NOVEMBER STOCK PICKS

October Review

- During the month, KPLC and KenGen released their full year financials. KPLC profit after tax increased by **258.68%** y/y to **KES 1.49Bn**. The increase was seen from a rise in revenue derived from the reopening of the economy and a larger consumer base. Additionally, cost management and financing strategies boosted the significant increase in profits. Meanwhile, KenGen saw net earnings decrease by **93.94%** to **KES 1.19Bn**. The large decrease was attributed to the reinstatement of income tax obligations that had been relaxed in 2020, this resulted in an increase in tax payments by **195.92%** y/y to **KES 13.6Bn** in 2021. Nonetheless, the board recommended a **KES 0.30** dividend that is likely to increase investor sentiment and support the counter.
- Inflation declined to **6.45%** in October versus **6.91%** in September. The decrease was attributed to lower transport prices during the month as the government reinstated the fuel subsidy to reduce pressure on prices. Meanwhile, the food and nonalcoholic beverage index increased by 1.11% to 10.60% due to lower agricultural production as weather conditions remained unfavorable.
- Crude oil prices hit a seven-year high in early October pushed up by energy supply concerns and continued low oil stocks resulting in the commodity touching highs of **$85.43** per barrel. In Kenya, the Energy and Petroleum Regulatory Authority (EPRA) subsidized local pump prices leading to a decrease in the price of petrol and diesel by **KES 5.00** to **KES 129.72** and **KES 110.60** respectively.
- The month of October also saw a weakening shilling that hit a 10-month low against the dollar closing the month at **KES 111.21,** this was driven by an increasing import bill and lower agricultural exports.

What does November hold for us?

- The banking sector 3Q21 financial results are set to be released during the month. We anticipate positive results reflecting the increase in economic activity and reduced non-performing loans.
- Safaricom and Centum are also expected to release their financial results during the month. We expect an increase in M-PESA revenue to buoy Safaricom's earnings.
- The recent removal of the night curfew is positive as it is likely to increase business activity and boost economic growth. EABL is also likely to benefit from this development.

Table 1: Corporate Actions

Name	Final	Books Closure	Dividend payment
Centum	KES 0.33	08-Oct-21	Subject to approval
KenGen	KES 0.30	Subject to approval	Subject to approval

Portfolio Performance

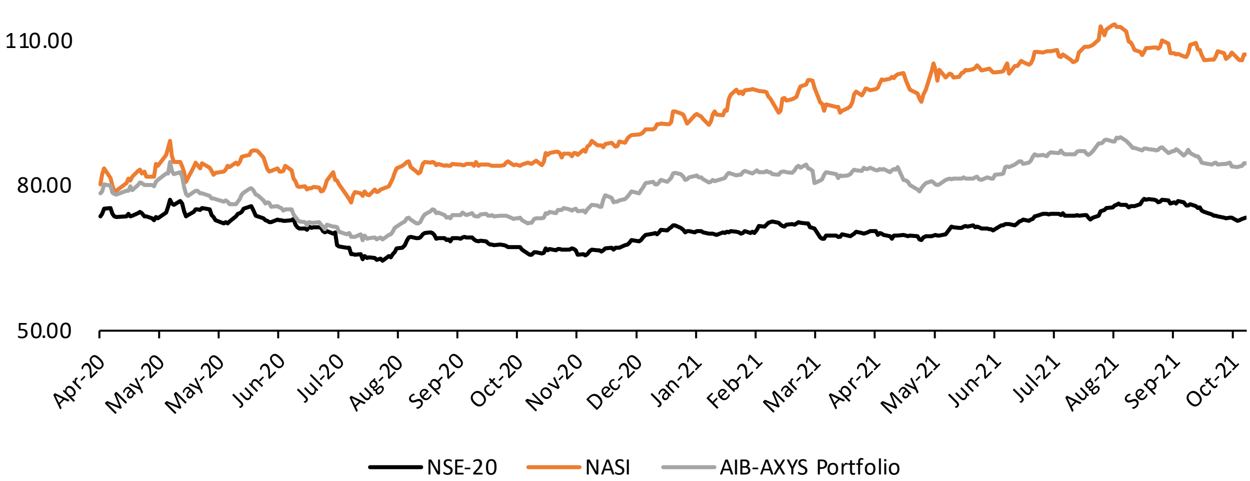
During the month of October, our model portfolio was down 2.9% M/M but was up 8.1% YTD. The performance was affected by the downward movement on several banking counters.

Our model portfolio has underperformed the NASI due to its relatively low weighting on Safaricom and higher weighting on banking stocks. We believe that there's more upside on the banking stocks which are likely to recover as earnings improve. We, therefore, expect the portfolio's performance to improve as banking stocks rally, on the back of strong 3Q'21 numbers.

Table 2: Portfolio Performance

	M/M	YTD
AIB-AXYS Africa Portfolio Performance	-2.9%	8.1%
NSE-20	-3.4%	5.0%
NASI	-0.2%	17.0%

Graph 1: Portfolio Performance vs Indices



Source: AIB-AXYS Research

Portfolio Review

We have taken some profit and reduced Safaricom's weighting from 14% to 11% and increased allocation to KCB. Safaricom's fundamentals remain attractive. Previously, the counter had rallied on news of the Ethiopian expansion, with our current view been that the counter is trading above its fair value thus the reduction in our allocation to the counter.

Table 3: Portfolio Constituents

Counter	29-Oct-2021	Target Price	Upside	Δ YTD	Δ M/M	52 Week Low	52 Week High	Weighting	Weighted YTD return	Weighted M/M return
Safaricom	42.80	38.81	-9.3%	25.0%	1.7%	29.70	44.95	11.0%	4.3%	0.2%
Equity	49.70	50.60	1.8%	36.0%	-2.1%	32.75	54.25	6.0%	2.2%	-0.1%
KCB	43.95	52.45	19.3%	15.4%	-6.0%	35.40	49.90	9.0%	0.9%	-0.5%
NCBA	24.10	30.29	25.7%	-9.9%	-7.3%	21.70	28.15	6.0%	-0.6%	-0.4%
COOP	12.50	14.99	19.9%	0.0%	-6.4%	11.15	13.95	6.0%	0.0%	-0.4%
DTK	58.75	79.00	34.5%	-21.7%	-5.6%	58.00	77.50	6.0%	-1.3%	-0.3%
SCB	130.00	145.19	11.7%	-9.9%	-0.2%	129.75	165.25	6.0%	-0.6%	0.0%
ABSA	10.25	12.07	17.8%	6.1%	-2.8%	8.62	11.00	6.0%	0.4%	-0.2%
I&M	21.45	36.49	70.1%	-4.7%	-5.9%	21.10	50.00	7.0%	-0.3%	-0.4%
Stanbic	94.00	102.92	9.5%	10.6%	2.2%	74.00	95.25	6.0%	0.6%	0.1%
EABL	166.00	205.21	23.6%	7.6%	-2.8%	148.25	193.75	6.0%	0.5%	-0.2%
Bamburi	36.65	74.66	103.7%	-3.2%	-2.3%	22.65	46.35	7.0%	-0.2%	-0.2%
NSE	8.80	10.05	14.2%	7.8%	-7.4%	7.40	10.15	6.0%	0.5%	-0.4%
Jubilee	360.00	394.85	9.7%	26.8%	2.9%	242.00	390.00	6.0%	1.6%	0.2%
Kenya Re	2.42	3.28	35.5%	4.3%	-3.2%	2.01	2.70	6.0%	0.3%	-0.2%
NSE-20	1,961.33			5.0%	-3.4%					
NASI	177.96			17.0%	-0.2%					

Source: AIB-AXYS Research

Equity Group

Target Price: KES 50.60
Upside: 1.8%

Tailwinds

- Expansion in Congo is expected to grow the group's business by leveraging on its strength in lending to SMEs who form part of the mining and trade business in the country while expanding its reach to the corporates.
- The halt of dividend payment in FY19 and FY20 has seen the group enhance its capital ratios
- A high liquidity ratio of 59.3% positions to take up any opportunities that may arise as the East African economy continues to recover
- The enactment of the dividend policy with a commitment to payout 30%-50% of all profit after tax is likely to increase investors' sentiments on the counter.

Headwinds

- High exposure in the SME sector likely to further deteriorate asset quality especially with government effecting new containment measures
- Ballooning provisions eating into the bottom-line with cost of risk at 4.0%

KCB Group

Target Price: KES 52.45
Upside: 19.3%

Tailwinds

- Double digit growth in loan book fueling growth in interest income
- Cost of funds has remained stable at 2.7% despite strong growth in customer deposits (+11.7% y/y to KES 767.2B)
- Growing Net Interest Margin (+40 bps y/y to 8.3%)
- Declining Cost to Income ratio (-110 bps y/y to 44.8%).

Headwinds

- Deteriorating asset book quality with NPL ratio at 16.2%
- A surge in loan loss provisions on the back of Covid-induced economic struggle with an expected cost risk of 3.5%.
- Cost savings on merger with NBK may take longer to be realized given the tough operating environment due to the prevailing pandemic.

Absa Group

Target Price: KES 12.07
Upside: 17.8%

Tailwinds

- Growing NFI (+9.67% y/y) supported by forex trading income and introduction of new products
- Declining cost of funds (-40 bps y/y to 2.5%)
- Improving cost to income ratio (-300 bps y/y to 48.2%) due to investment in technology and reduced reliance on branches.
- Introduction of new channels such as WhatsApp Banking and Timiza loans App.

Headwinds

- Marginal growth in interest income as yields on interest earning assets decline

Co-operative Bank

Target Price: KES 14.99
Upside: 19.9%

Tailwinds

- Declining cost of funds (-40% y/y to 3.3%) despite double-digit growth in deposits
- Diverse loan book to shield growth despite shutdown in some sectors of the economy
- Low exposure to the high-risk sectors that have been largely affected by the prevailing pandemic.
- Optimization of operations through digitization has seen continued increase in mobile transactions.

Headwinds

- Synergies from the acquisition of Jamii Bora expected to take longer given the tough operating environment
- Absorption of Jamii Bora's bad loan book which may take time to recover in a tough business environment

Stanbic Holdings

Target Price: KES 102.92
Upside: 9.5%

Tailwinds
- Double-digit growth in deposits (+15.7% y/y)
- Expected growth in the loan book steered by an increase in corporate banking as well as secured personal lending segments.
- Diverse loan book with low exposure in high-risk sectors.
- Expected growth in non-funded income on the back of an increase in fees and commissions following the resumption of fees on mobile transactions.

Headwinds
- Growing NPL ratio (12.8%) to decrease asset book quality
- Rising cost of risk (+90 bps y/y to 2.5%) due a 54.8% increase in provisions

NCBA Group

Target Price: 30.29
Upside: 25.7%

Tailwinds
- Conglomerate of various segments to solidify presence in the East African market
- Group to retain front in digital lending through platforms such as M-Shwari and Fuliza
- Improved operational efficiencies to see cost synergies of a merged entity

Headwinds
- Asset quality to remain worrisome with NPL ratio at 16.1%, this may be further worsened by exposure to the SME sector

I&M Holdings

Target Price: KES 36.49
Upside: 70.1%

Tailwinds
- Recovery in Mauritius as the rolling out of vaccines sees the tourism and hospitality industry recover.
- Stable growth in loan book and deposits despite a tough operating environment
- Modest Cost to Income ratio of 41.8%

Headwinds
- Elevated provisions due to their exposure to risky-sectors

Diamond Trust Bank

Target Price: KES 79.00
Upside: 34.5%

Tailwinds
- Growing NFI (+6.1 % y/y) as the bank continues to grow its forex trading income
- Increased investment in innovation a good indication of their shift to digitization

Headwinds
- Increasing cost to income ratio due to the high staff cost (38% of total cost)
- Growing NPLs ratio due to its exposure to high-risk sectors

Standard Chartered Bank

Target Price: KES 145.19
Upside: 11.7%

Tailwinds
- Digital banking a key driver for growth as usage of the platforms increase
- Wealth management has been a key focus with the bank increasing its products.
- NFI to Total income ratio improved to 35% in 1Q21.

Headwinds
- Banks higher NPL ratio, which was higher than the industry average pre-pandemic, remains a source of concern.

EABL

Target Price: KES 205.21
Upside: 23.6%

Tailwinds

- Recovery in sales expected as the general economy recovers
- Stable growth in Tanzania given lax regulations on social gatherings
- Packaging of bottled beer brands in carton packs to allow take away option to boost beer sales

Headwinds

- Recovery in sales pegged on regulatory conditions in the respective subsidiaries
- Reduced sales in Senator Keg hence a decline in topline

Jubilee Holdings

Target Price: KES 394.85
Upside: 9.7%

Tailwinds

- Stable dividend payment to the allure of investors
- Stable growth in investment income despite effects of the pandemic (+12.7% y/y)
- Operational efficiencies and cost control measures have seen lower operating costs (-2.5% y/y)
- Allianz deal allows JHL to focus on growing footprint in General insurance

Headwinds

- Decline in consumer disposable income due to a slowdown in economic activity and job losses may see slowdown in insurance premiums growth while seeing a rise in claims and surrenders

Safaricom

Target Price: 38.81
Downside: -9.3%
Tailwinds

- M-PESA to be a key revenue driver growth mainly due to the ongoing partnerships with financial services providers as well as e-commerce players
- Data revenue to be driven by mobile data and FTTH, supported by the investments in both 4G and 5G networks
- Ethiopian entry provides an exciting investment opportunity driven by a low mobile penetration

Headwinds

- Regulatory risk in Kenya, geo political risk in Ethiopia and competition from payment platforms will weigh down on growth
- Increased CAPEX from entry into Ethiopian market likely to reduce dividends in the short term

NSE

Target Price: KES 10.05
Upside: 14.2%

Tailwinds

- Declining operating costs (-25.3% y/y to KES 467.2M)
- Increased fees from new products. The launch of M-Akiba bond and the Ibuka program have helped the NSE diversify its revenues. Revenues from these sources are expected to increase as the uptake of these products increases
- Attractive dividend yield

Headwinds

- Lower transaction levy as turnover declines
- Reducing income from data vending as demand for data decreases

Bamburi Cement

Target Price: KES 74.66
Upside: 103.7%

Tailwinds

- Increased cement demand as government continues its infrastructure projects and economic activity picks up.
- Due to the border issues with Rwanda, Bamburi isn't exporting to the country. Volumes could increase if the border between Uganda and Rwanda is reopened.
- In this tough operating environment, Bamburi has focused on reducing costs which have led to an increase in efficiencies.
- Lower commodity prices (global price of clinker has declined) is likely to reduce the cost of goods.

Headwinds

- Lower revenue due to a decrease in cement prices in both Kenya and Uganda.
- Increased competition could further depress prices.
- Cheaper products are cannibalizing on the premium brands. This is likely to reduce revenue growth.

Kenya Re

Target Price: KES 3.28
Upside: 35.5%

Tailwinds

- The compulsory reinsurance business accounts for 35% of the re insurers earnings ensuring steady flow of revenues and stability in the topline
- Stable dividend payout despite the prevailing pandemic

Headwinds

- Regional expansion may be delayed die to the pandemic
- Lower earnings due to loss of business as increased claims and rebates forced insurers to renegotiate their insurance contract with their customers

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