



NOVEMBER STOCK PICKS

October Review

- NSE Market Capitalization reversed the last month's declines to regain **0.30%** in October driven by huge gains made by counters such as TPSE and EABL. However, foreign investors' exits continued as they remained as net sellers despite the peaceful conclusion of the August elections. We continue to believe that foreign investors' exits at the NSE have been driven by rising yields in developed markets following benchmark rate hikes with the US Fed hiking the benchmark rate by another 75bps in the November meeting.
- Inflation rate for the month of October 2022 was **9.60%** compared to 9.18% recorded the previous month. Major indices increased y/y; Food and Non-Alcoholic Beverages Index (**15.80%**); Transport index (**11.60%**), and Household maintenance index (**7.10%**).
- Kenya shilling continued to depreciate against the USD, losing **0.50%** on a m/m basis to close at a historical high of KES 121.33. On a YTD basis, the shilling has depreciated **7.24%** against the USD compared to **3.64%** in 2021 and 7.70% in 2020. This is mainly attributable to; the strengthening of the dollar, increased dollar demand from energy importers following high global oil prices, and depressed earnings from agriculture and horticulture.

What does November hold?

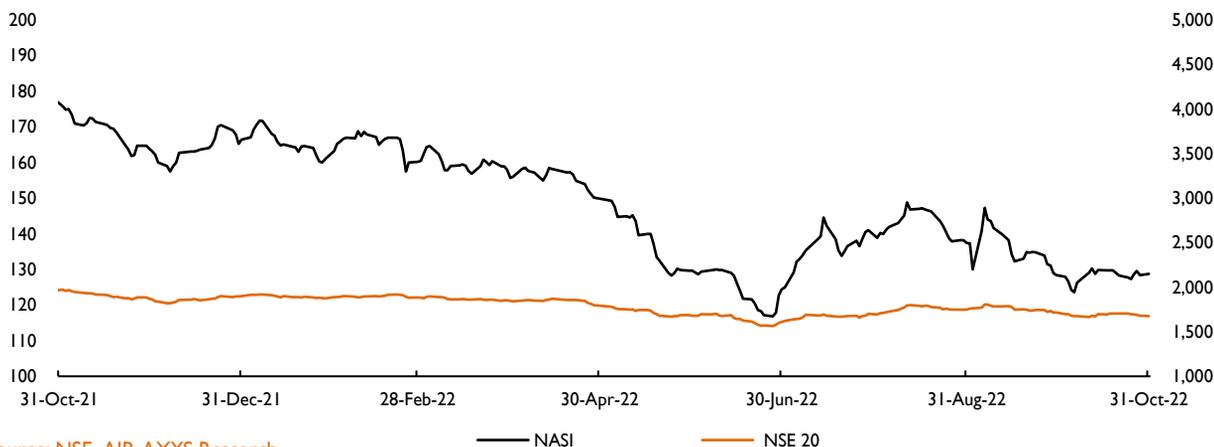
- **Banking Sector Q3'2022 Results** - We expect the release of third-quarter banking sector results within the month. As seen in H1'2022 a better economic environment compared to FY'21 contributed to higher profits largely driven by reduced provisioning and a return to lending. Furthermore, we expect the effects of the continued shilling depreciation to be reflected in higher forex trading income as banks take advantage of arbitrage opportunities. We do not foresee any interim dividends.
- **Safaricom HY'23 Results** – Safaricom Plc is set to announce the Half results during the month, where we expect a better y/y performance largely driven by mobile money and data revenue growths. During the month, Safaricom Telecommunications Ethiopia (STE) commenced full commercial operations which included a mobile money license. 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.
- **MPC Meeting November** - CBK's MPC is set to meet in November where we expect another round of benchmark increase driven by the need to anchor the rising inflation. We foresee another 50-75 bps increase to get closer to a double-digit CBR for the first time since April 2019

Table 1: Upcoming Corporate Actions

Counter	Final Dividend (KES)	Book Closure	Dividend Payment
Centum Investments Plc	KES 0.59	30-Sept-22	30-Nov-22
Carbacid Investments	KES 1.70	25-Nov-22	16-Dec-22

Source: NSE, AIB-AXYS Research

Graph 1: One-Year NSE Indicative Indices Performance has been declining



Source: NSE, AIB-AXYS Research

Our Top Three Picks

- a) **Safaricom (SCOM)** – We continue to recommend a **BUY** on the telco as the prevailing price levels represent an attractive entry point and a long-term value-play. The current share price of KES 24.80 represents a -35.31% decline so far in 2022 and is 52.46% below our target price of **KES 37.81**. The telco is set to release the HY'23 results in the coming week with expectations of an improved performance driven by M-Pesa and Data. We expect Voice and SMS to continue recording muted growth owing to a shift in consumer trends. The commencement of full commercial operations in Ethiopia is also a huge boost for the future company's growth, especially given the Ethiopian operations included a license for mobile money for a country with a population of +100Mn. We welcome the news of a peace agreement between the warring functions in Ethiopia as we believe it is an important driver of growth for Safaricom especially in cities outside Addis Ababa and near the conflict hot spots.
- b) **East African Breweries (EABL)** – During the month, Diageo Kenya issued a notice to acquire an additional 118.39 Mn shares of EABL from all existing shareholders. Currently, Diageo Kenya owns 50.03% of the issued share capital of EABL. If successful Diageo will own 65% of the issued shares of EABL. Additionally, Diageo applied to CMA for an exemption from the takeover offer as they intend to keep EABL as a listed entity. If approved and the exemption granted by CMA, the tender offer will open to shareholders on the register of EABL at the close of business on 16th January 2023. The news excited investors with the share price jumping 23.91% to close at KES 171.00 on the day of the announcement. However, the demand has cooled off with the share price closing the month at KES 167.25 (+ 17.78% m/m). We expect the counter to continue gaining in the coming trading sessions, in line with our **BUY** recommendation with a target price of KES 197.51.
- c) **Carbacid Investment Plc (CARB)** – We recommend a **BUY** on the CO₂ manufacturer following the declaration of a KES 1.70 in the recently released FY'22 results. Revenue increased driven by the region's economic recovery and new markets for liquid carbon dioxide. We observed an increase in the cost of sales driven by the increased cost of fuel and electricity leading to a 1.73% decline in the gross margin. The company is currently trading at a P/E multiple of 4.68x against an industry median of 6.20x and a P/B multiple of 0.87x against an industry median of 1.00x. The Carbacid/BOC acquisition has faced legal hurdles through a tribunal petition with the CMA and a case at the High Court. The acquisition cannot go ahead until both are concluded. The company's near-term growth is expected to be challenged by increased local competition and shilling volatility. The current share price at **KES 14.00** represents a 25.45% YTD gain.

October Equities Market Performance

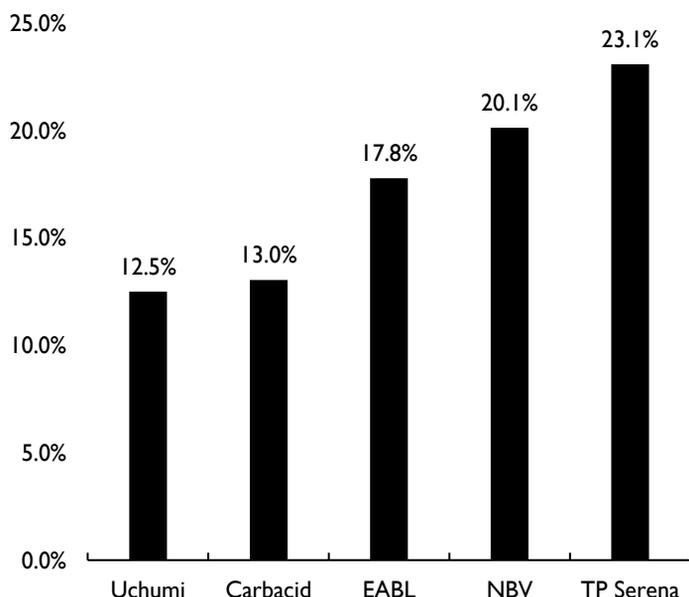
During the month of October, the indicative indices recorded a mixed performance with the NSE-20 shedding 2.32% while NASI gained 0.30%. Foreign investors remained as net sellers with the selling position reducing by 0.39% to **KES 2.33Bn** taking the total YTD foreign net selling position to **KES 21.46Bn**.

Equity turnover declined by 36.59% to **KES 5.80Bn** from **KES 9.15Bn** in September, while volumes traded also retreated 32.50% to KES 236.86Mn. Market capitalization was up by 0.30% m/m to **KES 2,006.85Bn** hence reducing the YTD loss to -22.62%.

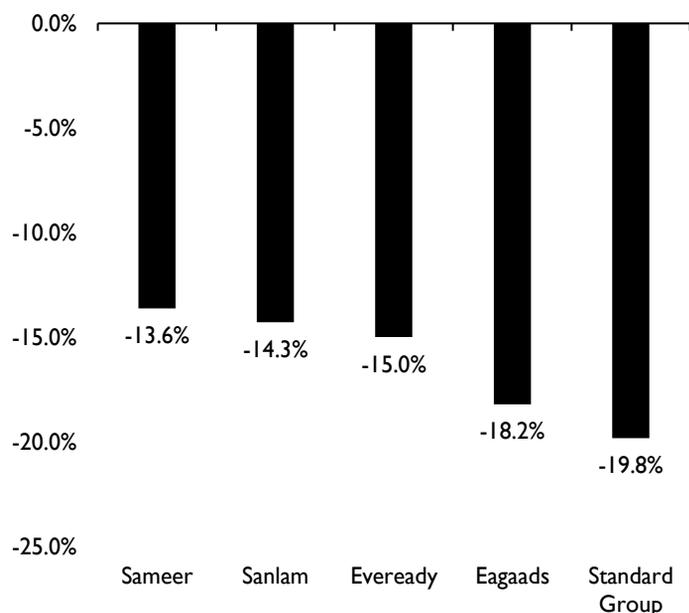
Top gainers - TPS Serena was the largest gainer m/m (+23.08%) jumping to KES 16.00 from KES 13.00 reversing the 23.53% loss recorded in September. However, we continue to see a lagging recovery in the hospitality sector and recent news on debt conversion by the majority shareholder as negatives to the near-term share price. Other gainers included; Nairobi Business Venture(+20.12%) as investors expect a positive earnings release in the coming weeks, EABL (+17.78%) driven by Diageo's bid to buy additional shares at a premium price of KES 192.00, and Carbacid (+13.04%) recorded a late rally driven by positive FY'22 results.

Top Losers - Standard group (-19.84%) was the largest decliner m/m driven by local trading following continued poor performance by SGL and companies in the media industry. Other top losers were; Egaads(-18.22%) driven by poor financial performance, Eveready (-15.00%), and Sanlam Kenya (-14.29%) which added to the 13.57% decline recorded in September. We continue to view the current valuations for the majority of the counters as historical lows and provide attractive entry points.

Graph 2: October'22 Top 5 Gainers



Graph 3: October'22 Top 5 Losers



Source: NSE, AIB-AXYS Research

Portfolio Performance

During the month, our model portfolio outperformed both benchmark indices by gaining 0.42% on an m/m basis taking the YTD performance to -9.76%. Indicative indices recorded a mixed performance with NASI gaining 0.30% while NSE-20 added to September's loss by declining a further 2.32%, effectively taking the YTD loss to -22.62% and -11.82%, respectively.

The portfolio performance was lifted by m/m gains recorded by **EABL**, **NCBA**, and **SCBK**. However, declines by counters such as **KCB**, **JUB**, and **NSE** weighed down on further gains in the overall portfolio performance. We observed foreigners remaining net sellers in line with our expectations of a potential pullback following the gains made in July and August. We expect another month of mixed performance largely driven by the performance from SCOM, and banking sector stocks followings earnings releases.

Table 2: Portfolio Performance

October'22 Performance	M/M	YTD
AIB-AXYS Africa Portfolio Performance	0.42%	-9.76%
NSE-20	-2.32%	-11.82%
NASI	0.30%	-22.62%

Table 3: Portfolio Constituents

Counter	31-Oct-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighted YTD return	Weighted M/M return
EABL	167.25	197.51	18.09%	1.36%	17.78%	174.75	110.00	0.14%	1.78%
NCBA	31.50	33.29	5.68%	25.00%	3.96%	33.25	23.00	2.00%	0.32%
SCBK	138.25	145.19	5.02%	7.80%	1.10%	148.75	121.00	0.47%	0.07%
SCOM	25.10	37.81	50.64%	-33.86%	0.60%	41.80	23.00	-4.74%	0.08%
EQTY	46.70	63.23	35.40%	-11.47%	0.54%	54.50	38.75	-0.92%	0.04%
IMH	17.00	23.53	38.41%	-19.43%	0.00%	22.80	16.50	-1.17%	0.00%
COOP	11.80	14.99	27.03%	-8.88%	-0.42%	14.00	10.30	-0.53%	-0.03%
ABSA	11.25	14.03	24.71%	-5.06%	-1.75%	12.95	9.02	-0.30%	-0.10%
BAMB	33.40	45.28	35.57%	-12.11%	-2.05%	39.50	30.85	-0.73%	-0.12%
KNRE	1.93	2.28	18.13%	-16.09%	-2.53%	2.50	1.80	-0.64%	-0.10%
SBIC	96.25	102.92	6.93%	10.32%	-3.75%	108.00	86.25	0.62%	-0.23%
DTK	47.75	60.02	25.70%	-19.75%	-4.50%	62.00	46.05	-0.79%	-0.18%
NSE	7.02	10.05	43.16%	-12.25%	-4.88%	9.44	6.50	-0.49%	-0.20%
JUB	230.00	325.85	41.67%	-27.39%	-6.12%	350.00	219.00	-1.64%	-0.37%
KCB	37.65	52.45	39.31%	-17.16%	-9.17%	47.50	34.00	-1.03%	-0.55%

Source: NSE, AIB-AXYS Research

Table 4: Recommendation Summary

Stock	Positives	Negatives	Recomm
Equity Group Current Price: KES 46.70 Target Price: KES 63.23 Upside: 35.40%	<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 37.65 Target Price: KES 52.45 Upside: 39.31%	<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 11.25 Target Price: KES 14.03 Upside: 24.71%	<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 11.80 Target Price: KES 14.99 Upside: 27.03%	<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 96.25 Target Price: KES 102.92 Upside: 6.93%	<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 31.50 Target Price: KES 33.29 Upside: 5.68%	<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 47.75 Target Price: KES 60.02 Upside: 25.70%	<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 October 2022

Stock	Positives	Negatives	Recomm
Standard Chartered Bank Current Price: KES 138.25 Target Price: KES 145.19 Upside: 5.02%	<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 167.25 Target Price: KES 197.51 Upside: 18.09%	<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. The current ratio at 0.85 is below the recommended 1.00 	BUY
Safaricom Plc Current Price: KES 25.10 Target Price: KES 37.81 Upside: 50.64%	<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 230.00 Target Price: KES 325.85 Upside: 41.67%	<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 7.02 Target Price: KES 10.05 Upside: 43.16%	<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 33.40 Target Price: KES 45.28 Upside: 35.57%	<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 1.93 Target Price: KES 2.28 Upside: 18.13%	<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 	BUY

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

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