Kenya’s Listed Banks FY’2022 Report, & Cytonn Weekly #16/2023

Real Estate

I. **Industrial Sector**

a. **Rogers Group Limited recorded a Kshs 113.6 mn gain on a bargain purchase acquisition deal**

During the week, Rogers Group Limited, a Mauritanian investment group disclosed that it recorded a Kshs 113.6 mn gain in a bargain purchase acquisition deal of Rongai Workshop and Transport Limited, a renowned transport and logistics company in Kenya, through its logistics subsidiary Velogic Limited. A bargain purchase occurs when a company is bought at a price that is less than the fair market value of its net assets, and difference is then recorded as a gain. The Mauritian conglomerate announced that it had completed the acquisition of the trucking company in March 2023, but was yet to disclose the value of the transaction. However notwithstanding, the investment firm has not yet revealed the amount it paid in the transaction. The move by Rogers Group is part of its international development strategy which aims at strengthening its footprint in emerging high growth markets as it reinforces its commitment in positioning itself in buoyant African markets.

Rongai Workshop and Transport Limited is one of the largest road transport company in the country in terms of territorial destinations served, with a long-standing presence in the country tracking 75 years, and boosts of a fleet of 160 vehicles. The acquisition will enable Velogic Limited, which has been operational since 2016 to offer a broader range of logistics services, and to expand its customer base and transport network in the East African region. Additionally, the firm is planning to expand into Rwanda through Rogers Capital, its Finance and Technology segment, further reinforcing the significance of the East African region in its expansion plan and development strategy for exponential growth. Other major trucking firms in the country include; Bollore Logistics, Siginon Global Logistics, DHL, Acceler Global Logistics, Multiple Hauliers, Mitchell Cotts, and Anwaralli Limited among others.

b. **Turkish Industry Holding committed Kshs 48.0 bn towards construction of Turkish Industry Zone located within Naivasha Industrial Park**

During the week, a Turkish based manufacturing conglomerate, Turkish Industry Holdings, committed Kshs 48.0 bn towards the construction of five industries situated within the Naivasha Industrial Park, Mai Mahiu, Nakuru County. The move by the investor comes less than a month after concerns raised by the National Assembly Trade, Industry and Cooperatives Committee over stalled construction at the park which requires Kshs 4.5 bn to become fully operational, and has contributed towards revitalizing investments within the industrial park. The project which is valued at Kshs 90.0 bn, was commissioned by President Uhuru Kenyatta in July 2022 during the official opening of the 1,000-acre Special Economic Zone (SEZ), and consists of six manufacturing industries set across 400 acres within the SEZ. The industries which will be involved in the production of construction, forestry, furniture and cleaning products are planned to be constructed in phases. The expansive complex dubbed, '*Turkish Industry Zone (TIZ)*' is projected to become fully operational within five years.

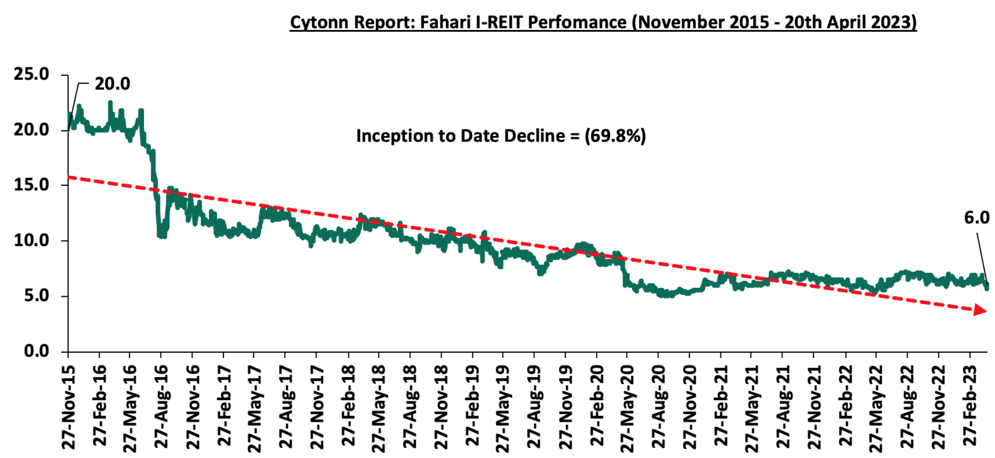
Moreover, four other investors have been allocated an additional 60 acres namely; i) Jumbo Holding Limited specializing in motor vehicle assembly and agricultural machinery, ii) Jafrom Limited dealing in construction of cold store materials, iii) Eriksen Limited which is involved in leather and textile production, and, iv) Sino Excellence Limited, a warehousing developer. We anticipate these crucial investments will assist in boosting Foreign Direct Investments (FDIs) into the country as well as set precedence for other local and international investors to invest at the park. This we expect will be fuelled by incentives offered in the SEZ including administrative and tax exemptions, and cheaper power tariffs. However, the lack of sufficient infrastructure such as roads, water and electricity within the industrial park continues to hamper optimum development and investments by hindering investor confidence. Notably, the park has significant potential to provide employment to around 16,000 young people once it is fully operational. This makes it an important initiative in tackling the current unemployment rate, currently standing at 4.9%, as at December 2022.

We expect the project will; i) improve the living standards and quality of life of surrounding residents by creating an estimated 2,860 direct jobs, ii) boost the economy of the country by injecting an estimated USD 530.0 mn (Kshs 716.6 bn) into the Kenyan economy, iii) support the development of the manufacturing industry in Kenya, and iv) advance the government's industrialization agenda.

II. **Regulated Real Estate Funds**

a. **Real Estate Investment Trusts (REITs)**

In the Nairobi Securities Exchange, ILAM Fahari I-REIT closed the week trading at an average price of Kshs 6.04 per share. The performance represented a 0.3% gain from Kshs 6.02 per share recorded the previous week, taking it to a 10.9% Year-to-Date (YTD) decline from Kshs 6.8 per share recorded on 3 January 2023. In addition, the performance represented a 69.8% Inception-to-Date (ITD) loss from the Kshs 20.0 price. The dividend yield currently stands at 10.8%. The graph below shows Fahari I-REIT's performance from November 2015 to 20 April 2023;

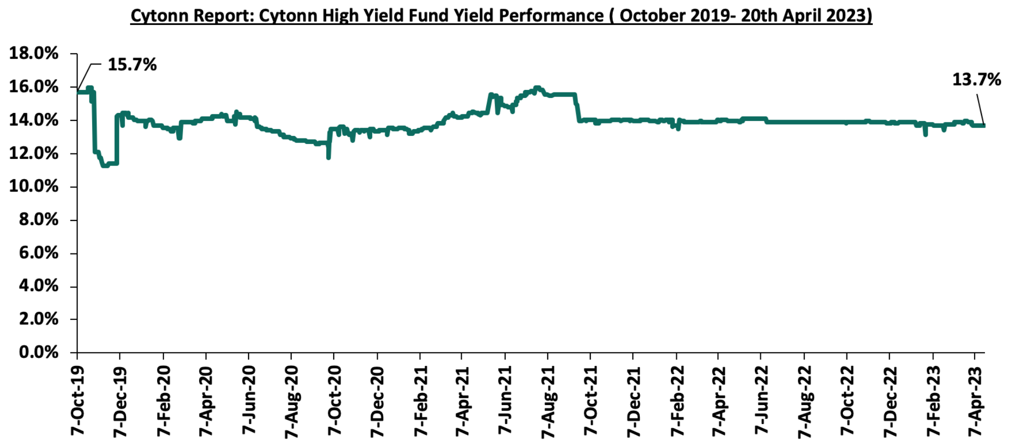


In the Unquoted Securities Platform, Acorn D-REIT and I-REIT traded at Kshs 23.9 and Kshs 20.9 per unit, respectively, as at 20 April 2023. The performance represented a 19.4% and 4.4% gain for the D-REIT and IREIT, respectively, from the Kshs 20.0 inception price. The volumes traded for the D-REIT and I-REIT came in at 12.3 mn and 29.6 mn shares, respectively, with a turnover of Kshs 257.5 mn and Kshs 603.2 mn, respectively, since inception in February 2021.

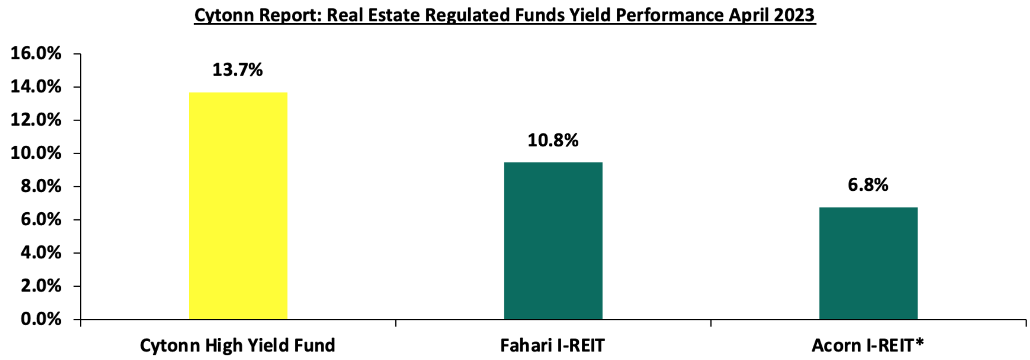
REITs provide numerous advantages, including; access to more capital pools, consistent and prolonged profits, tax exemptions, diversified portfolios, transparency, liquidity and flexibility as an asset class. Despite these benefits, the performance of the Kenyan REITs market remains limited by several factors such as; i) insufficient investor understanding of the investment instrument, ii) time-consuming approval procedures for REIT creation, iii) high minimum capital requirements of Kshs 100.0 mn for trustees, and, iv) high minimum investment amounts set at Kshs 5.0 mn discouraging investments.

b. **Cytonn High Yield Fund (CHYF)**

Cytonn High Yield Fund (CHYF) closed the week with an annualized yield of 13.7% remaining relatively unchanged from what was recorded the previous week. The performance also represented a 0.2% points Year-to-Date (YTD) decline from 13.9% yield recorded on 1 January 2023, and 2.0% points Inception-to-Date (ITD) loss from the 15.7% yield. The graph below shows Cytonn High Yield Fund's performance from November 2015 to 20 April 2023;



Notably, the CHYF has outperformed other regulated Real Estate funds with an annualized yield of 13.7%, as compared to Fahari I-REIT and Acorn I-REIT with yields of 10.8%, and 6.8% respectively. As such, the higher yields offered by CHYF makes the fund one of the best alternative investment resource in the Real Estate sector. The graph below shows the yield performance of the Regulated Real Estate Funds;



**FY'2022*

Source: Cytonn Research

We anticipate a sustained upward trend in Kenya's Real Estate sector performance propelled by various factors, including a heightened emphasis on the industrial sector that will broaden the scope for Real Estate opportunities. However, factors such as rising costs of construction due to inflationary pressures, a surplus of physical space in specific sectors, and low investor appetite for REITs are expected to continue subduing the optimal performance of the general Real Estate sector.