Personal Financial Planning, & Cytonn Weekly Report #19

Cytonn Weekly

Executive Summary

- Fixed Income: During the week, yields on government securities remained relatively stable ending the week at 8.2%, 10.3% and 11.7% for the 91, 182 and 364-day T-bills, respectively. The government is issuing a 2-year bond and a 9-year infrastructure bond to raise a total of Kshs 30.0 bn for budgetary support;
- Equities: The Equities market registered a mixed trend this week, with NASI and NSE 25 gaining 0.8% and 0.8%, respectively, while NSE 20 lost 0.9%. During the week Safaricom released FY?2016 earnings recording a core EBITDA and EPS growth of 16.7% and 18.8%, respectively, while Equity bank and CFC Bank released their Q1?2016 results registering core EPS growths of 19.8% and 3.0%, respectively;
- Private Equity: Real estate and financial services sectors continue to attract private equity investments with International Finance Corporation committing up to USD 65 mn of equity investments in commercial real estate in South Africa and in FNB Bank in Zambia;
- Real Estate: Real estate companies are struggling to meet their investment objectives given the capital-intensive nature of the business which leads to huge financial costs;
- Focus of the Week: We focus on financial planning and suggest the steps to take when creating a financial plan.

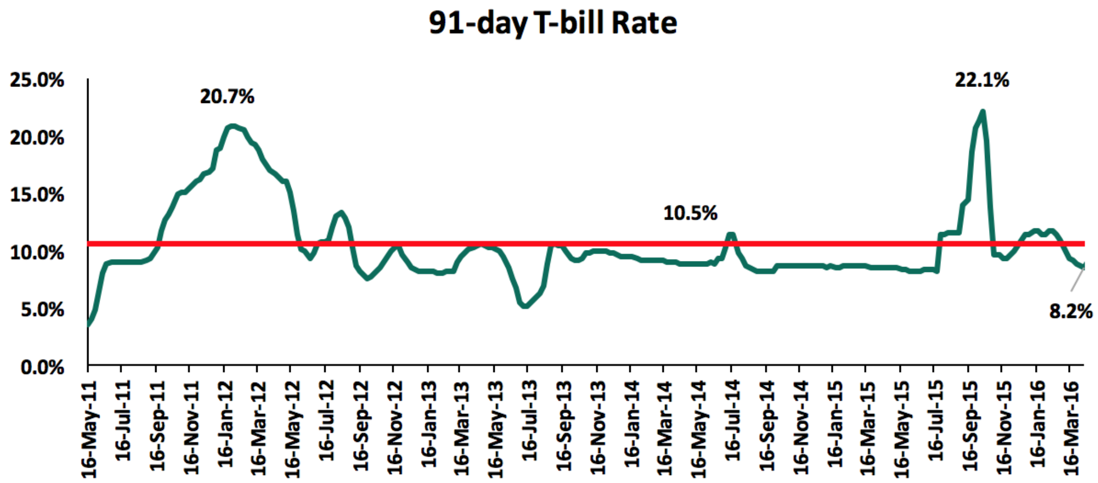
Company Updates

- During the week, we released Kenya?s first ever Corporate Governance Index of listed companies with market capitalization of more than Kshs 1.0 bn,Cytonn Corporate Governance Index, ?Cytonn CGI?. There has been keen interest in the report by both market players and governance institutions, a clear indicator that the market is sensitive to corporate governance matters. Read more here: Cytonn Corporate Governance Index
- During the week, we launched our latest real estate development, NewTown City, a world-class master planned city on approximately 1,000 acres in Athi River at Kempinski, Nairobi. See link: NewTown City
- Our Head of Private Equity Real Estate, Shiv Arora, discussed the Cytonn Corporate Governance Index Report on CNBC. See link: Shiv Arora on CNBC Africa
- Our Senior Investment Analyst, Duncan Lumwamu, discussed the current interest rate environment on KTN News. See link: Duncan Lumwamu on KTN News
- We continue to beef up the team with other ongoing hires

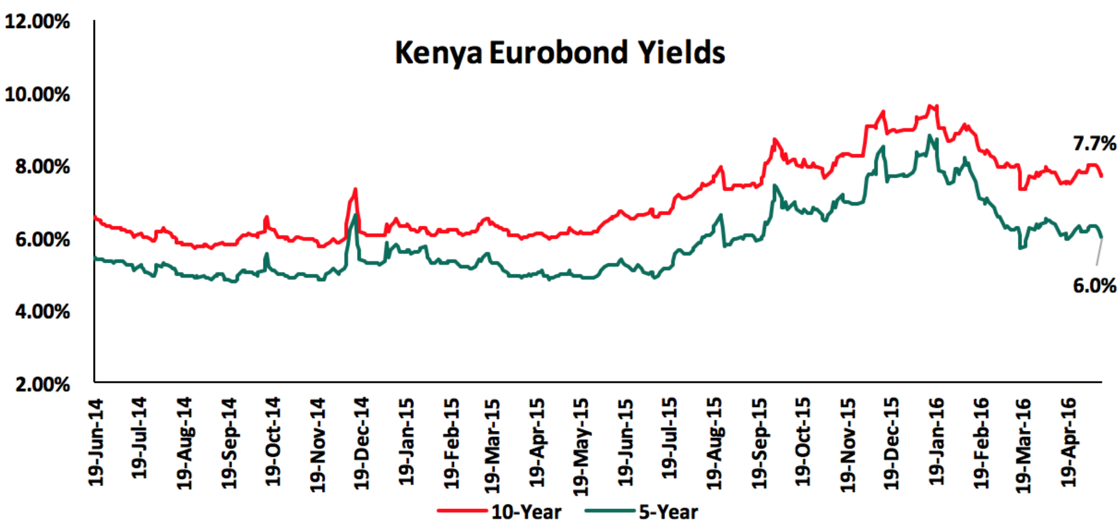
Fixed Income

Treasury bills subscription declined during the week to 207.3% from 246.5% the previous week due to reduced subscriptions of the 91-day T-bill to 278.6% from 339.4%. Subscriptions for the 182-day and 364-day T-bill increased to 201.8% and 165.2% during the week, respectively, from 99.3% and 150.5% the previous week. Investors seem a bit indifferent with investing among the three tenors, an indication that the rates are expected to have stabilized and the pricing is right on a risk-adjusted basis. The yields declined marginally with this week?s rates coming in at 8.2%, 10.3% and 11.7% for the 91, 182 and 364-day T-bills, respectively, compared to 8.3%, 10.4% and 11.7%, the previous week.

The 91-day T-bill is currently trading below its 5-year average of 10.5%, having witnessed significant stability in the last two months with the rate only declining slightly week on week. This is in line with our interest rates outlook where we expect interest rates to remain stable for the better part of 2016, and in our view, the rates have bottomed out at the current levels. Below are the yields for the 91-day T-bill for the past 5 years:



According to Bloomberg, yields on the 5-year and 10-year Eurobonds issued in 2014 have declined 125 bps and 147 bps, respectively since their peak in mid-January 2016 on account of improving macro-economic conditions. Week on week, the rates declined to 6.0% and 7.7% from 6.3% and 8.0%, respectively, following (i) the release of the 2015 GDP economic growth figures, with Kenya recording a 5.6% GDP growth, and (ii) the tempering of political rhetoric around the upcoming elections as both sides of the divide signaled some willingness to discuss the way out of the current gridlock. The National Treasury during the week cited positive feedback following the conclusion of the Eurobond roadshow. Given the short period to the end of the financial year, we think proceeds of the Eurobond will be used to finance the budget in the next fiscal year.



The government is already ahead of its local borrowing target, having borrowed Kshs 275.4 bn against a pro-rated target of Kshs 191.6 bn, hence an excess of Kshs 83.8 bn. On foreign borrowing, the government has raised Kshs 296.7 bn, against a pro-rated target of Kshs 351.5 bn, with a deficit of Kshs 54.8 bn. On tax collections, KRA has recorded a deficit in the revenue collection budget, having missed the target by Kshs 255.5 bn, assuming a pro-rated basis. The deficit in tax collection will be offset by the excess local borrowing and therefore we do not foresee any significant pressures to fund the budget in the current fiscal year.

On the expenditure side, total usage is at Kshs 727.4 bn (as at December 2015), against a half year target of Kshs 997.0 bn, which indicates that the government has not been too aggressive in consumption.

Below is a summary of the 2015/2016 fiscal year budget financing and expenditure progress:

(all values in Kshs mn, unless stated otherwise)					
2015/2016 Budget Financing					
Source of Financing	2015/2016 FY Target	Pro-rated Target	Actual Collection	Variance	Possible Effect on Interest Rates
Foreign Borrowing	401,691	351,480	296,650	(54,830)	Negative
Domestic Borrowing	219,200	191,600	275,385	83,785	Positive
KRA Collections	1,254,867	1,098,008	842,500	(255,508)	Negative
Total Funding	1,875,758	1,641,088	1,414,535	(226,553)	Negative

(all values in Kshs bn, unless stated otherwise)				
2015/2016 Expenditure Schedule as at - December 2015				
Expenditure	Targets	Actuals	Variance	Possible Effect on Interest Rates
Recurrent	501.7	416.5	85.2	Positive
Development	332.2	204.4	127.8	Positive
Others	163.1	106.5	56.7	Positive
Total	997.0	727.4	269.7	Positive

The interbank rate declined by 31bps to 3.8% from 4.1% the previous week with more banks participating in the interbank market. There was a Kshs. 1.5 bn net injection in the market summed up as follows: Kshs 63.4 bn was injected through (i) Reverse Repo purchases of Kshs 13.7 bn, (ii) term auction deposits maturities of Kshs 4.1, (iii) T-bill redemption of Kshs 13.5 bn, (iii) other OMO inflows of Kshs 7.3 bn and Government payments of Kshs 24.8 bn. Total liquidity reduction during the week was Kshs 61.9 bn broken down as: Kshs 21.6 bn in T-bill issuances, Kshs 16.0 bn in Reverse Repos maturities and Kshs 24.1 bn in tax transfers from banks. This week there was heightened reversed repo activity compared to the previous week.

The Kenyan shilling remained steady during the week at Kshs 100.6 supported by increased flows amidst subdued demand. On an YTD, the shilling has appreciated 1.7% against the dollar supported by the high levels of forex reserves currently at USD 7.7 bn, equivalent to 5.0 months of import cover. We expect the shilling to hold stable against the dollar on the back of (i) improved diaspora remittances, (ii) the approval of increased precautionary facility by the IMF and (iii) favourable local macro factors and the dovish stance adopted by the Fed to hold off on raising interest rates that have allayed fears globally.

The government is issuing a 2-year FXD 2/2016/2 bond and a 9-year IFB 1/2016/9 infrastructure bond to raise Kshs 30 bn for budgetary support and to finance infrastructure projects in energy, water, and road transport, respectively. Given (i) the relatively stable interest rates we have experienced in the country recently, (ii) The current yields on bonds with similar tenors currently trading at yields of 13.0% and 12.5% for the 2-year and 9-year respectively, (iii) stable inflation with the month of April coming in at 5.3%, within the Central Bank range, and projections of single digit levels to the end of the year, (iv) a stable shilling, (v) government being ahead of its borrowing target, and (vi) relatively high liquidity in the money market, we expect rates to remain at the current levels. We recommend investors to bid at yield range of 12.4% ? 12.9% and 12.25% - 13.25% for the 2-year and the 9-year bonds, respectively. The 9-year infrastructure bond yields are lower on account of the tax-free benefit.

The LAPSSET project has received support from the Sustainable Development Investment Partnership (SDIP) Africa Hub that has selected it to be one of the 16 projects to benefit from its USD 20.0 bn East Africa infrastructure projects allocation. The SDIP program funds projects largely in energy, transport and agribusiness with 50.0% of their total projects in Sub-Saharan Africa through a mix of philanthropic and development financing. This will help speed up the progress of the project that has been plagued by slow disbursement of funds. The LAPSSET project has had challenges in the recent past, with Uganda pulling out of a joint crude oil pipeline deal.

The International Monetary Fund First Deputy Managing Director was in the country during the week to discuss the Kenyan economy with key government officials. The Director cited Kenya?s promising growth trajectory after the positive real GDP growth of 5.6% in 2015 despite global headwinds. In 2016, the economy is expected to grow supported by (i) continued economic reforms like the planned wage-bill reductions and anticorruption campaigns, (ii) reduction of the current account deficit to 11.4% of the GDP from 14.5% of the GDP, and maintaining low public debt levels at 41.8% of the GDP, (iii) increasing supervision in the financial sector in the wake of recent challenges that have led to 3 banks being placed under receivership in less than 12 months, and (iv) strengthening and reviewing government revenue mobilization and expenditure priorities. The continued support of the IMF through policy advice and capacity building, coupled with the extension of the precautionary facility to Kenya earlier in the year, will bolster Kenya?s credit rating and attract investments from advanced and emerging markets.

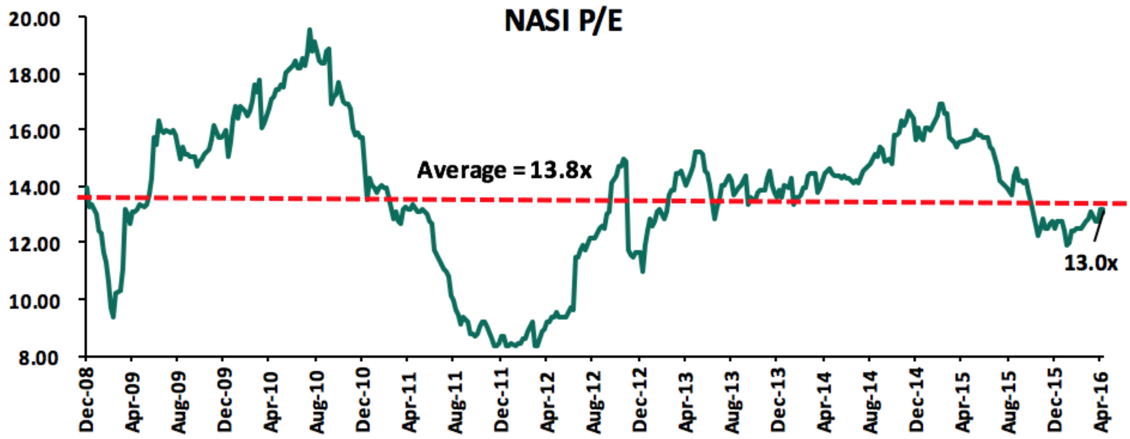
The government is ahead of its domestic borrowing schedule, having borrowed Kshs 275.4 bn for the current fiscal year compared to a target of Kshs 191.6 bn (assuming a pro-rated borrowing throughout the financial year of Kshs 219.0 bn budgeted for the full financial year). With one month left to the end of the current fiscal year, the government has surpassed its local borrowing target which will go towards plugging the deficit by KRA tax collection and will look to shift their attention to achieve the foreign borrowing target and start front-loading for the next fiscal year. With interest rates still coming down, but showing signs of bottoming out at the current levels, we advise investors to lock in funds in short to medium term paper for tenors between six and one year as the rates are attractive on a risk-adjusted basis.

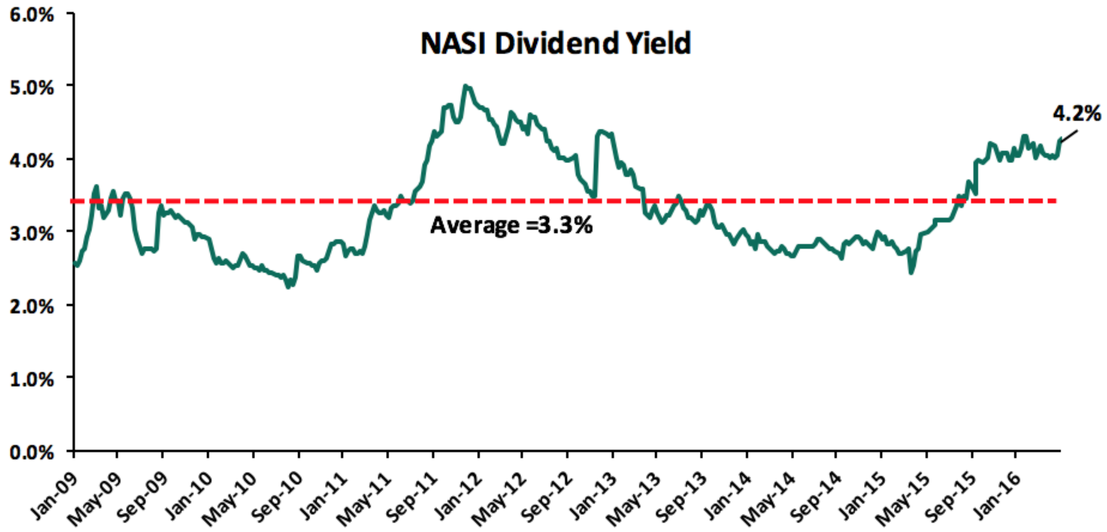
Equities

During the week, the equity market was on a mixed trend, with NASI and NSE 25 gaining 0.8% each while NSE 20 lost 0.9%, taking their YTD performance to 0.7%, 0.8% and (2.8%), respectively. The gain was on the back of 5.0% gain in KCB Group and 2.4% gain in Safaricom after reporting positive FY?2016 earnings results. The top mover of the week was EABL accounting for 25.3% of market activity and recorded the highest net foreign outflows of USD 3.1 mn while KCB Group recorded the highest net foreign inflows of USD 0.9 mn. Since the peak in February 2015, NASI and NSE 20 are down 17.4% and 28.6%, respectively.

Equity turnover rose by 62.3% during the week to USD 25.8 mn from USD 15.9 mn last week with foreign investors turning net sellers with net outflows of USD 2.9 mn compared to net inflows of USD 0.7mn the previous week. Foreign participation declined to 63.3% from 72.2% last week.

The market is currently trading at a price to earnings ratio of 13.0x versus a historical average of 13.8x, with a dividend yield of 4.2% versus a historical average of 3.3%. The charts below indicate the historical PE and dividend yields for the market;





Equity Group Holdings released their Q1?2016 results

Equity Group Holdings released Q1?2016 recording core earnings per share growth of 19.8% to Kshs 1.39 per share in Q1?2016 from Kshs 1.16 per share in Q1?2015, driven by an 18.2% growth in operating revenue in Q1?2016, which outpaced a 17.2% growth in operating expenses in Q1?2016. Key points to note are:

- Operating revenue grew by 18.2% to Kshs 15.6 bn in Q1?2016 from Kshs 13.2 bn in Q1?2015 driven by a 36.0% growth in interest income, which was supported by the relatively high interest environment, with spill-overs from 2015. Net interest margin increased to 11.0% in Q1?2016 from 10.7% in Q1?2015
- Non-funded income recorded a decline of 7.2% to Kshs 5.2 bn from Kshs 5.6 bn in Q1?2015. This was brought about by the drop in forex income by 4.8% partly due to South Sudan as a result of impairment of business following the devaluation of the currency, despite the increase in mobile, merchant and agency banking transaction volumes, which increased by 25%. Given the emphasis in transactions and fee-based banking, the drop in NFI is worrying.
- Operating expenses grew by 17.2% to Kshs 8.4 bn in Q1?2016 from Kshs 7.1 bn in Q1?2015 driven by a 21.5% rise in staff costs and a 103.7% increase in loan loss provision charge. The faster growth in revenues resulted in a marginal decline in cost to income ratio to 53.4% from 53.9% in Q1?2015
- Customer deposits increased by 8.1% to Kshs 299.2 bn from Kshs 276.8 bn in Q1?2015 with the bank citing a deliberate cut-back on fixed deposits as they were able to secure much cheaper funds from international investors, with borrowings increasing by 52.3% to Kshs 39.9 bn in Q1?2015. Loan growth outpaced deposit growth coming at 22.4% to Kshs 275.0 bn from Kshs 224.8 bn in Q1?2015, leading to an increase in the loan to deposit ratio to 91.9% from 81.2% in Q1?2015, slightly higher than the industry average of 89.0%
- Q1?2016 PAT growth came in higher than our expectations (19.6% growth to Kshs 5.1 bn from

Kshs 4.3 bn compared to our projection of a 12.7% growth).

Equity Holdings? future growth is anchored on; (i) deposit mobilization and loan book growth through alternative channels such Equitel platform and agency banking, (ii) consolidation and realization of returns from its expansion program such as Pro Credit in the Democratic Republic of Congo, and (iii) improved internal controls and corporate governance. For more details on Equity Q1?2016 results, please see Equity Bank Earnings Note

CFC Bank released their Q1?2016 results

CFC Stanbic Bank released their Q1?2016 earnings recording a marginal core EPS growth of 3.0% y/y to earnings per share of Kshs 6.96 from Kshs 6.76 per share in Q1?2015 driven by a 22.6% growth in total operating revenue, which was outpaced by a 30.2% growth in operating expenses. Key points to note include:

- Operating revenue grew by 22.6% to Kshs 4.7 bn from Kshs 3.8 bn in Q1?2015, which was supported by a growth of 32.5% growth in net interest income to Kshs 8 bn from Kshs 2.1 bn in Q1?2015 driven by a 14.7% growth in the company loan book. Net interest margin increased to 5.9% in Q1?2016 from 5.7% in Q1?2015
- Non-funded income grew by 10.5% to Kshs 1.9 bn from Kshs 1.7 bn in Q1?2015 supported by income from forex trading that grew 82.2% to Kshs 976.8 mn from Kshs 536.2 mn in 2015. This resulted in a revenue mix of 59:41, funded income: non-funded income
- Operating expenses grew by 30.2% to Kshs 2.9 bn from 2.2 bn in Q1?2015 driven by a 1,053% increase in loan loss provision and a 16.8% rise in other operating expenses. This led to an increase in cost to income ratio to 60.9% from 57.3% in Q1?2015
- Non-performing loans increased by 43.5% during the period to Kshs 5.2 bn from Kshs 3.7 bn in 2015 leading to an increase in NPL to Loan ratio of 5.1% from 4.0% in 2015

CFC bank will continue to derive value from product diversification by offering wholesome financial services ranging from corporate, investment as well as personal business banking. For more details on CFC Bank Q1?2016 results; please see CFC Bank Earnings Note.

Listed banks Q1'2016 Earnings and Growth metrics								
Bank	Core EPS Growth		Deposit Growth		Loan Growth		Net Interest Margin	
	Q1'2016	Q1'2015	Q1'2016	Q1'2015	Q1'2016	Q1'2015	Q1'2016	Q1'2015
Equity Group	19.8%	10.50%	8.10%	34.60%	22.40%	34.60%	11.00%	10.70%
NIC Bank	0.00%	-4.90%	14.80%	4.10%	6.10%	25.30%	8.10%	7.50%
CFC Bank*	3.00%	-28.40%	3.20%	17.30%	14.70%	19.50%	5.90%	5.70%
HF Group	47.60%	-33.70%	23.60%	15.90%	12.10%	28.00%	6.60%	6.20%
Weighted Average**	15.80%	1.00%	8.50%	27.90%	19.00%	30.90%	9.70%	9.40%
**CFC numbers are for the bank only*								
***Average is Market cap weighted*								

Among the listed banks that have released Q1?2016 earnings, HF Group has recorded the highest core EPS growth of 47.6%, while NIC earnings remained flat. On average, loan growth has outpaced deposits growth with loans growing by 19.0%, higher than the 8.5% deposit growth, albeit both growths declining.

Core EPS has recorded a stronger growth compared to deposit and loan growths, on account of a relatively higher interest rate environment, with spillovers of Q3 and Q4?2015. Earnings growth of Equity, NIC and CFC were driven by growth in net interest income that came in at 37.0%, 34.7 and 32.5%, respectively. HF Group recorded a 43.5% growth in non-interest income driven by sales of housing units from its real estate portfolio.

Safaricom Holdings released their FY?2016 results

Safaricom released their FY?2016 results recording core EPS growth of 18.8% to Kshs 0.95 per share from Kshs 0.80 per share driven by a core EBITDA growth of 16.7% to Kshs 83.1 bn from Kshs 71.2 bn 19.8% growth in total revenue outpacing operating expenses, which grew by 14.0%. Key points to note are:

- Voice revenue grew by 3.9% driven by a 7.8% growth in the number of total customers to 25.2 mn from 23.4 mn in FY?2015 as a result of a 9.3% decline in ARPU to Kshs 305 mn from Kshs 328 mn
- M-Pesa revenue was up 27.2% to Kshs 41.5 bn from Kshs 32.6 bn FY?2015. This was supported by the increase in M-Pesa customers by 19.8% to 16.6 mn and increase in usage with airtime top ups through M-Pesa increasing by 42.3%
- Total data revenue grew by 42.7% to Kshs 21.2 bn from Kshs 14.8 bn driven by a 21.5% growth in 30-day active users to 14.1 mn from 11.6 mn in FY?2015
- EBITDA grew 17% to Kshs 83bn from Kshs 71.1 bn as a result of a 13.8% growth in service revenue to Kshs 177.8 bn from Kshs 156.3 bn in FY?2015 as well as cost optimization across the operations, leading to an EBITDA margin expansion to 45.0% from 44.0% in FY?2015

Safaricom plans to continue improving its service offering through; (i) Investing in a call center to improve customer care experience (ii) Increasing localization as the company subdivides the business into regions each with its own head to provide tailor-made regional promotions and strategies and (iii) Using their Big-Data resource to capture key trends so at to make tailor-made advertising solutions for its customers. For more details of Safaricom FY?2016 results, see Safaricom Earnings Note

KenGen Cash Call

KenGen will undertake a cash-call through a rights issue aimed at raising Kshs 28.8 bn capital by offering 4.4bn new shares at Kshs 6.55 per share with an entitlement ratio of 2:1. The issue is at a discount of 18.1% from the current market price of Kshs 8.0 and will rank *Pari passu* with the existing shares. The government holds 70% shareholding, which translates to Kshs 11.0bn, and has indicated that it will fully take up their entitlement to avoid dilution of ownership through a conversion of debt to equity. As at full year 2015, borrowings amounting to Kshs 20.1 bn (equating to 70% of the amount to be raised from the rights issue) on loan from the Government was approved for conversion into equity. This implies that KenGen will raise a maximum of Kshs 8.6 bn from other shareholders. The successful completion of the rights issue will improve the company?s liquidity and capital structure, opening up its balance sheet to allow for more borrowing. The company currently has borrowing amounting to Kshs 9.4 bn that is due in 2016 informing our view that the proceeds of the right issue will be used to retire debt obligations and will have a minimum impact in the company developmental strategy. The register closure date for members to participate in the rights issue is 16th May 2016.

Below is our recommendation table:

Key changes in the week include;

- I&M Holdings has moved to a ?Lighten? from a ?Hold? following a 3.7% w/w change
- Barclays bank has moved to a ?Hold? from a ?Lighten? following a (2.4%) w/w change

all prices in Kshs unless stated
EQUITY RECOMMENDATION

No.	Company	Price as at 13/05/16	Price as at 6/05/2016	w/w Change	Target Price*	Dividend Yield	Upside/ (Downside)**	Recommendation
1.	KCB Group***	41.8	39.8	5.0%	53.7	4.8%	33.4%	Buy
2.	Kenya Re	21.0	20.0	5.0%	26.7	3.6%	30.7%	Buy
3.	Centum	44.0	44.0	0.0%	57.2	0.0%	30.0%	Buy
4.	NIC Bank	37.8	37.5	0.7%	42.9	2.7%	16.3%	Accumulate
5.	Stanchart***	199.0	199.0	0.0%	207.2	8.5%	12.6%	Accumulate
6.	Barclays	10.4	10.6	(2.4%)	10.3	9.7%	9.2%	Hold
7.	Equity Group***	40.3	40.0	0.6%	41.9	5.0%	9.1%	Hold
8.	Liberty	16.0	16.5	(3.0%)	17.2	0.0%	7.5%	Hold
9.	DTBK***	203.0	205.0	(1.0%)	214.0	1.2%	6.7%	Hold
10.	HF Group	20.0	20.0	0.0%	19.6	6.5%	4.5%	Lighten
11.	I&M Holdings	112.0	108.0	3.7%	112.0	3.2%	3.2%	Lighten
12.	Jubilee	473.0	480.0	(1.5%)	477.8	1.8%	2.8%	Lighten
13.	Britam	14.1	14.0	0.4%	14.1	2.1%	2.5%	Lighten
14.	Co-op Bank	18.5	18.8	(1.3%)	18.0	4.3%	1.8%	Lighten
15.	CfC Stanbic	90.0	91.5	(1.6%)	85.4	6.8%	1.7%	Lighten
16.	Safaricom	17.3	16.9	2.4%	16.6	4.2%	0.2%	Lighten
17.	National Bank	9.0	9.5	(5.8%)	8.5	0.0%	(5.0%)	Sell
18.	CIC Insurance	5.2	5.2	1.0%	4.7	2.0%	(7.6%)	Sell
19.	Pan Africa	43.3	44.0	(1.7%)	39.0	0.0%	(9.8%)	Sell

**Target Price as per Cytonn Analyst estimates*

***Upside / (Downside) is adjusted for Dividend Yield*

****Indicates companies in which Cytonn holds shares in*

Accumulate ? Buying should be restrained and timed to happen when there are momentary dips in stock prices.

Private Equity

International Finance Corporation (IFC), has committed USD 40 mn in equity investment in South Africa?s Growthpoint Investec African Properties Limited, a property investment holding company led by Investec Asset Management and Growthpoint Properties. The investment will be channeled towards commercial real estate assets such as office parks, retail, industrial or logistics properties in Sub-Saharan Africa. Given the significant supply deficit for commercial real estate across the continent, this investment targets top-quality office space, especially in the region?s largest and fastest growing economies. The growing need for a wide range of high-quality property throughout the region is being driven by (i) rapid urbanization, (ii) business development as a result of the growing entrepreneurial culture, and (iii) a substantial increase in consumer demand in the continent. Such well-funded commercial property development will generate critical facilities for businesses and consumers that provide a foundation for continued rapid growth in Africa. Real estate continues to be one of the most attractive investment sectors in the region for emerging and advanced investors.

IFC, in its bid to continue its development in the emerging markets financial sector, has also committed investments of up to USD 25 mn in First National Bank (FNB) Zambia. This funding will help FNB increase funding to small and medium-sized businesses and the agriculture sector in support of inclusive economic growth in the country and the region as a whole. The financial services sector continues to emerge as an attractive sector for private equity investments.

The Abraaj Group has continued to show its interest in health care investments following an investment commitment to spend up to USD 500 mn in start-up capital for a mid-tier hospital business in Africa, in a bid to capitalize on the demand for health services from the continent?s emerging middle classes. The Abraaj Group shall secure land for a 350-bed multi-specialty hospital in Lagos Nigeria. Abraaj also seeks to expand the project further to four other major cities in Africa, among them being Addis Ababa and Johannesburg, at an estimated cost of USD 1.0 bn between them and other external investors in the next five years. The entry of private investors in the health care sector in major African cities is clear evidence that most African governments are struggling to provide adequate healthcare for the vast majority of their citizens, despite the rapid growth in infrastructure across the continent. Abraaj?s investment in the health sector has proven to have huge returns after it fully exited its investment in Tunisia?s Unimed Pharmaceuticals through an initial public offering (IPO) on the Tunisia stock exchange. Unimed?s IPO, with an estimated market capitalization value of USD 150 mn, was oversubscribed by 32.6x, an indication of the overall market sentiment on the future growth prospects of the company and the sector.

Private equity investments in Africa remains robust as evidenced by the increased deals and deal volumes in the region key note sectors; financial services, energy, FMCG, real estate, and technology. Given (i) the high number of global investors looking to cash in on the growing middle class of Africa, (ii) the attractive valuations in private markets compared to global markets, (iii) better economic projections in Sub-Sahara Africa compared to global markets, and (iv) the high number of exits that is evidence of the attractiveness of the region, we remain bullish on PE as an asset class in Sub-Sahara Africa.

Real Estate

Real estate companies are struggling to meet their investment objectives given the capital-intensive nature of the business which leads to huge financial costs. Last week Home Afrika, the only listed property firm, released their 2015 results, posting a loss per share of Kshs 0.91, from a loss per share of Kshs 0.04 in 2014 driven by a 62.2% drop in revenue coupled with an 18.7% rise in operating expenses. Gross sales decreased by 62.2% from Kshs 390.1 mn to Kshs 259.8 mn. The drop in revenue is due to reduced sale of plots from their various projects including Migaa Golf Estate in Kiambu

At the same time, Kamuthi Housing Society is facing the risk of losing property worth over Kshs 4.0 bn due to unpaid debts. The Cooperative Society has been unable to service their debt due to poor sales that can be attributed to poor location with roads to their projects being impassable. Some of their projects include Buffalo Hills Leisure and Golf Village in Thika and Soya Estate in Murang?a.

In our view, Home Afrika, and other real estate companies need to address the following;

1. Financing Structure - The real estate sector being a capital intensive sector, requires proper planning on financing and at reasonable costs. In addition, returns from real estate usually take a while hence firms need to seek ways to enhance liquidity. Firms have done this through structured funding that can provide liquidity while the project is ongoing, use of pre-sales and diversification of income sources.
2. Exit Strategy - There?s need to put in place working strategies on product positioning and marketing so as to generate sales from projects within a reasonable period of time. A proper exit strategy will ensure adequate cash flows and profits, allowing pay back to the financiers of the project within the required timelines.
3. Market Research - Before venturing into a project, it is important to conduct a feasibility study to determine demand, uptake, and market gaps. This will prevent undertaking a high-risk investment that may result in capital loss due to poor market uptake.
4. Governance and management - Management ought to consistently work to increase the value of shareholders? equity through proper running of day to day activities. Good governance will improve investors? sentiments enabling it to access financing at fair costs.

To address their challenges, Home Afrika have resorted to diversifying income sources through property management and real estate agency. In addition, the firm has made changes in their governance framework through exiting some founding board members and bringing on board professional corporate managers. To improve their financial position, the company has undertaken to sell non-core assets to improve liquidity. Majority of the company?s assets are locked in land and real estate projects that take years to complete and sell.

Kamuthi Housing Society has also undertaken to dispose off some of their property so as to offset their loans. However, there is still need to streamline their management to ensure effective running of the society.

Our view is that, while risks are involved, with proper management and implementation of appropriate working strategies, there still exists opportunities to make good returns in real estate investment.

According to a recently released FDI report, Kenya was ranked as the country with the fastest growing FDIs in Africa and Middle East with number of projects growing by 47% to 84, all launched in 2015. Among the leading sectors attracting FDIs are real estate, while others include energy, agriculture and manufacturing. Kenya?s top investors are drawn from US, India, UK, Mauritius, Israel, Japan, Netherlands, Belgium, China and South Africa. The most recent foreign investment is development financing from the SDIP (Sustainable Development Investment Partnership), for the LAPSSET corridor. This is a big boost to the project that is expected to not only create over 15,000 jobs, but also to improve access to areas such as Lamu, Malindi, Isiolo, Lokichogio, and Juba (South Sudan) through development of roads, airports and railways in these areas. We therefore expect increase in land prices and rolling out of housing projects in these areas as the growing population continues to seek accommodation in places with convenient transport means and access to social amenities.

Other foreign direct investments in Kenya?s real estate sector have been witnessed through entry of global hotel chains in the country such as Accor-Pullman, Sheraton, and Carlson-Rezidor. Companies such as AVIC from China have also ventured into residential real estate development. Finnish firm Taaleritehdas has recently invested in various real estate projects in the country including partnering with Cytonn Real Estate and Fusion Capital. Increased foreign investment in real estate projects shows confidence in the Kenyan business environment.

Overall, Kenyan real estate environment looks positive and sustainable for investment, due to i) High demand ii) Improved infrastructure including transport, communication, energy systems, and iii) Improved security and political stability

Focus on Personal Financial Planning

In our Cytonn Weekly #15, 2015, we focused on Savings and Investments and elaborated why individuals should strive to save and suggested steps to effectively create a savings plan. We highlighted the six steps on how and why to save and finally, suggested several saving options and products. This week, we continue to expound on the same subject, looking at the wider process of financial planning, with focus on the stages of making a financial plan.

Financial planning is defined as a the process of a comprehensive evaluation of an individual's current income and future financial state by using currently known variables to predict future income, asset values and withdrawal plans. Before establishing a financial plan, one should consider their current circumstances based on age, income and level of risk tolerance. These factors have led to the broad classification of investors into three phases:

- Accumulation phase. It constitutes the young population of ages 18- 30. Their net worth is low and restricts them to low-priced investments. Nevertheless, they have a high-risk tolerance because of their long-term investment lifespan. A loss incurred can be recovered in the next investment cycle.
- Consolidation Phase. It encompasses the middle age income earners of ages 30-55. At this stage, net worth of individuals is relatively high since they are not burdened by payment of school loans

like those in the previous stage. They can afford a range of investment commodities. However, their risk tolerance is lower than that of individuals in the accumulation phase. They seek out ventures that would not imbalance their accumulated capital while still investing to offset inflationary rates.
- Spending/ Gifting Phase. Most people at this stage are retired and are of ages 55 and beyond. Their source of income is majorly from the investments held. They have a low-risk tolerance and prefer little to no risk investments.

It is critical to evaluate these three phases before launching a financial map. Once the appropriate classification is identified, one should be able to determine the personal optimal plan. After this evaluation, we describe the process of creating financial planning;

1. Setting long term goals

The thought of long-term financial stability appeals to most, if not, all individuals. Some would argue that the daily ?hustle? is an attempt to attain the said prosperity. Like every other journey, the single step in this instance begins with setting effective goals: long term. There are various factors that drive people to outline their financial priorities. The need can be fueled by a shift in individual characteristics. In most cases, an example is given of a Double Income No Kids (DINK) couple whose status quo changes to a family with children. Such instances prompt the need for a solid financial plan.

2. Knowing the investment options

The achievement of long-term financial safety involves undertaking various investment projects that would not only build wealth but also secure it. There are numerous investment options available that appeal to different classes of investors. The myriad of possibilities can leave an individual confused about the ideal product. In determining the appropriate investment option, one should consider:

- The rate of return to be obtained. A rational investor seeks out a venture that would provide maximum return for a given level of risk
- The cost of the investment. Research shows that one should harbour the same sentiments in purchasing an investment as they do in buying groceries. The price of the good is a key element. Over time, the returns received should exceed the cost of the investment
- Liquidity needs and time horizon for investment. The liquidity varies from one asset to another. An individual must evaluate the target for the investment chosen and the length of time they for which they require illiquid assets
- The regulatory and legal constraints placed on the venture. Awareness of the tax treatments that the selected investment options are subject to assists one in evaluating their long-standing returns.

3. Saving for retirement

The mention of long-term brings to mind retirement benefits. People aspire to have a comfortable living that can sustain them throughout their old age. The most common schemes are the defined benefit and the defined contribution options. They both include separate enticing packages that can fit into personal financial plans. Preparation for retirement can include:

- Understanding the retirement goals. This is mandatory since it helps an individual to determine the optimal course of action in achieving the long term goals
- Putting up funds in conjunction with the employer?s contributions. The higher the income in retirement funds, the easier it is to attain long-term financial stability
- Never withdrawing funds before maturity. A long term investment gives a higher return than one that is short term. Constant withdrawal of funds not only depreciates the income, but can also be subject to stringent tax laws in some countries.

4. Preparing for unexpected events

The occurrence of an emergency can pose an obstacle in the race to attaining personal financial security. Unexpected events can cause a financial dip from which it would be difficult to recover. Despite their rare nature, plenty of funds are dispensed to restore the situation to normal. This has necessitated the need for emergency funds. A financial plan should include a proportion of wealth that is readily accessible. Moreover, an emergency fund should be distinguished from other accounts. Undertaking withdrawals from various funds to counter unexpected events disintegrates the long-term financial map.

In conclusion, every individual should seek a personal financial advisor to assist them develop personal financial plan in order to achieve personal financial security, which is important for our respective well-being.
