10 Key Steps to Financial Security, & Cytonn Weekly #27/2017

Executive Summary

Fixed Income & Macro Review: During the week, T-bills subscriptions increased to 116.3%, compared to 73.1% recorded the previous week on the back of improved liquidity in the money market. Yields on the 182 and 364-day papers remained unchanged at 10.3% and 10.9%, respectively, while that of the 91-day paper declined for the 4th consecutive week, by 10 bps w/w to 8.2% from 8.3% the previous week. Maize production is expected to decline by 24.3% to 28 mn bags in 2017 from 37 mn bags in 2016, against the country's food security requirement of 40 mn bags;

Equities: The equities market was on a downward trend this week with NSE 20, NASI and NSE 25 losing 0.1%, 0.4% and 1.5%, respectively, taking their YTD performance to 14.2%, 13.7% and 13.1%, respectively. This week's performance was attributed to losses in large cap stocks such as Co-operative Bank, BAT and Barclays, which lost 17.7%, 5.2% and 4.0%, respectively. Barclays Bank of Kenya plans to close 7 of its 102 branches in the country beginning October this year as part of a restructuring process necessitated by the challenging operating environment;

Private Equity: The private equity sector in Kenya continues to attract investment from international private equity investors, as witnessed this week through (i) the announcement that Abraaj Group is set to acquire Java House Group, and, (ii) the acquisition of Kenya's Equator Bottlers, an authorized Coca-Cola Bottler, by South African based Coca-Cola Beverages Africa Proprietary Limited (CCBA). TransCentury Group also increased their stake in their subsidiary Civicon, indicating the bullish outlook by investors on the performance of the private equity sector;

Real Estate: During the week, the government signed a Kshs 195.7 bn deal with a Chinese company, Gongdong New South Group Ltd, to construct a 700-acre special industrial zone in Eldoret that will feature various industries including agro processing, energy, machinery, engineering, construction, electronics, ICT, chemical and pharmaceutical industries. In addition, in a bid to spur institutional grade development, the Kenyan Government has reduced the threshold for housing developers to qualify for the 15.0% corporate tax relief from a development of 400-units to 100-units per annum;

Focus of the Week: This week, we look into financial planning as the road that leads to financial security and lay out 10 things that will help you gauge whether you are on the right path towards proper management of your finances.

Company Updates

- Our CEO & Managing Partner, Edwin H. Dande, was featured in Forbes Magazine, discussing his journey with Cytonn, the business & our products, and Kenya as an investment destination. Read Edwin's interview here
- We continue to showcase real estate developments by our real estate development affiliate, Cytonn Real Estate, through weekly site visits. Here are progress videos and pictures on The Alma, Amara and Taraji Heights. The site visits target both investors looking to invest in real estate directly, and also those interested in high yield investment products to familiarize themselves with how we support the high yield returns. If interested in attending the site visits, kindly register here
- We continue to see very strong interest in our Private Wealth Management training, which is at no cost, and is held bi-weekly, but is open only to pre-screened participants. The training can also be offered to institutions that would like their employees to be trained on Private Wealth Management. To get further details contact our Client Services team at clientservice@cytonn.com
- For recent news about the company, see our news section here
- We have 11 investment-ready projects, offering attractive development and buyer targeted returns of around 25.0% p.a. See further details here: Summary of investment-ready projects
- To invest in any of our current or upcoming real estate projects, please visit Cytonn Real Estate
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        - The Alma, which is over 55.0% sold, has delivered an annualized return of 55.0% p.a. for investors who bought off-plan. See The Alma
        - Amara Ridge is currently 100.0% sold and has delivered over 20.0% p.a. returns to investors. See Amara Ridge
        - Situ Village is currently 15.0% sold. See Situ Village
        - The Ridge (Phase One) is currently 31.0% sold. See The Ridge
        - Taraji Heights is currently 10.0% sold. See Taraji Heights
        - RiverRun Estates (Phase One) is currently 8.7% sold after the recent launch. See RiverRun Estates
- We are currently looking for 5-10 acres in Kikuyu, Lower Kabete, Upper Kabete, Loresho or Mountain View, and 7-10 acres of land in Karen, Garden Estate and Langáta for development of villas. Contact us at rdo@cytonn.com if you have any land for sale or joint ventures in the above areas.
- We continue to beef up the team with ongoing hires: Careers at Cytonn

Fixed Income

T-bills subscriptions increased during the week to 116.3%, from 73.1% recorded the previous week, with the subscription rates for the 91, 182 and 364-day papers coming in at 106.1%, 152.6% and 84.2% compared to 57.7%, 100.6% and 51.7% the previous week, respectively. Investors showed preference for the shorter-dated 91 and 182-day papers due to uncertainty in the interest rate environment. The higher subscription rate can be attributed to improved liquidity in the market, demonstrated by a net liquidity injection of Kshs 42.2 bn from Kshs 0.1 bn the previous week. Yields on the 182 and 364-day papers remained unchanged at 10.3% and 10.9%, respectively, while that of the 91-day paper declined for the 4th consecutive week, by 10 bps w/w to 8.2% from 8.3% the previous week. The drop in the 91-day T-bill yield is attributed to the low interest rate environment we have been experiencing, and which we expect to persist in the short term given:

i. Government is expected to meet its domestic borrowing target for the 2017/18 fiscal year, as capping of interest rates will make it easier for government to borrow from the domestic market, as institutions channel funds more actively towards government securities given the attractive risk return proposition on government securities relative to loans, and
ii. Government is expected to meet its foreign borrowing target in the 2017/18 fiscal year, as budget estimates for the current fiscal year indicate a decline to Kshs 206.0 bn from Kshs 462.3 bn in FY 2016/17.

The overall acceptance rate declined to 89.2% compared to 97.3% the previous week, with the government accepting a total of Kshs 24.9 bn of the Kshs 27.9 bn worth of bids received, against the Kshs 24.0 bn on offer in this auction.

The money market was liquid during the week with a total liquidity injection of Kshs 117.1 bn, leading to a decline in the interbank rate to 5.0% from 5.3% the previous week, attributed to government payments of Kshs 105.8 bn, despite a total liquidity withdrawal of Kshs 74.9 bn, resulting in a net liquidity injection of Kshs 42.2 bn.

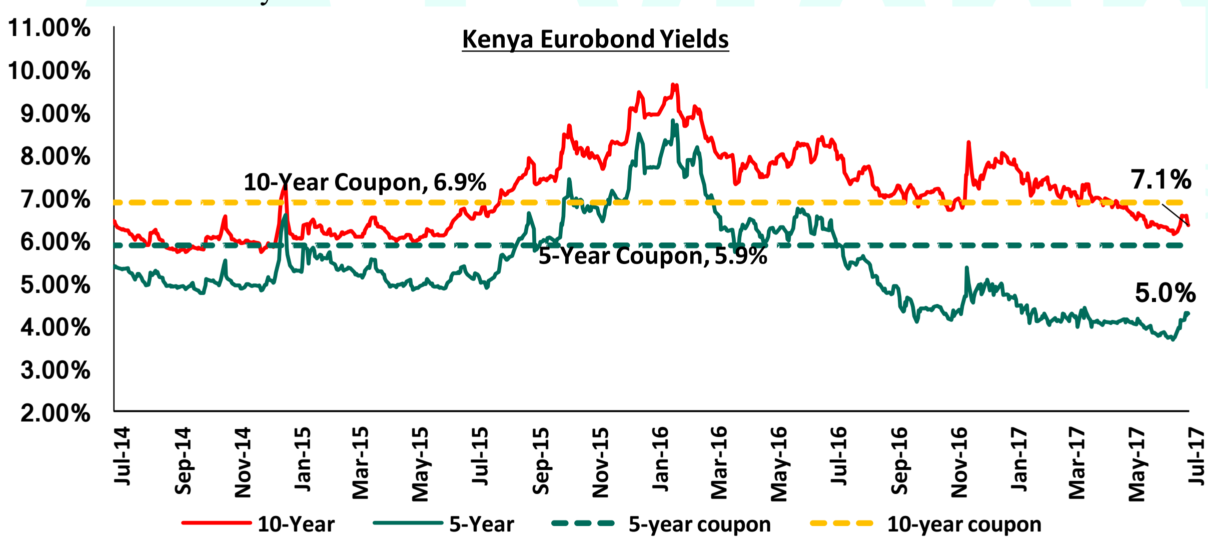
Below is a summary of the money market activity during the week:

all values in Kshs bn, unless stated otherwise

Weekly Liquidity Position – Kenya			
Liquidity Injection		**Liquidity Reduction**	
Government Payments	105.8	T-bond sales	0.0
T-bond Redemptions	0.0	Transfer from Banks - Taxes	24.6
T-bill Redemption	9.9	T-bill (Primary issues)	17.1
T-bond Interest	0.0	Reverse Repo Maturities	11.0
T-bill Re-discounts	0.0	Repos	11.8
Reverse Repo Purchases	1.4	Term Auction Deposits	10.4
Repos Maturities	0.0		
Total Liquidity Injection	**117.1**	**Total Liquidity Withdrawal**	**74.9**
		Net Liquidity Injection	**42.2**

The Kenyan Government has issued a 10-year fixed-coupon bond (FXD 1/2017/10), with an effective tenor to maturity of 10.0-years and a market-determined coupon rate, in a bid to raise Kshs 30.0 bn for budgetary support. Key to note is that at the close of FY'2016/17, the government had already surpassed its domestic borrowing target of Kshs 294.6 bn, having borrowed Kshs 440.1 bn, which we expect must have partially covered for the expected missing of both its revenue collection and foreign borrowing target. For the current fiscal year 2017/18, the government is already ahead of its domestic borrowing target, having borrowed Kshs 10.6 bn against a target of Kshs 6.1 bn. On foreign borrowing, the government is set to receive Kshs 14.0 bn from the Japan International Corporation Agency (JICA), with 82.7% of the loan (Kshs 11.6 bn) as a concessionary loan payable in 30-years and 17.3% of the loan (Kshs 2.4 bn) as a grant. This agreement will mean the government will have borrowed 6.8% of its foreign borrowing target of Kshs 206.0 bn for the current fiscal year, compared to 0.0% achieved in a similar period in the last fiscal year. We therefore note that so far the government is not under pressure to borrow. Key to note is that similar tenor bonds are currently trading in the secondary market at a yield of 13.1%. We shall be providing our view on the bidding range in our next report.

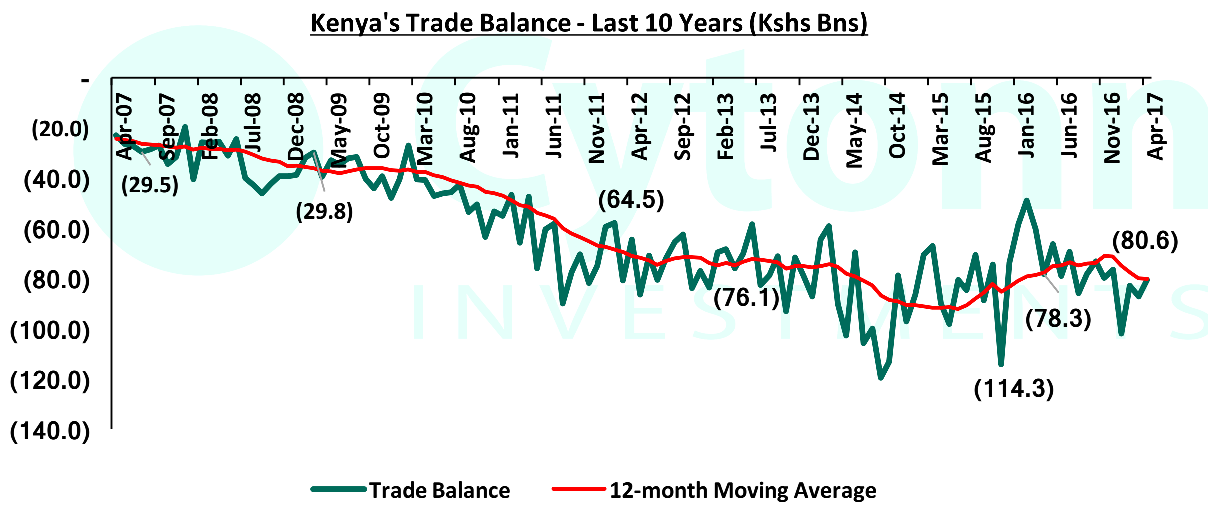
According to Bloomberg, yields on the 5-year and 10-year Eurobonds, with 2.0-years and 7.0-years to maturity, respectively, rose by 70 bps w/w for both bonds, to close at 5.0% and 7.1%, from 4.3% and 6.4%, the previous week, respectively. The rise during the week can be attributed to the political environment, which has begun to heat up as the election date approaches, resulting in investors demanding a higher premium for the perceived political risk. We expect the yields to continue rising gradually in the period before the elections. Since the mid-January 2016 peak, yields on the Kenya Eurobonds have declined by 3.8% points and 2.6% points for the 5-year and 10-year, respectively, due to stable macroeconomic conditions in the country. The declining Eurobond yields and Standard & Poor's (S&P) having maintained Kenya's foreign and local currency sovereign credit ratings for the short and long term at "B+/B", respectively, are indications that Kenya remains stable and hence an attractive investment destination.



The Kenya Shilling depreciated by 0.2% against the dollar during the week to close at Kshs 103.8 from Kshs 103.7 the previous week, mainly driven by increased dollar demand from merchandise and oil importers. On a year to date basis, the shilling has depreciated against the dollar by 1.3%. In our view, the shilling should remain relatively stable in the short term, supported by: (i) the forex reserve level currently at USD 7.9 bn (equivalent to 5.2 months of import cover), and (ii) the IMF precautionary credit facility of USD 1.5 bn (equivalent to 1.0 more month of import cover) that Kenya can utilise to stabilize the shilling in case of adverse movement in the forex market.

According to the Ministry of Agriculture, maize production is expected to decline by 24.3% to 28 mn bags in 2017 from 37 mn bags in 2016, against the country's food security requirement of 40 mn bags. This expected decline is attributable to (i) an army worm invasion in the key maize-producing regions in the country that is expected to cut production by approximately 5.0%, and (ii) poor weather conditions for maize production characterized by rainfall shortages in maize-rich Uasin Gishu and Trans-Nzoia Counties, expected to cut production by a further 20.0%. This is likely to exert upward pressure on food prices come 2018, thus leading to an increase in the inflation rate and could also have an impact on the currency as we import maize to bridge the gap. In 2008 and 2009, when maize production hit its lowest point in the last 10-years, with production at 26.3 mn and 27.1 mn bags, respectively, inflation hit highs of 31.5% and 19.5%, respectively. In our view, given that the government is aware of the food security issue, it would be prudent to consider early importation of maize to avoid a recurrence of escalation in the cost of living and inflationary pressure that hurt citizens in the first half of the year.

Kenya's trade deficit increased by 43.1% to Kshs 352.5 bn from January to April 2017, from Kshs 246.3 bn in a similar period in 2016, despite improving by 7.4% m/m from March to April 2017, and by 18.7% m/m from January to February 2017. The graph below shows Kenya's trade balance trend in the last 10-years:



From the moving average, Kenya's trade balance began to narrow in 2015/16, attributed to lower global oil prices that led to a lower value of fuel imports. However, we note that the deficit begun to deteriorate in 2016/17 mainly attributed to imports growing faster than exports as follows:

i. Imports increased by 23.6% driven by increases in imports of fuels, machinery & transport and manufactured products by 48.9%, 23.8% and 10.3%, respectively, with the three jointly contributing 62.7% to total imports, and,
ii. Exports increased marginally by 2.4%, attributed to a 7.1% increase in the value of tea exports, despite a 7.4% decline in the value of horticultural exports, with the two contributing 24.6% and 21.8% of total exports, respectively.

With development-essential goods such as machinery & transport equipment being one of the largest contributors to imports while weather-dependent agricultural products make up more than 50.0% of our exports, we expect the trade balance to remain at a deficit in the medium term as the country develops.

According to the Stanbic-IHS Markit Purchasing Managers Index (PMI), June 2017 PMI fell to 47.3 from 49.9 in May. The 50.0 mark usually indicates an improvement in the business environment with anything below that indicating worsening conditions, which is Kenya's current situation. This decline is attributable to (i) a slow-down in private sector credit growth, which declined to a low of 3.3% in March 2017 from highs of 21.8% in January 2016, and (ii) investor uncertainty brought about by the upcoming general election, as they adopt a wait-and-see approach. This, in our view, is likely to result in worsening of the unemployment situation, reported at 39.3% for 2016 by a UNDP report.

Fixed Income Conclusions:

Rates in the fixed income market have remained stable, and we expect this to continue in the short-term, supported by:

I. ***The government is expected to meet its domestic borrowing target for the 2017/18 fiscal year, as reduced credit to private sector following the capping of interest rates will make it easier for government to meet its domestic borrowing target, as institutions channel funds more actively towards government securities. The government is ahead of its domestic borrowing target for the current fiscal year, having borrowed Kshs 10.6 bn against a target of Kshs 6.1 bn (assuming a pro-rated borrowing throughout the financial year of Kshs 317.7 bn budgeted for the full financial year), and,***
II. ***The government is expected to meet its foreign borrowing target in the 2017/18 fiscal year, as budget estimates for the current fiscal year indicate a decline to Kshs 206.0 bn from Kshs 462.3 bn in FY 2016/17.***

Some of the factors that could put upward pressure on interest rates are:

I. ***The Kenya Revenue Authority (KRA) is expected to face challenges in meeting its overall revenue collection target of Kshs 1.7 tn for the 2017/18 fiscal year, due to the expected subdued corporate earnings growth for the FY'2017,***
II. ***Maize production is expected to decline by 24.3% to 28 mn bags in 2017 from 37 mn bags in 2016, against the country's food security requirement of 40 mn bags, which is likely to exert upward pressure on food prices thus leading to an increase in the inflation rate and upward pressure on interest rates.***

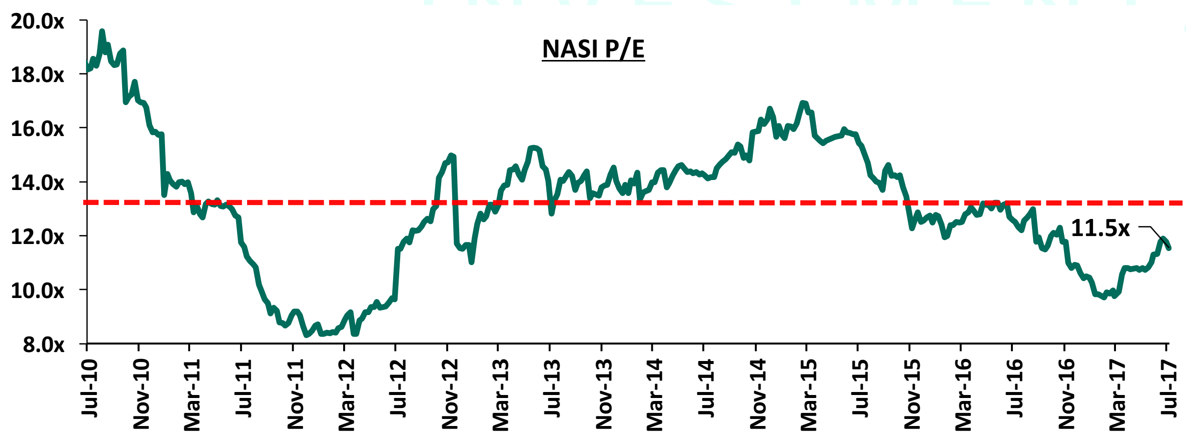
Overall, the possible deficit that is likely to result from depressed revenue collection, and the high inflationary environment that we are currently in, create uncertainty in the interest rate environment. Our view is that investors should be biased towards short-term fixed income instruments to reduce duration risk.

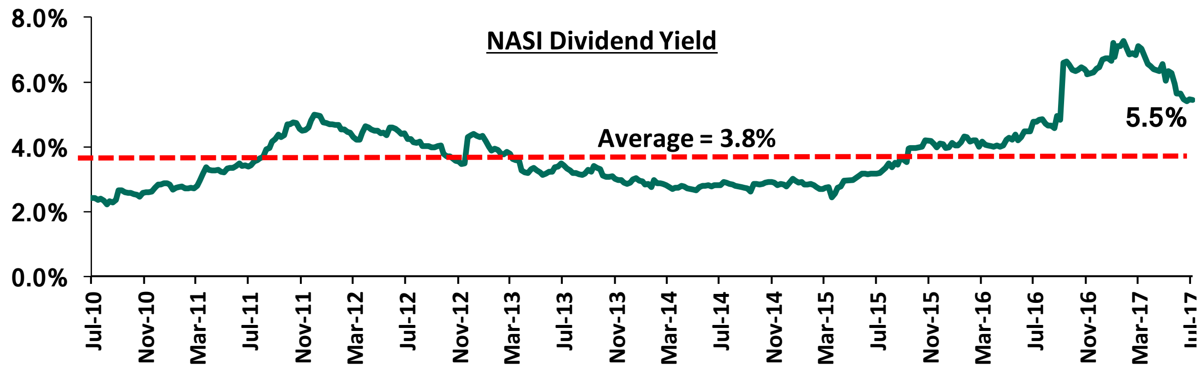
Equities

During the week, the equities market was on a downward trend with NSE 20, NASI and NSE 25 losing 0.1%, 0.4% and 1.5%, respectively, taking their YTD performance to 14.2%, 13.7% and 13.1% for NASI, NSE 25 and NSE 20, respectively. This week's performance was attributed to losses in large cap stocks such as Co-operative Bank, BAT and Barclays, which lost 17.7%, 5.2% and 4.0%, respectively. Co-operative Bank closed books for their 1 for 5 bonus share issue, hence the 17.7% decline, which was slightly higher than the expected 16.7% decline that was attributable to this increase in the bank's shares (the increase in shares implies that every share in the market would be worth less by a reciprocal of the growth rate). Since the February 2015 peak, the market has lost 34.5% and 14.2% for NSE 20 and NASI, respectively.

Equities turnover increased by 134.0% to close the week at USD 52.7 mn, from USD 22.5 mn the previous week. Foreign investors turned net sellers with net outflows of USD 0.3 mn compared to net inflows of USD 1.8 mn recorded the previous week. Foreign investor participation declined to 37.4% from 68.3% recorded the previous week. Equity Group was the top mover for the week, accounting for 48.6% of market activity. We expect corporate earnings growth to be slower in 2017 and neutral investor sentiment mainly due to the forthcoming general elections. We therefore expect the Kenyan equities market to record minimal further gains in 2017, due to the above factors, as well as the aggressive rate hike cycle in the US, which may reduce the level of foreign investors' participation in the local equities market.

The market is currently trading at a price to earnings ratio of 11.5x, compared to a historical average of 13.4x, and a dividend yield of 5.5%, compared to a historical average of 3.8%. The current 11.5x valuation is 19.0% above the most recent trough valuation of 9.7x experienced in the first week of February 2017, indicating substantial recovery since February 2017 and 38.9% above the previous trough valuation of 8.3x experienced in December 2011. The charts below indicate the historical P/E and dividend yields of the market.





Barclays Bank of Kenya (BBK) plans to close 7 of its 102 branches in the country beginning October this year as part of a restructuring process necessitated by the challenging operating environment. The bank reported there would be no job cuts from this exercise as the affected employees will be deployed to existing branches, despite having recently announced plans to lay off 130 of its employees through a voluntary exit scheme that is open to all employees. BBK is part of 11 banks that have announced plans to downsize through laying off of their staff, closure of branches, reviewing operating hours for some branches, or outright sales in case of Tier III banks, all in a bid to remain competitive since the implementation of the interest rate cap. The table below highlights the number of staff retrenched and branches closed by financial institutions:

Kenya Banking Sector Restructuring			
No	Bank	Staff Retrenchment	Branches Closed
1	Bank of Africa	-	12
2	Barclays Bank of Kenya	301	7
3	Ecobank	-	9
4	Equity Group	400	-
5	Family Bank	Unspecified	-
6	First Community Bank	106	-
7	KCB Group	223	-
8	National Bank	Unspecified	-
9	NIC	32	-
10	Sidian Bank	108	-
11	Standard Chartered	300	-
	Total	**1,470**	**28**

During the week a number of Kenyan listed banks received ratings from various global rating companies as outlined below:

- Global Credit Ratings (GCR) affirmed KCB Bank's long-term and short-term national scale ratings of AA and A1+, respectively, with a stable outlook for the fourth straight year. The rating is the highest for a Kenyan bank accorded by GCR, and it reflects KCB Bank's established domestic market position, risk appropriate capitalization, sound liquidity position, resilient earnings performance and support from its shareholders;
- Moody's Investors Service rated as "strong" the capacity of Co-operative Bank and Equity Bank to continue mobilizing deposits from the domestic and global institutional

investors in a capped interest rate environment. The rating service assigned both banks a first-time B1 global local currency deposit rating with a stable outlook in line with the B1 (stable) rating of the Kenyan government;
- Fitch Ratings affirmed Stanbic Bank's long-term issuer default rating at BB- with a negative outlook informed by the potential downgrade of Kenya's sovereign rating.

Rating is beneficial to the Kenyan banking sector as (i) banks with high ratings such as KCB Bank can easily raise capital at a lower cost due to the low risk associated with the firm, and (ii) it improves the image of the sector thus building confidence in investors. Ratings also facilitate best pricing and timing of public offerings as companies with high ratings get public recognition thus can easily attract investors without incurring much cost on getting media coverage for their offerings.

The Kenya Deposit Insurance Corporation (KDIC) is set to commence liquidation of Dubai Bank Kenya's assets, 2-years after the lender was placed in receivership as a result of liquidity and capital deficiencies, which raised concerns that the bank would not be able to meet its financial obligations as and when they fall due. Dubai Bank depositors and creditors will start receiving payments later this month through Electronic Fund Transfer (EFT). We are of the view that the KDIC, whose mandate includes risk minimization as opposed to just being liquidators, should enhance their oversight on banks to provide corrective mechanisms for banks on the verge of failing, so as to restore both local and foreign investor confidence in the banking sector. With restructuring of Chase Bank ongoing and that of Imperial Bank underway, we believe that KDIC will also help in eliminating uncertainties and arbitrariness in regulatory processes by resolving such incidences in an open and transparent process.

Last month, we released the Cytonn Corporate Governance Index Report – 2017, which analyses the state of corporate governance in Kenyan listed entities, and ranks 50 of the listed firms with a market capitalization above Kshs 1.0 bn using 24 metrics based on their corporate governance structure. Going forward, in addition to the annual report, we shall continually be updating the rankings whenever we have changes on any of the 24 metrics that we track and how they impact on the ranking:

- **TransCentury**: This week, Zephaniah Mbugua exited TransCentury's (TCL) board where he was a non-executive director and also stepped down as chairman of East African Cable's board, a subsidiary of TCL. Following this, Anne Mutahi was appointed as a non-executive director to join TCL's board. TCL's score has now improved to 64.6% from 62.5% driven by improvement in gender diversity score to 12.5% from 0.0%, resulting in an improvement in its position to 27 from position 32. TCL has made gains towards better governance in the recent past following acquisition of 25.0% stake by Kuramo Capital that saw entry of 3 new non-executive directors representing Kuramo, and exit of 4 former members, which resulted in heightened oversight by the board due to the powers given to Kuramo directors. We note and applaud the efforts by private equity investors such as Kuramo Capital in driving the best corporate governance practises. The improvement in TCL in our Corporate Governance Index Rankings, from position 36 in 2016, to 32 in the 2017 Report, and to position 27 now, highlights the benefits that private capital plays in better governance for companies with management, liquidity and capitalization issues, as they introduce strategic vision into the board and make the management more accountable;

- **East African Cables**: It's score remained at 54.2% as the reduction in score due to change in board size to an even number 6 from an odd number 7 was offset by an improvement in ethnic diversity to 50.0% from 42.9%, maintaining its rank at position 42.

As highlighted in our Cytonn Weekly #25-2017, we believe that the Kenyan listed entities are firming up to sound corporate governance practices supported by increased regulation from various bodies and organizations responsible for corporate governance oversight, which is essential for stability of the companies and the general market.

Below is our Equities Universe of Coverage:

all prices in Kshs unless stated otherwise								
				Our Equity Universe				
No.	**Company**	**Price as at 30/06/17**	**Price as at 07/07/17**	**w/w Change**	**YTD Change**	**Target Price***	**Dividend Yield**	**Upside/ (Downside)****
1.	NIC	33.5	33.5	0.0%	28.8%	51.2	3.8%	56.6%
2.	KCB Group***	37.8	37.8	0.0%	31.3%	54.0	8.1%	51.2%
3.	DTBK	160.0	164.0	2.5%	39.0%	241.1	2.1%	49.1%
4.	I&M Holdings	103.0	104.0	1.0%	15.6%	147.5	3.6%	45.4%
5.	HF Group	10.5	10.4	(0.5%)	(25.7%)	13.9	3.6%	37.2%
6.	Co-op Bank	17.0	14.0	(17.7%)	5.7%	18.5	4.5%	37.1%
7.	Barclays	10.0	9.6	(4.0%)	12.6%	12.1	10.3%	37.0%
8.	Jubilee Insurance	440.0	430.0	(2.3%)	(12.2%)	490.5	1.8%	15.9%
9.	Stanbic Holdings	71.0	74.5	4.9%	5.7%	77.0	6.6%	9.9%
10.	Liberty	11.4	11.9	4.4%	(9.8%)	13.0	0.0%	9.1%
11.	Equity Group	37.8	37.3	(1.3%)	24.2%	38.4	5.1%	8.2%
12.	Kenya Re	20.8	19.9	(4.1%)	(11.6%)	20.5	4.4%	7.4%
13.	Standard Chartered	208.0	214.0	2.9%	13.2%	209.3	5.0%	2.8%
14.	CIC Group	4.1	4.2	1.2%	9.2%	3.7	3.2%	(7.4%)
15.	Safaricom	22.8	23.0	1.1%	20.1%	19.8	4.7%	(9.3%)
16.	Britam	12.7	14.2	12.3%	42.0%	11.9	2.3%	(13.9%)
17.	Sanlam Kenya	28.8	27.0	(6.1%)	(1.8%)	21.1	0.0%	(22.0%)
18.	NBK	8.9	8.9	0.0%	23.6%	4.0	0.0%	(54.8%)

**Target Price as per Cytonn Analyst estimates*
***Upside / (Downside) is adjusted for Dividend Yield*
****For full disclosure, Cytonn and/or its affiliates holds a significant stake in KCB Group, ranking as the 14th largest shareholder*

We remain "neutral with a bias to positive" for investors with short to medium-term investments horizon and are "positive" for investors with a long-term investment horizon.

Private Equity

The Abraaj Group, a Dubai-based private equity investor is set to acquire a 100% stake in Kenya's Java House Group (Java) after it emerged the top bidder among a group of institutional investors including Actis, headquartered in London, Washington-based Carlyle Group and San Francisco-based TPG, all looking to acquire the food chain. The transaction, whose value is undisclosed, but is estimated at Kshs 13.0 bn, will see Washington-based Emerging Capital

Partners (ECP) give up their 90.0% stake in the business and the food chain's founder Kevin Ashley his 10.0% stake. ECP acquired the business in 2012 and it has since expanded from 13 outlets in Kenya to 60 outlets across 10 cities in East Africa, with 36 of these in Nairobi. Java, which was established in 1999 owns Java House, Planet Yogurt and 360 Degree Pizza. The acquisition by Abraaj Group will be beneficial to Java as (i) it shall facilitate the business's expansion strategy into other countries in Africa, helping Java build a Pan-African chain of restaurants, which seeks to capitalize on the growing middle-class on the Continent, and (ii) the business will benefit from Abraaj's experience and knowledge in running and managing multinational businesses. Java is the fourth transaction from Abraaj's third generation Africa fund, which closed at USD 0.99 bn in 2015, whose objective is to provide growth and buy-out capital to mid-sized businesses in the consumer goods and services, financial services and resource and infrastructure services sectors.

Investment firm TransCentury Group has acquired an additional 5.5% stake, valued at Kshs 245.1 mn, in its subsidiary Civicon Group, bringing its stake in the company to 83.5%. Civicon Group is an engineering firm incorporated in Mauritius with presence in Kenya, Ethiopia, South Sudan, Uganda and Tanzania, that provides services in the Power, Oil & Gas, Mining, Civil Works and Transport sectors. Civicon is most notable for the development of Orpower III and IV geothermal power plants in Naivasha and the Kwale Minerals sand project in Kwale County. TransCentury bought a 62.0% initial stake in Civicon in 2011 and later in 2015 increased their stake by 16.0% points to 78.0% for Kshs 712 mn, effectively valuing the company at Kshs 4.5 bn. Its latest acquisition of an extra 5.5% stake for Kshs 245.1 mn indicates the same valuation of the company. Civicon is the second most important business division at TransCentury and accounted for 45.8% of total turnover in 2016, after power, which is represented by East African Cables in which TransCentury owns 68.4% stake through its subsidiary Cable Holdings. TransCentury's continued investment into Civicon signals its bullish outlook on the performance of the company driven by rising investment in infrastructure by governments and corporates in Africa. The acquisition also signals confidence in the private equity sectors by investors owing to the fact that TransCentury is partially owned by Kuramo Capital, an investment manager and PE investor.

South African based firm, Coca-Cola Beverages Africa Proprietary Limited (CCBA), which is Africa's largest Coca-Cola bottler, has concluded the acquisition of Kisumu based Equator Bottlers, an authorized Coca-Cola Bottler, for an undisclosed amount. The acquisition was through a share purchase agreement between Equator Bottlers and Coca-Cola Sabco East Africa Limited (CCSEAL), which is a fully owned subsidiary of CCBA. The acquisition is in line with CCBA's expansion plan into other African countries and will also provide Equator Bottles with an opportunity to leverage on CCBA's resources and expertise to improve its operations and distribution. There has been an increase in activity in the FMCG sector driven by (i) increase in disposable income spent on consumables, such as beverages and processed food products in Africa, (ii) infrastructural developments, such as improved road and transport networks, (iii) ease of access to FMCG products and improved distribution networks, and (iv) growth in the retail sector.

Private equity investments in Africa remains robust as evidenced by the increased deals. The increasing investor interest is attributed to (i) rapid urbanization, a resilient and adapting

middle class and increased consumerism, (ii) the attractive valuations in Sub-Saharan Africa markets compared to global markets, and (iii) better economic projections in Sub Sahara Africa compared to global markets. We remain bullish on PE as an asset class in Sub-Sahara Africa. Going forward, the increasing investor interest and stable macro-economic environment will continue to boost deal flow into African markets.

Real Estate

During the week, the Kenyan Government announced the extension of tax relief and real estate development corporate tax to include housing co-operatives, through the Miscellaneous Amendment Bill 2017, in a bid to enable more co-operatives to deliver affordable housing units. The minimum number of units to be developed each year to qualify for the 15.0% corporate tax relief has been lowered to 100-units from 400 so as to enable more co-operatives to benefit from the corporate tax relief. This is a further reduction after an earlier revision in early 2016 from 1,000-units per annum to 400-units per annum. The new tax measures are designed to influence and encourage further growth and development of the housing sector through housing co-operatives. Most land Sacco's in Kenya are quickly turning into housing co-operatives driven by (i) the demand for affordable housing in Kenya, and (ii) a rapidly growing middle class creating demand for affordable housing for first-time home buyers.

This move is aimed at relieving the wide housing shortage in the country that has, according to World Bank's Kenya Economic Update 2017, seen 61.0% of urban dwellers in Kenya live in slums, and a general collective shortage of housing units nationwide at approximately 2.0 mn units. As per the World Bank, housing co-operatives are the solution to the shortage of low cost housing as they offer unsecured loans to the lower middle and low income earners.

We expect increased investment in the residential sector, especially by housing co-operatives, enabled by the increased ease of doing business in the sector.

During the week, Mifta Ltd announced plans to build serviced apartments in Kilimani. The 15-storey development, "Nine Oak", located strategically behind Adlife Plaza on a 0.4-acre plot, will have a total built up area of 14,000 SQM, on Wood Avenue. The apartments will have a mix of studio, 1 and 2-bedroom units. Kilimani is one of the best performing Nairobi suburbs in the serviced apartments sector, with an average total revenue per room of USD 111 according to our Cytonn Hospitality Report 2016, which is attributed to (i) its close proximity to working districts such as the Central Business District (CBD) and Upperhill, (ii) good infrastructure in terms of road connectivity, social amenities such as malls, schools and medical facilities, and (iii) presence of a diverse culture, social amenities and recreational facilities. The serviced apartments are set to attract clients such as diplomats and ambassadors working in the CBD, Upperhill and Kilimani, and also expatriates and tourists arriving in the country who are looking for flexible accommodation that offer a home-like feel.

Over the last 5-years, serviced apartments, as per the Cytonn Hospitality Report 2016, have grown at a CAGR of 23.6% supported by factors such as (i) the lower operating expenses as compared to hotels, (ii) higher occupancy rates which average at 90.0% compared to hotels at 50.0% in Nairobi, and (iii) they are less risky compared to the hotel business, due to the nature of the clientele-stay, which is normally for longer periods in serviced apartments compared to hotel-stays. As per our report, the supply of serviced apartments is expected to increase by 10,000 by 2020, thereby accounting for 39.4% of the total hotel and serviced apartment stock supply in Nairobi.

With the increased efforts to promote the country as the ideal MICE destination, the demand for affordable night beds is set to increase thereby creating demand for serviced apartments.

During the week, the Kenyan Government signed a USD 1.9 bn project with a Chinese firm, Gongdong New South Group Ltd, to construct a 700-acre special industrial zone in Eldoret, dubbed "The Pearl River Industrial Zone." The project will feature various industries including agro processing, energy, machinery, engineering, construction, electronics, ICT, chemical and pharmaceutical industries. The park has an environmentally sustainable plan, with waste treatment facilities on site. Improved infrastructure such as the upgrade of the Nairobi- Uganda highway in Cheptiret, Eldoret, as well as its central location between Nairobi and landlocked markets in Uganda and Rwanda, makes it an ideal location for Special Economic Zones.

Additionally, Friendship Container Manufacturers Limited (FCML) announced plans to establish a metal and plastic packaging plant at Tatu City, joining other firms such as African Logistic Properties (ALP), Kim Fay, Maximo, Unilever and Chandaria in the Kiambu-located industrial park. FCML will have a floor space measuring 15,000 SQM. Investment into the sector is expected to (i) increase foreign direct investment into the country through partnerships with foreign investors, and (ii) create backward and forward linkages in the local economy by using the services of local companies such as banks, audit firms, information technology, security providers and legal firms, leading to economic development through synergies created as a result of these linkages.

The industrial sector will continue to experience foreign investment in tandem with the government's efforts to industrialize the country as well as address the shortage of high quality warehouses.

Other highlights during the week included:

- East Africa's largest retail chain store, Nakumatt, faces more woes due to its current financial constraints that have seen the retailer deeper in trouble with various stakeholders. Thika Road mall, during the week, auctioned Nakumatt's supply through Moran auctioneers in a bid to recover the Kshs 51.0 mn of Nakumatt's rent in arrears, which prompted the retailer to move to court. Some of the stock auctioned included 6 trucks, 600 customer trolleys, office furniture as well as electrical appliances,
- Naivas is on an expansion strategy with plans to open 7 new stores across the country in areas like Kitengela, Mountain View, Kericho, Utawala and Mombasa. The retail store opened its newest store in Kiambu Road's Ciata mall, with a 35,000 SQFT of floor space and is expected to thrive due to the few retail stores in the high end part of Kiambu Road, which are served by Nakumatt Ridgeways and Quickmart in Thindigua,
- HF Group launched the second phase of Precious Gardens, which will see the construction of 152 executive, 3-bedroom apartments in two blocks, and is expected to be

ready for occupation in April 2019. This follows the successful Phase I of the same project, which is 100.0% sold. According to the group, the capital appreciation for the units was 5.0% and are located off Naivasha Road,

- In the hospitality sector, Sarova Hotel Group launched its new development in Nakuru, The Sarova Woodlands. The hotel is built at a cost of more than Kshs1.3 bn, sits on two acres in the upmarket Milimani Estate off the Nairobi-Nakuru Highway and overlooks the Lake Nakuru National Park. The hotel is set to attract client clients such as corporates who want an away-from-Nairobi meeting point, high-end clients visiting the tourist-attraction -site -packed town, as well those en-route to Kisumu or Uganda and Rwanda by road,
- Kenya Urban Roads Authority, KURA, signed a Kshs 1.9 bn deal with a Chinese firm, China Qinjian International Group, for the phase II upgrade of Ngong Road into a dual-carriage way. The upgrade will include a 6.5m wide road, two lane carriageways and two roundabouts, one at Karen/Ngong Road section and another one at the Karen/Lang'ata Road junction. Additional to the project details are bus bays which have also been factored, with footpaths, foot bridges and bicycle lanes featured as well.

We expect increased investment in real estate with investors focusing on the housing and industrial sectors driven by i) increasing demand ii) government incentives and iii) improved infrastructure.

10 Key Steps to Financial Security

Living a fulfilling life is important for everyone. For one to do so, planning all of the five key pillars of life, namely; (i) health & well-being, (ii) religion or spirituality, (iii) friends, family & community, (iv) learning & knowledge, and (v) financial security, is a must. Financial planning is the road that leads to financial security. So how can you tell that you are working towards financial security, where you are able to meet your life goals through proper management of your finances? Individuals are different in various aspects such as age, income level, future plans and lifestyle, just to mention a few, hence each plan is different. However, here are 10 things to do to attain the financial security we all look forward to:

1. **Invest before you spend**: Your monthly consumption should be equal to your income (net of all taxes) minus your monthly investments. Regular investment every month grows your wealth, so your money is making money for you. As with any investment, have a diversified portfolio, with a mix of growth investments in equities and alternatives, and income investments in fixed income solutions or structured products,
2. **Have a constant stream of income:** Being good with money means having a regular stream of income, either from your workplace or from your investments. Additionally, knowing how much you take home every month allows you to plan how much you'll invest and how much you can consume,
3. **Have a budget:** Once you know how much you earn and how much you invest, what is left is for your consumption. Budget this consumption amount. Planning and tracking your expenditure for regular and unplanned costs is key to sustaining your lifestyle, and knowing how much you have each month to grow your wealth,

4. **Treat yourself:** Don't accumulate for the sake of accumulation. It's important to be kind to yourself, and take that holiday without incurring any debt. Try to tie the treats to achieving a goal or a milestone, so that it's not just because it's a holiday season,
5. **Resist peer pressure:** As you treat yourself occasionally, resist the pressure to buy things you can't afford or don't need but end up buying anyway just because your peers are doing it. Financial security requires the emotional maturity to live within your means,
6. **Consistently pay down your debt**: Debt is not bad, especially if applied to investments such as an education or buying a house – that is good debt. Bad debts are those that don't help you build assets, or those that are not part of your goals, such as credit card spending on unnecessary luxury items, or incurring debt for present consumption. Avoid bad debt, and pay back debt consistently; you'll have more money to invest and treat yourself,
7. **Emergency money:** As with everything in life, emergencies come up, whether it be health problems or family emergencies, among others. Financial planning involves having a fund stored away for the financial surprises that life throws at you, with at least 3 to 6-months of monthly expenses in short-term investments, to avoid stress and having to borrow expensively last minute. Get appropriate insurance for such, like illness and death,
8. **Retirement planning**: A key financial goal is planning towards retirement, no matter what age you are. Start by considering the lifestyle you want when you retire, how much it will cost per month (even an estimate), add for any unplanned surprises, and work backwards towards investing every month to reach your goal,
9. **Periodic financial health checkups**: Financial planning is the journey towards financial security. Every journey needs a periodic checkup and assessment. Goals change as life progresses, and so does your situation in terms of income, health and family. Keep reviewing your financial plan to monitor your progress towards achieving your goals for a house, education, wedding and retirement. You may realize you need to invest more, or in fact have more money set aside than is needed,
10. **Continuous financial education, learning and research:** All financial decisions should be based on research and learning. Financial education allows you to set realistic goals for yourself, with timelines that are achievable. Learning about financial planning makes you a more proactive investor, and research allows you to analyze multiple options to ensure you make the right financial decision. Don't just buy land because your friends are buying. Work with a trusted and qualified financial advisor.