



# BUSINESS DAILY

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## Stockbrokers in major rebound

» **STOCK EXCHANGE** Kestrel Capital maintains top position, new players upstage established stockbrokers and investment banks in 2010 earnings as reporting season comes to a close

## M-pesa taps into diaspora flows from US, Europe

BY KUI KINYANJUI  
AND OKUTTAH MARK

Safaricom has moved to capture a larger share of the international remittances market through a new partnership with Western Union that will allow people in 45 countries to send money directly to M-Pesa accounts.

The initiative extends a three-year relationship that Safaricom has had with the international remittances firm, allowing both to target the over \$640 million sent home by Kenyans abroad each year.

"This partnership sees us pushing new boundaries to continue to keep Kenya at the forefront of the mobile world," said Mr Bob Collymore, the Safaricom CEO.

### International remittances

"Through this partnership, our customers and their friends and families will benefit from affordable, faster and more convenient international remittances."

The move allows both firms to tap into the growing remittances market, a growth market that witnessed an increase of 42 per cent growth in 2010.

The Central Bank of Kenya says the improved performance reflects continued economic recovery in source markets and a favourable domestic economic environment.

Traditionally, Kenya's source markets for remittances have remained North America and Europe, which contributed an average of 54 per cent and 27 per cent respectively in 2010.

Remittance inflows in February 2011 rose 31 per cent to Sh5 billion up from Sh3.8 billion at the same

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### BRIEFING



#### Aggreko contract dampens hope for cheaper power

The contract of emergency power producer Aggreko has been extended by another two months to ensure adequate supply of electricity, in what is likely to put more pressure on consumers.

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#### Transport costs reverse fall in cement prices

Rising distribution costs are set to reverse the falling cement prices as transporters move to increase their fees by a fifth to reflect the surge in fuel expenses.

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#### High oil prices hand Kenya Sh224 billion import bill

Kenya's spending on oil imports has increased 29.38 per cent in the 12 months to November 2010, making it the single biggest import item, according to a report by the banking sector regulator.

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### NEWS INDEPTH



#### Confidence in economy wanes as high commodity costs take toll on consumers

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### Profitability rises as investors regain confidence and economy looks up



**ANDRE DESIMONE**

Executive director, Kestrel Capital

"Most of our sales originate locally."



**KABAKI WAMWEA**

Executive director, Dyer & Blair

"We are quite well capitalised."



**JAMES WANGUNYU**

Exec chairman, Standard Investment

"Recapitalisation will not tilt competition during listings."

BY JOHN GACHIRI

Stockbrokers have recorded robust profits as they recover from the twin effects of low customer confidence and slowdown in economic growth.

Results published ahead of yesterday's regulatory deadline showed the earnings were boosted by the upturn of the economy in 2010 after a two-year slump, with new firms slowly gaining ground in the highly competitive industry.

Investment banks' and stock-

brokers' annual reports show that Kestrel Capital held on to the top having made Sh413 million in brokerage commissions, giving it a 19.36 per cent market share.

Kestrel Capital has occupied the perch since 2008 with Dyer and Blair Investment Bank coming in second place with a 12.17 per cent market share from Sh257.7 million in brokerage commissions.

Foreign investors have been the most active traders and contributed to 60 per cent of turnover at the Nairobi Stock Exchange

(NSE), pushing the NSE 20 Share Index by 36.5 per cent.

Kestrel Capital executive director Andre DeSimone said that while the firm sells for different tiers of investors, most of its sales originate locally.

He attributed the performance of the company to the economy coming from a low base of 2009 when the effects of the global financial crisis hit the local market.

Kestrel Capital has a heavy clout amongst foreigners due to its international network and its

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## TOP NEWS

# Stockbrokers in rebound as economy picks up

»From Page 1 strength in detailed research, which is a key pull factor among foreign investors.

The firm was the first local investment bank to release a report downgrading the value of Safaricom's share price, in August 2010, hot on the heels of HSBC and JP Morgan who also reviewed their grade of the share after the tariff wars began.

African Alliance, which is also strong on research and its pan-African network, dropped to tenth position with 4.64 per cent on being displaced by CFC Financial Services (9.29 per cent), Sterling (6.43 per cent), Standard, (6.04 per cent), Apex Africa (5.79 per cent), Faida Investment Bank (5.50 per cent), Genghis Capital (5.33 per cent) and Renaissance Capital (5.19 per cent).

For these firms, renewed confidence in the market explains the increase in earnings.

Suntra Investment Bank chief executive officer Michael Gichohi said that the entire market was lifted by the overall increase in market activity where the NSE 20 Share Index improved by 36.5 per cent to 4432.60 points from 3247.44 in 2010.

"The entire industry had to work hard at building confidence and advising clients on the opportunities available," said Mr Gichohi.

Firms were also confident in the ability of the capital markets to raise money after KCB, TPS Serena, ARM, KPLC and Standard Chartered went for rights issue and mortgage firm Housing Finance issued a Sh10 billion bond, added Mr Gichohi.

Dyer and Blair executive director Kabaki Wamwea said that the investment bank's turnaround in

## Top 10 Kenyan Stockbrokers and Investment Banks: Market Share

Investment Bank/Broker	Brokerage Commissions		
	2009 (Sh mn)	2010 (Sh mn)	Market Share
Kestrel Capital (East Africa)	154.08	413.09	19.36%
Dyer & Blair Investment Bank	121.31	259.74	12.17%
CFC Stanbic Financial Services	64.36	198.15	9.29%
Sterling Investment Bank	28.75	1370.18	6.43%
Standard Investment Bank	55.73	128.88	6.04%
Apex Africa Investment Bank	62.2	123.52	5.79%
Faida Investment Bank	111.67	117.27	5.50%
Genghis Capital	40.51	113.80	5.33%
Renaissance Capital Kenya	27.39	110.79	5.19%
African Alliance Kenya Securities	121.60	99.06	4.64%

SOURCE: COMPANY REPORTS

fortune was driven by a two-pronged approach.

"There was a lot of focus on corporate finance and there was a strong position from the brokerage business," Mr Wamwea told the *Business Daily*.

The brokerage business made Sh259 million while the advisory business made Sh20.28 million, which saw the investment bank record a Sh223 million in profits after tax compared to a Sh54 million loss the previous year.

The corporate business in particular is an area investment banks are eyeing after a number of firms such as TransCentury, BritishAmerican, UAP Insurance and Bank de Kigali expressed interest to list by the end of the year.

"We'll try and bid for some of the listings," said Faida Investment Bank chief executive Bob Karina.

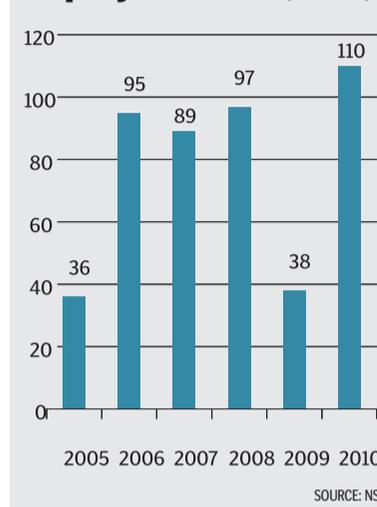
The CMA has, however, put a Sh250

million minimum capital for investment banks which will leave only a handful of players in a position to participate as transaction advisors and sponsoring brokers for these listings. Yesterday was the recapitalisation deadline and Sterling Investment Bank has already said it will downgrade to a stockbrokers' license due to the costs of the license outweighing the benefits.

Players who revert to offering stockbrokerage services only will miss out on the lucrative business of being transaction advisors in major transactions at the bourse. The deals include IPOs, rights issues, mergers and acquisitions which diversify sources of income and increase the firms' value.

Investment banks are also allowed to trade with their own money and earn margins on transactions, although stockbrokers are also allowed to acquire dealership licenses at an

## Equity turnover (Sh bn)



extra cost. Mr Wamwea said that this is one factor that has contributed to Dyer and Blair's profitability.

"At one billion shilling we are quite well capitalised," he said.

Fees from advisory services generally declined and as such firms would rather focus on the brokerage fees and commissions which are the main revenue drivers.

Mr DeSimone says that margins in the advisory business would improve as the market fully recovers from the global financial crisis.

"There was not a lot of capital activity not just here but globally. There was little activity up until the Safaricom IPO," said Mr DeSimone.

Standard Investment Bank executive chairman James Wangunyu said that the recapitalisation may not translate into a handful of investment banks left in the market reaping a windfall from the listings that are in the pipeline.

"Those who remain are the same

ones who have been doing this type of business," said Mr Wangunyu.

Dyer and Blair, Standard Investment Bank, CFC Financial Services and NIC Capital are the firms that are strong in transaction and advisory services.

The last two firms also show that banks which opened investment banks and brokerage services firms are gaining ground in the market.

Genghis Capital and Kingdom Securities which are arms off Chase and the Co-operative Banks have gained a 6.43 per cent and 4.34 per cent market share from a 0.3 and 0.7 per cent share in 2008.

Equity Investment Bank is the exception; the bank had 0.54 per cent market share from Sh8.99 million in brokerage commission, prompting a strategic review that is expected to yield dividends in two to three year's time.

"The problem was a matter of execution. We have had to go back to the drawing board" said chief executive James Mwangi, adding that Sh350 million had been injected into the business and new expertise brought in.

"With the required resources in place now, we are sure to achieve our objectives in the next two to three years," added Mr Mwangi.

ABC Capital also increased its brokerage commissions from Sh40 million from Sh8.8 million which saw the firm transform a 2009 Sh9.4 million after-tax loss to a Sh4.06 million profit in 2010.

Equatorial Investment Bank made no brokerage commissions for two years in a row.

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# Safaricom turns to diaspora flows from America and Europe

»From Page 1 period last year, reflecting economic recovery in the source markets.

The beginning of the year saw the highest remittance inflows since 2004 according to official data from the Central Bank.

The new markets represent a regulatory breakthrough for the product, which has pushed to enter several new international markets in the past four years, but has enjoyed sluggish success mostly due to legislative hurdles.

In recent months, Safaricom has deepened its hunt for more customers for M-Pesa on a regional basis as it seeks to increase its earnings from the service. Vodacom, which runs the service in Tanzania, recorded a 600 per

cent growth rate in the last year and now has six million subscribers.

The new partnership represents Western Union's third attempt to crack into the mobile money transfer business in as many years. In 2008, it signed a deal with Safaricom that allowed subscribers to transfer funds between the UK and Kenya.

The following year, it inked an agreement with Zain (now Airtel) that allowed regional users of the mobile firm's money transfer product to receive money from participating Western Union locations around the globe.

"In the past few months, we have seen impressive adoption of the mobile channel. In some cases, with success-



Safaricom customers at an M-pesa agency. The company has partnered with Western Union to help Kenyans abroad send money through their mobile phones. FILE

ful mobile wallet programmes like M-pesa, we have seen anywhere from 25 per cent to 40 per cent of transactions going to a mobile wallet vs a traditional cash payout," said David Yates, Executive Vice President and President for business development and innovation at Western Union.

The maximum amount that can be sent at any one time via the new service is approximately Sh35,000, but periodic limits, daily, monthly or yearly, will depend on the country

the money is sent from. Charges for sending money vary depending on the amount sent, the country of origin and the agent at which the money is being sent from. Meanwhile, Safaricom has also announced that it will not embrace a new technology that will allow users to transact instantly using their phones as it would be too costly an affair at this moment.

The money transfer service — which allows over 13 million Kenyans transfer over Sh1 billion to each other everyday

— will remain SIM-card based, bucking an international trend among payment providers that has seen them favour Near Field Technology (NFC).

NFC allows gadgets such as mobile phones to communicate with readers that allow for near instantaneous transactions with the wave of a phone.

In the past year, a growing number of financial and mobile companies have explored the use of NFC as an alternative to the current offerings including mobile phone manufacturers like Nokia and Google, who are vying for a piece of the mobile money pie.

Yesterday, Safaricom said it was keen to protect its proprietary product by tying users to its SIM cards and would not be making the shift to the new technology soon.

"This approach is based on the premise that mobile money is a generic product across the globe, regardless of jurisdiction or operator. We know that this is not the case currently," said Betty Mwangi-Thuo, the general manager for Financial Services at Safaricom.