



AUGUST STOCK PICKS

July Review

- NSE Market Capitalization increased **13.36%** in July . The increase was an indicator of a better market performance despite foreign investors remaining as net sellers as the flight to safety continues. Foreign exits have been fuelled by rising yields in developed markets following benchmark rate hikes with the US Fed hiking the benchmark rate by 75bps in the July meeting. The NSE 20 and the NASI recorded upward m/m trends of **5.48%** and **13.29%**.
- **Earnings Releases** – During the month we had earnings releases from BAT, ILAM I-REIT, Centum and EABL . BAT HY'22 net earnings improved 8.41% to **KES 2.93Bn** driven by pricing benefit in both the domestic market and growth in export markets. ILAM I-REIT HY'22 results were a 104.12% increase in PAT to **KES 86.16Mn** after new tenants at Greenspan Mall. Centum FY'22 loss after tax reduced 2.05% to **KES 1.34Mn** while EABL's HY'22 earnings improved 123.70% to **KES 15.57Bn** .
- **Safaricom (SCOM)** - Safaricom Telecommunications announced a phased commercial launch in Ethiopia will commence from August 2022. The switching of network and services is expected to start in Dire Dawa. With a target of April 2023, the Telco looks to reach 25 cities. We view the start of operations as a positive to the share price given the impact the Ethiopian entry news had in the share price in 2021.
- **Limuru Tea (LIMT)** - Ekaterra Kenya (formerly Unilever Tea Kenya) submitted a notice of intention of a cash offer to acquire up to a 100% ordinary shares of Limuru Tea Plc. As at FY'21, Ekaterra Kenya owned 52% of the issued shares of Limuru Tea. The offer was extended to the remaining Shareholders who would like to sell their stake. Additionally, some Shareholders have already moved to court and registered complaints with the CMA trying to stop the takeover.
- Inflation rate for July 2022 was **8.03%** compared to **7.90%** recorded in June 2022 despite the fuel and maize flour subsidies. Major indices increased y/y; Food and Non-Alcoholic Beverages Index (**15.30%**); Transport index (**7.00%**) and Household Utilities index (**5.60%**).
- Kenya shilling continued to depreciate against the USD, losing **1.33%** on m/m basis. On a YTD basis, the shilling has depreciated **5.00%** against the USD compared to **3.64%** in 2021. This is mainly attributable to; strengthening of the dollar, increased dollar demand on the back of elevated global oil prices, high demand for imports, reduced earnings from agriculture and horticulture, and reduced foreign participation in the tourism sector.

What does August hold?

- **General Elections** – The country goes to the polls on August 9th, 2022. We foresee a largely peaceful election with expectation that we might see uncontested round one victory and subsequent swearing in of a new government by mid-September.
- **Banking Sector HY'22 Results** – We expect players in the banking sector to release their HY'22 earnings in the month of August. With the upcoming elections and other economic challenges notwithstanding we believe the sector will record an even better performance as compared to HY'21.

Our Top Three Picks

- a) **Safaricom (SCOM)** – We continue to recommend a **BUY** of the telco as the current share price represents an attractive entry point and a long-term value-play. The current share price of KES represents a -20.95% decline so far in 2022 and is 26.03% below our target price of **KES 37.81**. We observed a recovery in the month of July (+20.00%) driven by foreign trading and positive news surrounding the company. Recently, the company announced a partnerships riding on the M-pesa platform; payment partnership with Visa that caters to the lucrative and fast-growing international payments market, Lipa na Mpesa loan product in partnership with Edomx Ltd and Equity bank that also seeks to capitalizing on the growing Buy-Now-Pay-Later (BNPL) model. Additionally, the announcement of starting of Ethiopian operations this month could be a key driver of the share price. Even though the BNPL loan product is currently suspended by the CBK, we expect all the regulatory handles will be ironed out by the end of 2022 bringing the product back to the market.
- b) **KCB Group (KCB)** – We recommend a **BUY** on the lender driven by positive news of the entry into DRC and expectations of a strong HY'22 results. In the short-term, we expect the news of the regional expansion to excite investors and is likely to contribute to a share price rally. On the downside the commitment to conclude the transaction by Q3'22 could see investors miss out on an interim dividend given that it is a cash transaction. However, we maintain our dividend estimate of **KES 3.00** at the close of FY'22. The current share price at **KES 40.60** is 29.19% lower than our target price of **KES 52.45**.
- c) **Limuru Tea Plc (LIMT)** – We recommend profit taking, **SELL**, driven by the threat of the proposed takeover by Ekaterra Kenya not materializing. Following the announcement of the proposed takeover, some of the shareholders filed complaints with the regulator, CMA. Given the lack of quorum at the CMA dispute tribunal, we expect the determination of the complaints to be delayed. Additionally, we are likely to see Ekaterra Kenya suspend the takeover pending further consultations. Indeed, the share price rally in July (+44.40%) to a high of **KES 462.50** was hinged on the proposed takeover and any threat to delay or suspend it, might see the counter retreat.

Table I: Upcoming Corporate Actions

Counter	Interim Dividend (KES)	Final Dividend (KES)	Book Closure	Dividend Payment
Crown Paints		KES 4.00	28-Jul-22	15-Aug-22
BAT Kenya Plc	KES 5.00		12-Aug-22	16-Sep-22
Safaricom		KES 0.75	29-Jul-22	31-Aug-22
East African Breweries Plc		KES 7.25	15-Sep-22	30-Oct-22
Centum Investments Plc		KES 0.59	TBA	TBA

July Equities Market Performance

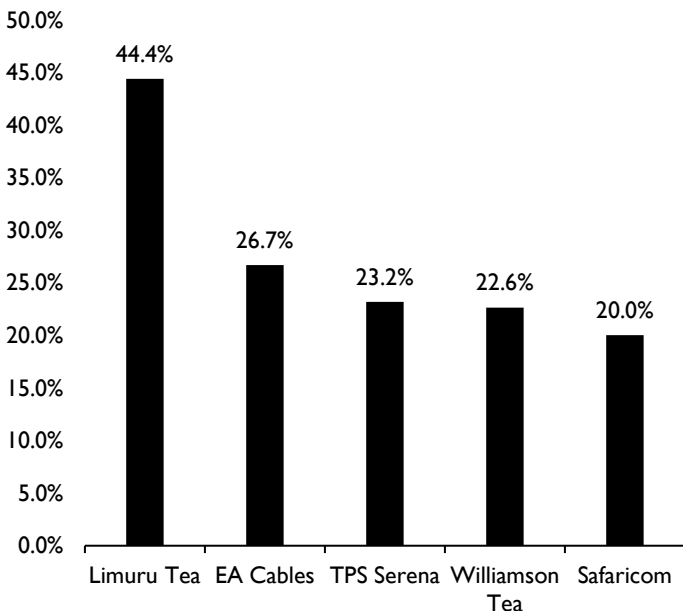
During the month of July, we saw an increase in NSE's major indicative indices with the NASI and NSE-20 increasing 13.29% and 5.48%, respectively. Foreign investors remained as net sellers with the selling position decreasing -40.99% to **KES 2.97Bn** taking the total YTD foreign net selling position to **KES 15.13Bn**.

Equity turnover declined 17.44% to **KES 7.71Bn** from **KES 9.34Bn** in June, while volumes traded also declined 26.15% to KES 263.71Mn. Market capitalization increased 13.36% m/m to **KES 2,198.26Bn** hence reducing the YTD loss to -15.22%.

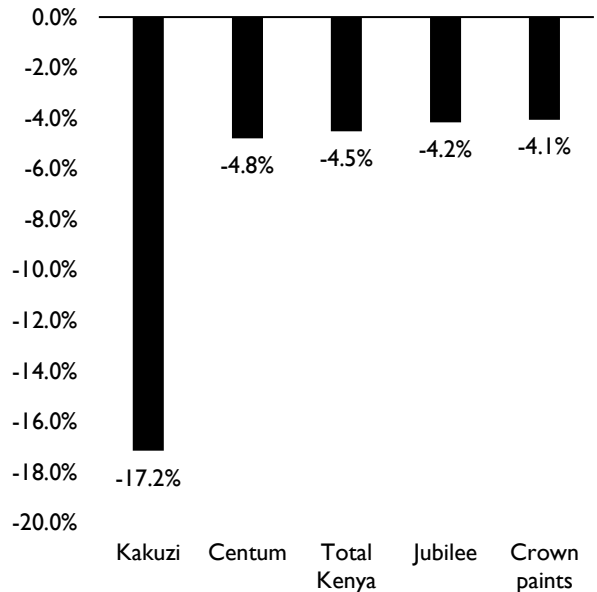
Top gainers - Limuru Tea was the largest gainer m/m (+44.38%) increasing from KES 320.00 to a historical high of KES 460.00, largely driven by news of a positive takeover of remaining shareholder by the largest shareholder, Ekaterra Kenya. Other gainers included; EA Cables (+26.67%), TPSEA (+23.19%) and Williamson Tea (+22.65%). We see the gains as being driven by local investor trading and attractive dividends such as Williamson Tea.

Top Losers - Negative news surrounding Kakuzi and the book closure contributed to a 17.17% m/m decline making it the largest loser. Despite a marginal reduction in the loss in net income and announcement of a KES 0.59 dividend by Centum, the counter lost -4.81%. We suspect that investors are concerned on the lack of acquisition activity and huge exposure to the struggling real estate sector and see them as key pullbacks for Centum.

Graph 1: July '22 Top 5 Gainers



Graph 2: July'22 Top 5 Losers



Source: NSE, AIB-AXYS Research

Portfolio Performance

During the month, our model portfolio gained 6.15% on a m/m basis taking the YTD performance to -10.09%. Similarly, indicative indices also edged higher with NASI and NSE-20 gaining 13.29% and 5.48%, effectively reducing the YTD loss to -15.26% and -10.58%, respectively.

The portfolio was boosted by improved performance by **SCOM, EABL, EQTY, SCBK** and **NSE** after a rebound from the historical lows recorded in June 2022. However, counters such as **BAMB, SBIC** and **DTB-K** weighed down on the overall portfolio performance. Despite the improved performance foreigners remain as net sellers which could create a risk for potential pullback. We expect another month of positive performance largely driven by a better-than-previous year performance from the banking sector in the upcoming HY'22 results.

Table 2: Portfolio Performance

	M/M	YTD
AIB-AXYS Africa Portfolio Performance	6.15%	-10.09%
NSE-20	5.48%	-10.58%
NASI	13.29%	-15.26%

Table 3: Portfolio Constituents

Counter	31-Jul-2022	Target Price	Upside	Δ YTD	Δ M/M	52 Week High	52 Week Low	Weighting	Weighted M/M return
BAMB	33.08	45.28	36.88%	-12.95%	-3.70%	39.80	32.15	7.00%	-0.26%
NSE	7.59	10.05	32.41%	-5.13%	6.60%	23.95	6.60	6.00%	0.40%
SBIC	95.50	105.00	9.95%	9.46%	-3.29%	108.00	7.32	6.00%	-0.20%
NCBA	24.94	28.29	13.43%	-1.03%	5.68%	28.15	0.28	6.00%	0.34%
COOP	11.88	14.99	26.18%	-8.26%	8.99%	13.95	10.70	6.00%	0.54%
JUB	259.50	325.85	25.57%	-18.07%	0.00%	380.00	244.50	6.00%	0.00%
SCOM	29.94	37.53	25.35%	-21.11%	20.00%	44.95	3.27	14.00%	2.80%
EABL	155.24	197.51	27.23%	-5.92%	13.11%	184.50	110.00	6.00%	0.79%
KNRE	2.00	3.28	64.00%	-13.04%	0.50%	2.68	1.94	6.00%	0.03%
EQTY	48.00	61.17	27.44%	-9.00%	11.63%	54.25	39.00	6.00%	0.70%
DTK	49.00	66.12	34.94%	-17.65%	-1.90%	66.00	48.40	6.00%	-0.11%
SCBK	133.00	140.75	5.83%	3.70%	6.61%	146.25	100.00	6.00%	0.40%
KCB	41.17	52.45	27.40%	-9.42%	6.52%	49.90	35.00	6.00%	0.39%
IMH	17.00	24.62	44.82%	-19.43%	0.00%	23.25	16.50	7.00%	0.00%
ABSA	11.04	13.04	18.12%	-6.84%	5.65%	12.70	9.70	6.00%	0.34%
NSE-20	1,701.31			-10.58%	5.48%				
NASI	141.05			-15.26%	13.29%				

Source: NSE, AIB-AXYS Research

Table 4: Recommendation Summary

Stock	Tailwinds	Head winds	Recomm
Equity Group Current Price: KES 48.00 Target Price: KES 61.17 Upside: 27.40%	<ul style="list-style-type: none"> Interest Income from Government securities grew by 58.69%. Equity's diversification in fast growing regions continues to provide high probability of growth for the lender Equity received KES 850Mn dividend from its Fintech unit. 	<ul style="list-style-type: none"> Increased loan loss provisioning in Q1'22 could signal higher lending risk outlook Higher allocations to government securities are likely to expose a mark-to-market loss 	BUY
KCB Group Current Price: KES 41.17 Target Price: KES 52.45 Upside: 27.40%	<ul style="list-style-type: none"> KCB got KES 1.80Bn to fund cheap mortgages. Heavy investment in digital platforms driving double digit growth in loan book Acquired subsidiaries in DRC which will to drive balance sheet and income growth 	<ul style="list-style-type: none"> Increased Gross NPLs in Q1 pointing to the cash crisis in the economy that has increased the number of loan defaults. 	BUY
ABSA Bank Kenya Current Price: KES 11.04 Target Price: KES 13.04 Upside: 18.12%	<ul style="list-style-type: none"> Growing loan book in Q1'22 by 11.18% thus improving interest income by 15.56% Improving cost to income ratio due to investment in technology and reduced reliance on branches. Absa Life Assurance profit growth of 84% is a positive contribution to non-funded income. Increased traction of digital channels such as WhatsApp Banking and Timiza loans app expected to drive future growth. 	<ul style="list-style-type: none"> Gross NPLs grew by 12.92% in Q1'22 compared to Q1'21. Pending approval of risk-based pricing model 	BUY
Co-operative Bank Current Price: KES 11.88 Target Price: KES 14.99 Upside: 26.18%	<ul style="list-style-type: none"> Kingdom Bank's application of the KES 20Bn from CBK is expected to boost COOP's interest income. 41.67% growth in non-funded income in Q1'22 Growth in loan book through a focus on SME lending and mobile loans Reduced NPLs and loan loss provisioning in Q1 showcasing proper credit management. 	<ul style="list-style-type: none"> Synergies from the acquisition of Jamii Bora are 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 	BUY
Stanbic Kenya Current Price: KES 95.50 Target Price: KES 105.00 Upside: 9.95%	<ul style="list-style-type: none"> Double-digit growth in net interest income in Q1'22 (+16.90% q/q) Growth in the loan book by (+30.71%q/q) steered by resumption in lending and investments in digital banking. 	<ul style="list-style-type: none"> Asset quality concerns as NPL Ratio Coverage worsened to 58.12% 	HOLD
NCBA Group Current Price: KES 24.94 Target Price: KES 28.29 Upside: 13.43%	<ul style="list-style-type: none"> Retains front in digital lending through platforms such as M-Shwari and Fuliza Reduces loan loss provisioning in Q1'22 Improved operational efficiencies to see cost synergies of a merged entity 	<ul style="list-style-type: none"> Inorganic balance sheet growth Huge capital expenditure from opening of physical branches. Increased NPLs in Q1'22 indicating the strain on asset quality 	HOLD
Diamond Trust Bank (DTB-K) Current Price: KES 49.00 Target Price: KES 66.12 Upside: 34.94%	<ul style="list-style-type: none"> Enhanced digital transactions increased interest income in Q1'22(11.58%q/q) Increased investment in innovation is a good indication of their shift to digitization Improved asset quality as a result of the recovery in the economy 	<ul style="list-style-type: none"> Observed lending apathy as loan book grew(1.98%q/q) and a bulk of interest income from government securities. 	BUY

*** Current Price is as at 31st July 2022

Stock	Tailwinds	Head winds	Recomm
Standard Chartered Bank Current Price: KES 133.00 Target Price: KES 140.75 Upside: 5.83%	<ul style="list-style-type: none"> Immense growth in the Wealth management unit which grew by 21% in FY'21 Bank has invested heavily in digital transaction channels Reduced loan loss provisioning 	<ul style="list-style-type: none"> Performance from the wealth management and financial markets led to a flat non-interest income growth in Q1'22 	HOLD
EABL Current Price: KES 155.24 Target Price: KES 197.51 Upside: 27.23%	<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 	<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 29.94 Target Price: KES 37.53 Upside: 25.57%	<ul style="list-style-type: none"> M-PESA Visa undercut banks on forex charges which will boost the mobile money revenues for Safaricom M-PESA launched interest free loans for buying goods Safaricom made KED 50Bn profit from M-Pesa unit. M-PESA linked pay bill with Telkom and Airtel money to enhance seamless transactions. 	<ul style="list-style-type: none"> Regulatory risk in Kenya, geopolitical 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 	BUY
Jubilee Holdings Current Price: KES 259.50 Target Price: KES325.85 Upside: 25.57%	<ul style="list-style-type: none"> Stable growth in investment income as a result of its diversified portfolio Lower operating costs (-2.7% y/y) due to operational efficiencies and cost control. Stable dividend payment to the allure of investors Joint venture operations with Allianz Had the best claims settlement record in the first quarter 	<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 7.59 Target Price: KES 10.05 Upside: 32.41%	<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 Decline in turnover caused lower transaction levy 	BUY
Bamburi Cement Current Price: KES 33.08 Target Price: KES 45.28 Upside: 36.88%	<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 2.00 Target Price: KES 3.28 Upside: 64.00%	<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 31st July 2022

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