

Stock Recommendation

Company	*Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	30.71	17.90	71.6%	BUY
Equity bank	43.67	43.50	0.4%	HOLD
KCB bank	47.26	35.55	32.9%	BUY
Co-op bank	20.46	13.50	51.6%	BUY
ABSA bank	12.89	13.75	-6.3%	HOLD
StanChart bank	138.26	186.50	-25.9%	SELL
NCBA bank	40.68	42.00	-3.1%	HOLD
I&M bank	33.32	20.25	64.5%	BUY
Stanbic bank	108.85	110.25	-1.3%	HOLD
DTB bank	116.13	45.90	153.0%	BUY
EABL	151.28	158.00	-4.3%	HOLD
Bamburi Cement	44.37	41.15	7.8%	HOLD
BAT Kenya	460.00	368.75	24.7%	BUY

Kenya Market Summary

Equity market commentary and outlook

- During the week, the NASI sustained a three-day losing streak and the NSE-20 maintained a 3-day winning streak. KCB Bank touched a 4-day high on account of local demand. Safaricom rallied to a 5-day high on the back of increased local demand. There was a block trade activity on I&M Bank, BAT Kenya's price reduced due to the manufacturer going ex-dividend.

Debt market commentary and outlook

- Overall subscription rates advanced after a two-week decline to 139.6% from 100.1% the previous week. Investors remained skewed on the 91-Day T-Bill and activity climbed up on all the three T-Bills. The yield on all three T-Bills rose, with the 91-Day T-Bill gaining consecutively for the seventh week and the 182-Day T-Bill along with the 364-Day T-Bill went up successively for the fifth week.

Key Market Indicators

Index	Level	1w	1m	3m	6m	12m	ytd (%)
Kenya NSE 20 Index	1,717.4	3.5%	1.7%	13.4%	19.0%	11.9%	14.4%
Kenya NASI	113.1	8.0%	6.1%	21.9%	31.9%	9.8%	22.8%

Source: NSE, Kestrel Research

NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	1.9%	11.4%	35.7%	43.9%	13.7%	46.8%
Johannesburg Index	-5.3%	-1.4%	6.8%	0.2%	3.1%	-3.3%
Nigeria Stock Exchange	1.5%	-6.0%	7.9%	-25.8%	-44.1%	-18.2%
Ghana Stock Exchange	-1.1%	-4.2%	-1.5%	-3.8%	12.7%	-3.0%
Egyptian Stock Exchange	-1.3%	4.6%	-39.2%	-28.8%	0.4%	-28.6%
MSCI EFM ex SA Index	0.4%	3.1%	-4.4%	-11.4%	-8.3%	-10.9%

Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
USD/KES	130.70	1.5%	2.7%	11.8%	17.3%	6.1%	20.0%
USD/ZAR	18.79	-2.0%	-1.5%	1.7%	-0.7%	3.9%	-2.3%
USD/EGP	47.25	-0.2%	1.4%	-34.6%	-34.6%	-34.6%	-34.6%
USD/NGN	1487.00	-1.0%	-6.9%	6.2%	-46.9%	-68.7%	-38.7%
USD/GHS	14.80	-1.4%	-7.1%	-14.2%	-18.9%	-24.7%	-19.3%

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
I&M Bank	3193.9	-0.0	99.7%	11.9%	15.7%	-3.3%	30.7%
Safaricom	1357.9	604.8	63.9%	-0.6%	28.8%	-10.9%	50.6%
Equity Bank	1129.3	435.6	67.4%	-7.2%	29.3%	-2.7%	42.2%
KCB Bank	367.2	79.5	53.5%	1.4%	62.3%	-20.7%	91.1%
BAT Kenya	156.5	-146.1	47.7%	-9.8%	-9.5%	-8.3%	13.4%

ABSA Bank 1Q'24 EPS increased 32.9% y/y - Ahead of our Estimates

ABSA Bank published its 1Q24 results. Reported 1Q24 EPS: KES 1.09, +32.9% y/y, largely driven by net interest income (+21.7% y/y). Earnings came in 16.3% ahead of estimates following higher-than-expected net interest income (+8.5%). Non-funded income also exceeded estimates by 43.9%.

Summary Performance Table

	Reported	Forecast	Variance
NIM	9.5%	7.9%	1.6%
NIR growth	21.7%	12.2%	9.5%
NFI mix	30.8%	25.2%	5.6%
NFI growth	12.7%	-21.7%	34.4%
CoR	2.7%	1.2%	1.5%
CTI	33.9%	40.1%	-6.2%
OpEx Growth	10.8%	11.5%	-0.7%
EPS	1.09	0.94	16.3%
DPS	0.00	0.00	0.0%
Net Loan growth	5.4%	-3.5%	8.2%
Deposit growth	14.2%	6.0%	8.2%
NPL Ratio	10.6%	9.4%	1.2%
NPL Coverage*	55.4%	81.4%	-26.0%
ROE	31.5%	26.4%	5.1%

*CBK Coverage

What stood out for us?

- **Higher-than-expected FX income:** forex income decreased 2.5% y/y, against our expectations. We assumed a bigger decline of 60.1% because of reduced trade volumes and thinner spreads compared to the corresponding period.
- **Faster growth in interest expenses:** on account of higher cost of funds from elevated interest rates in Kenya and steep global rates, interest expenses went up 74.4% y/y, surpassing our projections by 51.9%.

Impact to our investment thesis

- In the future, we expect to raise our estimate of cost of funds as rates remain elevated. ABSA Bank is currently trading at a P/B of 1.0x. **Our estimate of fair value of 12.89, implies a downside potential of 4.2% to a HOLD recommendation.**

DTB Bank 1Q'24 EPS rose 8.6% y/y - Above our Expectations

DTB Bank published its 1Q24 results. Reported 1Q24 EPS: KES 9.39, +8.6% y/y, mainly driven by non-funded income (+31.8% y/y). However, inflated costs (+17.4% y/y) impacted negatively the bottom line. Earnings came in 19.3% ahead of estimates on account of better-than-expected non-funded income (+20.2%) and reduced loan loss provisions (-33.1%).

Summary Performance Table

	Reported	Forecast	Variance
NIM	5.3%	5.4%	-0.1%
NIR growth	6.2%	18.7%	-12.0%
NFI mix	34.3%	28.0%	6.3%
NFI growth	31.8%	9.7%	22.1%
CoR	1.9%	2.7%	-0.8%
CTI	48.8%	47.8%	1.0%
OpEx Growth	17.4%	17.3%	0.1%
EPS	9.39	7.87	19.3%
DPS	0.00	0.00	0.0%
Net Loan growth	-0.6%	13.2%	-14.1%
Deposit growth	7.5%	10.9%	-3.4%
NPL Ratio	13.8%	11.9%	1.9%
NPL Coverage*	43.3%	49.2%	-5.9%
ROE	14.5%	10.9%	3.6%

*CBK Coverage

What stood out for us?

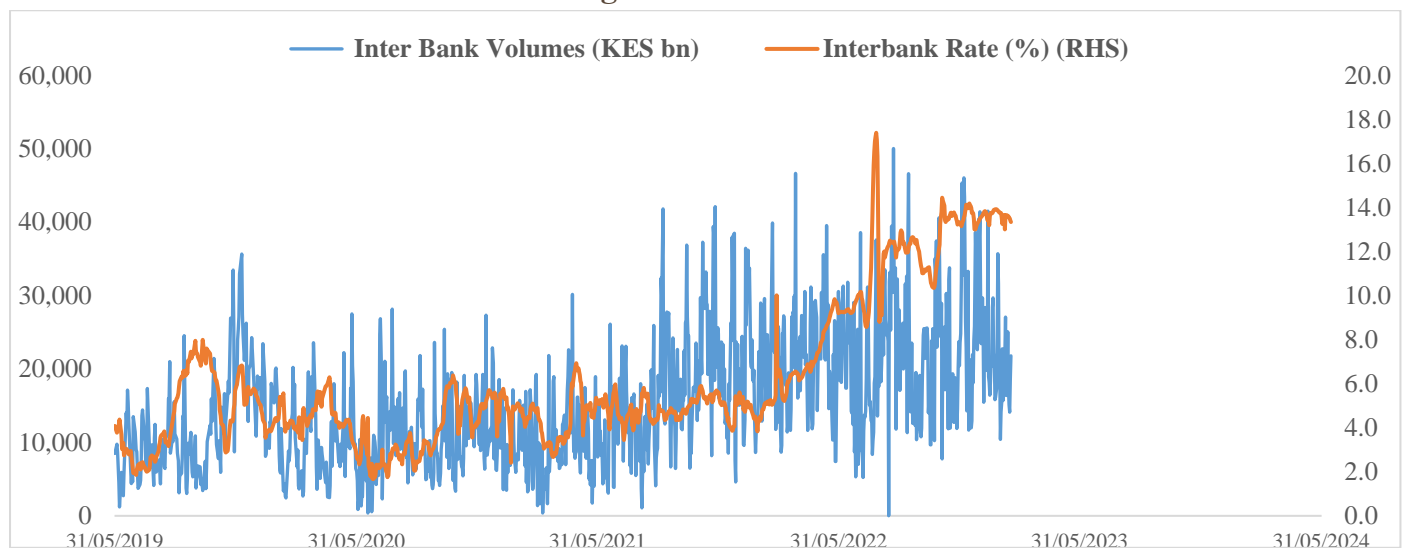
- **Lower-than-expected loan loss provisions:** provisions came in 33.1% below our expectations. We modelled 69.1% y/y increase compared to reported growth of 13.1%. We believe DTB's exposure to the SMEs sector, and relatively greater allocation to the trade, manufacturing and real estate, amidst the weak macros, would lead to higher cost of risk.

Impact to our investment thesis

- DTB Bank is currently trading at a P/B of 0.2x. We expect to raise our cost of risk outlook. **Our estimate of fair value of KES 116.13, implies an upside potential of 115.8% to a BUY recommendation.**

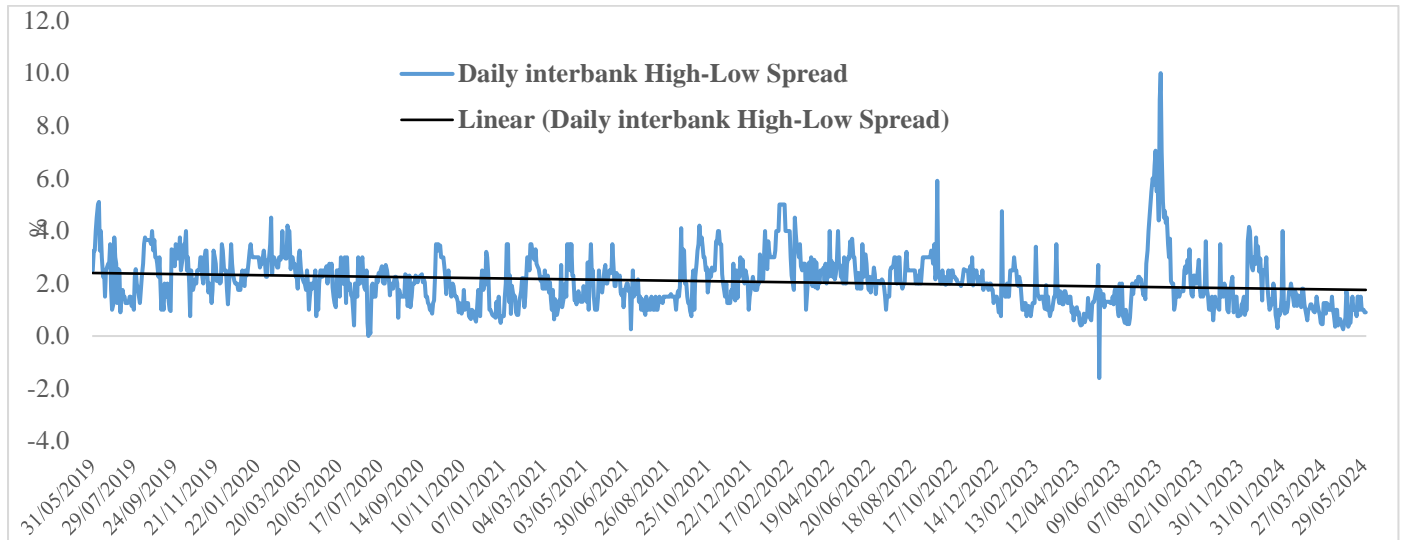
Key Rates and Spreads

Inter-bank Rates decrease for the sixth straight week



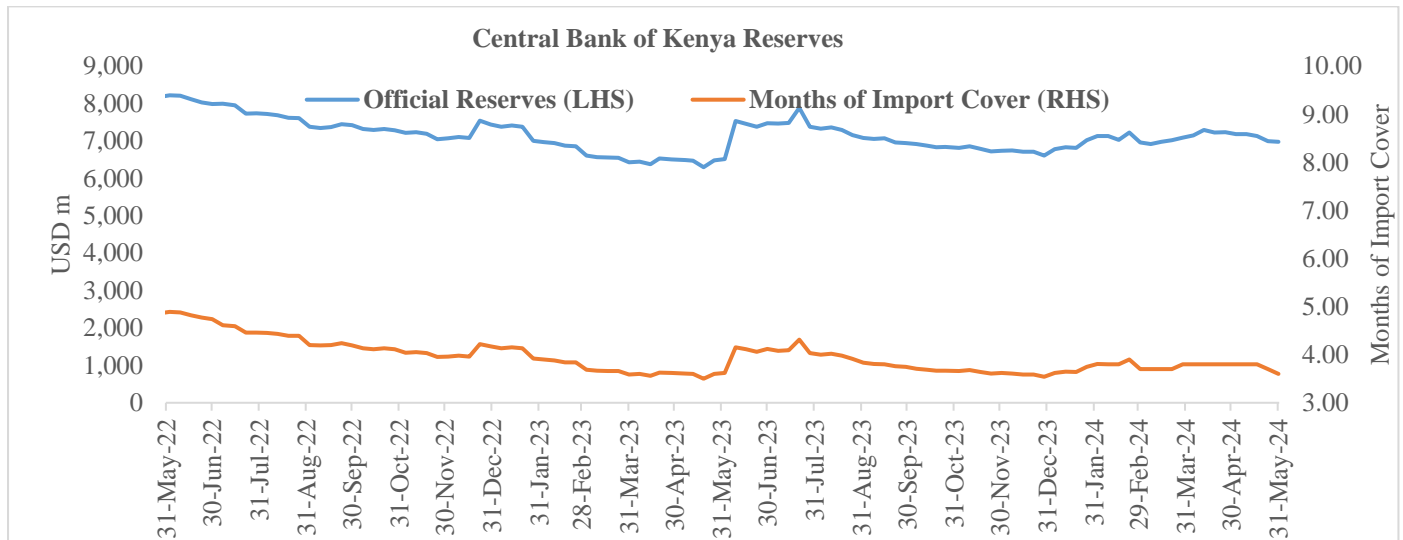
Source: CBK

Inter-bank Spreads narrow week on week after widening two weeks in a row



Source: CBK

Months of import cover and CBK FX reserves shrink for the third week in a row



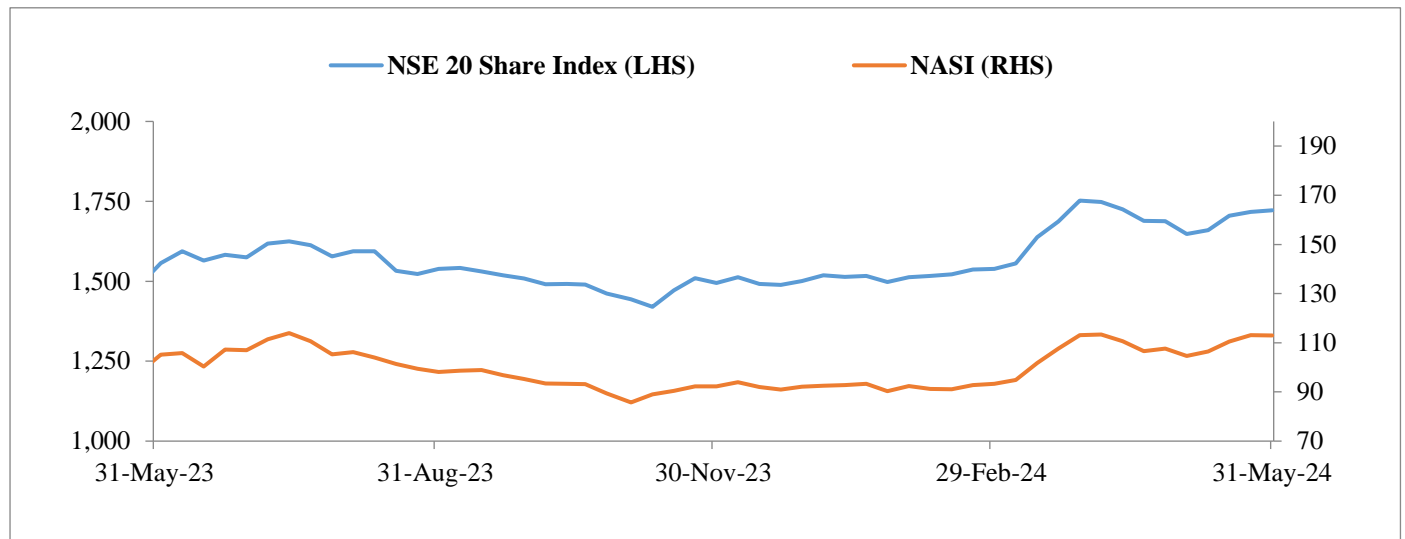
Source: CBK

Equity market trading commentary

Market turnover further grew by 198.9% to stand at USD 51.9m (KES 6.7bn). The NASI lessened by 0.1% to settle at 112.98 after a 3-week winning streak and the NSE 20 grew by 0.3% to conclude at 1,722.49, the fourth successive win. Foreign investors remained net buyers at USD 6.7m (KES 878.2m).

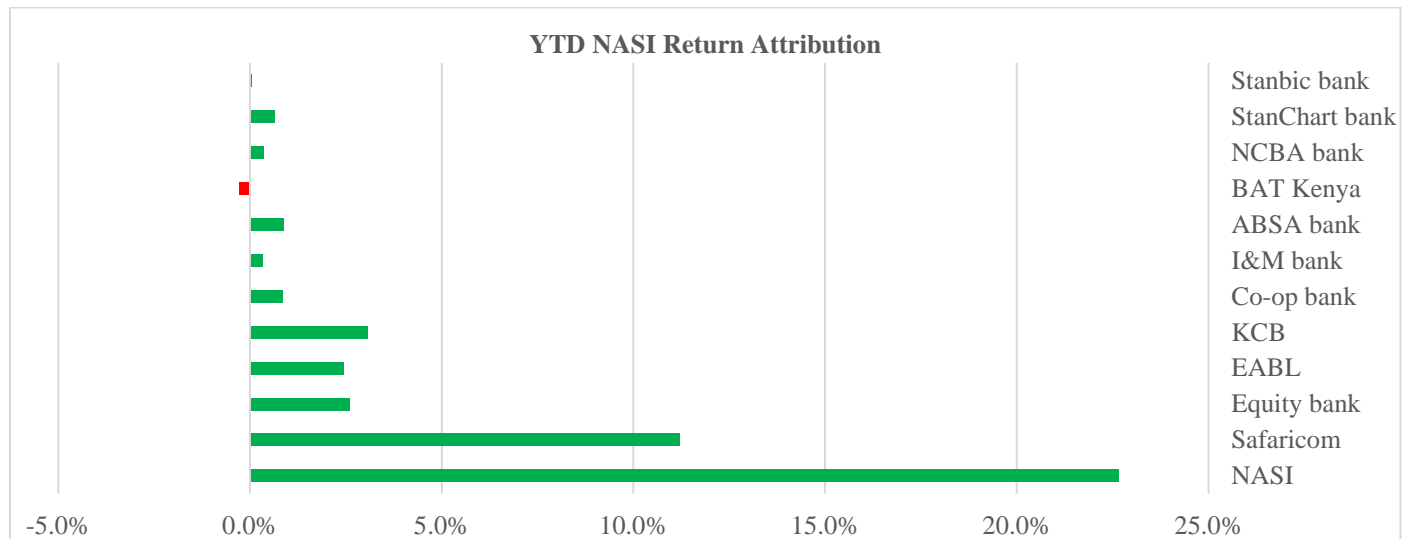
During the week, the NASI sustained a three-day losing streak and the NSE-20 maintained a 3-day winning streak. KCB Bank touched a 4-day high on account of local demand. Safaricom rallied to a 5-day high on the back of increased local demand. There was a block trade activity on I&M Bank, BAT Kenya’s price reduced due to the manufacturer going ex-dividend.

Market performance over the past 12 months



Source: NSE

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



Source: Kestrel Research

Debt market trading commentary

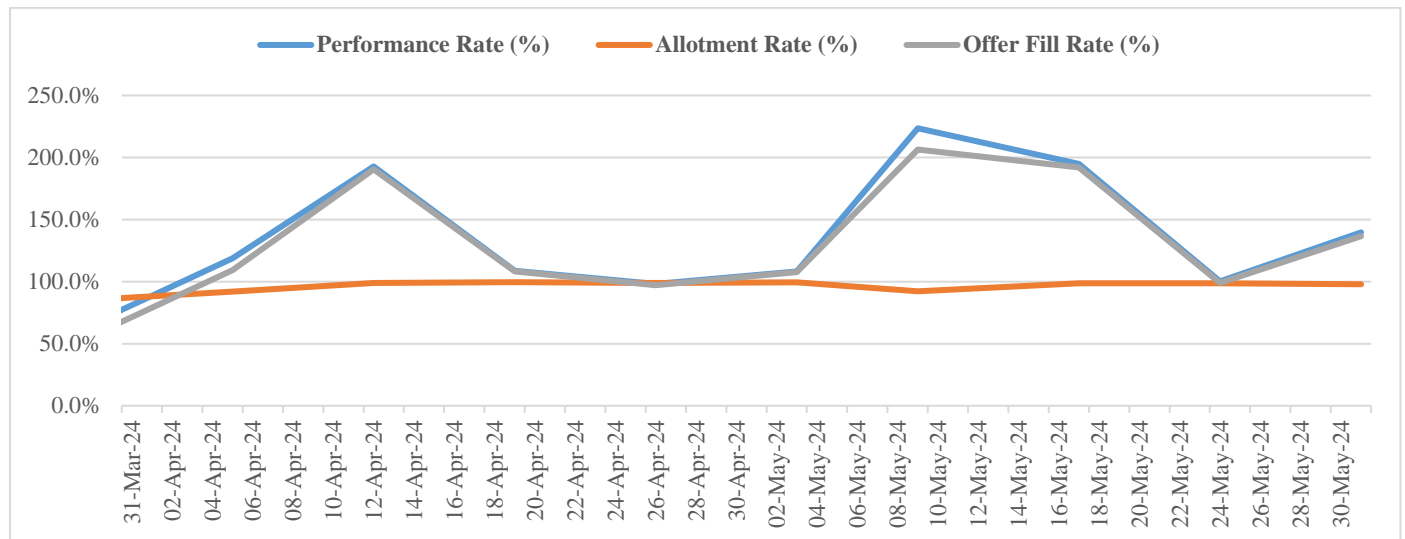
Overall subscription rates advanced after a two-week decline to 139.6% from 100.1% the previous week. Investors remained skewed on the 91-Day T-Bill and activity climbed up on all the three T-Bills. The yield on all three T-Bills rose, with the 91-Day T-Bill gaining consecutively for the seventh week and the 182-Day T-Bill along with the 364-Day T-Bill went up successively for the fifth 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 17.8bn for the 91-Day T-Bill, implying a subscription rate of 446.60%. It accepted bids worth KES 17.4bn at an average yield of 15.954% (+0.9 bps w/w).

The 182-Day T-Bill received bids worth KES 9.2bn, implying a performance rate of 91.72%. It accepted bids worth KES 9.0bn at an average yield of 16.608% (+4.4 bps w/w).

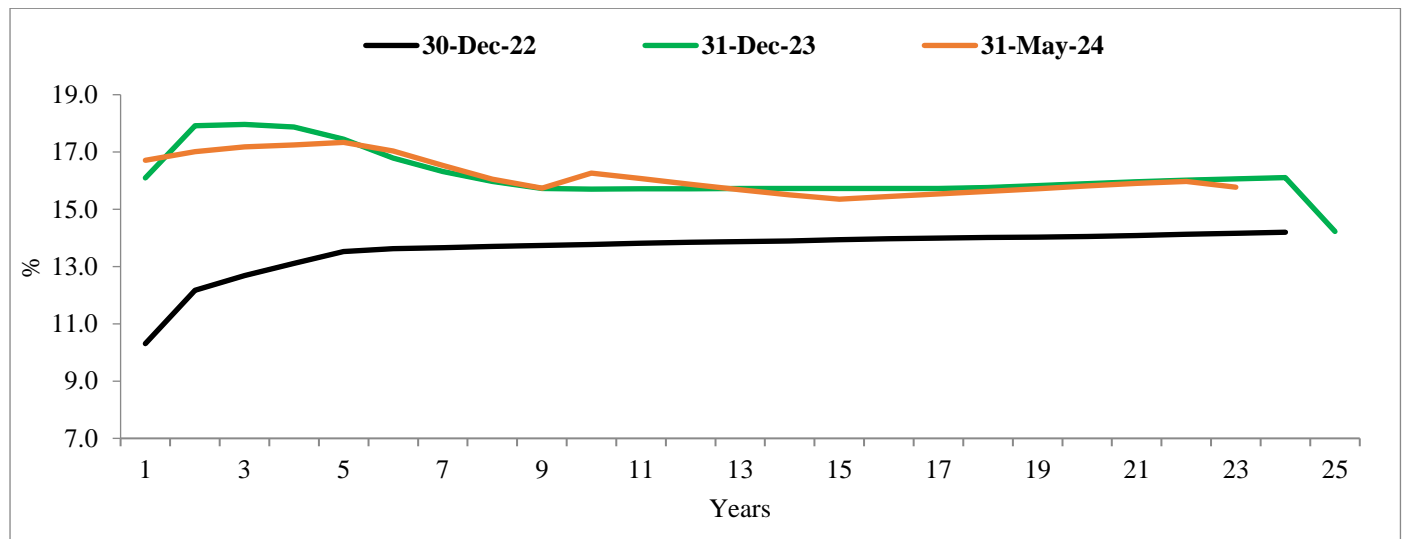
The 364-Day T-Bill received bids worth KES 6.5bn, implying a performance rate of 64.75%. It accepted bids worth KES 6.3bn at an average yield of 16.706% (+8.3 bps w/w).

T-Bills Performance rates improve after a two-week decline



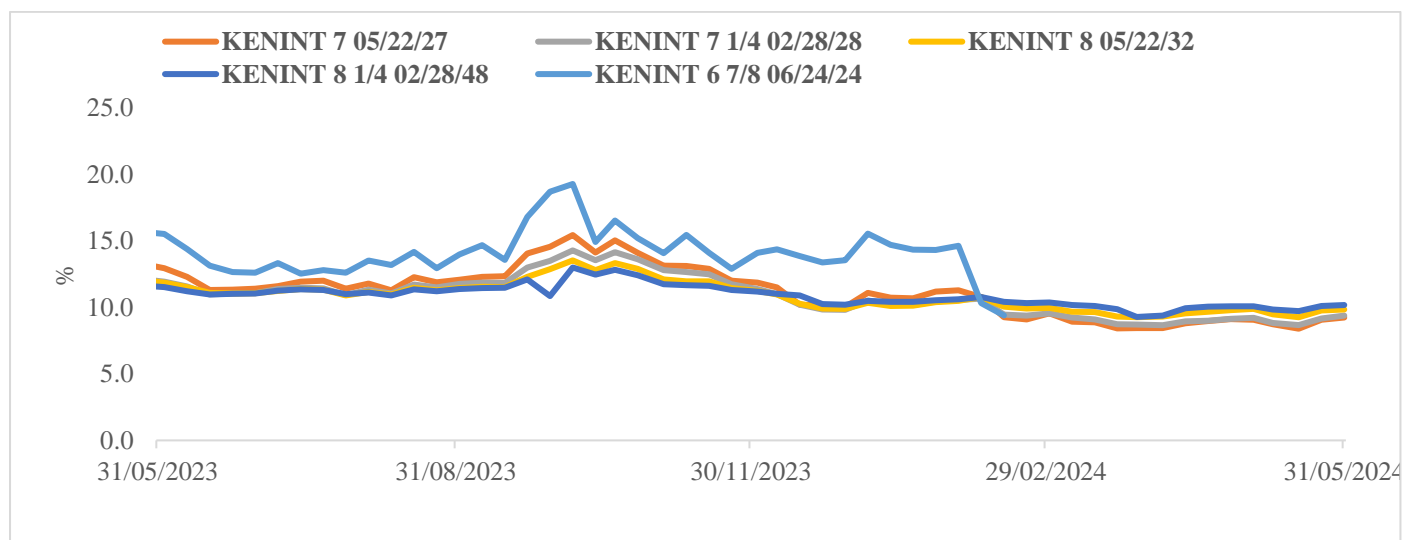
Source: CBK

Kenya Domestic Yield Curve



Source: CBK

Kenya Eurobond Yields: Yields across all tenors increase consecutively for the second time week on 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	19.70	11.65	17.90	28.8	5,444	30.1%	1.06	1.20	4.7	16.8	6.7	3.8	22.7	1,208,121
Equity Bank	Banking	Dec	49.20	33.65	43.50	29.3	1,246	6.9%	11.12	3.00	48.7	3.9	6.9	0.9	22.8	821,965
EA Breweries	Breweries	Jun	167.00	100.00	158.00	38.6	949	5.3%	-	1.75	27.1	-	1.1	5.8	-	1,304
Co-op Bank	Banking	Dec	15.05	10.20	13.50	18.4	601	3.3%	4.03	1.50	18.4	3.3	11.1	0.7	21.9	86,751
NCBA Bank	Banking	Dec	45.20	35.00	42.00	7.8	525	2.9%	13.17	2.75	53.7	3.2	6.5	0.8	24.5	21,285
Absa Bank	Banking	Dec	14.20	10.75	13.75	20.1	567	3.1%	2.19	1.55	12.0	6.3	11.3	1.1	18.3	65,107
KCB Bank	Banking	Dec	37.95	15.75	35.55	62.3	867	4.8%	13.30	-	68.1	2.7	-	0.5	19.5	598,033
StanChart Bank	Banking	Dec	201.25	150.25	186.50	15.1	535	3.0%	40.82	29.00	158.0	4.6	15.5	1.2	25.8	37,449
Stanbic Bank	Banking	Dec	130.00	100.25	110.25	1.4	331	1.8%	28.71	13.75	140.8	3.8	12.5	0.8	20.4	41,499
BAT Kenya	Tobacco	Dec	451.25	365.00	368.75	-9.5	280	1.6%	55.68	50.00	163.8	6.6	13.6	2.3	34.0	3,234
BK Group	Banking	Dec	37.00	29.65	31.70	-11.5	216	1.2%	10.48	3.28	46.8	3.0	10.4	0.7	22.4	25,846
I&M Holdings	Banking	Dec	22.65	16.75	20.25	15.7	254	1.4%	8.10	2.55	47.8	2.5	12.6	0.4	16.9	428,141
Umeme Ltd.	Power	Dec	17.75	9.98	16.50	3.1	203	1.1%	0.27	2.00	20.7	62.0	12.1	0.8	1.3	10,899
Kenya Airways	Airlines	Dec	3.83	3.83	3.83	0.0	165	0.9%	(3.99)	-	(14.7)	-	-	-	-	-
Bamburi Cement	Cement	Dec	48.95	22.50	41.15	14.8	113	0.6%	(1.10)	5.47	82.1	-	13.3	0.5	(1.3)	14,569
KenGen	Power	Jun	2.52	1.96	2.40	19.4	120	0.7%	0.49	-	41.6	4.9	-	0.1	1.2	33,872
Jubilee Insurance	Insurance	Dec	200.00	170.00	189.00	2.2	104	0.6%	60.93	12.30	613.8	3.1	6.5	0.3	9.9	58
DTB Bank	Banking	Dec	55.75	44.05	45.90	1.9	97	0.5%	25.34	6.00	256.8	1.8	13.1	0.2	9.9	26,619
Britam	Insurance	Dec	5.82	4.15	5.72	19.4	110	0.6%	1.30	-	9.2	4.4	-	0.6	14.1	920
Total Oil	Oil	Dec	22.05	15.80	22.05	22.5	105	0.6%	4.80	1.31	48.0	4.6	5.9	0.5	10.0	1,075
Kakuzi	Agric	Dec	420.00	360.00	420.00	9.1	62	0.3%	23.25	24.00	303.5	18.1	5.7	1.4	7.7	152
CIC Insurance	Insurance	Dec	2.52	1.81	2.24	0.0	44	0.2%	0.55	0.13	3.3	4.1	5.8	0.7	16.9	143,545
Centum Investment	Finance	Mar	9.50	7.88	8.72	3.8	44	0.2%	(8.95)	0.60	55.8	-	6.9	0.2	(16.1)	3,814
ARM Cement	Cement	Dec	5.55	5.55	5.55	0.0	40	0.2%	(7.77)	-	19.8	-	-	0.3	(39.2)	-
Crown Paints	Manufac.	Dec	44.80	33.30	35.60	-0.1	38	0.2%	(0.20)	4.00	24.1	-	11.2	1.5	(0.8)	14,569
Kenya Re	Insurance	Dec	2.44	1.70	2.39	27.1	51	0.3%	1.78	0.10	13.4	1.3	4.2	0.2	13.2	23,722
Sasini Tea & Coffee	Agric	Sept	31.00	17.65	18.95	-5.3	33	0.2%	3.11	1.00	61.7	6.1	5.3	0.3	5.0	710
Carbacid	Gases	July	17.55	13.00	17.45	16.3	34	0.2%	4.01	0.70	13.6	4.4	4.0	1.3	11.9	12,818
Nation Media	Media	Dec	22.00	18.45	20.00	-0.2	29	0.2%	(1.08)	1.49	43.1	-	7.4	0.5	(2.5)	8,880
Kenya Power	Power	Jun	1.86	1.35	1.66	16.9	25	0.1%	(0.89)	-	29.1	-	-	0.1	(3.0)	20,650
TPSEA Serena	Tourism	Dec	20.05	11.00	14.50	-11.9	20	0.1%	4.78	-	33.3	3.0	-	0.4	14.4	475
Liberty K. Holdings	Insurance	Dec	5.80	3.45	5.80	57.2	24	0.1%	0.15	-	15.9	38.0	-	0.4	1.0	264
BOC Kenya	Gases	Dec	93.00	67.00	90.75	10.7	13	0.1%	10.14	5.95	85.1	8.9	6.6	1.1	11.9	678
NSE	Finance	Dec	6.62	5.52	6.26	4.0	12	0.1%	0.05	0.20	7.1	118.4	3.2	0.9	0.7	1,830
Housing Finance	Banking	Dec	5.10	3.25	4.39	26.1	13	0.1%	1.18	4.00	20.5	3.7	91.1	0.2	5.8	57
Unga Ltd	Food	Jun	20.00	13.50	14.10	-16.3	8	0.0%	(18.92)	-	58.3	-	-	0.2	(32.4)	198
Sanlam Kenya	Insurance	Dec	8.40	5.60	6.26	4.3	7	0.0%	(0.88)	-	3.9	-	-	1.6	(22.7)	143,545
Car & Gen	Motors	Sept	41.50	21.30	23.00	-8.0	7	0.0%	(6.82)	3.20	135.8	-	13.9	0.2	(5.0)	112
Limuru Tea	Agric	Dec	430.00	380.00	380.00	0.0	7	0.0%	3.38	1.00	80.9	112.4	0.3	4.7	4.2	14
WPP Scangroup	Media	Dec	3.18	1.99	2.32	6.4	8	0.0%	0.30	-	11.9	7.7	-	0.2	2.5	761
EA Portland	Cement	Jun	9.40	5.32	7.10	-11.3	5	0.0%	(14.13)	-	239.8	-	-	0.0	(5.9)	86
Standard Newspapers	Media	Dec	9.80	5.10	6.62	-14.5	4	0.0%	(10.05)	-	0.4	-	-	15.1	(2,284)	32
Longhorn	Publishing	Jun	2.93	2.01	2.40	-0.4	5	0.0%	(2.45)	-	2.8	-	-	0.9	(88.1)	80
TransCentury	Finance	Dec	0.95	0.40	0.52	0.0	1	0.0%	(6.72)	-	(9.5)	-	-	-	-	808
Average												7.4	5.2	1.8	13.3	3,810,449

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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
ephanusm@kestrelcapital.com

Millicent Nyuguto
millicentn@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