

Equities investment strategy

The stock market currently presents an opportunity. We believe investors should take up positions in value stocks trading at discounts to their intrinsic value. We opine that the banking sector will be well-positioned to rebound in a higher interest rate environment, which is bound to shore up its revenues.

Investing in a bear market

A bear market is a prolonged period of price declines in a stock or the entire market, usually 20 percent or more from a recent high.

The all-share index (NASI) reached its lowest level this year, down 23% to close at 128.75, and meets the popular definition of a bear market. The index has been in a bumpy decline since its January peak of 166.46.

The sustained decline has come as investors grapple with the combination of foreign investment outflows, the Russian invasion of Ukraine, which resulted in sanctions that severely impacted the global supply chain, and an inflation problem that is prompting the Central bank to raise interest rates.

Although bear markets can be concerning, they also provide opportunities to investors among them;

- **Re-balancing of portfolios:** A balanced portfolio is the best defense against a bear market. Diversification of a portfolio seeks to curb exposure to risk, prioritizing investment in companies with strong and well-capitalized balance sheets.
- **Dividend stocks:** Dividend-paying stocks are an efficient way to hedge the effects of a bear market while providing a stream of income to investors.

Catalysts and Projected Risks

Catalysts

- The current market Price to Earnings (P/E) multiple of 10.7x translates to a discount from the historical average of 13.0x and presents a suitable opportunity to buy the dip for future capital appreciation.
- Overall, the market presents a buying opportunity for companies with solid fundamentals.

Risks

- The stock market has been volatile amid concerns about rising inflation, interest rates, and a potential global recession.
- Geopolitical risks continue to dominate 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 dampens investor confidence in the equities market.

Pricing Inflation

Inflation rose to 7.1% in May marking the steepest rise in prices in nearly two years. As inflation fears surge and interest rates continue to nudge higher, investors have abandoned the market, making the first quarter the worst on record and devastating the value of bond portfolios.

Inflation is expected to remain elevated in 2022. For investors to navigate this, there will be a need to realign towards investments whose returns beat inflation.

Current uncertainties will continue pushing investors to safe-haven assets with concerns that inflation and higher interest rates will crimp corporate earnings.

Corporate Actions in June:

COUNTER	Dividend	Book Closure	Payment Date
BK Group	FRw 28.70	22-Jun-22	1-Jul-22
DTB	KES 3.00	30-Jun-22	28-Jul-22
Jubilee	KES 13.00	22-Jun-22	25-Jul-22
Kenya Re	KES 0.10	17-Jun-22	29-Jul-22
Total	KES 1.31	24-Jun-22	30-Jul-22
Crown Paints	KES.4.00	28-Jun-22	15-Aug-22
Nation Media Group	KES. 1.50	16-Jun-22	29-Jul-22
Umeme	UGS 54.10	24-Jun-22	22-Jul-22

Source: NSE, NCBAIB Research

May in a snapshot

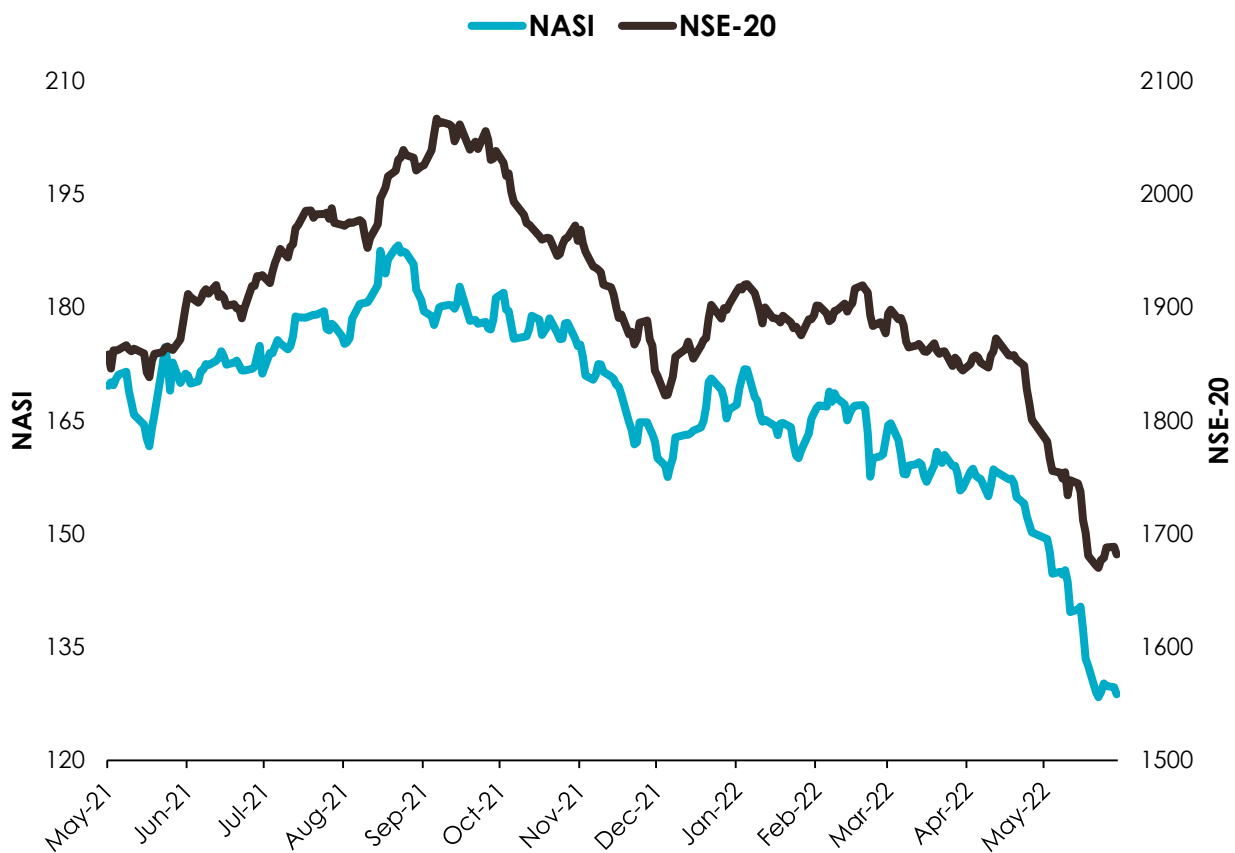
The local equities market was on a bearish trend with NASI, NSE-20, and NSE-25 declining by 14.3%, 6.6%, and 9.7%, respectively.

Based on the market capitalization of NSE-listed stocks, investors' wealth declined by 14.3% at the close of the month from KES 2.34tn recorded at the beginning of the month.

Foreign investors accounted for 60.2% of total turnover and were net sellers withdrawing KES 2.48Bn last month.

Stocks tested their 52-week highs and hit new 52-week lows. SCOM recorded a 52-week low of KES 25.50.

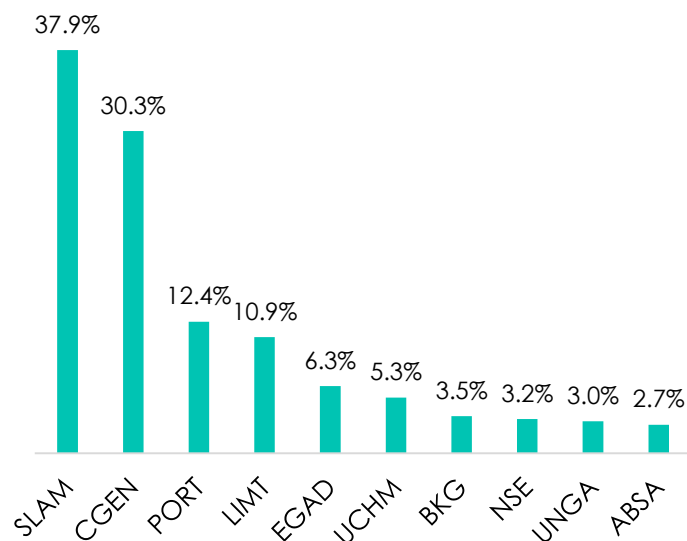
The chart below highlights the movement of main market indices for the last 12-month period:



Source: NCBA IB Research, NSE

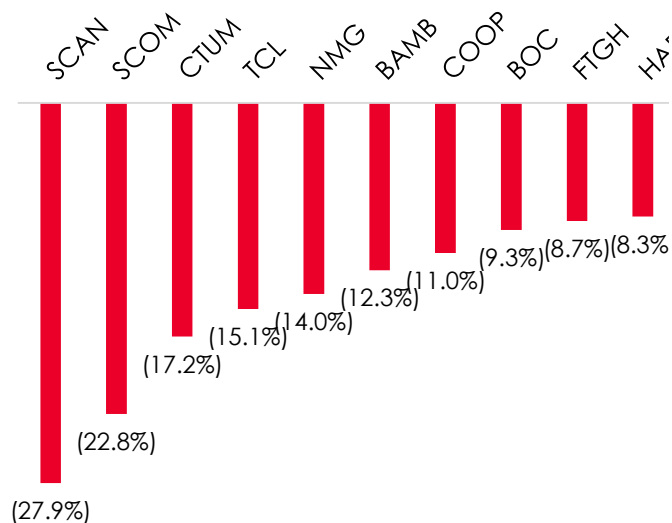
Price gainers in May

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



Price losers in May

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



Source: NCBA IB Research, NSE

Stock Picks Summary Table

Counter	52-Weeks High	52-Weeks Low	Current Price	Performance M/M	Target price	Upside	Expected DPS	Div. Yield	Recommendation
Banking									
ABSA	12.95	9.02	10.25	2.71%	17.10	66.83%	1.10	10.73%	STRONG BUY
COOP	14.00	10.80	11.30	(11.02%)	17.30	53.10%	1.00	8.85%	STRONG BUY
SCBK	148.75	121.00	123.75	(3.70%)	169.60	37.05%	14.00	11.31%	STRONG BUY
KCB	46.00	34.00	38.10	1.74%	50.50	32.55%	2.00	5.25%	STRONG BUY
I&M	22.00	16.90	17.05	(6.32%)	21.40	25.51%	1.50	8.80%	STRONG BUY
Stanbic	106.00	95.00	104.75	(0.48%)	107.30	2.43%	7.30	6.97%	HOLD
Equity	53.00	40.25	45.50	(5.01%)	50.00	9.89%	3.00	6.59%	HOLD
Telecommunication									
Safaricom	45.25	25.5	26.00	(22.85%)	34.22	31.6%	-	-	STRONG BUY
Energy & Petroleum									
Kengen	4.00	3.40	3.49	(1.69%)	5.37	53.87%	-	-	STRONG BUY
Kenya power	1.7	1.3	1.50	0.7%	1.14	(24.0%)	-	-	SELL
Manufacturing & Allied									
EABL	194.00	139.00	141.00	(2.08%)	179.63	27.40%	3.75	2.66%	STRONG BUY

Source: Bloomberg, NCBA IB Research, NSE

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

- ABSA released its Q1'22 financial results posting a 22.1% y/y increase in PAT to KES 3.0Bn.
- The increase in PAT is mainly attributable to the completion of the separation and transition process to Absa Group supported by a 15.3% y/y decline in loan loss provisions) to KES 1.2Bn in Q1'2022.
- Asset quality: The group posted an improved NPL ratio of 7.6% 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 Q1'22 financial results posting a 22.0% increase in PAT to KES 3.0Bn.
- The bank's asset quality improved, with the NPL ratio declining to 13.9% in Q1'22, from 15.8% in Q1'21 attributable to economic recovery and an improved business environment.
- Loan loss provisions declined by 32.3% to KES 1.5Bn indicative of the reduced credit risk.
- Given that 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 Q1'22 financial results reporting a 12% y/y increase in profit after tax to KES 2.1Bn driven by a 13.5% growth in operating income.
- Notably, the cost to income ratio in Q1'22 rose to 56.8% attributable to the rise in operating expenses (up 13.4% to KES 3.8Bn.)
- NFI rose slightly by 9.6% to KES 3.0Bn 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	10.25
Target Price	17.10
Upside (Excl. Div Yield)	66.83%
Market Cap (KES'Bn)	55.67
52 week high	12.95
52 week low	9.02
Free Float	30.37%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	COOP KN
Recommendation	BUY
Last Price	11.30
Target Price	17.30
Upside (Excl. Div Yield)	53.10%
Market Cap (KES'Bn)	66.30
52 week high	14.00
52 week low	10.80
Free Float	32.41%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	SBIC KN
Recommendation	HOLD
Last Price	104.75
Target Price	107.30
Upside (Excl. Div Yield)	2.43%
Market Cap (KES'Bn)	41.41
52 week high	106.00
52 week low	95.00
Free Float	56.56%

Source: Bloomberg, NCBA IB Research, NSE

Standard Chartered: STRONG BUY with a TP of KES 169.60

- Stanchart released its Q122 results posting a 15.6% increase in PAT to KES 2.8Bn.
- Cost to Income Ratio improved to 46.8%, from 52.0% in Q1'2010 owing to a 5.4% decline in total operating expenses coupled with a 4.7% growth in total operating income as the group focuses on optimizing efficiency.
- The loan book grew by 8.7% y/y to KES 128. Bn.
- NPL ratio declined to 15.4%, from 16.4% recorded in Q1'202.
- Loan Loss Provisions declined to KES 0.1Bn owing to the improved business environment.

Share Data	
BIC	SCBL KN
Recommendation	BUY
Last Price	123.75
Target Price	169.60
Upside (Excl. Div Yield)	37.05%
Market Cap (KES'Bn)	46.76
52 week high	148.75
52 week low	121.00
Free Float	18.31%

Source: Bloomberg, NCBA IB Research, NSE

KCB Group PLC: STRONG BUY at a TP of KES 50.50

- KCB Group released its Q1'22 financial results posting a 54.6% increase in PAT to KES 9.9Bn.
- A significant expansion of 19.4% in the balance sheet attributable to the acquisition of Banque Populaire du Rwanda (BPR).
- Loan loss provisions shrunk by 27.5% y/y to KES 2.1Bn. The reduced provisioning level was due to declining credit risk on the back of increased business activity driven by the economic recovery.
- Loan book growth by 18.0% on the back of the conducive pro-growth macro environment.
- Going forward, our view is informed by the expansion of its regional presence as well as the bank's stable margins.

Share Data	
BIC	KNCB KN
Recommendation	BUY
Last Price	38.10
Target Price	50.50
Upside (Excl. Div Yield)	32.55%
Market Cap (KES'Bn)	122.43
52 week high	46.00
52 week low	34.00
Free Float	70.52%

Source: Bloomberg, NCBA IB Research, NSE

KenGen: STRONG BUY with a TP of KES 5.37

- KenGen released their HY'22 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, and repairs and maintenance costs.
- In the year ahead, we are looking at sustained buoyant financial performance on the geothermal capacity increase 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	3.49
Target Price	5.37
Upside (Excl. Div Yield)	53.87%
Market Cap (KES'Bn)	23.01
52 week high	4.00
52 week low	3.40
Free Float	29.73%

Source: Bloomberg, NCBA IB Research, NSE

EABL: STRONG 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	141.00
Target Price	179.63
Upside (Excl. Div Yield)	27.40%
Market Cap (KES'Bn)	1,273.00
52 week high	194.00
52 week low	139.00
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 36.0% y/y increase in PAT to KES 11.9Bn driven by a 21.7% growth in operating income.
- Loans loss provisions declined by 42.4% owing to declining credit risk on the back of improved business performance.
- Non-Performing Loans (NPLs) reduced by 6.5% to KES 59.4Bn in Q1 '22, from KES 63.5Bn recorded in Q1 '21.
- The geographical diversification strategy has continued to pay off, Equity Group is expected to leverage its regional footprint, strong financial capability, and brand trust to accelerate growth in MSMEs.
- We believe that the company's current P/B (1.0x) properly captures the company's expansion strategies in the near term and think the counter has potential for a modest upside.

Share Data	
BIC	EQBNK KN
Recommendation	HOLD
Last Price	45.50
Target Price	50.00
Upside (Excl. Div Yield)	9.89%
Market Cap (KES'Bn)	171.70
52 week high	53.00
52 week low	40.25
Free Float	93.73%

Source: Bloomberg, NCBA IB Research, NSE

I&M Bank: STRONG BUY at a TP of KES 21.40

- I&M Bank reported a 43.6% y/y increase in PAT to KES 2.7Bn attributable to the 20.6% increase in operating income.
- Operating expenses increased moderately by 8.1% to KES 3.9Bn weighing down on the earnings.
- Loan loss provisions declined by 36.7% to KES 0.5Bn owing to improved credit risk on the back of improved business performance.
- Cost to Income Ratio (CIR) improved to 52.0%, from 58.0% y/y; partly due to LLP, an indication of improved efficiency.
- Going forward, the bank will leverage the digital transformation strategy to increase profitability.

Share Data	
BIC	IMH KN
Recommendation	BUY
Last Price	17.05
Target Price	21.40
Upside (Excl. Div Yield)	25.51%
Market Cap (KES'Bn)	28.19
52 week high	22.00
52 week low	16.90
Free Float	25.69%

Source: Bloomberg, NCBA IB Research, NSE

Kenya Power: SELL at a TP of KES 1.14

- Kenya Power released their HY'22 financials recording profit after tax of KES 3.82Bn attributed to a 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 an 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	1.50
Target Price	1.14
Upside (Excl. Div Yield)	(24.00%)
Market Cap (KES'Bn)	2.93
52 week high	1.70
52 week low	1.30
Free Float	49.50%

Source: Bloomberg, NCBA IB Research, NSE

Safaricom: STRONG BUY at a TP of 34.22

- Safaricom reported its FY22 results posting a 1.71% reduction in profit after tax KES 67.50Bn from KES 68.68Bn.
- The EPS grew by 1.8% to KES 1.74 from KES 1.71.
- M-Pesa revenue increased by 30.3% y/y to KES 107.69Bn.
- This was supported by the resumption of charging of previously zero-rated transactions
- The total value of M-PESA transactions grew 34.0% y/y to KES 29.5Trn while the total volume of M-PESA transactions grew 34.9% y/y to KES 15.8Bn.
- Service revenues recovered strongly in FY22 growing 8.1% y/y to KES 48.44Bn.
- Fixed service and wholesale transit revenue grew 18.3% y/y to KES 11.24Bn driven by increased activity and penetration of FTTH and growth in Enterprise fixed data revenue.
- 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.

Share Data	
BIC	SAFCOM KN
Recommendation	BUY
Last Price	26.00
Target Price	34.22
Upside (Excl. Div Yield)	31.62%
Market Cap (KES'Bn)	1,041.70
52 week high	45.25
52 week low	25.50
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.

Physical Address

NCBA Annex,
Hospital Road, Upper Hill, Tel: +254 20 2884444
Mobile: +254 711 056444/+254 732 156444

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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Key Contacts: Research Team

NCBAIBResearch@ncbagroup.com

Key Contacts: Trading Team

Dealing@ncbagroup.com