

Nairobi Metropolitan Area (NMA) Serviced Apartments Report 2023, & Cytonn Weekly #47/2023

Executive Summary:

Fixed income: During the week, T-bills were oversubscribed for the fourth consecutive week, with the overall subscription rate coming in at 115.1%, albeit lower than the oversubscription rate of 208.3% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 23.4 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 584.9%, albeit lower than the oversubscription rate of 942.7% recorded the previous week. The subscription rates for the 182-day and 364-day papers decreased to 23.8% and 18.5%, from 94.0% and 28.9% respectively, recorded the previous week. The government accepted a total of Kshs 26.6 bn worth of bids out of Kshs 27.6 bn of bids received, translating to an acceptance rate of 96.4%. The yields on the government papers recorded mixed performance, with the yields on the 182-day, and 91-day papers increasing by 1.6 bps and 7.9 bps to 15.4% and 15.4% respectively, while the yield on the 364-day paper decreased by 5.6 bps to 15.6%;

Equities: During the week, the equities market was on an upward trajectory, with NSE 20 gaining the most by 2.6%, while NASI, NSE 10 and NSE 25 gained by 1.9%, 1.9% and 2.1% respectively, taking the YTD performance to losses of 27.6%, 23.0% and 9.9% for NASI, NSE 25, and NSE 20, respectively. The equities market performance was mainly driven by gains recorded by large-cap stocks such as Bamburi, NCBA Group and ABSA of 21.1%, 6.9% and 5.0% respectively. The gains were however weighed down by losses recorded by stocks such as Cooperative Bank and BAT of 0.9% and 0.1% respectively;

During the week, seven of the listed banks released their Q3'2023 results. KCB Group released its Q3'2023 financial results, with its Core Earnings per Share (EPS) increasing marginally by 0.4% to Kshs 9.6, from Kshs 9.5 in Q3'2022. ABSA Bank Kenya released its Q3'2023 financial results, with its Core Earnings per Share (EPS) increasing by 14.9% to Kshs 2.3, from Kshs 2.0 in Q3'2022. I&M Group released its Q3'2023 financial results, with its Core Earnings per Share (EPS) increasing by 14.3% to Kshs 5.0 from Kshs 4.3 in Q3'2022. NCBA Group released its Q3'2023 financial results, with its Core Earnings per Share (EPS) increasing by 14.4% to Kshs 8.9, from Kshs 7.8 in Q3'2022. Equity Group released its Q3'2023 financial results, with its Core Earnings per Share (EPS) increasing by 5.3% to Kshs 9.6, from Kshs 9.1 in Q3'2022. Standard Chartered Bank Kenya released its Q3'2023 financial results, with its Core Earnings per Share (EPS) increasing by 11.8% to Kshs 25.8, from Kshs 23.1 in Q3'2022. Stanbic Bank released its Q3'2023 financial results, with its Core Earnings per Share (EPS) increasing by 32.7% to Kshs 23.5, from Kshs 17.7 in Q3'2022;

Real Estate: During the week, property developer Mi Vida Homes broke ground for the construction of two projects, namely; Amaiya, 237 Garden City and KEZA located within Garden City along Thika Road, and Riruta areas respectively;

In regulated Real Estate Funds sector, under the Real Estate Investment Trusts (REITs) segment, unitholders of ILAM Fahari I-REIT held an extraordinary general meeting, to vote on the proposed delisting of the fund from the Main Investment Market of the Nairobi Securities Exchange (NSE). In the [Nairobi Securities Exchange](#), Fahari I-REIT closed the week trading at an average price of Kshs 6.0 per share, remaining relatively unchanged from the previous week;

On the [Unquoted Securities Platform](#) as at 27th October 2023, Acorn D-REIT and I-REIT closed the week trading at Kshs 25.3 and Kshs 21.7 per unit, a 26.6% and 8.3% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. In addition, Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 18.0%, remaining relatively unchanged from the previous week;

Focus of the week: In 2022, we published the [Nairobi Metropolitan Area Serviced Apartments Report 2022](#), which highlighted that serviced apartment's in the NMA recorded an average rental yield of 6.2% which was 0.5% points higher than the 5.5% recorded in 2021. The improvement in performance was primarily on the

back of improved occupancy rates and monthly charges by 4.3% points and 6.6%, to 65.8% and Kshs 2,716 per SQM, respectively, in 2022. This week, we update our report using 2023 market research data, in which we discuss and determine the progress, performance, and investment opportunities for serviced apartments in the NMA. In terms of performance, the average rental yield for serviced apartments within the NMA increased by 0.6% points to 6.8% in 2023 from 6.2% in 2022. The improvement in performance was primarily on the back of improved occupancy rates and monthly charges by 0.5% points and 10.9%, to 66.3% and Kshs 3,045 per SQM, respectively, in 2023;

Investment Updates:

- Weekly Rates:
 - Cytonn Money Market Fund closed the week at a yield of 15.61% p.a To invest, dial *809# or download the Cytonn App from Google Playstore [here](#) or from the Appstore [here](#);
 - Cytonn High Yield Fund closed the week at a yield of 17.96% p.a. To invest, email us at sales@cytonn.com and to withdraw the interest, dial *809# or download the Cytonn App from Google Playstore [here](#) or from the Appstore [here](#);
- We continue to offer Wealth Management Training every Monday, from 9:00 am to 11:00 am. The training aims to grow financial literacy among the general public. To register for any of our Wealth Management Trainings, click [here](#);
- If interested in our Private Wealth Management Training for your employees or investment group, please get in touch with us through wmt@cytonn.com;
- Cytonn Insurance Agency acts as an intermediary for those looking to secure their assets and loved ones' future through insurance namely; Motor, Medical, Life, Property, WIBA, Credit and Fire and Burglary insurance covers. For assistance, get in touch with us through insuranceagency@cytonn.com;
- Cytonn Asset Managers Limited (CAML) continues to offer pension products to meet the needs of both individual clients who want to save for their retirement during their working years and Institutional clients that want to contribute on behalf of their employees to help them build their retirement pot. To more about our pension schemes, kindly get in touch with us through pensions@cytonn.com;

Real Estate Updates:

- For more information on Cytonn's real estate developments, email us at sales@cytonn.com;
- Phase 3 of The Alma is now ready for occupation and the show house is open daily. To join the waiting list to rent, please email properties@cytonn.com;
- For Third Party Real Estate Consultancy Services, email us at rdo@cytonn.com;
- For recent news about the group, see our news section [here](#);

Hospitality Updates:

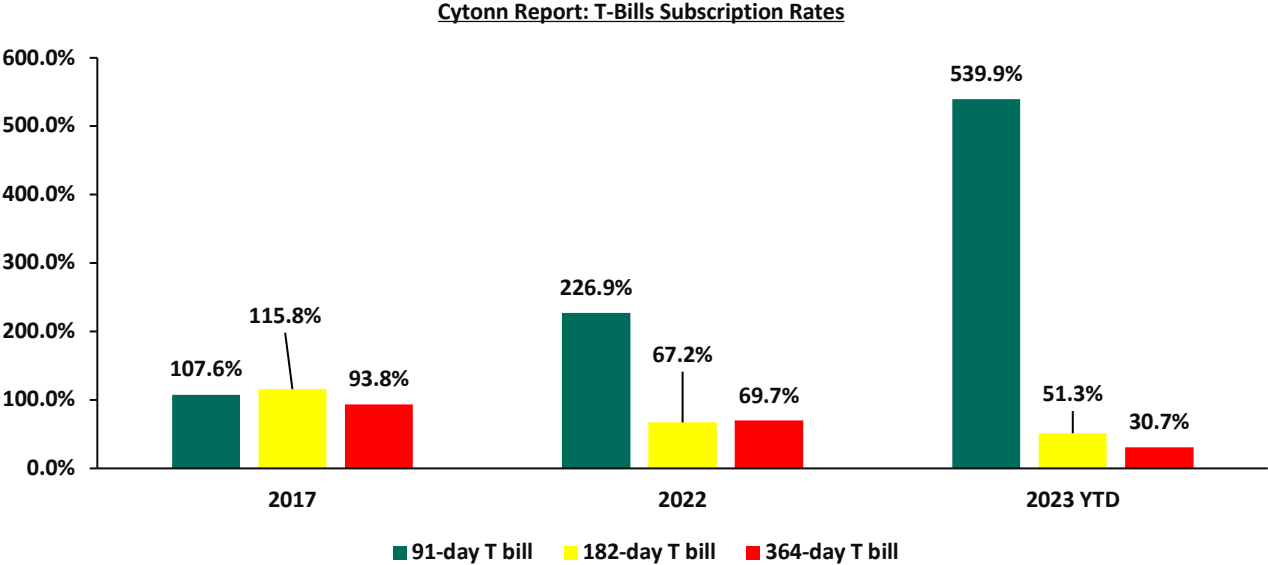
- We currently have promotions for Staycations. Visit cysuites.com/offers for details or email us at sales@cysuites.com;

Fixed Income

Money Markets, T-Bills Primary Auction:

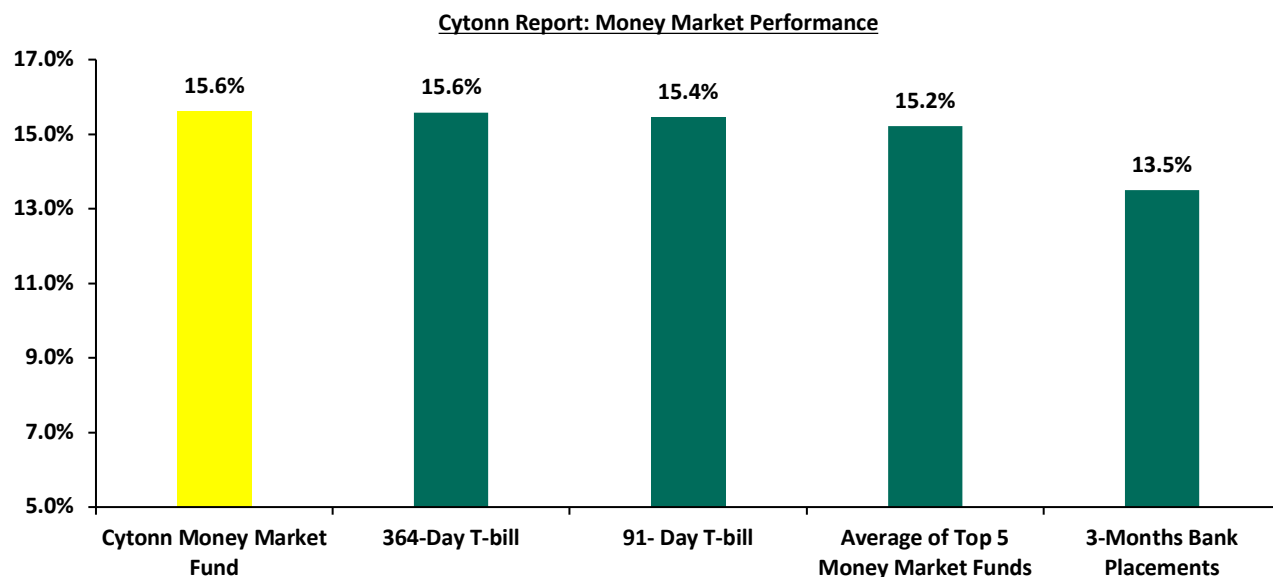
During the week, T-bills were oversubscribed for the fourth consecutive week, with the overall subscription rate coming in at 115.1%, albeit lower than the oversubscription rate of 208.3% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 23.4 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 584.9%, albeit lower than the oversubscription rate of 942.7% recorded the previous week. The subscription rates for the 182-day and 364-day papers decreased to 23.8% and 18.5%, from 94.0% and 28.9% respectively, recorded the previous week.

The government accepted a total of Kshs 26.6 bn worth of bids out of Kshs 27.6 bn of bids received, translating to an acceptance rate of 96.4%. The yields on the government papers recorded mixed performance, with the yields on the 182-day, and 91-day papers increasing by 1.6 bps and 7.9 bps to 15.4% and 15.4% respectively, while the yield on the 364-day paper decreased by 5.6 bps to 15.6%. The chart below compares the overall average T- bill subscription rates obtained in 2017, 2022, and 2023 Year to Date (YTD):



Money Market Performance:

In the money markets, 3-month bank placements ended the week at 13.5% (based on what we have been offered by various banks), and the yields on the 364-day paper decreased by 5.6 bps to 15.6% and 91-day T-bill yield increased by 7.9 bps to 15.4%. The yields of the Cytonn Money Market Fund increased by 68.0 bps to 15.6% from 14.9% recorded the previous week, and the average yields on the Top 5 Money Market Funds increased by 38.4 bps to 15.2%, from 14.8% recorded the previous week.



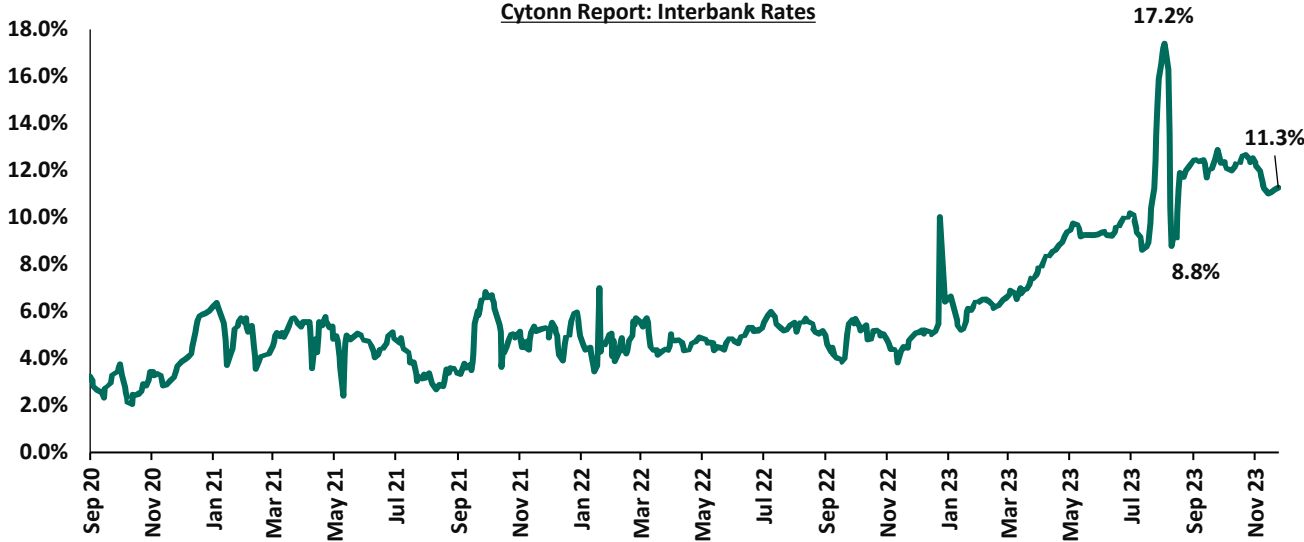
The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 24th November 2023:

Cytonn Report: Money Market Fund Yield for Fund Managers as published on 24 th November 2023		
Rank	Fund Manager	Effective Annual
1	Cytonn Money Market Fund (Dial *809# or download the Cytonn app)	15.6%
2	Etica Money Market Fund	15.6%
3	GenAfrica Money Market Fund	15.4%
4	Lofty-Corban Money Market Fund	15.0%
5	Enwealth Money Market Fund	14.5%
6	Madison Money Market Fund	14.1%
7	Apollo Money Market Fund	13.7%
8	AA Kenya Shillings Fund	13.7%
9	Co-op Money Market Fund	13.6%
10	Nabo Africa Money Market Fund	13.1%
11	Kuza Money Market fund	13.1%
12	Jubilee Money Market Fund	13.1%
13	Sanlam Money Market Fund	13.1%
14	GenCap Hela Imara Money Market Fund	12.7%
15	Absa Shilling Money Market Fund	12.6%
16	Old Mutual Money Market Fund	12.6%
17	KCB Money Market Fund	12.2%
18	Mayfair Money Market Fund	11.9%
19	Dry Associates Money Market Fund	11.9%
20	CIC Money Market Fund	11.7%
21	Equity Money Market Fund	11.5%
22	ICEA Lion Money Market Fund	11.5%
23	Orient Kasha Money Market Fund	11.4%
24	Mali Money Market Fund	10.4%
25	British-American Money Market Fund	9.6%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets slightly tightened, with the average interbank rate increasing to 11.2% from 11.0% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded increased by 1.6% to Kshs 23.8 bn from Kshs 23.4 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Kenya Eurobonds:

During the week, the yields on Eurobonds were on a downward trajectory, with the yield on the 10-year Eurobond issued in 2014 decreasing the most by 1.2% points to 12.9%, from 14.1% recorded the previous week. The table below shows the summary of the performance of the Kenya Eurobonds as of 23rd November 2023;

Cyttonn Report: Kenya Eurobonds Performance						
	2014	2018		2019		2021
Tenor	10-year issue	10-year issue	30-year issue	7-year issue	12-year issue	12-year issue
Amount Issued (USD)	2.0 bn	1.0 bn	1.0 bn	0.9 bn	1.2 bn	1.0 bn
Years to Maturity	0.6	4.3	24.3	3.5	8.5	10.6
Yields at Issue	6.6%	7.3%	8.3%	7.0%	7.9%	6.2%
02-Jan-23	12.9%	10.5%	10.9%	10.9%	10.8%	9.9%
01-Nov-23	14.6%	13.1%	12.0%	13.5%	12.5%	11.8%
16-Nov-23	14.1%	12.5%	11.6%	12.9%	12.0%	11.3%
17-Nov-23	13.9%	12.3%	11.6%	12.6%	11.8%	11.1%
20-Nov-23	13.5%	12.2%	11.5%	12.4%	11.8%	11.1%
21-Nov-23	12.8%	11.7%	11.3%	12.0%	11.5%	10.8%
22-Nov-23	12.9%	11.7%	11.3%	12.0%	11.5%	10.8%
23-Nov-23	12.9%	11.7%	11.3%	12.0%	11.5%	10.8%
Weekly Change	(1.2%)	(0.7%)	(0.3%)	(0.9%)	(0.5%)	(0.5%)
MTD Change	(1.8%)	(1.3%)	(0.7%)	(1.5%)	(1.0%)	(1.1%)
YTD Change	0.0%	1.3%	0.5%	1.1%	0.7%	0.9%

Source: Central Bank of Kenya (CBK) and [National Treasury](#)

Kenya Shilling:

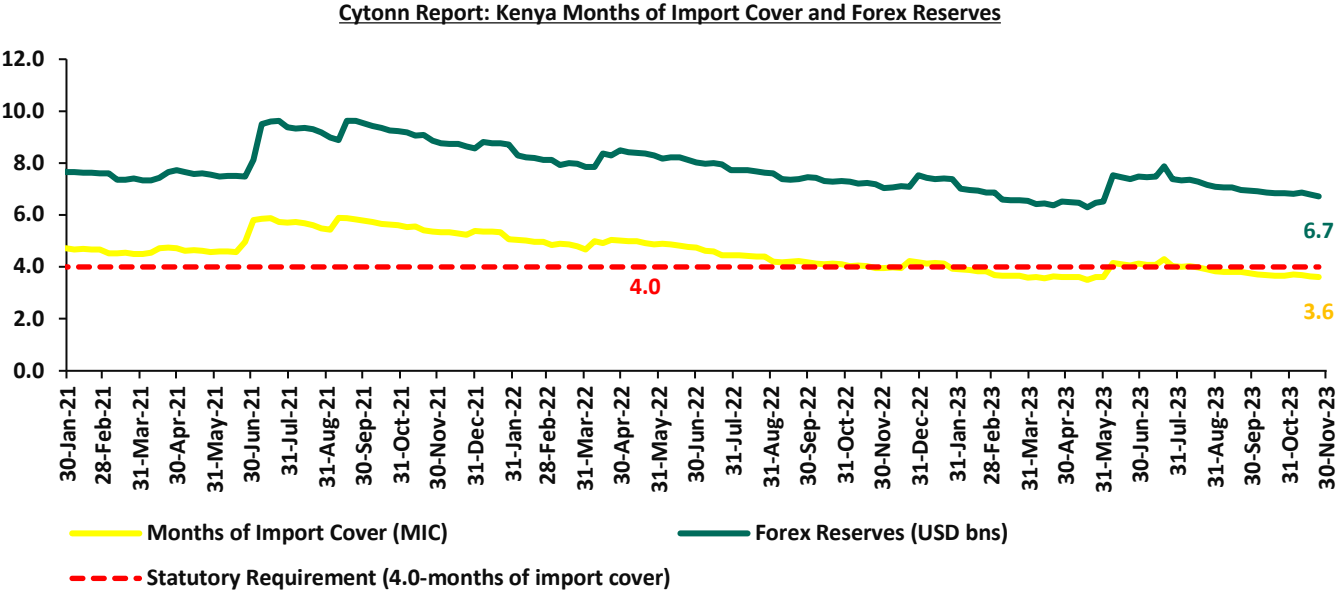
During the week, the Kenya Shilling depreciated against the US Dollar by 0.4% to close at Kshs 152.8, from Kshs 152.2 recorded the previous week. On a year-to-date basis, the shilling has depreciated by 23.8% against the dollar, adding to the 9.0% depreciation recorded in 2022. We expect the shilling to remain under pressure in 2023 as a result of:

- i. An ever-present current account deficit which came at 3.7% of GDP in Q2'2023 from 6.0% recorded in a similar period last year,
- ii. The need for government debt servicing, continues to put pressure on forex reserves given that 67.1% of Kenya’s external debt was US Dollar denominated as of June 2023, and,
- iii. Dwindling forex reserves currently at USD 6.7K bn (equivalent to 3.6-months of import cover), which is below the statutory requirement of maintaining at least 4.0-months of import cover.

The shilling is however expected to be supported by:

- i. Diaspora remittances standing at a cumulative USD 3,462.4 mn as of October 2023, 4.1% higher than the USD 3,325.1 mn recorded over the same period in 2022, which has continued to cushion the shilling against further depreciation. In the October 2023 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 57.0% in the period, and,
- ii. The tourism inflow receipts which came in at USD 268.1 bn in 2022, a significant 82.9% increase from USD 146.5 bn inflow receipts recorded in 2021.

Key to note, Kenya’s forex reserves declined by 0.9% during the week to USD 6.7 bn from USD 6.8 bn recorded the previous week, equivalent to 3.6 months of import cover same as the previous week, and remained below the statutory requirement of maintaining at least 4.0-months of import cover. The chart below summarizes the evolution of Kenya months of import cover over the years:



Rates in the Fixed Income market have been on an upward trend given the continued high demand for cash by the government and the occasional liquidity tightness in the money market. The government is 2.4% ahead of its prorated net domestic borrowing target of Kshs 129.4 bn, having a net borrowing position of

Kshs 132.4 bn out of the domestic net borrowing target of Kshs 316.0 bn for the FY'2023/2024. Therefore, we expect a continued upward readjustment of the yield curve in the short and medium term, with the government looking to bridge the fiscal deficit through the domestic market. Owing to this, our view is that investors should be biased towards short-term fixed-income securities to reduce duration risk.

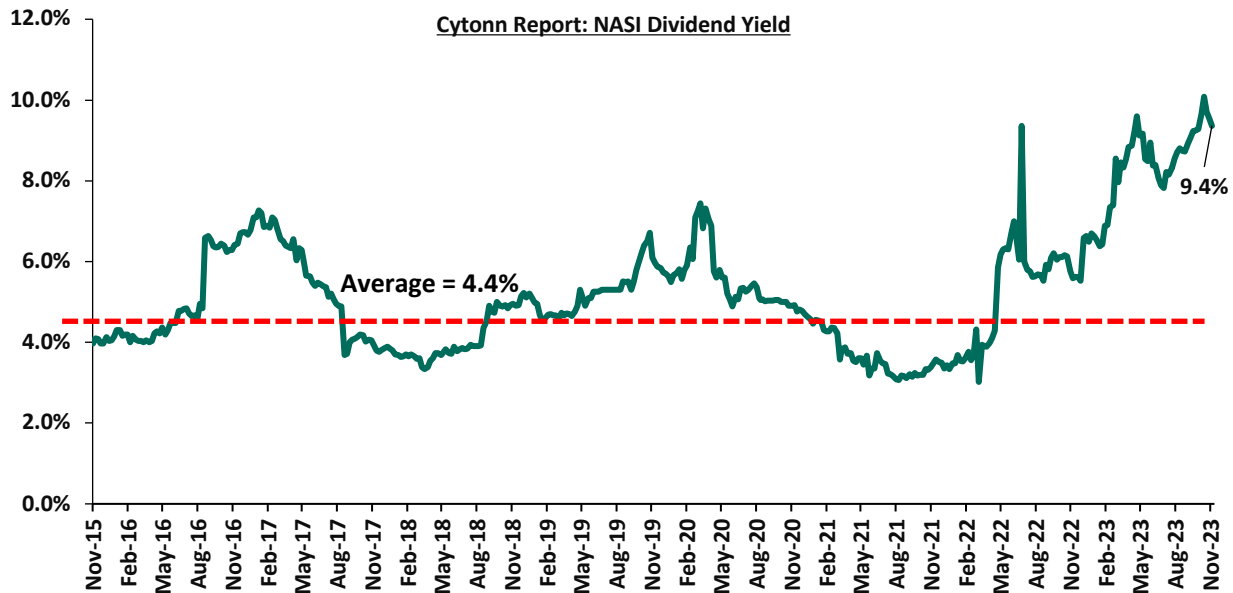
Equities

Market Performance:

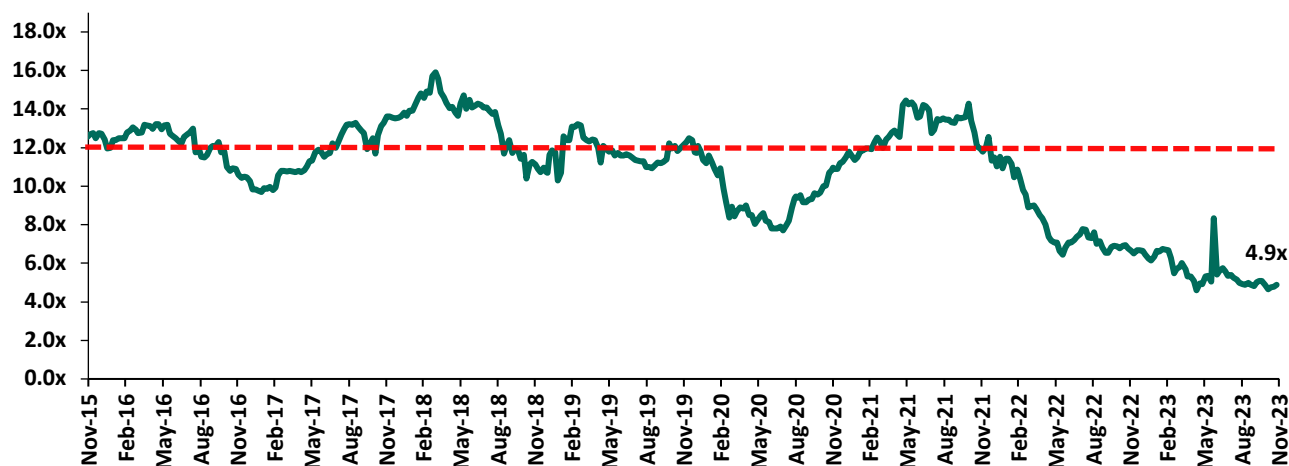
During the week, the equities market was on an upward trajectory, with NSE 20 gaining the most by 2.6%, while NASI, NSE 10 and NSE 25 gained by 1.9%, 1.9% and 2.1% respectively, taking the YTD performance to losses of 27.6%, 23.0% and 9.9% for NASI, NSE 25, and NSE 20, respectively. The equities market performance was mainly driven by gains recorded by large-cap stocks such as Bamburi, NCBA Group and ABSA of 21.1%, 6.9% and 5.0% respectively. The gains were however weighed down by losses recorded by stocks such as Cooperative Bank and BAT of 0.9% and 0.1% respectively.

During the week, equities turnover increased by 110.0% to USD 6.1 mn, from USD 2.9 mn recorded the previous week, taking the YTD total turnover to USD 621.9 mn. Foreign investors became net buyers for the first time in seven weeks, with a net buying position of USD 0.3 mn, from a net selling position of USD 0.5 mn recorded the previous week, taking the YTD foreign net selling position to USD 287.8 mn.

The market is currently trading at a price to earnings ratio (P/E) of 4.9x, 59.6% below the historical average of 12.1x. The dividend yield stands at 9.4%, 5.0% points above the historical average of 4.4%. Key to note, NASI's PEG ratio currently stands at 0.6x, an indication that the market is undervalued relative to its future growth. A PEG ratio greater than 1.0x indicates the market is overvalued while a PEG ratio less than 1.0x indicates that the market is undervalued. The charts below indicate the historical P/E and dividend yields of the market;



Cytonn Report: NASI P/E



Universe of Coverage:

Cytonn Report: Equities Universe of Coverage

Company	Price as at 17/11/2023	Price as at 24/11/2023	w/w change	YTD Change	Target Price*	Dividend Yield	Upside/Downside**	P/TBv Multiple	Recommendation
Liberty Holdings	3.6	3.5	(2.0%)	(30.6%)	5.9	0.0%	69.1%	0.3x	Buy
KCB Group***	19.4	19.9	2.8%	(48.1%)	30.7	10.1%	64.3%	0.3x	Buy
Kenya Reinsurance	1.7	1.7	0.0%	(9.1%)	2.5	11.8%	59.4%	0.1x	Buy
Jubilee Holdings	183.8	180.0	(2.0%)	(9.4%)	260.7	6.7%	51.5%	0.3x	Buy
Sanlam	6.8	6.8	0.0%	(29.0%)	10.3	0.0%	51.3%	1.9x	Buy
ABSA Bank***	11.1	11.6	5.0%	(4.9%)	14.8	11.6%	39.2%	0.9x	Buy
I&M Group***	17.5	17.5	0.0%	2.6%	21.8	12.9%	37.4%	0.4x	Buy
Diamond Trust Bank***	45.0	46.0	2.1%	(7.8%)	58.1	10.9%	37.3%	0.2x	Buy
Co-op Bank***	11.6	11.5	(0.9%)	(5.0%)	13.5	13.0%	30.4%	0.5x	Buy
NCBA***	35.7	38.1	6.9%	(2.2%)	43.2	11.2%	24.5%	0.8x	Buy
Standard Chartered***	156.5	158.5	1.3%	9.3%	170.9	13.9%	21.7%	1.1x	Buy
Equity Group***	38.0	38.3	0.8%	(15.0%)	42.6	10.4%	21.7%	0.8x	Buy
Stanbic Holdings	104.3	109.3	4.8%	7.1%	118.2	11.5%	19.7%	0.8x	Accumulate
CIC Group	2.1	2.2	5.3%	15.2%	2.5	5.9%	19.5%	0.7x	Accumulate
Britam	5.0	5.1	2.8%	(1.2%)	6.0	0.0%	16.1%	0.7x	Accumulate
HF Group	3.5	4.0	13.8%	25.4%	3.2	0.0%	(19.0%)	0.2x	Sell

We are “Neutral” on the Equities markets in the short term due to the current tough operating environment and huge foreign investor outflows, and, “Bullish” in the long term due to current cheap valuations and expected global and local economic recovery.

With the market currently being undervalued to its future growth (PEG Ratio at 0.6x), we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value. We expect the current high foreign investors sell-offs to continue weighing down the equities outlook in the short term.

Weekly Highlights:

Earnings Releases

I. KCB Group Q3'2023 Financial Performance

During the week, KCB Group released their Q3'2023 financial results. Below is a summary of the performance;

Balance Sheet Items (Kshs bn)	Q3'2022	Q3'2023	y/y change
Government Securities	236.8	325.6	37.5%
Net Loans and Advances	758.8	1,047.9	38.1%
Total Assets	1,276.3	2,099.5	64.5%
Customer Deposits	922.3	1,656.4	79.6%
Total Liabilities	1,086.1	1,873.4	72.5%
Shareholders' Funds	187.8	218.8	16.5%

Balance Sheet Ratios	Q3'2022	Q3'2023	% y/y change
Loan to Deposit Ratio	82.3%	63.3%	(19.0%)
Government Securities to Deposit Ratio	25.7%	19.7%	(6.0%)
Return on average equity	22.6%	20.2%	(2.4%)
Return on average assets	3.3%	2.4%	(0.9%)

Income Statement (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net Interest Income	61.6	74.9	21.6%
Net non-Interest Income	30.6	42.4	38.7%
Total Operating income	92.1	117.3	27.3%
Loan Loss provision	(7.3)	(15.8)	118.1%
Total Operating expenses	(48.8)	(76.7)	57.0%
Profit before tax	43.3	40.6	(6.3%)
Profit after tax	30.6	30.7	0.4%
Core EPS (Kshs)	9.52	9.56	0.4%

Income Statement Ratios	Q3'2022	Q3'2023	y/y change
Yield from interest-earning assets	10.9%	10.1%	(0.8%)
Cost of funding	3.0%	3.5%	0.4%
Net Interest Spread	7.9%	6.6%	(1.3%)
Net Interest Margin	8.1%	6.8%	(1.3%)
Cost of Risk	7.9%	13.5%	5.6%
Net Interest Income as % of operating income	66.8%	63.9%	(3.0%)
Non-Funded Income as a % of operating income	33.2%	36.1%	3.0%
Cost to Income Ratio	53.0%	65.4%	12.4%

Capital Adequacy Ratios	Q3'2022	Q3'2023	% points change
Core Capital/Total Liabilities	15.6%	13.0%	(2.6%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	7.6%	5.0%	(2.6%)
Core Capital/Total Risk Weighted Assets	14.5%	14.5%	0.0%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	4.0%	4.0%	0.0%
Total Capital/Total Risk Weighted Assets	18.1%	17.8%	(0.3%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	3.6%	3.3%	(0.3%)
Liquidity Ratio	38.5%	50.3%	11.8%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	18.5%	30.3%	11.8%

Key Take-Outs:

- Increase in earnings** - Core earnings per share (EPS) increased marginally by 0.4% to Kshs 9.6, from Kshs 9.5 in Q3'2022, driven by the 27.3% growth in total operating income to Kshs 117.3 bn, from Kshs 92.1 bn in Q3'2022, which outweighed the 57.0% growth in total operating expenses to Kshs 76.7 bn, from kshs 48.8 bn in Q3'2022,
- Increased Provisioning** – On the back of high credit risk occasioned by the deteriorated business environment, the bank increased its provisions holdings to cover for the anticipated losses in the future, with its provisions increasing by 47.9% to Kshs 96.7 bn from Kshs 65.4 bn recorded in Q3'2022, and,
- Improved Lending** – The Group's loan book increased by 38.1% to kshs 1,047.9 bn, from kshs 758.8 bn in Q3'2022, which slightly outpaced the 37.5% growth in government securities to kshs 325.6 bn, from kshs 236.8 bn in Q3'2022, highlighting the Group's strategy to increase lending while at the same time managing its non-performing loan book,
- Revenue Diversification** – The Group's Non-Funded income increased by 38.7% to Kshs 42.4bn in Q3'2023, from Kshs 30.6 bn in Q3'2022, which resulted to a shift in revenue mix to 64:36 from 67:33 for the funded to Non-funded income in Q3'2022 following the 38.7% growth in NFI which outpaced the 21.6% growth in funded income.

For a more detailed analysis, please see the [KCB Group Q3'2023 Earnings Note](#)

II. ABSA Bank Kenya Q3'2023 Financial Performance

During the week, ABSA Bank Kenya released their Q3'2023 financial results. Below is a summary of the performance;

Balance Sheet Items (Kshs bn)	Q3'2022	Q3'2023	y/y change
Government Securities	92.2	77.7	(15.7%)
Net Loans and Advances	289.4	330.9	14.3%
Total Assets	481.3	504.9	4.9%
Customer Deposits	281.1	354.3	26.1%
Deposits per branch	3.3	4.2	24.6%
Total Liabilities	421.1	439.6	4.4%
Shareholders' Funds	60.3	65.3	8.4%

Balance Sheet Ratios	Q3'2022	Q3'2023	% y/y change
Loan to Deposit Ratio	103.0%	93.4%	(9.6%)
Govt Securities to Deposit ratio	32.8%	21.9%	(10.9%)
Return on average equity	23.2%	25.8%	2.5%
Return on average assets	3.0%	3.3%	0.3%

Income Statement (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net Interest Income	23.3	29.3	26.0%
Net non-Interest Income	10.2	10.8	6.4%
Total Operating income	33.4	40.2	20.0%
Loan Loss provision	(5.0)	(6.8)	34.3%
Total Operating expenses	(18.3)	(22.3)	21.9%
Profit before tax	15.1	17.8	17.8%
Profit after tax	10.7	12.3	14.9%
Core EPS (Kshs)	2.0	2.3	14.9%

Income Statement Ratios	Q3'2022	Q3'2023	% y/y change
Yield from interest-earning assets	9.6%	11.7%	2.1%
Cost of funding	2.8%	3.7%	0.9%

Net Interest Spread	2.1%	2.7%	0.6%
Net Interest Margin	7.6%	8.8%	1.3%
Cost of Risk	15.0%	16.8%	1.8%
Net Interest Income as % of operating income	69.6%	73.0%	3.5%
Non-Funded Income as a % of operating income	30.4%	27.0%	(3.5%)
Cost to Income Ratio	54.7%	55.6%	0.8%

Capital Adequacy Ratios	Q3'2022	Q3'2023	% y/y change
Core Capital/Total Liabilities	18.8%	16.5%	(2.3%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	10.8%	8.5%	(2.3%)
Core Capital/Total Risk Weighted Assets	13.8%	13.4%	(0.4%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	3.3%	2.9%	(0.4%)
Total Capital/Total Risk Weighted Assets	16.2%	17.7%	1.5%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	1.7%	3.2%	1.5%
Liquidity Ratio	25.8%	29.8%	4.0%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	5.8%	9.8%	4.0%

Key Take-Outs:

1. **Increased earnings** - Core earnings per share (EPS) increased by 14.9% to Kshs 2.3, from Kshs 2.0 in Q3'2022, driven by the 20.0% growth in total operating income to Kshs 40.2 bn, from Kshs 33.4 bn in Q3'2022, which outweighed the 21.9% growth in total operating expenses to kshs 22.3 bn, from Kshs 18.3 bn in Q3'2022,
2. **Increased Provisioning** – On the back of high credit risk occasioned by the deteriorated business environment, the bank increased its provisions holdings to cover for the anticipated losses in the future, with its provisions increasing by 34.3% to Kshs 6.8 bn from Kshs 5.0 bn recorded in Q3'2022, and,
3. **Improved Lending** – The Group's loan book increased by 14.3% to kshs 330.9 bn, from kshs 289.4 bn in Q3'2022, which outweighed the 23.8% decline investment in government securities to Kshs 106.6 bn from Kshs 139.8 bn in Q3'2022, highlighting the Group's strategy to increase lending while shifting in its asset allocation strategy.

For a more detailed analysis, please see the [ABSA Bank's Q3'2023 Earnings Note](#)

III. I&M Group Q3'2023 Financial Performance

During the week, I&M Group released their Q3'2023 financial results. Below is a summary of the performance;

Balance Sheet Items (Kshs bn)	Q3'2022	Q3'2023	y/y change
Government Securities	73.9	84.6	14.6%
Net Loans and Advances	231.2	287.3	24.3%
Total Assets	428.7	544.1	26.9%
Customer Deposits	308.0	402.4	30.6%
Total Liabilities	355.2	458.8	29.2%
Shareholders' Funds	68.4	79.1	15.6%

Balance Sheet Ratios	Q3'2022	Q3'2023	% y/y change
Loan to Deposit Ratio	75.1%	71.4%	(3.7%)
Government Securities to Deposit Ratio	24.0%	21.0%	(2.9%)
Return on average equity	25.9%	21.0%	(4.8%)

Return on average assets	13.9%	15.9%	2.0%
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Income Statement (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net Interest Income	16.2	19.1	18.4%
Net non-Interest Income	8.8	10.7	21.2%
Total Operating income	25.0	29.9	19.4%
Loan Loss provision	(3.6)	(4.6)	28.3%
Total Operating expenses	(14.9)	(19.2)	28.6%
Profit before tax	10.43	11.37	9.0%
Profit after tax	7.18	8.20	14.3%
Core EPS (Kshs)	4.3	5.0	14.3%

Income Statement Ratios	Q3'2022	Q3'2023	y/y change
Yield from interest-earning assets	10.5%	10.7%	0.2%
Cost of funding	4.2%	4.7%	0.5%
Net Interest Margin	6.6%	6.2%	(0.4%)
Net Interest Income as % of operating income	64.6%	64.1%	(0.5%)
Non-Funded Income as a % of operating income	35.4%	35.9%	0.5%
Cost to Income Ratio	59.7%	64.3%	4.6%
CIR without LLP	45.3%	48.8%	3.5%
Cost to Assets	2.6%	2.7%	0.04%

Capital Adequacy Ratios	Q3'2022	Q3'2023	% points change
Core Capital/Total Liabilities	20.7%	16.5%	(4.2%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	12.7%	8.5%	(4.2%)
Core Capital/Total Risk Weighted Assets	15.3%	13.0%	(2.3%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	4.8%	2.5%	(2.3%)
Total Capital/Total Risk Weighted Assets	20.1%	17.7%	(2.4%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	5.6%	3.2%	(2.4%)
Liquidity Ratio	46.6%	48.2%	1.6%
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	26.6%	28.2%	1.6%

Key Take-Outs:

- Strong earnings growth** - Core earnings per share (EPS) increased by 14.3% to Kshs 5.0 from Kshs 4.3 in Q3'2022, mainly driven by 19.4% growth in total operating income to Kshs 29.9 bn in Q3'2023 from Kshs 25.0 bn in Q3'2022. The performance was however weighed down by the 28.6% increase in total operating expenses to Kshs 19.2 bn, from Kshs 14.9 bn in Q3'2022,
- Increased Provisioning** – The group's provisioning increased by 8.1% to Kshs 14.6 bn in Q3'2023, from Kshs 13.6 bn in Q3'2022 aimed at mitigating increased credit risk on the back of the deteriorated business environment. This is evidenced by the 52.5% growth in Gross Non-Performing Loans (NPLs) to Kshs 36.1 bn in Q3'2023, from Kshs 23.7 bn recorded in Q3'2022, and,
- Revenue Diversification** – The Group's Non-Funded income increased by 21.2% to Kshs 10.7 bn in Q3'2023, from Kshs 8.8 bn in Q3'2022, which resulted to a shift in the revenue mix for funded to non-funded income shifted to 64:36 in Q3'2023 from 65:35 in Q3'2022. The increase was mainly attributable to the 21.2% increase in non-funded income which outpaced the 18.4% growth in net interest income.

For a more detailed analysis, please see the [I&M Group's Q3'2023 Earnings Note](#)

IV. NCBA Group Kenya Q3'2023 Financial Performance

During the week, NCBA Group released their Q3'2023 financial results. Below is a summary of the performance;

Balance Sheet (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net Loans and Advances	266.1	308.7	16.0%
Government Securities	206.8	200.8	(2.9%)
Total Assets	595.4	678.8	14.0%
Customer Deposits	462.1	548.1	18.6%
Total Liabilities	514.5	590.3	14.7%
Shareholders' Funds	80.9	88.5	9.4%

Balance Sheet Ratios	Q3'2022	Q3'2023	% points change
Loan to Deposit Ratio	57.6%	56.3%	(1.3%)
Government Securities to Deposit ratio	44.8%	36.6%	(8.1%)
Return on average equity	21.2%	18.4%	(2.8%)
Return on average assets	2.8%	2.5%	(0.4%)

Income Statement (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net Interest Income	23.2	26.0	11.7%
Net non-Interest Income	22.5	20.7	(8.0%)
Total Operating income	45.8	46.7	2.0%
Loan Loss provision	8.3	6.1	(27.1%)
Total Operating expenses	26.9	28.1	4.7%
Profit before tax	18.2	18.6	2.1%
Profit after tax	12.8	14.6	14.4%
Core EPS (Kshs)	7.8	8.9	14.4%

Income Statement Ratios	Q3'2022	Q3'2023	% points change
Yield from interest-earning assets	10.1%	10.9%	0.8%
Cost of funding	4.4%	5.2%	0.8%
Net Interest Spread	5.7%	5.7%	0.0%
Net Interest Margin	6.0%	6.0%	0.1%

Capital Adequacy Ratios	Q3'2022	Q3'2023	% points change
Core Capital/Total Liabilities	16.9%	15.6%	(1.3%)
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	8.9%	7.6%	(1.3%)
Core Capital/Total Risk Weighted Assets	18.4%	17.2%	(1.2%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	7.9%	6.7%	(1.2%)
Total Capital/Total Risk Weighted Assets	18.4%	17.2%	(1.2%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	3.9%	2.7%	(1.2%)
Liquidity Ratio	55.6%	52.5%	(3.1%)
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	35.6%	32.5%	(3.1%)

Key Take-Outs:

1. **Strong earnings growth** - Core earnings per share (EPS) increased by 14.4% to Kshs 8.9, from Kshs 7.8 in Q3'2022, driven by the 2.0% growth in total operating income to Kshs 46.7 bn, from Kshs 45.8 bn in Q3'2022,
2. **Improved asset quality** – The Group’s gross NPL ratio decreased to 12.0% in Q3'2023 from 12.6% in Q3'2022, attributable to the 14.3% increase in gross loans to Kshs 331.3 bn, from Kshs 289.9 bn recorded in Q3'2022, which outpaced the 9.2% increase in Gross non-performing loans to Kshs 39.7 bn, from Kshs 36.4 bn in Q3'2022, and,
3. **Improved Lending** – The Group’s loan book increased by 16.0% to kshs 308.7 bn, from kshs 266.1 bn in Q3'2022, which outweighed the 2.9% decline in investment in government securities to Kshs 200.8 bn from Kshs 206.8 bn in Q3'2022, highlighting the Group’s strategy to increase lending.

For a more detailed analysis, please see the [NCBA Group’s Q3'2023 Earnings Note](#)

V. Equity Group Q3'2023 Financial Performance

During the week, Equity Group released their Q3'2023 financial results. Below is a summary of the performance;

Balance Sheet Items (Kshs bn)	Q3'2022	Q3'2023	y/y change
Government Securities	233.0	242.5	4.1%
Net Loans and Advances	673.9	845.9	25.5%
Total Assets	1363.7	1691.2	24.0%
Customer Deposits	1007.3	1207.7	19.9%
Deposits per branch	3.0	3.4	14.1%
Total Liabilities	1209.7	1497.9	23.8%
Shareholders' Funds	147.5	183.9	24.7%

Balance Sheet Ratios	Q3'2022	Q3'2023	% y/y change
Loan to Deposit Ratio	66.9%	70.0%	3.1%
Government securities to deposits ratio	23.1%	20.1%	(3.1%)
Return on average equity	31.3%	21.8%	(9.5%)
Return on average assets	3.7%	2.4%	(1.4%)

Income Statement (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net Interest Income	59.8	72.6	21.3%
Net non-Interest Income	42.2	57.8	36.9%
Total Operating income	102.1	130.4	27.8%
Loan Loss provision	(9.7)	(19.0)	96.6%
Total Operating expenses	(57.7)	(84.5)	46.3%
Profit before tax	44.3	45.9	3.6%
Profit after tax	34.4	36.2	5.3%
Core EPS (Kshs)	9.1	9.6	5.3%

Income Statement Ratios	Q3'2022	Q3'2023	y/y change
Yield from interest-earning assets	7.3%	7.7%	0.4%
Cost of funding	2.9%	3.7%	0.8%
Cost of risk	9.5%	14.6%	5.1%
Net Interest Margin	7.3%	5.6%	(1.7%)
Net Interest Income as % of operating income	58.6%	55.7%	(3.0%)
Non-Funded Income as a % of operating income	41.4%	44.3%	3.0%
Cost to Income Ratio	56.6%	64.8%	8.2%
CIR without LLP	47.1%	50.2%	3.1%

Cost to Assets	3.8%	4.3%	0.5%
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Capital Adequacy Ratios	Q3'2022	Q3'2023	% points change
Core Capital/Total Liabilities	16.9%	17.7%	0.8%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	8.9%	9.7%	0.8%
Core Capital/Total Risk Weighted Assets	16.1%	15.2%	(0.9%)
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	5.6%	4.7%	(0.9%)
Total Capital/Total Risk Weighted Assets	20.7%	19.2%	(1.5%)
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	6.2%	4.7%	(1.5%)
Liquidity Ratio	51.8%	0.0%	(51.8%)
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	31.8%	(20.0%)	(51.8%)

Key Take-Outs:

- Strong earnings growth** – Core earnings per share (EPS) grew by 5.3% to Kshs 9.6, from Kshs 9.1 in Q3'2022, mainly driven by the 27.8% growth in total operating income to Kshs 130.4 bn, from Kshs 102.1 bn in Q3'2022. However, the performance was weighed down by a 46.3% growth in total operating expenses to Kshs 84.5 bn, from Kshs 57.7 bn in Q3'2022,
- Increased Provisioning** – On the back of high credit risk occasioned by the deteriorated business environment, the bank increased its provisions holdings to cover for the anticipated losses in the future, with its provisions increasing by 96.6% to Kshs 19.0 bn from Kshs 9.7 bn recorded in Q3'2022, and,
- Revenue Diversification** – The Group's Non-Funded income increased by 36.9% to Kshs 57.8 bn in Q3'2023, from Kshs 42.2 bn in Q3'2022, which resulted to a shift in revenue mix to 56:44 in Q3'2023 from 59:41 in Q3'2022. The increase was mainly attributable to the faster 36.9% increase in non-funded income compared to the 21.3% increase in Funded income to kshs 72.6 bn, from kshs 59.8 bn in Q3'2022:

For a more detailed analysis, please see the [Equity Group's Q3'2023 Earnings Note](#)

VI. Standard Chartered Bank Kenya Q3'2023 Financial Performance

During the week, Standard Chartered Bank Kenya released their Q3'2023 financial results. Below is a summary of the performance;

Balance Sheet Items (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net loans	136.1	143.6	5.5%
Government Securities	112.0	55.6	(50.3%)
Total Assets	366.1	369.7	1.0%
Customer Deposits	286.1	298.8	4.5%
Deposits per Branch	7.9	9.3	17.5%
Total Liabilities	310.6	310.0	(0.2%)
Shareholder's Funds	55.5	59.7	7.6%

Balance Sheet Ratios	Q3'2022	Q3'2023	% y/y change
Loan to deposit ratio	47.6%	48.0%	0.5%
Government securities to deposit ratio	39.1%	18.6%	(20.5%)
Return on Average Equity	21.0%	22.7%	1.7%
Return on Average Assets	3.3%	3.6%	0.3%

Income Statement (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net Interest Income	15.8	21.2	34.5%
Net non-Interest Income	8.8	8.2	(6.6%)
Total Operating income	24.6	29.4	19.8%
Loan Loss provision	0.6	1.8	193.4%
Total Operating expenses	12.3	15.8	28.4%
Profit before tax	12.3	13.7	11.3%
Profit after tax	8.7	9.7	11.8%
Core EPS (Kshs)	23.1	25.8	11.8%

Income Statement Ratios	Q3'2022	Q3'2023	y/y change
Yield from interest-earning assets	7.3%	9.4%	2.1%
Cost of funding	1.14%	1.03%	(0.1%)
Net Interest Spread	6.2%	8.4%	2.2%
Net Interest Margin	6.3%	8.5%	2.2%
Cost of Risk	2.5%	6.2%	3.7%
Net Interest Income as % of operating income	64.3%	72.1%	7.8%
Non-Funded Income as a % of operating income	35.7%	27.9%	(7.8%)
Cost to Income Ratio	49.9%	53.5%	3.6%
Cost to Income Ratio without LLP	47.4%	47.3%	(0.1%)
Cost to Assets	3.3%	3.8%	0.5%

Capital Adequacy Ratios	Q3'2022	Q3'2023	% points change
Core Capital/Total Liabilities	14.5%	15.7%	1.2%
Minimum Statutory ratio	8.0%	8.0%	0.0%
Excess	6.5%	7.7%	1.2%
Core Capital/Total Risk Weighted Assets	15.4%	17.1%	1.7%
Minimum Statutory ratio	10.5%	10.5%	0.0%
Excess	4.9%	6.6%	1.7%
Total Capital/Total Risk Weighted Assets	17.7%	17.8%	0.1%
Minimum Statutory ratio	14.5%	14.5%	0.0%
Excess	3.2%	3.3%	0.1%
Liquidity Ratio	71.9%	66.7%	(5.2%)
Minimum Statutory ratio	20.0%	20.0%	0.0%
Excess	51.9%	46.7%	(5.2%)

Key Take-Outs:

- Strong earnings growth** - Core earnings per share (EPS) grew by 11.8% to Kshs 25.8, from Kshs 23.1 in Q3'2022, driven by the 19.8% growth in total operating income to Kshs 29.4 bn, from Kshs 24.6 bn in Q3'2022. The performance was however weighed down by the 28.4% increase in the total operating expenses to Kshs 15.8 bn in Q3'2023, from Kshs 12.3 bn in Q3'2022,
- Improvement in Asset Quality** - The group's asset quality improved significantly, with the NPL ratio improving to 14.4% in Q3'2023, from 15.4% recorded in Q3'2022. The improvement in asset quality was attributable to the 4.6% growth in gross loans to kshs 163.1 bn, from kshs 155.9 bn in Q3'2022, relative to the 2.0% decrease in gross non-performing loans to kshs 23.6 bn, from kshs 24.0 bn in Q3'2022, and,
- Increased Provisioning** - Q3'2023 was characterized by increased provisioning, attributable to the high credit risks brought about by the deteriorated business environment. As such, Standard Chartered Bank Kenya increased its loan loss provisions by 193.4% to kshs 1.8 bn in Q3'2023, up from Kshs 0.6 bn provisioning recorded in Q3'2022. Notably, General Provisions (LLP) decreased marginally by 1.0% to Kshs 10.2 bn, from Kshs 10.3 bn recorded in Q3'2022.

For a more detailed analysis, please see the [Standard Chartered Bank's Q3'2023 Earnings Note](#)

VII. Stanbic Holding's Q3'2023 Financial Performance

During the week, Stanbic Holding's released their Q3'2023 financial results. Below is a summary of the performance;

Balance Sheet (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net Loans and Advances	236.9	251.0	5.9%
Government Securities	63.0	37.0	(41.3%)
Total Assets	371.4	414.3	11.5%
Customer Deposits	267.3	305.7	14.3%
Deposits Per Branch	10.3	10.2	(0.9%)
Total Liabilities	321.0	358.6	11.7%
Shareholders' Funds	50.4	55.7	10.5%

Key Ratios	Q3'2022	Q3'2023	% point change
Loan to Deposit ratio	88.6%	82.1%	(6.5%)
Government securities to deposits ratio	23.6%	12.1%	(11.5%)
Return on average equity	19.1%	21.4%	2.3%
Return on average assets	2.7%	2.9%	0.2%

Income Statement (Kshs bn)	Q3'2022	Q3'2023	y/y change
Net interest Income	12.7	18.1	42.4%
Net non-interest income	10.3	12.6	23.0%
Total Operating income	23.0	30.7	33.7%
Loan loss provision	(2.9)	(4.5)	56.8%
Total Operating expenses	(13.3)	(17.8)	33.6%
Profit before tax	9.7	13.0	34.0%
Profit after tax	7.0	9.3	32.7%
Core EPS (Kshs)	17.7	23.5	32.7%

Income Statement Ratios	Q3'2022	Q3'2023	y/y change
Yield from interest-earning assets	6.4%	8.3%	1.9%
Cost of funding	2.5%	3.3%	0.8%
Net Interest Margin	6.2%	7.8%	1.6%
Net Interest Income as % of operating income	55.4%	59.0%	3.6%
Non-Funded Income as a % of operating income	44.6%	41.0%	(3.6%)
Cost to Income Ratio	57.9%	57.8%	(0.1%)
CIR without LLP	45.4%	43.2%	(2.2%)
Cost to Assets	2.8%	4.3%	1.5%

Capital Adequacy Ratios	Q3'2022	Q3'2023	% points change
Core Capital/Total Liabilities	17.2%	15.7%	(1.5%)
Minimum Statutory ratio	8.0%	8.0%	
Excess	9.2%	7.7%	(1.5%)
Core Capital/Total Risk Weighted Assets	13.4%	13.2%	(0.2%)
Minimum Statutory ratio	10.5%	10.5%	
Excess	2.9%	2.7%	(0.2%)
Total Capital/Total Risk Weighted Assets	16.2%	16.9%	0.7%
Minimum Statutory ratio	14.5%	14.5%	
Excess	1.7%	2.4%	0.7%
Liquidity Ratio	39.9%	40.5%	0.6%
Minimum Statutory ratio	20.0%	20.0%	

Excess	19.9%	20.5%	0.6%
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Key Take-Outs:

- 1. Strong earnings growth** - Core earnings per share (EPS) grew by 32.7% to Kshs 23.5, from Kshs 17.7 in Q3'2022, driven by the 33.7% growth in total operating income to Kshs 30.7 bn, from Kshs 23.0 bn in Q3'2022, and,
- 2. Improved asset quality** - The bank's gross NPL ratio decreased to 9.0% in Q3'2023 from 10.1% in Q3'2022, attributable to 6.2% decrease in Gross non-performing loans to Kshs 24.1 bn, from Kshs 25.6 bn in Q3'2022, compared to the 5.4% increase in gross loans to Kshs 266.9 bn, from Kshs 253.2 bn recorded in Q3'2022,

For a more detailed analysis, please see the [Stanbic Holding's Q3'2023 Earnings Note](#)

Asset Quality:

Cyttonn Report: Listed Bank Asset Quality						
	Q3'2023 NPL Ratio*	Q3'2022 NPL Ratio**	% point change in NPL Ratio	Q3'2023 NPL Coverage*	Q3'2022 NPL Coverage**	% point change in NPL Coverage
ABSA Bank Kenya	16.1%	17.8%	(1.8%)	62.1%	52.8%	9.3%
KCB	17.2%	21.4%	(4.2%)	51.1%	45.8%	5.3%
Equity Group	13.6%	9.5%	4.2%	53.4%	63.0%	(9.6%)
NCBA Group	12.0%	15.4%	(3.4%)	83.0%	82.4%	0.5%
Standard Chartered Bank Kenya	14.4%	15.4%	(1.0%)	84.8%	83.9%	0.9%
Stanbic Bank	9.0%	10.1%	(1.1%)	66.3%	63.4%	3.0%
I&M Holdings	11.8%	9.5%	2.3%	51.8%	75.4%	(23.6%)
Co-operative Bank of Kenya	14.9%	14.0%	0.9%	62.1%	69.3%	(7.2%)
Mkt Weighted Average*	13.93%	13.87%	0.06%	63.2%	65.9%	(2.7%)
*Market cap weighted as at 24/11/2023						
**Market cap weighted as at 02/12/2022						

Key take-outs from the table include:

- Asset quality for the listed banks deteriorated slightly in Q3'2023, with market weighted average NPL increasing marginally by 0.06% points to 13.93% from a 13.87% in Q3'2022. The performance in asset quality was mainly driven by deterioration in Equity Group, I&M Holdings and Coop Bank asset quality with their NPL ratios increasing by 4.2%, 2.3% and 0.9% points respectively. The performance was however supported by KCB Group, NCBA Group and ABSA Bank Kenya asset quality with their NPL ratios decreasing by 4.2%, 3.4% and 1.8% points respectively,
- Equity Group had the highest NPL ratio jump by 4.2% points to 13.6% from 9.5% points in Q3'2022, attributable to 83.5% increase in Gross non-performing loans Kshs 124.5 bn in Q3'2023 from Kshs 67.9 bn in Q3'2022, which outpaced the 27.3% increase in gross loans to Kshs 912.4 bn from Kshs 716.6 bn recorded in Q3'2022,

- iii. Market weighted average NPL Coverage for the listed banks that have released their results decreased by 2.7% points to 63.2% in Q3'2023, from 65.9% recorded in Q3'2022, majorly on the back of decreased NPL coverage recorded by I&M Holdings, Equity Group and Coop Bank by 23.6%, 9.6%, 9.1% and 7.2% respectively in Q3'2022. However, ABSA Bank Kenya, KCB Group and Stanbic bank NPL coverage increased by 9.3% points, 5.3% points and 3.0% points to 62.1%, 51.1% and 66.3% respectively in Q3'2023.

Summary Performance

The table below shows performance of listed banks using several metrics:

Cytton Report: Listed Banks Performance in Q3'2023													
Bank	Core EPS Growth	Interest Income Growth	Interest Expense Growth	Net Interest Income Growth	Net Interest Margin	Non-Funded Income Growth	NFI to Total Operating Income	Growth in Total Fees & Commissions	Deposit Growth	Growth in Government Securities	Loan to Deposit Ratio	Loan Growth	Return on Average Equity
ABSA	14.9%	33.5%	62.2%	26.0%	8.8%	6.4%	27.0%	21.2%	26.1%	(15.7%)	93.4%	14.3%	25.8%
KCB	0.4%	36.4%	77.9%	21.6%	6.8%	38.7%	36.1%	65.7%	79.6%	37.5%	63.3%	38.1%	20.2%
Equity	5.3%	32.0%	58.4%	21.3%	5.6%	36.9%	44.3%	36.6%	19.9%	4.1%	70.0%	25.5%	21.8%
NCBA	14.4%	21.1%	35.3%	11.7%	6.0%	(8.0%)	44.4%	11.9%	18.6%	(2.9%)	56.3%	16.0%	18.4%
SCB-K	11.8%	28.5%	(10.0%)	34.5%	8.5%	(6.6%)	27.9%	19.0%	4.5%	(50.3%)	48.0%	5.5%	22.7%
Stanbic	32.7%	48.2%	63.2%	42.4%	7.8%	23.0%	41.0%	22.7%	14.3%	(41.3%)	82.1%	5.9%	21.4%
I&M	14.3%	27.5%	41.5%	18.4%	6.2%	21.2%	35.9%	16.9%	30.6%	14.6%	71.4%	24.3%	15.9%
Co-op	7.6%	12.9%	41.3%	2.5%	8.4%	2.1%	38.5%	7.8%	0.2%	1.5%	87.3%	12.8%	22.3%
Q3'23 Mkt Weighted Average*	10.7%	30.0%	48.2%	21.8%	7.0%	17.3%	38.0%	27.9%	24.0%	(4.7%)	70.8%	19.2%	21.5%
Q3'22 Mkt Weighted Average**	36.3%	16.4%	19.7%	17.6%	7.3%	30.1%	38.1%	16.3%	9.8%	6.5%	73.7%	17.1%	24.2%
*Market cap weighted as at 24/11/2023													
**Market cap weighted as at 02/12/2022													

Key take-outs from the table include:

- The listed banks that have released their earnings recorded an average growth of 10.7% in core Earnings per Share (EPS) in Q3'2023, compared to the weighted average growth of 36.3% in Q3'2022, an indication of suppressed performance due to the tough operating environment experienced in Q3'2023,
- Non-Funded Income grew by an average of 17.3% compared to market weighted average growth of 30.1% in Q3'2022, despite the increased revenue diversification efforts by the banks, and,
- The Banks recorded a deposit growth of 24.0%, higher than the market weighted average deposit growth of 9.8% in Q3'2022.

We are "Neutral" on the Equities markets in the short term due to the current tough operating environment and huge foreign investor outflows, and, "Bullish" in the long term due to current cheap valuations and expected global and local economic recovery.

With the market currently being undervalued to its future growth (PEG Ratio at 0.6x), we believe that investors should reposition towards value stocks with strong earnings growth and that are trading at discounts to their intrinsic value. We expect the current high foreign investors sell-offs to continue weighing down the equities outlook in the short term.

Real Estate

I. Residential Sector

During the week, property developer Mi Vida Homes broke ground for the construction of two projects namely, Amaiya, 237 Garden City (237 GC) and KEZA located within Garden City along Thika Road, and Riruta areas respectively. This comes more than a year after the developer [announced](#) plans to begin construction in April 2022. Amaiya, positioned within the Garden City Development, is the second phase of Mi Vida's mid-market product, following the successful completion and sale of Mi Vida's inaugural project of 221 housing units also located within Garden City. Amaya project comprises one, two and three-bedroom duplexes targeting the middle-income segment of the market. The project is set to be completed by April 2025 and will offer amenities including an electric fence, parking area, CCTV cameras, a nearby bus stop, neighboring restaurants and shops, proximate hospital, and a nearby school. The table below presents a summary of the various typologies, sizes and unit pricing;

Cytonn Report: Amaiya Project by Mi Vida Homes				
#	Typology	Size (SQM)	Price (Kshs in mns)	Price per SQM
1	1-bedroom	65	9.8	150,769
2	2-bedroom	96	15.0	156,250
3	3-bedroom	112	17.3	154,464
	Average	91	14.0	153,828

Source: Mi Vida Homes

On the other hand, 237 GC and KEZA constitute affordable housing projects initiated by the developer. The two projects are reflective of the broader trends currently witnessed in the Kenyan Real Estate market, in line with the government's focus on provision of affordable housing. KEZA which is located in Riruta, Nairobi County, is an extensive 1,150-unit project with its mix of studio, 1, 2, and 3-bedroom apartments. This project also is set to commence in April next year and will offer amenities such as an electric fence, CCTV cameras, nearby shopping center, and neighboring schools. The table below gives a summary of the unit types, sizes and prices for the developments;

Cytonn Report: Mi Vida Homes Affordable Housing Project							
#	Project	Typology	Size (SQM)	Price (Kshs in mns)	Price per SQM (Kshs)	Price per SQM for Government Affordable Houses	Variance in Price per SQM (%)
1	KEZA Phase 1	Studio	20	2.3	115,000		
		Premium Studio	24	2.5	104,167		
		One bedroom	40	4.7	117,500	33,333	252.5%
		Two bedrooms	61	6.0	98,361	50,000	96.7%
2	KEZA Phase 2	Premium Studio	24	2.7	112,500		
		2 bedrooms	61	6.4	104,918	50,000	109.8%
		3 bedrooms	123	8.5	69,106	50,000	38.2%
		Average	50	4.7	103,079	45,833	124.3%

Source: Mi Vida Homes Website

Mi Vida Homes' 237 GC project worth Kshs 1.6 bn which is situated within Garden City, will deliver 640 units comprising studio, one, and two-bedroom apartments. The project will offer amenities such as a parking area, an electric fence, state of the art surveillance systems, and nearness to key amenities such as schools, and hospitals. In terms of purchasing, the project will offer flexible payment plans to potential buyers including; i)

a 5-year rent to own payment plan with monthly payments from Kshs 40,000, and no deposit payable before commencement of these monthly repayments, and ii) a rent to own scheme with monthly repayments from Kshs 19,000 payable over a 20-year period, upon the payment of a 30.0% deposit payable over the construction period.

In our view, the above affordable housing projects in comparison to the government's affordable housing program (AHP) are significantly expensive. In terms of affordability, the unit prices translate to an average of Kshs 103,079 per SQM, which is 124.3% higher than the government's affordable housing average of Kshs 45,833 per SQM.

On the other hand, we expect these developments will to some extent; i) contribute towards addressing the growing need for housing in the Nairobi Metropolitan Area, facilitated by the high urbanization and population growth rates currently standing at [3.7%](#) and [1.9%](#) respectively, ii) foster inclusive urban development, iii) enhance the quality of life of residents by providing quality affordable housing, and, iv) promote employment through the creation of both direct and indirect jobs

Moving forward, we expect to witness an increase in the number of institutional investors venturing in affordable housing segment which has traditionally been overshadowed by mid to high-end developments. Additionally, we anticipate to continue witnessing a surge in the development of Mixed-Use Developments (MUDs), as these schemes continue to grow in popularity both in Kenya and globally attributable to the diversity in amenities and social offerings they provide to clients. This inclination towards mixed-use, community-centric developments is indicative of a shift in modern homebuyers' preferences, who are increasingly seeking value beyond the residential unit.

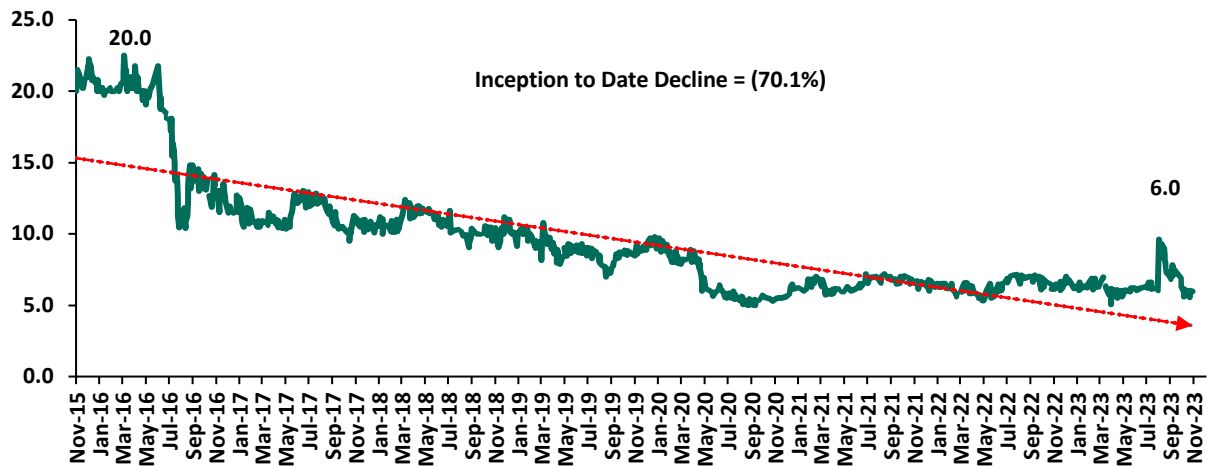
II. Regulated Real Estate Funds

a. Real Estate Investments Trusts (REITs)

During the week, unitholders of ILAM Fahari I-REIT held an extraordinary general meeting, to vote on the proposed delisting of the fund from the Main Investment Market of the Nairobi Securities Exchange (NSE). Last month, the fund manager, ICEA Lion Asset Management (ILAM) acquired Kshs 36.5 million shares at Kshs 11.0 each from retail investors in efforts to buyout Non-Professional investors from the fund. The move was part of a larger plan to convert the REIT into a Restricted I-REIT from an Un-restricted I-REIT, which significantly limits trading of the units to only professional investors holding units worth Kshs 5.0 million and above. Upon successful delisting, ILAM Fahari I-REIT will be listed on the Unquoted Securities Platform (USP), subsequently joining the list of REITs trading on the USP alongside Acorn D-REIT and I-REIT. For more information regarding the operational restructuring of ILAM Fahari, please read our [Cyttonn Monthly October 2023](#) and [Cyttonn Monthly August 2023](#).

In the [Nairobi Securities Exchange](#), ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.0 per share, remaining relatively unchanged from the previous week. The performance represented an 11.8% Year-to-Date (YTD) loss from Kshs 6.8 per share recorded on 3 January 2023, taking it to a 70.1% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 10.9%. The graph below shows Fahari I-REIT's performance from November 2015 to 24th November 2023;

Cytonn Report: Fahari I-REIT Performance (November 2015 - 24th November 2023)

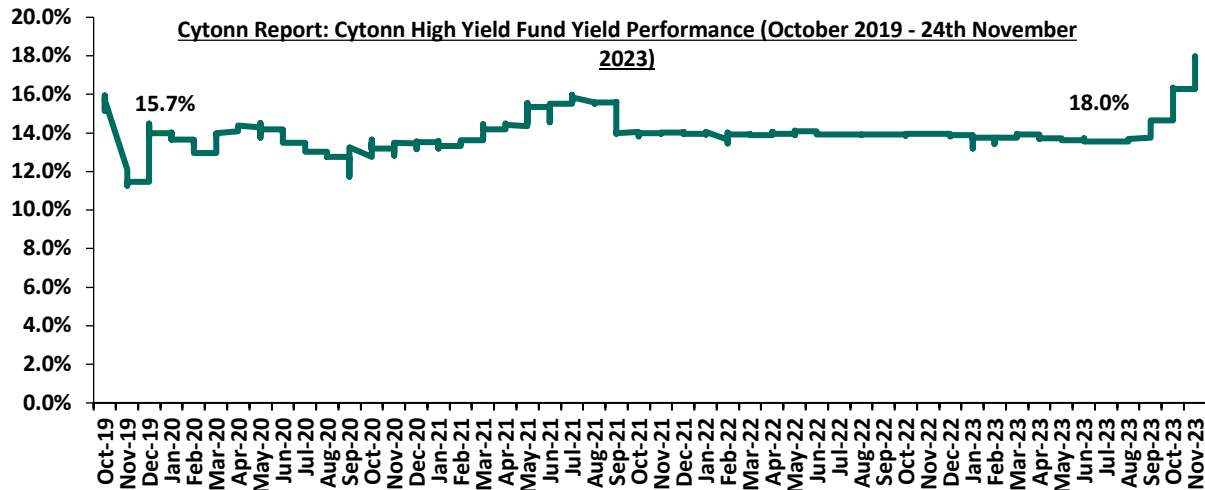


In the [Unquoted Securities Platform](#), Acorn D-REIT and I-REIT traded at Kshs 25.3 and Kshs 21.7 per unit, respectively, as of 27th October 2023. The performance represented a 26.6% and 8.3% gain for the D-REIT and I-REIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 30.7 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 633.8 mn, respectively, since inception in February 2021.

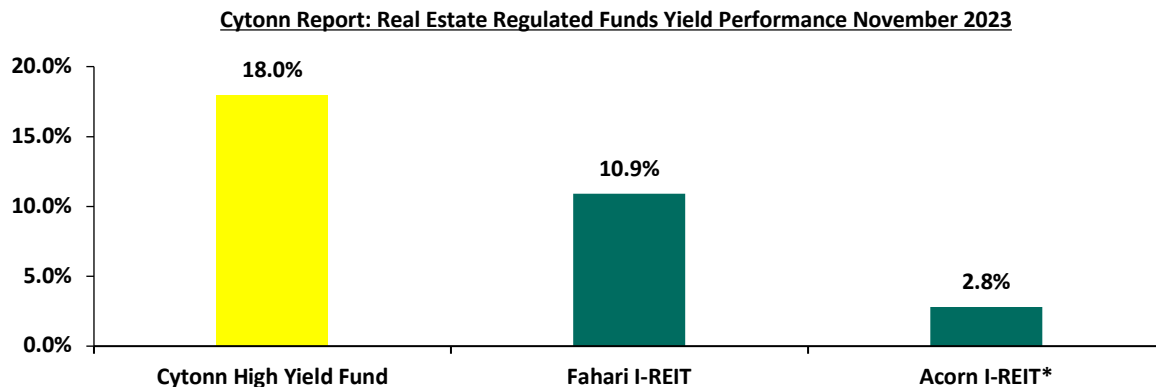
REITs provide various benefits like tax exemptions, diversified portfolios, and stable long-term profits. However, the continuous deterioration in performance of the Kenyan REITs and restructuring of their business portfolio is on top of other general challenges such as; i) inadequate comprehension of the investment instrument among investors, ii) prolonged approval processes for REITs creation, iii) high minimum capital requirements of Kshs 100.0 mn for trustees, and, iv) minimum investment amounts set at Kshs 5.0 mn, continue to limit the performance of the Kenyan REITs market.

b. Cytonn High Yield Fund (CHYF)

Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 18.0%, a 1.6% increase from 16.4% recorded the previous week. The performance represented a 4.1%-points Year-to-Date (YTD) increase from 13.9% yield recorded on 1st January 2023, and 2.3%-points Inception-to-Date (ITD) increase from the 15.7% yield. The graph below shows Cytonn High Yield Fund’s performance from November 2019 to 24th November 2023;



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 18.0%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 10.9%, and 2.8% respectively. As such, the higher yields offered by CHYF makes the fund one of the best alternative investment products in the Real Estate sector. The graph below shows the yield performance of the Regulated Real Estate Funds;



*H1'2023

Source: Cytonn Research

We expect the performance of Kenya’s Real Estate sector to remain on an upward trajectory, supported by factors such as; i) initiation and development of housing projects expected to boost the residential sector, ii) relatively positive demographics in the country increasing demand for housing, and, iii) the growth in popularity of Mixed-Use Developments attributable to the diversity in amenities and social offerings they provide to clients. However, factors such as; i) rising costs of construction, ii) limited investor knowledge in REITs, and, iii) an increase in gross non-performing loans advanced to the sector signifying elevated credit risk will continue to hinder optimal performance of the sector by limiting developments and investments.

Focus of the Week: Nairobi Metropolitan Area (NMA) Serviced Apartments Report 2023

In 2022, we published the [Nairobi Metropolitan Area Serviced Apartments Report 2022](#), which highlighted that serviced apartment's average rental yield grew by 0.7% points to 6.2% in 2022, from 5.5% recorded in 2021. This was attributed to an increase in average monthly charges per SQM by 6.6% to Kshs 2,716 per SQM, from Kshs 2,549 per SQM recorded in 2021, coupled with an increase in occupancy levels by 4.3% to 65.8% in 2022, from 61.5% recorded in 2021. The improvement in performance was attributable to increased demand for hospitality facilities and services as a result of the reopening of the economy, the return of international flights, and the improved rent collection amounts by serviced apartments that had previously been issuing discounts to attract and maintain clients. This year, we update our report using 2023 market research data and by focusing on;

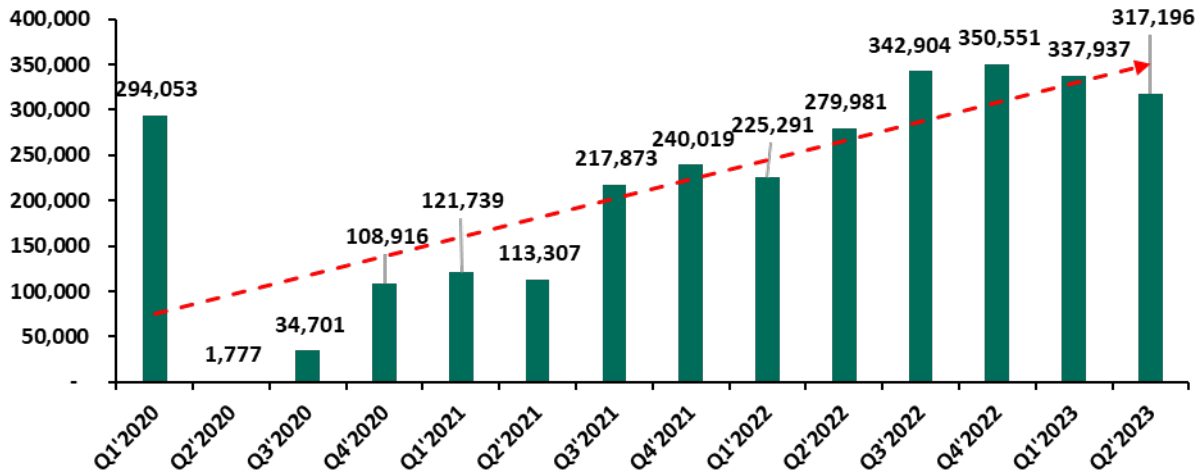
- i. Overview of the Kenyan Hospitality Sector,
- ii. Introduction to Serviced Apartments,
- iii. Supply and Distribution of Serviced Apartments within the NMA,
- iv. Performance of Serviced Apartments in the NMA,
 - a. Serviced Apartments Performance by Node
 - b. Comparative Analysis - 2022/2023 Market Performance
 - c. Performance per Typology
- v. Recommendations and Outlook.

Section I: Overview of the Kenyan Hospitality Sector

In 2023, the Kenyan hospitality sector continues its path to recovery and expansion, demonstrating resilience and adaptability despite ongoing global challenges. Building on the momentum of the previous year, the sector has witnessed significant growth and transformation, driven by various factors contributing to its resurgence. The hospitality sector's recovery from the aftermath of the pandemic persists as one of the noteworthy highlights. Following the tumultuous period induced by COVID-19, 2022 marked a significant rebound, with 2023 showcasing a sustained trajectory of improvement. Key performance indicators, including hotel occupancy rates, international arrivals, and sectoral contribution to the economy, have displayed promising upward trends.

In terms of international arrivals, Kenya National Bureau of Statistics' [Leading Economic Indicators – September 2023](#) report highlighted that arrivals through Jomo Kenyatta International Airport (JKIA) and Moi International Airport (MIA) registered an increase of 13.3% to 317,196 visitors in Q2'2023 from 279,981 visitors in Q2'2022. This is was a result of i) increased international marketing of Kenya's tourism market by the Ministry of Tourism in collaboration with the Kenya Tourism Board, through platforms such as the Magical Kenya platform, ii) the tourism board alignment of its marketing initiatives towards targeting emerging and established source markets, iii) concerted efforts to promote local and regional tourism, iv) development of niche products such as cruise tourism, adventure tourism, culture and sports tourism and, iv) an increase in corporate and business Meetings, Events, and Conferences (MICE) from both the public and private sectors. For the months of July and August 2023, the number of international visitors arriving through Jomo Kenyatta (JKIA) and Moi International Airports (MIA) came in at a cumulative 316,193 persons, representing a significant 34.0% increase, compared to the 235,982 visitors recorded during a similar period in 2022. The graph below shows the number of international arrivals in Kenya between Q1'2020 and Q2'2023;

Cytonn Report: Number of Visitor Arrivals via JKIA and MIA



Source: Kenya National Bureau of Statistics

Some of the factors that continue to cushion the hospitality sector include;

- i. **Retraction of all Travel Restrictions:** The retraction of pandemic-related travel restrictions, both domestically and globally, remains a cornerstone for the sector's revitalization. The restoration of international connectivity and a conducive travel environment have contributed to increased tourist arrivals and operational activities within the country,
- ii. **Hosting Global Sports Events:** Kenya has continued to host various events such as the World Rally Championship (WRC) held in mid-2023, and still expected to be hosted annually until 2026, and the World Freestyle Football Championship 2023. These events continue to boost visitor arrivals, hotel bookings and the general performance of the hospitality industry,
- iii. **Rich Tapestry of Tourist Attractions:** Kenya's diverse and captivating array of tourist attractions, encompassing wildlife reserves, cultural heritage sites, and breathtaking landscapes, continues to captivate travelers worldwide. These include; Kenya's Lake System, Lake Turkana National Park, Mijikenda Kaya Forests, Mount Kenya National Park, Lamu Old Town, and, Fort Jesus. Preservation efforts, coupled with innovative experiential offerings, have sustained their allure, enticing visitors seeking authentic and immersive experiences,
- iv. **Positive Accolades for the Hospitality Industry:** The garnering of prestigious industry accolades has elevated Kenya's standing in the global hospitality sphere. These events serve as magnets for visitors while concurrently enhancing the country's reputation as an alluring destination for both leisure and business travelers. Some of these accolades in 2023 included; the [30th World Travel Awards](#) and [17th World Luxury Hotel Awards](#). Furthermore, Kenya was voted as Africa's Leading Destination at the 2023 World Travel Awards. This is as Nairobi and Diani emerged as Africa's top destinations in leading business travel and beach destinations respectively,
- v. **Peaceful Post-Electioneering Period:** In spite of the uncertain political environment in the run up to the August 2022 General Elections, the country remained calm post-election. Additionally, Kenya had a smooth government transition within 2022 leading to a sense of security and stability during 2023. This encouraged both domestic and international visitors to engage more confidently with the country,
- vi. **Aggressive Marketing of Kenya's Hospitality Industry:** The proactive role of the government in advocating and promoting Kenya as a premier tourism destination has been instrumental. This has taken shape such as through the annual Magical Kenya Travel Expo held in the KICC and organized by

the Kenya Tourism Board. In addition, strategic investments in infrastructure, targeted promotional campaigns, and collaborative efforts to attract a diverse range of domestic and international tourists have significantly bolstered the industry, and,

- vii. **Regional Expansion Drive by Market Players:** The hospitality sector has seen continued expansions, signifying investor appetite and confidence in a bid to gain market dominance on the back of the recovery of domestic and international travel. In 2023, there has been expansions by international hotel chains and hospitality brands such as such as JW Marriott of the Bonvoy Global, Pan Pacific Hotels Group and Miftah Concierge into Kenya. In addition, there are 25 new hotels in the development pipeline during 2023, an increase from 24 hotels that were established in 2022, according to the [Hotel Chain Development Pipeline Africa 2023](#) report. These expansionary efforts are expected to further cushion the performance of the sector.

Nevertheless, the sector continues to face challenges, mainly;

- i. **Increased Costs of Operation:** The burgeoning operational costs during 2023 have posed challenges in maintaining competitive pricing without compromising on service quality and profitability. This is due to a number of factors, including the rising cost of inputs caused by elevated inflationary pressures, coupled with continued depreciation of the Kenyan shilling against the US dollar. On a year-to-date basis, the shilling has depreciated by 23.8% against the US dollar, adding to the 9.0% depreciation recorded in 2022. As a result, the prices of crucial inputs have increased thereby reducing profit margins for service providers in the sector, and,
- ii. **Lack of Proactive Reputational Management:** During crises, Kenya is vulnerable to travel warnings advising against travel into the country, which lead to reduced international arrivals. Additionally, there is currently no dedicated strategy by the government to pre-emptively manage this reputational risk in existence. As a result, the hospitality industry may continue to face setbacks when foreign governments issue these advisories.

Section II: Introduction to Serviced Apartments

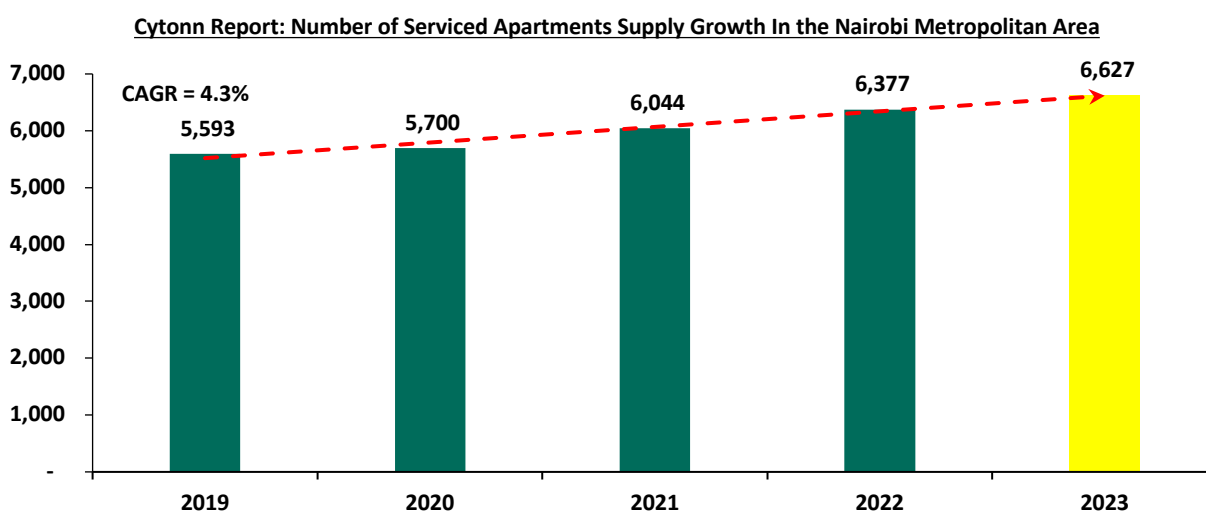
Serviced apartments are fully furnished residences available for short-term or extended stays, and have solidified their place within the vibrant hospitality landscape of the Nairobi Metropolitan Area. They encompass a spectrum of amenities and services, resembling the comforts of home combined with hotel-like conveniences. These accommodations typically feature spacious living areas, fully equipped kitchens, separate bedrooms, and en-suite facilities, providing guests with a self-sufficient and flexible living environment. In 2023, these establishments continue to redefine the hospitality experience by catering to a diverse range of guests, including business travelers, families, digital nomads, and leisure tourists, offering tailored experiences to suit individual needs. The appeal of serviced apartments lies in their unique offerings and advantages that include:

- i. **Flexibility and Space:** These accommodations provide more space than traditional hotel rooms, offering separate living, dining, and sleeping areas. This flexibility appeals to guests seeking a comfortable and homely environment during their stay,
- ii. **Personalized Services:** Serviced apartments offer a range of services such as housekeeping, concierge, and even customized amenities, catering to the specific needs and preferences of guests,
- iii. **Technological Integration:** The integration of advanced technologies within these apartments, including smart home features and user-friendly apps, enhances guest convenience and control over their stay,

- iv. **Integration with Local Communities:** Often situated within or near residential neighbourhoods, serviced apartments allow guests to immerse themselves in the local culture, fostering a sense of belonging and community integration, and,
- v. **Long-term Stay Options:** As the trend toward extended stays and remote work continues, serviced apartments offer appealing options for guests seeking longer-term accommodations, complete with dedicated workspaces and amenities conducive to extended stays.

Section III: Supply and Distribution of Serviced Apartments in the Nairobi Metropolitan Area

The number of serviced apartments within the Nairobi Metropolitan Area (NMA) has increased by an 8-Year CAGR of 8.6% to 6,627 apartments in 2023, from 3,414 apartments in 2015. Notable serviced apartments facilities brought into the market in 2023 included the 100-room Dusit Princess Residences located in Westlands, and Somerset Rosslyn Nairobi by Ascott Limited, a 150-unit development in Runda which is set to be launched in December 2023. The table below shows the growth in supply of serviced apartments in the Nairobi Metropolitan Area over the last five years;



Source: Cytonn Research

In terms of distribution, Westlands and Kilimani have the largest market share of serviced apartments within the Nairobi Metropolitan Area, at 37.8% and 25.6%, respectively attributable to;

- i. A growing influx of international organizations aiming to bolster their footprint in Africa, exemplified by entities such as Price Water Coopers Kenya Headquarters, United Nations agencies, and numerous embassies. This trend contributes to an expanding customer base of expatriates, thereby increasing the demand for serviced apartments,
- ii. The presence of premium serviced apartments commanding higher rents and rental yields, instilling confidence among investors in the region,
- iii. Enhanced infrastructural connectivity by projects such as the Nairobi Expressway facilitating seamless connections to and from Jomo Kenyatta International Airport (JKIA) and relatively good road network simplifying accessibility from various key locations, and,
- iv. Abundant social amenities, including shopping malls, and efficiently organized delivery service companies in the surrounding areas.

The table provided below illustrates the market share of serviced apartments in the Nairobi Metropolitan Area in 2023;

Cytonn Report: Nairobi Metropolitan Area (NMA) Serviced Apartments Market Share 2023	
Area	Percentage Market Share
Westlands	37.8%
Kilimani	25.6%
Lavington-Kileleshwa	11.1%
Upperhill	7.8%
Limuru Road	7.8%
Thika Road	5.5%
Nairobi CBD	4.4%
Total	100.0%

Source: Cytonn Research

For the projects in the pipeline, serviced apartments and hotels with serviced apartments’ concepts currently under development in the Nairobi Metropolitan Area currently include;

Cytonn Report: NMA Serviced Apartments Projects in the Pipeline 2023			
Name	Location	Number of Rooms	Estimated Completion Date
MGallery	Gigiri	105	2024
Hyatt Regency	Westlands	72	2024
Total		17	

Source: Online Research

Section IV: Performance of Serviced Apartments in the Nairobi Metropolitan Area

In the development of the report, the performance of seven nodes within the Nairobi Metropolitan Area was tracked, and compared to the performance in 2022, with emphasis on the following metrics;

- i. **Charged Rates:** It is the daily, weekly and monthly rates that are charged to guests for serviced apartments in specific markets. This which form the basis for evaluation of the likely rental income to be received by investors in serviced apartments,
- ii. **Occupancy Rates:** It measures the number of inhabited apartments as a percentage of the total number of units available. It also guides in determining the expected rental yields for various developments, and,
- iii. **Rental Yields:** It measures the Real Estate investment return from the annualized collected rental income. It provides investors with an estimate of the returns expected from the property, as well as the time it will take to recover the investment. In the calculation of rental yields, we estimate annual income from monthly revenues and deduct operational costs (assumed as 40.0% of revenues).

In the estimations for the investment value, we have calculated development costs per SQM through factoring in land costs (location-based), costs of construction, equipping costs, professional fees and other costs relating to development. The formula thus used in the calculation rental yields is as follows;

$$\text{Rental Yield} = \frac{\text{Monthly Rent per SQM} \times \text{Occupancy Rate} \times (1 - 40.0\% \text{ operational cost}) \times 12 \text{ months}}{\text{Development Cost per SQM}^*}$$

It is important to note that investors will generally incur varying costs depending on the actual land costs incurred, the plot ratios, and the level of finishing and equipping. In analyzing performance, we will start by the node during the year, followed by a comparison with 2021 then the performance by typology will then be covered;

a) Serviced Apartments Performance by Node

The average rental yield for serviced apartments within the NMA increased by 0.6% points to 6.8% in 2023 from 6.2% in 2022. Westlands and Limuru Road emerged the best performing nodes, with rental yields of 10.2% and 8.2% respectively, compared to the market average of 6.8%. The performance was attributed to, i) the proximity of the nodes to international organizations and embassies concentrated within their bounds which has continued to drive the demand for serviced apartments in the nodes upward, owing to a high influx of foreign nationals and expatriates, ii) presence of high quality serviced apartments available in the nodes which attract premium rates, iii) the ease of accessing the areas through well-developed infrastructure road networks, and, iv) their relative closeness to the Nairobi CBD and other upscale neighborhoods. On the other hand, Thika Road was the least performing node, with an average rental yield of 4.1%, 2.7% points lower than the market average of 6.8%. The performance is attributed to, i) the relatively low charge rates for apartments in the node, ii) the low demand for its serviced apartments caused by their unpopularity, iii) the long commute to main commercial zones, and, iv) reduced monthly charges in the area compared to last year, as landlords continued to offer discounts in efforts meant to attract customers and improve occupancy rates. The table below highlights the performance of the various nodes within the NMA;

Cytonn Report: NMA Serviced Apartments Performance per Node - 2023								
Node	Studio	1 Bed	2 Bed	3 bed	Monthly Charge/	Occupancy	Devt Cost/SQM (Kshs)	Rental Yield
					SQM (Kshs)			
Westlands	193,633	271,362	340,190	359,563	4,059	74.2%	209,902	10.2%
Limuru Road	6,271	236,265	329,655	271,105	4,699	58.1%	231,715	8.2%
Kilimani	187,980	258,288	309,200	468,883	3,229	66.5%	202,662	7.7%
Kileleshwa & Lavington	120,000	284,231	230,204	400,495	2,844	71.5%	206,132	7.2%
Upperhill		187,000	335,951	360,400	2,309	65.8%	209,902	5.2%
Nairobi CBD	120,000	167,140	254,875	300,000	2,539	57.5%	224,571	4.9%
Thika Road		92,975	1,444	1,312	1,632	70.6%	200,757	4.1%
Average	125,577	213,894	257,360	308,823	3,045	66.3%	212,234	6.8%

Source; Cytonn Research

b) Comparative Analysis - 2022/2023 Market Performance

The performance of the serviced apartments improved slightly y/y, with the occupancy rates coming in at 66.3% in 2023, a 0.5%-points increase from the 65.8% recorded in 2022. This was lower than 2022, where occupancy rates improved by 4.3% points to 65.8% from the 61.5% recorded in 2021. The slower growth is ascribed to tough economic challenges occasioned by rising inflation, which continues to erode the purchasing power of consumers. As a result, this has curtailed the expenditures of a majority of potential clients, as they have had to cut back on spending, prioritizing essential spending only.

The average monthly charges for 2023 increased to Kshs 3,045 per SQM from Kshs 2,716 per SQM recorded in 2022, representing a 10.9% increase. This was attributed to increased costs of operations on the back of rising costs of essential commodities, electricity, fuel costs and energy. Consequently, the average rental yield increased to 6.8% in 2023, a 0.6%-points increase from the 6.2% recorded in 2022. The improvement in performance was primarily on the back of; i) growing popularity of Nairobi as a business destination, having being voted as Africa’s leading business travel destination in the 2023 World Travel Awards, ii) continued recovery of the Kenyan hospitality sector, iii) increased number of international tourist arrivals into the country as compared to a similar period in 2022, iv) the intensive marketing of Kenya’s tourism market through platforms such as the Magical Kenya platform among others, and, v) the sustained preference by various guests for extended stay options within the city. The table below shows the comparative analysis between 2022 and 2023;

All values in Kshs unless stated otherwise									
Cytonn Report: Comparative Analysis-2022/2023 Market Performance									
Node	Monthly Charge/SQM 2022	Occupancy 2022	Rental Yield 2022	Monthly Charge/SQM 2023	Occupancy 2023	Rental Yield 2023	Change in Monthly Charges/SQM	Change in Occupancy	Change in Rental Yield
Westlands	3,916	70.7%	9.3%	4,059	74.2%	10.2%	3.7%	3.5%	0.9%
Limuru Road	2,976	60.6%	5.8%	4,699	58.1%	8.2%	57.9%	(2.5%)	2.4%
Kilimani	2,937	69.3%	7.2%	3,229	66.5%	7.7%	9.9%	(2.8%)	0.5%
Kileleshwa & Lavington	2,811	66.3%	6.6%	2,844	71.5%	7.2%	1.2%	5.2%	0.6%
Upperhill	2,225	65.4%	5.0%	2,309	65.8%	5.2%	3.8%	0.4%	0.2%
Nairobi CBD	2,348	66.2%	5.2%	2,539	57.5%	4.9%	8.1%	(8.7%)	(0.3%)
Thika Road	1,800	62.1%	4.2%	1,632	70.6%	4.1%	(9.3%)	8.5%	(0.1%)
Average	2,716	65.8%	6.2%	3,045	66.3%	6.8%	10.8%	0.5%	0.6%

Source; Cytonn Research

Section V: Recommendations and Outlook

Having looked at the various factors driving the hospitality industry and with a particular focus on the serviced apartments sector, including challenges and current performance, we conclude with a recommendation of existing investment opportunities in the sector, and outlook as depicted below;

Cytonn Report: Serviced Apartments Sector Outlook 2023		
Measure	Sentiment	Outlook
Serviced Apartments Performance	<ul style="list-style-type: none"> Serviced apartments within the NMA recorded an average rental yield of 6.8% in 2023, 0.6% points increase from 6.2% recorded in 2022. Average occupancy rates also increased coming in at 66.3%, representing a 0.5%-points increase from the 65.8% recorded in 2021. Monthly charges for 2023 increased by 10.9% to Kshs 3,045 per SQM from Kshs 2,716 per SQM recorded the previous year Our outlook for the sector is neutral, as we expect that performance will be supported by increased tourist arrivals into the country and the continued positive performance of the overall Kenyan hospitality industry. Additionally, Nairobi’s growing popularity as a leading business travel destination, alongside the above factors will propel the sector’s performance on an upward trajectory However, we anticipate that the current tough micro-economic environment characterized by rising inflation will weigh down optimum performance of the sector by increasing operational costs and curtailing consumer’s expenditure 	Neutral

<p>International Tourism</p>	<ul style="list-style-type: none"> On a year-on-year (y/y) basis, international arrivals increased by 31.0% increase to 971,326 persons from January to August 2023, compared to 741,254 persons recorded during a similar period in 2022. The improved performance is attributable to; i) increased international marketing of Kenya’s tourism market by the Ministry of Tourism in collaboration with the Kenya Tourism Board, through platforms such as the Magical Kenya platform, ii) the tourism board alignment of its marketing initiatives towards targeting emerging and established source markets, iii) concerted efforts to promote local and regional tourism, iv) development of niche products such as cruise tourism, adventure tourism, culture and sports tourism and, iv) an increase in corporate and business Meetings, Events, and Conferences (MICE) from both the public and private sector Despite the sector’s resilience exhibited in its overall performance in 2023, our outlook remains neutral, but leaning more towards the positive. Kenya faces stiff competition from other regional markets especially countries such as Rwanda with aggressive marketing campaigns such as ‘Visit Rwanda’, Zanzibar, Tanzania and South Africa 	<p>Neutral</p>
<p>MICE Tourism</p>	<ul style="list-style-type: none"> Kenya emerged as Africa’s best MICE destination, as a result of Nairobi winning Africa's Best MICE Destination 2022 award in the 3rd annual World MICE Awards, positioning Kenya as a popular MICE destination. This was on the back of outstanding conferencing centers such as Kenyatta International Convention Centre (KICC), world class accommodation centers such as the Hilton Hotel in Nairobi, top rated airlines such as Kenya Airways (KQ), and a stable business environment. Several other Kenyan hotels and brands such as Zuri events and Leopard Beach Resort and Spa were awarded in the Kenyan category We expect Kenya will maintain its positive performance in the upcoming 4th Annual MICE Awards 2023 which will be held in Doha, Qatar on 25th February 2024 However, the popularity of teleconferencing and online meeting tools like Google Meet and Zoom Meetings is expected to continue weighing down the optimum need for physical space in conducting meetings 	<p>Neutral</p>
<p>Supply</p>	<ul style="list-style-type: none"> The number of serviced apartments within the Nairobi Metropolitan Area (NMA) increased by an 8-Year CAGR of 8.6% to 6,627 apartments in 2023, from 3,414 apartments in 2015, with key facilities brought into the market being 100-room Dusit Princess Residences located in Westlands, and Somerset Rosslyn Nairobi by Ascott Limited, a 150-unit development in Runda. Furthermore, gross loans advanced to the Real Estate sector increased by 6.2% to Kshs 495.0 bn in Q2'2023, from Kshs 466.0 bn in Q2'2022, according to the Central Bank of Kenya which we expect will support further development in the sector. For projects in the pipeline, the number of developments in the pipeline reduced compared to 2022. The upcoming developments however, are poised to augment the existing supply and foster heightened competition. This will ultimately translate into an expanded array of options for customers to choose from. Based on the above, we maintain a neutral outlook for the sector, with noteworthy positive elements on the back of a reduction in developments in the pipeline, compared to the previous year. 	<p>Neutral</p>

Given that all of our key metrics are neutral, we have a NEUTRAL overall outlook for the serviced apartments sector. The Investment opportunity lies in Westlands, Limuru Road, Kilimani, and Kileleshwa-Lavington which performed the best among all the nodes, with rental yields of 10.2%, 8.2%, 7.7% and 7.2% respectively, compared to the market average of 6.8%.

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