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MONEY MARKETS

Foreign investors haul Sh5bn out of Nairobi bourse

Kestrel CEO Andre DeSimone. PHOTO | FILE

IN SUMMARY

- Foreign exchange risk and capital gains tax uncertainty are seen by analysts as the trigger of the capital flight amidst improving prospects in competing markets.
- The negative investor sentiment has also been attributed to slower earnings growth across several sectors and the high count of profit warnings indicating a tougher operating environment for businesses.

Foreigners took out Sh1.5 billion from the stock market in May pushing the year-to-date outflow to nearly Sh5 billion.

Foreign exchange risk and capital gains tax uncertainty are seen by analysts as the trigger of the capital flight amidst improving prospects in competing markets such as Nigeria and Egypt.

Data compiled by Standard Investment Bank (SIB) shows the highest outflows came in the first week of May when the investors took out Sh900 million, 80 per cent from the Safaricom *<URL: http://www.businessdailyafrica.com/stocks/-/1322440/1394278/-/shkse6/-/index.html >* counter.

“Foreign investor activity has been high, above 50 per cent on average, and inclined towards distributive activity.

From the current market trend coupled with the emerging forex risk, the NSE (Nairobi Securities Exchange) from a foreign perspective appears weak on dollar returns,” said Genghis Capital analyst Silha Rasugu.

“Capital gains tax is also a factor due to the vagueness of the law and the uncertainties…for investors, uncertainty is risk, therefore, it has an impact on investment decisions.”

The negative investor sentiment has also been attributed to slower earnings growth across several sectors and the high count of profit warnings indicating a tougher operating environment for businesses.

READ: Foreign investors flee NSE for bullish Nigerian exchange *<URL: http://www.businessdailyafrica.com/Foreign-investors-flee-NSE-for-bullish-Nigerian-exchange/-/539552/2713198/-/a8frcg/-/index.html>*

The May net outflow makes the forth month out of five this year, with only February recording a net foreign inflow of Sh201 million. In January, the investors took out Sh273 million, Sh3.1 billion in March and Sh67 million in April.

In the corresponding first five months of 2014, foreigners took out Sh3.9 billion but good inflows in the second half of the year saw the full-year net position return to the positive at Sh3.5 billion net.

Market analysts warn the risk of capital outflows to Nigeria and Egypt remains high, following peaceful elections in the former and the decision by Egypt to do away with CGT on equities.

“Egypt realised that to remain competitive and attract money to its capital markets, CGT cannot be practically applied to a stock exchange. In no modern frontier sub-Sahara African market is CGT applied to stock exchanges,” said Kestrel Capital chief executive Andre DeSimone.

“Capital raising and capital markets investment activity will migrate from the NSE to other developing capital markets in the region with more conducive tax regimes.”

Dollar returns for the NSE FTSE 15 index — which tracks the biggest 15 counters and is mostly used by foreign investors in picking their portfolios — have also fallen as the shilling weakened. They were negative 9.8 per cent in May according to African Alliance.

In comparison, the returns were mostly better among the peer bourses even though negative.

The dollar return on the Nigeria stock exchange stood at -1.7 per cent for the month, the Morocco stock exchange at -4.7 per cent, Tunisia at -0.8 per cent and Egypt at 2.7 per cent.

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