

Equities investment strategy

The stock market currently presents an opportunity. We believe investors should take up positions in value stocks that are trading at discounts to their intrinsic value. We opine that the banking sector is poised to report improved performance in 2Q2022 in a higher interest rate environment, which is bound to shore up its revenues.

High-risk perception ahead of the August general elections will likely be the main catalyst for market volatility. We anticipate cautionary trading driven by investor apathy.

The month of July recorded the highest level of inflation, post-COVID at 8.30% against a CBR rate of 7.5%. We equally expect local interest rates to adjust accordingly, in the near term.

Catalysts

- The current market Price to Earnings (P/E) multiple of 7.4x 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.

Opportunities

- 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.

Threats

- The stock market has been volatile amid concerns about rising inflation, and interest rates.
- 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.

Corporate Actions in August: Dividend payments

COUNTER	Dividend	Book Closure Date	Payment Date
Crown Paints	KES. 4.00	29-Jun-22	15-Aug-22
Kapchorua Tea	KES. 10.00	29-Jun-22	19-Aug-22
Williamson Tea	KES. 20.00	29-Jun-22	19-Aug-22
Safaricom	KES. 0.75	29-Jun-22	31-Aug-22
BAT	KES. 5.00	12-Aug-22	16-Sep-22
EABL	KES. 7.25	15-Sep-22	30-Oct-22

source: NSE, NCBA IB Research

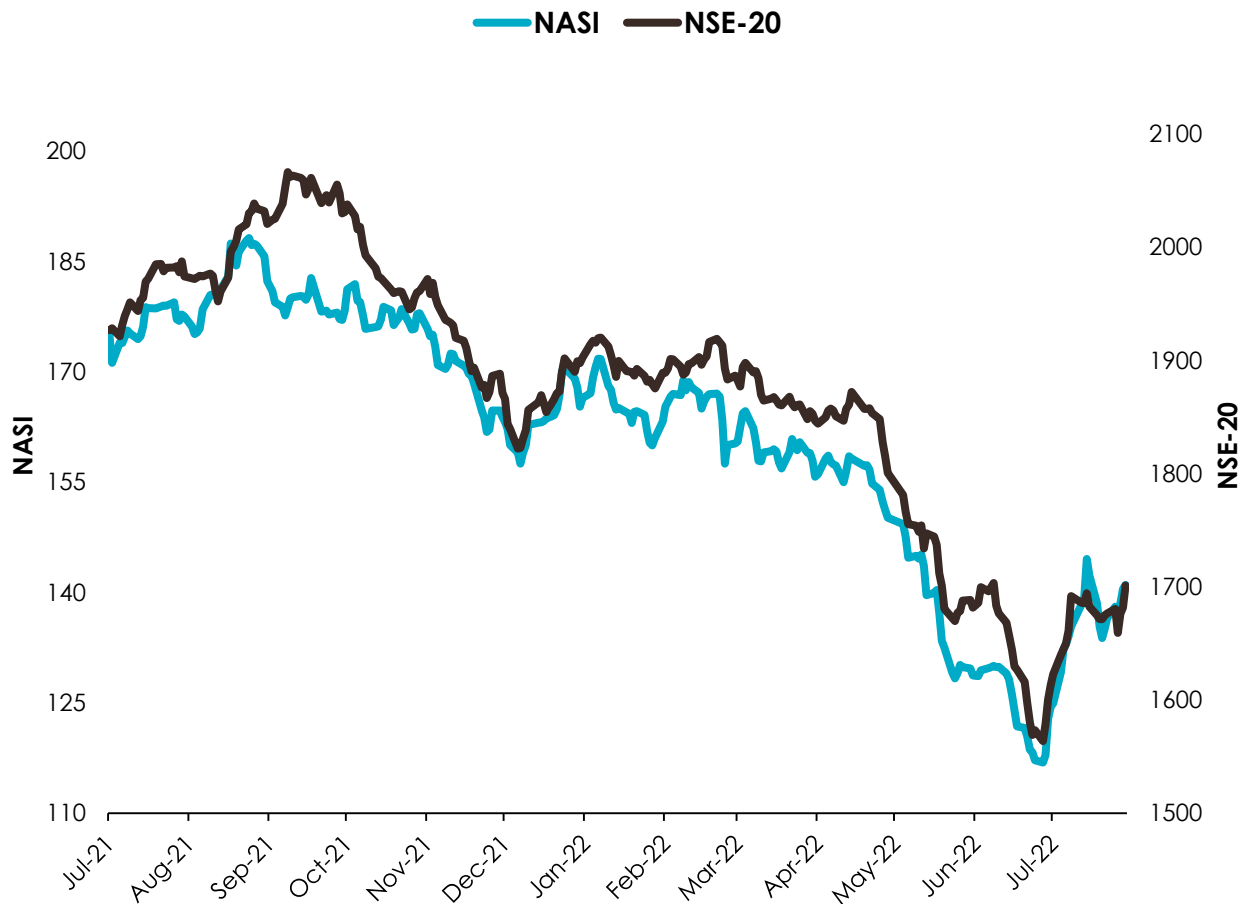
July in a snapshot

The local equities market recouped previous losses with NASI, NSE-20, and NSE-25 gaining by 13.3%, 5.5%, and 10.9%, respectively.

Based on the market capitalization of NSE-listed stocks, investors' wealth increased by 13.3% at the close of the month from KES 1.94tn recorded at the beginning of the month.

Foreign investors accounted for 48% of total turnover and were net sellers withdrawing KES 2.97Bn last month.

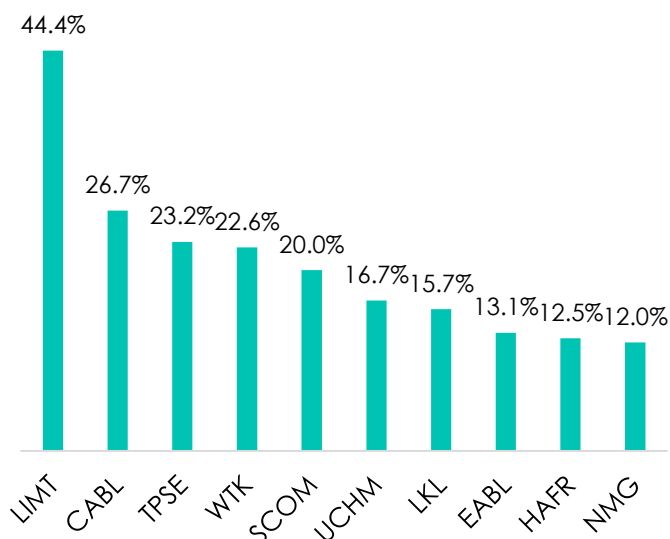
The chart below highlights the movement of main market indices for the last 12-month period:



Source: NCBA IB Research, NSE

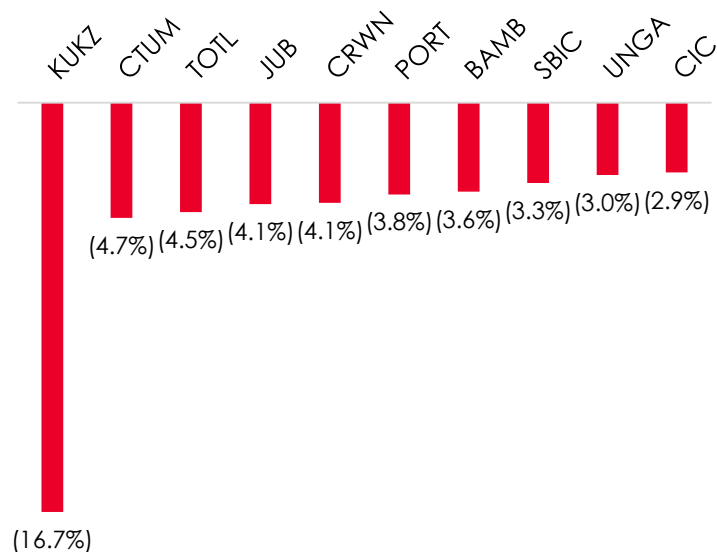
Price gainers in July

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



Price losers in July

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
<u>Banking</u>									
ABSA	12.95	9.02	11.05	5.74%	17.10	54.75%	-	-	BUY
COOP	14.00	10.30	11.90	9.17%	17.30	45.38%	-	-	BUY
SCBK	148.75	121.00	133.00	6.61%	169.60	27.52%	-	-	BUY
KCB	46.00	34.00	41.15	6.47%	50.50	22.72%	-	-	BUY
I&M	22.00	16.50	17.00	0.00%	21.40	25.88%	-	-	BUY
Stanbic	106.00	90.00	95.50	(3.29%)	107.30	12.36%	-	-	ACCUMULATE
Equity	53.00	38.75	48.00	11.63%	50.00	4.17%	-	-	HOLD
<u>Telecommunication</u>									
Safaricom	45.25	23	29.95	20.04%	34.22	14.3%	-	-	ACCUMULATE
<u>Energy & Petroleum</u>									
Kengen	4.00	3.35	3.49	3.25%	5.37	53.87%	-	-	BUY
Kenya power	1.7	1.3	1.40	(2.1%)	1.14	(18.6%)	-	-	SELL
<u>Manufacturing & Allied</u>									
EABL	194.00	110.00	155.25	13.11%	179.63	15.70%	7.25	4.67%	ACCUMULATE

Source: Bloomberg, NCBA IB Research, NSE

INVESTMENT CONSIDERATIONS
ABSA Bank Kenya: 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: BUY with a TP KES 17.30

- Coop bank released its Q122 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.
- We expect the bank to continue exhibiting stable growth, gradual improvement in the loan book.

Stanbic Bank: ACCUMULATE with a TP of KES 107.3

- Stanbic released its Q122 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	11.05
Target Price	17.10
Upside (Excl. Div Yield)	54.75%
Market Cap (KES'Bn)	60.02
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	11.90
Target Price	17.30
Upside (Excl. Div Yield)	45.38%
Market Cap (KES'Bn)	69.82
52 week high	14.00
52 week low	10.30
Free Float	32.41%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	SBIC KN
Recommendation	ACCUMULATE
Last Price	95.50
Target Price	107.30
Upside (Excl. Div Yield)	12.36%
Market Cap (KES'Bn)	37.75
52 week high	106.00
52 week low	90.00
Free Float	56.56%

Source: Bloomberg, NCBA IB Research, NSE

Standard Chartered: 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	133.00
Target Price	169.60
Upside (Excl. Div Yield)	27.52%
Market Cap (KES'Bn)	50.26
52 week high	148.75
52 week low	121.00
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 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 of 18.0% on the back of the favorable macro environment.
- Going forward, our view on the bank's growth is informed by the expansion of its regional presence as well as the its stable margins.

Share Data	
BIC	KNCB KN
Recommendation	BUY
Last Price	41.15
Target Price	50.50
Upside (Excl. Div Yield)	22.72%
Market Cap (KES'Bn)	124.20
52 week high	46.00
52 week low	34.00
Free Float	70.52%

Source: Bloomberg, NCBA IB Research, NSE

KenGen: 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, repairs and maintenance costs.
- In the year ahead, we are looking at a sustained buoyant financial performance on the back of increased geothermal capacity 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	3.35
Free Float	29.73%

Source: Bloomberg, NCBA IB Research, NSE

EABL: ACCUMULATE with a TP of KES 179.63

- EABL announced a 123.7% y/y increase in Profit After Tax (PAT to KES 8.73Bn. Revenue grew by 27.3% to KES 109.4Bn largely driven by investment in marketing coupled with innovations in response to behavior shifts by consumers.
- The impressive growth was mainly driven by economic recovery following the lifting of pandemic-related restrictions.
- Growth in the regional subsidiaries was fairly distributed with sales in Kenya expanding 27%, Uganda by 24% and Tanzania by 21%, driven by growth in volumes.
- The company announced a final DPS of KES 7.25 (Total dividend = KES 11.0 following an earlier interim dividend of KES 3.75).

Share Data	
BIC	EABL KN
Recommendation	ACCUMULATE
Last Price	155.25
Target Price	179.63
Upside (Excl. Div Yield)	15.70%
Market Cap (KES'Bn)	1,273.00
52 week high	194.00
52 week low	110.00
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 group's current P/B (1.0x) properly captures the its 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	48.00
Target Price	50.00
Upside (Excl. Div Yield)	4.17%
Market Cap (KES'Bn)	181.14
52 week high	53.00
52 week low	38.75
Free Float	93.73%

Source: Bloomberg, NCBA IB Research, NSE

I&M Bank: 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 reduction in loan loss provision, an indication of improved efficiency.
- Going forward, the bank seeks to leverage on the digital transformation strategy to increase profitability.

Share Data	
BIC	IMH KN
Recommendation	BUY
Last Price	17.00
Target Price	21.40
Upside (Excl. Div Yield)	25.88%
Market Cap (KES'Bn)	28.11
52 week high	22.00
52 week low	16.50
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 for the last four 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	1.43
Target Price	1.14
Upside (Excl. Div Yield)	(20.28%)
Market Cap (KES'Bn)	2.79
52 week high	1.70
52 week low	1.30
Free Float	49.50%

Source: Bloomberg, NCBA IB Research, NSE

Safaricom: ACCUMULATE 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	ACCUMULATE
Last Price	24.95
Target Price	34.22
Upside (Excl. Div Yield)	37.15%
Market Cap (KES'Bn)	999.63
52 week high	45.25
52 week low	23.00
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.

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

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

ACCUMULATE – 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%

Disclaimer

Any opinion or other information in this document is not an invitation to buy or sell any asset class. Legally binding obligations can only arise for or be entered into on behalf of NCBA Group by means of a written instrument signed by a duly authorized signatory. You are cautioned to ensure that you have made an independent decision in accordance with your own objectives, experience, operational and financial resources and any other appropriate factors including independent professional advice. No guarantee, warranty, or representation is made in respect of the performance or return on any transaction.

Key Contacts: Research Team

NCBAIBResearch@ncbagroup.com

Key Contacts: Trading Team

Dealing@ncbagroup.com