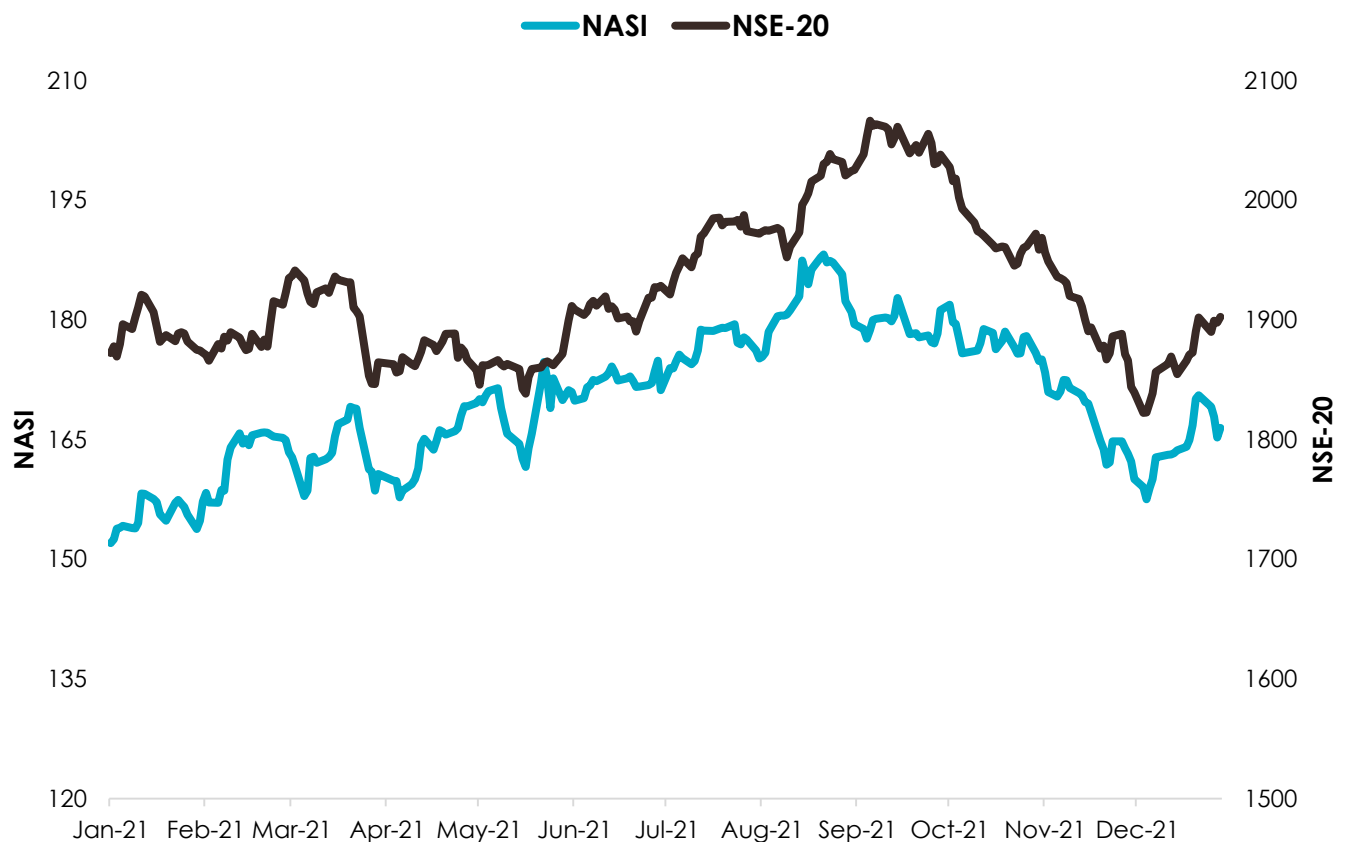


Equities Market Review

During the month of December 2021, the equities market was on an upward trajectory with NASI, NSE-20 and NSE-25 gaining by 1.6%, 1.7% and 3.0%, respectively. The market capitalization rose to KES 2.59tn at close of the month from KES 2.55tn at the start, reflecting an expansion of 1.57% m/m in shareholder's wealth.

The performance was driven mainly by gains recorded on stocks such as Kapchorua Tea, Eveready and Olympia Capital Holdings. The share prices of most actively traded counters declined during the month, contributing to the decline in turnover.

The chart below highlights the movement of main market indices for the last 12-month period:

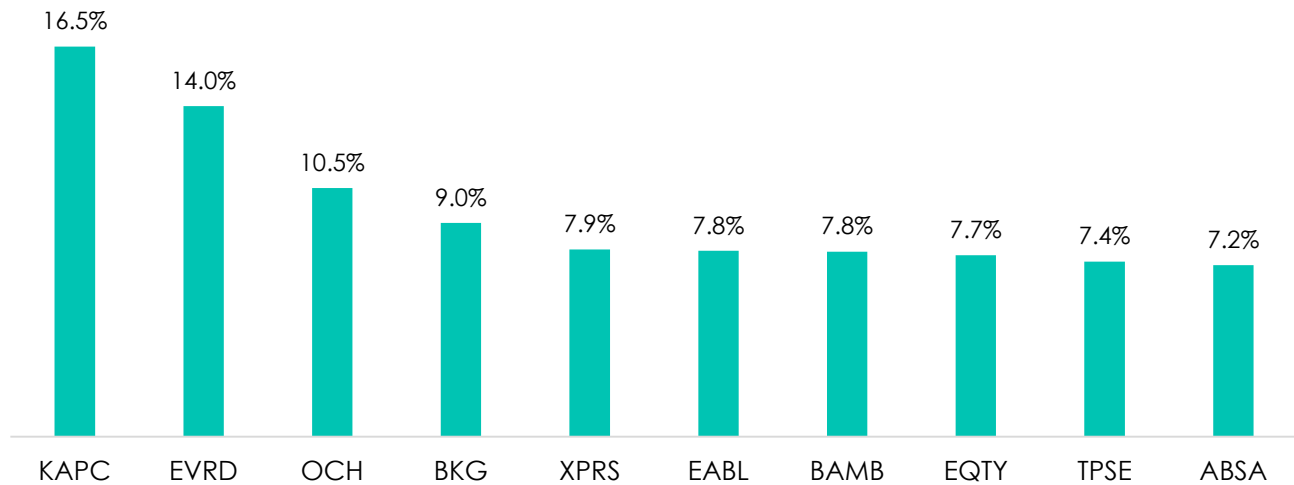


Source: NCBA IB Research, NSE

Price gainers in December

The top three gainers were Kapchorua Tea, Eveready, and Olympia Capital Holdings.

The graph below illustrates different stocks that gained value in price during the month.

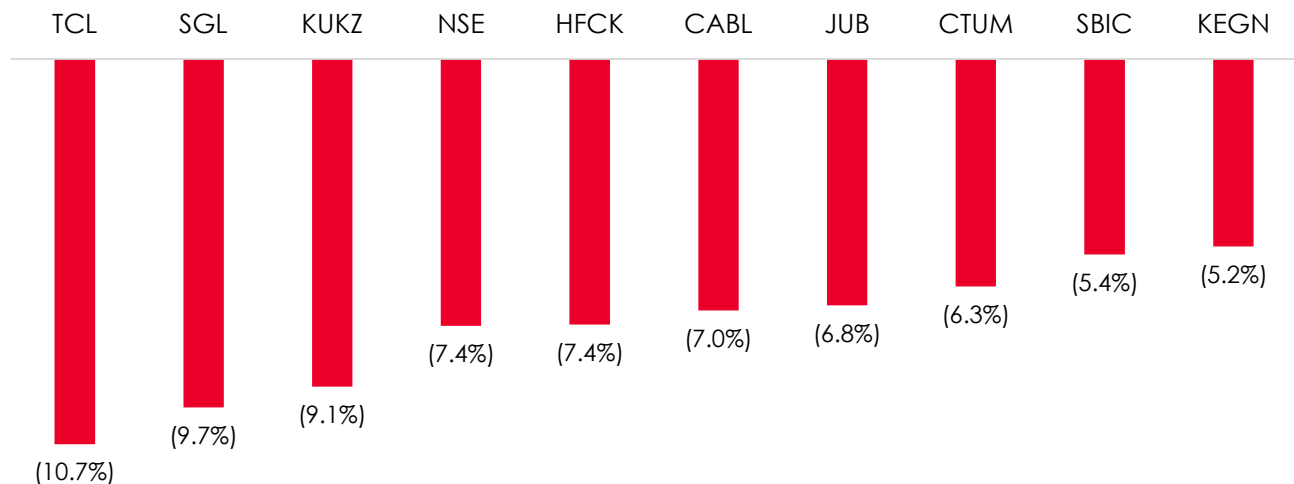


Source: NCBA IB Research, NSE

Price losers in December

The counters whose price declined the most during the month were Trans-Century, Standard Group and Kakuzi.

The graph below illustrates different stocks that lost value in price during the month.



Source: NCBA IB Research, NSE

Catalysts and Risks Projected

Risks

- Considering the continuous absence of a fiscal stimulus measure to counter the adverse economic effect inflicted by the resurgence of Covid-19 infection, we foresee a systemic risk, which might dampen investor confidence in equities market.
- Vaccine penetration rate remains low and this poses a risk of infection resurgence.

Catalysts

- The market is currently trading a Price to Earnings (P/E) multiple of 11.3x which presents a discount in comparison to the historical average of 13.0x. This presents a suitable chance to buy the dip for future capital appreciation.
- Overall, the current market presents a buying opportunity for companies with strong fundamentals.

Stock Picks Summary Table

Counter	52-Weeks High	52-Weeks Low	Current Price	Performance M/M	Target price	Upside	Expected DPS	Div. Yield	Recommendation
<u>Banking</u>									
ABSA	11.95	8.60	11.75	7.24%	17.10	45.53%	-	-	STRONG BUY
COOP	14.00	11.50	13.00	6.15%	17.30	33.08%	-	-	STRONG BUY
Stanbic	99.00	78.00	87.00	-5.42%	107.30	23.33%	1.70	1.95%	STRONG BUY
SCBK	142.00	123.00	130.00	0.00%	169.60	30.46%	-	-	STRONG BUY
KCB	50.75	40.00	45.55	4.72%	50.50	10.87%	1.00	2.20%	BUY
Equity	55.00	39.25	52.75	7.65%	50.00	(5.21%)	-	-	HOLD
I&M	46.95	20.25	21.40	1.44%	21.40	0.00%	-	-	HOLD
<u>Telecommunication</u>									
Safaricom	45.25	36	38.15	0.00%	34.22	(10.30%)	-	-	SELL
<u>Energy & Petroleum</u>									
Kengen	5.1	3.9	4.19	-5.20%	5.37	28.16%	0.30	7.16%	STRONG BUY
Kenya power	1.99	1.29	1.74	0.00%	1.14	(34.48%)	-	-	SELL
<u>Manufacturing & Allied</u>									
EABL	194.00	148.00	165.00	7.84%	179.63	8.87%	-	-	BUY

Source: Bloomberg, NCBA IB Research, NSE

INVESTMENT RECOMMENDATIONS

ABSA Bank Kenya: **STRONG BUY** at a TP of KES 17.1

- ABSA Bank released its 3Q21 results posting a stellar growth of 329% y/y in profit after tax (PAT) to KES 8.2Bn.
- The customer deposits increased by 9% y/y to KES 269Bn.
- The loan book expanded moderately by 9.5% y/y to KES 229Bn.
- The net interest income expanded by 8.6% y/y to KES 18.6Bn while non-funded income decreased by 5.2% to KES 8.7Bn.
- Gross NPLs increased by 15.4% y/y to KES 19.4Bn.
- NPL ratio deteriorated to 7.9% from 7.6% same time last year and the NPL coverage ratio grew to 76% from 65%.

Coop Bank: **STRONG BUY** at a TP KES 17.30

- Co-op Bank Kenya released 3Q21 results recording an increase of 18.95% y/y in profit after tax (PAT) to KES 11.63Bn.
- Notably, Kingdom Bank its subsidiary also registered a PAT of KES 413.34Mn from a loss of KES 200.90Mn in 3Q20.
- Total operating income edged up 15.57% y/y to KES 44.40Bn supported by interest income from loans and government securities.
- Customer deposits grew by 11.98% to KES 420.44Bn while the loan book grew by 7.77% to KES 306.32Bn.
- The bank's continued focus on channel diversification will likely continue to generate profitability, as they focus on branch transformation, and innovation centered on alternative channels will continue to drive NFI growth.

Stanbic Bank: **STRONG BUY** at a TP of KES 107.3

- Stanbic Bank released its 3Q21 results posting an 43.2% y/y growth in profit after tax (PAT) to KES 5.1Bn.
- The loan book expanded moderately by 11.18% y/y to KES 205.6Bn.
- The net interest income expanded by 12.2% y/y to KES 10.0Bn while non-funded income decreased by 4.2% to KES 7.5Bn.
- The customer deposits increased by 5.8% y/y to KES 212.8Bn.
- NPL ratio improved to 11.5% from 12.3% same time last year and the NPL coverage ratio deteriorated to 54.9% from 61.7% in 3Q20.

Share Data	
BIC	ABSA KN
Recommendation	BUY
Last Price	11.75
Target Price	17.10
Upside (Excl. Div Yield)	45.53%
Market Cap (KES'Bn)	63.82
52 week high	11.95
52 week low	8.60
Free Float	30.37%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	COOP KN
Recommendation	BUY
Last Price	13.00
Target Price	17.30
Upside (Excl. Div Yield)	33.08%
Market Cap (KES'Bn)	76.27
52 week high	14.00
52 week low	11.50
Free Float	32.41%

Source: Bloomberg, NCBA IB Research, NSE

Share Data	
BIC	SBIC KN
Recommendation	BUY
Last Price	87.00
Target Price	107.30
Upside (Excl. Div Yield)	23.33%
Market Cap (KES'Bn)	34.39
52 week high	99.00
52 week low	78.00
Free Float	56.56%

Source: Bloomberg, NCBA IB Research, NSE

Standard Chartered: **STRONG BUY** at a TP of KES 169.60

- Standard Chartered Bank released its 3Q21 results posting a stellar growth of 47% y/y in profit after tax (PAT) to KES 6.4Bn.
- The customer deposits increased by 6.2% y/y to KES 258Bn.
- The loan book remained flat at 132Bn.
- The net interest income declined by 2.6% y/y to KES 17.5Bn while non-funded income decreased by 19.1% to KES 7.6Bn.
- Gross NPLs increased by 4.8% y/y to KES 23.0Bn.
- NPL ratio deteriorated to 15.3% from 15% same time last year and the NPL coverage ratio grew to 82.8% from 78.2% in 3Q20.

Share Data	
BIC	SCBL KN
Recommendation	BUY
Last Price	130.00
Target Price	169.60
Upside (Excl. Div Yield)	30.46%
Market Cap (KES'Bn)	49.12
52 week high	142.00
52 week low	123.00
Free Float	18.31%

Source: Bloomberg, NCBA IB Research, NSE

KCB Group PLC: **BUY** at a TP of KES 50.50

- KCB Group released its 3Q21 results posting a 131.44% y/y growth in profit after tax (PAT) to KES 25.21Bn. This was largely driven by a reduction in loan loss provision by 53.39% y/y to KES 9.33Bn
- Net loans and advances rose by 12.87% y/y to close at KES 651.82Bn. The growth in gross loans was driven by personal and manufacturing sectors.
- NPL coverage remained flat at 58.32%.
- Net interest margin (NIM) declined to 8.4% y/y from 8.7%.
- The reduction in the NPL in subsidiaries such as NBK, Rwanda, and Tanzania helped improve the NPL ratio to 14.94% from 15.29% in 3Q20, which is above the current industry average of 14.0%.

Share Data	
BIC	KNCB KN
Recommendation	BUY
Last Price	45.55
Target Price	50.50
Upside (Excl. Div Yield)	10.87%
Market Cap (KES'Bn)	146.37
52 week high	50.75
52 week low	40.00
Free Float	70.52%

Source: Bloomberg, NCBA IB Research, NSE

KenGen: **BUY** at a TP of KES 5.37

- We initiated coverage on KenGen Plc based on a target price of KES 5.37. At the current market price, the stock is a value pick for long-term investors.
- In the year ahead, we are looking at sustained buoyant financial performance on the geothermal capacity increase (83MW Olkaria 1 Unit 6 power plant) and additional contractual revenues from well-drilling and geothermal contracts in Ethiopia and Djibouti.
- KenGen released their full-year results recording 7% growth in profit after tax from KES 13.79Bn in FY2020 to KShs 14.76Bn in FY2021.
- Operating Expenses increased by 18% to KES 12.88Bn mainly attributable to the cost of drilling operations in Ethiopia, operation and maintenance costs of power plants.

Share Data	
BIC	KEGC KN
Recommendation	BUY
Last Price	4.19
Target Price	5.37
Upside (Excl. Div Yield)	28.16%
Market Cap (KES'Bn)	27.63
52 week high	5.10
52 week low	3.90
Free Float	29.73%

Source: Bloomberg, NCBA IB Research, NSE

Equity Group PLC: HOLD at a TP of KES 50.00

- Equity Bank released its 3Q21 results posting a 78.64% y/y growth in profit after tax (PAT) to KES 26.87Bn.
- The impressive growth in the bottom line was mainly driven by a 25.46% growth in operating income to KES 80.46Bn and a 65.17% decline in loan Loss provisions to KES 5.14Bn.
- customer deposits expanded by 27% to KES 875.7Bn up from KES 691Bn driving total assets growth of 27% to KES 1.184Tn up from KES 933.9Bn.
- Interest income surged 28.65% y/y to KES 67.00Bn on the back of a 23.16% y/y rise in loan book as economic conditions continue to improve.
- Non-Interest income grew by 23.34% to KES 48.49Bn mainly driven by digital banking.
- The NPL ratio improved to 8.9% from 10.4% in 3Q20, which is below the current industry average of 14.0%.

Share Data	
BIC	EQBNK KN
Recommendation	HOLD
Last Price	52.75
Target Price	50.00
Upside (Excl. Div Yield)	-5.21%
Market Cap (KES'Bn)	199.06
52 week high	55.00
52 week low	39.25
Free Float	93.73%

Source: Bloomberg, NCBA IB Research, NSE

I&M Bank: HOLD at a TP of KES 21.40

- I&M Bank released 3Q21 results and posted a profit after tax (PAT) growth of 25.1% y/y to KES 5.7Bn.
- The loan book expanded moderately by 11.8% y/y to KES 207.6Bn.
- The net interest income expanded by 34.5% y/y to KES 14.7Bn while non-funded income decreased by 4.8% to KES 5.9Bn.
- The customer deposits surged by 14.2% y/y to KES 288.7Bn.
- Gross NPLs increased by 0.7% y/y to KES 22.7Bn.
- NPL ratio improved to 10.2% from 11.2% same time last year and the NPL coverage ratio grew to 70.6% from 66.8%.

Share Data	
BIC	IMH KN
Recommendation	HOLD
Last Price	21.40
Target Price	21.40
Upside (Excl. Div Yield)	0.00%
Market Cap (KES'Bn)	35.39
52 week high	46.95
52 week low	20.25
Free Float	25.69%

Source: Bloomberg, NCBA IB Research, NSE

Diamond Trust Bank: Under Review

- Diamond Trust Bank released its 3Q21 results posting an 20.1% y/y growth in profit after tax (PAT) to KES 5.2Bn.
- The loan book remained relatively flat at 205.55Bn.
- The net interest income expanded by 5.89% y/y to KES 14.73Bn while non-funded income decreased by 4.87% to KES 4.79Bn
- The net interest margin (NIM) declined to 5.28% y/y from 5.50%.
- Gross NPLs increased by 29.87% y/y to KES 25.72Bn.
- The NPL coverage ratio deteriorated to 41.28% from 62.45% in 3Q20.

Share Data	
BIC	DTBK KN
Recommendation	BUY
Last Price	59.50
Target Price	91.90
Upside (Excl. Div Yield)	54.45%
Market Cap (KES'Bn)	16.64
52 week high	69.00
52 week low	55.00
Free Float	55.06%

Source: Bloomberg, NCBA IB Research, NSE

Kenya Power: SELL at a TP of KES 1.14

- We initiated coverage on Kenya Power with a bearish outlook based on a target price of KES 1.14.
- Kenya Power released their full-year financials recording profit after tax increase by 258.68% y/y to KES 1.49Bn attributed to rise in revenue derived from the reopening of the economy and a larger consumer base.
- Operating expenses reduced by 17% to KES 39.86Bn due to lower provisions as a result of enhanced revenue collection, prudent cost management, and resource optimization initiatives implemented during the year.
- Unclear dividend policy dampening investor appetite. The company has not paid dividends in four consecutive years.
- Negative working capital position. The company has remained in a net current liability position for the fifth consecutive year. Working capital remained adverse in FY21 at KES 66.5Bn. This is however an improvement of 12.6% from the previous financial year.

Share Data	
BIC	KPLL KN
Recommendation	SELL
Last Price	1.74
Target Price	1.14
Upside (Excl. Div Yield)	(34.48%)
Market Cap (KES'Bn)	3.40
52 week high	1.99
52 week low	1.29
Free Float	49.50%

Source: Bloomberg, NCBA IB Research, NSE

Safaricom: SELL at a TP of 34.22

- Safaricom reported its HY22 results posting a 12.01% increase in profit after tax KES 37.06Bn from KES 33.06Bn.
- The EPS grew by 12.1% to KES 0.92 from KES 0.83.
- The growth in profitability was mainly driven by a 16.91% uptick in service revenue on the back of a recovery in Mpesa revenues coupled with a slower 14.7% growth in total operating costs.
- Service revenues grew by 16.91% on the back of a recovery in both M-PESA and fixed data revenue.
- M-pesa revenue increased by 45.81% y/y to KES 52.33Bn.
- The average revenue per user (ARPU) increased by 4.2% to KES 559.6. The growth was driven by M-PESA, Data and FTTH increasing by 31.30%, 8.10% and 4.50%, respectively.
- The management indicated that operations in Ethiopia will begin in mid-2022 as per the license requirement.
- We expect the prevailing conditions in Ethiopia to continue weighing down on the share price and therefore maintain our previously issued SELL recommendation.

Share Data	
BIC	SAFCOM KN
Recommendation	SELL
Last Price	38.15
Target Price	34.22
Upside (Excl. Div Yield)	(10.30%)
Market Cap (KES'Bn)	1,528.50
52 week high	45.25
52 week low	36.00
Free Float	25.06%

Source: Bloomberg, NCBA IB Research, NSE

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: Victoria Mututu hereby certifies(y) 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.

Rating Definitions

STRONG BUY – Total expected 12-month return (incl. dividends) greater than 20%

BUY-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%

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