

February 2023 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. Current market P/E is 6.6x compared to historical average of 12.5x.

This February.....

- Diageo Acquisition of EABL Shares** – Following regulatory approval Diageo's first share Acquisition window will begin on 6th February to 24th February 2023. The offer price of KES 192.00 implies a 9% premium from the current market price of KES 176.50
- Centum Shares Buyback Program** – Centum is proposing a buyback of up to 10% of listed shares starting from 6th February 2023 and over an 18-month period. The proposal is subject to shareholders' approval in an EGM slated for 3rd February 2023.
- Earnings Release and Dividend season for Listed banks is approaching** with FY'2022 results expected to be announced towards the end of the month and throughout March. We expect EPS growth ranging from 20% to 45% y/y for most banks in line with their Q3'2022 performance.

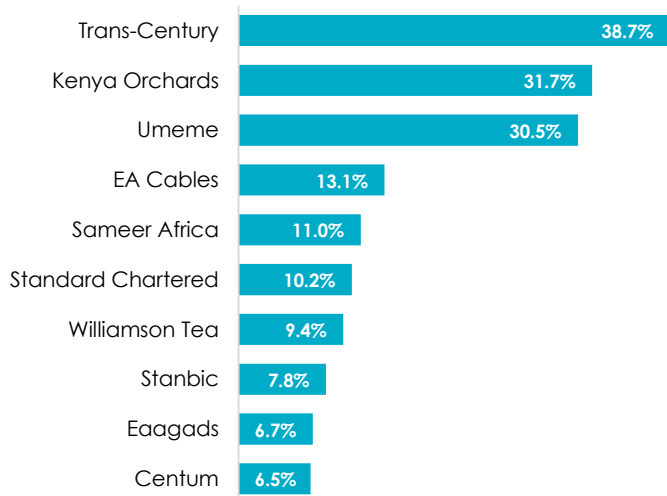
Counter	52-Weeks High	52-Weeks Low	Current Price (KES)	M/M Performance	Target price (KES)	Upside	Recommendation
<u>Banking</u>							
ABSA	13.40	9.00	12.45	0.8%	14.52	16.6%	ACCUMULATE
COOP	14.00	10.00	12.40	1.2%	15.10	21.8%	BUY
DTB	65.50	44.50	50.00	0.0%	50.00	0.0%	HOLD
SCBK	155.25	115.00	157.00	10.2%	156.93	(0.0%)	HOLD
KCB	48.00	32.50	38.10	0.0%	53.80	41.2%	BUY
I&M	23.00	16.00	17.00	0.0%	23.40	37.6%	BUY
Stanbic	112.00	82.00	110.75	7.8%	113.03	2.1%	HOLD
Equity	56.00	38.75	45.05	(1.1%)	59.32	31.7%	BUY
<u>Insurance</u>							
Britam	7.70	4.75	5.10	(2.3%)	6.24	22.4%	BUY
<u>Telecommunication</u>							
Safaricom	41.00	20.60	24.00	(3.1%)	32.18	34.1%	BUY
<u>Energy & Petroleum</u>							
Kengen	4.28	2.88	2.91	(8.1%)	4.45	52.9%	BUY
Kenya power	2.12	1.18	1.53	(2.6%)	2.00	30.7%	BUY
<u>Manufacturing & Allied</u>							
EABL	180.00	110.00	176.50	5.2%	195.18	10.6%	ACCUMULATE

Source: Bloomberg, NCBA IB Research, NSE

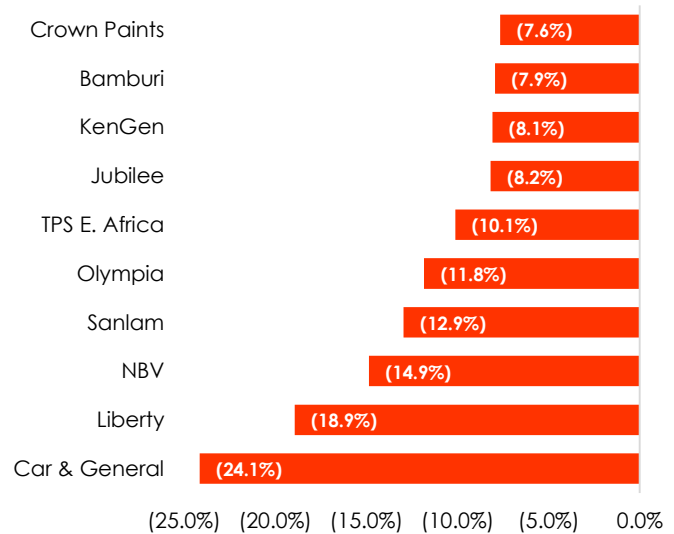
January in a snapshot

The stock market was on a downward trajectory, with the NASI declining by 1.2% on a YTD basis. The performance was driven by price slides by large cap stocks such as Safaricom, Equity Group and Britam of 3.1%, 1.1% and 2.2%, respectively. The losses were cushioned by gains by stocks such as Standard Chartered and Stanbic as shown below:

January 2023 Top Performers

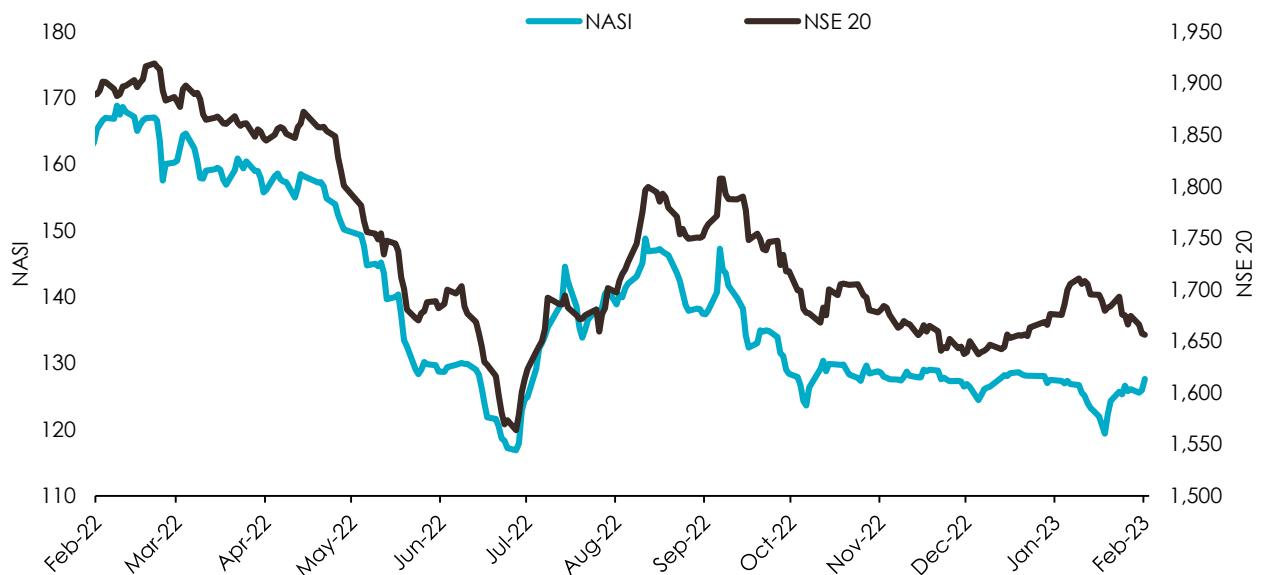


January 2023 Top Decliners



NSE-20 and NSE-25 declined by 1.1% and 0.6% over the same period, respectively.

NASI vs NSE 20 Movement - Last 12 months



Source: Bloomberg, NCBA IB Research, NSE

Sector Performance

Sector	Avg. M/M Share Price Performance	Market Cap
Investment	6.7%	0.3%
Energy & Petroleum	4.1%	2.2%
Agricultural	3.6%	0.9%
Manufacturing & Allied	3.3%	9.8%
Banking	1.4%	33.8%
Construction & Allied	(1.7%)	1.1%
Commercial And Services	(2.5%)	1.8%
Telecommunication	(3.1%)	47.8%
Investment Services	(5.6%)	0.1%
Real Estate Investment Trust	(7.4%)	0.1%
Insurance	(7.8%)	2.0%
Automobiles & Accessories	(24.1%)	0.1%

Source: NSE, NCBA IB Research

Foreign Investors Participation

Foreign investors maintained the 2022 selloffs trend as Net sales more than doubled to KES 2.9 Bn in January from KES 1.4 Bn in December 2022, and, accounted for 47.6% of total turnover. The selloffs are largely attributed to interest rate hikes in advanced economies which increased attractiveness of their fixed income instruments.

Top Foreign Buys - January 2023		
Counter	Foreign Buys (KES 'Mn)	%age
Safaricom	1,412.4	54.3%
Equity Group Holdings	700.4	26.9%
East African Breweries	324.1	12.5%
Stanbic Holdings	64.4	2.5%
KCB Group	44.1	1.7%
Top 5 Counters	2,545.4	97.9%
Total	2,600.3	100.0%

Top Foreign Sales - January 2023		
Counter	Foreign Sales (KES 'Mn)	%age
Safaricom	4,086.0	74.9%
Equity Group Holdings	917.8	16.8%
East African Breweries	272.7	5.0%
BAT	89.3	1.6%
Stanbic Holdings	32.7	0.6%
Top 5 Counters	5,398.5	99.0%
Total	5,455.7	100.0%

Source: NSE, NCBA IB Research

Profit Warnings

Two companies issued profit warnings in the past month regarding their financial performance in FY2022.

Profit Warnings			
Company	Date	Financial Year Affected	Reasons
Eveready PLC	25-Jan-23	Year ending 30th September 2022	Impact of the de-recognition of the deferred tax asset in the amount
Kenya Airways PLC	27-Jan-23	Year ending 31st December 2022.	Forex losses occasioned by the novation of the guaranteed USD loans as part of the ongoing financial restructuring programme.

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. We expect banking stocks to declare FY dividends.

Threats

- **Macroeconomic outlook:** Deterioration of macros leading to a poor business environment and elevated credit risk.
- Geopolitical risks in Russia, Ukraine and China are expected to lead to dyspeptic market reactions.

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, Stanbic 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	23.40	BUY
KCB	53.80	BUY
Stanbic	113.03	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	2.91
Target Price	4.45
Upside (Excl. Div Yield)	52.92%
Market Cap (KES'Bn)	21.23
52 week high	4.28
52 week low	2.88
Free Float	29.7%

Source: Bloomberg, NCBA IB Research, NSE

EABL: ACCUMULATE with a TP of KES 195.18

- 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 64%, Uganda 16%, and Tanzania 20%.
- 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	ACCUMULATE
Last Price	176.25
Target Price	195.18
Upside (Excl. Div Yield)	10.6%
Market Cap (KES'Bn)	132.45
52 week high	180.00
52 week low	110.00
Free Float	50.0%

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: BUY 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	1.53
Target Price	2.00
Upside (Excl. Div Yield)	30.7%
Market Cap (KES'Bn)	3.67
52 week high	2.12
52 week low	1.18
Free Float	49.5%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	SAFCOM KN
Recommendation	BUY
Last Price	24.00
Target Price	32.18
Upside (Excl. Div Yield)	34.1%
Market Cap (KES'Bn)	967.58
52 week high	41.00
52 week low	20.60
Free Float	25.1%

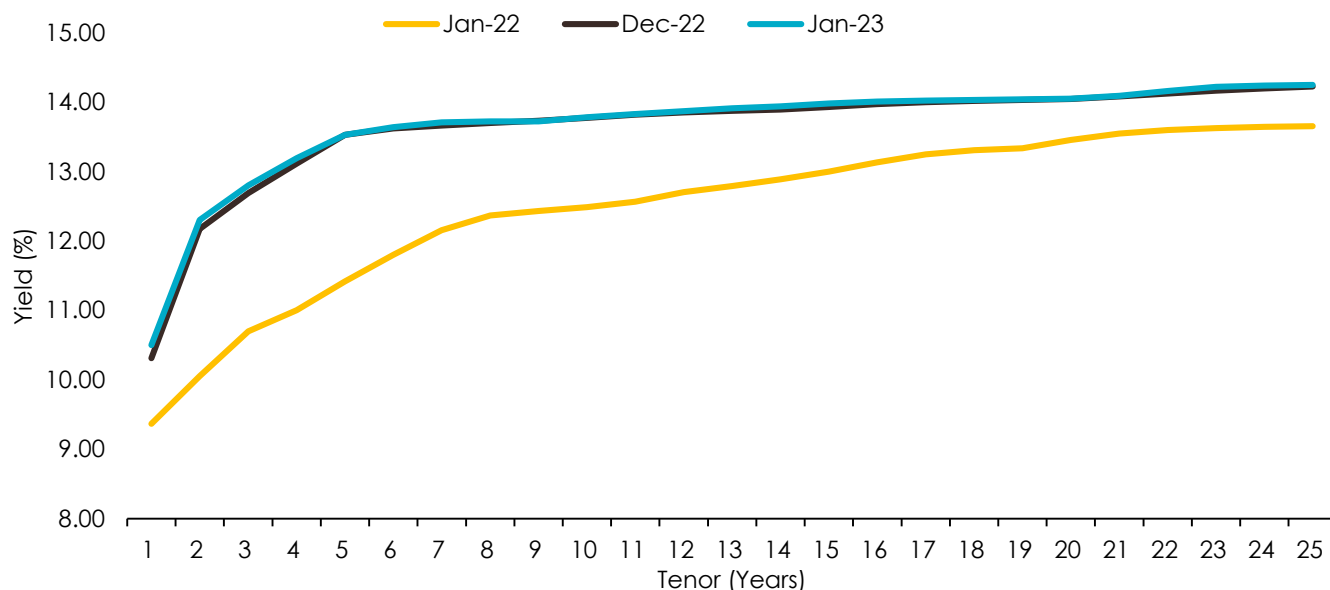
Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	BRIT KN
Recommendation	BUY
Last Price	5.10
Target Price	6.24
Upside (Excl. Div Yield)	22.40%
Market Cap (KES'Bn)	13.12
52 week high	7.70
52 week low	4.75
Free Float	56.56%

Source: Bloomberg, NCBA IB Research, NSE

FIXED INCOME

GOVERNMENT SECURITIES YIELD CURVE



Source: NSE, NCBA IB Research

In January, yields rose for the short term papers while longer term papers remained largely unchanged.

We expect yields to continue rising on the short end as investors seek to minimize duration risk, and remain sticky on the long end. Government borrowing will be more aggressive to meet the borrowing target by end of financial year 22/23. This coupled with tighter external credit markets will sustain upward pressure on the yield curve.

During the month, the Central Bank of Kenya retained the base lending rate at 8.75% in its January meeting stating that the tightening effect in 2022 was still transmitting in the economy. Notably, inflation cooled down for the third consecutive month to 9.0%.

Primary Market

In the primary market, treasury bills recorded high subscription rates during the month (average of 146%) underpinning demand for short term papers.

The Central Bank of Kenya is offering an opportunity to participate in the auction of re-opened treasury bond FXD1/2017/10 and a new paper - FXD1/2023/10, seeking to raise a total of KES 50.0Bn for budgetary support. We have indicated our bidding guide range for the two papers.

Issue Number	FXD1/2017/10	FXD1/2023/10
Tenor	4.5 years	10.0 years
Period of Sale	17 Jan 2023 to 07 Feb 2023	
Value Date	Monday, 13 Feb 2023	
Coupon (%)	12.966%	Market Determined
Bidding Guide	13.60%-13.89%	13.90% - 14.20%

Source: NSE, NCBAIB Research

Kenya International Debt Yield Curves:

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

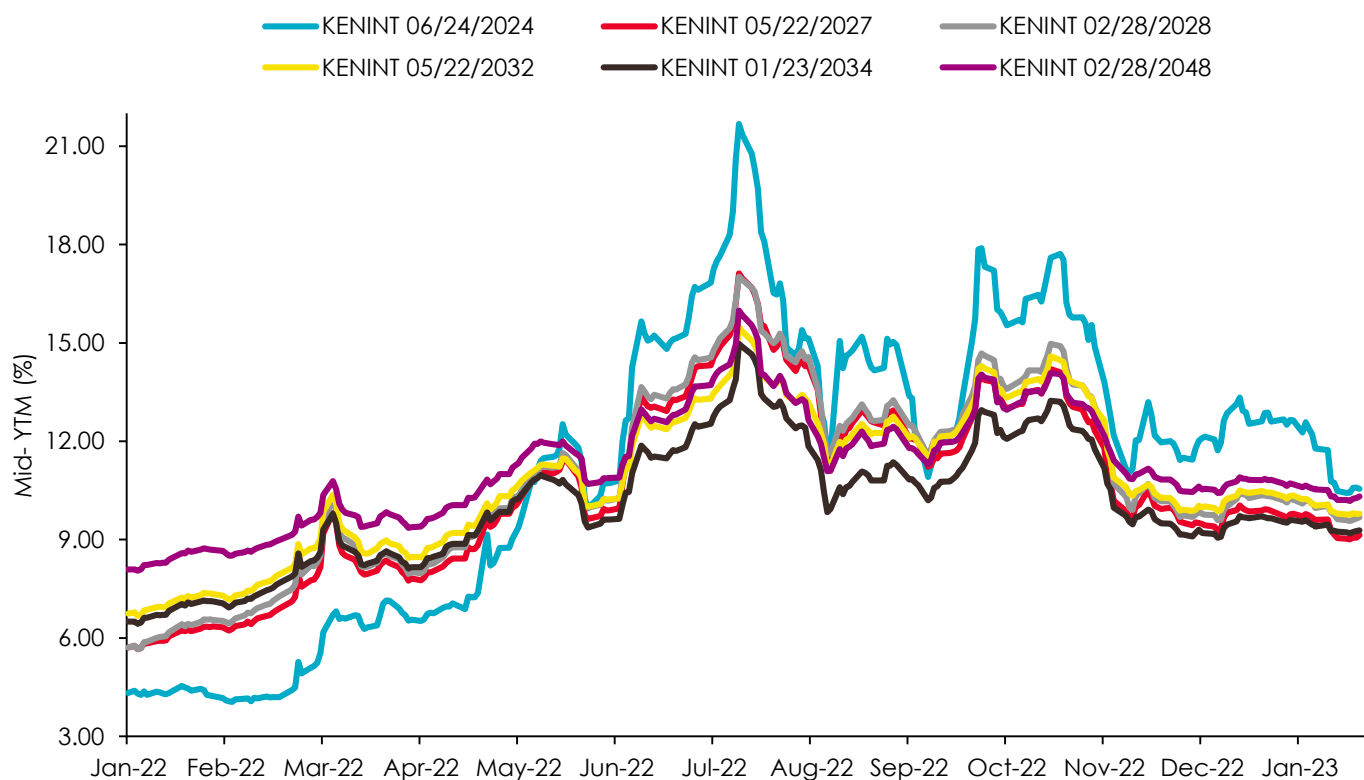
Despite a modest recovery, Eurobond yields remain elevated above historical levels given the prevailing global macro-economic and geo-political conditions.

Below are the six Kenyan Eurobonds and their yield trends:

No.	Eurobond	Tenor (Years)	Coupon Rate	Current Yield
1	KENINT 06/24/2024	1.4	6.88%	10.551%
2	KENINT 05/22/2027	4.3	7.00%	9.140%
3	KENINT 02/28/2028	5.1	7.25%	9.685%
4	KENINT 05/22/2032	9.3	8.00%	9.788%
5	KENINT 01/23/2034	11.0	6.30%	9.284%
6	KENINT 02/28/2048	25.2	8.25%	10.315%

Source: Bloomberg, NCBA IB Research

Kenya Eurobond Yields



Source: Bloomberg, NCBA IB Research

Currency:

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

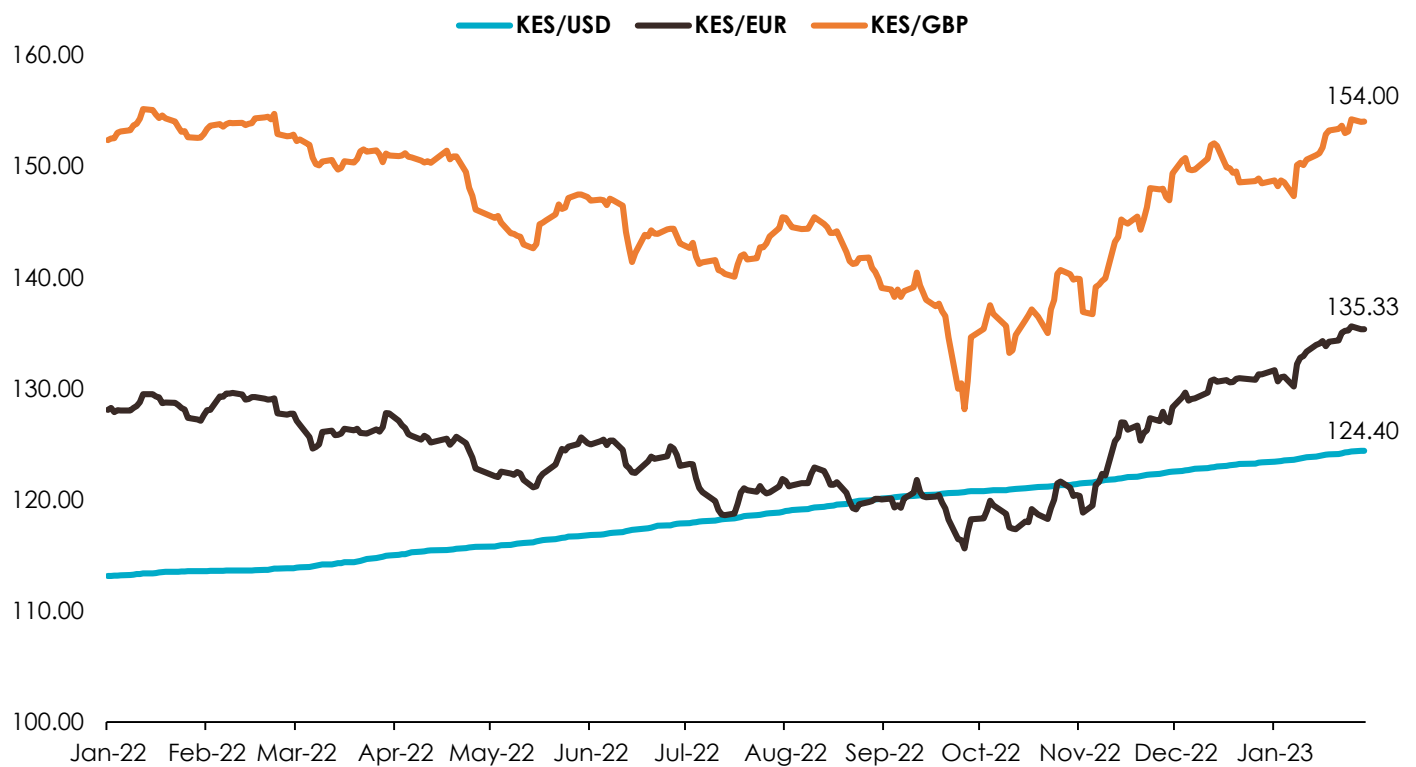
This is attributable to;

- 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, Bank of England and the European Central 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 table and graph below highlight the KES movement against the US Dollar and the Euro:

Currency Performance			
Period	USD/KES	EURO/KES	GBP/KES
January '23	(0.8%)	(3.1%)	(3.7%)
2022	(9.0%)	(2.5%)	2.5%

Currency Movement - Kenya Shilling



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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