

Stock Recommendation

Company	*Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	33.13	15.15	118.7%	BUY
Equity bank	47.71	49.90	-4.4%	HOLD
KCB bank	66.26	39.10	69.5%	BUY
Co-op bank	20.33	14.50	40.2%	BUY
ABSA bank	11.97	15.45	-22.5%	SELL
StanChart bank	262.64	236.50	11.1%	HOLD
NCBA bank	36.1	43.80	-17.6%	SELL
I&M bank	35.09	28.15	24.7%	BUY
Stanbic bank	84.7	135.75	-37.6%	SELL
DTB bank	92.65	52.25	77.3%	BUY
EABL	151.28	185.00	-18.2%	SELL
Bamburi Cement	44.37	65.25	-32.0%	SELL
BAT Kenya	460.00	350.75	31.1%	BUY

Kenya Market Summary

Equity market commentary and outlook

- During the week, Equity Bank and Co-op Bank released their Q3 2024 results. NSE 20 declined for two days straight. Foreign investors emerged as net sellers repeatedly for the sixth week at USD 0.8m (KES 107.1m). Safaricom registered the highest net foreign outflows at USD 0.8m (KES 131.7m), while Equity Bank marked the highest net foreign inflows at USD 0.3m (KES 45.2m).

Debt market commentary and outlook

- Total subscription rates slightly declined to 398.1% from 409.9% the previous week. Investors remained skewed on the 91-Day T-Bill, as activity declined for the 182-Day T-Bill and improved for the 91-Day and 364-Day T-Bill. The yield on all three T-Bills fell, with the 91-Day T-Bill sustaining a seventeen-week losing streak and the 182-Day T-Bill and the 364-Day T-Bill falling for the sixteenth week straight.

Key Market Indicators

Index	Level	1w	1m	3m	6m	12m	ytd (%)
Kenya NSE 20 Index	1,930.2	16.3%	14.3%	27.5%	33.7%	25.8%	28.6%
Kenya NASI	115.0	9.9%	7.9%	23.9%	34.1%	11.6%	24.9%

Source: NSE, Kestrel Research

NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	-0.9%	1.2%	11.5%	-5.4%	41.5%	0.7%
Johannesburg Index	-4.8%	-2.6%	7.2%	5.8%	8.7%	-4.4%
Nigeria Stock Exchange	1.1%	-2.9%	-2.1%	-5.7%	-23.5%	3.2%
Ghana Stock Exchange	3.5%	4.3%	-4.8%	8.6%	-2.1%	2.1%
Egyptian Stock Exchange	0.3%	2.4%	2.4%	8.7%	-29.3%	-1.2%
MSCI EFM ex SA Index	-0.9%	0.4%	1.0%	0.8%	8.6%	38.6%

Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
USD/KES	129.25	-0.2%	0.0%	0.0%	1.6%	16.1%	3.0%
USD/ZAR	18.19	-3.2%	0.0%	1.5%	1.6%	1.1%	0.0%
USD/EGP	49.36	-0.2%	-1.3%	0.6%	-4.1%	-34.1%	0.0%
USD/NGN	1665.80	0.1%	-1.8%	-3.0%	-4.6%	-44.6%	8.5%
USD/GHS	15.95	2.6%	-1.9%	-2.7%	-8.4%	-16.5%	0.0%

NSE most active counters

Counter	Value Traded (KES m)	Foreign Investor Net Buying/(Selling) (KES m)	Foreign Investor Activity as % of total	Weekly Price Change (%)	YTD (%)	% Below 12-month high	% Above 12-month low
Safaricom	222.7	-131.7	45.4%	-3.2%	9.0%	-21.5%	16.5%
KCB Bank	102.6	-10.4	36.6%	-6.6%	12.6%	-1.1%	111.9%
EABL	97.5	30.2	82.4%	-4.0%	62.3%	-7.4%	85.0%
Equity Bank	52.0	45.2	46.0%	3.9%	48.3%	-0.2%	48.3%
Kenya Re	44.0	-27.8	53.9%	-3.5%	-41.5%	-61.7%	5.8%

Equity Bank Q3 2024 Results

Equity Bank announced its 3Q24 results. Reported EPS - KES 10.41, +13.5% y/y, buoyed by total income (+8.7% y/y), reduced loan loss provisions (-33.2% y/y) and a lower effective tax (19.8%). Earnings came in 25.9% ahead of estimates, on account of better-than-expected fee & commissions income (+29.5%), lower-than-expected loan loss provisions (-42.4%) and lower effective tax.

Summary Performance Table

	Reported	Forecast	Variance
NIM	7.1%	8.0%	-0.9%
NIR growth	11.0%	25.0%	-14.0%
NFI mix	43.1%	36.1%	7.0%
NFI growth	5.8%	-11.3%	17.1%
CoR	1.8%	3.1%	-1.3%
CTI	55.1%	53.1%	2.0%
OpEx Growth	19.1%	15.2%	3.9%
EPS	10.41	8.27	25.9%
DPS	0.00	0.00	0.0%
Net Loan growth	-5.4%	-5.5%	0.1%
Deposit growth	9.0%	4.1%	4.9%
NPL Ratio	13.5%	15.5%	-2.0%
NPL Coverage*	46.0%	51.7%	-5.7%
ROE	24.2%	17.0%	7.2%

*CBK Coverage

What stood out for us?

- **Reduction in borrowed funds to rein on elevated cost of funds:** Management paid down borrowed funds by 38.3% y/y to ease the high interest expense burden. In 3Q24, interest expenses grew faster at 17.7% compared to the 13.3% growth in interest income. We also highlight domestic yields remained elevated over the quarters, exerting pressure on cost of funding.
- **Faster decline in Forex income:** Forex income decreased by 33.5% y/y, underperforming our estimates by 18.3% due to reduced customer activity amidst thinner FX spreads. Additionally, there was a non-recurring FX income that was booked in DRC the prior period. Going forward, management expects the FX market to remain relatively stable, with forecasted inflows from the IMF and UAE, and the higher CBK reserves, bolstered by CBK purchases.
- **Higher-than-expected growth in other OpEx:** Other operating costs escalated by 29.8% y/y, exceeding our forecasts by 10.7%, driven by continued investments in IT, digitization and the one-off provisions for the fraud of about KES 1.5bn.

Impact to our investment thesis

- Looking ahead, we expect to revise upwards our growth outlook for fee & commissions income as well as other operating costs. Equity bank is currently trading at a P/B of 0.8x. **Our current estimate of fair value of KES 54.37, implies an upside potential of 12.1% - a HOLD recommendation.**

Coop Bank Q3 2024 Results

Co-op Bank announced its 3Q24 results. Reported EPS – KES 3.29, +4.4% y/y, driven by both net interest income (+12.3% y/y) and non-funded income (+8.2% y/y), but weighed by increased loan loss provisions (+32.5% y/y). Earnings came in 11.3% ahead of expectations on account of lower-than-expected operating costs (-5.4%).

Summary Performance Table

	Reported	Forecast	Variance
NIM	6.9%	7.1%	-0.2%
NIR growth	12.3%	10.0%	2.3%
NFI mix	37.7%	38.2%	-0.5%
NFI growth	8.2%	8.5%	-0.3%
CoR	1.7%	1.6%	0.1%
CTI	45.8%	49.0%	-3.2%
OpEx Growth	9.3%	15.5%	-6.2%
EPS	3.29	2.96	11.3%
DPS	0.00	0.00	0.0%
Net Loan growth	0.9%	5.5%	-4.6%
Deposit growth	18.8%	18.6%	0.2%
NPL Ratio	15.5%	17.3%	-1.8%
NPL Coverage*	57.3%	53.2%	4.1%
ROE	19.4%	18.5%	0.9%

*CBK Coverage

What stood out for us?

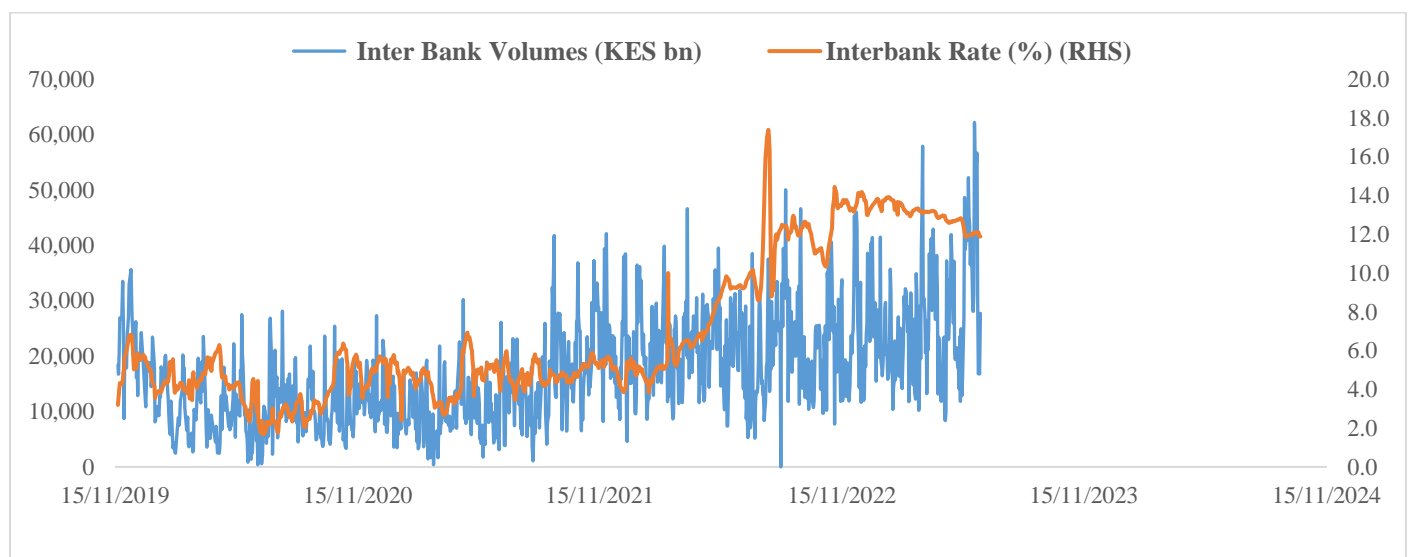
- **Lower-than-expected operating costs:** operating costs grew 9.3% y/y – 5.4% below our expectations – largely on the back of lower-than-expected staff costs (-6.0%).

Impact to our investment thesis

- Going forward, we expect to pare down our growth outlook on staff costs. Co-op bank is currently trading at a P/B of 0.7x. **Our current estimate of fair value of KES 18.33, implies an upside potential of 25.1% - a BUY recommendation.**

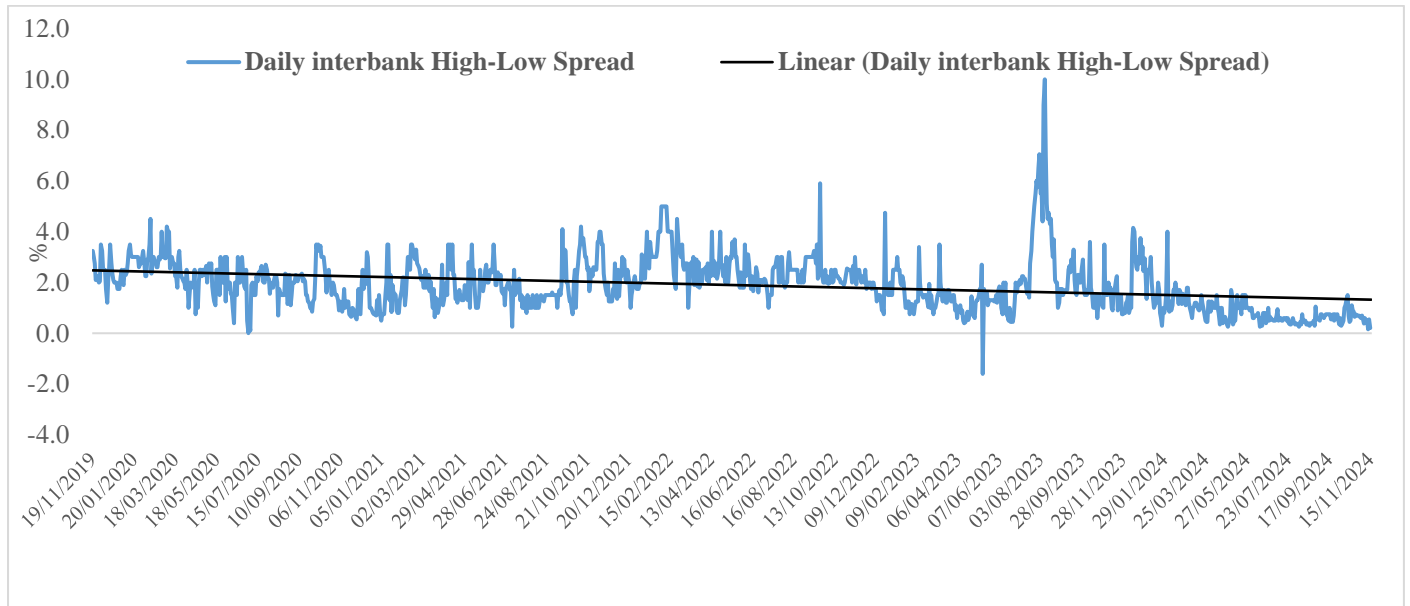
Key Rates and Spreads

Inter-bank Rates decline week on week.



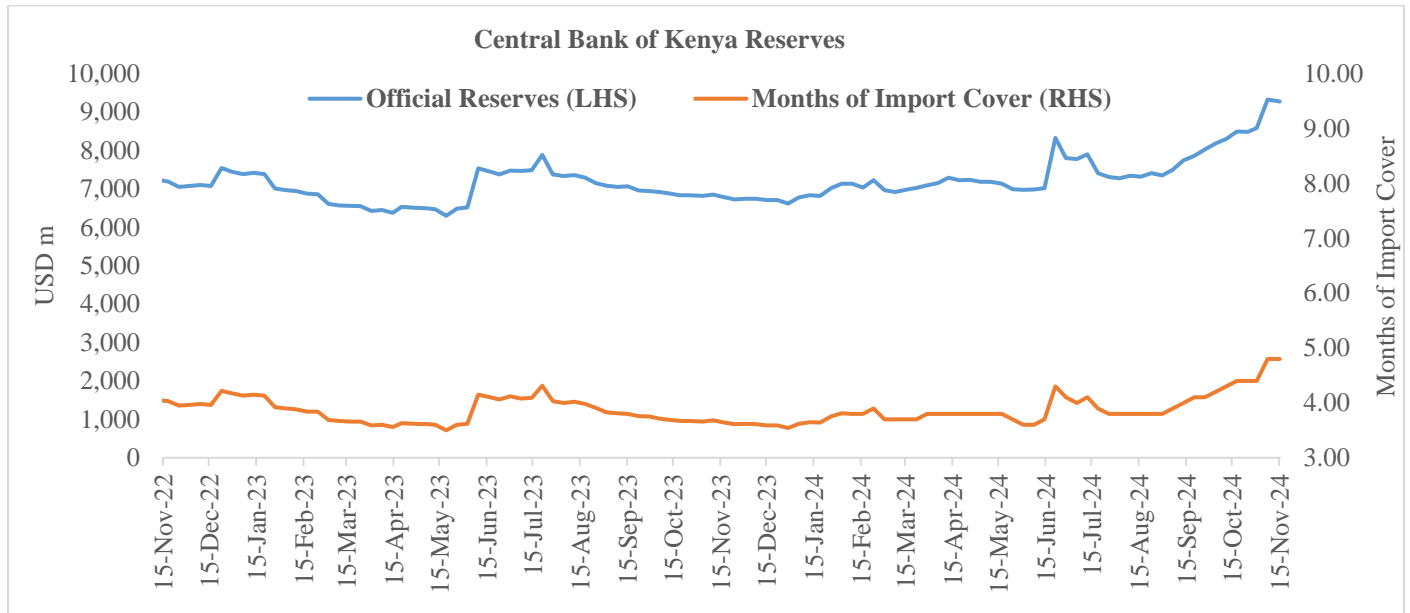
Source: CBK

Interbank spreads narrow for the fifth week straight.



Source: CBK

Months of import cover and CBK FX reserves remain stable.



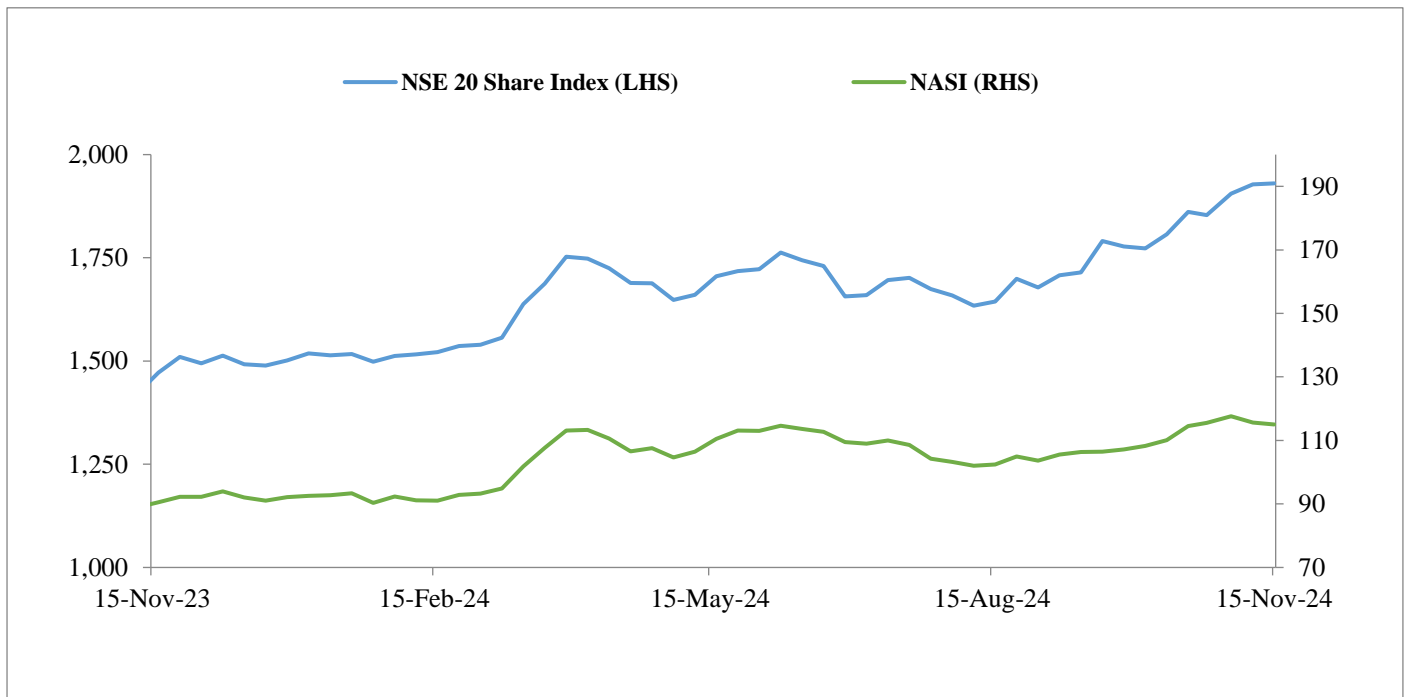
Source: CBK

Equity market trading commentary

Market turnover declined by 68.1%, to settle at USD 5.4m (KES 701.6m). The NASI retreated by 0.5% week-on-week to halt at 115.01, maintaining a two-week losing streak. The NSE-20 upsurged by 0.1 % to stop at 1930.23. Foreign investors emerged as net sellers repeatedly for the sixth week at USD 0.8m (KES 107.1m). Safaricom registered the highest net foreign outflows at USD 0.8m (KES 131.7m), while Equity Bank marked the highest net foreign inflows at USD 0.3m (KES 45.2m).

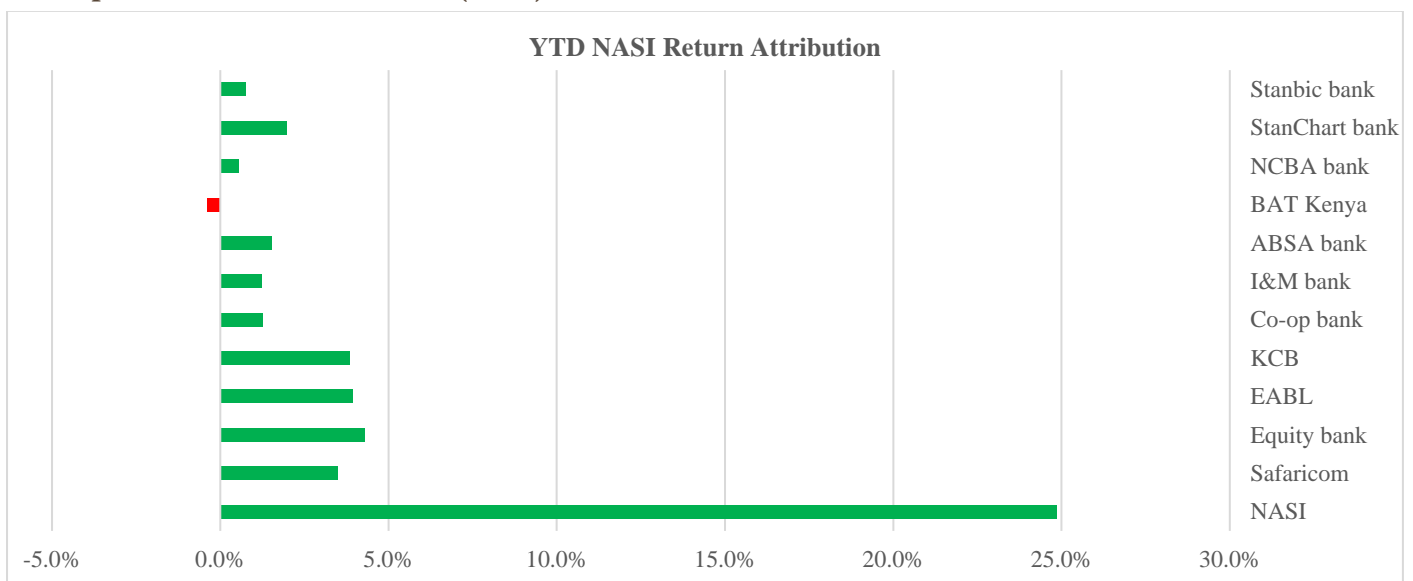
During the week, the NSE 20 declined for two days straight.

Market performance over the past 12 months



Source: NSE

NASI performance: Year-to-date (YTD) Return Attribution



Source: Kestrel Research

Debt market trading commentary

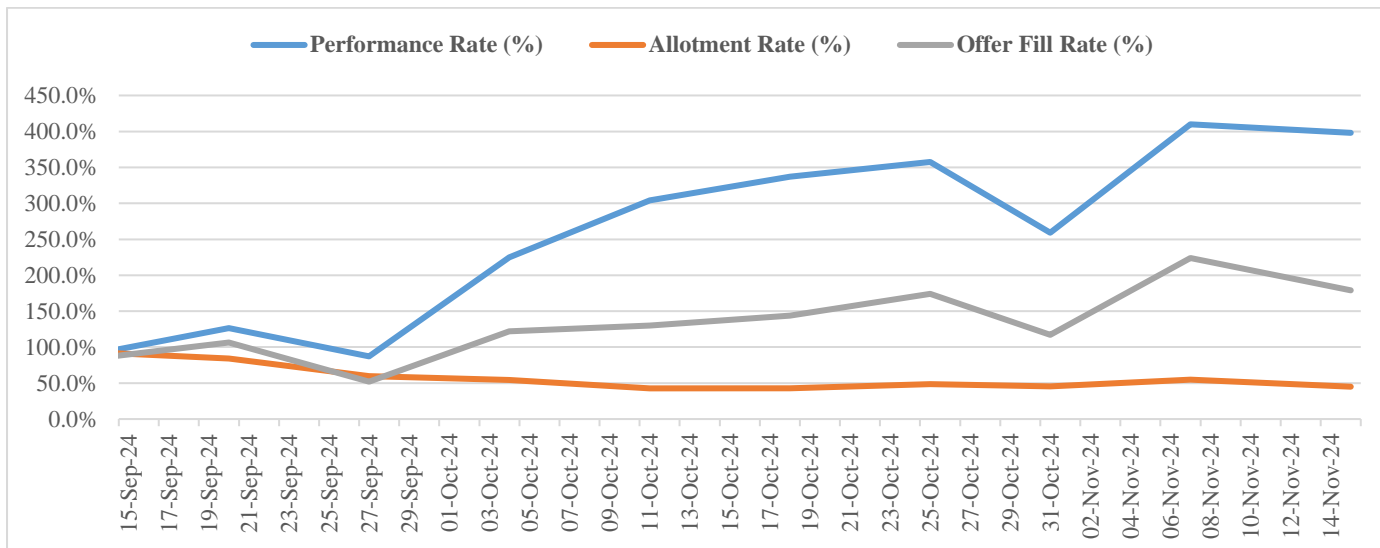
Total subscription rates slightly declined to 398.1% from 409.9% the previous week. Investors remained skewed on the 91-Day T-Bill, as activity declined for the 182-Day T-Bill and improved for the 91-Day and 364-Day T-Bill. The yield on all three T-Bills fell, with the 91-Day T-Bill sustaining a seventeen-week losing streak and the 182-Day T-Bill and the 364-Day T-Bill falling for the sixteenth week straight.

The CBK also offered KES 4.0bn for the 91-Day T-Bill and KES 10.0bn each for the 182-Day T-Bill and the 364-Day T-Bill. It received bids worth KES 30.4 bn for the 91-Day T-Bill, implying a subscription rate of 759.70%. It accepted bids worth KES 4.1 bn at an average yield of 13.791 % (-65.9 bps w/w).

The 182-Day T-Bill received bids worth KES 32.3 bn, implying a performance rate of 323.33%. It accepted bids worth KES 14.1 bn at an average yield of 13.059 % (-78.2 bps w/w).

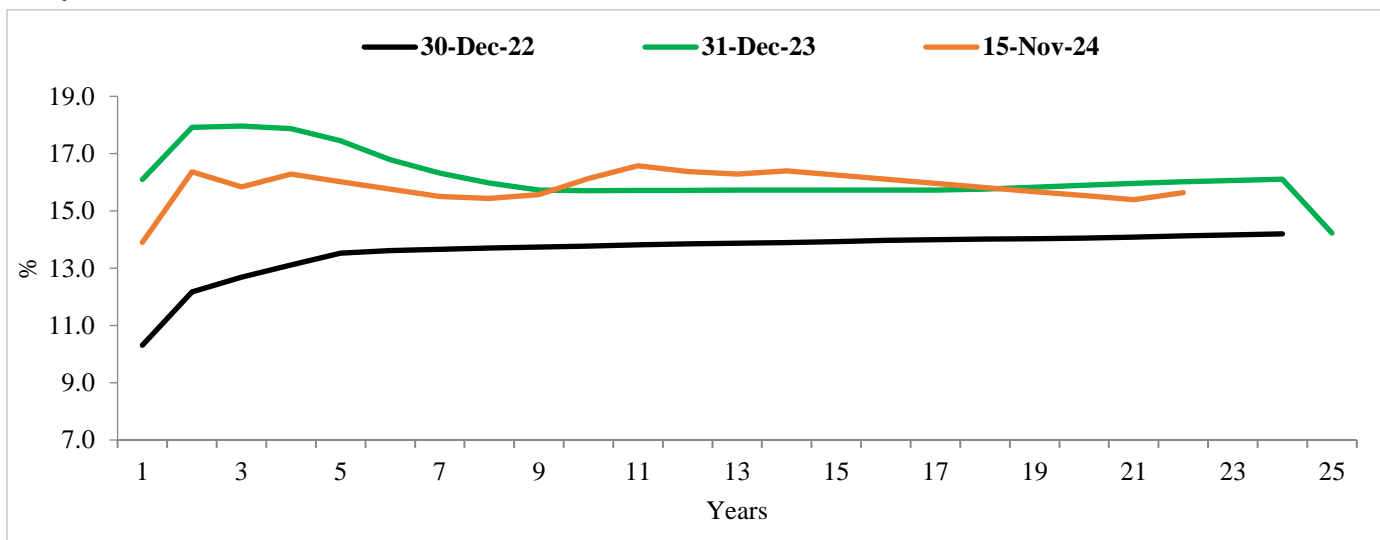
The 364-Day T-Bill received bids worth KES 32.8 bn, implying a performance rate of 328.18%. It accepted bids worth KES 24.8 bn at an average yield of 13.899 % (-54.8 bps w/w).

T-Bills Performance rates rise week-on-week



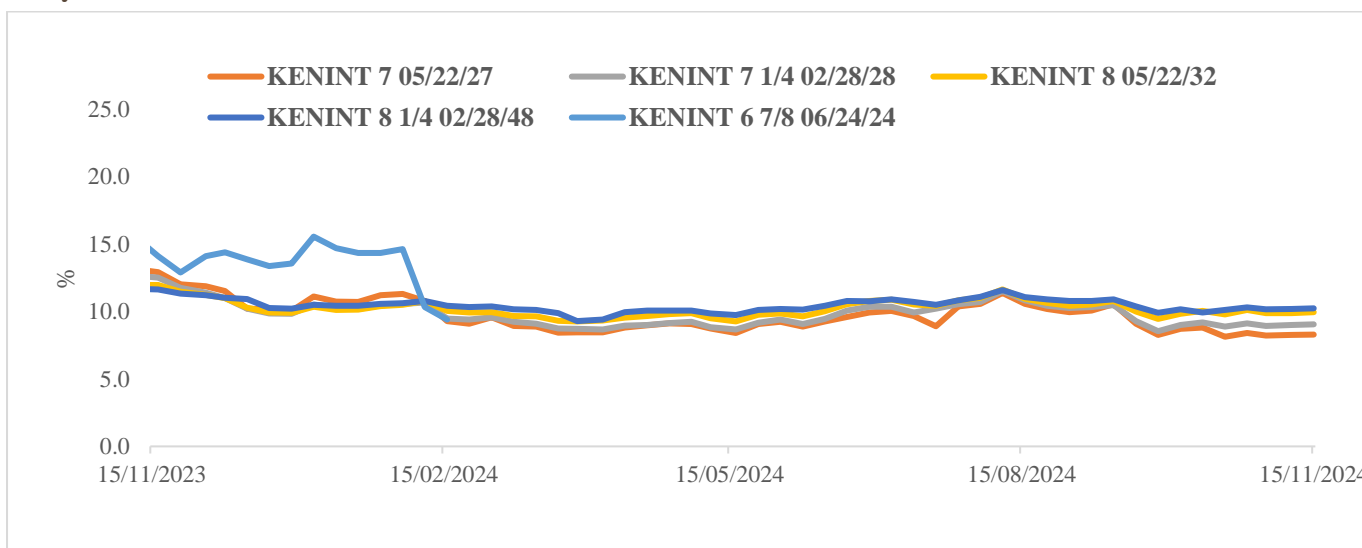
Source: CBK

Kenya Domestic Yield Curve



Source: CBK

Kenya Eurobond Yields rise week-on-week across all tenors.



Source: Bloomberg

Top counters by market capitalization

Company	Sector	Year end	12 M High	12 M Low	Price	YTD %	Market ¹ cap (USD m)	Weighting	EPS	DPS	NAV	P/E ratio x	Div yld %	P/B ratio x	ROE %	Daily Trading ¹ vol (USD)
Safaricom	Telecom	Mar	19.30	13.00	15.15	9.0	4,693	33.6%	1.06	1.20	4.7	14.2	7.9	3.2	22.7	771,433
Equity Bank	Banking	Dec	50.00	33.65	49.90	48.3	1,456	10.4%	11.94	4.00	48.7	4.2	8.0	1.0	24.5	195,133
EA Breweries	Breweries	Jun	199.75	100.00	185.00	62.3	1,131	8.1%	11.38	6.00	27.1	16.3	3.2	6.8	42.0	153,390
Co-op Bank	Banking	Dec	15.05	10.95	14.50	27.2	658	4.7%	4.10	1.50	18.4	3.5	10.3	0.8	22.2	39,228
NCBA Bank	Banking	Dec	45.20	35.45	43.80	12.5	558	4.0%	13.31	3.00	53.7	3.3	6.8	0.8	24.8	31,168
Absa Bank	Banking	Dec	15.55	10.95	15.45	34.9	649	4.6%	3.46	1.55	12.0	4.5	10.0	1.3	28.7	29,756
KCB Bank	Banking	Dec	39.55	18.45	39.10	78.5	971	6.9%	13.30	1.50	68.1	2.9	3.8	0.6	19.5	298,558
StanChart Bank	Banking	Dec	236.50	153.75	236.50	46.0	691	4.9%	45.54	37.00	158.0	5.2	15.6	1.5	28.8	37,238
Stanbic Bank	Banking	Dec	135.75	101.00	135.75	24.8	415	3.0%	31.16	15.00	140.8	4.4	11.0	1.0	22.1	17,537
BAT Kenya	Tobacco	Dec	436.75	331.75	350.75	-13.9	271	1.9%	48.82	54.02	163.8	7.2	15.4	2.1	29.8	80,814
BK Group	Banking	Dec	37.00	30.15	35.50	-0.8	246	1.8%	11.45	3.28	46.8	3.1	9.3	0.8	24.5	51,164
I&M Holdings	Banking	Dec	34.24	17.10	28.15	60.9	360	2.6%	8.13	2.55	47.8	3.5	9.1	0.6	17.0	41,894
Umeme Ltd.	Power	Dec	16.95	13.15	16.65	4.1	209	1.5%	0.26	0.92	22.0	63.7	5.5	0.8	1.2	3,621
Kenya Airways	Airlines	Dec	3.83	3.83	3.83	0.0	168	1.2%	2.63	-	(14.7)	1.5	-	-	-	-
Bamburi Cement	Cement	Dec	82.00	24.10	65.25	82.0	183	1.3%	(0.28)	5.47	82.1	-	98.6	0.1	(0.3)	49,497
KenGen	Power	Jun	4.13	1.96	3.97	97.5	202	1.4%	1.03	0.65	41.6	3.9	16.4	0.1	2.5	41,314
Jubilee Insurance	Insurance	Dec	200.00	150.00	164.00	-11.4	92	0.7%	67.32	12.00	613.8	2.4	7.3	0.3	11.0	9,548
DTB Bank	Banking	Dec	55.75	43.25	52.25	16.0	113	0.8%	25.83	6.00	256.8	2.0	11.5	0.2	10.1	21,465
Britam	Insurance	Dec	6.38	4.48	5.82	21.5	114	0.8%	1.45	-	9.2	4.0	-	0.6	15.6	2,101
Total Oil	Oil	Dec	23.75	15.80	21.05	16.9	102	0.7%	5.12	1.92	48.0	4.1	9.1	0.4	10.7	702
Kakuzi	Agric	Dec	440.00	353.50	397.00	3.1	60	0.4%	34.98	24.00	303.5	11.3	6.0	1.3	11.5	2,188
CIC Insurance	Insurance	Dec	2.52	1.98	2.21	-1.3	45	0.3%	0.55	-	3.3	4.0	-	0.7	16.9	1,399
Centum Investment	Finance	Mar	9.92	7.88	9.58	14.0	49	0.4%	(8.95)	0.32	55.8	-	3.3	0.2	(16.1)	15,436
ARM Cement	Cement	Dec	5.55	5.55	5.55	0.0	41	0.3%	(7.77)	-	19.8	-	-	0.3	(39.2)	-
Crown Paints	Manufac.	Dec	40.05	29.50	31.00	-13.0	34	0.2%	(0.47)	4.00	24.1	-	6.1	2.7	(2.0)	49,497
Kenya Re	Insurance	Dec	2.87	1.04	1.10	-41.5	24	0.2%	1.78	0.30	13.4	0.6	27.3	0.1	13.2	29,720
Sasini Tea & Coffee	Agric	Sept	22.00	15.70	15.95	-20.3	28	0.2%	3.11	0.50	61.7	5.1	3.1	0.3	5.0	934
Carbacid	Gases	July	24.10	14.55	19.90	32.7	39	0.3%	4.01	1.70	13.6	5.0	8.5	1.5	12.6	7,225
Nation Media	Media	Dec	22.00	14.10	14.25	-28.9	21	0.1%	(5.09)	-	43.1	-	-	0.3	(11.8)	1,319
Kenya Power	Power	Jun	5.24	1.35	4.69	230.3	71	0.5%	15.41	0.70	29.1	0.3	14.9	0.2	52.9	54,343
TPSEA Serena	Tourism	Dec	20.05	11.00	14.70	-10.6	21	0.1%	8.08	-	33.3	1.8	-	0.4	24.3	234
Liberty K. Holdings	Insurance	Dec	8.00	3.50	7.90	114.1	33	0.2%	2.04	0.37	15.9	3.9	4.7	0.5	12.8	254
BOC Kenya	Gases	Dec	95.00	67.00	89.00	8.5	13	0.1%	10.73	8.55	85.1	8.3	9.6	1.0	12.6	2,712
NSE	Finance	Dec	6.62	5.44	5.96	-1.0	12	0.1%	0.21	0.16	7.1	28.3	2.7	0.8	3.0	4,043
Housing Finance	Banking	Dec	4.79	3.25	3.78	8.6	11	0.1%	1.23	-	20.5	3.1	-	0.2	6.0	247
Unga Ltd	Food	Jun	17.70	11.45	16.40	-2.7	10	0.1%	(18.92)	-	58.3	-	-	0.3	(32.4)	386
Sanlam Kenya	Insurance	Dec	7.60	5.52	6.00	0.0	7	0.0%	2.27	-	3.9	2.6	-	1.5	58.6	1,399
Car & Gen	Motors	Sept	30.40	18.85	23.00	-8.0	7	0.1%	(7.68)	-	135.8	-	-	0.2	(5.7)	156
Limuru Tea	Agric	Dec	380.00	365.00	365.00	-3.9	7	0.0%	0.11	1.00	80.9	3,208.8	0.3	4.5	0.1	28
WPP Scangroup	Media	Dec	2.80	1.90	2.22	1.8	7	0.1%	0.06	-	11.9	34.9	-	0.2	0.5	853
EA Portland	Cement	Jun	50.75	4.46	42.75	434.4	30	0.2%	(14.13)	-	239.8	-	-	0.0	(5.9)	1,181
Standard Newspapers	Media	Dec	8.70	5.10	5.40	-30.2	3	0.0%	(10.05)	-	0.4	-	-	12.3	(2,284)	32
Longhorn	Publishing	Jun	2.6	2.02	2.50	3.7	5	0.0%	(2.45)	-	2.8	-	-	0.9	(88.1)	49
TransCentury	Finance	Dec	0.71	0.32	0.40	-23.1	1	0.0%	(6.72)	-	(9.5)	-	-	-	-	481
Average												13.4	9.1	2.2	21.9	2,063,512

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