



# Faida Weekly Report (Week 38)

Week ending September 20<sup>th</sup>, 2013

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## International Highlights

### Europe

#### European Union Officials Ease Austerity Requirements

European Union (EU) officials approved a change to how the 'structural deficit' is calculated, which is computed as the actual deficit a country runs adjusted for the weakness of the economy on the assumption that the real deficit will naturally shrink as things improve. The new methodology is expected to lower estimates of the natural unemployment rate for struggling countries. However, the change will still have to be formally approved at a meeting of senior finance ministry officials in the coming week.

New methodology on how to calculate 'structural deficit' yet to be approved

### Asia

#### India Surprises with Rate Hike

The Governor of the Reserve Bank of India (RBI), Mr. Raghuram Rajan surprised markets by raising interest rates to ward off rising inflation, while scaling back some of the emergency measures put in place to support the ailing rupee. The RBI policy repo rate was increased by 25 bps to 7.5%, against a wide spread forecast that he would maintain the rate to bolster a sluggish economy.

Reserve Bank of India raised the RBI policy repo rate by 25 bps

### U.S

#### Fed Reprieve Widens Asia's Window for Reform as Growth Slows

The Federal Reserve's decision to hold back on the rollback of U.S stimulus offered Asian policy makers extra time to address domestic economic fragilities as the region copes with diminished capital inflows. The Fed's move spurred a rally in stocks and currencies from India to Indonesia, where officials in recent months had to take measures like hiking interest rates to stem an outflow of capital. However, many are of the view that a better way of communication by the Fed is necessary to avoid turmoil in the markets.

Federal Reserve held back on the rollback of U.S. stimulus

### Africa

#### Africans Making it Big in China

There are a growing number of African entrepreneurs in Southern China, even as trade between the world's second-largest economy and fastest-growing continent soars. Some of the traders already doing business in china intimated that there are opportunities for people who can start from scratch and build their own businesses. Trade between China and Africa hit new highs of about USD 200 billion in 2012.

African traders find success in China

## Economic Highlights

	Previous Week Close	Week High	Week Low	Current Week Close
USD/KES	87.54	87.58	87.39	87.39
EURO/KES	116.14	118.36	116.76	118.27
GBP/KES	138.23	139.31	141.01	140.24

Kenya Shilling strengthened against the USD

The Kenya Shilling strengthened against the USD but weakened against the EURO and GBP closing the week at KES 87.39, KES118.27 and KES 140.24 respectively. The strengthening of the shilling against the USD could have been on the back of news that the U.S. Federal reserve was not going to taper its stimulus program.

### Equity market rose as U.S. bond stimulus programme continues

Capital inflows into emerging and frontier markets expected to increase

The U.S. Federal Reserve decided to continue with its U.S. bond buying stimulus programme citing delayed desired results. As a result, capital inflows into emerging and frontier markets such as Kenya are expected to increase in the short term. We expect increased foreign investor participation in large cap counters such as Safaricom as investors look for attractive returns.

## Equity market Summary

### Top Gainers

	Price	%ch	EPS	DPS	PE (x)
Centum Investment	27.50	12.2%	3.77	0.00	7.29
Safaricom	8.50	6.3%	0.44	0.31	19.32
Olympia Capital	4.20	5.0%	0.38	0.10	11.05
National Bank	21.25	4.9%	1.49	0.20	14.26
Eveready E.A.	2.70	3.9%	-0.59	0.00	N/M

Source: NSE

### Top Losers

	Price	%ch	EPS	DPS	PE (x)
Home Afrika	7.45	-13.4%	0.41	0.10	18.17
Longhorn Kenya	12.20	-12.9%	1.80	0.80	6.78
Eaagads	22.50	-10.9%	-1.84	0.00	N/M
Kapchorua Tea Co.	110.00	-9.8%	45.94	7.50	2.39
Williamson Tea	226.00	-9.6%	94.36	7.50	2.40

Source: NSE

### Top Traders

	Price	Volume Traded	% Price ch	EPS	PE (x)
Safaricom	8.50	66,132,800	6.3%	0.44	19.32
Equity Bank	33.75	10,482,600	1.5%	3.26	10.35
The Co-operative Bank	16.20	7,971,500	0.3%	1.84	8.80
KCB	45.00	4,175,800	2.3%	4.11	10.95
Barclays Bank	17.05	3,822,200	-0.3%	1.61	10.59

Source: NSE

\*N/M: Not Meaningful

The NSE 20 share index and the NASI gained 2.50 points and 1.80 points to close at 4751.82 and 124.66 respectively. Gains were realized in the investment and banking sectors. The agricultural and commercial and services sectors retreated during the week under review.

Gains realized in the banking and investment sectors

### Agricultural sector

The Agricultural sector closed the week at a PE of 4.60x compared to the previous week's PE of 4.83x.

Agricultural sector recorded highest losses last week

	Price	% ch w-o-w	Volume traded	PE (x)
Kapchorua Tea Co.	110.00	-9.8%	2,000	2.39
Rea Vipingo	27.75	-3.5%	42,000	4.38
Sasini	13.45	-3.2%	82,900	7.82
Williamson Tea	226.00	-9.6%	1,000	2.40
Eaagads	22.50	-10.9%	9,100	N/M
<b>Sector PE</b>				<b>4.60</b>

Source: NSE

### Banking Sector

The Banking sector PE closed the week at a PE of 10.73x as compared to the previous week's PE of 10.63x.

National Bank led the gainers in the banking sector as counters such as Equity and KCB registered marginal gains

	Price	%ch w-o-w	Volume traded	PE (x)
KCB	45.00	2.3%	4,175,800	10.95
Equity Bank	33.75	1.5%	10,482,600	10.35
NIC Bank	57.50	-0.9%	702,900	9.80
CFC Stanbic	70.00	0.0%	149,500	7.07
National Bank	21.25	4.9%	67,000	14.26
Barclays Bank	17.05	-0.3%	3,822,200	10.59
Housing Finance	25.00	0.0%	346,800	7.76
The Co-operative Bank	16.20	0.3%	7,971,500	8.80
Diamond Trust Bank	173.00	0.0%	63,500	11.73
Standard Chartered	299.00	0.0%	248,300	11.24
I&M Holdings	92.50	2.8%	521,700	8.71
<b>Sector PE</b>				<b>10.73</b>

Source: NSE

KCB plans to enter joint venture with Nyandarua County

KCB expressed its intention to enter into a joint venture with Nyandarua County to put up tenant-purchase houses for civil servants working in the region.

### Commercials and Services Sector

The Commercial and Services Sector closed the week at a PE of -23.23x compared to the previous week's PE of -23.17x.

Kenya Airways edged up marginally as demand was dominated by foreigners

	Price	%ch w-o-w	Volume traded	PE (x)
Kenya Airways	9.45	0.5%	2,351,000	N/M*
Nation Media Group	303.00	-3.5%	183,100	19.06
Scangroup	60.50	-2.4%	35,300	27.38
TPS Eastern Africa	48.00	-2.0%	256,500	13.33
Uchumi Supermarket	19.70	0.3%	1,291,600	14.59
Standard Group	26.25	1.0%	6,200	10.25
Longhorn Kenya	12.20	-12.9%	2,100	N/M*
<b>Sector PE</b>				<b>-23.23</b>

Source: NSE

### Construction & Allied Sector

The Construction and Allied sector closed the week at a PE of 22.38x as compared to the previous week's PE of 22.56x.

ARM Cement and Crown paints increased 1.4% and 2.4% w-o-w

	Price	%ch w-o-w	Volume traded	PE (x)
Crown Paints	64.00	2.4%	20,600	11.37
ARM Cement	72.00	1.4%	225,400	28.69
E.A. Cables	16.15	-1.5%	139,300	9.28
Bamburi Cement	206.00	-1.9%	279,100	16.93
E.A. Portland Cement	57.50	0.0%	7,900	-6.33
<b>Sector PE</b>				<b>22.38</b>

Source: NSE

### Energy and Petroleum Sector

The Energy and Petroleum sector closed the week at a PE of 30.06x compared to the previous week's PE of 30.25x.

KenGen experienced selling pressure during the week

	Price	%ch w-o-w	Volume traded	PE (x)
KenGen	16.40	-1.2%	2,669,900	12.81
KenolKobil	8.05	-1.2%	2,268,500	N/M*
Kenya Power	14.85	-0.3%	1,332,800	6.29
Total Kenya	18.40	1.4%	61,300	N/M*
Umeme	13.00	0.0%	-	9.29
<b>Sector PE</b>				<b>30.06</b>

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 closed at a PE of 5.97x as compared to the previous week's PE of 5.99x.

Kenya Re experienced foreign selling with demand coming in from locals towards the end of last week

	Price	%ch w-o-w	Volume traded	PE (x)
CIC Insurance	4.55	0.0%	1,867,600	7.11
Britam Investments	8.15	1.9%	1,217,800	5.82
Jubilee Holdings	255.00	-3.8%	11,300	7.22
Kenya Re	14.95	0.0%	2,659,700	3.74
Liberty Kenya	11.80	1.3%	34,300	6.86
Pan Africa Insurance	60.50	0.0%	6,300	8.32
<b>Sector PE</b>				<b>5.97</b>

Source: NSE

### Investment Sector

The Investment sector closed the week at a PE of 9.03x compared to the previous week's PE of 8.42x.

Trading on Centum was dominated by local high net worth individuals

	Price	%ch w-o-w	Volume traded	PE (x)	NAVPS
Centum Investment	27.50	12.2%	2,305,500	7.29	24.29
Trans-Century	30.75	-2.4%	23,500	18.52	44.05
Olympia Capital	4.20	5.0%	192,300	11.05	20.44
<b>Sector PE &amp; Av. NAVPS</b>				<b>9.03</b>	<b>29.59</b>

Source: NSE

Centum intends to acquire Genesis Kenya

Centum Investment intends to acquire a 73.35% in fund manager Genesis Kenya. Genesis Kenya manages funds worth more than KES 100.0 billion and is ranked the second largest pension fund in the country. Furthermore, Chris Kirubi, a significant shareholder in Centum, has expressed his intention of acquiring 32.65 million additional shares equivalent to a 5.0% stake.

### Manufacturing & Allied Sector

The Manufacturing and Allied sector closed the week at a PE of 33.13x as compared to the previous week's PE of 33.41x.

EABL recorded marginal gains as investors look to lock in positions before book closure at the end of the month

	Price	%ch w-o-w	Volume traded	PE (x)
B.A.T Kenya	568.00	-1.2%	43,700	17.36
Eveready	2.70	3.9%	318,200	N/M*
Mumias Sugar	3.85	2.7%	2,300,600	N/M*
EABL	304.00	1.7%	2,976,500	34.47
Unga Group	16.20	-1.8%	41,000	5.77
<b>Sector PE</b>				<b>33.13</b>

Source: NSE

EABL expected to increase price of Keg Beer

EABL is widely expected to increase the price of keg beer as a 50.0% tax rate will be implemented on the brew in the beginning of October. This poses a risk to profitability as the product will become more expensive to the lower end of the target market.



## Telecommunication & Technology Sector

The Telecommunication and Technology sector closed the week at a PE of 18.18x compared to the previous week's PE of 17.84x.

Safaricom recorded increased foreign activity of both sides of supply and demand especially after the U.S. Federal Reserve announcements

	Price	%ch w-o-w	Volume traded	PE (x)
Safaricom	8.50	6.3%	66,132,800	19.32

Safaricom cut charges on payments service 'Lipa na M-pesa' by a third in a bid to reduce the costs of doing business and ultimately to get more traders to sign on to use the service.

## Growth Enterprise Market Segment

The Growth Enterprise Market Segment closed the week at a PE of 25.00x as compared to 37.07x the previous week.

Home Afrika continued with its downward spiral after losing 16.1% w-o-w the previous week

	Price	%ch w-o-w	Volume traded	PE (x)
Home Afrika	7.45	-13.4%	531,400	18.17

## 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 11.00 billion out of a target of KES 9.0 billion.

	Bids Received (KES)	Subscription	Bids Accepted (KES)	Rate
91 day T-bill	3.50 Bn	116.0%	2.95 Bn	9.139%
182 day T-bill	3.49 Bn	116.4%	3.10 Bn	9.694%
364 day T-bill	4.95 Bn	165.1%	4.95 Bn	10.413%

T-bill rates continue downward trend

The week under review saw the 91 day 182 day and 364 day treasury bills rates continue its downward trajectory from a rate of 9.235%, 10.089% and 10.756% respectively recorded during the previous week.

### The Secondary Market

Current week Turnover (KES)	Previous week Turnover (KES)	Current week No. of Deals	Previous week No. of deals
5,776,450,000	10,757,450,000	82	148

	Average Traded Yield	Total Value (KES)	No. of Trades
FXD1/2012/5Yr	12.2500%	1,100,000	2
FXD1/2012/10Yr	12.2700%	401,000,000	3
FXD2/2013/15Yr	13.3750%	1,740,000,000	26

**Infrastructure Bonds**

	<b>Average Traded Yield</b>	<b>Total Value (KES)</b>	<b>No. of Trades</b>
IFB 1/2009/12Yr	11.4000%	200,000,000	1
IFB 1/2011/12Yr	11.5500%	1,200,150,000	8

### Market Outlook

Counter	Recommendation	Comment
Equity Bank	<b>Buy</b>	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	<b>Buy</b>	Our target price of KES 21.70 provides a 32.3% upside from the current market price (KES 16.40). KenGen has already begun harnessing the power potential in geothermal, hydro and wind that will boost their future revenues.
NIC Bank	<b>Neutral</b>	Our target price of KES 65.68 provides a 14.2% upside from the current market price (KES 57.50). 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	<b>Long Term Buy</b>	Our estimation of a forward Net Asset Value per Share of KES 32.47 provides a 18.1% upside from the current market price (KES 27.50). We project a 30.1% growth in Private Equity, 32.1% growth in Quoted Private Equity and 22.3% growth in Real Estate.
KCB	<b>Neutral</b>	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	<b>Neutral</b>	Our target price of KES 14.72 provides a 0.9% downside from the current market price (KES 14.85). A key cause for concern is the inefficiencies in the firm, especially in the system losses, which have remained relatively unchanged.
Barclays Bank	<b>Neutral</b>	Our target price of KES 17.02 provides a 0.2% downside from the current market price (KES 17.05). We observe that the momentum in loan book growth that had begun in 1Q2013 slowed down coming into 2Q2013.
National Bank	<b>Neutral</b>	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	<b>Neutral</b>	Our target price of KES 173.65 gives a 0.4% upside from the current market price (KES 173.00). 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	<b>Neutral</b>	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.
EABL	<b>Neutral</b>	We expect modest growth in the top-line to continue supported by continued investments. The counter has a relatively high PE as compared to the average sector PE.

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