KESTREL CAPITAL

Kenya Investment Outlook – 2024

January 2024

Kenya Investment Outlook

Government execution risk on new taxes, fiscal consolidation and management of public debt, should be top of mind for investors.

EQUITIES: We expect weak macro-economic environment, elevated interest rates and reduced equity market liquidity to continue weighing on equity prices. We expect earnings performance, attractive dividend yields and a slow-down in KES' depreciation to drive positive equity returns.

FIXED INCOME: We expect yields to remain elevated on account of tight monetary policy & increased debt refinancing pressures. Investors should therefore lean more towards the Short to Medium term end of the yield curve; but opportunistically take-up Longer term primary offers.

2023 Re-cap

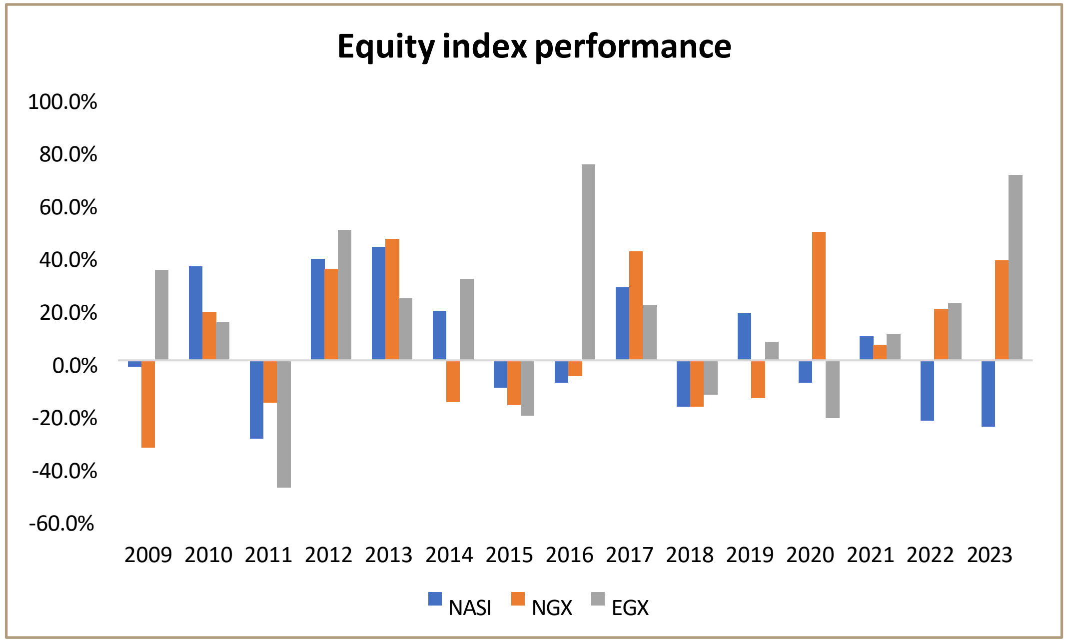
Kenya Investment Outlook

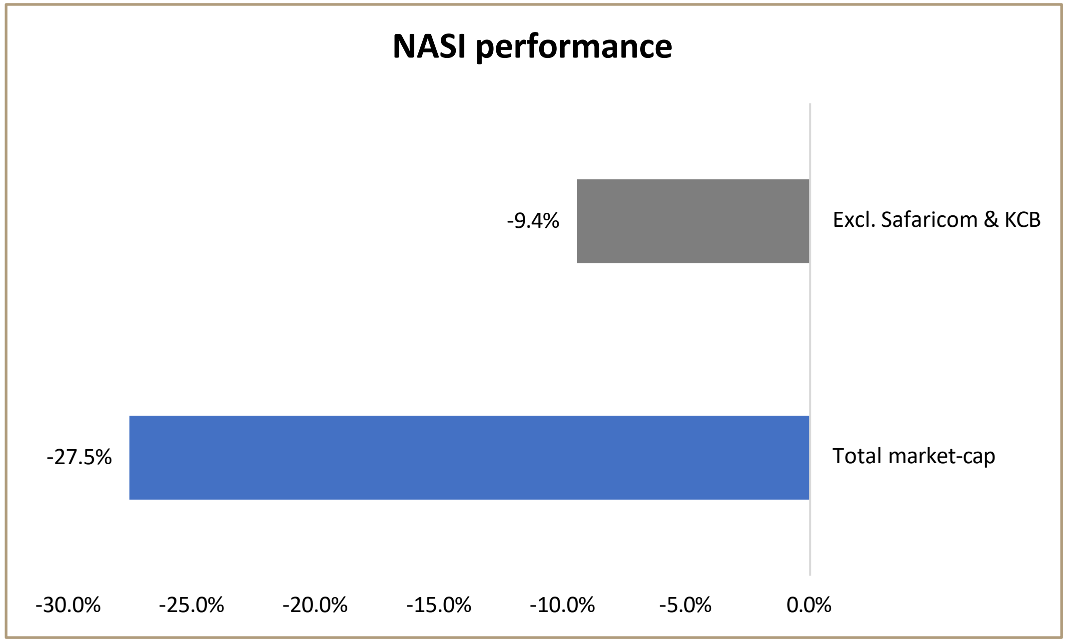
<table>
<tr><th>Expectation</th><th>Outcome</th></tr>
<tr><td>GDP: 5.0% - 5.5% forecast
▪ Subdued private sector consumption amidst inflationary pressure & higher taxes.
▪ Modest government consumption growth owing to fiscal constraints.</td><td>GDP growth of 5.9% in 3Q23
▪ Growth largely driven by recovery in the agricultural sector after prolonged weakness & supported by the services sector.
▪ Subdued consumer demand & limited government spending slowed economic growth.</td></tr>
<tr><td>Inflation: Headline 8.5%-9.5%; Core inflation 3.5%-4.0%
▪ Continued FX weakness, higher fuel prices, scaling back of subsidies & excise tax increases on goods & services to add to 4Q23 inflation.
▪ Core inflation to flatten amidst easing consumer demand.</td><td>Headline Inflation, 6.6%, within CBK range; core inflation, 3.3%
▪ Food inflation eased amidst increased food importation & improved crop yield from better rainfall.
▪ Core inflation declined on account of lower consumer demand – tight wallets & low market liquidity.</td></tr>
<tr><td>Currency: USD/KES depreciation range 20%-25%.
▪ Sticky higher global interest rates to dampen portfolio inflows.
▪ Low FX reserves – external debt servicing (68% of external debt is in USD) & weak current account.</td><td>USD/KES depreciated 26.8%, above range
▪ Global interest rates remained elevated.
▪ Sustained foreign investor outflows from equities market & reduced FDI.
▪ Declining FX reserves (-11.1% y/y, USD 6.6bn – 3.5 months cover) & weak exports.
▪ FX illiquidity persisted despite the Official exchange rate closing the gap against the Market rate.
▪ CBK tightened further in 4Q23 targeting wider real interest rates.</td></tr>
</table>

Kenya Investment Outlook

Expectation	Outcome
Interest rates: **CBR 9.0% - 10.5%; 10-year government yield 15.5%-17.5%.** ▪ Hawkish monetary policy to persist amidst global uncertainties, modest support from fiscal policy & elevated inflation. ▪ Subdued economic outlook to delay aggressive monetary tightening. ▪ Refinancing pressure & increased domestic borrowing to sustain elevated yields.	**CBR at 12.5%; 10-year government yield (15.7%); yield curve inverted - avg. 263bps upward shift** ▪ 375bps increase in CBR since the start of the year. Aggressive hiking in 2H23 (300bps), by the new CBK governor. ▪ Refinancing pressures persisted. There was shift to domestic borrowing via supplementary budget as access to international capital markets remained limited. ▪ Domestic borrowing shifted to the short-end fuelling future refinancing risk.
NSE return: **NASI 4.7% gain.** ▪ Weak macro-economic environment, elevated interest rates & constrained USD liquidity, coupled with reduced equity market liquidity to continue weighing on equity prices.	**NASI down 27.7%** ▪ PE de-rating of 25.8% key drag to NASI return. Safaricom & KCB major detractors. ▪ Expectations of weaker earnings & dividend growth, linked to weakening macros, outweighed stable 1H23 earnings performance.

Kenya Investment Outlook

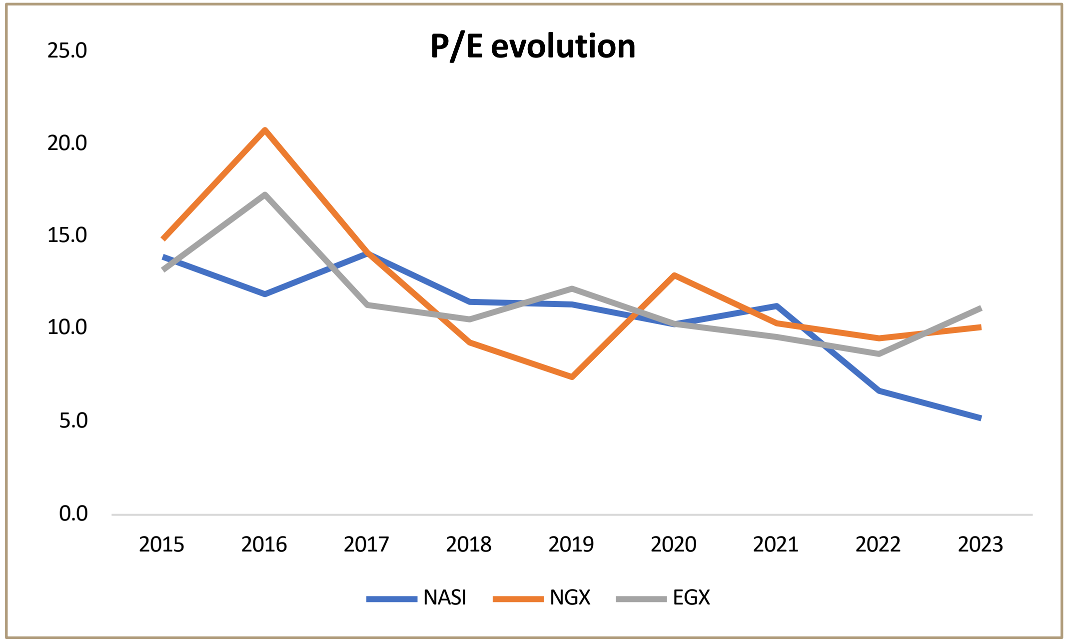




As at the end of 2023, Safaricom and KCB represented 44% of total market-cap

- Kenyan equities recorded the 2nd straight year of underperformance amidst worsening liquidity – daily average value traded dipped to 36% of the 10-year average. Nigeria's and Egypt's daily value traded remained above 70% of their respective 10-year average.
- Kenya's high foreign investor participation, 10-year average of 61%, versus 40% & 16% for Nigeria & Egypt, exposed the NSE to continued global re-allocation of investments.
- Excluding, Safaricom and KCB, both declined by 42%, the NASI's drawdown was less severe, but still lagged robust double digit returns from Nigeria and Egypt.

Kenya Investment Outlook



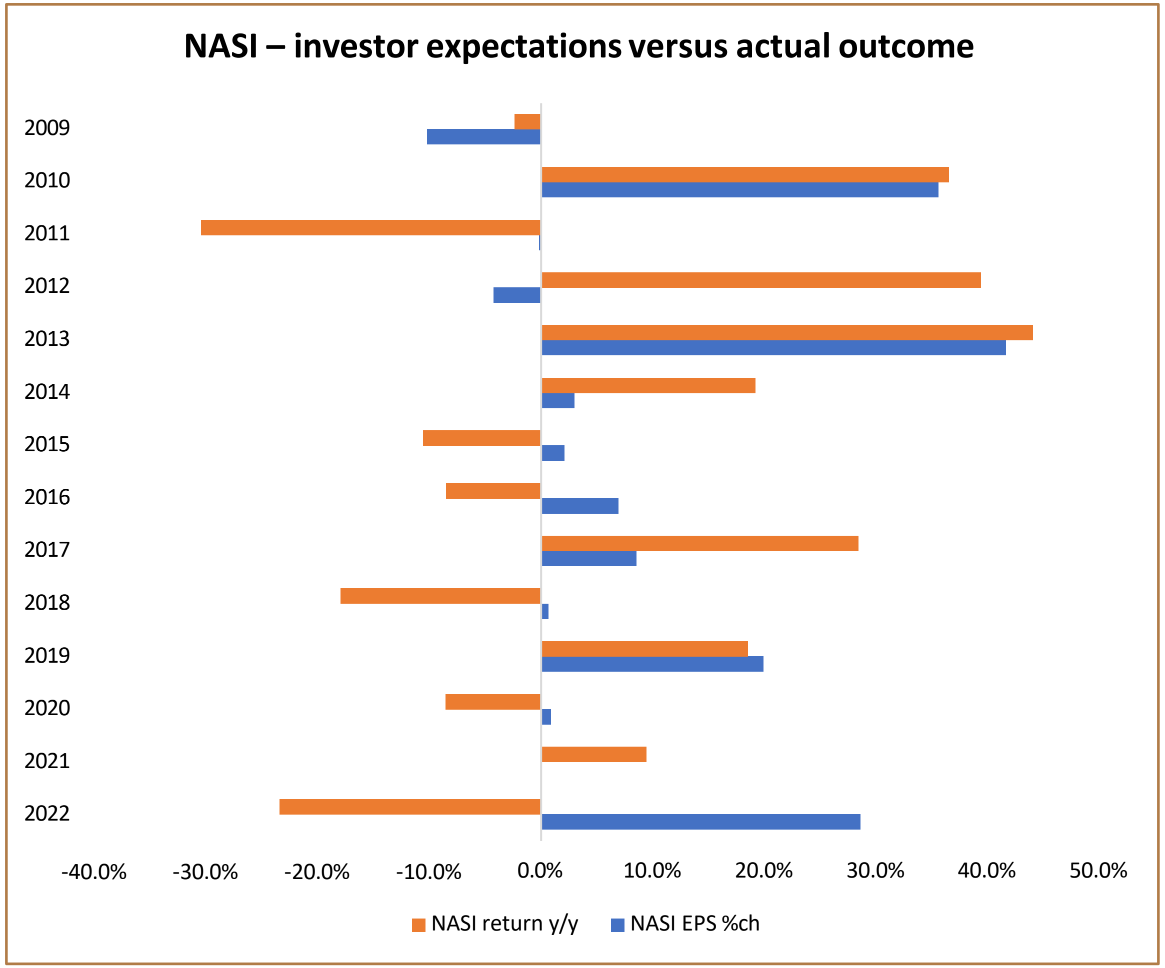
Justified PE estimate using actual historical growth

	NASI	NGX	EGX
Median PE	12.20	13.20	13.24
Median Payout	50.4%	49.3%	24.9%
Cost of equity	16.1%	17.0%	18.2%
Minimum required annual growth	11.9%	13.3%	16.3%
Actual annual growth	8.9%	13.8%	19.2%
Justified PE	**7.0**	**15.4**	**17.6**

Data used covers 2008 to 2022.
Cost of equity = 10-year bond median yields + 3.5% risk premium.
Justified PE computed using actual annual growth
Egypt's justified PE is the highest PE over our review period since growth has been higher than cost of equity.

- SSA markets have been on a PE de-rating trend driven by weak earnings growth in Kenya and accelerated currency depreciation in Nigeria and Egypt.
- With earnings growth continuing to lag investor expectations, and amidst accelerated currency depreciation, Kenya's PE multiple hit an all-time low in 2023.
- Looking forward, given our earnings growth expectations, Kenya's PE re-rating potential lags both Nigeria's and Egypt's.

Kenya Investment Outlook



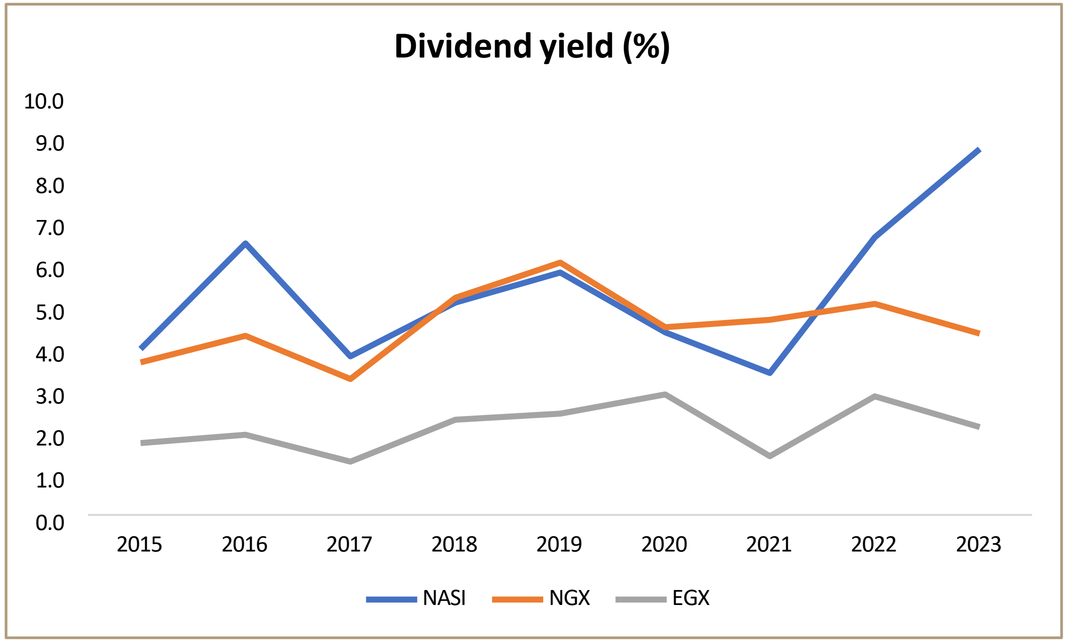
- Over the last 15 years, the NASI has recorded more down years than up years.
- In contrast, corporate earnings have only declined in 3 out of the 15 years.
- Consequently, this has pushed NASI's PE to an all time low.
- Putting it all together, over the last 15 years, investors have continued to price in earnings declines, but earnings have not only remained resilient but grown by an annual average of 9.2%.
- Unless the NASI was overvalued in 2019 at its then PE of 13.2x, 2019 – 2022, the NASI's annualized price gain should have been 9.2% and not the realized 4.3% (*what should be the NASI's justified PE?).*
- A plausible explanation is that investors remain wary of NASI's earnings volatility, or the volatility dulls investor forecasts – NASI's earnings volatility can be attributed to the Index's over exposure to only a handful of companies.
- 2022 witnessed the highest divergence, with FX uncertainty overshadowing strong earnings rebound.

Kenya Investment Outlook

Historical total return analysis (local currency and USD)

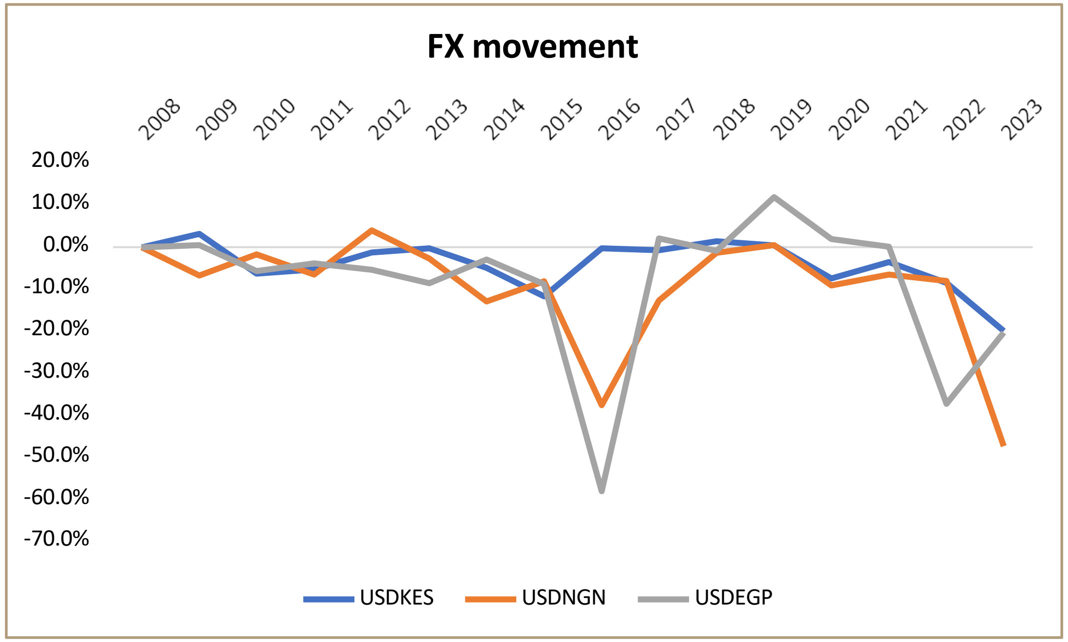
	NASI	NGX	EGX
Annual Index return	4.0%	3.6%	8.6%
Dividend yield (median)	4.8%	4.7%	2.1%
Total equity return	**9.0%**	**8.4%**	**10.9%**
USD/local currency annual change	-4.4%	-11.4%	-10.9%
USD total equity return	4.2%	-4.0%	-1.1%
10-year bond yield	12.6%	13.5%	14.7%
USD total bond return	**8.9%**	**4.3%**	**3.0%**

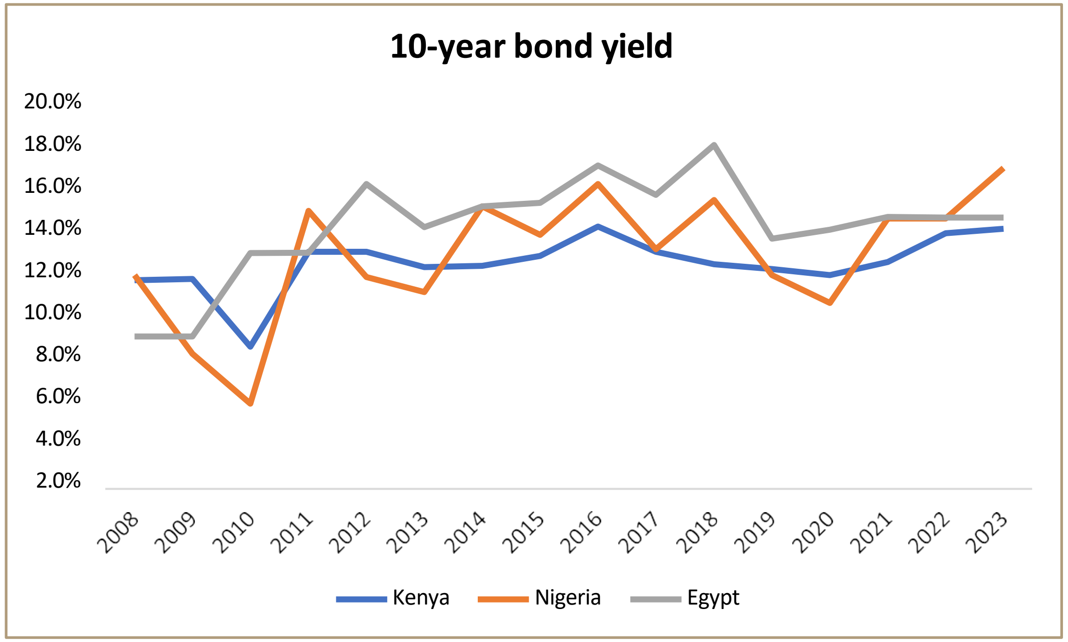
Data used covers 2008 to 2022



- SSA equity returns have continued to lag government bond yields, hence denying equity markets allocation from growing pension assets.
- Recent accelerated currency depreciation and higher interest rates in developed markets, has sustained foreign investor net outflows.
- Kenya's dividend return is at an all time high. We expect steady payout levels from most large-caps, making dividends the key driver of total equity returns in 2024.

Kenya Investment Outlook





- FX volatility persisted across markets, both Nigeria & Egypt devalued, while Kenya's FX liquidity remained tight.
- A historical review of FX and equity price movements, shows minimal correlation, especially during periods of notable equity price draw-down. What are investors pricing in, since equity price movement correlation with earnings has also been low?
- Backed by tight monetary policy, 10-year government bonds yields remained elevated. Kenya's yields lagged as policy tightening was more severe in both Nigeria & Egypt. In 2H23, Kenya's new Central Bank Governor effected two surprise policy rate hikes.

2024 Macro & Investment Outlook

Kenya Investment Outlook

Expectation	Rating	Summary
GDP: 4.8% - 5.2%	**Neutral**	○ 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.
Interest rates: CBR: 11.5% - 14.0%; 10 year government yield: 15% - 17%	**Negative**	○ 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.
Currency: 10% - 12% depreciation against USD;	**Negative**	○ 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.
Inflation: Headline 6.0%-8.0%; Core 3.0%-3.5%	**Neutral**	○ 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.

Kenya Investment Outlook

EQUITIES: We expect weak macro-economic environment, elevated interest rates and reduced equity market liquidity to continue weighing on equity prices. We expect earnings performance, attractive dividend yields and a slow-down in KES' depreciation to drive positive equity returns.

FIXED INCOME: We expect yields to remain elevated on account of tight monetary policy & increased debt refinancing pressures. Investors should therefore lean more towards the Short to Medium term end of the yield curve; but opportunistically take-up Longer term primary offers.

Positives	Negatives
Dividend yield: attractive double digit yields	**Liquidity:** equity market liquidity to remain low
NSE PE rating: at a record historical low & discount to historical avg. and to peer markets	**Interest rates:** elevated yields to dampen demand for equities
Equities allocation: Kenyan pension funds at less than half their historical average; net inflows as total equity return outweighs currency depreciation	**Regulatory risk:** higher taxes & uncertain policies, to dampen earnings and new investments
High short-term bond yields: to continue offering investors adequate return with minimal duration risk	**Refinancing risk:** build-up in refinancing risk as Government continues to pile on short-term debt

Kenya Investment Outlook

FY23 Earnings Expectations - 5.9% y/y decline in NASI EPS led by Safaricom and banks

Company	FY23 EPS forecast growth	y/y EPS growth	FY23 Expected EPS growth
Safaricom*	1.8%	2.1%	-9.8%
Equity Bank	12.7%	3.7%	-11.7%
KCB Bank	-7.5%	0.9%	-34.1%
EABL*	-54.2%	-16.9%	-4.2%
Co-op Bank	27.8%	8.2%	-4.7%
ABSA Bank	17.7%	15.2%	5.4%
StanChart Bank	10.6%	12.5%	4.3%
NCBA Bank	55.6%	14.4%	9.9%
I&M Bank	14.6%	14.1%	-9.6%
Stanbic Bank	2.9%	32.7%	51.1%
DTB Bank	92.6%	4.3%	16.0%
Bamburi Cement	-38.2%	-16.3%	349.5%
BAT Kenya	-9.2%	-3.5%	-13.2%

FY23 EPS forecast growth as at Jan 2023
y/y EPS growth, based on last reported results (3Q for banks & 1H for non-banks)
FY23 expected EPS growth - revised EPS growth
**Forecast period is FY24*

Forecast earnings reflection:

- **Telcom sector:** lower than expected revenue growth as usage fails to make up for lower prices. Increased losses from Ethiopia.
- **Banking sector:** higher cost of risk, NIM compression, elevated costs and reduced FX income.
- **Brewery sector:** net revenue growth from price actions and supported by volume growth from the mainstream & value segments.
- **Tobacco industry:** lower than expected volume growth across domestic & export markets.
- **Cement industry:** recovery in net revenue in Kenya, from a dip in 2022, and sound growth in Uganda. Housing projects to offer support for cement demand.

Kenya Investment Outlook

We expect NASI to gain 16.8% in FY24 - earnings growth to be key driver

Company	FY23 Market-cap weight	FY24 EPS forecast growth	FY24 EPS weighted growth
Safaricom*	38.7%	14.1%	5.4%
Equity Bank	8.8%	7.3%	0.6%
EABL*	6.3%	3.3%	0.2%
KCB Bank	4.9%	4.7%	0.2%
Co-op Bank	4.6%	21.2%	1.0%
NCBA Bank	4.5%	-4.8%	-0.2%
ABSA Bank	4.3%	32.5%	1.4%
StanChart Bank	4.3%	-3.4%	-0.1%
Stanbic Bank	3.0%	-5.3%	-0.2%
BAT Kenya	2.8%	0.2%	0.0%
I&M Bank	2.0%	32.2%	0.6%
Bamburi Cement	0.9%	85.1%	0.8%
DTB Bank	0.9%	18.4%	0.2%
Total	**86.0%**		**10.0%**
Remaining market	**14.0%**	**0.0%**	**0.0%**
Total	**100.0%**		**8.6%**
Market-cap weighted EPS growth FY24		8.6%	
Market PE re-rating estimate FY24		7.5%	
NASI return FY24 forecast		16.8%	
NASI as at 31 Dec 2024		**107.55**	

**Forecast period is FY25*

NASI FY24 Justified PE estimate

	NASI
2024 justified PE	**5.56**
2024 Expected payout	45.0%
Equity risk premium	3.5%
2024 10-year bond yield	16.0%
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 FY24 Expected total return

	NASI
Annual Index return	16.8%
Dividend yield	9.5%
Total equity return in LCY	27.8%
USD/local currency change	-10.0%
USD total equity return	15.0%

Company valuations & outlook

Kenya Investment Outlook

Company	Old Fair Value (KES)	Fair Value (KES)	Closing Price (KES)	Upside/downside	2023 return	Current Rating
Safaricom	31.11	30.71	13.90	120.9%	-42.4%	**BUY**
Equity bank	58.81	43.67	33.65	29.8%	-24.4%	**BUY**
KCB bank	62.39	47.26	21.90	115.8%	-42.5%	**BUY**
Co-op bank	18.13	20.46	11.40	79.5%	-7.3%	**BUY**
ABSA bank	12.32	12.89	11.45	12.6%	-6.9%	**HOLD**
StanChart bank	108.61	138.26	162.00	-14.7%	13.5%	**HOLD**
NCBA bank	38.68	40.68	38.95	4.4%	-1.0%	**HOLD**
I&M bank	30.56	33.32	17.50	90.4%	2.9%	**BUY**
Stanbic bank	89.16	108.85	108.75	0.1%	6.6%	**HOLD**
DTB bank	122.70	116.13	45.05	157.8%	-9.9%	**BUY**
EABL	164.58	151.28	114.00	32.7%	-31.9%	**HOLD**
Bamburi Cement	51.96				13.8%	**UNDER REVIEW**
BAT Kenya	544.27	460.00	407.50	12.9%	-11.4%	**HOLD**

Closing prices as at 9th January 2024
BUY Rating = FV 15% higher than market price SELL Rating = FV 15% below market price HOLD = FV within +15% & -15% of market price
Bamburi Cement under review following Hima subsidiary sale announcement

Kenya Investment Outlook

Below historical average multiples across board….buffer if earnings underperform & a kicker if earnings surprise

Company	10 year multiple range	Expected FY23 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	0.8	1.0
KCB Bank	0.7 - 2.3	0.3	0.7	0.7
EABL*	4.5 - 16.3	6.3	6.6	6.0
Co-op Bank	0.7 - 2.3	0.6	0.8	1.0
ABSA Bank	1.1 - 3.0	1.1	0.9	1.2
StanChart Bank	0.8 - 2.6	1.2	0.9	1.1
NCBA Bank	0.3 - 1.9	0.9	0.7	0.8
I&M Bank	0.4 - 2.1	0.4	0.7	0.7
Stanbic Bank	0.6 - 1.3	0.9	0.7	0.9
DTB Bank	0.2 - 2.0	0.2	0.5	0.5
Bamburi Cement	3.2 - 18.7	2.2	4.2	1.6
BAT Kenya	4.1 - 13.1	4.2	6.5	4.7

Expected FY23 multiple – current price vs. expected FY23 results
Multiple based on our fair value – FV vs. expected FY23 results
**Safaricom & EABL based on FY24*
Price to book for banks & EV/EBITDA for non-banks

SAFARICOM: BUY (120.9% Upside)

Key Positives	Key Negatives
• Management revised FY24 Kenya EBIT guidance upwards by 15.4% (the highest revision in over 7 years). Revision is based on expectation of better M-pesa and data revenues. • Ethiopia's operations will be boosted by the earlier than expected roll-out of mobile money services and delayed privatization of Ethiotel and awarding of new mobile network license. • Mobile money transaction value and volumes growth momentum continues to support M-Pesa revenues – FY23-FY26 we expect chargeable transactions per user to sustain double digit growth. Successfully pivoting M-pesa into a B2B platform adds notable growth runway – more than tripling of users' maximum daily float and transaction amounts will accelerate B2B volume growth. • Mobile data & 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.	• Regulatory environment both in Kenya and Ethiopia remains quite uncertain – mobile termination rates (MTR) & taxes. • Increased economic challenges in Ethiopia - ongoing sovereign debt restructuring and continued political upheaval. • Constrained user affordability likely to persist in Kenya amidst increased taxes and households' debt servicing costs. • Over the long-term, owing to already comparatively lower ARPUs, Ethiopia will weigh on Group margins.

Kenya Investment Outlook

SAFARICOM: BUY (120.9% Upside)

Summary financials (Kenya only)

KES (bn)	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F
Revenue	262	264	298	309	329	351	366
y/y % ch	*5.0*	*0.5*	*13.0*	*3.7*	*6.4*	*6.7*	*4.3*
EPS (KES)	1.84	1.71	1.84	1.85	1.93	2.19	2.36
y/y % ch	*17.9*	*(6.7)*	*7.1*	*0.7*	*4.1*	*13.7*	*7.4*

Group EPS

KES (bn)	FY23A	FY24F	% ch
Kenya Net profit	74.50	77.31	3.8%
Ethiopia net profit	(21.61)	(37.29)	72.6%
Group net profit	**52.89**	**40.01**	-24.3%
Minority interest	(9.79)	(16.52)	68.8%
Attributable profit	62.68	56.53	-9.8%
EPS (KES)	1.56	1.41	-9.8%

Ethiopia income statement

(KES bn)	FY23A	FY24F
Total Revenue	1.83	11.05
EBITDA	(19.95)	(21.67)
D&A expense	(10.77)	(23.56)
EBIT	(30.72)	(45.23)
Net finance income (cost)	(1.27)	(8.04)
Monetary gain	10.38	-
Taxation		15.98
Net profit/(loss)	**(21.61)**	**(37.29)**

Forecast vs. Mngt. guidance

KES (bn)	FY24F	Guidance
EBIT (Kenya)	116.40	117-120
EBIT (STE)	(45.23)	(42)-(39)
EBIT (Group)	71.20	87-93

Using the mid-point, management guidance works out to 2%y/y growth in Kenya's EBIT & 32% increase in EBIT loss from STE. At Group level, management guides a 6%y/y EBIT increase

SAFARICOM: BUY (120.9% Upside)

Kenya business valuation

KES (bn)	
Sum PV FCF	216.7
PV Terminal value	965.3
Add: cash	18.1
Less: Debt	35.5
Equity value	**1,164.6**
Outstanding shares	40.1
Per share value (KES)	**29.07**

Safaricom PLC valuation

KES (bn)	
Kenya business value per share (KES)	29.07
Ethiopia business value per share (KES)	1.64
Safaricom PLC value per share (KES)	**30.71**

Ethiopia business valuation

KES (bn)	
Revenue FY30	109.80
EBITDA Margin (mngt. Guidance)	36%
EBITDA	39.67
Net profit margin	20%
PAT	21.96
PE - SSA Telecom's (avg)	16.9
Terminal value	**371.12**
Discount rate	20%
PV of terminal value	**117.88**
Safaricom holding	55.70%
Equity value attributable to Safaricom	**65.66**
Addition to Safaricom FV per share (KES)	**1.64**

Kenya Investment Outlook

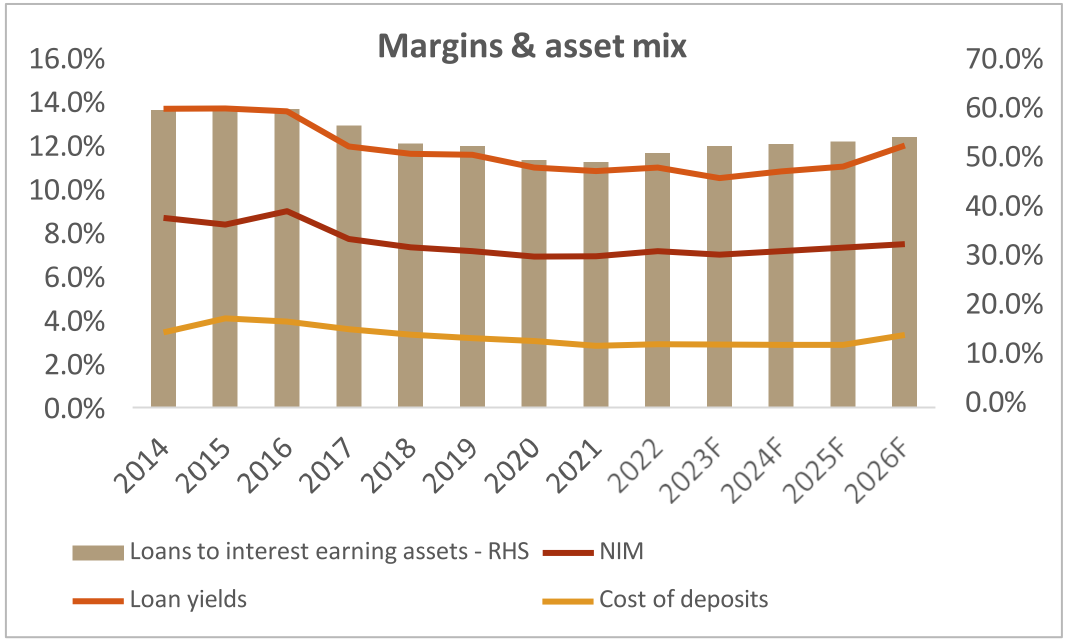
Kenya Banks – steady performance, despite weak macro

Parameter	FY23 Outlook	FY24 Outlook	FY24 View
NIMs	❑ Industry NIMs of 7.0%, 20bps lower than FY22 levels o ABSA, highest NIMs; DTB lowest NIMs	❑ Industry NIMs of 7.1%, 10bps higher than FY23 levels o ABSA highest NIMs; DTB lowest NIMs	o Banks to benefit from both higher market yields and risk-based pricing
NFI Mix	❑ Industry NFI of 37.5%, 370bps higher than FY22 levels o NCBA , highest ; DTB lowest	❑ Industry NFI of 35.0%, 250bps lower than FY23 levels o NCBA , highest ; ABSA lowest	o Deceleration in FX income & reduced fee income from lower transaction volumes
CTI	❑ Industry CTI of 45.8%, 80bps higher than FY22 levels o KCB, highest ; ABSA lowest	❑ Industry CTI of 46.7%, 90bps higher than FY23 levels o KCB , highest ; ABSA lowest	o Inflationary pressures, IT investments & one-off items
Cost of Risk	❑ Industry cost of risk of 2.9%, 70bps higher than FY22 numbers o ABSA, highest CoR; Stanbic lowest CoR	❑ Industry cost of risk of 2.4%, 50bps higher than FY23 numbers o NCBA, highest CoR; Stanbic lowest CoR	o Elevated credit & macro risks still require banks to maintain adequate coverage
NPL ratio	❑ Industry NPL ratio of 12.8%, 110bps higher than FY22 levels o KCB & StanChart, highest ; ABSA lowest	❑ Industry NPL ratio of 12.7%, 10bps lower than FY23 levels o StanChart, highest ; ABSA lowest	o NPL ratio to remain elevated on account of the expected weak macro environment
EPS Growth	❑ Industry EPS growth of 3.0% y/y, slower than the 34.1% growth in FY22 o Stanbic, fastest ; KCB, slowest	❑ Industry EPS growth of 11.4% y/y, faster than the 3.0% growth in FY23 o ABSA, fastest ; Stanbic, slowest	o Lower fee income growth and reduced loan growth to constrain earnings growth
Net Loan growth	❑ Industry net loan growth of 15.5%, 670 bps slower than FY22 levels o Equity, highest ; NCBA slowest	❑ Industry net loan growth of 8.6%, 690bps lower than FY23 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 17.7%, 210bps lower than FY22 levels o Stanbic, highest ; DTB lowest	❑ Industry ROE of 17.6%, 10bps lower than FY23 levels o ABSA, highest ; DTB lowest	o Reduced fee income & elevated cost of risk to weigh on ROE

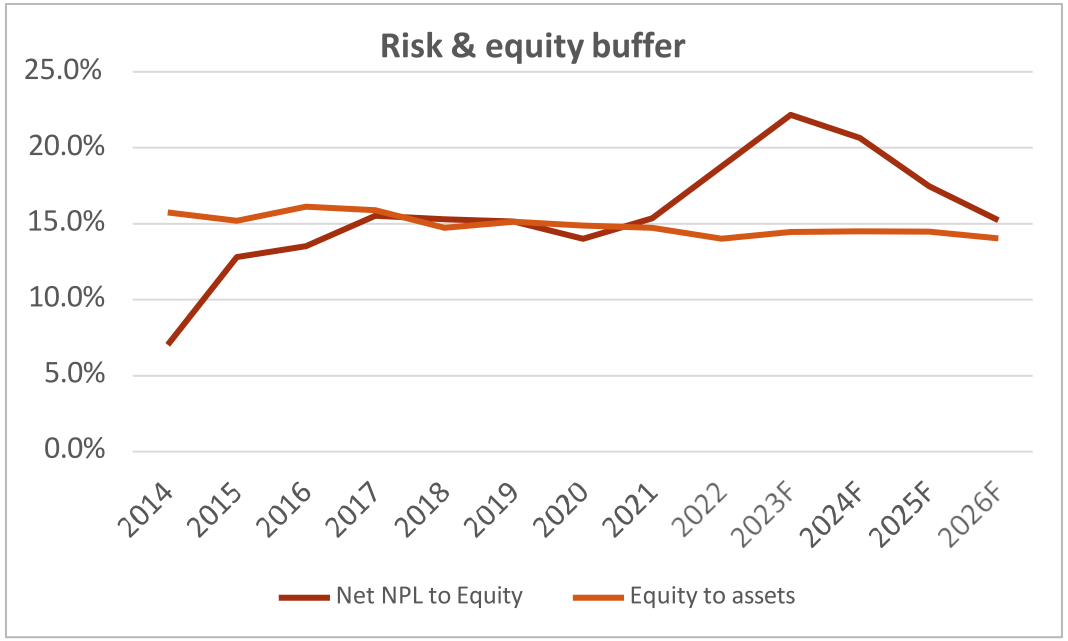
Kenya Investment Outlook

Kenya Banks – 49.8% Upside

Margins expansion – risk-based pricing & higher market rates

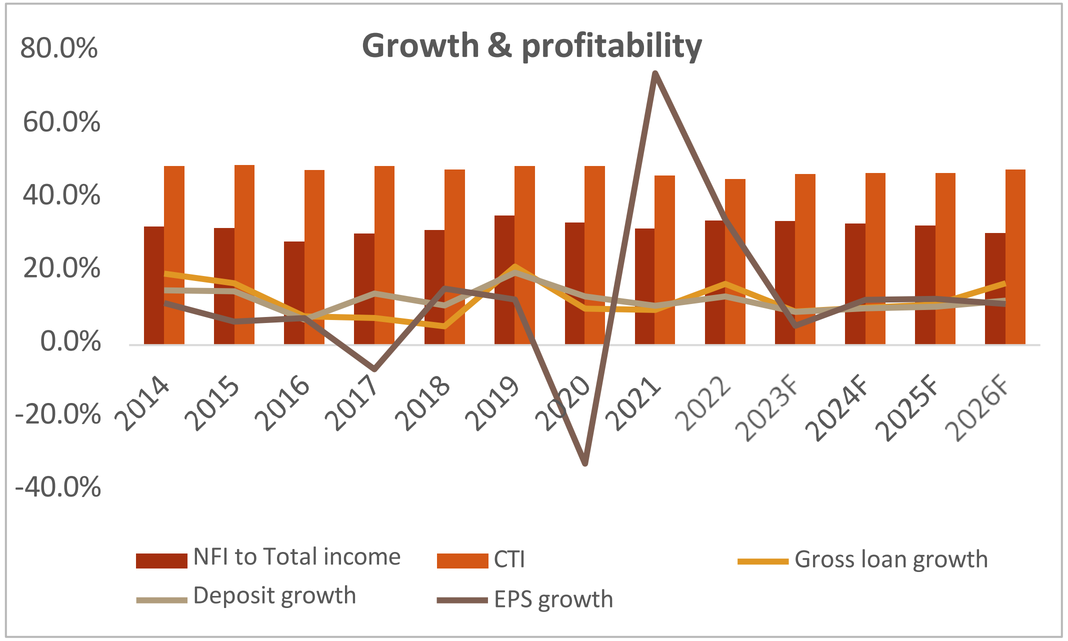


Capital build-up to offer buffer in the event of asset deterioration

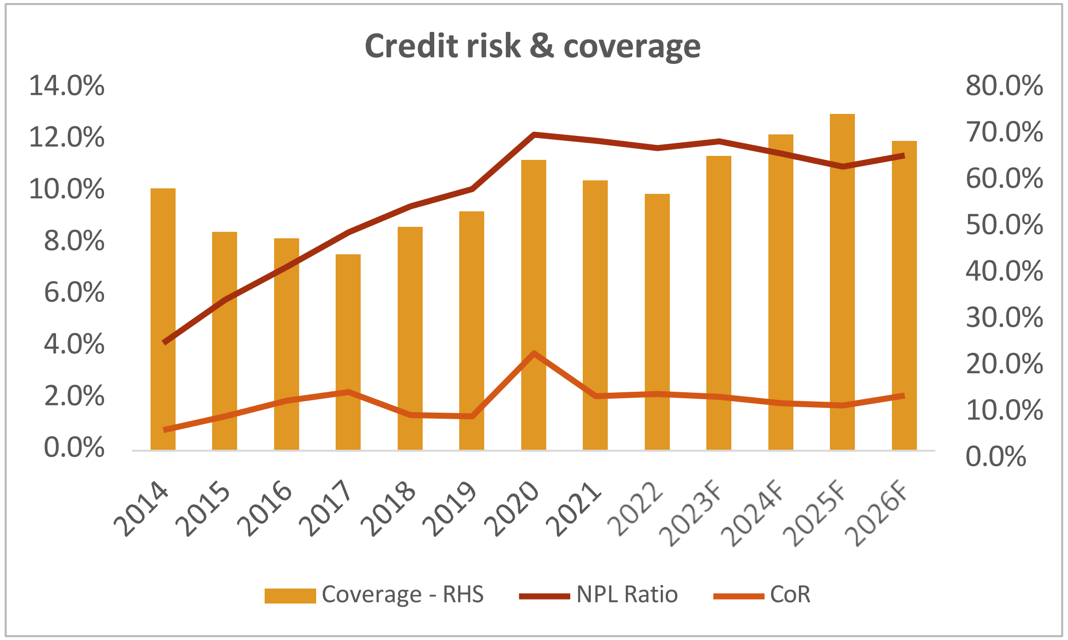


Kenya Banks – 49.8% Upside

Higher loan yields to boost banks' net interest income



Banks' NPL ratio to remain elevated, requiring high NPL coverage



Kenya Investment Outlook

Kenya Banks – Potential P/B re-rating of 17.0%

	FY23 P/B (x)	EXIT P/B (x)	Re-Rating (%)	Mkt.cap weighted-Re-rating
Equity	0.8	0.8	-3.2%	-0.8%
KCB	0.3	0.7	107.0%	14.2%
Co-op	0.6	0.8	36.3%	4.4%
DTB	0.2	0.5	162.3%	3.8%
I&M	0.4	0.7	74.9%	4.0%
NIC	0.9	0.7	-16.2%	-2.0%
Stanbic	0.9	0.7	-18.9%	-1.5%
Barclays	1.1	0.9	-19.8%	-2.3%
StanChart	1.2	0.9	-26.2%	-2.9%
Average	**0.7**	**0.7**	**32.9%**	**17.0%**

Kenya Investment Outlook

Kenya Banks – EPS Growth

	FY21A	FY22A	FY23F	FY24F	FY25F	FY26F
Equity	134.0%	15.3%	-11.7%	7.3%	10.3%	26.2%
KCB	73.9%	19.1%	-34.1%	4.7%	26.8%	28.4%
Co-op	44.3%	30.9%	-4.7%	21.2%	21.1%	14.4%
DTB	12.5%	75.5%	16.0%	18.4%	2.6%	18.3%
I&M	0.7%	37.7%	-9.6%	32.2%	20.8%	13.6%
NIC	122.1%	34.6%	9.9%	-4.8%	5.7%	21.4%
Stanbic	38.8%	25.7%	51.1%	-5.3%	-17.8%	-17.5%
Barclays	161.1%	34.2%	5.4%	32.5%	-1.9%	-1.9%
StanChart	68.4%	34.0%	4.3%	-3.4%	0.2%	1.1%
Average	**72.9%**	**34.1%**	**3.0%**	**11.4%**	**7.5%**	**11.5%**

Kenya Banks – Return on Equity

	FY21A	FY22A	FY23F	FY24F	FY25F	FY26F
Equity	24.9%	25.1%	18.8%	17.8%	17.1%	18.6%
KCB	21.7%	21.7%	12.6%	12.1%	14.1%	16.3%
Co-op	17.2%	21.3%	17.8%	19.1%	19.5%	19.7%
DTB	6.2%	8.9%	10.1%	10.9%	10.3%	11.2%
I&M	12.1%	14.9%	12.4%	14.8%	15.9%	16.0%
NIC	13.7%	17.3%	17.5%	15.4%	15.1%	16.7%
Stanbic	16.1%	18.1%	24.6%	21.4%	16.8%	13.5%
Barclays	21.1%	24.3%	22.9%	26.4%	22.6%	19.9%
StanChart	17.4%	22.1%	22.2%	20.8%	20.0%	19.5%
Average	**16.7%**	**19.3%**	**17.7%**	**17.6%**	**16.8%**	**16.8%**

EABL: BUY (32.7% upside)

KES (bn)	**FY21**	**FY22**	**FY23**	**FY24F**	**FY25F**	**FY26F**
Net Revenue	86.0	109.4	109.6	111.9	116.3	121.1
y/y % ch	*14.7*	*27.2*	*0.1*	*2.1*	*3.9*	*4.1*
EPS (KES)	5.50	15.00	12.47	11.94	12.33	12.79
y/y % ch	*6.3*	*172.7*	*-16.9*	*-4.2*	*3.3*	*3.7*
DPS (KES)	0.00	11.00	5.50	9.04	9.34	9.69
Payout	0%	76%	76%	76%	76%	76%

Key Positives

- We expect net revenue growth to be driven by price actions & volumes growth in mainstream and value segments.
- We expect continued sound growth in the Uganda market and boosted by a recovery in the Tanzania market – management guided on expanding its portfolio.
- We expect EABL dividend payout to average 76% over our forecast period, supported by steady free-cash cashflow generation.

Key Negatives

- We expect higher input costs (ethanol, glass & sugar - key inputs) to weigh on margins.
- We expect downtrading from premium brands (confer better margins) to also pressure margins.
- Elevated interest rates to inflate cost of borrowing and FX devaluation & shortages to negatively impact business operations.

Kenya Investment Outlook

BAT KENYA: HOLD (12.7% Upside)

KES (bn)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Net Revenue	25.4	27.4	26.9	27.3	28.8	29.6
y/y % ch	*0.3*	*7.7*	*-1.8*	*1.7*	*5.4*	*2.9*
EPS (KES)	64.83	68.92	59.80	59.90	62.10	64.21
y/y % ch	*17.5*	*6.3*	*-13.2*	*0.2*	*3.7*	*3.4*
DPS (KES)	53.50	57.00	57.00	57.09	59.19	61.20
Payout	83%	83%	95%	95%	95%	95%

Key Positives

- Recovery in net revenue growth, after expected dip in FY23 – recovery in consumption, reclaiming of market share & excise-led price increments.
- Rebound in cut-rag volumes, stable cigarette export volumes & pricing benefits from a weaker KES to support export revenues.
- EBITDA margins to average 33.2% over our forecast period, 70bps higher compared to 2014-2020. Exceptional margins seen in 2021 & 2022 (avg. of 39%) due to significant excise tax increments.
- BAT's excess return above cost of capital (avg. of 12.7ppt) & higher dividend payout to drive re-rating on the stock price.

Key Negatives

- We expect a weaker 2H23, 20% decline YoY, on account of margins compression & lower volumes – higher taxes & weakening macros.
- Affordability pressures to weaken consumption, drag premiumization & erode margins. Also, downtrading to weigh on margins & market share on value segments.
- Illicit trading of cigarettes, at a record high of 26.0%, to destabilize the legal market. Excise tax differentials with regional countries & weak border control to blame. Compared to Kenya, Tanzania & Uganda rates are 58% & 45% lower, respectively.
- Regulatory & tax pressures to continue weighing on the business climate. Cost of excise stamps had been hiked by 79%.

Bamburi Cement: Under Review

KES (bn)	FY20	FY21	FY22	FY23F	*FY24F
Net Revenue	34.9	41.4	39.0	44.5	46.9
y/y % ch	*5.2*	*18.6*	*-5.8*	*14.0*	*5.4*
EPS (KES)	2.90	3.58	0.56	2.53	4.68
y/y % ch	*66.0*	*23.6*	*-84.3*	*349.5*	*85.1*
DPS (KES)	3.00	3.58	0.75	1.75	3.29
Payout	104%	100%	69%	69%	70%

**FY24F not adjusted for Hima sale*

Bamburi Valuation (KES m)	Kenya	Uganda	Group
Projected EBITDA (2023)	2,258	1,775	
EV/EBITDA	4.2	4.2	
Enterprise Value	9,484	7,455	16,939
Less Net debt			-3,462
Less Minorities			4,296
Equity value			16,105
No. of shares			363
Value Per share			**44.37**

Key Positives

- We expect the new clinker plant to support margins from FY25 onwards – gross margins (31.2% in FY23) & EBITDA margins (9.1% in FY23) to increase to 33.3% & 15.3% in FY26, respectively.
- We expect continued dividends payments on account of increased cashflow generation & lower CAPEX requirements.
- We expect integrated cement plants to grab market share from grinders - higher import duty on clinker.
- Hima valuation: the 6-7 EV/EBITDA multiple range used to value Hima Cement was quite attractive taking into consideration Hima's below peers' margins. Our margins and ROIC adjusted EV/EBITDA stands at 4.2x.

Key Negatives

- We expect margins to remain under pressure over higher input costs – gross margins to recover to 2018 levels of 33%, from FY25 onwards.
- Higher funding costs could potentially delay the commissioning of the clinker plant.

Contacts

Kestrel Capital (E.A.) Limited Team

Research Team		
Ephantus Maina	Head of Equity Research	ephantusm@kestrelcapital.com
Alex Muiruri	Head of Fixed Income Research	alexanderm@kestrelcapital.com
Trading		
Chris Miriti	Head of Sales & Trading	chrism@kestrelcapital.com
Amanda Onyango	Sales & Trading	amandao@kestrelcapital.com
Sally Kotut	Sales & Trading	sallyk@kestrelcapital.com
Corporate Broking		
Francis Mwangi, CFA, FCCA	Executive Director	francism@kestrelcapital.com

Disclaimer

Note: Readers should be aware that Kestrel Capital (EA) Ltd does and seeks to do business with companies covered in its research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions.

The opinions and information portrayed in this report may change without prior notice to investors. This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of Kestrel Capital (EA) Ltd.

Directors, staff of Kestrel Capital (EA) Ltd and their family members, may from time to time hold shares in the company it recommends to either buy or sell and as such the investor should determine for themselves the applicability of this recommendation.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by Kestrel Capital or any employee of Kestrel Capital as to the accuracy of the information contained and opinions expressed herein.