

## June 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. The current market P/E is 5.3x compared to the historical 2-year average of 7.8x.

### 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 by providing a steady 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 <sup>st</sup> May 2023	Target price	Upside	Dividend	Div. Yield	Div. status	Recommendation
<b><u>Banking</u></b>							
KCB	31.80	53.80	69.2%	2.00	6.09%	xd	BUY
Equity	37.90	59.32	56.5%	4.00	8.73%	xd	BUY
DTB	45.70	62.53	36.8%	5.00	9.13%	xd	ACCUMULATE
COOP	12.10	15.10	24.8%	1.50	11.28%	xd	ACCUMULATE
ABSA	11.35	14.52	27.9%	1.35	11.11%	xd	BUY
I&M	16.90	23.40	38.5%	2.25	13.01%	xd	BUY
Stanbic	103.00	113.03	9.7%	12.60	10.86%	xd	HOLD
SCBK	159.25	156.93	(1.46%)	22.00	14.77%	xd	SELL
<b><u>Insurance</u></b>							
Britam	4.58	6.24	36.2%	-	-	-	BUY
<b><u>Telecommunication</u></b>							
Safaricom	16.60	26.65	60.5%	1.20	7.23%	xd	BUY
<b><u>Energy &amp; Petroleum</u></b>							
Kengen	2.36	4.45	88.6%	-	-	-	BUY
<b><u>Manufacturing &amp; Allied</u></b>							
EABL	151.75	195.18	28.6%	3.75	2.36%	xd	BUY

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%

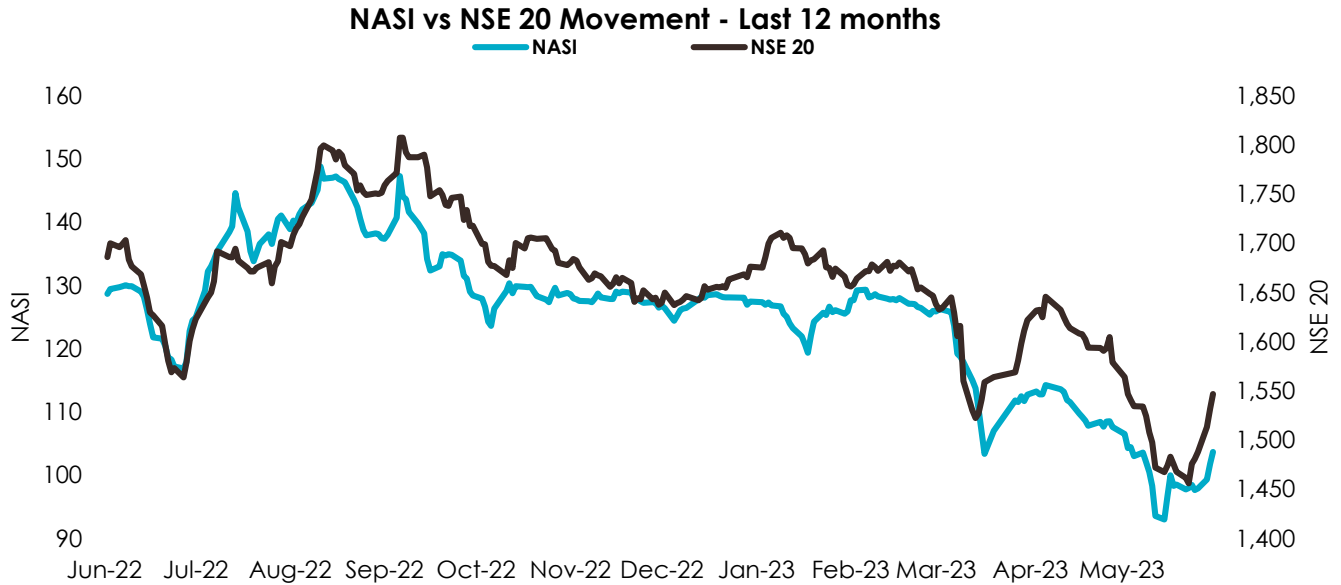
\***HOLD** – Total expected 12-month return (incl. dividends) between 0%-10%

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

## May 2023 in a snapshot

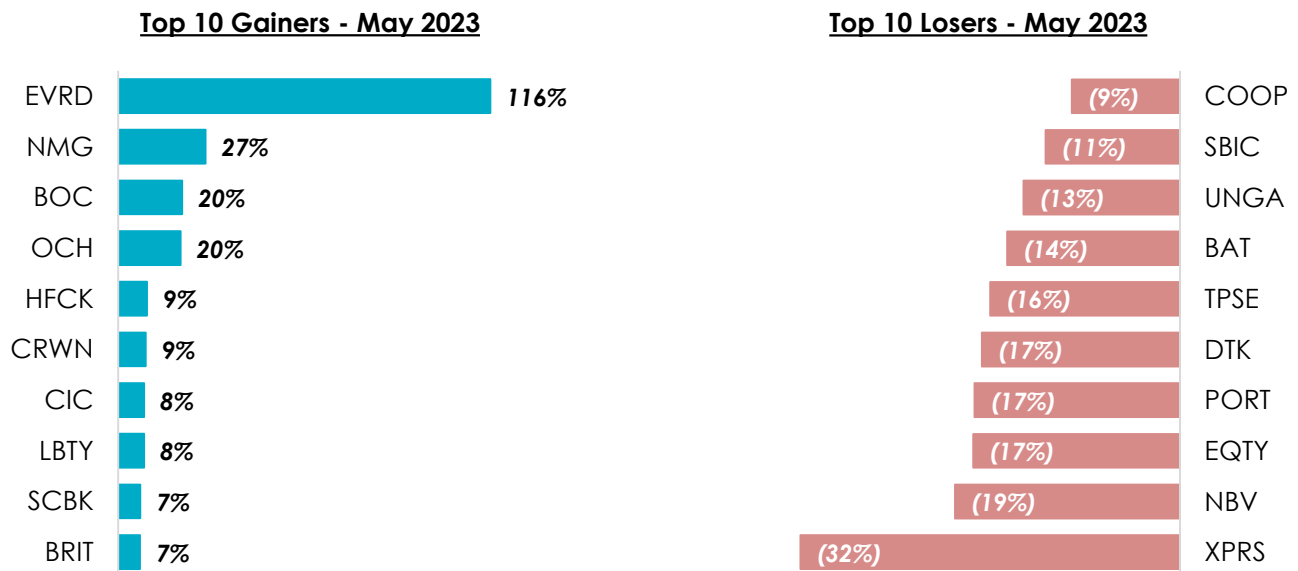
### Equities:

The stock market largely underperformed, with NASI declining by 3.7% in the month of May. NSE-20 and NSE-25 shrunk by 2.0% and 6.7%, respectively. On an YTD basis, NASI closed the month at (18.57%) while NSE-20 and NSE-25 closed the month at (7.67%) and (15.08%), respectively.



Source; Bloomberg, NCBA IB Research, NSE

### NSE Counter Performance

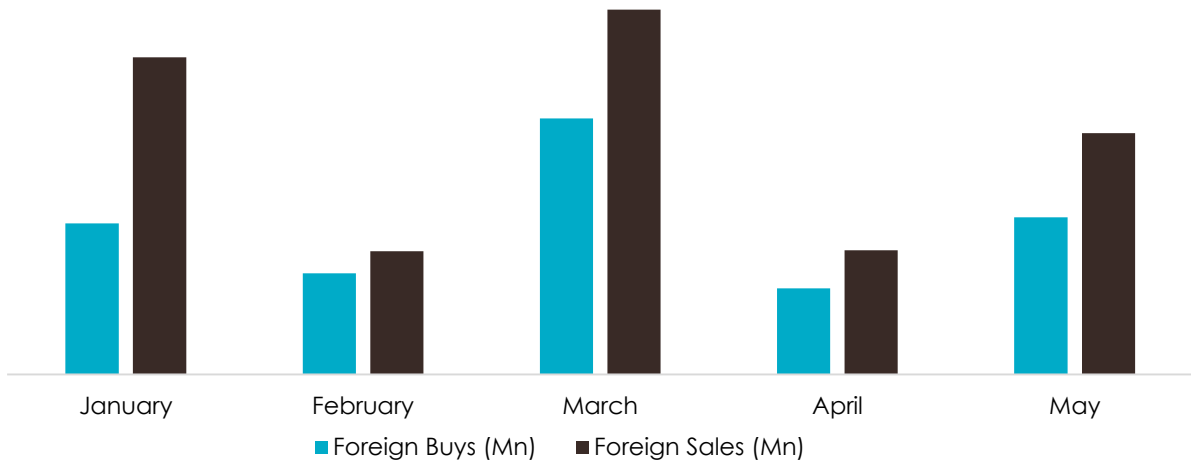


Source: NSE, NCBA IB Research

### Foreign Investors Participation

Foreign investors' selloffs increased to KES 4.1Bn net sales in May from KES2.13Bn in April, and, accounted for 21.89% of total turnover. Volumes traded in May were higher compared to the previous month, with the Safaricom accounting for KES 14.9Bn.

**2023 Foreign Participation**

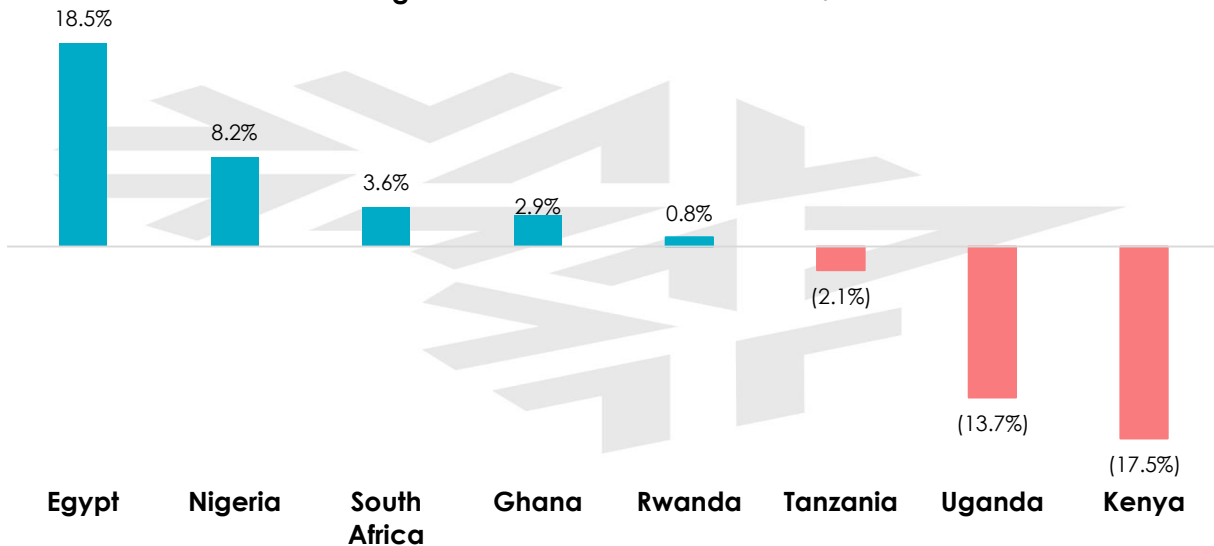


Source: NSE, NCBA IB Research

### Regional Markets performance - YTD %

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

**Regional Markets Performance- YTD%**



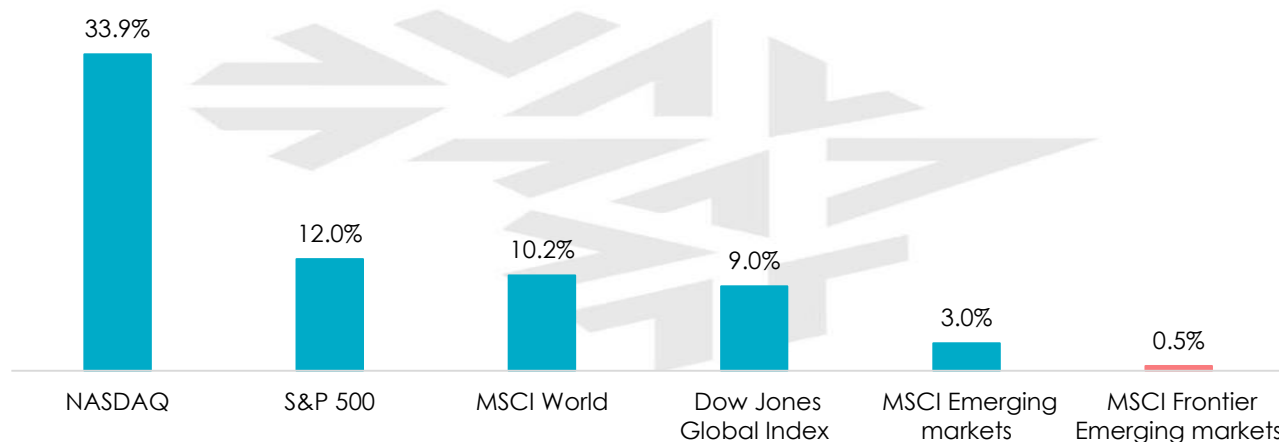
Source: Bloomberg, NCBA IB Research

### Global Markets performance - YTD %

Global stocks have recorded modest recovery as evidenced by the MSCI world index and the Dow Jones global index recording gains of 10.2% and 9.0%, respectively.

This is largely attributable to the US technology sector, which has been the best-performing YTD, with c. 34% gain driven by strong earnings momentum in Q1.

#### Global Benchmark Indices- YTD %



### Profit Warnings

There was one new profit warning announcement in May. Profit warnings are issued when firms anticipate at least a 25% decline in their profits.

Profit Warning			
Company	Date	Financial Year Affected	Reasons
Kenya Power and lighting PLC	26-May-23	Year ending 30th June 2023.	Rapid depreciation of KES against major global currencies which in turn has sharply raised its obligations

Source: Company financials, NCBA IB Research

### Upcoming Corporate Actions

Counter	Dividend	Px (As at 02/06/2023)	Dividend Yield (%)	Book Closure Date	Payment Date
Jubilee	8.00	180.00	4.44%	14-Jun-23	26-Jul-23
Jubilee	3.00	180.00	1.67%	14-Jun-23	26-Jul-23
Total Energies	1.31	20.20	6.49%	15-Jun-23	31-Jul-23
Kenya Re	0.20	1.94	10.31%	16-Jun-23	28-Jul-23
NMG	1.50	19.85	7.56%	16-Jun-23	31-Jul-23
Bank of Kigali	3.92	33.15	11.83%	22-Jun-23	1-Jul-23
Umeme	2.25	14.20	15.85%	27-Jun-23	20-Jul-23
Crown Paints	4.00	42.90	9.32%	28-Jun-23	14-Aug-23

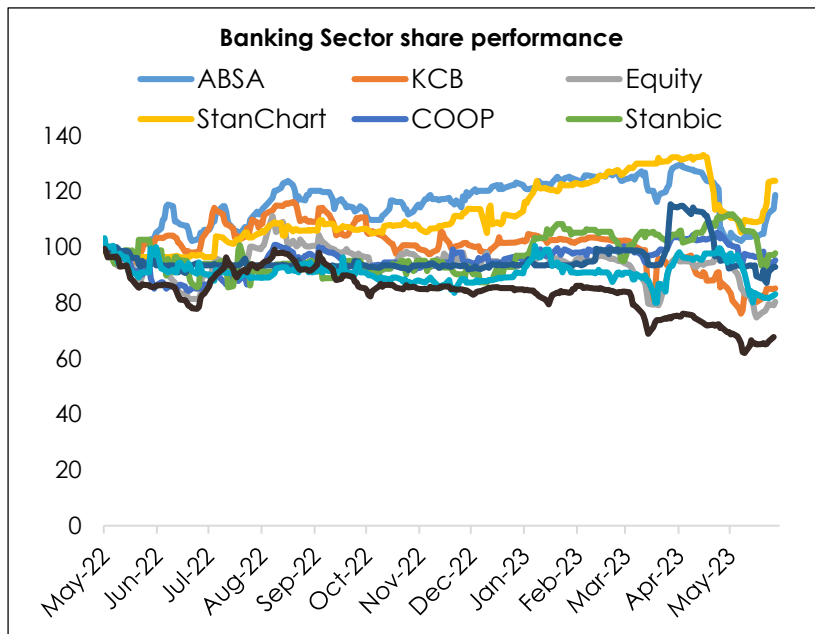
Source: Company financials, NCBA IB Research

## 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	ACCUMULATE

Source: Bloomberg, NCBA IB Research, NSE



### Financial Performance

- The banking sector's performance in Q1 2023 was - boosted by forex income underscoring the sector's resilience in a year when inflation hit 5-year high and global macroeconomic conditions deteriorated.
- Asset Quality: We observed a deterioration in asset quality with the NPL ratio for most banks rising on a year on year basis, attributable to the tough macroeconomic environment.
- See our Q1 2023-year earnings updates for banks under our coverage [here](#).

### Outlook

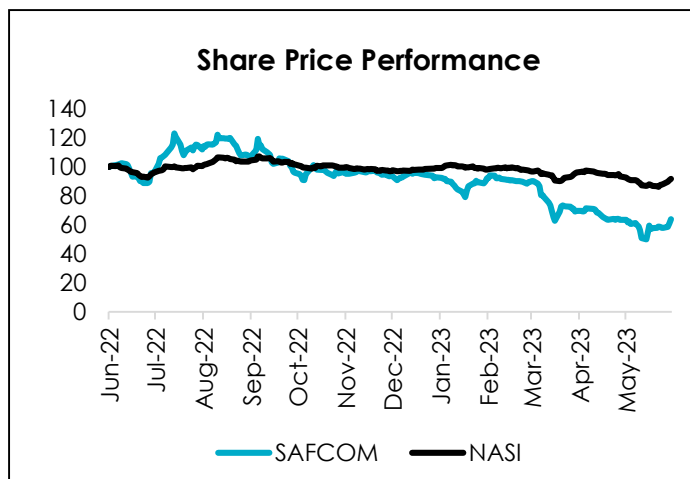
- We expect increased deployment of new funding to lending which will result in higher loan to deposit ratios and loan loss provisions. The increased deployment may be gradual in light of the prevailing macroeconomic variables.
- Increased revenue driven by revenue diversification in their respective 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 both interest and non-interest income, improved cost efficiency and regional subsidiaries. We recommend for investors to include these in their equities portfolio.

**Safaricom: BUY with a TP of KES 26.65**

Share Data	
BIC	SAFCOM KN
<b>Recommendation</b>	<b>BUY</b>
<b>Last Price</b>	<b>16.60</b>
Target Price	26.65
Upside (Excl. Div Yield)	60.5%
Market Cap (KES'Bn)	580.94
52 week high	34.00
52 week low	12.70
Free Float	25.06%



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**

- **M-PESA was the Key driver of growth:** Mpesa revenue grew by 8.8% to KES 117.19Bn supported by increased usage and growth of chargeable transactions per one-month active customers. M-pesa remains the biggest revenue contributor currently accounting for approximately 40% of service revenue.
- **Capital expenditure weighs down on the business:** Capex saw an increase to 93.1% to KES 96.1Bn driven by accelerated spending on investment in the new growth region of Ethiopia. Capex in Ethiopia was undertaken to support site and infrastructure costs to increase coverage in the growing market.
- **Profitability:** Profit recorded a decline of 22.2% to KES 52.48Bn, aggravated by the rollout costs in Ethiopia. The company which is in its third year of a 5-year strategy saw the bottom line affected by a KES 21.61Bn loss in Safaricom Ethiopia business and an increase in the effective tax rate to 40.6% from 34.0% in the previous financial year.

**Outlook**

We expect increased revenue from Safaricom Ethiopia, M-pesa, and mobile data revenue streams. Safaricom operations in Ethiopia could help achieve revenue expansion above consensus and entrench the company's presence in the region. However, we maintain a cautiously optimistic stance on this diversification venture.

**Recommendation**

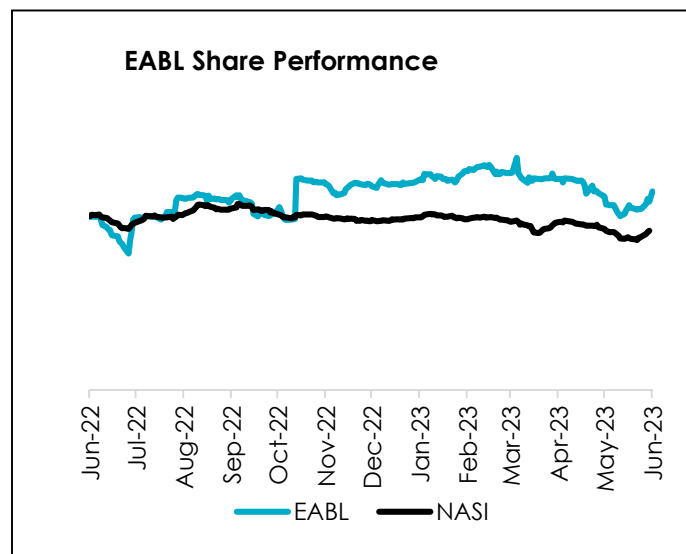
From our estimates and assumptions, we believe the stock is undervalued and maintain our BUY recommendation with a revised target price of **KES 26.65**. The target price implies an upside of 60% to the current trading price of **KES 16.60** as of 31<sup>st</sup> May 2023. See our Safaricom company report [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>151.75</b>
Target Price	195.18
Upside (Excl. Div Yield)	14.8%
Market Cap (KES'Bn)	120.00
52 week high	190.00
52 week low	110.00
Free Float	50.00%*

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 a 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 those higher prices driven by excise tax will negatively impact sales volumes as a result of increased consumer price sensitivity to substitutes.

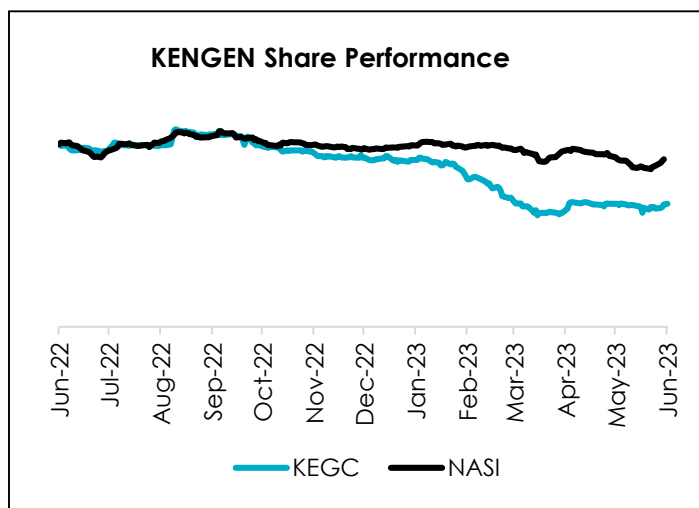
### Recommendation

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 151.75** as of 31<sup>st</sup> May 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>2.36</b>
Target Price	4.45
Upside (Excl. Div Yield)	87.8%
Market Cap (KES'Bn)	15.56
52 week high	3.88
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 continue to persist 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.

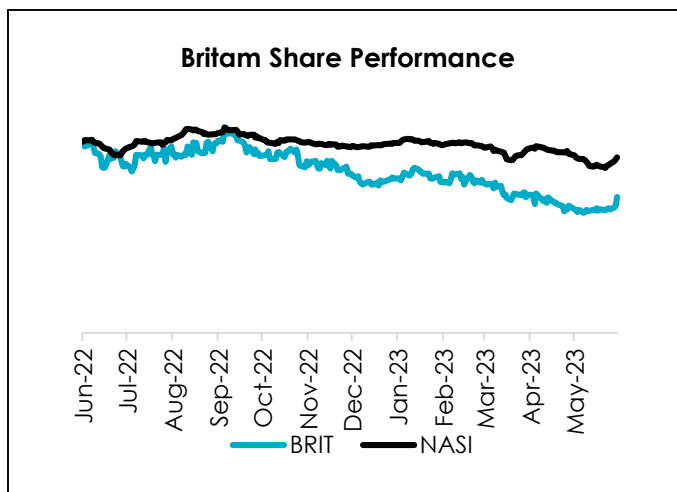
### Recommendation

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>4.58</b>
Target Price	6.24
Upside (Excl. Div Yield)	34.2%
Market Cap (KES'Bn)	11.56
52 week high	7.50
52 week low	4.01
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

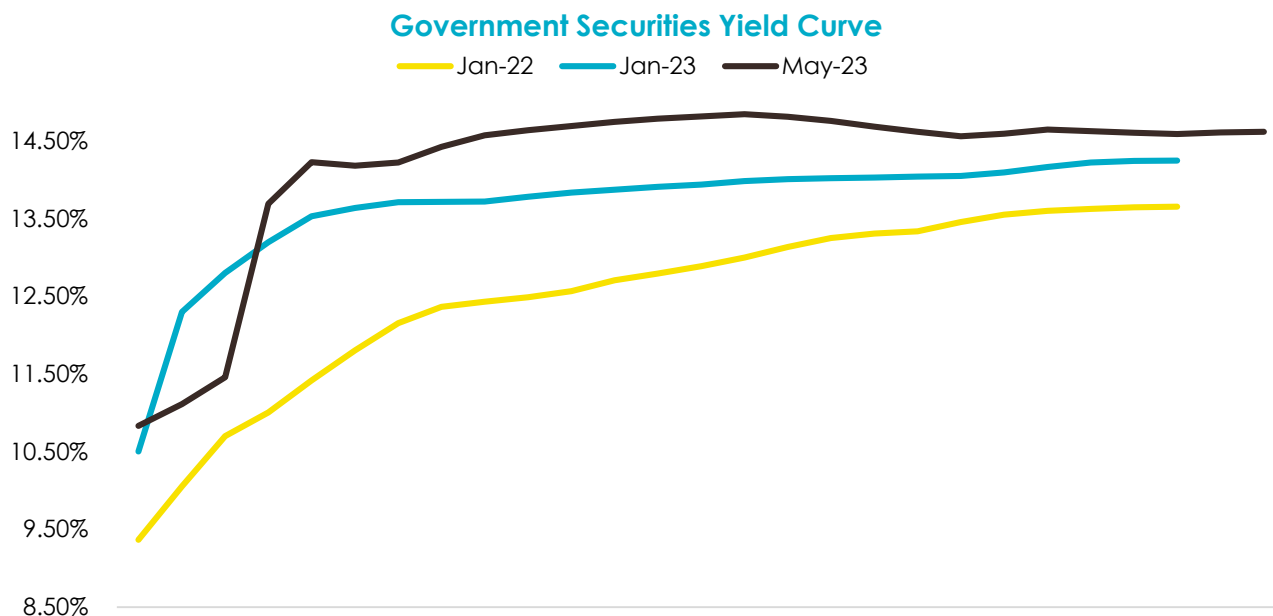
- Property investments are expected to anchor Britam's long-term growth. The long-term returns will realize capital gains for value investors.
- Increased government securities allocation will stabilize returns subject to fair value losses and gains pegged on the prevailing market conditions.
- Performance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



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 investors an opportunity to participate in the auction of a new treasury bond IFB1/2023/007 seeking to raise a total of KES 60.0Bn for funding of infrastructure projects in the FY 2022/2023.

Issue	IFB1/2023/007
Tenor to Maturity	7 yrs
Effective Tenor	4.5 yrs
Offered Amount (KES Mn)	60,000.00
Value Date	19/06/2023
Redemption Date	10/06/2030
<b>Coupon Rate (%)</b>	<b>Market determined</b>
Period of Sale	26/05/2023 to 13/06/2023
Minimum bidding Amount (KES)	100,000.00

Source: NSE, NCBAIB Research

### Kenya Government Debt Maturities Schedule – June 2023:

Treasury Bond Maturities				
Issue No.	Maturity Date	Fixed Coupon Rate	Outstanding Amount KES 'Mn	Implied Yield To Maturity
FXD1/2013/010	June 19, 2023	12.37%	39,248.20	9.9222%
<b>Total</b>			<b>39,248.20</b>	

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
IFB1/2015/009	June 5, 2023	<b>1.54</b>	8,506.50	11.00%	467.86	12.5000%
IFB1/2022/006	June 5, 2023	<b>5.54</b>	59,561.98	13.22%	3,935.56	13.1000%
FXD3/2019/005	June 12, 2023	<b>1.56</b>	44,830.50	11.49%	2,575.96	13.0370%
FXD2/2010/015	June 12, 2023	<b>2.56</b>	25,199.80	9.00%	1,133.99	14.2450%
FXD1/2008/020	June 12, 2023	<b>5.06</b>	55,410.70	13.75%	3,809.49	13.7841%
FXD2/2018/010	June 12, 2023	<b>5.56</b>	63,574.02	12.50%	3,974.01	13.9335%
FXD1/2010/025	June 12, 2023	<b>12.06</b>	20,192.50	11.25%	1,135.83	14.2512%
IFB1/2022/018	June 12, 2023	<b>17.06</b>	79,827.50	13.74%	5,484.95	14.0472%
FXD1/2013/010	June 19, 2023	<b>0.08</b>	39,248.20	12.37%	2,427.70	9.9222%
FXD1/2018/025	June 19, 2023	<b>20.08</b>	94,326.70	13.40%	6,319.89	14.5650%
<b>Total</b>					<b>31,265.23</b>	

Treasury Bills	
Payment Date	Amount KES 'Mn
June 5, 2023	22,222.49
June 12, 2023	26,947.84
June 19, 2023	21,680.69
June 26, 2023	15,481.86
<b>Total</b>	<b>86,332.88</b>

Source: CBK, 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 11.72 cents daily in the month of May 2023, compared to a daily average of 21.07cents in April 2023 pointing to persistent dollar demand outstripping supply.

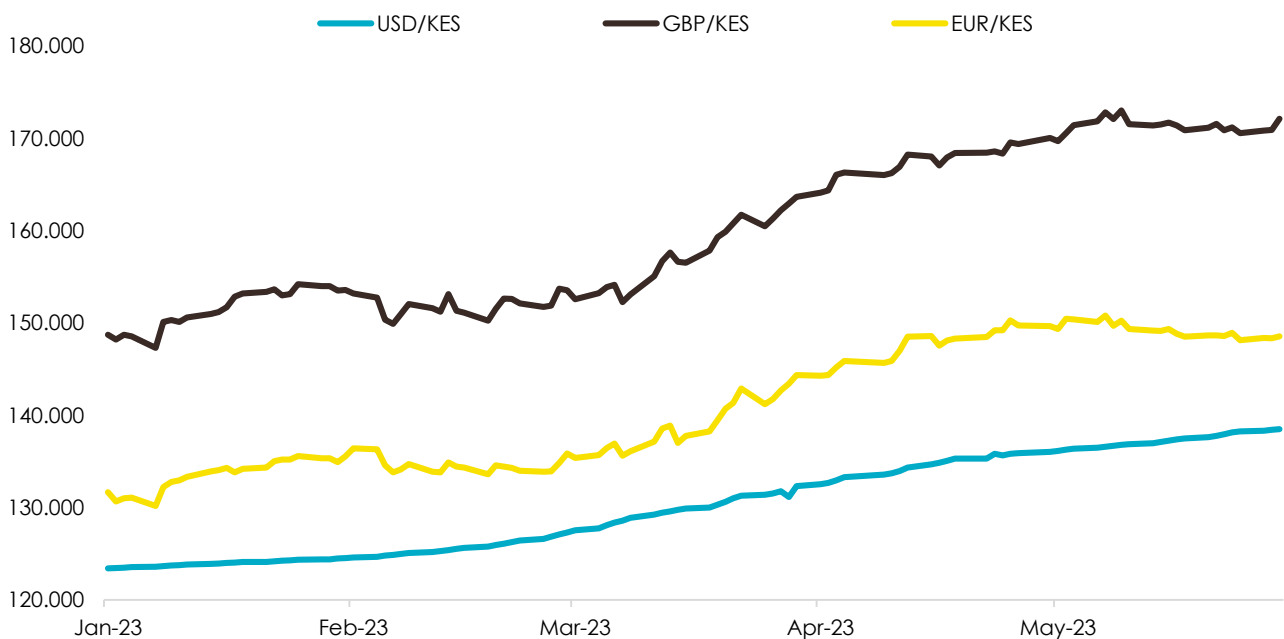
KES depreciated against the Euro and the Sterling pound – a phenomenon attributable to policy rate hikes by the ECB and the Bank of England. The US Federal Reserve Bank raised its reference rate by 25 bps while the Bank of England and the European Central Bank raised their respective rates by 50 bps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

The MPC maintained the CBR rate at 9.50% in its May 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
May '23	(1.9%)	(1.6%)	(0.8%)
YTD 2023	(10.9%)	(13.6%)	(11.4%)



Source: CBK, NCBA IB Research

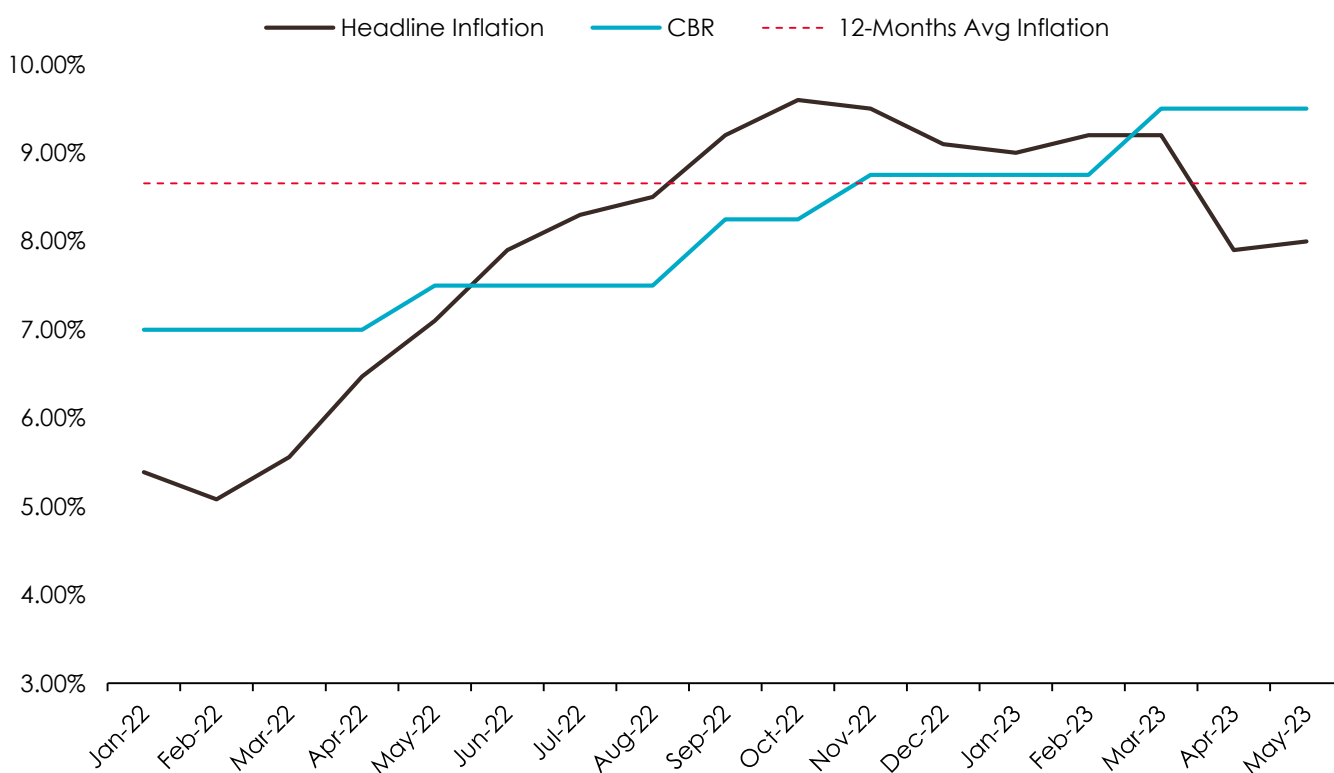
### Inflation:

Overall inflation increased marginally to 8.0% in May 2023 from 7.9% in April, mainly driven by food and energy prices.

Food inflation increased slightly to 10.2% from 10.1% in April. Fuel inflation increased to 13.6% from 13.2% in April while non-food-non-fuel (core inflation) increased modestly to 4.3% from 4.1% in April.

Liquidity conditions in the interbank space tightened in the month of May'23. Indicatively, the overnight interbank rate rose 76bps month on month to close at 9.39%. Moreover, the average daily traded volumes declined by 10.3% to KES 21.56Bn from KES 24.04Bn observed in the previous month.

Statistic	May 2023	April 2023	change (bps)
CBR	9.50%	9.50%	-
Inflation	8.00%	7.90%	10.0
Average Interbank Rate	9.39%	8.63%	75.70



Source: CBK, KNBS, NCBA IB Research

### Kenya International Debt Yield Curves:

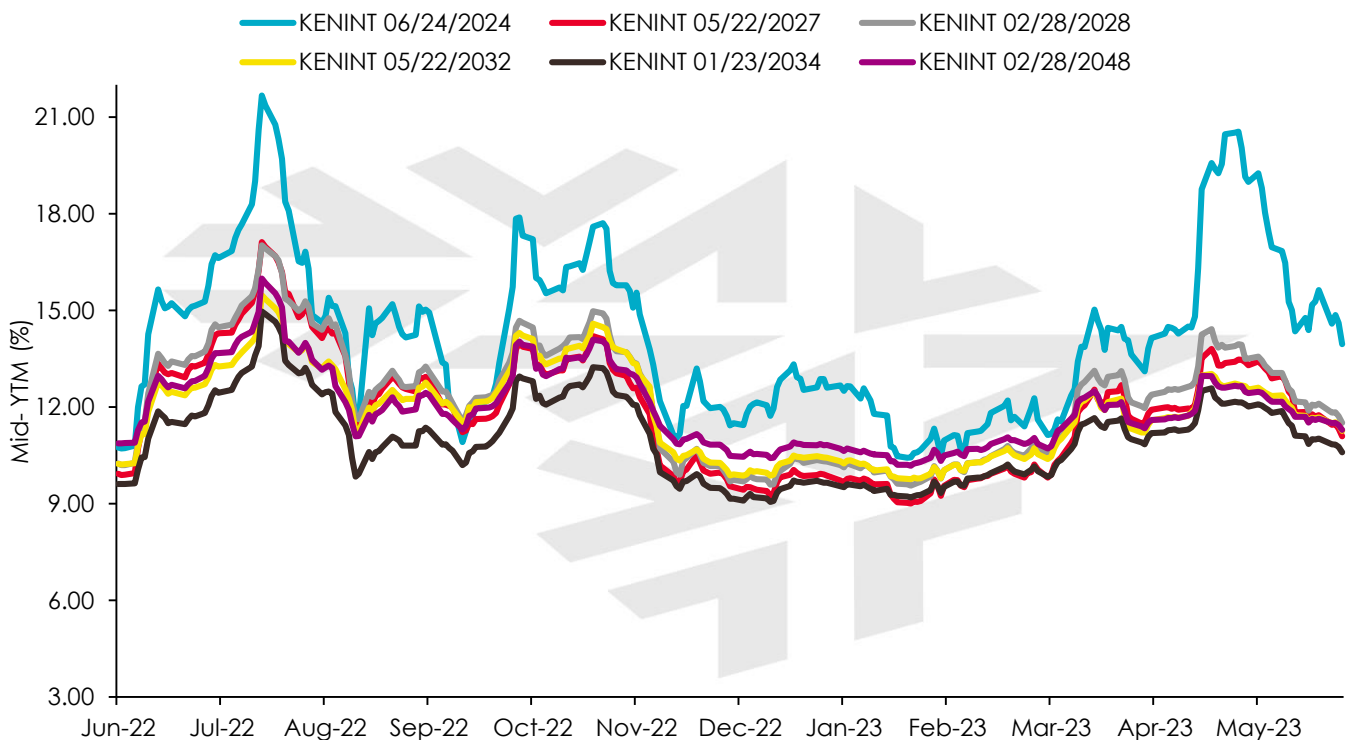
Kenyan Eurobond yields recorded mixed performance amidst policy rate hikes and the downgrading of Kenya's economic outlook by Moody's credit rating agency from B2 to B3 driven by an increase in government liquidity risk.

Relatedly the International Monetary Fund (IMF) reached a staff level agreement with the Kenyan government after the completion of an in-country evaluation. Upon IMF Board approval, immediate access will be made to USD 410.00Mn for budgetary support.

Below are the six Kenyan Eurobonds and their yield trends:

No.	Eurobond	Tenor (Years)	Coupon Rate	Current Yield
1	KENINT 06/24/2024	1.06	6.88%	13.95%
2	KENINT 05/22/2027	3.98	7.00%	11.09%
3	KENINT 02/28/2028	4.75	7.25%	11.51%
4	KENINT 05/22/2032	8.99	8.00%	11.26%
5	KENINT 01/23/2034	10.67	6.30%	10.59%
6	KENINT 02/28/2048	24.82	8.25%	11.29%

Source: Bloomberg, NCBA IB Research



Source: Bloomberg, 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.

## Physical Address

NCBA Annex,  
Hospital Road, Upper Hill, Tel: +254 20 2884444  
Mobile: +254 711 056444/+254 732 156444

## Certification

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## Key Contacts: Research Team

[ncbaresearch@ncbagroup.com](mailto:ncbaresearch@ncbagroup.com)

## Key Contacts: Trading Team

[dealing@ncbagroup.com](mailto:dealing@ncbagroup.com)