

9 February 2026

Equities sentiment remains positive

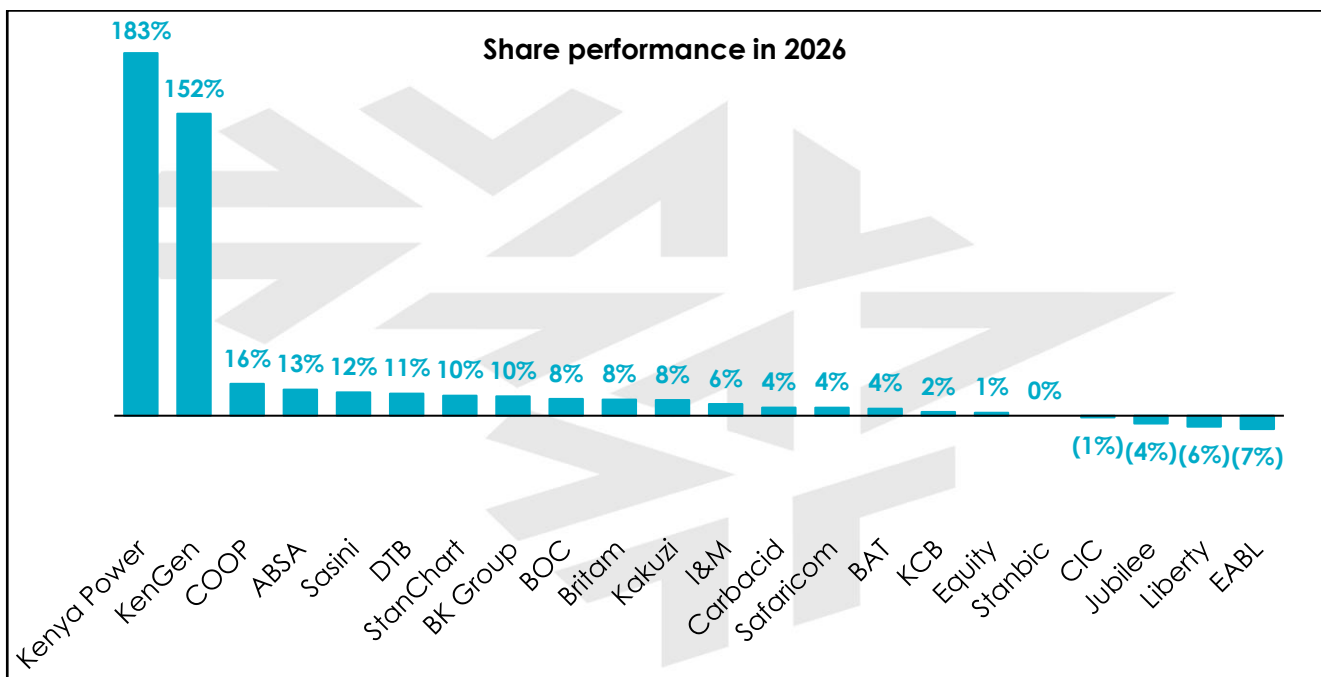
January 2026 began on a strong note at the Nairobi Securities Exchange, with headline indices extending gains from 2025 despite a moderation in trading activity and a shift by foreign investors to net selling.

Market performance was driven by strength in banking stocks, with NCBA Group among the key contributors (+10% m/m), alongside select utilities, industrials and media counters. The pattern of activity pointed to sector and stock rotation rather than a broad-based slowdown, as rallies in selective equities coincided with increased activity in the bond market.

Overall, equities closed the month broadly higher, reinforcing last-year's momentum. The NASI closed 195.36 points, advancing 5% upwards month on month.

Our View: While large-cap banks remain important, we expect incremental market returns from a wider set of sectors. We expect continued investor appetite into undervalued counters particularly in the insurance and manufacturing sector. The positive macro backdrop including anchored inflation expectations in 1H26, stable shilling and the lower interest rate environment should sustain positive investor sentiment. However, fiscal policy risks remain key watchpoints.

For 1Q26, we expect bank's earnings season to drive activity on the NSE as investors take position on dividends and management FY26 guidance.



Source: NSE, NCBA IB Research

February 2026 stock picks.

Counter	Current Price *30th January 2026	Target price	Upside	Trailing Dividend	Trailing Div. Yield	Recommendation
<u>Banking</u>						
ABSA	27.95	23.62	-15.49%	1.75	6.26%	SELL
BK Group	46.65	46.80	0.32%	3.02	6.47%	NEUTRAL
COOP	27.80	28.78	3.53%	1.50	5.40%	NEUTRAL
DTB	127.25	128.52	1.00%	7.00	5.50%	NEUTRAL
Equity	67.75	90.81	34.04%	4.25	6.27%	BUY
I&M	44.95	49.20	9.45%	3.00	6.67%	NEUTRAL
KCB	67.00	109.91	64.04%	3.00	4.48%	BUY
Stanbic	197.75	201.89	2.09%	20.74	10.49%	NEUTRAL
StanChart	308.00	312.00	1.30%	45.00	14.61%	NEUTRAL
<u>Telecommunication</u>						
Safaricom	29.50	34.40	16.61%	1.20	4.07%	BUY
<u>Manufacturing & Allied</u>						
BAT Kenya	475.25	493.57	3.85%	50.00	10.52%	NEUTRAL
BOC Kenya	137.75	120.46	-12.55%	6.15	4.46%	SELL
Carbacid	30.55	27.15	-11.13%	1.70	5.56%	SELL
EABL	245.25	281.78	14.90%	8.00	3.26%	BUY
<u>Agricultural</u>						
Kakuzi	405.25	438.41	8.18%	8.00	1.97%	BUY
Sasini	19.95	18.10	(9.27%)	1.50	7.52%	SELL

*BUY –

Total expected 12-month return (incl. dividends) greater than 15%

*NEUTRAL –

Total expected 12-month return (incl. dividends) between 0%- 15%

*SELL –

Total expected 12-month return (incl. dividends) less than 0%

Our target prices are anchored on fundamental analysis. While the current market rally has lifted many counters closer to their fair value, much of the momentum appears sentiment-driven rather than based on underlying earnings growth.

For stocks rated Neutral, we recommend that investors consult with their financial advisors to evaluate their individual investment goals. Depending on their risk appetite and return expectations, clients may consider holding their positions or realizing gains where appropriate.

The banking sector remains a cornerstone for investors seeking a balance of capital preservation and income, underpinned by dividend yields and improved earnings momentum. We expect banks under our coverage to post mixed FY25 results when they report in March 2026, but dividend payouts should remain attractive, supported by strong capital buffers and improving profitability.

Safaricom PLC raised its FY2026 **interim dividend** to a record **KES 0.85/share** - up 54.5% from KES 0.55 in 1H25 after delivering its strongest half-year profits on record pushing the share price to its highest level in nearly three years.

A key driver for the recent market rally is the decline interest rates which resulted in fixed-income investments less attractive pushing investors to search for higher earnings yields from the NSE. As a result, majority of our recommendations are **NEUTRAL**, signaling that while fundamentals remain intact, entry points are less attractive at current levels. We advise investors to focus on dividend strength, earnings resilience, and stock-specific catalysts to navigate the next phase of the market.

March marks the peak earnings season for listed banks and is likely to set the tone for sector performance and dividend expectations. The outlook for Kenya's banking sector in FY2025 is cautiously constructive, with earnings expected to normalize after the rate-driven surge in 2024, asset quality stabilizing at elevated levels, and regulation tightening around capital adequacy. Easing monetary policy, a firmer shilling, and a gradual recovery in private sector credit should support operating conditions, though pressures persist for Tier II/III banks from funding constraints and high NPLs. Sector dynamics will increasingly be shaped by capital-driven consolidation, risk-based pricing reforms, and efficiency gains from digitalization.

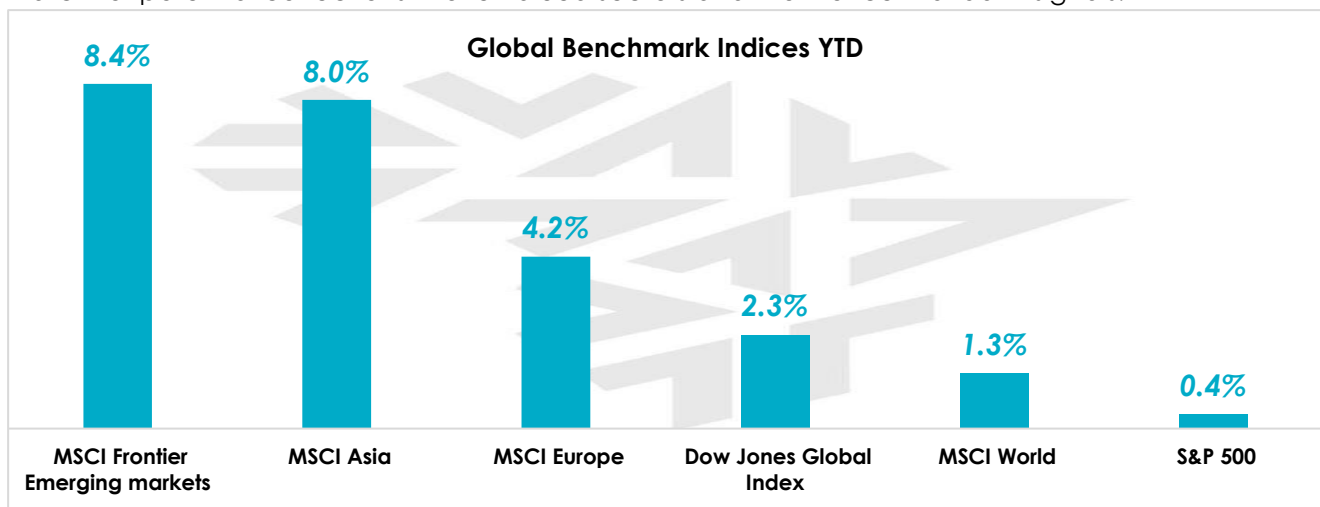
We **maintain a bias towards value stocks** with **robust earnings growth** and those **trading below their intrinsic value**.

Global equities.

In **January 2026**, global equity markets started the year on a positive note, with broad gains across the U.S., Europe, and emerging markets. Investors rotated from high-valuation tech stocks into cyclicals and value sectors, while Asia-Pacific equities outperformed. Despite geopolitical tensions and some volatility, market sentiment remained constructive, supported by strong corporate earnings and easing inflation.

Emerging markets continued to outperform developed markets, with the MSCI EM Index reaching a record high and gains spreading beyond China to include markets such as Korea and Taiwan.

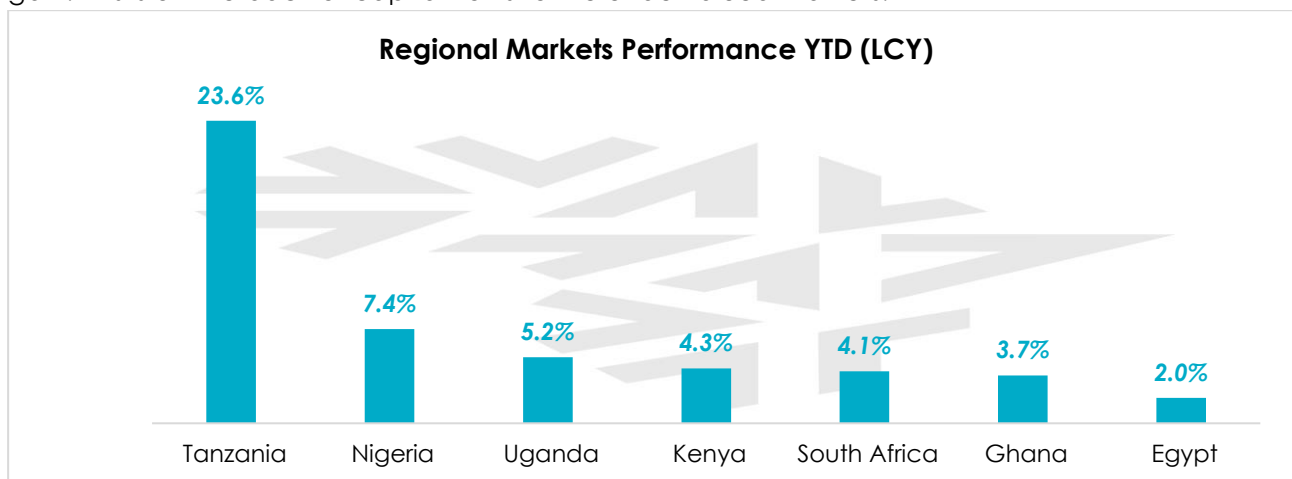
Looking ahead, equities are expected to deliver moderate gains in 2026, though investors should watch for potential corrections in overvalued sectors and monitor central bank signals.



Source: Bloomberg, NCBA IB Research

Regional equities.

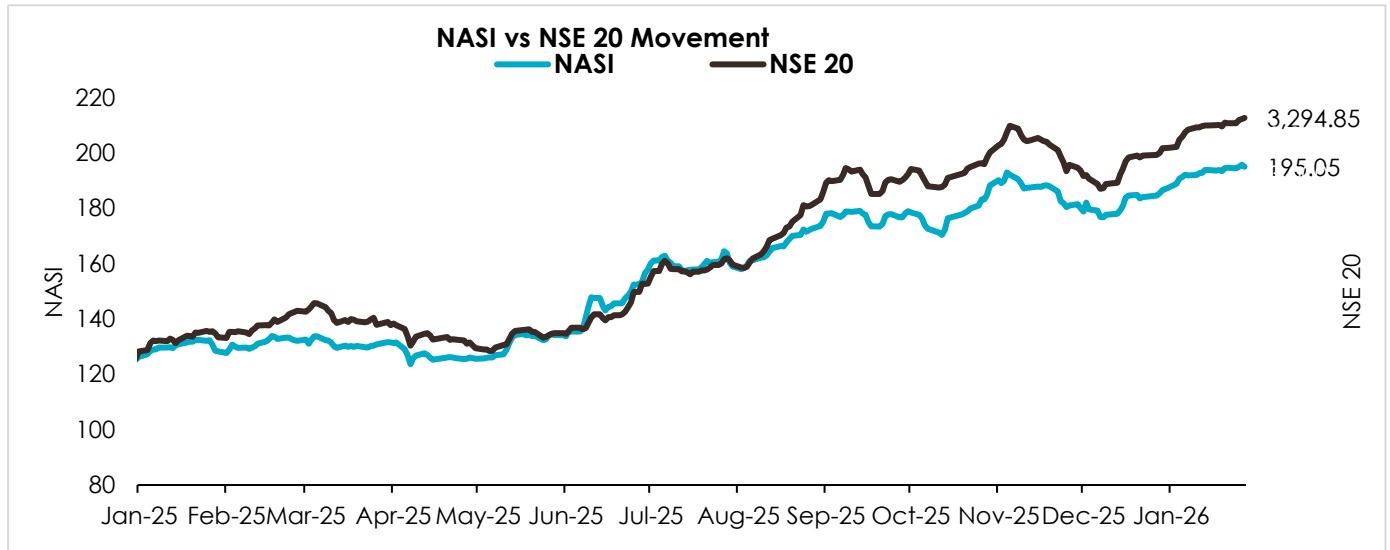
The regional indices recorded positive performance with the Kenyan Market recording the highest YTD gain. This is on the back of capital flows to the undervalued markets.



Source: Bloomberg, NCBA IB Research

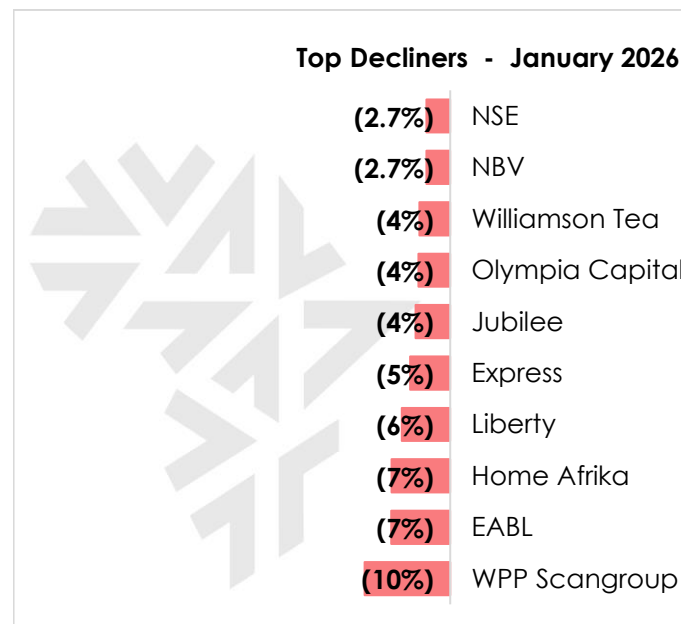
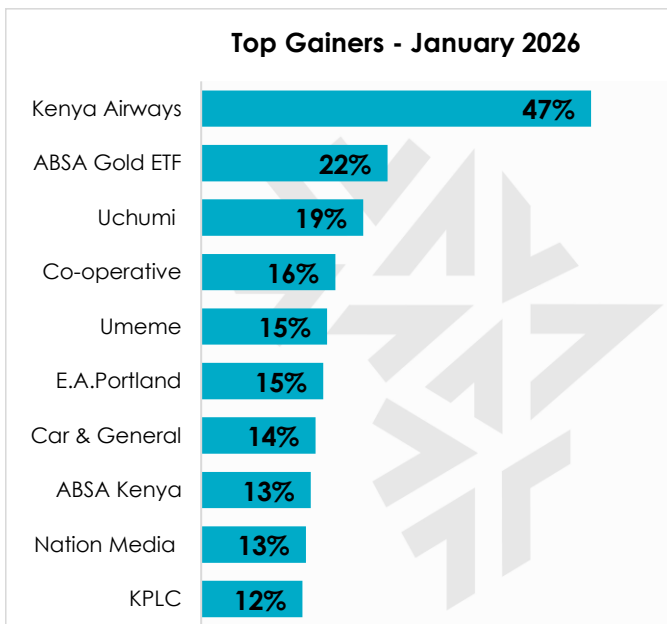
Local market performance

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



Source: Bloomberg, NCBA IB Research

NSE stock performance



Source: NSE, NCBA IB Research

Macro Highlights

Currency: The Kenyan Shilling remained stable against the US Dollar in January 2026 with a marginal Y-o-Y appreciation of 0.02%. This stability is expected to be sustained by the Central Bank of Kenya's interventions through Open Market Operations along with support from diaspora remittances and tourism inflows.

Currency Performance			
Period	USD/KES	GBP/KES	EURO/KES
Jan-26	129.03	177.42	153.80
Y-o-Y	(0.02%)	1.99%	1.36%

Source: CBK, NCBA IB Research

Inflation: Annual headline inflation eased marginally to 4.40% in January from 4.49% in December 2025, while the Consumer Price Index (CPI) increased by 0.64% on a month-on-month basis.

Looking ahead into 1H26, we expect inflation to remain below the central bank's midpoint target on stable FX, lower global oil prices and increased food supply.

Statistic	Jan-26	Dec-25	Change (bps)
Inflation	4.40%	4.50%	(10.00)
Inflation (CPI)	148.02	147.08	63.91

Source: CBK, NCBA IB Research

Liquidity conditions: Liquidity conditions remained largely unchanged. Indicatively, the overnight interbank rate increased by 1bps month on month to close at 8.99%.

Statistic	Jan-26	Dec-25	Change (bps)
Average Kesonian Rate	8.99%	8.98%	1.00

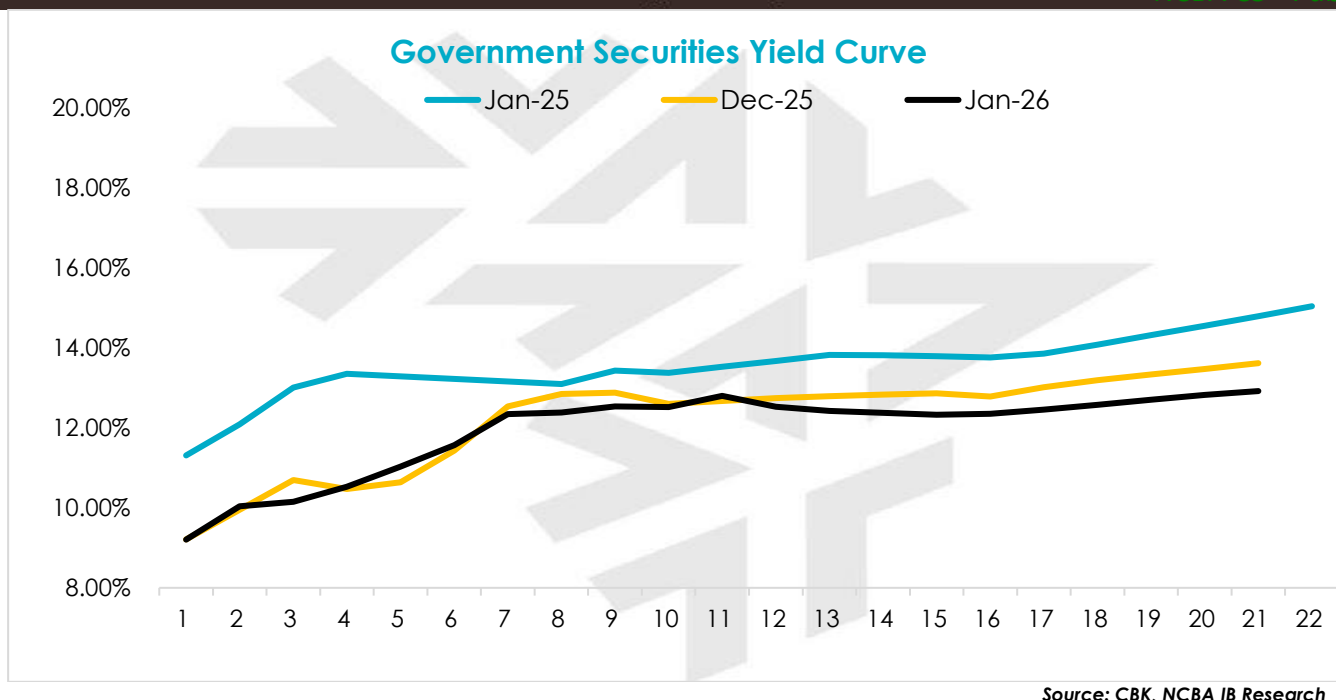
Source: CBK, KNBS, NCBA IB Research

Interest rates: Short-term rates continued their downward trend with the 91-day and 364-day papers declining m/m. Going forward, we expect the pace of decline to be more gradual compared to the aggressive easing observed in 2025.

Prevailing rates	Jan-26	Dec-25	M/M change (bps)
91 Day	7.63%	7.78%	(14.95)
182 Day	7.80%	7.80%	-
364 Day	9.21%	9.21%	(0.43)

Source: CBK, NCBA IB Research

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



What's shaping Kenya's markets in 2026?

Kenya's growth picks up:

- Kenya's economic growth is projected to accelerate to 4.9% in 2026, outpacing Sub-Saharan Africa's 4.6%, according to the IMF. The uptick is supported by output in agriculture and services, improving investor sentiment, and easing financial conditions - anchored by a loose monetary stance following reductions in the Central Bank Rate (CBR).

Improving credit profile:

- Moody's:** Upgraded Kenya's long-term foreign and local currency sovereign credit rating to B3 from Caa1 with a Stable outlook reflecting reduced near-term default risk and improved external liquidity and market access.
- S&P Global Ratings:** Kenya's long-term sovereign credit rating stands at B (upgraded from B- in August 2025) with a Stable outlook, supported by stronger reserves and easing liquidity pressures.
- Fitch Ratings:** B- with a Stable outlook - affirmed most recently in January 2026, with the agency noting continued repayment record and improved foreign exchange reserves, though fiscal pressures remain a constraint

- New listings:** listings are expected to pick up, led by Family Bank Limited's proposed listing by introduction. The Group's planned NSE listing in 2026 is aimed at unlocking share liquidity - following OTC trading since 2006 and could provide a platform for future capital raising.

What will move banks in 2026? M&A and Asset Quality:

- We think the Kenyan banking sector is set for further consolidation in 2026, driven by higher capital requirements. CBK's 2024 roadmap to lift minimum core capital to KES 10bn by 2029

effectively ends the era of undercapitalized banks. Interim thresholds require banks to reach KES 5bn by end-2026, rising to KES 10bn by 2029.

- For Tier I lenders (KCB Group, Equity Group, DTB, NCBA, Stanbic), compliance is manageable. For smaller Tier III banks, the capital step-up is a strategic inflection point - either raise fresh equity or pursue consolidation.
- **Cross-border interest is intensifying.**
Nigerian banks (notably Access and Zenith) view Kenya as a gateway to East and Central Africa.
- In January, Nedbank announced its intention to acquire a 66.0% stake in Tier I lender NCBA Group via a cash-and-stock transaction (80% share consideration: 4.02994 Nedbank ordinary shares; 20% cash: KES 2,100 per NCBA share). Minority holders entitled to fewer than 200 Nedbank shares will receive KES 105.0 per share cash. Subject to regulatory approvals, NCBA will become a subsidiary of Nedbank.

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