KINGDOM SECURITIES

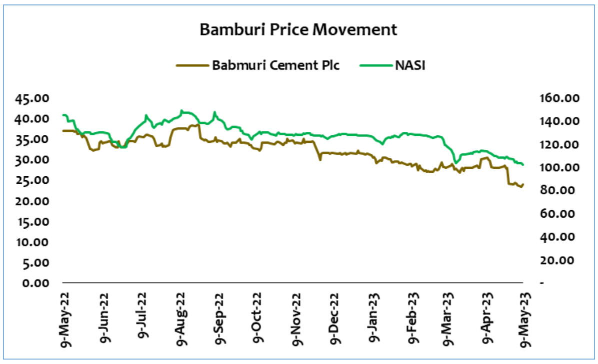
Equity Stock Picks

May 10th, 2023

The market continues with value loss with the Nairobi All Share Index losing 2.1% w-w, 19.8% y-t-d and 29.6% y-y basis on heavy exits by foreign clients from key large cap stocks. We expect the market to remain subdued as investors wait out changes in the international economic and investment scene especially investments into emerging market and frontier market.

Price Movement					
09-May-23	**Bamburi Cement Plc**	**KenGen Plc**	**KCB Group Plc**	**Safaricom Plc**	**NASI**
W-W	-1.4%	-0.8%	-5.6%	-2.8%	-2.1%
Y-T-D	-23.7%	-27.0%	-21.1%	-35.1%	-19.8%
Y-Y	-34.9%	-34.5%	-17.1%	-51.6%	-29.6%

BAMBURI CEMENT PLC – BUY – The cement manufacture was affected by high cost of production due to surging global inflation leading to higher cost of production due to increase in price of clinker which impacted the demand and price of the cement locally, slow down on government expenditure necessitated by election period and change in administration. Value of clinker imports declined by 38.4% compared to 2021.

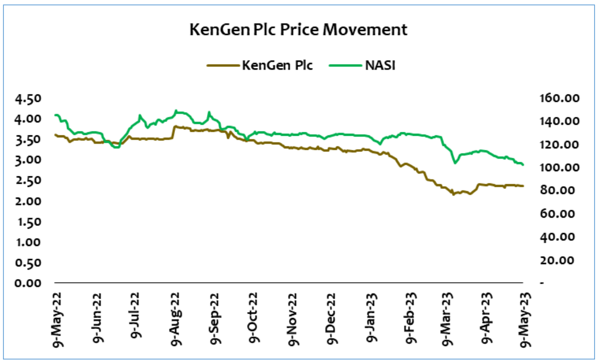


The company saw full year revenues decline by 5.8% y-y with operating cost easing by 2.9% while cost of finance was up by 56.6%. The board of directors proposed a dividend of KES 0.75%, for a 133.9% payout on strong cash balances and low capex demand.

We anticipate a recovery on the counter on growth of GDP. The economy expected to grow at a 5.1% in 2023, we see construction sector contribution to the GDP recovering to better 7.1% input form a sector growth of 4.1% seen in 2022. This coupled by change in management where we saw introduction of CEO Mr. Mohit Kapoor and CFO Mr. Eugen Antera is expected to move the company to the next level with main target is to grow market share.

The counter is closed at KES 24.00, a 0.2% w-w recovery after posting a 52-week low of KES 23.35. momentum indicators show the counter is trading at heavy discounted levels. The counter is trading at 20.0%, 23.7% and 34.9% down month on month, year to date and year on year respectively.

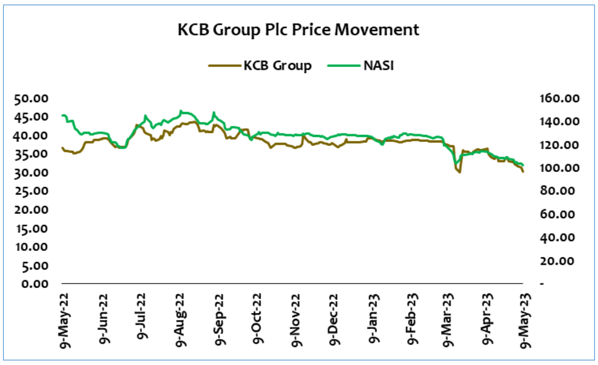
KENGEN – SHORT-TERM BUY – The power generator is currently trading at K27.0% low y-t-d and 34.5% down y-y. The counter was affected by high cost of power due to the 2022 drought with higher utilization of thermal energy which was further affected by the surge in international prices and inflation. The counter was impacted by the challenges and investigation on its key customer KPLC with regards to the cost of electricity by the independent power producers.



We expect a strong growth in H2-23 due to the ongoing rains which will lead to a switch from thermal to the cheaper hydro and geothermal energy sources. The bottom-line will also benefit from increase in power tariffs will ease revenue burdens by KPLC, with KenGen supplying 60.05 of total power. Headwinds will come from depreciation on the shilling affecting cost of financing with 100% of its borrowing held in foreign currency with the calculated cost of financing at c. 2.1%

We expect the counter to retain a double-digit growth in revenues, stable net income margins of near 14.0% and a dividend of KES 0.20.

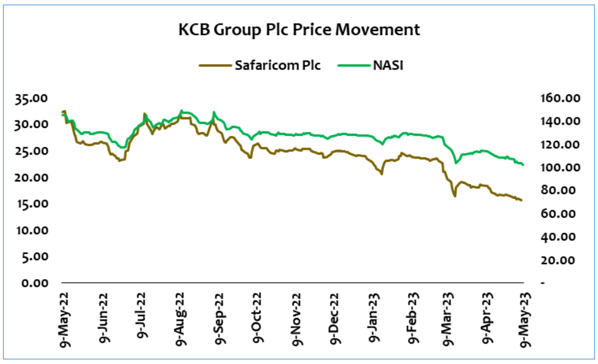
KCB GROUP Plc – HOLD – KCB Group is expected to report Q1-23 figures on the third week of May 2023. The lenders value saw a decline driven by weak FY-22 regulatory ratios leading to 33.3% cut in dividend payout despite a 19.9% growth in 2022 profits before tax. The ratios were impacted by KCB Kenya which contributes over 80% in PBT and 71.1% in Group loan book.



The Group has seen a minor management restructured with the appointment of Mrs. Annastacia Kimtai as the MD KCB Kenya Limited. Kimtai who previously was the Retail Banking Director has worked for the bank for more than twenty years began the role on April 12, 2023. The changes came as an alignment with prudential regulations on corporate governance set by the Central Bank of Kenya with the position was previously held by the Group MD.

The counter has shed 7.7% w-w and 21.1% y-t-d. We anticipate a recovery in the regulatory ratios and traditional payment of the interim dividend in Q3-23. Coupled with foreign investors reentry, we anticipate a long-term share value bounce back.

SAFARICOM PLC – SELL – The telecommunication is expected to release full year results on Thursday May 11th, 2023. We expect a strong performance with revenue drive from M-Pesa and Data overshadowing the matured calls and SMS revenues.



The market has witnessed heavy foreign investors exit due to further expected rate hikes in developed economies. The counter saw an outflow of KES 4.78Bn in Q1-23 which has led to the price dipping by 35.1% y-t-d. Despite the decline, Safaricom has maintained its position in the MSCI Emerging Frontier Markets Africa ex South Africa Index which puts it in a better position of re-entry by foreign investors seeking returns in Emerging markets.

We do not anticipate revenue decline with the proposed increase in excise duty on fees charged for money transfer services by cellular phones service providers from 12% to 15% due to the earlier downward adjustment in fees on mobile phone transaction and the dependency of the method of transaction.

We view the counter has yet to hit the resistance levels and will continue with a downward price movement. However, we expect a long-term recovery in stock value of future re-entry of foreigner seeking both capital gains and income dividend as the counter retains strong fundamentals.

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