

Stock Recommendation

Company	Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	33.95	32.00	6.1%	HOLD
Equity bank	60.84	47.15	29.0%	BUY
KCB bank	59.61	36.25	64.4%	BUY
Co-op bank	16.15	12.35	30.8%	BUY
ABSA bank	12.47	9.94	25.5%	BUY
StanChart bank	134.08	124.75	7.5%	HOLD
NCBA bank	33.44	24.95	34.0%	BUY
I&M bank	21.43	18.00	19.1%	BUY
Stanbic bank	94.83	105.50	-10.1%	HOLD
DTB bank	106.48	55.00	93.6%	BUY
EABL	256.11	139.00	84.3%	BUY
Bamburi Cement	89.84	37.00	142.8%	BUY
BAT Kenya	521.50	417.50	24.9%	BUY

Kenya Weekly Commentary

Kenya Market Summary

Notable Events

- NCBA bank 1Q22 EPS grows 20.4% y/y – Above Expectations

Equity market commentary and outlook

- Last week, the NASI (-3.6% w/w) hit a 16-month low amid global equities sell-off as central banks in key developed markets raised their respective benchmark rates to curb inflation. Among the large-cap stocks, Safaricom (-5.0% w/w) was the worst performer, largely driven by foreign investor sell-offs towards the end of the week. EABL (-3.5% w/w) hit a 2-year low and KCB bank (-3.2% w/w) touched a 16-month low. Equity bank eased 1.6% w/w, sustaining a 5-month low.

Debt market commentary and outlook

- Overall subscription rates dropped to 70.2%, down from 117.8% recorded in the previous week – with low demand on the 182-Day and 364-Day papers. Yields across all T-Bills sustained an upward trend. The yield on the 182-Day T-Bill rose by the highest margin at 8.4bps.

Key Market Indicators

Index Returns	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Kenya NSE 20 Index Return	1,755.6	-2.5%	-5.1%	-7.2%	-9.9%	-5.7%	-7.7%
Kenya NASI Return	144.7	-3.6%	-8.0%	-12.1%	-15.3%	-15.4%	-13.1%
FTSE NSE Kenya 15 Return	181.9	-2.8%	-9.0%	-12.1%	-12.0%	-5.6%	-13.2%
FTSE NSE Kenya 25 Return	192.0	-3.5%	-8.8%	-13.2%	-15.7%	-13.4%	-12.9%
FTSE Kenya Bond Index Return	95.0	0.3%	0.5%	-1.3%	-1.5%	-1.8%	-1.1%

Source: NSE, Kestrel Research

NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	-3.7%	-8.5%	-15.5%	-12.3%	-22.1%	-15.4%
Johannesburg Index	-5.6%	-16.6%	-16.1%	-5.5%	-13.0%	-8.5%
Nigeria Stock Exchange	4.8%	9.2%	8.3%	19.9%	28.1%	21.6%
Ghana Stock Exchange	-0.2%	-0.2%	-15.7%	-23.0%	-23.4%	-21.0%
Egyptian Stock Exchange	0.2%	-1.3%	-18.9%	-17.1%	-11.6%	-21.5%
MSCI EFM ex SA Index	0.9%	-0.2%	-11.5%	-8.9%	-7.6%	-10.4%

Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)
USD/KES	116.06	-0.2%	-0.6%	-2.1%	-2.9%	-8.1%
USD/ZAR	15.99	-0.2%	-7.7%	-5.2%	-0.6%	-12.1%
USD/EGP	18.48	0.2%	-0.7%	-15.0%	-15.0%	-15.2%
USD/NGN	416.44	0.6%	-0.2%	0.1%	-0.6%	-1.6%
USD/GHS	7.53	0.1%	-0.1%	-14.5%	-18.7%	-23.3%

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
Safaricom	961.4	-539.9	62.2%	-5.0%	-15.7%	-28.8%	0.0%
EABL	207.9	-7.4	93.8%	-3.5%	-15.8%	-28.3%	0.0%
Equity bank	109.5	4.9	91.8%	-1.6%	-10.6%	-13.1%	18.3%
NCBA bank	41.8	-0.01	0.0%	-4.0%	-11.4%	-11.4%	8.5%
KCB bank	24.7	-2.2	24.3%	-3.2%	-20.2%	-27.4%	0.0%

Notable Events

NCBA bank 1Q22 EPS grows 20.4% y/y – Above Expectations

Reported EPS – KES 2.07, +20.4% y/y, driven by non-funded income (+15.5% y/y), net interest income (+7.6% y/y) and lower loan loss provisions (-4.3% y/y). EPS outperformed our forecasts by 26.7% on better-than-expected NFI growth (+14.0%) and lower-than-expected OpEx growth (-10.5%).

Summary Performance Table

	Reported	Forecast	Variance
NIM	5.3%	5.3%	0.0%
NIR growth	7.6%	3.3%	4.3%
NFI mix	46.1%	43.8%	2.3%
NFI growth	15.5%	1.5%	14.0%
CoR	3.4%	3.1%	0.3%
CTI	42.5%	50.5%	-8.0%
OpEx Growth	9.0%	19.6%	-10.5%
EPS	2.07	1.63	26.7%
DPS	-	-	0.0%
Net Loan growth	0.3%	2.2%	-1.9%
Deposit growth	7.2%	9.0%	-1.8%
NPL Ratio	15.1%	16.5%	-1.4%
NPL Coverage*	66.1%	74.9%	-8.8%
ROE	17.0%	13.3%	3.7%

*CBK Coverage

What stood out for us?

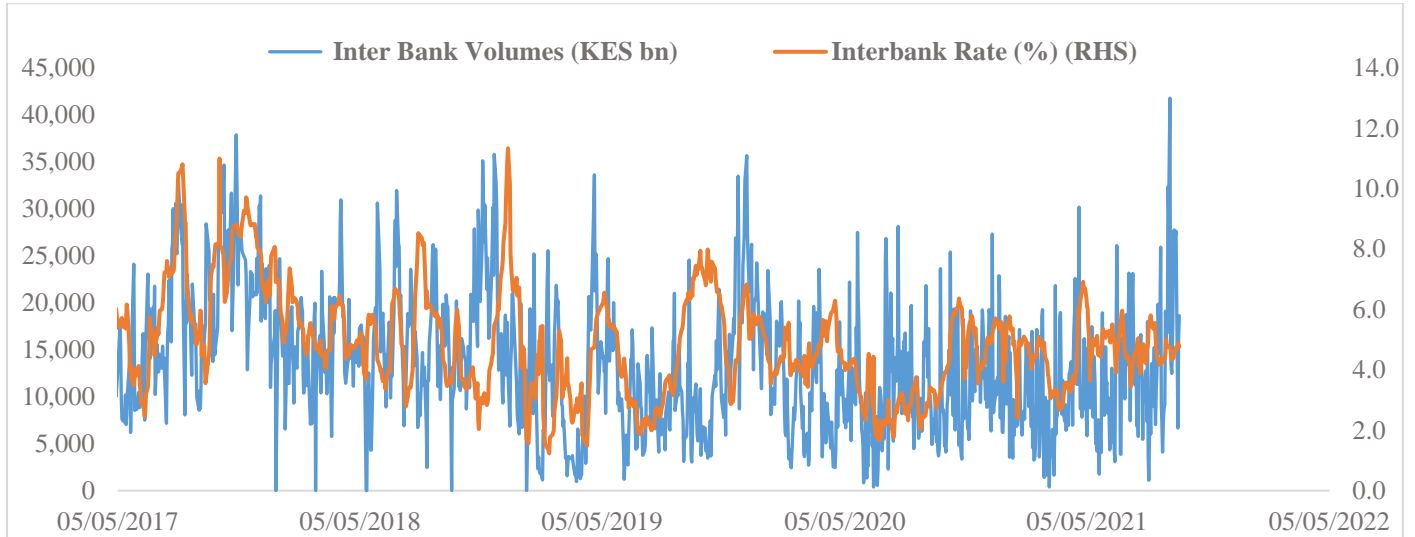
- **Higher-than-expected net-interest income:** net interest income grew 4.3% above our forecasts attributable to income from government securities (+31.6% y/y). In addition, interest expense grew at a slower rate of 14.9% y/y relative to our estimates of 28.3% y/y.
- **Better-than-expected non-funded income growth:** non-funded income grew 14.0% above our estimates attributable to trading income (+13.9% y/y) and other income (+82.7% y/y). As a result, the bank's NFI mix strengthened to 46.1% above our target of 43.8%.
- **Lower-than-expected OpEx growth:** operating costs outperformed our forecasts by 10.5%, largely supported by a decline in D&A expense (-7.2% y/y).

Impact to our investment thesis

- We expect to lower growth estimates on operating costs. In addition, we expect to raise our growth outlook on non-funded income and net-interest income. NCBA bank is currently trading at a P/B of 0.5x. We currently have a **BUY** recommendation on NCBA bank, implying a 34.0% upside.

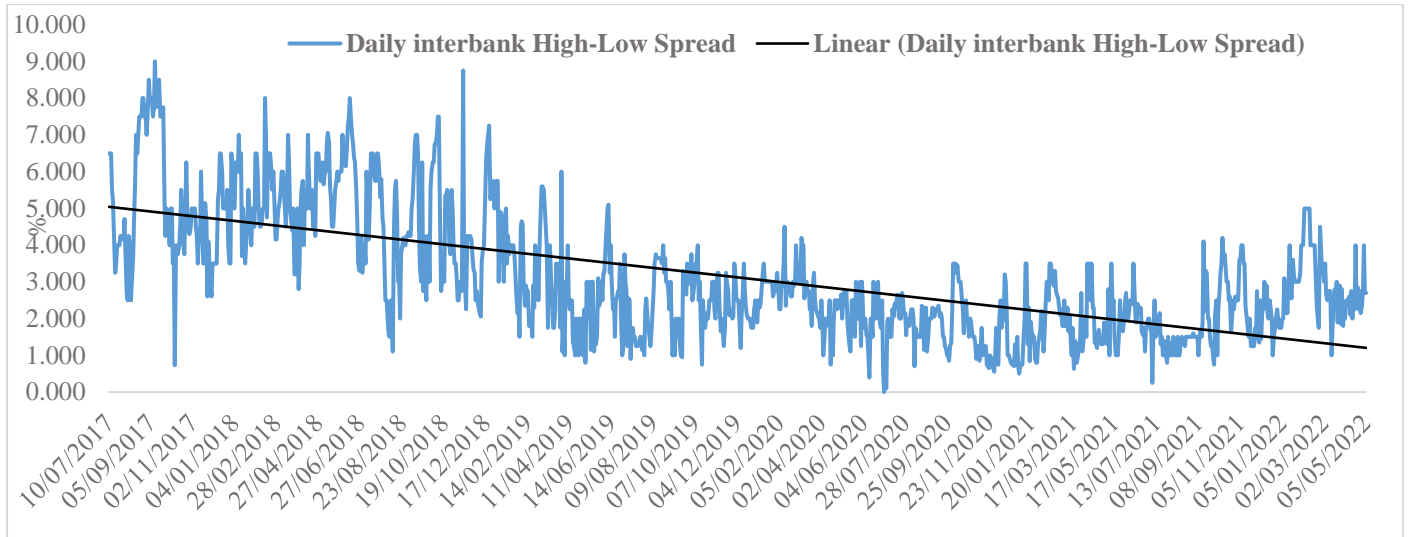
Key Rates and Spreads

Inter-bank rate remains largely unchanged week-on-week



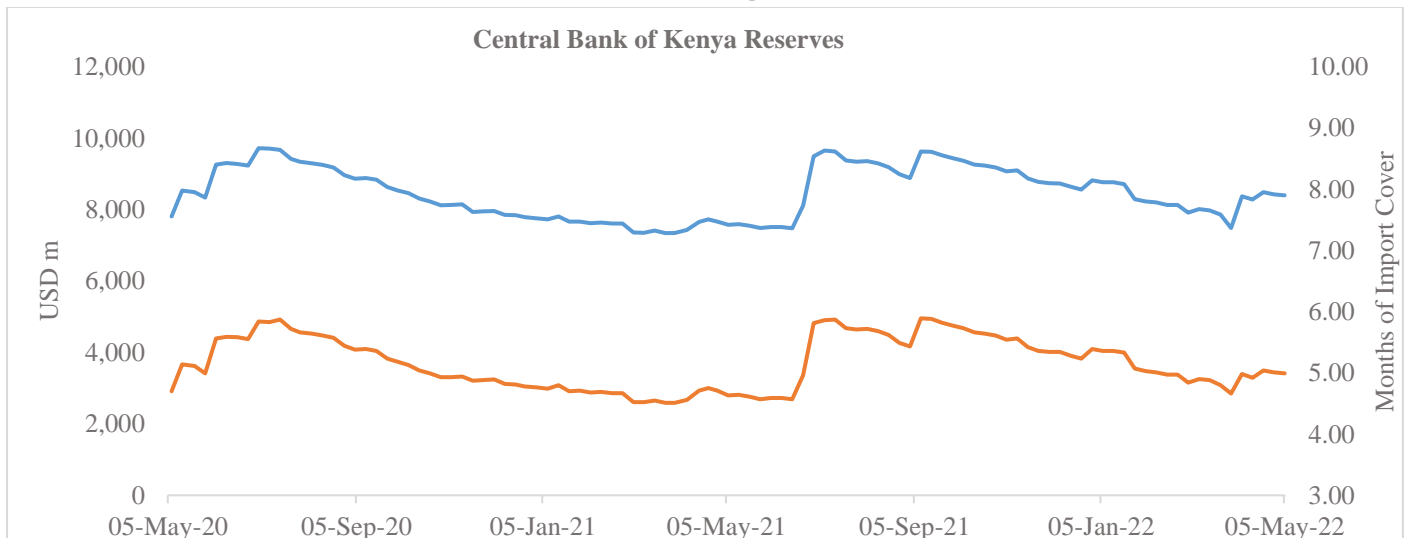
Source: CBK

Inter-bank spread declines week-on-week, albeit marginally



Source: CBK

Forex reserves and import cover decline for the second straight week



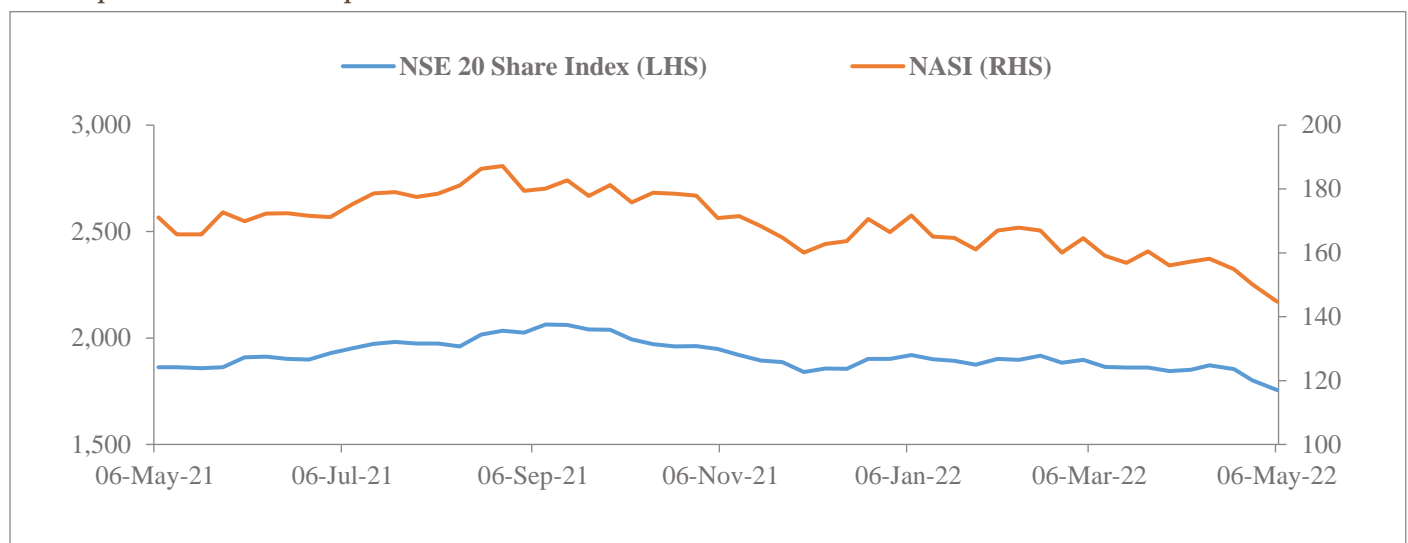
Source: CBK

Equity market trading commentary

Despite the short trading week, equity turnover rose by 43.8% w/w to USD 12.0m (KES 1.4bn) as activity picked up on Safaricom towards the end of the week. The NASI edged down 3.6% w/w to a 16-month low of 144.73. The NSE 20 closed 2.5% w/w to settle at 1,755.57, as large-cap stocks posted notable week-on-week declines. Foreign trading rose to 65.0% of the market, up from 60.6% recorded in the previous week. For the 12th consecutive week, foreign investors were net sellers at USD 4.7m (KES 549.9m). Safaricom accounted for 98.2% of the week's net foreign outflows at USD 4.7m (KES 539.9m). EABL recorded a marginal net of foreign outflow of USD 63.9k (KES 7.4m). On the other hand, foreign investors remained net buyers on Equity bank, although at a thin margin of USD 42.8k (KES 4.9m).

Last week, the NASI (-3.6% w/w) hit a 16-month low amid global equities sell-off as central banks in key developed markets raised their respective benchmark rates to curb inflation. Among the large-cap stocks, Safaricom (-5.0% w/w) was the worst performer, largely driven by foreign investor sell-offs towards the end of the week. EABL (-3.5% w/w) hit a 2-year low and KCB bank (-3.2% w/w) touched a 16-month low. Equity bank eased 1.6% w/w, sustaining a 5-month low. NCBA bank (-4.0% w/w) hit a 2-month low as it traded ex-dividend. The bank also released 1Q22 results with EPS growing by 20.4% y/y to KES 2.07. Following the release of FY21 results, WPP Scangroup (-13.1% w/w) dropped to an 8-month low as the company reported a Loss per share of KES 0.04 (FY20: Loss per share, KES 3.89).

Market performance over the past 12 months



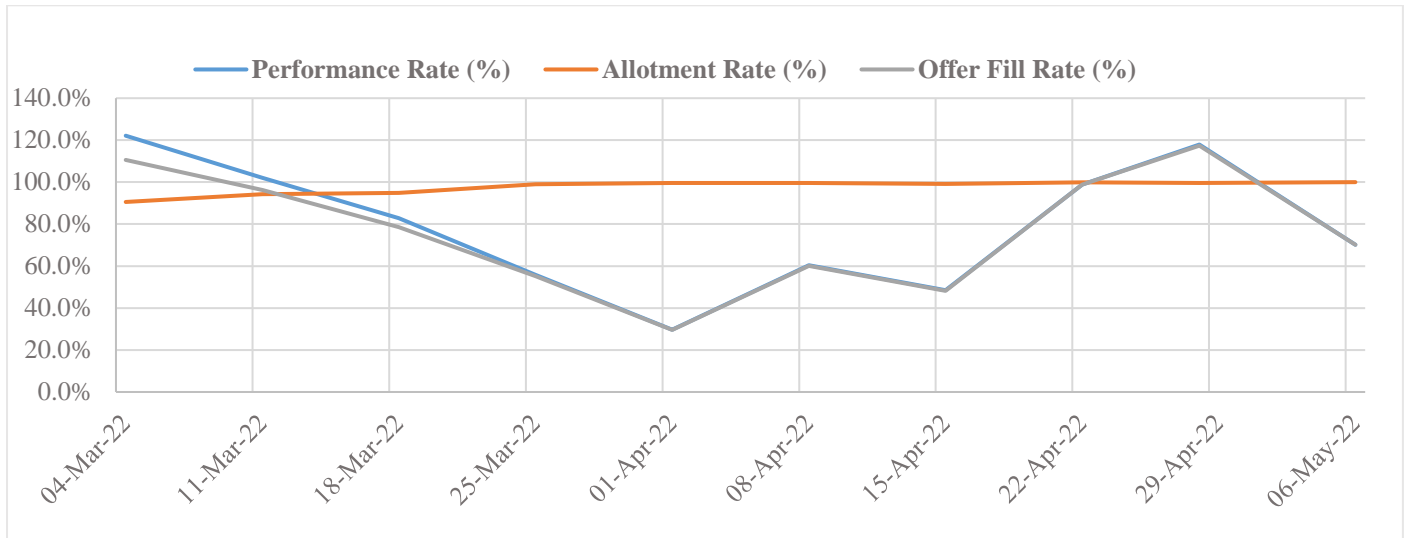
Source: NSE

Debt market trading commentary

Overall subscription rates dropped to 70.2%, down from 117.8% recorded in the previous week – with low demand on the 182-Day and 364-Day papers. Yields across all T-Bills sustained an upward trend. The yield on the 182-Day T-Bill rose by the highest margin at 8.4bps.

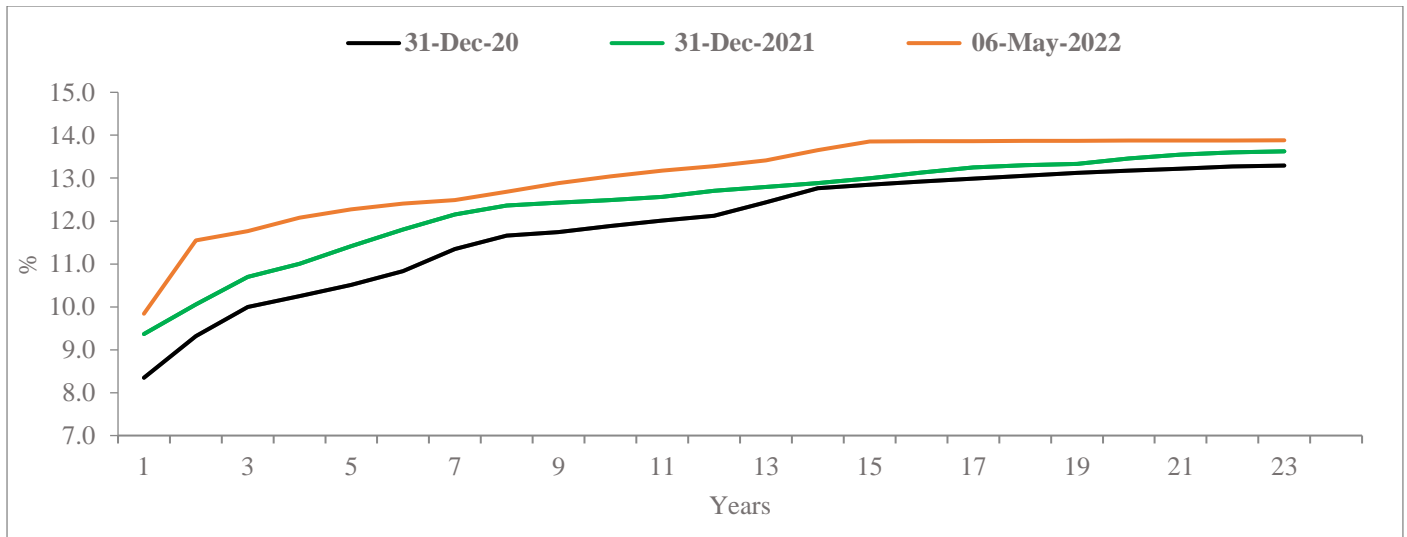
The Central Bank of Kenya offered KES 4.0bn for the 91-Day T-Bill and KES 10.0bn each for the 182-Day T-Bill and the 364-Day T-Bill. It received bids worth KES 5.3bn for the 91-Day T-Bill, implying a subscription rate of 131.1%. It accepted bids worth KES 5.3bn at an average yield of 7.580% (+8.3bps w/w). The 182-Day T-Bill received bids worth KES 3.7bn, implying a performance rate of 37.2%. It accepted bids worth KES 3.7bn at an average yield of 8.542% (+8.4bps w/w). The 364-Day T-Bill received bids worth KES 7.9bn, implying a performance rate of 78.8%. It accepted bids worth KES 7.9bn at an average yield of 9.840% (+6.4bps w/w).

T-Bills Performance: Overall performance rate declines with low demand on the 182-Day and 364-Day papers



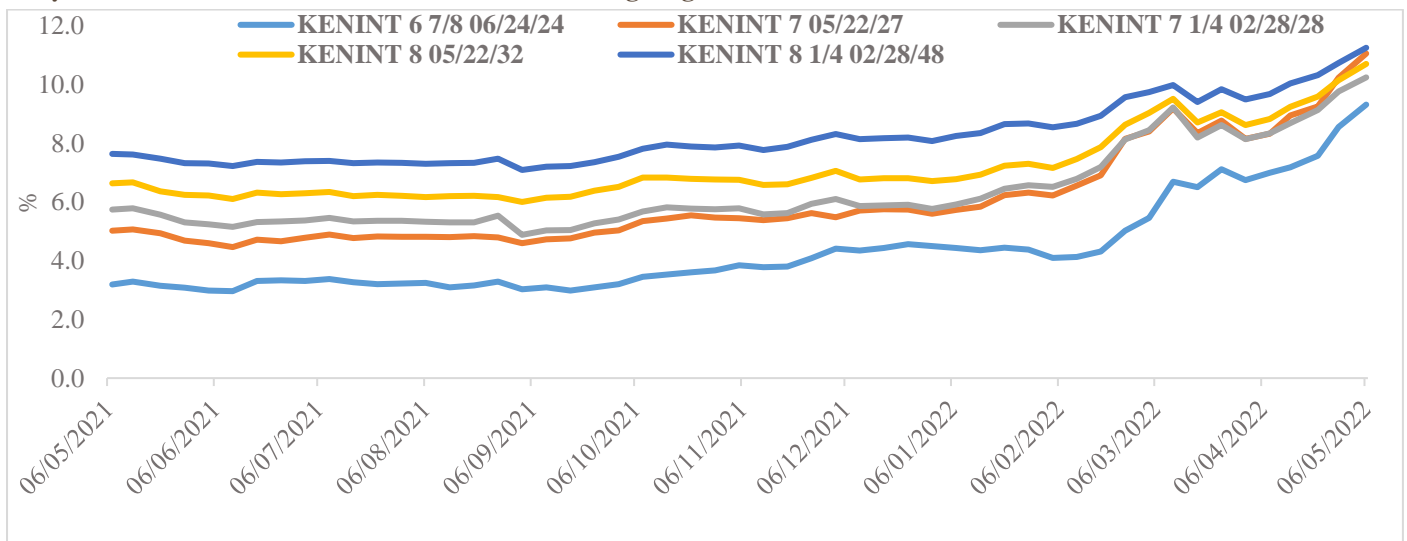
Source: CBK

Kenya Domestic Yield Curve



Source: CBK

Kenya Eurobond Yields: Yields across all maturities edge higher week-on-week



Source: Bloomberg

Top counters by market capitalization

Company	Sector	Year	12 M	12 M	Price	YTD	Market ¹ cap (USD m)	Weighting	EPS	DPS	NAV	P/E	Div	P/B	ROE %	Daily Trading ¹
		end	High	Low		%						ratio x	yld %	ratio x		vol (USD)
Safaricom	Telecom	Mar	44.95	32.00	32.00	-15.7	11,062	56.6%	1.81	2.01	3.4	17.6	6.3	9.4	53.2	1,811,300
Equity Bank	Banking	Dec	54.25	39.85	47.15	-10.6	1,535	7.9%	10.38	3.00	44.8	4.5	6.4	1.1	23.2	441,825
KCB Bank	Banking	Dec	49.90	36.25	36.25	-20.2	1,005	5.1%	10.61	3.00	53.4	3.4	8.3	0.7	19.9	396,191
EA Breweries	Breweries	Jun	193.75	139.00	139.00	-15.8	948	4.9%	11.25	3.75	17.5	12.4	2.7	7.9	64.3	236,164
Co-op Bank	Banking	Dec	13.95	11.80	12.35	-4.6	625	3.2%	2.82	1.00	17.1	4.4	8.1	0.7	16.5	26,214
Absa Bank	Banking	Dec	12.70	8.66	9.94	-16.1	466	2.4%	2.00	1.10	10.4	5.0	11.1	1.0	19.3	63,673
StanChart Bank	Banking	Dec	146.25	124.00	124.75	-2.7	407	2.1%	23.93	19.00	140.8	5.2	15.2	0.9	17.0	156,583
BAT Kenya	Tobacco	Dec	509.00	417.50	417.50	-5.4	360	1.8%	64.83	50.00	149.7	6.4	12.0	2.8	43.3	82,405
Stanbic Bank	Banking	Dec	105.50	79.50	105.50	20.9	360	1.8%	18.23	7.30	142.8	5.8	6.9	0.7	12.8	86,525
NCBA Bank	Banking	Dec	28.15	23.00	24.95	-1.0	355	1.8%	6.21	3.00	47.3	4.0	12.0	0.5	13.1	33,000
I&M Holdings	Banking	Dec	21.38	18.00	18.00	-14.7	257	1.3%	4.92	1.50	42.1	3.7	8.3	0.4	11.7	9,308
Bank of Kigali	Banking	Dec	40.00	24.30	30.00	3.4	232	1.2%	6.50	3.22	35.7	4.6	10.7	0.8	18.2	7,171
KenGen	Power	Jun	4.98	3.54	3.59	-14.3	204	1.0%	0.16	0.18	32.4	22.6	5.0	0.1	0.5	13,483
Kenya Airways	Airlines	Dec	3.99	3.83	3.83	0.0	188	1.0%	(2.79)	-	(14.7)	-	-	-	-	-
Jubilee Insurance	Insurance	Dec	390.00	248.50	265.00	-16.3	166	0.8%	94.22	14.00	544.4	2.8	5.3	0.5	17.3	8,507
Britam	Insurance	Dec	8.38	6.60	6.70	-10.7	146	0.7%	0.03	-	7.5	234.4	-	0.9	0.4	2,786
DTB Bank	Banking	Dec	69.00	54.75	55.00	-7.6	133	0.7%	13.98	3.00	240.7	3.9	5.5	0.2	5.8	7,196
Total Oil	Oil	Dec	26.30	22.05	23.95	-4.2	130	0.7%	4.35	1.31	45.4	5.5	5.5	0.5	9.6	1,216
Bamburi Cement	Cement	Dec	40.55	33.55	37.00	-2.6	116	0.6%	3.58	3.58	83.5	10.3	9.7	0.4	4.3	7,410
Umeme Ltd.	Power	Dec	8.30	5.48	7.90	17.2	111	0.6%	2.74	1.73	17.6	2.9	21.9	0.4	15.6	10,024
Centum Investment	Finance	Mar	17.85	11.95	11.95	-15.2	69	0.4%	(2.42)	0.33	69.7	-	2.8	0.2	(3.5)	9,127
Kakuzi	Agric	Dec	427.00	327.75	400.00	3.9	68	0.3%	27.77	18.00	275.9	14.4	4.5	1.4	10.1	249
Kenya Re	Insurance	Dec	2.68	2.10	2.18	-5.2	53	0.3%	1.06	0.10	13.2	2.1	4.6	0.2	8.0	3,151
Crown Paints	Manufac.	Dec	42.80	19.65	40.70	33.4	50	0.3%	5.13	4.00	24.1	7.9	9.8	1.7	21.3	4,535
CIC Insurance	Insurance	Dec	3.39	2.00	2.18	-1.4	49	0.3%	0.26	-	3.1	8.5	-	0.7	8.4	1,791
ARM Cement	Cement	Dec	5.55	5.55	5.55	0.0	46	0.2%	(7.77)	-	19.8	-	-	0.3	(39.2)	-
Sasini Tea & Coffee	Agric	Sept	22.40	16.85	20.85	11.5	41	0.2%	(1.48)	0.50	56.5	-	2.4	0.4	(2.6)	929
Nation Media	Media	Dec	26.10	14.95	20.40	10.6	33	0.2%	2.59	1.49	42.1	7.9	7.3	0.5	6.2	5,442
Liberty K. Holdings	Insurance	Dec	9.98	5.32	5.80	-17.1	27	0.1%	0.15	-	15.9	38.0	-	0.4	1.0	113
Carbacid	Gases	July	13.25	10.00	11.40	3.6	25	0.1%	2.22	0.70	13.5	5.1	6.1	0.8	16.4	2,976
Kenya Power	Power	Jun	2.02	1.30	1.46	-16.6	25	0.1%	2.65	-	29.3	0.6	-	0.0	9.0	8,416
TPSEA Serena	Tourism	Dec	16.95	11.50	12.45	-18.4	20	0.1%	(4.70)	-	37.5	-	-	0.3	(12.5)	4,546
Unga Ltd	Food	Jun	36.25	26.10	27.50	-0.5	18	0.1%	2.89	-	56.2	9.5	-	0.5	5.1	69
NSE	Finance	Dec	10.15	7.00	8.00	0.0	18	0.1%	0.51	1.40	8.0	15.7	17.5	1.0	6.4	3,047
Sanlam Kenya	Insurance	Dec	15.00	9.16	12.90	11.7	16	0.1%	(1.88)	-	9.5	-	-	1.4	(19.8)	113
WPP Scangroup	Media	Dec	6.10	3.57	3.64	-12.1	14	0.1%	(0.09)	-	12.0	-	-	0.3	(0.7)	1,363
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	20.00	30.00	-11.6	10	0.1%	22.12	3.20	114.3	1.4	10.7	0.3	19.4	-
Housing Finance	Banking	Dec	4.90	2.91	3.03	-22.3	10	0.1%	(1.54)	-	20.7	-	-	0.1	(7.4)	630
Standard Newspapers	Media	Dec	20.00	11.90	13.00	-4.1	9	0.0%	(1.45)	-	10.6	-	-	1.2	(13.7)	59
Longhorn	Publishing	Jun	4.5	3.31	3.40	-15.0	8	0.0%	0.62	-	2.8	5.5	-	1.2	22.2	144
Limuru Tea	Agric	Dec	350.00	263.00	320.00	0.0	7	0.0%	(0.50)	0.70	75.9	-	0.2	4.2	(0.7)	81
EA Portland	Cement	Jun	9.40	6.06	6.94	4.2	5	0.0%	(30.77)	-	208.4	-	-	0.0	(14.8)	20
TransCentury	Finance	Dec	1.53	1.01	1.10	-6.0	4	0.0%	(6.72)	-	(9.5)	-	-	-	-	51
											Average	14.5	6.7	6.0	39.4	3,451,057

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