Faida Daily Report

12th May 2020

Kenya Shilling Performance

KES	Value	Daily Change %	YTD Change %
US Dollar	106.1385	(0.1%)	(4.7%)
STG Pound	130.8726	0.3%	1.6%
EURO	114.8362	0.1%	(1.3%)

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

Market Summary

Index	Value	Daily Change %	YTD Change %
NASI	139.42	(0.9%)	(16.2%)
NSE 20	2,038.99	(0.7%)	(23.2%)
NSE 25	3,320.10	(0.9%)	(19.0%)

	Today	Previous	Daily Change %
Market Capitalization (KES Bn)	2,130.97	2,149.80	(0.9%)
Number of Shares Traded (Q)	44,271,500	16,121,700	174.61%
Equity Turnover (KES)	1,644,805,383	531,821,831	209.28%
Foreign Buys (%)	33.8%	41.9%	
Foreign Sells (%)	97.1%	92.6%	
Foreign Participation (%)	65.5%	67.2%	

Source: NSE

Equities Performance

	Top Gainers	Price (KES)	Daily Change	YTD Change %	Volume Traded
1.	Kenya Airways	1.52	9.4%	(25.9%)	195,200
2.	Flame Tree	0.84	7.7%	(66.0%)	349,300
3.	Eveready	0.80	6.7%	(27.3%)	600
4.	Kapchorua	72.00	2.9%	(10.0%)	800
5.	I&M Holdings	51.75	2.5%	(4.2%)	100

	Top Losers	Price (KES)	Daily Change	YTD Change %	Volume Traded
1.	NSE	8.90	(8.8%)	(27.9%)	15,900
2.	E.A.Cables	1.80	(5.3%)	(28.0%)	4,500
3.	NBV	0.56	(5.1%)	(20.0%)	400
4.	Express Kenya	5.56	(4.1%)	(18.7%)	200
5.	Equity Group	37.60	(2.6%)	(29.7%)	10,015,700

	Movers	Turnover (KES)	Volume (KES))	Price (KES)
1.	Safaricom	677,003,600	24,178,700	28.00
2.	Equity Group	376,590,320	10,015,700	37.60
3.	BAT	283,500,000	900,000	315.00
4.	KCB	240,302,025	6,169,500	38.95
5.	EABL	37,060,000	218,000	170.00

Source: NSE

Market Commentary

The All share index by 0.9% to 139.42. This was partly due to significant selling pressure (mostly from foreign investors) on several large cap counters, notably Equity, Safaricom and KCB. We attribute this to profit taking activities but recommend investors with a long-term outlook and with no liquidity constraints to take advantage of such price declines. Kenya Airways (KQ) maintained its upward price momentum on the back of higher speculative activity. This activity has been spurred by the recent price decline and some positive news on its cargo business as Europe re-opens. We caution investors that KQ's growth prospects are still bleak (read more below).

Recommendations

Counter	Recommendation	Price (KES)	Daily Change %	YTD Change %
KCB Group	Long-term Buy	38.95	(0.3%)	(27.9%)
Equity Group	Long-term Buy	37.60	(2.6%)	(29.7%)
Absa Kenya	Long-term Buy	10.65	(1.8%)	(20.2%)
Stanbic Holdings	Long-term Buy	88.00	0.0%	(19.5%)
NCBA	Long-term Buy	32.25	(1.4%)	(12.5%)
StanChart	Sell	181.00	(0.4%)	(10.6%)
Safaricom	Hold	28.00	(1.1%)	(11.1%)
Bamburi	Sell	47.90	0.4%	(40.1%)

For more detailed information on the following recommendations, please click here:

Bonds Performance

	Today	Previous	Daily Change %
Total Deals	119	98	21.4%
Bond Turnover	1,439,964,316	2,658,865,846	(45.8%)

Actively Traded Bonds

GOK Bonds	Fixed Rate %	Traded Yield %	Value Traded (Mn)	DTM
FXD1/2019/5	11.3040	11.3500	300.0	1,378
FXD1/2018/25	13.4000	13.5000	300.0	8,413
IFB1/2019/16	11.7500	12.3500	252.0	5,627

Source: NSE; DTM = Days to Maturity

News Highlights

Sameer Africa Discontinues its Tyre Business

- Sameer Africa announced that it has resolved to cease its tyre business.
- According to the company, the decision comes after several changes in business operations and strategy failed to improve the performance of the tyre business.
- The closure is expected to result in the termination of employment contracts of approximately 73 employees (in both management and union cadres).
- The company estimates that the closure costs will amount to approximately KES 223.0 million (KES 60.0 million for staff redundancy costs and KES 163.0 million for impairment costs on fixed assets).
- As at the end of FY2018, the tyre business accounted for 88.4% of the company's revenues.
- With the closure of its unprofitable tyre business, the company will continue to operate solely in the property rental business.
- The company expects the decision to improve financial performance with FY2020 profit projections of KES 69.0 million in FY2020 and KES 185.0 million in FY2021.

Commentary

- Whilst the exit offers the company an opportunity to focus on the property market, we are concerned about its ability scale this business especially in light of the expected decline in economic activity in FY2020 and the challenges facing the property market (oversupply).
- This announcement also brings out the challenges facing of some of players in the manufacturing sector. Eveready East Africa followed a similar path. Other companies such as East African Cables are facing financial difficulties and may end up facing a similar fate.

Kenya Airways Seeks KES 7.0 Billion from Treasury

- According to the Business Daily, Kenya Airways (KQ) is seeking KES 7.0 billion from Treasury to cover maintenance of grounded planes and operating expenses (such as salary payments) as the airline's revenues contract due to the Covid-19 pandemic. The airline is also looking to get tax breaks and waivers on navigation and landing fees.
- KQ had previously received KES 5.0 billion from Treasury in February for maintenance, operations and funding of fleet engines overhaul.

Commentary

- We expect KQ's top-line growth to weaken owing to lower passenger revenues following flight restrictions that have arisen from the pandemic.
- In addition, despite the airline converting grounded passenger planes for use in cargo shipments (the existing cargo fleet is small and can only fly relatively short distances), we expect this will not be adequate to supplement income especially as it faces competition from other airlines such as Ethiopian Airlines.
- We note that private sector lending is currently skewed away from sectors highly affected by the pandemic (such as the airline industry, tourism etc.) and may not be a viable option. Government seems to be the only option but with competing needs, there is a risk that government may be forced to re-look at its commitment to the survival of the airline (similar to South African airlines).
- In sum, the airline has been grappling with increased competition, mismanagement and heavy reliance on debt as revenues fail to cover expenses. We opine that the pandemic will only worsen bottom-line performance for the airline. There is also no clear long-term strategy to reverse the fortunes of the airline. We therefore recommend a **SELL** on the counter.

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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 head wings 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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