

**Market valuations** of listed companies on the NSE improved over the month of March. March, a significant earnings results announcement season, came with good tidings as major banks announced improved profitability over the Full Year 2018 period. The solid FY18 earnings and the increase in amounts of dividends paid to shareholders helped improve the overall market perception of company valuations. Market Capitalization of the bourse firmed up by **3.3%** to hit **KES 2,360.52Bn** from **KES 2,284.05Bn** recorded at the end of February. NSE 20, in contrast to the market cap, weakened marginally by **1.7% (or 47.85 points)** to stand at **2,846.35 points**.

**Foreign activity** remained flat over the month of March. The overall average monthly foreign activity of **72%** recorded in February stayed stagnant in March, reaching an average of just **71%**. The foreign participants as a constituent of the entire market, however, were net-buyers during the period under review. The foreign net buying position firmed up significantly from the **KES 0.22Bn** recorded in February to achieve a net buying position of **KES 1.76Bn** in March.

During the period under our review, the recovery of market valuation pushed all the stocks we recommended except one, to outperform the **NSE 20 index**. The **NSE 20**, our market benchmark, declined marginally by **1.7%** during the month of March. Only Centum investments underperformed the benchmark by declining by **2.0%** over the month of March. The rest: Safaricom, KCB Group, Cooperative Bank and Equity Group firmed up by **6.0%, 5.8%, 3.1%** and **1.1%** respectively. Assuming an equally weighted portfolio the recommended stocks outperformed the NSE 20 by growing by **2.8%** in aggregate, compared to the **1.7%** slide of the **NSE 20**.

### **Diamond Trust Bank Kenya Ltd (NSE: DTK)**

We replace Safaricom with Diamond Trust Bank on our list because we believe the Telco is fairly valued at this point in time. We now upgrade the Tier one bank to become a part of our top-picks because we see a potential for the counter to outperform the market in the medium term. The regional lender with a presence in Kenya, Uganda, Tanzania and Burundi continues to build on their *DTB Strategy 2030 and Beyond* despite a challenging operating environment. The company reported flat profitability in its FY18 results with EPS growing by only **0.76%** to **KES 23.91** from the FY17 EPS of **KES 23.73**. The performance was below our expectations but we opine that their “*one bank, one customer*” approach to providing a seamless and consistent consumer experience across borders has the potential to unlock value for investors in the long term. We advise investors to seek exposure to the counter at the current attractive price of **KES 125.00**, way below our current Target Price of **KES 160.00**. We believe the current discount to valuation reflects a direr outlook for the Group than it is justified, value investors should position themselves for the reversal of sentiments on the counter and the banking industry in general.

### **Co-operative Bank (NSE: COOP)**

Cooperative Bank released its FY18 financial results for the year ended 31<sup>st</sup> December 2018. The Tier I lender reported an **11.6%** increase in its FY18 EPS to **KES 2.17** from the FY17 EPS of **KES 1.94**. The increase in EPS was mainly driven by a **48.9%** decrease in Loan Loss Provision to **KES**

**1.84 Billion** in FY18 from the previous **KES 3.60 Billion**. We continue to remind investors that at the market price of **KES 14.65**, there is an opportunity for investors to get exposure to a Tier-One Bank with solid fundamentals below our target price of **KES 16.64**. We advise investors who want to get a medium to long term exposure to Kenya's vibrant Banking sector to concentrate on Tier One lenders such as Cooperative Bank, to minimize the adverse effect of interest rate caps on their investments. We also advise investors who are neutral on growth to target the stock for its current **6.69%** dividend yield, to balance out the fact that capital gains in the current market remain uncertain

#### Centum Investments (NSE: ICDC)

Centum Investments (NSE: ICDC) is still trading below our valuation and for that reason, it maintains a place on our top picks list. The counter offers investors a big risk appetite and a long horizon to invest in a company with a broad exposure to the economy. The counter is currently worth **KES 31.65** despite a strong track of management creating returns above the NSE 20. At the market price of **KES 31.65**; ICDC is currently trading at a **57%** discount to the current Net Asset Value of **KES 73.2** and **47%** discount to our current target price of **KES 60.68** per share. We still see the recovering macroeconomic conditions, potential interest rate cap removal and Centum's broad cyclical sensitivity to the recovering economy as the key drivers of earnings growth in the medium to long-term. We also believe with a long term horizon in mind, ICDC with about **49%** worth of asset exposure to the real estate can mitigate the current real estate market price correction and create value from their significant investments in Vipingo Development and Two Rivers development.

#### KCB Group (NSE: KCB)

The banking juggernaut released impressive FY18 results, growing Profit After Tax by **16%** to **KES 33.9Bn** from the **KES 19.7Bn** recorded the previous year. The growth in earnings was, however, driven by a 50% reduction in provisions for bad debt in FY18 to **KES 2.9Bn** from **KES 5.9 Bn**. KCB Group still retains its status as one of our top stock picks, along with the duo of Equity Group and Cooperative bank. We continue to advise clients to seek investments in companies with big market capitalization such as KCB Group. The Big Cap counters have a good dividend yield but also still keep the investors in a position to benefit from a recovery in the market. We hope that a recovery of the Kenyan economy and the improvement in the credit cycle would inspire the regional lender to continue to grow profits in the medium and help reverse the investor sentiments on KCB Group. The reversal investor sentiments will be crucial in pushing price upwards towards our target price of **KES 52.41** from its current price of **KES 44.75**.