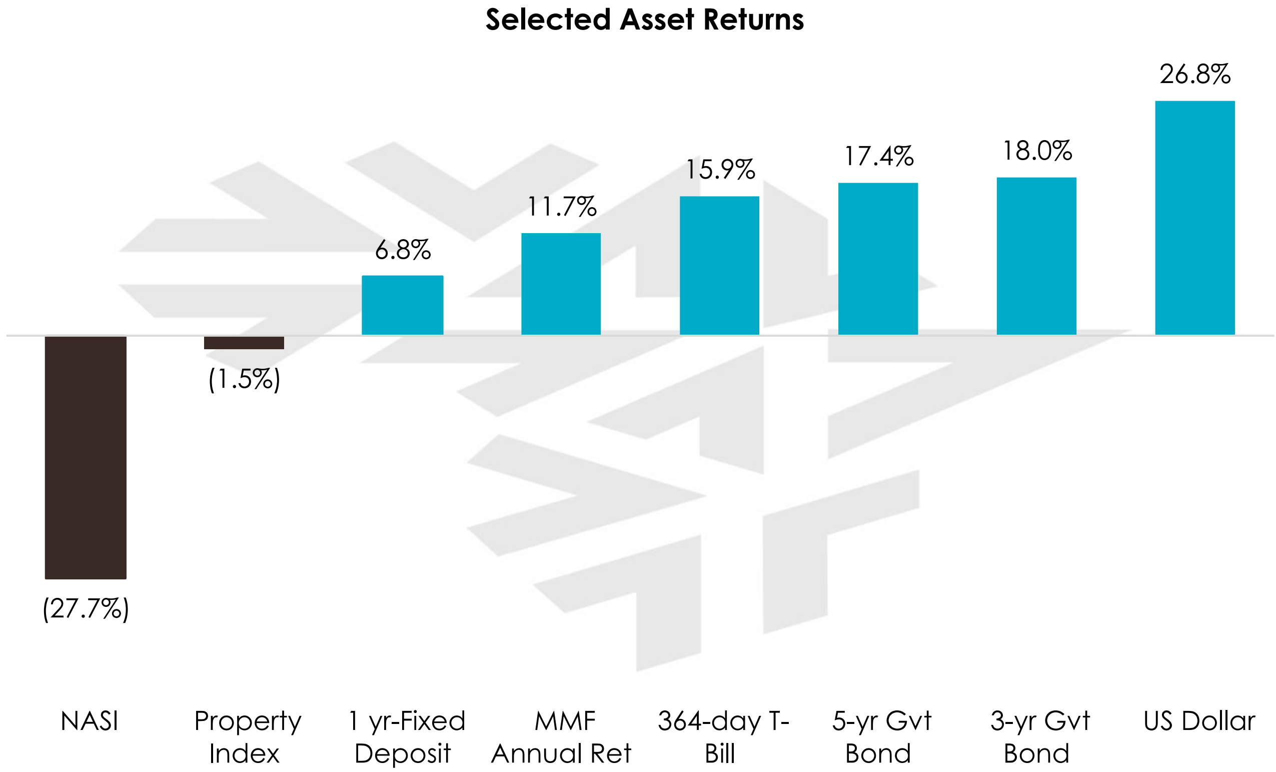
Asset Class Performance

This month, we 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 last year averaged 16.10%, up from 13.32% in the beginning of the year. T-Bills surpassed the 15% mark from an average of 9.9% at the beginning of 2023. We expect investors to remain bullish on short-term fixed income investments in 2024.

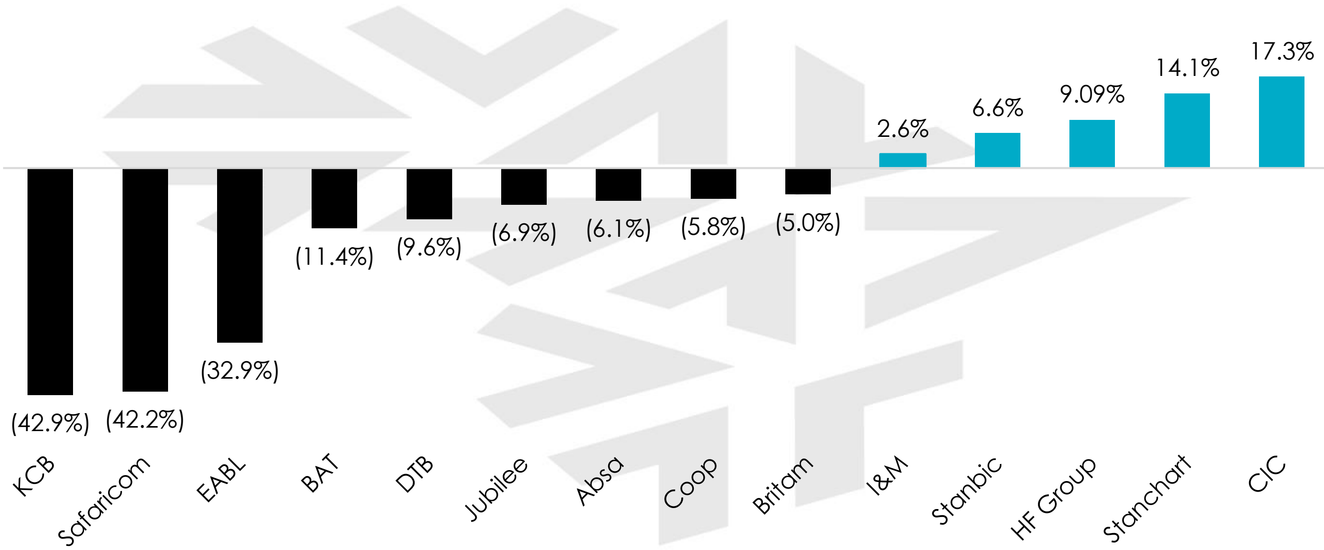
The equities market faced headwinds on the back of persistent foreign outflows in 2023, credited to attractive returns in other asset classes and external developed markets. The bourse saw net foreign outflows of KES 20.04Bn last year.

Approximately 50% of listed stocks have lost value, with KCB recording a loss of ~43% hitting a 52- week low of KES 15.00, and SCOM reaching a low of KES 11.50.

Banking sector stocks have showed resilience with Standard chartered leading with an ~14% 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:

Share performance in 2023



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.

2023 in a snapshot

Price Performance

The stock market closed the year in bear territory, with **NASI** recording a **27.6%** decline closing the year at **92.11**. On the other hand, **NSE-20** and **NSE-25** declined by **10.40%** and **24.15%** on a year on year basis, closing at 1,501.6 and 2,380.23 respectively.

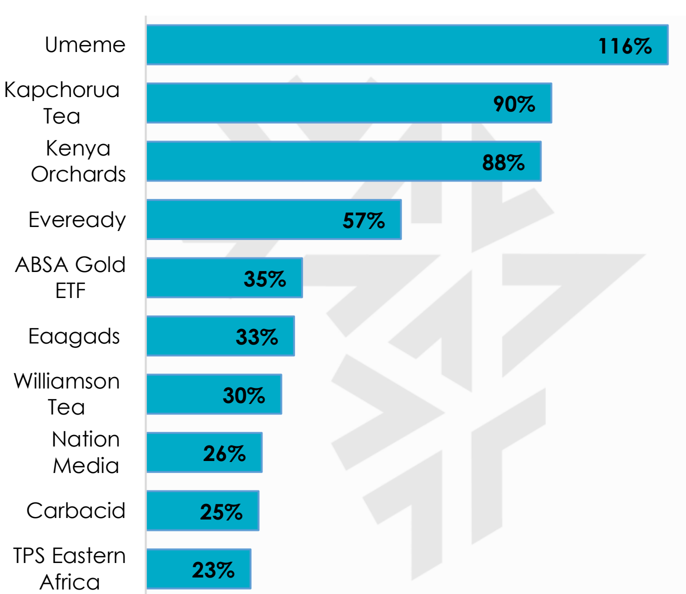
NASI closed the year trading at a P/E of **6.97x** lower than 9.35x recorded in 2022, as prices declined owing to high investor sell-offs coupled with improved earnings in large cap sectors such as banking stocks.

NASI vs NSE 20 Movement in 2023

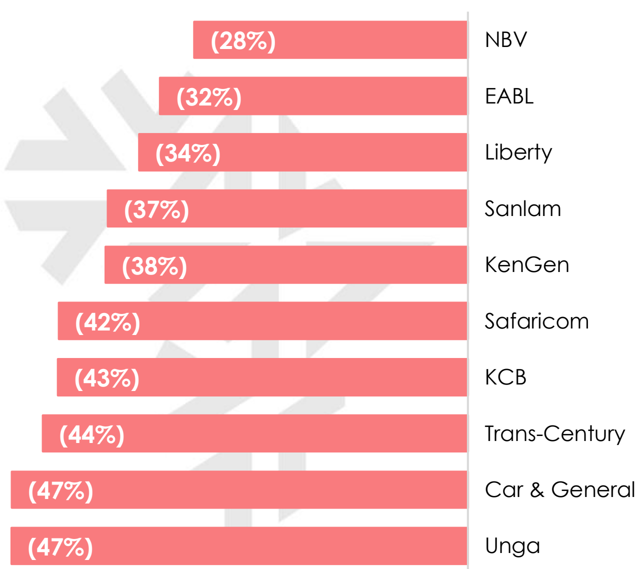
Source; Bloomberg, NCBA IB Research, NSE

NSE Counter Performance

Top Gainers - FY 2023



Top Decliners - FY 2023



Source; NCBA IB Research, NSE

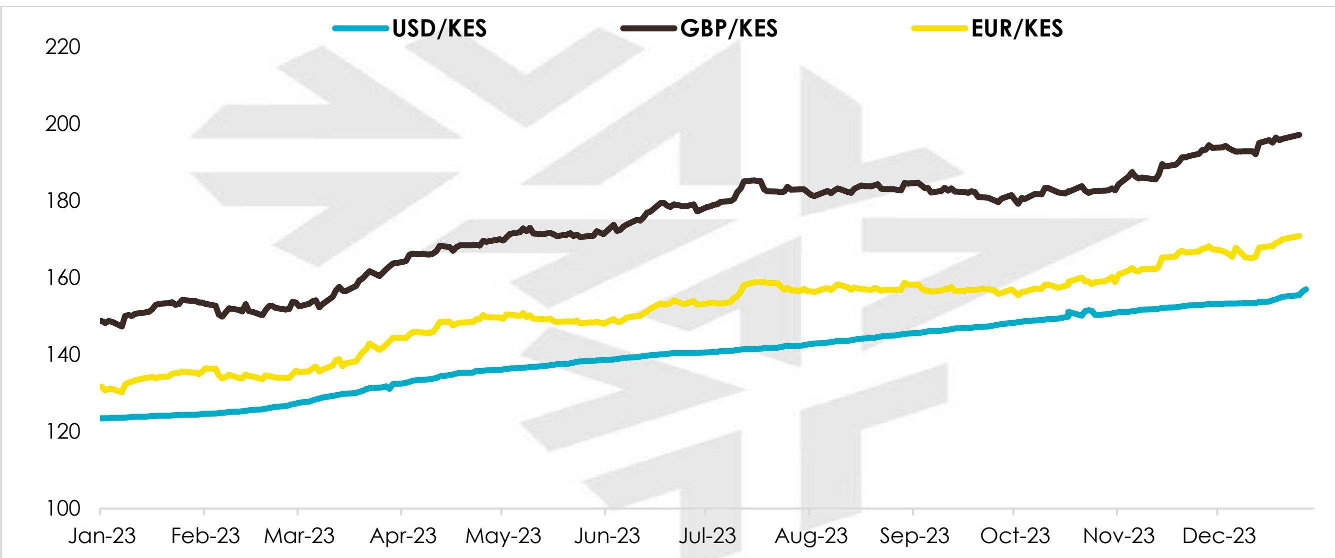
Currency:

The KES maintained a gradual depreciation throughout 2023. The shilling depreciated by **27.2%** against the US dollar, starting the year at KES123.42 and closed the year at KES157.00. The shilling depreciated against the Euro by **31.90%** and the Sterling pound by **34.37%** – 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**	**GBP/KES**	**EURO/KES**
2022	(9.0%)	(2.5%)	(2.5%)
2023	(27.2%)	(34.4%)	(32.00%)



Source; NCBA IB Research, CBK

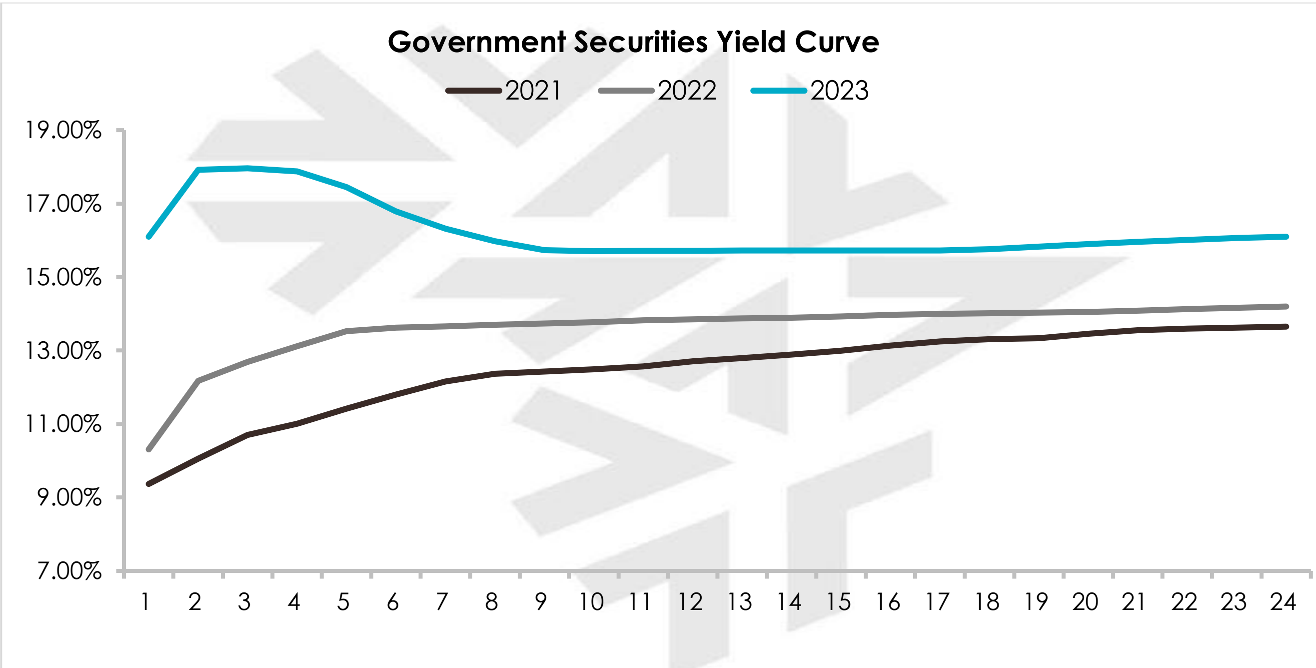
Interest rates:

Yields on GOK treasury bills went up in year, surpassing the **15% mark** for all tenors. 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	31st Dec 23	31st Dec 22	Y/Y change (bps)
91 Day	15.98%	9.37%	661.00
182 Day	15.97%	9.83%	614.00
364 Day	16.10%	10.31%	579.00

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. Upward pressure on the yield curve persisted throughout the year with investor interest concenrated on short term papers ranging from 2.5 years to 5 years.



Source: CBK, NCBA IB Research

Liquidity conditions

Liquidity conditions in the interbank space tightened during the year. Indicatively, the overnight interbank rose by 780.56bps in 2023 to close at 14.44% in December. However, the average traded volumes increased to KES 21.68Bn from KES 18.61Bn observed in the previous year.

Inflation

Inflation eased to **6.60%** in December 2023 from 9.00% in January 2023. Inflation fell within CBK's target range for the second half of the year, supported by lower food prices as a result of the abundant rainfall and fertilizer subsides.

Statistic	Dec-23	Jan-23	Change (bps)
CBR	12.50%	8.75%	375.00
Inflation	6.60%	9.00%	240.00
Average Interbank Rate	14.44%	6.63%	780.56

Source: CBK, KNBS, NCBA IB Research

Kenya International Debt:

Kenyan Eurobond yields for KENINT 06/24/2024 edged upwards in October 2023 to a high of 19.50% mainly driven by negative investor sentiment in line with the country's debt distress, However, the yields marginally decline to 12.53% in December 2023 from 12.60% in January 2023 following a coupon payment of USD 68.7Mn. The KENINT 06/24/2024 will mature fully in June 2024.

Below are the six Kenyan Eurobonds and the respective yields.

	Eurobond	Tenor (Years)	Coupon Rate	Current Yield
1	KENINT 06/24/2024	0.48	6.88%	12.53%
2	KENINT 05/22/2027	3.39	7.00%	9.03%
3	KENINT 02/28/2028	4.17	7.25%	9.69%
4	KENINT 05/22/2032	8.41	8.00%	9.62%
5	KENINT 01/23/2034	10.09	6.30%	9.34%
6	KENINT 02/28/2048	24.24	8.25%	10.13%

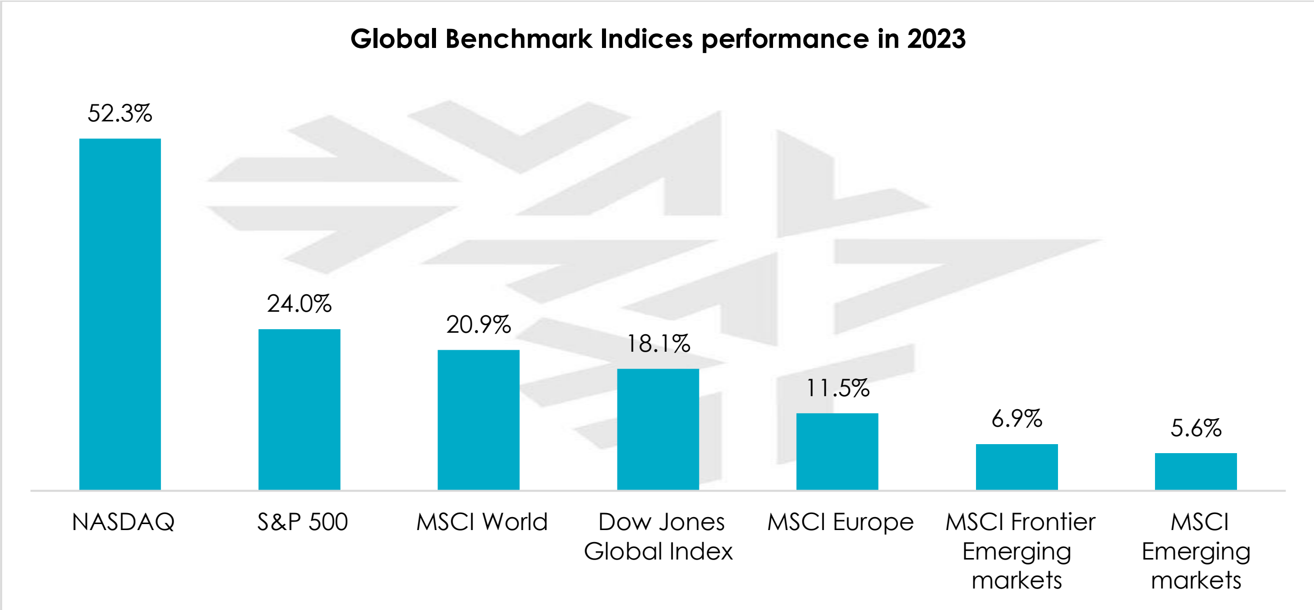
Source: Bloomberg, NCBA IB Research

Global Markets performance

A resilient job market, robust consumer spending and easing inflation kept investor confidence high - helping propel all major indexes to double-digit gains.

The tech-heavy NASDAQ index was the year's biggest star, gaining 52.3%, achieving its best annual return since 1999. The thriving artificial intelligence (AI) industry, with Big Tech companies leading the charge, was the main force behind this remarkable surge.

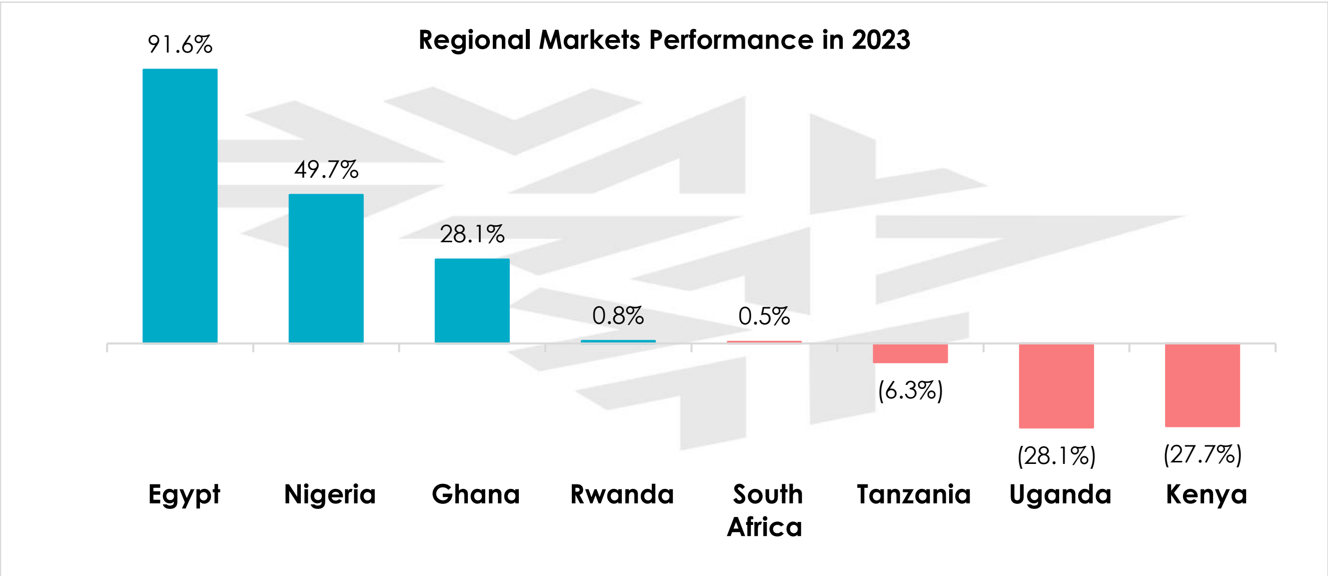
Furthermore, easing macroeconomic conditions and investor optimism about the Federal Reserve's predicted dovish tilt bolstered the broader market.



Source: Bloomberg, NCBA IB Research

Regional Markets performance

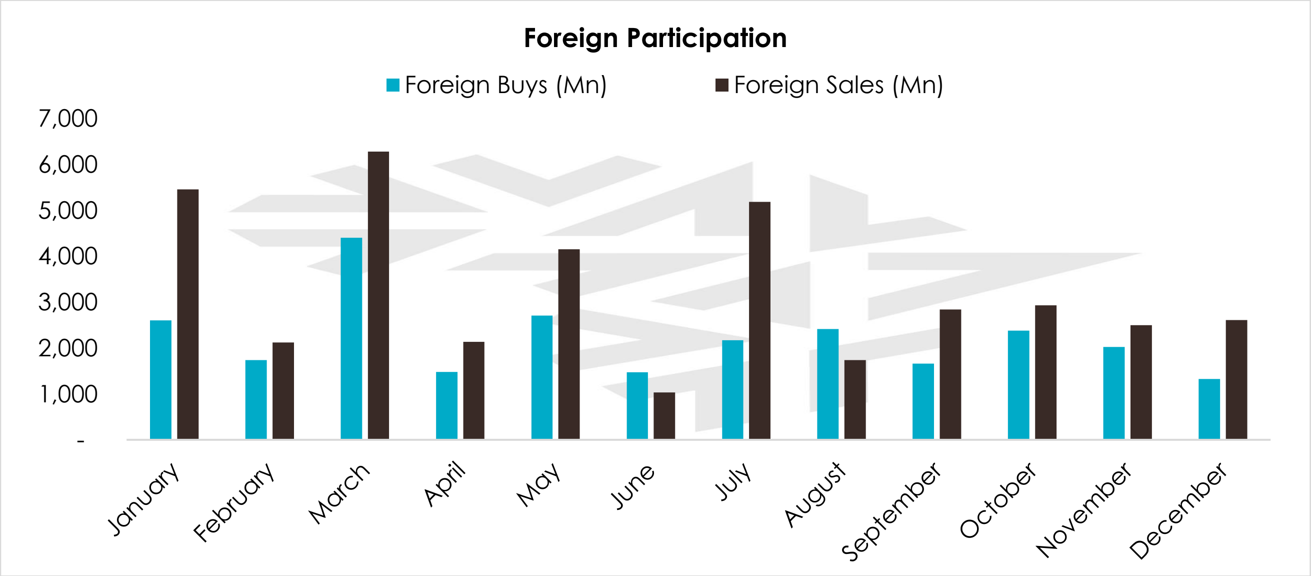
The Egyptian Exchange (EGX) witnessed record-breaking gains during 2023 as the market capitalization exceeded EGP 1.7 trillion. In comparison to peers, Kenya's stock market returns continue to be severely challenged as it wound up 2023 at a fourth straight year of net foreign outflows, weighed down by attractive returns in other asset classes and external developed markets.



Source: Bloomberg, NCBA IB Research

Foreign Investors Participation

Foreign investors' **net sales** closed the year at **KES 38.98Bn**, higher then Foreign net buys at KES 26.34Mn With interest rates in advanced economies likely to hold up for longer, investors throughout the year positioned themselves to take advantage of the comparatively higher returns, staying out of frontier and emerging markets.



Source: NSE, NCBA IB Research

Notable Corporate actions in 2023

- **TransCentury Plc Rights Issue Shares:** TransCentury announced the successful completion of its Rights Issue, which is a significant milestone in the realization of its strategic plan. The transaction generated KES 828.11Mn from the sale of 752.83Mn new ordinary shares, demonstrating strong investor confidence in the company's future.

- **Nation media group plc proposed buyback of up to 10% of the issued shares:** The Company approved the buyback of up to ten percent (10%) of the Company's issued and paid-up share capital. The Buyback price is KES 20 per ordinary share. The Buyback offer is expected to close on the earliest of the Company buying up to 10% of its issued share capital or at 3:00pm on Tuesday, 2 July, 2024.

- **Diageo buys additional shares in EABL to become its leading shareholder:** Diageo UK, through its wholly owned indirect subsidiary Diageo Kenya, in March 2023 announced that it has successfully completed the partial tender offer to acquire an additional 15.0% stake in EABL.

  The tender offer received valid tenders from 1,697 shareholders amounting to a total of 143.5Mn Ordinary Shares which translated to an oversubscription rate of 121.2%. Diageo Kenya accepted the maximum 118.4Mn Ordinary Shares, as specified in the tender offer.

  Following the completion of the Tender Offer, Diageo Kenya now holds the largest stake in EABL at 65.0% with 514Mn shares. Key to note, Diageo purchased each share at KES192, which represented a 39.1% premium on the EABL's stock price of KES 138.0 a day before the announcement of the tender offer.

- **Fahari I-REIT's KES 400M restructuring bid:** ILAM Fahari Real Estate Investment Trust unitholders approved the proposed operational restructuring and the delisting of the REIT from the main investment market segment of the Nairobi Securities Exchange (NSE).

  The Redemption Offer Price of KES 11 per unit represented a premium of 82.72% above the current market price of KES 6.02 per unit. The Trustee redeemed up to 301,400 units from each unitholder that submitted their application.

- **Merali Company sells 35pc stake in Eveready:** Eveready signed an agreement to sell its 35% stake in Eveready East Africa to Dubai-based InvestAfrica FZCO, cutting its losses in the Nairobi Securities Exchange-listed firm. In a filing with the Capital Markets Authority, the batteries distributor says its top shareholder East Africa Batteries Limited (EABL) will sell its 73.4Mn shares to InvestAfrica in a private transaction.

- **Private Equity fund Africinvest buys 10 percent shareholding in I&M Group:** UK development finance institution British International Investment (BII) reached a deal to sell its 10.13% stake in I&M Group to East Africa Growth Holding. The buyer of the stake was an investment vehicle established by Africinvest Fund IV LLC, Africinvest IV Netherlands C.V. and AfricInvest Financial Inclusion Vehicle LLC. Parties to the transaction have not disclosed the value of the transaction but the deal would stand at least KES 2.9Bn based on the valuation of BII's stake on the Nairobi Securities Exchange.

Profit warnings

During the year, **14** firms issued profit warnings to investors, up from 10 in 2022.

The majority of notices are attributable to a difficult operating environment, including greater costs of conducting business as well as Kenyan Shilling's sustained depreciation versus other global currencies.

The issue was exacerbated by consumer purchasing power reductions caused by high living costs and increasing taxes, as well as interruption of the global supply chain owing to complex geopolitics resulting in high production prices.

The following is a summary of the companies:

Profit warnings in 2023	Profit warnings in 2022
1. Car & General	1. Bamburi Cement PLC
2. Centum Plc	2. Centum Plc
3. Crown Paints	3. Crown Paints
4. Eveready	4. Flame tree
5. Kakuzi PLC	5. Kakuzi
6. Kenya airways	6. Liberty Kenya holdings
7. KPLC	7. NSE PLC
8. Longhorn publishers PLC	8. Sameer Plc
9. Nation media Group	9. Sanlam PLC
10. Sameer Africa	10. Limuru PLC
11. Sanlam	
12. Sasini	
13. Unga	
14. WPP Scan group	

Source: Company financials, NCBA IB Research

January 2024 Stock Picks:

Counter	Current Price *29th December 2023	Target price	Upside	Dividend	Div. Yield	Recommendation
Banking **Updated target prices following 3Q2023 financial results**						
KCB	21.90	23.80	8.68%	2.00	9.13%	HOLD
Equity	33.65	47.20	40.27%	4.00	11.89%	BUY
DTB	45.05	53.80	19.42%	5.00	11.10%	ACCUMULATE
COOP	11.40	14.20	24.56%	1.50	13.16%	BUY
ABSA	11.45	14.50	26.64%	0.20	1.75%	BUY
I&M	17.50	20.90	19.43%	2.25	12.86%	ACCUMULATE
Stanbic	108.75	115.60	6.30%	1.15	1.06%	HOLD
SCBK	162.00	154.65	-4.54%	22.00	13.58%	SELL
HF	3.48	5.05	45.11%	-	-	BUY
Insurance						
CIC	2.24	2.92	30.36%	-	-	BUY
Jubilee	185.00	257.37	39.12%	2.00	1.08%	BUY
Telecommunication						
Safaricom	13.90	23.40	68.35%	1.20	8.63%	BUY
Manufacturing & Allied						
BAT	407.50	501.25	23.01%	5.00	1.23%	BUY
EABL	114.00	178.05	56.18%	5.50	4.82%	BUY
Construction & Allied						
Bamburi	35.85	29.3	-18.27%	0.75	2.09%	SELL

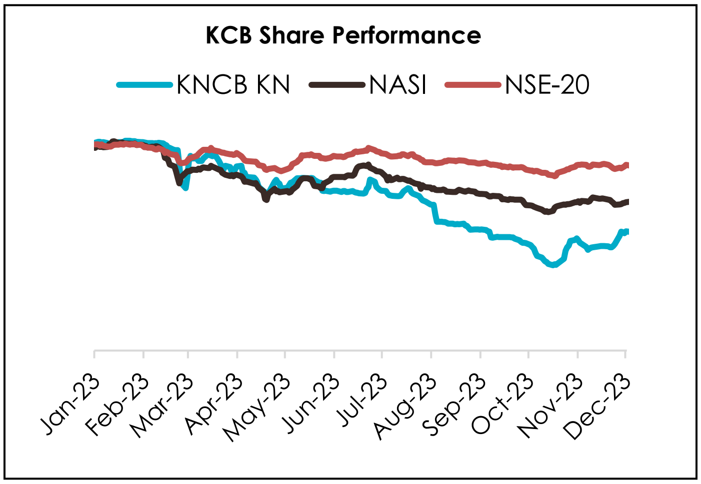
Source: Bloomberg, NCBA IB Research, NSE

*__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: HOLD with a TP of KES 23.80

Share Data	
BIC	**KNCB KN**
Recommendation	**HOLD**
Last Price	21.90
Target Price	**23.80**
Upside (Excl. Div. Yield)	**8.68%**
Market Cap (KES'Bn)	60.57
52 week high	43.00
52 week low	15.00
Free Float	68.87%



Q3 2023 Financial Performance

- **Profitability:** Profit saw an increase by 0.4% to KES 30.7Bn, largely attributable to strong growth in profitability achieved across all the lender's subsidiaries helping the lender offset the impact of loss at NBK dashing out to an overall growth. Subsidiaries outside Kenya saw a threefold growth in net earnings to KES 12.00Bn driven by strong organic growth in Tanzania, Uganda, South Sudan and consolidation of TMB.

- **Customer deposits:** Customer deposits saw an increase of 79.6% to KES 1.65Tr driven by organic growth in demand and term deposits in existing business. Net Interest income grew by 21.6% to KES 74.8Bn benefiting from a faster growth in the bank's loan book. The lender saw a decline in net interest margin to 3.6% from 4.8% due to increased cost of fund as a result of high interest rate environment, on the contrary the rollout of risk-based pricing will support the funding/lending spread.

- **Growth in Operating expenses:** Opex saw a 57.0% increase to KES 76.6Bn driven by exceptional cost items from the consolidation of TMB, staff rationalization program and provision for NBK's court ruling coupled with investments in technology

Outlook

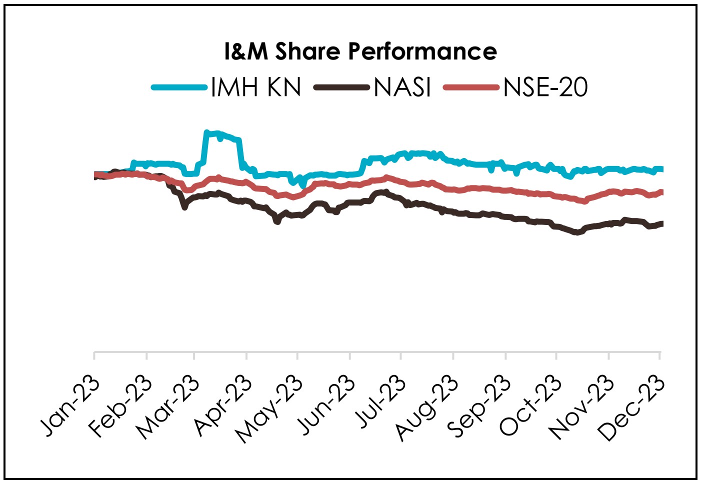
KCB'S wide regional footprint along with its well diversified business portfolios and capital buffer, positions the lender to gain significant growth momentum across the subsidiaries. The lender has recently signed up on the pan-African payment settlement system which should further cement its grip in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

Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain a HOLD recommendation with a revised target price of **KES 23.80.**

I&M Bank: ACCUMULATE with a TP of KES 20.90

Share Data	
BIC	**IMH KN**
Recommendation	**ACCUMULATE**
Last Price	17.50
Target Price	**20.90**
Upside (Excl. Div Yield)	19.43%
Market Cap (KES'Bn)	28.85
52 week high	21.50
52 week low	15.80
Free Float	30.09%



Q3 2023 Financial Performance

- **Profitability:** I&M Group's net profit for Q3 2023 grew **14.1%** to **KES 7.76Bn** as interest income recorded an increase of 27.5% to KES 34. 17Bn. Non-interest income rose by 21.2% to KES 10.71Bn. The bank continues to leverage on its voluntary waiver of bank to mobile fees. The lender's presence In Kenya contributes 74% to profit after tax.

- **Gross Non-Performing Loans (NPLs):** I&M, however, raised the provisioning for loan defaults by 52.5% to KES 36.19Bn compared to KES 23.68Bn recorded in the same period last year, mirroring the trend observed among its tier I peers, including KCB Group, Equity Group and Stanbic Holdings attributed to continued challenging macro-economic environment.

- **Government securities**: Recorded an increase of 14.6% to KES 84.64Bn. The increase was driven by a high interest rate environment with T-bills surpassing the 15.0% mark this year.

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. The lender is widening it reach through ecosystem and value chain partnerships focusing on SMEs lifestyles which has led to a growth in their asset base across corporate as well as business banking.

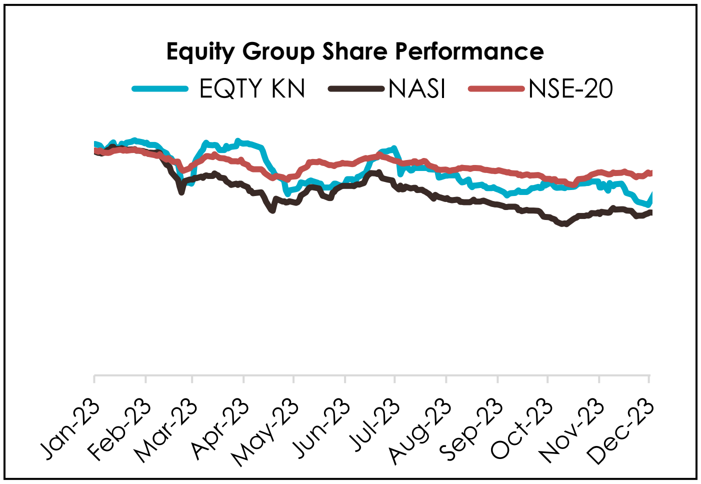
We also expect that growth in fees from digitization and the wealth management businesses will contribute to NFI FY2023.

Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain an **ACCUMULATE** recommendation with a revised target price of **KES 20.90**

Equity Bank: BUY with a TP of KES 47.20

Share Data	
BIC	**EQTY KN**
Recommendation	**BUY**
Last Price	33.65
Target Price	**47.20**
Upside (Excl. Div Yield)	40.27%
Market Cap (KES'Bn)	137.74
52 week high	50.00
52 week low	35.00
Free Float	93.51%



Q3 2023 Financial Performance

- **Profitability:** Equity Bank's net profit in Q3 2023 grew by **3.7%** to **KES 34.58Bn** as non-interest income recorded an increase of 36.90% to KES 57.80Bn and interest income rose by 32.0% to KES 111.3Bn as the bank continues to record strong growth across its subsidiaries.

- **Gross Non-Performing Loans (NPLs):** The lender raised its provisioning by 83.5% to KES 124.5Bn as compared to KES 67.86Bn recorded in the same period last year, largely attributable to two large accounts, i.e., TransCentury Ltd and East Africa Cables Ltd coupled with a growth of 25.5% in loan book to KES 845.9Bn as the lender continues to supports customers in a difficult environment.

- **Customer Deposits:** Recorded an uptick of 19.9% to KES 1.21Tn driven by increased deposits across the Group's subsidiaries. Loan and advances observed a growth of 25.5% to KES 845.9Bn as the lender continues to supports customers in a difficult environment

Outlook

Equity Group has continued to report strong performance FY2023 in spite of a number of macroeconomic headwinds. 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.

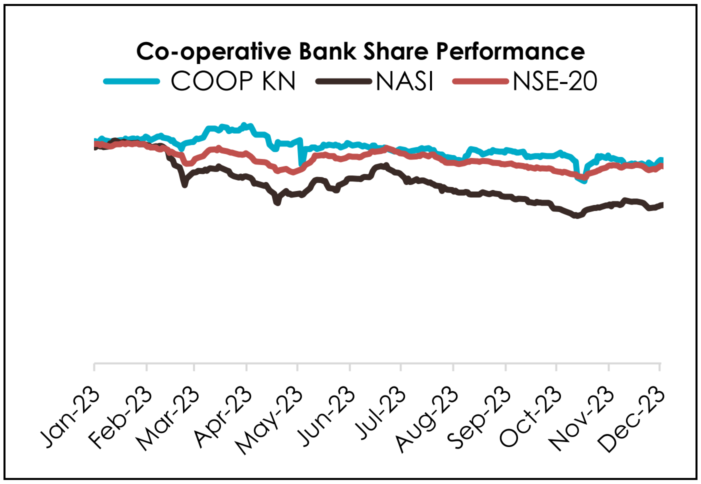
We are, however, cautiously watchful of growth in the Congolese unit on a constant currency basis given that the unit primarily operates in US dollars.

Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain a BUY recommendation with a revised target price of **KES 47.20**

Co-op Bank: BUY with a TP of KES 14.20

Share Data	
BIC	**COOP KN**
Recommendation	**BUY**
Last Price	11.40
Target Price	**14.20**
Upside (Excl. Div Yield)	24.56%
Market Cap (KES'Bn)	67.47
52 weeks high	14.00
52 weeks low	10.10
Free Float	32.41%



Q3 2023 Financial Performance

- **Profitability:** Co-operative Bank's net profit grew by **7.6%** to **KES 18.39Bn** as non-interest income recorded an increase by 2.1% to KES 20.59Bn and interest income rose by 2.5% to KES 32.82Bn as the bank continues to leverage on its solid customer base from Sacco's. On the contrary, FX income dropped by 25.0% to KES 2.46Bn.

- **Gross Non-Performing Loans (NPLs):** Gross NPLs increased by 19.5% to KES 61. 9Bn. Loan loss provisions declined by 26.5% to KES 4.20Bn driven by implementation of risk management initiatives. The NPL ratio increased to14.1% lower than the industry average of 16.0% – reflective of Consumers and Businesses resilience amid tight economic environment.

- **Customer Deposits:** Registered an uptick of by 0.2% to KES 432.84Bn supported by deposit mobilization through the opening of new branches to scale retail expansion. The lender continues to benefit from agency banking i.e. co-op kwa jirani which is a catalyst for deposit mobilization which has seen 45.7% of deposits.

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.

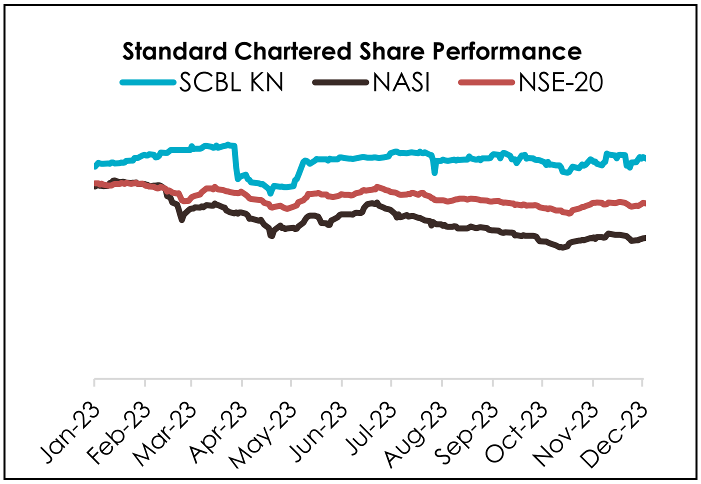
Partnership with government in the G2G oil importation plan and the coffee exchange settlement platform should boost non-funded income.

Recommendation

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

Standard Chartered Bank: SELL with a TP of KES 154.65

Share Data	
BIC	**SCBK KN**
Recommendation	**SELL**
Last Price	162.00
Target Price	**154.65**
Upside	(4.54%)
Market Cap (KES'Bn)	54.01
52 week high	172.50
52 week low	134.00
Free Float	17.78%



Q3 2023 Financial Performance

- **Profitability:** Standard Chartered Bank's net profit for six months ended September grew **11.8%** to **KES 9.74Bn** as net interest income saw an increase of 34.5% to KES 21.23Bn this was largely attributable to a 49.8% growth in foreign exchange trading income and rising interest rates. However, non-funded income fell by 6.6% to KES 8.20Bn.

- **Gross Non-Performing Loans (NPLs):** The lender's NPL ratio saw a marginal drop of 2.0% to KES 23.56Bn reflective of Consumers and Businesses resilience amid tight economic environment.

- **Customer Deposits:** Deposits from customers increased by **4.5%** to KES 298.9Bn compared to the 5.5% growth in the loan book, driven by new mandates and increased transactional flows from key relationships as well as value driven from the wealth management segment.

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.

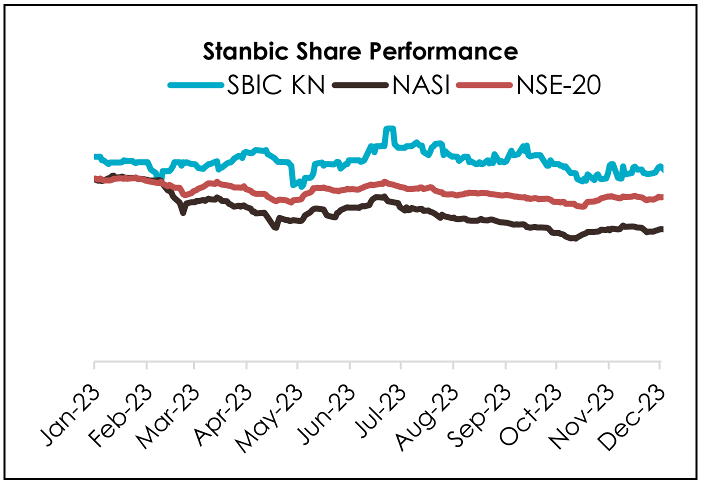
We expect the bank to register long-term profitability based on revenue diversification and steady topline growth.

Recommendation

From our estimates and assumptions, we believe the stock is overvalued and maintain a SELL recommendation with a revised target price of **KES 154.65**

Stanbic Bank: HOLD with a TP of KES 115.65

Share Data	
BIC	**SBIC KN**
Recommendation	**HOLD**
Current Price	108.75
Target Price	**115.65**
Upside	6.30%
Market Cap (KES'Bn)	40.32
52 week high	132.00
52 week low	90.00
Free Float	56.56%



Q3 2023 Financial Performance

- **Profitability:** Stanbic bank's net profit for Q3 grew by **32.7%** to **KES 9.28Bn** as non-interest income recorded an increase of 23.0% to KES 12.7Bn and interest income rose by 48.2% to KES 26.13Bn. 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 6.2% to KES 24.0Bn one of the lowest across peers. Foreign currency loans, however, continue to come under pressure as the KES continues to depreciate.

- **Customer Deposits:** Recorded an uptick of 14.3% to KES 305.6Bn. Loans and advances saw an increase of 5.9% to KES 250.98Bn 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.

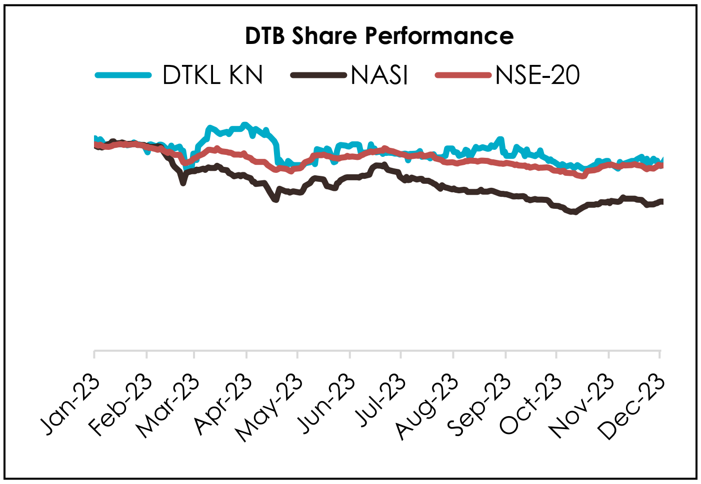
Recommendation

From our estimates and assumptions, we believe the stock is overvalued and maintain an **HOLD** recommendation with a revised target price of **KES 115.60.**

DTB Bank: ACCUMULATE with a TP of KES 53.80

Share Data	
BIC	**DTKL KN**
Recommendation	**ACCUMULATE**
Last Price	45.05
Target Price	**53.80**
Upside (Excl. Div Yield)	30.41%
Market Cap (KES'Bn)	12.34
52 week high	55.50
52 week low	43.05
Free Float	58.02%

Source: Bloomberg, NCBA IB Research, NSE



Q3 2023 Financial Performance

- **Profitability:** DTB bank's net profit for Q3 grew by **11.6%** to **KES 4.00Bn** as non-interest income increased by 33.9% to KES 9.2Bn and interest income rose by 19.6% to KES 20.1Bn.

- **Gross Non-Performing Loans (NPLs):** The lender's NPL increased by 17.4% to KES 38.7Bn, driven by the effects of the recent strained macro-environment.

- **Customer Deposits:** Recorded an uptick of 27.3% to KES 457.74Bn. Loans and advances increased by 18.7% to KES 289.13Bn 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.

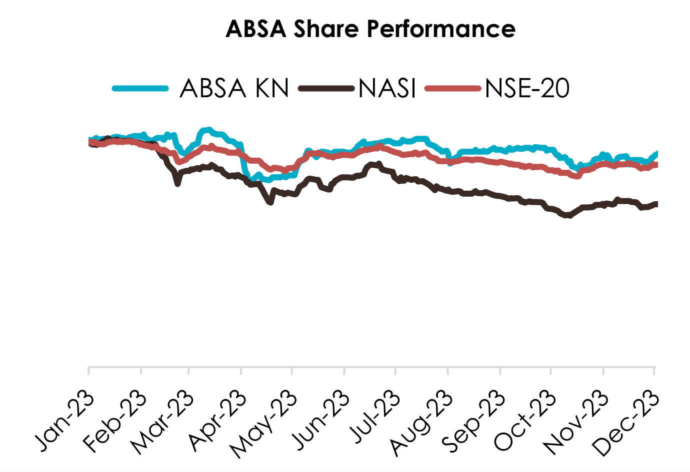
Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain an **ACCUMULATE** recommendation with a revised target price of **KES 53.80**

ABSA Bank: BUY with a TP of KES 14.50

Share Data	
BIC	**ABSA KN**
Recommendation	**BUY**
Last Price	11.45
Target Price	**14.50**
Upside (Excl. Div Yield)	26.64%
Market Cap (KES'Bn)	59.75
52 week high	13.00
52 week low	10.00
Free Float	30.37%

Source: Bloomberg, NCBA IB Research, NSE



Q3 2023 Financial Performance

- **Profitability:** ABSA bank's net profit for Q3 grew **14.9%** to **KES 12.3Bn** as non-interest income increased by 6.4% to KES 10.88Bn and interest income rose by 26.0% to KES 29.3Bn.

- **Gross Non-Performing Loans (NPLs):** The lender's NPL saw an increase of 72.4% to KES 34.54Bn, driven by the effects of the recent strained macro-environment.

- **Customer Deposits:** Registered an uptick of 26.1% to KES 354.5Bn. Loans and advances saw an increase of 14.3% to KES 330.9Bn, 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.

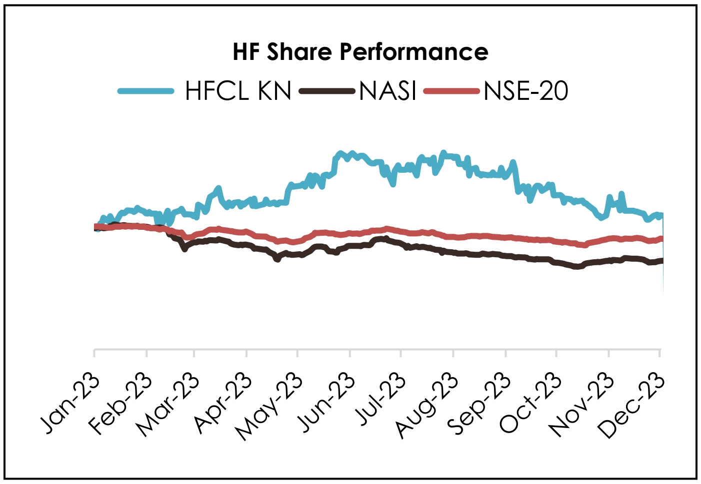
Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain a **BUY** recommendation with a revised target price of **KES 14.50.**

HF Bank: BUY with a TP of KES 5.50

Share Data	
BIC	**HFCL KN**
Recommendation	**BUY**
Last Price	3.48
Target Price	**5.05**
Upside (Excl. Div Yield)	**45.11%**
Market Cap (KES'Bn)	**1.38**
52 week high	5.20
52 week low	2.80
Free Float	**74.36%**

Source: Bloomberg, NCBA IB Research, NSE



Q3 2023 Financial Performance

- **Profitability:** HF Group Plc recorded a significant jump in PAT in Q3'23, increasing by 283.9% to KES 0.24Bn on the back of 21.1% growth in operating income to KES 2.82Bn outperforming the 13.6% growth in total operating expense to KES 2.55Bn. Net Interest income also grew by 21.4% attributable to 20.3% growth interest income compared to 19.1% increase in interest expense.

- **Gross Non-Performing Loans (NPLs):** The lender's NPL saw an increase of 24.9% to KES 10.55Bn, driven by the effects of the recent strained macro-environment.

- **Customer Deposits:** Registered an uptick of 12.9% to KES 43.82Bn. Loans and advances saw an increase of 9.3% to KES 35.199Bn, supported by the lender's growing branch and digital footprint and expanded value propositions.

Outlook

Going forward the bank will leverage on digitization 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.

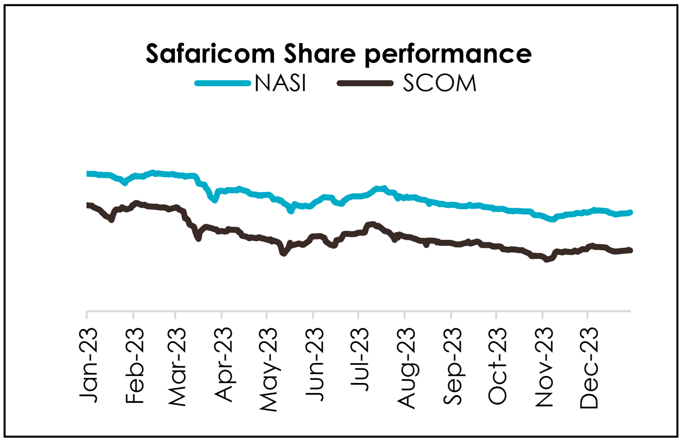
The stock presents an opportunity for long-term investors to earn **capital gains**. We expect HF Group to deliver profitability in 2023 based on its focus on revenue diversification, cost rationalization and digital transformation.

Recommendation

From our estimates and assumptions, we believe the stock is undervalued and maintain a **BUY** recommendation with a revised target price of **KES 5.50.**

Safaricom: BUY with a TP of KES 23.40

Share Data	
BIC	SAFCOM KN
Recommendation	**BUY**
Last Price	14.05
Target Price	**23.40**
Upside (Excl. Div Yield)	68.35%
Market Cap (KES'Bn)	568.93
52 week high	29.00
52 week low	11.50
Free Float	25.06%



Safaricom' s performance at the Nairobi Securities Exchange has been depressed, down 48% year-to-date compared to the wider index's 30% decline, attributable to the sustained sell-off by foreigners. Safaricom accounts for approximately 50% of the market, based on market capitalization.

H1 2024 Financial Performance

- **M-PESA was the key driver of growth:** grew by 16.5% to KES 66.23Bn supported by increased personal usage and growth of chargeable transactions per one-month active customers. Financial services revenue however, registered a 19% decline y/y to close at KES 4Bn primarily driven by a decline in revenue attributable to decline in Fuliza.
- **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, infrastructure costs to increase coverage in the growing market.
- **Profitability**: Net Income grew 10.9% y/y to KES 41.6Bn supported by growth in M-PESA and mobile data revenue in the period. Profit after tax however declined by 10.1% largely attributable to 21.9% increase in operating expenses to KES 37.7Bn.

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.

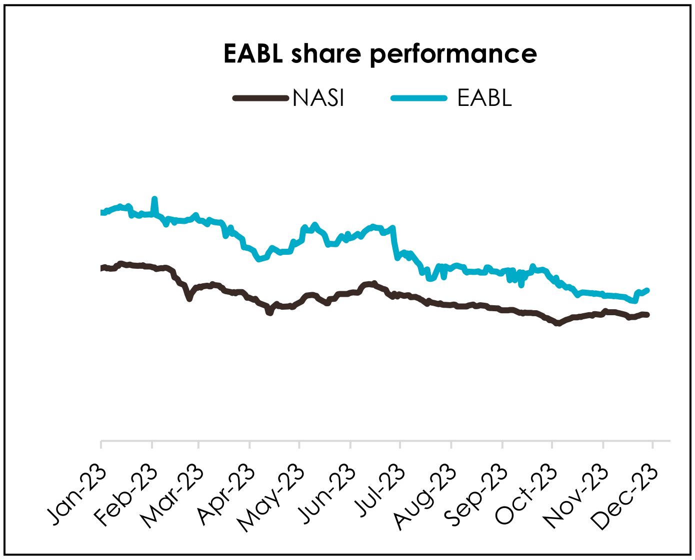
Recommendation

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

EABL: BUY with a TP of KES 178.05

Share Data	
BIC	EABL KN
Recommendation	**BUY**
Last Price	114.00
Target Price	**178.05**
Upside (Excl. Div Yield)	56.18%
Market Cap (KES'Bn)	89.56
52 week high	190.00
52 week low	111.00
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.

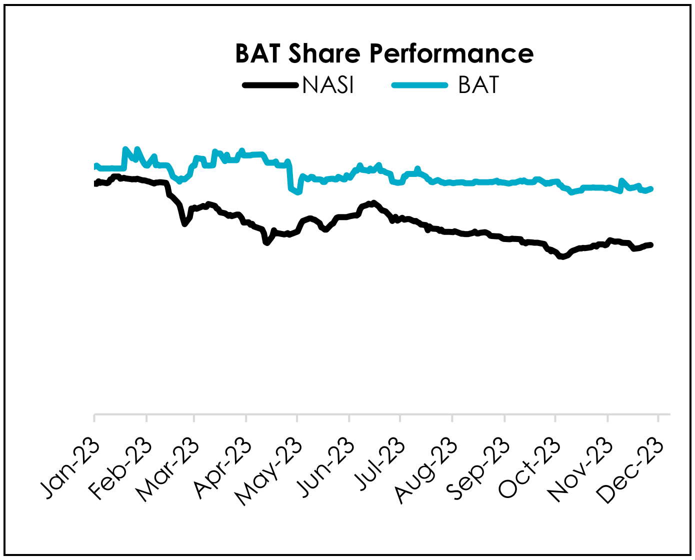
Recommendation

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: BUY with a TP of KES 501.25

Share Data	
BIC	**BAT KN**
Recommendation	**BUY**
Last Price	407.50
Target Price	**501.25**
Upside	23.01%
Market Cap (KES'Bn)	42.00
52 week high	495.00
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.

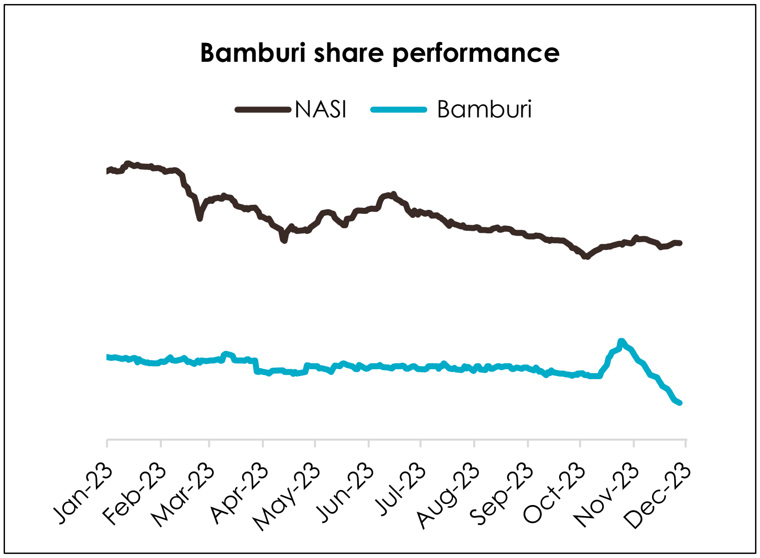
Recommendation

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

BAMB: SELL with a TP of KES 29.3

Share Data	
BIC	**BAMB**
Recommendation	**SELL**
Last Price	35.85
Target Price	**29.30**
Upside	(18.27%)
Market Cap (KES'Bn)	12.72
52 week high	37.00
52 week low	21.30
Free Float	37.27%

Source: Bloomberg, NCBA IB Research, NSE



Financial Performance

- **Resilient Revenue Growth-** the Group's revenue has been resilient despite declining by 5.8% to KES 39.0Bn in the previous year. We expect sales to register mild growth with a forecast CAGR of 2.7% in the next five years.
- **Strong Asset Base-** Bamburi's assets have grown by 8.4% to KES 56.1Bn with a forecast CAGR of 2.8% in the next 5 years. Property, Plant and Equipment consisting of Land and residential buildings, Equipment and plant and machinery accounted for more than 70% of assets coming in at KES 39Bn.

Outlook

We believe Bamburi will deliver a relatively stable performance in the future pegged on;

1. **Expected Economic Recovery** – We expect sustained economic recovery both in Kenya and Uganda, as well as in Bamburi's main markets in Rwanda, DRC and South Sudan. Manufacturing growth is expected to accelerate given the global supply chain stabilization and consumer demand surge. However, we remain cognizant that the global disruptions on the raw material supply chain are still expected to persist.
2. **Reduced production cost** – The main production cost components for Bamburi Cement are energy, power and raw materials such as clinker, remain higher due to supply chain constraints. However, we believe the logistic constraints will ease going forward hence reducing the cost of major production inputs.

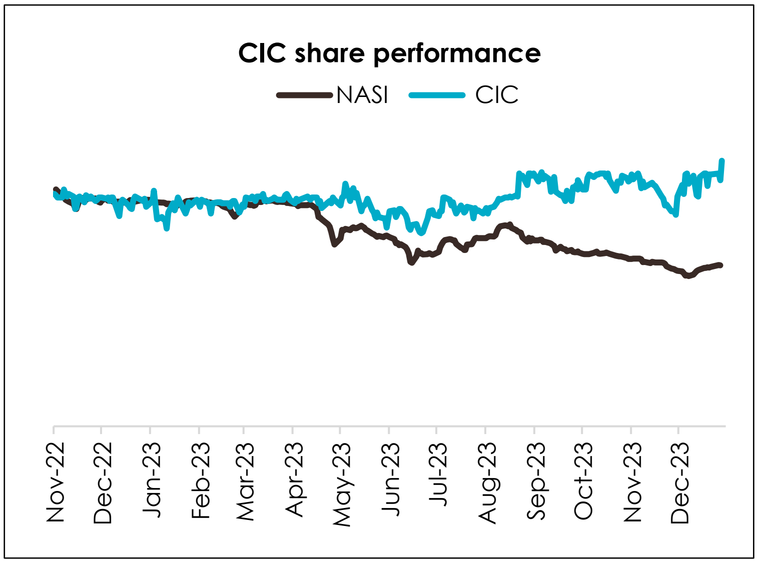
The counter has seen a rally in its share price in the last 2 weeks credited to Offloading of 70% Stake in its Uganda Business to Sarrai Group. Bamburi Cement has signaled that it expects to pay its shareholders a special dividend from the sale and also invest part of the sales proceeds to improving the business.

Recommendation

From our estimates and assumptions, we recommend **SELL** with a target price of **KES 29.30**. See our BAMBURI company report **here.**

CIC: BUY with a TP of KES 2.92

Share Data	
BIC	**CIC KN**
Recommendation	**BUY**
Last Price	2.24
Target Price	**2.92**
Upside	30.36%
Market Cap (KES'Bn)	6.2
52 week high	2.18
52 week low	1.50
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;

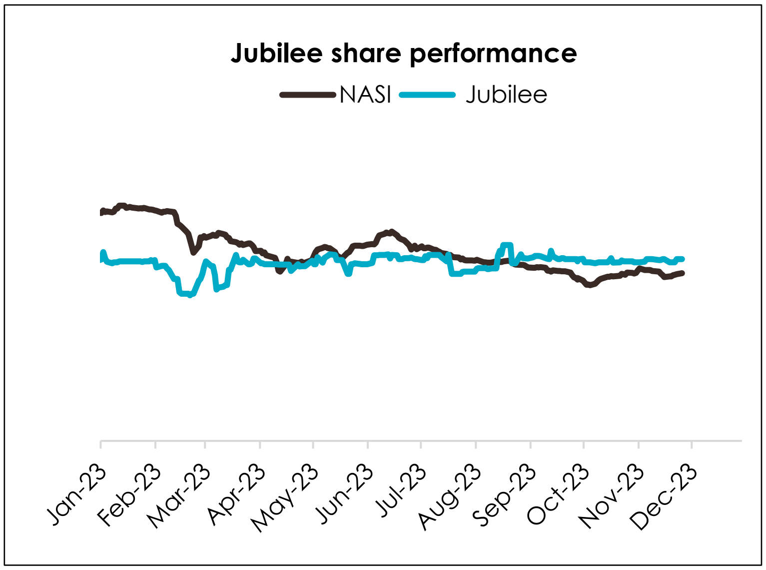
- **Enhanced Digital Transformation**– The Group has embarked on a digital transformation journey whose objective is to provide seamless end-end customer experience supported by emerging technologies. Investing in technology will strengthen and improve performance hence ensuring customer retention and 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	JBIC KN
Recommendation	**BUY**
Last Price	185.00
Target Price	**257.37**
Upside	39.12%
Market Cap (KES'Bn)	13.26
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.**

About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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Certification

The following analyst(s) who prepared this research report hereby certify that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

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