Market Research:
Economic Overview
October
research@dyerandblair.com
+254 709 930 130

Overview and Outlook:

Economic Overview.

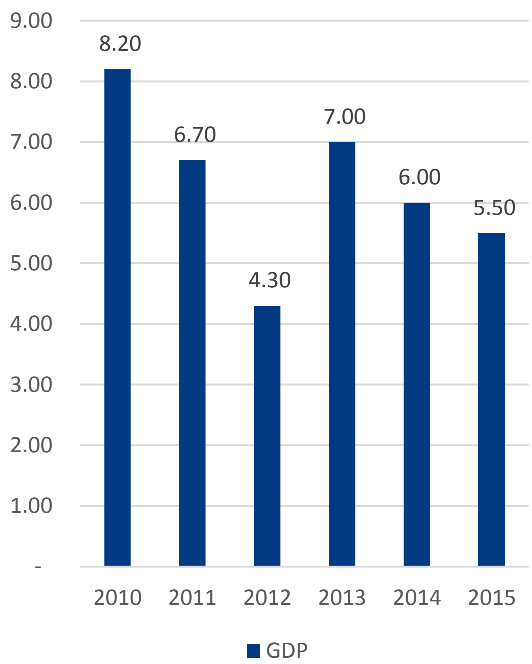
GDP growth in Sub-Saharan Africa improved to an average of 4.6 percent in 2014, up from 4.2 percent in 2013 which was supported by infrastructure investment and consumer spending. Sub-Saharan Africa's growth is projected at an average of 4.2 percent in 2015 down from 4.6 percent in 2014. This growth will be majorly driven by domestic demand, infrastructural investment and private consumption fuelled by lower oil prices.

Kenya's economy grew by 5.3 percent in 2014 easing from 5.7 percent recorded in the preceding year (2013). The slow growth was a result of decline in tourism and reduced agricultural output.

This year The World Bank expects the Kenyan economy to grow at 6 percent, up from an earlier projection of 4.7 percent, as lower oil prices spur consumption and the government proceeds with rail and energy projects.

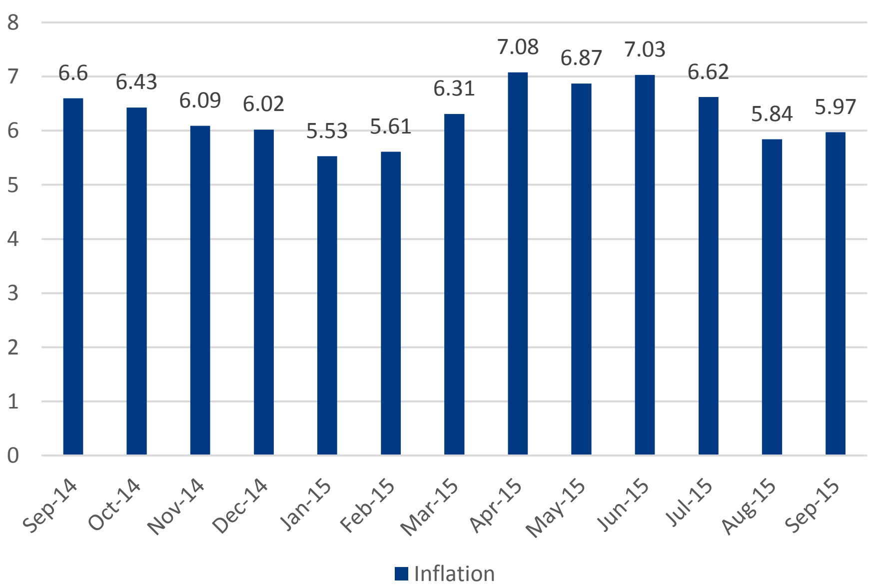
In 2015 growth remained upbeat at 4.9% and 5.5% in the first two quarters of the year compared to 4.7% and 6.0% in comparable quarters in 2014. According to Kenya National Bureau of Statistics the second quarter of 2015 was characterized by slowdown in inflation, decline in interest rates, improved agricultural performance and depreciation of the Kenyan shilling to major world currencies.

Figure 1: Second Quarter GDP Growth



Source: KNBS & DBIB

Figure 2: Inflation Rate



Source: KNBS &DBIB

Inflation

Inflation rate in Kenya has been trending up this year with a high of 7.08 percent recorded in April. The upward trend was attributed to increase in food and non-alcoholic index due to bad weather seen in the beginning of the year.

August and September saw inflation rate at 5.84 and 5.97 respectively which was as a result of a slight increase in food and non-alcoholic drinks index that rose 0.48 percent.

Inflation is seen to ease due to decrease in food prices and low oil costs as the global oil prices remain low due to surge in supply.

Exchange Rates

The Kenyan shilling depreciated to close at a new low of 106.245, levels last seen two years ago. The depreciation of the shilling is driven by current account deficit, strong performance of the dollar and speculation within the Kenyan market.

Recently CBK has undertaken to curb the shilling fall resulting to the shilling stagnating at the 105.00 mark and to later on gain to 103.00. We expect the shilling to lose against the dollar as the dollar gains against major currencies.

Stock Market

Kenya's stock market is still on a bear run with the NSE 20 declining 24.19 percent YTD to close at 3,875.84 while NASI index lost 16.31 percent YTD to close at 136,33. The FTSE 25 and 15 index dropped 16.35 percent and 15.74 percent respectively to close at 182.94 and 183.48.

Shareholders wealth measured by Market cap saw it decline to 1,917.48 the lowest it's been this year.

For the eight months to September, shares traded declined to 5.36bn in 2015 from 6.06bn in 2014, a 11.63 percent drop. Although there was a substantial drop in volume, turnover rose 8.43 percent to KES 163.29bn this year to September.

Top Gainers and Losers

Year to September agricultural stocks gained in value except for Eaagads with Kakuzi leading the pack, going up 75.00 percent to stand at 315.00, followed by Williamson Tea, Kapchorua Tea and Limuru Tea which gained 45.56 percent, 44.56 percent and 44.53 percent respectively. The gain is largely attributable to speculative trading.

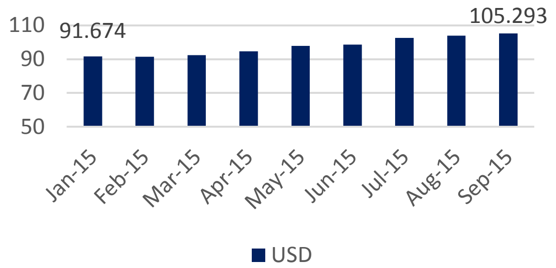
Biggest loser were Atlas Development, Home Afrika and Housing Finance which lost 70.95 percent, 56.10 percent and 49.42 percent respectively. Home Afrika emerged as the top loser closing at KES3.50. The decline is attributable to poor performance of the company recoding a net loss of KES 1bn in June compared to KES 150mn in the same period 2014.

Foreign participation.

Foreign investor remained the largest participants in the market with net foreign participation for the eight months to August at 60.76 percent up 14.46 percent from 53.08 percent for the same period 2014.

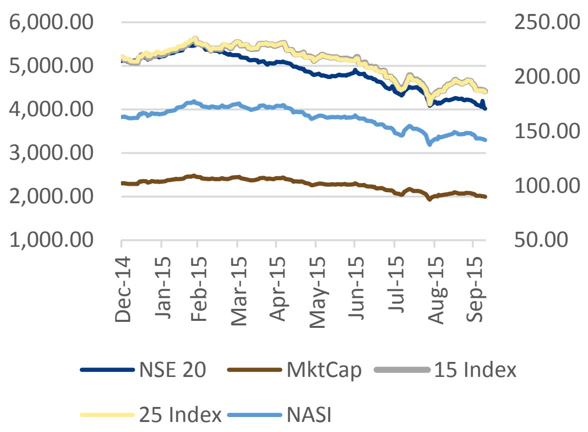
Foreign purchase for the eight months accounted for 59.01 percent of total equity turnover while foreign sales for the same period accounted for 60.76 percent of net equity turnover.

Figure 3: Exchange Rate



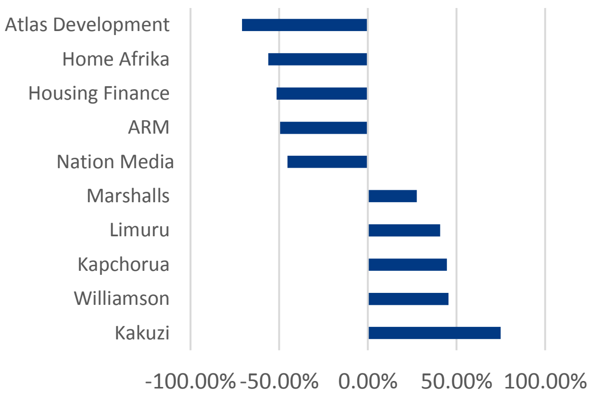
Source: CBK &DBIB

Figure 4: Index performance



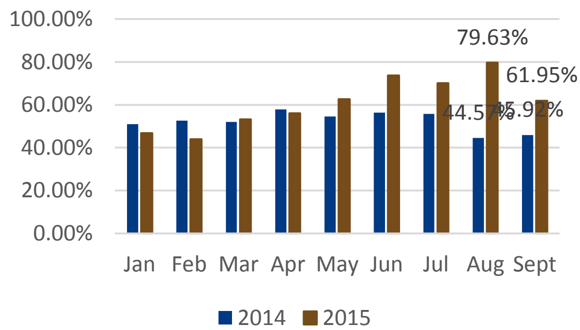
Source: NSE & DBIB

Figure 5: Top gainers % losers year to



Source: NSE &DBIB

Figure 6: Foreign Participation



Foreigners who were seen to exit the market in the first quarter become net buyers in the market as valuations become more attractive.

Outlook

We expect the bear run to continue to the close of the year characterized by marginal improvements in price for specific counters. Valuations in the market are very attractive.

Introduction of the Real Estate Investment Trust (REITs) market as an investment vehicle will make the exchange more attractive to investors. Stanlib Investments looks forward to raise Sh12.5 billion through a REIT, a first in the Kenyan market.

Introduction of the derivative market that allows companies to hedge against commodity price and interest rates to allow for increase in liquidity of underlying assets.