

Stock Recommendation

Company	*Fair (KES)	Value	Closing (KES)	Price	Upside/downside (%)	Current Rating
Safaricom		30.71		17.40	76.5%	BUY
Equity bank		43.67		44.85	-2.6%	HOLD
KCB bank		47.26		31.85	48.4%	BUY
Co-op bank		20.46		12.75	60.5%	BUY
ABSA bank		12.89		12.95	-0.5%	HOLD
StanChart bank		138.26		185.00	-25.3%	SELL
NCBA bank		40.68		38.30	6.2%	HOLD
I&M bank		33.32		18.10	84.1%	BUY
Stanbic bank		108.85		124.75	-12.7%	HOLD
DTB bank		116.13		50.00	132.3%	BUY
EABL		151.28		154.50	-2.1%	HOLD
Bamburi Cement		44.37		48.00	-7.6%	HOLD
BAT Kenya		460.00		407.50	12.9%	HOLD

Kenya Market Summary

Equity market commentary and outlook

- During the week, Safaricom hit a 5-weeks high on account of local demand. Co-op Bank traded close to a 9-day high on increased local demand. Absa Bank touched a 9-day high on account of local demand. KCB Bank marked a 7-weeks high on the back of local demand. BAT Kenya retreated to a 9-day low on account of local selling.

Debt market commentary and outlook

- Overall subscription rates reduced to 194.8% from 223.6% the previous week. Investors remained skewed on the 91-Day T-Bill. Activity decreased on the 91-Day T-Bill and the 182-Day T-Bill, and improved on the 364-Day T-Bill. The yield on all three T-Bills rose, with the 91-Day T-Bill increasing for the fifth consecutive week and the 182-Day T-Bill along with the 364-Day T-Bill climbed up for the third straight week.

Key Market Indicators

Index Returns	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Kenya NSE 20 Index Return	1,670.1	0.6%	-1.1%	10.3%	15.7%	8.8%	11.3%
Kenya NASI Return	109.0	4.1%	2.3%	17.5%	27.1%	5.8%	18.3%

Source: NSE, Kestrel Research

NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	3.4%	5.2%	33.6%	42.0%	17.3%	42.4%
Johannesburg Index	2.7%	14.0%	12.1%	6.3%	8.7%	3.9%
Nigeria Stock Exchange	-5.3%	-25.0%	-7.7%	-28.2%	-42.6%	-21.0%
Ghana Stock Exchange	0.4%	0.5%	2.5%	2.7%	9.5%	0.0%
Egyptian Stock Exchange	1.6%	-4.9%	-40.5%	-30.3%	2.8%	-30.2%
MSCI EFM ex SA Index	1.3%	1.1%	-13.7%	-12.4%	-4.4%	-11.4%

Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
USD/KES	131.22	-0.1%	1.6%	10.7%	17.4%	4.8%	19.5%
USD/ZAR	18.17	1.5%	5.2%	3.9%	0.8%	7.1%	1.1%
USD/EGP	46.91	1.0%	0.9%	-34.1%	-33.9%	-34.7%	-34.1%
USD/NGN	1515.00	-5.2%	-28.7%	-1.3%	-47.2%	-69.5%	-39.8%
USD/GHS	14.30	-2.2%	-5.9%	-12.8%	-15.9%	-24.7%	-16.4%

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
Equity Bank	237.4	-25.8	68.5%	7.0%	33.3%	-2.7%	42.2%
Safaricom	183.8	31.4	72.9%	5.5%	25.2%	-10.9%	50.6%
KCB Bank	130.3	47.1	47.9%	6.0%	45.4%	-5.6%	91.1%
Co-op Bank	69.0	-1.6	1.5%	5.4%	11.8%	-0.7%	46.6%
BAT Kenya	62.0	-27.9	22.6%	-0.6%	0.0%	-9.5%	3.2%

Equity 1Q24 EPS up 25.2% y/y - Ahead of our Estimates

Equity bank published its 1Q24 results. Reported EPS - KES 4.08, +25.2% y/y, buoyed by the both funded and non-funded income, leading total income up 25.0% y/y, as well as a lower effective tax (21.5% vs. 24.2%). However, increased operating costs (+19.7% y/y) and loan loss provisions (+74.5% y/y) weighed on the bottom line. Against our estimates, earnings run ahead by 55.1%, on the back of better-than-expected non-funded income (+48.9%) and lower-than-expected loan loss provisions (-33.3%).

Summary Performance Table

	Reported	Forecast	Variance
NIM	7.8%	7.2%	0.6%
NIR growth	28.4%	33.2%	-4.8%
NFI mix	44.4%	34.1%	10.3%
NFI growth	21.0%	-18.7%	39.7%
CoR	2.7%	3.5%	-0.8%
CTI	47.1%	46.9%	0.2%
OpEx Growth	19.7%	4.3%	15.4%
EPS	4.08	2.63	55.1%
DPS	0.00	0.00	0.0%
Net Loan growth	3.0%	19.0%	-16.0%
Deposit growth	11.3%	20.7%	-9.4%
NPL Ratio	13.4%	10.3%	3.1%
NPL Coverage*	49.8%	48.8%	1.0%
ROE	28.2%	17.8%	10.4%

*CBK Coverage

What stood out for us?

- **Higher-than-expected non-funded income:** non-funded income grew 21.0% y/y, attributable to fee income (+22.6% y/y), driven by trade finance & other fees & commissions, exceeding our forecasts by 37.3%. However, FX income declined (-25.6% y/y) on account of lower spreads as FX volatility waned off.
- **Lower-than-expected loan loss provisions:** provisions were 33.3% lower than our estimates, We had factored a higher cost of risk owing to the elevated credit. However, management noted while the NPL ratio of 13.4% overrun its target range, they expected the NPLs to peak. Of note, the increase in NPL was driven by large corporate exposure in DRC, emanating from the logistics/FMCG sector. Deterioration in retail segment was witnessed across the subsidiaries.

Impact to our investment thesis

- Looking ahead, we expect to retain our cost of risk outlook and revise upwards our NPLs projections, on the back of elevated credit risk. Equity bank is currently trading at a P/B of 0.8x. **Our estimate of fair value of 43.67, implies a downside potential of 1.0% - a HOLD recommendation.**

Stanbic bank 1Q24 EPS grew 2.7% y/y - Above our Expectations

Stanbic Bank published its 1Q24 results. Reported EPS - KES 23.43, +2.7% y/y, largely driven by funded (+19.6% y/y) and well managed operating costs (-18.9% y/y). However, non-funded income was down 34.0% y/y, owing to a higher based effect (one-off corporate deal in 1Q23) and reduced FX income (-44.0% y/y). Earnings came in 23.4% above estimates, largely on account of lower-than-expected operating costs (-30.5%).

Summary Performance Table

	Reported	Forecast	Variance
NIM	5.3%	6.2%	-0.9%
NIR growth	19.6%	18.3%	1.3%
NFI mix	36.9%	39.3%	-2.4%
NFI growth	-34.0%	-27.6%	-6.4%
CoR	1.6%	0.9%	0.7%
CTI	35.7%	49.9%	-14.2%
OpEx Growth	-18.9%	16.7%	-35.6%
EPS	23.43	18.99	23.4%
DPS	0.00	0.00	0.0%
Net Loan growth	11.1%	6.8%	4.3%
Deposit growth	22.2%	5.1%	17.1%
NPL Ratio	8.6%	10.7%	-2.1%
NPL Coverage*	64.0%	69.7%	-5.7%
ROE	25.9%	21.4%	4.5%

*CBK Coverage

What stood out for us?

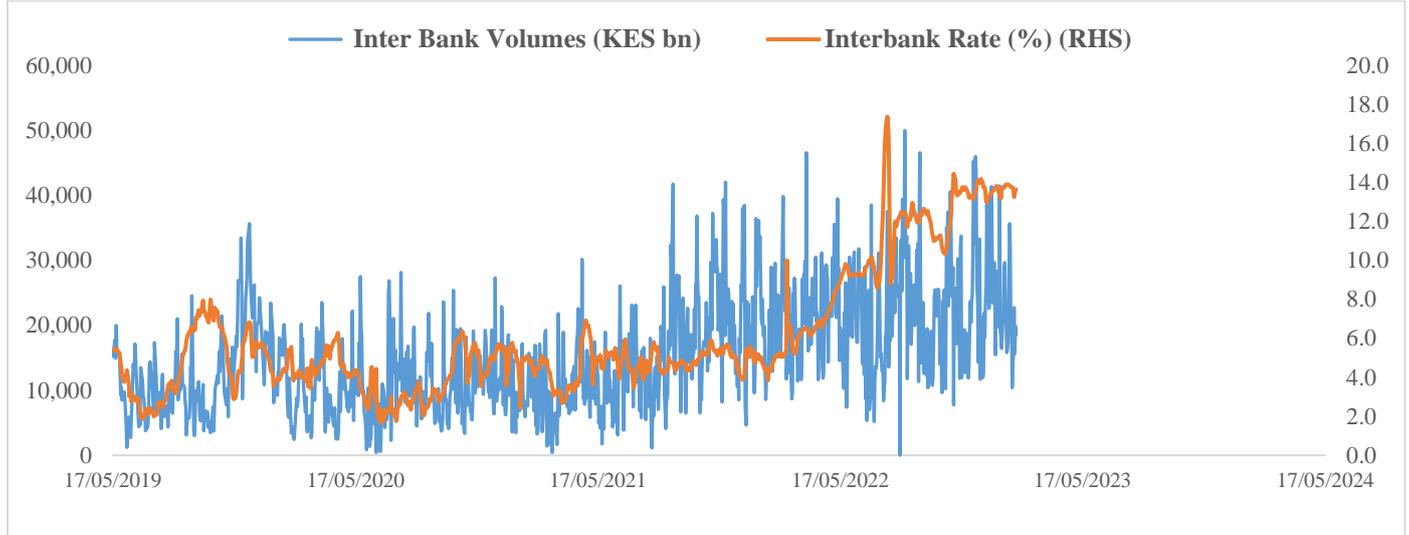
- **Lower-than-expected operating costs:** operating costs decreased by 18.9% y/y, mainly on the back of lower other operating costs (-38.7% y/y), thereby falling 30.5% below our forecasts. Also, the cost components benefited from KES appreciation for contracts in FCY. Management noted they allowed the earlier investments in IT & digital platforms to realize their efficiencies in the business.
- **Higher-than-expected interest expenses:** on account of steep funding costs & deposits mobilisation, interest expenses grew 130.2% y/y, significantly outpacing our expectations. Local currency liquidity constraints prevailed, necessitating paying up for deposits amid increased competition.

Impact to our investment thesis

- Stanbic Bank is currently trading at a P/B of 0.8x. We expect to raise our cost of funds outlook. **Our estimate of fair value of KES 108.85, implies a downside potential of 12.9%, a HOLD recommendation.**

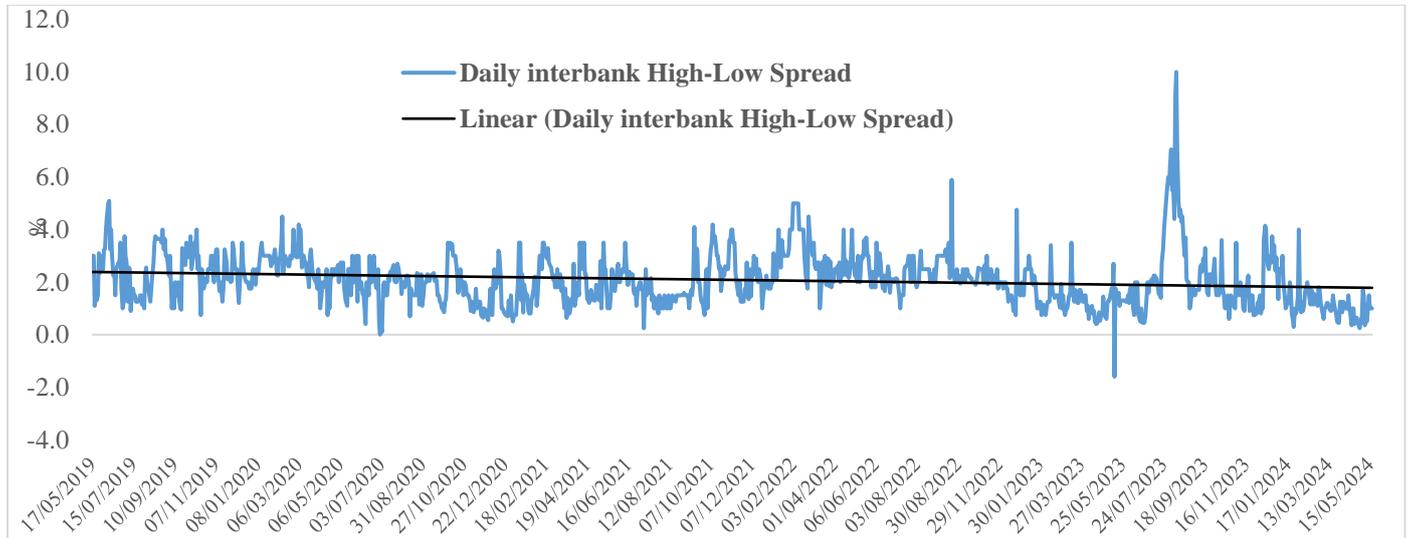
Key Rates and Spreads

Inter-bank Rates decline week-on-week to a 6-weeks low



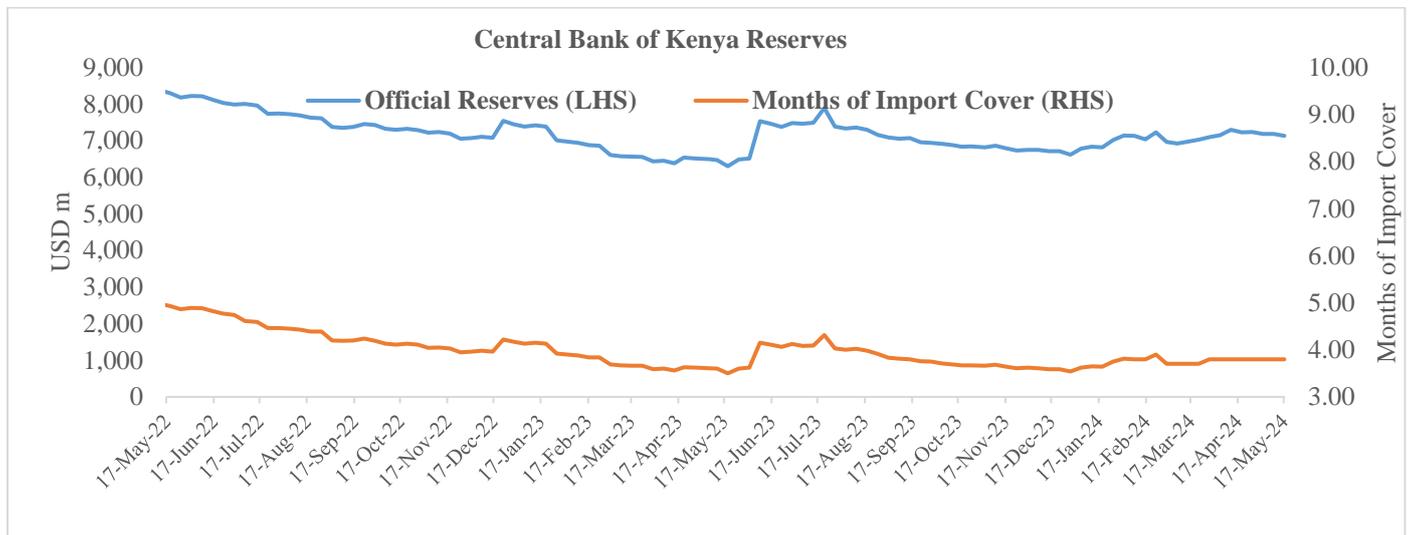
Source: CBK

Inter-bank Spreads widen week-on-week



Source: CBK

Months of import cover remain steady while CBK FX reserves decline slightly week-on-week



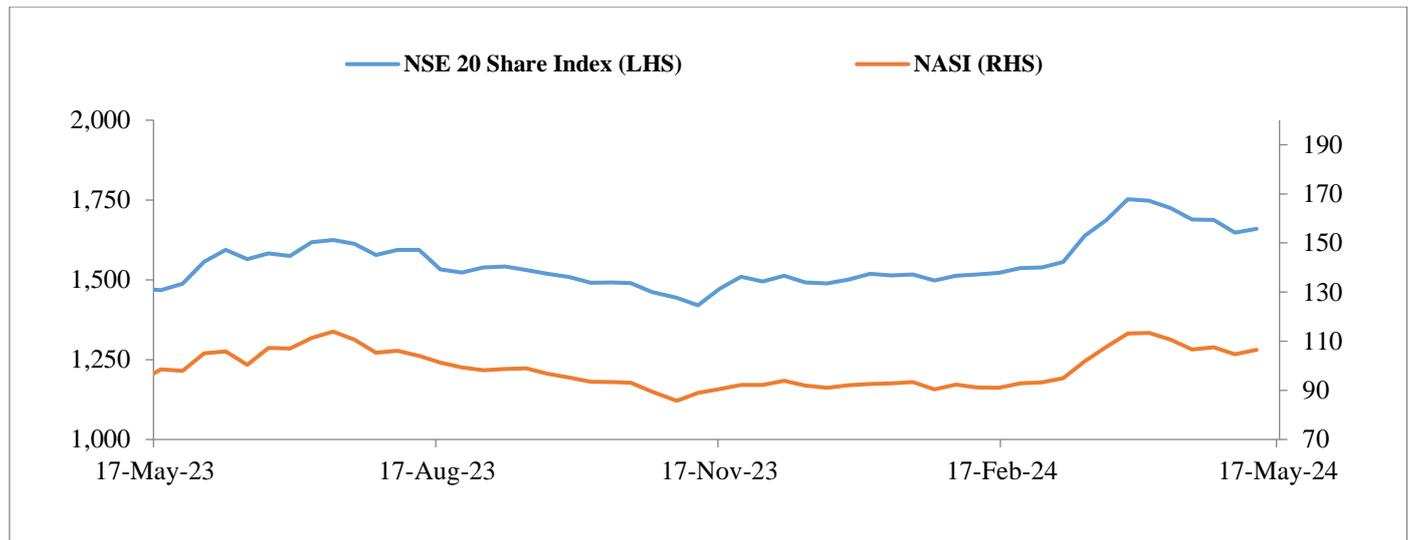
Source: CBK

Equity market trading commentary

Market turnover declined by 16.4% to stand at USD 7.2m (KES 945.1m). The NASI improved by 4.1% to settle at 109.01, and the NSE 20 gained 0.6%, maintaining a 2-week gaining streak to end at 1,670.05. Foreign investors turned net sellers at USD 0.4m (KES 55.8m). EABL, BAT Kenya and Equity recorded the highest net foreign outflows. On the other hand, KCB bank and Safaricom registered the highest net foreign inflows.

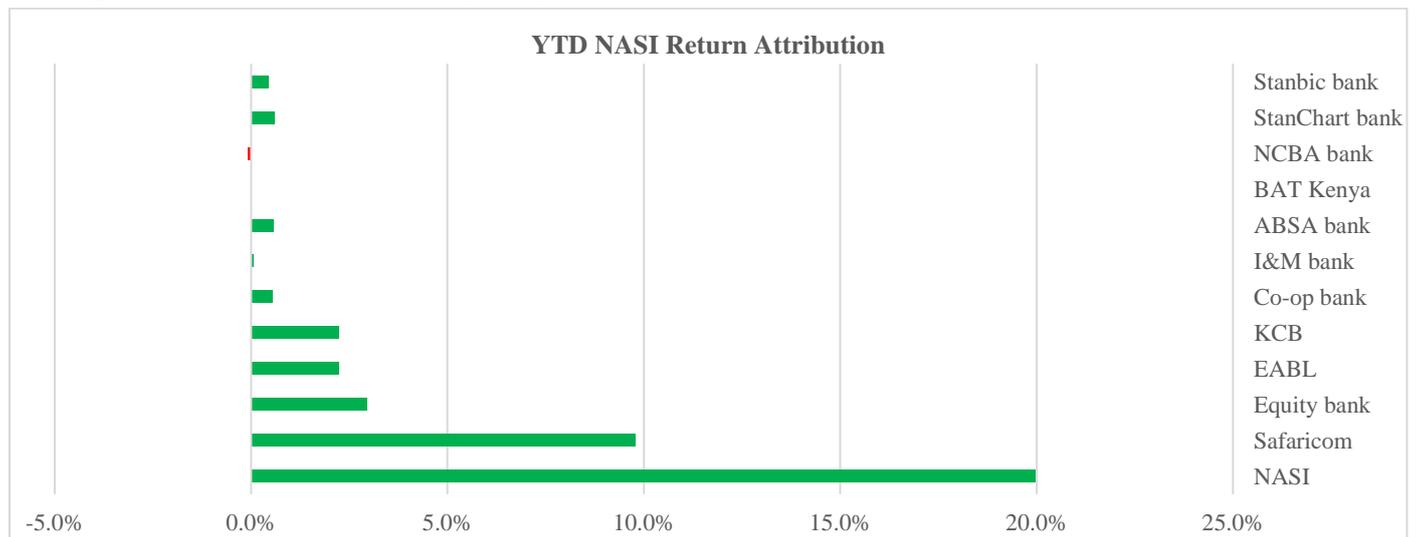
During the week, Safaricom hit a 5-weeks high on account of local demand. Co-op Bank traded close to a 9-day high on increased local demand. Absa Bank touched a 9-day high on account of local demand. KCB Bank marked a 7-weeks high on the back of local demand. BAT Kenya retreated to a 9-day low on account of local selling.

Market performance over the past 12 months



Source: NSE

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



Source: Kestrel Research

Debt market trading commentary

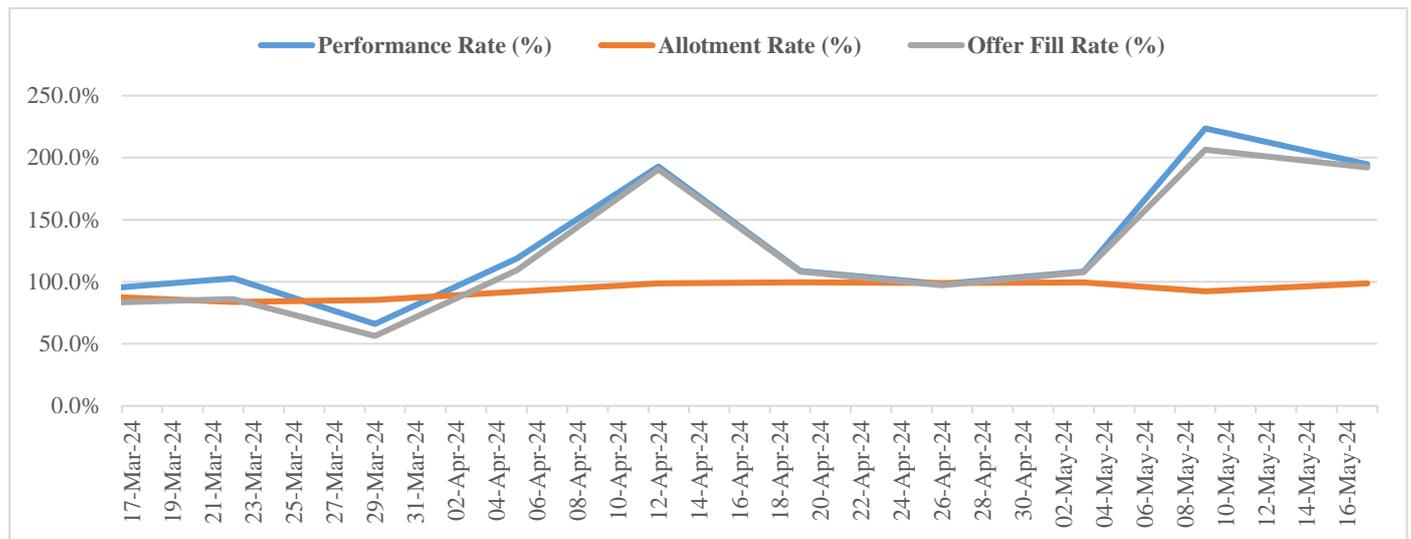
Overall subscription rates reduced to 194.8% from 223.6% the previous week. Investors remained skewed on the 91-Day T-Bill. Activity decreased on the 91-Day T-Bill and the 182-Day T-Bill, and improved on the 364-Day T-Bill. The yield on all three T-Bills rose, with the 91-Day T-Bill increasing for the fifth consecutive week and the 182-Day T-Bill along with the 364-Day T-Bill climbed up for the third straight week.

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 13.0bn for the 91-Day T-Bill, implying a subscription rate of 325.35%. It accepted bids worth KES 12.7bn at an average yield of 15.937% (+3.3 bps w/w).

The 182-Day T-Bill received bids worth KES 18.0bn, implying a performance rate of 180.44%. It accepted bids worth KES 17.8bn at an average yield of 16.518% (+1.6 bps w/w).

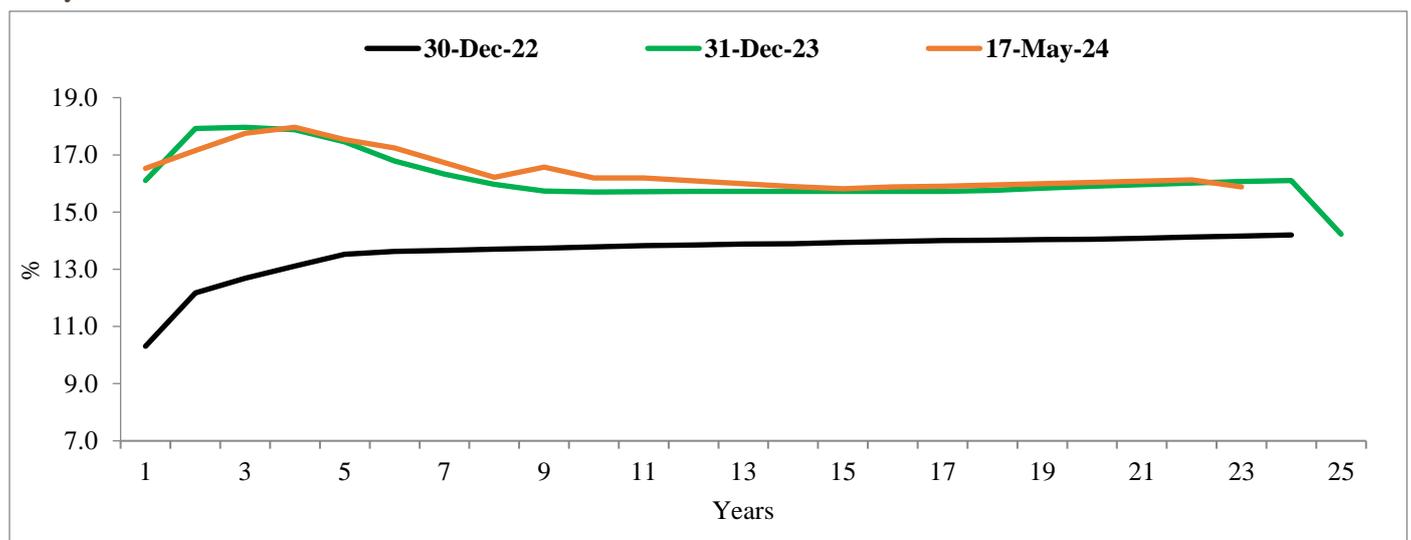
The 364-Day T-Bill received bids worth KES 13.4bn, implying a performance rate of 134.39%. It accepted bids worth KES 13.1bn at an average yield of 16.530% (+2.3 bps w/w).

T-Bills Performance rates all decrease week-on-week



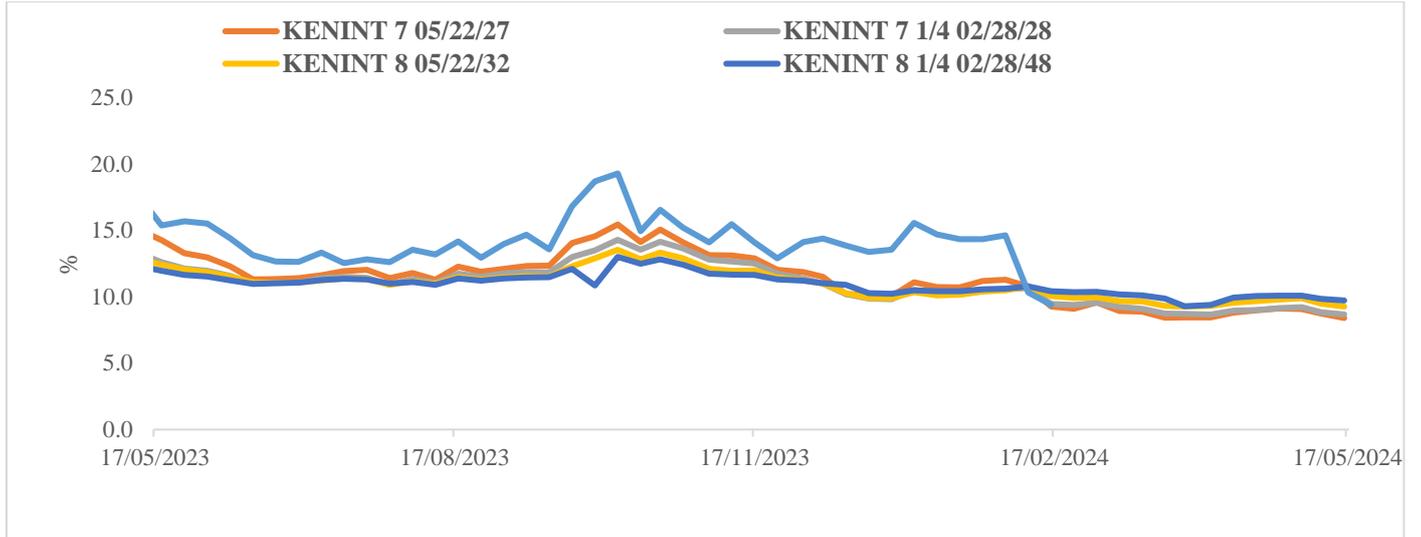
Source: CBK

Kenya Domestic Yield Curve



Source: CBK

Kenya Eurobond Yields: Yields across all tenors decline for the second week straight



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	19.70	11.65	17.40	25.2	5,333	29.8%	1.55	1.20	4.7	11.2	6.9	3.7	33.2	1,039,112
Equity Bank	Banking	Dec	49.20	33.65	44.85	33.3	1,295	7.2%	12.22	4.00	48.7	3.7	8.9	0.9	25.1	748,889
EA Breweries	Breweries	Jun	167.00	100.00	154.50	35.5	935	5.2%	12.47	5.50	27.1	12.4	3.6	5.7	46.1	10,679
Co-op Bank	Banking	Dec	15.05	10.20	12.75	11.8	572	3.2%	3.98	1.50	18.4	3.2	11.8	0.7	21.6	82,785
NCBA Bank	Banking	Dec	45.20	32.25	38.30	-1.7	483	2.7%	9.48	3.00	53.7	4.0	7.8	0.7	17.6	15,568
Absa Bank	Banking	Dec	14.20	10.35	12.95	13.1	538	3.0%	2.98	1.55	12.0	4.3	12.0	1.1	24.8	51,921
KCB Bank	Banking	Dec	31.90	15.75	31.85	45.4	783	4.4%	12.47	-	68.1	2.6	-	0.5	18.3	534,034
StanChart Bank	Banking	Dec	201.25	140.00	185.00	14.2	535	3.0%	34.62	29.00	158.0	5.3	15.7	1.2	21.9	34,742
Stanbic Bank	Banking	Dec	130.00	97.25	124.75	14.7	377	2.1%	28.71	15.35	140.8	4.3	12.3	0.9	20.4	33,752
BAT Kenya	Tobacco	Dec	457.25	401.25	407.50	0.0	312	1.7%	55.68	50.00	163.8	7.3	12.3	2.5	34.0	1,608
BK Group	Banking	Dec	37.00	29.65	34.00	-5.0	233	1.3%	7.55	3.28	46.8	4.5	9.7	0.7	16.1	26,090
I&M Holdings	Banking	Dec	22.65	15.85	18.10	3.4	229	1.3%	7.35	2.55	47.8	2.5	14.1	0.4	15.4	20,164
Umeme Ltd.	Power	Dec	17.75	9.98	15.85	-0.9	197	1.1%	3.03	2.12	20.7	5.2	13.4	0.8	14.7	36,064
Kenya Airways	Airlines	Dec	3.83	3.83	3.83	0.0	166	0.9%	(2.79)	-	(14.7)	-	-	-	-	-
Bamburi Cement	Cement	Dec	48.95	22.50	48.00	33.9	133	0.7%	2.15	5.47	82.1	22.3	11.4	0.6	2.6	-
KenGen	Power	Jun	2.52	1.96	2.28	13.4	115	0.6%	0.76	0.30	41.6	3.0	13.2	0.1	1.8	36,064
Jubilee Insurance	Insurance	Dec	200.00	170.00	176.00	-4.9	98	0.5%	68.38	14.00	613.8	2.6	8.0	0.3	11.1	833
DTB Bank	Banking	Dec	55.75	44.05	50.00	11.0	107	0.6%	22.56	6.00	256.8	2.2	12.0	0.2	8.8	19,228
Britam	Insurance	Dec	5.82	4.12	5.60	16.9	108	0.6%	0.53	-	9.2	10.6	-	0.6	5.7	833
Total Oil	Oil	Dec	21.85	15.80	20.35	13.1	98	0.5%	3.88	1.31	48.0	5.2	6.4	0.4	8.1	954
Kakuzi	Agric	Dec	429.75	360.00	396.00	2.9	59	0.3%	43.15	24.00	303.5	9.2	6.1	1.3	14.2	154
CIC Insurance	Insurance	Dec	2.52	1.68	2.25	0.4	45	0.3%	0.42	0.13	3.3	5.4	5.8	0.7	12.8	122,981
Centum Investment	Finance	Mar	9.50	7.88	8.68	3.3	44	0.2%	(8.95)	0.60	55.8	-	6.9	0.2	(16.1)	3,796
ARM Cement	Cement	Dec	5.55	5.55	5.55	0.0	41	0.2%	(7.77)	-	19.8	-	-	0.3	(39.2)	-
Crown Paints	Manufac.	Dec	44.80	33.30	36.60	2.7	40	0.2%	5.13	4.00	24.1	7.1	10.9	1.5	21.3	27,073
Kenya Re	Insurance	Dec	2.21	1.70	2.00	6.4	43	0.2%	1.17	0.10	13.4	1.7	5.0	0.1	8.7	13,803
Sasini Tea & Coffee	Agric	Sept	31.00	17.65	19.00	-5.0	33	0.2%	3.82	1.00	61.7	5.0	5.3	0.3	6.2	502
Carbacid	Gases	July	17.55	12.50	16.80	12.0	33	0.2%	2.98	0.70	13.6	5.6	4.2	1.2	21.9	2,101
Nation Media	Media	Dec	22.00	15.35	22.00	9.7	32	0.2%	16.74	1.49	43.1	1.3	6.8	0.5	38.9	8,485
Kenya Power	Power	Jun	1.86	1.35	1.60	12.7	24	0.1%	(1.64)	-	29.1	-	-	0.1	(5.6)	23,654
TPSEA Serena	Tourism	Dec	20.05	11.00	13.75	-16.4	19	0.1%	(3.47)	-	33.3	-	-	0.4	(10.4)	426
Liberty K. Holdings	Insurance	Dec	5.66	3.45	5.50	49.1	23	0.1%	0.15	-	15.9	36.0	-	0.3	1.0	122,981
BOC Kenya	Gases	Dec	90.00	67.00	88.75	8.2	13	0.1%	7.58	5.95	85.1	11.7	6.7	1.0	8.9	1,608
NSE	Finance	Dec	6.62	5.52	6.00	-0.3	12	0.1%	0.05	0.20	7.1	113.5	3.3	0.8	0.7	1,628
Housing Finance	Banking	Dec	5.10	3.25	4.33	24.4	13	0.1%	(1.45)	-	20.5	-	-	0.2	(7.1)	2,262
Unga Ltd	Food	Jun	20.00	13.50	14.50	-13.9	8	0.0%	2.48	-	58.3	5.9	-	0.2	4.2	-
Sanlam Kenya	Insurance	Dec	8.54	5.60	6.38	6.3	7	0.0%	(3.77)	-	3.9	-	-	1.6	(97.1)	122,981
Car & Gen	Motors	Sept	41.50	21.30	24.00	-4.0	7	0.0%	26.33	3.20	135.8	0.9	13.3	0.2	19.4	114
Limuru Tea	Agric	Dec	430.00	380.00	380.00	0.0	7	0.0%	4.73	1.00	80.9	80.4	0.3	4.7	5.8	19
WPP Scangroup	Media	Dec	3.18	1.99	2.15	-1.4	7	0.0%	(0.30)	-	11.9	-	-	0.2	(2.5)	751
EA Portland	Cement	Jun	9.40	5.32	6.32	-21.0	4	0.0%	6.02	-	239.8	1.1	-	0.0	2.5	1,190
Standard Newspapers	Media	Dec	9.80	5.10	6.26	-19.1	4	0.0%	(10.05)	-	0.4	-	-	14.2	(2,284)	34
Longhorn	Publishing	Jun	2.93	2.01	2.45	1.7	5	0.0%	0.62	-	2.8	4.0	-	0.9	22.2	44
TransCentury	Finance	Dec	0.95	0.40	0.55	5.8	2	0.0%	(6.72)	-	(9.5)	-	-	-	-	3,796
Average												5.8	5.7	1.7	18.9	3,159,295

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