

### Key Market Indicators

Kenya	Index	W-o-w change (%)	Inflation*	GDP growth**
	NSE 20 Share Index – 5121.76	0.1%	6.02%	5.5%
	All Share Index (NASI) – 162.08	-0.7%		
<b>Volume of shares traded</b>				
	60,487,000			
<b>Market Capitalization</b>				
	KES Bn – 2,289.51			
	USD Mn – 25,132			

\*December 2014, \*\*3Q2014

Source: NSE, KNBS

### Safaricom Reverts Decision to Terminate Karibu Post Pay Tariff

Safaricom reversed its decision to drop the Karibu tariff, opting to revise the terms of use instead. The post pay service was meant to be terminated in May owing to losses. Customers on the Karibu tariff currently pay either KES 1,000 or KES 2,000 per month. For KES 1,000 per month, subscribers get 900 minutes of talk time safaricom to safaricom calls, 100 minutes for off-net calls, 100MB of data and 100 on-net SMSes. For KES 2,500 per month, subscribers get 2,200 minutes of on-net calls, 300 minutes for off-net calls, 250 MB of data and 250 on-net texts. This would imply that customers pay less than KES 1 per minute on calls which was proving to be non-profitable. Safaricom says they will either increase the cost of each bundle or decrease its size at current rates to retain its customers from leaving to rival networks while still ensuring profitability. The new tariff is to be made public in April and take effect the following month. We see the company's decision as a way of maintaining its customers thereby securing revenue from the growth prospects of the post pay service.

### Kenya Airways Opens New Ticketing Office in River Road

Kenya Airways (KQ) has opened a ticketing office in River Road, at Tea Room area near the intersection of Accra and River Road. Tea Room is the hub of informal traders, with a large number of small-scale entrepreneurs who regularly import stock from China, Dubai and Turkey. The ticketing office, which is the seventh for the company, will serve as a new point for sales, ticketing, customer service and sale of KQ holiday packages to traders operating in that area. With the growing significance of the informal economy, we see this move for KQ as a way of growing their top line by tapping into such mass markets.

### Kenyan Stock Market Performance and Outlook

The overall market experienced a marginal decrease of -0.7% to 162.08 characterized by low volumes traded during the week that was mainly foreign driven. This was attributed to the unclarity of the Capital Gains Tax which became effective on 2<sup>nd</sup> January 2015.

We expect activity to remain quiet in the coming week as investors continue to shy away from the market. We also expect fund managers to be away from the market this week as they meet their reporting obligations.

# Equity Market Summary

Banking Sector	Price	% w-o-w Change	C/I Ratio	P/E (X)	Dividend Yield	P/B (X)	ROE
KCB	56.00	-1.7%	54.0%	13.40	3.6%	2.64	22.4%
Equity Bank	49.00	-2.9%	49.3%	13.65	3.0%	3.52	25.8%
NIC Bank	63.00	9.6%	41.8%	10.29	1.6%	2.14	18.4%
CFC Stanbic	125.00	0.8%	50.7%	9.64	1.7%	1.52	15.8%
National Bank	25.00	1.0%	75.3%	10.78	1.3%	0.59	7.0%
Barclays Bank	16.40	-2.1%	52.9%	11.71	4.2%	4.02	23.6%
Housing Finance	45.25	-3.2%	55.1%	10.52	3.8%	1.82	14.4%
Co-operative Bank	19.00	-2.6%	59.5%	10.22	2.6%	2.56	24.5%
Diamond Trust Bank	245.00	3.4%	43.3%	11.34	0.8%	2.27	22.0%
Standard Chartered	337.00	0.9%	39.8%	11.45	4.3%	3.39	26.2%
I&M	122.00	-2.4%	37.9%	10.38	1.5%	2.17	20.3%
<b>Sector Average</b>				<b>11.78</b>	<b>2.58</b>	<b>2.42</b>	<b>20.0%</b>

Commercial and Services	Price	% w-o-w Change	Volume Traded	P/E (X)	Dividend Yield	EPS	ROE
Kenya Airways	9.10	4.6%	909,100	N/M	0.00%	(2.25)	-25.2%
Nation Media Group	275.00	-3.5%	32,200	20.52	3.64%	13.40	30.7%
Scangroup	46.50	3.3%	43,000	17.22	0.86%	2.70	10.6%
Uchumi Supermarket	10.50	0.5%	432,300	7.24	2.86%	1.45	12.2%
<b>Sector P/E</b>				<b>51.52</b>			

Construction & Allied	Price	% w-o-w Change	Volume Traded	P/E	Dividend Yield	NPM*	ROE
ARM Cement	83.00	-3.5%	277,700	30.29	0.72%	9.5%	16.4%
Bamburi Cement	145.00	4.3%	1,032,600	15.18	7.59%	10.8%	11.7%
E.A. Portland Cement	55.00	-5.2%	5,500	-12.79	0.00%	19.3%	25.0%
<b>Sector P/E</b>				<b>21.12</b>			

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<b>Energy &amp; Petroleum Sector</b>	<b>Price</b>	<b>% w-o-w Change</b>	<b>Volume Traded</b>	<b>P/E</b>	<b>Dividend Yield</b>	<b>EPS</b>	<b>ROE</b>
KenGen	9.80	-3.4%	581,500	7.60	4.1%	2.39	3.7%
KenolKobil	8.75	1.7%	1,313,200	23.03	1.1%	0.38	8.4%
Kenya Power	15.90	11.6%	2,059,300	4.80	3.1%	2.23	11.9%
<b>Sector P/E</b>				<b>7.50</b>			

<b>Insurance Sector</b>	<b>Price</b>	<b>% w-o-w Change</b>	<b>P/B</b>	<b>P/E</b>	<b>Loss Ratio</b>	<b>Expense Ratio</b>	<b>ROE</b>
CIC insurance	9.65	-3.5%	3.12	14.40	65.8%	-	20.9%
Britam	28.25	-5.0%	3.16	20.18	62.3%	25.9%	15.7%
Jubilee	450.00	0.0%	2.32	11.84	-	23.5%	21.6%
Kenya Re	17.60	3.5%	0.72	4.10	55.0%	15.4%	16.7%
Pan Africa Insurance	117.00	-2.5%	3.34	8.97	-	16.7%	37.5%
Liberty	23.50	1.1%	2.37	10.93	75.7%	54.9%	17.4%
<b>Sector Average</b>			<b>2.51</b>	<b>11.78</b>			<b>22.1%</b>

<b>Investment Sector</b>	<b>Price</b>	<b>% w-o-w Change</b>	<b>Volume Traded</b>	<b>P/E</b>	<b>P/B</b>	<b>NAVPS**</b>	<b>EPS</b>	<b>ROE</b>
Centum Investment	63.00	2.4%	1,054,000	15.19	1.82	34.47	4.54	18.4%
Trans-Century	19.30		754,900	18.21	0.51	35.80	1.06	4.7%
<b>Sector P/E</b>				<b>14.27</b>				

\*NPM- Net Profit Margin    \*\*NAVPS- Net Asset Value Per Share

<b>Investment Services</b>	<b>Price</b>	<b>%w-o-w</b>	<b>Volume</b>	<b>P/E</b>	<b>Dividend Yield</b>	<b>EPS</b>	<b>ROE</b>
Nairobi Securities Exchange Ltd	20.50	-1.2%	392,600	15.19	1.22%	1.35	35.9%
<b>Sector P/E</b>				<b>15.19</b>			

Centum sold its 13.75% stake in UAP Holdings to Old Mutual Holdings

<b>Manufacturing &amp; Allied Sector</b>	<b>Price</b>	<b>% w-o-w Change</b>	<b>Volume Traded</b>	<b>P/E</b>	<b>Dividend Yield</b>	<b>EPS</b>	<b>ROE</b>
Mumias Sugar	2.15	10.3%	3,439,400	N/M	0.00%	-1.09	-12.6%
EABL	310.00	2.6%	490,700	37.76	1.77%	8.82	17.6%
Carbacid	22.75	3.4%	235,200	11.79	1.3%	2.80	24.7%
Eveready	3.70	-5.1%	79,000	16.82	0.00%	0.22	20.1%
BAT	901.00	0.0%	56,700	24.19	4.11%	37.24	49.2%
<b>Sector P/E</b>				<b>41.36</b>			

EABL gained 2.6% on the back of foreign driven demand

<b>Telecommunication &amp; Technology Sector</b>	<b>Price</b>	<b>% w-o-w Change</b>	<b>Volume Traded</b>	<b>P/E</b>	<b>Dividend Yield</b>	<b>EPS</b>	<b>ROE</b>
Safaricom	13.75	-2.8%	25,294,400	24.12	3.4%	0.57	21.9%
<b>Sector PE</b>				<b>24.12</b>			

<b>Growth Enterprise Market Segment (GEMS)</b>	<b>Price</b>	<b>% w-o-w Change</b>	<b>Volume Traded</b>	<b>P/E</b>	<b>Dividend Yield</b>	<b>EPS</b>	<b>ROE</b>
Home Afrika	3.95	-4.8%	869,900	79.00	0.0%	0.05	45.4%
FTG Holdings Ltd	8.50	3.0%	166,800	9.24	10.8%	0.92	97.4%
Kurwitu Ventures	1500.00	0.0%	0	-24.04	0.0%	-62.40	0.0%
Atlas Development & Support Services Ltd	12.10	-1.6%	86,600	-302.5	0.0%	-0.04	-7.5%
<b>Sector PE</b>				<b>54.11</b>			

# Fixed Income Market Summary

The week saw the government put up the 91, 182 and 364 day T - bills for auction and managed to raise KES 9.9 billion out of a target of KES 12.0 billion.

- Under-subscription recorded in 91 day t-bill auctions
- All t-bill rates down w-o-w

	Bids Received (KES)	Subscription	Bids Accepted (KES)	Rate
91 day T-bill	1.4 Bn	45.0%	1.4 Bn	8.529%
182 day T-bill	4.4 Bn	109.8%	4.1 Bn	10.200%
364 day T-bill	5.4 Bn	107.2%	4.5 Bn	10.679%

The week under review saw the 91, 182 and 364 day t-bill rates drop from 8.532%, 10.480% and 10.769% respectively the previous week.

Graph showing 91 day t-bill rate and volume



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## The Secondary Market

Current week Turnover (KES)	Previous week Turnover (KES)	Current week No. of Deals	Previous week No. of deals
7,853,025,000	3,198,050,000	61	69

	Average Traded Yield	Total Value (KES)	No. of Trades
FXD3/2014/2Yr	10.5786%	3,250,000,000	7
FXD1/2013/10Yr	11.6750%	100,000,000	2
FXD1/2013/15Yr	12.5761%	1,100,000,000	23
FXD1/2008/20Yr	12.6018%	98,400,000	3

### Actively Traded Infrastructure Bonds

	Average Traded Yield	Total Value (KES)	No. of Trades
IFB 1/2011/12Yr	11.4062%	10,000,000	2
IFB1/2014/12Yr	10.8674%	2,723,600,000	19

### Actively Traded Corporate Bonds

	Average Traded Yield	Total Value (KES)	No. of Trades
FXIB 1/2009/10Yr	11.7500%	125,000	1

- Increase in bond turnover w-o-w
- We expect continued activity in the infrastructure bond segment as the tax free characteristic offers better returns for investors. Activity in treasury bonds is expected to increase with the issuing of new papers in the course of the week.

# Market Recommendations

Counter	Recommendation	Comment
ARM	<b>BUY</b>	Our target price of KES 141.07 provides a 69.9% upside potential from the current market of (KES 83.00). With significant limestone deposits in East Africa and investment in integrated capacity, we see ARM as being well positioned to integrate vertically. This will come with significant market power which we expect to sustain growth in the future.
Bamburi	<b>BUY</b>	Our price target of KES 233.24 provides a 60.8% upside of from the current market price of KES 145.00. We expect the export and contractors market to be key drivers of growth. We also expect Bamburi to leverage on its parent company (Lafarge) in its strategy to make cement more of a service than a commodity.
Pan Africa	<b>BUY</b>	Our target price of KES 144.43 provides a 23.4% upside potential from the current market share price of KES 117.00. We see Pan Africa benefiting from massive untapped from potential in the life insurance industry through such products as Bima Mkononi. We also expect continued growth in the group life business.
Kenya Power	<b>BUY</b>	Our target price of KES 19.85 provides a 24.8% upside from the current market price (KES 15.90). We remain positive about the future prospects of the power sector given the Government's growth strategy to add 5000+ MW additional generation capacity over the next three years. In addition, the company has current financial year plans to connect one million customers. We however remain concerned with the relatively high system losses.

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