



Faida Weekly Report (Week 33)

Week ending August 16th, 2013

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International Highlights

Europe

Eurozone Hauled Out of 18-Month Recession by Germany and France

Eurozone returned to growth, after 18 months of double-dip recession. The 17 nations using the single currency expanded by 0.3% in 2Q2013. Data released by Eurostat, the European Union's (EU) statistical agency, indicated that a stronger than expected performance by the block's 2 biggest economies-Germany and France, helped haul the Eurozone out of recession. However, Mr. Olli Rehn, Europe's Economic Commissioner cautioned that even though a sustained recovery is now within reach, the block needs to preserve on all fronts of the crisis response by keeping up the pace of economic reform, regaining control over public and private debt and building the pillars of a genuine economic and monetary union. However, the commission still expects the Eurozone to suffer a second full calendar year of falling output in 2013, with growth resuming in 2014.

Eurozone records 0.3% growth in 2Q2013

Asia

Japan Not Keen on Tax Cuts as Deflation Eases

The Government of Japan, in its upbeat view on prices in 4 years, indicated that the country was approaching an end to deflation as a steady rise in the economy allowed more companies to pass on rising costs to consumers. However, the country's policy makers suggested that they favor tax incentives to lift weak business investment rather than a corporate tax cut. There are intentions to double sales tax rate to 8.0% in April 2014 and 10.0% in 2015. The policy makers are of the view that any tax cut should be a long term option rather than a quick fix. Finance Minister, Mr. Taro Aso was also of the notion that cutting corporate tax would do very little to offset the pain from planned sale tax hike given that only 30.0% of firms pay corporate tax.

Government of Japan indicated that the country was approaching an end to deflation

U.S

U.S. Consumer Debt Drops in Second Quarter, Continuing Post-Crisis Trend

Data from the Federal Reserve Bank of New York showed that the overall indebtedness of the Americans fell in the latest quarter as mortgage balances declined by USD 91 billion to stand at USD 7.8 trillion. The total consumer debt stood at USD 11.2 trillion in 2Q2013, a 0.7% drop from the previous quarter. Despite a rise in student debt (by USD 8 billion) and auto loans (by USD 20 billion), household delinquencies dropped from 8.1% in 1Q2013 to 7.6% in 2Q2013.

Mortgage balances declined by USD 91 billion

Africa

US Urged Africa to Lower Cost of Exporting Goods

To boost intra-regional trade and move to a continent-wide free trade area, U.S officials urged African governments to invest in infrastructure and lower custom restrictions. They said that African nations need to integrate their economies and lower cost of getting goods to the international markets so as to have an impact in global trade.

U.S. urged African governments to invest in infrastructure

Economic Highlights

	Previous Week Close	Week High	Week Low	Current Week Close
USD/KES	87.39	87.70	87.34	87.50
EURO/KES	116.55	116.70	116.35	116.70
GBP/KES	135.45	136.68	135.39	136.68

Kenya Shilling weakened against major currencies

The Kenya Shilling weakened against the USD and other major currencies closing the week at KES 87.50, KES 116.70 and KES 136.68 for the USD, EURO and GBP respectively. The shilling firmed at the beginning of the week as the central bank boosted liquidity in the market through reverse repurchase agreements.

Weakening of the shilling could have been occasioned by depressed tea exports due to the unrest in Egypt.

Equity market Summary

Top Gainers

	Price	%ch	EPS	DPS	PE (x)
Car & General	24.75	12.5%	7.48	0.55	3.31
Scangroup	69.50	11.2%	2.21	0.60	31.45
Pan Africa Insurance	60.00	9.1%	7.27	3.00	8.25
Carbacid Investments	140.00	7.7%	11.46	5.00	12.22
Centum Investment	25.75	5.1%	3.77	0.00	6.83

Source: NSE

Top Losers

	Price	%ch	EPS	DPS	PE (x)
Kapchorua Tea Co.	122.00	-9.6%	45.94	7.50	2.66
Kenya Re Insurance	16.05	-5.9%	4.00	0.40	4.01
Kenya Airways	8.95	-5.3%	-6.35	0.00	N/M
Home Afrika	15.20	-5.3%	0.41	0.10	37.07
EABL	327.00	-3.3%	13.46	8.75	24.29

Source: NSE

Top Traders

	Price	Volume Traded	% Price ch	EPS	PE (x)
Safaricom	8.05	75,485,000	4.6%	0.44	18.30
Nation Media Group	315.00	19,237,100	1.3%	15.90	19.81
KCB	45.00	14,660,000	2.3%	4.11	10.95
Equity Bank	35.00	11,631,700	3.7%	3.26	10.74
Mumias Sugar	4.00	10,250,300	-2.4%	1.32	3.03

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 49.72 points and 1.28 points to close the week at 4842.59 and 125.95 points respectively.

Agricultural sector

The Agricultural sector closed the week at a PE of 4.58x compared to the previous week's PE of 4.55x.

	Price	% ch w-o-w	Volume traded	PE (x)
Kakuzi	84.00	1.2%	100	4.34
Rea Vipingo	27.50	-0.9%	15,400	4.34
Sasini	14.15	2.5%	64,300	8.23
Williamson Tea	244.00	3.4%	10,800	2.59
Kapchorua Tea	122.00	-9.6%	2,600	2.66
Sector PE				4.58

Source: NSE

Banking Sector

The Banking sector PE closed the week at a PE of 10.87x as compared to the previous week's PE of 10.69x.

	Price	%ch w-o-w	Volume traded	PE (x)
KCB	45.00	2.3%	14,660,000	10.95
Equity Bank	35.00	3.7%	11,631,700	10.74
NIC Bank	58.00	2.7%	374,300	9.88
CFC Stanbic	72.00	4.4%	1,153,700	7.27
National Bank	21.25	0.0%	203,200	14.26
Barclays Bank	17.75	3.2%	5,722,100	11.02
Housing Finance	25.25	-1.9%	669,500	7.84
The Co-operative Bank	16.50	0.6%	3,730,900	8.97
Diamond Trust Bank	174.00	3.0%	39,800	11.80
Standard Chartered	295.00	-2.6%	233,000	11.09
I&M Holdings	90.00	-2.2%	86,900	8.48
Sector PE				10.87

Source: NSE

KCB trading was dominated by foreign investors and high net worth individuals

Equity Bank experienced both local and foreign demand

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).

KCB and Standard Chartered are due to announce their 1H2013 results in the coming week.

Commercials and Services Sector

The Commercial and Services Sector closed the week at a PE of -23.10x compared to the previous week's PE of -22.68x.

	Price	%ch w-o-w	Volume traded	PE (x)
Kenya Airways	8.95	-5.3%	1,275,300	N/M*
Nation Media Group	315.00	1.3%	19,237,100	19.81
Scangroup	69.50	11.2%	295,400	31.45
TPS Eastern Africa	48.00	0.0%	5,300	13.33
Uchumi Supermarket	19.75	-0.3%	242,300	19.17
Standard Group	27.50	0.0%	31,800	10.74
Longhorn Kenya	14.15	-2.4%	15,000	N/M*
Sector PE				-23.10

Kenya Airways demand remained weak

Nation Media Group had a block trade of 19 million shares during the week

Scangroup hit a high of KES 78.00 pushed up by speculative investors

Source: NSE

Cavendish BV (WPP), last week announced that it will increase its stake in Scangroup to 50.1% in a cash and share deal. The firm will offer cash for 21.3 million shares at KES 85.85 and cede ownership in nine subsidiaries to Scangroup in exchange for 72.7 million shares. The jump in price can be attributed to investor speculation after this announcement at the beginning of the week.

Kenya Airways stated that it lost KES 340 million in revenue due to flight cancellation and delays caused by the fire at Jomo Kenyatta International Airport.

Construction & Allied Sector

The Construction and Allied sector PE remained unchanged to close the week at 22.88x.

	Price	%ch w-o-w	Volume traded	PE (x)
Crown Paints	61.00	1.7%	27,800	10.83
ARM Cement	70.50	1.4%	157,700	28.09
E.A. Cables	16.10	-2.1%	275,300	9.25
Bamburi Cement	217.00	-0.5%	116,700	17.83
E.A. Portland Cement	52.50	-1.9%	6,000	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).

Energy and Petroleum Sector

The Energy and Petroleum sector closed the week at a PE of 30.13x compared to the previous week's PE of 29.58x.

	Price	%ch w-o-w	Volume traded	PE (x)
KenGen	16.70	3.4%	3,681,500	13.05
KenolKobil	8.45	-2.9%	4,160,900	N/M*
Kenya Power	14.40	3.2%	5,983,400	6.10
Total Kenya	17.50	4.2%	85,400	N/M*
Umeme	13.00	0.0%	-	9.29
Sector PE				30.13

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.

KenGen trading was dominated by local investors playing on both sides of demand and supply

Kenya Power last week announced that it was exiting the rural market to focus on urban customers. This comes after the government suspended an upward revision of connection fees. The company stated that it was not commercially viable for them to connect rural households located far off from the national grid at the government-backed fee of KES 35,000 for single-phase customers.

Insurance Sector

The Insurance sector closed at a PE of 6.22x as compared to the previous week's PE of 6.17x.

	Price	%ch w-o-w	Volume traded	PE (x)
CIC Insurance	4.90	2.1%	5,336,100	7.66
Britam Investments	8.05	3.2%	3,320,600	5.75
Jubilee Holdings	275.00	0.0%	21,900	7.79
Kenya Re	16.05	-5.9%	989,900	4.01
Liberty Kenya	12.10	0.8%	77,300	7.03
Pan Africa Insurance	60.00	9.1%	205,000	8.25
Sector PE				6.22

Source: NSE

Kenya Re posted a 12.8% increase in profit before tax to KES 1.6 billion (1H2013) from KES 1.4 billion (1H2012) boosted by a 20.0% increase in gross written premium to KES 4.0 billion and a 24.9% increase in investment income to KES 1.2 billion.

Jubilee Holdings recorded a 23.5% increase in profit before tax to KES 1.1 billion (1H2013) from KES 927 million (1H2012) on the back of an 11.1% increase in gross written premium to KES 10.1 billion and a significant gain in net fair value gain through profit & loss to KES 1.3 billion.

Investment Sector

The Investment sector closed the week at a PE of 8.66x compared to the previous week's PE of 8.12x.

	Price	%ch w-o-w	Volume traded	PE (x)	NAVPS
Centum Investment	25.75	5.1%	1,969,700	6.83	24.29
Trans-Century	31.00	3.3%	463,500	18.67	44.05
Olympia Capital	4.20	0.0%	7,800	11.05	20.44
Sector PE				8.66	29.59

Source: NSE

Jubilee Holdings and Kenya Re reported growth in profits

Centum Investment recorded a 6.5% w-o-w increase the previous week

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 PE remained unchanged to close the week at 19.93x.

	Price	%ch w-o-w	Volume traded	PE (x)
B.A.T Kenya	573.00	0.5%	251,000	17.52
Eveready	2.90	-1.7%	155,400	N/M*
Mumias Sugar	4.00	-2.4%	10,250,300	3.03
EABL	327.00	-3.3%	557,300	24.29
Unga Group	15.90	-0.6%	114,300	5.66
Sector PE				19.93

Source: NSE

Mumias Sugar continued experiencing selling pressure during the week

Telecommunication & Technology Sector

The Telecommunication and Technology sector closed the week at a PE of 18.30x compared to the previous week's PE of 16.50x.

	Price	%ch w-o-w	Volume traded	PE (x)
Safaricom	8.05	4.6%	75,485,000	18.30

Safaricom experienced strong foreign demand and hit a new high of KES 8.15 during trading

Growth Enterprise Market Segment

The Growth Enterprise Market Segment closed the week at a PE of 37.07x as compared to 47.93x the previous week.

	Price	%ch w-o-w	Volume traded	PE (x)
Home Afrika	15.20	-5.3%	119,200	37.07

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 10.08 billion out of a target of KES 9.0 billion.

	Bids Received (KES)	Subscription	Bids Accepted (KES)	Rate
91 day T-bill	8.01 Bn	267.0%	3.15 Bn	10.498%
182 day T-bill	4.84 Bn	161.0%	2.73 Bn	10.732%
364 day T-bill	6.43 Bn	214.0%	4.20 Bn	11.563%

Interest rates on the primary market continued on an upward trend

Interest rates in the primary market continued on an upward trend albeit slightly when compared to previous weeks (91 day, 182 day and 364 T-bill rates up from 10.406%, 9.859% and 11.254% respectively from the previous auction.)

The Secondary Market

Current week Turnover (KES)	Previous week Turnover (KES)	Current week No. of Deals	Previous week No. of deals
6,298,450,000	5,384,100,000	49	83

	Average Traded Yield	Total Value (KES)	No. of Trades
FXD1/2013/5Yr	11.6870%	615,000,000	2
FXD1/2012/10Yr	12.1997%	688,000,000	8
FXD1/2013/15Yr	13.6980%	1,524,500,000	12
SDB1/2011/30Yr	13.4231%	5,200,000	3

Infrastructure Bonds

	Average Traded Yield	Total Value (KES)	No. of Trades
IFB 1/2011/12Yr	11.7100%	1,042,000,000	7
IFB 1/2009/12Yr	12.0000%	500,000,000	3

Market Outlook

Counter	Recommendation	Comment
Equity Bank	Buy	Our target price of KES 43.82 provides a 25.2% upside from the current market price (KES 35.00). 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 29.9% upside from the current market price (KES 16.70). KenGen has already begun harnessing the power potential in geothermal, hydro and wind that will boost their future revenues.
NIC Bank	Neutral	Our target price of KES 65.68 provides a 13.2% upside from the current market price (KES 58.00). 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 26.1% upside from the current market price (KES 25.75). 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 5.0% upside from the current market price (KES 45.00). 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 2.2% upside from the current market price (KES 14.40). 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 -4.2% downside from the current market price (KES 17.75). 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.
Diamond Trust Bank	Neutral	Our target price of KES 173.65 gives a 1.0% upside from the current market price (KES 174.00). Given the release of their 1H2013 results we see the bank having more room to grow its loan book given the lower loan to deposit ratio coupled with the increased deposit mobilization witnessed in the 2Q2013.
CFC Stanbic	Neutral	The bank's strategy to grow non-interest income has paid off so far and we expect this trend to continue. A cause for concern is the marginal increase in loans and advances that was accompanied by a large increase of non-performing loans.

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