

Stock Recommendation

Company	Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	31.11	16.35	90.3%	BUY
Equity bank	58.81	38.15	54.2%	BUY
KCB bank	62.39	31.00	101.3%	BUY
Co-op bank	18.13	1230	47.4%	BUY
ABSA bank	12.32	12.00	2.7%	HOLD
StanChart bank	108.61	167.00	-35.0%	SELL
NCBA bank	38.68	34.05	13.6%	HOLD
I&M bank	30.56	17.05	79.2%	BUY
Stanbic bank	89.16	110.50	-19.3%	SELL
DTB bank	122.70	48.45	153.3%	BUY
EABL	164.58	170.50	-3.5%	HOLD
Bamburi Cement	51.96	27.75	87.2%	BUY
BAT Kenya	544.27	430.25	26.5%	BUY

Kenya Weekly Commentary

Kenya Market Summary

Equity market commentary and outlook

- During the week, Safaricom traded down to a 6-year low. Equity bank touched a 2-year low on account of local selling. Similarly, driven by local investors' sell-off, ABSA bank hit a 2-month low. KCB bank marked a 31-month low.

Debt market commentary and outlook

- Overall subscription rates declined to 121.6%, down from 148.5% recorded the previous week. Notably, demand picked on the 182-Day T-Bill while there was a slow-down on the 91-Day T-Bill. Yields across all tenors notched upwards for the eleventh straight week.

Key Market Indicators

Index Returns	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Kenya NSE 20 Index Return	1,530.2	-4.9%	-8.9%	-7.1%	-12.5%	-17.8%	-8.7%
Kenya NASI Return	103.4	-12.3%	-19.2%	-18.2%	-21.9%	-34.1%	-18.9%
FTSE NSE Kenya 15 Return	170.1	0.0%	0.0%	0.0%	0.0%	-16.5%	0.0%
FTSE NSE Kenya 25 Return	170.3	0.0%	0.0%	0.0%	0.0%	-19.8%	0.0%

Source: NSE, Kestrel Research

NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	-12.6%	-22.0%	-23.8%	-28.9%	-42.0%	-23.0%
Johannesburg Index	-5.6%	-10.1%	-4.9%	11.2%	-20.5%	-7.8%
Nigeria Stock Exchange	-1.5%	2.1%	8.7%	5.8%	5.3%	7.2%
Ghana Stock Exchange	8.3%	12.7%	-19.5%	-9.6%	-41.0%	-9.2%
Egyptian Stock Exchange	-10.4%	-16.6%	-22.2%	-6.3%	-30.0%	-19.1%
MSCI EFM ex SA Index	-4.8%	-8.7%	-10.4%	-7.5%	-24.2%	-6.3%

Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
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USD/KES	130.0	-0.6%	-3.2%	-5.4%	-7.2%	-12.0%	-5.1%
USD/ZAR	18.4	-0.2%	-1.6%	-3.7%	-2.7%	-18.4%	-7.2%
USD/EGP	30.8	0.3%	-0.8%	-19.9%	-36.7%	-49.0%	-19.6%
USD/NGN	461.1	0.1%	0.0%	-2.4%	-5.5%	-9.4%	-0.1%
USD/GHS	12.4	-0.5%	0.3%	-27.3%	-17.0%	-40.4%	-17.9%

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	2,382.1	-1,028.7	73.0%	-20.6%	-32.3%	-54.8%	0.0%
StanChart bank	192.4	0.0	0.0%	0.0%	17.0%	0.0%	34.9%
Equity bank	113.0	40.5	55.5%	-11.3%	-14.3%	-28.4%	0.0%
ABSA bank	40.8	-0.7	0.8%	-4.4%	-2.4%	-5.5%	23.7%
EABL	37.4	-12.1	53.6%	0.4%	1.8%	-8.8%	55.0%

Notable Events

KCB bank FY22 EPS grew 19.5% y/y - Above our Estimates

KCB bank released its FY22 results. Reported EPS – KES 12.71, +19.5% y/y, boosted by both net interest (+11.5% y/y) and non-funded income (+39.8% y/y) lines. However, earnings were dragged down by inflated costs (+24.1% y/y). Earnings came in 29.6% above our estimates on the back of better-than-expected net interest income (+8.6%) and lower-than-expected loan loss provisions (-34.4%). The Board of Directors recommended a final DPS of KES 1.00 – book closure date set for 6th April 2023.

Summary Performance Table

	Reported	Forecast	Variance
NIM	6.3%	7.7%	-1.4%
NIR growth	11.5%	2.7%	8.8%
NFI mix	33.3%	34.6%	-1.3%
NFI growth	39.8%	36.3%	3.5%
CoR	1.3%	2.5%	-1.2%
CTI	45.7%	46.6%	-0.9%
OpEx Growth	24.1%	18.8%	5.3%
EPS	12.71	9.81	29.6%
DPS	2.00	3.92	-49.0%
Net Loan growth	27.8%	13.7%	14.1%
Deposit growth	35.6%	8.1%	27.5%
NPL Ratio	15.7%	18.0%	-2.3%
NPL Coverage*	47.9%	52.8%	-4.9%
ROE	20.3%	17.1%	3.2%

*CBK Coverage

What stood out for us?

- **Higher-than-expected net interest income:** net interest income exceeded our expectations on account of higher loan growth (27.8% y/y against our projections of 13.7% y/y) as margins contracted. Year-on-year, margins compressed by about 180bps as asset yields came down by 198bps on account of higher interest in suspense driven by the downgrading of loan accounts.
- **Lower-than-expected loan loss provisions:** we had assumed a higher cost of risk on account of elevated NPL ratio, at above industry average. Management expects the non-performing loans to trend downwards following the resumption of interest and principal payments by previously restructured loans, realization of collateral and renegotiation by clients for sale of their non-core assets. Management guides for about 13% NPL ratio for 2023.

Impact to our investment thesis

- Looking ahead, we expect to retain our cost of risk outlook – we think credit risk remains fairly elevated. KCB bank is currently trading at a P/B of 0.6x. At current levels, our fair value estimate of KES 62.39, implies 73.3% potential upside. We therefore retain our BUY recommendation on KCB bank.

Co-op bank FY22 EPS grew 30.5% y/y - Above our Estimates

Co-op bank published its FY22 results. Reported EPS – KES 3.72, +30.5% y/y, driven by both funded (+11.7% y/y) and non-funded income (+32.7% y/y), but weighed by higher operating costs (+14.4% y/y). Earnings largely matched our expectations as reported EPS came in just 2.2% ahead of estimates. The Board of Directors recommended a final DPS of KES 1.50, with book closure set for 24th May 2023.

Summary Performance Table

	Reported	Forecast	Variance
NIM	8.3%	8.1%	0.2%
NIR growth	11.7%	7.2%	4.5%
NFI mix	36.1%	36.3%	-0.2%
NFI growth	32.7%	28.2%	4.5%
CoR	2.2%	2.1%	0.1%
CTI	47.1%	47.0%	0.1%
OpEx Growth	14.4%	9.8%	4.6%
EPS	3.72	3.64	2.2%
DPS	1.50	1.28	17.2%
Net Loan growth	9.4%	9.6%	-0.2%
Deposit growth	3.9%	9.7%	-5.8%
NPL Ratio	13.4%	13.5%	-0.1%
NPL Coverage*	60.9%	48.9%	12.0%
ROE	20.5%	20.7%	-0.2%

*CBK Coverage

What stood out for us?

- Higher-than-expected dividend payout:** Co-op bank's dividend payout came in at 40.3%, above our projections of 34.3%. As a result, at current levels, the dividend yield stands at 12.0%, an attractive yield in our view.

Impact to our investment thesis

- Going forward, we expect to increase our margins outlook. Co-op bank is currently trading at a P/B of 0.7x. At current levels, our fair value estimate of KES 18.13, implies 45.0% potential upside. We therefore retain our BUY recommendation on Co-op bank.

ABSA bank FY22 EPS increases 34.4% y/y - Above our Estimates

ABSA bank published its FY22 results. Reported EPS – KES 2.69, +34.4% y/y, backed by total income (+26.7% y/y), but weighed by inflated costs (+12.0% y/y) and higher loan loss provisions (+58.5% y/y). On the cost front, we highlight there was a one-off cost item of about KES 1.0bn relating to provisions for a litigation case. Earnings came in 14.2% ahead of estimates on account of better-than-expected total income (+9.7%). However, provisions run 26.8% ahead of expectations. The Board of Directors recommended a final DPS of KES 1.15.

Summary Performance Table

	Reported	Forecast	Variance
NIM	7.4%	6.6%	0.8%
NIR growth	27.9%	16.2%	11.7%
NFI mix	29.7%	29.9%	-0.2%
NFI growth	23.8%	13.7%	10.1%
CoR	2.1%	1.8%	-0.5%
CTI	40.6%	44.2%	-3.6%
OpEx Growth	12.0%	11.2%	0.8%
EPS	2.69	2.36	14.2%
DPS	1.35	1.53	-11.8%
Net Loan growth	21.1%	25.5%	6.3%
Deposit growth	13.0%	8.9%	-4.4%
NPL Ratio	7.4%	7.4%	-2.2%
NPL Coverage*	75.3%	72.9%	32.3%
ROE	22.9%	21.6%	6.5%

*CBK Coverage

What stood out for us?

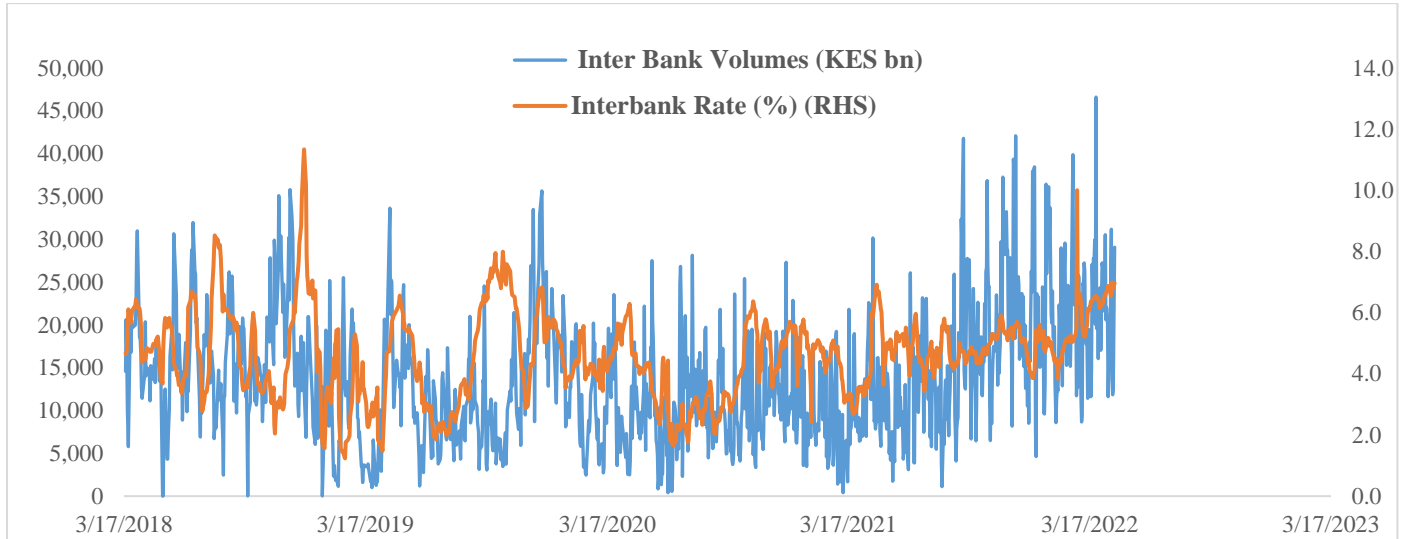
- **Higher-than-expected cost of risk:** cost of risk came in ahead of estimates (2.1% vs. 1.8%) and loan loss provisions increased 58.5% y/y as management took a view that the macro environment would worsen and the value of collaterals will remain depressed and relatively difficult to realize. We highlight that while the non-performing loan ratio declined by about 100bps YoY, additional provisions pushed up the NPL coverage, a positive in our view.
- **Higher-than-expected net interest income:** net interest income beat our expectations on account of better margins with upward repricing of loans. Year-on year, NIMs edged upwards by 106bps as asset yields rose faster than the cost of funds.

Impact to our investment thesis

- Going forward, we expect to increase our margins outlook. ABSA bank is currently trading at a P/B of 1.1x. At current levels, our fair value estimate of KES 12.32, implies 1.4% potential downside. We therefore retain our HOLD recommendation on ABSA bank.

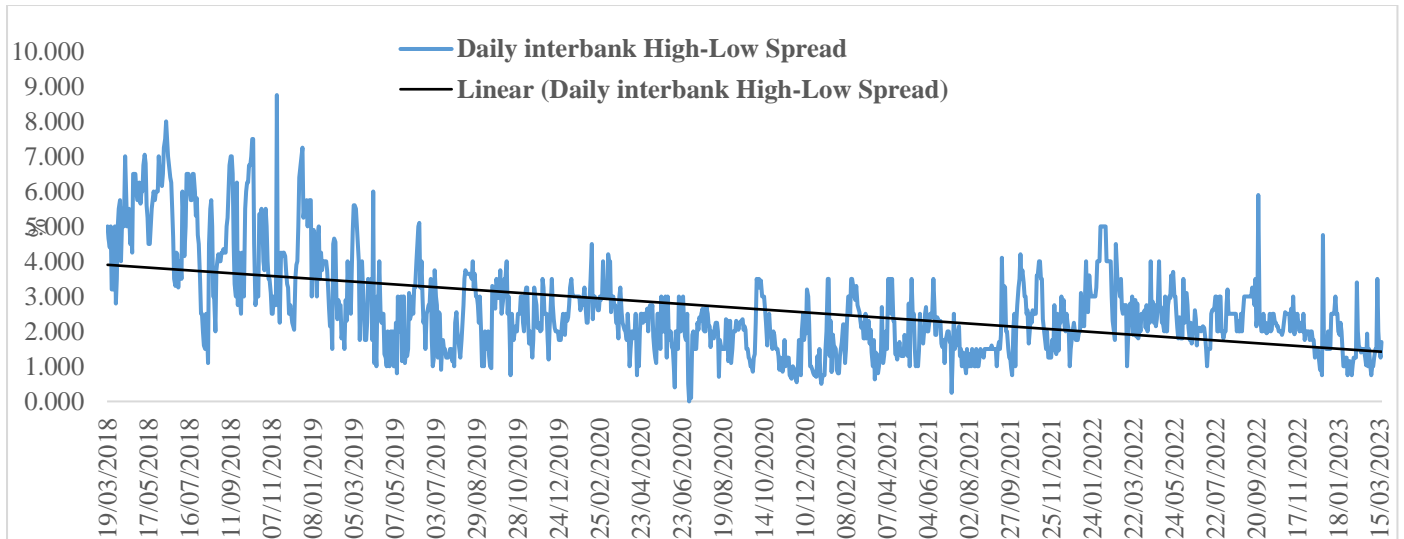
Key Rates and Spreads

Inter-bank rate increase week-on-week



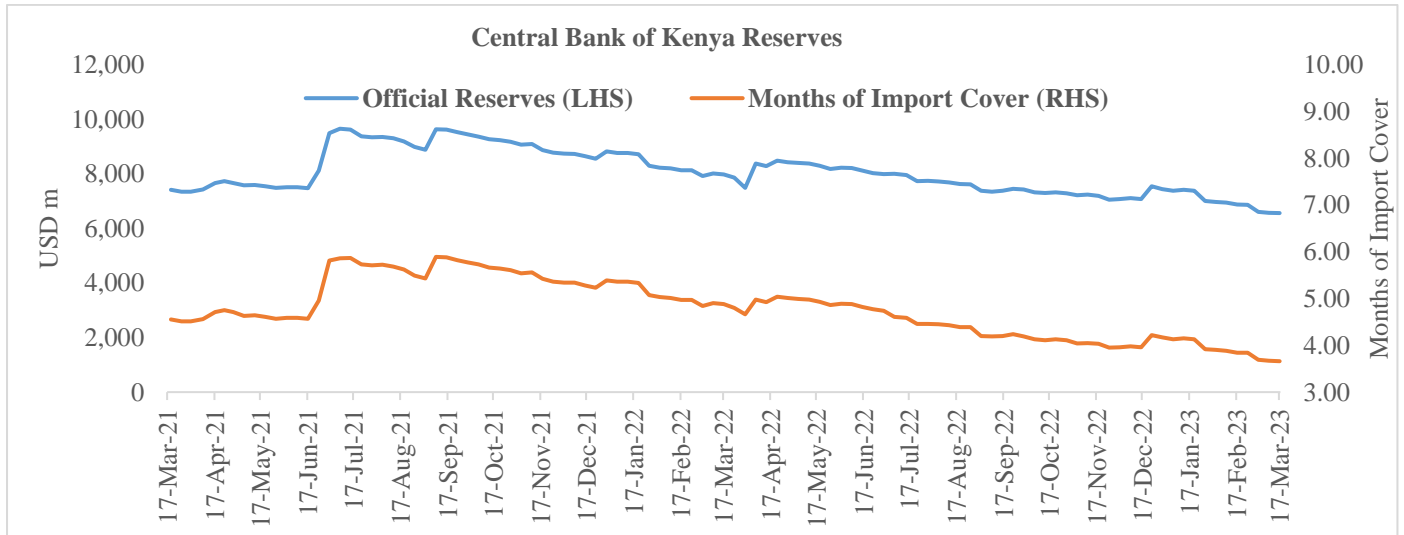
Source: CBK

Inter-bank spread widen for the second successive week



Source: CBK

CBK FX reserves & import cover decline for the ninth straight week



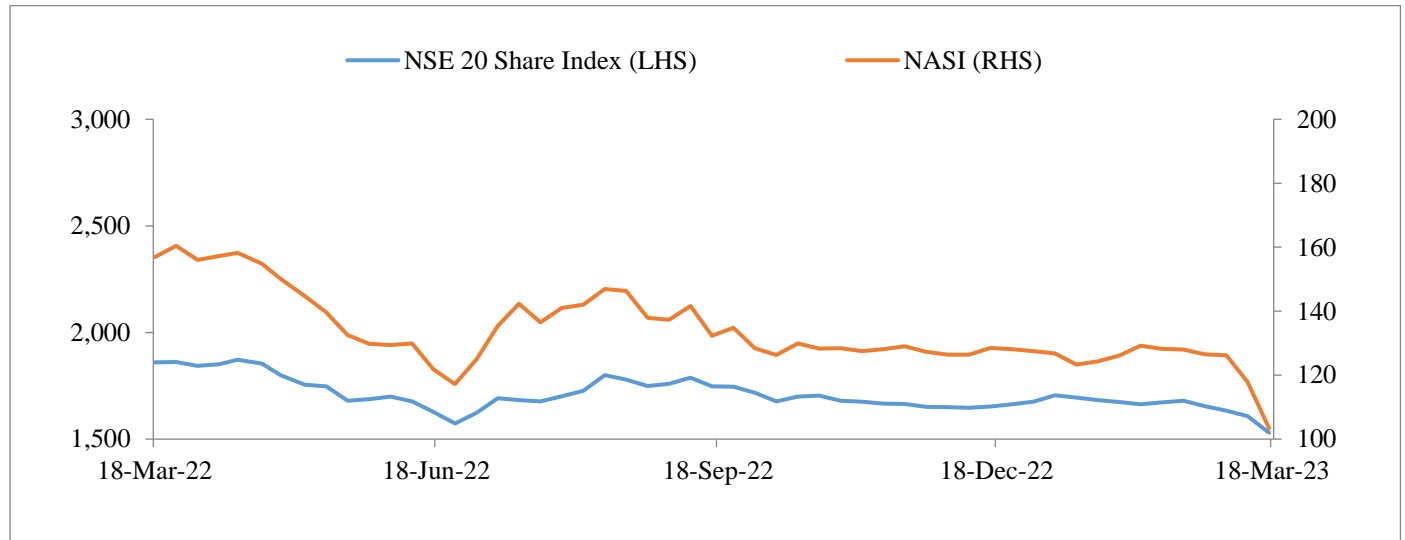
Source: CBK

Equity market trading commentary

For the third week in a row, equity turnover surged by 93.2% w/w to stand at USD 22.4m (KES 2.9bn). For the sixth successive week, the NASI dropped 12.3% w/w to settle at 103.41. Sustaining a 4-week losing streak, the NSE 20 edged down 4.9% w/w to finish at 1,530.17. Foreign investors remained overall net sellers at USD 8.0m (KES 1.0bn). Foreign investors drove market activity at the bourse at 63.2% of total turnover, up from 39.6% registered the prior week.

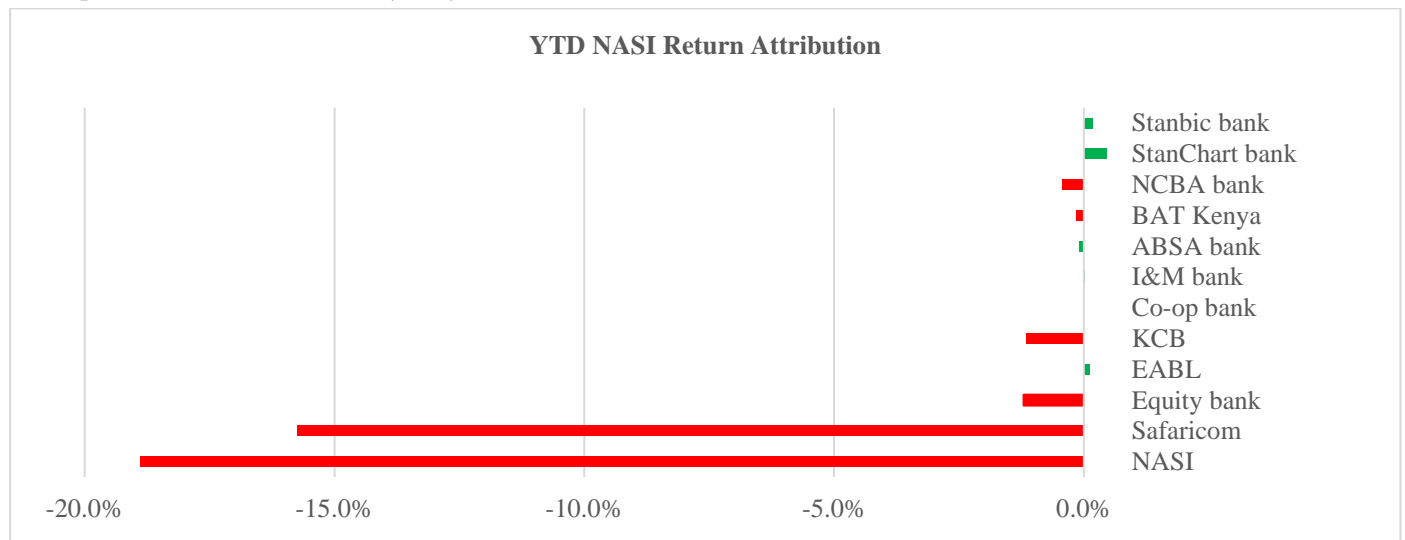
During the week, Safaricom traded down to a 6-year low. Equity bank touched a 2-year low on account of local selling. Similarly, driven by local investors' sell-off, ABSA bank hit a 2-month low. KCB bank marked a 31-month low.

Market performance over the past 12 months



Source: NSE

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



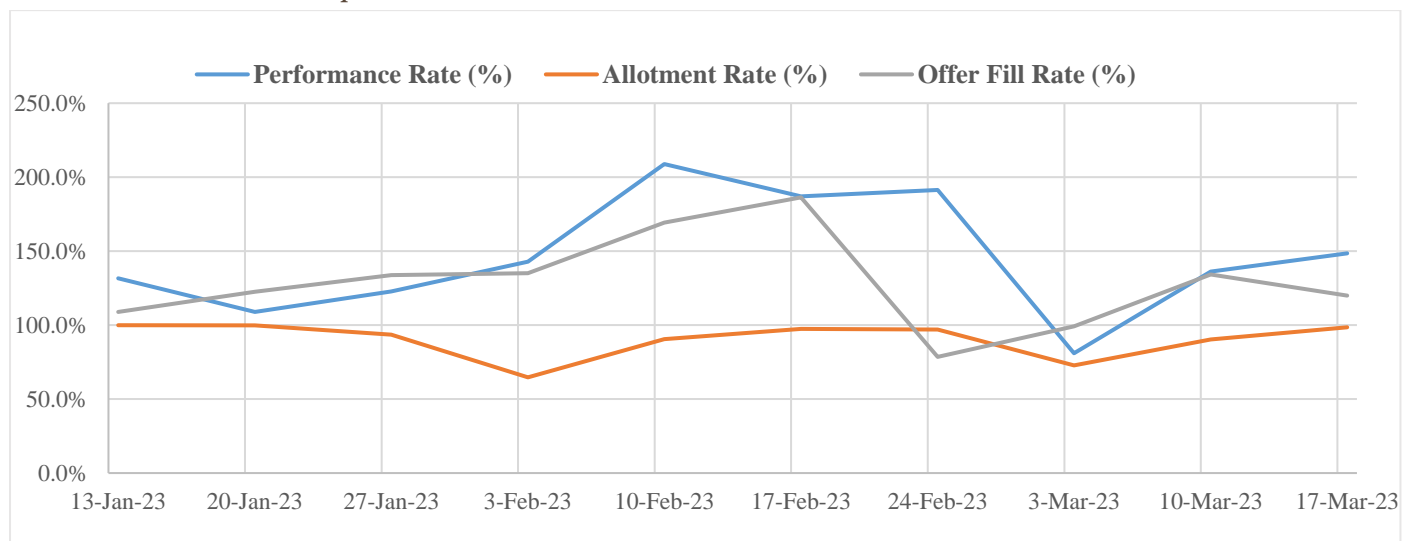
Source: Kestrel Research

Debt market trading commentary

Overall subscription rates declined to 121.6%, down from 148.5% recorded the previous week. Notably, demand picked on the 182-Day T-Bill while there was a slow-down on the 91-Day T-Bill. Yields across all tenors notched upwards for the eleventh straight week.

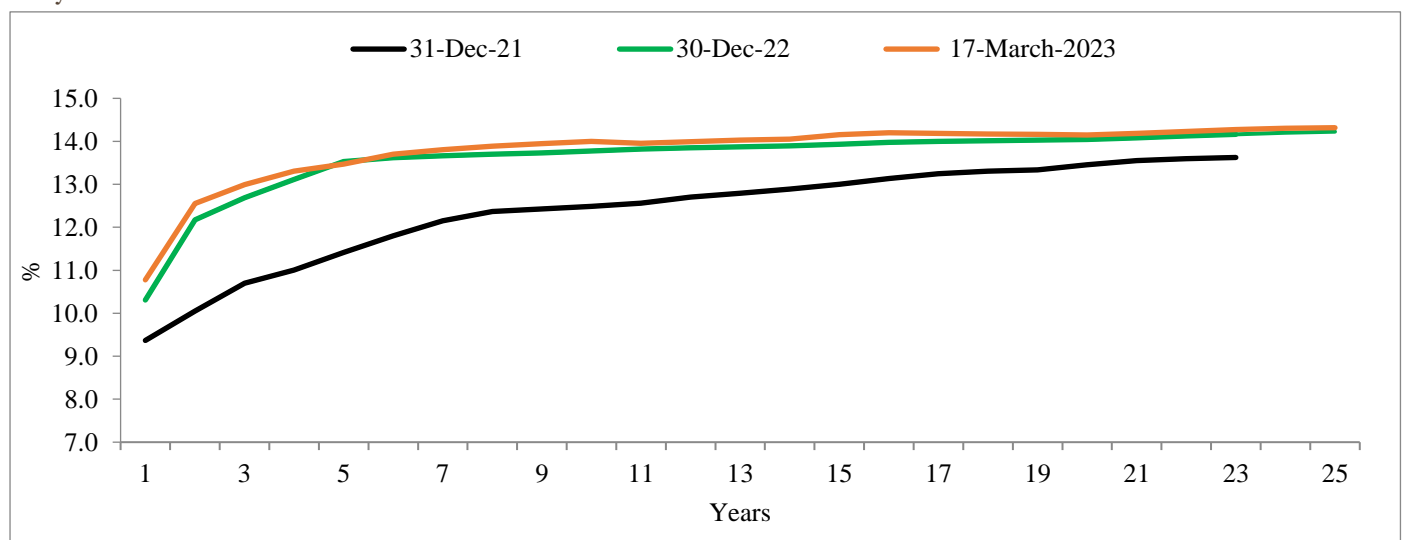
The Central Bank of Kenya offered KES 4.0bn for the 91-Day T-Bill and KES 10.0bn each for the 182-Day T-Bill and the 364-Day T-Bill. It received bids worth KES 7.3bn for the 91-Day T-Bill, implying a subscription rate of 182.28%. It accepted bids worth KES 7.1bn at an average yield of 9.780% (+3.8bps w/w). The 182-Day T-Bill received bids worth KES 17.5bn, implying a performance rate of 174.66%. It accepted bids worth KES 17.3bn at an average yield of 10.285% (+6.9bps w/w). The 364-Day T-Bill received bids worth KES 4.4bn, implying a performance rate of 44.33%. It accepted bids worth KES 4.4bn at an average yield of 10.777 (+3.0bps w/w).

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



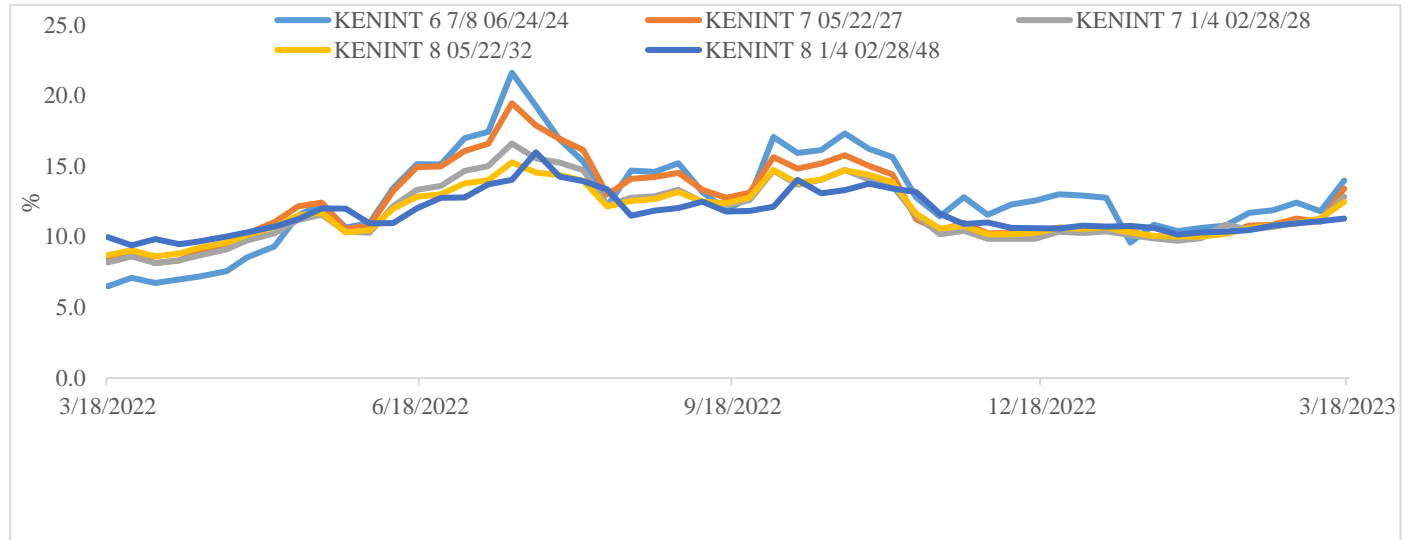
Source: CBK

Kenya Domestic Yield Curve



Source: CBK

Kenya Eurobond Yields: Yields across longer tenors edged up for the seventh consecutive 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	36.15	16.35	16.35	-32.3	5,044	40.5%	1.74	1.33	3.5	9.4	8.1	4.7	49.9	1,667,419	
Equity Bank	Banking	Dec	53.25	38.15	38.15	-14.3	1,108	8.9%	12.24	3.00	40.8	3.1	7.9	0.9	30.0	377,240	
EA Breweries	Breweries	Jun	187.00	110.00	170.50	1.8	1,038	8.3%	15.00	11.00	20.5	11.4	6.5	8.3	73.2	80,791	
KCB Bank	Banking	Dec	44.60	31.00	31.00	-18.6	767	6.2%	12.64	2.00	62.3	2.5	6.5	0.5	20.3	161,098	
Co-op Bank	Banking	Dec	13.30	10.70	12.30	0.0	556	4.5%	3.76	1.50	18.4	3.3	12.2	0.7	20.5	54,131	
Absa Bank	Banking	Dec	12.70	9.70	12.00	-2.4	502	4.0%	2.69	1.35	11.7	4.5	11.3	1.0	22.9	56,165	
StanChart Bank	Banking	Dec	167.00	123.75	167.00	17.0	486	3.9%	31.91	22.00	148.6	5.2	13.2	1.1	21.5	80,599	
NCBA Bank	Banking	Dec	40.00	23.60	34.05	-13.5	432	3.5%	10.02	4.25	49.1	3.4	12.5	0.7	20.4	17,532	
Stanbic Bank	Banking	Dec	114.00	90.00	110.50	8.3	336	2.7%	22.92	12.60	157.3	4.8	11.4	0.7	14.6	22,765	
BAT Kenya	Tobacco	Dec	499.25	404.00	430.25	-6.5	331	2.7%	68.92	57.00	163.8	6.2	13.2	2.6	42.1	92,938	
I&M Holdings	Banking	Dec	21.45	16.50	17.05	0.3	217	1.7%	5.74	1.50	41.4	3.0	8.8	0.4	13.9	12,939	
Bank of Kigali	Banking	Dec	32.75	27.00	28.65	-9.0	198	1.6%	7.95	3.28	41.8	3.6	11.5	0.7	19.0	464	
Kenya Airways	Airlines	Dec	3.83	3.83	3.83	0.0	168	1.3%	(2.79)	-	(14.7)	-	-	-	-	-	
Umeme Ltd.	Power	Dec	10.05	6.12	9.80	32.1	123	1.0%	2.74	1.73	17.6	3.6	17.7	0.6	15.6	855	
KenGen	Power	Jun	3.81	2.15	2.19	-32.0	111	0.9%	0.70	0.18	42.0	3.1	8.2	0.1	1.7	4,343	
DTB Bank	Banking	Dec	59.00	46.00	48.45	-3.1	104	0.8%	17.27	3.00	250.7	2.8	6.2	0.2	6.9	20,004	
Total Oil	Oil	Dec	25.85	18.25	18.30	-23.3	89	0.7%	4.35	1.31	45.4	4.2	7.2	0.4	9.6	841	
Britam	Insurance	Dec	6.94	4.55	4.55	-12.5	88	0.7%	0.03	-	7.5	159.2	-	0.6	0.4	1,492	
Jubilee Insurance	Insurance	Dec	275.75	151.50	151.50	-23.8	85	0.7%	94.22	14.00	544.4	1.6	9.2	0.3	17.3	2,688	
Bamburi Cement	Cement	Dec	38.35	27.00	27.75	-11.9	78	0.6%	2.15	3.58	0.1	12.9	12.9	338.0	2,618.6	12,066	
Kakuzi	Agric	Dec	441.25	367.50	384.25	-0.2	58	0.5%	39.24	18.00	278.0	9.8	4.7	1.4	14.1	526	
Centum Investment	Finance	Mar	13.00	7.90	9.00	7.7	46	0.4%	(2.01)	0.59	65.1	-	6.5	0.1	(3.1)	7,547	
Sasini Tea & Coffee	Agric	Sept	129.00	17.90	25.10	11.8	44	0.4%	5.11	1.00	56.5	4.9	4.0	0.4	9.1	861	
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	44.00	32.30	35.00	-16.4	38	0.3%	5.13	4.00	24.1	6.8	11.4	1.5	21.3	279	
CIC Insurance	Insurance	Dec	2.21	1.72	1.90	-2.6	38	0.3%	0.30	-	3.0	6.3	-	0.6	9.9	1,098	
Kenya Re	Insurance	Dec	2.28	1.59	1.59	-13.1	34	0.3%	1.17	0.10	13.4	1.4	6.3	0.1	8.7	1,189	
Carbacid	Gases	July	14.15	10.55	12.45	3.8	24	0.2%	2.98	0.70	13.6	4.2	5.6	0.9	21.9	4,027	
Kenya Power	Power	Jun	2.08	1.31	1.45	-7.1	22	0.2%	(0.75)	-	30.2	-	-	0.0	(2.5)	9,010	
Nation Media	Media	Dec	23.20	14.15	14.60	-8.5	21	0.2%	2.59	1.49	42.1	5.6	10.2	0.3	6.2	1,152	
Liberty K. Holdings	Insurance	Dec	7.48	4.28	4.80	-14.3	20	0.2%	0.15	-	15.9	31.4	-	0.3	1.0	54	
TPSEA Serena	Tourism	Dec	17.50	10.85	13.65	2.2	19	0.2%	(3.47)	-	33.3	-	-	0.4	(10.4)	3,426	
NSE	Finance	Dec	8.38	6.04	6.04	-10.9	12	0.1%	0.51	1.40	8.0	11.8	23.2	0.8	6.4	1,572	
BOC Kenya	Gases	Dec	85.00	65.00	77.00	8.8	12	0.1%	4.78	6.70	84.3	16.1	8.7	0.9	5.7	108	
Housing Finance	Banking	Dec	3.84	2.86	3.49	9.4	10	0.1%	(1.45)	-	20.5	-	-	0.2	(7.1)	2,112	
Car & Gen	Motors	Sept	76.00	30.00	32.20	-32.1	10	0.1%	26.33	3.20	135.8	1.2	9.9	0.2	19.4	808	
Unga Ltd	Food	Jun	34.75	16.60	16.60	-48.1	10	0.1%	2.48	-	58.3	6.7	-	0.3	4.2	344	
Sanlam Kenya	Insurance	Dec	14.90	7.86	8.72	-9.0	10	0.1%	(3.77)	-	3.9	-	-	2.2	(97.1)	54	
WPP Scangroup	Media	Dec	4.32	2.81	2.81	-6.6	9	0.1%	(0.30)	-	11.9	-	-	0.2	(2.5)	692	
Limuru Tea	Agric	Dec	510.00	320.00	400.00	-4.8	7	0.1%	(0.50)	0.70	75.9	-	0.2	5.3	(0.7)	617	
Standard Newspapers	Media	Dec	14.75	8.74	9.40	-10.0	6	0.0%	(0.90)	-	10.5	-	-	0.9	(8.5)	29	
Longhorn	Publishing	Jun	4.07	2.54	2.59	-13.7	5	0.0%	0.62	-	2.8	4.2	-	0.9	22.2	114	
EA Portland	Cement	Jun	8.80	6.02	6.30	-7.4	4	0.0%	6.02	-	239.8	1.0	-	0.0	2.5	20	
TransCentury	Finance	Dec	1.30	0.79	0.98	5.4	3	0.0%	(6.72)	-	(9.5)	-	-	-	-	2,072	
												Average	13.2	8.6	5.1	52.4	2,708,753

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