Impact of the US Elections on the Kenyan Economy & Cytonn Weekly #46

Cytonn Weekly

Executive Summary

Fixed Income: During the week, T-bills were oversubscribed but the overall subscription decreased to 162.1%, compared to 167.4% recorded the previous week. The Central Bank of Kenya (CBK) released its monthly economic indicators for the month of September showing that the private sector credit growth slowed to 5.4% in August 2016 from 21.0% recorded in August 2015;

Equities: During the week, the equities market registered mixed performance with NASI declining by 0.9% while NSE 25 remained flat and NSE 20 gained 0.8%. Co-operative Bank, Barclays Bank and Diamond Trust Bank released Q3?2016 results recording core EPS growth of 22.3%, (5.1%), and 11.4%, respectively, while Centum released H1?2017 results recording a core EPS growth of 0.4%;

Private Equity: ICT and FMCG sectors continue to attract private equity investment in Africa; with a key interest in encouraging innovators as Cactus Capital announced its investments into Flutterwave and E-Factor, while Weetabix Food Company and Pioneer Foods form a strategic partnership by buying controlling stakes in Weetabix East Africa;

Real Estate: Industrial real estate in Kenya is witnessing increased investments from both the public and private sector, with the IFC planning to invest Kshs 1 billion equity in Africa Logistics Park, and Nakuru County Government planning to launch two industrial parks in the county;

Focus of the Week: Following the US elections 2016, we expect Kenya ? US relations to remain largely unchanged in terms of trade, despite concerns of a deterioration with regards to aid and immigration.

Company Updates

- Finnish Minister for Foreign Trade and Development, Kai Mykkanen, who is leading a trade delegation exploring investments opportunities in Kenya, paid a courtesy visit to Cytonn Investments offices at Chancery, as one of leading real estate investments and developers in the market. See Event Note
- Maurice Oduor, our Investments Manager, discussed the move by Tanzania's parliament to vote for the country not to sign the Economic Partnership Agreement between the European Union and East African States. See Maurice on CNBC
- Cytonn Investments has appointed Horwath Erastus & Co. an auditing firm and a member of Crowe Horwath International as its internal audit consultants. Howarth Erastus & Co. will assist the management and the Board of Directors accomplish Cytonn?s mission by providing independent, objective assurance and consulting services designed to add value and improve operations through improved controls, risk management and governance. See Event Note
- Cytonn Investments was recognized at Think Business Annual Investments Awards as the 1st

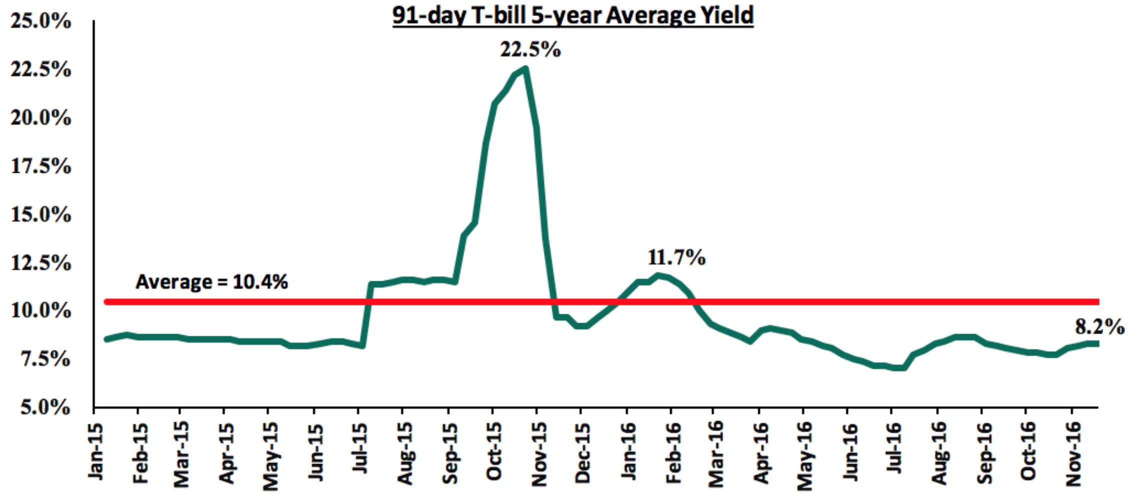
Runners Up in Alternative Investments and Private Equity. The awards Ceremony, which was held at Radisson Blu hotel, fetes and confers merit on the companies who are leading the dynamic and fast-paced changes in the investments sector in Kenya. See Event Note

- 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:
  - The Alma, which is now 55.0% sold and has delivered an annualized return of 55.0% p.a. for investors who bought off-plan. See The Alma. We will be having site visits to showcase this iconic development every two weeks, right after the wealth management trainings. If interested in attending the site visit, email clientservices@cytonn.com
  - Amara Ridge is currently 100.0% sold. See Amara Ridge
  - We have 12 investment-ready projects, offering attractive development returns and buyer's targeted returns of around 25.0% p.a. See further details here: Summary of investment-ready projects
- We continue to beef up the team with several ongoing hires: Careers at Cytonn.

Fixed Income

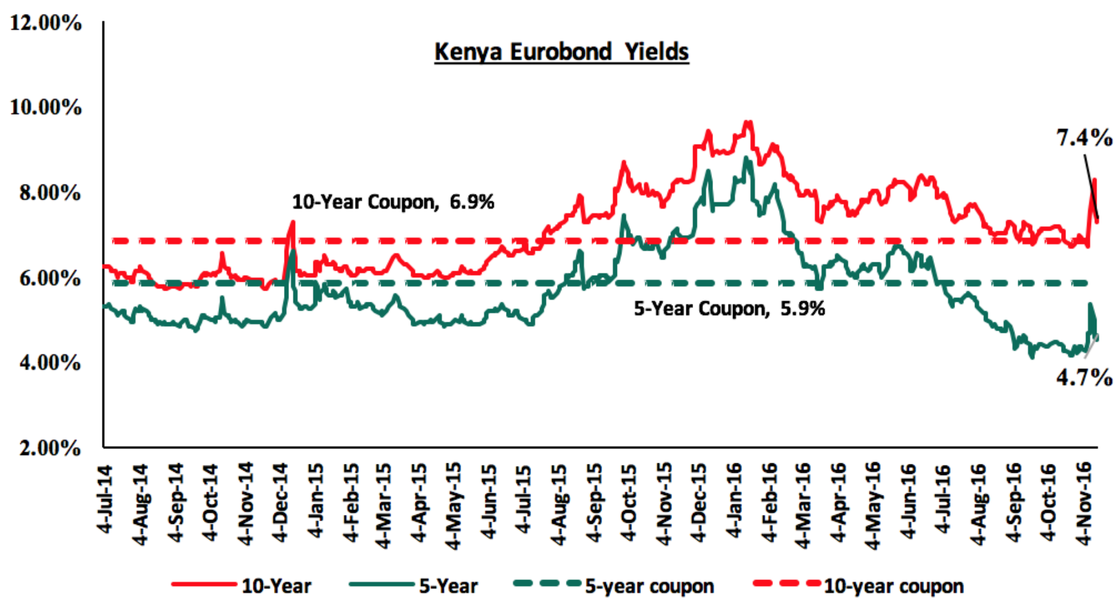
During the week, there was a decline in T-bills subscription with overall subscription decreasing to 162.1%, compared to 167.4% recorded the previous week. Key to note is that the subscription level for 364-day T-bill declined to 105.2% compared to 215.0% the previous week. The drop in subscription levels for treasury bills can be attributed to the upcoming primary auction for treasury bonds as market participants are now focused on the primary treasury bonds market. Subscription rates on the 91-day and 182-day papers increased during the week coming in at 146.1% and 182.5% from 107.0% and 160.0%, respectively, the previous week whereas the 364-day paper subscription decreased to 152.3% from 215.0% the previous week. The 182-day paper received the highest subscription and it remains the most preferred paper since it offers the highest return on risk-adjusted basis. Yields on the 91-day, 182-day and 364-day T-bills remained unchanged at 8.2%, 10.3% and 10.8% respectively.

The 91-day T-bill is currently trading below its 5-year average of 10.4%. The decline on the 91-day paper is mainly attributed to the expected low interest rate environment following (i) the operationalization of the Banking Act Amendment 2015, which has led to more liquidity in the market, and (ii) reduced pressure from the government borrowing program as they are currently ahead of the pro-rated domestic borrowing target of Kshs 92.7 bn, having borrowed Kshs 115.6 bn, which is 124.7% of the pro-rated target. It is important to note that the government is in the process of revising its domestic borrowing target upwards to Kshs 294.6 bn, which if passed by Parliament will take the pro-rated borrowing target to Kshs 119.0 bn, in line with what it has borrowed so far. Key to note is that as indicated in our Cytonn Weekly #42, the interest rates have bottomed out and we expect them to persist at the current levels.



This month, the government will be re-opening two bonds, a 15-year FXD 3/2007/15 and 20-year FXD 1/2008/20 with effective tenors of 6.0 years and 11.6 years, respectively, to raise Kshs 30.0 bn for budgetary support. A 6-year bond is currently trading in the secondary market at a yield of 12.9%, while a 11.6-year bond is currently trading in the secondary market at a yield of 13.5%. Given that there could be some pressure to borrow due to the increase in domestic borrowing, we expect investors to bid above the secondary market yields and we therefore recommend a bidding range of 13.0% - 13.5% on the FXD 3/2007/15 and between 13.8% - 14.2% on the FXD 1/2008/20. On a risk adjusted basis, we recommend that investors should be biased towards FXD 3/2007/15.

According to Bloomberg, yields on the 5-year and 10-year Eurobonds remained relatively unchanged week on week to 4.7% and 7.4% from 4.7% and 7.5%, respectively, the previous week. Since the mid-January 2016 peak, yields on the Kenya Eurobonds have declined by 4.1% and 2.3%, respectively, for the 5-year and 10-year bond due to improving macroeconomic conditions in the country.



During the week, the Kenyan Shilling touched a low of Kshs 102.9 against the dollar during the mid-morning trading session on Friday before stabilizing to close the week at Kshs 101.8 unchanged from the previous week. The weakening of the shilling was as a result of the dollar strength globally after the fed Chair indicated a possibility of a rate hike in December 2016.

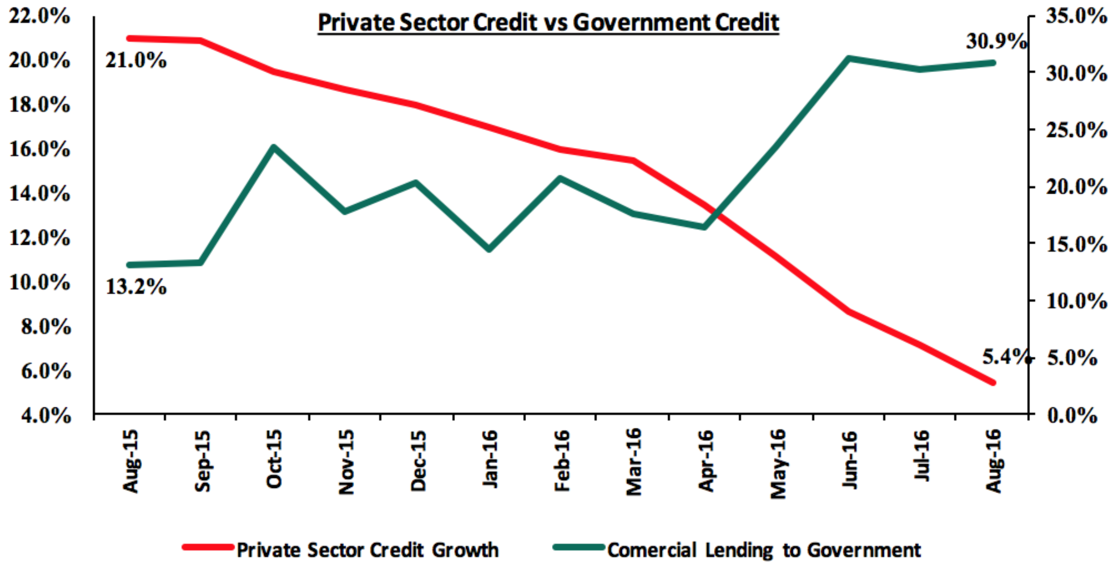
The rate of inflation has been increasing gradually and interestingly the Nairobi low income segment has been impacted more over the last few months. We project the annual inflation rate for the month of November to remain range bound at between 6.5% - 6.7% compared to 6.5% in the month of October. This is because despite (i) an increase in fuel prices due to Energy Regulatory Commission

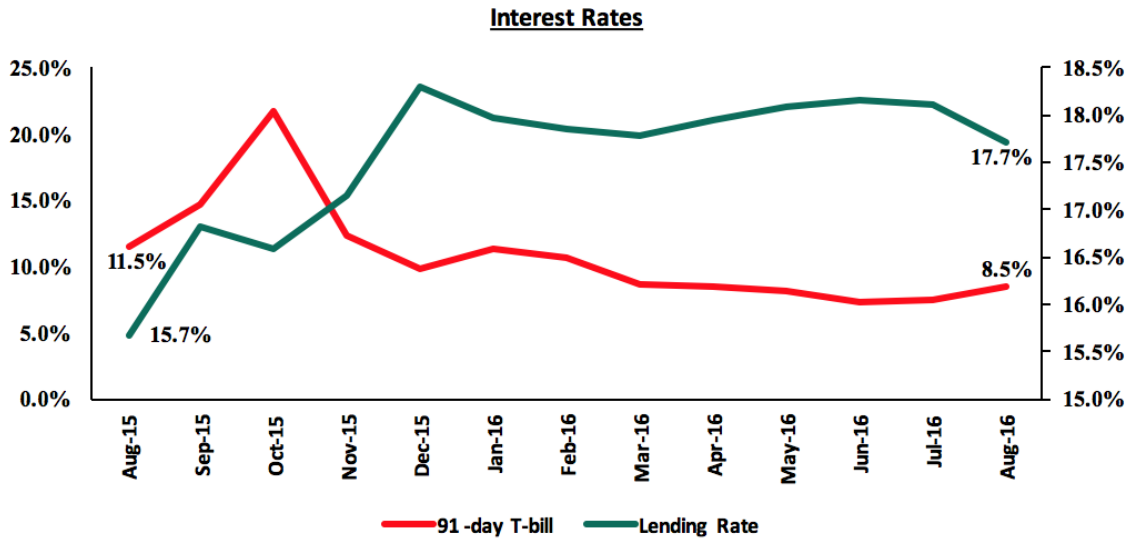
(ERC) increasing pump prices leading to rising cost of energy, transport and also trickle down to food prices, (ii) increasing food prices driven by national shortage of cereals as announced by the National Cereals and Produce Board (NCPB), and (iii) increased consumer spending given that we are headed into the festive season, the high base effect of last year should cure for cyclicality and therefore there are no major threats to high inflation in the country as yet.

The Central Bank of Kenya (CBK) released its Monthly Economic Indicators report for the month of September highlighting movements in the key economic and financial indicators in the country. Key to note is that private sector credit growth has been on a decline for the better part of this year touching a low of 5.4% for the year ending August 2016 from 21.0% recorded over a similar period last year. This was mainly attributed to the 30.9% increase in participation in Government securities leading to crowding out of private sector. The key sectors contributing to the 5.4% growth during the period included; real estate, finance and insurance and household consumption. The significant decline in private sector credit growth can be attributed to the following reasons;

- Commercial lending rates have been persistently high averaging 17.5% for the past one year compared to 16.0% in 2015, and;
- The increase in NPLs discouraged banks from lending to private sector and preferred risk free Government paper. According to Central Bank?s Credit Officer Survey Report as at June 2016, the industry?s NPLs increased by 12.6% y/y from Kshs 169.4 bn to Kshs 190.7 bn in June 2016

Below are charts highlighting private sector credit growth against commercial lending to government and interest rates on government securities against commercial lending rates;





Going forward, we are likely to continue recording low private sector credit growth mainly as a result of;

- The new loan pricing framework brought about by the Banking Act Amendment 2015, will lock most of the consumers and SMEs from accessing loans from commercial banks since all cannot fit within the 4.0% above the Central Bank Rate pricing framework, and;
- Government continue to accept high yields in the primary auction making it at attractive for commercial banks to lend to the government as opposed to private sector. To further highlight this is a case of October 2016 auction where the government accept a yield of 13.2% on an 11-year tax free infrastructure bond, which translated to a yield of 15.5% taxable bond for an 11-year paper.

The European Marketing Research Centre (EMRC) a Belgium based international organization, is set to hold the first ever Africa Finance and Investment Forum (AFIF) in Nairobi from 15th to 16th of February 2017. The EMRC is focused on strengthening the private sector in Africa by boosting entrepreneurship and attracting investment in the continent with the aim of creating vibrant economies. The forum is set to offer; (i) exclusive training for entrepreneurs, (ii) a dynamic market place, (iii) Business-to-Business interactions environment for participants and, (iv) the EMRC?Rabobank Entrepreneurship Award. The organization offers strong support to the Small and Medium Enterprises (SMEs) which they believe are the key drivers for economic growth in the African Continent. In the developed countries the SMEs contribute over 50.0% to the national GDP while in Africa SMEs contribute about 33.0% to national GDP with the main challenge being lack of access to capital. A total of 300 participants are expected comprising of financiers, market specialists, government representatives, investors and policy makers. This event comes at a time when Kenya continues to experience stabilized macroeconomic conditions proving it to be a preferred investments destination by foreign investors. In July this year, Kenya hosted the United Nations Conference on Trade and Development (UNCTAD) as well at the Tokyo International Conference on African Development (TICAD) which presented Kenya as one of the strongest economies in Africa.

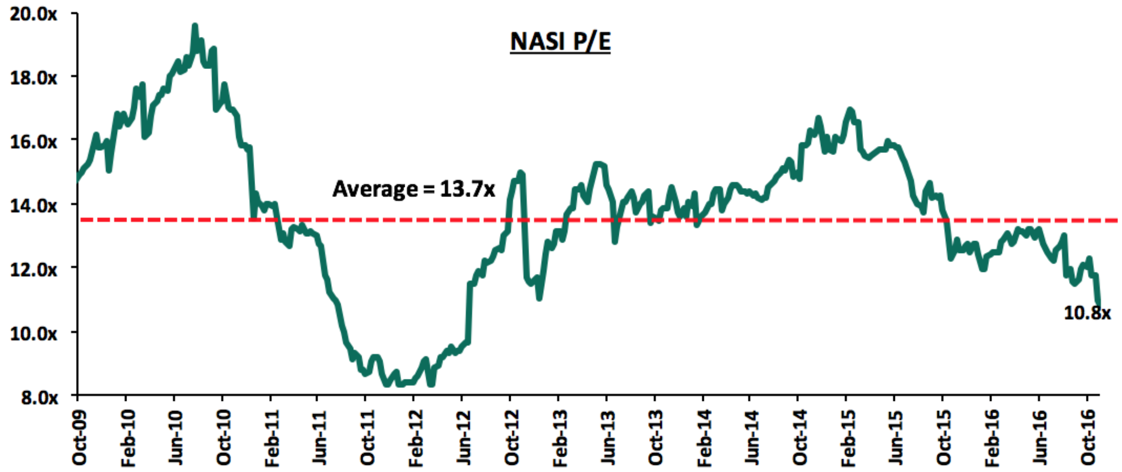
The Government is ahead of its domestic borrowing for this fiscal year having borrowed Kshs 115.6 bn for the current fiscal year against a target of Kshs 92.7 bn (assuming a pro-rated borrowing throughout the financial year of Kshs 229.6 bn budgeted for the full financial year). It is important to note, however, that the government is in the process of revising its domestic borrowing target upwards to Kshs 294.6 bn which will take the pro-rated borrowing target to Kshs 119.0 bn, in line with what it has borrowed thus far. Interest rates which had reversed trends due to the enactment of The Banking Act Amendment, 2015, appear to have bottomed out and we expect them to persist at the current levels. It is due to this that we revise our recommendations from medium-term to short term papers as it is prudent for investors to be biased towards short-term fixed income instruments given the prevailing interest rates environment.

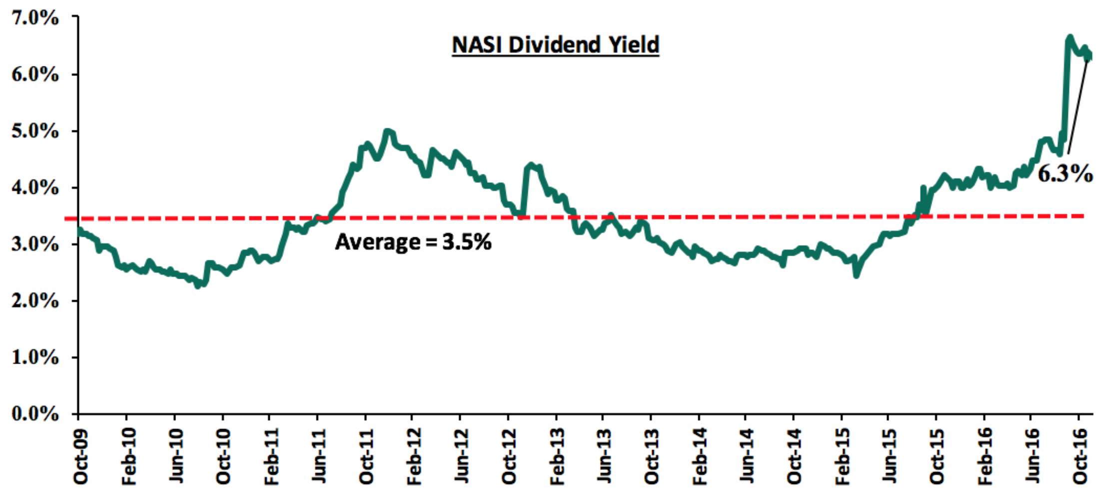
Equities

During the week, the equities market registered mixed performance with NASI declining by 0.9% while NSE 25 remained unchanged and NSE 20 gained by 0.8%, taking their YTD performances to (4.8%), (18.5%) and (12.0%)%, respectively. Since the February 2015 peak, the market has been down 40.2% and 21.8% for the NSE 20 and NASI, respectively.

This week?s performance was driven by losses in select large cap stocks such as Safaricom and EABL, which lost 3.6% and 1.9%, respectively, despite gains of 7.0%, 6.8% and 3.5% by KCB, Co-operative Bank and Barclays Bank, respectively. Equities turnover declined by 23.3% to close the week at Kshs 2.0 bn from Kshs 2.6 bn the previous week. Foreign investors turned net sellers with net outflows of USD 0.4 mn, compared to net inflows of USD 1.7 mn recorded the previous week, with foreign investor participation declining to 51.2% from 68.1% recorded the previous week. Safaricom was the top mover during the week accounting for 22.1% of market activity.

The market is currently trading at a price to earnings ratio of 10.8x, versus a historical average of 13.7x, with a dividend yield of 6.3% versus a historical average of 3.5%. The charts below indicate the historical PE and dividend yields.





Co-operative Bank released Q3?2016 results

Co-operative Bank released Q3'2016 earnings posting a 22.3% growth in core EPS to Kshs. 2.2 from Kshs 1.8 in Q3'2015, against our projected EPS of Kshs 2.0. The growth in earnings was driven by a 21.2% growth in operating revenue that outpaced a 17.6% growth in operating expenses.

Key highlights for the performance from Q3?2015 to Q3?2016 include;

- Operating Income grew by 21.2% to Kshs 32.3 bn from Kshs 26.6 bn. The growth in Operating Income was driven by Net Interest Income growth of 28.9% and Non Funded Income growth of 8.0%
- Net Interest Income growth of 28.9% was supported by a 24.6% growth in interest income to Kshs 32.3 bn from Kshs 26.0 bn that outpaced interest expense growth of 15.8% to Kshs 9.9 bn from Kshs 8.6 bn. Net Interest Margin improved to 9.7% from 9.4%
- Non Funded Income rose by 6.8% to Kshs 9.9 bn from Kshs 9.2 bn, owing to an increase in other fees and commissions that rose by 14.3% to Kshs 6.1 bn from Kshs 5.3 bn. However, forex income was a drag on NFI, declining by 19.2% to Kshs 1.4 bn from Kshs 1.7 bn. The current revenue mix stands at 69:31 Funded to Non-Funded Income from 65:35
- Operating expenses increased by 17.6% to Kshs 17.2 bn from Kshs 14.6 bn. This was mainly as a result of a 16.1% growth in staff costs to Kshs 6.7 bn from Kshs 5.7 bn. Loan loss provision (LLP) rose by 28.0% to Kshs 2.0 bn from Kshs 1.5. Without LLP, operating expenses grew by 16.4% to Kshs 15.2 bn from Kshs 13.1 bn. Cost to Income ratio improved to 53.1% from 54.8% while without LLP, the cost to income ratio stood at 47.1% from 49.0%
- Faster growth in operating income compared to growth in operating expenses resulted into a 22.3% growth in reported profit after tax to Kshs 10.5 bn from Kshs 8.6 bn
- Customer deposits grew by 1.7% to Kshs 257.8 bn from Kshs 253.5 bn while Loans and advances

increased by 6.9% to Kshs 227.1 bn from Kshs 212.4 bn. This led to an increase in the loan deposit ratio to 88.1% from 83.8%

Co-operative Bank?s performance was above expectations, benefitting from strong revenue growth and cost containment initiatives. We expect the bank to continue implementing its key transformation steps which aims to achieve operational efficiencies, automation and use of alternative channels to support future growth.

For a more comprehensive analysis, see Co-operative Bank Q3?2016 Earnings Note.

Barclays Bank of Kenya released Q3?2016 results

Barclays Bank released Q3'2016 earnings posting a 5.1% decline in core EPS to Kshs 1.1 from Kshs 1.2 in Q3'2015 against our projected EPS of Kshs 1.2. The decline in earnings was driven by a 24.7% growth in Operating expenses that outpaced the 12.5% growth in Operating income.

Key highlights for the performance from Q3?2015 to Q3?2016 include;

- Operating Income grew by 12.5% to Kshs 24.4 bn from Kshs 21.7 bn. This was driven by a 10.9% growth in Net Interest Income and a 16.3% growth in Non-Funded Income.
- Net interest income increased by 10.9% to Kshs 16.9 bn from Kshs 15.2 bn, supported by interest income growth of 13.8% to Kshs 21.1 bn from Kshs 18.5 bn. Interest expenses grew by 27.2%, faster than Interest Income to Kshs 4.3 bn from Kshs 3.3 bn. Net Interest Margin remained unchanged at 10.9%
- Non-Funded income grew by 16.3% to Kshs 7.6 bn from Kshs 6.5 bn, driven by an increase in foreign exchange trading income which recorded a 38.5% growth to Kshs 2.0 bn from Kshs 1.4 bn. Revenue mix remained unchanged at 69:31 Funded to Non-Funded Income

- Operating expenses grew by 24.7% to Kshs 15.7 bn from Kshs 12.6 bn. The growth in expenses was driven by a significant jump in Loan Loss Provision (LLP) by 217.8% to Kshs 3.1 bn from Kshs 1.0 bn and staff costs which increased by 5.7% to Kshs 7.4 bn from Kshs 7.0bn. Without LLP, operating expenses grew by 8.3% to Kshs 12.6 bn from Kshs 11.6 bn. Cost to income ratio rose to 64.3% from 58.0% recorded in Q3?2015. Without LLP, cost to income ratio improved to 51.5% from 53.5% in the same period last year
- The growth in operating expenses which outpaced the growth in operating income resulted into a decline in profit after tax by 5.1% to Kshs 6.1 bn from Kshs 6.4 bn
- Customer deposits grew by 13.4% to Kshs 180.9 bn from Kshs 159.4 bn while loan and advances recorded a growth of 14.3% to Kshs 158.8 bn from Kshs 139.0 bn. This resulted in a Loan to deposit ratio of 87.8% from 87.2%

Despite the decreased profitability, going forward we expect Barclays Bank of Kenya?s growth to be propelled by their investments in innovation, technology, introduction of new products, review of their existing products and diversification of their revenue streams. We believe Barclays Bank of Kenya?s entry into investment banking and insurance business space will help the bank grow NFI to diversify revenue streams. However, the level of Non-Performing Loans remains a concern and puts to question the risk assessment framework of Barclays Bank of Kenya.

For a more comprehensive analysis, see Barclays Bank Q3?2016 Earnings Note.

Diamond Trust Bank released Q3?2016 results

Diamond Trust Bank released Q3'2016 earnings posting a 11.4% growth in core earnings per share to Kshs 20.0 from Kshs 17.9 in Q3'2015, against our projected EPS of Kshs 21.0. The growth in earnings was despite a 44.4% increase in total operating expenses which outpaced a 29.2% growth in total operating revenue.

Key highlights for the performance from Q3?2015 to Q3?2016 include;

- Total operating revenue grew by 29.2% to Kshs 18.4 bn from Kshs 14.2 bn, slower than our estimate of an 33.8% growth. The growth was as a result of a 35.2% growth in Net Interest Income and a 9.8% growth in Non-Funded Income
- Net Interest Income grew by 9.8% to Kshs 14.7 bn from Kshs 10.9 bn. This was supported by 38.7% growth in Interest Income to Kshs 25.5 bn from Kshs 18.4 bn despite a 43.7% growth in interest expense to Kshs 10.8 bn from Kshs 7.5 bn. Net Interest Margin improved to 6.8% from 6.6%
- Non-Funded Income (NFI) grew by 9.8% to Kshs 3.7 bn from Kshs 3.4 bn. The increase in NFI was supported by a 15.3% growth in other fees and commissions to Kshs 1.5 bn from Kshs 1.3 bn and a 7.1% growth in fees and commissions from loans to Kshs 0.8 bn from Kshs 0.7 bn. The current revenue mix stands at 80:20, Funded to Non-Funded Income from 76:24

- Total operating expenses grew by 44.4% to Kshs 10.6 bn from Kshs 7.3 bn driven by a 171.9% rise in Loan Loss Provision (LLP) to Kshs 3.6 bn from Kshs 1.3 bn, and a 15.1% growth in staff costs to Kshs 2.8 bn from Kshs 2.4 bn. Without LLP, operating expenses grew by 16.3% to Kshs 7.0 bn from Kshs 6.0 bn. Cost to income ratio rose to 57.6% from 51.5% while without LLP, cost to income ratio improved to 38.0% from 42.2% in the same period last year
- Profit after tax increased by 11.4% to Kshs 5.3 bn from Kshs 4.8 bn

- Customer deposits grew by 29.9% to Kshs 227.4 bn from Kshs 175.1 bn while loans and advances recorded a growth of 5.4% to Kshs 181.6 bn from Kshs 172.3 bn. This resulted in a loan to deposit ratio of 79.8% from 98.4%

DTB posted good growth in earnings that were largely in line with our expectations. Non-Performing Loans continues to be a point of concern especially for a bank that has always had one of the best quality loan book in the industry.

For a more comprehensive analysis, see Diamond Trust Bank Q3?2016 Earnings Note.

Of the 5 listed banks that have released Q3?2016 results, Co-operative Bank has recorded the highest core EPS growth of 22.3%, while Barclays Bank earnings declined 5.1%. The average growth in core earnings across the banking sector stands at 12.5%, attributable to a rise in net interest margins. On average, deposit growth has outpaced loan growth with deposits growing by 8.5%, higher than the 6.9% deposit growth.

Below is a summary of the key metrics;

Listed Banks Q3'2016 Earnings and Growth Metrics										
Bank	Core EPS Growth		Deposit Growth		Loan Growth		Net Interest Margin		Loan to Deposit Ratio	
	Q3'2016	Q3'2015	Q3'2016	Q3'2015	Q3'2016	Q3'2015	Q3'2016	Q3'2015	Q3'2016	Q3'2015
Co-operative Bank	22.3%	36.4%	1.7%	17.9%	6.9%	18.3%	9.7%	9.4%	88.1%	82.7%
Equity Group	17.7%	14.2%	4.8%	28.7%	3.0%	23.0%	11.0%	10.2%	81.9%	83.3%
KCB Group	16.1%	7.5%	(7.3%)	24.9%	4.9%	22.5%	9.2%	7.1%	83.5%	73.8%
DTB	11.4%	11.0%	29.9%	8.8%	5.4%	25.2%	6.8%	6.6%	79.8%	98.4%
Barclays Kenya	(5.1%)	5.1%	13.4%	(3.2%)	14.3%	10.8%	10.9%	10.9%	87.8%	87.2%
Weighted Average	12.5%	14.8%	8.5%	15.4%	6.9%	20.0%	9.5%	8.8%	84.2%	85.1%

Centum released H1?2017 results

Centum released H1?2017 results recording a core EPS growth of 0.4% to Ksh 2.7 per share from Ksh 2.6 per share driven by a 1.3% increase in operating revenue that outpaced a 4% decline in operating expenses.

Key highlights are:

- Operating revenue increased 1.2% to Kshs 8.5 bn from Kshs 8.4 bn in HY?2016, driven by a 42.3% y/y increase in interest income to Kshs 1.9 bn from Kshs 1.4 bn. The increase in revenue was due to improved profitability of their portfolio companies, and an increase in the company?s total portfolio by 9.3% to Kshs 55.9 bn from Kshs 51.2 bn that increased the interest earned from investment in securities
- Total expenses declined by 4.0% y/y to Kshs 6.1 bn from Kshs 6.3 bn on account of 25.0% decline in finance costs as a result reduced forex losses on USD denominated borrowings
- Income from subsidiaries grew by 127.4% y/y to Kshs 1.8 bn from Kshs 0.8 bn, as they brought on more subsidiaries for consolidation, i.e Longhorn Publishers and Sidian Bank which has been consolidated in the financial statements and the Beverage portfolio companies that did much better. The share of profit in associate companies increased by 80.2% to Kshs 0.3 bn from Kshs 0.2 bn
- Profit after tax grew by 7.9% y/y to Kshs 2.1 bn from Kshs 1.9 bn driven by improved profitability in the Group?s portfolio companies led by Longhorn Publishers and beverage portfolio companies
- The total assets grew by 10.7% y/y to Kshs 85.9 bn from Kshs 77.6 bn on account of a 269.2% growth in investment in associates and joint ventures to Kshs 13.4 bn from Kshs 3.0 bn
- The total liabilities grew by 1.4% y/y to Kshs 38.6 bn from Kshs 38.1 bn on account of a Kshs 3.0 bn short-term loan the company has secured to fund its projects. This led to an increase in the company?s gearing ratio to 29% from 21%
- Shareholders? funds grew by 19.6% y/y to Kshs 47.3 bn from Kshs 39.5 bn leading to a 17.3% growth in Net Asset Value per share to Kshs 61.1 from Kshs 52.1

Given the different sectors Centum has exposure in such as banking and FMCG, and the challenging operating environment, we have placed Centum under review and we shall be issuing revised recommendation.

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

- ARM has moved to a ?Buy? recommendation with an upside of 28.7%, from an ?Accumulate? recommendation, with an upside of 19.4%, following a 7.3% w/w price decrease
- Co-op Bank has moved to a ?Accumulate? recommendation with an upside of 14.6%, from a ?Buy? recommendation, with an upside of 21.1%, following a 6.4% w/w price increase
- CIC Insurance has moved to an ?Accumulate? with an upside of 12.5%, from a ?Hold? recommendation with an upside of 9.8% following a 2.4% w/w price decrease
- Centum Investments has been placed under review

all prices in Kshs unless stated									
EQUITY RECOMMENDATION									
No.	Company	Price as at 11/11/16	Price as at 18/11/16	w/w Change	YTD Change	Target Price*	Dividend Yield	Upside/ (Downside)**	Recommendation
1.	Bamburi Cement	156.0	159.0	1.9%	(9.1%)	231.7	7.8%	53.5%	Buy
2.	KCB Group***	29.8	30.8	3.4%	(29.8%)	42.5	7.5%	45.7%	Buy
3.	HF Group	14.5	14.8	1.7%	(29.8%)	19.8	9.2%	43.4%	Buy
4.	Britam	10.0	10.0	0.0%	(44.4%)	13.2	2.4%	34.4%	Buy
5.	DTBK***	133.0	136.0	2.3%	(27.3%)	173.2	1.8%	29.2%	Buy
6.	ARM	31.0	28.8	(7.3%)	(38.2%)	37.0	0.0%	28.7%	Buy
7.	Kenya Re	21.5	22.3	3.5%	(0.2%)	26.9	3.6%	24.5%	Buy
8.	BAT (K)	826.0	830.0	0.5%	6002.9%	970.8	6.2%	23.2%	Buy
9.	Stanbic Holdings	69.5	70.0	0.7%	61.7%	75.5	7.9%	15.8%	Accumulate
10.	Equity Group	31.3	32.0	2.2%	(20.0%)	34.2	7.7%	14.6%	Accumulate
11.	Co-op Bank	13.3	14.2	6.4%	8.8%	15.2	6.8%	14.2%	Accumulate
12.	Barclays	8.6	8.9	3.5%	(98.9%)	9.2	9.7%	13.1%	Accumulate

13.	CIC Insurance	4.1	4.0	(2.4%)	(35.5%)	4.4	2.5%	12.5%	Accumulate
14.	I&M Holdings	97.0	96.0	(1.0%)	16.4%	101.1	3.9%	9.2%	Hold
15.	Jubilee Insurance	476.0	473.0	(0.6%)	(2.3%)	482.2	1.8%	3.8%	Lighten
16.	NIC	32.8	31.3	(4.7%)	(68.8%)	30.8	3.5%	2.1%	Lighten
17.	Liberty	14.6	13.8	(5.5%)	(92.9%)	13.9	0.0%	0.7%	Lighten
18.	StanChart***	185.0	189.0	2.2%	1059.5%	169.9	6.6%	(3.5%)	Sell
19.	Sanlam Kenya	33.0	34.0	3.0%	74.4%	30.5	0.0%	(10.3%)	Sell
20.	Safaricom	20.8	20.0	(3.8%)	(66.7%)	16.6	3.6%	(13.4%)	Sell
21.	NBK	7.1	7.6	7.0%	(51.7%)	2.7	0.0%	(64.5%)	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									

We remain ?neutral with a bias to positive? for investors with short to medium-term investments horizon and we have now turned ?positive? for investors with long-term investments horizon.

Private Equity

Weetabix Food Company, a British multinational cereals producer, has acquired a 50.1% controlling stake in Weetabix East Africa from Kenyan businessman Ahsan Manji, the founder of House of Manji, a Kenyan food manufacturing company. The remaining stake of 49.9% was taken up by Pioneer Foods Group, a South African based food manufacturer notable for producing Bokomo, Ceres, Safari, Spekko and ProNutro. The partnership is seen to be (i) strategic considering the two multinational companies have been competitors in the East African market for long, (ii) opportunistic as they will work together to capitalise on the rising demand for breakfast cereals in the region and especially in Kenya, which alone has a demand of over 2.8 million kilograms a year since 2014, and (iii) in line with Weetabix Food Company?s international growth strategy and aligned also to Pioneer Foods? growth sales of their product range in Africa. We expect the partnership to be a success as the two brands have exhibited both credibility and profitability, as a result of significant market share of 76.3% in Kenya, and a compounded yearly growth rate of 14% between 2011 and 2015, despite facing an erratic economic environment, a depreciating local currency and higher operating costs.

Cactus Capital, the investment arm of Cactus Advisors, has announced investments into seed and growth stage African technology ventures, Flutterwave and E-Factor. Flutterwave is a San Francisco-based team of African entrepreneurs, financial services technologists and mobile payment experts that provides end-to-end payments technology and infrastructure to payment service providers, global merchants, licensed money transfer operators and Pan-African banks from Africa with one application program interface (API) integration that include Uber, Paystack, Page Microfinance Bank, and Access Bank. E-Factor is a South African-based fintech company, which has created a digital factoring platform where companies can sell their receivable invoices through an auction to investors with the highest bid. By investing in these invoices, investors obtain new short-term investment instruments with low-risk returns. Compared to banks, the E-Factor solution is quick, flexible and favourable. Technology is ultimately the backbone of any economy, and advancements in technology that have unfolded in recent years are enabling opportunities that were once impossible, both technologically and economically to be realised. These include:

- Geographical Isolation: ICT works to reduce the distances and time thus overcoming geographical isolation and substituting for expensive travel and lost work time, through facilitation of information exchange, long-distance money transfers among other economic activities,
- Lack of Competition and High Prices for Consumers: Faced with few options in the marketplace, the poor often pay more, in absolute terms for what they buy, but with broad access to market information and transaction capability through telephony and the internet effectively increase competition, allowing consumers to maximise their incomes and driving reduction in prices over

time, and,

- Lack of Information and Low Producer Prices: The internet and mobile phones gives local and global producers access to information for multiple, competing marketplaces, enabling them to get the best prices for their goods.

The investments in Fintech have been driven by (i) Africas broad range of reforms in recent years in the process of transitioning into the digital economy, (ii) infrastructure initiatives in Africa that are opening new avenues of commerce, and (iii) new efforts towards regional integration.

Private equity investments in Africa remain robust as evidenced by the increased deals and deal volumes in the region key note sectors; financial services, energy, FMCG, real estate, and technology. Given (i) the high number of global investors looking to cash in on the growing middle class of Africa, (ii) the attractive valuations in private markets compared to global markets, (iii) better economic projections in Sub-Sahara Africa compared to global markets, and (iv) the high number of exits that is evidence of the attractiveness of the region, we remain bullish on PE as an asset class in Sub-Sahara Africa.

Real Estate

The industrial real estate theme continues to grow with the International Finance Corporation (IFC) planning to invest Kshs 1 billion in equity in Africa Logistics Property (ALP), an integrated commercial property investment platform based in Nairobi. ALP is raising Kshs 7 bn to invest in three industrial parks that are (i) Tatu City in Ruiru, (ii) Tilisi in Limuru, and (iii) Embakasi area in Nairobi. The company has acquired 71-acres of land, and is set to begin construction on the three sites Q1?2017. The company plans to deliver Grade-A warehouses to attract key international players in the fast-moving consumer goods, importers of construction equipment and players in the nascent oil and gas industry in Kenya, which is the long-term strategy for the firm. The move comes as the government and other players have increased their focus on industrial development, driven by an improvement in infrastructure and growth in the economy, which have created a demand for specialised logistics and industrial parks. Other firms in the logistics business seeking to expand include Bollore Transport and Logistics Ltd Company, which aims to invest Kshs 2.2 bn to create a logistics hub as part of its expansion efforts. County Governments are also picking up the trend, with the Nakuru County Government announcing that it is set to open two industrial parks in the county, one in Nakuru and the other in Naivasha. Industrial parks as a real estate theme is growing in Kenya due to several factors including:

1. Improved infrastructural development especially road networks such as the Lappset Project, the Standard Gauge Railway (SGR) and the bypasses (Eastern and Northern), as well as the Thika Superhighway. These infrastructural developments have increased ease of access of warehouse zones such as Mombasa Road, Industrial Area, Ruai, Ruiru and Baba Dogo, which are close to the Jomo Kenyatta International Airport in Nairobi,
2. Growth in the retail and Fast Moving Consumer Goods (FMCG) segment, which has resulted in increased demand for warehousing space. Retail space in Nairobi alone has grown by a 17% CAGR over the last 5-years,
3. Government support through provision of infrastructure including electricity and water and establishment of Export Processing Zones, and,
4. Growth of master planned cities which factor in industrial precincts and offer land at relatively lower prices attracting investments such as Tatu City, Konza Tech City, Tilisi and Northlands City.

The above factors have made the industry, initially full of owner-occupation, become more institutionalized with the ratio of owner occupiers to developers being 35:65 according to Mentor Management Limited. The industry has also witnessed increased standards of quality and specialization with higher, better equipped warehouses such as the Imperial Logistics Warehouse for Pharmaceutical products along Mombasa Road. Currently the sector earns average returns, but with increased institutionalisation, competition and innovation we are likely to witness higher rents being charged on warehouses.

From our research, on average, the rental yield in warehouses in Kenya as at February 2016 was 6.2% with average rental rates of 37 per square foot, prices of 5,749 per square foot and occupancy rates of 82%. Our outlook for the sector is positive driven by increased industrialization. Our research is summarized below:

Summary of Warehouse Returns by Nodes in Nairobi							
Location	Unit Size (SQM)	Rent/SQFT (Kshs)	Price/SQFT (Kshs)	Occupancy	Annual Price Appreciation	Rental Yield	Total Annual Return
Mombasa Road	10,739	33	4,955	75%	4.5%	6.0%	10.4%
Industrial Area	12,104	41	6,902	77%	5.6%	5.5%	11.1%
Baba Dogo	11,200	36	5,390	94%	5.1%	7.1%	12.2%
Average	11,348	37	5,749	82%	5.1%	6.2%	11.2%
Baba Dogo area has the highest yield, due to higher occupancy rates as a result of the improved Thika Superhighway connecting it to both CBD and the Central Province of Kenya							

Source: Cytonn Research

In the hospitality sector, Simba Corporation, the organisation behind the Villa Rosa Kempinski, announced plans to open a 3-star hotel in Naivasha under their Acacia Hotel Chains to cater for business travellers. The hotel will have 72-rooms and 3-suites and will go by the name Acacia Express Hotel. The group launched the Acacia chain of hotels in last year with the Acacia Premier being opened in Kisumu. Hoteliers have remained bullish on the hospitality sector despite the challenges facing it. This is evidenced by the fact that room supply bucked the declining trend in the industry, increasing by a 4-year CAGR of 3.8%, despite a decline in international arrivals, total revenue per room and occupancy by 4-year CAGR?s of 10.3%, 5.8% and 7.8%, respectively. The sector is however set to pick up due to improved security and government incentives including i) heavy marketing, with Kenya Tourism Board being given a budgetary allocation of Kshs 1.5bn for marketing, ii) star rating of hotels into1, 2, 3,4 and 5-stars facilitating the streamlining of service provision, iii) promotion of domestic tourism, and this week iv) the ministry of tourism hired a Spanish Consultancy firm ? Innovative Tourism Advisers (THR) to evaluate and advice the National Government on how to reinvent tourism in Kenya. In our opinion, due to the above factors and the unique tourism product bouquet offered by Kenya of beach, safari, business, and ecotourism, the sector will pick up and we are likely to witness an increase in tourism numbers and revenues. In the next 2-years, domestic tourism will thus be a key driver for the sector.

During the week, the State hosted the National Land Summit at State House Nairobi. The summit was aimed at informing the public of the steps the Kenyan Government was implementing to increase transparency in the Lands Ministry. The key take-outs from the summit were:

1. All land buying companies must be registered, and the already operational ones must register afresh,
2. The government plans to issue 3-million title deeds by December 2017, and,
3. All the 47 land registries in the country will be digitised to speed up land transactions and increase transparency in the sector.

If implemented, the above will improve transparency in the land ministry and increase development activities as issuing of title deeds especially in rural areas, will facilitate transfer of land and hence enable development on the same.

Impact of the US Elections on the Kenyan Economy

On 8th November, 2016, Donald J. Trump emerged the victor in the US presidential elections, winning 290 electoral votes, out of the 270 required to emerge victorious. Further to a Republican winning the presidential seat, Republicans additionally won the House and the Senate, restoring the Party to the pinnacle of the US Government.

As is the case with any change of administration, the US President-elect will try to make good on his campaign promises to the voting public, which are expected to potentially change the way the US relates with the rest of the world. In this weekly, we look at the areas in which Kenya partners with the US, highlight the current state and impact of the partnership, then move to analyse how the landscape will most likely change under the Trump administration, and finally give our outlook on the future relations between Kenya and the US.

Kenya and the US have maintained a mutually beneficial partnership for years. The US began relations with Kenya decades ago, having opened up an Embassy in Nairobi on 12th December 1963. Since then, Kenya has proven a strategic geopolitical location since the Cold War up to date, a key ally in their global campaign against terrorism, as well as Foreign Policy in the East African region.

The unexpected victory of Donald Trump has sparked debate, especially criticism of how the US foreign policy would look like under his administration. During his campaign he highlighted that he is keen on making ?*America great again*? by (i) redirecting focus from the global arena and dwell majorly on the American economy, (ii) being extremely stringent on immigration laws and deporting illegal immigrants, (iii) renegotiating global trade deals he terms as punitive to the US economy, and (iv) wiping out extremism. The US has a major influence on the globe economically, financially and politically; and it is due to his ?radical plans? that many believe that global markets should prepare for a bumpy ride.

Below is a table highlighting the current relationship status between Kenya and the US and how it might change under Trump:

	Attribute	Commentary	Trump?s Policy	Effect
1	Trade and Investments	Under the Obama administration trade and investments between Kenya and the US recorded remarkable growth, with net imports increased by 206.4% from the Bush administration, highlighting the improved activity in trade between the 2-nations. Key to note is that imports from the US increased by 90.4%, faster than our exports to the US, which grew by 81.9%, an indication that Kenya depends more on the US; and with over 96 investment projects in Africa worth USD 6.9 bn as at 2015, the US remains to be the single largest investor in Africa. Kenya receives a large proportion of these investments and as at 2015, Kenya recorded a 12.3% share of Africa?s FDI	As per Trump?s policy, his 7-point plan to rebuild the American economy involves fighting for free trade. His plan involves withdrawal from the Trans African partnership and the renegotiation of trade agreements to better suit the American worker. However, there is no direct mention of any changes to trade between the US and Kenya.	Neutral

2	Democracy and Governance	The US emphasises on democracy and proper governance and is known to sever relationships with authoritarian nations. Due to their influence in the global arena, the US has also imposed sanctions on several countries deemed to be undemocratic. With regard to Kenya, the US has always been keen on democracy and as witnessed during the 2013 elections, President Obama allowed for the democratic process to prevail while emphasising that Kenya had to uphold its international obligations and respect international justice. This pressure meant that the newly elected Kenyan President and his deputy had to face the ICC and get cleared before the international community.	Trump once said ?Look at African countries like Nigeria or Kenya for instance, those people are stealing from their own government and go to invest the money in foreign countries. From the government to the opposition, they only qualify to be used as a case study whenever bad examples are required?. Basing on his statement, in order for the US to fully collaborate with Kenya, we need to address graft. His election can only help confront graft, but we also believe that the Trump administration will largely be inattentive to Africa.	Positive
3	Peace and Security	Kenya offers a strategic geopolitical location to the US ever since the Cold War and currently as the US marshals a global campaign against terrorism. Kenya is also a global leader in terms of humanitarian relief operations, having played a significant role in refugee situations in South Sudan and Somalia. In return, Kenya is one of the largest recipients of US security assistance, having received over USD 80.0 mn to date under the ?train and equip? mandate by the US Department of Defence.	Trump cites peace to be the centre of his foreign policy and he plans to achieve this in a more peaceful manner. He also welcomes working with other nations in a bid to eradicate extremism. For Kenya, terrorism has plagued us for a while and a expect US engagement to continue.	Neutral
4	Aid	Kenya has received almost USD 1.0 bn annually in aid from the US and ranks in the top 10 US aid recipients. Under the Obama administration the USAID formulated the ?Country Development Cooperation Strategy? to run from 2014-18; with 3 main goals namely: (i) implement devolution effectively, (ii) strengthen health and human capacity, and (iii) execute an inclusive, market-driven and environmentally sustainable economic growth	Trump during his primaries claimed that his number one priority is to strengthen America and this will involve cutting Aid to countries where they receive no form of ?return?. This could prove punitive to Kenya as we are one of the top recipients of USAID.	Negative

5	International Organisation	Kenya?s economic prosperity and a diverse economy has attracted several international companies that have set up their regional headquarters in Nairobi. Kenya?s sustainable relationship with the US has attracted major US firms such as Coca Cola, General Electric, Google, IBM and Intel to name a few. This is a clear sign that Kenya is emerging as a regional hub and with such firms setting up shop, Kenya is set to benefit in terms of job creation and skill transfer.	Attraction of international companies into Kenya is due to Kenya?s status as a regional hub and is not politically motivated. Given this, we do not see a Trump presidency as being negative towards this.	Neutral
6	Immigration - The Diaspora	The Kenyan born population in the US is fast growing and is now the 2nd highest contributor to diaspora remittances into the country after the United Kingdom. Kenyans have been legally admitted into the US either through (i) family sponsorship (3%), (ii) employment sponsorship (7%), (iii) as a refugee and asylee (26%), (iv) the diversity VISA programme (28%), or (v) being an immediate family member to a US citizen (35%). Diaspora remittances currently the highest foreign exchange earner for the country, with cumulative 12 months? diaspora inflows to June 2016 increasing by 11.0% to USD 1.7 bn from USD 1.5 bn in the year to June 2015.	Trump plans to prioritise job security for all Americans. Under this he is willing to (i) establish new immigration controls, (ii) select immigrants based on their likelihood for success in the US, (iii) end Obama?s illegal immigrants amnesties, (iv) force other countries to take back their illegal immigrants, and (v) reform legal immigration to serve America?s best interest.	Negative
	Overall Effect			Neutral

As per the above, we have 1 positive indicator (democracy & governance), 3 neutral (trade, peace & security and international organisations) and 2 negatives (aid and immigration). It is due to these factors that we believe a Trump presidency is largely neutral towards Kenya?s economic growth.

The Kenyan economy is one of the most diversified in the region and has displayed resilience to global shocks, as witnessed by the IMF projecting a 6.0% growth for 2016, despite other African countries being downgraded on account of global turbulence, especially due to commodity prices. As per our topical on ?Kenya?s Economic Growth? we noted the key hindrances to Kenya?s growth being (i) security, (ii) political stability, (iii) corruption, and (iv) weak export growth. As highlighted above, we see the Trump effect to have a positive impact on security and governance, and neutral on trade and investments under which we highlighted export growth being an issue.
