

## Stock Recommendation

Company	Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	31.11	15.00	107.4%	BUY
Equity bank	58.81	38.40	53.2%	BUY
KCB bank	62.39	30.85	102.2%	BUY
Co-op bank	18.13	12.25	48.0%	BUY
ABSA bank	12.32	10.40	18.5%	BUY
StanChart bank	108.61	140.00	-22.4%	SELL
NCBA bank	38.68	32.60	18.7%	BUY
I&M bank	30.56	17.00	79.8%	BUY
Stanbic bank	89.16	110.00	-18.9%	SELL
DTB bank	122.70	46.00	166.7%	BUY
EABL	164.58	147.00	12.0%	HOLD
Bamburi Cement	51.96	24.00	116.5%	BUY
BAT Kenya	544.27	457.25	19.0%	BUY

## Kenya Weekly Commentary

### Kenya Market Summary

#### Equity market commentary and outlook

- During the week, Safaricom bounced back to a 6-day high on the back of foreign demand, after marking an 8-year low last week. On the back of foreign investors' sell-off, Equity bank touched a 36-day low and BAT Kenya hit a 1-month low.

#### Debt market commentary and outlook

- Overall subscription rates declined to 150.1%, down from 188.9% registered the previous week. Demand remained solid on the 91-Day T-Bill and picked up on the 364-Day T-Bill. Yields across the 91-Day T-Bill and 364-Day T-Bill tenor notched upwards for the twentieth consecutive week and the yield on the 182-Day T-Bill edged up for the sixth straight week.

### Key Market Indicators

Index Returns	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Kenya NSE 20 Index Return	1,467.8	-0.3%	-7.9%	-12.2%	-11.8%	-12.7%	-12.4%
Kenya NASI Return	98.5	5.3%	-8.6%	-23.2%	-23.6%	-25.7%	-22.7%
FTSE NSE Kenya 15 Return	170.1	0.0%	0.0%	0.0%	0.0%	-1.6%	0.0%
FTSE NSE Kenya 25 Return	170.3	0.0%	0.0%	0.0%	0.0%	-4.1%	0.0%

Source: NSE, Kestrel Research

### NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	4.6%	-10.1%	-29.8%	-32.3%	-37.1%	-30.7%
Johannesburg Index	-0.7%	-6.5%	-8.5%	-4.5%	-5.1%	-6.1%
Nigeria Stock Exchange	0.4%	1.4%	-3.3%	12.4%	-11.3%	1.5%
Ghana Stock Exchange	2.7%	1.6%	23.0%	40.8%	-28.0%	-1.0%
Egyptian Stock Exchange	-3.1%	-4.4%	-5.3%	6.1%	-6.1%	-8.1%
MSCI EFM ex SA Index	0.2%	-1.2%	-7.7%	-2.8%	-17.2%	-5.4%

### Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
USD/KES	137.6	-0.5%	-1.9%	-8.6%	-11.3%	-15.4%	-10.3%
USD/ZAR	19.5	-0.6%	-6.9%	-7.2%	-11.1%	-18.6%	-12.4%
USD/EGP	30.9	0.0%	0.0%	-1.1%	-20.7%	-40.9%	-19.9%
USD/NGN	462.5	0.3%	-0.2%	-0.4%	-4.1%	-10.1%	-0.4%
USD/GHS	10.8	8.5%	8.2%	15.3%	34.7%	-28.3%	-5.6%

### 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	735.0	-29.5	45.6%	13.2%	-37.9%	-53.2%	15.4%
Equity bank	266.8	-131.3	54.0%	-5.9%	-13.7%	-27.9%	1.3%
EABL	146.0	65.9	72.8%	4.8%	-12.2%	-21.4%	33.6%
BAT Kenya	114.9	-84.5	58.5%	-2.0%	-0.6%	-4.7%	12.1%
KCB bank	102.8	-4.8	17.8%	8.2%	-19.0%	-29.1%	8.2%

### Notable Events

#### Co-op bank 1Q23 EPS increases 5.1% y/y – Above Estimates

Co-op bank published its 1Q23 results. Reported EPS – KES 1.04, +5.1% y/y, mainly attributable to non-funded income (+10.8% y/y). Earnings beat our projections by 9.6%, aided by outperformance in non-funded income (+12.8%), and reporting lower-than-expected OpEX (-7.4%) and loan loss provisions (-25.8%).

### Summary Performance Table

	Reported	Forecast	Variance
NIM	7.2%	8.7%	-1.5%
NIR growth	3.9%	22.1%	-18.2%
NFI mix	39.7%	33.3%	6.4%
NFI growth	10.8%	-1.8%	12.6%
CoR	1.4%	2.1%	-0.7%
CTI	46.4%	47.4%	-1.0%
OpEx Growth	10.7%	19.6%	-8.9%
EPS	1.04	0.95	9.5%
DPS	0.00	0.00	0.0%
Net Loan growth	11.0%	10.8%	0.2%
Deposit growth	2.2%	10.7%	-8.5%
NPL Ratio	13.4%	13.5%	-0.1%
NPL Coverage*	57.4%	54.4%	3.0%
ROE	21.7%	20.1%	1.6%

\*CBK Coverage

### What stood out for us?

- **Higher-than-expected non-funded income:** fees & commissions from loans & advances recovered by growing 31% y/y, reflecting loan growth and resumption of earlier waived fees. Also, benefiting from wider FX spreads and stronger demand book, FX income increased 43.9% y/y, exceeding estimates by 51.5%.
- **Lower-than-expected net interest income:** cost of risk settled at 70bps below our expectations, with provisions therefore coming in lower. We had assumed the weaker macros to negatively impact the loan portfolio. Notably though, the NPL ratio largely matched our thinking.

### Impact to our investment thesis

- In our view, we think it's prudent to keep our cost of risk outlook elevated and moderate our margins outlook. Co-op bank is currently trading at a P/B of 0.6x.

### StanChart bank 1Q23 EPS grows 53.6% y/y – Ahead of Estimates

StanChart bank announced its 1Q23 results. Reported EPS – KES 10.55, +53.6% y/y, driven by funded (+40.1% y/y) and non-funded (+45.7% y/y) income. Earnings run 77.4% above our estimates mainly on the back of higher than-expected funded (+26.0%) and non-funded income (+79.2%) income.

### Summary Performance Table

	Reported	Forecast	Variance
NIM	7.6%	6.5%	1.1%
NIR growth	40.1%	11.1%	29.0%
NFI mix	35.9%	33.2%	2.7%
NFI growth	45.7%	-18.7%	64.4%
CoR	2.0%	2.1%	-0.1%
CTI	40.3%	50.5%	-10.2%
OpEx Growth	21.4%	15.8%	5.6%
EPS	10.55	5.95	77.4%
DPS	0.00	0.00	0.0%
Net Loan growth	7.0%	4.6%	2.4%
Deposit growth	14.2%	3.5%	10.7%
NPL Ratio	14.2%	15.8%	-1.6%
NPL Coverage*	77.5%	54.1%	23.4%
ROE	26.7%	16.6%	10.1%

\*CBK Coverage

### What stood out for us?

- **Higher-than-expected non-funded income:** on account better FX margins and higher demand, FX income was the key driver of non-funded income after rising 113.9% y/y, beating expectations by 87.4%.
- **Higher-than-expected net interest income:** enhanced net interest margins - over higher asset yields and lower cost of funds - was the main boost to the growth in net interest income. We attribute higher asset yields to increased market yields and lower cost of funding to above-industry average liquidity.

### Impact to our investment thesis

- Looking ahead, we expect to increase our outlook on margins. StanChart bank is currently trading at a P/B of 0.9x.

### Equity bank 1Q23 EPS increases 6.5% y/y – In Line with Expectations

Equity bank released its 1Q23 results. Reported EPS – KES 3.26, +6.5% y/y, attributable to growth in funded (+12.1% y/y) and non-funded (+54.3% y/y) income. Earnings came in 3.1% ahead of expectations – largely in line with expectations. Non-funded income exceeded estimates by 14.7%, but net interest income and loan loss provisions were 9.6% and 15.3%, below estimates, respectively.

#### Summary Performance Table

	Reported	Forecast	Variance
NIM	6.0%	7.3%	-1.3%
NIR growth	12.1%	23.9%	-11.8%
NFI mix	45.9%	40.1%	5.8%
NFI growth	54.3%	34.5%	19.8%
CoR	1.8%	2.0%	-0.2%
CTI	49.2%	47.2%	-2.0%
OpEx Growth	39.0%	33.1%	5.9%
EPS	3.26	3.16	3.1%
DPS	0.00	0.00	0.0%
Net Loan growth	21.3%	14.9%	6.4%
Deposit growth	23.3%	14.0%	9.3%
NPL Ratio	9.6%	9.3%	0.3%
NPL Coverage*	53.0%	78.4%	-25.4%
ROE	25.8%	24.9%	0.9%

\*CBK Coverage

#### What stood out for us?

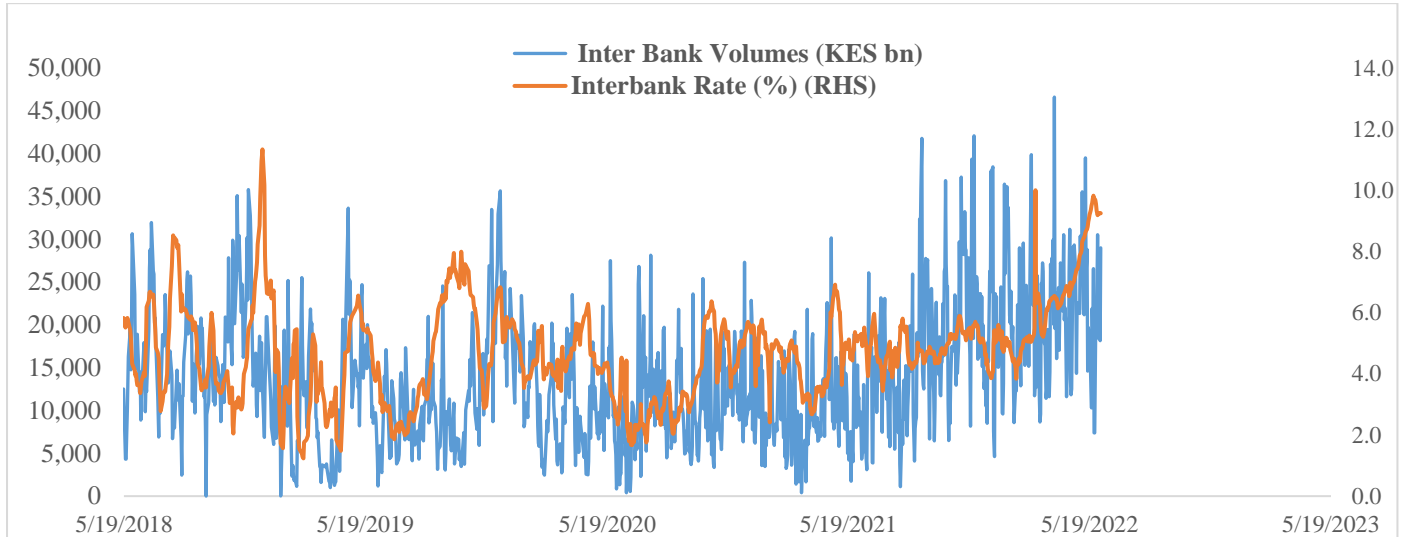
- **Higher-than-expected non-funded income:** non-funded income growth was mainly boosted by FX income (+152.3% y/y) on account of wider spreads and increased FX demand. In addition, fee & commission income went up on the back of reversal of fee waivers.
- **Lower-than-expected net interest income:** while the bank saw sound loan growth (+21.3% y/y), higher cost of funding on account of elevated interest rates, largely suppressed net interest income.

#### Impact to our investment thesis

- Going forward, we expect to retain our cost of risk outlook, but moderate down our margins. Equity bank is currently trading at a P/B of 0.8x. At current levels, our fair value estimate of KES 58.81, implies 47.2% upside potential. We therefore retain a BUY recommendation.

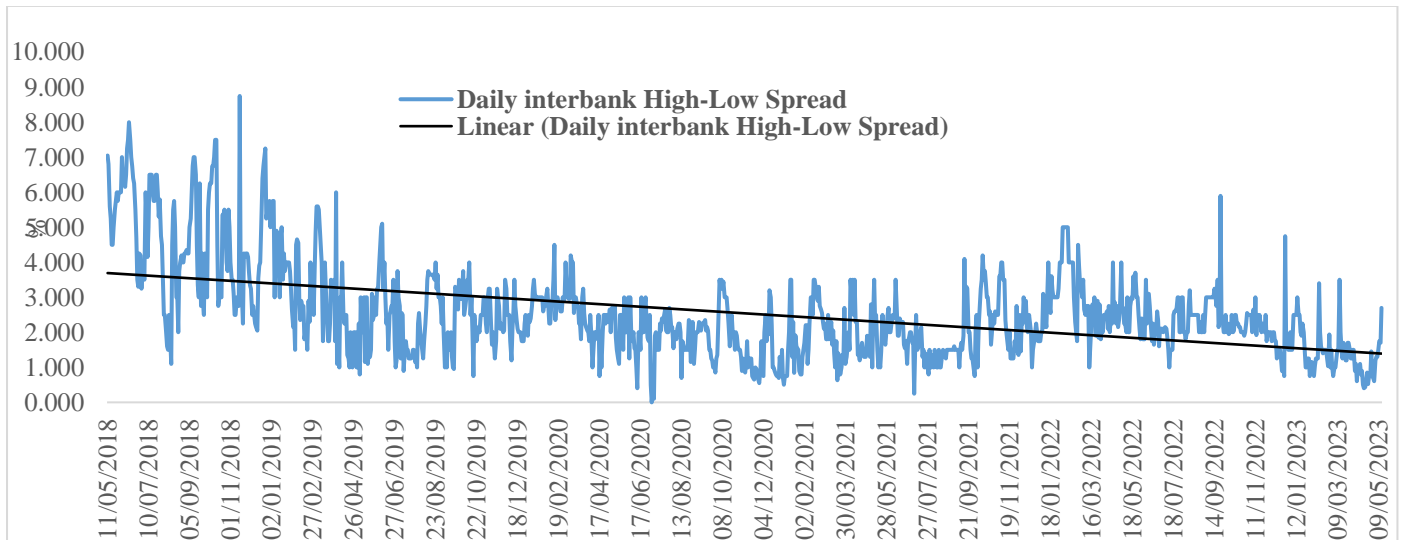
**Key Rates and Spreads**

**Inter-bank rates resume its upward trend**



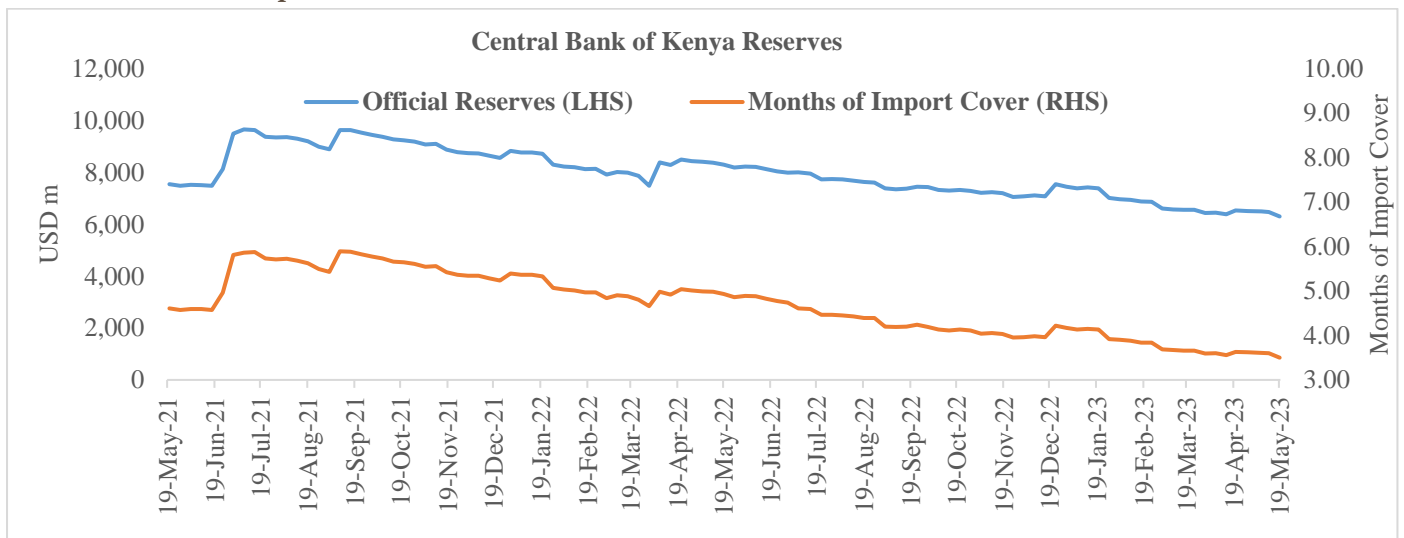
Source: CBK

**Inter-bank spreads narrow week-on-week after expanding in the last three weeks**



Source: CBK

**CBK FX reserve & import cover fall for the fourth week in a row**



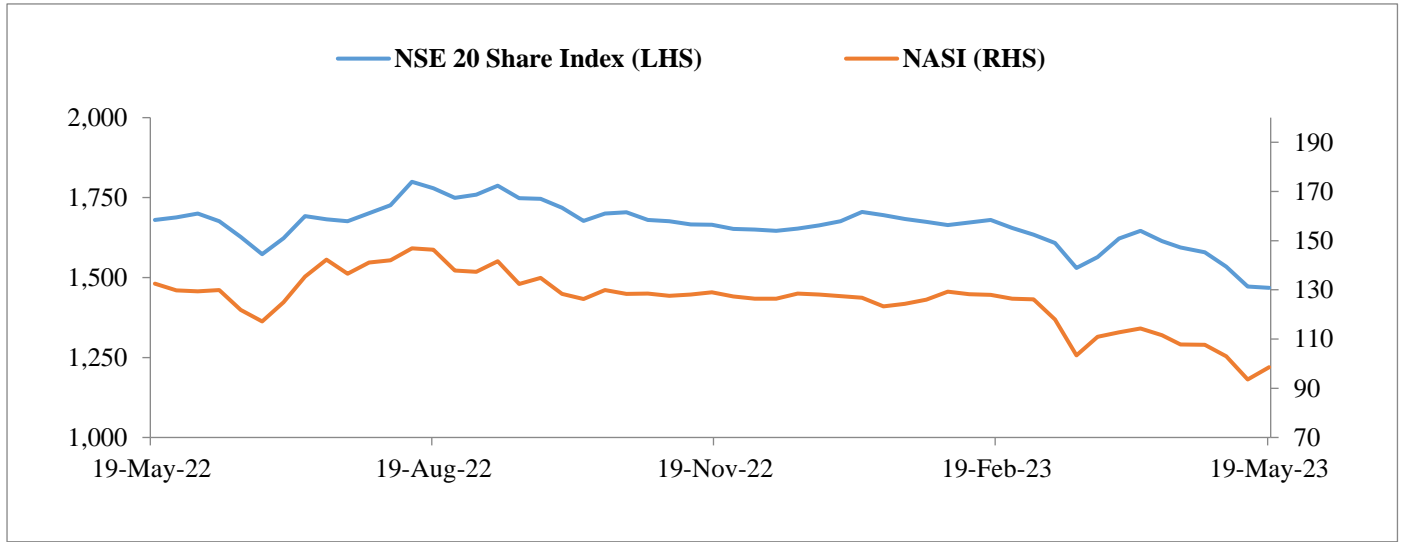
Source: CBK

## Equity market trading commentary

For the second straight week, equity turnover grew 16.3% w/w to stand at USD 11.9m (KES 1.6bn). Snapping a 5-weeks declining streak, the NASI notched up 5.3% w/w to end at 98.52 and the NSE 20 (-0.3%) stretched its losses to the sixth successive week to close at 1,467.83. Foreign investors remained as net sellers at USD 1.4m (KES 191.9m). After two weeks, local investors drove trading at the bourse at 58.3% of total turnover, up from 42.3% last week. Equity bank (USD 1.0m, KES 131.3m) and BAT Kenya (USD 0.6m, KES 84.5m) marked the highest net foreign outflows. On the other hand, EABL posted the largest net foreign inflows at USD 0.5m (KES 65.9m).

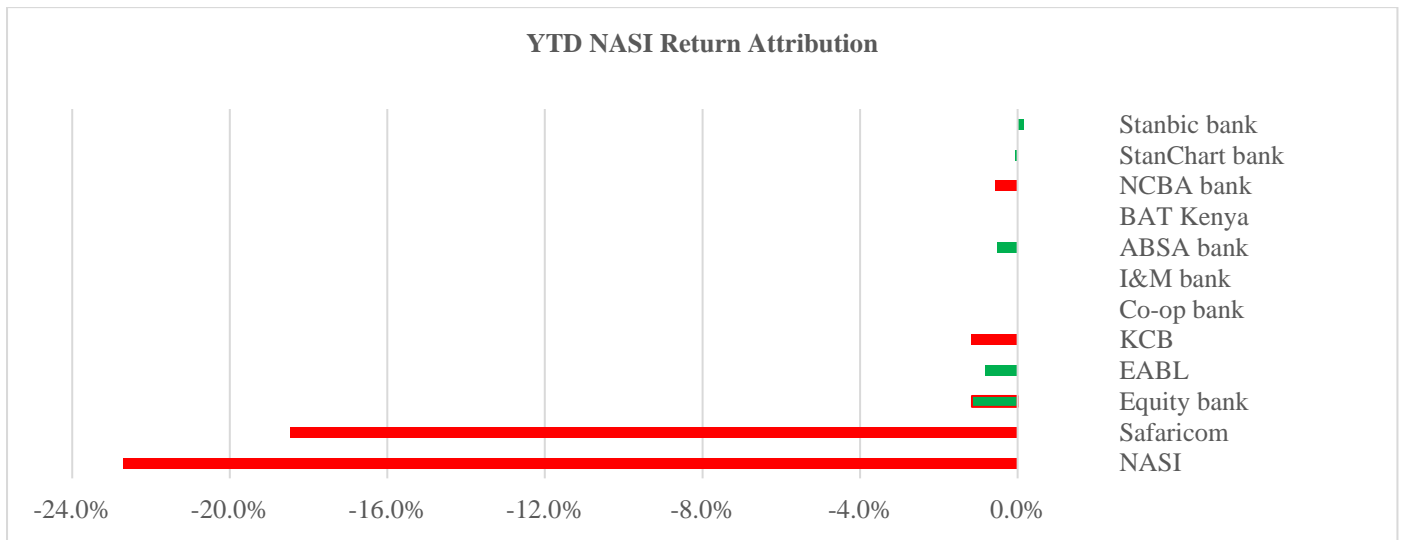
During the week, Safaricom bounced back to a 6-day high on the back of foreign demand, after marking an 8-year low last week. On the back of foreign investors' sell-off, Equity bank touched a 36-day low and BAT Kenya hit a 1-month low.

### Market performance over the past 12 months



Source: NSE

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



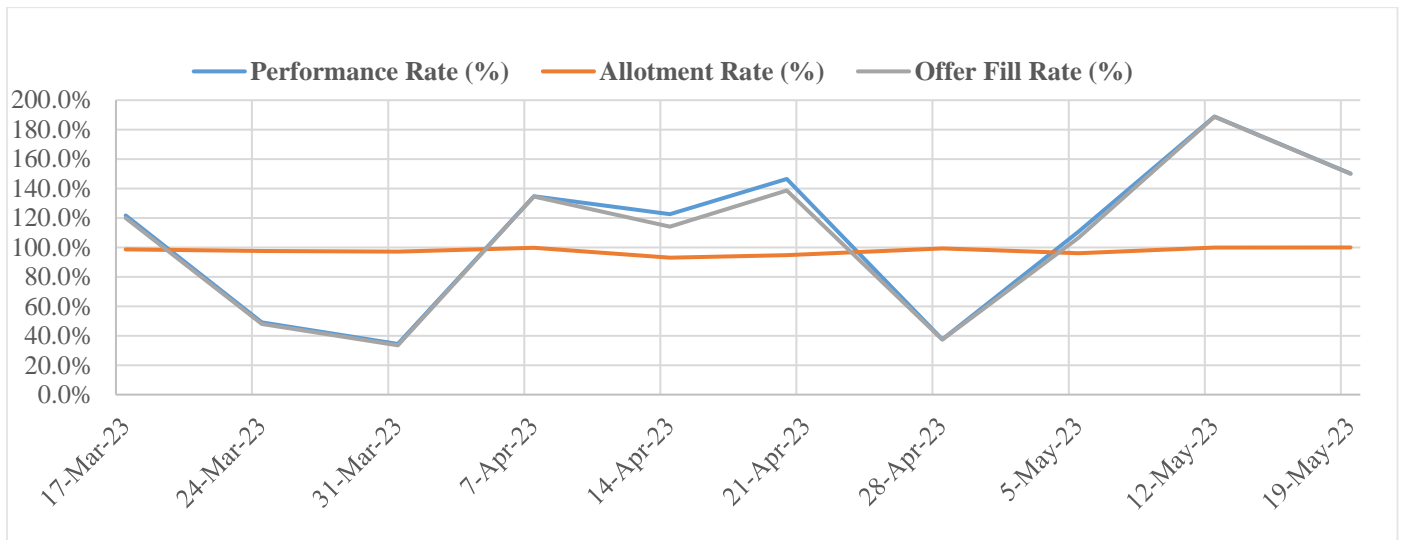
Source: Kestrel Research

## Debt market trading commentary

Overall subscription rates declined to 150.1%, down from 188.9% registered the previous week. Demand remained solid on the 91-Day T-Bill and picked up on the 364-Day T-Bill. Yields across the 91-Day T-Bill and 364-Day T-Bill tenor notched upwards for the twentieth consecutive week and the yield on the 182-Day T-Bill edged up for the sixth straight week.

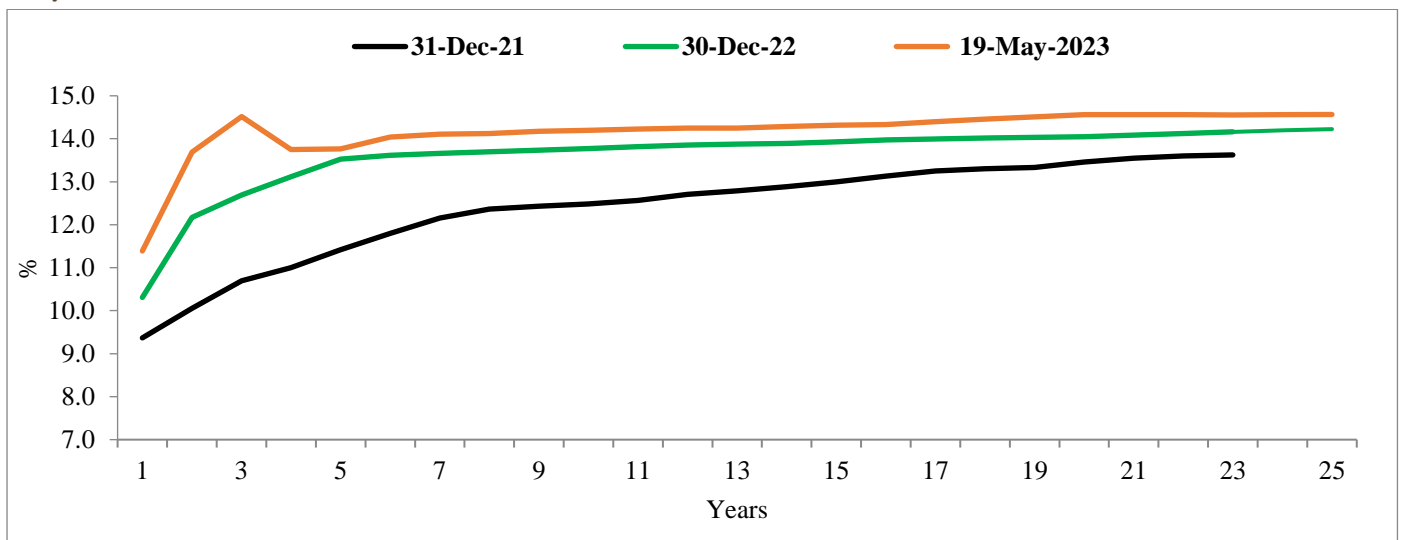
The Central Bank of Kenya offered KES 4.0bn for the 91-Day T-Bill and KES 10.0bn each for the 182-Day T-Bill and the 364-Day T-Bill. It received bids worth KES 24.1bn for the 91-Day T-Bill, implying a subscription rate of 602.33%. It accepted bids worth KES 24.0bn at an average yield of 10.518% (+10.8bps w/w). The 182-Day T-Bill received bids worth KES 4.2bn, implying a performance rate of 42.16%. It accepted bids worth KES 4.2bn at an average yield of 10.978% (+12.5bps w/w). The 364-Day T-Bill received bids worth KES 7.7bn, implying a performance rate of 77.12%. It accepted bids worth KES 7.7bn at an average yield of 11.390% (+12.0bps w/w).

T-Bills Performance: Overall performance rates increase week-on-week



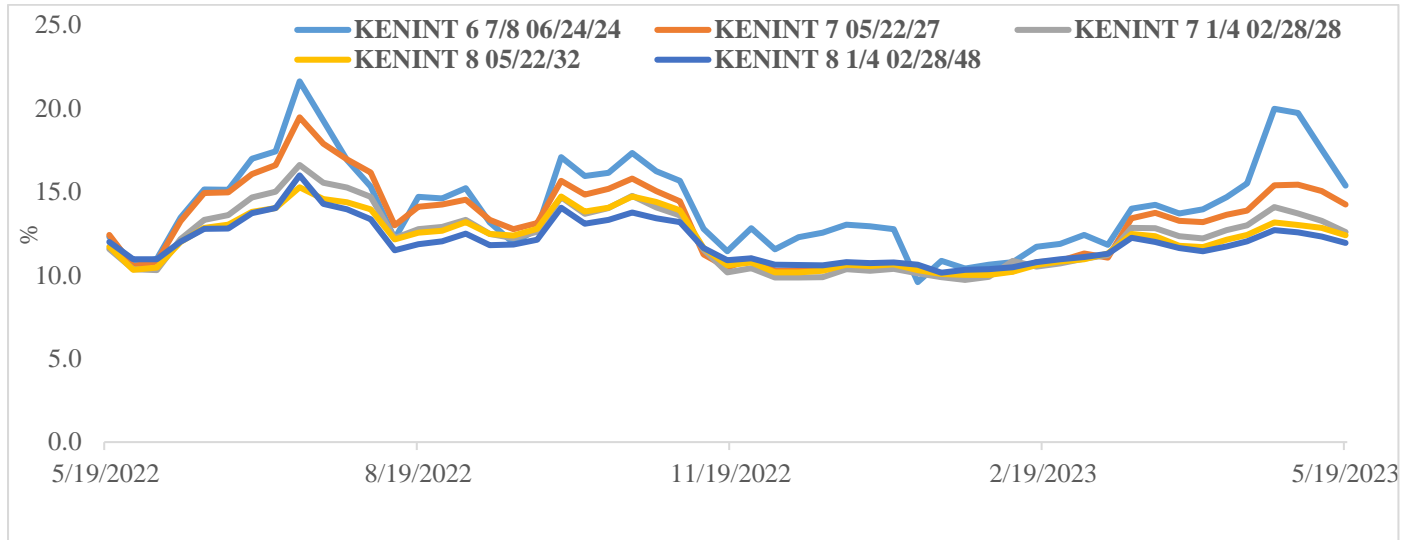
Source: CBK

Kenya Domestic Yield Curve



Source: CBK

Kenya Eurobond Yields: Yields across all tenors decrease for the third straight week



Source: Bloomberg



## Top counters by market capitalization

Company	Sector	Year	12 M	12 M	Price	YTD	Market <sup>1</sup>	Weighting	EPS	DPS	NAV	P/E	Div	P/B	ROE %	Daily Trading <sup>1</sup>	
Safaricom	Telecom	Mar	32.05	13.00	15.00	-37.9	4,371	39.0%	1.55	1.20	4.7	9.7	8.0	3.2	33.2	1,294,786	
Equity Bank	Banking	Dec	53.25	37.90	38.40	-13.7	1,054	9.4%	12.10	3.00	48.7	3.2	7.8	0.8	24.8	293,850	
EA Breweries	Breweries	Jun	187.00	110.00	147.00	-12.2	845	7.5%	15.00	11.00	20.5	9.8	7.5	7.2	73.2	2,503,109	
KCB Bank	Banking	Dec	43.50	28.50	30.85	-19.0	721	6.4%	12.64	2.00	62.3	2.4	6.5	0.5	20.3	167,567	
Co-op Bank	Banking	Dec	13.35	10.70	12.25	-0.4	523	4.7%	3.80	1.50	19.2	3.2	12.2	0.6	19.8	55,601	
Absa Bank	Banking	Dec	12.95	9.74	10.40	-15.4	411	3.7%	2.69	1.35	11.7	3.9	13.0	0.9	22.9	52,040	
NCBA Bank	Banking	Dec	40.90	23.60	32.60	-17.2	391	3.5%	10.02	4.25	49.1	3.3	13.0	0.7	20.4	43,881	
StanChart Bank	Banking	Dec	171.00	123.75	140.00	-1.9	385	3.4%	35.25	22.00	159.8	4.0	15.7	0.9	22.1	61,994	
BAT Kenya	Tobacco	Dec	479.75	407.75	457.25	-0.6	333	3.0%	68.92	57.00	163.8	6.6	12.5	2.8	42.1	75,572	
Stanbic Bank	Banking	Dec	117.75	90.00	110.00	7.8	316	2.8%	27.49	12.60	141.9	4.0	11.5	0.8	19.4	21,194	
Bank of Kigali	Banking	Dec	34.50	27.00	34.50	9.5	225	2.0%	7.95	3.28	41.8	4.3	9.5	0.8	19.0	680	
I&M Holdings	Banking	Dec	21.00	16.50	17.00	0.0	204	1.8%	5.74	1.50	41.4	3.0	8.8	0.4	13.9	17,802	
Umeme Ltd.	Power	Dec	15.05	6.58	14.05	89.4	166	1.5%	3.03	2.12	20.7	4.6	15.1	0.7	14.7	2,178	
Kenya Airways	Airlines	Dec	3.83	3.83	3.83	0.0	158	1.4%	(2.79)	-	(14.7)	-	-	-	-	-	
KenGen	Power	Jun	3.81	2.15	2.29	-28.9	110	1.0%	0.70	0.18	42.0	3.3	7.9	0.1	1.7	3,789	
Total Oil	Oil	Dec	25.85	18.25	21.55	-9.6	99	0.9%	3.88	1.31	48.0	5.6	6.1	0.4	8.1	815	
Jubilee Insurance	Insurance	Dec	270.00	148.25	179.75	-9.6	95	0.8%	82.21	14.00	618.5	2.2	7.8	0.3	13.3	9,780	
DTB Bank	Banking	Dec	55.25	44.00	46.00	-8.0	94	0.8%	17.27	3.00	250.7	2.7	6.5	0.2	6.9	11,599	
Britam	Insurance	Dec	6.94	4.05	4.17	-19.8	77	0.7%	0.03	-	7.5	145.9	-	0.6	0.4	1,092	
Bamburi Cement	Cement	Dec	38.35	23.25	24.00	-23.8	63	0.6%	2.15	3.58	0.1	11.2	14.9	292.3	2,618.6	25,531	
Kakuzi	Agric	Dec	441.25	240.00	429.75	11.6	61	0.5%	43.15	24.00	303.5	10.0	5.6	1.4	14.2	410	
Sasini Tea & Coffee	Agric	Sept	31.40	19.00	28.75	28.1	48	0.4%	3.82	1.00	61.7	7.5	3.5	0.5	6.2	550	
Crown Paints	Manufac.	Dec	44.00	32.30	42.85	2.4	44	0.4%	5.13	4.00	24.1	8.3	9.3	1.8	21.3	208	
Centum Investment	Finance	Mar	10.65	7.90	8.24	-1.4	40	0.4%	(2.01)	0.59	65.1	-	7.1	0.1	(3.1)	4,575	
ARM Cement	Cement	Dec	5.55	5.55	5.55	0.0	39	0.3%	(7.77)	-	19.8	-	-	0.3	(39.2)	-	
Kenya Re	Insurance	Dec	2.17	1.54	1.80	-1.6	37	0.3%	1.17	0.10	13.4	1.5	5.6	0.1	8.7	2,708	
CIC Insurance	Insurance	Dec	2.15	1.69	1.69	-13.3	32	0.3%	0.42	0.13	3.3	4.0	7.7	0.5	12.8	2,301	
Carbacid	Gases	July	14.15	10.55	13.50	12.5	25	0.2%	2.98	0.70	13.6	4.5	5.2	1.0	21.9	4,887	
Nation Media	Media	Dec	22.70	14.15	15.50	-2.8	21	0.2%	16.74	1.49	43.1	0.9	9.6	0.4	38.9	2,083	
Kenya Power	Power	Jun	2.08	1.36	1.40	-10.3	20	0.2%	(0.75)	-	30.2	-	-	0.0	(2.5)	5,772	
TPSEA Serena	Tourism	Dec	17.50	10.85	13.50	1.1	18	0.2%	(3.47)	-	33.3	-	-	0.4	(10.4)	2,516	
Liberty K. Holdings	Insurance	Dec	7.48	3.65	3.96	-29.3	15	0.1%	0.15	-	15.9	25.9	-	0.2	1.0	45	
Housing Finance	Banking	Dec	4.19	2.86	4.19	31.3	12	0.1%	(1.45)	-	20.5	-	-	0.2	(7.1)	1,461	
NSE	Finance	Dec	8.30	5.92	5.92	-12.7	11	0.1%	0.05	0.20	7.1	111.9	3.4	0.8	0.7	1,412	
Unga Ltd	Food	Jun	34.75	15.00	19.00	-40.6	10	0.1%	2.48	-	58.3	7.7	-	0.3	4.2	249	
BOC Kenya	Gases	Dec	90.25	65.00	70.00	-1.1	10	0.1%	7.58	5.95	85.1	9.2	8.5	0.8	8.9	295	
Sanlam Kenya	Insurance	Dec	14.85	7.26	8.00	-16.5	8	0.1%	(3.77)	-	3.9	-	-	2.1	(97.1)	45	
Car & Gen	Motors	Sept	49.00	27.65	28.00	-41.0	8	0.1%	26.33	3.20	135.8	1.1	11.4	0.2	19.4	268	
WPP Scangroup	Media	Dec	3.95	2.57	2.57	-14.6	8	0.1%	(0.30)	-	11.9	-	-	0.2	(2.5)	648	
Limuru Tea	Agric	Dec	510.00	320.00	420.00	0.0	7	0.1%	4.73	2.50	80.9	88.8	0.6	5.2	5.8	836	
Standard Newspapers	Media	Dec	14.75	8.16	9.04	-13.5	5	0.0%	(10.05)	-	0.4	-	-	20.6	(2,284.0)	24	
Longhorn	Publishing	Jun	4.07	2.01	2.60	-13.3	5	0.0%	0.62	-	2.8	4.2	-	0.9	22.2	222	
EA Portland	Cement	Jun	8.80	5.52	5.98	-12.1	4	0.0%	6.02	-	239.8	1.0	-	0.0	2.5	12	
TransCentury	Finance	Dec	1.30	0.79	0.83	-10.8	2	0.0%	(6.72)	-	(9.5)	-	-	-	-	61	
												<b>Average</b>	<b>12.3</b>	<b>8.7</b>	<b>3.9</b>	<b>42.1</b>	<b>4,678,073</b>

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