

KEY MARKET INDICATORS

COUNTRY	INDEX	W-o-w (%)	YTD	MARKET CAPITALIZATION
KENYA	All Share Index(NASI) – 164.50	2.9%	23.4%	USD Mn – 23,222 KES Bn – 2,410
	NSE 20 Share Index – 3,800.43	4.2%	19.3%	USD Mn – 20,229 KES Bn – 2,098
	NSE 25 Share Index – 4,302.61	3.8%	21.9%	USD Mn – 21,886 KES Bn – 2,270
*UGANDA	UGSINDX – 1,727.33	2.3%	16.9%	USD Mn – 6,467 UGS Bn – 23,611
TANZANIA	DSEI – 2,101.42	-1.1%	-4.4%	USD Mn – 9,048 TZS Bn – 20,237
RWANDA	RSEASI – 133.12	0.4%	4.6%	USD Mn – 3,486 RWF Bn – 2,931

Source: NSE, UGSE, RSE, DSE *2/11/2017

KEY ECONOMIC INDICATORS

EXCHANGE RATE	W-o-w (%)	YTD	INFLATION(MM/YY)	GDP GROWTH
KES/USD – 103.74	0.1%	-1.2%	5.7%(10/2017)	5.0%(2Q2017)
UGS/USD – 3,651.13	0.0%	-1.1%	5.3%(09/2017)	1.9%(4Q16/17)
TZS/USD – 2,236.65	0.1%	-2.9%	5.3%(09/2017)	7.0%(FY2016)
RWF/USD – 840.73	-0.1%	-2.6%	3.8%(09/2017)	4.0%(2Q2017)

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

Equity Group Posts a 2.9% Decline in After Tax Profits for 3Q2017

Equity Group Holdings realized a 2.9% y/y decline in after tax profits for 3Q2017 to KES 14.6 billion (3Q2016: KES 15.1 billion) predominantly due to lower interest

income from loans. Interest income from loans eased by 26.4% y/y to KES 25.0 billion owing to a 320 basis point weakening in the yield on loans to 9.4% (occasioned by the effects of the rate capping law) and a 2.2% y/y contraction in the loan book to KES 265.4 billion. The Group's defensive strategy continued to pay off with interest income from government securities rising by 91.1% y/y to KES 9.8 billion - supported by increased (+37.2%y/y) investment in government securities to KES 127.7 billion. Interest expenses arising from customer deposits edged up by 10.3% y/y to KES 6.5 billion mostly driven by an 11.3% y/y in customer deposits to KES 368.8 billion. Consequently, net interest income fell by 15.0% y/y KES 27.5 billion (3Q2016: KES 32.3 billion) lowering the net interest margin by 220 basis points to 6.5%. A 28.3% y/y growth in non-funded income to KES 21.3 billion was able to mitigate the impact of the rate capping law, leading to a marginal decline (-0.3%y/y) in total operating income to KES 48.7 billion. Thus, the Group increased the revenue contribution of non-funded income to 43.6% (3Q2017: 33.9%). Operating expenses (excluding provisions) increased by 4.4% y/y to KES 25.1 billion (attributable to the low digitization levels in regional subsidiaries) resulting in a C/I ratio of 51.6% (3Q2016: 49.2%). Going forward, as the Group expands its digitization strategy to its subsidiaries we expect opex to ease. Loan loss provisions eased by 13.2% y/y to KES 2.9 billion despite a 25.4% y/y growth in gross NPLs to KES 20.7 billion. We expect the Group to continue focusing on revenue diversification strategies (merchant commissions, mobile money, and m-commerce) and to leverage their portfolio of Treasury securities to enhance revenue growth. Moreover, given the recent regulatory pressure encountered in Kenya, we expect the Group to bolster their focus on the existing regional subsidiaries to improve their contribution to profitability. [For a more detailed analysis, click here.](#)

Inflation Eases to 5.7% in October

The annual headline inflation rate maintained its downward trajectory settling at 5.7% in October. The lower rate reflected the normalization of the food situation (owing to improved weather conditions) as food inflation registered a negative

growth of 1.8% on a monthly basis and reduced to 8.5% as compared to October last year. Between September and October, the prices of most of food items sampled declined, however from an annual perspective, the prices of sugar, maize grains and wheat flour still remained higher than last year. The housing, water, electricity, gas and other fuels index rose by 3.6% on an annual basis (furthering its rising trend) following of significant increases in rental, electricity and cooking gas costs. Higher electricity costs (200 KWh – 11.2% y/y and 50 KWh – 14.2% y/y) were a consequence of the increase in forex adjustment charges. Higher petrol (+10.9% y/y) and diesel (+7.9% y/y) prices impacted the transport index which rose by 3.8% y/y. Whilst the favorable weather conditions should continue to ease the price pressure on most food items, we remained concerned about expected price increases in maize (due to the conclusion of subsidy window) wheat flour (due to reduced production) and rice (attributable to muted local production and expensive imports) which could frustrate gains made on food inflation.

Safaricom Records a 9.5% Growth in Net Income for 1H2018

Safaricom's net income for 1H2018 rose by 9.5% y/y to KES 26.2 billion (1H2017: KES 23.9 billion). Total revenues realized a 12.1% y/y growth to KES 114.4 billion driven by a 12.0% y/y growth in service revenues to KES 109.73 billion. MPESA revenues rose by 16.2% y/y to KES 30.1 billion (to account for 27.4% of service revenues) - supported by a 9.5% y/y growth in 30-day active users to 19.3 million and a 13.6% y/y growth in the monthly average number of chargeable transaction per active user to 11. Mobile data revenues climbed by 31.0% y/y to KES 17.6 billion driven by a 13.5% y/y growth in 30 day - active mobile data customers to 16.9 million. Voice and SMS revenues , grew by 3.6% y/y to KES 56.3 billion on the back of increased subscribers – 10.8% y/y to 29.5 million. Direct costs rose by 9.0% y/y to KES 35.4 billion resulting in a fairly constant direct cost intensity of 31.0% (1H2018: 31.8%). Operating expenses edged up by 18.8% y/y to KES 24.8 billion, to register an opex intensity of 21.7% (1H2017: 20.6%) while finance costs declined by 21.9% y/y to KES 630.0 million. We expect the company to continue focusing on M-PESA and data (fixed and mobile) to drive revenue growth.

Kenya Stock Market Performance and Outlook

The overall market edged up by 2.9% w/w to close the week at 164.50 (NASI), characterized by significant increases in trading volumes (+80.5%) and turnover (+71.1%). The market reacted positively to the progress achieved on the electoral process with the declaration of the President-elect. Foreign investors emerged net buyers (reflecting improved investor sentiments) taking up entry positions on KCB, Equity, Coop, Safaricom and KenGen - anticipating potential

capital gains with the moderation of political risk. This led to price gains on the aforementioned counters. Safaricom remained fairly stable ahead of the release of its 1H2018 results, despite concerns of a leadership void occasioned by the departure (indefinite leave) of the CEO due to medical reasons. We opine that this mirrors strong investor confidence in the company's fundamentals. Despite the positive reaction by the equities market to the headway made on the electoral process, we opine the political risk remains relatively high. However, we expect price stability in the coming week.

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	41.50	11.5%	7.8%	18,361,100	52.6%	6.42	7.2%	1.32	22.2%
Equity Bank	40.25	34.2%	11.0%	9,782,200	50.7%	9.19	5.0%	1.85	21.5%
NIC Bank	38.25	47.1%	0.7%	1,332,200	38.7%	5.91	3.3%	0.81	15.3%
Stanbic	80.50	14.2%	1.9%	15,000	57.9%	7.20	6.5%	0.79	11.3%
National Bank	10.05	39.6%	9.8%	49,100	73.9%	20.10	0.0%	0.28	1.5%
Barclays Bank	10.15	11.5%	10.9%	2,436,300	53.4%	7.75	9.9%	1.30	18.0%
Housing Finance	12.10	-13.6%	9.0%	323,200	56.3%	4.67	4.1%	0.38	8.3%
Co-operative Bank	16.70	26.5%	3.7%	8,209,100	52.1%	7.52	4.8%	1.34	22.9%
Diamond Trust Bank	184.00	55.9%	3.4%	47,300	37.6%	7.97	1.4%	1.07	17.0%
Standard Chartered	225.00	19.0%	4.7%	15,300	44.7%	8.70	8.9%	1.73	21.1%
I&M	124.00	37.8%	0.0%	4,500	34.7%	6.68	2.8%	1.23	19.9%
Sector Average					50.2%	8.37	4.9%	1.10	16.3%

Commercial and Services	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E (X)	Dividend Yield	EPS(KES)	ROE
Kenya Airways	6.15	5.1%	21.8%	4,285,000	-0.35	0.0%	-17.53	N/M
Nation Media Group	118.00	26.9%	7.3%	210,000	13.26	8.5%	8.9	19.1%
WPP Scangroup	19.00	4.7%	5.6%	257,300	16.96	2.6%	1.12	10.6%
Uchumi Supermarket	3.60	-8.9%	4.3%	602,800	-0.46	0.0%	-7.77	N/M
Atlas Development	1.05	0.0%	0.0%	-	-0.29	0.0%	-3.58	-7.5%
Longhorn Publishers	5.80	20.8%	2.7%	41,400	11.84	6.6%	0.49	13.1%
Eveready	2.40	2.1%	6.7%	33,000	-2.45	0.0%	-0.98	-35.3%
Sector Average					-1.65	2.9%		0.0%

*N/M - Not Meaningful

Construction & Allied	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	NPM*	ROE
ARM Cement	14.55	-42.9%	-2.3%	450,700	-4.41	0.0%	-21.9%	-12.5%
Bamburi Cement	179.00	11.9%	1.7%	527,900	12.40	6.7%	15.5%	19.8%
E.A. Portland Cement	24.50	4.3%	0.0%	1,300	0.53	0.0%	19.3%	25.0%
Sector Average					14.84	2.2%		10.7%

*NPM - Net Profit Margin

Energy & Petroleum Sector	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	EPS (KES)	ROE
KenGen	9.00	55.2%	3.4%	7,332,300	6.57	0.0%	1.37	5.1%
KenolKobil	15.00	0.7%	1.4%	5,968,400	9.15	3.0%	1.64	26.2%
Kenya Power	10.85	33.1%	8.0%	1,689,100	2.92	4.6%	3.72	10.8%
Sector Average					6.62	2.5%		14.0%

Insurance Sector	Price (KES)	YTD Change	% w-o-w Change	P/B(X)	P/E(X)	Loss Ratio	Expense Ratio	ROE
CIC Insurance	5.65	48.7%	2.7%	1.98	80.71	64.5%	64.7%	2.5%
Britam	14.75	47.5%	5.7%	1.60	11.26	28.8%	106.7%	14.0%
Jubilee	458.00	-6.5%	-7.3%	1.41	9.16	79.4%	122.7%	17.6%
Kenya Re	20.50	-8.9%	2.8%	0.59	4.36	52.7%	101.0%	14.3%
Sanlam Kenya	29.00	5.5%	7.4%	1.06	10.26	92.7%	48.8%	1.8%
Liberty	12.00	-8.7%	0.0%	0.95	46.03	70.9%	74.1%	9.7%
Sector Average				1.27	9.81	64.8%	86.3%	10.0%

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Investment Sector	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	P/B(X)	NAVPS**	EPS (KES)	ROE
Centum Investment	40.75	10.1%	2.5%	251,000	3.73	0.55	48	10.93	17.9%
Home Afrika Ltd	1.15	-4.2%	4.5%	4,666,600	-2.95	(11.17)	0.85	-0.39	2.6%
Kurwitu Ventures Ltd	1500.00	0.0%	0.0%	-	-14.42	1.68	1043.71	-104	0.0%
Trans-Century	6.60	-2.9%	4.8%	29,000	-4.23	0.52	40.96	-1.56	4.7%
Sector Average					4.64	(2.11)			6.3%

*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
NSE	19.70	34.5%	3.1%	456,900	27.75	1.4%	0.71	10.1%
Sector Average					27.75	1.4%		

Manufacturing & Allied Sector	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	EPS (KES)	ROE
Mumias Sugar	1.15	-11.5%	4.5%	1,644,300	-0.37	0.0%	-3.09	-69.4%
EABL	245.00	0.4%	0.0%	2,834,100	25.23	3.1%	9.71	74.5%
FTG Holdings	5.00	-2.0%	5.3%	24,900	5.88	0.0%	0.85	22.3%
Carbacid	13.00	-3.0%	0.0%	186,400	8.84	5.4%	1.47	14.6%
BAT	800.00	-12.0%	6.0%	57,000	18.89	5.4%	42.34	48.0%
Sector Average					34.93	2.8%		

Telecommunication & Technology Sector	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	P/E(X)	Dividend Yield	EPS (KES)	ROE
Safaricom	25.50	33.2%	1.0%	41,824,600	21.07	3.8%	1.21	43.2%
Sector Average					21.07	3.8%		

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Real Estate Investment Trust	Price (KES)	YTD Change	% w-o-w Change	Volume Traded	NAVPS*	Dividend Yield	EPS (KES)
STANLIB FAHARI I-REIT	10.25	-12.0%	-1.0%	424,200	NA	NA	NA
Sector Average						NA	

*NAVPS - Net Asset Value Per Share

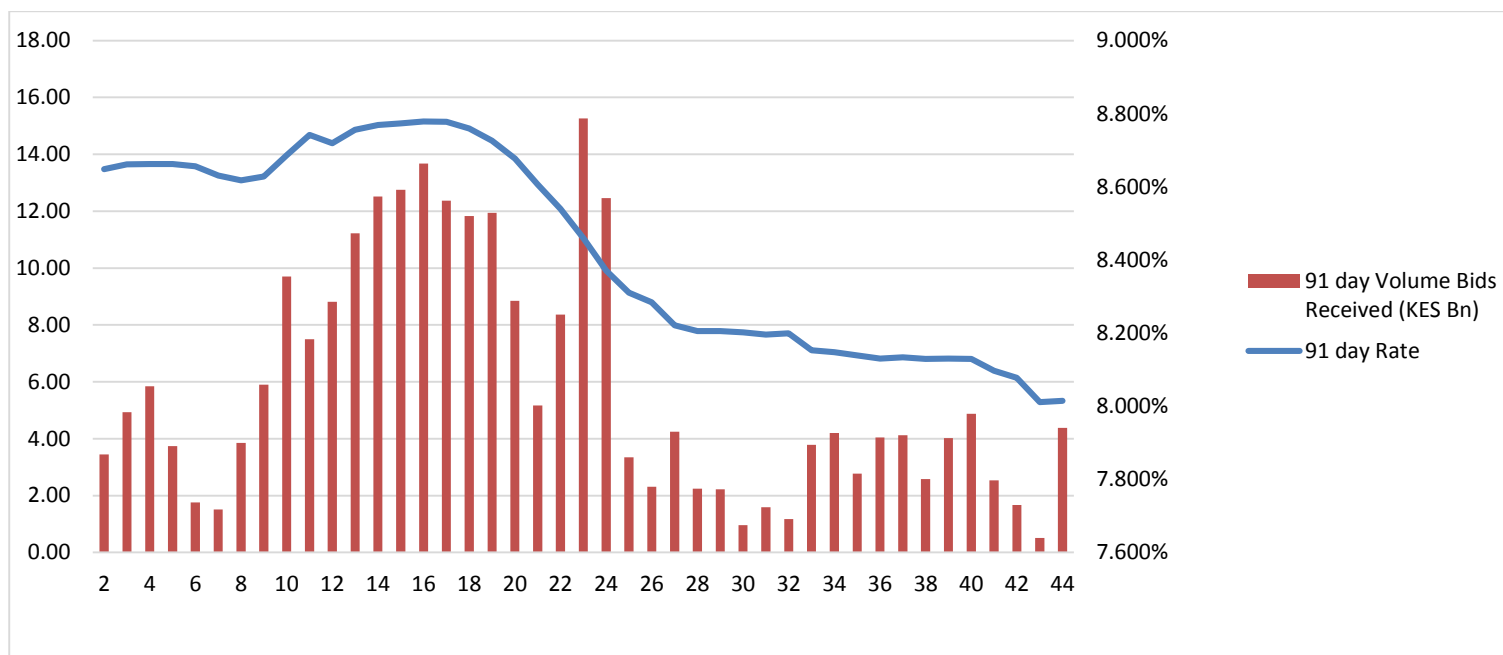
Market Statistics	This Week	Last Week	% Change
Total Volumes	120,443,300	66,725,500	80.5%
Total Turnover (KES)	3,627,651,309	2,119,647,699	71.1%
Main Market P/E	15.27	14.84	2.9%

Fixed Income Market Summary

	Bids Received (KES)	Subscription	Bids Accepted (KES)	Rate	Previous Rate	%Change
91 day T-bill	4.38Bn	109.38%	3.81Bn	8.015%	8.011%	0.004
182 day T-bill	4.21Bn	42.07%	4.21Bn	10.433%	10.389%	0.044
364 day T-bill	8.14Bn	81.41%	7.95Bn	10.995%	10.989%	0.006

Graph showing 91 day T-bill rate and volume

Week No. 44



The Secondary Market

Current week Turnover (KES)	Previous week Turnover (KES)	Current week No. of Deals	Previous Week Deals
5,382,881,744	3,562,587,157	201	111

Actively Traded Fixed Rate Bonds

	Average Traded Yield	Total Value (KES)
FXD3/2016/5Yr	12.2574%	831,500,000
FXD1/2017/10Yr	12.6308%	709,600,000
FXD1/2015/5Yr	12.0750%	520,000,000
FXD1/2017/2Yr	10.9050%	502,600,000

Actively Traded Infrastructure Bonds

	Average Traded Yield	Total Value (KES)
IFB1/2016/9Yr	11.6050%	1,007,000,000
IFB1/2017/12Yr	11.6333%	181,300,000
IFB1/2015/12Yr	11.7586%	148,800,000

Corporate Actions

Corporate Actions

- Unga Group Ltd announced a first and final dividend of Kes.1.00 on 29-Sep-2017; Books Closure 05-Dec-2017; Payment 15-Jan-2018.
- Longhorn Publishers Ltd announced a final dividend of Kes.0.29 on 08-Sep-2017; Books Closure 08-Dec-2017; Payment 08-Mar-2018.
- Kenya Power & Lighting Ltd announced a First & Final dividend of Kes.0.50 on 23-Oct-2017; Books Closure 30-Nov-2017; Payment 31-Jan-2018.

Market Recommendations

Counter	Recommendation	Target Price	Comment
KCB	LONG-TERM BUY	Not Rated	We recommend a Long Term Buy on KCB. The counter is currently trading at a P/B of 1.32x compared to the average sector P/B of 1.10x. Given the major shift in the banking sector after the introduction of the interest rate cap, we opine that KCB Group will be one of the banks to weather the upcoming storm from shrinkage in margins due to the significant investments done by the group in technology. We expect the Group to focus on alternative banking channels (mobile and agency) to drive loan book growth and to improve efficiencies.
EQUITY	HOLD	Not Rated	We revise our recommendation from a BUY to a HOLD with a downward revision of the target price from KES 49.90 to KES 44.11. This represents a 9.6% upside potential from the current market price of KES 40.25. Currently Equity is trading at a P/B of 1.85x compared to the average sector P/B of 1.10x. We attribute this to higher growth expectations. Equity has a new dynamic business model tailored to address the emerging challenges in the banking sector. The growth rate in transactional value and numbers in alternative channels has been significant, with notable decline in traditional banking channels. With expected thinning margins due to the interest rate cap, we expect Equity to gain competitive advantage going forward with its disruptive shift to digital banking to improve efficiencies, bolstered focus on regional subsidiaries to drive business growth and its aggressive revenue diversification strategy.

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