

INVESTMENT IN THE NSE
BY KIBBY KARIITHI - DIRECTOR OF ASHBHU SECURITIES LTD.

OBJECTIVES

- In response to your terms of reference, I have developed a position paper to cover the following areas. I hope this meets with your approval and I remain available to provide any clarifications required.

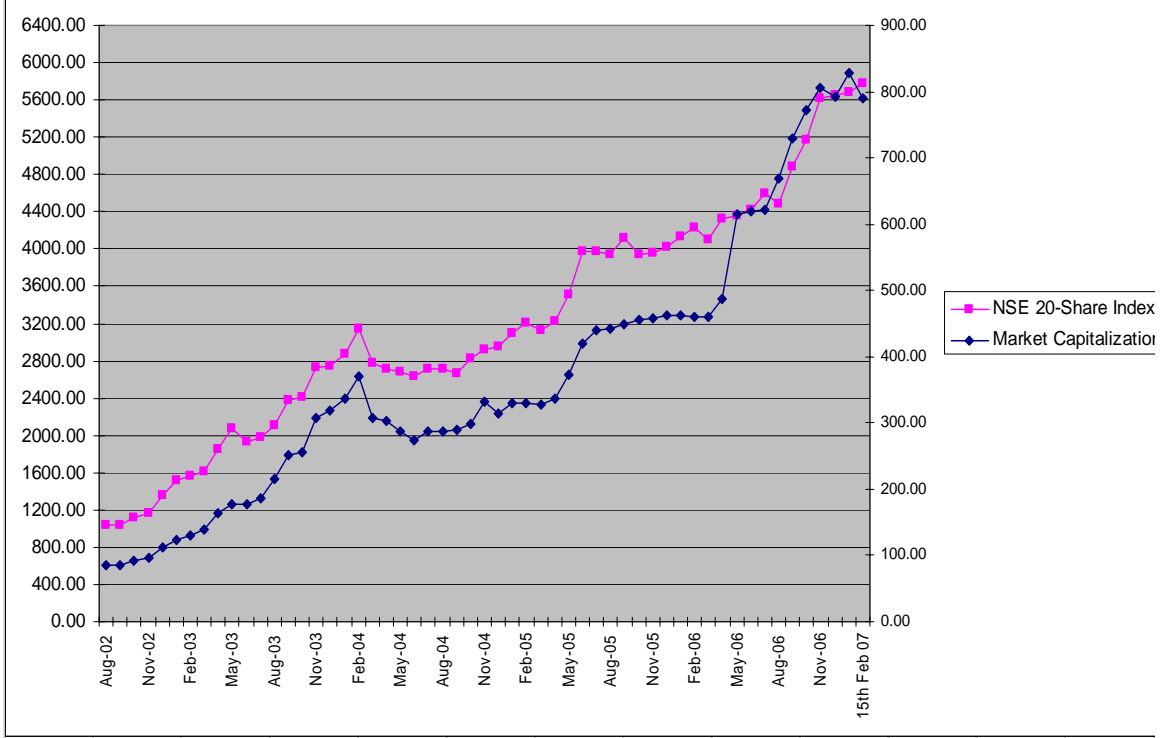
BULL RUN

- The Period January 2003 to May 2006 has seen exceptional growth for the exchange, reflecting no doubt, the hopes and expectations of the Kenyan people in the NARC Government's commitment, to revive the economy.
- The resumption of bilateral and multilateral support programs with the IMF and World Bank also played a role in this newfound market confidence.
- The main issue however, is the maturing of our Nation as a true multi party democracy.
- The total turnover in the equity market was Kshs. 15.2 billion in 2003, 22.3 billion in 2004 and 36.52 billion for the year 2005, compared to Kshs. 90.4 billion in 2006.
- Turnover this year is expected to be well in excess of Kshs 100 billion, as can be seen from the graph showing yearly turnover.
- Following full central depository system implementation in March 2004, we have seen a doubling of turnover and the electronic trading system in place this has doubled again.
- The number of trades per day has risen to almost 1500, up from an average of less than 200 previously and has risen to 5,000 a day.

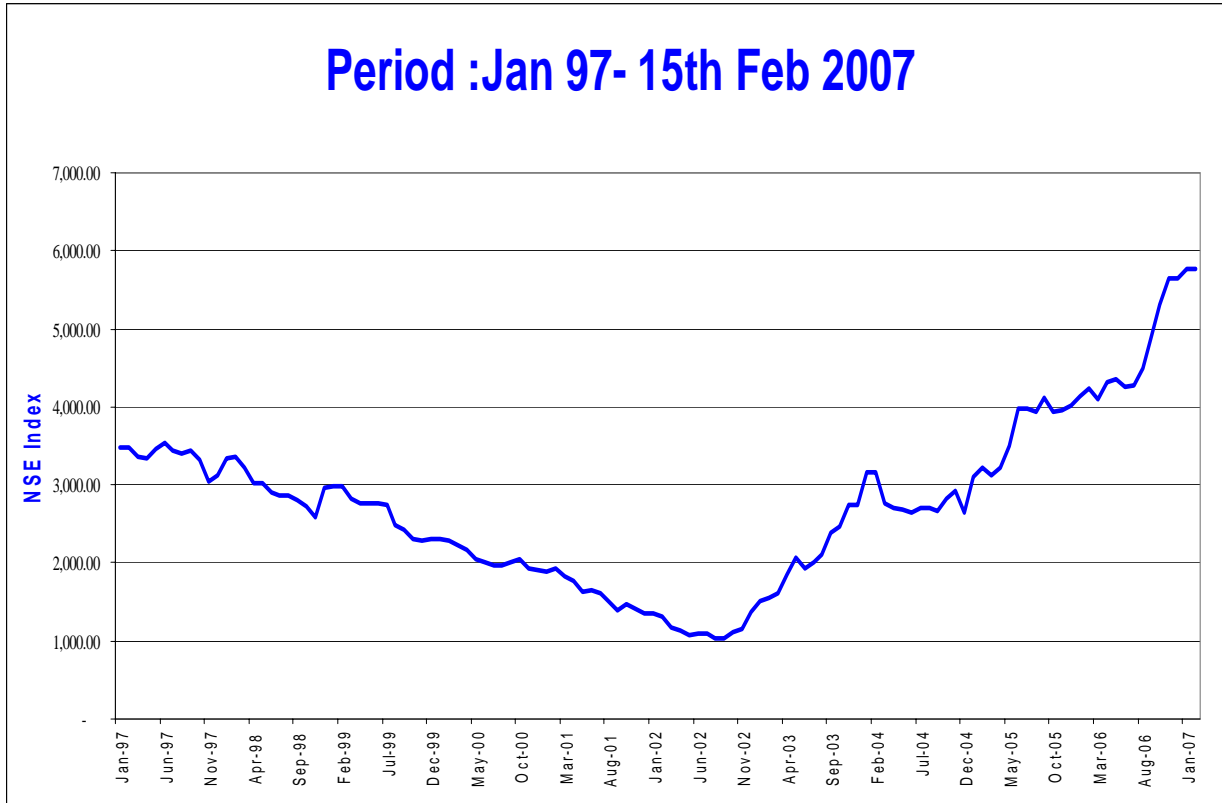
KEY PERFORMANCE INDICATORS
PERFORMANCE REVIEW

MARKET INDICATOR/YEAR	Sep-02	15 Feb - 07	CHANGE	% CHANGE
NSE INDEX	1,004.70	5,773.29	4,768.59	474.61
MARKET CAP EQUITIES (KSHS BILLION)	83.86	789.11	705.258	840.98

STOCK MARKET INDICATORS



NSE PERFORMANCE



SOURCE OF GROWTH

- Perhaps even more important than the figures themselves is the source of all this new investment in the stock market.
- The foreign fund managers, who departed from the market in 1998 after the ill fated bombing of the United States embassy in Nairobi, are yet to make a comeback;
- all the growth experienced at the Nairobi stock exchange has been driven by domestic investment funds.
- One of the heartening things that we have witnessed is the number of Kenyans in the Diaspora now investing in the Nairobi stock exchange.

WHAT THEN DOES THE FUTURE HOLD?

- The figures featured in this presentation amply demonstrate the capacity of our capital market to mobilize domestic funds, for economic growth.
- This should send a clear message to our government that the best route to take in the privatization of our state owned enterprises is through public offerings on the Nairobi Stock Exchange.
- The outcome of the 2007 election however, in terms of pro private sector/privatization policies, is a major area of concern.

MINIMUM ABSORPTION OF THE CAPITAL MARKET , PER ANNUM

Institution	Estimates of money available to the Capital Markets per annum.	%
Insurance	5.52	7%
Fund Managers	23.90	31%
Co-operatives and other firms	12.21	16%
Households	20.13	26%
Individuals	4.19	5%
Non-banking Financial Institutions	12.26	16%
Available funds	Kshs 78.21 billion	100%

4 KEY DRIVERS OF CHANGE

- Globalization
- advance of ICT
- aging populations in the west
- evolving role of governments

4 Cs

- consolidation
- convergence
- connectedness
- co-ordination

GLOBAL ALLIANCES

MOUs: Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, Tokyo

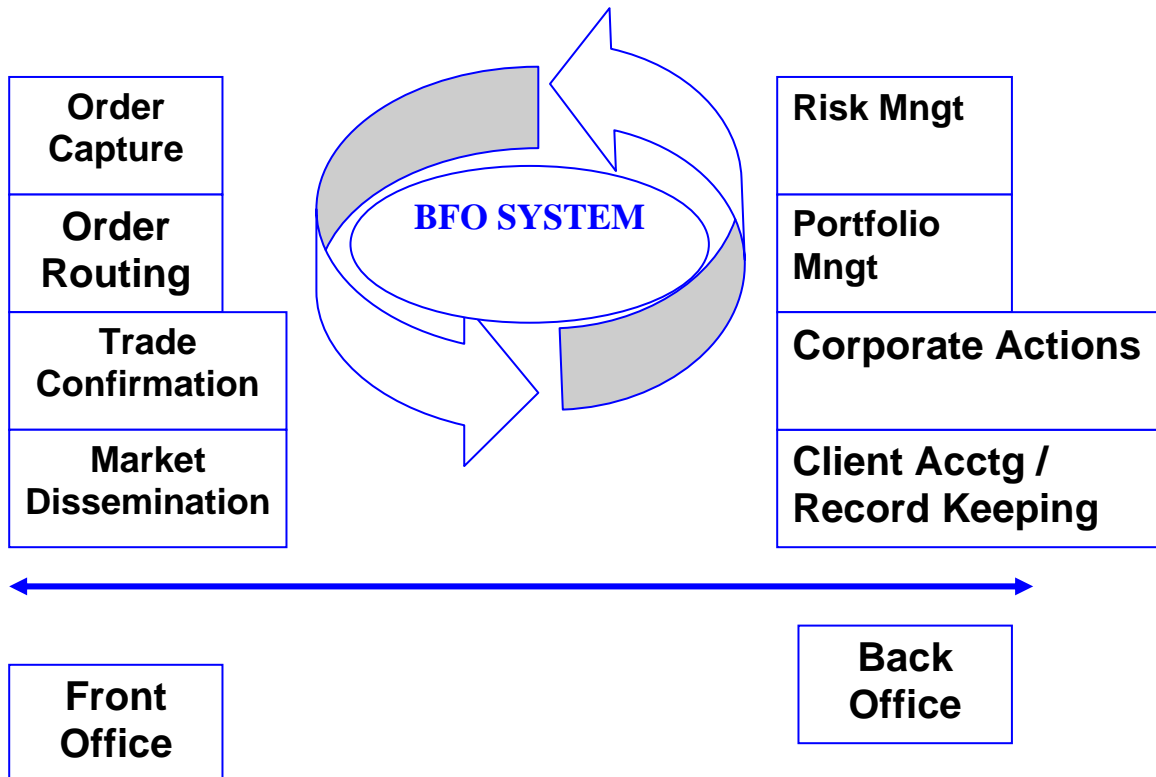
AUTOMATION

Technology drives growth. The market automation project currently on going in the capital markets gives Kenya the opportunity to take a critical look at the current clearing and settlement environment and implement a robust and modern clearing, settlement and central depository and Automated Trading System environment for the whole East African region.

TECHNOLOGY PATH

- The NSE's technology path in line with the overall market automation strategy, has four sub projects, namely;
 1. Central Depository System - CDS
 2. Automated Trading System - ATS
 3. Broker Back and Front Office System - BFO
 4. Real time Information Dissemination

THE TRADING CYCLE



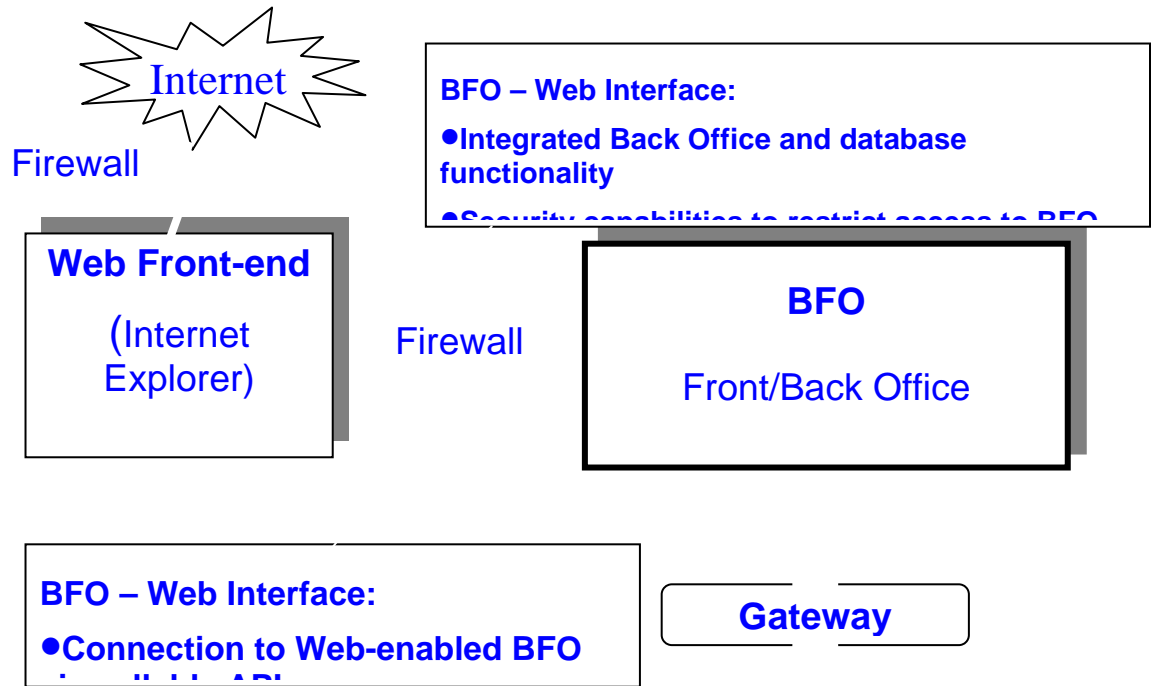
REAL-TIME INFORMATION

- Provides up-to-date market picture including security quotations and other market data
- Provides current trade information on the market such as;
 - the top 10 orders per security
 - the no. of orders and the volume of the top 5 bids and asks
- Real-time quotation information such the daily open, high, low, close, net change prices etc

WEB INTERFACE

- It is possible for data links to be uploaded/downloaded with data updates processed through APIs (Application Program Interfaces) using an appropriate web interface.

- This will enable customers to log on to a brokers site and view and print their statement or portfolio whenever they want.
- While they are at it, customers might as well enter their orders in and receive live feedback on their trades – “internet Trading”



WHAT WILL WE ACHIEVE?

- We must empower Kenyans through the transfer of ownership of the major economic players in the country, while providing honest money for the government's own programs.
- The Exchange has hosted the annual conference of the African Stock Exchanges Association (ASEA), which was in fact founded in Nairobi ten years ago.
- We want to become the market of choice for raising and investing capital in this region.

How?

FUNDING FOR INFRASTRUCTURE (1)

Sectoral venture Capital
 Funds (SVCFs):
 World Bank Funding
 A viable long term financing
 alternative
 to Bank funds
 public private partnership (PPP)
 to re-capitalize & reconstitute
 as
 SCVFs,
 Agric. Finance Corp. (AFC);

Kenya Tourism Dev. Corp. (KTDC);
Indust. & Comm. Dev. Corp. (ICDC);
Kenya Indust. Estates (KIE).

ROAD INFRASTRUCTURE

Road Network:

- Kasese – Kisumu dual carriageway.
- Mombasa – Kisumu dual carriageway.

Railway Network:

- Modernization of the railroad telecommunications network between Kenya and Uganda.
- Link Up Rail Tracker System within East Africa.
- Mombasa – Malaba corridor.

TELECOMMUNICATIONS INFRASTRUCTURE

Digital Arteries

- Undersea fiber optical cable.

VSAT Network

- East and Central African network.

ENERGY

South African Power Grid

- No distribution network connecting the energy rich South to sub Saharan Africa.
- Construction of Bujagali-Lessos Power Transmission Line.

Geothermal Energy

- Unexploited potential of 2000 MW.
- Very high initial investment vs. clean, sustainable/renewable energy source.

Songa Songa Gas Project

- Through the use of LPG, has the potential to drastically alter the energy picture in east Africa.

Petroleum Transportation

- Construction of Kenya Uganda Oil pipeline extension.

SUSTAINABLE USE OF THE ENVIRONMENT

- 2.0 million acre reforestation and conservation schemes using conservation bonds listed on the East African Stock Exchanges.

Tourism receipts are used to pay bond holders.

- Lake Victoria Development Programme.
- Corporate industrial sponsors and individuals protect their environment for future generations of East Africans.

IMPLEMENTATION PROGRESSION VIRTUAL EAST AFRICAN STOCK EXCHANGE

- Virtual Linkage to Kenya, Uganda and Tanzania.
- Information vendor – links to Global information using services distributors such as Reuters and Bloomberg.
- Automated Broker Front and Back Office on a Wide Area Network.

- Order receipt and confirmation via the internet, 24 hours a day, 7 days a week.

IMPLEMENTATION PROGRESSION CROSS LISTINGS IN AN EAST AFRICAN STOCK EXCHANGE

Kenya :

- 50 listed companies (Kenya Airways and EA Breweries already cross-listed in UG). 5 corporate bonds; 61 Govt. Bonds.

Uganda:

5 listed companies (2 whose primary listing is Kenya). 3 bonds.

INFRASTRUCTURE – OTC MARKET AND COMMODITIES EXCHANGE

- The use of the automated infrastructure for the OTC Market.
- Commodities Exchange and related derivatives.
- Provision of a market infrastructure for indigenous firms:-
 - Cooperatives;
 - SACCOs;
 - Micro finance;
 - Farming marketing organisations.

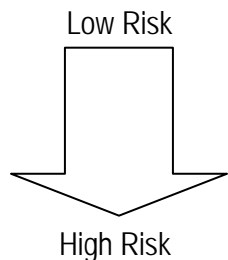
WHAT WILL WE BECOME?

- Kenya will be the virtual centre of the East African Regional Stock Exchange
- Over 500 listed companies in the region by 2012
- At least 100 companies cross listed with leading equity markets in Africa, London and New York Stock Exchanges
- Availability of venture capital from at least 15 funds, 5 of which are quoted on the exchange

CONSTRUCTING AN INVESTMENT PORTFOLIO

High Risk = High Returns

Low Risk = Low Returns



Stability of principal
Income
Income growth
Capital appreciation

Before embarking on an investment plan, ensure that you the investor have

- a) Insurance
- b) Adequate Cash Reserve

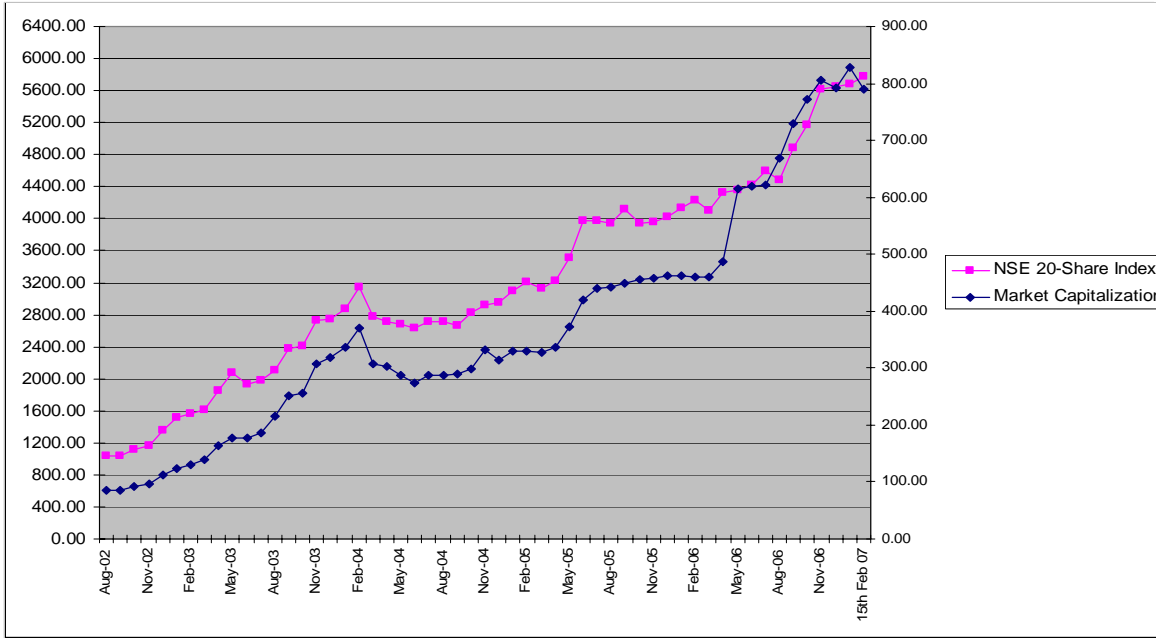
CONSTRUCTING AN INVESTMENT PORTFOLIO

To lower your risks in shares investment: Diversify into different sectors of the economy:

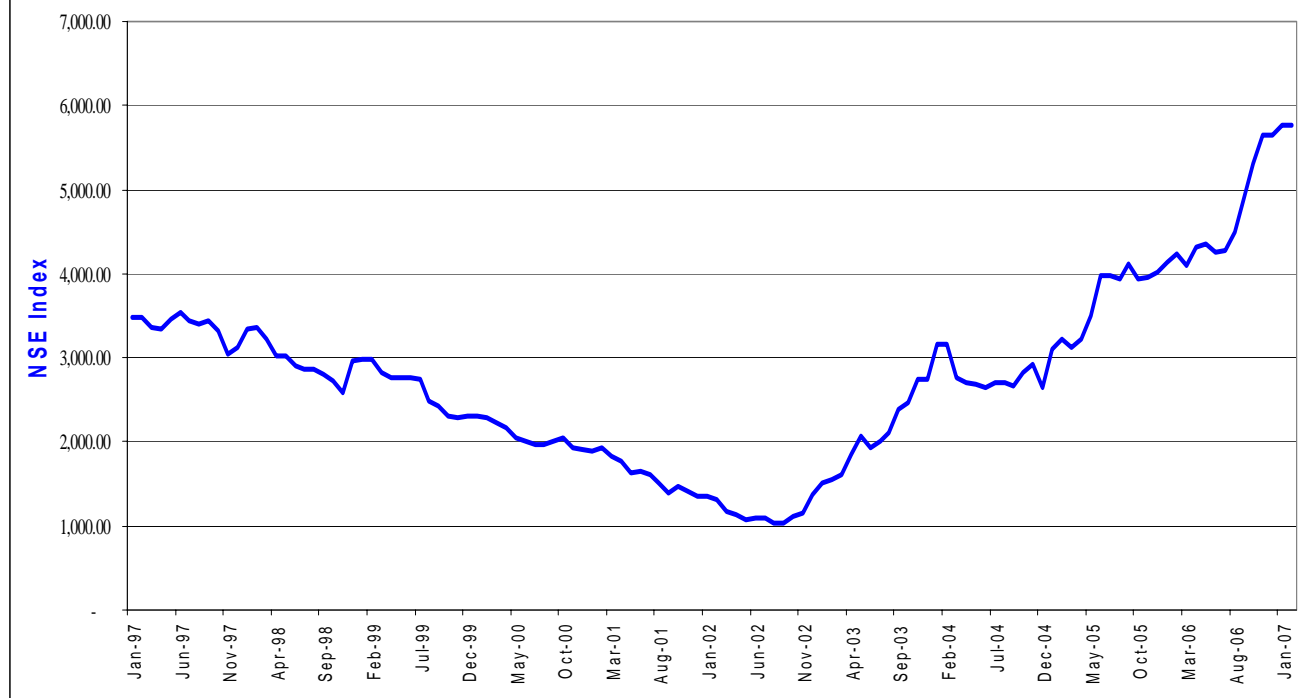
- Agriculture;
- Industrial and allied;
- Financial;
- Commercial and Services

Efficient Frontier for Risk Securities
Expected Return

STOCK MARKET INDICATORS



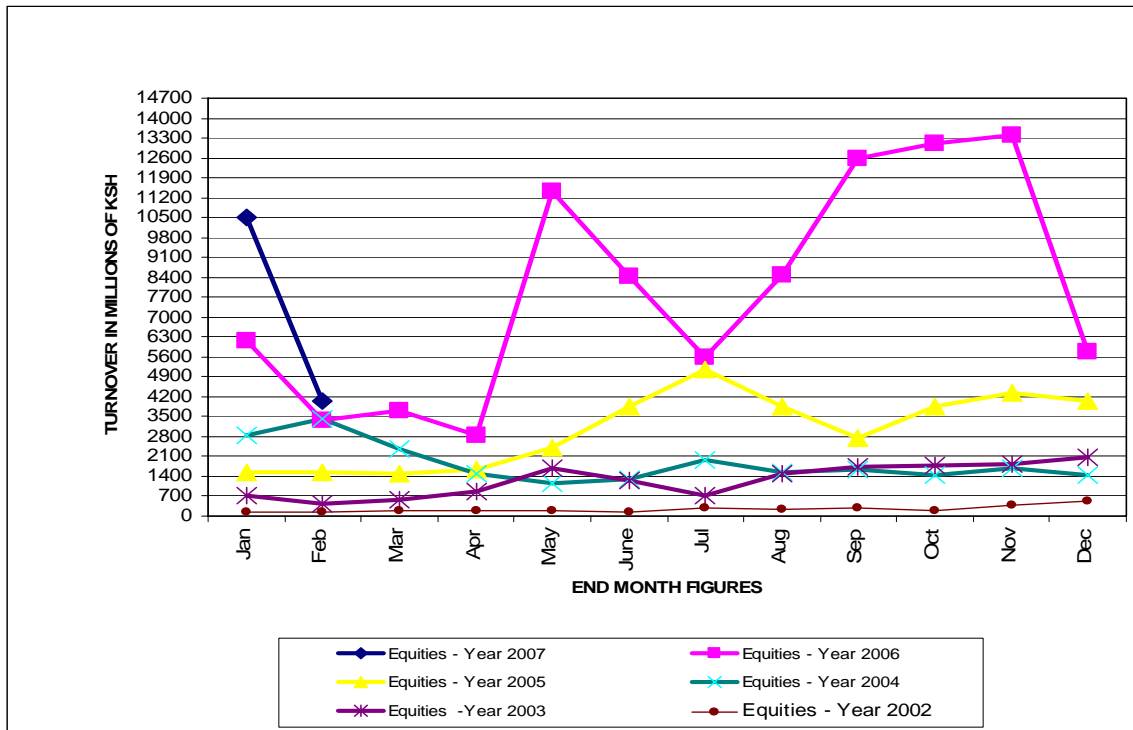
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INVESTMENT STEPS.

a) Analysis of Industry

What stage is the industry at in its life cycle, is it a growing industry or one that is mature or even one that is entering its declining phase.

b) Analysis of Different Companies and Stocks

Having decided to invest in the Stock Market what factors should you consider

- Economic Factors

Inflation, Interest Rates, Taxes, Exchange Rates etc

- Quality of Management

Best judged by the performance of the company.

Are management looking to increase shareholder wealth or their own.

When looking at performance of Co.

How does the Company make Money?

Analyse Financial Statements

Profit and Loss

Balance Sheet

Cashflow Statement

Market Share – How does company perform relative to its competitors.

Forefront of Developments in the industry.

Trends in the Industry.

- Technical Factors.

Using old technology.

Industry being overtaken by newer more efficient alternatives.

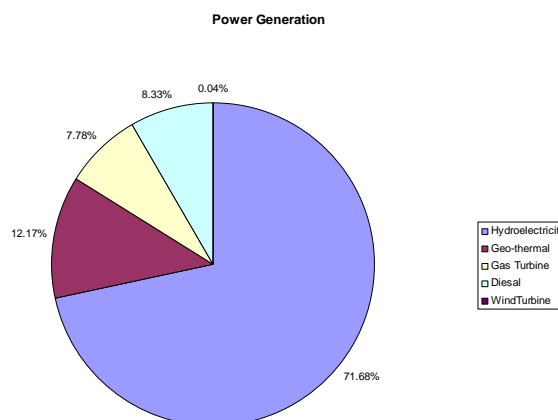
Investment partners pulling out.

- Scarcity/Liquidity of Shares.

Are shares readily available.

KENGEN

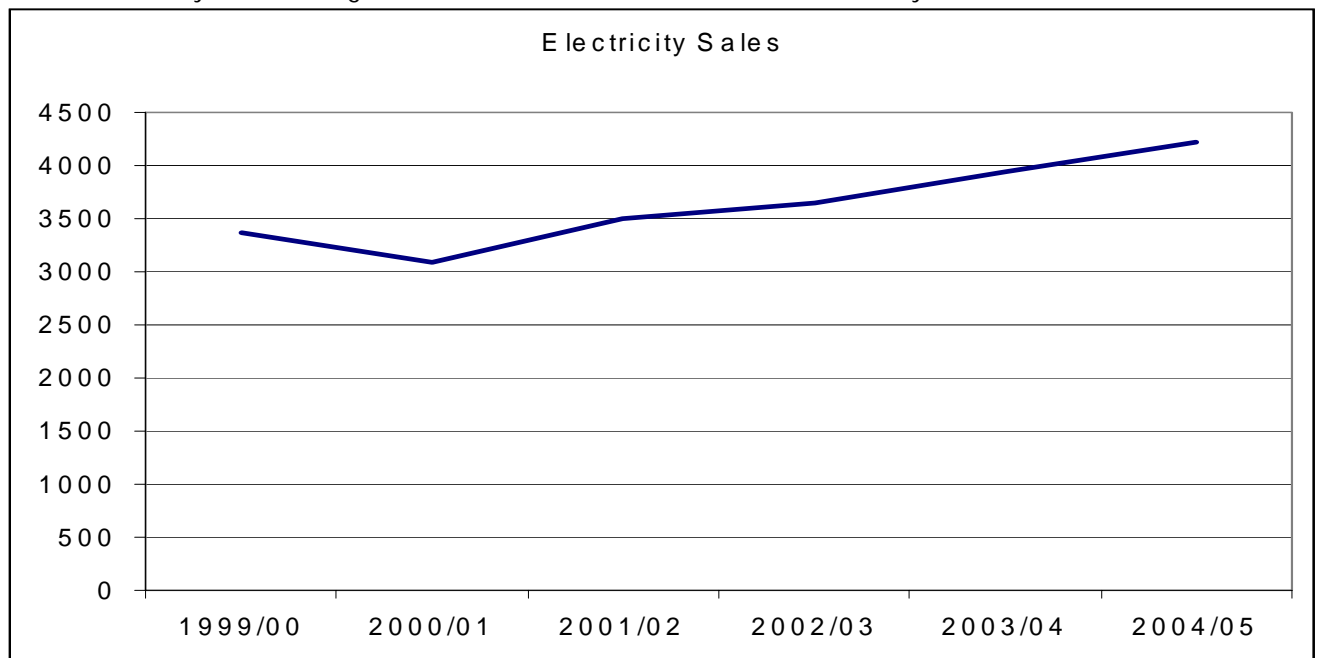
- Kenya Electricity Generating Company Limited (Kengen) was incorporated on 1 February 1954 as a private limited company in the name of Kenya Power Company Limited.
- in January 1998 following reforms implemented by the government which saw Kengen separated from Kenya Power and Lighting Company Limited (KPLC) with each adopting its own business – Kengen : power generation and KPLC – power transmission and distribution.
- The Company has the largest installed generating capacity comprising of different types of power plants. The breakdown of which is as follows:



	% of Market Share	
	2005	2004
Kengen	80.2%	85.5%
Uganda Electricity Transmission Company	1.9%	3.4%
Tsavo Power Company Limited	9.5%	4.0%
Iberafrica	6.2%	4.8%
Orpower 4	2.2%	2.1%
Westmont Power Kenya Limited	0.1%	0.3%
Tanzania Electric Supply Company Limited	0.0%	0.0%

Kengen – Market Share

- Electricity sales have grown at an annual rate of about 5.0% since the year 2000/1



Kengen-market...

- With demand for electricity projected to grow in line with economic growth (forecasted at 4.8%) and the on-going rural electrification program it is anticipated that the demand for power will continue to grow

Kengen – new markets

- Kengen has contracted to supply electricity to KPLC at improved tariffs levels from July 1 2006, this was put on hold until later in the year. When effected this should translate into improved margins and returns to shareholders. The current rate of KShs 1.76 per KWh will rise to KShs 2.36 per KWh an increase of 34%.

Kengen- Financial Summary

- EPS – KShs 1.71 per share for 2006. KShs 0.8 per share for 2005
- Dividend per share – KShs 0.55 per share
- Turnover – up 30%
- Profitability - up over 100%.

Kengen – Financial Highlights

KENGEN

INDUSTRY: Generator of
Electricity (Manufacturing)

Year End: 30 June

(KES million)	2001	2002	2003	2004	2005	2005 (H)	2006
Turnover	13,567	10,350	10,218	8,963	11,012	7,251	14,300
Growth in Net Turnover (%)		-24%	-1%	-12%	23%	n/a	30%
Operating Profit	2,380	3,611	4,421	3,102	2,504	1,640	3,776
Profit before tax	2,475	2,118	4,991	2,426	2,619	2,042	3,721
Taxation	772	665	1,644	805	866	613	48
Tax Rate	-	-	-	-	-	-	-
Profit after tax	1,703	1,453	3,348	1,621	1,753	1,429	3,769
Dividends - gross	-	-	-	275	500	-	1,209
Retained Profit	1,703	1,453	3,348	1,346	1,253	1,429	2,560

Cash Flow from Operations	-	506	3,038	4,408	4,618	3,674	5,506	3,920
Capital Expenditure		4,166	5,713	4,896	3,268	1,880	n/a	n/a
Shareholders Funds		25,348	26,801	30,354	31,967	33,429	34,340	36,499
		-	-	-	-	-	-	-
Total Assets		55,077	61,889	69,092	73,868	77,900	55,336	64,786
Total Liabilities		29,723	35,088	38,738	41,900	44,472	23,444	n/a
Earnings per share*	0.77	0.66	1.52	0.74	0.80	0.65	1.71	
EPS Growth		-15%	130%	-52%	8%	-18%	164%	
Dividend per share*	-	-	-	0.12	0.23	-	0.55	
Price Earnings Ratio (times) - year end	15.36	18.01	7.81	16.14	14.92	18.31	18.53	
Dividend Cover (times)	-	-	-	-	-	-	-	
Dividend Yield (%)	-	-	-	1.05%	1.91%	-	1.73%	
Dividend Payout Ratio	-	-	-	17%	29%	-	32%	
Book Value per share	11.53	12.19	13.81	14.54	15.21	15.62	16.60	
Price to book ratio	1.03	0.98	0.86	0.82	0.78	0.76	0.72	
Return on Equity	6.72%	5.42%	11.03%	5.07%	5.24%	4.16%	10.33%	
Return on Assets	3.1%	2.3%	4.8%	2.2%	2.3%	2.6%	5.8%	
Operating Profit Margin	17.5%	34.9%	43.3%	34.6%	22.7%	22.6%	26.4%	
After -Tax Profit Margin	12.6%	14.0%	32.8%	18.1%	15.9%	19.7%	26.4%	

Cash Realisation Ratio	-	0.30	2.09	1.32	3.43	2.93	3.85	1.53
Free Cash Flow	(4,671.83)	(2,675.45)	(488.41)	1,349.54	1,793.93	n/a	n/a	
Number of Shares in Issue	2198.4	2198.4	2198.4	2198.4	2198.4	2198.4	2198.4	2199.4

* earnings & dividend per share adjusted to reflect current share capital.

Kengen -Prospects

- Customer Base
- Currently Kengen has only one customer, KPLC, investors should be aware that although in most companies this would be viewed as a highly risky enterprise in the current situation this would not be the case, this scenario is likely to continue for a number of reasons:
- Kengen is the lowest cost producer of electricity in Kenya, not to mention the largest supplier of electricity in the country. Given the enormous capital investment required to establish a power generation facility it is unlikely that another company would be able to compete both in terms of costs and supply.
- Under the new reform programme being implemented by the government, Kengen would be allowed to access large electricity consumers directly and hence diversify its client base should KPLC seek alternative suppliers, but as seen in the table below the other players in the market fall short of competing in terms of power generated.

Customer Base

Power Generation - Capacity

	Capacity (MW) as at 30.06.2005	
	Installed	Effective
Kengen - Hydro	677.3	660.4
Kengen - Thermal	214.2	143.4
Kengen - Geothermal	115.0	115.0
Kengen -Wind	0.4	0.4
Total - Kengen	1,006.9	919.2
GOK - Thermal	5.1	4.6
IPPs - Thermal	130.0	130.0

IPPs - Geothermal	13.0	13.0
Imports	-	-
Total - Others	148.1	147.6

Exchange Rate Exposure

Kengen at present has loans in excess of KShs 18 billion in currencies other than Kenya shillings, these include the Euro, US Dollar and Japanese Yen. This means that the company is exposed to the currency fluctuations which can translate to losses/profits in its trading results. There is a pass through to the customers

Exchange rate...

- A good example of this is EA Portland Cement, whose results fluctuate greatly depending on how the shilling performed against the Japanese Yen.

Dependence on Hydro Generated Power

- As seen from the chart in an earlier section, over 70% of the power generated by Kengen comes from hydro electricity. Given this very heavy dependence on hydro power, the on-going drought and anticipated power rationing should have a severe impact on the Company's performance.
- The company is taking measures to reduce its dependence on hydro power with several new projects targeting the development of geo-thermal power and expanding reservoir capacity at some of its existing facilities.
- Kengen is also building new hydro stations in different geographical regions within the country so as to reduced dependence of power from one area only.

Threats of new entrants

- Given the initial capital investment required to set-up a power generation plant, it remains clear that for at least the immediate future, Kengen is not likely to face any serious competition to its market share.

Government Shareholding

- It still remains the largest and hence controlling shareholder with 70% of the company. Very possible that the interests of government and those of investors may conflict on several issues ie dividends, future investments. Government is looking to sell a further 30% of its shareholding sometime next year.

New Markets

- Given that majority of the country does not have access to electricity, it is potentially a huge market waiting to be served currently only (20-25%) of the country has access to electricity.
- As more regions are brought onto the grid this creates new revenue streams for Kengen. In our opinion one of the Company's biggest challenges will be to meet the anticipated increased demand

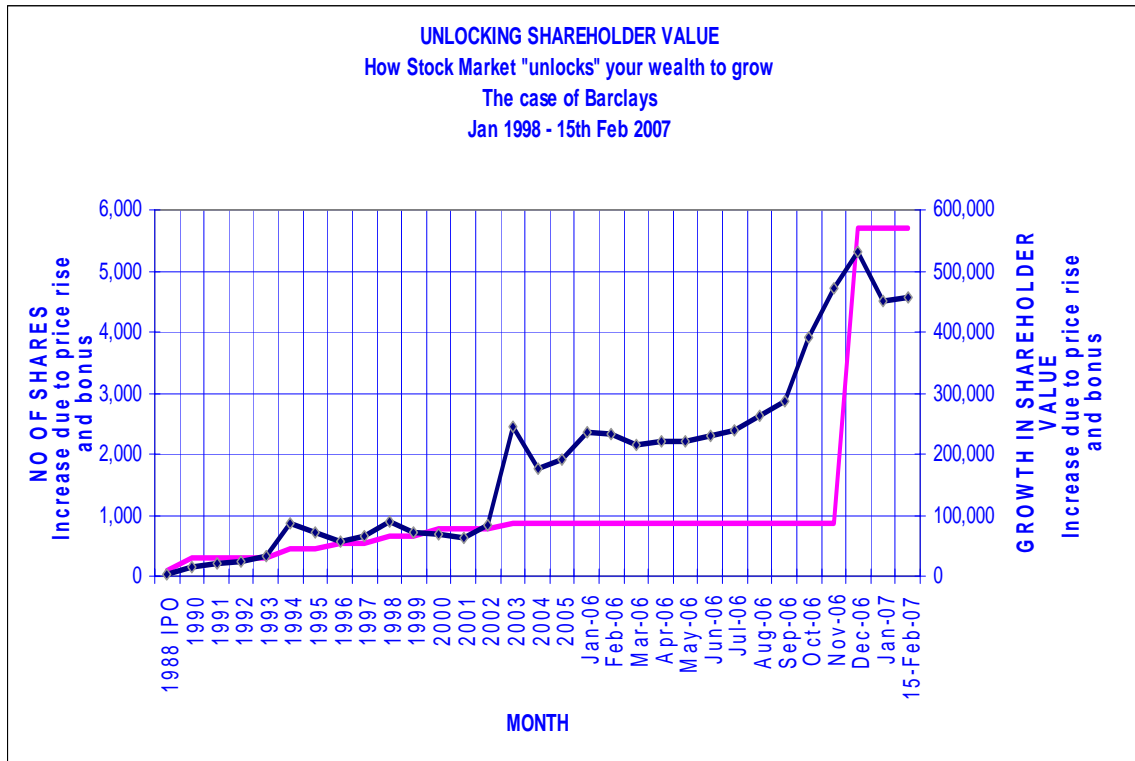
Directors

- **Board of Directors**
- Titus K. Mbathi – Chairman
- Edward Njoroge – Managing Director
- Joseph Kinyua – Non executive Director
- Patrick Nyoike – Non executive Director
- Sarah Wanaina – Non executive Director
- Musa Ndeto – Non executive Director
- Faisal A.H. Abass – Non executive Director
- Lt.General (Rtd) A.K. Arap Cheruyiut – Non executive Director
- George M. Njagi – Non executive Director
- Dorcas Florence Kombo – Non Executive Director

INVESTMENT RETURNS ON SELECTED STOCKS PER YEAR- ASSUMING AN INVESTMENT OF 10,000 SHARES

Company	Share price (Ksh)	Amount (Ksh) invested in 10,000 shares	Total income (Ksh) realized (1996-Oct 2005)		Invest. Returns in percentage (%)
			Dividends	Sale of shares	
KQ* (listed in 1996)	9.50	95,000	73,500	760,000	800.0
Nation M. Group	24.50	245,000	877,500	10,800,000	4,408.2
Barclays	81.00	810,000	1,439,280	3,801,600	469.3
KCB	29.00	290,000	249,999	1,093,333	287.7
N.I.C. Bank	38.00	380,000	251,593	750,000	197.3
Standard Chartered	50.00	500,000	817,800	2,227,500	445.5
EABL	42.50	425,000	1,148,500	9,000,000	2,117.6
BOC Kenya	41.00	410,000	353,000	1,450,000	353.6
Carbacid	40.00	400,000	873,920	2,534,400	633.6

Shareholder Value



INVESTMENT RETURNS ON PROPERTIES-Land and Building

Property	Amount Invested(Ksh) 1995	Total income (Ksh) received 2005		% change on investment
		Rental	Sale	
HOUSING				
1. 4 br ensuite on ½ an acre plot at:				
a) Runda	8.5-10M	5.3-5.9M	12-16M	103.5 - 119.0
b) Buruburu	1.80-1.85M	1.3-1.6M	3.0-5.0M	138.89 -256.76
LAND				
a) 1000 acres in R.Valley	63.0M	54.0M	100M	144.4
b) ½ an acre at Runda-Nairobi	1.5 - 2.5M		2.6-4.0M	60.0 - 73.3

COLLECTIVE INVESTMENT SCHEMES (CIS)

What Collective Investment Schemes (CIS) do

Over the next decade or so, fundamental changes in the Kenyan economy will place individual investors in a pivotal role, as both consumers of retail mutual funds and members of defined contribution plans.

2. Besides reaping the material rewards that come with greater choice and higher returns, many people have discovered that managing one's own finances can be very rewarding.
3. CIS pool the savings of individual investors to enable them to benefit from:-
4. Economies of scale;
5. Professional fund management and;
6. To achieve a greater level of diversification than would otherwise be possible.
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Advantages to the Market:

- Professional management of savings.
- Minimize transaction costs or risk by pooling of investments and enabling portfolio diversification.
- Facilitates access to the capital markets by new investors and maximizes returns.
- Enhanced capital formation by mobilizing domestic savings levels for economic growth.

An Example of a CIV is Zara Investments Limited.

- Zara Investments Ltd was registered as an investment company in the year 2000 being an initiative of the Economic Justice Taskforce of the *Christian For A Just Society*.
- 'Zara' is a Hebrew word that signifies humble beginnings.

Vision

- Christians will become the primary entrepreneurial class in Kenya and dominate our capitalist economy.

Mission

- To empower Christians to play a strategic role in the Kenyan economy.

How to be involved/Partnership

- Interested Christians can contact Ashbhu Securities for more information and application forms.
- At the moment individuals can invest not less than Kshs. 1000 per year and not exceed 25% of the total portfolio.
- The payments can be made at any interval for example, weekly, monthly, and quarterly by cash, Cheque or placing standing orders.