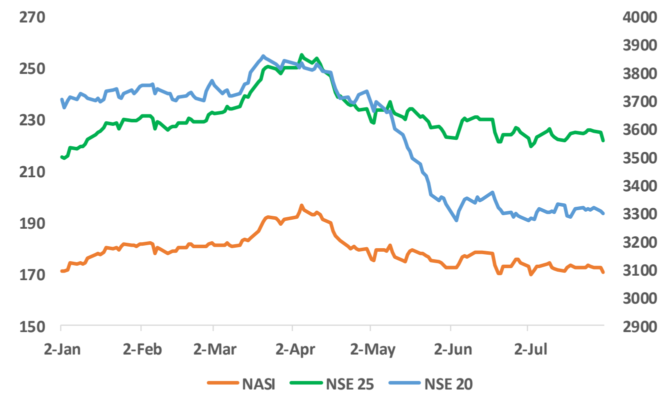
Equities

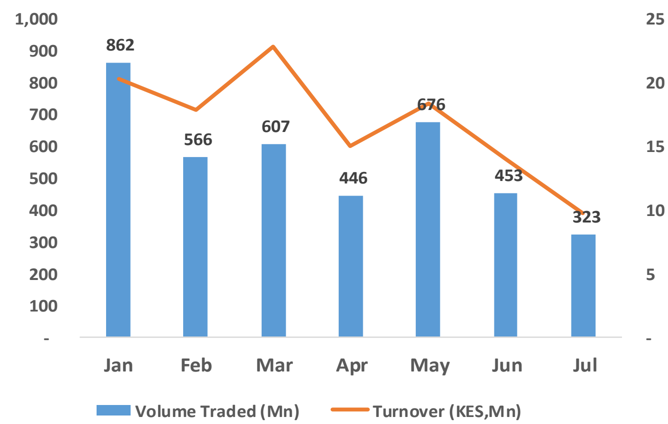
The daily average equity turnover in July (KES 374m) was c.45% lower than it was in June (KES 682m). This can be explained by the generally calm activity at the bourse as the daily average volume of shares traded declined by c.74% to 11m. The market capitalization declined by 130 bps to KES 2,519bn from KES 2,552bn at the beginning of the month. The downward trend was sustained as the NSE 20 eased to 3,297 points (-0.77% m/m) together with the NASI (-2.0% m/m to 170.46 points) and NSE-25 (-2.20% m/m to 4,429 points). We still attribute the slowdown in activity on the stock exchange to the fact that offshore investors were largely clutching onto net selling positions as opposed to net long positions. At the same time, the local activity slowed in comparison to historical trading patterns. The net effect on the market was that the reduced activity led to a decline in the value of stocks in general.

Indices' Fluctuations in 2018



Source: Bloomberg, NICS Research

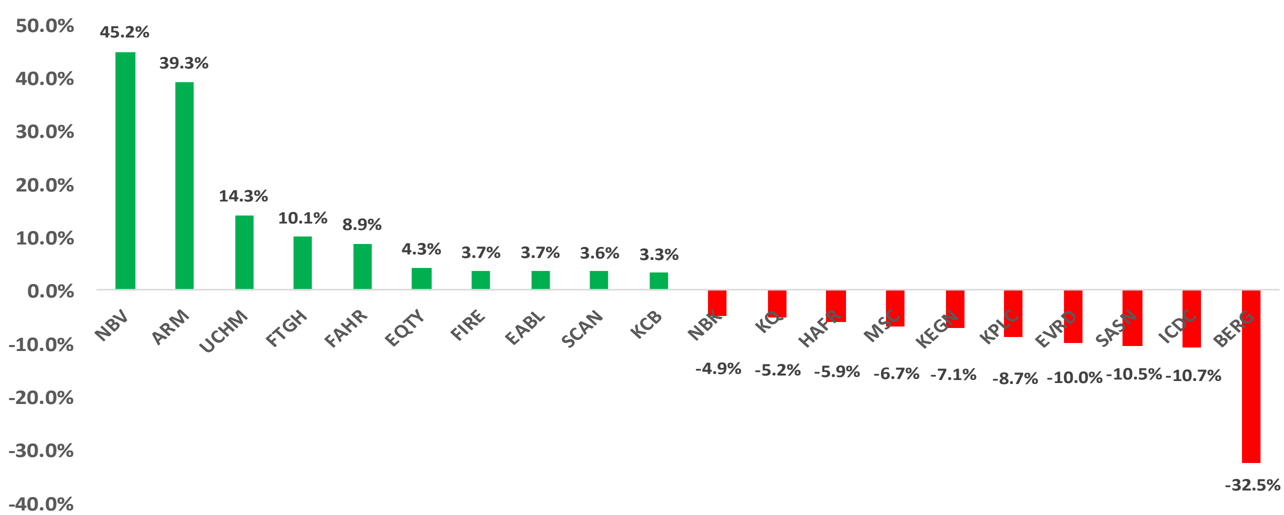
Volumes Traded (RHS) and Turnover (LHS) dipped



Source: Bloomberg, NICS Research

Nairobi Business Ventures soared the most during the month of July. Surprisingly, Athi River Mining and Uchumi followed closely despite capital challenges inherent. The demand pushing up the counters is mainly coming from the local side as offshore investors were interested in few blue chip stocks like EABL, KCB, Equity and WPP Scangroup. The other gainers like ARM, Flame Tree Group Holdings (FTGH), Sameer and Fahari I-reit gained as a result of demand from the retail sector. On the other hand, the top decliners included Crown Berger (by -33%), Centum (by -11%), Sasini (-10.5%) and Eveready (by –10%). KPLC (by –9%), Kengen (by –7.1%), Mumias (by –7%) and Home Afrika (by –6%) also closed the month lower. Meanwhile, Kenya Airways and National Bank both shed 5%. We attribute the declines to low investor confidence owing to their historically low returns and generally weak financial performances.

Top Gainers and Decliners in July



Source: NSE and NIC Securities Research

Catalysts

We expect revamped activity in the bourse in medium term more specifically in the banking sector. We expect good 2Q18 results once the banks begin announcing from this month. Capital appreciation is anticipated on account of interim dividend declaration which may spur active trading. For example, KCB announced an interim dividend of KES 1 in 2017 and there is a likelihood that it could repeated. KenolKobil and BAT have already announced interim dividends this year. Counters associated with tea and coffee are expected to generate better returns ascribed to favorable weather that boosted production by c.14% y/y ,as well as growth in auction volumes.

Macro Indicators

- **Foreign Exchange:** We note that the shilling has been generally strong in FY2018 in comparison to FY2017. This has been bolstered by an increase in diaspora remittances which resulted to an overall surplus of KES 129.3bn in the first quarter of this year. The international trade services registered a surplus of KES 49.3bn from KES 38.5bn while receipts from international services improved by 10.8% to KES 129bn. The current account deficit has also substantially improved to KES 107.9bn from KES 129.7bn in 2017. On grounds of increased exports this year, accompanied by lower food and SGR related imports, we foresee the shilling gaining more against the green back. We believe that the currency will be contained within USD/KES 101-103 band.

- **Inflation:** Inflation spiked to a five month high of 4.35% in the month of July. The trend had been on a decline from a high of 4.83% in January to a low of 3.73% in April, where it unwound and a steady rise began. Housing utilities and fuel contributed the highest y/y change of 14.4% followed by transport's recording of 8.45%. Month on month, the food component of CPI dipped by c.90bps. Transport index rose as a result of increasing petrol prices which netted the slight decrease in price of diesel. The recent c.40% tax increase on kerosene in a bid to curb fuel adulteration partly contributed to the 14.4% y/y increase in the housing section of the CPI. The much expected lower food inflation index could be outweighed by a spike in power tariffs following a press release on 30th July 2018 by ERC to boost revenue to KES 131bn from KES 120bn to facilitate system expansion and maintenance. In addition, the recent uptick in fuel and gas prices may have a ripple effect on processed food products thus a cost push effect on the average food basket prices. Nevertheless, we anticipate the cost pressure on food items to remain stable in the near future anchored by the above-average crop production and favorable weather conditions experienced.

- **GDP acceleration:** The real GDP in 1Q18 advanced by 5.7% y/y compared to 4.8% y/y in the first quarter of 2017. With the positive outlook from the agricultural sector owing to apposite rainfall, we expect resilient growth in the second quarter of 2018. The kick start of the big four economic development agenda is also expected to influence economic output further. However, the newly revised CBR rate of 9% thus a borrowing ceiling of 13% could perpetuate crowding out of credit access to Small Microfinance Enterprises since the risk inherent may not commensurate the return expected. This might consequentially weigh on output.

STOCK PICKS

Bamburi Cement: BUY at TP of KES 242, Current Price KES 180.00

- Bamburi Cement has reported a 50% decline in FY17A PBT to KES 4.1bn, a poor performance but in line with the 37% decline in 1H17 PBT. Revenue performance was as bad, posting a more benign decline of 6% to KES 35.9bn, weighed down by an election affected performance in BMBC's main market of Kenya. But costs were the biggest challenge with EBIT down 47% as commodity and electricity prices rose. DPS declined significantly by 66% to KES 4.00 from KES 21.00 in spite of the payout ratio increasing to 88% from 83% in FY16A.

- Provisional data from KNBS show that cement consumption in Kenya contracted by 8% in 2017 to 5.8mtpa. This pales in comparison to the 11% growth reported in 2016. As discussed in our sector update note last year, access to credit continued to be a major inhibitor to the construction sector as Kenya's private sector credit growth decelerated to low single digits in 2017. Management blamed higher energy costs with electricity and coal prices rising. The former was due to Kenya switching to the more expensive thermal energy as HEP production was impaired by drought. The latter follows global commodity prices spike. 1.8mtpa of new capacity is on course to be added in 2H18 at both Nairobi Grinding Plant (NGP) and Tororo. Rebound in private credit sector growth is crucial especially in driving individual home builder consumption, which accounts for 75%-85% of total cement consumed in the region. Resumption of infrastructure will have a direct effect on construction rebound in 2018.

- We anticipate easement of electricity prices in Kenya in 2018 following increased HEP generation due to long rains. With thermal generation costing as much as USc.22/KWh compared to HEP's USc.3/KWh, the savings y/y should be significant as the country switches back to HEP. While exciting, the introduction of off-peak electricity prices, meant to incentivize companies to increase production, will unfortunately not benefit BMBC and ARMC as they are already operating near full capacity utilization levels. We expect cement prices to edge upwards as production costs rise and industry capacity utilization increases. We expect BMBC's EBIT margin to recover (FY18F; 20%, FY17A; 21%) ALSO ON THE ASSUMPTION THAT SALES WILL GROW AT c.15% boosted by the new capacity in 2H and relatively better cement prices.

Safaricom. HOLD at TP: KES 31.31; Current Price: KES 28.75.

Safaricom reported a FY18 EPS growth of 14% to KES 1.38 (NICS estimate of KES 1.34), marking its slowest growth in earnings over the last 5 years. A lower depreciation charge of 14%, compared to an average charge of 16% in the preceding 3 years, embellished the performance, otherwise, growth would have been 8%. MPESA and mobile data decelerated further than anticipated, growing at 14% and 24% versus our estimates of 17% and 30% respectively. DPS increased by 13% to KES 1.10.

- **MPESA revenues (28% of service revenues) decelerated** from 33% y/y to 14%, the first deceleration in four years (FY14A). While management blamed the difficult macroeconomic environment for the slower growth, which can be corroborated by the slower growth particularly in 'new business' (C2B, B2C, B2B) at +24% (FY17A; +103%) competition was also a factor. As alluded to in our 1H18 note, management reduced 'bank to MPESA' transfer charges by c.33%, while person to person (P2P) transfers charges declined by 27% in response to increased competition from largely Equitel. Additional cuts were effected on Lipa Na MPESA (LNM) tariffs by 50% in the same period. Average transactions per user per month increased by 14.6% to 11, slower than the 35% growth recorded in the preceding period.

- **Mobile data (16% of service revenues) continued to decelerate**, growing by 24% versus the 38% growth reported in the corresponding period last year. This continues the deceleration recorded in the three preceding financial years (FY15A; +59%, FY16A; +43%, FY17A; +38%). Usage per user continues to rise (FY18A; +56% to 421MBs, FY15A; +38%, FY16A; +77%, FY17A; +52%) implying either a slower accretion in subscriber numbers and/or lower data charges. Absolute Data subscriber net-adds declined for the for the first time in 3 years with 1.03m added compared to the 2.56m added in FY17A. Data prices, which declined by 29% y/y as at 1H18 (1H17; 16%) have been under pressure from increased competition with Airtel and Telkom Kenya significantly cheaper (refer to 1H18 results note for price comparisons). For instance, KES 1,000 will buy 6GB on Airtel, 4GB on Telkom and 3GB on Safaricom. Voice revenues (43% of service revenues) grew at a flat rate of 2%, despite Safaricom's subscriber market share declining by 280bps q/q to 69.1% as at December 2017, according to the CA's quarterly sector statistics. Airtel Kenya was the biggest beneficiary gaining 230bps q/q to 17.2%. This coincides with the main political opposition party NASA's boycott call of Safaricom products in the aftermath of the October 26th General Elections. Net adds were only 1.4m, 50% lower y/y and despite this, monthly voice ARPU contracted by 7% to KES 272, suggesting reduced usage. This is confirmed by our MoU estimate of 92, 5% lower y/y.

- **Maintain HOLD at TP of KES 31.31 (Previously HOLD at KES 25.85):** We adjust our EPS forecasts marginally (FY19F; +2% and FY20F; +0.6%) to KES 1.50 and KES 1.57 respectively. We maintain our view of a deceleration in the main revenue drivers MPESA and Mobile data in the near term under increased competition. While the boycott call has been lifted, we are unlikely to see the subscribers who exited troop back, on realization of how relatively affordable Airtel Kenya is and given that their offering is almost on par. In fact, we expect a slower accretion in subscribers for Safaricom going forward. Elsewhere, we see little impact of mobile money interoperability, which allows the seamless transfer of money across different networks. Already, telcos are insisting that withdrawals can only be done with their agents. We maintain that the only way to compete with MPESA is to become as ubiquitous. We assign a higher relative valuation weighting in deriving our blended TP (70% from 60% before) given the counter's increasingly lofty valuation. HOLD.

Co-op Bank Group: HOLD at TP of KES 18.00 Current Price KES 17.10

Weak margin momentum beginning to turn: As intimated in our sector update note 'UP AGAINST IT' dated 10th October 2017, the banks that took on more risk got more reward. This was in the context of KCB's and COOP's decision to continue lending unlike Equity Bank which preferred to lend to the government. In the analysis, we were able to show that because customer lending is a significantly larger chunk of assets, not lending led to a significant drop in interest income on loans and in turn, a more significant decline in NII relative to banks that lent. A distinction between KCB and COOP was that the more aggressive lender reported a lower decline in interest income on L&A, supporting the thesis that volumes could in fact offset the lower yields. This can be proven from the 1H17, 9M17 and FY17A results with KCB's loan growth in these periods outpacing COOP's and in turn reporting a lower decline in Interest income throughout. COOP's loans grew at 7% with interest income declining by 4.3%. COOP also proved adroit at managing funding costs with interest costs dipping by 7% despite a 10% increase in customer deposits however this was not enough as NII declined.

- **Asset quality deteriorates significantly:** The increased lending would appear to have come at a price with COOP's previous best industry asset quality deteriorating by 3.7ppts y/y to 7%. Gross NPLs increased by 66% in the period, with the real estate and trade sectors culpable. Interestingly, interest in suspense in that period declined by 16%. The Cost of Risk increased by 30bps to 1.4%, after a 38% increase in the loan impairment charge. In the first three months of the year, we saw the bank trying to recover from asset quality challenges that began in the third and fourth quarters of the year. We believe that the bank's efforts to turn around the asset quality story to bear fruit in the third and fourth quarters of the year.

- **IFRS 9 implemented without any hiccups:** Lack of a definitive word on the implementation of IFRS 9, has brought about confusion. The CBK, in a letter to the banks dated 23rd December 2017, drafted a proposal that while the P&L would carry impairment charges as determined by IFRS 9's Expected credit loss (ECL) model, for purposes of 'protecting' an industry already afflicted by interest rate caps, the incremental difference (between IFRS 39 and IFRS 9) would be added back to retained earnings to spare the banks from the expected hit on capital for a period of five years. This was a proposal with the banks expected to provide feedback. As to the differences in implementation, It should be noted that Barclays bank Kenya and StanChart Bank Kenya got rid of their statutory loan loss reserves in the course of 2017 in readiness for IFRS 9, albeit by crediting instead of debiting their retained earnings. So far, the banks have not aggressively provided for their loans owing to the fact that there was a material impairment of the bank's capital position following the implementation of IFRS 9. We believe that there are unlikely to be material jumps in the loan loss provisions as lending is expected to be in mid-single digits as the rate cap law has stifled risk taking by banks and therefore there are unlikely to be significant jumps in loan loss provisions.

- **We have a HOLD at TP of KES 18.00 (Previous TP of KES 16.76):** We believe that the bank stocks (in general) have declined owing to a broad-based sell off in the second quarter. Profit taking by investors who made handsome returns in the first quarter is to blame for a decline in the share prices. We believe that there is some scope for share price gains as the current valuation is below the intrinsic valuation. We believe that Co-op Bank's KES 0.80 dividend is also attractive owing to the fact that the dividend yield (4.6%) is attractive relative to the other liquid counters on the NSE.

BRITAM (Not rated) Current Price KES 14.15

- Britam posted a 73% dip in full year profits (to KES 527.5m) driven by a steep increase in the provision for a change in actuarial value of policyholder benefits. We understand that there was a reversal of the gain in 2016 as a result of changes in the industry's way of changing the way insurance liabilities are to be valued.
- FY17 gross earned premiums grew at a higher pace (+14.8% to KES 23.3bn) than net earned premiums (+16.7% to KES 20.3bn). Fund management fees, however, declined (-18.1% to KES 760.6m).
- The group's asset base rose (+18% to KES 99.0bn) as of December 2017. Specifically, financial assets at fair value through profit or loss solidly rose (+66.4% to KES 30.6bn).
- Going forward, we expect maritime insurance to drive further growth for the industry following recent regulatory changes that requires commercial importers to take insurance exclusively with local underwriters. We believe that Britam, being a market leader with a reputable brand and significant financial capacity, will be a key beneficiary. The insurer launched a self-service online portal late last year in a bid to tap into the KES 23bn marine business.
- We also believe that the counter warrants investor confidence considering that two institutional investors (IFC and AfricInvest) have pumped in (or are planning to pump in) in KES 9.25bn in the company to acquire 10.37% and 14.3% stakes respectively.
- Currently Britam trades at a trailing P/E of c.50.0x which is significantly above the c.10x average over the course of last year. We believe that a resumption in profitability is likely to enable the company to trade at a more favourable valuation.

Kenya Re (Not rated) Current Price KES 16.20

- FY17 PAT increased by 8.8% to KES 3.5bn. In the period under review, the grew by 7% boosted by a 8% growth in net earned premium to KES 13.7bn.
- The firm's earnings from investments rose (+3% to hit KES 3.16 bn) this year compared to KES 3 bn in the previous period.
- Net claims incurred also grew (+14% to KES 7.59 bn) on the back of the earthquake related compensation pay-outs in Nepal and floods experienced in India, said the re-insurer .
- Total outgo was outpaced by total income, growing at 8% to KES 6.5bn. This was due to a marginal increase in net claims and policyholder benefits of 2% to KES 3.6bn.
- Kenya Re opened its Zambia regional office in November 2016, in line with its regional expansion strategy as it seeks to increase reinsurance capacity for insurance companies in Africa. The regional office is expected to serve Namibia, Zambia, Zimbabwe, Botswana, Mozambique, Lesotho, Swaziland Malawi and Angola. while boosting good risk management and innovative insurance practices in the region. The reinsurer expects to benefit from the new Zambian government trade strategy for local and international investment as the country tries to diversify away from copper mining.
- With mandatory cessations by insurers to Kenya-Re still in effect till 2020, we anticipate the reinsurer to reap from underwriting maritime insurers. Experts anticipate local insurers will increase their reinsurance cover in order to increase their capacity to underwrite large shipments.
- Currently KNRE trades at a P/E 3.0x which is attractive relative to Britam and CIC Insurance.

EABL BUY at TP of KES 273.63; Current Price KES 221.00

While much has been made of EABL's FY18 PBT decline (–11.8%y/y to KES 11.74bn), we believe that are two overlooked bright spots in the company's financial performance. Firstly, we found that volume-driven growth in revenues (+4.6% y/y) as well as solid EBITDA growth (+5.6% y/y) provided evidence that management's strategic initiatives are paying off despite the macroeconomic and policy headwinds. Secondly, we also liked that the company boosted the dividend payout ratio (FY17A: 67% vs FY18A: 77%) despite the profit dip. We discuss other highlights as well as our outlook for the company in the following text.

- **Senator Keg and mainstream spirits to drive 9.3% topline growth in FY19:** We highlight that total revenues marginally grew to KES 73.46bn (+4.6% y/y) driven by growth (+7.0% y/y) in volumes of bottled beer (mainstream mainly), mainstream spirits and Scotch whiskey in particular. Going forward, we believe that EABL's bread and butter businesses will continue catalyzing topline growth. Specifically, we see a rebound in Senator Keg sales primarily owing to the absence of political tension in Kenya as well as the production of Senator at the KES 15bn Kisumu plant from December of this year. We also see EABL benefiting from the more affordable mainstream spirits as a result of the establishment of a KES 0.6bn spirits line in Nairobi. We also see modest beer sales growth owing to the inflation-adjusted excise tax increases that are expected to curtail solid demand growth. We expect Tanzania and Uganda (27% of revenues) to deliver from a mainstream beer perspective. We therefore expect to see revenues growing by 9.3% to c.80bn as a result.

- **EBITDA momentum anchored on deepening operational efficiencies:** We note that the gross profit rose (+4.1% y/y to KES 32.4bn) at a slower pace than total revenues owing to a greater rise in the costs of goods sold (+5.1% y/y). Admin expenses grew at a slower pace (+3% y/y) than inflation (+5% y/y) over the same period while selling and distribution expenses (+19% y/y) rapidly rose as the business ramped marketing for its newer and premium brands. Going into FY19, we believe that efforts to further realize productivity savings and contain admin costs should underpin a slight expansion in the EBITDA margin (FY18: 29% vs FY19F: 30%).

- **Building debt puts pressure on company to sweat its assets:** While we understand that EABL invested more in capex in FY18 (KES 13bn) than in the previous two financial years combined (KES 10.54bn), we believe that increased focus is now on the company's ability to service its KES 27.5bn debt. While our analysis suggests that the company's interest coverage ratio (EBIT divided by interest expenses) is improving (FY19F: 5.56x; FY18A: 5.14x; FY17A: 5.06x), we still note that it is below the 7x level that is considered sustainable. We are therefore watching how the company manages its leverage situation as it is a key source of operational risk going forward.

- **We upgrade our rating to BUY with a TP of KES 273.63 (Previous TP of KES 328):** Generally speaking, we believe that EABL is a top-tier consumer company in Sub-Saharan Africa with robust fundamentals: consistent sales growth, growing operating profits and solid dividend payouts. We upgrade the stock to a BUY as the share price is much lower (-14.2%) than it was 12 months ago thus providing more potential upside. That said, we lower our target price as the FY18 results were weaker than expected. Going forward, we think that the company's growth trajectory will be driven by decent operating profits (through cost containment and innovation) that we expect will a generate stream of earnings (FY19F-23F CAGR: +12.3%) over our forecast period. We therefore expect healthy dividend payouts (FY19F-23F dividend payout ratio: c.55%) as a result and could thus lead to more price gains.

KCB Group: HOLD at TP of KES 53.00, Current Price KES 50.00

Strong margin management underpins earnings: As intimated in our sector update note 'UP AGAINST IT' dated 10th October 2017, the banks that took on more risk got more reward. This was in the context of KCB's and COOP's decision to continue lending unlike EQB who preferred to lend to the government. In the analysis, we were able to show that because customer lending is a significantly larger chunk of assets, not lending led to a significant drop in interest income on loans and in turn, a more significant decline in NII relative to banks that lent. KCB's FY17A loans grew at 10%, a deceleration from the 15% growth reported as at 9M17A. KCB had also proved adroit at managing funding costs then and continued in the same vein with funding costs declining by 6% despite an 11.5% growth in customer deposits. NII increased by 3%, a feat few banks will manage in their FY17 results.

- **Asset quality pays the price:** The increased lending came at a price as the NPL ratio and the cost of risk both increased by 50bps y/y to 8.5% and 1.5% respectively. The SME and Micro book were the largest culprits recording a 330bps y/y increase in NPL ratio to 16.4%. Delayed payments by the government and counties continue to impact negatively on the banking industry's asset quality as well as the tough economic environment of 2017 brought about by drought and the protracted electioneering period.

- **We have a HOLD at TP of KES 53.00 (Previous TP of KES 31.41):** We think that the dismal performance of the banks in the second quarter led to KCB trading at a discount to its fair value (KES 59.20). We continue to believe that the bank will continue its loan growth momentum that we expect will catalyse net interest income growth. We also believe that the lower provisions under the IFRS 9 standard are expected to be positively factored into the organization's income statement. We also see the bank's cost cutting programme that is aimed at focus on non-branch channels accelerating the group's profitability vector going forward.

Kenya Power (Unrated): Current Price: KES 6.10

- Kenya Power posted a significant drop in its 1H18 profit before tax (-19% y/y to KES 10.912bn) mainly attributable to an increase in transmission and distribution costs (+1.6% to KES 33.4bn). Total income strongly gained (+11.4% y/y to KES 120.7bn) on the back of an expansion in electricity sales (KES 87.1bn from KES 92.0bn). The increase in electricity sales was driven by domestic consumers (+13.1%) with the street lighting (+43.2%) revenue also contributing strongly to the topline growth. Total power purchase costs however declined marginally to KES 50.5bn (-KES 784m) on the back of reduced non-fuel costs.

- Total operating expenses similarly rose (+12.7% to KES 118.006bn) driven by an increase in network management (+KES 1.7bn to 11.2bn), commercial services (+KES 0.4bn to KES 4.7bn), administration costs (+KES 2.8bn to KES 17.5bn). We do believe that the operating expenses will keep on increasing steadily owing to the company's focus on achieving universal access by FY20F.

- Going forward, Kenya Power aims to implement the Last Mile Connectivity Project aimed at achieving universal electricity access by FY20E at the same time enhancing the efficiency of the power transmission and distribution networks. We do believe the move to enhance the connectivity rate (among retail and commercial clientele) is likely to boost top-line growth and thus should catalyse profit momentum going forward. We also are very constructive about the positive effects of measures aimed at reducing power losses on the grid.

- We note that over the past few years, Kenya Power has been heavily discounted as evidenced by its very low trailing P/E ratio (1.75x). We believe that the current entry level is attractive for the any investor owing to the fact that the valuation is unjustified.

KENOL KOBIL (Not rated): Current Price KES 17.90

Kenol Kobil managed to grow both EBITDA and PAT by 14% y/y and 16% y/y respectively, during the first half of 2018. This is quite a strong performance, considering the macro headwinds facing the group like fluctuation in global oil prices, inflationary pressures and shrinking market share. An interim dividend of KES 0.36 has been declared which translates to a stellar growth of 20% y/y from KES 0.30 which was paid out in FY2017.

- **Volume growth:** The gross profit slid by 12.2% y/y to KES 3.6bn from a five year high of KES 4.1bn. The EBITDA markedly grew by 14% y/y to a high of KES 3.0bn for the first time in five years. This has consistently been on an upward trend from a low of KES 1.3bn in 2013. The revenue grew by 24% from the same time last year on the back of the increasing international oil prices. Volume recorded a growth of c.8% y/y from all business segments regardless of stiff competition in the sector. The stiff competition is evidenced by Petroleum Institute of East Africa (PIEA) data which pointed out that KenolKobil's share of volume sales narrowed to 9.9% in 1Q18, from 13.2% y/y, thus this growth could be attributed to the trading window in the second quarter.
- **Increased financing costs:** The financing costs significantly climbed by 61% to KES 133m from KES 82m. This was buoyed partially by surging volume and increasing global oil prices. A rise in floating LIBOR rate hiked the borrowing cost of dollar denominated loans raising financing costs higher.
- **Eased operating costs:** Administrative and operating costs declined by 46% y/y to KES 894m from KES 1.7bn. This was attributed to stringent inventory and cash management strategies, efficiency in procurement and absence of huge provisions incurred in the first half of 2017. A two fold growth was incurred on currency translation which recorded a gain of KES 27m from a loss of KES 26m in 2017.
- **Ratio analysis:** The current ratio remained resilient at 1.44x y/y, while the gearing ratio firmed by 35% y/y to 0.9x from 0.7x. Shareholders funds improved by a growth of 9% from KES 11.2bn in 2017 to KES 12.2bn in 2018. Net cash incurred in operating activities was KES 1.2bn which is a slump from KES 2.5bn generated in 2017, this implies a 150% decline y/y. Nevertheless, the cash and cash equivalents spiked by two fold to KES 1.1bn from KES -1.2bn y/y.
- **Expectations:** The group acknowledges that the positive performance has been triggered by cost containment and efficient allocation of resources across all business segments. The macros in relation to the oil industry are anticipated to be favorable for business in key markets during the second half of 2018. Given the past ability to absorb shocks from adverse fluctuation in global oil prices, the management is braced to meet profitability and revenue targets in FY2018. We expect to have a positive growth in profits and dividends.