Faida Weekly Report (Week 28)

Week ending July 12th, 2013

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International Highlights

Europe

Research Shows that Loose Lips Sink Euro Bond Markets

Study showed that certain types of commentary had a quantifiable effect on the spread between the bond yields

The European Central Bank last week released a paper that used 25,000 news media releases between January 2009 and October 2011 to investigate how much political communications affected sovereign bond yields during the region's fiscal crisis. The study focused on public pronouncements on fiscal policy and state finances by officials. Results from the study show that in the short term, certain types of commentary had a quantifiable effect on the spread between the bond yields of Greece, Ireland and Portugal over German bonds with the biggest impact on Greece.

Asia

China Opens Up Markets

China signaled a major change in its approach to market access

U.S. officials last week stated that China had signaled a major change in its approach to market access and had resumed key talks on a long-delayed bilateral investment treaty. This was a major turnaround that could provide big benefits to U.S firms. Chinese officials stated the U.S. pledged fair treatment for China in export control enforcement, with a major goal being heightened high-technology sales to Chinese customers.

U.S.

U.S. Posts Widest Budget Surplus Since 2008

Stronger economy and reduced spending leads to budget surplus

According to the Treasury Department, the U.S. government posted the widest monthly budget surplus in more than five years in June 2013, as spending plunged 47.0% and a stronger economy lifted tax receipts. Receipts exceed outlays by USD 116.5 billion last month compared with a USD 59.7 billion deficit in June 2012. The U.S. President Barack Obama's administration projects the federal budget deficit will shrink to USD 759 billion in the year ending September 30th.

Africa

China and Nigeria Sign USD 1.1Billion Deal to Build Infrastructure

USD 1.1 Billion to be used to build roads, airport terminals and a light-rail line

Nigerian president Goodluck Jonathan struck a deal with Chinese President Xi Jinping that will see China give Nigeria a USD 1.1 billion low-interest loan to build infrastructure. The money will be used to build roads, airport terminals in four cities and a light-rail line for Nigeria's capital. Chinese companies are already building roads across Nigeria with contracts worth USD 1.7 billion. Nigerian officials stated that China's demand for crude oil produced in Nigeria is expected to rise tenfold to 200,000 barrels a day by 2015.

Economic Highlights

	Previous Week Close	Week High	Week Low	Current Week Close
USD/KES	86.25	87.17	86.68	87.17
EURO/KES	111.24	113.96	111.08	113.96
GBP/KES	129.76	132.27	129.06	132.27

The Kenya Shilling weakened against major currencies closing the week at KES 87.17, KES 113.96 and KES 132.27 for the USD, EURO and GBP respectively.

Fears of oil price increases due to Egypt unrest led to shilling depreciation

The shilling hit a new low of KES 87.00 against the USD as the market factored in fears of oil price increases due to the unrest in Egypt. Dealers also noted low dollar supply as tea exporters to Egypt were negatively affected.

Monetary Policy Committee holds CBR rate at 8.5%

The Central Bank of Kenya maintained the Central Bank Rate at 8.5% indicating that the previous cuts in the rate were already showing a positive impact on credit uptake. The committee meets next in early September to review the rate.

Company Highlights

KCB appoints new directors

KCB appoints new CFO

Samuel Makome and Collins Otiwu (previously Equity Bank employees) have been appointed KCB's head of Kenya business and chief financial officer (CFO) respectively. The bank also appointed John Kania as company secretary and Charles Langat to head its audit functions.

KenolKobil suffers rating downgrade

KenolKobil's long-term debt rating falls to A

Global Credit Ratings (GCR) downgraded KenolKobil's long-term debt rating to A from the 2012 rating of A+. This is attributable to rising debt levels as a result of high working capital needs coupled with capital erosion from losses. GCR also noted that the collapsed Puma Energies deal contributed to a negative outlook as the deal could have led to capital and technical support. A downgrade in debt-rating will mean that the company will suffer higher costs of debt and will have challenges meeting working-capital needs.

Equity market Summary

Top Gainers

	Price	%ch	EPS	DPS	PE
Eveready East Africa	2.90	18.4%	-0.59	0.00	-4.92
Barclays Bank of Kenya	17.60	9.7%	1.61	1.00	10.93
Sasini Ltd	13.70	9.6%	1.72	1.00	7.97
ARM Cement	69.50	9.5%	2.51	0.50	27.69
Rea Vipingo	24.75	7.6%	6.34	1.10	3.90

Top Losers

	Price	%ch	EPS	DPS	PE
Kenya Airways	9.50	-4.5%	-6.35	0.00	-1.50
Umeme Ltd	11.50	-4.2%	1.40	0.50	8.21
Bamburi Cement	210.00	-2.8%	12.17	10.50	17.26
National Bank of Kenya	21.75	-2.3%	1.49	0.20	14.60
Car & General	23.00	-2.1%	7.48	0.55	3.07

Top Traders

	Price	Volume Traded	% Price ch	EPS	PE
Safaricom	7.05	101,050,500	4.4%	0.44	16.02
KenolKobil	8.60	12,450,800	-0.6%	-4.26	-2.02
Equity Bank	33.75	7,641,100	5.5%	3.26	10.35
The Co-operative Bank	15.95	6,621,700	2.6%	1.84	8.67
KCB	40.50	6,036,600	5.9%	4.11	9.85

NSE 20 share index gained

The NSE 20 share index and the NASI gained by 135.11 points and 4.05 points to close the week at 4720.53 and 121.39 points respectively.

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

Foreign activity driving demand

The securities market last week recovered on the back of increased foreign investor activity on the banking and consumer stocks.

Agricultural sector

The Agricultural sector closed the week at a PE of 4.42x compared to the previous week's PE of 4.24x.

	Price	% ch w-o-w	Volume traded	PE (x)
Rea Vipingo	24.75	7.6%	64,800	3.90
Sasini	13.70	9.6%	62,000	7.97
Williamson Tea	229.00	0.9%	4,600	2.43

Banking Sector

The Banking sector closed the week at a PE of 9.92x compared to the previous week's PE of 9.50x.

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

	Price	%ch w-o-w	Volume traded	PE (x)
KCB	40.50	5.9%	6,036,600	9.85
Equity Bank	33.75	5.5%	7,641,100	10.35
NIC Bank	55.00	3.8%	188,400	9.37
National Bank	21.75	-2.3%	104,400	14.60
Barclays Bank	17.60	9.7%	4,444,100	10.93
The Co-operative Bank	15.95	2.6%	6,621,700	8.67

Commercials and Services Sector

The Commercial and Services Sector closed the week at a PE of -22.31x compared to the previous week's PE of -22.19x.

Kenya Airways had few buyers during the week

	Price	%ch w-o-w	Volume traded	PE (x)
Kenya Airways	9.50	-4.5%	706,000	-1.50
Nation Media Group	304.00	1.7%	45,300	19.12
Scangroup	61.00	1.7%	7,300	27.60
Standard Group	29.00	-1.7%	5,700	11.33
Uchumi Supermarket	20.25	2.3%	2,533,200	19.66
TPS Eastern Africa	48.00	-0.5%	70,100	13.33

Construction & Allied Sector

The Construction and Allied sector closed the week at a PE of 22.33x compared to the previous week's PE of 22.17x.

	Price	%ch w-o-w	Volume traded	PE (x)
Crown Paints	57.00	-0.9%	20,200	10.12
ARM Cement	69.50	9.5%	185,200	27.69
E.A. Cables	15.25	0.7%	111,700	8.76
Bamburi Cement	210.00	-2.8%	478,900	17.26

ARM announced a 28.8% jump in Profit before Tax

ARM Cement announced a 28.8% jump in Profit before Tax to KES 1.0 billion (HY2013) from KES 791 million (HY2012). During the week, the company announced plans to list its non-cement business in two to three years as an independent brand in the region. Book closure at the beginning of the week could have led to the price increase.

Energy and Petroleum Sector

The Energy and Petroleum sector closed the week at a PE of 28.33x compared to the previous week's PE of 28.59x.

	Price	%ch w-o-w	Volume traded	PE (x)
KenGen	15.25	1.7%	3,776,300	11.91
KenolKobil	8.60	-0.6%	12,450,800	-2.02
Kenya Power	14.15	-2.1%	4,717,600	6.00

Insurance Sector

The Insurance sector closed the week at a PE of 6.05x compared to the previous week's PE of 6.00x.

Insurance sector cooled off after last week's Bull Run

	Price	%ch w-o-w	Volume traded	PE (x)
CIC Insurance	4.90	-2.0%	1,017,400	7.66
Britam Investments	8.25	2.5%	586,700	5.89
Jubilee Holdings	244.00	2.1%	43,700	6.91
Kenya Re	16.20	-1.2%	310,500	4.05
Liberty Kenya	11.90	0.0%	66,400	6.92
Pan Africa Insurance	56.00	3.7%	3,300	7.70

The insurance sector cooled off after the previous week's bull run triggered by investors exploiting attractive entry points.

Investment Sector

The Investment sector closed the week at a PE of 8.01x compared to the previous week's PE of 7.73x.

	Price	%ch w-o-w	Volume traded	PE (x)
Centum Investment	22.25	6.0%	472,600	5.90
Trans-Century	32.50	0.0%	1,063,800	19.58
Olympia Capital	3.60	0.0%	13,800	9.47

Manufacturing & Allied Sector

The Manufacturing and Allied sector closed the week at a PE of 20.63x as compared to the previous week's PE of 19.71x.

	Price	%ch w-o-w	Volume traded	PE
B.A.T Kenya	555.00	0.7%	3,000	16.97
Eveready	2.90	18.4%	70,800	-4.92
Mumias Sugar	4.40	6.0%	3,150,800	3.33
East African Breweries	325.00	-2.4%	1,273,600	24.15
Unga Group	15.95	4.9%	28,400	5.68

East African Breweries Ltd increased beer prices during the week to cover for rising cost of materials.

Telecommunication & Technology Sector

The Telecommunication and Technology sector closed the week at a PE of 16.02x compared to the previous week's PE of 15.33x.

	Price	%ch w-o-w	Volume traded	PE
Safaricom	7.05	4.4%	101,050,500	16.02

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, 182 and 364 day T - bills for auction and managed to raise KES 1.836 billion out of a target of KES 7.0 billion.

Lower investor appetite for T-bills

	Bids Received (KES)	Subscription	Bids Accepted (KES)	Rate
91 day T-bill	1.41 Bn	70.5%	1.41 Bn	5.759%
182 day T-bill	0.747 Bn	37.3%	0.271 Bn	6.320%
364 day T-bill	0.155 Bn	5.2%	0.155 Bn	8.356%

The Secondary Market

Current week Turnover (KES)	Previous week Turnover (KES)	Current week No. of Deals	Previous week No. of deals
7,467,300,000	9,739,500,000	85	142

	Average Traded Yield	Total Value (KES)	No. of Trades
FXD 1/2012/2Yr	9.7500%	350,000,000	1
FXD1/2012/5Yr	11.4597%	1,600,000,000	7
FXD1/2006/8Yr	9.2000%	142,100,000	1
FXD1/2013/10Yr	12.5074%	1,120,000,000	4
FXD2/2013/15Yr	12.2742%	1,550,000,000	5
FXD1/2012/20yr	12.1000%	126,250,000	3

Infrastructure Bonds

	Average Traded Yield	Total Value (KES)	No. of Trades
IFB 1/2011/12Yr	10.9015%	140,700,000	6
IFB 1/2009/12Yr	11.2250%	513,000,000	5

Market Outlook

Counter	Recommendation	Comment
KCB	Buy	Our target price of KES 47.25 provides a 16.7% upside from the current market price (KES 40.50). The group has placed emphasis on optimizing its subsidiaries ensuring consolidation and increased profitability going forward with a view of reducing costs and non-performing loans.
Equity Bank	Buy	Our target price of KES 43.82 provides a 29.8% upside from the current market price (KES 33.75). The bank has a large customer base (mobilized KES 8.0 billion during 1Q2013) and is likely to enjoy high interest spreads as cost of funds remain low.
NIC Bank	Buy	Our target price of KES 65.68 provides a 19.4% upside from the current market price (KES 55.00). Though the bank suffered a slight drop in customer deposits, we are optimistic in the bank's ability to grow its loan book especially in asset finance.
Centum Investment	Long Term Buy	Our estimation of a forward Net Asset Value per Share of KES 32.47 provides a 45.9% upside from the current market price (KES 22.25). We project a 30.1% growth in Private Equity, 32.1% growth in Quoted Private Equity and 22.3% growth in Real Estate.
KenGen	Buy	Our target price of KES 21.70 provides a 42.3% upside from the current market price (KES 15.25). KenGen has already begun harnessing the power potential in geothermal, hydro and wind that will boost their future revenues.
Kenya Power	Neutral	Our target price of KES 14.72 provides a 4.0% upside from the current market price (KES 14.15). A key cause for concern is the inefficiencies in the firm, especially in the system losses, which have remained relatively unchanged.

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