

Stock Recommendation

Company	Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	35.20	24.35	44.6%	BUY
Equity bank	70.69	45.05	56.9%	BUY
KCB bank	68.17	37.75	80.6%	BUY
Co-op bank	19.83	12.05	64.6%	BUY
ABSA bank	14.44	11.80	22.4%	BUY
StanChart bank	122.25	146.25	-16.4%	SELL
NCBA bank	43.98	33.00	33.3%	BUY
I&M bank	32.61	16.75	94.7%	BUY
Stanbic bank	109.98	98.00	12.2%	HOLD
DTB bank	130.90	48.00	172.7%	BUY
EABL	223.42	164.25	36.0%	BUY
Bamburi Cement	60.07	31.50	90.7%	BUY
BAT Kenya	549.38	435.00	26.3%	BUY

Kenya Weekly Commentary

Kenya Market Summary

Equity market commentary and outlook

- During the week, ABSA bank and BK Group announced their 3Q22 results. On account of foreign investors' sell-off, Safaricom traded down to a 40-day low. Similarly, Equity bank marked a 17-day low driven by foreign selling – the counter edged down for three consecutive days.

Debt market commentary and outlook

- For the third straight week, overall subscription rates fell to 82.4%, down from 113.4% posted last week as activity on the 182-Day T-Bill and 364-Day T-Bill remained subdued. The yield on 91-day T-Bill rose for the twenty-seventh consecutive week and the yield on the 182-day T-Bill edged up for the eighteenth straight week.

Key Market Indicators

Index Returns	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Kenya NSE 20 Index Return	1,650.0	-0.1%	-1.5%	-5.7%	-2.9%	-10.3%	-13.3%
Kenya NASI Return	126.4	-0.7%	-0.9%	-8.3%	-2.3%	-21.0%	-24.1%
FTSE NSE Kenya 15 Return	170.1	0.0%	0.0%	0.0%	-2.7%	-12.5%	-18.8%
FTSE NSE Kenya 25 Return	170.3	0.0%	0.0%	0.0%	-3.2%	-19.8%	-22.7%
FTSE Kenya Bond Index Return	94.7	0.0%	0.0%	0.0%	-0.1%	-1.8%	-1.4%

Source: NSE, Kestrel Research

NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	-1.1%	-1.7%	-10.2%	-6.9%	-27.6%	-30.1%
Johannesburg Index	-0.7%	9.9%	9.0%	-7.7%	-5.1%	-8.2%
Nigeria Stock Exchange	1.3%	8.4%	-7.1%	-14.9%	6.0%	7.6%
Ghana Stock Exchange	3.6%	0.5%	-30.1%	-46.1%	-62.1%	-61.2%
Egyptian Stock Exchange	6.8%	19.6%	7.5%	3.5%	-22.9%	-27.0%
MSCI EFM ex SA Index	2.7%	8.2%	-2.6%	-9.3%	-23.4%	-24.7%

Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
USD/KES	122.6	-0.2%	-0.8%	-2.0%	-4.7%	-8.1%	-7.7%
USD/ZAR	17.5	-2.4%	2.3%	-1.1%	-11.4%	-9.2%	-8.9%
USD/EGP	24.6	0.1%	-1.3%	-21.7%	-24.2%	-36.0%	-36.0%
USD/NGN	444.8	0.0%	-0.4%	-3.5%	-6.5%	-6.9%	-4.6%
USD/GHS	14.0	3.6%	0.2%	-29.0%	-44.1%	-56.3%	-55.8%

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
EABL	340.7	-14.3	12.4%	-0.9%	-0.5%	-3.8%	49.3%
Safaricom	312.7	-151.7	61.5%	-1.2%	-35.8%	-39.1%	5.4%
Equity bank	220.4	175.4	45.7%	-2.0%	-14.6%	-15.8%	15.5%
ABSA New Gold ETF	219.8	0.0	100.0%	0.0%	-11.2%	-12.4%	0.0%
KCB bank	197.0	21.5	11.0%	0.4%	-16.9%	-19.7%	7.9%

Notable Events

ABSA bank 3Q22 EPS grows 29.6% y/y – Above Expectations

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?

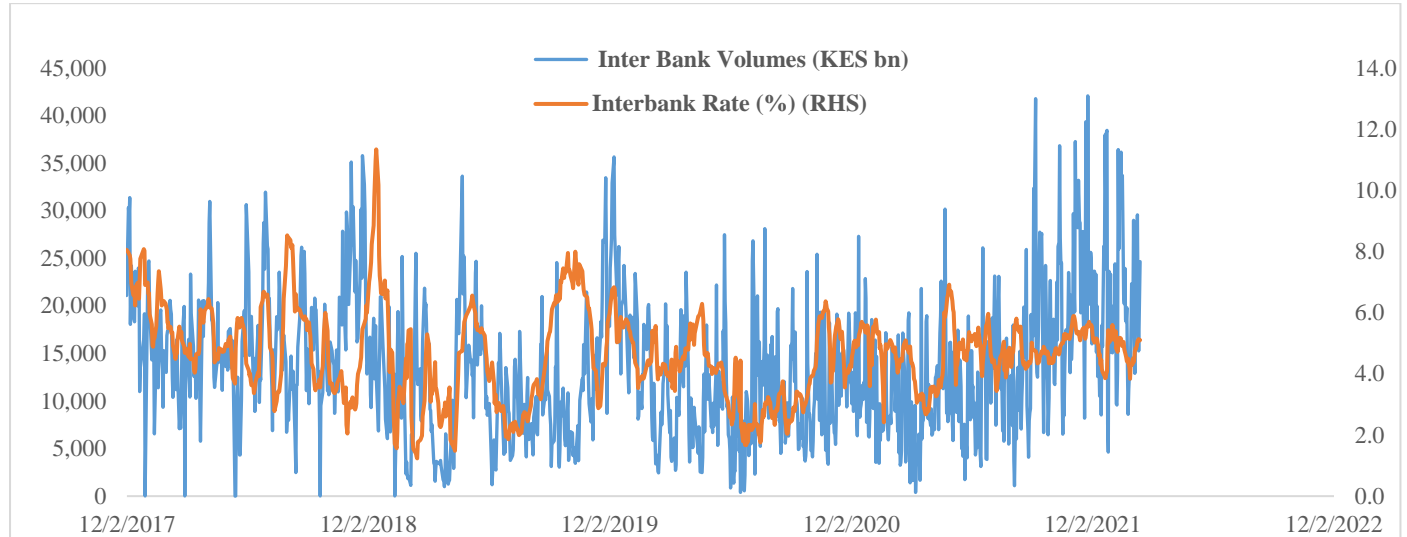
- **Lower-than-expected operating costs:** operating expenses came in 4.9% below our projections. We had assumed higher other operating costs on account of the continued changes in the business operations. Other operating costs inflated 14.0% y/y against our growth expectations of 27.8% y/y.
- **Higher-than-expected 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**.

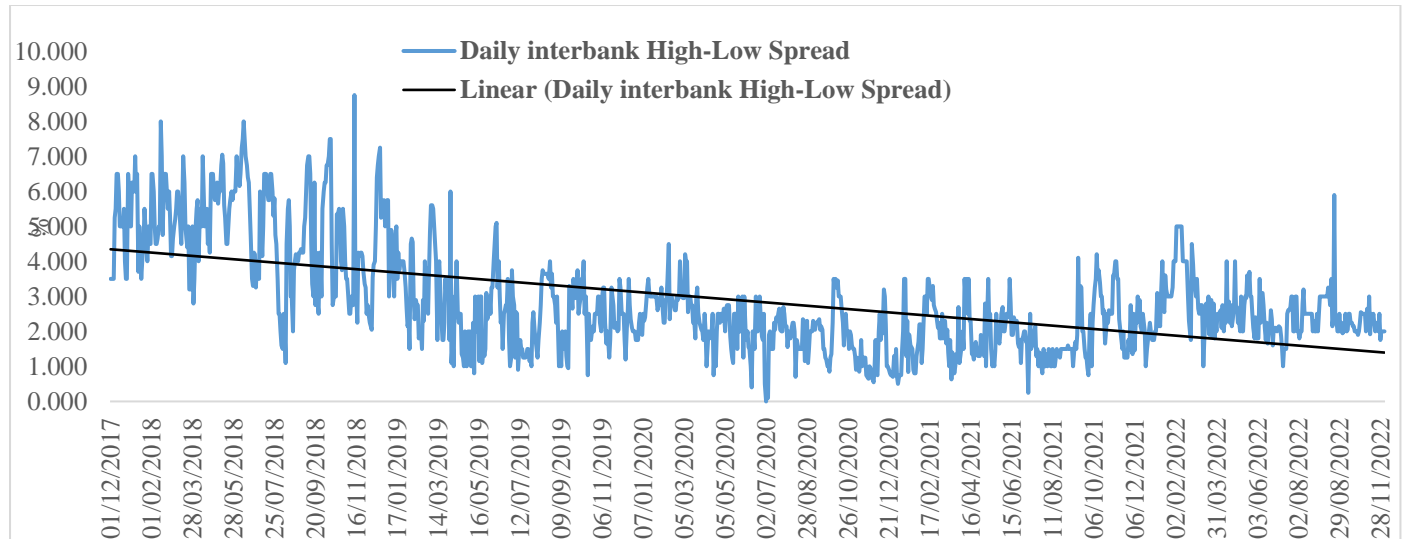
Key Rates and Spreads

Inter-bank rate notch upwards for the second successive week



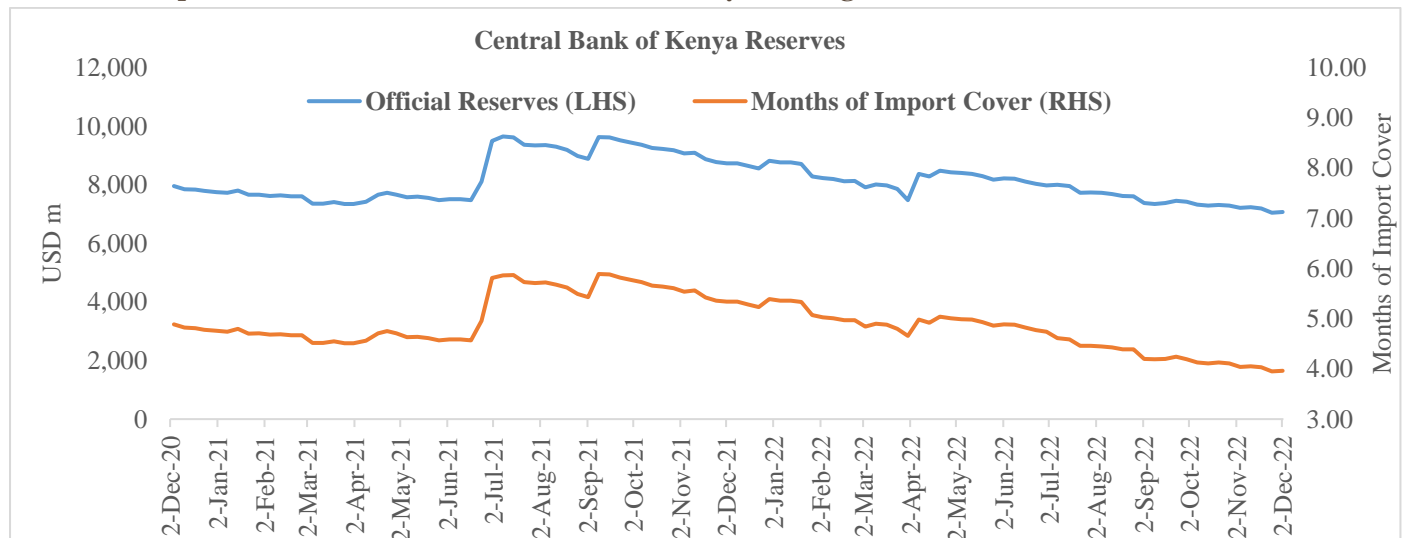
Source: CBK

Inter-bank spreads narrow week-on-week



Source: CBK

Months of import cover and CBK FX reserves remain fairly unchanged week-on-week



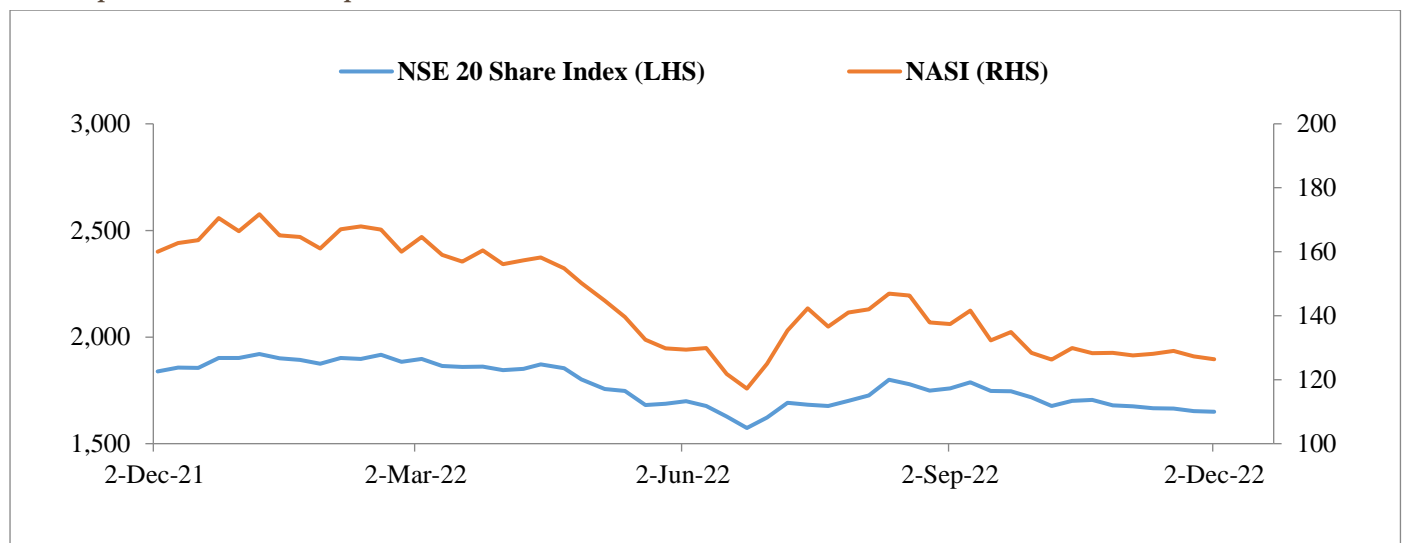
Source: CBK

Equity market trading commentary

For the second successive week, equity turnover declined by 8.9% w/w to stand at USD 10.5m (KES 1.3bn). The NASI edged down 0.7% w/w to 126.42. Extending its losses to the sixth straight week, the NSE 20 inched down 0.1% w/w to 1,649.99. Notably, foreign investors turn net buyers at USD 81.0k (KES 9.9m) after six weeks of net outflows. Local investors led trading at 53.4% of total turnover, up from 41.8% recorded last week. Safaricom (USD 1.2m, KES 151.7m) and BAT Kenya (USD 0.2m, KES 23.5m) saw the highest net foreign outflows. On the other hand, Equity bank posted the highest net foreign inflows at USD 1.4m (KES 175.4m).

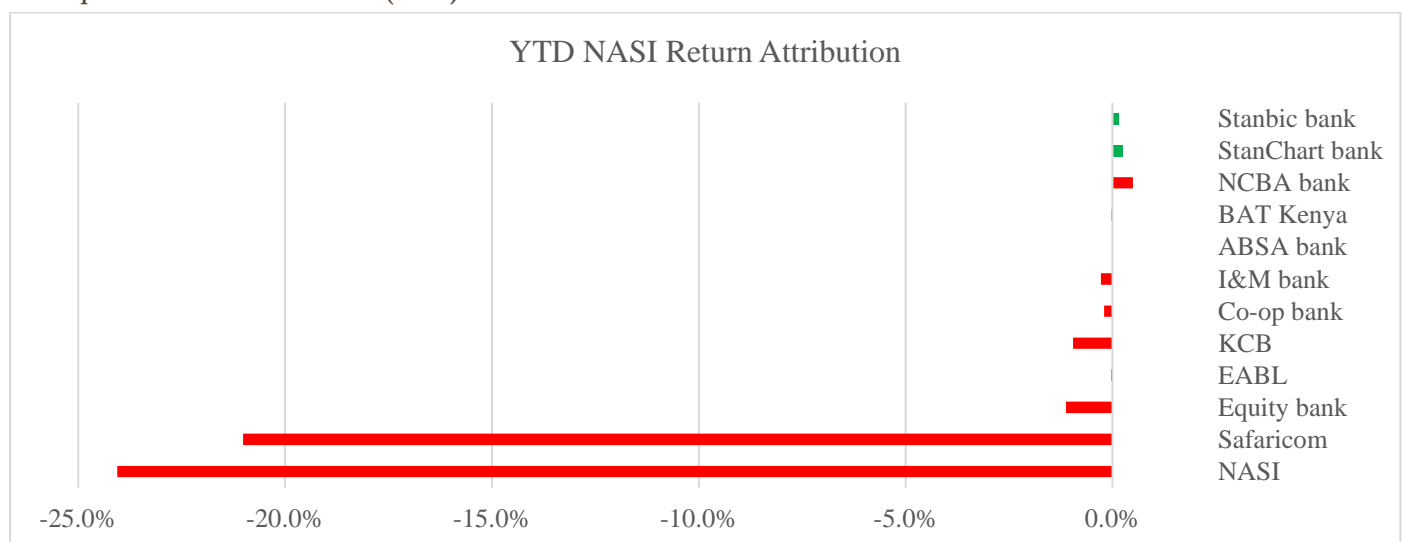
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Market performance over the past 12 months



Source: NSE

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



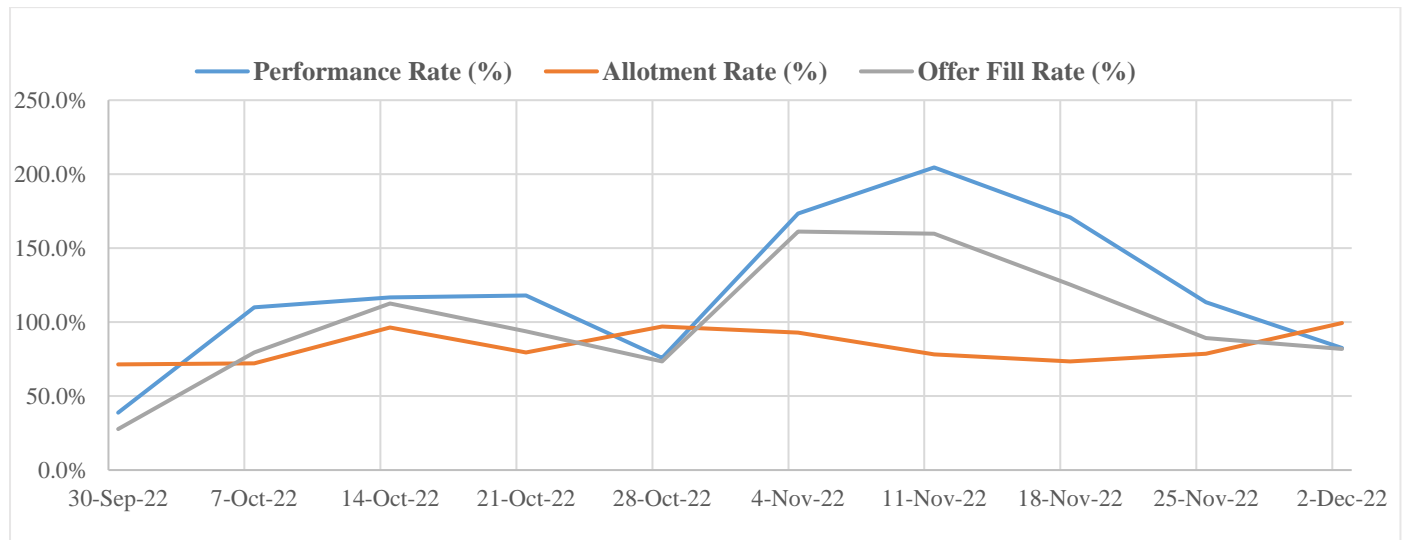
Source: Kestrel Research

Debt market trading commentary

For the third straight week, overall subscription rates fell to 82.4%, down from 113.4% posted last week as activity on the 182-Day T-Bill and 364-Day T-Bill remained subdued. The yield on 91-day T-Bill rose for the twenty-seventh consecutive week and the yield on the 182-day T-Bill edged up for the eighteenth straight week.

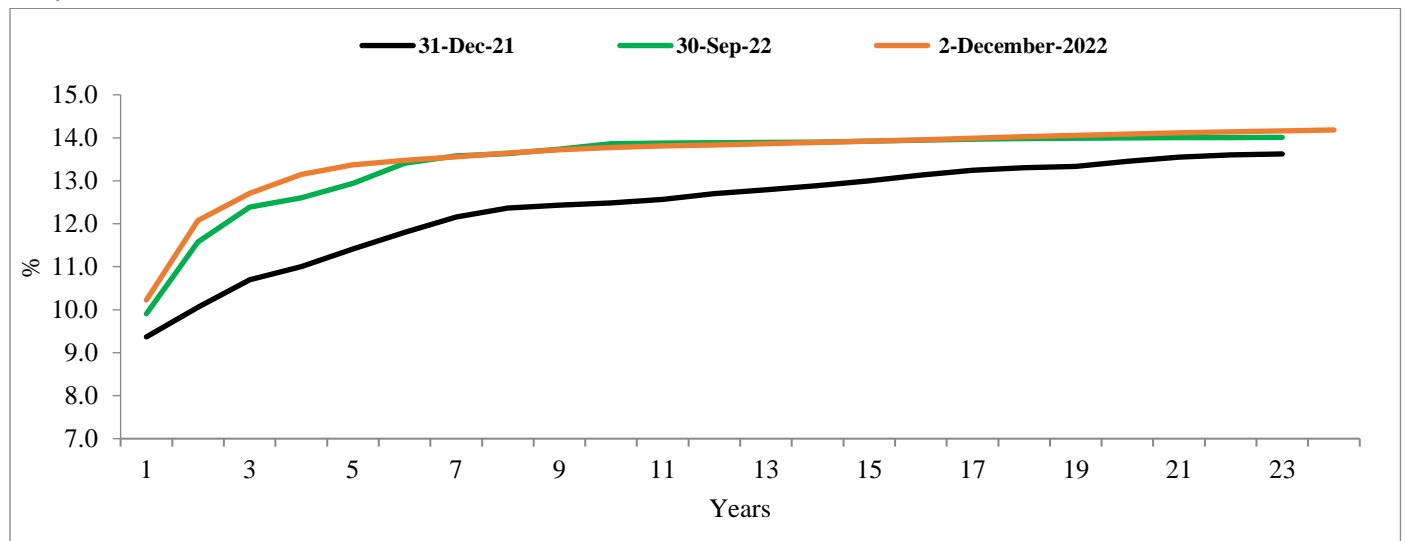
The Central Bank of Kenya offered KES 4.0bn for the 91-Day T-Bill and KES 10.0bn each for the 182-Day T-Bill and the 364-Day T-Bill. It received bids worth KES 13.2bn for the 91-Day T-Bill, implying a subscription rate of 330.72%. It accepted bids worth KES 13.2bn at an average yield of 9.275% (+3.8bps w/w). The 182-Day T-Bill received bids worth KES 3.9bn, implying a performance rate of 39.16%. It accepted bids worth KES 3.9bn at an average yield of 9.752% (+1.9bps w/w). The 364-Day T-Bill received bids worth KES 2.6bn, implying a performance rate of 26.37%. It accepted bids worth KES 2.5bn at an average yield of 10.225% (+0.6w/w).

T-Bills Performance: Overall performance rate declined for the third successive week



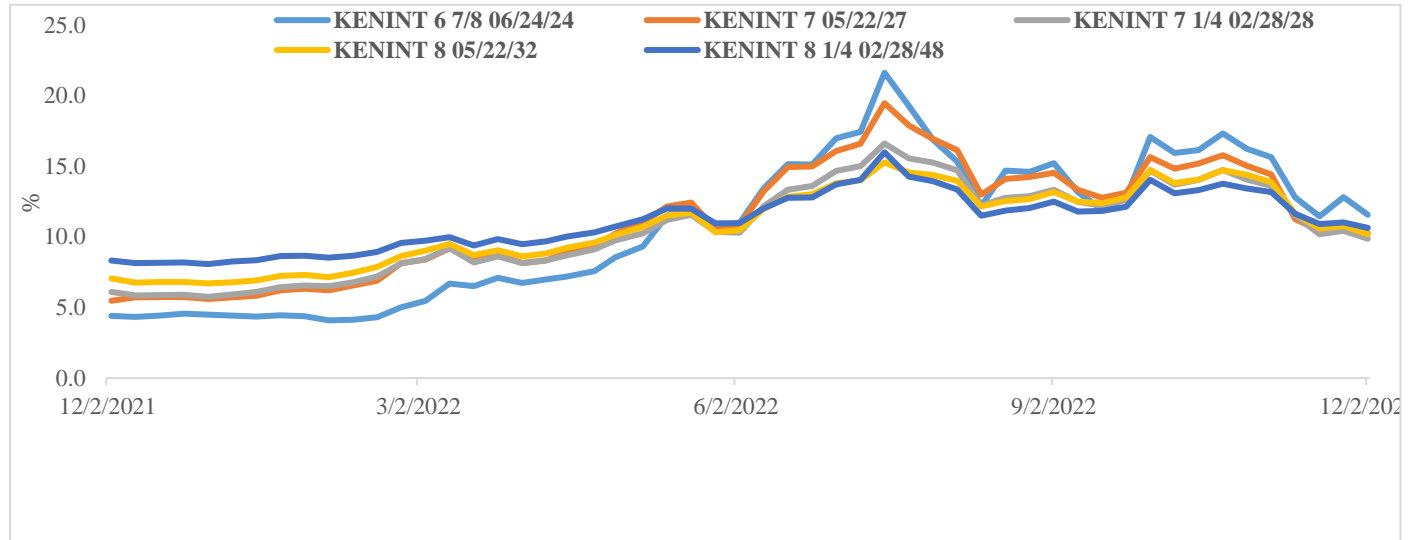
Source: CBK

Kenya Domestic Yield Curve



Source: CBK

Kenya Eurobond Yields: Yields across all tenors decline week-on-week



Source: Bloomberg

Top counters by market capitalization

Company	Sector	Year	12 M	12 M	Price	YTD	Market ¹	Weighting	EPS	DPS	NAV	P/E	Div	P/B	ROE %	Daily Trading ¹
Safaricom	Telecom	Mar	40.00	23.10	24.35	-35.8	7,962	49.3%	1.74	1.39	3.5	14.0	5.7	7.0	49.9	1,108,601
Equity Bank	Banking	Dec	53.50	39.00	45.05	-14.6	1,387	8.6%	12.24	3.00	40.8	3.7	6.7	1.1	30.0	433,175
EA Breweries	Breweries	Jun	170.75	110.00	164.25	-0.5	1,060	6.6%	15.00	11.00	20.5	11.0	6.7	8.0	73.2	224,785
KCB Bank	Banking	Dec	47.00	35.00	37.75	-16.9	990	6.1%	12.25	3.00	58.4	3.1	7.9	0.6	21.0	240,144
Co-op Bank	Banking	Dec	13.30	10.70	12.05	-6.9	577	3.6%	3.75	1.00	17.2	3.2	8.3	0.7	21.8	38,705
Absa Bank	Banking	Dec	12.70	9.70	11.80	-0.4	523	3.2%	2.15	1.10	10.9	5.5	9.3	1.1	19.7	30,028
StanChart Bank	Banking	Dec	146.25	123.75	146.25	14.0	451	2.8%	30.18	13.00	146.8	4.8	8.9	1.0	20.6	25,083
NCBA Bank	Banking	Dec	33.20	23.00	33.00	31.0	444	2.7%	10.02	4.25	49.1	3.3	12.9	0.7	20.4	93,267
BAT Kenya	Tobacco	Dec	509.00	-	435.00	-1.5	355	2.2%	67.10	55.00	129.1	6.5	12.6	3.4	52.0	67,931
Stanbic Bank	Banking	Dec	108.00	86.75	98.00	12.3	316	2.0%	22.99	7.30	127.4	4.3	7.4	0.8	18.0	7,025
I&M Holdings	Banking	Dec	21.50	16.50	16.75	-20.6	226	1.4%	5.74	1.50	41.4	2.9	9.0	0.4	13.9	18,905
Bank of Kigali	Banking	Dec	32.75	24.30	29.65	2.2	217	1.3%	7.95	3.28	41.8	3.7	11.1	0.7	19.0	1,191
Kenya Airways	Airlines	Dec	3.83	3.83	3.83	0.0	178	1.1%	(2.79)	-	(14.7)	-	-	-	-	-
KenGen	Power	Jun	4.55	3.26	3.27	-22.0	176	1.1%	0.16	0.18	32.4	20.6	5.5	0.1	0.5	11,907
Total Oil	Oil	Dec	25.85	21.75	23.00	-8.0	118	0.7%	4.35	1.31	45.4	5.3	5.7	0.5	9.6	998
Jubilee Insurance	Insurance	Dec	340.00	187.75	197.50	-37.6	117	0.7%	94.22	14.00	544.4	2.1	7.1	0.4	17.3	6,040
DTB Bank	Banking	Dec	60.00	46.00	48.00	-19.3	110	0.7%	17.27	3.00	250.7	2.8	6.3	0.2	6.9	37,406
Britam	Insurance	Dec	7.68	5.30	5.30	-29.3	109	0.7%	0.03	-	7.5	185.4	-	0.7	0.4	2,707
Bamburi Cement	Cement	Dec	39.00	29.90	31.50	-17.1	93	0.6%	2.15	3.58	0.1	14.7	11.4	383.7	2,618.6	6,090
Umeme Ltd.	Power	Dec	8.30	5.50	7.00	3.9	93	0.6%	2.74	1.73	17.6	2.6	24.7	0.4	15.6	1,205
Kakuzi	Agric	Dec	441.25	367.50	418.00	8.6	67	0.4%	39.24	18.00	278.0	10.7	4.3	1.5	14.1	598
Centum Investment	Finance	Mar	14.95	7.90	8.08	-42.7	44	0.3%	(2.01)	0.59	65.1	-	7.3	0.1	(3.1)	10,147
ARM Cement	Cement	Dec	5.55	5.55	5.55	0.0	43	0.3%	(7.77)	-	19.8	-	-	0.3	(39.2)	-
Kenya Re	Insurance	Dec	2.37	1.74	1.88	-18.3	43	0.3%	1.17	0.10	13.4	1.6	5.3	0.1	8.7	1,889
Sasini Tea & Coffee	Agric	Sept	129.00	17.90	21.95	17.4	41	0.3%	(1.48)	0.50	56.5	-	2.3	0.4	(2.6)	547
Crown Paints	Manufac.	Dec	44.00	30.50	35.00	14.8	41	0.3%	5.13	4.00	24.1	6.8	11.4	1.5	21.3	413
CIC Insurance	Insurance	Dec	2.29	1.80	1.82	-17.6	39	0.2%	0.30	-	3.0	6.1	-	0.6	9.9	2,748
Nation Media	Media	Dec	23.20	15.70	16.05	-13.0	25	0.2%	2.59	1.49	42.1	6.2	9.3	0.4	6.2	3,098
Carbacid	Gases	July	14.15	10.35	11.75	6.8	24	0.2%	2.22	0.70	13.5	5.3	6.0	0.9	16.4	5,584
Kenya Power	Power	Jun	2.08	1.31	1.49	-14.9	24	0.1%	1.80	-	30.8	0.8	-	0.0	5.8	13,557
Liberty K. Holdings	Insurance	Dec	7.48	4.28	4.70	-32.9	21	0.1%	0.15	-	15.9	30.8	-	0.3	1.0	136
Unga Ltd	Food	Jun	36.25	27.00	30.00	8.5	19	0.1%	2.48	-	58.3	12.1	-	0.5	4.2	229
TPSEA Serena	Tourism	Dec	17.50	11.30	12.40	-18.7	18	0.1%	(3.47)	-	33.3	-	-	0.4	(10.4)	658
NSE	Finance	Dec	8.68	6.60	6.86	-14.3	15	0.1%	0.51	1.40	8.0	13.4	20.4	0.9	6.4	2,002
Car & Gen	Motors	Sept	76.00	30.00	39.00	14.9	13	0.1%	26.33	3.20	135.8	1.5	8.2	0.3	19.4	277
BOC Kenya	Gases	Dec	93.25	70.00	70.00	0.0	11	0.1%	4.78	6.70	84.3	14.7	9.6	0.8	5.7	656
WPP Scangroup	Media	Dec	4.41	2.86	3.15	-23.9	11	0.1%	(0.30)	-	11.9	-	-	0.3	(2.5)	574
Housing Finance	Banking	Dec	4.17	2.86	3.37	-13.6	11	0.1%	(1.45)	-	20.5	-	-	0.2	(7.1)	925
Sanlam Kenya	Insurance	Dec	15.00	8.50	9.00	-22.1	11	0.1%	(3.77)	-	3.9	-	-	2.3	(97.1)	136
Limuru Tea	Agric	Dec	510.00	300.00	420.00	31.3	8	0.1%	(0.50)	0.70	75.9	-	0.2	5.5	(0.7)	1,614
Longhorn	Publishing	Jun	4.4	2.74	3.02	-24.5	7	0.0%	0.62	-	2.8	4.9	-	1.1	22.2	897
Standard Newspapers	Media	Dec	16.15	9.10	10.00	-26.2	7	0.0%	(0.90)	-	10.5	-	-	1.0	(8.5)	70
EA Portland	Cement	Jun	8.80	6.06	7.92	18.9	6	0.0%	6.02	-	239.8	1.3	-	0.0	2.5	44
TransCentury	Finance	Dec	1.47	0.89	0.89	-23.9	3	0.0%	(6.72)	-	(9.5)	-	-	-	-	118
Safaricom	Telecom	Mar	40.00	23.10	24.35	-35.8	7,962	49.3%	1.74	1.39	3.5	14.0	5.7	7.0	49.9	1,108,601
											Average	16.9	6.8	6.6	53.3	2,412,232

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