

STOCK TO WATCH RESEARCH NOTE

2023/08/25 to 2023/09/1



INTRODUCTION

Overview

- This research note aims to provide a cursory analysis of four potential investment opportunities identified through a stock screening process. Through an analysis of financial statements, competitive position, growth potential, and potential risks, this research note will provide a recommendation for investors on what stocks to look at for further research.
- The four companies were identified as potential buys by virtue of satisfying at least 2 of the following criteria in the stock screen; growth stocks characterized by high Return on Opening Equity or income stocks characterized by high dividend yields. It should be noted that satisfying these criteria is judged relative to other stocks in the stock screen on a percentile basis.

Screening Criteria

- *Price-to-Book Value (P/BV)*: This metric compares the current market price of a stock to its book value, which is the value of the company's assets minus its liabilities. A low P/BV ratio may indicate that a stock is undervalued, while a high P/BV ratio may indicate that a stock is overvalued. Only companies that were in the 20th percentile and below were considered.
- *Price-to-Earnings (P/E) Ratio*: This metric compares a stock's current market price to its earnings per share (EPS). A low P/E ratio may suggest that a stock is undervalued relative to its earnings potential, while a high P/E ratio may suggest that a stock is overvalued. We considered only those companies that ranked in the 25th percentile or lower. To estimate a company's growth potential, the stock screen utilised a company's future P/E ratio, calculated from its trailing P/E ratio and its expected growth based on YoY earnings growth.
- *Return on Opening Equity (ROOE)*: This metric measures how efficiently a company generates profits from its shareholders' equity. A high ROE may indicate that a company is generating strong profits relative to its equity, while a low ROE may suggest that a company is not effectively utilizing its equity to generate profits. We focused our attention solely on companies ranking at or above the 60th percentile.

The Stock Screen

Overview

Several different criteria were used to build the stock screen, including:

- **Volume-Weighted Average Price (VWAP):** This is a weighted average of a stock's price over a specified period of time, in this case in a week, and it can help to eliminate some of the daily noise and volatility in the stock's price.
- **Expected growth rate based on YoY growth:** This metric looks at a company's year-over-year growth rate and uses it to estimate the company's future earnings potential. This can then be used to calculate the company's future price-to-earnings (P/E) ratio.
- **Dividend-related metrics:** These include the company's dividend per share (DPS), payout ratio, and dividend yield. These metrics can help investors evaluate a company's dividend-paying ability and determine if the stock is a good fit for an income-focused investment strategy.
- **Book Value per Share (BVPS):** This is a measure of a company's net assets per share, and it can be used to evaluate a company's financial health and valuation and get its Price to Book Value ratio.
- **Return on Opening Assets (RoOA):** This metric measures how efficiently a company is using its assets to generate profits.
- **Return on Opening Equity (RoOE):** This metric measures how efficiently a company is using its shareholders' equity to generate profits.
- **Earnings per Share (EPS):** This is a measure of a company's profitability and is calculated by dividing the company's net income by its number of outstanding shares.
- **Trailing and Future P/E ratios:** The trailing P/E ratio is the current market price of a stock divided by its earnings per share (EPS) over the past 12 months. The future P/E ratio is the current market price of a stock divided by its estimated earnings per share over the next 12 months.

By using these criteria in the stock screen, we were able to identify four potential investment opportunities that met at least two of the screening criteria selected.

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MARKET STATISTICS

- All the index funds recorded a decrease this week signifying weakening in the stock market as more stocks fell in prices than those that rose apart from the NSE 20 Share Index that recorded a slight increase.
- The market capitalization decreased by Kes. 2.59 billion signifying that there was a general decrease in stock prices in the market.
- There was a significant increase in total shares traded this week indicating an increase in trading activity.
- The total number of equity deals increased at the end of the week signifying higher market activity in that area.
- There was a great rise in equity turnover towards the end of this week.

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DATED	Last Friday	This Friday
NSE ALL SHARE INDEX	99.38	99.14
NSE 20 SHARE INDEX	1,522.49	1,538.64
NSE 25 SHARE INDEX	2,565.38	2,562.79
MARKET CAPITALIZATION (IN KES BN.)	1,547.25	1,533.29
TOTAL SHARES TRADED	2,191,500	180,283,200
TOTAL EQUITY DEALS	808	1,239
EQUITY TURNOVER	39,956,694.03	1,069,028,894.22

WEEKLY NSE TOP GAINERS & LOSERS

TOP GAINERS

NAME	PRICE	CHANGE	% CHANGE
ILAM Fahari IREIT	9.00	2.98	49.50%
Sameer Africa Plc	2.79	0.65	30.37%
Eveready East Africa Ltd	1.45	0.18	14.17%
Olympia Capital Holdings Ltd	3.22	0.28	9.52%
Britam Holdings Plc	5.32	0.32	6.40%

TOP LOSERS

NAME	PRICE	CHANGE	% CHANGE
HF Group Plc	4.50	-0.48	-9.64%
Nairobi Business Ventures Plc	2.97	-0.28	-8.62%
E.A. Cables Ltd	0.83	-0.07	-7.78%
The Limuru Tea Co. Plc	397.75	-32.25	-7.50%
Unga Group Ltd	16.95	-1.25	-6.87%

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Top 5 Growth Stocks

COMPANY	RoOE	EPS	RoOA	Div. Yield	P/BV
East African Breweries Limited	46.65%	12.47	12.49%	4.1%	3.38
British American Tobacco Kenya Plc	46.03%	68.92	28.53%	13.6%	2.56
Safaricom Plc	44.65%	1.55	10.31%	7.9%	2.30
Crown Paints Kenya Plc	38.29%	5.79	12.99%	10.4%	1.60
Standard Chartered Bank Kenya Ltd	22.74%	31.47	3.61%	13.8%	1.08

Growth Stocks represent stocks with a high return on opening equity (RoOE). In the stock screen, growth stocks were chosen by virtue of being in the top for return on opening equity. RoOE measures the profitability of a company in relation to the amount of opening shareholder equity for the Financial Year. In simple terms, RoOE measures how much profit a company generates for each dollar of opening shareholder investment at the beginning of the Financial Year. High RoOE stocks are classified as growth stocks as they earn more to reinvest in the business.

The top 5 growth stocks included:

- East African Breweries Limited (EABL) generated net sales of Kshs 109.6 billion, flat compared to the prior year. Pricing and improved product mix benefits were offset by a 7% decline in volumes, particularly in the mainstream beer category. Uganda and Tanzania delivered growth at 17% and 1% respectively, while Kenya declined by 4%.
- British American Tobacco (BAT) reported revenue for the FY 2022 was up 5.7% at current rates, driven by New Category revenue growth of 43.7% and combustibles pricing.
- Safaricom (SCOM) Group's service revenue grew 5.2% to KShs 295.69Bn Year on Year (YoY) in FY23, backed by M-PESA, Mobile Data and Fixed Data growth. It recently expanded to Ethiopia.
- Crown Paints Kenya PLC (CRWN) held off costs to post a Sh824 million profit for the year ended December 2022 from Sh731 million the previous period.
- Standard Chartered Bank Kenya Ltd also referred to as Stanchart Kenya in their first quarter financial results posted a 45.7% y/y increase in profit after tax largely attributable to 55.5% y/y increase in non-funded income driven by 113.9% y/y increase in FX income and a 40.1% increase in net interest income.

Top 5 Dividend Stocks

COMPANY	Div. Yield	Annual DPS	Payout Ratio (%)	ROOE	P/BV	EPS
Williamson Tea Kenya Plc	15.60%	30.00	101.97	8.89%	0.53	29.42
Standard Chartered Bank Kenya Ltd	13.80%	22.00	69.91	22.74%	1.08	31.47
British American Tobacco Ltd	13.60%	57.00	82.70	46.03%	2.56	68.92
Co-operative Bank of Kenya Ltd	12.70%	1.50	44.78	22.00%	0.65	3.35
Kapchorua Tea Kenya Plc	12.70%	25.00	62.19	14.40%	0.95	40.20

The dividend stocks listed represent the stocks with the highest paying dividends relative to price. The securities might be attractive to income seeking investors. Among the top dividend stocks currently only Williamson Tea Kenya Plc and Standard Chartered Bank Kenya Ltd have dividend yields higher than the current one-year Kenyan government bond yield of 13.765% while the rests' dividend yields are slightly lower.

- Williamson Tea Kenya Plc reported sales was KES 4,019.82 million for the FY ended March 31, 2023 compared to KES 3,507.9 million a year ago. Net income for FY ended March 31, 2023 was KES 515.17 million compared to KES 510.27 million a year ago.
- Standard Chartered Bank Kenya posted a 27.71% climb in PAT for the second quarter of 2023 compared to the second quarter last year.
- British American Tobacco (BAT) Group's revenue was up 2.6% for the Half-Year ended 30 June 2023, with adjusted profit from operations rising by 3.6%.
- Co-operative Bank of Kenya Ltd reported a Profit Before Tax of Kshs. 16.4 billion for the first half of 2023, representing a 7.4% growth compared to 15.3 billion recorded in the first half of 2022.
- Kapchorua Tea Kenya Plc reported a profit for the year 2023 from operations of KShs 315 million compared to a profit of KShs 214 million reported in 2022.

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