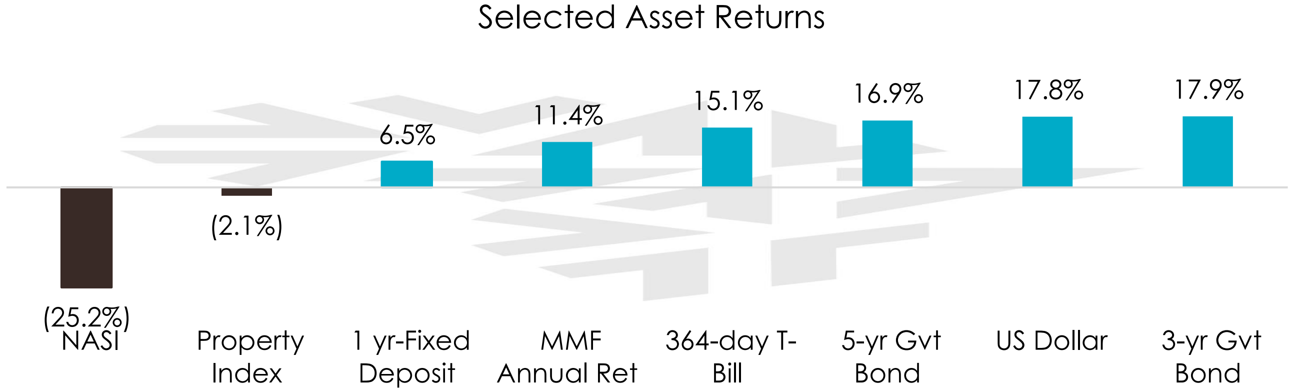
## Asset Class Performance

This month, we continue to take a deep dive into the investment returns recorded in 2023, from the various asset classes.




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

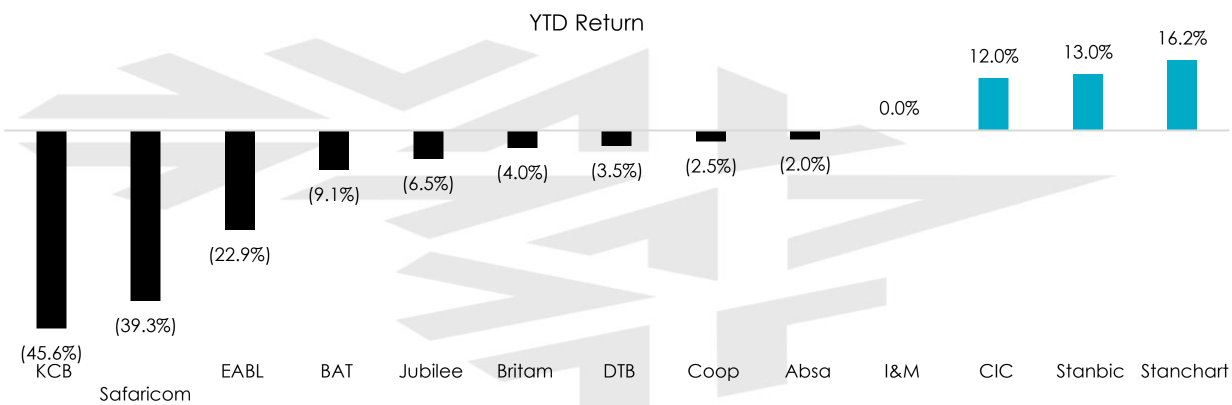
Investment in short term government securities delivered the strongest returns to investors, outperforming both property and listed equities on the Nairobi Securities Exchange.

Government bonds auctioned this year averaged 13.64%, up from 12.83% in the corresponding period of 2022. T-Bills have surpassed the 15% mark from an average of 9.8% at the beginning of 2023. We expect investors to be bullish on short-term fixed income investments in Q42023.

The equities market has faced headwinds on the back of persistent foreign outflows in 1H2023, although on a lower scale compared to 1H2022.

Approximately 50% of listed stocks have lost value, with Safaricom recording a loss of ~39%. Stocks hit new 52- week lows with SCOM reaching a low of KES 12.70, and KCB reaching a low of KES 20.85 during the period.

Banking sector stocks have showed resilience with Standard chartered leading with a ~16% 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 equities market currently presents an investment opportunity. We believe that investors should reposition towards value stocks with strong earnings growth potential and that are trading at discounts to their respective intrinsic values.

Looking ahead, we are cautiously optimistic about the potential return of foreign investors. This would primarily be 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 steady 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

## Currency:

The KES has maintained a gradual depreciation against the US dollar. It shed an average of **12.85 cents** daily in the month of September 2023, compared to a daily average of **13.22 cents** in August 2023 pointing to persistent dollar demand.

It also depreciated against the Euro and the Sterling pound – a phenomenon attributable to policy rate hikes by the ECB and the Bank of England respectively.

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** |
| Sep-23 | (1.7%) | (1.7%) | (2.3%) |
| Year to Date | (16.6%) | (15.6%) | (17.6%) |

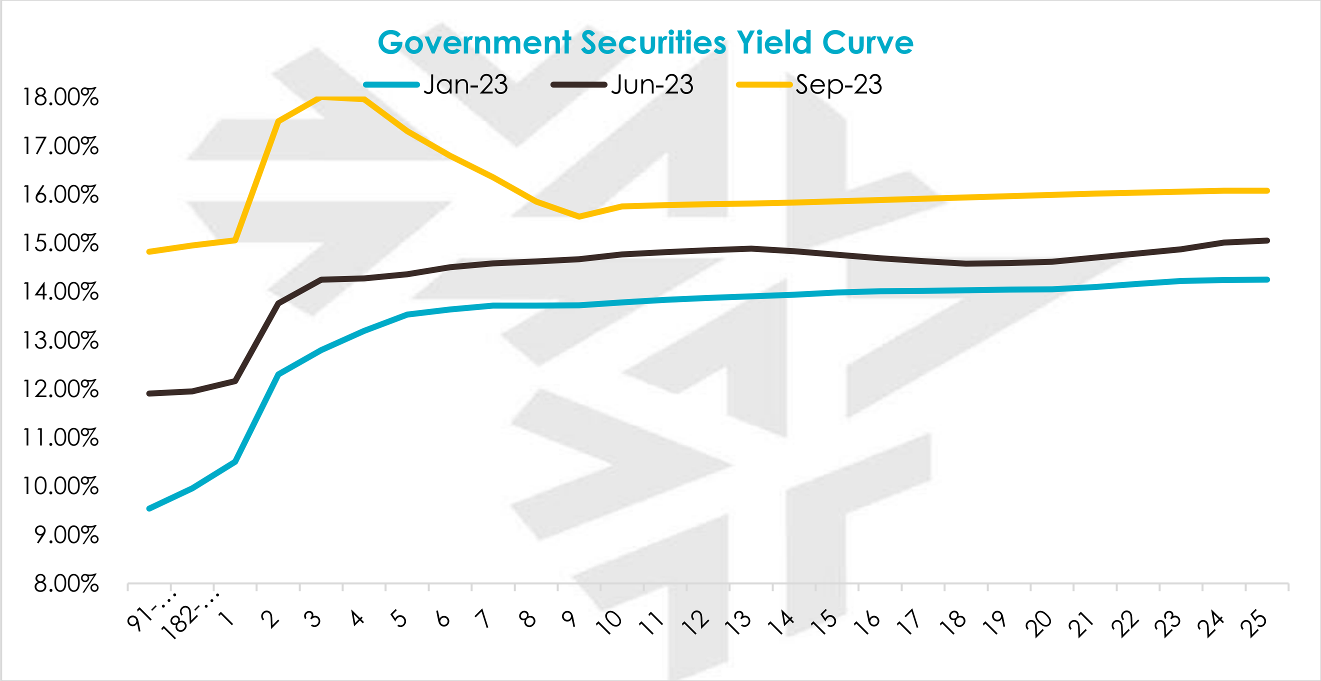
## Interest rates:

Yields on GOK treasury bills went up in September, surpassing the **15% mark** for the 364-day tenor. High subscription rates were also recorded underpinning demand for short term papers. Investors' demand was concentrated on the 91-day paper as investors looked to mitigate duration risk.

| Prevailing rates | Sep-23 | Aug-23 | M/M change (bps) |
|---|---|---|---|
| 91 Day | 14.821% | 13.733% | 108.76 |
| 182 Day | 14.950% | 13.491% | 145.89 |
| 364 Day | 15.054% | 14.014% | 104.04 |

***Source: CBK, NCBA IB Research***

Relatedly, there has been an increased appetite for the domestic debt necessary to meet GOK's target for FY 23/24. We expect the upward pressure on the yield curve to persist for the remainder of the year.




***Source: CBK, NCBA IB Research***

## Liquidity conditions

Liquidity conditions in the interbank space tightened in September. Indicatively, the overnight interbank rate rose by 3.6bps month on month to close at 12.44%. Moreover, the average daily traded volumes increased to KES 27.51Bn from KES 25.32Bn observed in the previous month.

| Statistic | Oct-23 | Sep-23 | Change (bps) |
|---|---|---|---|
| CBR | 10.50% | 10.50% | 0.0 |
| Inflation | 6.80% | 6.70% | 10.0 |
| Average Interbank Rate | 12.44% | 12.40% | 3.6 |

***Source: CBK, KNBS, NCBA IB Research***

## Inflation.

Inflation ticked up to **6.80%** from 6.70% in the previous month. This was the  first time in four months that inflation recorded an upward trajectory. This was driven by higher food and energy prices.

The food and non-alcoholic drinks index which constitutes a third of the inflation basket rose to  7.9% from 7.5% in August, due to higher prices of vegetables. Food prices could be further impacted by the impending El Nino — a weather phenomenon characterized by hhigher than normal rainfall. Additionally, the government's plan to institute additional levies, such as new excise and value-added taxes portends further upside risk to inflation.

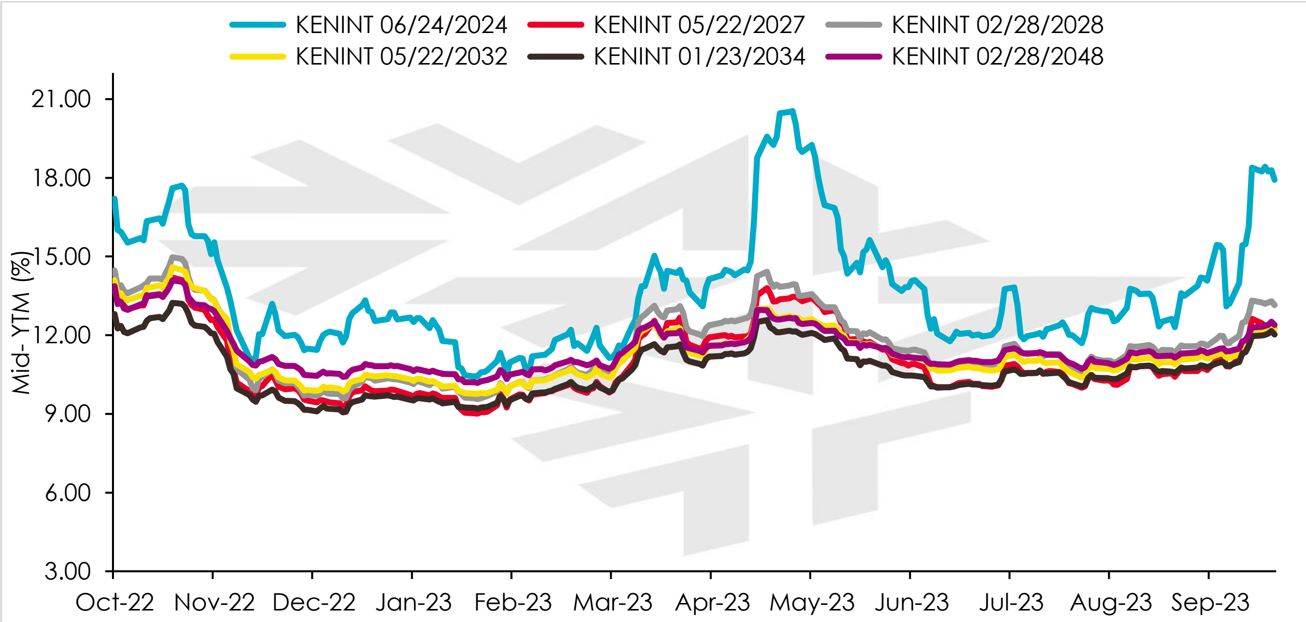
On 3rd October during the MPC meeting, the **CBR** was maintained at **10.50%** as the committee continues to closely monitor the impact of policy measures and any developments globally and locally.

## Kenya International Debt:

Kenyan Eurobond yields edged upwards with the KENINT 06/24/2024 recording the highest increase. Below are the six Kenyan Eurobonds and the respective yields.

| No. | Eurobond | Tenor (Years) | Coupon Rate | Current Yield |
|---|---|---|---|---|
| 1 | KENINT 06/24/2024 | 0.73 | 6.88% | 17.92% |
| 2 | KENINT 05/22/2027 | 3.65 | 7.00% | 12.24% |
| 3 | KENINT 02/28/2028 | 4.42 | 7.25% | 13.16% |
| 4 | KENINT 05/22/2032 | 8.67 | 8.00% | 12.21% |
| 5 | KENINT 01/23/2034 | 10.35 | 6.30% | 12.03% |
| 6 | KENINT 02/28/2048 | 24.49 | 8.25% | 12.39% |

***Source: Bloomberg, NCBA IB Research***

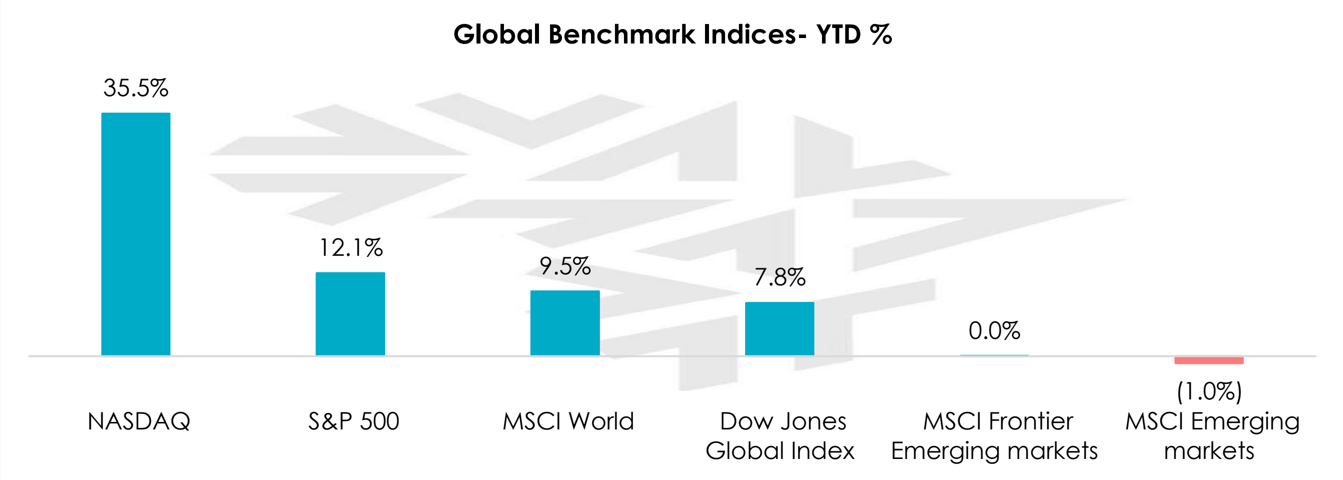



***Source: Bloomberg, NCBA IB Research***

## EQUITIES

### Global Markets performance

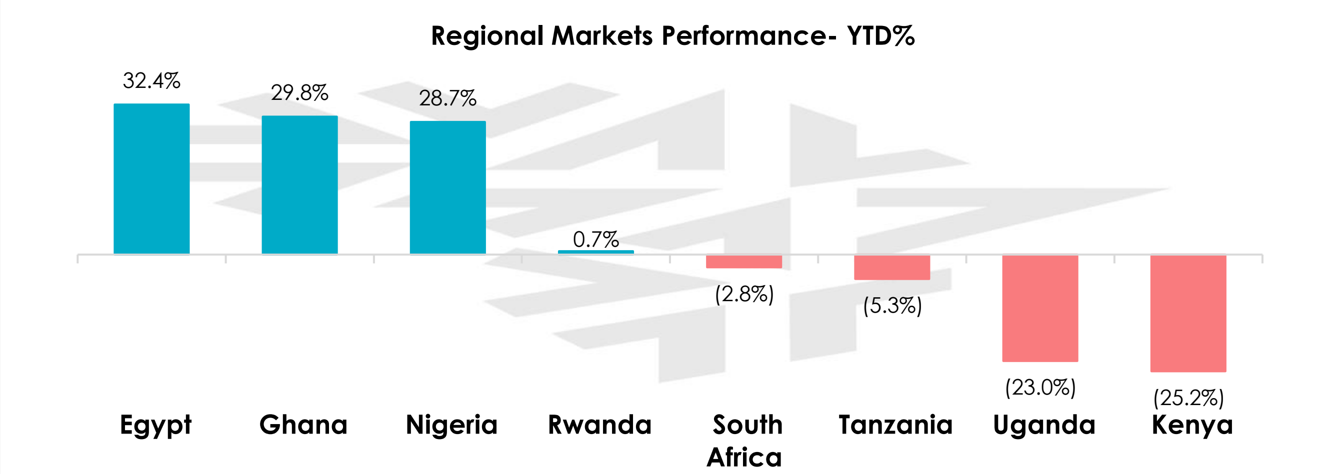
US equity indices were largely positive; hovering around year-to-date highs after investors' sentiment appeared to get a boost from a series of strong corporate earnings and positive economic readings, particularly on inflation. A potential US Government shut down in November 2023 may however spook investor sentiments.




***Source: Bloomberg, NCBA IB Research***

### Regional Markets performance

In comparison to peers, Kenya's stock market returns continue to be severely challenged.




***Source: Bloomberg, NCBA IB Research***

## Local Market Performance:

The stock market recorded muted activity, with NASI down by **4.49%** during the month. NSE-20 and NSE-25 declined by **1.57%** and **10.32%,** respectively. The NSE introduced the **NSE-10 index** which is a weighted index that will be based on market capitalization float adjusted methodology and will be distributed on a daily basis. The constituent companies list will be reviewed semi-annually. The Index is based on a set of 10 companies, namely, Safaricom Plc, Equity Group Holdings Plc, KCB Group Plc, The Co-operative Bank of Kenya Limited, ABSA Bank Kenya Plc, East African Breweries Plc, NCBA Group Plc, Kenya Electricity Generating Company Plc, Kenya Re Insurance Corporation Limited, Centum

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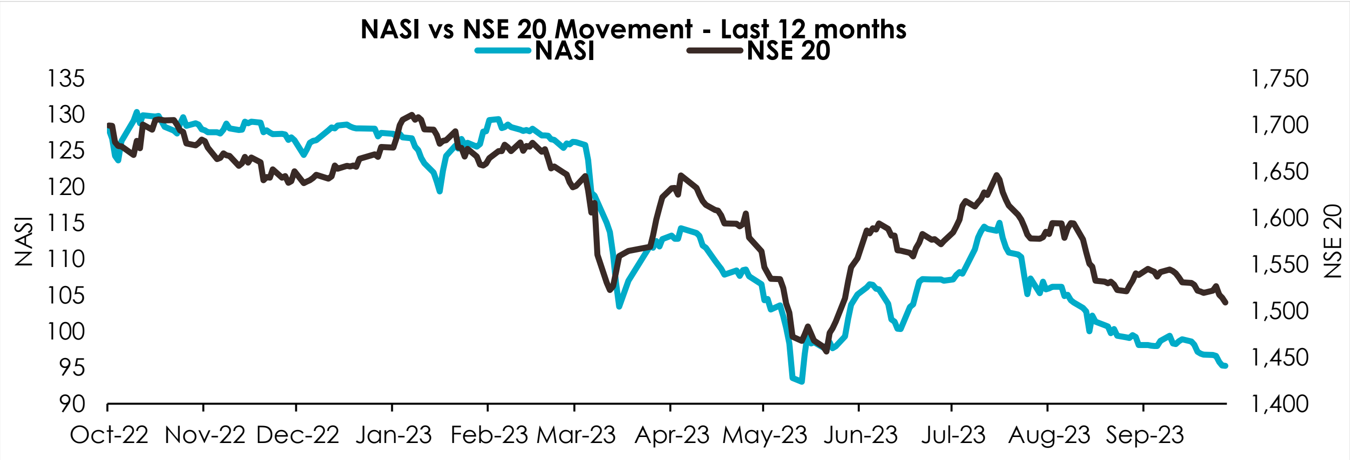
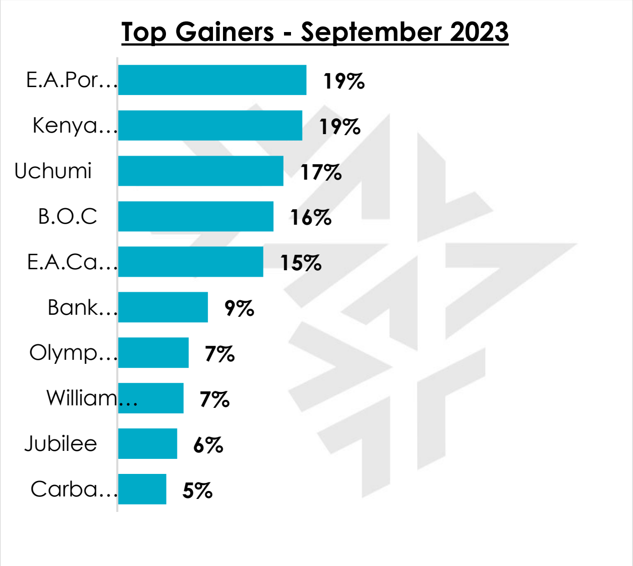
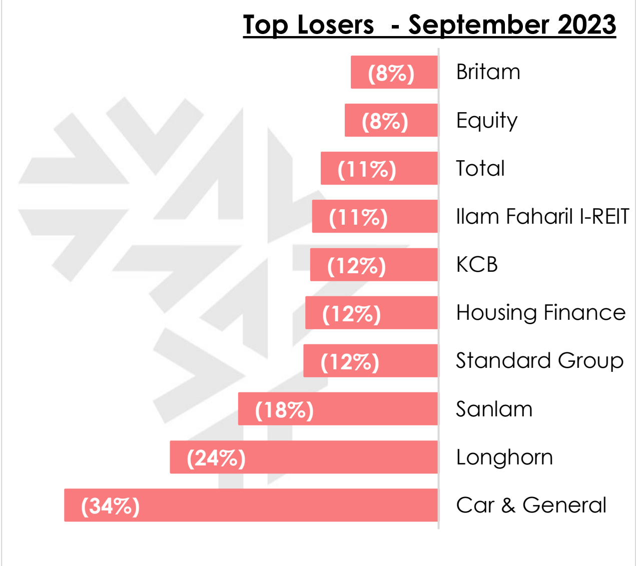



***Source; Bloomberg, NCBA IB Research, NSE***

## NSE Counter Performance



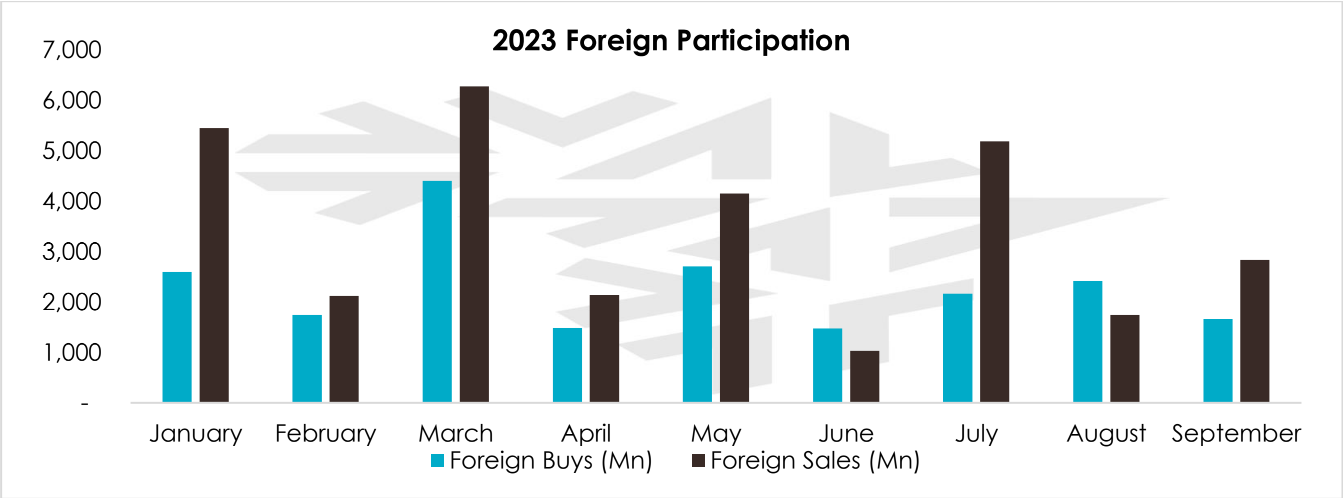




***Source: NSE, NCBA IB Research***

## Foreign Investors Participation

Foreign investors' net sales increased to **KES 2.84Bn** from **KES 1.74Bn** in **August**.

With interest rates in advanced economies likely to hold up for longer, investors have positioned themselves to take advantage of the comparatively higher returns, staying out of frontier and emerging markets.




*Source: NSE, NCBA IB Research*

## Corporate Actions

### Upcoming Dividend payments

| Counter | Dividend | Book Closure | Payment |
|---|---|---|---|
| Centum | KES 0.60 | 11-Oct-2023 | 30-Nov-2023 |
| eabl | KES 1.75 | 15-Sep-2023 | 27-Oct-2023 |
| Jubilee Insurance | KES 2.00 | 8-Sep-2023 | 11-Oct-2023 |
| absa | KES 0.20 | 21-Sep-2023 | 12-Oct-2023 |

*Source: Company financials, NCBA IB Research*

## September 2023 Stock Picks

| Counter | Current Price *29th Septemeber 2023 | Target price | Upside | Dividend | Div. Yield | Recommendation |
|---|---|---|---|---|---|---|
| ***Banking  **Updated target prices following HY2023 financial results**** | | | | | | |
| KCB | 20.85 | 29.38 | 40.91% | 2.00 | 9.59% | BUY |
| Equity | 35.55 | 50.20 | 41.21% | 4.00 | 11.25% | BUY |
| DTB | 48.10 | 58.75 | 22.14% | 5.00 | 10.40% | BUY |
| COOP | 11.80 | 14.55 | 23.31% | 1.50 | 12.71% | BUY |
| ABSA | 11.95 | 14.20 | 18.83% | 0.20 | 1.67% | ACCUMULATE |
| I&M | 17.05 | 23.40 | 37.24% | 2.25 | 13.20% | BUY |
| Stanbic | 115.25 | 110.85 | -3.82% | 1.15 | 1.00% | SELL |
| SCBK | 165.00 | 146.23 | -11.38% | 22.00 | 13.33% | SELL |
| ***Insurance*** | | | | | | |
| CIC | 2.14 | 2.92 | 36.45% | - | - | BUY |
| Jubilee | 185.75 | 257.37 | 38.56% | 2.00 | 1.08% | BUY |
| ***Telecommunication*** | | | | | | |
| Safaricom | 14.60 | 26.65 | 82.53% | 1.20 | 8.22% | BUY |
| ***Manufacturing & Allied*** | | | | | | |
| BAT | 418.25 | 501.25 | 19.84% | 5.00 | 1.20% | ACCUMULATE |
| EABL | 131.00 | 178.05 | 35.92% | 5.50 | 4.20% | BUY |

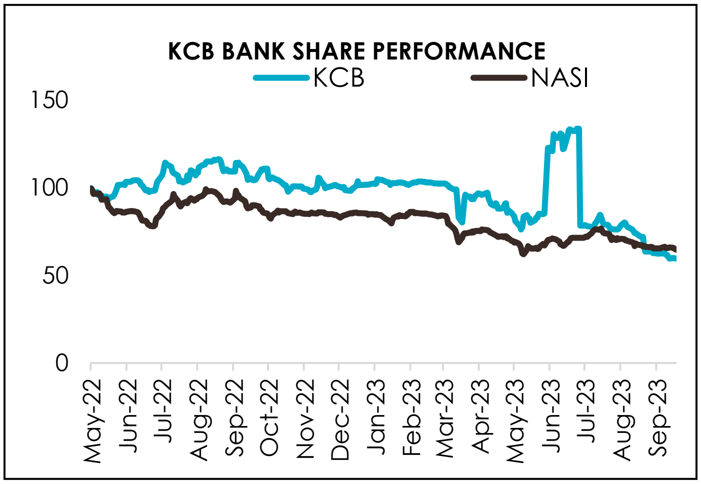
***Source: Bloomberg, NCBA IB Research, NSE***

*__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

### KCB Bank: BUY with a TP of KES 29.30

| Share Data | |
|---|---|
| BIC | **KNCB KN** |
| **Recommendation** | **BUY** |
| Last Price | 20.85 |
| **Target Price** | **29.30** |
| Upside (Excl. Div. Yield) | 40.19% |
| Market Cap (KES'Bn) | 67.48 |
| 52 week high | 44.00 |
| 52 week low | 23.00 |
| Free Float | 68.87% |




### Financial Performance

- **Profitability:** Profit saw a decline by 20.1% to KES 15.59Bn, largely attributable to a legal award ordered by the judiciary to pay an aggrieved legacy borrower KES 3. 8Bn.The performance was also impacted by high loan loss provisions, and spikes in other operating and interest expenses.
- **Customer deposits:** Customer deposits saw an increase of 61.9% driven by organic growth in demand and term deposits. Net Interest income grew by 12.1% to KES 45.5Bn benefiting from a faster growth in the bank's loan book.
- **Growth in Operating expenses:** Opex saw a 60.1% increase to KES 50.6Bn driven by exceptional cost items from the consolidation of TMB, staff rationalization program and provision for NBK's court ruling.
- **Balance Sheet Strength**: KCB continues to deliver a resilient performance driven by a 54% increase in balance sheet from new business lines and consolidation with TMB. The lender has seen a significant momentum in balance sheet growth across all its subsidiaries.

### Outlook

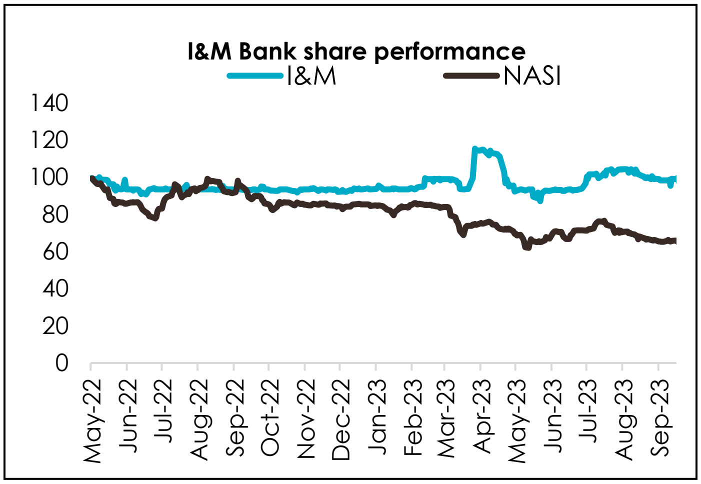
KCB'S wide regional footprint along with its well diversified business portfolios and capital buffer, positions the lender to gain significant growth momentum across the subsidiaries. The lender has recently signed up on the pan-African payment settlement system which should further cement its grip in the region and continent.

### Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain a BUY recommendation with a revised target price of **KES 29.30.**

## I&M Bank: BUY with a TP of KES 23.40

| Share Data | |
|---|---|
| BIC | **IMH KN** |
| **Recommendation** | **BUY** |
| Last Price | 17.05 |
| **Target Price** | **23.40** |
| Upside (Excl. Div Yield) | 37.24% |
| Market Cap (KES'Bn) | 29.18 |
| 52 week high | 21.50 |
| 52 week low | 15.80 |
| Free Float | 30.09% |




### Financial Performance

- **Profitability:** I&M Group's net profit for six months ended June grew **2.1%** to **KES 2.89Bn** as interest income recorded an increase of 22.1% to KES 21. 31Bn.Non-interest income rose by 36.7% to KES 6.9Bn. The bank continues to leverage on its voluntary waiver of bank to mobile fees.

- **Gross Non-Performing Loans (NPLs):** I&M, however, raised the provisioning for loan defaults by 3.9% to KES 14.3Bn, mirroring the trend observed among its tier I peers, including KCB Group, Equity Group and Stanbic Holdings.

- **Government securities**: Recorded a decline by 7.6% to KES 75.9Bn. The decline was driven by an increased focus on lending to the private sector.

### Outlook

The lender's focus on providing corporate customers with value-add services, maintaining advantage in trade finance, increased leverage in Agriculture, Oil&Gas opportunities position the institution well to unleash its offensive growth strategy.

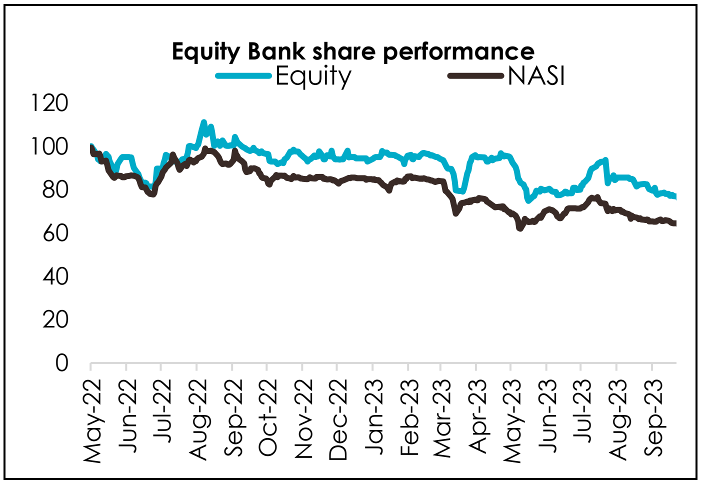
We also expect that growth in fees from digitization and the wealth management businesses will contribute to NFI FY2023.

### Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain a BUY recommendation with a revised target price of **KES 23.40.**

## Equity Bank: BUY with a TP of KES 50.20

| Share Data | |
|---|---|
| BIC | **EQTY KN** |
| **Recommendation** | **BUY** |
| Last Price | 35.55 |
| **Target Price** | **50.20** |
| Upside (Excl. Div Yield) | 41.21% |
| Market Cap (KES'Bn) | 134.34 |
| 52 week high | 53.50 |
| 52 week low | 35.00 |
| Free Float | 93.51% |




### Financial Performance

- **Profitability:** Equity Bank's net profit for six months ended June grew by **7.7%** to **KES 26.3Bn** as non-interest income recorded an increase of 41.2% to KES 36.49Bn and interest income rose by 16.5% to KES 46.39Bn as the bank continues to record strong growth across its subsidiaries.

- **Gross Non-Performing Loans (NPLs):** The lender raised its provisioning by 59.8% to KES 97.5Bn, largely attributable to two large accounts, i.e., TransCentury Ltd and East Africa Cables Ltd.

- **Customer Deposits:** Recorded an uptick of 21.0% to KES 1.2Tn driven by increased deposits across the Group's subsidiaries. Loan and advances recorded an increase of 25.7% to KES 817.2Bn. This was driven by increased lending particularly within the Congolese unit reporting an impressive 73% YoY loan book growth to KES 231.5Bn

### Outlook

Equity Group has continued to report strong performance FY2023 inspite of a number of macroeconomic tailwinds. The lender has become more aggressive in growing its loan book with a substantial KES 24bn being disbursed on a monthly basis accompanied by an impressive repayment performance rate of 98%. This should continue to support NIMs in the near term. Plans are also underway to boost the DRC loan to deposit ratio from the current 56.8% in an additional attempt to boost NIMs.

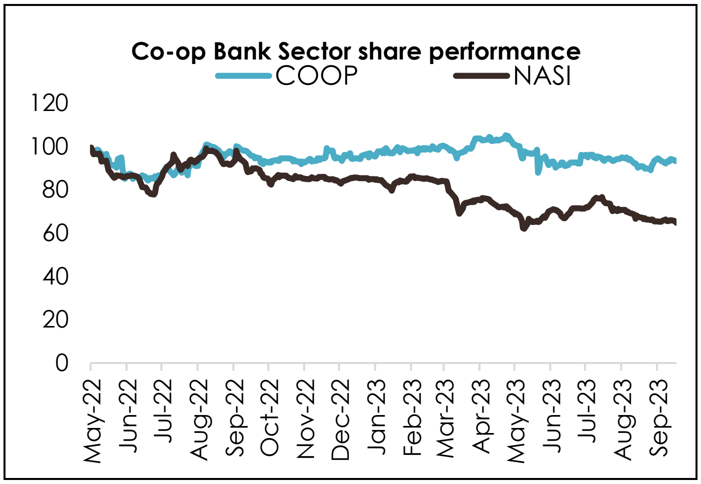
We are, however, cautiously watchful of growth in the Congolese unit on a constant currency basis given that the unit primarily operates in US dollars.

### Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain a BUY recommendation with a revised target price of **KES 50.20.**

## Co-op Bank: BUY with a TP of KES 14.55

| Share Data | |
|---|---|
| BIC | **COOP KN** |
| **Recommendation** | **BUY** |
| Last Price | 11.80 |
| **Target Price** | **14.55** |
| Upside (Excl. Div Yield) | 23.31% |
| Market Cap (KES'Bn) | 68.35 |
| 52 weeks high | 14.00 |
| 52 weeks low | 10.30 |
| Free Float | 32.41% |




### Financial Performance

- **Profitability:** Co-operative Bank's net profit for six months ended June grew by **5.9%** to **KES 12.1Bn** as non-interest income recorded an increase by 4.0% to KES 13.82Bn and interest income rose by 2.3% to KES 21.55Bn as the bank continues to leverage on its solid customer base from Sacco's.

- **Gross Non-Performing Loans (NPLs):** The lender's NPL ratio saw an uptick of 14.2% to KES 51.1Bn driven by the effects of the recent strained macro-environment. The figure is just 30bps below industry average of 14.9%

- **Customer Deposits:** Registered an uptick of 9.7% to KES 463.2Bn driven by increased deposits using the lender's agency model "Kwa Jirani Agency Banking". Loan and advances saw an increase of 10.7% to KES 365.4Bn on increased lending particularly to the SME and MSME market segments.

### Outlook

The Bank continues to execute a proactive growth strategy anchored on a strong enterprise risk management framework and deepening of market dominance. The bank, riding on the unique synergies will continue to pursue strategic initiatives that focus on resilience and growth in the various sectors of the economy.

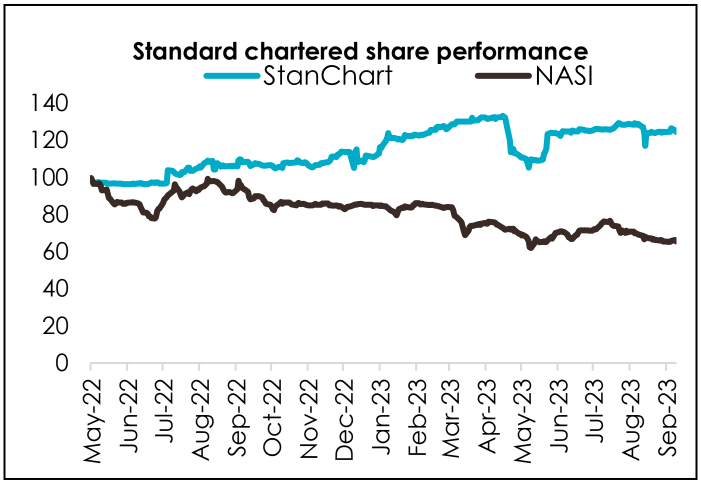
Partnership with government in the G2G oil importation plan and the coffee exchange settlement platform should boost non-funded income.

### Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain a BUY recommendation with a revised target price of **KES 14.55.**

## Standard Chartered Bank: SELL with a TP of KES 146.23

| Share Data | |
|---|---|
| BIC | **SCBK KN** |
| **Recommendation** | **SELL** |
| Last Price | 165.25 |
| **Target Price** | **146.23** |
| Upside | (11.38%) |
| Market Cap (KES'Bn) | 56.41 |
| 52 week high | 172.50 |
| 52 week low | 121.00 |
| Free Float | 17.78% |




### Financial Performance

- **Profitability:** Standard Chartered Bank's net profit for six months ended June grew **27.7%** to **KES 6.9Bn** as non-interest income saw an increase of 38.3% to KES 13.6Bn and interest income rose by 26.8% to KES 21.55Bn. This was largely attributable to a 96.5% in foreign exchange trading income and rising interest rates.

- **Gross Non-Performing Loans (NPLs):** The lender's NPL ratio saw an uptick of 14.2% to KES 51.1Bn driven by the effects of the recent strained macro-environment. The figure is just 30bps below industry average of 14.9%

- **Customer Deposits:** Registered a marginal decline of 1.1% to KES 283.7Bn. Loans and advances recorded an increase of 13.2% to KES 145. 4Bn.The decline in deposits is attributable to higher customer deposit mobilization costs.

### Outlook

Going forward the bank will leverage on technology to scale up mass retail business. The lender will continue to focus on executing its strategy and invest in areas of competitive strength such as their wealth management unit.

The bank is currently in the testing phase of its mobile lending platform that we view will take on rivals such as M-Shwari (NCBA) and KCB M-Pesa given its lower lending rates of 6.58% per month (compared to 8.85% and 9% on the two respective competitor platforms).

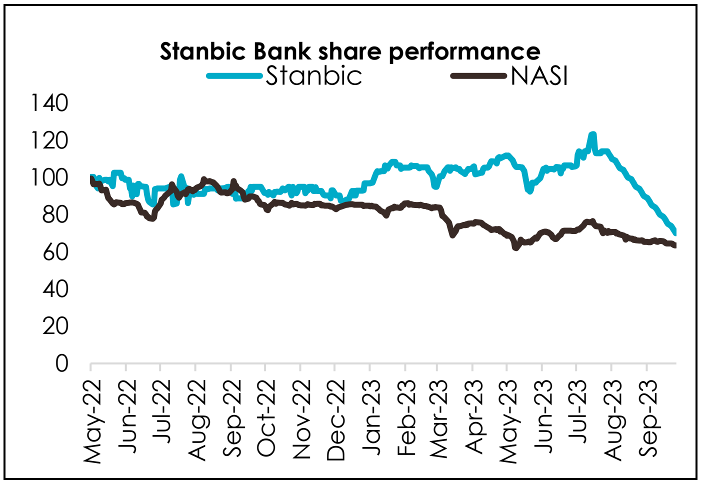
We expect the bank to register long-term profitability based on revenue diversification and steady topline growth.

### Recommendation

From our estimates and assumptions, we believe the stock is overvalued and maintain a SELL recommendation with a revised target price of **KES 146.23.**

## Stanbic Bank: SELL with a TP of KES 110.85

| Share Data | |
|---|---|
| BIC | **SBIC KN** |
| **Recommendation** | **SELL** |
| Current Price | 115.24 |
| **Target Price** | **110.85** |
| Upside | (3.82%) |
| Market Cap (KES'Bn) | 45.06 |
| 52 week high | 132.00 |
| 52 week low | 121.00 |
| Free Float | 56.56% |




### Financial Performance

- **Profitability:** Stanbic bank's net profit for six months ended June grew **41.8%** to **KES 6.8Bn** as non-interest income recorded an increase of 32.4% to KES 8.7Bn and interest income rose by 44.3% to KES 11.6Bn. Growth in profit was attributable to a 31% growth in Stanbic Bancassurance Intermediary Ltd, and over 100% growth in PAT by SBG Securities.

- **Gross Non-Performing Loans (NPLs):** The lender's NPL saw a marginal decrease of 1.2% to KES 24.0Bn. Foreign currency loans however, continue to come under pressure as the KES continues to depreciate.

- **Customer Deposits:** Recorded an uptick of 12.8% to KES 242.06Bn. Loans and advances saw an increase of 12.4% to KES 217.0Bn driven by a rise in digital lending through the Mjeki Platform and the implementation of the risk-based pricing model.

### Outlook

The lender's non-funded income will continue to be driven by the current dollar situation which continues to present arbitrage opportunities for forex trading since the lender has a significant exposure to trade finance for dollar reliant industries.

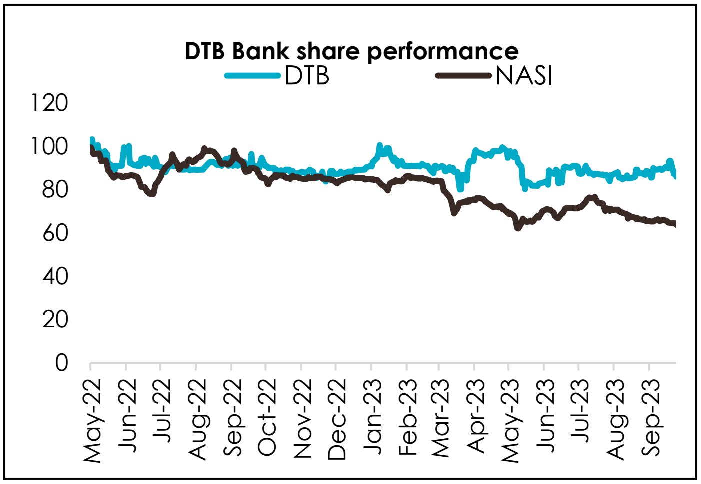
### Recommendation

From our estimates and assumptions, we believe the stock is overvalued and maintain a **SELL** recommendation with a revised target price of **KES 105.60.**

## DTB Bank: BUY with a TP of KES 58.75

| Share Data | |
|---|---|
| BIC | **DTKL KN** |
| **Recommendation** | **BUY** |
| Last Price | 48.10 |
| **Target Price** | **58.75** |
| Upside (Excl. Div Yield) | 22.14% |
| Market Cap (KES'Bn) | 13.28 |
| 52 week high | 57.00 |
| 52 week low | 43.75 |
| Free Float | 58.02% |

**Source: Bloomberg, NCBA IB Research, NSE**




### Financial Performance

- **Profitability:** DTB bank's net profit for six months ended June grew by **11.6%** to **KES 4.00Bn** as non-interest income increased by 42.2% to KES 5.54Bn and interest income rose by 17.8% to KES 13.1Bn.

- **Gross Non-Performing Loans (NPLs):** The lender's NPL increased by 15.0% to KES 36.5Bn, driven by the effects of the recent strained macro-environment.

- **Customer Deposits:** Recorded an uptick of 20.6% to KES 417.99Bn. Loans and advances increased by 20.4% to KES 281.1Bn supported by the lender's growth in branch, digital footprint and expanded value propositions.

### Outlook

Going forward the bank will continue to leverage on technology with platforms such as 'Astra' and 'Infiniti Pay' which support the small and medium enterprises.

The lender will pursue its business growth strategy of expanding the customer base and adopting an ecosystem approach of servicing customers who operate, across East Africa's key economic sectors. In developing value propositions, the lender will leverage both traditional channels as well as digital platforms.

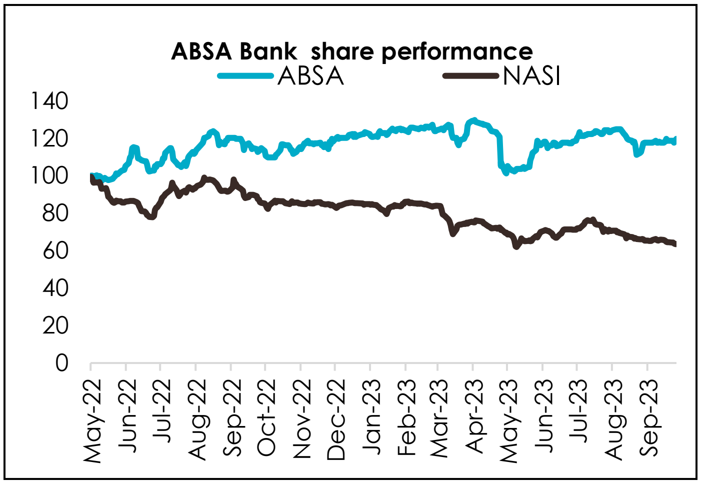
### Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain a BUY recommendation with a revised target price of **KES 58.75.**

## ABSA Bank: ACCUMULATE with a TP of KES 14.20

| Share Data | |
|---|---|
| BIC | **ABSA KN** |
| **Recommendation** | **ACCUMULATE** |
| Last Price | 11.95 |
| **Target Price** | **14.20** |
| Upside (Excl. Div Yield) | 23.31% |
| Market Cap (KES'Bn) | 64.09 |
| 52 week high | 9.02 |
| 52 week low | 63.82 |
| Free Float | 30.37% |

**Source: Bloomberg, NCBA IB Research, NSE**




### Financial Performance

- **Profitability:** ABSA bank's net profit for six months ended June grew **32.0%** to **KES 8.3Bn** as non-interest income increased by 25.7% to KES 8.14Bn and interest income rose by 36.9% to KES 25.3Bn.

- **Gross Non-Performing Loans (NPLs):** The lender's NPL saw an increase of 74.4% to KES 5.15Bn, driven by the effects of the recent strained macro-environment.

- **Customer Deposits:** Registered an uptick of 18.1% to KES 332.5Bn. Loans and advances saw an increase of 18.5% to KES 309.9Bn, supported by the lender's growing branch and digital footprint and expanded value propositions.

### Outlook

Going forward the bank will leverage on technology to scale up retail business. The lender will continue to focus on executing its strategy to build a consumer banking business that is digitally enabled to drive reach and invest in areas of competitive strength.

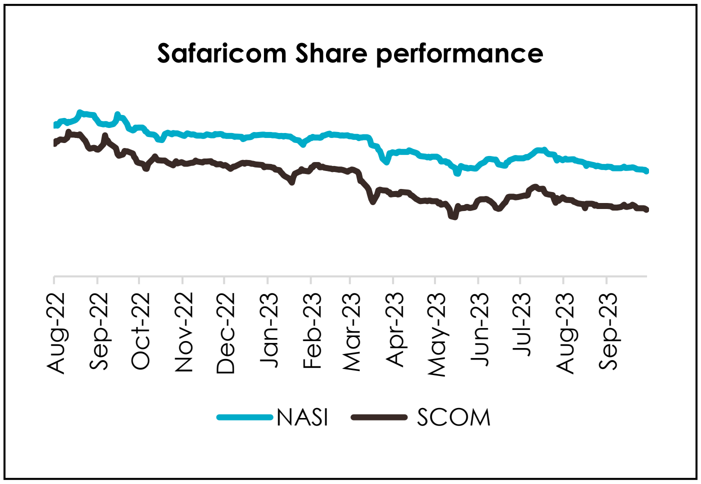
We expect ABSA Bank to deliver long-term profitability based on its focus on digital transformation and strong customer base.

### Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain an ACCUMULATE recommendation with a revised target price of **KES 14.20.**

## Safaricom: BUY with a TP of KES 26.65

| Share Data | |
|---|---|
| BIC | SAFCOM KN |
| **Recommendation** | **BUY** |
| Last Price | 14.60 |
| **Target Price** | **26.65** |
| Upside (Excl. Div Yield) | 82.53% |
| Market Cap (KES'Bn) | 590.96 |
| 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 the Ethiopian investment. Capex in Ethiopia was undertaken to support site and infrastructure costs.
- **Profitability:** Profit declined 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.

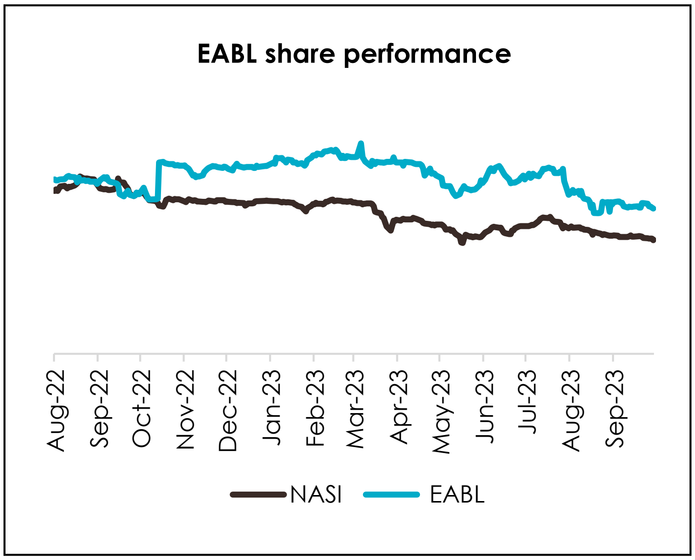
### Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain a 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 | 131.00 |
| **Target Price** | **178.05** |
| Upside (Excl. Div Yield) | 35.92% |
| Market Cap (KES'Bn) | 103.59 |
| 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.

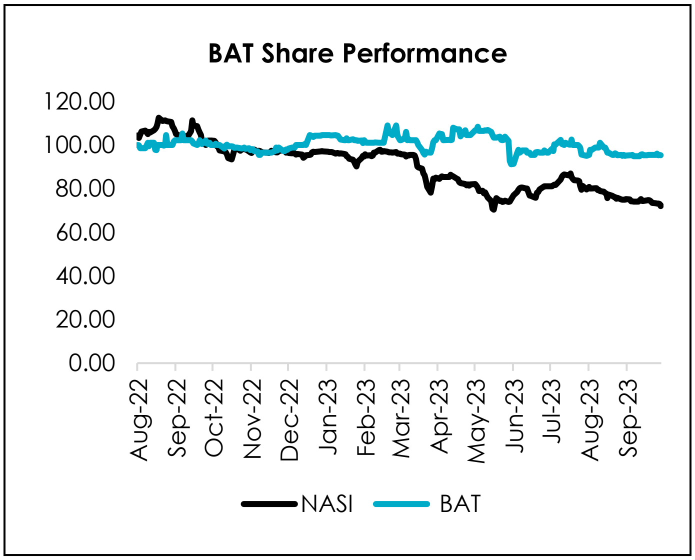
### Recommendation

From our estimates and assumptions, we see a significant upside potential and recommend **BUY** with a target price of **KES 178.05.** See our EABL company report **here.**

## BAT: ACCUMULATE with a TP of KES 501.25

| Share Data | |
|---|---|
| BIC | **BAT KN** |
| **Recommendation** | **ACCUMULATE** |
| Last Price | 418.25 |
| **Target Price** | **501.25** |
| Upside | 19.8% |
| Market Cap (KES'Bn) | 42.00 |
| 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

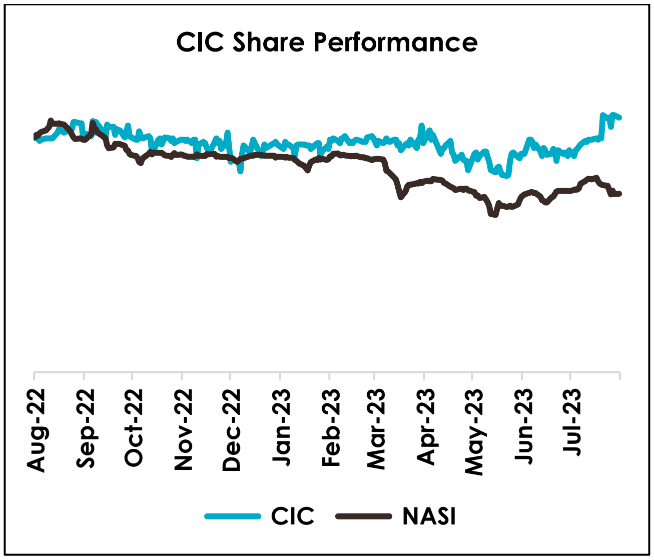
- Despite prevailing macroeconomic challenges, the company is confident in its ability to capitalize on the market by using its customer-centric brands and a winning culture.
- The cigarette giant started the rollout of a KES 2.5Bn investment in a cutting-edge oral nicotine pouch factory in order to improve the health of its clientele. This significantly strengthens revenues, particularly through exports.
- Unpredictable excise duty increases continue to adversely impact 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 **ACCUMULATE** with a target price of **KES 501.25**. See our BAT company report here.

## CIC: BUY with a TP of KES 2.92

| Share Data | |
|---|---|
| BIC | **CIC KN** |
| **Recommendation** | **BUY** |
| Last Price | 2.14 |
| **Target Price** | **2.92** |
| Upside | 36.4% |
| Market Cap (KES'Bn) | 5.60 |
| 52 week high | 2.25 |
| 52 week low | 1.60 |
| Free Float | 90.49% |




**Source: Bloomberg, NCBA IB Research, NSE**

## Financial Performance

- CIC has recorded a steady growth in premiums at a CAGR of 6.0% over the last 5 years, increasing by 16.1% to KES 22.7Bn from KES 19.5Bn in 2021. The strong performance is on the back of continued execution of transformational initiatives focused on customer experience, operational efficiency, performance management, digitization, among others in line with the firm's 2021-2025 strategic plan.
- Net earned premium was the largest revenue contributor for CIC accounting for 78% of total Gross Income in 2022. The key contributors to the premiums are Group life, Medical Insurance and Motor Insurance premiums at 28.95%, 24.46% and 20.29%, respectively

## Outlook

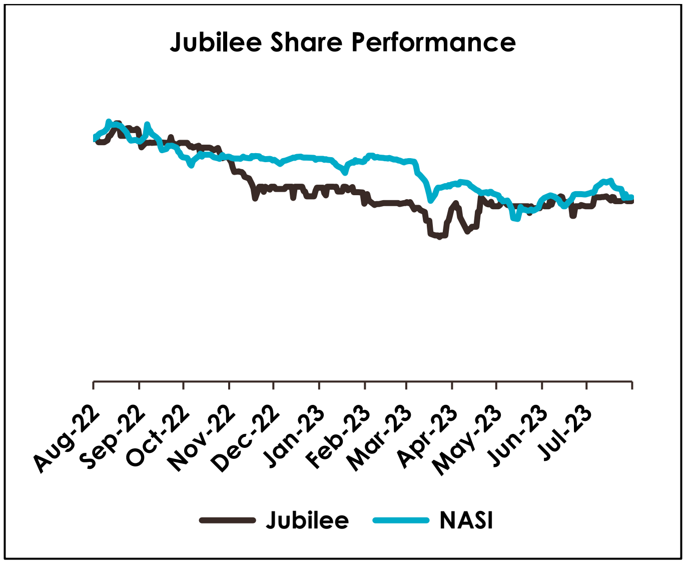
We expect the business to have a positive outlook based on the below factors;

- **Enhanced Digital Transformation**– The Group has embarked on a digital transformation journey whose objective is to provide seamless end-end customer experience supported by emerging technologies. Investing in technology will strengthen and improve performance hence ensuring customer retention and growth in market share.
- **Focus on Micro-insurance business (Co-operative Strategy**)– The Group is focusing on improving its micro-insurance business to anchor growth prospects and cover the uninsured population in the country. The strategy enhances its distribution channel through Sacco-assurance and continued government support through the Ministry of Co-operatives and MSMEs.

From our estimates and assumptions, we see a significant upside potential and recommend a **BUY** with a target price of **KES 2.92**. See our CIC company here.

## Jubilee: BUY with a TP of KES 257.37

| Share Data | |
|---|---|
| BIC | BAT KN |
| **Recommendation** | **BUY** |
| Last Price | 185.75 |
| **Target Price** | **257.37** |
| Upside | 38.6% |
| Market Cap (KES'Bn) | 13.46 |
| 52 week high | 255.00 |
| 52 week low | 142.00 |
| Free Float | 55.06% |




**Source: Bloomberg, NCBA IB Research, NSE**

## Financial Performance

- Jubilee Holdings has recorded a decline in Gross premiums at a CAGR of 0.92% to KES 25.4Bn in 2022 from KES 26.6Bn in 2018 due to the transfer of a major stake of General Business to Allianz in 2022.
- Investment income contributed 38% of the total revenue with the main investment holdings being in government securities (70-75% investments), quoted and unquoted equities, and real estate.
- Medical insurance remains a challenging business despite contributing more than 50% of Gross earned premiums having grown by a CAGR of 5.7% to KES 13.0Bn in 2022 from KES 9.8Bn in 2018. The business heavily relies on corporate clients.

## Outlook

Jubilee's future growth will be pegged on the following factors:

- **Digital Transformational Agenda** – Jubilee launched the **Changamk@ project** to transform its services to the current digital age. The project aims to drive innovations and streamline operations consequently enhancing general customer experience.
- **Diversification and strategic partnerships** – Jubilee Holdings Ltd have presence in different countries within Africa and has partnered with several associates such as Allianz to diversify income streams and to bolster against industry risk.
- **Investment Income Growth** – Jubilee's investment income has grown by at a CAGR of 13.5% to KES 16.4Bn in 2022 from KES 8.7Bn in 2018. We expect exponential growth driven by investment income generated through its asset management arm.

From our estimates and assumptions, we see a significant upside potential and recommend a **BUY** with a target price of **KES 257.37**. See our Jubilee company **here.**

## Global Macro Highlights.

### Central Banks.

Recently, US and EU long-term interest rates have risen past their 2022 highs due to increased inflation, higher commodity prices, and growing interest in Japan's investments. On the other hand, China's economy is slowing, prompting the central bank to cut rates.

Japan, seeing inflation and better growth, has eased its control on interest rates, leading to higher long-term rates.

Major central banks, except for the BoE, are likely done with their rate hikes as headline inflation continues to fall with fading growth and supply bottlenecks. Nevertheless, we expect the Fed and the ECB to hold rates at cycle highs for the rest of the year as core inflation remains well above their 2% target.

### Commodities.

International oil prices spiked in the week to a 10-month high on impact from a combined supply cut of 1.3Mn barrels per day from Russia and Saudi Arabia that was extended. The two countries contribute about 19.0% of the world oil supply.

### Economic Growth.

With monetary policy becoming increasingly predictable and a weaker-than-expected recovery in China, global growth in 2024 is projected to be lower than in 2023**. OECD projects Global GDP growth at 2.7% 2024 and Projected headline inflation to stand at 2.6% across G20 advanced economies in 2024**

While headline inflation has been declining, core inflation remains persistent, driven by the services sector and still relatively tight labor markets. Risks continue to be tilted to the downside. Inflation could continue to prove more persistent than anticipated, with further disruptions to energy and food markets still possible. A sharper slowdown in China could further drag on global growth.

## 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

## Key Social Media: NCBA Investment bank.

https://whatsapp.com/channel/0029Va1IvDN1CYoXtjBQFd13