

Stock Recommendation

Company	*Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	30.71	15.00	104.7%	BUY
Equity bank	43.67	40.50	7.8%	HOLD
KCB bank	47.26	31.95	47.9%	BUY
Co-op bank	20.46	13.15	55.6%	BUY
ABSA bank	12.89	14.20	-9.2%	HOLD
StanChart bank	138.26	209.25	-33.9%	SELL
NCBA bank	40.68	42.00	-3.1%	HOLD
I&M bank	33.32	27.80	19.9%	BUY
Stanbic bank	108.85	123.25	-11.7%	HOLD
DTB bank	116.13	45.50	155.2%	BUY
EABL	151.28	143.25	5.6%	HOLD
Bamburi Cement	44.37	64.00	-30.7%	SELL
BAT Kenya	460.00	350.00	31.4%	BUY

Kenya Market Summary

Equity market commentary and outlook

- During the week, I&M Bank reached a 3.25-year high following a block trade. Foreign investors were net sellers for the week at USD 0.2m (KES 23.7m). The NASI appreciated by 0.4%, sustaining a two-week winning streak to stop at 102.47 as the NSE-20 climbed by 0.6% to conclude at 1643.81.

Debt market commentary and outlook

- Overall subscription rates fell for the second consecutive week to 79.9% from 107.3% the previous week. Investors remained skewed on the 91-Day T-Bill and activity declined for the 91-Day T-Bill and the 182-Day T-Bill, but improved on the 364-Day T-Bill. The yield on all three T-Bills fell, with the 91-Day T-Bill sustaining a five-week losing streak and the 182-Day T-Bill and the 364-Day T-Bill declined for the fourth week straight.

Key Market Indicators

Index	Level	1w	1m	3m	6m	12m	ytd (%)
Kenya NSE 20 Index	1,699.3	2.4%	0.6%	12.2%	17.7%	10.7%	13.2%
Kenya NASI	104.9	0.2%	-1.6%	13.1%	22.4%	1.8%	13.9%

Source: NSE, Kestrel Research

NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	2.4%	0.0%	-6.5%	33.3%	-7.0%	16.2%
Johannesburg Index	2.8%	4.4%	3.2%	11.6%	-2.8%	-5.9%
Nigeria Stock Exchange	-0.2%	-0.4%	-7.3%	4.0%	-25.4%	4.0%
Ghana Stock Exchange	-2.0%	-1.9%	12.8%	1.2%	-5.9%	3.0%
Egyptian Stock Exchange	2.0%	0.6%	4.3%	-39.2%	60.9%	-26.2%
MSCI EFM ex SA Index	1.9%	0.7%	0.2%	1.7%	3.4%	43.1%

Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
USD/KES	129.00	0.1%	1.5%	1.2%	9.7%	-0.4%	8.2%
USD/ZAR	17.70	1.0%	2.2%	0.8%	4.9%	-3.6%	-1.4%
USD/EGP	48.78	0.2%	-1.2%	-2.5%	-34.5%	0.0%	0.1%
USD/NGN	1577.11	0.7%	0.8%	-8.0%	6.3%	-51.0%	18.8%
USD/GHS	15.63	-0.1%	-0.7%	-5.8%	-14.1%	-9.3%	5.1%

Equity Bank announced its 1H24 results, +12.0% y/y, ahead of our estimates

Equity Bank announced its 1H24 results. Reported EPS - KES 7.56, +12.0% y/y, driven by increased net interest income (+17.2% y/y) and growth in non-funded income (+15.5% y/y). Earnings came in 43.8% above expectations mainly due to lower-than-expected loan loss provisions (-42.2%) and higher-than-expected non-funded income (+43.2%).

Summary Performance Table

	Reported	Forecast	Variance
NIM	7.2%	7.2%	0.0%
NIR growth	17.2%	24.5%	-7.3%
NFI mix	44.0%	34.1%	9.9%
NFI growth	17.2%	-18.1%	35.3%
CoR	2.3%	2.5%	-0.2%
CTI	50.9%	46.9%	4.0%
OpEx Growth	21.7%	1.2%	20.5%
EPS	7.56	5.26	43.8%
DPS	0.00	0.00	0.0%
Net Loan growth	-3.2%	19.0%	-22.2%
Deposit growth	10.6%	20.7%	-10.1%
NPL Ratio	13.2%	10.3%	2.9%
NPL Coverage*	49.5%	48.8%	0.7%
ROE	27.0%	17.8%	9.2%

*CBK Coverage

What stood out for us?

- **Higher-than-expected interest expenses:** Interest expenses grew 30.1% y/y, 17.2% ahead of projections. Increased competition for deposits, elevated yields on government securities, and higher global rates, saw a hike in the cost of funds.
- **Higher-than-expected other operating costs:** other operating costs escalated by 28.3% y/y, 49.4% ahead of estimates, due to continued IT investments and inflationary pressures.

Impact on our investment thesis

- Going forward, we expect to raise our cost of funds estimates and revise upward our cost growth estimates. Equity bank is currently trading at a P/B of 0.7x. **Our current estimate of fair value of KES 43.67, implies an upside potential of 7.8% - a HOLD recommendation.**

Co-op bank announced its 1H24 results, +6.3% y/y, In Line with Estimates

Co-op Bank announced its 1H24 results. The reported EPS – KES 2.21, +6.3% y/y was bolstered by increased total income (+10.9% y/y). However, inflated costs (+12.2% y/y) and a higher effective tax (28.5% vs. 26.0%) weighed on the bottom line. Earnings largely matched our estimates (ahead of estimates by 2.6%). Loan loss provisions and operating costs came in 45.3% and 4.1% below our expectations, respectively. FX income performed better by 32.1%.

Summary Performance Table

	Reported	Forecast	Variance
NIM	7.1%	8.2%	-1.1%
NIR growth	10.7%	22.1%	-11.4%
NFI mix	39.2%	38.0%	1.2%
NFI growth	11.2%	16.6%	-5.4%
CoR	1.4%	2.5%	-1.1%
CTI	46.6%	44.9%	1.7%
OpEx Growth	12.2%	17.0%	-4.8%
EPS	2.21	2.15	2.6%
DPS	0.00	0.00	0.0%
Net Loan growth	2.8%	9.2%	-6.4%
Deposit growth	9.4%	9.9%	-0.5%
NPL Ratio	15.6%	14.6%	1.0%
NPL Coverage*	56.4%	58.3%	-1.9%
ROE	20.5%	19.1%	1.4%

*CBK Coverage

What stood out for us?

- **Higher-than-expected FX income:** FX income beat our forecasts by 32.1%. We attribute the increased FX trading volumes to the agriculture exports and a rebound in the trading activity after the KES improvement. FX income grew 50.1% y/y.
- **Lower-than-expected credit loss provisioning:** Cost of risk came in 110bps below forecasts. We had modelled in a higher cost of risk anticipating NPLs formation due to the elevated credit risk amidst macro weakness.

Impact to our investment thesis

- Going forward, we expect to increase our cost of funds estimates and lower our cost growth expectations. Co-op bank is currently trading at a P/B of 0.6x. **Our current estimate of fair value of KES 20.46, implies an upside potential of 61.1% - a BUY recommendation.**

Stanbic 1H24 EPS, +2.3% y/y, ahead of our Estimates

Stanbic Bank released its 1H24 results. The reported EPS - 18.25, +2.3% y/y, largely driven by net interest income (+10.4% y/y), cost control (-6.8% y/y), and reduced loan loss provisions (-21.6% y/y). Earnings came in 11.4% above expectations caused by lower-than-expected operating costs (-24.2%). The Board of Directors recommended an interim dividend of KES 1.84 per share, up 60.0% y/y.

Summary Performance Table

	Reported	Forecast	Variance
NIM	4.9%	6.2%	-1.3%
NIR growth	4.0%	10.4%	-6.0%
NFI mix	37.6%	39.3%	-1.7%
NFI growth	-15.1%	-4.7%	-10.4%
CoR	1.5%	0.9%	0.6%
CTI	40.4%	49.9%	-9.5%
OpEx Growth	-6.8%	20.9%	-27.7%
EPS	18.25	16.39	11.4%
DPS	1.84	0.00	>100.0%
Net Loan growth	-2.4%	6.8%	-4.2%
Deposit growth	30.3%	5.1%	25.2%
NPL Ratio	9.3%	10.7%	-1.4%
NPL Coverage*	67.2%	69.7%	-2.5%
ROE	21.6%	21.4%	0.2%

*CBK Coverage

What stood out for us?

- **Lower-than-expected operating costs:** operating costs came in 24.2% below our estimates due to KES appreciation and a lower base effect after significant IT investments in the prior year and one-off expenses. Operating costs declined 6.8% year-on-year.
- **Lower-than-expected FX income:** FX income decreased by 21.9% y/y, faster than the expected decline of 6.3%, due to thinner FX spreads and transactional volumes.

Impact on our investment thesis

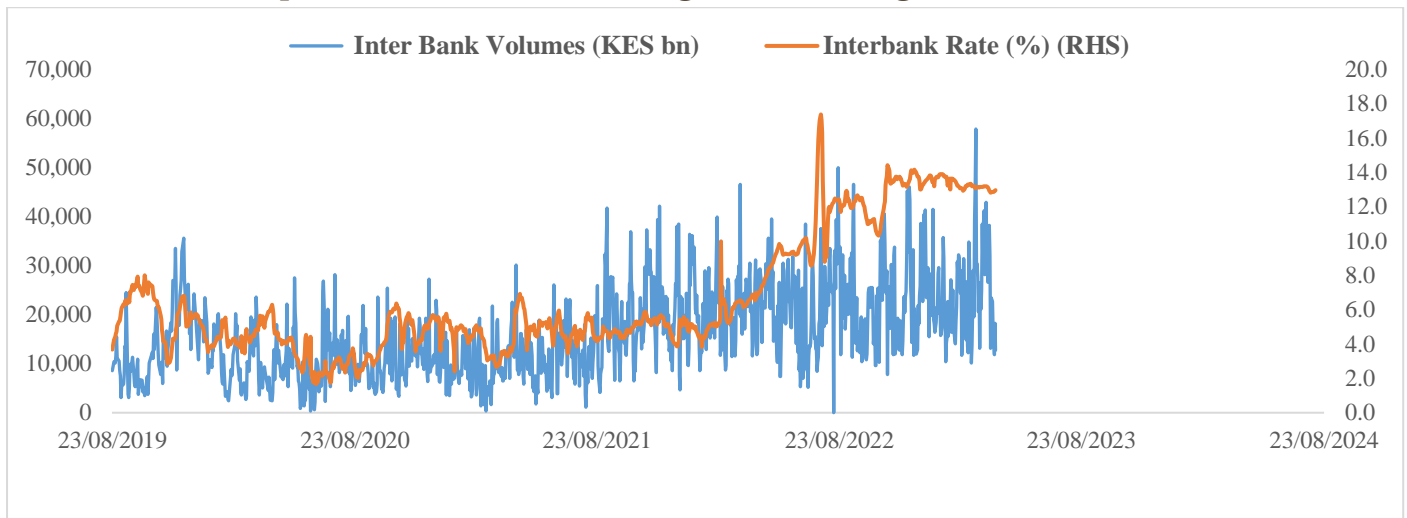
- Going forward, we expect to trim our estimates on operating costs. Stanbic Bank is currently trading at a P/B of 0.7x. **Our current estimate of fair value of KES 108.85, implies a downside potential of 7.0% - a HOLD recommendation.**

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	436.4	160.0	36.7%	0.3%	6.8%	-22.3%	28.8%
KCB Bank	185.2	15.9	8.6%	-0.5%	36.3%	-15.8%	102.9%
I&M Bank	158.9	79.6	50.1%	1.2%	17.7%	-18.8%	66.0%
Equity Bank	115.1	22.2	19.3%	0.1%	18.9%	-17.7%	20.4%
EABL	78.1	6.2	7.9%	-0.7%	32.5%	-10.5%	43.3%

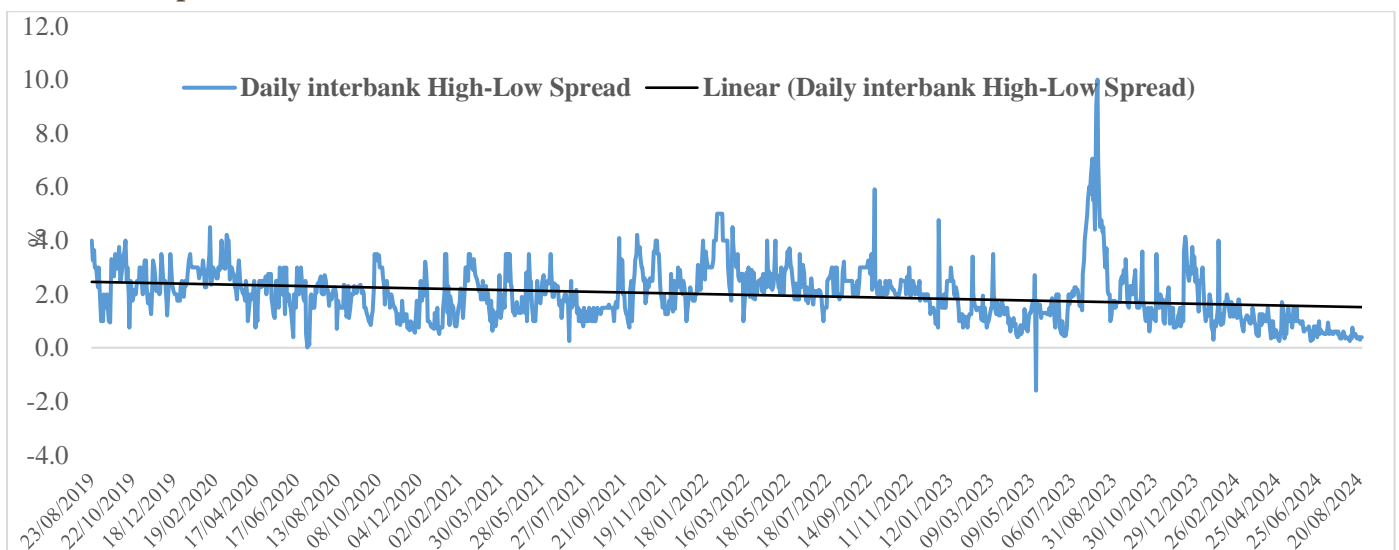
Key Rates and Spreads

Inter-bank Rates improve week-on-week, breaking a 2-week losing streak.



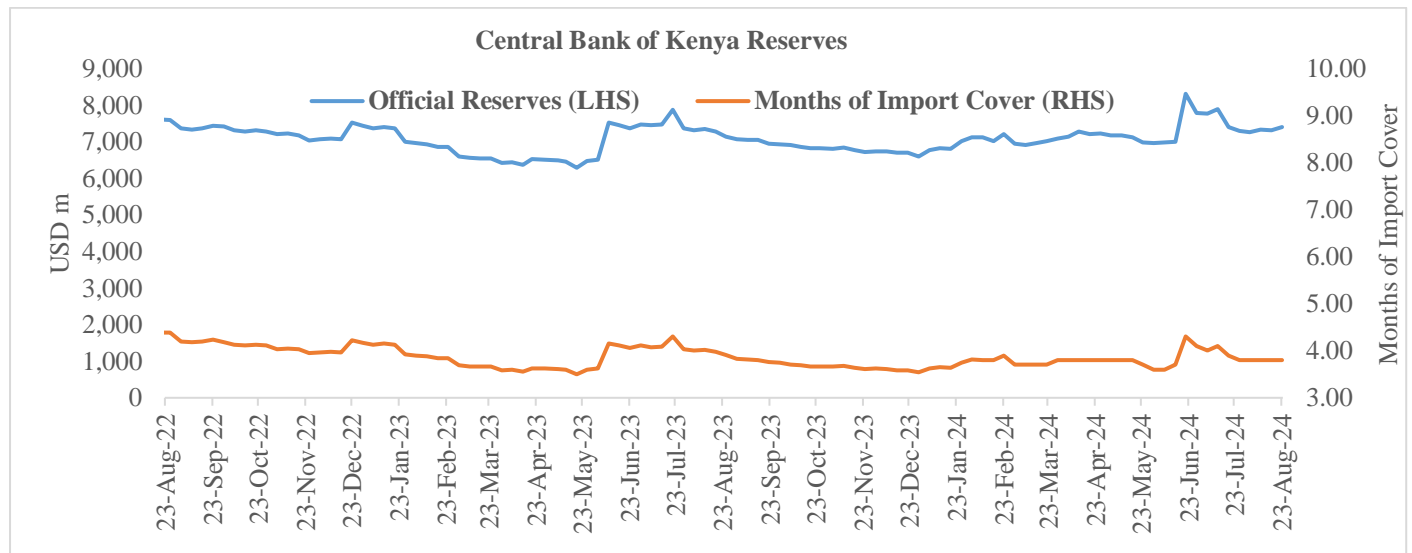
Source: CBK

Inter-bank Spreads widen week-on-week.



Source: CBK

Months of import cover and CBK FX improve week on week.



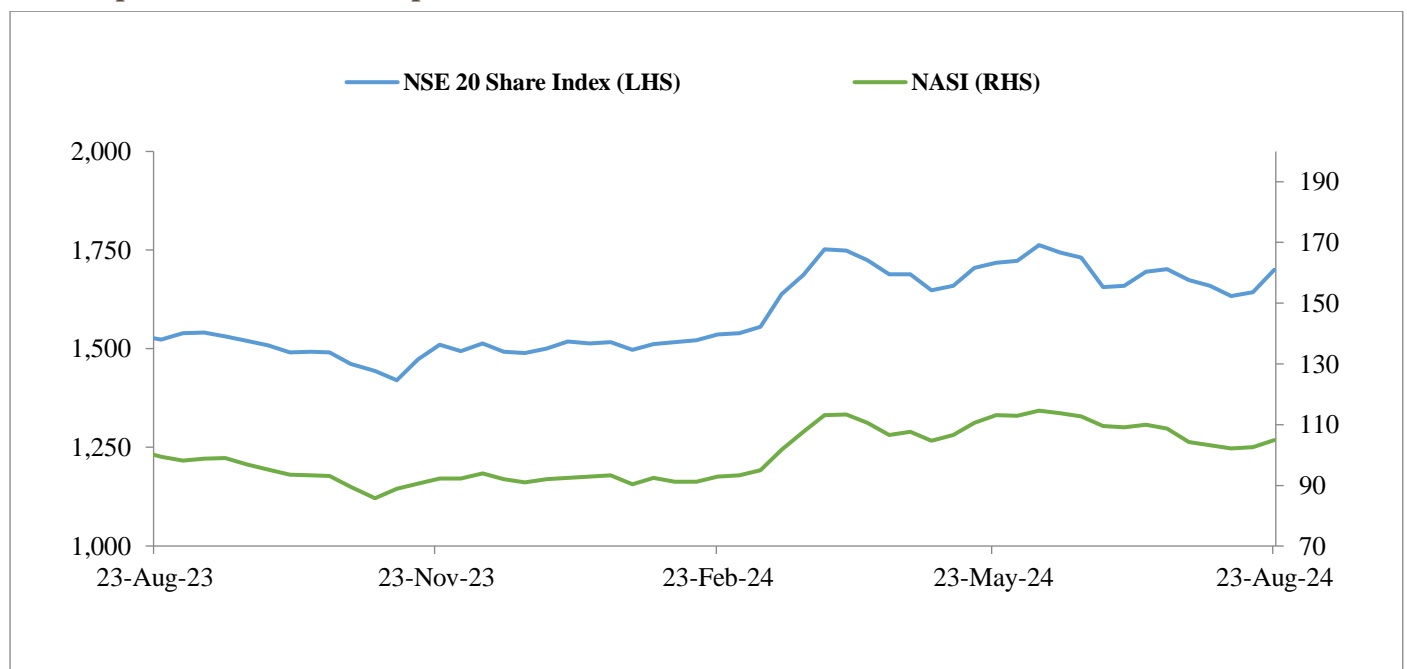
Source: CBK

Equity market trading commentary

Market turnover improved by 52.6%, settling at USD 9.3m (KES 1.2bn). The NASI rose by 2.4%, sustaining a two-week gaining streak as the NSE-20 also went up by 3.4% to settle at 1699.29, maintaining a two-week climbing streak. Foreign investors were net sellers for the week at USD 0.2m (KES 23.7m). Safaricom registered the highest net foreign outflows at USD 1.8m (KES 230.6m), and I&M Bank had the highest net foreign inflows at USD 1.2m (KES 156.2m).

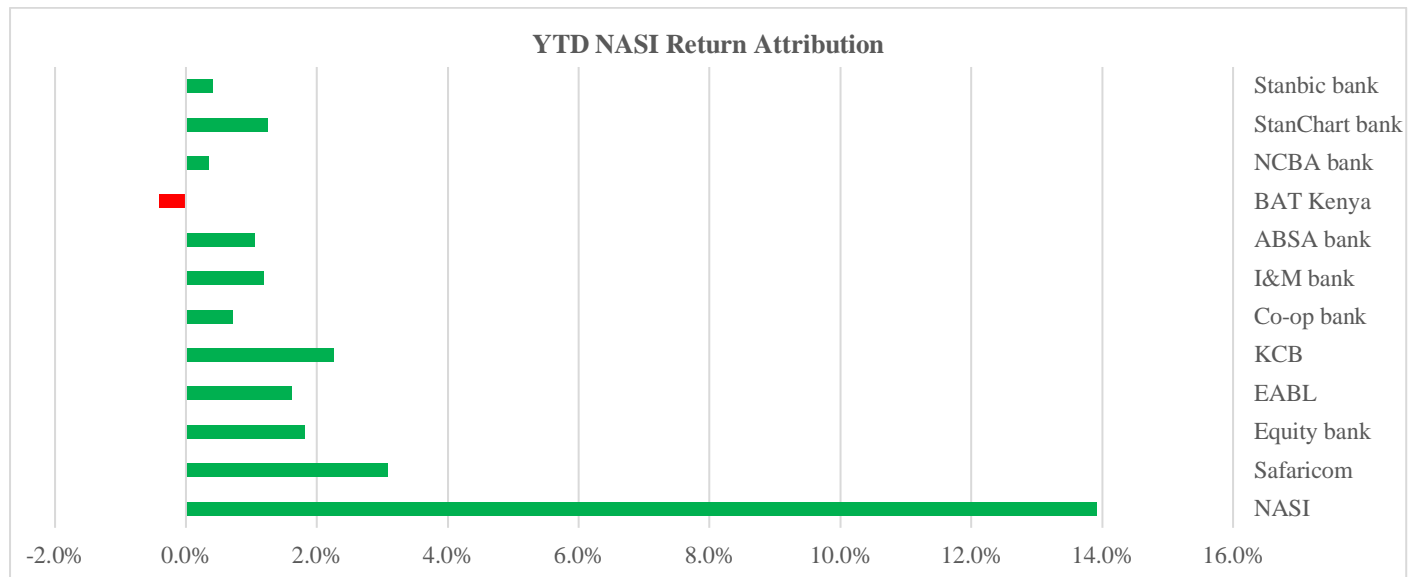
During the week, I&M Bank reached a 3.25-year high following a block trade.

Market performance over the past 12 months



Source: NSE

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



Source: Kestrel Research

Debt market trading commentary

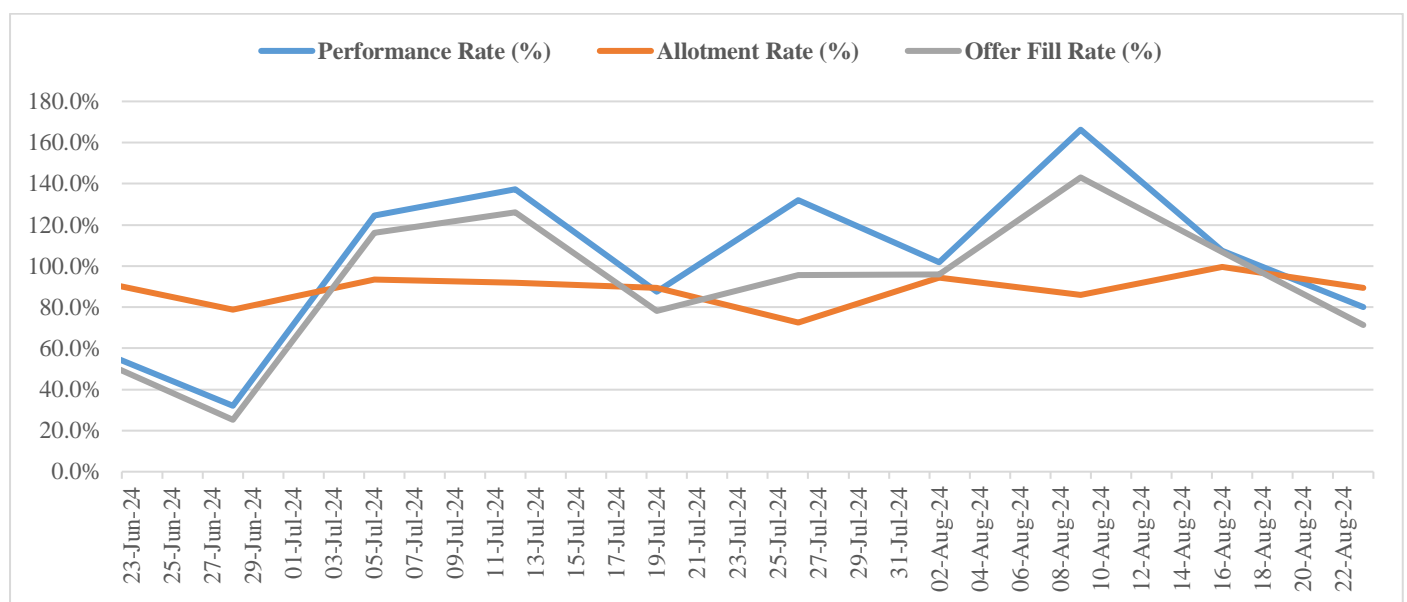
Overall subscription rates fell for the second consecutive week to 79.9% from 107.3% the previous week. Investors remained skewed on the 91-Day T-Bill and activity declined for the 91-Day T-Bill and the 182-Day T-Bill, but improved on the 364-Day T-Bill. The yield on all three T-Bills fell, with the 91-Day T-Bill sustaining a five-week losing streak and the 182-Day T-Bill and the 364-Day T-Bill declined for the fourth 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 7.9 bn for the 91-Day T-Bill, implying a subscription rate of 197.79%. It accepted bids worth KES 7.8 bn at an average yield of 15.794% (-1.5bps w/w).

The 182-Day T-Bill received bids worth KES 5.8bn, implying a performance rate of 57.60%. It accepted bids worth KES 3.8bn at an average yield of 16.669% (-3.9 bps w/w).

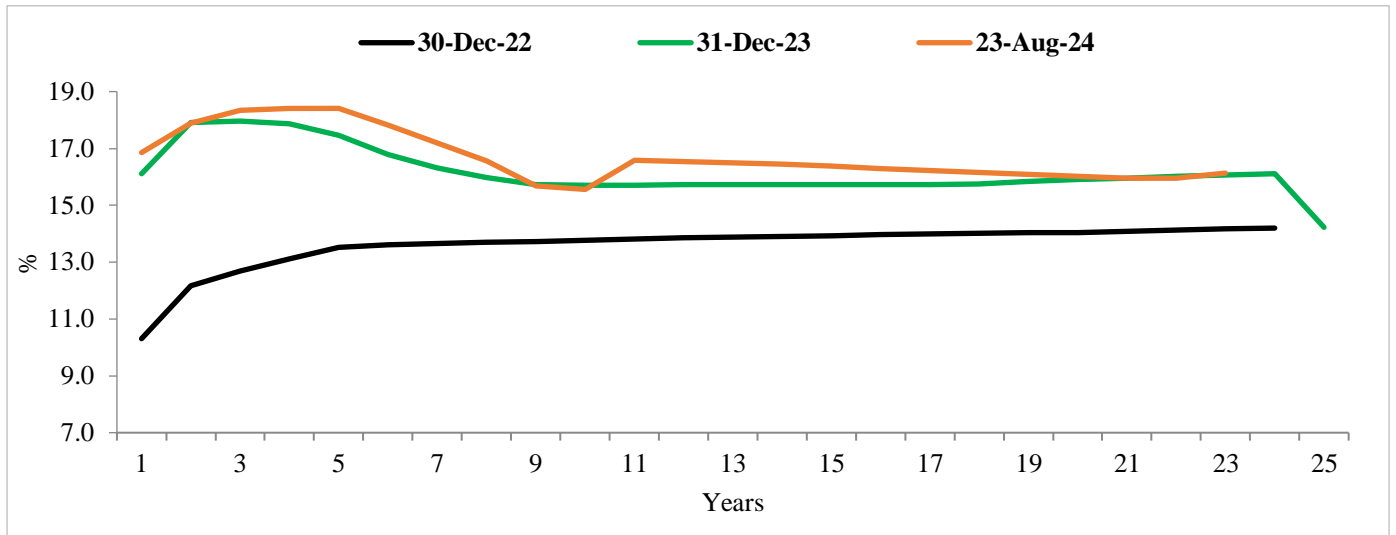
The 364-Day T-Bill received bids worth KES 5.5bn, implying a performance rate of 54.98%. It accepted bids worth KES 5.5bn at an average yield of 16.859% (-0.7bps w/w).

T-Bills Performance rates decline week-on-week



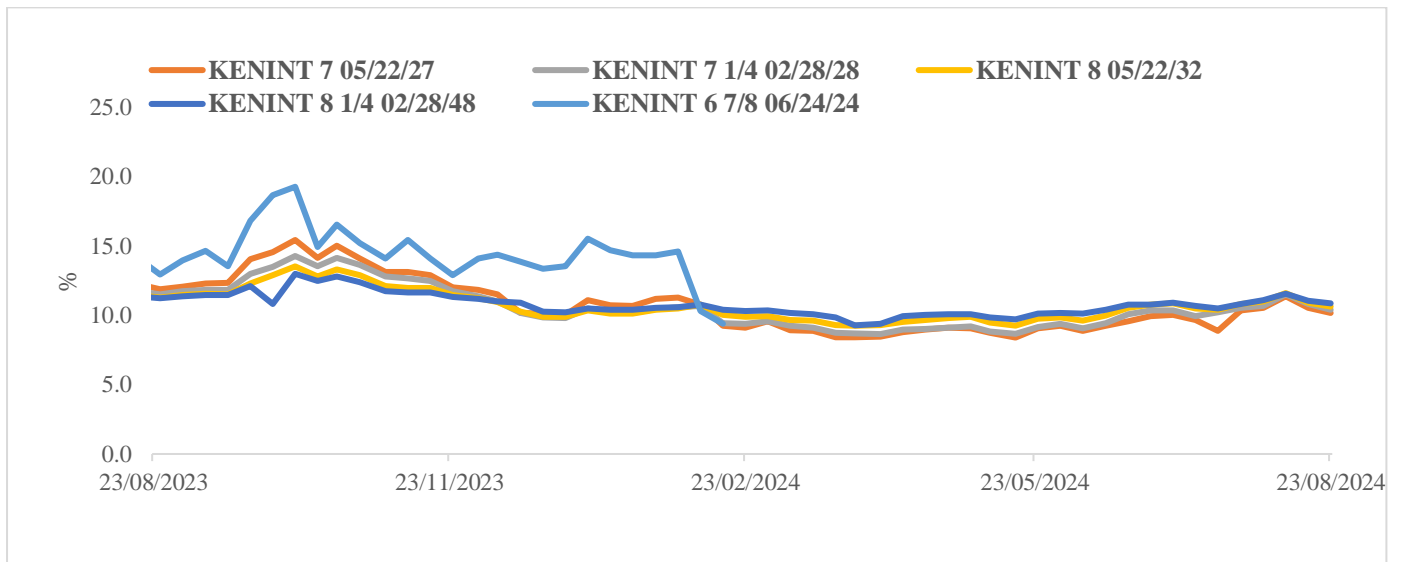
Source: CBK

Kenya Domestic Yield Curve



Source: CBK

Kenya Eurobond Yields increase across all tenors for the fifth consecutive week.



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	11.65	15.00	7.9	4,657	36.5%	1.06	1.20	4.7	14.1	8.0	3.2	22.7	108,862,688
Equity Bank	Banking	Dec	49.20	33.65	40.50	20.4	1,184	9.3%	11.12	3.00	48.7	3.6	7.4	0.8	22.8	58,655,584
EA Breweries	Breweries	Jun	95.00	67.00	17.00	25.7	878	6.9%	-	1.75	27.1	-	1.2	5.3	-	15,603,011
Co-op Bank	Banking	Dec	15.05	10.20	13.15	15.4	598	4.7%	4.03	1.50	18.4	3.3	11.4	0.7	21.9	14,611,848
NCBA Bank	Banking	Dec	45.20	35.00	42.00	7.8	536	4.2%	13.17	2.75	53.7	3.2	6.5	0.8	24.5	3,560,317
Absa Bank	Banking	Dec	14.30	10.75	14.20	24.0	598	4.7%	2.19	1.55	12.0	6.5	10.9	1.2	18.3	10,967,201
KCB Bank	Banking	Dec	37.95	15.75	31.95	45.9	796	6.2%	13.30	-	68.1	2.4	-	0.5	19.5	37,935,443
StanChart Bank	Banking	Dec	209.25	150.50	209.25	29.2	613	4.8%	40.82	29.00	158.0	5.1	13.9	1.3	25.8	6,083,098
Stanbic Bank	Banking	Dec	130.00	100.25	123.25	13.3	378	3.0%	28.71	13.75	140.8	4.3	11.2	0.9	20.4	7,390,883
BAT Kenya	Tobacco	Dec	95.00	67.00	350.00	-14.1	271	2.1%	55.68	50.00	163.8	6.3	14.3	2.1	34.0	9,366,375
BK Group	Banking	Dec	37.00	30.15	32.80	-8.4	228	1.8%	10.48	3.28	46.8	3.1	10.0	0.7	22.4	50,859
I&M Holdings	Banking	Dec	34.24	16.75	27.80	58.9	356	2.8%	8.10	2.55	47.8	3.4	9.2	0.6	16.9	51,401,434
Umeme Ltd.	Power	Dec	4.11	4.00	16.45	2.8	207	1.6%	0.27	2.00	22.0	61.8	12.2	0.7	1.2	1,400,782
Kenya Airways	Airlines	Dec	3.83	3.83	3.83	0.0	169	1.3%	(3.99)	-	(14.7)	-	-	-	-	-
Bamburi Cement	Cement	Dec	5.55	5.55	64.00	78.5	180	1.4%	(1.10)	5.47	82.1	-	98.6	0.1	(1.3)	12,054,391
KenGen	Power	Jun	2.52	1.96	2.38	18.4	122	1.0%	0.49	-	41.6	4.9	-	0.1	1.2	1,443,555
Jubilee Insurance	Insurance	Dec	6.38	4.15	2.10	-17.3	86	0.7%	60.93	12.30	613.8	2.5	8.0	0.2	9.9	1,116,866
DTB Bank	Banking	Dec	55.75	43.25	45.50	1.0	99	0.8%	25.34	6.00	256.8	1.8	13.2	0.2	9.9	2,907,836
Britam	Insurance	Dec	6.38	4.15	5.74	19.8	112	0.9%	1.30	-	9.2	4.4	-	0.6	14.1	244,141
Total Oil	Oil	Dec	2.12	1.35	20.75	15.3	101	0.8%	4.80	1.31	48.0	4.3	6.3	0.4	10.0	406,211
Kakuzi	Agric	Dec	420.00	353.50	380.00	-1.3	58	0.5%	23.25	24.00	303.5	16.3	6.3	1.3	7.7	108,306
CIC Insurance	Insurance	Dec	6.38	4.15	5.74	-6.3	43	0.3%	0.55	0.13	3.3	3.8	6.2	0.6	16.9	220,506
Centum Investment	Finance	Mar	9.44	7.88	8.14	-3.1	42	0.3%	(8.95)	0.60	55.8	-	7.4	0.1	(16.1)	996,948
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	64.00	22.50	64.00	-10.2	35	0.3%	(0.20)	4.00	24.1	-	6.3	2.7	(0.8)	12,054,391
Kenya Re	Insurance	Dec	2.87	1.20	1.20	-36.2	26	0.2%	1.78	0.10	13.4	0.7	8.3	0.1	13.2	3,353,368
Sasini Tea & Coffee	Agric	Sept	26.20	17.00	17.80	-11.0	31	0.2%	3.11	1.00	61.7	5.7	5.6	0.3	5.0	69,020
Carbacid	Gases	July	18.00	14.55	17.00	13.3	34	0.3%	4.01	0.70	13.6	4.2	4.1	1.2	11.9	309,444
Nation Media	Media	Dec	22.00	14.65	15.00	-25.2	22	0.2%	(1.08)	1.49	43.1	-	9.9	0.3	(2.5)	439,214
Kenya Power	Power	Jun	2.12	1.35	2.12	49.3	32	0.3%	(0.89)	-	29.1	-	-	0.1	(3.0)	1,561,463
TPSEA Serena	Tourism	Dec	20.05	11.00	13.25	-19.5	19	0.1%	4.78	-	33.3	2.8	-	0.4	14.4	45,353
Liberty K. Holdings	Insurance	Dec	200.00	152.25	1.20	51.8	23	0.2%	0.15	-	15.9	36.7	-	0.4	1.0	21,033
BOC Kenya	Gases	Dec	95.00	67.00	84.25	2.7	13	0.1%	10.14	5.95	85.1	8.3	7.1	1.0	11.9	23,728
NSE	Finance	Dec	6.62	5.50	5.74	-4.7	12	0.1%	0.05	0.20	7.1	108.5	3.5	0.8	0.7	193,003
Housing Finance	Banking	Dec	4.99	3.25	4.49	29.0	13	0.1%	1.18	4.00	20.5	3.8	89.1	0.2	5.8	7,965
Unga Ltd	Food	Jun	1.53	1.01	0.27	-19.9	8	0.1%	(18.92)	-	58.3	-	-	0.2	(32.4)	17,425
Sanlam Kenya	Insurance	Dec	2.87	1.20	5.60	0.0	7	0.1%	(0.88)	-	3.9	-	-	1.5	(22.7)	220,506
Car & Gen	Motors	Sept	41.50	18.85	22.25	-11.0	7	0.1%	(6.82)	3.20	135.8	-	14.4	0.2	(5.0)	15,547
Limuru Tea	Agric	Dec	430.00	365.00	365.00	-3.9	7	0.1%	3.38	1.00	80.9	107.9	0.3	4.5	4.2	2,426
WPP Scangroup	Media	Dec	2.94	1.92	2.10	-3.7	7	0.1%	0.30	-	11.9	7.0	-	0.2	2.5	50,846
EA Portland	Cement	Jun	64.00	22.50	0.95	-8.8	5	0.0%	(14.13)	-	239.8	-	-	0.0	(5.9)	45,298
Standard Newspapers	Media	Dec	8.70	5.10	6.46	-16.5	4	0.0%	(10.05)	-	0.4	-	-	14.7	(2,284)	1,701
Longhorn	Publishing	Jun	2.93	2.01	2.48	2.9	5	0.0%	(2.45)	-	2.8	-	-	0.9	(88.1)	19,270
TransCentury	Finance	Dec	9.44	7.88	2.90	-28.8	1	0.0%	(6.72)	-	(9.5)	-	-	-	-	84,268
Average												10.3	8.8	2.0	17.5	364,528,848

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