

## Stock Recommendation

Company	*Fair Value (KES)	Closing Price (KES)	Upside/downside (%)	Current Rating
Safaricom	30.71	16.75	83.3%	BUY
Equity bank	43.67	45.35	-3.7%	HOLD
KCB bank	47.26	25.55	85.0%	BUY
Co-op bank	20.46	14.90	37.3%	BUY
ABSA bank	12.89	14.00	-7.9%	HOLD
StanChart bank	138.26	187.75	-26.4%	SELL
NCBA bank	40.68	41.80	-2.7%	HOLD
I&M bank	33.32	20.85	59.8%	BUY
Stanbic bank	108.85	123.00	-11.5%	HOLD
DTB bank	116.13	51.00	127.7%	BUY
EABL	151.28	123.25	22.7%	BUY
Bamburi Cement	27.61	46.85	-41.1%	SELL
BAT Kenya	460.00	414.50	11.0%	HOLD

## Kenya Market Summary

### Equity market commentary and outlook

- During the week, Co-op Bank rose to a six-day high on account of local demand, after the bank retained a dividend of KES 1.50 and EPS grew 5.1% y/y. BAT Kenya also retreated to a 13-day low over local investor's sell-off. Aside from Co-op Bank, KCB Bank and Absa Bank released their audited financial results for 2023.

### Debt market commentary and outlook

- Overall subscription rates rose to 102.8%, up from 93.5% the prior week. Investors remained skewed on the 91-Day T-Bill, despite a reduction in activity from the previous week and similarly, activity decreased from the previous week on the 182-Day T-Bill but increased on the 364-Day T-Bill. The yield on the 91-Day T-Bill edged up for 64 weeks now, the yield on the 182-Day T-Bill notched up for the twelfth straight week and the yield on the 364-Day T-Bill remained constant.

## Key Market Indicators

Index Returns	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Kenya NSE 20 Index Return	1,556.1	1.1%	2.6%	4.1%	0.9%	-3.3%	3.7%
Kenya NASI Return	94.9	1.8%	4.1%	2.9%	-3.9%	-19.5%	3.0%

Source: NSE, Kestrel Research

## NSE versus other markets

Index Returns (USD)	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
Nairobi All Share Index	6.6%	27.0%	38.3%	24.6%	-4.2%	37.3%
Johannesburg Index	-0.9%	0.0%	-4.2%	-1.5%	-6.3%	-8.5%
Nigeria Stock Exchange	12.4%	16.2%	-9.8%	-15.4%	-37.9%	-9.9%
Ghana Stock Exchange	4.4%	6.8%	4.1%	-1.6%	17.7%	3.5%
Egyptian Stock Exchange	-4.9%	-34.3%	-20.8%	-4.1%	23.4%	-22.0%
MSCI EFM ex SA Index	3.2%	-15.0%	-12.7%	-7.1%	-5.4%	-11.9%

## Other market statistics

Currencies	Level	1w (%)	1m (%)	3m (%)	6m (%)	12m (%)	ytd (%)
USD/KES	132.43	1.6%	9.9%	17.6%	11.3%	-0.8%	18.4%
USD/ZAR	19.03	-1.3%	1.5%	-3.2%	-1.4%	-4.6%	-3.5%
USD/EGP	46.93	1.9%	-34.2%	-34.1%	-34.2%	-34.2%	-34.1%
USD/NGN	1461.53	10.0%	7.1%	-38.2%	-47.5%	-68.4%	-37.6%
USD/GHS	13.05	-1.0%	-3.8%	-7.9%	-11.8%	-6.8%	-8.4%

## 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	720.0	37.5	64.0%	10.2%	9.4%	-15.0%	43.8%
Equity	668.0	-117.6	70.5%	6.5%	26.6%	-2.2%	34.8%
KCB	636.4	-4.3	31.3%	6.5%	9.6%	-29.7%	62.2%
Co-op	167.7	-0.3	0.2%	6.1%	23.3%	0.0%	46.1%
Absa	148.4	0.0	0.0%	0.0%	22.3%	0.0%	38.6%

## ABSA bank FY23 EPS increased 12.1% y/y - Ahead of our Estimates

ABSA bank published its FY23 results. Reported EPS – KES 3.01, +12.1% y/y, mainly driven by total income (+20% y/y), but weighed by inflated costs (+16% y/y) and loan loss provisions (+59.0% y/y). Earnings came in 6.3% above estimates, on account of lower-than-expected loan loss provisions (-26.1%). The Board of Directors recommended a final DPS of KES 1.35, book closure, 30th April 2024 - the bank had paid an interim dividend of KES 0.20. Total FY23 DPS of KES 1.55, +12.1% y/y.

## Summary Performance Table

	Reported	Forecast	Variance
NIM	8.4%	8.1%	0.3%
NIR growth	23.9%	23.4%	0.5%
NFI mix	26.6%	28.2%	-1.6%
NFI growth	11.6%	20.5%	-8.9%
CoR	2.5%	3.7%	-1.2%
CTI	39.7%	37.9%	1.8%
OpEx Growth	16.0%	13.0%	3.0%
EPS	3.01	2.83	6.3%
DPS	1.55	1.42	9.5%
Net Loan growth	19.4%	20.1%	-0.7%
Deposit growth	18.4%	23.0%	-4.6%
NPL Ratio	9.5%	9.6%	-0.1%
NPL Coverage*	59.1%	69.3%	-10.2%
ROE	23.7%	22.9%	0.8%

\*CBK Coverage

## What stood out for us?

- **Higher-than-expected interest expenses:** interest expenses 66.5% y/y, largely on account of elevated cost of funds as well as deposits growth. Cost of funds notched up 123bps year-on-year, running ahead of our projected levels of 2.5%. We highlight that the rate hike cycle mainly drove higher the overall cost of funds.

## Impact to our investment thesis

- ABSA bank is currently trading at a P/B of 1.1x. We expect to retain our cost of risk levels on account of strained macro conditions. **Our estimate of fair value of 12.89, implies a downside potential of 7.3%, maintaining a HOLD recommendation.**

## KCB bank FY23 EPS decline 8.3% y/y - Ahead of our Estimates

KCB bank published its FY23 results. Reported EPS – KES 11.66, -8.3% y/y, weighed by elevated operating costs (+40.1% y/y) and loan loss provisions (+154.7% y/y). However, earnings came 40.0% ahead of our estimates, on account of better-than-expected net interest income (+17.8%) and non-funded income beat our estimates by 10.3%. The Board did not recommend payment of dividend for FY23 (FY22: KES 2.00) to support growth and compliance capital.

### Summary Performance Table

	Reported	Forecast	Variance
NIM	5.4%	5.7%	-0.3%
NIR growth	23.9%	5.2%	18.7%
NFI mix	35.0%	36.6%	-1.6%
NFI growth	33.9%	21.4%	12.5%
CoR	2.6%	3.7%	-1.1%
CTI	50.3%	55.2%	-4.9%
OpEx Growth	40.1%	33.5%	6.6%
EPS	11.66	8.33	40.0%
DPS	0.00	3.40	>100.0%
Net Loan growth	27.0%	17.4%	9.6%
Deposit growth	48.9%	45.6%	3.3%
NPL Ratio	16.0%	17.2%	-1.2%
NPL Coverage*	57.9%	36.1%	21.8%
ROE	16.4%	12.6%	3.8%

\*CBK Coverage

### What stood out for us?

- **Higher-than-expected total income:** income exceeded our projections by 15.0%, attributable to higher interest income and net fees & commissions. Interest income, at 18.1% ahead of forecasts, was driven by faster loan growth and better asset yields from loans (repricing) and government securities. Net fees & commissions, at 5.0% beyond estimates, benefited from increased digital transactions and trade finance.
- **Sale of National Bank of Kenya to Access Bank Kenya:** management announced the proposed sale of its 100.0% stake in National Bank of Kenya to Access Bank Kenya at 1.25x PB. Going by its acquisition multiple of 0.9x, its cumulative post-acquisition investment of c. KES 8.6bn and the exit 1.25x PB (Based off NBK's NAV as of end FY23), the implied potential investment loss is about KES 1.4bn. In our view, therefore, the 1.25x PB is not good enough, besides other considerations such as the impact it had on management's focus on KCB bank.

### Impact to our investment thesis

- KCB bank is currently trading at a P/B of 0.4x. **Our estimate of fair value of 47.26, implies a upside potential of 78.3%, maintaining our BUY recommendation.**

## Co-op bank FY23 EPS rise 5.1% y/y - Ahead of our Expectations

Co-op bank published its FY23 results. Reported EPS – KES 3.92, +5.1% y/y, largely supported by reduced loan loss provisions (-33.1% y/y) and well managed operating costs (+1.4% y/y). Earnings came in 10.1% ahead of forecasts mainly on account of lower-than-expected loan loss provisions (-34.3% y/y). The Board of Directors are recommending a dividend per share of KES 1.50 (FY22: KES 1.50) – book closure set for 28<sup>th</sup> April 2024.

### Summary Performance Table

	Reported	Forecast	Variance
NIM	7.1%	7.7%	-0.6%
NIR growth	-0.6%	-2.6%	-3.2%
NFI mix	36.9%	38.9%	-2.0%
NFI growth	2.8%	9.7%	-6.9%
CoR	1.4%	2.3%	-0.9%
CTI	47.0%	47.5%	-0.5%
OpEx Growth	1.4%	3.9%	-2.5%
EPS	3.92	3.56	10.1%
DPS	1.50	1.50	0.0%
Net Loan growth	10.3%	11.6%	-1.3%
Deposit growth	6.6%	11.9%	-5.3%
NPL Ratio	15.2%	14.6%	0.6%
NPL Coverage*	53.6%	55.9%	-2.3%
ROE	20.4%	17.8%	2.6%

\*CBK Coverage

### What stood out for us?

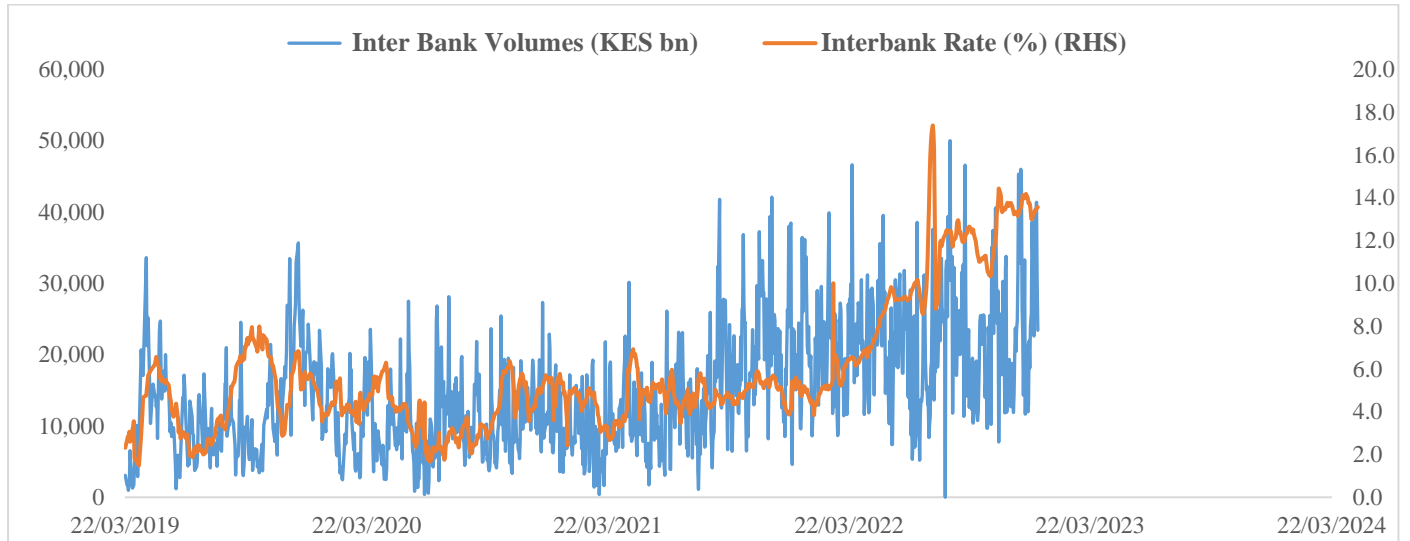
- **Lower-than-expected FX income:** forex income declined 32.6% y/y, lagging our estimates by 16.3%. We think the drop was on account of; 1) lower FX margins on the back of improvement in the interbank market & CBK interventions (FX code), 2) FX shortages and 3) reduced trading activity – we highlight the decrease in overall imports.
- **Lower-than-expected cost of risk:** cost of risk of 2.5% was 120bps short of our expectations. We had assumed higher cost of risk in anticipation of further deterioration in asset quality. We assume the reduction in provisions was informed by the prior ramping up of provisions as they played catch-up.

### Impact to our investment thesis

- Co-op bank is currently trading at a P/B of 0.8x. We expect to keep our cost of risk outlook on account of strained macro conditions and the rise in non-performing loans. **Our estimate of fair value of 20.46, implies a upside potential of 41.1% , retaining our BUY recommendation.**

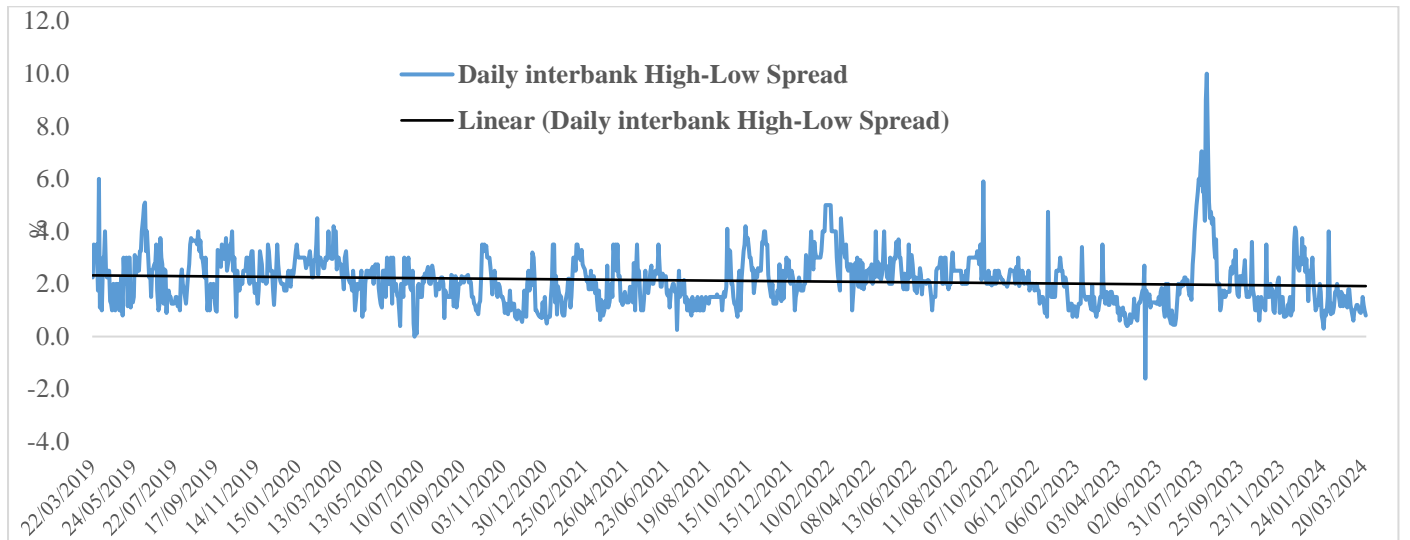
## Key Rates and Spreads

### Inter-bank Rates increase week-on-week



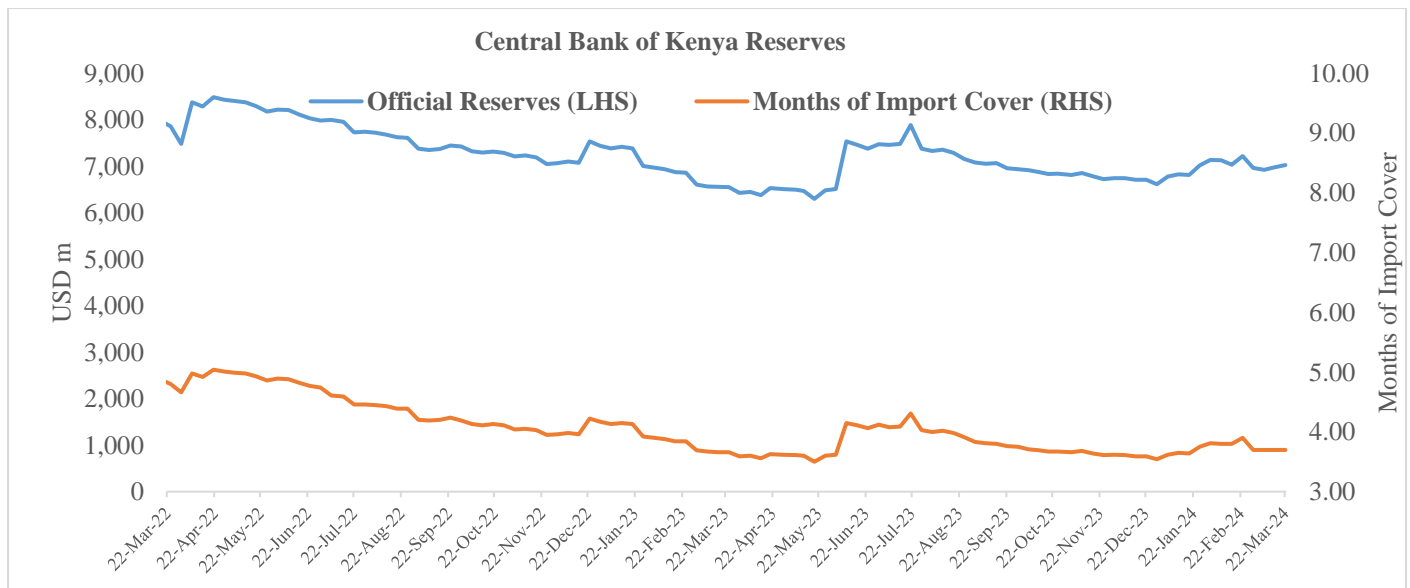
Source: CBK

### Inter-bank Spreads narrow on the sixth straight week



Source: CBK

### Months of import cover & CBK FX reserves increase week-on-week



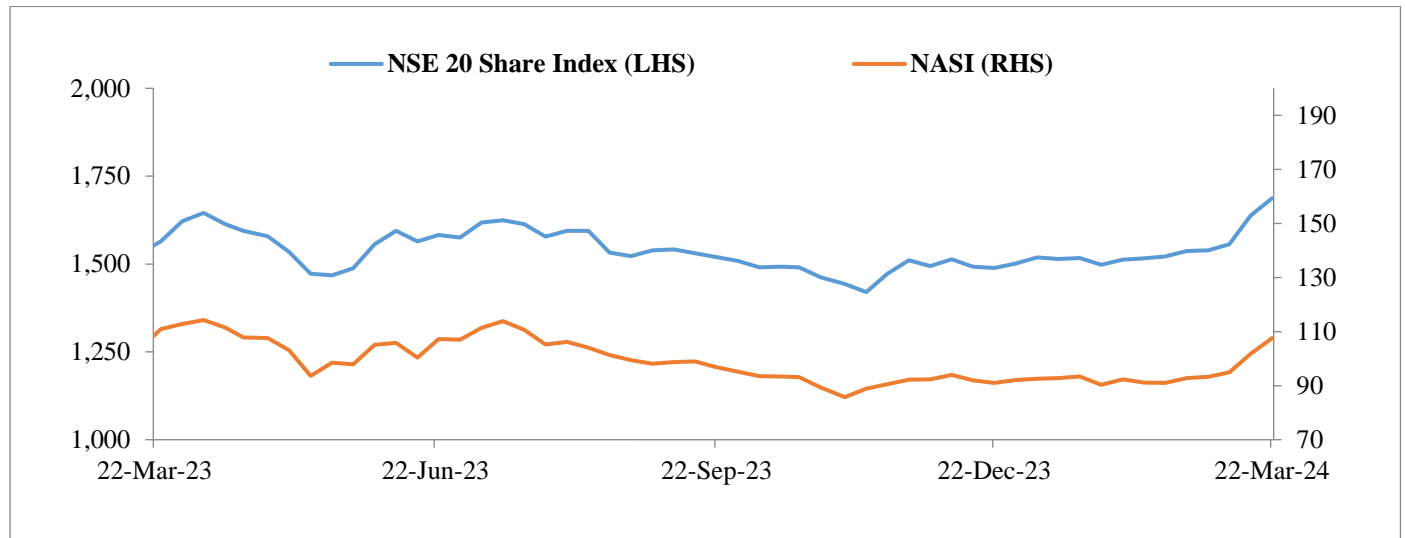
Source: CBK

## Equity market trading commentary

Market turnover dropped by 3.2% to stand at USD 20.7m (KES 2.7bn). The NASI appreciated for the fifth consecutive week by 5.7% to close at 107.66 and the NSE 20 as well rose for the eighth successive week by 3.0% w/w to finish at 1,687.17. Local investors led trading at 57.1% of total turnover, improving from 24.2% last week. Notably, foreign investors turned net sellers at USD 0.5m (KES 120.8m) after net buying the previous week.

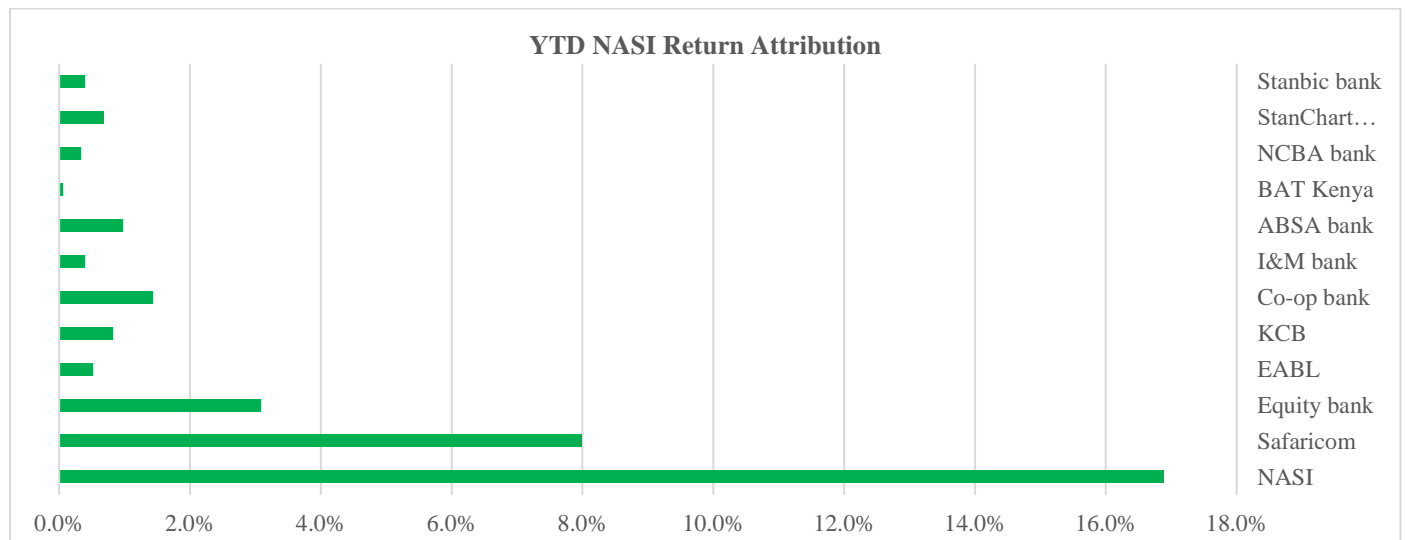
During the week, Co-op Bank rose to a six-day high on account of local demand, after the bank retained a dividend of KES 1.50 and EPS grew 5.1% y/y. BAT Kenya also retreated to a 13-day low over local investors sell-off.

## Market performance over the past 12 months



Source: NSE

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



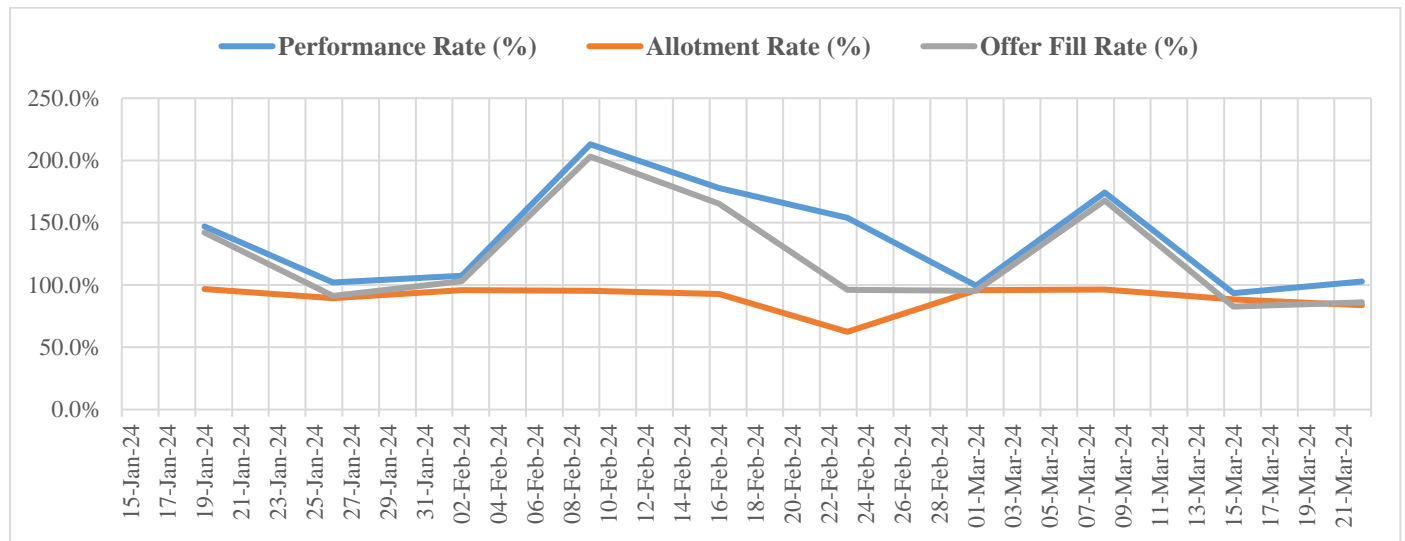
Source: Kestrel Research

## Debt market trading commentary

Overall subscription rates rose to 102.8%, up from 93.5% the prior week. Investors remained skewed on the 91-Day T-Bill, despite a reduction in activity from the previous week and similarly, activity decreased from the previous week on the 182-Day T-Bill but increased on the 364-Day T-Bill. The yield on the 91-Day T-Bill edged up for 64 weeks now, the yield on the 182-Day T-Bill notched up for the twelfth straight week and the yield on the 364-Day T-Bill remained constant.

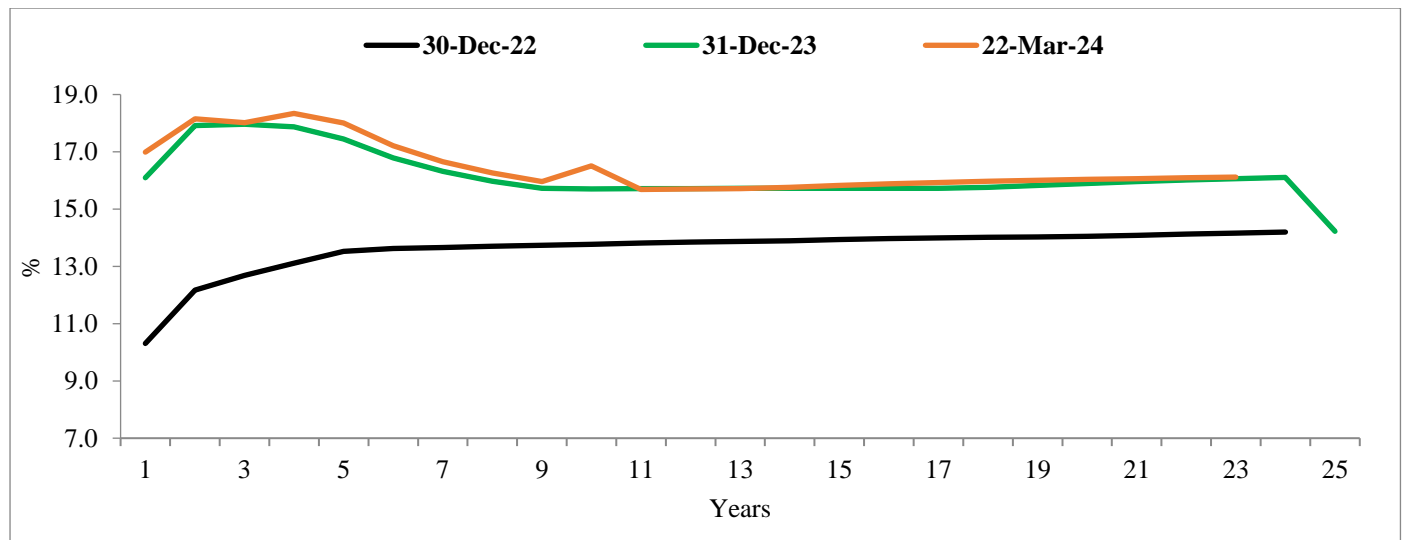
The CBK also offered KES 4.0bn for the 91-Day T-Bill and KES 10.0bn each for the 182-Day T-Bill and the 364-Day T-Bill. It received bids worth KES 11.6 bn for the 91-Day T-Bill, implying a subscription rate of 291.2%. It accepted bids worth KES 9.1bn at an average yield of 16.731% (+3.3 bps w/w). The 182-Day T-Bill received bids worth KES 4.1bn, implying a performance rate of 40.9%. It accepted bids worth KES 3.2bn at an average yield of 16.913% (+2.3 bps w/w). The 364-Day T-Bill received bids worth KES 8.9bn, implying a performance rate of 89.4%. It accepted bids worth KES 8.3bn at an average yield of 16.989% (+ 0.0 bps w/w).

### T-Bills Performance rates increase week-on-week



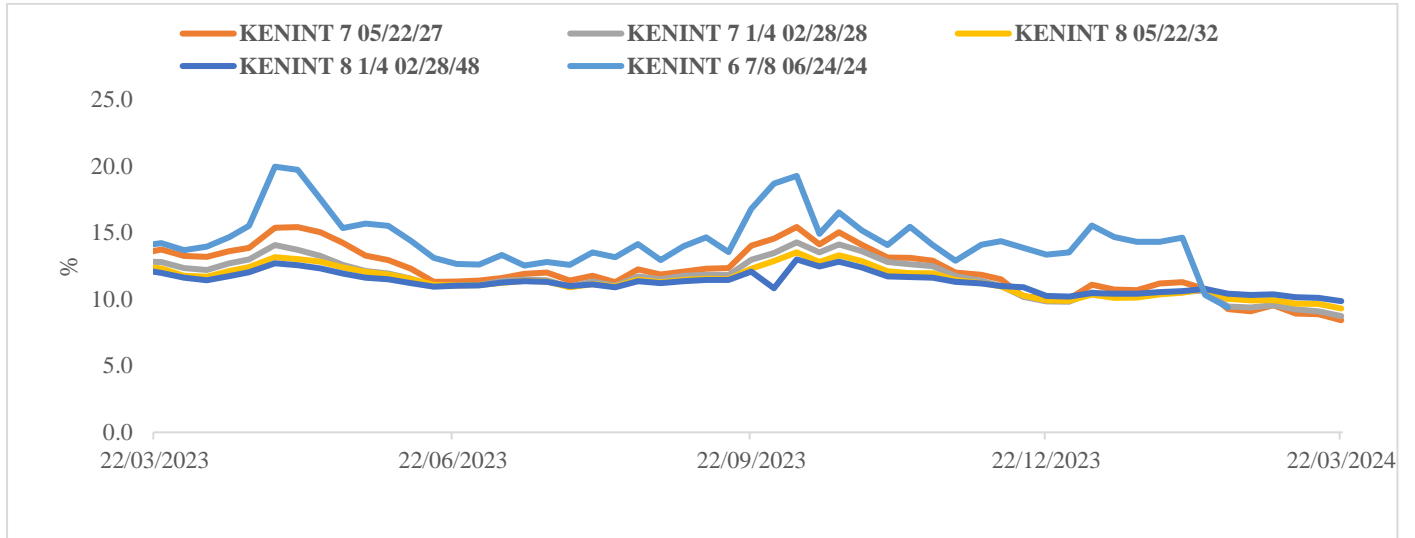
Source: CBK

### Kenya Domestic Yield Curve



Source: CBK

### Kenya Eurobond Yields increase from previous week



Source: Bloomberg



## Top counters by market capitalization

Company	Sector	Year end	12 M High	12 M Low	Price	YTD %	Market <sup>1</sup> cap (USD m)	Weighting	EPS	DPS	NAV	P/E ratio x	Div yld %	P/B ratio x	ROE %	Daily Trading <sup>1</sup> vol (USD)
Safaricom	Telecom	Mar	19.70	11.65	16.75	20.5	5,049	29.3%	1.55	1.20	4.7	10.8	7.2	3.6	33.2	469,135
Equity Bank	Banking	Dec	46.35	33.65	45.35	34.8	1,287	7.5%	12.22	3.00	48.7	3.7	6.6	0.9	25.1	460,714
EA Breweries	Breweries	Jun	174.50	100.00	123.25	8.1	733	4.2%	12.47	5.50	27.1	9.9	4.5	4.6	46.1	32,081
Co-op Bank	Banking	Dec	14.90	10.20	14.90	30.7	658	3.8%	3.98	1.50	18.4	3.7	10.1	0.8	21.6	49,443
NCBA Bank	Banking	Dec	42.85	30.70	41.80	7.3	518	3.0%	9.48	4.00	53.7	4.4	9.6	0.8	17.6	6,176
Absa Bank	Banking	Dec	14.00	10.10	14.00	22.3	572	3.3%	2.98	1.55	12.0	4.7	11.1	1.2	24.8	35,651
KCB Bank	Banking	Dec	36.35	15.75	25.55	16.7	618	3.6%	12.47	-	68.1	2.0	-	0.4	18.3	214,563
StanChart Bank	Banking	Dec	187.75	135.25	187.75	15.9	534	3.1%	34.62	29.00	158.0	5.4	15.4	1.2	21.9	15,073
Stanbic Bank	Banking	Dec	129.75	97.25	123.00	13.1	366	2.1%	28.71	15.35	140.8	4.3	12.5	0.9	20.4	16,137
BAT Kenya	Tobacco	Dec	477.25	401.25	414.50	1.7	312	1.8%	55.68	50.00	163.8	7.4	12.1	2.5	34.0	4,198
BK Group	Banking	Dec	37.00	29.65	33.00	-7.8	223	1.3%	7.55	3.28	46.8	4.4	10.0	0.7	16.1	990
I&M Holdings	Banking	Dec	21.00	15.85	20.85	19.1	259	1.5%	7.35	2.55	47.8	2.8	12.2	0.4	15.4	11,085
Umeme Ltd.	Power	Dec	17.75	9.12	14.00	-12.5	171	1.0%	3.03	2.12	20.7	4.6	15.2	0.7	14.7	359
Kenya Airways	Airlines	Dec	3.83	3.83	3.83	0.0	164	0.9%	(2.79)	-	(14.7)	-	-	-	-	-
Bamburi Cement	Cement	Dec	46.85	22.50	46.85	30.7	128	0.7%	2.15	3.58	82.1	21.8	7.6	0.6	2.6	-
KenGen	Power	Jun	2.45	1.96	2.00	-0.5	99	0.6%	0.76	0.30	41.6	2.6	15.0	0.0	1.8	16,240
Jubilee Insurance	Insurance	Dec	200.00	148.25	195.00	5.4	106	0.6%	68.38	14.00	613.8	2.9	7.2	0.3	11.1	3,234
DTB Bank	Banking	Dec	54.75	44.00	51.00	13.2	107	0.6%	22.56	5.00	256.8	2.3	9.8	0.2	8.8	8,442
Britam	Insurance	Dec	5.68	4.05	5.62	17.3	107	0.6%	0.53	-	9.2	10.6	-	0.6	5.7	2,430
Total Oil	Oil	Dec	22.40	15.80	18.00	0.0	85	0.5%	3.88	1.31	48.0	4.6	7.3	0.4	8.1	-
Kakuzi	Agric	Dec	430.00	240.00	371.25	-3.6	55	0.3%	43.15	24.00	303.5	8.6	6.5	1.2	14.2	194
CIC Insurance	Insurance	Dec	2.52	1.68	2.23	-0.4	44	0.3%	0.42	0.13	3.3	5.3	5.8	0.7	12.8	37,214
Centum Investment	Finance	Mar	9.50	8.00	8.36	-0.5	42	0.2%	(8.95)	0.60	55.8	-	7.2	0.1	(16.1)	1,877
ARM Cement	Cement	Dec	5.55	5.55	5.55	0.0	40	0.2%	(7.77)	-	19.8	-	-	0.3	(39.2)	-
Crown Paints	Manufac.	Dec	44.80	34.20	36.00	1.0	39	0.2%	5.13	4.00	24.1	7.0	11.1	1.5	21.3	43,295
Kenya Re	Insurance	Dec	2.03	1.59	2.03	8.0	43	0.2%	1.17	0.10	13.4	1.7	4.9	0.2	8.7	37,214
Sasini Tea & Coffee	Agric	Sept	31.40	18.20	19.80	-1.0	34	0.2%	3.82	1.00	61.7	5.2	5.1	0.3	6.2	4,909
Carbacid	Gases	July	17.55	12.00	17.25	15.0	33	0.2%	2.98	0.70	13.6	5.8	4.1	1.3	21.9	3,152
Nation Media	Media	Dec	21.60	14.60	21.00	4.7	30	0.2%	16.74	1.49	43.1	1.3	7.1	0.5	38.9	2,407
Kenya Power	Power	Jun	1.72	1.35	1.67	17.6	25	0.1%	(1.64)	-	29.1	-	-	0.1	(5.6)	-
TPSEA Serena	Tourism	Dec	16.45	11.00	14.80	-10.0	20	0.1%	(3.47)	-	33.3	-	-	0.4	(10.4)	1,769
Liberty K. Holdings	Insurance	Dec	5.54	3.45	5.02	36.0	20	0.1%	0.15	-	15.9	32.9	-	0.3	1.0	2,250
BOC Kenya	Gases	Dec	90.25	70.00	76.00	-7.3	11	0.1%	7.58	5.95	85.1	10.0	7.8	0.9	8.9	6,527
NSE	Finance	Dec	6.58	5.52	6.04	0.3	12	0.1%	0.05	0.20	7.1	114.2	3.3	0.8	0.7	632
Housing Finance	Banking	Dec	5.10	3.25	4.40	26.4	13	0.1%	(1.45)	-	20.5	-	-	0.2	(7.1)	1,643
Unga Ltd	Food	Jun	23.00	14.00	14.95	-11.3	9	0.0%	2.48	-	58.3	6.0	-	0.3	4.2	19
Sanlam Kenya	Insurance	Dec	9.12	5.60	6.30	5.0	7	0.0%	(3.77)	-	3.9	-	-	1.6	(97.1)	2,250
Car & Gen	Motors	Sept	41.50	21.30	28.50	14.0	9	0.0%	26.33	3.20	135.8	1.1	11.2	0.2	19.4	59
Limuru Tea	Agric	Dec	430.00	380.00	380.00	0.0	7	0.0%	4.73	1.00	80.9	80.4	0.3	4.7	5.8	10
WPP Scangroup	Media	Dec	3.18	1.99	2.18	0.0	7	0.0%	(0.30)	-	11.9	-	-	0.2	(2.5)	617
EA Portland	Cement	Jun	9.40	5.32	8.00	0.0	5	0.0%	6.02	-	239.8	1.3	-	0.0	2.5	574
Standard Newspapers	Media	Dec	10.05	5.10	5.92	-23.5	4	0.0%	(10.05)	-	0.4	-	-	13.5	(2,284)	13
Longhorn	Publishing	Jun	2.93	2.01	2.41	0.0	5	0.0%	0.62	-	2.8	3.9	-	0.9	22.2	64
TransCentury	Finance	Dec	1.07	0.40	0.46	-11.5	1	0.0%	(6.72)	-	(9.5)	-	-	-	-	100
Average												<b>5.4</b>	<b>5.7</b>	<b>1.6</b>	<b>18.5</b>	<b>1,593,602</b>

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