MARCH 2023 STOCK PICKS

February'23 Review

- **Local Pump Prices Remained Constant -** EPRA maintained the fuel prices constant for the next month despite a 2.81% decline in the landing cost of murban crude at 90.90 USD from 93.53 USD recorded in December. We also noted a continued difference in the USD exchange rate from CBK's official quoted currency with the exchange rate coming in at KES 130.64//USD compared to the average CBK rate of KES 123.92/USD in January. Petrol will continue retailing at KES 177.30/litre, diesel at KES 162.00/litre and kerosene will continue at KES 145.94. Additionally, the price of diesel was cross-subsidized with that of petrol while the government maintained a KES 19.41/litre subsidy on Kerosene.

- **Inflation Edged Up Contrary to Expectations -** The headline inflation increased to 9.20% from 9.00% recorded in January. The increase was attributable to heightened food prices arising from unfavorable weather conditions during the month. Food inflation increased to 13.30% from 12.80% in January, Fuel inflation remained elevated at 13.80% and Non-Food-Non-Fuel (Core Inflation) increased marginally to 4.40% from 4.30% in January. We expect headline inflation to remain under pressure and above the CBK's upper target at least until Q2'23.

- **Shilling Continued Losing Streak against USD -** Kenya shilling continued to depreciate further against the USD to close at **KES 126.86** versus **KES 124.40** as at the end of January. We expect the shilling to remain under pressure due to dollar demand from energy importers, reduced dollar inflows, and dollar strength against frontier currencies.

What does March Hold?

- **FY'22 Banking Sector Earnings Season -** In the month of March, we await the release of FY'22 results for the Banking and Insurance sectors, and Bamburi Cement, among others. We anticipate favourable results with a higher dividend payment across the banking sector. Therefore, we expect investors to continue taking positions in the banking sector stocks.

- **March MPC Meeting -** The next meeting of the Monetary Policy Committee (MPC) will be held on March 29th 2023. We expect the committee to consider the impact of the previous decisions as well as monitor the prevailing macro factors.

Table 1: Upcoming Corporate Actions

Counter	Interim Dividend	Final Dividend	Book Closure	Dividend Payment
Kengen Plc		KES 0.20	26th January 2023	30th March 2023
Car & General Plc		KES 0.80	24th February 2023	23rd March 2023
EABL	KES 3.75		16th February 2023	28th April 2023
Safaricom Plc	KES 0.58		15th March 2023	31st March 2023
B.A.T Kenya Plc		KES 52.00	26th May 2023	15th June 2023

Table 2: Summary Corporate Actions in February

	Company	Corporate Action and Our Comments
1.	Trans century	• TCL received CMA's approval to reopen it's recently concluded rights issue. We believe the reopening was due to an underperformance of the first issue. The company intended to raise KES 2.06Bn at an offer price of KES 1.10. • Our point of concern is that majority of the proceeds from the rights issue have been earmarked for debt repayment and working capital requirements. TCL will hold an EGM on March 16th,2023 to vote on the proposal to convert loans from top investor Kuramo Capital into equity as part of the rights issue.
2.	Car & General	• CGEN announced that it has entered into a share purchase agreement with CMI Africa Holdings BV (Cummins BV) for the acquisition of 50.00% of the shares in Cummins C&G Holdings Limited. Following completion of the Transaction, CGEN will own 100.00% of the shares in the Cummins CG. • We expect this to have a positive impact in the business processes however the change will produce quantitative effects int the long term.
3.	Centum	• CTUM announced the results of the extraordinary general meeting which approved the company's intended share buyback. CTUM is seeking to undertake a share buyback by purchasing 10.00% of the issued and paid-up shares (66.54mn shares). The buyback is set to continue over an 18-month period from the date of the resolution at a maximum price of KES 9.03 and a minimum price of KES 0.50
4.	Equity Group	• During the week, Equity Group, through Equity Bank Kenya (EBKL), announced the completion of the acquisition of certain assets and liabilities of Spire Bank Limited. As per the initial communication, EBKL acquired approximately 20,000 deposit customers and 3,700 loan customers.

Table 3: Summary Results Released in February

	Company	PAT Growth	Comment
1.	BAT Kenya Plc	6.31%	• We have a positive outlook on the company's FY'23 performance driven by growth in export sales volumes, continued cost efficiencies and the re-introduction of their Oral Product, (Velo). We however remain concerned on the impact of illicit trade, inflationary pressure and an increase in excise tax which poses significant pressure on consumer purchasing power. The company issued a KES 55.00 final dividend to supplement the KES 5.00 Interim issued in HY'22.
2.	Longhorn	-758.48%	• We expect improved FY'23 results owing to the resumption of normal school terms in the calendar year. Recent approvals for CBC Grade 7 curriculum and expansion of Longhorn's activities into new markets such as Cameroon led to increased demand for their products.
3.	Kengen	-3.27%	• We foresee a continued increase in its finance costs as a result of increased foreign exchange losses arising from the revaluation of outstanding loans denominated in foreign currencies due to the continued depreciation of the Kenyan shilling against major currencies.
4.	KPLC	-130.01%	• We foresee a continued increase in its finance costs as a result of increased foreign exchange losses arising from the revaluation of outstanding loans denominated in foreign currencies due to the continued depreciation of the Kenyan shilling against major currencies.

Source: NSE, Company Fillings, AIB-AXYS Research

Banking Sector FY'22 Results Expectations

Recently, we have released our Kenya Listed Banks sector update and FY'22 results expectations. In FY'22, we expect the PAT to be driven by increased foreign exchange income following arbitrage opportunities created by the dollar shortage. In FY'23 and going forward, we expect banking sector earnings to be driven by a combination of a return to lending following the approval of Risk-based Models, fees from lending, and foreign exchange trading income.

Some of the Key takeouts form the report include:

- **Risk-Based Model to Boost Interest Income:** In FY'23 and going forward, we expect interest income to rise as banks increase lending to the private sector using a risk-appropriate metric for determining the lending rates. We foresee upside potential for Net interest margins (NIMs) driven by higher lending and government securities yields. The prevailing high-interest environment has created expensive deposit mobilization costs as banks compete with other financial institutions.

- **Forex Trading Income to Drive Non-Interest Income:** In the last three financial years, the growth of non-funded income has been muted as banks removed charges on transfers between mobile money wallets and bank accounts as a pandemic relief in 2020. In FY'22, non-interest income growth is likely to be buoyed by a jump in forex trading income following the dollar shortage in the interbank market creating arbitrage opportunities for banks. Across 2022, we have observed that the banks' dollar offering price has been at between 5-8.00% premium from the official CBK quoted exchange rate. We expect this to persist to FY'23 given the continued depreciation of the shilling against other major currencies and as such it will continue being a key revenue source for banks.

- **Sector Valuation is at a Discount to Frontier Peers:** Compared to frontier peers (with the MSCI Emerging markets banks index at a P/B of 0.99x) the local banking counters (with a median trailing P/B of 0.85x) are trading at a discount. The above P/B trend shows that Kenyan banks are fairly priced compared to their EM peers and provide an attractive investment opportunity.

- **Time to Consider Dividend Play:** We view the entire sector as attractive for dividend-hunting investors. We expect conservative payout ratios but expect the final DPS to increase driven by higher profits. Stan Chart continues to have the highest payout ratio (72.20%) and expected dividend yield (17.13%) while KCB has both the lowest payout ratio (18.80%) and expected dividend yield (5.23%) in the sector.

- **Our Top Picks:** Our top picks are EQTY (+27.30% upside), KCB (+26.88% upside), and NCBA (+20.16% upside), largely on account of huge upside potential and expected dividend. On a comparative basis, we also find these counters reasonably priced compared to the frontier and local industry peers. However, we also find Stan Chart (17.39% Div Yield), and Stanbic (10.48% Div Yield) as good dividend plays but have reservations about their current share price, which we do not find attractive entry points.

Table 4: Summary of FY'22 Results

	Current Price (KES)	Target Price (KES)	Upside (%)	YTD (%)	FY'22e EPS (KES)	ROaE (FY'22)	P/Bv	P/E (FY'22)	Our View
ABSA	12.45	14.83	19.12%	1.22%	2.79	25.36%	1.20x	4.46x	BUY
Co-op	12.65	15.15	19.76%	2.85%	3.66	30.18%	0.87x	3.52x	BUY
DTB-K	50.00	59.21	18.42%	0.00%	22.37	9.68%	0.74x	2.23x	BUY
Equity	45.50	57.92	27.30%	2.25%	12.04	29.46%	1.14x	3.78x	BUY
KCB	38.25	48.53	26.88%	0.39%	13.3	22.62%	0.72x	2.88x	BUY
I&M	17.90	23.94	33.74%	5.29%	6.09	13.82%	0.50x	2.94x	BUY
NCBA	36.70	44.10	20.16%	-6.73%	9.95	20.01%	0.71x	3.69x	BUY
Stanbic	105.00	113.09	7.70%	2.94%	22.93	15.73%	1.80x	4.58x	HOLD
Stan Chart	163.50	168.53	3.08%	14.54%	33.99	23.24%	1.08x	4.74x	HOLD

Source: NSE, AIB-AXYS Research

February'23 Equities Market Performance

During the month of February, the indicative indices recorded a mixed performance with NASI gaining marginally by 0.06% while the NSE-20 declined by 0.65% to close the month at 125.98 and 1646.56, respectively. Foreign investors remained as net sellers with the selling position declining by 86.62% to KES 382.07Mn taking the YTD Net selling position to **KES 3.24Bn**. 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 decreased by 40.97% m/m to **KES 4.61Bn** from **KES 7.80Bn** in January, while volumes traded also declined 48.96% to KES 169.62Mn. Market capitalization increased 0.06% m/m to **KES 1962.73Bn.** We expect market activity to remain above KES 5.00Bn/month, in the next three months, owing to the commencement of the FY'22 earnings season with expectations of higher dividends in the banking sector.

Top gainers: Driven by local demand, Flame Tree (FTGH) was the largest gainer in Feb'23 (+17.00%) jumping to KES 1.17 from KES 1.00. TP Serena also jumped 14.58% m/m on the back of expected positive results following the post-pandemic recovery, though lagging other sectors, observed in the tourism and hospitality sector. Other gainers included; BOC Gases (+10.00%) despite no movement in the Carbacid acquisition, Liberty (+9.91%) reversing last month's losses, and EA Portland (+9.72%) who saw a late mini-rally after recording a reduced loss in the HY'23 results.

Top Losers: Unga was the largest m/m decliner (-30.78%) after a free fall in the second half of the month following negative HY'23 results. Other top losers were; Kengen (-15.88%) following the book closure on the interim dividend at the end of January, TCL (-12.40%) following the closure of the rights issue, and Crown Paints (-9.44%).

Table 5: February '23 Top 10 Gainers

Counter	M/M Change (%)	YTD Change (%)
Flame Tree	17.00%	0.00%
TP Serena	14.58%	-6.37%
BOC Gases	10.00%	8.83%
Liberty	9.91%	-10.89%
EA Portland	9.72%	-3.53%
Kenya Orchards	9.49%	44.23%
Olympia	9.20%	-4.39%
Kapchorua	8.33%	20.97%
Fahari IREIT	6.29%	-0.92%
HF Group	6.02%	11.60%

Table 6: February '23 Top 10 Losers

Counter	M/M Change (%)	YTD Change (%)
UNGA	-28.39%	-30.78%
Kengen	-15.88%	-22.05%
TransCentury	-12.40%	17.20%
Crown Paints	-9.44%	-16.25%
Uchumi	-9.09%	-13.04%
Bank of Kigali	-6.25%	-1.59%
Kakuzi	-5.67%	-0.65%
Bamburi	-5.17%	-14.29%
Limuru tea	-4.76%	-4.76%
Standard Media	-4.72%	-1.91%

Source: NSE, AIB-AXYS Research

Portfolio Performance

In Feb'23, our model portfolio continued to outperform both benchmark indices on both month-on-month and year-on-year basis by recording a 0.42% and 0.40% gain, respectively. On a comparative basis, the NASI and NSE-20 indices have lost 1.17% and 1.76%, respectively, on a year-on-year basis.

The portfolio performance was lifted by m/m gains recorded by **I & M Group, Stan Chart,** and **Equity Group.** However, declines by counters such as **Bamburi Cement, Stanbic,** and **EABL** 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 the first two months of the year. 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, the Banking sector, and other select counters driven by the hunt for dividends.

Table 7: Portfolio Performance

January '23 Performance	M/M	YTD
AIB-AXYS Africa Portfolio Performance	0.42%	0.40%
NSE-20	-0.65%	-1.76%
NASI	0.06%	-1.17%

Table 8: Portfolio Constituents

Counter	28-Feb-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighted YTD Return	Weighted M/M Return
IMH	17.90	23.94	33.74%	5.29%	5.29%	22.00	16.00	0.21%	0.21%
SCBK	163.50	168.53	3.08%	14.54%	3.97%	168.00	121.00	1.45%	0.40%
EQTY	45.50	57.92	27.30%	2.25%	3.41%	53.50	38.75	0.18%	0.27%
NCBA	36.70	44.10	20.16%	-6.73%	2.23%	44.25	23.00	-0.67%	0.22%
COOP	12.65	15.15	19.76%	2.85%	1.61%	14.00	10.00	0.17%	0.10%
ABSA	12.50	14.83	18.64%	1.63%	0.81%	13.02	9.00	0.10%	0.05%
KCB	38.25	38.25	0.00%	0.39%	0.39%	46.50	34.00	0.02%	0.02%
DTK	50.00	59.21	18.42%	0.00%	0.00%	61.00	44.50	0.00%	0.00%
SCOM	23.30	35.25	51.29%	-3.52%	-0.43%	38.60	20.60	-0.49%	-0.06%
JUB	183.00	235.85	28.88%	-7.92%	-0.54%	299.00	180.00	-0.48%	-0.03%
EABL	174.75	197.51	13.02%	4.33%	-0.85%	182.00	110.00	0.43%	-0.09%
SBIC	105.00	113.09	7.70%	2.94%	-4.55%	114.00	90.00	0.24%	-0.36%
BAMB	27.50	35.28	28.29%	-12.70%	-5.17%	39.25	27.50	-0.76%	-0.31%

Source: NSE, AIB-AXYS Research

Table 9: Recommendation Summary

Stock	Positives	Negatives	Recomm
ABSA Bank Kenya **Current Price: KES 12.45** **Target Price: KES 14.83** **Upside: 19.12%**	• 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	• 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 12.65** **Target Price: KES 15.15** **Upside: 19.76%**	• 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	• 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
Equity Group **Current Price: KES 45.50** **Target Price: KES 57.92** **Upside: 27.30%**	• 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	• Higher Eurobond yields expose the lender to a huge mark-to-market loss • Tanzania subsidiary is struggling compared to other regional businesses	BUY
Diamond Trust Bank (DTB-K) **Current Price: KES 50.00** **Target Price: KES 59.21** **Upside: 18.42%**	• 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.	• Asset quality concerns persist as Gross NPLs increased by28.15% • Historically low ROE and ROA are a downside to investors' perception	BUY
KCB Group **Current Price: KES 38.25** **Target Price: KES 48.53** **Upside: 26.88%**	• 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	• Increased Gross NPLs to 149.29 albeit decrease in provisions • Cost to income ratio worsened 161bps y/y to 45.12%	BUY
Stanbic Kenya **Current Price: KES 105.00** **Target Price: KES 113.09** **Upside: 7.70%**	• 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.	• 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 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 20.85% y/y to KES 36.41Bn,	• 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

*** Current Price is as at 28th February 2023

Stock	Positives	Negatives	Recomm
Standard Chartered Bank **Current Price: KES 163.50** **Target Price: KES 168.53** **Upside: 3.08%**	• 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.	• 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 174.75** **Target Price: KES 197.51** **Upside: 13.02%**	• 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 183.00** **Target Price: KES 235.85** **Upside: 28.88%**	• 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 27.50** **Target Price: KES 35.28** **Upside: 28.29%**	• 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 28th February 2023

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