

## Stock Recommendation

Company	*Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	31.11	16.00	94.4%	BUY
Equity bank	58.81	40.60	44.9%	BUY
KCB bank	62.39	27.50	126.9%	BUY
Co-op bank	18.13	11.45	58.3%	BUY
ABSA bank	12.32	11.90	3.5%	HOLD
StanChart bank	108.61	150.25	-27.7%	SELL
NCBA bank	38.68	38.70	-0.1%	HOLD
I&M bank	30.56	18.45	65.6%	BUY
Stanbic bank	89.16	117.00	-23.8%	SELL
DTB bank	122.70	47.05	160.8%	BUY
EABL	164.58	125.25	31.4%	BUY
Bamburi Cement	51.96	24.90	108.7%	BUY
BAT Kenya	544.27	420.50	29.4%	BUY

\*Fair values under review

## Kenya Weekly Commentary

### Kenya Market Summary

#### Notable Events

- Equity bank 1H23 EPS grows 7.3% y/y – Above Expectations
- Co-op bank 1H23 EPS increases 6.7% y/y – Above Expectations

#### Equity market commentary and outlook

- During the week, large-cap names marked multi-month lows. On account of local investors' sell-off, KCB bank touched an 11-year low; StanChart bank hit a 3-month low; Safaricom registered a 2-month low and Equity bank recorded a 12-day low. Over foreign selling, EABL traded down to a 12-month low.

#### Debt market commentary and outlook

- Overall subscription rates decreased to 186.2%, down from 199.7% the prior week, though remained above-average levels. Demand was strong across the 19-Day T-Bill but was comparably subdued on the 182-Day T-Bill and 364-Day T-Bill, for the fourth straight week. The yield on the 91-Day T-Bill and 364-Day T-Bill tenor notched upwards for the sixteenth consecutive week while the yield on the 182-Day T-Bill edged up for the eleventh successive week.

#### Key Market Indicators

Index Returns	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Kenya NSE 20 Index Return	1,532.5	-3.9%	-5.0%	4.1%	-8.8%	-13.9%	-8.6%
Kenya NASI Return	101.4	-2.5%	-8.4%	8.3%	-20.8%	-30.7%	-20.5%
FTSE NSE Kenya 15 Return	170.1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FTSE NSE Kenya 25 Return	170.3	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: NSE, Kestrel Research

#### NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	-3.1%	-9.7%	-2.0%	-31.2%	-42.6%	-32.1%
Johannesburg Index	-5.3%	-11.1%	-4.5%	-12.6%	-6.2%	-10.3%
Nigeria Stock Exchange	-0.4%	1.8%	-25.4%	-27.8%	-26.9%	-24.2%
Ghana Stock Exchange	-0.8%	8.3%	13.3%	39.4%	5.2%	12.2%
Egyptian Stock Exchange	1.5%	2.4%	7.3%	1.6%	10.4%	-1.4%
MSCI EFM ex SA Index	2.7%	2.2%	5.7%	-2.5%	-5.7%	0.0%

### Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
USD/KES	144.3	-0.4%	-1.6%	-4.7%	-12.8%	-17.1%	-14.5%
USD/ZAR	19.0	-0.2%	-6.6%	2.4%	-4.9%	-10.5%	-10.3%
USD/EGP	30.9	-0.1%	0.0%	0.0%	-1.2%	-38.0%	-19.9%
USD/NGN	768.6	-0.5%	2.6%	-39.8%	-40.0%	-44.3%	-40.0%
USD/GHS	11.3	-1.2%	1.6%	-4.7%	10.0%	-12.9%	-10.0%

### 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	732.9	67.2	49.2%	-0.3%	-33.7%	-48.8%	23.1%
EABL	297.8	8.7	92.6%	-9.2%	-25.2%	-33.0%	0.0%
Equity bank	154.8	19.8	81.8%	-1.0%	-8.8%	-18.8%	13.4%
ABSA bank	148.0	-6.6	2.6%	-4.4%	-3.3%	-8.1%	17.8%
BAT Kenya	111.9	5.9	94.2%	-3.3%	-8.6%	-12.4%	4.7%

### Notable Events

#### Equity bank 1H23 EPS grows 7.3% y/y - Ahead of our Expectations

Equity bank released its 1H23 financial results. Reported EPS – KES 6.75, +7.3% y/y, driven by growth in interest income (+16.5% y/y) and non-funded income (+41.2% y/y). Earnings came in 6.8% ahead of estimates, on account of better-than-expected non-funded income (+13.9%) and lower-than-expected loan loss provisions (-13.6%).

#### Summary Performance Table

	Reported	Forecast	Variance
NIM	6.2%	7.3%	-1.1%
NIR growth	16.5%	20.5%	-4.0%
NFI mix	44.0%	40.1%	3.9%
NFI growth	41.2%	24.0%	17.2%
CoR	1.6%	2.0%	-0.4%
CTI	49.0%	47.2%	1.8%
OpEx Growth	32.6%	23.1%	9.5%
EPS	6.75	6.32	6.8%
DPS	0.00	0.00	0.0%
Net Loan growth	25.6%	14.9%	10.7%
Deposit growth	21.0%	14.0%	7.0%
NPL Ratio	10.7%	9.3%	1.4%
NPL Coverage*	43.9%	78.4%	-34.5%
ROE	27.4%	24.9%	2.5%

\*CBK Coverage

### What stood out for us?

- **Higher-than-expected non-funded income:** non-funded income exceeded estimates by 14%, largely on the back of better fee income (20% above forecasts) and FX income (26% above forecasts). Notably, trade finance income (+117% y/y), boosted by cross-border trading was a key contributor to the reported growth.
- **Lower-than-expected loan loss provisions:** we had anticipated the cost of risk to be higher than reported on account of elevated credit risk and macro weakness. However, the cost of risk was 400bps lower.

### Impact to our investment thesis

- Looking ahead, we expect to model higher non-funded income growth rate, but will retain an elevated cost of risk outlook. Equity bank is trading at P/B of 0.8x.

### Co-op bank 1H23 EPS grows 6.7% y/y - Ahead of our Expectations

Co-op bank announced its 1H23 financial results. Reported EPS – KES 2.08, +6.7% y/y, driven by total income (+3.0% y/y) and largely supported by lower loan loss provisions (-14.4% y/y). Earnings came in 9.6% ahead of estimates, mainly on account of lower-than-expected loan loss provisions (-30.7%) and better cost control (-9.0%). In addition, non-funded income exceeded our forecasts by 9.9%.

#### Summary Performance Table

	Reported	Forecast	Variance
NIM	6.9%	8.7%	-1.8%
NIR growth	2.3%	19.4%	-17.1%
NFI mix	39.0%	33.3%	5.7%
NFI growth	4.0%	-5.4%	9.4%
CoR	1.4%	2.1%	-0.7%
CTI	45.8%	47.4%	-1.6%
OpEx Growth	2.9%	13.1%	-10.2%
EPS	2.08	1.90	9.6%
DPS	0.00	0.00	0.0%
Net Loan growth	10.7%	10.8%	-0.1%
Deposit growth	9.7%	10.7%	-1.0%
NPL Ratio	13.8%	13.5%	0.3%
NPL Coverage*	55.9%	54.4%	1.5%
ROE	22.4%	20.1%	2.3%

\*CBK Coverage

### What stood out for us?

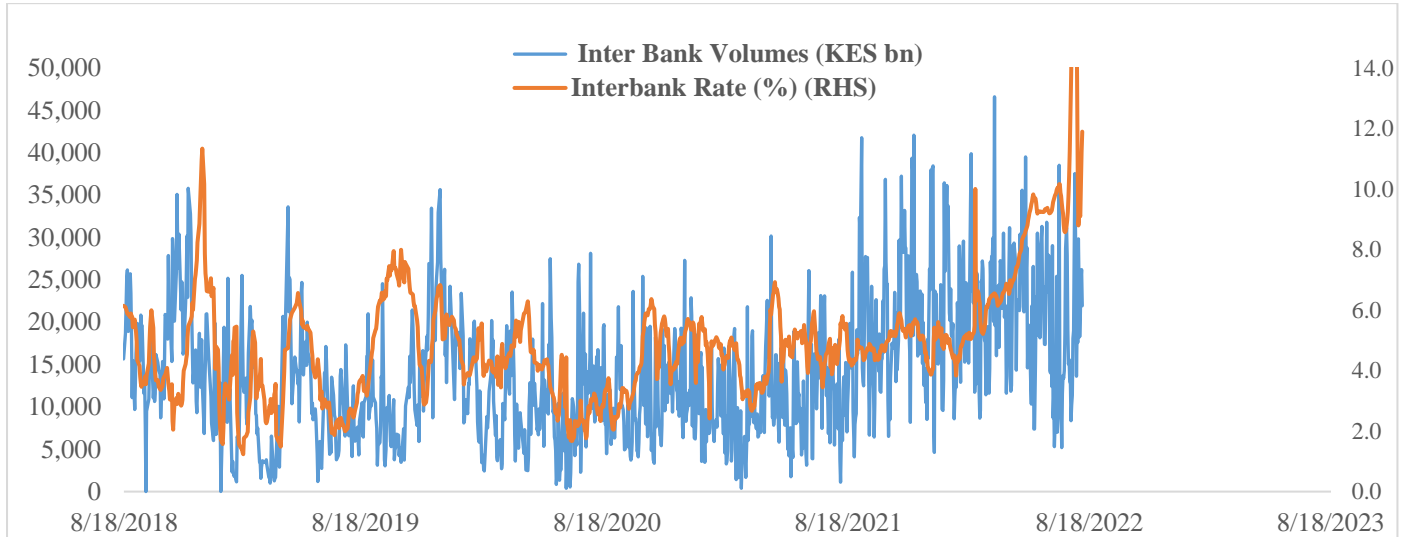
- Lower-than-expected cost of risk:** a lower cost of risk came as a surprise to us on account of growth in the levels of non-performing loans (12% ytd), coupled with the elevated credit risk and macro challenges. Cost of risk was 70 bps below our projections.

### Impact to our investment thesis

- Looking ahead, we expect to moderate our outlook on margins. However, we expect to retain our cost of risk at elevated levels. Co-op bank is trading at a P/B of 0.6x.

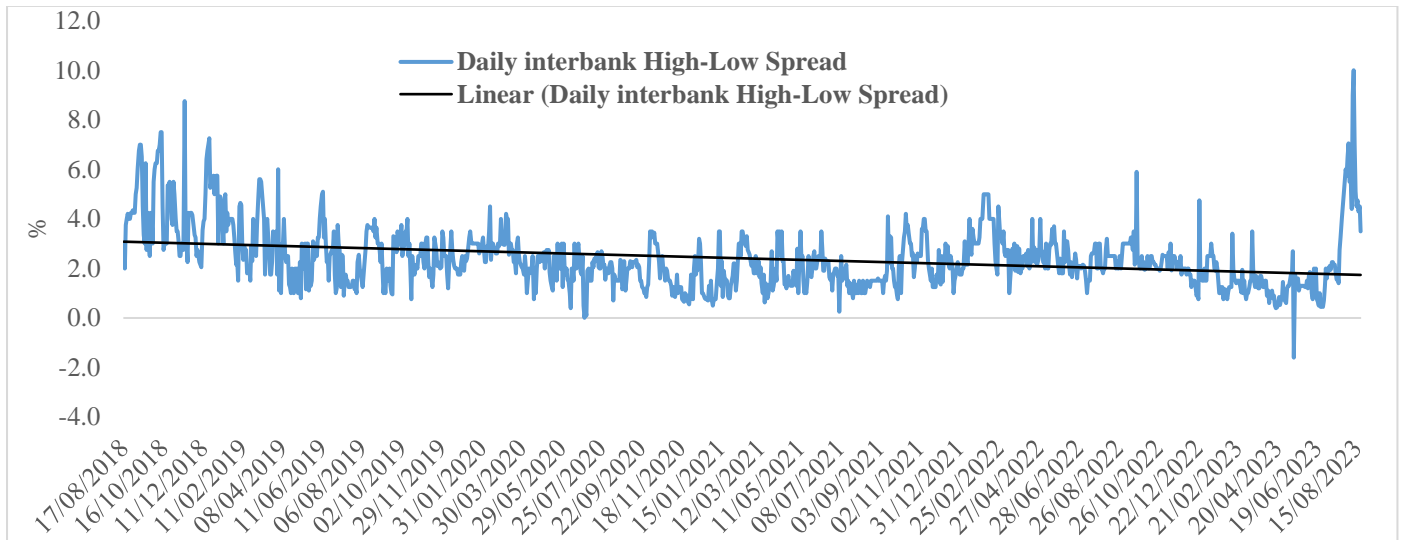
**Key Rates and Spreads**

Inter-bank rates up week-on-week, from a 1-month low



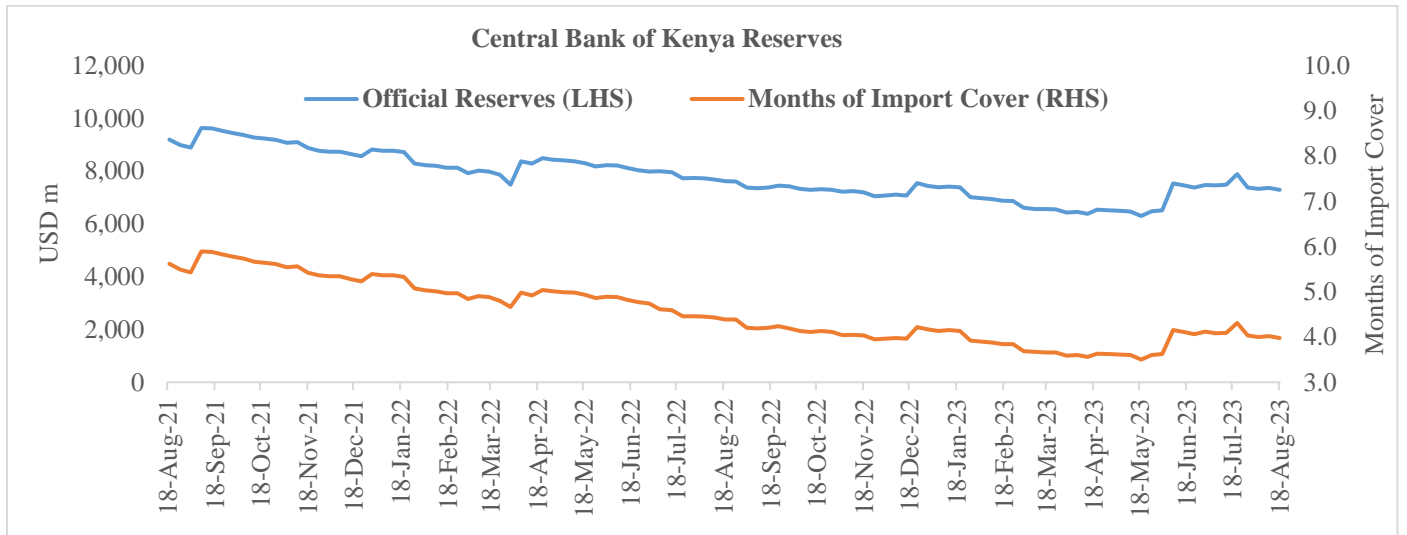
Source: CBK

Inter-bank spreads narrow for the third week in a row, hitting a 1-month low



Source: CBK

Months of import cover & CBK FX reserves decline week-on-week



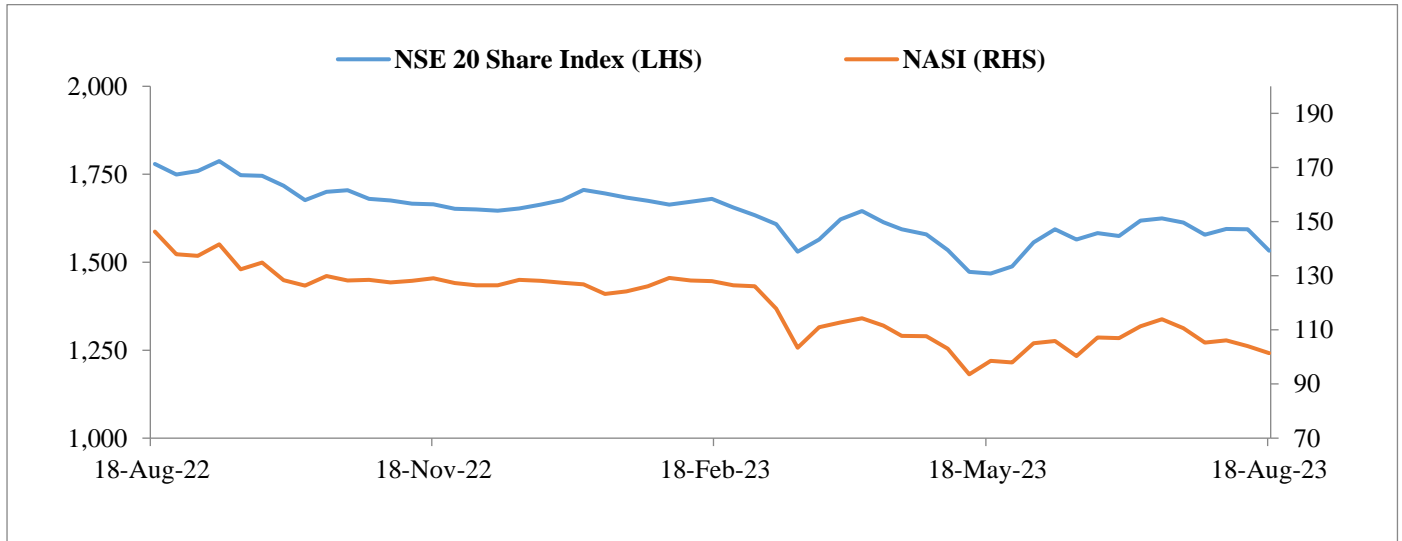
Source: CBK

## Equity market trading commentary

Market turnover further increased by 35.9% w/w to settle at USD 11.7m (KES 1.7bn). For the second consecutive week, the NASI lost 2.5% w/w to end at 101.35 - a 10-weeks low, and the NSE 20 slid 3.9% w/w to close at 1,532.46. Foreign investors emerged as net buyers at USD 0.7m (KES 94.2m) – the third successive week. Halting a 5-week of dominance by local investors, foreign activity rebounded at 53.2% of total turnover, up from 49.2% recorded last week. Safaricom (USD 0.5m, KES 67.2m) and Equity bank (USD 0.1m, KES 19.8m) posted the highest net foreign inflows while KCB bank, ABSA bank and Co-op bank recorded the highest net foreign outflows.

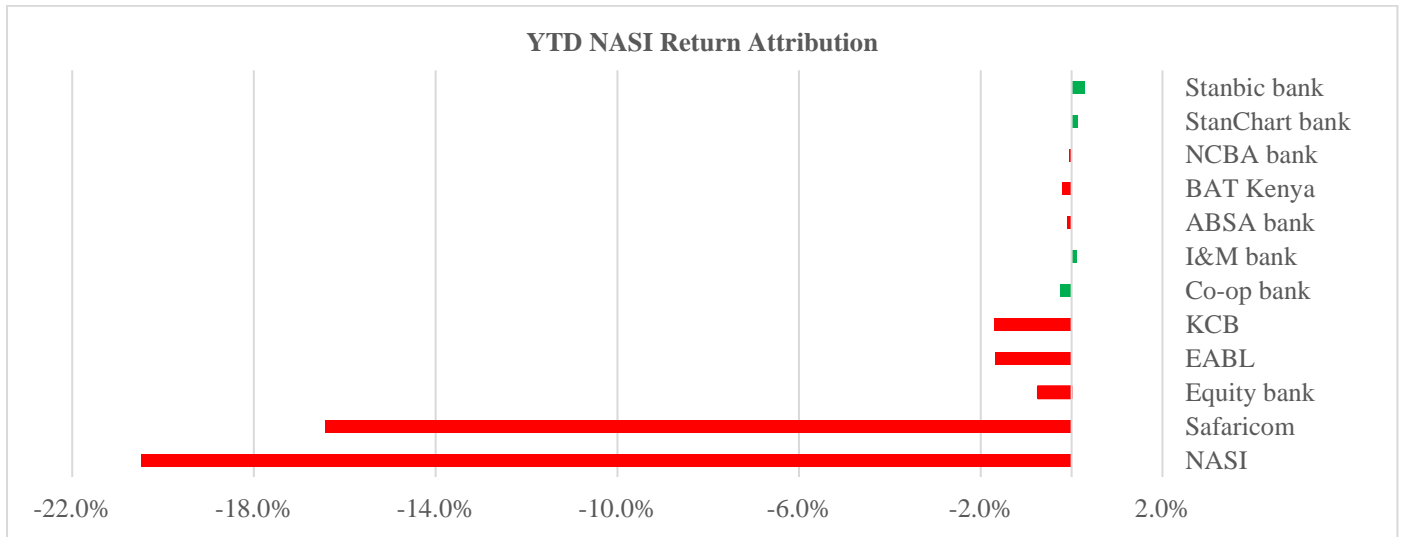
During the week, large-cap names marked multi-month lows. On account of local investors’ sell-off, KCB bank touched an 11-year low; StanChart bank hit a 3-month low; Safaricom registered a 2-month low and Equity bank recorded a 12-day low. Over foreign selling, EABL traded down to a 12-month low.

### Market performance over the past 12 months



Source: NSE

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



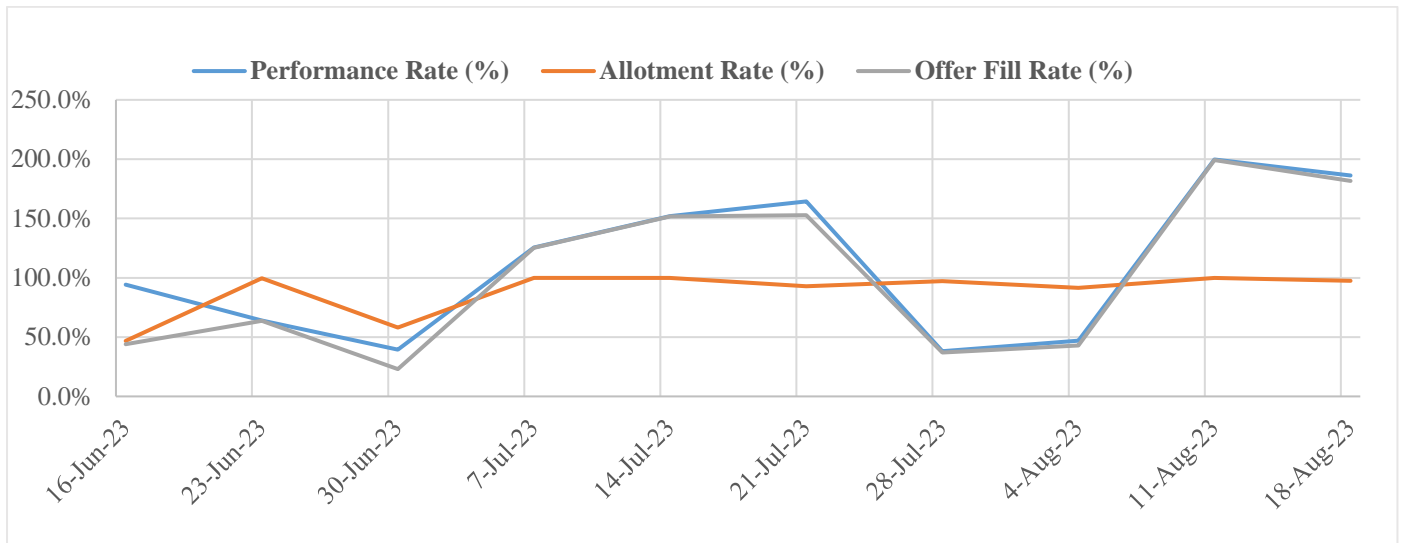
Source: Kestrel Research

## Debt market trading commentary

Overall subscription rates decreased to 186.2%, down from 199.7% the prior week, though remained above-average levels. Demand was strong across the 19-Day T-Bill but was comparably subdued on the 182-Day T-Bill and 364-Day T-Bill, for the fourth straight week. The yield on the 91-Day T-Bill and 364-Day T-Bill tenor notched upwards for the sixteenth consecutive week while the yield on the 182-Day T-Bill edged up for the eleventh successive week.

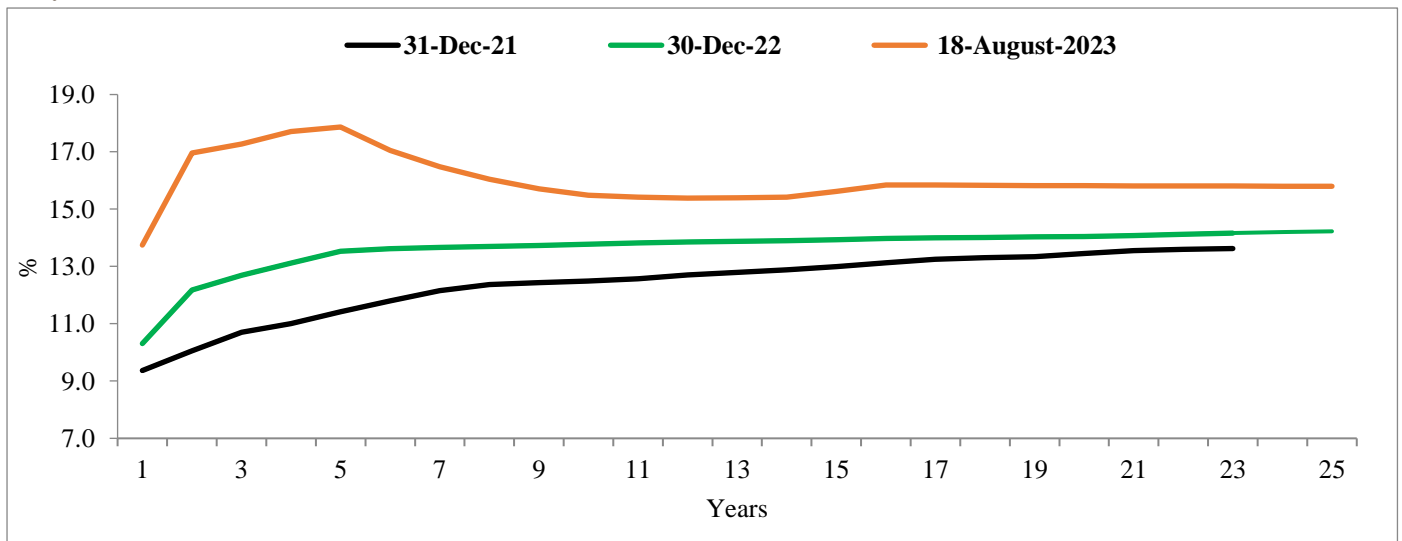
The Central Bank of Kenya offered KES 4.0bn for the 91-Day T-Bill and KES 10.0bn each for the 182-Day T-Bill and the 364-Day T-Bill. It received bids worth KES 38.2bn for the 91-Day T-Bill, implying a subscription rate of 955.74%. It accepted bids worth KES 37.1bn at an average yield of 13.475% (+36.5bps w/w). The 182-Day T-Bill received bids worth KES 3.9bn, implying a performance rate of 38.57%. It accepted bids worth KES 3.9bn at an average yield of 13.276% (-16.2bps w/w). The 364-Day T-Bill received bids worth KES 2.6bn, implying a performance rate of 25.92%. It accepted bids worth KES 2.6bn at an average yield of 13.746% (+40.6bps w/w).

### T-Bills Performance: Overall performance rates rise to a 14-week high



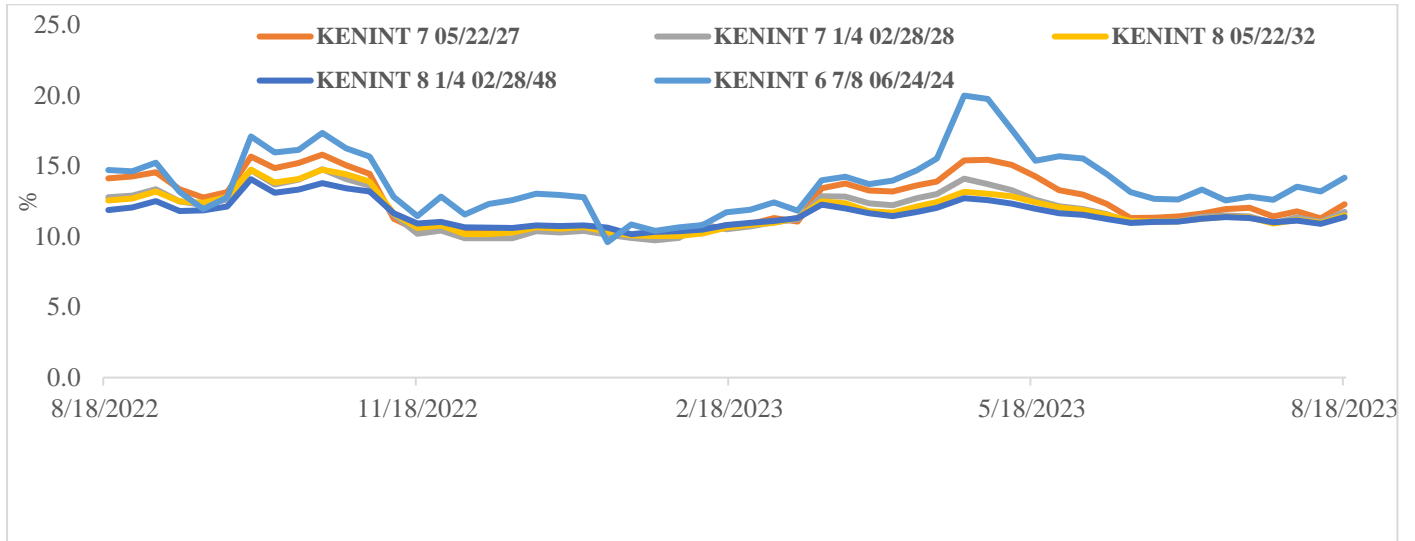
Source: CBK

### Kenya Domestic Yield Curve



Source: CBK

Kenya Eurobond Yields: Yields across all tenor notch upwards week-on-week



Source: Bloomberg

Top counters by market capitalization

Company	Sector	Year	12 M	12 M	Price	YTD	Market <sup>1</sup>	Weighting	EPS	DPS	NAV	P/E	Div	P/B	ROE %	Daily Trading <sup>1</sup>	
Safaricom	Telecom	Mar	31.25	13.00	16.00	-33.7	4,446	40.4%	1.55	1.20	4.7	10.3	7.5	3.4	33.2	980,597	
Equity Bank	Banking	Dec	50.00	35.80	40.60	-8.8	1,063	9.7%	12.35	3.00	49.3	3.3	7.4	0.8	25.1	287,476	
EA Breweries	Breweries	Jun	187.00	125.25	125.25	-25.2	687	6.2%	12.47	5.50	27.1	10.0	4.4	4.6	46.1	105,535	
KCB Bank	Banking	Dec	43.50	27.50	27.50	-27.8	613	5.6%	12.55	2.00	64.8	2.2	7.3	0.4	19.4	120,241	
Co-op Bank	Banking	Dec	13.35	11.15	11.45	-6.9	466	4.2%	3.87	1.50	18.5	3.0	13.1	0.6	21.0	55,093	
Absa Bank	Banking	Dec	12.95	10.10	11.90	-3.3	448	4.1%	2.96	1.35	12.5	4.0	11.3	1.0	23.7	64,452	
NCBA Bank	Banking	Dec	41.70	25.80	38.70	-1.7	442	4.0%	9.37	4.25	53.4	4.1	11.0	0.7	17.6	28,879	
StanChart Bank	Banking	Dec	171.00	134.75	150.25	5.3	394	3.6%	35.25	22.00	159.8	4.3	14.6	0.9	22.1	33,006	
Stanbic Bank	Banking	Dec	129.75	92.00	117.00	14.7	321	2.9%	28.62	13.75	0.2	4.1	11.8	723.3	17,692.5	41,830	
BAT Kenya	Tobacco	Dec	479.75	401.50	420.50	-8.6	292	2.7%	68.92	57.00	163.8	6.1	13.6	2.6	42.1	53,949	
I&M Holdings	Banking	Dec	21.00	15.85	18.45	8.5	212	1.9%	6.76	2.25	47.7	2.7	12.2	0.4	14.2	9,963	
Bank of Kigali	Banking	Dec	37.00	27.00	33.00	4.8	205	1.9%	7.66	3.28	43.7	4.3	10.0	0.8	17.5	10,694	
Umeme Ltd.	Power	Dec	17.75	6.62	14.20	91.4	160	1.5%	3.03	2.12	20.7	4.7	14.9	0.7	14.7	5,313	
Kenya Airways	Airlines	Dec	3.83	3.83	3.83	0.0	151	1.4%	(2.79)	-	(14.7)	-	-	-	-	-	
KenGen	Power	Jun	3.76	2.15	2.32	-28.0	106	1.0%	0.70	0.18	42.0	3.3	7.8	0.1	1.7	5,011	
DTB Bank	Banking	Dec	55.25	44.00	47.05	-5.9	91	0.8%	22.53	5.00	260.9	2.1	10.6	0.2	8.6	13,395	
Britam	Insurance	Dec	6.94	4.05	4.96	-4.6	87	0.8%	0.03	-	7.5	173.5	-	0.7	0.4	1,296	
Jubilee Insurance	Insurance	Dec	265.00	148.25	170.00	-14.5	85	0.8%	82.21	14.00	618.5	2.1	8.2	0.3	13.3	4,930	
Total Oil	Oil	Dec	25.50	18.25	18.25	-23.5	80	0.7%	3.88	1.31	48.0	4.7	7.2	0.4	8.1	508	
Bamburi Cement	Cement	Dec	38.35	23.25	24.90	-21.0	63	0.6%	2.15	3.58	0.1	11.6	14.4	303.3	2,618.6	6,740	
Kakuzi	Agric	Dec	430.00	240.00	403.50	4.8	55	0.5%	43.15	24.00	303.5	9.4	5.9	1.3	14.2	414	
Sasini Tea & Coffee	Agric	Sept	31.40	20.00	26.00	15.8	41	0.4%	3.82	1.00	61.7	6.8	3.8	0.4	6.2	802	
Centum Investment	Finance	Mar	10.05	7.90	8.80	5.3	41	0.4%	(8.95)	0.60	55.8	-	6.8	0.2	(16.1)	5,110	
Crown Paints	Manufac.	Dec	44.80	32.30	39.70	-5.1	39	0.4%	5.13	4.00	24.1	7.7	10.1	1.6	21.3	334	
ARM Cement	Cement	Dec	5.55	5.55	5.55	0.0	37	0.3%	(7.77)	-	19.8	-	-	0.3	(39.2)	-	
CIC Insurance	Insurance	Dec	2.21	1.68	1.99	2.1	36	0.3%	0.42	0.13	3.3	4.8	6.5	0.6	12.8	3,250	
Kenya Re	Insurance	Dec	2.17	1.54	1.81	-1.1	35	0.3%	1.17	0.10	13.4	1.6	5.5	0.1	8.7	6,043	
Carbacid	Gases	July	17.00	11.40	16.50	37.5	29	0.3%	2.98	0.70	13.6	5.5	4.2	1.2	21.9	3,192	
Nation Media	Media	Dec	20.85	14.15	20.00	25.4	26	0.2%	16.74	1.49	43.1	1.2	7.4	0.5	38.9	19,028	
Kenya Power	Power	Jun	2.08	1.38	1.46	-6.4	20	0.2%	(0.75)	-	30.2	-	-	0.0	(2.5)	8,112	
TPSEA Serena	Tourism	Dec	17.50	10.85	11.50	-13.9	15	0.1%	(3.47)	-	33.3	-	-	0.3	(10.4)	860	
Liberty K. Holdings	Insurance	Dec	7.48	3.60	3.86	-31.1	14	0.1%	0.15	-	15.9	25.3	-	0.2	1.0	86	
Housing Finance	Banking	Dec	5.10	2.86	5.00	56.7	13	0.1%	(1.45)	-	20.5	-	-	0.2	(7.1)	1,399	
Car & Gen	Motors	Sept	49.00	25.00	40.00	-15.7	11	0.1%	26.33	3.20	135.8	1.5	8.0	0.3	19.4	153	
NSE	Finance	Dec	8.02	5.62	6.12	-9.7	11	0.1%	0.05	0.20	7.1	115.7	3.3	0.9	0.7	3,036	
BOC Kenya	Gases	Dec	90.25	65.00	73.00	3.2	10	0.1%	7.58	5.95	85.1	9.6	8.2	0.9	8.9	77	
Unga Ltd	Food	Jun	34.75	15.00	18.00	-43.8	9	0.1%	2.48	-	58.3	7.3	-	0.3	4.2	71	
WPP Scangroup	Media	Dec	3.79	2.57	2.79	-7.3	8	0.1%	(0.30)	-	11.9	-	-	0.2	(2.5)	477	
Sanlam Kenya	Insurance	Dec	11.70	7.02	8.00	-16.5	8	0.1%	(3.77)	-	3.9	-	-	2.1	(97.1)	86	
Limuru Tea	Agric	Dec	510.00	400.00	430.00	2.4	7	0.1%	4.73	2.50	80.9	91.0	0.6	5.3	5.8	1,584	
Longhorn	Publishing	Jun	4.07	2.01	2.70	-10.0	5	0.0%	0.62	-	2.8	4.4	-	1.0	22.2	215	
Standard Newspapers	Media	Dec	14.70	7.96	8.34	-20.2	5	0.0%	(10.05)	-	0.4	-	-	19.0	(2,284.0)	27	
EA Portland	Cement	Jun	8.40	5.32	7.00	2.9	4	0.0%	6.02	-	239.8	1.2	-	0.0	2.5	32	
TransCentury	Finance	Dec	1.30	0.53	0.53	-43.0	1	0.0%	(6.72)	-	(9.5)	-	-	-	-	101	
												<b>Average</b>	<b>13.2</b>	<b>8.3</b>	<b>24.9</b>	<b>555.5</b>	<b>1,890,007</b>



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