



SEPTEMBER STOCK PICKS

August Review

- NSE Market Capitalization retreated **2.55%** in August. The pullback was an indicator of increased foreign investors' sell-offs as the August elections approached. Other than the elections factors, foreign investors' exits has contributed to an NSE market decline fuelled by rising yields in developed markets following benchmark rate hikes with the US Fed hiking the benchmark rate by 75bps in the July meeting. The indicative indices recorded a mixed performance with the NSE 20 gaining **2.93%** while NASI lost **2.55%**.
- **Earnings Releases** – During the month we had HY'22 earnings releases from the banking, insurance, and other sectors. We observed an improvement in the banking sector results driven by increased interest income, improved non-funded income, and reduced provisioning. Players in the Insurance sector also recorded an improved performance largely due to reduced claims and benefits. However, we observed reduced premiums growth and lower investment income. Companies in the manufacturing sector saw an increase in operating costs owing to higher input costs after global commodity prices increased, during the year.
- **Safaricom (SCOM)** - Safaricom Telecommunications announced the start of a phased commercial launch in Ethiopia with the switch of network and services in Dire Dawa. The telco looks to reach 25 cities with a target of April 2023. We view the start of operations as a positive to the share price given the impact the news of the Ethiopian entry had on the share price in 2021.
- **KCB Group (KCB)** – The lender announced a [proposed acquisition](#) of an 85.00% shareholding in the Trust Merchant Bank SA of DR Congo, with an option for a full takeover in two years. Subject to regulatory and shareholders' approval, the completion of the transaction will see KCB acquire control of TMB and open doors for entry into the much-coveted DRC market.
- Inflation rate for the month of August 2022 was **8.50%** compared to 8.30% recorded the previous month. Major indices increased y/y; Food and Non-Alcoholic Beverages Index (**15.30%**); Household maintenance index (**10.30%**), and Transport index (**7.60%**).
- Kenya shilling continued to depreciate against the USD, losing **1.02%** on a m/m basis to close at a historical high of KES 120.01. On a YTD basis, the shilling has depreciated **6.07%** against the USD compared to **3.64%** in 2021. This is mainly attributable to; the strengthening of the dollar, increased dollar demand from energy importers following high global oil prices, depressed earnings from agriculture and horticulture, and reduced foreign participation in the tourism sector.

What does September hold?

- **Presidential Elections Petition** – After going to the on August 9th, 2022, there have been nine petitions filed at the supreme court against the declared results. The seven-judge bench is set to issue their decision on Monday 5th September where we expect markets to react to any decision made. An upholding is likely to raise investor confidence as a return to normalcy will be in sight. On the other hand, nullification is likely to lead to a share price decline and investor sell-off as it presents another period of uncertainty.
- **MPC Meeting** – Central Bank's Monetary Policy Committee is set to meet on 29th September 2022 to review the impact of the July decision and give directions on the CBR. We expect the committee to have the rising inflation in mind and the need to provide rates stability. We shall evaluate the macro climate throughout the month of September and issue comments the on expected decision.

Our Top Three Picks

- a) **Safaricom (SCOM)** – We continue to recommend a **BUY** on the telco as the current share price represents an attractive entry point and a long-term value-play. The current share price of KES 27.85 represents a -26.61% decline so far in 2022 and is 35.76% below our target price of **KES 37.81**. We observed a further decline, during the month of August (-6.98%), driven by foreign trading despite the positive news surrounding the company. Recently, the company announced partnerships riding on the M-pesa platform; a payment partnership with Visa that caters to the lucrative and fast-growing international payments market, Lipa na Mpesa loan product in partnership with Edomx Ltd and Equity bank that also seeks to capitalize on the growing Buy-Now-Pay-Later (BNPL) model. Additionally, the announcement of starting of Ethiopian operations last month could be a key driver of the share price. Even though the BNPL loan product is currently suspended by the CBK, we expect all the regulatory handles will be ironed out by the end of 2022 bringing the product back to the market.
- b) **NCBA Group (NCBA)** – We recommend a **HOLD** on the lender driven by the conviction that the recent share price rally is not sustainable and is likely to retreat after the book closure on 15th September 2022. The lender recorded an impressive HY'22 results where the profit increased 66.85% y/y to KES 7.77Bn driven by growth in interest income, non-interest income, and reduced impairment provisioning. As such, the counter declared a KES 2.00 interim dividend which has since lifted the share price by 11.28% outweighing the current dividend yield of 6.75%. The current share price at **KES 29.60** is 12.45% lower than our target price of **KES 33.29**.
- c) **Sanlam Kenya (SLAM)** – We recommend profit taking, **SELL**, driven by continued loss-making trend as seen in the KES 287.75Mn loss in HY'22 results. Even though this was an improvement from the previous year's performance, we remain pessimistic about the company's performance given the challenges facing the insurance sector; slowed premiums growth, reduced investment income, and tightened regulatory environment. However, the underwriter's joint venture with Allianz is expected to provide headroom for growth and is likely to support future company performance. The current share price at **KES 11.50** represents a 0.43% YTD decline and is near the mid-range of the 52-week high of KES 15.00 and a 52-week low of KES 9.00.

Table 1: Upcoming Corporate Actions

Counter	Interim Dividend (KES)	Final Dividend (KES)	Book Closure	Dividend Payment
BAT Kenya Plc	KES 5.00		12-Aug-22	16-Sep-22
Jubilee Holdings	KES 1.00		9-Sept- 22	11-Oct-22
East African Breweries Plc		KES 7.25	15-Sep-22	30-Oct-22
NCBA Group	KES 1.00		15-Sep-22	30-Oct-22
ABSA Bank	KES 0.20		21-Sep-22	12-Oct-22
BOC Gases			30-Sep-22	22-Oct-22
Centum Investments Plc		KES 0.59	TBA	TBA

Source: NSE, AIB-AXYS Research

August Equities Market Performance

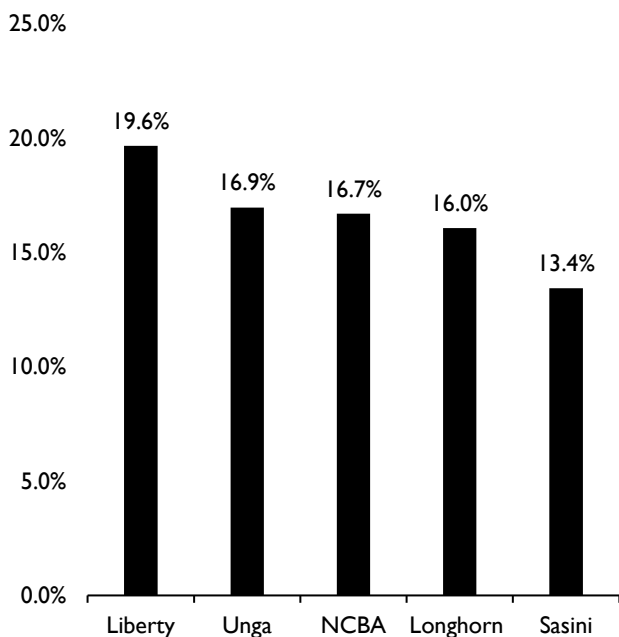
During the month of August, the indicative indices recorded mixed performance with the NSE-20 gaining 2.55% while NASI lost 2.93%, respectively. Foreign investors remained as net sellers with the selling position decreasing by 44.27% to **KES 1.66Bn** taking the total YTD foreign net selling position to **KES 16.79Bn**.

Equity turnover declined 33.20% to **KES 5.34Bn** from **KES 7.99Bn** in July, while volumes traded also declined 21.48% to KES 207.06Mn. Market capitalization declined 2.55% m/m to **KES 2,142.12Bn** hence reducing the YTD loss to -17.39%.

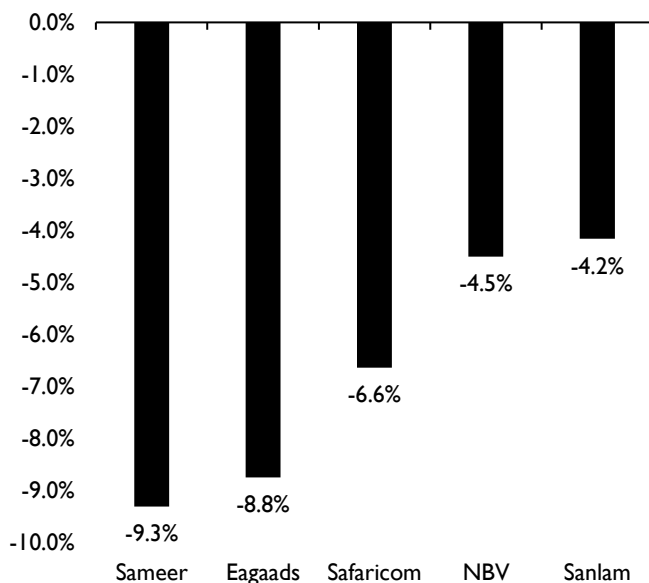
Top gainers - Liberty Holdings was the largest gainer m/m (+19.64%) jumping to KES 6.70 from KES 5.64, partly driven by local trading and expectations of better HY'22 results. Other gainers included; Unga Group (+16.95%), NCBA Group (+16.68%), and Longhorn Kenya Ltd (+16.05%). We see the gains as being driven by local investor trading and attractive interim dividends by counters such as NCBA Group. However, in the HY'22 results for manufacturing companies, we continued to see the impact of the rising commodity prices on input prices and operating expenses.

Top Losers - Negative earnings performance by certain counters can largely be seen as driving investor sentiments on counters such as Sameer, Egaads, NBV, and Sanlam (See graph 2). However, we view Safaricom's decline as being driven by the ongoing foreign investors' sell-off despite the positive news surrounding the company in terms of new product lines and market expansion. We continue to view the current valuations for the majority of the counters as historical lows and provide attractive entry points.

Graph 1: August'22 Top 5 Gainers



Graph 2: August'22 Top 5 Losers



Source: NSE, AIB-AXYS Research

Portfolio Performance

During the month, our model portfolio gained 0.57% on an m/m basis taking the YTD performance to -9.34%. Indicative indices recorded mixed performance with NSE-20 edging 2.93% higher while NASI lost 2.55%, effectively taking the YTD loss to -7.96% and -17.42%, respectively.

The portfolio was boosted by an improved performance by **NCBA**, **ABSA**, **SBIC**, and **COOP** after a rebound from the historical lows recorded in June 2022. However, counters such as **EQTY**, **SCOM**, and **EABL** weighed down on the overall portfolio performance. Despite the improved performance foreigners remain net sellers which could create a risk of a potential pullback. We expect another month of positive performance largely driven by a better than- the - previous year's performance and positivity surrounding the presidential petition.

Table 2: Portfolio Performance

	M/M	YTD
AIB-AXYS Africa Portfolio Performance	0.57%	-9.34%
NSE-20	2.93%	-7.96%
NASI	-2.55%	-17.42%

Table 3: Portfolio Constituents

Counter	31-Aug-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighting	Weighted YTD return	Weighted M/M return
BAMB	34.65	45.28	30.68%	-8.82%	4.75%	39.50	32.00	7.00%	-0.62%	0.33%
NSE	7.60	10.05	32.24%	-5.00%	0.13%	8.44	6.50	6.00%	-0.30%	0.01%
SBIC	99.75	102.92	3.18%	14.33%	4.45%	106.00	90.00	6.00%	0.86%	0.27%
NCBA	29.10	33.29	14.40%	15.48%	16.68%	29.10	23.00	6.00%	0.93%	1.00%
COOP	12.40	14.99	20.89%	-4.25%	4.38%	13.85	10.70	6.00%	-0.25%	0.26%
JUB	258.00	325.85	26.30%	-18.55%	-0.58%	280.00	244.50	6.00%	-1.11%	-0.03%
SCOM	27.95	37.81	35.28%	-26.35%	-6.65%	44.45	3.27	14.00%	-3.69%	-0.93%
EABL	151.00	197.51	30.80%	-8.48%	-2.73%	178.50	110.00	6.00%	-0.51%	-0.16%
KNRE	2.05	2.28	11.22%	-10.87%	2.50%	2.60	1.94	6.00%	-0.65%	0.15%
EQTY	48.00	63.23	31.73%	-24.17%	-16.67%	53.50	38.75	6.00%	-1.45%	-1.00%
DTK	50.00	60.02	20.04%	-15.97%	2.04%	60.00	48.00	6.00%	-0.96%	0.12%
SCBK	136.50	145.19	6.37%	6.43%	2.63%	148.75	121.00	6.00%	0.39%	0.16%
KCB	40.85	52.45	28.40%	-10.12%	-0.78%	46.00	34.00	6.00%	-0.61%	-0.05%
IMH	17.00	23.53	38.41%	-19.43%	0.00%	22.00	16.50	7.00%	-1.36%	0.00%
ABSA	11.85	14.03	18.40%	0.00%	7.34%	12.95	9.02	6.00%	0.00%	0.44%

Source: NSE, AIB-AXYS Research

Table 4: Recommendation Summary

Stock	Positives	Negatives	Recomm
Equity Group Current Price: KES 48.00 Target Price: KES 63.23 Upside: 31.73%	<ul style="list-style-type: none"> NPL ratio improved 258bps to 8.85% and the gross NPLs declined by 1.88% Non-Interest income grew 24.45% to KES 25.84Bn mainly driven by trade finance lending and Forex trading DRC acquisition is proving to be fruitful with an 89% growth in PAT to KES 3.00Bn 	<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 40.85 Target Price: KES 52.45 Upside: 28.40%	<ul style="list-style-type: none"> Loan-to-deposit ratio was up 316bps to 80.38% driven by growth in mobile loans Heavy investment in digital platforms driving double-digit growth in loan book Acquired subsidiaries in DRC which will drive balance sheet and income growth 	<ul style="list-style-type: none"> Increased Gross NPLs in H1 to a historical high of KES 173.42Bn Cost to income ratio worsened 131bps y/y to 45.66% DRC acquisition is likely to affect Dividend payment 	BUY
ABSA Bank Kenya Current Price: KES 11.85 Target Price: KES 14.03 Upside: 18.40%	<ul style="list-style-type: none"> Growing loan book in HY'22 by 19.49% thus improving interest income by 20.30% Improving cost to income ratio due to investment in technology and reduced reliance on branches. Absa Life Assurance's 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. 	<ul style="list-style-type: none"> Gross NPLs grew by 7.88% in HY'22 compared to HY'21 Non-banking subsidiaries are still in the investment phase 	BUY
Co-operative Bank Current Price: KES 12.40 Target Price: KES 14.99 Upside: 20.89%	<ul style="list-style-type: none"> Kingdom Bank's application of the KES 20Bn from CBK is expected to boost COOP's interest income. 28.82% growth in non-funded income in HY'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. 	<ul style="list-style-type: none"> Lack of interim dividend despite an improvement in net earnings Absorption of Jamii Bora's bad loan book which may take time to recover in a tough business environment 	BUY
Stanbic Kenya Current Price: KES 99.75 Target Price: KES 102.92 Upside: 3.18%	<ul style="list-style-type: none"> Double-digit growth (+25.34%) in non-interest income in HY'22 after growth in digital channels Growth in the loan book by 17.545 y/y steered by a resumption in lending and investments in digital banking. 	<ul style="list-style-type: none"> Observed some level of opacity in the balance sheet composition as customer deposits reduced as loan book grew in HY'22 	HOLD
NCBA Group Current Price: KES 29.10 Target Price: KES 33.29 Upside: 14.40%	<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 	<ul style="list-style-type: none"> Huge capital expenditure from the opening of physical branches. Huge exposure to government securities could expose the lender to higher fair value losses 	HOLD
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 HY'22 Increased investment in innovation is a good indication of their shift to digitization Net Interest Income increased 13.33% to KES 11.13Bn mainly driven by a 22.41% jump in income from government papers 	<ul style="list-style-type: none"> Asset quality concerns persist as Gross NPLs increased by 43.02% CTI ratio worsened 81bps to 46.12% despite enhanced digital transactions 	BUY

*** Current Price is as at 31st August 2022

Stock	Positives	Negatives	Recomm
Standard Chartered Bank Current Price: KES 136.50 Target Price: KES 145.19 Upside: 6.37%	<ul style="list-style-type: none"> Performance from the Wealth Management and financial markets driving non-interest income Yields from assets were up 21bps while the cost of funds remained flat at 1.49% 	<ul style="list-style-type: none"> Cost to income ratio deteriorated by 333bps to 56.80% which is a point of concern NPL ratio worsened marginally to 15.41% 	HOLD
EABL Current Price: KES 151.00 Target Price: KES 197.51 Upside: 30.80%	<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 	<ul style="list-style-type: none"> Proposed tax law on mainstream alcohol may affect gross sales if passed. The current ratio at 0.85 is below the recommended 1.00 	BUY
Safaricom Plc Current Price: KES 27.95 Target Price: KES 37.81 Upside: 35.28%	<ul style="list-style-type: none"> M-PESA Visa undercut banks on forex charges which will boost the mobile money revenues for Safaricom M-PESA launched interest free loans for buying goods Safaricom made KED 50Bn profit from M-Pesa unit. M-PESA linked pay bill with Telkom and Airtel money to enhance seamless transactions. 	<ul style="list-style-type: none"> 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 	BUY
Jubilee Holdings Current Price: KES 258.00 Target Price: KES325.85 Upside: 26.30%	<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 Had the best claims settlement record in the first quarter 	<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
NSE Plc Current Price: KES 7.60 Target Price: KES 10.05 Upside: 32.24%	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Foreign investor exits activity has seen investor wealth at the bourse drop significantly Decline in turnover caused lower transaction levy 	BUY
Bamburi Cement Current Price: KES 34.65 Target Price: KES 45.28 Upside: 30.88%	<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
Kenya Re Current Price: KES 2.00 Target Price: KES 2.28 Upside: 11.22%	<ul style="list-style-type: none"> Investment in Zep-Re and its other subsidiary provides a positive outlook on future investment income. 	<ul style="list-style-type: none"> Lower earnings due to loss of business as increased claims and rebates forced insurers to renegotiate their insurance contract with their customers 	HOLD

*** Current Price is as at 31st August 2022

CONTACTS:

Research Desk

Solomon Kariuki
Research Analyst

Email: research@aib-axysafrica.com

Equities Dealing

Bernard Kung'u

Benard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenye

Email: trading@aib-axysafrica.com

Disclaimer

AIB-AXYS Africa and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB-AXYS Africa or AXYS Group.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by AIB-AXYS Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.