

April 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 6.0x compared to historical average of 12.5x.

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.

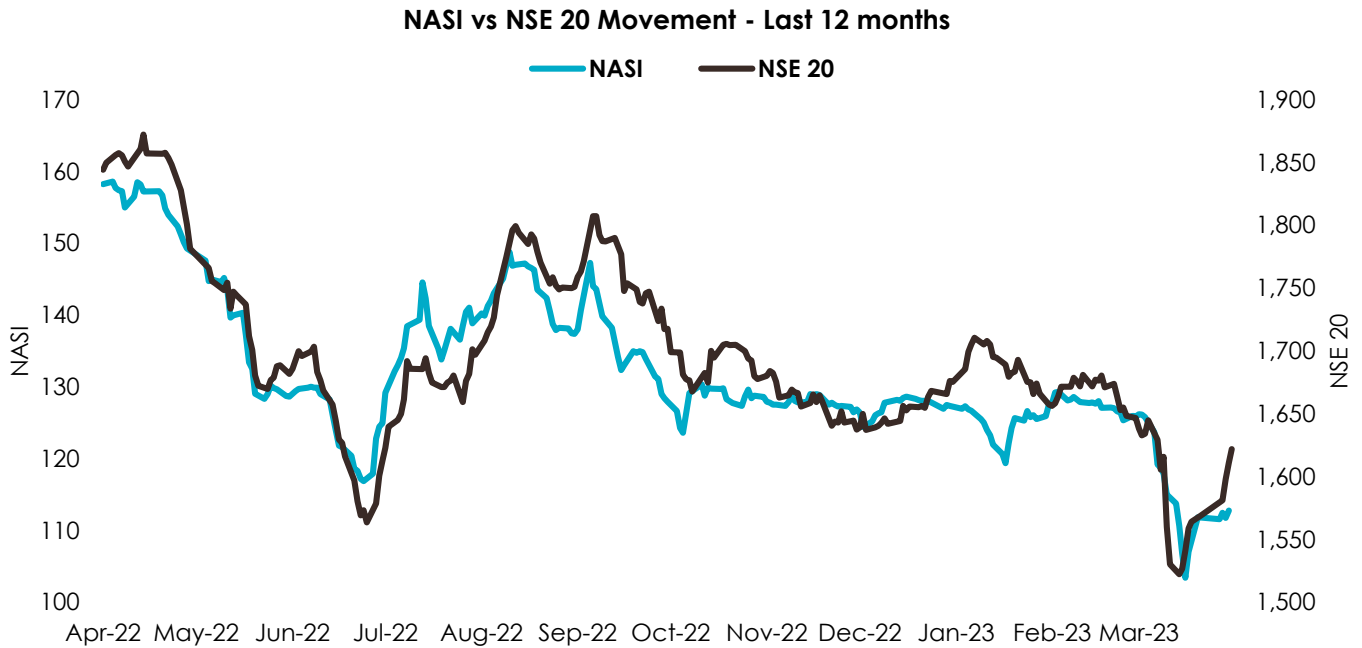
Counter	Current Price *31 st March 2023*	Target price	Upside	Dividend	Div. Yield	Recommendation
<u>Banking</u>						
KCB	35.50	53.80	51.5%	1.00	2.82%	BUY
Equity	45.50	59.32	30.4%	4.00	8.79%	BUY
DTB	51.25	62.53	22.0%	5.00	9.76%	BUY
COOP	13.15	15.10	14.8%	1.50	11.41%	ACCUMULATE
ABSA	12.80	14.52	13.4%	1.15	8.98%	ACCUMULATE
I&M	20.85	23.40	12.2%	2.25	10.79%	ACCUMULATE
Stanbic	110.00	113.03	2.8%	12.60	11.45%	HOLD
SCBK	170.00	156.93	(7.7%)	16.00	9.41%	HOLD
<u>Insurance</u>						
Britam	4.65	6.24	34.2%	-	-	BUY
<u>Telecommunication</u>						
Safaricom	18.10	32.18	77.8%	-	-	BUY
<u>Energy & Petroleum</u>						
Kengen	2.20	4.45	102.3%	-	-	BUY
Kenya power	1.54	2.00	29.9%	-	-	BUY
<u>Manufacturing & Allied</u>						
EABL	170.00	195.18	14.81%	-	-	ACCUMULATE

**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 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

1st Quarter 2023 in a snapshot

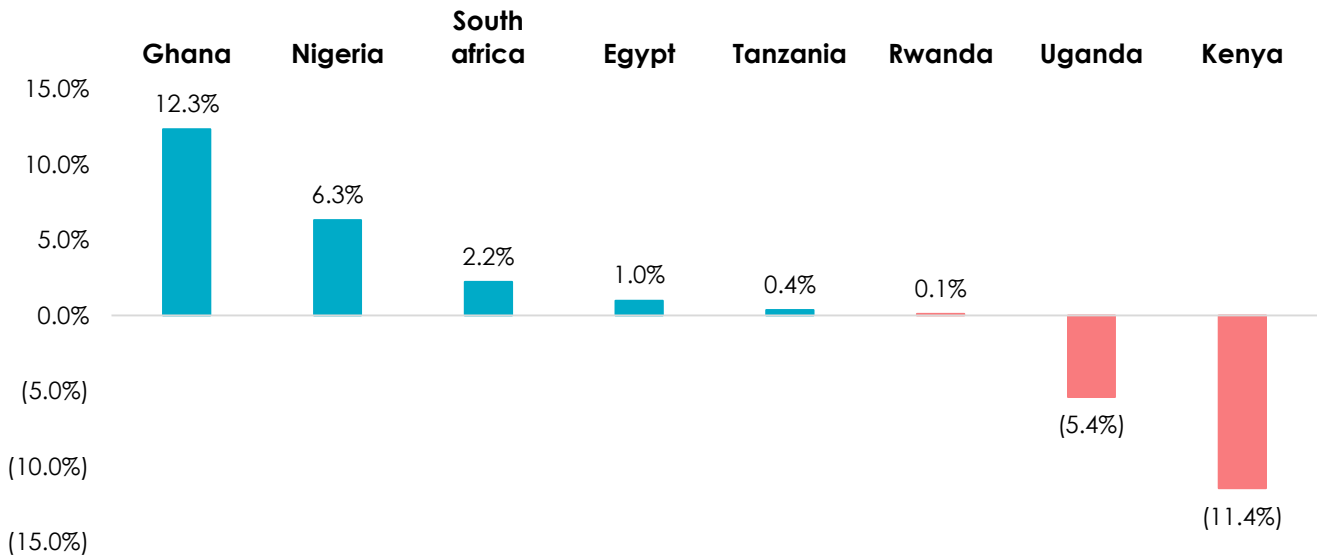
The stock market remained largely underperformed, with NASI declining by 11.4% in the first quarter of the year. NSE-20 and NSE-25 shrunk by 3.2% and 5.5%, respectively.



Source: Bloomberg, NCBA IB Research, NSE

Regional Markets performance

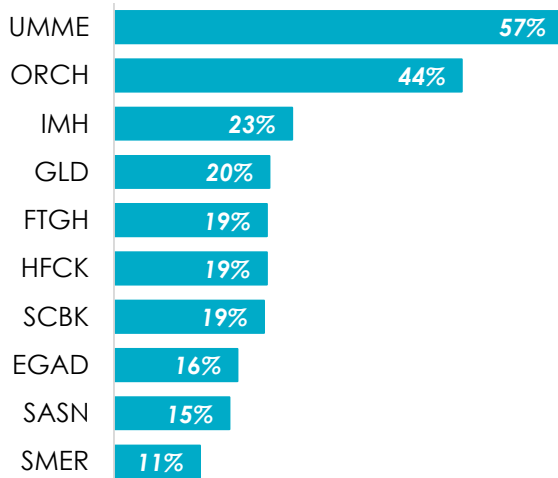
Kenya recorded the worst performance in 1Q23 compared to benchmark markets in the Sub-Saharan Africa Region.



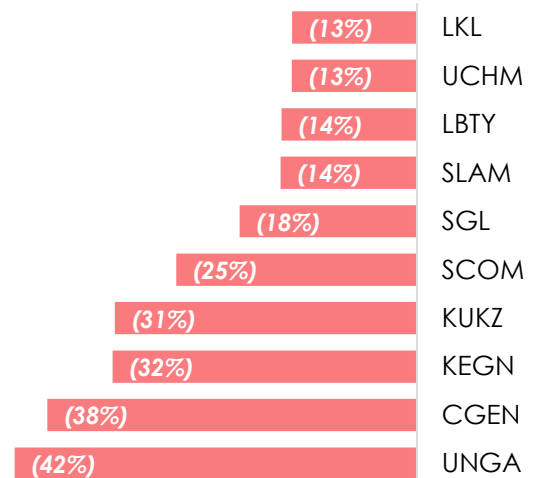
Source: Bloomberg, NCBA IB Research

NSE Counter Performance

Top 10 Gainers - Q1 2023



Top 10 Losers - Q1 2023

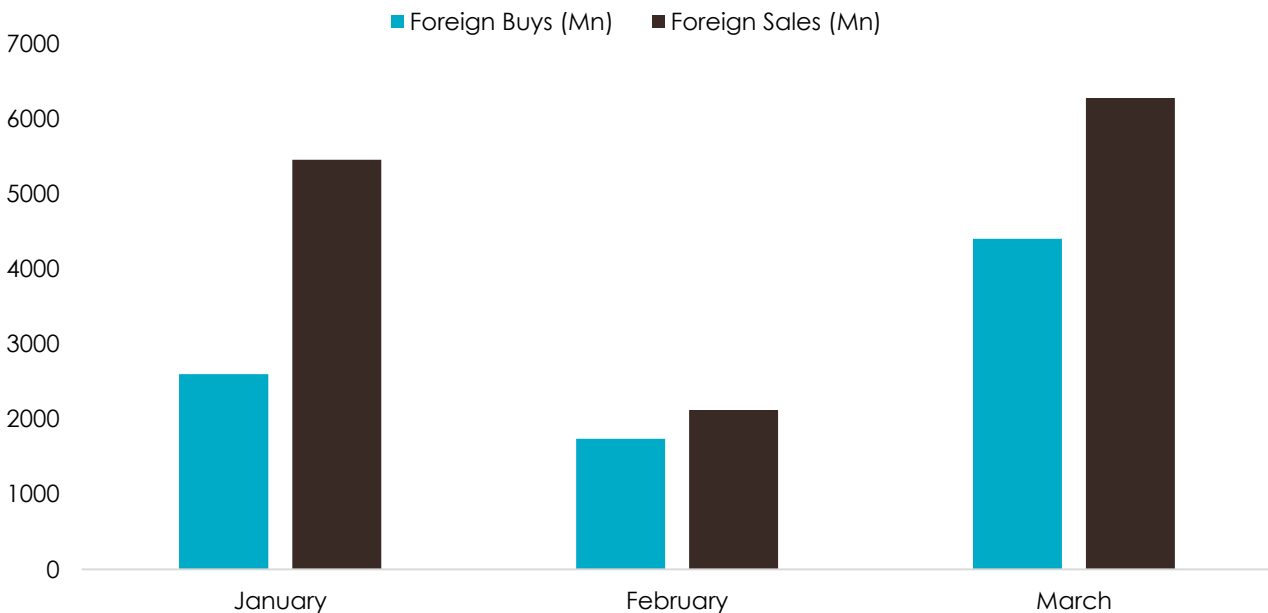


Source: NSE, NCBA IB Research

Foreign Investors Participation

Foreign investors' selloffs rose to KES 1.9Bn Net sales in March from KES 0.4Bn in February, and, accounted for 55.3% of total turnover. The selloffs are largely attributed to interest rate hikes in advanced economies which increased attractiveness of their fixed income instruments.

2023 Foreign Participation (KES 'Mn)
















Source: NSE, NCBA IB Research

Profit Warnings

There were no new profit warning announcements in March. 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 52.00	26-May-23	15-Jun-23
	KES 16.00	21-Apr-23	25-May-23
	KES 1.50	24-May-23	9-Jun-23
	KES 1.00	6-Apr-23	SUBJECT TO APPROVAL
	KES 1.15	28-Apr-23	25-May-23
	KES 12.60	19-May-23	SUBJECT TO APPROVAL
	KES 0.13	8-May-23	26-May-23
	KES 24.00	31-May-23	15-Jun-23
	KES 2.50	14-Apr-23	30-Jun-23
	USHS 63.9	27-Jun-23	20-Jul-23
	KES 5.00	12-May-23	15-Jun-23
	KES 4.00	19-May-23	30-Jun-23
	KES 0.20	16-Jun-23	28-Jul-23

Source: Company financials, NCBA IB Research

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.

All the banks under our coverage issued 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
Recommendation	BUY
Last Price	2.20
Target Price	1.54
Upside (Excl. Div Yield)	102.3%
Market Cap (KES'Bn)	14.51
52 week high	4.00
52 week low	2.00
Free Float	29.7%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	EABL KN
Recommendation	ACCUMULATE
Last Price	170.00
Target Price	195.18
Upside (Excl. Div Yield)	14.8%
Market Cap (KES'Bn)	134.43
52 week high	190.00
52 week low	110.00
Free Float	35.0%*

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
Recommendation	BUY
Last Price	1.54
Target Price	2.00
Upside (Excl. Div Yield)	29.9%
Market Cap (KES'Bn)	3.01
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	18.10
Target Price	32.18
Upside (Excl. Div Yield)	77.8%
Market Cap (KES'Bn)	725.18
52 week high	37.75
52 week low	16.05
Free Float	25.1%

Source: Bloomberg, NCBA IB Research, NSE

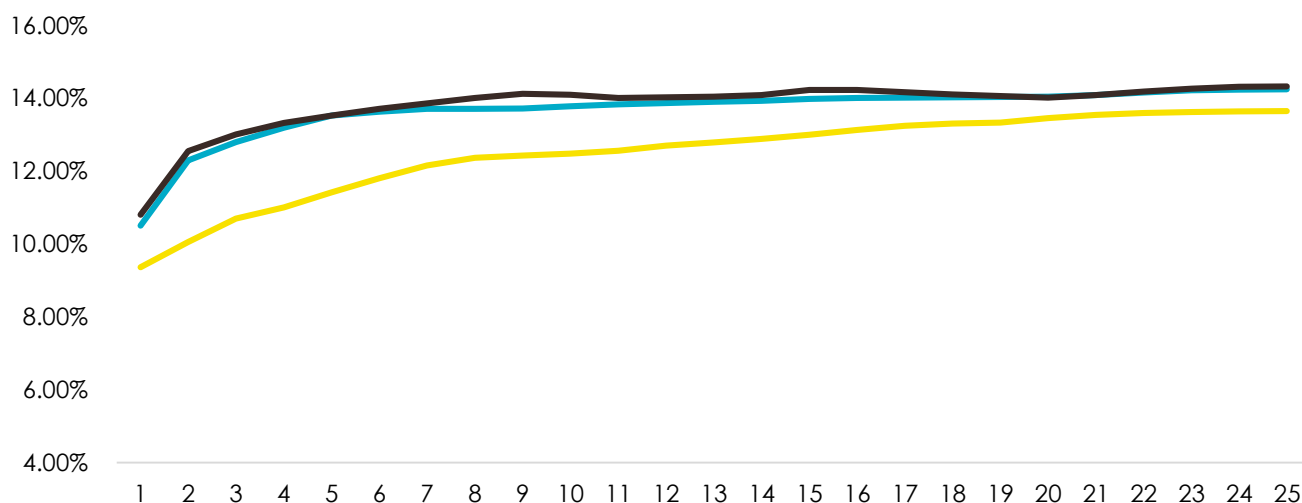
Share Data	
BIC	BRIT KN
Recommendation	BUY
Last Price	4.65
Target Price	6.24
Upside (Excl. Div Yield)	34.2%
Market Cap (KES'Bn)	11.73
52 week high	7.50
52 week low	4.30
Free Float	56.56%

Source: Bloomberg, NCBA IB Research, NSE

FIXED INCOME

Government Securities Yield Curve

— Jan-22 — Jan-23 — Mar-23



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 138%) 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 the papers below seeking to raise a total of KES 50.0Bn for the FY 2022/2023 budget support.

Issue	FXD2/2018/10	FXD1/2022/03	FXD1/2019/15
Tenor	5.7 Yr	2.1 Yr	10.8 Yr
Value Date	10-Apr-23	24-Apr-23	
Offered Amount (KShs. Mn)	20,000.00	30,000.00	
Coupon Rate (%)	12.502%	11.766%	12.857%
Period of Sale	16 th March 2023 to 4 th April 2023	16 th March 2023 to 18 th April 2023	
Redemption Date	4-Dec-2028	7-Apr-2025	9-Jan-2034
Bidding range	14.00% - 14.30%		

Source: NSE, NCBAIB Research

Kenya International Debt Yield Curves:

In February, Kenyan Eurobond yields were on an upward trend amidst policy rate hikes in Q1 2023 and the downgrading of Kenya's economic outlook by S&P rating agency.

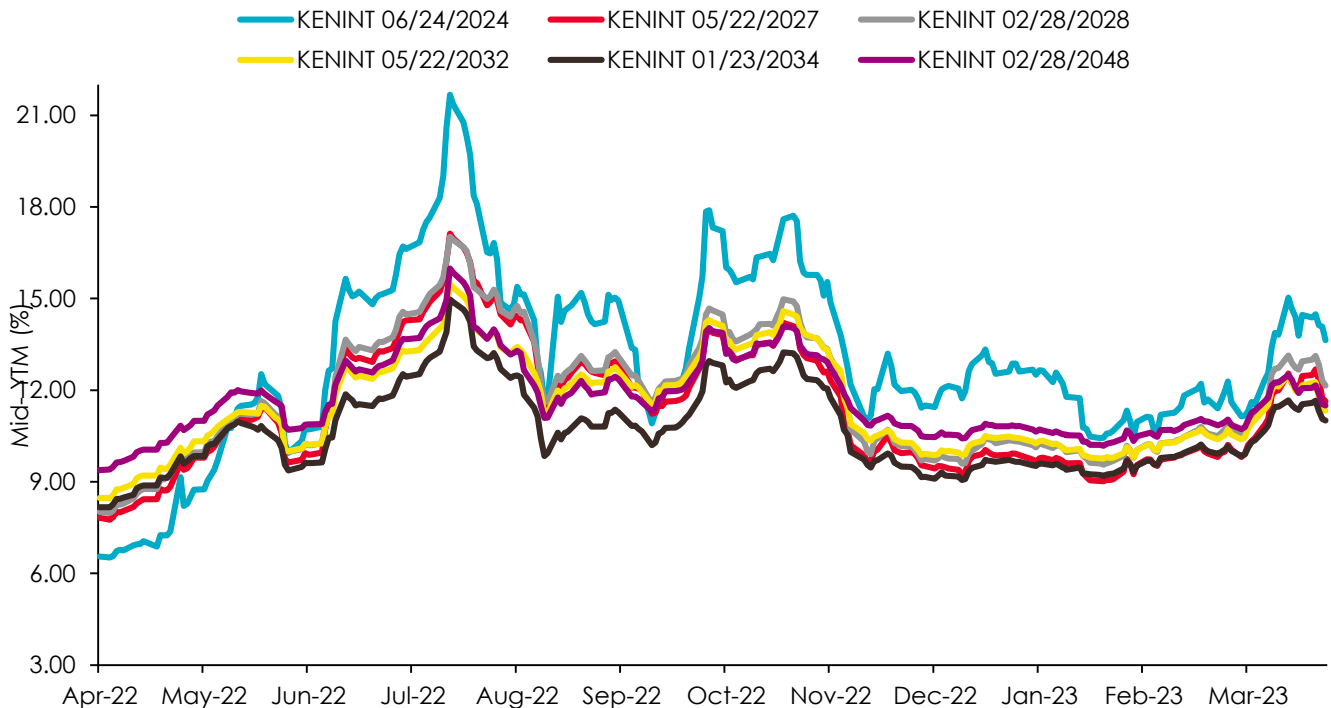
The government's Debt Management Office is considering issuance of a multi-tranched new Eurobond to support settlement of the upcoming 2024 USD 2Bn Eurobond maturity. We view this as the most likely eventuality contingent on yield movement and the success of an ongoing USD 600Mn syndicated dollar loan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

Below are the six Kenyan Eurobonds and their yield trends:

No.	Eurobond	Tenor (Years)	Coupon Rate	Current Yield
1	KENINT 06/24/2024	1.2	6.88%	13.64%
2	KENINT 05/22/2027	4.1	7.00%	11.64%
3	KENINT 02/28/2028	4.9	7.25%	12.14%
4	KENINT 05/22/2032	9.2	8.00%	11.33%
5	KENINT 01/23/2034	10.8	6.30%	11.01%
6	KENINT 02/28/2048	25.0	8.25%	11.50%

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, albeit faster in Q1 2023. It shed an average of 14 cents daily compared to a daily average of 5 cents in Q1 2022 pointing to persistent dollar demand outstripping supply.

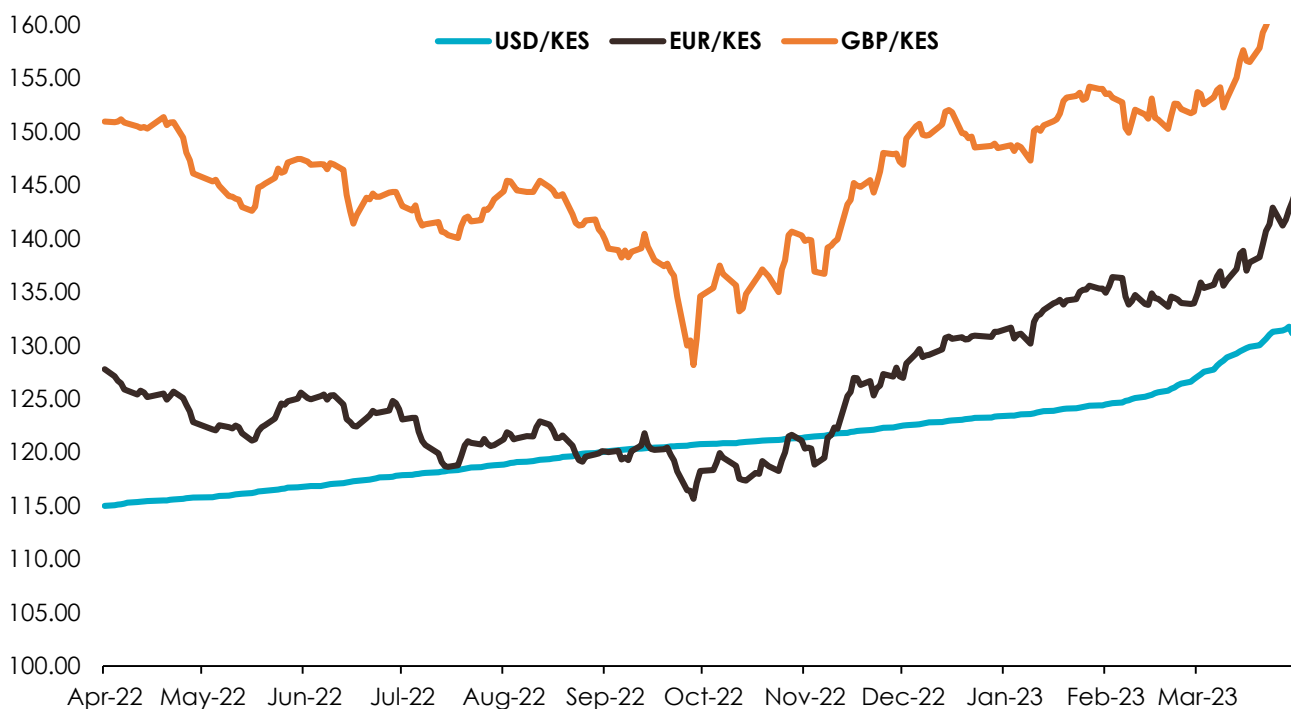
KES depreciated against the Euro and the Sterling pound – a phenomenon attributable to policy rate hikes by the ECB and the Bank of England. The US Federal Reserve Bank raised its reference rate by 25 bps while the Bank of England and the European Central Bank raised their respective rates by 50 bps.

In its March meeting, the MPC raised the CBR rate by 75bps points citing the necessity to reign in the raging inflationary pressures in light of the ongoing elevated geopolitical risks and their potential impact on the domestic economy.

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
March '23	(4.3%)	(7.8%)	(7.8%)
YTD 2023	(7.2%)	(10.0%)	(9.7%)



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 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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