



Centum Investments Valuation Report

11th February, 2016



Centum Investments – Valuation Summary

We recommend a BUY with a target price of Kshs 57.0, a 33% upside from its current price

We recommend a BUY on Centum, with a target price of Kshs 57.0, a 33% upside from its current price of Kshs 43.0 Our recommendation is based on:

- **Real Estate strategy pay-off:** The expected returns from the Two- Rivers development, Pearl Marina and the vast Vipingo land will drive growth
- **Private Equity Lines remaining profitable:** We expect both the quoted and unquoted investments to continue with the profitability trends hinged on supportive economic environment and sound investment selection
- **Business Diversification:** Centum's diversification strategy will go a long way in widening its top line while de-risking traditional investments. Education and agribusiness will be the key future growth lines

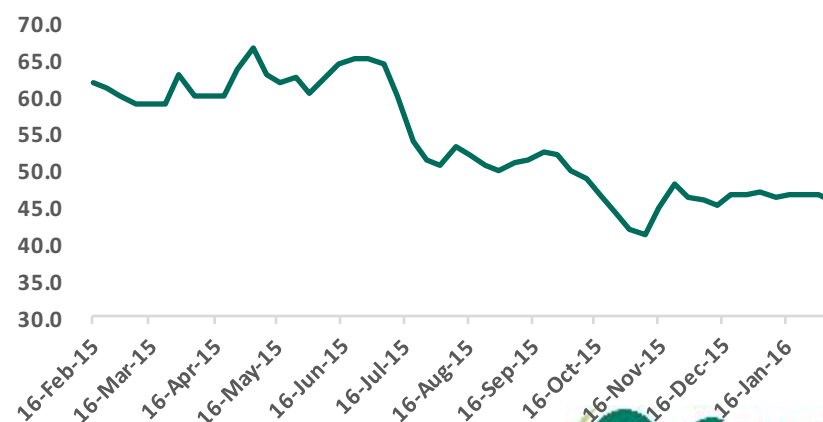
Recommendation

ACCUMULATE

All values in Kshs unless stated otherwise

Fair Value	57.0
Current Price	43.0
Upside	33%
DPS	-
Total Return	32.5%
52 week range	40.0 - 68.0
Cost of Equity	17.5%
Issued Shares (Mns)	604.9

1 year share price performance



Centum Investments – Sector Overview

Investments Sector continue to attract capital into the region with focus on alternatives

- Kenyan investments land scape has grown rapidly in the recent years, supported by a favourable macroeconomic environment, stable political environment and a vast of opportunistic sectors to drive growth
- Global capital has been the main funder for most of the investments done in the country and consequently in the region. There has been increased need for local firms to partner with global players, who have continued to inject capital in a market with some of the greatest returns.
- Some of the key factors that have shaped increased focus on Kenya's investments sector are;
 - (i) the attractive valuations in private markets compared to public markets
 - (ii) Supportive demography which feeds into the spending trends and patterns that drive growth. This population is rapidly growing and is entrepreneurial, demanding variety of goods and services
 - (iii) better economic growth prospects in Kenya as compared to global markets
 - (iv) Increased ease of exits from investments.
- Most of the investment companies have interests in a wide range of industries ranging from manufacturing, real estate, infrastructure and power generation
- Most of the investments undertaken by investment companies are tilted towards sectors prioritized by the Kenyan Government towards the realization of Vision 2030
- The investment industry is poised for growth due to coherent vision for economic development, increased support for Public-Private Partnerships framework, and a reinforced investment authority

Centum Investments – Company Overview

Centum embraces a wide cross cut sector strategy, which intertwine to support one another

- Centum is one of East Africa's leading investment company listed on the Nairobi Securities Exchange and Uganda Securities Exchange.
- Centum was Incorporated as an affiliate of the Kenyan government-owned Industrial and Commercial Development Corporation (ICDC)
- Centum focuses on eight distinct business lines namely; Real Estate & Infrastructure, Financial Services, FMCG, Power, Education, ICT, Agribusiness and Health
- Centum has laid out a strategy to focus more on the Power, Education, ICT and Agribusiness lines in its Centum 3.0 strategy

Name	Percentage Holding
Kirubi Christopher John	24.1%
Industrial & Commercial Development Corporation	22.97%
CFC Stanbic Nominees Ltd.A/Cr48701**	1.66%
Lenana Road Asset Management Limited	1.64%
International House Limited	1.57%
Standard Investment Dealing	1.27%
Uganda Securities Exchange	0.89%
Kimani John Kibunga	0.89%
The Jubilee Insurance Company Of Kenya	0.82%
PA Patel & Balooobhaichhotabhai	0.75%
Others	43.5%
Total	100.0%

Centum Investments – Growth Drivers

Centum has identified key sectors to drive future growth

- **Real Estate:** Through Two Rivers Development Ltd, Pearl Marina and Vipingo, Centum has position its foot firmly in the real estate market in Kenya. The developments will add in a new line of steady income hinged of the fast growing real estate market in Kenya and Uganda
- **Private Equity:**
 - (i) **Financial Services:** Centum's firm footing in financial services sector continues to drive growth, as was seen in the UAP exit deal. The company has increased its stake in K-Rep bank to 65% in a move to firm its position in the Kenyan banking sector
 - (ii) **FMCG:** With the growth in the FMCG, Centum's increased stake in Almasi breweries will further be the impetus for growth, driven by a supportive consumptive demographic framework
 - (iii) **Power:** Centum's venture into power brings in a new light of long term growth opportunity, since utilities are poised to earn in the long term. Both Akiira and Amu Power will deliver growth in the long term for Centum hinged on the government's support to increase power generation to 5000MW
- **Agribusiness:** Centum has ventured into agribusiness in a way to diversify its revenue lines. Through participation in farming and indirectly through agribusiness value-chain, the company will seek to further grow its business and leveraging on its other arms among them financing (K-Rep), logistics (GM East Africa) and end use supply (Almasi)
- **Education:** Centum in partnership with SABIS and Investbridge Capital, is setting up several schools across Africa, beginning with Kenya. The Company has already acquired land and is in process to start construction

Centum Investments – Key Risks

There exists several risks that may affect Centum going forward.

Whereas Centum operates in a dynamic and competitive model, there are several risks that may affect the overall business.

(i) Funding:

The venture into power and infrastructure could face funding difficulties since this project requires long term funds. Investors would prefer short term funding therefore creating an operational hitch

(ii) Execution capabilities in new focus sectors:

With the stride to education and agriculture, Centum may be faced with an execution risk as it currently lacks the in-house capacity to deliver. However, the firm has in the recent past recruited individuals to fill this gap

(iii) Regulatory risk:

Venture into new sectors will attract increased regulatory screening particularly in tertiary education and financial sectors. This could delay the turnaround time expected in the returns

SWOT Analysis

Centum is well positioned to take advantage of existing opportunities using its immense strengths

Strengths

- **Diversification**: Centum has a well diversified strategy with operations in financial services, FMCG, real estate, power, ICT, education, healthcare and agricultural sectors. This acts as a buffer against risks in any one sector
- **Strategy**: The company has positioned itself as a key investment player with a strong team and excellent exit strategies such as the recent partial exit in the Two Rivers Mall to Old Mutual

Weaknesses

- **Finance Risk**: The capital intensive nature of projects undertaken by the company has increased its finance risk substantially. Centum has used a mix of both direct equity and senior and mezzanine debt initiatives to anchor these investments

Opportunities

- **Regional Expansion**: Centum can expand regionally to take advantage of greater investment opportunities in relatively undeveloped markets. The company can leverage on its strong local infrastructure and networks
- **Partnerships**: Centum has more opportunities to partner with the government and foreign investment companies in pursuing investment opportunities. The Two Rivers Mall, a Vision 2030 project, is an excellent example of such initiatives

Threats

- **Competition**: The investment landscape in Kenya is being re-shaped by inflows from private equity funds specifically targeting Africa and investment arms of local financial institutions. Centum will face increased pressure in seeking viable investment opportunities
- **Regulation**: Centum operates in highly regulated sectors such as power and financial services. Any change in regulation such as tax will greatly affect the returns of the company

Centum Investments – Intrinsic Valuation

We obtain an intrinsic valuation of Kshs. 47.0 per share, representing a 9.2% upside

Residual Income Approach		2016F	2017F	2018F	2019F	2020F
Return on opening Equity		9.9%	14.6%	16.3%	17.9%	18.5%
Net return		3.2	4.9	6.1	7.7	9.2
Cost of equity		5.6	6.2	7.0	8.1	9.4
Opening equity		31.9	35.1	40.0	46.1	53.9
Closing equity	32	35.1	40.0	46.1	53.9	63.1
Excess returns		(2.4)	(1.2)	(0.9)	(0.4)	(0.2)
Terminal value						1.6
PV of cashflows		(2.4)	(1.0)	(0.6)	(0.2)	0.7
Current book value of equity	31.9					
PV of cashflow	(3.5)					
PV of equity	28.4					
Number of shares (Bns)	0.6					
Value per share	47.0					
Current price per share	43.0					
Upside	9.2%					

	NAV HY 2016	Adjusted Book Value	Implied P/BV	Value of Equity
Book Value	34.7	37.5	1.0x	38.3
Value per Share	63.3			
Current Price	43.0			
Upside	47.2%			

Adjusted Book Value: We made the following adjustments:

- (i) quoted investments – adjusted for equi-weighted market returns for equities & bonds over July 2015 to Jan 2016
- (ii) Investment in subsidiaries – adjusted for revaluations on the assets held at net asset value

Centum Investments – Relative Valuation

On an relative valuation, we arrive at a price of Kshs 70.6 using the PBV multiple

Company	Mkt Cap (KES Bns)	Price (KES)	P/E	ROE	Dividend Yield	PBV
CENTUM INVESTMENT CO LTD	29.3	43.0	4.1	26.0	0	0.9
GP INVESTMENTS LTD - BDR	21.7	193.0	-	(8.8)	0	0.6
EQUITES PROPERTY FUND LTD	22.0	78.6	6.0	-	7.0%	1.1
MONTEIRO ARANHA S.A.	44.4	3,626.5	57.2	2.4	9.0%	1.5
CITADEL CAPITAL SAE	55.6	16.5	-	(16.3)	0	0.5
PSG GROUP LTD	258.0	1,117.8	18.8	19.1	1.4%	3.3
ATTACQ LTD	77.8	104.0	767.9	8.9	0	0.9
GOZDE GIRISIM SERMAYESI YATI	27.7	71.9	-	(5.1)	0	1.3

Average	67.0	106.8	2.2%	1.2
Median	36.9	5.1	0.0%	1.0

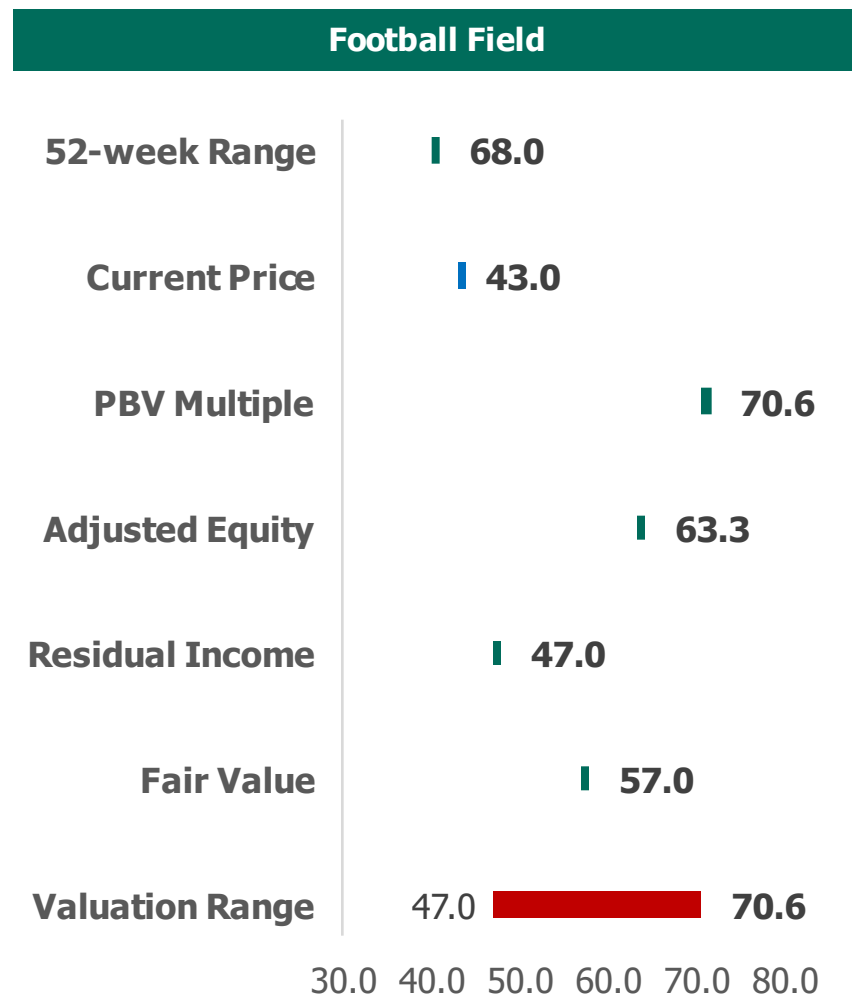
PBV Multiple	2015
Implied metric	1.2
Book Value per share	57.3
Implied share price	70.6

Centum Investments – Fair Value

We arrive at a Fair Value of Kshs 57.0, representing an upside of 33% from the current price

Valuation Methodology	Implied Price	Weighting	Weighted Value
Residual Income	47.0	50.0%	23.5
Adjusted Equity	63.3	25.0%	15.8
PBV Multiple	70.6	25.0%	17.7

Fair Value	57.0
Current Price	43.0
Upside	33%
Dividend Yield	0.0%
Total Return	32.5%



Centum Investments – Appendix

Income Statement and Balance Sheet Summary

Income Statement (Kshs Bns)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	CAGR
INCOME	1.9	2.0	6.7	5.7	7.0	8.6	10.6	12.5	13.4%
Administrative expenses	0.4	0.3	0.5	0.6	0.6	0.9	1.0	1.2	
Finance costs	0.4	0.5	0.7	1.4	0.8	0.8	0.8	0.8	
Total Expenses	0.8	0.9	1.5	2.4	1.9	2.2	2.5	2.8	12.7%
PROFIT BEFORE TAXATION	1.1	1.1	5.1	3.3	5.2	6.4	8.1	9.7	
TAXATION CHARGE	(0.0)	(0.0)	(0.3)	(0.2)	(0.3)	(0.3)	(0.4)	(0.5)	
PAT	1.0	1.0	4.9	3.2	4.9	6.1	7.7	9.2	13.7%

Balance Sheet (Kshs Bns)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	CAGR
Total non current assets	20.4	28.6	37.5	46.3	58.8	76.2	100.7	135.1	29.2%
Total current assets	1.1	0.2	3.8	9.7	10.5	16.8	24.6	34.1	
TOTAL ASSETS	21.41	28.81	41.33	56.08	69.25	92.98	125.33	169.12	32.6%
Shareholders equity	16.1	22.9	31.9	43.9	61.3	84.8	117.0	160.6	
Total Liabilities	5.3	5.9	9.4	12.2	8.0	8.1	8.3	8.5	
TOTAL EQUITY & LIABILITIES	21.4	28.8	41.3	56.1	69.3	93.0	125.3	169.1	32.6%

END