

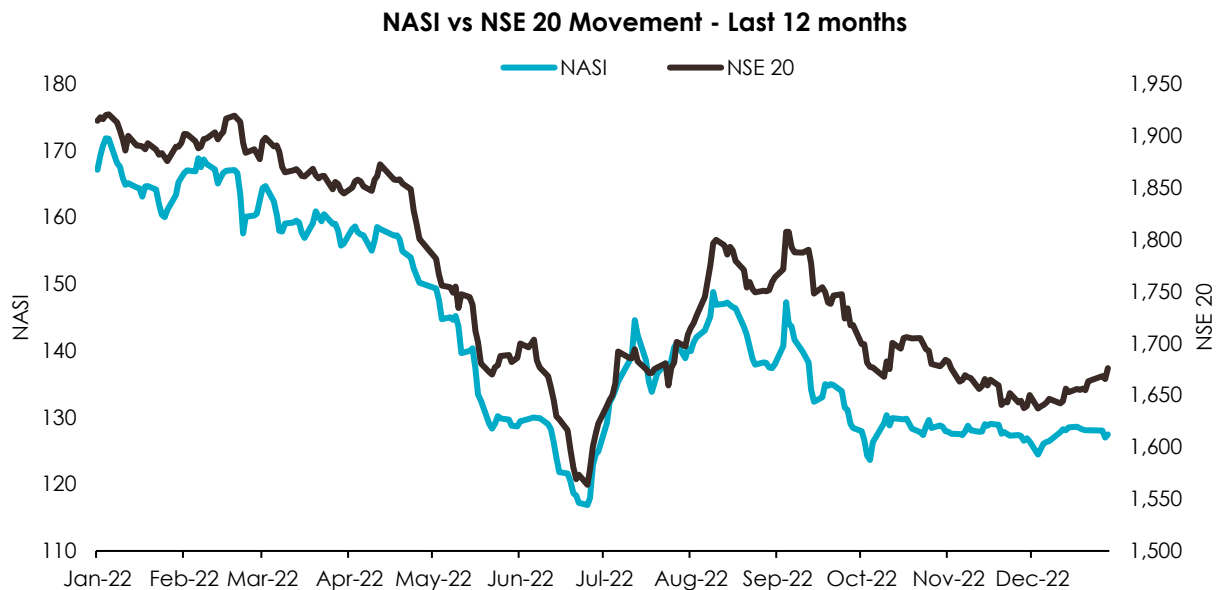
2022 Market performance

The stock market closed the year in bear territory, with NASI recording a 23.4% decline. As a result, the total market capitalization declined to KES 2.0Tn with Safaricom accounting for 49% of the market cap and 50% of total shares turnover.

NSE-20 and NSE-25 indices declined by 11.9% and 16.3% on a year on year basis, respectively.

NASI closed the year trading at a P/E of 6.7x lower than 11.5x recorded in 2021, as prices declined owing to high foreign investor sell-offs. A significant improvement in earnings of large cap stocks especially those in the banking sector also contributed to the lower market P/E in 2022.

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



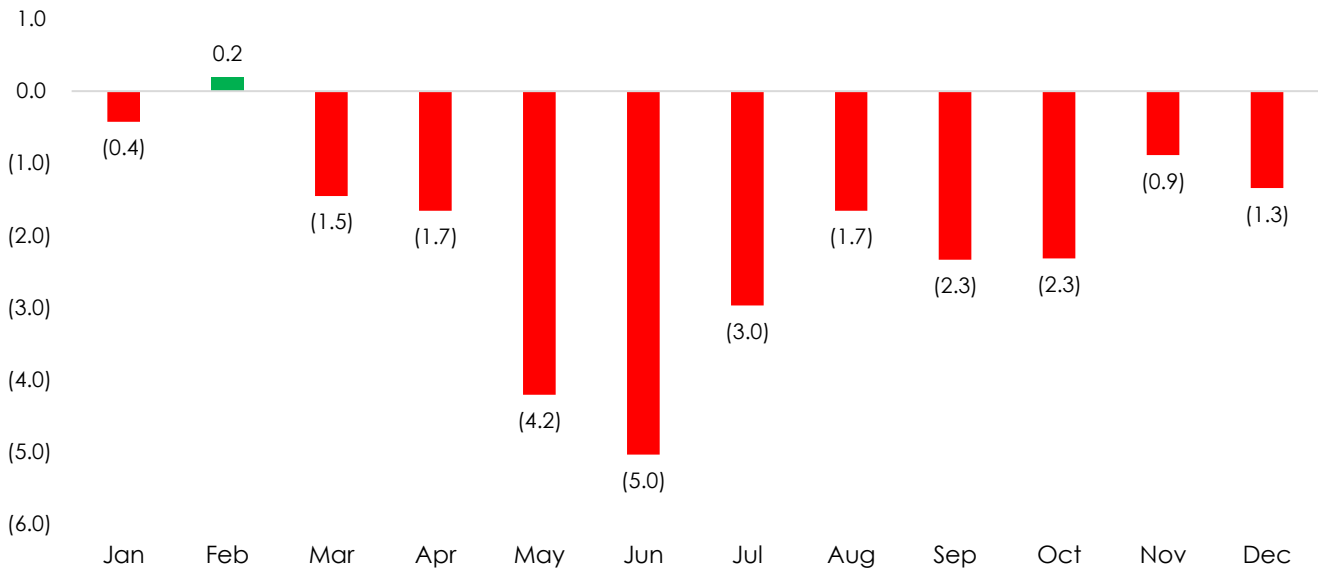
Source: NSE, NCBA IB Research

Market Participation

The market remained clouded by negative risk sentiment that has seen a sustained sell-off by foreigners.

Equities turnover declined by 32% in 2022 to KES 93.0Bn. Foreign investors accounted for 53.2% of total turnover and were net sellers during the year withdrawing KES 24.1Bn in total.

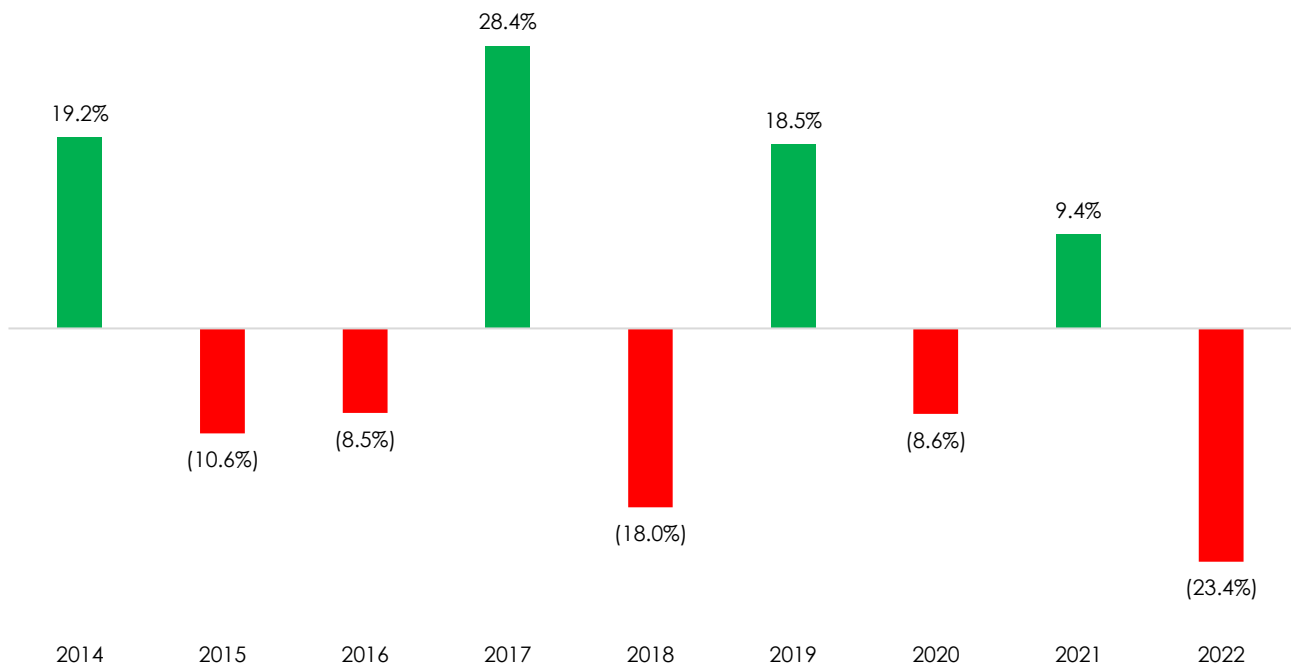
Additionally interest rate hikes by various Central Banks globally increased the attractiveness of equities and fixed income instruments in developed markets.

2022 Net Foreign turnover (KES Bn)


Source: NSE, NCBA IB Research

Historical market Performance

NASI recorded the worst performance in a decade as depicted in the graph below.

NASI Performance over the years


Source: NSE, NCBA IB Research

Regional Equities Markets

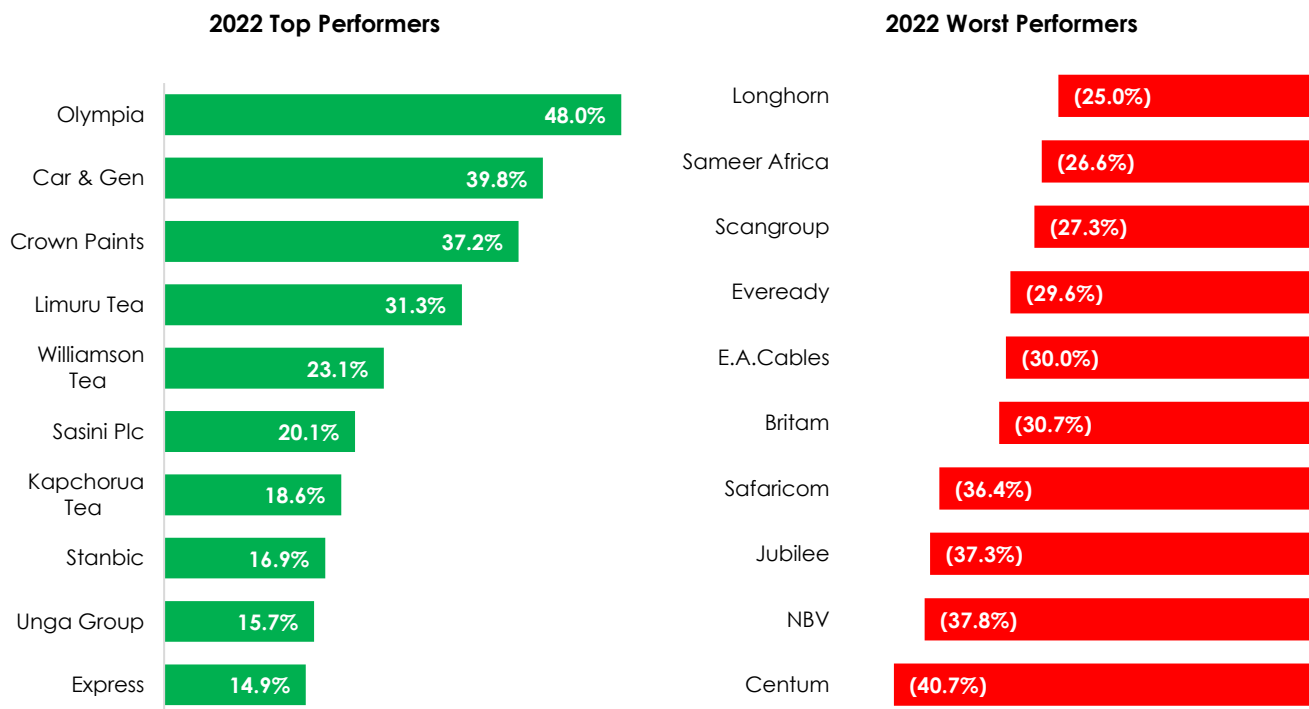
Market Indicator	31.12.21	31.12.22	Y/Y % Change
KENYA			
NSE-20	1,902.57	1,676.10	(11.90%)
NASI	166.46	127.47	(23.42%)
NSE-25	3,743.90	3,133.64	(16.30%)
UGANDA			
USE ASI	1,417.05	1,212.58	(14.43%)
USE LSI	326.06	272.67	(16.37%)
TANZANIA			
DSEI	1,896.71	1,881.99	(0.78%)
TSI	3,565.18	3,888.81	9.08%
RWANDA			
RSI	101.71	109.30	7.46%
ALSI	145.34	142.64	(1.86%)

Source: NSE, NCBA IB Research

Top Gainers and Losers in 2022

The stocks that recorded the largest decline in prices mostly comprised of large cap counters.

The graph below illustrates different counters that significantly lost and gained in price value in 2022.



Source: NSE, NCBA IB Research

Company Events during the Year

- Share Repurchase:** EABL announced that Diageo Kenya intends to acquire 15% of EABL shares at KES 192.00. The transaction is expected to be closed on 30th January 2023 but is subject to the granting of approval by the Capital Markets Authority (CMA). If the proposed acquisition of shares is fully taken up, Diageo Kenya will control directly up to 65% of the issued share capital of EABL. The stock closed the year at KES 167.50 representing a 14.63% potential premium.
- Rights Issue:** Trans-Century Limited is seeking to raise KES 2.1Bn through a 5:1 rights issue at an offer price of KES 1.10 per share. The issue commenced trading on 28th December 2022 and will close on 23rd January 2023. The proceeds will go towards recapitalizing the business, reducing debt and unlocking working capital.
- Profit Warnings:** 11 listed companies issued profit warnings during the year owing to the tough economic challenges locally and globally which led to high input costs, supply disruptions and reduced demand. These include; Kakuzi, Sanlam, Unga group, Crown Paints and Centum.

January 2023 Stock Picks

Counter	52-Weeks High	52-Weeks Low	Year closing Price (KES)	Y/Y Performance	Target price (KES)	Upside	Recommendation
<u>Banking</u>							
ABSA	12.95	9.02	12.30	3.80%	14.52	18.0%	ACCUMULATE
COOP	14.00	10.30	12.30	(5.02%)	15.10	22.8%	BUY
DTB	60.00	46.55	50.00	(15.97%)	50.00	0.0%	HOLD
SCBK	148.75	121.00	142.75	11.31%	156.93	9.9%	HOLD
KCB	46.00	34.00	38.10	(16.17%)	53.80	41.2%	BUY
I&M	22.00	16.50	17.00	(19.43%)	21.40	25.9%	BUY
Stanbic	106.00	90.00	102.00	16.91%	107.30	5.2%	HOLD
Equity	53.50	38.75	44.50	(15.64%)	59.32	33.3%	BUY
<u>Insurance</u>							
Britam	7.10	5.14	5.20	(30.67%)	6.24	20.0%	ACCUMULATE
<u>Telecommunication</u>							
Safaricom	45.25	23.00	24.15	(36.36%)	32.18	33.3%	BUY
<u>Energy & Petroleum</u>							
Kengen	4.00	3.27	3.22	(23.15%)	4.45	38.2%	BUY
Kenya power	2.11	1.30	1.56	(10.86%)	2.00	28.2%	BUY
<u>Manufacturing & Allied</u>							
EABL	194.00	110.00	167.50	1.52%	179.63	7.2%	HOLD

Source: Bloomberg, NCBA IB Research, NSE

INVESTMENT CONSIDERATIONS

Banking Sector Counters

The banking sector's performance in 2022 was - boosted by forex income underscoring the sector's resilience in a year when inflation hit 5-year high and global macroeconomic conditions deteriorated.

In 2023, we expect increased deployment of new funding to lending which will result in higher loan to deposit ratios and loan loss provisions. The increased deployment may be gradual in light of the prevailing macroeconomic variables.

We anticipate that Equity, Absa, Standard Chartered, Co-operative Bank and KCB will issue full year dividends, following improved performance in 2022.

Counter	Target Price	Recommendation
ABSA	14.52	ACCUMULATE
COOP	15.10	BUY
DTB	50.00	HOLD
Equity	59.32	BUY
I&M	21.40	BUY
KCB	53.80	BUY
Stanbic	107.30	HOLD
Stanchart	156.93	HOLD

Source: Bloomberg, NCBA IB Research, NSE

KenGen: BUY with a TP of KES 4.45

- KenGen's performance at the Nairobi Securities Exchange has come under considerable pressure in what we perceive is attributable to the firm's linear relationship with Kenya Power. With Kenya Power being the single buyer of power generated by KenGen, challenges within Kenya power have spilled over to KenGen.
- We believe successful implementation of the proposed reforms in Kenya Power will also lead to improved margins for KenGen.
- 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	3.22
Target Price	4.45
Upside (Excl. Div Yield)	38.2%
Market Cap (KES'Bn)	21.23
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 continues to record impressive growth driven by economic recovery following the lifting of pandemic-related restrictions.
- Growth in regional subsidiaries fairly distributed with sales in Kenya accounting 27%, Uganda 24%, and Tanzania 21%.
- 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	167.50
Target Price	179.63
Upside (Excl. Div Yield)	7.2%
Market Cap (KES'Bn)	132.45
52 week high	194.00
52 week low	110.00
Free Float	50.0%

Source: Bloomberg, NCBA IB Research, NSE

Kenya Power: BUY with a TP of KES 2.00

- Kenya Power recorded impressive growth 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.
- The company is seeking to restructure its operations and implement critical reforms. If successful, this will mark a turning point for its fortunes.

Safaricom: BUY with a TP of KES 32.18

- We maintain the view that SCOM is well positioned as a strong player in the country's mobile telecommunications industry.
- **Regional diversification in Ethiopia:** Revenue in 1H23 included KES 9.1Mn from Ethiopia, generated in the first one month since the beginning of network roll out plan. This diversification strategy could help Safaricom achieve revenue expansion above consensus and entrench the company's presence in the region. We maintain a cautiously optimistic stance on this diversification venture.
- **Dividend:** We expect Safaricom to declare a dividend for the period FY23 following steady revenue growth and additional income driven from Ethiopia.

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 anchor Britam's long-term growth. The long-term returns will realize capital gains for value investors.
- Exposure to government securities: 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	1.56
Target Price	2.00
Upside (Excl. Div Yield)	28.2%
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	24.15
Target Price	32.18
Upside (Excl. Div Yield)	33.3%
Market Cap (KES'Bn)	967.58
52 week high	45.25
52 week low	23.00
Free Float	25.1%

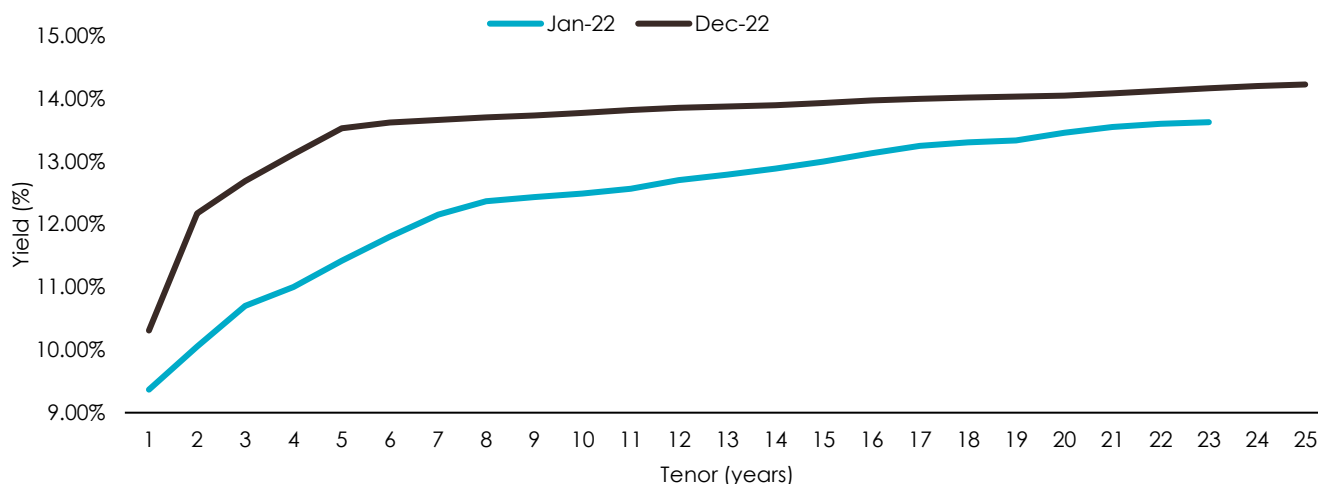
Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	BRIT KN
Recommendation	ACCUMULATE
Last Price	5.20
Target Price	6.24
Upside (Excl. Div Yield)	20.0%
Market Cap (KES'Bn)	13.12
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

Yields across all tenors increased significantly owing to the deteriorated macros, monetary policy hikes by the Central Bank of Kenya as its ought to tame the rising inflation.

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

Secondary market performance in 2022

In the secondary bonds market, total turnover for the year declined by 22.48% to KES close at 741.85Bn from KES 956.97Bn traded in 2021. It is worth noting that trading was concentrated on infrastructure bonds driven by foreign sell-offs.

These are the top bonds traded in 2022:

Bond Identifier	Years to Maturity	Coupon (%)	Highest Yield (%)	Lowest Yield (%)	Average Yield (%)	Total Value (KES Bn)	Number of Trades
IFB1/2022/18Yr	17.44	13.74	14.69	12.10	13.40	76.27	9,648
IFB1/2022/19Yr	18.13	12.97	14.60	12.40	13.50	41.11	6,908
IFB1/2019/16Yr	12.80	11.75	14.25	11.30	12.78	40.92	2,868
IFB1/2020/11Yr	8.63	10.90	14.51	10.30	12.40	40.03	4,776
IFB1/2018/15Yr	10.05	12.50	14.35	10.98	12.67	29.03	986
FXD1/2021/20Yr	18.61	13.44	15.00	12.84	13.92	28.87	920
IFB1/2021/16Yr	14.05	12.26	14.31	10.50	12.41	27.35	3,014
IFB1/2021/21Yr	19.69	12.74	14.69	11.00	12.85	22.30	2,542
IFB1/2022/14Yr	13.86	13.94	14.13	13.01	13.57	20.61	4,374
FXD 1/2020/5Yr	2.34	11.67	14.50	9.50	12.00	18.50	320

Source: NSE, NCBA IB Research

Kenya International Debt Yield Curves:

In 2022, Kenyan Eurobond yields deteriorated following interest rate hikes indicating the aggressive stance in monetary policy tightening.

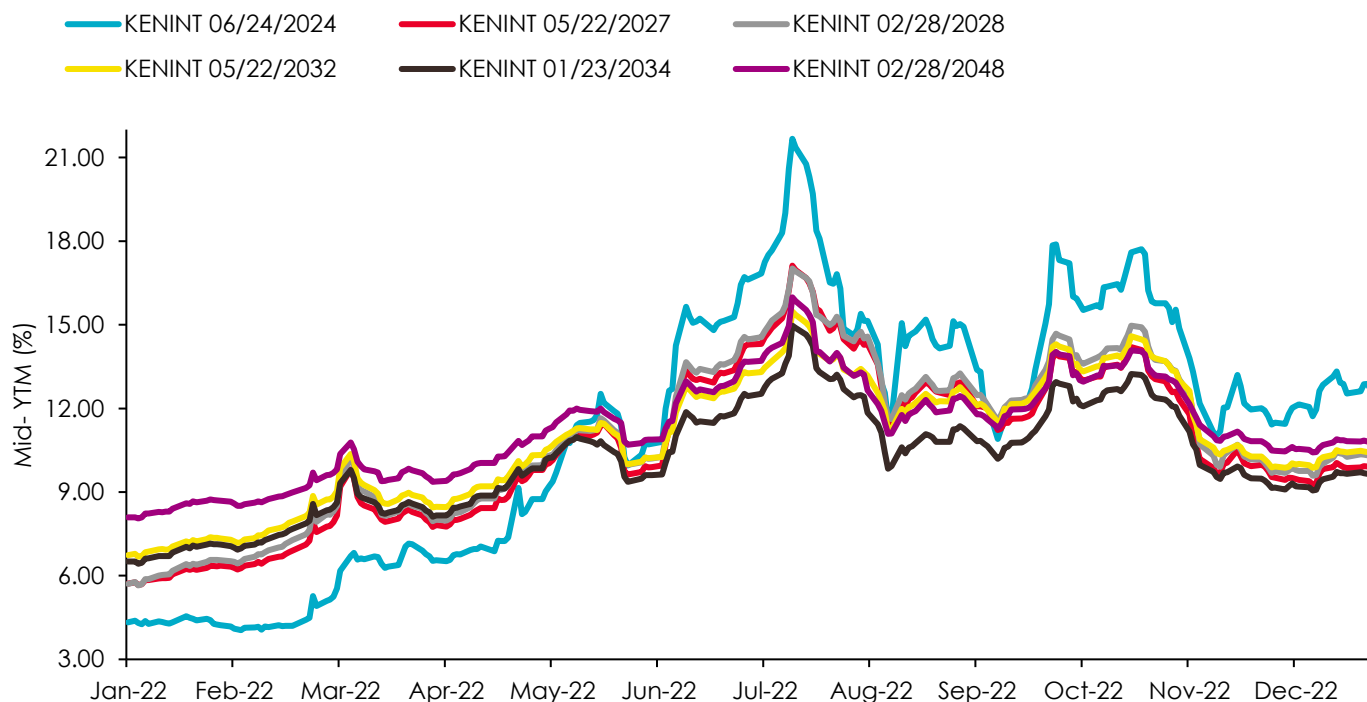
Despite a modest recovery by year-end, Eurobond yields remain elevated above historical levels given the prevailing global macro-economic and geo-political conditions.

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%	12.671%
2	KENINT 05/22/2027	4.5	7.00%	9.876%
3	KENINT 02/28/2028	5.3	7.25%	10.306%
4	KENINT 05/22/2032	9.5	8.00%	10.415%
5	KENINT 01/23/2034	11.2	6.30%	9.656%
6	KENINT 02/28/2048	25.3	8.25%	10.820%

Source: Bloomberg, NCBA IB Research

Kenya Eurobond Yields



Source: Bloomberg, NCBA IB Research

Currency performance:

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

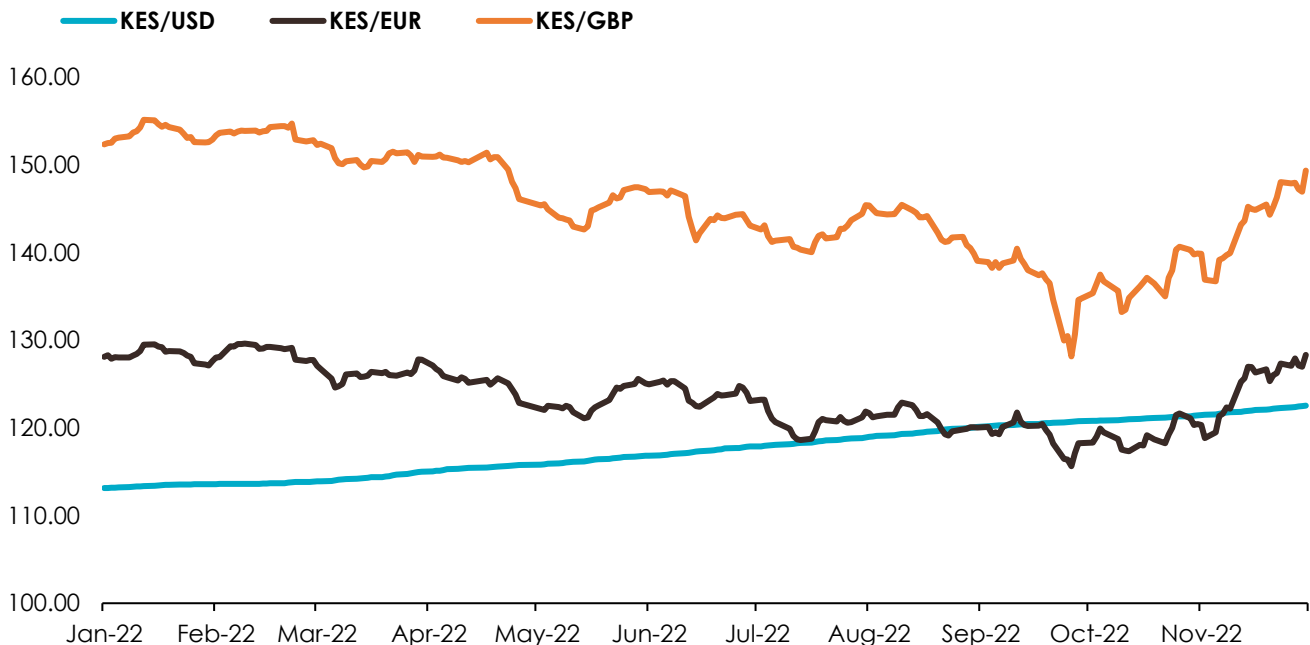
This is attributable to;

- 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.
- 3) Unfavorable local trade dynamics with Kenya being a net importer – leading to Kenya being a net dollar spender.
- 4) The Eurozone negatively impacted by its close proximity to the Russo-Ukrainian conflict with the two countries being key commodities' suppliers to the region.

The table and graph below highlight the KES movement against the US Dollar and the Euro:

Currency Performance		
Period	USD/KES	EURO/KES
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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