

Kenya Banks – Earnings cool off, but valuation remains compelling

Equities Research
Financials

June 16, 2026

Despite moderating earnings, Kenya banks still offer attractive value, with our coverage screening a market cap-weighted expected total return of 29%. We forecast earnings to normalize to a 12% CAGR over FY26-28e (down from 17% in FY23-25), while avg. ROE should hold steady at 19.2%. As inflationary pressures push short-term rates higher, we think funding costs have bottomed and are likely to trend upward in 2H26e. Against a cautious credit backdrop, banks are likely to favour gov't securities over aggressive loan growth. However, valuation upside remains compelling for our preferred picks.

Funding costs bottomed out, near term pressure on margins

With inflation risks building and short-term rates edging higher, we believe funding costs have bottomed and are likely to gradually reprice upward in 2H26e. We forecast average NIMs across our coverage universe to decline 40bps Y-o-Y to 7.3% in FY26e (vs. 7.7% in FY25) as deposit costs reprice faster than loan yields. However, margin compression should remain manageable by historical standards, with sector NIMs still above the FY19-24 average of 6.7%, supporting profitability despite near-term pressure.

NPLs moderating, but macro risks persist

System asset quality has improved, with sector NPLs declining from peak levels and banks accelerating balance sheet clean-up through write-offs. However, NPLs remain above FY19 levels, and we expect normalization to be gradual, with average NPLs across our coverage remaining broadly sticky at 11% in FY26e before improving more meaningfully from FY28e. Amid rising inflation and energy-related cost pressures, we remain watchful of sector exposures and Stage 2 formation as early indicators of renewed asset quality stress.

Valuations still attractive - Our preferred picks

We see buying opportunities within Kenya banks, with our preferred names - **Equity, KCB, I&M, and Co-op Bank** trading at meaningful discounts to our fair values and offering the most attractive risk-reward in our coverage universe. For yield investors, StanChart screens the highest on our FY26e dividend yield estimate of 10%, supported by its high payout ratio followed by Equity at 8.9%.

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Investment summary

Figure 1: Kenya banks coverage – Valuation summary table

	BBG code	Rating	Market cap (USD m)	Current price (KES)*	Target Price (KES)	Upside/ (down)	Div Yield (FY26e)	ETR*	FY26e		
									P/E (x)	P/B (x)	RoAE (%)
Equity Group	EQTY KN	BUY	2,205	75.50	95.33	26.3%	7.6%	33.9%	3.77	0.78	22.3%
KCB Group	KNCB KN	BUY	1,719	69.25	110.51	59.6%	8.7%	68.2%	3.15	0.61	20.7%
Co-op Bank	COOP KN	BUY	1,416	31.30	36.84	17.7%	8.0%	25.7%	5.50	1.00	19.2%
Stanbic	SBIC KN	HOLD	895	292.50	243.66	-16.7%	7.6%	-9.1%	7.45	1.33	18.6%
ABSA	ABSA KN	BUY	1,181	28.20	31.82	12.8%	8.2%	21.0%	6.50	1.26	20.3%
StanChart	SCBL KN	HOLD	982	337.00	280.93	-16.6%	10.0%	-6.6%	8.47	1.86	22.3%
I&M Group	IMH KN	BUY	727	55.00	70.36	27.9%	7.6%	35.5%	4.63	0.73	16.7%
DTB Group	DTKL KN	BUY	307	142.50	174.55	22.5%	7.0%	29.5%	3.92	0.41	10.3%
Market-cap weighted avg.							8.16%	29.0%	5.17	0.99	20.1%

*Current Price – Closing price, 12th June 2026

*ETR - Expected Total Return (Upside/downside + Dividend yield)

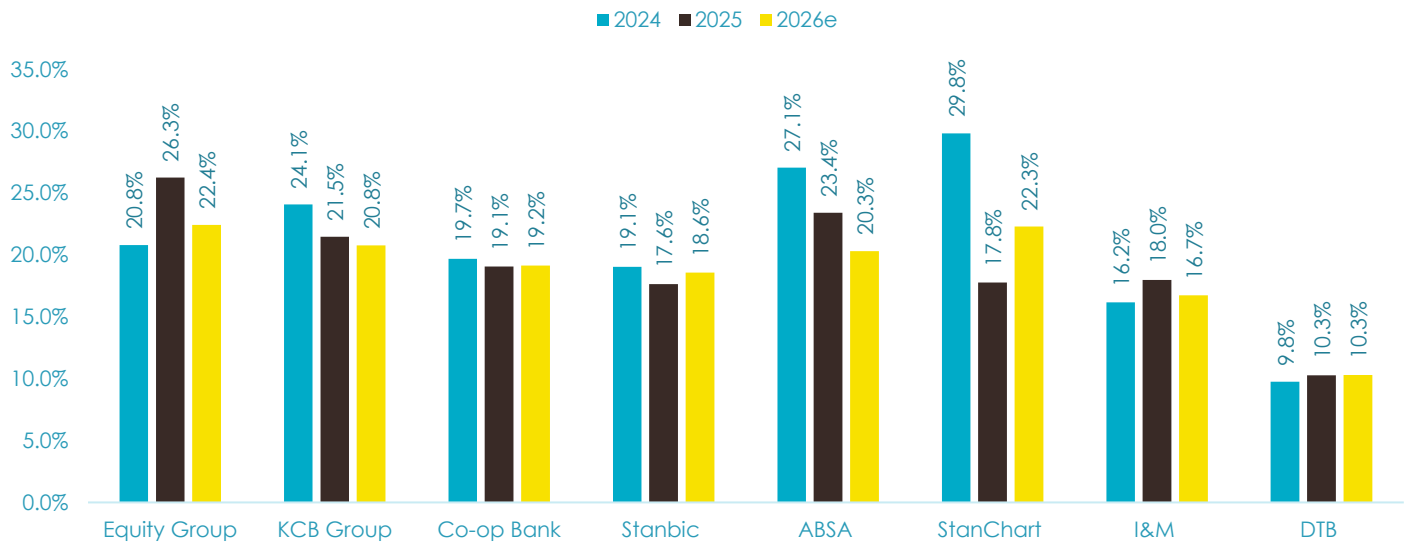
Earnings cool off, but valuation remains compelling

Kenyan banks within our coverage universe delivered 17% earnings CAGR over FY23-25, supported by elevated asset yields (through the high-rate cycle) and accelerated non-funded income (NFI). Heightened FX volatility over FY22-23 acted as a tailwind for foreign exchange income, pushing non-interest revenue (NIR) contribution to a peak of 32% (FY23-24) of total income before moderating to 28% in FY25 as the local currency stabilized.

Looking ahead, we forecast earnings to normalise at 12.4% CAGR over FY26-28e, as the tailwinds that supported recent profitability begin to fade. In our view, banks face a dual margin squeeze in 2026e: loan yields have declined to two-year lows, while funding costs have likely bottomed out given the recent uptick in short-term rates amid higher inflation (May-26 CPI: 6.7%) coupled with continued fiscal pressures. As a result, we see NIMs moderating in FY26e, with banks increasingly relying on asset allocation into gov't securities to cushion earnings.

Despite a lower earnings CAGR, we expect Kenya banks across our coverage to remain profitable for investors, forecasting average ROE of 19.2% over FY26-28e. This is broadly in line with the FY23-25 average (19.7%) and remains well above the FY20-22 average (16.0%).

Figure 2: Kenya banks - Return on Average Equity (RoAE), FY24-26e

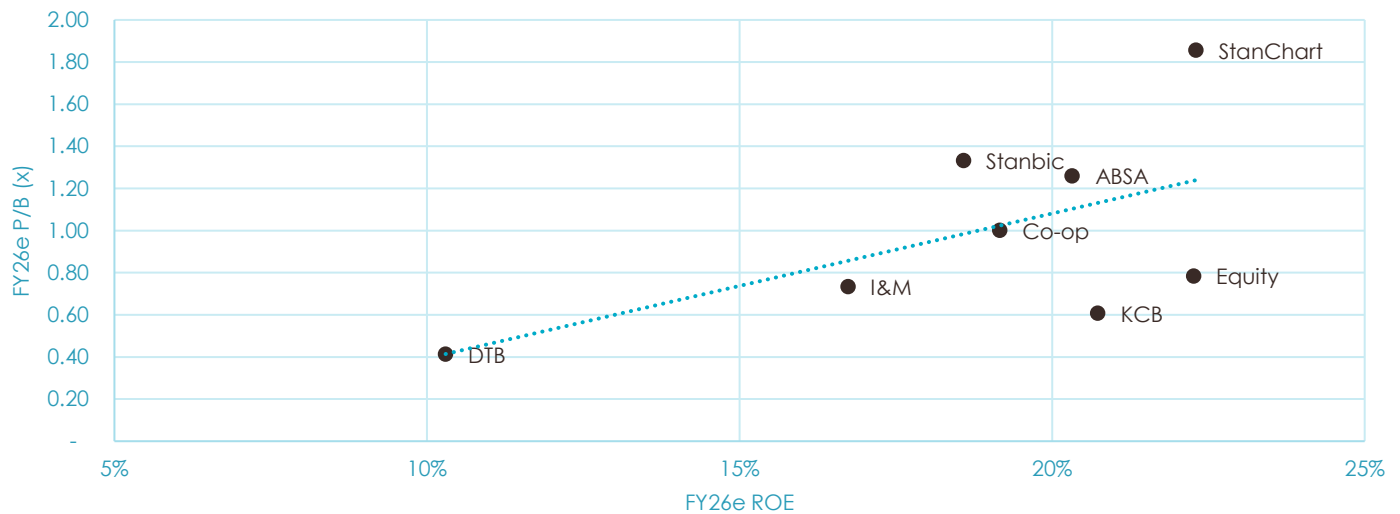


Source: NCBA IB Research, Company financials

With regards to valuation, Kenyan banks have re-rated, trading at an average P/B of 1.01x versus a 5-year historical average of 0.8x, implying a 40% premium. We view this premium as justified given the higher return profile, with sector ROE at 19.2% in FY25 versus a 5-year average of 17.5% (FY19-24).

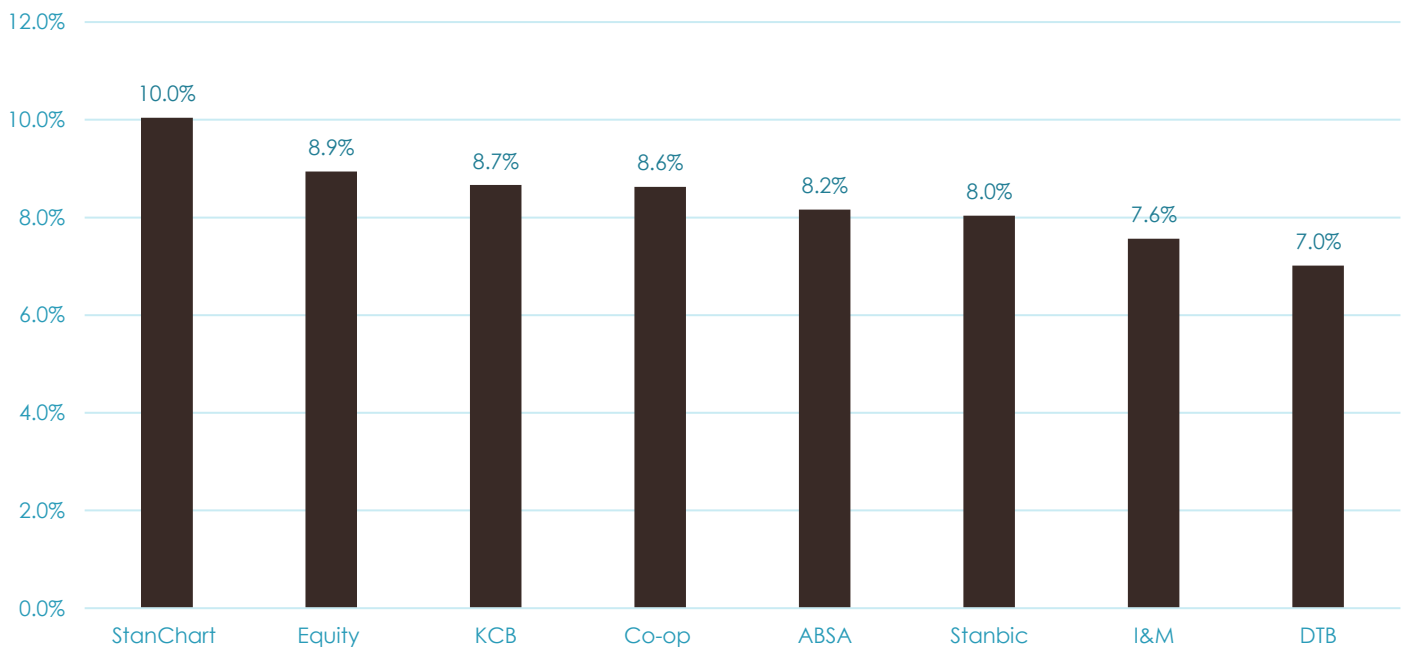
Despite the 2025 share price rally, we see select names offering meaningful upside on a risk-adjusted basis. Our preferred basket - **Equity**, **KCB**, **I&M**, and **Co-op Bank** trade at a deep discount to our fair values, in our view offering the most attractive risk-reward within our bank's coverage.

In contrast, while DTB offers 30% potential upside, we expect it to continue trading at a relative discount given its structurally lower ROE and ROA versus peers, capping its re-rating potential, in our view.

Figure 3: Kenya Banks valuation: FY26e P/B (x) versus ROE (%)


Source: NCBA IB Research

For yield investors, dividend returns remain attractive on selected banks. On our FY26e estimates, StanChart screens as the highest yielder at 10%, supported by its consistently high payout policy of 85-90%. Equity ranks second (8.9%) as we forecast an average payout ratio of 34% while KCB ranks third at 8.7% given its higher payout ratio (30-35% vs. a historical 16% in FY21-24).

Figure 4: Kenya banks - FY26e dividend yield


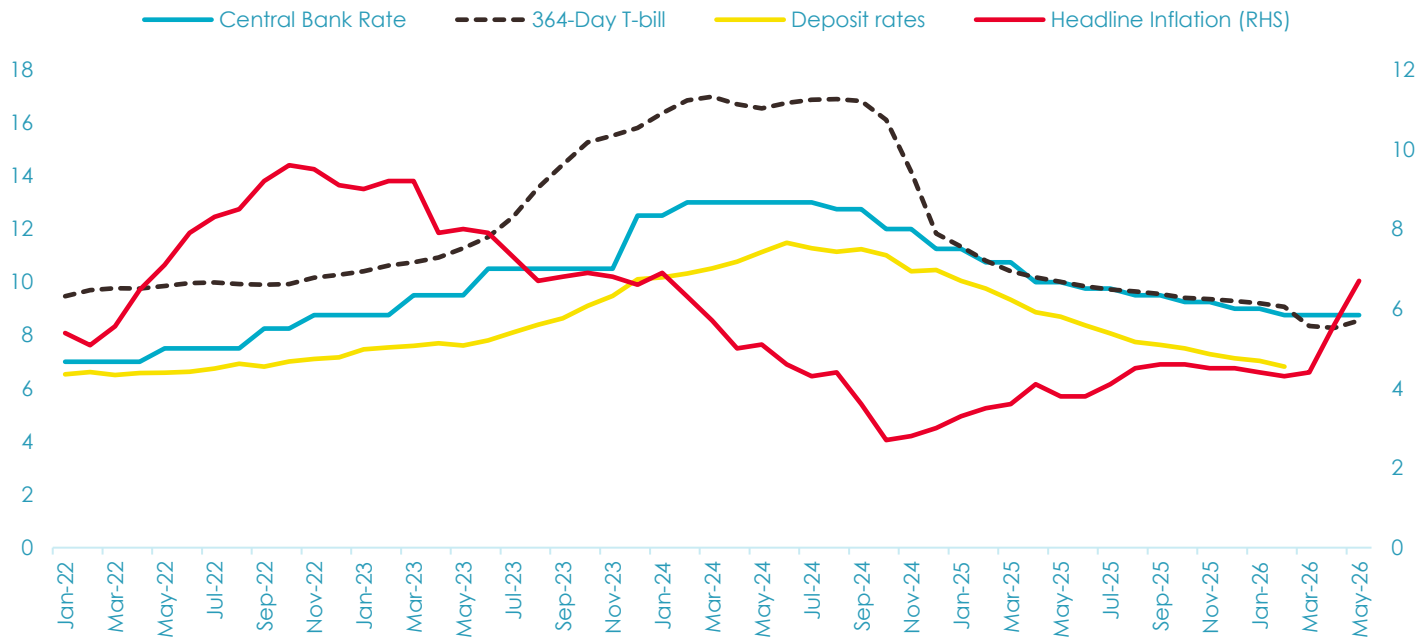
Source: NCBA IB Research

Below, we highlight some of the key themes driving our outlook for Kenyan banks.

Funding costs tailwinds have eased...

Following a period of NIM expansion in FY24-25, we expect margins for Kenyan banks under our coverage to moderate in FY26e. Deposit costs appear to have bottomed out, with short-term rates trending higher amid rising inflation. Although T-bill rates remain lower (91-day: -180bps Y-o-Y and -65bps as of May-26), inflation is now at a 2-year high from the global energy shock, increasing the risk of higher interest rates in the near term.

Figure 5: Central bank rate, inflation and 364-day T-bill rate (%)

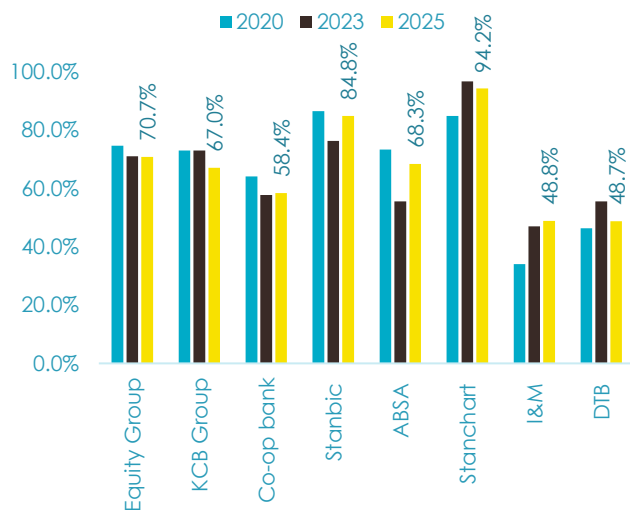


Source: Central Bank of Kenya, KNBS, NCBA IB Research

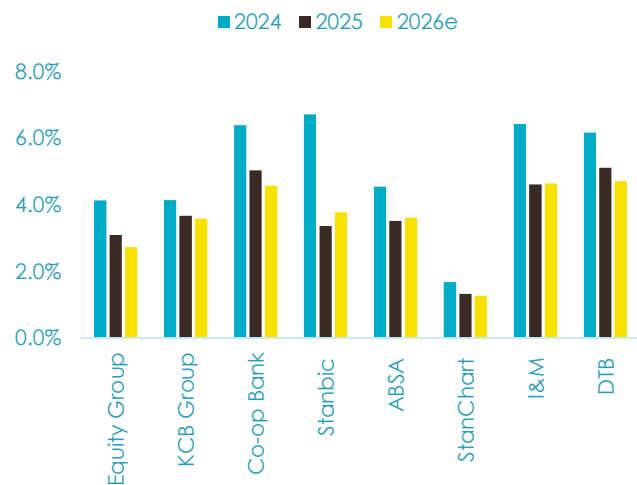
We believe funding costs have likely bottomed, with the upward trend in short-term rates expected to gradually feed through to deposit repricing in 2H26e. We forecast FY26e CoF to average 3.6% (vs 3.7% in FY25), as banks should continue to benefit from lower funding costs in 1H26e before repricing builds in 2H26e, implying a more back-end impact on NIMs.

With this, we see deposit mix as an important differentiator should funding costs begin to trend higher as low-cost deposit franchises are better positioned to defend NIMs. While the average CASA ratio across our Kenya banks universe has increased from 59% (FY20) to 68% (FY25), underlying trends have been different across each bank.

CASA ratios have declined at both EGH (75% to 71%) and KCB (73% to 67%). In contrast, I&M has improved its deposit mix, with CASA increasing from 34% to 48%, while DTB has recorded a more modest growth (46% to 48%). StanChart is a clear outlier, with a CASA ratio of 94%, supported by its transactional banking business, which has historically kept its CoF below peers and positions the bank as one of the largest beneficiaries in a higher-rate cycle, in our view.

Figure 6: Kenya banks: CASA mix (2020 – 2025)


Source: NCBA IB Research, Company financials

Figure 7: Average funding costs (CoF), FY24-26e


Source: NCBA IB Research, Company financials

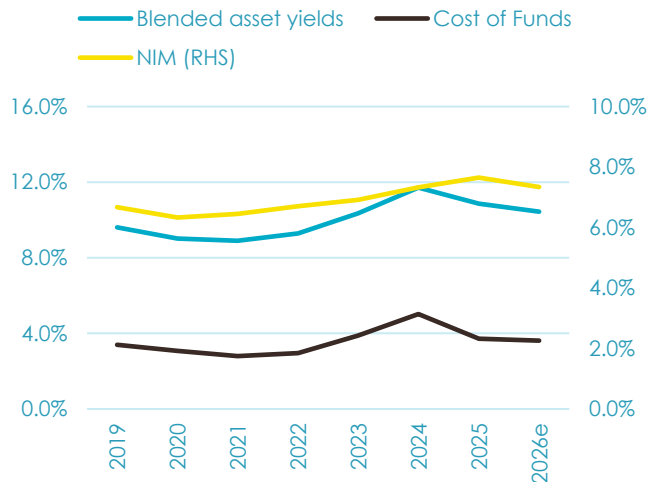
Causing near term NIM pressure, but banks remain profitable

The Central Bank's decision to keep the policy rate unchanged at its Jun-26 meeting is likely to keep loan yields at two-year lows through 2026, absent any subsequent policy tightening. Under the new Risk-Based Credit Pricing Model (RBCPM), banks have shifted to either the Central Bank Rate (CBR) or KESONIA as reference lending benchmarks. Based on our discussions with management teams, most banks have adopted the CBR, implying that meaningful loan repricing will remain contingent on a policy rate hike by the Central Bank. Meanwhile, adjustments to the pricing premium ('K') remain constrained, with revisions, as we understand it, requiring Treasury approval, limiting banks' flexibility to independently reprice loans. The practicality of the framework remains under discussion among industry stakeholders, particularly around the flexibility of premium ('K') adjustments.

As such, in the absence of a policy rate increase, loan yields are likely to remain at 2-year lows despite evolving funding dynamics. We therefore see a scenario where deposit costs reprice faster and shrink margins.

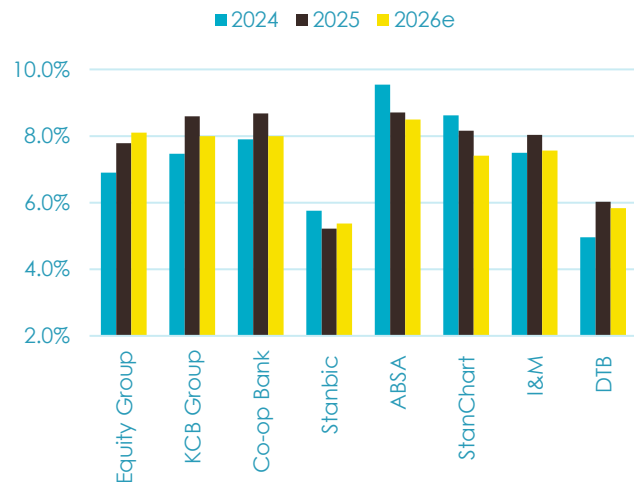
We forecast average NIMs for our coverage universe to decline by 40bps Y-o-Y to 7.3% in FY26e, from 7.7% in FY25, as deposit cost repricing outpaces loan yield adjustments. However, margins remain robust versus historical trends, with average NIMs having expanded from 6.7% in FY19 to 7.7% in FY25, supporting profitability despite near-term pressure.

Figure 8: Kenya banks – Average NIM trends (FY19-26e)



Source: NCBA IB Research, Company financials

Figure 9: Kenya banks NIM, 2024-26e

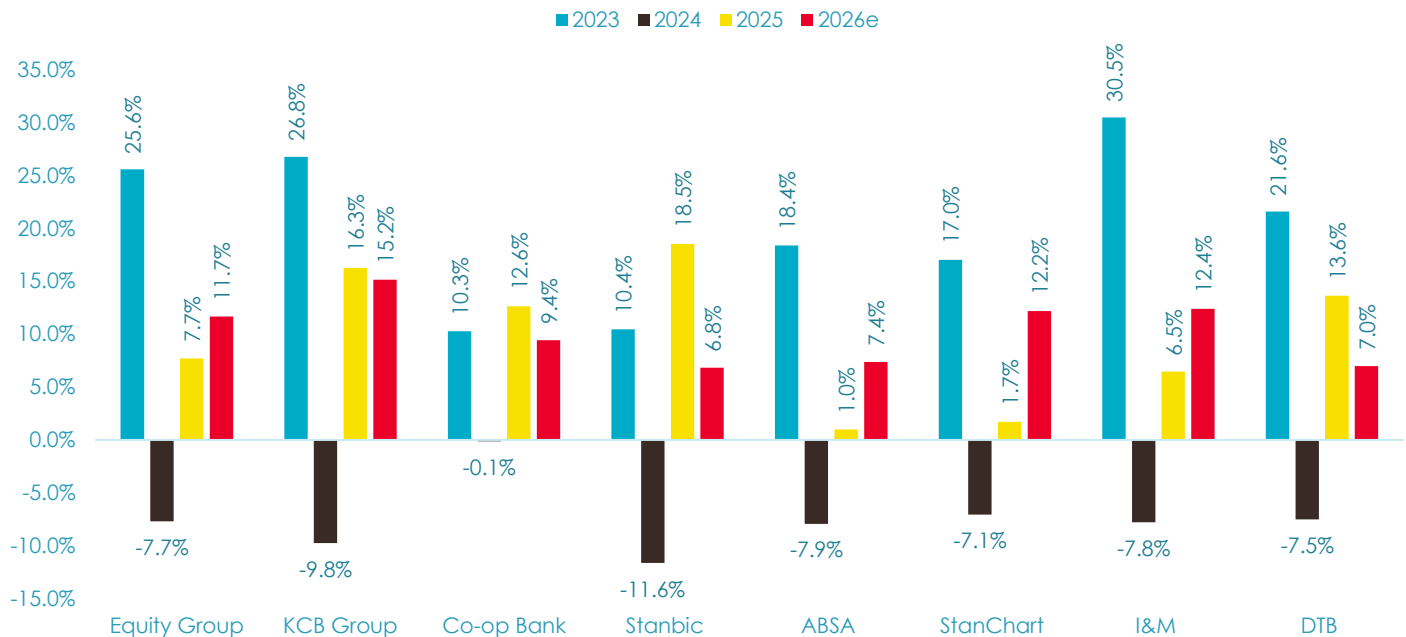


Source: NCBA IB Research, Company financials

Credit recovery delayed; Gov't securities still favoured

With regard to credit growth, mgmt. teams across our coverage are guiding for average loan growth of 10-12% in FY26e. While 2026 started on a positive macro footing, banks have yet to materially revise growth guidance following 1Q26 following the spill-over effects from Middle East conflict. In our view, loan growth is likely to moderate as banks remain cautious amid weaker business and consumer sentiment, due to inflationary pressures feeding into input costs and household consumption, respectively.

That said, loan growth is likely to be supported by regional subsidiaries and we estimate FY26e net loans to average 10% Y-o-Y (versus 9.7%, FY25 and -7.4% Y-o-Y). We see the DRC remaining a key growth driver for Equity Group, supported by gov't infrastructure spending, and growth momentum in the mining sector.

Figure 10: Kenya banks – Net loans Y-o-Y growth, 2023-26e


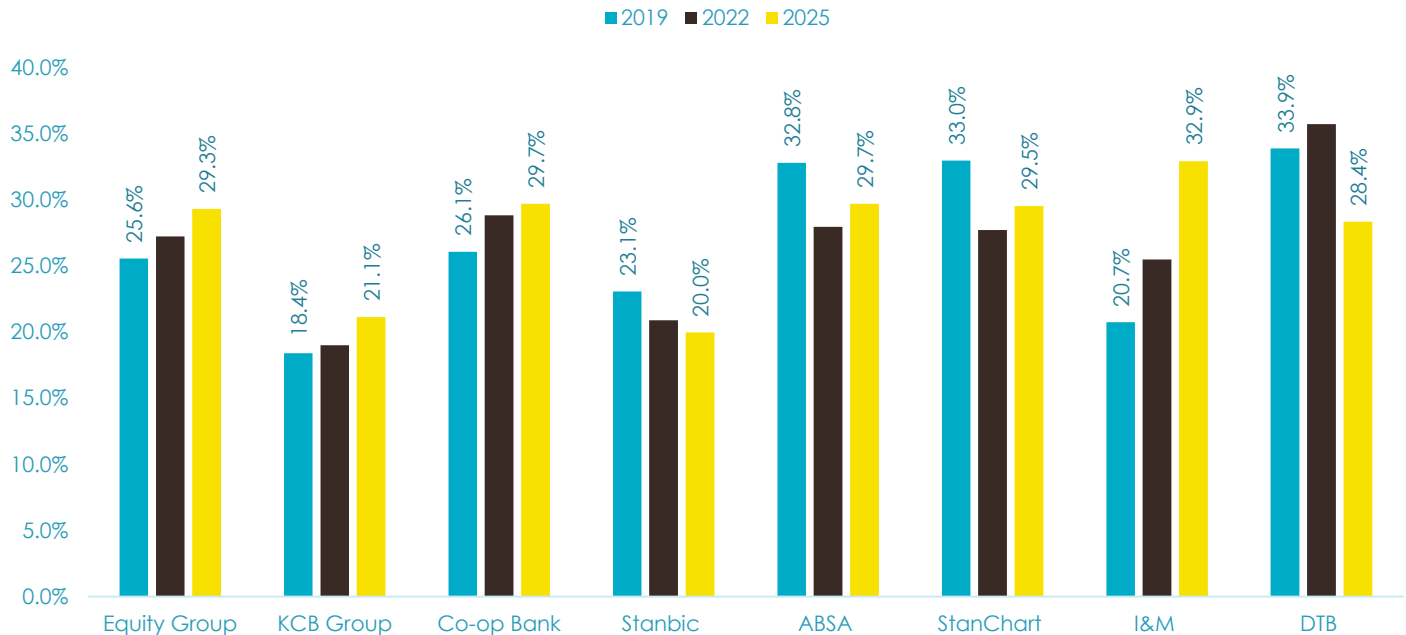
Source: NCBA IB Research, CBK

While loan growth recovered in FY25 from the historical lows seen in FY24, banks' balance sheets have remained liquid. Across our coverage, gross loan-to-deposit ratio (LDR) has declined from 79% in FY19 to 73% in FY25. Against a cautious macro backdrop in 2026e, we expect banks to remain risk-averse, with excess liquidity to be deployed into gov't securities rather than aggressive private sector lending.

On average, allocation to gov't securities as a share of total assets has remained broadly stable across our bank's universe, increasing marginally from 27% in FY19 to 28% in FY25. We forecast this to rise further to 29% in FY26e, before gradually normalizing to 27% by FY30e. At the bank level, I&M and Co-op Bank have increased their allocation, with I&M's G-sec book rising from 21% of total assets in FY19 to 27% in FY25, while Co-op Bank from 26% to 29% over the same period.

We believe this trend will sustain in the near term. In our view, the 2027 election cycle is also likely to reinforce a cautious lending environment, delaying any meaningful credit expansion. Thus, we forecast sector loan growth to average c.9% between FY26-27e before recovering to double-digit levels of 16% in FY28e and 14% in FY29e.

Figure 11: Kenya banks - Gov't securities allocation as % of total assets (2019-25)



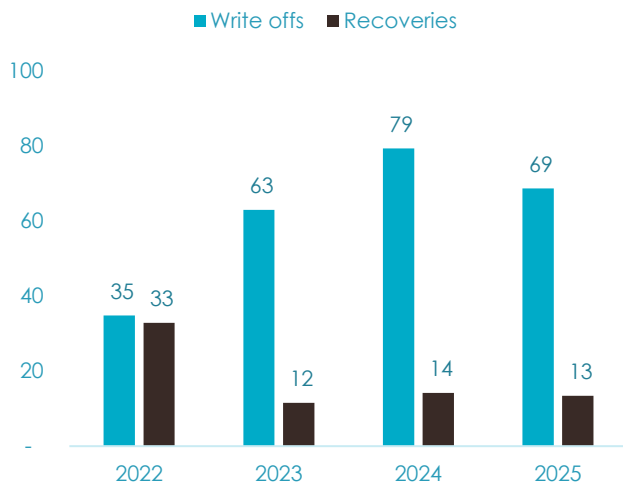
Source: NCBA IB Research, CBK

Asset quality: clean-up continues, albeit from elevated levels

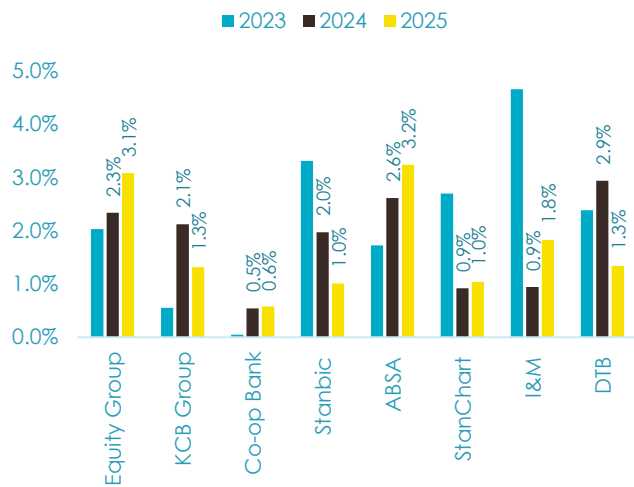
System NPLs declined to 15.3% by May-26 from a peak of 17.5% in Aug-24, while average NPLs across our listed banks moderated to 11.2% in FY25 (vs 12.2% in FY24). That said, NPL levels remain above the FY19 pre-COVID levels of 9.3%.

Banks continue to de-risk balance sheets through write-offs, although recoveries remain below prior cycle highs. Listed banks under our coverage wrote off KES69bn in FY25, lower than KES79bn in FY24, but still c2x above the prior rate-cycle peak of KES35bn in FY22, highlighting the continued clean-up of legacy problem loans.

However, recovery trends remain weak, declining from a peak of KES33bn in FY22 (driven by KCB's KES28bn) to KES14bn in FY24 and KES13bn in FY25. In our view, while sustained write-offs support gradual balance sheet normalization, the lower recoveries indicate the low asset quality cycle remains incomplete.

Figure 12: Total Loan write-offs vs recoveries (KES bn)


Source: NCBA IB Research, Company financials

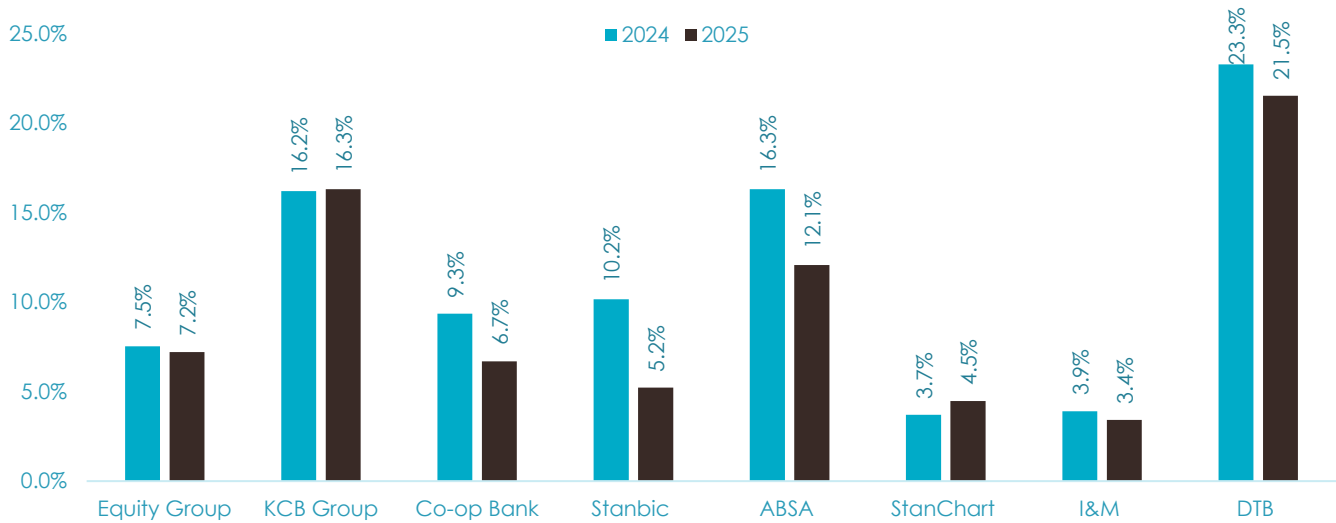
Figure 13: Write-offs as % of prior year Gross loans


Source: NCBA IB Research, Company financials

On average, banks wrote off 1.7% of prior-year gross loans in FY25, in-line with FY24 levels, but below the 2.2% recorded in FY23. ABSA recorded the highest write-off ratio at 3.2% of prior-year gross loans, followed by Equity Group at 3.1%. In contrast, Co-op Bank reported the lowest write-off ratio at 0.6%.

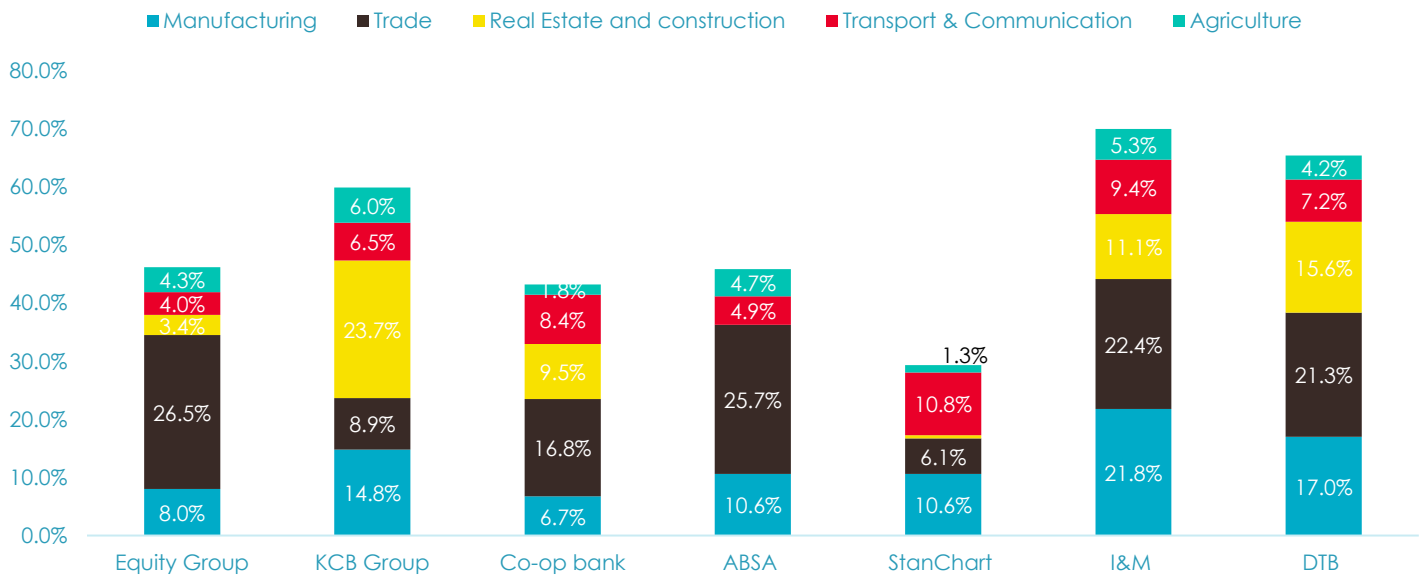
Amid rising inflation risks from higher energy costs with the Middle East conflict, we remain watchful of sector exposure and Stage 2 formation as potential early indicators of asset quality pressure. We think vulnerable sectors include manufacturing, trade, transport, and agriculture, where higher input costs and supply chain disruption could potentially weigh on borrower repayment capacity.

On average, Stage 2 loans across our coverage universe declined to 9.6% of gross loans in FY25 (vs 11.3% in FY24). The improvement was notable at Stanbic and ABSA, where Stage 2 exposure declined to 5.2% (from 10.2%) and 12.0% (from 16.3%), respectively. Elsewhere, trends were more muted, with Equity Group and KCB Group reporting broadly flat Stage 2 balances Y-o-Y. Notably, DTB continues to report the highest Stage 2 exposure in our universe at 23% of gross loans, leaving the bank more exposed to downside NPL formation, in our view.

Figure 14: Kenya banks - Stage 2 loans as % of Gross loans


Source: NCBA IB Research, Company financials

With regards to sector concentration, I&M, DTB and KCB Group have the highest exposure to manufacturing relative to peers, while Equity Group, ABSA, I&M and DTB are more exposed to the Trade sector, as highlighted below.

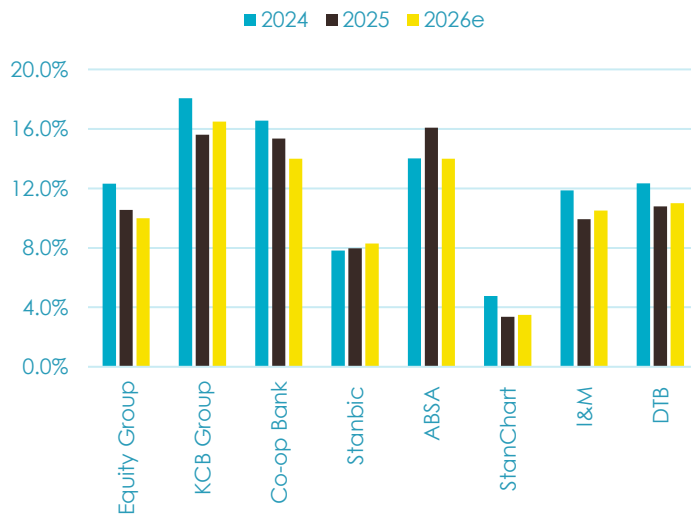
Figure 15: Selected sector exposure as % of Gross loans (2025)


Source: NCBA IB Research, Company financials

Going forward, we expect asset quality across our Kenyan banks coverage to remain sticky, with average NPLs at 11% in FY26e, before any meaningful normalization from FY28e (9.4%). While the NPL cycle appears to have peaked, we expect the pace of improvement to remain gradual given lingering macro risks.

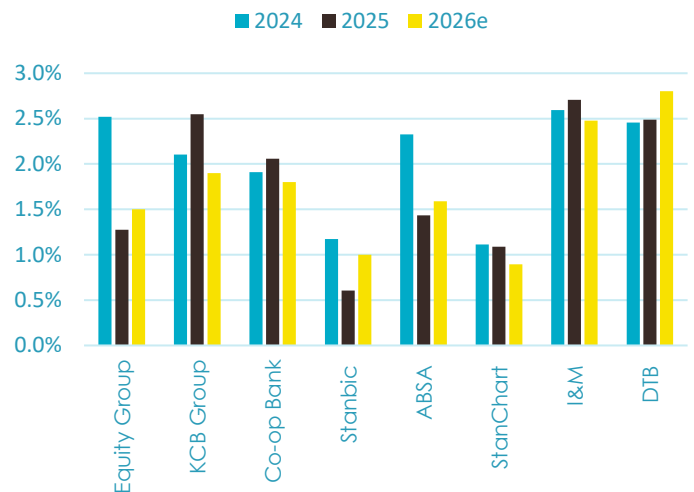
On credit costs, we expect banks to remain conservative, driven by macro-overlays in FY26e. We forecast an average cost of risk (CoR) of 1.7% in FY26e (vs 1.8% in FY25), although still below the elevated 2.2% average recorded during the FY23-24 high-rate cycle.

Figure 16: Kenya banks - NPL ratio (FY24-26e)



Source: NCBA IB Research, Company financials

Figure 17: Kenya banks - Cost of Risk (CoR), FY24-26e



Source: NCBA IB Research, Company financials

Below, we provide our outlook and valuation across the individual banks in our coverage.

Company Section

Valued at a discount

We maintain our BUY rating on Equity Group, as we continue to see value at current levels, with the stock trading at 0.72x FY26e P/B, below our valuation of 1.0x FY26e P/B. We forecast earnings to grow at 13% CAGR over FY26-28e, alongside an average ROE of 22%, underpinning a positive medium-term outlook.

FY26e earnings growth to moderate on high base effects

For FY26e, we forecast earnings to grow 5% Y-o-Y, moderating from the +55% Y-o-Y growth in FY25 due to high base effects. On asset growth, mgmt. is guiding for loan growth of 8-12.5%, and we forecast FY26e net loans 10.4% Y-o-Y. While the Kenyan subsidiary's loan-to-deposit ratio (LDR) has declined materially from 83% in FY23 to 58% in FY25, mgmt. noted improving credit demand from April-26, which could support a gradual acceleration in the domestic loan book.

Solid medium-term earnings outlook

Over the medium term, we forecast sustained earning growth of 13.4% over FY26-28e driven primarily by: i) net loans at 15% CAGR as we expect growth from Kenya subsidiary to pick up coupled with continued growth from the DRC business, where credit demand has continued to benefit from activity in the mining sector; ii) NIM to average 7.4% vs 7.1 (FY22-25) as we think loan contribution from the Kenyan subsidiary will likely support NIMs. On asset quality, we estimate CoR to average 1.3% over FY26-28e, from 2.4% over FY23-25, driven by a moderation in credit costs as the NPL ratio improved from a peak of 12.0% in FY24 to 10.6% in FY25.

Key financial highlights (Dec. year-end)

In KESbn, unless otherwise stated	2025a	2026e	2027e	2028e
Total banking income	199,827	225,043	248,012	277,098
Operating income	103,245	116,623	128,476	146,805
Net income	71,964	75,541	84,430	96,396
EPS (KES)	19.07	20.02	22.37	25.54
P/E (x)	4.0	3.8	3.4	3.0
DPS (KES)	5.75	6.75	7.50	8.50
Dividend yield	7.6%	8.9%	9.9%	11.3%
BVPS (KES)	82	96	112	150
P/B (x)	0.92	0.78	0.67	0.58
RoAE	26.3%	22.3%	21.3%	20.9%
Capital adequacy ratio	15.8%	18.4%	19.3%	19.7%
Loan-to-deposit ratio	64.8%	66.0%	66.0%	68.0%
NPL ratio	10.6%	10.0%	9.5%	9.0%
Coverage ratio	64.8%	69.5%	70.4%	72.1%

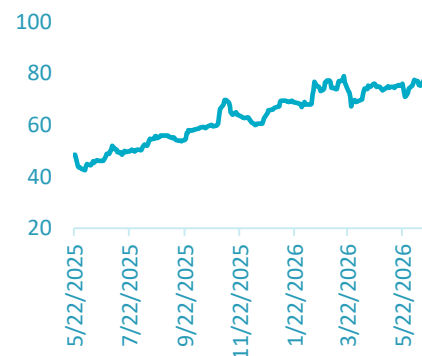
Source: Company financials & NCBA Research

Equity Group

Stock Data

Bloomberg ticker	EQTY KN
Recommendation	BUY
Target price (KES)	95.33
Current price (KES)	75.50
Upside/downside:	26.3%
Dividend yield (FY26e)	8.9%
Market cap (USD m)	2,205
No. of shares (m)	3,774

Share price performance (KES)



Valuation

Our fair value for Equity Group is KES 95.33 implying 35% total return potential (incl. 8.9% FY26e dividend yield). Our target price values the bank at a forward 4.8x FY26e P/E and 1.0x FY26e P/B. At the current market price, the stock trades at a discount of 3.8x FY26e P/E and 0.8x P/B.

Figure 18: Dividend discount Model (DDM), FY26-30e

KES m (unless noted)	FY26e	FY27e	FY28e	FY29e	FY30e
Dividends	25,472	28,303	32,076	37,737	41,510
Present value (PV) factor	83.0%	68.9%	57.2%	47.4%	39.4%
PV	21,139	19,493	18,334	17,900	16,341
Total PV of dividends	93,206				
Terminal value					
ROE					21.0%
COE					20.5%
Growth					8.0%
Book value					652,134
Terminal value (TV)					677,135
PV of TV	266,556				
Total PV	359,762				
No. of shares (m)	3,774				
Fair value per share	95.33				
-Implied 2026e P/B	0.99x				
-Implied 2026e P/E	4.76x				
-Implied 2027e P/E	4.26x				

As our fair value is sensitive to our assumptions, the table below provides a sensitivity analysis to changes in our ROE forecasts and COE estimates.

Figure 19: Equity Group valuation sensitivity analysis (KES)

		Terminal ROE					
		95.33	18.5%	19.5%	21.0%	22.5%	24.0%
Cost of Equity	18.5%		99.74	106.79	117.36	127.93	138.50
	19.5%		89.93	96.09	105.35	114.60	123.85
	20.5%		81.73	87.17	95.33	103.50	111.66
	21.5%		74.78	79.62	86.87	94.13	101.38
	22.5%		68.84	73.16	79.64	86.12	92.61

Investment risks

- **Credit growth:** We forecast net loans at 15% CAGR between FY26-28e driven by growth across its regional subsidiaries, especially Equity DRC and Kenya. Lower-than-expected growth due to regional factors is therefore a downside risk to our earnings.
- **Margins:** We estimate the bank's NIM to expand from 7.8% in FY25 to 8.1% in FY26e before easing to an average NIM of 7.7% (FY27-30e) driven by a more favorable loan contribution from Kenya and lower funding costs. Lower-than-expected NIMs are therefore a key downside risk to our earnings.

Equity Group – Financial summary and forecasts

	2024	2025	%chg	2026e	%chg	2027e	%chg	2028e	%chg
Balance sheet									
Assets									
Cash & cash equivalents	226,814	216,297	-4.6%	237,089	9.6%	264,641	11.6%	297,164	12.3%
Interbank	46,637	86,589	85.7%	99,577	15.0%	111,149	11.6%	110,433	-0.6%
Total securities	511,982	577,783	12.9%	624,334	8.1%	688,068	10.2%	773,029	12.3%
Gross loans	890,657	943,453	5.9%	1,043,190	10.6%	1,164,422	11.6%	1,365,350	17.3%
Provisions	(74,788)	(64,544)	-13.7%	(72,502)	12.3%	(77,859)	7.4%	(88,639)	13.8%
Net customer loans	815,869	878,909	7.7%	970,689	10.4%	1,086,563	11.9%	1,276,712	17.5%
Loans/Deposits	63.6%	64.8%		66.0%		66.0%		68.0%	
Total interest earning assets	1,374,488	1,543,281	12.3%	1,694,599	9.8%	1,885,780	11.3%	2,160,173	14.6%
Other assets	203,324	211,413	4.0%	222,357	5.2%	238,609	7.3%	256,739	7.6%
Total assets	1,804,626	1,970,991	9.2%	2,154,045	9.3%	2,389,031	10.9%	2,714,077	13.6%
Liabilities & shareholders' equity									
Interbank	-	-	-	-	-	-	-	-	-
Total deposits	1,401,387	1,455,142	3.8%	1,580,591	8.6%	1,764,276	11.6%	2,007,868	13.8%
Total Securities/ borrowings	72,533	84,763	16.9%	89,001	5.0%	84,551	-5.0%	80,324	-5.0%
Total interest- bearing liabilities	1,473,920	1,539,905	4.5%	1,669,592	8.4%	1,848,827	10.7%	2,088,191	12.9%
Shareholders' funds	234,041	309,505	32.2%	363,347	17.4%	422,305	16.2%	490,399	16.1%
Average shareholders' funds	220,917	271,773	23.0%	336,426	23.8%	392,826	16.8%	456,352	16.2%
Other Liabilities	96,665	121,581	25.8%	121,105	-0.4%	117,898	-2.6%	135,487	14.9%
Income Statement									
Net interest income	113,210	131,135	15.8%	149,378	13.9%	161,563	8.2%	177,455	9.8%
Net fees and commissions	42,822	44,226	3.3%	49,533	12.0%	56,963	15.0%	66,647	17.0%
Trading income	15,470	17,872	15.5%	21,187	18.5%	23,798	12.3%	26,598	11.8%
Other Income	12,111	6,594	-45.6%	4,946	-25.0%	5,687	15.0%	6,398	12.5%
Total income	183,613	199,827	8.8%	225,043	12.6%	248,012	10.2%	277,098	11.7%
Total operating costs	(100,227)	(96,582)	-3.6%	(108,420)	12.3%	(119,536)	10.3%	(130,293)	9.0%
Net operating income	83,386	103,245	23.8%	116,623	13.0%	128,476	10.2%	146,805	14.3%
Total loan loss provisions	(23,261)	(11,685)	-49.8%	(14,900)	27.5%	(14,349)	-3.7%	(12,649)	-11.9%
Pretax profit	60,741	92,115	51.7%	102,361	11.1%	114,860	12.2%	134,986	17.5%
Tax	(11,917)	(16,567)	39.0%	(22,520)	35.9%	(25,269)	12.2%	(32,397)	28.2%
Net attributable profits	46,549	71,964	54.6%	75,541	5.0%	84,430	11.8%	96,396	14.2%
Per share figures									
BVPS	62.02	82.02	32.2%	96.28	17.4%	111.91	16.2%	150.14	34.2%
EPS	12.34	19.07	54.6%	20.02	5.0%	22.37	11.8%	25.54	14.2%
DPS	4.25	5.75	35.3%	6.75	17.4%	7.50	11.1%	8.50	13.3%
Key ratios									
Gross loans/deposits	63.6%	64.8%		66.0%		66.0%		68.0%	
Net loans/Total assets	45.4%	44.8%		45.1%		45.5%		47.0%	
Asset yields	10.7%	10.6%		10.5%		10.1%		9.7%	
Cost of funds	4.1%	3.1%		2.7%		2.5%		2.3%	
Net interest Margin (NIM)	6.9%	7.8%		8.1%		7.9%		7.7%	
NFI/Total income	38%	34%		34%		35%		36%	
Cost/income ratio	54.6%	48.3%		48.2%		48.2%		47.0%	
Provision charge (CoR)	2.5%	1.3%		1.5%		1.3%		1.0%	
NPL coverage	68.2%	64.8%		69.5%		70.4%		72.1%	
NPL ratio	12%	11%		10%		10%		9%	
ROAA	2.53%	3.78%		3.63%		3.68%		3.75%	
ROAE	20.8%	26.3%		22.3%		21.3%		20.9%	
Dividend payout ratio	34.5%	30.2%		33.7%		33.5%		33.3%	
Total CAR	17.0%	15.8%		18.4%		19.3%		19.7%	
Valuation data									
P/EPS (x)	3.92	3.96		3.77		3.37		2.96	
P/BVPS (x)	0.78	0.92		0.78		0.67		0.58	
Dividend yield	5.6%	7.6%		8.9%		9.9%		11.3%	

Upside intact despite rerating

We maintain our BUY rating on KCB, as we believe the market has yet to fully capture the bank's medium-term return profile despite the stock gaining 54% Y-o-Y. KCB currently trades at 0.6x FY26e P/B, below our valuation of 0.97x FY26e P/B, which we believe is justified by our forecast average ROE of 20% over FY26-30e.

High NPL and low coverage to keep CoR elevated

We believe KCB's asset quality risks are likely to keep CoR elevated over the medium term. While the NPL ratio has declined from a peak of 18% in FY24 to 16% in 1Q26, the stock of NPLs has only reduced by c.8% to KES 217bn. NPL coverage remains moderate at 51% in FY25 (below peer avg. of 68%), with mgmt. targeting to raise its cash coverage to c.70% over the medium term. We view this as a positive, but likely to be earnings dilutive in the near term. Thus, we assume a conservative average CoR of 2.0% over FY26-30e.

Sustained returns despite margin normalisation

Despite CoR headwinds, we expect KCB to deliver an average ROE of 19-20% over FY26-28e, underpinned by 14% net loan CAGR. While we forecast NIMs to normalise to 7.8% on average from a peak of 8.6%, we expect this to be broadly offset by loan growth supporting net interest income. Furthermore, we see further growth from non-funded income, with NIR CAGR of 12% (FY26-28e) versus 8.2% over FY22-25e, driven by payments business and higher credit-related fees. On costs, we forecast a 10% CAGR over FY26-28e, reflecting ongoing investment in IT and digital infrastructure and inflationary costs.

Key financial highlights (Dec. year-end)

In KESbn, unless otherwise stated	2025a	2026e	2027e	2028e
Total banking income	203,060	217,644	234,083	262,047
Operating income	116,769	123,337	131,955	147,633
Net income	66,819	70,581	73,368	81,491
EPS (KES)	20.80	21.97	22.83	25.36
P/E (x)	3.3	3.2	3.0	2.7
DPS (KES)	7.00	6.00	7.00	8.00
Dividend yield	10.1%	8.7%	10.1%	11.6%
BVPS (KES)	103	114	127	141
P/B (x)	0.67	0.61	0.55	0.49
RoAE	21.5%	20.7%	19.5%	19.5%
Capital adequacy ratio	22.3%	20.5%	19.9%	19.0%
Loan-to-deposit ratio	78.4%	80.0%	78.0%	82.0%
NPL ratio	15.6%	16.5%	15.5%	14.5%
Coverage ratio	51.4%	53.1%	55.2%	57.8%

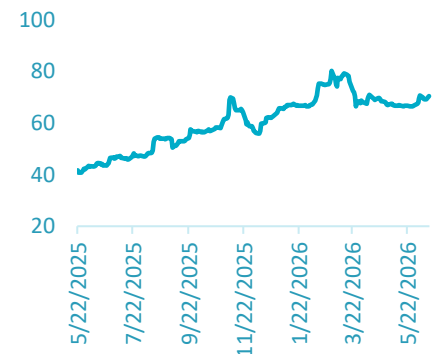
Source: Company financials & NCBA Research

KCB Group

Stock Data

Bloomberg ticker	KNCB KN
Recommendation	BUY
Target price (KES)	110.51
Current price (KES)	69.25
Upside/downside:	59.6%
Dividend yield (FY26e)	8.7%
Market cap (USD m)	1,719
No. of shares (m)	3,213

Share price performance (KES)



Valuation

Our fair value for KCB Group is KES110.51 implying 68.2% total return potential (incl. 8.7% FY26e dividend yield). Our target price values the bank at a forward 5.0x FY26e P/E and 0.97x FY26e P/B. At the current market price, the stock trades at a discount of 3.2x FY26e P/E and 0.6x P/B.

Figure 20: Dividend discount Model (DDM), FY26-30e

KES m (unless noted)	FY26e	FY27e	FY28e	FY29e	FY30e
Dividends	19,278	22,491	25,704	28,917	32,130
Present value (PV) factor	83.8%	70.2%	58.8%	49.3%	41.3%
PV	16,154	15,793	15,124	14,258	13,275
Total PV of dividends	74,604				
Terminal value					
ROE					19.5%
COE					19.3%
Growth					8.0%
Book value					560,615
Terminal value (TV)					568,829
PV of TV	280,466				
Total PV	355,070				
No. of shares (m)	3,213				
Fair value per share	110.51				
-Implied 2026e P/B	0.97x				
-Implied 2026e P/E	5.03x				
-Implied 2027e P/E	4.84x				

As our fair value is sensitive to our assumptions, the table below provides a sensitivity analysis to changes in our ROE forecasts and COE estimates.

Figure 21: KCB Group valuation sensitivity analysis (KES)

		Terminal ROE				
	110.51	16.5%	18.0%	19.5%	21.0%	22.5%
Cost of Equity	17.3%	108.22	123.01	137.79	152.58	167.37
	18.3%	96.99	109.90	122.81	135.72	148.63
	19.3%	87.74	99.13	110.51	121.89	133.28
	20.3%	80.01	90.13	100.25	110.36	120.48
	21.3%	73.45	82.51	91.56	100.61	109.67

Investment risks

- **Asset quality:** We estimate CoR to average 2.0% over FY26-28e. However, downside risk to our earnings forecasts lies in potential asset quality deterioration, which could result in higher-than-expected risk charges and NPL formation. A sharper-than-anticipated decline in asset quality remains a key downside risk to our earnings estimates.
- **NIR growth:** We forecast NIR growth of 12% CAGR, underpinned by KCB's payments expansion strategy. Key downside risks to our earnings include weaker-than-expected NIR growth and execution risks from recent acquisitions (Riverbank and Pesapal).

KCB Group – Financial summary and forecasts

	2024	2025	%chg	2026e	%chg	2027e	%chg	2028e	%chg
Balance sheet									
Assets									
Cash & cash equivalents	114,420	228,275	99.5%	234,627	2.8%	250,530	6.8%	205,557	-18.0%
Interbank	168,352	158,320	-6.0%	162,434	2.6%	180,382	11.0%	205,557	14.0%
Total securities	408,895	453,723	11.0%	505,350	11.4%	561,187	11.0%	616,670	9.9%
Gross loans	1,078,689	1,248,368	15.7%	1,443,858	15.7%	1,563,308	8.3%	1,872,849	19.8%
Provisions	(85,231)	(99,243)	16.4%	(126,496)	27.5%	(133,702)	5.7%	(157,085)	17.5%
Net customer loans	987,552	1,148,176	16.3%	1,317,361	14.7%	1,429,606	8.5%	1,715,764	20.0%
Loans/Deposits	78.1%	78.4%		80.0%		78.0%		82.0%	
Total interest earning assets	1,564,799	1,760,219	12.5%	1,985,145	12.8%	2,171,175	9.4%	2,537,990	16.9%
Other assets	283,101	158,712	-43.9%	170,937	7.7%	184,383	7.9%	199,175	8.0%
Total assets	1,962,320	2,147,206	9.4%	2,390,709	11.3%	2,606,089	9.0%	2,942,722	12.9%
Liabilities & shareholders' equity									
Interbank	43,017	63,163	46.8%	54,145	-14.3%	50,106	-7.5%	57,099	14.0%
Total deposits	1,381,975	1,592,612	15.2%	1,804,822	13.3%	2,004,241	11.0%	2,283,962	14.0%
Total Securities/ borrowings	69,273	90,151	30.1%	94,659	5.0%	85,193	-10.0%	89,452	5.0%
Total interest- bearing liabilities	1,494,265	1,745,926	16.8%	1,953,625	11.9%	2,139,539	9.5%	2,430,513	13.6%
Shareholders' funds	274,888	331,466	20.6%	366,318	10.5%	407,433	11.2%	453,763	11.4%
Average shareholders' funds	251,205	303,177	20.7%	348,892	15.1%	386,875	10.9%	430,598	11.3%
Other Liabilities	193,167	69,814	-63.9%	70,766	1.4%	59,116	-16.5%	58,445	-1.1%
Income Statement									
Net interest income	137,235	157,643	14.9%	168,029	6.6%	178,352	6.1%	199,384	11.8%
Net fees and commissions	28,863	28,304	-1.9%	30,568	8.0%	35,154	15.0%	40,427	15.0%
Trading income	16,648	11,111	-33.3%	12,444	12.0%	13,315	7.0%	14,248	7.0%
Other Income	5,421	6,002	10.7%	6,602	10.0%	7,262	10.0%	7,989	10.0%
Total income	188,167	203,060	7.9%	217,644	7.2%	234,083	7.6%	262,047	11.9%
Total operating costs	(83,242)	(86,291)	3.4%	(94,307)	9.3%	(102,128)	8.3%	(114,414)	12.0%
Net operating income	104,743	116,769	11.5%	123,337	5.6%	131,955	7.0%	147,633	11.9%
Total loan loss provisions	(24,019)	(29,665)	23.5%	(25,576)	-13.8%	(30,072)	17.6%	(34,362)	14.3%
Pretax profit	80,724	87,104	7.9%	97,760	12.2%	101,883	4.2%	113,272	11.2%
Tax	(20,176)	(22,004)	9.1%	(25,418)	15.5%	(26,490)	4.2%	(29,451)	11.2%
Net attributable profits	60,090	66,819	11.2%	70,581	5.6%	73,368	3.9%	81,491	11.1%
Per share figures									
BVPS	85.55	103.16	20.6%	114.01	10.5%	126.81	11.2%	141.23	11.4%
EPS	18.70	20.80	11.2%	21.97	5.6%	22.83	3.9%	25.36	11.1%
DPS	3.00	7.00	133.3%	6.00	-14.3%	7.00	16.7%	8.00	14.3%
Key ratios									
Gross loans/deposits	78.1%	78.4%		80.0%		78.0%		82.0%	
Net loans/Total assets	50.3%	53.5%		55.1%		54.9%		58.3%	
Asset yields	11.3%	11.8%		11.1%		10.7%		10.5%	
Cost of funds	4.1%	3.7%		3.6%		3.4%		3.1%	
Net interest Margin (NIM)	7.5%	8.6%		8.0%		7.7%		7.7%	
NFI/Total income	27.1%	22.4%		22.8%		23.8%		23.9%	
Cost/income ratio	44.3%	42.5%		43.3%		43.6%		43.7%	
Provision charge (CoR)	2.1%	2.5%		1.9%		2.0%		2.0%	
NPL coverage	46.8%	51.4%		53.1%		55.2%		57.8%	
NPL ratio	18.1%	15.6%		16.5%		15.5%		14.5%	
ROAA	2.9%	3.2%		3.2%		3.0%		3.0%	
ROAE	24.1%	21.5%		20.7%		19.5%		19.5%	
Dividend payout ratio	16.0%	33.7%		27.3%		30.7%		31.5%	
Total CAR	18.4%	22.3%		20.5%		19.9%		19.0%	
Valuation data									
P/EPS (x)	2.22	3.33		3.15		3.03		2.73	
P/BVPS (x)	0.49	0.67		0.61		0.55		0.49	
Dividend yield	4.3%	10.1%		8.7%		10.1%		11.6%	

Source: NCBA IB Research, Company financials

Strong capital buffers, stable earnings

Co-op's strong capital position remains key to our investment thesis. With 1Q26 CAR at 23% and limited balance sheet expansion needs, we expect excess capital to support sustained shareholder distributions. Together with stable return profile, this supports our BUY rating.

FY26e loan growth guidance unchanged

Co-op's loans grew 4% Q-o-Q in 1Q26, with mgmt. maintaining its FY26 guidance of 10-12% growth despite macro risks. Combined with NIM guidance of c.8%, we expect Co-op to deliver 13% Y-o-Y earnings growth in FY26e. Mgmt. remains positive on credit demand, with optimism skewed toward household lending where demand appeared to improve in 1Q26. Given households account for 52% of the loan book, this segment should remain the primary driver of loan growth.

Stable earnings outlook beyond FY26e

Beyond FY26e, we forecast earnings to grow at a 12.8% CAGR over FY26-28e, driven by 12% loan CAGR, average NIMs of 7.9% (vs. 8.1% in FY23-25) and a 9% CAGR in non-interest income on the back of credit-related fees. Asset quality improved in 1Q26 (NPL ratio: 14.5% vs. 17.0% in 1Q25), however, we expect NPLs to remain sticky at c 14% in FY26e on macro risks. As a result, we estimate CoR of 2% in FY26e, before moderating to an average of 1.5% over FY27-29e.

Key financial highlights (Dec. year-end)

In KESbn, unless otherwise stated	2025a	2026e	2027e	2028e
Total banking income	91,622	97,648	106,373	119,609
Operating income	49,280	54,052	57,516	65,330
Net income	29,563	33,386	36,588	42,537
EPS (KES)	5.04	5.69	6.24	7.25
P/E (x)	6.2	5.5	5.0	4.3
DPS (KES)	2.5	2.7	3.0	3.5
Dividend yield	8.0%	8.6%	9.6%	11.2%
BVPS (KES)	28.15	31.25	34.53	37.93
P/B (x)	1.11	1.00	0.91	0.83
RoAE	19.1%	19.2%	19.0%	20.0%
Capital adequacy ratio	22.2%	20.9%	20.3%	20.1%
Loan-to-deposit ratio	84.0%	83.0%	84.0%	89.0%
NPL ratio	15.4%	14.0%	13.0%	11.5%
Coverage ratio	74.4%	80.5%	84.4%	89.9%

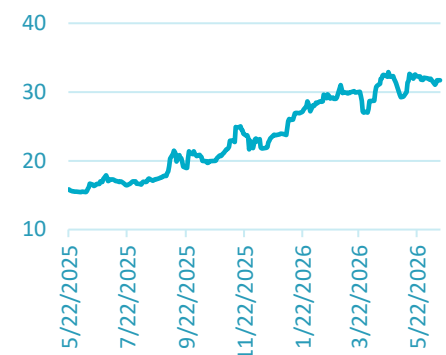
Source: Company financials & NCBA Research

Co-op Bank

Stock Data

Bloomberg ticker	COOP KN
Recommendation	BUY
Target price (KES)	36.84
Current price (KES)	31.30
Upside/downside:	17.7%
Dividend yield (FY26e)	8.6%
Market cap (USD m)	1,416
No. of shares (m)	5,867

Share price performance (KES)



Valuation

Our fair value for Co-operative Bank is KES36.84 implying 26.3% total return potential (incl. 8.6% FY26e dividend yield). Our target price values the bank at a forward 6.5x FY26e P/E and 1.2x FY26e P/B. At the current market price, the stock trades at a slight discount of 5.5x FY26e P/E and 1.0x P/B.

Figure 22: Dividend discount Model (DDM), FY26-30e

KES m (unless noted)	FY26e	FY27e	FY28e	FY29e	FY30e
Dividends	15,841	17,602	20,535	23,469	26,402
Present value (PV) factor	85.1%	72.4%	61.6%	52.5%	44.6%
PV	13,482	12,749	12,659	12,312	11,788
Total PV of dividends	62,990				
Terminal value					
ROE					20.3%
COE					17.5%
Growth					8.0%
Book value					265,626
Terminal value (TV)					343,058
PV of TV	153,172				
Total PV	216,162				
No. of shares (bn)	5,867				
Fair value per share	36.84				
-Implied 2026e P/B	1.2x				
-Implied 2026e P/E	6.5x				
-Implied 2027e P/E	5.9x				

As our fair value is sensitive to our assumptions, the table below provides a sensitivity analysis to changes in our ROE forecasts and COE estimates.

Figure 23: Co-op Bank valuation sensitivity analysis (KES)

		Terminal ROE					
		36.84	17.3%	18.8%	20.3%	21.8%	23.3%
Cost of Equity	15.5%	38.52	42.92	47.33	51.73	56.14	
	16.5%	34.02	37.74	41.46	45.18	48.91	
	17.5%	30.46	33.65	36.84	40.03	43.23	
	18.5%	27.58	30.34	33.11	35.88	38.65	
	19.5%	25.19	27.62	30.04	32.46	34.89	

Investment risks

- **Margins:** We forecast NIMs to average 7.9% over FY26-28e, supported by lower funding costs offsetting pressure from lower loan yields. However, Co-op's CASA mix has declined from 64% in FY20 to 58% in FY25, which could pose downside risk to our margin outlook should deposit costs reprice higher-than-expected.
- **Asset quality:** We estimate Co-op's NPL ratio to moderate to 14.0% in FY26e from a peak of 16.5% in FY24. However, a faster-than-expected deterioration in asset quality due to macro pressures could result in higher risk charges and pose downside risk to our NPL and CoR forecasts.

Co-op Bank – Financial summary and forecasts

	2024	2025	%chg	2026e	%chg	2027e	%chg	2028e	%chg
Balance sheet									
Assets									
Cash & cash equivalents	34,784	41,022	17.9%	45,818	11.7%	49,154	7.3%	54,052	10.0%
Interbank	52,163	60,642	16.3%	63,636	4.9%	54,615	-14.2%	37,536	-31.3%
Total securities	218,470	245,852	12.5%	286,362	16.5%	307,212	7.3%	322,813	5.1%
Gross loans	429,132	482,472	12.4%	528,179	9.5%	573,462	8.6%	668,149	16.5%
Provisions	(49,087)	(55,133)	12.3%	(59,526)	8.0%	(62,937)	5.7%	(69,103)	9.8%
Net customer loans	373,733	421,003	12.6%	460,730	9.4%	501,923	8.9%	582,342	16.0%
Loans/Deposits	84.8%	84.0%		83.0%		84.0%		89.0%	
Total interest earning assets	644,365	727,497	12.9%	810,729	11.4%	863,750	6.5%	942,691	9.1%
Other assets	64,041	58,834	-8.1%	64,955	10.4%	71,891	10.7%	79,765	11.0%
Total assets	743,190	827,352	11.3%	921,502	11.4%	984,795	6.9%	1,076,508	9.3%
Liabilities & shareholders' equity									
Interbank	2,801	2,762	-1.4%	3,182	15.2%	3,413	7.3%	3,754	10.0%
Total deposits	506,112	574,170	13.4%	636,360	10.8%	682,693	7.3%	750,729	10.0%
Total Securities/ borrowings	55,406	61,697	11.4%	66,016	7.0%	56,113	-15.0%	64,531	15.0%
Total interest- bearing liabilities	564,319	638,629	13.2%	705,558	10.5%	742,220	5.2%	819,013	10.3%
Shareholders' funds	145,029	165,135	13.9%	183,353	11.0%	202,600	10.5%	222,535	9.8%
Average shareholders' funds	129,109	155,082	20.1%	174,244	12.4%	192,976	10.8%	212,567	10.2%
Other Liabilities	33,842	23,589	-30.3%	32,591	38.2%	39,975	22.7%	34,960	-12.5%
Income Statement									
Net interest income	51,521	62,851	22.0%	64,989	3.4%	69,169	6.4%	76,634	10.8%
Net fees and commissions	22,833	23,109	1.2%	26,807	16.0%	30,828	15.0%	36,069	17.0%
Trading income	4,975	3,658	-26.5%	3,548	-3.0%	3,726	5.0%	3,912	5.0%
Other Income	1,447	2,004	38.5%	2,304	15.0%	2,650	15.0%	2,994	13.0%
Total income	80,776	91,622	13.4%	97,648	6.6%	106,373	8.9%	119,609	12.4%
Total operating costs	(38,678)	(42,341)	9.5%	(43,596)	3.0%	(48,856)	12.1%	(54,279)	11.1%
Net operating income	42,098	49,280	17.1%	54,052	9.7%	57,516	6.4%	65,330	13.6%
Total loan loss provisions	(8,140)	(9,385)	15.3%	(9,096)	-3.1%	(8,262)	-9.2%	(8,070)	-2.3%
Pretax profit	34,780	40,287	15.8%	45,388	12.7%	49,729	9.6%	57,781	16.2%
Tax	(9,324)	(10,533)	13.0%	(11,801)	12.0%	(12,929)	9.6%	(15,023)	16.2%
Net attributable profits	25,433	29,563	16.2%	33,386	12.9%	36,588	9.6%	42,537	16.3%
Per share figures									
BVPS	24.72	28.15	13.9%	31.25	11.0%	34.53	10.5%	37.93	9.8%
EPS	4.33	5.04	16.2%	5.69	12.9%	6.24	9.6%	7.25	16.3%
DPS	1.50	2.50	66.7%	2.70	8.0%	3.00	11.1%	3.50	16.7%
Key ratios									
Gross loans/deposits	84.8%	84.0%		83.0%		84.0%		89.0%	
Net loans/Total assets	50.3%	50.9%		50.0%		51.0%		54.1%	
Asset yields	13.2%	12.9%		11.8%		11.3%		11.0%	
Cost of funds	6.4%	5.0%		4.6%		4.2%		3.7%	
Net interest Margin (NIM)	7.9%	8.7%		8.0%		7.8%		8.0%	
NFI/Total income	36.2%	31.4%		33.4%		35.0%		35.9%	
Cost/income ratio	47.9%	46.2%		44.6%		45.9%		45.4%	
Provision charge (CoR)	1.9%	2.1%		1.8%		1.5%		1.3%	
NPL coverage	69.1%	74.4%		80.5%		84.4%		89.9%	
NPL ratio	16.5%	15.4%		14.0%		13.0%		11.5%	
ROAA	3.6%	3.8%		3.8%		3.8%		4.1%	
ROAE	19.7%	19.1%		19.2%		19.0%		20.0%	
Dividend payout ratio	34.6%	49.6%		47.4%		48.1%		48.3%	
Total CAR	20.9%	22.2%		20.9%		20.3%		20.1%	
Valuation data									
P/EPS (x)	7.22	6.21		5.50		5.02		4.32	
P/BVPS (x)	1.27	1.11		1.00		0.91		0.83	
Dividend yield	4.8%	8.0%		8.6%		9.6%		11.2%	

Source: NCBA IB Research, Company financials

Growth fully priced in

We have a HOLD recommendation on Stanbic. While the bank continues to deliver a steady ROE, we believe the market has fully priced its growth story. We see moderated earnings ahead as we forecast EPS at 6% CAGR (FY26-28e), which leaves the stock without a clear catalyst for further multiple expansion, in our view.

FY26 earnings growth driven by fees as margins moderate

We forecast FY26 earnings to grow 13% Y-o-Y, driven by a one-off gain in non-interest revenue from transaction fees. While a higher interest rate environment should support asset yields, faster repricing on deposits is likely to weigh on margin expansion and we forecast NIMs to ease to 5.2% from 5.4% in FY25. We forecast FY26e loans to grow 7% Y-o-Y on cautious lending amid prevailing macro risks.

Steady return profile

We forecast ROE to average 18.3% over FY26-28e, broadly in line with FY23-25 levels. We expect loan growth to accelerate to a 12% CAGR (vs. 8.8% in FY23-25) as rates normalize, although lower non-funded income contribution (34% on average vs. 38% historically) should moderate earnings as FX tailwinds fade. Stanbic's asset quality remains a key differentiator, with an FY25 NPL ratio of 8% versus the system average of 15% and our peer average of 11%, supporting a lower CoR of 0.9% over FY26-28e (vs. 1.4% in FY23-25).

Key financial highlights (Dec. year-end)

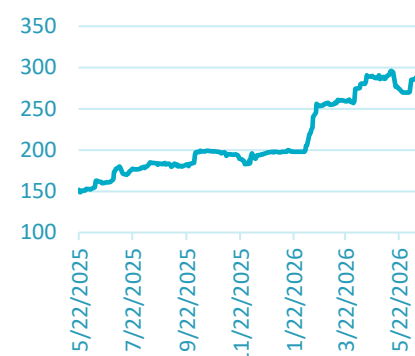
In KESbn, unless otherwise stated	2025a	2026e	2027e	2028e
Total banking income	38,511	44,714	48,205	50,842
Operating income	20,554	25,189	27,335	27,793
Net income	13,718	15,517	16,833	17,403
EPS (KES)	34.70	39.25	42.58	44.02
P/E (x)	8.43	7.45	6.87	6.64
DPS (KES)	22.4	23.5	26.0	28.0
Dividend yield	7.6%	8.0%	8.9%	9.6%
BVPS (KES)	203	220	239	257
P/B (x)	1.44	1.33	1.23	1.14
RoAE	17.6%	18.6%	18.6%	17.8%
Capital adequacy ratio	17.5%	17.5%	16.8%	17.2%
Loan-to-deposit ratio	78.2%	75.0%	75.0%	77.0%
NPL ratio	8.0%	8.3%	7.5%	7.0%
Coverage ratio	79.9%	82.2%	84.8%	86.6%

Source: Company financials & NCBA Research

Stanbic Holdings

Stock Data	
Bloomberg ticker	SBIC KN
Recommendation	HOLD
Target price (KES)	243.66
Current price (KES)	292.50
Upside/downside:	-16.7%
Dividend yield (FY26e)	8.0%
Market cap (USD m)	895
No. of shares (m)	395

Share price performance (KES)



Valuation

Our fair value for Stanbic Holdings is KES243.66 implying -8.7% total return potential (incl. 8.0% FY26e dividend yield). Our target price values the bank at a forward 6.2x FY26e P/E and 1.1x FY26e P/B. At the current market price, we believe the stock is overbought, trading at a premium of 7.5x FY26e P/E and 1.3x P/B.

Figure 24: Dividend discount Model (DDM), FY26-30e

KES m (unless noted)	FY26e	FY27e	FY28e	FY29e	FY30e
Dividends	9,290	10,278	11,069	11,860	12,650
Present value (PV) factor	85.1%	72.4%	61.6%	52.5%	44.6%
PV	7,906	7,445	6,823	6,222	5,648
Total PV of dividends	34,045				
Terminal value					
ROE					19.0%
COE					17.5%
Growth					8.0%
Book value					120,117
Terminal value (TV)					139,486
PV of TV	62,279				
Total PV	96,323				
No. of shares (bn)	395				
Fair value per share	243.66				
-Implied 2026e P/B	1.11x				
-Implied 2026e P/E	6.21x				
-Implied 2027e P/E	5.72x				

As our fair value is sensitive to our assumptions, the table below provides a sensitivity analysis to changes in our ROE forecasts and COE estimates.

Figure 25: Stanbic Holdings valuation sensitivity analysis (KES)

		Terminal ROE				
	243.66	16.5%	18.0%	19.0%	20.5%	22.0%
Cost of Equity	15.5%	258.60	288.16	307.87	337.43	367.00
	16.5%	230.35	255.34	272.00	296.98	321.97
	17.5%	207.96	229.38	243.66	265.08	286.50
	18.5%	189.74	208.32	220.70	239.28	257.86
	19.5%	174.63	190.89	201.73	218.00	234.26

Investment risks

- **Non-funded income:** Our FY26e earnings forecasts assume a one-off transaction fee income which we expect to boost non-funded income. Should this transaction delay materializing, there is a significant downside risk to our earnings growth estimates.
- **Margins:** Competition for funding as short-term interest rates rise could potentially drive deposit costs higher than anticipated. Lag to pass on these costs to borrowers would lead to lower NIM than expected and is a downside risk to our earnings forecast.

Stanbic Holdings – Financial summary and forecasts

	2024	2025	%chg	2026e	%chg	2027e	%chg	2028e	%chg
Balance sheet									
Assets									
Cash & cash equivalents	24,677	30,116	22.0%	31,291	3.9%	34,452	10.1%	37,836	9.8%
Interbank	64,486	93,610	45.2%	104,302	11.4%	110,246	5.7%	100,895	-8.5%
Total securities	99,190	108,076	9.0%	125,162	15.8%	142,402	13.8%	151,342	6.3%
Gross loans	248,057	291,454	17.5%	312,906	7.4%	344,520	10.1%	388,445	12.7%
Provisions	-18,227	-18,535	1.7%	-21,336	15.1%	-21,911	2.7%	-23,548	7.5%
Net customer loans	229,830	272,919	18.7%	291,570	6.8%	322,609	10.6%	364,897	13.1%
Loans/Deposits	78.0%	78.2%		75.0%		75.0%		77.0%	
Total interest earning assets	393,506	474,605	20.6%	521,034	9.8%	575,257	10.4%	617,134	7.3%
Other assets	36,651	36,532	-0.3%	36,998	1.3%	37,517	1.4%	38,061	1.4%
Total assets	454,834	541,253	19.0%	589,323	8.9%	647,226	9.8%	693,031	7.1%
Liabilities & shareholders' equity									
Interbank	20,819	44,884	115.6%	37,549	-16.3%	36,749	-2.1%	35,313	-3.9%
Total deposits	318,193	372,725	17.1%	417,208	11.9%	459,360	10.1%	504,474	9.8%
Total Securities/ borrowings	10,482	13,025	24.3%	16,933	30.0%	18,118	7.0%	19,386	7.0%
Total interest- bearing liabilities	349,494	430,634	23.2%	471,689	9.5%	514,227	9.0%	559,173	8.7%
Shareholders' funds	75,400	80,149	6.3%	86,831	8.3%	94,374	8.7%	101,498	7.5%
Average shareholders' funds	71,977	77,775	8.1%	83,490	7.3%	90,602	8.5%	97,936	8.1%
Other Liabilities	29,940	30,470	1.8%	30,803	1.1%	38,626	25.4%	32,360	-16.2%
Income Statement									
Net interest income	24,337	24,084	-1.0%	28,417	18.0%	32,620	14.8%	33,869	3.8%
Net fees and commissions	4,973	5,507	10.7%	7,159	30.0%	6,085	-15.0%	6,998	15.0%
Trading income	7,502	7,608	1.4%	7,760	2.0%	7,915	2.0%	8,153	3.0%
Other Income	2,931	1,312	-55.2%	1,378	5.0%	1,584	15.0%	1,822	15.0%
Total income	39,743	38,511	-3.1%	44,714	16.1%	48,205	7.8%	50,842	5.5%
Total operating costs	(17,673)	(17,957)	1.6%	(19,525)	8.7%	-20,870	6.9%	(23,049)	10.4%
Net operating income	22,070	20,554	-6.9%	25,189	22.6%	27,335	8.5%	27,793	1.7%
Total loan loss provisions	(3,099.0)	(1,628)	-47.5%	(3,022)	85.6%	-3,287	8.8%	(2,932)	-10.8%
Pretax profit	18,971	18,926	-0.2%	22,167	17.1%	24,047	8.5%	24,861	3.4%
Tax	(5,255)	(5,208)	-0.9%	(6,650)	27.7%	(7,214)	8.5%	(7,458)	3.4%
Net attributable profits	13,716	13,718	0.0%	15,517	13.1%	16,833	8.5%	17,403	3.4%
Per share figures									
BVPS	190.73	202.74	6.3%	219.65	8.3%	238.73	8.7%	256.75	7.5%
EPS	34.70	34.70	0.0%	39.25	13.1%	42.58	8.5%	44.02	3.4%
DPS	20.74	22.35	7.8%	23.50	5.1%	26.00	10.6%	28.00	7.7%
Key ratios									
Gross loans/deposits	78.0%	78.2%		75.0%		75.0%		77.0%	
Net loans/Total assets	50.6%	50.4%		49.5%		49.8%		52.7%	
Asset yields	11.4%	8.1%		8.6%		8.2%		7.8%	
Cost of funds	6.7%	3.4%		3.8%		3.0%		2.8%	
Net interest Margin (NIM)	5.8%	5.2%		5.4%		5.6%		5.4%	
NFI/Total income	38.8%	37.5%		36.4%		32.3%		33.4%	
Cost/income ratio	44.5%	46.6%		43.7%		43.3%		45.3%	
Provision charge (CoR)	1.2%	0.6%		1.0%		1.0%		0.8%	
NPL coverage	93.9%	79.9%		82.2%		84.8%		86.6%	
NPL ratio	7.8%	8.0%		8.3%		7.5%		7.0%	
ROAA	3.0%	2.8%		2.7%		2.7%		2.6%	
ROAE	19.1%	17.6%		18.6%		18.6%		17.8%	
Dividend payout ratio	59.8%	64.4%		59.9%		61.1%		63.6%	
Total CAR	18.4%	17.5%		17.5%		16.8%		17.2%	
Valuation data									
P/EPS (x)	8.43	8.43		7.45		6.87		6.64	
P/BVPS (x)	1.53	1.44		1.33		1.23		1.14	
Dividend yield	7.1%	7.6%		8.0%		8.9%		9.6%	

Source: NCBA IB Research, Company financials

Trading close to Fair value

ABSA shares have rallied 51% Y-o-Y and now trade at FY26e P/B of 1.3x, broadly in line with our valuation of 1.4x, implying limited upside from current levels. As ROE normalizes (21% avg. FY26-28e vs. 24% in FY23-25), we believe the bank's superior efficiency profile - relative to banks within our coverage universe, is reflected in the current valuation.

FY26e expectations

We forecast earnings to grow by a modest 3% Y-o-Y in FY26e on the back of lower NIMs amid a softer rate backdrop. Although short-term rates are likely to trend higher in 2H26e, we expect 1H26 to remain characterized by subdued rates, delaying repricing benefits on both earning assets and deposits. Furthermore, we expect higher provision charges to weigh on earnings growth, with FY26e CoR at 1.7% (vs. 1.4%, FY25), as macro risks remain a key consideration for asset quality.

Loan growth supportive, though margins normalize

Over the medium term, we forecast EPS at 14% CAGR over FY26-28e, versus 18% (FY23-25). We forecast loan growth at 13% CAGR, although NIM is likely to moderate to an average of 8% (FY26-28e) from 9% historically (FY23-25) amid a less favorable rate backdrop. We also expect NIR contribution to gradually improve to 28% of operating income from 26%, supported by fee income, from credit related fees and fees from its digital lending platform (Timiza), where loan disbursements have risen to KES26.4bn by FY25 (+5% Y-o-Y).

Key financial highlights (Dec. year-end)

In KESbn, unless otherwise stated	2025a	2026e	2027e	2028e
Total banking income	60,024	63,645	70,664	75,570
Operating income	37,601	39,460	44,518	48,365
Net income	22,905	23,581	27,094	30,498
EPS (KES)	4.22	4.34	4.99	5.62
P/E (x)	6.69	6.50	5.65	5.02
DPS (KES)	2.05	2.30	2.74	3.09
Dividend yield	7.3%	8.2%	9.7%	11.0%
BVPS (KES)	20.35	22.39	24.63	27.16
P/B (x)	1.39	1.26	1.14	1.04
RoAE	23.4%	20.3%	21.2%	21.7%
Capital adequacy ratio	21.0%	21.2%	21.5%	20.5%
Loan-to-deposit ratio	91.2%	87.3%	90.0%	92.4%
NPL ratio	16.1%	14.0%	13.0%	11.0%
Coverage ratio	50.2%	55.4%	57.4%	64.2%

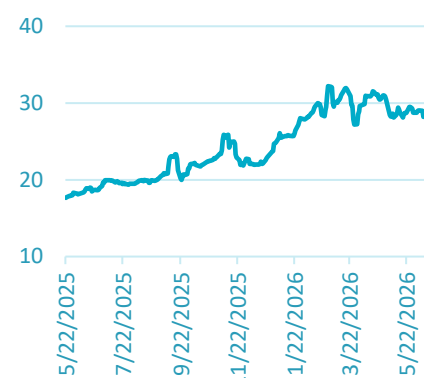
Source: Company financials & NCBA Research

ABSA Kenya

Stock Data

Bloomberg ticker	ABSA KN
Recommendation	BUY
Target price (KES)	31.82
Current price (KES)	28.20
Upside/downside:	12.8%
Dividend yield (FY26e)	8.2%
Market cap (USD m)	1,181
No. of shares (m)	5,432

Share price performance (KES)



Valuation

Our fair value for ABSA Kenya is KES31.82 implying 21% total return potential (incl. 8.2% FY26e dividend yield). Our target price values the bank at a forward 7.3x FY26e P/E and 1.4x FY26e P/B. At the current market price, we believe the stock is trading slightly below its fair value at, 6.5x FY26e P/E and 1.3x P/B.

Figure 26: Dividend discount Model (DDM), FY26-30e

KES m (unless noted)	FY26e	FY27e	FY28e	FY29e	FY30e
Dividends	12,498	14,902	16,774	18,619	20,375
Present value (PV) factor	85.1%	72.4%	61.6%	52.5%	44.6%
PV	10,637	10,793	10,340	9,768	9,097
Total PV of dividends	50,636				
Terminal value					
ROE					22.4%
COE					17.5%
Growth					8.0%
Book value					180,822
Terminal value (TV)					273,687
PV of TV	122,198				
Total PV	172,834				
No. of shares (m)	5,432				
Fair value per share	31.82				
-Implied 2026e P/B	1.42x				
-Implied 2026e P/E	7.33x				
-Implied 2027e P/E	6.38x				

As our fair value is sensitive to our assumptions, the table below provides a sensitivity analysis to changes in our ROE forecasts and COE estimates.

Figure 27: ABSA Kenya valuation sensitivity analysis (KES)

		Terminal ROE					
		31.82	19.4%	20.9%	22.4%	23.9%	25.4%
Cost of Equity	15.5%	34.38	37.62	40.86	44.10	47.33	
	16.5%	30.33	33.06	35.80	38.54	41.28	
	17.5%	27.13	29.47	31.82	34.17	36.51	
	18.5%	24.54	26.57	28.61	30.64	32.68	
	19.5%	22.39	24.18	25.96	27.74	29.52	

Investment risks

- **Margins:** We forecast NIMs to average 8.2% over FY26-28e, versus a historical average of 8.9% in FY22-25 on lower asset yields. However, higher-than-expected funding cost repricing remains a key downside risk to our margin outlook, particularly given the decline in ABSA's CASA mix from 73% in FY20 to 68% in FY25.
- **Higher CIR than expected:** We forecast cost-to-income ratio (CIR) to average 36% over FY26-28e, in line with mgmt. medium-term target of below 40%. However, higher-than-expected cost growth could drive a weaker efficiency profile and is a downside risk to our earnings forecasts.

ABSA Kenya – Financial summary and forecasts

	2024	2025	%chg	2026e	%chg	2027e	%chg	2028e	%chg
Balance sheet									
Assets									
Cash & cash equivalents	24,416	19,318	-20.9%	21,596	11.8%	23,037	6.7%	25,790	12.0%
Interbank	15,358	23,403	52.4%	26,913	15.0%	28,797	7.0%	31,677	10.0%
Total securities	130,587	159,775	22.4%	191,730	20.0%	210,903	10.0%	225,666	7.0%
Gross loans	333,510	339,540	1.8%	363,308	7.0%	399,639	10.0%	459,584	15.0%
Provisions	(24,412)	(27,374)	12.1%	(28,156)	2.9%	(29,813)	5.9%	(32,447)	8.8%
Net customer loans	309,098	312,166	1.0%	335,151	7.4%	369,826	10.3%	427,138	15.5%
Loans/Deposits	90.8%	91.2%		87.3%		90.0%		92.4%	
Total interest earning assets	479,459	514,662	7.3%	575,391	11.8%	632,563	9.9%	710,271	12.3%
Other assets	27,017	22,986	-14.9%	24,595	7.0%	26,317	7.0%	28,159	7.0%
Total assets	506,476	537,648	6.2%	599,986	11.6%	658,879	9.8%	738,430	12.1%
Liabilities & shareholders' equity									
Interbank	13,099	28,224	115%	32,458	15%	43,818	35%	50,390	15%
Total deposits	367,115	372,383	1%	416,304	12%	444,065	7%	497,135	12%
Total Securities/ borrowings	19,730	16,646	-16%	17,478	5%	20,100	15%	23,115	15%
Total interest- bearing liabilities	399,944	417,253	4%	466,240	12%	507,982	9%	570,641	12%
Shareholders' funds	85,205	110,520	30%	121,603	10%	133,795	10%	147,520	10%
Average shareholders' funds	77,200	97,863	27%	116,062	19%	127,699	10%	140,658	10%
Other Liabilities	21,327	9,875	-54%	12,144	23%	17,101	41%	20,269	19%
Income Statement									
Net interest income	46,228	43,288	-6.4%	46,305	7.0%	51,731	11.7%	54,636	5.6%
Net fees and commissions	7,446	8,849	18.8%	9,911	12.0%	11,199	13.0%	12,879	15.0%
Trading income	6,045	5,942	-1.7%	5,348	-10.0%	5,508	3.0%	5,673	3.0%
Other Income	1,270	1,945	53.1%	2,081	7.0%	2,226	7.0%	2,382	7.0%
Total income	60,989	60,024	-1.6%	63,645	6.0%	70,664	11.0%	75,570	6.9%
Total operating costs	(23,481)	(22,423)	-4.5%	(24,185)	7.9%	(26,146)	8.1%	(27,205)	4.1%
Net operating income	37,508	37,601	0.2%	39,460	4.9%	44,518	12.8%	48,365	8.6%
Total loan loss provisions	(7,761)	(4,871)	-37.2%	(5,772)	18.5%	(5,813)	0.7%	(4,796)	-17.5%
Pretax profit	29,747	32,730	10.0%	33,687	2.9%	38,706	14.9%	43,569	12.6%
Tax	(8,844)	(9,825)	11.1%	(10,106)	2.9%	(11,612)	14.9%	(13,071)	12.6%
Net attributable profits	20,903	22,905	9.6%	23,581	3.0%	27,094	14.9%	30,498	12.6%
Per share figures									
BVPS	15.69	20.35	29.7%	22.39	10.0%	24.63	10.0%	27.16	10.3%
EPS	3.85	4.22	9.6%	4.34	3.0%	4.99	14.9%	5.62	12.6%
DPS	1.75	2.05	17.1%	2.30	12.2%	2.74	19.2%	3.09	12.6%
Key ratios									
Gross loans/deposits	90.8%	91.2%		87.3%		90.0%		92.4%	
Net loans/Total assets	61.0%	58.1%		55.9%		56.1%		57.8%	
Asset yields	13.4%	11.6%		11.4%		11.2%		10.6%	
Cost of funds	4.5%	3.5%		3.6%		3.3%		3.1%	
Net interest Margin (NIM)	9.5%	8.7%		8.5%		8.6%		8.1%	
NFI/Total income	24.2%	27.9%		27.2%		26.8%		27.7%	
Cost/income ratio	38.5%	37.4%		38.0%		37.0%		36.0%	
Provision charge (CoR)	2.2%	1.4%		1.7%		1.6%		1.2%	
NPL coverage	52.2%	50.2%		55.4%		57.4%		64.2%	
NPL ratio	14.0%	16.1%		14.0%		13.0%		11.0%	
ROAA	4.1%	4.4%		4.1%		4.3%		4.4%	
ROAE	27.1%	23.4%		20.3%		21.2%		21.7%	
Dividend payout ratio	45.5%	48.6%		53.0%		55.0%		55.0%	
Total CAR	20.7%	21.0%		21.2%		21.5%		20.5%	
Valuation data									
P/EPS (x)	7.33	6.69		6.50		5.65		5.02	
P/BVPS (x)	1.80	1.39		1.26		1.14		1.04	
Dividend yield	6.2%	7.3%		8.2%		9.7%		11.0%	

Source: NCBA IB Research, Company financials

A pure dividend play

While StanChart's return profile is solid, with our forecast ROE of 24% (FY26-30e) above our COE of 17.5%, we believe its upside is limited. We do not expect meaningful capital gains, with valuation reflecting the bank's fundamentals. That said, the stock is likely to remain attractive for yield investors, supported by its high dividend payout ratio of c85-90%.

Earnings recovery in FY26e

Following KES2.5bn in one-off costs related to the pension liability charge in FY25, we expect earnings to recover in FY26e, growing 23% Y-o-Y. As these costs normalize, we forecast CIR to improve to 45% from 56% in FY25. In addition, balance sheet growth appears to be recovering following two years of subdued momentum, with net loans increasing 7% Q-o-Q in 1Q26, underpinning our FY26e loan growth forecast of 12% Y-o-Y.

Solid return profile

We forecast ROE to average 23% over FY26-28e, broadly in line with its historical avg., driven by margins and fee income. We estimate NIMs to average 7.3% (vs 8.1% in FY23-25) however, this should be partly cushioned by the bank's below-peer cost of funds (c.1.1% vs sector average of 3.7%). On asset quality, StanChart outperforms its peers, with its FY25 NPL ratio at 3.5% (vs our peer avg. of 11%) and high coverage of 109% (vs 68.2%), which provides potential earnings upside from provision write-backs.

Key financial highlights (Dec. year-end)

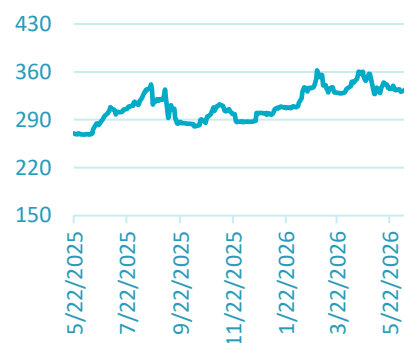
In KESbn, unless otherwise stated	2025a	2026e	2027e	2028e
Total banking income	41,887	41,980	46,695	48,513
Operating income	18,617	23,089	25,215	25,712
Net income	12,269	15,041	16,646	17,185
EPS (KES)	32.47	39.81	44.06	45.48
P/E (x)	10.4	8.5	7.6	7.4
DPS (KES)	31.0	33.8	37.4	38.7
Dividend yield	9.2%	10.0%	11.1%	11.5%
BVPS (KES)	176	181	188	195
P/B (x)	1.92	1.86	1.79	1.73
RoAE	17.8%	22.3%	23.8%	23.7%
Capital adequacy ratio	20.4%	18.7%	18.0%	18.2%
Loan-to-deposit ratio	56.5%	54.7%	53.8%	55.0%
NPL ratio	3.4%	3.5%	4.0%	3.5%
Coverage ratio	109.1%	100.3%	94.4%	96.3%

Source: Company financials & NCBA Research

StanChart Kenya

Stock Data	
Bloomberg ticker	SCBL KN
Recommendation	HOLD
Target price (KES)	280.93
Current price (KES)	337.00
Upside/downside:	-16.6%
Dividend yield (FY26e)	10.0%
Market cap (USD m)	982
No. of shares (m)	378

Share price performance (KES)



Our fair value for StanChart Kenya is KES280.93 implying -6.6% total return potential (incl. 10% FY26e dividend yield). Our target price values the bank at a forward 7.1x FY26e P/E and 1.6x FY26e P/B. At the current market price, the stock is trading at a premium to our fair value at 8.5x FY26e P/E and 1.9x P/B.

Figure 28: Dividend discount Model (DDM), FY26-30e

KES m (unless noted)	FY26e	FY27e	FY28e	FY29e	FY30e
Dividends	12,785	14,150	14,607	14,902	16,118
Present value (PV) factor	85.1%	72.4%	61.6%	52.5%	44.6%
PV	10,881	10,249	9,004	7,818	7,197
Total PV of dividends	45,149				
Terminal value					
ROE					24.4%
COE					17.5%
Growth					8.0%
Book value					79,125
Terminal value (TV)					136,627
PV of TV	61,003				
Total PV	106,151				
No. of shares (m)	387				
Fair value per share	280.93				
- Implied 2026e P/B	1.55x				
-Implied 2026e P/E	7.06x				
-Implied 2027e P/E	6.38x				

As our fair value is sensitive to our assumptions, the table below provides a sensitivity analysis to changes in our ROE forecasts and COE estimates.

Figure 29: StanChart Kenya valuation sensitivity analysis (KES)

		Terminal ROE					
		280.93	21.4%	22.9%	24.4%	25.9%	27.4%
Cost of Equity	15.5%	307.45	327.82	348.20	368.57	388.95	
	16.5%	276.25	293.47	310.69	327.91	345.13	
	17.5%	251.41	266.17	280.93	295.70	310.46	
	18.5%	231.12	243.92	256.72	269.52	282.33	
	19.5%	214.20	225.40	236.61	247.82	259.03	

Investment risks

- **Legal liabilities:** Following the KES 2.5bn payout in FY25 relating to accrued pension liabilities, StanChart potentially faces an additional KES 709m in legal costs claimed by former employees, with the matter currently awaiting a High Court ruling.

Furthermore, while the initial payout was capped at 629 former employees, a second wave of claimants is now seeking similar compensation and has filed a case with the RBA. An adverse outcome could result in higher-than-expected legal provisions (or one-off costs) and remains a key downside risk to our earnings forecasts.

Standard Chartered Kenya – Financial summary and forecasts

	2024	2025	%chg	2026e	%chg	2027e	%chg	2028e	%chg
Balance sheet									
Assets									
Cash & cash equivalents	32,340	11,571	-64.2%	13,373	15.6%	14,690	9.8%	16,378	11.5%
Interbank	79,723	72,086	-9.6%	79,295	10.0%	87,224	10.0%	93,330	7.0%
Total securities	98,822	107,388	8.7%	123,496	15.0%	134,611	9.0%	145,380	8.0%
Gross loans	158,641	160,127	0.9%	179,342	12.0%	193,690	8.0%	220,806	14.0%
Provisions	(6,994)	(5,874)	-16.0%	(6,298)	7.2%	(7,314)	16.1%	(7,444)	1.8%
Net customer loans	151,647	154,253	1.7%	173,045	12.2%	186,376	7.7%	213,362	14.5%
Loans/Deposits	53.7%	56.5%		54.7%		53.8%		55.0%	
Total interest earning assets	362,531	345,298	-4.8%	389,208	12.7%	422,900	8.7%	468,449	10.8%
Other assets	22,043	18,194	-17.5%	19,467	7.0%	20,830	7.0%	22,288	7.0%
Total assets	384,574	363,492	-5.5%	408,675	12.4%	443,730	8.6%	490,737	10.6%
Liabilities & shareholders' equity									
Interbank	8,395	5,562	-34%	5,951	7%	6,547	10%	7,856	20%
Total deposits	295,690	283,452	-4%	327,583	16%	359,845	10%	401,197	11%
Total Securities/ borrowings	-	-	-	-	-	-	-	-	-
Total interest- bearing liabilities	304,085	289,014	-5%	333,535	15%	366,392	10%	409,053	12%
Shareholders' funds									
Average shareholders' funds	66,654	69,048	4%	67,448	-2%	69,825	4%	72,362	4%
Other Liabilities	8,713	8,157	-6%	6,564	-20%	6,265	-5%	8,033	28%
Income Statement									
Net interest income	33,265	28,892	-13.1%	27,209	-5.8%	30,432	11.8%	30,561	0.4%
Net fees and commissions	6,663	6,732	1.0%	7,944	18.0%	9,135	15.0%	10,505	15.0%
Trading income	8,266	3,420	-58.6%	3,489	2.0%	3,558	2.0%	3,630	2.0%
Other Income	2,072	2,843	37.2%	3,339	17.4%	3,570	6.9%	3,817	6.9%
Total income	50,267	41,887	-16.7%	41,980	0.2%	46,695	11.2%	48,513	3.9%
Total operating costs	(19,994)	(23,270)	16.4%	(18,891)	-18.8%	(21,480)	13.7%	(22,801)	6.2%
Net operating income	30,273	18,617	-38.5%	23,089	24.0%	25,215	9.2%	25,712	2.0%
Total loan loss provisions	(1,764)	(1,742)	-1.3%	(1,601)	-8.1%	(1,435)	-10.4%	(1,162)	-19.0%
Pretax profit	28,208	16,837	-40.3%	21,488	27.6%	23,781	10.7%	24,550	3.2%
Tax	(8,148)	(4,400)	-46.0%	(6,446)	46.5%	(7,134)	10.7%	(7,365)	3.2%
Net attributable profits	20,060	12,437	-38.0%	15,041	20.9%	16,646	10.7%	17,185	3.2%
Per share figures									
BVPS	189.96	175.52	-7.6%	181.49	3.4%	188.10	3.6%	194.92	3.6%
EPS	52.65	32.47	-38.3%	39.81	22.6%	44.06	10.7%	45.48	3.2%
DPS	45.00	31.00	-31.1%	33.84	9.2%	37.45	10.7%	38.66	3.2%
Key ratios									
Gross loans/deposits	53.7%	56.5%		54.7%		53.8%		55.0%	
Net loans/Total assets	39.4%	42.4%		42.3%		42.0%		43.5%	
Asset yields	10.1%	9.3%		8.5%		8.5%		7.8%	
Cost of funds	1.7%	1.3%		1.3%		1.1%		1.0%	
Net interest Margin (NIM)	8.6%	8.2%		7.4%		7.5%		6.9%	
NFI/Total income	33.8%	31.0%		35.2%		34.8%		37.0%	
Cost/income ratio	39.8%	55.6%		45.0%		46.0%		47.0%	
Provision charge (CoR)	1.1%	1.1%		1.0%		0.8%		0.6%	
NPL coverage	92.5%	109.1%		100.3%		94.4%		96.3%	
NPL ratio	4.8%	3.4%		3.5%		4.0%		3.5%	
ROAA	4.9%	3.3%		3.9%		3.9%		3.7%	
ROAE	29.8%	17.8%		22.3%		23.8%		23.7%	
Dividend payout ratio	85.5%	95.5%		85.0%		85.0%		85.0%	
Total CAR	19.5%	20.4%		18.7%		18.0%		18.2%	
Valuation data									
P/EPS (x)	6.40	10.38		8.47		7.65		7.41	
P/BVPS (x)	1.77	1.92		1.86		1.79		1.73	
Dividend yield	13.4%	9.2%		10.0%		11.1%		11.5%	

Source: NCBA IB Research, Company financials

Compelling value at current levels

We view I&M as an improving franchise with room for further re-rating. Since FY20, its ROE has grown from 13% to 18% (FY25). The bank's expanding retail franchise has driven a more favourable funding mix, with CASA rising to 48% (from 34%, FY20), which we expect to support margins. At 0.7x FY26e P/B, the bank trades at a discount to our fair value of 0.9x P/B.

Deposit mix transformation to support margins

A key driver of our positive view is I&M's improving customer deposit structure, with CASA rising from 34% in FY20 to 49% in FY25 (51% in 1Q26). We attribute this to its branch expansion across the EA region, with the network growing from 83 branches in FY22 to 119 in FY25, supported by flexible container branches that aid deposit mobilization. We believe this marks a structural shift in the bank's funding profile, supporting lower funding costs, as we forecast deposit costs to decline to an average of 3.8% over FY26-30e from 4.5% in FY20-25, providing NIM support.

ROE trajectory improving

We forecast ROE to average 18% over FY26-30e, up from an average of 15% in FY21-25, on the back of balance sheet growth and higher margins. We forecast customer loans to grow at a 14% CAGR (vs. 9% historically), while we expect NIMs to improve to an average of 7.5% (vs. 6.7%), driven by the improving deposit mix. We expect NIR growth to moderate to 11% CAGR (vs. 20% historically), reflecting slower FX income growth amid easing trading margins in Kenya and Rwanda.

Key financial highlights (Dec. year-end)

In KESbn, unless otherwise stated	2025a	2026e	2027e	2028e
Total banking income	59,431	66,008	74,175	81,764
Operating income	32,093	36,305	41,538	47,423
Net income	19,837	21,577	26,604	30,662
EPS (KES)	10.96	11.89	14.63	16.83
P/E (x)	5.02	4.63	3.76	3.27
DPS (KES)	3.75	4.16	4.97	5.89
Dividend yield	6.8%	7.6%	9.0%	10.7%
BVPS (KES)	67.18	74.91	84.56	95.51
P/B (x)	0.82	0.73	0.65	0.58
RoAE	18.0%	16.7%	18.3%	18.7%
Capital adequacy ratio	20.7%	19.6%	20.1%	19.8%
Loan-to-deposit ratio	66.4%	66.5%	65.2%	67.5%
NPL ratio	9.9%	10.5%	10.0%	9.5%
Coverage ratio	48.6%	50.8%	53.5%	56.3%

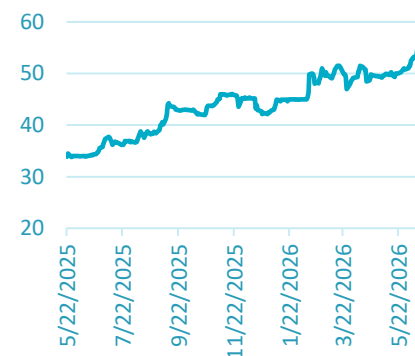
Source: Company financials & NCBA Research

I&M Group

Stock Data

Bloomberg ticker	IMH KN
Recommendation	BUY
Target price (KES)	70.36
Current price: (KES)	55.00
Upside/downside:	27.9%
Dividend yield (FY26e)	7.6%
Market cap (USD m)	727
No. of shares (m)	1,714

Share price performance (KES)



Valuation

Our fair value for I&M Group is KES70.36 implying 36% total return potential (incl. 7.6% FY26e dividend yield). Our target price values the bank at a forward 5.92x FY26e P/E and 0.9x FY26e P/B. At the current market price, the stock is trading at a discount of 4.6x FY26e P/E and 0.7x P/B.

Figure 30: Dividend discount Model (DDM), FY26-30e

KES m (unless noted)	FY26e	FY27e	FY28e	FY29e	FY30e
Dividends	7,135	8,526	10,099	11,563	13,042
Present value (PV) factor	84.7%	71.8%	60.9%	51.6%	43.7%
PV	6,046	6,123	6,146	5,964	5,701
Total PV of dividends	29,980				
Terminal value					
ROE					18.0%
COE					18.0%
Growth					8.0%
Book value					206,478
Terminal value (TV)					207,343
PV of TV	90,631				
Total PV	120,612				
No. of shares (m)	1,714				
Fair value per share	70.36				
-Implied 2026e P/B	0.94x				
-Implied 2026e P/E	5.92x				
-Implied 2027e P/E	4.81x				

As our fair value is sensitive to our assumptions, the table below provides a sensitivity analysis to changes in our ROE forecasts and COE estimates.

Figure 31: I&M Group valuation sensitivity analysis (KES)

		Terminal ROE				
70.36		15.0%	16.5%	18.0%	19.5%	21.0%
Cost of Equity	16.0%	68.89	79.64	90.39	101.14	111.90
	17.0%	60.92	70.08	79.24	88.39	97.55
	18.0%	54.57	62.46	70.36	78.26	86.16
	19.0%	49.37	56.25	63.14	70.02	76.90
	20.0%	45.05	51.10	57.15	63.20	69.25

Investment risks

- **Margins:** We estimate I&M funding costs to ease to an average of 4.5% over FY26-28e versus a historical average of 5.2% in FY23-25, supported by its improving CASA mix. However, higher-than-expected deposit cost repricing is key downside risk to our NIM and earnings forecasts.
- **Loan growth:** We forecast net loan CAGR of 14% between FY26-28e driven by increased lending in Kenya and the regional subsidiaries, particularly, Rwanda and Tanzania. Lower-than-expected growth due to regional factors is therefore a downside risk to our earnings.

I&M Group – Financial summary and forecasts

	2024	2025	%chg	2026e	%chg	2027e	%chg	2028e	%chg
Balance sheet									
Assets									
Cash & cash equivalents	33,463	33,388	-0.2%	37,668	12.8%	42,259	12.2%	48,139	13.9%
Interbank	48,819	55,284	13.2%	59,154	7.0%	65,070	10.0%	69,625	7.0%
Total securities	159,685	220,607	38.2%	286,790	30.0%	301,129	5.0%	322,208	7.0%
Gross loans	301,542	321,147	6.5%	362,896	13.0%	399,185	10.0%	471,038	18.0%
Provisions	(13,874)	(15,491)	11.7%	(19,351)	24.9%	(21,356)	10.4%	(25,189)	17.9%
Net customer loans	287,083	305,656	6.5%	343,544	12.4%	377,829	10.0%	445,850	18.0%
Loans/Deposits	69.6%	66.4%		66.5%		65.2%		67.5%	
Total interest earning assets	529,050	614,936	16.2%	727,156	18.2%	786,286	8.1%	885,821	12.7%
Other assets	51,855	54,948	6.0%	58,795	7.0%	64,674	10.0%	71,142	10.0%
Total assets	580,905	669,884	15.3%	785,951	17.3%	804,070	2.3%	917,114	14.1%
Liabilities & shareholders' equity									
Interbank	35,046	37,034	5.7%	59,254	60.0%	38,515	-35.0%	41,211	7.0%
Total deposits	412,179	483,935	17.4%	545,972	12.8%	612,503	12.2%	697,734	13.9%
Total Securities/ borrowings	14,070	11,071	-21.3%	24,071	117.4%	20,460	-15.0%	17,391	-15.0%
Minorities	7,115	6,821	-4.1%	8,014	17.5%	9,542	19.1%	11,351	19.0%
Total interest- bearing liabilities	468,410	538,861	15.0%	637,310	18.3%	681,020	6.9%	767,687	12.7%
Shareholders' funds	93,815	115,161	22.8%	128,411	11.5%	144,961	12.9%	163,716	12.9%
Average shareholders' funds	90,994	104,488	14.8%	121,786	16.6%	136,686	12.2%	154,338	12.9%
Other Liabilities	18,679	15,862	-15.1%	20,230	27.5%	24,979	23.5%	25,560	2.3%
Income Statement									
Net interest income	39,605	45,951	16.0%	50,763	10.5%	57,302	12.9%	63,061	10.1%
Net fees and commissions	4,913	6,236	26.9%	7,546	21.0%	8,677	15.0%	9,979	15.0%
Trading income	3,588	3,378	-5.9%	3,716	10.0%	3,976	7.0%	4,255	7.0%
Other Income	1,336	2,183	63.4%	2,183	0.0%	2,292	5.0%	2,407	5.0%
Total income	49,612	59,431	19.8%	66,008	11.1%	74,175	12.4%	81,764	10.2%
Total operating costs	(22,939)	(27,339)	19.2%	(29,704)	8.7%	(32,637)	9.9%	(34,341)	5.2%
Net operating income	26,673	32,093	20.3%	36,305	13.1%	41,538	14.4%	47,423	14.2%
Total loan loss provisions	(7,818)	(8,690)	11.1%	(8,992)	3.5%	(6,532)	-27.4%	(5,988)	-8.3%
Pretax profit	19,752	24,180	22.4%	27,313	13.0%	35,006	28.2%	41,435	18.4%
Tax	(3,815)	(4,343)	13.8%	(5,736)	32.1%	(8,401)	46.5%	(10,773)	28.2%
Net income	15,937	19,837	24.5%	21,577	8.8%	26,604	23.3%	30,662	15.3%
Minorities	(1,216)	(1,056)	-13.2%	(1,192)	13.0%	(1,528)	28.2%	(1,809)	18.4%
Net attributable profits	14,721	18,781	27.6%	20,384	8.5%	25,076	23.0%	28,853	15.1%
Per share figures									
BVPS	56.73	67.18	18.4%	74.91	11.5%	84.56	12.9%	95.51	12.9%
EPS	8.90	10.96	23.1%	11.89	8.5%	14.63	23.0%	16.83	15.1%
DPS	3.00	3.75	25.0%	4.16	11.0%	4.97	19.5%	5.89	18.4%
Key ratios									
Gross loans/deposits	69.6%	66.4%		66.5%		65.2%		67.5%	
Net loans/Total assets	49.4%	45.6%		43.7%		44.4%		46.6%	
Asset yields	13.3%	12.1%		11.6%		11.4%		11.0%	
Cost of funds	6.4%	4.6%		4.6%		4.4%		4.0%	
Net interest Margin (NIM)	7.5%	8.0%		7.6%		7.6%		7.5%	
NFI/Total income	20.2%	22.7%		23.1%		22.7%		22.9%	
Cost/income ratio	46.2%	46.0%		45.0%		44.0%		42.0%	
Provision charge (CoR)	2.5%	2.8%		2.8%		1.8%		1.5%	
NPL coverage	40.4%	48.6%		50.8%		53.5%		56.3%	
NPL ratio	11.9%	9.9%		10.5%		10.0%		9.5%	
ROAA	2.5%	3.0%		2.8%		3.1%		3.2%	
ROAE	16.2%	18.0%		16.7%		18.3%		18.7%	
Dividend payout ratio	33.7%	34.2%		35.0%		34.0%		35.0%	
Total CAR	20.2%	20.7%		19.6%		20.1%		19.8%	
Valuation data									
P/EPS (x)	6.18	5.02		4.63		3.76		3.27	
P/BVPS (x)	0.97	0.82		0.73		0.65		0.58	
Dividend yield	5.5%	6.8%		7.6%		9.0%		10.7%	

Source: NCBA IB Research, Company financials

Improving returns but still below peers

We have a BUY rating on DTB, driven by improving returns, although ROE remains below peers (10% vs 18% average, FY25). We forecast ROE to rise to 12% over FY26-28e from 9.9% in FY23-25, supported by cost optimisation from digital investments and a guided CIR to 45% vs 51% historically, partially offsetting its structurally lower margins.

Margins pressure amid cautious loan growth in FY26e

Post-1Q26 earnings, we forecast FY26e EPS to grow 8.1% Y-o-Y. While we believe 1H26 will still benefit from low funding costs, we expect the uptick in short-term rates 2H26 exert pressure on margins. Furthermore, the lagging effect of loan repricing under the CBR-linked base lending rate structure could compress NIMs. Mgmt. is also signaling a cautious approach to lending amid macro risks, leading us to forecast loans at 7.0% Y-o-Y. Instead, we expect DTB to grow its govt. securities portfolio which we forecast at 25% Y-o-Y in FY26e.

Asset quality improving but de-risking keeps CoR sticky

DTB's NPL ratio improved to 11.0% in 1Q26 (from 13.0%, FY25), but mgmt.'s target to lift NPL coverage to 65%-70% in the near term (vs. a 55% historical avg.) will keep credit costs elevated, in our view. We also remain cautious on the bank's 38% combined loan exposure to the Manufacturing and Trade sectors, which remain highly vulnerable to fuel price volatility and supply chain disruptions from the Middle East conflict. Thus, we estimate CoR at 3.0% in FY26e and of 2.6% avg. over FY27-30e.

Key financial highlights (Dec. year-end)

In KESbn, unless otherwise stated	2025a	2026e	2027e	2028e
Total banking income	45,417	49,182	54,397	62,925
Operating income	22,635	26,066	29,102	33,979
Net income	9,407	10,173	11,910	14,783
EPS (KES)	33.65	36.39	42.60	52.87
P/E (x)	4.2	3.9	3.3	2.7
DPS (KES)	9.0	10.0	11.0	13.0
Dividend yield	6.3%	7.0%	7.7%	9.1%
BVPS (KES)	362	345	377	417
P/B (x)	0.39	0.41	0.38	0.34
RoAE	10.3%	10.3%	11.8%	13.3%
Capital adequacy ratio	17.7%	17.5%	17.1%	16.6%
Loan-to-deposit ratio	68.7%	66.0%	64.7%	64.9%
NPL ratio	10.8%	11.0%	10.5%	9.5%
Coverage ratio	67.4%	66.2%	69.0%	69.3%

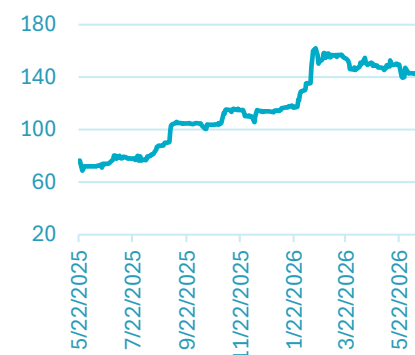
Source: Company financials & NCBA Research

DTB GROUP

Stock Data

Bloomberg ticker	DTKL KN
Recommendation	BUY
Target price (KES)	174.55
Current price: (KES)	142.50
Upside/downside:	22.5%
Dividend yield (FY26e)	7.0%
Market cap (USD m)	307
No. of shares (m)	280

Share price performance (KES)



Valuation

Our fair value for DTB Group is KES174.55 implying 29.5% total return potential (incl. 7.0% FY26e dividend yield). Our target price values the bank at a forward 4.8x FY26e P/E and 0.5x FY26e P/B. At the current market price, the stock is trading at a discount of 3.9x FY26e P/E and 0.4x P/B.

Figure 32: Dividend discount Model (DDM), FY26-30e

KES m (unless noted)	FY26e	FY27e	FY28e	FY29e	FY30e
Dividends	2,796	3,076	3,635	4,194	4,753
Present value (PV) factor	84.8%	71.8%	60.9%	51.6%	43.7%
PV	2,370	2,209	2,213	2,164	2,079
Total PV of dividends	11,035				
Terminal value					
ROE					14.0%
COE					18.0%
Growth					8.0%
Book value					143,653
Terminal value (TV)					86,360
PV of TV	37,770				
Total PV	48,805				
No. of shares (bn)	280				
Fair value per share	174.55				
-Implied 2026e P/B	0.5x				
-Implied 2026e P/E	4.8x				
-Implied 2027e P/E	4.1x				

As our fair value is sensitive to our assumptions, the table below provides a sensitivity analysis to changes in our ROE forecasts and COE estimates.

Figure 33: DTB Group valuation sensitivity analysis (KES)

		Terminal ROE				
		11.0%	12.5%	14.0%	15.5%	17.0%
Cost of Equity	174.55					
	16.0%	133.57	179.54	225.50	271.47	317.44
	17.0%	118.84	157.98	197.12	236.25	275.39
	18.0%	107.05	140.80	174.55	208.30	242.05
	19.0%	97.40	126.81	156.22	185.63	215.04
	20.0%	89.34	115.19	141.05	166.90	192.75

Investment risks

- **Lower margins than expected:** With 51.0% of DTB's deposit base in Term Deposits, any unexpected spike in short-term interest rates would keep its funding costs elevated. This would result in its net interest margins (NIMs) below our forecasts.
- **Higher CIR than expected:** Based on mgmt. medium term guidance, we forecast DTB's cost-to-income ratio (CIR) to average 46% over FY26-28e (vs, 50.4%, FY20-25). A higher-than-expected cost growth is a downside risk to our earnings forecasts.

DTB Group – Financial summary and forecasts

	2024	2025	%chg	2026e	%chg	2027e	%chg	2028e	%chg
Balance sheet									
Assets									
Cash & cash equivalents	45,960	78,327	70.4%	61,037	-22.1%	68,475	12.2%	78,520	14.7%
Interbank	30,812	33,010	7.1%	37,962	15.0%	42,517	12.0%	46,769	10.0%
Total securities	173,947	186,867	7.4%	233,584	25.0%	268,621	15.0%	303,542	13.0%
Gross loans	305,417	349,558	14.5%	374,027	7.0%	411,430	10.0%	473,144	15.0%
Provisions	(20,120)	(25,386)	26.2%	(27,229)	7.3%	(29,829)	9.5%	(31,145)	4.4%
Net customer loans	285,297	324,173	13.6%	346,798	7.0%	381,601	10.0%	442,000	15.8%
Loans/Deposits	68.3%	68.7%		66.0%		64.7%		64.9%	
Total interest earning assets	490,056	544,050	11.0%	618,343	13.7%	692,740	12.0%	792,310	14.4%
Other assets	37,871	36,741	-3.0%	39,681	8.0%	42,855	8.0%	46,284	8.0%
Total assets	573,887	659,118	14.9%	719,061	9.1%	804,070	11.8%	917,114	14.1%
Liabilities & shareholders' equity									
Interbank	17,143	21,036	22.7%	24,191	15.0%	27,820	15.0%	31,993	15.0%
Total deposits	447,217	509,139	13.8%	566,787	11.3%	635,854	12.2%	729,132	14.7%
Total Securities/ borrowings	3,667	1,505	-59.0%	1,731	15.0%	1,990	15.0%	2,289	15.0%
Minorities	10,578	11,935	12.8%	13,446	12.7%	15,362	14.2%	17,740	15.5%
Total interest- bearing liabilities	478,605	543,615	13.6%	606,155	11.5%	681,027	12.4%	781,154	14.7%
Shareholders' funds	81,779	101,104	23.6%	96,482	-4.6%	105,316	9.2%	116,465	10.6%
Average shareholders' funds	78,334	91,441	16.7%	98,793	8.0%	100,899	2.1%	110,890	9.9%
Other Liabilities	13,503	14,400	6.6%	16,425	14.1%	17,727	7.9%	19,496	10.0%
Income Statement									
Net interest income	28,098	34,883	24.1%	37,956	8.8%	42,282	11.4%	49,409	16.9%
Net fees and commissions	6,266	6,919	10.4%	7,403	7.0%	8,144	10.0%	9,365	15.0%
Trading income	4,738	2,278	-51.9%	2,392	5.0%	2,440	2.0%	2,513	3.0%
Other Income	695	1,337	92.5%	1,431	7.0%	1,531	7.0%	1,638	7.0%
Total income	39,797	45,417	14.1%	49,182	8.3%	54,397	10.6%	62,925	15.7%
Total operating costs	(21,226)	(22,782)	7.3%	(23,115)	1.5%	(25,294)	9.4%	(28,945)	14.4%
Net operating income	18,572	22,635	21.9%	26,066	15.2%	29,102	11.6%	33,979	16.8%
Total loan loss provisions	(7,501)	(8,701)	16.0%	(10,487)	20.5%	(9,351)	-10.8%	(9,463)	1.2%
Pretax profit	11,121	13,401	20.5%	15,580	16.3%	19,752	26.8%	24,517	24.1%
Tax	(2,302)	(2,694)	17.1%	(3,895)	44.6%	(5,925)	52.1%	(7,355)	24.1%
Net income	8,819	10,707	21.4%	11,685	9.1%	13,826	18.3%	17,162	24.1%
Minorities	(1,177)	(1,300)	10.4%	(1,511)	16.3%	(1,916)	26.8%	(2,378)	24.1%
Net attributable profits	7,642	9,407	23.1%	10,173	8.1%	11,910	17.1%	14,783	24.1%
Per share figures									
BVPS	292	361.60	23.6%	345	-4.6%	377	9.2%	417	10.6%
EPS	27.33	33.65	23.1%	36.39	8.1%	42.60	17.1%	52.87	24.1%
DPS	7.00	9.00	28.6%	10.00	11.1%	11.00	10.0%	13.00	18.2%
Key ratios									
Gross loans/deposits	68.3%	68.7%		66.0%		64.7%		64.9%	
Net loans/Total assets	49.7%	49.2%		48.2%		47.5%		48.2%	
Asset yields	10.5%	10.5%		10.0%		9.8%		9.4%	
Cost of funds	6.2%	5.1%		4.7%		4.4%		3.7%	
Net interest Margin (NIM)	5.0%	6.0%		5.8%		5.9%		6.1%	
NFI/Total income	29.4%	23.2%		22.8%		22.3%		21.5%	
Cost/income ratio	53.3%	50.2%		47.0%		46.5%		46.0%	
Provision charge (CoR)	2.4%	2.7%		3.0%		2.5%		2.3%	
NPL coverage	53.4%	67.4%		66.2%		69.0%		69.3%	
NPL ratio	12.3%	10.8%		11.0%		10.5%		9.5%	
ROAA	1.3%	1.5%		1.5%		1.6%		1.7%	
ROAE	9.8%	10.3%		10.3%		11.8%		13.3%	
Dividend payout ratio	25.6%	26.7%		27.5%		25.8%		24.6%	
Total CAR	18.3%	17.7%		17.5%		17.1%		16.6%	
Valuation data									
P/EPS (x)	5.21	4.24		3.92		3.35		2.70	
P/BVPS (x)	0.49	0.39		0.41		0.38		0.34	
Dividend yield	4.9%	6.3%		7.0%		7.7%		9.1%	

Source: NCBA IB Research, Company financials

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