AIB AXYS
AFRICA

MONTHLY STOCK PICKS

OCTOBER 2023 STOCK PICKS

September'23 Review

- **NSE Launches New Indices –** During the month, NSE announced the introduction of two new indices, NSE 10 Share Index (N10) and NSE Bond Index (NSE-BI). The new NSE 10 index is a weighted index comprising of 10 companies based on market capitalization, benchmarked at 1,000 points that will be revised on a semi-annual basis. Currently the index is based on Safaricom, Equity Group, KCB Group, Cooperative Bank, Absa Bank, EABL, NCBA Group, KenGen, KenyaRe and Centum Investments. The NSE-BI will be based on benchmark government bonds listed on the NSE and will be available to the market from October. NSE-20 index was reviewed adding on CIC Group, Bank of Kigali and I&M to replace WPP Scangroup, NSE and DTB-K.

- **Sanlam-Allianz Joint Venture –** During the month, Sanlam and Allianz received regulatory approval for the joint venture that will operate as SanlamAllianz in 27 African countries. As stipulated during the inception of the agreement in June 2021, the two major insurance companies agreed to divide ownership of Sanlam-Allianz shares in a 60:40 ratio, based on the assessed value of the assets. This partnership leverages Sanlam's deep knowledge of Africa and Allianz's extensive global capabilities, with a particular focus on expanding insurance coverage. While ownership of Sanlam Kenya shares will remain unchanged, we opine that this arrangement has the potential to influence the value of these shares after the collaboration, even though Sanlam maintains a controlling stake in the joint venture.

- **Local Pump Prices Increase –** EPRA announced the increase of local pump prices as a result of increased landing costs of fuels. Petrol will retail at KES 211.64/litre, diesel at KES 200.99/litre and kerosene at KES 202.61/litre. We expect that the G-to-G import model is likely not to bring additional pricing benefits to consumers. We maintain our view that the reduction of railway development levy and import declaration levy will have minimal impact on pump prices reduction.

- **Inflation Increased Marginally –** The headline inflation for the month of September increased to 6.80% from 6.70% in August on the back of an increase in food commodities prices. Inflation remains within the CBK's target range of 2.50%-7.50%. Food inflation increased to 7.90% from 7.50% in August. Housing utilities decreased to 6.30% y/y with transport increasing to 13.00% y/y. Non-Food-Non-Fuel (Core Inflation) remained constant at 3.70%. The CPI increased 100bps to 135.32 from 134.02 in August 2023. We expect headline inflation to remain under pressure and within the CBK's target at least until the end of Q4'23.

- **Shilling Continued Losing Streak Against USD -** Kenya shilling continued to depreciate further against the USD to close at **KES 148.10** versus **KES 145.41** at the end of August. We observed a slower decline in the month of September (-1.85%) compared to August (-2.14%). We expect the shilling to remain under pressure due to increased dollar demand from importers on the back of prevailing high commodity prices, reduced dollar inflows and dollar strength against frontier currencies.

What does October Hold?

- **October MPC Meeting –** The sixth meeting of the Monetary Policy Committee (MPC) will be held in October 2023. We expect the CBR rate to be maintained at 10.50% with the committee considering the impacts of previous hike as well as the prevailing macro factors.

Table 1: Upcoming Dividends

Counter	Interim/ Special Dividend	Final Dividend	Book Closure	Dividend Payment
Jubilee Holdings PLC	KES 2.00		8-Sep-23	11-Oct-23
East African Breweries Ltd		KES 1.75	15-Sep-23	27-Oct-23
Absa Bank Kenya Plc	KES 0.20		21-Sep-23	12-Oct-23
Centum Plc		KES 0.60	11-Oct-23	30-Nov-23
Umeme Limited	KES 0.93		9-Feb-24	29-Feb-24

Source: NSE, Company Fillings, AIB-AXYS Research

September'23 Equities Market Performance

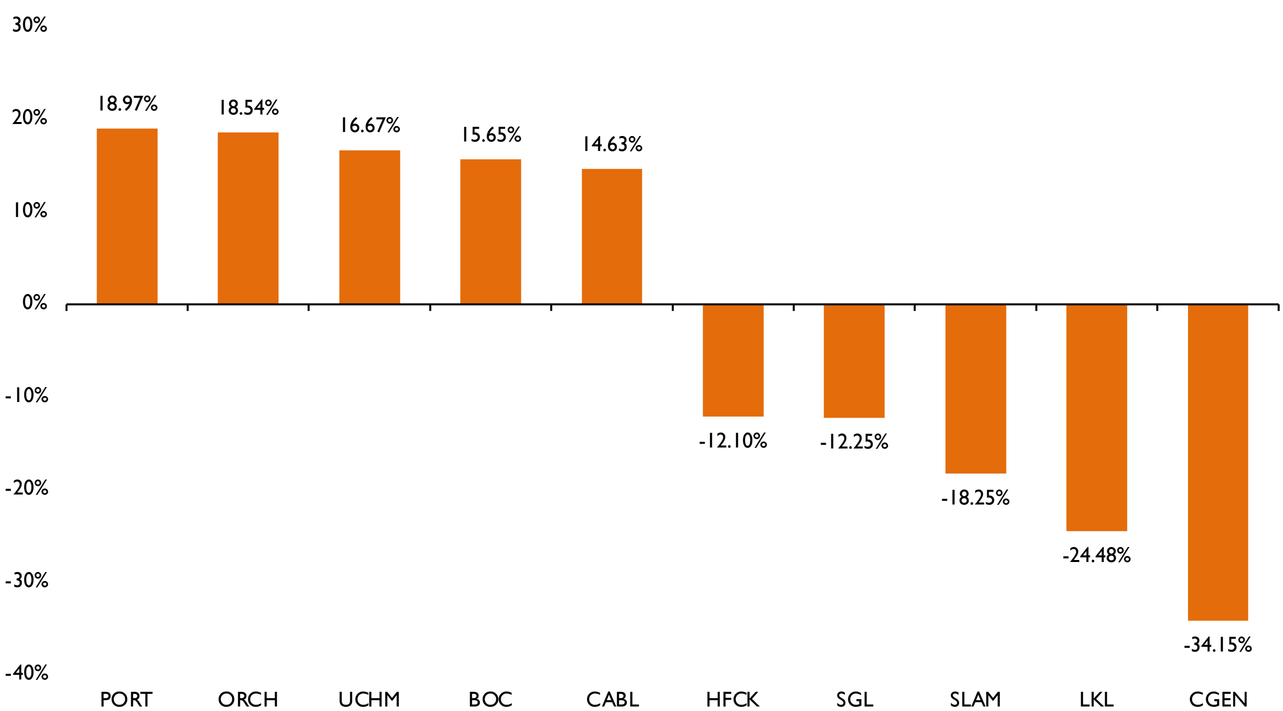
During the month of September, the indicative indices recorded a downward trend with the NASI declining by 4.04% and NSE-20 declining 2.04%. Foreigners changed to net sellers taking the selling position to **KES 1.19Bn** taking the YTD net selling position to **KES 10.13Bn**. If the same trend continues, the total foreign selling position for 2023 is likely to close below the **KES 24.04Bn** recorded in 2022.

Equity turnover increased 19.17% m/m to **KES 5.21Bn** from **KES 4.37Bn** in August while volumes traded also increased 86.32% m/m to **KES 416.59Mn**. Market capitalization was down 4.04% m/m to **KES 1487.67Bn.** We expect market activity to remain above KES 5.00Bn/month in Q4'2023 owing to the positive Q3'23 banking sector earnings season and expected interim dividend payment from players in the banking sector.

Top Gainers: E.A Portland Cement was the largest gainer in September'23 jumping (18.97%) m/m to KES 7.40 from KES 6.22. Kenya Orchards was the second largest gainer jumping (+18.54%) m/m to KES 19.50 from KES 16.45 driven by positive HY'23 results where net earnings increased by 348.42% y/y. Other gainers included: Uchumi (+16.67%) to KES 0.21 from KES 0.18, BOC Kenya (+15.65%) to KES 85.00 from KES 73.50 driven by a 28.90% y/y increase in HY'23 earnings and EA Cables (+14.63%) to KES 0.94 from KES 0.82.

Top Losers: Car & General was the largest m/m decliner (-34.15%) to KES 25.65 from KES 38.95. Other top losers included: Longhorn publishers (-24.48%) to KES 2.19 driven by expectations of negative FY'23 earnings following a profit warning, Sanlam (-18.25%) to KES 6.54 driven by a decline in net earnings in HY'23 results, Standard Group (-12.25%) to KES 7.16 driven by a loss in HY'23 earnings and HF Group (-12.10%) to KES 4.36.

Chart 1: September'23 Top 5 Gainers and Losers



Source: NSE, AIB-AXYS Research

Our Top Three Picks

BUY

a) **Equity Bank (EQTY) –** We recommend a **BUY** on the lender driven by expectation of positive Q3'23 net earnings results mainly driven by regional expansion particularly in DRC and Rwanda. We expect the lenders diversification into general insurance and continued digital channel transformation will drive growth of the lender. Additionally, we expect improved interest income resulting from the implementation of risk-based model and SME credit focus, driving the growth of the loan book. We see long-term value in holding EQTY as the current share price at KES 35.55 is 57.83% lower than our target price of KES 56.11 representing a YTD decline of 20.11% , hence providing an attractive entry point for long term capital gains and expected future dividend payments.

b) **Safaricom (SCOM) –** We continue to recommend a **BUY** on the telco given the prevailing price levels represent an attractive entry point and long-term value-play. The current share price of KES 14.60 represents a -39.54% decline so far in 2023 and is 62.40% below our target price of KES 23.71. The telco is set to release its HY'23 results in the coming weeks with the expectations of improved performance driven by operations in Ethiopia and Mpesa revenue. The commencement of Mpesa services in Ethiopia is expected to be a boost for future company's growth. We maintain our recommendation that local investors continue taking advantage of foreign investors exits as we believe that the counter is still trading below its potential.

SELL

a) **Sanlam Kenya (SLAM) -** We recommend profit taking, **SELL,** driven by continued loss-making trend as seen in the KES 171.95Mn loss in HY'23 results. Our outlook on the underwriter remains pessimistic due to the challenges facing the insurance sector; slowed premium growth and increased claims and surrenders. However, the joint venture with Allianz is anticipated to contribute to an acceleration in revenue growth and a return to profitability .Nevertheless, we do not foresee any upside potential given the persistent fundamental challenges that continue to impact its financial performance. The current share price at KES 6.54 represents a 52-week low, a YTD loss of 31.73% and a 18.25% m/m decline in September.

Table 2: Top 10 Highest Dividend Yields

Counter	31-Dec-22	29-Sep-23	YTD	Total DPS**	Div Yield
Umeme Limited	7.42	13.05	75.88%	2.31	17.70%
Williamson Tea	160.00	205.00	28.13%	30.00	14.63%
British American Tobacco (BAT)	460.00	418.25	-9.08%	57.00	13.63%
Standard Chartered Bank	142.75	165.00	15.59%	22.00	13.33%
I&M Group	17.00	17.05	0.29%	2.25	13.20%
Co-operative Bank of Kenya	12.30	11.80	-4.07%	1.50	12.71%
Kapchorua Tea	113.25	200.00	76.60%	25.00	12.50%
Kenya Re-Insurance	1.83	1.77	-3.28%	0.20	11.30%
Absa Bank Kenya	12.30	11.95	-2.85%	1.35	11.30%
Equity Group	44.50	35.55	-20.11%	4.00	11.25%

** - Total DPS is a Trailing DPS based on the last FY declared dividend

Portfolio Performance

In September'23, our model portfolio (-2.25%) continued to outperform the NASI index (-4.04%) while falling below the NSE-20 (-2.04%). However, our model portfolio has outperformed the NASI index on a YTD basis. On a YTD basis, the NSE-20 lost 9.98% while NASI index lost 25.30% compared to our model portfolio which has lost 12.18%.

The portfolio performance was lifted by m/m gains recorded by **Jubilee, Standard Chartered, Absa, Cooperative** and **Stanbic.** However huge declines by counters **KCB, Equity, I&M, Safaricom** and **NCBA** weighed down on further gains in the overall portfolio performance. We observed foreigners changing to net sellers following a deterioration in the buying position in some trading sessions in Q3'23. We expect another month of mixed performance largely driven by investors aligning themselves to dividend paying counters before book closures 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 driven by the hunt for dividends.

Table 3: Portfolio Performance

September '23 Performance	M/M	YTD
AIB-AXYS Africa Portfolio Performance	-2.25%	-12.18%
NSE-20	-2.04%	-9.98%
NASI	-4.04%	-25.30%

Table 4: Portfolio Constituents

Counter	29-Sep-2023	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighted YTD return	Weighted M/M return
JUB	185.75	235.85	26.97%	-6.54%	5.99%	265.00	148.25	-0.39%	0.36%
SCBK	165.00	180.86	9.61%	15.59%	3.61%	171.00	134.75	1.56%	0.36%
ABSA	11.95	14.72	23.18%	-2.85%	2.14%	12.95	10.10	-0.17%	0.13%
COOP	11.80	14.46	22.54%	-4.07%	1.29%	13.35	11.15	-0.24%	0.08%
SBIC	115.25	121.09	5.07%	12.99%	1.10%	129.75	92.00	1.04%	0.09%
DTK	48.10	60.09	24.93%	-3.80%	-1.23%	55.25	12.25	-0.23%	-0.07%
BAMB	24.50	35.28	44.00%	-22.22%	-1.61%	35.00	23.25	-1.33%	-0.10%
EABL	131.00	177.51	35.50%	-21.79%	-3.14%	187.00	125.00	-2.18%	-0.31%
NCBA	37.85	45.65	20.61%	-3.81%	-4.66%	41.70	30.05	-0.38%	-0.47%
SCOM	14.60	23.71	62.40%	-39.54%	-5.19%	26.35	13.00	-5.54%	-0.73%
IMH	17.05	21.12	23.87%	0.29%	-5.28%	21.00	15.85	0.01%	-0.21%
EQTY	35.55	56.11	57.83%	-20.11%	-8.49%	47.15	35.55	-1.61%	-0.68%
KCB	20.85	38.60	85.13%	-45.28%	-11.65%	41.45	20.85	-2.72%	-0.70%

Source: NSE, AIB-AXYS Research

Table 5: Recommendation Summary

Stock	Positives	Negatives	Recomm
ABSA Bank Kenya **Current Price: KES 11.95** **Target Price: KES 14.72** **Upside: 23.18%**	• Growing loan book in H1'23 by 21.57% thus improving interest income by 36.94%. • Implementation of risk-based loan pricing model to lead to growth in interest income. • Increased traction of digital channels such as WhatsApp Banking and Timiza loans app expected to drive future growth. • Non-funded income grew 25.66% y/y to KES 8.14Bn mainly driven by increased foreign trading income.	• Gross NPLs grew 62.50% y/y to KES 32.18Bn, raising asset quality concerns. • Sharp increase in loan loss provisioning by 74.42% y/y to KES 5.16Bn.	BUY
Co-operative Bank **Current Price: KES 11.80** **Target Price: KES 14.46** **Upside: 22.54%**	• 11.96% growth in interest income in H1'23 driven by increased revenue from interest on loans (+13.61%) • Improved performance from Kingdom bank with a 28.59% y/y increase in PAT to KES 521.92Mn. • Implementation of risk-based pricing model to lead to growth in interest income. • Loan loss provisioning declined 14.42% y/y to KES 2.86Bn indicating reduced lending risk.	• Gross NPLs climbed by 14.16% y/y to KES 58.44Bn.	BUY
Equity Group **Current Price: KES 35.55** **Target Price: KES 56.11** **Upside: 57.83%**	• Non-Funded income grew 41.19% y/y to KES 36.49Bn mainly driven by trade finance lending and forex trading. • Investment in Trade finance which is a promising new frontier and increased lending to key economic sectors. • Implementation of risk-based loan models led to an increase in interest income (+26.96%) y/y.	• Loan loss provisioning increased 73.61% y/y to KES 7.10Bn indicating increased lending risk. • Gross NPLs increased 59.78% y/y to KES 97.51Bn.	BUY
Diamond Trust Bank (DTB-K) **Current Price: KES 48.10** **Target Price: KES 60.09** **Upside: 24.93%**	• Enhanced digital transactions increased interest income in H1'23 by 32.42% y/y. • Net Interest Income increased 17.75% y/y to KES 13.11Bn mainly driven by the current uptick in bond yield of government papers. • 42.19% y/y growth in non-funded income in H1'23 mainly driven by increased forex trading income.	• Asset quality concerns persist as Gross NPLs increased by 16.03%. • Historically low ROE and ROA are a downside to investors' perception. • Increase in branch network will increase operating expenses.	BUY
KCB Group **Current Price: KES 20.85** **Target Price: KES 38.60** **Upside: 85.13%**	• Increase in net interest income by 12.11% y/y in H1'23 to KES 45.51Bn following implementation of risk-based loan models and higher interest from government securities. • Heavy investment in digital platforms driving double-digit growth in loan book. • Non-funded income grew 43.43% to KES 27.56Bn mainly driven by forex trading	• NPL ratio above the industry average. • Thin capital buffers point to a need to recapitalize but is not an imminent concern	BUY
Stanbic Kenya **Current Price: KES 115.25** **Target Price: KES 121.09** **Upside: 5.07%**	• Double-digit growth (+29.72%) in non-interest income in H1'23 mainly driven by growth in foreign trading income and growth in digital channels. • Growth in the loan book by 15.30% y/y steered by a resumption in lending and investments in digital banking.	• Increased Gross NPLs by 22.25% y/y to KES 29.45Bn	HOLD
NCBA Group **Current Price: KES 37.85** **Target Price: KES 45.65** **Upside: 20.61%**	• Net Interest Income increased 16.29% y/y in H1'23 mainly from increased lending. • 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 increased 14.59% y/y to KES 42.63Bn. • Increase in branch network will increase operating expenses.	BUY

*** Current Price is as at 29th September 2023

Stock	Positives	Negatives	Recomm
Standard Chartered Bank **Current Price: KES 165.00** **Target Price: KES 180.86** **Upside: 9.61%**	• Performance from the Wealth Management and financial markets driving non-interest income • Non-Funded Income grew 26.79% y/y in H1'23 to KES 7.03Bn mainly driven by trade finance lending and Forex trading (+96.45%) • Increased interest income by 33.42% y/y to KES 15.37Bn driven by increased income from loans and government securities. • Roll out of mobile lending platform to grow digital channels.	• Multiples are trading above sector and market average indicating overvaluation. • Compared to peers, we have observed a slow balance sheet growth. Loan book grew 13.17% while customer deposits declined by 1.13% in H1'23.	HOLD
EABL **Current Price: KES 131.00** **Target Price: KES 177.51** **Upside: 35.50%**	• Strong growth in premium brands and mainstream spirits • Regional subsidiaries to report steady and robust growth • Shift to digital channels for B2B and B2C distribution is key in driving sales volumes • Current ratio improved to 1.04 from 0.82 above the recommended 1.00 levels	• Excise led upward pricing adjustments to continue affecting sales volumes in Kenya.	BUY
Safaricom Plc **Current Price: KES 14.60** **Target Price: KES 23.71** **Upside: 62.40%**	• Revenues increased 4.30% y/y to KES 310.90Bn in FY'23 with slowdown in voice revenue following revised MTR rates. • License to launch Mpesa in Ethiopia will lead to increased revenue and future growth of telco, • Improving 4G subscriber mix, expected growth in both Mpesa and Data and expansion of Ethiopia operations 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 185.75** **Target Price: KES 235.85** **Upside: 26.97%**	• 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 24.50** **Target Price: KES 35.28** **Upside: 44.00%**	• 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
I & M Holdings **Current Price: 17.05** **Target Price: 21.12** **Upside: 23.87%**	• 36.73% growth in non-funded income in H1'23 mainly driven by increased forex trading income (+52.91%) • Implementation of risk-based loan models led to an increase in interest income (+22.10%). • Growth in the loan book by 16.74% y/y steered by investments in digital banking.	• Loan loss provisioning increased 144.52% y/y in H1'23 to KES 3.20Bn indicating increased lending risk. • Gross NPLs increased 57.53% y/y to KES 36.67Bn.	BUY

*** Current Price is as at 29th September 2023

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