KCBIB Monthly Stock Picks: February 2026

Market Outlook & Investment Strategy – February 2026

- Market momentum carried strongly into the first month of 2026, extending the rally witnessed in 2025. The NASI Index rose 4.71% m/m, while market capitalization increased by 4.70% to KES 3.08Tr, confirming both the strength and breadth of the advance. Momentum remains intact, and we expect the positive tone to persist in 2026, albeit at a more measured and selective pace.

- Both global and domestic interest rate environments continue to ease, providing a supportive backdrop for equities. As fixed-income yields ease, conditions increasingly favor asset rotation from bonds into equities, a dynamic that could provide sustained structural support to market performance and medium-term returns.

- That said, a reality check is warranted. A significant portion of the market has already rerated sharply, with many stocks now trading at or near cycle highs, naturally constraining near-term capital appreciation. This is no longer a “buy everything” market. However, it is equally not the end of the opportunity set. Selective pockets of value remain, particularly among stocks that are still attractively valued on a historical basis and supported by earnings visibility and clear catalysts.

- Market activity remains vibrant, with attention firmly on the anticipated historic listing of Kenya Pipeline Company (KPC), expected to support market turnover and investor participation into February. The expected Family Bank listing should further underpin activity during the year. This follows an active 2025 characterized by new listings, successful MTN issuances by Safaricom and EABL, rights issues, and major corporate actions, most notably Diageo’s exit from EABL, with Asahi Group acquiring a 65% stake.

- In the banking sector, Nedbank Group issued a Notice of Intention to acquire up to 66% of NCBA Group Plc through a partial tender offer. If fully taken up, Nedbank would become the controlling shareholder, subject to regulatory approvals.

- On the corporate earnings front, EABL delivered strong H12026 results, with net revenue up 11% and PAT rising 37.7%, supported by margin expansion and balance sheet strengthening. Management declared an interim dividend of KES 4.00 per share (+60% y/y). KPLC also posted improved performance, with PBT growing 5.5% to KES 14.83bn, alongside revenue growth and improved bottom-line performance, and declared an interim dividend of KES 0.30 per share.

- 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.

- On sovereign risk, Fitch affirmed Kenya’s credit rating at B- (stable outlook), citing strong medium-term growth prospects, stronger forex reserves, and moderating external liquidity risks, while highlighting risks around external financing needs, fiscal deficits, revenue constraints, and debt dynamics. Moody’s upgraded Kenya’s rating to B3 from Caa1 (stable outlook), supported by reduced near-term default risk, stronger external liquidity, a narrowing current account deficit, and exchange rate stability.

The market remains bullish, but increasingly selective. The easy money has largely been made, but opportunities persist for investors focused on quality businesses, disciplined valuation, and clear earnings catalysts. Against this backdrop, we now turn to our February 2026 stock recommendations.

C. Valuation and Yield Dashboard

Stock	Current Price	Trailing Dividend	Div Yield	Interim Dividend	P/E	P/B	ROE	Recommendation
Banking								
Cooperative	27.2	1.50	5.51%	1.00	5.92	1.00	18.8%	**HOLD**
Equity	67	4.25	6.34%	0.00	4.32	0.89	23.5%	**ACCUMULATE**
KCB	66.5	3.00	4.51%	4.00	3.49	0.70	22.1%	N/A
I&M	45	3.00	6.67%	1.50	4.32	0.74	18.2%	**ACCUMULATE**
Stanbic	198	20.74	10.47%	3.80	6.02	1.06	18.2%	**HOLD**
NCBA	92.5	5.50	5.95%	2.50	6.51	1.15	21.0%	**HOLD**
Stanchart	310	45.00	14.52%	8.00	8.36	1.83	21.6%	**HOLD**
Absa	27.95	1.75	6.26%	0.20	6.59	1.61	26.8%	**HOLD**
DTB	129	7.00	5.43%	0.00	4.22	0.36	9.9%	**ACCUMULATE**
Manufacturing								
BAT	473.5	50.00	10.56%	10.00	9.19	3.32	36.5%	**HOLD**
EABL	258.5	8.00	3.09%	0.00	15.9	6.13	42.6%	**HOLD**
Telecomunication								
Safaricom	29.6	1.20	4.05%	0.00	14.22	6.63	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 4.32x P/E and 0.89x P/B, valuation is relatively at a discount relative to returns, leaving a margin for an upside potential upon near-term rerating.
- Dividend yield of 6.34% 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 with FY25 results and dividend declaration expected in March.

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 8.36x P/E and 1.83x P/B reflects premium pricing.
- FY25 Earnings growth will be constrained by pension case and mature business profile as reflected in the profit warning announcement.
- 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. Co-operative Bank – HOLD (Defensive Income Play)

- Co-op Bank continues to deliver stable, predictable returns, supported by a strong domestic franchise.
- 18.8% is solid and within tier-one peers range.
- Valuation at 5.92x P/E and 1.00x P/B is fair relative to profitability.
- Dividend yield of 6.5% supports income-oriented portfolios.

Recommendation: **HOLD**.

- A defensive name with reduced upside potential.

4. 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 6.02x P/E and 1.06x 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.

5. NCBA Group – HOLD (Earnings Normalization Story)

- NCBA is transitioning toward normalized earnings.
- ROE of 21.0% supports the investment case.
- However, current valuation metrics suggest that much of the recovery is already priced in. The stock market is trading at 6.3x P/E and 1.15x P/B, levels that reflect normalized profitability and limit near-term valuation upside. That said, the dividend yield of 6.4% remains attractive, providing income support for total return investors.
- Operationally, Q32025 performance was solid, with PAT rising 8.5% Y/Y to KES 16.4bn. Earnings growth was driven by a 27.4% increase in Net Interest Income, supported by a 42.8% decline in interest expense on customer deposits, reflecting improved funding costs and balance sheet efficiency. This performance was weighed down by a 1.9% decline in non-interest income, indicating continued pressure on fee-based revenue streams.
- Strategically, Nedbank's announcement to acquire a 66% controlling stake in NCBA Group Plc through a partial pro-rata offer introduces a new ownership dynamic. The offer implies a valuation of KES 210bn (1.4x P/B), with consideration 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 remains listed with a 34% public free float. The transaction is strategic rather than distressed, supports sector sentiment, and aligns with Nedbank's capital-light East African expansion strategy across banking, digital finance, payments, and cross-border platforms.

Recommendation: **HOLD**.

- Given current valuations, the stock already reflects much of the recovery story. Considering the Nedbank transaction, investors are advised to maintain positions, await FY2025 results, and closely monitor developments around regulatory approvals.

6. I&M Holdings – ACCUMULATE (Yield-Supported and potential upside)

- I&M offers stable returns and is on a growth and expansion journey.
- ROE of 18.2% is within peers' range and the trading valuations of 4.32x P/E and 0.74x P/B, are reasonable and offers a discount in trading.
- 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 with potential capital gains.
- 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.

7. Absa Bank Kenya – HOLD (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 6.59x P/E and 1.61x P/B limits re-rating upside.
- Dividend yield of 7.2% supports the stock.
- Absa Bank delivered a strong Q32025 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: **HOLD**.

- 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 HOLD for investors prioritizing balance sheet quality, consistent performance and dividend payouts while waiting for the appropriate entry price.

8. DTB – ACCUMULATE

- Despite cheap headline valuation, DTB has a ROE of just 9.9% and is significantly below sector averages.
- Low P/B of 0.36x 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, hence not an outright Buy.
- 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 Net Interest Margin (NIM) positions the bank for continued profitability heading into FY2025.

Recommendation: **ACCUMULATE**.

- Accumulate cautiously given the low returns. However, the improved performance offers high prospects for increased returns.

Non-Banking Sector:

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

- BAT remains a high-quality income generator with higher dividend payout, but valuation is stretched.
- ROE of 36.5% supports premium pricing.
- Trading at 9.19x P/E and 3.32x P/B, upside is limited.
- Dividend yield of 11.0% remains attractive.

Recommendation: **HOLD**.

- Strong income stock, but not a growth play at the current entry price.

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

- EABL's fundamentals remain strong
- ROE of 37.2% is exceptional.
- However, trading at 15.9x P/E and 6.13x P/B, the stock is priced for perfection.
- Dividend yield of 3.0% offers limited support but we anticipate improved dividend payout based on the half year results with an announcement of interim dividend per share of KES 4.0.

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 14.22x P/E and 6.63x P/B reflects fair trading 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 Equity.
- 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.

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