SIB Standard Investment Bank

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EQUITY RESEARCH

KENYAN BANKING SECTOR UPDATE

Resilience Amidst Shifting Tides

Higher interest rates fail to significantly drive margin expansion

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Investment Thesis Summary

The banking sector has exhibited remarkable resilience in the face of challenging macroeconomic conditions, with lenders in our coverage reporting profit growth (at varying intensities) in the face of a persistently high-interest rate regime which has not only raised the cost of funds but also raised overall asset quality deterioration; major climate event – floods. We believe the lenders' ability to balance credit risk management with revenue growth as well as healthy capital buffers buoyed performance in the face of sluggish credit demand. We are optimistic about the performance of the sector in the second half of 2024. We view ongoing revenue diversification strategies, continued implementation of risk-based pricing, support from regional subsidiaries, regional trade deals, cost containment initiatives, and digital transformation as tailwinds to the sector. Additionally, potential rate cuts (both internationally and locally) as inflation eases are expected to stimulate private-sector credit demand, reducing the crowding-out effect.

We believe banking stocks present attractive capital appreciation - given that most listed banks are trading at below book value and still have healthy income opportunities and growth - especially as signalled by interim dividend increase by StanChart and Stanbic and the resumption of dividend payment by KCB Group. The addition of DTB to the MSCI Frontier Markets Small Cap index, as well as the addition of Cooperative Bank of Kenya to the MSCI Frontier Markets index and the recent Fed 50 bps rate cut, will provide stock visibility and reorient foreign investor interest into frontier and emerging markets.

Key risks to our investment thesis include the adverse effects of a higher for longer interest rate environment squeezing margins, potential impact of credit agency ratings on the cost of credit, cybersecurity threats, escalating geopolitical tensions, sovereign debt risks, supply chain disruptions, slower than expected economic growth, elevated NPL stock, uncertain tax regime and increased regulatory pressure.

Bank 1H24	Mkt Cap $ mn	EPS	P/B	P/E	Price	NAV (estimated)	ROaE	Dividend Yield	YTD %	Recommendation
Absa	595.8	1.97	1.1	4.7	14.20	13.28	31.3%	11.0%	23.6%	BUY
Co-op Bank	595.8	2.21	0.7	3.3	13.10	20.62	21.6%	11.5%	14.9%	BUY
DTB	98.8	15.54	0.1	1.9	45.60	226.36	11.9%	13.2%	1.2%	BUY
Equity Bank	1,263.7	7.56	0.7	3.9	43.20	51.83	26.0%	6.9%	28.4%	BUY
I&M Holdings	283.9	3.39	0.4	2.9	22.20	43.92	12.3%	11.5%	26.6%	BUY
KCB	807.1	9.07	0.4	2.8	32.40	70.25	24.8%	0.0%	47.9%	BUY
NCBA	514.1	5.96	0.7	3.1	40.30	55.84	19.8%	11.8%	3.3%	BUY
Stanbic	367.7	18.00	0.7	3.9	120.00	148.21	24.2%	12.8%	10.3%	BUY
StanChart	618.0	27.21	1.3	5.8	211.00	147.32	32.73%	13.70%	14.9%	BUY
Industry			**0.6**	**3.8**						

- *Market Data as at 20th September 2024*

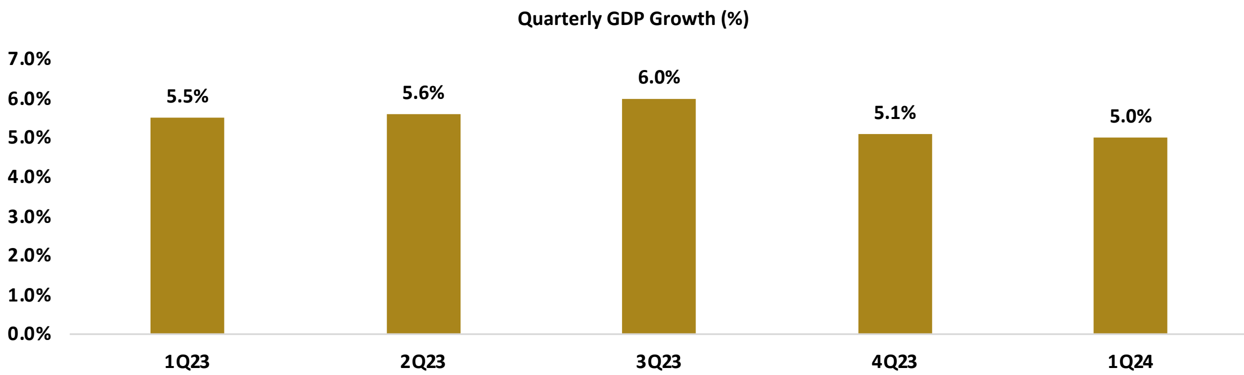
** NAV - Net Asset Value*

Source: Company Filings, NSE, Bloomberg, Standard Investment Bank estimates

1H24 Performance Overview

A softer start to 2024

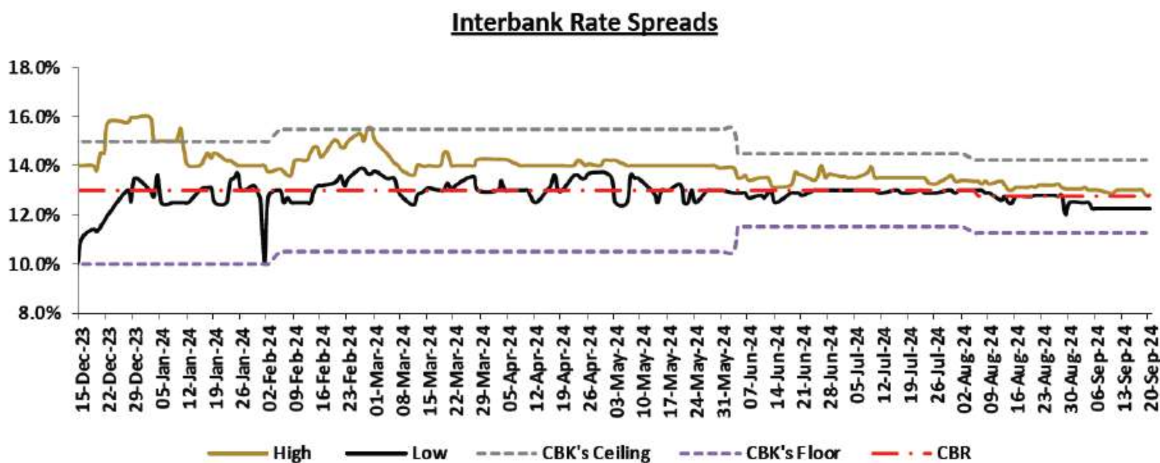
The Kenyan economy slowed down in the first quarter of 2024, with the GDP coming in at 5.0% compared to 5.5% in 1Q23. Agriculture recorded strong performance in the quarter, due to favourable weather conditions. Furthermore, the services sector reported impressive growth, with the accommodation and food services sector surging 28.0% as its sustained growth momentum started in the 2022 recovery from the aftereffects of the COVID-19 pandemic. Notably, the financial and insurance sector grew by an accelerated 7.0% in 1Q24 vs 5.9% in 1Q23, buoyed by upward credit repricing. Conversely, the manufacturing and construction sectors took a hit, with the sectors decelerating from 2.4% vs 3.7% in 1Q23 and 0.1% from 0.3%, respectively. These two sectors have been notable drivers in NPL growth in the first half of the year. The apex bank forecasts a resilient economy for the remainder of the year, with GDP growth expected at 5.4% in 2024 from 5.6% in 2023.



Source: CBK data, Standard Investment Bank estimates

Sharp increase in CBR over the last year

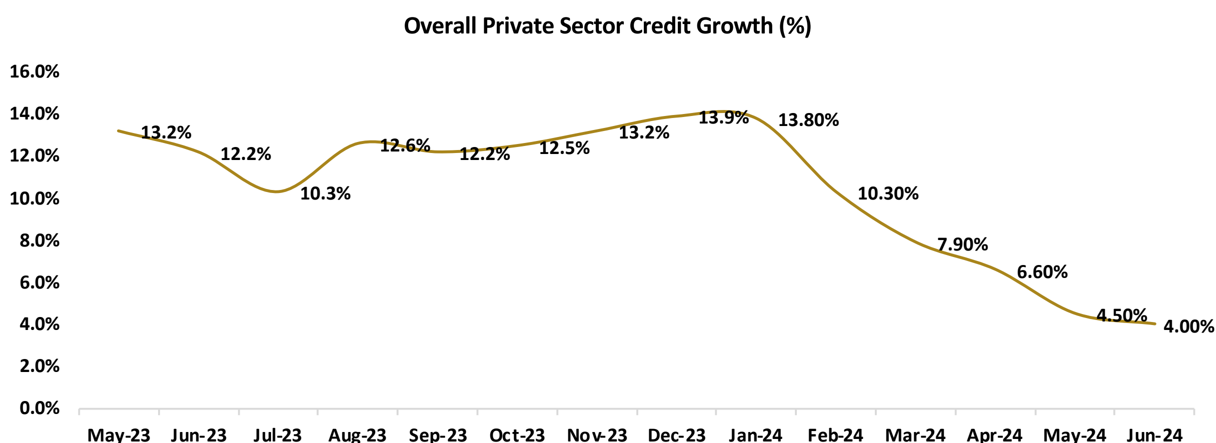
Notably, the CBR was raised to 13.00% in February 2024 from 9.50 per cent in March 2023. As such the cost of credit rose during the first quarter of 2024, with the average industry interest rate on the entire loan book by commercial banks climbing to 16.3% in March 2024 from 13.1% in March 2023 according to CBK data. The CBR rate has since declined slightly to 12.75% in August 2024, signaling potential easing in interest rates on commercial loans and advances as well as government paper rates as the year progresses – and further into 2025.



Source: CBK data, Standard Investment Bank estimates

Credit growth declines to 4.0%

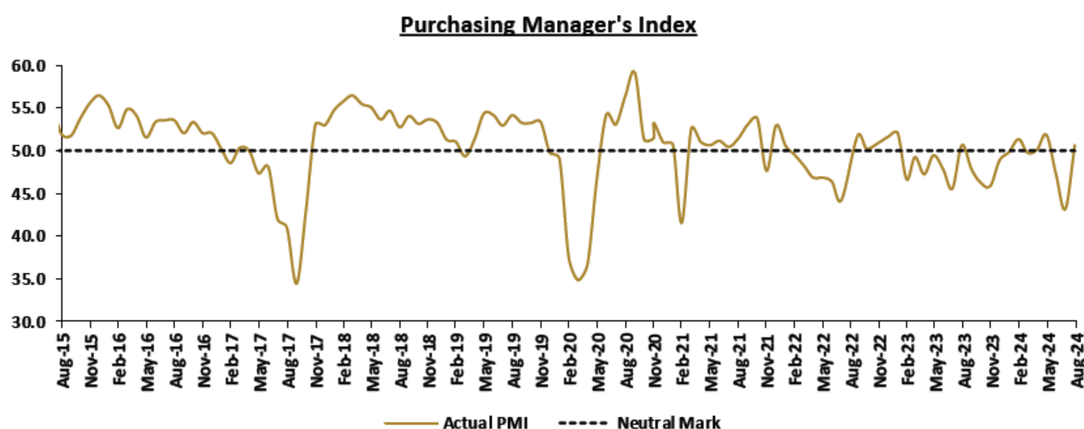
Overall Private sector credit growth (PSCG) plummeted to 4.0% in June 2024 from 12.2% in June 2023, with the overall growth adjusted for exchange rate valuation declining to 6.6% from 7.6% in June 2023. One explanation for the dip is the foreign currency impact on FCY loans, given the strengthening of the local unit against the greenback (up 17.5% as of the end of June 2024 from KES 156.98 in Jan 2024.). The currency movement was buoyed by the 2024 Eurobond buyback, the good performance of the new Eurobond issuance and inflows from the IMF, Trade Development Bank and World Bank. Notably, foreign loans in the industry (which contribute 26% of total loans), contracted 13.3% in June 2024 from a growth of 10.9% in December 2023. Local currency loan demand softened in the period, with growth coming in at 10.2% in June 2024 from 15.0% in Jan 2024, partly driven by economic conditions in the period, higher borrowing costs and tighter lending requirements by banks. Furthermore, interbank lending rates in the market eased in the first half of the year, coming down from 14.2% at the start of the year to 13.3% as of the end of June 2024 as banks retained their liquidity on lower lending activities.



Source: CBK data, Standard Investment Bank estimates

Business sentiment improves after Gen Z protests

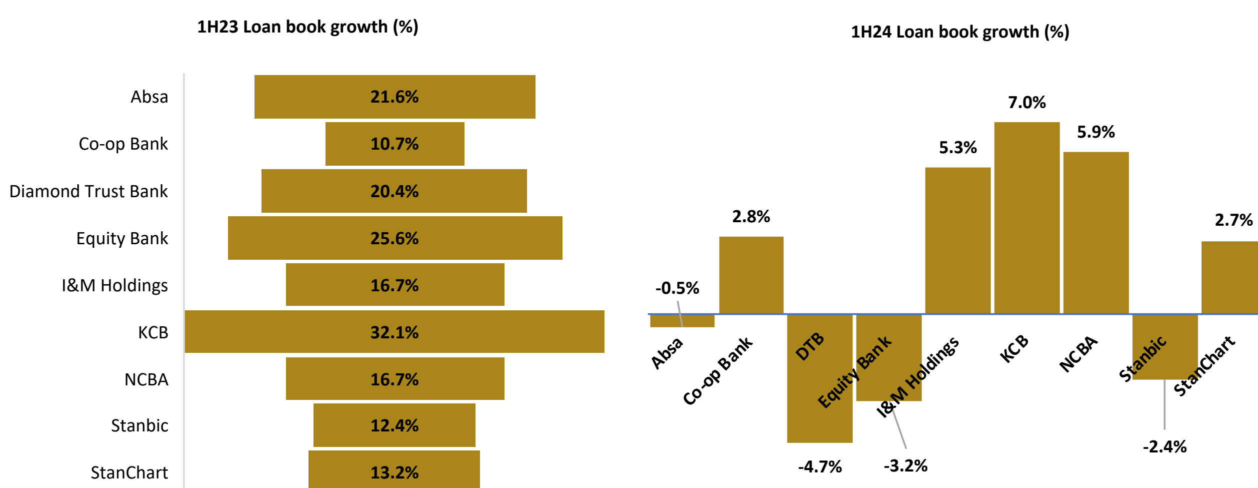
Business sentiments however improved marginally in the first half (average PMI of 50.0 in 1H24 vs 48.7 in 1H23) following the dissipation of the Gen Z anti-governance protests that rocked the country in the period. We believe the return to normalcy should stir firms to increase their production levels, thereby driving trade and working capital lending. Furthermore, inflation has been ticking downward, with the indicator coming in at 4.6% in June 2024, from a high of 7.9% in June 2023 on lower food and fuel prices. We believe this slowdown will provide some much-needed relief to consumer wallets, which have been adversely affected by the high cost of living.



Source: Stanbic PMI, S&P Global, Standard Investment Bank estimates

Asset base grows 6.5%y/y as deposits outpace loans

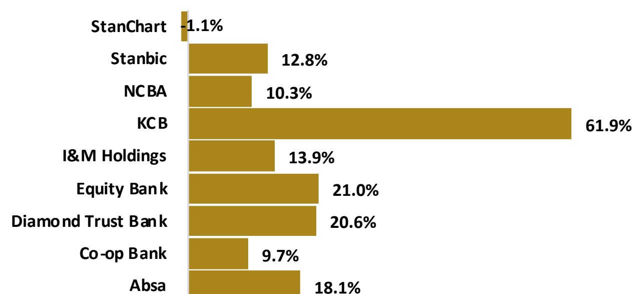
Looking at the balance sheet from the lens of the core banking business, (lending and borrowing), most banks recorded single-digit growth in their loan books compared to double-digit growth in 1H23. The total loan book in our coverage grew by a marginal 1.8% to KES 3.8tn in the period. This is a significant slowdown compared to 1H24 which recorded an average growth rate of c.18.6% in 1H23 vs an average of c.3.8% in 1H24. We note that various considerations may have led to the slower growth rate FX conversion effect on a stronger shilling, short-term/working capital lending with short tenors, weaker credit demand on high interest rates, lower mandate approvals, as well as prudent credit risk management to mitigate asset quality deterioration. A review of the 1H24 numbers shows that KCB Group stood out, recording the highest growth at 7.0%y/y in the period, mainly driven by lending to the trade tourism and manufacturing sectors. Markedly, on a constant currency basis, gross loans grew an impressive 16%y/y according to management. DTB experienced the largest compression at -4.7%y/y, largely due to reduced lending due to foreign exchange revaluation and tame effective demand for credit. Equity, Stanbic Bank and Absa also recorded a loan book contraction in the period, likely due to the reasons stated earlier. As such, most lenders have revised their loan book guidance estimates downwards, reflecting the continued impact of FX conversion and likely constrained credit demand in 1H24.

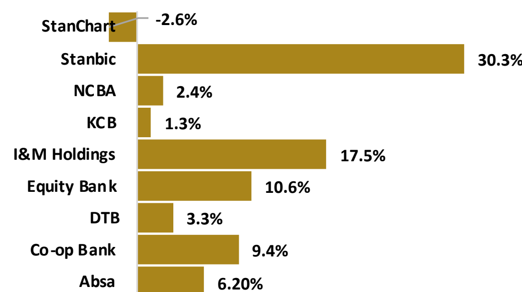


Source: Company Financials, Standard Investment Bank estimates

Stanbic takes the lead as total deposits rise to KES 5.7Tn

Total deposits in our coverage grew at a faster pace than loans (+7.0%y/y) to KES 5.7Tn, mainly buoyed by Stanbic Bank's strong growth at 30.3%y/y. I&M (+17.5%y/y), Equity Group (+10.6%y/y) and Co-op (+9.4%y/y) followed closely, with I&M's growth largely attributable to the lender's branch expansion drive, waived mobile-to-wallet transfer costs and entry into new target sectors. Notably, StanChart recorded a decline in its deposit book (-2.6%y/y vs -1.1%y/y in 1H23), which we opine is due to FX translation impact given c. 32% of its asset base was in FCY as of FY23. We see continued focus on the mobilization of current and savings accounts (CASA) by banks in a bid to tame the surging interest expense costs witnessed across the sector. Key to note is that banks in our coverage seem to have reduced their holdings in total government securities, with 5 out of 9 banks in our coverage reducing their holdings. Stanbic Bank (c.+19.5%y/y) and I&M (c.+15.4%y/y) however recorded double-digit growth in government holdings, as their loan books dipped on conservative lending. Furthermore, liquidity within our coverage increased to an average of c. 51.8% in 1H24, from c. 48.5% in 1H23 further solidifying the notion that banks implemented tighter lending strategies.

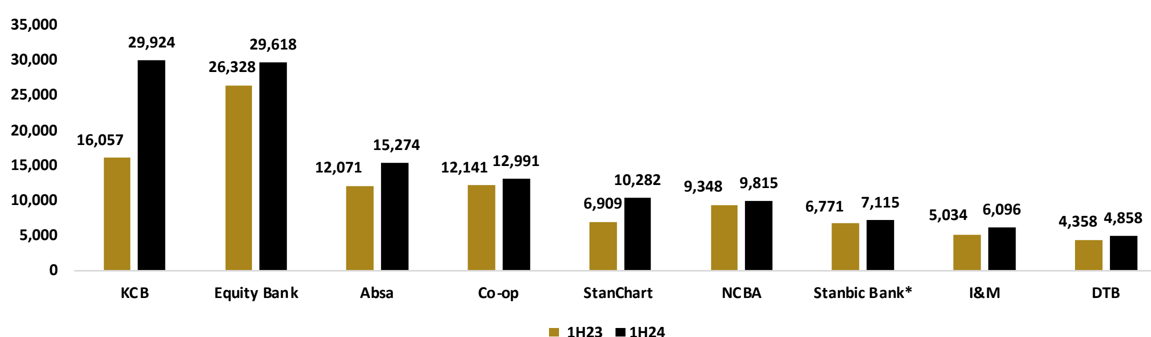


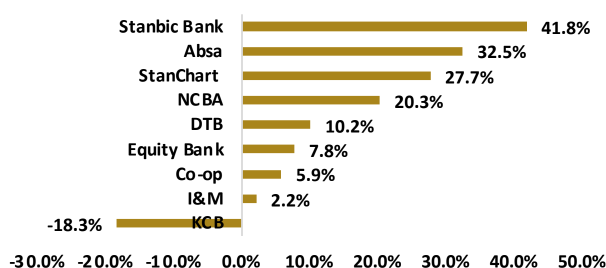


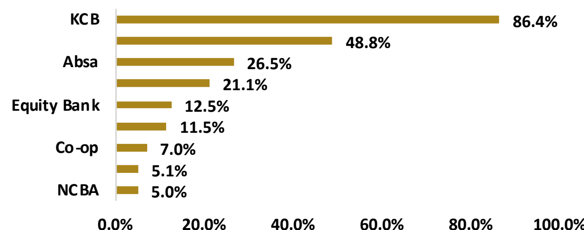
Source: Company Financials, Standard Investment Bank estimates

KCB Group overtakes Equity Bank on profitability at the halfway mark

Listed banks in our coverage recorded a 27.2% surge in profits after tax (excluding minority interests) in 1H24 to KES 126.0bn, mainly supported by a 30.0%y/y increase in sector interest income. Albeit at a slower pace, total non-funded income in our coverage grew by c.13.1% y/y as foreign exchange income declined. Interest expenses took the shine off the stellar performance, with our coverage's total quantum jumping c.51.1% y/y to KES 158.5bn. KCB Group led the pack in terms of profitability, reporting an impressive 86.4% y/y growth in profit after tax, amounting to KES 29.2bn in 1H24. This increase was driven by the recovery of its Kenyan subsidiary (+52.3%y/y) to KES 21.2bn, with the Group's interest income and non-funded income rising 47.2%y/y and 32.1%y/y, respectively. Equity Group followed closely with a profit of KES 28.5bn, representing a 12.1y/y uptick largely supported by regional subsidiaries. However, its Kenyan subsidiary, Equity Bank Kenya Limited, experienced a 10.8% y/y decline in profit after tax to KES 13.9bn. StanChart recorded the second fastest uptick in PAT to KES 10.3bn (+48.8%y/y). The lender's profitability was supported by impressive NFI growth (+36.0%y/y), robust interest income growth (+49.1%y/y) as well as low-cost deposits (recorded the lowest interest expense in our coverage at KES 2.7bn). On the other hand, Stanbic Holdings registered the slowest uptick (+2.3%y/y to KES 7.2bn; Stanbic Bank* PAT rose 5.1% to KES 7.1bn) as the bank's non-funded income stutters (-13.5%y/y). Despite an 8.5% y/y increase, DTB reported the lowest quantum in our coverage as PAT excluding minority interest hit KES 4.8bn.



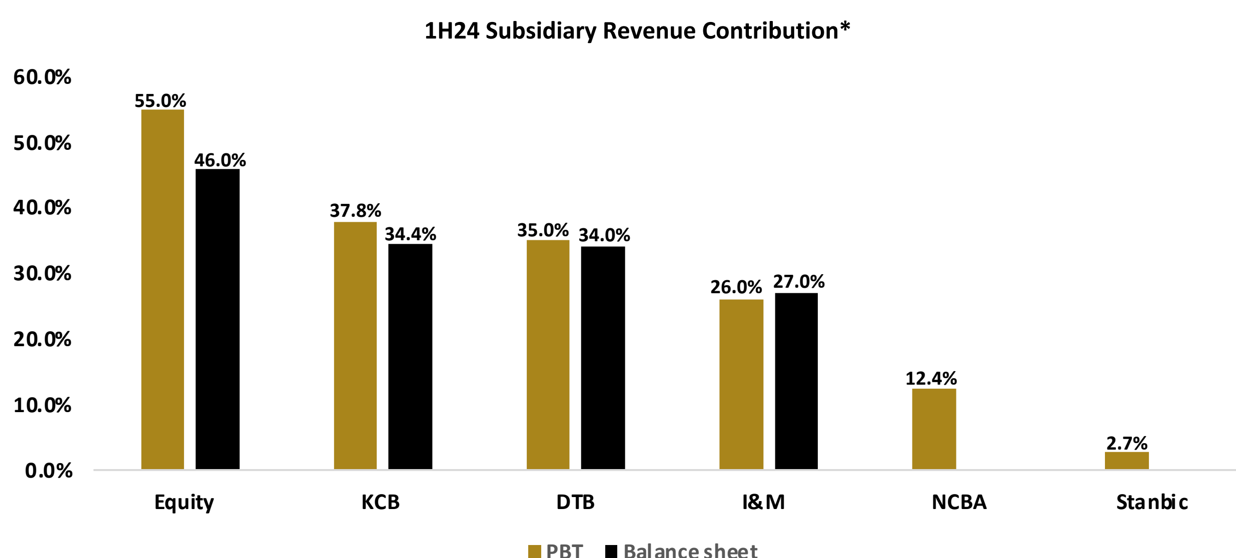




Source: Company Financials, SIB estimates

Regional banking subsidiaries weigh in positively on the bottom line

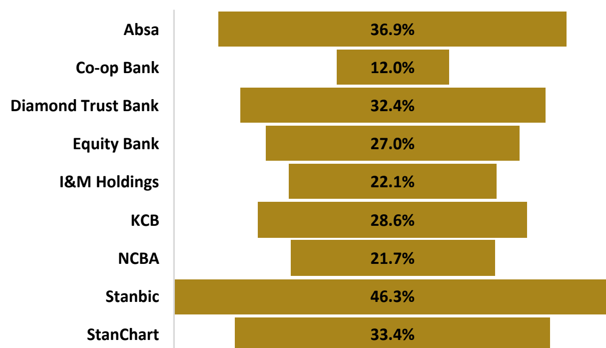
Regional diversification remains a key theme with Kenyan banks. So far, local banking brands have diversified into the larger East and Central African region with bank subsidiaries leveraging their regional presence. DRC has emerged as a key market for Kenyan lenders, with the CBK reporting a PBT of KES 30.1bn (+2.1x y/y) in FY23 from the resource-rich country with significant investments by Equity Group and KCB in recent years – which we expect to grow by over 40% in FY24. As a share of profitability, Equity Group led the pack with 55.6% of the profit before taxes (PBT) coming outside Kenyan banks in 1H24, with the contribution rising from 45.0% in 1H23. Notably, Equity Group has a substantial contribution to its balance sheet in subsidiaries outside Equity Bank Kenya (46% in 1H24). KCB Group reported a PBT contribution by subsidiaries at 37.8% in 1H24, up from 23.8% in 1H23 after its strategic acquisition and consolidation of Trust Merchant Bank in DRC. Additionally, DTB's subsidiary contribution to pre-tax profit grew to 35% from 23% in 1H23 largely driven by enhanced performance by its Tanzania franchise. While NCBA's banking subsidiary contribution stood at c. 12.4% in 1H24, the lender is targeting to enter additional markets through its digital banking proposition. I&M Group's subsidiary contribution rose to 26% from 22% in 1H23, recording strong double-digit growth in Rwanda, Tanzania and Uganda. We note that due to the strengthening shilling in the period, the banks in our coverage were hit by currency losses from the translation of financial statements. The loss quantum was reported at KES 53.4bn from a gain of KES 14.5bn in 1H23.

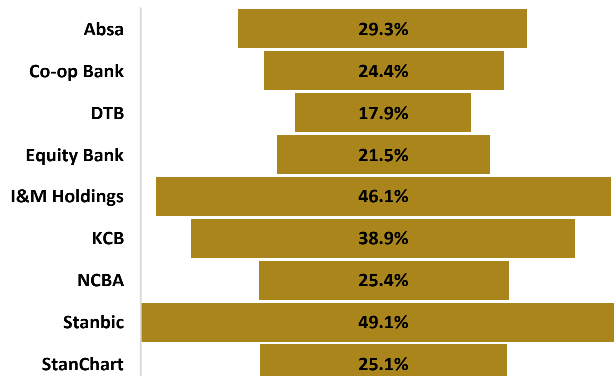


*Source: Company Financials, SIB estimates**

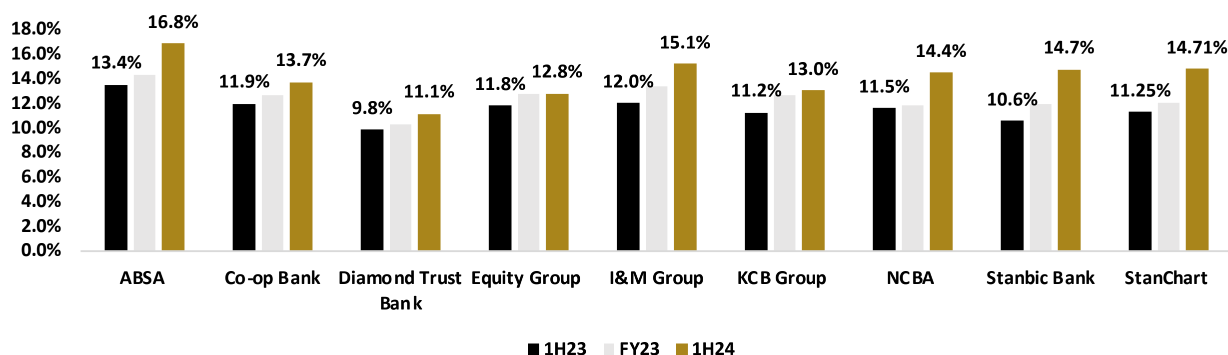
Interest expense growth overtakes interest income growth on costly deposits

Interest income printed impressive growth in 1H24, reporting an average rise of 30.9%y/y across our coverage. We note the continued implementation of risk-based pricing models, the base effect of the CBR rate increase (CBR at 10.5% in June 2023 vs 13.0% as of June 2024) and the impact of higher yields on government paper yields. Overall, the weighted average interest rate on loans jumped to 14.0% in 1H24, up from an average of 11.5% in 1H23. Resultantly, interest from loans and advances surged to a total of KES 397.0bn (+29.9%y/y) across our coverage in 1H24. ABSA had the highest rate in our coverage at c. 16.8%, with DTB coming in as the lowest at c. 11.1% in 1H24. Stanbic Bank maintained its position as the lender with the fastest increase in interest income in 1H24 (+49.1%y/y despite a 2.4% contraction in its loan book), pointing to loan book repricing and continued implementation of the risk-based pricing model. The lender's weighted average interest rate on loans came in at an estimated 14.7% in 1Q24, up 411bps from 10.6% in 1H23. Furthermore, the lender tapped into the interbank market to lend to other banks, with interest from deposits and placements with banking institutions up 45.7% y/y. Notably, changes in the interbank market by the CBK prompted an increase in the interbank lending rate to 13.3% as of the end of June 2024 compared to 10.2% in June 2023.



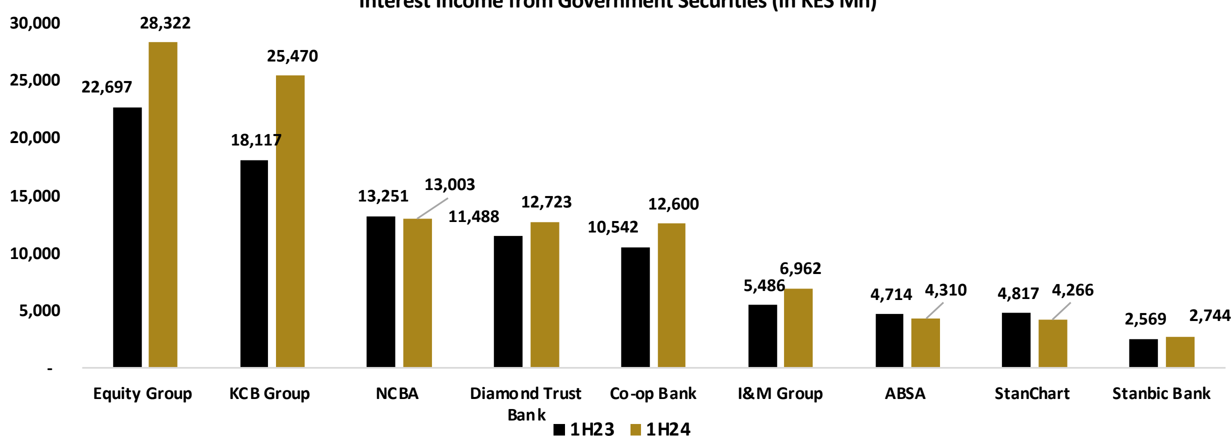


Source: Company Financials, Standard Investment Bank estimates



Source: Company Financials, Standard Investment Bank estimates

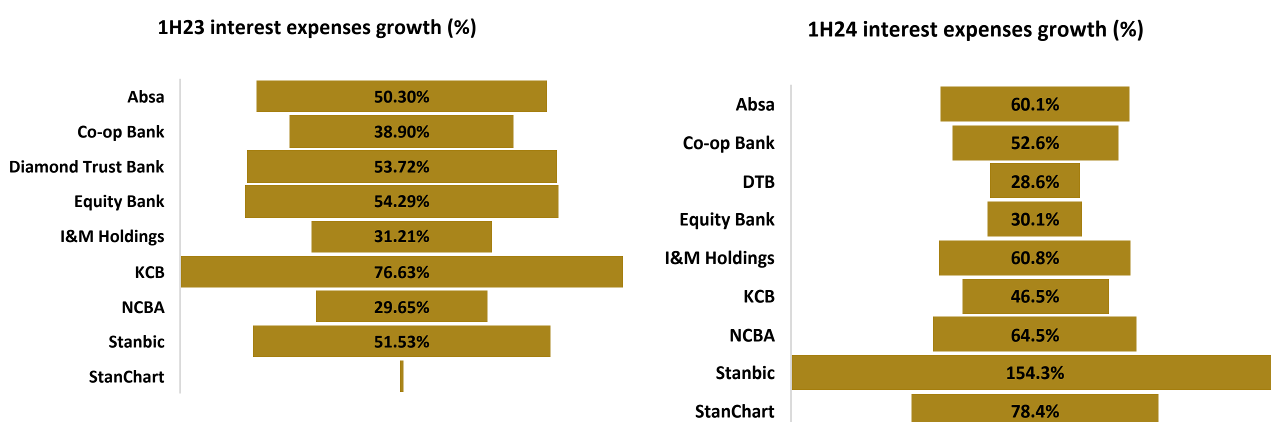
Lenders in our coverage positioned themselves in higher-yielding interest-bearing assets (government papers) to take advantage of the high interest rate environment in the period. KCB Group posted a 40.6%y/y jump in income from government securities to KES 25.5bn, while Equity Group had the highest quantum at KES 28.3bn (+24.8%y/y). On the other hand, banks such as StanChart, NCBA and ABSA demonstrated a slowdown in income from government securities (-11.4% y/y, -1.9% y/y and -8.6%y/y, respectively), as they diversified away from sovereign papers. Key to note is that market-to-market losses have significantly improved, with total gains in our coverage at KES 31.3bn in 1H24 from a loss of KES 15.0bn in 1H23.



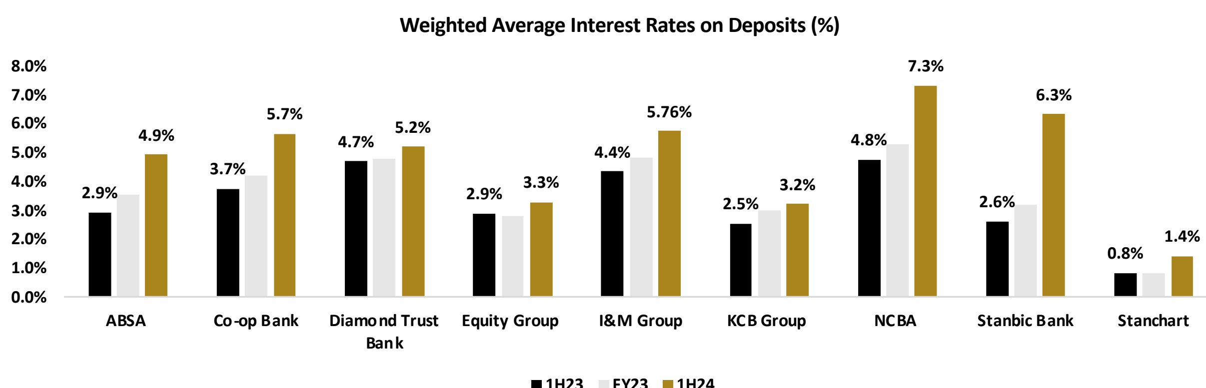
Source: Company Financials, Standard Investment Bank estimates

Interest expenses, grew at a much faster rate (average increase of 64.0% y/y) than interest income in 1H24, sustaining the trend witnessed in 1H23 - (average increase of 43.0%y/y). Interest on customer deposits remained the key driver in interest expense growth, as customers demanded higher returns for their funds. Stanbic Bank's outsized increase in interest expense to KES 12.3bn (+154.3%y/y), was largely driven by the surge in the bank's deposit book surged 30.3% y/y to KES 355.6bn. As a result, the firm posted a 2.0x jump in interest expense on customer deposits to KES 10.9bn. StanChart bucked the trend it set last year to report an 89.8%y/y surge in customer deposit expenses to KES 2.2bn from a muted growth of 0.8%y/y in 1H23. Nonetheless, the lender has the lowest quantum, further supported by its impressive CASA ratio of 97.0% as of FY23, which affords it lower-priced funds.

KCB Group appears to be taking steps to manage its interest expenses as it recorded a 46.5%y/y increase in 1H24 (KCB Group printed the fastest growth in interest expenses at 76.3%y/y in 1H23). In terms of quantum, however, KCB Group had the highest at KES 36.1bn, with KES 25.6bn attributable to its cost of deposits (+54.5%y/y). We believe the sustained uptick in the industry is partly attributable to a competitive drive (with other banks, government papers and alternative investments), the impact of central bank rate increase in the period and a likely bid to retain sticky deposits even as the overall deposit base grew. These, amongst other factors, contributed to the mixed performance witnessed across the coverage. We believe that banks with high CASA ratios (current and savings accounts tend to offer cheaper deposits) and low Cost to Income ratios will be able to navigate the high-interest rate environment as they source for affordable deposits. With the recent Fed rate cut, we anticipate a gradual easing of the Secured Overnight Financing Rate (SOFR) which may in turn reduce the cost of dollar financing and other borrowing costs.

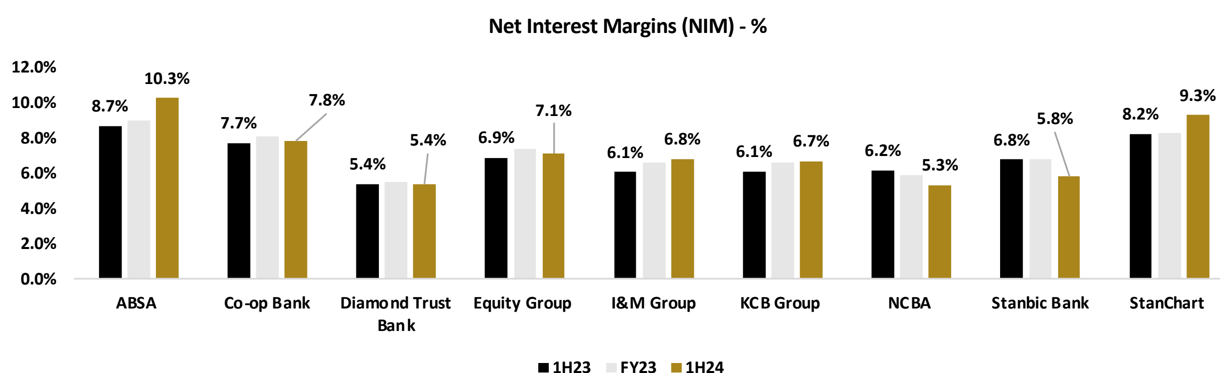


Source: Company Financials, Standard Investment Bank estimates



Source: Company Financials, Standard Investment Bank estimates

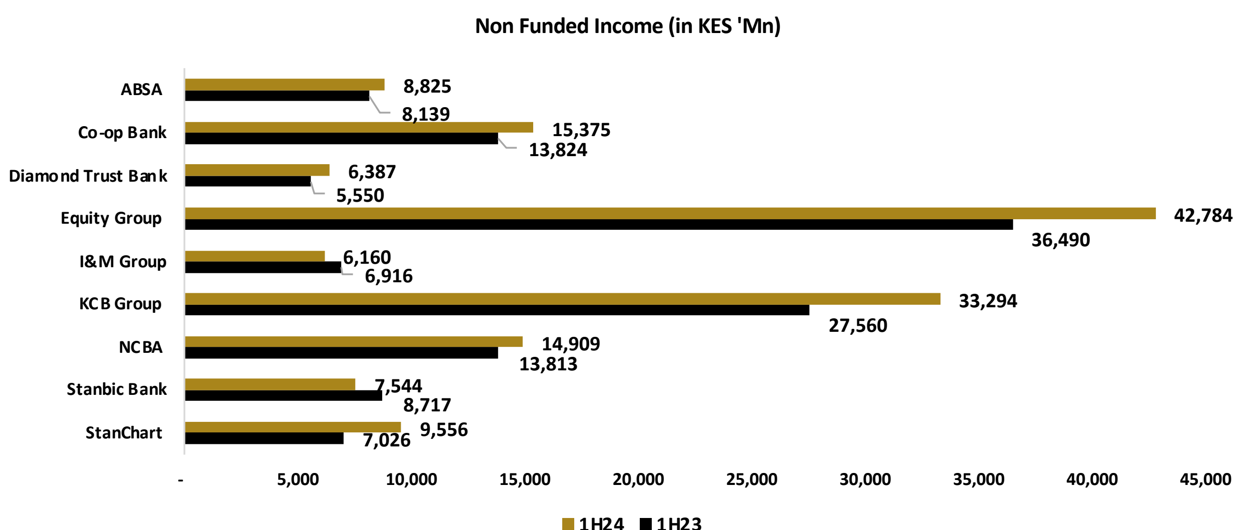
Cumulatively, Net interest Margins (NIMs) proved resilient in the period, with the coverage average coming in at c. 7.2% in 1H24 (average of c. 6.9% in 1H23). ABSA took pole position with estimated NIMs of 10.3%, closely followed by StanChart at 9.3%. NCBA's and Stanbic Bank's NIMs faced pressure from the rising customer deposit costs, with their margins down to c. 5.3% from c. 6.2% in 1H23 and c. 5.8% from c. 6.8% in 1H23, respectively.



Source: Company Financials, Standard Investment Bank estimates

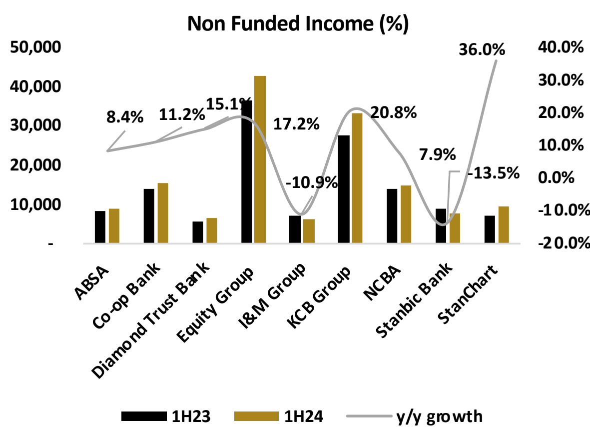
Mixed NFI performance as FX trading income moderates

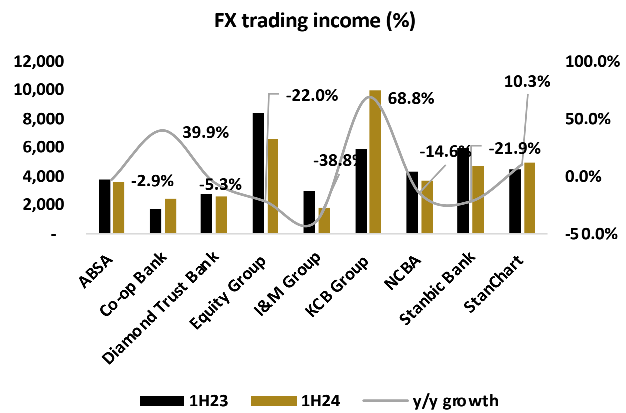
Total non-funded income rose by 13.1%y/y to KES 144.8bn in our coverage, mainly supported by fees and commission income. Foreign exchange trading income remained muted in 1H24, as spreads tightened following the implementation of government interventions last year, easing FX shortages and reduced currency volatility. Only three banks of the nine in our coverage reported an increase in FX income – KCB Group, StanChart and Coop Bank. We believe the FX income tailwind experienced in 2023 by some banks was a one-off as they positioned themselves in the volatile FX market.



Source: Company Financials, Standard Investment Bank estimates

StanChart recorded the quickest jump in NFI (+36.0%y/y) in 1H24, buoyed by fees and commissions (+20.6%y/y to KES 3.4bn). The lender leveraged increased digital investments to drive growth in transaction volume. Notably, its SC Shilingi Fund is tracking well, with AUM rising 6X to KES 5.2bn in FY23. FX income grew 10.3% to KES 4.9bn. Furthermore, StanChart recently launched its digital lending product, SC Juza though we anticipate seeing its impact on fee income in the medium term. KCB Group printed a 20.8% increase in NFI, supported by an impressive 68.8%y/y surge in FX income and 11.9%y/y rise in fee income in 1H24. We attribute the Group's performance to increased trade activity, buttressed by an enhanced contribution from Trust Merchant Bank (TMB) as well as increased digital banking activity. Stanbic Bank bore the brunt of the FX income slowdown, with its NFI down 13.5%y/y as its FX income dipped 21.9%y/y and fee income contracted 6.3%y/y. We attribute this to the one-off large Diageo FX transaction that occurred in the previous year. As a result, the non-funded income ratio in our coverage eased to 36.3% from 37.5% in 1H23.



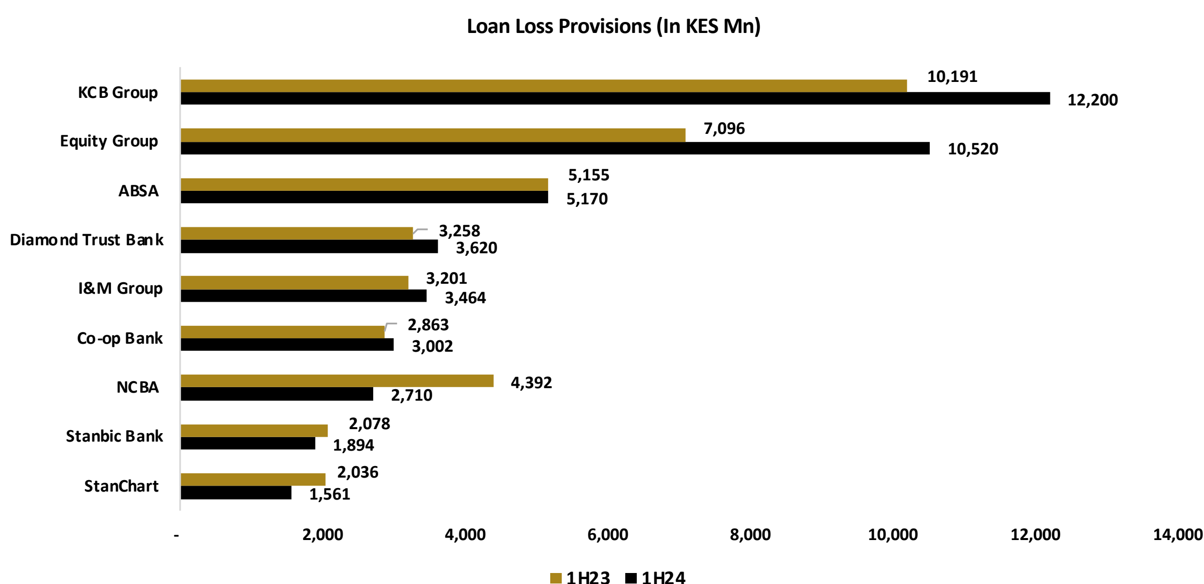


Source: Company Financials, Standard Investment Bank estimates

We see sustained revenue diversification strategies in the sector as banks take advantage of their customer base and wide distribution network to tap into capital-efficient business models such as asset management and advisory services, insurance and bancassurance business, custody services etc. Indeed, NCBA recently completed the full acquisition of AIG Insurance as it seeks to tap into Group synergies to grow revenue from this revenue stream. Additionally, Equity Group's life insurance business is tracking well, with the lender soon tapping into the general and health insurance business. Equity Group is reportedly piloting its insurance services in the Democratic Republic of Congo (DRC) ahead of a plan to roll out the business across its regional markets. Stanbic Bank also launched its Insurance and Asset Management Unit in September 2024, marking its entry into the asset management business. The lender is also planning to introduce more investment products in the future. The banking sector can afford a sigh of relief following the withdrawal of the introduction/increase of taxation on certain financial transactions that had been proposed in the 2024/2025 Finance Bill. Worth noting is the industry may see a slight shift in income from loans and advances due to accounting changes in tandem with risk-based pricing, which requires an all-in interest rate.

Moderate rise in loan loss provisions despite asset quality deterioration

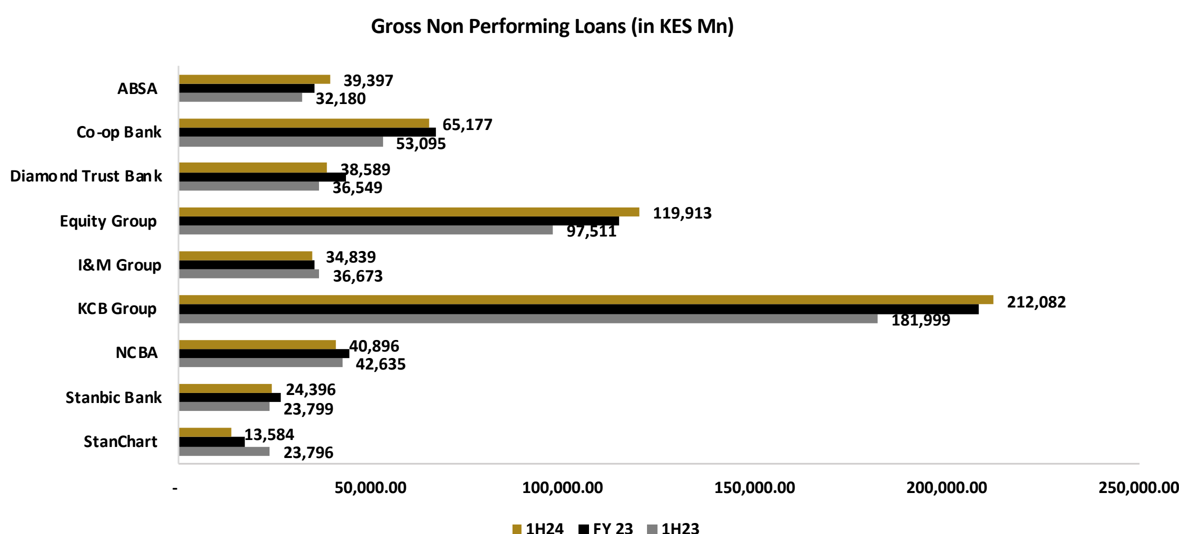
Total loan loss provisions in our coverage grew by 9.6%y/y to KES 44.1bn, with banks such as NCBA (-38.3% y/y), StanChart (-23.3%y/y), and Stanbic (-8.8%y/y) reducing their provisions in the period. This is a departure from the c.1.2x average increase in 1H23 as banks responded to persistent non-performing loans in the banking sector. The decline may point to a peaking of the challenges, asset recovery mechanisms and tighter credit management in response to asset quality in the second half of the years. Furthermore, lenders are utilizing guarantees and collateral as additional provisions, with instances of FCY NPL stock contraction on the back of a stronger shilling. On the other hand, banks such as Equity Group and KCB Group increased their provisioning levels in 1H24 (48.3% y/y and 19.7%y/y respectively), as they grapple with their large NPL stock. We anticipate continued provisioning by banks (especially those with deteriorating NPL ratios) in 2H23 to cushion themselves as businesses and individuals struggle to finance their loans. CBK reported an increase in industry NPL ratios to a thumping 16.3% as of June 24 compared to 14.5% in June 2023 which has only been supported by healthy capital ratios across the sector.

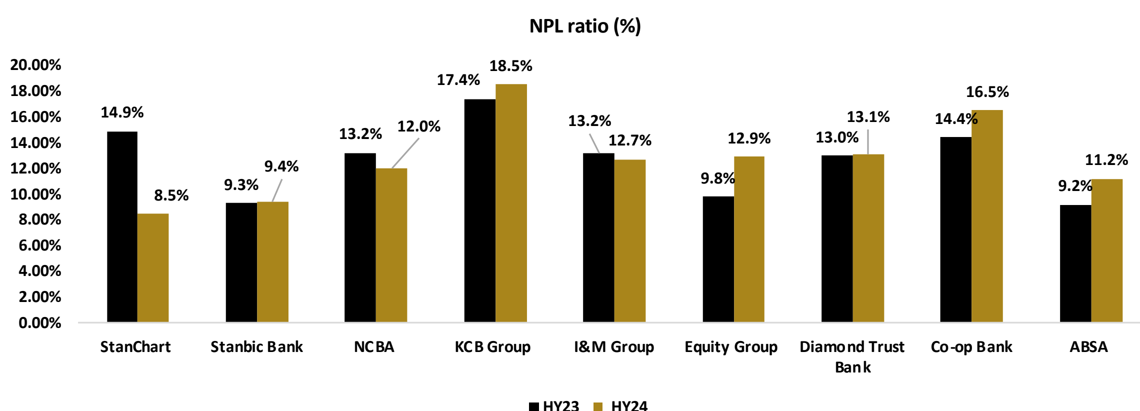


Source: Company Financials, Standard Investment Bank estimates

Gross non-performing loans in our coverage grew by 11.5% overall in 1H24 to KES 589.0bn, with the manufacturing, construction, real estate and wholesale and retail trade sectors reported as significant drivers of worsening asset quality in the period. Furthermore, pending bills to contractors/projects hit KES 235.0bn as of June 2024 according to data from the National Treasury. Equity Group experienced the steepest rise of 23.0%y/y to KES 120.0bn as its asset book quality deteriorated. In particular, Equity Kenya's gross NPLs hit KES 88.7bn (+33.5%y/y, +11.9%q/q). KCB Group, however, had the largest stock of NPLs in the industry, coming in at KES 212.1bn (+16.5%y/y, +3.3%q/q). The Group's asset quality deterioration was mainly driven by downgrades in its Kenya, Uganda and DRC subsidiaries.

In particular, KCB Kenya's NPL ratio surged to 21.4% vs 19.6% in 1H23, with NBK's ratio coming in at 26.7% vs 24.50%. ABSA and Coop Bank followed suit, with their Gross NPLs rising 22.4%y/y(+1.5%q/q) and 22.8%y/y (+4.6%q/q), respectively. Notably, ABSA restructured KES 1.3bn worth of loans in 1H24 as it supported struggling businesses and individuals. On the other hand, StanChart posted a double-digit reduction in its NPL book (-42.9%y/y, -17.8%q/q), as it implemented conservative lending coupled with a possible FX revaluation effect. In particular, the lender's loan book grew marginally in the period (+2.7%y/y, -10.9%q/q). NCBA and I&M Group also recorded improved asset quality in the period, with their Gross NPLS down 4.1% y/y and 5.0%y/y, respectively. We anticipate NPLs will remain elevated in the medium term as higher loan rates persist, however, the recent CBR rate cut and subdued inflation may help taper credit risk.



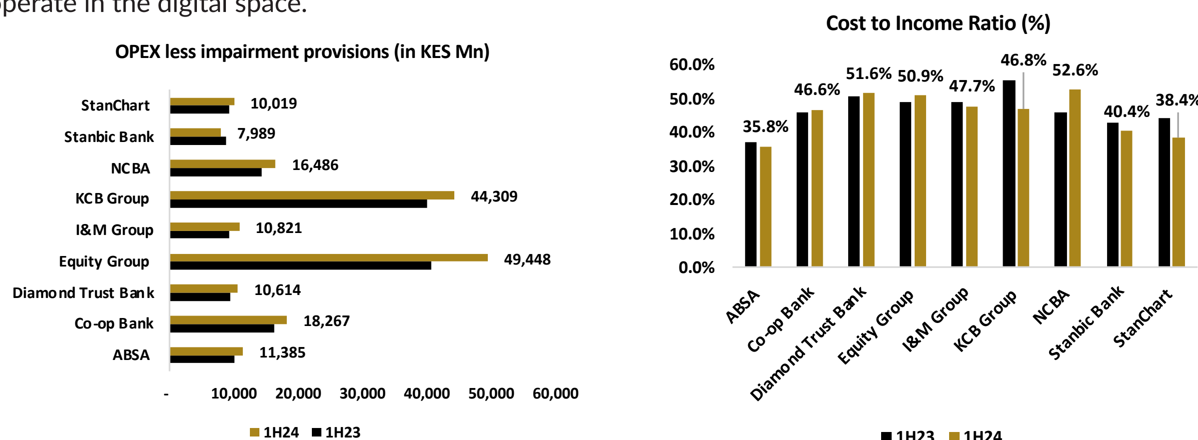


Source: Company Financials, Standard Investment Bank estimates

Cost efficiencies improve on tech adoption and automation

Cost efficiency generally improved in 1H24, with the average CTI ratio at 45.6%, down from 46.6% in 1H23. Absa sustained its position as the most efficient bank in our coverage, reporting a CTI ratio of 35.8% (39.7% in 1H23) as it implements its tech and automation initiatives. The lender set aside KES 3.0bn for tech modernization. StanChart followed suit, reporting an improved CTI ratio of 38.1% in 1H24 (44.1% in 1H23). KCB Group increased its cost efficiencies as the lender continued implementing changes in its core banking system and integration efforts across subsidiaries. The Group noted that it incurred exceptional costs in 1H23 (consolidation of TMB, staff rationalization and provisioning for NBK court ruling) leading to a slower rise in 1H24 (+10.9%y/y vs 46.4%y/y). Additionally, the lender reportedly closed 31 branches in Rwanda in 1H24 following the acquisition of Banque Populaire du Rwanda (BPR), which was later merged with KCB's existing subsidiary. As a result, the lender's CTI ratio improved to 46.8% in 1H24 from 55.3% in 1H23.

NCBA's cost-to-income ratio rose to c.52.6% in 1H24, as the Group incurred higher OPEX (less impairments) at KES 16.5bn (+15.5%y/y) driven by growth-related expenses. The lender has been on a branch expansion drive, having opened 7 branches across the region in 1H24. Additionally, Equity Group and DTB printed weaker CTIs at 51.6% and 50.9%, respectively. As in the case of NCBA, DTB has been expanding its branch presence, having opened 12 branches since June 2023 as it targets 10 million customers across East Africa by 2026. We opine that operating expenses will remain elevated in the near term as banks aim to find the nexus between physical and digital channels as they opt for "smart" branch models. As the race for the retail market heats up, branches will act as sales and advisory centres that provide cross-selling opportunities to a wider customer base in emerging and growth areas. Indeed, Kenyan banks added 36 branches in 2023 as they target to meet customer experience expectations, with lenders in our coverage targeting to expand their pipeline this year (DTB, NCBA, I&M, Co-op, ABSA and Equity Group). In line with the expansion strategies, staff costs are expected to rise, further on a larger staff complement. Moreover, investments in cybersecurity are anticipated to rise as banks operate in the digital space.



Source: Company Financials, Standard Investment Bank estimate

Capital adequacy remains resilient; potential total capital increase in the horizon

Capital adequacy levels in our coverage remained strong, in the face of deteriorating business sentiments, flooding events, disruptions from the Gen-Z anti-governance protests, tax adjustments, and declining asset quality. Notably, our coverage's total capital-to-risk-weighted assets ratio strengthened from c.18.5% in 1H23 to c.19.00% in 1H24. Notably, DTB, Equity Group, I&M and Stanbic Bank recorded a slight weakening in their capital adequacy ratios likely due to increased provisioning, capital-intensive investments and the effects of the strengthening local currency. Furthermore, Stanbic Bank recorded a reduction in its supplementary capital to KES 11.6bn (-5.5%y/y), partly attributable to currency appreciation and amortization impact on Tier 2 capital and should resolve within the year. Due to the need to preserve its capital buffers, KCB Group has decided to retain FY 2023 dividends to bolster its capital reserves. As a result, KCB Kenya's core capital rose 32.7%y/y to KES 124.8bn, with total capital at KES 156.3bn in 1H24. On the back of this improvement coupled with the strong recovery in revenue, the Group resumed interim dividend payments in the period.

Total capital/risk-weighted capital ratio (capital adequacy ratio)				
	1H23	FY23	1H24	bps change y/y
ABSA	17.70%	18.10%	18.60%	90
Co-op Bank	20.50%	22.50%	21.30%	80
Diamond Trust Bank	19.30%	17.00%	19.10%	(20)
Equity Group	19.00%	18.10%	18.40%	(60)
I&M Group	18.78%	18.90%	18.13%	(65)
KCB Group	18.40%	17.40%	20.30%	190
NCBA	17.96%	18.02%	19.93%	197
Stanbic Bank	17.40%	16.60%	16.40%	(100)
StanChart	17.26%	17.84%	18.87%	161

Source: Company Financials, Standard Investment Bank estimates

During the June 2024 Monetary Policy Committee (MPC) speech, the Governor of the Central Bank of Kenya announced a proposed increase in minimum capital requirements for banks to KES 10.0bn from the current KES 1.0bn requirement by commercial banks. The government aims to enhance the sector's resilience, attract foreign investment, and align with global standards. This is further bolstered by the fact that the banking sector's asset base has grown significantly from KES 2.3Tn in 2012 to KES 7.5Tn as of May 2024. The apex bank had earlier revealed that it was reviewing the licensing fees, as announced in the National Treasury's 2024 Budget Policy Statement. Notably, the fees were last reviewed in 1990 and were based on the number of branches a bank had. We anticipate that compliance costs will rise due to the initiatives mentioned above, as well as the development of revised banking penalties which increase the scope of legal violations. Additionally, we expect an increase in financial monitoring as a result of Kenya being added to the Financial Action Task Force (FATF) Grey List in February 2024. Once approved, Kenya will have the highest minimum core capital quantum among the East African Community member states.

Listed commercial banks, particularly Tier 1, currently exceed the proposed minimum capital threshold of KES 10.0Bn, with Equity Kenya and KCB Bank Kenya leading the pack with core capital at 134.8bn and KES 124.8bn respectively as of 1H24. Non-listed banks show comparatively lower capitalization levels (average core capital of KES 7.8Bn in 1Q24). As of 1H24, only 14 banks out of 38 in the industry currently meet the proposed core capital threshold of as much as KES 10Bn as of 1H24. We opine that Tier 1 banks will likely navigate the potential increase smoothly. However, Tier 2 and (especially) Tier 3 banks may have to source more capital.

	Bank - 1H24	Core Capital (KES.000)	Total Capital (KES.000)	Overall Risk Weighted Assets (KES.000)	Core Capital/TRWA (%)	Total Capital/TRWA (%)	Core Capital/Total Deposits (%)
1	**Equity Bank Kenya Ltd**	134,759	163,703	897,548	17.10%	15.30%	18.60%
2	**KCB Bank Kenya Ltd**	124,804	156,333	924,766	12.60%	13.50%	16.90%
3	**Co-operative Bank of Kenya Ltd**	106,974	127,089	594,158	21.80%	18.00%	21.40%
4	**NCBA Bank Kenya Plc**	88,080	88,080	452,177	18.60%	19.48%	19.48%
5	**Absa Bank Kenya Plc**	64,091	80,328	432,544	18.30%	14.80%	18.60%
6	**Diamond Trust Bank Kenya Ltd**	50,726	55,160	288,703	21.60%	18.50%	19.30%
7	**Standard Chartered Bank**	54,518	54,699	289,930	19.72%	18.80%	18.87%
8	**Stanbic Bank Kenya Ltd**	53,023	64,633	393,269	14.90%	13.50%	16.40%
9	**I&M Bank Ltd**	44,425	54,009	324,620	13.93%	13.69%	16.64%
10	**Bank of Baroda (Kenya) Limited**	31,733	31,733	96,213	19.30%	32.98%	33.00%
11	**Prime Bank Ltd**	27,594	28,865	93,257	21.20%	29.60%	31.00%
12	**Bank of India**	25,000	25,258	39,989	45.50%	62.50%	63.20%
13	**Citibank N.A. Kenya**	27,516	28,350	144,423	23.10%	19.10%	19.60%
14	**Family Bank Ltd**	14,535	18,317	110,579	12.20%	13.10%	16.60%

Source: Company Financials, Standard Investment Bank estimates

We portend that an increase in capital requirements will have strategic implications for both large and small banks. In particular, large banks may use this opportunity to search for acquisition targets, especially smaller banks that may face distress if capital adequacy requirements are amplified and can be acquired at a discount. The proposed increase in capital requirements may result in a resurgence of equity capital market offerings, as commercial banks look to raise capital through public offerings, rights issues, and private placements. These options have been relatively muted in recent years save for the recent Family Bank rights issue in 2023 that underperformed, raising KES 252m out of the required KES 9.3bn. Additionally, HF Group recently announced its intent to conduct a rights issue to grow its business and shore up its capital ratios which have fallen below statutory requirements.

The rapid growth of banks such as Equity Group and KCB Group may prompt discussions on identifying systemically important banks. To follow the example of other countries such as the US, the Central Bank of Kenya (CBK) may decide to establish enhanced capital requirements, surcharges, and leverage ratios for these domestically systemically important banks. If the proposal to increase the minimum capital requirements for commercial banks is approved, the apex bank has slated an implementation period of three years to allow banks enough time to raise funds and comply with new requirements. We opine that the funding environment (e.g. the current elevated interest rates) needs to be considered when exploring capital-raising options. Other options include earnings retention, mergers and acquisitions with the possible entry of new market players, and a change of license authorization (e.g. from a commercial bank to a microfinance bank that tends to have lower capital requirements). Uganda and Nigeria earlier in the year, increased their minimum capital requirements by 6x and 8x respectively for local commercial banks. Notably, three banks in Uganda, namely ABC Capital Bank, GT Bank and Opportunity Bank, applied to have their licenses changed from commercial banks to Tier II (credit institutions) in 2024.

Given the recent regional and global trends, as well as the nuances faced by the banking industry, industry players should prepare adequately for the potential impact of an increase in minimum capital requirements and explore viable options to raise capital.

Greening of the financial sector to enhance sustainable finance offering

Climate change is a major concern in global and local risk assessments due to the increasing severity of its impact through natural disasters, rising temperatures, and fluctuating weather patterns. These events have become more frequent and intense recently as evidenced by the devastating rain conditions being experienced in Kenya in April/May this year. To address the growing significance of climate risk, the Central Bank of Kenya has undertaken certain initiatives to enhance climate risk management and promote green financing. One is the issuance of the Draft Climate Risk Disclosure Framework for the Banking Sector, which aims to ensure that banks collect and disclose climate-related information by formalizing the reporting and disclosure framework for climate-related financial risks. In addition, the CBK recently published the draft Green Finance Taxonomy in April 2024. This classification will help categorize economic activities as "green" or environmentally sustainable, guiding financial industry players and stakeholders. The CBK will require lenders to disclose climate risks starting January 2027 and meet certain targets as the industry aligns with global sustainability. We opine that these coupled with lender-specific initiatives are expected to drive up sustainable financing activities in the financial sector.

Commercial banks are tapping into green financing and the potential it offers. This ranges from developing innovative financial products, access to financing from impact investors, diversifying revenue streams, tapping into the market for sustainable projects, enhancing risk management and regulatory compliance, and offering long-term stability due to the nature and tenor of green projects. StanChart for example recorded a significant jump in Sustainable Finance revenue up to KES 1.3bn in FY23 from KES 109.0mn in FY22. The lender also has 24 sustainability funds with an AUM of KES 922 million as of FY23. An announcement by the International Finance Corporation (IFC) earlier in the year pointed out that it would not finance private firms that don't adhere to ESG reporting standards. We opine this will provide more impetus for ESG compliance by banks to tap into financing sources and grow new revenue streams which may become the new normal in years to come. As global standards for ESG compliance become more stringent, banks are poised to embrace more green financing to meet regulatory requirements and tap into emerging opportunities in the sustainable finance market. We, therefore, see an expanding focus on green lending activities (especially those centred around climate resilience) and the potential for noteworthy growth in sustainable finance in 2024 and the years to come.

Sector developments

Notable policy and sector developments in the year include the increase of the CBR rate from to 13.0% from 12.5% and later reduction to 12.75% in August 2024, the withdrawal of the FY24/25 Finance Bill, the addition of Kenya to the Financial Action Task Force (FATF) Grey List, the licensing of an additional 26 Digital Credit Providers (to a total of 58), the development of draft Banking (Penalties) Regulations 2024, proposed Institute of Bankers Bill 2024, development of a draft Credit Guarantee Policy and proposed amendments to the CBK Act in support of the establishment of the Kenya Credit Guarantee Company and the adoption of the ISO 0022 standard for both domestic and cross-border payments being undertaken to enable Kenya deliver safe, secure and interoperable payments before the 2025 deadline as set by SWIFT.

NCBA completed its acquisition of AIG Insurance, COMESA approved the KCB sale deal (sale of NBK, KCB Asset Management and NBK Bancassurance Intermediary Limited) to Access Bank, Bank of Kigali closed its Representative Office, banks commenced the migration process to the newly upgraded domestic payment high-value system as well as commenced filing for the Common reporting Standard (CRS)/Automatic Exchange of Information (AEOI) returns through the Kenya Revenue Authority. Furthermore, the CBK tightened the interest rate corridor to 150 basis points from 250 basis points in August 2024 to improve the efficiency of the current framework.

The implementation of the Treasury Single Account by both the National and County Governments was passed in January 2024. This move aims to simplify the government's banking system, reduce the fragmentation of government accounts in commercial banks, control expenditure, create visibility of government cash resources, and increase transparency in government cash management. Management of various banks has highlighted that the system will not adversely affect the banking sector and that banks are in consultations with the government to minimize disruption.

Finally, as a consequence of the country's downgrade by Moody's and Fitch credit agencies following the withdrawal of the 2024 Finance Bill, several banks in the sector were downgraded. In particular, Fitch downgraded KCB Group, NCBA Group and I&M Group's long-term issuer default ratings from B to B- due to their high sovereign exposure (investment in government securities) relative to capital. Moody's downgraded the credit rating of KCB Kenya, Equity Bank Kenya and Co-operative Bank to Caa1 from B3. Critical signals for an improvement would be a robust focus on the administration's lasting cost-cutting measures, new revenue initiatives and reserve build-up.

Banks	1H23 NIMs	1H24 NIMs	1H23 COR	1H24 COR	1H23 CTI	1H24 CTI	1H23 WAIR on loans	1H24 WAIR on loans	1H23 WAIR on deposits	1H24 WAIR on deposits	1H23 NII/Total Income	1H24 NII/Total Income	1H23 Total Assets (KES Mn)	1H24 Total Assets (KES 'Mn)
Absa	8.7%	10.3%	3.4%	3.2%	37.0%	35.8%	13.4%	16.8%	2.9%	4.9%	70.3%	72.3%	503,739	481,421
Co-op	7.7%	7.8%	1.6%	1.6%	46.0%	46.6%	11.9%	13.7%	3.7%	5.7%	60.9%	60.8%	664,946	716,925
DTB	5.4%	5.4%	2.4%	2.5%	50.6%	51.6%	10.2%	11.1%	4.7%	5.2%	70.3%	69.0%	579,219	585,361
Equity	6.9%	7.1%	1.9%	2.5%	49.0%	50.9%	11.8%	12.8%	2.9%	3.3%	56.0%	56.0%	1,644,787	1,746,030
I&M	6.1%	6.8%	2.5%	2.3%	48.8%	47.7%	12.0%	15.1%	4.4%	5.8%	63.9%	72.8%	503,498	564,383
KCB	6.1%	6.7%	2.2%	2.3%	55.3%	46.8%	11.2%	13.0%	2.5%	3.2%	62.3%	64.8%	1,864,591	1,976,856
NCBA	6.2%	5.3%	3.1%	1.7%	46.0%	52.6%	11.5%	14.4%	4.8%	7.3%	55.5%	52.5%	660,325	689,078
Stanbic	6.8%	5.8%	1.7%	1.5%	42.9%	40.4%	10.6%	14.7%	2.6%	6.3%	57.1%	61.9%	377,016	489,266
StanChart	8.2%	9.3%	2.9%	2.0%	44.1%	38.4%	11.3%	14.7%	0.8%	1.4%	66.3%	63.4%	361,677	377,284
Average	6.9%	7.2%	2.4%	2.2%	46.6%	45.6%	11.5%	14.0%	3.3%	4.8%	62.5%	63.7%		

Source: Company Financials, Standard Investment Bank estimates

ABSA Bank Kenya

Price: 14.20

Forward P/E: 4.7x

P/B: 1.1x

Dividend yield 11.0%

Year-to-date (+23.6%)

Recommendation: **BUY**

For;

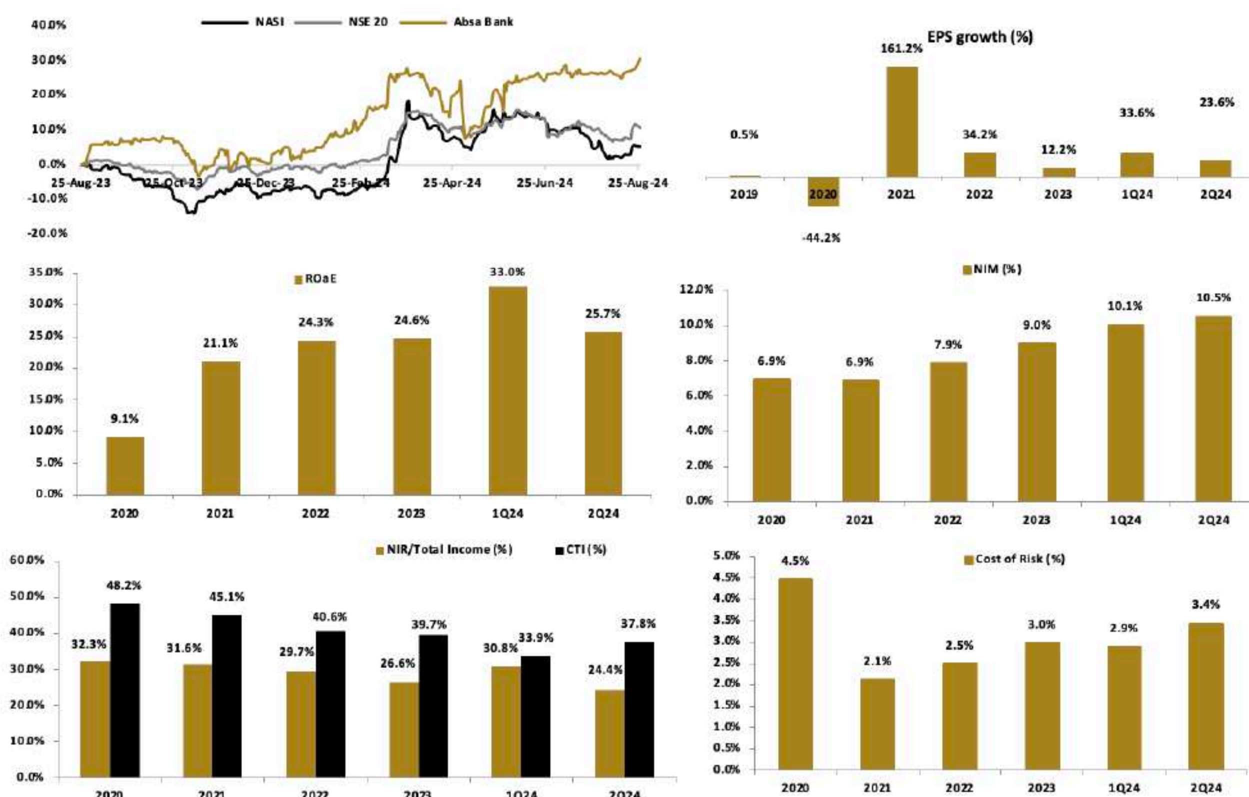
1H24 results commentary, here

1H24 unaudited financials, here

1H24 presentation, here

ABSA Bank Kenya Plc released Group 1H24 results, marking a 28.9%y/y growth in EPS to KES 1.97 with net income coming in at KES 10.7bn. The performance was driven by a 29.3%y/y climb in net interest income (NII) to KES 23.0bn while non-interest revenue (NIR) notched 8.4%y/y higher to KES 8.8bn. An interim dividend of KES 0.20 was announced (similar to 1H23). NII was enhanced by a 35.3%y/y jump in interest income from loans and advances, partly attributable to a notable uptick in shorter-term lending facilities. Despite this, the lender's loan book contracted marginally by 0.5%y/y to KES 316.4bn on the back of a stronger shilling, a softening in long-term facilities and reduced retail demand. Notably, interest expenses compressed the top line, surging by 60.1%y/y to KES 9.6bn, exacerbated by a surge in interest expense on customer deposits to KES 8.8bn (+89.9%y/y). Non-interest revenue (NIR) rose 8.4% y/y to KES 8.8bn, with management pointing out growth in bond trading income, risk fees and subsidiary performance as significant drivers.

Overall, we are impressed by the Group's performance, with revenues poised to grow on customer base, subsidiaries' value proposition, product diversification, and strategic partnerships. We believe that the lender's diaspora banking business will benefit from the group's growing network & global representative offices as well as partnerships with remittance providers and CBK's DhowCSD platform. The lender plans to expand its physical presence over 3 years, likely to new malls and near customers (locality-focused) while closing underperforming branches to boost proximity to clients. We expect tech adoption and automation to smoothen costs in the long run while increasing efficiency. With the rise in NPLs, we opine the lender will focus more on short-term lending, secured loans (affordable housing, asset finance) and target payrolls that pass through the bank for unsecured loans.



Source: Company Financials, Standard Investment Bank estimates

Co-operative Bank

Price: 13.1

Forward P/E: 3.3x

P/B: 0.7x

Dividend yield 11.5%

Year-to-date (+14.9%)

Recommendation: **BUY**

For;

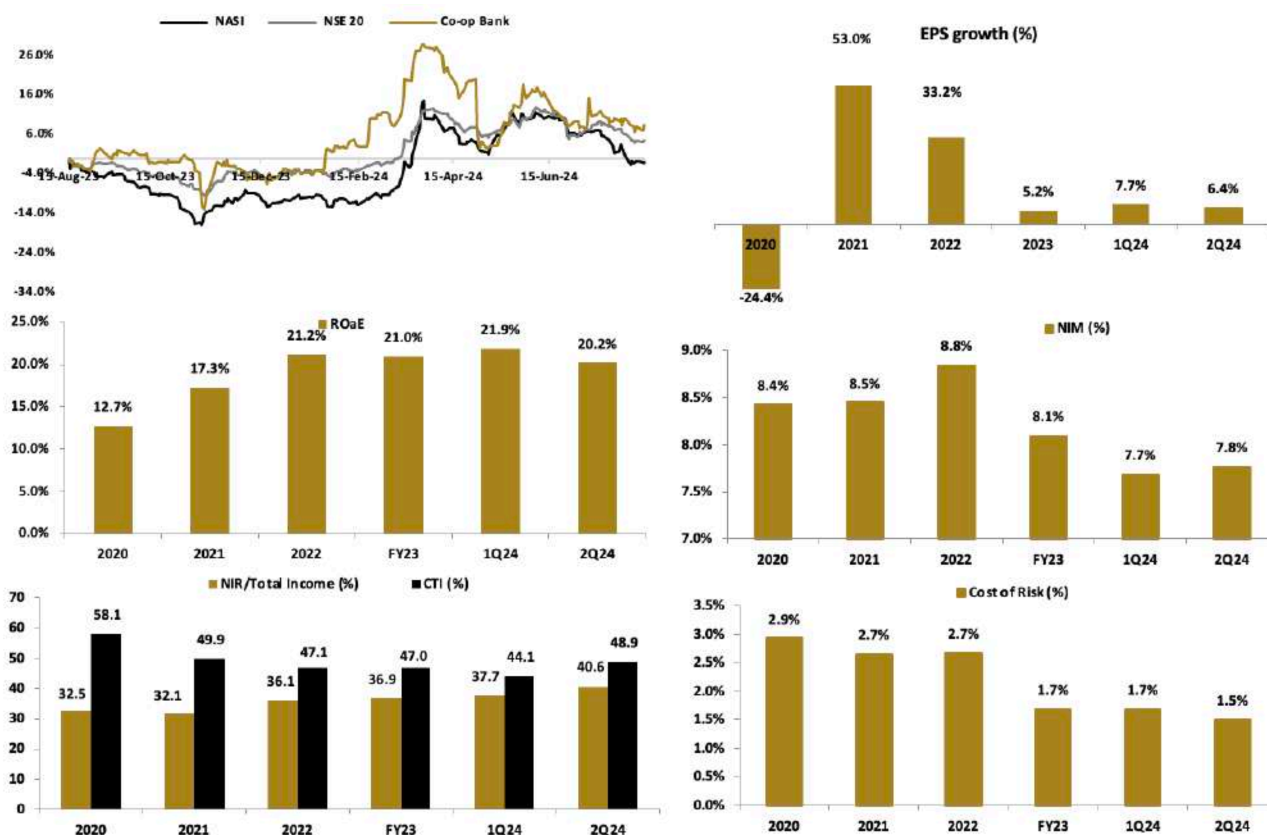
1H24 results commentary, here

1H24 unaudited financials, here

1H24 investor presentation, here

Co-op Bank released its 1H24 results posting a 7.0%y/y uptick in EPS to KES 2.21 with net income coming in at KES 13.0bn. The Group's performance is attributable to a 10.7%y/y rise in net interest income (NII) to KES 23.9bn and an 11.2%y/y uptick in non-interest revenue (NIR) to KES 15.4bn. Its main subsidiary, Co-operative Bank Kenya Limited, recorded a 9.2% y/y rise in PAT to KES 12.0bn, buoyed by a 23.1% y/y surge in interest income. The rise in NII may be attributable to the continued implementation of the risk-based pricing model (internal base lending rate raised to 16.5% on Feb 24), and a possible increase in short-term lending facilities. We opine this performance is further supported by the higher return from government securities (+19.5%y/y interest income to KES 12.6bn). NIR was boosted by an impressive 50.1%y/y jump in foreign exchange trading income to KES 2.7bn in 1H24, bucking industry trends. Management earlier noted that the Group offers favorable spreads, which we believe stimulate higher transaction volumes. Notably, fees and commission income reported a muted 4.4%y/y growth, with fees and commissions on loans and advances declining 3.5%y/y to KES 6.0bn. Other fees and income however rose 13.3%y/y to KES 6.3bn. We view the Group's omnichannel platform as a key revenue earner in the long term as customer transactions increase (earned KES 2.9bn in 1Q24).

We opine that the lender's strong franchise base, diversified revenue streams, focus on digitization and value proposition for its core customers, SACCOs, are expected to drive the Group's revenue in the long term. The proposed addition of the counter to the MSCI Frontier Markets index is anticipated to prop up valuation from a price perspective given anticipated foreign investor visibility.



Source: NSE, Standard Investment Bank estimates

Diamond Trust Bank PLC

Price: 45.60

Forward P/E: 1.9x

P/B: 0.1x

Dividend Yield: 13.2%

Year-to-date (+1.2%)

Recommendation: **BUY**

For;

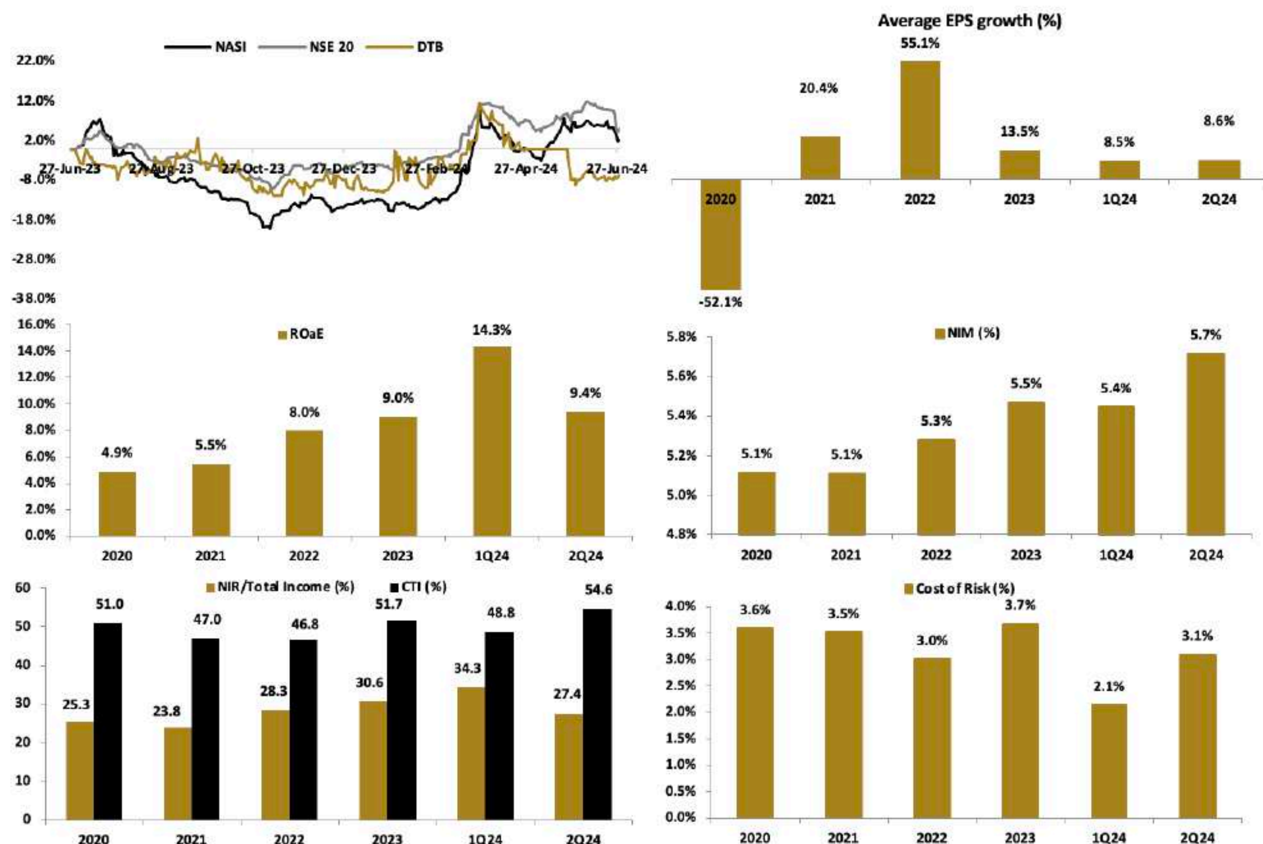
1H24 results commentary, here

1H24 unaudited financials, here

1H24 presentation, here

Diamond Trust Bank Kenya Ltd (DTB) announced the Group's 1H24 results, posting a single-digit rise of 8.5% y/y in EPS to KES 15.54, with net attributable income coming in at KES 4.3bn. The performance was on the back of a 17.9% y/y rise in net interest income (NII) to KES 29.7bn while non-interest revenue (NIR) grew 15.1%y/y to KES 6.4bn, translating to a top line of KES 20.6bn (+10.3%y/y). NII growth was buttressed by a 21.4% y/y surge in income from loans and advances to KES 16.0bn, despite a 4.7% y/y dip in the loan book to KES 267.9bn. We opine that the revenue increase is attributable to repricing adjustments following the benchmark interest rate revision in 1H24 and a possible surge in short-term lending. Despite the notable interest income growth (+17.9%y/y) to KES 29.3bn, interest expenses outpaced the income, up 28.6%y/y, largely due to a 27.5%y/y jump in expenses on deposits following a marginal 3.3%y/y uptick in customer deposits.

We see the lender's continued physical and digital expansion, recent corporate reorganization, diversified revenue lines (custody business, agency banking), ecosystem focus (including education, agriculture, public sector and technology sector) and geographical reach are tailwinds to the Group's long-term outlook. In particular, the lender plans to build a digital credit platform, scale up its Business as a service proposition with more tech-enabled partners, scale up its branch footprint (+12 branches in FY24) and launch a digital banking platform with enhanced mobile and digital banking capabilities. Management pointed out that its customer base has grown by 75% over the past year across East Africa to over 2 million customers. The lender plans to grow its customer base to 10m in East Africa by 2026 –an ambitious feat. As such, the bank's costs are poised to remain elevated as it continues to expand, enhance digital capabilities and recruit more staff to deliver its business growth strategy.



Source: NSE, Standard Investment Bank estimates

Equity Group Holdings Plc

Price: 43.20

Forward P/E: 3.9x

P/B: 0.7x

Dividend Yield: 6.9%

Year-to-date (+28.4%)

Recommendation: **BUY**

For;

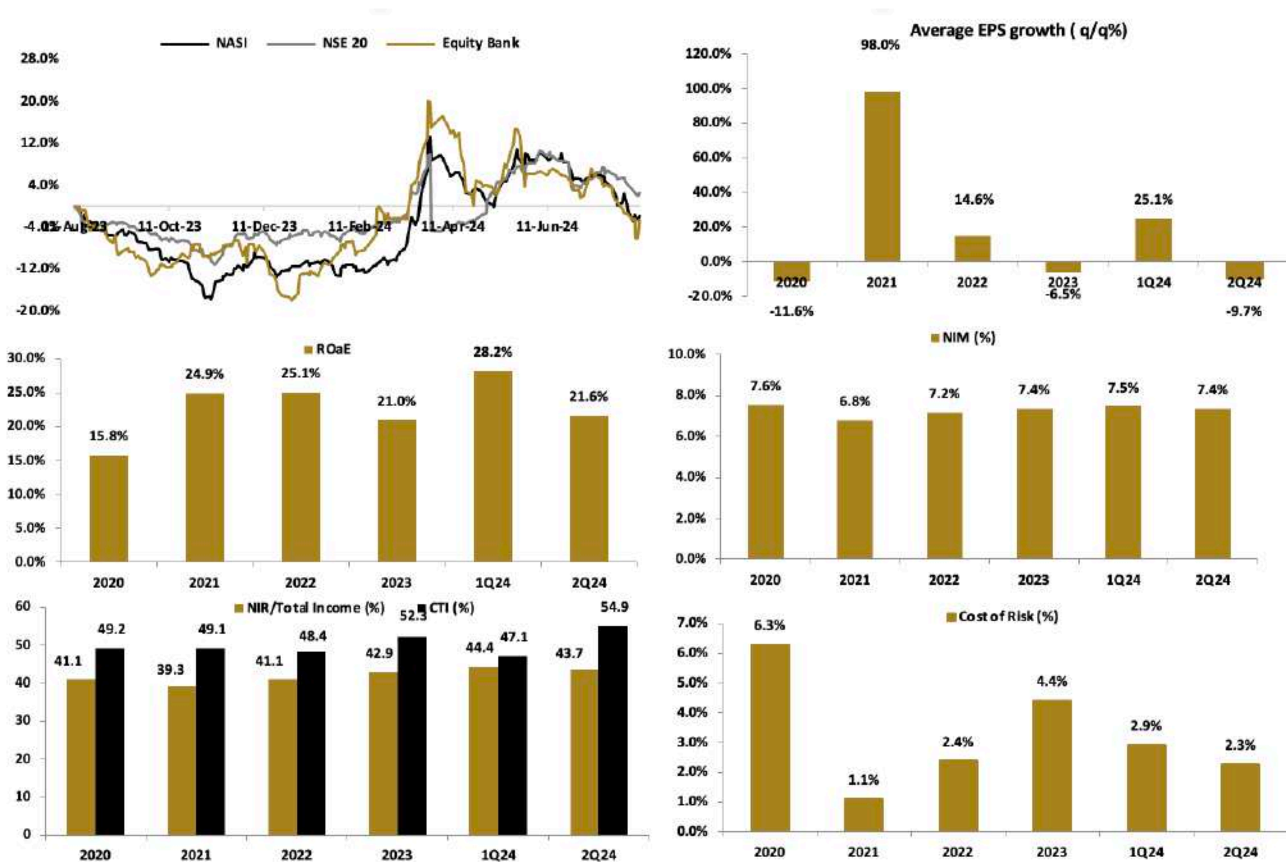
1H24 results commentary, here

1H24 unaudited financials, here

1H24 presentation, here

Equity Group Plc released 1H24 results, presenting a 12.1%y/y rise in EPS to KES 7.56 as it netted an income of KES 29.6bn – helped mostly by subsidiaries. Equity Bank Kenya, the primary subsidiary of Equity Group, posted a 10.8%y/y decline in net income to KES 13.9bn on higher costs (interest expenses up 49.1%y/y to KES 25.6bn) and foreign exchange income (-27.6%y/y to KES 2.1bn). The Group's NII rose by 17.2% y/y to KES 54.4bn, buoyed by interest income from loans and advances (+19.6%y/y to KES 53.5bn) and government securities (+24.8%y/y to KES 28.3bn). Loan book growth was muted (-3.2%y/y, +1.5%q/q), reflective of the subdued private sector credit demand and tighter credit risk appraisal. Interest expenses however outpaced interest income growth, up 30.1%y/y to KES 30.5bn as customer deposits grew 10.6%y/y to KES 1.3Tn as depositors demanded higher rates on the opportunity cost of investing in higher-yielding government securities.

Despite the slowdown in Kenya, the Group managed to post double-digit growth in EPS buoyed by interest income and increased trading activity in its regional markets. The lender's subsidiaries continue to support the Group's PBT performance, especially in DRC (+13%y/y), Rwanda (+40%y/y) and South Sudan (+53%y/y). Stripping out the FX impact on loan book growth given the stronger shilling, at constant currency, the DRC's loan book grew 14%y/y and deposits by 25%y/y in dollar terms. The recent COMESA-EAC-SADC Tripartite Free Trade Agreement is projected to enhance trade and regional integration amongst various member states Furthermore, the lender has received principal approval for its health insurance offering and approval for its general insurance offering. This, coupled with the growing life insurance business, reported pilot insurance rollout in DRC and extensive branch network should drive non-interest income as the Group diversifies its product offerings.



Source: Company Financials, Standard Investment Bank estimates

I&M Holdings Group Plc

Price:22.20

Forward P/E: 2.9x

P/B: 0.4x

Dividend Yield: 11.5%

Year-to-date (+26.6%)

Recommendation: **BUY**

For;

1H24 results commentary, here

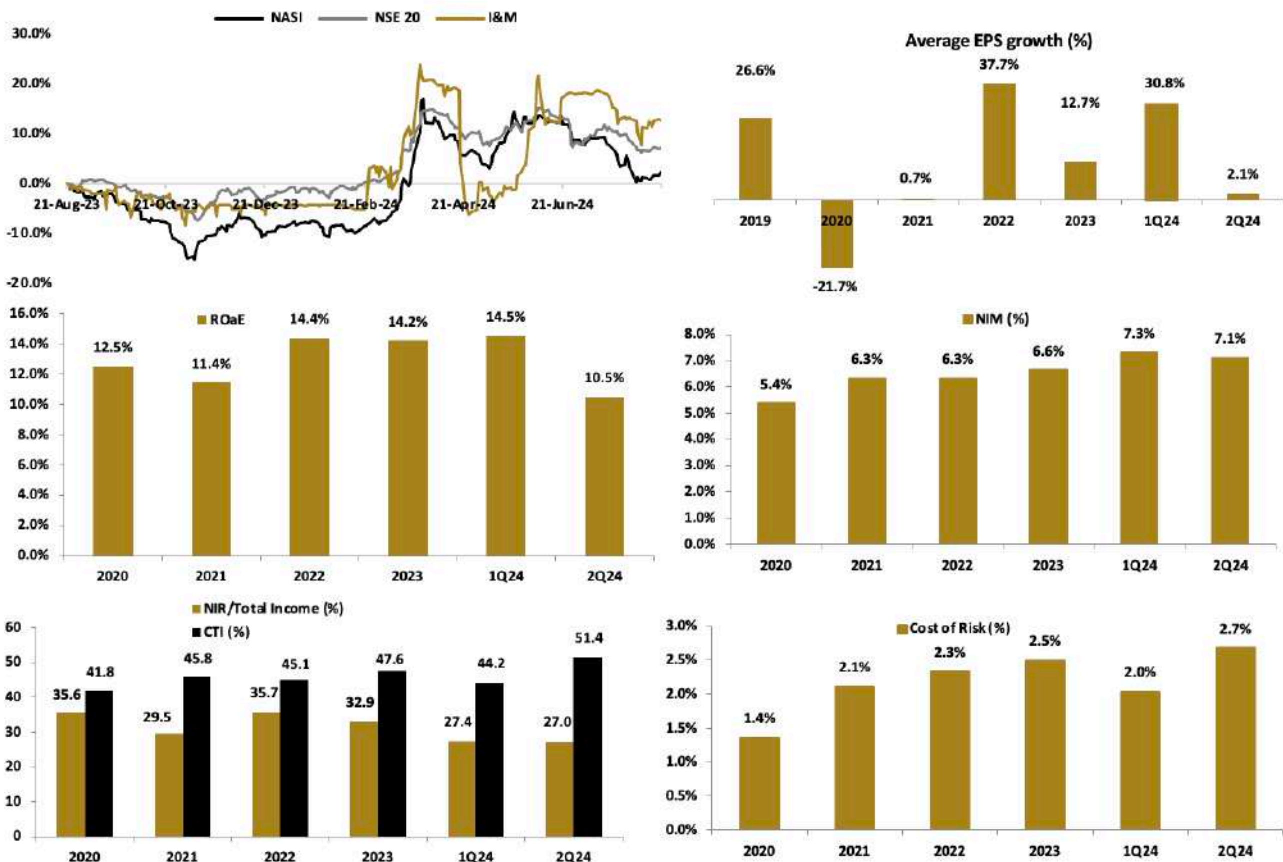
1H24 presentation, here

1H24 unaudited Group financials, here

1H24 unaudited Bank financials, here

I&M Group Plc posted its 1H24 earnings, reporting a 17.4% y/y rise in EPS to KES 3.39 with net income attributable to shareholders coming in at KES 5.6bn. The performance was driven by a 46.1%y/y growth in interest income (NII) to KES 31.1bn. While non-interest revenues (NIR) edged downwards by 10.4%y/y to KES 6.2bn, the lender still delivered a double-digit topline growth of 18.5%y/y to KES 22.7bn. Group net interest income (NII) climbed 35.2%y/y to KES 16.5bn, supported by a 48.4%y/y jump in interest income from loans and advances to KES 22.6bn on higher loan yields despite a modest 5.3%y/y loan book growth. NIR dipped by 9.4%y/y to KES 6.2bn, with foreign exchange income easing 37.7%y/y to KES 1.8bn on improved liquidity and tighter margins in the market.

We anticipate Personal and Business Banking to grow on the back of enhanced propositions; unsecured digital lending, stock financing, digital self-onboarding etc. Furthermore, I&M's proposed foray into agency banking, entry into oil & gas, leasing and public sectors, and expansion of its wealth management & advisory portfolio are forecasted to act as tailwinds to boost transactions as well as non-funded income. Continued implementation of the risk-based model should help the lender grow its net interest income as customer numbers increase. Investment in digital channels coupled with branch network expansion efforts are anticipated to translate to growth in revenues and cost efficiencies in the long term. Though cost of funds is likely to remain elevated in the second half of the year, we see possible improvement in 2025, given regulator signalling after CBK's 25bps rate cut in August 2024.



Source: NSE, Standard Investment Bank estimates

KCB Group Holdings Plc

Price:32.40

Forward P/E: 2.8x

P/B: 0.4x

Dividend Yield: 0%

Year-to-date (+47.9%)

Recommendation: **BUY**

For;

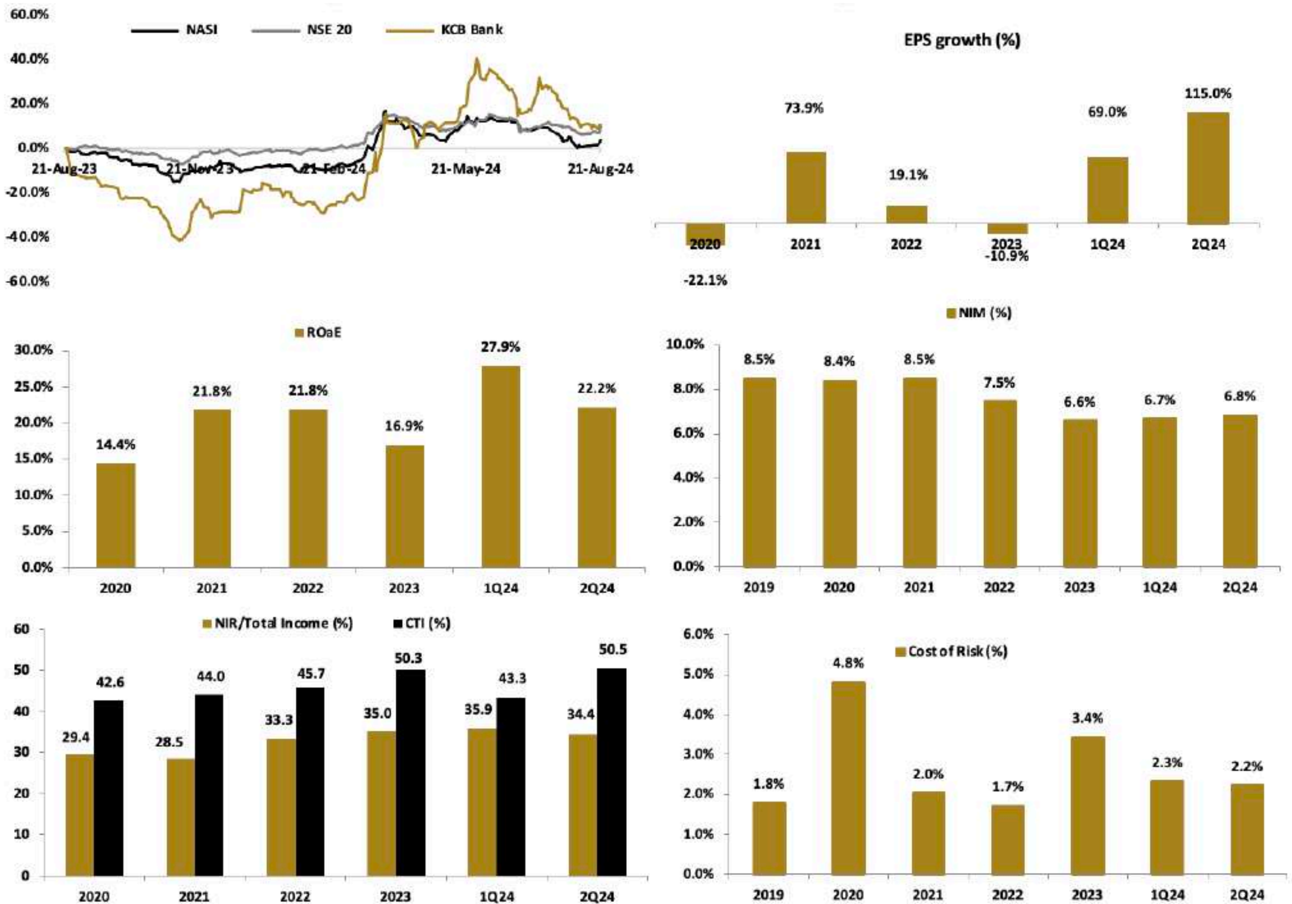
1H24 results commentary, here

1H24 unaudited financials, here

1H24 presentation, here

KCB Group Plc released its 1H24 results, posting an 86.9%y/y surge in EPS to KES 9.07 – partly driven by a 38.9% jump in interest income to KES 97.4bn, with KCB Kenya doing the heavy lifting with a 47.2% y/y leap to KES 67.1bn on higher asset yields and strategic investment in government securities. Group Net Interest Income (NII) for the period under review quickened 34.8%y/y to KES 61.3bn with non-interest revenue (NIR) rising 20.8%y/y to KES 33.3bn – translating to revenues of KES 94.6Bn (+29.5% y/y). As a result of the stellar performance and strong capital buffers, the Group reinstated interim dividends in the period after pausing in 2023 – with the Board proposing a KES 1.50 interim dividend – a record high. NII growth was a result of a 35.1%y/y increase in interest income from loans and advances despite the loan book growing just 6.9% y/y to KES 1,032.2bn (notable demand in trade, tourism and manufacturing sectors). Markedly, on a constant currency basis, gross loans grew an impressive 16%y/y.

We are impressed with the lender's sustained revenue growth, as KCB Kenya continues to recover (+42.1% y/y rise in PBT to KES 27.2bn). We see improved customer value propositions (eg launch of new digital offerings) and group synergies driving facilities as more clients are onboarded. We anticipate NPLs to remain elevated in the near term given macro conditions in Kenya. We however believe that the Group stands to benefit from potential writebacks on potential asset recovery mechanisms as well as the reduction in interest rates as signaled by MPC rate cuts (both locally and internationally). We opine the sale of NBK (which is at its tail end and awaiting regulatory approval) as well as the stellar performance recorded in 1H24, will provide management with an incentive to pay an attractive final dividend in 2H24.



Source: NSE, Standard Investment Bank estimates

NCBA Group Plc

Price: 40.30

Forward P/E: 3.1x

P/B: 0.7x

Dividend Yield: 11.8%

Year-to-date (+3.3%)

Recommendation: **BUY**

For;

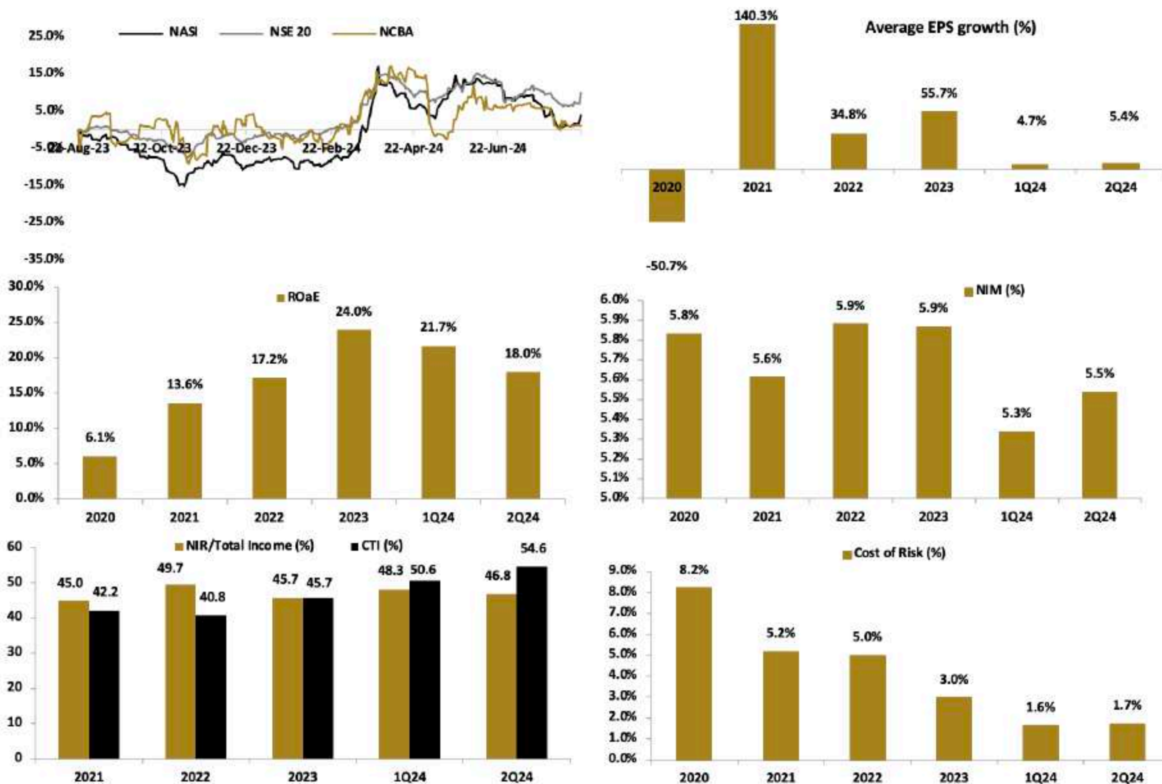
1H24 results commentary, here

1H24 unaudited financials, here

1H24 presentation, here

NCBA Group released its 1H24 results, recording a 5.0%y/y rise in EPS to KES 5.96 with net income coming in at KES 9.8bn. The lender's performance comes on the back of a 64.5%y/y swell in interest expenses to KES 38.1bn, with a 4.4%y/y dip in net interest income (NII) to KES 16.5bn. NCBA Kenya, the lender's main subsidiary, reported a 3.6% y/y decline in PAT to KES 8.4bn, as interest expenses (+66.0% y/y to KES 19.9bn) weighed down interest income (+25.5%y/y to KES 33.9bn). The Group's Board of Directors proposed an interim dividend of KES 2.25 (+28.6%y/y), with the book closure date slated for 11th September 2024. The Group's NII softened 4.4% y/y, despite higher interest income (+25.4%y/y). Interest income jumped to KES 38.1bn, attributable to a 41.5%y/y surge in income from loans and advances to KES 23.3bn. Furthermore, the lender recorded a 5.9%y/y (-3.4%q/q) growth in the loan book to KES 309.7bn. NIR growth (+7.9%y/y) was largely due to a 23.1% y/y uptick in other fees and commissions, which may be attributable to trade finance activities, bond trading and the group's digital banking proposition.

The results point to a moderated growth for the second half of the year. Nonetheless, product and channel diversification as well as regional markets should secure solid profitability (subsidiaries contributed 14% of group PBT in 1H24). Costs are poised to remain elevated in the short term given the digital and physical expansion. With the acquisition of AIG insurance now completed, and a robust wealth management business, we believe the move to expand outside the banking sector will tailwind NIR's contribution to the top line.



Source: NSE, Standard Investment Bank estimates

Stanbic Holdings Group Plc

Price: 120.00

Forward P/E: 3.9x

P/B: 0.7x

Dividend Yield: 12.8%

Year-to-date (+10.3%)

Recommendation: **BUY**

For;

1H24 results commentary, here

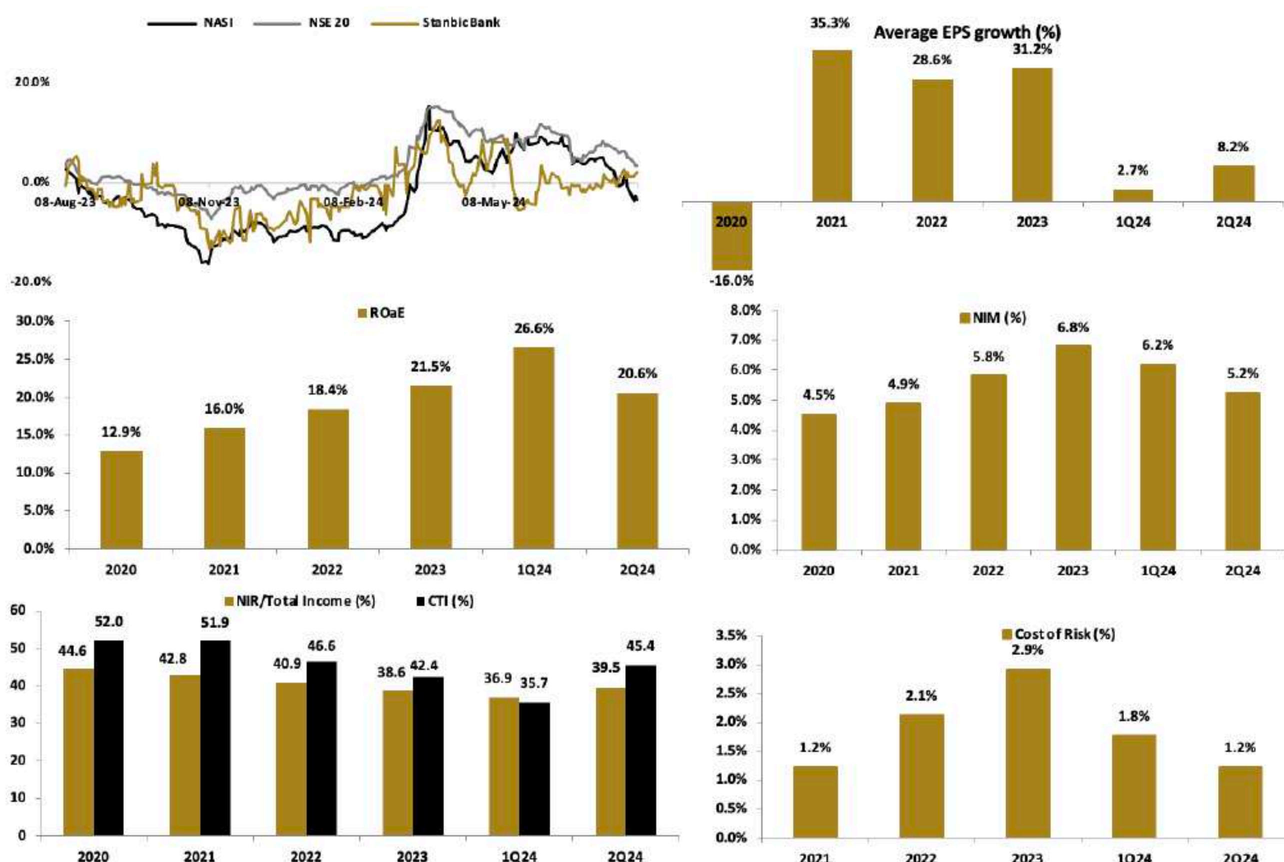
1H24 presentation, here

1H24 unaudited Group financials, here

1H24 unaudited Bank financials, here

Stanbic Holdings Plc released 1H24 results, marking a 2.3%y/y growth in EPS to KES 18.25. Net interest income (NII) climbed by 4.2%y/y to KES 12.6bn while non-interest revenue declined by 15.1%y/y to KES 7.6bn leading to a 2.3% increase in PAT to KES 7.2bn – as impairment and operating expenses fell. The Board of Directors has recommended an interim dividend of KES 1.84 (+60.0%y/y. Stanbic Bank Kenya Ltd, the primary subsidiary of Stanbic Holdings Plc, posted a subdued 5.1%y/y rise in 1H24 net income to KES 7.1bn. The lender's performance was a result of a 5.4%y/y increase in net interest income (NII) to KES 12.2bn and a 13.5%y/y contraction in non-interest revenue (NIR) to KES 7.5bn. The bank's NII surged to KES 24.5bn (+49.1%y/y), driven by income from loans and advances which surged to KES 18.3bn (+44.3%y/y) on higher interest rates in the period. The lender's loan book however contracted 2.4%y/y (-6.9%q/q), likely due to increased short-term lending and revaluation of the FCY loan book despite growth in LCY lending. Notably, the lender's oil and gas credit book is now mainly in local currency NIR was mainly dragged down by the decline in foreign exchange income (-21.9%y/y) to KES 4.7bn. We believe the base effect came off following a one-off high-value dollar transaction (Diageo deal), coupled with compressed foreign currency margins on the back of a better functioning interbank market despite higher FX volumes.

We see growth opportunities for the lender in the medium term from regional trade business prospects through borderless banking, leveraging on its China Trade corridor, growing lending in target sectors (oil and gas, infrastructure, agriculture etc), and digital innovation to drive operational and cost excellence. We anticipate growth in its Asset Management and Insurance Business to grow non-interest revenue as the bank positions itself to tap into its Personal & Private Banking segment. Additionally, the lender's bancassurance arm is tracking well, posting a 20% y/y rise in PAT to KES 64m on increased penetration of its ecosystem. Stanbic's South Sudan subsidiary posted an impressive +100%y/y jump in PAT to KES 190mn, driven by trade activity.



Source: NSE, Standard Investment Bank estimates

Standard Chartered Bank Kenya

Price: 211.00

Forward P/E: 5.8x

P/B: 1.3x

Dividend Yield: 13.7%

Year-to-date (+30.2%)

Recommendation: **BUY**

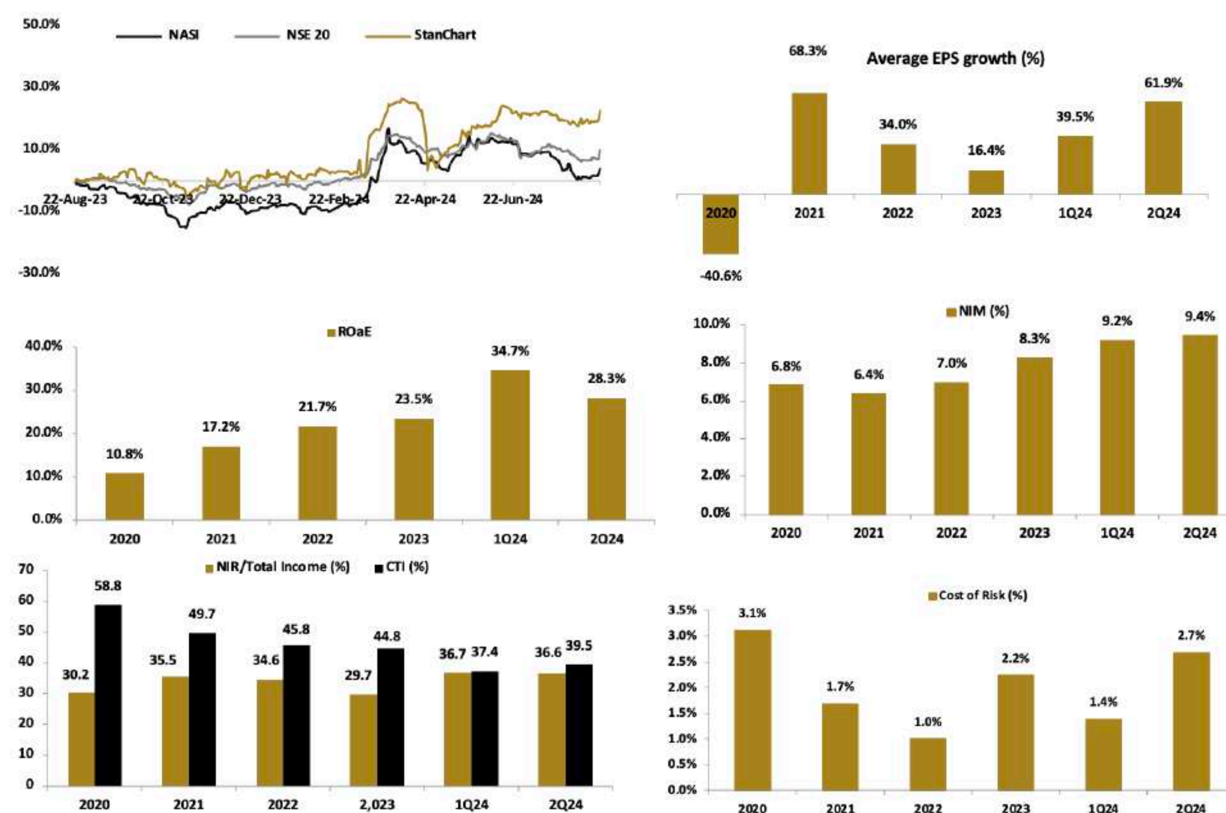
For;

1H24 results commentary, here

1H24 unaudited financials, here

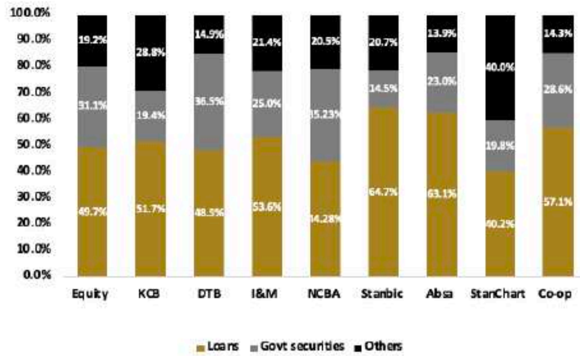
Standard Chartered Bank Kenya released its 1H24 earnings, posting an impressive 48.8%y/y growth in EPS to KES 27.21. The laudable performance comes on the back of a 19.3%y/y rise in net interest income (NII) to KES 16.5bn coupled with a 36.0%y/y growth in non-funded income (NIR) to KES 9.6bn. Despite a 78.4% y/y increase in total interest expenses, the lender posted a net interest margin of 9.3% (+110bps y/y). The Board proposed an interim dividend of KES 8.00 (+33.3%y/y). NII growth was supported mainly by a 43.4y/y spike in interest from loans and advances reported at KES 11.5bn driven by improved margins. Notably, loan growth remained muted (+2.7%y/y, -2.8%q/q), partly due to foreign currency revaluation as the local unit strengthened. Furthermore, the lender leveraged the high-interest rate environment in the interbank market to grow its income from placements (+36.5%y/y to KES 3.5bn). NIR performance was buoyed by a 21.4% y/y surge in other fees and commissions to KES 3.3bn, partly attributable to higher transaction volumes on tech adoption. Additionally, the lender reported a 10.3% y/y increase in foreign exchange income to KES 4.9bn, with other income surging from a loss of KES 261.1mn in 1H23 to an income of KES 1.2bn in 1H24.

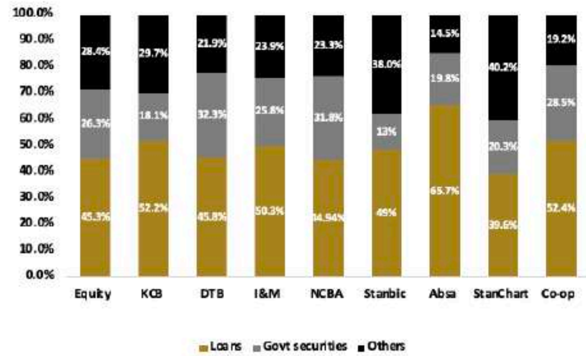
We believe the lender's move to digitize services will see higher onboarding of both retail and business clients and increased uptake of loans and wealth management solutions will drive up NII. StanChart launched its digital lending product SC Juza during the period, with the mobile app allowing clients to take instant loans directly to their mobile wallet. However, we opine the product's momentum will be seen likely in 2H24. Furthermore, the low-cost deposit base and risk-based pricing will help StanChart maintain its net interest margins despite the current economic environment. Asset management growth is steady, with SC Shilingi up to KES 5.2bn, and the lender's key Affluent segment's AUM hitting KES 185.5bn as of FY23. We like the lender's sustained asset quality improvement despite the current market macros, and easing cost-to-income ratio.

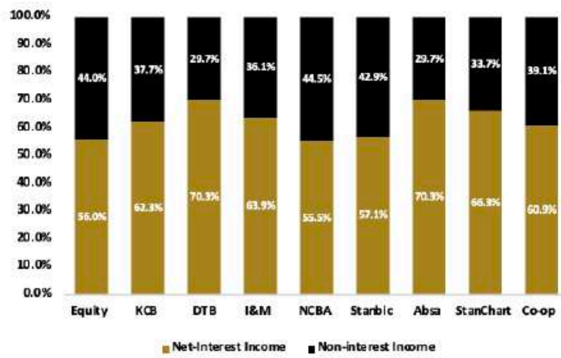


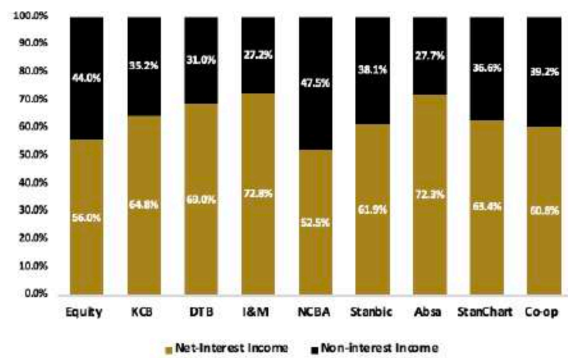
Source: NSE, Standard Investment Bank estimates

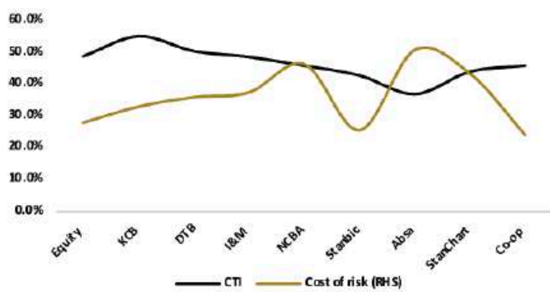
Background Charts

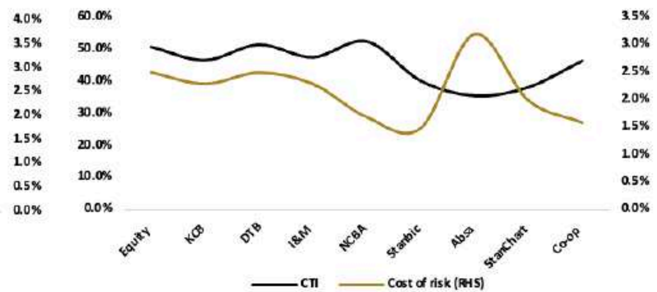


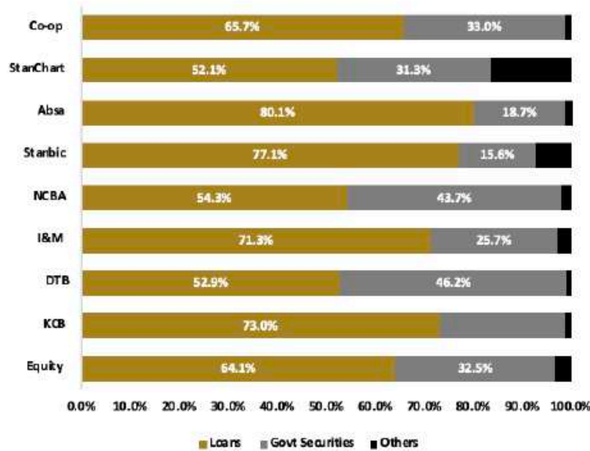


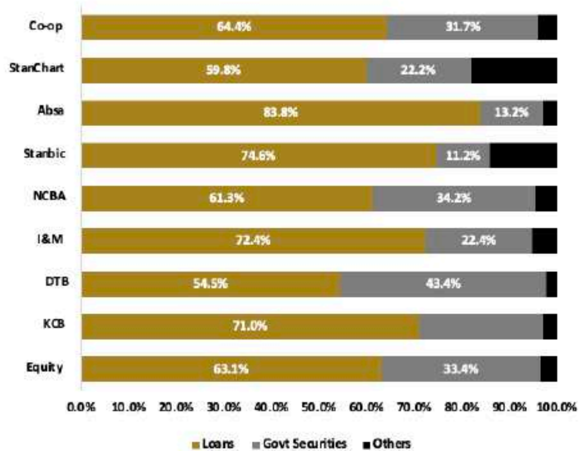


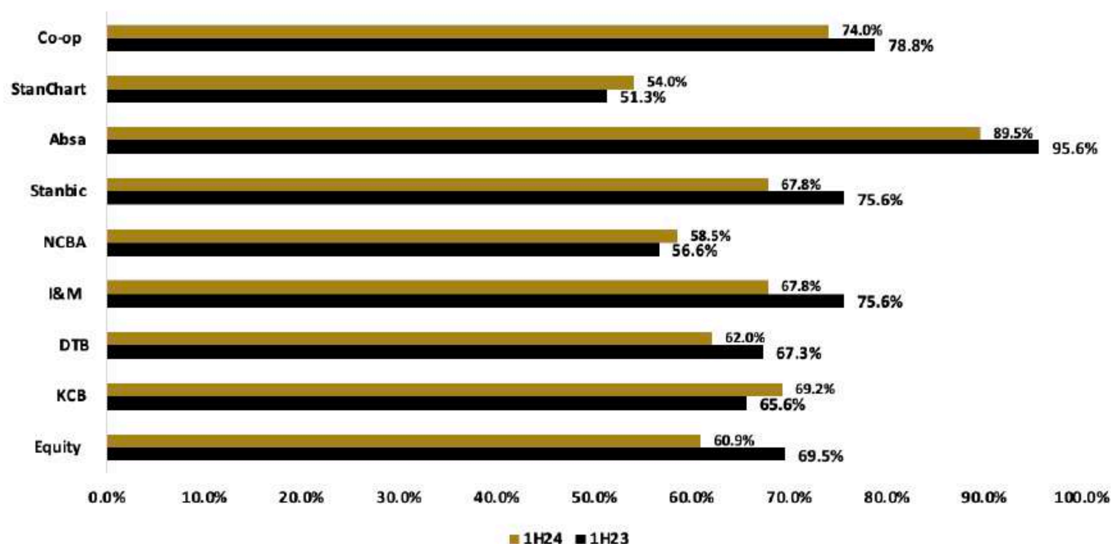


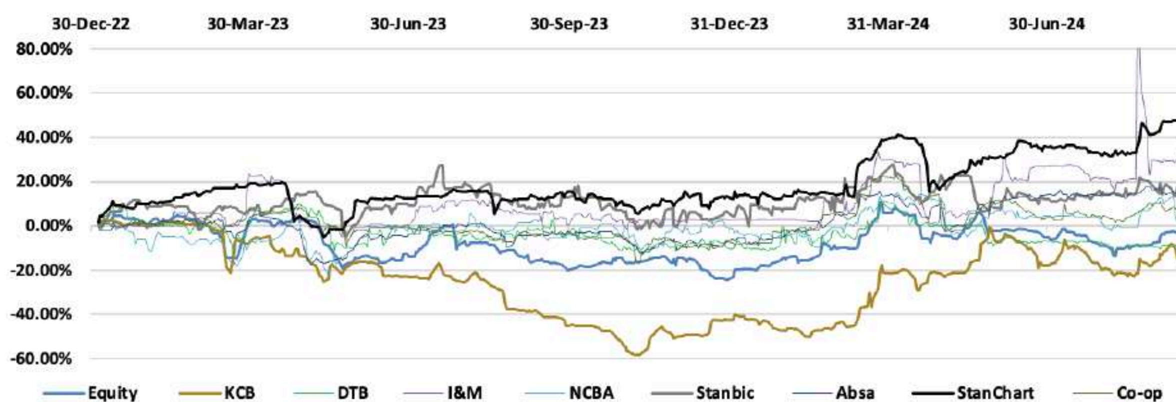












Source: Nairobi Stock Exchange, Standard Investment Bank estimates

Corporate Actions

Interim Dividends Schedule 1H24			
Bank	Amount	Book Closure Date	Payment Date
ABSA	KES 0.20	20-Sep-24	15-Oct-24
Co-op Bank	N/A	N/A	N/A
Diamond Trust Bank	N/A	N/A	N/A
Equity Group	N/A	N/A	N/A
I&M Group	N/A	N/A	N/A
KCB Group	KES 1.50	12-Sep-24	30-Oct-24
NCBA	KES 2.25	11-Sep-24	25-Sep-24
Stanbic Bank	KES 1.84	2-Sep-24	27-Sep-24
StanChart	KES 8.00	18-Sep-24	8-Oct-24

Source: Company Filings, CDSC and NSE websites, SIB Research

Disclosure and Disclaimer

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