Cytonn Weekly Update

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Kenya Market Update & Outlook?

The Monetary Policy Committee retained the Central Bank Rate at 8.5% during its bi-monthly meeting held on Wednesday 5th November. The MPC retained the rate at 8.5%, as it did not perceive any factors that threaten to apply significant upward pressure on inflation in the near term. We agree with this, supported by the declining trend in year on year inflation in September (-1.76%) and October (-0.17%). We continue to expect Inflation to decline throughout the rest of 2014, and the early part of 2015, largely owing to declining electricity and fuel prices.

Kenya?s Central Bank?s foreign exchange reserves were enhanced by the proceeds of Kenya?s USD 2.0bn Sovereign Bond issued in June and continue to grow (grew 11.6% to USD 7.1 Bn in October), which it expected to more effectively guard against potential shocks to the Kenya Shilling. We continue to expect stability in the local currency to be supported by the Central Bank?s open market operations and improved foreign currency inflows from agricultural exports in the remainder of Q4 2014.

Stock Market Update?

The Nairobi All Share Index closed the week at 159.48 points. Foreign investors were net buyers and accounted for 67.7% of the turnover at the Nairobi Securities Exchange. The coming weeks focus will be largely on the Q3 2014 results from KCB, expected on Wednesday 12th November. KCB has been actively growing their loan book and taking internal measures to reduce cost efficiency, features which we expect to translate to favorable results.

Uchumi Supermarkets has acquired a store in Dar es Salaam from a private competitor, Sifamart Supermarkets. Uchumi indicated that the acquisition is part of its regional expansion strategy, and is now their fifth store in Tanzania. While we believe that the regional expansion in Tanzania, and soon to be in Rwanda, will help mitigate the competition in Kenya they are facing from Nakumatt and Tuskys, we expect a strain on their medium term Cashflows exasperated by the large capital expenditure requirements.

Safaricom announced 1st Half 2015 results on 4th November, recording a 32.1% year-on-year rise in Earnings to KES 0.37 per share. The performance was driven by a 14.6% growth in total revenue to KES 79.3 Bn, combined with an increase in operating leverage evidenced by a rise in their EBITA margin to 42.3%. M-PESA revenue grew 24.7% year-on-year to KES 15.6bn, driven by increased transactions per user, which increased 10.9% to an average of 6 transactions per month. We continue to expect strong earnings driven by their ability to be dynamic and push the level of Telecommunication technology to Global Standards. In line with this, they signed an agreement with MoneyGram where MoneyGram customers in over 200 countries will be able to remit money via M-PESA, boosting its market share and revenue, and will in 2015 begin implementing 4G for their mobile data network.

Kengen has postponed its Rights Issue to Q1 2015, allowing for more time for negotiations with the Kenya Treasury that owns a 70.0% stake in the company. Previously, the Treasury indicated that it aims to covert part of its Debt to Kengen into Equity, in exchange for taking up its Rights in the Issue. Kengen aims to raise approximately KES 15.0 Bn from the Rights Issue, through the issue of 2.2 Bn shares, as part of a financing plan for new power projects and raise its power capacity by approximately 2,500MW by 2018.

Listing on the GEMS Market?

The low number of new listings on the Nairobi Stock Exchange (NSE) has always been a worry for Investors looking for diversified investment opportunities. The main segment of the market requires a company to have net assets of at least KES 100 Mn, minimum share capital of KES 50 Mn held by at least 1,000 shareholders and a track record of 3 years of profit in the past 5 years. These requirements have always locked out businesses from raising the much-needed capital through the NSE, but with the (Growth and Enterprise Markets) GEMS segment, savvy investors will be picking on prospective companies at a bargain. Flame Tree Group Holdings Limited listed on November 6th on the GEMS segment and immediately impressed. Its introductory share price was KES 8.00, which rose to KES 13.00 and ended the day at KES 14.00. The GEMS Segment could be the solution to provide much needed capital for small and growing businesses, which account for 40% of Kenya?s GDP, as well as increase deepening of the Capital Markets.

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