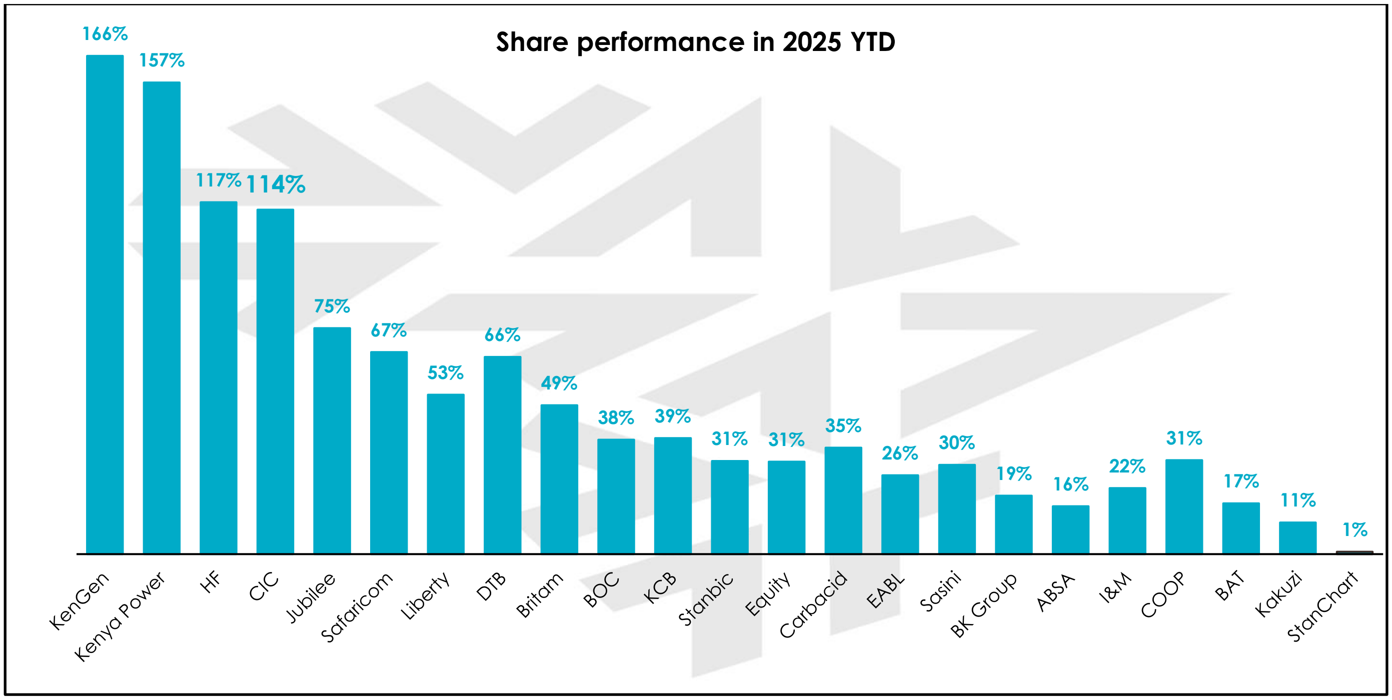
05 December 2025

Macro stability and rate cuts drive strong YTD equity performance

Banks led market momentum, but gains are broadening Equities extended their rally in 2025, with the NASI up **45% YTD**, supported by resilient earnings and stable macro fundamentals. Kenya's listed banks delivered a mixed Q3 2025 performance, with margin growth from lower funding costs offsetting pressure in non-funded income and pockets of asset-quality strain. We expect earnings momentum to remain robust, on the back of credit growth due to the lower interest rate environment and improving NPLs from loan recoveries and write-offs.

Energy stocks spark investor interest: Investor interest in the energy sector remained strong with T **Kenya Power up 157% YTD** and **KenGen +166% YTD**. Optimism centers on operational turnaround and recovering demand despite cost pressures remaining a headwind.

Our View: With banking, insurance, and energy delivering above-trend earnings momentum, market leadership is broadening beyond traditional large-cap banks. We expect continued investor rotation into undervalued counters particularly in insurance and select energy plays. Stable macro fundamentals and a supportive earnings outlook should sustain positive sentiment into year-end, though cost pressures and fiscal policy risks remain key watchpoints for 2026.



Source; NSE, NCBA IB Research

December 2025 stock picks

Counter	Current Price *30th November 2025	Target price	Upside	Trailing Dividend	Trailing Div. Yield	Recommendation
Banking						
ABSA	21.85	23.62	8.10%	1.75	8.01%	NEUTRAL
BK Group	41.80	46.80	11.96%	3.02	7.22%	NEUTRAL
COOP	22.90	19.76	-13.71%	1.50	6.55%	SELL
DTB	110.50	90.67	-17.95%	7.00	6.33%	SELL
Equity	62.75	61.94	-1.29%	4.25	6.77%	SELL
I&M	43.90	49.20	12.07%	3.00	6.83%	NEUTRAL
KCB	58.75	67.62	15.10%	3.00	5.11%	BUY
Stanbic	183.00	193.50	5.74%	20.74	11.33%	NEUTRAL
StanChart	287.50	312.00	8.52%	45.00	15.65%	NEUTRAL
Telecommunication						
Safaricom	28.75	28.83	0.28%	1.20	4.17%	NEUTRAL
Manufacturing & Allied						
BAT Kenya	439.75	493.57	12.24%	50.00	11.37%	NEUTRAL
BOC Kenya	122.50	116.00	-5.31%	6.15	5.02%	SELL
Carbacid	27.55	27.15	-1.45%	1.70	6.17%	SELL
EABL	221.50	221.55	0.02%	8.00	3.61%	NEUTRAL
Agricultural						
Kakuzi	380.00	438.41	15.37%	8.00	2.11%	BUY
Sasini	19.45	18.10	(6.94%)	1.50	7.71%	SELL

***BUY –** Total expected 12-month return (incl. dividends) greater than 15%
***NEUTRAL –** Total expected 12-month return (incl. dividends) between 0%- 15%
***SELL –** Total expected 12-month return (incl. dividends) less than 0%

Our target prices are anchored on fundamental analysis. While the current market rally has lifted many counters closer to their fair value,much of the momentum appears sentiment-driven rather than based on underlying earnings growth.
For stocks rated Neutral, we recommend that investors consult with their financial advisors to evaluate their individual investment goals. Depending on their risk appetite and return expectations, clients may consider holding their positions or realizing gains where appropriate.

The banking sector remains a cornerstone for investors seeking a balance of capital preservation and income, underpinned by dividend yields and improved earnings momentum. However, despite sound fundamentals, most counters are rated **NEUTRAL save for KCB** . This is largely due to the recent market rally that has pushed share prices beyond our fair values, limiting additional upside in the near term.

Safaricom, the benchmark counter in telecommunications, presents a mixed story. While it has strong fundamentals and plays a key role in defensive positioning, an upside of **0.28%** leads to a **NEUTRAL** recommendation at current market levels. However, it offers a trailing dividend yield of **4.20%.**

A key driver for the recent market activity is the decline interest rates which are making fixed-income investments less attractive pushing investors to search for higher earnings yields from the NSE. This has contributed to a market rally that has been largely sentiment-driven, with prices running ahead of earnings revisions. As a result, many of our recommendations are **NEUTRAL** and several are rated **SELL**, signaling that while fundamentals remain intact, entry points are less attractive at current levels. We advise investors to focus on dividend strength, earnings resilience and stock-specific catalysts to navigate the next phase of the market.

The equities market is currently trading at a P/E ratio of 7.0x representing a 41% discount to the historical average of 11.4x. The dividend yield stands at 6%, which is 1.3 percentage points above the historical average of 4.7%. Notably, the NASI PEG ratio is at 0.8x, suggesting that the market remains slightly undervalued relative to its expected earnings growth. Typically, a PEG ratio above 1.0x signals potential overvaluation, while a ratio below 1.0x implies undervaluation.

We **maintain a bias towards value stocks** with **robust earnings growth** and those **trading below their intrinsic value**. However, we **expect sustained foreign investor sell-offs on profit-taking** to **exert pressure on market performance.**

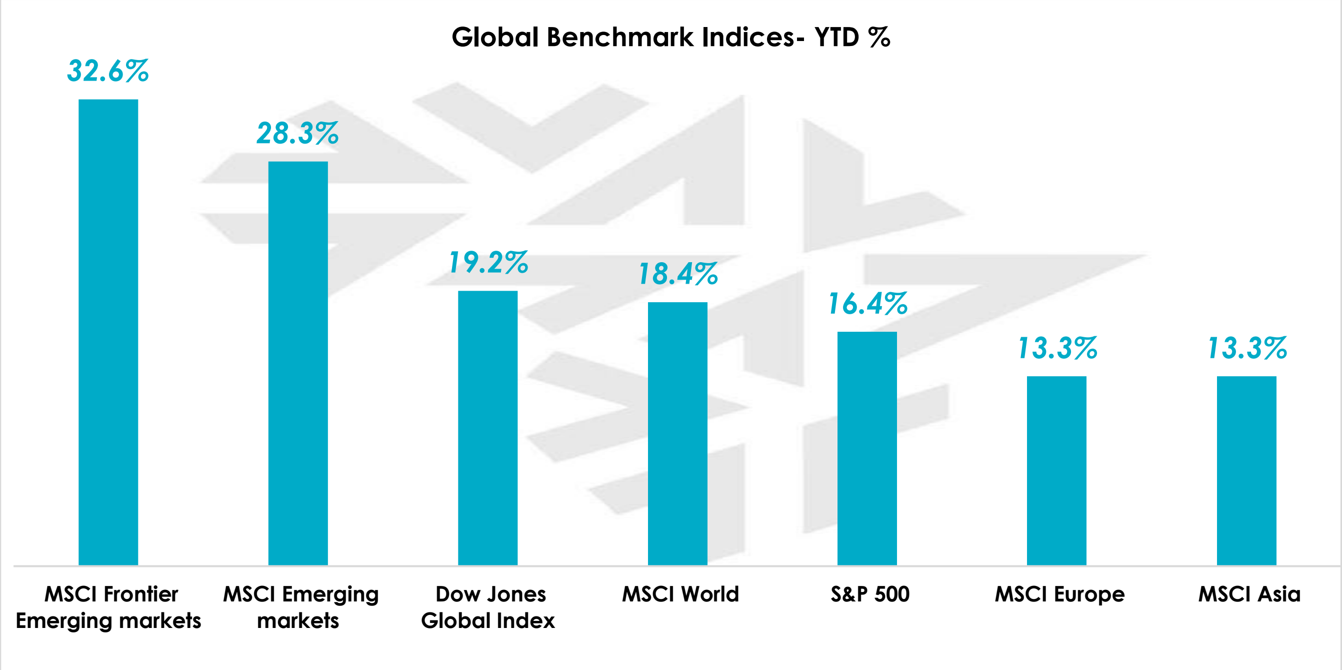
Global markets review - Frontier markets outperform

Global Equities: Global equities are trending to close the year on a positive note , supported by easing inflation, clearer interest-rate expectations and a broad recovery in risk appetite. Strong earnings growth from large-cap technology, healthcare, and consumer companies helped sustain momentum in developed markets. Despite geopolitical uncertainty and intermittent volatility, investor sentiment improved as the global economy edged closer to a controlled soft-landing heading into the new year.

Emerging markets: EM delivered mixed performance through the year, reflecting uneven economic recoveries and varying policy responses. Countries with stronger fiscal positions and robust export sectors particularly in Asia and Latin America have outperformed, while others continued to face currency pressures and tightening funding conditions. Nonetheless, improving global liquidity prospects and moderating US yields have set a more constructive tone for EM flows going into the new year.

Europe: European equities ended the year with modest gains, held back by sluggish economic growth, elevated energy costs and lingering geopolitical tensions. Defensive sectors outperformed as consumers remained cautious and industrial activity was subdued. However, inflation cooled faster than expected raising hopes for earlier rate cuts in the new year and providing a supportive backdrop for selective equity re-rating.

Asia: Asian equities outperformed most regions, driven by strong recoveries in manufacturing, technology, and intra-regional trade. Markets such as India, Japan, and parts of Southeast Asia benefited from resilient domestic demand and investor rotation toward growth-oriented sectors. Policy stability and improving corporate earnings also helped anchor sentiment, positioning Asia as a key driver of global equity performance moving forward.



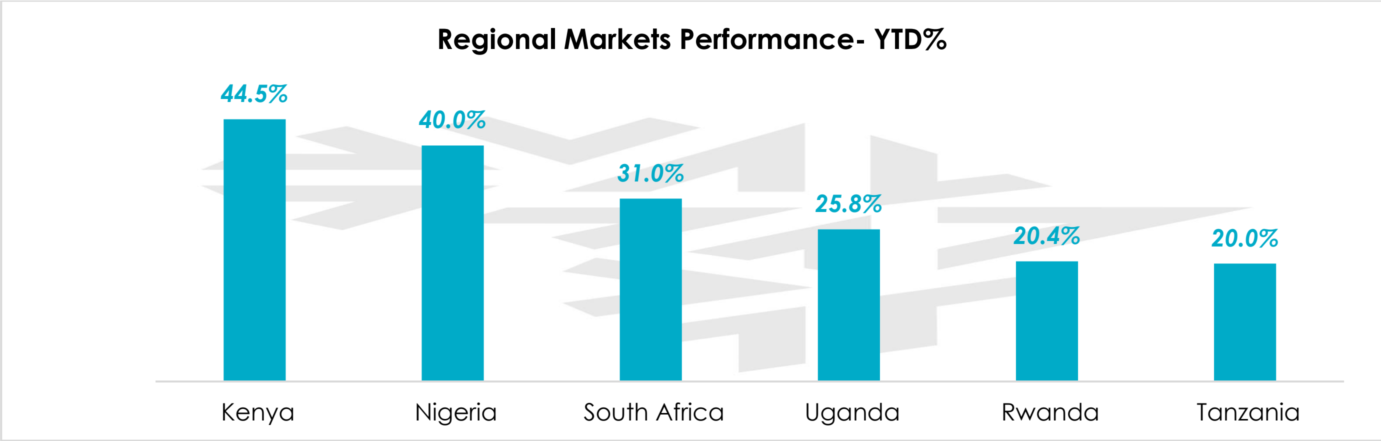
Source: Bloomberg, NCBA IB Research

Regional market review – Kenya leads on YTD performance

The regional indices recorded positive performance with the Kenyan Market recording the highest YTD gain (in local currency). This is on the back of capital flows to the undervalued markets.

East Africa / Regional Markets: East African markets showed measured resilience through the year, supported by improving macro stability, easing inflation and stronger regulatory clarity. Corporate earnings across banking, telecoms, and consumer sectors provided pockets of strength, even as liquidity remained uneven across exchanges. While foreign flows stayed muted, regional institutional investors helped maintain market depth, reinforcing a stable backdrop heading into the new year.

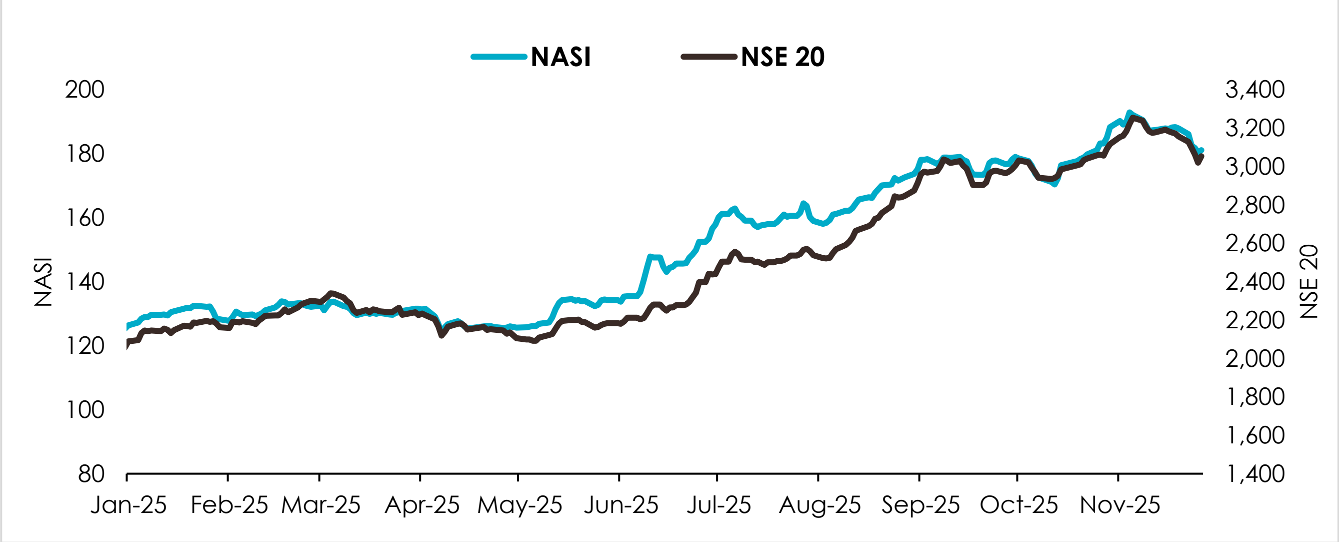
Kenya: Kenyan equities strengthened toward the end of the year, supported by the stable shilling, easing inflation and improving earnings momentum in banks and select blue-chip counters. Local institutional investors remained the primary source of liquidity as foreign participation stayed cautious but gradually improved alongside macro stabilization. With valuations still discounted and policy conditions steadier, the market enters the new year with a more constructive tone.



Source: Bloomberg, NCBA IB Research

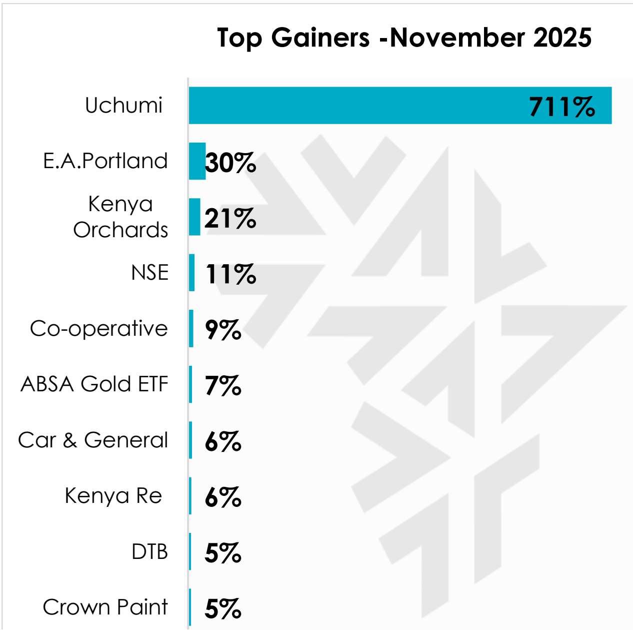
Local Market Performance

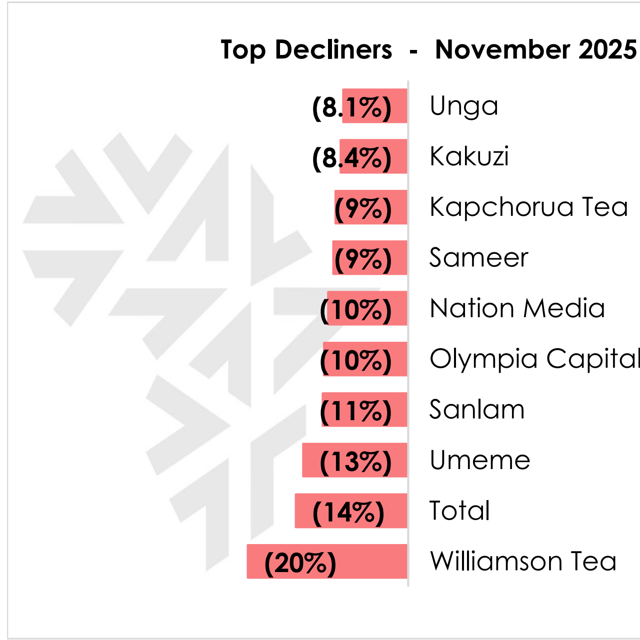
In Kenya, the NASI maintained upward momentum with gains across a decent number of counters..



Source; Bloomberg, NCBA IB Research

NSE stock performance

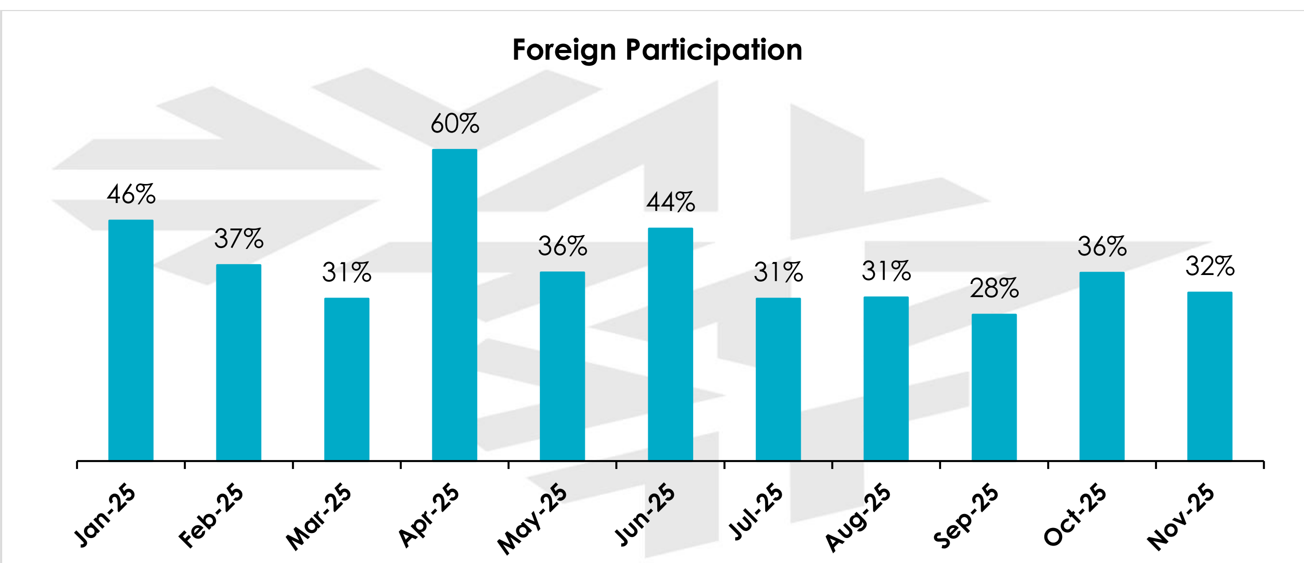




Source; NSE, NCBA IB Research

Foreign participation: Foreign investors sharply increased their selling at the NSE in November, with net outflows of KES 3.0Bn. This wiped-out August's **KES 1.65Bn billion inflows** the strongest in four years and marked the heaviest foreign exit since July 2023 (excluding the one-off Bamburi divestment in December 2024). The bulk of the sell-off was concentrated in **Safaricom**, which accounted for more than half of the exits, alongside heavy activity in bank counters such as **Equity, KCB, and EABL**.

Despite the offshore profit-taking, local investors have sustained strong buying momentum, driving the market to historic heights. The **NSE 20 Share Index is up 45% YTD**, making 2025 the index's best year since 2003, when it surged by 101.5%.



Source; NSE, NCBA IB Research

Stable macros across board

Currency: The Kenyan Shilling remained stable against the US Dollar in 2025 with a marginal YTD appreciation of 0.05%. This stability is expected to be sustained by the Central Bank of Kenya's interventions through Open Market Operations along with support from diaspora remittances, tourism inflows, and funding from multilateral lenders.

Currency Performance			
Period	**USD/KES**	**GBP/KES**	**EURO/KES**
Nov-25	129.82	171.83	150.47
Year to date	0.40%	5.94%	11.70%

Source: CBK, NCBA IB Research

Inflation: Headline inflation eased marginally by 11bps to 4.45% in November from 4.56% in October 2025.. Overall consumer price Index had an uptick of 0.16% month-on-month to 147.08 in November.

Prices of fortified maize flour dropped by 3.8% and sifted maize flour fell 3.2% in November -signaling softening in cereal markets.

Looking ahead into Q4, inflation is projected to **edge up gradually toward 5.0% by year-end**.

Statistic	Nov-25	Oct-25	Change (bps)
CBR	4.50%	4.60%	(10.00)
Inflation	147.08	146.56	35.48

Source: CBK, NCBA IB Research

Liquidity conditions: Liquidity conditions eased during the month. Indicatively, the overnight interbank rate declined by 8bps month on month to close at 9.24% The average daily traded volumes increased to KES12.46Bn from KES12.02Bn recorded the previous month.

Statistic	Nov-25	Oct-25	Change (bps)
Average Kesonia Rate	9.24%	9.32%	(8.00)
Average Kesonia Volume	12.46	12.02	(0.57)

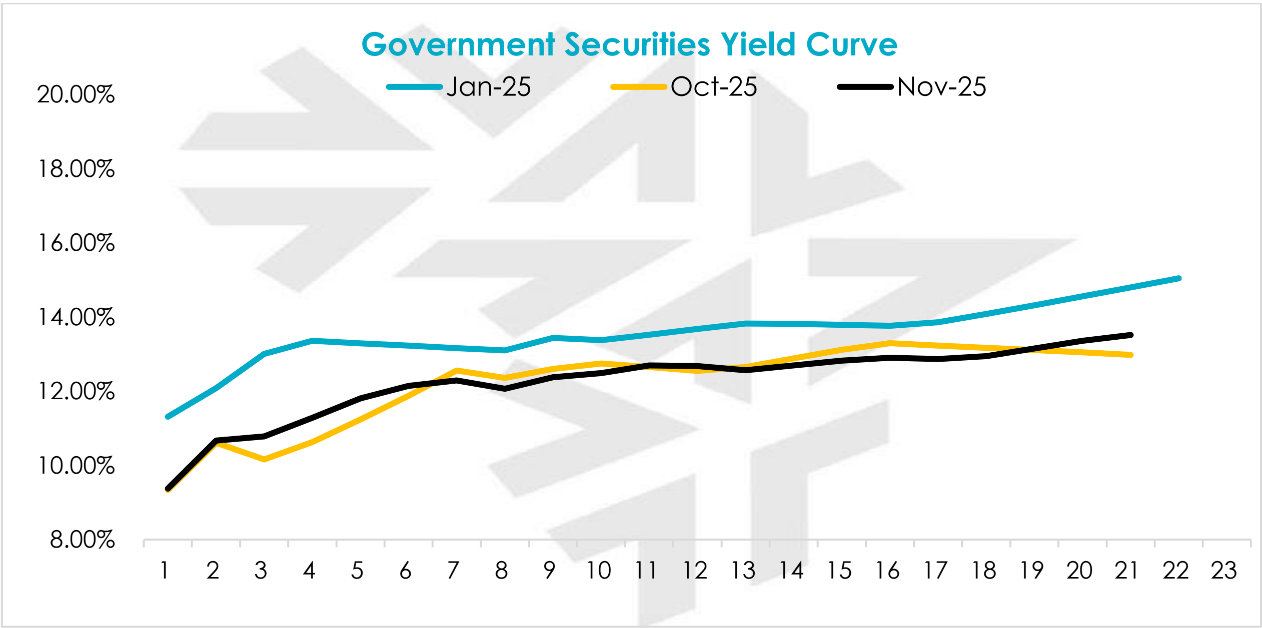
Source: CBK, KNBS, NCBA IB Research

Interest rates: Short-term rates continued their downward trend with the 91-day, 182-day 364-day papers declining m/m. Going forward, we expect the pace of decline to be more gradual compared to the aggressive easing observed earlier.

Prevailing rates	Nov-25	Oct-25	M/M change (bps)
91 Day	7.78%	7.81%	(3.06)
182 Day	7.80%	7.90%	(10.00)
364 Day	9.38%	9.34%	3.91

Source: CBK, NCBA IB Research

Yields on longer-dated government securities are also on a downward trajectory. Overall, we anticipate a continued downward trend in the yield curve, albeit at a slower pace. However, we expect the curve to tick upwards in the medium term given the fiscal pressure to cover the budget deficit.



Source: CBK, NCBA IB Research

Notable themes in 2025

- **Corporate issuances surge:** Safaricom Plc launched a KES 40Bn Medium-Term Note (MTN) Programme — a hallmark event of Kenya's corporate debt market. EABL also returned to the bond market early in the year. Rising investor appetite for high-grade corporate credit reflected stronger confidence in issuers.

- **Banking sector dominates NSE liquidity:** The listed banking sector remained the anchor of the bourse. Despite a tough macro environment, top banks delivered:
  - Stronger non-funded income after the 2024 squeeze.
  - More stable asset quality backed by recoveries.
  - Higher net interest income from better margin growth.

- **State-linked counters stay active:** Government-driven actions were notable:
  - Follow-through on the privatization Programme kept counters like KenGen, KPLC, EAPC in play.
  - Periodic government communication triggered trading spikes.
  - Investors speculated around valuation resets, debt restructuring and governance reforms.

- **Macro environment turned from headwind to stabilizer:** Kenya's macro environment in 2025 delivered a supportive backdrop for equities in almost three years, driven by shift in monetary and external conditions. With inflation firmly within target and FX pressures muted , the CBK initiated a gradual policy-rate reduction, lowering yields on medium-term government paper and slowly redirecting liquidity back toward equities and corporate bonds. The shilling remained far more stable than the volatility seen in 2023–2024, while global rate-cut cycles by the Fed and ECB revived appetite for frontier-market exposure.

At the same time, softer global oil prices reduced import costs and improved the current account position. Overall, these dynamics combined to strengthen investor confidence and significantly enhance foreign demand for Kenyan risk assets.

- **Rare surge in new listings:** 2025 saw a spike in IPOs/listings. Three new firms listed in July — the highest number in nearly a decade. Among them: Shri Krishana Overseas (SKL) and an infrastructure-asset backed security tied to construction of a national stadium

- **Roll-out of new sector index:** The NSE launched a dedicated Banking Sector Index in late 2025 to track all major listed banks, aiming to improve transparency for sector-focused investors and pave way for potential ETFs or index-linked instruments.

- **Foreign outflows — but strong domestic buffer**: Q3 2025 saw a sharp drop in foreign participation and net foreign equity outflows (KES 3.84B), yet the overall market held firm as domestic investors were net buyers. Trading turnover rose c60% quarter-on-quarter.

In summary, 2025 was the year the NSE transitioned from a rebound to a structured recovery anchored by easing macro conditions, revived corporate debt issuance, bank-sector strength, state-linked restructuring, a stable shilling and improved foreign appetite.

Looking into 2026, we expect these trends to continue, with further corporate bond issuance, new REIT and ETF listings, possible banking-sector consolidation, infrastructure-linked securities, and the emergence of ESG-focused instruments. Together, these dynamics suggest a deepening, more diversified, and structurally resilient Kenyan capital market, underpinned by macro stability, institutional participation, and growing retail engagement.

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