

Equities Market Review

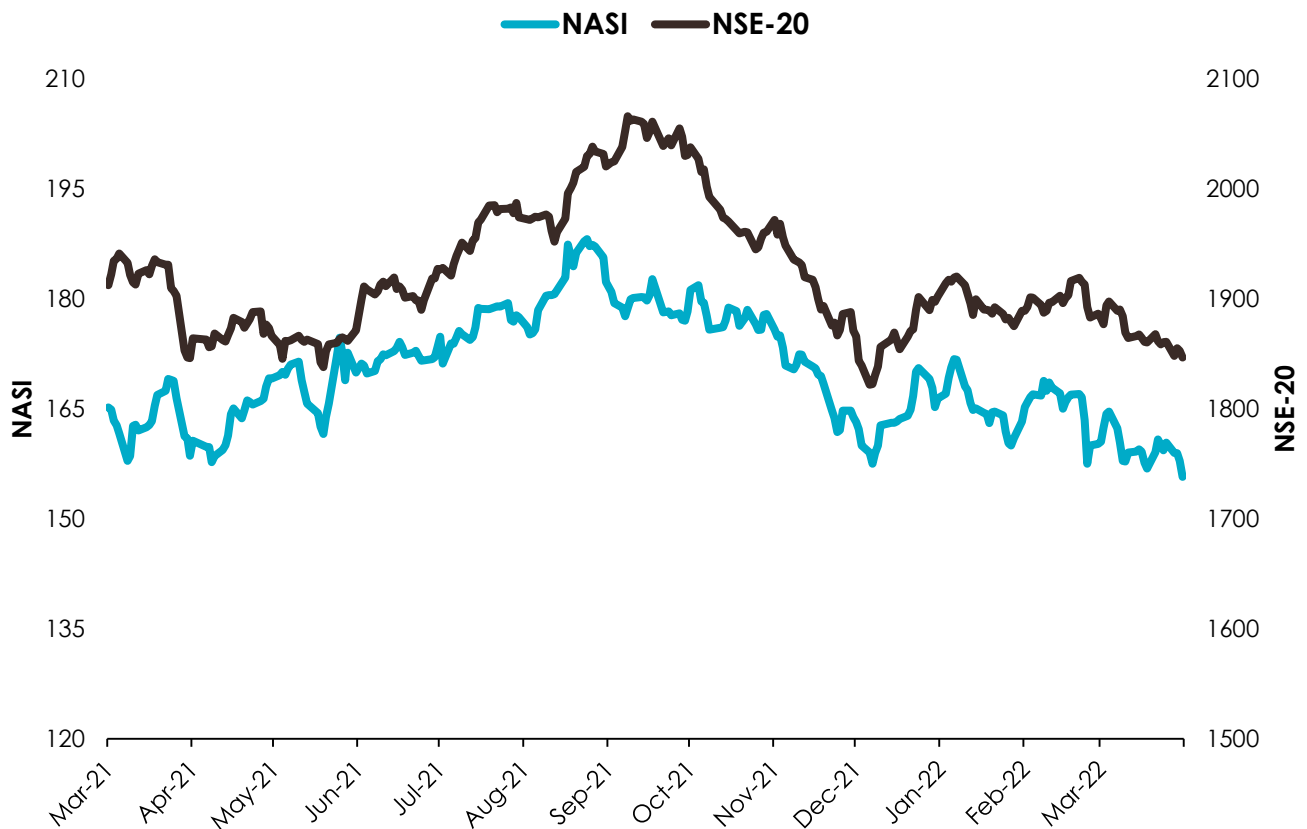
The local equities market was on a bearish trend in March with NASI, NSE-20 and NSE-25 declining by 2.8%, 2.1% and 1.5%, respectively.

The market capitalization shrunk to KES 2.43tn at close of the month from KES 2.50tn at the start, reflecting a contraction of 2.8% m/m in shareholder's wealth.

During the month the banking sector released their FY'21 results posting an overall improved performance and a return to dividend pay-out. However, this failed to excite the bourse as upward pressure on majority of the counters was limited.

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.

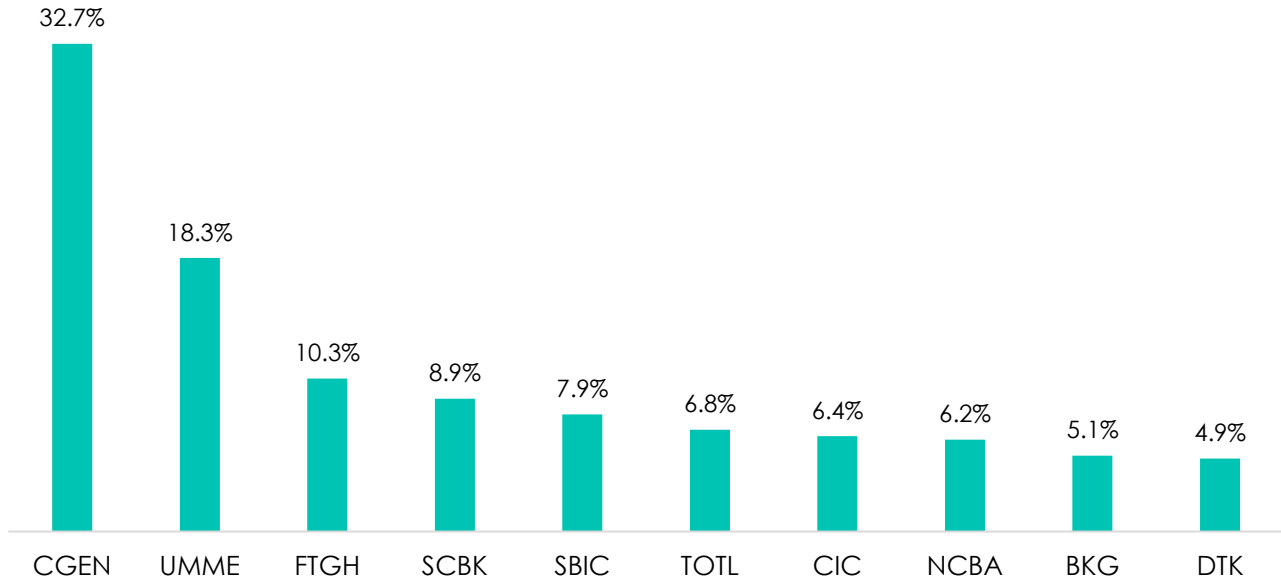
The chart below highlights the movement of main market indices for the last 12-month period:



Source: NCBA IB Research, NSE

Price gainers in March

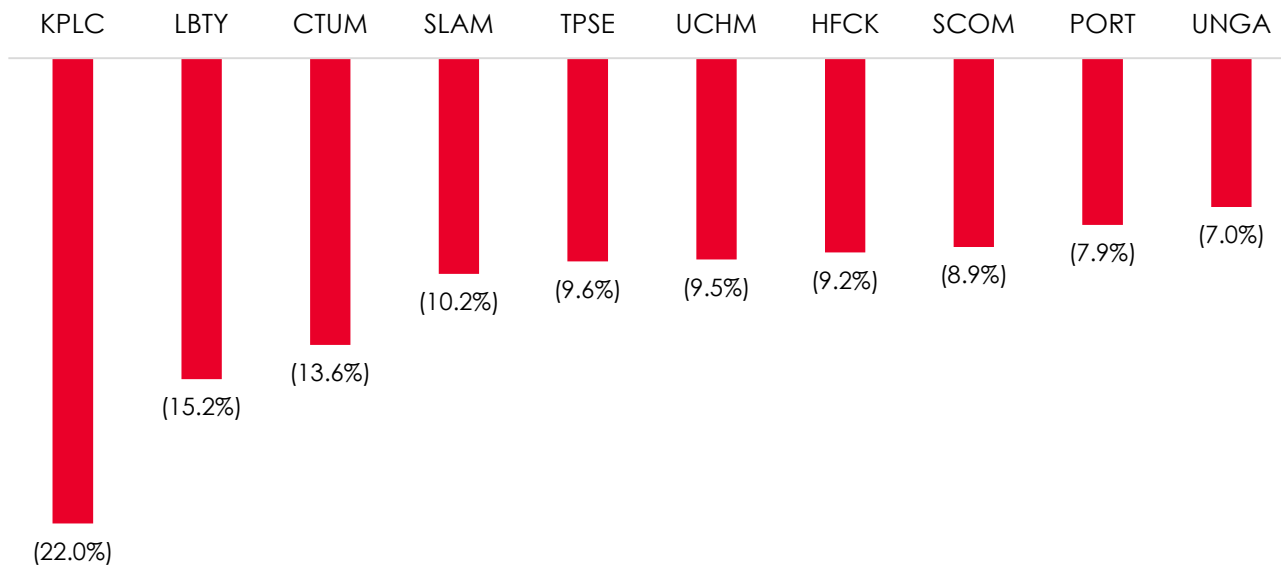
The graph below illustrates different stocks that gained value in price during the month.



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	12.95	11.30	12.45	3.75%	17.10	37.35%	1.10	8.84%	STRONG BUY
COOP	14.00	12.70	12.85	-1.15%	17.30	34.63%	1.00	7.78%	STRONG BUY
SCBK	145.00	130.75	143.75	8.90%	169.60	17.98%	14.00	9.74%	STRONG BUY
KCB	46.00	43.00	44.05	(2.22%)	50.50	14.64%	2.00	4.54%	BUY
Stanbic	105.00	95.00	103.00	7.85%	107.30	4.17%	7.30	7.09%	HOLD
I&M	22.00	19.80	20.90	(1.88%)	21.40	2.39%	1.50	7.18%	HOLD
Equity	53.00	49.25	50.50	1.00%	50.00	(0.99%)	3.00	5.94%	HOLD
<u>Telecommunication</u>									
Safaricom	45.25	33.5	34.15	(8.93%)	34.22	0.2%	-	-	HOLD
<u>Energy & Petroleum</u>									
Kengen	4.00	3.49	3.60	(6.74%)	5.37	49.17%	-	-	STRONG BUY
Kenya power	1.7	1.3	1.31	(22.0%)	1.14	(13.0%)	-	-	SELL
<u>Manufacturing & Allied</u>									
EABL	194.00	145.00	150.00	-4.00%	179.63	19.75%	3.75	2.50%	BUY

Source: Bloomberg, NCBA IB Research, NSE

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

- ABSA released its FY'21 financial results posting a 161.2% increase in PAT to KES 10.9Bn.
- The increase in PAT is mainly attributable to the completion of the separation and transition process to Absa Group supported by a 47.8% decline in loan loss provisions) to KES 4.7Bn in FY'2021.
- Asset quality: The group posted an improved NPL ratio of 7.9% supported by prudent credit risk management policies and eased business environment in the country.
- Going forward, the bank's continued focus on channel diversification will continue to generate profitability, as they focus on branch transformation and innovation centered on alternative channels will continue to drive NFI growth.

Coop Bank: STRONG BUY with a TP KES 17.30

- Coop bank released its FY21 financial results posting a 53.0% increase in PAT to KES 16.5Bn.
- The bank's asset quality improved, with the NPL ratio at 14.6% from 18.7% attributable to economic recovery and improved business environment.
- Loan loss provisions declined by 2.3% to KES 7.9Bn.
- Given 48% of the total loan book comprises government securities, the bank has low credit risk exposure and this will continue to anchor NPL ratios.

Stanbic Bank: HOLD 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	12.45
Target Price	17.10
Upside (Excl. Div Yield)	37.35%
Market Cap (KES'Bn)	67.62
52 week high	12.95
52 week low	11.30
Free Float	30.37%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	COOP KN
Recommendation	BUY
Last Price	12.85
Target Price	17.30
Upside (Excl. Div Yield)	34.63%
Market Cap (KES'Bn)	75.39
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	HOLD
Last Price	103.00
Target Price	107.30
Upside (Excl. Div Yield)	4.17%
Market Cap (KES'Bn)	40.72
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

- Stanchart released its FY21 results posting a 66.2% increase in PAT to KES 9.0Bn.
- NFI in FY21 rose by 24.9% to KES 10.4Bn mainly driven by a 44.6% rise in Foreign Exchange Trading income.
- Cost to Income Ratio improved to 56.8%, from 73.0% in FY'2020 owing to a 17.1% decline in total operating expenses coupled with a 6.4% growth in total operating income as the group focuses on optimizing efficiency.
- Loan Loss Provisions declined by 46.4% to KES 2.1Bn owing to the improved business environment.

Share Data	
BIC	SCBL KN
Recommendation	BUY
Last Price	143.75
Target Price	169.60
Upside (Excl. Div Yield)	17.98%
Market Cap (KES'Bn)	54.32
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 released its FY21 financial results posting a 74.3% increase in PAT to KES 34.2Bn.
- A significant expansion of 15.4% in the balance sheet attributable to the acquisition of Banque Populaire du Rwanda (BPR).
- Loan loss provisions shrunk by 52.8% y/y to KES 13Bn. The reduced provisioning level was due to declining credit risk on the back of increased business activities in 2021 driven by economic recovery.
- Loan book growth by 13.5% on back of the conducive pro-growth macro environment in FY21.
- Going forward, our view is informed by expansion of its regional presence as well as the bank's stable margins.

Share Data	
BIC	KNCB KN
Recommendation	BUY
Last Price	44.05
Target Price	50.50
Upside (Excl. Div Yield)	14.64%
Market Cap (KES'Bn)	141.55
52 week high	46.00
52 week low	43.00
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	3.60
Target Price	5.37
Upside (Excl. Div Yield)	49.17%
Market Cap (KES'Bn)	23.74
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	150.00
Target Price	179.63
Upside (Excl. Div Yield)	19.75%
Market Cap (KES'Bn)	1,273.00
52 week high	194.00
52 week low	145.00
Free Float	49.98%

Source: Bloomberg, NCBA IB Research, NSE

Equity Group PLC: HOLD at a TP of KES 50.00

- Equity Bank reported a 99.4% increase in PAT driven by a 21.1% growth in operating income coupled with a 15.4% decline in operating expenses.
- Loans loss provisions declined by 78.1% owing to declining credit risk on the back of improved business performance.
- The geographical diversification strategy has continued to pay off, with the bank's various subsidiaries in Uganda, DRC, Rwanda, Tanzania, and South Sudan cumulatively contributing 19.7% to the bank's total profitability and 32.7% to the group's total asset base.
- We believe that the company's current P/B (1.0x) properly captures the company's expansion strategies in the near term and are of the opinion the counter 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)	190.57
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 reported a 2.5% increase in PAT attributable to the 22.2% increase in operating income.
- Operating expenses increased by 40.8% to KES 17.7Bn weighing down on the earnings.
- Loan loss provisions grew by 69.8% to KES 4.2Bn as the bank took a proactive stance in provisioning for the existing Non-performing loans (NPLs).
- Cost to Income Ratio (CIR) deteriorated to 59.9%, from 52.0% y/y; partly due to LLP, digitization costs and increased staff costs; an indication of reduced efficiency.
- Going forward, the bank will leverage on the digital transformation strategy to increase profitability.

Share Data	
BIC	IMH KN
Recommendation	HOLD
Last Price	20.90
Target Price	21.40
Upside (Excl. Div Yield)	2.39%
Market Cap (KES'Bn)	34.56
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	1.31
Target Price	1.14
Upside (Excl. Div Yield)	(12.98%)
Market Cap (KES'Bn)	2.56
52 week high	1.99
52 week low	1.29
Free Float	49.50%

Source: Bloomberg, NCBA IB Research, NSE

Safaricom: HOLD 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	HOLD
Last Price	34.15
Target Price	34.22
Upside (Excl. Div Yield)	0.20%
Market Cap (KES'Bn)	1,368.23
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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