

## Stock Recommendation

Company	*Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	31.11	13.70	127.1%	BUY
Equity bank	43.67	38.30	14.0%	HOLD
KCB bank	47.26	19.90	137.5%	BUY
Co-op bank	20.46	11.50	77.9%	BUY
ABSA bank	12.89	11.60	11.1%	HOLD
StanChart bank	138.26	158.50	-12.8%	HOLD
NCBA bank	40.68	38.10	6.8%	HOLD
I&M bank	33.32	17.50	90.4%	BUY
Stanbic bank	108.85	109.25	-0.4%	HOLD
DTB bank	116.13	45.95	152.7%	BUY
EABL	164.58	114.75	43.4%	BUY
Bamburi Cement	51.96	35.00	48.5%	BUY
BAT Kenya	544.27	409.50	32.9%	BUY

\*banks' fair values have been updated

## Kenya Weekly Commentary

### Kenya Market Summary

#### Equity market commentary and outlook

- During the week, Bamburi Cement further rallied to a 12-month high on account of local demand. Over foreign demand, KCB bank touched a 27-day high. Similarly, ABSA bank jumped to a 19-day high on the back of foreign demand. Co-op bank was up to 17-day high driven by local demand.

#### Debt market commentary and outlook

- For the second week straight, overall subscription rates declined to 115.1%, down from 208.3% the previous week. Investors were biased on the 91-Day T-Bill but were weak on the 182-Day T-Bill and 364-Day T-Bill for the eighteenth successive week. The yield on the 91-Day T-Bill notched up for the thirtieth week in a row; the yield on the 182-Day T-Bill edged up for the fourteenth successive week and the yield on the 364-Day T-Bill trended up for the eighth successive week.

### Key Market Indicators

Index Returns	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Kenya NSE 20 Index Return	1,510.3	2.6%	3.3%	-1.4%	1.5%	-8.6%	-9.9%
Kenya NASI Return	92.2	1.9%	3.2%	-9.0%	-5.8%	-27.5%	-27.6%

Source: NSE, Kestrel Research

### NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	1.6%	1.5%	-12.0%	-14.8%	-42.1%	-41.6%
Johannesburg Index	-0.2%	8.9%	1.4%	2.8%	-6.0%	-6.3%
Nigeria Stock Exchange	-4.0%	-2.0%	-4.7%	-28.7%	-24.0%	-26.9%
Ghana Stock Exchange	-0.2%	1.4%	-1.1%	16.6%	57.1%	10.5%
Egyptian Stock Exchange	4.7%	100.8%	40.1%	49.8%	58.8%	40.1%
MSCI EFM ex SA Index	2.7%	7.7%	8.3%	8.3%	5.9%	3.5%

### Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
USD/KES	152.9	-0.4%	-1.6%	-5.2%	-9.5%	-20.0%	-19.3%
USD/ZAR	18.8	-2.2%	0.3%	-0.8%	4.4%	-9.0%	-9.3%
USD/EGP	30.9	0.0%	0.0%	0.0%	0.0%	-20.4%	-19.9%
USD/NGN	833.4	0.8%	-2.8%	-7.2%	-44.2%	-46.6%	-44.7%
USD/GHS	12.0	-0.3%	-0.8%	-5.1%	-7.9%	21.0%	-15.2%

### 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	154.7	33.2	67.4%	1.9%	-43.3%	-45.2%	17.6%
KCB bank	78.2	8.7	46.0%	2.8%	-47.8%	-49.2%	26.3%
EABL	76.5	1.4	93.2%	0.9%	-31.5%	-38.6%	2.0%
Bamburi Cement	56.8	0.0	0.0%	21.1%	11.1%	0.0%	55.6%
NCBA bank	38.3	0.3	0.4%	6.9%	-3.2%	-8.6%	24.1%

### Notable Events

#### ABSA bank 3Q23 EPS grows 29.6% y/y – Ahead of Estimates

ABSA bank announced its 3Q22 results. Reported EPS – KES 1.97, +29.6% y/y, mainly driven by total income (+22.5% y/y). Earnings came in 30.7% ahead of estimates on the back of better-than-expected total income (+14.8%) and lower-than-expected operating costs (-4.9%).

### Summary Performance Table

	Reported	Forecast	Variance
NIM	6.9%	6.4%	0.5%
NIR growth	25.3%	13.0%	12.3%
NFI mix	30.4%	28.0%	2.4%
NFI growth	16.4%	-6.7%	23.1%
CoR	1.5%	1.7%	-0.2%
CTI	39.7%	47.9%	-8.2%
OpEx Growth	10.2%	15.8%	-5.6%
EPS	1.97	1.51	30.7%
DPS	0.00	0.00	0.0%
Net Loan growth	26.2%	11.7%	14.5%
Deposit growth	4.6%	8.9%	-4.3%
NPL Ratio	6.5%	7.7%	-1.2%
NPL Coverage*	76.8%	76.6%	0.2%
ROE	23.7%	10.1%	13.6%

\*CBK Coverage

### What stood out for us?

- **Lower-than-expected operating costs:** operating expenses came in 4.9% below our projections. We had assumed higher other operating costs on account of the continued changes in the business operations. Other operating costs inflated 14.0% y/y against our growth expectations of 27.8% y/y.
- **Higher-than-expected non-funded income:** we highlight non-funded income that beat our estimates – 24.8% ahead of estimates – mainly on account of enhanced FX income which grew 60.0% y/y aided by increased FX demand and wider spreads.

### Impact to our investment thesis

- We expect to revise upwards our growth estimates for non-funded income and lower our operating costs outlook. ABSA bank is currently trading at a P/B of 1.0x. At current levels, our fair value estimate of KES 14.44 implies 26.7% upside potential. We therefore recommend a **BUY**.

### KCB bank 3Q23 increases 0.9% y/y – Ahead of Estimates

KCB bank announced its 3Q23 financial results. Reported annualised EPS – KES 12.75, +0.9% y/y, helped by increased total income, but pulled back by inflated costs and higher loan loss provisions. Notably, subsidiaries outperformed apart from NBK. Earnings came in 53.1% ahead of estimates, on account of better-than-expected income (+8.8%) and largely aided by lower-than-expected loan loss provisions (-19.3%).

### Summary Performance Table

	Reported	Forecast	Variance
NIM	5.3%	5.7%	-0.4%
NIR growth	21.6%	11.0%	10.6%
NFI mix	36.1%	36.6%	-0.5%
NFI growth	38.7%	28.9%	-9.8%
CoR	1.7%	2.6%	-0.9%
CTI	51.9%	55.2%	-3.3%
OpEx Growth	46.3%	43.0%	3.3%
EPS	12.75	8.33	53.1%
DPS	0.00	0.00	0.0%
Net Loan growth	38.1%	17.4%	20.7%
Deposit growth	79.6%	45.6%	34.0%
NPL Ratio	15.1%	17.2%	-2.1%
NPL Coverage*	57.7%	36.1%	21.6%
ROE	18.2%	12.6%	5.6%

\*CBK Coverage

### What stood out for us?

- **Lower-than-expected FX income:** FX trading come declined 2.4% y/y, against our expectations. We attribute the decline to reduced transactional volumes and relatively thinner spreads. Notably, an FX Code was initiated in the year to better regulate the FX market.
- **Lower-than-expected cost of risk:** cost of risk was 90 bps behind estimates. While the NPL ratio was down to 15.1%, we note the absolute non-performing loans figure was up 23.4% y/y, and macro & credit risks persist.

### Impact to our investment thesis

- Going forward, we expect to maintain our cost of risk outlook and moderate growth on FX income. KCB bank is trading at a P/B of 0.4x. Our fair value estimate stands at KES 47.26, implying 132.8% upside.

## Stanbic bank 3Q23 EPS grows 32.7% y/y – Ahead of Expectations

Stanbic bank announced its 3Q23 financial results. Reported EPS – KES 54.42, +32.7% y/y, driven by higher total income, but dragged by escalating costs and higher loan loss provisions. Earnings came in 9.6% below expectations on account of lower-than-expected total income (-5.8%) and higher-than-expected provisions (+19.2%).

### Summary Performance Table

	Reported	Forecast	Variance
NIM	6.3%	6.7%	-0.4%
NIR growth	42.4%	49.1%	-6.7%
NFI mix	41.0%	41.8%	-0.8%
NFI growth	23.0%	33.1%	-10.1%
CoR	2.2%	1.8%	-0.4%
CTI	43.2%	43.5%	-0.3%
OpEx Growth	27.2%	35.9%	-8.7%
EPS	54.42	60.20	-9.6%
DPS	0.00	0.00	0.0%
Net Loan growth	5.9%	11.1%	-5.2%
Deposit growth	14.4%	5.1%	9.3%
NPL Ratio	8.7%	10.9%	2.2%
NPL Coverage*	57.3%	70.8%	-13.5%
ROE	22.2%	24.6%	-2.4%

\*CBK Coverage

### What stood out for us?

- **Lower-than-expected FX income:** FX income came in 25.4% lower than our forecasts. We think the lower-than-expected growth in FX income was on account of thinner spreads and decreased transaction volumes – in part from market share loss from trading business in the oil import business.

### Impact to our investment thesis

- Looking ahead, we expect to cut our growth forecasts on FX income and raise our cost of risk outlook. Stanbic bank is trading at a P/B of 0.8x. Our fair value estimate stands at KES 108.85, implying 3.5% downside.

## NCBA bank 3Q23 EPS increases 14.4% y/y – Ahead of Forecasts

NCBA bank announced its 3Q23 financial results. Reported EPS – KES 8.89, +14.4% y/y, aided by net interest income (+11.7% y/y) and lower effective tax, but weighed by inflated costs. Earnings came in 28.1% ahead of estimates on the back of lower-than-expected loan loss provisions (-36.1%).

### Summary Performance Table

	Reported	Forecast	Variance
NIM	5.6%	6.2%	-0.6%
NIR growth	11.7%	6.9%	4.8%
NFI mix	44.4%	48.5%	-4.1%
NFI growth	-8.0%	3.9%	-11.9%
CoR	2.3%	4.1%	-1.8%
CTI	47.3%	47.1%	0.2%
OpEx Growth	18.9%	22.6%	-3.7%
EPS	8.89	6.94	28.1%
DPS	0.00	0.00	0.0%
Net Loan growth	16.0%	10.6%	5.4%
Deposit growth	18.6%	8.0%	10.6%
NPL Ratio	12.2%	11.6%	0.6%
NPL Coverage*	44.9%	57.8%	-12.9%
ROE	22.1%	17.5%	4.6%

\*CBK Coverage

### What stood out for us?

- **Lower-than-expected cost of risk:** cost of risk was 180bps lower than our projections. In our view, we expected asset deterioration on account of the weak macros (elevated rates, inflation & weak FX) negatively impacting the asset financing business – we’ve noted increased asset auctions.
- **Lower-than-expected FX income:** FX income saw a notable 34.3% y/y drop, and 31.5% behind expectations. While awaiting more guidance from management, we believe the contraction was driven by thinner spreads and reduced transactional volumes.

### Impact to our investment thesis

- Looking forward, we expect to retain our cost of risk guidance and lower our growth forecasts on non-funded income. NCBA bank is trading at a P/B of 0.7x. Our estimate of fair value stands at KES 40.68, implying 13.1% upside.

## I&M bank 3Q23 EPS grows 14.1% y/y – In line With Expectations

I&M bank announced its 3Q23 financial results. Reported EPS – KES 4.70, +14.1% y/y, driven by higher total income, but dragged by increased loan loss provisions and higher operating costs. Earnings were largely in line with estimates, 2.4% ahead of estimates.

### Summary Performance Table

	Reported	Forecast	Variance
NIM	5.2%	6.0%	-0.8%
NIR growth	18.4%	17.2%	1.2%
NFI mix	35.9%	36.4%	-0.5%
NFI growth	21.2%	22.7%	-1.5%
CoR	2.0%	2.4%	-0.4%
CTI	48.8%	46.9%	1.9%
OpEx Growth	28.7%	23.4%	5.3%
EPS	4.70	4.59	2.4%
DPS	0.00	0.00	0.0%
Net Loan growth	24.3%	14.5%	9.8%
Deposit growth	30.7%	13.3%	17.4%
NPL Ratio	7.6%	11.9%	4.3%
NPL Coverage*	69.8%	65.4%	4.4%
ROE	13.1%	12.4%	0.7%

\*CBK Coverage

### What stood out for us?

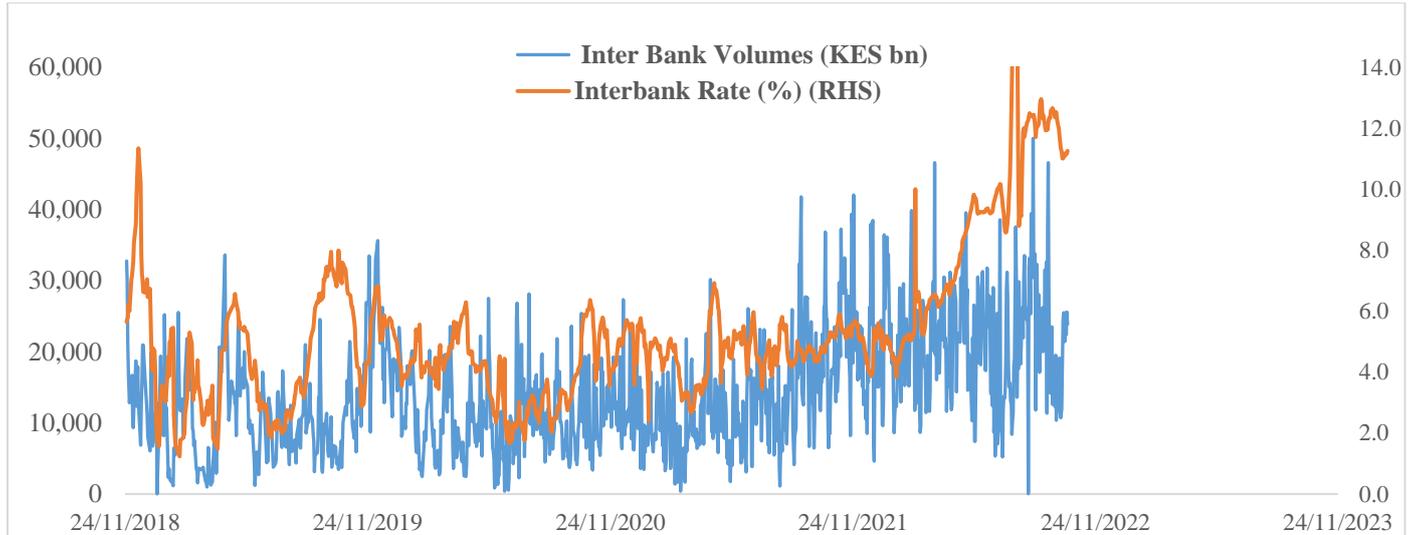
- **Lower-than-expected cost of risk:** cost of risk came in 40bps lower than we expected. We modelled in a higher cost of risk on account of its relatively larger exposure to the manufacturing and trade sectors, which have seen significant delinquencies.

### Impact to our investment thesis

- Going forward, we expect to maintain our cost of risk outlook. I&M bank is trading at a P/B of 0.4x.

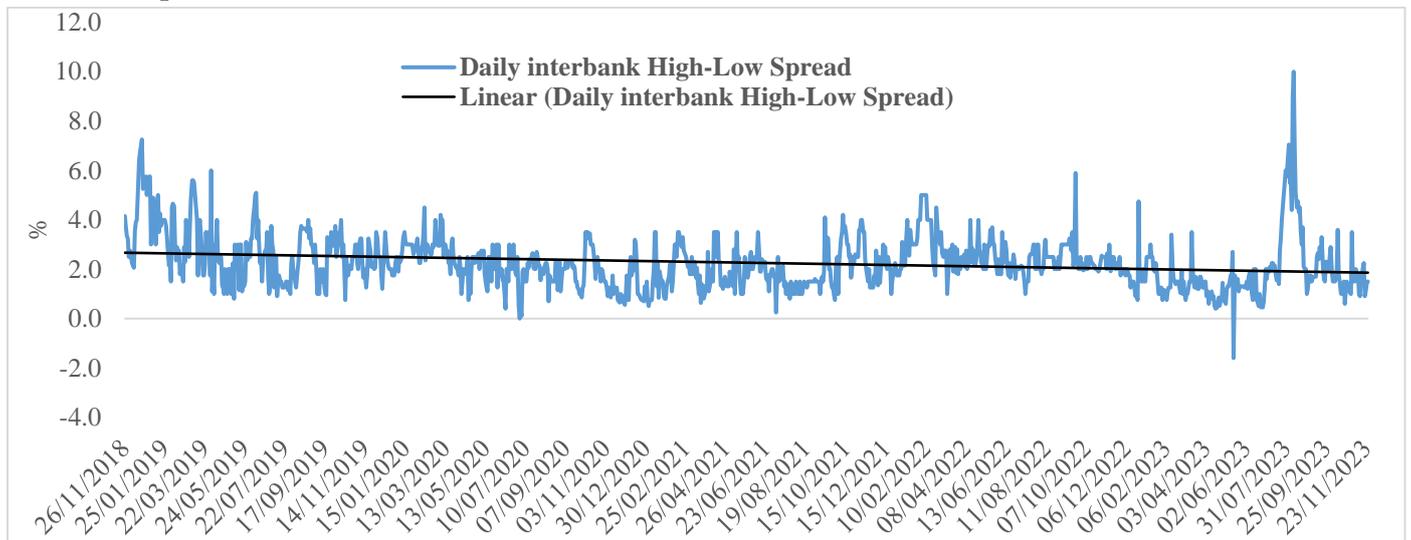
**Key Rates and Spreads**

Inter-bank rates increase week-on-week, halting a 4-weeks declining streak



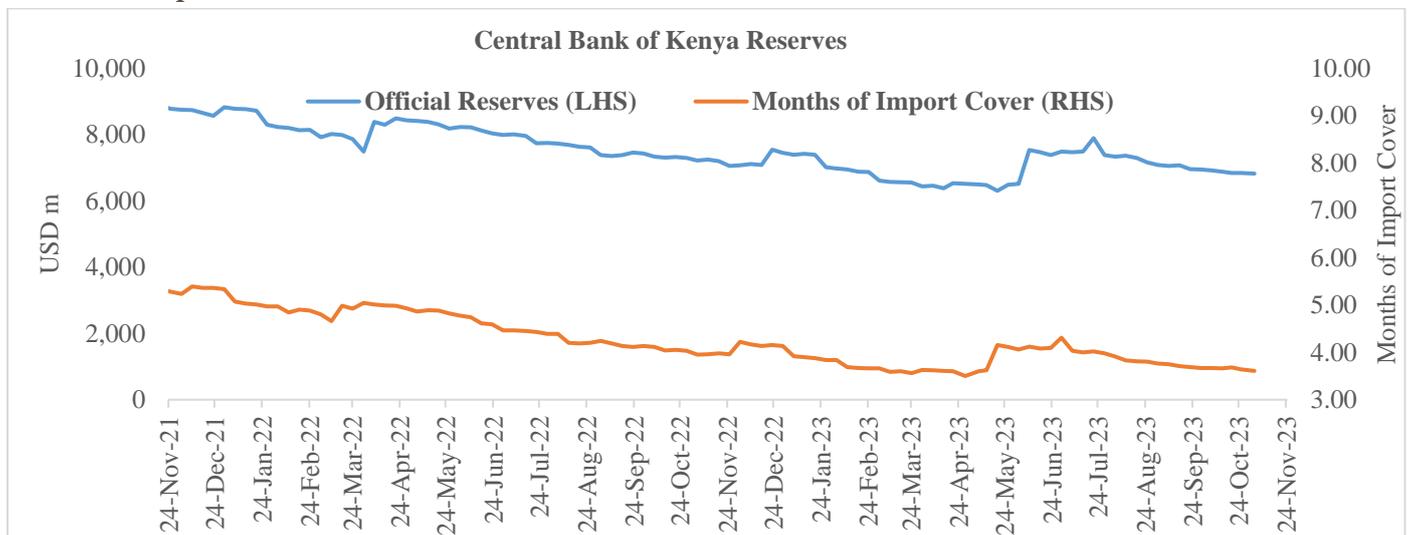
Source: CBK

Inter-bank spreads narrow week-on-week



Source: CBK

Months of import cover & CBK FX reserves decrease for the second week in a row



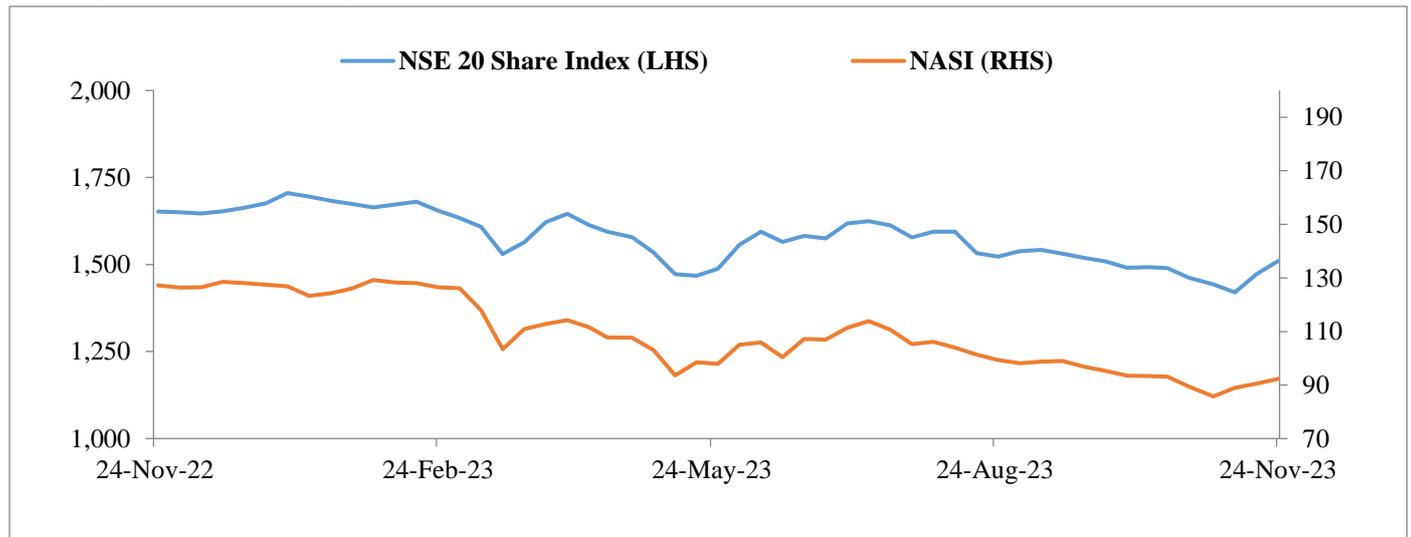
Source: CBK

## Equity market trading commentary

Market turnover rose by 17.7% w/w to settle at USD 3.4m (KES 0.5bn). For the third successive week, the NASI edged up 1.9% w/w to finish at 92.24 and the NSE 20 notched up 2.6% w/w to conclude at 1,510.25. Foreign investors turned net buyers at USD 0.1m (KES 18.0m), breaking the twelfth net selling streak. Foreign investors dominated trading at 53.6% of total turnover, up from 45.5% recorded last week. Safaricom (USD 0.2m, KES 33.2m) and KCB bank (USD 0.1m, KES 8.7m) saw the highest net foreign inflows. On the other hand, KenGen posted the highest net foreign outflows at USD 75.7k (11.5m).

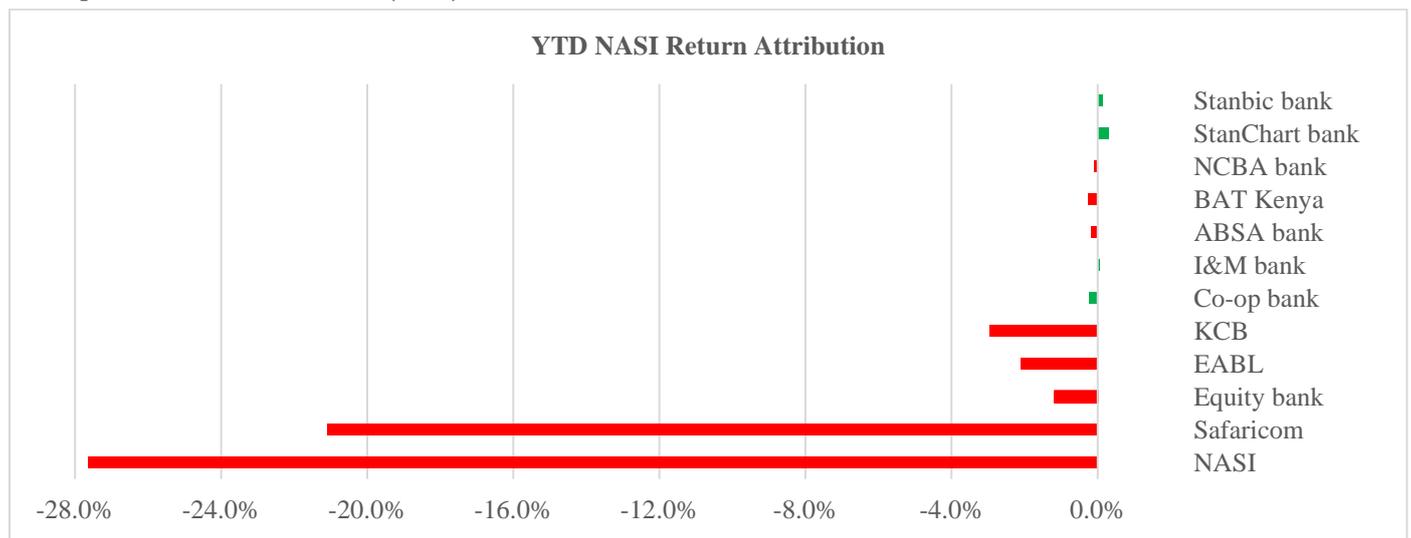
During the week, Bamburi Cement further rallied to a 12-month high on account of local demand. Over foreign demand, KCB bank touched a 27-day high. Similarly, ABSA bank jumped to a 19-day high on the back of foreign demand. Co-op bank was up to 17-day high driven by local demand.

### Market performance over the past 12 months



Source: NSE

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



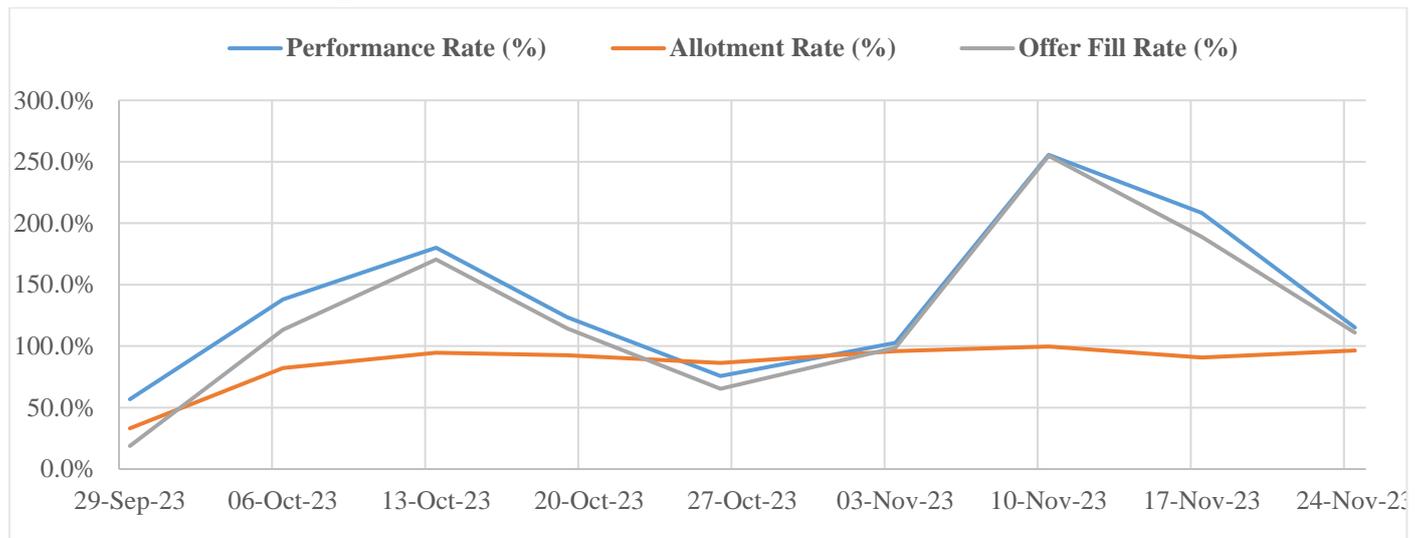
Source: Kestrel Research

## Debt market trading commentary

For the second week straight, overall subscription rates declined to 115.1%, down from 208.3% the previous week. Investors were biased on the 91-Day T-Bill but were weak on the 182-Day T-Bill and 364-Day T-Bill for the eighteenth successive week. The yield on the 91-Day T-Bill notched up for the thirtieth week in a row; the yield on the 182-Day T-Bill edged up for the fourteenth successive week and the yield on the 364-Day T-Bill trended up for the eighth successive week.

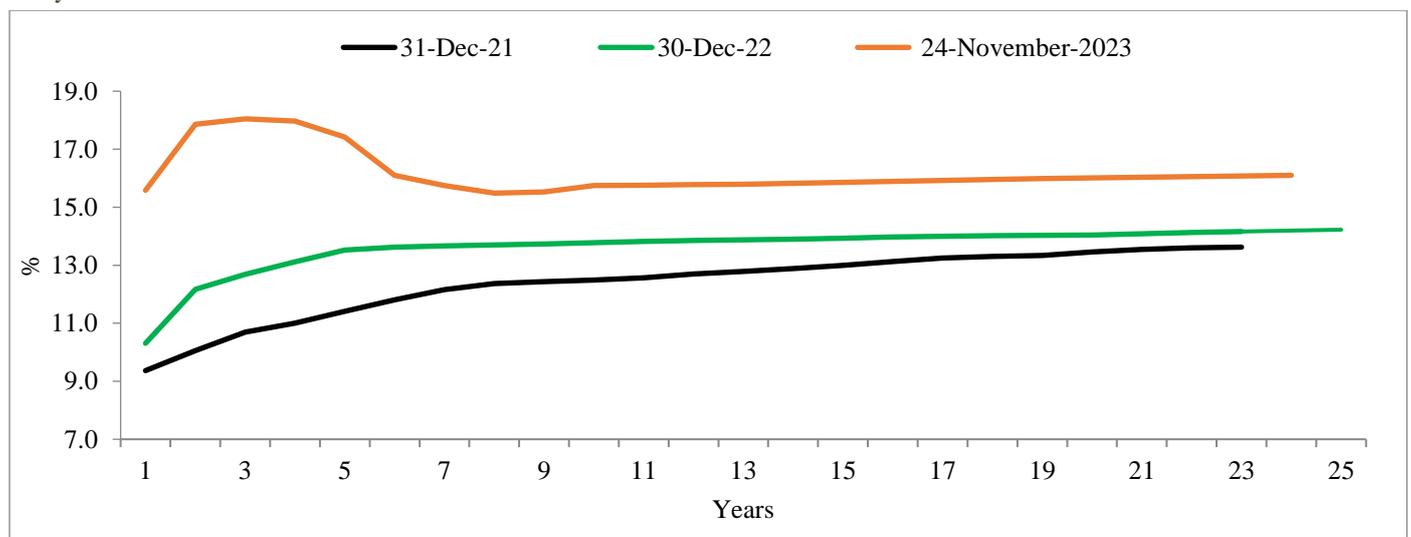
The Central Bank of Kenya offered KES 4.0bn for the 91-Day T-Bill and KES 10.0bn each for the 182-Day T-Bill and the 364-Day T-Bill. It received bids worth KES 23.4bn for the 91-Day T-Bill, implying a subscription rate of 584.91%. It accepted bids worth KES 22.4bn at an average yield of 15.443% (+7.9bps w/w). The 182-Day T-Bill received bids worth KES 2.4bn, implying a performance rate of 23.79%. It accepted bids worth KES 2.4bn at an average yield of 15.445% (+1.6bps w/w). The 364-Day T-Bill received bids worth KES 1.9bn, implying a performance rate of 18.52%. It accepted bids worth KES 1.9bn at an average yield of 15.583% (-5.6bps w/w).

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



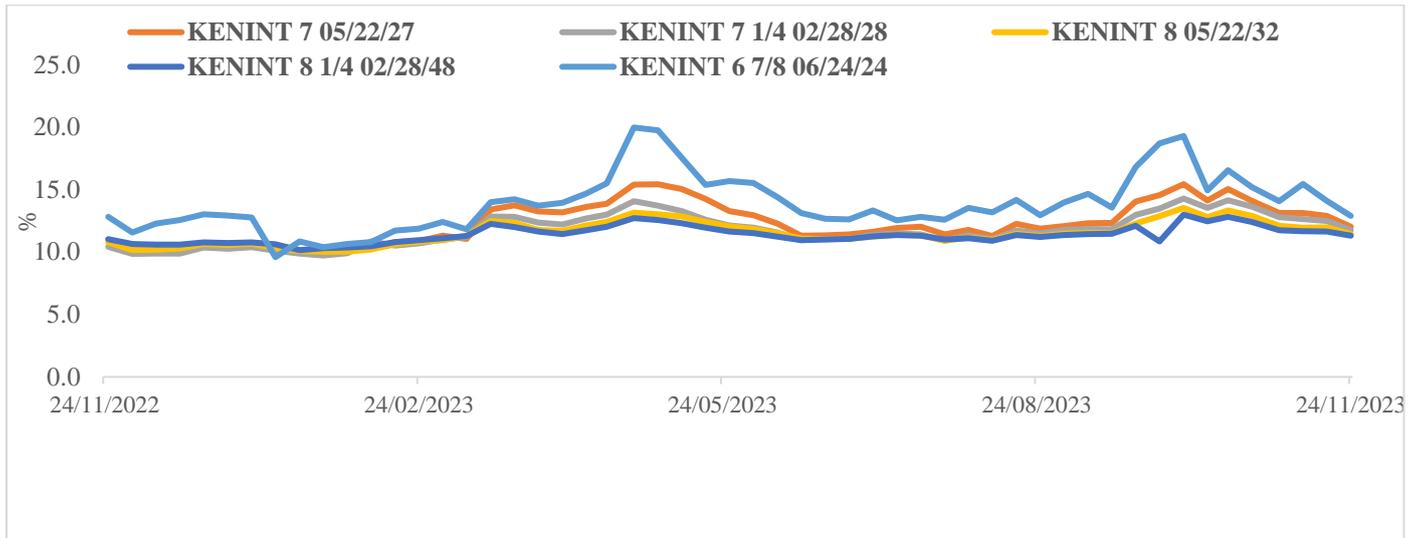
Source: CBK

Kenya Domestic Yield Curve



Source: CBK

Kenya Eurobond Yields: Yields across tenors decrease for the fifth successive week



Source: Bloomberg

Top counters by market capitalization

Company	Sector	Year	12-M High	12-M Low	Price	YTD	Market Cap	Weighting	EPS	DPS	NAV	P/E	Div	P/B	ROE %	Daily Trading <sup>1</sup>
Safaricom	Telecom	Mar	25.00	11.65	13.70	-43.3	3,606	37.9%	1.55	1.20	4.7	8.8	8.8	2.9	33.2	690,158
Equity Bank	Banking	Dec	46.95	35.55	38.30	-13.9	949	10.0%	12.22	3.00	48.7	3.1	7.8	0.8	25.1	156,067
EA Breweries	Breweries	Jun	187.00	112.50	114.75	-31.5	596	6.3%	12.47	5.50	27.1	9.2	4.8	4.2	46.1	19,386
Co-op Bank	Banking	Dec	13.35	10.20	11.50	-6.5	443	4.7%	3.98	1.50	18.4	2.9	13.0	0.6	21.6	43,174
KCB Bank	Banking	Dec	39.20	15.75	19.90	-47.8	420	4.4%	12.47	2.00	68.1	1.6	10.1	0.3	18.3	83,380
Absa Bank	Banking	Dec	12.95	10.10	11.60	-5.7	414	4.4%	2.98	1.35	12.0	3.9	11.6	1.0	24.8	36,048
NCBA Bank	Banking	Dec	41.70	30.70	38.10	-3.2	412	4.3%	9.48	4.00	53.7	4.0	10.5	0.7	17.6	22,636
StanChart Bank	Banking	Dec	171.00	135.25	158.50	11.0	393	4.1%	34.62	22.00	158.0	4.6	13.9	1.0	21.9	20,821
Stanbic Bank	Banking	Dec	129.75	92.00	109.25	7.1	284	3.0%	28.71	13.75	140.8	3.8	12.6	0.8	20.4	9,238
BAT Kenya	Tobacco	Dec	479.75	401.25	409.50	-11.0	269	2.8%	68.92	57.00	163.8	5.9	13.9	2.5	42.1	32,676
Bank of Kigali	Banking	Dec	37.00	27.00	36.50	15.9	215	2.3%	7.66	3.28	43.7	4.8	9.0	0.8	17.5	2,468
I&M Holdings	Banking	Dec	21.00	15.85	17.50	2.9	190	2.0%	7.35	2.25	47.8	2.4	12.9	0.4	15.4	7,359
Umeme Ltd.	Power	Dec	17.75	6.70	14.05	89.4	150	1.6%	3.03	2.12	20.7	4.6	15.1	0.7	14.7	4,574
KenGen	Power	Jun	3.31	2.14	2.30	-28.6	100	1.0%	0.76	0.30	41.6	3.0	13.0	0.1	1.8	7,229
Jubilee Insurance	Insurance	Dec	200.00	148.25	180.00	-9.4	86	0.9%	68.38	14.00	613.8	2.6	7.8	0.3	11.1	9,014
Britam	Insurance	Dec	5.68	4.05	5.14	-1.2	85	0.9%	0.53	-	9.2	9.7	-	0.6	5.7	97,945
DTB Bank	Banking	Dec	55.25	44.00	45.95	-8.1	84	0.9%	23.17	5.00	259.1	2.0	10.9	0.2	8.9	6,543
Bamburi Cement	Cement	Dec	35.00	22.50	35.00	11.1	83	0.9%	2.15	3.58	82.1	16.3	10.2	0.4	2.6	14,141
Kakuzi	Agric	Dec	430.00	240.00	385.00	0.0	50	0.5%	43.15	24.00	303.5	8.9	6.2	1.3	14.2	417
CIC Insurance	Insurance	Dec	2.21	1.68	2.20	12.8	38	0.4%	0.42	0.13	3.3	5.3	5.9	0.7	12.8	1,695
Centum Investment	Finance	Mar	9.50	7.90	8.52	1.9	37	0.4%	(8.95)	0.60	55.8	-	7.0	0.2	(16.1)	7,144
Crown Paints	Manufac.	Dec	44.80	32.30	36.00	-14.0	34	0.4%	5.13	4.00	24.1	7.0	11.1	1.5	21.3	244
Kenya Re	Insurance	Dec	2.02	1.54	1.70	-7.1	31	0.3%	1.17	0.10	13.4	1.5	5.9	0.1	8.7	2,276
Sasini Tea & Coffee	Agric	Sept	31.40	18.20	20.00	-10.9	30	0.3%	3.82	1.00	61.7	5.2	5.0	0.3	6.2	532
Carbacid	Gases	July	17.55	11.40	16.75	39.6	28	0.3%	2.98	0.70	13.6	5.6	4.2	1.2	21.9	2,417
Nation Media	Media	Dec	21.00	14.15	20.00	25.4	25	0.3%	16.74	1.49	43.1	1.2	7.4	0.5	38.9	12,924
Kenya Power	Power	Jun	1.70	1.37	1.44	-7.7	18	0.2%	(1.64)	-	29.1	-	-	0.0	(5.6)	3,458
TPSEA Serena	Tourism	Dec	15.45	10.85	11.50	-13.9	14	0.1%	(3.47)	-	33.3	-	-	0.3	(10.4)	161
Liberty K. Holdings	Insurance	Dec	5.68	3.45	3.50	-37.5	12	0.1%	0.15	-	15.9	22.9	-	0.2	1.0	67
BOC Kenya	Gases	Dec	90.25	65.00	79.75	12.7	10	0.1%	7.58	5.95	85.1	10.5	7.5	0.9	8.9	406
NSE	Finance	Dec	7.00	5.52	5.92	-12.7	10	0.1%	0.05	0.20	7.1	111.9	3.4	0.8	0.7	462
NSE	Finance	Dec	7.00	5.52	5.92	-12.7	10	0.1%	0.05	0.20	7.1	111.9	3.4	0.8	0.7	462
Housing Finance	Banking	Dec	5.10	3.01	3.95	23.8	10	0.1%	(1.45)	-	20.5	-	-	0.2	(7.1)	6,854
Unga Ltd	Food	Jun	32.00	14.00	16.70	-47.8	8	0.1%	2.48	-	58.3	6.7	-	0.3	4.2	31
											<b>Average</b>	<b>10.1</b>	<b>9.2</b>	<b>1.8</b>	<b>24.8</b>	<b>1,308,594</b>

## Disclaimer

**Note:** Readers should be aware that Kestrel Capital (EA) Ltd does and seeks to do business with companies covered in its research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions.

The opinions and information portrayed in this report may change without prior notice to investors. This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of Kestrel Capital (EA) Ltd.

Directors, staff of Kestrel Capital (EA) Ltd and their family members, may from time to time hold shares in the company it recommends to either buy or sell and as such the investor should determine for themselves the applicability of this recommendation.

This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by Kestrel Capital or any employee of Kestrel Capital as to the accuracy of the information contained and opinions expressed herein.

---

**Kestrel Capital E.A. Ltd.**

Orbit Place, 1st Floor  
Westlands Road

Tel: +254 20 2251758

research@kestrelcapital.com  
www.kestrelcapital.com

**Bloomberg: KEST <GO>**

---

**Equity Sales & Trading**

**Sally Kotut**  
sallyk@kestrelcapital.com

**Chris Miriti**  
chrism@kestrelcapital.com

**Amanda Onyango**  
amandao@kestrelcapital.com

---

**Research**

**Ephantus Maina**  
ephantum@kestrelcapital.com

---

**Fixed Income Sales & Trading**

**Alexander Muiruri**  
alexanderm@kestrelcapital.com

**Edwin Muthaura**  
edwinm@kestrelcapital.com

---

**CEO & Executive Director**

**Francis Mwangi, CFA**  
francism@kestrelcapital.com