Faida Daily Report

FAIDA INVESTMENT BANK

24th June 2020

Kenya Shilling Performance

KES	Value	Daily Change %	YTD Change %
US Dollar	106.3694	0.0%	(5.0%)
STG Pound	132.7829	(0.4%)	0.1%
EURO	120.4903	(0.8%)	(6.3%)

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

Market Summary

Index	Value	Daily Change %	YTD Change %
NASI	138.46	(1.4%)	(16.8%)
NSE 20	1,943.50	(0.3%)	(26.8%)
NSE 25	3,241.78	(0.8%)	(20.9%)

	Today	Previous	Daily Change %
Market Capitalization (KES Bn)	2,116.24	2,147.03	(1.4%)
Number of Shares Traded (Q)	64,041,900	29,905,700	114.1%
Equity Turnover (KES)	1,129,856,282	397,152,722	184.5%
Foreign Buys (%)	34.8%	22.9%	
Foreign Sells (%)	81.1%	72.9%	
Foreign Participation (%)	57.9%	47.9%	

Source: NSE

Equities Performance

	Top Gainers	Price (KES)	Daily Change %	YTD Change	Volume Traded
1	Williamson Tea	130.00	7.4%	(6.8%)	200
2	Sameer Africa	3.52	7.3%	2.0%	1,300
3	HF Group	4.35	6.4%	(32.7%)	39,800
4	Bamburi	30.75	6.2%	(61.6%)	2,300
5	Total Kenya	26.60	6.2%	(3.3%)	3,800

	Top Losers	Price (KES)	Daily Change	YTD Change %	Volume Traded
1.	Kenya Re	2.10	(5.4%)	(30.7%)	17,406,400
2.	Kenya Airways	2.49	(4.2%)	21.5%	292,300
3.	Express Kenya	5.80	(3.3%)	(15.2%)	1,100
4.	Scangroup	16.30	(3.0%)	(5.2%)	5,000
5.	Safaricom	28.65	(2.7%)	(9.0%)	20,739,800

	Movers	Turnover (KES)	Volume (KES))	Price (KES)
1.	Safaricom	594,195,270	20,739,800	28.65
2.	Absa Bank Kenya	120,295,000	12,029,500	10.00
3.	BAT	97,356,450	313,800	310.25
4.	Equity Group	95,859,830	2,746,700	34.90
5.	KCB Group	89,448,910	2,437,300	36.70

Source: NSE

Market Commentary

The All Share Index eased by 1.4% to close the day at 138.46 as Safaricom declined for the 3rd consecutive day (-7.3% week to date to KES 28.65). On the other hand, KenGen has gained 8.6% week to date on the back of positive investor sentiment following the President's nomination of the next Auditor General whose vacancy had delayed the decision on the counter's dividend payout. Kenya Re declined by 5.4% to KES 2.10. There was a significant increase in traded volumes on the counter (17.4 million shares). We note that today the government extended of some of the measures to facilitate mobile money transactions until 31st December 2020. This will have a negative impact on banks' non-interest income and Safaricom's M-PESA revenues. We therefore expect some negative reaction on the some of the banks but more so on Safaricom.

Recommendations

Counter	Recommendation	Price (KES)	Daily Change %	YTD Change %
KCB Group	Long-term Buy	36.70	0.5%	(32.0%)
Equity Group	Long-term Buy	34.90	(0.1%)	(34.8%)
Absa Kenya	Long-term Buy	10.00	0.0%	(25.1%)
Stanbic Holdings	Long-term Buy	80.00	0.0%	(26.8%)
NCBA	Long-term Buy	27.90	0.2%	(24.3%)
StanChart	Sell	167.00	0.5%	(17.5%)
Safaricom	Hold	28.65	(2.7%)	(9.0%)
HF	Sell	4.35	6.4%	(32.7%)
Bamburi	Sell	30.75	6.2%	(61.6%)

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

Bonds Performance

	Today	Previous	Daily Change %
Total Deals	130	115	13.0%
Bond Turnover	3,202,509,522	5,694,650,112	(43.8%)

Actively Traded Bonds

GOK Bonds	Fixed Rate %	Traded Yield %	Value Traded (Mn)	DTM
IFB1/2020/9	10.8500	11.4000	500.0	3,204
FXD4/2019/10	12.2800	12.2000	500.0	3,428
FXD2/2019/15	12.7340	12.5500	215.5	5,052

Source: NSE; DTM = Days to Maturity

News Highlights

The MoE Set to Declare Force Majeure on Power Generation Contracts

- According to the Business Daily, the Ministry of Energy (MoE) has announced that it will invoke the force majeure clause in wholesale power generation contracts.
- The force majeure clause in contracts frees parties in a contract from liability or obligation and is generally invoked when an extraordinary event or circumstance beyond the control of the parties occurs. In this case the extraordinary event is the COVID-19 global pandemic which has resulted in reduced electricity demand especially from industrial and commercial users (who account for 70.0% of Kenya Power unit sales) due to:
    - i. the implementation of restrictions to curve the spread of the virus (such as the night curfew)
    - ii. closure of factories and hotels
- Electricity demand fell 15.3% to 645.29 million kilowatt-hours (kWh) in April owing to the impact of the global COVID-19 pandemic.
- The invocation of the clause indicates that Kenya Power will not be obliged to fulfill the payment of existing power purchase contracts from power producers.
- Kenya Power has already indicated that it is facing challenges fulfilling the payment contracts due to reduced income (on the back of the lower demand) while also having to cover costs related to distribution and transmission.
- The nature of the contracts generally requires Kenya Power to purchase a set amount electricity while also compensating power producers for electricity availability/capacity.

- The declaration of force majeure implies Kenya Power will not be obliged to pay for excess power i.e. the difference between the power consumed and the power acquired from power producers.

Commentary

- Whilst details still remain scanty on the enforcement of the force majeure, if the declaration of the force majeure holds, Kenya Power is likely to benefit from being spared from paying for excess electricity and this will most likely come into effect in FY2020/2021.
- However, this scenario is likely to significantly affect KenGen which supplies electricity to Kenya Power under the contracts in question.
- At present, it remains unclear as to whether the force majeure affects only the payment of unused electricity or also electricity capacity. KenGen generates electricity revenues from both sources – energy revenue and capacity revenue – with the latter accounting for a larger share of electricity revenues at 72.2% (as at FY2017/2018).
- If the force majeure affects electricity capacity as well this will significantly affect KenGen financial performance in FY2020/2021. However, since this is still unclear, we expect more clarifications going forward. We also note that there is a possibility of renegotiations in electricity contracts to take into account the change in electricity demand. The Energy and Petroleum Regulatory Authority (EPRA) had also earlier indicated that it is planning to shift to a "take and pay" model of power purchase agreement (PPA) between Kenya Power and investors, moving away from the current "take or pay" regime
- There has been increased activity on KenGen recently based on the President's nomination of Nancy Janet Kabui Gathungu for the position of Auditor – General (still awaits vetting from the National Assembly Finance and National Planning Committee which will be conducted on July 3rd 2020) and we opine this has fueled investor's optimism regarding the payment of dividends in respect to the FY2018/2019.
- KenGen's board of directors delayed the recommendation of a final dividend for FY2018/2019 due to the absences of an Auditor – General to audit of the financial statements.
- With the nomination of Nancy Janet Kabui Gathungu for the position of Auditor – General, in our view, we believe KenGen may declare a dividend in respect to the FY2018/2019 (after tax profits remained flat in comparison to FY2017/2018 where they paid a dividend of KES 0.40). Furthermore, since the 1H2019/2020 showed a 98.1% y/y growth in after tax profits to KES 8.2 bn predominantly due to a KES 1.9 bn tax credit following the commissioning of Olkaria V 165 MW, we expect positive financial performance in FY2019/2020 due to aforementioned tax credit – despite lower electricity sales (owing to the impact of COVID-19). Notably, with the review of tax allowances from 150.0% (first year of use) to 50.0% (first year of use), going forward KenGen may not benefit (from tax credits) as much from the commissioning of new plants as it did it in the past.
- **However, it is important to note that a key risk to the dividend payments is the company's need to conserve cash amidst debilitating macroeconomic conditions/reduced electricity sales and the uncertainties relating to electricity contracts. Thus, we urge investors to consider both sides of the coin and exercise caution when trading on KenGen.**

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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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