



**Financing Options Through the
Capital Markets
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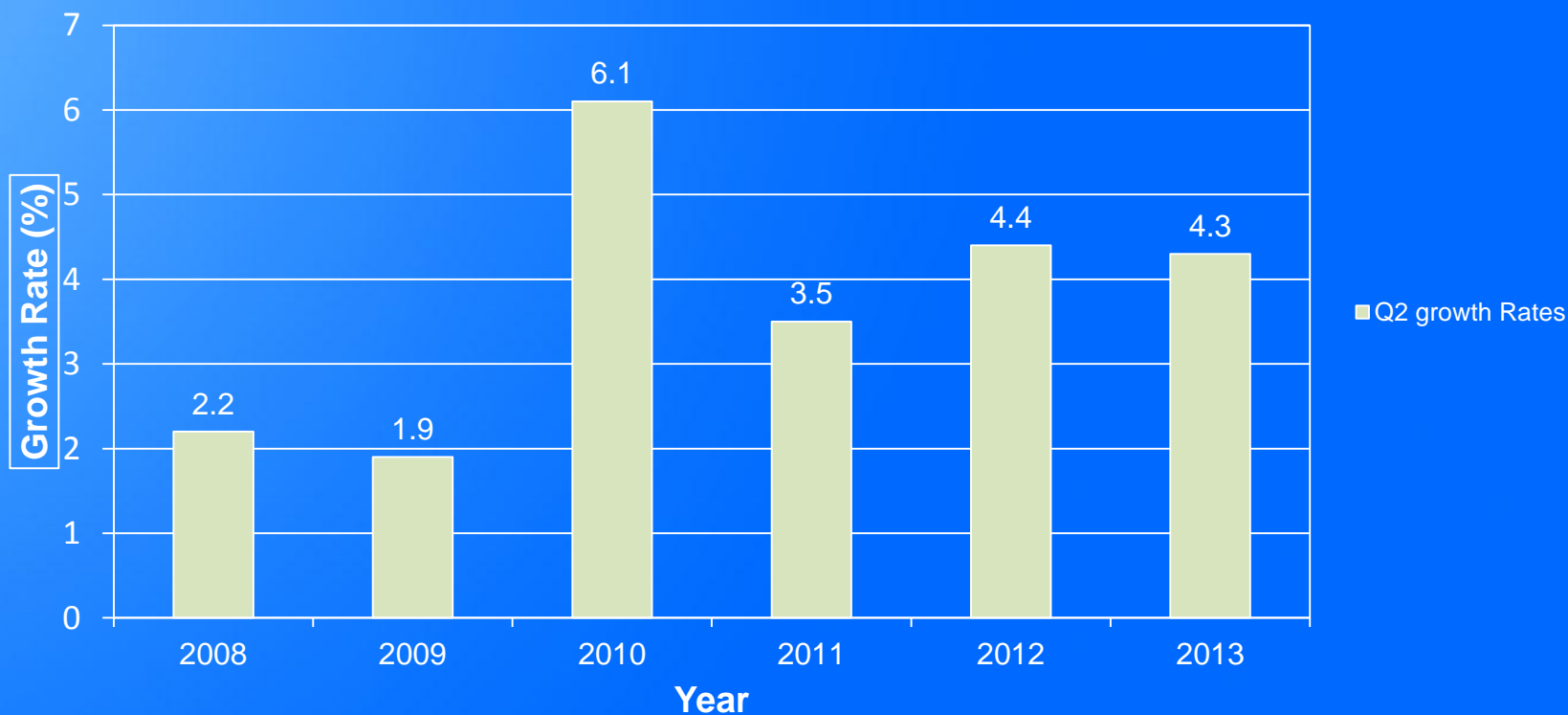
KENYA ECONOMY AT A GLANCE

KENYA'S GDP GROWTH

- According to the latest KNBS economic update, during q2 of 2013, Kenya's economy expanded by 4.3%, slightly slower than the growth of 4.4% experienced during q2/2012 mainly supported by high activity in key sectors.
- In terms of financial intermediation, net foreign assets of the banking system expanded by 13.0 per cent in the second quarter to KShs.361.2 billion in June 2013.
- In terms of inflation, Kenya's y-o-y inflation rose to 8.29% in September 2013 from 6.67% on account of the VAT Act and seasonal factors affecting supply of common food crops

KENYA'S GDP GROWTH – CONT'D

Kenya's Q2 Growth Rates (2008 - 2013)





CAPITAL MARKETS – 2013

CAPITAL MARKETS - 2013

- Vision

“A proactive regulator of a competitive and robust capital markets”

- Mission

“To promote the development of Kenya’s capital market to be an investment destination of choice through facilitative regulation and innovation”.

Role of Capital Markets in an Economy

- Provides long-term capital through mobilization of savings
- Facilitates broader ownership of productive assets
- Diffuses stresses on the banking system by matching long-term investments with long term capital
- Promotes public-private partnerships
- Gateway for Foreign Direct Investments (FDI)
- Leverages Government financing sources essential for socio-economic development
- Provides investment opportunities and domestic savings with emphasis on capital formation over consumerism
- Improves efficiency of capital allocation through competitive price discovery and valuation of entities

CAPITAL MARKET PRODUCT STRUCTURE IN KENYA

Equity markets (EMs)

- ✓ Ordinary Shares
- ✓ CISs (REITs, Unit Trusts etc.)
- ❖ Islamic EM products

Debt market (DMs)

- ✓ Treasury Bonds
- ✓ Corporate Bonds
- ✓ Preference shares
- ✓ Infrastructure bonds
- ✓ Commercial Papers
- ✓ CISs (Fixed Income funds)
- Municipal Bonds
- Asset Backed Securities
- ❖ Islamic DM products

Derivatives markets (DVs)

- ❖ Futures
- Options
- Swaps
- Swaptions

Primary and Secondary Market

❖ ETFs

Secondary Market

- ✓ Already in the market
- Not yet launched
- ❖ In the pipeline

FINANCING ECONOMIC TRANSFORMATION

Level of
Develop
ment

Economic
Transformation

Government

Banks

Private sector
(Capital markets)

SCOPE OF PRODUCTS UNDER CONSIDERATION (SHORT , MEDIUM AND LONG TERM)

- REITs
 - Futures
 - Exchange Traded Funds
 - Islamic Capital Market Products
-
- Asset Backed Securities
 - County Bonds
 - Options
 - Swaps and Swaptions

Collective Investment Schemes

- A Collective Investment Scheme (CIS) is any financial instrument that allows you to pool your money and invest it together with other like-minded individuals. The various CIS range from Unit Trusts, Real Estate Investment Trusts, Mutual Funds (Investment Companies) and Employee Share Ownership Plans (ESOPs). In Kenya, unit trusts are the most common examples.

Benefits of a CIS

- **Diversification:** Investors in **CIS** can access a broader range of securities than they could when investing on their own as individuals.
- **Liquidity:** There is ease in selling and buying the units in **CIS** compared with investing directly in shares of companies where prices and opportunities to transact depend on the supply and demand at that time.
- **Continuous Professional Management:** **CIS** are managed by a team of experienced professionals in a structured manner
- **Convenient record keeping and administration:** Fund managers manages various types of Schemes, such as regular income plan, growth plan, equity funds, debt funds and balanced funds. An investor can therefore select a plan according to his needs.
- **Tax Benefits:** The **CIS** income is tax exempt, and this can be extended to unit holders in form of better returns.
- **Spreading the risk:** As the saying goes, don't put all your eggs in one basket, an investor can spread the risk of investment as he/she is able to put his/her money in a variety of securities hence spreading the risk.

NSE Performance

- In the year to September 2013, the value of shares traded at the Nairobi Securities Exchange (NSE) has jumped by 29 percent.
- The NSE 20 Share Index - which tracks the performance of the 20 most traded shares - crossed the 5,000 level in April 2013, for the first time in more than four years and has remained above 5000 in November.
- Foreign equity flow hit an all time monthly high of Kshs. 9.8 billion in August 2013 – a first in Kenya’s capital markets.
- Monthly average bond turnover in the year-to-September 2013 has been in the region of Kshs. 39 billion, a marked increase when compared to the Kshs 9 billion annual bond turnover figures in 2009.

NSE Performance – Cont'd

- There has been consistency in terms of interest by some market players in raising capital through capital markets – a clear case in point is Shelter Afrique which successfully raised capital in 2009 – Kshs 1 billion, 2011 – Kshs 3 billion, 2013 – Kshs 3.5bn.
- In 2013 Home Afrika, one of the leading real estate developers recently listed on NSE's GEMs being the first company to list on the newly created GEMs Segment.



CAPITAL RAISING INITIATIVES

Fund Raising Capacity of the Market

- Over the last 10 years, the capital market has raised over Kshs 1 trillion through bonds and equities
- Over Kshs 500 billion has been raised in the last 3 years notwithstanding the global financial crisis
- The value of listed securities currently at Kshs 1.9 trillion is more than 50% of Kenya's GDP
- All the issues have been oversubscribed except the Cooperative bank and Britak (now Britam) IPOs which came in the midst of the global financial crisis
- The NSE index returns since the November 2012 amount to 52%

Fund Raising Capacity Of Kenya's Capital Markets – Kshs Billion

	2013*	2012	2011	2010	2009	2008	2007	2006	2005	TOTAL
Bonds	324.1	194.5	228.6	373.5	316.9	98.9	146.9	130.3	118.0	1,894.1
Equity (IPOs)	0	0	3.6	0	0	271.4	10.5	35.6	0	321.1
Total	324.1.	194.5	232.2	373.5	316.9	370.3	157.4	165.9	118.0	2,215.20

*up to September

Capital Raising Activity (2010-2013)

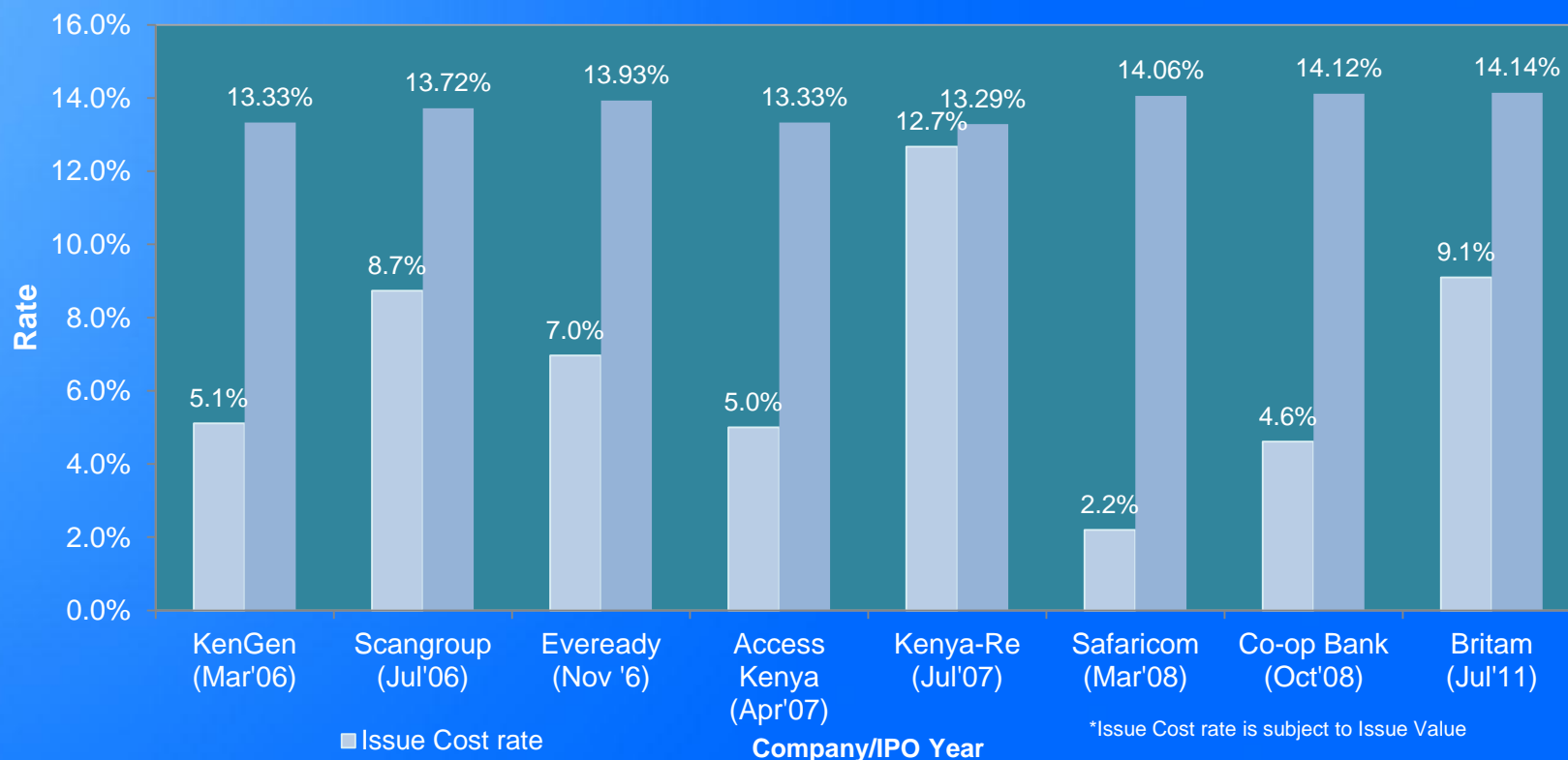
	Capital Market Activity	No.	Amounts/Shares Raised
1.	Corporate Fixed Income Listings	8	Shelter Afrique – Kshs 3 Billion HFCK – Kshs 10 Billion Safaricom - Kshs 12 Billion CfC Stanbic – Kshs 2.5 Billion KenGen – Kshs 25 Billion Consolidated Bank – Kshs 4 Billion Centum – Kshs 4 Billion Shelter Afrique - 3.5 Billion
2.	Equity Issues – Rights Issues	9	Stanchart – Kshs 8.3 Billion CFC Stanbic Kshs 4.5 Billion NIC Bank 7.0 Billion DTB – Kshs 3.4 Billion KQ – Kshs 14.5 Billion KCB – Kshs 12 Billion StanChart – Kshs 2.5 Billion TPS – Kshs 1.1 Billion KPLC – 9.8 Billion
3.	IPOs	1	Britam – Kshs 3.5 Billion

Latest Capital Raising Initiatives

- ▶ HFCK - CMA granted approval to Housing Finance Limited to issue and list a medium term note of **Ksh20 billion** on the fixed income securities market segment of the Nairobi Securities Exchange in November 2013.
- ▶ Shelter Afrique – Approval For The Issue And Listing Of Up To Kenya Shillings **Eight Billion** Medium Term Notes By The Company For Habitat And Housing In Africa (“Shelter Afrique”). Approved in August 2013.
- ▶ EADB – Proposed establishment of the East African Development Bank Regional Multicurrency Medium Term Note Programme (**minimum size of the note to be issued is USD 850,000**). Approved by CMA (Kenya) on September 10, 2013.

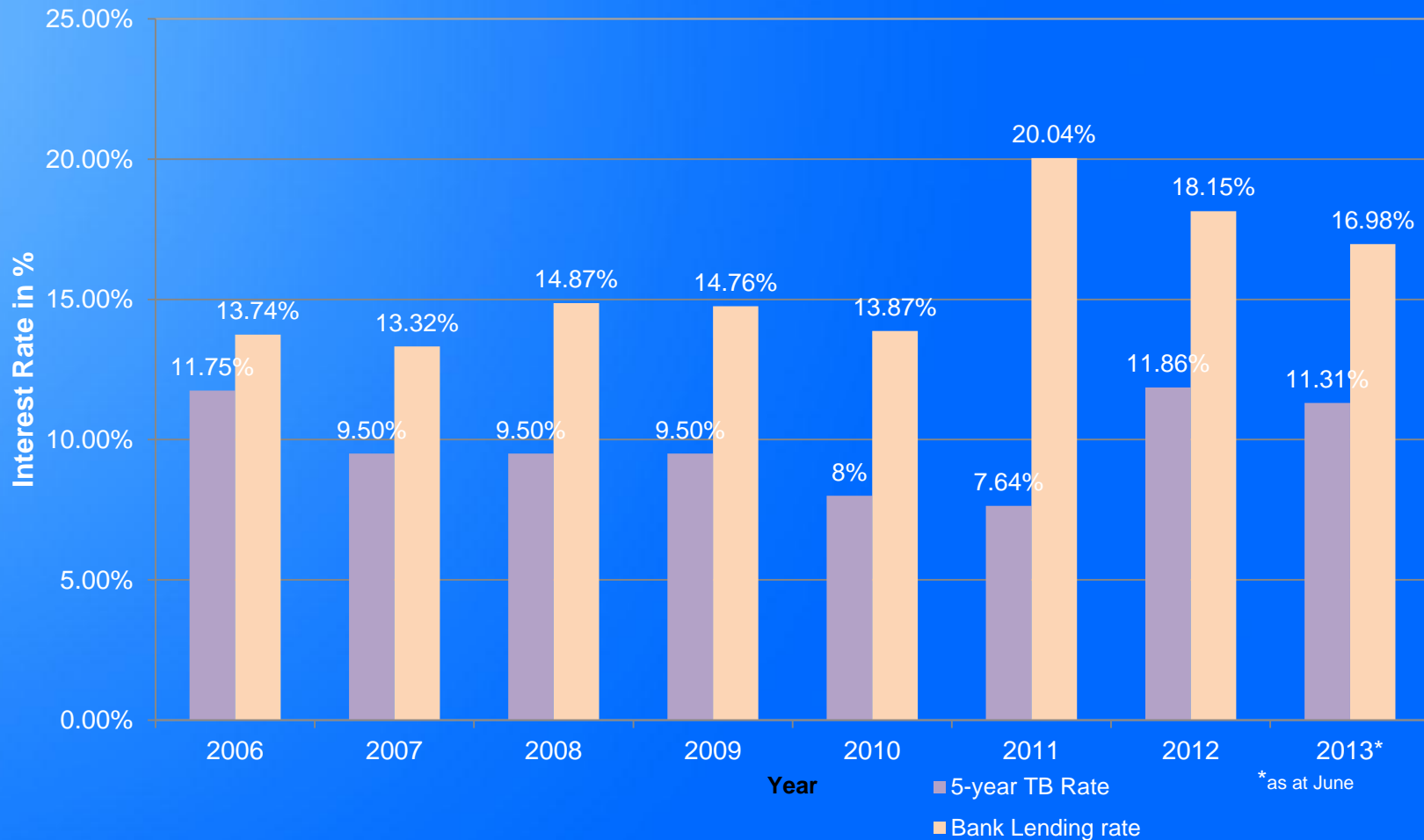
Capital Markets v/s Money Market Financing

A comparison between IPO Issue Cost* and Bank Lending Rate
(in %)



Capital Markets v/s Money Market Financing

A comparison Between 5-Year Treasury Bond Rate and end-year Bank Lending Rates in the Same year



WHY THE CAPITAL MARKETS

- ➡ Responsive regulator
- ➡ Robust and facilitative legal framework
- ➡ Fairly developed market infrastructure – CDS in place and complete dematerialization being implemented
- ➡ Enabling environment – over 20 tax and policy incentives granted by the government
- ➡ Growing economy and opportunities from regional integration initiatives
- ➡ Cheaper and more flexible long term-financing



INVESTMENT TIPS

Investing Wisely In The Capital Markets (1 of 4)

1. Know What Investment Products Are Available

The Kenyan capital market offers the following investment products:

- /// Stocks & shares (equities)
- /// Bonds
- /// Collective investment schemes (unit trust, REITs and mutual funds)

2. Know Your Investor Profile

- /// Choice of investment should not only be according to your goals but also;
 - /// Tolerance for risk. All investments carry risk; some very much more than others. You have to find out whether you are "risk-taking" or "risk averse"

Tips To Investing Wisely In The Capital Markets (2 of 6)

3. Choose the Right Investment Product

- ❖ Bonds are debt instruments that tend to attract institutional investors and trade in large blocks ('00s mlns). As a retail investor, might be more comfortable trading in equities and unit trusts. But which should you choose?
- ❖ If you are one who spends time and has expertise researching on stocks and market trends and enjoys the excitement of testing your skills in the market, then direct stock investing is probably for you.
- ❖ If, you want to be relieved of the day-to-day worry of personally handling a host of direct investments, have small sums to invest each time and seek diversification as soon as possible, you will want to consider investing in collective investment schemes.

Tips To Investing Wisely In The Capital Markets (3 of 6)

4. Do Your Homework before You Invest

- ⚡ Don't put your money in until you have understood all relevant information regarding the investment.
- ⚡ For shares and bonds, it means selecting your securities based on good old fundamentals, rather than on hot tips. The rule with buying stocks is caveat emptor: let the buyer beware.

Tips To Investing Wisely In The Capital Markets (4 of 6)

5. Build Your Buffer First

- Do not embark on any investment program if you have not built up a cash buffer to take care of financial emergencies.

6. Think Long Term

- Short-term thinking can short-circuit long-term effectiveness.
- In any investment, there will always be short-term fluctuations that will even out in the long-term, so have the sustaining power to hold your investments for longer periods.

Tips To Investing Wisely In The Capital Markets (5 of 6)

7. Avoid Putting All Your Eggs in One Basket

- /// The best way to minimize total risk while keeping return rates high is to diversify your investments across various investment products and within asset classes.
- /// If equities are your sole investments, it makes sense to diversify across different companies and sectors;
- /// if it is unit trusts, invest in several types of funds instead of just one. The loss made by some counters/funds can be absorbed by the gains made in other counters/funds.

Tips To Investing Wisely In The Capital Markets (6 of 6)

8. Stay On Course

- Review and monitor your investments regularly to ensure that your investment program is still relevant to your financial goals.
- Track the performance of your investments to determine whether your expectations of returns have been met, or if there is a need to restructure your investments if your asset mix gets out of balance.
- Don't be afraid to swap one investment for another if the former is overvalued and the latter undervalued. But switch to preserve your capital during times of market uncertainty, not to chase after elusive higher returns.

➤ 9. Be Aware Of Scams

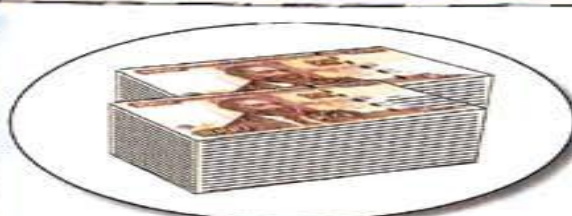
- If in doubt please contact Capital Markets Authority, call), or the Nairobi Stock Exchange (NSE) at 2230692
- (The information provided here is only a guide. It does not constitute investment, tax, legal, or any other advice. No representations or warranties are made as to the reliability, accuracy or completeness of such information).*

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Do You Feel The Urge To Participate In The Capital Market But You Don't Know How? Below Is A Simple Guide.

1. Conduct 'Financial self examination'
2. Deal only with licensed Entities
3. Open a Central Depository System (CDS) account and have an account with your stock broking firm
4. Open a Trading Account at your stock broking company

CONCLUSION

Conclusion

- 10 year Capital Markets Master Plan adopted as a MTP 2 Vision 2030 Flagship
- The macroeconomic environment continues to improve with inflation, interest rates and real GDP remaining fairly stable.
- Most companies are expected to announce relatively good full year earnings in the coming months based on relatively good half year results.
- Indications are that good performance recorded in 2012 to continue in 2013.
- Participation in Kenya's capital markets would pay-off in the long term.



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