

MONTHLY



Monthly Stock Picks

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STOCK PICKS

NOVEMBER 2023 STOCK PICKS

October'23 Review

- **FY'23 Earnings Season** - During the month, we had FY'23 earnings release from KPLC, Carbacid and KenGen. KPLC reported a 197.85% decline in PAT to a loss of KES 3.19Bn attributable to a significant increase in finance costs driven by the depreciation of the shilling. Carbacid reported a 15.31% increase in PAT to KES 816.01Mn and a final dividend of KES 1.70 was declared. KenGen reported a 48.34% increase in PAT to KES 5.02Bn driven by enhanced operational efficiency of the company's geothermal fleet. A final dividend of KES 0.30 was declared.
- **Safaricom Acquisition of Mpesa Holding from Vodafone** - During the month, Safaricom announced the successful completion of acquisition of 100% shareholding of Mpesa Holding Ltd from Vodafone. We view this as a positive step towards aligning the telco's strategy with long-term growth centered on the mobile money business.
- **ILAM Fahari Redemption Offer Results** - During the month, ILAM Fahari announced the results of their redemption offer following the closing on 6th October 2023. The subscription rate of the offer was 113.08% representing 41,371,604 units.
- **Local Pump Prices Increase** - EPRA announced the increase of local pump prices resulting from an increase in landing costs of fuels. Petrol will retail at KES 217.36/litre, diesel at KES 205.47/litre and kerosene at KES 205.06/litre. The government opted to stabilize pump prices by compensating suppliers from the Petroleum Development Levy in order to cushion consumers from a spike in pump prices. We maintain our view that the decrease in the railway development levy and import declaration levy will have minimal impact of lowering pump prices.
- **Inflation Increased Marginally** - The headline inflation for the month of [October increased to 6.90%](#) from 6.80% in September driven by an increase in fuel prices. Inflation remains within CBK's target range of 2.50%-7.50%. Food inflation marginally decreased to 7.80% from 7.90% in September. Housing utilities increased to 7.80% y/y with transport increasing to 13.60% y/y. Non-Food-Non-Fuel (Core Inflation) decreased to 3.60% from 3.70% in September. The CPI increased 103bps to 136.71 from 135.32 in September 2023. We expect headline inflation to remain under pressure but within CBK'S target at least until the end of Q4'23.
- **Shilling Continued Losing Streak Against USD** - The Kenya shilling continued to depreciate further against the USD to close at **KES 150.56** versus **KES 148.10** at the end of September. We observed a slower decline in the month of October (-1.66%) compared to September (-1.85%). We anticipate that the shilling will continue to face downward pressure driven by heightened demand for the greenback by importers and the dollars strength relative to frontier currencies.
- **October MPC Meeting** - Central Bank's MPC held the sixth meeting of 2023 where the Central Bank Rate was [maintained at 10.50%](#) to allow for effects of the previous hike to be transmitted across the economy. The committee also noted the banking sectors non-performing loans increased to 15.00% in August '23 from 14.50% in June'23 while growth in private sector credit stood at 12.60% in August'23, an increase from 10.30% in July'23. Exports grew by 0.50% y/y driven increased demand for tea in international markets.

What does November Hold?

- **Q3'23 Earnings Season** - We expect the release of Q3'23 net earning results from the banking sector where we anticipate strong performance to be driven by an increase in interest income and non-funded income. We anticipate an increase in NPLs largely attributable to trade and manufacturing sectors.
- **HY'24 Earnings Results** - We expect Safaricom Plc to announce their HY'24 results during the month where we expect revenue growth to be driven by data revenue and Mpesa revenue. We expect increased CAPEX in Safaricom Ethiopia resulting from scaling up of operations in the region.
- **Listed Companies EGM** - In the month of November, KPLC and ILAM Fahari will be holding their EGMs via virtual meetings.

Table 1: Summary Corporate Actions in October

Company	Corporate Action and Our Comments
1. Nation Media Group	<ul style="list-style-type: none"> Nation Media announced a profit warning with the expectation of a greater than 25% decline in PAT compared to the prior year. The decline is attributed to the increased price of newsprints, a weaker shilling and higher distribution costs all of which have resulted in a significant increase in direct costs. We expect that the announcement will have a negative impact on investor sentiment, which is likely to push them to participate in the ongoing share buyback. Current share price at KES 20.00 represents a YTD gain of 25.39%.
2. Car & General	<ul style="list-style-type: none"> Car & General announced a profit warning with the expectation of a greater than 25% decline in PAT compared to the prior year. The decline is attributed to foreign exchange losses on dollar exposures resulting from the significant strengthening of the dollar, decline in sales in Kenya, an increase in finance costs and an increase in storage costs in Tanzania. We expect that the announcement will have a negative impact on the share price. Current share price of KES 27.40 represents a YTD loss of 42.26%.
3. KenGen	<ul style="list-style-type: none"> The board of KenGen announced a final dividend of KES 0.30 for FY'23 which was 50.00% higher than the KES 0.20 final dividend in FY'22. We expect the impressive results and announcement of the higher final dividend to excite investors leading to a share price rally. KenGen gained 2.17% in the month of October to close at KES 2.35.
4. Carbacid	<ul style="list-style-type: none"> The board of Carbacid announced a final dividend of KES 1.70 for FY'23 similar to the final dividend in FY'22. We expect the impressive results and the final dividend to excite investors leading to a share price rally. Carbacid gained 5.94% in the month of October to close at KES 16.95.

Table 2: Upcoming Dividends

Counter	Interim Dividend	Final Dividend	Book Closure	Dividend Payment
Centum Investments		KES 0.60	11 th October 2023	30 th November 2023
Carbacid		KES 1.70	24 th November 2023	15 th December 2023
KenGen Plc		KES 0.30	30 th November 2023	15 th February 2024
Umeme	KES 0.93		9 th February 2024	29 th February 2024

Source: NSE, Company Filings, AIB-AXYS Research

October'23 Equities Market Performance

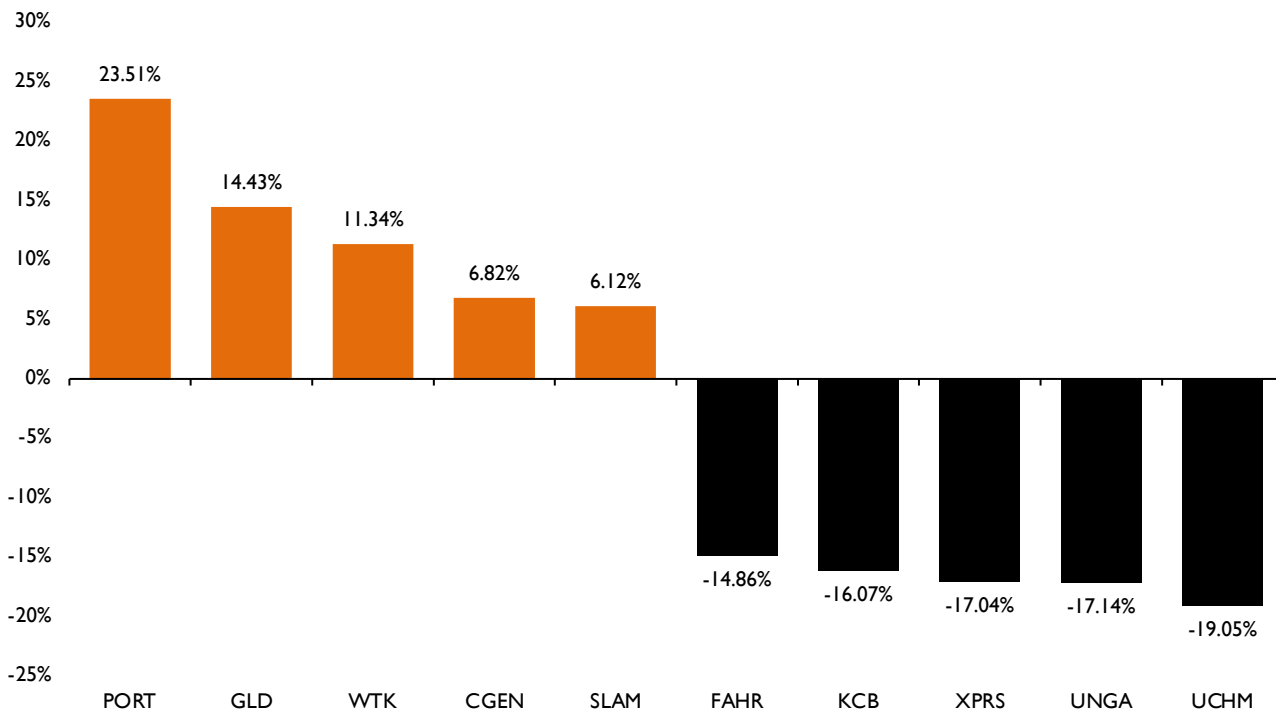
During the month of October, the indicative indices recorded a downward trend with the NASI declining by 6.99%, NSE-20 declining 3.16% and NSE-10 declining 4.29%. Foreigners remained net sellers taking the selling position to **KES 0.60Bn** taking the YTD net selling position to **KES 10.70Bn**. If the same trend continues, the total foreign selling position for 2023 is likely to close below the **KES 24.04Bn** recorded in 2022.

Equity turnover decreased 7.43% m/m to **KES 4.83Bn** from **KES 5.21Bn** in September while volumes traded also decreased 28.23% m/m to **KES 298.98Mn**. Market capitalization was down 6.99% m/m to **KES 1.38Tn**. We expect market activity to remain above KES 5.00Bn/month in Q4'2023 owing to the expectation of positive Q3'23 banking sector earnings season and final dividend payment of some counters.

Top Gainers: E.A Portland Cement was the largest gainer in October'23 jumping (23.51%) m/m to KES 9.14 from KES 7.40. Absa Gold was the second largest gainer jumping (14.43%) m/m to KES 2,895.00 from KES 2,530.00. Other gainers included : Williamson Tea (11.34%) m/m to KES 228.25 from KES 205.00 , Car & General (6.82%) to KES 27.40 from KES 25.65 and Sanlam (6.12%) to KES 6.94 from KES 6.54.

Top Losers: Uchumi was the largest m/m decliner losing (-19.05%) m/m to KES 0.17 from KES 0.21. Other top losers included: Unga (-17.14%) m/m to KES 14.50 from KES 17.50 driven by a decline in FY'23 net earnings results and lack of a final dividend, Express Kenya (-17.04%) m/m to KES 3.36 from KES 4.05, KCB (-16.07%) m/m to KES 17.50 from KES 20.85 and Ilam Fahari (-14.86%) to KES 6.30 from KES 7.40 following the close of the redemption offer.

Chart 1: October'23 Top 5 Gainers and Losers



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 continued regional expansion especially in DRC and Rwanda that will drive revenue growth. We expect that the lenders diversification into 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 and SME credit focus will continue driving growth of the loan book and interest income. We see long-term value in holding EQTY as the current share price of KES 37.55 is 49.43% lower than our target price of KES 56.11 representing a YTD decline of 15.62%, hence providing an attractive entry point for long term capital gains and expected future dividend payments.
- b) **Diamond Trust Bank (DTK)** - We recommended a **BUY** on the lender driven by expectation of positive Q3'23 net earnings results mainly driven by expected improved subsidiary performance. We expect the ongoing enhancement of digital channels and continued branch expansion will drive growth of the lender. We anticipate that the continued implementation of risk-based loan pricing model will drive the growth of interest income and the loan book. The current share price of KES 45.20 is 32.94% lower than our target price of KES 60.09 representing a 9.60% decline in YTD hence providing an attractive entry point.
- c) **Absa Bank (ABSA)** - We recommend a **BUY** on the lender driven by expectation of positive Q3'23 net earnings results mainly driven by expected improvement in core banking business. We expect that enhanced digital channels will drive customer deposit mobilization and lending specifically from Timiza Digital Loan products. We expect the continued implementation of risk-based loan pricing model will continue to drive loan book growth and interest income. The current share price of KES 11.55 is 27.45% lower than our target price of KES 14.72 representing a 6.10% decline in YTD hence providing an attractive entry point.

Table 3: Top 10 Highest Dividend Yields

Counter	31-Dec-22	31-Oct-23	YTD	Total DPS**	Div Yield
Umeme Limited	7.42	13.55	82.61%	2.31	17.05%
Standard Chartered Bank	142.75	156.25	9.46%	22.00	14.08%
BAT	460.00	420.75	-8.53%	57.00	13.55%
I&M Group	17.00	17.05	0.29%	2.25	13.20%
Williamson Tea	160.00	228.25	42.66%	30.00	13.14%
Co-operative Bank of Kenya	12.30	11.70	-4.88%	1.50	12.82%
Kengen	3.22	2.35	-27.02%	0.30	12.77%
Kapchorua Tea	113.25	211.75	86.98%	25.00	11.81%
Absa Bank Kenya	12.30	11.55	-6.10%	1.35	11.69%
Stanbic Holdings	102.00	108.25	6.13%	12.60	11.64%

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

Portfolio Performance

In October'23, our model portfolio (-4.83%) continued to outperform the NASI index (-6.99%) while falling below the NSE-20 (-3.16%). However, our model portfolio has outperformed the NASI index on a YTD basis. On a YTD basis, the NSE-20 lost 12.83% while NASI index lost 30.52% compared to our model portfolio which has lost 15.81%.

The portfolio performance was lifted by m/m gains recorded by **Equity** and **NCBA**. However huge declines by counters **KCB**, **Safaricom**, **Bamburi**, **Stanbic** and **Diamond Trust Bank** weighed down on further gains in the overall portfolio performance. We observed foreigners remaining as 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 4: Portfolio Performance

October '23 Performance	M/M	YTD
AIB-AXYS Africa Portfolio Performance	-4.83%	-15.81%
NSE-20	-3.16%	-12.83%
NASI	-6.99%	-30.52%

Table 5: Portfolio Constituents

Counter	31-Oct-2023	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighted YTD return	Weighted M/M return
EQTY	37.55	56.11	49.43%	-15.62%	5.63%	46.95	35.55	-1.25%	0.45%
NCBA	38.55	45.65	18.42%	-2.03%	1.85%	41.70	30.10	-0.20%	0.18%
IMH	17.05	21.12	23.87%	0.29%	0.00%	21.00	15.85	0.01%	0.00%
COOP	11.70	14.46	23.59%	-4.88%	-0.85%	13.35	11.15	-0.29%	-0.05%
JUB	183.00	235.85	28.88%	-7.92%	-1.48%	230.00	148.25	-0.48%	-0.09%
EABL	126.75	177.51	40.05%	-24.33%	-3.24%	187.00	120.25	-2.43%	-0.32%
ABSA	11.55	14.72	27.45%	-6.10%	-3.35%	12.95	10.10	-0.37%	-0.20%
SCBK	156.25	180.86	15.75%	9.46%	-5.30%	171.00	135.00	0.95%	-0.53%
DTK	45.20	60.09	32.94%	-9.60%	-6.03%	55.25	12.25	-0.58%	-0.36%
SBIC	108.25	121.09	11.86%	6.13%	-6.07%	129.75	92.00	0.49%	-0.49%
BAMB	22.90	35.28	54.06%	-27.30%	-6.53%	35.00	22.55	-1.64%	-0.39%
SCOM	12.45	23.71	90.44%	-48.45%	-14.73%	25.50	12.45	-6.78%	-2.06%
KCB	17.50	32.60	86.29%	-54.07%	-16.07%	39.55	17.50	-3.24%	-0.96%

Source: NSE, AIB-AXYS Research

Table 6: Recommendation Summary

Stock	Positives	Negatives	Recomm
<p>ABSA Bank Kenya</p> <p>Current Price: KES 11.55 Target Price: KES 14.72 Upside: 27.45%</p>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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
<p>Co-operative Bank</p> <p>Current Price: KES 11.70 Target Price: KES 14.46 Upside: 23.59%</p>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Gross NPLs climbed by 14.16% y/y to KES 58.44Bn. 	BUY
<p>Equity Group</p> <p>Current Price: KES 37.55 Target Price: KES 56.11 Upside: 49.43%</p>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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
<p>Diamond Trust Bank (DTB-K)</p> <p>Current Price: KES 45.20 Target Price: KES 60.09 Upside: 32.94%</p>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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
<p>KCB Group</p> <p>Current Price: KES 17.05 Target Price: KES 32.60 Upside: 86.29%</p>	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • NPL ratio above the industry average. • Thin capital buffers point to a need to recapitalize but is not an imminent concern 	BUY
<p>Stanbic Kenya</p> <p>Current Price: KES 108.25 Target Price: KES 121.09 Upside: 11.86%</p>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • Increased Gross NPLs by 22.25% y/y to KES 29.45Bn 	HOLD
<p>NCBA Group</p> <p>Current Price: KES 38.55 Target Price: KES 45.65 Upside: 18.42%</p>	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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 31st October 2023

Stock	Positives	Negatives	Recomm
Standard Chartered Bank Current Price: KES 156.25 Target Price: KES 180.86 Upside: 15.75%	<ul style="list-style-type: none"> 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. 	<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 13.17% while customer deposits declined by 1.13% in H1'23. 	HOLD
EABL Current Price: KES 126.75 Target Price: KES 177.51 Upside: 40.05%	<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 12.45 Target Price: KES 23.71 Upside: 90.44%	<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 183.00 Target Price: KES 235.85 Upside: 28.88%	<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 22.90 Target Price: KES 35.28 Upside: 54.06%	<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: 17.05 Target Price: 21.12 Upside: 23.87%	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> 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 31st October 2023

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