

## May 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 5.7x 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 *28 <sup>th</sup> April 2023	Target price	Upside	Dividend	Div. Yield	Div status	Recommendation
<b><u>Banking</u></b>							
KCB	32.85	53.80	63.8%	2.00	6.09%	xd	BUY
Equity	45.80	59.32	29.5%	4.00	8.73%	cd	BUY
DTB	54.75	62.53	14.2%	5.00	9.13%	cd	ACCUMULATE
COOP	13.30	15.10	13.5%	1.50	11.28%	cd	ACCUMULATE
ABSA	12.15	14.52	19.5%	1.35	11.11%	xd	BUY
I&M	17.30	23.40	35.3%	2.25	13.01%	xd	BUY
Stanbic	116.00	113.03	(2.6%)	12.60	10.86%	cd	SELL
SCBK	149.00	156.93	5.3%	22.00	14.77%	xd	HOLD
<b><u>Insurance</u></b>							
Britam	4.29	6.24	45.5%	-	-	-	BUY
<b><u>Telecommunication</u></b>							
Safaricom	16.50	32.18	95.0%	0.58	3.52%	xd	BUY
<b><u>Energy &amp; Petroleum</u></b>							
Kengen	2.37	4.45	87.8%	-	-	-	BUY
<b><u>Manufacturing &amp; Allied</u></b>							
EABL	158.75	195.18	22.95%	3.75	2.36%	xd	BUY

\* **xd:** ex- dividend \***cd:** dividend inclusive

Source: Bloomberg, NCBA IB Research, NSE

\***BUY** – Total expected 12-month return (incl. dividends) greater than 20%

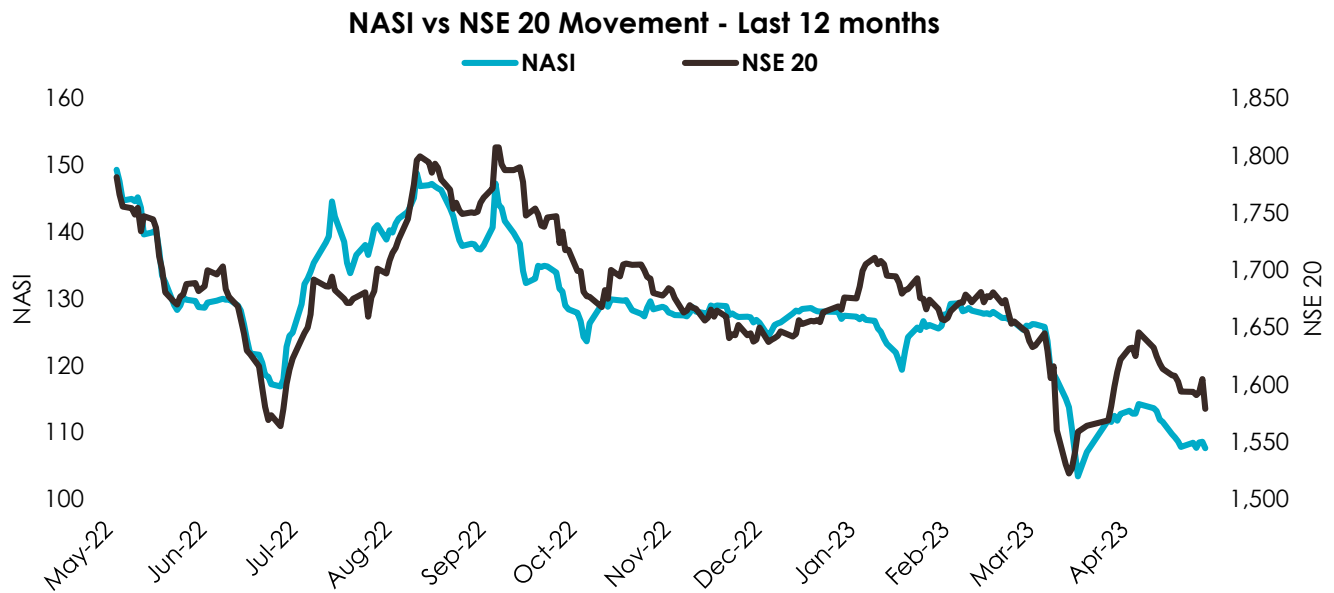
\***ACCUMULATE**-Total expected 12-month return (incl. dividends) between 10%- 20%

\***HOLD** – Total expected 12-month return (incl. dividends) between 0%-10%

\***SELL** – Total expected 12-month return (incl. dividends) less than 0%

### April 2023 in a snapshot

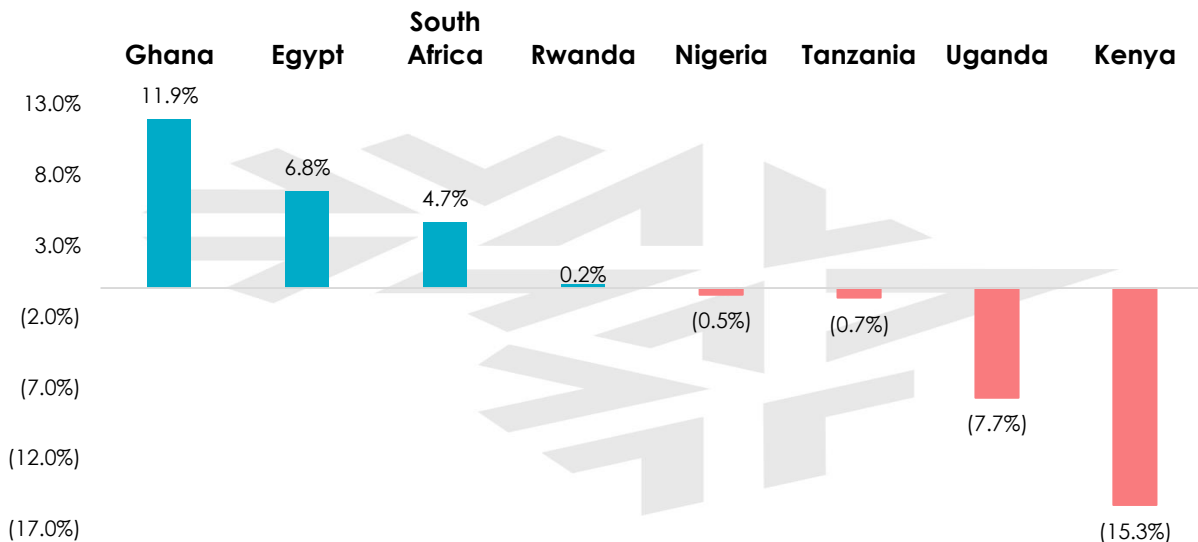
The stock market largely underperformed, with NASI declining by 4.5% in the month of April. NSE-20 and NSE-25 shrunk by 2.7% and 3.7%, respectively. On a YTD basis, NASI closed the month at (15.5%) while NSE-20 and NSE-25 closed the month at (5.8%) and (8.9%), respectively.



Source: Bloomberg, NCBA IB Research, NSE

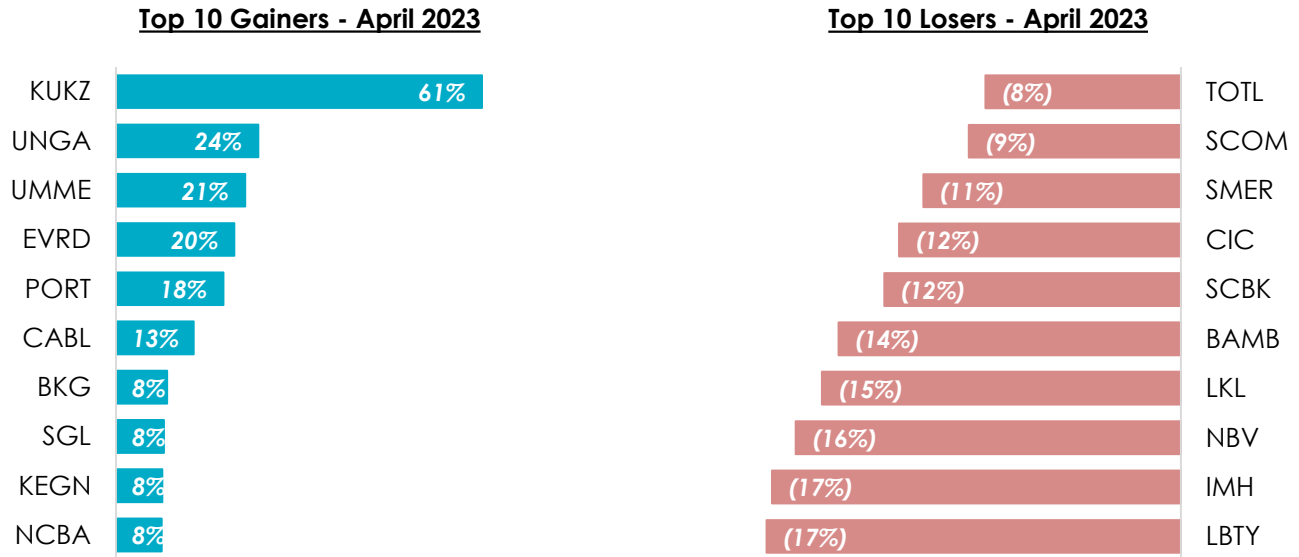
### Regional Markets performance - YTD %

NSE has recorded the worst performance compared to benchmark markets in Sub-Saharan Africa. This is attributable to exits by foreign investors who previously accounted for approximately 55% of monthly market volumes.



Source: Bloomberg, NCBA IB Research

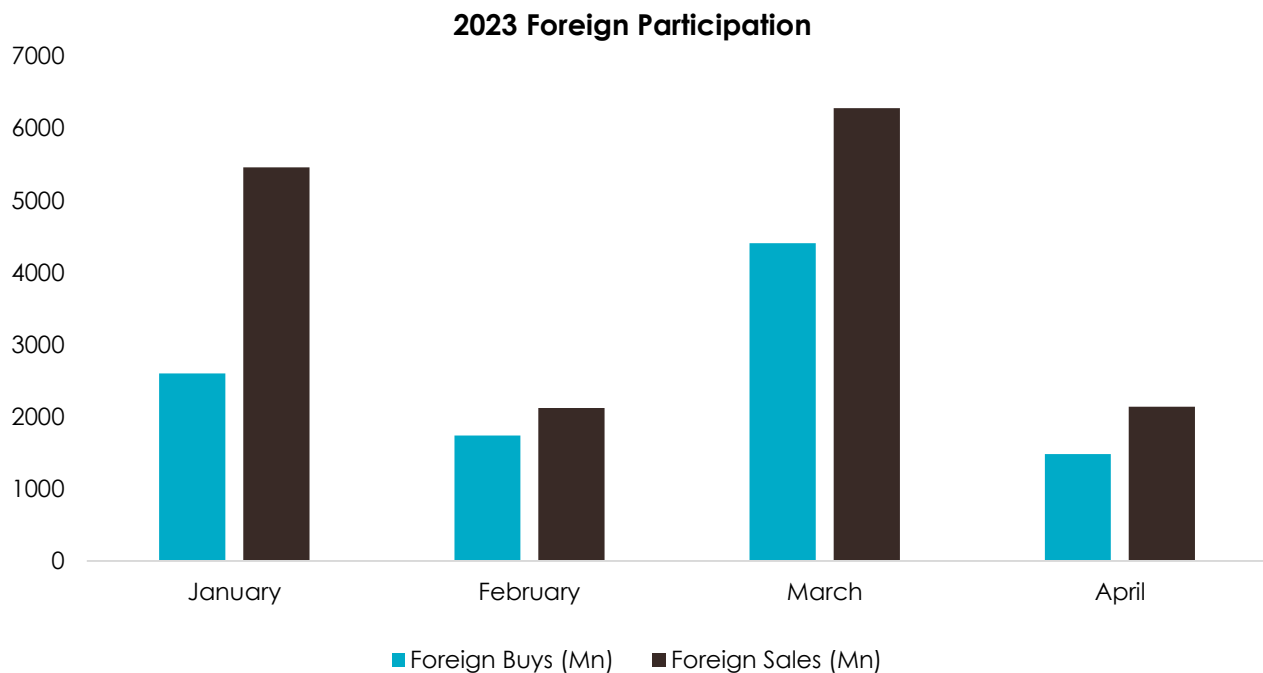
### NSE Counter Performance



Source: NSE, NCBA IB Research

### Foreign Investors Participation

Foreign investors' selloffs declined to KES 0.65Bn net sales in April from KES 1.9Bn in March, and, accounted for 45.2% of total turnover. Volumes traded in March were significantly high on account of the EABL - Diageo transaction (KES 22.7Bn).



Source: NSE, NCBA IB Research

## Profit Warnings

There were no new profit warning announcements in April. 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

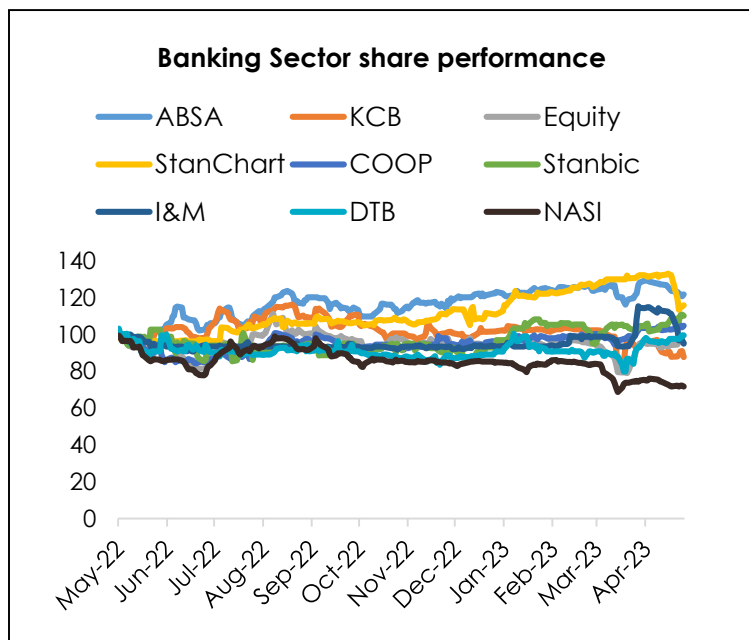
Counter	ANNOUNCEMENT	Dividend	SPx (As at 28/4/2023)	Dividend Yield (%)	Book Closure Date	Payment Date
 NSE nairobi securities exchange	First and final dividend	0.20	6.00	3.33%	31-May-23	31-Jul-23
 KENYA RE	final dividend	0.20	1.89	10.58%	16-Jun-23	28-Jul-23
 UMEME	final dividend	2.25	14.15	15.90%	27-Jun-23	20-Jul-23
 BANK OF KIGALI Financially transforming lives	First and final dividend	3.92	34.50	11.36%	22-Jun-23	1-Jul-23
 EQUITY	First and final dividend	4.00	45.80	8.73%	19-May-23	30-Jun-23
 BAT KENYA	final dividend	57.00	470.00	12.13%	26-May-23	15-Jun-23
 KAKUZI	First and final dividend	24.00	424.50	5.65%	31-May-23	15-Jun-23
 DTB DIAMOND TRUST BANK	First and final dividend	5.00	54.75	9.13%	12-May-23	15-Jun-23
 GO BANK	First and final dividend	1.50	13.05	11.49%	24-May-23	9-Jun-23
 CIC GROUP	final dividend	0.13	1.81	7.18%	8-May-23	26-May-23
 Nation Media Group Media of Africa for Africa	final dividend	1.50	15.55	9.65%	16-Jun-23	31-Jul-23
	final dividend	12.60	116.00	10.86%	19-May-23	Subject To Approval
 TotalEnergies	First and final dividend	1.31	19.75	6.63%	15-Jun-23	31-Jul-23
 Jubilee	final dividend	8.00	180.00	4.44%	14-Jun-23	26-Jul-23
 Jubilee	special dividend	3.00	180.00	1.67%	14-Jun-23	26-Jul-23

Source: Company financials, NCBA IB Research

## INVESTMENT CONSIDERATIONS

### Banking Sector Counters

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

### Financial Performance

- 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.
- See our full year earnings updates for banks under our coverage [here](#).
- Q1 2023 financial results are expected in May 2023.

### Outlook

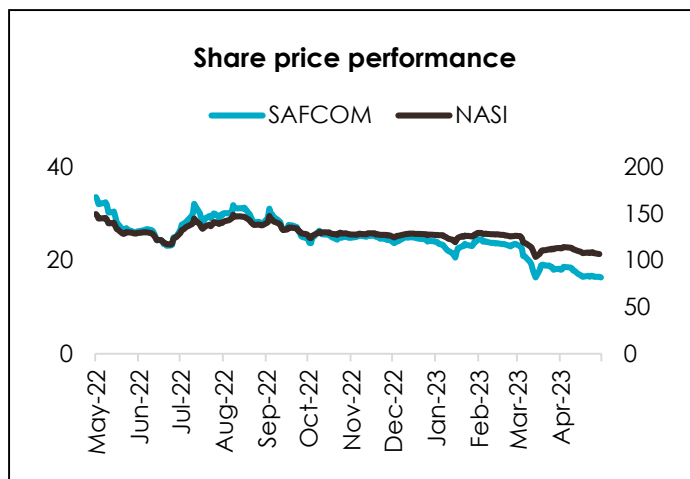
- We expect increased deployment of new funding to lending which will result in higher loan to deposit ratios and loan loss provisions. The increased deployment may be gradual in light of the prevailing macroeconomic variables.
- Increase revenue driven by revenue diversification in their respective regional subsidiaries as well as new revenue streams such as Asset Management.

### Recommendation

We believe all the banks under our coverage will continue to register long-term profitability driven by consistent growth in interest and non-interest income, improving cost efficiency and regional subsidiaries. We recommend for investors to include these in their equities portfolio.

**Safaricom: BUY with a TP of KES 32.18**

Share Data	
BIC	SAFCOM KN
<b>Recommendation</b>	<b>BUY</b>
<b>Last Price</b>	<b>18.10</b>
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%



Safaricom's performance at the Nairobi Securities Exchange has been depressed, down 31% year-to-date compared to the wider index's 18% decline attributable to the sustained sell-off in the equities market. Safaricom accounts for approximately 50% of the market, based on market capitalization.

The share price has suffered from a global downturn in investor sentiment, driven by concerns over rising interest rates and amplified by deteriorating macroeconomic conditions.

### Financial Performance

- 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.
- M-PESA revenue grew by 8.7% to KShs 56.86Bn supported by increased usage and growth of chargeable transactions per customer growing 16.3% y/y.
- Mobile data revenue grew by 11.3% y/y to KES 26.30Bn in HY23 on the back of a growing trend of mobile data subscriptions coupled with the wide variety as Safaricom seeks to deep its dominance.
- FY 2023 financial results are expected to come out later this month.

### Outlook

We expect increased revenue from Safaricom Ethiopia, M-pesa, and mobile data revenue streams.

### Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain our BUY recommendation with a target price of **KES 32.18**. The target price implies an upside of 95% to the current trading price of **KES 16.50** as of 28th April 2023.

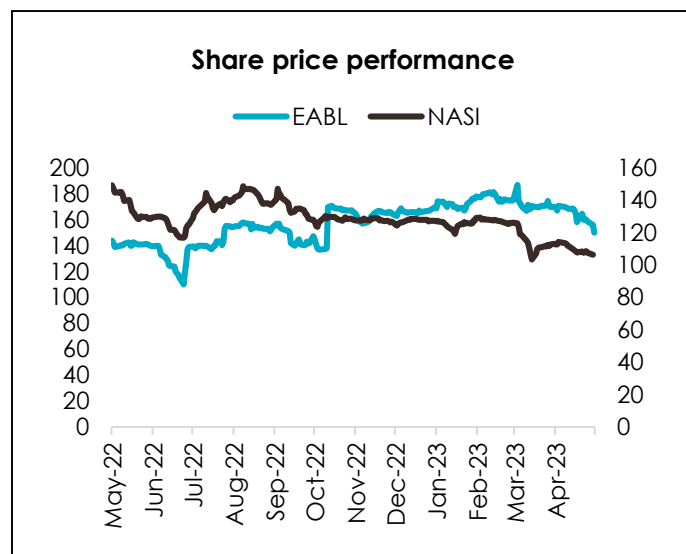
See our Safaricom company report [here](#).



**EABL: BUY with a TP of KES 195.18**

Share Data	
BIC	EABL KN
<b>Recommendation</b>	<b>ACCUMULATE</b>
<b>Last Price</b>	<b>170.00</b>
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



### Financial Performance

- 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.
- See our EABL company report [here](#).

### Outlook

Despite the less than impressive 1HY23 performance, we believe EABL will continue to deliver relatively stable growth. We maintain a strong positive outlook for FY23 mainly driven by sales growth in regional subsidiaries.

We are however cognizant of the fact that higher prices driven by excise tax will negatively impact sales volumes driven by increased consumer price sensitivity to substitutes.

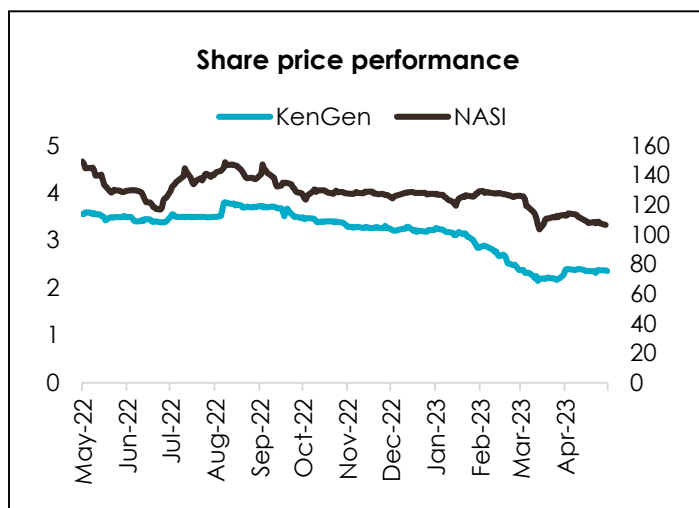
### Recommendation

From our estimates and assumptions, we see a significant upside potential and recommend **BUY** with a target price of **KES 195.18**. The target price implies an upside of 22% to the current trading price of **KES 158.75** as of 28<sup>th</sup> April 2023.

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

Share Data	
BIC	KEGC KN
<b>Recommendation</b>	<b>BUY</b>
<b>Last Price</b>	<b>2.37</b>
Target Price	4.45
Upside (Excl. Div Yield)	87.8%
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



### Financial Performance

- KenGen in its HY23 results, recorded 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.
- See our KenGen company report [here](#).

### Outlook

KenGen's performance has come under considerable pressure in what we perceive is attributable to the firm's linear relationship with Kenya Power. The risks of the single buyer model persists even as Kenya Power struggles to undertake reforms.

That being said, we believe the company will continue to deliver revenue growth and additional income driven from geothermal projects in Ethiopia.

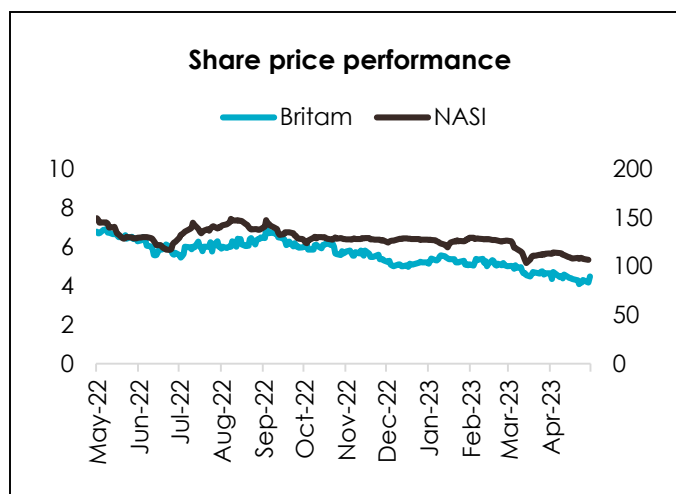
### Recommendation

From our estimates and assumptions, we see a significant upside potential post FY2023 and maintain our **BUY** recommendation at a target price of **KES 4.45**. At the current market price, the stock is a value pick for long-term investors.



**Britam: BUY with a TP of KES 6.24**

Share Data	
BIC	BRIT KN
<b>Recommendation</b>	<b>BUY</b>
<b>Last Price</b>	<b>4.65</b>
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%



### Financial Performance

- 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 gains and losses pegged on the prevailing market conditions.
- The firm underwent staff reorganization in 2021 and is currently implementing a new strategy focused on Customer Experience, Customer Growth and Improving Efficiency. The success of this strategy will provide impetus to its share price movement.
- There was no dividend payment in FY'2022 owing to the tough macroeconomic conditions and the need to shore up capital.

### Outlook

- Property investments are expected to anchor Britam's long term growth. The long-term returns will realize capital gains for value investors.
- Increased government securities allocation will stabilize returns subject to fair value losses and gains pegged on the prevailing market conditions.
- Performance of its subsidiaries will help cushion volatility experienced in the Kenyan market.

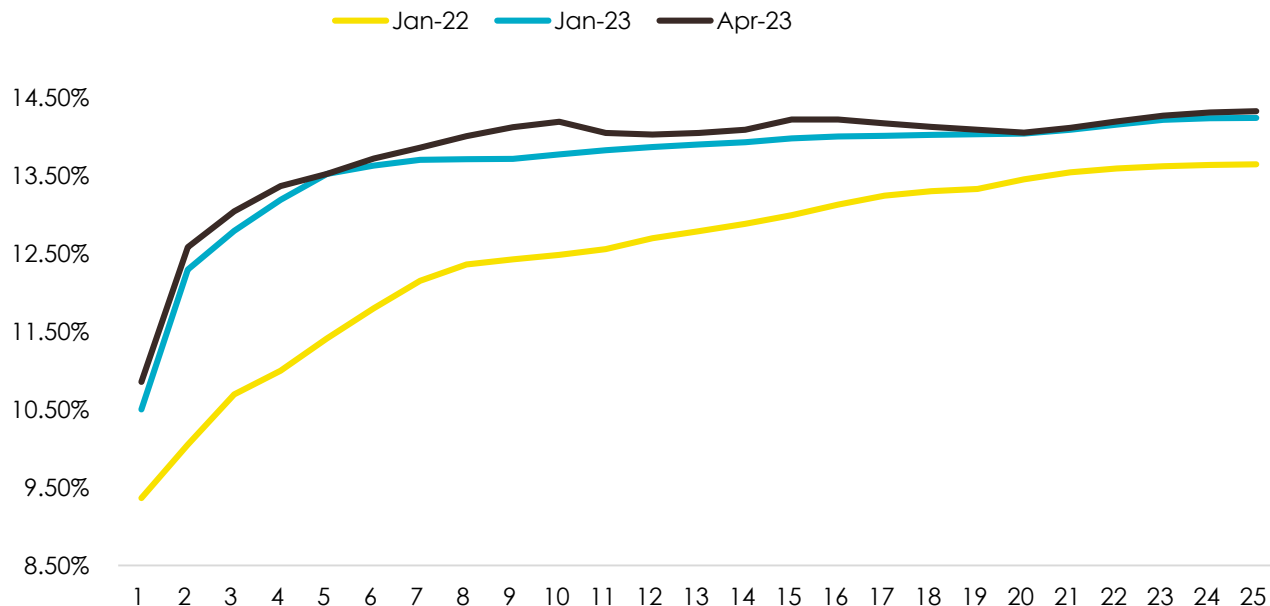
### Recommendation

Based on the insurer's premium growth, strategic partnerships and reduced exposure to volatile equities market, we expect the company to deliver stable returns.

At the current market price, the stock is trading at par to its value but presents a value pick for long-term investors.

## 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 long term papers remained largely unchanged.

We expect the upward pressure on the yield curve to persist this year.

### Primary Market

In the primary market, treasury bills recorded high subscription rates during the month (average of 179%) 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 paper below seeking to raise a total of KES 20.0Bn for the FY 2022/2023 budget support.

Issue	FXD1/2023/003
Tenor	3 Years
Value Date	15-May-23
Offered Amount (KShs. Mn)	20,000.00
<b>Coupon Rate (%)</b>	<b>Market determined</b>
Period of Sale	26 <sup>th</sup> April 2023 to 9 <sup>th</sup> May 2023
Redemption Date	11-May-2026

Source: NSE, NCBAIB Research

### Kenya Government Debt Maturities Schedule (May 2023)

Coupon payments						
Issue No.	Next Coupon Payment Date	Tenor to Maturity	Outstanding Amount KES 'Mn	Fixed Coupon Rate	Coupon payment KES 'Mn	Implied Yield To Maturity
FXD2/2019/005	May 8, 2023	<b>1.01</b>	39,201.40	10.87%	2,130.99	11.4279%
FXD1/2020/005	May 8, 2023	<b>2.01</b>	103,609.22	11.67%	6,044.04	12.7492%
FXD2/2019/015	May 8, 2023	<b>11.01</b>	81,644.75	12.73%	5,198.32	13.8739%
FXD1/2021/025	May 8, 2023	<b>23.01</b>	90,490.00	13.92%	6,299.91	14.1770%
FXD1/2021/005	May 15, 2023	<b>3.53</b>	66,075.85	11.28%	3,725.69	13.1358%
FXD1/2011/020	May 15, 2023	<b>8.03</b>	37,029.40	10.00%	1,851.47	13.8658%
FXD1/2022/010	May 15, 2023	<b>9.03</b>	60,705.30	13.49%	4,094.57	13.9400%
FXD1/2012/020	May 15, 2023	<b>9.53</b>	87,285.65	12.00%	5,237.14	14.1125%
IFB1/2016/009	May 15, 2023	<b>2.03</b>	28,035.40	12.50%	1,752.21	12.2671%
IFB1/2022/014	May 15, 2023	<b>13.53</b>	94,258.60	13.94%	6,568.88	13.6138%
IFB1/2018/020	May 15, 2023	<b>15.53</b>	36,787.30	11.95%	2,198.04	13.2000%
FXD4/2019/010	May 22, 2023	<b>6.55</b>	89,972.85	12.28%	5,524.33	13.7155%
FXD1/2018/015	May 22, 2023	<b>10.05</b>	76,351.65	12.65%	4,829.24	13.8150%
IFB1/2017/007	May 22, 2023	<b>1.55</b>	21,262.25	12.50%	1,328.89	12.1300%
IFB1/2020/006	May 29, 2023	<b>3.07</b>	20,226.65	10.20%	1,031.56	12.2600%
<b>Total</b>					<b>57,815.30</b>	

Treasury Bills	
Payment Date	Amount KES 'Mn
May 1, 2023	27,507.95
May 8, 2023	29,612.28
May 15, 2023	47,938.50
May 22, 2023	46,133.31
May 29, 2023	27,763.99
<b>Total</b>	<b>178,956.03</b>

### Kenya International Debt Yield Curves:

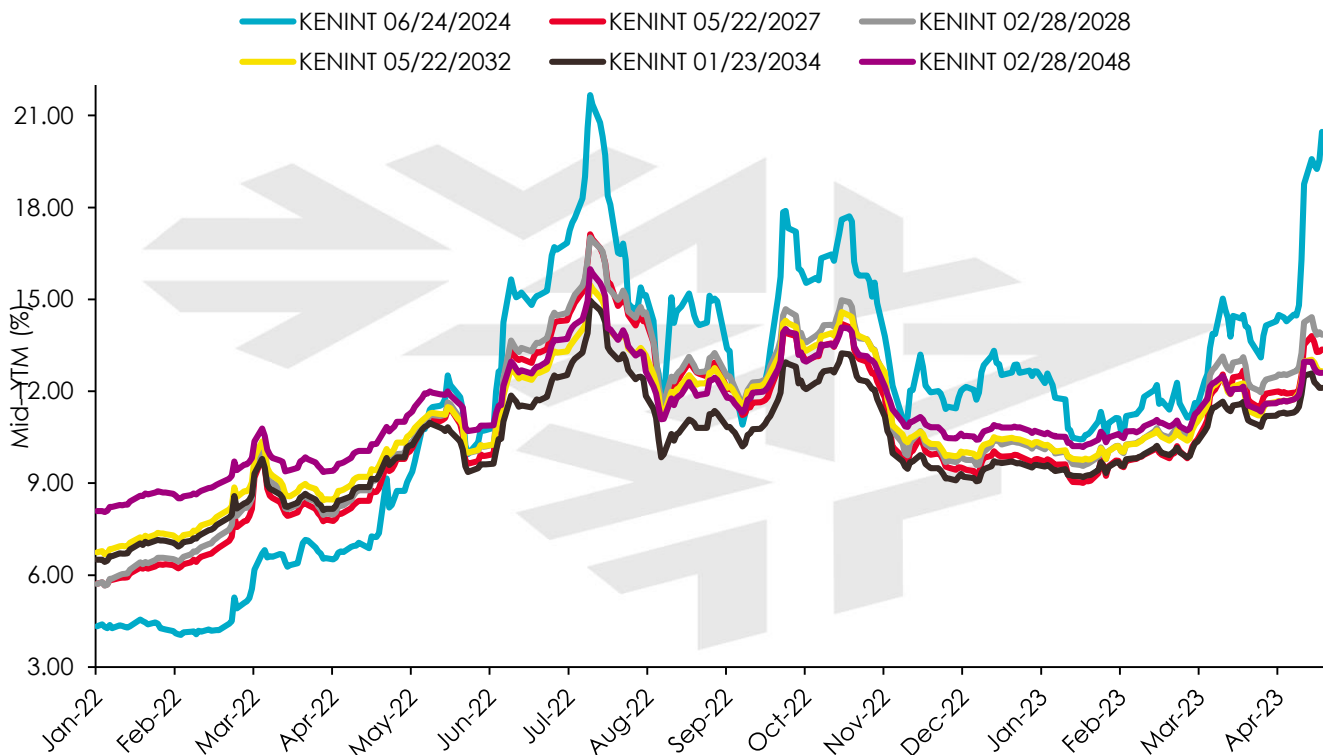
In February, Kenyan Eurobond yields were on an upward trend amidst policy rate hikes and the downgrading of Kenya's economic outlook by S&P rating agency from B, Stable to B, Negative.

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%	20.52%
2	KENINT 05/22/2027	4.1	7.00%	13.42%
3	KENINT 02/28/2028	4.8	7.25%	13.89%
4	KENINT 05/22/2032	9.1	8.00%	12.73%
5	KENINT 01/23/2034	10.8	6.30%	12.17%
6	KENINT 02/28/2048	24.9	8.25%	12.66%

Source: Bloomberg, NCBA IB Research



Source: Bloomberg, NCBA IB Research

### Currency at a glance:

The Kenya Shilling has maintained a gradual depreciation against the US dollar. The shilling shed an average of 21 cents daily in the month of April 2023, compared to a daily average of 24 cents in March 2023 pointing to persistent dollar demand outstripping supply.

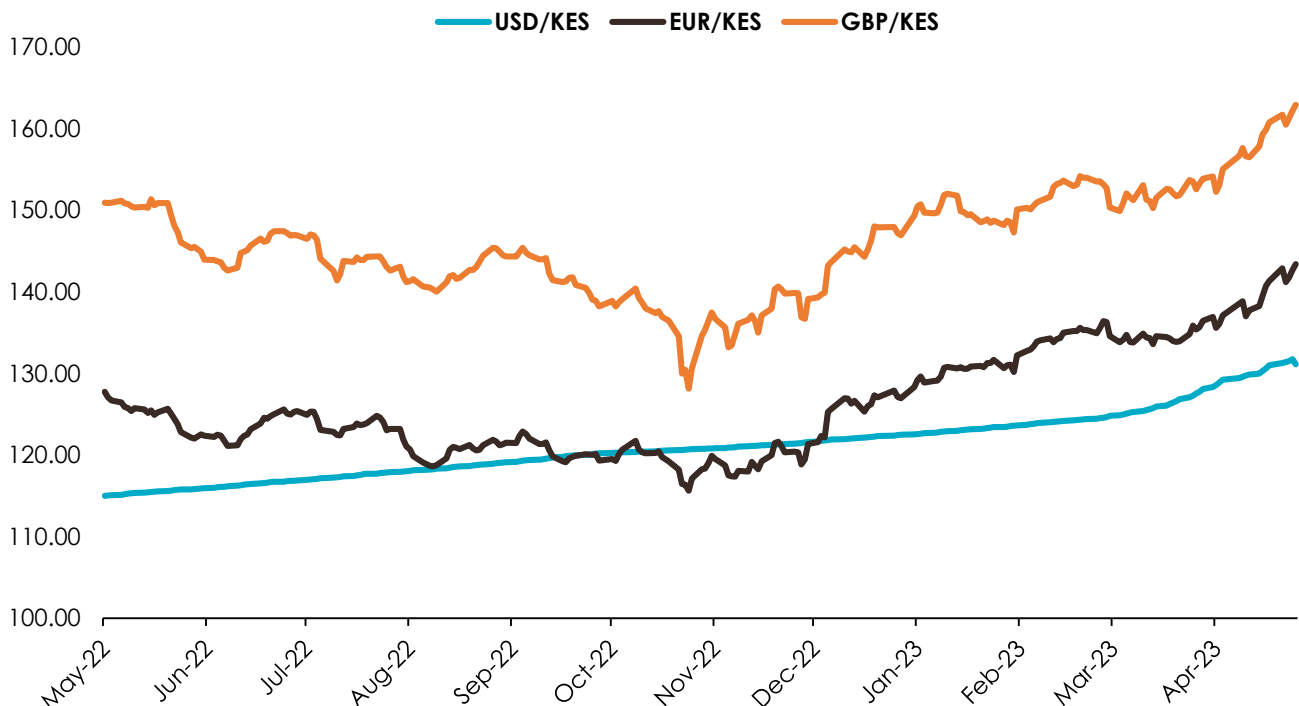
KES depreciated against the Euro and the Sterling pound – a phenomenon attributable to policy rate hikes by the ECB and the Bank of England. The US Federal Reserve Bank raised its reference rate by 25 bps while the Bank of England and the European Central Bank raised their respective rates by 50 bps.

The MPC raised the CBR rate by 75bps points in its March meeting 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 respective foreign currencies:

Currency Performance			
Period	USD/KES	EURO/KES	GBP/KES
April '23	(2.7%)	(3.5%)	(3.7%)
YTD 2023	(10.2%)	(14.1%)	(14.1%)



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.

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