INVESTMENT RECOMMENDATIONS REPORT

17th September 2021

Equity Recommendations

Overall Overview

In 2020, the COVID-19 pandemic saw prices on most counters decline significantly into bear market territory. The NASI, NSE20 and NSE25 declined by 8.6%, 29.6%, 16.7% to 152.11, 1,868.39 and 3,415.24 respectively at 31st December 2020.

The gradual easing of restrictions in the second half of year created expectations of economic recovery in 2021. This created some optimism in the NSE. As at 26th March 2021(the day of the announcement of the new containment measures), the NASI, NSE 20 Share NSE 25 Share were up by 9.4%, 1.9% and 4.2% to 166.48, 1,903.06 and 3,666.29 YTD respectively.

The third wave of the pandemic saw resumption in movement restrictions and limitations on business activities. These measures were relaxed on 1st May 2020 owing to a decline in the number of positive cases. This has seen the market extend its upward momentum. The NASI and NSE 25 were up by 12.5% and 9.1% while the NSE 20 was down by (0.3%) to 171.09, 3,725.72 and 1,862.50 YTD respectively as at 7th May 2021.

We expect the relaxation of the measures to boost economic recovery though at a gradual pace.

KCB

We retain our **NEUTRAL** recommendation on KCB group with a revised target price of KES 47.54(previous target price: KES 44.59) representing a downside potential of 2.1% from the current market price of KES 48.55 (17/09/2021). The counter is currently trading a trailing P/B multiple of 0.99x (using price of KES 48.55 and IH2021 book value).

What Changed in the new estimates?

Lower cost of risk: We have reduced the cost of risk over the five year forecast period from an average of 2.5% (2021: 3.0%) to an average of 2.0% (2021: 2.0%) on account of increased recoveries and improving macroeconomic environment(a big factor in the expected credit model).

Higher Net Interest Margin (NIM): We expect our NIM forecast to gradually rise to 9.3% in 2025(previous estimate: 9.0%). Our five year forecast average NIM is expected to increase to 9.0% from our previous forecast average of 8.8%. The increase in NIM is mainly due to lower cost of funds (from average of 2.6% to an average of 2.4%) as the bank continues to leverage on alternative channels to grow cheaper deposits.

We retain the yield uplift on loans at 58bps over the forecast period. Just like in the previous estimates, we have not factored yield uplift from implementation of a risk based pricing model which is yet to receive approval from the CBK.

In 2021, compared to our previous estimates, we also expect:

Slower organic deposit mobilization: Our previous estimates factored a higher deposit market share of 18.5% and thus a higher deposit growth rate of 11.0% y/y to KES 851.6 billion (management guidance: 12.0% y/y). However, deposit mobilization in the first two quarters has been slower than anticipated. Management attributed this to tighter liquidity conditions in the period. Although management remains optimistic that it may make up for the slower deposit mobilization in the second half of the year, we take a more cautious direction and factor a lower deposit market share of 17.6% and a lower customer deposit growth rate of 6.1% y/y (to KES 814.0 billion). We have also retained the lower deposit market share in the forecast period. This negatively impacts gross loan growth and non-interest income estimates (transactional income and fees and commissions on lending).

Summary of the changes to the Estimates*

	Current	Previous
Gross Loans CAGR (2021 – 2025)	8.9%	9.1%
Customer Deposit CAGR (2021 – 2025)	8.6%	8.8%
Cost of Funds	2.4%	2.6%
Cost of risk	2.0%	2.5%
NIM	9.0%	8.8%
Non-Interest Income CAGR (2021 – 2025)	10.3%	11.3%
Total Non-interest income to Total Operating Income Ratio	29.4%	29.9%

*Excludes impact of acquisitions made during the period

OUTLOOK

Overall, we remain positive on the bank's prospects. This is mainly due to the improving macroeconomic environment. We note that the government has stepped efforts to increase COVID-19 vaccination rates. This will lower the likelihood of the government imposing more stringent containment measures leading to minimal disruptions in business activities. With this, we expect relatively higher credit growth and improvement in loan book quality.

The higher inflationary environment remains a cause of concern.

To read the full KCB recommendation (with financial forecasts), click here:

For Online Share Trading (OST) via browser, please click [here](#):
For the Faida M-Trader Application, please click [here](#):

FAIDA
INVESTMENT BANK

Recommendation Guide:

LONG-TERM BUY: The company has strong fundamentals (strong financial performance, clear/reasonable strategy, competent management team etc.). However, there are certain investments or strategies that would require an investor to have a long-term view of the company to allow for capital appreciation. Also, the company may be facing head wings which we view as short term.

BUY: Strong fundamentals. Minimal risks to the catalysts/growth drivers

NEUTRAL: This is where the positives and negatives in a company almost balance out. You can accumulate for the long term.

SELL: Deteriorating fundamentals. Risks outweigh the catalyst/growth drivers.

HEAD OFFICE:

Crawford Business
Park,
Ground Floor
State House Road
Tel: 0207606026-37
P.O Box 45236-00100
Nairobi