

WEEKLY STOCK PICKS SELECTION

The stock market prices are anticipated to continue recovering upon easing of high inflation levels across the globe which is expected to inform rate interest rate declines. Global inflation is forecasted to decline from an average of 6.8% in 2023 to 5.9% in 2024, with fast declines in advanced economies followed by developing economies.

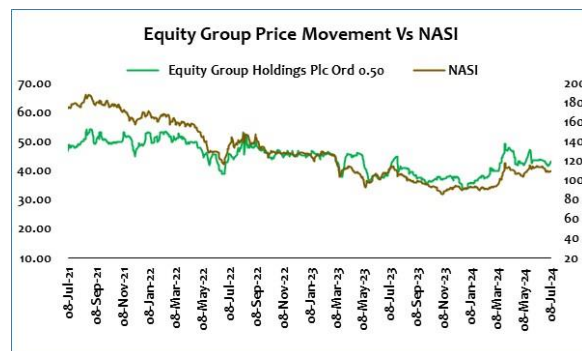
Locally, inflation has already touched the lower bound of the government target at 4.6% as of June 2024 with interest cuts anticipated in the next three months. As a result, we expect improvements in the disposable income for investment and an overall rise in equities' prices.

Equity Group – BUY: Trading at KES 43.35, the Group reported an impressive 20.9% rise in its profit before tax (PBT) for Q1-2024 of KES 20.41Bn compared to KES 16.88Bn reported same time 2023. The performance remained strongly supported by faster growths in its interest income on a strong loan book and government securities book growth. Subsidiaries' contribution rose to 63% of the PBT and 65% of the Group's PAT, indicating a strong potential from the six countries of operation.

In the FY-2023, the Group issued a first and final dividend of KES 4.00 per share, a payout ratio of 36.0% from an earnings per share of KES 11.12 which we anticipate being even higher in FY-2024

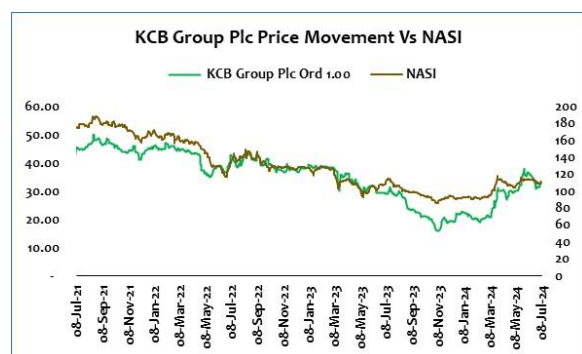
The Group's share price touched the highest and lowest levels of KES 49.20 and KES 33.65 while averaging KES 39.19 per share in the last one year. In the last 3-, 6- and 6-monmths, Equity Bank's share price has gained 15.3%, 15.0% and 6.0% respectively, and 26.5% year-to-date (y-t-d). Its average price for the last 3-, 6-, and 12-months stands at KES 42.50, KES 39.66, and KES 39.19 per share respectively. In 2022, 2023 and 2024, the Group recorded highs of 53.501, KES 46.90, and KES 49.20 and lows of KES 39.00, KES 33.65, and KES 34.20 respectively.

We value the company's share price at an implied share price of KES 54.00, a 24.6% upside from the current price of KES 43.35 per share.



KCB Group – BUY: Trading at KES 33.45 as of 8th July 2024, the counter's price remains on a recovery mode after recording lows of KES 15.75 after non-payment of dividends for FY-2023 on account of strengthening liquidity. Its 12-month high and low prices stand at KES 37.95 and KES 15.75 per share respectively.

In Q1-2024, the Bank's PBT jumped 52.7% year on year from KES 13.85Bn in Q1-2023 to KES 21.16Bn by closure of Q1-2024 rallied by faster rise in its net interest income on its expanding asset books. Profit after tax climbed 69.0% y-y from KES 9.75Bn to KES 16.48Bn, pushing the earnings per share (EPS) 62.7% up from 12.61 to 20.52 to signal a great potential for dividend payout in FY-2024.



In March 2024, the Lender announced a 100% sale of its National Bank of Kenya (NBK) to Access Bank Group, the largest bank in Nigeria, at a price of 1.25x its book value. The sale will see KCB Group's liquidity improve further while reducing the pressure of NBK's undercapitalization and unhealthy competition.

We retain a BUY recommendation on KCB Group's shares at the current price of KES 33.45 with a price target of above KES 40.00 per share, over 19.6% upside from the current price of KES 33.45 as of 8th July 2024.

Co-op Bank Group – BUY: Trading at KES 12.60 as of 8th July 2024, the Bank price hit a high of KES 15.05 late March 2024 and a low of KES 10.20 on 8th November 2023 while recording 3-, 6-, and 12-months averages of KES 13.20, KES 12.96, and KES 12.28 per share respectively.

On its Q1-2024 financial performance, the bank reported a 10.6% rise on its PBT from KES 8.15Bn of Q1-2023 to KES 9.01Bn in Q1-2024, supported by spikes in its interest income lines. Its PAT went up 7.7% from KES 6.11Bn to 6.58Bn, impacted by a higher effective tax rate of 27.0% compared to that 25.0% same period last year.

We retain a BUY recommendation in the Bank's stock at the current price of KES 12.60 for an implied value of KES 15.50 per share, a 23.0% upside. This is even as the bank remains consistent in rewarding its investors, retaining KES 1.50 dividend for FY-2023, a dividend yield of 11.9% for from the current price of KES 12.60. Further, the lender contains potential for capital gains having hit 15.05 per share on several instances.

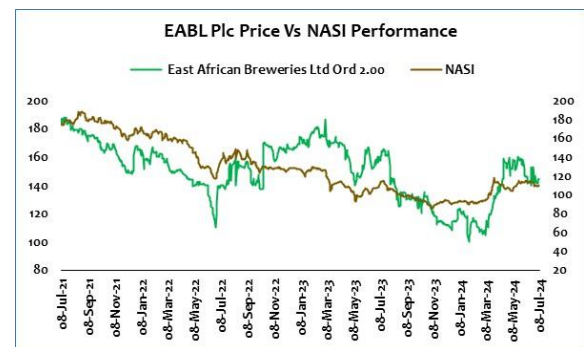
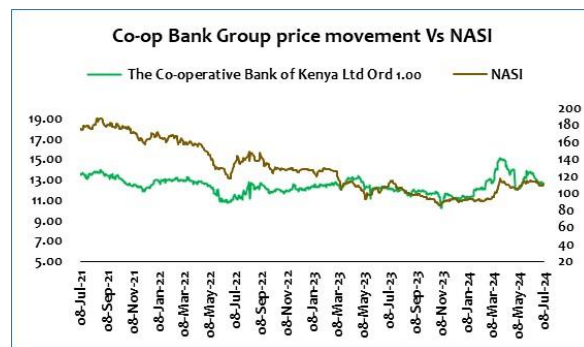
EABL – BUY: Trading at KES 144.75, the beer producing company has seen recover from a low of KES 100 in late January 2024, following a 75.3% reduction in its interim dividend from KES 3.75 to KES 1.00 per share.

Its 12-month high and lowest prices are KES 165.00 and KES 100.00 per share respectively. In 2023, the counter's price hit low of KES 108.00 and a high of KES 187.00 as priced by the Deageo transaction which happened at KES 192.00 per share in early 2023.

The low-price performance followed a 21.4% drop in its H1-2024 PBT from KES 12.85Bn to KES 10.10Bn on a higher operating cost that consumed the 16.2% y-y rise in net revenues from KES 57.26Bn to KES 66.54Bn.

In H2-2024, we expect a rise in the Group's net income emanating from low input costs witnessed in the first half of 2024 as the cost of sorghum and other inputs went down on ample rainfall that started in mid-2023.

The onset of rains in around the third quarter of 2023 has seen food prices drop drastically pulling overall food inflation down. This is expected to see EABL's cost of goods while growing its sales through better pricing. We



expect the company's revenues to go upwards and in turn improve the return on investments to shareholders.

We therefore retain a BUY recommendation on the counter's current price of KES 144.75 with a target price of KES 165.00 per share, a 14.0% upside.

Safaricom – Long-Term Buy: Currently trading at KES 17.30 per share (as of 8th July 2024), the counter continues recovering after hitting a low and high of 11.65 and KES 19.70 per share respectively. The counter remains among the worst hit by high interest rates to cool inflations globally, being among the few local stocks with high foreign presence.

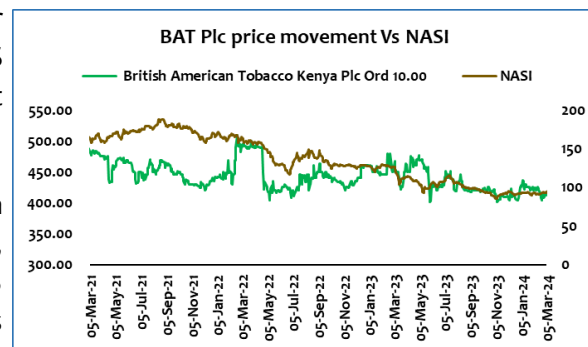
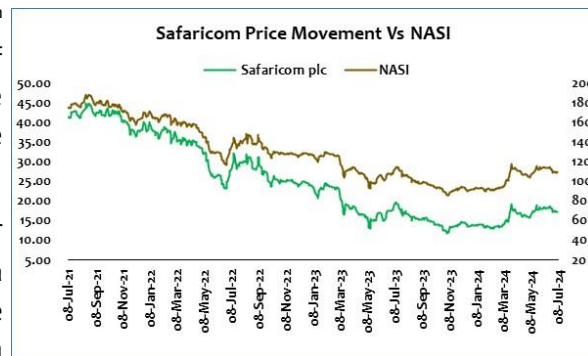
On its FY-2024 ending 31st March 2024, Safaricom reported a 4.1% drop in PBT from KES 88.35Bn to KES 84.69Bn being heavily impacted by Ethiopia subsidiary operation set up costs. Safaricom Ethiopia recorded a loss before tax of KES 42.08Bn in FY-2024 from that of KES 21.61Bn in FY-2023. Safaricom Kenya announced a 16.1% jump in PBT from KES 110.36Bn to KES 128.15Bn in FY-2024 on faster rises in M-pesa and data revenues.

We retain a Long-Term BUY Recommendation in the telco's share price, on a strong local unit performance and expected subsidiary break-even retained for 2026, after four years of operations. As the Ethiopia business expands, we expect the price to be impacted positively.

British American Tobacco – Buy: The counter is currently trading at its 3-year lowest price of KES 353.25 per share as of 8th July 2024, from a high of KES 451.25 per share. Its average price in the last 3-, 6-, and 12-months stands at KES 385.74, KES 402.34, and KES 411.19 per share respectively.

In its FY-2023 financials ending Dec-2023, BAT Kenya reported a 19.1% drop in PBT from KES 9.91Bn to KES 8.02Bn resulting the price erosions. As a result, the company's dividend per share declined from KES 57.00 in 2022 to KES 50.00 per share. This follows the company dividend policy on paying not less than 65.0% of net earnings in any financial year.

Following an improvement in the agricultural sector on the ample rainfall, and drops in the overall inflation for 2024, we anticipate for better financial in the company performance, and therefore issue a BUY recommendation with a price target of KES 400.00 per share, a 13.2% upside.



Research analyst certification:

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all the views expressed herein accurately reflect their personal views. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the view(s) expressed by that research analyst in this research report.

Terms of use – Disclaimer:

This research report has been prepared by Kingdom Securities Limited and is for information purposes only. This research report should not be construed as an offer or solicitation to sell or buy any investment or product. Any opinions expressed herein reflect the analyst's judgment at the date of publication and neither Kingdom Securities Limited, nor any of its affiliates or employees accepts any responsibility in respect of the information or recommendations contained herein. Unless otherwise stated, the opinions contained in this material are as of the date indicated and are subject to change at any time without prior notice. Past performance is not a guarantee or indication of future results.

The information and opinions contained in this Material have been derived from sources believed to be reliable and in good faith or constitute Kingdom Securities' judgement as at the date of this research but no warranty is made as to their accuracy and any opinions are subject to change and may be superseded without notice. In no circumstances will Kingdom Securities or its employees be liable to you for any errors or omissions in this report or for any losses you may incur in following any recommendations in the report. Kingdom Securities is a Subsidiary of Co-operative Bank of Kenya.

Recommendation Guide:

Analysts' stock ratings are defined as follows:

- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
 - **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
 - **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
 - **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
 - **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.
- *Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

Kingdom Securities Ltd – A subsidiary of Co-operative Bank Limited. Co-operative Bank House- 5th Floor, P.O Box 48231 - 00100 Nairobi, Kenya
Office: 0711049540

Email: kingdomresearch@co-opbank.co.ke

Research Department

Shadrack Manyinsa

smanyinsa@co-opbank.co.ke

Equities Dealing

Alfred Too

atoo@co-opbank.co.ke

Ashley Odundo

aodundo@co-opbank.co.ke