



Faida Weekly Report (Week 32)

Week ending August 9th, 2013

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International Highlights

Europe

Fitch Affirms Germany's AAA Rating

Fitch Ratings cited the country's first budget surplus

Fitch Ratings affirmed Germany's credit rating stating that the government beat its own budget targets and was positioned on a growth path. The ratings company cited the country's first budget surplus since reunification, economic growth and low nominal interest rates. The government plans to reduce the budget deficit in a bid to meet constitutional debt limits of 0.4% of GDP.

Asia

Japan Government Plans to Halve Budget Deficit in FY2015

Japanese government plans to raise tax revenues

The Japanese government stated that the combined budget deficit for the central and regional governments in fiscal 2015 is estimated to fall to ¥17.1 trillion (3.3% of nominal GDP). This is an indication that Japan may be able to meet its international commitment that the primary fiscal deficit should be halved in FY2015 from the FY2010 level of 6.6%. The government plans to raise tax revenues through a two-stage tax hike planned in April 2014 and October 2015 with an assumption of a 2.0% growth in real GDP between FY2013 and FY2022.

U.S

Obama Lays Out Strategy to Build on Housing Gains

Housing market on the rebound

President Obama outlined a series of policies stating he would continue to boost the housing market, including a legislative proposal that would allow more Americans to refinance at current low mortgage rates. He also stated that he is taking executive action to widen the pool of borrowers eligible to receive loans from federally-backed programs. According to the S&P/Case-Shiller index, the housing market has been rebounding since early 2012 with house prices up 15.0% since then.

Africa

World Bank Approves Financing for Rusumo Falls Hydroelectric Plant

Rusumo Falls plant to have a capacity of 80 MW.

The World Bank approved financing for the Rusumo Falls hydroelectric plant located along Kagera River at a total cost of USD 340 million. The plant is expected to have a generation capacity of 80 MW upon completion and an overall cost of USD 480 million. It will span over three countries (Burundi, Rwanda and Tanzania). It is projected that the power generated will reduce electricity costs as well as alleviate poverty by creating jobs and investment opportunities in these countries.

Economic Highlights

	Previous Week Close	Week High	Week Low	Current Week Close
USD/KES	87.41	87.40	87.37	87.39
EURO/KES	115.60	116.55	115.85	116.55
GBP/KES	132.47	135.45	133.51	135.45

Kenya Shilling weakened against major currencies

The Kenya Shilling firmed slightly against the USD but weakened against major currencies closing the week at KES 87.39, KES 116.55 and KES 135.45 for the USD, EURO and GBP respectively. This could be occasioned by majority of banks opting to hold local currency and lend it to other banks on the overnight window thereby curbing dollar demand.

Equity market Summary

Top Gainers

	Price	%ch	EPS	DPS	PE (x)
Kapchorua Tea	135.00	8.0%	45.94	7.50	2.94
Centum Investments	24.50	6.5%	3.77	0.00	6.50
Safaricom	7.70	6.2%	0.44	0.10	39.15
Crown Paints	60.00	5.3%	5.63	1.25	10.66
Sameer Africa	5.25	5.0%	0.68	0.25	7.72

Source: NSE

Top Losers

	Price	%ch	EPS	DPS	PE (x)
Home Afrika	16.05	-18.3%	0.41	0.10	39.15
Olympia Capital Holdings	4.20	-7.7%	0.38	0.10	11.05
Carbacid Investments	130.00	-7.1%	11.46	5.00	11.34
Trans-Century	30.00	-5.5%	1.66	0.40	18.07
Car & General	22.00	-4.4%	7.48	0.55	2.94

Source: NSE

Top Traders

	Price	Volume Traded	% Price ch	EPS	PE (x)
Safaricom	7.70	31,430,800	6.2%	0.44	17.50
CFC Stanbic	69.00	11,987,200	2.2%	9.90	6.97
KCB	44.00	9,326,100	3.5%	4.11	10.71
Barclays Bank	17.20	5,686,900	-1.4%	1.61	10.68
CIC Insurance	4.80	5,244,900	2.1%	0.64	7.50

Source: NSE

*N/M: Not Meaningful

NSE 20 share index and NASI gained during the week

The NSE 20 share index and the NASI gained 15.75 points and 1.37 points to close the week at 4792.87 and 124.67 points respectively.

Agricultural sector

The Agricultural sector closed the week at a PE of 4.55x compared to the previous week's PE of 4.50x.

	Price	% ch w-o-w	Volume traded	PE (x)
Kakuzi	83.00	0.0%	3,400	4.29
Rea Vipingo	27.75	3.7%	43,800	4.38
Sasini	13.80	0.0%	494,200	8.02
Williamson Tea	236.00	0.4%	2,000	2.50
Kapchorua Tea	135.00	8.0%	1,100	2.94
Sector PE				4.55

Source: NSE

Banking Sector

The Banking sector PE closed the week at a PE of 10.69x as compared to the previous week's PE of 10.55x.

	Price	%ch w-o-w	Volume traded	PE (x)
KCB	44.00	3.5%	9,326,100	10.71
Equity Bank	33.75	2.3%	3,190,300	10.35
NIC Bank	56.50	1.8%	181,100	9.63
CFC Stanbic	69.00	2.2%	11,987,200	6.97
National Bank	21.25	-2.3%	129,300	14.26
Barclays Bank	17.20	-1.4%	5,686,900	10.68
Housing Finance	25.75	-1.9%	418,100	8.00
The Co-operative Bank	16.40	1.9%	1,842,300	8.91
Diamond Trust Bank	169.00	2.4%	65,300	11.46
Standard Chartered	303.00	1.0%	53,200	11.39
I&M Holdings	92.00	-3.2%	93,500	8.67
Sector PE				10.69

Source: NSE

KCB had demand at the KES 44.00 level with foreigners playing on both sides of supply and demand

Majority of listed banks recorded an increase in half year profits

Equity Bank announced a 17.1% jump in profit before tax to KES 8.9 billion (1H2013) from KES 7.6 billion (1H2012). For the latest analysis, please refer to our 1H2013 Results Note dated July 30, 2013.

CFC Stanbic announced an 81.4% increase in profit before tax to KES 2.2 billion (1H2013) from KES 1.2 billion (1H2012).

National Bank of Kenya reported a 3.5% increase in profit before tax to KES 944 million (1H2013) from KES 912 million (1H2012). For the latest analysis, please refer to our 1H2013 Results Note dated August 7, 2013.

Barclays reported a 0.8% drop in profit before tax to KES 6.2 billion (1H2013) from KES 6.3 billion (1H2012). For the latest analysis, please refer to our 1H2013 Results Note dated August 8m, 2013.

Housing Finance announced a 60.6% increase in profit before tax to KES 574 million (1H2013) from KES 358 million (1H2012).

Co-operative Bank reported a 17.5% increase in profit before tax to KES 5.8 billion (1H2013) from KES 4.9 billion (1H2012).

Diamond Trust Bank reported a 22.3% increase in profit before tax to KES 3.5 billion (1H2013) from KES 2.8 billion (1H2012).

Co-operative Bank and Equity Bank were named 1,000 and 999 respectively in the list of top 1,000 lenders in the world by capitalization as ranked by The Banker.

Commercials and Services Sector

The Commercial and Services Sector closed the week at a PE of -22.68x compared to the previous week's PE of -22.72x.

	Price	%ch w-o-w	Volume traded	PE (x)
Kenya Airways	9.35	1.1%	368,300	N/M*
Nation Media Group	311.00	0.3%	100,000	19.56
Scangroup	62.50	-3.1%	302,400	28.28
TPS Eastern Africa	48.00	0.0%	18,300	13.33
Uchumi Supermarket	19.80	1.0%	196,400	19.22
Standard Group	27.50	0.0%	7,700	10.74
Longhorn Kenya	14.50	-0.7%	29,900	N/M*
Sector PE				-22.68

Source: NSE

Kenya Airways could have been negatively impacted by the inferno that occurred at the Jomo Kenyatta International Airport (JKIA) early last week as flights were cancelled and delayed. The counter fell 2.0% in trading following

Construction & Allied Sector

The Construction and Allied sector closed the week at a PE of 22.88x compared to the previous week's PE of 22.91x.

	Price	%ch w-o-w	Volume traded	PE (x)
Crown Paints	60.00	5.3%	7,000	10.66
ARM Cement	69.50	1.5%	245,400	27.69
E.A. Cables	16.45	2.2%	112,800	9.45
Bamburi Cement	218.00	-0.9%	606,100	17.91
E.A. Portland Cement	53.50	-0.9%	38,600	N/M*
Sector PE				22.88

Source: NSE

ARM Cement announced a 28.8% jump in Profit before Tax to KES 1.0 billion (HY2013) from KES 791 million (HY2012).

E.A. Cables announced an 18.3% drop in Profit before Tax to KES 321 million for 1H2013.

Bamburi Cement announced an 11.9% decrease in Profit before Tax to KES 3.3 billion (1H2013) from KES 3.7 billion (1H2012). A 17.5% decline in turnover to KES 15.8 billion was attributed to a general market slowdown due to the Kenya election related uncertainty in the first quarter and various economic and political reasons in export markets.

Energy and Petroleum Sector

The Energy and Petroleum sector closed the week at a PE of 29.58x compared to the previous week's PE of 29.52x.

	Price	%ch w-o-w	Volume traded	PE (x)
KenGen	16.15	0.9%	1,442,400	12.62
KenolKobil	8.70	-0.6%	1,372,700	N/M*
Kenya Power	13.95	-0.4%	1,894,600	5.91
Total Kenya	16.80	1.2%	103,900	N/M*
Umeme	13.00	0.0%	-	9.29
Sector PE				29.52

Source: NSE

For more on the Power Sector, kindly refer to our Power Sector Report, 'Boosting Capacity to Power More', released on June 21, 2013.

Insurance Sector

The Insurance sector PE closed at a PE of 6.17x as compared to the previous week's PE of 6.18x.

CIC Insurance was the biggest gainer in the insurance sector

	Price	%ch w-o-w	Volume traded	PE (x)
CIC Insurance	4.80	2.1%	5,244,900	7.50
Britam Investments	7.80	-1.3%	293,700	5.57
Jubilee Holdings	275.00	-0.4%	24,800	7.79
Kenya Re	17.05	0.9%	524,500	4.26
Liberty Kenya	12.00	-1.2%	55,500	6.98
Pan Africa Insurance	55.00	-1.8%	22,200	7.57
Sector PE				6.17

Source: NSE

Investment Sector

The Investment sector closed the week at a PE of 8.12x compared to the previous week's PE of 8.40x.

Centum Investment gained 6.5% w-o-w on the back of local retail investors

	Price	%ch w-o-w	Volume traded	PE (x)	NAVPS
Centum Investment	24.50	6.5%	1,823,900	6.50	24.29
Trans-Century	30.00	-5.5%	193,900	18.07	44.05
Olympia Capital	4.20	-7.7%	4,900	11.05	20.44
Sector PE				8.12	29.59

Source: NSE

TransCentury recorded a 4.6% increase in Profit before Tax to KES 589 million (1H2013) from KES 564 million (1H2012). The power business recorded a 14.0% decline in turnover due to reduction in metal prices while the engineering business grew by 33.0% in turnover driven by new projects and growth in existing mining support operations. Notably, Rift Valley Railways (RVR) achieved break-even in 1H2013.

Manufacturing & Allied Sector

The Manufacturing and Allied sector closed the week at a PE of 20.42x as compared to the previous week's PE of 20.81x.

Mumias Sugar experienced a lot of selling pressure during the week

	Price	%ch w-o-w	Volume traded	PE (x)
B.A.T Kenya	570.00	-0.7%	21,800	17.43
Eveready	2.95	-1.7%	232,200	N/M*
Mumias Sugar	4.10	-3.5%	1,919,800	3.11
East African Breweries	338.00	-2.0%	1,340,000	25.11
Unga Group	16.00	2.2%	47,600	5.69
Sector PE				20.42

Source: NSE

Telecommunication & Technology Sector

The Telecommunication and Technology sector closed the week at a PE of 16.50x compared to the previous week's PE of 16.48x.

Foreign investors dominated trading with increased profit-taking at KES 8.00 levels

	Price	%ch w-o-w	Volume traded	PE (x)
Safaricom	7.70	6.2%	31,430,800	17.50

Growth Enterprise Market Segment

The Growth Enterprise Market Segment closed the week at a PE of 47.93x as compared to 54.88x the previous week.

	Price	%ch w-o-w	Volume traded	PE (x)
Home Afrika	16.05	-18.3%	83,300	39.15

Bond market Summary

The Central Bank offered two-year and ten-year (re-opened) fixed coupon treasury bonds for KES 20.0 billion for the purpose of budgetary support. The coupon rate for the Two Year is market determined while the Ten Year is 12.371%.

Primary Market

The week saw the government put up the 91, 182 and 364 day T - bills for auction and managed to raise KES 5.59 billion out of a target of KES 9.0 billion.

	Bids Received (KES)	Subscription	Bids Accepted (KES)	Rate
91 day T-bill	4.98 Bn	166.0%	3.40 Bn	10.406%
182 day T-bill	0.45 Bn	15.0%	0.31 Bn	9.859%
364 day T-bill	9.91 Bn	330.0%	6.71 Bn	11.254%

The government has steadily been increasing the T-bill rates in a bid to attract more investment (91 day, 182 day and 364 T-bill rates up from 8.754%, 6.872% and 10.883% respectively from the previous auction.)

The Secondary Market

Secondary bond market slowed down

Current week Turnover (KES)	Previous week Turnover (KES)	Current week No. of Deals	Previous week No. of deals
5,384,100,000	6,994,500,000	83	103

	Average Traded Yield	Total Value (KES)	No. of Trades
FXD2/2013/5Yr	11.2500%	120,000,000	2
FXD1/2013/10Yr	12.0817%	400,000,000	4
FXD1/2013/15Yr	13.6286%	775,000,000	11
SDB1/2011/30Yr	13.4000%	694,650,000	39

Infrastructure Bonds

	Average Traded Yield	Total Value (KES)	No. of Trades
IFB 1/2011/12Yr	11.7761%	1,170,000,000	5
IFB 1/2009/12Yr	11.9524%	1,900,800,000	8

Market Outlook

Counter	Recommendation	Comment
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. The bank announced a 17.1% jump in Profit before Tax to KES 8.9 billion (1H2013) from KES 7.6 billion (1H2012).
KenGen	Buy	Our target price of KES 21.70 provides a 34.3% upside from the current market price (KES 16.15). KenGen has already begun harnessing the power potential in geothermal, hydro and wind that will boost their future revenues.
NIC Bank	Buy	Our target price of KES 65.68 provides a 16.2% upside from the current market price (KES 56.50). 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 32.5% upside from the current market price (KES 24.50). We project a 30.1% growth in Private Equity, 32.1% growth in Quoted Private Equity and 22.3% growth in Real Estate.
KCB	Neutral	Our target price of KES 47.25 provides a 11.2% upside from the current market price (KES 42.00). 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.
Kenya Power	Neutral	Our target price of KES 14.72 provides a 5.1% upside from the current market price (KES 14.00). A key cause for concern is the inefficiencies in the firm, especially in the system losses, which have remained relatively unchanged.
Barclays Bank	Neutral	Our target price of KES 17.02 provides a 1.0% downside from the current market price (KES 17.20). We observe that the momentum in loan book growth that had begun in 1Q2013 slowed down coming into 2Q2013.
National Bank	Neutral	Operating expenses remain high as evidenced by the relatively high cost/income ratio. However, we reckon that this provides some headroom for efficiency gains. We are yet to see a clear strategic direction aimed at boosting funded income.

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