

## Kenya Shilling Performance

KES	Value	Daily Change %	YTD Change %
US Dollar	107.3494	(0.1%)	(5.9%)
STG Pound	135.0097	(0.5%)	(1.6%)
EURO	122.5138	(0.5%)	(8.1%)

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

## Market Summary

Index	Value	Daily Change %	YTD Change %
NASI	131.98	0.1%	(20.7%)
NSE 20	1,906.43	(0.4%)	(28.2%)
NSE 25	3,107.19	(0.1%)	(24.2%)

	Today	Previous	Daily Change %
Market Capitalization (KES Bn)	2,016.87	2,015.72	0.1%
Number of Shares Traded (Q)	35,773,600	34,833,900	2.7%
Equity Turnover (KES)	923,960,061	883,571,645	4.6%
Foreign Buys (%)	40.3%	31.6%	
Foreign Sells (%)	86.3%	93.7%	
Foreign Participation (%)	63.3%	62.6%	

Source: NSE

## Equities Performance

Top Gainers	Price (KES)	Daily Change %	YTD Change	Volume Traded
1. KenGen	5.60	4.5%	(2.1%)	7,723,100
2. Trans-Century	2.52	2.9%	0.8%	167,200
3. Longhorn	4.88	2.7%	(27.8%)	3,600
4. CIC	2.43	2.1%	(9.3%)	59,300
5. Stanbic	79.00	1.3%	(27.7%)	100

Top Losers	Price (KES)	Daily Change	YTD Change %	Volume Traded
1. Flame Tree	1.35	(6.2%)	(45.3%)	32,400
2. Uchumi	0.35	(5.4%)	20.7%	7,600
3. Kenya Re	2.31	(4.5%)	(23.8%)	520,700
4. Eveready	1.00	(2.9%)	(9.1%)	2,800
5. Umeme	7.00	(2.5%)	(15.5%)	200

Movers	Turnover (KES)	Volume (KES)	Price (KES)
1. Safaricom	450,335,700	16,679,100	27.00
2. Equity Group	213,055,740	6,229,700	34.20
3. BAT	120,683,000	389,300	310.00
4. KCB Group	73,201,050	2,085,500	35.10
5. KenGen	43,249,360	7,723,100	5.60

Source: NSE

## Market Commentary

The All Share Index gained by 0.06% to close the day at 131.98 as Safaricom gained marginally by 0.2% to KES 27.00. The counter traded 16.6 million shares, accounting for 48.7% of the day's traded value. Market turnover increased by 4.6% to KES 923.9 million as the number of shares traded increased by 2.7% to 35.8 million. Equity and KCB declined by 0.6% and 0.8% to KES 34.20 and KES 35.10. This was on the back of profit taking activity following consecutive price gains this week. BAT was among the top movers (price unchanged at KES 310.00), recording a turnover of KES 120.6 million. We attribute this to the release of the company's 1H2020 results (more on this below). Foreign investors continued to dominate market activity (63.3%) with heavy activity on Safaricom, Equity and BAT.

## Recommendations

Counter	Recommendation	Price (KES)	Daily Change %	YTD Change %
KCB Group	Long-term Buy	35.10	(0.8%)	(35.0%)
Equity Group	Long-term Buy	34.20	(0.6%)	(36.1%)
Absa Kenya	Long-term Buy	9.12	(0.7%)	(31.7%)
Stanbic Holdings	Long-term Buy	79.00	1.3%	(27.7%)
NCBA	Long-term Buy	25.85	(0.4%)	(29.9%)
StanChart	Sell	160.00	(1.1%)	(21.0%)
Safaricom	Hold	27.00	0.2%	(14.3%)
HF	Sell	4.00	(0.2%)	(38.1%)
Bamburi	Sell	26.15	(1.3%)	(67.3%)

For more detailed information on the following recommendations, please click [here](#):

## Bonds Performance

	Today	Previous	Daily Change %
Total Deals	109	133	(18.0%)
Bond Turnover	3,995,945,100	2,005,014,249	99.3%

## Actively Traded Bonds

GOK Bonds	Fixed Rate %	Traded Yield %	Value Traded (Mn)	DTM
FXD4/2019/10	12.2800	11.7500	1,400.0	3,406
IFB1/2020/9	10.8500	10.1400	1,000.0	3,182
FXD1/2018/25	13.4000	12.6000	300.0	8,343

Source: NSE; DTM = Days to Maturity

## News Highlights

### BAT Posts a 6.0% Growth in After Tax Profits for 1H2020

- British American Tobacco(BAT) posted a 6.0% y/y growth in after tax profits for 1H2020 to KES 2.7 billion (1H2019: KES 2.5 billion). This was primarily due to a reduction in operating costs (-10.1% y/y to KES 6.8 billion) as well as excise duty and VAT (-23.4% y/y to KES 6.1 billion).
- The company's gross revenue decreased by 13.6% y/y to 16.6 billion. This was attributed to lower domestic and export revenue reflecting the adverse economic impact of the pandemic and that of excise-led price increases at the beginning of the year on consumer affordability and illicit trade in Kenya. According to management, pressures on consumer affordability resulted in the closure of some retailing outlets.
- The dip in gross revenue was partly offset by a 23.4% y/y decline in excise duty and VAT to KES 6.1 billion. This was stated to be in line with lower domestic volumes and changes in tax rates effected by the government to mitigate the adverse impact of the Covid-19 pandemic.
- As a result the net revenue fell by 6.7% y/y to KES 10.5 billion.
- The total cost of operations eased by 10.1% y/y to KES 6.8 billion. This was attributed to lower sales volumes, productivity savings initiatives and prudent cost management measures. As a result, the operating profit margin grew by 2.4% to 35.6% (1H2019: 33.1%).
- Finance costs dropped by 35.7% y/y to KES 81.0 million (1H2019: KES 126.0 million) as the KES 1.2 billion loan from BATIF (B.A.T International Finance) was repaid in 2H2019.

- The Board of Directors approved an interim dividend of KES 3.50 per share payable on 18th September 2020, with book closure date being 21st August 2020.

### Commentary

- We expect the tough operating environment to persist in 2H2019, impacting consumer wallets negatively. We however anticipate a slight pick-up in export sales volumes with the gradual re-opening of economies.
- While combustible tobacco continues to be the core of the business, the company is looking towards growing its product portfolio by aligning itself with global shifting trends (towards health and wellness). BAT Group embarked on a corporate transformation strategy aimed at reducing the business' health impact by introducing innovative and less risky products. In 2H2019, the company launched Lyft – a tobacco free oral nicotine pouch that was received well and contributed to the 15.9% y/y growth in net revenue. For FY2020, the company is investing KES 2.5 billion in building a factory in Nairobi to manufacture oral nicotine products to meet growing demand. In line with product innovation, we are likely to see new categories of products including and beyond tobacco and nicotine.
- We expect operating costs to decline further in 2H2020, leveraging on productivity initiatives resulting from the Integrated Works Systems (IWS) introduced in 2015 to improve factory efficiencies, increase productivity and deliver savings. This will enable the company to mitigate decline in the top-line, boosting operating margins.
- Overall, the stock is most suitable to dividend investors as the dividend yield currently stands at 10.8% (compared to the 364 T-Bill at 7.700%). As at 16/07/2020 the stock closed at KES 310.00, year to date (YTD) of -38.0%, a trailing P/E of 7.98x and a 5-year average ROE of 47.0%. Based on the company's new strategy to diversify to new categories in line with the global trends, we believe it is well positioned to meet growing demand given its market leadership position and pricing power. We however expect continued tobacco regulation to impact tobacco sales volume, especially low tier products that are sensitive to price changes, with consumers in this category shifting to illicit products.
- Taking all these into consideration, we recommend a **BUY** on BAT.



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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 headwinds 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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