

KEY MARKET INDICATORS

COUNTRY	INDEX	W-o-w (%)	YTD	MARKET CAPITALIZATION
KENYA	All Share Index(NASI) – 162.13	-1.7%	-0.5%	USD Mn – 23,192 KES Bn – 2,268
	NSE 20 Share Index – 4786.74	-1.9%	-6.4%	USD Mn – 19,644 KES Bn 1,921
UGANDA	UGSINDX – 1885.45	-1.0%	-2.2%	USD Mn- 8,438 UGS Bn – 25,773
TANZANIA	DSEI – 2715.23	-0.5%	7.8%	USD Mn – 11,892 TZS Bn – 23,905
RWANDA	RSEASI –136.06	-0.01%	0.2%	USD Mn – N/A RWF Bn - N/A

Source: NSE,UGSE,RSE,DSE

KEY ECONOMIC INDICATORS

COUNTRY	EXCHANGE RATE	W-o-w (%)	YTD	INFLATION(MM/YY)	GDP GROWTH
KENYA	KES/USD – 97.78	-1.0%	-7.9%	6.9%(05/2015)	5.5%(3Q2014)
UGANDA	UGS/USD – 3054.29	-2.1%	-10.1%	4.9%(05/2015)	3.4%(2Q2014/15)
TANZANIA	TZS/USD - 1997.15	-2.2%	-15.3%	4.5%(04/2015)	6.8%(3Q2014)
RWANDA	RWF/USD – 714.13	-0.1%	-2.8%	1.1%(04/2015)	6.2%(4Q2014)

Source: CBK, BOT, NBR, BOU, KNBS, UBOS, NISR, NBS

Inflation Eases to 6.9% in May

Inflation for the month of May declined to 6.9% from 7.1% recorded in the month of April. We attribute the decline to the easing of food inflation due to decreases in food items, notably green vegetables. This was due to an increase in supply to the favourable weather conditions. There was also a notable decline (1.3% m-o-m) in the transport index due to declines in public sector cost of transportation. We expect inflation to remain relatively stable.

Equity Bank to Acquire Majority Stake in ProCredit Bank of DRC

Equity bank is set to enter the Democratic Republic of Congo with a 79.0% acquisition of ProCredit Bank. According to Equity bank's management, ProCredit is a SME focused bank with total assets of over USD 200.0 million, net assets of 25.0 million and a customer base of over 170,000. DRC, being an under-banked (4.0%) market, presents an opportunity for Equity Bank to replicate its success in Kenya with its business model. However, due to the volatile political situation in the DRC, we remain cautiously optimistic of this venture. We also note that similar ventures outside Kenya are yet to contribute significantly to the bank's earning.

Kenyan Stock Market Performance and Outlook

The overall market experienced its fourth consecutive w-ow decline (1.7%) to 162.13 characterized by higher market activity compared to the previous week. We note however that Safaricom accounted for 65.0% of overall market activity. We expect activity to remain high and a slight recovery in the overall market index. We opine that overall market will be demand heavy as investors take advantage of the recent slump in prices.

Equity Market Summary

National Bank posted a 20.5% jump in after tax profits to KES 0.5 billion for the 1Q2015 compared to the 1Q2014.

High court dismisses case against Equity bank's roll-out of the thin sim technology

DTB posted a 9.3% jump in after tax profits to KES 1.5 billion for the 1Q2015 compared to the 1Q2014.

SCBK posted a 30.1% decline in after profits to KES 2.5 billion for the 1Q2015 compared to 1Q2014.

Government proposes (via the national budget) a KES 4.2 billion bail-out plan for KQ

Banking Sector	Price (KES)	YTD change	% w-o-w Change	Volume Traded	C/I Ratio	P/E (X)	Dividend Yield	P/B (X)	ROE
KCB	56.50	-0.9%	-5.0%	18,883,100	50.20%	10.04	3.5%	2.23	22.30%
Equity Bank	47.25	-6.4%	1.1%	14,552,100	55.30%	10.38	3.8%	2.74	25.80%
NIC Bank	51.50	-10.4%	-4.6%	1,071,500	46.10%	7.28	1.9%	1.45	18.40%
CFC Stanbic	103.00	-16.9%	-12.0%	115,700	52.40%	7.16	6.0%	1.10	15.40%
National Bank	21.00	-15.2%	0.0%	140,600	75.50%	6.75	0.0%	0.49	7.00%
Barclays Bank	15.35	-8.1%	1.0%	1,160,600	57.30%	9.97	6.5%	2.18	23.60%
Housing Finance	30.50	-34.8%	-0.8%	989,700	49.20%	7.24	4.9%	1.10	14.90%
Co-operative Bank	22.00	12.8%	0.0%	7,636,700	58.90%	13.41	2.3%	2.48	18.50%
Diamond Trust Bank	226.00	-4.6%	-1.7%	77,600	48.60%	10.31	1.1%	1.54	22.00%
Standard Chartered	302.00	-9.6%	-5.6%	64,300	39.90%	9.09	5.6%	2.31	25.80%
I&M	117.00	-6.4%	-3.3%	141,400	37.40%	8.63	2.5%	1.63	20.40%
Sector Average						9.80	3.46%	1.75	19.46%

Commercial and Services	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E (X)	Dividend Yield	EPS(KES)	ROE
Kenya Airways	7.05	-19.0%	-0.7%	620,200	N/M	0.00%	-2.25	-25.20%
Nation Media Group	195.00	-31.6%	-4.9%	34,200	14.89	5.13%	13.1	30.70%
Scangroup	39.00	-13.3%	-1.9%	57,600	26.00	0.00%	1.50	10.60%
Uchumi Supermarket	10.75	2.9%	0.5%	213,800	7.41	2.80%	1.45	12.20%
Atlas Development	11.10	-9.8%	0.0%	1,800	N/M	0.00%	-0.04	-7.5%
Sector P/E					85.83			

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Construction & Allied	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	NPM*	ROE
ARM Cement	73.00	-15.1%	-1.4%	336,700	24.25	0.82%	10.86%	15.85%
Bamburi Cement	147.00	5.8%	0.0%	487,100	15.00	8.16%	10.80%	11.70%
E.A. Portland Cement	59.00	1.7%	0.0%	4,400	N/M	0.00%	19.30%	25.00%
Sector P/E					19.61			17.51%

Energy & Petroleum Sector	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	EPS(KES)	ROE
KenGen	9.15	-9.9%	-3.7%	1,868,000	7.09	4.37%	1.29	3.70%
KenolKobil	8.60	0.0%	-2.8%	491,100	11.62	2.33%	0.74	14.80%
Kenya Power	16.15	13.3%	-1.5%	799,800	4.88	3.10%	3.31	11.90%
Sector P/E					7.51			

Insurance Sector	Price (KES)	YTD Change	% w-o-w Change	P/B(X)	P/E(X)	Loss Ratio	Expense Ratio	ROE
CIC insurance	8.30	-17.0%	-4.1%	0.96	19.30	65.80%	-	20.90%
Britam	22.25	-25.2%	3.5%	1.03	16.98	68.0%	32.90%	13.00%
Jubilee	574.00	27.6%	-1.9%	0.98	11.96	-	19.70%	18.80%
Kenya Re	16.95	-0.3%	-0.3%	1.00	3.78	57.70%	9.40%	15.70%
Pan Africa Insurance	80.0	-33.3%	-8.8%	1.09	8.82	-	16.70%	37.50%
Liberty	24.75	6.5%	1.0%	1.01	11.57	75.70%	54.90%	17.40%
Sector Average				1.01	11.29			22.10%

Investment Sector	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	P/B(X)	NAVPS**	EPS (KES)	ROE
Centum Investment	60.50	-1.6%	-2.4%	5,976,800	13.33	1.76	34.5	4.54	18.40%
Home Afrika Ltd	3.05	-26.5%	0.0%	564,900	N/M	3.59	0.85	-0.04	45.40%
Kurwitu Ventures Ltd	1,500.00	0.0%	0.0%	-	N/M	1.44	1043.71	-62.40	0.0%
Trans-Century	13.00	-33.0%	-5.5%	33,300	N/M	0.32	40.96	1.06	4.70%
Sector P/E					73.03				

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

Investment Services	Price (KES)	YTD Change	%w-o-w change	Volume Traded	P/E(X)	Dividend Yield	EPS(KES)	ROE
Nairobi Securities Exchange Ltd	21.25	2.4%	4.9%	1,866,000	9.98	1.79%	2.13	20.70%
Sector P/E					9.98			

Manufacturing & Allied Sector	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	EPS(KES)	ROE
Mumias Sugar	2.00	2.6%	-2.4%	3,602,000	N/M	0.00%	-1.77	-12.60%
EABL	300.00	-0.7%	-0.3%	3,209,900	36.54	1.83%	8.21	17.60%
FTG Holdings	8.70	5.5%	9.4%	73,900	8.79	0.00%	0.99	97.4%
Carbacid	18.20	-17.3%	-4.2%	82,200	9.43	1.65%	1.93	24.70%
Eveready	4.45	14.1%	2.3%	48,600	N/M	0.00%	-0.8	20.10%
BAT	772.00	-14.3%	5.8%	202,000	18.14	5.51%	42.55	52.30%
Sector P/E					36.79			19.80%

Telecommunication & Technology Sector	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	EPS(KES)	ROE
Safaricom	15.85	12.0%	-2.2%	131,331,100	19.81	4.04%	0.80	30.6%
Sector PE					20.25			

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 2.1 billion out of a target of KES 8.0 billion.

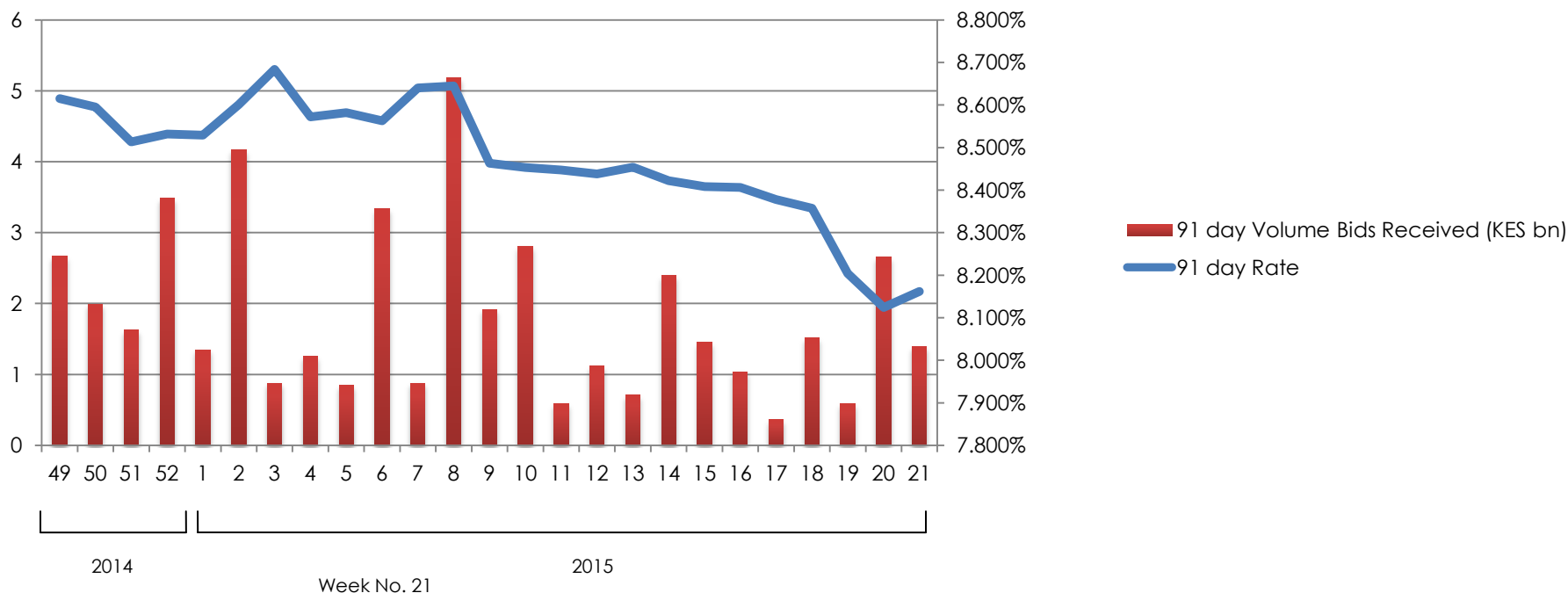
- 91 day t-bill rate up w-o-w
- Under-subscription recorded in 182 day and 364 day t-bill auctions

	Bids Received (KES)	Subscription	Bids Accepted (KES)	Rate
91 day T-bill	1.4 Bn	139.7%	0.7 Bn	8.162%
182 day T-bill	0.4 Bn	12.4%	0.4 Bn	10.500%
364 day T-bill	1.0 Bn	25.2%	1.0 Bn	10.800%

- We expect a w-o-w rise on all T-bills rates in the coming auction

The week under review saw the 91 day t-bill rise from 8.124% the previous week. The 182 day and 364 day t-bill rates dropped from 10.550% and 10.808% respectively the previous week.

Graph showing 91 day t-bill rate and volume



The Secondary Market

Current week Turnover (KES)	Previous week Turnover (KES)	Current week No. of Deals	Previous week No. of deals
8,513,480,000	1,439,950,000	153	72

	Average Traded Yield	Total Value (KES)	No. of Trades
FXD1/2013/10Yr	12.2500%	902,000,000	3
FXD1/2014/10Yr	12.8409%	2,500,000,000	38
FXD1/2012/20Yr	13.4000%	849,900,000	30
FXD2/2008/10Yr	10.9735%	500,000,000	3
FXD3/2014/2Yr	11.7300%	236,000,000	7

Actively Traded Infrastructure Bonds

	Average Traded Yield	Total Value (KES)	No. of Trades
IFB1/2011/12Yr	11.3167%	432,900,000	4
IFB1/2015/12Yr	10.9255%	546,950,000	6
IFB1/2014/12Yr	10.6100%	667,900,000	6

Actively Traded Corporate Bonds

	Average Traded Yield	Total Value (KES)	No. of Trades
-	-	-	-

- Increase in bond turnover and number of deals w-o-w
- No actively in the corporate bond section

Bond Market Outlook

- We expect relatively low activity in the overall market due to tight liquidity. We also expect activity to remain relatively high on the re-opened FXD1/2014/10Yr

Market Recommendations

Counter	Recommendation	Comment
ARM	BUY	Our target price of KES 141.07 provides a 93.2% upside potential from the current market of (KES 73.00). 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	BUY	Our price target of KES 233.24 provides a 58.7% upside of from the current market price of KES 147.00. 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.
Co-operative Bank	Hold	We revise our recommendation from BUY to HOLD based on our Target Price of KES 22.11, an upside potential of 0.5% from the current market price of KES 22.00. The bank's next phase of growth is hinged on the ongoing transformation strategy, dubbed the "soaring eagle transformation project". This strategy is expected to deliver operating efficiency and unlock new growth opportunities (such as cross-selling). Management targets a C/I ratio of 53.0% in FY2015. The bank boasts of a branch network that covers the entire country (in every county). With the wide branch network and the equally wide distribution of agents, the bank expects to build a strong deposit mobilization system. Management targets to grow the deposit base by 20%-25% FY2015.

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