Kenya Banking Sector Report and FY'23 Outlook

research@aib-axysafrica.com

INVESTMENT THESIS

Historically, the banking sector's performance has always had a driving force behind it. FY'20 - Reduced profits were driven by increased impairment provisioning following the pandemic-induced lending risk increase. FY'21- Reversal of impairment provisioning saw banks increase their profits. FY'22 – We expect the PAT to be driven by increased foreign exchange income following arbitrage opportunities created by the dollar shortage. FY'23 –We expect banking sector earnings to be driven by a combination of a return to lending following the approval of Risk-based Models, fees from lending, and foreign exchange trading income.

- **Risk-Based Model to Boost Interest Income:** In FY'23 and going forward, we expect interest income to rise as banks increase lending to the private sector using a risk-appropriate metric for determining the lending rates. We foresee upside potential for Net interest margins (NIMs) driven by higher lending and government securities yields. The prevailing high-interest environment has created expensive deposit mobilization costs as banks compete with other financial institutions.

- **Forex Trading Income to Drive Non-Interest Income:** In the last three financial years, the growth of non-funded income has been muted as banks removed charges on transfers between mobile money wallets and bank accounts as a pandemic relief in 2020. In FY'22, non-interest income growth is likely to be buoyed by a jump in forex trading income following the dollar shortage in the interbank market creating arbitrage opportunities for banks. Across 2022, we have observed that the banks' dollar offering price has been at between 5-8.00% premium from the official CBK quoted exchange rate. We expect this to persist to FY'23 given the continued depreciation of the shilling against other major currencies and as such it will continue being a key revenue source for banks.

- **Sector Valuation is at a Discount to Frontier Peers:** Compared to frontier peers (with the MSCI Emerging markets banks index at a P/B of 0.99x) the local banking counters (with a median trailing P/B of 0.85x) are trading at a discount. However, individual counters such as ABSA, EQTY, Stanbic, and Stan Chart are trading above the MSCI EM Banks Index while counters such as I & M are almost at a 50.00% discount. The above P/B trend shows that Kenyan banks are fairly priced compared to their EM peers and provide an attractive investment opportunity.

- **Time to Consider Dividend Play:** We view the entire sector as attractive for dividend-hunting investors. We expect conservative payout ratios but expect the final DPS to increase driven by higher profits. Stan Chart continues to have the highest payout ratio (72.20%) and expected dividend yield (17.13%) while KCB has both the lowest payout ratio (18.80%) and expected dividend yield (5.23%) in the sector.

- **Our Top Picks:** Our top picks are EQTY (+27.30% upside), KCB (+26.88% upside), and NCBA (+20.16% upside), largely on account of huge upside potential and expected dividend. On a comparative basis, we also find these counters reasonably priced compared to the frontier and local industry peers. However, we also find Stan Chart (17.39% Div Yield), and Stanbic (10.48% Div Yield) as good dividend plays but have reservations about their current share price, which we do not find attractive entry points.

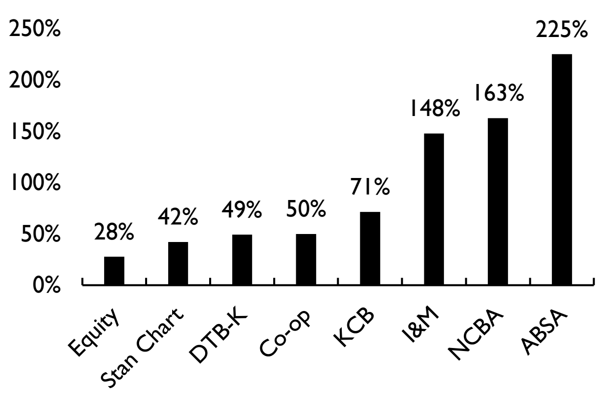
Table 1: Recommendation Summary

	Current Price (KES)	Target Price (KES)	Upside (%)	YTD (%)	FY'22e EPS (KES)	ROaE (FY'22)	P/Bv	P/E (FY'22)	Our View
ABSA	12.45	14.83	19.12%	1.22%	2.79	25.36%	1.20x	4.46x	BUY
Co-op	12.65	15.15	19.76%	2.85%	3.66	30.18%	0.87x	3.52x	BUY
DTB-K	50.00	59.21	18.42%	0.00%	22.37	9.68%	0.74x	2.23x	BUY
Equity	45.50	57.92	27.30%	2.25%	12.04	29.46%	1.14x	3.78x	BUY
KCB	38.25	48.53	26.88%	0.39%	13.3	22.62%	0.72x	2.88x	BUY
I&M	17.90	23.94	33.74%	5.29%	6.09	13.82%	0.50x	2.94x	BUY
NCBA	36.70	44.10	20.16%	-6.73%	9.95	20.01%	0.71x	3.69x	BUY
Stanbic	105.00	113.09	7.70%	2.94%	22.93	15.73%	1.80x	4.58x	HOLD
Stan Chart	163.50	168.53	3.08%	14.54%	33.99	23.24%	1.08x	4.74x	HOLD

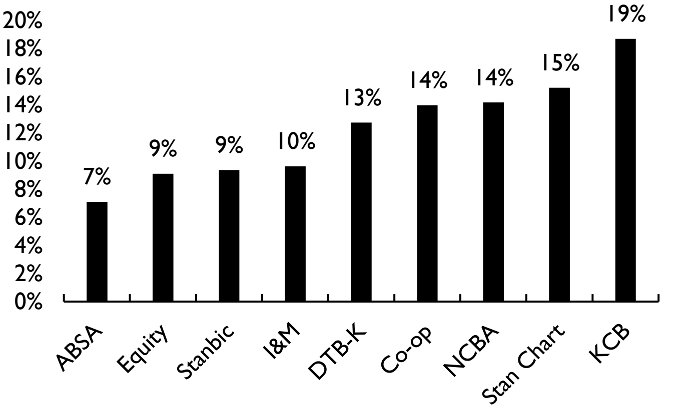
Source: Bloomberg, NSE, Company Fillings, AIB-AXYS Analyst Estimates

Five Charts We Are Looking Out for in the FY'22 Results

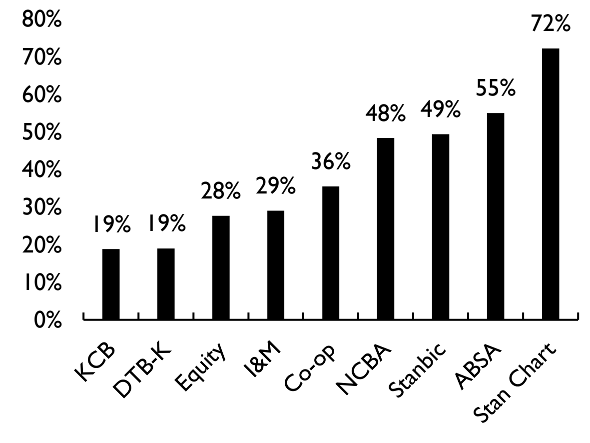
Graph 1: Foreign Trading Income has been a Key Revenue Driver



Graph 2: KCB Groups continues to Hold Highest Non-Performing Loans



Graph 3: SCBK has the highest Dividend Payout Ratio



Graph 4: Steeper Yield Curve Has been Negative on Bonds' Valuation

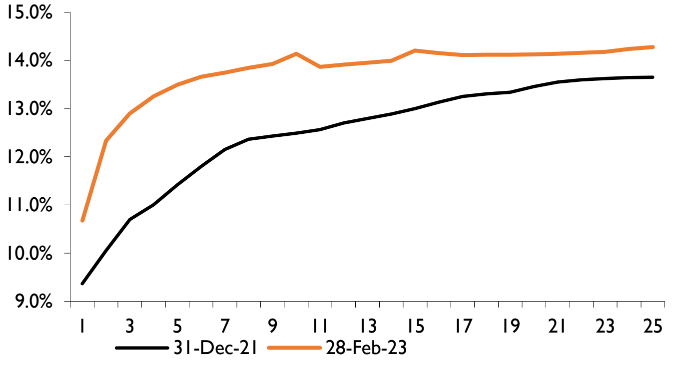


Table 2: FY'22 Company Specific Expected Estimates

	Interim DPS (KES)	Expected Final DPS	Implied Dividend yield	FY'22e EPS Growth	FY'22e Loan Growth	FY'22e Deposits Growth
ABSA	0.20	1.40	12.85%	2.79	26.31%	8.03%
Co-op	-	1.50	11.63%	29.84%	13.18%	4.43%
DTB-K	-	3.00	6.01%	60.00%	15.585	11.16%
Equity	-	3.00	6.59%	15.95%	16.74%	13.11%
KCB	1.00	1.00	5.23%	25.39%	16.46%	14.11%
I&M	-	1.00	5.59%	23.74%	15.83%	10.00%
NCBA	2.00	2.00	10.90%	60.38%	13.55%	2.24%
Stanbic	-	11.00	10.48%	25.78%	9.78%	10.00%
Stan Chart	6.00	22.00	17.39%	41.68%	8.30%	10.72%

Source: Bloomberg, NSE, CBK, Company Fillings, AIB-AXYS Analyst Estimates

Events Shaping the Banking Sector

Major Players to Continue Pursuing Regional Expansion: Local banks looking for regional growth and international banks eyeing a share of the market have pursued inorganic growth through acquisitions of other regional players. On a comparative basis, acquisitions in 2022 came in higher than the historical average signaling a higher asking price as growth momentum picks up. We believe the change in regulatory tone in Ethiopia has caught the attention of Kenyan banks. Furthermore, we believe the DRC market is still ripe for further acquisitions which could come in FY'23-25, either by current players (KCB and EQTY) or others such as NCBA, COOP & IMH. Notable acquisitions in 2022 included:

- **KCB acquisition of TMB of DRC** – In Q3'22, KCB Group announced the acquisition of an 85.00% shareholding in the Trust Merchant Bank SA of DR Congo. Following regulatory and shareholders' approval, the transaction was completed in Q4'22 at an estimated consideration of KES 15.00Bn.

- **Equity acquired Spire Bank -** Equity Group, through Equity Bank Kenya (EBKL), completed the acquisition of certain assets and liabilities of Spire Bank Limited. We believe EBKL acquired approximately 20,000 deposit customers with a value of KES 1.30Bn and 3,700 loan customers with a net carrying value of KES 945.00Mn as of June 2022.

- **Fintechs also acquired Microfinance Banks -** Branch International acquired Century Microfinance bank while Umba (a digital banking fintech) acquired Daraja Microfinance Bank. We believe the fintech acquisition of CBK-regulated entities is largely driven by the need for easier regulation as we do not expect them to open new branches but will remain within CBK's requirement of a single operating branch.

Table 3: Recent Acquisitions have Come at a Discount

Acquirer	Bank Acquired	Book value at acquisition (KES Bn)	Transaction Value (KES Bn)	P/Bv Multiple	Acquisition Date**
CIB (Egypt)	Mayfair Bank Limited	4.34	4.98	1.15x	Jan-23
KCB Group Plc	TMB (DRC)	12.40	15.70	1.27x	Dec-22
Access Bank (Nigeria)*	Sidian Bank	4.90	4.30	0.88x	Jun-22
KCB Group	BPR (Rwanda)	5.30	5.60	1.06x	Aug-21
I & M Holdings PLC	Orient Bank (Uganda)	3.30	3.60	1.09x	Apr-21
Co-operative Bank	Jamii Bora Bank	3.40	1.00	0.29x	Aug-20
CIB (Egypt)	Mayfair Bank Limited	4.12	4.40	1.07x	May-20
Access Bank (Nigeria)	Transnational Bank PLC	1.90	1.40	0.74x	Feb-20
** - Proposed Acquisition which collapsed*		Average Multiple		**0.94x**	
*** - Date the acquisition was completed*		Listed Banks' Average P/B Multiple (Trailing)		**0.97x**	

Source: Company Fillings, AIB-AXYS Analyst Estimates

Banking Sector M & A outlook: We expect the acquisition activities to remain active driven by; larger banks' need for expansion, Capital injection requirements by smaller banks, and Fintechs' desire to remain regulated. Following the collapse of the Access/Sidian deal, we expect Access will be back in the market to source for another target while Centum will be looking for a new buyer.

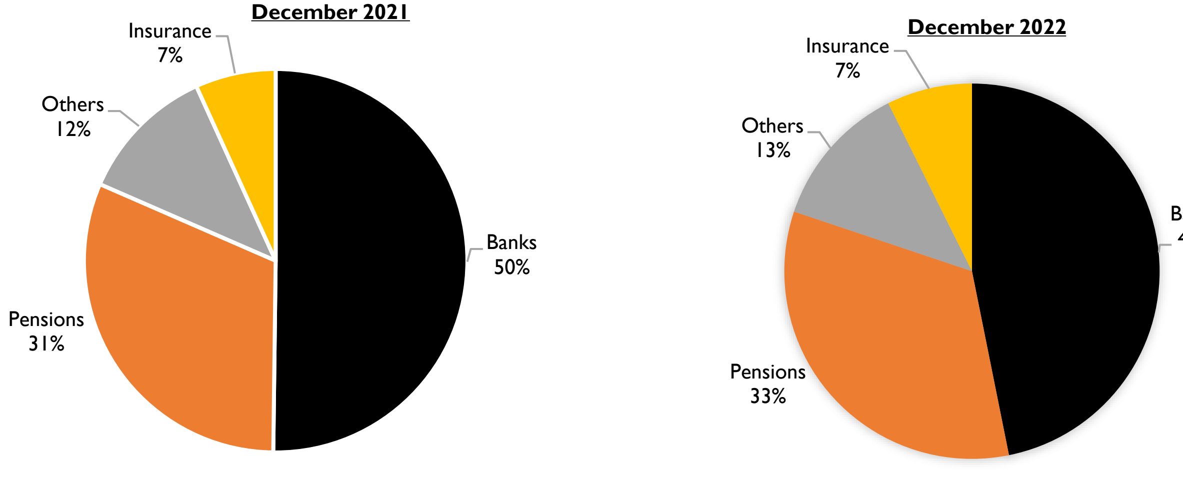
Response to Macro Changes Will drive Long Term Value

In 2022, the yield curve edged higher by an average of 113bps translating to an increase in the mark-to-market losses for banks' holdings on government securities. On the onset of the COVID-19 pandemic, we saw reduced lending and a shift to increased allocation to government securities by majority of the banks. Additionally, the rise of Eurobond yields during the year (2024 paper was as high as 21.00%) also contributed to increased losses especially for banks with SSA Eurobonds exposure e.g. Equity Group.

In 2022, the Banking Sector Players reduced their allocations to Government Securities as Private Sector Credit Picked up

On a positive note, the lending rates edged up signaling higher interest income amid increased private sector growth. Credit growth in the private sector averaged at 11.87% to close the year at 12.50% compared to 8.60% in December 2021. The negative effects of a steep yield curve are likely to see banks allocate more to loan book growth.

Graph 5: Allocations to Government Securities – Dec'21 vs Dec'22



Source: CBK,AIB-AXYS Research

Gong forward, we believe that individual bank's response to macro challenges will drive their long-term value. For FY'23, we expect the interest environment to remain elevated driven by;

- **Investors' increased preference for higher risk-adjusted returns** – From the performance of recent FXD issues and T-Bills investors bidding trends have shown a risk vs duration mismatch. Long-term paper yields crossed the elusive 14.00% level in 2022 and we expect investors (including banks) to test the government's resolve in borrowing at +15.00%.
- **Inflation Remaining above CBK Upper Target** - Given the risks associated with the current high levels of local and global inflation, we anticipate that investors will make aggressive bids on this paper trying to compensate for a higher real rate of return.
- **Debt Sustainability Questions** - The issuance of a switch bond could signify a negative outlook on debt sustainability down the road and could see investors demand for higher yields to compensate for the increased credit risk. Potential government default or domestic debt restructuring would be catastrophic to banks' balance sheets as seen in Ghana.

Top Management Changes to Drive Growth Agenda - We observed several top managerial changes in Q3'22. Top management shake-ups were largely driven by;

- **Contract Expiry** – After 9.50 years as KCB Group's Ceo Joshua Oigara's contract expiry led to the appointment of Paul Russo who was previously the MD of National bank of Kenya, a subsidiary of KCB.

- **Regional Head Hunting** – Jeremy Awori's departure to regional giants, EcoBank Group saw the interim appointment of Yusuf Omari who previously served as the group Chief Finance Officer of ABSA Bank Kenya.

- **Internal Group Reorganization** – Group reorganization at IMH saw the appointment of Kihara Kariuki as regional CEO opening the way to the appointment of Gul Khan, from the financial services arm of Airtel Africa.

We expect the top management changes to be key drivers of growth as each leader looks to implement their vision. We are likely to see Yusuf Omari stay on as the ABSA CEO permanently as he is an insider with more than 10 years of experience with ABSA. We are also particularly watching how Joshua Oigara will shape Stanbic's business model. The lender is known to target corporate customers and given the customer mix balance Joshua maintained at KCB, we are likely to see Stanbic turn to more retail.

We foresee more shake-ups in FY'23 with Standard Chartered looking like the most likely to make top management changes as the current CEO has served for years. However, we have not seen any indication from DTB and Equity of any CEO changes given the current CEOs have served for 22 years and 32 years, respectively.

Table 4: Recent Appointments Have balanced between Insiders and Outsiders

New CEO	Bank	Previous	Date of Appointment
Paul Russo	KCB Group	Insider	25th May 2022
Yusuf Omari *	ABSA Bank Plc	Insider	1st November 2022
Joshua Oigara	Stanbic Holdings	KCB Group	1st December 2022
Gul Khan**	I & M Bank Kenya	Airtel Africa	13th December 2022

** - Interim Appointment*

*** - I & M bank CEO was promoted to regional role*

Source: Company Fillings, AIB-AXYS Research

- **NIMs Expansion to be Driven by Risk–Based Models:** Following the removal of interest rate caps, in 2019, commercial banks presented their risk-based pricing models to CBK for approval. The latest indications are that CBK has approved the models for the majority of the banks. Risk-based models are set to replace the previous CBR + 4% method of the loan rate calculation. The model allows a bank to the loan lending rate that matches the risk profile of the specific borrower while considering factors such as; the customer's credit score (CRB listing), previous borrowing trends, and loan repayment discipline. We foresee RBMs leading a Net Interest Margins (NIMs) increase as banks can charge higher rates to counter the rising cost of deposit mobilization. Banks with exposure to SME e.g. Equity are likely to be the largest beneficiaries as the sector has the highest borrowing potential.

Non-Interest Income to be Driven by Forex Trading Income

Over the years, we have observed the revenue mix between interest income and non-interest income shift in favor of non-interest income. As at Q3'22, NCBA had the most balanced revenue mix at for NII to NFI. DTB-K continues to struggle to remain the most unbalanced. Stanbic and Equity Bank have the highest non-interest to total income ratio due to the alternative services that they offer their clients and the fees and commission that they earn from other products.

However, we see downside risks to non-interest income; 1) Reclassification of income earned from digital lending as interest income is likely to lead to slower growth in NFI 2) The increase in excise duty on fees and commissions earned on loans and digital transactions 3) Public outcry and push for the total removal of the bank to mobile wallet transaction fees.

Going forward we believe non-interest income to be driven by;

1. **Forex Trading Income** – The ongoing dollar shortage on the interbank forex market has created arbitrage opportunities for the lenders, as seen by the growth of forex trading income. ABSA at 225% (average for the Q1-Q3'22) recorded the highest y/y growth with Equity recording the lowest at 27.70%. The local currency depreciated 9.20% in 2022 and has so far depreciated 1.46% in 2023, which we expect will continue and is likely to outpace the 2022 depreciation.
2. **Reversal of Bank to Mobile Money Charges -** In 2020, CBK instructed banks to remove charges on transfers between mobile money wallets and bank accounts. This lowered the non-interest income for most banks but also increased the usage of this service, a trend that could continue even after fees are re-introduced. As these fees are re-introduced, banks' non-funded income is likely to increase.
3. **Income from Fees and Commissions from loans** – The approval of risk-based models for the majority of banks is likely to lead to higher loan book growth. As such, fees associated with lending are also likely to grow in tandem with loan book growth.

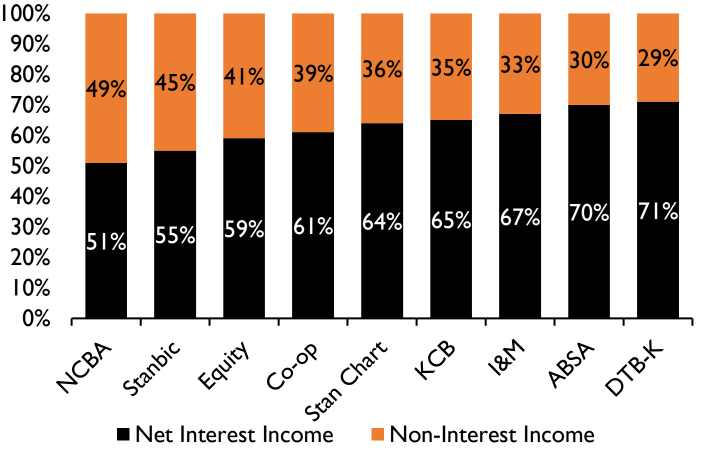
Wealth Management - A New Attraction: In the recent past, we have observed banks' focus on non-banking subsidiaries with wealth management being a key business line. We believe that changing consumer preferences regarding financial services has seen customers become more financially aware and are looking for avenues of growing their personal finances away from the traditional CASA (Current and Savings Accounts) banking options. Additionally, local customers demand for offshore and local unit trust investments is also a key driver of the growth in uptake of wealth management products.

Table 3: Wealth Management is a New Attraction

Bank	WM Unit	June'22 AUM	Sept'22 AUM	q/q % Change	Source
ABSA	Yes	1,048.07	1,807.95	72.50%	CMA
COOP	Yes	3,341.61	3,725.42	(10.30%)	CMA
EQTY	Yes	199.54	189.27	(5.14%)	CMA
NCBA	Yes	20,152.14	23,081.96	14.54%	CMA
IMH	Yes	KES 1.00Bn as at Feb'23			CF
SCBK	Yes	KES 131.00Bn as at Q1'22			CF
SBIC	Yes	Undisclosed			CF
DTB-K	None	-	-	-	CF
KCB	None	-	-	-	CF

Source: CMA, Company Fillings (CF), AIB-AXYS Africa

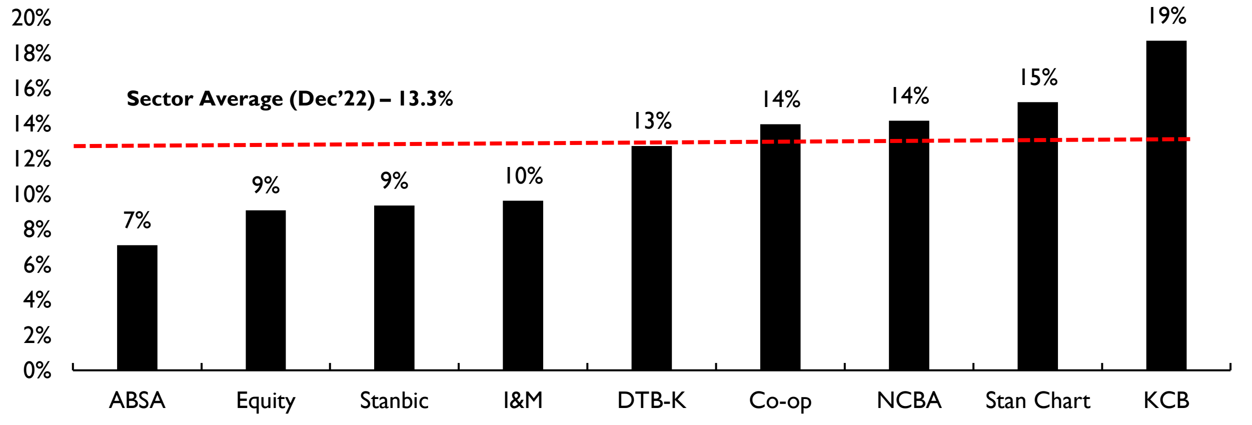
Graph 6: NCBA Has Most Balanced Revenue Mix



Asset Quality

Non-Performing Loans Declined in 2022: In 2020, the non-performing loans in the banking sector increased as businesses struggled to survive due to the measures put in place by the government to control the spread of the Corona virus. However, in 2022 industry NPLs increased to close the year at 13.30% compared to 13.10% at the end of 2021 and a high of 14.50% in 2020. Absa's NPL ratio remained in single digits (and the lowest for listed banks) despite the bank's exposure to unsecured retail loans. KCB's high NPL concerns persisted as it recorded the highest NPLs in year at 21.42% in Q2'22 (KES 173.42Bn). KCB's poor asset quality concerns have been driven by historically high non-performance in South Sudan, legacy NPLs from National bank and a surprisingly high NPL from KCB Bank Kenya. We partly attribute the high NPLs for KCB Kenya to have been driven by exposure to government contractors where pending bills from the previous administration is reported to be in excess of KES 500.00bn.

Graph 7: KCB Remains as Having the Worst Asset Quality



Source: National Treasury, AIB-AXYS Africa Analyst Estimates

Asset Quality Outlook: Expected economic recovery has informed our tidy outlook on the quality of loans in the banking sector. Our outlook, however, comes on the back of a continued tough operating environment that has slowed business growth and changed consumer behavior. However, our positive premise is backed by;

- **Credit related directives issued by the government -** Upon assumption of power the Kenya kwanza government put up initiatives meant to create a better lending environment. Credit Repair framework directive which waived 50.00% of non-performing mobile phone issued digital loans advanced by among others commercial banks and put them back into good CRB listing status. This directive was for the loans that were outstanding at the end of October 2022 for a period of six months, which expires at the end of May 2023.

- **The Introduction of the Risk-Based Pricing –**The risk assessment model will also improve loan book screening , as well as, enabling lenders to match borrowers with the appropriate risk.

- **Developments in the Kenya Credit Information Sharing Framework** –The Banking (Credit Reference Bureau) Regulations, 2020 created a framework for the exchange of borrowers' credit information between lenders and Credit Reference Bureaus. Even though the regulations call for more than just CRB listing considerations when declining a loan issuance, the open credit information sharing will assist lenders in credit assessment.

ABSA Bank Kenya Plc

We issue a **BUY** recommendation on Absa with a target price of KES 14.83 representing an upside potential of 19.12% on the current price of KES 12.45. We expect the y/y PAT and EPS to grow at 39.18% and 39.27% to KES 15.13Bn and KES 2.79. Our view is informed by the bank's improved efficiency ratio, increased usage of technology, and growth of its non-funded income. The dollar shortage and additional local currency depreciation are likely to keep driving up forex trading revenue. However, the company's loan book would continue under pressure because of the deteriorating local and global macroeconomic conditions. At the Current Market Price, the stock is trading at 4.46x P/E above the industry median of 3.69x and a P/B multiple of 1.20x.

Bloomberg Ticker ABSA:KN

NSE Code: ABSA

Target Price: KES 14.83

Upside: 19.12%

Current Price: KES 12.45

52 Week Low: KES 9.02

52 Week High: KES 13.00

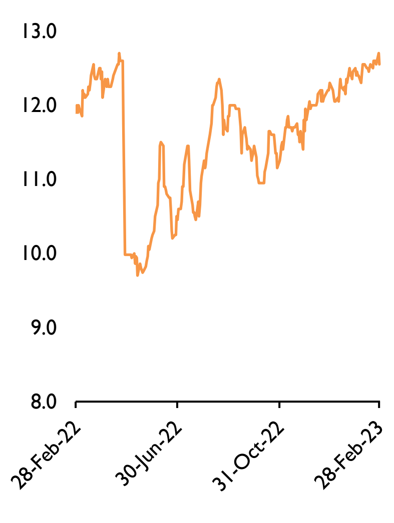
FY'22 EPS: KES 2.79

FY'22 ROaE: 25.36 %

Trailing P/B: 1.20x

Trailing P/E: 4.46x

1-Year Share Price Movement



FY'22 Expectations

- **Digital Transactions to Continue Boosting Efficiency:** In 2022, the Cost to Income ratio less impairment remained in the lower-40's but fell below 40.00% in Q3'22. We expect to close FY'22 in the low -40's (circa 42.00%) driven by digital transactions reducing operating costs. For the better part of 2022, the lender indicated that +90% of all transactions are happening outside the branch. We expect investments in digital platforms, Timiza, Absa vertical debit and credit cards, whatsapp banking, Absa One Account, and revamping the SME Wezesha Biashara to continue bearing fruits.

- **Forex Trading Income to Drive Non-Interest:** We expect non-interest income to grow 20.60% y/y faster than the Net interest income. The growth will be driven by an expected jump in the forex trading income as dollar shortage in the interbank market challenge persist. We foresee loan book growth and higher yields from government securities driving the Yield on assets to come in at 9.02%. Cost of funds are expected to come in at leading to the Net Interest Margin (NIM) closing at 7.27%.

- **Loan Book Growth to Outpace Deposits Growth:** As reported in 9M of 2022, Loan book grew 26.35% y/y to KES 289.45Bn faster than the 4.55% y/y growth in the customer deposits to KES 281.06Bn. Subsequently, the loan deposit ratio shot up to 102.98% owing to differences after conversion of loans held in foreign currency. Following the increased local currency depreciation, we expect the LDR to remain above 100% as we see the loan book growing faster than customer deposits.

- **Asset Quality Outlook Remains Tidy:** Despite the 2.05% y/y growth in 9M'22 to KES 20.04Bn, the NPL ratio declined to 6.56% remaining lower than the latest industry average. ABSA remains as having the best asset quality in the banking sector and we expect the lender to maintain the trend. Our FY'22 outlook expect ABSA's NPL to come in at 6.57% lower than the current industry average of 13.30%. As such, we also expect the Cost of risk to remain low at 11.26% compared to the 15.05% recorded in 9M'22.

- **Dividend Outlook:** In FY'21 Absa recorded a dividend payout ratio of 54.97% (KES 1.10) our outlook for 2023 sees a marginal increase to 57.44%. Therefore, we expect the total DPS to increase to the region of KES 1.00-1.20 considering that they have already paid a KES 0.20 interim dividend in HY'22.

Income Statement	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22E	y/y % Change
Net Interest Income	23,381.25	25,256.91	6,881.66	14,429.75	23,274.78	29,360.34	16.25%
Net non-Interest Income	11,140.30	11,664.53	3,018.26	6,477.08	10,175.07	14,067.74	20.60%
Total Operating income	34,521.56	36,921.44	9,899.92	20,906.82	33,449.85	43,428.08	17.62%
Provision for Impairment	(9,026.77)	(4,709.21)	(1,181.00)	(2,955.67)	(5,034.00)	(4,889.15)	3.82%
Total Operating expenses	(25,673.34)	(21,372.49)	(5,600.97)	(11,793.72)	(18,309.20)	(23,116.01)	8.16%
Profit before tax	5,646.23	15,548.95	4,298.94	9,113.10	15,140.65	20,312.07	30.63%
Profit after tax	4,162.01	10,869.97	2,953.57	6,294.04	10,713.48	15,128.72	39.18%
Core EPS	0.77	2.00	0.54	1.16	1.97	2.79	39.27%
DPS	-	1.10	0.00	0.20	0.00	1.60	45.45%

Balance Sheet	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22E	y/y % Change
Government Securities	126,057.21	132,576.10	136,731.26	120,755.91	139,826.10	145,147.74	9.48%
Loans and Advances	208,854.69	234,234.08	242,672.13	261,535.62	289,446.84	289,532.39	23.61%
Total Assets	**379,440.68**	**428,689.60**	**438,499.64**	**445,288.35**	**481,347.40**	**491,647.54**	14.69%
Customer Deposits	253,630.11	268,716.65	269,537.30	281,668.66	281,058.60	290,295.48	8.03%
Total Liabilities	332,936.74	372,242.21	379,349.60	389,048.61	421,086.04	428,761.88	15.18%
Shareholder's Funds	**46,503.94**	**56,447.39**	**59,150.04**	**56,239.74**	**60,261.36**	**62,885.66**	11.41%

	FY'19	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22E
Growth Metrices (y/y)							
Loan book Growth	8.38%	9.48%	12.15%	11.18%	19.49%	26.35%	23.61%
Customer Deposits Growth	6.11%	9.03%	5.95%	4.85%	6.72%	4.55%	8.03%
PAT Growth	846.01%	328.27%	161.17%	22.05%	12.96%	30.07%	39.18%
Spreads Analysis							
Yield on Assets	9.15%	8.93%	9.02%	8.89%	9.65%	9.56%	9.02%
Cost of Funds	2.68%	2.50%	2.48%	3.04%	2.63%	3.16%	2.48%
Net Interest Margin	7.03%	6.99%	7.11%	6.62%	7.06%	7.09%	7.27%
ROaE	19.26%	21.11%	21.12%	8.71%	9.03%	11.56%	25.36%
ROaA	2.32%	2.62%	2.69%	1.14%	1.16%	1.49%	3.29%
Profit Margin	31.23%	30.16%	29.44%	29.83%	30.11%	32.03%	34.84%
Operating Effiency							
Cost of Income Less LLP	44.58%	44.10%	45.13%	44.65%	42.27%	39.69%	41.97%
Cost of Assets	2.01%	3.01%	4.12%	1.07%	2.10%	2.97%	3.96%
Loan to Deposit	82.92%	85.22%	87.17%	90.03%	92.85%	102.98%	99.74%
Asset Quality							
NPL	7.91%	7.14%	7.94%	7.57%	7.14%	6.56%	6.57%
NPL Coverage	70.86%	73.36%	77.73%	76.18%	78.54%	79.99%	77.23%
Cost of Risk	10.89%	12.46%	12.75%	11.93%	14.14%	15.05%	11.26%

Cooperative Bank Kenya Plc

We issue a **BUY** recommendation on Co-operative Bank at a target price of KES 15.15 representing an upside potential of 19.76% on the current price of KES 12.65. Our recommendation is informed by an expected uniform PAT and EPS growth of 29.84% to close at KES 21.84Bn and KES 3.66, respectively. We expect the bank's performance to be driven by a focus on MSME lending and better performance by non-banking subsidiaries (Insurance, Wealth Management, and Leasing) and digital channels. In 9M'22, the average Mcoop cash mobile loan disbursement per month has improved to KES 6.90Bn from KES 6.00Bn in FY'21, we expect an average of KES 7.2Bn for FY'22.

At the Current Market Price, the stock is trading at 3.52x P/E below the industry median of 3.69x and a P/B multiple of 0.87x equal to the industry median.

Bloomberg Ticker COOP:KN

NSE Code: COOP

Target Price: KES 15.15

Upside: 19.76%

Current Price: KES 12.65

52 Week Low: KES 10.30

52 Week High: KES 14.00

FY'22 EPS: KES 3.66

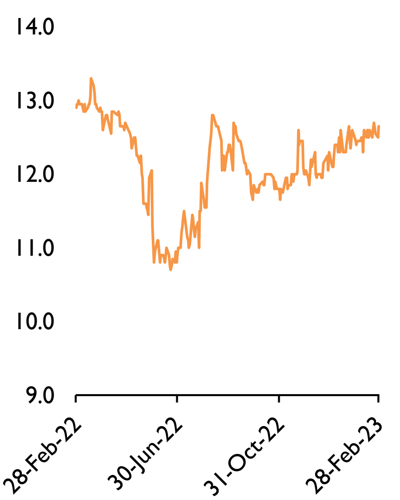
FY'22 ROaE: 30.18%

Trailing P/B: 0.85x

FY'22 Expectations

- **Low relative exposure to high-risk sectors:** We forecast loan book expansion of 13.18% y/y on the back of increased lending to MSMEs and low exposure to high-risk sectors such as tourism (0.70%) and manufacturing (2.50% of loan book). Despite the slowdown in business activity occasioned by the tough operating environment following the general elections in August 2022, we remain optimistic about an improvement in loan book growth for FY'22.
- **Kingdom Bank (Jamii Bora) Turn Around Looks Imminent:** Recent performance by Kingdom bank has shown signs of improvement eroding earlier concerns following a KES 1.00bn acquisition by Coop. Kingdom Bank's NPL also improved by Gross NPL declining 13.20% y/y to KES 5.55Bn to further support the Group's asset quality. In recent announcements, Kingdom has reported an asset reorganization that involved the KES 20.90Bn funds received from CBK. In 9M'22 we observed a 47.46% growth in PAT driven by increased income from government securities, forex exchange, and fees from loans. Loan Book grew 18.03% to KES 5.04Bn while deposits grew 45.38% y/y to KES 8.51Bn. We believe the bank is still punching below its weight in terms of lending given the exposure to MSMEs.
- **MCOOP Cash to Drive Loan Growth:** The group's focus on the optimization of operations through digitization has seen a continued increase in mobile transactions. The bank's salary loan on MCoop Cash is expected to drive loan book growth where we expect an average monthly disbursement of KES 7.20Bn (9M'22 average was KES 6.90Bn). In 9M'22, loans disbursed on the app swelled 91.7% y/y to KES 122.2B staying on track to exceed the KES 72.00Bn disbursed in FY'21. The loans are quick churn and relatively low NPL ratio given it is a check-off system. Lending on the app is also expected to boost nonfunded income with a rise in transaction fees. We project a 24.19% y/y growth in Non-Funded Income given the resumption of charges on mobile money transactions, and increased forex trading exchange.
- **Dividend Outlook:** In FY'21 COOP recorded a dividend payout ratio of 35.50% (KES 1.00) our outlook for 2023 sees a similar payout ratio level. Therefore, we expect the total DPS to increase to the region of KES 1.10-1.30 considering that they were no interim dividends in all the reported quarters of 2022.

1-Year Share Price Movement



Income Statement	FY19	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	Y/Y Change (%)
Net Interest Income	31.30	36.35	41.04	10.37	21.06	32.04	46.34	12.93%
Net non-Interest Income	17.16	17.48	19.40	6.41	13.30	20.17	24.09	24.19%
Total Operating income	48.46	53.83	60.43	16.78	34.35	52.21	70.43	16.54%
Provision for Impairment	(2.54)	(8.11)	(7.93)	(1.54)	(3.34)	(5.73)	(6.57)	-17.16%
Total Operating expenses	(27.79)	(39.40)	(38.09)	(9.02)	(19.16)	(29.63)	(40.05)	5.14%
Profit before tax	20.71	14.28	22.65	7.79	15.28	22.73	30.69	35.49%
Profit after tax	14.31	10.81	16.54	5.84	11.47	17.10	21.48	29.84%
Core EPS	2.44	1.84	2.82	0.99	1.95	2.91	3.66	29.84%
DPS	1.00	1.00	1.00	-	-	-	1.30	30.00%

Balance Sheet	FY19	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	Y/Y Change (%)
Government Securities	119.19	163.02	194.75	185.04	184.93	184.11	192.27	-1.27%
Loans and Advances	266.71	286.63	306.32	324.48	330.06	335.16	346.70	13.18%
Total Assets	**457.01**	**536.95**	**592.89**	**596.99**	**603.92**	**622.10**	**633.70**	**6.88%**
Customer Deposits	332.82	378.63	420.44	410.83	423.03	432.00	439.06	4.43%
Total Liabilities	376.15	444.90	497.50	493.89	506.93	520.89	519.10	4.34%
Shareholder's Funds	**79.34**	**90.73**	**95.04**	**102.70**	**96.73**	**100.89**	**114.08**	**20.03%**

	FY19	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e
Growth Metrices (y/y)							
Loan book Growth	8.68%	7.47%	8.22%	8.81%	9.58%	9.42%	13.18%
Customer Deposits Growth	8.72%	13.76%	7.68%	4.32%	3.76%	2.75%	4.43%
PAT Growth	12.40%	-24.44%	53.00%	68.86%	55.70%	47.05%	29.84%
Spreads Analysis							
Yield on Assets	11.83%	11.36%	11.49%	11.17%	11.37%	11.41%	11.79%
Cost of Funds	3.58%	3.19%	3.33%	3.23%	3.22%	3.23%	3.33%
Net Interest Margin	8.48%	8.46%	8.48%	8.26%	8.44%	8.48%	8.81%
ROaE	19.18%	12.52%	28.56%	13.18%	17.27%	21.02%	30.18%
ROaA	3.29%	2.15%	4.88%	2.25%	2.78%	3.39%	5.33%
Profit Margin	29.53%	20.09%	27.38%	34.77%	33.38%	32.75%	30.50%
Operating Effiency							
Cost of Income Less LLP	52.12%	58.12%	49.91%	44.57%	46.03%	45.79%	47.54%
Cost of Assets	5.53%	5.83%	5.20%	1.25%	2.62%	3.84%	5.28%
Loan to Deposit	80.14%	75.70%	76.08%	78.98%	78.02%	77.58%	78.96%
Asset Quality							
NPL	11.17%	18.69%	14.57%	13.86%	14.07%	13.96%	13.73%
NPL Coverage	51.76%	50.26%	62.60%	65.31%	65.83%	69.34%	71.82%
Cost of Risk	5.24%	15.07%	13.12%	9.20%	9.74%	10.97%	9.33%

Diamond Trust Bank (DTB) Kenya Plc

We issue a **BUY** recommendation on DTB with a target price of KES 59.21 representing an 18.42% upside on the current price of KES 50.00. Our view is informed by an expectation of continued economic recovery expected to see an increase in lending activities' top-line earnings. We, however, remain concerned about the worsening efficiency.

The growth in non-funded income and the rising interest income from government securities brought on by the current market uptick in the bond yield are all attributed to the bank's performance. However, we noted with concern the sharp rise in staff costs and Gross NPLs, both of which continue to weigh down on the bottom line across the three quarters in 2022. However, we anticipate that the increased usage of digital channels along with the ongoing expansion initiatives would significantly boost the bank's 4Q22 performance.

Bloomberg Ticker DTKL:KN

NSE Code: DTK

Target Price: KES 59.21

Upside: 18.42%

Current Price: KES 50.00

52 Week Low: KES 45.00

52 Week High: KES 60.00

FY'22 EPS: KES 22.37

FY'22 ROaE: 9.68%

Trailing P/B: 0.74x

FY'22 Expectations

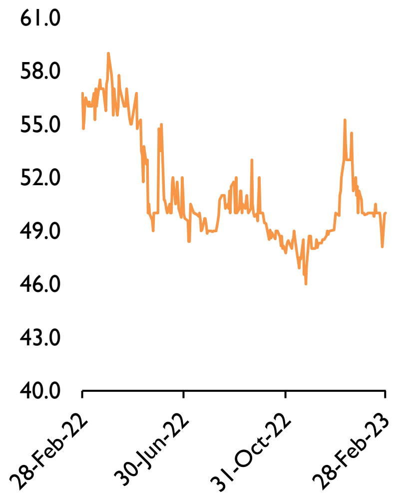
- **PAT growth to Outpace FY'21:** In 9M'22, DTB posted a 19.04% & 19.05% climb in EPS & PAT respectively to KES 20.57/share and KES 5.75Bn respectively driven by a 14.10% increase in net interest income and a 43.48% growth in non-interest income. In 9M'22, Non-interest Income grew 43.48% y/y to 6.87Bn against a 14.10% y/y increase in net interest income to 16.81Bn. Operating income growth was driven by increased income from fees and commissions on loans and advances and an increase in forex trading income. The yield on assets fell 219bps y/y to 7.35% as income from government papers grew slower than interest-earning assets in the quarter. Cost of funds increased 42bps to 4.43% y/y attributable to the expansion projects currently being undertaken by the bank. Subsequently, the profitability margin increased 31bps y/y to 26.58% and the Net Interest Margin (NIM) grew 341bps y/y to 5.59% Factoring in the growth from previous quarters, we foresee the lender closing the FY'22 with a PAT of KES 6.26 Bn being a 60.22% y/y growth.

- **Staff Costs to weigh down on Bottom-line:** In 9M'22, the Cost to Income ratio less impairment fell 239bps on a year-on-year basis to 45.24% mainly attributed to a significant increase in staff costs (20.03% y/y) to 4.38Bn. DTB's cost-to-income (CTI) ratio touched a low of 38% in 2016; it then increased in the subsequent years following the acquisition of Habib bank. The CTI is expected to remain in the mid-40 driven by higher staff coupled with the expected investment in technology as the bank looks to venture into digital lending. Together with NCBA, DTB has gone against industry trends to open up new physical branches. Additionally, we expect the impairment provisions to increase by 4.47% on a year-on-year basis given DTB's historically higher provisioning in Q4 of the financial year.

- **Asset Quality Concerns Persist:** In 9M'22, the Bank's NPL ratio continued to increase (averaging at 12.73% vs 11.00% in 9M'21) due to its exposure to high-risk sectors (tourism & hospitality, transport & communication, Trade, and Real estate sectors). We expect DTB's NPL ratio to remain elevated (above 12.00%), going by historical performance DTB has recorded higher NPLs in Q4 of the financial year. The impact of the just concluded elections on the above-mentioned sectors is likely to negatively impact asset quality.

- **Dividends Outlook:** Our FY'22 Dividend outlook for DTB is a DPS of KES 3.0–3.5 representing a 12-14% payout ratio lower than the FY'21 payout ratio of 19.0%. Despite the expected jump in PAT, we foresee the lender remaining conservative in payouts driven by the need to reinvest back in the business (New branch networks). Historically DTB has had the lowest payout ratio, barely touching double figures.

1-Year Share Price Movement



Income Statement	FY'19	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	% y/y Change
Net Interest Income	18.71	18.08	19.99	5.54	11.13	16.81	21.24	6.22%
Net non-Interest Income	5.77	6.12	6.31	1.78	3.92	6.87	8.47	34.33%
Total Operating income	24.48	24.20	26.30	7.32	15.05	23.68	29.71	12.96%
Provision for Impairment	(1.32)	(7.32)	(7.56)	(0.58)	(2.43)	(4.00)	(7.90)	4.47%
Total Operating expenses	(13.22)	(19.67)	(19.88)	(3.89)	(9.37)	(14.71)	(20.93)	5.25%
Profit before tax	11.26	4.67	6.63	3.39	5.62	8.97	8.99	35.70%
Profit after tax	6.79	3.25	3.91	2.18	3.58	5.78	6.26	60.22%
Core EPS	26.00	11.61	13.98	7.79	12.82	20.57	22.37	60.00%
DPS	2.70	-	3.00	-	-	-	3.50	16.67%

Balance Sheet	FY'19	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	% y/y Change
Government Securities	132.46	148.38	168.98	167.06	174.68	179.92	172.93	2.34%
Loans and Advances	199.09	208.59	220.43	224.80	233.62	243.67	254.76	15.58%
Total Assets	**386.23**	**425.05**	**456.84**	**471.34**	**485.04**	**507.49**	**500.78**	**9.62%**
Customer Deposits	280.19	298.17	331.45	343.14	346.49	359.68	368.45	11.16%
Total Liabilities	321.71	356.74	382.29	394.73	408.43	429.49	420.94	10.11%
Shareholder's Funds	**58.85**	**61.97**	**67.29**	**69.10**	**68.89**	**70.10**	**72.58**	**7.85%**

	FY'19	**FY'20**	**FY'21**	**Q1'22**	**Q2'22**	**Q3'22**	**FY'22e**
Growth Metrices (y/y)							
Loan book Growth	1.43%	-0.03%	5.67%	9.23%	14.34%	18.54%	15.58%
Customer Deposits Growth	11.93%	12.35%	11.16%	13.71%	10.42%	11.10%	11.16%
PAT Growth	20.12%	19.56%	25.08%	16.33%	25.59%	22.29%	60.22%
Spreads Analysis							
Yield on Assets	4.64%	7.19%	8.67%	2.41%	4.71%	7.01%	9.31%
Cost of Funds	4.04%	4.07%	3.89%	3.95%	3.93%	4.09%	4.19%
Net Interest Margin	5.16%	5.41%	5.11%	5.37%	5.33%	5.59%	4.99%
ROaE	6.42%	6.72%	6.83%	7.14%	7.78%	8.09%	9.68%
ROaA	0.99%	1.06%	1.00%	1.07%	1.14%	1.18%	1.41%
Profit Margin	23.96%	26.50%	16.78%	32.65%	26.30%	26.71%	22.78%

Equity Group

We issue a **BUY** recommendation on Equity Group at a target price of KES 57.92 representing an upside of 27.30% on the current price of KES 45.50. Our valuation is informed by an expected FY'22 PAT and EPS growth to come in at KES 45.42Bn (10.86% y/y growth) and KES 12.04 (15.95% y/y growth). The growth in non-funded income from forex trading activities, increased subsidiary contribution (sustained growth in Equity BCDC of DR Congo), and increased interest income from lending will be key bottom-line drivers.

At the Current Market Price, the stock is trading at 3.78x P/E above the industry median of 3.69x and a P/TB multiple of 1.14x higher than the industry median of 0.87x.

Bloomberg Ticker: EQTY:KN

NSE Code: EQT

Target Price: KES 57.92

Upside: 27.30%

Current Price: KES 45.50

52 Week Low: KES 38.75

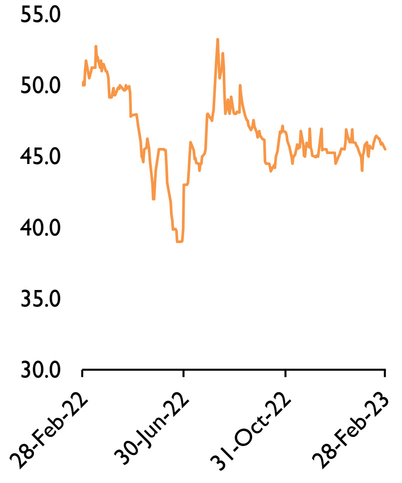
52 Week High: KES 53.50

FY'22 EPS: KES 12.04

FY'22 ROaE: 29.46%

Trailing P/B: 1.14x

1-Year Share Price Movement



FY'22 Expectations

- **Risk-Based Model to Drive Loan Book Growth:** EQTY was the first lender to get the approval of the Risk-based model and as such, we believe they are more advanced than its peers, in implementing it for lending purposes. Therefore, for FY'22, we expect the loan book growth to outpace deposit growth driven by a return to lending and a focus on MSME. Additionally, we expect the trade missions to DRC and other markets to continue paying off with trade finance revenues likely to come in at above KES 5.00Bn. Together with KCB, EQTY has been one of the lenders focusing on trade financing, especially in the African corridor. We expect the NPL ratio to remain in the single digits at around 8-9.00% and the NPL coverage to be in the mid-60s. Given the huge exposure to MSMEs and the tough operating environment in FY'22, we foresee an increase in gross NPL stock. Going forward, we expect the implementation of the Risk-based models to strengthen the asset quality.

- **DRC Market is Proving to be a Shrewd Acquisition:** Equity BCDC in DRC recorded an impressive 115.00% y/y surge in PAT to KES 4.70Bn driven by improving macroeconomic conditions. BCDC continues to be the most profitable regional subsidiary and we estimate BCDC to close the year with a PAT of KES 6.00-7.00Bn. The subsidiary's ROaE of 18.20% in Q3'22 (versus 11.10% in Q3'21) remains below the group's average of 27.80%. Additionally, we remain concerned about the high cost-to-income ratio (73.50% in Q3'22 vs Group's CIR of 62.80%) and we expect BCDC costs to remain the highest, of all subsidiaries, as it is still in the investment phase. We expect regional subsidiaries' contribution to the overall group's performance to continue strengthening (PBT contribution to come in at around 35.00% in FY'22) with Tanzania likely to continue lagging behind the rest with the highest NPL and lowest ROaE.

- **Higher Yields to Continue Weighing-Down on Government Securities Holdings:** The Rising yield curve continues to weigh down on the bottom line as the Fair value loss as a percentage of government securities in Q3'22 shot up to 12.28% from a minimal 0.90% in Q3'21. The lender remains largely exposed to Kenya Eurobonds whose yields have risen in 2022 largely driven by increased risk perception by foreign investors on the back of just concluded elections and a negative outlook on emerging and frontier markets. However, being believers of " it is not a loss until you liquidate" we expect a correction in the long run as the lender's concentration is in the 2032 and above papers.

- **Dividend Outlook:** Despite the impressive PAT outlook, we foresee EQTY remaining conservative in the dividend payment with the payout ratio remaining below 30% (Circa 29.08% vs 28.90% in FY'21). Therefore, we foresee a marginal DPS growth ranging between KES 3.50 - 4.00 vs KES 3.00 in FY'21.

Income Statement	FY19	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	y/y % Change
Net Interest Income	44,982.36	55,148.79	68,810.97	19,351.66	39,803.84	59,843.76	83,477.64	21.31%
Net non-Interest Income	30,780.05	38,508.08	44,575.42	11,913.91	25,844.50	42,220.12	51,046.44	14.52%
Total Operating income	75,762.41	93,656.87	113,386.39	31,265.57	65,648.33	102,063.89	134,524.08	18.64%
Provision for Impairment	(5,302.57)	(26,631.27)	(5,844.71)	(1,805.84)	(4,086.98)	(9,660.50)	(5,402.60)	-7.56%
Total Operating expenses	(44,284.98)	(72,664.47)	(61,505.37)	(15,981.72)	(34,730.40)	(57,738.91)	(69,639.57)	13.23%
Profit before tax	31,477.43	22,169.79	51,881.02	15,283.85	30,917.94	44,324.98	64,884.51	25.06%
Profit after tax	22,385.98	19,789.40	40,968.80	11,543.74	23,745.28	33,350.90	45,419.16	10.86%
Core EPS	5.98	5.24	10.38	3.06	6.47	8.84	12.04	15.95%
DPS	2.50	0.00	3.00	0.00	0.00	0.00	3.50	16.67%

Balance Sheet	FY19	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	y/y % Change
Government Securities	138.57	217.41	394.10	389.41	365.02	366.45	396.19	0.53%
Loans and Advances	366.44	477.85	587.78	623.56	650.56	673.91	686.18	16.74%
Total Assets	**673.68**	**1,015.09**	**1,304.91**	**1,269.46**	**1,333.86**	**1,363.75**	**1,464.39**	**12.22%**
Customer Deposits	482.75	740.80	958.98	900.92	970.94	1,007.34	1,084.69	13.11%
Total Liabilities	561.91	876.45	1,128.72	1,095.25	1,183.47	1,209.67	1,255.99	11.28%
Total Equities and Liabilities	**673.68**	**1,015.09**	**1,304.91**	**1,269.46**	**1,333.86**	**1,363.75**	**1,464.39**	**12.22%**

	FY19	**FY20**	**FY'21**	**Q1'22**	**Q2'22**	**Q3'22**	**FY'22e**
Growth Metrices (y/y)							
Spreads Analysis							
Yield on Assets	9.61%	9.64%	9.30%	9.88%	9.53%	10.14%	9.30%
Cost of Funds	2.89%	2.80%	2.65%	2.84%	2.83%	2.93%	2.25%
Net Interest Margin	7.08%	6.99%	6.78%	7.20%	6.92%	7.29%	7.09%
ROaE	20.89%	21.72%	25.99%	28.05%	30.48%	29.98%	29.46%
ROaA	3.10%	3.01%	3.45%	3.70%	3.80%	3.73%	3.28%
Profit Margin	34.56%	33.40%	35.34%	37.94%	37.21%	33.68%	33.76%
Operating Effiency							
Cost of Income Less LLP	48.49%	48.09%	49.09%	45.34%	46.68%	47.11%	47.75%
Cost of Assets	2.70%	3.65%	4.80%	1.21%	2.50%	3.77%	4.64%
Loan to Deposit	61.59%	63.88%	61.29%	69.21%	67.00%	66.90%	61.29%
Asset Quality							
NPL	11.43%	9.47%	8.62%	8.96%	8.85%	9.47%	9.42%
NPL Coverage	63.16%	60.61%	68.73%	66.03%	64.07%	62.95%	64.94%
Cost of Risk	5.61%	6.39%	5.15%	5.78%	6.23%	9.47%	4.02%

I & M Holdings Plc

We maintain our **BUY** recommendation on I&M Holdings at a target price of KES 23.94 representing an upside potential of 33.74% on the current price of KES 17.90. Our view is informed by an expectation of an improvement in efficiency which is an indication of the payoff in investments in digital transaction channels. Improvements from the regional subsidiaries and income from non-banking activities are expected to boost FY'22 earnings growth. The current dollar shortage is reported, and further depreciation of the local currency is likely to continue pushing the forex trading revenue upwards. However, Deteriorating local & global macroeconomic conditions will lead to continuous pressure on the company's loan book.

At the Current Market Price, the stock is trading at 3.78x P/E above the industry median of 3.69x and a P/TB multiple of 1.14x higher than the industry median of 0.87x.

Bloomberg Ticker IMH:KN

NSE Code: IMH

Target Price: KES 23.94

Upside: 33.74%

Current Price: KES 17.90

52 Week Low: KES 16.50

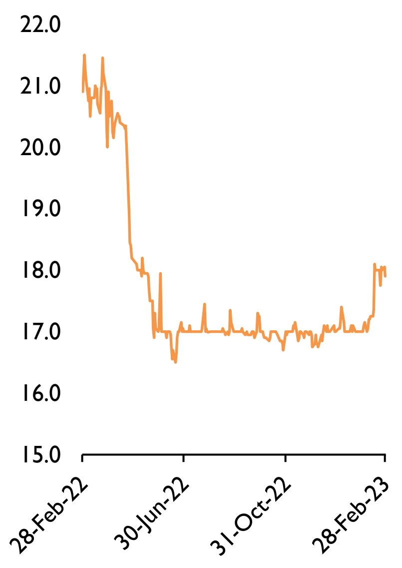
52 Week High: KES 22.00

FY'22 EPS: KES 0.77

FY'22 ROaE: 9.1%

Trailing P/B: 1.14x

1-Year Share Price Movement



FY'22 Expectations

- **Group Leadership Reorganization and Subsidiary Consolidation to Drive Growth:** In FY'22, we observed a reorganization in the group's top management with the previous Group CEO being appointed as the regional CEO, and as such the flagship Kenyan unit got a new CEO. We believe the new structure is meant to strengthen the operations of various business lines. In FY'22, we expect the PAT contribution from regional subsidiaries to increase to more than 20.00%. Rwanda will continue being the best-performing subsidiary while we expect Uganda to break even following the acquisition of Bank in 2021. Additionally, non-banking subsidiaries such as advisory, wealth management, and bancassurance.

- **Forex Trading Income to Drive Non-Interest:** We expect I & M Holdings FY'22 PAT and EPS to increase 22.42% and 23.78 % y/y to KES 10.56Bn and KES 6.09, respectively. The jump in net earnings is likely to be driven by; a 10.23% jump in non-interest income, higher interest income, and reduced provisioning. In FY'22, the non-interest income is expected to be driven by a jump in revenue from forex trading income and we also expect higher income from fees & commissions from loans. Despite the expectations of continued currency depreciation, translating to higher forex trading income, the bank's decision to scrap bank-to-mobile money charges is likely to weigh down on NFI growth in FY'23.

- **Exposure to High-Risk Sectors is a Threat to Asset Quality:** We expect the loan book to grow 15.83% y/y to KES 246.96Bn for FY'22 faster than deposits growth of % y/y. Loan book growth will be on the back of a return to lending as we believe, though no official confirmation yet, that IMH has already received approvals for the Risk-based model. The bank has strongly been pushing for a more market share in the retail space with the anticipated economic recovery likely to boost its prospects. However, we remain concerned with the bank's exposure to risky sectors such as; Real estate (12.00% of the total loan book and lagging in post-pandemic recovery), trade (18.00%), and manufacturing (23.00%).

- **Dividend Outlook:** Our FY'22 Dividend outlook for IMH is a DPS of KES 2.0–2.50 representing a 31-39.16% payout ratio higher than the FY'21 payout ratio of 28.76%. The jump in payout ratio is informed by the increase in PAT. However, we retain expectations of management remaining conservative in payouts driven by the need to reinvest back in the business (Expanding the digital network).

Income Statement	FY19	FY20	FY21	Q1'22	Q2'22	Q3'22	FY'22e	y/y % Change
Net Interest Income	15,509.84	15,599.60	20,876.89	5,205.24	10,521.35	16,164.70	21,495.04	2.96%
Net non-Interest Income	8,285.54	8,637.75	8,735.62	2,195.29	5,057.84	8,844.02	9,629.59	10.23%
Total Operating income	23,795.38	24,237.35	29,612.51	7,400.53	15,579.19	25,008.72	31,124.64	5.11%
Provision for Impairment	(636.46)	(2,472.84)	(4,199.60)	(480.74)	(1,309.28)	(3,603.11)	(2,727.47)	-35.05%
Total Operating expenses	(10,097.31)	(12,606.38)	(17,748.50)	(3,850.23)	(8,596.98)	(14,920.01)	(16,726.08)	-5.76%
Profit before tax	14,603.11	10,952.00	12,412.91	3,670.61	7,187.89	10,433.74	14,947.45	20.42%
Profit after tax	10,768.61	8,412.56	8,623.94	2,709.78	4,925.70	7,176.10	10,557.82	22.42%
Adjusted Core EPS	6.51	4.88	4.92	1.55	2.83	4.12	6.09	23.78%
DPS	2.55	2.25	1.5	-	-	-	2.5	66.67%

Balance Sheet	FY19	FY20	FY21	Q1'22	Q2'22	Q3'22	FY'22e	y/y % Change
Government Securities	53,924.27	89,841.88	109,166.98	108,562.11	106,367.31	98,832.74	120,083.68	10.00%
Loans and Advances	175,329.43	187,391.27	210,619.66	218,406.28	231,069.56	231,240.40	243,959.34	15.83%
Total Assets	**315,290.67**	**358,099.79**	**415,180.68**	**430,830.80**	**439,665.18**	**428,675.99**	**440,325.31**	**6.06%**
Customer Deposits	229,736.51	262,681.40	296,746.51	309,423.71	313,178.86	308,045.41	326,421.16	10.00%
Total Liabilities	254,428.50	290,036.65	341,132.60	355,587.05	368,214.65	355,181.31	359,853.47	5.49%
Shareholder's Funds	57,738.61	64,189.34	69,593.03	70,511.55	66,523.52	68,442.31	76,016.79	9.23%

	Q2'21	Q3'21	FY'21	Q1'22	Q2'22	Q3'22	FY'22e
Growth Metrices (y/y)							
Loan book Growth	10.78%	11.80%	12.40%	28.72%	13.02%	11.38%	15.83%
Customer Deposits Growth	9.61%	14.18%	12.97%	17.59%	13.16%	6.71%	10.00%
PAT Growth	33.22%	25.06%	2.51%	43.61%	15.91%	25.06%	22.42%
Spreads Analysis							
Yield on Assets	9.73%	9.90%	10.49%	11.37%	10.66%	10.91%	10.49%
Cost of Funds	3.90%	3.97%	3.94%	4.03%	4.02%	4.23%	4.70%
Net Interest Margin	6.16%	6.01%	6.30%	6.35%	6.33%	6.46%	5.98%
ROaE	12.29%	13.69%	12.16%	13.08%	12.93%	13.91%	13.82%
ROaA	2.16%	2.35%	2.10%	2.24%	2.08%	2.29%	2.35%
Profit Margin	33.18%	28.44%	29.12%	36.62%	31.62%	28.69%	33.92%
Operating Effiency							
Cost of Income Less LLP	48.05%	48.10%	45.75%	45.53%	46.78%	45.25%	44.98%
Cost of Assets	1.61%	2.43%	3.26%	0.78%	1.66%	2.64%	3.18%
Loan to Deposit	73.88%	71.91%	70.98%	70.58%	73.78%	75.07%	77.00%
Asset Quality							
NPL	10.46%	10.16%	9.49%	10.04%	9.34%	9.51%	7.63%
NPL Coverage	65.42%	70.59%	71.42%	72.07%	77.55%	75.41%	59.71%
Cost of Risk	8.22%	14.00%	14.18%	6.50%	8.40%	14.41%	8.76%

KCB Group

We maintain our **BUY** recommendation on KCB Group at a target price of KES 48.53 representing an upside of 26.88% on the current price of KES 38.25. Our valuation is informed by expectation of 11.28% jump in PAT to KES 37.94Bn. Given the recent expansion to the DRC Congo & the projected expansion in Ethiopia, we remain positive on KCB's long-term growth prospects. Additionally, Future growth in the bank's earnings will be driven by digital channels, loan book growth and regional subsidiaries consolidation

At the Current Market Price, the stock is trading at a reasonable valuation of 2.88x P/E against an industry median of 3.69x and a P/B multiple of 0.72x lower than the industry median P/B of 0.85x.

Bloomberg Ticker KNCB:KN

NSE Code: KCB

Target Price: KES 48.53

Upside: 26.88%

Current Price: KES 38.25

52 Week Low: KES 34.00

52 Week High: KES 46.50

FY'21 EPS: KES 11.83

FY'22 ROaE: 22.62%

Trailing P/B: 0.72x

FY'22 Expectations

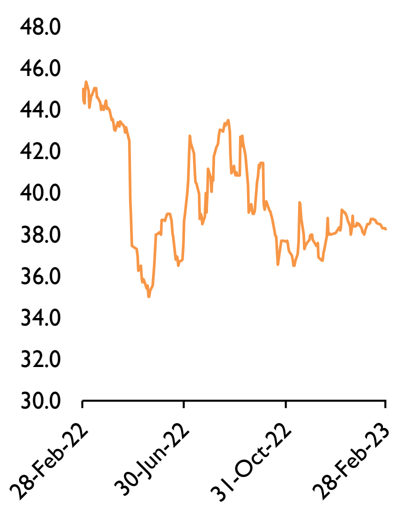
- **Regional Consolidation to Drive Bottomline:** In 9M'22, We took note of the strong growth in the balance sheet on the back of the integration and consolidation of the recently acquired regional subsidiaries. We believe that the acquisition of TMB DRC will expose KCB to a huge reserve of foreign exchange currency given the high usage of dollars in DRC. We view KCB's acquisition of TMB of DRC as a positive revenue generator for the long term in line with the company's growth vision and therefore expect PAT to continue a rising trajectory. The DRC market is still largely unbanked with a population of close to 100Mn people. Additionally, TMB's location in Lubumbashi, which is DRC's mining capital, is likely to open up the trade finance business for KCB. The Group has been consolidating the other subsidiaries more KCB Rwanda where there has been a change in CEO. In Rwanda we expect the bank to increase its footprint in SME banking by expanding lending in agriculture while optimizing its digital operations. We expect regional subsidiaries contribution to total assets to increase above 30.00% in FY'22.

- **Forex Trading Income to Drive Non-Interest:** In 9M'22, Non-Interest income grew by 30.17% to KES 30.55Bn mainly driven by a 17.25% y/y jump in income from loan fees and commissions. We expect dollar shortage in the interbank market to continue providing arbitrage opportunities for banks with forex trading income being the key driver of NFI. In FY'22, we expect Net Interest income to jump 14.94% y/y to KES 89.30Bn mainly on account of growth in interest from lending. Continued investment in digital channels is expected to keep the cost to income ratio in the lower-40's (43.75%). We expect a marginal NIMs upside driven by higher yields from assets outpacing cost of deposits mobilization.

- **Historical Asset Quality Concerns Persist:** In 9M'22 Gross NPL stock increased 54.34% y/y to an industry high of KES 149.29Bn owing to elevated NPL ratios in subsidiaries such as NBK (24.50%), and Kenya (19.80%). NPL Ratio increased 425bps to 17.82% from 13.57% in Q3'21, which is still above the current industry average of 14.20%. We expect the lender to close FY'22 with an NPL ratio of 18-20.00% above management guidance of 15-17.00% owing to various recovery and loan book monitoring efforts.

- **Dividend Outlook:** Our FY'22 Dividend outlook for KCB is a final DPS of KES 2.0– 2.50 (to add to the KES 1.00 interim and total to KES 3.00-3.50). The total DPS represents 22.55-26.31% payout ratio higher than FY'21 payout ratio of 18.81%. The jump in payout ratio is informed by expectations in increase in the bottom line.

1-Year Share Price Movement



Income Statement	FY'19	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	% y/y Change
Net Interest Income	56,131.00	67,937.58	77,694.02	19,739.82	40,591.53	61,593.99	80,716.75	3.89%
Net non-Interest Income	28,171.54	28,450.60	30,940.59	9,291.57	19,215.62	30,550.66	36,615.61	18.34%
Total Operating income	84,302.54	96,388.18	108,634.61	29,031.39	59,807.15	92,144.65	117,332.36	8.01%
Provision for Impairment	(8,888.94)	(27,508.44)	(12,988.10)	(2,075.38)	(4,318.68)	(7,267.76)	(11,289.03)	-13.08%
Total Operating expenses	(47,405.18)	(70,669.30)	(60,820.30)	(14,999.31)	(31,628.75)	(48,840.71)	(64,546.72)	6.13%
Profit before tax	**36,897.36**	**25,718.88**	**47,814.30**	**14,032.08**	**28,178.40**	**43,303.95**	**52,785.64**	10.40%
Profit after tax	**25,165.17**	**19,603.65**	**34,091.63**	**9,788.89**	**19,521.78**	**30,458.98**	**37,937.15**	11.28%
Core EPS	7.83	6.10	10.61	3.07	6.11	12.64	11.83	11.51%
DPS	3.50	1.00	3.00	-	-	1.00	3.50	16.67%

Balance Sheet	FY'19	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	% y/y Change
Government Securities	164.87	208.76	270.84	274.44	277.84	269.89	314.36	16.07%
Loans and Advances	539.75	595.25	675.48	704.37	730.34	758.82	786.65	16.46%
Total Assets	**898.57**	**987.81**	**1,139.67**	**1,166.91**	**1,210.11**	**1,276.28**	**1,312.15**	**15.13%**
Customer Deposits	686.58	767.22	837.14	845.82	908.57	922.30	955.29	14.11%
Total Liabilities	768.83	845.39	966.16	983.19	1,028.36	1,086.06	1,113.87	15.29%
Shareholder's Funds	**129.74**	**147.51**	**171.71**	**181.83**	**179.11**	**187.77**	**198.48**	**15.59%**

	FY'19	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e
Growth Metrices (y/y)							
Loan book Growth	18.40%	10.28%	13.48%	17.96%	20.33%	16.42%	14.99%
Customer Deposits Growth	27.75%	11.75%	9.11%	12.86%	7.36%	7.36%	14.11%
PAT Growth	4.88%	-23.70%	77.54%	53.53%	27.59%	21.00%	10.38%
Spreads Analysis							
Yield on Assets	10.87%	11.09%	11.11%	10.01%	9.96%	9.61%	10.30%
Cost of Funds	2.78%	2.73%	2.81%	2.64%	2.69%	2.69%	3.00%
Net Interest Margin	8.20%	8.44%	8.45%	7.56%	7.43%	7.07%	12.27%
ROaE	20.68%	14.11%	21.76%	13.77%	23.20%	14.02%	22.30%
ROaA	3.12%	2.04%	3.21%	2.12%	3.45%	2.05%	3.37%
Profit Margin	29.85%	20.00%	31.46%	33.95%	32.85%	33.20%	32.32%
Operating Effiency							
Cost of Income Less LLP	45.69%	44.97%	44.03%	44.52%	45.66%	45.12%	45.53%
Cost of Assets	4.78%	4.58%	4.50%	1.21%	2.45%	3.47%	4.33%
Loan to Deposit	78.61%	77.59%	80.69%	83.28%	80.38%	82.27%	82.00%
Asset Quality							
NPL	10.98%	14.80%	16.59%	16.93%	21.42%	17.82%	19.18%
NPL Coverage	59.47%	59.78%	52.93%	52.65%	45.82%	52.83%	48.06%
Cost of Risk	10.54%	28.66%	11.96%	7.15%	7.22%	7.89%	9.61%

NCBA Group Plc

We issue a BUY recommendation on NCBA with a target price of KES 44.10 representing an upside potential of 20.16% on the current price of KES 36.70. Our view is informed by the bank's improved efficiency ratio, increased usage of technology, and growth of its non-funded income. Digital lending is expected to be a key driver of interest income due to the quick churn and high-interest charge nature of the loans. By 1Q23, NCBA anticipates hitting Ghana's digital market, and it is also intending to enter eight other African markets this is also expected to drive the bank's top line upwards. In FY'22, we expect NCBA Group's PAT and EPS to each increase by 60.38% to KES 16.04Bn and KES 9.95, respectively. The growth will be driven by a 14.74% increase in net interest income and a 29.08% growth in non-interest income. As such, ROaE will be within management guidance (< 15.00%) and come in at 20.01%.

At the Current Market Price, the stock is trading at a P/E similar to the industry median of 3.69x and a P/TB multiple of 0.71x lower than the industry median of 0.85x.

Bloomberg Ticker NCBA:KN

NSE Code: NCBA

Target Price: KES 12.07

Upside: 28.1%

Current Price: KES 9.42

52 Week Low: KES 8.50

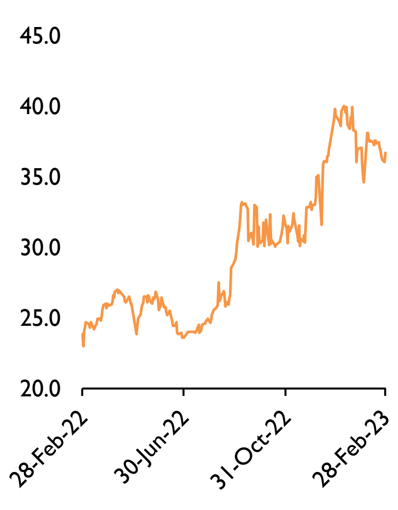
52 Week High: KES 10.80

FY'22 EPS: KES 9.93

FY'22 ROaE: 20.01%

Trailing P/B: 0.71x

1-Year Share Price Movement



FY'22 Expectations

- **Digital Transactions to Continue Boosting Efficiency:** In the recent past, the Cost to Income ratio less impairment has remained in the lower-40s despite the lender going against industry trends by opening new branches (16 branches since 2021). In H1'22 the lender opened four new branches in Kenya with an intention of a further eight and two more in Rwanda. Digital lending has also performed exceptionally with KES 521.00Bn disbursed as of 9M'22 where on an annualized basis the lender will have disbursed KES 695.00Bn by end of FY'22. The majority of digital loans are quick churn 15–30-day loans disbursed with minimal human intervention. We do not expect a significant effect from the reduction of Fuliza fees as we believe the reduced fees will entice borrowers to take up loans with the presumption that the loans have become "cheaper". We expect impairment provisioning to continue reducing as previously perceived lending risks dissipate. In line with the industry trend, Loan loss provisions fell 9.18% y/y to KES 8.33 Bn indicating reduced lending risk.

- **Forex Trading Income to Drive Non-Interest:** In 9M'22, Non-Interest Income grew 40.14% y/y to 22.54Bn against a 15.07% y/y increase in net interest income to 23.25Bn. While we expect interest income to be driven by digital lending and branch-level loan book growth, Non-interest income will be driven by increased fees from loans, fees from digital transactions, and the significant growth of forex trading income. We expect the Yield on assets to remain above 10.00% while the cost of funds remains below 5.00% keeping the Net Interest Margin (NIM) at 5-6.00% levels.

- **RBM to Drive Loan Book Growth:** In 9M'22, the Loan book grew 11.73% y/y to KES 266.11Bn faster than the 3.24% y/y growth in the customer deposits to KES 462.11Bn leading to an 823bps growth in the loan-to deposit ratio to 57.59%. We expect the FY'22 loan book to expand by 13.54% y/y closing at KES 277.08Bn largely approval of return to lending as we believe the bank's risk-based model has already been approved. Notably, the bank has the highest market in the asset lease financing segment and has recently ventured into electric vehicle financing. Additionally, the structure of the new branches is that of sales and service centers and thus we expect increased lending at the branch level.

- **Dividend Outlook:** Our FY'22 Dividend outlook for NCBA is a final DPS of KES 2.0 – 2.50 (to add to the KES 2.00 interim and total to KES 4.00-4.50). The total DPS represents a 43.90-50.00% payout ratio higher than the FY'21 payout ratio of 48.34%. Should the above 50.00% payout continue, future total FY dividends will come in at above KES 5.00. The jump in payout ratio is informed by expectations of an increase in the bottom line.

Income Statement	FY'19	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	% y/y Change
Net Interest Income	13.34	25.49	27.04	7.09	14.80	23.25	31.02	14.74%
Net non-Interest Income	20.32	20.94	22.11	6.06	14.18	22.54	28.55	29.08%
Total Operating income	33.66	46.44	49.15	13.15	28.98	45.79	59.57	21.19%
Provision for Impairment	(6.25)	(20.44)	(12.72)	(2.53)	(5.56)	(8.33)	(11.01)	-13.46%
Total Operating expenses	(20.36)	(40.03)	(33.45)	(8.12)	(17.08)	(26.87)	(34.70)	3.73%
Profit before tax	11.31	4.98	15.03	4.85	11.18	18.19	24.11	60.38%
Profit after tax	**7.84**	**4.57**	**10.22**	**3.41**	**7.77**	**12.80**	**16.40**	**60.38%**
DPS	1.75	1.50	3.00	-	2.00	-	5.00	66.67%

Balance Sheet	FY'19	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	% y/y Change
Government Securities	145.02	163.55	218.81	223.16	232.94	232.65	241.86	10.53%
Loans and Advances	249.36	248.50	244.04	243.90	250.50	266.11	277.08	13.54%
Total Assets	494.84	527.95	591.09	587.38	604.30	595.42	615.57	4.14%
Customer Deposits	378.24	421.50	469.89	465.54	468.49	462.11	480.40	2.24%
Total Liabilities	427.58	455.41	513.10	507.07	524.04	514.49	528.11	2.93%
Shareholder's Funds	66.99	72.35	77.86	80.18	80.18	80.88	86.02	10.48%

	FY'19	FY'20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e
Growth Metrices (y/y)							
Loan book Growth	4.08%	-0.34%	-1.79%	0.31%	4.55%	11.73%	13.54%
Customer Deposits Growth	10.91%	11.44%	11.48%	7.21%	7.12%	3.24%	2.24%
PAT Growth	-7.82%	-55.97%	201.79%	25.27%	50.80%	64.48%	60.38%
Spreads Analysis							
Yield on Assets	6.28%	10.13%	9.67%	9.69%	9.87%	10.12%	10.12%
Cost of Funds	3.08%	4.40%	4.18%	4.32%	4.33%	4.43%	4.47%
Net Interest Margin	3.28%	5.84%	5.62%	5.60%	5.72%	5.96%	5.92%
ROaE	11.79%	6.56%	13.61%	13.97%	17.27%	21.20%	20.01%
ROaA	1.65%	0.89%	1.83%	1.91%	2.33%	2.85%	2.72%
Profit Margin	23.30%	9.84%	20.80%	25.94%	26.81%	27.96%	27.53%
Operating Effiency							
Cost of Income Less LLP	41.91%	42.19%	42.18%	42.52%	39.75%	40.49%	39.77%
Cost of Assets	2.85%	3.71%	3.51%	0.95%	1.91%	3.11%	3.85%
Loan to Deposit	65.93%	58.95%	51.94%	52.39%	53.47%	57.59%	51.94%
Asset Quality							
NPL	12.55%	14.68%	16.02%	16.32%	13.60%	12.56%	12.35%
NPL Coverage	55.89%	60.93%	73.64%	72.57%	62.24%	65.25%	68.85%
Cost of Risk	18.57%	44.02%	25.87%	19.20%	19.17%	18.19%	18.48%

Stanbic Holdings Plc

We maintain our **HOLD** recommendation on Stanbic Holdings at a target price of KES 113.09 representing an upside potential of 7.70% on the current price of KES 105.00. Our view is informed by the group's diverse loan book with low exposure in high-risk sectors. Bottom-line growth was driven by reduced loan impairment provisioning and Total Operating Income largely from interest income. We expect Non- interest income growth to be driven by the continued adoption of digital channels - UNAYO digital platform, a one-stop shop for savings, transactions, and borrowing, is expected to drive future growth. Given the performance in the reported quarters of 2022, we expect the PAT and EPS for FY'22 to both grow by 25.78% y/y to KES 9.07Bn and KES 22.93, respectively.

The counter's current valuation metrics point to an overvaluation with a current trailing P/E of 4.58x higher than the peer median of 3.69x and P/B of 1.80x.

Bloomberg Ticker SBIC:KN

NSE Code: SBIC

Target Price: KES 113.09

Upside: 7.70%

Current Price: KES 105.00

52 Week Low: KES 90.00

52 Week High: KES 114.00

FY'22 EPS: KES 22.93

FY'22 ROaE: 15.73%

Trailing P/B: 1.80x

FY'22 Expectations

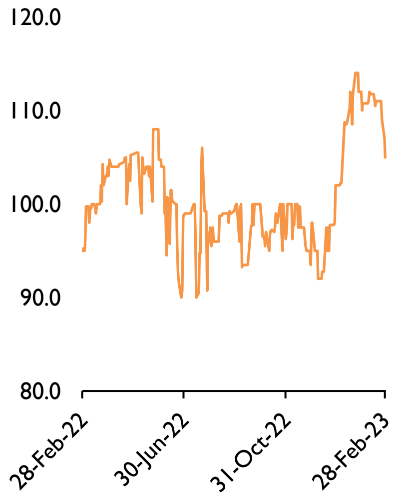
- **Digital Transactions to Continue Boosting Efficiency:** In HY'22, The CTI ratio less impairment provisioning improved 69bps to 48.20% mainly on the back of an 18.07% increase in staff costs to KES 3.45Bn. In line with the observed industry trend, Loan loss provisions decreased 16.07% y/y to KES 1.26Bn but increased 103.22% q/q indicating increased lending risk in Q2'22 factoring in the effects of an economic slowdown from the general elections. We expect operating expenses to continue declining in coming periods given the increased use of digital transaction channels. As such we expect the CTI to remain at the 48.00% level on the back of lower operating expenses.

- **Forex Trading Income to Drive Non-Interest:** We project a 13.58% y/y growth in non-funded income, to KES 12.06Bn, on the back of an increase in forex trading income as well as fees and commissions from loans and digital channels. We further anticipate an improvement in the investment banking deals environment following post-pandemic business reorganizations and businesses' pursuit for expansion. Additionally, increased business between Kenya and China will also likely contribute to higher trade finance-related income which is a further boost to non-interest income. Projected growth in economic activities is expected to see an improvement in commissions from insurance franchises given the anticipated growth in insurance premiums. Increased client flows and higher trading activity supported by foreign exchange volatility are expected to push growth in forex trading income. We expect the bank to maintain a balanced revenue mix with growth mostly coming from the non-interest side compared to slower interest income. We expect the bancassurance and Securities trading subsidiaries to continue supporting NFI growth.

- **Loan Book Growth to be in tandem with Deposits Growth:** In FY'22, we see both the loan book and customer deposits both growing at close to 10.00% y/y. Therefore, the loan-to-deposits ratio will remain at the 90.00% level. In the reported quarters of 2022, we have seen loan book growth outpacing deposits which was a concern as it shows the bank's declining ability to attract and retain deposit customers, as well as the reduced source of lending funds. The corporate loan segment coupled with digital lending in the retail section continues driving loan book growth.

- **Dividend Outlook:** Our FY'22 Dividend outlook is a final DPS of KES 9.00–11.00, there was no interim. The total DPS represents a 40-50% payout ratio which is at the same level as the 49.36% payout ratio recorded in FY'21. Our conservative DPS estimates are driven by the bank's continued need to reinvest back into the business (growth of the digital channels business).

1-Year Share Price Movement



Income Statement	FY18	FY19	FY20	FY'21	HY'22	FY'22e	y/y Change
Net Interest Income	12,129.65	13,347.74	12,795.16	14,373.20	8,343.23	16,747.95	16.52%
Net non-Interest Income	9,964.72	11,433.07	10,442.21	10,616.95	6,859.82	12,058.43	13.58%
Total Operating income	22,094.37	24,780.81	23,237.37	24,990.15	15,203.04	28,806.38	15.27%
Provision for Impairment	(1,734.30)	(3,150.56)	(4,875.69)	(2,523.55)	(1,260.89)	(1,202.68)	-52.34%
Total Operating expenses	(11,082.15)	(13,920.49)	(12,134.52)	(15,234.41)	(8,596.09)	(15,854.61)	4.07%
Profit before tax	**8,947.76**	**7,709.76**	**6,227.15**	**9,755.74**	**6,606.95**	**12,951.77**	32.76%
Profit after tax	**6,277.17**	**6,380.62**	**5,192.24**	**7,208.09**	**4,796.40**	**9,066.24**	25.78%
Core EPS	15.88	16.14	13.13	18.23	12.13	22.93	25.78%
DPS	5.80	7.05	3.80	9.00	-	9.00	0.00%

Balance Sheet	FY18	FY19	FY20	FY'21	HY'22	FY'22e	y/y Change
Government Securities	72,260.41	70,077.82	87,583.54	59,535.56	52,570.45	62,688.64	5.30%
Loans and Advances	174,984.71	191,194.57	196,300.03	229,321.28	244,040.54	251,751.25	9.78%
Total Assets	**290,570.25**	**303,624.59**	**328,594.52**	**328,871.81**	**341,579.51**	**359,838.99**	9.42%
Customer Deposits	219,493.91	224,672.91	259,970.05	254,588.38	258,231.01	280,047.22	10.00%
Total Liabilities	245,946.83	254,589.83	276,863.56	272,418.78	283,389.44	297,877.62	9.35%
Total Equities and Liabilities	**290,570.25**	**303,624.59**	**328,594.52**	**328,871.81**	**341,579.51**	**359,838.99**	9.42%

Standard Chartered Bank Kenya Plc

We issue a **HOLD** recommendation on Standard Chartered Bank with a target price of KES 168.53 representing an upside potential of 4.68% on the current price of KES 161.00 Factoring in the growth from previous quarters, we foresee the lender closing the year with a PAT and EPS growth of 46.77%, closing at KES 13.27Bn and KES 35.21, respectively. Net earnings growth will be driven by growth in non-funded income, reduced loan loss provisions, and increased interest income from government securities. NFI will continue to be one of the main drivers of growth driven by growth in the wealth management business. We find the company's dividend policy attractive but remain concerned about the non-performing loans.

At the Current Market Price, the stock is trading at 4.74x P/E above the industry median of 3.69x and a P/B multiple of 1.08x higher than the industry median of 0.85x.

Bloomberg Ticker SCBL:KN

NSE Code: SCBK

Target Price: KES 168.53

Upside: 4.68%

Current Price: KES 161.00

52 Week Low: KES 121.00

52 Week High: KES 168.00

FY'22 EPS: KES 33.99

FY'22 ROaE: 23.24%

Trailing P/B: 1.08x

FY'22 Expectations

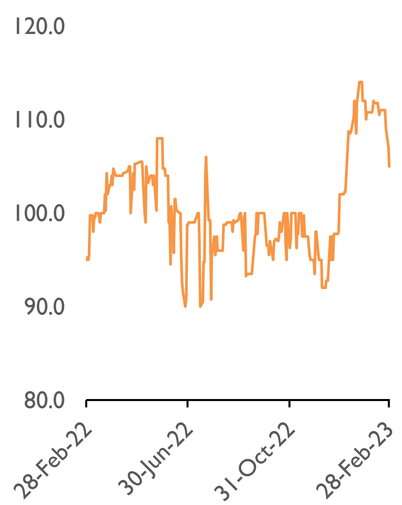
- **Digital Transactions to Continue Boosting Efficiency:** In 9M'22, the Cost to Income ratio less impairment declined 125bps y/y to 47.40% attributable to faster-operating income growth (+10.28% y/y) compared to a 6.25% y/y increase in staff costs to 5.19Bn. In line with the industry trend, Loan loss provisions fell 76.84% y/y to KES 0.62 Bn indicating reduced lending risk. The digital platform has been embraced by corporate clients who are served through an online banking platform (Straight2Bank) where the penetration and utilization rates stand at 93%. Retail clients are served through the SC Mobile app which currently offers over 70 services. We expect the CTI to remain in the mid-40 driven by digital channels.

- **Wealth Management to Drive Non-Interest Income:** In 9M'22, SCBK's Non-Interest Income grew 16.11% y/y to 8.78Bn against a 7.29% y/y increase in net interest income to KES 15.78Bn mainly driven by increased income from fees and commissions from lending. We expect non-interest income growth to be driven by the wealth management unit which mostly focuses on diverse offshore funds. In FY'21, the wealth management Asset under Management was at KES 131.00Bn which we estimate to have crossed the KES 150.00Bn mark by end of FY'22, as local investors' interest in offshore products increase. SCBK recorded one of the lowest growths (averaging at 42.20%) in income from forex trading despite doing huge amounts of cross-border business likely due to conservative forex pricing. In FY'22, We expect the NII/NFI ratio to remain at around 63:37 but should continue favoring NFI as non-lending revenues grow faster than loan book-related revenue.

- **Asset Quality Concerns Persist:** In 9M'22, Gross NPLs increased 4.42% y/y to KES 24.03Bn, leading to the NPL ratio increasing 983bps y/y to 15.41% above the latest industry average of 13.80%. NPL coverage further declined marginally to 82.44% from 82.80% in 3Q21. In 9M'22, customer deposits (+10.72% y/y) grew faster than the loan book (+3.28% y/y). In FY'22, we expect conservative lending as the loan-to-deposit ratio maintains at the 50.00% level. Despite the slow loan book growth, we expect the NPL ratio to remain above the industry average.

- **Dividend Outlook:** Historically, SCBK has had the highest payout ratio among its banking sector peers averaging 77.40% in the last five years. Our FY'22 Dividend outlook is a final DPS of KES 20.00 – 22.00 (to add to the KES 6.00 interim and total to KES 26.00-28.00). The total DPS represents a 67.30-72.50% payout ratio on the same level as the FY'21 payout ratio of 72.20%. We expect continued investment in digital channels as well as capital requirements will keep the payout ratio below the five-year average.

1-Year Share Price Movement



Income Statement	FY19	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	% y/y Change
Net Interest Income	19,472.49	19,117.15	18,809.42	4,922.46	10,014.04	15,784.06	21,044.99	11.89%
Net non-Interest Income	9,227.42	8,289.78	10,355.00	2,486.70	5,542.17	8,778.30	12,172.30	17.55%
Total Operating income	28,699.91	27,406.93	29,164.42	7,409.15	15,556.21	24,562.37	33,217.29	13.90%
Provision for Impairment	(572.59)	(3,882.16)	(2,081.63)	86.01	(108.19)	621.02	(890.04)	-57.24%
Total Operating expenses	(16,526.06)	(20,010.88)	(16,566.37)	(3,481.17)	(7,986.88)	(12,267.73)	(15,368.14)	-7.23%
Profit before tax	12,173.86	7,396.06	12,598.05	3,927.98	7,569.33	12,294.63	17,849.15	41.68%
Profit after tax	8,236.77	5,440.42	9,043.84	2,764.73	5,410.18	8,712.87	12,813.48	41.68%
Core EPS	21.85	14.43	23.99	7.33	14.35	23.11	33.99	41.68%
DPS	20.00	10.50	19.00	-	-	6.00	26.00	36.84%

Balance Sheet	FY19	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e	% y/y Change
Government Securities	99,628.93	99,779.22	95,595.61	101,366.51	103,560.17	111,988.51	123,469.77	29.16%
Loans and Advances	128,690.34	121,524.23	125,974.59	128,092.64	128,520.85	138,071.60	136,424.15	8.29%
Total Assets	**302,139.06**	**325,605.07**	**334,871.94**	**340,912.86**	**364,291.62**	**366,116.42**	**366,877.46**	9.56%
Customer Deposits	228,433.52	256,497.53	265,469.11	265,388.13	286,911.61	286,074.22	293,923.50	10.72%
Total Liabilities	254,378.53	274,715.03	281,657.83	285,289.72	307,862.05	310,645.00	309,781.15	9.98%
Shareholder's Funds	**47,760.53**	**50,890.04**	**53,214.11**	**55,623.14**	**56,429.58**	**55,471.43**	**57,096.31**	7.30%

	FY19	FY20	FY'21	Q1'22	Q2'22	Q3'22	FY'22e
Growth Metrices (y/y)							
Loan book Growth	-3.01%	0.07%	3.66%	8.67%	-1.35%	4.80%	8.29%
Customer Deposits Growth	8.46%	6.42%	3.50%	0.05%	3.14%	10.72%	10.72%
PAT Growth	50.91%	46.67%	66.23%	15.63%	10.89%	37.11%	41.68%
Spreads Analysis							
Yield on Assets	7.74%	7.95%	7.57%	7.38%	8.32%	8.34%	8.34%
Cost of Funds	1.49%	1.49%	1.33%	1.22%	1.08%	1.14%	2.00%
Net Interest Margin	6.39%	6.67%	6.39%	6.31%	7.20%	7.21%	6.59%
ROaE	13.70%	14.46%	17.37%	10.72%	17.71%	21.01%	23.23%
ROaA	2.11%	2.31%	2.74%	1.71%	2.70%	3.27%	3.65%
Profit Margin	34.57%	28.53%	31.01%	37.32%	34.78%	35.47%	38.57%
Operating Effiency							
Cost of Income Less LLP	47.31%	48.02%	49.67%	48.15%	50.65%	52.47%	43.59%
Cost of Assets	1.98%	3.32%	4.39%	1.05%	2.22%	3.70%	4.13%
Loan to Deposit	46.83%	50.99%	47.45%	48.27%	44.79%	48.26%	47.45%
Asset Quality							
NPL	15.36%	15.26%	15.99%	15.40%	15.41%	15.22%	14.35%
NPL Coverage	81.40%	82.80%	84.41%	81.83%	83.88%	82.44%	86.14%

CONTACTS:

Research

Solomon Kariuki
Research Analyst

Faith Sang
Research Analyst

Email: research@aib-axysafrica.com

Equities Dealing

Nina Goswami

Bernard Kung'u

Benard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Benson Ngugi

Bond Dealing

Crispus Otieno

Titus Marenye

Aundrina Musyoka

Kenneth Minjire

Email: trading@aib-axysafrica.com