SIB Standard Investment Bank

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KENYA 2026 OUTLOOK REPORT

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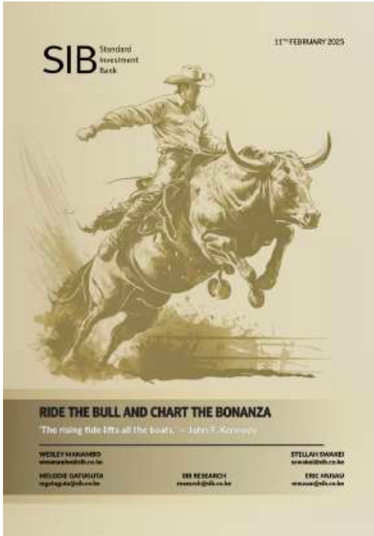
Dear Readers,

As we look ahead to the opportunities of 2026, it is vital to reflect on the significant shifts that defined the last year. Our “Outlook 2025: Ride the Bull and Chart the Bonanza” accurately captured the market sentiment, noting the trend of capital reallocation from traditional fixed-income securities toward the higher returns offered by equities. Indeed, 2025 proved to be a period where the fundamental strength across key sectors, coupled with improved market visibility through international indices, fuelled a sustained bull run.



This past year, we witnessed the truth in John F. Kennedy’s famous maxim: “A rising tide lifts all the boats.” The momentum of the banking sector and the upward reversal in undervalued stocks not only delivered strong returns but also created a more favourable environment for the entire market, particularly the small-cap segment.

The 2026 market outlook is largely bullish for equities, anticipating a sustained rally fuelled by a favourable macro environment and new listings, while fixed-income markets are expected to normalize with slower yield compression and returns shifting to a focus on carry.

We look forward to guiding you through the emerging market landscape and helping you position your portfolio for success in 2026.

Kind Regards,

SIB Research Team

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Executive Summary

Kenya enters 2026 on a firmer macroeconomic footing, with inflation anchored and external foreign exchange buffers rebuilt. As such, the operating environment appears increasingly supportive of private capital deployment. Growth is expected to be steady rather than exuberant, with execution risks shifting from macro instability toward fiscal management and policy transmission. While domestic interest costs have eased alongside lower yields, structural challenges persist, such as revenue underperformance, rising recurrent expenditure, and the weight of debt servicing costs & increased reliance on domestic borrowing. Consequently, a heavy reliance on local markets risks "crowding out" the very private sector the CBR cuts intend to support. We expect foreign direct investment to remain health y under these conditions.

Growth is expected to Remain above 5%. Overall, CBK estimates, which we think are relatively accurate, project that Kenya's economy will grow by 5.2% in 2025 and 5.5% in 2026, driven by supply-side improvements rather than cyclical stimulus. Growth will likely be underpinned by resilient agriculture, continued strength in services, and a recovery in industry and construction supported by lower production costs, cleared government arrears, resumed infrastructure activity, and improving credit conditions. The growth mix is becoming more balanced, with the industrial sector gaining importance. Monetary conditions remain supportive, though the easing cycle is maturing. With Central Bank Rate contained below the CBK target midpoint, the policy rate is expected to drift toward ~8.0% by end-2026, with future cuts smaller and data-dependent. The focus shifts to policy transmission, as lower deposit rates and stabilizing asset quality support a gradual recovery in private-sector credit.

Bullish Outlook on Equities, With New Listings Expected. Looking into 2026, we are of the view that investors will maintain a bullish stance and show greater appetite for risk despite the robust 2025 performance that the market is building on. Further, expectations of new listings add to the case for a rally on the back of robust and improving macroeconomic conditions.

Key themes for 2026 include;

- The mounting global tensions and polarization are a prevailing risk that cannot be ignored
- The Macro environment is a tailwind
- Emerging Opportunities with new listings

Fixed Income market to normalize: Yield compression to continue at a lower pace. After a strong rally in 2024–2025, we expect fixed-income markets are expected to normalize in 2026. Yield compression should continue at a slower pace, with returns increasingly driven by carry rather than capital gains. Additionally, issuances are likely be skewed toward long-dated government bonds, while corporate issuance may expand selectively, particularly in green and infrastructure-linked instruments.

Fiscal spending to widen ahead of 2027 Elections. We expect fiscal spending to remain elevated ahead of the 2027 elections, with the government increasing borrowing, privatizations, and other financing mechanisms to attract private-sector participation in delivering infrastructure and creating jobs. Tax administration reforms will continue to collect additional revenue with the proposed sovereign and infrastructure funds being actualized. Key risks to the downside include adverse weather shocks, fiscal slippage, heightened geopolitical tensions, and rising political activity ahead of the 2027 elections.

Inflation is expected to remain within the 4.0%–5.0% range. This will likely be supported by stable energy prices, easing food inflation, and exchange-rate stability. The shilling enters 2026 from a position of relative strength, anchored by strong foreign exchange reserves, record diaspora remittances, active external debt management, and recovering exports and tourism.

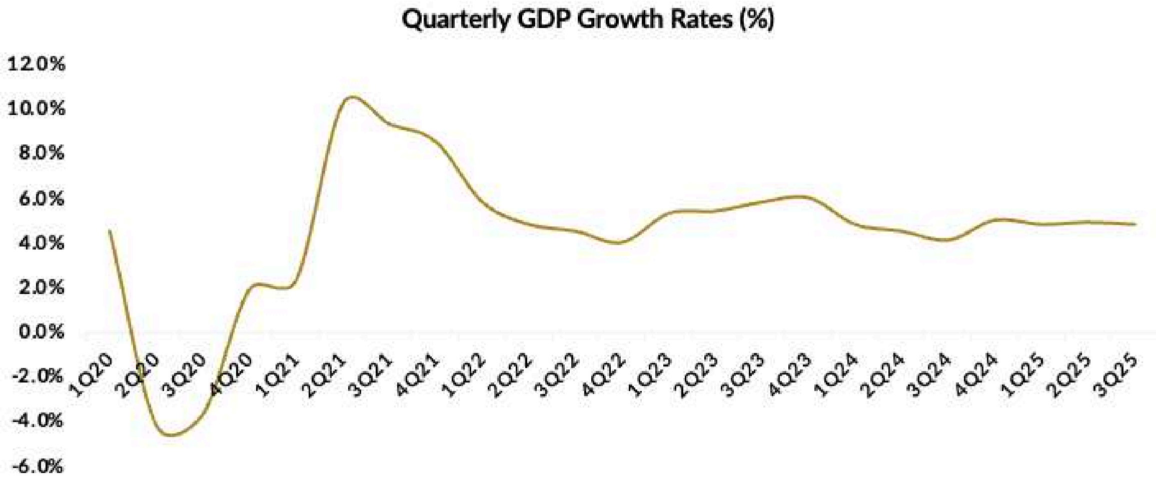
New IMF program? With Kenya's previous four-year USD 3.6bn IMF programme having expired in April 2025, the government has since signalled a reset in engagement strategy as it seeks a new programme. Treasury officials have emphasized the need for a new IMF programme aligned with policy flexibility and tax predictability, citing limited political and economic space for new tax measures (which we believe is mainly due to the social upheaval suggested measures caused over the last 2 years). A renewed IMF programme—despite being debt-linked—would provide an important credibility anchor and financing buffer.

Macro-economic & Fixed Income

Kenya's Economy: Strong GDP Growth Underpinned by Supply-Side Improvements

Kenya recorded a growth of 4.9% in the first nine months of 2025 (slightly slower than the 5.0% recorded in 2Q25) compared to 4.2% in 3Q24. The performance was primarily supported by growth in various sectors, i.e., the Agriculture, Forestry, and Fishing sector (albeit slower at 3.2% – the slowest 1Q23 vs 4.0% in 3Q24, squeezed by a decline in the exports of coffee, vegetables, and fruits despite an increase in milk production and the export of cut flowers), the Transportation and Storage sector (5.2% vs 4.6% in 3Q24), and the Financial and Insurance sector (5.4% vs 7.3% in 3Q24). Additionally, the Mining and Quarrying activities and Construction sectors rebounded in the period, growing by 16.6% and 6.7%, respectively (from -12.2% and -2.6%, respectively, in 3Q24), with real estate up by 5.7% vs 4.8% in 3Q24 on increased activity and investment in these sectors.

Though resilient, the Accommodation and Food Services sector experienced a slightly slower growth (expanding by 17.7%, partly supported by increased visitor arrivals as Kenya co-hosted the African Nations Championship (CHAN) in 3Q25) compared to 22.9% in 3Q24. The Manufacturing sector expanded by 2.5% vs 2.3% in 3Q24, with growth primarily driven by the non-food sub-sector, while the food sub-sector recorded a decline due to low levels of activity in the manufacture of food products (specifically sugar and soft drinks). See below a chart showing the evolution of Kenya's GDP:



Source: KNBS, Chart: SIB

The Services sector remains the dominant force in the economy, followed by the Industrial (secondary) sector, while the Agricultural sector trails behind. In the third quarter of 2025 (3Q25), the Industrial sector showed a strong rebound, expanding by 4.8%, compared to a contraction of -0.4% in the same quarter of the previous year (3Q24). Meanwhile, the Services sector continued to demonstrate robust growth of 5.5%, driven by strong performance in accommodation and food services, real estate, finance and insurance, as well as transport and storage sectors.

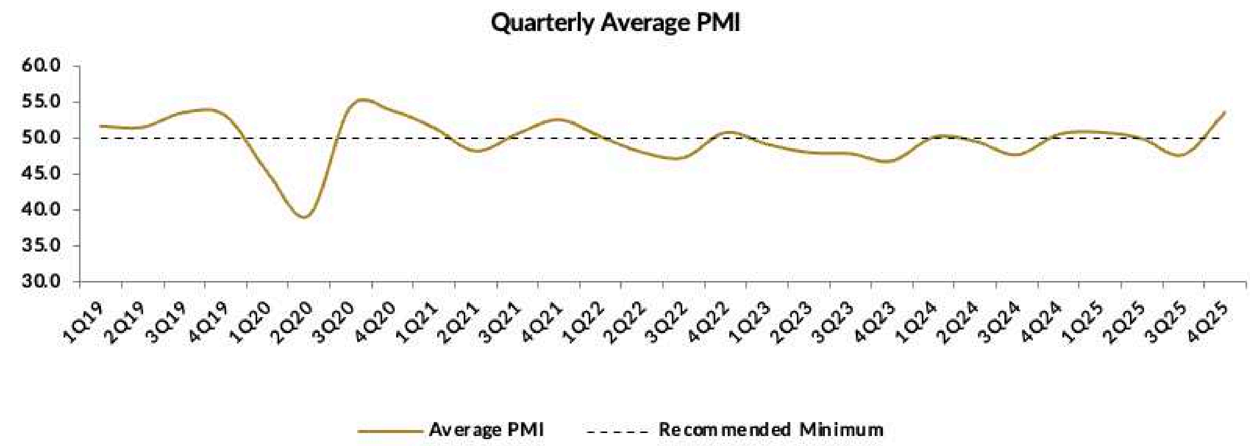
Overall, the Construction sector emerged as the highest-growing among the ten largest contributors in 3Q25, which we link to increased spending on affordable housing projects and resumption of road construction projects following continued verification and settlement of pending bills. Resultantly, cement consumption jumped by 16.2% to 2,664.1k metric tonnes, with iron and steel imports surging by 52.7%y/y to 336,262.0 metric tonnes compared to 220,284.6 metric tonnes in 3Q24. The Agricultural sector maintained its position as the largest single contributor to GDP, accounting for c.14.2%, followed by the Real Estate sector at c.10.8% as of 3Q25.

See a visual representation of sector performance below:

Real GDP growth by sector (%)	Annual		2024				2025		
	2023	2024	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture	6.6	4.6	5.6	4.5	4.0	4.3	6.0	4.4	3.2
2. Non-Agriculture (o/w)	5.5	4.7	4.8	4.6	4.3	5.3	4.7	5.1	5.2
2.1 Industry	2.0	0.8	0.4	0.2	-0.4	3.1	3.0	4.0	4.8
Mining & Quarrying	-6.5	-9.2	-16.1	-5.5	-12.2	-2.3	10.8	15.3	16.6
Manufacturing	2.2	2.8	1.9	3.2	2.3	3.9	2.1	1.0	2.5
Electricity & water supply	3.2	1.9	2.8	1.2	0.9	2.7	3.6	5.7	3.6
Construction	3.0	-0.7	0.4	-3.7	-2.6	2.9	3.0	5.7	6.7
2.2 Services	7.0	6.0	6.4	6.1	5.4	6.1	5.0	5.7	5.5
Wholesale & Retail Trade	3.3	3.8	3.6	2.5	2.6	6.4	5.4	4.0	4.8
Accommodation & Food Services	33.6	25.7	38.1	35.0	22.9	10.9	4.1	7.8	17.7
Transport & Storage	5.5	4.4	4.1	3.4	4.6	5.6	3.8	5.4	5.2
Information & Communication	10.3	7.0	9.2	6.7	6.9	5.6	5.8	6.0	4.5
Financial & Insurance	10.1	7.6	9.6	8.0	7.3	6.0	5.1	6.6	5.4
Public administration	5.0	8.2	7.5	9.0	7.3	9.2	6.5	6.0	5.1
Professional, Administration & Support Services	9.9	6.2	9.4	6.7	4.5	4.7	4.6	8.5	6.1
Real estate	7.3	5.3	6.9	5.9	4.8	3.6	5.3	5.5	5.7
Education	2.9	3.9	2.4	3.2	4.8	5.4	2.9	3.2	3.4
Health	4.5	6.3	5.4	8.1	6.2	5.6	4.8	6.8	4.1
Other services	4.3	4.7	5.1	4.8	4.9	4.0	2.8	1.4	6.2
FISIM	2.7	9.0	15.4	10.3	11.0	0.7	1.9	1.4	3.6
2.3 Taxes on products	3.2	4.4	2.9	3.8	6.3	4.5	5.7	3.3	3.7
Real GDP Growth	5.7	4.7	4.9	4.6	4.2	5.1	4.9	5.0	4.9

Source: KNBS, Chart: SIB

It is worth noting that the business conditions in the Kenyan private sector improved in 2025, with the Purchasing Managers Index metric hitting an average of 51.0 – the highest since 2019 - signalling an overall expansion in business conditions in the year. Furthermore, the average PMI printed in 4Q25 was the highest since 4Q20. See below the trend of the PMI since 2019.



Source: Stanbic, S&P Global, Chart: SIB

The Stanbic Bank Kenya PMI®(PMI) is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 private sector companies. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Outlook

Looking ahead, the National Treasury projects that Kenya's economic performance will improve in 2025 and 2026, with real GDP growth forecasted at 5.3% (CBK estimates 5.2% in 2025 and 5.5% in 2026, while the World Bank projects 4.9% for both years). In particular, the country's medium-term economic growth is projected to be supply-driven by resilient agriculture, bolstered by favorable weather and government interventions. This is complemented by steady service sector expansion in finance, ICT, and eco-friendly tourism, as well as industrial recovery through lower production costs, stable exchange rates, and a construction resurgence driven by the settlement of pending bills.

On the demand side, private consumption and investment are anticipated to maintain their momentum amid prudent monetary policy, stable inflation, resilient remittances, lower lending rates, and enhanced competitiveness via PPPs in key sectors and fiscal consolidation that curbs public consumption while prioritizing development spending. External balances are expected to remain stable, supported by increasing exports from trade agreements (renewed AGOA treaty for 3 more years, Kenya-China duty-free deal, Kenya- EU deal, etc.), strong trade growth among African partners, and resilient remittances and tourism inflows. Meanwhile, import growth is associated with the demand for industrial raw materials and household needs, all while the shilling remains stable. See a visual summary of GDP estimates from various organizations.

No	Organization	Projected 2025 growth rates
1	National Treasury	5.3%
2	Central Bank of Kenya	5.2%
3	S&P Global	5.1%
4	World Bank	4.9%
5	International Monetary Fund	4.8%
	Average	5.1%
	Median of growth estimates	5.1%

Source: IMF, World Bank, National Treasury, S&P Global, CBK

Downside risks that may undermine economic growth and stability in the medium term remain, such as unfavourable weather events, which could pose a serious threat to agricultural performance. Disruptions in food production due to droughts/floods could lead to higher food prices, exacerbating inflation and straining household incomes. Further, climate-related damage to infrastructure could disrupt economic activities and increase government expenditure on disaster response and reconstruction. Externally, a potential rise in fuel costs and food imports, driven by supply constraints and/or geopolitical instability, could put upward pressure on inflation, eroding household purchasing power and increasing the cost of doing business. In addition, uncertainty regarding trade policies and tariffs may hinder economic activities, along with increased financial market volatility, fiscal slippage due to weak revenue collection, and high rigidity of expenditures.

Key Kenya Macro-Economic Indicators

Economic Growth

- Kenya's growth is expected to be about 5% for 2025.
- Recovery anchored on a robust agricultural sector, steady expansion in services, and a gradual rebound in industry.

Exchange Rate

- A stable exchange rate provides for more predictable planning for investors.
- USD KES has been range-bound between KES 128.93 – KES 129.96 in 2025.

Reserves

- c. 5.3 months of import cover, providing greater confidence to investors.
- Jumped by c.34.7%y/y as of December 2025, buoyed by remittances, Eurobond inflows, etc.

Interest Rates

- Stable inflation rates within the CBK target range – average headline rate of 4.1% in 2025.
- MPC rate cuts – CBR rate at 9.00% as of Dec 2025.

Fiscal Rate

Tax

- Focus on optimization of current tax measures

Spending

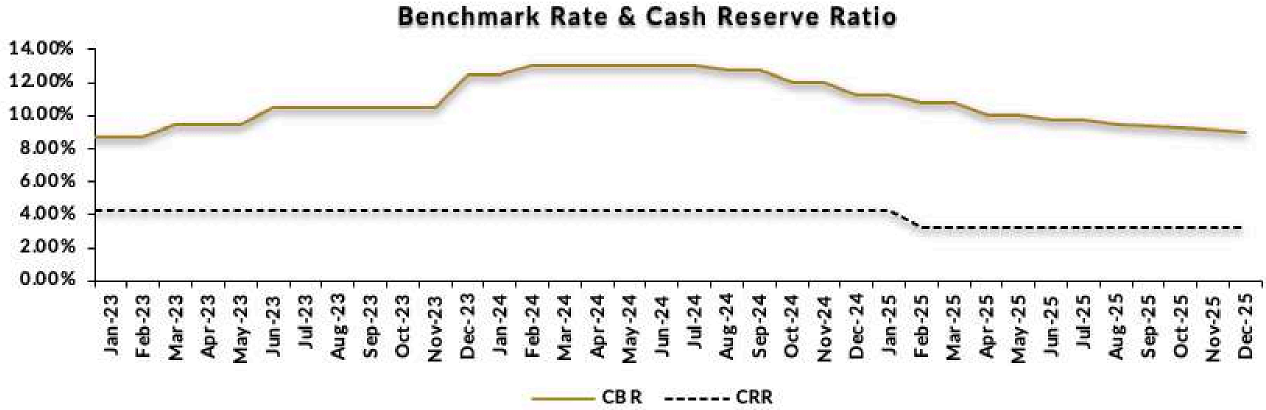
- Infrastructure
- 2027 Elections

Employment

- Despite steady economic growth, GOK has yet to hit its ambition to create 1.2 million jobs annually.
- Formal employment remains low – c. 16.4% of the employment sector as of 2024.

Shilling Enters 2026 from Position of Strength; Inflation Remains Stable

As we had forecasted in our 2025 outlook report, the Central Bank Monetary Policy committee adopted an aggressive rate adjustment cycle, which saw the Central Bank Rate (CBR) end the year at 9.0% (cumulative 225bps cut). The committee emphasized that the stance was aimed at stimulating lending by banks to the private sector and supporting economic activity, while ensuring inflationary expectations remained firmly anchored and the exchange rate remained stable. See below a chart following the trends of the CBR since 2023:



Source: Central Bank of Kenya (CBK), Chart: SIB

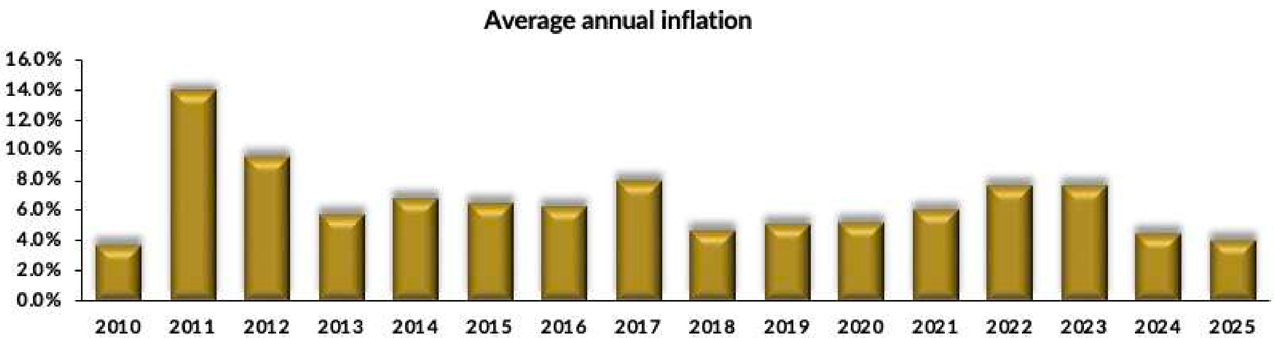
Outlook

We see further scope to cut the central bank rate to c.8.0% by the end of 2026, as the CBK adopts a balanced approach to stimulate credit growth and boost the supply of capital to the private sector through lower lending rates. Our sentiments are anchored on:

i. **Inflation projections remain below the CBK target range**

In 2025, average inflation hit 4.1%, down c.44.8bps y/y from an average of 4.5% recorded in 2024, with the first half of the year driving the decline, partly due to base effects. In particular, core inflation softened to an average of 2.5%, down c.61.1bps y/y from an average of 3.1% in 2024. Transport inflation edged lower to an average of 3.2% in 2025 vs 5.2% in 2024 on largely stable fuel prices, while average food inflation notched higher to 7.2% in 2025 vs an average of 5.6%, fuelled by higher food prices in the year.

See a summary below:

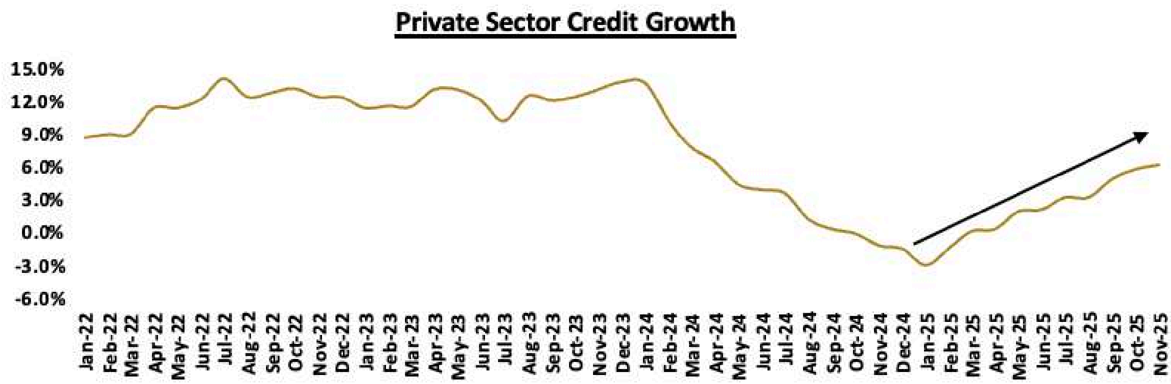


Source: Kenya National Bureau of Statistics, Chart: SIB

Looking ahead, the Central Bank expects the overall inflation to remain below the midpoint of the target range in the near term (projected at an average of c.4.1% between January and November 2026), supported by lower prices of processed food items, stable energy prices, and continued exchange rate stability. Additionally, the National Treasury estimates the metric at c.4.7% during the FY25/26 financial year and c.4.8% in FY26/27. Key vulnerabilities to this outlook include disruptions to agricultural output (e.g., failed rains and its impact on crop output, damage from floods), potentially higher costs of imported fuel and food, driven by global supply shocks, geopolitical tensions, or trade restrictions, as well as rising customer demand as the economy grows and the private sector recovers, which could lead to an increase in inflationary pressure.

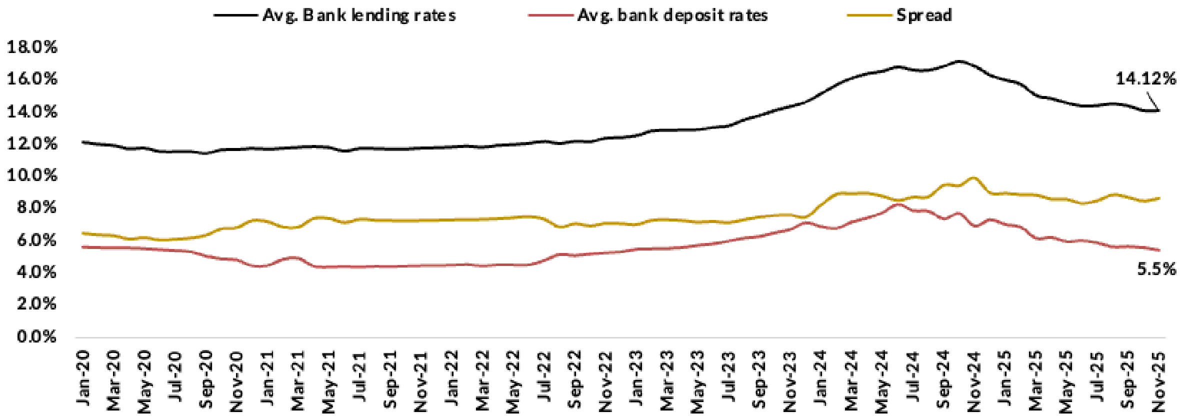
ii. Private sector credit growth still has room to pick up in 2026

In 2025, private sector credit growth staged a slow but steady recovery, hitting 6.3% in November 2025 compared to a contraction of 2.9% in January 2025 (average of c.2.2% from January to November 2025 compared to c.4.7% over the same period in 2024). This performance was attributable to improved uptake of credit across key sectors, particularly in the manufacturing, building and construction, trade, and consumer durables sectors. Additionally, the stable shilling tempered the exchange rate valuation effects on foreign currency-denominated loans compared to 2024. Pending bills, which have been a heavy overhang on the private sector, are gradually being verified and resolved. The Government utilized a syndicated bank loan to pay part of the c.KES 123.0bn worth of pending bills owed to contractors in the road sector. This payment was part of a strategy ahead of the KES 175.0bn roads bond (which will use KES 7.00 per litre from the Road Maintenance Levy Fund (RMLF) as securitization and is set to be issued in February 2026), that aims to fully clear arrears and finance ongoing transport infrastructure projects. As such, road construction projects were restarted, with infrastructure construction picking up in the year. See a visual representation of the growth trend below:



Source: CBK, Chart: SIB

Commercial bank lending rates, however, reduced at a slower pace compared to the CBK's consecutive CBR rate cuts, partly linked to asset quality concerns (gross NPLs hit a high of 17.6% in August 2025, though have since slightly improved to 16.5% as of November 2025), as well as a lag in repricing expensive fixed deposits, which were locked at higher rates. As such, average commercial lending rates came in at c.14.1% in November 2025 compared to c.16.0% in January 2025. Average bank deposit rates declined to an average of c.5.5% in November 2025 vs c.7.1% in January 2025.



Source: CBK, Chart: SIB

The outlook for private sector growth in 2026 is cautiously optimistic, with credit growth expected to accelerate as the "lagged effects" of 2025's rate cuts gradually permeate the economy, coupled with the implementation of the revised risk-based pricing model, contingent on the following factors:

a. **The Magnitude and Timing of CBR Cuts –** We anticipate that the CBK may consider reducing rates further to stimulate private sector lending in the short/medium term. Moreover, the CBK MPC committee noted in its December 2025 meeting that, as average lending rates in the domestic market continue to decline, and while private sector credit growth is improving, it is at a slower pace than desired. However, the magnitude of future cuts will likely ease compared to those seen in 2025. The Central Bank of Kenya (CBK) has shown a cautious stance and is expected to keep a vigilant eye on developments in both the global and domestic economies.

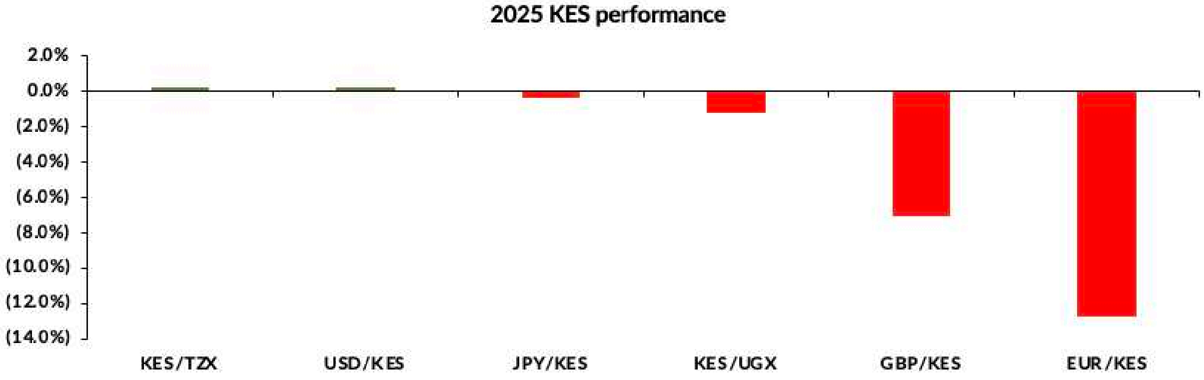
b. **Business Environment Resilience –** The economic outlook in 2026 points to potential output growth driven by resilient economic performance, though businesses are still facing higher input costs, largely driven by higher taxes, elevated electricity and fuel prices, and statutory deductions. Additionally, the country is heading into a campaigning period ahead of the 2027 General election, which may prompt some businesses to adopt a wait-and-see approach, thereby delaying capital-intensive investments.

c. **Government Securities Yields -** The extent and duration of the decline in yields on government securities will play a critical role. While low T-bill yields may encourage banks to pivot toward private sector lending to maintain margins, downside risks remain due to increased borrowing requirements driven by rising expenditure needs. Resultantly, this could lead to further crowding out of the private sector.

d. **Exchange Rate Stability -** Sustained stability of the exchange rate at current levels will be essential in preserving the value of dollar-denominated loan portfolios. Additionally, if global interest rates stay "higher for longer," the local unit could face pressure and ramp up inflation.

iii. Stable exchange rate supported by robust foreign reserves, reduced external debt obligations

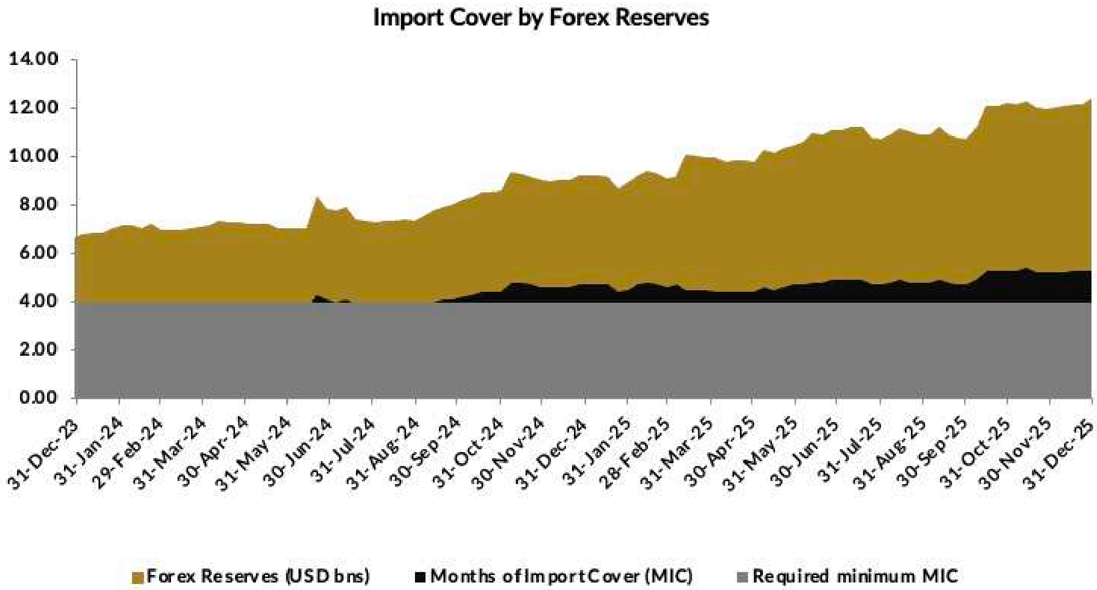
Looking at the local unit's performance against the tracked currencies through 2025, the Kenyan Shilling appreciated by c.0.2% y/y against the Tanzanian Shilling and the US dollar. Conversely, the Kenyan Shilling depreciated by c.12.8% y/y, c.7.0% y/y, c.1.2% y/y, and c.0.3% y/y against the Euro, British Pound, Ugandan Shilling, and Japanese Yen, respectively. See a visual summary below:



Source: CBK, Chart: SIB

In particular, the Kenyan shilling was supported by:

a. **Foreign exchange reserves buildup by the CBK,** with FX reserves jumping by c.34.7%y/y in 2025, from USD 9.20bn as of 27th December 2024, partly buoyed by Eurobond transaction inflows, diaspora remittances, as well as proceeds from the UAE private bond placement. This is despite a lack of significant donor inflows following Kenya's previous IMF program, which ended in April 2025. Below is a visual representation:

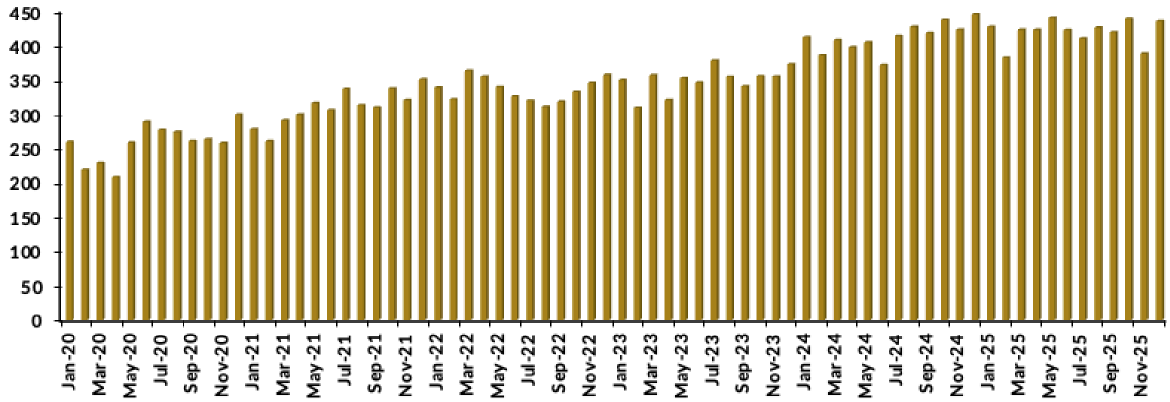


Source: CBK, Chart: SIB

b. **Resilient diaspora remittances**, with total remittances coming in at USD 5,036.7m in 2025, up 1.9% y/y from USD 4,945.2m in 2024, hitting a record high. We acknowledge that, while the government's aggressive labour export and diaspora investment strategies establish a strong foundation, new tax measures (e.g., new excise duty on remittances from the US, Saudi Arabia VAT treatment on money transfer services) and changing global economic conditions present complexities (concentration risk as the US contributes a large portion of remittances, which is undergoing significant immigration policy changes).

See a visual representation of the remittances trend below:

Diaspora Remittances (USD mn)



Source: CBK, Chart: SIB

c. **Portfolio inflows from Eurobond issuances:** In 2025, Kenya undertook some Eurobond issuances as part of an active liability-management and refinancing strategy, including partial buybacks and issuance of new notes in February and October 2025, which in turn eased investor tensions on Eurobond maturity settlements;

d. **Growth in exports and tourist flows,** and;

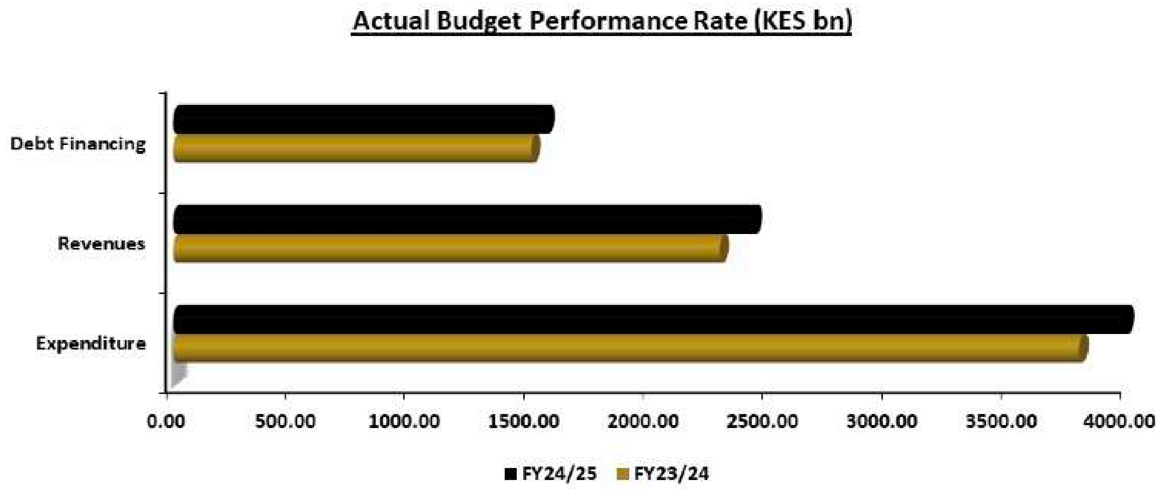
e. **Improved interbank FX liquidity** following a raft of initiatives implemented by the CBK aimed at regulating the forex market.

According to the draft 2026 Budget Policy Statement, the National Treasury projects that the Kenyan shilling will remain relatively stable, supported by prudent fiscal policies, as well as resilient foreign exchange reserves and liability management initiatives. However, volatility in international financial markets, international trade balance pressure, fluctuations in commodity prices, debt sustainability concerns amid high debt financing costs, and tighter global financing conditions may adversely affect exchange rate stability.

Pre-Election Fiscal Strategy: Borrowing, Privatization & Reforms Amid Revenue Shortfalls

According to data from the National Treasury, the Government collected c.KES 2,428.95bn in ordinary revenues for FY2024/25, reflecting a 6.1% increase from KES 2,290.35bn collected in the prior year. The collections missed the Supplementary III revised target by 2.1%. Total expenditure came in at KES 3,986.70bn, marking a 5.0% increase from KES 3,796.08bn in the prior financial year. This performance is attributable to a 6.1% and 18.0% rise in recurrent expenditure and county disbursements. The total expenditure recorded a performance rate of 94.8%, with development spending lagging the most. The budget deficit (inclusive of principal redemptions) amounted to KES 1,558.57bn in FY2024/25, representing a 3.9% increase from KES 1,504.27bn. This shortfall was financed through a mix of external and domestic borrowing, with the latter accounting for 68.9% of the amount. Borrowing recorded a performance rate of 91.8%, with domestic financing lagging the most at 89.5%. Overall, actual development spending rose by 6.4% to KES 335.08bn, from KES 315.06bn in FY23/24.

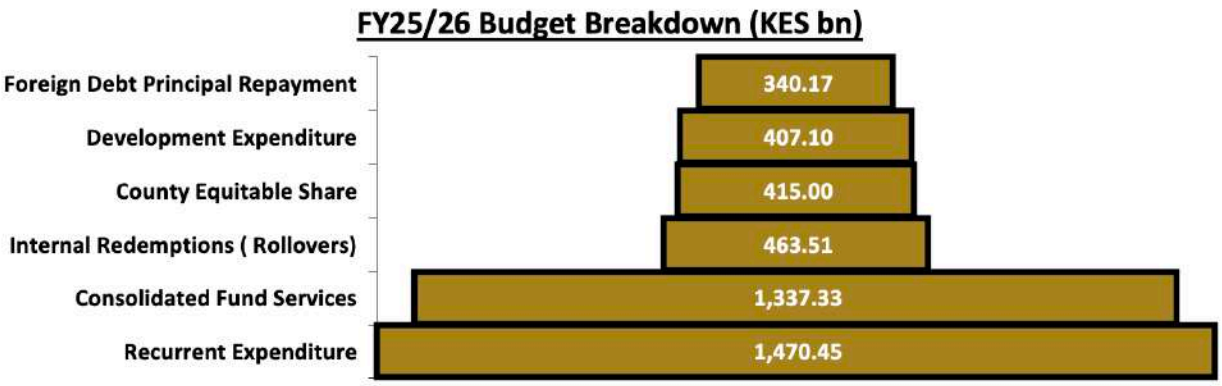
See the chart below for a quick summary:



Source: Treasury, Chart: SIB

Moving into FY25/26, the approved budget for FY25/26 currently stands at KES 4.43tn (may be subject to change in the event of a supplementary budget), with the largest allocation extended to consolidated fund services at 48.3%. Recurrent expenditure commands the second largest share at 33.2%, followed by county equitable share at 9.4%. Development expenditure receives the least allocation, at 9.2%.

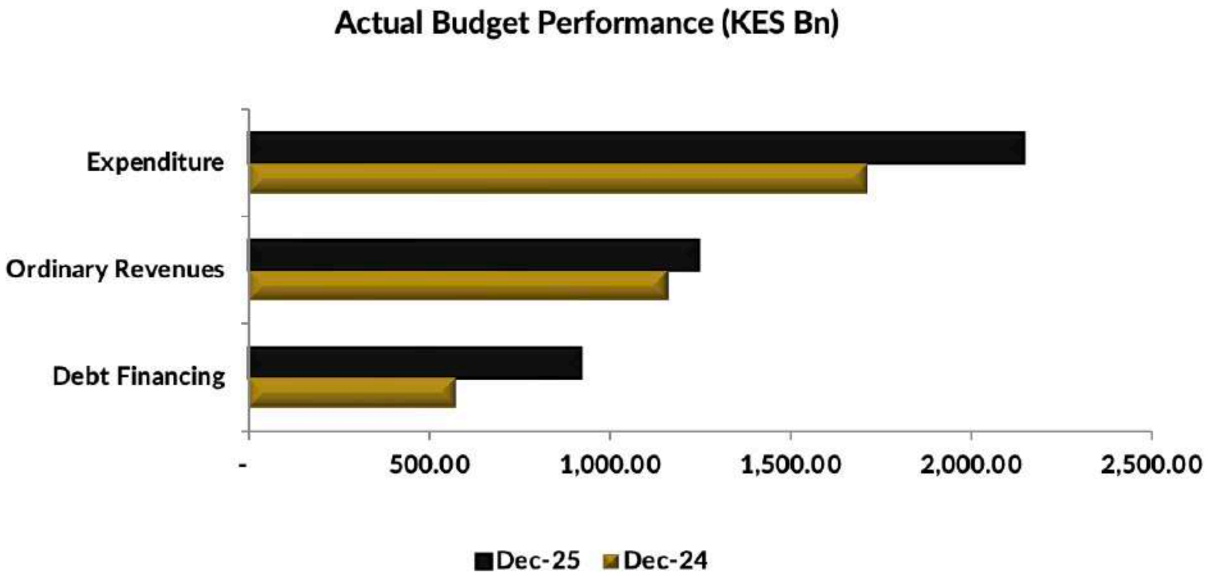
See the chart below for a visual representation of the FY25/26 budget allocation.;



Source: Treasury, Chart: SIB

An analysis of budget performance in the first half of FY25/26 indicates that the Government collected KES 1,243.4bn in ordinary revenues, reflecting a 7.2% y/y increase from KES 1,160.2bn collected during the same period in FY2024/25. Within this, tax revenues rose by 8.1% y/y, reaching KES 1,161.3bn, up from KES 1,074.1bn during a similar period last year. Notably, non-tax revenue declined by 4.6%y/y to KES 82.1bn from KES 86.1bn in December 2024. Overall, the Government missed its prorated ordinary revenue target by c.KES 134.0bn. Total expenditure stood at KES 2,143.7bn, marking a 25.1% y/y uptick from KES 1,714.1bn in the corresponding period of FY2024/25. This performance was partly attributable to a 26.3% y/y and 37.8% y/y rise in recurrent expenditure and debt servicing to KES 735.2bn and KES 1,070.5bn, respectively. The total borrowings amounted to KES 918.97bn, representing a 60.0% y/y jump from KES 574.4bn recorded in FY2024/25 over the same period. Lastly, cumulative actual development spending increased by 11.7% y/y to KES 145.0bn, up from KES 129.8bn over the same period in FY24/25.

See the chart below for a quick summary.



Source: Treasury, Chart: SIB

Outlook

Tax collections have consistently fallen short of prorated targets throughout the FY25/26 fiscal year; however, the government has implemented various initiatives to plug leakages and enhance compliance, e.g. reverse accounting, the validation of income and expenses for both individual and non-individual tax returns, effective January 1, 2026; eTIMs compliance, which is now part of the requirements for obtaining a tax compliance certificate; the launch of eRITs, aimed at increasing the collection of rental income tax; the introduction of automated payment plans for tax liabilities etc. Should the National Treasury continue to miss revenue targets, it may have to revise them downward through a supplementary budget (which has been hinted at), partly due to spending pressures from the health, education, and security sectors, as well as outlays for emergency drought response.

Furthermore, according to the 2026 draft budget policy statement released by the National Treasury, the total budget is estimated at KES 4,641.9bn (up 8.7%y/y; 22.0% of GDP), with recurrent spending at KES 3,431.2bn (16.4% of GDP); development expenditure of KES 759.1Bn (3.6% of GDP) and transfers to County Governments amounting to KES 446.6bn. Total revenue, including grants, is projected at KES 3,335.8bn, up 5.0%y/y. Based on the projected revenue and expenditure framework, the fiscal deficit, including grants, is expected to reach KES 1,106.1bn (+22.7%y/y; 5.3% of GDP) in FY 2026/27.

The fiscal deficit will be financed through net external borrowing amounting to KES 99.5bn (-65.4%y/y; 0.5% of GDP) and net domestic financing of KES 1,006.6bn (+64.1%y/y; 4.8% of GDP). This shift in financing strategy points to higher domestic borrowing, which may lead to an upward creep in yields as spending pressures surge.

Additionally, Kenya's program with the IMF expired in 2025, with talks reportedly ongoing for a KES 96.7bn loan. Should the program be renewed—despite being debt-driven—the IMF program would likely be viewed as critical funding support, offering a buffer for debt obligations. We also expect a softer stance on tax hikes to contain public discontent.

Find a summary of the proposed FY25/26 budget below:

In KES Bn	2023/24 Act.	2024/25 Prel.	2025/26 Budget	2026/27 BPS 2026	% change from FY25/26
Total Revenue	**2,702.6**	**2,923.6**	**3,321.6**	**3,487.0**	**5.0%**
Ordinary revenue	2,288.9	2,420.2	2,754.7	2,901.9	5.3%
Appropriations in Aid	413.7	503.4	566.9	585.1	3.2%
Grants	22.0	33.3	47.2	48.8	3.4%
Total Revenue & grants	**2,724.6**	**2,956.9**	**3,368.8**	**3,535.8**	**5.0%**
Expenditure and Lending					
Recurrent Expenditure	**2,678.4**	**2,948.4**	3,134.1	3,431.2	**9.5%**
Domestic interest payments	840.7	995.1	1,097.7	1,180.6	7.6%
Foreign interest payments	622.5	784.1	851.4	934.0	9.7%
Other	1,215.2	1,169.2	1,185.0	1,316.6	11.1%
Development & net lending	546.4	582.9	649.0	759.1	17.0%
County transfers and contingency fund	380.4	444.6	486.8	451.6	-7.2%
Total expenditure	**3,605.2**	**3,975.9**	**4,269.9**	**4,641.9**	**8.7%**
Fiscal deficit, including grants	**880.6**	**1,019.0**	901.1	1,106.1	**22.7%**
Total Financing	**818.3**	**1,034.2**	**900.9**	**1,106.1**	**22.8%**
Net domestic borrowing	595.6	854.5	613.5	1,006.6	64.1%
Net foreign borrowing	222.7	179.7	287.4	99.5	-65.4%
Nominal GDP	**15,666.6**	**17,148.7**	**19,006.2**	**20,916.8**	**10.1%**
Fiscal Deficit as a % of GDP	**5.6%**	**5.9%**	**4.7%**	**5.3%**	**11.5%**

Source: National Treasury – 2026 Draft Budget Policy Statement, Table: SIB

Furthermore, the Government has approved the formation of the National Infrastructure Fund and the Sovereign Wealth Fund agenda, which is expected to mobilize KES 5.0Tn through domestic resources, monetisation of public assets (e.g. the sale of government stake in Safaricom, Kenya Pipeline, EAPCC etc), and crowding in private capital, leveraging up to KES 10 for every shilling invested; while ring-fencing privatisation proceeds for food security, infrastructure expansion, and energy-driven industrialisation. Notably, the government is reportedly planning to securitize an additional KES 5.00 per litre of the Roads Maintenance Levy. This move is set to increase the total portion of the levy pledged to investors to KES 12.00 per litre and aims to address the approximately KES 900.0bn funding gap related to unfinished road projects. We anticipate a continued emphasis on public-private partnerships to fill funding gaps in key projects. In summary, the Exchequer aims to boost revenue toward c.20% of GDP over the medium term by modernizing tax laws, leveraging technology to widen the tax base, and enhancing non-tax income from state agencies to create a fairer and more efficient fiscal environment.

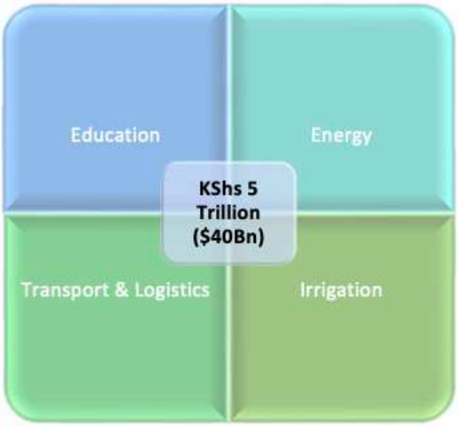
Groundwork for the 'Singapore Plan' - 4 National Priorities – KES 5.0 trillion ($40Bn)

Education

- Budget 490B in 2021 to over KES 700B in 2025
- STEM Courses
- National Research Fund

Transport & Logistics

- National Infrastructure Fund & Sovereign Wealth Fund
- 2,500KM of roads for dualling and 28,000KM of new roads in the next 10 years
- Port & Rail PPP Projects



Energy

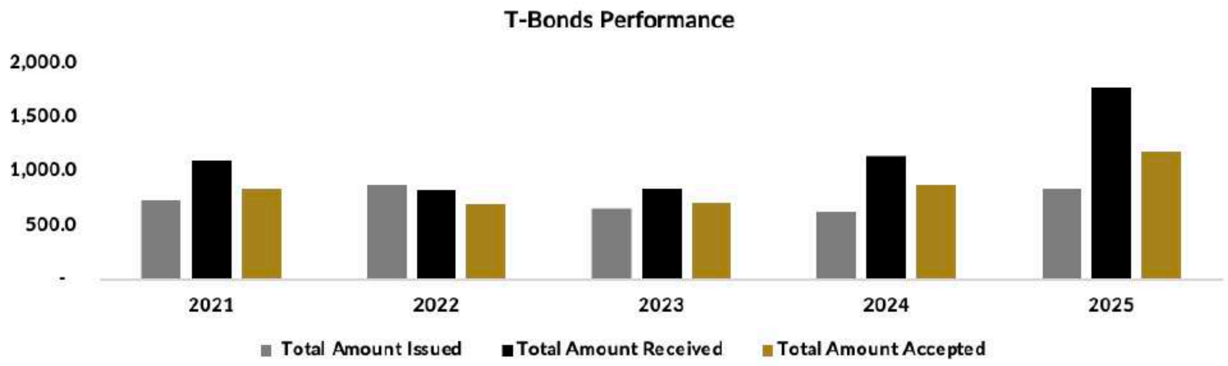
- Increase Installed capacity from 3,300MW to 10,000MW new capacity in the next 7 years

Irrigation

- Expand Modern Irrigation
- Rain Fed agriculture covers only 15% of Kenya
- 50 Mega dams (2.5m acres in 5-7 years)
- Net exporter of agriculture products (SEZ's, EPZ & CAIPs)

Fixed Income: Buybacks, Oversubscription surge & Diversified Financing Avenues

In terms of T-bonds, the CBK offered a total of c. KES 835.0bn in 2025, with c. KES 1,782.0bn received and c. KES 1,179.5bn accepted. As such, the auctions were generally oversubscribed, recording an average subscription rate of c.213.4% in 2025 (higher than c.182.0% in 2024). In particular, the February and August 2025 Infrastructure bond reopening auctions garnered significant interest from investors both locally and internationally (total bids worth KES 517.3bn vs KES 160.0bn sought), mainly driven by the tax-free status of the papers as well as attractive coupons. Additionally, the Government offered to buy back KES 80.0bn worth of bonds in the calendar year, having accepted bids worth KES 70.2bn. See a summary of Treasury bond primary auction trends below:



Source: Capital Markets Authority, Chart: SIB

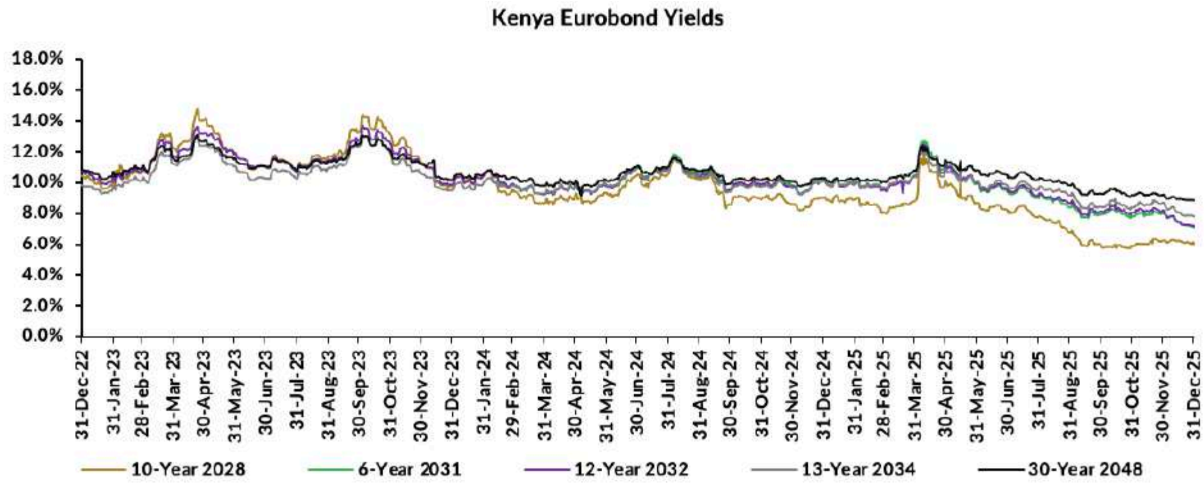
During the year, T-bills were oversubscribed, printing an overall subscription rate of c.135.6%, lower than c.153.0% in 2024, softened by stable inflation, improved liquidity, and lower interest rates that adjusted downwards following consecutive CBR rate cuts in 2025. Indeed, yields on the 91-day, 182-day, and 364-day papers tapered by c. 216.7bps, c. 222.2bps, and c.219.9bps to 7.728%, 7.800%, and 9.2109%, respectively, as at the end of 2025.

Looking at the country's sovereign debt, Kenya's Eurobond yields fell by an average of c. 254.0bps. In particular, the National Treasury undertook some issuances to help smoothen Kenya's external debt maturity profile. In February 2025, Kenya issued a USD 1.5bn Eurobond to prepay the USD 900m amortizing Eurobond maturing in 2027, with surplus to be used to refinance other external indebtedness. Later in the year, the government returned to the international market and issued a USD 1.5 billion dual-tranche Eurobond. This consisted of USD 750.0m in 7-year notes due in 2033 and USD 750.0m in 12-year notes due in 2038. The proceeds were primarily used to finance a tender offer and buyback of the USD 1.0bn Eurobond maturing in 2028. In response to the earlier bond buyback in 2024, reduced near-term liquidity risks, as well as improving economic conditions, several credit agencies upgraded Kenya's credit rating, as shown below:

Agency	Rating	Outlook	Date
Moody's	B3	Stable	27/01/2026
	Caa1	Positive	28/07/2025
	Caa1	Positive	24/01/2025
	Caa1	Negative	10/07/2024
	B3	Negative	28/07/2023
	B2	Negative	13/05/2021
Standard & Poor's (S&P)	B	Stable	22/08/2025
	B-	Stable	22/08/2024
Fitch	B-	Stable	23/01/2026
			25/02/2025
			25/07/2024

Source: National Treasury, Moody's website; Table: SIB

Find below a visual summary of Eurobond yield performance in the year:



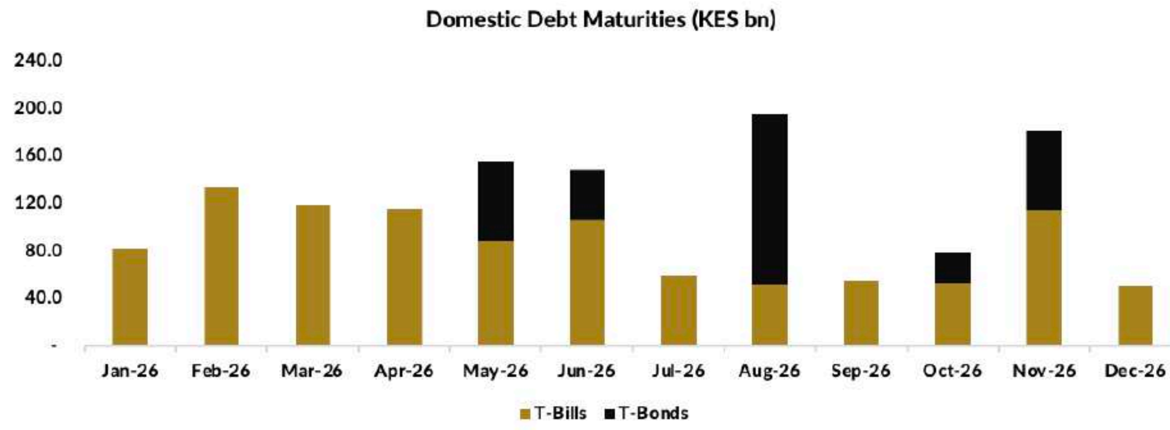
Source: National Treasury, Moody's website; Table: SIB

Outlook

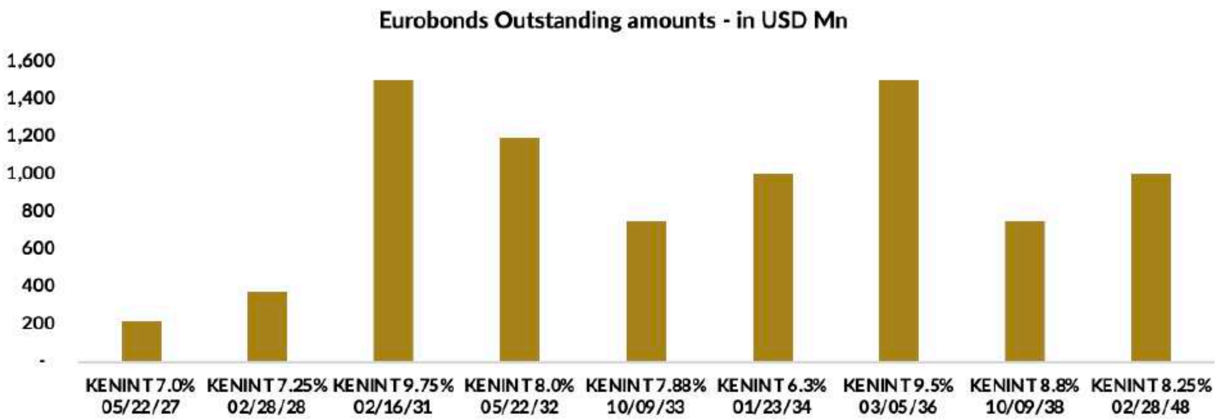
Looking ahead to 2026, the government has signalled plans to largely reopen long-term bonds ranging from 10 to 25 years, at least for the first half of the year. If this trend continues into FY26/27, these papers—offering moderate returns—are likely to maintain their dominance in the market in the year. As yields continue to decline—although at a slower rate—bond prices will keep rising. This trend may discourage new buyers and investors who purchased bonds at lower prices. These investors are likely to hold onto their bonds to benefit from their attractive, locked-in yields. Furthermore, the National Treasury has scheduled only one new issuance in the year (likely a 25-year paper) in April 2026.

Diving into the 2025 Annual Borrowing Plan, the National Treasury has pencilled several switch bond auctions (6); however, only 1 has been completed in FY25/26 as of January 2026. This strategy focuses on selecting the optimal mix of instruments to replace maturing bonds, thereby reducing maturity pressure and smoothing the redemption profile. In addition, the Government will leverage bond buybacks to help alleviate elevated financing costs. Lastly, the country's inaugural USD 170.0m Samurai Bond and USD 500.0m Sustainability Linked Bond are expected in the FY25/26 financial year, with the Kenyan government and the U.S. International Development Finance Corporation (US DFC) reportedly having inked a deal to swap USD 1.0bn of debt in exchange for food security investments in December 2025. The Director General of Public Debt announced that the swap is expected to be concluded by 30th June 2026, backed by a guarantee from the US DFC. This will enable Kenya to issue an instrument in the financial markets at a fairly good rate, with proceeds potentially being used to offset one of the outstanding Eurobonds/outstanding commercial loans. As such, the Government may leverage on issuances at lower costs to retire expensive outstanding debt instruments, further supported by recent favourable credit rating actions.

The next domestic treasury bond maturity is expected in May 2026, affording the Government some much-needed breathing space as it manages its debt servicing costs. In addition, the next Eurobond maturity is expected in 2027, with the next substantial maturity in 2031. Find below visual representations of the local and Eurobond redemption profile:



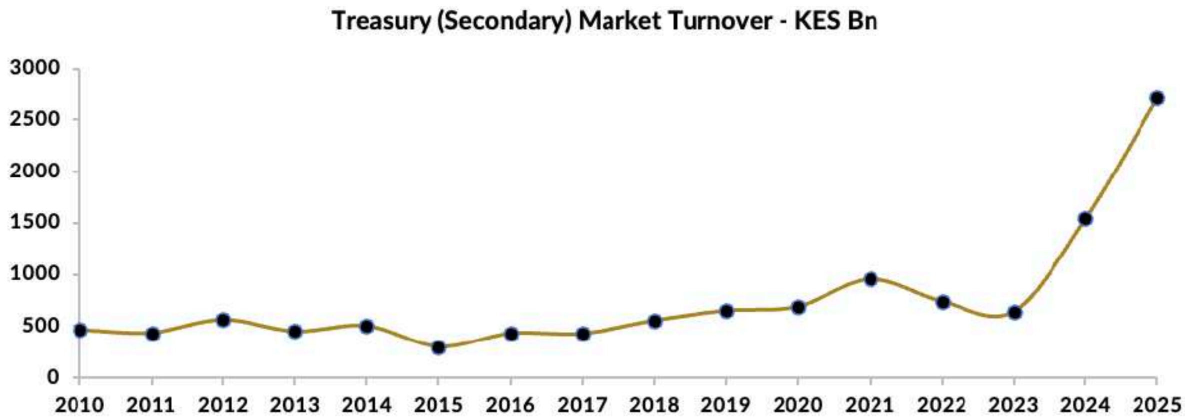
Source: National Treasury, Moody's website; Table: SIB



Source: Bloomberg, Chart: SIB

Fixed Income: Multi-Factor Rally Drives Record Secondary Market Activity

According to statistics from the Capital Market Authority (CMA), the value of treasury bonds traded on the Nairobi Securities Exchange (NSE) secondary market jumped to KES 2,710.11bn (+75.5% y/y) from KES 1,544.38bn the year prior. We believe that this rally was partially driven by several factors: ample liquidity; increased demand as investors sought to secure high yields following cuts to the Central Bank Rate (CBR); institutional portfolio rebalancing; stability and availability of foreign exchange currency; improved sovereign credit ratings; growth in collective investment schemes which normally have substantial holdings of government securities; and a growing interest from retail investors following the introduction of the Dhow CSD platform that has democratized access.



Source: Capital Markets Authority (CMA), Chart: SIB

Outlook

Looking ahead, we see the bond market performance shifting into a stabilization phase compared to the record-breaking performance exhibited in the last two years, amid ample liquidity and largely stable yields as the era of strong capital gains on government securities subsides. As interest rates continue to normalize, investors are expected to focus more on steady annual income compared to price rallies triggered by the aggressive CBR rate cuts last year.

Corporate Debt: Resurgence of Issuance as Coupons Fall

The corporate bond market experienced a resurgence in issuances in 2025, marked by the introduction of innovative securities. In particular, Linzi Finco LLP, a subsidiary company of Liaison Group, successfully listed Kenya's first infrastructure asset-backed bond. The Linzi 003 Infrastructure Asset-Backed Security, valued at KES 44.9bn, was listed on the NSE in July 2025.

Additionally, EABL announced an early redemption of its 2021 Medium Term Note programme in October 2025, and subsequently issued a new KES 20.0bn Medium Term Note Programme in November 2025. The first tranche of its medium-term note (MTN) program achieved a performance rate of 152.4%, with EABL receiving bids totalling KES 16.7bn against a target of KES 11.0bn. The issuer received approval to increase the total allotment for Tranche 1 to accommodate the oversubscription, remaining within the KES 20.0bn MTN limit previously approved by the Capital Markets Authority (CMA). The note's coupon rate is 11.80% per annum, lower compared to the 12.25% coupon rate of its previous issuance, as the brewer took advantage of improving market conditions.

In November 2025, Safaricom announced that it had received regulatory approval to establish a KES 40.0bn Medium Term Note programme, which would be issued under various tranches (taking the form of green notes, social notes, or sustainability-linked notes). Its preliminary issuance, a fixed-rate green note, received bids amounting to approximately KES 41.4bn, against the original target of KES 15.0bn in its first tranche, representing an overall subscription rate of 275.7%. The firm opted to exercise the full KES 5.0bn greenshoe option, bringing the total allocation to KES 20.0bn. The note will pay a coupon rate of 10.4% per annum, which is tax-exempt due to its nature as a green instrument. Below is a summary of the new issuances in 2025:

Issue Name	Issue Date	Maturity Date	Outstanding Amount - KES Mn	Fixed Coupon Rate (%)
East African Breweries Medium-Term Note	18-Nov-25	18-Nov-30	16,764.22	11.8%
Linzi 003 IABS Medium Term Note	08-Jul-25	08-Jul-40	44,791.00	15.0%
Safaricom PLC Medium Term Green Note	11-Dec-25	11-Dec-30	20,000.00	10.4%

Source: Nairobi Securities Exchange (NSE), Table: SIB

Outlook

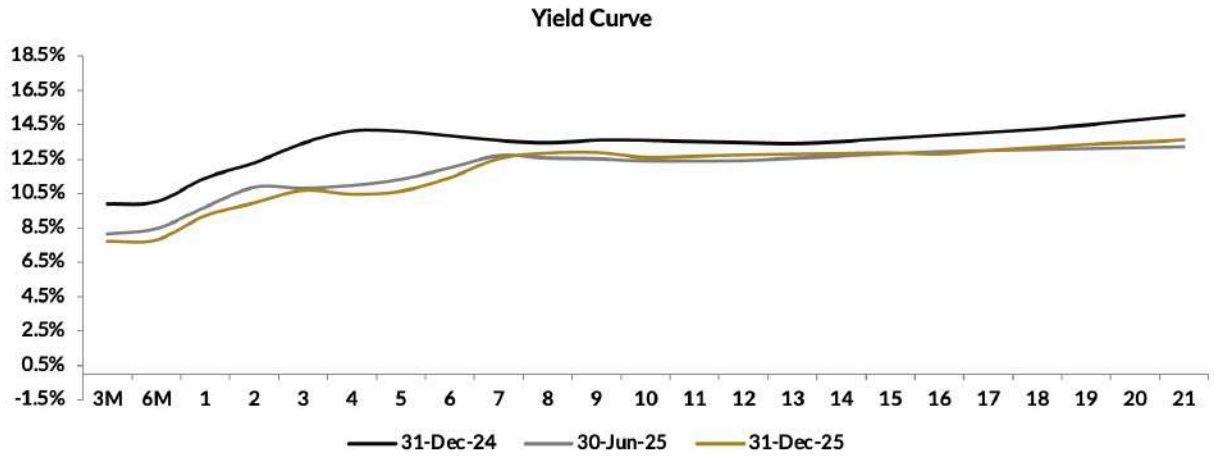
Given that Safaricom has utilized half of its Medium Term Note program allocation, we see potential for the telco to raise more funds in the corporate bond market in 2026/2027. Family Bank's 2021 Medium Term Note program is expected to mature in 17th December 2026 (outstanding amount of KES 3.8bn). Overall, with the precedent set by Safaricom and Linzi Finco, we portend that the market will take a keen interest in green issuances as firms seek to refinance traditional debt with cheaper, sustainability-linked capital, as well as the emergence of project-based corporate bonds. Indeed, EABL is reportedly integrating International Financial Reporting Standards (IFRS S1 and S2) into its reporting framework, laying the groundwork for a potential sustainability-linked facility in the near-term/long-term. Market turnover, however, remains tepid, partly due to a loss of investor confidence following past high-profile defaults, coupled with competition from high-yielding government debt that crowded out private issuers.

See the chart below:

Source: Capital Markets Authority (CMA), Chart: SIB

Fixed Income: Carry Returns to Dominate as Yield Compression Slows

The yield curve faced downward pressure in 2025 due to stable inflation, improved liquidity, increased demand for government securities despite longer duration, sustained CBR rate cuts, currency stability, and the government's debt management strategy, which aims to lengthen the maturity profile and lower debt service costs. In particular, the yield curve edged lower by an average of c.154bps in the year, with securities at the short end of the curve recording a significant downward shift. Find a visual summary below;



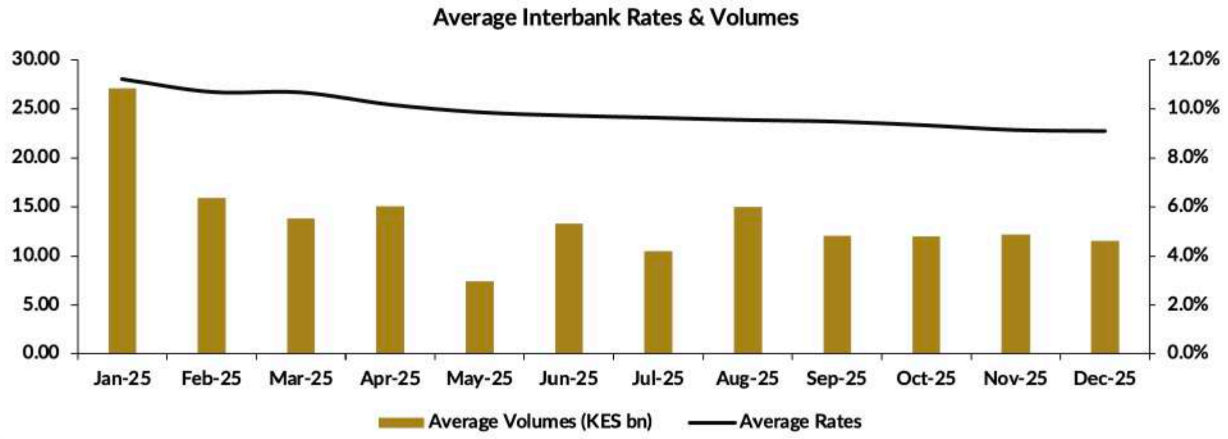
Source: Central Bank of Kenya (CBK), Chart: SIB

Outlook

We see a continued normalization of the yield curve as the government leverages the issuance (re-opening) of long-term securities. Notably, the shifts in the yield curve are expected to be relatively muted compared to last year. Key risks remain, with the possibility of upward pressure from a combination of domestic fiscal constraints (expansion in fiscal deficit – KES 1,106bn in FY26/27 vs KES 901bn in FY26/26, missed revenue targets, and potential capital flight as the 2027 pre-election cycle approaches) and external volatility (higher for longer rates in global central banks, geopolitical tensions that could affect supply chains and energy prices, thereby reigniting inflation).

Liquidity: Monetary Policy Easing Drives Improved Liquidity

In 2025, liquidity levels improved, as evidenced by the decline in the average interbank rate to an average of c.9.9% vs c.12.9% in 2024, with average transaction volumes at KES 13.9bn vs KES 26.7bn in 2024. This was partly attributable to the sustained CBR rate cuts, liquidity support from the Central Bank's activities in open market operations, as well as the reduction in the cash reserve ratio (CRR) to 3.25% from 4.25% in February 2025.



Source: Central Bank of Kenya (CBK), Chart: SIB

Outlook

We anticipate that liquidity in the money market will remain robust, driven by the Central Bank's open market operations.

SIB Standard Investment Bank

EQUITIES 2026 OUTLOOK

Focus on Fundamentals

"Never confuse genius with luck and a bull market"

John C. Bogle
Founder - Vanguard Group

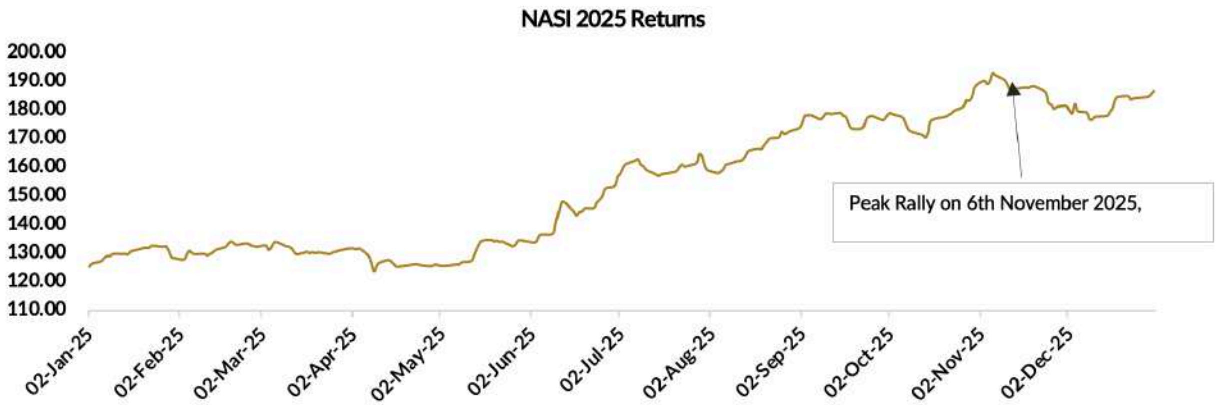
Equities

Recap of 2025: Investors rode the bull and charted the bonanza

'The rising tide lifts all the boats.' — John F. Kennedy

The Nairobi Securities Exchange's 2025 market performance aligned with our expectations of a strong bull run. The broad market recorded a 51.1% y/y gain, with the NASI closing at 186.58 points, having touched a high of 192.89 points on 6th November 2025 – the highest levels since 11th August 2018.

From a technical analysis vantage point, we believe the peak rally, which was in 4Q2025, signaled a high level of investor optimism on equities throughout the year (see chart below), which, on adjustments to calendar effects and end-of-year rebalancing initiatives, signals that the rally might spill over to 2026, all factors held constant.



Source: NSE, SIB Estimates

As we anticipated in our 2025 Outlook, small-cap stocks benefited the most from the rally, outperforming large-caps in the year on the back of local participation. Uchumi led the pack of best performers on a 505.9% y/y gain. That said, our worry of a potential disruption by the Trump 2.0 policies on select blue-chips did not materialize, however, as we opined, foreign flows were skewed to outflows – albeit on profit-taking initiatives. Foreign participation in the year dropped to 37.4% from 42.8% in 2024.

2025 Top Charts

Top gainers (2025)

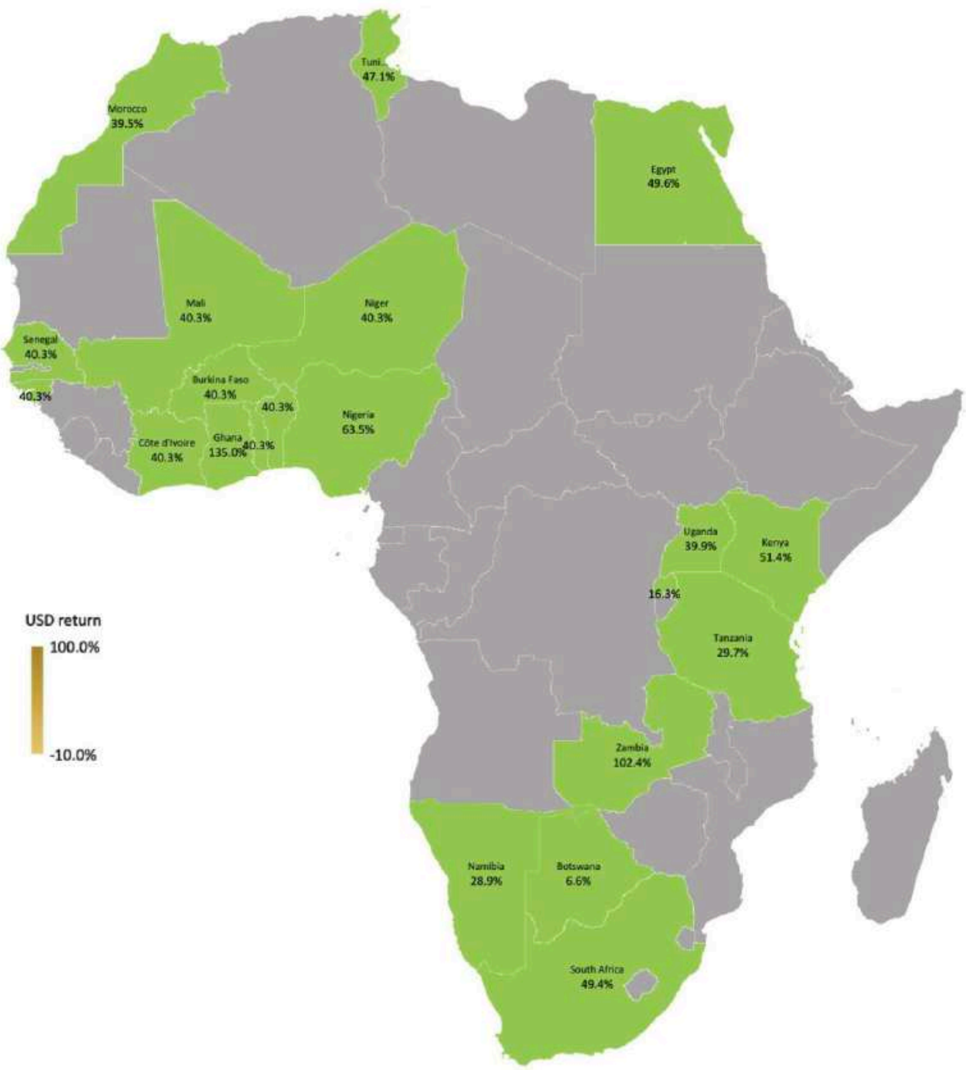
Company	Price	% Y/Y
Uchumi Supermarket	1.03	**505.90%**
Sameer Africa	14.25	**486.40%**
Home Afrika	1.34	**262.20%**
Nairobi Securities Exchange	20.25	**237.50%**
Olympia Capital Holdings	8.22	**193.60%**
Trans-Century	1.12	**187.20%**
Kenya Power	13.6	**182.70%**
KenGen	9.18	**152.20%**
E.A. Portland Cement	73.5	**140.20%**
Kenya Re-Insurance	3.01	**135.20%**

Top losers (2025)

Company	Price	% Y/Y
Umeme	7.82	**-53.30%**
Williamson Tea Kenya	149.5	**-34.00%**
NBV	1.47	**-26.90%**
Nation Media Group	11.55	**-19.80%**
Kenya Airways	3.53	**-7.80%**
Bamburi Cement	54	**-1.80%**
Kapchorua Tea	231.5	**-1.50%**
TPS Serena	14.7	**-1.30%**
Deacons	0.45	**0.00%**

Source: NSE, SIB Estimates

Select 2025 African Countries' Benchmark Index Dollar Capital Returns



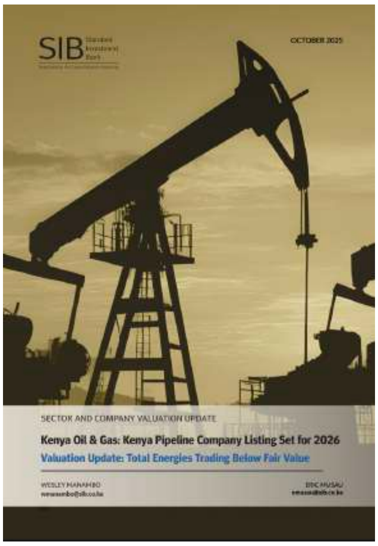
Source: Bloomberg

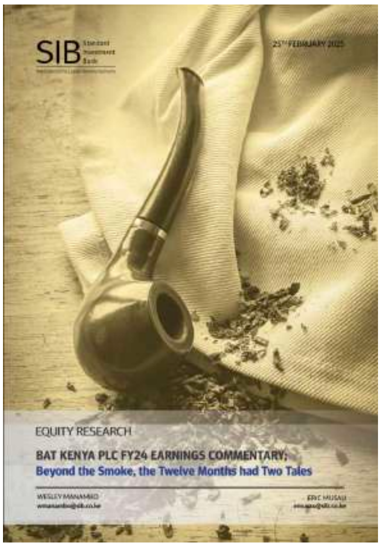
Recap of 2025: Investors rode the bull and charted the bonanza

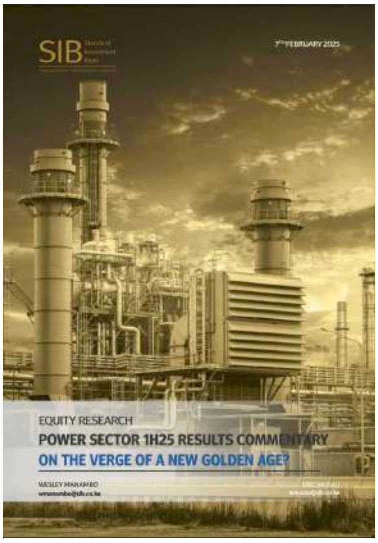
- Bamburi squeeze-out notice was issued in 1Q25, just as we highlighted in our outlook report.
- As assessed in our EABL results commentary reports published in the year, Diageo is exiting EABL.
- Umeme paid a bulk of the buyout proceeds from the Ugandan government to shareholders via a special dividend – in line with our house view.
- As opined in our Safaricom FY26 valuation update report, the government of Kenya opted for an off-market transaction in offloading part of its holdings in Safaricom.
- As outlined in our StanChart 1H25 earnings note, litigation relating to the case remained a key overhang as the bank was yet to provide provisions in the event of an adverse ruling. As such, StanChart incurred a one-off cost of KES 2.7bn in 3Q25.
- British American Tobacco Kenya's Velo (its oral nicotine pouch) sales resumed in 2025.
- In our consilient viewpoint segment in the Safaricom FY26 Valuation Update report, we highlighted (and detailed) our case for Telcos to partner with satellite operators. Vodacom is partnering with Starlink in Africa – turning what would have been a fierce rivalry into a mutually beneficial partnership, in line with our house view.

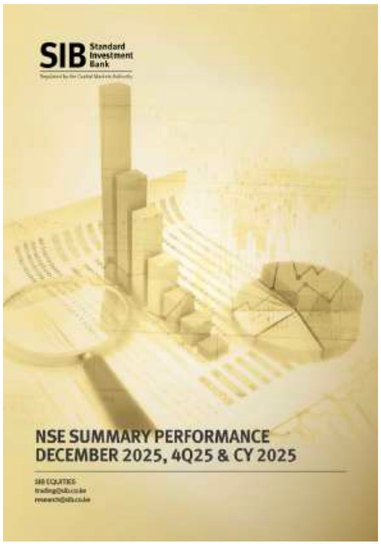
Our 2025 reports at a glance

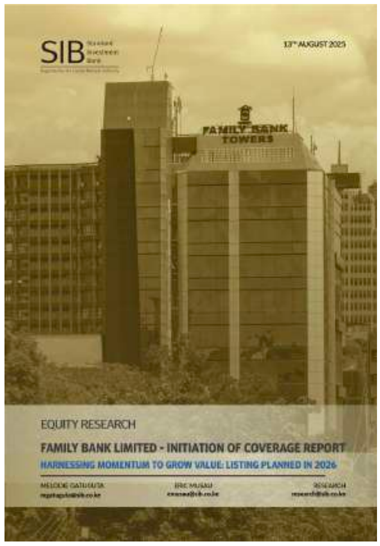
Throughout the year, we brought you up to speed and kept you updated on earnings and market movements via our landmark publications – a few of which are linked below.

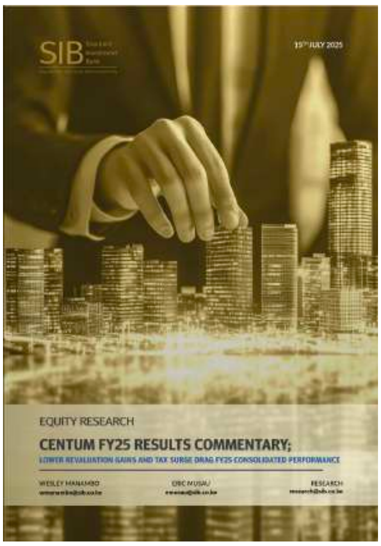












Events Digest: Corporate Actions That Shaped 2025

In case you missed it...

During the year;

- The CBK announced on 16th April 2025 that it has lifted the moratorium on licensing new commercial banks effective 1st July 2025, ending a freeze that began on 17th November 2015.
- I&M Group announced the completion of the subscription of 86.5m new ordinary shares by East Africa Growth Holding (EAGH) following shareholder approval at the General Meeting on December 10, 2024. EAGH subscribed to and was allotted all 86.5m shares, which were admitted for listing on the Nairobi Securities Exchange according to the notice dated 15th May 2025.
- Shri Krishana Overseas PLC (SKL) was listed by introduction on 24th July 2025, with 50.5m Ordinary Shares offered at KES 5.90 per share with a par value of KES 0.20 each on the Small and Medium Enterprise (SME) Market Segment of the Nairobi Securities Exchange (the NSE).
- NSE Plc issued a Public Announcement informing all investors and the public that, effective August 8, 2025, shares will be traded on the NSE in multiples of one (1) unit. This change followed the approval of amendments to the NSE Equity Trading Rules, which now allow the buying and selling of shares in single units.
- The CMA published a notice of intention by Kalahari Cement Limited to acquire shares in East African Portland Cement (EAPCC) from Associated International Cement Limited[1] and Cementia Holding AG[2] on August 1, 2025. The offeror entered into a Share Purchase Agreement according to which each of the sellers has accepted the offer and agreed to sell the shares at KES 27.30 per share. On 26th November, 2025, another notice was given of the intention of Kalahari Cement to acquire shares in EAPCC from the National Social Security Fund[3] for a consideration of KES 66.00 per share. Kalahari is in effect the majority shareholder of EAPCC with a stake of c. 68.7%.
- The Central Bank of Kenya announced the issuance of a revised risk-based credit pricing model (RBCPM), which is anchored on the overnight interbank average rate (renamed the Kenya Shilling Overnight Interbank Average; KESONIA). The overnight interbank average rate (KESONIA) closely aligns with the policy rate (Central Bank Rate) under the current monetary policy implementation framework.
- Jubilee Holdings announced the sale of shares in its general insurance business to Sanlam Allianz Proprietary Ltd. The Group's Board announced that the company entered into an agreement with Sanlam Allianz Proprietary LTD (SAZ) for the sale of all its shares in Jubilee Allianz General Insurance (K) LTD, Jubilee Allianz General Insurance Company Limited – in Uganda, Jubilee Insurance Company of Burundi S.A, Jubilee Allianz Insurance Company of Tanzania and Jubilee Allianz General Insurance (Mauritius) Ltd, pursuant to the Jubilee Put Option rights granted to Jubilee by SAZ under their current commercial arrangements.
- On 9th September 2025, StanChart noted that it had taken judicial notice of the Supreme Court's ruling dated 5 September 2025 in relation to the Retirement Benefits Authority Tribunal judgement on the Pensions Case. As such, the lender has initiated a structured process to execute the judgment in accordance with the legal requirements and is committed to maintaining open communication with affected pensioners. Furthermore, it pointed out that it is adequately capitalised to meet the anticipated obligations.
- On 23rd September 2025, Diamond Trust Bank's Board announced that it had approved the sale of DTB Kenya's entire shareholding in DTB Burundi (83.67%) to a consortium of investors primarily based in Burundi, including the existing minority shareholder. In this regard, DTB Kenya entered into a conditional share purchase agreement with the said consortium dated 20th September 2025. The completion of the proposed transaction is subject to standard conditions and approvals from relevant authorities. We estimate the NAV impact per share to be c. KES 4.28.

[1] 13.1 million ordinary shares – c. 14.6% of total shares held
[2] 13.2 million ordinary shares – c. 14.6% of total shares held
[3] 24.3 million ordinary shares – c. 27% of total shares held

- The Boards of Williamson Tea Kenya PLC and Kapchorua Tea Kenya PLC announced to the shareholders of both companies that they have received approval from the Capital Markets Authority (CMA) to issue bonus shares at a ratio of one bonus share for each existing share held. The offer had a book closure date of 13th October 2025. The registers for both companies closed from 14th October 2025 to 17th October 2025, both days inclusive, to facilitate the issuance of the bonus shares.
- Family Bank Limited give a notice for an EGM on Monday, 27th October 2025, at 9:00 a.m, with a special business of passing resolution with regards to listing by way of introduction of all its issued ordinary shares on the Official List of the Nairobi Securities Exchange ("NSE") and to facilitate the admission of its shares to trading on the Main Investment Market Segment (or other relevant segment) of the NSE.
- The Nairobi Securities Exchange Plc (NSE) launched its Banking Sector Index, a market capitalization-weighted and float-adjusted benchmark of the banking sector. The index will track the performance of freely tradable shares of all listed banking institutions.
- EABL issued a notice on 13th October 2025 to all the holders of its outstanding Kenya Shillings 11.0BN Medium Term Notes issued pursuant to its MTN Programme of its intention to exercise its right of early redemption. The early redemption was effected on 29 October 2025. The company later issued an MTN Programme of up to KES 20bn, with its first tranche seeking KES 11bn. The note, with a coupon rate of 11.80% p.a, had a subscription rate of 152.4%.
- Safaricom issued an MTN Programme of up to KES 40 billion, receiving applications for notes amounting to approximately KES 41.4 billion, against the original target of KES 15 billion in its first tranche, which represents an overall subscription rate of 275.7%. The medium-term note has an issue date of 11 December 2025 with a maturity date of 11 December 2030.
- KCB Group published a public announcement informing shareholders that it has agreed to acquire a minority stake in Pesapal Limited, a licensed payment service provider, on 31st October 2025. The Group's Board notes that the strategic investment aims to foster innovative payment solutions for Kenya's small and micro enterprises, creating value for shareholders. The deal is contingent on standard conditions, including regulatory approval from the Central Bank of Kenya.
- The Satrix MSCI World Feeder (known as "Satrix MSCI World") Exchange Traded Fund (ETF) was listed on the NSE on 16th July 2025. The ETF tracks the performance of the MSCI World Index, offering investors access to a broad range of companies from developed markets. The index holds 25% Info Tech stocks, 17% Financials, 10% Health Care, 11% in Industrials, and the rest in other sectors.
- On 4th December 2025, the shareholders of Safaricom were advised via a public announcement that on 03 December 2025, Safaricom was served with a notice of intention by Vodafone Kenya Limited not to make a mandatory takeover offer to the shareholders of Safaricom PLC. This followed Vodafone Kenya Limited's notice of its intention to acquire an additional 6,009,814,200 ordinary shares in Safaricom from the Government of Kenya (GOK), representing a 15% stake in Safaricom.
- The board of EABL on 16th December 2025 received notification from its parent company Diageo Plc of the imminent agreement to sell, subject to the satisfaction of certain regulatory conditions, its entire interest in Diageo Kenya Limited (its wholly-owned subsidiary which holds 65% shareholding in EABL) and in UDV (Kenya) Limited (where it holds 53.68% shareholding via its wholly-owned subsidiary Diageo Great Britain Limited) to Asahi Group Holdings, Ltd.

Profit Warnings issued in 2025

"There's never one cockroach." — Warren Buffett

Source: NSE

10th Jan 2025 – Limuru Tea issued a profit warning for the financial year ended 31st December 2024. This was anchored on high operational costs driven by rising labor costs and adverse market conditions.

20th May 2025 – Kapchorua Tea and Williamson Tea issued profit warnings for the financial year ended 31st March 2025. This was on the back of depressed market prices driven by increased supply of tea against demand, coupled with currency play.

28th Jun 2025 – Centum issued profit warnings for the financial year ended 31st March 2025. The anticipated decline was attributable to lower fair value gains on investment property recorded in the year relative to the previous year.

15th Sep 2025 – Umeme issued a profit warning for the financial year ended 31st December 2025. This is mainly because the company ceased to generate revenue following the natural end of the concession.

16th Sep 2025 – StanChart issued a profit warning for the financial year ended 31st December 2025. This was primarily due to the Judgment of the Retirement Benefits Appeals Tribunal Appeal No. 8 of 2021 and the directions in respect of the computations to be paid out to the Appellants issued by the Retirement Benefits Appeals Tribunal on 22 May 2025.

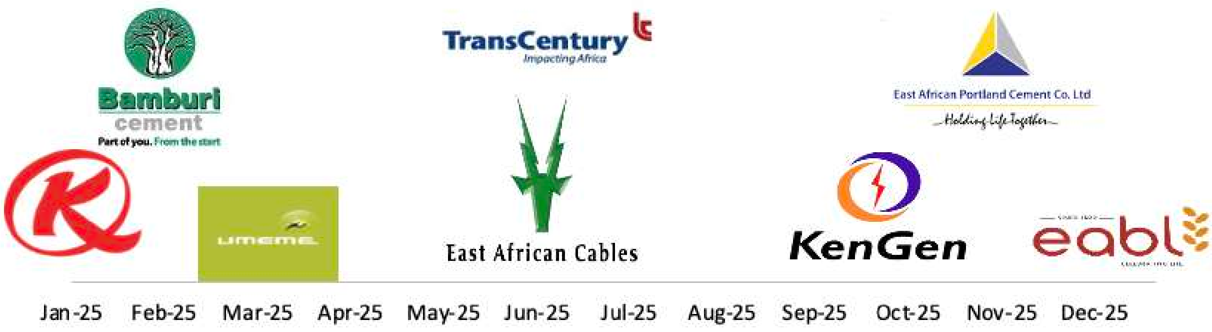
26th Nov 2025 – TPS Eastern Africa PLC issued a profit warning for the financial year ended 31st December 2025. This was on account of significant unrealized foreign exchange gains recognized in 2024 on revaluation of foreign currency-denominated loans and lease liabilities, which is not expected to recur in the current year.

28th Nov 2025 – Kenya Airways issued a profit warning for the financial year ended 31st December 2025. This was on the back of grounding of three Boeing 787-8 Dreamliners (33% of its wide body fleet) on challenges in securing spare parts, which has resulted in a drop in passengers' numbers.

19th Dec 2025 – WPP Scangroup issued a profit warning for the financial year ended 31st December 2025. The lower-than-expected earnings in 2025 are due to several reasons, including a decline in revenue attributed to reductions in client spending, the loss of a material client, and lower interest income.

Trading halts and suspensions in 2025

"Bet you didn't see that coming?" – Manny, Ice Age: Dawn of the Dinosaurs



Source: NSE

5th Jan 2025 – Lifting of the suspension in the trading of Kenya Airways Plc. The lifting of the suspension was approved by the Capital Markets Authority pursuant to section 11(3)(w) and Section 22A of the Capital Markets Act (Chapter 485A).

28th Feb 2025 – Bamburi Cement shares were suspended from 28th February 2025 to 9th May 2025. The suspension was to facilitate the anticipated squeeze-out of remaining shareholders in compliance with regulatory requirements. The suspension was later extended and shall remain in force until such time as the Authority issues further directions.

31st Mar 2025 – Umeme shares were suspended from trading until 11th April 2025.

14th Apr 2025 – Extension of suspension of Umeme shares from trading until 12th May 2025.

14th May 2025 – Suspension of Umeme extended until the publishing of financial statements on the 31st May, 2025.

20th Jun 2025 – Suspension of TransCentury PLC and East African Cables PLC shares following the placement of TransCentury PLC under receivership and East African Cables PLC under administration and the appointment of Messrs. George Weru and Muniu Thoithi of PricewaterhouseCoopers Limited as joint receivers and managers effective June 20, 2025. The suspension from trading the company's shares remained in force indefinitely, with effect from June 23, 2025.

23rd Oct 2025 – KenGen shares were halted from trading following the circulation of unverified market information regarding its audited financial results for the year ending June 30, 2025.

26th Nov 2025 – East African Portland Cement shares were halted from trading following the circulation of unverified market information regarding a potential share transfer. Trading was reinstated on 27th Nov 2025.

17th Dec 2025 – East African Breweries shares were halted from trading for the remainder of the day. The halt followed the release of a cautionary announcement by the issuer during trading hours, coupled with prior circulation of market-sensitive information.

The Callan Periodic Table of Investment Returns[4]

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Real Estate 42.12%	Emerging Market Equity 39.38%	U.S. Fixed Income 5.24%	Emerging Market Equity 78.51%	Small Cap Equity 26.85%	U.S. Fixed Income 7.84%	Real Estate 27.73%	Small Cap Equity 38.82%	Real Estate 15.02%	Large Cap Equity 1.38%	Small Cap Equity 21.31%	Emerging Market Equity 37.28%	Cash Equivalent 1.87%	Large Cap Equity 31.49%	Small Cap Equity 19.96%	Large Cap Equity 28.71%	Cash Equivalent 1.46%	Large Cap Equity 26.29%	Large Cap Equity 25.02%	Emerging Market Equity 33.57%
Emerging Market Equity 32.17%	Developed ex-U.S. Equity 12.44%	Global ex-U.S. Fixed 4.39%	High Yield 58.21%	Real Estate 19.63%	High Yield 4.98%	Emerging Market Equity 18.23%	Large Cap Equity 32.39%	Large Cap Equity 13.69%	U.S. Fixed Income 0.55%	High Yield 17.13%	Developed ex-U.S. Equity 24.21%	U.S. Fixed Income 0.01%	Small Cap Equity 25.52%	Large Cap Equity 18.40%	Real Estate 26.09%	High Yield -11.19%	Developed ex-U.S. Equity 17.94%	Small Cap Equity 11.54%	Developed ex-U.S. Equity 31.85%
Developed ex-U.S. Equity 25.71%	Global ex-U.S. Fixed 11.03%	Cash Equivalent 2.06%	Real Estate 37.13%	Emerging Market Equity 18.88%	Global ex-U.S. Fixed 4.36%	Developed ex-U.S. Equity 16.41%	Developed ex-U.S. Equity 21.02%	U.S. Fixed Income 5.97%	Cash Equivalent 0.05%	Large Cap Equity 11.96%	Large Cap Equity 21.83%	High Yield -2.08%	Developed ex-U.S. Equity 22.49%	Emerging Market Equity 18.31%	Small Cap Equity 14.82%	U.S. Fixed Income -13.01%	Small Cap Equity 16.93%	High Yield 8.19%	Large Cap Equity 17.88%
Small Cap Equity 18.37%	U.S. Fixed Income 6.97%	High Yield -26.16%	Developed ex-U.S. Equity 33.67%	High Yield 15.12%	Large Cap Equity 2.11%	Small Cap Equity 16.35%	High Yield 7.44%	Small Cap Equity 4.89%	Real Estate -0.79%	Emerging Market Equity 11.19%	Small Cap Equity 14.65%	Global ex-U.S. Fixed -2.15%	Real Estate 21.91%	Global ex-U.S. Fixed 10.11%	Developed ex-U.S. Equity 12.62%	Developed ex-U.S. Equity -14.29%	High Yield 13.44%	Emerging Market Equity 7.50%	Small Cap Equity 12.81%
Large Cap Equity 15.79%	Large Cap Equity 5.49%	Small Cap Equity -33.79%	Small Cap Equity 27.17%	Large Cap Equity 15.06%	Cash Equivalent 0.10%	Large Cap Equity 16.00%	Real Estate 3.67%	High Yield 2.45%	Developed ex-U.S. Equity -3.04%	Real Estate 4.06%	Global ex-U.S. Fixed 10.51%	Large Cap Equity -4.38%	Emerging Market Equity 18.44%	Developed ex-U.S. Equity 7.59%	High Yield 5.28%	Large Cap Equity -18.11%	Emerging Market Equity 9.83%	Cash Equivalent 5.25%	Real Estate 9.58%
High Yield 11.85%	Cash Equivalent 5.00%	Large Cap Equity -37.00%	Large Cap Equity 26.47%	Developed ex-U.S. Equity 8.95%	Small Cap Equity -4.18%	High Yield 15.81%	Cash Equivalent 0.07%	Cash Equivalent 0.03%	Small Cap Equity -4.41%	Developed ex-U.S. Equity 2.75%	Real Estate 10.36%	Real Estate -5.63%	High Yield 14.32%	U.S. Fixed Income 7.51%	Cash Equivalent 0.05%	Global ex-U.S. Fixed -18.70%	Real Estate 9.67%	Developed ex-U.S. Equity 4.70%	Global ex-U.S. Fixed 8.85%
Global ex-U.S. Fixed 8.16%	High Yield 1.87%	Developed ex-U.S. Equity -43.56%	Global ex-U.S. Fixed 7.53%	U.S. Fixed Income 6.54%	Real Estate -6.46%	U.S. Fixed Income 4.21%	U.S. Fixed Income -2.02%	Emerging Market Equity -2.19%	High Yield -4.47%	U.S. Fixed Income 2.65%	High Yield 7.50%	Small Cap Equity -11.01%	U.S. Fixed Income 8.72%	High Yield 7.11%	U.S. Fixed Income -1.54%	Emerging Market Equity -20.09%	Global ex-U.S. Fixed 5.72%	U.S. Fixed Income 1.25%	High Yield 8.62%
Cash Equivalent 4.85%	Small Cap Equity -1.57%	Real Estate -48.21%	U.S. Fixed Income 5.93%	Global ex-U.S. Fixed 4.95%	Developed ex-U.S. Equity -12.21%	Global ex-U.S. Fixed 4.09%	Emerging Market Equity -2.60%	Global ex-U.S. Fixed -3.09%	Global ex-U.S. Fixed -6.02%	Global ex-U.S. Fixed 1.49%	U.S. Fixed Income 3.54%	Developed ex-U.S. Equity -14.09%	Global ex-U.S. Fixed 5.09%	Cash Equivalent 0.67%	Emerging Market Equity -2.54%	Small Cap Equity -20.44%	U.S. Fixed Income 5.53%	Real Estate 0.94%	U.S. Fixed Income 7.30%
U.S. Fixed Income 4.33%	Real Estate -7.39%	Emerging Market Equity -53.33%	Cash Equivalent 0.21%	Cash Equivalent 0.13%	Emerging Market Equity -18.42%	Cash Equivalent 0.11%	Global ex-U.S. Fixed -3.08%	Developed ex-U.S. Equity -4.32%	Emerging Market Equity -14.92%	Cash Equivalent 0.33%	Cash Equivalent 0.86%	Emerging Market Equity -14.57%	Cash Equivalent 2.28%	Real Estate -9.04%	Global ex-U.S. Fixed -7.05%	Real Estate -25.10%	Cash Equivalent 5.01%	Global ex-U.S. Fixed -4.22%	Cash Equivalent 4.18%

Source: The Callan Periodic Table of Investment Returns - 2025

[4] Callan's Periodic Table of Investment Returns depicts annual returns for 8 asset classes and cash equivalents, ranked from best to worst performance for each calendar year over the past 20 years. The asset classes are color-coded to enable easy tracking over time.

Key to note; Large Cap Equity (S&P 500), Small Cap Equity (Russell 2000), Developed ex-U.S. Equity (MSCI World ex USA), Emerging Market Equity *(MSCI Emerging Markets), U.S. Fixed Income (Bloomberg US Aggregate Bond Index), High Yield (Bloomberg High Yield Bond Index), Global ex-U.S. Fixed Income (Bloomberg Global Aggregate ex US Bond Index), Real Estate (FTSE EPRA Nareit Developed REIT Index), Cash Equivalent (90-day T-bill).*

2026 Outlook: Focus on Fundamentals

"Never confuse genius with luck and a bull market" - John C. Bogle, founder of Vanguard Group

Looking ahead, we are of the view that investors will maintain a bullish outlook and show greater appetite for risk as they chase alphas[5] – which should favor equities in general, with small caps positioned to benefit the most[6]. Further, expectations of new listings[7] in 2026 add to the case for a rally[8]. We believe the inclusion of strong companies (via listing) in key market indices will likely be a tailwind for overall performance, thus select benchmark indices[9] are positioned to touch all-time highs in the year.

Prevailing risk

The mounting global tensions and polarization, marked by ongoing major-power rivalries, military escalations, and proxy conflicts across multiple regions, remain a concern. In our view, further escalation may adversely affect foreign flows as investors (with exposure to major asset classes) shift portfolio flows to safe-haven global equities, precious metals, and commodities – which may result in frontier market equities seeing heightened outflow pressures, that may in turn affect price discovery.

Markedly, we take comfort in the increased local participation in Kenya, which, on the base case of no further escalations, should reasonably offset foreign selling pressures – all factors held constant.

The Tailwind

From a fundamental viewpoint, the expectation of a stable currency[10] in the year, coupled with the low-interest-rate regime[11] should uplift the operational dynamics of most companies, with access to cheaper debt facilities accelerating prospects of strategic expansion and growth, ramping up of production, and balance sheet optimization – which should boost dividends outlook and future earnings, a plus from a valuation vantage point.

Further, as inflation oscillates about the Central Bank's target, we opine that this will provide a predictable path for corporate earnings growth.

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[5] Alphas are the excess returns needed to outperform the benchmark index after adjusting for risk.

[6] Our rationale, the risk-return trade-off: Small Caps often face a challenge with regards to research coverage, information dissemination, and capital attention *(that is mostly skewed towards the large caps, i.e. in 2025 Banking and Telco sectors in Kenya accounted for c. 81.5% of the year's turnover)* – implying markets (through its demand and supply mechanisms) tend to lag in pricing earnings, growth prospects, valuations, strategy, and outlook.

Thus, as large caps continue to trade close to their fair value estimates, investors (mostly retail), in their pursuit of alpha returns, are likely to increasingly look into small caps that may have pockets of discounts, in effect driving demand and broadening the bull market.

[7] Kenya Pipeline Company expected to list via an IPO in 1Q26,
Family Bank Limited listing via introduction is anticipated in the year.

[8] Our Rationale: successful listings can increase overall market confidence and attract more capital – in effect contributing to a rally.

[9] NASI, N10, NSE 20, and NSE 25

[10] Supported by record-high foreign exchange reserves, sustained diaspora remittance inflows, and low, manageable external debt servicing obligations.

[11] The Central Bank of Kenya's base lending rate, the Central Bank Rate, was lowered by 225bps in 2025 to close the year at 9% - the lowest since February 2023.

Emerging Opportunities

The privatization wave of select parastatals by the government of Kenya, via the NSE, is set to give investors exposure to niche assets on listing and deepen the visibility of select sectors. In 2026, investors should be keen on the Kenya Pipeline IPO[12]. Depending on the company's valuation vis-à-vis the offer price, there might be an investment case. We will, however, advise at the opportune time, as we are looking into the proposition.

Expected listings from the private sector, most notably Family Bank Limited listing by introduction. The Group's plan to list on the Nairobi Securities Exchange in 2026 aims to unlock share liquidity (having traded in the OTC market since 2006) and potentially raise new capital, considering the robust growth (+31.4 % y/y CAGR from FY20 to FY24). We initiated coverage on the lender in August 2025 with a fair value estimate of KES 16.54[13].

A New Frontier?

Initiatives aimed at boosting retail democratization will likely lift investor activity in the year[14] and see a new crop of investors coming into the market. The Ziidi Trader[15] catalyzed by the amendments to the NSE Equity Trading Rules, which now allow the buying and selling of shares in single units, is set to lift turnover levels[16].

[12] The IPO is poised to be the second-largest equity issuance in Kenya following Safaricom's listing in 2008, when the government sold a 25% stake in the telecommunications firm to the public for USD 800m. Just like Safaricom, controversy has continued to mar the listing with debates by the opposition in parliament, leading to the issuance of conditions for the listing. Court orders for the privatization were lifted in September 2025, but there is no guarantee that other suits will not emerge.

KPC core facilities include over 1,300km of pipeline network and at least 800,000 cubic metres of storage across various depots. It also holds 370 acres of prime industrial land (from the defunct KPRL), which would be critical for the proposed Liquified Petroleum (LPG) Refinery storage facility.

Our back-of-the-envelope calculations in October 2025, which looked at the book value of similar businesses in the broader oil and gas sector, placed the fair value estimate of the businesses at c. KES 102Bn (c. KES 5.64). We opined that its value eventually lies in the eyes of the beholder, noting that the business's cash position and our understanding of intrinsic valuation may see the business valued higher based on its ability to generate cash, quite similar to what we saw with TotalEnergies… be on the lookout for our IPO compendium on the company.

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Family Bank Sensitivity Analysis

	1.1x	1.2x	1.3x	1.4x	1.5x
20.1%	14.35	15.34	16.34	17.33	18.33
19.6%	14.41	15.42	16.44	17.45	18.47
19.1%	14.47	15.51	16.54	17.57	18.61
18.6%	14.54	15.59	16.64	17.70	18.75
18.1%	14.61	15.68	16.75	17.82	18.89

Source; SIB Estimates (row, Terminal P/B, Column, WACC

[14] Thus, improved market depth and overall turnover.

[15] A mini app within the ubiquitous M-Pesa App aims at allowing Kenyans, within the Safaricom M-Pesa ecosystem, to directly purchase shares from their devices. This, in our view, may boost retail participation.

[16] The combined muscle of retail investors cannot be overlooked.

Banking Sector: M&A and Asset Quality – The Pivotal Drivers for 2026

For the banking industry, 2025 could be described as a bridge year for lenders as the industry contended with the lagging effects of the 2023/2024 monetary tightening cycle (in particular, elevated borrowing costs that damped credit demand) and the impact of gradual monetary easing in 2025. Drilling into the numbers, industry-wide profits after tax reached KES 227.9 billion, up 11.8% y/y. This growth was largely driven by increased interest income (partly driven by investments in government securities) and reduced interest expenses as deposit costs declined. However, non-funded income came under pressure due to lower margins, despite a stable shilling. Asset quality has become a significant concern, reaching a record high of 17.6% during the first half of the year. Credit stress has primarily affected the trade, manufacturing, real estate, and personal lending sectors. This situation reflects the impact of high interest rates from earlier in the cycle, large outstanding public-sector arrears, tempered income growth, and weak demand conditions in certain areas. There has been a modest improvement in 2H25, however, with the industry NPL ratio easing to 16.9% as of November 2025 (16.4% in Dec 25), as the Government began settling pending bills to contractors, increasing investment towards affordable housing projects, as well as the gradual pickup of loans as interest rates followed consecutive CBK rate cuts. Furthermore, the industry witnessed a raft of activities, as outlined in **Appendix 1**.

Amongst the banks in our coverage, Equity Group (+32.7% y/y), I&M Group (+28.7% y/y), Absa (+14.8% y/y), DTB (+14.8% y/y), and Co-op Bank (+12.5% y/y) recorded double-digit growth in earnings for the year up to 3Q25. Their performance was partly buoyed by diversified revenue lines (insurance, bancassurance, wealth management, etc.), contained costs, and an increase in net interest income as they leveraged interest from government securities and lower deposit costs. On the other hand, StanChart and Stanbic struggled in 2025, with their earnings down 38.2% y/y and 7.5% y/y, respectively, as of 3Q25, as non-interest revenue took a hit. Moreover, StanChart incurred a one-time expense of KES 2.7bn in 3Q25 related to a longstanding pension case. Consequently, the lender issued a profit warning in September that its FY25 earnings would potentially be 25% lower than in FY24. As such, we portend that the listed banks in our coverage will report mixed results for FY25, with announcements expected in March 2026. Dividends are, however, expected to remain attractive in FY25, supported by strong capital buffers, growing profitability, and likely support from reserves - Co-op Bank announced a surprise interim dividend of KES 1.50, Stanbic interim dividend up 106.5%y/y to KES 3.80 on the back of strong capital reserves despite lower earnings, KCB special dividend following the sale of NBK, and StanChart interim dividend unchanged at KES 8.00 despite reduced earnings.

Bank	EPS 3Q24	EPS 3Q25	% change	FY24 EPS	FY25 EPS (*Estimate)	ROaE 3Q24	ROaE 3Q25	Trailing P/E	Tangible P/B	FY24 payout ratio	Dividend Yield - Based on FY24	Total DPS FY24	Interim DPS 2025 - KES	Price - KES	Price change - from 31st Dec 2024 - %
Absa	2.71	3.11	14.8%	3.84	4.15	27.6%	26.3%	7.3	1.6	45.6%	6.3%	1.75	0.20	27.95	54.8%
Co-op Bank	3.27	3.68	12.5%	4.34	4.91	21.3%	19.4%	6.3	1.0	34.6%	5.5%	1.50	1.00	27.20	65.3%
DTB	23.27	26.72	14.8%	27.33	35.63	11.9%	11.5%	4.7	0.4	25.6%	5.4%	7.00	-	129.00	87.0%
Equity Group	10.41	13.81	32.7%	12.33	18.41	24.9%	26.2%	5.4	0.9	34.5%	6.3%	4.25	-	67.00	38.7%
I&M Group	5.54	7.14	28.7%	9.30	9.52	14.1%	15.6%	4.8	0.8	32.3%	6.7%	3.00	1.50	45.00	24.1%
KCB Group	13.85	14.32	3.4%	18.70	19.10	25.4%	22.0%	3.6	0.7	16.0%	4.5%	3.00	4.00	66.50	59.9%
NCBA	9.16	9.94	8.5%	13.27	14.40	21.4%	19.8%	7.0	1.3	41.4%	5.9%	5.50	2.50	92.50	91.9%
Stanbic	25.66	23.74	-7.5%	34.53	31.65	23.1%	19.6%	5.7	1.2	60.1%	10.5%	20.74	3.80	198.00	44.3%
StanChart	41.94	25.90	-38.2%	53.09	34.53	33.5%	20.0%	5.8	2.0	84.8%	14.5%	45.00	8.00	310.00	10.8%
Industry * As of 30/01/26								6.2	1.1						

Source: Company filings, Standard Investment Bank, Bloomberg
**Price data as at 27th January 2026*
*** Estimated FY25 EPS*

As lenders enter 2026, they are transitioning into a new era of loan pricing, with the full implementation of the Risk-Based Credit Pricing Model (RBCPM) expected by February 28, 2026, for all existing variable-rate loans. This moves the industry toward market-driven pricing while increasing transparency. Notably, the management of various Tier I lenders implied that they do not foresee a significant shift in interest earnings based on the shift to the new credit risk pricing regime. As such, we believe the banking industry will enter into a transition phase from high-yield government securities to a volume-driven growth strategy as the CBR stabilizes at lower levels.

While Net Interest Margins (NIMs) are likely to face some compression due to falling interest rates on loans as they reprice their loans and pricing models, and lower yields on government securities in the short term. However, this could be offset by a resurgence in private sector credit demand and a significant reduction in funding costs as deposit rates decline.

Regarding non-interest income, we see a continued emphasis on diversifying fees and increasing digital transaction volumes. Although some banks experienced weaker earnings from non-funded income in 2025 due to a stabilized shilling, which dampened foreign exchange trading gains, the outlook for 2026 points to a gradual recovery. This optimism is driven by a "volume-over-margin" strategy, where banks leverage their established mobile banking ecosystems and evolving payment systems alongside digital lending facilities. Furthermore, Tier-1 lenders are increasingly relying on their regional subsidiaries and embedded finance value propositions (e.g., insurance), and growth in non-traditional revenue lines (e.g., custody management, asset management), to buoy operating income. While lenders are managing occupancy costs through branch rationalization and shifting to cloud-based infrastructure, these savings may be partially offset by a talent premium for specialized talent, increased investments in digitization, as well as rising employee-related taxes (e.g., NSSF, SHA, housing levy, etc.) and increased compliance requirements (especially due to substantial penalties for non-compliance after the enactment of the Business Laws (Amendment) Act, 2024). Ultimately, 2026 looks to favour Tier-1 institutions that have already "front-loaded" their tech investments, allowing them to scale transaction volumes cost-effectively.

Asset quality remains a significant concern, closely tied to the government's pace in resolving outstanding bills. However, we believe asset quality is now at a phase of cautious recovery, as the industry works through an impaired loan ratio that peaked at 17.6% in mid-2025. As the Government gradually settles pending bills, entities that were previously in default are expected to begin returning to performing status as the National Treasury executes its phased arrears clearance program. As economic activity in key sectors recovers, we observe a gradual shift from government securities to private lending, which supports a modest but steady decline in the NPL ratio, ensuring the industry remains stable despite the historical debt overhang. Lenders are expected to continue pursuing loan rehabilitation/restructuring, asset sales, write-offs, as well as full & final settlements as they manage their asset quality. Additionally, resilient operating profits are projected to adequately cover impairment charges as the private sector credit growth recovers. The gradual improvement of asset quality may free up capital from writebacks of loan loss provisions.

In terms of capital adequacy requirements, 2026 marks the second year of the phased increase in minimum core capital requirement for commercial banks, with the KES 5.0bn minimum core capital milestone set for 31st December 2026. While Tier I banks maintain robust capital buffers, roughly 16 small-to-mid-tier banks need to hit the milestone by the end of the year (with a number entering the year with substantial capital gaps), necessitating urgent rights issues, strategic partnerships, initial public offerings on the NSE, or parent injections from international firms. Indeed, 2025 witnessed some capital raising activities as lenders firmed up their capital positions (e.g., KES 8.0bn Family Bank rights issue, Credit Bank shareholder approval of KES 4.5bn rights issue, asset share swap of KES 1.2bn, convertible note of USD 1.5bn to ShoreCap III LP), as other lenders have pointed out that they will target their international/regional parent banks (e.g., Access Bank, UBA, and DIB; CIB received USD 8.2m from its parent in July 2025). This regulatory pressure is likely to drive a wave of consolidation, as institutions unable to bridge the gap may be forced into mergers or even license downgrades to maintain compliance. Indeed, the Competition Authority of Kenya approved the proposed acquisition of 100% shareholding of Paramount Bank Limited by Zenith Bank PLC, subject to conditions aimed at safeguarding employment on 22nd January 2026. Additionally, the lifting of the bank licensing moratorium in mid-2025 is expected to pave the way for market players looking to enter the market in 2026 through greenfield investments, potentially intensifying competition in the sector.

For mature lenders looking to access the greater East African region and to execute their Pan-African strategy, we see increased mergers and acquisitions deals for Kenyan banks with attractive value propositions. Indeed, Nedbank recently announced its intention to acquire 66.0% shareholding of NCBA Group, a Tier I bank, in January 2026. The transaction is a cash and stock deal (80% - 4.02994 Nedbank ordinary shares and 20% - cash amount of KES 2100.00). For investors who would receive fewer than 200 Nedbank shares, they would receive KES 105.0 per share. Overall, the transaction is valued at a 1.4x P/B multiple, with the price at KES 98.72 per share. Once concluded after regulatory approvals, the transaction will see NCBA Group become a subsidiary of Nedbank. If Nedbank is not granted an exemption for the requirement to make a mandatory offer for all of NCBA's shares by 31st May 2026, the lender would change to an offer for the whole bank.

Banks with core capital below KES 5.0bn			
	Bank	Core Capital (in KES Mn)-Dec 2024	Core Capital (in KES Mn)- Sept 2025
1	Kingdom Bank	4,007	4,258
2	Dubai Islamic Bank (DIB)	4,093	3,650
3	Guardian Bank	3,480	3,548
5	Habib AG Zurich	3,128	3,366
4	Bank of Africa	3,156	3,258
6	Paramount Bank	2,670	3,119
7	CIB Kenya	2,367	2,799
8	ABC Bank	2,571	2,604
9	M-Oriental Commercial Bank	2,653	2,496
10	Premier Bank	2,507	2,229
11	Middle East Bank	2,158	2,110
12	Development Bank of Kenya (DBK)	2,141	2,085
13	UBA Kenya	1,492	1,492
14	Credit Bank	1,325	1,231
15	Consolidated Bank	(731.2)	(668.8)
16	Access Bank	152.2	(765.6)
17	Spire Bank	(96.0)	n/a

Source: Central Bank of Kenya, Company Filings, Table: SIB

We remain cognizant of potential headwinds that may impact bank earnings in 2026, such as sticky non-performing loans, macro volatility (especially due to geopolitical tensions, unrest in regional markets and policy changes by the USA), reduced fiscal space, significant exposure to sovereign debt amid concerns around debt sustainability, government borrowing crowding out effect, operational resilience risks due to the heightened pace of digitalization (cyber threats, fraud, operational disruptions), growing exposure to non bank financial institutions (NBFIs), especially fintechs, that have the potential of creating systemic vulnerabilities around cybersecurity, legal risk, regulatory gaps, and operational dependence, slower than expected private sector lending, evolving regulatory requirements, constrained customer wallets, FATF grey listing overhang, as well as increasing demands for ESG and climate risk management.

Overall, the banking sector outlook remains cautiously optimistic, with robust growth supported by solid capital and liquidity reserves. Risks from high non-performing loans and significant exposure to government securities, especially for smaller banks, however, remain. As the economy grows, the sector's role in credit facilitation is expected to trend higher.

Telecommunication & Technology: Safaricom Ownership Reorganization in Landmark GOK Sale

For Safaricom's GSM business in Kenya, our past publications have highlighted that voice and SMS revenues are expected to mature long-term and that data should be the offsetting factor as smartphone penetration deepens - our view remains unchanged. We note that mobile termination rates[17] are set for review in 1Q26. We anticipate seeing a drastic downward trend in the upcoming review in line with calls for steeper rate cuts.

We highlighted in our FY26 Safaricom Valuation Update report via our Consilient Viewpoint segment, the compelling case for Telcos to partner with satellite operators. We noted that such partnerships would see network expansion[18] via backhaul[19], reducing capex and opex costs relating to network expansion and ongoing maintenance for Telcos, and improving churn on better coverage *(more details on our rationale are in the report)*.

We are impressed by the partnership between Vodacom and Starlink, announced on November 12, 2025, which aims to deliver high-speed, low-latency broadband internet across Africa and expand rural network coverage. While this is impressive, we are concerned by the Airtel Africa and Starlink partnership to launch a direct-to-cell satellite service across Airtel's 14 African markets, starting in 2026. This, in our view, would see an increased mobile data price war in Kenya, essentially eroding Safaricom's GSM growth prospects, given that data is price sensitive.

For the financial division, license acquisition into the broader financial services segment may be the next growth frontier, as the mobile money ecosystem matures – although the current multi-tenant structure seems to serve the firm well. That said, the regulator is actively seeking public participation regarding proposed changes to mobile money rates as part of the draft Kenya National Financial Inclusion Strategy (NFIS) 2025-2028. A potential softening of mobile money rates may be a risk to the growth trajectory of the business, given that mobile money is the group's key revenue driver.

Ethiopia

In the GSM business, we expect mobile data to remain the key value proposition to customers and a significant revenue driver for the business in the medium term. We, however, foresee voice revenue augmenting in the long run as the business gains critical mass[20], and on-net traffic builds within the network. We take note of the upward price review for data in the market early in the year – which should help correct the bottom line for currency depreciation. We remain optimistic about the market long-term.

[17] The Mobile Termination Rate (MTR), which is the fee one operator pays to another operator to terminate calls on their network, was previously set at KES 0.41 per minute (effective March 2024) from KES 0.58. This rate is set to lapse on February 28, 2026, prompting a new review by the Communications Authority (CA).

[18] The number of LEO satellites is estimated to rise to c. 10,000 by 2028 (from c.5,000 in 2022), theoretically implying a near-complete global coverage. We have been *(and still are)* of the opinion that, in the long run, a strong base station (ground tower) network may not necessarily be a competitive advantage for telcos in the event such partnerships take root.

[19] Connecting cellular base stations to the mobile operator's core network – enabling mobile data, voice, and other communications to travel from users' devices – using satellite links instead of traditional terrestrial infrastructure like fibre or microwave. This approach is pragmatic in rural and hard-to-reach areas where laying cables or building microwave links would prove to be difficult, expensive, or even impossible.

[20] As of 1H26, Safaricom Ethiopia had 3,306 base stations and 11.1m 90-day active customers. By estimates, the critical mass is expected at c. 4,000 base stations and c. 15m customers – implying that the business is approaching its take-off.

[21] Reported at an average of 44%. This was followed by EthioTel data price hikes, which were rather selective. We fear that customer acquisition initiatives by Safaricom Ethiopia may be impacted, noting the price-sensitive nature of data.

On 7th November 2025, we adjusted our model to reflect the easing risk-free rate (from 4.1% to the current 3.7%) and the lower sovereign risk spread (from 6.4% to 4.3%), which collectively lowers the cost of equity (from 24.8% at the time of modeling to the current 22.3%). These adjustments, coupled with the time value of money (without any adjustments to our assumptions and earnings model), triggered a revision of the fair value estimate of the business from KES 36.38 (as of 27th May 2025) to KES 40.19 – a BUY recommendation on the counter from the current price levels.

For investors who do not share the same level of assumptions on the discounting factor and the terminal growth rate, we provided a sensitivity analysis (below) that captures fair value estimates at different levels of assumptions[22].

Terminal Growth \ WACC	11.9%	12.9%	13.9%	14.9%	15.9%	16.9%	17.9%
3.6%	42.51	39.7	37.5	35.68	34.2	32.9	31.8
4.6%	45.13	41.7	39.0	36.89	35.1	33.7	32.5
5.6%	48.59	44.2	40.9	38.36	36.3	34.6	33.2
6.6%	53.37	47.5	43.4	40.19	37.7	35.8	34.1
7.6%	60.40	52.1	46.6	42.52	39.5	37.1	35.2
8.6%	71.76	58.9	51.0	45.60	41.7	38.8	36.5
9.6%	93.23	69.8	57.5	49.86	44.7	41.0	38.2

Source: SIB Estimates

Government Divestiture & Vodafone Kenya's Bold Stake Rise

On 27th May 2025, we highlighted in our Safaricom PLC FY26 Valuation Update, the news of the government of Kenya's plan to reduce its stake in Safaricom (currently at 35%) before June 2026. We opined that an off-market transaction[23] was a likely option, if the sale did materialize, given the then discount on the stock *(trading at KES 19.90, with our valuation at KES 36.38)*.

In line with our view, on 4th December 2025, the shareholders of Safaricom PLC were advised via a public announcement that on 03 December 2025, Safaricom was served with a notice of intention by Vodafone Kenya Limited not to make a mandatory takeover offer to the shareholders of Safaricom PLC. This followed Vodafone Kenya Limited's notice of its intention to acquire an additional 6,009,814,200 ordinary shares in Safaricom from the Government of Kenya (GOK), representing a 15% stake in Safaricom, coupled with changes in the shareholding of Vodafone Kenya Limited[24]. Worth noting, no irrevocable undertakings were given.

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[22] Laws of congruence should apply to data points not captured in the table.

[23] Similar to what we saw in the banking sector between AfricInvest and British International Investment regarding the 10.13% stake in I&M Group

[24] Highlights of the deal:

- Vodafone Kenya to acquire 6,009,814,200 ordinary shares in Safaricom from GOK for a consideration of KES 204.3bn (c. USD 1.6bn) – a price of KES 34.00 per share, 20.6% premium to 3rd December 2025 VWAP. The transaction will result in GOK's shareholding reducing to 20% while that of Vodafone Kenya rising to 55% in Safaricom Plc.
- Concurrent to the share acquisition, Vodacom Group Limited (S.A) will increase its shareholding from 87.5% to 100% in Vodafone Kenya via an internal reorganization.
- The Vodafone Kenya shareholding reorganization will involve Vodacom Group Limited's purchase of Vodafone International Holdings B.V's (100% owned by Vodafone Group, U.K.) 12.5% stake for a consideration of KES 68.1bn (USD 0.5bn). In effect, Vodacom Group Limited, via Vodafone Kenya, will own a 55% shareholding in Safaricom Plc.
- Vodafone Kenya has agreed to buy the right to receive future Safaricom dividends for an upfront payment of KES 40.2bn (c. USD 309.0m) to the GOK, in lieu of future dividends that will accrue to the GOK's residual 20% shareholding in Safaricom. From our forecasts, the up-front payment for dividend rights purchase is worth the present value of c.4 years' dividends for the 20% shareholding.

Transaction Summary[25]

Fair Value Estimate per share	40.19
Current market Price	28.20
Per share Payout for GOK 15% shareholding	34.00
Per share Payout for GOK remaining 20% dividend rights	5.02
Total Payout to GOK	**39.02**

Source: SIB Estimates

The partial divestiture by GOK does not affect the free float of the stock, which remains at 25%. That said, Vodacom Group Limited will, in effect, gain control premium on Safaricom Plc, implying that Safaricom's financials will be consolidated by Vodacom Group Limited, with the remaining shareholding treated as minority, in line with IFRS standards.

Safaricom PLC implied changes in shareholding

Name of shareholder	Current Shareholding	%	New Shareholding	%
VODAFONE KENYA LIMITED	16,000,000,000	39.9%	22,009,814,200	54.9%
Vodacom Group Limited	*14,000,000,000*	*34.9%*	*22,009,814,200*	*54.9%*
Vodafone International Holdings B.V'	*2,000,000,000*	*5.0%*	*0*	*0.0%*
CABINET SECRETARY TO THE NATIONAL TREASURY	14,022,572,580	35.0%	8,012,758,380	20.0%
STANDARD CHARTERED KENYA NOMINEES LTD A/C KE004667	380,658,806	1.0%	380,658,806	1.0%
KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 1019D	365,227,900	0.9%	365,227,900	0.9%
KENYA COMMERCIAL BANK NOMINEES LIMITED A/C 915B	345,582,886	0.9%	345,582,886	0.9%
STANBIC NOMINEES LIMITED NR7522171	245,596,200	0.6%	245,596,200	0.6%
STANBIC NOMINEES LTD A/C NR1030824	224,513,900	0.6%	224,513,900	0.6%
STANDARD CHARTERED NOMINEES RESD A/C KE11401	201,930,759	0.5%	201,930,759	0.5%
STANBIC NOMINEES LIMITED R6631578	188,160,853	0.5%	188,160,853	0.5%
STANDARD CHARTERED NOMINEES RESD A/C KE11443	163,458,207	0.4%	163,458,207	0.4%
OTHERS	7,927,725,909	19.8%	7,927,725,909	19.8%
	40,065,428,000	100.0%	40,065,428,000	100.0%

Source: Company filing, SIB Estimates

We note that the calls for a split of the business seem to be gaining traction. We have, and still are, of the view that from a valuation point of view, the company is set to realize better valuations as a sum of parts.[26] We continue to believe that operational synergies will remain post-split, under a Holdco[27] setup, albeit with costs moderately rising. We are of the view that the board should spearhead the initiative before regulators, to avoid jitters and hindrance to price discovery.

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[25] The completion of the proposed transaction is subject to approval from certain governmental and regulatory authorities in Kenya, including the Kenyan Cabinet, the Kenyan National Assembly, the Capital Markets Authority, the Communications Authority of Kenya, the Central Bank of Kenya, the COMESA Competition Commission, and the East African Community Competition Authority.

[26] We started valuing the two businesses separately in 2014. And since surpassing the telecommunications business in 2019, the financial services division has continued to do the heavy lifting from a valuation point of view, now contributing 60.6% of our total valuation. This points to the better valuation realized from the sum of parts.

[27] A business restructure where the listed entity becomes a holding company, which in turn owns the spun-off entities in financial services and GSM. Shareholders of the listed entity will have an indirect ownership into the new spun-off entities prorated on their shareholding of the holding company. Further, the split will spark growth, allowing the subsidiaries to exploit new opportunities, e.g., license acquisition for the financial services.

Oil & Gas Sector: Gulf Energy Takes Over Turkana Field as KPC's Landmark IPO Nears

Upstream: Gulf Energy submits a revised field development plan on the Turkana Oil Field after the Tullow Oil Buyout

Tullow Oil plc successfully completed the sale of its entire working interest in Kenya to Auron Energy E&P Limited, an affiliate of Gulf Energy Ltd, following satisfaction of all conditions precedent under the Sale and Purchase Agreement (SPA) announced on 21 July 2025. Tullow has received the full proceeds of Tranche A (USD40 million) under the terms of the SPA. The transaction represents the sale of 100% of the shares in Tullow's subsidiary Tullow Kenya BV, which holds Tullow's entire working interests in Kenya, for a minimum cash consideration of USD120 million, subject to customary adjustments.

The sale of its Kenya subsidiary marks Tullow's exit from the country after 14 years. Tullow retains royalty payments, subject to certain conditions, and a no-cost back-in right for a 30% participation in potential future development phases. Gulf Energy has been granted some time to review and submit the adjusted field development plan. The sale slightly delays the commercialization plans for the c. 560 million barrels of recoverable oil in the basin to December 31, 2025.

Midstream: Kenya Pipeline Company Listing... Value in the Eyes of the Beholder

The government had set a deadline of 31st March 2026 for the listing of KPC[28] via an Initial Public Offering (IPO) on the Nairobi Securities Exchange – providing a six-month window for the privatization process.

[28] KPC – established in 1973 with its commercial operations commencing in February 1978 – it's a state corporation wholly owned by the Government of Kenya, with 99.9% shareholding by the National Treasury and a fraction less than 0.1% by the Ministry of Energy and Petroleum. The company focuses on transporting, storing, and distributing petroleum products within Kenya using a network of pipelines and depots, primarily from the Mombasa import facility to the country's hinterland and neighboring regions.

Kenya Pipeline Company Network as of 2024

Source: KPC Annual Report

The company operates extensive tank farms with a total storage capacity of over four billion liters. Made up of depots in Mombasa (Kipevu, 326 million litres), Nairobi (233 million litres), and Changamwe (140 million litres), coupled with other facilities at major airports and regional depots in Nakuru, Eldoret, and Kisumu – which are crucial in ensuring consistent fuel supply, mitigating shortages, and stabilizing the market.

This followed parliamentary approval with the following (including but not limited to) resolutions:

- The government remains with not less than 35% shareholding; thus, listing is up to a maximum of 65%.
- Privatization commission to set a maximum ownership limit for any single shareholder. This aims at preserving broad-based ownership, promoting market competitiveness, and protecting national and energy security interests.
- The Privatization Commission implements a minimum level for participation by Kenyan citizens, ensuring broad local ownership from all walks of life.
- The privatization of KPC shall be structured to limit the mandate of the company to transporting and storing petroleum products and guarantee that KPC shall not venture into the importation or sale of petroleum products without prior approval from the Competition Authority of Kenya, EPRA, and the National Assembly.

Based on the prospectus, KPC has a total number 18.2Bn issued and fully paid ordinary shares. Of which 11.8Bn are on offer at a price of KES 9.00. The government is seeking to raise KES 106Bn from the 65% sale. The offer opened on January 19, 2026, and will close on February 19, 2026. We are currently reviewing the prospectus. We shall conduct our valuation in line with the additional disclosures and will advise at an opportune time on the investment case of KPC.

Downstream: Total Energies Valuation Update, Downstream Oil Marketer in Kenya Still Offers Value

We reinitiated our coverage of TotalEnergies Marketing Kenya and retain a BUY recommendation with a fair value estimate of KES 56.30, with a valuation range of KES 67.42 – KES 50.26 at different levels of assumption. Looking ahead, we forecast a 20.0%y/y growth in net earnings and anticipate seeing net revenues growing marginally to KES 116.8Bn (+2.3%y/y). We estimate the full-year per share dividend to be retained at KES 1.92, representing a 67.7% payout ratio.

From the topline, local sales contribution is expected to grow to 95.8% of net sales, up from 94.3% in FY24. Export and bulk sales are forecasted to soften by c. 24.2% y/y to KES 5.0Bn – primarily on account of dwindling volumes. Aviation, Network Sales, and General Trade are forecasted to grow by 14.3% y/y, 4.7% y/y, and 0.8%y/y to KES 4.5Bn, KES 73.5Bn, KES 33.8Bn, respectively.

		WACC				
		22.18%	24.18%	26.18%	28.18%	30.18%
Terminal Growth Rate	2.55%	67.42	64.90	62.60	60.52	58.61
	3.05%	63.08	60.91	58.94	57.14	55.50
	3.55%	59.97	58.05	**56.30**	54.71	53.26
	4.05%	57.62	55.89	54.32	52.88	51.57
	4.55%	55.79	54.21	52.77	51.46	50.26

Source: SIB Estimates

FMCG Sector Reimagined: Asahi Takes Diageo stake in EABL, NACADA Proposes Stricter Rules

EABL: Diageo to sell 65% stake to Asahi Group Holdings, Policy Recommendations may limit alcohol intake in Kenya

On 31st January 2025, through our EABL PLC 1H25 Results Commentary, we began our assessment of the likely exit of Diageo Plc from EABL. Our analysis followed Diageo's "beer-heavy balance sheet" divestitures in Africa from the 2022 sale of Meta Abo Brewery, the 2023 sale of Guinness Cameroon, the 2024 sale of Guinness Nigeria, and the 2025 sale of Guinness Ghana which left the Group with two listed subsidiaries in the continent - EABL (with 65% shareholding) in East Africa and Seychelles Breweries Limited (54.40% shareholding) in Seychelles.

Our analysis signaled a potential medium-term exit of the anchor shareholder in the East African subsidiary, in line with its group's asset-light business model. We opined, via our preliminary estimates, a consideration of c. USD 2.79Bn (inclusive of debt) – translating to c. USD 2.0Bn on debt adjustments, which signaled an undervaluation from a revenue generation point of view, thus our recommendation for consideration to risk-on investors on 31st July 2025, via our EABL PLC FY25 Results Commentary.

The board of EABL on 16th December 2025 received notification from its parent company, Diageo Plc, of the imminent agreement to sell, subject to the satisfaction of certain regulatory conditions, its entire interest in Diageo Kenya Limited[29] and in UDV (Kenya) Limited[30] to Asahi Group Holdings, Ltd.

Our Take

Diageo's sale is in line with our view of their expected exit from EABL. The transaction price – estimated at c. KES 590.55 per share (at USD/KES exchange rate of 128.9474) – is, however, above our preliminary estimate of c. KES 325.44 per share – a plus for risk-on investors who counted on unlocking premiums related to a rally in line with the exit. That said, we note the transaction is private[31] and off the capital markets (at Diageo Kenya level), thus its impact will likely not be fully translated into EABL's share price.

From a strategic point of view, we opine that if Asahi gets an exemption not to extend the takeover offer to minority shareholders of EABL, their strategy (which seems to focus on growing their existing business, that is centered on core beer brands, and expansion into new business areas and geography) will be central to EABL as a going concern. Further, we speculate that Asahi is poised to use its control premium on the subsidiary to propel the sale of some of its brands within the African market, even as select Diageo brand sales enter into long-term license and royalty agreements. We believe investors should take comfort in Asahi's strategic view of the East African market's ability to generate long-term growth on the back of demographic dividends and economic expansion.

We take note of the policy recommendations by the National Authority for the Campaign Against Alcohol and Drug Abuse (NACADA) titled National Policy for the Prevention, Management, and Control of Alcohol, Drugs, and Substance Abuse, July 2025. While the proposals have yet to undergo public participation, stakeholder engagements, and the legal review process, our preliminary view is that the regulatory environment for the sector will likely get bumpier in the long run. We recognize that the disruption of convenience *(a key consideration for consumers)* with regard to purchase and consumption poses a significant risk to EABL's topline, especially since Kenya represents 63% of its net sales in FY25. This is particularly concerning as the company is already experiencing volume growth pressures.

On the bright side, the proposals could lead to stricter controls on the illicit market – which is estimated to be

[29] Its wholly-owned subsidiary, which holds 65% shareholding in EABL

[30] Diageo holds 53.68% shareholding via its wholly-owned subsidiary Diageo Great Britain Limited

[31] Concerning Diageo Kenya Limited, the company on sale, being a private company that has in its balance sheet a majority stake in a publicly listed company

around 57%. The formalization of the informal liquor, in our view, may open the market for mainstream brands, and potentially see more innovation from EABL around lower-priced brands – a plus in widening the mainstream revenue line. This comes in line with our house view, from as far back as 2011, when we mentioned the then ADCA legislations potentially being beneficial to EABL, in our 'Sobering Outlook' report.

Still on industry trends, the formal beer market's disruption from craft beer and cedars – seems to be riding on the repositioning of consumer preference (within the low-alcoholic alternatives) towards novel drinking experiences and flavor experimentation. We are impressed by the microbrewery initiative, which is dedicated to small-batch production, fostering creativity and innovation. Spirit brands are also expected to continue witnessing disruption from ready-to-drink (RTD) cocktails, which are growing in popularity globally. With most RTD falling within the 4% to 7% ABV range, we opine their appeal will augment as customers increasingly look to moderate alcohol consumption. We maintain our HOLD recommendation on the company.

BAT Kenya: Velo's Back in the Groove

Management mentioned that the September 2024 – February 2025 season had a good crop harvest[32], which we opine, coupled with reduced hard currency costs, will be central in lowering operational costs in FY25. We remain cognizant that the warmer than usual temperatures experienced in 2025 and below average moisture in some regions may have an impact on the tonnage of domestic leaf and quality[33] harvested in the September 2025 – February 2026 season. If this does play out, the company's cost environment in FY26 may likely be smoking hot on account of logistical costs and import duty attached to importing leaf.

We opine that Kenya will continue to see volume pressures, with upward price adjustments being the key revenue driver for the market. That said, maturities in Kenya will likely be offset, to some degree, by export sales. We are impressed with the comeback of Velo *(the company's oral nicotine pouch)* in 2H25. Management, in the 1H25 call, noted that early sales are reported to have a good market reception. We note, from our market surveillance, a rise in competition in the oral nicotine pouch market with the entry of more brands. A key risk for the business remains the illicit cigarette market and the tight regulatory environment.

On 25th January 2025, we updated our fair value estimate for the business (with zeroized Velo revenues) to KES 493.79 (more here). Our scenario analysis indicated that the resumption of Velo sales would potentially lift the valuation to KES 609.43 per share. Incorporating adjustments for the time value of money, fluctuations in interest rates, and changes in sovereign risk spreads — while maintaining all other assumptions constant — we revised the aforementioned fair value estimates of BAT Kenya on 25 June 2025 to **KES 558.54** per share, excluding Velo revenues, and **KES 689.37** per share inclusive of Velo, on the assumption that its revenues will be largely insignificant in FY25 and gain traction in FY26. And now that Velo is back in the groove, we effectively revised our fair value estimate to KES 689.37, with a BUY recommendation from the current price levels.

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[32] As of 1H25, the use of domestic leaf was estimated to close the year at 60% contribution. This is commendable considering the optimal blend ratio is two-thirds local leaf to a third imported leaf.

It is, however, worth noting that the business will have a long-term reliance on imported leaf, even at an optimal domestic harvest. This is attributable to the need to blend different varieties of leaves (some of which are imported) to achieve a consistent signature flavor for its brands.

[33] Higher nicotine and low sugar content from drought stress may result in harsh leaf (with "stronger" smoke), leading to lower grading, more so where the American blend is targeted for select brands.

Sensitivity Analysis of the Fair Value Estimate – Zeroised Velo revenues

	9.08%	11.08%	13.08%	15.08%	17.08%	19.08%	21.08%
5.00%	832.72	776.24	724.85	677.99	635.20	596.04	560.15
5.50%	773.03	721.18	673.98	630.93	591.60	555.60	522.59
6.00%	723.29	675.30	631.59	591.72	555.27	521.90	491.30
6.50%	681.22	636.48	595.73	**558.54**	524.54	493.40	464.82
7.00%	645.15	603.21	564.99	530.11	498.20	468.96	442.13
7.50%	613.90	574.38	538.36	505.46	475.37	447.79	422.46
8.00%	586.56	549.15	515.05	483.90	455.40	429.26	405.26

Row – WACC, Column – Terminal growth rate
Source: Standard Investment Bank

Sensitivity Analysis of the Fair Value Estimate – with Velo Revenues gaining traction in FY26

	9.08%	11.08%	13.08%	15.08%	17.08%	19.08%	21.08%
5.00%	1,031.42	960.97	896.86	838.44	785.08	736.28	691.57
5.50%	956.94	892.25	833.38	779.71	730.68	685.82	644.70
6.00%	894.88	835.00	780.49	730.77	685.35	643.77	605.65
6.50%	842.37	786.56	735.74	**689.37**	647.00	608.19	572.61
7.00%	797.37	745.04	697.38	653.89	614.12	577.70	544.29
7.50%	758.37	709.07	664.15	623.14	585.64	551.28	519.75
8.00%	724.25	677.59	635.06	596.24	560.72	528.16	498.28

Row – WACC, Column – Terminal growth rate
Source: Standard Investment Bank

Noteworthy developments in Africa involving the BAT Group include:

- British American Tobacco South Africa reported its plan to close its manufacturing facility in South Africa by the end of 2026 – ending its domestic production in the country, as it shifts its strategy towards an import model. This was primarily driven by the pressures from illicit trade, which is estimated to account for 75% of the market. The company reported severe volume losses had the facility operating at c. 35% of its total capacity. Notably, the South African market experienced a surge in illicit trade following the 2020 ban on the sale of tobacco. The business, however, maintains the view that should there be a substantial and sustained trend change in the local illicit trade environment, BAT will re-invest in local production in South Africa.
- According to media sources, British American Tobacco is reported to be exiting Mozambique, with BAT spokesperson Daniel Munden quoted to have mentioned the exit is part of their broader strategy to reduce the group's footprint and reallocate resources to more profitable markets. Reasons behind the exits were not highlighted.

The Power Grid: Valuation War at Umeme, KenGen's Capacity Plans, Kenya Power Balance Sheet Progress

Umeme: The Buyout Battle Over Valuation… An Opportunity for Risk-on Investors?

Umeme's 20-year electricity distribution concession in Uganda officially ended on 31st March 2025, following the government of Uganda's decision not to renew its concession agreement with Umeme. Post concession, Umeme's distribution assets and operations were to be handed over to the state-owned Uganda Electricity Distribution Company Limited (UEDCL) following a buyout, but the road to the buyout has been rocky and is the beginning of a potentially long and arduous journey of arbitration in London expected to take one to three years.

While we do not have sight of the concession agreement, we think the bone of contention could be as a result of the interpretation of modifications and investment, which brings the concessionaire's amount to c. USD 410m against the government's figure of USD 118m.

The Dollar Divide

	Amount (USD, m)
Umeme's Buyout Claim	410.00
Ugandan Government Auditor General Valuation (Amount is already paid)	118.00
Dispute Buyout Amount (Subject to arbitration)	292.00

Source: Management FY24 Earnings Call

According to Umeme's 2023 annual report, the buyout[34] amount is computed as the gross accumulated capital investments less the cumulative capital recovery charges expected to be allowed in the tariffs by the time of transferring the Distribution Network to UEDCL and discounted over the remaining concession period using the pre-tax return on investment that varies between investments verified and approved by Electricity Regulatory Authority (ERA) and investments not approved by ERA.

Shy of arbitration costs and contractual interest, the value in dispute is an estimated KES 23.20 – which is an upside of at least 180% from the current market price in the best-case scenario for shareholders. We thus see an opportunity for risk-on investors to unlock north of c. 180% returns (less contractual interest). While clarity on the process following the international arbitration route is hopeful, but not fully clear, we opine that the current market price is at a discount to the estimated buyout value, thus a BUY recommendation for investors willing to wait through the arbitration – which we think management has the upper hand in the interpretation of the buyout amount.

KenGen: Capacity expansion & Kenya's growing energy needs to support outlook

The company's electricity generation portfolio as of the financial year ended June 30, 2025, comprised geothermal, hydro, wind, and thermal power plants with a total installed capacity of 1,786 MW – generating 8,482 GWh in FY25, a growth of 1% from 8,383 GWh in FY24. The rise was attributed to the resumption of operations at Muhoroni Power Plant, coupled with favourable hydrological conditions, which strengthened system reliability and enhanced grid stability.

[34] Worth noting, until such time as the buyout amount is paid by the Government of Uganda (GoU) to Umeme and the Distribution System is transferred back to UEDCL, GoU is obliged to pay interest on the buyout amount equal to 10% per annum, for the period 30 days to 45 days after the concession termination date, increasing to 15 % per annum for the period from 46 days to 90 days after the concession termination date, and then 20% per annum, after 90 days until the buyout amount is ultimately paid in full by the GoU. This could prove quite costly for GoU if the matter persists and the decision is found in favour of Umeme, since we aver that the interest may be calculated on the entire amount (rather than the balance that would be payable – if any).

Source: FY25 Annual Report

We believe Kenya will continue to see growth in electricity demand and thus opine that key projects by KenGen aimed at capacity expansion[35], thought capital-intensive[36], are crucial to unlock future income. We are impressed with the plans to leverage innovative technologies like Battery Energy Storage Systems – to store excess energy from variable renewable energy sources – to aid in load balancing, while offering ancillary services to the grid. KenGen is in the process of implementing the first 100MW/200MWh, which is expected to begin operation in 2027.

We expect the company to continue the execution of drilling contracts in the region. The Company reported having potential contracts under consideration in Eswatini, Tanzania, Djibouti, Zambia, and Bhutan. Beyond drilling, their move to explore opportunities in electric mobility, solar panel manufacturing, and, most recently, the proof-of-concept for green ammonia/fertilizer production, are promising revenue stream for the business.

The counter's inclusion in the Morgan Stanley Capital International (MSCI) Frontier Markets Small Cap Index is set to increase its visibility to institutional global investors, providing a floor for liquidity and potential price discovery. We still believe that the counter has a great value proposition and maintain a BUY recommendation.

Kenya Power: System losses remain a concern, hopeful on balance sheet reforms

Kenya Power has aggressively reduced its debt profile, which management attributed to early repayment of high-interest loans. Total borrowings dropped from KES 98.5Bn in FY24 to KES 87.6Bn by the end of June 2025, with the weighted average cost of debt easing from 3.84% to 5.03%. Lower interest expenses (which fell by KES 2.58 billion in the last cycle) are now directly padding the bottom line.

Notably, system losses declined from 23.16% to 21.21% in FY25. Although still elevated, we are impressed by the coordinated interventions, including the accelerated rollout of smart meters, replacement of faulty meters, targeted feeder upgrades, and improved energy accounting, which seems to be bearing fruit – in part contributing to growth in unit sales. Still on system losses, management highlighted that most gains in the decline were achieved in tightening commercial losses and that low-voltage conductors and informal settlements remain areas of focus. Network upgrades and reinforcement of critical infrastructure remain central in reducing technical loss.

[35] That includes the 63MW Olkaria I Rehabilitation Project, the 42.5MW Seven Forks Solar Project, the Gogo Hydro Power Plant upgrade to boost capacity from 2 MW to 8.6 MW, Olkaria I & IV uprating, Olkaria VII and Olkaria II Extension, among other projects.

[36] Management reported that c. USD 650 million has been secured to finance these projects from DFIs and other lenders.

On the meter shortage, we opine that Kenya Power should adopt a decentralised format similar to the KRA's eTIMS gadgets, which are sold by pre-approved suppliers and manufacturers. This, in our view, will see a rise in connections (as consumers can easily acquire meters), growth in unit sales, and potentially a reduction in system losses by tapping untapped users.

We remain concerned by the increase in captive power[37] plants by industrials – the largest consumers of electricity in Kenya, and the Energy (Electricity Market, Bulk Supply, and Open Access) Regulations 2024 potentially opening the energy market to more players. It's worth noting that setting up a distribution network is capital-intensive; the impact of the regulation may take time to show in the company's financials.

While multiples and outlook are attractive, and we are hopeful of balance sheet reforms[38] – which we believe will better asset valuation, further lower debt obligations, and reduce operating costs and finance costs, we have our reservations given the elevated system losses. We retain our HOLD recommendation, albeit skewed towards a BUY, as we await the actualization of the aforementioned restructuring.

[37] For the period ended June 2025, EPRA reported a growth in captive energy capacity, with an additional 71.3 MW installed, bringing the total to 603.8 MW (accounting for 15.72 % of the country's installed capacity). They further highlighted that captive generation remains dominated by solar PV (49.76%) and bioenergy (26.80%), reflecting industries' continued investment in renewable sources for sustainability and cost efficiency.

Installed, Effective, and Captive Power Capacity as at 30th June 2025

Technology	Interconnected Capacity (MW)		Captive Capacity (MW)	Offgrid Capacity	Total Installed Capacity	% Total Installed
	Installed	Effective				
Geothermal	940.0	876.1	3.7		943.7	25.92%
Hydro	839.5	809.7	33.0	0.1	872.5	23.97%
Thermal	564.8	558.4	21.3	41.0	627.1	17.22%
Solar	210.3	210.3	300.5	3.4	514.1	14.12%
Wind	435.5	425.5	-	0.6	436.1	11.98%
Bioenergy	2.0	2.0	161.8		163.8	4.50%
Imports	200.0	200.0	-		200.0	
WHR	-	-	83.5		83.5	2.29%
Total	**3,192.0**	**3,082.0**	**603.8**	**45.0**	**3,840.8**	**100.00%**

Source: EPRA Statistic Report for the financial year ended 30th June 2025

[38] Management is yet to comment on the transfer of key transmission infrastructure to KETRACO and the subsequent impact on the debt profile. As of FY24, they highlighted that the valuation of these assets was currently ongoing, with the value of the assets being transferred to be credited to Kenya Power, serving to offset on-lent loans.

Centum: The Arduous Journey to Unlocking Net Asset Value Discount

Centum: Discount to its Net Asset Value, Dollar I-REIT on course.

As of 30th September 2025, the real estate business, residential units had c. KES 3.0Bn in collectable cash, shy of costs related to completing ongoing units. Management noted that its real estate subsidiary secured USD 20m IFC funding for the development of existing projects and to fund new ones. The process of establishing a Dollar I-REIT is advanced (expected in 1Q26), and the TRIFIC North Tower is expected to be sold into the I-REIT upon completion of the ongoing capital raise. We think this is likely to be the key earnings driver in the coming period.

On land sales, collectable cash is c. KES 2.1bn, with KES 7.2Bn already collected. Worth noting is that surplus cash from land sales is channeled upstream to Centum as repayment of the shareholder loans. Fully aware of the accounting treatment on revenue recognition in this segment in line with IFRS standards, we opine its profitability from the recognition of the c. 5.1Bn receivables will be realized in the P&L in the medium term.

At a company level, we note that long-term debt *(outstanding at KES 1.1Bn in FY24)* was fully paid in FY25, leaving the business with a KES 605m overdraft facility in 1H26. On consideration of the liquid marketable securities portfolio and cash (KES 839m), the debt exposure of the company is effectively zero. That said, the consolidated borrowings *(aggregate of subsidiaries based on their individual debt carrying capacity)* stood at KES 21.2bn, with KES 6.1bn (KES 2.2bn in Centum Real Estate and KES 3.9bn in TRIFIC SEZ) being guaranteed by the company. Management, however, highlighted that the exposure is adequately covered by assets in the subsidiaries *(the KES 6.1Bn guaranteed is covered by c. KES 64Bn in assets, and the overall KES 21.2Bn exposure is covered by KES 126.7Bn in assets)*. We retain a BUY recommendation on the counter, noting that the net asset value of the company is at KES 68.75 – high multiples to the current share price.

Its Brands[39]

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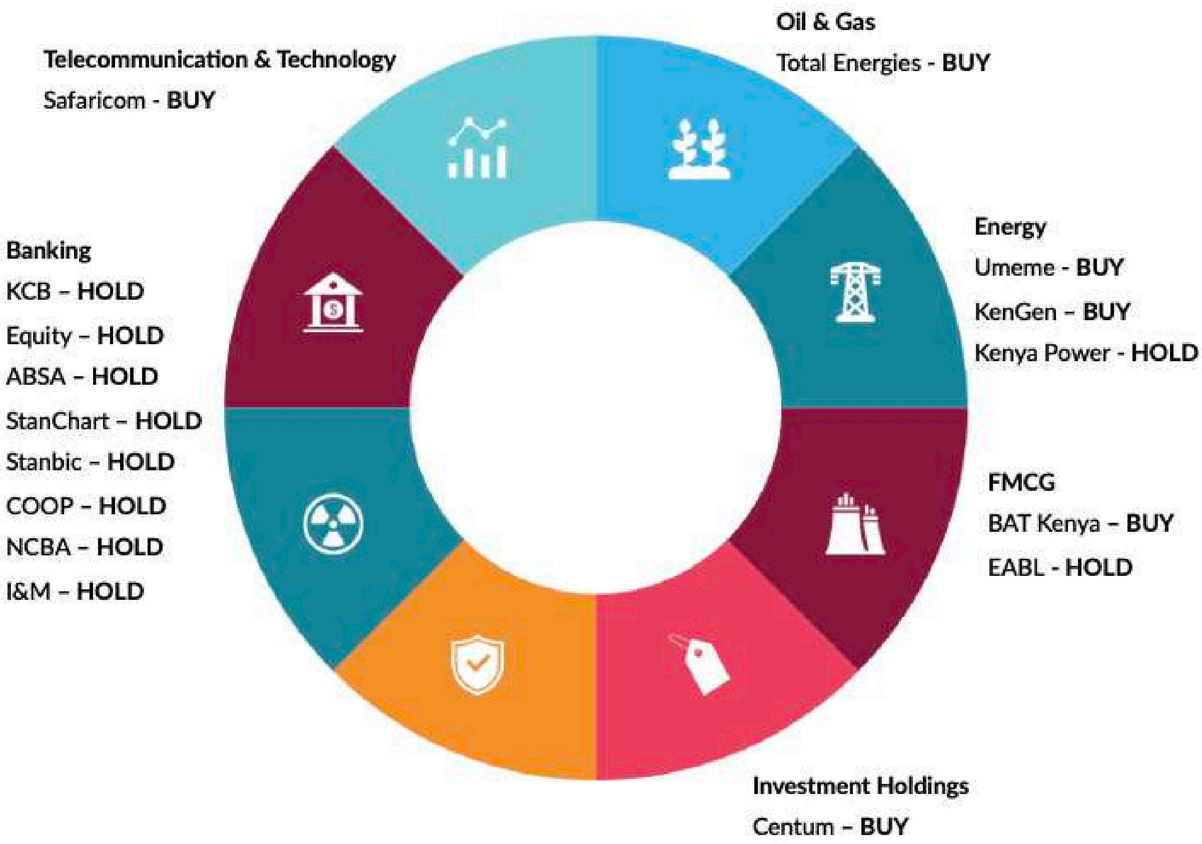
[39] 15% stake in Sidian Bank with a carrying value of KES 1.2Bn.
100% stake in Jafari Credit with a carrying Value of KES 1.4Bn.
15% stake in Nas Servair with a carrying Value of KES 1.1Bn.
17.8% stake in Isuzu East Africa with a carrying Value of KES 5.6Bn.
80.5% stake in TRIFIC with a carrying value of KES 11Bn.
100% stake in Centum Lands with a carrying Value of KES 22Bn.
100% stake in Centum Development with a carrying Value of KES 1.4Bn.

Recommendation Chart



Appendix: Development in the Banking Sector

Appendix 1:

Development in the Banking Sector		Implications
1.	Reduction of the Cash Reserve Ratio (CRR) by 100 basis points to 3.25% from 4.25% in February 2025, and the review of the interest rate corridor around the CBR from the ±150 basis points to ±75 basis points in April 2025.	The lowering of the ratio effectively unlocked money held in reserves in the Central Bank, thereby increasing loanable funds and lowering banks' internal cost of funds in a bid to stimulate lending to the private sector. Additionally, the narrowing of the interest corridor tightened the alignment between the CBR rate and the interbank market, in turn enhancing the speed and transparency of monetary policy transmission.
2.	Issuance of a consultative paper on the proposed review of license fees for commercial banks, as well as the Draft Banking (Fees) Regulations, 2025, in March 2025.	The CBK proposed the adoption of the single consolidated banking license fee framework based on Gross Annual Revenue (GAR) with a 1.0% fee rate prorated over three years. The proposed review was prompted by increased oversight from CBK as well as the objective to align the framework with international standards and modern banking dynamics. The consultative paper estimates that the new framework could reduce overall bank profitability by 1.8% to 3.1% during the implementation period.
3.	Issuance of Guidelines on Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), and Leverage Ratio (LR) for the banking sector in April 2025.	These guidelines form part of Kenya's ongoing reforms aimed at alignment with the Basel III framework, intended to enhance the sector's liquidity and capital frameworks, promoting greater financial stability and resilience across the industry. The effective date for implementation was 1st October 2025.
4.	Issuance of Kenya Green Taxonomy & Climate Risk Disclosure framework for the Banking Sector in April 2025.	CBK launched the Green Finance Taxonomy and Climate Risk Disclosure Framework to address climate risks, promote sustainable investments, and facilitate a low-carbon economy. We portend that the framework will boost growth in innovative financial products like sustainability-linked loans and green bonds. It is also expected to support capital market activities as well as the potential establishment of green asset management funds as lenders pursue diversified revenue streams, new markets, and enhanced reputations. Green financing often offers preferential interest rates and longer repayment terms to encourage investment in sustainable technologies and practices. Notably, the framework has a phased implementation, starting with a voluntary 18-month period from April 2025 for banks to build capacity, leading to mandatory application from October 2026 for full compliance with climate-related disclosures.
5.	CBK lifted the moratorium on licensing of new commercial banks in Kenya in April 2025.	The CBK lifted the 10-year moratorium on licensing new commercial banks, effective July 1, 2025. By requiring new entrants to meet an enhanced minimum core capital threshold of KES 10.0bn, we see increased interest from sophisticated domestic and foreign investors, which could intensify competition and drive consolidation among existing players now competing with stronger, better-capitalized institutions.
6.	Completion of 100% acquisition of shareholding in National Bank of Kenya (NBK) from KCB Group in May 2025.	Expansion of Access Bank's East African footprint by integrating NBK into its pan-African network, thereby boosting synergies in its product offerings. For KCB, the transaction aimed at streamlining its portfolio as well as unlocking shareholder value (special dividend of KES 2.00 per share paid). Notably, a portion of specific assets and liabilities of NBK were transferred (hived out) to KCB Bank Kenya before the completion of the sale to Access Bank.

7.	Ascension of Anti-Money Laundering (AML) and Combating Terrorism Financing Laws (Amendment) Bill 2025 in June 2025.	As part of Kenya's reforms aimed at the country's removal from the FATF grey list, the amendment broadens the scope of reporting institutions, mandating them to implement real-time transaction monitoring and rigorous customer due diligence (KYC/KYB). The law also introduces strict beneficial ownership transparency to eliminate shell companies and enforces heavy penalties, including hefty fines and prison terms for terrorism financing. Furthermore, it formalizes the regulation of virtual assets under the Central Bank and Capital Markets Authority. While these reforms may increase short-term compliance costs and legal exposure, we opine that they could eventually lower the long-term risk premium associated with Kenya's grey-list status, potentially improving banks' access to international correspondent banking relationships and lowering the cost of foreign capital. However, the European Commission formally added Kenya to its list of high-risk third countries for AML/CFT/CPF deficiencies in June 2025.
8.	Issuance of Revised Risk-Based Pricing Model in August 2025.	The CBK issued the revised Risk-Based Credit Pricing Model, which is anchored on the overnight interbank average rate, now renamed the Kenya Shilling Overnight Interbank Average (KESONA). The overnight interbank average rate (KESONIA) closely aligns with the Central Bank rate. The revised RBCPM took effect from 1st December 2025 for all new variable rate loans, with that for existing variable rate loans set as 28th February 2026. The new model is poised to provide various benefits for stakeholders in the banking sector. For borrowers, the model is anticipated to provide transparency in loan pricing, allow low-risk individuals to access cheaper credit, and reward financial discipline with lower interest premiums. For banks, it's expected that the new model will enable better risk management through accurate pricing, effective monetary policy transmission, improved operational efficiency, and alignment with international best practices. Adoption is, however, varied, with c.48.0% of the commercial banks having chosen to use the CBR as their reference rate, while c.18.0% have opted for the KESONIA rate. Additionally, c.34.0% banks have chosen to utilize a mix of both CBR and KESONIA.
9.	Commencement of the Virtual Assets Service Providers Act 2025 in November 2025.	The Act forms part of the ongoing reforms aimed at exiting from the FATF Grey list and provides the legislative framework for regulating and supervising Virtual Asset Service Providers (VASPs). The Act further outlines obligations of VASPs in the prevention of Money Laundering, Terrorism Financing, and Proliferation Financing and designates the Central Bank of Kenya (CBK) and the Capital Markets Authority (CMA) as the regulators responsible for licensing, supervising, and regulating VASPs in Kenya. Kenya is rapidly becoming a leader in digital asset adoption, ranking 28th globally per the 2025 Yellow Card Regulatory Report. This presents lenders with opportunities to offer custodial services for virtual assets, develop new investment products through real-world asset tokenization, and partner with compliant Virtual Asset Service Providers (VASPs) for remittance and payment solutions.

10.	Nedbank Group Limited (Nedbank) announced a proposed deal to acquire approximately 66% of the ordinary shares of NCBA from NCBA shareholders by way of a Tender Offer in January 2026	The transaction is a cash and stock deal (80% - 4.02994 Nedbank ordinary shares and 20% - cash amount of KES 2100). For investors who would receive fewer than 200 Nedbank shares, they would receive KES 105.0 per share. Overall, the transaction is valued at a 1.4x P/B multiple, with the price at KES 98.72 per share. If the Tender Offer is completed, Nedbank will acquire a controlling interest in NCBA, resulting in NCBA becoming a subsidiary of Nedbank. At the conclusion of the Tender Offer, the remaining shares, representing 34% of the issued shares of NCBA, will remain listed on the Nairobi Securities Exchange (NSE). If Nedbank is not granted an exemption for the requirement to make a mandatory offer for all of NCBA's shares by 31st May 2026, the lender would change to an offer for the whole bank. It is estimated that the Offer will be completed by not later than the third quarter of 2026, should all requisite approvals be obtained. The deal may appeal to shareholders who are keen on the premium pricing (1.4x P/B), mixed consideration of cash and shares, geographical and currency diversification, as well as higher payouts for smaller investors. Investors, however, need to remain cognizant of tax considerations on dividends and foreign currency impact when repatriating earnings.

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