FY2025 Banking Sector Analysis

FY2025 Kenyan Banking Sector Analysis: Valuation Opportunity Amid a Transition to Credit & Diversification Led Growth

Kenya's banking sector delivered a solid performance in FY2025, supported by improving macroeconomic stability, a shift toward monetary easing, and resilient balance sheet expansion. Following a challenging period in 2024 marked by tight liquidity and elevated interest rates, the operating environment improved significantly, enabling banks to recover earnings momentum while maintaining prudent risk management.

Banks under our coverage recorded an average PBT growth of 12%, driven largely by margin resilience and a notable decline in funding costs. This came despite pressures on both interest income and Non-Funded Income (NFI), following the Central Bank of Kenya's (CBK) policy pivot from13.0% in July 2024 to 9.0% by December 2025. The easing cycle supported a recovery in private sector credit and reduced interest expense burden.

The macroeconomic backdrop remained supportive, characterized by a stable currency, contained inflation (3.3%–4.5%), and a turnaround in private sector credit growth. This translated into solid balance sheet growth, with industry assets expanding by 10%, deposits by 9.3%, and loan books by 6.6%, signaling a broad-based normalization in financial intermediation.

Structurally, FY2025 marked a transition from earnings driven by high interest rates and foreign exchange gains to a more normalized environment. As these tailwinds faded, banks increasingly focused on operational efficiency, disciplined credit underwriting, and revenue diversification, highlighting differences in business model strength across institutions.

Profitability metrics remained robust across most banks, with ROaE, ROaA, and net interest margins holding firm, underscoring sector resilience. However, performance dispersion persisted, with banks such as Stanbic and Standard Chartered recording relatively softer growth, partly due to normalization effects and one-off adjustments.

Looking ahead to FY2026, the sector is expected to operate in a more constrained environment, shaped by:

- Lower interest rates and potential pressure on net interest margins
- Reduced contribution from FX and rate-driven income
- Greater reliance on balance sheet growth and cost efficiency
- Increased sensitivity to inflationary and geopolitical risks, particularly from global developments

Additionally, the phased increase in minimum core capital to KES 10Bn by 2029 is accelerating consolidation, capital raising, and strategic partnerships. Non-compliant banks face pressure to merge or downgrade, reshaping the competitive landscape.

Overall, while cyclical tailwinds are moderating, the Kenyan banking sector remains fundamentally strong. Well-capitalized, diversified, and operationally efficient banks are best positioned to sustain profitability and continue supporting economic growth in a more normalized and competitive environment.

1) Investment Thesis & Sector View

Undervalued sector with resilient fundamentals, entering a more disciplined growth phase

The Kenyan banking sector presents a compelling investment case, characterized by strong underlying fundamentals, resilient profitability, and a clear valuation disconnect, with most banks trading below intrinsic value.

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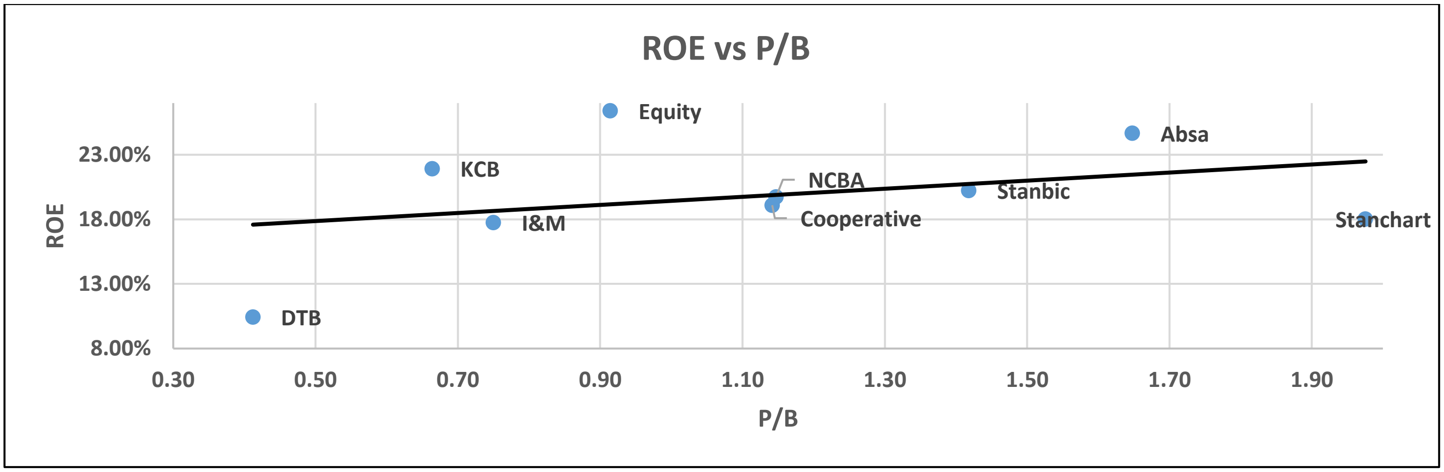
As the interest rate cycle normalizes, the sector is transitioning from rate-driven earnings to a more sustainable model anchored on balance sheet growth, operational efficiency, and disciplined risk management. This shift is expected to support steady earnings while reinforcing long-term stability.

Valuation Anchor: P/B vs ROaE Framework

The sector's valuation is best assessed through the relationship between Price/Book (P/B) and Return on Equity (ROaE), which highlights how efficiently the market prices profitability.

The banks are classified into five distinct valuation quadrants:



Source: Comp Fin, KCB IB

- **STARS** – Represent the most attractive opportunities, combining high ROE with relatively low P/B ratios. This suggests strong profitability that is not fully priced in.
  Includes: KCB Group, Equity Group & I&M.

- **DIAMONDS** – Deliver strong ROE but are trading at fair or slightly elavated P/B levels, implying limited upside potential. Includes NCBA**.**

- **PYRAMIDS** – These are positioned close to the trendline, indicating a balance between valuation and returns. They are fairly valued relative to the market.
  Includes: Co-operative Bank and Stanbic

- **CROSSES** – These banks exhibit relatively high ROE but also high P/B ratios, suggesting that returns may not justify current valuations, potentially limiting price appreciation.
  Includes: Absa and Standard Chartered

- **YANKEES** – These are characterized by low P/B ratios and weak ROE, indicating underperformance and limited attractiveness from a valuation and returns perspective.
  Includes: DTB.

This framework highlights that the most compelling opportunities lie in banks generating strong ROaE while trading at low valuation, indicating potential mispricing. In this case, value is concentrated on names like KCB Group, Equity Group, and I&M, while banks such as Absa and Standard Chartered appear relatively expensive.

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Valuation Overview & Market Positioning

Stock	Price (24th April 2026)	52-week low	52-week high	EPS	P/B	P/E	BVPS	ROaE	Trailing Div	Dividend Yield	Recommendation
Cooperative	32.20	13.80	34.30	5.04	1.14x	6.39x	28.20	**19.10%**	2.50	7.76%	**ACCUMULATE**
Equity	75.00	41.20	80.00	19.07	0.91x	3.93x	82.02	**26.40%**	5.75	7.67%	**BUY**
KCB	68.50	35.00	80.50	20.80	0.66x	3.29x	103.15	**21.92%**	7.00	10.22%	**NEUTRAL**
I&M	49.65	29.50	52.00	34.70	0.75x	4.60x	66.18	**17.74%**	3.75	7.55%	**BUY**
Stanbic	287.50	147.00	300.00	11.18	1.42x	8.29x	202.75	**20.23%**	22.35	7.77%	**HOLD**
NCBA	88.75	48.00	100.00	14.20	1.15x	6.25x	77.36	**19.73%**	7.10	8.00%	**ACCUMULATE**
Stanchart	346.75	270.00	360.00	32.47	1.98x	11.19x	175.51	**18.01%**	31.00	8.94%	**HOLD**
Absa	30.50	15.00	33.00	4.22	1.65x	7.23x	18.51	**24.67%**	2.05	6.72%	**HOLD**
DTB	149.00	66.00	170.00	33.65	0.41x	4.43x	361.60	**10.43%**	9.00	6.04%	**BUY**

Source: NSE, KCB IB

The sector exhibits pockets of selective undervaluation, with certain banks trading below book value despite delivering solid profitability and consistent dividend payouts, while others appear more fairly valued.

P/E ratios remain broadly low across the sector (approximately 3.9x–11.2x for most banks), underscoring attractive earnings multiples. KCB and Equity stand out, combining strong profitability with relatively discounted valuations.

- **Profitability & Shareholder Returns:** Profitability remains robust across the sector, with Equity and Absa leading in ROE, while KCB, Stanbic, and Co-operative continue to deliver strong returns.
- Dividend yields remain attractive (6%–10%), with KCB, Standard Chartered and Stanbic standing out as top income plays, underscoring strong cash generation.

Investment Positioning & Recommendations

- **Strong BUY** – Equity, I&M (STAR): Strong returns, low valuation, and clear upside
- **Speculative Buy-** DTB: Deep value given low P/B, but weaker ROE tempers conviction
- **ACCUMULATE** – Co-op, NCBA: Attractive valuations with stable fundamentals
- **HOLD** – Stanbic, Stanchart, Absa: Fairly valued with limited upside
- **KCB** – Neutral (STAR): Strong metrics and undervaluation relative to peers but rated neutral.

Sector Outlook & Investment View: The sector presents a valuation disconnect, with strong fundamentals not fully reflected in pricing. However, performance will be shaped by a pause in monetary easing, compressed loan yields, and lingering asset quality risks. Going forward, returns will be driven by credit growth, efficiency, and risk management.

The Kenyan banking sector remains profitable and attractively valued. Banks with strong returns, discounted valuations, and scalable models, such as Equity, KCB, and Co-operative, are best positioned to deliver sustainable long-term returns.

2) Market Performance & Sentiment: Strong Rally with Emerging Volatility

Banking stocks recorded a strong rally in 2025, in line with the broader market recovery, with NASI gaining 51%. NCBA, DTB, and KCB led the upside, with NCBA's surge driven by acquisition speculation later confirmed in 2026, while Standard Chartered lagged due to pension-related issues and profit warning.

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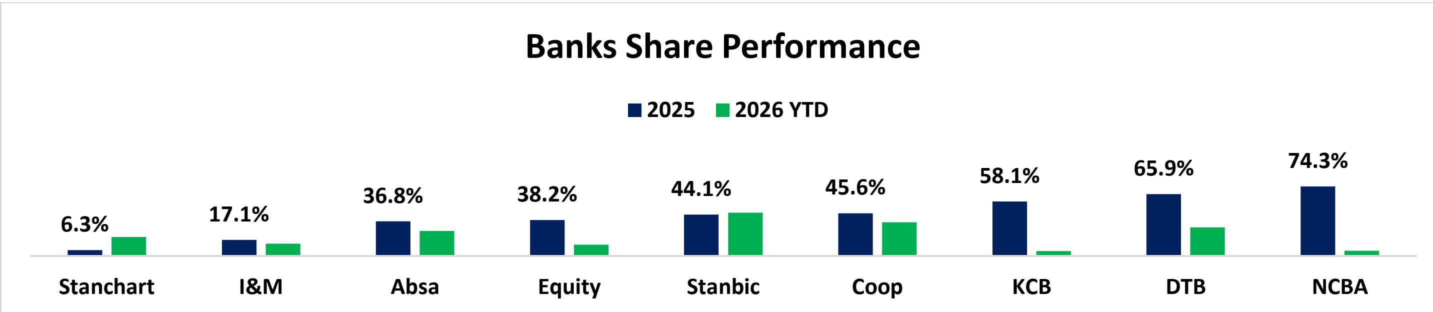
The momentum extended into early 2026 but moderated amid a more dynamic environment. Heightened geopolitical risks, particularly Middle East tensions, triggered intermittent volatility, rising oil prices, and shifting rate expectations, tempering market performance despite resilient banking sector fundamentals.



Source: NSE, KCB IB

3) Macro & Operating Environment Context: Supportive but increasingly complex backdrop

Kenya's macroeconomic environment in FY2025 was broadly supportive of banking sector performance, characterized by currency stability, contained inflation, and a gradual recovery in private sector credit. However, emerging external risks and a pause in the easing cycle point to a more nuanced operating landscape in FY2026.

- **Currency Stability**: KES remained largely stable in 2025, appreciating marginally by 0.6% y/y. YTD, the currency has remained broadly flat, depreciating slightly by 0.08%, signaling sustained stability.
  Implication: A stable currency reduced FX volatility and limited translation gains that had previously boosted earnings, reinforcing a shift toward core banking income. However, underlying risks, including elevated external debt obligations, a widening current account deficit, and sensitivity to global commodity prices leave the currency exposed to shocks in FY2026, particularly in the event of prolonged geopolitical tensions.

- **Inflation Control:** Inflation averaged 4.08% in 2025, remaining well within the CBK target band and providing a conducive environment for monetary easing and consumption recovery. Nonetheless, upward pressure is emerging from rising global energy prices linked to geopolitical developments.
  Implication: While inflation is expected to remain within target, a gradual uptick could constrain further monetary easing as seen with the pause in CBR and anchor interest rates at current levels for longer. This suggests a moderation in the pace of funding cost declines, with potential pressure on margins if asset repricing lags.

- **Credit Growth**: Growth rebounded from a contraction of 2.9% in January 2025 to 5.9% by year-end, reflecting improved liquidity conditions, easing interest rates, and gradual recovery in borrower demand. Additionally, stabilizing asset quality, with industry NPLs declining to 15.4%, supported a cautious re-expansion of lending.

- **Implication:** Despite the recovery, credit growth remains in single-digit territory, indicating that the lending cycle is still in its early stages. In FY2026, we expect a gradual acceleration in credit uptake, supported by improved risk appetite and a shift toward risk-based lending models. However, growth is likely to remain measured, as banks balance expansion with asset quality preservation.

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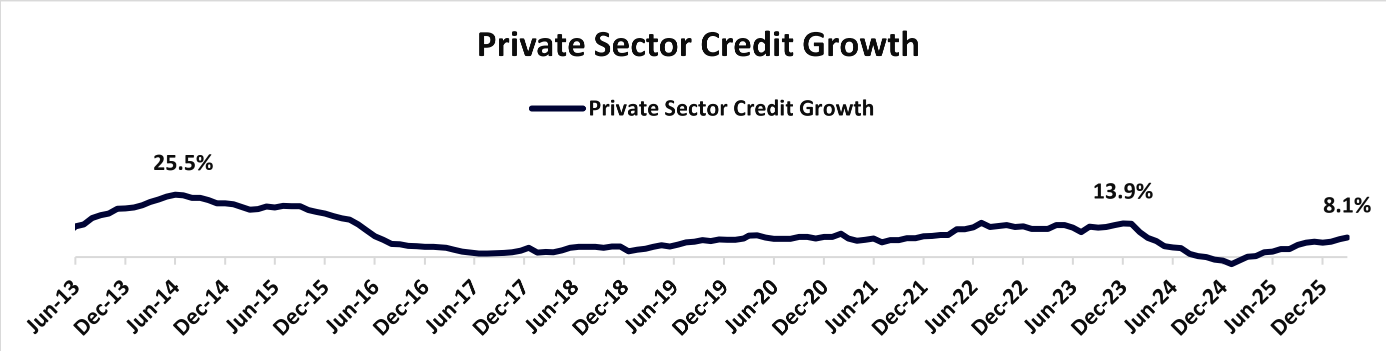
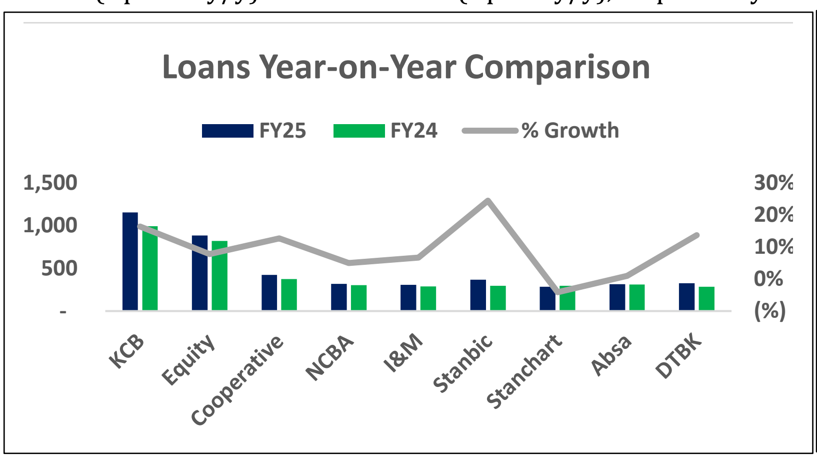


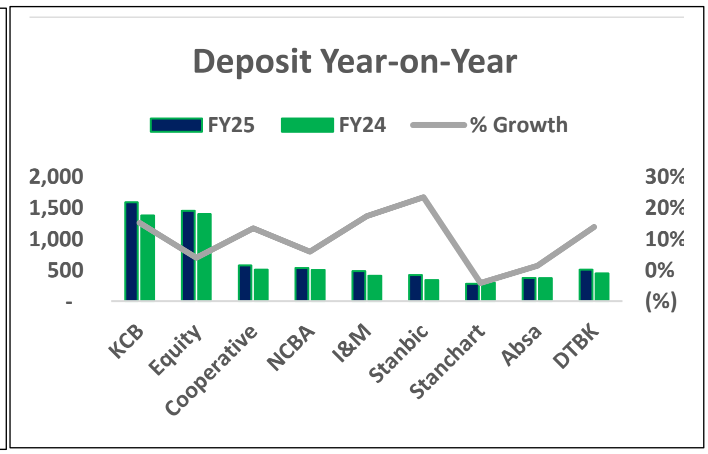
Source: CBK, KCB IB

4) Balance Sheet Strength: Solid expansion anchored on strong deposit growth, prudent lending, and ample liquidity buffers.

The Kenyan banking sector remains anchored by two dominant "trillion-shilling" players, highlighting strong market concentration and scale advantages.

- **Sustained asset growth driven by scale and improving credit demand:** The banking sector's asset base expanded by 10.0% y/y to KES 8.4Tr, supported by resilient deposit mobilization and a gradual recovery in lending activity. KCB Group maintained its lead with assets growing 9.4% to KES 2.15Tr, while Equity Group followed closely at KES 1.97Tr, reinforcing the dominance of tier-one banks and the benefits of scale in driving growth.
- **In the Sector Trends**, **Liquidity build-up outpaces lending as banks remain cautious:** Gross loans increased by 6.6% y/y to KES 4.4Tr, reflecting cautious lending for most of the year, while customer deposits grew by a stronger 9.3% y/y to KES 6.3Tr, underscoring sustained liquidity build-up across the sector.
- **Strong deposit mobilization supports low-cost funding strategy**: Deposit mobilization remained resilient across our coverage, with all banks recording growth except Standard Chartered (down 4.0% y/y). Stanbic led with 23% growth, while KCB Group and Equity Group continued to dominate in absolute terms, with deposits at KES 1.59Tr (Up 15% y/y) and KES 1.45Tr (Up 4% y/y), respectively.





Source: NSE, KCB IB

- **Gradual recovery in lending as credit demand picks up:** Loan growth across banks under coverage averaged 9% y/y, slightly above the sector average of 6.6%, signaling early recovery in private sector credit demand following rate easing. KCB Group and Equity Group remained the largest lenders, supported by scale and regional diversification.

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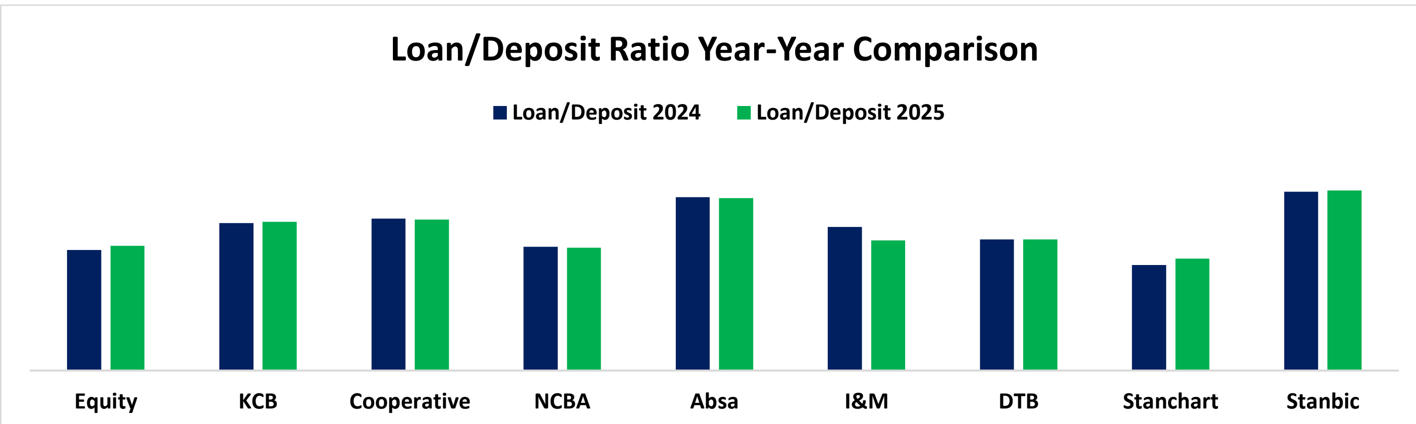
- In terms of growth, Stanbic (up 24% y/y) and Equity (up 16% y/y) outperformed peers, signaling a more proactive shift toward credit expansion. In contrast, Standard Chartered (down 4% y/y) and Absa (up 1% y/y) lagged, reflecting a more cautious lending stance.
- **Loan/Deposit reflects balanced liquidity positions supporting sustainable credit growth:** Loan/Deposit Ratios remained broadly stable across the sector, reflecting prudent liquidity management. Absa and Stanbic maintained relatively higher LDRs, while I&M recorded a decline due to faster 17% deposit growth relative to 7% growth in loans.

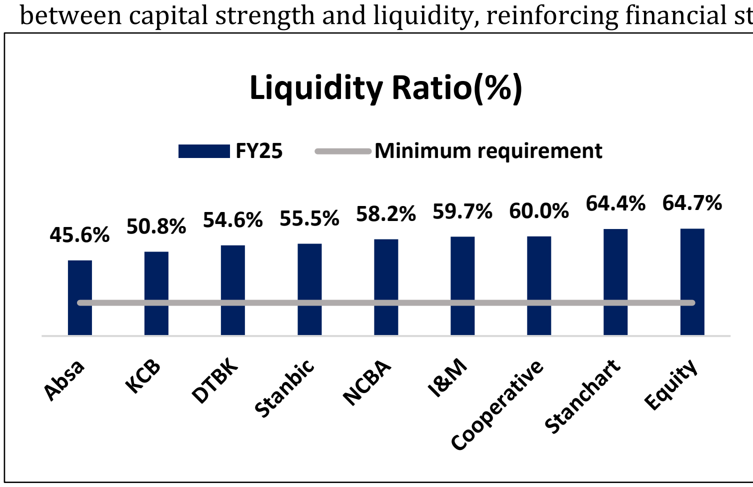
NCBA and DTB remained stable, while Equity and Standard Chartered continued to operate at lower LDRs, reflecting stronger liquidity buffers. Overall, the sector remains well-positioned to support credit growth while maintaining adequate liquidity.

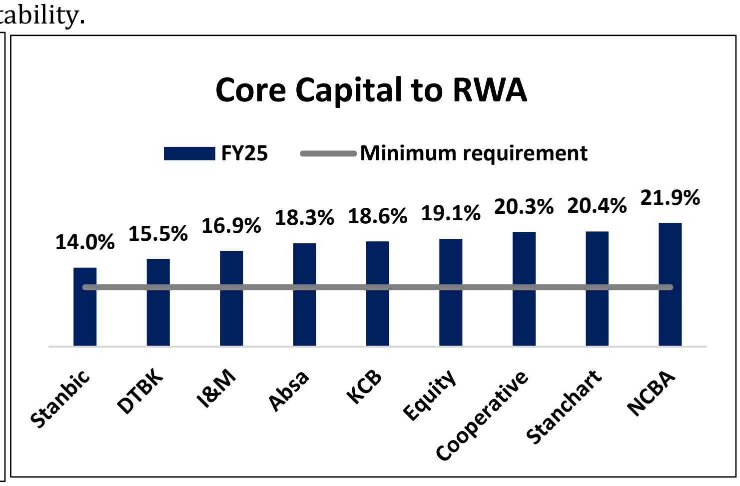


Source: Comp Fin, KCB IB

➢ **Capital & Liquidity Positioning: Strong buffers and ample liquidity underpin sector resilience**

All banks under coverage remain well-capitalized, with core capital ratios comfortably above the 10.5% regulatory minimum, underscoring strong solvency and shock-absorption capacity. Liquidity positions are equally robust, reflecting high levels of quality liquid assets and resilience to short-term stress. Overall, the sector maintains a strong balance between capital strength and liquidity, reinforcing financial stability.





Source: Comp Fin, KCB IB

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Outlook: Transitioning toward credit-led growth amid evolving risks: We expect a stronger credit cycle in FY2026, supported by easing monetary conditions, reduced appeal on yields, and the need for banks to drive earnings through loan growth as margins compress. However, elevated NPLs at 15.4% remains a key risk, likely constraining aggressive lending.

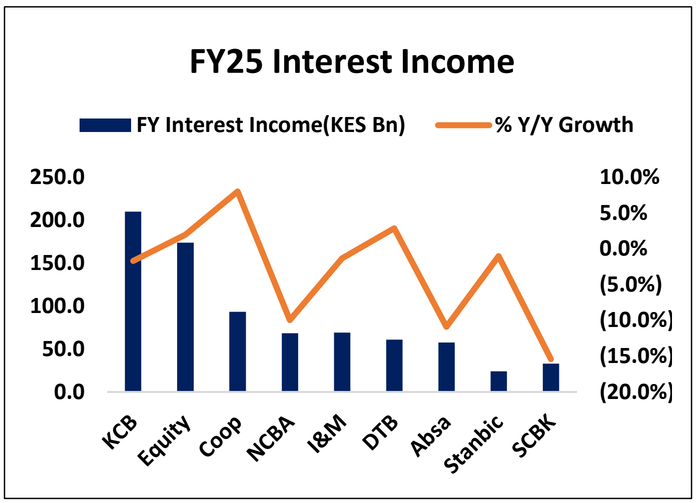
Going forward, earnings growth will increasingly depend on balance sheet expansion, cost efficiency, and prudent risk management. Banks that effectively balance growth with asset quality control will be best positioned to sustain profitability in a more challenging and dynamic operating environment.

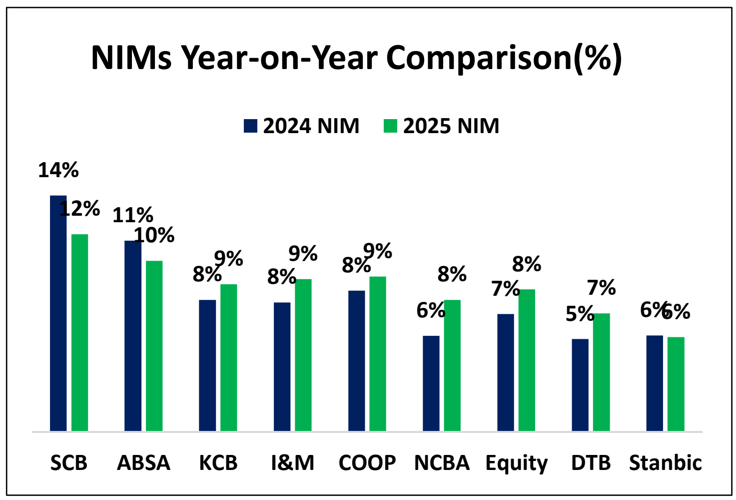
5) Earnings & Profitability Analysis: Margin resilience and diversification anchor earnings amid easing cycle

➢ Net Interest Income (NII): Lower funding costs cushion pressure on asset yields

NII remained resilient despite a 3.1% y/y decline in gross interest income which was driven by reduced yields on loans and government securities. However, a sharp 20% decline in interest expenses, driven by deposit repricing, offset this pressure, allowing most banks to sustain NII growth.

Only select banks such as Co-operative, Equity, and DTB registered growth in gross interest income through stronger loan volumes and portfolio reallocation.





Source: Comp Fin, KCB IB

Margins and Cost Dynamics: The decline in interest rates led to a sharp reduction in funding costs, which helped offset lower yields. Consequently, NIMs remained broadly stable, underscoring the importance of liability management in a low-yield environment.

➢ Non-Funded Income (NFI): Diversification supports earnings amid weaker FX contribution

NFI remained a key earnings buffer, though performance was mixed due to reduced FX trading income following currency stability. Growth was supported by diversification into transaction-based income, bancassurance, and wealth management. I&M recorded notable gains, while Standard Chartered lagged (-23% y/y), reflecting its higher exposure to FX income.

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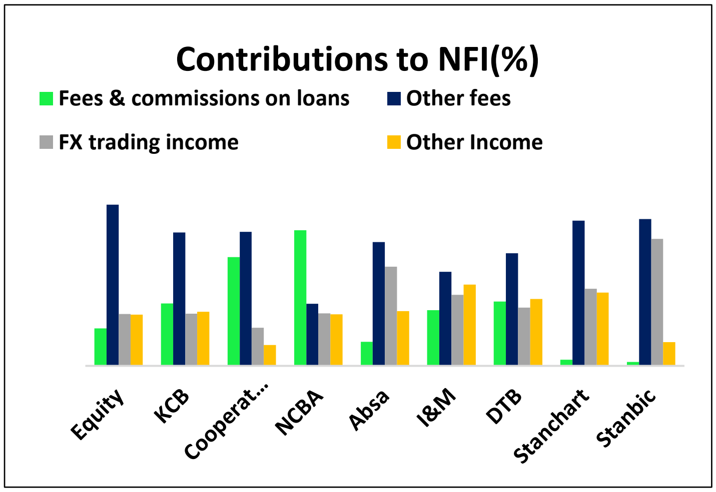
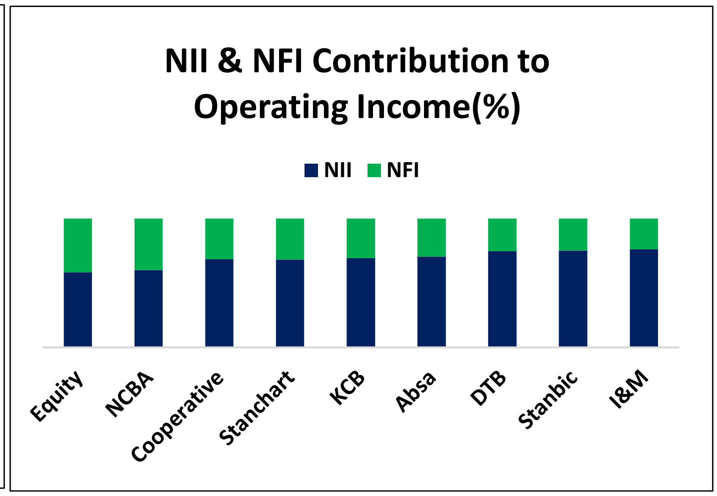
➢ Non-Funded Income Composition & Business Models

Distinct revenue models drive earnings variability: NFI composition highlights clear differences in business models. NCBA leads in digital lending, with a significant share of fee income from loan-related charges, while Equity and KCB rely more on transactional income supported by their retail and agency networks.

Stanbic and Absa remain more corporate-focused, with higher reliance on FX income, while I&M maintains a more balanced and diversified income mix.



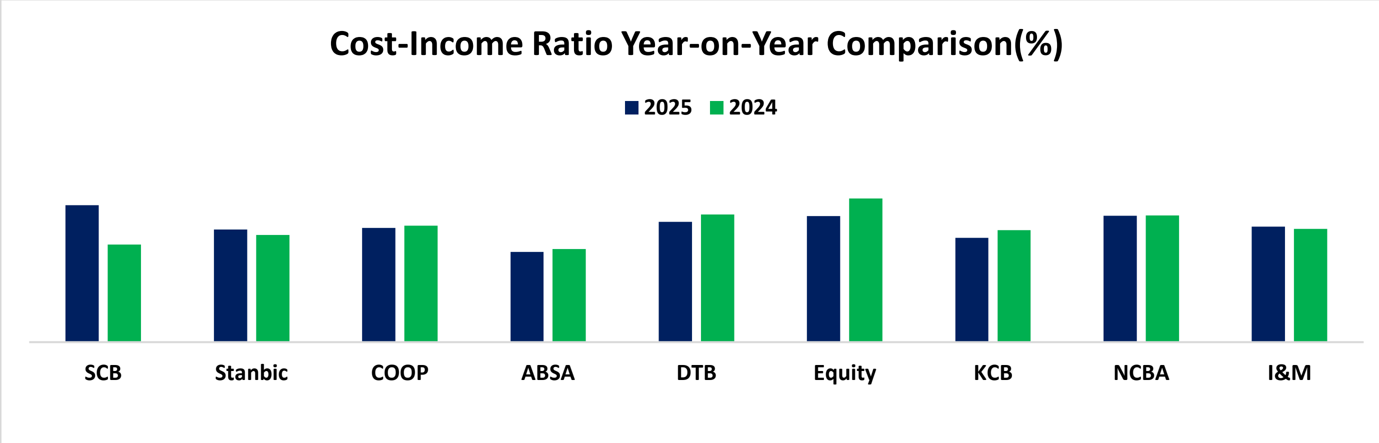


Source: Comp Fin, KCB IB

Lenders are gradually shifting toward non-funded income, though lending remains dominant to ensure revenue diversification: The sector remains largely funded-income driven, with NII contributing 60%–76% of operating income. However, banks such as Equity and NCBA exhibit stronger diversification, enhancing resilience in a lower rate environment.

➢ Efficiency: Cost discipline drives improved operational efficiency

Efficiency improved across most banks, with lower cost-to-income ratios reflecting better cost management and reduced funding costs. StanChart and Equity led efficiency gains, while DTB and KCB recorded slight cost pressures linked to ongoing expansion and investments.

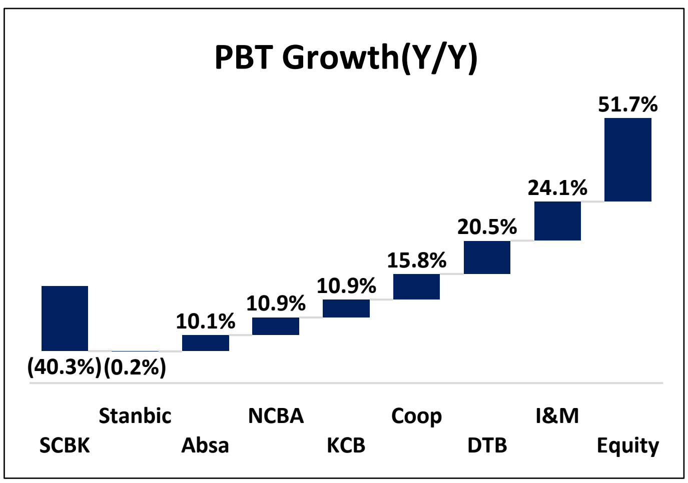


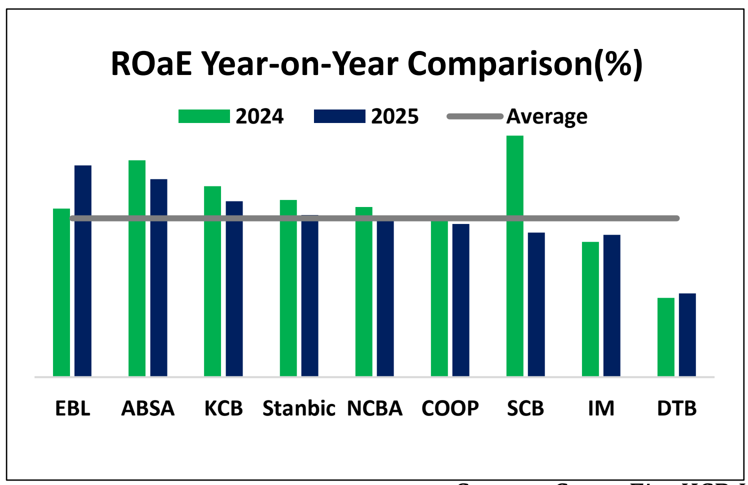
Source: Comp Fin, KCB IB

- **Profitability Trends: Earnings growth sustained, though moderating**

Profitability improved across most banks, primarily supported by lower funding costs, though gains were moderated by weaker NFI and compressed asset yields.

Stanbic and Standard Chartered underperformed, with the latter impacted by a one-off pension charge. Return metrics softened slightly (average ROaE: 19.8% vs. 21.3% in FY2024), though Equity, Absa, and KCB continued to lead in shareholder returns.





Source: Comp Fin, KCB IB

In FY2026, we expect transition to volume-driven growth amid rising external risks: The operating environment is becoming more complex amid rising geopolitical risks and a shifting monetary stance. Middle East tensions are elevating inflation risks, likely slowing the easing cycle, limiting further funding cost benefits, and sustaining pressure on loan yields and margins.

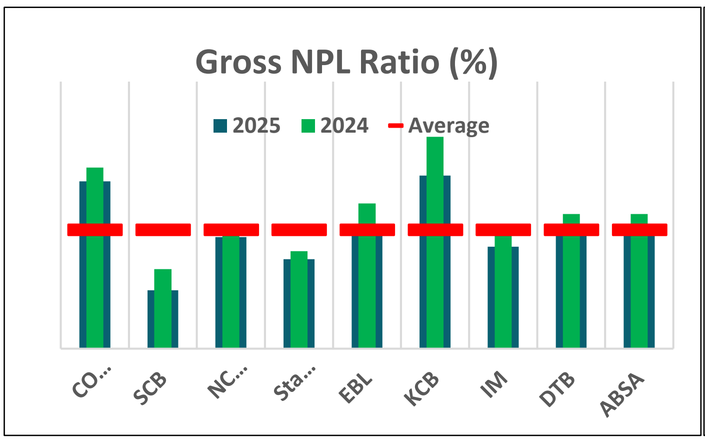
Nonetheless, the sector remains resilient, supported by loan book expansion, efficiency gains from digital transformation, and gradual improvements in asset quality. While non-interest income may stay subdued without FX volatility, diversification efforts will provide some support, with growth increasingly driven by scale, efficiency, and prudent risk management.

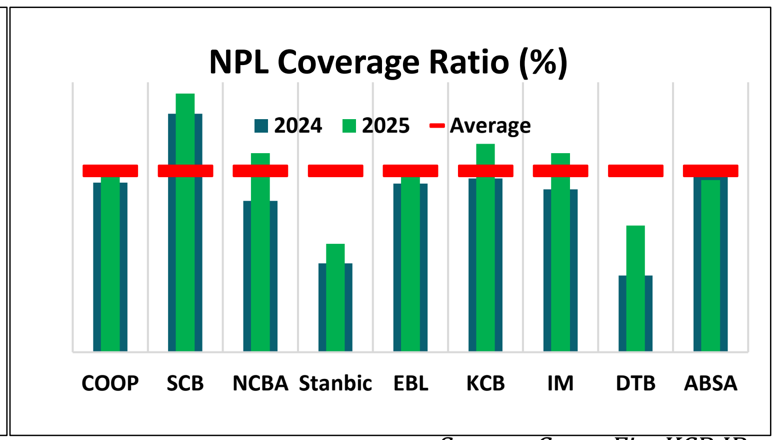
6) Asset Quality: Gradual recovery but credit risks remain elevated

Asset quality showed a volatile but improving trajectory in FY2025, with NPL ratios peaking at 17.6% in H1 before declining to 15.4% by year-end and slightly rising to 15.6% in March 2026. The initial deterioration was driven by high interest rates, delayed government payments, and borrower stress, while the recovery reflected easing rates, improved macro conditions, and active loan book clean-up. Despite this progress, Kenya's NPL levels remain elevated relative to regional peers.

Bank-Level Performance: Performance varied across banks, reflecting differences in risk appetite and sector exposure. KCB and Co-operative Bank lagged, though both showed improvement through recoveries and tighter credit controls. In contrast, Stanbic and Standard Chartered maintained strong asset quality, supported by conservative lending and focus on high-quality borrowers.

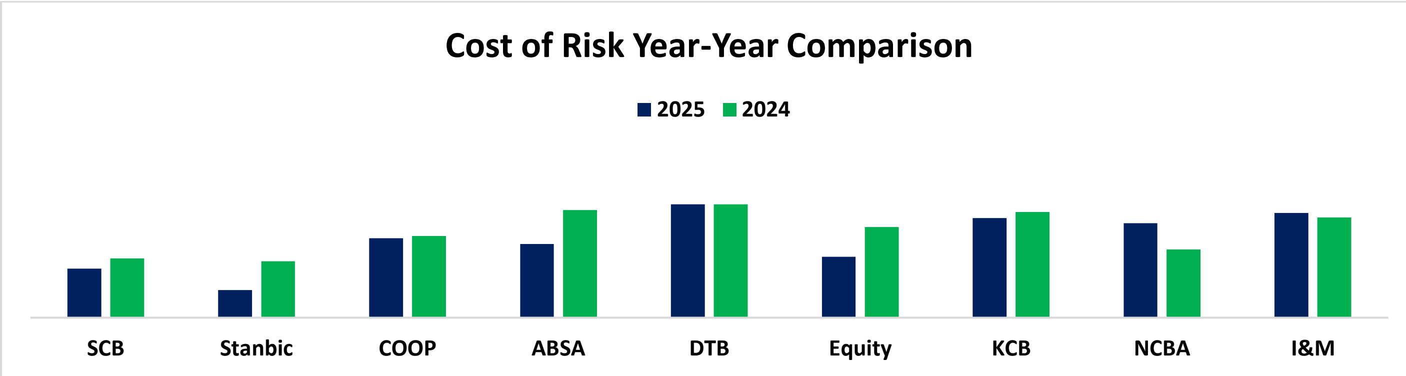
Provisions & Risk Buffers: Banks strengthened provisioning and maintained adequate coverage ratios, supported by IFRS 9's forward-looking framework. While provisions increased during the NPL spike, they stabilized in the second half, ensuring sufficient buffers to absorb potential credit shocks. This framework ensures that banks remain proactive and responsive to emerging credit risks.





Source: Comp Fin, KCB IB

Cost of Risk Dynamics: The sector is transitioning into a lower-risk phase, with cost of risk declining as borrower stress eases. Leading banks such as Equity and Stanbic recorded notable improvements, while others like KCB and DTB maintained higher provisions to address legacy exposures. Overall, the shift reflects improving credit conditions and stronger risk management.



Source: Comp Fin, KCB IB

Outlook: The asset quality outlook remains cautiously optimistic. While easing conditions support recovery, rising geopolitical risks and inflationary pressures may slow further improvement. Key risks include delayed government payments, sector-specific vulnerabilities, and pressure on borrower repayment capacity. Overall, sustained progress will depend on prudent lending, effective recoveries, and disciplined risk management.

7) Key Strategic Trends: Structural shift toward scale, digitalization, and capital strength

The Kenyan banking sector in FY2025 and into 2026 is undergoing a major structural shift. Strategy has moved beyond simple "banking" toward becoming regional financial conglomerates driven by digital infrastructure and a race for capital.

Some of the key strategic trends involve:

- **Regional Diversification:** Regional operations are increasingly driving profitability and diversification. Equity derives 45% of PBT from subsidiaries, while KCB's regional expansion, particularly in the DRC, strengthens its position in regional trade finance.
- **New Capital Requirements (The Business Laws, Amendment, Act, 2024):** Regulatory and strategic shifts are set to reshape the competitive landscape. The CBK's phased increase in minimum core capital to KES 10Bn by 2029 is expected to drive consolidation, capital raising, and strategic partnerships. This trend is already evident through increased M&A activity, capital injections from parent companies, and rights issues. Growing interest from regional players, particularly from South Africa and Nigeria, further reinforces Kenya's position as a key financial hub in the region.
- **Digital Transformation:** Over 98% of transactions are now processed through digital channels. Banks are investing in AI-driven lending, fraud detection, and API ecosystems to enhance efficiency and customer experience.
- **Revenue Diversification Beyond Traditional Banking:** Banks are expanding into non-funded income streams to reduce reliance on traditional lending. Equity has strengthened its presence in insurance, while KCB continues to grow its investment banking and asset management businesses. Standard Chartered is leveraging digital platforms such as *Shilingi* to drive transactional revenue, and Absa is expanding its footprint in wealth management and advisory services to enhance income diversification.

Let's dive into deeper analysis for individual banks under our coverage;

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Banking Sector Analysis

A. Equity Group-BUY:(TP-KES 99.14, CP- 75, Upside-32.2%)

- Equity Group Holdings Plc delivered a strong FY2025 performance, with PAT rising 54.6% Y/Y to KES 71.9Bn, supported by robust growth in both funded and non-funded income streams.
- Net Interest Income grew 16.8% Y/Y to KES 126.9Bn, driven by 24.4% decline in interest expense & 7.9% growth in income from government securities. However, the performance was weighed down by reduced loan yields given the easing interest rate environment.
- The lender declared an increased dividend per share of KES 5.75 translating to dividend yield of 7.67%, which is attractive relative to the market, supported by strong earnings growth and improved profitability.
- FY2025's performance was robust, driven by consistent revenue growth, improved margins & lower operating and credit costs. The stock is currently trading at 0.9x P/B and 3.9x P/E, supported by strong ROaE of 26.4% indicating value relative to earnings strength and sector peers.
- Improving asset quality, expanding margins, and disciplined cost control position the bank well for sustained profitability.
- The stock is best suited for investors seeking quality, stability, and steady compounding and remains a long-term buy play.

B. Standard Chartered Bank (HOLD:TP-349, CP-347, Upside-0.6%) Dividend Anchor

- Stanchart reported a weak FY2025 performance, with PAT declining 38.0% y/y to KES 12.4Bn. The outturn was driven by a 16.5% decline in operating income, reflecting a 13.1% drop in net interest income amid margin compression from lower interest rates, alongside a 23.0% contraction in non-funded income due to weaker transactional volumes.
- Despite earnings decline, the bank sustained its strong dividend track record, declaring a total FY2025 dividend of KES 31.0 per share (Interim: KES 8.0; Final: KES 23.0), translating to a yield of 8.9%.
- Standard Chartered remains a high-yield, defensive play, supported by a consistent dividend profile. However, earnings growth is constrained by its mature business model and one-off items, while valuation remains elevated with P/E of 11.2x & P/B of 2.0x.
- Investors may continue to hold the stock, supported by its strong dividend yield and defensive income profile, but upside remains limited at current valuations. **Profit-taking is advisable for investors already in the money,** with scope to re-enter at more attractive levels post books closure.
- Stanchart remains the market's highest dividend payer, offering unmatched income appeal despite elevated valuation.

C. Co-operative Bank: ACCUMULATE (TP-34.9, CP-32.2, Upside-8.4%): Defensive Income Play

- Co-operative Bank delivered a solid FY2025 performance, with PAT rising 16.9% y/y to KES 29.8Bn. Growth was driven by a 22% increase in net interest income, supported by a 12.8% decline in interest expense amid easing rates. Non-funded income remained largely flat (0.3% drop), slightly moderating overall earnings momentum.
- The bank sustained its strong dividend track record, declaring a total FY2025 dividend of KES 2.5 per share (Interim: KES 1.0; Final: KES 1.5), up from KES 1.5 in FY2024. This translates to an attractive yield of 7.8%, reinforcing its income appeal.
- Co-op Bank continues to offer stable and predictable returns, underpinned by its strong domestic franchise. The stock trades at 1.1x P/B, broadly in line with fair value, supported by a solid ROaE of 19.1%.
- The improved dividend yield enhances its attractiveness for income-focused investors, while the introduction of an interim dividend signals confidence in sustained earnings and future payout growth.
- We recommend **ACCUMULATE**. The counter remains well suited for investors seeking stability and income, with room for upside, particularly on price easing and attractive entry points.

D. Stanbic Bank – HOLD (TP-281.5, CP-287.5, Downside-2.1%): Offer income & Stability

FY2025 Banking Sector Analysis

- Stanbic Holdings reported flat earnings in FY2025, with PAT steady at KES 13.7Bn y/y. Growth was constrained by lower Net Interest Income (-1.0%) due to easing interest rates and a 6.4% decline in non-interest income to KES 14.4Bn, mainly from reduced FX margins, partly offset by stronger transaction fees.
- The lender maintained its dividend track record declaring a final dividend of KES 18.55 per share (FY DPS: KES 22.35, up from KES 20.74 in 2024).
- Earnings remained resilient, supported by diversified income streams, lower expenses, and improved credit impairment trends, although tighter loan yields and lower FX margins weighed on growth.
- The stock trades at 1.4x P/B, a modest premium to the sector, supported by a stable ROE of 18%.
- Stanbic remains attractive for income-focused investors, with a strong dividend track record. However, limited near-term valuation upside suggests a hold stance with potential profit taking at current levels. The bank remains one of the top dividend payers in the banking sector, supporting its appeal to yield-focused investors.

E. NCBA Group – ACCUMULATE (TP-94.27, CP-88.8, Upside-6.4%)

- NCBA Group delivered a decent FY2025 performance, with PAT rising 7.0% y/y to KES 23.3Bn. Growth was driven by a 27.7% increase in net interest income (NII) and a 3.8% rise in non-funded income. The expansion in NII was supported by a 41.6% decline in interest expense, with interest expense on customer deposits falling by 41.7% amid easing rates. However, NII growth was partly moderated by a 10.0% decline in interest income, mainly due to a 14.6% drop in loan yields.
- The bank maintained its strong dividend track record, declaring a total FY2025 dividend of KES 7.10 per share (Interim: KES 2.5; Final: KES 4.60), up from KES 5.50 in FY2024. This translates to a dividend yield of 8.0% and a payout ratio of 50.0%, reinforcing its income appeal.
- The Group's ROaE of 20% supports the investment case, while valuations of 6.3x P/E and 1.2x P/B reflect fair trading and normalized profitability, limiting near-term upside. Nonetheless, the dividend yield remains attractive, providing solid income support.
- Strategically, Nedbank's proposed acquisition of a 66% controlling stake in NCBA through a partial pro-rata offer introduces a new ownership dynamic. The offer is structured as 80% Nedbank shares and 20% cash (cash only for ineligible offshore holders and small allocations). Upon completion, Nedbank would become the controlling shareholder, while NCBA would remain listed with a 34% public free float.
- Given current valuations and the recent ease of prices, the stock appears to be trading around fair value, supporting an **accumulating** stance. Investors may consider adding on further price weakness. Additionally, considering the proposed Nedbank transaction, investors are advised to maintain positions while closely monitoring regulatory developments and deal progress.

F. I&M Holdings – BUY (TP-55.0, CP-49.7, Upside-10.8%)

- I&M Group delivered a strong FY2025 performance, with PAT rising 24.5% y/y to KES 19.8Bn. Growth was driven by a 16.0% increase in net interest income (NII) and a 30.8% rise in non-funded income. The expansion in NII was supported by a 23.9% decline in interest expense, with interest expense on customer deposits falling by 24% amid easing rates.
- The lender declared total FY2025 dividend of KES 3.75 per share (Interim: KES 1.5; Final: KES 2.25), up from KES 3.0 in FY2024. This translates to a dividend yield of 7.6% and a payout ratio of 35%, reinforcing its income appeal.
- I&M continues to offer stable returns, supported by its growth and expansion strategy. ROaE of 18% is in line with peers, while valuations of 4.6x P/E and 0.7x P/B remain attractive, indicating a discount to intrinsic value.
- We expect continued improvement in dividend payouts, supported by sustained earnings growth. The dividend yield provides solid income support.
- At current valuations, the counter remains undervalued relative to its fundamentals. With consistent earnings growth, improving asset quality, and reliable dividends, I&M presents a compelling **BUY** opportunity, particularly for income-focused investors with potential for capital appreciation.

FY2025 Banking Sector Analysis

G. Absa Bank Kenya – HOLD (TP-32.9, CP-30.5, Upside-7.7%): Strong ROE, slightly expensive)

- Absa Bank Kenya delivered a solid FY2025 performance, with PAT rising 9.7% Y/Y to KES 22.9Bn. Earnings growth was supported by a 12.2% increase in non-interest income and a 31.0% decline in interest expense on customer deposits, reflecting easing market rates. This helped cushion the 6.4% contraction in Net Interest Income amid softer loan yields and subdued credit demand.
- The bank maintained its consistent dividend track record, declaring a total FY dividend of KES 2.05 per share (Interim: KES 0.20; Final: KES 1.85) from KES 1.75 in 2024.
- While earnings remained resilient, underpinned by diversified income streams, reduced expenses and improved credit impairment trends, tight loan yields and subdued credit growth constrained interest income expansion.
- Absa trades at 1.7x P/B, a modest premium to the sector, supported by a strong ROE of 22.8%, reflecting solid profitability and operational efficiency.
- Although not cheap, the valuation remains justified given consistent earnings delivery, balance sheet strength, and dependable dividend payouts.
- The counter remains suitable for investors prioritizing quality, stability, and income, with limited scope for near-term multiple expansion at current levels. This positions the stock as **HOLD** for investors prioritizing balance sheet quality, consistent performance and dividend payouts while waiting for the appropriate entry price.

H. DTB – Speculative Buy (TP-213.75, CP-149, Upside- 43.5%)

- DTB Kenya delivered a strong FY2025 performance, with PAT up 23.1% y/y to KES 9.4Bn. Growth was driven by a 24.1% increase in net interest income, supported by a 16.3% decline in funding costs and modest 2.8% growth in interest income. The counter declared dividend per share of KES 9.0 up from KES 7.0, a yield of 6.0%.
- DTB's FY2025 results highlight improving fundamentals, with an improving balance sheet, better asset quality, and solid earnings growth, despite some softness in non-funded income. Continued deposit growth and improving margins position the bank for sustained profitability.
- The stock trades at a deep discount (P/B: 0.4x), presenting a clear value opportunity. However, this is tempered by subdued returns (ROE: 10.4%), which remain below peer averages and reflect underlying structural constraints.

Recommendation: Speculative Buy

- The stock presents a compelling deep value opportunity, supported by its low P/B multiple, improving earnings trajectory, and resilient dividend profile.
- However, subdued ROE continues to constrain near-term conviction, making the investment case more dependent on execution and a sustained recovery in profitability. As such, this is best viewed as a **speculative buy**, where upside is contingent on a successful turnaround that could unlock meaningful re-rating overtime, but with elevated risk relative to core holdings.

KCB Investment Bank

FY2025 Banking Sector Analysis

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