

STOCK TO WATCH

2023/09/22 to 2023/09/29



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.

EXECUTIVE SUMMARY

- The overall market statistics pointed more towards a downward trend again this week with all the NSE Indices having recorded a decrease from the previous week, the market capitalization also recorded a decrease of Kes. 24.56 billion. There was also a notable decrease in the total shares traded and the equity turnover during the week. Equity deals is the only area that recorded a slight upward trend.
- The top gainers of the week were: Home Afrika, Longhorn, Kapchorua. Stanbic and Fahari I-Reit.
- The top losers of the week were: Car and General, Express, Sameer, Serena and Crown Paints.
- The top 5 H1 2023 Growth Banking Stocks for the week included: Equity Group Holdings Plc, I&M Holdings Plc, ABSA Bank Kenya, BK Group Pl and Standard Chartered Bank Kenya Ltd.
- The top 5 Dividend Stocks included: Williamson Tea Kenya Plc, British American Tobacco Ltd, Kipchorua Tea Kenya Plc, Standard Chartered Bank Kenya Ltd, and I&M Holdings Plc.

Market Statistics

- All of the index funds recorded a decrease this week signifying weakening in the stock market as more stocks fell in prices than those that rose.
- The market capitalization decreased by Kes. 24.56 billion signifying that there was a general decrease in stock prices in the market.
- There was an significant decrease in the total shares traded this week indicating a great decrease in trading activity.
- The total number of equity deals increased slightly at the end of the week signifying higher market activity in that area.
- There was a notable decrease in equity turnover towards the end of the week.

DATED	Last Friday	This Friday
NSE ALL SHARE INDEX	96.79	95.22
NSE 10 SHARE INDEX	968.70	951.35
NSE 20 SHARE INDEX	1,519.26	1,508.75
NSE 25 SHARE INDEX	2,505.69	2,473.71
MARKET CAPITALIZATION (IN KES BN.)	1,512.23	1,487.67
TOTAL SHARES TRADED	68,631,000	31,162,600
TOTAL EQUITY DEALS	4,632	4,699
EQUITY TURNOVER	1,306,677,883	513,459,836

WEEKLY NSE TOP GAINERS & LOSERS

TOP GAINERS

NAME	PRICE	CHANGE	% CHANGE
Home Afrika	0.34	0.03	9.68%
Longhorn	2.19	0.18	8.96%
Kapchorua	200.00	13.50	7.24%
Stanbic	115.25	4.25	3.83%
Fahari I-Reit	7.40	0.26	3.64%

TOP LOSERS

NAME	PRICE	CHANGE	% CHANGE
Car and General	25.65	-6.70	-20.71%
Express	4.05	-0.80	-16.49%
Sameer	2.49	-0.29	-10.43%
Serena	12.75	-1.45	-10.21%
Crown Paints	35.65	-3.95	-9.97%

2023/09/22 to 2023/09/29

Top 5 H1 2023 Growth Banking Stocks

COMPANY	RoOE	EPS	RoOA	Div. Yield	P/BV
Equity Group Holdings Plc	16.93%	11.90	1.10%	11.10%	29.17
I&M Holdings Plc	15.29%	6.77	2.56%	13.20%	0.34
ABSA Bank Kenya Plc	14.77%	2.55	2.91%	11.30%	1.07
BK Group Plc	12.45%	7.47	3.50%	10.40%	0.86
Standard Chartered Bank Kenya Ltd	12.24%	31.47	3.61%	13.30%	1.12

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.

In the banking sector we see the banks with the highest RoOE had the lowest RoOA and vice versa this indicates that the banks with the highest RoOE have the highest leverage.

The top 5 H1 2023 growth banking stocks included:

- Equity Group Holdings Plc reported a 14% rise in first-half pretax profit to 35.2 billion Kenyan shillings (\$245 million).
- I&M Group PLC delivered 29% growth in Operating Profit for the first Quarter of 2023. I&M Group PLC recorded a 29% growth in total operating income at KES 9.6 billion for the first quarter (Q1) of 2023 up from the KES 7.4 billion reported during the same period in 2022.
- Absa Bank Kenya Plc's H1 2023 showed sustained momentum in the bank's performance, with its revenue growing by 31% to Kshs. 27.4 billion.
- BK Group's Plc Shareholders' Equity increased to FRw 328.0 billion, up 11.7% y-o-y. The Group's key profitability ratios ROAA and ROAE improved to 4.0% and 22.1% in Q1 2023 respectively from 3.8% and 21.6% in Q1 2022.
- Standard Chartered Bank Kenya Ltd also referred to as Stanchart Kenya For the H1 2023, income was up 20% year-on-year to hit \$4.6bn, 24% at constant currency. Profit before tax for the quarter totalled \$1. bn, up 32%, whereas H1 2023 saw underlying profit for Standard Chartered up 29% year-on-year to hit \$3.3bn.

Top 5 Dividend Stocks

COMPANY	Div. Yield	Annual DPS	Payout Ratio (%)	ROOE	P/BV	EPS
Williamson Tea Kenya Plc	14.60%	30.00	101.97	8.89%	0.57	29.42
British American Tobacco Ltd	13.60%	57.00	82.70	46.03%	2.55	68.92
Kipchorua Tea Kenya Plc	13.40%	25.00	62.19	14.40%	0.90	40.20
Standard Chartered Bank Kenya Ltd	13.30%	22.00	69.91	22.74%	1.12	31.47
I&M Holdings Plc	13.20%	2.25	33.23	16.00%	0.34	6.77

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 none had dividend yields higher than the current one-year Kenyan government bond yield of 15.22%.

- 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.
- 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%.
- Kipchorua 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.
- Standard Chartered Bank Kenya posted a 27.71% climb in PAT for the second quarter of 2023 compared to the second quarter last year.
- I&M Group posted a 2.2% increase in Profit After Tax to KSh 5.033 Billion at the end of the six-month period ended 30th June 2023 compared to KSh 4.9 Billion over a similar period in 2022. I&M posted an increase in net income by 22% to KSh 21.3 Billion while its operating income was up 22.8% to KSh 19 Billion.

Disclaimer

- Although care has been taken to ensure the accuracy, completeness and reliability of the information provided, ABC Capital Ltd assumes no responsibility therefrom. The user of the information agrees that the information is subject to change without notice. ABC Capital Ltd assumes no responsibility for the consequences of use of such information, nor for any infringement of third-party intellectual property rights which may result from its use and in no event shall ABC Capital Ltd be liable for any direct, indirect, special or incidental damage resulting from, arising out of or in connection with the use of the information.
- The information in this presentation may contain “forward-looking statements” relating to **the companies under review** and can be identified by the use of forward-looking terminology such as “projected” or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans, intentions or objectives. These statements reflect the current views of ABC Capital Ltd with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of **the companies under review** to be materially different from the future results, performance or achievements that may be expressed or implied by such forward-looking statements. Should underlying assumptions prove incorrect, actual results may vary materially from those described in this presentation as anticipated, believed, estimated or expected.
- Investment in **the companies under review** entails financial risk that can affect the earnings of the investment positively or negatively. Investors’ investment objectives and financial position vary. It should be noted that past returns do not indicate future returns. Prior to investing, investors should carefully consider the “Material Risks” relating to **the companies under review** and the market together with all other information in this presentation and any other information in the public domain.
- Each investor contemplating investing in **the companies under review** should make their own independent investigation of **the companies under review** and their own appraisal of such investment.

