KESTREL CAPITAL

Kenya Investment Outlook – 2025

January 2025

Kenya Investment Outlook

A year of positive equity and fixed income returns, defying weak economic growth

EQUITIES: We expect the NASI to reach 172.70 by the end of 2025 – a 39.9% return. Earnings performance, attractive dividend yield and gradual return of foreign investor demand will be primary catalysts. We see macro-economic shocks, higher taxes and low equity market liquidity as key risks.

FIXED INCOME: We expect Monetary Policy to be skewed towards FX stability, hence limiting rapid easing in line with low inflationary and GDP expectations. Investors should therefore lean more towards Medium-term duration, with measured long-term duration allocation due to potential food inflationary pressure in line with expected below average rainfall.

2024 Re-cap

Kenya Investment Outlook

Expectation	Outcome
GDP: 4.8% - 5.2% ▪ Subdued private sector consumption amidst inflationary pressure & higher taxes. ▪ Modest government consumption growth in line with targeted fiscal consolidation & growing debt servicing obligation. ▪ Tight bank lending standards and high lending rates to limit private sector credit growth – negatively impacting both consumption & capital formation. ▪ Stable agricultural output and services sector performance to positively impact growth.	**3Q24 GDP growth of 4.5%, down from 5.7% in 3Q24** ▪ Growth largely driven by higher agricultural output, improved trade balance and steady inflation. ▪ Subdued consumer demand & limited government spending slowed economic growth.
Interest rates: CBR: 11.5% - 14.0%; 10-year government yield: 15% - 17% ▪ Hawkish monetary policy to persist amidst weak KES and inflation resurgence risk. ▪ Refinancing pressure & increased domestic borrowing to sustain elevated yields, but investor risk-off sentiment will moderate the increase. ▪ Peer countries' yields remain above 15-year average, amidst continued tight policy.	**CBR at 11.25% & 10-year yield at 13.60%** ▪ 175bps cut from 2024's peak. Cuts supported by below target inflation, stable currency and GDP slowdown. ▪ Rapid decline in yields from late Q3 in line with policy easing, foreign debt uptake and continued KES liquidity injection.

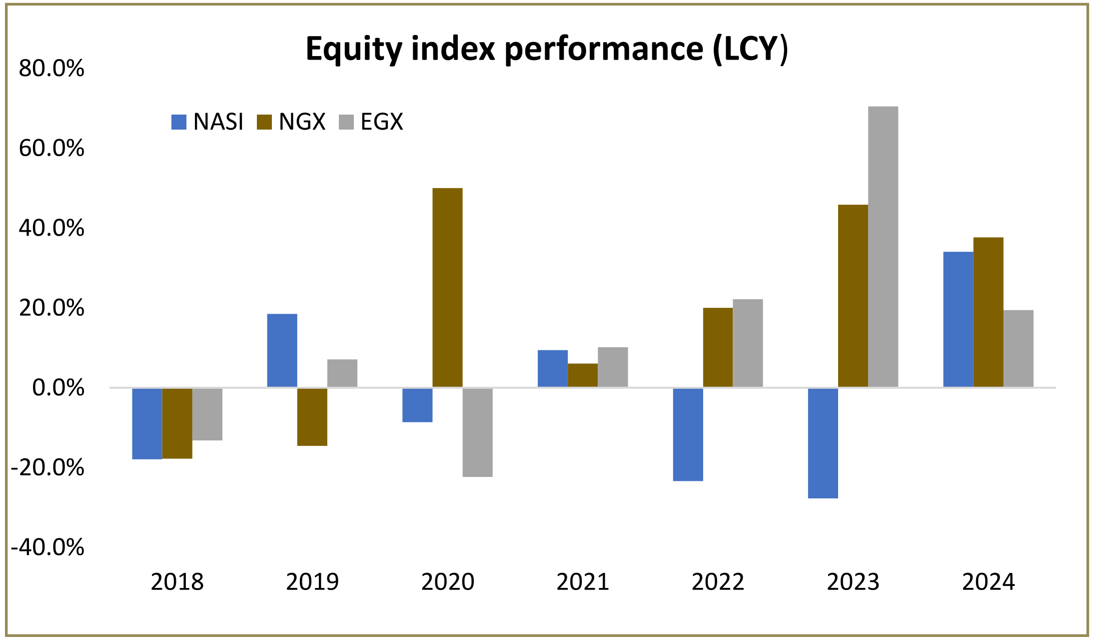
Kenya Investment Outlook

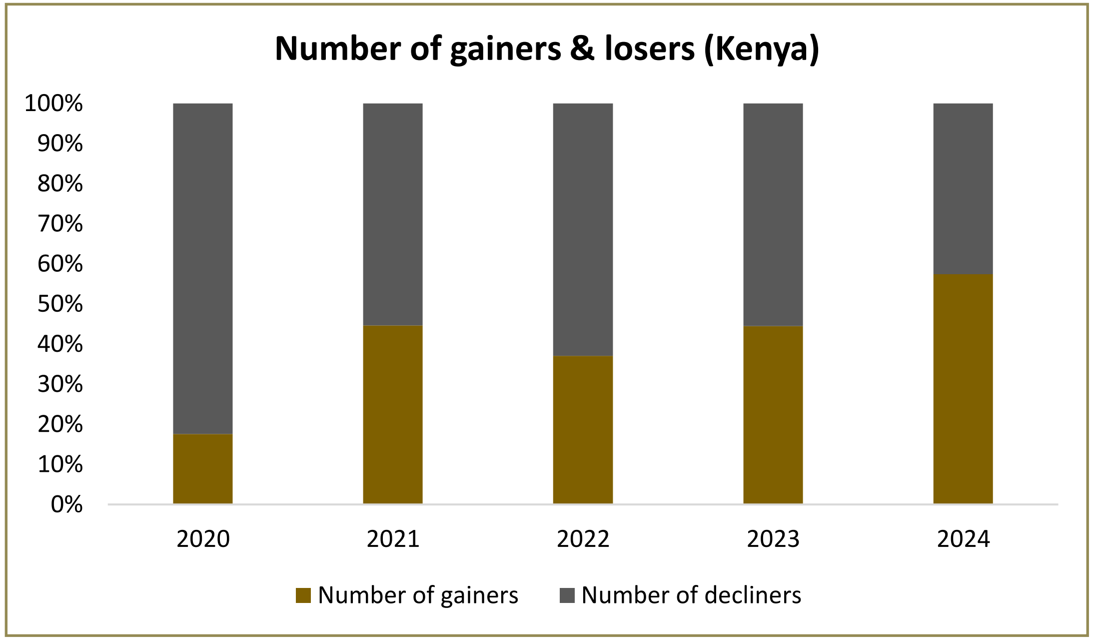
Expectation	Outcome
Currency: 10% - 12% depreciation against USD ▪ Supply-demand imbalance to persist on increased foreign debt servicing and modest narrowing of the trade account. ▪ Low FX reserves to add to supply-demand imbalance and hoarding of hard currencies. ▪ Policy led widening of real interest rates to offer some relief, but investor risk appetite must also turn.	**KES appreciated 22.1% against the USD** ▪ KES appreciated following the early refinancing of 2024 Eurobond in February. ▪ Improved foreign currency reserves (4.7x months cover in December from a low of 3.5x in 2023) – additional foreign currency loans and lower current account deficit. ▪ Tighter monetary policy targeting wider real interest rates.
Inflation: Headline 6.0%-8.0%; Core 3.0%-3.5% ▪ FX weakness, scaling back of subsidies & excise tax increases on goods & services to sustain elevated headline inflation. ▪ Core inflation to flatten amidst easing consumer demand & tight bank lending standards.	**Headline inflation at 3.0% in Dec '24; core inflation 3.2% in November** ▪ Low food inflation amidst increased food output & declining electricity and fuel prices. ▪ Core inflation declined on account of lower consumer demand – tight wallets & low market liquidity.

Kenya Investment Outlook

Expectation	Outcome
NSE return: NASI 16.8% gain. ▪ Weak macro-economic environment, elevated interest rates and reduced equity market liquidity to continue weighing on equity prices. ▪ Earnings performance, attractive dividend yields and a slow-down in KES' depreciation to drive positive equity returns.	**NASI gained 34.1%** ▪ Earnings performance remained positive and dividend yields high. ▪ Foreign net outflows slowed and local pension funds stepped in as net buyers.

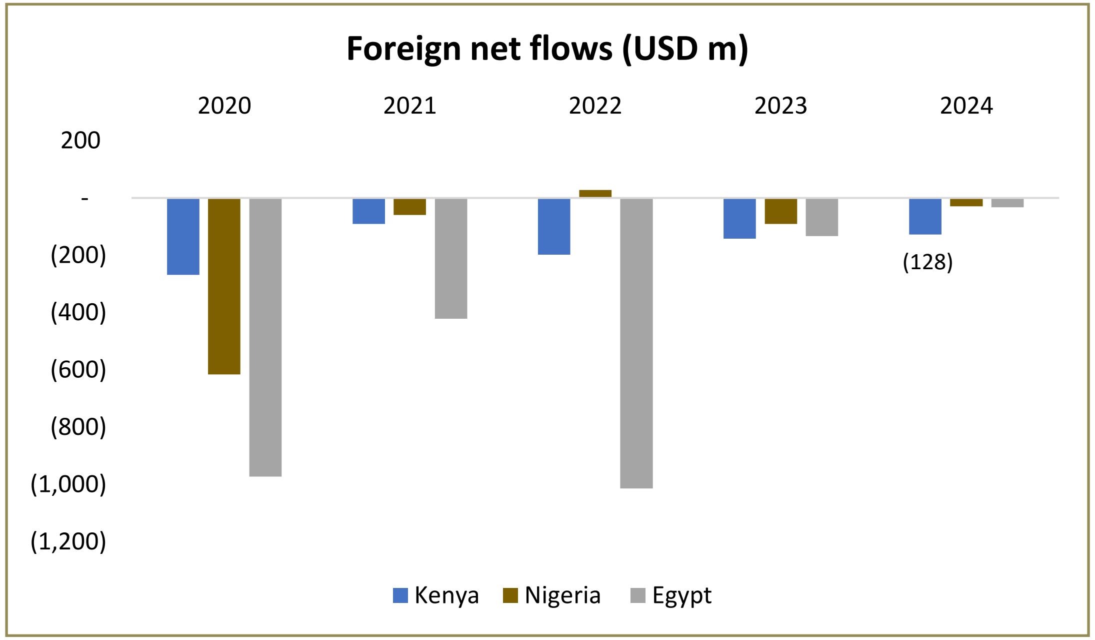
Kenya Investment Outlook

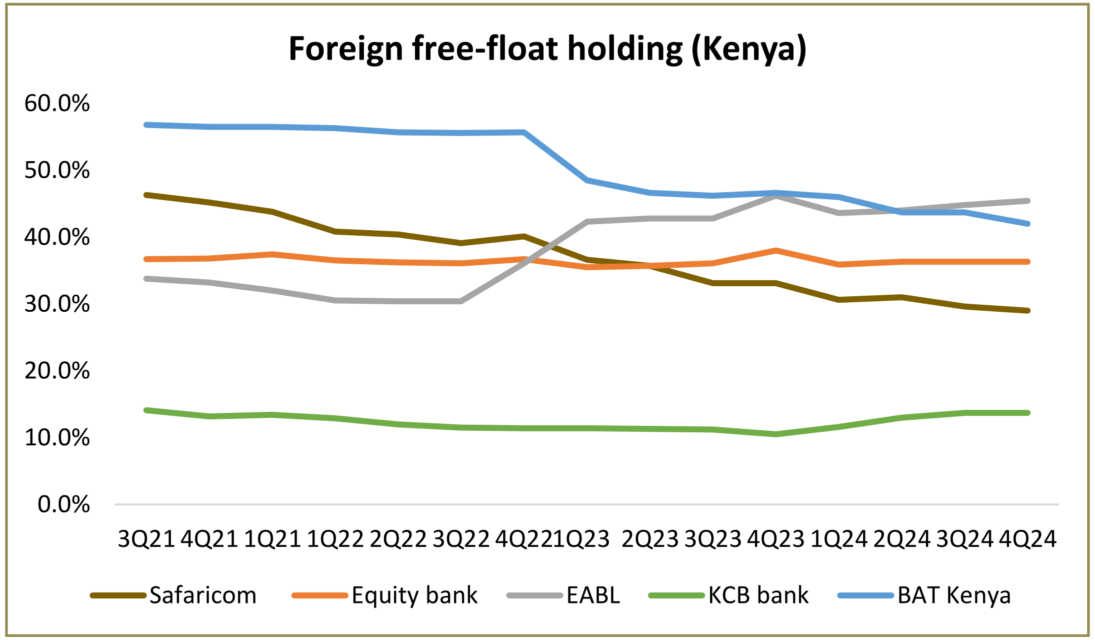




- Breaking its two straight years of underperformance, in 2024 the NASI gained 34.1%. The gain was broad based with 54% of equities ending the year higher. The top 5 gainers were up by an average 195% while the top 5 decliners were down by an average -29.2%.
- Mid-caps led the rally amidst continued thin liquidity across the large-caps. KCB was the best performing large-cap, gaining 90% (the bulk of the gains were booked following the announcement of the bank's planned sale of its undercapitalized subsidiary National Bank).
- 2024, witnessed 2 notable corporate actions, on I&M Holdings and Bamburi Cement, both at considerable premiums. Both corporate actions triggered investor speculation of other possible transactions.

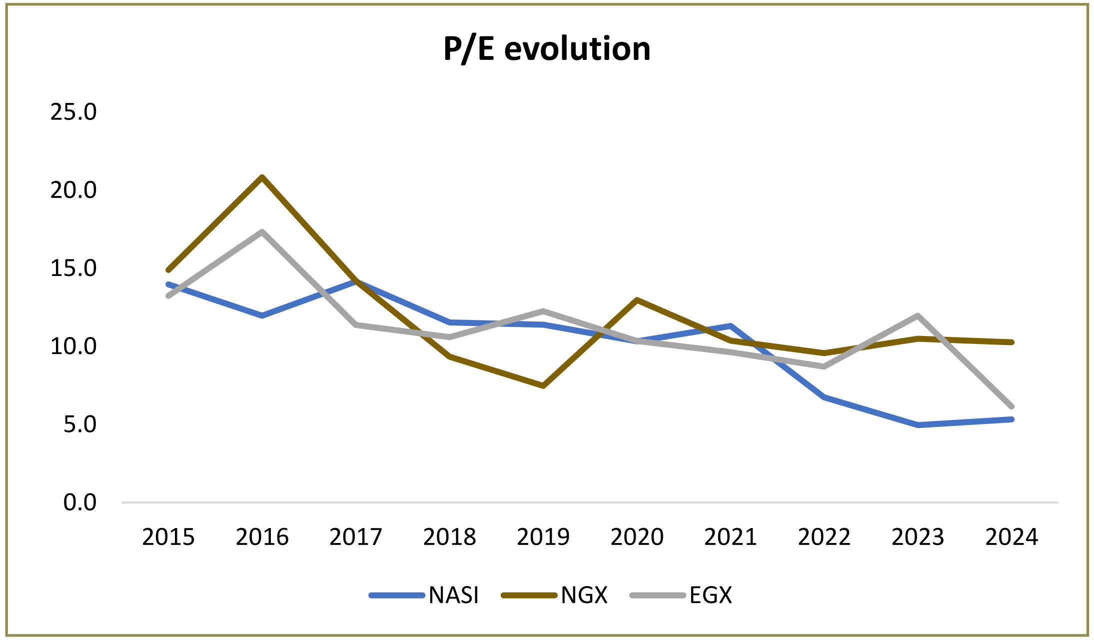
Kenya Investment Outlook

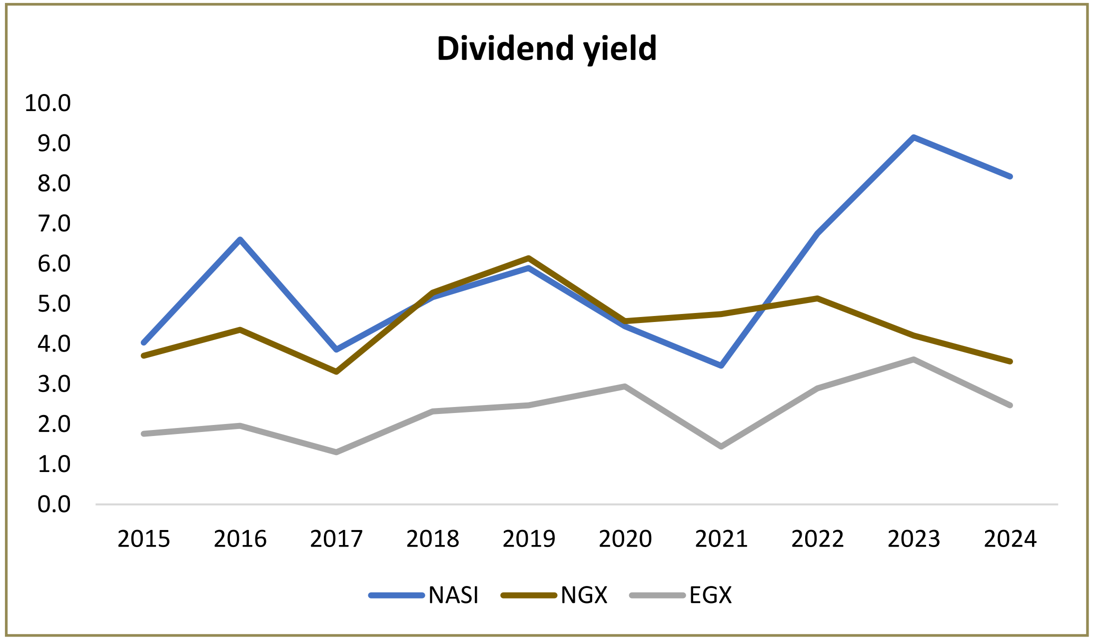




- Foreign investors remained net sellers across all markets. Adjusting for Bamburi Cement's corporate action, Kenya's foreign net out-flow stood at USD 21m, the lowest amongst the 3 countries.
- Most notable, albeit at only USD 1.3m, Safaricom registered the highest foreign net inflow, reversing 4 consecutive years of foreign net out-flows. As at the end of 2024, Safaricom's foreign free-float holding stood at 29%, down from 46.3% in 2021.
- Across the 4 investor categories, local institutional investors were the only net buyers. As at the end of 2024, we estimate local pension funds' equity allocation stood at 10.0% (vs. historical avg. of 20.8%) , leaving adequate room for further purchases as interest rates ease.

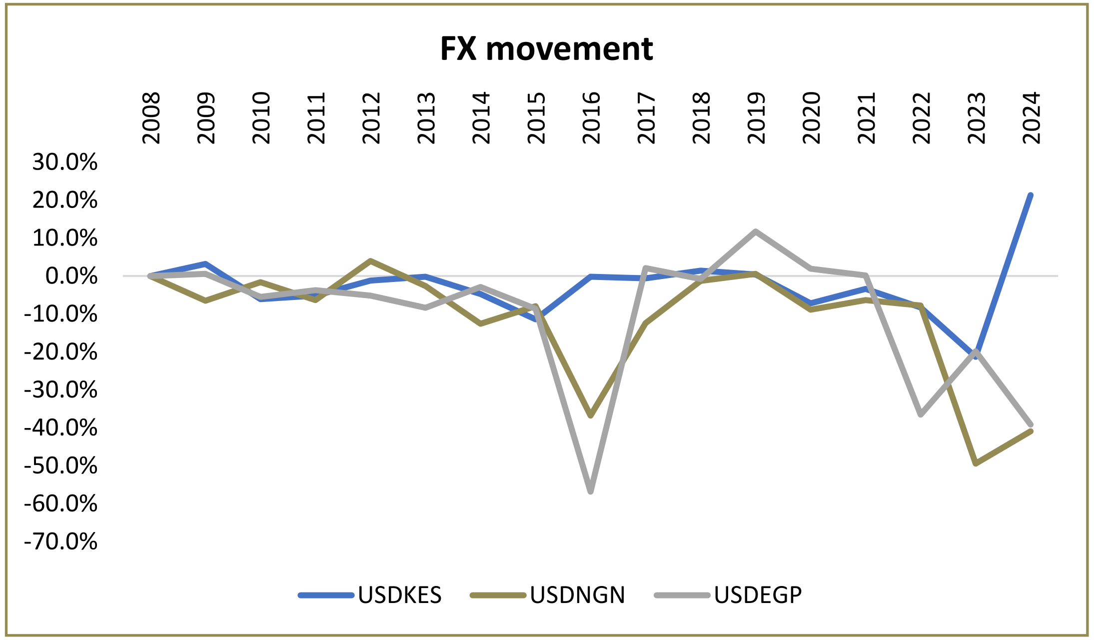
Kenya Investment Outlook

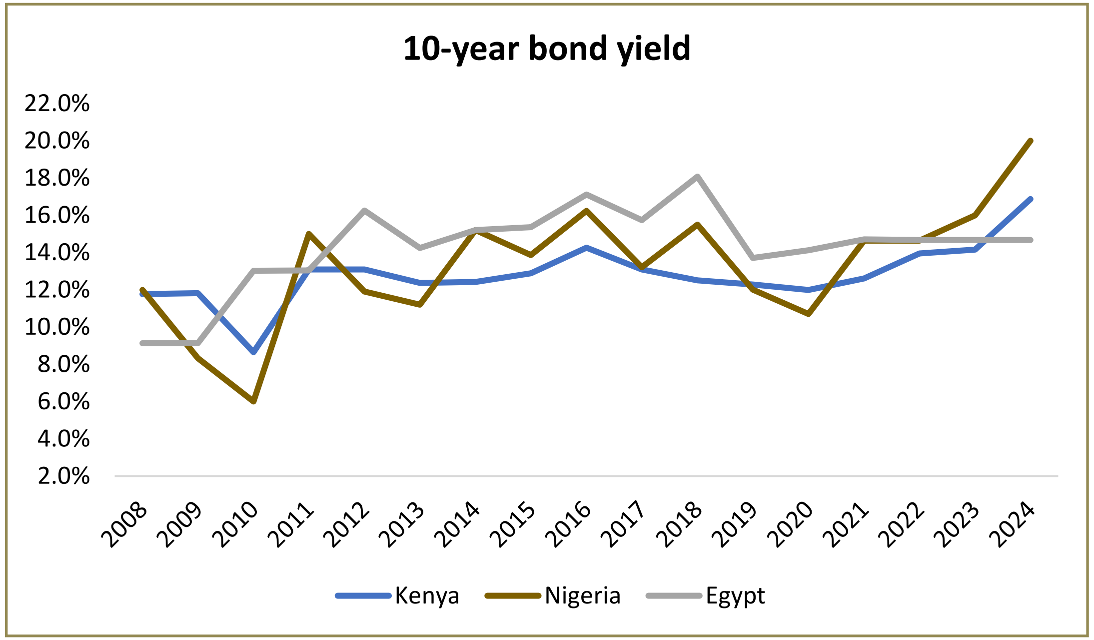




- Despite of the high double-digit equity returns, PE ratios remained below historical levels – we believe this is supportive of positive equity returns over the medium term.
- What will it take for PE multiples to re-rate across SSA? Investors adjusting their earnings growth expectations to match continued earnings over-performance and sustained decline in domestic interest rates to trigger reallocation of local capital. With foreign investor holdings at multi-year lows, a turn in foreign investor sentiment will drive PE re-rating, amidst limited de-rating risk.
- Kenya's PE ratio remained the lowest depicting increased market-cap concentration amongst low PE banking stocks. Kenya's dividend yield remains attractive, and as witnessed in the last 3 years, we expect 1H25 equity prices to be led by dividend chasing investors.

Kenya Investment Outlook





- FX volatility persisted across the markets; the Naira & Egyptian Pound devalued further pushing the 5-year cumulative devaluation to 72% and 69%, respectively. Both countries' inflation accelerated further, but monetary policy intervention was limited given the already high policy rates, +27% for both.
- Supported by the successful refinancing of the 2024 Eurobond in 1Q24, the KES balked the trend by gaining 21%y/y. In 2H24, the KES remained stable mostly supported by increased FX reserves – import cover improved to 4.7x from a low of 3.5x in 2023.
- 10-year government bond yields remained elevated, amidst tight monetary policy. Kenya's yields receded in 4Q24, following 175bps cut in the policy rate. Yield contraction accelerated in December amidst high market liquidity and the Central Bank capping primary auction rates.

2025 Macro & Investment Outlook

Kenya Investment Outlook

Expectation	Rating	Summary
GDP: 4.5% - 4.8%	**Negative**	○ Weak private sector sentiment amidst high cost of doing business & rising taxes. ○ Modest government consumption growth in line with targeted fiscal consolidation & growing debt servicing obligation. ○ Tight bank lending standards and high lending rates to limit private sector credit growth – negatively impacting both consumption & capital formation. ○ Uncertain business policy environment limiting long-term investments.
Interest rates: CBR: 10.5% - 12.5%; 10-year government yield: 13% - 15%	**Neutral**	○ Safeguarding against FX depreciation and expected below average rainfall to steer policy rate decisions. ○ Yields to ease further, but remain above historical average of 12.5%, in line with policy easing, balanced supply & demand and inflationary expectations.
Currency: 128 – 135 range against USD;	**Neutral**	○ Improved supply-demand on low trade account deficit - deficit could break-out if agricultural output impairs exports performance. ○ Improved FX reserves to moderate supply-demand imbalance and hoarding of hard currencies. ○ Above historical positive real interest rates as US interest rates decline, but CBK remains defensive.
Inflation: Headline 4.5%-5.5%; Core 3.0%-3.5%	**Positive**	○ Inflation to remain below historical average on account of weak economic activity. Expected break-out in food inflation amidst low agricultural output. ○ Core inflation to remain range bound amidst weak consumer demand & tight bank lending standards.

Kenya Investment Outlook

EQUITIES: We expect the NASI to reach 172.70 by the end of 2025 – a 39.9% price return. Earnings performance, attractive dividend yields and gradual return of foreign investor demand will be the primary catalysts. We see macro-economic shocks, higher taxes and low equity market liquidity as key risks.

FIXED INCOME: We expect Monetary Policy to be skewed towards FX stability, hence limiting rapid easing in line with low inflationary and GDP expectations. Investors should therefore lean more towards Medium term duration, with long term duration allocation guided by inflationary pathway in light of expected rain shortfall.

Positives	Negatives
Dividend yield: attractive double-digit yields	**Liquidity:** equity market liquidity to remain low
NSE PE rating: PE ratio remains below historical levels amidst positive earnings momentum	**Market concentration:** limited investment options as large-caps continue to dominate
Equities allocation: gradual return of net foreign inflows as total equity return outweighs currency depreciation	**Regulatory risk:** higher taxes & uncertain policies, to dampen earnings and new investments
Medium-term bond yields: to continue offering investors adequate return with minimal duration risk	**Shift in inflation expectations:** possible break-out in food and fuel inflation

Kenya Investment Outlook

FY24 Earnings Expectations

Company	FY24 EPS forecast growth	y/y EPS growth	FY24 Revised EPS growth
Safaricom*	17.1%	-17.8%	8.7%
Equity Bank	7.3%	13.5%	14.5%
KCB Bank	3.3%	48.9%	52.0%
EABL*	3.3%	N/A	77.2%
Co-op Bank	21.2%	4.4%	0.4%
ABSA Bank	-4.8%	19.4%	1.9%
StanChart Bank	32.5%	63.5%	50.1%
NCBA Bank	-3.4%	3.0%	-20.9%
I&M Bank	-5.3%	17.9%	22.5%
Stanbic Bank	0.2%	9.3%	-12.5%
DTB Bank	32.2%	8.4%	24.0%
BAT Kenya	18.4%	-24.3%	1.8%

FY24 EPS forecast *growth as at Jan 2024*
y/y EPS growth*, based on last reported results (3Q for banks & 1H for non-banks)*
FY24 Revised *EPS growth*
**Forecast period is FY25*
**N/A; EABL yet to announce 1H25*

Forecast earnings reflection:

- **Telcom sector:** sustained revenue growth and stable margins in Kenya. Higher than expected losses from Ethiopia.
- **Banking sector:** stable net interest margins and operational efficiencies to drive earnings. Elevated credit risk to result in higher cost of risk.
- **Brewery sector:** NSV growth from improved pricing and volume performance across subsidiaries. Input cost inflation weighed on the bottom-line.
- **Tobacco industry:** Pricing increases to boost top-line, and operational efficiencies to benefit EBITDA margins. Illicit cigarette trades to weigh on volumes, and abandonment of nicotine pouch production to derail product diversification.

Kenya Investment Outlook

We expect NASI to gain 39.9% in FY25 – largely buoyed by PE re-rating

Company	FY24 Market-cap Weight	FY25 EPS forecast Growth	FY25 EPS weighted Growth
Safaricom*	35.2%	8.7%	3.1%
Equity Bank	9.4%	19.9%	1.9%
EABL*	7.2%	77.2%	5.5%
KCB Bank	6.9%	3.8%	0.3%
Co-op Bank	5.0%	17.9%	0.9%
NCBA Bank	4.1%	-14.4%	-0.6%
ABSA Bank	5.1%	3.3%	0.2%
StanChart Bank	5.4%	-15.0%	0.8%
Stanbic Bank	2.8%	-3.9%	-0.1%
BAT Kenya	1.9%	8.1%	0.2%
I&M Bank	3.1%	-0.2%	0.0%
DTB Bank	1.0%	-8.0%	-0.1%
Total	**87.1%**		**10.3%**
Remaining market	**12.9%**	**0.0%**	**0.0%**
Total	**100.0%**		**9.0%**
Market-cap weighted EPS growth FY25			9.0%
Market PE re-rating estimate FY25			28.3%
NASI return FY25 forecast			39.9%
NASI as at 31 Dec 2025			**172.70**

**Forecast period is FY25*

NASI FY25 Justified PE estimate

	NASI
2025 Justified PE	**6.82**
2025 expected payout	45.0%
Equity risk premium	3.5%
2025 10-year bond yield	14.5%
Expected medium-term dividend growth*	11.4%

**5 year holding period estimate – 7.2% annual EPS growth & increase of payout to 55% from 45%*

NASI FY25 Expected total return

	NASI
Annual index return	39.9%
Dividend yield	9.2%
Total equity return in LCY	49.1%
USD/local currency change	0.0%
USD total equity return	49.1%

Company Valuations & Outlook

Kenya Investment Outlook

Company	Old Fair Value (KES)	Fair Value (KES)	Closing Price (KES)	Upside/downside	Current Rating	2024 return
Safaricom	31.11	33.27	17.80	86.9%	**BUY**	22.7%
Equity Bank	43.67	54.37	47.60	14.2%	**HOLD**	43.5%
KCB Bank	47.26	74.22	42.80	73.4%	**BUY**	90.0%
Co-op Bank	20.46	18.33	17.80	3.0%	**HOLD**	44.3%
ABSA Bank	12.89	11.52	18.80	-38.7%	**SELL**	57.6%
StanChart Bank	138.26	245.66	302.50	-18.8%	**SELL**	72.7%
NCBA Bank	40.68	40.63	49.25	-17.5%	**SELL**	23.7%
I&M Bank	33.32	38.37	35.40	8.4%	**HOLD**	107.1%
Stanbic Bank	108.85	118.55	156.00	-24.0%	**SELL**	26.2%
DTB Bank	116.13	109.36	68.50	59.7%	**BUY**	53.2%
EABL	151.28	341.24	179.50	90.1%	**BUY**	-53.9%
BAT Kenya	460.00	411.34	374.50	9.8%	**HOLD**	-7.7%

Closing prices as of 8th January 2025
BUY Rating = FV 15% higher than market price; SELL Rating = FV 15% below market price
HOLD = FV within +15% & -15% of market price

Kenya Investment Outlook

Multiples continue to remain closer to the lower bound

Company	10-year multiple range	Expected FY24 multiple	Exit multiple	Multiple based on our FV
Safaricom*	5.1 - 11.0	5.0	7.5	9.6
Equity Bank	1.0 - 2.9	0.8	0.7	0.9
KCB Bank	0.7 - 2.3	0.5	0.8	0.5
EABL*	4.5 - 16.3	5.9	8.8	6.0
Co-op Bank	0.7 - 2.3	0.6	0.7	0.6
ABSA Bank	1.1 - 3.0	1.2	0.8	1.2
StanChart Bank	0.8 - 2.6	1.7	0.9	3.1
NCBA Bank	0.3 - 1.9	0.7	0.6	0.6
I&M Bank	0.4 - 2.1	0.5	0.6	0.4
Stanbic Bank	0.6 - 1.3	0.9	0.7	0.8
DTB Bank	0.2 - 2.0	0.2	0.4	0.1
BAT Kenya	4.1 - 13.1	3.8	6.3	4.7

Expected FY24 multiple – current price vs. expected FY24 results
Multiple based on our fair value – FV vs. expected FY24 results
**Safaricom & EABL based on FY25*
Price to book for banks & EV/EBITDA for non-banks

Kenya Investment Outlook

SAFARICOM: BUY (86.9% Upside)

Key Positives	Key Negatives
• Following better than expected 1H25 performance, management revised Kenya's EBIT guidance upwards for the second year in a row. Revision is based on expectation of resilient voice and SMS revenue and continued double digit growth in M-Pesa and data revenues. • Safaricom Kenya is operating at peak EBITDA margins and delivering above historical dividend yield. With Safaricom's premium pricing across its offerings having narrowed, we believe it can sustain the prevailing high margins. • Focus on fiber-to-home and business, remains a key growth area with increase in usage per chargeable data subscriber more than making up for decline in average rate per MB.	• Our Safaricom Telecommunication Ethiopia (STE) forecasts do not capture likely margin erosion tied to the devaluation of the Ethiopian currency at the end of August. • STE's business has continued to disappoint on revenue growth – mostly tied to slow customer acquisition. We have cut our long-term revenue forecasts, and we now expect STE to break-even at EBITDA level in 1H28 and not in 1H27. • Over the long-term, owing to already comparatively lower ARPUs, Ethiopia will weigh on Group margins – management is however optimistic that the recent price hikes by Ethiotel the market leader (an average of 25% across offerings in response to the devaluation of the Birr) might be the beginning of further price adjustments.

Kenya Investment Outlook

SAFARICOM: BUY (86.9% Upside)

Summary financials (Kenya only)

KES (bn)	FY22	FY23	FY24	FY25F	FY26F	FY27F
Revenue	298	309	342	375	395	416
y/y % ch	*13*	*3.7*	*10.7*	*9.5*	*5.4*	*5.5*
EPS (KES)	1.84	1.85	2.12	2.46	2.64	2.82
y/y % ch	*7.1*	*0.7*	*4.1*	*16.4*	*7.4*	*6.7*

Group EPS

KES (bn)	FY24A	FY25F	% ch
Kenya net profit	84.7	98.6	16.4%
Ethiopia net profit	(42.1)	(58.3)	38.7%
Group net profit	**42.7**	**40.3**	**-5.6%**
Minority interest	(20.3)	(28.2)	38.7%
Attributable profit	63.0	68.5	8.7%
EPS (KES)	1.57	1.71	8.7%

Ethiopia income statement

KES (bn)	FY24A	FY25F
Total Revenue	7.39	11.88
EBITDA	(23.68)	(27.97)
D&A expense	(35.90)	(45.47)
EBIT	(59.58)	(73.44)
Net finance income (cost)	(4.86)	(9.91)
Monetary gain	22.36	-
Taxation	0.00	25.00
Net profit/(loss)	**(42.08)**	**(58.34)**

Forecast vs. Mngt. guidance

KES (bn)	FY25F	Guidance	Variance
EBIT (Kenya)	150.6	155-158	-3.8%
EBIT (STE)	-73.4	(58)-(61)	23.4%
EBIT (Group)	77.1	103-109	-20.5%

Kenya Investment Outlook

SAFARICOM: BUY (86.9% Upside)

Kenya business valuation

KES (bn)	
Sum PV FCF	257.9
PV Terminal value	1,112.0
Add: cash	19.1
Less: Debt	77.7
Equity value	**1,311.3**
Outstanding shares	40.1
Per share value (KES)	**32.73**

Safaricom PLC valuation

KES (bn)	
Kenya business value per share (KES)	32.73
Ethiopia business value per share (KES)	0.54
Safaricom PLC value per share (KES)	**33.27**

Ethiopia business valuation

KES (bn)	
Revenue FY30	54.49
EBITDA Margin (mngt. Guidance)	29%
EBITDA	15.80
Net profit margin	18%
PAT	9.81
PE - SSA Telecom's (avg)	11.18
Terminal value	**109.67**
Discount rate	20%
PV of terminal value	**41.84**
Safaricom holding	51.67%
Equity value attributable to Safaricom	**21.62**
Addition to Safaricom FV per share (KES)	**0.54**

Kenya Investment Outlook

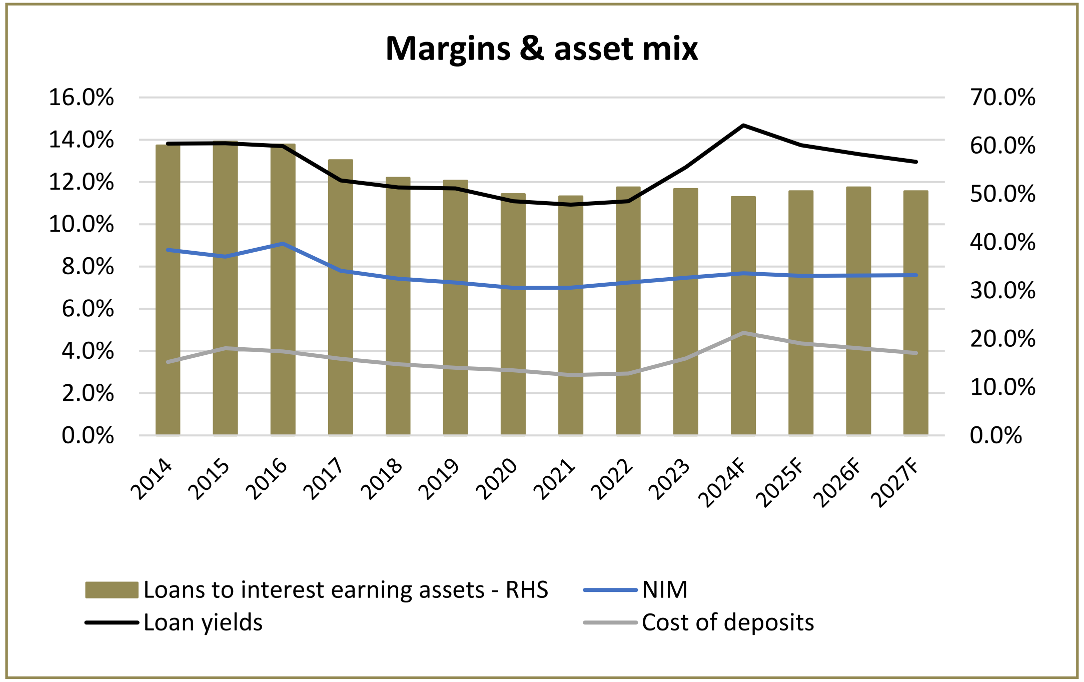
Kenya Banks: Stable NIMs & Operational Efficiencies

Parameter	FY24 Outlook	FY25 Outlook	FY25 View
NIMs	❑ Industry NIMs of 7.7%, 20bps higher than FY23 levels o ABSA, highest NIMs; Stanbic, lowest	❑ Industry NIMs of 7.6%, 10bps higher than FY24 levels o ABSA highest NIMs; Stanbic, lowest	o Banks to benefit from higher loan yields from risk-based pricing & better GSEK yields
NFI Mix	❑ Industry NFI of 32.5%, 40bps higher than FY23 levels o NCBA , highest ; ABSA, lowest	❑ Industry NFI of 31.3%, 120bps lower than FY24 levels o NCBA , highest ; ABSA, lowest	o Moderation in FX income and reduced loan origination fees from subdued lending
CTI	❑ Industry CTI of 45.5%, 120bps lower than FY23 levels o Equity, highest ; StanChart, lowest	❑ Industry CTI of 47.2%, 170bps higher than FY24 levels o DTB , highest ; StanChart, lowest	o Continued IT investments, scaling investments in subsidiaries & new business lines & compliance costs
Cost of Risk	❑ Industry cost of risk of 2.3%, 20bps lower than FY23 numbers o ABSA, highest CoR; Co-op, lowest CoR	❑ Industry cost of risk of 1.9%, 40bps lower than FY24 numbers o NCBA, highest CoR; StanChart lowest CoR	o Heightened credit risk requires banks to maintain decent levels of coverage
NPL ratio	❑ Industry NPL ratio of 14.1%, 210bps higher than FY23 levels o KCB , highest ; Stanbic, lowest	❑ Industry NPL ratio of 13.3%, 80bps lower than FY24 levels o KCB , highest ; Stanbic, lowest	o Elevated NPLs due to subdued demand, weak business environments & government pending bills
EPS Growth	❑ Industry EPS growth of 14.7% y/y, faster than the 12.8% growth in FY23 o KCB, fastest ; NCBA, slowest	❑ Industry EPS growth of 0.4% y/y, slower than the estimated 14.7% growth in FY24 o Equity, fastest ; StanChart, slowest	o Reduced loan growth amid stable NIMs, and deceleration in FX income
Net Loan growth	❑ Industry net loan growth of -3.9%, 24ppt slower than FY23 levels o Co-op, highest ; DTB, slowest	❑ Industry net loan growth of 8.5%, 12.4ppt faster than FY24 levels o Equity, highest ; ABSA, slowest	o Cautious lending owing to credit & macro risks – squeezed consumer spend & delayed CAPEX plans
Return on Equity	❑ Industry ROE of 19.0%, 70bps lower than FY23 levels o StanChart, highest ; DTB, lowest	❑ Industry ROE of 16.9%, 210bps lower than FY24 levels o StanChart, highest ; DTB, lowest	o Reduced total income growth & elevated cost of risk to weigh on ROE

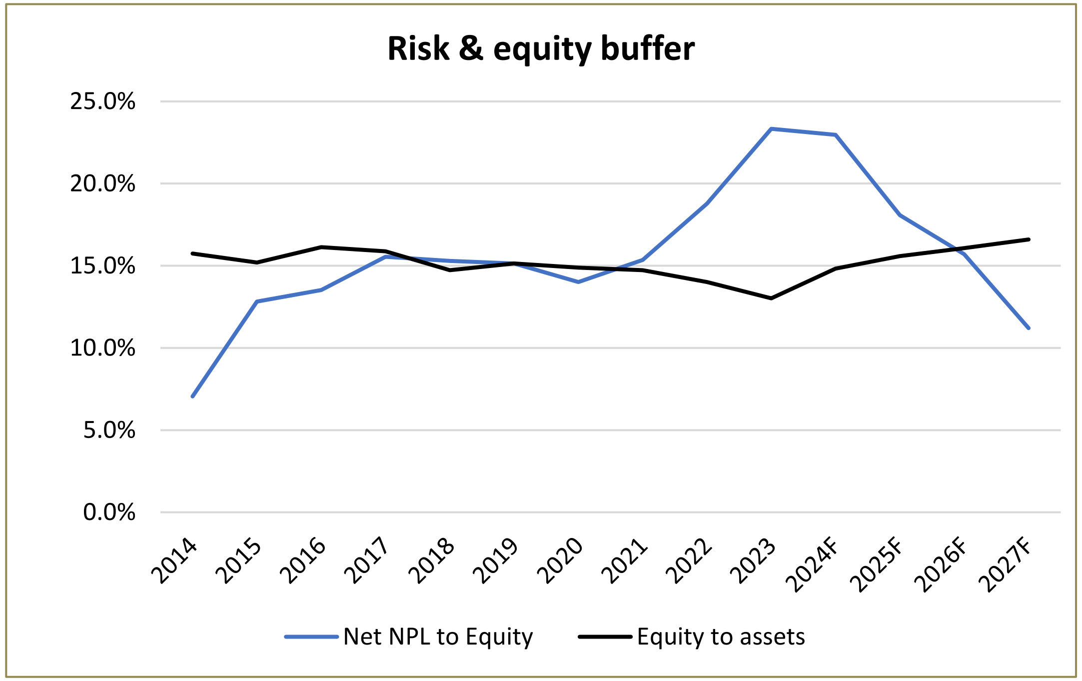
Kenya Investment Outlook

Kenya Banks – 8.1% Upside

Stable margins – higher asset yields amidst elevated cost of funds



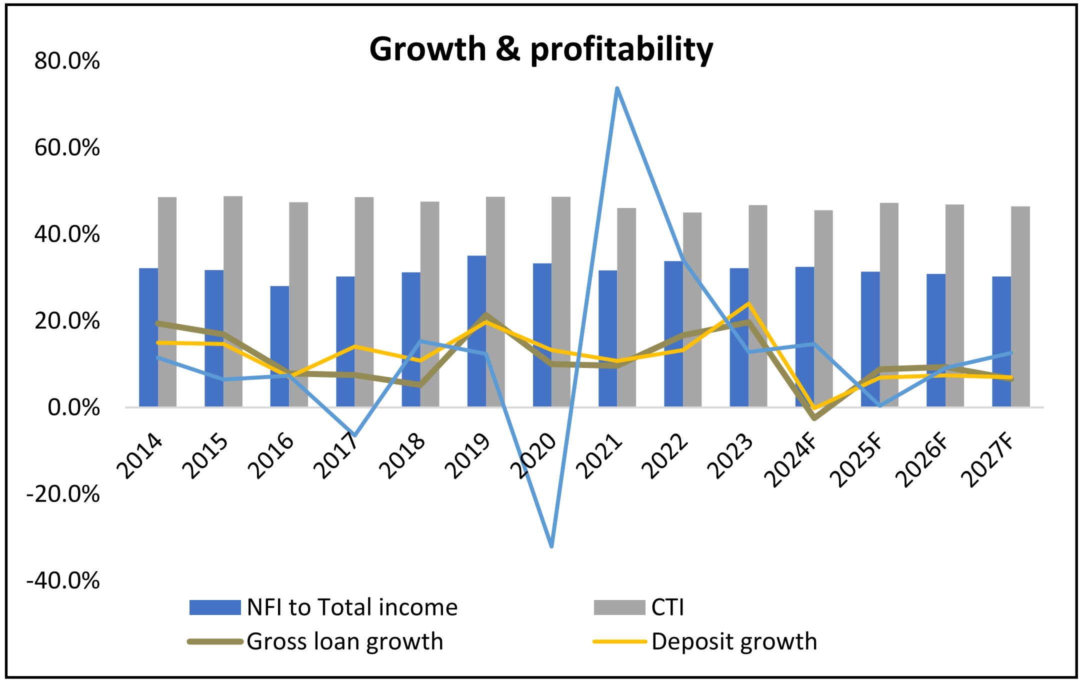
Shored-up capital to cushion against equity erosion & meet regulatory requirements



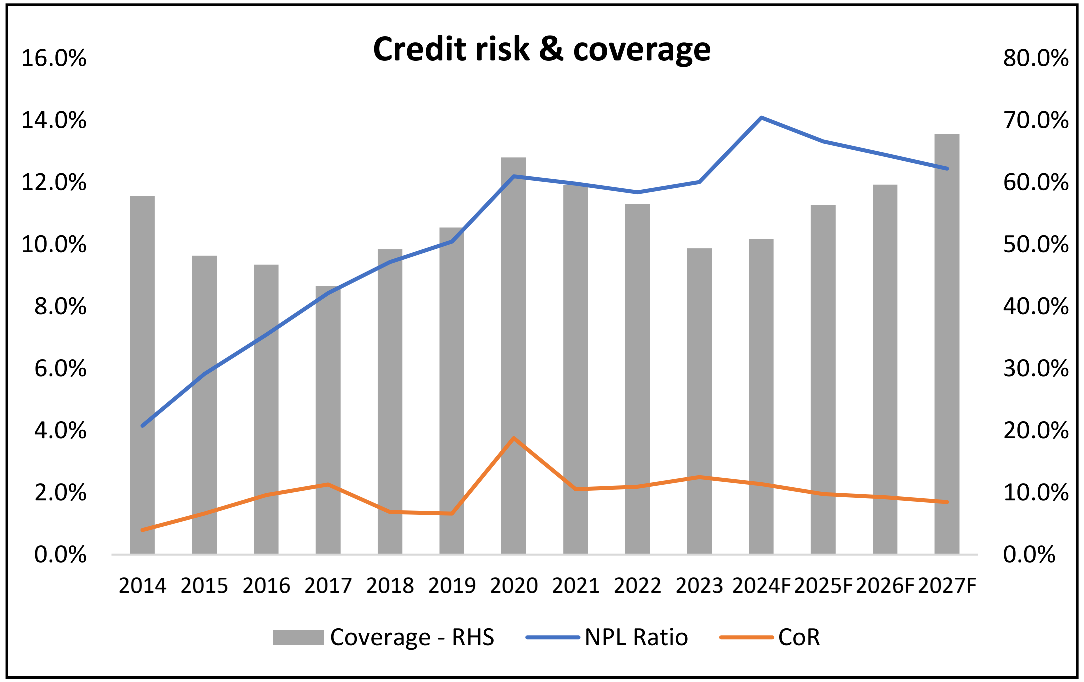
Kenya Investment Outlook

Kenya Banks – 8.1% Upside

Subdued loan growth & reduced fee to slow earnings growth in the short-medium term



High NPLs & heightened credit risk requires increased coverage



Kenya Investment Outlook

Kenya Banks – Potential P/B re-rating of 8.5%

	FY24 P/B (x)	EXIT P/B (x)	Re-Rating (%)	Mkt.cap weighted-Re-rating
Equity	0.8	0.7	-8.1%	-1.9%
KCB	0.5	0.8	68.5%	11.4%
Co-op	0.6	0.7	12.5%	1.4%
DTB	0.2	0.4	110.2%	2.4%
I&M	0.5	0.6	10.5%	0.7%
NIC	0.7	0.6	-20.6%	-2.0%
Stanbic	0.9	0.7	-16.9%	-1.1%
Barclays	1.2	0.8	-30.6%	-3.3%
StanChart	1.7	0.9	-49.2%	-6.3%
Average	**0.8**	**0.7**	**8.5%**	**1.2%**

Kenya Investment Outlook

Kenya Banks – EPS Growth

	FY22A	FY23A	FY24F	FY25F	FY26F	FY27F
Equity	15.3%	-13.3%	14.5%	19.9%	18.7%	13.0%
KCB	19.1%	-10.9%	52.0%	3.8%	8.9%	11.6%
Co-op	30.5%	5.5%	0.4%	17.9%	6.7%	6.2%
DTB	75.5%	5.5%	24.0%	-8.0%	10.5%	16.5%
I&M	37.7%	12.7%	22.5%	-0.2%	13.5%	15.0%
NIC	34.6%	54.8%	-20.9%	-14.4%	4.8%	30.4%
Stanbic	25.7%	34.2%	-12.5%	-3.9%	19.0%	11.0%
Barclays	34.2%	12.2%	1.9%	3.3%	6.2%	11.8%
StanChart	34.0%	14.9%	50.1%	-15.0%	-6.5%	-2.2%
Average	**34.1%**	**12.8%**	**14.7%**	**0.4%**	**9.1%**	**12.6%**

Kenya Investment Outlook

Kenya Banks – Return on Equity

	FY22A	FY23A	FY24F	FY25F	FY26F	FY27F
Equity	25.1%	21.0%	17.0%	17.7%	18.1%	17.7%
KCB	21.7%	16.7%	21.5%	19.0%	18.1%	17.7%
Co-op	21.2%	21.0%	18.5%	18.6%	17.6%	16.7%
DTB	8.9%	9.5%	10.5%	9.0%	9.2%	9.9%
I&M	14.9%	15.0%	15.7%	13.7%	13.9%	14.2%
NIC	17.3%	24.0%	16.7%	12.8%	12.1%	14.1%
Stanbic	18.1%	21.7%	17.6%	16.1%	17.7%	18.0%
Barclays	24.3%	24.7%	22.5%	20.4%	19.4%	19.5%
StanChart	22.1%	23.5%	31.3%	24.6%	22.3%	21.0%
Average	**19.3%**	**19.7%**	**19.0%**	**16.9%**	**16.5%**	**16.5%**

Kenya Investment Outlook

EABL: BUY (90.1% upside)

KES (bn)	FY22	FY23	FY24	FY25F	FY26F	FY27F
Net Revenue	109.4	109.6	124.1	131.2	146.5	156.1
y/y % ch	*27.2*	*0.2*	*13.2*	*5.7*	*11.7*	*6.6*
EPS (KES)	15.00	12.46	10.30	18.25	21.12	24.49
y/y % ch	*172.7*	*-16.9*	*-17.4*	*77.2*	*15.7*	*15.9*
DPS (KES)	11.00	5.50	7.00	12.41	14.36	16.64
Payout	73%	44%	68%	68%	68%	68%

Key Positives

- New excise duty calculations to result in prices increases in spirits, but price reduction in beers. Management guides 30%-40% price increases in spirits & 20% reduction in beers. Overall, we forecast Group NSV growth of 8% annually over our forecast – improved volume performance in beers, sustained volume growth in spirits along better pricing.
- Margin improvement on account of better pricing, easing input costs inflation, fixed costs absorption & productivity gains – average EBITDA margins of 29.5% vs. historical levels of 28.9%.
- Remitting of excise duty on the 5th of next month vs. prior 24 hrs requirement will reduce working capital needs. Coupled with declining interest rates, we expect lower finance costs in FY25 & FY26.
- Better shareholder returns. We forecast a higher average dividend yield of 7.7% compared to the historical levels of 3.6%, driven by improved cashflow generation.

Key Negatives

- While we may see improved volumes in beers, there could be downtrading in the spirits business, pressuring margins & legitimate alcohol beverage business.
- Consumer wallet remains constrained owing to new taxes & levies, and weak business environment.

Kenya Investment Outlook

BAT KENYA: HOLD (9.8% Upside)

KES (bn)	FY22	FY23	FY24F	FY25F	FY26F	FY27F
Net Revenue	27.4	25.6	25.7	27.2	27.3	27.0
y/y % ch	*7.7*	*-6.6*	*0.7*	*5.7*	*0.5*	*-1.1*
EPS (KES)	68.92	55.68	56.69	61.26	61.02	57.50
y/y % ch	*6.3*	*-19.2*	*1.8*	*8.1*	*-0.4*	*-5.8*
DPS (KES)	57.00	50.00	56.69	61.26	61.02	57.50
Payout	83%	90%	100%	100%	100%	100%

Key Positives

- Price increments in 2H24 (July '24) to largely benefit revenues in FY24 and FY25 – we estimate average price increments of 16.3% and 12.7%, respectively.
- Pricing benefits and operational efficiencies to hold up EBITDA margins, despite volumes underperformance – forecast average EBITDA margins of 32.6% to match historical levels of 32.5%.
- We foresee BAT gaining market share from competitors on the value segment on account of standardisation of excise duty on filtered and unfiltered cigarettes. Price gaps will narrow amidst price hikes for unfiltered cigarettes.
- Comparably higher shareholders' returns – forecast average dividend yield of 17.1%, delivered by a higher dividend payout. Lower CAPEX requirements & little-to-no debt levels to support a payout of 100% over our forecast period.

Key Negatives

- Delayed/failed commercialisation of nicotine pouch plant (KES 2bn CAPEX) will lead to lost opportunity for product diversification and additional revenues – LYFT contributed 1.2% to the Group net revenue in FY23.
- Illicit cigarette trades at a record high of 27.0% due to tax evasion and weak border controls, severing volumes sold in the legitimate market.
- Subdued domestic volumes and volatile export markets negatively impacting revenue performance.
- High regulatory and compliance costs.

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