



January 2023 STOCK PICKS

December'22 Review

- Corporate Profit Warnings Return** - The month of December saw the announcement of an expectation of a greater than 25% decline in prior year PAT from companies such as Standard Group, Crown Paints and Flame Tree Group. We observed that the most common underlying reasons were; Increased cost of input raw materials, volatility in the forex market and slow market demand.
- Economic Growth Slowed in Q3'22** - KNBS [published GDP figures for Q3'22](#) where growth slowed to 4.70% compared to 9.30% recorded in Q3'21. The performance was mainly driven by growth in accommodation and food service activities (22.90%), wholesale and retail trade (9.10%) Professional services(8.70%), education (7.10%) and financial and insurance (5.30%). The ongoing severe drought led to the contraction of Agriculture sector by 0.60% while a decline in hydro power generation led to the contraction of the Electricity sector by 4.70%.
- Inflation Continued to Cool off** - The [headline inflation declined for the second straight month](#) to 9.10% from 9.50% recorded in November. The CPI increased 0.53% to 128.99 in December 2022 from 128.31 in November 2022. Meanwhile, the food and non-alcoholic beverages index decreased to 13.80% from 15.40% in November. This is on account of decreases in global edible oil prices and favourable weather that increased food output. We expect headline inflation to remain under pressure and above the CBK's upper target at least until Q2'23.
- IMF disbursement lifted Forex Reserves** – During the month, the IMF [announced the completion of the fourth review under the ECF/EFF arrangements](#) totaling to Special Drawing Rights (SDR) 1.66Bn signed in April 2021. The completion allowed Kenya to immediately access SDR 336.54Mn (est. USD 447.39Mn). The announcement was a welcome boost as CBK's usable foreign exchange reserve jumped back to above 4-months of import cover. Forex reserves closed December at USD 7,439 Mn from USD 7,045 Mn in November a 4.17 months import cover, which meets the CBK's statutory requirement of at least 4 months of import cover but remains below the EAC region's convergence criteria of 4.5 months of import cover.
- Shilling Continued Losing Streak against USD** - Kenya shilling continued to depreciated by a further 72bps against the USD in December to close at **KES123.37** versus **KES122.45** to the dollar at the end of November. In 2022, the shilling depreciated by 9.04% against the USD which is double the 4.36% depreciation recorded in 2021. We expect the shilling to remain under pressure due to elevated global oil and merchandise prices, an ever-present current account deficit and the aggressive growing government debt.

What does The New Year Hold? – January 2023

- Earnings Season Begins** - In the month of January, we expect FY'22 results from BAT and HY'23 results from EABL. The two companies are perennial dividend paying counters, however, the increased cost of input raw materials coupled with tough economic times reducing sales revenue are likely to see a reduction and/or slower profit growth. That notwithstanding, we expect the two counters to still pay dividends with BAT (an additional final DPS of KES 50.00) and EABL (an interim DPS of KES 3-5.00).

Table 1: Upcoming Corporate Actions

Counter	Final Dividend (KES)	Book Closure	Dividend Payment
KCB Group	KES 1:00	8-Dec-22	13-Jan-23

Source: NSE, AIB-AXYS Research

December Equities Market Performance

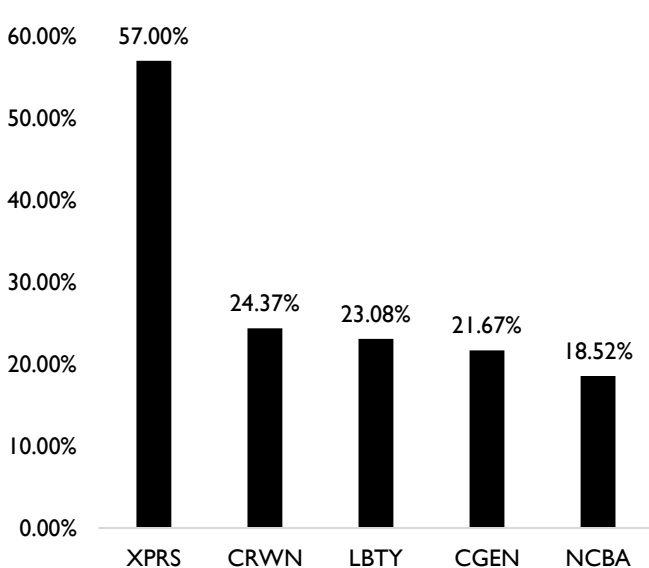
During the month of December, the indicative indices recorded a late year rally with both the NSE-20 and NASI gaining 2.35% and 0.78% m/m to close at 1637.55 and 126.48 respectively. Foreign investors remained as net sellers with the selling position increasing by 88.05% to **KES 1.69Bn** taking the total YTD foreign net selling position to **24.04Bn**.

Equity turnover declined by 30.54% m/m to **KES 4.47Bn** from **KES 6.43Bn** in November, while volumes traded also retreated 28.35% to KES 163.28Mn. Market capitalization increased 0.78% m/m to **KES 1986.08Bn** taking the YTD loss to 23.42%

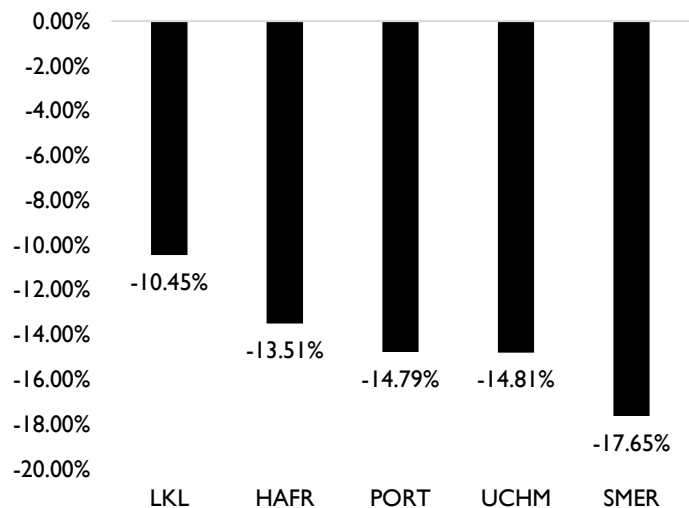
Top gainers - Express Kenya was the largest gainer m/m (+57.00%) jumping to KES 4.71 from KES 2.79 which we attribute to demand-supply play from local investors. The company continues to suffer from increased cost of business as high fuel prices have affected the logistics sector. However, the intended disposal of some assets is expected to inject liquidity into the company and could lead to a special dividend in H1 results. Other gainers included; Crown Paints Ltd(+24.37%) despite the paint manufacturer announcing a profit warning, Liberty (+23.08%) who are reversing the losses made for majority of 2022 and Car & General (+21.67%) .

Top Losers – Sameer (-17.65%) was the largest decliner m/m driven by local trading. Other top losers were; Uchumi (-14.81%) driven by speculative trading, EA Portland (-14.79%), and Home Afrika (-13.51%). We continue to view the current valuations for majority of the counters as historically low thus providing an attractive entry point with the potential for maximum future upside.

Graph 1: December '22 Top 5 Gainers



Graph 2: December'22 Top 5 Losers



Source: NSE, AIB-AXYS Research

Portfolio Performance

During the month, our model portfolio outperformed both benchmark indices on an m/m basis taking the 2022 performance to -4.87%. Indicative indices recorded were on a mini-rally with NASI and NSE-20 gaining 0.78% and 2.35%, effectively taking the 2022 loss to 23.42% and 11.90%, respectively.

The portfolio performance was lifted by m/m gains recorded by **NCBA, SBIC** and **ABSA**. However, declines by counters such as **NSE, SCBK**, and **EQTY** weighed down on further gains in the overall portfolio performance. We observed foreigners remaining net sellers despite an improvement in the buying position in some trading sessions in Q4'22. We expect another month of mixed performance largely driven by investors aligning themselves to dividend paying counters as the earnings season begins later this month. However, trading will remain largely concentrated in the blue-chip counters – SCOM, Banking sector and other select counters.

Table 3: Portfolio Performance

December'22 Performance	M/M	2022
AIB-AXYS Africa Portfolio Performance	2.74%	-4.87%
NSE-20	2.35%	-11.90%
NASI	0.78%	-23.42%

Table 4: Portfolio Constituents

Counter	30-Dec-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low
NCBA	39.35	43.29	10.01%	56.15%	18.52%	33.25	23.00
SBIC	102.00	102.92	0.90%	16.91%	9.09%	106.00	90.00
ABSA	12.30	14.03	14.07%	3.80%	5.58%	12.95	9.02
KNRE	1.83	2.28	24.59%	-20.43%	5.17%	2.30	1.80
DTK	50.00	60.02	20.04%	-15.97%	2.67%	60.00	46.55
COOP	12.30	14.99	21.87%	-5.02%	2.50%	14.00	10.30
EABL	167.50	197.51	17.92%	1.52%	0.90%	194.00	110.00
BAMB	31.50	45.28	43.75%	-17.11%	0.32%	39.50	30.85
KCB	38.10	52.45	37.66%	-16.17%	0.26%	46.00	34.00
IMH	17.00	23.53	38.41%	-19.43%	0.00%	22.80	16.50
JUB	198.75	235.85	18.67%	-37.25%	-0.62%	280.00	187.75
SCOM	24.15	37.81	56.56%	-36.36%	-0.82%	45.25	23.00
SCBK	142.75	145.19	1.71%	11.31%	-1.04%	148.75	121.00
NSE	6.78	10.05	48.23%	-15.25%	-1.17%	8.44	6.50
EQTY	44.50	62.12	39.60%	-15.64%	-2.52%	53.50	38.75

Table 5: Recommendation Summary

Stock	Positives	Negatives	Recomm
Equity Group Current Price: KES 44.50 Target Price: KES 62.12 Upside: 39.60%	<ul style="list-style-type: none"> NPL ratio was 9.47% below the latest industry average of 14.20% while NPL coverage improved 234bps to 62.95%. Non-Funded Income grew 32.04% y/y to 42.22Bn mainly driven by trade finance lending and Forex trading. DRC acquisition is proving to be fruitful with a 26.62% growth in PAT 	<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 38.10 Target Price: KES 52.45 Upside: 37.66%	<ul style="list-style-type: none"> Loan-to-deposit ratio was up 844bps y/y to 82.27% driven by growth in mobile loans. Heavy investment in digital platforms driving double-digit growth in loan book DRC acquisition is likely to expose KCB to a huge reserve of foreign exchange currency given the high usage of dollars in DRC. Proposed Payment of KES 1.00 Interim Dividend 	<ul style="list-style-type: none"> Increased Gross NPLs to 149.29 albeit decrease in provisions Cost to income ratio worsened 161bps y/y to 45.12% 	BUY
ABSA Bank Kenya Current Price: KES 12.30 Target Price: KES 14.03 Upside: 14.07%	<ul style="list-style-type: none"> Growing loan book in Q3'22 by 26.35% thus improving interest income by 25.30% Improving cost to income ratio to 39.69% due to investment in technology and reduced reliance on branches. Increased traction of digital channels such as WhatsApp Banking and Timiza loans app expected to drive future growth. Recent launch of the offshore wealth Management Program 	<ul style="list-style-type: none"> Gross NPLs grew 2.05% y/y to KES 20.04Bn, raising asset quality concerns Rising Liquidity risk as evidenced above-market average Loan to Deposit Ratio of 102.98% and a declining liquidity ratio of 25.80% against a required minimum of 20.00% 	HOLD
Co-operative Bank Current Price: KES 12.30 Target Price: KES 14.99 Upside: 21.87%	<ul style="list-style-type: none"> 28.25% growth in non-funded income in Q3'22 mainly driven by increased forex trading income (+71.58%) & fees and commissions (+31.70%) Growth in loan book through a focus on MSME lending, better subsidiary performance and focus on improved digital channels Loan loss provisions declined 5.29% y/y to KES 5.73Bn indicating reduced lending risk 	<ul style="list-style-type: none"> Lack of interim dividend despite an improvement in net earnings Gross NPLs increased 4.70% y/y to KES 51.81Bn, leading to the NPL ratio declining to 13.96%. 	BUY
Stanbic Kenya Current Price: KES 102.00 Target Price: KES 102.92 Upside: 0.90%	<ul style="list-style-type: none"> Double-digit growth (+37.54%) in non-interest income in Q3'22 after growth in digital channels Growth in the loan book by 34.15% y/y steered by a resumption in lending and investments in digital banking. 	<ul style="list-style-type: none"> Increased Gross NPLs by 18.05% y/y to 25.62Bn and a 88.70% increase in Loan Loss Provisions to 2.86Bn 	HOLD
NCBA Group Current Price: KES 39.35 Target Price: KES 43.29 Upside: 10.01%	<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 20.85% y/y to KES 36.41Bn, 	<ul style="list-style-type: none"> Huge capital expenditure expected given the bank's intention to expand to 8 other African countries. Lack of an interim dividend is likely to provide minimal upside potential until the release of FY'22 	HOLD
Diamond Trust Bank (DTB-K) Current Price: KES 50.00 Target Price: KES 60.02 Upside: 20.04%	<ul style="list-style-type: none"> Enhanced digital transactions increased interest income in Q3'22 Increased investment in innovation is a good indication of their shift to digitization Net Interest Income increased 14.10% to KES 16.81Bn mainly driven by the current market uptick in the bond yield of government papers. 	<ul style="list-style-type: none"> Asset quality concerns persist as Gross NPLs increased by 28.15% Historically low ROE and ROA are a downside to investors' perception 	BUY

*** Current Price is as at 30th December 2022

Stock	Positives	Negatives	Recomm
Standard Chartered Bank Current Price: KES 142.75 Target Price: KES 145.19 Upside: 1.71%	<ul style="list-style-type: none"> Performance from the Wealth Management and financial markets driving non-interest income Non-Funded Income grew 16.11% y/y to 8.78Bn mainly driven by trade finance lending and Forex trading. The proposed interim dividend of KES 6.00 is likely to push the share price upwards. 	<ul style="list-style-type: none"> Cost to income ratio deteriorated by 125bps to 47.40% raising operational efficiency concerns. Loan-to-deposit ratio declined to 47.57% attributable to faster growth in customer deposits(+10.72% compared to Loan book growth (+3.28%) 	HOLD
EABL Current Price: KES 167.50 Target Price: KES 197.51 Upside: 17.92%	<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 24.15 Target Price: KES 37.81 Upside: 56.56%	<ul style="list-style-type: none"> Revenues increased 4.82% y/y to 153.45 Bn in HY'23 with slowdown in MPESA & Voice Revenue reported due to election uncertainty and revised MTR rates. Improving 4G subscriber mix, expected growth in both Mpesa and Data and expansion to Ethiopia 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 198.75 Target Price: KES 235.85 Upside: 18.67%	<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 	<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 6.78 Target Price: KES 10.05 Upside: 48.23%	<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 Has already announced a profit warning for FY'22 meaning lower DPS 	BUY
Bamburi Cement Current Price: KES 31.50 Target Price: KES 45.28 Upside: 43.75%	<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 1.83 Target Price: KES 2.28 Upside: 24.59%	<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 30th December 2022

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