

## Stock Recommendation

Company	Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	33.95	27.80	22.1%	BUY
Equity bank	60.84	44.70	36.1%	BUY
KCB bank	59.61	35.30	68.9%	BUY
Co-op bank	16.15	11.60	39.2%	BUY
ABSA bank	12.47	9.76	27.8%	BUY
StanChart bank	134.08	124.00	8.1%	HOLD
NCBA bank	33.44	26.25	27.4%	BUY
I&M bank	21.43	17.50	22.5%	BUY
Stanbic bank	94.83	104.00	-8.8%	HOLD
DTB bank	106.48	49.95	113.2%	BUY
EABL	256.11	142.75	79.4%	BUY
Bamburi Cement	89.84	36.15	148.5%	BUY
BAT Kenya	521.50	420.00	24.2%	BUY

## Kenya Weekly Commentary

### Kenya Market Summary

#### Notable Events

- StanChart bank 1Q22 EPS +10.5% y/y - Above Expectations

#### Equity market commentary and outlook

- Last week, the NASI pulled back 5.1% w/w, driven by losses on large-cap stocks. On account of foreign selling, Safaricom (-7.9% w/w) hit a 19-month low. Equity bank (-1.8% w/w) finished lower on local selling, closing at a 10-month low. Co-op bank (-5.3% w/w) sustained losses throughout the week, hitting a 15-month low. On the back of local demand, EABL inched up 0.9% w/w, hitting a 12-day high.

#### Debt market commentary and outlook

- Overall subscription rates rose further to 116.3%, up from 102.3% printed in the previous week. Yields across all T-Bills edged up week-on-week. The yield on the 182-Day T-bill rose by the widest margin of 11bps.

#### Key Market Indicators

Index Returns	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Kenya NSE 20 Index Return	1,680.5	-3.8%	-9.3%	-11.6%	-11.3%	-9.6%	-11.7%
Kenya NASI Return	132.5	-5.1%	-14.4%	-20.7%	-21.3%	-20.1%	-20.4%
FTSE NSE Kenya 15 Return	172.9	-2.9%	-13.3%	-18.4%	-16.8%	-9.9%	-17.5%
FTSE NSE Kenya 25 Return	177.7	-4.4%	-14.7%	-21.3%	-21.5%	-18.6%	-19.4%
FTSE Kenya Bond Index Return	94.8	0.2%	0.0%	-1.7%	-1.5%	-2.0%	-1.3%

Source: NSE, Kestrel Research

#### NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	-5.4%	-15.0%	-19.1%	-21.6%	-25.7%	-22.9%
Johannesburg Index	1.2%	-9.2%	-13.2%	-6.1%	-10.5%	-8.3%
Nigeria Stock Exchange	-0.3%	9.7%	11.7%	24.3%	36.4%	26.3%
Ghana Stock Exchange	-1.6%	-7.3%	-15.8%	-25.1%	-20.5%	-26.6%
Egyptian Stock Exchange	-1.0%	1.6%	-16.8%	-22.1%	-15.7%	-24.1%
MSCI EFM ex SA Index	-1.4%	-4.2%	-9.2%	-13.1%	-10.9%	-14.3%

#### Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)
USD/KES	116.42	-0.1%	-0.7%	-2.1%	-2.9%	-7.0%
USD/ZAR	15.84	2.1%	-1.6%	-4.3%	-0.1%	-11.9%
USD/EGP	18.28	0.2%	1.6%	-13.9%	-13.9%	-14.2%
USD/NGN	415.91	0.0%	0.2%	0.0%	-0.3%	-1.1%
USD/GHS	7.72	-1.7%	-2.6%	-11.5%	-20.0%	-25.2%

#### 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	924.8	-440.7	65.7%	-7.9%	-26.7%	-38.2%	0.0%
KCB bank	181.9	-78.1	37.6%	-1.3%	-22.3%	-29.3%	0.9%
NCBA bank	165.2	-3.7	1.1%	-0.9%	4.2%	-6.7%	14.1%
EABL	154.7	-17.3	49.8%	0.9%	-13.5%	-26.3%	2.7%
Equity bank	119.5	-34.2	34.0%	-1.8%	-15.3%	-17.6%	6.3%

#### Notable Events

##### StanChart bank 1Q22 EPS +10.5% y/y - Above Expectations

Reported EPS – KES 6.87, +10.5% y/y, largely attributable to growth in net interest income (+7.2% y/y) and lower loan loss provisions (-120.8% y/y). Earnings exceeded our estimates by 18.3% - on lower-than-expected operating cost (-6.4%) and lower-than-expected loan loss provisions (-111.1%).

#### Summary Performance Table

	Reported	Forecast	Variance
NIM	6.3%	7.0%	-0.7%
NIR growth	7.2%	18.6%	-11.4%
NFI mix	33.6%	31.3%	2.3%
NFI growth	0.1%	-0.2%	0.3%
CoR	-0.0%	2.1%	-2.1%
CTI	45.3%	48.1%	-2.8%
OpEx Growth	9.2%	16.6%	-7.4%
EPS	6.22	6.68	2.9%
DPS	-	-	0.0%
Net Loan growth	8.7%	5.2%	3.5%
Deposit growth	0.1%	2.3%	-2.2%
NPL Ratio	15.0%	16.8%	-1.8%
NPL Coverage*	70.0%	46.3%	-23.7%
ROE	19.9%	17.2%	2.7%

\*CBK Coverage

#### What stood out for us?

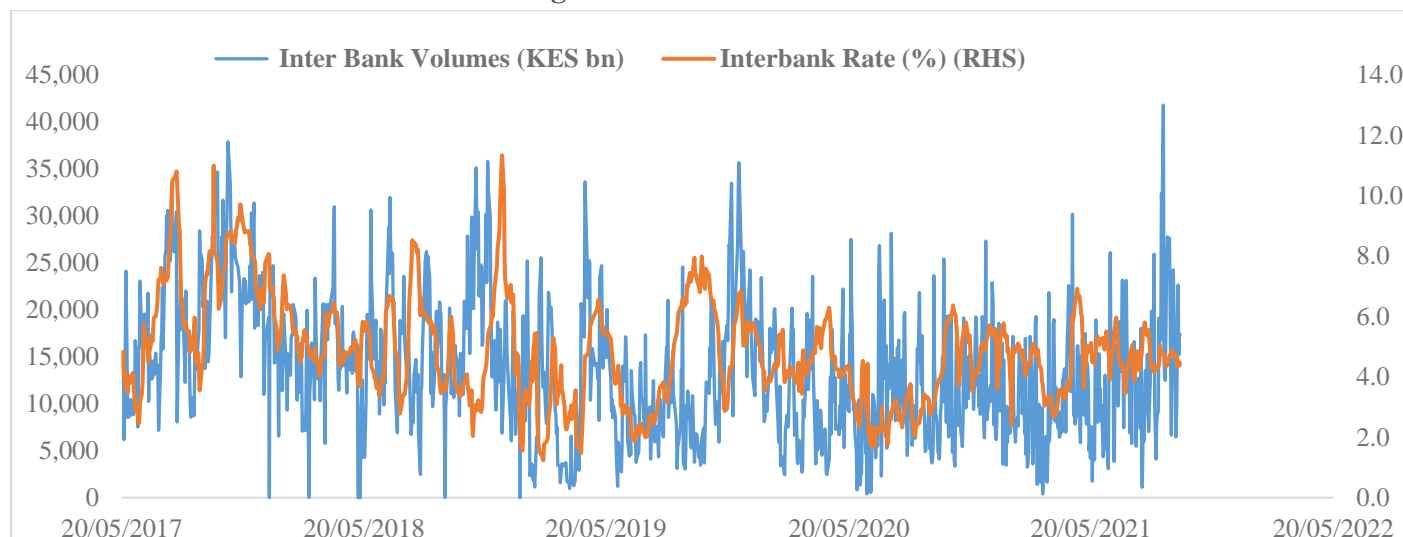
- **Lower-than-expected loan loss provisions;** StanChart bank reported a surprise write-back, signaling positive management outlook on its cost of risk. We had anticipated the cost of risk to come in at 2.1% on account of its above-industry NPL ratio.
- **Lower-than-expected OpEx growth;** operating costs escalated 9.2% y/y compared to our forecast of 16.6% y/y on the back of lower-than-expected increase in other operating costs. Other operating costs went up by 27.6% y/y against our forecast of 45.5% y/y.

#### Impact to our investment thesis

- We expect to revise downwards our outlook on operating costs. We also expect to adjust downwards our cost of risk outlook. StanChart bank is currently trading at a P/B of 0.8x. At current levels, against our fair value estimate of KES 134.08, StanChart bank offers upside potential of 8.1%. We therefore retain our **HOLD** rating.

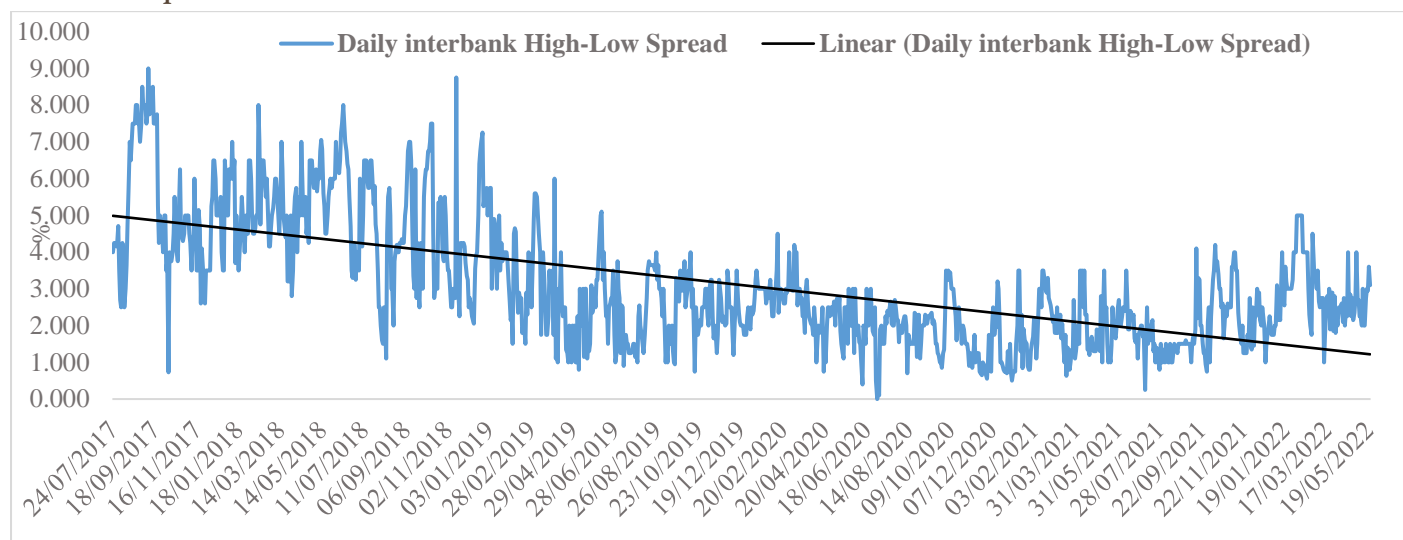
## Key Rates and Spreads

Inter-bank rate declines for the second straight week



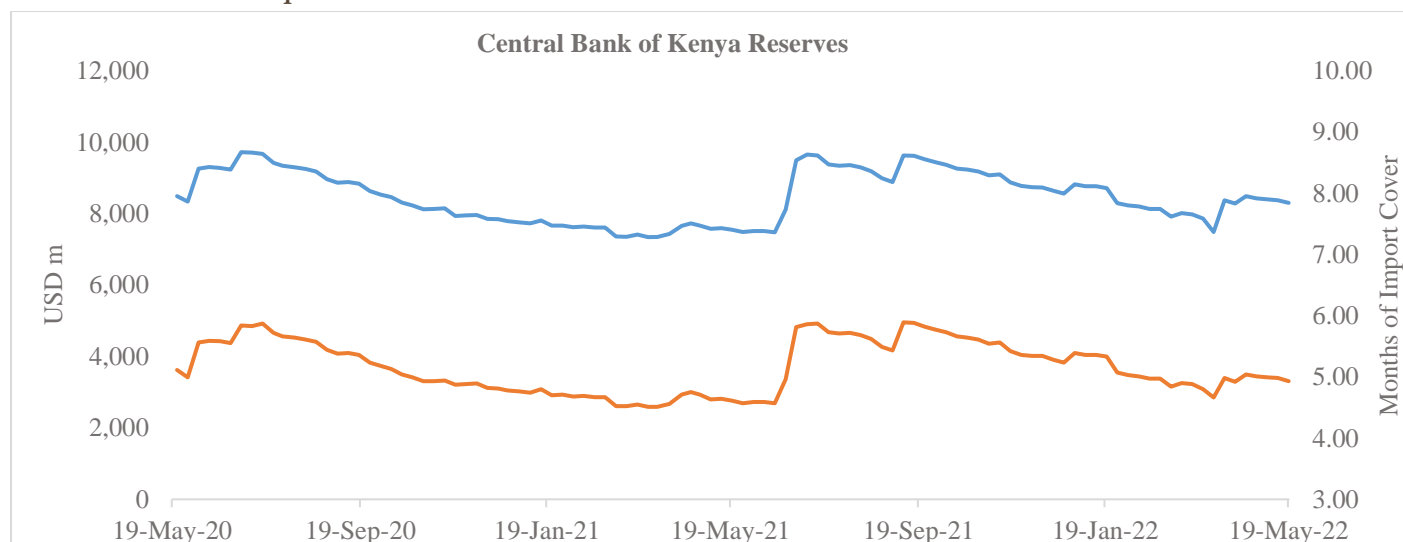
Source: CBK

Inter-bank spread widens week-on-week



Source: CBK

Forex reserves and import cover decline to a 5-week low



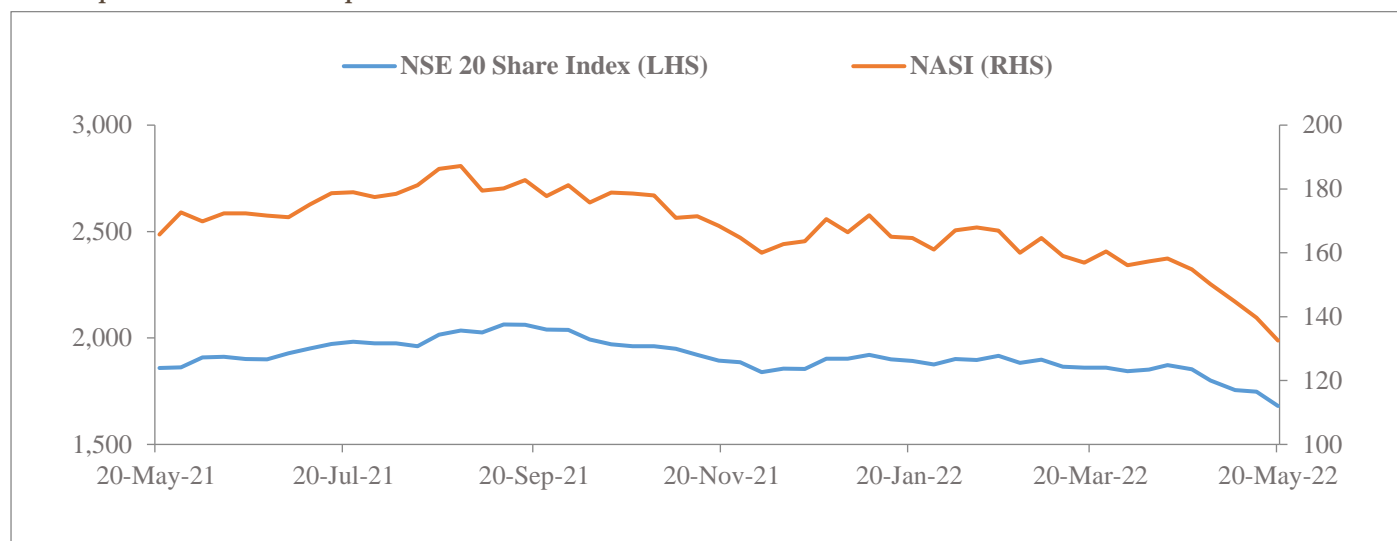
Source: CBK

## Equity market trading commentary

Weekly turnover dropped 33.8% w/w to stand at USD 14.1m (KES 1.6bn). Sustaining a downward trend, both the NASI (-5.1% w/w) and NSE20 (-3.8% w/w) settled at 132.52 and 1,680.53, respectively – driven by losses on large-cap stocks. Foreign trading dropped to an 8-week low of 49.8% of the market, down from 55.9% recorded in the previous week. Foreign investors sustained a 14-week net selling streak with net foreign outflows settling at USD 5.0m (KES 584.2m). Safaricom continued to register the highest net foreign outflows at USD 3.8m (KES 440.7m). KCB bank and Equity bank followed with net foreign outflows of USD 0.7m (KES 78.1m) and USD 0.3m (KES 34.2m), respectively. On the other hand, StanChart bank marked the highest net foreign inflows, although at thin margin of USD 23.6k (KES 2.7m).

Last week, the NASI pulled back 5.1% w/w, driven by losses on large-cap stocks. On account of foreign selling, Safaricom (-7.9% w/w) hit a 19-month low. Equity bank (-1.8% w/w) finished lower on local selling, closing at a 10-month low. Co-op bank (-5.3% w/w) sustained losses throughout the week, hitting a 15-month low. On the back of local demand, EABL inched up 0.9% w/w, hitting a 12-day high.

### Market performance over the past 12 months



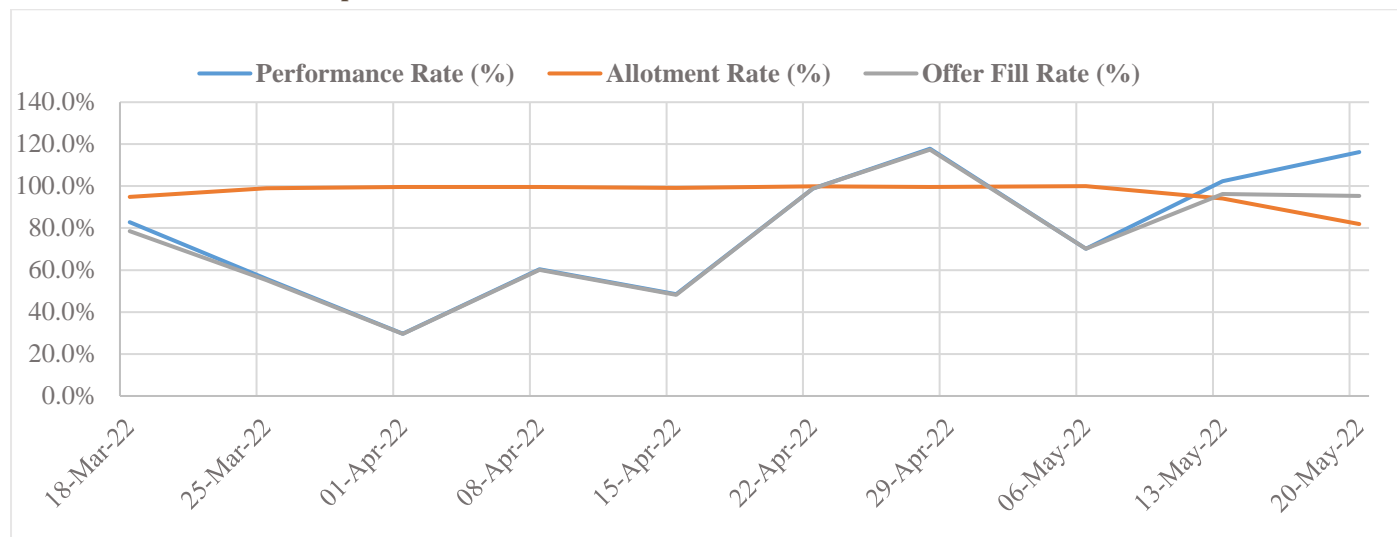
Source: NSE

## Debt market trading commentary

Overall subscription rates rose further to 116.3%, up from 102.3% printed in the previous week. Yields across all T-Bills edged up week-on-week. The yield on the 182-Day T-bill rose by the widest margin of 11bps.

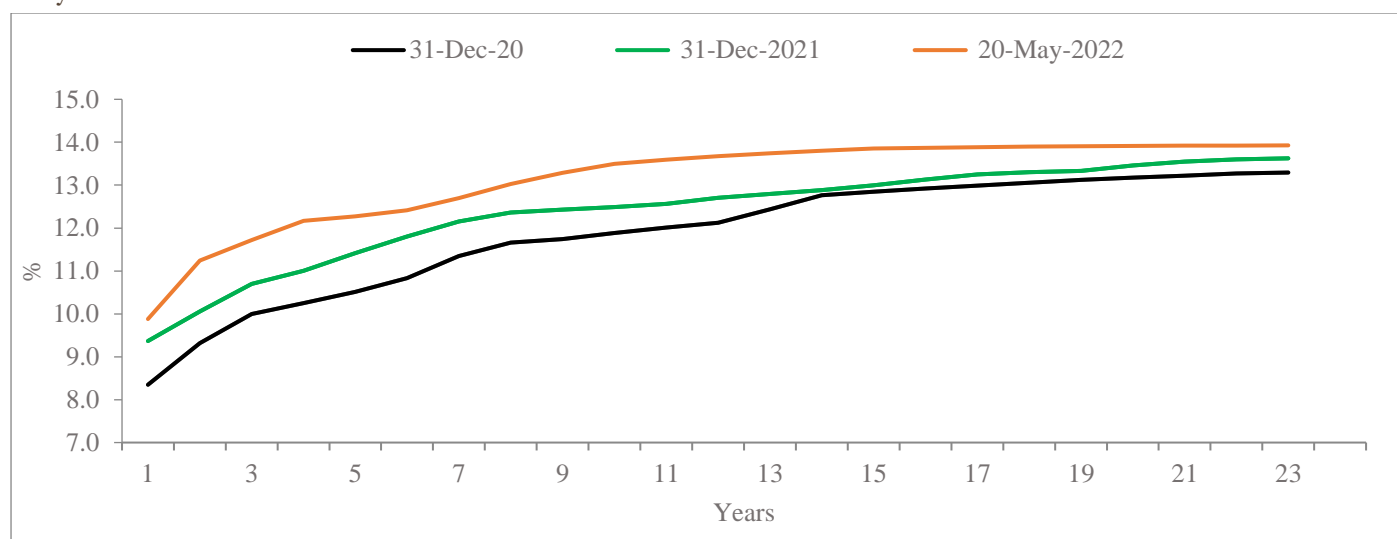
The Central Bank of Kenya offered KES 4.0bn for the 91-Day T-Bill and KES 10.0bn each for the 182-Day T-Bill and the 364-Day T-Bill. It received bids worth KES 5.5bn for the 91-Day T-Bill, implying a subscription rate of 136.9%. It accepted bids worth KES 2.5bn at an average yield of 7.758% (+7.5bps w/w). The 182-Day T-Bill received bids worth KES 10.3bn, implying a performance rate of 102.5%. It accepted bids worth KES 8.3bn at an average yield of 8.832% (+11.0bps w/w). The 364-Day T-Bill received bids worth KES 12.2bn, implying a performance rate of 121.9%. It accepted bids worth KES 12.0bn at an average yield of 9.879% (+1.9bps w/w).

### T-Bills Performance: Overall performance rate rises week-on-week



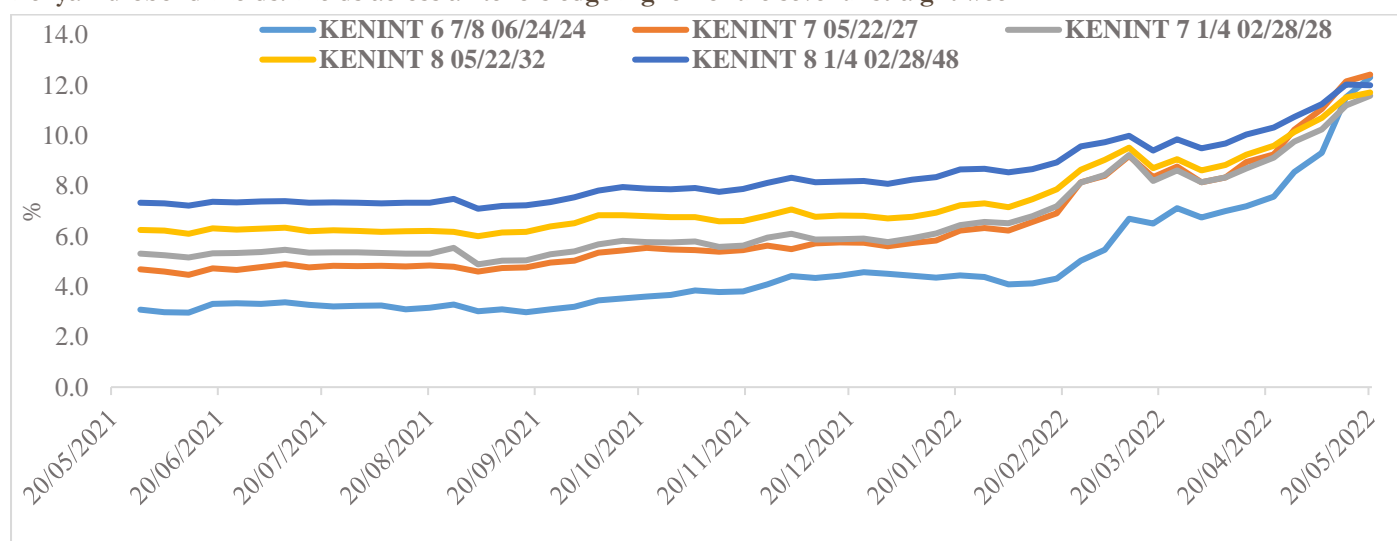
Source: CBK

### Kenya Domestic Yield Curve



Source: CBK

### Kenya Eurobond Yields: Yields across all tenors edge higher for the seventh straight week



Source: Bloomberg

## Top counters by market capitalization

Company	Sector	Year	12 M	12 M	Price	YTD	Market <sup>1</sup> cap (USD m)	Weighting	EPS	DPS	NAV	P/E	Div	P/B	ROE %	Daily Trading <sup>1</sup>
		end	High	Low		%						ratio x	yld %	ratio x		vol (USD)
Safaricom	Telecom	Mar	44.95	27.80	27.80	-26.7	9,568	53.7%	1.74	1.39	3.5	16.0	5.0	8.0	49.9	1,851,295
Equity Bank	Banking	Dec	54.25	42.05	44.70	-15.3	1,449	8.1%	13.44	3.00	44.3	3.3	6.7	1.0	30.3	385,754
KCB Bank	Banking	Dec	49.90	35.00	35.30	-22.3	974	5.5%	10.61	3.00	53.4	3.3	8.5	0.7	19.9	400,781
EA Breweries	Breweries	Jun	193.75	139.00	142.75	-13.5	970	5.4%	11.25	3.75	17.5	12.7	2.6	8.2	64.3	199,246
Co-op Bank	Banking	Dec	13.95	11.60	11.60	-10.4	585	3.3%	2.82	1.00	17.1	4.1	8.6	0.7	16.5	16,697
Absa Bank	Banking	Dec	12.70	9.10	9.76	-17.6	455	2.6%	2.00	1.10	10.4	4.9	11.3	0.9	19.3	50,355
StanChart Bank	Banking	Dec	146.25	124.00	124.00	-3.3	402	2.3%	24.92	19.00	147.2	5.0	15.3	0.8	16.9	163,865
NCBA Bank	Banking	Dec	28.15	23.00	26.25	4.2	372	2.1%	6.21	3.00	47.3	4.2	11.4	0.6	13.1	60,133
BAT Kenya	Tobacco	Dec	509.00	404.00	420.00	-4.9	361	2.0%	64.83	50.00	149.7	6.5	11.9	2.8	43.3	77,259
Stanbic Bank	Banking	Dec	105.50	79.50	104.00	19.2	353	2.0%	23.57	7.30	122.8	4.4	7.0	0.8	19.2	83,336
I&M Holdings	Banking	Dec	23.25	17.50	17.50	-17.1	249	1.4%	4.92	1.50	42.1	3.6	8.6	0.4	11.7	7,577
Bank of Kigali	Banking	Dec	40.00	24.30	29.55	1.9	228	1.3%	6.50	3.22	35.7	4.5	10.9	0.8	18.2	7,306
KenGen	Power	Jun	4.98	3.42	3.42	-18.4	194	1.1%	0.16	0.18	32.4	21.5	5.3	0.1	0.5	10,887
Kenya Airways	Airlines	Dec	3.99	3.83	3.83	0.0	187	1.0%	(2.79)	-	(14.7)	-	-	-	-	-
Jubilee Insurance	Insurance	Dec	390.00	248.50	264.00	-16.7	164	0.9%	94.22	14.00	544.4	2.8	5.3	0.5	17.3	7,104
Britam	Insurance	Dec	8.38	6.50	6.50	-13.3	141	0.8%	0.03	-	7.5	227.4	-	0.9	0.4	2,962
Total Oil	Oil	Dec	26.30	22.05	22.90	-8.4	124	0.7%	4.35	1.31	45.4	5.3	5.7	0.5	9.6	1,105
DTB Bank	Banking	Dec	69.00	49.95	49.95	-16.1	120	0.7%	13.98	3.00	240.7	3.6	6.0	0.2	5.8	5,948
Bamburi Cement	Cement	Dec	39.80	33.55	36.15	-4.9	113	0.6%	3.58	3.58	83.5	10.1	9.9	0.4	4.3	8,054
Umeme Ltd.	Power	Dec	8.30	5.48	7.88	16.9	110	0.6%	2.74	1.73	17.6	2.9	22.0	0.4	15.6	10,627
Kakuzi	Agric	Dec	427.00	327.75	402.00	4.4	68	0.4%	27.77	18.00	275.9	14.5	4.5	1.5	10.1	290
Centum Investment	Finance	Mar	17.85	10.05	10.05	-28.7	57	0.3%	(2.42)	0.33	69.7	-	3.3	0.1	(3.5)	8,411
Kenya Re	Insurance	Dec	2.68	2.01	2.05	-10.9	49	0.3%	1.06	0.10	13.2	1.9	4.9	0.2	8.0	2,867
Crown Paints	Manufac.	Dec	42.80	19.65	37.95	24.4	46	0.3%	5.13	4.00	24.1	7.4	10.5	1.6	21.3	4,547
ARM Cement	Cement	Dec	5.55	5.55	5.55	0.0	46	0.3%	(7.77)	-	19.8	-	-	0.3	(39.2)	-
CIC Insurance	Insurance	Dec	3.39	1.98	1.98	-10.4	44	0.2%	0.26	-	3.1	7.7	-	0.6	8.4	1,682
Sasini Tea & Coffee	Agric	Sept	129.00	16.85	21.00	12.3	41	0.2%	(1.48)	0.50	56.5	-	2.4	0.4	(2.6)	871
Nation Media	Media	Dec	26.10	16.80	19.85	7.6	32	0.2%	2.59	1.49	42.1	7.7	7.5	0.5	6.2	5,066
Carbacid	Gases	July	13.25	10.00	11.50	4.5	25	0.1%	2.22	0.70	13.5	5.2	6.1	0.9	16.4	2,527
Kenya Power	Power	Jun	2.02	1.30	1.44	-17.7	24	0.1%	2.65	-	29.3	0.5	-	0.0	9.0	8,843
Liberty K. Holdings	Insurance	Dec	9.98	5.20	5.20	-25.7	24	0.1%	0.15	-	15.9	34.0	-	0.3	1.0	103
Unga Ltd	Food	Jun	36.25	26.10	30.00	8.5	20	0.1%	2.89	-	56.2	10.4	-	0.5	5.1	52
TPSEA Serena	Tourism	Dec	16.95	11.50	12.00	-21.3	19	0.1%	(3.47)	-	33.3	-	-	0.4	(10.4)	4,505
Sanlam Kenya	Insurance	Dec	15.00	9.16	14.85	28.6	18	0.1%	(1.88)	-	9.5	-	-	1.6	(19.8)	103
NSE	Finance	Dec	10.15	7.00	7.92	-1.0	18	0.1%	0.51	1.40	8.0	15.5	17.7	1.0	6.4	3,345
BOC Kenya	Gases	Dec	93.25	61.50	75.00	7.1	13	0.1%	4.78	6.70	84.3	15.7	8.9	0.9	5.7	-
Car & Gen	Motors	Sept	76.00	24.20	34.10	0.4	12	0.1%	26.33	3.20	135.8	1.3	9.4	0.3	19.4	-
WPP Scangroup	Media	Dec	5.80	3.13	3.13	-24.4	12	0.1%	(0.09)	-	12.0	-	-	0.3	(0.7)	1,315
Housing Finance	Banking	Dec	4.90	2.91	2.99	-23.3	10	0.1%	(1.45)	-	20.5	-	-	0.1	(7.1)	748
Standard Newspapers	Media	Dec	20.00	11.90	12.95	-4.4	9	0.1%	(1.45)	-	10.6	-	-	1.2	(13.7)	56
Longhorn	Publishing	Jun	4.41	3.17	3.17	-20.8	7	0.0%	0.62	-	2.8	5.1	-	1.1	22.2	127
Limuru Tea	Agric	Dec	352.00	263.00	352.00	10.0	7	0.0%	(0.50)	0.70	75.9	-	0.2	4.6	(0.7)	100
EA Portland	Cement	Jun	9.40	6.06	7.24	8.7	6	0.0%	(30.77)	-	208.4	-	-	0.0	(14.8)	16
TransCentury	Finance	Dec	1.53	1.01	1.01	-13.7	3	0.0%	(6.72)	-	(9.5)	-	-	-	-	55
<b>Average</b>												<b>13.0</b>	<b>6.2</b>	<b>5.1</b>	<b>37.6</b>	<b>3,399,057</b>

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