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Do blockchain technologies and crypto currencies have a place in Kenya?

Kenya hosted its first ever Blockchain Summit last week hosted by global events and consulting firm Trescon. Nairobi was the only city in Africa to host the event amongst other similar events in the world. The Summit came in at an opportune time right after the government revealed its plans to leverage emerging block chain technology gathering prominence around the world in February 2018.

By Nelius Kanyingi

Markets

Key highlights in the NSE

TOP GAINERS	PRICE(KES)	CHANGE(%)
TOTL	32.00	+5.79
NIC	40.50	+4.52
UNGA	41.75	+4.38
SCOM	31.75	+3.25
KCB	51.50	+3.00

LOSERS	PRICE(KES)	CHANGE(%)
KQ	10.10	-11.01
SGL	30.75	-9.56
FTGH	4.25	-7.61
UCHM	2.50	-7.41
OCH	2.85	-6.56

INDICES & OTHER TRADING STATS	
NSE ALL SHARE INDEX	191.67
NSE 20 SHARE INDEX	3,851.37
NSE 25 SHARE INDEX	4,944.09
ETF In Units-Total Deals	0.00
ETF Turnover In KES	0.00
FTSE NSE Kenya 15 Index	242.04
FTSE NSE Kenya 25 Index	250.57
FTSE NSE Kenya Govt. Bond Index	93.59
FTSE ASEA Pan African Index	1,217.67
MARKET CAPITALIZATION (KES Billions)	2,823.96
TOTAL SHARE TRADED	55,124,000.00
EQUITY TURNOVER	1,716,975,577.00
TOTAL EQUITY DEALS	2,048.00
I-REIT TURNOVER	99,750.00
TOTAL I-REIT DEALS	4.00

Cover Story

From Pg 1

The Ministry of ICT set up an 11 member taskforce headed by former Information Permanent Secretary Dr. Bitange Ndemo to explore the use of distributed ledger technology and artificial intelligence for development in Kenya. This however will be met with a number of challenges including the refusal by the CBK and banking sector to adopt crypto currencies and blockchain technologies.

"The problem has been the regulatory framework, going forward the government needs to allow the Central Bank of Kenya to create a sandbox where a pilot study could be carried out to see how they can increase greater inclusivity by using the blockchain technology." Bitange Ndemo Chairman of Blockchain Taskforce

Kiprono Kittony Chairman of the National Chamber of Commerce and Industry(KNCCI) says the biggest challenge in Kenya is information asymmetry to able to bridge the information gap about what major opportunities lie for Kenya if the country decides to explore the opportunities.

To be able to delve deeper and understand the stories being told about Blockchain one has to really understand what it means. According to Bithub Kenya, blockchain is the disintermediation of trust by using a shared public ledger of transactions that can be only updated by holders of tokens on that particular network. Blockchain is designed in a manner that it is very difficult to change previous transactions as everyone will notice the ledger is being tampered with and therefore any suspicious transactions will not be approved. The definition goes on to say that blockchain is also the distributed open ledger technology that allows for the permanent storage of transactions with the Bitcoin crypto-currency.

Sean Nowak Managing partner Zephyr Acorn Kenya, a global emerging markets investment manager, specializing in creation and management of highly focused private equity funds, says there is a big opportunity in Kenya for bitcoin startups but are not doing well partly due to the strict regulations.

"I'm really excited about the task force, from the regulatory perspective I like the sandbox idea to test and learn approach while keeping in mind consumer protection, for the country to draw on what has been done in other jurisdictions like the UK and Philippines." he says

What can the tech companies, banks and entrepreneurs do to alleviate government concerns?

Eric Mwangi a venture partner in the UK and Africa says there needs to be a strategy and legal framework to engage the local community in terms of blockchain adoption. The government and private sector should adapt to financial and literacy campaigns on the benefits of blockchain and crypto currencies.

"It is important to understand what blockchain can do beyond payments, for emerging markets is foods that are doctored such that it has a QR code showing how it was grown, how long it took to mature adding value 0 100 per cent."

He goes on to say that distributor ledger ship is a way forward and nearest opportunity for the country, especially manufacturing value chain, health care having a single source of EMR records for hospitals would be very beneficial.

To be able to fully get on the band wagon Mr. Ndemo thinks the banking sector should stop hiding behind legislation find their space and embrace this technology.

"In the next 10 years the banking sector will be disrupted in terms of lending by the up and coming small firms using your MPESA history data/ purchases for the year to provide loans and this is what blockchain is trying to create."

Block chain offers a lot of security in the sense that it does itself authentication, it is inherent and its intervention across many platforms such as land registry as well as providing greater security. Concludes Kiprono Kittony, Chairman of the National Chamber of Commerce and Industry (KNCCI).

Equity Group Holdings records 16 per cent increased profits

Equity Group Holdings has again reported profits despite harsh macroeconomic environment in 2017. The bank has reported an increase of profits after tax from Ksh. 16.6 billion to Ksh 18.9 billion, a 16 per cent increase.

By Njeri Murigi

"Equity Group business model has proven that the Group is not dependent on the loan book only to drive shareholder value." Said Dr. Mwangi, Equity Group Chief Executive Officer. He also added, "Our talented, passionate and committed staff has greatly contributed to this performance."

The bank was hard hit by the capping of interest rates just as her peers were. This made the group record a 10 per cent decrease in net interest income from Ksh 41.8 billion to Ksh 37.6 billion.

"Capping off interest rate has hindered us from doing what we were called to do; financial inclusion. Our objective is to help actualize the dreams of SMEs. This is the life and livelihood of many Kenyans. Now, the dreams of many are being shattered down because they cannot access credit." Dr. Mwangi passionately explained.

He further explained that micro, small and medium enterprises have a high credit risk, but the interest rate expected to be charged on them by the regulator does not cater for this risk. Thus, the banks are not able to give them credit. "It is important to note that the bank does not determine the interest rate charged on various lenders, but the market and their credit risk does determine the interest rates." Dr.Mwangi noted.

Unlike shareholders of other institutions which have recorded decrease in profits or losses, Equity bank shareholders will receive dividends of Ksh 7.5 per share. This is similar to what they received last year. The shareholder funds grew by 18 per cent from Ksh 52.3 billion to Ksh. 61.9 billion.

The bank rides on technology to increase volumes of transactions and through it, it has also successfully made branches relationship and wealth management channels. The record shows that 75 per cent of transactions were self services in Equitel, mobile app transactions were at 14 per cent, and Merchant transaction took 2 per cent. ATM transactions were at 5 per cent while 4 percent of the transactions were at the branches. This contributed to reduction of operational cost at the Group.

Eazzy Biz, a cash management solution for SMEs has been well received by the customers. Its transaction value has increased from Ksh 48.8 billion to Ksh 139 billion. Large businesses will not need to go to branches for transaction such as processing of salaries.

"We do not allow betting in Eazy app and equitel. We uphold ethics and do not believe in short cuts." Noted Dr. Mwangi

Equity's contribution to the society is notable. Shared prosperity philosophy is their major drive. Through its corporate social responsibility arm, Equity Foundation, the bank has trained 1.6 million people on financial literacy, 36,000 people have been trained on entrepreneurship, 600, 000 farmers trained on agribusiness while 2,500 medium scale farmers supported to transform through value addition. These groups of people are the bedrock of Equity business model. These groups are in Gikomba, Kariobangi among other markets of SMEs.

Equity's 2018 economic outlook is very bullish. Dr. Mwangi notes, "We start 2018 very confident and bullish. Whatever held us back is now behind us; political tension, two year drought, power rationing." He is also hopeful that the interest rate cap is going to be repealed enabling them give loans to SMEs.

Dr. Mwangi revealed that they look forward to be in 15 countries in the next 10 years. Currently, they are in 6 countries; Kenya, Uganda, Rwanda, South Sudan, Tanzania and DRC.

Equity Bank also bets on implementation of the Big four by the government. Majorly, revamping of the Agriculture sector and value addition on the manufacturing sector will grow the SMEs making them large businesses. This will directly grow deposits and lending by Equity Group to these firms.

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Kenya Airways on the path back to lost glory

Kenya Airways has released its financial statements for the 9-month period ended 31 December 2017. The troubled public listed airline has once again recorded a loss after tax of Ksh 6.1 billion. This however is an improvement compared to the loss of Kshs 9.9 billion made in the prior year, ended 31 March 2017. This loss is attributed to high fuel prices which rose by 14 per cent in 2017 closing at US$ 62 per barrel and reduction of domestic traffic by 20 per cent. This reduction was due to the political uncertainty created by the protracted electioneering period.

By Njeri Murigi

To hedge against rise in oil prices, Kenya Airways can consider using derivatives and getting into forward contracts with the global oil companies. Through these forward contracts, KQ will lock oil prices they can buy at in future dates.

From their balance sheet, the non-current liabilities reduced by 25 per cent.

“In November 2017, the Airline completed the capital optimisation plan involving a solvent and consensual restructuring of the Group’s liabilities by converting short term loans from local banks and Government of Kenya into equity in-order to reduce its leverage position. The Government of Kenya further provided sovereign guarantee to enable aircraft financiers reschedule their payments in order to provide liquidity relief to the Airline." notes KQ in their press release.

Good news is that they recorded operational profit of Ksh 1.3 billion in the 9 month period. This is a clear indicator that they are in the right path in terms of operations in the company.

In the spirit of promoting transparency, KQ launched a corporate website to enhance interaction with the press and investors.

Explaining the place of Kenya Airways in the economy Michael Joseph the Chairman of KQ noted, "We should not view Kenya Airways as a just a business and dividend paying firm but as a GDP contributor. KQ brings headquarters of global organizations to Kenya. Investors select Nairobi because of the connectivity enabled by KQ not because of the cool climate."

The carrier's on-time performance was noted to have increased by 25 per cent compared to the previous years. There are less complains on its performance. Michael Joseph explained that we cannot compare our financial results with that of European countries. European countries have standby aircrafts which can be used when one breaks down. Currently, KQ has a 36 aircraft fleet and is working on adding more aircrafts. They will also be re-introducing the 8th dreamliner back to the fleet.

KQ looks forward to expansion of Jomo Kenyatta Airport infrastructure especially for cargo and passengers terminals which are the two main areas of business.

KQ strategy moving forward is to roll out cutting edge products to make it the airline of choice. "In line with its European partners, Kenya Airways will roll out "economy comfort" product on all aircraft in the next 12-15 months"

"We should not view Kenya Airways as a just a business and dividend paying firm but as a GDP contributor. KQ brings headquarters of global organizations to Kenya. Investors select Nairobi because of the connectivity enabled by KQ not because of the cool climate."

stated Mr. Sebastian Mikosz, CEO, Kenya Airways Limited.

The airline also looks forward to expanding their network and having cost efficiency approach. Among the areas they will expand to are; New York route, direct flights to Mauritius and non-stop flights to Cape Town. This will optimize their revenues and make KQ a great profit making firm.

"The New York route will be opened in October this year but the effect will be felt in 2019. This will be the longest flight and will be on a daily basis. The route will help grow our regional network and attract more investors to the Nairobi hub. This will help us thrive in the competition." Mr. Mikosz clarified.

The firm looks forward to having strategic partnerships and alliances and joint ventures this will enable them raise money and acquire more expertise in running of the operational activities.

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EDITORIAL:
PUBLISHER & EDITOR IN CHIEF
Ochieng Oloo

WRITERS
Njeri Murigi
Nelius Kanyingi
Jack Odhiambo

GRAPHIC DESIGN
Jeremiah Ombok

LOGISTICS
Frank Agutu

CORPORATE:
FOUNDER & CEO
Ochieng Oloo

FINANCE DIRECTOR
Caleb Orwa

ACCOUNTANT
Hamphrey Odongo

COMMERCIAL MANAGER
Purity Kongere

HEAD OF RESEARCH
Bede Nesbitt

RESEARCH ANALYST
Dave Oricho
Jack Odhiambo

INTERNS
Mirriam Pareyio
Rachael Kibe

MARKETING EXECUTIVES
Joan Williams

ADMIN
Wendy Adhiambo

DIGITAL MARKETING CO-ORDINATOR
Daniel Ogeto

CONTACTS
Think Business Limited,
87 Rhapta Road, Westlands
P.O. Box 12800 - 00100, GPO, Nairobi
Tel: +254 020 4453881/2,
E: editorial@thinkbusiness.co.ke
Web: www.thinkbusinessafrica.com