

Key Market Indicators

Kenya	Index	W-o-w change (%)	Inflation*	GDP growth**
	NSE 20 Share Index – 5212.11	-0.1%	5.53%	5.80%
	All Share Index (NASI) – 165.80	-0.5%		
Volume of shares traded				
	126,364,800	4.7%		
Market Capitalization				
	KES Bn – 2,342.26	-0.5%		
	USD Mn – 25,550	-0.5%		

*January, 2015, **3Q2014,

Source: NSE, KNBS

Kenya Airways to Launch New Route to Vietnam

Kenya Airways (KQ) is set to be the first African airline to launch a direct flight to Hanoi, Vietnam in March, flying three times a week. The airline company is seeking to capitalize on growing trade interest between Africa and Asian countries. Together with SkyTeam partner Vietnam Airlines in Hanoi, KQ will seek to offer other travelling options to those flying to China, Malaysia and Japan. Vietnam as a route option capitalizes on the country's stable economic growth with its growing preference as a source of imports by Kenyan and West African Traders. Global companies like Samsung and Nokia are also shifting their production units as a result of cheap labor and stable politics to Vietnam making the country attractive to trade with. Leveraging on

increasing trade between Africa and Asia, we are likely to see this new route as an additional source of revenue to Kenya Airways in the long term.

Inflation Eases to 5.5% for the Month of January

Inflation eased to 5.5% for the month of January down from 6.02% the previous month, the fifth month of disinflation. This was mainly attributed to the continued decline in crude oil prices in the international market. The current cost of petrol is KES 92.88, a 20.3% decline from August last year while that of diesel is KES 83.35, a 19.0% decline within the same period. Housing, Water, Electricity, Gas and Other Fuels' Index increased by 0.5% on the back of higher rent costs outweighing the cost reduction in electricity. We expect a continued decline in inflation as the global declining trend in fuel price is reflected on the country's fuel prices with a notable time lag.

Kenyan Stock Market Performance and Outlook

The overall market experienced a marginal decrease of 0.5% to 165.80 characterized by a marginal increase in activity. Notably, Kenya Airways (KQ) recorded a price appreciation and a surge in activity. We opine that investors have taken a positive outlook on the counter due to the falling oil prices. Fuel costs account for over 50.0% of KQ's direct costs. We also note that Housing Finance was the week's biggest loser after the counter went "ex-rights".

We expect a price appreciation on Housing finance. The counter is currently trading at attractive P/B multiples (1.58x) compared to the rest of the banking counters (2.46x) and we expect investors to take advantage of this.

Equity Market Summary

Banking Sector	Price	YTD change	% w-o-w Change	Volume Traded	C/I Ratio	P/E (X)	Dividend Yield	P/B (X)	ROE
KCB	58.50	2.6%	-1.7%	9,337,500	54.00%	14.00	3.4%	2.76	22.40%
Equity Bank	54.00	6.9%	-1.8%	6,420,700	49.30%	15.04	2.8%	3.88	25.80%
NIC Bank	66.00	14.8%	-0.7%	2,257,600	41.80%	10.78	1.5%	2.24	18.40%
CFC Stanbic	126.00	1.6%	1.6%	410,700	50.70%	9.71	1.7%	1.54	15.80%
National Bank	25.00	1.0%	1.0%	214,400	75.30%	10.78	1.3%	0.59	7.00%
Barclays Bank	16.15	-3.6%	0.3%	1,366,500	52.90%	11.54	4.3%	3.96	23.60%
Housing Finance	39.25	-16.0%	-18.2%	1,381,400	55.10%	9.13	4.5%	1.58	14.40%
Co-operative Bank	19.25	-1.3%	-1.3%	4,107,500	59.50%	10.35	2.6%	2.60	24.50%
Diamond Trust Bank	244.00	3.0%	1.7%	58,600	43.30%	11.29	0.8%	2.26	22.00%
Standard Chartered	341.00	2.1%	0.0%	272,000	39.80%	11.59	4.2%	3.43	26.20%
I&M	124.00	-0.8%	0.0%	24,300	37.90%	10.55	1.5%	2.20	20.30%
Sector Average						12.18	2.52%	2.46	20.00%

KCB eased 1.7% but saw foreign institutional interest

Commercial and Services	Price	YTD Change	% w-o-w Change	Volume Traded	P/E (X)	Dividend Yield	EPS	ROE
Kenya Airways	10.95	25.9%	10.6%	2,240,400	N/M	0.00%	-2.25	-25.20%
Nation Media Group	276.00	-3.2%	-0.4%	41,700	20.60	3.62%	13.4	30.70%
Scangroup	44.25	-1.7%	-2.2%	306,400	16.39	0.90%	2.7	10.60%
Uchumi Supermarket	12.65	21.1%	0.4%	5,521,500	8.72	2.37%	1.45	12.20%
Sector P/E					53.01			

Uchumi gained 0.4% on the back of local high net worth demand with supply from local fund managers

Construction & Allied	Price	YTD Change	% w-o-w Change	Volume Traded	P/E	Dividend Yield	NPM*	ROE
ARM Cement	82.00	-4.7%	-0.6%	374,200	29.93	0.73%	9.50%	16.40%
Bamburi Cement	149.00	7.2%	-3.2%	288,400	15.60	7.38%	10.80%	11.70%
E.A. Portland Cement	65.00	12.1%	8.3%	12,500	N/M	0.00%	19.30%	25.00%
Sector P/E					21.50			17.70%

Kenol gained 7.1% on the back of foreign demand

Energy & Petroleum Sector	Price	YTD Change	% w-o-w Change	Volume Traded	P/E	Dividend Yield	EPS	ROE
KenGen	9.45	-6.9%	-0.5%	3,449,400	7.33	4.23%	2.39	3.70%
KenolKobil	9.80	14.0%	7.1%	10,075,500	25.79	1.02%	0.38	8.40%
Kenya Power	15.15	5.3%	1.0%	783,300	4.58	3.30%	2.23	11.90%
Sector P/E					7.45			

Britam eased 6.7% on the back of met demand and supply

Insurance Sector	Price	YTD Change	% w-o-w Change	P/B	P/E	Loss Ratio	Expense Ratio	ROE
CIC insurance	9.95	-0.5%	0.5%	3.22	14.85	65.80%	-	20.90%
Britam	27.75	-6.7%	-5.9%	3.10	19.82	62.30%	25.90%	15.70%
Jubilee	462.00	2.7%	-4.9%	2.39	12.16	-	23.50%	21.60%
Kenya Re	17.55	3.2%	1.1%	0.72	4.09	55.00%	15.40%	16.70%
Pan Africa Insurance	118.00	-1.7%	2.6%	3.37	9.04	-	16.7%	37.50%
Liberty	24.00	3.2%	3.2%	2.42	11.16	75.70%	54.90%	17.40%
Sector Average				2.54	11.85			22.10%

Investment Sector	Price	YTD Change	% w-o-w Change	Volume Traded	P/E	P/B	NAVPS**	EPS	ROE
Centum Investment	62.00	0.8%	-3.1%	3,804,300	13.66	1.79	34.47	4.54	18.40%
Trans-Century	19.60	0.5%	0.5%	122,300	18.49	0.52	35.8	1.06	4.70%
Sector P/E					14.10				

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

Investment Services	Price	YTD Change	%w-o-w change	Volume Traded	P/E	Dividend Yield	EPS	ROE
Nairobi Securities Exchange Ltd	20.00	-3.6%	-2.4%	388,200	14.81	1.25%	1.35	35.90%
Sector P/E					14.81			

Manufacturing & Allied Sector	Price	YTD Change	% w-o-w Change	Volume Traded	P/E	Dividend Yield	EPS	ROE
Mumias Sugar	2.90	48.7%	11.5%	22,022,800	N/M	0.00%	-1.09	-12.60%
EABL	311.00	3.6%	-0.6%	1,335,700	37.88	1.77%	8.82	17.60%
Carbacid	24.75	12.5%	4.2%	353,700	12.82	1.21%	1.93	24.70%
Eveready	3.95	1.3%	3.9%	141,900	N/M	0.00%	-0.8	20.10%
BAT	900.00	-0.1%	-0.7%	68,400	24.17	4.11%	37.24	49.20%
Sector P/E					42.76			19.80%

Telecommunication & Technology Sector	Price	YTD Change	% w-o-w Change	Volume Traded	P/E	Dividend Yield	EPS	ROE
Safaricom	14.15	0.0%	0.0%	37,381,200	24.82	3.3%	0.57	21.90%
Sector PE					24.82			

Growth Enterprise Market Segment (GEMS)	Price	YTD Change	% w-o-w Change	Volume Traded	P/E	Dividend Yield	EPS	ROE
Home Afrika	3.95	-4.8%	-1.2%	2,354,600	79.00	0.00%	0.05	45.40%
FTG Holdings Ltd	8.20	-0.6%	-1.8%	156,300	8.91	11.23%	0.92	97.4%
Kurwitu Ventures	1500.00	0.0%	0.0%	0	N/M	0.0%	-62.40	0.0%
Atlas Development	12.00	-2.4%	0.0%	400,600	N/M	0.0%	-0.04	-7.5%
Sector PE					53.50			

Mumias gained 11.5% on the back of local individual interest

Fixed Income Market Summary

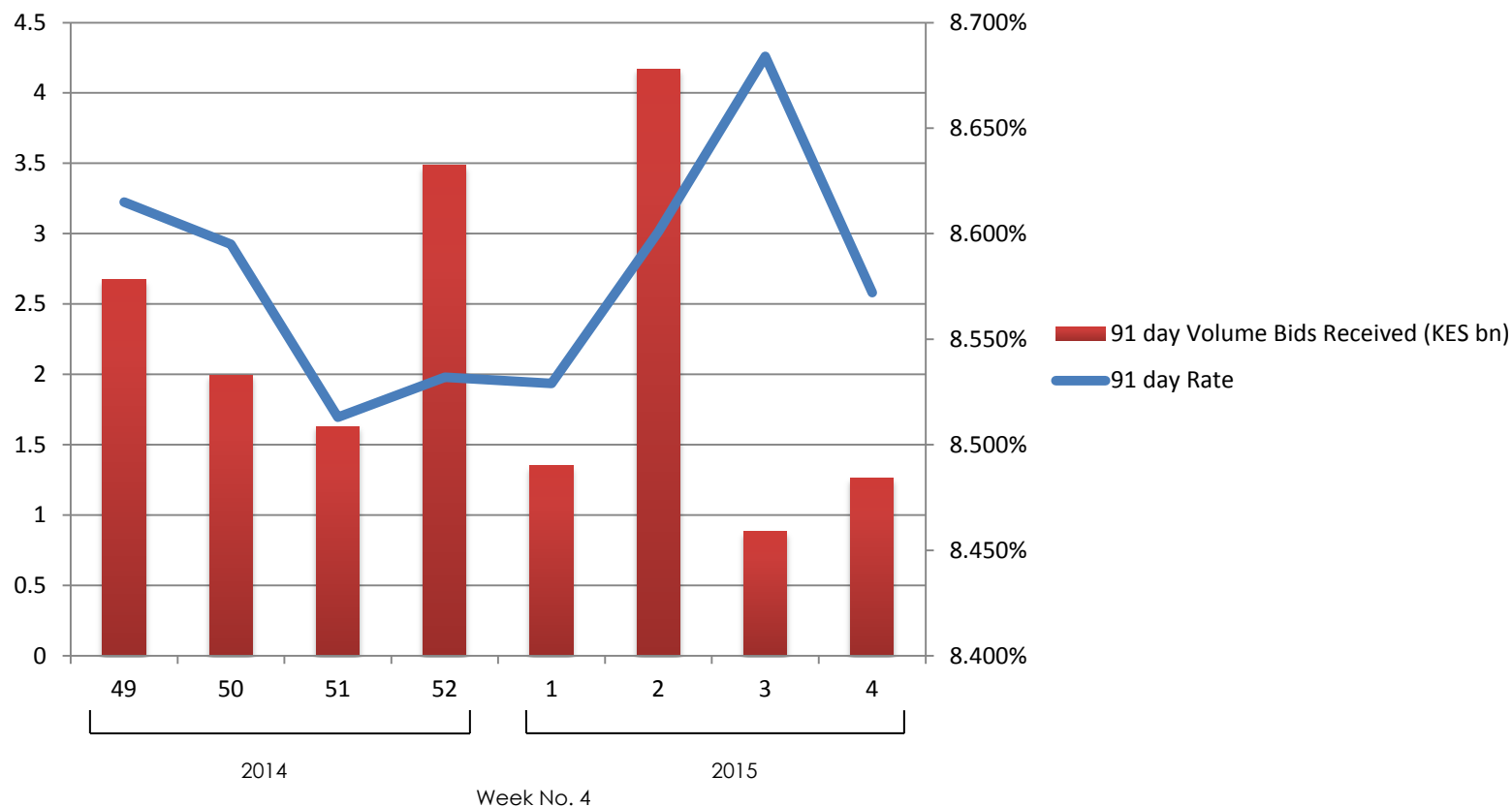
The week saw the government put up the 91, 182 and 364 day T - bills for auction and managed to raise KES 4.6 billion out of a target of KES 12.0 billion.

- Under-subscription recorded in all t-bill auctions
- 182 day and 364 day t-bill rates up w-o-w

	Bids Received (KES)	Subscription	Bids Accepted (KES)	Rate
91 day T-bill	1.3 Bn	42.0%	1.3 Bn	8.572%
182 day T-bill	2.6 Bn	65.3%	1.5 Bn	10.334%
364 day T-bill	2.4 Bn	47.0%	1.9 Bn	10.984%

The week under review saw the 91 day t-bill drop from 8.684% the previous week. The 182 and 364 day t-bill rates rose from 10.282% and 10.825% respectively.

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
7,870,662,000	5,973,100,000	115	59

	Average Traded Yield	Total Value (KES)	No. of Trades
FXD1/2013/2Yr	9.2500%	700,000,000	1
FXD1/2014/5Yr	11.5925%	300,000,000	2
FXD1/2014/10Yr	12.3933%	1,235,000,000	6
FXD1/2013/15Yr	11.6768%	700,000,000	5
FXD1/2012/20Yr	13.5754%	2,752,450,000	50

Actively Traded Infrastructure Bonds

	Average Traded Yield	Total Value (KES)	No. of Trades
IFB 1/2011/12Yr	11.3584%	305,050,000	3
IFB1/2014/12Yr	10.5907%	1,374,300,000	16

Actively Traded Corporate Bonds

	Average Traded Yield	Total Value (KES)	No. of Trades
FXD (MTN)/2008/7Yr	11.5000%	800,000	1
FR (MRM) 2008/8Yr	11.5720%	200,000	1
FXD (MRM) 2008/8yr	13.0000%	200,000	1
FXIB 1/2009/10Yr	12.5000%	212,000	3

- Increase in bond turnover and number of deals w-o-w
- Spike in activity in the 20Yr (FXD1/2011/20Yr) following the reopening of the bond

Our Bond Market Outlook

- We expect decreased activity in the market as the Market Leaders Forum (MLF) meets during the week to decide which paper to issue.

Market Recommendations

Counter	Recommendation	Comment
ARM	BUY	Our target price of KES 141.07 provides a 72.0% upside potential from the current market of (KES 82.00). 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 56.5% upside of from the current market price of KES 149.00.00. 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	BUY	Our target price of KES 144.43 provides a 22.4% upside potential from the current market share price of KES 118.00. 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	BUY	Our target price of KES 19.85 provides a 31.0% upside from the current market price (KES 15.15). 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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