FAIDA INVESTMENT BANK

Faida Daily Report

13th August 2020

Kenya Shilling Performance

KES	Value	Daily Change %	YTD Change %
US Dollar	108.3918	(0.1%)	(7.0%)
STG Pound	141.2400	0.5%	(6.2%)
EURO	127.5712	0.1%	(12.5%)

Source: CBK; Negative () = Depreciation, Positive = Appreciation

Market Summary

Index	Value	Daily Change %	YTD Change %
NASI	129.70	(0.8%)	(22.1%)
NSE 20	1,738.58	(0.7%)	(34.5%)
NSE 25	2,935.01	(1.3%)	(28.4%)

	Today	Previous	Daily Change %
Market Capitalization (KES Bn)	1,990.89	2,007.23	(0.8%)
Number of Shares Traded (Q)	8,043,400	11,849,200	(32.1%)
Equity Turnover (KES)	197,059,437	266,538,577	(26.1%)
Foreign Buys (%)	54.3%	45.9%	
Foreign Sells (%)	76.8%	45.1%	
Foreign Participation (%)	65.5%	45.5%	

Source: NSE

Equities Performance

	Top Gainers	Price (KES)	Daily Change %	YTD Change	Volume Traded
1.	Crown Paints	46.50	9.4%	(25.6%)	1,000
2.	NMG	10.95	8.4%	(72.5%)	118,000
3.	Eveready	1.07	7.0%	(2.7%)	500
4.	Longhorn	4.72	3.7%	(30.2%)	600
5.	NBV	0.60	3.4%	(14.3%)	1,300

	Top Losers	Price (KES)	Daily Change	YTD Change %	Volume Traded
1.	Car & General	21.00	(6.7%)	(19.2%)	1,000
2.	Home Afrika	0.44	(6.4%)	(26.7%)	132,500
3.	KCB Group	30.55	(6.1%)	(43.4%)	1,944,600
4.	Trans-Century	1.80	(5.8%)	(28.0%)	11,200
5.	Centum	21.80	(5.6%)	(26.1%)	14,000

	Movers	Turnover (KES)	Volume (KES)	Price (KES)
1.	Equity Group	91,985,350	3,273,500	28.10
2.	KCB Group	59,407,530	1,944,600	30.55
3.	EABL	14,275,800	92,700	154.00
4.	Safaricom	13,991,840	502,400	27.85
5.	Co-op	4,995,780	471,300	10.60

Source: NSE

Market Commentary

The All Share and NSE 20 Indices reversed the previous trading session's gain, retreating by 0.8% and 0.7% to close the day at 129.7 and 1738.5 respectively. This was on the back of foreign sell-side activity in the banking sector (81.4% of the day's traded value) as banks began announcing their 1H2020 results. The banking sector's performance is expected to be negatively impacted by the COVID-19 pandemic. As such, investors have taken a pessimistic/negative outlook on the sector. KCB emerged among the top losers of the day, declining by 6.1% to KES 30.55 on negative investor sentiment following a 40.4% decline in after tax profits for 1H2020. Other declines in the sector were Equity (-4.3% to KES 28.10), Stanbic (-2.0% to KES 73.50) and NCBA (-1.3% to KES 23.15). Foreigner investors dominated today's trading activity (65.3 % participation) with 76.8% of the day's total sales against 54.3% of the day's total purchase.

Recommendations

Counter	Recommendation	Price (KES)	Daily Change %	YTD Change %
Equity Group	Long-term Buy	28.10	(4.3%)	(47.5%)
Absa Kenya	Long-term Buy	9.06	0.0%	(32.1%)
Stanbic Holdings	Long-term Buy	73.50	(2.0%)	(32.7%)
NCBA	Long-term Buy	23.15	(1.3%)	(37.2%)
StanChart	Sell	151.75	0.8%	(25.1%)
Safaricom	Hold	27.85	(0.4%)	(11.6%)
HF	Sell	3.81	(0.8%)	(41.0%)
Bamburi	Sell	26.25	(4.7%)	(67.2%)

For more detailed information on the following recommendations, please click here:

Bonds Performance

	Today	Previous	Daily Change %
Total Deals	66	124	(46.8%)
Bond Turnover	2,806,336,274	2,074,964,123	35.2%

Actively Traded Bonds

GOK Bonds	Coupon Rate %	Traded Yield %	Value Traded (Mn)	DTM
FXD1/2019/5Yr	11.3040	10.2000	1,500.0	1,285
FXD1/2019/15Yr	12.8570	12.1000	250.0	4,897
FXD2/2018/20Yr	13.2000	12.7549	250.0	6,535

Source: NSE; DTM = Days to Maturity, FXD = Fixed Rate Bond, IFB = Infrastructure Bond

News Highlights

KCB Group Posts a 40.4% y/y Decline in After Tax Profits for 1H2020

- KCB Group's after tax profits declined by 40.4% y/y to KES 7.6 billion in 1H2020 from KES 12.7 billion in 1H2019. The performance reflects a mix of factors notably the effects of the COVID-19 and the consolidation of NBK financial results (1H2019 results do not capture NBK financial results).
- The considerable drop in profitability was primarily due to a 263.8% y/y surge in loan loss provisions to KES 11.0 billion (1H2019: KES 3.0 billion). As a result of the higher provisioning, the group's cost of risk rose to 4.0% from 1.3% over the same period.
- Total interest income edged up by 23.2% y/y to KES 41.4 billion. The growth was mainly owing to a 65.0% y/y rise in interest income from government securities to KES 10.8 billion as the group's holding of government securities edged up by 54.5% y/y (2.9% q/q) to KES 208.5 billion.
- Interest income from loans and advances increased by 11.9% y/y to KES 30.0 billion as loans advanced to customers grew by 17.0% y/y (1.1% q/q) to KES 559.9 billion. The annualized yield on loans dipped by 50 bps to 11.0%.
- Total interest expenses rose by 25.7% y/y to KES 10.3 billion. This was due to a 28.7% y/y increase in interest expenses from customer deposits to KES 9.3 billion as customer deposits grew by 34.6% y/y (2.4% q/q) to KES 758.2 billion. Cost of customer deposits remained flat at 2.6%.
- Net interest income rose by 22.3% y/y to KES 31.1 billion. Net interest margin (NIM) dipped to 7.8% from 8.3% lower due to a faster rise in total interest earning assets (26.5% y/y to KES 821.7 billion).The lower growth in net interest income reflects lower yields on interesting earnings assets while cost of funds remained relatively unchanged.

- Non-interest income grew by 6.0% y/y to KES 14.0 billion as fees and commissions on loans and advances increased by 5.6% y/y to KES 4.9 billion and other fees and commissions grew by 5.5% y/y to KES 4.5 billion. We note that in the 2Q2020(3 months to 30th June 2020), non-interest income declined by 23.2% to KES 6.1 billion compared to the 1Q2020(3 months to 31st March 2020). The contribution of non-funded income to total income dropped to 31.0% (1H2020: 34.1%).
- Total operating expenses (excluding provisions) rose by 20.3% y/y to KES 21.2 billion. The cost-to-income ratio rose to 47.0% (1H2019: 45.7%).
- Gross non-performing loans edged up by 114.5% y/y to KES 83.9 billion with the NPL ratio (gross NPLs/gross loans) growing to 13.7% (1H2019: 7.8%).

Commentary

- The financial results capture the effects of the COVID-19 pandemic. In particular, the 2Q2020 (3 months to 30th June 2020) performance was relatively weaker compared to the 1Q2020. This reflected by weaker loan book and customer deposit growth, higher cost of risk and lower non-interest income.
- Management will have a briefing on the 17th of August 2020 to provide more details on the financial performance for the period. As such, we have withdrawn our LONG-TERM BUY recommendation on KCB Group. We will issue an update after the management briefing.

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Recommendations Guide

LONG-TERM BUY: The Company has strong fundamentals. 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 driver

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