Cytonn Weekly Report #20

Cytonn Weekly

Executive Summary

- **Fixed Income:** During the week, yields on government securities remained relatively stable ending the week at 8.0%, 10.1% and 11.6% for the 91, 182 and 364-day T-bills, respectively. The government raised Kshs 39.6 bn from the 2-year bond and 9-year infrastructure bond with yields coming in at 12.5% and 13.5%, respectively;
- **Equities:** The equities market registered mixed trends with NSE 20 and NSE 25 losing 0.9% and 0.3%, respectively, while NASI remained flat. During the week, Co-operative Bank released their Q1?2016 registering a core EPS growth of 7.7%. The Nairobi Securities Exchange Limited has been imposed with a 5.0% cap on investor shareholding of the company;
- **Private Equity:** Real estate sector in the region continues to attract private equity investments with Pan African Housing Fund committing USD 5.1 mn of equity investments in residential real estate in Zambia;
- **Real Estate:** Lifestyle Properties has announced its plans to develop residential units in Tatu City, Kiambu County while Carrefour, the French retail giant, opened its maiden store in Kenya at The Hub, Karen;

Company Updates

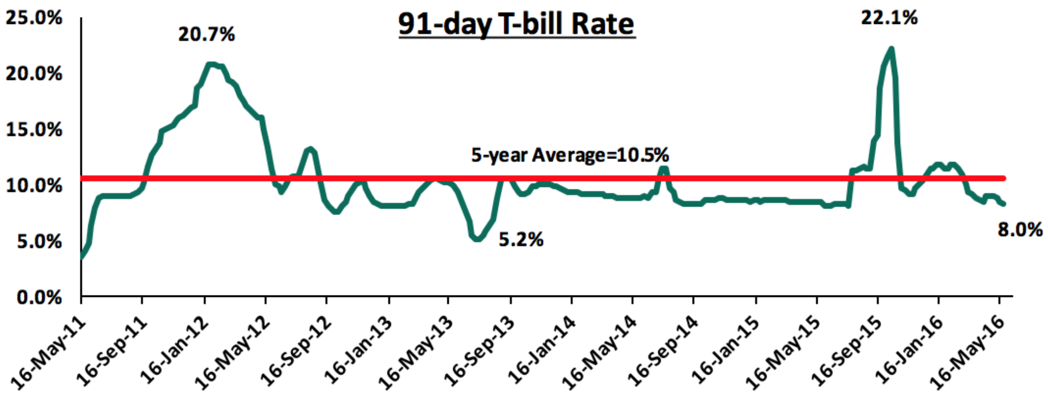
- Our Senior Investment Analyst, Duncan Lumwamu, discussed the effect of new excise tax and increase in fuel prices on inflation on CNBC. Duncan Lumwamu on CNBC.
- Our Senior Investment Analyst, Duncan Lumwamu, also discussed various issues related tomarket performance including KRAs intention to turn to mobile money transfer platforms to collect tax. Duncan Lumwamu discusses market performance.
- Our Senior Investment Analyst, Duncan Lumwamu, discussed the performance of the Kenyan shilling and the direction of the upcoming MPC meeting on KTN News. Duncan Lumwamu on KTN.
- During the week, we gave our view on the upcoming Monetary Policy Committee Meeting, where we expect MPC to retain the rate at 11.5%, but there is a possibility of a slight cut. MPC Meeting Note.
- We continue to beef up our team with the following on-going hires: Careers in Cytonn.

Fixed Income

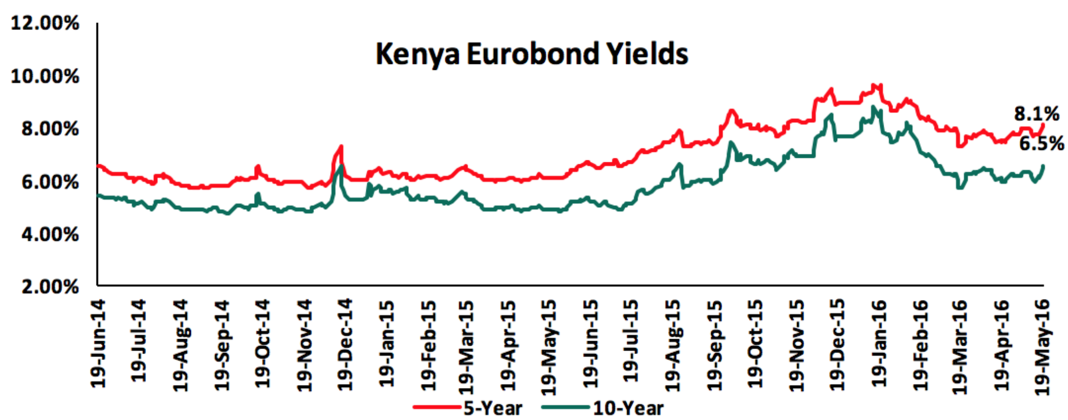
During the week Treasury bills subscription declined to 145.1% from 207.3% the previous week with subscriptions for the 91-day, 182-day and 364-day T-bill declining to 182.5%, 141.2%, and 124.4%, respectively, from 278.6%, 201.8% and 165.2% the previous week. The decline in subscription rates was as a result of investor activity being skewed towards this month?s primary bond auction. The yields declined marginally this week, with rates coming in at 8.0%, 10.1% and 11.6% for the 91, 182 and 364-day T-bills, respectively, compared to 8.2%, 10.3% and 11.7%, the previous week.

The government issue of a 2-year FXD 2/2016/2 bond and a 9-year IFB 1/2016/9 infrastructure bond was highly subscribed with a performance rate of 269.8% equivalent to Kshs 80.9 bn with the government accepting Kshs 39.6 bn with a skew towards the IFB 1/2016/9 where they accepted Kshs 34.9 bn compared to Kshs 4.7 bn accepted for the FXD 2/2016/2 despite the higher demand for the two year. The government could be seeking to lengthen their debt maturity hence the skew. The average yields for the for the 2-year and the 9-year bonds came in at 12.5% and 13.5% respectively in line with our recommended bid range of 12.4% ? 12.9% and 12.3% - 13.3% for the 2-year and the 9-year bonds, respectively: See Cytonn Weekly Report #19. Investors? focus is shifting towards longer-dated papers as rates have stabilized within the shorter end of the yield curve and are fairly priced on a risk-adjusted basis.

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. 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 225 bps and 150 bps, respectively since their peak in mid-January 2016 on account of improving macro-economic conditions. Week on week, the rates rose to 6.5% and 8.1% from 6.0% and 7.7%, respectively; there has been a noticeable upward trend in the Eurobond yields over the last one month with yields increasing approximately 500 bps, following the current stalemate on the IEBC debate with weekly chaos across several cities every Monday. Investors perceive an increasing country political risk profile, which causes investors to demand a higher premium to hold the Kenyan Eurobond.



Based on the Central Bank weekly report, the interbank rate declined by 20bps to 3.6% from 3.8% the previous week mainly supported by government payments of Kshs 25.5 bn, which led to a net injection of Kshs 15.9 bn, as shown below:

(all values in Kshs bn, unless stated otherwise)

Weekly Liquidity Position ? Kenya			
Liquidity Injection		**Liquidity Reduction**	
Reverse Repo Purchases	13.2	T-bill (Primary issues)	17.3
Term Auction Deposits Maturities	3.0	Reverse Repos maturities	15.0
T-bill Redemptions	15.3	Term Action Deposit	6.4
T-bonds Redemptions	25.3	Transfer from Banks -Taxes	10.1
T-bonds Interest	1.8	T-bonds(Primary issues)	19.4
Government Payments	25.5		
Total Liquidity Injection	**84.1**	**Total liquidity withdrawal**	**68.2**
		Net liquidity injection	**15.9**

Government is still ahead of its borrowing schedule having borrowed Kshs 291.3 bn for the current fiscal year against a pro-rated borrowing of Kshs 196.2 bn which will help plug the deficit in foreign borrowing and tax collection as shown below:

(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	196,200	291,285	95,085	Positive
KRA Collections	1,254,867	1,098,008	842,500	(255,508)	Negative
Total Funding	**1,875,758**	**1,645,688**	**1,430,435**	**(215,253)**	Negative
Actual, based on 8-months published data					

The MPC is set to meet on May 23, 2016 to review the prevailing macroeconomic environment and give the direction of the Central Bank Rate (?CBR?). In the last MPC meeting of March 21, 2016, the MPC maintained the CBR at 11.5% on account of low levels of inflation within CBK?s target, stable shilling, and improved forex reserves. In our view, we expect MPC to retain CBR at 11.5% driven by (i) expected upward pressure on inflation in the coming months from the new excise tax and VAT on petroleum products, (ii) possible spill-over effects of an interest rate hike by the US Fed that will in effect strengthen the dollar thus exerting a downward pressure on the value of the Kenyan currency, (iii) shifts in government borrowing, that could potentially increase pressure on local interest rate environment and increase dollar obligations, and (iv) the need for time to strengthen the Kenyan financial system following the closure and reopening of Chase Bank. See MPC note

The Kenyan shilling remained steady during the week at Kshs 100.7 supported by increased flows amidst subdued demand. On an YTD basis, the shilling has appreciated by 1.6% 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 coupled with the dovish stance adopted by the Fed to hold off on raising interest rates that have allayed fears globally.

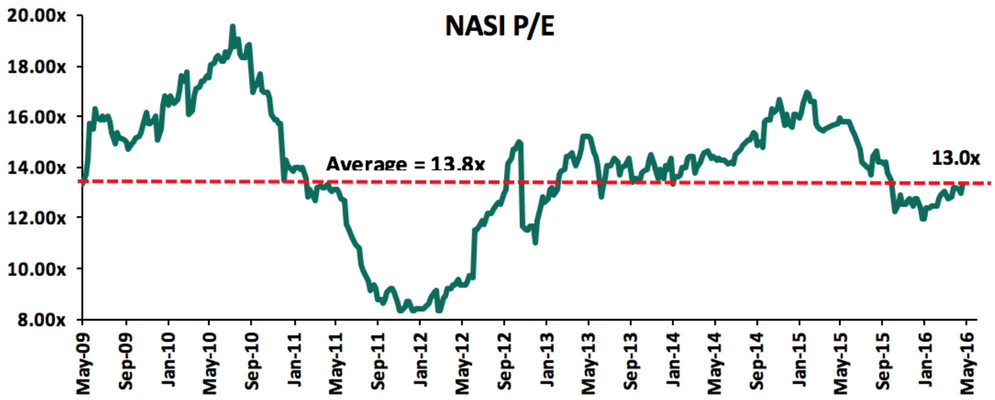
The government is ahead of its domestic borrowing schedule, having borrowed Kshs 291.3 bn for the current fiscal year compared to a target of Kshs 196.2 bn (assuming a pro-rated borrowing throughout the financial year of Kshs 219.0 bn budgeted for the full financial year). With one month left to the 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 months and one year as the rates are attractive on a risk-adjusted basis.

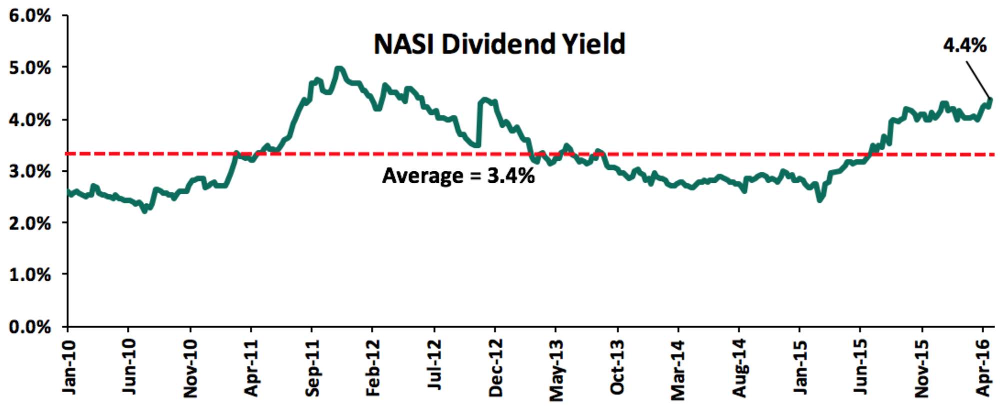
Equities

During the week, the market registered a mixed trend with NSE 20 and NSE 25 losing 0.9% and 0.3%, respectively while NASI remained flat, taking their YTD performance to 0.7%, (3.7%) and 0.5%, for the NASI, NSE 20 and NSE 25 respectively. The top movers for the week were Safaricom and Equity Group accounting for 35.7% of market turnover. Safaricom Limited recorded the highest net foreign inflows of USD 1.9 mn while Equity Bank recorded the highest net outflows of USD 2.2 mn. Since the peak in February 2015, NASI and NSE 20 are down 17.3% and 29.3%, respectively.

Equity turnover fell by 20.4% during the week to USD 20.6 mn from USD 25.8 mn last week. Foreign investors turned net buyers with net inflows of USD 0.4 mn compared to net outflows of USD 2.9 mn last week, increasing foreign participation slightly to 64.2% from 63.3% 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 4.4% versus a historical average of 3.4%. The charts below indicate the historical PE and dividend yields for the market;





Co-operative Bank released their Q1?2016 results:

Co-operative Bank released Q1?2016 recording core earnings per share growth of 7.7% to Kshs 0.70 per share in Q1?2016 from Kshs 0.65 per share in Q1?2015, driven by a 17.7% growth in operating revenue in Q1?2016 which was outpaced by a 21.7% rise in operating expenses in Q1?2016. Key points to note are:

- Operating revenue grew by 17.7% to Kshs 10.3 bn in Q1?2016 from Kshs 8.7 bn in Q1?2015 driven by a 30.6% growth in net interest income, which was supported by a 16.1% growth in loans and advances. Net interest margin decreased to 10.0% in Q1?2016 from 10.2% in Q1?2015
- Non-funded income recorded an increase of 20.7% to Kshs 3.5 bn from Kshs 2.9 bn in Q1?2015. This growth was supported by (i) a 343.5% growth in other incomes to Kshs 538.7 mn from Kshs 121.5 mn in Q1?2015, (ii) a 10.0% growth in foreign exchange gains to Kshs 498.0 mn from Kshs 452.7 mn, and (iii) a 5.7% growth in fees and commissions to 2.4 bn from 2.3 bn in Q1?2015

- Operating expenses grew by 21.7% to Kshs 5.2 bn in Q1?2016 from Kshs 4.3 bn in Q1?2015 driven by a 15.5% rise in staff costs and a 78.6% increase in loan loss provision charge. The faster growth in expenses resulted in an increase in cost to income ratio to 51.0% from 49.4% in Q1?2015
- Customer deposits increased by 11.9% to Kshs 261.7bn from Kshs 233.9 bn in Q1?2015. Loan growth outpaced deposit growth coming at 16.1% to Kshs 213.7 bn from Kshs 184.1 bn in Q1?2015 leading to an increase in the loan to deposit ratio to 81.7% from 78.7% in Q1?2015, slightly higher than the industry average of 89.0%
- Q1?2016 PAT growth came in slightly higher than our expectations (8.3% growth to Kshs 3.4 bn from Kshs 3.2 bn compared to our projection of an 8.2% growth)

Co-operative Bank?s future growth is anchored on; (i) enhanced credit management systems and processes to ensure a quality loan book, (ii) enhanced data analytics to drive sales through leads generation, and (iii) improved operational efficiencies that will drive down operating costs. For more details on Co-operative Bank Q1?2016 results, please see Co-operative Bank Earnings Note.

Of the 5 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. The average growth in reported earnings across the banking sector stands at 13.7%, attributable to a relatively higher interest rate environment, with spill overs of Q3 and Q4?2015. On average, loan growth has outpaced deposits growth with loans growing by 18.3%, higher than the 9.5% deposit growth, albeit both growths declining from Q1?2015. Core EPS growth for banks will be clearer once National Bank of Kenya, I&M Bank, Standard Chartered, Barclays, KCB Group and Diamond Trust Bank release their Q1 earnings. Below is a summary of the key metrics:

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**
HF Group	47.6%	-33.7%	23.6%	15.9%	12.1%	28.0%	6.6%	6.2%
Equity Group	19.8%	10.5%	8.1%	34.6%	22.4%	34.6%	11.0%	10.7%
Co-op Bank	7.7%	28.7%	11.9%	24.9%	16.1%	19.0%	16.9%	9.8%
CFC Bank*	3.0%	-28.4%	3.2%	17.3%	14.7%	19.5%	5.9%	5.7%
NIC Bank	0.0%	-4.9%	14.8%	4.1%	6.1%	25.3%	8.1%	7.5%
Weighted Average**	**13.7%**	**8.5%**	**9.5%**	**27.1%**	**18.3%**	**27.8%**	**11.6%**	**9.5%**
CFC numbers are for the bank only								
*****Average is Market cap weighted***								

Uchumi Supermarket Supplier Woes

Following the case by Uchumi suppliers going to court in a petition to force the retailer to pay up on back-dated debts worth Kshs 3.6 bn owed to them, Uchumi Supermarkets has proposed a debt for equity swap that will see suppliers convert an equivalent of Kshs 1.8 bn of their debt into equity. This comes at a time when the company reportedly sold off its Ngong road property for Kshs 1.4 bn. Below is an analysis of the effect of the debt for equity swap that will see 0.5 bn new shares issued, bringing the total number of shares of the retailer to 0.9 bn at a price of Kshs 3.5. This will result in a dilution of 42% for existing shareholders:

Dilution effect on Uchumi?s Market Cap			
Shares	**Outstanding (bn)**	**Value per share (Kshs)**	**Market Cap (Kshs bn)**
Current	0.37	3.5	1.3
New shares	0.51	3.5	1.8
Pro forma shares	**0.88**	**3.5**	**3.1**

Nairobi Securities Exchange imposed new rules on shareholding by Treasury

The Cabinet Secretary for National Treasury has issued the Capital Markets Regulations 2016 which seek to introduce new restrictions to shareholders of Nairobi Securities Exchange (?the Exchange?) namely:

i. Individuals or private companies are restricted from owning not more than 5% of equity share capital of the Exchange
ii. Public companies are restricted from holding not more than 10% of equity share capital of the Exchange
iii. Trading participants are not allowed to own more than 40% of the total shareholding of the Exchange

The market participants have been given 6 months from May 13, 2016 to comply with these new regulations. At the moment the top 20 shareholders hold 72.3% of total shares with the top shareholder under a nominee account owning 16.1%. Under these regulations, it is unlikely there are breaches to these regulations since majority of the top 20 shareholders have less than 5% shareholding with the exception of the top two. This is a good move by the Treasury to curb ownership and control of the governing body in equities trading in the country as a show of good governance.

Insurance Regulatory Authority (IRA) released FY?2015 insurance sector numbers

IRA released FY?2015 numbers on the insurance industry showing total insurance premiums grew by a mere 9.8% to Kshs 173.3 bn from Kshs 157.8 bn in FY?14. Key highlights from the report:

- Claims incurred increased by 18.1% to Kshs 81.6 bn from Kshs 69.1 bn in FY?2014 outpacing premiums written which grew 9.8% to Kshs 173.3 bn from Kshs 157.8 bn in FY?2014. Kenya?s insurance industry continues to be largely non-life business with non-life premiums contributing 64.6% of total premiums compared to the global scenario where non-life premiums contribute 45.2%. The higher growth in claims is a pointer to the squeezed underwriting margins for the insurers
- There was a decline in profitability by both insurers and re-insurers in the life business by 72.5% and 34.3%, respectively while the general business registered mixed performance with insurers? profitability declining by 23.6% and re-insurers increasing by 4.2%. Only 10 out of the 36 general business insurers posted profits
- Total assets held by the insurance sector increased by 12.3% to Kshs 478.8 bn from Kshs 426.3 bn in FY?2014. The industry also held Kshs 390.2 bn in income generating investments (a growth of 10.7% from Kshs 352.4 bn with investments being made in government securities (42.9%), investment property (17.6%), term deposits (15.4%), equities (10.9%) and other securities (13.3%). This was a minor shift from 2014 where allocations were in government securities (38%), investment property (18%), equities (17%), term deposits (16%) and other securities (11%)
- The number of fraud cases increased by 21.8% to 160 from 87 cases in FY?2014 with the value involved increasing by 257.0% to Kshs 366.9 mn from Kshs 102.7 mn which represents 0.7% of total claims. The new risked based supervision implemented by the Regulator will go a long way in curbing this increase.

These seemingly weak numbers reinforce our views in our FY?2015 Insurance Report that there is a need (i) to diversify and tailor make products to cater for all income brackets, (ii) support the uptake of life insurance through market awareness to grow the low penetration of 3.0% compared to South Africa at 14.0%, and (iii) increase regulation in the industry to be line with the riskiness of the business and to reduce fraud in the industry.

Longhorn Publishers rights issue fully subscribed

Longhorn Publishers undertook a rights issue to sell 126 mn new shares for Kshs 4.2 a share with a discount of 8.3% from the price of Kshs 4.6 on announcement date at 0.86 shares for every one held. The rights issue had a 101.0% subscription rate receiving Kshs 533.0 mn against a target of Kshs 530 mn. The successful issue has seen Centum increase their stake in the publisher to 60.0% from 31.3% with an additional 118.3 mn new shares making Longhorn effectively a subsidiary of Centum. The action by Centum to take acquire additional rights indicates its continued commitment to the education sector. Centum is placing itself as a key player in the education sector that looks to be undergoing a massive overhaul in content delivery as evidenced by its recent investment in Elimu Tv and now Longhorn Publishers that is looking to tap into technology to increase returns. Centum has however applied for an exemption as it does not seek to take control of Longhorn Publishers. The publisher will now be able to carry out regional expansion (Kshs 80.0 mn), product diversification (Kshs 100.0 mn) and retirement of debt (Kshs 100 mn) with the rest of the funds going towards propelling the digitisation of published books as well as launching e-learning platforms as part of its drive towards digital education content. Longhorn?s strategy to roll out digital and printed versions of its books that target primary and secondary schools is rightly placed with the government planning to roll out a digital agenda for schools.

Following the recent sell down by Barclays Plc of a 12.2% of its stake in Barclays Africa, it now remains with 50.1%, a move which continues to generate controversy. Speaking at the World Economic Forum, Central Bank of Kenya Governor Patrick Njuguna lamented of Barclays Plc?s actions citing that "it feels like we are being treated like ***flower-girls***" given the lack of engagement with local regulators in the African countries as Barclays executes its exit from the continent. South Africa's Central Bank said private-equity bidders would face opposition from the Central Bank, apparently in response to Bob Diamond, the former CEO of Barclays, who is preparing a consortium bid, which includes U.S Private Equity giant Carlyle Group, to purchase Barclays Africa.

Below is our equities recommendation table, with the following changes:

i. Standard Chartered moved from an ?accumulate? to a ?hold? while Diamond Trust Bank moved from a ?hold? to ?lighten? following gains of 4.0% and 2.5%, respectively during the week
ii. We sold our holdings in Equity mainly due to valuation. At 2.2x price to book valuation, compared to industry average of 1.6x, the company seems fully valued in the current market environment. We were also concerned about a couple of things from the latest earnings report. First, despite being perceived as a transaction bank, the non-funded income to total income dropped to 33% from 42% q/q, deposit growth was anaemic at 8.1%, and international expansion is dragging down the bank with 20% of assets but only contributing 5% of profits. In summary, we think the valuation is too healthy and we think the risk-return proposition in the international strategy is skewed more towards risks.

all prices in Kshs unless stated								
EQUITY RECOMMENDATION								
No.	**Company**	**Price as at 20/05/16**	**Price as at 13/05/16**	**w/w Change**	**Target Price***	**Dividend Yield**	**Upside/ (Downside)****	**Recommendation**
1.	KCB Group***	40.8	41.8	(2.4%)	53.7	4.9%	36.7%	Buy
2.	Centum	42.3	44.0	(4.0%)	57.2	0.0%	35.4%	Buy
3.	Kenya Re	21.5	21.0	2.4%	26.7	3.5%	27.7%	Buy
4.	NIC	37.3	37.8	(1.3%)	42.9	2.7%	17.9%	Accumulate
5.	Barclays	10.4	10.4	0.0%	10.3	9.7%	9.2%	Hold
6.	Equity Group	40.5	40.3	0.6%	41.9	4.9%	8.4%	Hold
7.	StanChart***	207.0	199.0	4.0%	207.2	8.2%	8.3%	Hold

8.	CfC Stanbic	85.0	90.0	(5.6%)	85.4	7.2%	7.7%	Hold
9.	Liberty	16.1	16.0	0.3%	17.2	0.0%	7.2%	Hold
10.	HF Group	20.0	20.0	0.0%	19.6	6.5%	4.5%	Lighten
11.	DTBK***	208.0	203.0	2.5%	214.0	1.2%	4.1%	Lighten
12.	I&M	112.0	112.0	0.0%	112.0	3.1%	3.1%	Lighten
13.	Co-op Bank	18.4	18.5	(0.5%)	18.0	4.3%	2.3%	Lighten
14.	Jubilee	483.0	473.0	2.1%	477.8	1.8%	0.7%	Lighten
15.	Safaricom	17.4	17.3	0.3%	16.6	4.2%	(0.0%)	Sell
16.	Pan Africa	40.0	43.3	(7.5%)	39.0	0.0%	(2.5%)	Sell
17.	Britam	15.5	14.1	10.3%	14.1	1.9%	(7.1%)	Sell
18.	CIC	5.3	5.2	1.0%	4.7	1.9%	(8.6%)	Sell
19.	NBK	10.2	9.0	14.0%	8.5	0.0%	(16.7%)	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.								
Lighten ? Investor to consider selling, timed to happen when there are price rallies								

We remain neutral on equities given the low earnings growth prospects for this year. The market is now purely a stock picker?s market with few pockets

Private Equity

Pan African Housing Fund (PAHF), a private equity fund dedicated to residential real estate development in East and Southern Africa and managed by Phatisa, has committed USD 5.1 mn of equity investment to develop a middle income residential property in Zambia on a joint venture basis. The residential project will see PAHF partner with Camland Estates, a local real estate developer, in developing 310 units of two and three bedroom villas on 21 hectares of land in the fast-growing Makeni suburb of Lusaka. The development project aims to actively address (i) the 120,000 annual housing deficit in the country, (ii) the availability of quality, competitively priced middle income residential accommodation, and (iii) stringent requirements for new buyers in the housing sector, which are almost impossible to meet. The suburb is centrally located and will be serviced by a host of newly built shopping malls, factories, clinics, schools and colleges, which will play a big role in attracting home buyers. Zambia?s residential real estate market is largely untapped, with middle-income and affordable housing showing the most growth potential in the medium term.

It is estimated that 65% of Sub-Saharan Africa?s urban population live in slum conditions with poor infrastructure, partly because of years of under-investment in housing across Eastern and Southern Africa, coupled with growing populations and rapid urbanization, therefore such Private equity ventures will go a long way in improving the social economic status of a country as Pan African Housing Fund (PAHF), is committed to investing in real estate residential developments in Sub-Saharan urban areas in Kenya, Zambia, Tanzania, Uganda, Mozambique and Rwanda. The fund already has live development projects in Nakuru and Nairobi towns of Kenya through various joint venture initiatives by local developers like Tamarind Properties for the Nakuru Meadows real estate project. The fund is expecting to exit through outright sales of the houses to home users and to Camland Estates who will purchase to earn rental income.

Private equity investments in Africa remain 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

Lifestyle Properties, previously involved in housing projects along Mombasa road, has announced its plans to develop 120 residential units on 30 acres in Tatu City, a masterplan development in Ruiru, Kiambu County, beginning November 2016. This project will constitute about 12% of the 256 acres that has been set aside for residential development. The developer intends to provide affordable housing units of Kshs 6 mn to about 4,500 persons and the conceptual planning is still underway. The private sector has made significant efforts to address the housing deficit that has continued to be an issue. Housing deficit is more pronounced in the urban areas with the ever increasing rate of urbanization estimated to have been 4.3% between 2010 and 2015. A report by UN-HABITAT on Kenya Slum Upgrading Programme released in 2007 indicates that 60-70% of urban dwellers live in slums or slum-like conditions as a result of the government?s inefficiency in providing for public services such as roads, water, and sewerage. The situation is expected to worsen if drastic measures are not undertaken to solve this considering that the urban population is expected to be at 43% of the Country?s population by 2020. These shortcomings by the government are thus an opportunity for the private sector by addressing the issues through Public-Private Partnerships (PPPs) and private ventures. Masterplan communities are one way in which the housing, unemployment and infrastructural challenges often associated with poor urban planning can be addressed since the private developer has to provide infrastructure to acceptable standards to attract clients. Commercial and industrial segments often attract multinationals such as Nestle, Bidco and Dormans which offer job opportunities to the working population.

Carrefour, the French retail chain store, opened its doors this week in The Hub, an upmarket shopping mall in Karen. The retail giant whose target clientele is the mid to high-end individuals will occupy 20% of the 30,000 square feet mall. This is the first entry of the chain store into the market with the second expected to be in the Two Rivers Mall in Ruaka whereby it will take up close to 100,000 square feet. According to a report released by Deloitte in 2015, Kenya has the largest retail market in East Africa which is estimated to have been USD 23.7 Bn in 2013. The growth of the retail market is estimated to be 8.6% between 2014 and 2015 and this can be attributed to the increased expenditure by up to 67% especially among the Kenya?s middle class which constitute 45% of the population. While the retail market may appear a little saturated in the high-end outlets, there is a great opportunity for growth considering the fact that the penetration of retail market is still low at 18%. Furthermore, close to 70% of Kenya?s retail segment is informal with the formal retail market which is dominated by local and family owned brands constituting 25-30% of the market, much lower compared to South Africa?s formal retail segment at 60%. Despite the hurdles of taxation and weakening of the Kenyan Currency, the growth of the retail sector will not slow down mainly due to the comparatively high GDP growth and increased consumer power. E-commerce will also play a major role given that there are more than 29.2 Mn internet users in the country.

Disclaimer: The views expressed in this publication, are those of the writers where particulars are not warranted- as the facts may change from time to time. This publication is meant for general information only, and is not a warranty, representation or solicitation for any product that may be on offer. Readers are thereby advised in all circumstances, to seek the advice of an independent financial advisor to advise them of the suitability of any financial product for their investment purposes