



i&M Burbidge Capital



MARKET UPDATE BULLETIN

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i&M Burbidge Capital

Foreword

Facing an unprecedented public health crisis with the novel coronavirus (COVID – 19) outbreak, I&M Burbidge Capital has created a resource that gives insight to the impact of the pandemic across the regional markets and economies. We present a selection of the top stories making headlines in the private capital markets as well as market data and corporate developments.

IMBC Thought of the day

Yesterday we recommended that companies quickly run scenario analysis on their cash flows and working capital over the short term to try and stay ahead of the curve. Today we recommend that you consider supplementing this with number crunching and preparation of administration systems to ensure that full benefits are achieved from the Tax stimulus. We believe the analysis by the PKF Tax team provided below will prove useful in this regard



PART I : DEALS & CORPORATE DEVELOPMENTS

Kenya

Markets

Blue chips hardest hit by foreign exits

Share prices of blue chip firms on the Nairobi bourse were the biggest losers in five days with foreigners as net sellers in what could signal flight to safety as the number of Covid-19 cases rises. The plunge to below 2,000 points for the Nairobi Securities Exchange (NSE) 20 Share Index on Monday came as foreign investors accounted for nearly 90 percent of the total trade for the day.

Source: Business Daily

CBK extends short tenor loans to banks

The Central Bank of Kenya (CBK) has stretched the duration lenders are allowed to keep its short-term loans from 28 days to three months in a bid to keep banks cash flush. Central bank allows banks to liquidate government bonds and bills holdings through a window called the repo (reverse repurchase agreements) market where lenders sell papers to the CBK with a promise to buy them later.

Source: Business Daily

Economy

President Kenyatta announces stimulus package to save economy amid pandemic

President Uhuru Kenyatta has announced various mitigation measures that his government will introduce aimed at lessening the impact of the coronavirus pandemic on businesses and individuals.

Source: Business Daily

Regional

Deals

Africa Food Security Fund invests in Tanzanian bakery chain

The sophomore fund of Zebu Investment Partners, the Africa Food Security Fund, has closed its investment in Royal Oven Limited, Tanzania. Royal Oven is a quick-service restaurant (QSR) retail bakery chain, offering a diverse range of products which combine traditional Tanzanian food with international bakery trends. Royal Oven opened its first retail bakery in 2008 in Dar es Salaam and has since grown to 19 stores across Tanzania.

Source: Africa PE News

International

Corporate

South African PE outperforms listed market over short- and medium-term

In a time of uncertainty and low economic growth, the latest [RisCura-SAVCA South African Private Equity Performance Report](#) reveals that the country's private equity industry again outperformed listed equity over the short- and medium term, as of September 2019.

Source: Africa PE News

Quote of the day

"Trading doesn't just reveal your character, it also builds it if you stay in the game long enough."
-Yvan Byeajee

PART II: TREASURY UPDATE – 25.03.20

LOCAL MARKET – KENYA SHILLING

The Kenyan Shilling continued to gain for the second day in a row against the Dollar on Wednesday to close at 106.10/106.60. The NSE 20 share index went lower by 13.70 points to close at 1,873.47 while in the secondary market, bonds worth KES 1.22 billion were transacted.

INTERNATIONAL MARKET OVERVIEW

The Dollar slid on Wednesday as markets expected data to show a spike in claims for unemployment benefits with companies continuing to lay off workers due to the rapid spread of the coronavirus. This was after the U.S reported 261 additional cases of people infected with the coronavirus to bring the new total to 68,472. EUR rose by 0.1% to close at 1.082 as fatalities caused by the coronavirus continued to decline slightly with Italy, France and Spain reporting fewer deaths as compared to the start of the pandemic. Negative data from Germany's IFO Business Climate report for March that gave readings of 79.7 against a forecast of 81.9 did little to affect the currency. GBP fell 0.3% to 1.1837 as GBP CPI (Y/Y) gave low readings of 1.7% against a previous reading of 1.8% and the GBP Producer Index Output which also gave poor readings of 0.4% against a forecast of 0.9%. Consumer Price Index measures the change in prices of goods and services, including food and gas while the Producer Index Output measures the fluctuations in the prices of goods produced by UK manufacturers. The GBP was also under pressure as the number of people infected with the virus continued to grow thus putting pressure on the health care system, which is believed to lack enough equipment to assist infected patients and further putting pressure on the British economy.

In the US stock market; the Dow Jones Industrial average settled 495.64 points higher to close at 21,200.55; the S&P 500 gained 28.23 points to close at 2,475.56 while the Nasdaq Composite was lower by 33.56 points to close at 7,384.29.

Source: I&M Bank Limited

PREVAILING TREASURY BILLS YIELD & INFLATION

Country				
91 Day T-Bill	7.275	10.500	4.043	6.388
182 Day T-Bill	8.030	11.450	4.774	6.687
364 Day T-Bill	9.051	11.800	5.951	7.273
Inflation Data	6.37	3.40	3.70	8.70

KES INDICATIVE EXCHANGE RATES AT MARKET OPEN

Currency	Country	Bank Buy	Bank Sell
USD		105.70	106.70
GBP		124.80	127.10
EUR		114.20	117.40
CHF		107.60	110.40
JPY		0.9460	0.9720
ZAR		5.70	6.50
INR		-	1.4300
CNH		-	16.20
RWF		7.40	9.95

INDICATIVE DEPOSIT RATES

Fixed period	1M	3M	6M	1Yr
KES (50,000< 5 Million)	6.25	6.50	7.00	7.25
KES (Above 100 Million)	6.75	7.50	8.00	8.50
USD (Above 500,000)	2.25	3.25	3.50	3.75
EUR (Above 500,000)	1.75	2.25	2.50	2.50
GBP (Above 500,000)	0.50	0.75	0.75	0.75

COMMODITY PRICES

	Unit	Close
Aluminum	USD/MT	1537.50
Murban Crude Oil	USD/barrel	27.26
Coffee	US Cents/lb.	129.95
Wheat	US Cents/Bushel	572.50
Corn	US Cents/Bushel	346.00

PART II: EQUITIES AND BOND TRADING – 25.03.20

MARKET COMMENTARY

NSE 20 and NASI indices shed 0.19% and 0.73% to close at 1,873.47 and 124.30 respectively. Foreign investors maintained a net selling position with increased interests in buying, their activities accounted for 66.95% of total market purchases and 72.71% of total market sales. The defensive stand investors took seem fruitful as companies slowed down in the sell offs, also fueled by the expectation of increased economic stimulus by the Central Bank of Kenya. At pre-open, NCBA Group Plc released their results for the financial year 2019. This was the first report being released by the group after the merger of NIC Group & CBA Group last year. The company will pay a dividend of KES 1.50 per share.

INDEX MOVEMENTS

Index	Closing	% Change	% YTD
NASI	124.30	-0.19	-25.30
NSE 20	1873.47	-0.73	-29.42
NSE 25	2943.60	-0.45	-28.21
FTSE NSE 25	163.44	0.10	-28.78

MARKET DATA

Market Data	Today	Previous
Market Cap (KES, Billions)	1889.30	1917.30
Turnover (KES, Millions)	616.20	1008.08
Volume (Millions)	21.19	39.78
Foreign Buys (%)	66.95	21.59
Foreign Sales (%)	72.71	76.59

5

GOVERNMENT BONDS

GOK Bonds	Rates	Traded Yield	Tenor (Years)
FXD2/2019/5	11.304	11.300	5
FXD1/2019/10	12.438	11.900	10
IFB1/2016/15	9.981	9.981	15

MOVERS

Movers	Volume (Million)	Turnover (Million)	VWAP
Safaricom Plc	9.74	238.51	24.50
KCB Group Plc	3.89	136.36	35.05
Equity Group Plc	2.34	77.05	32.85

Source: Faida Investment Bank



PART IV: PKF KENYA LLP SUMMARY OF THE PROPOSED NEW TAX MEASURES IN KENYA

FISCAL AND MONETARY POLICY MEASURES ANNOUNCED BY PRESIDENT UHURU KENYATTA ON 25th MARCH 2020 IN RELATION TO THE COVID-19 PANDEMIC

President Uhuru Kenyatta rolled out various measures to cushion every Kenyan from the shocks arising from the COVID-19 pandemic, with the principle aim of providing certainty to both employees and employers. We have summarized the proposed measures from the President's statement in this alert. We however expect more details about these measures, including effective dates, to be included in a Bill and subsequently an Act of Parliament or through Gazette notices. We will issue a more detailed alert when this information is available.

It is important to note that these legislative measures are not effective until approved by parliament and enacted into law, or in the case of Value Added Tax, published in the Gazette. With Parliament currently in recess, it remains to be seen how quickly an amendment bill can be presented and approved. The Kenya Revenue Authority (KRA) will also no-doubt be working hard to make the necessary changes to the iTax platform to accommodate the tax measures proposed.

Whilst the President announced these measures, it is important to note that there are no proposals in relation to deferment or remissions of upcoming tax payments and filing of tax returns. Taxpayers need to therefore comply with the current payment and return dates and where necessary, make applications to the Commissioner for extension under the existing provisions of the Tax Procedures Act.

TAX MEASURES

1. Pay As You Earn (PAYE)

The proposals seek to amend the current PAYE bands with a view of increasing disposable income in these uncertain times. The proposals seek to exempt employees earning KES 24,000 and less from PAYE whilst also amending the top PAYE band rate from 30% to 25%. It is still unknown whether the intermediate PAYE bands will be amended.

Once the effective dates and final bands are known, employers will need to ensure that their systems are configured to take into account these changes.

2. Turnover Tax (TOT)

Turnover tax was reintroduced by the Finance Act 2019 with effect from 1 January 2020 at a rate of 3% for businesses on having annual turnover below KES 5 million (subject to certain restrictions). The proposal reduces this rate from 3% to 1%.

3. Value Added Tax rate reduced from 16% to 14%

The proposals seek to amend the VAT rate on taxable goods and services from 16% to 14% from 1st April 2020. Taxpayers who are registered for VAT will need to ensure that they contact their service providers for electronic tax registers/devices and accounting systems to ensure that these are reconfigured correctly once the proposed changes are Gazzeted or otherwise included in an Act of Parliament. It is our view that the tax point is the advance receipt date and therefore in this situation, the applicable rate will be 16%.

4. Value Added Tax refund claims/offsetting Withholding VAT

The President issued a directive to the Kenya Revenue Authority to release payment of **verified** VAT refund claims within three weeks. The Government has set aside KES 10 billion to cater for the refunds. This is a welcome move that will significantly improve cash flows for businesses. The proposals also include allowing taxpayers the option of offsetting withholding VAT, which is very welcome. The iTax system, as currently configured, does not allow offset of withholding VAT against other taxes, such as PAYE and Corporation Tax.

5. Corporation tax

The proposals seek to amend the corporation tax rate downward from 30% to 25%. Taxpayers with a financial period ended December 2019 are due to pay instalment and balance of taxes in April 2020. We expect the Bill/Act to contain more specific details on the applicability and effective dates of this change and whether it may apply retrospectively. This would also have an impact on the basis of computation of instalment taxes for the subsequent period.

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OTHER MEASURES

In addition to the reduction of the Central Bank of Kenya rate from 8.25% to 7.25% and the reduction of the Cash Reserve Ratio from 5.25% to 4.25%, the President set-out the following measures:

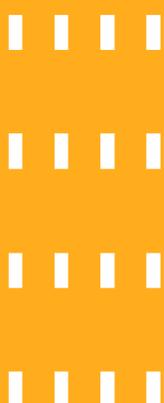
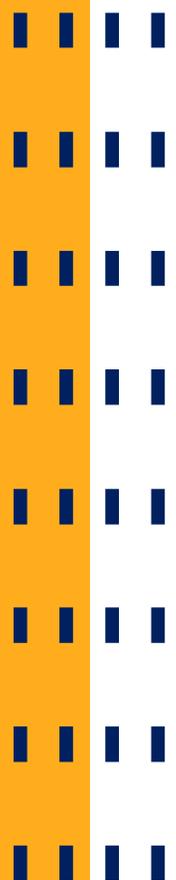
- The appropriation of KES 10 billion to vulnerable members of society through Ministry of Labour and Social Protection to cushion from adverse economic effects;
- The temporary suspension of Credit Reference Bureau (CRB) listing for any person, SME or corporate entity whose loan account falls due or in arrears effective 1 April 2020;
- The Central Bank of Kenya to allow commercial banks flexibility with regard to statutory loan risk classifications for restructures facilities;
- All ministries and departments to make payments on pending bills within three weeks. Estimated payments will be of approximately KES 13 billion;
- Encourage the private sector to clear payments among themselves within the same 3 weeks;
- KES 10 Billion from the Universal Health Coverage kitty to be appropriated toward recruitment of additional health workers to assist in the management of COVID-19; and
- Voluntary reduction of salaries taken by senior government officials, starting with an 80% reduction in the President's and his Deputy's salaries.

We welcome the other measures set-out above which should help increase liquidity in the economy and balance the costs of some of the taxation measures proposed.

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Originating and structuring Equity and Debt capital raising, IPOs, M&A transactions, Strategic Options advisory, PE advisory, Tax Advisory and other Corporate Finance Services.

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