



INVEST IN KENYA

Presented by

Kestrel Capital (East Africa) Ltd



Member of Nairobi Stock Exchange

CMA Licensed Investment Bank

March 2009

www.kestrelcapital.com

Invest in Kenya

Table of Contents

- | | |
|-------------------------------------|-------------------------------------|
| 1. Map of Kenya | 9. Foreign Direct Investment |
| 2. Political Overview | 10. Profile of NSE |
| 3. Economic Overview | 11. Trading on NSE |
| 4. Economic Reforms | 12. Profile of NSE Companies |
| 5. Macroeconomic Performance | 13. Performance of NSE |
| 6. East African Relations | 14. Fixed Income Market |
| 7. Industry and Trade | 15. Kestrel Capital Services |
| 8. Trading Partners | |



Invest in Kenya



March 2009

www.kestrelcapital.com



Invest in Kenya

2. Political Overview

- After the disputed December 2007 general elections which led to violence in 1Q2008, the two main contestants (Raila Odinga and Mwai Kibaki) agreed to form a Grand Coalition in which cabinet posts were shared on a 50-50 basis
- The Coalition Government is generally working well although at the cost of growing Government spending and perceived corruption
- There is pressure on the Coalition Government to deliver a new constitution, set up both an independent interim electoral commission and a special tribunal to prosecute perpetrators of post election violence



Invest in Kenya

3. Economic Overview

- Kenya is currently estimated to have a population of 37.2 million people. Real GDP growth rate for 2007 was 7% but is estimated to have decreased to 2.5% in 2008 as a result of post election violence in 1Q08
- The Central Bank plays a key role in advising the Government on monetary and fiscal policy issues. The bank has earned great respect for its independence and professionalism in regulating the commercial banking sector as well as managing the currency and inflation
- The country has enjoyed relatively low and stable core inflation and interest rates since 2003 as well as an appreciating currency. However, the increase in fuel and food import prices in 2H08 put stress on both the trade and fiscal deficits, resulting in pressure on both inflation and the currency which devalued 23% against the dollar in 2008
- The economy has been on a recovery path since 2002. Key sectors that registered good performance in 2007 were transport and communication, retail & wholesale trade and manufacturing sector. This momentum is expected to decelerate in 2009/10 before picking up from 2011



Invest in Kenya

4. Economic Reforms

- **Administrative Reforms**
 - Public sector reforms which include signing of performance contracts
 - Reducing the number of trading licenses for setting up new business
- **Government Privatization**
 - 30% of KenGen shares sold to the public in 2006
 - 80% of Mumias Sugar sold to the public by Dec 2006
 - 40% of Kenya Re shares sold to the public in August 2007
 - 51% of Telkom Kenya sold to France Telkom in November 2007
 - 25% of Safaricom Ltd sold to the public in April 2008
 - 70% of Kenya Commercial Bank shares sold to the public by August 2008
- **Expected Privatizations**
 - 25% of National Bank of Kenya through a second offer by June 2009
 - 59.3% of Development Bank Kenya to be sold to the public by June 2009
 - Identifying a strategic partner in the country's largest wine maker, Kenya Wines Agencies Ltd by June 2009
 - Selling off stakes in parastatals like Kenya Pipeline Corporation, Kenya Tourism Development Authority and Kenya Ports Authority
 - Privatizing sugar millers like Sony, Nzoia, Chemeli, Miwani & Muhoroni



Invest in Kenya

4. Economic Reforms (Cont'd)

• Investment

- Expansion of Jomo Kenyatta International Airport in Nairobi and Kisumu Airport at a cost of USD 155 million and USD 39 million, respectively
- Construction of three undersea fibre optic cable systems (Seacom, TEAMS and EASSy) at a cost of USD 997 million through partnerships with other stakeholders with two expected to be operating in Kenya by the end of this year
- USD 13 million has been set aside for a business process outsourcing (BPO) park
- Private concessioning of the Kenya-Uganda Railways for 25 years to integrate the two economies of Kenya and Uganda
- Increased exploration in the areas of oil (on and offshore) and coal
- Government's USD 55 million power sector reforms that include setting up of a Geothermal Development Corporation to drill wells capable of producing up to 3,000 MW of power
- Construction of roads e.g. Thika road at a cost of USD 365 million
- Nairobi metropolis plan to be realized in 20 years at a cost of USD 400 billion



Invest in Kenya

5. Macroeconomic Performance

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008*</u>
Population (Million)	32.2	33.2	34.2	35.1	36.1	37.2	-
Real GDP Growth (%)	0.6	2.9	5.1	5.8	6.4	7.0	2.5
Per Capita Income-Current (USD)	408.3	451.9	474.7	544.5	652.7	717.2	-
Gross Domestic Investment (% of GDP)	14.9	16.4	16.3	17.1	18.0	20.2	-
Underlying Inflation (%)	2.9	2.7	3.5	5.4	3.9	5.2	9.0
90 Day T-Bills (discount rate) (%)	8.4	1.4	8.3	8.1	5.7	6.9*	-
Months of Import Coverage (Total reserves)	3.3	4.2	3.4	3.2	3.5	4.0	-
Exchange Rate (Kshs/USD)	78.7	75.9	79.3	75.6	72.1	67.3	78.9

Source : Central Bank of Kenya /Central Bureau of Statistics

**Provisional - No official figures*



Invest in Kenya

6. East African Relations

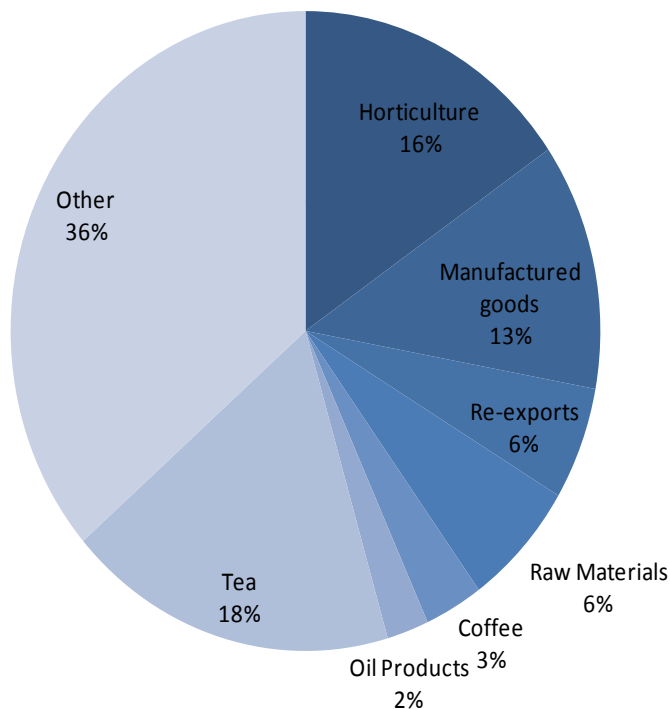
- Kenya is the regional hub of business for the East African region comprising Uganda, Western Tanzania, Rwanda, Burundi, Eastern Congo, Southern Sudan and even landlocked Ethiopia to which a new road is being constructed
- This is aided by Kenya's proximity to the Indian Ocean and being the home to Mombasa port, as well as the railway line that links Kenya to the rest of the landlocked countries in the region
- Nairobi's growing international airport with Kenya Airways' extensive regional network also ensures Kenya's place as a regional hub of East Africa
- The regional expansion of Kenyan based companies like E.A. Breweries, Bamburi Cement, Equity Bank, KCB Bank, Kenya Airways, Kenya Oil Company, Athi River Mining, Nation Media Group, Scangroup Advertising and TPSEA Serena Hotels will open up new markets for their products and services
- Overall trade in the region is expected to grow with the formalization of East African Community (EAC) and setting up of a uniform customs tax for Common Market for Eastern and Southern Africa (COMESA) member countries



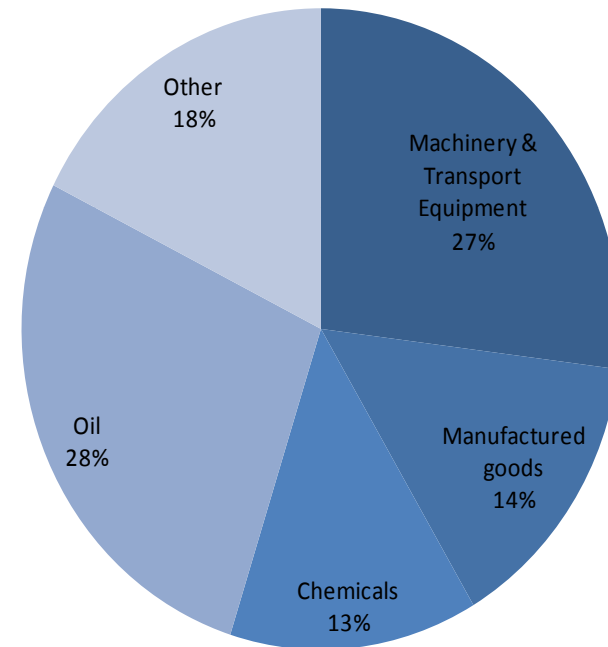
Invest in Kenya

7. Industry and Trade

Goods Exports for Year to Nov 2008
(USD 4,885 million)



Goods Imports for Year to Nov 2008
(USD 10,793 million)



Source : Excise and Customs Dept, Kenya Revenue Authority

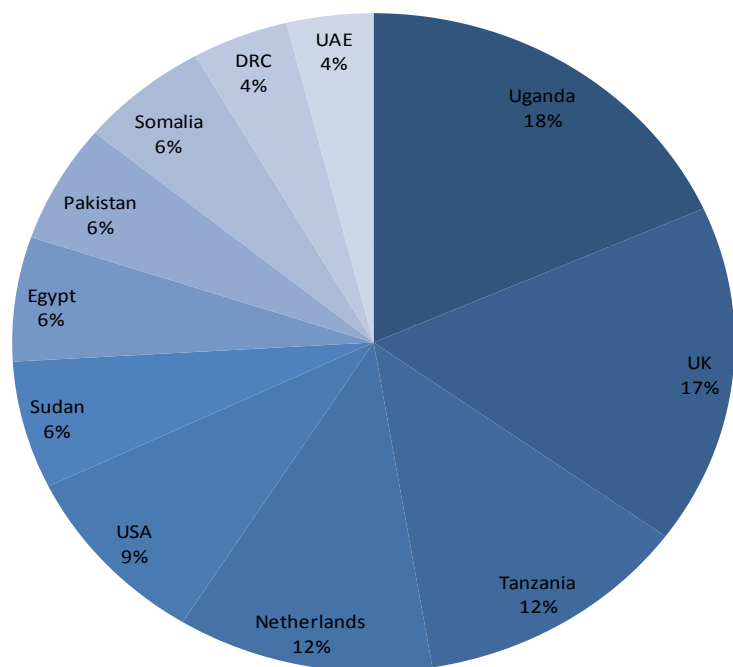
N.B. As a service export, tourism earns Kenya nearly as much as tea.



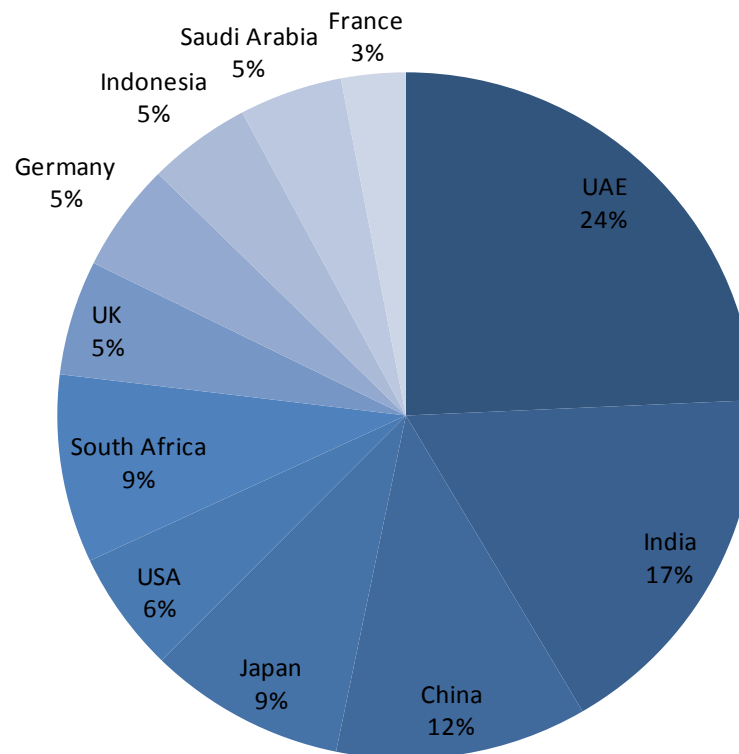
Invest in Kenya

8. Trading Partners Year to Nov 2008

Major Exports Accounting for 67%



Major Imports Accounting for 67%



Source : Excise and Customs Dept, Kenya Revenue Authority

N.B. The high % of exports to Netherlands are flowers. Imports from UAE are crude oil.



Invest in Kenya

9. Foreign Direct Investments

- Kenya has a heavy presence of multinational companies (as well as the UN and other international aid agencies) which are key players in the economy like Barclays Bank, Citibank, Diageo/Guinness, Unilever, General Motors, Vodafone, KLM Airlines, LaFarge Cement, British American Tobacco (BAT), etc
- Many multinational companies run their African operations from Nairobi. These include General Electric, Coca Cola, Rezidor Hotel Group, Zain, HP, Nokia, Ericsson, Cisco, PZ Cussons, Google, Microsoft, Samsung, Young & Rubicam, etc
- The government (in partnership with other stake holders) is constructing a submarine fiber optic cable system expected to run from the Kenyan Coast of Mombasa to Fujairah in Dubai at a cost of USD 300 billion
- On-going talks for Essar Oil of India and Tamoil of Libya to buy a 50% stake in the country's sole refinery, Kenya Petroleum Refinery Limited (KPRL) based in Mombasa



Invest in Kenya

10. Profile of NSE

- **55 listed companies and 19 licensed stock brokers**
- **Aggregate foreign ownership in Nairobi Stock Exchange (NSE) listed companies limited at 75%, leaving most companies open to substantially more foreign investment**
- **NSE average daily trading volume of USD 3-5 million**
- **Delivery and settlement is done scrip-less via an electronic Central Depository System (CDS) with Stanbic Bank as the settlement bank**
- **Settlement is currently T+4 on a delivery-vs.-payment (DVP) basis**
- **Foreigners account for approximately 10% of NSE trading activity**
- **No capital gains tax; no foreign exchange controls; 5% withholding tax on dividends, 10% for foreigners**
- **Stockbrokers may not offer custodial services**
- **Bloomberg started to carry live NSE data in December 2008**



Invest in Kenya

11. Trading on the NSE

- **Central Depository System Corporation (CDSC)** - Provides automated centralized depository, clearing and settlement services to the market. It was introduced in 2004. Operates on continuous net settlement (CNS) basis
- **Automated Trading System (ATS)** - Computerised trading system introduced in 2006 which provides rules-based trading and transparency to the market
- **Wide Area Network (WAN)** - Introduced in December 2007 allows for remote trading from the office, away from the earlier centralised trading on the trading floor
- **Central Depository Agents** - Include licensed stock brokers and custodian banks. They act as interfaces between investors and the CDSC
- **Custodian Banks** - Handle delivery of shares and settlement. The main custodians used by foreign clients are Barclays Bank of Kenya and Stanbic Bank Kenya (South Africa)



Invest in Kenya

12. Profile of Major NSE Companies

Company	Price (KES)	Mkt cap (USD)	P/E x	Div %	ROE %	Major Shareholder
Safaricom	2.55	1,280	8.0	2.0	27.3	Vodafone Kenya
EA Breweries	100.00	992	10.0	8.2	39.6	Guinness PLC
Barclays Bank	36.00	613	8.8	5.6	27.5	Barclays PLC
Bamburi Cement	120.00	547	12.8	3.1	24.0	Larfage Cement
Equity Bank	113.00	530	10.8	2.7	21.3	Helios Capital
Stanchart Bank	140.00	478	10.8	2.2	31.4	StanChart PLC
KCB Bank	15.50	431	8.2	6.5	20.1	GoK
Co-operative Bank	7.40	338	12.5	1.4	28.6	Private Local Investors
KenGen	10.35	286	4.2	8.7	8.2	GoK
Nation Media	115.00	206	14.4	2.6	30.0	The Aga Khan Fund
British American Tobacco	140.00	176	8.2	12.1	38.4	BAT PLC
NIC Bank	33.75	138	9.6	1.5	19.8	Private Local Investors
Kenya Airways	19.55	113	3.4	9.0	12.2	GoK/KLM Airlines
Kenya Power & Lighting	100.00	99	3.5	5.0	35.8	GoK
Athi River Mining	70.50	88	14.4	1.7	25.9	Private Local Investors
Kenya Oil	44.50	82	5.0	5.6	12.3	Private Local Investors
Mumias Sugar	3.55	68	6.7	11.3	9.0	GoK
Centum Investments	9.75	67	6.6	4.6	10.0	Private Local Investors
CMC Motors	10.50	64	6.6	4.3	19.2	Private Local Investors
Kenya Re	8.30	62	5.2	4.4	11.7	GoK
AccessKenya Group	15.70	41	17.7	1.9	20.6	Private Local Investors
EA Cables	15.95	41	7.0	6.3	46.7	Private Local Investors
Scangroup Advertising	18.05	36	10.9	5.0	48.3	WPP Group
TPSEA Serena Hotels	25.75	34	9.2	4.9	8.0	The Aga Khan Fund
Median Average			9.9	3.7	24.3	

NB: The figures are as of 27 Feb 2009

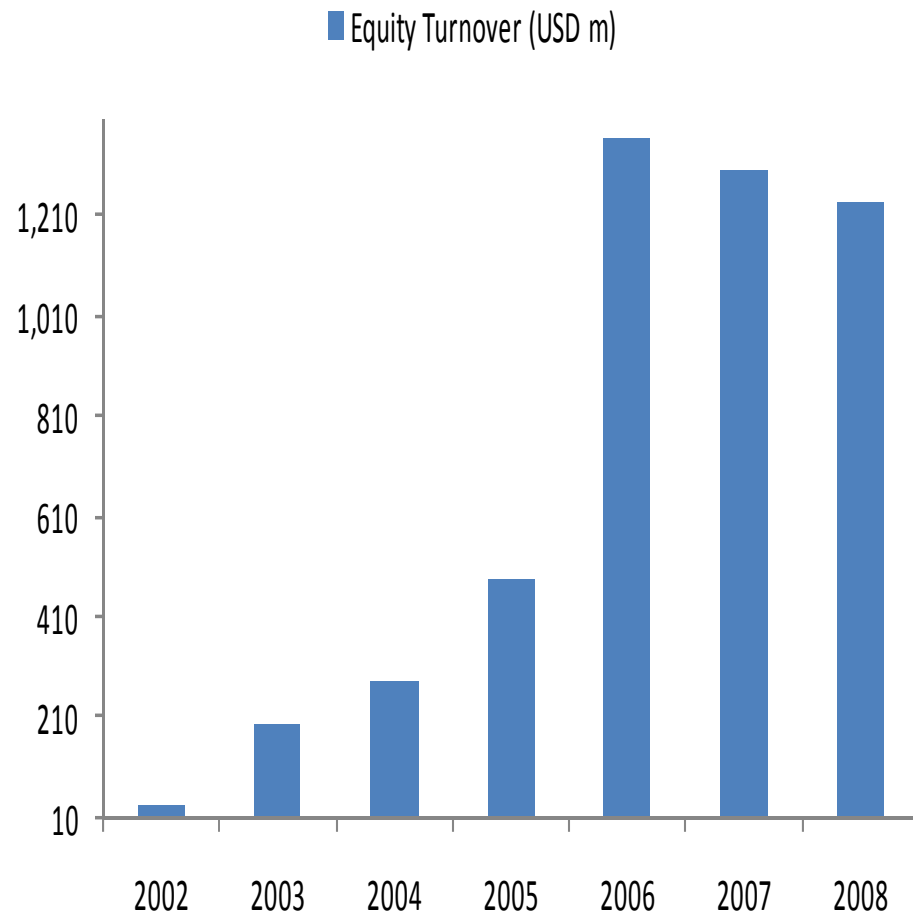
March 2009

www.kestrelcapital.com



Invest in Kenya

13. Performance of NSE



Source : Nairobi Stock Exchange

Nairobi Stock Exchange 20 Index



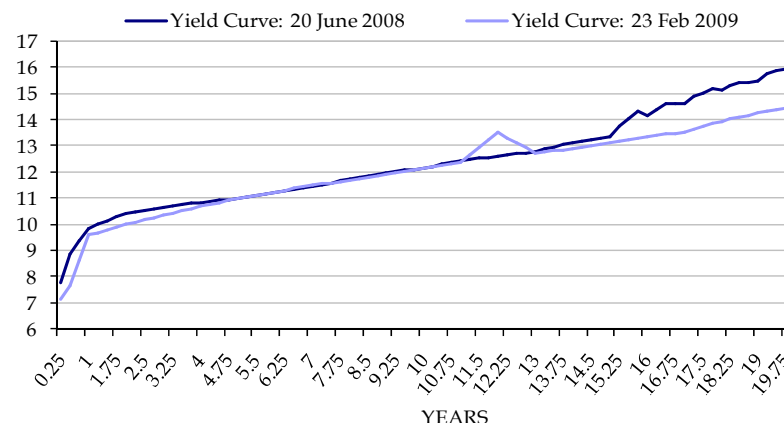
Source : Nairobi Stock Exchange



Invest in Kenya

14. Fixed Income Market

- **Not actively traded market with very little foreign investment. The annual market turnover was USD 1.2 billion for the year ended 31 Dec 2008**
- **The yield curve extends to 20 years (15 years up to 2007) based on the longest dated Government Treasury Bond**
- **Types of instruments traded are Treasury and Corporate Bonds**
- **The sovereign credit rating by Standard & Poor's revised its long-term rating outlook on Kenya to positive from stable. The 'B' long-term and short-term sovereign credit ratings were affirmed.**
- **The Government of Kenya plans to issue an USD 500 million sovereign international bond that will act as a benchmark for international borrowing**
- **Last month, the Government raised USD 234 million through a 12-year tenure infrastructure bond**



Invest in Kenya

15. Kestrel Capital Services

- **Stock Broking on Nairobi Stock Exchange**
- **Public Offerings of Shares and Bonds**
- **Privatizations and IPO's**
- **Bond Trading and Commercial Paper Placing**
- **Corporate Finance Advisory**
- **Local Company and Market Research**
- **Local Currency Debt**
- **Cross-Listings in East Africa**
- **Investment Advisory**
- **Private Placements**

