KENYAN BANKING SECTOR REPORT 2023

In this report, we update our banking sector coverage with revised target prices and recommendations following the 3Q2023 earnings release, and given some of the key business announcements by the banks since our last publication, we reviewed our forecasts and subsequently our valuation of the stocks.

Counter	Current Price *19.12.2023	Target price	Upside	Recommendation
Banking **Updated target prices following 3Q2023 financial results*				
ABSA Bank Kenya Plc	11.25	14.50	28.9%	BUY
Co-operative Bank of Kenya Ltd	10.95	14.20	29.7%	BUY
Diamond Trust Bank Kenya Ltd	45.55	53.80	18.1%	ACCUMULATE
Equity Group Holdings Plc	35.00	47.20	34.9%	BUY
HF Group Plc	3.36	5.05	50.3%	BUY
I&M Group Plc	17.35	20.90	20.5%	ACCUMULATE
KCB Group Plc	19.65	23.80	21.1%	BUY
Stanbic Holdings Plc	104.50	115.60	10.6%	HOLD
Standard Chartered Bank Kenya Ltd	154.25	154.65	0.3%	SELL

Source: NSE,NCBA IB Research

*BUY – Total expected 12-month return (incl. dividends) greater than 20%
*ACCUMULATE – Total expected 12-month return (incl. dividends) between 10%- 20%
*HOLD – Total expected 12-month return (incl. dividends) between 0%-10%
*SELL – Total expected 12-month return (incl. dividends) less than 0%

In a snapshot:

- **Steady growth:** We expect the banking Sector to record steady growth boosted by loan portfolios, higher interest rates and non-interest income driven by foreign exchange trading income.

- **Stable capital and liquidity positions:** Banks have ample liquidity in their balance sheets to facilitate expansion.

- **Elevated Interest rate risk:** With the volatility in interest rates, banks might need to adjust their funding strategies to manage interest expenses.

- **Increased credit risk:** Banks' asset quality has been deteriorating. Banks are likely to see an uptick in their gross non-performing loans driven by the adverse macro-economic environment.

- **Strained Net interest Margins:** With challenges in the cost of funds, NIM's will likely be strained.

Kenya Banking Sector Overview

The Banking industry in Kenya is a highly competitive scene characterized by a high number of financial providers. There are 39 commercial banks and 14 deposit taking micro-finance institutions as at December 31, 2022.

The sector is essentially dominated by the larger tier 1 commercial banks. Banks in large peer group increased their combined market share to 75.14% in December 2022, from 74.76% in December 2021. However, we have witnessed smaller banks record tremendous growth in recent years.

More than 10 Kenyan banks—including Equity Bank, Kenya Commercial Bank, NCBA Bank, and Stanbic bank have subsidiaries operating in the East Africa Community which comprises, Kenya, Uganda, Tanzania, Rwanda, Burundi, South Sudan and the DRC.

The table below shows the top banking firms in regard to market share:

No.	Bank	Total Net assets (% of market)
Large Peer Group >5%		
1	KCB Bank Kenya Ltd	14.74%
2	Equity Bank Kenya Ltd	13.57%
3	NCBA Bank Kenya PLC	9.40%
4	Co-operative Bank of Kenya Ltd	8.53%
5	Absa Bank Kenya PLC	7.24%
6	Stanbic Bank Kenya Ltd	5.92%
7	Standard Chartered Bank (K) Ltd	5.79%
8	Diamond Trust Bank Kenya Limited	5.45%
9	I&M Bank Limited	4.79%
Medium Peer group (1-5%)		
	8 members	15.93%
Small Peer group < 1%		
	22 members	8.63%
Total		**100.0%**

Source: CBK Bank supervision report 2022, NCBA IB Research

Banking Sector financial performance in 2023

The industry remained stable and resilient in 2023 characterized by strong capital and liquidity buffers. The sector recorded improved performance against a backdrop of a challenging macro-economic environment. The improved performance was largely supported by rising interest rates as well as continued economic recovery.

Kenyan Banking Sector Performance Indicators			
	30-Sep-23	**30-Sep-22**	**Y/Y %Δ**
Total Assets (KES Bn)	7,413.10	6,415.10	15.6%
Shareholders' Funds (KES Bn)	949.20	917.50	3.5%
Gross Loans (KES Bn)	4,103.60	3,594.70	14.2%
Gross Deposits (KES Bn)	5,498.10	4,626.00	18.9%
Gross Non-Per- forming Loans (KES Bn)	617.00	491.80	25.5%
Profit Before Tax * (KES Bn)	177.80	187.00	(4.9%)

	30-Sep-23	30-Sep-22	Y/Y Δ bps
Loan to Deposit ratio (%)	74.6%	77.7%	(307)
Non-Per- forming Loans ratio (%)	15.0%	13.7%	135
Liquidity Ratio (%)	49.3%	51.5%	(220)

**** Unaudited*** ***Source: Central Bank of Kenya, NCBA IB Research***

Growth in the Asset base

The total banking sector assets stood at KES 7.41Tn in September 2023, up 15.6% from KES 6.42Tn recorded in September 2022 with the growth being supported by the increase in loans and advances.

Gross Loans and advances grew by 14.2% from 3.59Tn in September 2022 to 4.10Tn in September 2023 driven by credit demand across various economic sectors.

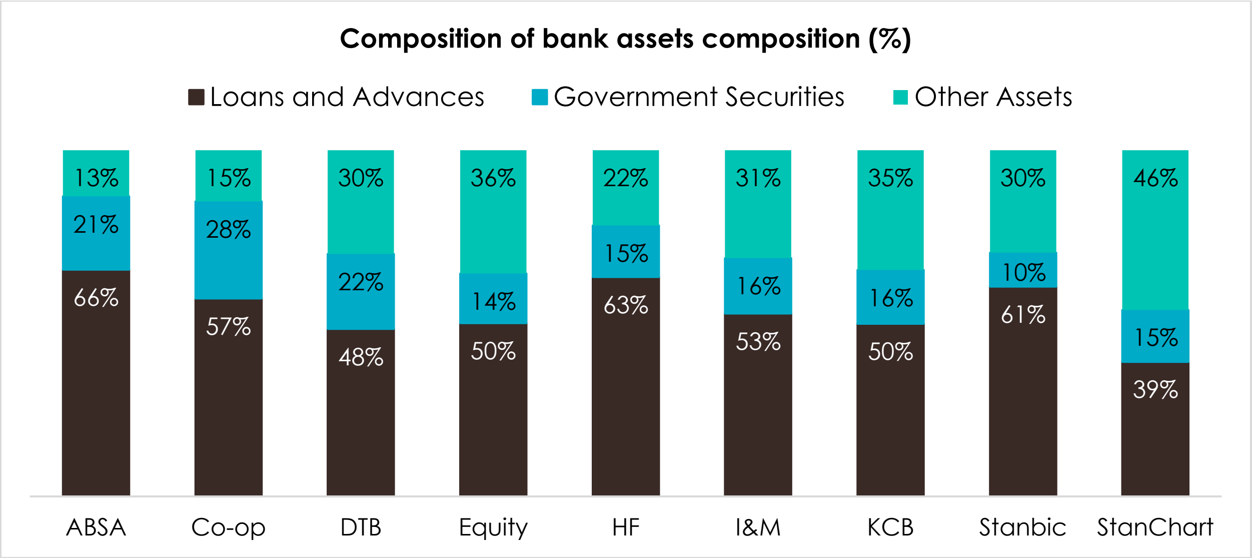
The largest proportion of the banking industry loans and advances were channeled to the Personal and Household, Trade, Manufacturing and Real Estate sectors, with these four accounting for 73% of gross loans.

KCB recorded the largest y/y growth of 65% in assets to close at 2.1Tn driven by inorganic growth.

	ABSA	Co-op	DTB	Equity	HF	I&M	KCB	Stanbic	StanChart
Assets 3Q2023 KES 'Bn	505	661	598	1,691	61	544	2,100	414	370
Assets 3Q2022 KES 'Bn	481	622	507	1,364	55	429	1,276	371	366
% Change	**5%**	**6%**	**18%**	**24%**	**10%**	**27%**	**65%**	**12%**	**1%**

Source: Unaudited Q3 Company Financials, NCBA IB Research

Composition of banks assets has changed significantly with notable reduction in their allocation to government securities:



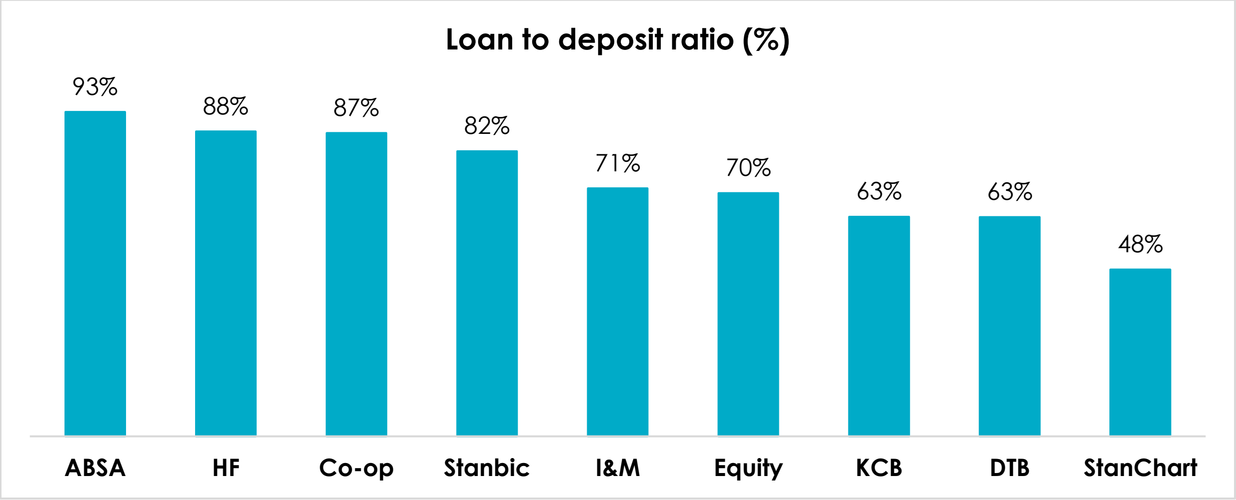
Source: Unaudited Q3 Company Financials, NCBA IB Research

Growth in customer deposits outpaced the growth in the loan book

Total banking sector customer deposits increased by 19.3% y/y to KES 5.50Tn, up from KES 4.63Tn in September 2022 faster than the 14.2% growth in loans. This robust growth in deposits could be attributed to customers' intent to preserve liquidity, rising interest rates, and commercial banks' leveraging of digital channels to enhance deposit mobilization.

Consequently, the sectors' loan to deposit ratio (LDR) stood at 74.6% which indicates that commercial banks predominantly leveraged on deposits to fund its loans and advances to customers. The average LDR is however lower than the 77.7% recorded in September 2022.

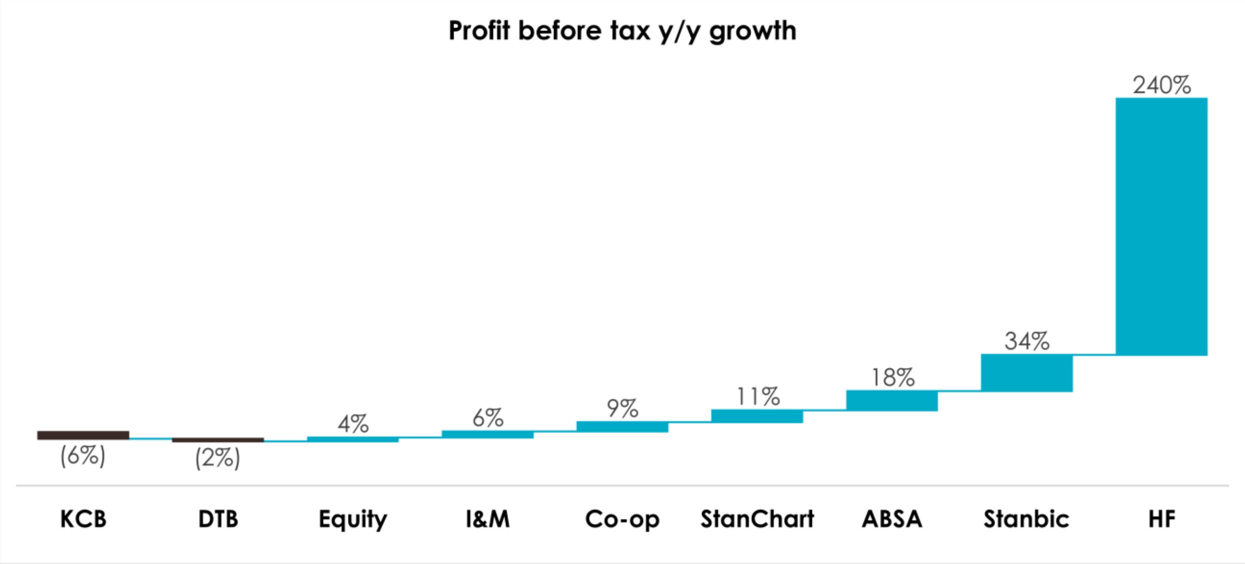
The graph below shows the loan-to-deposit ratios of the various banks under our coverage as at 30th September 2023.



Source: Unaudited Q3 Company Financials, NCBA IB Research

Drop in profitability

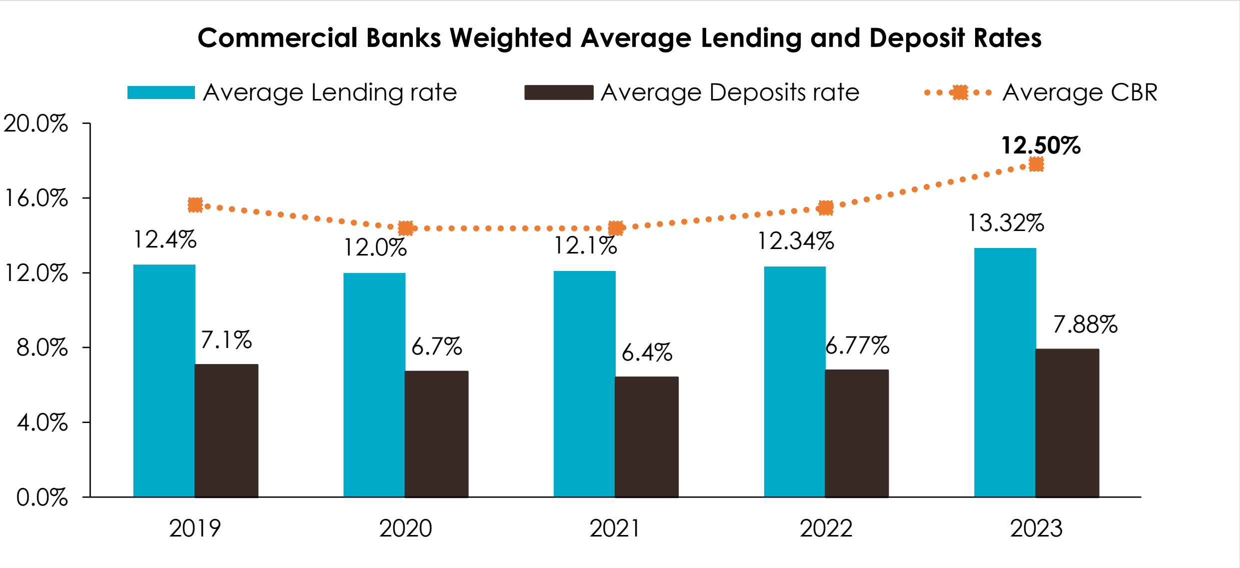
The banking sector recorded a decline in pre-tax profits from KES 187Bn recorded in September 2022 to KES 177.8Bn in September 2023. The drop in profitability was mainly attributable to a higher increase in expenses compared to the increase in income. The increase in expenses was largely attributed to a high increase in loan loss provisions.



Source: Unaudited Q3 Company Financials, NCBA IB Research

Interest income supported by the rise in lending rates

Increase in interest rates by commercial banks following the tightening the central bank has led to increased cost of lending and the cost of funds. The average lending rate stood at 14% while the average deposit rate stood at 8.6% as at 30th September 2023, up from 12.4% and 6.8%, respectively in September 2022.



Source: Central Bank of Kenya, NCBA IB Research

The Monetary Policy Committee (MPC) hiked the CBR rate to 12.50% in its December meeting citing the necessity to address the pressure on the exchange rate and anchor inflationary expectations in light of geopolitical risks and their potential impact on the domestic economy.

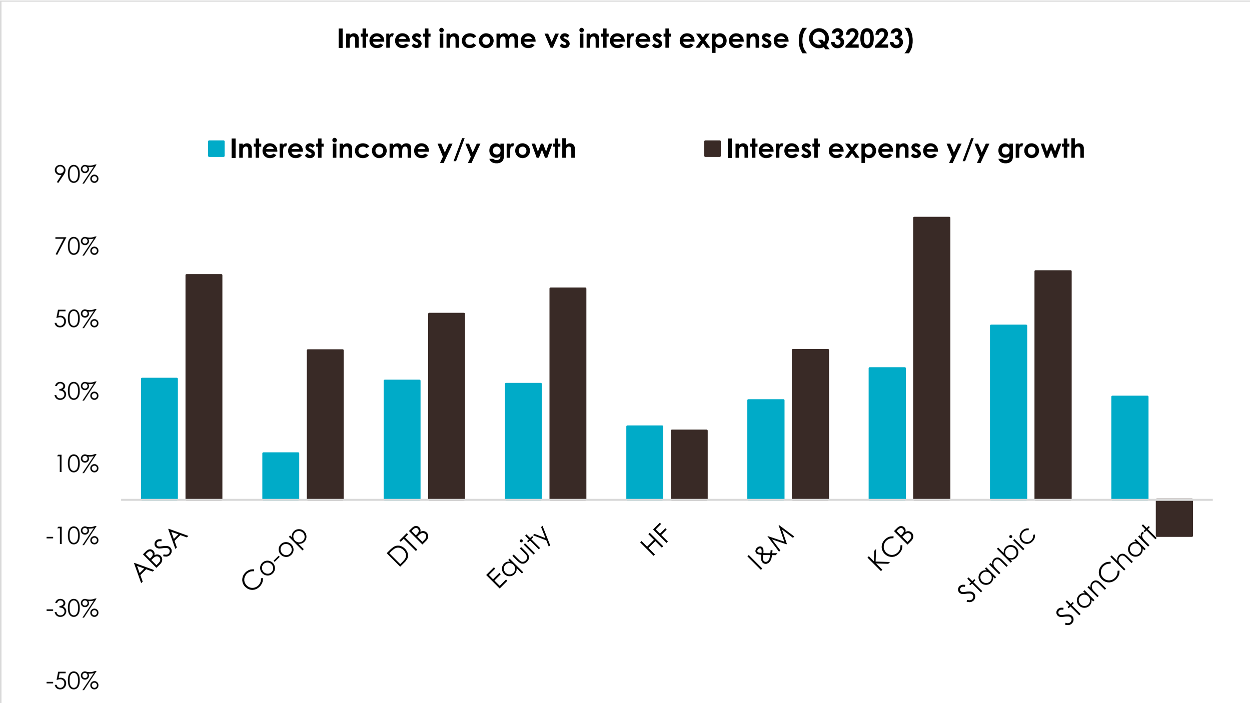
Following the CBR hike in December 2023, we expect commercial banks to increase their base lending rates and a jump in net interest income.

Elevated Interest rate risk

Interest rate risk is the potential for changes in interest rates to negatively impact a bank's financial position. Commercial banks are particularly exposed to this risk due to their reliance on customer deposits and loans and advances to customers.

Generally, all banks recorded significant growth in interest income driven by higher lending rates as well as interest rate on government securities. Similarly, interest expenses grew driven by an increase in the effective interest rate on customer deposits.

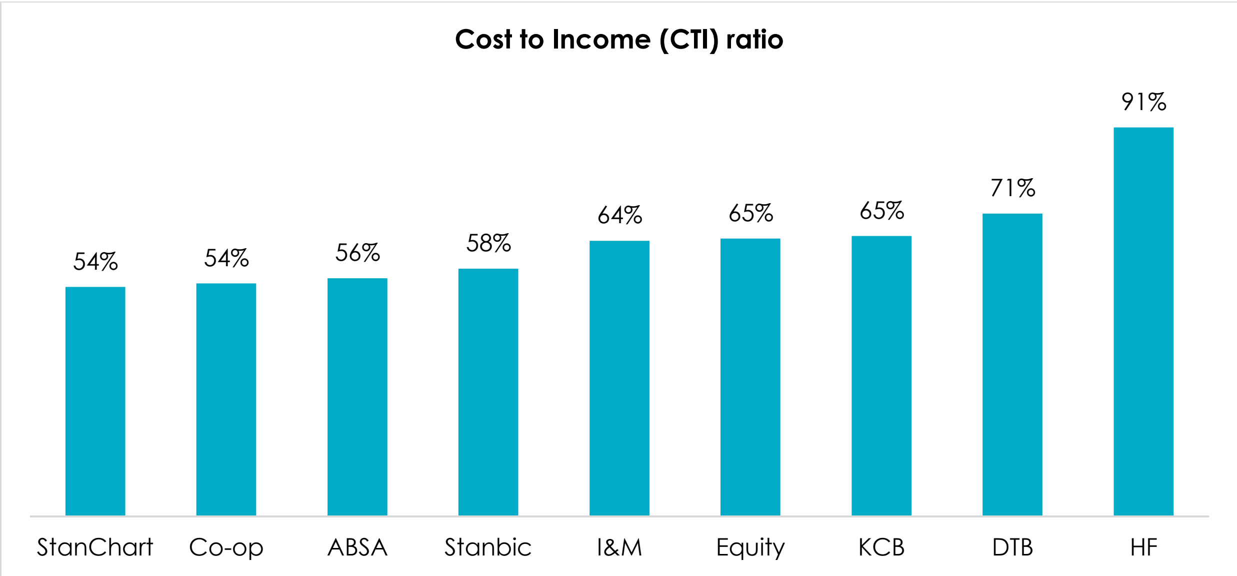
Notably, the growth in interest expense outpaced the growth in interest income for the sector leading to compressed net interest rate margins. Higher interest expenses without a proportionate increase in interest income compresses the net interest margin which further exacerbates interest rate risk.



Source: Unaudited Q3 Company Financials, NCBA IB Research

Efficiency

From a cost perspective, most banks exhibit a CTI ratio of around 50-65% which is often seen as acceptable. We expect to see an increase in the ratio driven by an increase in loan loss provisions.

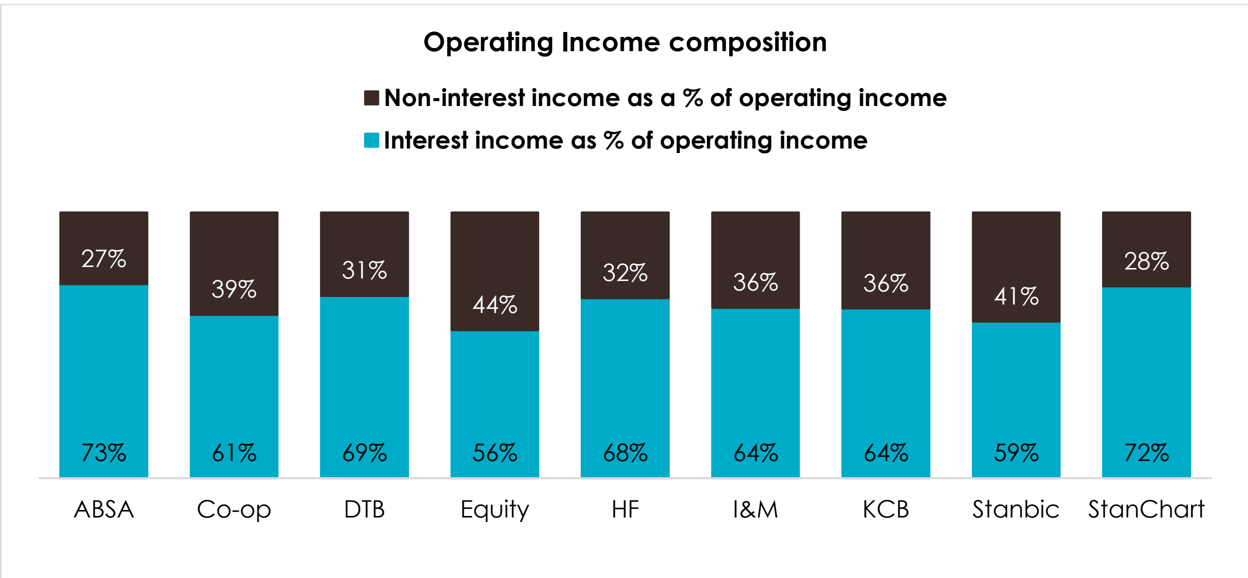


Source: Unaudited Q3 Company Financials, NCBA IB Research

Revenue diversification and Interest Income dominance

A majority of the listed banks generate a substantial portion (an average of 65%) of their operating income from interest income. ABSA (73%), StanChart (72%), and DTB (69%) have the highest reliance on interest income as a percentage of their operating income.

Equity has the highest proportion of non-interest income compared to the other banks which reflects the lowest dependency on interest income. This reflective of the revenue diversification business model and strategies adopted by the bank.

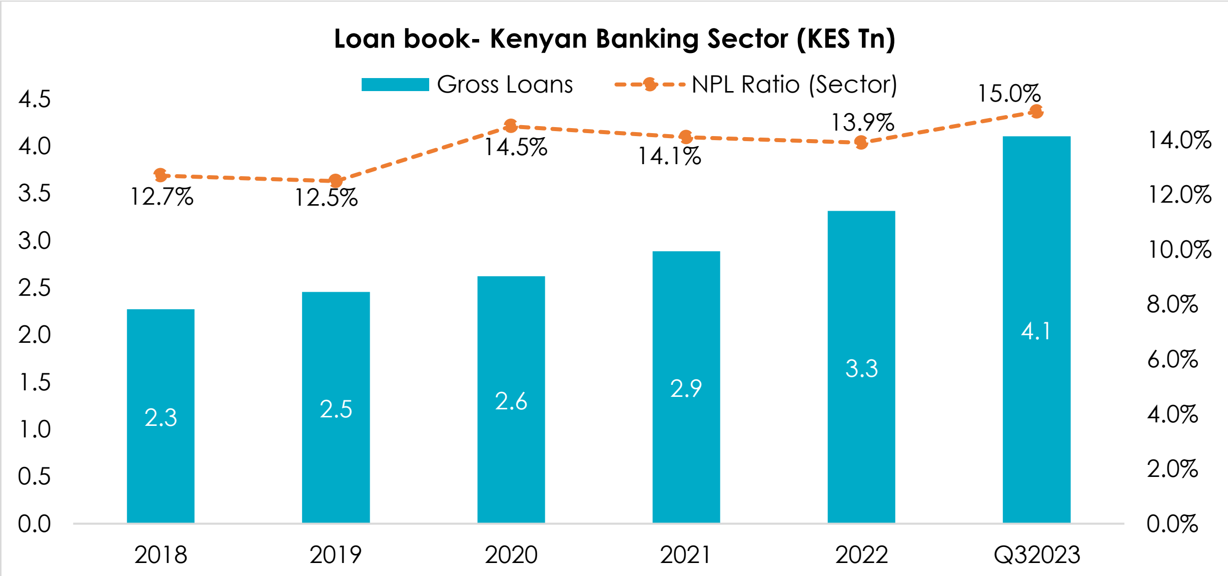


Source: Unaudited Q3 Company Financials, NCBA IB Research

Worsening Asset Quality

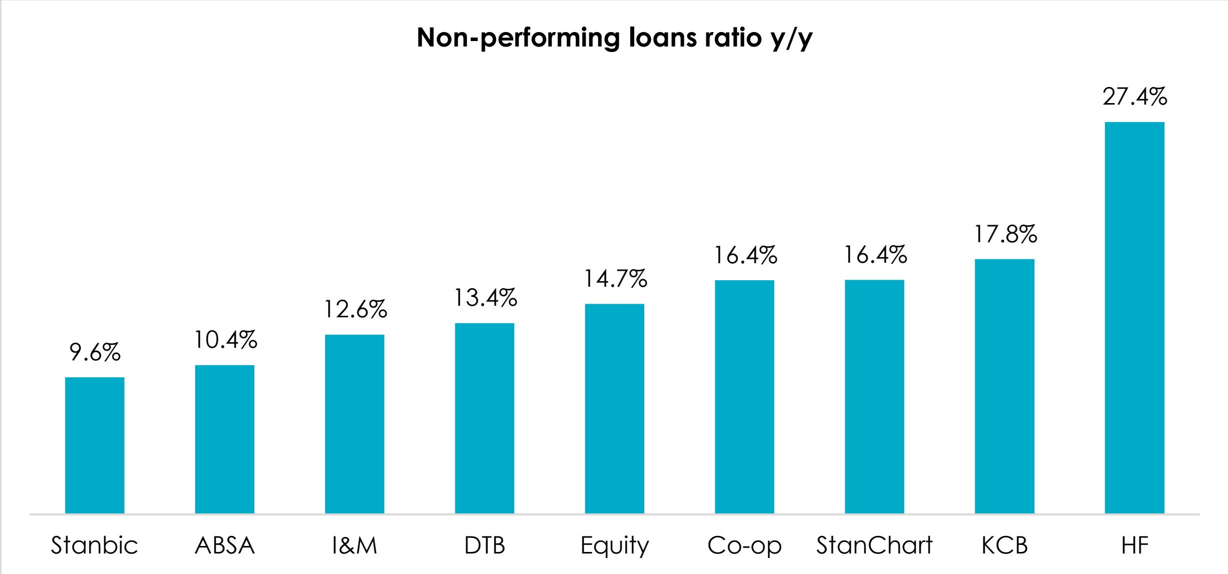
The Non-Performing Loans (NPL) ratio is a critical indicator of a commercial bank's asset quality and its ability to manage credit risk. A declining NPL ratio generally indicates an improvement in a bank's loan portfolio.

The ratio of NPLs to gross loans for the sector increased to an average of 15% as recorded in September 2023. This was mainly due to a higher increase in gross non-performing loans by 25.5% as compared to the 14.2% increase gross loans. This was primarily driven by adverse macro-economic conditions.



Source: Central Bank of Kenya, NCBA IB Research

The graph below shows the NPL ratios of the various banks under our coverage as at 30th September 2023.

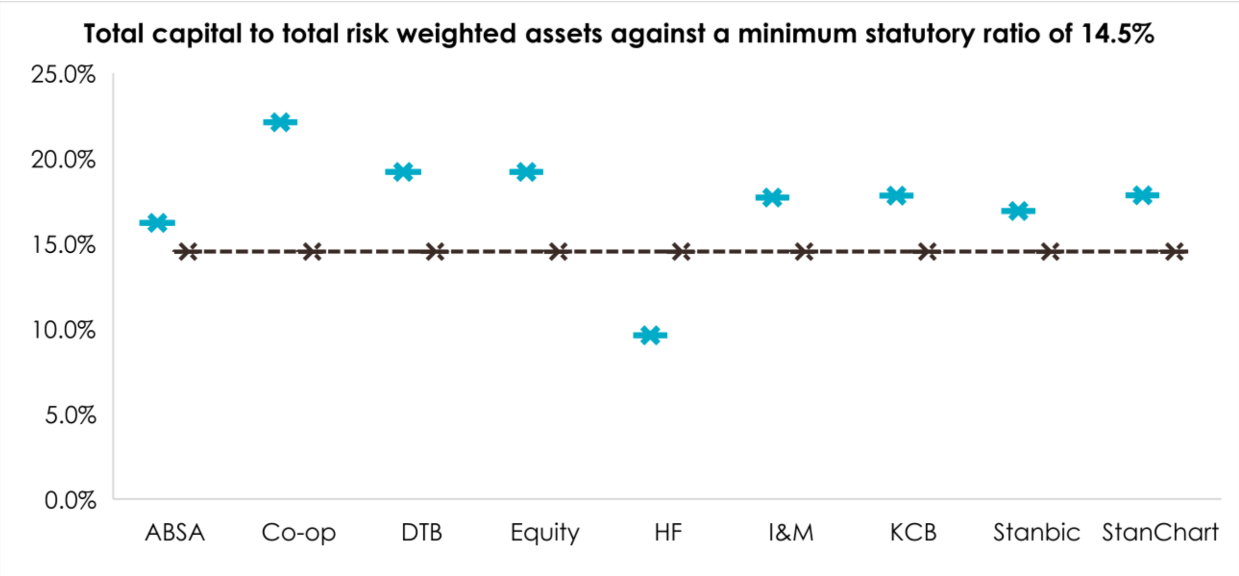


Source: Unaudited Q3 Company Financials, NCBA IB Research

Sound Capital and Liquidity position

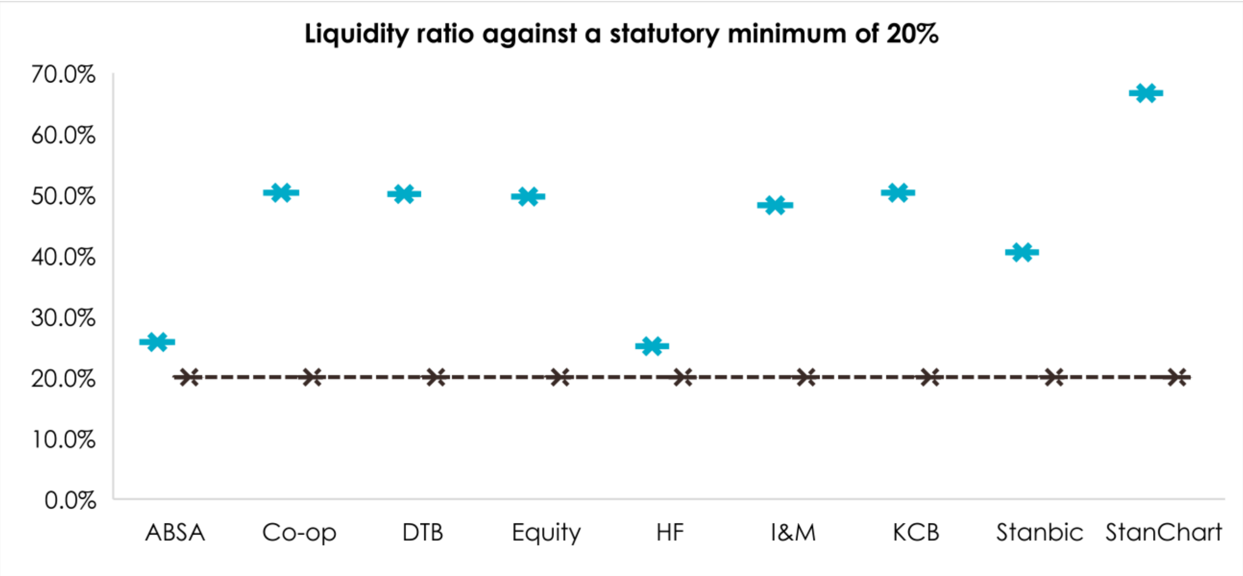
The CBK Prudential and Risk Management Guidelines, which came into force in 2013, requires commercial banks to adhere to the prescribed capital adequacy and liquidity ratios. The minimum regulatory capital adequacy ratios for Core Capital and Total Capital to Total Risk Weighted Assets are 10.5%, and 14.5% respectively. The minimum regulatory liquidity ratio is 20%.

All banks with an exception of HF Group maintain capital levels comfortably above the regulatory minimum, ensuring resilience against unexpected losses and risks.



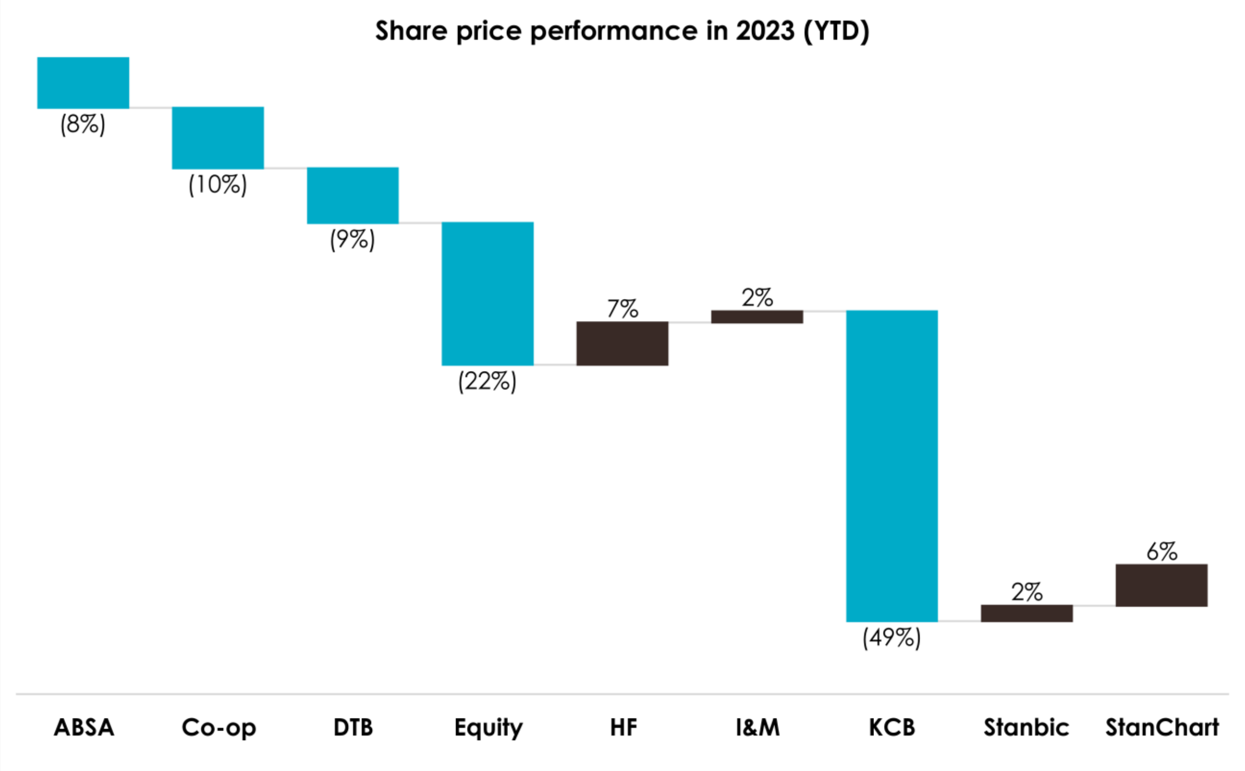
Source: Unaudited Q3 Company Financials, NCBA IB Research

While a majority of the banks meet or exceed the regulatory liquidity requirement, HF and ABSA demonstrate comparatively lower liquidity levels which necessitates more cautious liquidity management to meet short-term obligations.



Source: Unaudited Q3 Company Financials, NCBA IB Research

Banking Sector Share performance in 2023



Source: NSE, NCBA IB Research

The sector exhibited considerable volatility, with both positive and negative trends impacting individual banks' stock prices. While some banks saw marginal gains (HF, I&M, Stanbic, StanChart), others experienced significant decreases (KCB, Equity) in their share prices.

Notably, KCB recorded a substantial decline of 49% in its share price, reflective of the challenges faced by the bank in the year.

The following banks issued interim dividends in the year;

Bank	Interim dividend
ABSA	KES 0.20
Stanbic	KES 1.15
StanChart	KES 6.00

Source: NSE, NCBA IB Research

We expect all banks to issue full year dividends. Dividend prospects have become more promising with projected dividend payouts of approximately 60% and a dividend yield greater than 10% with an exception of HF group.

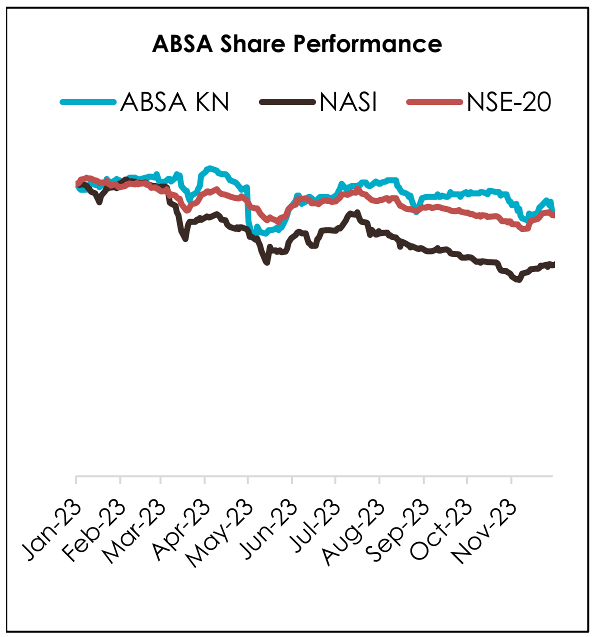
FINANCIAL PERFORMANCE AND VALUATION UPDATE AS AT Q3'2023

ABSA BANK KENYA UPDATE

ABSA released its Q3 2023 financial results posting a **14.9%** surge in profit after tax largely attributable to 6.4% y/y increase in non-funded income to KES 10.83Bn driven by 25.5% y/y increase in other income to KES 4.42Bn and a 26% increase in net interest income to KES 29.32Bn. The **Return on Equity** increased to **19.6%**. **Earnings per share** rose to **KES 2.27 from** KES 1.97 in the previous financial year.

Share Data	ABSA Bank Kenya
Ticker	ABSA KN
RECOMMENDATION	BUY
Current Price (KES)	11.25
Target Price (KES)	14.50
Upside	28.9%
52WK High (KES)	13.00
52WK Low (KES)	10.00
Market Cap (KES Bn)	61.65
Trailing Dividend Yield	13.7%
P/B	0.9x
P/E	5.0x
Current Price = as of 19th December 2023	

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

Q3 2023 Performance – % y/y performance

- **Earnings:** Operating income grew by 20.0% to KES 40.15Bn driven by 6.4% growth in non-interest income, to KES 10.83Bn. This was largely attributable other income that grew by 25.5% to KES 4.43Bn. However, foreign exchange trading income declined by 2.3% to KES 4.86Bn due to reduced spreads with the CBK reforms such as introduction of interest rate corridor. Interest income grew by 33.5% to KES 39.14Bn driven by 45.5% increase in interest from loans and advances to KES 31.61Bn.

- **Loan book**: The bank's loans and advances to customers grew by 14.3% to KES 330.9Bn slower than the 26.1% growth in deposits to KES 354.3Bn. The loan to deposit ratio consequently declined to 93.4% from 103% in previous financial period.

- **Customer deposits** increased by 26.1% to KES 354.31Bn supported by growth in the various business segments driven by the lender's extensive network of 84 branches, over 210 ATMs countrywide, and 60 cash deposit machines supported by internet and mobile banking channels.

- **Government securities** declined by 15.7% to KES 77.68Bn on the back of mark to market losses and the need to reduce the exposure to manage the risks arising from government's tight liquidity position.

- **Efficiency:** Cost to income ratio including provisions saw an increase to 55.6% from 55.7% recorded in 2022 driven by 21.9% increase in operating expense which outpaced the 20.0% growth in operating income. However, Cost to income ratio excluding provisions saw a marginal decline to 38.7% from 39.7%, driven by operating model redesign and transformational initiatives.

  Asset Quality: Gross NPLs increased by 72.4% to KES 34.55Bn while loan loss provisions shot up by 34.4% to KES 6.76Bn from KES 5.03Bn in the previous year. The NPL ratio increased to 9.5% from 6.5% but remained lower than the industry average of 16% – reflective of effective credit risk management by the lender.

Financial Summary

Absa Bank Kenya	Key Metrics Y/Y
Loans and Advances	Up 14.3% to KES 330.9Bn
Customer Deposits	Up 26.1% to KES 354.3Bn
Government Securities	Down 15.7% to KES 77.7Bn
Net Interest Income	**Up 26.0% to KES 29.3Bn**
Non-Funded Income	**Up 6.4% to KES 10.8Bn**
Forex trading income	Down 2.3% to KES 4.9Bn
Loan Loss Provisions	Up 34.3% to KES 6.8Bn
PBT	Up 17.8% to KES 17.8Bn
PAT	**Up 14.9% to KES 12.3Bn**
EPS	Up 15.2% to KES 2.27

Absa Bank Kenya	Key Ratios Y/Y
Loan Deposit ratio	Down 93.4% from 103.0%
Net Interest Margin	**Up to 5.8% from 4.8%**
Cost to Income	Down to 38.7% from 39.7%
NPL Ratio	**Up to 9.5% from 6.5%**
Cost of Risk	Up 2.0% from 1.7%
ROE	**Up to 19.6% from 17.1%**
Current Market Price	KES 11.25
P/E	5.0x
P/B	0.9x
Interim Dividend	**KES 0.20**

Source: Company financials, NCBA IB Research

2023 Outlook

We expect Absa bank to record steady growth boosted by:

1. **Revenue Diversification:** Revenue streams such as corporate banking and business banking and digital lending are delivering double-digit growth. New revenue streams including ABSA asset management, custody business and bancassurance will further scale the company towards a full financial services group.

2. **Loans growth:** The lender's key focus on its established products, namely trade loans, mortgages, unsecured lending and overdrafts will continue to record material year-on-year growth. ABSA's focus on digital lending through its evolution of Timiza into a Mobile Financial Services business and Wezesha Biashara will support NFI line growth. The bank's strategy on co-creating solutions with the Affluent segment, advance its relevance in core middle segment and penetrate the mass and youth segments to secure the next generation of core middle customer.

3. **Digital transformation:** The Fintech/digital capabilities of the Group continued to be strengthened by the successful rollout of the Timiza for SMEs, Timiza for retail, Novo App, which allows to make international payments anytime, anywhere, for free a move that will increase the banks transactional volumes and income.

Investment recommendation:

Going forward the bank will leverage on technology to scale up retail business. The lender will continue to focus on executing its strategy to build a consumer banking business that is digitally enabled to drive reach and invest in areas of competitive strength.

The stock presents an opportunity for long-term investors to earn **capital gains** and an attractive dividend yield.

We expect ABSA Bank to deliver long-term profitability based on its focus on digital transformation and strong customer base.

Valuation and Investment Guidance

Following the 3Q2023 earnings release, and given some of the key business announcements by the company since our last publication, we reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain our **BUY** recommendation with a target price of **KES 14.50.** The target price implies an upside of 29% to the current trading price of KES 11.25 as of 19th December 2023.

We used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation
4. Dividend Discount Model

Assumptions

- Risk free rate of 15.45% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 5.4%
- Beta of 1.1 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	14.88	40%	5.95
DDM	15.55	15%	2.33
P/BV	14.50	40%	5.80
P/E	7.96	5%	0.40
Fair Value		**100%**	**14.48**
Current Price 19.12.2023			**11.25**
Upside/(Downside)			28.9%

Source: NCBA IB Research Estimates

CO-OPERATIVE BANK OF KENYA UPDATE

Co-operative Bank released its Q3 2023 financial results posting a **7.6%** surge in profit after tax attributable to 2.1% increase in non-funded income and a 2.5% increase in net interest income. The **Return on Equity** and **Return on Assets** rose to **23.5%** and **3.8%**, respectively while **Earnings per share** increased to **KES 4.20** from KES 3.90 recorded in the previous financial year.

Q3 2023 Performance – % y/y performance

- **Earnings:** Operating income grew by 2.3% to KES 53.41Bn mainly driven by non-interest income which grew by 2.1% to KES 20.58Bn coupled with a 2.5% rise in net interest income. On the contrary, FX income dropped by 25.0% to KES 2.46Bn.

- **Loan book**: The bank's loans and advances to customers grew by 12.8% to KES 378.1Bn faster than the 0.2% growth in deposits driven by increased lending to the SME and MSME market segments. The loan to deposit ratio rose to 87.3% from 77.6% in Q3 2022 indicating that the bank leveraged more on deposits to fund its loans and advances to customers.

- **Customer deposits** grew by 0.2% to KES 432.84Bn supported by deposit mobilization through the opening of new branches to scale retail expansion and ensure digitization for convenience.

- **Government securities** increased by 1.5% to KES 185.13Bn as the bank continues to gain from higher interest rates on government securities. Interest income driven from investments in government securities rose by 8.1% to KES 16.78Bn attributable to the uptick in interest rates on government papers.

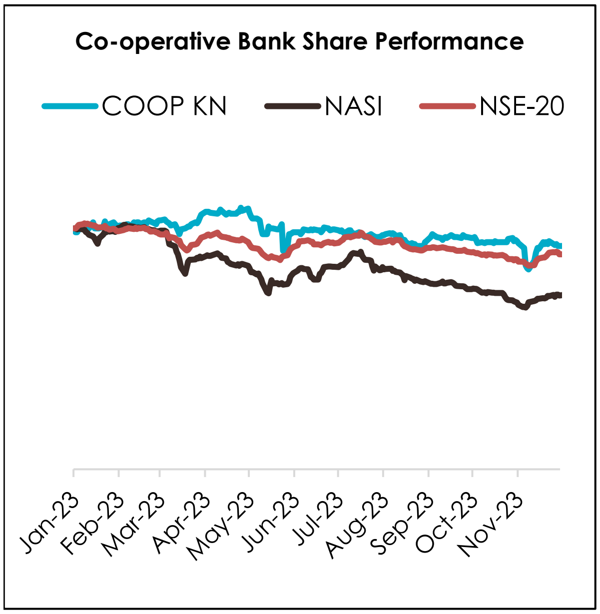
- **Efficiency:** Cost to income ratio excluding provisions rose to 46.4% from 45.8%. However, Cost to income ratio including provisions fell to 54.3% from 56.8% in 2022 on the back of total operating expenses declining by 2.1% compared to 2.3% growth in operating income.

- **Asset Quality:** Gross NPLs increased by 19.5% to KES 61. 9Bn while Loan loss provisions declined by 26.5% to KES 4.20Bn driven by implementation of risk management initiatives. The NPL ratio increased to14.1% from 13.4, however, this was lower than the industry average of 16.0%.

Share Data	Co-operative Bank
Ticker	COOP KN
RECOMMENDATION	BUY
Current Price (KES)	10.95
Target Price (KES)	14.20
Upside	29.7%
52WK High (KES)	14.00
52WK Low (KES)	10.10
Market Cap (KES Bn)	65.71
Trailing Dividend Yield	13.4%
P/B	0.7x
P/E	2.7x

Current Price = as of 19th December 2023

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

Financial Summary

Co-operative Bank	Key Metrics Y/Y
Loans and Advances	Up 12.8% to KES 378.08Bn
Customer Deposits	Up 0.2% to KES 432.84Bn
Government Securities	Up 1.5% to KES 185.13Bn
Net Interest Income	**Up 2.5% to KES 32.82Bn**
Non-Funded Income	**Up 2.1% to KES 20.59Bn**
Forex trading income	Down 25% to KES 2.46Bn
Loan Loss Provisions	Down 26.5% to KES 4.21Bn
PBT	Up 8.6% to KES 24.69Bn
PAT	**Up 7.6% to KES 18.39Bn**
EPS	Up 8.2% to Kes 3.15

Co-operative Bank	Key Ratios Y/Y
Loan Deposit ratio	Up to 87.3% from 77.6%
Net Interest Margin	**Down to 5.0% from 5.1%**
Cost to Income	Down 46.4% from 45.8%
NPL Ratio	**Up 14.1% from 13.4%**
Cost of Risk	Down to 1.1% from 1.7%
ROE	**Up to 17.6% from 16.4%**
Current Market Price	KES 11.20
P/E	2.7x
P/B	0.7x
Dividend type	**No interim dividend announced**

Source: Company financials, NCBA IB Research

2023 Outlook

We expect Co-operative bank to record steady growth boosted by:

1. **Revenue Diversification:** The bank is optimizing on their digital capabilities such as M Co-op Cash mobile wallet among other digital strides which will allow the bank to diversify its revenue streams. The bank's newly launched program Co-op Kwa Jirani Agency Banking will increase the trade flows. The bank's growing foothold in South Sudan will help attribute to higher trading incomes.

2. **Loans growth:** The bank's main clients, co-operatives, will continue to provide a stable source of revenue. The bank's focus on digital lending through its M-Co-op Cash products will support NFI line growth. The bank's focus on co-creating solutions with customers to grow the loan book and increase product holding will see the loan book grow.

3. **Risk Management**: Despite Co-operative banks NPL ratio increasing, it is commendable compared to the industry average of 13.93%. The bank is proactively managing its credit through connecting with customers, collecting and offering customer-centric solutions.

Investment recommendation:

The Bank continues to execute a proactive growth strategy anchored on a strong enterprise risk management framework and deepening of market dominance. The bank, riding on the unique synergies will continue to pursue strategic initiatives that focus on resilience and growth in the various sectors of the economy.

At the current market price, we believe the stock presents an opportunity for long-term investors to earn **capital gains** and an **attractive dividend yield**. Co-operative group will continue to deliver long-term profitability based on geographical expansion, business diversification, and improved asset quality.

Valuation and Investment Guidance

Following the 3Q2023 earnings release, and given some of the key business announcements by the company since our last publication, we reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain our **BUY** recommendation with a target price of **KES 14.20.** The target price implies an upside of 29.7% to the current trading price of KES 10.95 as of 19th December 2023.

We used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation
4. Dividend Discount Model

Assumptions

- Risk free rate of 15.45% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 5.4%
- Beta of 1.1 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	16.20	40%	7.02
P/BV	12.02	30%	5.42
DDM	13.05	20%	1.59
P/E	14.73	10%	0.52
Fair Value		**100%**	**14.17**
Current Price 19.12.2023			**10.95**
Upside/(Downside)			29.7%

Source: NCBA IB Research Estimates

DIAMOND TRUST BANK KENYA UPDATE

Diamond Trust Bank released its Q3 2023 financial results posting a **4.3%** surge in profit after tax largely attributable to 33.9% y/y increase in non-funded income to KES 9.19Bn driven by 39.1% y/y increase in FX income to KES 4.54Bn and a 19.6% increase in net interest income to KES 20.10Bn. The **Return on Equity** increased to **8.5%**. **Earnings per share** rose to **KES 21.46** from KES 20.57 in the previous financial year.

Share Data	Diamond Trust Bank
Ticker	DTKL KN
RECOMMENDATION	ACCUMULATE
Current Price (KES)	46.35
Target Price (KES)	45.55
Upside	18.1%
52WK High (KES)	57.00
52WK Low (KES)	43.75
Market Cap (KES Bn)	12.86
Trailing Dividend Yield	10.9%
P/B	0.1x
P/E	2.1x
Current Price = as of 19th December 2023	

Source: Bloomberg, NSE, NCBA IB Research

Q3 2023 Performance – % y/y performance

- **Earnings:** Operating income grew by 23.7% to KES 29.28Bn driven by 33.9% growth in non-interest income, to KES 9.19Bn. This was largely attributable to foreign exchange trading income that grew by 39.1% to KES 4.54Bn as the bank leveraged on wider spreads. Interest income grew by 33.0% to KES 38.56Bn driven by 34.7% increase in interest from loans and advances to KES 20.54Bn.

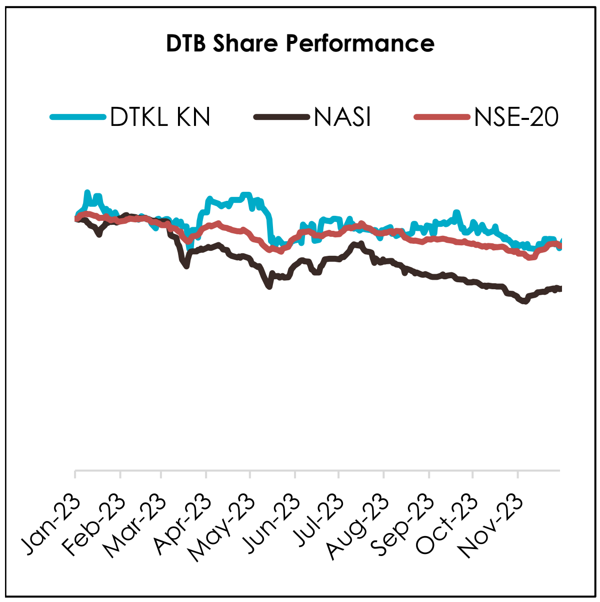
- **Loan book**: The bank's loans and advances to customers grew by 18.7% to KES 289.14Bn slower than the 27.3% growth in deposits to KES 457.74Bn. This led to 4.6% points decrease in the loan to deposit ratio to 63.2% from 67.7% recorded in Q3 2022.

- **Customer deposits**: grew by 17.9% to KES 404.6Bn supported by the lender's growing branch and digital footprint and expanded value propositions. The seven branches opened in 2022 raised the bank's total distribution network to 134 as of December. The lender's development of partnerships and distinctive ecosystems in key sectors such as SMEs, Health, Education, agro among other sectors saw its retail deposits tick upwards to 23% in FY22.

- **Government securities** recorded 3.1% growth to KES 131.63Bn attributable to a favorable interest rate environment. Yields on treasury bills and bonds across various tenors sustained upward pressure in the Q1'2023.

- **Efficiency:** Cost to income ratio including provisions surged to 61.7% from 53.3% recorded in 2022. Cost to income ratio excluding provisions saw a rise to 47.3% from 45.3%. Moreover, operating costs grew by 35.6% to KES 4.48Bn.

- **Asset Quality:** Gross NPLs grew by 17.1% to KES 35.1Bn while loan loss provisions shot up substantially by 134.7% to KES 1.36Bn from KES 0.582Bn in the previous year. This was largely attributable to NPL's in the trade and retail sector, which is the lender's prevalent sector with a 21.4% distribution of the lender's loan book.



Source: NSE, NCBA IB Research

Financial Summary

DTBK LTD	Key Metrics Y/Y
Loans and Advances	Up 18.7% to KES 289.1Bn
Customer Deposits	Up 27.3% to KES 457.7Bn
Government Securities	Down 4.2% to KES 129.4Bn
Net Interest Income	**Up 19.6% to KES 20.1Bn**
Non-Funded Income	**Up 33.9% to KES 9.2Bn**
Forex trading income	Up 39.1% to KES 4.5Bn
Loan Loss Provisions	Up 50.1% to KES 6.0Bn
PBT	Down 2.2% to KES 8.7Bn
PAT	**Up 4.3% to KES 5.99Bn**
EPS	Up 4.3% to KES 21.46

DTBK LTD	Key Ratios Y/Y
Loan Deposit ratio	Down to 63.2% from 67.7%
Net Interest Margin	**Up to 3.4% from 3.3%**
Cost to Income	Up to 50.1% from 45.3%
NPL Ratio	**Down to 11.8% from 11.9%**
Cost of Risk	up to 2.1% from 1.6%
ROE	**Up to 8.5% from 8.1%**
Current Market Price	KES 45.55
P/E	2.1x
P/B	0.2x
Target price	**KES 46.35**

Source: Company financials, NCBA IB Research

2023 Outlook

We expect Diamond trust bank to record steady growth boosted by:

1. **Branch expansion drive:** The lender is set to open 24 more branches in Kenya before the end of 2023 signaling a sizeable expansion in its branch network as part of the bank's plan to deepen its market presence.

2. **Strong performance of regional subsidiaries:** The banking subsidiaries in Tanzania, Uganda and Burundi contributed 30.5% of total assets and profitability in FY22'. Following its drive to enhance its regional footprint, subsidiaries will continue to anchor the Group's performance.

3. **Digital transformation:** The group has scaled up its investment in digital technology and knowhow to KES 3.5Bn across 2022-2024 to diversify revenue streams and scaling business opportunities. The bank's newly launched 'Astra' and 'infiniti pay 'programs which support the Small and medium enterprises will increase the trade flows, as SMEs are critical drivers of the economy.

Investment recommendation:

Going forward the bank will continue to leverage on technology to scale up mass retail and corporate business. The lender will pursue its business growth strategy of expanding customer base and adopting an ecosystem approach of servicing customers who operate, across East Africa's key economic sectors. In developing value propositions, the lender will leverage both traditional channels as well as digital platforms.

The stock presents an opportunity for long-term investors to earn **capital gains** and an attractive dividend yield.

We expect Diamond trust bank to deliver long-term profitability based on its focus on regional expansion and strong customer base.

Valuation and Investment Guidance

Following the 3Q2023 earnings release, and given some of the key business announcements by the company since our last publication, we reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain our **BUY** recommendation with a target price of **KES 53.80.** The target price implies an upside of 18.1% to the current trading price of KES 45.55 as of 19th December 2023.

We used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation
4. Dividend Discount Model

Assumptions

- Risk free rate of 15.45% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 5.4%
- Beta of 0.7 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	41.79	30%	12.54
DDM	70.11	20%	14.02
P/BV	55.55	40%	22.22
P/E	50.18	10%	5.02
Fair Value		**100%**	**53.80**
Current Price 19.12.2023			**45.55**
Upside/(Downside)			18.1%

Source: NCBA IB Research Estimates

EQUITY GROUP HOLDINGS PLC UPDATE

Equity Group released its Q3 2023 financial results posting a **3.7%** rise in profit after tax to KES 34.59Bn driven by a 36.9% growth in non-interest income and a 21.3% increase in net interest income. The **Return on Equity** improved to **19.9%** while Return on Assets declined to **2.5%**. **Earnings per share** increased to **KES 9.17** from KES 8.84 recorded in the previous year.

Share Data	Equity Group
Ticker	EQBNK KN
RECOMMENDATION	BUY
Current Price (KES)	35.00
Target Price (KES)	47.20
Upside(Exc. Div. Yield)	34.9%
52WK High (KES)	50.00
52WK Low (KES)	35.00
Market Cap (KES Bn)	141.32
Trailing Dividend Yield	10.7%
P/B	0.9x
P/E	4.2x

Current Price = as of 19th December 2023

Source: Bloomberg, NSE, NCBA IB Research

Q3 2023 Performance – % y/y performance

- **Earnings:** Operating income grew by 27.8% to KES 130.41Bn mainly driven by 36.9% growth in non-interest income, to KES 57.80Bn. This was largely attributable to foreign exchange trading income that grew by 56.3% to KES 13.90Bn as the bank leveraged on wider spreads. Interest income rose by 32% to KES 111.13Bn boosted by a 31.3% increase in interest earned from loans and advances to KES 70.57Bn and 23.3% increase in interest earned from government securities to KES 36.47Bn.

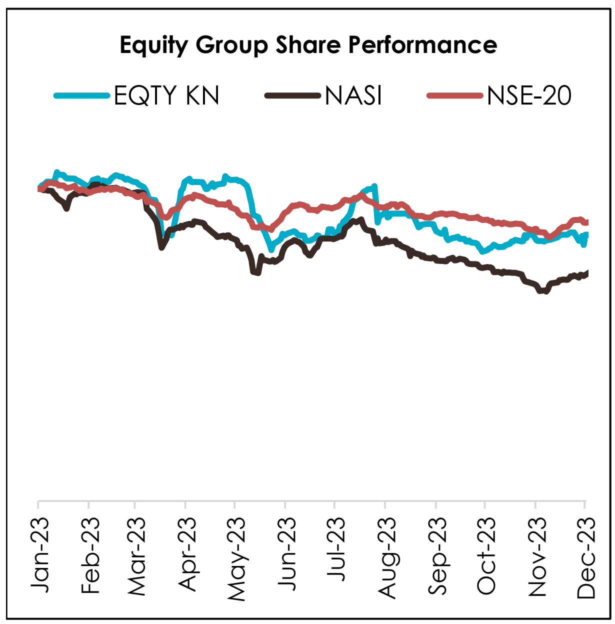
- **Loan book**: The bank's loans and advances to customers grew by 25.5% to KES 845.92Bn faster than the 19.9% growth in customer deposits. This led to a 4.7% rise in the loan to deposit ratio to 70% from 66.9% recorded in Q32022.

- **Customer deposits** increased by 19.9% to KES 1.21Tn following aggressive deposit mobilization as the Group leveraged more on borrowed funds and bank deposit liabilities to fund its investments.

- **Government securities** increased by 4.1% to KES 242.48Bn as the bank continues to gain from higher interest rates on government securities. Interest income driven from investments in government securities rose by 23.3% to KES 36.47Bn attributable to the uptick in interest rates on government papers.

- **Efficiency:** The Group's Cost to income ratio excluding provisions Increased to 30.3% from 28.6% in Q3'2022 due to the faster operating expenses growth compared to operating income. Inclusive of provisions, cost to income ratio increased to 64.8% from 56.6% in Q3'2022.

- **Asset Quality:** The Group's Gross NPL increased 83.5% to KES 124.5Bn. The NPL ratio grew to 12.8% from 9.1% in Q3'2022 which is indicative of worsening credit quality owing to tough macro-economic conditions. The NPL ratio is lower than the industry average of 16% – reflective of effective credit risk management.



Source: NSE, NCBA IB Research

Financial Summary

Equity Group Holdings	Key Metrics Y/Y
Loans and Advances	Up 25.5% to KES 845.9Bn
Customer Deposits	Up 19.9% to KES 1.21Tn
Government Securities	Up 4.1% to KES 242.48Bn
Net Interest Income	**Up 21.3% to KES 72.60Bn**
Non-Funded Income	**Up 36.9% to KES 57.8Bn**
Forex trading income	Up 56.3% to KES 13.90Bn
Loan Loss Provisions	Up 57.4% to KES 44.99Bn
PBT	Up 3.6% to KES 45.91Bn
PAT	**Up 3.7% to KES 34.59Bn**
EPS	Up 3.7% to KES 9.17

Equity Group Holdings	Key Ratios Y/Y
Loan Deposit ratio	Up to 70% from 66.9%
Net Interest Margin	**Down to 4.3% from 4.4%**
Cost to Income	Up to 30.3% from 28.6%
NPL Ratio	**Up to 12.8% from 9.1%**
Cost of Risk	Up to 5.3% from 4.2%
ROE	**Up to 19.9% from 19.2%**
Current Market Price	KES 35.00
P/E	4.2x
P/B	0.9x
Dividend	**No interim dividend**

Source: Company financials, NCBA IB Research

2023 Outlook

We expect Equity Group to record steady growth boosted by:

1. **Subsidiaries performance and contribution:** The Bank also completed the acquisition of Rwanda's major bank Cogebanque holding 99.125% of the issued shares. The acquisition is expected to further strengthen the bank's diversification strategy and support its growth as it aims to consolidate its operations with Equity Group Rwanda Plc. We are, however, cautiously watchful of growth in the Congolese unit on a constant currency basis given that the unit primarily operates in US dollars.

2. **Risk Management**: The Group has recorded a 12.8% NPL ratio, which compares relatively well with the industry NPL average ratio of 16%. The NPL coverage of 88%, loan to deposit ratio of 68.1% and liquidity ratio of 51.5% positions the Group defensively.

3. **Loan Book:** Equity Group has continued to report strong performance FY2023 in spite of a number of macroeconomic headwinds. The lender has become more aggressive in growing its loan book with a substantial KES 24Bn being disbursed on a monthly basis accompanied by an impressive repayment performance rate of 98%. This should continue to support NIMs in the near term. Plans are also underway to boost the DRC loan to deposit ratio from the current 56.8% in an additional attempt to boost NIMs.

Investment recommendation:

Equity's strong cash and liquidity position, strong momentum of growth and performance, strong asset buffers in provisions and capital buffers position the institution well to unleash its offensive growth strategy either opportunistically through mergers and acquisitions or via organic growth riding on its strong brand and digital capabilities, strong entrepreneurial and managerial depth and the Group reputation of a steadfast governance structure, practices, and execution capabilities.

We believe the stock to be currently **undervalued**, which presents an opportunity for long-term investors to earn **capital gains** and an **attractive dividend yield**. Equity group will continue to deliver long-term profitability based on geographical expansion, business diversification, and improved asset quality.

Valuation and Investment Guidance

Following the 3Q2023 earnings release, and given some of the key business announcements by the company since our last publication, we reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain our **BUY** recommendation with a target price of **KES 47.20.** The target price implies an upside of 34.9% to the current trading price of KES 35.00 as of 19th December 2023.

We used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation
4. Dividend Discount Model

Assumptions

- Risk free rate of 15.45% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 5.4%
- Beta of 1.4 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	46.39	40%	18.55
DDM	59.02	20%	11.80
P/BV	41.30	30%	12.39
P/E	44.57	10%	4.46
Fair Value		**100%**	**47.20**
Current Price 19.12.2023			**35.00**
Upside/(Downside)			34.9%

Source: NCBA IB Research Estimates

HOUSING FINANCE UPDATE

HF Group released its Q3 2023 financial results posting growth in profit after tax to KES 236.24Mn from KES 61.54Mn attributable to 21.4% rise in net interest income to KES 1.91Bn and a 20.6% surge in non-funded income to KES 0.91Bn. **Return on Equity** rose at 2.8% from 0.7% and return in assets increased to 0.8% from 0.1% recorded in the previous period. **Earnings per share** declined to **KES 0.82** from KES 0.21 recorded in the previous financial year.

Q3' 2023 Performance – % y/y performance

- **Earnings:** Operating income grew by 21.1% to KES 2.82Bn driven by 20.3% growth in interest income, to KES 3.79Bn driven by 20.6% increase in interest from government securities to KES 833.52Mn coupled with a 19.8% increase in interest from loans and advances to KES 2.95Bn. Non- interest income grew by 20.6% to KES 908.43Mn. This was largely attributable to fees and commission income that grew by 47.4% to KES 162.50Mn.

- **Loan book**: The bank's loans and advances to customers grew by 9.3% to KES 38.46Bn slower than the 12.9% growth in deposits to KES 43.83Bn. The loan to deposit ratio declined to 87.8% from 90.7% in previous financial period indicating that the bank leveraged more on deposits to fund its loans and advances to customers.

- **Customer deposits** increased by 12.9% to KES 43.83Bn supported by growth in the various business segments driven by the lender's deposits mobilization initiatives and supported by its internet and mobile banking channels.

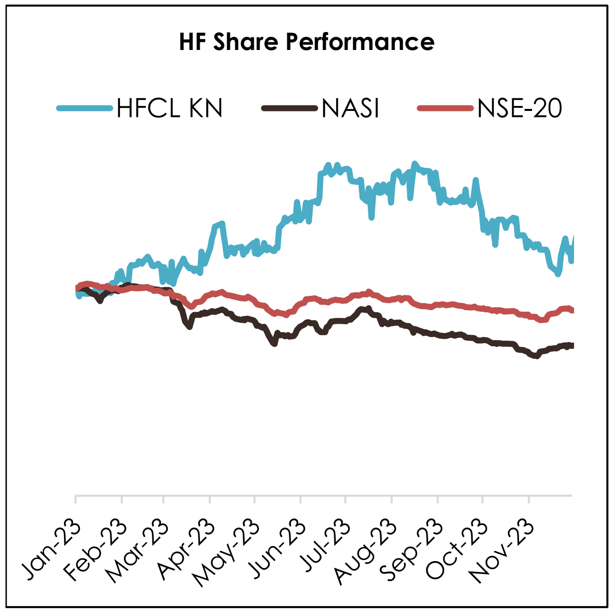
- **Government securities** increased by 10.9% to KES 9.04Bn with an aim to leverage on the higher interest rates as observed with the 21% growth in interest income earned from investment in government securities.

- **Efficiency:** Cost to income ratio including provisions saw a drop to 91% from 97% recorded in 2022. Cost to income ratio excluding provisions saw a decline to 82% from 90%, driven by the cost optimization operating model adopted by the lender, which has notably reduced the lender's structural costs and supported reinvestments for growth.

- **Asset Quality:** Gross NPLs increased by 24.9% to KES 10.56Bn while loan loss provisions shot up substantially by 60.2% to KES 237.05Mn from KES 147.97Mn in the previous year. This was largely attributable to NPLs in real estate sector, the lender's main business driver. The NPL ratio stands at 21.5% higher than the industry average of 16% – reflective of increased credit risk.

Share Data	HF Group PLC
Ticker	HFCL KN
Recommendation	BUY
Current Price (KES)	3.36
Target Price (KES)	5.05
Upside	50.3%
52WK High (KES)	5.20
52WK Low (KES)	2.80
Market Cap (KES Bn)	1.46
Trailing Dividend Yield	-
P/B	0.2x
P/E	4.4x
Current Price = as of 19th December 2023	

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

Financial Summary

HF Group PLC	Key Metrics Y/Y
Loans and Advances	Up 9.3% to KES 38.46Bn
Customer Deposits	Up 12.9% to KES 43.83Bn
Government Securities	Up 10.9% to KES 9.04Bn
Net Interest Income	**Up 21.4% to KES 1.91Bn**
Non-Funded Income	**Up 20.6% to KES 0.91Bn**
Forex trading income	Up 17.9% to KES 0.12Bn
Loan Loss Provisions	Up 60.2% to KES 0.24Bn
PBT	Up 239.6% to KES 0.26Bn
PAT	**Up 283.9% to KES 0.24Bn**
EPS	Up 290.5% to KES 0.82

HF Group PLC	Key Ratios Y/Y
Loan Deposit ratio	Down to 87.8% from 90.7%
Net Interest Margin	**Up to 3.1% from 2.9%**
Cost to Income	Down to 82.3% from 90.3%
NPL Ratio	**Up to 21.5% from 19.4%**
Cost of Risk	Up to 0.6% from 0.4%
ROE	**Up to 2.8% from 0.7%**
Current Market Price	KES 3.36
P/E	4.6x
P/B	0.2x
Dividend type	**No Interim dividend**

Source: Company financials, NCBA IB Research

2023 Outlook

We expect Housing Finance to record steady growth boosted by:

1. **Revenue Diversification:** Revenue streams such as commercial banking and business banking which recorded a 3% increase in the previous year, should further scale the company towards a being a fully-fledged financial services group.

2. **Loans growth:** The lender's key focus on its established products, namely mortgages, will continue to record material year-on-year growth, especially with the implementation of the government affordable housing agenda.

3. **Digital transformation:** The Fintech/digital capabilities of the Group continued to be strengthened by the successful rollout of the *HF Whizz app* which allows customers to make bill payments as well as get instant loans anytime, anywhere. This will increase the bank's transactional volumes and income.

Investment recommendation:

Going forward the bank will leverage on digitization to scale up retail business. The lender will continue to focus on executing its strategy to build a consumer banking business that is digitally enabled to drive reach and invest in areas of competitive strength.

The stock presents an opportunity for long-term investors to earn capital gains. We expect HF Group to deliver profitability in 2023 based on its focus on revenue diversification, cost rationalization and digital transformation.

Valuation and Investment Guidance

Following the 3Q2023 earnings release, and given some of the key business announcements by the company since our last publication, we reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain our **BUY** recommendation with a target price of **KES 5.05.** The target price implies an upside of 50.3% to the current trading price of KES 3.36 as of 19th December 2023.

We used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation
4. Dividend Discount Model

Assumptions

- Risk free rate of 12.45% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 5.4%
- Beta of 0.6 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	7.40	40%	2.97
P/BV	4.20	30%	1.26
P/E	2.80	30%	0.83
Fair Value		**100%**	**5.05**
Current Price 19.12.2023			**3.36**
Upside/(Downside)			50.3%

Source: NCBA IB Research Estimates

I&M GROUP UPDATE

I&M Group released its Q3 2023 financial results posting a **14.1%** rise in profit after tax attributable to 18.4% increase in net interest income to KES 19.13Bn and a 21.2%% increase in non-interest income to KES 10.72Bn. **Return on Equity** rose to 10.5% from 9.2% and return in assets increased to 1.6% from 0.9%. **Earnings per share** rose to **KES 4.70** from KES 4.12 recorded in the previous financial year.

Q3 2023 Performance – % y/y performance

- **Earnings:** Operating income grew by 19.4% to KES 29.85Bn driven by 21.2% growth in non-interest income, to KES 10.72Bn. This was largely attributable to foreign exchange trading income that grew by 12.9% to KES 4.27Bn as the bank leveraged on wider spreads. Interest income grew by 27.5% to KES 34.17Bn driven by 31.2% increase in interest from loans and advances to KES 24.32Bn.

- **Loan book**: The bank's loans and advances to customers grew by 24.3% to KES 287.3Bn slower than the 30.6% growth in customer deposits. The loan portfolio continued to show double-digit growth on the back of ecosystem partnerships via the lender's Kamilisha product.

- **Customer deposits** grew by 30.6% to KES 402.41Bn driven by Group initiatives to drive low-cost deposits. The increase was driven by increase in customer engagements in a bid to grow Current Account and Savings Account (CASA).

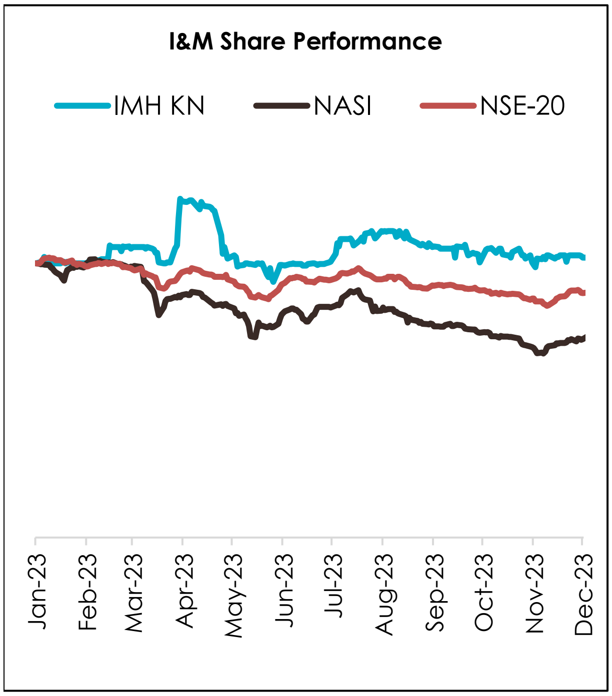
- **Government securities** saw an increase by 14.6% to KES 84.65Bn in an aim to leverage on the higher interest rates as observed with the 9.5% growth in interest income earned from investment in government securities to KES 8.62Bn.

- **Efficiency:** Cost to income ratio including provisions surged to 64.3% from 59.7% recorded in 2022. Cost to income ratio excluding provisions saw a marginal rise to 48.8% from 45.3%. Moreover, operating costs grew by 28.6% to KES 19.19Bn while loan loss provisions rose by 28.3% to KES 4.62Bn from KES 3.60Bn in the previous year.

- **Asset Quality:** The group's NPL ratio rose to 11.2% from 9.3% reflective of worsening asset quality. Gross NPLs increased by 52.5% to KES 36.12Bn while the cost of risk increased to 1.6% as a result of increase in credit losses driven by the macroeconomic environment. This was largely attributable to NPL's in the manufacturing sector, which is the lender's prevalent sector with a 27% distribution of the lender's loan and advances.

Share Data	**I&M Group**
Ticker	**IMH KN**
Recommendation	**BUY**
Current Price (KES)	**17.35**
Target Price (KES)	**20.90**
Upside	**20.5%**
52WK High (KES)	**21.50**
52WK Low (KES)	**15.80**
Market Cap (KES Bn)	**26.21**
Trailing Dividend Yield	**12.86%**
P/B	**0.3x**
P/E	**3.7x**
Current Price = as of 19th December 2023	

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

Financial Summary

I&M Group	Key Metrics Y/Y	I&M Group	Key Ratios Y/Y
Loans and Advances	Up 24.3% to KES 287.3Bn	Loan Deposit ratio	Down to 71.4% from 75.1%
Customer Deposits	Up 30.6% to KES 402.41Bn	**Net Interest Margin**	**Down 3.5% from 3.8%**
Government Securities	Up 14.6% to KES 84.7Bn	Cost to Income	Up to 48.8% from 45.3%
Net Interest Income	**Up 18.4% to KES 19.13Bn**	**NPL Ratio**	**Up to 11.2% from 9.3%**
Non-Funded Income	**Up 21.2% to KES 10.72Bn**	Cost of Risk	Maintained at 1.6%
Forex trading income	Up 12.9% to KES 4.26Bn	**ROE**	**Up to 10.5% from 9.2%**
Loan Loss Provisions	Up 28.3% to KES 4.62Bn	Current Market Price	KES 17.35
PBT	Up 5.7% to KES 10.66Bn	P/E	3.7x
PAT	**Up 14.1% to KES 7.76Bn**	P/B	0.3x
EPS	Up 14.1% to KES 4.70	**Dividend Type**	**No interim dividend**

Source: Company financials, NCBA IB Research

2023 Outlook

We expect I&M Group to record steady growth boosted by:

1. **Subsidiaries performance and contribution:** The Group's subsidiaries contributed 13% of overall profit after tax in FY'2022. Notably, the bank will continue to drive transformation in its subsidiaries, which will support growth in the bottom-line. The non-banking subsidiaries – I&M Burbidge, I&M Capital, and I&M Bancassurance Intermediaries Ltd all ended the year 2022 on a high note, significantly increasing their revenues and profitability.

2. **Digital transformation:** Under Imara 2.0 strategy, the Group's focus has been on investing in digital platforms to diversify revenue streams and scaling business opportunities. The bank's program on zero-rating bank to Mpesa transactions is aimed to increase transactions on its digital platforms will allow the lender to increase revenues on the digital front.

3. **Loan Book Growth:** The bank has sustained an average double-digit loan book growth. Net Loans and advances had strong growth momentum on the back of growth in both our corporate and retail business segments. The bank remains focused on building inroads into MSME and retail banking by offering innovative solutions that support the lender's loan book growth.

Investment recommendation:

The lender's Focus on providing Corporate Customers with value-add services, maintaining advantage in trade finance, increased leverage in Agriculture, Oil & Gas opportunities position the institution well to unleash its offensive growth strategy.

The stock presents an opportunity for long-term investors to earn **capital gains** and an attractive dividend yield.

Valuation and Investment Guidance

Following the 3Q2023 earnings release, and given some of the key business announcements by the company since our last publication, we reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain our **BUY** recommendation with a target price of **KES 20.90.** The target price implies an upside of 20.5% to the current trading price of KES 17.35 as of 19th December 2023.

We used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation
4. Dividend Discount Model

Assumptions

- Risk free rate of 15.45% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 5.4%
- Beta of 0.5 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	17.82	40%	7.13
DDM	28.98	10%	2.90
P/BV	22.98	40%	9.19
P/E	16.48	10%	1.62
Fair Value		**100%**	**20.90**
Current Price 19.12.2023			**17.35**
Upside/(Downside)			20.5%

Source: NCBA IB Research Estimates

KCB GROUP PLC UPDATE

KCB released its Q3 2023 financial Profit saw an increase by **0.4%** to KES 30.7Bn, largely attributable to strong growth in profitability achieved across all the lender's subsidiaries helping the lender offset the impact of loss at NBK dashing out to an overall growth. Subsidiaries outside Kenya saw a threefold growth in net earnings to **KES 12.00Bn** driven by strong organic growth in Tanzania, Uganda, South Sudan and consolidation of TMB.

Share Data	KCB Group PLC
Ticker	KNCB KN
RECOMMENDATION	BUY
Current Price (KES)	19.65
Target Price (KES)	23.80
Upside	21.1%
52WK High (KES)	43.00
52WK Low (KES)	15.00
Market Cap (KES Bn)	62.02
Trailing Dividend Yield	15.5%
P/B	0.3x
P/E	2.5x
Current Price = as of 19th December 2023	

Source: Bloomberg, NSE, NCBA IB Research

Q3 2023 Performance – % y/y performance

- **Earnings:** Operating income grew by 27.3% to KES 117.2Bn mainly driven by non-interest income which grew by 38.7% to KES 42.38Bn. Forex trading income dropped by 2.4% to KES 8.19Bn. Net Interest income grew by 21.6% to KES 74.8Bn benefiting from a faster growth in the bank's loan book. The lender saw a decline in net interest margin to 3.6% from 4.8% due to increased cost of fund as a result of high interest rate environment, on the contrary the rollout of risk-based pricing will support the funding/lending spread.

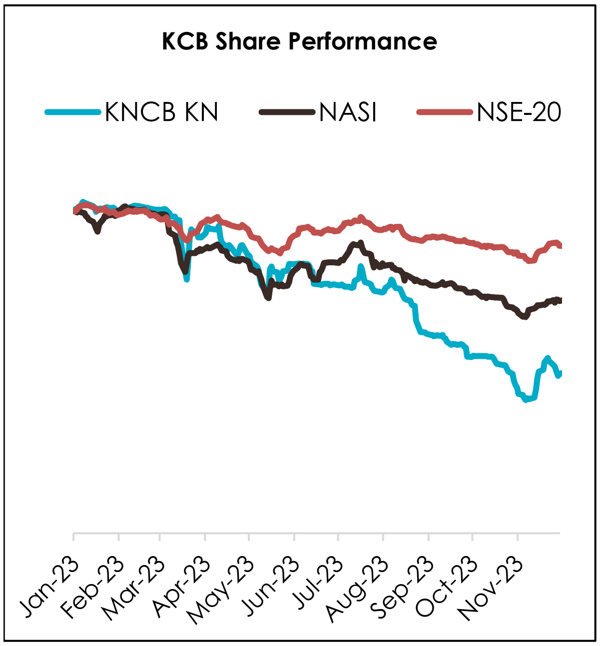
- **Loan book**: The bank's loans and advances to customers grew by 38.1% to KES 1.05Tr slower than the 79.6% growth in customer deposits. This led to a decline in the loan to deposit ratio to 63.3% from 82.3% recorded in Q32022.

- **Customer deposits** saw an increase of 79.6% to KES 1.65Tr driven by organic growth in demand and term deposits in existing business. This was driven by an 18% organic growth in demand and term deposits in existing business and 23% from the consolidation of Trust Merchant Bank (TMB). TMB accounted to a 16.6% contribution to total customer deposits.

- **Government securities** recorded a growth of 37.5% to KES 325.1Bn as bank continues to take advantage of higher interest rate environments.

- **Efficiency:** Cost to income ratio excluding provisions increased to 51.9% from 45.1%. Cost to income ratio including provisions saw an uptick to 65.4% from 53.0%. Operating costs grew by 57.0% to KES 76.7Bn driven by investments in technology, amortization of intangibles, provisions and expenditure to support additional expansion of its footprint which is eating into the lender's bottom line.

- **Asset Quality:** Gross NPLs increased by 25.3% to KES 187.0Bn attributable to an increase in non-performing loans in the manufacturing, transport and communication sectors in the Kenyan economy mirroring the tough macro-economic environment.



Source: NSE, NCBA IB Research

Financial Summary

KCB Group PLC	Key Metrics Y/Y
Loans and Advances	Up 38.1% to KES 1.048Tr
Customer Deposits	Up 79.6% to KES 1.65Tr
Government Securities	Up 37.5% to KES 325.6Bn
Net Interest Income	**Up 21.6% to KES 74.8Bn**
Non-Funded Income	**Up 38.7% to KES 42.38Bn**
Forex trading income	Down 2.4% to KES 8.19Bn
Loan Loss Provisions	Up 118.1% to KES 15.5Bn
PBT	Down 6.3% to KES 40.59Bn
PAT	**Up 0.4% to KES 30.72Bn**
EPS	Up 0.9% to KES 12.75

KCB Group PLC	Key Ratios Y/Y
Loan Deposit ratio	Down to 63.3% from 82.3%
Net Interest Margin	**Down 3.6% from 4.8%**
Cost to Income	Up 51.9% from 45.1%
NPL Ratio	**Down to 15.1% from 16.4%**
Cost of Risk	Up to 1.5% from 1.0%
ROE	**Up 15.1% from 15.0%**
Current Market Price	KES 19.65
P/E	1.5x
P/B	0.3x
Dividend	**No interim dividend**

2023 Outlook

We expect KCB to record steady growth boosted by:

1. **Revenue Diversification:** The bank is a strong player in financial inclusion with their digital platforms, Fuliza and KCB Mobi loan which saw a 48% growth in value of transactions, coupled with other digital strides will allow the bank diversity its revenues.

2. **Loans growth:** The bank's focus on digital lending through its automated business loan product will support NFI line growth. The bank's focus on co-creating solutions with customers to grow the loan book and increase product holding will see the loan book grow.

3. **Subsidiaries performance and contribution:** The bank is placing its faith in regional subsidiaries as they accounted for a 35.0% increase in profit before tax. The lender's hinges its future on becoming a significant regional player, especially with the DRC unit becoming its second most profitable subsidiary. the restructuring of some of its units such as its investment bank and asset management will help grow their revenue streams in the remainder of the year

Investment recommendation:

KCB'S wide regional footprint along with its well diversified portfolios of business and capital buffers position the lender to gain significant momentum in balance sheet growth across all subsidiaries driven by increased lending on the back of continued recovery in economic activities in the regions it operates in. . The lender has recently signed up on the pan-African payment settlement system which should further cement its grip in the region and continent.

At the current market price, the stock is trading below its fair value which presents a value pick for long-term investors.

We expect the bank to continue generating long-term profitability supported by an aggressive lending strategy, subsidiaries' performance, and regional diversification.

Valuation and Investment Guidance

Following the 3Q2023 earnings release, and given some of the key business announcements by the company since our last publication, we reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain our **BUY** recommendation with a target price of **KES 23.80.** The target price implies an upside of 21.1% to the current trading price of KES 19.65 as of 19th December 2023.

We used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation
4. Dividend Discount Model

Assumptions

- Risk free rate of 15.45% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 5.4%
- Beta of 1.3 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	16.21	40%	6.48
DDM	21.42	20%	4.28
P/BV	32.10	30%	9.63
P/E	34.05	10%	3.41
Fair Value		**100%**	**23.80**
Current Price 19.12.2023			**19.65**
Upside/(Downside)			21.1%

Source: NCBA IB Research Estimates

STANBIC BANK KENYA UPDATE

Stanbic bank's net profit for Q3 grew by **32.7%** to **KES 9.28Bn** as non-interest income recorded an increase of 23.0% to KES 12.7Bn and interest income rose by 48.2% to KES 26.13Bn. Growth in profit was attributable to a 31% growth in Stanbic Bancassurance Intermediary Ltd, and over 100% growth in PAT by SBG Securities.

Q3 2023 Performance highlights (% = y/y performance)

- **Earnings:** Net interest income grew by 42.4% to KES 18.11Bn mainly driven by a 48.2% growth in interest income to KES 26.13Bn coupled with a 23.0% rise in non-funded income to KES 12.61Bn along with a 5.0% in FX income to KES 7.24Bn. This was largely attributable to rising interest rates and increased foreign exchange trading income.

- **Loan book**: The bank's loans and advances to customers grew by 5.9% to KES 250.98Bn boosting overall assets, which grew by 11.5% attributable to the banks' aggressive lending strategy. The loan to deposit ratio declined to 82.1% from 88.6% in Q32022.

- **Customer deposits** recorded an uptick of 14.3% to KES 305.6Bn. Loans and advances saw an increase of 5.9% to KES 250.98Bn driven by a rise in digital lending through the Mjeki Platform and the implementation of the risk-based pricing model.

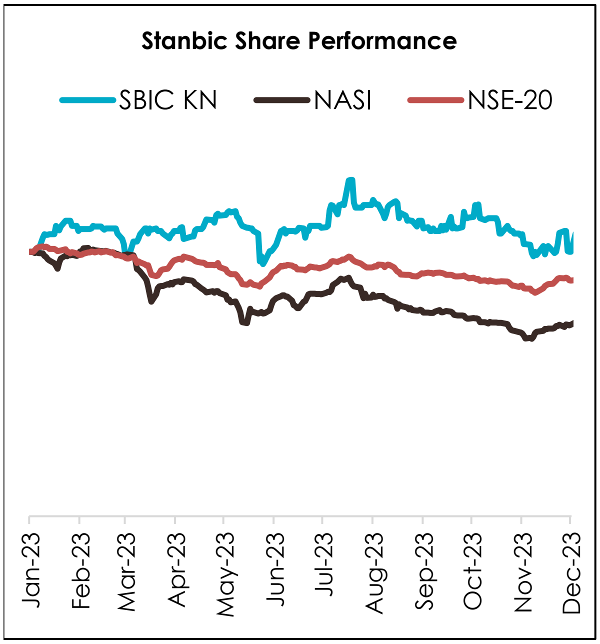
- **Government securities** on the other hand dropped by 36.7% to 40.64Bn as bank remains skeptical on government securities owing to tough macroeconomic conditions prevailing.

- **Efficiency:** Cost to income ratio excluding provisions declined to 43.2% from 45.4% following cost optimization by the lender. Cost to income ratio including provisions declined to 57.8% from 57.9% recorded in Q3 2022.

- **Asset Quality:** The lender's NPL saw a marginal decrease of 6.2% to KES 24.0Bn one of the lowest across peers. Foreign currency loans, however, continue to come under pressure as the KES continues to depreciate. The NPL ratio stands at 8.7% lower than the industry average of 16% – reflective of effective credit risk management initiatives by the bank.

Share Data	Stanbic Bank Kenya
Ticker	SBIC KN
RECOMMENDATION	HOLD
Current Price (KES)	104.50
Target Price (KES)	107.00
Upside	10.6%
52WK High (KES)	132.00
52WK Low (KES)	90.00
Market Cap (KES Bn)	42.89
Trailing Dividend Yield	11.6%
P/B	0.7x
P/E	2.0x
Current Price = as of 19th December 2023	

Source: Bloomberg, NSE, NCBA IB Research



Source: NSE, NCBA IB Research

Financial Summary

Stanbic Bank Kenya	Key Metrics Y/Y
Loans and Advances	Up 5.9% to KES 250.98Bn
Customer Deposits	Up 14.3% to KES 305.66Bn
Government Securities	Down 36.7% to KES 40.63Bn
Net Interest Income	**Up 42.4% to KES 18.11Bn**
Non-Funded Income	**Up 23.0% to KES 12.61Bn**
Forex trading income	Up 5.0% to KES 7.24Bn
Loan Loss Provisions	Down 56.8% to KES 4.48Bn
PBT	Up 34.0% to KES 12.97Bn
PAT	**Up 32.7% to KES 9.28Bn**
EPS	Up 32.7% to KES 54.42

Stanbic Bank Kenya	Key Ratios Y/Y
Loan Deposit ratio	Down to 82.1% from 88.6%
Net Interest Margin	**Up to 4.4% from 3.4%**
Cost to Income	Down to 43.2% from 45.4%
NPL Ratio	**Down to 8.7% from 9.8%**
Cost of Risk	Up to 1.8% from 1.2%
ROE	**Up to 17.5% from 13.2%**
Current Market Price	KES 104.5
P/E	1.9x
P/B	0.7x
Interim Dividend	**KES 1.15**

Source: Company financials, NCBA IB Research

2023 Outlook

We expect Stanbic Bank Kenya to record gradual growth boosted by:

1. **Loan Book Growth:** The bank has sustained an average double-digit loan book growth over the last 5 years excluding 2020. We see this impressive loan book growth enduring and translating into topline growth momentum. Implementation of risk-based pricing models will further scale the aggressive lending strategy.

2. **High Government Securities' Yields:** The bank is poised to benefit from the rise in yield curve due to its increased allocation to government securities.

3. **Risk Management:** Notably, the banks NPL ratio is commendable compared to the industry average of 13.93%. Proactive data driven risk analysis with credit risk pricing models in the mainstream loans will boost credit loss and cost of risk ratios.

4. **Revenue Diversification**: Stanbic South Sudan recorded increase in profit after tax attributable to higher trading income. The bank also leverages support from the Group in terms of access to forex and we expect this, together with continued digitization initiatives to support non-interest income growth.

Investment recommendation:

At the current market price, the stock is trading within its fair value but presents a value pick for long-term investors owing to its reliable dividend payout.

We expect the bank to register long-term profitability based on its revenue diversification and sustained loan book growth.

Valuation and Investment Guidance

Following the 3Q2023 earnings release, and given some of the key business announcements by the company since our last publication, we reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain our **HOLD** recommendation with a target price of **KES 115.60.** The target price implies an upside of 10.6% to the current trading price of KES 104.50 as of 19th December 2023.

We used four valuation methodologies to arrive at our fair value estimate:
1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation
4. Dividend Discount Model

Assumptions

- Risk free rate of 15.45% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 5.4%
- Beta of 0.7 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	130.60	40%	52.24
DDM	86.45	20%	17.29
P/BV	125.87	30%	50.35
P/E	106.65	10%	10.67
Fair Value		**100%**	**115.59**
Current Price 19.12.2023			**107.00**
Upside/(Downside)			10.6%

Source: NCBA IB Research Estimates

STANDARD CHARTERED BANK KENYA UPDATE

Standard Chartered released its Q3 financial results posting an **11.8% y/y** increase in profit after tax largely attributable to 48.8% y/y increase in FX income and a 40.1% increase in net interest income. The **Return on Equity** and Return on Assets increased to **6.9%** and 1.1%, respectively. **Earnings per share** rose to **KES 10.55** from KES 6.87 in the previous financial year.

Share Data	Standard Chartered
Ticker	SCBK KN
Recommendation	SELL
Current Price (KES)	154.25
Target Price (KES)	154.65
Upside (Inc. Div. Yield)	(0.3%)
52WK High (KES)	172.50
52WK Low (KES)	121.00
Market Cap (KES Bn)	53.27
Free Float	18.03%
P/B	0.9x
P/E	13.4x

Current Price = as of 19th December 2023

Source: Bloomberg, NSE, NCBA IB Research

Q3 2023 Performance highlights (% = y/y performance)

- **Earnings:** Net interest income grew by 40.1% mainly driven by a 34.5% growth in interest income coupled with a 49.8% rise in foreign exchange trading income and rising interest rates. However, Non-funded income dropped by 6.6% to KES 8.20Bn.

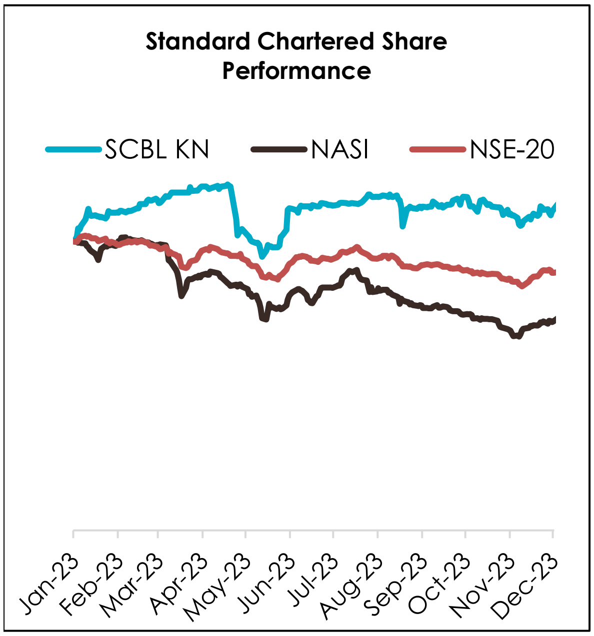
- **Loan book**: The bank's loans and advances to customers grew by 5.5% to KES 136.07Bn driven by major pipeline deals and higher utilization of limits by clients. The loan book benefitted from a high value loan given to a telecommunication giant for a private sector operation in Ethiopia. The loan to deposit ratio increased to 48.0% from 47.6% in Q32022.

- **Customer deposits** increased by 4.5% to KES 298.9Bn faster than the 5.5% growth in the loan book, driven by new mandates and increased transactional flows from key relationships as well as value driven from the wealth management segment.

- **Government securities** declined by 51.9% to KES 53.61Bn as the bank remains skeptical on government securities.

- **Efficiency:** Cost to income ratio excluding provisions declined to 47.3% from 47.4% following cost optimization by the lender amid increased digitalization of services and branch rationalization. Cost to income ratio including provisions increased to 53.5% from 49.9%.

- **Asset Quality:** Gross NPLs decreased insignificantly to 2.0% to KES 23.57Bn. NPL ratio of 14.1% remains above the industry average of 16.0%, indicative of worsening credit quality owing to tough macro-economic conditions.



Source: NSE, NCBA IB Research

Financial Summary

Standard Chartered	Key Metrics Y/Y
Loans and Advances	Up 5.5% to KES 143.57Bn
Customer Deposits	Up 4.5% to KES 298.83Bn
Government Securities	Down 51.9% to KES 53.6Bn
Net Interest Income	**Up 34.5% to KES 21.23Bn**
Non-Funded Income	**Down 6.6% to KES 8.20Bn**
Forex trading income	Up 49.8% to KES 6.29Bn
Loan Loss Provisions	Up 193.4% to KES 1.82Bn
PBT	Up 11.3% to KES 13.7Bn
PAT	**Up 11.8% to KES 9.74Bn**
EPS	Up 12.5% to KES 25.44

Standard Chartered	Key Ratios Y/Y
Loan Deposit ratio	Up 48.0% from 47.6%
Net Interest Margin	**Up to 5.7% to 4.3%**
Cost to Income	Up to 53.5% from 49.9%
NPL Ratio	**Down to 14.1% from 15.0%**
Cost of Risk	Up to 1.3% from 0.5%
ROE	**Up to 17.1% from 15.3%**
Current Market Price	KES 154.25
P/E	6.1x
P/B	1.0x
Interim Dividend	**KES 6.00**

Source: Company financials, NCBA IB Research

2023 Outlook

We expect Standard Chartered to record steady growth boosted by:

1. **Revenue Diversification:** The bank derives more than 45% of its revenue from the consumer, private and business banking. The bank is optimizing on their digital capabilities such as mobile platforms, SC Shilingi – an end to end digital money market fund among other digital strides will allow the bank diversify its revenue streams. The bank's newly launched program "banking the ecosystem" which supports the Small and medium enterprises will increase the trade flows, as SMEs are critical drivers of the economy. The bank provides foreign currency clearing and trade finance to its peers – Tier 1 and 2 banks a move that will increase the banks commissions and fees.

2. **Loan Book Growth:** The bank has sustained an average double-digit loan book growth over the last 5 years excluding 2020. We see this impressive loan book growth enduring and translating into topline growth momentum. The bank, accelerating their Sustainable Finance offering to clients through product innovation and enabling transition to a low carbon future will further scale the aggressive lending strategy.

3. **Improved asset quality:** The NPL ratio of 14.1% is commendable compared to 15.0% recorded in the previous period. The fall in NPL ratio is aiding to reduce the bank's loan impairment charges and overall cost base. Dynamic risk management strategies aligned to the bank's risk appetite will support this strategy, pending approval of the risk-based pricing models.

Investment recommendation:

Going forward the bank will leverage on technology to scale up mass retail business. The lender will continue to focus on executing its strategy and invest in areas of competitive strength such as their wealth management unit.

At the current market price, the stock is trading within its fair value but presents a value pick for long-term investors owing to its attractive and reliable dividend payout.

We expect the bank to register long-term profitability based on revenue diversification and steady topline growth.

Valuation and Investment Guidance

Following the 3Q2023 earnings release, and given some of the key business announcements by the company since our last publication, we reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain our **BUY** recommendation with a target price of **KES 154.25.** The target price implies a downside of 5% to the current trading price of KES 163.25 as of 19th December 2023.

We used four valuation methodologies to arrive at our fair value estimate:

1. Residual Income
2. Price to Book Valuation
3. Price to earnings Valuation
4. Dividend Discount Model

Assumptions

- Risk free rate of 12.45% based on the 10-year Treasury bond historical yields.
- Tax rate of 30%
- Equity risk premium of 5.4%
- Beta of 0.5 on stock's relative volatility on the index.
- Long term growth rate of 5.0% based on average GDP forecast.

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	170.63	40%	68.25
DDM	193.84	20%	38.77
P/BV	119.13	30%	35.74
P/E	118.95	10%	11.90
Fair Value		**100%**	**154.65**
Current Price 19.12.2023			**154.25**
Upside/(Downside)			(0.3%)

Source: NCBA IB Research Estimates

About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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Certification

The following analyst who prepared this research report: Victoria Mututu hereby certifies that:

(i) All of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and

(ii) No part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

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