



Cytonn Weekly Update

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Fixed Income Update

The Central Bank of Kenya announced that it is planning to re-open two Treasury bonds in a bid to raise up to KES 20 billion to provide Budgetary support to the Government. The Bonds will have a tenor of 5 years and 20 years with coupon rates of 10.87% and 12.00% respectively. The debt auction is scheduled for January 21st, 2015. This re-opening comes at a time when Kenya is experiencing low inflation rates of 6.02%, leading us to believe that bond yields will be lower than in previous auctions.

In other policy actions, the Central Bank of Kenya plan to mop up KES 5 billion in excess liquidity from the money markets using repurchase agreements, or repos. In our view, this should help stabilize the Kenya Shilling as removing excess cash makes it more expensive to hold USD, thereby boosting the Shilling. The Shilling has been declining against major currencies, reaching a low of KES 95.36 / USD in intraday trading during the week.

Equity Market Update

The Nairobi Securities Exchange registered the first weekly gains of the year, with the NASI and NSE 20 index closing having notched 2.9%w/w and 1.6%w/w higher respectively. This was the first weekly gain since the introduction of Capital Gains Tax at the start of 2015, driven by Foreign investors, who turned net buyers with net inflows of USD 0.71m compared to net outflows of USD 1.5m recorded previously. In our view, this highlights the potential that foreign investors still see in the Kenyan market, despite increased taxes. However, with valuations stretched in the Equities market, majority of returns can now be found in the alternatives investment space.

Mumias dominated the headlines in terms of performance this week, with its stock registering an increase from Kshs. 2.00 on Friday 10th January 2015 to Kshs. 2.70 as at close of trading on Wednesday 14th January 2015. This reflects a 35% gain of Kshs. 0.7. The stock's good performance was elicited by the news that the Kenyan government is willing to bail out the indebted company to the tune of Kshs. 2.3 Billion, which could spell a turnaround in the company's profitability from its loss making state.

On the Global front, growing fears about the health of the Eurozone and Japan, combined with the plunge in the prices of Oil and Copper, sparked heavy falls in the stock markets around the world. Market sentiment was further dampened by the World Bank on Tuesday evening cutting its forecast for global growth for the year 2015 to 3.0%, down from its earlier prediction of 3.4% it set in June 2014.

Real Estate Update

Kenya Commercial Bank Group is now licensed as a Trustee for Real Estate Investment Trusts (REITs). It becomes the third institution to be licensed in Kenya by the Capital Markets Authority

after Housing Finance and Co-operative Bank. Despite the Capital Markets Authority introducing REITs regulations, enabling rental properties to be listed on the Nairobi Stock Exchange and allow developer's to raise additional capital for new projects, we are yet to see an operation REIT in the Kenyan market.

Introduction of REITs in the market affirms our strategy of investors diversifying their portfolios in the Alternative Investments space. REITs will give an opportunity to smaller investors to participate in higher yield returns generated by the real estate sector. We believe REITs are a worthwhile alternative to commercial loans in Kenya, as real estate firms look for cheaper and easily accessible options to fund their projects.

Private Equity Update

In Kenyan Private Equity news, the stand out transaction of the week saw the sale by Centum Investments and Chris Kirubi of their 23.33% stake in UAP Insurance to Old Mutual PLC, a U.K based company. This saw the two earn Kshs. 4.06 and 2.82 Billion respectively from the sale, which gives a combined amount of Kshs. 6.88 Billion. The selling price represents a capital gain of about 33 times for Centum's original investment, excluding dividends earned over the years, and in our view, was an opportune time to sell as Centum fees up capital for various investments, including the coal plant in Lamu, Kenya.

In other news on Centum and the coal plant, work on the plant in Lamu, Kenya, will be carried out as planned by Gulf energy as the appeal claiming irregularities in the decision by the Ministry of Energy was rejected by the Court. The Project will be undertaken by the consortium of Centum, CHD, Sichuan Electric Power Design, and Sichuan Electric Power Construction Company. The USD 2 billion project will be financed partly by USD 500 million of Equity and the rest through Debt.

Helios Investment Partners closed its third fund, the largest private equity fund in Sub-Saharan Africa, at USD 1.1 billion beating its USD 1 billion target. This further highlights the foreign capital looking to tap in to the burgeoning opportunities that exist for Private Equity in Africa. The first investment by the fund was buying a minority stake in Nigeria's ARM Pension Managers PFA Ltd. Helios, started in 2004, has stakes in oil, gas, online retail and micro lending across the Continent.

Focus of the Week

The Central bank of Kenya decided to hold the lending rate at 8.5%, a rate it has maintained since May 2013. Its rationale was the gradual decline in inflation the country has experienced from 6.09% to 6.02% in December mainly brought about by declining fuel and electricity prices. At the same time, the Bank revised the Kenya Bank's Reference Rate (KBRR) downwards to 8.54% from 9.13%.

Nonetheless, despite the KBRR's main role of pulling down lending costs, average lending in Kenya's banking sector has declined less than expected, from an average of 16.9% in July to approximately 15.9% in November 2014, as borrowing remains pricey for most Kenyans. It is, nonetheless, unlikely that Kenyans will get any respite from the undertakings of the week. This is largely because the Central Bank is content with the decreasing Inflation brought about by reducing oil prices globally and is focusing on ensuring Inflation stays within the required range. Hence, Kenyans will have to contend with high Bank rates with no guarantee that they will drop.

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