

December 2022 investment strategy

The stock market currently presents an opportunity to 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 Q3'2022 results primarily due to improved net interest income bolstered by higher foreign exchange income from increased margins as the dollar strengthened.

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 in Russia, Ukraine and China are expected to lead to dyspeptic market reactions.

Counter	52-Weeks High	52-Weeks Low	Current Price	M/M Performance	Target price	Upside	Recommendation
<u>Banking</u>							
ABSA	12.95	9.02	11.65	3.56%	17.10	46.8%	BUY
COOP	14.00	10.30	12.00	1.69%	17.30	44.2%	BUY
DTB	60.00	46.55	48.70	1.99%	50.00	2.7%	HOLD
SCBK	148.75	121.00	144.25	4.34%	169.60	17.6%	BUY
KCB	46.00	34.00	38.00	0.93%	50.00	31.6%	BUY
I&M	22.00	16.50	17.00	0.00%	21.40	25.9%	BUY
Stanbic	106.00	90.00	93.50	(2.86%)	107.30	14.8%	ACCUMULATE
Equity	53.50	38.75	45.65	(2.25%)	50.00	9.5%	HOLD
<u>Insurance</u>							
Britam	7.10	5.14	5.36	(3.94%)	6.24	16.4%	ACCUMULATE
<u>Telecommunication</u>							
Safaricom	45.25	23.00	24.35	(2.99%)	34.22	40.5%	BUY
<u>Energy & Petroleum</u>							
Kengen	4.00	3.27	3.31	(2.07%)	4.45	34.4%	BUY
Kenya power	2.11	1.30	1.50	(19.4%)	2.00	33.3%	BUY
<u>Manufacturing & Allied</u>							
EABL	194.00	110.00	166.00	(0.75%)	179.63	8.21%	HOLD

Source: Bloomberg, NCBA IB Research, NSE

November in a snapshot

The stock market sustained its bear run, with the NASI sinking 24% below its January peak. NASI, NSE-20 and NSE-25 declined by 1.8%, 2.4% and 1.1% month on month, respectively.

Foreign investors accounted for 50.2% of total turnover and were net sellers withdrawing KES 1.66Bn last month. The market has remained clouded by negative risk sentiment which has seen a sustained sell-off by foreigners.

Safaricom released their HY'23 financial results recording a decline in PAT driven by 32% increase in operation expenses as a result infrastructural in Ethiopia.

EABL announced Diageo Kenya intends to acquire 15% shares of EABL at KES 192.00 on 30th January 2023 subject to pending approval from the Capital Markets Authority (CMA).

Listed banks released their Q3'2022 financial results recording improved net interest income driven by loan book growth and non-interest income bolstered by higher foreign exchange income.

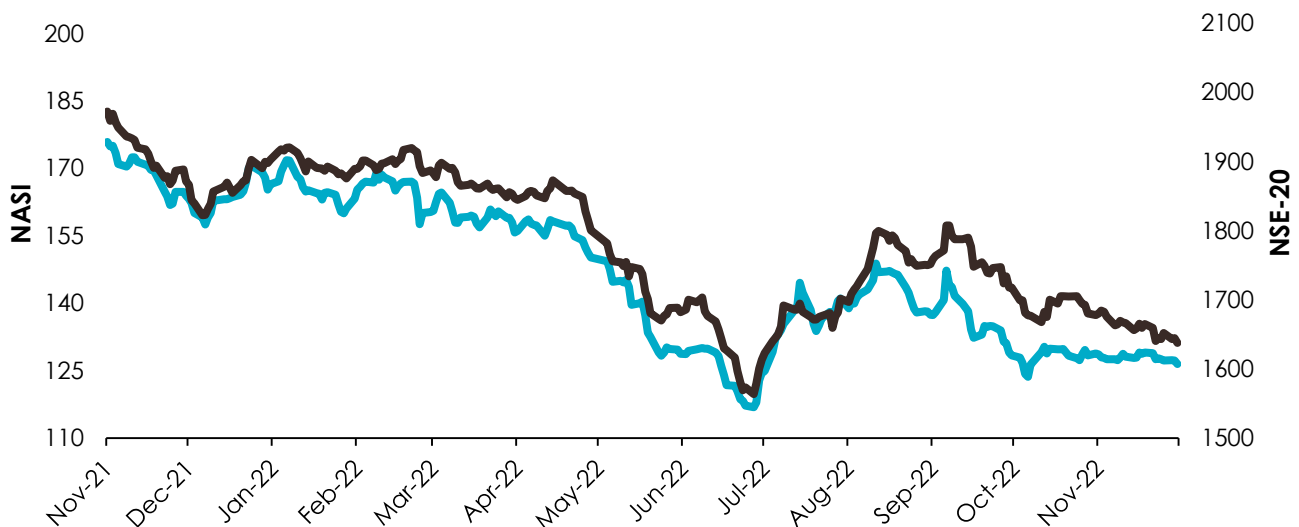
Inflation surged to 9.5% driven by an increase in prices of food & non-alcoholic beverages by 15.4% and transport by 13.8%, respectively.

The Central Bank of Kenya's monetary policy committee (MPC) raised its key policy rate (CBR) by 50bps to 8.75% in its November meeting against a backdrop of inflationary pressures and a weakening shilling. Cumulatively, the central bank has raised the CBR by 175 bps. We expect local interest rates to adjust accordingly, in the near term.

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

NASI vs NSE 20 Movement - Last 12 months

— NASI — NSE-20



Source: Bloomberg, NCBA IB Research, NSE

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

- ABSA in its Q3'22 earnings results posted a 29.61% and 30.07% climb in EPS and profit after tax to KES 1.97 per share and KES 10.71Bn, respectively attributable to 25.30% increase in net interest income and a 16.44% growth in non-interest income.
- Net interest income (NII) was boosted by a significant 26.35% y/y growth in the loan book to KES 289.45Bn, faster than the 4.55% y/y growth in the customer deposits to KES 281.06Bn.
- Asset quality: NPL coverage increased to 67.00% from 62.00% in 3Q21 thus slowing down the bottom-line gains. Despite the worrying jump in NPL ratio, we expect the Group's prudent credit risk management policies to support the bank's medium term performance.
- 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.

Coop Bank: BUY with a TP KES 17.30

- Coop bank released its Q3'22 financial results posting a 47.05% increase in PAT driven by a 11.75% increase in net interest income and a 28.25% growth in non-interest income.
- Loan book grew 9.42% y/y to 335.16Bn faster than the 2.75% growth in customer deposits y/y to KES 432.00Bn.
- Gross NPLs increased 4.70% y/y to KES 51.81Bn,
- leading to the NPL ratio declining to 13.96% (below the latest industry average of 14.20%) owing to a faster loan book growth. NPL coverage further improved to 69.34% from 65.53% in 3Q21.
- 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.

Stanbic Bank: ACCUMULATE with a TP of KES 107.3

- Stanbic Holdings released its Q3'2022 financial results, recording a 36.8% y/y growth in Profit after Tax (PAT) to KES 6.9Bn.
- The performance was underscored by the growth in non-funded income, reduced loan loss provisions and increased interest income from government securities
- Loan book grew 34.15% y/y to 236.94Bn faster than the 25.6% growth in customer deposits y/y to KES 267.30Bn taking the Loan to deposit ratio to 88.6% from 82.9%
- We expect Stanbic to sustain the performance in Q3'2022 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	ABSAKN
Recommendation	BUY
Last Price	11.65
Target Price	17.10
Upside (Excl. Div Yield)	46.8%
Market Cap (KES'Bn)	63.28
52 week high	12.95
52 week low	9.02
Free Float	30.4%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	COOP KN
Recommendation	BUY
Last Price	12.00
Target Price	17.30
Upside (Excl. Div Yield)	44.2%
Market Cap (KES'Bn)	70.41
52 week high	14.00
52 week low	10.30
Free Float	32.4%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	SBIC KN
Recommendation	ACCUMULATE
Last Price	93.50
Target Price	107.30
Upside (Excl. Div Yield)	14.8%
Market Cap (KES'Bn)	36.96
52 week high	106.00
52 week low	90.00
Free Float	56.6%

Source: Bloomberg, NCBA IB Research, NSE

Standard Chartered: BUY with a TP of KES 169.60

- Standard Chartered Bank released their 3Q22 earnings results posting a 37.11% climb in EPS & PAT to KES 22.61 and KES 8.71Bn respectively driven by a 7.29% increase in net interest income and a 16.11% growth in non-interest income.
- Customer deposits grew 10.72% y/y to KES 286.07Bn faster than the 3.28% y/y growth in the loan book to KES 136.07Bn leading to a 671bps decline in the loan deposit ratio to 47.57%.
- Gross NPLs increased 4.42% y/y to KES 24.03Bn, leading to the NPL ratio increasing 983bps y/y to 15.41% above the latest industry average of 14.20%. NPL coverage further declined marginally to 82.44% from 82.80% in 3Q21.
- Foreign exchange income: Stan Chart recorded growth of forex trading income of 65.96% y/y attributable to increased margins. The dollar shortfall in the forex market has created arbitrage opportunities for the banks.

Share Data	
BIC	SCBL KN
Recommendation	BUY
Last Price	144.25
Target Price	169.60
Upside (Excl. Div Yield)	17.57%
Market Cap (KES'Bn)	54.51
52 week high	148.75
52 week low	121.00
Free Float	18.3%

Source: Bloomberg, NCBA IB Research, NSE

KCB Group PLC: BUY with a TP of KES 50.50

- KCB Group released its Q3'2022 financial results, recording a 28.4% y/y PAT growth to KES 30.50Bn from KES 25.20Bn in Q3'2021, driven by a 9.14% increase in net interest income and a 30.18% growth in non-interest income.
- The Loan book (+16.42%) grew faster than customer deposits (+7.36%) taking the loans to deposit 6.40% points higher to 82.27%. Loan book growth was driven by a 52.52% q/q increase in digital lending.
- 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.
- Interim dividend:** The board recommended an interim DPS of KES 1.00. Book Closure Date is set for 8th December 2022 and Payment date is slated for 13th January 2023.

Share Data	
BIC	KNCB KN
Recommendation	BUY
Last Price	38.00
Target Price	50.50
Upside (Excl. Div Yield)	31.6%
Market Cap (KES'Bn)	122.11
52 week high	46.00
52 week low	34.00
Free Float	70.5%

Source: Bloomberg, NCBA IB Research, NSE

KenGen: BUY with a TP of KES 4.45

- KenGen released its FY22 financial results, recording a 157% increase in profit before tax to 4.72Bn y/y supported by income from revenue diversification initiatives and overall growth in electricity demand
- The diversification venture that includes drilling of wells and geothermal exploration in Ethiopia contributed additional revenue of KES1.78Bn in FY2021 compared to 0.44Bn reported in the previous year.
- We maintain our BUY recommendation with a revised target price of KES 4.45. At the current market price, the stock is a value pick for long-term investors.

Share Data	
BIC	KEGC KN
Recommendation	BUY
Last Price	3.31
Target Price	4.45
Upside (Excl. Div Yield)	34.4%
Market Cap (KES'Bn)	21.83
52 week high	4.00
52 week low	3.27
Free Float	29.7%

Source: Bloomberg, NCBA IB Research, NSE

EABL: HOLD 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.
- We believe that the group has sufficient headroom to unlock more value from its regional markets.
- We expect performance in the regional subsidiaries to support growth and Kenya's aggregate contribution decline in the long run.

Share Data	
BIC	EABL KN
Recommendation	HOLD
Last Price	166.00
Target Price	179.63
Upside (Excl. Div Yield)	8.21%
Market Cap (KES'Bn)	131.27
52 week high	194.00
52 week low	110.00
Free Float	50.0%

Source: Bloomberg, NCBA IB Research, NSE

Equity Group PLC: HOLD with a TP of KES 50.00

- Equity Group released its Q3'2022 Results, PAT and EPS edging up 26.62% y/y and 26.65% to KES 33.35Bn and KES 8.84 respectively.
- The impressive growth was driven by a 23.43% increase in net interest income and a 32.04% growth in non-interest income.
- 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 raising prospects of achieving sustainable long-term growth.
- However, deteriorating local & global macroeconomic conditions and the lack of an interim dividend is likely to provide minimal upside potential. Nevertheless, we maintain a BUY recommendation with a price target of KES 50.00.

Share Data	
BIC	EQBNK KN
Recommendation	HOLD
Last Price	45.65
Target Price	50.00
Upside (Excl. Div Yield)	9.5%
Market Cap (KES'Bn)	172.27
52 week high	53.50
52 week low	38.75
Free Float	93.7%

Source: Bloomberg, NCBA IB Research, NSE

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

- I&M Bank released its Q3'2022 financial results posting a 25.00% y/y increase in PAT to KES 6.2Bn attributable to 15.56% increase in net interest income and a 43.00% growth in non-interest income.
- Loan book grew 11.38% y/y to KES 231.24Bn faster than the 6.71% growth in customer deposits y/y to KES 308.05Bn, taking the Loan to deposit ratio 315bps higher to 75.07%.
- Gross NPLs increased 4.22% y/y to KES 23.68Bn lower than loan book growth leading to the NPL ratio declining 65bps to 9.51% below the latest industry average of 14.20%.
- NPL coverage further improved to 75.41% from 70.59% in Q3'21 indicative of 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	22.00
52 week low	16.50
Free Float	25.7%

Source: Bloomberg, NCBA IB Research, NSE

Kenya Power: BUY with a TP of KES 2.00

- 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.
- 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.

Safaricom: BUY with a TP of KES 34.22

- Safaricom in its H'Y23 financial results Reported a 4.82% y/y increase in revenue to 153.45Bn which included KES 98.30Mn income from its Ethiopian subsidiary.
- We expect strong revenue performance in all service revenue lines. Fixed service revenue has been on relatively flat growth, increasing by 1.2% y/y in HY23. Mobile data revenue is expected to grow on the back of the growing trend of mobile data subscriptions. M-Pesa is the biggest driver of service revenues and this will remain the case for the foreseeable future.
- Diversification of operations in Ethiopia: Several positive developments have been noted in the Ethiopia market entry venture. Positive news on the imminent roll-out of mobile services in Ethiopia is an immense value addition which will support the share price at the bourse in the short term.
- We maintain the view that SCOM is well positioned as a strong player in the country's mobile telecommunications industry.

Britam: ACCUMULATE with a TP of KES 6.24

- Britam has recorded a steady growth in premiums at a CAGR of 9% over the last 5 years. The firm's ability to mobilize premium revenue is due to its extensive distribution network.
- Property investments portfolio: Property investments are expected to anchor Britam's long term growth. The long-term returns will realize capital gains for value investors.
- Exposure to government securities: More allocation is likely to be on fixed income assets whose performance is dependent on the interest rates stability. Increased government securities allocation will stabilize returns subject to fair value losses and gains pegged on the prevailing market conditions.
- Subsidiaries performance: Performance of its subsidiaries will help cushion volatility experienced in the Kenyan market.

Share Data

BIC	KPLL KN
Recommendation	BUY
Last Price	1.50
Target Price	2.00
Upside (Excl. Div Yield)	33.3%
Market Cap (KES'Bn)	3.67
52 week high	2.11
52 week low	1.30
Free Float	49.5%

Source: Bloomberg, NCBA IB Research, NSE

Share Data

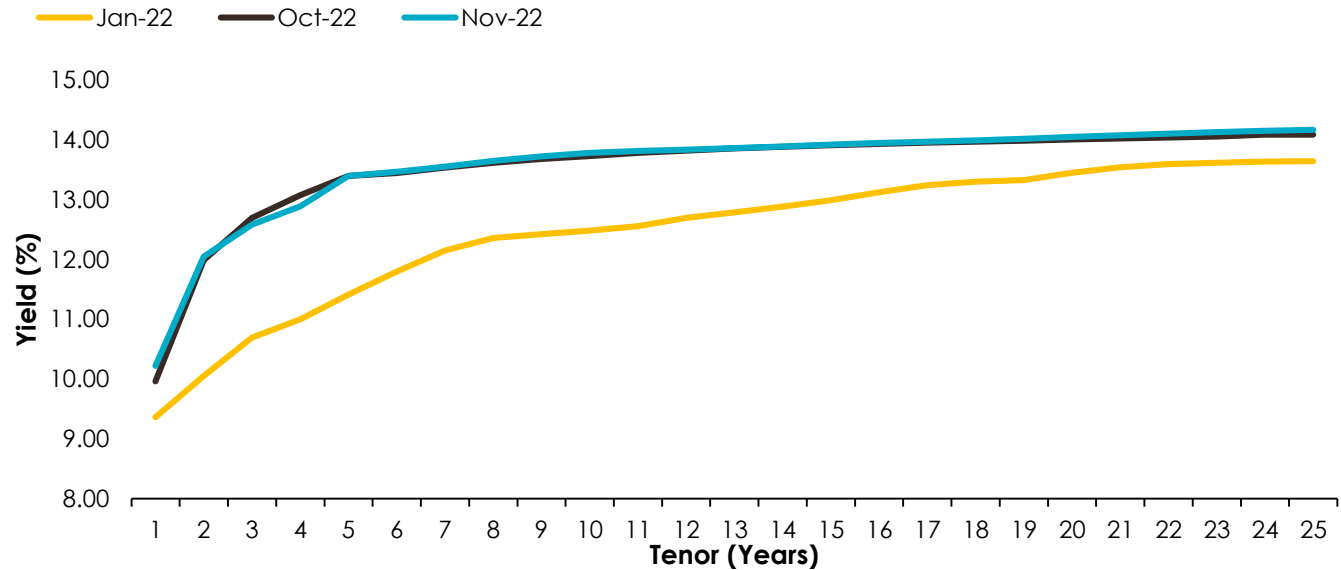
BIC	SAFCOM KN
Recommendation	BUY
Last Price	24.35
Target Price	34.22
Upside (Excl. Div Yield)	40.5%
Market Cap (KES'Bn)	975.6
52 week high	45.25
52 week low	23.00
Free Float	25.1%

Source: Bloomberg, NCBA IB Research, NSE

Share Data

BIC	BRIT KN
Recommendation	ACCUMULATE
Last Price	5.36
Target Price	6.24
Upside (Excl. Div Yield)	16.42%
Market Cap (KES'Bn)	13.53
52 week high	7.10
52 week low	5.14
Free Float	56.56%

Source: Bloomberg, NCBA IB Research, NSE

FIXED INCOME
GOVERNMENT SECURITIES YIELD CURVE


Source: NSE, NCBA IB Research

On a year-to-date basis, yields across all tenors remain significantly high.

In the month of November yields across various tenors recorded mixed performance with short-term papers recording gains while long term papers remained largely unchanged. The gains are attributable to investors seeking to minimize duration and liquidity risk associated with the longer-term papers.

In November, the Central Bank of Kenya hiked the policy rate further to 8.75% and as a result, we expect the upwards trajectory of the yield curve to persist for the remaining part of 2022 into early 2023

We expect interest rates to keep rising owing to the rising inflation rate, tighter external credit markets and recent policy hike.

Primary Market

In the primary market, both bonds and treasury bills had high subscription rates during the month. The infrastructure bonds offered in November, i.e., IFB1/2022/14 and IFB1/2022/6 attracted 110.99Bn and 52.90Bn against a target of 65Bn and 80Bn, respectively.

The Central Bank of Kenya is offering an opportunity to participate in the auction of the papers below, seeking to raise KES 40.0Bn for budgetary support. We have indicated our bidding guide range for the two papers.

Issue Number	FXD1/2008/20	FXD1/2022/25
Tenor	5.6 years	24.9 years
Period of Sale	22 Nov 2022 to 06 Dec 2022	
Value Date	Monday, 12 Dec 2022	
Coupon (%)	13.750%	14.188%
Bidding Guide	13.50%-13.80%	14.20% - 14.60%

Source: NSE, NCBAIB Research

Kenya International Debt Yield Curves:

In November, Kenyan Eurobond yields declined following easing in rate hikes indicating a weakening momentum in the aggressive stance in monetary policy tightening.

Despite a modest recovery, Eurobond yields remain elevated above historical levels given the prevailing global macro-economic and geo-political conditions.

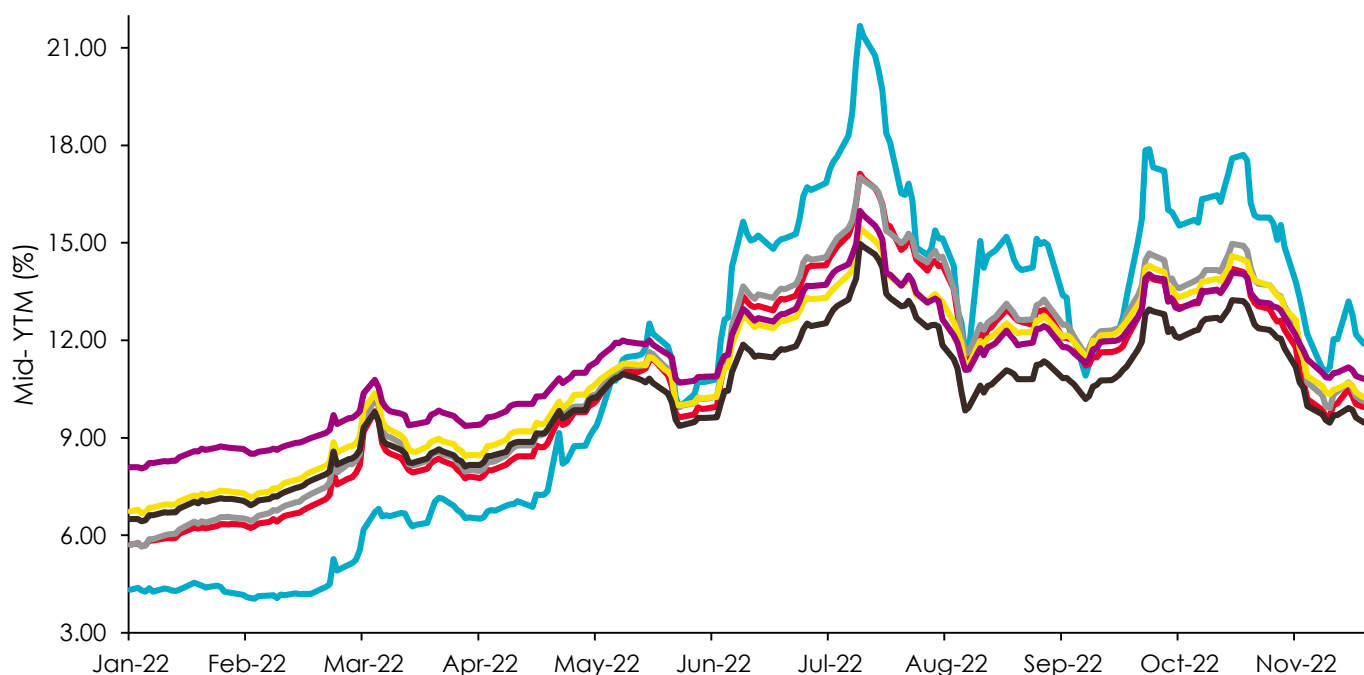
Below are the six Kenyan Eurobonds and their yield trends in 2022:

No.	Eurobond	Tenor (Years)	Coupon Rate	Current Yield
1	KENINT 06/24/2024	1.6	6.88%	11.897%
2	KENINT 05/22/2027	4.5	7.00%	9.945%
3	KENINT 02/28/2028	5.3	7.25%	10.121%
4	KENINT 05/22/2032	9.5	8.00%	10.246%
5	KENINT 01/23/2034	11.2	6.30%	9.471%
6	KENINT 02/28/2048	25.3	8.25%	10.812%

Source: Bloomberg, NCBA IB Research

Kenya Eurobond Yields

— KENINT 06/24/2024
 — KENINT 05/22/2027
 — KENINT 02/28/2028
— KENINT 05/22/2032
 — KENINT 01/23/2034
 — KENINT 02/28/2048



Source: Bloomberg, NCBA IB Research

Currency:

The Kenya Shilling has maintained a gradual depreciation against the US dollar.

This is attributable to;

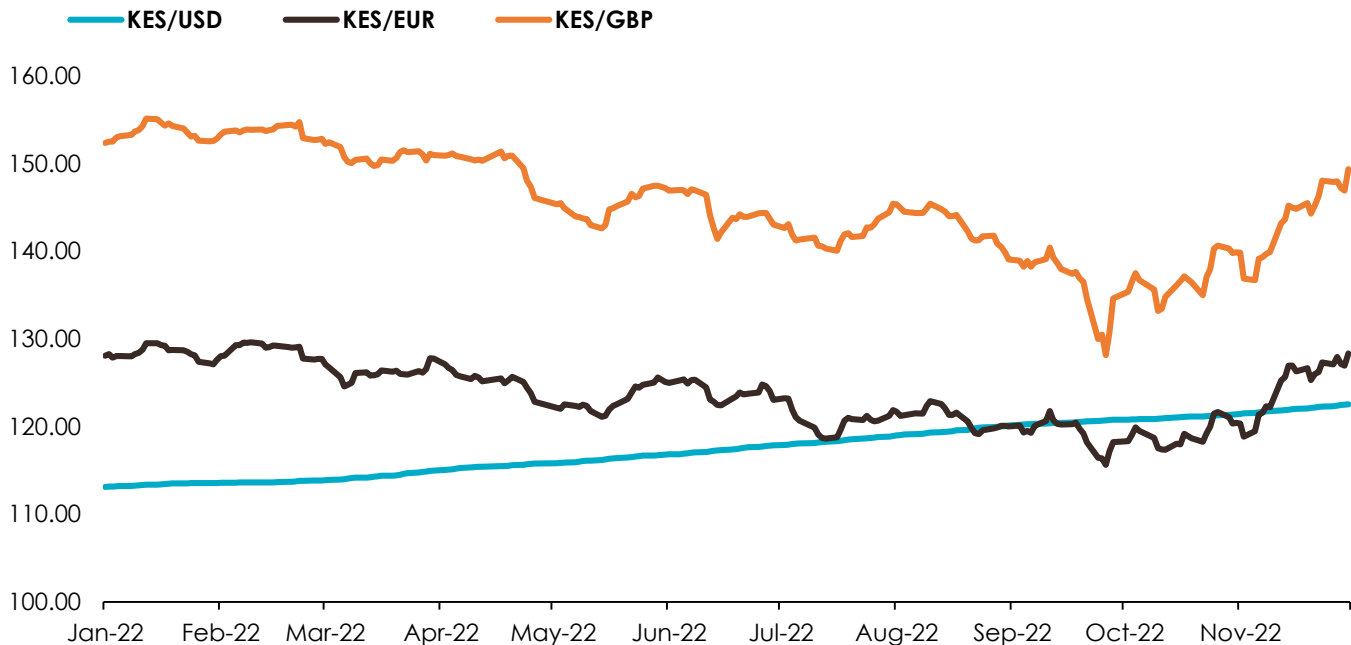
- 1) continued investor preference for the dollar which is viewed as a safer currency to hold,
- 2) successive rate hikes by the US Federal Reserve Bank which have led to higher US bond yields and
- 3) unfavorable local trade dynamics with Kenya being a net importer – leading to Kenya being a net dollar 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 KES movement against the US Dollar and the Euro:

Currency Performance		
Period	USD/KES	EURO/KES
Nov-22	(1.0%)	(6.0%)
Year to Date	(8.3%)	(0.2%)

Currency Movement - Kenyan 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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