

KEY MARKET INDICATORS

COUNTRY	INDEX	W-o-w (%)	YTD	MARKET CAPITALIZATION
KENYA	All Share Index(NASI) – 137.04	0.9%	-5.9%	USD Mn – 19,573 KES Bn – 1,985
	NSE 20 Share Index – 3,204.67	0.0%	-20.7%	USD Mn – 16,868 KES Bn – 1,711
	NSE 25 Share Index – 3,632.10	1.1%	-13.4%	USD Mn – 17,912 KES Bn – 1,817
UGANDA	UGSINDX – 1,564.08	0.7%	-11.3%	USD Mn – 6.218 UGS Bn – 21,534
TANZANIA	DSEI – 2,501.57	2.4%	7.2%	USD Mn – 10,017 TZS Bn – 21,791.20
RWANDA	RSEASI – 128.15	-0.1%	-1.9%	USD Mn – 3,401 RWF Bn – 2,767

KEY ECONOMIC INDICATORS

COUNTRY	EXCHANGE RATE	W-o-w (%)	YTD	INFLATION(MM/YY)	GDP GROWTH
KENYA	KES/USD – 101.43	-0.1%	0.9%	6.3%(09/2016)	6.2%(2Q2016)
UGANDA	UGS/USD – 3,463.34	-0.6%	-2.7%	4.2%(09/2016)	0.3%(3Q2015/16)
TANZANIA	TZS/USD – 2,175.43	0.1%	-1.3%	4.5%(09/2016)	7.9%(2Q2016)
RWANDA	RWF/USD – 813.53	-0.1%	-8.8%	7.4%(09/2016)	5.4%(2Q2016)

Source: NSE, UGSE, RSE, DSE

KQ Posts KES 4.8 Billion After Tax Loss for 1H2016

Kenya Airways (KQ) posted an after tax loss of KES 4.8 billion for 1H2016, a 60.0% loss reduction from KES 11.8 billion in 1H2015. Turnover declined by 3.5% to KES 54.7 billion despite passengers growing by 4.2% to 2.2 million. This was on the back of fuel and currency impacts. Cabin factor went up by 3.3% to 71.5%. There was also an increase of 9.0% in hours in hours flown despite a 4% reduction in

Available Seat Kilometers (ASKs). Total operating costs declined by 8.6% to KES 53.8 billion (1H2015: KES 58.9 billion) attributed to lower fuel costs and fleet rationalization. This resulted in an operating profit margin of 1.7% compared to a loss of 3.8% in 1H2015. Overheads increased by KES .6 billion to KES 12.5 billion on the back of reorganization and restructuring costs. The company continues to focus on its turnaround strategy focusing on: closing the profitability gap, refocusing the business model as well as optimizing the capital of the company.

Safaricom Rolls Out 4G Network in Five Towns

Safaricom has expanded its 4G network to five new towns (Nakuru, Eldoret, Meru, Kisii and Kisumu), increasing the number of counties covered by 4G to 30. The launch of the expansion programme is set to increase the telco's 4G base stations by 500 to more than 1,000 before the end of the year. Safaricom continues to drive mobile data uptake, having invested KES 32.1 billion in upgrading its infrastructure enabling a 36.0% reduction in data pricing. As at May 2016, Safaricom announced a 77.0% increase in mobile data usage. We therefore expect the expansion to increase the telco's data revenue.

Kenya Stock Market Performance and Outlook

The overall market edged up marginally (0.9%) to close the week at 137.04 characterized by relatively subdued trading activity. We attribute the gain in the index to price gains made on several large caps notably Safaricom and EABL. Additionally, demand matched supply on majority of the counters offering price stability. We expect this trend to be maintained in the coming week. We also expect increased activity on Safaricom ahead of the 1H2017 results announcement on 4th November 2016. Following the recent price rally, we expect minimal price movements on the counter.

Equity Market Summary

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	27.00	-40.8%	-0.9%	4,511,100	50.1%	4.16	7.4%	1.02	25.0%
Equity Bank	30.75	-23.1%	0.8%	6,196,900	52.8%	6.70	6.5%	1.61	25.5%
NIC Bank	27.50	-36.4%	0.0%	522,000	41.6%	4.01	4.5%	0.67	18.4%
CFC Stanbic	73.00	-11.5%	2.1%	3,100	51.2%	5.88	8.4%	0.75	13.0%
National Bank	6.10	-61.3%	-6.9%	35,500	75.5%	-1.59	0.0%	0.14	-9.9%
Barclays Bank	8.05	-40.8%	0.6%	5,873,600	53.0%	5.19	12.4%	1.10	21.6%
Housing Finance	14.90	-33.0%	-0.3%	233,800	49.2%	4.34	8.7%	0.49	14.9%
Co-operative Bank	12.60	-30.0%	1.2%	1,075,500	53.2%	5.89	6.3%	1.26	25.2%
Diamond Trust Bank	135.00	-27.8%	-1.5%	14,000	48.6%	6.82	1.9%	0.94	22.0%
Standard Chartered	190.00	-2.6%	3.3%	24,300	39.9%	9.51	8.9%	1.58	25.8%
I&M	97.00	-3.0%	7.8%	10,500	37.2%	7.15	3.0%	1.13	24.9%
Sector Average						5.28	6.2%	0.97	18.8%

Commercial and Services	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E (X)	Dividend Yield	EPS(KES)	ROE
Kenya Airways	6.60	34.7%	16.8%	8,633,100	-0.32	0.0%	-17.53	-25.2%
Nation Media Group	103.00	-46.1%	-1.0%	90,200	8.81	9.7%	11.8	30.7%
WPP Scangroup	18.05	-39.8%	2.6%	29,300	15.71	0.0%	1.12	10.6%
Uchumi Supermarket	3.35	-69.4%	0.0%	297,100	-0.31	0.0%	-10.85	12.2%
Atlas Development	1.05	-50.0%	0.0%	-	-0.29	0.0%	-3.58	-7.5%
Longhorn Publishers	5.10	19.7%	-1.0%	43,400	7.80	6.9%	0.66	13.1%
Sector Average					-1.47			

Construction & Allied	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	NPM*	ROE
ARM Cement	25.00	-40.1%	-4.76%	65,200	-4.49	0.0%	10.9%	15.9%
Bamburi Cement	159.00	-9.1%	0.00%	12,300	10.97	8.2%	10.8%	11.7%
E.A. Portland Cement	27.00	-42.2%	0.93%	8,900	0.34	0.0%	19.3%	25.0%
Sector Average					14.11			17.5%

Energy & Petroleum Sector	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	EPS (KES)	ROE
KenGen	5.85	-17.6%	-1.68%	5,914,200	1.12	11.11%	5.24	3.70%
KenolKobil	11.65	21.4%	0.43%	307,600	8.50	3.00%	1.37	14.80%
Kenya Power	8.85	-33.0%	0.00%	310,400	2.32	3.39%	3.81	12.10%
Sector Average					5.31			

Insurance Sector	Price (KES)	YTD Change	% w-o-w Change	P/B(X)	P/E(X)	Loss Ratio	Expense Ratio	ROE
CIC insurance	4.05	-34.7%	1.25%	1.35	9.42	65.80%	-	20.90%
Britam	10.25	-21.2%	-3.30%	1.12	7.82	68.00%	32.90%	13.00%
Jubilee	472.00	-2.5%	0.43%	1.39	11.05	-	19.70%	18.80%
Kenya Re	20.75	-1.2%	2.47%	0.66	4.23	57.70%	9.40%	15.70%
Sanlam Kenya	31.50	-47.5%	-10.64%	0.80	9.96	-	16.70%	37.50%
Liberty	13.65	-30.0%	-3.87%	1.17	-73.26	75.70%	54.90%	17.40%
Sector Average				1.08	8.31			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	39.75	-14.5%	1.27%	228,400	3.38	0.61	48	11.75	20.60%
Home Afrika Ltd	1.30	-50.0%	0.00%	575,700	-1.43	(13.00)	0.85	-0.91	2.57%
Kurwitu Ventures Ltd	1500.00	0.0%	0.00%	0	-13.16	1.68	1043.71	-114	0.00%
Trans-Century	7.40	-10.3%	-6.92%	50,600	-1.04	0.58	40.96	-7.09	4.70%
Sector Average					5.34				

*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)
NSE	15.50	-37.4%	-4.32%	2,147,700	9.87	3.16%	1.57
Sector Average					9.87		

Manufacturing & Allied Sector	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	EPS (KES)
Mumias Sugar	1.10	-31.3%	0.00%	1,697,300	-0.36	0.00%	-3.04
EABL	279.00	2.2%	2.57%	1,031,600	22.87	2.69%	12.20
FTG Holdings	5.20	-25.7%	5.05%	16,400	3.82	0.00%	1.36
Carbacid	15.00	-8.0%	5.63%	42,400	9.68	4.67%	1.55
Eveready	2.35	-13.0%	0.00%	42,400	0.84	0.00%	2.80
BAT	840.00	7.0%	-1.75%	27,300	16.88	5.89%	49.76
Sector Average					27.27		

Telecommunication & Technology Sector	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	EPS (KES)
Safaricom	19.90	22.1%	1.02%	22,177,800	20.95	3.82%	0.95
Sector Average					20.95		

Real Estate Investment Trust	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	NAVPS*	Dividend Yield	EPS (KES)
STANLIB FAHARI I-REIT	13.35	-39.3%	-3.26%	20,100	NA	NA	NA
Sector Average					NA		

***NAVPS- Net Asset Value Per Share**

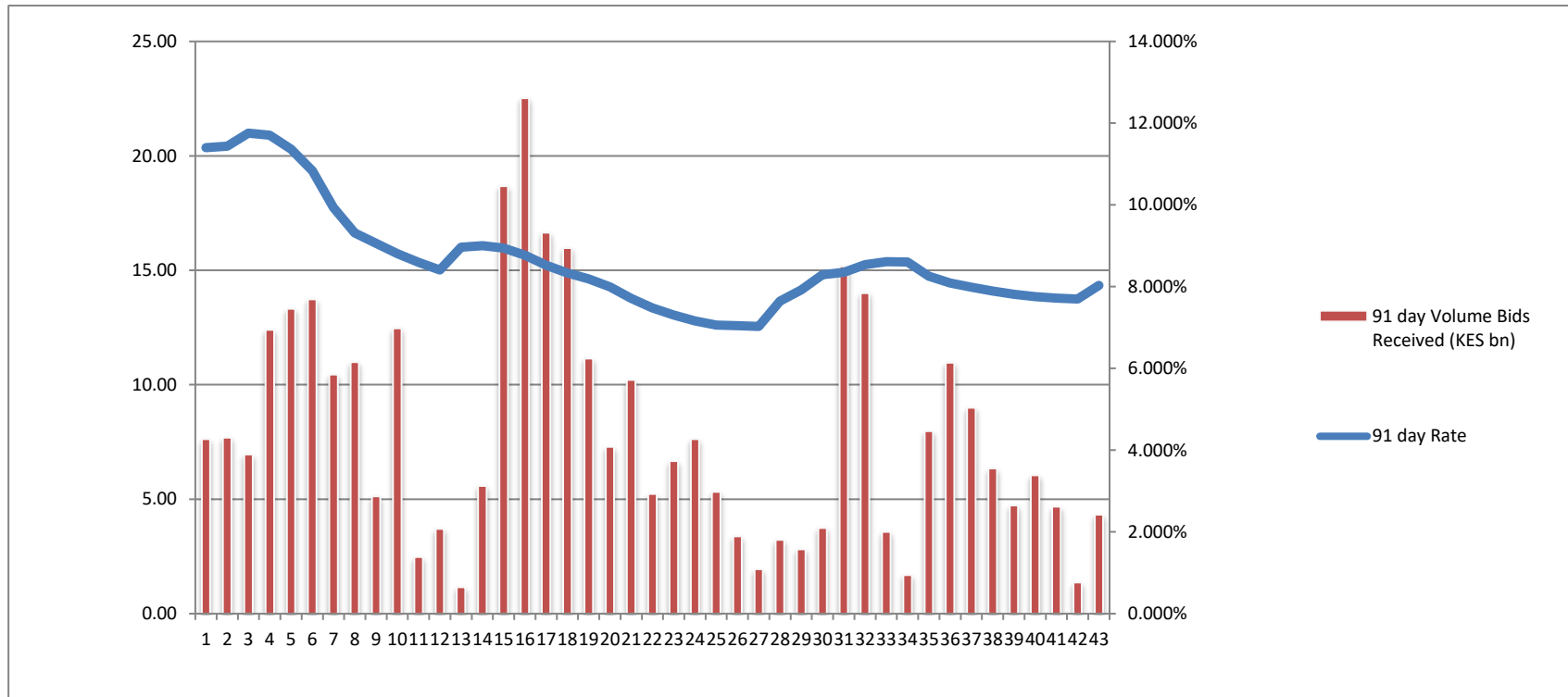
	This week	Previous week	% change
Total Volumes	67,131,200	57,724,800	16.3%
Total Turnover(KES)	1,374,287,043	1,153,211,686	19.2%
Main Market P/E	13.83	13.72	0.8%

Fixed Income Market Summary

	Bids Received (KES)	Subscription	Bids Accepted (KES)	Rate	Previous Rate	%Change
91 day T-bill	4.33Bn	108.39%	4.33Bn	8.030%	7.696%	0.33
182 day T-bill	7.35Bn	122.61%	7.35Bn	10.270%	10.281%	-0.01
364 day T-bill	5.42Bn	90.38%	5.42Bn	10.576%	10.411%	0.16

Graph showing 91 day T-bill rate and volume

Week No. 43



The Secondary Market

Current week Turnover (KES)	Previous week Turnover (KES)	Current week No. of Deals	Previous week No. of deals
11,641,450,000	8,672,750,000	126	174

	Average Traded Yield	Total Value (KES)	No of Trades
FXD3/2016/5Yr	12.6500%	600,000,000	5
FXD1/2012/10Yr	12.2260%	600,000,000	4
FXD1/2016/10Yr	12.9000%	1,100,000,000	8
FXD1/2016/20Yr	13.7900%	810,000,000	10

Actively Traded Infrastructure Bonds

	Average Traded Yield	Total Value (KES)	No of Trades
IFB1/2016/15Yr	13.1609%	7,376,400,000	42
IFB1/2014/12Yr	12.0586%	332,200,000	6

Corporate Actions

- EABL Ltd announced a Final dividend of Kes.5.50 on 29-Jul-2016; Books Closure 31-Aug-2016. Payment 30-Nov-2016.
- Safaricom Ltd announced a Final dividend of Kes.0.76 on 11-May-2016; Books Closure 02-Sep-2016. Payment 01-Dec-2016.
- Safaricom Ltd announced a Special dividend of Kes.0.68 on 26-Jul-2016; Books Closure 02-Sep-2016. Payment 01-Dec-2016.
- NIC Bank announced an Interim dividend of Kes.0.25 on 18-Aug-2016; Books Closure 22-Sep-2016. Payment 17-Oct-2016.
- Bamburi Cement announced an Interim dividend of Kes.6.00 on 25-Aug-2016; Books Closure 23-Sep-2016. Payment 28-Oct-2016.
- Longhorn Publishers announced a First & Final dividend of Kes.0.35 on 19-Aug-2016; Books Closure 30-Sep-2016. Payment 30-Dec-2016.
- Centum Investment Co. Ltd announced a Final dividend of Kes.1.00 on 08-Jun-2016; Books Closure 03-Oct-2016. Payment 31-Oct-2016.
- Umeme Ltd announced an Interim dividend of Ushs.11.00 on 05-Sep-2016; Books Closure 02-Dec-2016. Payment 19-Dec-2016.

Market Recommendations

Counter	Recommendation	Target Price	Comment
Safaricom	HOLD	<p>Target Price: KES 19.55</p> <p>Current market price: KES 19.90</p> <p>1.7% downside potential</p>	<p>We've placed the company on a "path to maturity": Our forecasts are more conservative and we assume that most of the revenue lines will gradually mature over time. Additionally, our DDM valuation factors a lower sustainable growth rate of 8.4% compared to 10.0% in our previous IOC forecasts. Due to the lower sustainable growth rate, our DDM target price is KES 17.82, significantly lower than our previous target price of KES 18.97.</p>
BAT	HOLD	Not Rated	<p>The company will continue growing its revenues albeit regulatory measures in place. We forecast revenues to grow at a gradual declining rate (3.2% in FY2016 to KES 22.9 billion). BAT has maintained its interim dividend at KES 3.50 per share. The company's current dividend yield currently stands at 5.7% against the sector average of 2.2% attracting dividend investors. The company is also operating on positive operating cash flows (KES 2.5 billion as at 1H2016), giving it an adequate buffer to meet its short term obligations.</p> <p>Overall, we view BAT as a mature company. In light of regulatory implementations, BAT is positioned to increase profits through price competition as it passes on the tax burden to consumers. Going forward, we foresee the company growing at a slower rate than the Real GDP of 5.9%.</p>
KQ	SPECULATIVE BUY	Not Rated	<p>We expect the company to continue focusing on the Africa (outside of Kenya) and Asia Pacific routes. With the lifting of travel advisories against Kenya, tourist numbers have picked up and we expect this to positively impact the company's performance.</p> <p>With a negative equity position, the company is technically insolvent and in dire need for capital injection. As the company is undergoing restructuring, we</p>

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recommend buying for speculative purposes. This would only be suitable for very high-risk takers, who have the backbone to wait-it-out if prospects deteriorate from the current situation.

We recommend a HOLD on EABL with a target price of KES 311.62, which represents a 17.6% upside from the current price of KES 265.00. The stock is trading at a TTM P/E multiple of 23.4X, forward P/E multiple of 24.2X against the industry average of 27.7X.

EABL

HOLD

Target Price: KES 311.62

Current market price: KES 279.00

11.7% upside potential

We believe that the emerging beer and Ready to Drink (RTD) segment together with the spirits portfolio will continue to drive growth of the business through innovation and expansion of brands in the region. However, we remain cautious of profitability in export markets due to the political instability in South Sudan, Burundi and DRC.

We take a wait and see approach in Tanzania over the differences with the regulator (Fair Competition Commission) regarding the takeover of Serengeti Breweries Limited.

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