Cytonn INVESTMENTS

Ten Financial Planning Mistakes to Avoid, & Cytonn Weekly #30/2017

Cytonn Weekly

Executive Summary:

Fixed Income: T-bill subscriptions improved during the week but remained low for the 3rd week in a row, coming in at 64.6%, compared to 31.3% recorded the previous week, while yields on the 91, 182 and 364-day papers remained unchanged at 8.2%, 10.3% and 10.9%, respectively. We are projecting the inflation rate in the month of July to decline to between 8.5% - 8.9%, from 9.2% in June, mainly driven by a decline in food and fuel prices;

Equities: During the week, the equities market was on an upward trend with NASI, NSE 25 and NSE 20 gaining 3.8%, 3.5% and 2.7%, respectively, taking their YTD performance to 20.9%, 21.0% and 19.2%, respectively. National Bank of Kenya released their H1'2017 results, posting a decline in core earnings per share by 42.2% to Kshs 0.6 from Kshs 1.0 in H1'2016, attributed to a 29.8% decline in operating income, despite a 28.8% decrease in operating expenses;

Private Equity: This week we witnessed activity in the Education and FMCG sectors as (i) Verod Capital Management, a Nigerian based private equity firm, through Oreon Education committed to acquire an undisclosed minority stake in Nigerian based Greensprings Educational Services Ltd (Greensprings), and (ii) Sanlam Private Equity (SPE) acquires a 60.0% majority stake in JAB Dried Fruit Products for an undisclosed amount;

Real Estate: House sales prices and rentals recorded a 3.1% and 2.0% drop, respectively, with land prices recording an increase of 0.7% and 1.0% in Nairobi Suburbs and Nairobi Satellite Towns, respectively, in Q2'2017, according to Hass Property Price Indices Q2'2017. National Land Commission (NLC) revoked title deeds in a massive and unprecedented clean-up of land ownership records across the country;

Focus of the Week: This week, we look at the ten common financial planning mistakes that lead people towards financial difficulty and how to avoid making these mistakes.

Company Updates

- All of us at Cytonn hope that the first half of 2017 was fruitful and productive, and that you are looking forward to the rest of the year being even better. The team at Cytonn is moving ahead, growing at a fast yet manageable pace and working hard to deliver to our investors and clients. In order to update our shareholders and stakeholders on what is going on at Cytonn, we have prepared a Shareholders' Update, and shall be circulating the same quarterly going forward. Kindly see the Shareholders' Update for H1'2017 to read about Cytonn's growth and performance since the year begun.

- On Saturday, 29th July, Cytonn Investments Cooperative Society Ltd held a Special General Meeting, seeking to update the Cooperative Members on the status of the society, elect non-staff members to the society's Management Committee as well as inform the members of the future plans to diversify the investment options of the Cooperative. See Event Note
- On Friday, 28th July, our Managing Partner & C.E.O, Edwin H. Dande, was a guest speaker at the Growth Africa Business Accelerator Training. In attendance were leading entrepreneurs in Kenya, among them, Jonathan Bamber, founder of Burton and Bamber (an agro-processing company specializing in the preservation of fruit and other crops), and TerryAnne Chebet, Founder of Keyara Organics Kenya. See Event Note
- Our Investments Analyst, John Ndua, discussed the telecommunications sector and mobile money transfer services. This comes as Safaricom seeks to replace the M-Pesa's Head, Ronn Webb, who resigned. Watch John Ndua on CNBC here
- Our Senior Manager - Regional Markets, Johnson Denge, discussed the attractiveness of real estate opportunities, despite the tough economic conditions. Watch Johnson Denge on Ebru TV here
- We continue to showcase real estate developments by our real estate development affiliate, Cytonn Real Estate, through weekly site visits. Watch progress videos and pictures on The Alma, Amara and Taraji Heights. The site visits target both investors looking to invest in real estate directly, and also those interested in high yield investment products to familiarize themselves with how we support the high yield returns. If interested in attending the site visits, kindly register here
- We continue to see very strong interest in our Private Wealth Management training, which is at no cost, and is held bi-weekly, but is open only to pre-screened participants. The training can also be offered to institutions that would like their employees trained on Financial Planning. To get further details contact our Client Services team at clientservice@cytonn.com
- For recent news about the company, see our news section here
- We have 10 investment-ready projects, offering attractive development and buyer targeted returns of around 25.0% p.a. See further details here: Summary of investment-ready projects
- To invest in any of our current or upcoming real estate projects, please visit Cytonn Real Estate

  - The Alma, which is over 55.0% sold, has delivered an annualized return of 55.0% p.a. for investors who bought off-plan. See The Alma
  - Amara Ridge is currently 100.0% sold and has delivered over 20.0% p.a. returns to investors. See Amara Ridge
  - Situ Village is currently 15.0% sold. See Situ Village
  - The Ridge (Phase One) is currently 31.0% sold. See The Ridge
  - Taraji Heights is currently 10.0% sold. See Taraji Heights
  - RiverRun Estates (Phase One) is currently 8.7% sold after the recent launch. See RiverRun Estates
- We are currently looking for 5-10 acres in Kikuyu, Lower Kabete, Upper Kabete, Loresho or Mountain View, and 7-10 acres of land in Karen, Garden Estate and Langáta for development of villas. Contact us at rdo@cytonn.com if you have any land for sale or joint ventures in the above areas.
- We continue to beef up the team with ongoing hires: Careers at Cytonn

Fixed Income

During the week, T-bills were undersubscribed for the 3rd week in a row, however the overall subscription rates rose to 64.6% from 31.3% recorded the previous week. The subscription rates for the 91, 182 and 364-day papers came in at 24.1%, 47.5%, and 97.8% compared to 55.6%, 40.0% and 12.9% the previous week, respectively, with the 364-day paper experiencing a significant increase in subscription during the week. Yields on the 91, 182 and 364-day papers remained unchanged at

8.2%, 10.3% and 10.9%, respectively, while the 182-day paper still remains the best risk-return proposition for investors. The overall acceptance rate came in at 94.5% compared to 86.5% the previous week, with the government accepting a total of Kshs 14.6 bn of the Kshs 15.5 bn worth of bids received, against the Kshs 24.0 bn on offer in this auction. There is pressure on rates on the short end of the yield curve, with the market bidding at an average of 9.8%, 160 bps above the acceptance rate, though the Central Bank rejected the more expensive bids, hence maintaining the rates stable.

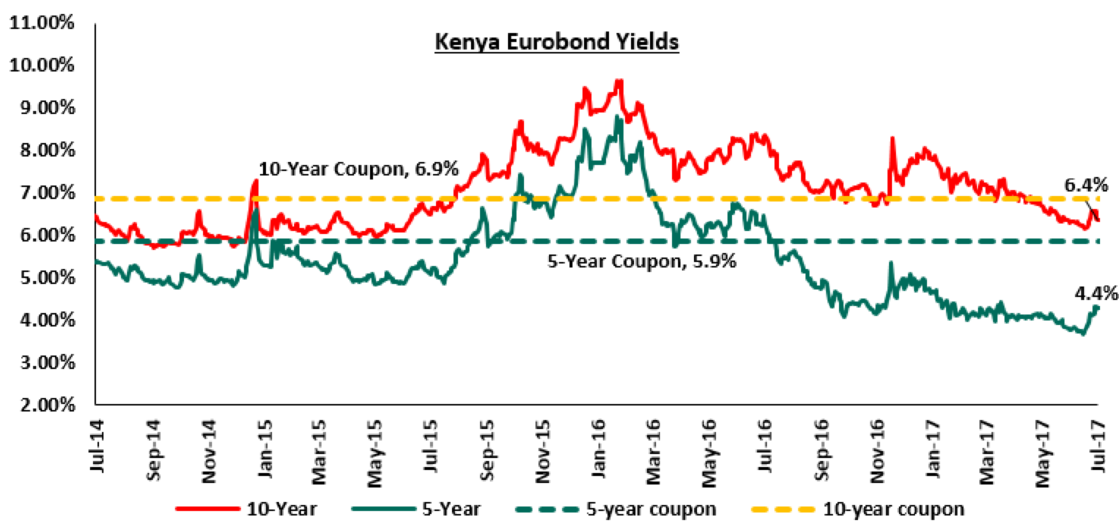
There was a net liquidity injection of Kshs 7.4 bn this week compared to an injection of Kshs 23.5 bn the previous week, as there was a significant amount of tax payments that removed liquidity from the market. The interbank market was vibrant with the average interbank rate declining slightly to 7.2% from 7.3% the previous week, while the average volumes traded rose to Kshs 21.6 bn, from Kshs 12.9 bn the previous week. The net liquidity injection was mainly due to Term Auction Deposit Maturities, T-Bill redemptions and Government Payments, which in total amounted to Kshs 46.3 bn of the total of Kshs 56.2 bn liquidity injection during the week. CBK was also active in the Repo Market, injecting Kshs 1.7 bn.

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	22.9	Transfer from Banks - Taxes	41.0
Government Payments	7.1	T-bill (Primary issues)	6.5
T-bill Redemption	16.3	Reverse Repo Maturities	1.3
T-bond Interest	5.5		
Reverse Repo Purchases	1.7		
Repos Maturities	2.7		
Total Liquidity Injection	56.2	Total Liquidity Withdrawal	48.8
Net Liquidity Injection			7.4

For the month of July, the government issued a 10-year fixed-coupon bond (FXD 1/2017/10), with an effective tenor of 10.0-years and a market-determined coupon, in a bid to raise Kshs 30.0 bn for budgetary support. The bond issue received a 63.5% subscriptions rate, with the market average rate for the bids coming in at 13.3%, 30 bps above the accepted rate of 13.0%. Just like the previous bond auctions held this year, in which the government has only accepted 71.3% of total bids on average, the government did not accept expensive bids, accepting only Kshs 5.2 bn out of the Kshs 19.0 bn worth of bids received, translating to an acceptance rate of 27.3%.

According to Bloomberg, yields on the 5-year and 10-year Eurobonds, with 2-years and 7-years to maturity, declined by 20 bps and 30 bps, respectively, to close at 4.4% and 6.4%, from 4.6% and 6.7% the previous week, respectively. Since the mid-January 2016 peak, yields on the Kenya Eurobonds have declined by 4.4% points and 3.2% points for the 5-year and 10-year Eurobonds, respectively, due to stable macroeconomic conditions in the country. Over the past two weeks, and with only a week left to the Kenyan General Election, yields on both the Eurobonds have declined by 40 bps, while the market has rallied by 5.3% over the same period, highlighting the confidence of investors on the Kenyan economy and a peaceful transition through the elections, which has reflected in positive market performance. The declining Eurobond yields and stable rating (Fitch Ratings having affirmed Kenya’s long-term foreign and local currency issuer default ratings (IDRs) at “B+”), are indications that Kenya remains stable and hence an attractive investment destination.



The Kenya Shilling remained stable during the week, to close at Kshs 103.9, primarily due to subdued dollar demand from oil importers. On a year to date basis, the shilling has depreciated against the dollar by 1.4%. In our view, the shilling should remain relatively stable in the short term, supported by CBK's activity, with the forex reserve levels currently at USD 7.7 bn (equivalent to 5.1 months of import cover).

We are projecting the inflation rate in the month of July to decline to between 8.5% - 8.9%, from 9.2% in June, mainly driven by a decline in food and fuel prices. Going forward to the end of 2017, we expect inflationary pressures to be subdued given (i) food prices are expected to continue to decline because of the rainfall witnessed during the long rains period, albeit depressed, and (ii) low global oil prices due to rising US oil production, which has suppressed the global recovery of oil prices, countering OPEC's decision to extend the deal to cut down on oil production. We expect inflationary pressures to ease in the second half of 2017, but average 9.5% over the course of the year, which is above the upper bound of the government target range of 2.5% - 7.5%.

The US Federal Reserve's Open Market Committee (FOMC) met during the week to assess the state of the US economy and agree on a path for the US monetary policy. The Fed decided to maintain rates at a band of 1.00% - 1.25%, citing low inflation, which came in at 1.6% in June from 1.9% previously, moving further below the set target of 2.0%. The labour market was relatively strong with job creation increasing to 222,000 jobs in June, compared to 138,000 jobs created in May bringing the unemployment rate to 4.4% in June from 4.3% in May. The Fed also stated that it would start unwinding its quantitative easing efforts, by implementing its balance sheet normalization program, which would see it offload junk securities bought during the financial crisis from its balance sheet, currently at USD 4.5 tn. This move could have the effect of strengthening the dollar against other major currencies, with foreign flows into the US debt market and the scarcity in dollars that will arise from the program, though the Fed is widely believed to be willing to let the securities mature without rolling them over as opposed to selling them off in the market, in a bid to promote price stability. Going forward, we expect the Fed to take keen note of inflation, which continued to drop away from the 2.0% target, and which we believe will be key in future monetary policy decisions.

This week, the International Monetary Fund (IMF) released the World Economic Outlook Update for July 2017, raising Sub-Saharan Africa's growth expectation in 2017 to 2.7%, from 2.6% previously, primarily due to an upgrade on South Africa's growth prospects from 2.6% previously to 2.7%, attributed to (i) better than expected rainfall, and hence increased agricultural output, and (ii) increased mining activity, brought about by a rebound in commodity prices. The upgraded outlook on Sub-Saharan Africa's growth prospects is expected to improve investor sentiment and encourage investment in the region. In April, the IMF revised Kenya's GDP growth downwards, to 5.3%, from

6.0% previously, attributing the cut to negative effects of the drought, the slow-down in private sector credit growth and the anticipated recovery in global oil prices. The update comes at a time when the G20's Global Infrastructure Hub (GI Hub) released the Global Infrastructure Outlook Report, indicating that Kenya will need to increase infrastructure spending by 41.0% in order to meet its infrastructure needs by 2040, with infrastructural spending expected to be a key driver in the country's economic growth prospects. Going forward, we expect Kenya's economic growth to be supported by (i) government's continued expenditure on infrastructure, (ii) the recovery of the tourism sector, and (iii) the continued growth of the construction sector. However, we expect a slow-down, with growth coming in between 4.7% and 5.2%, from 5.8% in 2016, due to (i) subdued performance in the agriculture sector, brought about by the drought, (ii) the interest rate caps, which will reduce corporate earnings for commercial banks, and (iii) increased political uncertainty, forcing investors to take a wait and see stance.

Fixed Income Conclusions:

Rates in the fixed income market have remained stable, and we expect this to continue in the short-term, supported by:

I. *The government is expected to meet its domestic borrowing target for the 2017/18 fiscal year, as reduced credit to the private sector, following the capping of interest rates, will make it easier for government to meet its domestic borrowing target, as institutions channel funds more actively towards government securities. Domestic government borrowing is expected to pick up in the coming weeks, with the government having fallen behind its domestic borrowing target for the current fiscal year, recording a borrowing deficit of Kshs 6.2 bn against a target of Kshs 24.4 bn (assuming a pro-rated borrowing throughout the financial year of Kshs 317.7 bn budgeted for the full financial year), and,*
II. *The government is expected to meet its foreign borrowing target in the 2017/18 fiscal year, as budget estimates for the current fiscal year indicate a decline to Kshs 206.0 bn from Kshs 462.3 bn in FY 2016/17.*

Some of the factors that could put upward pressure on interest rates are:

I. *The Kenya Revenue Authority (KRA) is expected to face challenges in meeting its overall revenue collection target of Kshs 1.7 tn for the 2017/18 fiscal year, due to the expected subdued corporate earnings growth for the FY'2017, having missed its 2016/17 fiscal year target by 9.0%, collecting Kshs 1.4 tn compared to the Kshs 1.5 tn collection target.*

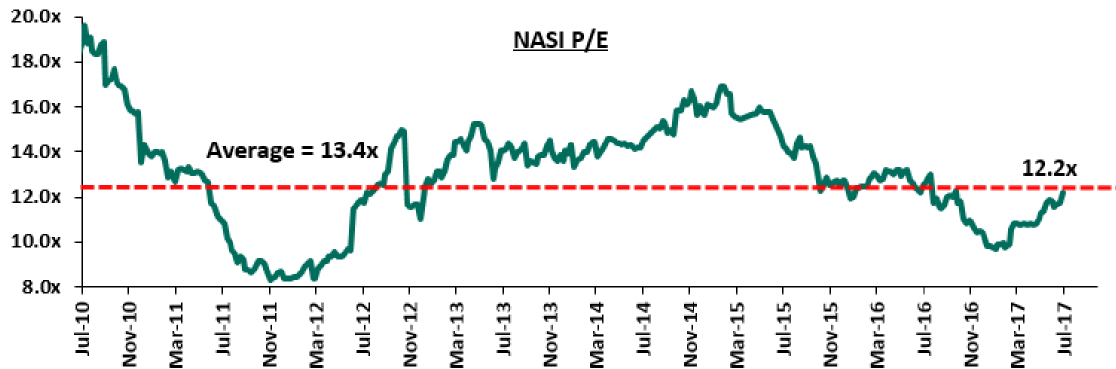
Overall, the possible deficit that is likely to result from depressed revenue collection creates uncertainty in the interest rates environment. Any additional borrowing in the domestic market to plug the deficit in revenue collection could lead to upward pressures on interest rates. Our view is that investors should be biased towards short-term fixed income instruments to reduce duration risk.

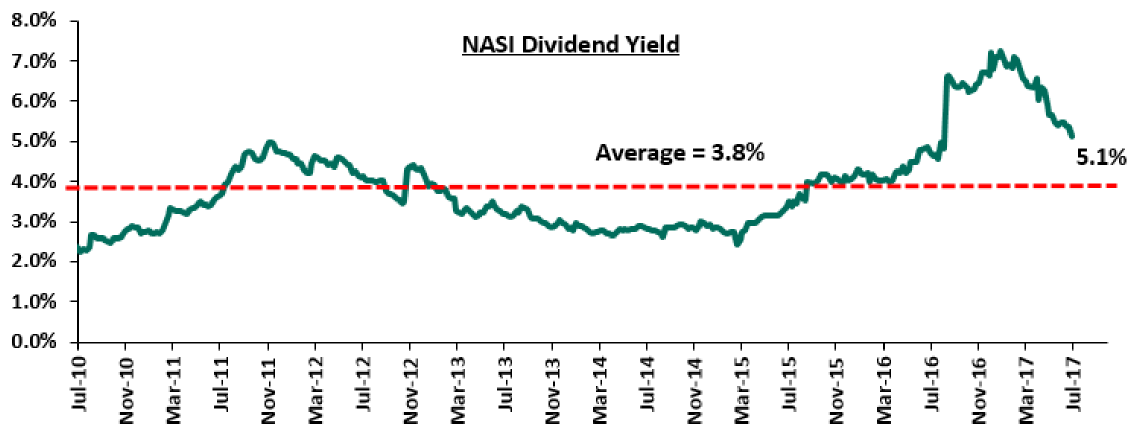
Equities

During the week, the equities market was on an upward trend with NSE 25, NSE 20 and NASI gaining 3.5%, 2.7% and 3.8%, respectively, taking their YTD performance to 21.0%, 19.2% and 20.9%, respectively. This week's performance was driven by gains in select large cap stocks such as Safaricom, KCB Group and Coop Bank, which gained 5.4%, 3.1% and 3.0%, respectively. Since the February 2015 peak, the market has lost 9.2% and 30.9% for NASI and NSE 20, respectively.

Equities turnover declined by 4.5% to close the week at USD 38.7 mn from USD 40.5 mn the previous week. We expect the market to remain bullish despite the slower corporate earnings growth in 2017 and the forth-coming general elections as the investors take advantage of the low valuations in the market, which is a temporary situation as we expect valuations to pick up after elections, if the elections are peaceful.

The market is currently trading at a price to earnings ratio (P/E) of 12.2x compared to a historical 7-year average of 13.4x, and a dividend yield of 5.1%, compared to a historical average of 3.8%. The current P/E valuation of 12.2x is 26.1% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, and 47.2% above the previous trough valuation of 8.3x experienced in December 2011. The charts below indicate the historical P/E and dividend yields of the market.





National Bank of Kenya (NBK) released H1’2017 results

NBK released H1’2017 results recording a decline in core earnings per share by 42.2% to Kshs 0.6 from Kshs 1.0 in H1’2016, attributed to a 29.8% decline in operating income, despite a 28.8% decline in operating expenses. Key highlights for the performance from H1’2016 to H1’2017 include:

- Total operating income declined by 29.8% to Kshs 4.1 bn from Kshs 5.8 bn in H1’2016. This was attributed to a 35.5% decline in Net Interest Income coupled by an 11.3% decline in Non Funded Income,
- The 5% drop in Net Interest Income (NII) was attributed to a 34.6% decline in interest income to Kshs 4.6 bn from Kshs 7.0 bn in H1’2016, despite a 33.0% decline in interest expense to Kshs 1.7 bn from Kshs 2.5 bn in H1’2016. The Net Interest Margin declined to 6.9% from 7.2% in H1’2016,
- Non-Funded Income (NFI) declined by 11.3% to Kshs 2 bn from Kshs 1.4 bn in H1’2016. The decrease in NFI was attributed to a 10.1% decline in other fees and commissions to Kshs 0.7 bn from Kshs 0.8 bn in H1’2016 and a 54.1% decline in other income to Kshs 0.2 bn from 0.3 bn in H1’2016. The current revenue mix stands at 70:30 funded to non-funded income from 75:25 in H1’2016,
- Total operating expenses decreased by 28.8% to Kshs 3.8 bn from Kshs 5.4 bn in H1’2016, following an 85.5% decline in Loan Loss Provisions (LLP) to Kshs 0.2 bn from Kshs 1.6 bn in H1'2016, due to better lending practices, following the operationalization of the Banking (Amendment) Act 2015. However, staff costs increased by 5.5% to Kshs 1.9 bn from Kshs 1.8 bn in H1'2016. Without LLP, operating expenses declined by 4.4% to Kshs 3.6 bn from Kshs 3.8 bn registered in H1’2016,

- Cost to Income ratio (CIR) worsened to 93.7% from 92.4% in H1'2016. Without LLP, the CIR slightly deteriorated to 85.8% from 85.6% in H1'2016,
- Profit before tax decreased by 41.4% to Kshs 0.3 bn from Kshs 0.4 bn in H1'2016, against our expectations for a 95.6% decrease to Kshs 0.02 bn. The effective tax rate increased slightly to 0% from 29.0% in H1'2016,
- Profit after tax decreased by 42.2% to Kshs 0.2 bn from Kshs 0.3 bn in H1'2016,
- The loan book contracted by 0% to Kshs 57.0 bn from Kshs 64.8 bn in H1'2016, slower than our expectation of a 13.2% contraction to Kshs 56.2 bn,
- Customer deposits grew by 3.4% to Kshs 98.8 bn from Kshs 95.6 bn in H1'2016,
- The decline in loans and growth in deposits led to a decline in the loan to deposit ratio to 7% from 67.8% in H1'2016.

National Bank is currently not sufficiently capitalized with a core capital to risk weighted assets ratio at 11.3%, just 0.8% above the statutory requirement of 10.5%, and total capital to total risk weighted assets falling below statutory requirement of 14.5% by 2.7% to close the period at 11.8%. For a more comprehensive analysis, see our NBK H1'2017 Earnings Note

CIC Group Insurance released H1'2017 results

CIC Group released H1'2017 results recording a decline in core earnings per share by 3.5% to Kshs 0.16 from Kshs 0.17 in H1'2016, against our expectations of a 6.7% increase. The decline in EPS is attributed to a 25.5% increase in total expenses to Kshs 7.1 bn from Kshs 5.7 bn in H1'2016 despite a 24.2% increase in total revenue to Kshs 7.9 bn from Kshs 6.3 bn. Key highlights for the performance from H1'2016 to H1'2017 include:

- Total revenue increased by 24.2% to Kshs 7.9 bn from Kshs 6.3 bn in H1'2016, attributed to a 16.6% increase in net premiums to Kshs 5.9 bn from Kshs 5.0 bn in HY'2016, and a 53.6% increase in investment income to Kshs 2.0 bn from Kshs 1.3 bn,
- Gross written premiums rose by 20.4% to Kshs 7.6 bn from Kshs 6.3 bn mainly attributed to improved quality of business in most of the business lines, especially in the medical cover business,
- Net claims and benefits increased by 27.2% to 4.1 bn from 3.2 bn in H1'2016 above our projection of a 13.9% increase. This subsequently led to an increase in loss ratio to 65.0% from 63.5% in H1'2016,
- Total expenses grew by 25.5% to Kshs 7.1 bn from Kshs 5.7 bn against our projections of a 32.6% increase, leading to an increase in the expense ratio to 57.2% from 53.1% in HY'2016. The increase is attributable to a 25.2% increase in operating and other expenses to Kshs 2.9 bn from Kshs 2.3 bn in HY'2016. This led to an increase in the combined ratio to 126.3% from 116.6% in HY'2016,
- Profit before tax increased by 28.1% to Kshs 0.4 bn from Kshs 0.3 bn, while profit after tax increased by 14.5% to Kshs 0.35 bn from Kshs 0.30 bn after restatement of financials.

Going forward, CIC Group's growth will be driven by (i) adoption of innovation and information technology, in order to drive efficiency, (ii) increase in its equities and property investments portfolio through its asset management subsidiary to grow investment income, and (iii) the strategic plan of settling their regional businesses. For more detailed analysis on CIC Group H1'2017 earnings, see our CIC Group Earnings Note.

Following the proposed debt restructuring by Kenya Airways (KQ), commercial banks that agree to the debt-equity swap will be required to lend the airline an additional Kshs 18.1 bn to revamp aircraft engines, as part of an agreement between the banks and the National Treasury. The National Treasury, KQ's top shareholder, has stated that is requires the airline's lenders to set up a dollar-denominated fund that will earn them an annual interest income based on the 3-month USD London Interbank Offer Rate (Libor), which currently stands at 1.3% plus 5.4% points premium; this facility

will be fully guaranteed by the National Treasury and shall be initially available for 5-years and renewable every year thereafter for 5-years based on the annual utilisation requirements of KQ. Under this proposal, the banks will be allowed to divest their 35.7% stake over 10-years by selling in the open market or to a strategic investor. As highlighted in our Cytonn Weekly #29/2017, we view the conversion as a positive move for the airline. However, given that the facility is dollar-denominated, KQ risks having its future earnings negatively impacted by foreign exchange losses, alongside fuel hedging.

The Kenya Attorney-General, Githu Muigai, published a new set of rules, the 'Companies (General) (Amendment) Regulations, 2017, that requires companies listed on the Nairobi Securities Exchange (NSE) to publish in their annual reports a breakdown of directors' pay, in a bid to increase transparency and strengthen corporate governance. The guidelines also provide that shareholders must approve directors' pay by way of vote, ushering in a pay-for-performance regime that may see directors of loss-making companies take a pay cut to match the profitability of the firms they lead. Publicly traded firms will also have to disclose details of payments to executive and non-executive directors for the past 5-years. We view this move as beneficial to investors since it will ensure information symmetry amongst shareholders, unlike in the previous regime where only the major shareholders would be privy to such information as they are in charge of hiring and replacing the directors, including the top management. This regulation is expected to result in greater disclosure, which is key to investors for decision-making thus boosting investor sentiment.

The Co-operative Bank of Kenya is set to open 5 new branches across the country, bringing its local branch count to 150 following recent openings at Jomo Kenyatta International Airport (JKIA), Two Rivers Mall and Ridgeway Branch on Kiambu Road. This comes at a time when some of its peers, Standard Chartered Bank and Barclays Bank Kenya, have announced a freeze on expansion as well as closure of branches in a bid to remain competitive in the tough operating environment occasioned by the implementation of the interest rate cap law. The launch of new branches by Co-operative Bank fits to the bank's Soaring Eagle strategy that is aimed at (i) enhanced client focus, and (ii) reaching new niche markets, In Q1'2017, Co-op recorded a deposit growth of 6.9% to Kshs 279.8 bn from Kshs 261.7 bn in Q1'2016, lower than the industry average of 11.7%. Through this move, the bank will enhance its local presence, thus boosting deposit mobilization. As highlighted in our Cytonn Weekly #29/2017, global ratings agency Moody's Investors Service, in their report showed that Co-operative Bank will maintain healthy profits and strong capital buffers despite the challenging operating environment characterised by low credit growth and deteriorating asset quality.

Below is our Equities Universe of Coverage

all prices in Kshs unless stated otherwise								
No.	Company	Price as at 21/07/17	Price as at 28/07/17	w/w Change	YTD Change	Target Price*	Dividend Yield	Upside/ (Downside)**
1.	NIC	33.8	34.8	3.0%	33.7%	51.2	3.7%	51.0%
2.	I&M Holdings	107.0	108.0	0.9%	20.0%	147.5	3.4%	40.0%
3.	KCB Group***	39.8	41.0	3.1%	42.6%	54.0	7.5%	39.3%
4.	HF Group	10.4	10.5	1.0%	(25.4%)	13.9	3.6%	36.6%
5.	Barclays	9.7	9.8	1.6%	15.6%	12.1	10.4%	33.8%
6.	DTBK	179.0	183.0	2.2%	55.1%	241.1	1.7%	33.5%
7.	Co-op Bank	15.0	15.4	3.0%	16.7%	18.5	5.2%	25.3%
8.	Jubilee Insurance	417.0	420.0	0.7%	(14.3%)	490.5	1.8%	18.6%
9.	Stanbic Holdings	79.5	80.0	0.6%	13.5%	77.0	5.9%	2.1%
10.	Liberty	12.0	13.0	7.9%	(1.9%)	13.0	0.0%	0.2%

11.	StanChart	217.0	221.0	1.8%	16.9%	209.3	4.7%	(0.5%)
12.	Kenya Re	20.8	21.8	4.8%	(3.3%)	20.5	4.4%	(1.3%)
13.	Equity Group	39.8	41.5	4.4%	38.3%	38.4	5.0%	(2.4%)
14.	Britam	13.8	14.5	4.7%	44.5%	13.0	2.0%	(8.1%)
15.	Safaricom	23.3	24.5	5.4%	27.9%	19.8	4.7%	(14.6%)
16.	CIC Group	5.0	4.9	(2.0%)	27.6%	3.7	3.2%	(20.3%)
17.	Sanlam Kenya	26.5	27.0	1.9%	(1.8%)	21.1	0.0%	(22.0%)
18.	NBK	10.9	10.0	(8.3%)	38.9%	4.0	0.0%	(59.8%)
*Target Price as per Cytonn Analyst estimates								
**Upside / (Downside) is adjusted for Dividend Yield								
***For full disclosure, Cytonn and/or its affiliates holds a significant stake in KCB Group, ranking as the 5th largest local institutional investor								

We remain "neutral with a bias to positive" for investors with short to medium-term investments horizon and are "positive" for investors with a long-term investment horizon.

Private Equity

Education Sector

Verod Capital Management, a Nigerian based private equity firm, through Oreon Education, has committed to acquire an undisclosed minority stake in Greensprings Educational Services Ltd (Greensprings). Greensprings is a Nigerian based educational service provider established 32-years ago and provides pre-primary, elementary, secondary and post-secondary schooling for both day and boarding students. This is Verod’s sixth investment from its second fund, Verod Capital Growth Fund II LP and will assist Verod to diversify its portfolio. The investment is advantageous to Greensprings as it will enable Greensprings to implement its strategy to expand its operations by opening more campuses. The transaction highlights the increasing interest in the education sector by private equity investors. Recently Vumela Enterprise Development Fund, a fund managed by FNB Business Banking and Edge Growth, acquired a stake in Nova Pioneer, an independent school network which offers primary and secondary school education in four Schools, all based in Johannesburg and is affiliated to Nova Pioneer Kenya. Investment in the education sector is being driven by (i) demand for quality education by the growing middle class, (ii) increase in government support for private educational institutions by having favourable regulation in most economies, making them more accommodative of private investors in the education sector, and (iii) increased private sector involvement in the implementation of education especially through innovation and provision of quality and diverse services.

FMCG Sector

South African based Sanlam Private Equity (SPE) has acquired a 60% Stake in JAB Dried Fruit Products for an undisclosed amount. JAB Dried Fruit Products based in South Africa is a processor and distributor of dried fruits and nuts to markets in South Africa and overseas. This acquisition will see SPE implement its expansion strategy into new markets while JAB Dried Fruit Products will benefit by value creation derived from the active participation of SPE into its management in order to achieve its growth strategy. Investment in the FMCG sector remains robust in Sub-Saharan Africa, having witnessed, in February 2017, Amethis Finance, a French based Private Equity (PE) fund and Metier, a South African PE fund, partner to jointly acquire a 40.0% stake in Kenafric one of the largest manufacturers of confectionery, culinary, stationery, and footwear products in Kenya. 45.0% of these products are sold in 10 African countries outside of Kenya through its impressive distribution network. The FMCG sector in Sub-Saharan Africa continues to attract private equity investors as a result of (i) growth in the retail sector, driven by increased consumption expenditure from the growing middle class, and (ii) infrastructural developments, which include the opening up of new roads and bypasses, alongside development in the rail sector. The sector is however facing challenges including (i) counterfeit goods, (ii) low export levels of FMCG products and cheaper imports from the Asian market, and (iii) poor connectivity and high energy costs. Despite these

challenges, the FMCG sector can make significant growth by (i) adopting technological innovations, and (ii) targeting the untapped demand from the rural population.

Private equity investments in Africa remains robust as evidenced by the increased deal flow in a number of sectors that support growth. The increasing investor interest is attributed to (i) a resilient and adapting middle class and increased consumerism, (ii) the attractive valuations in Sub Saharan Africa's private markets compared to its public markets, (iii) the attractive valuations in Sub Saharan Africa's markets compared to global markets, and (iv) better economic projections in Sub Saharan Africa compared to global markets. We remain bullish on PE as an asset class in Sub-Saharan Africa. Going forward, the increasing investor interest and stable macro-economic environment will continue to boost deal flow into African markets.

Real Estate

In our Focus of the Week dated 19th February 2017, on Effect of the Election on the Real Estate Environment in Kenya, we stated that there is likely to be a slowdown in transaction volumes and prices in the 2nd and 3rd quarter of 2017, especially at the run up to the election date. In line with our analysis, this week Hass Consult released the Hass Property Price Indices Q2'2017 report, covering land and house price indices that indicated a drop-in property prices. The report tracks the property price and rental price movement in the Nairobi Metropolitan Area.

On the house price index, the key take outs are;

- The Hass Composite Sales Index recorded a 3.1% q/q drop while the Hass Composite Letting Index recorded a 2.0% q/q drop, attributable to a decline in demand for residential property occasioned by a reduction in transaction volumes in the market,
- Detached houses recorded the biggest q/q price drop at 4.0%, while apartments recorded a 1.4% q/q price drop,
- In Nairobi Suburbs, Eastleigh recorded the highest q/q increase in sales price of 2.0%, while Upper Hill and Kileleshwa recorded the highest decline of 2.8% q/q,
- In Nairobi Satellite Towns, Limuru recorded the highest q/q increase in sales price of 3.2%, while Ruaka recorded the highest decline of 3.1% q/q,
- In terms of rental charges, Eastleigh recorded the highest q/q increase in rental prices of 4.1%, while Langata recorded the highest decline of 5.9%,
- In Nairobi Satellite Towns, Ngong recorded the highest q/q increase in rental prices of 5.3%, while Kiambu recorded the highest decline of 3.2%, and
- Apartments account for 55.9% of all properties in the rental market and 40.1% of all properties on sale due to their higher potential to unlock value.

In general, the rental market performed better than the sales market recording less declines of 2.0% as compared to the sales market with a decline of 3.1% indicating that there have been increased interest in rental yields by the investors due to the marginal house price increases. Poor performance in Q2'2017 can be attributed to the tough macroeconomic environment that has persisted over the past year. This is illustrated by the table below showing the house price performance over the last 3-years:

House Price Change (%) q/q from 2015 to 2017			
House Price Index	Q2'2015	Q2'2016	Q2'2017
Hass Composite Sales Index	2.2%	3.6%	(3.1%)
Hass Composite Letting Index	2.4%	2.0%	(2.0%)
*Q'2 2017, has recorded a negative price change, compared to positive price change in Q'2 2015 and Q'2 2016, mainly associated to the upcoming general elections, that has made investors to shy away			

Source: Hass Consult House Price Index

In our opinion, this is a temporary phase and we expect the market to stabilise on back of relatively strong GDP growth, on average 5.4% in the last 5-years, the relatively high returns in real estate, the middle-class growth and urbanisation rate at 4.4%, that have created demand for real estate. However, in the long run there will be price stagnation in selected markets with surplus supply. Investors need to invest in proper market research and trend analysis to identify specific market niches.

Key to note is that the general decline in property prices is partly attributable to constrained access to credit brought about by the capping of interest rates, with borrowers unable to secure mortgages due to the current regulatory framework in place as banks are unable to factor in 'high risk borrowers' within the stipulated margins. Credit to the private sector, which includes those who would borrow to finance real estate transactions, has dropped from a high of 25.8% in June 2014, to 2.1% currently. In our Focus of the Week, Update on Effect of Interest Rate Cap on Credit Growth & Cost, we spoke about the true cost of credit, which can be found here.

From the Land Price Index, the key take outs were;

- Land parcels in Nairobi's most exclusive suburbs such as Karen and Muthaiga are now entering the market as owners seek to unlock value. These exclusive suburbs are attracting developers who are optimising space by putting up more units on the land through gated communities,
- Asking prices in the Nairobi's 18 suburbs increased by 0.7% in the quarter while the 14 satellite towns recorded a 1.0% increase in asking prices over the same period,
- Karen and Lang'ata recorded the highest demand for development land among Nairobi Suburbs in the quarter, leading to price increments in the markets, with land in Karen and Lang'ata increasing by 10.1% p.a. and 15.7% p.a., respectively,
- Eastleigh is the best performing suburb over the quarter with land prices increasing by 7.2%, while Loresho recorded the biggest decrease in land prices at 2.1%,
- Syokimau was the best performing satellite town over the quarter at 5.6%, while Thika recorded the biggest decrease in land prices at 5.0%, and,
- Upper Hill is the most expensive suburb with land now priced at Kshs 550.9 mn per acre on average while Ruaka is the most expensive satellite town with land priced at Kshs 81.0 mn per acre on average.

The land prices retained a positive performance trend, though slower compared to other similar periods such as Q2'2015 and Q2'2016 as shown below.

Land Price Change (%) q/q from 2015 to 2017			
The Hass Composite Land Index	Q2'2015	Q2'2016	Q2'2017
Nairobi Suburbs	1.6%	2.5%	0.7%
Nairobi Satellite Towns	1.9%	8.1%	1.0%
* Q'2 2017, the land price retained a positive performance trend, though with a slight decrease in prices as compared to other years such as Q'2 2015 and Q'2 2016			

Source: Hass Consult Land Price Index

Land prices recorded a positive price change despite the current countries political state, because land is a strong asset class that investors use to hedge their investments from the economic instabilities and therefore least affected by the upcoming elections. We thus expect this trend to continue.

On the other hand, Data Fintech, a Consumer Data Broker company founded in 2015, released a real estate market report for the period ended May 2017. The report tracked the effective demand for land, commercial property and residential property in the Nairobi Metropolitan Area between April 2017 and May 2017 based on data collected on Buy Rent Kenya during the same period.

The key take outs from the report were;

- The effective demand for residential properties for rent has increased by 40.8% m/m due to increased investors interest in rental units, while the supply in residential units increased by 5.8% m/m. This can be attributed to the middle-class growth and urbanisation rate at 4.4% that has created demand for real estate,
- The effective demand for commercial property for rent declined by 57.1% m/m. At the same time, the commercial listings increased by 167.0% m/m indicating increased supply in office space despite the decrease in demand. This may therefore lead to decrease in rental prices to attract tenants, and,
- The effective demand for land available for sale has increased by 140.9% m/m indicating investors' confidence in the property as compared to other investment assets. The land supply has also increased by 20.0% m/m as investors seek to unlock the land value.

During the week, the National Land Commission (NLC) revoked title deeds in a massive and unprecedented clean-up of land ownership records across the country. The key areas affected by this clean-up are Nairobi, Eldoret, Kisii, Kisumu, Kakamega and Kilifi. This exercise was informed by various complaints received from the National Government, County Governments and the public on public land grabbing as well as land ownership disputes.

The key institutions where land had been taken are schools and County Governments as well as public and private institutions such as Kakamega Golf Club, Prisons Department in Eldoret, Kenya Agricultural & Livestock Research Organisation in Kisii, Housing and Urban Development Ministry, all allocations done by Kisumu Municipal Council, the predecessor of the County Government of Kisumu, in Kanyakwar, Mamboleo and Kibos and Kenya Forest Service.

According to the report Gazetted by the NLC, the land had been irregularly allocated to key politicians, former top civil servants, lawyers and businessmen. This move is however expected to trigger a legal battle between the NLC and the affected parties and it also leaves banks, which had taken the title deeds as security for loans, at a risk of loss.

The Constitution provides functions of the NLC as (i) to manage public land on behalf of the National and County Governments, and (ii) to initiate investigations on its own initiative or on a complaint, into present or historical land injustices, and recommend appropriate redress. Therefore, this judgement is, in our view, a step in the right direction as it reinforces the rule of law.

Other Real Estate Highlights

- KENHA has demolished buildings to create way for the construction of the Changamwe-Mariakani dual carriageway that was commissioned on 18th July 2017 by the president. The 11.3 km dual carriage is a strategy to ease traffic on the Mombasa-Nairobi highway. NGO Amnesty International however claims the demolitions were done illegally without an eviction notice to the affected parties, and could lead to legal suits.

The real estate sector is witnessing a slowdown in the market operations, due to the tough macroeconomic environment that has persisted over the past year. However, this is a temporary phase and we expect the market to stabilise on back of relatively strong GDP growth, on average 5.4% in the last five-years and relatively high returns in real estate, the middle-class growth and urbanisation rate at 4.4% that have created demand for real estate.

Focus of the Week: Ten Financial Planning Mistakes to Avoid

It is said that your financial situation is a combination of every financial decision you have made. While making mistakes is a part of life, some mistakes are more painful than others, more so the financial ones, and identifying what went wrong will help you avoid repeating the mistakes. In turn,

this will greatly improve your financial situation and set you on the path to financial security. Below we identify the ten common financial planning mistakes that lead people into financial distress, and how to avoid them. We then conclude by identifying the key areas you need to focus on for correct financial planning, which will lead to wealth correction.

1. Not Budgeting:

If you don't have a target, it is impossible to know if you have missed it and definitely failure to plan is planning to fail. Whether your budget takes the form of a complex spreadsheet or a piece of paper it does not matter, but it is important to measure actual expenditure against the budget on a regular basis and to adjust the budget according to your needs. This will help you avoid spending more than you have planned.

2. Earn More, Spend More:

Consistently raising your expenditure is a good way to accumulate debt and to remain stuck in the ranks of poverty. To stay out of bad debt, you will either need to find a way to earn more or spend less. The first and best option is to find ways to earn more and keep your expenditure constant. Here is our take, if you earn more save more and put more focus on cutting unnecessary expenditure, through a stringent budgeting process, and diversifying your income sources through making investments.

3. Impulse Buying:

Most people do not grow wealth because their time perspective is focused on short-term goals such as meeting basic lifestyle needs, buying luxury items, and paying rent. Are you one of them? Most of the times lacking a plan to spend is usually key in destroying your financial well-being; make it your duty to see into the future and put your impulse in check. However, it is important to treat yourself once in a while, to enjoy for the hard work created.

4. Looking for a Quick Fix:

The mentality to have a quick fix as your financial breakthrough without hard work and sharp investment will be the worst mistake of your life. Avoid the lure of quick money from avenues such as betting, gaming and get rich quick schemes, and work hard for your money.

5. Savior Mentality:

Thinking that you can solve everyone's problems is just one of the worst financial mistakes you can make when handling your financials. Do the best you can to assist when required and always help others out in emergency, but keep in mind that you can't solve every problem, you have to let go of the little problems and be sharp.

6. Constantly Complaining:

"Life is too expensive"; "It is hopeless; I will never get out of debt"; "I do not earn enough money." Old habits die hard; however, as long as you do nothing to change but constantly complain then you are on a path to destroying your financial future. Stop complaining and making lame excuses. Instead, take responsibility for your non-productive habits and focus on changing them. Your mind has the power to dictate what you achieve in life, so speak positivity to it.

7. Focusing on your pay slip:

Avoid putting both eyes on your pay slip and diversify your income by saving it in passive income generating sources such as royalties, interest, value addition and profit. Wise men do it all the time.

8. Delaying When You Start to Save:

Saving early, everyone says it’s a good thing. Do you know why? Saving early is a ritual habit that keeps you in check and disciplined in your spending and also bigger than that, it takes care of your long-term future needs. Start saving early as little as you can and you will be dodging a mistake many have fallen in love with, starting late.

9. Trying to Keep up with the Joneses:

“I want to keep up with the trends, so that I can match the standards of my peers.” This statement sounds and looks really bad on you as you say it. Buying a car because your old high school buddy bought one is just ridiculous, he/she could have been granted an attractive bonus package and just opted to acquire one of the cars he/she has been dreaming about. On the other hand, you drain out all of your savings and invest in a liability that will consume your pay slip income all the way to the end. Think about it.

10. Use of Plastic over Cash:

The rising use of credit cards has proven technology to be enhancing convenience but has not yet proven these avenues to be convenient financial planning tools. Getting a credit card loaded with credit for personal consumption and not geared towards any beneficial plan is a pure mistake and it only adds to your debt. The challenge comes in as you sometimes spend more than you have planned for since it is hard to track expenses on a card. Many like it but it would be smart to ensure strictness in tracking your expense ledger.

In order to avoid these mistakes, and to practice correct financial planning, use the below 2 key points to keep yourself in check from the start:

- Always budget and stick to it. Avoid temptations that come along the way and only tamper with your budget in the case of an emergency,
- Diversify your income, never putting all your eggs in one basket. Diversification means you are better prepared for any shocks and surprises.

Overall, you will have made at least a couple, if not all, of these mistakes at some point, but the key is learning from them, and curving the path towards financial stability.