KCBIB Monthly Stock Picks: January 2026

A. Market Snapshot-2025

- The market closed the year on a strong bullish note, with the NASI Index up 3.05% for the m/m, and the full year 2025 recording impressive 48.86% returns. Market capitalization rose in tandem to KES 2.94Tr, confirming the strength and breadth of the 2025 rally. Momentum remains intact, and we expect this positive tone to carry into 2026, albeit at a more measured pace.

- Globally and locally, the interest rate environment continues to ease, creating a supportive backdrop for equities. With fixed income yields trending lower, investors can consider rotating out of bonds into equities, a shift that has the potential to materially support market performance and deliver impressive returns.

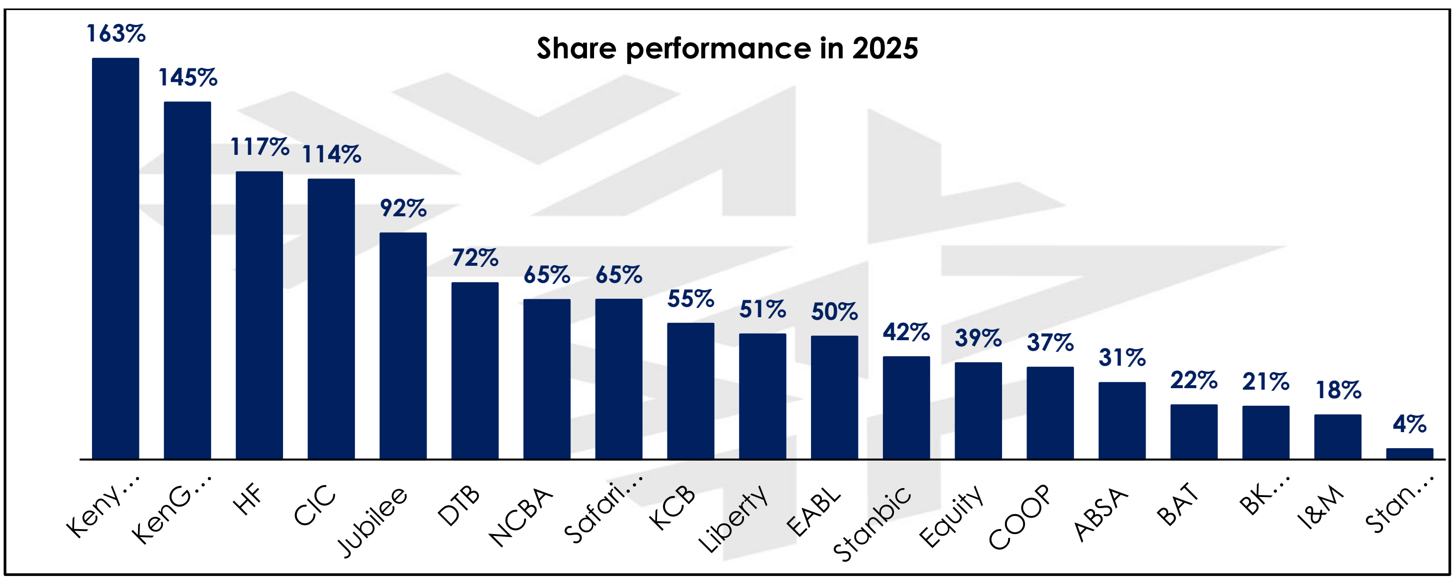
- That said, reality check: most stocks have already run hard. Many counters are now trading at or near cycle highs, which naturally limits near-term capital gains. This is no longer a "buy everything" market. However, it is also not the end of the opportunity set. Select stocks remain attractively valued on a historical basis, offering pockets of value for disciplined investors who know where to look.

- Market activity in 2025 was anything but quiet. We saw new listings, successful MTN issuances by Safaricom and EABL, rights issues, and major corporate actions. Most notably, Diageo announced its exit from EABL, with Japan's Asahi Group acquiring the 65% stake. Looking ahead, we expect activity to remain robust, supported by the anticipated IPO of Kenya Pipeline Company (KPC) and the listing of Family Bank by introduction.

- On the macro front, the story remains broadly supportive. The shilling has been relatively stable, inflation is contained, monetary policy is accommodative, and the improving PMI points to renewed confidence in the private sector. The main overhang remains debt sustainability, with elevated debt servicing costs continuing to pose a downside risk.

- Bottom line: the market remains bullish but selective. The easy money has largely been made, but opportunities still exist for investors willing to focus on quality, valuation, and clear catalysts. With that in mind, we now turn to our January 2026 stock recommendations and select share performance in 2025.

B. 2025 Share Performance



KCBIB Monthly Stock Picks: January 2026

- Overall, sector performance was strong across the board, with most sectors delivering meaningful price appreciation over the year.

- Within the banking sector, Standard Chartered's share price initially came under pressure following the supreme court ruling on the pension matter but has since recovered. NCBA was a standout performer, rallying sharply on market speculation around a potential acquisition by Standard Bank Group (South Africa) through Stanbic Kenya, highlighting the market's appetite for corporate action and consolidation stories.

- Outside banking, EABL also delivered a notable rally, driven by Diageo's premium exit, which effectively re-rated the stock by signaling a higher underlying valuation. The transaction improved investor sentiment and reinforced confidence in the long-term value of the business.

- Bottom line: strong sector-wide performance was supported by a mix of improving fundamentals, resolution of key overhangs, and corporate action-driven catalysts, all of which sustained positive market.

C. Valuation and Yield Dashboard

Stock	Current Price	Trailing Dividend	Div Yield	Interim Dividend	P/E	P/B	ROE	Recommendation
Banking Sector								
Cooperative	23.1	1.50	6.49%	1.00	5.17	0.88	18.8%	HOLD
Equity	67.25	4.25	6.32%	0.00	4.37	0.9	23.5%	ACCUMULATE
KCB	65.5	3.00	4.58%	4.00	3.5	0.69	22.1%	ACCUMULATE
I&M	43	3.00	6.98%	1.50	4.2	0.72	18.2%	ACCUMULATE
Stanbic	197	20.74	10.53%	3.80	5.96	1.05	18.2%	HOLD
NCBA	86	5.50	6.40%	2.50	6.26	1.15	21.0%	HOLD
Stanchart	297	45.00	15.15%	8.00	7.99	1.75	21.6%	HOLD
Absa	24.45	1.75	7.16%	0.20	6.12	1.5	26.8%	ACCUMULATE
DTB	114.25	7.00	6.13%	0.00	3.74	0.32	9.9%	ACCUMULATE
Manufacturing								
BAT	454.5	50.00	11.00%	10.00	8.72	3.15	36.5%	HOLD
EABL	266.75	8.00	3.00%	0.00	22.14	7.73	37.2%	HOLD
Telecommunication								
Safaricom	29	1.20	4.14%	0.00	13.72	6.29	49.7%	ACCUMULATE

Top Stock Picks

1. Equity Group-ACCUMULATE: Highly quality growth

- Equity remains the highest-quality lender in the banking sector, supported by strong regional diversification and superior profitability.
- ROE of 23.5% remains among the strongest in the sector, reflecting efficient capital deployment.
- Trading at 4.4x P/E and 0.9x P/B, valuation is fair relative to returns, leaving limited near-term rerating upside.
- Dividend yield of 6.3% continues to support total returns though there remains high potential for increased dividend payout.
- The stock is best suited for investors seeking quality, stability, and steady compounding. We recommend gradual accumulation, with patience for a more attractive entry point before an outright Buy call. Upside potential is expected to improve as valuations re-rate, supported by a new earnings catalyst.

2. Standard Chartered Bank-HOLD: Remains a Dividend Anchor

- Stanchart remains the market's highest dividend payer, offering unmatched income appeal despite elevated valuation.
- Dividend yield of 15.2% is the highest among banks, providing strong downside support.
- ROE of 21.6% remains solid, but valuation at 8.0x P/E and 1.75x P/B reflects premium pricing.
- Earnings growth remains constrained by pension case and mature business profile.
- In its Q3'25 results, the lender reported a sharp slowdown, with PAT declining 38.2% Y/Y. The performance was weighed down by a 10.3% drop in net interest income and 28.6% drop in non-funded income, resulting in a 17.0% decline in operating income.

Recommendation: **HOLD**.

- Attractive for income-focused investors, but upside is capped by valuation.

3. KCB Group – ACCUMULATE (Best Risk-Adjusted Value)

- KCB offers the most compelling valuation-to-ROE mismatch in the banking sector.
- Trading at just 3.5x P/E and 0.69x P/B, the stock is deeply discounted.
- ROE of 22.1% indicates strong underlying profitability despite investor concerns.
- Regional subsidiaries are stabilizing, with gradual improvement in asset quality expected.

Recommendation: **ACCUMULATE**.

- Ideal for investors seeking value with recovery upside and willing to build positions gradually.

4. Co-operative Bank – HOLD (Defensive Income Play)

- Co-op Bank continues to deliver stable, predictable returns, supported by a strong domestic franchise.
- ROE of 18.8% is solid but lower than tier-one peers.
- Valuation at 5.2x P/E and 0.88x P/B is fair relative to profitability.
- Dividend yield of 6.5% supports income-oriented portfolios.

Recommendation: **HOLD**.

- A defensive name with limited growth optionality.

5. Stanbic Bank – HOLD (Income + Stability)

- Stanbic remains a low-risk, steady performer, but valuation limits upside.
- ROE of 18.2% is respectable but not sector leading.
- Trading at 6.0x P/E and 1.05x P/B, valuation is neutral.
- Dividend yield of 10.5% offers strong income support.
- Stanbic Kenya delivered a muted performance in Q3'25, with PAT declining 7.5% Y/Y to KES 9.5Bn. The slowdown was largely driven by a 24.5% drop in non-funded income, weighed down by soft forex trading activity.
- Despite the soft performance, the bank remains resilient, supported by a stable balance sheet, improving asset quality, and a consistent dividend track record.
- Overall, Stanbic remains fundamentally stable despite short-term revenue pressures and leans towards a hold.

Recommendation: **HOLD**.

- Best for investors prioritizing income and balance sheet strength.

6. NCBA Group – HOLD (Earnings Normalization Story)

- NCBA is transitioning toward normalized earnings following a volatile credit cycle.
- ROE of 21.0% supports the investment case.
- Valuation at 6.3x P/E and 1.15x P/B prices in much of the recovery.
- Dividend yield of 6.4% remains attractive.

KCBIB Monthly Stock Picks: January 2026

- NCBA Group delivered a positive Q32025 performance, posting PAT of KES 16.4Bn (+8.5% Y/Y). Growth was supported by a 27.4% rise in Net Interest Income, which was because of 42.8% decline in interest expense on customer deposits. However, the performance was weighed down by 1.9% drop in Non-interest income.

Recommendation: **HOLD**.
- Await clearer acceleration in earnings growth for upside re-rating.
- The rally witnessed on the stock was also on the back of market speculation on the potential acquisition by Standard Group S. Africa through Its Kenyan subsidiary, Stanbic Bank.
- Given these dynamics, investors may consider holding the position as they await the FY2025 results, while continuing to closely monitor developments surrounding the acquisition rumors.

7. I&M Holdings – ACCUMULATE (Yield-Supported)
- I&M offers stable returns but lacks near-term catalysts but Is on a growth and expansion journey.
- ROE of 18.2% is moderate and the trading valuations of 4.2x P/E and 0.72x P/B, is reasonable.
- Dividend yield of 7.0% provides income support.
- I&M delivered a strong Q3’25 performance, with PAT up 27.4% Y/Y to KES 12.7Bn, supported by robust income growth across both funded and non-funded streams.

Recommendation: **ACCUMULATE**.
- Suitable for income-focused investors.
- At the stated valuations, the counter remains discounted relative to its fundamentals. With consistent earnings growth, improving asset quality, and reliable dividend payouts, I&M offers a compelling opportunity for investors to accumulate at value levels.

8. Absa Bank Kenya – ACCUMULATE (Strong ROE, Expensive Book)
- Absa stands out on profitability, but valuation remains demanding.
- ROE of 26.8% is among the highest in the sector.
- However, valuation at 6.1x P/E and 1.5x P/B limits re-rating upside.
- Dividend yield of 7.2% supports the stock.
- Absa Bank delivered a strong Q3 2025 performance, posting PAT of KES 16.9Bn (+14.7% Y/Y). Growth was supported by an 11.2% rise in non-interest income and a 39.6% drop in loan-loss provisions, offsetting a 4.6% decline in Net Interest Income.

Recommendation: **ACCUMULATE**.
- Strong fundamentals, with pricing already reflecting strength.
- While the counter isn’t cheap, the valuation remains reasonable for a bank sustaining double-digit growth. This positions the stock as a steady accumulation for investors prioritizing balance sheet quality, consistent performance and dividend payouts.

9. DTB – ACCUMULATE
- Despite cheap headline valuation, DTB has an ROE of just 9.9% and is significantly below sector averages.
- Low P/B of 0.32x reflects structural profitability challenges. However, this also provides an opportunity for growth If the limiting factors are sorted.
- Dividend yield of 6.1% is insufficient to compensate for weak returns.
- DTB Kenya’s Q325 results reflect a strengthening balance sheet, improved asset quality, and solid earnings momentum, despite softer non-funded income. The combination of healthier credit performance, expanding deposits, and improving NIM positions the bank for continued profitability heading into FY2025.

Recommendation: **ACCUMULATE**.

- Accumulate cautiously given the low returns. However, the improved performance offers high prospect for Increased returns.

Non-Banking Sector:

1. **BAT Kenya – HOLD (Premium Yield, Fully Valued)**

BAT remains a high-quality cash generator but valuation is stretched.
- ROE of 36.5% supports premium pricing.
- Trading at 8.7x P/E and 3.15x P/B, upside is limited.
- Dividend yield of 11.0% remains attractive.

Recommendation: **HOLD**.
- Strong income stock, but not a growth play.

2. **EABL – HOLD (Great Business, Expensive Stock)**

EABL's fundamentals remain strong
- ROE of 37.2% is exceptional.
- However, trading at 22.1x P/E and 7.7x P/B, the stock is priced for perfection.
- Dividend yield of 3.0% offers limited support.

Recommendation: **HOLD**.
- Hold as you wait for a meaningful correction before re-entry.

3. **Safaricom – ACCUMULATE (Strategic Compounder)**

Safaricom remains a long-term compounder, but near-term valuation caps upside.
- ROE of 49.7% remains strong in the market.
- Valuation at 13.7x P/E and 6.3x P/B reflects premium status.
- Dividend yield of 4.1% provides modest income.

Recommendation: **ACCUMULATE**.
- Best suited for long-term investors, not tactical buyers.

Market Positioning

The market has transitioned from a strong rally to a consolidation phase, with valuation discipline becoming increasingly important.
- High-ROE stocks trading at fair valuations are HOLDs, not aggressive buys.
- Selective accumulation is warranted in deeply discounted, high-ROE names such as KCB.
- Profit-taking remains prudent in expensive, fully valued counters.

Strategy:

Given current equity market conditions, investors should focus on ROE versus valuation mismatches, where strong returns are not yet fully priced in. Priority should be placed on income generation and capital preservation, while remaining selective on new positions. After the strong rally in 2025, patience is key, as better entry points are likely to emerge as the market consolidates.

KCBIB Monthly Stock Picks: January 2026

Disclaimer

This report has been prepared by KCB Investment Bank Limited (hereinafter KCBIB), a subsidiary of KCB Group PLC. This report is for distribution only under such circumstances as may be permitted by applicable law. Nothing in this report constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. It is published solely for information purposes; It does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, express or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the report. KCBIB does not undertake that investors will obtain profits, nor will it share with investors any investment profits nor accept any liability for any investment losses.

Investments involve risks and investors should exercise prudence in making their investment decisions. The report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of KCB Group PLC as a result of using different assumptions and criteria.

Research will initiate, update, and cease coverage solely at the discretion of KCBIB. The analysis contains herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel, and other constituencies for the purpose of gathering, synthesizing, and interpreting market information. KCBIB is under no obligation to update or keep current the information contained herein. KCBIB relies on information barriers to control the flow of information contained in one or more areas within KCBIB, into other areas, units, groups, or aNliates of KCB. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither KCBIB nor any of its aNliates, directors, employees, or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report.

KCBIB is a subsidiary of KCB Group, in which the company has an interest, hence this statement represents a disclosure of this potential conflict of interest. This report has been prepared independently and represents the analyst's sole opinion and objective analysis. Information in the public domain has been used in preparing this report.