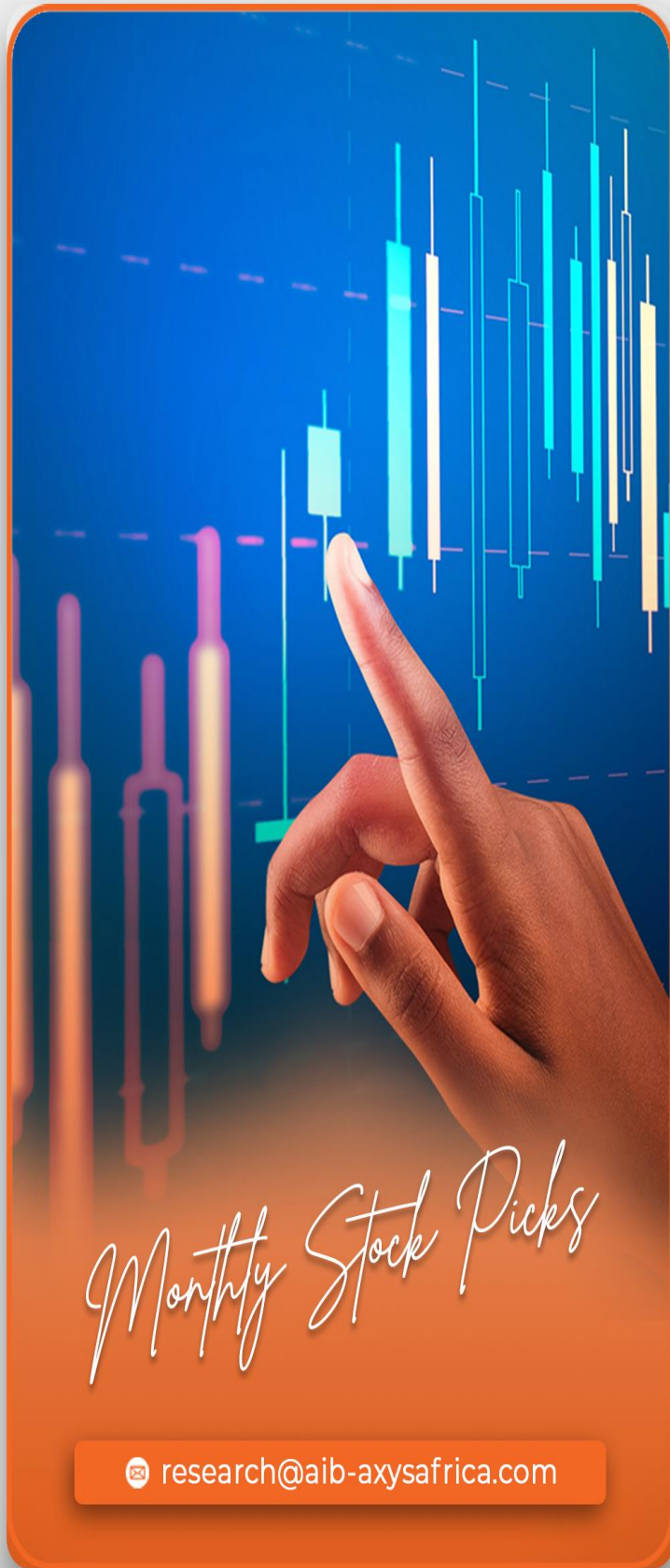


MONTHLY



Monthly Stock Picks

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STOCK PICKS

AUGUST 2023 STOCK PICKS

July'23 Review

- **Carbacid BOC Buyout Dispute** – The month of July saw the commencement of hearing of disputed cases by the CMA tribunal. The tribunal has been hearing the case involving the take over of BOC by Carbacid whose deal had been filled for objection. We expect resolution of the tribunal case to have a positive impact on BOC's share price in the near term.
- **Nation Media Share Buyback** - The month of July saw the commencement of Nation Media Group's share buyback which opened on 3rd July 2023 and will close on 2nd July 2024. The proposed buyback is 10% of ordinary issued shares totaling 19.03Mn ordinary shares at KES 20.00 per share.
- **Corporate Profit Warning** – The month of July saw the announcement of an expectation of greater than 25% decline in the prior year's net earnings from CTUM. The decline was attributed to impairment provisions relating to the business operations of its majority owned subsidiary, Two Rivers Development Limited (TRDL).
- **Earnings Season** - During the month, we had FY'23 earnings release from East African Breweries, Centum, Nairobi Business Ventures and HY'23 earnings from British American Tobacco (k). EABL reported a 20.87% decline in PAT to KES 12.32Bn and a final dividend of KES 1.75 per share, bringing the total dividend to KES 5.50. Centum reported a 248.51% increased loss to KES 7.31Bn and a final dividend of KES 0.60 per share. NBV reported an 82.97% decline in PAT to KES 8.63Mn while BAT reported a 3.52% decline in PAT to KES 2.82Bn and an interim dividend of KES 5.00 per share.
- **Local Pump Prices Marginally Decrease with Higher VAT** - EPRA [announced the marginal decrease](#) in local pump prices with the maintenance of implemented 16.00% VAT despite the previous suspension of the Finance Act 2023. Petrol will retail at KES 194.68/litre (-KES 0.85), diesel at KES 179.67/litre and kerosene at KES 169.48/litre (+KES 3.96). We expect that fuel prices will remain heightened despite the decrease in global oil prices. The reduction of the railway development levy and the import declaration levy will have minimal impact on pump prices reduction.
- **Inflation Decreases below CBK Target** - The headline inflation for the [month of July decreased to 7.30%](#) from 7.90% in June, the lowest over a 14-month period, on the back of a decline food commodities prices. Inflation is now within CBK's target range of 2.50% -7.50%. Food inflation decreased to 8.60% from 10.30% in June. Housing utilities decreased to 7.80% y/y with transport increasing to 13.00% y/y . Non-Food-Non-Fuel (Core Inflation) decreased to 3.80% from 4.10% in June. The CPI increased 10bps to 134.15 from 134.01 in June 2023. We expect headline inflation to remain under pressure and within the CBK's upper target at least until the end of Q3'23.
- **Shilling Continued Losing Streak Against USD** - Kenya shilling continued to depreciate further against the USD to close at **KES 142.36** versus **KES 140.52** at the end of June. We observed a slower decline in the month of July (-1.29%) compared to June (-1.52%). We expect the shilling to remain under pressure due to the increased dollar demand from importers on the back of prevailing high global commodity prices, reduced dollar inflows and dollar strength against frontier currencies.

What does August Hold?

- **August MPC Meeting** - The next meeting of the Monetary Policy Committee (MPC) will be held on 09th August 2023. We foresee the MPC maintaining the CBR rate at 10.50% with the committee considering the impact of the previous hike as well as the prevailing macro factors (more so the lower July inflation).
- **HY'23 Earnings Season** - We expect the release of HY'23 results from the banking sector and insurance sector, where we anticipate a strong performance from banks, driven by an increase in Interest income and Non-Funded Income. We anticipate an increase in NPLs largely attributable to lending to trade and manufacturing sectors as well as sectors lagging in recovery post pandemic such as Real estate and hospitality. We anticipate lower underwriting profits in the insurance sector on the back of a tough operating environment in 2023.

Table 1: Summary Corporate Actions in July

Company	Corporate Action and Our Comments
1. Centum Plc	<ul style="list-style-type: none"> Centum Plc announced a profit warning with the expectation of a greater than 25% decline in prior year PAT. The board attributed the decline to impairment provisions relating to the business operations of its majority owned subsidiary, Two Rivers Development Limited (TRDL). Centum announced that it has acquired 4.64Mn issued shares in the first five months of its ongoing share buyback, representing 7% of its targeted number in the 18-month plan that started on 6th February 2023. The proposed buyback was of 10% of ordinary issued shares totaling to 66.54Mn issued shares, at a maximum price of KES 9.03 and a minimum price of KES 0.50. At the current rate, we foresee the buyback achieving a 25.00% success rate by buying back approximately 16.50Mn shares. We expect the ongoing buyback to help in stabilizing the share price. However, the wider loss announcement to have a negative impact on the share price in the near term having declined -0.44% in the month of July to close at KES 8.96.
2. Nation Media Group	<ul style="list-style-type: none"> Nation Media Group commenced its share buyback on 3rd July 2023, which will close on 2nd July 2024. The proposed buyback was of 10% of ordinary issued shares totaling to 19.03Mn issued shares at KES 20.00 each. We expect the ongoing buyback to continue having a positive impact on the share price in the near term. However, we have seen the initial excitement fade away and we expect the share price to retreat to below the proposed buyback price of KES 20.00 having gained 4.99% in the month of July to close at the proposed buyback price of KES 20.00.
3. Safaricom	<ul style="list-style-type: none"> Safaricom received approval from its shareholders, during its AGM on 28th July 2023, to set up two venture capital firms, Spark Fund and Venture Co, with the aim of identifying and incubating start-ups and investing in scale-ups, as part of its next strategy to fuel its growth into the future.
4. BOC Kenya	<ul style="list-style-type: none"> BOC Kenya announced the appointment of Joseph Ramashala as the acting Managing Director effective 7th July 2023. We believe this appointment is positive for the company as it continues its search for a substantive Managing Director. BOC lost -11.38% in the month of July to close at KES 72.00

Table 2: Upcoming Dividends

Counter	Interim Dividend	Final Dividend	Book Closure	Dividend Payment
Crown Paints Kenya		KES 4.00	28 th June 2023	14 th Aug 2023
Safaricom Plc		KES 0.62	28 th July 2023	31 st Aug 2023
British American Tobacco (BAT-K)	KES 5.00		18 th Aug 2023	22 nd Sept 2023
Kapchorua Tea Plc		KES 25.00	23 rd Aug 2023	4 th Sept 2023
Williamson Tea Plc		KES 30.00	23 rd Aug 2023	4 th Sept 2023
East African Breweries Ltd		KES 1.75	15 th Sept 2023	27 th Oct 2023
Centum Plc		KES 0.60	TBA	TBA

Table 3: Summary of Earnings Releases in July

Company	Interim/Final DPS	Comment
1. East African Breweries	KES 1.75	<ul style="list-style-type: none"> PAT decreased (20.87%) y/y in FY'23 to KES 12.32Bn, driven by an increase in the cost of sales, higher taxes and the tough operating and macro-economic environment. However, we observed a decline in operating costs with revenues remaining flat with pricing and improved market mix offsetting a decline in volumes. A final dividend of KES 1.75 was announced bringing the total dividend to KES 5.50, representing a -50.00% decline from the KES 11.00 paid out in FY'22.
2. British American Tobacco (k)	KES 5.00	<ul style="list-style-type: none"> PAT decreased (3.52%) y/y in HY'23 to 2.82Bn driven by higher taxes as well as 3.96% y/y decline in gross revenue. However, we observed a decline in operating costs from productivity savings to mitigate inflationary cost increases. An Interim dividend of KES 5.00 was declared, which was similar to the one paid out in HY'22.
3. Centum Plc	KES 0.60	<ul style="list-style-type: none"> Net loss increased by 248.51% y/y in FY'23 to KES 7.31Bn attributed to impairment provisions relating to the business operations of Two Rivers Development Limited (TRDL) as well as a decline in investment income. A final dividend of KES 0.60 was declared representing a 1.69% increase from the KES 0.59 paid out in FY'22.
4. Nairobi Business Ventures	-	<ul style="list-style-type: none"> PAT decreased (82.97%) y/y in FY'23 to KES 8.63Mn, driven by a large uptick in cost of sales by 96.54% y/y as well as tax expenses and a tough operating and macro-economic environment. This is despite a growth in revenue 62.17% y/y and a decline in administrative expenses. No dividend was declared.
5. Eaagads	-	<ul style="list-style-type: none"> PAT increased 14.16% y/y in FY'23 to KES 10.88Mn, driven by a 64.73% y/y uptick in revenue, attributable to favorable weather conditions that enhanced coffee bean development. We observed that PAT was weighed down by an increase in production and operating costs as well as higher taxes. No dividend was declared.
6. ILAM Fahari I-REIT	-	<ul style="list-style-type: none"> PAT declined marginally (0.15%) y/y in HY'23 to KES 86.03Mn, despite by a 5.61% y/y jump in revenue, as well as an increase in rental and interest income. The PAT decline was attributed to an increase in operating expenses. No dividend was declared.

July'23 Equities Market Performance

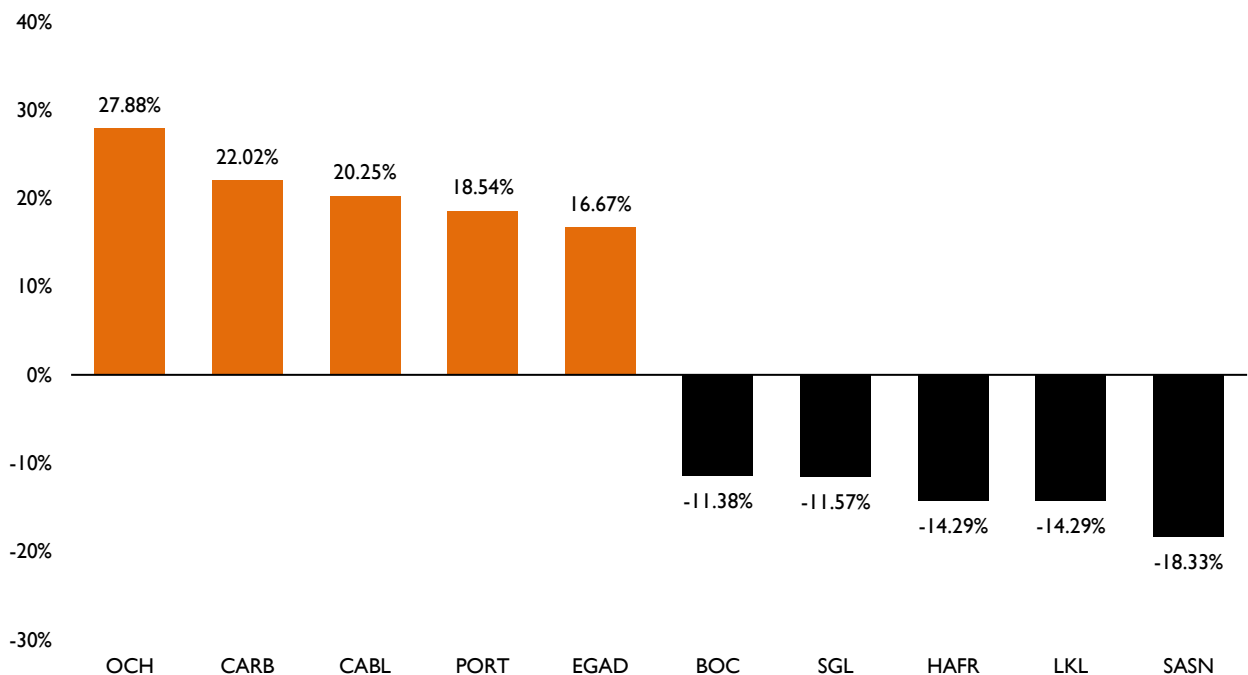
During the month of July, the indicative indices recorded a mixed trend with NASI declining by 1.41% and NSE-20 gaining marginally by 0.15%. Foreign investors changed to net sellers taking the selling position to **KES 3.02Bn** taking the YTD net selling position to **KES 9.61Bn**. Key to note is that foreigners were net buyers for majority of the month with the SCOM KES 3.28Bn net foreign sale on 28th July skewing the net position negatively. If the same trend continues, the total foreign net selling position for 2023 is likely to close below the **KES 24.04Bn** recorded in 2022.

Equity turnover increased 86.74% m/m to **KES 7.63Bn** from **KES 4.08Bn** in June while volumes traded also increased 97.62% to **KES 416.16Mn**. Market capitalization was down 1.41% m/m to **KES 1,642.71Bn**. We expect market activity to remain above KES 5.00Bn/month, in Q3'2023, owing to the expected positive HY'23 earnings season and expected interim dividend payment from players in the banking sector.

Top Gainers: Olympia Capital Holdings was the largest gainer in July'23 (+27.88%) m/m jumping to KES 5.00 from KES 3.91 driven by positive FY'23 results. Carbacid Investments was the second largest gainer, jumping (+22.02%) m/m to KES 16.90 from KES 13.85 following commencement of hearing of its disputed case with BOC Kenya by the CMA tribunal. Other gainers included: East African Cables (+20.25%) to KES 0.95, East African Portland Cement (+18.54%) to KES 7.16 and Eaagads (+16.67%) to KES 14.00 driven by positive FY'23 results where the net earnings increased by 14.16%.

Top Losers: Sasini was the largest m/m decliner (-18.33%) to KES 24.50 from KES 30.00 driven by a sharp decline in profit in HY'23. Other top losers included: Longhorn Publishers (-14.29%) to KES 2.10 following the announcement of a profit warning, Home Afrika (-14.29%) to KES 0.30, Standard Group (-11.57%) to KES 8.10 and BOC Kenya (-11.38%) to KES 72.00.

Chart 1: July '23 Top 5 Gainers and Losers



Source: NSE, AIB-AXYS Research

Our Top Three Picks

BUY

- a) **Diamond Trust Bank** – We recommended a BUY of the lender driven by expectation of positive HY'23 net earnings results mainly driven by expected improved performance in its subsidiaries. We expect the lenders continued digital channel transformation and branch expansion to drive growth. Additionally, we expect improved interest income for the lender to be driven by continued loan book growth following implementation of risk-based lending model. The current share price of KES 47.70 is 25.97% lower than our target price of KES 60.09 representing a 4.60% decline in YTD hence providing an attractive entry point
- b) **Equity Bank (EQTY)**- We recommend a BUY on the lender driven by the expectation of positive HY'23 net earnings results mainly driven by continued regional expansion, especially in DRC and Rwanda, driving revenue growth. We expect the lenders diversification into offering general insurance and enhanced digital channels will drive growth of the lender. We anticipate that the lenders continued implementation of their risk-based lending model will continue driving growth of the loan book and interest income. We see long term value in holding EQTY as the current share price at KES 41.00 is 36.85% lower than our target price of KES 56.11 representing a YTD decline of 7.87% hence providing an attractive entry form long term capital gains and expected future dividend payments.
- c) **Jubilee (JUB)** - We recommend a BUY on the underwriter driven by expectation of positive HY'23 net earnings results driven by growth in their general business and increased investment income. We expect the partnership in general business with Allianz to drive profitability of the underwriter on the back of their expected synergies. We anticipate that the underwriters diversified portfolio to continue advantageous for growth of the business. We expect the counter to continue performing well with the current share price of KES 185.00 being lower by 27.49% from our target price of KES 235.85 hence providing an attractive entry point.

Table 4: Top 10 Highest Dividend Yields

Counter	31-Dec-22	31-Jul-2023	YTD	Total DPS**	Div Yield
Umeme	7.42	13.35	79.92%	2.31	17.30%
BAT	460.00	418.25	-9.08%	57.00	13.63%
Standard Chartered Bank	142.75	165.00	15.59%	22.00	13.33%
Co-operative Bank	12.30	11.90	-3.25%	1.50	12.61%
Williamson Tea	160.00	239.25	49.53%	30.00	12.54%
BK Group Plc	31.50	33.00	4.76%	3.96	12.00%
Kapchorua Tea	113.25	210.00	85.43%	25.00	11.90%
I&M Group Plc	17.00	19.00	11.76%	2.25	11.84%
NCBA Group Plc	39.35	38.45	-2.29%	4.25	11.05%
Absa Bank Kenya Plc	12.30	12.35	0.41%	1.35	10.93%

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

Portfolio Performance

In July'23, our model portfolio (+0.25%) continued to outperform the NSE-20 (+0.15%) and the NASI index (-1.41%). However, our model portfolio has only outperformed the NASI index on a YTD basis. On a YTD, the NSE-20 lost 5.90%, while the NASI index lost 17.24% compared to our model portfolio which has lost 6.38%.

The portfolio performance was lifted by m/m gains recorded by **I&M Group, Stanbic, Equity, ABSA** and **Standard Chartered**. However huge declines by counters **EABL** and **Diamond Trust Bank** weighed down on further gains in the overall portfolio performance. We observed foreigners changing to net sellers despite an improvement in the buying position in some trading sessions in Q2'23. 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 are driven by the hunt for dividends.

Table 5: Portfolio Performance

July '23 Performance	M/M	YTD
AIB-AXYS Africa Portfolio Performance	0.25%	-6.83%
NSE-20	0.15%	-5.90%
NASI	-1.41%	-17.24%

Table 6: Portfolio Constituents

Counter	31-Jul-2023	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighted YTD return	Weighted M/M return
IMH	19.00	21.12	11.16%	11.76%	11.11%	21.00	15.85	0.47%	0.44%
SBIC	120.00	113.09	-5.76%	17.65%	7.87%	129.75	92.00	1.41%	0.63%
EQTY	41.00	56.11	36.85%	-7.87%	7.19%	53.25	35.80	-0.63%	0.58%
ABSA	12.35	14.72	19.19%	0.41%	4.66%	12.95	10.10	0.02%	0.28%
SCBK	165.00	180.86	9.61%	15.59%	2.80%	171.00	133.00	1.56%	0.28%
JUB	185.00	235.85	27.49%	-6.92%	2.78%	265.00	148.25	-0.42%	0.17%
NCBA	38.45	45.65	18.73%	-2.29%	-1.03%	40.90	24.65	-0.23%	-0.10%
BAMB	24.90	35.28	41.69%	-20.95%	-1.19%	38.35	23.25	-1.26%	-0.07%
COOP	11.90	14.46	21.51%	-3.25%	-2.46%	13.35	11.15	-0.20%	-0.15%
KCB	28.50	38.60	35.44%	-25.20%	-2.73%	43.50	28.50	-1.51%	-0.16%
SCOM	16.90	23.71	40.30%	-30.02%	-3.43%	31.80	13.00	-4.20%	-0.48%
DTK	47.70	60.09	25.97%	-4.60%	-4.31%	55.25	12.25	-0.28%	-0.26%
EABL	141.00	177.51	25.89%	-15.82%	-9.03%	187.00	137.00	-1.58%	-0.90%

Table 7: Recommendation Summary

Stock	Positives	Negatives	Recomm
ABSA Bank Kenya Current Price: KES 12.35 Target Price: KES 14.72 Upside: 19.19%	<ul style="list-style-type: none"> Growing loan book in Q1'23 by 27.73% thus improving interest income by 38.29% 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 49.26% y/y to KES 4.50Bn mainly driven by increased foreign trading income 	<ul style="list-style-type: none"> Gross NPLs grew 59.72% y/y to KES 31.14Bn, raising asset quality concerns. Sharp increase in loan provisioning by 103.20% y/y to KES 2.40Bn 	BUY
Co-operative Bank Current Price: KES 11.90 Target Price: KES 14.46 Upside: 21.51%	<ul style="list-style-type: none"> 10.77% growth in non-funded income in Q1'23 mainly driven by increased forex trading income (+43.91%) Improved performance from kingdom bank with a 28.59% y/y increase in the PAT to KES 256.26Mn Loan loss provisioning declined 0.74% y/y to KES 1.53Bn indicating reduced lending risk 	<ul style="list-style-type: none"> Gross NPLs increased 12.58% y/y to KES 55.68Bn. 	BUY
Equity Group Current Price: KES 41.00 Target Price: KES 56.11 Upside: 36.85%	<ul style="list-style-type: none"> Non-Funded Income grew 54.30% y/y to KES 18.38Bn mainly driven by trade finance lending and forex trading Investment in Trade finance which is a promising new frontier and increase lending to key economic sectors Implementation of risk-based loan models led to an increase in interest income (+21.61%) 	<ul style="list-style-type: none"> Loan loss provisioning increased 92.52% y/y to KES 3.48Bn indicating increased lending risk. Gross NPLs increased 35.21% y/y to KES 80.29Bn. 	BUY
Diamond Trust Bank (DTB-K) Current Price: KES 47.70 Target Price: KES 60.09 Upside: 25.97%	<ul style="list-style-type: none"> Enhanced digital transactions increased interest income in Q1'23 by 32.07% y/y Net Interest Income increased 20.66% y/y to KES 6.68Bn mainly driven by the current market uptick in the bond yield of government papers 59.08% growth in non-funded income in Q1'23 mainly driven by increased forex trading income 	<ul style="list-style-type: none"> Asset quality concerns persist as Gross NPLs increased by 17.11% 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 28.50 Target Price: KES 38.60 Upside: 35.44%	<ul style="list-style-type: none"> Increase in net interest income by 11.75% y/y to KES 22.06Bn 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 59.18% to KES 14.79Bn mainly driven by forex trading 	<ul style="list-style-type: none"> Increased Gross NPLs by 31.87% to KES 176.47Bn Thin capital buffers point to a need to recapitalize but is not an imminent concern 	BUY
Stanbic Kenya Current Price: KES 120.00 Target Price: KES 113.09 Upside: -5.76%	<ul style="list-style-type: none"> Double-digit growth (+89.28%) in non-interest income in Q1'23 mainly driven by growth in foreign trading income and growth in digital channels Growth in the loan book by 11.53% y/y steered by a resumption in lending and investments in digital banking. 	<ul style="list-style-type: none"> Increased Gross NPLs by 19.26% y/y to KES 29.29Bn 	SELL
NCBA Group Current Price: KES 38.45 Target Price: KES 45.65 Upside: 18.73%	<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 Gross NPLs fell 11.95% y/y to KES 39.75Bn 	<ul style="list-style-type: none"> Increase in branch network will increase operating expenses 	BUY

*** Current Price is as at 31st July 2023

Stock	Positives	Negatives	Recomm
Standard Chartered Bank Current Price: KES 165.00 Target Price: KES 180.86 Upside: 9.61%	<ul style="list-style-type: none"> Performance from the Wealth Management and financial markets driving non-interest income Non-Funded Income grew 55.54% y/y to KES 3.87Bn mainly driven by trade finance lending and Forex trading (+113.92%) Increased interest income by 34.10% y/y to KES 7.60Bn driven by increased income from loans and government securities. Roll out of mobile lending platform to grow digital channels. 	<ul style="list-style-type: none"> Multiples are trading above sector and market average indicating overvaluation Compared to peers, we have observed a slow balance sheet growth. Loan book grew 7.04% while customer deposits grew by 14.16% in Q1'23 	HOLD
EABL Current Price: KES 141.00 Target Price: KES 177.51 Upside: 25.89%	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Excise led upward pricing adjustments to continue affecting sales volumes in Kenya. 	BUY
Safaricom Plc Current Price: KES 16.90 Target Price: KES 23.71 Upside: 40.30%	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 185.00 Target Price: KES 235.85 Upside: 27.49%	<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 	<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
Bamburi Cement Current Price: KES 24.90 Target Price: KES 35.28 Upside: 41.49%	<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
I & M Holdings Current Price: 19.00 Target Price: 21.12 Upside: 11.16%	<ul style="list-style-type: none"> 58.76% growth in non-funded income in Q1'23 mainly driven by increased forex trading income (+135.37%) Implementation of risk-based loan models led to an increase in interest income (+18.27%) Growth in the loan book by 18.00% y/y steered by a resumption in lending and investments in digital banking. 	<ul style="list-style-type: none"> Loan loss provisioning increased 241.53% y/y to KES 1.64Bn indicating increased lending risk. Gross NPLs increased 24.01% y/y to KES 29.31Bn. 	HOLD

*** Current Price is as at 31st July 2023

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