

Equities Market Review

During the month of February 2022, the equities market was on a downward trajectory with NASI, NSE-20 and NSE-25 declining by 1.9%, 0.1% and 1.6%, respectively.

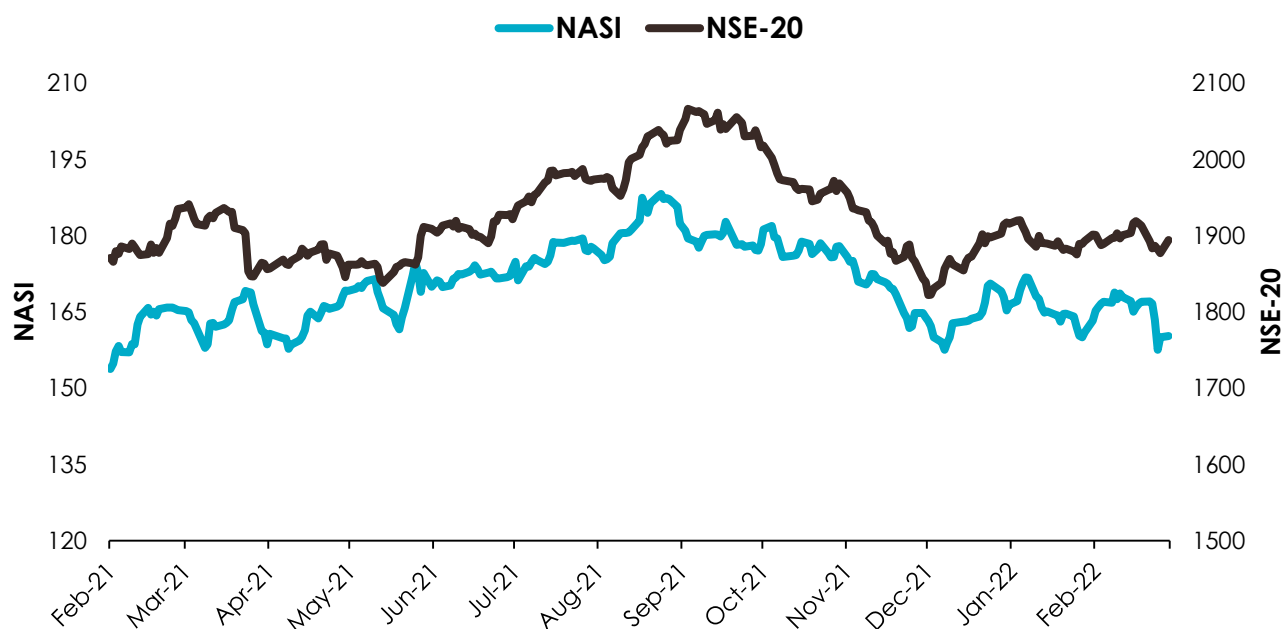
The market capitalization shrunk to KES 2.50tn at close of the month from KES 2.54tn at the start, reflecting a contraction of 1.57% m/m in shareholder's wealth.

During the month Safaricom announced an interim dividend of KShs. 0.64 per ordinary share payable to shareholders on the Register as at the close of business on 17th March 2022.

The banking sector will be releasing their FY21 financial results this month. We expect a strong rebound in profit before tax for FY21 as well as a reversal of the non-dividend payment policy that was a result of the pandemic uncertainty. According to our analysis, bottom line performance will mainly be driven by reduced provisioning during the period and gradual organic growth. The sector remains attractive for long term investors at its current **P/E** and **P/B** multiples of **5.6x** and **0.8x** respectively.

Outlook: Currently, the market presents an opportunity. We believe that investors should reposition towards value stocks with strong earnings growth that are trading at discounts to their intrinsic value.

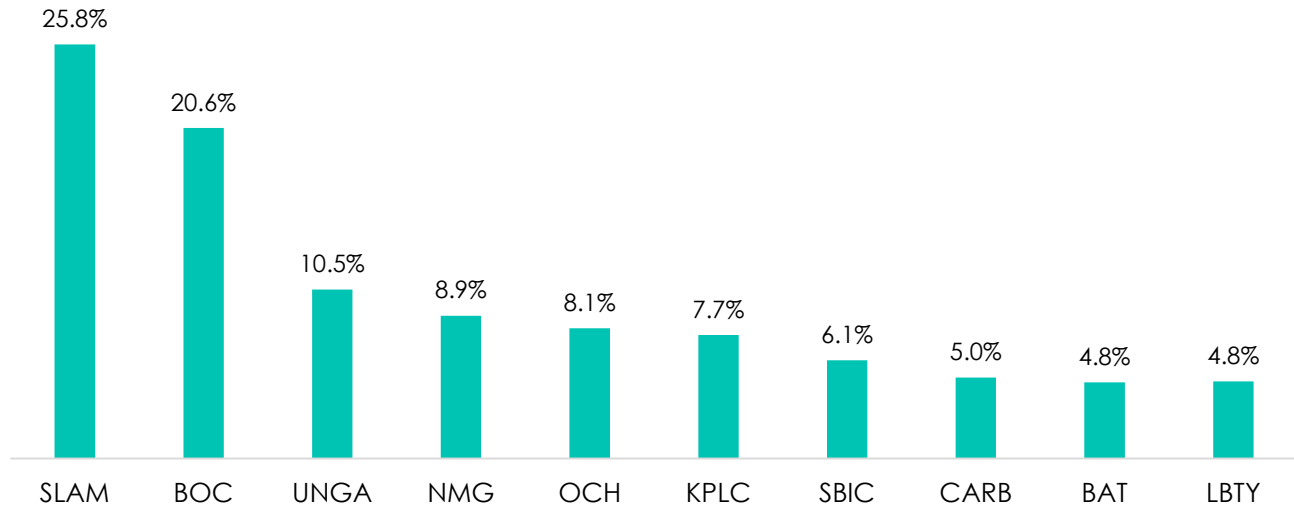
The chart below highlights the movement of main market indices for the last 12-month period:



Source: NCBA IB Research, NSE

Price gainers in February

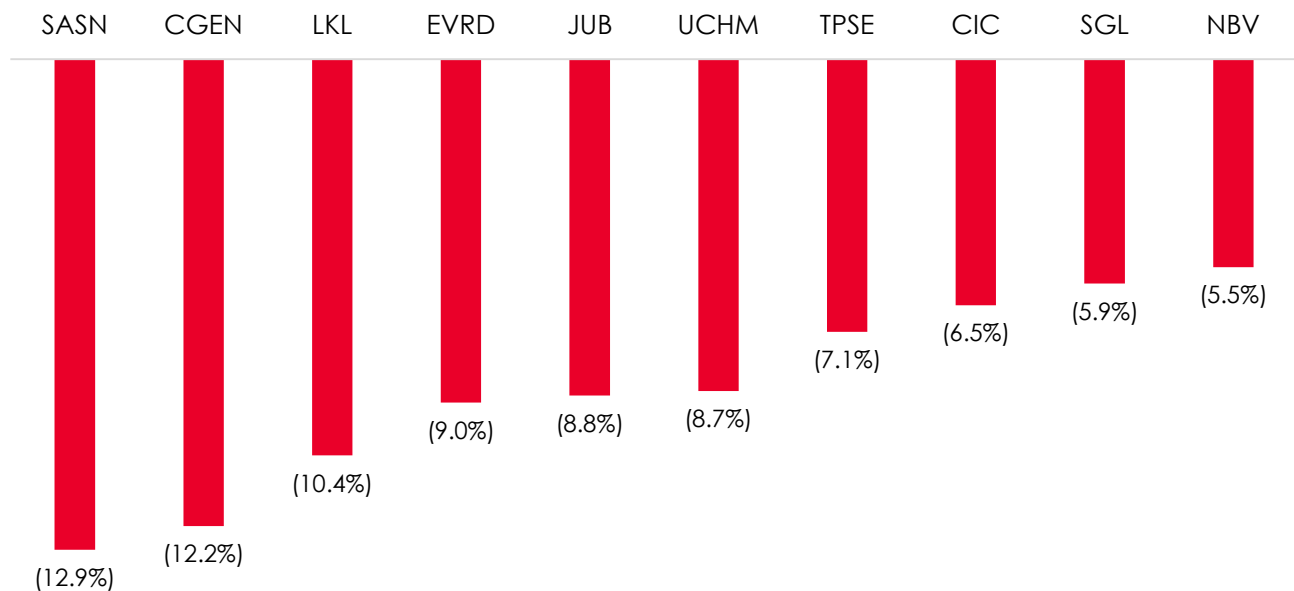
The graph below illustrates different stocks that gained value in price during the month.



Source: NCBA IB Research, NSE

Price losers in February

The graph below illustrates different stocks that lost value in price during the month.



Source: NCBA IB Research, NSE

Catalysts and Risks Projected

Risks

- Geopolitical risks are currently dominant in financial markets globally following Russia's full invasion of Ukraine and will continue to inform investors' decisions in the near-term.
- Locally, looming political risk continues to dampen investor confidence in the equities market.

Catalysts

- The market is currently trading a Price to Earnings (P/E) multiple of 10.7x which presents a discount in comparison to the historical average of 13.0x. This presents a suitable opportunity to buy the dip for future capital appreciation.
- Overall, the current market presents a buying opportunity for companies with strong fundamentals.

Stock Picks Summary Table

Counter	52-Weeks High	52-Weeks Low	Current Price	Performance M/M	Target price	Upside	Expected DPS	Div. Yield	Recommendation
<u>Banking</u>									
ABSA	12.00	8.60	12.00	1.27%	17.10	42.50%	-	-	STRONG BUY
COOP	14.00	11.50	13.00	0.39%	17.30	33.08%	-	-	STRONG BUY
SCBK	142.00	123.00	132.00	0.00%	169.60	28.48%	-	-	STRONG BUY
Stanbic	99.00	78.00	95.50	6.11%	107.30	12.36%	-	-	BUY
KCB	50.75	40.00	45.05	0.11%	50.50	12.10%	-	-	BUY
Equity	55.00	39.25	50.00	(0.99%)	50.00	0.00%	-	-	HOLD
I&M	46.95	20.25	21.30	1.43%	21.40	0.47%	-	-	HOLD
<u>Telecommunication</u>									
Safaricom	45.25	35.55	37.50	3.59%	34.22	(8.7%)	0.64	1.71%	SELL
<u>Energy & Petroleum</u>									
Kengen	5.10	3.90	3.86	(4.46%)	5.37	39.12%	-	-	STRONG BUY
Kenya power	1.99	1.29	1.68	7.7%	1.14	(32.1%)	-	-	SELL
<u>Manufacturing & Allied</u>									
EABL	194.00	148.00	156.25	-5.30%	179.63	14.96%	3.75	2.40%	BUY

Source: Bloomberg, NCBA IB Research, NSE

INVESTMENT RECOMMENDATIONS
ABSA Bank Kenya: STRONG BUY with a TP of KES 17.10

- ABSA is set to release its financial results later this month.
- We expect the NIM to be relatively flat at 7.5% in FY21F (FY20: 7.4%), on a deposit- driven pick up in interest expenses in 2H21.
- We expect stellar growth in NFI in FY21F (NFI grew by 6.1% y/y to 5.8Bn in 1H21) driven by the management's planned investment of KES 1.6Bn towards digital banking in FY21.
- Asset quality: We expect the group to post improved NPL ratios in the range of 8%-9% for FY21 supported by prudent credit risk management policies.

Coop Bank: STRONG BUY with a TP KES 17.30

- Coop bank is set to release its FY21 financial results later this month.
- Deposits grew strongly by 11.9% y/y to KES 313.8Bn in 1H21. We expect the same momentum to be sustained in FY21.
- The bank's continued focus on channel diversification will likely continue to generate profitability, as they focus on branch transformation, and innovation centered on alternative channels will continue to drive NFI growth.
- Given 48% of the total loan book comprises government securities, the bank has low credit risk exposure and this will subsequently help improve NPL ratios.

Stanbic Bank: BUY with a TP of KES 107.3

- Stanbic released its FY21 financial results reporting a 39% increase in profit after tax to KES 7.2Bn
- The company announced a final dividend of KES 7.30 representing a 49.4% payout ratio.
- The loan book grew by 17% to KES 229.3Bn
- Notably, the cost to income ratio rose in FY21F (FY20 was 52.2%), attributable to the rise in operating expenses (up 4.8% to KES 12.7Bn.)
- NFI rose slightly by 1.7% to KES 10.6Bn due to increased transactions on digital channels.
- Asset quality improved on account of a decline in non-performing loans.

Share Data	
BIC	ABSA KN
Recommendation	BUY
Last Price	12.00
Target Price	17.10
Upside (Excl. Div Yield)	42.50%
Market Cap (KES'Bn)	65.18
52 week high	12.00
52 week low	8.60
Free Float	30.37%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	COOP KN
Recommendation	BUY
Last Price	13.00
Target Price	17.30
Upside (Excl. Div Yield)	33.08%
Market Cap (KES'Bn)	76.27
52 week high	14.00
52 week low	11.50
Free Float	32.41%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	SBIC KN
Recommendation	BUY
Last Price	95.50
Target Price	107.30
Upside (Excl. Div Yield)	12.36%
Market Cap (KES'Bn)	37.75
52 week high	99.00
52 week low	78.00
Free Float	56.56%

Source: Bloomberg, NCBA IB Research, NSE

Standard Chartered: BUY with a TP of KES 169.60

- Standard Chartered Bank is set to release its FY21 results this month.
- We expect growth in NFI in FY21F supported by investments in the financial markets as well as forex income.
- We expect the CTI to rise slightly to 60.2% in FY21F (FY20A was 58.9%) attributed to a slight rise in operating expenses by approximately 2% to KES 35.7bn as the group embarks on optimizing efficiency.
- Asset quality to dampen: Non-performing loan book rose by 9.4% y/y to KES 23Bn in 1H21 with loan loss provisions declining by 62.6% y/y to KES 0.6Bn. We expect the bank to realize an NPL ratio of approximately 17% as the lending growth remains conservative.

Share Data	
BIC	SCBL KN
Recommendation	BUY
Last Price	132.00
Target Price	169.60
Upside (Excl. Div Yield)	28.48%
Market Cap (KES'Bn)	49.88
52 week high	142.00
52 week low	123.00
Free Float	18.31%

Source: Bloomberg, NCBA IB Research, NSE

KCB Group PLC: BUY at a TP of KES 50.50

- KCB Group is set to release its FY21 results this month.
- We expect the NIMs to be relatively stable at 7.9% in FY21F (FY20: 7.4%), driven by interest income from investments in government securities.
- We see modest acceleration in loan book growth on the conducive pro-growth macro environment in FY21.
- We maintain that the stock has the potential to rally mildly price-wise. Our recommendation is supported by our confidence in the bank growing its NFI and the bank's stable margins.

Share Data	
BIC	KNCB KN
Recommendation	BUY
Last Price	45.05
Target Price	50.50
Upside (Excl. Div Yield)	12.10%
Market Cap (KES'Bn)	144.77
52 week high	50.75
52 week low	40.00
Free Float	70.52%

Source: Bloomberg, NCBA IB Research, NSE

KenGen: BUY with a TP of KES 5.37

- KenGen released their half-year results recording a 9% increase in profit before tax to 7.52Bn y/y supported by income from revenue diversification initiatives and overall growth in electricity demand.
- Revenue increased by 14% to 24.8Bn. Operating expenses increased in tandem (up 8%) owing to increased business activity in Ethiopia, repairs and maintenance costs.
- In the year ahead, we are looking at sustained buoyant financial performance on the geothermal capacity increase (83MW Olkaria 1 Unit 6 power plant) and additional contractual revenues from well-drilling and geothermal contracts in Ethiopia and Djibouti.
- At the current market price, the stock is a value pick for long-term investors.

Share Data	
BIC	KEGC KN
Recommendation	BUY
Last Price	3.86
Target Price	5.37
Upside (Excl. Div Yield)	39.12%
Market Cap (KES'Bn)	25.45
52 week high	5.10
52 week low	3.90
Free Float	29.73%

Source: Bloomberg, NCBA IB Research, NSE

EABL: BUY with a TP of KES 179.63

- EABL announced a 130.43% y/y increase in net earnings to KES 8.73Bn. EPS, grew by 211.81% to KES 8.45 as the company recorded its highest profits in 5 years.
- The impressive growth was mainly driven by economic recovery following the lifting of pandemic-related restrictions.
- Revenue grew by 23.48% to KES 54.90Bn largely driven by investments across various brands coupled with innovations in response to behavior shifts by consumers.
- Growth in the subsidiaries was fairly distributed with sales in Kenya expanding 27% y/y driven by growth in Senator Keg, mainstream spirits and beer consumption.

Share Data	
BIC	EABL KN
Recommendation	BUY
Last Price	156.25
Target Price	179.63
Upside (Excl. Div Yield)	14.96%
Market Cap (KES'Bn)	1,273.00
52 week high	194.00
52 week low	148.00
Free Float	49.98%

Source: Bloomberg, NCBA IB Research, NSE

Equity Group PLC: HOLD at a TP of KES 50.00

- Equity Bank will release its FY21 financial results later in the month.
- We maintain our HOLD recommendation with a TP of KES 50.0 supported by expected deterioration in asset quality.
- We note that lending to the MSME sector has been on the rise. We expect the group's NPL to grow mildly in FY21F to a level of 9.5% from 9.3% recorded in FY20.
- We believe that the company's current P/B (1.5x) properly captures the company's expansion strategies in the near term and are of the opinion company has potential for a modest upside.

Share Data	
BIC	EQBNK KN
Recommendation	HOLD
Last Price	50.00
Target Price	50.00
Upside (Excl. Div Yield)	0.00%
Market Cap (KES'Bn)	188.68
52 week high	55.00
52 week low	39.25
Free Float	93.73%

Source: Bloomberg, NCBA IB Research, NSE

I&M Bank: HOLD at a TP of KES 21.40

- I&M Bank will release its FY21 financial results later in the month.
- We expect the interest income to rise slightly due to increased investment in government securities (61.3% y/y to KES 69.8Bn)
- Non-funded income recorded a 6.4% decline to KES 3.9Bn in 1H21. We expect to witness a decline of approximately 6% y/y in FY21F to KES 8.1Bn (FY20A: 8.6Bn)
- We expect the CTI to deteriorate marginally in FY21F (FY20A: 41.8%) as the group invests in digitization.
- Non-performing loan book rose by 3.8% y/y to KES 23Bn in 1H21 and loan loss provision remained flat at 1.0Bn. We expect the bank to realize an NPL ratio of approximately 11% for FY21 as the management remains conservative on risky lending.

Share Data	
BIC	IMH KN
Recommendation	HOLD
Last Price	21.30
Target Price	21.40
Upside (Excl. Div Yield)	0.47%
Market Cap (KES'Bn)	35.22
52 week high	46.95
52 week low	20.25
Free Float	25.69%

Source: Bloomberg, NCBA IB Research, NSE

Kenya Power: SELL at a TP of KES 1.14

- Kenya Power released their half-year financials recording profit after tax of KES 3.82Bn attributed to rise in revenue derived from the reopening of the economy and a larger consumer base.
- Operating expenses** reduced by 5.4% to KES 19.04Bn as a result of enhanced revenue collection, prudent cost management, and resource optimization initiatives implemented during the year.
- Fuel costs increased by 135.4% to KES 10.87Bn due to increase in units purchased from thermal plants as a result of low hydrology and an upsurge in fuel prices.
- Unclear dividend policy** dampening investor appetite. The company has not paid dividends in four consecutive years.
- Negative working capital position.** The company has remained in a net current liability position for the fifth consecutive year. Working capital remained adverse in FY21 at KES 66.5Bn. This is however an improvement of 12.6% from the previous financial year.

Share Data	
BIC	KPLL KN
Recommendation	SELL
Last Price	1.68
Target Price	1.14
Upside (Excl. Div Yield)	(32.14%)
Market Cap (KES'Bn)	3.28
52 week high	1.99
52 week low	1.29
Free Float	49.50%

Source: Bloomberg, NCBA IB Research, NSE

Safaricom: SELL at a TP of 34.22

- Safaricom reported its HY22 results posting a 12.01% increase in profit after tax KES 37.06Bn from KES 33.06Bn.
- The EPS grew by 12.1% to KES 0.92 from KES 0.83.
- The growth in profitability was mainly driven by a 16.91% uptick in service revenue on the back of a recovery in Mpesa revenues coupled with a slower 14.7% growth in total operating costs.
- Service revenues grew by 16.91% on the back of a recovery in both M-PESA and fixed data revenue.
- M-pesa revenue increased by 45.81% y/y to KES 52.33Bn.
- The average revenue per user (ARPU) increased by 4.2% to KES 559.6. The growth was driven by M-PESA, Data and FTTH increasing by 31.30%, 8.10% and 4.50%, respectively.
- The management indicated that operations in Ethiopia will begin in mid-2022 as per the license requirement.
- We expect the prevailing conditions in Ethiopia to continue weighing down on the share price and therefore maintain our previously issued SELL recommendation.

Share Data	
BIC	SAFCOM KN
Recommendation	SELL
Last Price	37.50
Target Price	34.22
Upside (Excl. Div Yield)	(8.75%)
Market Cap (KES'Bn)	1,502.45
52 week high	45.25
52 week low	36.00
Free Float	25.06%

Source: Bloomberg, NCBA IB Research, NSE

About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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Certification

The following analyst(s) who prepared this research report: Victoria Mututu hereby certifies(y) that:

- (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and
- (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

Rating Definitions

STRONG BUY – Total expected 12-month return (incl. dividends) greater than 20%

BUY-Total expected 12-month return (incl. dividends) between 10%- 20%

HOLD – Total expected 12-month return (incl. dividends) between 0%-10%

SELL – Total expected 12-month return (incl. dividends) less than 0%

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