

KEY MARKET INDICATORS

| COUNTRY | INDEX | W-o-w (%) | YTD | MARKET CAPITALIZATION |
|---------|--------------------------------|-----------|--------|---------------------------------------|
| KENYA | All Share Index(NASI) – 130.58 | -2.0% | -21.5% | USD Mn – 18,560 KES Bn – 2,004 |
| | NSE 20 Share Index – 1,758.08 | -2.6% | -33.8% | USD Mn – 16,164 KES Bn – 1,745.755 |
| | NSE 25 Share Index – 2,990.66 | -2.3% | -27.1% | USD Mn – 17,189 KES Bn – 1,856.362 |

Source:NSE

KEY ECONOMIC INDICATORS

| EXCHANGE RATE | W-o-W | YTD | INFLATION(MM/YY) | GDP GROWTH |
|-------------------|--------|---------|------------------|---------------|
| KES/USD –108.0024 | (0.3%) | (6.6%) | 4.4% (07/2020) | 4.9% (1Q2020) |
| NGN/USD -379.50* | (5.3%) | (23.8%) | 12.6% (06/2020) | 2.3% (2019) |
| ZAR/USD – 17.6467 | (5.2%) | (25.7%) | 2.2% (06/2020) | -2.0%(1Q2020) |

Source: CBK, KNBS, NBS, CBN, SIS, STATS SA, SARB: Negative () – Depreciation, Positive – Appreciation *8/6/2020

WPP Scangroup Reports an After-Tax Loss from Continuing Operations in 1H2020

- WPP Scangroup reported an after-tax loss of KES 532.0 million (1H2020) for its continuing operations from a profit of KES 79.3 million in 1H2019.
- From the disposal of its TNS Kantar business in June 2020, the group made a net gain of KES 2.2 billion, recorded as discontinued operations which resulted in a profit of KES 1.5 billion.
- The dip in profitability from continuing operations was primarily due to a 20.6% y/y decrease in net sales to KES 1.1 billion (1H2019: KES 1.4 billion) as well as a 519.8% y/y increase in provision for bad and doubtful debts to KES 328.8 million from 53.1 million posted in 1H2019.
- The decline in net sales was attributed to lower advertising spending by a number of clients as a result of the COVID-19 outbreak.
- According to management, the additional bad debt provision related to an overdue amount from a parastatal client.
- Operating and administration expenses (excluding provisions) grew by 3.3% y/y to KES 1.4 billion despite management undertaking measures to reduce its costs.

Commentary

- For FY2020, we expect revenues to decline given revenues billings and revenue for discontinued operations comprised 26.0% and 43.0% of the consolidated business performance respectively (as at FY2019). We also anticipate continued spending cuts on traditional media as more companies embrace digital marketing. Traditional media however continues to be dominant with lower spending on digital platforms. With continued investments in data driven marketing, we expect the company to aggressively push this revenue stream to mitigate decline in the topline.
- We also expect continued cost optimization efforts to cushion the bottom-line. We opine that these efforts may be unsustainable in the long-run.

Kenya Re Posts a 45.8% y/y Growth in After Tax Profits for 1H2020

- Kenya Re realized a 45.8% y/y rise in after tax profits for 1H2020 to KES 1.6 bn (1H2019: KES 1.1 bn).
- The increase in profitability was mainly driven by a 16.6% y/y growth in net earned premiums to KES 8.7 bn.
 - Kenya Re registered higher net earned premiums despite a subdued growth of 2.4% y/y in gross premiums written to KES 9.1 bn (in 1H2019 gross premiums written edged up by 39.9% y/y to KES 8.9 bn).
 - Net earned premiums were supported by an 81.2% y/y and a 56.9% y/y decline in change in unearned premiums and retrocession premiums to KES 157.6 mn and KES 256.0 mn respectively.
- Net earned premiums from the long-term business grew by 21.2% y/y to KES 904.3 million while net earned premiums in the short-term business grew by 16.0% y/y to KES 7.8 bn.
- Investment income dipped by 2.1% y/y to KES 1.9 billion. This is attributable to the effect of the COVID-19 pandemic which has resulted in a depressed investment environment.
- Net claims and benefits rose by 3.1% y/y to KES 5.1 billion resulting in a lower loss ratio (measured as net claims/net premiums) of 59.5% from 67.2% in 1H2019; this was occasioned by a faster rise in net premiums compared to net claims and benefits.
 - Net claims and benefits from the short-term business eased by 1.8% to KES 4.6 bn – bucking trend witnessed since FY2017 (i.e. double digit growth). This resulted in a decrease in the loss ratio to 59.2% (1H2019: 70.0%).
 - Net claims and benefits from the long-term business surged by 73.8% y/y to KES 555.8 million – this led to an increase in the loss ratio to 61.5% (1H2019: 42.9%).
- We opine that the lower claims and benefits witnessed in the short-term business were influenced by reduced activities (transportation, business activities) due restrictions imposed to curb the spread of COVID-19 while the higher claims and benefits seen in the long-term business could be due to death claims as a result of the pandemic.
- Operating expenses (excluding provisions) rose by 4.4% y/y to KES 956.9 mn; Kenya Re's expense ratio reduced to 11.0% from 12.3% in 1H2019 due to the faster rise in net earned premiums in comparison to operating expenses.

- Provisions for doubtful debts increased by 169.2% y/y to KES 271.0 mn on the back of a 40.4% y/y rise in reinsurance receivables to KES 4.4 billion.

Commentary

- With regard to the short-term business, the improvement in underwriting performance (decrease in the loss ratio) is a welcomed change as the company has previously experienced weak underwriting results in this segment (especially in the last couple of years). We remain cautiously optimistic about the improvement in underwriting results as we do not have substantive information whether the factors that led to this improvement will persist going forward.
- We also note that Kenya Re's reinsurance receivables have once again come under pressure in the 1H2020 despite the improvement witnessed in the collection of reinsurance receivables in FY2019 (which declined by 28.5% to KES 2.6 billion in FY2019). We opine that collection efforts will continue to be hampered in FY2020 owing to the economic challenges brought on by the COVID-19 pandemic, consequently resulting in higher provisions.
- We expect to continue to witness depressed earnings from the investment portfolio due to challenges in the investment climate.
- In the last few years, the company has persistently encountered increased competition from local and international markets occasioned by:
 - rising domestication of reinsurance in several key markets and setting up of national re-insurance companies in countries where they didn't exist before
 - price undercutting amongst re-insurers
- We expect rising competition to continue being a major challenge to Kenya Re going forward.
- Despite increasing competition in foreign markets, Kenya Re still maintains a leading position in its domestic market (it is the national re-insurer in Kenya) and is supported by the national government (which owns 60.0% stake through the National Treasury).
- Kenya Re has robust levels of capital and liquidity; as at 1H2020 total equity stood at KES 33.1 billion with retained earnings accounting for KES 20.2 billion. Kenya Re recently (in July 2020) received a national scale financial rating of AA+ with a stable outlook from Global Credit Ratings (GCR) on the back of a strong capital base and healthy liquidity. We believe the strong capital and liquidity position provides the company with the requisite financial muscle to further its

diversification strategy (Kenya Re plans to venture into Egypt post-pandemic).

- The counter is currently trading at a trailing PB multiple of 0.12x (at a price of KES 2.38 as at 7th August 2020) and this represents a 63.7% discount from its 3 year average P/B ratio of 0.32. The company has a return on average equity (ROaE) of 13.2% (third highest amongst listed insurance companies) and a dividend yield of 4.2% -- one of the highest amongst listed insurance companies.
- Taking into account the aforementioned factors, we assign a **NEUTRAL** recommendation on Kenya Re.

Market Commentary

The All Share and NSE 20 share Indices extended their downward trend declining by 2.0% and 2.6% w-o-w to close at 130.58 and 1,758.08 respectively. The bourse continued to witness continued selling pressure exacerbated partly by a few companies (Safaricom, WPP Scangroup, Umeme and Kapchorua Tea) going "ex-dividend" for their respective dividend payments in the previous week. Notable price movements during the week were recorded on Stanbic (-10.5% to KES 74.50), NMG (-14.3% to KES 9.04), WPP Scan group (-12.2% to KES 9.92) and CIC (-11.4% to KES 2.17). Improved investor demand provided some support to prices on some counters (e.g. Safaricom, Equity) that had seen increased selling in the beginning of the week. Foreign investors dominated trading activity earlier in the week with local investor participation increasing towards the end of the week. In the upcoming weeks we expect increased activity particularly in the banking sector ahead of releasing their 1H2020 financial results.

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 | 32.95 | -39.0% | -4.2% | 2,047,900 | 45.9% | 4.09 | 10.6% | 0.79 | 20.7% |
| Equity Bank | 31.50 | -41.1% | -3.2% | 932,700 | 51.5% | 5.27 | 0.0% | 1.06 | 21.8% |
| NCBA | 23.20 | -37.0% | -3.9% | 160,400 | 41.9% | 2.67 | 0.0% | 0.52 | 15.3% |
| Stanbic | 74.50 | -31.8% | -10.5% | 3,300 | 56.2% | 4.62 | 9.5% | 0.60 | 13.6% |
| Absa Bank Kenya Plc | 8.62 | -35.4% | -4.4% | 1,905,600 | 51.2% | 6.28 | 12.8% | 1.04 | 16.7% |
| Housing Finance | 3.72 | -42.4% | -4.1% | 1,100 | 93.8% | N/M | 0.0% | 0.13 | -1.1% |
| Co-operative Bank | 10.30 | -37.0% | -1.9% | 943,200 | 52.1% | 4.22 | 9.7% | 0.76 | 19.2% |
| Diamond Trust Bank | 69.00 | -36.7% | 4.9% | 2,700 | 48.6% | 2.84 | 3.9% | 0.33 | 12.1% |
| Standard Chartered | 151.75 | -25.1% | -1.3% | 18,800 | 55.6% | 6.33 | 4.9% | 1.09 | 17.5% |
| I&M | 46.25 | -14.4% | 0.1% | 1,800.00 | 39.0% | 1.78 | 5.5% | 0.33 | 20.4% |
| Sector Average | | | | | 53.6% | 4.23 | 5.7% | 0.67 | 15.6% |

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 | 9.04 | -77.3% | -14.3% | 324,600 | 2.01 | 16.6% | 4.5 | 10.9% |
| WPP Scangroup | 9.92 | -42.3% | -12.2% | 78,900 | 8.86 | 5.0% | 1.12 | 6.0% |
| Uchumi Supermarket | 0.32 | 10.3% | -8.6% | 7,600 | N/M | 0.0% | -4.6 | N/M |
| Longhorn Publishers | 4.64 | -31.4% | -4.1% | 4,300 | 6.82 | 11.2% | 0.68 | 17.3% |
| Eveready | 1.08 | -1.8% | 0.9% | 100 | N/M | 0.0% | -1.45 | -10.8% |
| Sector Average | | | | | 5.90 | 6.6% | | 5.8% |

*N/M - Not Meaningful

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| Construction & Allied | Price (KES) | YTD Change | % w-o-w Change | Volume Traded | P/E(X) | Dividend Yield | NPM* | ROE |
|----------------------------------|--------------------|-------------------|-----------------------|----------------------|---------------|-----------------------|-------------|-------------|
| Bamburi Cement | 24.90 | -68.9% | -2.4% | 173,600 | 10.16 | 0.0% | 1.6% | 2.1% |
| E.A. Portland Cement | 13.85 | -4.5% | 0.0% | 0 | N/M | 0.0% | 0.0% | 0.0% |
| Sector Average | | | | | 10.16 | 0.0% | 0.8% | 1.0% |

*NPM - Net Profit Margin

| Energy & Petroleum Sector | Price (KES) | YTD Change | % w-o-w Change | Volume Traded | P/E(X) | Dividend Yield | EPS (KES) | ROE |
|--------------------------------------|--------------------|-------------------|-----------------------|----------------------|---------------|-----------------------|------------------|-------------|
| KenGen | 5.78 | 1.0% | -2.7% | 117,300 | 4.82 | 6.9% | 1.20 | 4.2% |
| Kenya Power | 1.92 | -31.7% | -2.5% | 556,600 | 14.77 | 0.0% | 0.13 | 0.4% |
| Total Kenya | 22.85 | -16.9% | -3.0% | 0 | 5.67 | 5.7% | 4.03 | 10.8% |
| Sector Average | | | | | 8.42 | 3.5% | | 2.3% |

| Insurance Sector | Price (KES) | YTD Change | % w-o-w Change | Volume Traded | P/B(X) | P/E(X) | Loss Ratio | Expense Ratio |
|-------------------------|--------------------|-------------------|-----------------------|----------------------|---------------|---------------|-------------------|----------------------|
| CIC Insurance | 2.17 | -19.0% | -11.4% | 342,600 | 0.28 | 18.08 | 69.8% | 34.4% |
| Britam | 6.96 | -22.7% | 2.7% | 7,700 | 0.24 | 4.94 | 65.3% | 37.2% |
| Jubilee | 215.00 | -38.7% | -10.4% | 5,500 | 7.66 | 4.10 | 91.9% | 46.2% |
| Kenya Re | 2.38 | -21.5% | 0.4% | 190,700 | 0.08 | 0.93 | 71.2% | 13.1% |
| Sanlam Kenya | 13.90 | -19.2% | 3.0% | 200.00 | 9.65 | 17.59 | 85.8% | 35.5% |
| Liberty | 7.90 | -23.7% | -2.7% | 100.00 | 0.98 | 6.03 | 119.6% | 48.7% |
| Sector Average | | | | | 0.88 | 9.57 | 83.9% | 35.8% |

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| Investment Sector | Price (KES) | YTD Change | % w-o-w Change | Volume Traded | P/E(X) | P/B(X) | EPS (KES) | ROE |
|--------------------------|--------------------|-------------------|-----------------------|----------------------|---------------|---------------|------------------|-------------|
| Centum Investment | 23.10 | 0.0% | 0.0% | 4,900 | 3.32 | 0.49 | 6.95 | 9.3% |
| Home Afrika Ltd | 1.90 | -21.7% | -2.1% | 1,200 | N/M | N/M | N/M | 2.6% |
| Trans-Century | 1.90 | -24.0% | 3.8% | 28,400.00 | N/M | N/M | N/M | 4.7% |
| Sector Average | | | | | N/M | 0.49 | | 5.5% |

*P/B based on company Net Asset Value

| Investment Services | Price (KES) | YTD Change | %w-o-w change | Volume Traded | P/E(X) | Dividend Yield | EPS (KES) | ROE |
|----------------------------|--------------------|-------------------|----------------------|----------------------|---------------|-----------------------|------------------|------------|
| NSE | 6.74 | -45.4% | -0.9% | 400 | 22.47 | 4.2% | 0.3 | 3.9% |
| Sector Average | | | | | 22.47 | 4.2% | | |

| Manufacturing & Allied Sector | Price (KES) | YTD Change | % w-o-w Change | Volume Traded | P/E(X) | Dividend Yield | EPS (KES) | ROE |
|--|--------------------|-------------------|-----------------------|----------------------|---------------|-----------------------|------------------|------------|
| Mumias Sugar | 0.27 | 0.0% | 0.0% | 0 | N/M | 0.0% | -4.43 | -69.4% |
| EABL | 155.00 | -21.9% | 0.2% | 40,500 | 29.98 | 1.9% | 5.17 | 46.6% |
| FTG Holdings | 1.44 | -41.7% | -3.4% | 52,600 | 5.54 | 0.0% | 0.26 | 4.8% |
| Carbacid | 8.02 | 0.2% | 1.5% | 7,400 | 7.71 | 8.7% | 1.04 | 8.6% |
| BAT | 322.50 | -35.5% | -1.7% | 200 | 8.30 | 10.4% | 38.85 | 40.8% |
| Sector Average | | | | | 12.88 | 4.2% | | |

| Telecommunication & Technology Sector | Price (KES) | YTD Change | % w-o-w Change | Volume Traded | P/E(X) | Dividend Yield | EPS (KES) | ROE |
|--|--------------------|-------------------|-----------------------|----------------------|---------------|-----------------------|------------------|------------|
| Safaricom | 27.70 | -12.1% | -1.6% | 2,152,000 | 14.89 | 5.1% | 1.86 | 51.8% |
| Sector Average | | | | | 14.89 | 5.1% | | |

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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 | 5.54 | -41.2% | -7.7% | 0 | 20.80 | 13.54% | 0.83 |
| Sector Average | | | | | | NA | |

*NAVPS - Net Asset Value Per Share

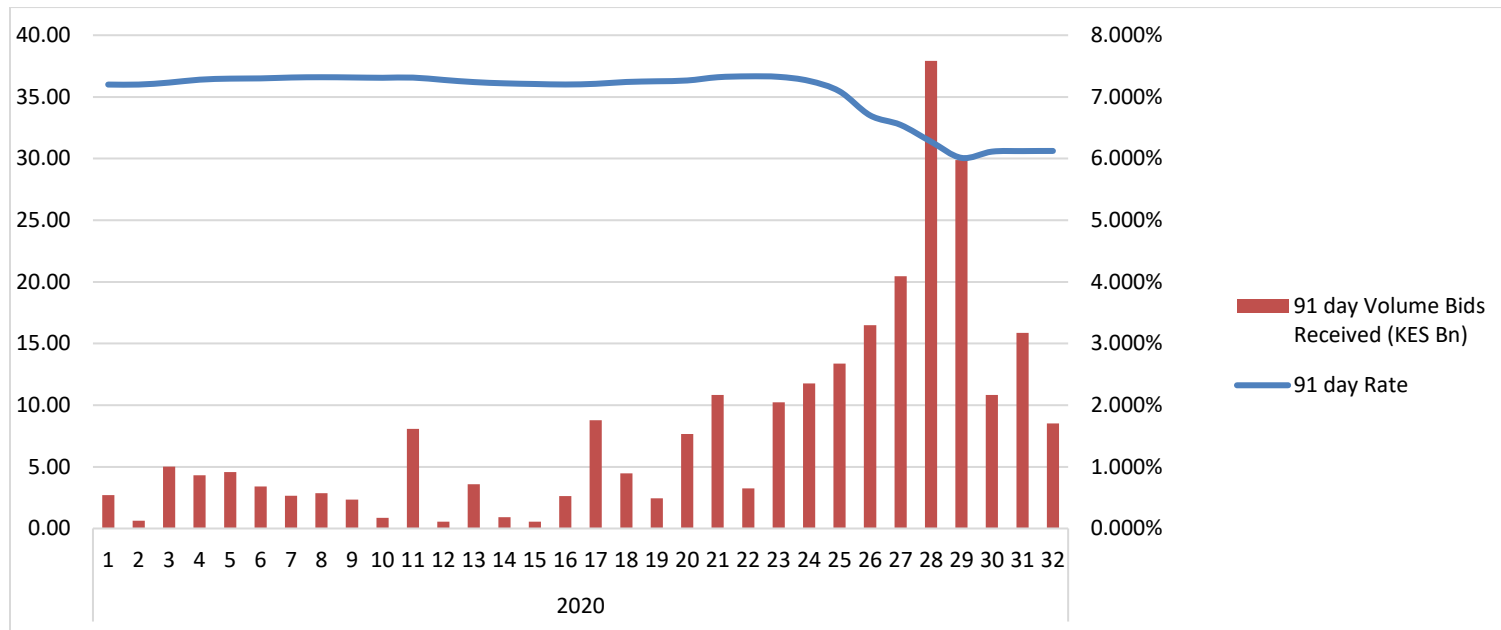
| Market Statistics | This Week | Last Week | % Change |
|--------------------------|------------------|------------------|-----------------|
| Total Volumes | 130,344,900 | 52,265,100 | 149.4% |
| Total Turnover (KES) | 2,905,480,739 | 1,525,749,875 | 90.4% |

Fixed Income Market Summary

| | Bids Received (KES) | Subscription | Bids Accepted (KES) | Rate | Previous Rate | % Change |
|----------------|------------------------|--------------|------------------------|--------|------------------|----------|
| 91 day T-bill | 8.52 Bn | 213.01% | 7.54 Bn | 6.123% | 6.121% | 0.002 |
| 182 day T-bill | 9.60 Bn | 96.01% | 9.60 Bn | 6.549% | 6.455% | 0.094 |
| 364 day T-bill | 14.27 Bn | 142.71% | 13.34 Bn | 7.455% | 7.391% | 0.064 |

Graph showing 91 day T-bill rate and volume

Week No. 32



Corporate Actions

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

Market Recommendations

| Counter | Recommendation | YTD Change | Price as at 7th August 2020 |
|-----------------------|----------------|------------|-----------------------------|
| Equity Group Holdings | Long-term Buy | -41.12% | 31.50 |
| KCB | Long-term Buy | -38.98% | 32.95 |
| ABSA Bank Kenya Plc | Long-term Buy | -35.43% | 8.62 |
| Stanbic | Long-term Buy | -31.81% | 74.50 |
| NCBA | Long-term Buy | -25.06% | 151.75 |
| Standard Chartered | Sell | -25.06% | 151.75 |
| HF | Sell | -12.06% | 27.70 |
| Safaricom | Hold | -12.06% | 27.70 |
| Bamburi | Sell | -68.88% | 24.90 |

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