

Stock Recommendation

Company	Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	35.20	25.25	39.4%	BUY
Equity bank	70.69	46.80	51.0%	BUY
KCB bank	68.17	38.80	75.7%	BUY
Co-op bank	19.83	12.00	65.3%	BUY
ABSA bank	14.44	11.70	23.4%	BUY
StanChart bank	122.25	138.75	-11.9%	HOLD
NCBA bank	43.98	30.60	43.7%	BUY
I&M bank	32.61	17.00	91.8%	BUY
Stanbic bank	109.98	97.50	12.8%	HOLD
DTB bank	130.90	47.40	176.2%	BUY
EABL	223.42	165.25	35.2%	BUY
Bamburi Cement	60.07	34.30	75.1%	BUY
BAT Kenya	549.38	428.00	28.4%	BUY

Kenya Weekly Commentary

Kenya Market Summary

Equity market commentary and outlook

- During the week, KCB bank and Co-op bank published their 3Q22 results. KCB bank touched a 27-day high driven by local and foreign demand. Co-op bank reached a 20-day high on account of local demand. On corporate news, Equity bank is expected to announce its 3Q22 results tomorrow. We expect EPS to grow 22.2% y/y, largely driven by increased total income (+37.0% y/y).

Debt market commentary and outlook

- Overall subscription rate fell to 170.8%, down from 204.5% registered the prior week after marking a 28-months high. Investors remained skewed to the 91-day T-Bill - its yield trended upwards for the twenty-fifth successive week. Notably, the yield on the 364-day T-Bill halted a 5-weeks increasing streak. Eurobond yields declined for the fourth straight week.

Key Market Indicators

Index Returns	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Kenya NSE 20 Index Return	1,664.8	-0.1%	-2.3%	-7.5%	-0.9%	-12.1%	-12.5%
Kenya NASI Return	129.0	0.7%	0.6%	-12.2%	-2.6%	-23.4%	-22.5%
FTSE NSE Kenya 15 Return	170.1	0.0%	0.0%	0.0%	-1.6%	-18.1%	-18.8%
FTSE NSE Kenya 25 Return	170.3	0.0%	0.0%	0.0%	-4.1%	-24.7%	-22.7%
FTSE Kenya Bond Index Return	94.7	0.0%	0.0%	0.0%	-0.1%	-1.9%	-1.4%

Source: NSE, Kestrel Research

NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	0.6%	-0.1%	-13.5%	-7.1%	-29.6%	-28.3%
Johannesburg Index	-0.3%	20.2%	2.8%	-0.6%	-5.8%	-8.8%
Nigeria Stock Exchange	1.2%	-0.4%	-12.9%	-21.1%	-3.8%	-0.3%
Ghana Stock Exchange	0.3%	-2.2%	-34.1%	-48.9%	-64.5%	-62.5%
Egyptian Stock Exchange	5.9%	-2.9%	-3.1%	-11.5%	-29.3%	-32.9%
MSCI EFM ex SA Index	4.0%	1.3%	-8.2%	-14.8%	-28.3%	-27.0%

Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
USD/KES	122.1	-0.2%	-0.7%	-1.9%	-4.6%	-8.0%	-7.3%
USD/ZAR	17.3	-0.3%	6.7%	-1.7%	-8.4%	-9.1%	-7.8%
USD/EGP	24.5	-0.5%	-19.9%	-21.9%	-25.4%	-35.9%	-35.9%
USD/NGN	443.4	0.0%	-0.6%	-3.5%	-6.2%	-6.7%	-4.3%
USD/GHS	14.5	-0.3%	-6.0%	-32.2%	-46.8%	-57.9%	-57.3%

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	1,244.1	-33.3	71.9%	0.0%	-33.5%	-36.9%	9.3%
BAT Kenya	214.4	-210.9	49.2%	0.7%	-3.1%	-15.9%	5.9%
ABSA bank	179.2	97.3	28.2%	0.0%	-1.3%	-7.9%	20.6%
EABL	133.5	-31.1	76.0%	4.9%	0.2%	-3.2%	50.2%
Equity bank	59.3	-27.2	56.3%	3.8%	-11.3%	-12.5%	20.0%

Notable Events

KCB bank 3Q22 EPS increases 21.1% y/y – Above Expectations

KCB bank announced its 3Q22 results. Reported EPS – KES 12.64, +21.1% y/y, largely driven by non-funded income (+30.2% y/y) and reduced loan loss provisions (-22.1% y/y), but weighed by operating costs (+19.6% y/y). Earnings came in 49.8% above our estimates on account of higher-than-expected non-funded income (+13.9%) and lower-than-expected loan loss provisions (-69.2%).

Summary Performance Table

	Reported	Forecast	Variance
NIM	7.3%	8.8%	-1.5%
NIR growth	9.1%	20.7%	-11.6%
NFI mix	33.2%	28.3%	4.9%
NFI growth	30.2%	14.3%	15.9%
CoR	0.6%	3.9%	-3.3%
CTI	45.1%	44.5%	0.6%
OpEx Growth	19.6%	21.6%	-2.0%
EPS	12.64	8.44	49.8%
DPS	1.00	0.00	>100.0%
Net Loan growth	16.4%	14.7%	1.7%
Deposit growth	7.4%	14.1%	-6.7%
NPL Ratio	16.4%	16.3%	0.1%
NPL Coverage*	48.1%	53.8%	-5.7%
ROE	21.7%	14.9%	6.8%

*CBK Coverage

What stood out for us?

- **Lower-than-expected loan loss provisions:** loan loss provisions declined 22.1% y/y against our growth estimate of 152.9% y/y. We had assumed a higher cost of risk of 3.9% against the reported 0.6% on account of negative implications from delayed payments by the government and the elevated NPL ratio. We however note that KCB has been aggressive in loan recoveries and the government is working on a mechanism to settle the delayed payments.

- **Higher-than-expected non-funded income:** non-funded income came in 13.9% ahead of estimates mainly driven by forex income (+86.4% y/y) on the back of wider margins and fee income from an expanding loan book, mobile lending and working capital support.

Impact to our investment thesis

- We expect to revise downwards our cost of risk estimates and model a higher non-funded income growth estimate. KCB bank is currently trading at a P/B of 0.7x. At current levels, our fair value estimate of KES 68.17 implies 79.4% upside. We therefore retain our **BUY** rating.

Co-op bank 3Q22 EPS grows 47.0% y/y – Ahead of Estimates

Co-op bank published its 3Q22 results. Reported EPS – KES 2.91, +47.0% y/y, mainly driven by non-funded income (+28.3% y/y) and lower loan loss provisions (-5.3% y/y). Earnings came in 24.0% above our forecasts on the back of higher-than-expected non-funded income (+25.8%) and lower-than-expected operating costs (-2.1%).

Summary Performance Table

	Reported	Forecast	Variance
NIM	7.7%	8.2%	-0.5%
NIR growth	11.7%	15.2%	-3.5%
NFI mix	38.6%	32.7%	5.9%
NFI growth	28.3%	1.9%	15.9%
CoR	2.0%	2.1%	-0.1%
CTI	45.8%	49.8%	-4.0%
OpEx Growth	19.6%	11.4%	8.2%
EPS	2.91	2.35	24.0%
DPS	0.00	0.00	0.0%
Net Loan growth	9.4%	9.2%	0.2%
Deposit growth	2.8%	9.7%	-6.9%
NPL Ratio	13.4%	13.5%	-0.1%
NPL Coverage*	65.2%	47.2%	18.0%
ROE	22.6%	17.3%	5.3%

*CBK Coverage

What stood out for us?

- **Higher-than-expected non-funded income:** non-funded income growth beat our estimates by 25.8% attributable to better FX income (+71.6% y/y) and fee income (+31.7% y/y). We believe FX trading benefited from wider spreads on the back of FX demand as well as fee income growth from loan expansion. Notably, fees and commissions from advances jumped 52.0% y/y.

Impact to our investment thesis

- We expect to model a higher growth estimate for non-funded income. Co-op bank is currently trading at a P/B of 0.7x. At current levels, our fair value estimate of KES 19.83 implies 66.6% upside. We therefore retain our **BUY** rating.

I&M bank 3Q22 EPS rises 25.2% y/y – Ahead of Projections

I&M bank released its 3Q22 results. Reported EPS – KES 4.12, +25.2% y/y, largely buoyed by non-funded income (+43.0% y/y) and net interest income (+15.6% y/y). Earnings came in 11.0% above our estimates on the back of higher-than-expected non-funded income (+42.6%).

Summary Performance Table

	Reported	Forecast	Variance
NIM	5.6%	6.0%	-0.4%
NIR growth	15.6%	11.9%	3.7%
NFI mix	35.4%	27.5%	7.9%
NFI growth	43.0%	0.3%	42.7%
CoR	1.9%	1.8%	0.1%
CTI	45.3%	45.1%	0.2%
OpEx Growth	16.6%	1.1%	15.5%
EPS	4.12	3.71	11.0%
DPS	0.00	0.00	0.0%
Net Loan growth	11.4%	9.2%	2.2%
Deposit growth	6.7%	9.7%	-3.0%
NPL Ratio	9.3%	10.1%	-0.8%
NPL Coverage*	70.0%	62.2%	7.8%
ROE	13.3%	12.2%	1.1%

*CBK Coverage

What stood out for us?

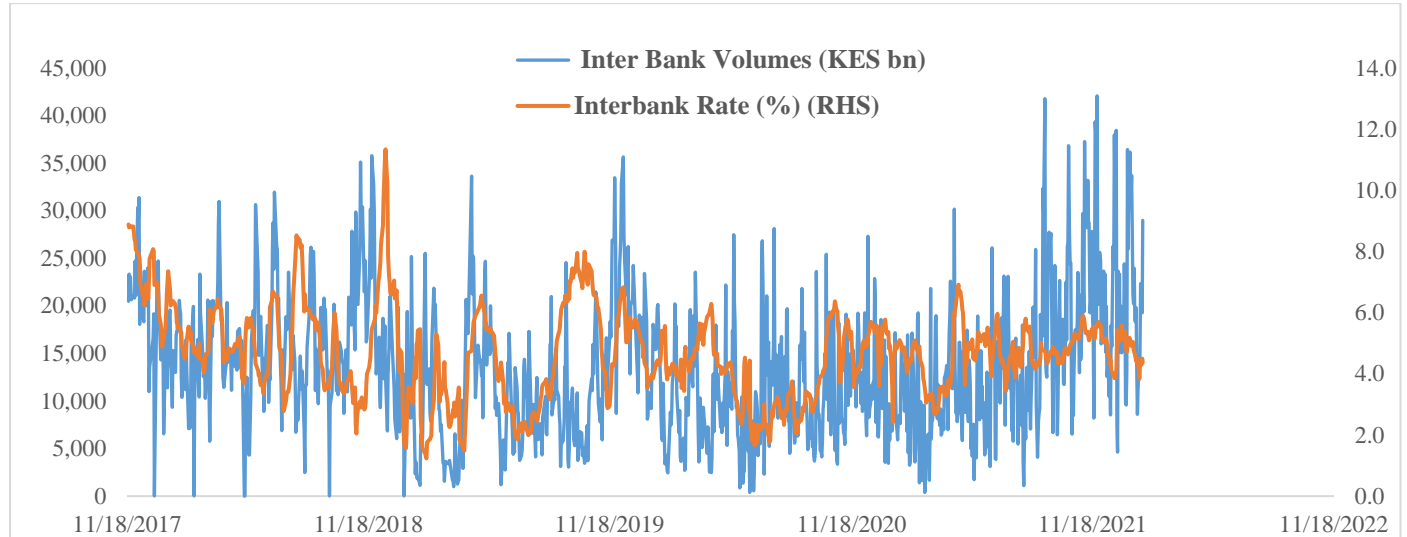
- **Higher-than-expected non-funded income:** non-funded income growth exceeded our projections by 42.6% mainly boosted by enhanced FX income (+219.6% y/y) and fee income (+26.0% y/y). As noted earlier, FX income grew on account of wider spreads. In addition, I&M bank serves a larger proportion of manufacturers and traders who frequently seek hard currencies for importation of raw materials.

Impact to our investment thesis

- We expect to increase our growth estimates for non-funded income as well as operating costs. I&M bank is currently trading at a P/B of 0.4x. At current levels, our fair value estimate of KES 32.61 implies 97.6% upside potential. We therefore retain our **BUY** rating.

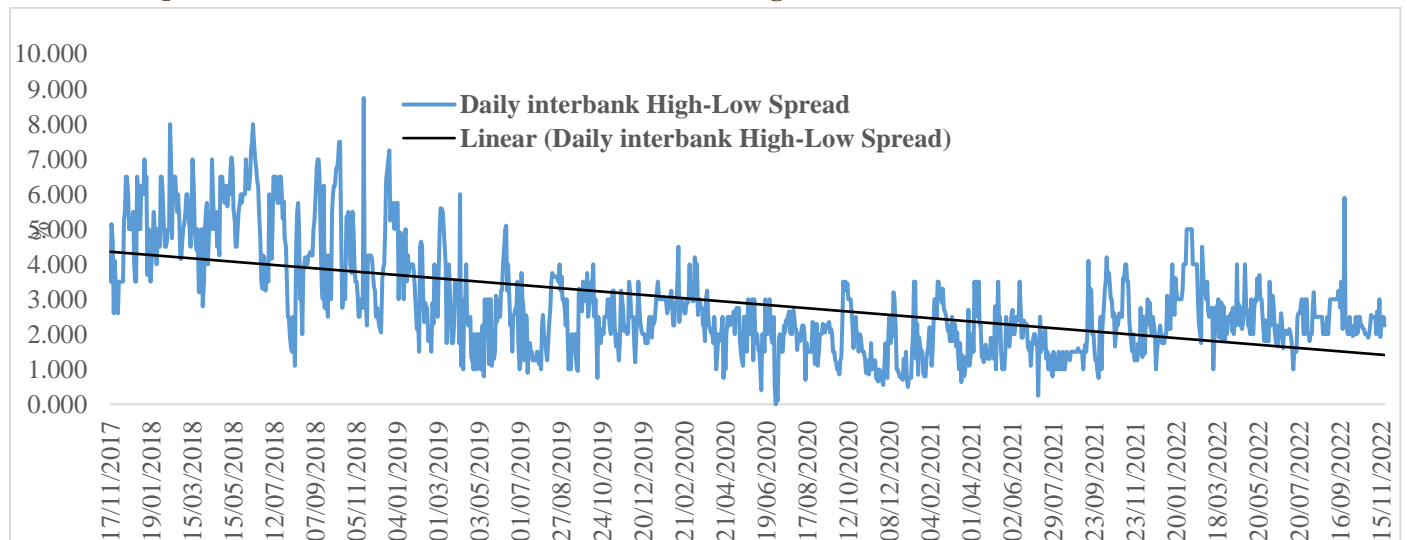
Key Rates and Spreads

Inter-bank rate rises week-on-week from a 3-year low



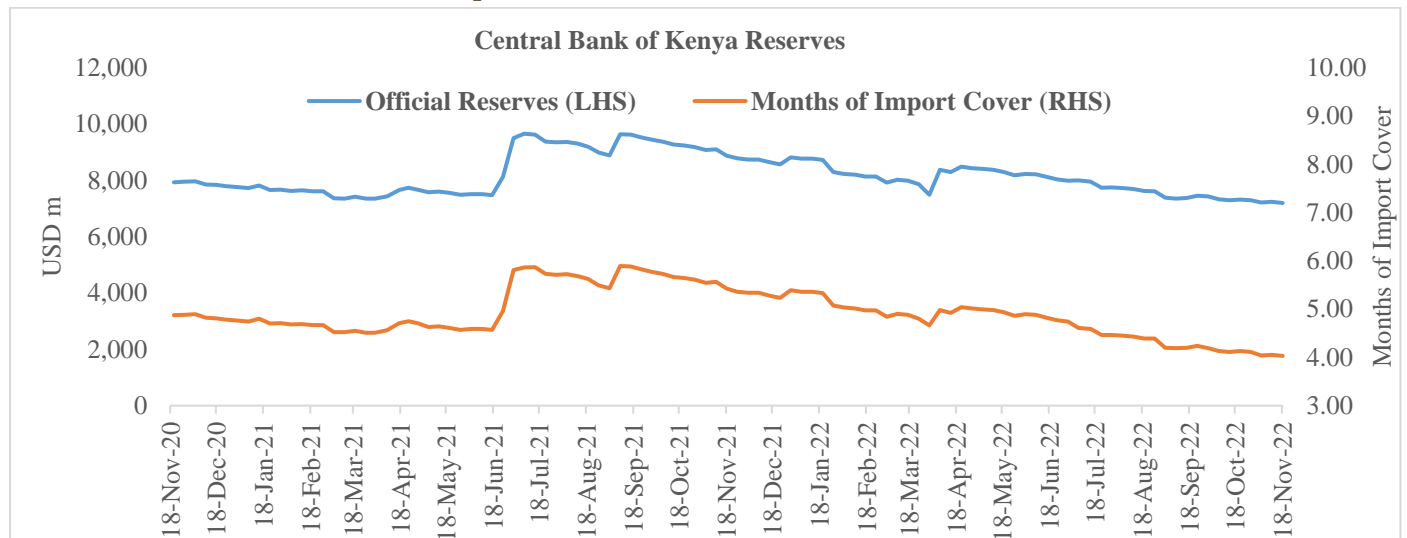
Source: CBK

Inter-bank spreads narrow week-on-week from a 2-months high



Source: CBK

CBK forex reserves and months of import cover decreases week-on-week



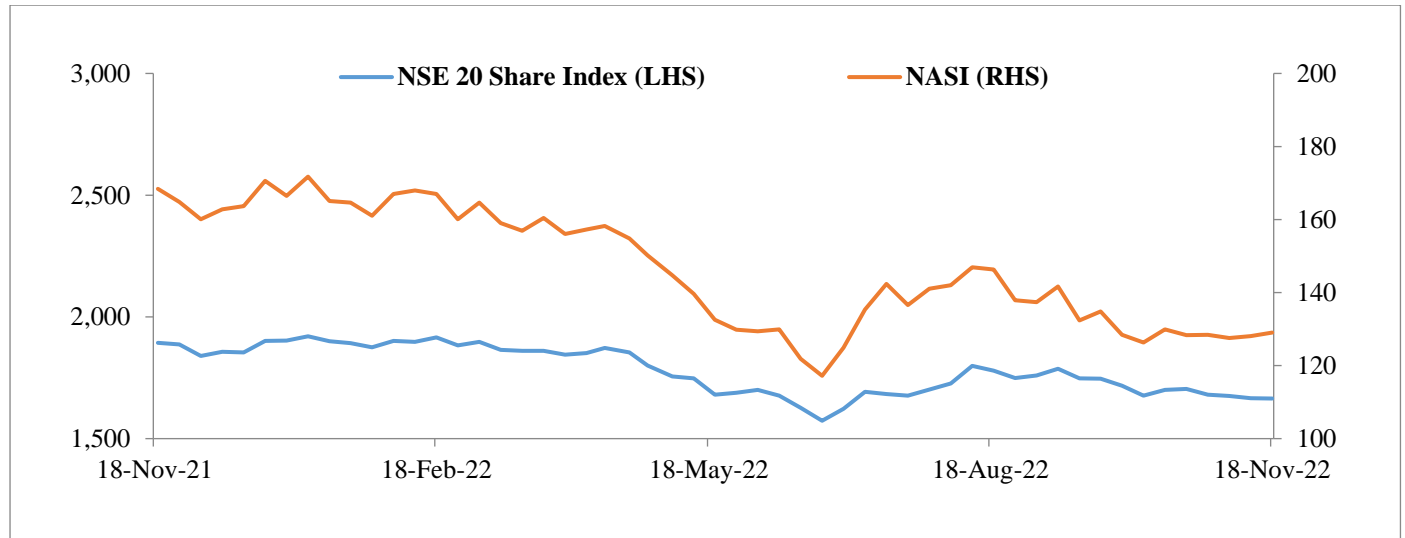
Source: CBK

Equity market trading commentary

For the second straight week, equity turnover increased by 65.4% w/w to stand at USD 16.0m (KES 2.0bn). Marking the second successive week of gains, the NASI added another 0.7% w/w to 129.02. However, the NSE 20 (-0.1% w/w) extended its losses to the fourth week to end at 1,664.82. Foreign investors stood as net sellers at USD 1.8m (KES 220.6m) for the fifth successive week. Foreign investors led trading at 60.9% of total turnover, albeit down from 73.1% printed the prior week. BAT Kenya (USD 1.7m, KES 210.9m), Safaricom (USD 0.3m, KES 33.3m) and EABL (USD 0.3m, KES 31.1m) posted the highest net foreign outflows. On the other hand, ABSA bank saw the highest net foreign inflows at USD 0.8m (KES 97.3m).

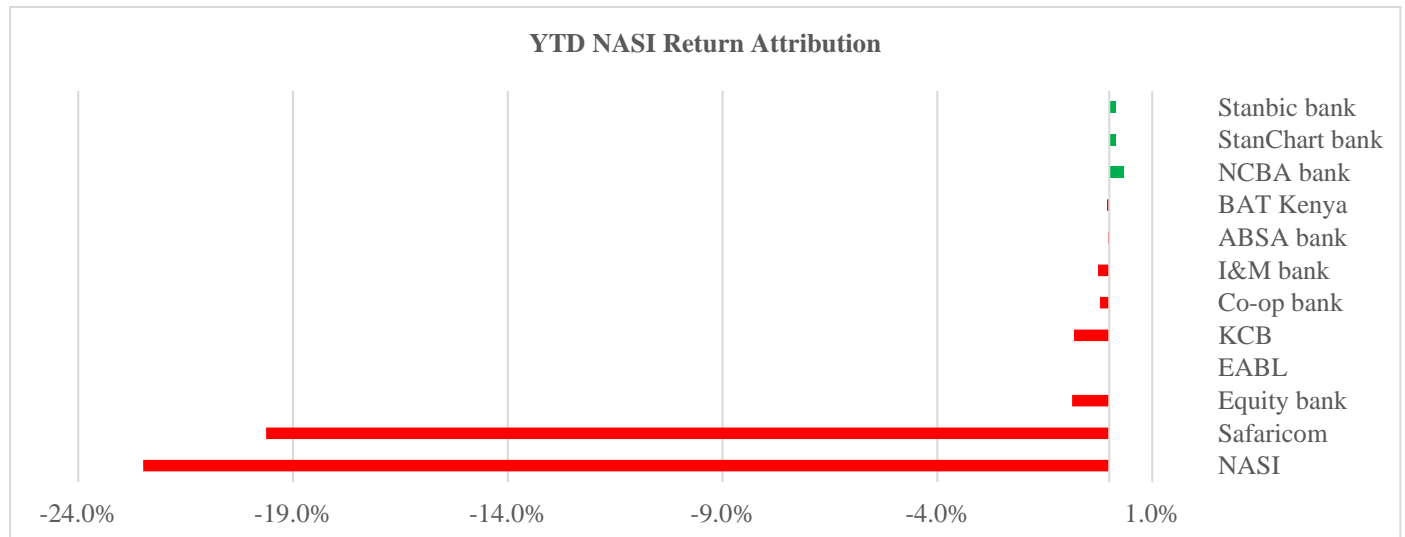
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Market performance over the past 12 months



Source: NSE

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



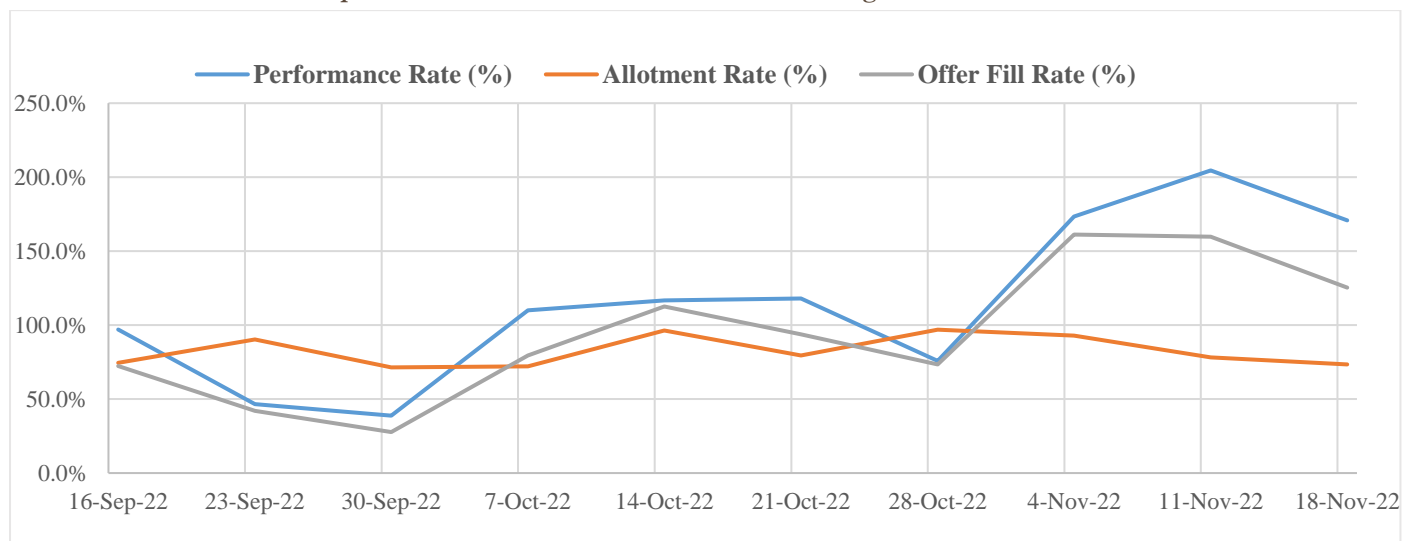
Source: Kestrel Research

Debt market trading commentary

Overall subscription rate fell to 170.8%, down from 204.5% registered the prior week after marking a 28-months high. Investors remained skewed to the 91-day T-Bill - its yield trended upwards for the twenty-fifth successive week. Notably, the yield on the 364-day T-Bill halted a 5-weeks increasing streak.

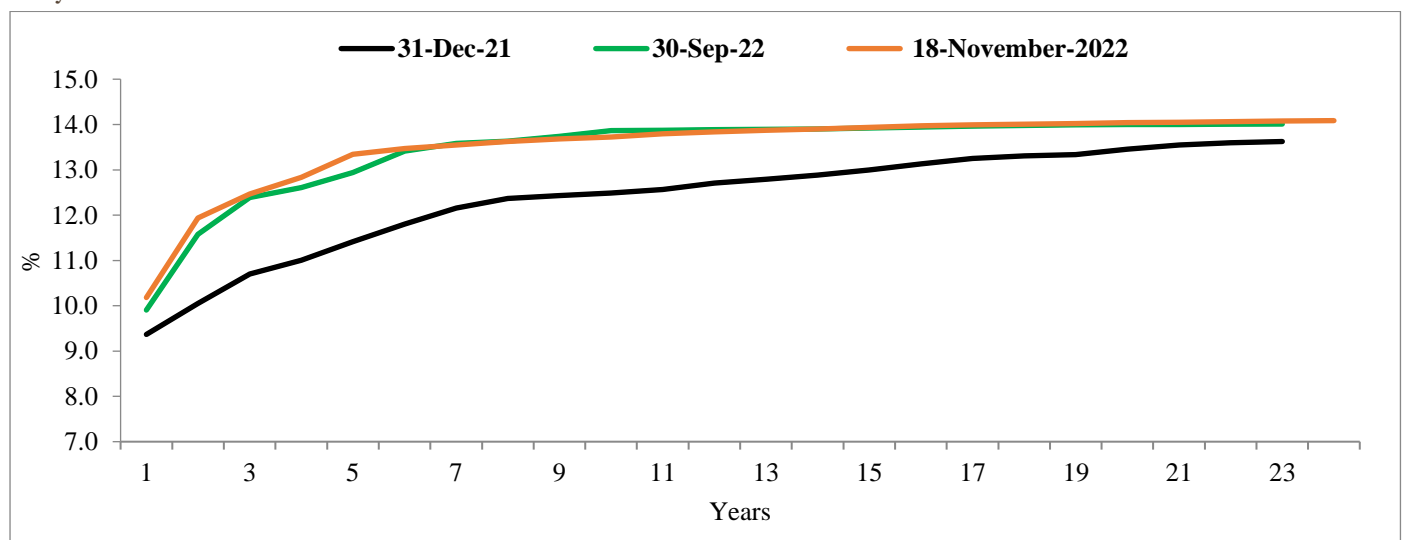
The Central Bank of Kenya offered KES 4.0bn for the 91-Day T-Bill and KES 10.0bn each for the 182-Day T-Bill and the 364-Day T-Bill. It received bids worth KES 16.3bn for the 91-Day T-Bill, implying a subscription rate of 406.30%. It accepted bids worth KES 12.2bn at an average yield of 9.191% (+1.8bps w/w). The 182-Day T-Bill received bids worth KES 15.8bn, implying a performance rate of 158.03%. It accepted bids worth KES 13.2bn at an average yield of 9.721% (+1.5bps w/w). The 364-Day T-Bill received bids worth KES 8.9bn, implying a performance rate of 89.46%. It accepted bids worth KES 4.7bn at an average yield of 10.181% (-0.5w/w).

T-Bills Performance: Overall performance rate decline from a 28-months high



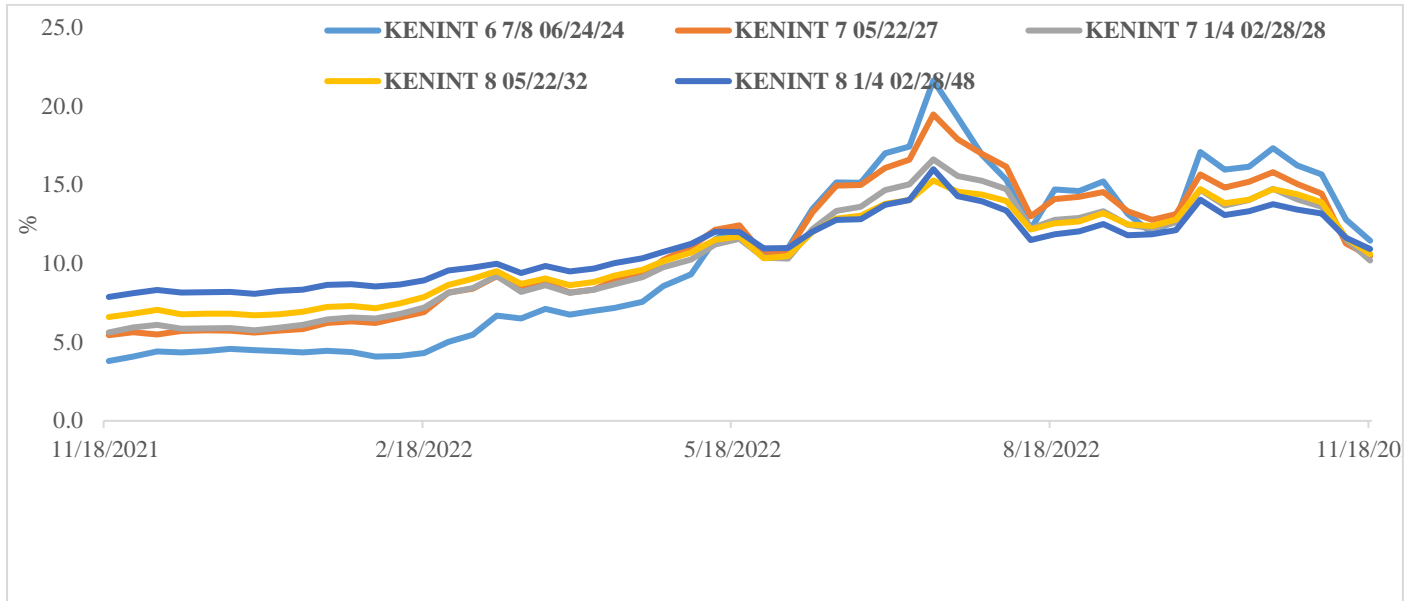
Source: CBK

Kenya Domestic Yield Curve



Source: CBK

Kenya Eurobond Yields: Yields across all tenors decline for the fourth straight 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	25.25	-33.5	8,290	50.2%	1.74	1.39	3.5	14.5	5.5	7.3	49.9	1,467,985
Equity Bank	Banking	Dec	53.50	39.00	46.80	-11.3	1,447	8.8%	12.02	3.00	38.1	3.9	6.4	1.2	31.6	305,331
KCB Bank	Banking	Dec	47.00	35.00	38.80	-14.6	1,022	6.2%	11.92	3.00	55.7	3.3	7.7	0.7	21.4	191,609
EA Breweries	Breweries	Jun	170.75	110.00	157.50	-4.5	1,021	6.2%	15.00	11.00	20.5	10.5	7.0	7.7	73.2	184,234
Co-op Bank	Banking	Dec	13.30	10.70	12.00	-7.3	577	3.5%	3.52	1.00	16.5	3.4	8.3	0.7	21.3	38,573
Absa Bank	Banking	Dec	12.70	9.70	11.70	-1.3	521	3.2%	2.15	1.10	10.9	5.4	9.4	1.1	19.7	80,839
StanChart Bank	Banking	Dec	146.25	123.75	138.75	8.2	430	2.6%	24.92	19.00	147.2	5.6	13.7	0.9	16.9	22,691
NCBA Bank	Banking	Dec	33.20	23.00	30.60	21.4	413	2.5%	8.10	4.25	48.7	3.8	13.9	0.6	16.6	127,687
BAT Kenya	Tobacco	Dec	509.00	404.00	425.00	-3.7	348	2.1%	67.10	55.00	129.1	6.3	12.9	3.3	52.0	124,122
Stanbic Bank	Banking	Dec	108.00	86.75	97.50	11.7	316	1.9%	18.81	7.30	122.8	5.2	7.5	0.8	15.3	8,691
I&M Holdings	Banking	Dec	21.50	16.50	17.00	-19.4	230	1.4%	5.38	1.50	42.6	3.2	8.8	0.4	12.6	15,454
Bank of Kigali	Banking	Dec	32.75	24.30	29.00	0.0	213	1.3%	7.95	3.28	41.8	3.6	11.3	0.7	19.0	724
Kenya Airways	Airlines	Dec	3.83	3.83	3.83	0.0	178	1.1%	(2.79)	-	(14.7)	-	-	-	-	-
KenGen	Power	Jun	4.60	3.26	3.27	-22.0	177	1.1%	0.16	0.18	32.4	20.6	5.5	0.1	0.5	11,388
Total Oil	Oil	Dec	25.85	21.75	23.60	-5.6	122	0.7%	4.35	1.31	45.4	5.4	5.6	0.5	9.6	1,263
Britam	Insurance	Dec	7.68	5.44	5.80	-22.7	120	0.7%	0.03	-	7.5	202.9	-	0.8	0.4	1,882
Jubilee Insurance	Insurance	Dec	349.00	187.75	187.75	-40.7	112	0.7%	94.22	14.00	544.4	2.0	7.5	0.3	17.3	4,269
DTB Bank	Banking	Dec	60.00	46.90	47.40	-20.3	109	0.7%	16.32	3.00	246.4	2.9	6.3	0.2	6.6	11,214
Bamburi Cement	Cement	Dec	39.00	32.10	34.30	-9.7	102	0.6%	2.15	3.58	0.1	16.0	10.4	417.8	2,618.6	6,721
Umeme Ltd.	Power	Dec	8.30	5.50	6.78	0.6	90	0.5%	2.74	1.73	17.6	2.5	25.5	0.4	15.6	1,424
Kakuzi	Agric	Dec	441.25	367.50	390.00	1.3	63	0.4%	39.24	18.00	278.0	9.9	4.6	1.4	14.1	885
Centum Investment	Finance	Mar	15.45	8.00	8.50	-39.7	46	0.3%	(2.01)	0.59	65.1	-	6.9	0.1	(3.1)	7,512
Crown Paints	Manufac.	Dec	44.00	30.50	39.15	28.4	46	0.3%	5.13	4.00	24.1	7.6	10.2	1.6	21.3	380
ARM Cement	Cement	Dec	5.55	5.55	5.55	0.0	44	0.3%	(7.77)	-	19.8	-	-	0.3	(39.2)	-
Kenya Re	Insurance	Dec	2.37	1.82	1.83	-20.4	42	0.3%	1.17	0.10	13.4	1.6	5.5	0.1	8.7	1,800
CIC Insurance	Insurance	Dec	2.30	1.83	1.89	-14.5	41	0.2%	0.30	-	3.0	6.3	-	0.6	9.9	1,137
Sasini Tea & Coffee	Agric	Sept	129.00	17.90	20.70	10.7	39	0.2%	(1.48)	0.50	56.5	-	2.4	0.4	(2.6)	464
Carbacid	Gases	July	14.15	10.35	13.80	25.5	29	0.2%	2.22	0.70	13.5	6.2	5.1	1.0	16.4	5,935
Kenya Power	Power	Jun	2.08	1.31	1.62	-7.4	26	0.2%	1.80	-	30.8	0.9	-	0.1	5.8	13,638
Nation Media	Media	Dec	23.20	15.70	16.00	-13.3	25	0.2%	2.59	1.49	42.1	6.2	9.3	0.4	6.2	3,067
Liberty K. Holdings	Insurance	Dec	7.50	4.81	4.82	-31.1	21	0.1%	0.15	-	15.9	31.6	-	0.3	1.0	223
TPSEA Serena	Tourism	Dec	17.50	11.50	13.85	-9.2	21	0.1%	(3.47)	-	33.3	-	-	0.4	(10.4)	533
Unga Ltd	Food	Jun	36.25	27.00	29.00	4.9	18	0.1%	2.48	-	58.3	11.7	-	0.5	4.2	307
NSE	Finance	Dec	8.70	6.60	6.94	-13.3	15	0.1%	0.51	1.40	8.0	13.6	20.2	0.9	6.4	2,213
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	360
BOC Kenya	Gases	Dec	93.25	67.25	80.00	14.3	13	0.1%	4.78	6.70	84.3	16.7	8.4	0.9	5.7	590
WPP Scangroup	Media	Dec	4.41	2.86	3.01	-27.3	11	0.1%	(0.30)	-	11.9	-	-	0.3	(2.5)	563
Sanlam Kenya	Insurance	Dec	15.00	8.50	9.00	-22.1	11	0.1%	(3.77)	-	3.9	-	-	2.3	(97.1)	223
Housing Finance	Banking	Dec	4.90	2.86	3.00	-23.1	9	0.1%	(1.45)	-	20.5	-	-	0.1	(7.1)	1,149
Limuru Tea	Agric	Dec	510.00	297.00	420.00	31.3	8	0.1%	(0.50)	0.70	75.9	-	0.2	5.5	(0.7)	2,336
Longhorn	Publishing	Jun	4.4	2.74	3.55	-11.3	8	0.0%	0.62	-	2.8	5.8	-	1.3	22.2	1,214
Standard Newspapers	Media	Dec	16.15	10.10	10.95	-19.2	7	0.0%	(0.90)	-	10.5	-	-	1.0	(8.5)	74
EA Portland	Cement	Jun	8.80	6.06	7.80	17.1	6	0.0%	6.02	-	239.8	1.3	-	0.0	2.5	44
TransCentury	Finance	Dec	1.47	1.00	1.07	-8.5	3	0.0%	(6.72)	-	(9.5)	-	-	-	-	116
Safaricom	Telecom	Mar	40.00	23.10	25.25	-33.5	8,290	50.2%	1.74	1.39	3.5	14.5	5.5	7.3	49.9	1,467,985
											Average	11.6	6.8	7.1	54.3	2,657,033

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