Cytonn Weekly Update

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Fixed Income Update

This week saw the re-opening of the Sovereign Bond by the Treasury. Reopening increases the total proceeds to KES 248 Bn (USD 2.75 Bn). The silent re-opening points to the Treasury ?book building? before opening.

Our view on the re-opening is positive, as it demonstrates the effort being made by the Government to avoid crowding-out in the Local debt market. In addition, we have seen the large number of Corporates raising Debt through Local issuances, which over time will increase visibility in the market as Credit rating measures take effect. However, these continued forays into foreign debt markets urges caution, as we increase our correlation with negative shocks in Developed markets, and with the continued slide of the Shilling, the real-cost of borrowing may be higher than anticipated.

In other news, The Central Bank of Kenya (Amendment) Bill 2014 seeks Treasury bills to be lower than the current minimum of KES 100,000 and Bonds at below KES 50,000. Our view is once again positive, as large number of retail investor?s help deepen the capital markets. However, for this to truly be beneficial, roadshows and educational programmes have to be rolled out to educate the public on the processes and characteristics of investments in financial instruments.

Equity Market Update

Safaricom caused the largest waves on the Nairobi Securities Exchange after they launched commercial 4G Telecom services to increase data revenues. We continue to support Safaricom?s innovative and bold moves in the telecommunications sector, a sentiment shared by the market as at one point its shares touched a record high of KES 14.70.

Equity Bank received 50.0m Euros from the European Investment Bank (EIB) as part of a global loan facility to grow SMEs in the region. This is part of the bank?s strategy to grow the number of SMEs in its loan book. In 2013, the bank advanced over 170,000 loans totaling KES 35.6 Bn. We view this as positive form both EIB and Equity Bank, especially given Equity?s far reaching Bank networks outside the Nairobi region, with the end hope of a more inclusive economic development pattern.

Real Estate Update

In order to support Infrastructure development across the East African Community (EAC), the World Bank in conjunction with the IFC has said it will provide USD 1.2 Billion to EAC states. This is very positive news for the Real estate investment universe, as it will support planned investments and developments in the next three to seven years. This will also assist the ongoing individual Country programmes that focus on county development.

In Kenya, the funding will be utilized to complete the inter-modal transport infrastructure, planned to be implemented along the Central and Northern Corridors - includes revival of inland water- way transport on Lakes Victoria and Tanganyika, and associated road and rail links. This combined with the development of housing that focuses on the middle class across Kenya will speed up integration and set a model for real estate and infrastructure development in the Region.

Private Equity Update

LeapFrog Investments and Resolution Insurance in Kenya announces that LeapFrog intends to invest KES 1.68 Billion for a majority stake in Resolution Insurance, through its holding company, Resolution Health East Africa Limited.

Statistics show that Kenya?s non-life insurance market is growing at 20% per annum, with health insurance leading the charge at 38% per annum. Resolution is strongly placed to capture much of this growth. LeapFrog?s investment will give further drive to Private Equity firms that wish to employ a broader growth strategy, facilitating the delivery of diversified insurance and financial services to emerging consumers and businesses in East Africa.

Key Focus of the Week

Sub-Saharan Africa (SSA) remains severely undersupplied with high-quality retail and office space. South Africa remains almost 400X more supplied with Mall space, and 140X more supplied with Office space. SSA?s commercial real estate sector is in an early, high-energy phase of development as the industry starts to respond to rapid urbanization and strong demand from businesses and consumers for a modern real estate infrastructure.

A lack of Institutional players creates an opportunity for those who can partner and capture the potential in providing institutional grade real estate. International capital is beginning to move into Africa as investors seek to access the continent?s growth prospects. This will lead to a number of real estate funds created to focus on the booming real estate market.

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