

## March 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 6.7x compared to historical average of 12.5x.

### What's in store in March

- 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 average EPS growth ranging from 20% to 35% y/y across the sector in line with their Q3'2022 performance. Additionally, we expect all banks in our coverage universe to issue dividends. This coupled with historically low prices means that the current pre-announcement period presents a good entry point for investors.
- Diageo Acquisition of EABL Shares** –Diageo Kenya's tender to purchase up to 118,394,897 ordinary EABL shares at KES 192.00 is currently ongoing. The first window closed on 24<sup>th</sup> February 2023, while the Second window runs from 27<sup>th</sup> Feb to 17<sup>th</sup> March 2023. Results will be announced on 6<sup>th</sup> March and 5<sup>th</sup> April respectively for the two windows, with the settlement period set to commence on 11<sup>th</sup> April 2023.

Counter	52-Weeks High	52-Weeks Low	Year closing Price (KES)	Y/Y Performance	Target price (KES)	Upside	Recommendation
<b><u>Banking</u></b>							
KCB	46.50	34.00	38.25	0.4%	53.80	<b>40.7%</b>	<b>BUY</b>
I&M	22.00	16.50	17.90	5.3%	23.40	<b>30.7%</b>	<b>BUY</b>
Equity	53.50	38.75	45.50	3.4%	59.32	<b>30.4%</b>	<b>BUY</b>
DTB	61.00	45.00	50.00	0.0%	62.53	<b>25.1%</b>	<b>BUY</b>
COOP	14.00	10.30	12.65	1.6%	15.10	<b>19.4%</b>	<b>ACCUMULATE</b>
ABSA	13.00	9.02	12.50	0.8%	14.52	<b>16.2%</b>	<b>ACCUMULATE</b>
Stanbic	114.00	90.00	105.00	(4.5%)	113.03	<b>7.6%</b>	<b>HOLD</b>
SCBK	168.00	121.00	163.50	4.0%	156.93	<b>(4.0%)</b>	<b>HOLD*</b>
<b><u>Insurance</u></b>							
Britam	7.50	4.75	5.16	1.6%	6.24	<b>20.9%</b>	<b>BUY</b>
<b><u>Telecommunication</u></b>							
Safaricom	38.60	20.50	23.30	(0.4%)	32.18	<b>38.1%</b>	<b>BUY</b>
<b><u>Energy &amp; Petroleum</u></b>							
Kengen	4.00	2.61	2.49	(15.9%)	4.45	<b>78.7%</b>	<b>BUY</b>
Kenya power	2.11	1.30	1.51	(0.7%)	2.00	<b>32.5%</b>	<b>BUY</b>
<b><u>Manufacturing &amp; Allied</u></b>							
EABL	182.00	110.00	174.75	(0.9%)	195.18	<b>11.7%</b>	<b>ACCUMULATE</b>

*\*Standard Chartered is a Hold based on its historical dividend payout which is the highest among banking stocks and offers one of the highest dividend yields. On a purely price play, the current price is prohibitive as an entry point and presents a profit taking opportunity given its current two-year high price.*

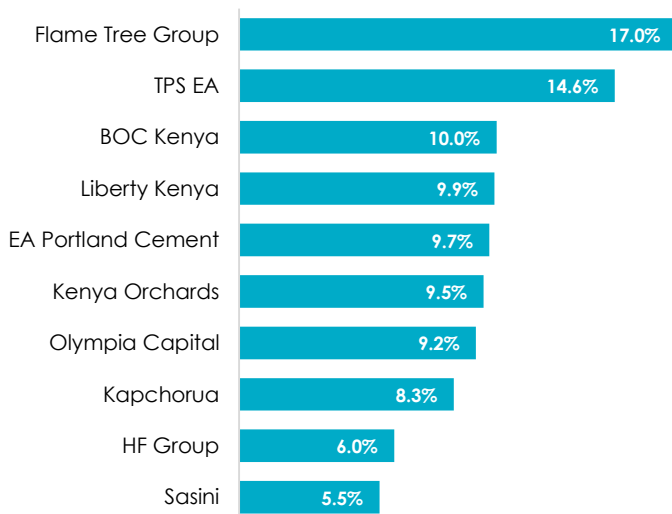
Source: Bloomberg, NCBA IB Research, NSE

### February in a snapshot

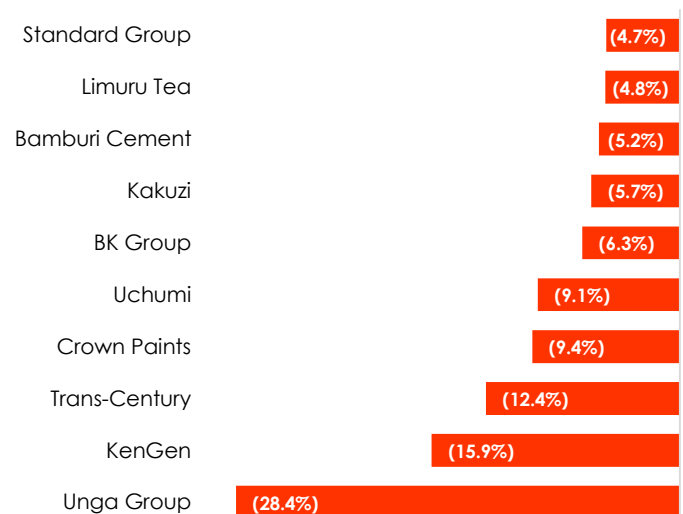
The stock market remained largely unmoved, with NASI gaining marginally by 0.1% on a month-on-month basis. NSE-20 declined by 0.6% while NSE-25 gained by 0.7% in February taking their YTD performance to (1.7%) and (0.1%), respectively.

Year to Date, NASI has dipped by 1.1%.

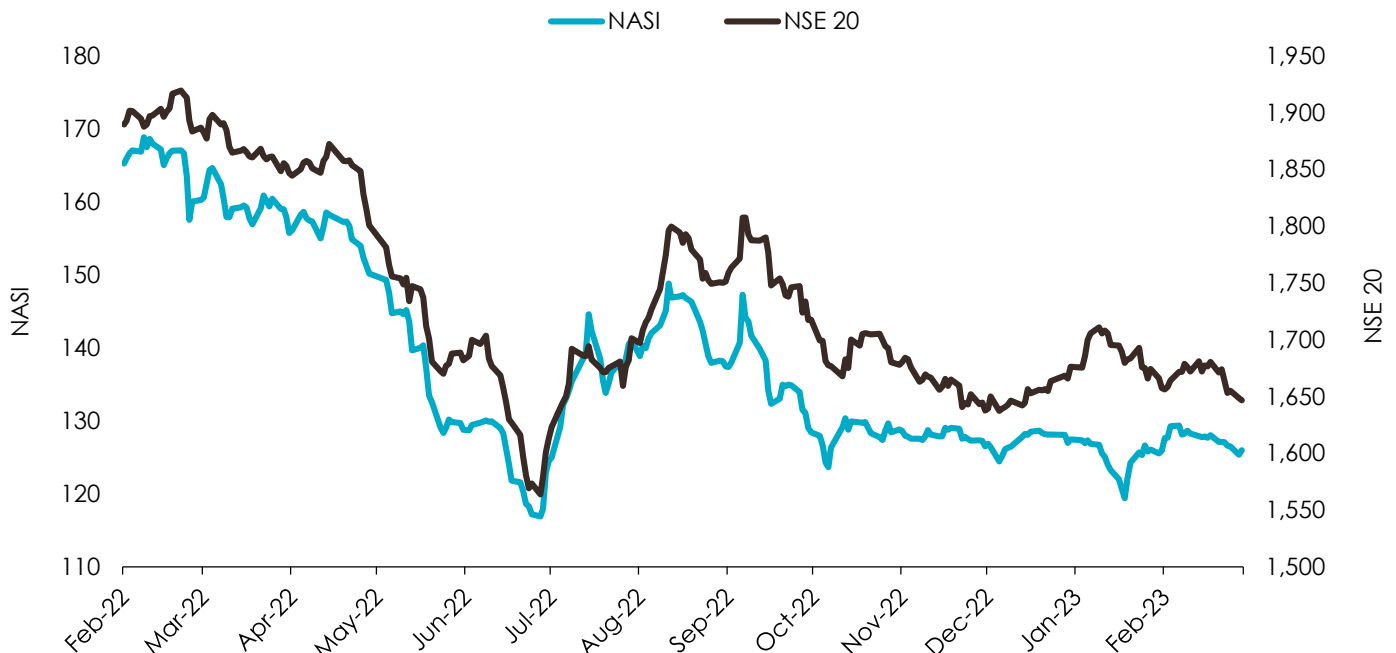
#### February 2023 Top Gainers



#### February 2023 Top Losers



#### 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	Market Cap Weighted Change
Banking	1.2%	34.3%	0.51%
Insurance	3.3%	2.1%	0.04%
Commercial And Services	(0.4%)	1.8%	0.02%
Automobiles & Accessories	1.4%	0.1%	0.00%
Investment	(0.4%)	0.3%	0.00%
Investment Services	2.2%	0.1%	0.00%
Agricultural	1.8%	0.9%	(0.00%)
Construction & Allied	(1.2%)	1.1%	(0.05%)
Manufacturing & Allied	7.4%	9.7%	(0.05%)
Energy & Petroleum	(5.0%)	2.0%	(0.13%)
Telecommunication	(0.4%)	47.6%	(0.20%)

## Foreign Investors Participation

Foreign investors selloffs eased as Net sales declined to KES 0.4 Bn in February from KES 2.9 Bn in January, and, accounted for 41.4% 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 - February 2023		
Counter	Foreign Buys (KES 'Mn)	%age
Safaricom	980.6	56.4%
Equity Group Holdings	243.7	14.0%
KCB Group	227.2	13.1%
Stanbic Holdings	99.9	5.7%
BAT	76.7	4.4%
<b>Top 5 Counters</b>	<b>1,628.1</b>	<b>93.6%</b>
<b>Total</b>	<b>1,739.4</b>	<b>100.0%</b>

Top Foreign Sales - February 2023		
Counter	Foreign Sales (KES 'Mn)	%age
Safaricom	1,104.8	52.1%
BAT	491.8	23.2%
Equity Group Holdings	335.3	15.8%
Bamburi Cement	71.7	3.4%
East African Breweries	33.5	1.6%
<b>Top 5 Counters</b>	<b>2,037.0</b>	<b>96.0%</b>
<b>Total</b>	<b>2,121.2</b>	<b>100.0%</b>



Source: NSE, NCBA IB Research

## Profit Warnings

There were no new profit warning announcements in February. Profit warnings are issued when firms anticipate at least a 25% decline in their profits.

Profit Warnings issued in 2023			
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.

## Corporate Actions

Counter	Dividend	Book Closure Date	Payment Date
	KES 0.58	15-Mar-2023	31-Mar-2023
	KES 52.00	26-May-2023	15-June-2023

## 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

- Deterioration of macros leading to a poor business environment and elevated credit risk.
- Geopolitical risks in Russia, Ukraine and China.

## 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 believe all the banks will issue full year dividends, following improved performance in 2022.

### KenGen: BUY with a TP of KES 4.45

- KenGen released its HY23 results, recording a slight decline in PAT by 3.2% y/y to KES 3.26Bn. The performance was greatly impacted by increased finance costs and operating expenses.
- Total revenue increased by 11% y/y to KES 27.46Bn reflecting the impact of additional geothermal capacity from the operationalization of Olkaria 1-unit VI.
- Finance costs rose by 31% y/y to KES 1.17Bn owing to the expiry of moratorium offered on some of the borrowings.
- Operating costs rose by 16% to KES 18.1Bn primarily due to an increase in depreciation expenses following revaluation of assets and the addition of Olkaria 1-unit VI.
- 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.

### EABL: ACCUMULATE with a TP of KES 195.18

- EABL continues to record impressive growth driven by economic recovery and the diversification in product offering to meet evolving consumer preferences.
- Growth in regional subsidiaries with Tanzania being the fastest market, sales in Kenya accounting 64%, Uganda 16%, and Tanzania 20%.
- Sales volumes in the Kenyan market declined by 1% following increased excise tax on beers and spirits by 17% and 28%, respectively.
- We expect performance in the regional subsidiaries to support growth and Kenya's aggregate contribution decline in the long run on the back of prohibitive tax environment.

Counter	Target Price	Recommendation
ABSA	14.52	ACCUMULATE
COOP	15.10	ACCUMULATE
DTB	62.53	BUY
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

Share Data	
BIC	KEGC KN
<b>Recommendation</b>	<b>BUY</b>
<b>Last Price</b>	<b>2.49</b>
Target Price	4.45
Upside (Excl. Div Yield)	78.7%
Market Cap (KES'Bn)	16.42
52 week high	4.00
52 week low	2.48
Free Float	29.7%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	EABL KN
<b>Recommendation</b>	<b>HOLD</b>
<b>Last Price</b>	<b>174.75</b>
Target Price	195.18
Upside (Excl. Div Yield)	11.7%
Market Cap (KES'Bn)	132.45
52 week high	182.00
52 week low	110.00
Free Float	50.0%*

\*Free Float is expected to reduce to 35% after the ongoing Diageo share purchase

Source: Bloomberg, NCBA IB Research, NSE

### Kenya Power: BUY with a TP of KES 2.00

- Kenya released their HY23 financial results recoding a loss before tax of KES 1.59Bn.
- The disappointing results are attributable to increased foreign exchange losses, and the implementation of a 15% tariff reduction during the period under review.
- Cost efficiency has been a concern and in the period under review, operating costs increased by 14% to KES 21.72Bn.
- Negative working capital position: The company remained in a net current liability position for the fifth consecutive year.
- The company seeks to restructure its operations and implement critical reforms which if successful, 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:** Safaricom declared an interim dividend of KES 0.58 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 financial 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.
- Increased government securities allocation expected to stabilize returns subject to fair value losses and gains pegged on the prevailing market conditions.
- The firm underwent staff reorganization in 2021 and is currently implementing new strategy focused on Customer Experience, Customer Growth and Improving Efficiency. The success of this strategy will provide impetus to its share price movement.
- Kenya's Insurance industry has been a historically slow growth sector due to low market penetration.

Share Data	
BIC	KPLL KN
<b>Recommendation</b>	<b>BUY</b>
<b>Last Price</b>	<b>1.51</b>
Target Price	2.00
Upside (Excl. Div Yield)	32.5%
Market Cap (KES'Bn)	2.95
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
<b>Recommendation</b>	<b>BUY</b>
<b>Last Price</b>	<b>23.30</b>
Target Price	32.18
Upside (Excl. Div Yield)	38.1%
Market Cap (KES'Bn)	933.52
52 week high	38.60
52 week low	20.50
Free Float	25.1%

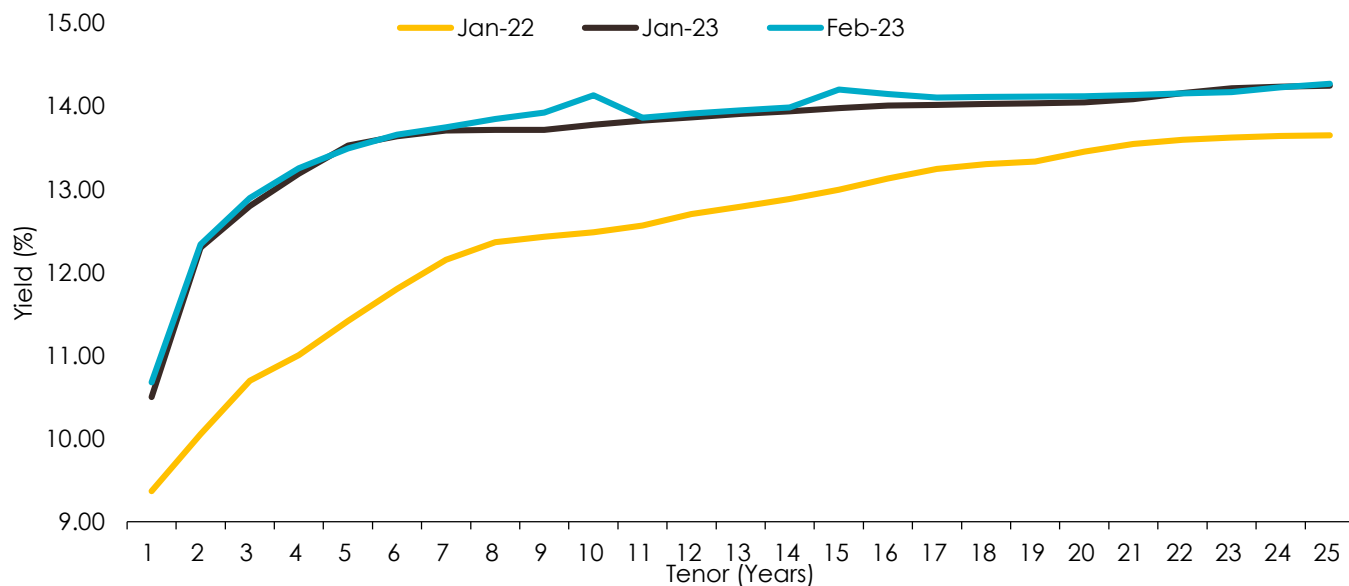
Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	BRIT KN
<b>Recommendation</b>	<b>BUY</b>
<b>Last Price</b>	<b>5.16</b>
Target Price	6.24
Upside (Excl. Div Yield)	20.9%
Market Cap (KES'Bn)	13.02
52 week high	7.50
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

Yields across various tenors recorded mixed performance with short-term and medium-term papers recording gains while those for long term papers remained largely unchanged.

We expect upwards pressure on the yield curve to persist over the remaining months of the current fiscal year.

### Primary Market

In the primary market, treasury bills recorded high subscription rates during the month (average of 167%) underpinning demand for short term papers. Investor demand was concentrated on the 91-day paper.

The Central Bank of Kenya, in its capacity as a fiscal agent for the Republic of Kenya, is offering an opportunity to participate in the auction of a new infrastructure bond (IFB1/2023/17), seeking to raise a total of KES 50.0Bn for funding of Infrastructure projects in the FY 2022/2023 budget estimates.

Issue	IFB1/2023/17
Tenor to Maturity	17.0 Yr
Effective Tenor (50% redemption after 10 yrs, 50% after 17 yrs)	13.5 Yr
Value Date	13-Mar-23
Offered Amount (KES Mn)	50,000.00
<b>Coupon Rate</b>	<b>Market Determined</b>
Period of Sale	15-Feb-23 to 7-Mar-23
Redemption Date	20-Feb-40
<b>Bidding Guide</b>	<b>14.20% - 14.50%</b>

Source: NSE, NCBAIB Research

### Kenya International Debt Yield Curves:

In February, Kenyan Eurobond yields were on an upward trend as leading economies announced their first rate hikes of 2023 and downgrading of Kenya's economic outlook by S&P rating agency.

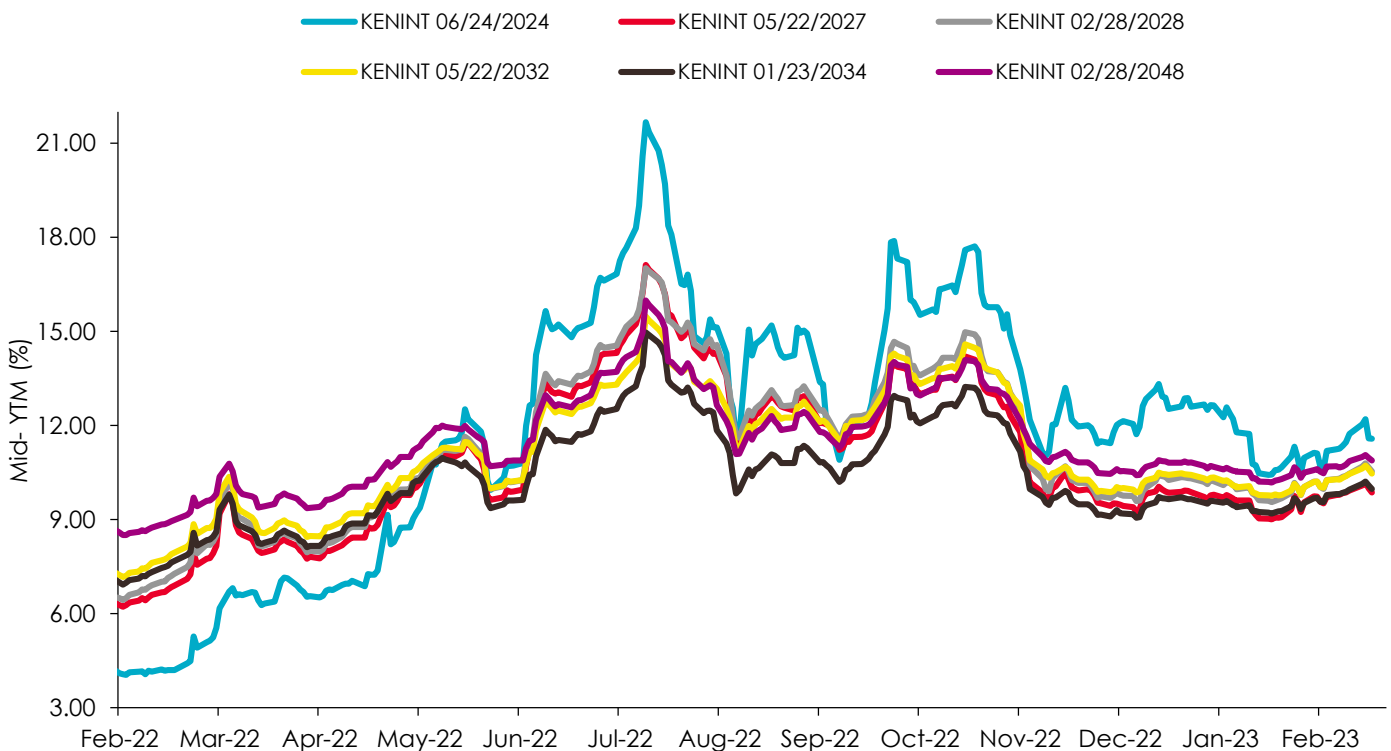
The government's Debt Management Office is considering issuance of a mulita-tranched new Eurobond to help settle the upcoming 2024 USD 2Bn Eurobond maturity. We view as the most likely eventuality contingent on yields movement and success of an ongoing USD 600Mn syndicated dollar loan arrangement.

Below are the six Kenyan Eurobonds and their yield trends:

No.	Eurobond	Tenor (Years)	Coupon Rate	Current Yield
1	KENINT 06/24/2024	1.3	6.88%	11.669%
2	KENINT 05/22/2027	4.2	7.00%	9.948%
3	KENINT 02/28/2028	5.0	7.25%	10.591%
4	KENINT 05/22/2032	9.3	8.00%	10.457%
5	KENINT 01/23/2034	10.9	6.30%	9.982%
6	KENINT 02/28/2048	25.1	8.25%	10.885%

Source: Bloomberg, NCBA IB Research

### Kenya Eurobonds Yields



Source: Bloomberg, NCBA IB Research



### Currency:

The Kenya Shilling has maintained a gradual depreciation against the US dollar, albeit faster in February. It shed an average of 12 cents daily compared to a daily average of 5 cents in January pointing to persistent dollar demand outstripping supply.

KES appreciated against the Euro and the Sterling pound – a phenomenon attributable to increased dollar demand as opposed to improving dynamics between Kenya and Europe. Investors repriced the dollar amid expectations of further Fed rate tightening.

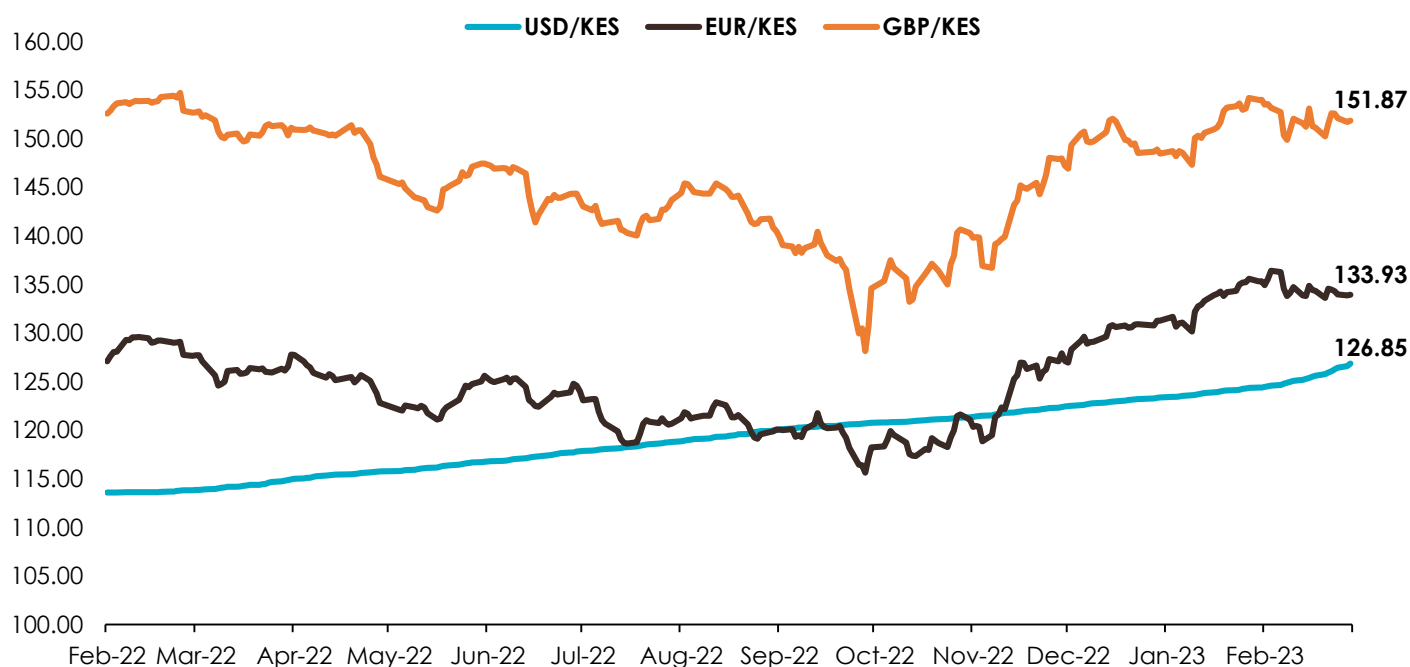
February saw US Federal Reserve Bank raise its reference rate by 25 bps while the Bank of England and the European Central Bank raise their respective rates by 50 bps. This is in contrast to the CBK which opted to retain the MPC rate at 8.75% on 30<sup>th</sup> January 2023.

We expect the shilling to continue depreciating against major currencies owing to the widening interest rate differentials, reserve currency preference due to geopolitical risks and elevated import costs.

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
February '23	(2.0%)	1.4%	1.0%
YTD 2023	(2.8%)	(2.3%)	(2.0%)

### 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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