

Kenya Shilling Performance

| KES | Value | Daily Change % | YTD Change % |
|-----------|----------|----------------|--------------|
| US Dollar | 106.5971 | (0.2%) | (5.2%) |
| STG Pound | 136.3197 | (1.2%) | (2.5%) |
| EURO | 121.2606 | (0.9%) | (7.0%) |

Source: CBK; Negative () = Depreciation, Positive = Appreciation

Market Summary

| Index | Value | Daily Change % | YTD Change % |
|--------|----------|----------------|--------------|
| NASI | 142.78 | 1.2% | (14.2%) |
| NSE 20 | 1,995.03 | 0.4% | (24.8%) |
| NSE 25 | 3,287.02 | 1.1% | (19.8%) |

| | Today | Previous | Daily Change % |
|--------------------------------|-------------|-------------|----------------|
| Market Capitalization (KES Bn) | 2,182.42 | 2,155.81 | 1.2% |
| Number of Shares Traded (Q) | 17,105,300 | 33,213,800 | (48.5%) |
| Equity Turnover (KES) | 357,738,663 | 716,789,112 | (50.1%) |
| Foreign Buys (%) | 61.0% | 85.5% | |
| Foreign Sells (%) | 63.7% | 47.5% | |
| Foreign Participation (%) | 62.3% | 66.5% | |

Source: NSE

Equities Performance

| Top Gainers | Price (KES) | Daily Change | YTD Change % | Volume Traded |
|-------------------|-------------|--------------|--------------|---------------|
| 1. Britam | 8.84 | 9.1% | (1.8%) | 2,274,000 |
| 2. Sameer Africa | 3.24 | 9.1% | (6.1%) | 152,700 |
| 3. Flame Tree | 1.99 | 8.2% | (19.4%) | 263,700 |
| 4. TPS EA | 15.00 | 7.1% | (14.5%) | 10,000 |
| 5. Standard Group | 22.00 | 5.8% | (20.1%) | 2,500 |

| Top Losers | Price (KES) | Daily Change | YTD Change % | Volume Traded |
|--------------------|-------------|--------------|--------------|---------------|
| 1. Olympia Capital | 2.05 | (5.5%) | 1.99% | 7,700 |
| 2. Eveready | 1.00 | (4.8%) | (9%) | 300 |
| 3. Home Afrika | 0.44 | (4.3%) | (26.7%) | 79,400 |
| 4. Kenya Power | 2.20 | (4.3%) | (21.7%) | 1,643,300 |
| 5. Trans-Century | 1.63 | (4.1%) | (34.8%) | 69,500 |

| Movers | Turnover (KES) | Volume (KES) | Price (KES) |
|--------------------|----------------|--------------|-------------|
| 1. Safaricom | 105,107,310 | 3,451,800 | 30.45 |
| 2. KCB Group | 90,317,500 | 2,580,500 | 35.00 |
| 3. Equity Group | 62,015,575 | 1,779,500 | 34.85 |
| 4. EABL | 30,504,500 | 180,500 | 169.00 |
| 5. Britam Holdings | 20,102,160 | 2,274,000 | 8.84 |

Source: NSE

Market Commentary

The All Share Index gained for the 2nd consecutive day this week (+2.6% week to date) to close the day at 142.78. Safaricom gained 1.7% to close the day at KES 30.45 (+3.9% week to date) on foreign investor demand. NSE 20 Index gained marginally by 0.4% to close the day at 1,995.0. Notable gainers for the day were Sameer (+9.1%) and Britam (+9.1% on foreign demand). Foreign investors emerged net sellers for the day's trading session; foreign sells stood at 63.7% against foreign buys at 61.0%.

Recommendations

| Counter | Recommendation | Price (KES) | Daily Change % | YTD Change % |
|------------------|----------------|-------------|----------------|--------------|
| KCB Group | Long-term Buy | 35.00 | 0.0% | (35.2%) |
| Equity Group | Long-term Buy | 34.85 | 0.1% | (34.9%) |
| Absa Kenya | Long-term Buy | 9.90 | (0.2%) | (25.8%) |
| Stanbic Holdings | Long-term Buy | 83.50 | 0.6% | (23.6%) |
| NCBA | Long-term Buy | 27.05 | 0.9% | (26.6%) |
| StanChart | Sell | 166.75 | (1.8%) | (17.7%) |
| Safaricom | Hold | 30.45 | 1.7% | (3.3%) |
| HF | Sell | 3.90 | 0.5% | (39.6%) |
| Bamburi | Sell | 38.25 | 0.0% | (52.2%) |

For more detailed information on the following recommendations, please click [here](#):

Bonds Performance

| | Today | Previous | Daily Change % |
|---------------|---------------|---------------|----------------|
| Total Deals | 94 | 149 | (36.9%) |
| Bond Turnover | 1,174,884,782 | 2,195,228,606 | (46.5%) |

Actively Traded Bonds

| GOK Bonds | Fixed Rate % | Traded Yield % | Value Traded (Mn) | DTM |
|--------------|--------------|----------------|-------------------|-------|
| FXD1/2019/15 | 12.8570 | 12.7500 | 200.0 | 4,960 |
| IFB1/2019/16 | 11.7500 | 12.1000 | 200.0 | 5,597 |
| IFB1/2020/9 | 10.8500 | 11.6000 | 112.0 | 3,217 |

Source: NSE; DTM = Days to Maturity

News Highlights

The Treasury CS Tables KES 2.8 Tn Budget for FY2020/2021 in Parliament

- The National Treasury and Planning Cabinet Secretary has proposed a KES 2.8 tn budget for FY2020/2021 with the following spending priorities (not exhaustive):
 - KES 128.3 bn for the "Big Four" Agenda
 - KES 111.7 bn to the health sector
 - KES 15.5 bn to the housing, urban development and public works sector
 - KES 18.3 bn to manufacturing
 - KES 52.8 bn for food and nutrition security
 - KES 172.2 bn for construction of a robust network of high-quality roads
 - KES 18.1 bn for SGR Phase II (Nairobi - Naivasha)
 - KES 6.0 bn for the LAPSET Project;
 - KES 5.0 bn for the Mombasa Port Development Project and
 - KES 328.0 mn for insurance of ferries for the Likoni channel.
 - KES 63.3 bn (excluding allocations for the "Big Four" Agenda) to support generation of adequate and affordable energy
 - KES 167.9 bn for security agencies
 - KES 497.7 bn for the education sector
 - KES 17.6 bn for cash transfers to the elderly persons
 - Ksh 14.9 bn to fund initiatives in ICT sector
- The budget proposal was tabled amidst global and domestic shocks:
 - global outbreak and rapid spread of COVID-19 & ensuing containment measures (which have disrupted the business environment and lowered the global economic outlook)

- invasion of desert locusts (damaged crops)
 - floods (that have resulted in deaths, displacement and loss of livelihoods)
 - The budget was prepared in view of the impact of the foregoing shocks on the domestic economy (whose growth projection for 2020 now stands at 2.5%) and includes a Rapid Economic Stimulus Program and a Post COVID-19 Economic Recovery Strategy aimed at stimulating GDP growth to 5.8% in 2021 and 6.5% by 2024.
 - The Rapid Economic Stimulus Program (specifically aimed at cushioning vulnerable citizens and business affected by the aforementioned shocks) includes the following themes:
 1. Infrastructure and rehabilitation of road networks
 - KES 5.0 bn for damaged roads and foot bridges
 - KES 10.0 bn for “Kazi Mtaani” Program to address youth unemployment
 2. Education
 - KES 7.4 bn for improving school infrastructure, capitation & hiring educators
 3. Support for MSMEs
 - KES 3.0 bn for credit guarantee scheme
 - KES 10.0 bn for fast tracking of pending bills
 4. Healthcare (to enhance COVID-19 response)
 - KES 1.2 bn for the recruitment of additional healthcare workers
 - KES 500.0 mn for locally made beds and beddings to public hospitals
 - KES 25.0 mn to support establishment of 50 modern walkthrough sanitizers
 5. Agriculture and food security
 - KES 3.0 bn to subsidize supply of famine foods
 - KES 3.5 bn for irrigation
 - KES 1.5 bn for flower and horticulture farmers to access global markets
 6. Tourism
 - KES 3.0 bn to support renovation activities and restructuring of business operations
 - KES 2.0 bn for grants to community conservancies and support to KWS
 - Waived parking and landing fees to stimulate movement of cargo
 - Support for aggressive marketing post COVID-19
- Grants to community conservancies and support to KWS
 - 7. Environment, water, sanitation and flood control
 - KES 1.0 bn to support flood control
 - KES 850.0 mn to cater for rehabilitation of wells, water pans and underground tanks
 - KES 540.0 mn to enhance tree planting program
 - 8. Manufacturing
 - An initial investment of KES 600.0 mn to purchase locally assembled vehicles
 - KES 712.0 mn to provide credit targeted to MSMEs in the manufacturing sector.
 - The CS expects the COVID-19 pandemic to reduce revenues for the FY2019/2020 and FY2020/2021 due to lower import taxes (due to lower imports and reduced trade among countries) and domestic taxes (due to lower incomes and depressed consumption)
 - Therefore, the revenue collection targets for FY2020/2021 stand at KES 1.9 tn (similar to FY2019/2020 estimates) of which ordinary revenues stand at KES 1.6 tn
 - Key tax measures included in the budget are:
 1. 10.0% monthly rental income tax for individuals earning annual rental income of Ksh 15.0 mn and below (previously KES 10.0 mn)
 2. A minimum tax of 1.0% on gross turnover for all companies
 3. A digital service tax on the value of transactions at the rate of 1.5%
 4. A tax exemption on maize or corn seeds
 5. A tax exemption on ambulance services,
 6. Collection of road tolls on roads constructed and managed under Public Private Partnership agreements
 - As mentioned earlier, total expenditures are projected at KES 2.8:
 - KES 1.8 tn for recurrent expenditures
 - KES 633.1 bn for development expenditures
 - The fiscal deficit (including grants) is estimated to decline to KES 840.6 bn (7.5 % of GDP) from KES 842.7 bn (8.3% of GDP) in the FY2019/20.

- According to the CS, the level of public debt remains sustainable even with the deterioration in public debt indicators (due to the COVID-19 crisis) and expects the debt to decline in the medium term.
- Furthermore, going forward, through the 2020 Medium Term Debt Strategy, the government plans to shift towards concessional external borrowing and lengthening of maturity structure of the domestic debt.

Commentary

- The proposed budget successfully takes into account the negative impact of the COVID-19 pandemic and aptly allocates funds to the hardest hit sectors in order to spur economic growth in the medium term.
 - We are however uncertain on the government's ability to mobilize the projected revenues due to reduced economic activity (employment, imports and consumption) and the fact that government has historically failed to hit revenue targets.
 - Furthermore, we note with concern on the elevated levels of recurrent expenditure.
 - In reference to proposed tax measures, we are wary on the implementation of the 1.5% digital service tax as the digital services sector lacks a clear structure.
 - We note with concern on the proposal of the 1.0% on gross turnover for all companies. We fear this may exacerbate an already challenging operating environment -- making it more expensive for companies to operate, while also being contradictory to the stimulus package.
 - Whilst we commend the shift towards external concessional debt (helps to reduce crowding out of the private sector through overreliance on domestic borrowing) and lengthening of maturity structure of the domestic debt, we still remained concerned about the current elevated debt levels.
 - The government plans to issue the first sovereign bond to finance major green infrastructure projects in financial year 2020/2021. Given the over-subscription of green bonds globally, we see this boosting investor confidence in the local bond market.
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Recommendations Guide

LONG-TERM BUY: The Company has strong fundamentals. However, there are certain investments or strategies that would require an investor to have a long-term view of the company to allow for capital appreciation. Also, the company may be facing headwinds which we view as short term

BUY: Strong fundamentals. Minimal risks to the catalysts/growth drivers

NEUTRAL: This is where the positives and negatives in a company almost balance out. You can accumulate for the long term.

SELL: Deteriorating fundamentals. Risks outweigh the catalyst/growth driver

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