



JUNE STOCK PICKS

May Review

- The Energy and Petroleum Regulation Authority (EPRA) reviewed the maximum retail prices of super petrol, diesel and kerosene upwards by **KES 5.50** per litre to **KES 150.12**, **KES 131.00** and **KES 118.94** respectively. The Government continues to utilize the Petroleum Development Levy to cushion consumers from these higher fuel prices which currently stand at **KES 176.47**, **KES 174.94**, **KES 118.94** for super petrol, diesel and kerosene.
- Banking sector Q1'22 results showcased a general improvement in performance compared to Q1'21 mainly backed by increased interest revenues from investment in Government securities and loans coupled with reduced loan loss provisioning. Additionally, the banking sector continues to remain stable and resilient, with strong liquidity and capital adequacy ratios. However, we continue to remain concerned about the increasing NPLs especially from manufacturing, trade, transport and communication sectors that continue to weigh down on banking the growth in the banking sector.
- The MPC held the third meeting of the year on 30th May 2022, raising the Central Bank Rate (CBR) by 50bps from 7.00% to 7.50%. The tightening of the Monetary Policy comes at a time where there is elevated risks to the inflation outlook stemming from the surge in global commodity prices and escalating supply chains disruptions.
- Stock market poor performance intensified with the Market Capitalization declining **14.30%** in May due to the ongoing foreign investor selloff that continues to persist as foreign investors flee to invest in 'safer' havens backed by the increased target range for interest rate by the FED from 0.00% to 0.50% to the new target range of 0.75% to 1.00%. The NSE 20 and the NASI recorded downward m/m trends of **-6.60%** and **-13.60%**, contributing to the market weakness.
- Inflation rate for May 2022 was **7.10%** compared to **6.47%** recorded in April 2022. The Food and Non-Alcoholic Beverages Index (**12.40%**), represented a slower growth of 1.30% compared to 3.03% registered between March 2022 and April 2022.; Furnishings, household equipment and routine household maintenance(**7.90%**); Transport(**6.40%**); Water, Electricity, Gas and Other Fuels(**6.00%**).
- Kenya shilling continued to depreciate against the USD, loosing **0.83%** on m/m basis. On a YTD basis, the shilling has depreciated **3.18%** against the USD compared to **3.64%** in 2021. This is mainly attributable to increased dollar demand on the back of elevated global oil prices, high demand for imports, reduced earnings from agriculture and horticulture as well as the slow recovery in the tourism sector.

What does June hold?

- The Russia—Ukraine war is expected to continue having adverse effects on emerging and frontier equity markets as investors seek 'safer' investments away from these markets. The recent raise of interest rates by the FED continues to cause investor selloff as the advanced markets are perceived as more attractive. Rising global energy, commodity prices, and disrupted supply chains will affect the local prices of fertilizer ahead of the planting season, which will negatively affect agricultural productivity and food inflation in the coming months.

Upcoming Corporate Actions

Name	Interim Dividend (KES)	Special Dividend (KES)	Final Dividend (KES)	Book Closure	Dividend Payment
Stanbic Holdings	KES 1.70		KES 7.30	20-May-22	TBA
Co-operative Bank			KES 1.00	30-May-22	17-Jun-22
Equity Group			KES 3.00	20-May-22	30-Jun-22
Kakuzi			KES 22.00	31-May-22	30-Jun-22
BK Group			KES 3.22	22-Jun-22	1-Jul-22
KCB Group	KES 1.00		KES 2.00	25-Apr-22	7-Jul-22
Sasini	KES 1.00			2-Jun-22	14-Jul-22
Nairobi Securities Exchange		KES 1.00	KES 0.40	3-Jun-22	15-Jul-22
BOC Kenya			KES 2.90	27-May-22	19-Jul-22
Umeme Ltd			KES 1.77	24-Jun-22	22-Jul-22
Jubilee Holdings Limited	KES 1.00	KES 5.00	KES 9.00	22-Jun-22	25-Jul-22
Bamburi Cement			KES 3.58	26-May-22	26-Jul-22
Diamond Trust Bank			KES 3.00	30-Jun-22	28-Jul-22
Nation Media Group			KES 1.50	16-Jun-22	29-Jul-22
Kenya Re Insurance			KES 0.10	17-Jun-22	29-Jul-22
Total Energies			KES 1.31	24-Jun-22	30-Jul-22
Crown Paints			KES 4.00	28-Jun-22	15-Aug-22
Safaricom	KES 0.64		KES 0.75	TBA	TBA

Top 10 Highest Dividend Yields

Security	31-May-2022	Δ YTD	Total Dividend	Dividend Yield
UMME	KES 8.00	18.69%	KES 1.77*	22.13%
SCBK	KES 123.75	-3.51%	KES 19.00	15.35%
BAT	KES 420.00	-4.87%	KES 53.50	12.74%
NCBA	KES 25.55	1.39%	KES 3.00	11.74%
BAMB	KES 32.50	-14.47%	KES 3.58	11.02%
FAHR	KES 5.56	-11.18%	KES 0.60	10.79%
ABSA	KES 10.25	-13.50%	KES 1.10	10.73%
KAPC	KES 95.50	0.00%	KES 10.00	10.47%
BKG	KES 31.05	7.07%	KES 3.22	10.37%
COOP	KES 11.30	-12.74%	KES 1.00	8.85%
KEGN	KES 3.49	-16.71%	KES 0.30	8.60%
SBIC	KES 104.75	20.06%	KES 9.00	8.59%

* Exchange Rate as at 31-May-22

Source: Company Filings, NSE, AIB-AXYS Research

Portfolio Performance

During the month, our model portfolio was down -5.80% on a m/m and -11.80% on a YTD basis, whereas the NASI and NSE-20 declined by -13.60% and -6.60% m/m. The portfolio was depressed by the poor performance of counters such as SCOM, BAMB, COOP, IMH, EQTY and KNRE, as a result of foreign investor selloff due to the uncertainties caused by the current Russia-Ukraine conflict, increased interest rates by the Fed's making developed markets more attractive and the upcoming General Elections.

Table 2: Portfolio Performance

	M/M	YTD
AIB-AXYS Africa Portfolio Performance	-5.80%	-11.80%
NSE-20	-6.60%	-11.60%
NASI	-13.6%	-22.10%

Graph 1: Portfolio Performance vs Indices

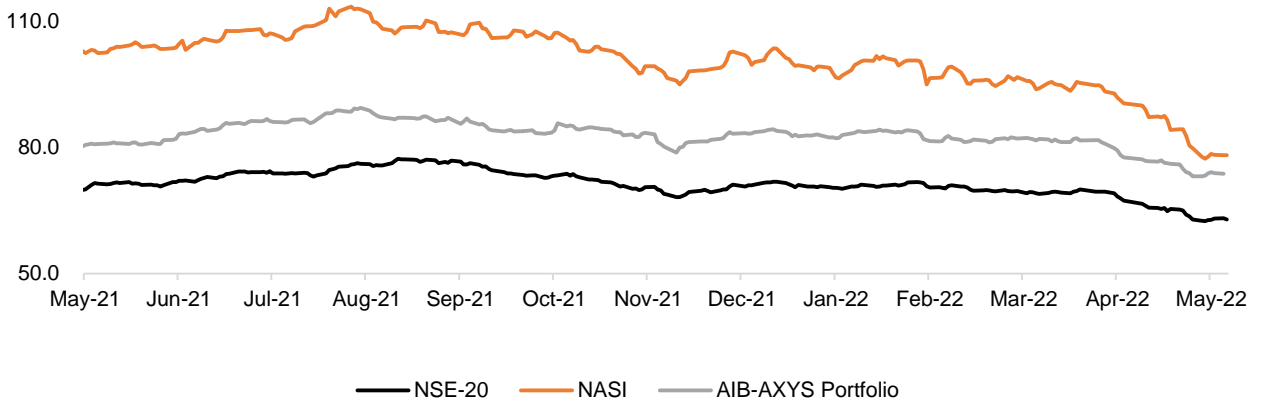


Table 3: Portfolio Constituents

Counter	31-May-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighting	Weighted YTD return	Weighted M/M return
BAMB	32.50	45.28	39.32%	-14.47%	-12.28%	39.80	32.50	7.00%	-1.01%	-0.86%
NSE	8.28	10.05	21.38%	3.50%	3.24%	10.15	7.00	6.00%	0.21%	0.19%
SBIC	104.75	105.00	0.24%	20.06%	-0.48%	108.00	80.00	6.00%	1.20%	-0.03%
NCBA	25.55	28.29	10.72%	1.39%	-1.73%	28.15	23.00	6.00%	0.08%	-0.10%
COOP	11.30	14.99	32.65%	-12.74%	-11.02%	13.95	11.30	6.00%	-0.76%	-0.66%
JUB	269.00	325.85	21.13%	-15.07%	1.89%	390.00	248.50	6.00%	-0.90%	0.11%
SCOM	26.00	37.53	44.35%	-31.49%	-22.85%	44.95	26.00	14.00%	-4.41%	-3.20%
EABL	141.00	205.21	45.54%	-14.55%	-2.08%	193.75	139.00	6.00%	-0.87%	-0.13%
KNRE	2.08	3.28	57.69%	-9.57%	-3.26%	2.68	2.01	6.00%	-0.57%	-0.20%
EQTY	45.50	61.17	34.44%	-13.74%	-5.01%	54.25	42.00	6.00%	-0.82%	-0.30%
DTK	54.75	66.12	20.77%	-7.98%	-0.45%	69.00	49.00	6.00%	-0.48%	-0.03%
SCBK	123.75	140.75	13.74%	-3.51%	-3.70%	146.25	123.75	6.00%	-0.21%	-0.22%
KCB	38.10	52.45	37.66%	-16.17%	1.74%	49.90	35.00	6.00%	-0.97%	0.10%
IMH	17.05	24.62	44.40%	-19.19%	-6.32%	23.25	16.90	7.00%	-1.34%	-0.44%
ABSA	9.98	13.04	30.66%	-15.78%	0.00%	12.70	9.40	6.00%	-0.95%	0.00%
NSE-20	1,681.80			-11.6%	-6.6%					
NASI	129.68			-22.1%	-13.6%					

Source: AIB-AXYS Research

Equity Group

Target Price: KES 61.17

Upside: 34.44%

Recommendation: BUY

Tailwinds

- Recent Q1'22 Results signalled Organic growth from growth in interest income.
- Interest Income from Government securities grew by 58.69%.
- Equity's diversification in fast growing regions continues to provide high probability of growth for the lender.
- Non-banking subsidiaries and the use of digital channels to drive Non-interest Income
- Approval of its risk-based pricing model to reduce loan loss provisioning

Headwinds

- Increased loan loss provisioning from Q1'22 results
- Revenue mix continues to favour Interest Income

KCB Group

Target Price: KES 52.45

Upside: 37.66%

Recommendation: BUY

Tailwinds

- Q1'22 Results showcase double digit growth in loan book.
- Increased investment in Government securities which continue to boost interest income.
- Heavy investment in digital platforms
- Reduction in loan loss provisioning in Q1.
- Consolidation of acquired subsidiaries (Rwanda with a target on DRC) in the region to drive balance sheet and income growth

Headwinds

- Increased Gross NPLs in Q1 pointing to the cash crisis in the economy that has increased the number of loan defaults.

Absa Group

Target Price: KES 13.04

Upside: 30.66%

Recommendation: BUY

Tailwinds

- Growing loan book in Q1'22 by 11.18% attributable to the rebounding of the economy.
- Improved interest income by 15.56% in Q1'22.
- Improving cost to income ratio due to investment in technology and reduced reliance on branches.
- Absa Life Assurance profit growth of 84% is a positive contribution to non-funded income.
- Increased traction of digital channels such as WhatsApp Banking and Timiza loans app expected to drive future growth.

Headwinds

- Gross NPLs grew by 12.92% in Q1'22 compared to Q1'21.
- Pending approval of risk-based pricing model

Co-operative Bank

Target Price: KES 14.99

Upside: 32.65%

Recommendation: BUY

Tailwinds

- Kingdom Bank's application of the KES 20Bn from CBK is expected to boost COOP's interest income.
- 41.67% growth in non-funded income in Q1'22
- Growth in loan book through a focus on SME lending and mobile loans
- Reduced NPLs and loan loss provisioning in Q1 showcasing proper credit management.

Headwinds

- Synergies from the acquisition of Jamii Bora are 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

Stanbic Holdings

Target Price: KES 105.00

Upside: 0.24%

Recommendation: SELL

Tailwinds

- Double-digit growth in net interest income in Q1'22 (+16.90% q/q)
- Share price is trading at KES 104.75, nearing our target price of KES 105.00
- Growth in the loan book by (+30.71%q/q) steered by resumption in lending and investments in digital banking.
- Reduced NPLs and loan loss provisioning in Q1'22

Headwinds

- Asset quality concerns as NPL Ratio Coverage worsened to 58.12%

NCBA Group

Target Price: 28.29

Upside: 10.72%

Recommendation: HOLD

Tailwinds

- Retains front in digital lending through platforms such as M-Shwari and Fuliza
- Reduces loan loss provisioning in Q1'22
- Improved operational efficiencies to see cost synergies of a merged entity

Headwinds

- Lacks organic balance sheet growth
- Huge capital expenditure from opening of branches
- Increased NPLs in Q1'22 indicating the strain on asset quality

I&M Holdings

Target Price: KES 24.62

Upside: 44.40%

Recommendation: BUY

Tailwinds

- Increased income from loans and gok securities
- Growth of income from non-banking activities
- Decline in NPLs signifying an improved lending environment.

Headwinds

- Elevated provisions due to their exposure to risky sectors

Diamond Trust Bank

Target Price: KES 66.12

Upside: 20.77%

Recommendation: BUY

Tailwinds

- Enhanced digital transactions increased interest income in Q1'22(11.58%q/q)
- Increased investment in innovation is a good indication of their shift to digitization
- Reduced loan loss provisioning(-14.94%q/q) in Q1'22
- Improved asset quality as a result of the recovery in the economy.
- Share price is trading at KES 54.75, which is below our target price of KES 66.12.
- Improved loan book growth in Q1'22

Headwinds

- Observed lending apathy as loan book grew(1.98%q/q) and a bulk of interest income from government securities.

Standard Chartered Bank

Target Price: KES 140.75

Upside: 13.74%

Recommendation: HOLD

Tailwinds

- Immense growth in the Wealth management unit which grew by 21% last year.
- bank's push for digital transaction channels
- Growth in interest income as a result of the lengthening of the term loan to Safaricom for the purchase of its Ethiopian license.
- Reduced loan loss provisioning

Headwinds

- Performance from the wealth management and financial markets led to a flat non-interest income growth in Q1'22

EABL

Target Price: KES 205.21

Upside: 45.54%

Recommendation: BUY

Tailwinds

- Recovery in sales expected as the general economy recovers
- Expected growth and improved performance from regional subsidiaries.
- Trading at KES 141.00 which is way below our target of KES 205.21

Headwinds

- Proposed tax law on mainstream alcohol may affect gross sales if passed.
- Reduced sales in Senator Keg hence a decline in top line

Jubilee Holdings

Target Price: KES 325.85

Upside: 21.13%

Recommendation: BUY

Tailwinds

- Stable growth in investment income as a result of its diversified portfolio.
- Lower operating costs (-2.7% y/y) due to operational efficiencies and cost control.
- Stable dividend payment to the allure of investors
- Joint venture operations with Allianz

Headwinds

- 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

Safaricom

Target Price: 37.53

Upside: 44.35%

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
- Share currently trades at KES 26.00 which is below its estimated value price of KES 37.53
- Ethiopia's change in national payment laws and issuance of mobile money license is expected to ease penetration of MPESA into the Ethiopia market
- CBK efforts to increased financial inclusion and digital payments continue to drive mobile money transactions

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
- Proposed introduction of CBK digital currency coupled and the push for interoperability by other telcos pose as risks to MPESA market share.

NSE

Target Price: KES 10.05

Upside: 21.38%

Recommendation: BUY

Tailwinds

- 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.

Headwinds

- Drop in foreign investor activity has seen investor wealth at the bourse drop significantly.
- Decline in turnover caused lower transaction levy

Bamburi Cement

Target Price: KES 45.28

Upside: 39.32%

Recommendation: BUY

Tailwinds

- 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 ease regional trade

Headwinds

- Increasing cost of coal, power, imported clinker and fuel prices are likely to increase Bamburi's operating costs.
- Surging prices of cement are likely to slow down consumption with elections in Kenya affecting construction projects, hence affecting revenues.

Kenya Re

Target Price: KES 3.28

Upside: 57.69%

Recommendation: BUY

Tailwinds

- Investment in Zep-Re and its other subsidiary provides a positive outlook on future investment income.

Headwinds

- Lower earnings due to loss of business as increased claims and rebates forced insurers to renegotiate their insurance contract with their customers
- Increased defaults from insurers and brokers



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