JANUARY STOCK PICKS

December Review

- KNBS released 3Q 2021 economic growth figures which continued to reflect economic recovery. Real GDP grew by 9.9% compared to a contraction of 2.1% recorded in the same quarter of 2020.The performance was driven by a significant rebound in the; Manufacturing, Education, Transportation and Storage, Accommodation and Food Serving. Contrary to the growth recorded in most of the sectors, Agricultural sector contracted by 1.8% compared to 4.2% growth in 3Q 2020 owing to continued drought and poor weather conditions that reduced farm produce.
- IFC entered into a share purchase agreement with Britam to acquire 4.2% or 158,540,750 shares held by Britam in Equity Holdings. The deal will see IFC become Equity's second largest shareholder with a 6.7% stake. We view the move as a portfolio realignment by Britam as they seek to deploy the proceeds to more stable asset classes.
- IMF announced that it had completed its second review of the 38-month Extended Arrangement under the Extended Fund Facility (EFF) and the 38-month arrangement under Extended Credit Facility(ECF) for Kenya. IMF disbursed USD 258.1Mn bringing the total disbursement under the arrangement to USD 972.6 Mn. We expect the dollar inflow from the facility to support the shilling which has been under pressure and the conditions accompanying it to help streamline the government's fiscal discipline.
- During the month, the president signed CBK Amendment Act 2021 that gave CBK power to regulate and license the previously unregulated digital lenders.
- The shilling further weakened during the month to close at KES 113.14 against the dollar owing to the continued strengthening of the dollar against other currencies and increased dollar demand from importers.
- Inflation during the month of December decreased by 7bps to 5.73% from 5.80% recorded in November. The decrease is partly attributed to eased pressure on food inflation that declined to 9.09% from 9.92% recorded the previous month. We expect headline inflation to remain within the mid section of CBK'S target range of 2.50% - 7.50%. However, expected increase in maize and wheat flour prices due to supply hitches is likely to exert pressure on food inflation in the coming months.

What does January hold for us?

- We expect increased vaccine roll out to accelerate economic growth which would in turn improve investors sentiment into the country. However, a key challenge is the upcoming general election which is likely to pose a wait and see attitude among investors.
- CBK Monetary Policy Committee (MPC) will hold the next meeting in January to assess the effect of the last meeting and monitor local and global macroeconomic trends.

Table 1: Corporate Actions

Name	Interim/Special	Final	Book Closure	Dividend Payment
Kengen PLC		KES 0.30	16-Dec-21	10-Feb-22
KCB Group PLC	KES 1.00		9-Dec-21	14-Jan-22

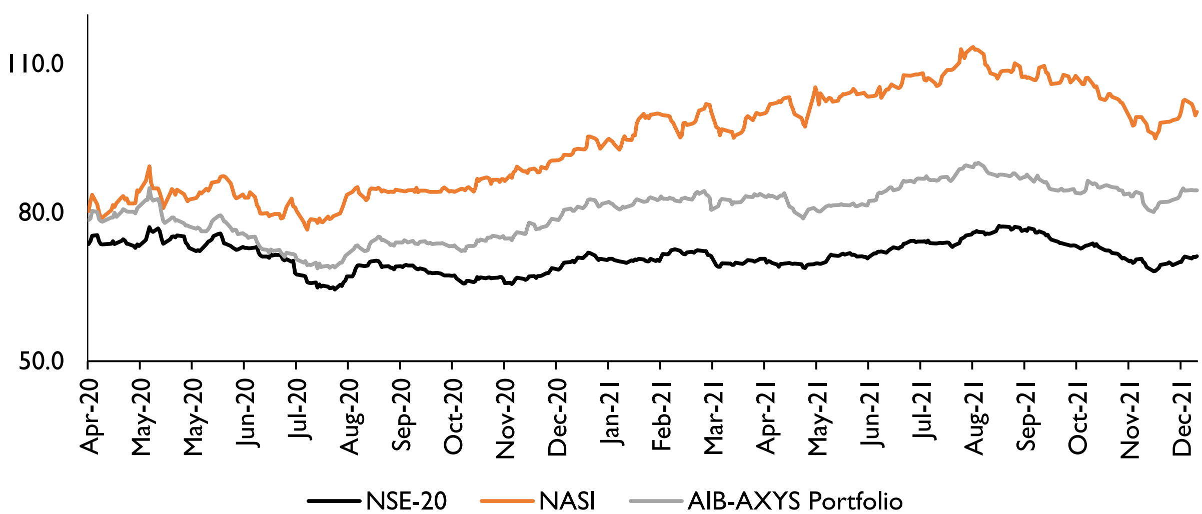
Portfolio Performance

During the month of December, our model portfolio was up 1.9% M/M and 5.8% YTD. The performance was driven by significant gains on the banking counters such Equity, KCB, ABSA and COOP owing to the improved 3Q 2021 results and declaration of interim dividends on some of the counters . For the year 2021, our portfolio outperformed the NSE-20 by 400bps while trailing the NASI by 360bps.

Table 2: Portfolio Performance

	M/M	YTD
AIB-AXYS Africa Portfolio Performance	1.9%	5.8%
NSE-20	1.7%	1.8%
NASI	0.0%	9.4%

Graph 1: Portfolio Performance vs Indices



Source: AIB-AXYS Research

Table 3: Portfolio Constituents

Counter	31-Dec-2021	Target Price	Upside	Δ YTD	Δ M/M	52 Week Low	52 Week High	Weighting	Weighted YTD return	Weighted M/M return
Safaricom	37.95	38.81	2.3%	10.8%	0.0%	34.25	44.95	14.0%	2.0%	0.0%
Equity	52.75	50.60	-4.1%	44.3%	7.7%	36.00	54.25	6.0%	2.7%	0.5%
KCB	45.45	52.45	15.4%	19.3%	4.7%	35.70	49.90	6.0%	1.2%	0.3%
NCBA	25.20	30.29	20.2%	-5.8%	2.0%	22.95	28.15	6.0%	-0.3%	0.1%
COOP	12.95	14.99	15.8%	3.6%	6.1%	11.60	13.95	6.0%	0.2%	0.4%
DTK	59.50	79.00	32.8%	-20.7%	6.3%	54.75	77.50	6.0%	-1.2%	0.4%
SCB	128.25	145.19	13.2%	-11.1%	0.0%	124.00	144.50	6.0%	-0.7%	0.0%
ABSA	11.85	12.07	1.9%	22.7%	7.2%	8.62	11.85	6.0%	1.4%	0.4%
I&M	21.10	36.49	72.9%	-6.2%	1.4%	20.35	50.00	7.0%	-0.4%	0.1%
Stanbic	87.25	102.92	18.0%	2.6%	-5.4%	74.00	95.25	6.0%	0.2%	-0.3%
EABL	165.00	205.21	24.4%	7.0%	7.8%	148.25	193.75	6.0%	0.4%	0.5%
Bamburi	38.00	74.66	96.5%	0.4%	7.8%	33.55	46.35	7.0%	0.0%	0.5%
NSE	8.00	10.05	25.6%	-2.0%	-7.4%	7.74	10.15	6.0%	-0.1%	-0.4%
Jubilee	316.75	394.85	24.7%	11.5%	-6.8%	261.75	390.00	6.0%	0.7%	-0.4%
Kenya Re	2.30	3.28	42.6%	-0.9%	-1.3%	2.22	2.70	6.0%	-0.1%	-0.1%
NSE-20	1,902.57			1.8%	1.7%					
NASI	166.46			9.4%	0.0%					

Source: AIB-AXYS Research

Equity Group

Target Price: KES 50.60
Upside: -4.1%

Tailwinds

- Expansion in Congo is expected to grow the group's business by leveraging on its strength in lending to SMEs who form part of the mining and trade business in the country while expanding its reach to the corporates.
- The halt of dividend payment in FY19 and FY20 has seen the group enhance its capital ratios
- A high liquidity ratio of 59.3% positions to take up any opportunities that may arise as the East African economy continues to recover
- The enactment of the dividend policy with a commitment to payout 30%-50% of all profit after tax is likely to increase investors' sentiments on the counter.

Headwinds

- High exposure in the SME sector likely to further deteriorate asset quality especially with government effecting new containment measures
- Ballooning provisions eating into the bottom-line with cost of risk at 4.0%

KCB Group

Target Price: KES 52.45
Upside: 15.4%

Tailwinds

- Double digit growth in loan book fueling growth in interest income
- Cost of funds has remained stable at 2.7% despite strong growth in customer deposits (+11.7% y/y to KES 767.2B)
- Growing Net Interest Margin (+40 bps y/y to 8.3%)
- Declining Cost to Income ratio (-110 bps y/y to 44.8%).

Headwinds

- Deteriorating asset book quality with NPL ratio at 16.2%
- A surge in loan loss provisions on the back of Covid-induced economic struggle with an expected cost risk of 3.5%.
- Cost savings on merger with NBK may take longer to be realized given the tough operating environment due to the prevailing pandemic.

Absa Group

Target Price: KES 12.07
Upside: 1.9%

Tailwinds

- Growing NFI (+9.67% y/y) supported by forex trading income and introduction of new products
- Declining cost of funds (-40 bps y/y to 2.5%)
- Improving cost to income ratio (-300 bps y/y to 48.2%) due to investment in technology and reduced reliance on branches.
- Introduction of new channels such as WhatsApp Banking and Timiza loans App.

Headwinds

- Marginal growth in interest income as yields on interest earning assets decline

Co-operative Bank

Target Price: KES 14.99
Upside: 15.8%

Tailwinds

- Declining cost of funds (-40% y/y to 3.3%) despite double-digit growth in deposits
- Diverse loan book to shield growth despite shutdown in some sectors of the economy
- Low exposure to the high-risk sectors that have been largely affected by the prevailing pandemic.
- Optimization of operations through digitization has seen continued increase in mobile transactions.

Headwinds

- Synergies from the acquisition of Jamii Bora 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 102.92
Upside: 18.0%

Tailwinds
- Double-digit growth in deposits (+15.7% y/y)
- Expected growth in the loan book steered by an increase in corporate banking as well as secured personal lending segments.
- Diverse loan book with low exposure in high-risk sectors.
- Expected growth in non-funded income on the back of an increase in fees and commissions following the resumption of fees on mobile transactions.

Headwinds
- Growing NPL ratio (12.8%) to decrease asset book quality
- Rising cost of risk (+90 bps y/y to 2.5%) due a 54.8% increase in provisions

NCBA Group
Target Price: 30.29
Upside: 20.2%

Tailwinds
- Conglomerate of various segments to solidify presence in the East African market
- Group to retain front in digital lending through platforms such as M-Shwari and Fuliza
- Improved operational efficiencies to see cost synergies of a merged entity

Headwinds
- Asset quality to remain worrisome with NPL ratio at 16.1%, this may be further worsened by exposure to the SME sector

I&M Holdings
Target Price: KES 36.49
Upside: 72.9%

Tailwinds
- Recovery in Mauritius as the rolling out of vaccines sees the tourism and hospitality industry recover.
- Stable growth in loan book and deposits despite a tough operating environment
- Modest Cost to Income ratio of 41.8%

Headwinds
- Elevated provisions due to their exposure to risky-sectors

Diamond Trust Bank
Target Price: KES 79.00
Upside: 32.8%

Tailwinds
- Growing NFI (+6.1 % y/y) as the bank continues to grow its forex trading income
- Increased investment in innovation a good indication of their shift to digitization

Headwinds
- Increasing cost to income ratio due to the high staff cost (38% of total cost)
- Growing NPLs ratio due to its exposure to high-risk sectors

Standard Chartered Bank
Target Price: KES 145.19
Upside: 13.2%

Tailwinds
- Digital banking a key driver for growth as usage of the platforms increase
- Wealth management has been a key focus with the bank increasing its products.
- NFI to Total income ratio improved to 35% in 1Q21.

Headwinds
- Banks higher NPL ratio, which was higher than the industry average pre-pandemic, remains a source of concern.

EABL

Target Price: KES 205.21
Upside: 24.4%

Tailwinds

- Recovery in sales expected as the general economy recovers
- Stable growth in Tanzania given lax regulations on social gatherings
- Packaging of bottled beer brands in carton packs to allow take away option to boost beer sales

Headwinds

- Recovery in sales pegged on regulatory conditions in the respective subsidiaries
- Reduced sales in Senator Keg hence a decline in topline

Jubilee Holdings

Target Price: KES 394.85
Upside: 24.7%

Tailwinds

- Stable dividend payment to the allure of investors
- Stable growth in investment income despite effects of the pandemic (+12.7% y/y)
- Operational efficiencies and cost control measures have seen lower operating costs (-2.5% y/y)
- Allianz deal allows JHL to focus on growing footprint in General insurance

Headwinds

- Decline in consumer disposable income due to a slowdown in economic activity and job losses may see slowdown in insurance premiums growth while seeing a rise in claims and surrenders

Safaricom

Target Price: 38.81
Downside: 2.3%
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
- Data revenue to be driven by mobile data and FTTH, supported by the investments in both 4G and 5G networks
- Ethiopian entry provides an exciting investment opportunity driven by a low mobile penetration

Headwinds

- Regulatory risk in Kenya, geo political 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

NSE

Target Price: KES 10.05
Upside: 25.6%

Tailwinds

- Declining operating costs (-25.3% y/y to KES 467.2M)
- Increased fees from new products. The launch of M-Akiba bond and the Ibuka program have helped the NSE diversify its revenues. Revenues from these sources are expected to increase as the uptake of these products increases
- Attractive dividend yield

Headwinds

- Lower transaction levy as turnover declines
- Reducing income from data vending as demand for data decreases

Bamburi Cement

Target Price: KES 74.66
Upside: 96.5%

Tailwinds

- Increased cement demand as government continues its infrastructure projects and economic activity picks up.
- Due to the border issues with Rwanda, Bamburi isn't exporting to the country. Volumes could increase if the border between Uganda and Rwanda is reopened.
- In this tough operating environment, Bamburi has focused on reducing costs which have led to an increase in efficiencies.
- Lower commodity prices (global price of clinker has declined) is likely to reduce the cost of goods.

Headwinds

- Lower revenue due to a decrease in cement prices in both Kenya and Uganda.
- Increased competition could further depress prices.
- Cheaper products are cannibalizing on the premium brands. This is likely to reduce revenue growth.

Kenya Re

Target Price: KES 3.28
Upside: 42.6%

Tailwinds

- The compulsory reinsurance business accounts for 35% of the re insurers earnings ensuring steady flow of revenues and stability in the topline
- Stable dividend payout despite the prevailing pandemic

Headwinds

- Regional expansion may be delayed die to the pandemic
- Lower earnings due to loss of business as increased claims and rebates forced insurers to renegotiate their insurance contract with their customers

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