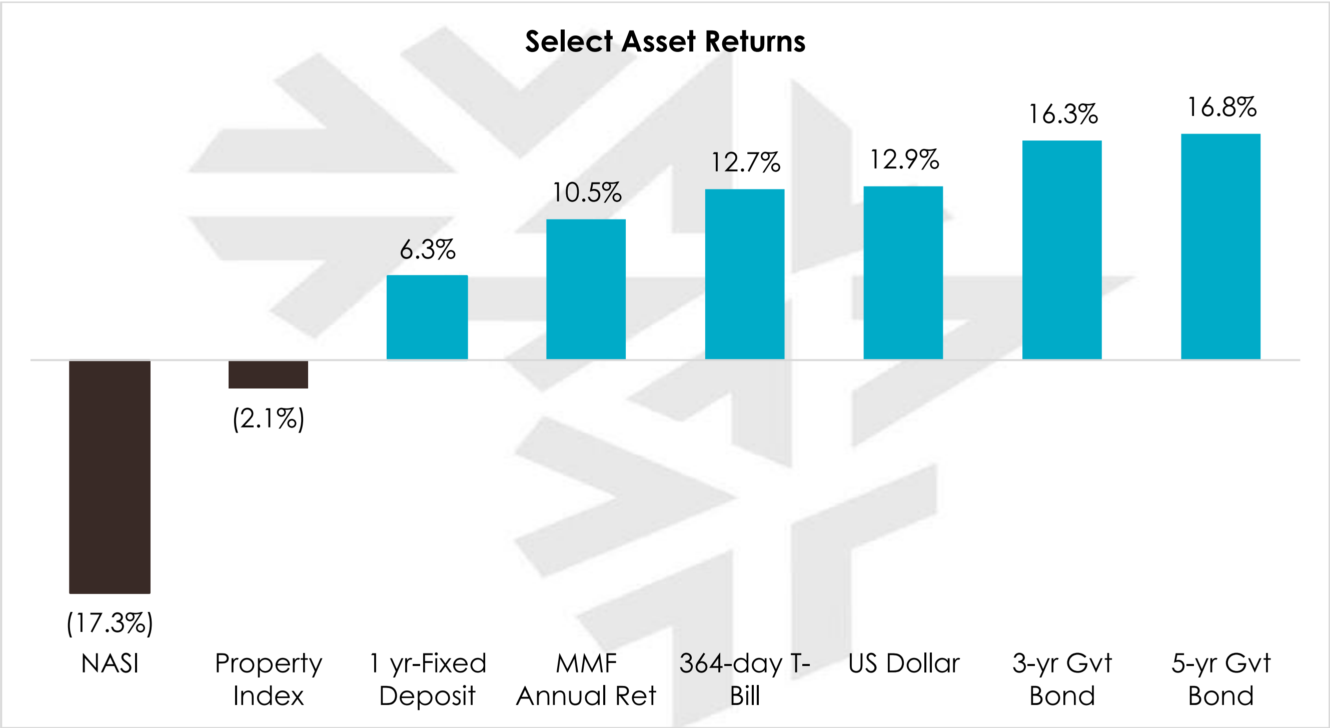
Asset Class Performance

This month, we take a deep dive into which investments have made you money in 2023. The chart below highlights the returns of select assets in 2023:



Source; CBK, Hass Consult, NSE, NCBA IB Research

Investment in short term government securities delivered the strongest returns to investors, outperforming returns from Nairobi Securities Exchange listed equities.

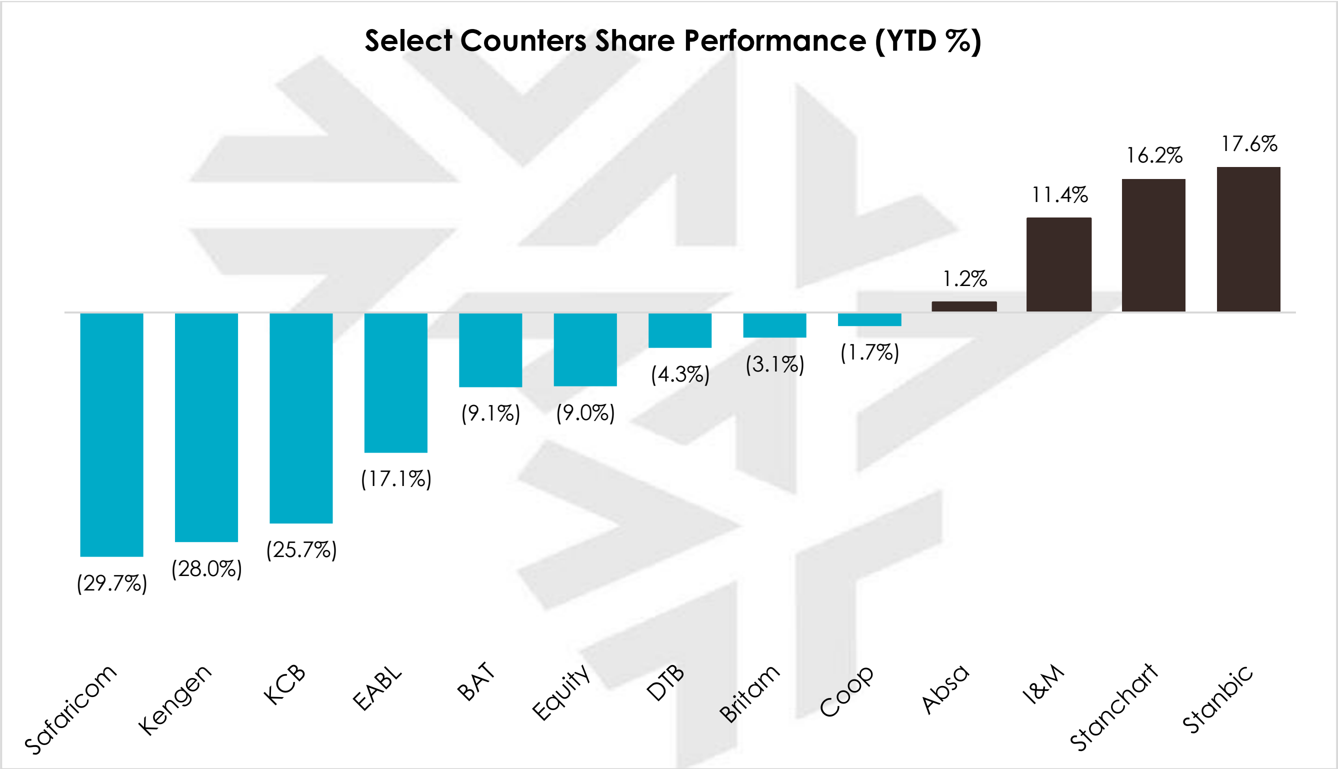
Government bonds auctioned this year averaged 13.64%, up from 12.83% in the corresponding period in 2022. The highest return was recorded on a seven-year infrastructure bond with an effective interest rate of 15.84%, issued in June. T-Bills have surpassed the 12% mark from an average of 9.8% at the beginning of the year. We expect investors to be biased towards the short-term fixed income investments in Q32023.

The equities market has faced headwinds on the back of persistent foreign outflows, although on a lower scale compared to 1H2022. The NSE shed KES 341.36Bn in investor wealth as at 31st July 2023 with the three indices in the red. The NSE All Share index has recorded a 17% loss, year-to-date.

Approximately 50% of listed stocks have lost value, with Safaricom recording a loss of ~30%. Stocks hit new 52- week lows with SCOM reaching a low of KES 12.70 during the period.

Banking sector stocks have showed resilience with Stanbic leading with a ~17% return excluding dividend yield. This is attributable to impressive earnings posted as well as attractive dividends.

The graph below illustrates different stocks under our coverage and their respective performance:



Source: NSE, NCBA IB Research

Outlook

The market currently presents an investment opportunity. We believe that investors should reposition towards value stocks with strong earnings growth that are trading at discounts to their intrinsic value.

Looking ahead, we are cautiously optimistic about the potential return of foreign investors, driven by expected global stability and an improvement in local macro-economic conditions.

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

- **Macro-economic environment:** Further deterioration in macroeconomic factors, such as overall economic growth, inflation, and interest rates leading to a challenging investment environment.

FIXED INCOME

Kenya Fitch Credit Rating

Fitch Rating Agency downgraded the Outlook on Kenya's **Long-Term Foreign Currency Issuer Default Rating (IDR)** to **Negative** from **Stable**. The downgrade reflects heightened external financing constraints with high funding requirements especially with the USD 2.0Bn Eurobond maturity due in June 2024 and rising financing costs.

Additionally, the uncertainty in fiscal trajectory with a court injunction on the implementation of new tax hikes amidst social unrests contributed to the revised outlook.

The rating considered Kenya's high domestic and external debt coupled with a narrow revenue base against commitments to fiscal consolidation measures supported by the IMF.

Country	Fitch	Moody's	Standard & Poor's
Kenya	B, Negative	B3, Negative	B, Negative
Rwanda	B+, Negative	B2, Negative	B+, Stable
Tanzania	B+, Stable	B2, Positive	Not rated
Egypt	B+, Negative	B3, Stable	B, Stable
South Africa	BB-, Negative	Ba2, Stable	BB-, Stable
Nigeria	B-, Stable	Caa1, Stable	B-, Negative
Uganda	B+, Negative	B2, Negative	B, Negative
Ethiopia	CCC-	Caa2, Negative	CCC, Negative
Ghana	RD	Ca, Stable	SD
Zambia	RD	Ca, Stable	SD

*RD- Restricted Default *SD- Selective Default

Currency:

The Kenya Shilling has maintained a gradual depreciation against the US dollar. The shilling shed an average of 9.83 cents daily in the month of July 2023, compared to a daily average of **10.16 cents** in June 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 raised interest rates to a 22-year high to a range of 5.25% to 5.50% as it continued its fight to tame inflation.

We expect KES 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 below highlights the KES movement against the respective foreign currencies:

Currency Performance			
Period	**USD/KES**	**EURO/KES**	**GBP/KES**
July '23	(1.3%)	(2.3%)	(3.1%)
YTD 2023	(13.30%)	(15.93%)	(18.71%)

Interest rates:

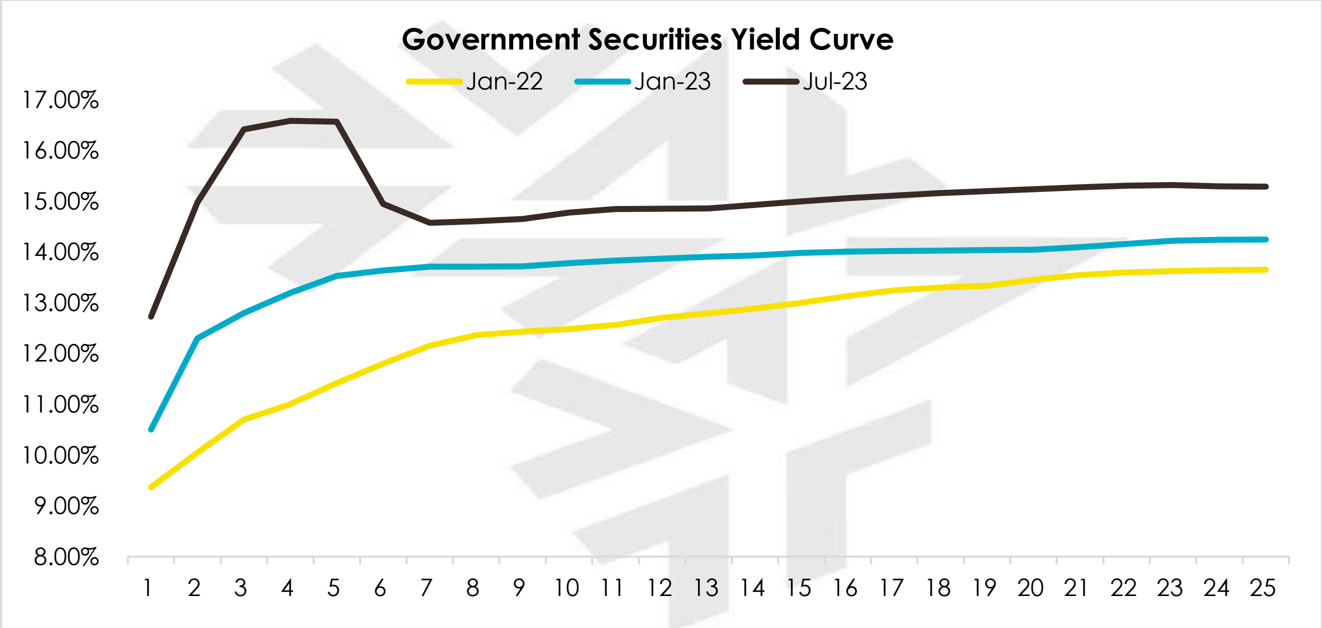
The MPC hiked the **CBR** rate to **10.50%** in its June meeting citing the necessity to reign in the raging inflationary pressures in light of the ongoing elevated geopolitical risks and their potential impact on the domestic economy. Relatedly, overall inflation eased to 7.3% in July 2023 from 7.9% in June 2023, driven by moderate price pressure on basic food items, electricity and cooking gas. This represents the second consecutive drop since June with the rate falling to the CBK's target range of **2.5%-7.5%.**

The committee is expected to meet again on **9th August 2023** to assess the impact of the recent hike and decide on whether to hike maintain the current rate. We anticipate the MPC to maintain the rate at 10.50% as they continue to monitor the effects of the June hike still being transmitted in the economy and the easing inflation.

Yields on Treasury bills have gone up in July, surpassing the **12% mark** for all three tenors. Treasury bills recorded high subscription rates during the month underpinning demand for short term papers. Investors' demand was concentrated on the 91-day paper as investors look to mitigate duration risk.

Prevailing rates	July 2023	June 2023	M/M change (bps)
91 Day	12.352%	11.904%	44.80
182 Day	12.392%	11.947%	44.50
364 Day	12.728%	12.157%	57.10

Source: CBK, NCBA IB Research



The yields have been on an **upward trajectory** with investors demanding higher returns to cushion against duration and interest risks. There is also increased appetite for the domestic debt necessary to meet GOK's increased target for FY 23/24.

We expect the upward pressure on the yield curve to persist for the remainder of FY2023.

Liquidity conditions

Liquidity conditions in the interbank space tightened in the month of July'23. Indicatively, the overnight interbank rate rose by 80bps month on month to close at 10.38%. Moreover, the average daily traded volumes declined to KES 15.03Bn from KES 18.21Bn observed in the previous month.

Statistic	July 2023	June 2023	change (bps)
CBR	10.50%	10.50%	-
Inflation	7.3%	7.9%	(60.00)
Average Interbank Rate	10.38%	9.58%	80.00

Source: CBK, KNBS, NCBA IB Research

IMF approves a 10-months extension of the EFF/ECF arrangement

The International Monetary Fund (IMF) executive board completed Kenya's fifth review of the 38-month Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangement (now 48-months), allowing for an immediate disbursement of USD 415.4 Mn (KES 58.9 Bn). The disbursement brings the total IMF financial support under these arrangements to USD 2.1 Bn.

The Board also approved a 10-month extension of the EFF/ECF arrangements (up to April 1, 2025), as well as an augmentation of access equal to 75% of quota (SDR 407.1 Mn) to make up for the extension. The extension is expected to allow sufficient time to implement the authorities' reform agenda and realize the program's key objective of addressing debt vulnerabilities, global shocks, and enhance governance and broader economic reforms.

The IMF stated that while the medium-term outlook is encouraging, near-term global headwinds continue to weigh on economic growth, as inflationary pressures remain high. The uncertainty is particularly acute for government income because of rapid changes in the macroeconomic climate, including the future repercussions of the Ukraine war. Local social unrest, driven by opposition to change may result in lower tax receipts.

Kenya International Debt:

Kenyan Eurobond yields recorded mixed performance amidst policy rate hikes and debt sustainability concerns.

Below are the six Kenyan Eurobonds and their yield trends:

No.	Eurobond	Tenor (Years)	Coupon Rate	Current Yield
1	KENINT 06/24/2024	0.90	6.88%	11.70%
2	KENINT 05/22/2027	3.82	7.00%	10.00%
3	KENINT 02/28/2028	4.59	7.25%	10.61%
4	KENINT 05/22/2032	8.84	8.00%	10.38%
5	KENINT 01/23/2034	10.52	6.30%	10.05%
6	KENINT 02/28/2048	24.66	8.25%	10.71%

August Bond Offer | FXD1/2023/002 and Re-opened FXD1/2023/005

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 Treasury bond **FXD1/2023/002** and **Re-opened FXD1/2023/005** seeking to raise **KES 40.0Bn** for budgetary support.

Issue	FXD1/2023/002	FXD1/2023/005
Tenor to Maturity	2 yrs	4.9 yrs
Redemption Date	18-Aug-25	10-Jul-28
Coupon Rate (%)	**Market Determined**	**16.844%**
Offered Amount (KES Mn)	40,000.00	
Value Date	21-Aug-23	
Period of Sale	7/31/2023 to 8/16/2023	
Minimum Bidding Amount	50,000.00	

Source: NSE, NCBAIB Research

Kenya Government Debt Maturities Schedule – August 2023:

Coupon payments						
Issue No.	Next Coupon Payment Date	Tenor to Maturity	Outstanding Amount KES 'Mn	Coupon Rate	Coupon payment (KES 'Mn)	Implied Yield To Maturity
FXD1/2013/015	August 14, 2023	**4.55**	82,473.25	11.25%	4,639.12	16.5591%
FXD3/2019/010	August 14, 2023	**6.05**	68,743.45	11.52%	3,958.59	14.8847%
FXD1/2023/010	August 14, 2023	**9.55**	12,886.51	14.15%	911.79	14.7290%
SDB1/2011/030	August 14, 2023	**17.55**	28,144.70	12.00%	1,688.68	14.5957%
FXD1/2021/020	August 14, 2023	**18.05**	75,984.00	13.44%	5,107.64	14.5700%
FXD1/2019/005	August 21, 2023	**0.57**	65,359.50	11.30%	3,694.12	10.4384%
FXD1/2016/010	August 21, 2023	**3.07**	34,046.92	15.04%	2,560.16	16.3280%
FXD1/2018/010	August 21, 2023	**5.07**	40,584.60	12.69%	2,574.28	16.2619%
FXD1/2019/010	August 21, 2023	**5.57**	67,524.85	12.44%	4,199.37	15.5657%
FXD1/2020/015	August 21, 2023	**11.57**	73,156.30	12.76%	4,665.91	14.8505%
IFB1/2017/012	August 21, 2023	**5.57**	11,402.85	12.50%	712.68	12.8525%
IFB1/2020/011	August 21, 2023	**8.07**	80,249.60	10.90%	4,373.60	14.5250%
IFB1/2022/019	August 21, 2023	**17.57**	98,377.55	12.97%	6,377.32	14.1953%
Total					**45,463.27**	

Treasury Bills	
Payment Date	Amount KES 'Mn
August 7, 2023	27,789.73
August 14, 2023	45,203.13
August 21, 2023	42,748.23
August 28, 2023	22,031.10
Total	**137,772.19**

Source: CBK, NCBA IB Research

IMF July 2023 World Economic Outlook Update:

- **Global recovery is slowing**

The International Monetary Fund (IMF) upgraded its forecast for global growth in a new report published in July, raising its 2023 prediction from the 2.8% assessed in April to 3.0%.

The IMF attributed the slight uptick in growth to a resilient service sector and strong labor markets in the first quarter. The IMF also said inflationary pressures and stress on the banking sector are subsiding.

The latest outlook however, predicts global gross domestic product (GDP) growth to remain flat, hovering around 3% into 2024, as risks in the global economy persist. The numbers for 2023 and 2024 remain sluggish compared with overall economic growth of 6.3% in 2021, and 3.5% last year.

- **Lower Inflation**

The IMF forecasts that global headline inflation will fall to 6.8% in 2023 from 8.7% in 2022, dropping to 5.2% in 2024, but core inflation would decline more gradually, reaching 6.0% in 2023 from 6.5% in 2022 and easing to 4.7% in 2024. It could take until the end of 2024 or early 2025 for inflation to come down to central bankers' targets hence end the current cycle of monetary tightening.

The IMF warned that inflation could rise if the war in Ukraine intensified, citing concern about Russia's withdrawal from the Black Sea grain initiative, or if more extreme temperature increases caused by the El Nino weather pattern pushed up commodity prices. That in turn could trigger further rate hikes.

- **Interest Rates Still Rising**

The rise in central bank policy rates to fight inflation continues to weigh on economic activity. Central banks should remain focused on fighting inflation, strengthening financial supervision and risk monitoring. If further strains appeared, countries should quickly provide liquidity. The IMF advised countries to build fiscal buffers to gird for further shocks and ensure support for the most vulnerable.

- **Emerging economies take the lead**

The IMF projected that a large share of growth in 2023 will come from emerging and developing economies, with stable growth of 4 to 4.1% in 2023 and 2024 respectively. This is expected to be mainly driven by China and India.

The report however warned that credit availability remains tight for emerging economies, and there is a risk of debt distress spreading to more economies.

On other hand, growth in more advanced economies is projected to expand at a slower pace, i.e., 1.5% and 1.4% in 2023 and 2024. For the US, the IMF predicts 2023 growth of 1.8% and 1% in 2024.

East Africa Economic Outlook 2023

East Africa will register the highest regional economic performance on the continent in 2023 and 2024, with growth figures of over **5%.** Projections indicate mid-term economic growth in the region to accelerate to **5.1%** in **2023** and **5.8 %** in 2024, outpacing all the other African regions, largely driven by growth in Rwanda, Uganda, Ethiopia, Kenya, Djibouti, and Tanzania.

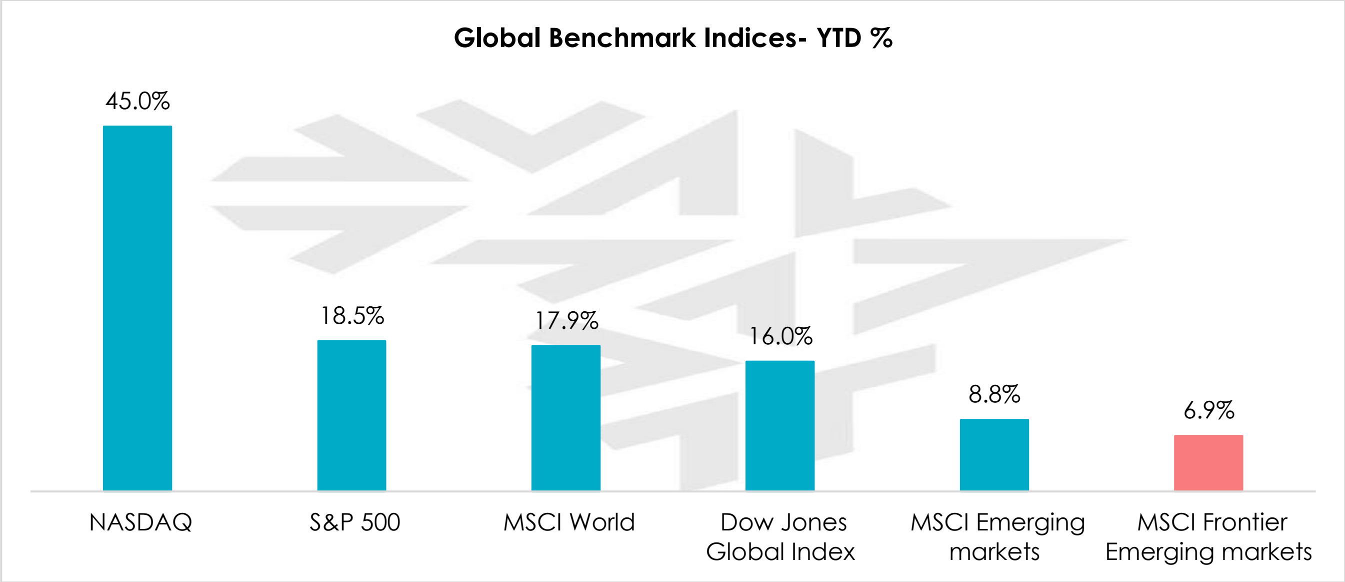
AfDB forecasts Kenya's economic growth at 5.6% in 2023.

The African Development Bank has projected the country's economic growth prospect to a pace of 5.6% this year driven by services and household consumption.

EQUITIES

Global Markets performance

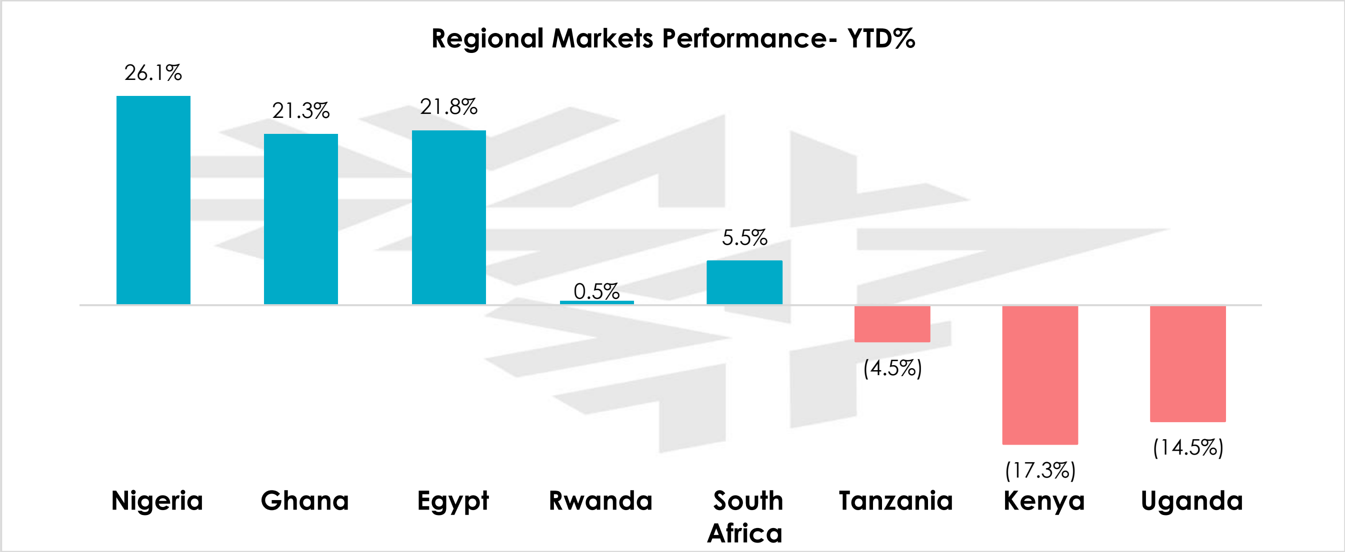
US equity indices were largely positive; hovering around year-to-date highs after investors' sentiment appeared to get a boost from a series of strong corporate earnings and positive economic readings, particularly on inflation.



Source: Bloomberg, NCBA IB Research

Regional Markets performance

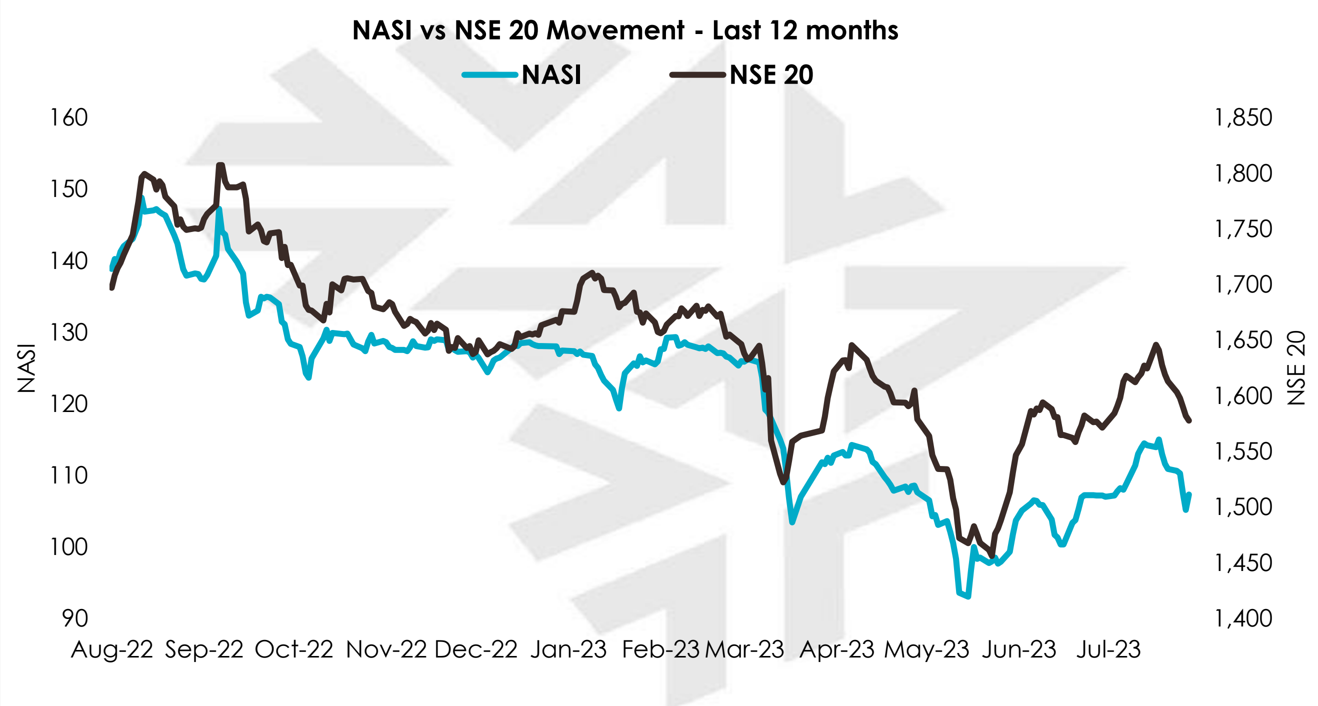
In comparison to peers, Kenya's stocks market delivered the lowest dollar-denominated returns for investors in the first half of the year. According to Morgan Stanley Capital International Index (MSCI) statistics, the market registered paper losses of 30.9% in the six months to June, compared to losses of 24.3% in Nigeria.



Source: Bloomberg, NCBA IB Research

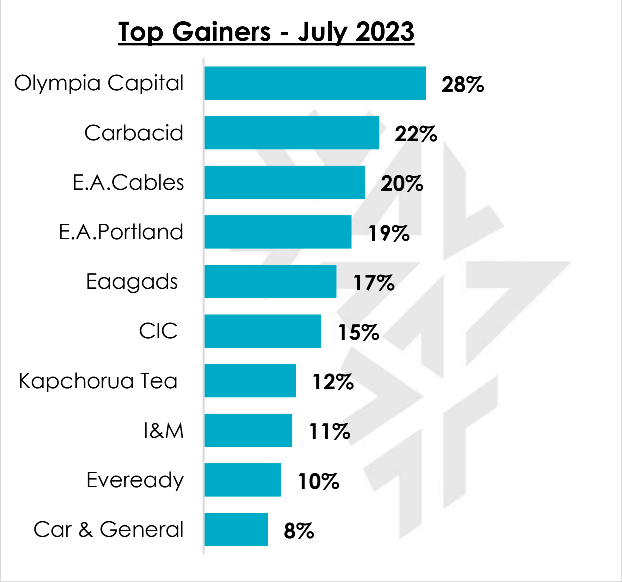
Local Market Performance:

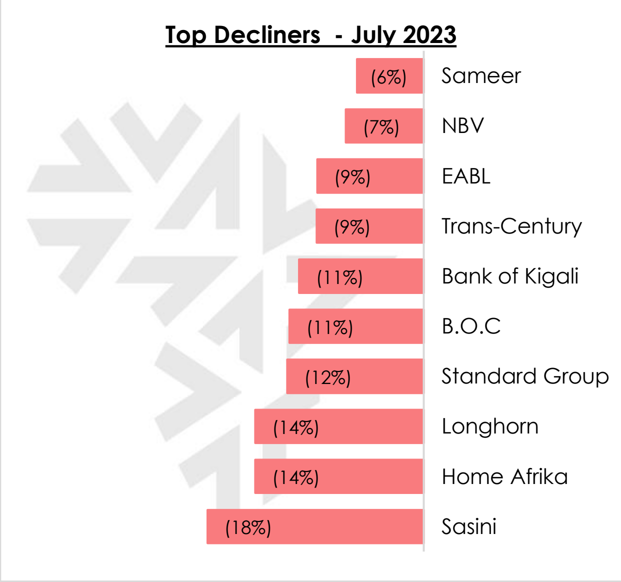
The stock market showed muted activity, with NASI slightly up by 1.62% in the month of July. NSE-20 and NSE-25 shrunk declined by 0.18% and 0.38%, respectively.



Source; Bloomberg, NCBA IB Research, NSE

NSE Counter Performance



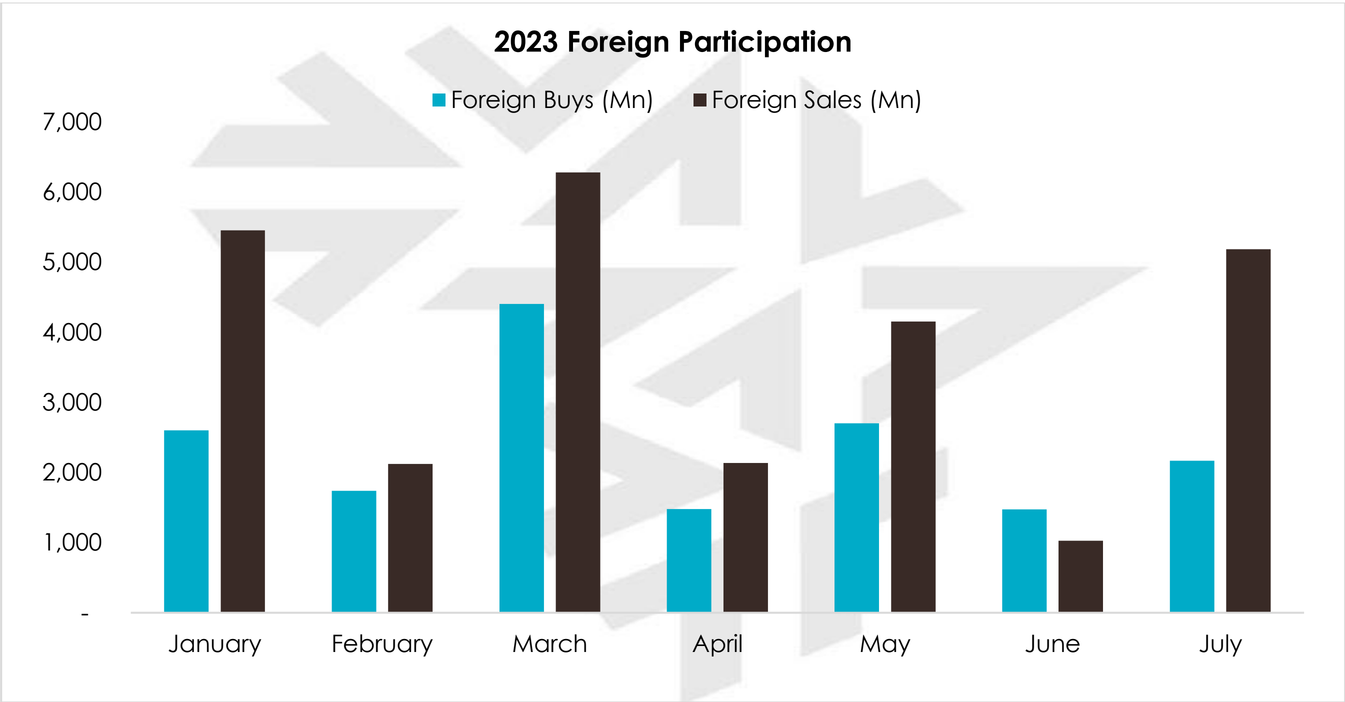


Source: NSE, NCBA IB Research

Foreign Investors Participation

Foreign investors' selloffs increased to **KES 5.18Bn** net sales in July from KES1.02Bn in June. Volumes traded in July were significantly higher because of a one-off transaction on Safaricom worth KES 3.5Bn, traded between a foreign seller and local buyer.

Foreign outflows are largely attributable to the interest rate hikes in developed economies, increasing the attractiveness of their investment opportunities.



Source: NSE, NCBA IB Research

Corporate Actions

Profit Warnings

Centum Investment Plc issued a profit warning in July. Profit warnings are issued when firms anticipate at least a 25% decline in their profits.

Company	Date	Financial Year	Reasons
Centum Investment Plc	24-Jul-23	For the year ended March 2023.	The board attributed the decline to impairment provisions relating to business operations of its majority owned subsidiary, Two Rivers Development Limited.

Source: Company financials, NCBA IB Research

Upcoming Dividend payments

Counter	Dividend	Current price	Book Closure Date	Payment date
KAPCHORUA TEA FARM	25.0	173.00	23-Aug-23	04-Sep-23
Williamson Tea	30.00	232.75	23-Aug-23	04-Sep-23
BAT KENYA	5.00	418.25	18-Aug-23	22-Sep-23
eabl	5.50	141.00	15-Sep-23	27-Oct-23
CENTUM	0.60	9.00	Subject to Approval	Subject to Approval

Source: Company financials, NCBA IB Research

Our August 2023 Stock Picks

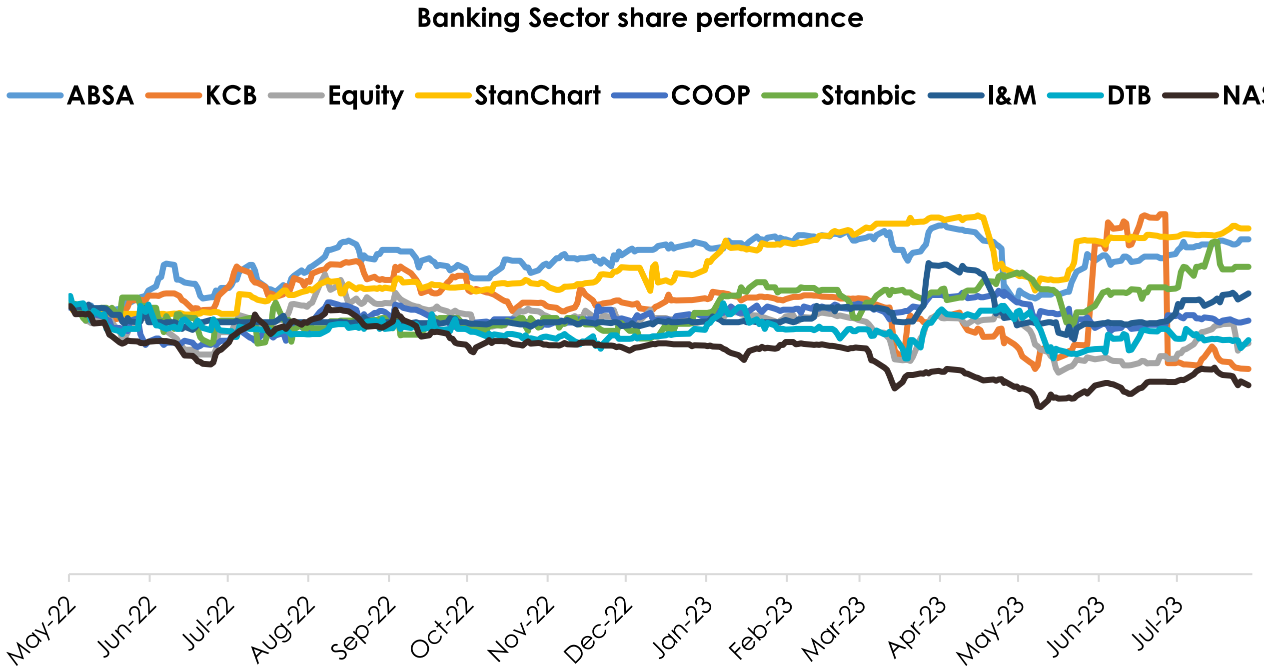
Counter	Current Price *31st July 2023	Target price	Upside	Dividend	Div. Yield	Recommendation
Banking						
KCB	28.50	53.80	88.77%	2.00	7.02%	BUY
Equity	41.00	59.32	44.68%	4.00	9.76%	BUY
DTB	47.70	62.53	31.09%	5.00	10.48%	BUY
COOP	11.90	15.10	26.89%	1.50	12.61%	BUY
ABSA	12.35	14.52	17.57%	1.35	10.93%	ACCUMULATE
I&M	19.00	23.40	23.16%	2.25	11.84%	BUY
Stanbic	120.00	113.03	-5.81%	12.60	10.50%	**SELL**
SCBK	165.00	156.93	-4.89%	22.00	13.33%	**SELL**
Insurance						
Britam	5.04	6.24	23.81%	-	-	BUY
Telecommunication						
Safaricom	16.90	26.65	57.69%	1.20	7.10%	BUY
Energy & Petroleum						
KenGen	2.32	4.45	91.81%	-	-	BUY
Manufacturing & Allied						
BAT	418.25	501.25	19.84%	5.00	1.20%	BUY
EABL	141.00	178.04	26.27%	5.50	3.90%	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%

INVESTMENT CONSIDERATIONS

Banking Sector Counters



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 a 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

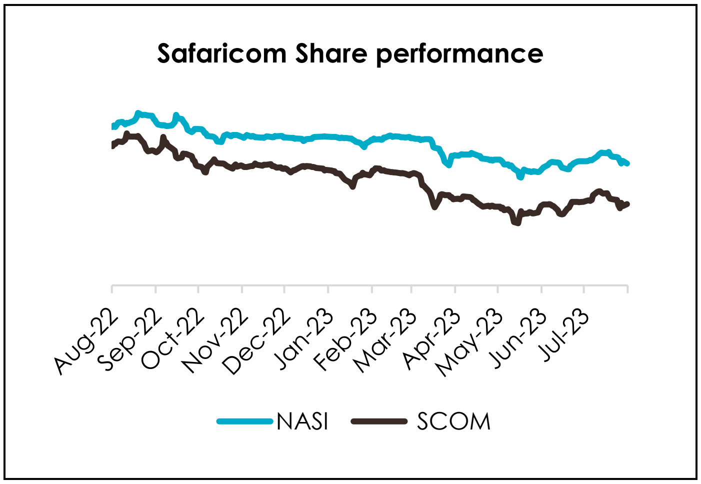
- We expect increased deployment of new funding to lending which will result in higher loan to deposit ratios and loan loss provisions. The increased deployment may be gradual in light of the prevailing macroeconomic variables.
- Increased revenue driven by revenue diversification in their respective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

Recommendation

We opine that 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 portfolios.

Safaricom: BUY with a TP of KES 26.65

Share Data	
BIC	SAFCOM KN
Recommendation	**BUY**
Last Price	**16.90**
Target Price	26.65
Upside (Excl. Div Yield)	57.69%
Market Cap (KES'Bn)	677.16
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 28% year-to-date compared to the wider index's 15.97% decline attributable to the sustained sell-off by foreigners. Safaricom accounts for approximately 50% of the market, based on market capitalization.

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 a 93.1% increase to KES 96.1Bn driven by accelerated spending on investment in Ethiopia. Capex in Ethiopia was undertaken to support site and infrastructure costs.
- **Profitability:** Profit saw a decline by 22.2% to KES 52.48Bn, as the rollout costs of the Ethiopian network continued to take a toll. 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 the Safaricom Ethiopia business.

Outlook

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

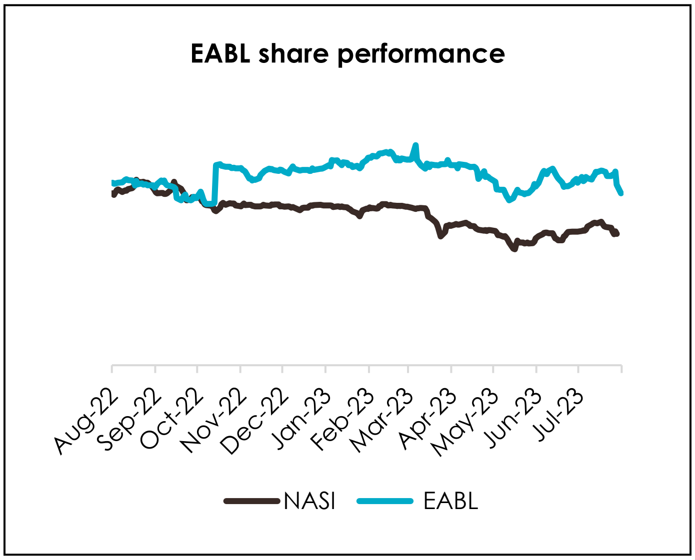
Recommendation

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.** See our Safaricom company report here.

EABL: BUY with a TP of KES 178.05

Share Data	
BIC	EABL KN
Recommendation	**BUY**
Last Price	**141.00**
Target Price	**178.04**
Upside (Excl. Div Yield)	**38.43%**
Market Cap (KES'Bn)	**111.49**
52 week high	**190.00**
52 week low	**110.00**
Free Float	**49.97%**

Source: Bloomberg, NCBA IB Research, NSE



Financial Performance

- EABL announced their FY23 financial results recording a decline in profits by 20.9% to KES 12.3Bn in a period deeply impacted by persistent high inflation as well as multiple excise tax increases in Kenya.
- EABL's current revenue contribution has Kenya, Uganda and Tanzania at 64%, 21%, and 15%, respectively.
- Continued consumption of spirits has become entrenched as the favorite for the vibrant young population. Mainstream spirits growth has consistently outperformed the beer category. Net sales from spirits rose by 3% y/y while the beer category saw a decline of 2% y/y. We expect growth in net sales in Kenya to be driven by continued growth in the spirits fueled by premiumization in spirits with brands like Tanqueray and Gordons.

Outlook

We expect performance in the regional subsidiaries to support growth. Subsequently, Kenya's aggregate contribution will decline in the long run on the back of a prohibitive tax environment.

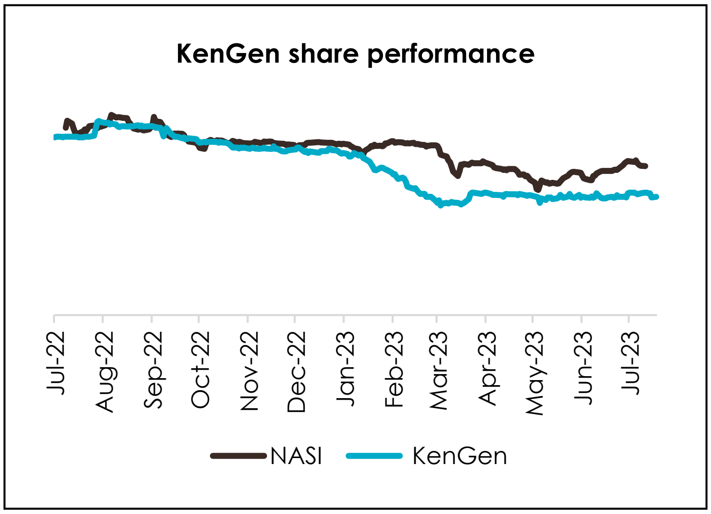
Recommendation

From our estimates and assumptions, we see a significant upside potential and recommend **BUY** with a target price of **KES 178.04.** See our EABL company report **here.**

KenGen: BUY with a TP of KES 4.45

Share Data	
BIC	KEGC KN
Recommendation	**BUY**
Last Price	**2.31**
Target Price	4.45
Upside (Excl. Div Yield)	92.64%
Market Cap (KES'Bn)	15.29
52 week high	3.88
52 week low	2.00
Free Float	29.73%

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 persist even as Kenya Power struggles to undertake reforms.

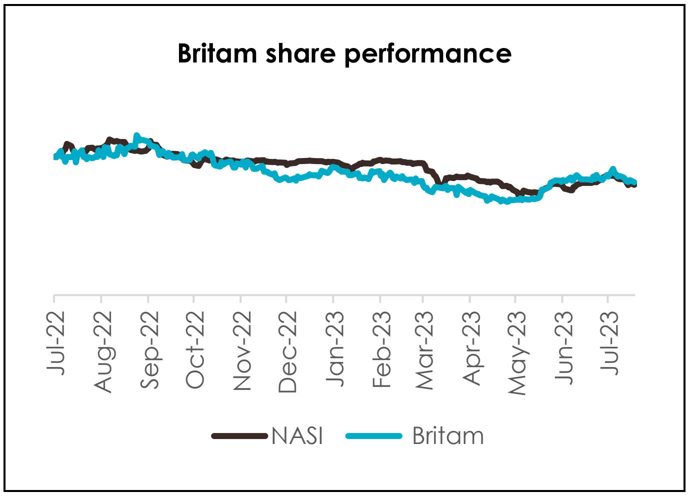
We believe the company will continue to deliver revenue growth and additional income driven from geothermal projects in Ethiopia.

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
Recommendation	**BUY**
Last Price	**5.02**
Target Price	6.24
Upside (Excl. Div Yield)	24.03%
Market Cap (KES'Bn)	12.67
52 week high	7.50
52 week low	4.01
Free Float	26.03%



Financial Performance

- Britam has recorded a steady growth in premiums at a CAGR of 9% over the last five 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 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

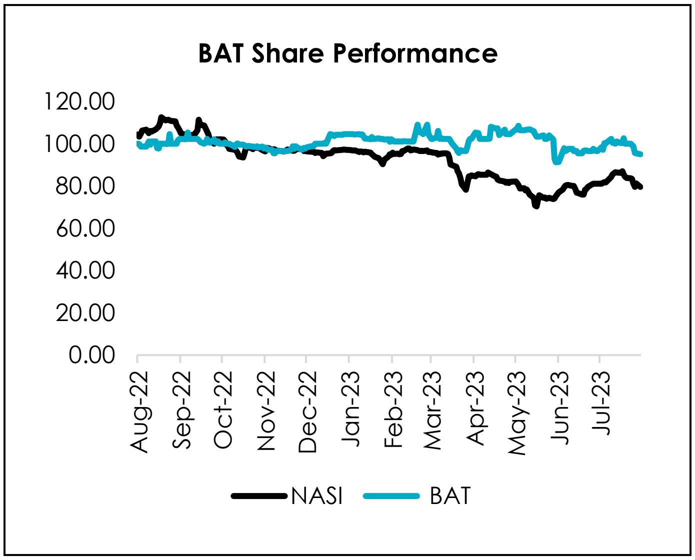
Based on the insurer's premium growth, strategic partnerships and reduced exposure to volatile equities market, we expect the company to deliver stable returns.

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

BAT: BUY with a TP of KES

Share Data	
BIC	**BAT KN**
Recommendation	**BUY**
Last Price	**418.25**
Target Price	**501.25**
Upside	**19.8%**
Market Cap (KES'Bn)	**41.85**
52 week high	**490.00**
52 week low	**400.00**
Free Float	**40.0%**

Source: Bloomberg, NCBA IB Research, NSE



Financial Performance

- BAT posted a resilient performance whereby earnings per share (EPS) shrunk by 3.5% y/y to KES 28.22 while profit before tax declined by 3.9% y/y to KES 2.82Bn.
- In 1HY23, net revenue declined by 6.9% y/y to KES 13.12Bn driven by a decline in gross sales by 4% y/y to KES 20.99Bn mainly driven by low sales volumes in the domestic market as well as a decline in cigarette and cut rags.
- We expect performance in the regional subsidiaries to support growth and Kenya's aggregate contribution to decline in the long run on the back of a prohibitive tax environment.

Outlook

- Despite prevailing macroeconomic challenges, the company is confident in its ability to capitalize on the market by using its customer-centric brands and a winning culture.
- The giant started the rollout of a KES 2.5Bn investment in a cutting-edge oral nicotine pouch factory in order to improve the health of its clientele. This significantly strengthens revenues, particularly through exports.
- Unpredictable excise duty increases continue to adversely impact consumer affordability, leading to a higher incidence of illicit trade at the expense of the legitimate industry and tobacco-related Government revenues.

Recommendation

From our estimates and assumptions, we see a significant upside potential and recommend **BUY** with a target price of **KES 501.25**. See our BAT company report **here.**

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

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.

Disclaimer

Key Contacts: Research Team

ncbaresearch@ncbagroup.com

Key Contacts: Trading Team

dealing@ncbagroup.com