

Kenya Mortgage Refinance Company (KMRC) Recap, & Cytonn Weekly #45/2020

Real Estate

I. Retail Sector

During the week, Tuskys Supermarket a local retail chain, shut down four of its branches namely; Tuskys Magic branch in Nakuru Town, Tuskys Pioneer on Moi Avenue Street in Nairobi, Adams Arcade branch on Ngong Road and the Kitengela branch. This brings the number of the retailer's operational outlets to 50 having shut down its Shiloah Kakamega branch last week; Tuskys has shut down 14 branches this year. Tuskys has been battling financial woes amid supplier debts and mounting rent arrears despite securing financial support amounting to Kshs 2.0 bn from an undisclosed Mauritius-based private equity fund in August. In October, the retailer got reprieve as the High Court barred Hotpoint, a home appliances and electronic dealer, from trying to dissolve the troubled chain, over a Kshs 248.0 mn debt.

In our view the retailer's ability to bounce back is unpredictable having failed to stabilize its operation even after allegedly receiving Kshs 500.0 mn in September 2020 to pay off landlords, suppliers, and facilitate other immediate working capital requirements. We believe that only a significant infusion of significant equity capital by a strategic or financial investor can save the brand right now.

The table below shows the summary of the number of stores of the key local and international retail supermarket chains in Kenya;

Main Local and International Retail Supermarket Chains

Name of Retailer	Initial number of branches	Number of branches opened in 2020	Closed branches	Current number of Branches	Branches expected to be opened	Projected total number of branches
Naivas Supermarket	66	5	0	66	4	70
Tuskys	64	2	14	50	0	50
QuickMart	32	5	0	34	0	34
Chandarana Foodplus	20	1	0	20	0	20
Carrefour	8	1	0	8	3	11
Uchumi	37	0	33	4	0	4
Game Stores	3	1	0	3	0	3

Main Local and International Retail Supermarket Chains

Name of Retailer	Initial number of branches	Number of branches opened in 2020	Closed branches	Current number of Branches	Branches expected to be opened	Projected total number of branches
Choppies	15	0	13	2	0	2
Shoprite	4	0	2	0	0	2
Nakumatt	65	0	65	0	0	0
Total	314	15	127	187	7	198

Source: Online research

We expect the exit of the retailer to cause an increase in the supply of retail space whose current oversupply stands at 2.8 mn SQFT as at 2019. However, entry and expansion by local and international retailers taking up prime retail space left by troubled retail chains is expected to cushion performance of the retail sector.

II. Infrastructure

During the week, the Kenyan government through the Kenya Rural Roads Authority, a state corporation within the State Department of Infrastructure, commenced the tarmacking of the first 7.0 km of Juja Farm Road in Kiambu County at a cost of Kshs 3.9 bn. The road is part of Kshs 30.0 bn Mau Mau roads that are being constructed in Murang'a, Nyeri and Kiambu Counties to open up the region, contracted to H Young Construction Company to be completed in six months starting November. The Juja Farm Road transverses through Ma-store, Athi and Gatunyaga in Thika and is expected to open up the areas thus spurring growth of industries and real estate developments. The undertaking of infrastructural projects in Kenya has been occasioned by the reduced budget allocation through the National Budget, where the sector was allocated Kshs 172.4 bn for financial year 2020/2021 budget, the lowest allocation in the last 10 financial years, and 60.4% lower than the Kshs 435.1 bn allocated in the 2019/2020 budget, attributed to diversion of funds towards the mitigation of the spread of the COVID-19 pandemic. Despite the reduced allocation, we expect the government to continue with the implementation of select projects, opening up areas for development and thus boosting the real estate sector. Other ongoing infrastructural projects include construction of; i) Nairobi Expressway, ii) Nairobi Western Bypass, and, iii) Lamu Port Access Road among many others.

The real estate sector is expected to record increased activities supported by continued government implementation of infrastructural projects thus opening up areas for investment. On the retail we expect the performance to be cushioned by the projected entry and expansion of retailers taking up prime space left behind by troubled retailers.