Equities investment strategy

The stock market currently presents an invaluable opportunity. We believe investors should take up positions in value stocks that are trading at discounts to their intrinsic value. Listed banks recorded increased Earnings per Share (EPS) in their recently released H1'2022 results primarily due to improved net interest income boosted by loan growth. Relatedly, higher foreign exchange income as the dollar strengthened and reduced provisioning levels by a number of banks was a driver for increased earnings.

Political risk remains a key market driver as investors maintain a cautious approach due to the ongoing presidential petition at the Supreme Court.

The month of August recorded the highest level of inflation, post-COVID at 8.5% against a CBR rate of 7.5%. We expect local interest rates to adjust accordingly, in the near term. Inflation rate has a direct bearing on the trajectory of interest rates as investors seek positive real returns.

Catalysts

- The current market Price to Earnings (P/E) multiple of 7.3x translates to a discount from the 10-yr historical average of 12.9x 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, political risk dampens investor confidence in the equities market.

Corporate Actions: Upcoming Dividend payments

COUNTER	Dividend	Book Closure Date	Payment Date
BAT Kenya	KES 5.00	12-Aug-22	16-Sep-22
Jubilee Holdings	KES 1.00	09-Sep-22	11-Oct-22
NCBA Group	KES 2.00	15-Sep-22	30-Sep-22
EABL	KES 7.25	15-Sep-22	30-Oct-22
Absa Bank	KES 0.20	21-Sep-22	12-Oct-22
Centum Investment Company	KES 0.587	30-Sep-22	TBA
BOC Kenya	KES 1.60	30-Sep-22	22-Oct-22

Source: NSE, NCBA IB Research

August in a snapshot

The local equities market recorded mixed performance with NASI and NSE-25 losing by 2.5% and 0.6%, respectively, while NSE-20 gained by 2.9%.

Based on the market capitalization of NSE-listed stocks, investors' wealth decreased by 2.6% at the close of the month from KES 2.14Tn recorded at the beginning of the month.

Foreign investors accounted for 50.2% of total turnover and were net sellers withdrawing KES 1.66Bn last month.

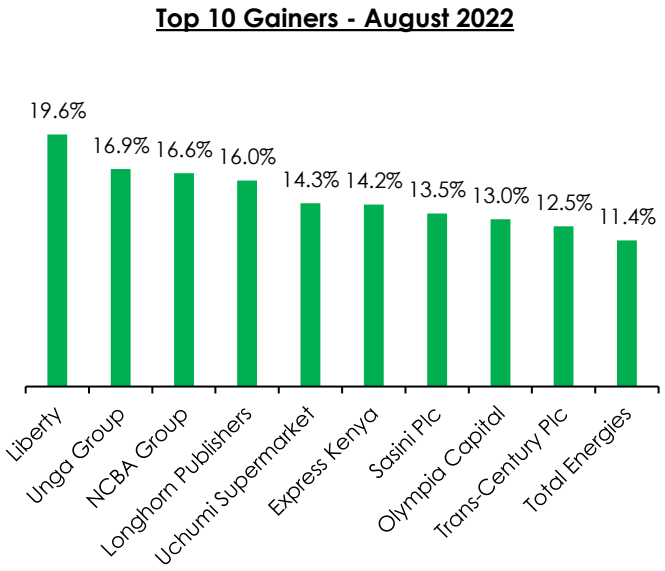
The chart below highlights the movement of main market indices for the last 12-month period:

NASI vs NSE 20 Movement - Last 12 months

Source: NCBA IB Research, NSE

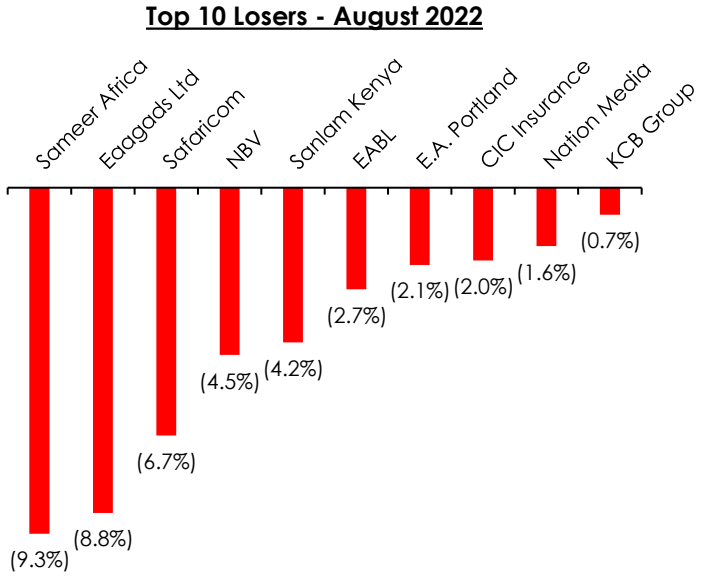
Price gainers in August

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



Price losers in August

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 (31.08.22)	Performance M/M	Target price	Upside / Downside	Expected DPS	Type of Dividend	Div. Yield	Recommendation
Banking										
ABSA	12.70	9.70	11.85	7.2%	17.10	44.3%	0.20	Interim	1.7%	BUY
COOP	13.65	10.70	12.40	3.4%	17.30	39.5%	-	-	-	BUY
I&M	23.25	16.50	17.00	0.0%	21.40	25.9%	-	-	-	BUY
SCBK	146.25	123.75	136.50	2.3%	169.60	24.2%	-	-	-	BUY
KCB	48.55	35.00	40.85	(0.4%)	50.50	23.6%	-	-	-	BUY
Stanbic	108.00	86.00	99.75	3.9%	107.30	7.6%	-	-	-	HOLD
Equity	53.50	39.00	48.00	0.0%	50.00	4.2%	-	-	-	HOLD
Telecommunication										
Safaricom	43.60	23.10	27.95	(6.7%)	34.22	22.4%	-	-	-	BUY
Energy & Petroleum										
Kengen	4.98	3.38	3.71	6.3%	5.37	44.7%	-	-	-	BUY
Kenya Power	2.02	1.31	1.46	4.3%	1.14	(21.9%)	-	-	-	SELL
Manufacturing & Allied										
EABL	176.75	110.00	151.00	(2.7%)	179.63	19.0%	7.25	Final	4.74%	ACCUMULATE

Source: Bloomberg, NCBA IB Research, NSE

INVESTMENT CONSIDERATIONS

ABSA Bank Kenya: BUY with a TP of KES 17.10

- ABSA released its H1'22 financial results posting a 13.0% y/y increase in PAT to KES 6.3Bn.
- The increase in PAT is mainly attributable to the 17.2% increase in Net interest income (NII) which was boosted by a significant 19.5% growth in the loan book and an impressive 5x growth in Timiza customers. Timiza is a mobile banking app that allows subscribers to apply for instant loans. Key to note is that Timiza transaction fees were moved to net interest income, from non-funded income in previous reporting periods.
- Loan loss provisions increased by 52.2% thus slowing down the bottom-line gains, as the bank sought to correct the significant low loan provisions in H1'2021.
- Asset quality: The group posted an improved NPL ratio of 7.1% supported by prudent credit risk management policies.
- Going forward, the bank's continued focus on channel diversification, impressive asset quality, and, entrance into business lines namely custody business and private wealth management will continue to generate long-term profitability.

Share Data	
BIC	ABSA KN
Recommendation	**BUY**
Last Price	**11.85**
Target Price	17.10
Upside (Excl. Div Yield)	44.3%
Market Cap (KES'Bn)	64.36
52 week high	12.70
52 week low	9.70
Free Float	30.4%

Source: Bloomberg, NCBA IB Research, NSE

Coop Bank: BUY with a TP KES 17.30

- Coop bank released its H1'22 financial results posting a 55.7% increase in PAT to KES 11.5Bn. The performance is attributed to two prongs; a) Increased operating income especially NFI, and, b) Reduced provisioning level despite growth in NPLs.
- The bank's asset quality improved, with the NPL ratio declining to 14.1% in H1'22, from 15.2% in H1'21 attributable to a faster growth in total loans relative to gross NPL level.
- Key downside risk is Kingdom bank's performance as it recorded reduced operating income, NPL ratio of above 60% and expected servicing of the CBK overdraft facility of KES 21.0Bn that is expected to be serviced for 10 years effective 2023.
- We expect the bank to continue exhibiting stable growth, gradual improvement in the loan book and NFI growth owing to levies from SACCO-related services.

Share Data	
BIC	COOP KN
Recommendation	**BUY**
Last Price	**12.40**
Target Price	17.30
Upside (Excl. Div Yield)	39.5%
Market Cap (KES'Bn)	72.75
52 week high	13.65
52 week low	10.70
Free Float	32.4%

Source: Bloomberg, NCBA IB Research, NSE

Stanbic Bank: HOLD with a TP of KES 107.3

- Stanbic Holdings released its H1'2022 Results, recording a 36.9% y/y growth in Profit after Tax (PAT) to KES 4.8Bn.
- Notably, the bank's deposits declined marginally to KES 258.2Bn from KES 260.0Bn in H1'2021 taking the Loan to deposit ratio to 94.5% from 79.9%
- Asset quality remained relatively unchanged at 9.4%.
- We expect Stanbic to sustain the performance in H2'2022 with a key focus on boosting non-funded income and improving its NPL ratio as the uncertain election cycle comes to an end.

Share Data	
BIC	SBIC KN
Recommendation	**HOLD**
Last Price	**99.75**
Target Price	107.30
Upside (Excl. Div Yield)	7.6%
Market Cap (KES'Bn)	39.43
52 week high	108.00
52 week low	86.00
Free Float	56.6%

Source: Bloomberg, NCBA IB Research, NSE

Standard Chartered: BUY with a TP of KES 169.60

- StanChart released its H'122 results posting a 10.9% increase in PAT to KES 5.4Bn.
- Cost to Income Ratio without loan loss provisions deteriorated to 50.6%, from 47.3% in H1'2021.
- Deposit mobilization capability remained in question with deposits growing by 3.1%, the lowest among Tier 1 banks.
- Asset quality: NPL ratio remained unchanged at 15.4% in H1'2022 same as recorded in H1'2021, and above the industry's average of 14.7% as of June 2022. This remains a key concern especially taking into account the loan book size which shrunk y/y.
- Loan loss provisions declined to KES 0.1Bn but NPL coverage remained the highest amongst its peers at 83.9%.
- The bank's NFI line is expected to be a key growth driver with the bank having a strong presence in the investment advisory and wealth management services.

Share Data	
BIC	SCBL KN
Recommendation	**BUY**
Last Price	**136.50**
Target Price	169.60
Upside (Excl. Div Yield)	24.2%
Market Cap (KES'Bn)	51.58
52 week high	146.25
52 week low	123.75
Free Float	18.3%

Source: Bloomberg, NCBA IB Research, NSE

KCB Group PLC: BUY at a TP of KES 50.50

- KCB Group released its H1'2022 Results, recording a 28.4% y/y PAT growth to KES 19.6Bn from KES 15.3Bn in H1'2021, driven by a 16.8% increase in the operating income.
- Net loans grew by 20.3% y/y anchoring the Group's impressive asset growth to KES 1.2Tn.
- Of concern was the Group's asset quality with the NPL ratio increasing to 21.4% from 14.4% last year. This was largely driven by the Kenyan subsidiary which recorded an NPL ratio of 22.8% and anchored the 81.2% growth in Gross Non-Performing Loans.
- Despite the worrying jump in NPL ratio and increase in operating expenses, we expect the Group's recent acquisition in DRC subsidiaries to support the bank's medium term performance.

Share Data	
BIC	KNCB KN
Recommendation	**BUY**
Last Price	**40.85**
Target Price	50.50
Upside (Excl. Div Yield)	23.6%
Market Cap (KES'Bn)	131.27
52 week high	48.55
52 week low	35.00
Free Float	70.5%

Source: Bloomberg, NCBA IB Research, NSE

KenGen: BUY with a TP of KES 5.37

- KenGen recorded 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. This is according to their last financial results.
- 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	**3.71**
Target Price	5.37
Upside (Excl. Div Yield)	44.7%
Market Cap (KES'Bn)	24.47
52 week high	4.98
52 week low	3.38
Free Float	29.7%

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 also 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). Book closure is on 15th September 2022.

Share Data	
BIC	EABL KN
Recommendation	**ACCUMULATE**
Last Price	**151.00**
Target Price	179.63
Upside (Excl. Div Yield)	19.0%
Market Cap (KES'Bn)	119.41
52 week high	176.75
52 week low	110.00
Free Float	50.0%

Source: Bloomberg, NCBA IB Research, NSE

Equity Group PLC: HOLD at a TP of KES 50.00

- Equity Group released its H1'2022 Results, recording a 36.1% y/y growth in Profit after Tax (PAT) to KES 24.4Bn from KES 17.9Bn in H1'2021, driven by impressive growths in both non-funded income and net interest income.
- Net loans grew by 28.9% y/y anchoring the Group's impressive asset growth to KES 1.3Tn.
- Notably, the Group's asset quality improved, recording an NPL ratio of 8.5%, which is below the industry average of 14.7%. On the other hand, customer deposits increased by 18.5% to KES 970.9Bn.
- We expect Equity Group to continue registering strong performances with the DRC subsidiary raising prospects of achieving sustainable long-term growth.
- The geographical diversification strategy has continued to pay off. The Group is expected to leverage its regional footprint, strong financial capability, and brand trust to accelerate growth in MSMEs.

Share Data	
BIC	EQBNK KN
Recommendation	**HOLD**
Last Price	**48.00**
Target Price	50.00
Upside (Excl. Div Yield)	4.2%
Market Cap (KES'Bn)	181.14
52 week high	53.50
52 week low	39.00
Free Float	93.7%

Source: Bloomberg, NCBA IB Research, NSE

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

- I&M Bank reported a 16.0% y/y increase in PAT to KES 4.7Bn in H1'2022 attributable to the 21.6% increase in operating income.
- Operating expenses increased significantly by 19.3% to KES 8.6Bn weighing down on the earnings.
- Loan loss provisions increased by 24.4% to KES 1.3Bn as the bank aimed to increase its NPL coverage – this was against a back drop of improving asset quality.
- NPL ratio improved to 9.3%, from 10.4% recorded in H1'2021 indicated prudent risk management
- Going forward, the bank seeks to leverage on the digital transformation strategy as well as its regional presence to increase profitability.

Share Data	
BIC	IMH KN
Recommendation	**BUY**
Last Price	**17.00**
Target Price	21.40
Upside (Excl. Div Yield)	25.9%
Market Cap (KES'Bn)	28.11
52 week high	23.25
52 week low	16.50
Free Float	25.7%

Source: Bloomberg, NCBA IB Research, NSE

Kenya Power: SELL at a TP of KES 1.14

- Kenya Power released their 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 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	**1.46**
Target Price	1.14
Upside (Excl. Div Yield)	(21.9%)
Market Cap (KES'Bn)	2.85
52 week high	2.02
52 week low	1.31
Free Float	49.5%

Source: Bloomberg, NCBA IB Research, NSE

Safaricom: BUY at a TP of 34.22

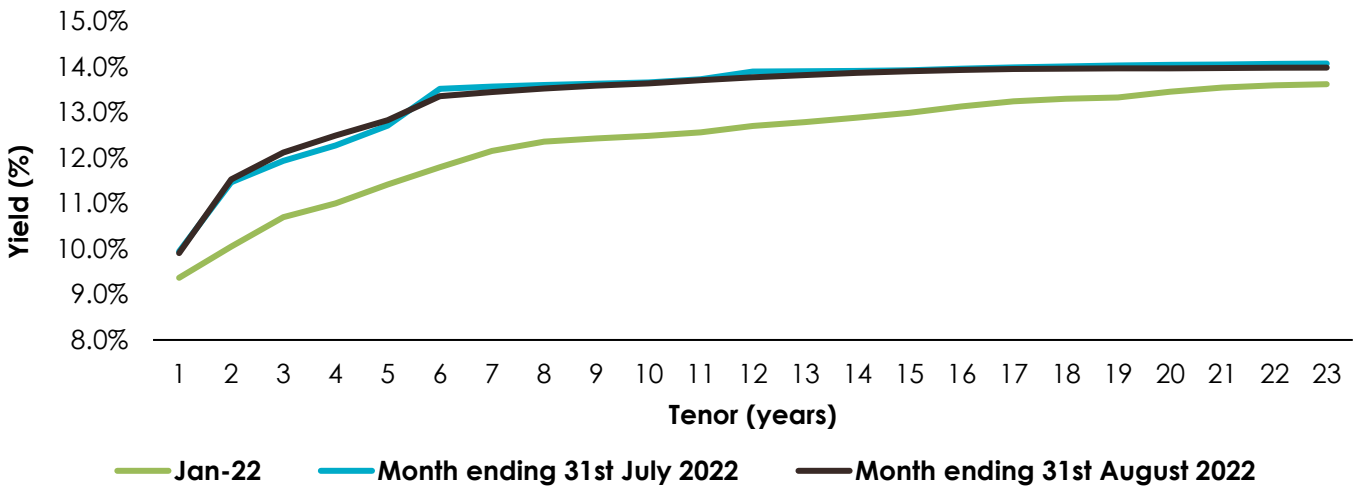
- There were no new financials reported in the last month – Safaricom's price has however exhibited volatility due to its high liquidity.
- The share price declined by 5.8% in August 2022 to KES 28.0 which presents a great entry point for long term investors.
- In August, Safaricom announced that it had begun a large-scale customer pilot of its network in Dire Dawa City, Ethiopia. The program which will be launched nationally in October 2022, aims at availing Safaricom's network in 25 cities by April 2023. This will boost the firm's path in meeting its target of EBITDA breakeven in Ethiopia by 2026. We view the Ethiopian expansion as a good long term prospect that will sustain high profit levels in the future and reduce reliance on the Kenyan market.

Share Data	
BIC	SAFCOM KN
Recommendation	**BUY**
Last Price	**27.95**
Target Price	34.22
Upside (Excl. Div Yield)	22.4%
Market Cap (KES'Bn)	1,119.83
52 week high	43.60
52 week low	23.10
Free Float	25.1%

Source: Bloomberg, NCBA IB Research, NSE

FIXED INCOME

Government Securities Yield Curve



Source: NSE, NCBA IB Research

In the month August, yields across the various tenors recorded mixed performance with short- and medium-term papers recording gains while longer term papers broadly declined. The gains are attributed to investors seeking to minimize duration risk associated with the longer-term papers.

On a year-to-date basis, yields across all tenors remain signficantly high owing to the deteriorated macros. In addition to that, the monetary policy hike in May from 7.0% to 7.5%, has filtered into the market, leading to higher yields.

In the primary market, both bonds and treasury bills have had low subscription rates over the last few months with the August re-opened bonds recording a subscription rate of 98.3% of the KES 50Bn on offer and treasury bills' average subscription coming in at 70.9% during the month.

We expect interest rates to keep rising owing to the rising inflation rate, tighter external credit markets and low subscriptions as the government sources for funds to plug in the FY'2022/23 fiscal deficit. In the FY'2022/23, the government seeks to raise KES 581.7Bn through domestic borrowing. It is worth noting that we are two months into the governement cycle.

September Bonds Offer

In the primary market, the Central Bank of Kenya is offering an opportunity to participate in the auction of the papers below, seeking to raise KES 50.0Bn for budgetary support in the month of September. See below a summary of the offers:

Issue Number	FXD1/2022/10	FXD1/2022/15
Tenor	9.6 years	14.5 years
Redemption Date	03/05/2032	06/04/2037
Coupon (%)	**13.490%**	**13.942%**
Amount	KES 50 Billion	
Period of Sale	25/08/2022 to 13/09/2022	
Value Date	Monday 19/09/2022	

Source: NSE, NCBAIB Research

Kenya International Debt Yield Curves:

On the external bond markets, Kenyan Eurobonds witnessed a price correction in the month of August with yields declining for the six bonds. This was preceded by sustained 7-month selloffs as foreign investors attached a high risk premium to emerging markets due to the ongoing global economic crisis occasioned by Russo-Ukrainian conflict and supply chain disruptions. During times of uncertainty, investors flee to advanced financial markets which are viewed as being more stable and capable of sustaining economic shocks.

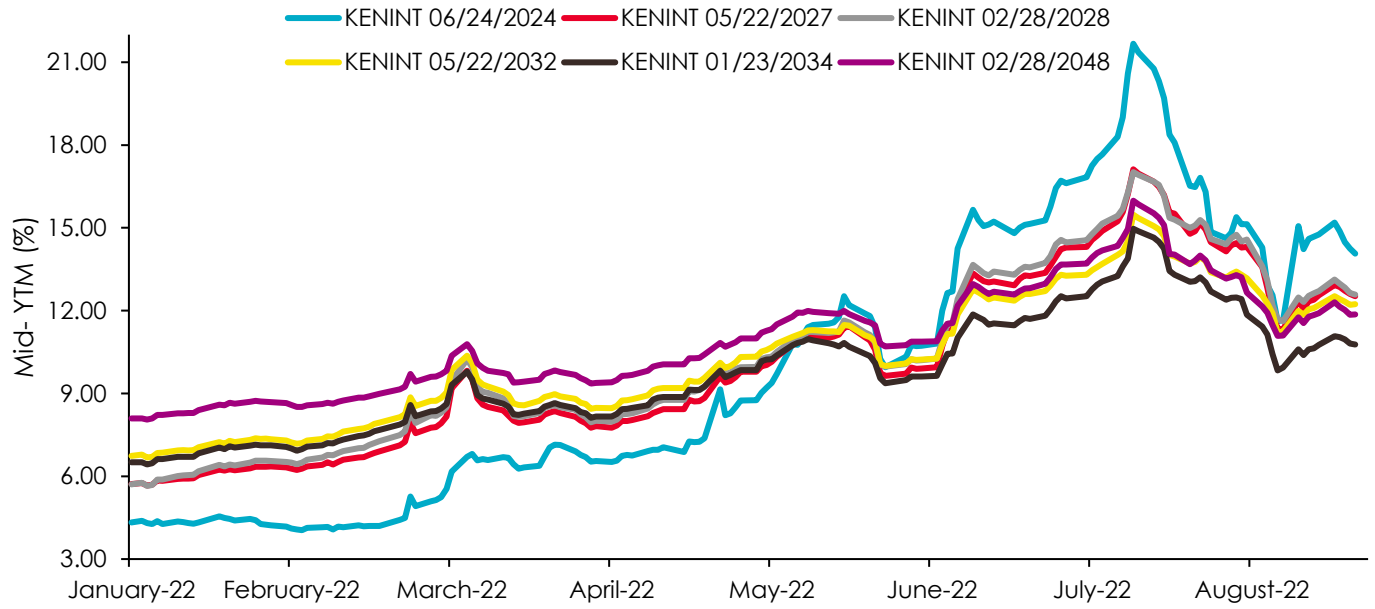
There was, however, a spike in the Kenyan Eurobond yields in the third week of August. This was on the back of the declaration of the presidential election results and ensuing petition at the Supreme Court.

Eurobond yields remain elevated above historical levels – a phenomenon we expect to persist for the rest of the year given the prevailing global economic and geo-political conditions.

Below are the six Kenyan Eurobonds and their yield trends in 2022:

No.	Eurobond	Tenor	Coupon Rate (%)	Current Yield (%)
1	KENINT 06/24/2024	1.8 Yrs	6.88	14.07
2	KENINT 05/22/2027	4.7 Yrs	7.00	12.52
3	KENINT 02/28/2028	5.5 Yrs	7.25	12.58
4	KENINT 05/22/2032	9.8 Yrs	8.00	12.23
5	KENINT 01/23/2034	11.4 Yrs	6.30	10.78
6	KENINT 02/28/2048	25.6 Yrs	8.25	11.86

Kenyan Eurobonds Yields



Source: Bloomberg, NCBA IB Research

Kenyan Currency:

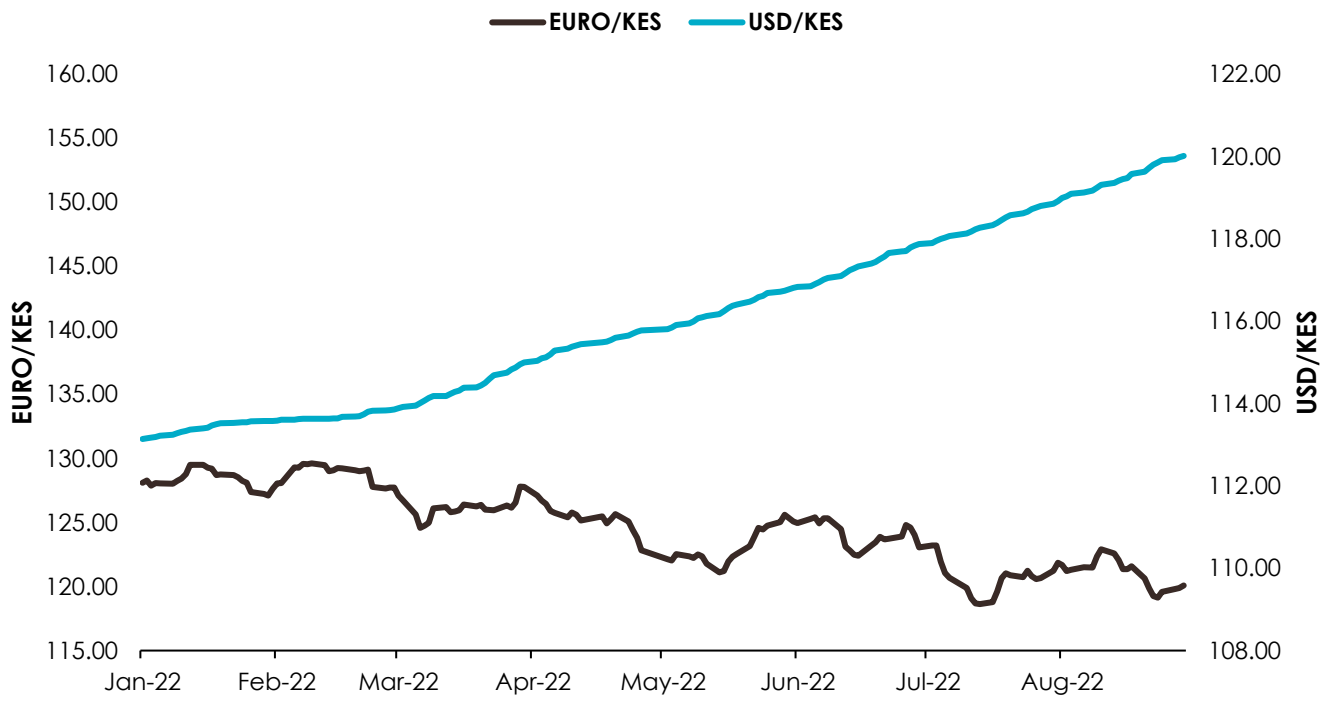
The Kenya Shilling has maintained a gradual depreciation against the US dollar. This is partly attributable to (i) continued investor preference for the dollar which is viewed as a safer currency to hold, (ii) successive rate hikes by the US Federal Reserve Bank which have led to higher US bond yields and (iii) unfavourable local trade dynamics with Kenya being a net importer – leading to Kenya being a net dollar spender.

The Kenya Shilling has strengthened against the Euro. The Eurozone has been negatively impacted by its close proximity to the Russo-Ukrainian conflict with the two countries being key commodities suppliers to the region. This has led to fears of a recession.

The table and graph below highlight the Shilling's movement against the US Dollar and the Euro:

Currency Performance		
Period	**USD/KES**	**EURO/KES**
August 2022	(1.0%)	0.5%
Year to Date	(6.1%)	6.2%

Currency Movement - Kenya Shilling (KES)



Source: CBK, NCBA IB Research

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 and Justin N Mwangi hereby certify 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%

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