



# Cytonn Weekly Update

## Cytonn Weekly

### Executive Summary

- *2-year and 10-year bonds get oversubscribed signaling an increased liquidity in the money market*
- *Kenya Roads Board plans to issue the regions first Asset-Backed Infrastructure bond*
- *NSE-20 Index hits a six year high driven by price rallies for blue chip stocks*
- *Private Equity firms changing focus from South Africa to East and West Africa*
- *House owners prefer gated communities*

### Fixed Income Update

The Central Bank of Kenya (CBK) announced the results of the 2-year and 10-year reopened Treasury Bonds that aimed at raising a total of Kshs 25 billion. The bonds had a combined subscription rate of 204.5% with average rates of accepted bids being 11.5% for the 2-year and 12.8% for the 10-year. The 182 and 364 day T-Bills were also oversubscribed at 222.8% and 332.9% respectively this week. Conversely, the 91-day paper achieved a paltry 44% subscription. The oversubscription on the government papers hint that investors are anticipating a future decline in interest rates and would like to lock in favorable rates for the long term.

Kenya Roads Board announced its plan to raise Kshs 50 billion by floating an asset-backed infrastructure bond. The bond is to be issued in the second half of the year and will be backed by revenue from the road maintenance levy fund. With the growing backlog of maintenance projects, this is positive news as efficient infrastructure systems will reduce costs and propel economic growth.

Further south, the effects of decreasing global oil prices have resulted in a 4-year low inflation rate in South Africa. The central bank of South Africa, like the CBK, has forecast lower annual inflation for the year. Even so, the fact that most African countries are importers of oil indicates that lower inflation will be registered across board. As such, we believe that in the coming months, consumers across the Sub-Saharan will get some reprieve as the cost of basic commodities decline.

### Equity Market Update

In Kenya this week, the NSE 20 Index was up 2.6% to reach 5,473.8 points, a 6-year high for the index while the NASI edged up 1.1% to 175.7 points. The stellar performance was mainly driven by price rallies for blue chip stocks such as EABL and Safaricom. EABL touched a new 52 week high of KES 355 on increased foreign investor demand and after announcing an 11% growth in profits last week. In the same vein, other stocks that traded at year highs were Jubilee Holdings at KES 540 and Standard Chartered Bank at KES 350 with Safaricom touching an all-time high of KES 15.30 mainly buoyed by local investor demand. In contrast, three firms namely TPS Eastern Africa, Pan African insurance and Crown pants issued profit warnings which lead to price declines in those stocks of 2.9%, 2.7% and 6.0% respectively. In the coming weeks, we expect increased investor activity and share price rally, especially for bank stocks as more companies release 2014 results.

In the global markets, major indices did well during the week with the S&P 500 shooting up to record closing of 2,110.3 on word that Greece and its Eurozone creditors have officially reached an extension agreement on a debt deal. Greece managed to secure a 4-month extension on its loans hence averting the possibility of default and Greece's exit from the Eurozone, at least in the near future. Japan's NIKKEI rose 0.37% to 18,332.3 points, a 15-year high. The performance was backed by a weaker currency as the yen traded at 119 against the dollar. Australia's benchmark S&P ASX 200 continued to decline following low earnings reported by corporates coupled with S&P Ratings on Thursday that Australia's triple-A sovereign rating may be at risk which also affected market sentiment. In our view, we expect the global markets' performance to improve since the Greek debt issue has been resolved hence a reduction in market uncertainty.

## Real Estate Update

Farmers in Trans Nzoia County will be issued with title deeds for their land parcels after the county set aside KES 37 million for processing the ownership documents. The title deeds will see real estate in the county improve as previously landowners lacked collateral to access financing to develop their land and capital gains could not be unlocked.

A Deutsche Asset & Wealth Management report to be released next week is pushing investors to allocate less of their portfolios to US and Asia and with a bias towards Europe property markets. The ideal real estate portfolio according to the report would be 32.5% in real-estate assets in the Asia-Pacific region, 41.4% in Europe, and 26.1% in the U.S. The weakening Euro is making property prices subdued in Europe and an increasing demand in the US combined with low levels of construction has driven up costs in real estate making good returns relatively hard to come by.

## Private Equity Update

A study on the African private equity market has shown that South Africa is no longer a destination of choice for private equity investors seeking to tap returns from the continent's growing economies. These investors instead are increasingly targeting markets such as Kenya and Nigeria, where their economic growth for 2015 has been forecasted to be more than double that of South Africa according to forecasts by the International Monetary Fund. South Africa which gave returns of 30% in the past, is now giving an IRR of about 18% to 20% p.a. The growing interest in the Kenyan market is evidenced by the four deals that have been closed this year mainly by global PE firms as compared to South Africa which has only had two deals.

At the global front, a research by U.S. based Evercore Investment bank showed that the private equity secondary market in the US totaled USD 47 billion in 2014, an 80% increase in deal volume, compared to the previous year. The huge activity showed that the sector was undergoing a boom, with deals mainly happening in the secondary market as investors looked to make early exits from their investments so as to avoid being tied up for long periods. The good performance has since been attributed to the soaring American stock market in recent years, combined with low interest rates which have helped bolster the value of private equity funds.

## Focus of the Week

Home buyers in the high end market which has experienced tremendous change over the years seem keen on serene locations and elegance; with the choice of housing having shifted from the traditionally preferred bungalows to exclusive gated townhouses.

When you think of a gated community, what comes to mind? Things like security, safety, exclusivity and expensive houses will probably feature somewhere on that list. But what else lies behind those beautiful gates and the seemingly perfect quaint homes? A Gated Community refers to a residential

area that is surrounded by a wall or a fence and that has a central common entrance that is guarded to control the movement of people into and out of the area. Most gated communities have a name and a clear geographical definition as marked by the barriers and gates that control access to these areas.

So why are gated communities proving to be the most popular choice for homebuyers as well as tenants? Here are the benefits of gated communities:

1. **Security:** Homeowners prefer living in a compound with a perimeter wall and manned gates reducing the chances of crimes such as robbery and kidnapping. In addition, parents also feel safer with children playing in a safe environment
2. **Affordability:** Buying a house in gated communities is considerably cheaper than a stand-alone house. In addition, economies of scale are achieved by constructing many houses thereby units in gated communities are considerably cheaper than putting up single units
3. **Sharing services and facilities:** Common services such as solar-powered panels, boreholes, swimming pools and gyms can be shared among residents making them more accessible and affordable
4. **Lifestyles:** Gated communities provide for proximity to various social amenities that home owners put into consideration such as schools, gyms and swimming pools, shopping malls and medical clinics thereby bringing convenience to the resident's doorstep

These benefits have resulted in most Kenyans no longer just buying a home but a lifestyle as a well. Hence as Cytonn, we seek to redefine buyers' preferences and tastes by establishing splendid gated communities that will not only fulfill home buyers' gratitude of self-actualization but also enhance a real sense of community living.

---

Liason House, StateHouse Avenue

The Chancery, Valley Road

[www.cytonn.com](http://www.cytonn.com)

Generated By Cytonn Report

A product of **Cytonn Technologies**