

## KEY MARKET INDICATORS

COUNTRY	INDEX	W-o-w (%)	YTD	MARKET CAPITALIZATION
KENYA	All Share Index(NASI) – 133.23	-1.0%	-19.9%	USD Mn – 18,903 KES Bn – 2,026
	NSE 20 Share Index – 1,804.10	-4.4%	-32.0%	USD Mn – 16,509 KES Bn – 1,778,220
	NSE 25 Share Index – 3,059.56	-2.0%	-25.4%	USD Mn – 17,582 KES Bn – 1,893,803

Source:NSE

## KEY ECONOMIC INDICATORS

EXCHANGE RATE	W-o-W*	YTD	INFLATION(MM/YY)	GDP GROWTH
KES/USD –107.7074	0.3%	(6.3%)	4.4% (07/2020)	4.9% (1Q2020)
NGN/USD -360.50*	-	(17.6%)	12.6% (06/2020)	2.3% (2019)
ZAR/USD – 16.7816	(0.3%)	(19.5%)	2.1% (05/2020)	-2.0%(1Q2020)

Source: CBK, KNBS, NBS, CBN, SIS, STATS SA, SARB: Negative ( ) – Depreciation, Positive – Appreciation \*Week ending 30<sup>th</sup> July 2020

## EABL Posts a 39.0% Decline In After Tax Profits for FY2020

- East Africa Breweries Limited (EABL) reported a 39.0% y/y decline in after tax profits for FY2020 to KES 7.0 billion from KES 11.5 billion recorded in FY2019. The impact to business performance was witnessed in 2H2020 largely due to the impact of Covid-19 pandemic compared to strong growth witnessed in 1H2020 (PAT growth of 9.5%).
- As a result of the declining performance and the firm's stance to conserve cash, the board did not recommend a final dividend; with the total dividend being KES 3.00 (interim dividend paid in April 2020).
- Volume growth and net sales declined by 11.0% y/y and 9.0% y/y respectively mainly attributed to the closure of retail outlets in response to the pandemic's containment measures.
- Across the different market segments:
  - Kenya's net sales declined by 14.0% y/y for FY2020, with the decline witnessed in 2H2020 (-37.0%) compared to a growth of 8.0% in 1H2020. All categories except mainstream spirits (+2.0%) posted revenue declines.
  - Uganda's net sales declined by 5.0%. All categories except mainstream spirits (-20.0%) posted growth in revenue. The decline in mainstream spirits was exacerbated by the sachet ban.
  - Tanzania recorded net sales growth of 14.0% y/y mainly due to i) continued strength of the business, particularly the Serengeti brand ii) less stringent lockdown measures.
- From a product perspective:
  - Mainstream beer net sales declined by 6.0% y/y in FY2020 from a 10.0% growth in 1H2020.
  - Mainstream spirits showed resilience, with net sales declining by a marginal 1.0% y/y in FY2020 from 13.0% growth in 1H2020
  - Premium brands net sales declined by 13% y/y. According to management, premium brands present the potential to recover the fastest (based on recovery post 2009 economic depression)

- Cost of sales declined by 5.7% y/y to KES 41.9 billion from KES 44.4 billion in FY2019 in line with the decline in sales volume. Additionally, the group's productivity and fixed cost initiatives saw the company save KES 3.7 billion. As a result, the gross profit margin decreased marginally to 46.2% in FY2020 (FY2019: 44.1%).
- In line with its cost optimization initiatives to protect profitability and conserve cash, selling & distribution expenses and administrative expenses dropped by 8.6% and 8.9% respectively.
- Despite the above, total operating expenses edged up by 10.2% y/y to KES 22.4 billion. This was mainly attributed to
  - i) 115.0% increase in FX losses due to translation of foreign subsidiaries as the shilling depreciated in 2H2020.
  - ii) 99.0% increase in other charges including: KES 600.0 million provision for debtors and KES 400.0 million provision for slowed inventory.
  - KES 500.0 recovery fund to help pubs and bars post lockdown. This is part of Diageo's 2 year programme of KES 10.6 billion, rolled out in different markets to assist in the recovery process.
- Finance costs increased by 13.5% y/y to KES 3.8 billion, as the group's borrowings grew by 19.0% y/y to KES 36.9 billion. During the financial year, the group refinanced its medium term note (due March 2020) at a lower rate interest rate, categorizing the debt to long-term from short-term. Short term debt grew by 53.8% y/y to KES 8.0 billion as the group sought financing from banks to fund working capital requirements.
- Net cash from operations declined by 85.3% y/y to KES 3.3 billion (FY2019: KES 22.6 billion) resulting in the operating cash conversion ratio declining to 68.0% from 111.0%. This is attributed to:
  - Inventory increasing by 48.1% y/y to KES 10.9 billion as the group increased its stock holdings to manage supplier disruptions
  - Creditors declining by 22.0% y/y to KES 21.7 billion due to declining sales volumes.
  - Income tax paid increased 179.3% y/y to KES 6.5 billion as the capitalized interest benefits from the Kisumu brewery lapsed in FY2020.
- CAPEX for FY2020 declined to KES 8.1 billion from KES 11.7 billion in FY2019 as capacity expansion plans were stalled (only KES 2.0 billion spent) due to the Covid-19 implications as well as the need to conserve cash. KES 1.6 billion was spent in renewable energy and productivity initiatives (water recovery and efficiency improvements).

## Commentary

In the short term (1H2021), we expect depressed earnings as a result of the negative impact of the pandemic. However, as countries gradually re-open their economies in the upcoming months, we expect slight improvement in sales volumes for 1H2021 compared to 2H2020. Tanzania presents opportunity for growth in the short and long term.

We however remain concerned with the group's dwindling cash performance at existing levels of borrowings. This is expected to worsen in the short term with the deterioration of the working capital position, necessitating funding to fill this gap. As in 2H2020, EABL's commitment is to utilize lower-cost short term debt. The interest coverage ratio as at FY2020 stood at 3.66x from 6.10x in FY2019.

Given the business trajectory over the years, and the group's agile adaptability to the current challenging operating environment, we are confident in the group's robust business strategy to return to strong double digit growth in the medium term. This is informed by:

- Changing business model- In line with economic and consumer shifts, the group managed to shift its business model, adapting to e-commerce channels and growth in the off-trade business (increased product portfolio in supermarkets and retail outlets). Management also expects to align to consumer needs through superior consumer insights, innovating where necessary to capture the evolving dynamic preferences.
- Operational efficiencies- We expect the group to continue reaping the benefits of its productivity and sustainability initiatives, cushioning the bottom line.
- Portfolio diversification – The diversified product portfolio has insulated the firm from excessive losses during periods of uncertainty. Going forward, management expects premium brands and mainstream beers to drive growth.
- Strong parent company- Leveraging on Diageo's financial support and in particular the recovery fund to support pubs and bars post lockdown, we expect a quicker turnaround for the firm.

Our recommendation on the stock is under review.

## Market Commentary

The All Share Index and NSE 20 Share Index declined by 1.0% and 4.4% w-o-w to close the week at 133.23 and 1,804.10 respectively. This was characterized by price declines across majority of the counters on the back of increased sell side activity. Notable declines were witnessed on WPP Scangroup (-42.2% to KES 11.30), Transcentury (-9.9% to KES 1.83) and Co-op Bank (-5.8% to KES 10.50). Following the release of EABL's FY2020 results, the counter shed -7.7 % (-3.7% in today's trading session) attributed to negative investor sentiments as the board did not declare a final dividend (more on this below). Safaricom gained marginally by 0.2% to close the week at KES 28.15. We anticipate increased sell side activity as more companies report their 1H2020 or FY2020(those with financial years ending June 30<sup>th</sup>) financial results. The weak financial performance and the precedent set by some of the companies in suspending or lowering dividend payments is likely to force more investors to safe havens.

## Equity Market Summary

Banking Sector	Price (KES)	YTD change	% w-o-w Change	Volume Traded	C/I Ratio	P/E (X)	Dividend Yield	P/B (X)	ROE
KCB	34.40	-36.3%	0.1%	287,800	45.9%	4.27	10.2%	0.83	20.7%
Equity Bank	32.55	-39.2%	0.2%	300,700	51.5%	5.44	0.0%	1.10	21.8%
NCBA	24.15	-34.5%	-5.3%	118,800	41.9%	2.78	0.0%	0.54	15.3%
Stanbic	83.25	-23.8%	5.4%	1,500	56.2%	5.16	8.5%	0.67	13.6%
Absa Bank Kenya Plc	9.02	-32.4%	-0.4%	1,338,300	51.2%	6.57	12.2%	1.08	16.7%
Housing Finance	3.88	-39.9%	3.2%	106,200	93.8%	N/M	0.0%	0.13	-1.1%
Co-operative Bank	10.50	-35.8%	-5.8%	364,800	52.1%	4.30	9.5%	0.78	19.2%
Diamond Trust Bank	65.75	-39.7%	-5.1%	0	48.6%	2.71	4.1%	0.31	12.1%
Standard Chartered	153.75	-24.1%	-0.8%	4,100	55.6%	6.41	4.9%	1.11	17.5%
I&M	46.20	-14.4%	-5.7%	500.00	39.0%	1.77	5.5%	0.33	20.4%
<b>Sector Average</b>					<b>53.6%</b>	<b>4.38</b>	<b>5.5%</b>	<b>0.69</b>	<b>15.6%</b>

### P/B (X) - FY2019

Commercial and Services	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E (X)	Dividend Yield	EPS(KES)	ROE
Kenya Airways	3.83	86.8%	0.0%	-	N/M	0.0%	-1.3	N/M
Nation Media Group	10.55	-73.5%	-4.5%	34,600	2.34	14.2%	4.5	10.9%
WPP Scangroup	11.30	-34.3%	-42.2%	99,900	10.09	4.4%	1.12	6.0%
Uchumi Supermarket	0.35	20.7%	-2.8%	59,400	N/M	0.0%	-4.6	N/M
Longhorn Publishers	4.84	-28.4%	-1.0%	1,900	7.12	10.7%	0.68	17.3%
Eveready	1.07	-2.7%	0.0%	48,700	N/M	0.0%	-1.45	-10.8%
<b>Sector Average</b>					<b>6.52</b>	<b>5.9%</b>		<b>5.8%</b>

\*N/M - Not Meaningful

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<b>Construction &amp; Allied</b>	<b>Price (KES)</b>	<b>YTD Change</b>	<b>% w-o-w Change</b>	<b>Volume Traded</b>	<b>P/E(X)</b>	<b>Dividend Yield</b>	<b>NPM*</b>	<b>ROE</b>
Bamburi Cement	25.50	-68.1%	-1.9%	40,800	10.41	0.0%	1.6%	2.1%
E.A. Portland Cement	13.85	-4.5%	0.0%	0	<b>N/M</b>	0.0%	0.0%	0.0%
<b>Sector Average</b>					<b>10.41</b>	<b>0.0%</b>	<b>0.8%</b>	<b>1.0%</b>

\*NPM - Net Profit Margin

<b>Energy &amp; Petroleum Sector</b>	<b>Price (KES)</b>	<b>YTD Change</b>	<b>% w-o-w Change</b>	<b>Volume Traded</b>	<b>P/E(X)</b>	<b>Dividend Yield</b>	<b>EPS (KES)</b>	<b>ROE</b>
KenGen	5.94	3.8%	-0.3%	90,000	4.95	6.7%	1.20	4.2%
Kenya Power	1.97	-29.9%	4.2%	140,400	15.15	0.0%	0.13	0.4%
Total Kenya	23.55	-14.4%	1.7%	0	5.84	5.5%	4.03	10.8%
<b>Sector Average</b>					<b>8.65</b>	<b>3.4%</b>		<b>2.3%</b>

<b>Insurance Sector</b>	<b>Price (KES)</b>	<b>YTD Change</b>	<b>% w-o-w Change</b>	<b>Volume Traded</b>	<b>P/B(X)</b>	<b>P/E(X)</b>	<b>Loss Ratio</b>	<b>Expense Ratio</b>
CIC Insurance	2.45	-8.6%	0.4%	154,200	0.31	20.42	69.8%	34.4%
Britam	6.78	-24.7%	-4.0%	3,700	0.23	4.81	65.3%	37.2%
Jubilee	240.00	-31.6%	0.0%	200	8.55	4.57	91.9%	46.2%
Kenya Re	2.37	-21.8%	-1.3%	43,900	0.08	0.93	71.2%	13.1%
Sanlam Kenya	13.50	-21.5%	-3.6%	9,700.00	9.38	17.09	85.8%	35.5%
Liberty	8.12	-21.5%	1.2%	2,500.00	1.01	6.20	119.6%	48.7%
<b>Sector Average</b>					<b>0.88</b>	<b>9.57</b>	<b>83.9%</b>	<b>35.8%</b>

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<b>Investment Sector</b>	<b>Price (KES)</b>	<b>YTD Change</b>	<b>% w-o-w Change</b>	<b>Volume Traded</b>	<b>P/E(X)</b>	<b>P/B(X)</b>	<b>EPS (KES)</b>	<b>ROE</b>
Centum Investment	23.10	-3.1%	-3.1%	19,600	3.32	0.49	6.95	9.3%
Home Afrika Ltd	1.83	-20.0%	2.1%	44,000	N/M	N/M	N/M	2.6%
Trans-Century	1.83	-26.8%	-9.9%	300.00	N/M	N/M	N/M	4.7%
<b>Sector Average</b>					<b>N/M</b>	<b>0.49</b>		<b>5.5%</b>

\*P/B based on company Net Asset Value

<b>Investment Services</b>	<b>Price (KES)</b>	<b>YTD Change</b>	<b>%w-o-w change</b>	<b>Volume Traded</b>	<b>P/E(X)</b>	<b>Dividend Yield</b>	<b>EPS (KES)</b>	<b>ROE</b>
NSE	6.80	-44.9%	-1.4%	16,500	22.67	4.1%	0.3	3.9%
<b>Sector Average</b>					<b>22.67</b>	<b>4.1%</b>		

<b>Manufacturing &amp; Allied Sector</b>	<b>Price (KES)</b>	<b>YTD Change</b>	<b>% w-o-w Change</b>	<b>Volume Traded</b>	<b>P/E(X)</b>	<b>Dividend Yield</b>	<b>EPS (KES)</b>	<b>ROE</b>
Mumias Sugar	0.27	0.0%	0.0%	0	N/M	0.0%	-4.43	-69.4%
EABL	154.75	-22.0%	-7.7%	437,500	29.93	1.9%	5.17	46.6%
FTG Holdings	1.49	-39.7%	1.4%	2,600	5.73	0.0%	0.26	4.8%
Carbacid	7.90	-1.3%	-4.6%	5,700	7.60	8.9%	1.04	8.6%
BAT	328.00	-34.4%	3.4%	700	8.44	10.2%	38.85	40.8%
<b>Sector Average</b>					<b>12.93</b>	<b>4.2%</b>		

<b>Telecommunication &amp; Technology Sector</b>	<b>Price (KES)</b>	<b>YTD Change</b>	<b>% w-o-w Change</b>	<b>Volume Traded</b>	<b>P/E(X)</b>	<b>Dividend Yield</b>	<b>EPS (KES)</b>	<b>ROE</b>
Safaricom	28.15	-10.6%	0.2%	11,145,000	15.13	5.0%	1.86	51.8%
<b>Sector Average</b>					<b>15.13</b>	<b>5.0%</b>		

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Real Estate Investment Trust	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	NAVPS*	Dividend Yield	EPS (KES)
STANLIB FAHARI I-REIT	6.00	-36.3%	8.3%	98,400	20.80	12.50%	0.83
<b>Sector Average</b>						<b>NA</b>	

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\*NAVPS - Net Asset Value Per Share

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Market Statistics	This Week	Last Week	% Change
Total Volumes	52,265,100	115,857,500	-54.9%
Total Turnover (KES)	1,252,749,875	3,303,997,982	-62.1%

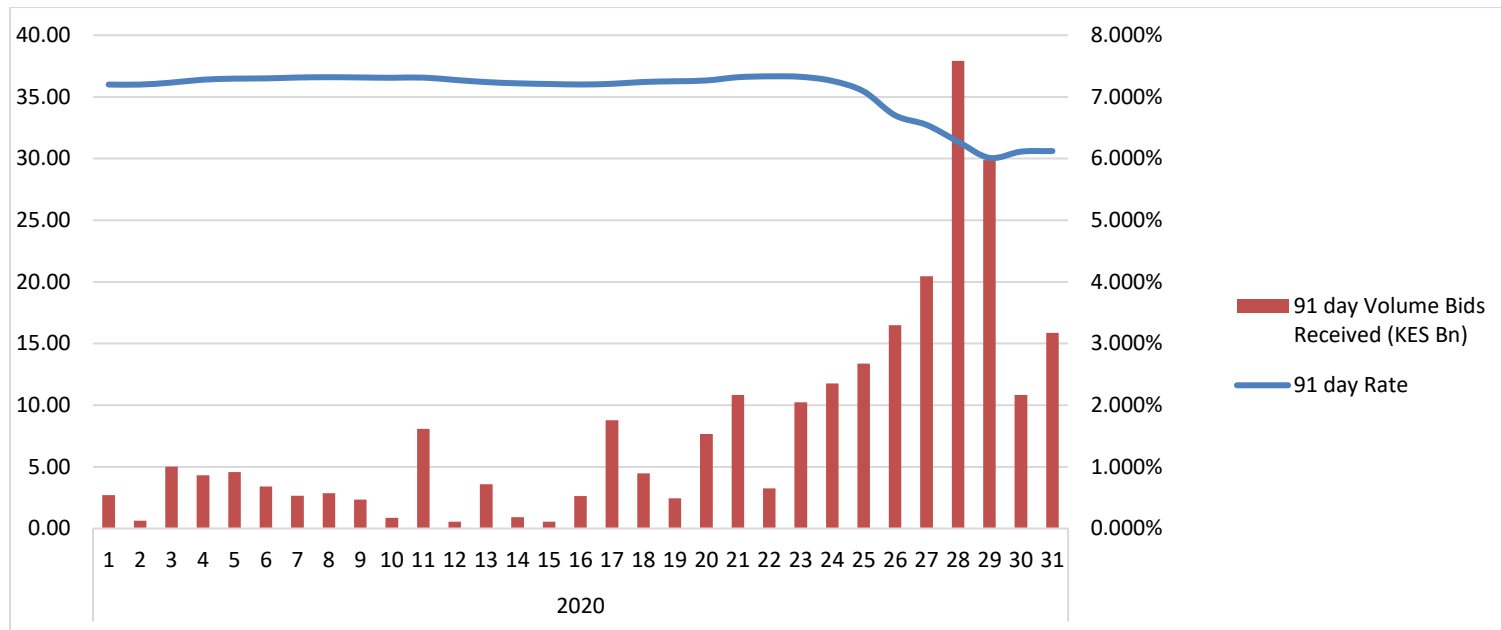
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# Fixed Income Market Summary

	Bids Received (KES)	Subscription	Bids Accepted (KES)	Rate	Previous Rate	% Change
91 day T-bill	91 day T-bill	15.86 Bn	396.50%	11.92 Bn	6.121%	6.112%
182 day T-bill	182 day T-bill	2.47 Bn	24.74%	1.51Bn	6.455%	6.440%
364 day T-bill	364 day T-bill	10.15 Bn	101.47%	10.15 Bn	7.391%	7.370%

Graph showing 91 day T-bill rate and volume

Week No. 31





# Corporate Actions

Counter	Corporate Action	Declared	Date Announced	Books Closure Date	Payment Date
Standard Chartered Bank Kenya	Bonus Issue	1:10	19-Jun-20	<b>27-Apr-20</b>	Subject to Approval
NCBA Group PLC	Bonus Issue	1:10	22-Apr-20	<b>12-May-20</b>	Subject to Approval
Nation Media Group Ltd	Bonus Issue	1:10	20-Apr-20	<b>12-Jun-20</b>	Subject to Approval
Total Kenya Plc	First& Final dividend	Kes 1.30	02-Jun-20	<b>26-Jun-20</b>	31-Jul-20
WPP Scangroup	Special dividend	Kes. 8.00	07-Jul-20	<b>28-Jul-20</b>	27-Aug-20
Umeme Ltd	Final dividend	Ushs. 41.30	23-Mar-20	<b>28-Jul-20</b>	17-Aug-20
Kapchorua Tea Kenya	Final dividend	Kes. 10.00	17-Jul-20	<b>30-Jul-20</b>	Subject to Approval
Safaricom Plc	First & Final dividend	Kes.1.40	29-Apr-20	<b>31-Jul-20</b>	01-Nov-20
Williamson Tea Kenya	Final dividend	Kes. 20.00	17-Jul-20	<b>18-Aug-20</b>	Subject to Approval
BAT Kenya Plc	Interim dividend	Kes. 3.50	16-Jul-20	<b>21-Aug-20</b>	18-Sep-20
Centum Investment Co.	First & Final dividend	Kes. 1.30	02-Jun-20	<b>Subject to Approval</b>	Subject to Approval
Nairobi Securities Exchange	First & Final dividend	Kes.0.08	27-Mar-20	<b>Subject to Approval</b>	Subject to Approval

# Market Recommendations

Counter	Recommendation	YTD Change	Price as at 30th July 2020
Equity Group Holdings	Long-term Buy	-39.16%	32.55
KCB	Long-term Buy	-36.30%	34.40
ABSA Bank Kenya Plc	Long-term Buy	-32.43%	9.02
Stanbic	Long-term Buy	-23.80%	83.25
NCBA	Long-term Buy	-34.46%	24.15
Standard Chartered	Sell	-24.07%	153.75
HF	Sell	-39.94%	3.88
Safaricom	Hold	-10.63%	28.15
Bamburi	Sell	-68.13%	25.50

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