

We update Funguo’s Investments Ltd (FIL) coverage to a strong BUY position based on a target price of KES 28.46. This represents a 62.6% return upside from the current closing price of KES 17.50.

Portfolio realignment: Despite the marginal growth in equity investments segment, our investment case is supported strongly by the tremendous growth in unlisted equities portfolio whose valuation raised comprehensive income by over 41% as at full year 2022. We believe this will continue in the medium to long term horizon as well as marginal growth in fixed income segment whose resurgence within the year contributed to the company’s valuation growth.

We believe the quoted market is undervalued especially now that there has been capital flight to developed markets. We opine increased valuation in equities will be a boost to the company through aligning their portfolios to better take advantage of the bearish market.

Cost management initiatives have also paid off enabling the company to realize gross margins that continue to grow year on year settling at 81.4% in 2022 from 58.8% in 2021.

Strong balance sheet growth and shareholders’ funds growth for the past 5yrs with a CAGR of 11.3% in asset to KES 2,119Mn in FY 2022 and an 21.0% CAGR in shareholders’ funds to KES 2,058Mn in FY 2022.

We remain cautiously optimistic about the company’s undertaking in weathering the storm through tough economic times by ensuring shareholder value is protected by ensuring investee companies perform well and returns in terms of dividend continue. The company issued a dividend of KES 0.125 the highest in over 5 years.

Risks such as suppressed performance of the equities market, macro-economic risks and investee companies exit strategy will be controlled by Funguo’s strong management and good corporate governance especially by ensuring Funguo 3.0 which entails portfolio consolidation, optimization of early-stage portfolio, enhanced internal capacity and targeted investments and fundraising is achieved through the years.

The company has fairly showed improved in its undertakings, and we strongly believe investments made are geared towards shareholder value. To this end, the company has always tried to better offer returns to its shareholders by ensuring year on year return on its NAV per share is stronger than the market. It recorded a 27% average outperformance against the NSE 20 for the past 5 years and has recorded a 73% growth in NAV since 2018.

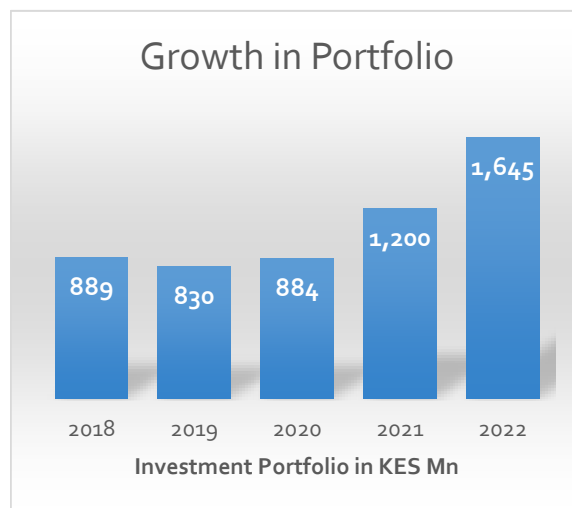
Year	FIL y-o-y NAV return	NSE 20 y-o-y return	Outperformance
2022	30%	-16%	46%
2021	27%	-1%	27%
2020	8%	-26%	34%
2019	-2%	-20%	18%
2018	2%	-9%	11%

Source: NSE, OMS Research

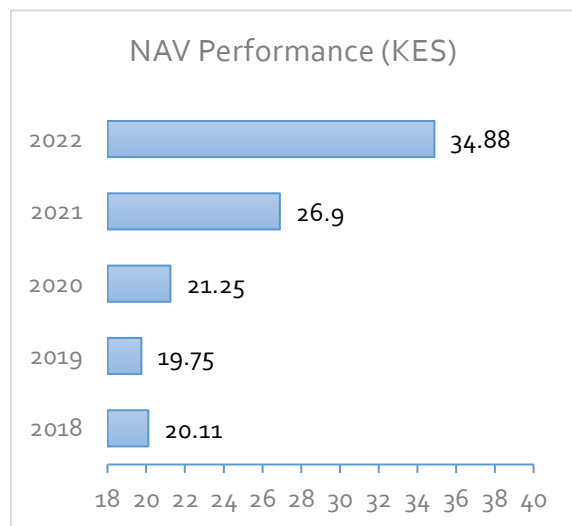
Recommendation: Strong Buy

Latest Trading Price	KES 17.50
Target Price	KES 28.46
Expected return	62.6%
EPS (KES)	0.86
Dividend yield	0.71%
Current NAV/Share	KES 34.88

Source: Company fillings, OMS Research



Source: Company fillings, OMS Research



Source: Company fillings, OMS Research



Key Metrics	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Total Income	76,141	46,353	36,129	76,106	100,871	71,117	57,178	51,444	99,118
%ch		-39%	-22%	111%	33%	-29%	-20%	-10%	93%
Gross Profit	63,336	25,982	18,304	53,780	77,164	44,398	34,314	30,252	80,671
%ch		-59%	-30%	194%	43%	-42%	-23%	-12%	167%
EBIT	57,514	20,177	14,769	47,704	72,150	38,961	30,275	29,305	78,466
%ch		-65%	-27%	223%	51%	-46%	-22%	-3%	168%
EPS	0.97	0.13	0.01	0.41	0.75	0.32	0.28	0.29	0.86
%ch		-87%	-91%	3569%	82%	-57%	-13%	3%	195%
DPS	0.15	0.09	0.10	0.10	0.10	0.10	-	-	0.13
%ch		-38%	8%	0%	0%	0%	-100%	0%	0%

Source: Company filings, OMS Research

Valuation

Peer Comparables						
Name	Mkt Cap (KES)	Last Px (KES)	P/E	ROE	Dvd 12M Yld	P/B
Centum Investment Co Ltd	5,642.95	8.48	-	(2.57)	6.99	0.12
Salam International Investment	28,576.45	25.00	20.10	3.03	-	0.55
African Equity Empowerment	2,759.64	5.62	-	(5.55)	12.05	0.15
Al-Omaniya Financial Service	13,794.93	47.25	16.58	4.22	4.70	0.70
Mivtach Shamir Holdings Ltd	27,905.27	2,922.75	5.58	12.77	3.57	0.68
Nawi Brothers Ltd	29,809.37	910.75	6.62	19.41	8.94	1.31
Transnational Corp of Nigeria	11,958.63	0.29	2.01	19.29	1.87	0.41
Ibi Investment House Ltd	42,354.43	3,345.45	14.32	14.93	3.00	2.10
Aljarah Holding Company Qps	14,094.26	28.48	42.98	1.48	-	0.64
Nile City Investment	-	-	-	(2.24)	-	-
Intl Company For Leasing	5,048.34	252.42	8.20	15.82	3.05	1.18
Oman Orix Leasing Co.	-	-	-	13.47	-	-
National Finance Co	20,021.10	37.17	8.04	8.77	6.90	0.70
Average	18,360.49	689.42	13.83	7.91	5.67	0.71

Source: Bloomberg, OMS Research

Net Asset Value & P/B Valuation

Total Asset Value	1,893,568,596
shares	58,984,973
Implied price	KES 32.10

Price to Book valuation:	
NAV per share	KES 34.88
average peer P/B multiple	0.71x
Implied price	KES 24.82

Methodology	Price
Net Asset Value	KES 32.10
P/B	KES 24.82
Average Price	KES 28.46



Summary financials

INCOME STATEMENT	2017A	2018A	2019A	2020A	2021A	2022A
Revenue	76,106	100,871	71,117	57,178	51,444	99,118
Cost of sales	(22,325)	(23,706)	(26,719)	(22,864)	(21,192)	(18,447)
Gross Profit	53,780	77,164	44,398	34,314	30,252	80,671
Other Expenses	(5,922)	(4,852)	(5,284)	(3,870)	(795)	(2,016)
Depreciation & Amortisation	(155)	(163)	(153)	(169)	(152)	(188)
Operating Income	47,704	72,150	38,961	30,275	29,305	78,466
Other Operating Income	-	-	-	-	-	-
Operating Profit/EBIT	47,704	72,150	38,961	30,275	29,305	78,466
Finance Income/Interest Income	-	-	-	-	-	-
Finance costs/Interest expense	(10,619)	(8,645)	(7,130)	(5,650)	(5,443)	(5,810)
Profit Before Tax	37,085	63,504	31,830	24,625	23,862	72,656
Income Tax	(13,469)	(19,835)	(12,967)	(8,175)	(6,781)	(21,986)
Profit for the year	23,616	43,669	18,863	16,450	17,080	50,670
Non-controlling interest (-)	-	-	-	-	-	-
Profit attributable to equity holders	23,616	43,669	18,863	16,450	17,080	50,670
Basic shares outstanding	57,037	58,033	58,154	58,403	58,694	58,985
Basic EPS	KES 0.41	KES 0.75	KES 0.32	KES 0.28	KES 0.29	KES 0.86

Source: Company filings, OMS Research

Growth rates & margins	2017A	2018A	2019A	2020A	2021A	2022A
Gross margin	70.7%	76.5%	62.4%	60.0%	58.8%	81.4%
Revenue Growth	110.7%	32.5%	-29.5%	-19.6%	-10.0%	92.7%
Other Expenses Growth	81.2%	-18.1%	8.9%	-26.8%	-79.5%	153.6%
EBITDA margin	62.9%	71.7%	55.0%	53.2%	57.3%	79.4%
EBIT margin	62.7%	71.5%	54.8%	52.9%	57.0%	79.2%
Tax rate	36.3%	31.2%	40.7%	33.2%	28.4%	30.3%

Source: Company filings, OMS Research



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Strong Buy: FV more than 30% above CSP
Buy: FV between 20% and 30% above CSP
Accumulate: FV between 10% and 20% above CSP
Hold: FV between -10% and 10% around CSP
Lighten: FV between 10% and 20% below CSP
Sell: FV more than 20% below CSP

