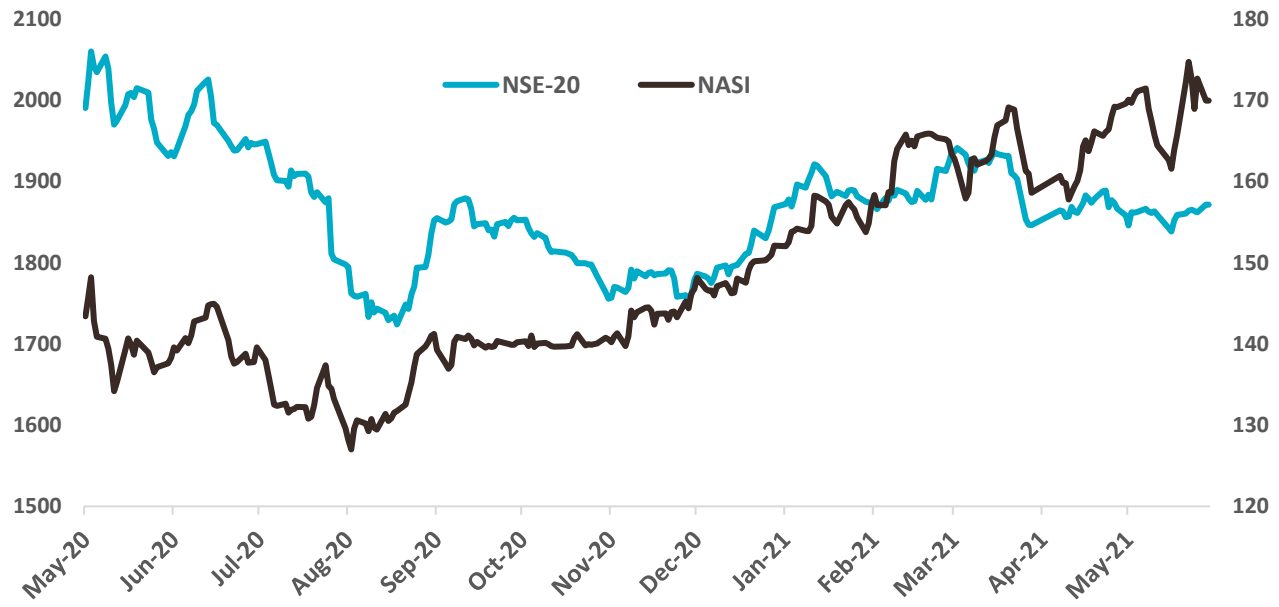
Equities Market Review | June 2021

The equities market indices recorded a relatively plateaued curve whereby NASI mildly grew by 72bps m/m to close at 169.97, while NSE-20 realized a marginal change of 21bps m/m to close at 1871.55. We further note that the market capitalization surged to KES 2.69tn as at end of May 2021 from KES 2.60tn at the start of the month, reflecting to a 3.42% (6.56% was realized in the previous month) growth in shareholders' wealth. The monthly equity turnover surged by 50.02% to about KES 13.89bn and the growth in volume of shares traded during the month by 34.31% to close at 371.47mn is partially culpable. From these market statistics, we derive that the market reversed from a bearish trend for the last two consecutive months. The upward trend is primarily supported by increased trading activity.

The chart below highlights the movement of main market indices for the last 12-month period:



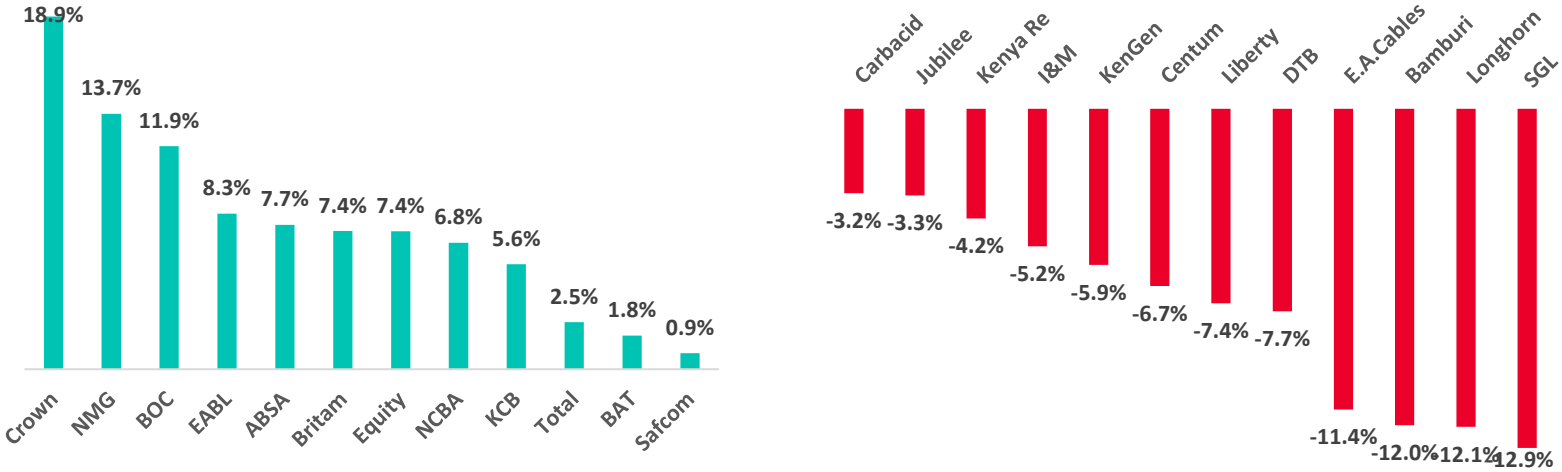
Source; NSE, NCBA IB Research

The counters whose price declined the most during the month were mostly mid-cap counters. This price decline is attributable to general weak investor sentiments to the company fundamentals pertaining such counters, as well as price correction for counters that rallied catalyzed by dividend payment. They include; Standard Group, Longhorn Publishers, Bamburi Cement, E.A. Cables, Diamond Trust Bank, Liberty, Centum, Kengen, I&M Holdings, Kenya Re, Jubilee and Carbacid, which contracted by 12.9%, 12.1%, 12.0%, 11.4%, 7.7%, 7.4%, 6.7%, 5.9%, 5.2%, 4.2%, 3.3% and 3.2% respectively.

The positive market performance in the month was on the back of positive financial performance outlook for the counters below and expected rights issue for Crown Paints. The top five price gainers included Crown Paints (+18.9%), Nation Media Group (+13.7%) BOC (+11.9%), EABL (+8.3%) and ABSA (+7.7%) among others.

The graph below illustrates different counters that notably lost and gained price value during the month.

Gainers and Losers in May



Source; NSE, NCBA IB Research

Catalysts and Risks Projected

- **Risk**
  - ✓ The recent proposal of new taxation measures could deter offshore investments in addition to weighing on company returns.
  - ✓ Considering the continuous absence of a fiscal stimulus measure to counter the adverse economic effect inflicted by the resurgence of Covid-19 infection, we foresee a systemic risk, which might dampen investor confidence in equities market.
- **Catalyst**
  - ✓ The eased containment measures coupled with resumption of economic activities in frontier markets present an opportunity for improved profitability in local companies and a ripple effect of capital appreciation in equities market.
  - ✓ The market is currently trading a Price to Earnings (P/E) multiple of 12.10x, which is a dip compared to previous month's P/E multiple of 12.12x. This presents a discount in comparison to the historical average of 13.0x. This presents a suitable chance to buy the dip and/or average down for future capital appreciation.

Stock Picks Summary Table

Counter	52-Weeks High	52-Weeks Low	Current Price	TP	Upside	Performance M/M	Recommendation
Safaricom	43.45	37.80	40.85	36.50	-10.65%	0.86%	HOLD
KCB	43.25	40.00	42.30	47.20	11.58%	5.62%	BUY
Equity	44.00	39.25	42.20	45.30	7.35%	7.38%	BUY
I&M	46.95	20.50	21.30	30.10	41.31%	-5.23%	BUY
COOP	12.90	11.90	12.15	15.00	23.46%	-2.41%	HOLD
DTB	65.50	60.00	60.00	75.00	25.00%	-7.69%	HOLD
SCBK	135.00	129.75	130.00	165.20	27.08%	-2.07%	BUY
ABSA	9.78	8.60	9.48	Not Rated	N/A	7.73%	Under review
Kengen	4.21	3.90	3.96	Not Rated	N/A	-5.94%	Under review
BAT	479.00	455.00	468.00	Not Rated	N/A	1.79%	HOLD
EABL	188.00	168.75	185.25	Not Rated	N/A	8.33%	BUY

Source; NSE, NCBA IB Research

Safaricom: HOLD at a TP of 35.60

- Safaricom reported its Full year 2021 with a profit after tax (PBT) of KES 68.7bn, being a decline of 6.8% from FY20.
- The earnings per share (EPS) decelerated by 6.8% y/y to KES 1.71 against our estimate of KES 1.79.
- The total revenues grew by 60bps to KES 264.2bn, with M-PESA garnering slightly higher revenues (KES 82.65bn) than voice (KES 82.55bn) line item.
- The Voice revenues decreased at a faster rate of 4.6% compared to M-Pesa revenues which eased by 2.1%.
- M-Pesa's contribution to total service revenues came in at 34.3%, which is slightly ahead of our estimate of 33.5%. This revenue was supported by a 13.6% y/y growth in 30-day active MPesa customers to 28.21mn, which was mostly bouyed by a shift in consumer behaviour to adopt cashless transactions.
- The value of Mpesa transactions grew by 58.2% y/y to KES 22.04Trn of which zero-rated transactions accounted for 19.9%.
- Mobile data accounted for 18.6% of service revenue on the back of a 12.4% y/y rise in distinct bundle users to 16.7mn as well as 8.1% growth in 30-day active customers to 23.77mn.
- EBITDA declined by 2.8% y/y to stand at KES 134.13Bn against our forecast of KES 134.77Bn. This can be attributed to a 7.1% y/y rise in direct costs to KES 80.0Bn and a 3.2% y/y decline in total operating costs to KES 46.03Bn.
- The EBIT margin came in at 36.5% against our guidance of 35.6%. EBIT decelerated by 5.3% to 96.16Bn vs our estimate of KES 97.2Bn. This was driven by the operator's cost containment measures.

EQUITY Group PLC: BUY at a TP of KES 45.30

- Equity Bank released its 1Q21 results posting a 67% y/y growth in profit before tax (PBT) to KES 11.7bn.
- The loan book expanded by 28.6% y/y to KES 487.7bn. This was on the back of management's revamped lending strategy to corporates and Small & Medium-Sized Enterprises (SMEs), which account for 67% of the bank's loan book.
- Customer deposits rose by 58.2% y/y to KES 789.9bn. However, the cost of funds eased to 2.5% from 2.8% in 1Q20.Total Interest income grew by 21.7% y/y to KES 52.1bn largely driven by income from loans and advances, which rose by 25.5% y/y to KES 52.0bn. On the other hand, interest expenses rose by 26.3% y/y to KES 18.6bn.
- The net interest income rose by 28% y/y to KES 14.8bn. Interest income rose by 32%y/y to KES 20.3bn largely driven by income from loans and advances, which rose by 32% y/y to KES 14.2bn, and income from investment in government securities, which rose by 30% y/y to KES 5.9bn.
- On the other hand, interest expenses rose at a higher magnitude by 42% y/y to KES 5.5bn majorly buoyed by the cost of customer deposits which surged by 48% y/y to KES 4.2bn.
- The non-interest income grew by 30.7% y/y to KES 10.9bn. This was mainly supported by growth in forex trading income (grew by 82.7% y/y to KES 2.0bn) and merchant banking fees and commissions (grew by 22.7% y/y to KES 4.9bn).
- The contribution of non-funded income to total income remained robust at 42.3% vs 41.9% in 1Q20, which was within the management's outlook range of 40% - 43%.
- The asset quality ratio worsened to 11.3% 1Q21 from 10.9% in 1Q20. The SME (NPL ratio at 12.5% in 1Q21) and micro enterprises (NPL ratio at 10.1% in 1Q21) segments were largely culpable owing to pandemic related adverse effects in those sectors.
- The profit after tax jumped by 63.8% y/y to KES 8.7bn. This saw the return on Equity (ROE) rise to 25.1% from 19.5% while return on assets (ROA) rose to 3.3% from 3.1% in 1Q20.

KCB Group PLC: BUY at a TP of KES 47.20

- KCB Group released its 1Q21 results posting a 2.2% y/y growth in profit before tax (PBT) to KES 9.1Bn. This was driven by 11.1% growth in net interest income to KES 16.7Bn.
- Net loans and advances expanded by 7.8% y/y to close at KES 597.1bn. The loan book was mainly distributed to the manufacturing (14.3%), retail (38.5%) and the real estate (18.5%) sectors.
- On the funding side, customer deposits recorded a growth of 1.2% y/y to close at KES 749.4Bn, with 53% coming from the corporate sector and 47% from retail sector.
- Non-interest income dipped by 20.1% y/y to KES 6.3bn. This was buoyed by a decline in foreign exchange earnings of 19.5% y/y to KES 1.2Bn coupled with a decline of 44.4% y/y in fees and commissions to KES 1.5Bn.
- The non-performing loans portfolio surged by 48.1% y/y to KES 98.0Bn pushing the NPL ratio to 14.8% from 11.1% in 1Q20. The NPLs are attributable to the corporate (19.3%), SME (13.5%) and mortgage (9.6%) segments.
- The cost to income ratio improved by 50 bps to 48.0% from 48.5% in 1Q20, as growth in operating income almost matched the growth in operating expenses.

- The bottom line recorded a mild growth of 1.8% to KES 6.4bn boosted by the operating income performance. The group recorded a return on equity (ROE) of 17.6% down from 18.9% and a return on assets (ROA) of 2.61% down from 2.64%.

Coop Bank: BUY at a TP KES 15.00

- Co-op Bank Kenya released 1Q21 results this morning recording a decline of 2.61% y/y in profit before tax (PBT) to close at KES 4.98Bn.
- The loan book expanded moderately by 7.98% y/y to KES 298.21bn (up 3.65% q/q) reflecting the management's rather judicious lending amidst uncertainty caused by the recurring Covid-19 waves.
- The non-funded income recorded a decline of 9.23% y/y to KES 4.52Bn. This is attributable to contraction of 37.23% y/y to KES 2.37Bn in other income and fees & commissions line item. The contribution of non-funded income to total income declined to 33.64% from 47.28% in 1Q20.
- The net interest income recorded a robust growth of 30.74% y/y to KES 9.83Bn despite a surge in interest expenses of 19.78% y/y to KES 3.62Bn.
- The NPL ratio deteriorated to 17.43% from 11.52% in 1Q20. This is attributable to the gross non-performing loan portfolio which expanded by 63.34% y/y to KES 51.98Bn.
- To cover for loan defaults driven by the Covid-19 pandemic related economic slowdown, loan loss provisions increased by 153.5% y/y to KES 2.28Bn.
- The cost-to income ratio rose to 64.47% from 58.09% as operating expenses increased by 27.4% to KES 9.25Bn driven by a 42.21% spike in other costs to KES 2.61Bn.
- Profit after tax (PAT) recorded a mild decline of 3.71%y/y to KES 3.46bn, held back by an increase of expenses. Return on Equity (ROE) declined to 3.69% from 4.38% while the Return on Assets (ROA) declined to 0.62% from 0.76% in 1Q20.

ABSA Bank: Not Rated

- ABSA Kenya released its 1Q21 results this morning with the main highlight being a decline of 0.65% y/y in profit before tax (PBT) to KES 3.41Bn.
- The loan book recorded a growth of 7.54% y/y to KES 218.27Bn while investment in government securities remained flat at KES 82.5Bn.
- Cost of customer deposits decreased by 6.35% y/y despite a 7.69% y/y growth in customer deposits, which closed at KES 247.07Bn.
- The total interest income shrunk mildly by 28bps y/y to KES 7.6Bn, being held back by a decline in income from government securities which contracted by 1.83% y/y to KES 2.04Bn.
- Net interest income rose marginally by 5.88% to KES 5.96Bn supported by 17.75% y/y decline in interest expenses to KES 1.64Bn.
- The non-funded income recorded a slump of 3.94% y/y to KES 2.85Bn. This was on the back of a contraction in income from foreign exchange by 18.38% y/y to KES 0.93Bn.
- The NPL ratio improved to 7.91% buoyed by a decline of 39bps y/y in gross non-performing loans to KES 17.27Bn. However, the loan loss provisions for the period increased by 24.94% y/y to KES 1.39Bn.

- The CTI improved to 45.5% from 47.2% in 1Q20 as operating expenses surged by 4.57% y/y to KES 5.41Bn on the back of 25.22% y/y growth in other operating expenses.
  Profit after tax (PAT) recorded a robust growth of 23.73% y/y to KES 2.42Bn. The Return on Equity (ROE) rose to 4.97% from 4.63% while the return on assets (ROA) rose to 0.63% from 0.51% in 1Q20.

Diamond Trust Bank: BUY at a TP of KES 75.00

- Diamond Trust Bank released its 1Q21 results posting a 1.4% y/y growth in profit before tax (PBT) to KES 2.99bn.
- The loan book expanded moderately by 2.05% y/y to KES 205.8bn.
- The total interest income expanded by 4.91% y/y to KES 8.34bn largely supported by the income from investment in government securities, which grew by 13.5% y/y to KES 3.53bn.
- The total non-interest income growth shrunk mildly by 1.89% y/y to KES 1.56bn. Fees & commissions and other income, which registered a decline of 17.5% y/y to KES 0.3bn and 32.9% y/y to KES 0.1bn respectively, supported this decline.
- The asset quality ratio worsened to 11.2% in 1Q21 from 7.6% in 1Q20, as gross NPLs grew by 38.1% y/y to KES 22.9bn.
- We note that the loan loss provisions rose substantially by 65.9% y/y to KES 0.7bn as the bank prepares to cushion impact of containment measure on the loan book.
- The cost to income ratio improved slightly to 43.6% from 46.5% in 1Q20. The improvement was on the back of a weaker growth in operating expenses (1.0% y/y) compared to operating income growth of 3.0% y/y.
- Profit after tax (PAT) recorded a 2.1% y/y growth to close the quarter at KES 1.95bn. Return on Equity (ROE) came declined to 12.2% from 12.5% while the Return on Assets (ROA) slightly waned to 1.87% from 1.98%.

Standard Chartered Bank Kenya: BUY at a TP of KES 165.20

- Standard Chartered Bank released its 1Q21 results posting a 16.6% y/y growth in profit before tax (PBT) to KES 3.4Bn.
- Loans and advances to customers shrunk by 6.1% y/y to close at KES 117.87bn while customer deposits rose marginally by 8.9% to clock KES 265.3bn.
- Net interest income recorded a 2.8% y/y decline to KES 4.6bn. The interest income dropped by 9.0% y/y to 5.6bn whilst the interest expenses contracted by 30.2% y/y to KES 0.97bn.
- Non-interest income spiked by 11.1% y/y to close at KES 2.5bn. This was supported by forex trading income, which rose by 15.9% y/y to KES 0.81bn as well as other fees & commissions, which grew by 13.1% y/y to KES 1.3bn.
- The NPL ratio deteriorated to 18.9% in 1Q21 from 15.9% in 1Q20. This is attributable to gross non-performing loans which surged by 11.3% y/y to KES 22.3bn.
- This saw the NPL coverage rise to 81.1% in 1Q21 from 78.1% in 1Q20. We still expect cost of risk to increase in FY21 to cushion against the impact of Covid-19 on loan book restructuring.

- The cost to income ratio improved to 46.2% in 1Q21 from 51.9% in 1Q20 as growth in operating income outpaced growth in expenses. Operating expenses contracted by -9.0% y/y to KES 3.7bn while the total operating income rose by 1.7% y/y to KES 7.1bn.
- Operating expenses were mainly driven by staff costs, which rose by 7.6% to KES 7.7bn. Going forward, we expect the operating CTI ratio to remain at above 50% as revenue growth remains dismal.
- The Profit after tax (PAT) recorded a growth of 18.9% y/y to KES 2.4bn. The group recorded a return on equity (ROE) of 18.1% from 16.1% in 1Q20 and a return on assets (ROA) of 2.8% up from 2.6% in 1Q20.

Kengen: Not Rated

- Kengen announced 1H21 results registering a profit after tax drop of 38.1% y/y to KES 5.1Bn.
- Revenue from geothermal operations continued on a growth trajectory and went up by 14% supported by additional generation capacity from Olkaria V and additional income driven revenue diversification from the Ethiopia Project.
- Net revenue increased by 9% y/y from KES 18.91Bn to KES 20.57Bn.
- Net profit margin decreased by 36.53 percentage points to 23.21% in the period. Profit after tax reduced by 38% to close at KES 5.06Bn in the period.
- The current ratio worsened to 1.5 from 2.0 in the previous period, driven by increase in current liabilities while the short term liabilities increased by 64.83% to KES 28.12Bn in the period.
- Net cash flows increased by 106.3% y/y to KES 10.8Bn. This was because cash from operations increased by 56.5% y/y to KES 13.82Bn compared to KES 8.83Bn in December 2019.

BAT: Not Rated

- BAT posted stellar results whereby EPS grew by 42.03% y/y to KES 55.18 as profit before tax climbed by 34.03% y/y to KES 7.42 Bn.
- Gross revenue registered a marginal decline of 2.5% y/y to KES 38.8bn. This was attributable to economic downturn caused by Covid-19 pandemic, which affected the exports market as well as local demand.
- The excise duty and value added tax declined by 14.5% y/y to KES 13.5Bn. In aggregate, the tax rate changes implemented in April 2020 saved a total tax charge to a tune of KES 2Bn in FY20. Consequently, net revenue increased by 5.0% y/y to KES 25.3bn while the operating margin rose by 6 percentage points to 30%.
- In the year, finance costs declined by 10.4% y/y to 173Mn, which was a slower pace from 42.9% recorded in FY19. This was on the back of a 19.4% y/y decline in liabilities to KES

9.9Bn coupled with improvements in working capital management.

- Net cash from operations saw a 37.9% contraction to KES 4.7bn. The company has invested approximately KES 2.5Bn in building a new factory for the manufacture of the modern oral nicotine pouches without tobacco in Kenya.
- Profit after tax grew by 42.03% y/y to KES 5.5bn. This improved performance resulted to a 4.3% growth in dividend per share to KES 45.0 but the payout ratio declined to 82% in FY20 from 86.2% in FY19. The dividend is set to pay by 12th May 2021 with book closure set for 16th April 2021.

EABL: Not Rated

- The recent HY2021 results saw performance improve significantly for the second half of the financial year with net revenue increasing by 53.0% h/h to close at KES 44.5Bn, while y/y, the net revenue declined by 3.0%.
- The earnings per share (EPS) declined by 61.3% to KES 2.7. We retain our BUY recommendation on the counter given the expected economic recovery in 2021, as well as consumer demands.
- We project that the Tanzania market will cushion growth in FY21 given the lack of economic lockdowns in the country while Kenya will be the most affected market.
- Whilst competition is majorly from local producers on mainstream beer and spirits, EABL is expected to maintain its leadership position mostly supported by key new brands and the product mix that gives an edge to the brewer.
- Amidst the pandemic spirits have emerged as the favorites for customers due to lockdowns of bars and restaurants, which affected the on market categories. We expect to see a double digit growth on Senator Keg volumes and sales after the economy reopens fully.
- Volume growth is expected to be heightened by stronger growth across all brands. Specifically, we see the mainstream spirits, premium beer and innovations across the markets enhancing growth.
- Key downside to our outlook remain to be surprise additional taxes and shifts in market consumer dynamics in Tanzania and Uganda.

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Research Disclosure

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