Cytonn Weekly #38

Cytonn Weekly

Executive Summary

Fixed Income: Yields on Treasury bills were on a downward trend with the 91-day, 182-day and 364-day papers coming in at 7.9%, 10.6% and 10.6% from 8.0%, 10.8% and 10.9%, respectively. The Monetary Policy Committee (?MPC?) met this week and lowered the Central Bank Rate (CBR) by 50 bps to 10.0%;

Equities: During the week, the Kenyan equities market registered mixed performance with NASI and NSE 25 gaining by 1.9% and 2.3%, respectively, while NSE 20 declined marginally by 1.0%. The top three energy sector players have jointly lost 20.6% in market share to 51.3% from 71.9% in Q2?2016, while IFC has invested an additional USD 25.0 mn in Umeme;

Private Equity: High fundraising activities witnessed in Africa have continued to drive private equity activity in the region as Oasis Capital achieved close of its second fund at USD 27.0 mn, while Adenia Partners, a private equity fund manager focused on growth opportunities and mid-cap buyouts in Sub-Saharan Africa, announced a majority investment in Ademat;

Real Estate: The Finance Bill 2016 was signed into law issuing a 15.0% corporate tax relief to low cost residential houses developers, while CAD Fund, signed a deal with the government and two construction firms to build 20,000 civil servant houses;

Company Updates

- Chairman of the Central Bank of Kenya, Mr. Mohammed Nyaoga was the guest speaker this week at an event where Cytonn and our investment partner, Taaleri of Finland, hosted an investment forum for investors from Finland looking to invest in alternative sectors in Real Estate and Renewable energy. See the event notes at: Cytonn and Taaleri Investor Forum.
- This week we launched another real estate product, The Ridge, a comprehensive, luxurious lifestyle mixed use development in Ridgeways, right on the bypass. The Ridge experienced strong demand with over 20% of units sold on the launch day. For more information, The Ridge Fly-Through & The Ridge Event Note.
- To invest in any of our current or upcoming real estate projects, please visit Cytonn Real Estate.We continue to see very strong interest in our products, particularly The Alma, which is now 50.0% sold and has delivered an annualized return of 55.0% p.a. for investors who bought off-plan. We have 12 investment ready projects, offering attractive development returns and buyer's returns of a minimum of 25.0% p.a. See further details here: Summary of investment ready projects
- Our Senior Investment Analyst, Duncan Lumwamu, was on CNBC discussing the Cytonn H1?2016 Insurance Report. See the link: Duncan Lumwamu on CNBC. He also discussed Netherland?s decision to stop aid to Kenya from the year 2020. See the link: Duncan Lumwamu on CNBC
- We continue to beef up the team with several ongoing hires: Careers at Cytonn.

Fixed Income

During the week, T-bills were oversubscribed with overall subscription decreasing to 169.3%, compared to 175.7% recorded the previous week. Subscription rates decreased for the second consecutive week for the 91-day and 364-day papers coming in at 158.6% and 177.9%, from 225.0% and 192.7%, respectively, the previous week. The subscription rate for the 182-day paper increased to 167.8% from 125.7%, the previous week, as it offers the best return from on a risk adjusted basis. The overall decline in subscription for this week is attributed to investors? preference to participate more in the 5-year and 20-year primary bond auction which received a subscription rate of 225.8%. Yields declined across all tenors with the 91, 182 and 364-day papers decreasing to 7.9%, 10.6% and 10.6% from 8.0%, 10.8% and 10.9%, respectively, the previous week.

The 91-day T-bill is currently trading below its 5-year average of 10.4%. The downward trend for the 91-day paper is mainly attributed to the expected low interest rate environment following the operationalization of Banking Act Amendment 2015 and the government stepping up their borrowing program which currently is ahead of the pro-rated domestic borrowing target of Kshs 57.4 bn having borrowed Kshs 89.2 bn.

Last week, the government offered two bonds; the 5-year (FXD 3/2016/5) and the 20-year (FXD 1/2016/20), to raise Kshs 25.0 bn for budgetary support. Yields for these bonds came in at 13.1% and 14.1%, with the 20-year bond being in line with our recommendation as highlighted in **Cytonn Weekly #37**, where we were of the view that investors should bid between 14.0% and 14.9%. The Central Bank accepted Kshs 35.3 bn compared to the target amount of Kshs 25.0 bn. Investors bid 0.2% and 0.5% below the market rate of 13.3% and 14.6% for the 5-year and 20-year bonds, respectively. This was due to expectations of downward pressure on interest rates owing to (i) the Government being ahead of their borrowing program for the fiscal year 2016/2017, and (ii) the enactment of the Banking Act Amendment 2015 that has resulted in lower lending rates by commercial banks and preference of the less risky Government instruments. The next bond issue will be dated 24th October 2016 with the specific features of the issue to be provided in the prospectus before the issue date as the CBK is yet to provide the Security Issuance Calendar for the second quarter of the 2016/17 fiscal year.

The Central Bank Weekly report revealed that the interbank rate declined by 20 bps to 3.2% from 3.4% the previous week despite a liquidity reduction of Kshs 2.3 bn. The liquidity reduction was as a result of tax payments by banks, T-bill primary issues and reverse repo maturities of Kshs 28.4 bn, Kshs 21.6 bn and Kshs 1.8 bn, respectively. The interbank rate is often determined by the liquidity distributions within the banking sector as opposed to the net liquidity position in the interbank market. With the average interbank rate at 3.2% and the reverse repo rate at 10.5%, it is clear from the Kshs. 1.2 bn reverse repo purchases that there are players who cannot access liquidity from their peers in the interbank market and have to resort to expensive liquidity sources from the Central Bank.

Below is a summary of the money market activity during the week:

all values in Kshs bn, unless stated otherwise			
Weekly Liquidity Position ? Kenya			
Liquidity Injection		**Liquidity Reduction**	
Term Auction Deposit Maturities	0.0	T-bond sales	0.0
Government Payments	28.4	Transfer from Banks - Taxes	28.4
T-bond Redemptions	16.6	T-bill (Primary issues)	21.6
T-bill Redemption	0.0	Term Auction Deposit	0.0
T-bond Interest	3.3	Reverse Repo Maturities	1.8
Reverse Repo Purchases	1.2	Repos	0.0
Repos Maturities	0.0		

Total Liquidity Injection	**49.5**	**Total Liquidity Withdrawal**	**51.8**
		Net Liquidity Reduction	**(2.3)**

According to Bloomberg, yields on the 5-year and 10-year Eurobond decreased by 0.4% week on week to 4.2% and 6.8% from 4.6% and 7.2%, respectively the previous week. Since the mid-January 2016 peak, yields on the Kenya Eurobonds have declined by 4.6% and 2.8% on account of improving macroeconomic conditions. This is an indication that Kenya remains an attractive investment destination.

The Kenya Shilling was stable against the dollar during the week at Kshs 101.2, on account of Non-Governmental Organizations (NGOs) and other foreign investors? interest in Kenya Government securities resulting in dollar inflows into the country. On a year to date basis, the shilling has appreciated by 1.1% against the dollar. We expect the shilling to remain relatively stable throughout the year since the Central Bank of Kenya can utilize the foreign exchange reserve, which current stands at 5.2 months of import cover, to support the currency in case of adverse foreign exchange market movement.

The Monetary Policy Committee (?MPC?) met this week to review the prevailing macroeconomic conditions and give the direction of the Central Bank Rate (?CBR?). The MPC lowered the CBR for the second time in 2016 by 50 bps to 10.0% on account of (i) the persistent slowdown in private sector credit growth which stood at 15.5% against the CBK target of 18.3% and, (ii) the fairly stable core inflation that declined from 6.4% in July to 6.3% in August 2016 indicating that inflationary pressure remains at bay. The move was contrary to our expectation that MPC would retain the CBR at 10.5%. See **MPC Note.** Despite improvements in Kenya?s macroeconomic environment, we see inherent risks especially with macroeconomic indicators such as inflation and that is why we thought holding the rate at 10.5% would have been in the best interest of the economy.

We are projecting inflation for the month of September to rise slightly to within the range of 6.3% - 6.5%, driven by a rise in fuel prices (which have increased for the past 5 months), that will lead to an increase in transportation costs while having a pass-through effect towards food production, which will be passed down to the consumer. Going forward, we expect inflationary pressure to be contained within the government target annual range of 2.5% - 7.5%.

The Federal Open Market Committee (?FOMC?) met on Wednesday 21st September, 2016 and kept interest rates unchanged on account of (i) inflation remaining low at 1.1% and (ii) the benefits of increasing interest rates which is tightening the job market will be lower. However, the FOMC signaled that it plans to raise rates towards the close of the year on expectations of strengthening US labor market data after a recent slowdown. Maintaining the US rates will continue to support emerging and frontier market indices as it will remain more lucrative in terms of returns for investors to invest in these countries as opposed to investing in the US.

Given the change in the operating environment that we have witnessed so far in 2016, we carried out an analysis on the 7 indicators of interest rates that we typically track in order to re-evaluate our view. The table below highlights the different economic drivers, and their effects on interest rates:

Macro-Economic Indicators	Expectations at start of the year	2016 Experience	Going Forward	Effect on Interest Rate

Government Borrowing	Government expected to borrow Kshs 229.0 bn from the local market and Kshs 459.4 bn from foreign markets	Government has borrowed Kshs 89.2 bn against a pro-rated target of Kshs 57.4 bn. The Government has postponed foreign borrowing to Q4'2016	Given the signing of the Banking (Amendment) Bill, 2015 into law, we expect that banks will have a preference to lending to the government hence we do not expect pressure on domestic borrowing going forward. However, offshore borrowing which is yet to start remains a concern	**Neutral**
Revenue Collection	KRA would miss their revenue collection target for 2015/2016 FY	The KRA met their collection target for the 2015/2016 FY having collected Kshs. 1.2 tn against a target of Kshs. 1.2 tn	We expect the government to meet on the revenue collections due to (i) the passing of the Tax Procedural Bill and reforms in the Kenya Revenue Authority to eradicate corruption (ii) Positive macro- economic environment which is expected to support corporate earnings growth	**Neutral**
Monetary Policy/Interest Rates	Upward pressure on rates in 2016	(i) CBR decreased 50 bps to 10.0% (ii) 91 Day T-Bill hitting a low of 7.1%	We expect the Monetary Policy committee to be maintain the CBR while monitoring keenly inflation and currency movements given the interest rate cap imposed on banks	**Neutral**
Inflation	To remain within single digit levels, but above CBK?s upper bound of 7.5%	Inflation declined from the high of 8.0% in December through January to August at 6.3%	We expect Inflation rate to remain below the CBK?s upper limit of 7.5%	**Neutral**
Exchange Rate	Shilling to depreciate against major currencies	The shilling has appreciated 1.1% against the dollar YTD. Forex reserves hit a high of 5.2 months of import cover during H1?2016	The shilling to remain stable in the short to medium term supported by (i) foreign exchange reserves equivalent to 5.1 months of import cover, and (ii) increased dollar inflows from tourism and remittances. We are however likely to see upward pressure in the short term driven by volatility in the stock market	**Neutral**

Investor Sentiments	Flows out of Kenya from the rate hike have been priced into the market, and neutral stance on corporate earnings means no large foreign investor inflows	Investor sentiment has been high as evidenced by the decline in yields for the 5-year and 10-year Eurobonds by 4.4% and 2.8% respectively	We are neutral on investor sentiment given the uncertainty brought about by the interest rate caps which might lead to repatriation of foreign funds from the market	**Neutral**
Security	Expected to improve given Government initiatives to eradicate extremism	Kenya has received an upgrade in credit rating by Moody?s as a positive indicator that the environment is safe to carry out business operations	Security is expected to be tight given the number of international events being held in the country and the government?s initiative to eradicate extremism. However, given 2017 is an election year and the recent attacks in Mombasa, uncertainty still looms	**Neutral**

Of the 7 indicators of direction of interest rates, 1 has improved (Revenue Collection has changed from negative to neutral) since our last review in June, while the other 6 have remained unchanged. All the seven indicators are neutral. It is due to this that we think it is prudent for investors to be biased towards medium-term papers. The government is ahead of its domestic borrowing target for this fiscal year, 2016/2017, having borrowed Kshs 89.2 bn against a target of Kshs 57.4 bn (assuming a pro-rated borrowing throughout the year of Kshs 229.6 bn budgeted for the full fiscal year). Interest rates, which had reversed trends due to Government borrowing given the new fiscal year, characterized by an uptick in inflation rates and tight liquidity in the money market, are currently witnessing downward pressure owing to the enactment of The Banking Act Amendment, 2015.

Equities

During the week, the Kenyan equities market registered mixed performance with NASI and NSE 25 gaining by 1.9% and 2.3%, respectively, while NSE 20 declined marginally by 1.0%, taking their YTD performances to (7.9%), (15.7%) and (21.4%) for NASI, NSE 25 and NSE 20, respectively. Since the February 2015 peak, the market has lost 42.3% and 24.4% for NSE 20 and NASI, respectively. The week?s performance was driven by gains in selected large cap stocks such as EABL, Equity, Safaricom and Co-operative Bank gaining 11.8%, 4.9%, 2.7% and 2.1%, respectively, despite marginal losses of 1.9% and 1.6% in KCB Group and Standard Chartered, respectively.

Equities turnover increased by 141.2% to close the week at Kshs 4.1 bn from Kshs 1.7 bn the previous week. Foreign investors were net buyers with net inflows of USD 3.7 mn, compared to a net inflow of USD 2.5 mn recorded the previous week with foreign investor participation increasing to 85.6% from 70.3% recorded the previous week. Safaricom was the top mover during the week, accounting for 58.8% of market activity and gaining 2.7% to Kshs 19.4 from Kshs 18.9 the previous week. We maintain our expectation of stronger earnings in 2016 compared to 2015 supported by a favorable macroeconomic environment. However, the key risk is the volatility in the banking sector that may depress earnings for banks in Q4?2016.

The market is currently trading at a price to earnings ratio of 11.6x, versus a historical average of

13.7x, with a dividend yield of 6.5% versus a historical average of 3.5%. The charts below indicate the historical PE and dividend yields of the market.

Total Kenya, Vivo (Shell) Energy and KenolKobil maintained their top positions in Q2?2016 despite losing 9.7%, 8.0% and 2.9% in market share to 18.0%, 17.8% and 15.5%, respectively. Data from the Petroleum Institute of East Africa (PIEA) revealed that the three firms lost a combined market share of 20.6% to 51.3% from 71.9% in Q2?2015, an indication that smaller players in the energy sector have increased their presence in the market through investments in fuel stations all over the country. The general decline in global oil prices has resulted in, (i) a 30.0% increase in local sales volumes to 2.9 mn cubic meters from 2.2 mn cubic meters as prices of petrol, diesel and kerosene declined encouraging increased consumption in the market, and (ii) regional petroleum export volumes have declined with KenolKobil exiting from the DRC and Tanzania markets due to unprofitability in the two countries. With the global oil prices still low, we are of the view that players in the oil sector will continue to witness pressure to exit from unprofitable markets regionally.

IFC has committed to invest an additional USD 25.0 mn of debt financing in Umeme Ltd to support Umeme?s capital expenditure program mainly involving the upgrade and expansion of medium voltage transmission lines and substations and through the introduction of pre-paid meters across its customer base. IFC first committed USD 25.0 mn in debt financing to support Umeme?s operations in 2009, and later in November 2012, participated in an Initial Public Offering to support Umeme?s rehabilitation and development of its network, acquiring 2.8% shareholding in the Company. IFC also provided a USD 70.0 mn in debt financing to support 2013-2018 Umeme?s capital expenditure program. We are of the view that IFC?s partnership and support to Umeme is the best framework for achieving further growth and highlights the benefits of investing in quoted private equity. The energy sector in East Africa remains a lucrative area of investment, which despite the high capital expenditure, offers attractive returns over the long term, supported by the growing demand for energy.

Below is our equities recommendation table. Key changes from our previous recommendation are:

- I&M Holdings has moved from an ?Accumulate? recommendation, with an upside of 19.4% to a ?Buy? recommendation with an upside of 20.1%, following a 0.6% w/w price decline
- CfC Stanbic has moved from a ?Lighten? recommendation, with an upside of 3.5% to an ?Accumulate? recommendation with an upside of 10.6%, following a 7.0% w/w price decline

all prices in Kshs unless stated									
EQUITY RECOMMENDATION									
No.	**Company**	**Price as at 16/09/16**	**Price as at 23/09/16**	**w/w Change**	**YTD Change**	**Target Price***	**Dividend Yield**	**Upside/ (Downside)****	**Recommendation**
1.	KCB Group***	26.3	25.8	(1.9%)	(41.1%)	42.5	7.5%	72.5%	Buy
2.	ARM	25.5	24.8	(2.9%)	(40.7%)	40.3	0.0%	62.8%	Buy
3.	Bamburi Cement	160.0	157.0	(1.9%)	(10.3%)	231.7	7.8%	55.4%	Buy
4.	Kenya Re	19.6	19.6	0.3%	(6.7%)	26.9	3.6%	40.8%	Buy
5.	Equity Group	25.5	26.8	4.9%	(33.1%)	34.2	7.7%	35.6%	Buy
6.	Centum	42.8	43.0	0.6%	(7.5%)	56.7	2.4%	34.3%	Buy
7.	HF Group	16.0	15.9	(0.9%)	(28.8%)	19.8	9.2%	34.1%	Buy
8.	Co-op Bank	11.9	12.1	2.1%	(32.8%)	15.2	6.8%	32.4%	Buy
9.	Britam	10.8	10.3	(4.6%)	(20.8%)	13.2	2.4%	30.6%	Buy
10.	DTBK***	138.0	135.0	(2.2%)	(27.8%)	173.2	1.8%	30.1%	Buy
11.	BAT (K)	817.0	819.0	0.2%	4.3%	970.8	6.2%	24.7%	Buy
12.	Barclays	8.7	8.1	(6.9%)	(40.4%)	9.2	9.7%	23.3%	Buy
13.	NIC	25.8	25.8	0.0%	(40.5%)	30.8	3.5%	23.1%	Buy

14.	I&M Holdings	87.5	87.0	(0.6%)	(13.0%)	101.1	3.9%	20.1%	Buy
15.	CIC Insurance	4.0	4.0	(1.3%)	(36.3%)	4.4	2.5%	13.9%	Accumulate
16.	CfC Stanbic	79.0	73.5	(7.0%)	(10.9%)	75.5	7.9%	10.6%	Accumulate
17.	Jubilee Insurance	466.0	465.0	(0.2%)	(3.9%)	482.2	1.8%	5.5%	Hold
18.	Liberty	14.0	14.0	0.0%	(28.2%)	13.9	0.0%	(0.7%)	Sell
19.	Standard Chartered***	189.0	186.0	(1.6%)	(4.6%)	169.9	6.6%	(2.1%)	Sell
20.	Safaricom	18.9	19.4	2.6%	19.0%	16.6	3.6%	(10.8%)	Sell
21.	Sanlam Kenya	35.0	37.0	5.7%	(38.3%)	30.5	0.0%	(17.6%)	Sell
22.	NBK	6.8	6.5	(4.4%)	(59.0%)	2.7	0.0%	(58.1%)	Sell
Target Price as per Cytonn Analyst estimates									
****Upside / (Downside) is adjusted for Dividend Yield***									
*****Indicates companies in which Cytonn holds shares in***									
Accumulate ? Buying should be restrained and timed to happen when there are momentary dips in stock prices.									
Lighten ? Investor to consider selling, timed to happen when there are price rallies									

Given the change in the operating environment that we have witnessed so far in 2016, we carried out an analysis on the 8 indicators we use to track equities market in order to re-evaluate our view on the listed equities outlook. The table below highlights the different economic drivers, and their effects on the stock market?s performance:

Macro-Economic Indicators	2015 Experience	2016 Experience	Going Forward	Outlook
GDP	Kenya?s GDP for the full year 2015 came in at 5.6%	5.9% growth in Q1?2016. IMF, WB and Treasury expect GDP to come in at c 6.0%	We expect GDP growth for 2016 to come in at 5.8% driven by government spending on infrastructure and the recovery of the tourism sector	**Positive**
Interest Rates	The CBR increased 300 bps to 11.5% in August 2015. KRA missed their collection target. Government was under pressure to meet its borrowing target	The CBK reduced the CBR by 50 bps to 10.0%. KRA met their target of Kshs 1.2 tn. Government has borrowed Kshs 89.2 bn ahead of its pro-rated target of Kshs 57.4 bn	The interest rate environment is expected to remain relatively stable following the enactment of the Banking Act Amendment, 2015 and the renewed effort by the CBK to improve private sector credit growth	**Neutral**
Inflation	December inflation at 8.0% (highest for the year)	Inflation declined from the high of 8.0% in December through January to August at 6.3%	We expect Inflation rate to remain below the CBK?s upper limit of 7.5%	**Neutral**
Exchange Rate	The shilling depreciated 13.0% against the dollar from 90.7 in Jan to 102.3 in Dec 2015 The foreign exchange reserves improved to 4.5 months by Dec 2015	The shilling has appreciated 1.1% against the dollar YTD. Forex reserves hit a high of 5.2 months of import cover during H1?2016	The shilling expected to remain stable in the short to medium term supported by (i) foreign exchange reserves equivalent to 5.2 months of import cover, and (ii) increased dollar inflows from tourism and remittances. We are however likely to see upward pressure in the short term driven by volatility in the stock market	**Neutral**

Corporate Earnings	The year experienced weak earnings from the banking sector with a growth of 9.3% in Q3'2015. 17 listed and 1 unlisted company issued profit warnings as a result of tough operating environment and high interest	Several companies have released positive H1?2016 results, mainly banking sector (listed) with weighted average growth in core EPS of 15.8%, above expectation of 12.5%	We expect corporate earnings to be better than 2015, exhibiting growth in profits owing to better macroeconomic conditions. We expect strong corporate earnings supported by favorable macroeconomic conditions	**Positive**
Investor Sentiments	Increased flows out of Kenya owing to the US interest rate hike compared to inflows into equity markets as a result of volatility in interest rates	Investor sentiment has been high with foreign investors being net buyers throughout the year with inflows of USD 54.0 mn	We are neutral on investor sentiment given the uncertainty brought about by the interest rate caps which might lead to repatriation of foreign funds from the market	**Neutral**
Valuations	Stock market was fairly valued in 2015 trading at a P/E of 12.4x compared to a historical average of 13.8x	Market has been trading at an average P/E ratio of 12.7x with prices being low and the market undervalued	With the prices on a downward trend in the market, the P/E is likely to remain lower than average	**Positive**
Security	Improvement witnessed in levels of security with tourism levels increasing in the month of December compared to the previous year. Reduced terrorist attacks expected	Kenya has received an upgrade in credit rating by Moody?s as a positive indicator that the environment is safe to carry out business operations	Security is expected to be tight given the number of international events being held in the country and the government?s initiative to eradicate extremism. However, uncertainty still exists given that 2017 is an election year and recent attacks at the Coast	**Neutral**

Of the 8 indicators of equities market performance that we track, 1 has improved (Valuations has improved from neutral to positive) since our last review in June, 2 have changed from positive to neutral (Interest Rates and Security), while the other 5 have remained unchanged. 2 out of 8 indicators are positive with the remaining 6 being neutral. With the operating environment remaining relatively the same, with few pockets of value, we remain ?neutral with a bias to positive? for investors with short to medium term investments horizon and but we have now turned ?positive? for investors with long-term investments horizon.

Private Equity

Oasis Capital Ghana has completed the first close of its second fund, Oasis Africa VC Fund (OAF) at

USD 27.0 mn. The Fund, anchored by the Dutch Good Growth Fund (DGGF) at USD 5.0 mn, has secured commitments of USD 7.0 mn from the International Finance Corporation (IFC) and over USD 15.0 mn from a local investor base of 5 institutions and high net worth individuals. The funds will be invested in Small and Medium Enterprises in Ghana and Cote d?Ivoire with a focus on education, financial services, housing, healthcare, food services and hospitality. Investments are expected to be approximately 50.0% debt and 50.0% equity depending on the industry and the country with investment value sizes varying between USD 0.5 mn and USD 5.0 mn, with an average of USD 3.0 mn. Oasis Capital has established itself in Ghana with a track record of providing risk capital in the form of equity, quasi-equity and profit-sharing instruments to SMEs in Africa. The fund manager is currently managing the Ebankese Venture Fund (EVF), a USD 11.0 mn fund invested in education, financial services, housing and manufacturing sectors in Ghana. Oasis Africa VC Fund (OAF) is targeting to raise USD 50.0 mn in commitments by the Final Fund Close in June 2017.

Adenia Partners, a private equity fund manager focused on growth opportunities and mid-cap buyouts in Sub-Saharan Africa, announced a majority investment in Ademat, a leading business service company in Côte d?Ivoire. Ademat distributes, installs and maintains power devices, inverters, drive systems, and other electrical and IT products in Côte d?Ivoire. The company has become the leader in Côte d?Ivoire?s power and electronics sector underpinned by:

i. leveraging on a number of strategic partnerships including with the SDMO-Kohler group, one of the global leaders in the manufacture of generator sets and the market leader in Francophone Africa,
ii. its range of products, advisory and maintenance capacities, Ademat ensures reliable electricity solutions for its clients who are active in a variety of sectors, including agro-processing, telecommunications, financial services and real estate, and
iii. demanding energy requirements by the growing middle income and entrepreneurial population in Côte d?Ivoire.

The investments by Adenia Partners is set to:

- grow Ademat through the pursuit of growth opportunities linked to diversification of the product offering and new partnerships,
- increase Ademat?s international expansion strategies through leveraging on Adenia Partners network to source new opportunities to further develop the business, and
- enhance implementation of best practices by supporting the management team by provision of strategic and financial advice, and assistance in environmental, social, and governance process improvement.

Real Estate

In an attempt to boost the supply of housing for low income earners, the President last week signed into law The Finance Bill 2016, which offers a 15% corporate tax relief to developers who put up at least 400 low-cost residential houses p.a., a reduction from the initially 1,000 suggested by the Treasury cabinet secretary in June. In our opinion we believe this will be effective and spur increase in low cost units, which is also being boosted by other factors such as:

- **Tax incentives** ? Tax has been a big expense hence increasing on the costs incurred by the developers, which in turn discouraged developers from developing low cost housing
- **Poor performance of high end market** ? There is a stagnation in prices of high end property due to too much supply that had hit that segment of the market. The sector has well witnessed a 0.2% decrease in prices for luxurious houses between April to June 2016
- **Lower interest rates** ? The decreased interest rates by banks will result into reduced the cost of financing real estate developments hence leading to lower project costs, translating to relatively lower selling prices to end users

- **Innovation**: Creative payment schemes such as tenant purchase will make the low income segment to be an attractive investment option to clients hence increase uptake

We are of the view that this will help curb the current high housing deficit that is concentrated in the low income segment.

During the week China ? Africa Development Fund (CAD Fund), a private equity firm, signed a deal with the government and two construction firms; Kenya?s Suraya Group and China Civil Engineering Construction Company (CECC) to build 20,000 civil servant houses. This is meant to be a public ? private partnership (PPP) deal, with the following structure; the government will provide land, CECC will be the construction company, Kenya?s Suraya group will be the project management firm and CAD Fund the financiers. CAD-Fund, controlled by China Development Bank, also opened a representative office in Nairobi; the office will also be used as regional headquarters for Eastern Africa. This signed PPP comes at a time when various local PPP agreements have been deemed to fail over the past years both at the county and national levels because for a PPP to attract private capital into a project, the respective land has to be separated and moved into a special purpose development vehicle that has title to the land and there is currently no framework to enable transfer of public land into special purpose vehicles that can attract private capital and bank debt. However, the already signed PPP with a financier on board has a high probability of success, which will contribute into curbing the current housing deficit that is more concentrated in the low income segment.

We expect increased development activity in the low cost housing sector as developers are likely to take advantage of the tax incentives. In addition, there is expected increase in PPP with international institutions both by county and National government to curb the high housing deficit in the country.
