Kenya Listed Banks H1’2020 Report, & Cytonn Weekly

Real Estate

I. **Retail**

During the week, South African Retailer, Shoprite, announced plans to exit the Kenya retail market barely two years since its entry, citing underperformance of its branches. The retailer currently has two operational stores located at Westgate Mall and Garden City. This comes after the closure of its other branches such as the Karen Branch in Nairobi and the City Mall branch in Nyali. The poor performance of the retailer is attributed to decline in revenues due to reduced footfall and constrained consumer spending amid a tough financial environment. In addition, the retailer has continued to witness increased competition from players such as Naivas, QuickMart and Carrefour. Shoprite, which has 2,300 stores across Africa, in its trading statement, reported that its South African division grew by 8.7% while sales at its supermarkets outside South Africa fell by 1.4%. The company posted a Kshs 1.8 bn loss for its business outside South Africa, partly attributed to the losses registered in the Kenya stores.

Tuskys, a local retail chain reopened its Malindi and Kilifi branches indicating the retailer’s determination to retain and grow its market share amid financial constraints reported in the past few months leading to the closure of 8 of its branches, due to rent arrears among them being the Kisumu and Eldoret branch. The move to reopen the 2 branches brings the number of the retailer’s operational branches to 57. The reopening is attributed to financial support following the signing of terms of agreement with an undisclosed Mauritius-based private equity fund for the provision of a financing facility amounting to approximately Kshs 2.0 bn in August 2020. We expect the move by Tuskys to secure debt financing and the reopening of its branches to cushion the retailer against financial shocks amid reduced revenues and boost investor confidence especially in the Kenya’s retail sector.

Deacons East Africa Limited, a fashion and clothing retailer, is set to shut down its operations in East Africa, announcing the sale of its business and assets after 60 years in the fashion and clothing industry as a result of failure to raise Kshs 450.0 mn aimed at helping the business remain afloat. Deacons currently owns 4U2, FNF, Adidas, and Bossini clothing and shoe stores at Sarit Center, Two Rivers Mall, Yaya Center, Village Market and Garden City within Kenya. The company was placed under administration in November 2018, two years after selling its shares at the Nairobi Securities Exchange (NSE) due to debts amounting to Kshs 1.1 bn after it lost its biggest franchise, the South African retailer Mr. Price Limited. The case of Deacons is almost similar to that of Nakumatt, Botswana’s Choppies, and Uchumi who exited the Kenyan retail market as a result of huge debts affecting their operations which resulted to insolvency hence the inability to meet financial obligations to landlords, suppliers and employees.

The exit of retailers, such as Shoprite has affected the retail market performance with growing vacancy rates coupled by the existing oversupply of space. According to the Cytonn H1’2020 Market Review the occupancy rates dropped by 1.9% points to 74.0% in H1’2020, from 75.9% in FY’2019 and we expect this to be exacerbated by the exit of retailers such as Deacons and the growing focus on e-commerce. However, we expect the sector's performance to be cushioned by the reopening of outlets by retailers, such as Tuskys and the continued expansion of both local and international retailers, such as Massmart.

The table below shows the performance of the retail sector;

All values in Kshs unless stated otherwise

Summary of Nairobi Metropolitan Area (NMA) Retail Sector Performance

Item	Q1' 2019	H1' 2019	Q3' 2019	FY' 2019	H1' 2020	Δ Y/Y	Δ H1'2020
Average Asking Rents (Kshs/SQFT)	174.3	170.0	167.0	175.6	170.3	**(0.2%)**	**(3.1%)**
Average Occupancy (%)	76.8%	75.6%	74.5%	75.9%	74.0%	**(1.6%) points**	**(1.9%) points**
Average Rental Yields	8.5%	8.2%	8.0%	7.8%	7.4%	**(0.8%) points**	**(0.4%) points**

Source: Cytonn research

The table below shows local and international retailers that have exited or closed down outlets in Kenya;

Local and international retailers that have exited or closed down outlets in Kenya

Name of Retailer	Initial no. of branches	Current no. of branches
Nakumatt Holdings	65	0
Botswana's Choppies	15	2
South Africa's Shoprite	4	2
Uchumi	37	4
Tuskys	63	57
Total	**184**	**65**

Source: Online Research

Even though the retail sector in Kenya has experienced some major exits leaving spaces unoccupied, there are still several key players entering into the market taking up spaces formerly occupied by outgoing local and international retailers as shown in the table below:

Main Local and International Retail Supermarket Chains opened in 2020

Name of retailer	Number of branches
QuickMart Supermarket	3
French retailer, Carrefour	1
South Africa's Game Stores	1
Naivas Supermarket	4
Chandarana Foodplus Supermarket	1
Total	**10**

Source: Online Research

II. Infrastructure

During the week, Ruiru municipality officials announced the launch of a 12 kilometer new sewer line that is expected to benefit at least 50,000 homes in Githurai and Kahawa Wendani, Ruiru Sub County upon completion by June 2021. The Kshs 120.0 mn project will be funded by the World Bank through the Kenya Urban Support Programme (KUSP). Other World Bank funded projects in the area that have successfully been commissioned include; construction of a storm water drainage in Chuma Mbili, rehabilitation of the 2.0 km Kahawa-Wendani road, tarmacking of 1.5 km Mumbi stage road to Mwiki Bridge in Kiuu ward and installation of street lights in Mwihoko.

According to the 2019 Kenya Population and Housing Census, Ruiru is the 6th largest urban center in Kenya with a population of 490,120, a 105.6% increase from 238,858 in 2009. The growing numbers have been driven by ease of accessibility through the Thika-super highway and the Eastern by-pass, availability of amenities such as Shopping malls e.g. Thika Road Mall (TRM) and Unicity Mall, and the growing working and student population. The area has continued to record increased development activities as developers seek to leverage on the positive demographics which have led to a growing demand for housing since Ruiru acts as a dormitory to Nairobi's working population. In addition, Ruiru was named as one of the towns in Kiambu County (in addition to Kikuyu, Juja, Thika, and Limuru) to spearhead the county's affordable housing rent-to-own scheme where 19,500 units are set to be put up by 2022. We therefore expect that the construction of the Ruiru Sewerage Network, will support the development activities in areas such as Kahawa Wendani, Githurai, Kahawa Sukari, and Kiuu through allowing for densification, improving the value of properties as the area will be more habitable, and a relatively low development cost burden for developers, thus boosting the real estate sector.

We have a neutral outlook for the real estate sector supported by improving infrastructure. On the retail front, we expect the prime spaces exited by struggling retailers to be taken up by growing retail brands such as Carrefour.
