



Faida Weekly Report (Week 27)

Week ending July 5th, 2013

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Analysts:

Bernard Kiarie

E-mail: bernard.kiarie@fib.co.ke

Samuel Mugacha

E-mail: samuel.mugacha@fib.co.ke

William Githui

E-mail: william.githui@fib.co.ke

Crawford Business Park,

Ground floor

State House Road

Tel: 0207606026-37

www.fib.co.ke

P.O Box 45236, 00100

Nairobi.

International Highlights

Europe

ECB Maintains Interest Rate

The European Central Bank (ECB) took the unprecedented step of committing to keeping interest rates at the low levels of 0.5% for an extended period of time. ECB policymakers have previously stated that the rates would be accommodative for some time. The ECB had always refrained from pre-committing to policy moves in the past.

The ECB committed to keeping interest rates at present of lower levels

Asia

China to Test Free Trade Zone in Shanghai

China has taken another step towards loosening its capital controls and making its currency more freely convertible. China's State Council stated that it was establishing a pilot zone in Shanghai to test some of the government's financial overhauls, including interest rates.

China's State Council established a pilot zone in Shanghai

U.S

Rising Mortgage Rates Slow Housing Growth

According to the Mortgage Bankers Association, mortgage rates soared last week to their highest levels in two years, causing the number of mortgage applications to fall by 12.0% from the previous week. The average rate on 30-year fixed-rate mortgages climbed to 4.58% from 4.46% last week while the average rate for 15-year fixed rate mortgages also shot up to 3.64% from last week's 3.55%. The rising mortgage rates likely reflect stronger economic data and market anxiety over the Federal Reserve scaling back on its economic stimulus program by the end of the year.

U.S. mortgage rates soared last week

Africa

Standard Chartered Bank Commits USD 2bn to Power Africa Drive

Standard Chartered bank has committed more than USD 2.0 billion to financing energy projects under the Power Africa Initiative. The five-year partnership among the US, six African governments and the private sector represents a coordinated cross-border effort to build the regulatory, economic and policy foundation in order to double access to power in Sub-Saharan Africa. The governments of Ghana, Tanzania, Kenya, Nigeria, Ethiopia and Liberia and a group of private-sector firms are taking part in the initiative that will add more than 10,000 megawatts of cleaner, more efficient electricity generation capacity.

Standard Chartered Bank has committed more than USD 2.0 billion to finance energy projects

Economic Highlights

	Previous Week Close	Week High	Week Low	Current Week Close
USD/KES	86.01	86.25	85.83	86.25
EURO/KES	112.40	112.04	111.24	111.24
GBP/KES	131.34	131.48	129.76	129.76

The Kenya Shilling weakened against the USD

The Kenya Shilling weakened against The USD but strengthened against the Euro and the Sterling Pound closing the week at KES 86.25, KES 111.24 and KES 129.76 for the USD, EURO and GBP respectively.

The Kenya shilling weakened against the USD during the week on the back of high dollar demand from nervous importers betting that the USD could strengthen further.

The government plans to set up a sovereign fund that will hold the proceeds of the newly discovered mineral wealth

Government to Set up Sovereign Fund to Manage Mineral Funds

The government plans to set up a sovereign fund that will hold the proceeds of the newly discovered mineral wealth. The proceeds will be used for investment in other sectors of the economy. The draft law (Mining Bill 2013) proposes that the money should be used to cushion the economy against sudden currency volatility. 25.0% of all mineral rights revenues including royalties, royalty sales proceeds, mineral revenue-sharing payments and bonuses should be directed towards the fund.

Tullow Oil discovered additional deposits in the Lake Turkana Basin

Kenya Strikes Additional Oil in Lake Turkana Basin

Tullow Oil, a British oil explorer, stated last week that they had discovered additional deposits in the Lake Turkana basin. The highlight of the first half of the year was the discovery of oil deposits with a net pay of more than 40 meters in Etuko-1. The firm also increased its estimates after successful flow-testing of Ngamia-1 and Twiga South-1 to over 250 million barrels of oil.

CMA Reduces Time for promoters of REITS to Unlock Value

CMA has reduced the time that promoters of Real Estate Investment projects will be barred from selling their shares at the securities exchange from three years to two years meaning that they will be able to unlock their value earlier.

Equity market Summary

Top Gainers

	Price	%ch	EPS	DPS	PE
Liberty Kenya	11.90	19.6%	1.72	0.40	6.92
CIC Insurance	5.00	7.5%	0.64	0.10	7.81
Jubilee Holdings	239.00	6.2%	35.32	7.00	6.77
National Bank of Kenya	22.25	6.0%	1.49	0.20	14.93
Rea Vipingo	23.00	5.8%	6.34	1.10	3.63

Top Losers

	Price	%ch	EPS	DPS	PE
Olympia Capital	3.60	-21.7%	0.38	0.10	9.47
Eveready East Africa	2.45	-12.5%	-0.59	0.00	-4.15
Sasini	12.50	-8.4%	1.72	1.00	7.27
Express Kenya	3.75	-6.3%	0.37	0.00	10.14
Centum Investment	21.00	-3.5%	3.77	0.00	5.57

Top Traders

	Price	Volume Traded	% Price ch	EPS	PE
Safaricom	6.75	79,556,400	3.1%	0.44	15.34
Equity Bank	32.00	13,318,200	2.4%	3.26	9.82
The Co-operative Bank	15.55	11,610,500	1.3%	1.84	8.45
Barclays Bank	16.05	6,519,800	2.2%	1.61	9.97
KCB	38.25	5,731,900	3.4%	4.11	9.31

The NSE 20 share index dropped by 12.74 points while the NASI gained by 1.03 points to close the week at 4585.42 and 117.34 points respectively.

NSE 20 share index dropped

The Insurance sectors recorded increase in prices during the past week. This could be attributed to investors taking advantage of good entry points in the sectors.

Market has been on a general downward trend

The securities market continued on a downward trend over the recent weeks. This could be attributed to investors reacting to the possible reintroduction of Capital Gains Tax, profit taking by investors and reduced foreign participation.

Agricultural sector

The Agricultural sector closed the week at a PE of 4.24x compared to the previous week's PE of 4.32x.

	Price	% ch w-o-w	Volume traded	PE (x)
Sasini Tea	12.50	-8.4%	65,300	7.27
Eaagads	27.00	-0.9%	1,100	19.85
Rea Vipingo	23.00	5.8%	29,400	3.63

Banking Sector

The Banking sector closed the week at a PE of 9.50x compared to the previous week's PE of 9.89x.

	Price	%ch w-o-w	Volume traded	PE (x)
KCB	38.25	3.4%	5,731,900	9.31
Equity Bank	32.00	2.4%	13,318,200	9.82
CFC Stanbic	65.50	3.2%	274,600	6.62
National Bank	22.25	6.0%	339,400	14.93
Barclays Bank	16.05	2.2%	6,519,800	9.97
I&M Bank	97.50	1.6%	282,700	9.19

Investors took advantage of the relatively low entry points during the week

I&M declared an interim dividend payment of KES 1.90 with the share register closing on 22nd July 2013 and payment on or about 30th July 2013.

Commercials and Services Sector

The Commercial and Services Sector closed the week at a PE of -22.19x compared to the previous week's PE of -18.28x.

	Price	%ch w-o-w	Volume traded	PE (x)
Express Kenya	3.75	-6.3%	1,500	10.14
Nation Media Group	299.00	-0.7%	48,900	18.81
Scangroup	60.00	-0.8%	129,200	27.15
Standard Group	29.50	5.4%	1,900	11.52
Uchumi Supermarket	19.80	-0.5%	2,294,900	19.22

Standard Group increased by 5.4% w-o-w

Construction & Allied Sector

The Construction and Allied sector closed the week at a PE of 22.17x compared to the previous week's PE of 22.27x.

	Price	%ch w-o-w	Volume traded	PE (x)
Crown Paints	57.50	2.7%	42,500	10.21
ARM Cement	63.50	-0.8%	371,700	25.30
E.A. Cables	15.15	4.5%	228,200	8.71
E.A. Portland Cement	56.00	0.9%	1,900	-6.16

E.A. Cables gained by 4.5% w-o-w

Crown Paints shareholders approved an increase in the company's authorized stock

Crown Paints shareholders approved an increase in the company's authorized stock to 40 million shares of KES 5.00 each from 25 million shares. This gives the company room to raise additional capital to fund its expansion plans.

E. A. Cables to benefit from the amended Public Procurement Act

E.A. Cables is set to benefit from the amended Public Procurement Act which includes local producers of electrical cables among the firms to be given priority in public spending. Increase in price and volumes traded (33,600 shares traded prior week) could be linked to positive investor speculation on the counter.

Energy and Petroleum Sector

The Energy and Petroleum sector closed the week at a PE of 28.59x compared to the previous week's PE of 28.76x.

KenGen dropped by 1.0% w-o-w

	Price	%ch w-o-w	Volume traded	PE (x)
KenGen	15.00	-1.0%	2,176,200	11.72
KenolKobil	8.65	-1.7%	3,256,700	-2.03
Kenya Power	14.45	-0.3%	1,558,400	6.12

Both KenolKobil and KenGen experienced high selling pressure and thin demand during the week.

KenolKobil last week announced that it had replaced CEO Jacob Segman with David Ohana, currently the general manager of KenolKobil Kenya Unit.

Insurance Sector

The Insurance sector closed the week at a PE of 6.00x compared to the previous week's PE of 5.71x.

Insurance sector on an upward trend during the past week

Kenya Re and Britam Investments offer good entry points for long-term gains

	Price	%ch w-o-w	Volume traded	PE (x)
CIC Insurance	5.00	7.5%	2,802,200	7.81
Britam Investments	8.05	0.6%	683,700	5.75
Jubilee Holdings	239.00	6.2%	70,300	6.77
Kenya Re	16.40	1.2%	890,100	4.10
Liberty Kenya	11.90	19.6%	73,200	6.92
Pan Africa Insurance	54.00	4.9%	14,200	7.43

Investment Sector

The Investment sector closed the week at a PE of 7.73x compared to the previous week's PE of 7.77x.

Trans-Century gained by 4.8% w-o-w

	Price	%ch w-o-w	Volume traded	PE (x)
Centum Investment	21.00	-3.5%	188,400	5.57
Trans-Century	32.50	4.8%	44,700	19.58
Olympia Capital	3.60	-21.7%	21,300	9.47

Trans-Century price appreciation can be linked to investor speculation derived from the company's shareholding in E.A. Cables (68.3% ownership).

Manufacturing & Allied Sector

The Manufacturing and Allied sector closed the week at a PE of 19.71x as compared to the previous week's PE of 20.05x.

B.A.T Kenya gained 1.5% w-o-w

	Price	%ch w-o-w	Volume traded	PE
B.A.T Kenya	551.00	1.5%	62,800	16.85
Eveready	2.45	-12.5%	95,400	-4.15
Mumias Sugar	4.15	-1.2%	4,190,800	3.14
East African Breweries	325.00	-2.4%	1,273,600	24.15

Telecommunication & Technology Sector

The Telecommunication and Technology sector PE remained unchanged at 15.33x.

Safaricom gained by 3.1% w-o-w

	Price	%ch w-o-w	Volume traded	PE
Safaricom	6.75	3.1%	79,556,400	15.34

The government agreed to exempt Access Kenya from the 20.0% local ownership rule paving the way for the firm to be fully acquired by Dimension Data.

Bond market Summary

Primary Market

The week saw the government put up the 91 day T - bills for auction and managed to raise KES 2.12 billion out of a target of KES 2.0 billion.

Interest rates on the 91 day T – bill increased from 5.175% last week

	Bids Received (KES)	Subscription	Bids Accepted (KES)	Rate
91 day T-bill	2.12 Bn	106%	2.12 Bn	5.496%

The Secondary Market

Current week Turnover (KES)	Previous week Turnover (KES)	Current week No. of Deals	Previous week No. of deals
9,739,500,000	18,174,050,000	142	156

	Average Traded Yield	Total Value (KES)	No. of Trades
FXD 1/2012/2Yr	10.2500%	700,000,000	2
FXD1/2013/5Yr	11.2000%	100,000,000	6
FXD1/2013/10Yr	12.3386%	2,900,000,000	18
FXD1/2008/15Yr	11.7000%	600,000,000	26

Infrastructure Bonds

	Average Traded Yield	Total Value (KES)	No. of Trades
IFB 1/2011/12Yr	11.1932%	1,620,800,000	14
IFB 2/2009/12Yr	14.0000%	2,500,000	1

Market Outlook

Counter	Recommendation	Comment
KCB	Buy	Our target price of KES 47.25 provides a 23.5% upside from the current market price (KES 38.25).
Equity Bank	Buy	Our target price of KES 43.82 provides a 36.9% upside from the current market price (KES 32.00).
NIC Bank	Buy	Our target price of KES 65.68 provides a 23.9% upside from the current market price (KES 53.00).
Centum Investment	Long Term Buy	Our estimation of a forward Net Asset Value per Share of KES 32.47 provides a 54.6% upside from the current market price (KES 21.00).
KenGen	Buy	Our target price of KES 21.70 provides a 44.7% upside from the current market price (KES 15.00).
Kenya Power	Neutral	Our target price of KES 14.72 provides a 1.9% upside from the current market price (KES 14.45).

NOTE: Kindly refer to our website to get detailed and comprehensive research notes on specific companies.