	KES 2.25	• PAT jumped 34.77% y/y to KES 13.78Bn attributed to growth in net interest and non-interest income, following an increase in interest from loans and advances and forex trading income. We also observed improved growth in the loan book driven by mobile lending compared to customer deposits. Notably, the asset quality improved as seen by the decline in non-performing loans
7.	KCB Group	KES 1.00	• PAT jumped 19.13% y/y to KES 40.61Bn attributed to growth in net interest and non-funded income lines. We observed a 31.22% y/y increase in NPL on the back of the economic difficulties and high inflation in operating markets. We view KCB's acquisition of TMB of DRC as a positive revenue generator for the long term in line with the company's growth vision.
8.	Stanbic	KES 12.60	• Bottom-line growth (25.69% growth in PAT to KES 9.06Bn) was driven by a faster increase in lending income (31.81% y/y) and non-interest income (23.74% y/y). Yield on assets grew 99bps y/y to 7.96% as income from government papers grew faster than interest earning assets in the year. The effects of the rising interest environment were felt in the 11bps rise in cost of funds to 2.48%.
9.	Standard Chartered	KES 16.00	• PAT jumped 33.41% y/y to KES 12.06Bn driven by growth in net interest and non-interest income. We expect long-term growth to be driven by financial markets and wealth management units coupled with better performance from transaction banking.

Source: NSE, Company Fillings, AIB-AXYS Research

March'23 Equities Market Performance

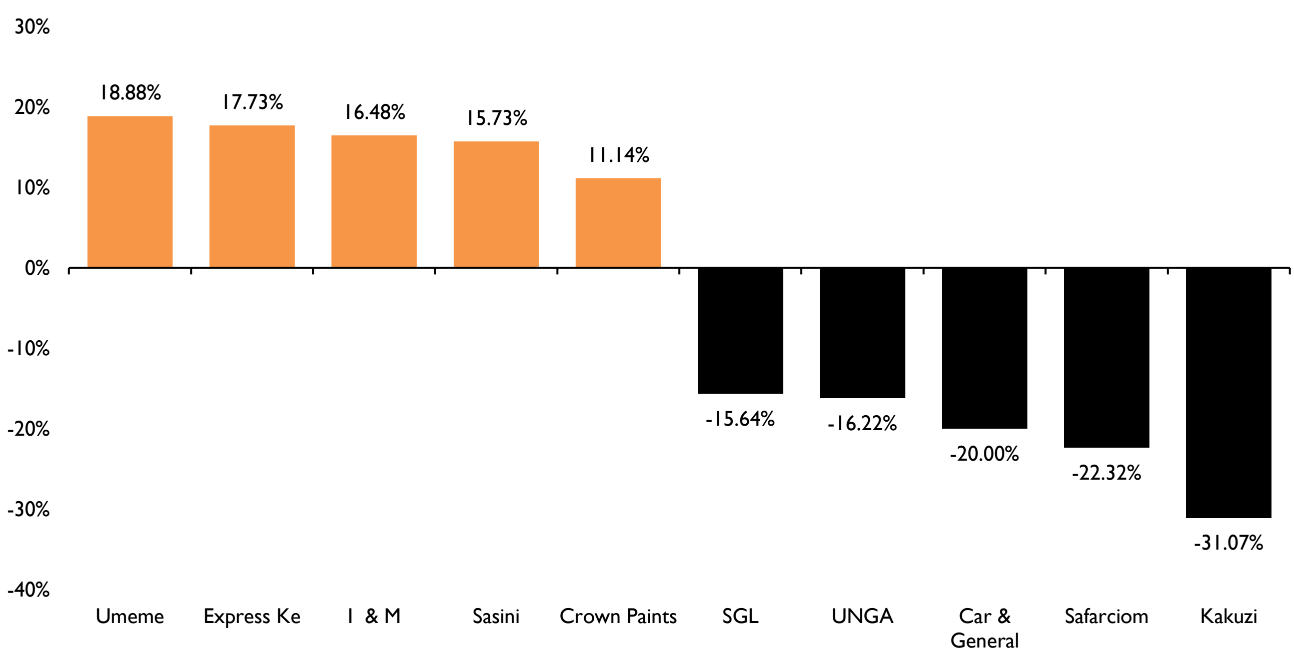
During the month of March, all indicative indices were on a downward trend with NASI and NSE-20 declining by 10.50% and 1.49%, respectively. Foreign investors remained as net sellers with the selling position increasing by 3.90x to KES 1.87Bn taking the YTD Net selling position to **KES 5.11Bn**. If 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 jumped 6.02x m/m to **KES 32.37Bn** from **KES 4.61Bn** in February driven by the completion of the Diageo tender offer. Volumes traded also increased 243.74% to KES 583.05Mn. Market capitalization was down 10.52% m/m to **KES 1756.26Bn.** We expect market activity to remain above KES 5.00Bn/month, in Q2'2023, owing to the impressive FY'22 earnings season and dividend declaration from players in the banking sector.

Top gainers: Driven by an improved dividend, Umeme (UMME) was the largest gainer in March'23 (+18.88%) jumping to KES 11.65 from KES 9.80. We have continued to see the jump by UMME despite the news of the non-renewal of the power distribution concession by the Ugandan Government on expiry in 2025. The power company recorded improved FY'22 results with an 18.11% higher dividend (KES 2.22 vs KES 1.88 in FY'21). I & M Group also jumped 16.48% m/m on the back of positive FY'22 results and attractive dividends. Other gainers included; Express Kenya (+17.73%) driven by local investor demand, Sasini (+15.73%), and Crown Paints (+11.14%) reversing last month's losses.

Top Losers: Kakuzi was the largest m/m decliner (-31.07%) driven by local sales. Other top losers were; Safaricom (-22.32%) on the back of increased net foreign sales, Car & General (-20.00%) driven by investors' profit-taking following a good performance in 2022, and Unga (-16.22%) following negative HY'23 results released in February.

Chart 1: March '23 Top 5 Gainers and Losers



Source: NSE, AIB-AXYS Research

Our Top Three Picks

a) **Safaricom (SCOM)** – We continue to recommend a BUY of the telco as the current share price represents an attractive entry point and a long-term value-play. The current share price of KES 18.00 represents a – 25.47% decline so far in 2023 and is 94.75% below our target price of KES 35.25. We observed a five-year historical dip during the month of March with a sudden recovery supported by both local and foreign trading. We view the separation of Mpesa from the Telco business as positive for both entities as the mobile platform will be free (mostly regulatory-wise) to pursue new growth opportunities. We expect Safaricom to create a non-operating hold company that will inherit the current Safaricom Plc listing. Subsequently, the Telco, Financial Services, and towers will operate as separate business units. We expect CBK will issue a Payment Services Bank (PSB) license for Mpesa to also operate as a payment provider. As such, we do not have any significant impact on the group's operations. Therefore, we maintain our recommendation that local investors should continue taking advantage of the foreign investors' exits as we believe the counter is still trading below its potential.

b) **KCB Group (KCB)** – We recommend a BUY on the lender driven by the conclusion of the attractive DRC market and positive FY'22 net earnings results. In the short term, we expect the commitment to align the regional operations to lay a strong foundation for long-term growth. The lender has also been focusing on new growth frontiers such as trade finance as well as continued investment in digital channels for both loan book and customer deposits growth. On the downside, legacy non-performing loans (NPLs) have continued to hurt investor sentiments, capital structure, and profitability as lenders look to make the necessary provisioning. The lower dividend payout in FY'22, KES 2.00 vs KES 3.00 in FY'21, disappointed investors leading to the recent share price decline. However, we still see long-term value in holding KCB as the current share price at KES 36.15 is 34.25% lower than our target price of KES 48.53 representing a YTD decline of 5.12% thus providing an attractive entry point for long-term capital gains and expected future dividend payout.

c) **Kakuzi Plc (KUKZ)** – Kakuzi's profit growth (+ 164.53% to KES 0.85Bn) was attributed to an increase in yields from avocados and other areas of operations such as tea and macadamia. We also noted an increase in expenses and a decline in the Fair value of non-current biological assets. We expect the firm to continue recording higher earnings growth on the back of the expansion of export markets such as the Asian Avocado market. However, the increased cost of farm inputs will likely slow down profit growth as operating expenses increase. Kakuzi recorded an improved ROE of 14.72%. The counter is currently trading at a P/E multiple of 6.12x compared to a market average of 6.30x pointing to an undervaluation. We expect the counter to continue on a recovery path and the current share price at KES 264.00 is an attractive entry point as the counter goes back to the current 52-week high of KES 450.00.

Portfolio Performance

In March'23, our model portfolio (-1.94%) continued to outperform the NASI index (-10.50%) while falling below the NSE-20 (-1.49%). However, our model portfolio has outperformed both benchmark indices on a YTD basis. On a YTD basis, the NASI and NSE-20 indices have lost 11.55% and 3.22%, respectively, compared to our model portfolio which has lost 1.32%.

The portfolio performance was lifted by m/m gains recorded by **I & M Group, Stanbic,** and **Standard Chartered.** However, huge declines by counters such as **SCOM, KCB,** and **Jubilee** 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 in Q1'2023. We expect another month of mixed performance largely driven by investors aligning themselves to dividend-paying counters as the continued earnings season and foreigners remaining as net sellers. However, trading will remain largely concentrated in the blue-chip counters – SCOM, the Banking sector, and other select counters are driven by the hunt for dividends.

Table 4: Portfolio Performance

March '23 Performance	M/M	YTD
AIB-AXYS Africa Portfolio Performance	-1.94%	-1.32%
NSE-20	-1.49%	-3.22%
NASI	-10.50%	-11.55%

Table 5: Portfolio Constituents

Counter	31-Mar-2023	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighted YTD return	Weighted M/M return
IMH	20.85	23.94	14.82%	22.65%	16.48%	21.00	16.50	0.91%	0.66%
SBIC	110.00	113.09	2.81%	7.84%	4.76%	114.00	90.00	0.63%	0.38%
SCBK	170.00	168.53	-0.86%	19.09%	3.98%	170.00	121.00	1.91%	0.40%
COOP	13.15	15.15	15.21%	6.91%	3.95%	13.15	10.70	0.41%	0.24%
DTK	51.25	59.21	15.53%	2.50%	2.50%	59.00	44.00	0.15%	0.15%
ABSA	12.80	14.83	15.86%	4.07%	2.40%	12.80	9.70	0.24%	0.14%
BAMB	28.05	35.28	25.78%	-10.95%	2.00%	38.35	26.75	-0.66%	0.12%
EQTY	45.50	57.92	27.30%	2.25%	0.00%	53.25	37.90	0.18%	0.00%
NCBA	36.70	44.10	20.16%	-6.73%	0.00%	40.00	23.60	-0.67%	0.00%
EABL	170.00	197.51	16.18%	1.49%	-2.72%	187.00	110.00	0.15%	-0.27%
JUB	177.00	235.85	33.25%	-10.94%	-3.28%	274.75	148.25	-0.66%	-0.20%
KCB	35.50	48.53	36.70%	-6.82%	-7.19%	44.05	30.00	-0.41%	-0.43%
SCOM	18.10	35.25	94.75%	-25.05%	-22.32%	35.45	16.35	-3.51%	-3.12%

Source: NSE, AIB-AXYS Research

Table 6: Recommendation Summary

Stock	Positives	Negatives	Recomm
ABSA Bank Kenya **Current Price: KES 12.80** **Target Price: KES 14.83** **Upside: 15.86%**	• Growing loan book in FY'22 by 21.07% thus improving interest income by 27.50% • 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	• Gross NPLs grew 13.62% y/y to KES 22.52Bn, raising asset quality concerns • Cost of risk was up 27bps to close FY'22 at 2.28%	BUY
Co-operative Bank **Current Price: KES 13.15** **Target Price: KES 15.15** **Upside: 15.21%**	• 32.63% growth in non-funded income in FY'22 mainly driven by increased forex trading income • Growth in loan book through a focus on MSME lending, better subsidiary performance, and focus on improved digital channels • Improved performance from kingdom bank with an 86.86% increase in the PAT to KES 930.17Mn	• Gross NPLs increased 5.23% y/y to KES 52.33Bn, with the cost of risk remaining constant at 2.56%	BUY
Equity Group **Current Price: KES 45.50** **Target Price: KES 57.92** **Upside: 27.30%**	• Non-Funded Income grew 34.46% y/y to KES 59.94Bn mainly driven by trade finance lending and Forex trading. • DRC acquisition is proving to be fruitful with a 45.00% growth in PAT • Investment in Trade finance which is a promising new frontier	• Higher Eurobond yields expose the lender to a huge mark-to-market loss • Uganda subsidiary is struggling compared to other regional businesses	BUY
Diamond Trust Bank (DTB-K) **Current Price: KES 51.25** **Target Price: KES 59.21** **Upside: 15.53%**	• Enhanced digital transactions increased interest income in FY'22 • Increased investment in innovation is a good indication of their shift to digitization • Net Interest Income increased 14.48% to KES 22.89Bn mainly driven by the current market uptick in the bond yield of government papers.	• Asset quality concerns persist as Gross NPLs increased by 28.15% • Historically low ROE and ROA are a downside to investors' perception	BUY
KCB Group **Current Price: KES 35.50** **Target Price: KES 48.53** **Upside: 36.67%**	• Improvement regional subsidiaries' contribution to PBT • 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	• Increased Gross NPLs to KES 161.02 albeit decrease in provisions • Thin capital buffers point to a need to recapitalize but is not an imminent concern	BUY
Stanbic Kenya **Current Price: KES 110.00** **Target Price: KES 113.09** **Upside: 2.81%**	• Double-digit growth (+31.81%) in non-interest income in FY'22 after growth in digital channels • Growth in the loan book by 16.36% y/y steered by a resumption in lending and investments in digital banking.	• Increased Gross NPLs by 26.42% y/y to KES 28.45Bn	HOLD
NCBA Group **Current Price: KES 36.70** **Target Price: KES 44.10** **Upside: 20.16%**	• 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 11.75% y/y to KES 39.13Bn,	• Huge capital expenditure expected given the bank's intention to expand to 8 other African countries	BUY

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

Stock	Positives	Negatives	Recomm
Standard Chartered Bank **Current Price: KES 170.00** **Target Price: KES 168.53** **Upside: -0.86%**	• Performance from the Wealth Management and financial markets driving non-interest income • Non-Funded Income grew 13.53% y/y to KES 11.75Bn mainly driven by trade finance lending and Forex trading • The proposed interim dividend of KES 16.00 is a key positive	• Multiples are trading above sector and market average indicating overvaluation • Compared to peers, we have observed a slow balance sheet growth. Loan book grew 10.67% while customer deposits grew by 5.05% in FY'22	SELL
EABL **Current Price: KES 170.00** **Target Price: KES 197.51** **Upside: 16.18%**	• 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	• 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 23.30** **Target Price: KES 35.75** **Upside: 51.29%**	• 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.	• 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 177.00** **Target Price: KES 235.85** **Upside: 33.25%**	• 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	• 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 28.05** **Target Price: KES 35.28** **Upside: 25.78%**	• 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	• 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 March 2023

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