

CENTUM INVESTMENT EARNINGS UPDATE HALF YEAR 2017

AIB CAPITAL LTD

YOUR VISION OUR MISSION

The company is now halfway through the Centum 3.0 strategy, and has managed to grow the company by 77% since March 2014 in Net Asset (NAV) from KES 23.0 bn to KES 40.7 bn. This represents a CAGR of 24% which is lower than their target of 35% annual growth for the current strategy period. Centum has however consistently outperformed the market which has declined by a CAGR of 15.7% during this period, as measured by the NSE 20 Index.

The company has been trading at a discount to NAV since September 2015. With the increase in NAV per share to KES 61.10, the discount to NAV has widened to 49%.

HY17 Performance Highlights

The company delivered a 3.45% increase in NAV from KES 39.3 bn to KES 40.7 bn for the 6 months ending September 2016 as compared to an increase of 8.70% in a similar period last year. During this period, the NSE 20 lost by 17.54%.

The company posted a profit after tax (PAT) of KES 483.5 mn, 63% lower than the KES 1.3 bn reported in a similar period last year. This is majorly attributed to lower dividend income from the portfolio companies due to increased investment needs and the absence of a significant non-recurring payout from Centum Exotics Ltd (CEL). Dividend income reduced from KES 1.14 bn to KES 0.74 bn. CEL paid a total of KES 1.65 bn to the Company in the year ended March 2016, of which KES 744 mn was paid within HY16.

Interest income increased by 141% from KES 296 mn to KES 714 mn due to increased shareholder loans advanced to subsidiaries from KES 8.3 bn to KES 11.3 bn.

The company was able to reduce portfolio costs (administrative and operating expenses) by 9.8% from KES 256 mn to KES 231 mn. This represented a cost efficiency of 0.41% as a percentage of total company assets, consistent with their objective of maintaining the ratio below 2%. Total assets increased by 10.1% to KES 56.7 bn during the 6 months period.

Finance costs also reduced from KES 820 mn to KES 740 mn due to reduced volatility of exchange rates, despite an increase in borrowings. During the period, the company secured a short term USD 30 mn facility with Rand Merchant Bank of South Africa, increasing total borrowings to KES 14 bn and taking the company's gearing from 27% to 34% as measured by debt to equity.

Total return to the company, which includes net fair value changes of portfolio companies, reduced from KES 2.7 bn to KES 2.0 bn. During the current period the most notable fair value changes include gains of KES 807 mn and KES 984 mn on investments in real estate and FMCG sectors.

At Group level, PAT increased by 7.9% to KES 2.1 bn, attributed to consolidation of Longhorn Publisher's results for the first time since the acquisition of a majority stake in May 2016, overall improved profitability of portfolio companies and reduced forex losses on dollar-denominated loans.

RATING: BUY

Bloomberg ticker	CENTUM KN
Last close (KES)	41.00
Target price (KES)	56.07
Upside potential	36.75%
NAV per share (KES)	61.10
Discount to NAV	49.02%
Market cap (KES bn)	27.28
Dividend yield	2.45%
52-week range	34.25 – 51.00
Year end	March 31 st

Centum at a glance

Centum is a regional investment holding company with investments across real estate, financial services, FMCG, power and agribusiness sectors.

The Company is listed on the Nairobi Securities Exchange and cross-listed on the Uganda Securities Exchange. Its portfolio consists of over 20 investee companies, consisting of wholly and partly owned subsidiaries, associate companies and unquoted investments and a marketable securities portfolio.

Analysts

Dominic Ruriga
rurigad@aibcapital.com

Abdulrahman Hussein
husseina@aibcapital.com

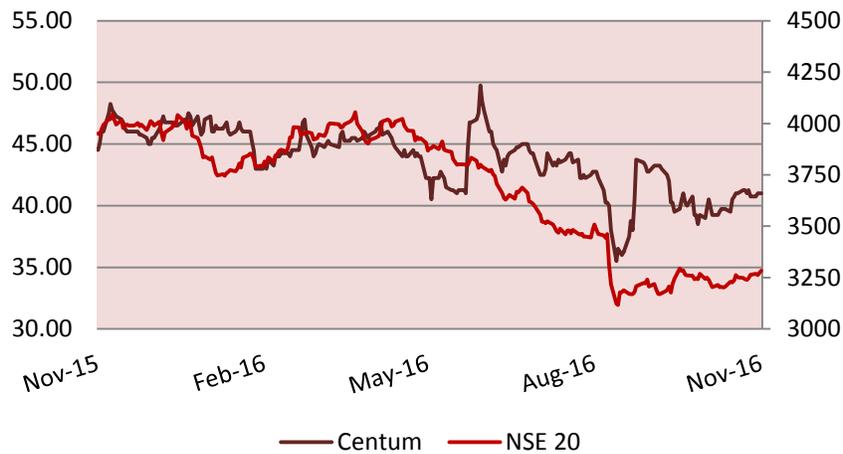
Dealing

Benard Kung'u kungub@aibcapital.com

Ben Gichuru gichurub@aibcapital.com

Mary Byera byeram@aibcapital.com

Centum V NSE 20



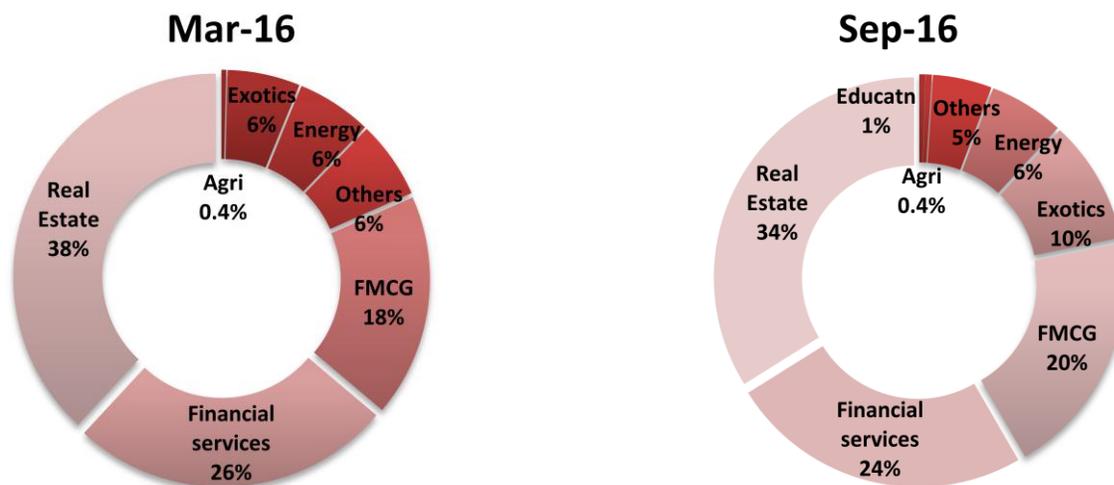
Source: NSE, AIB Research

Centum’s share price has lost by 12% YTD compared to the NSE 20 Index’s loss of 18%.

Major portfolio developments include:

- Completion of Phase 1 of Two Rivers Development including the mall with gross lettable area of 67,000 m2, a theme park and the establishment of Two Rivers Power and Water Companies which are operational. The mall is 66% let and is set to be launched in February 2017.
- Deployment of KES 1 bn to Almasi Beverages through the latter’s successful rights issue (160% subscription) for capex investments, with new capacity expected to be commissioned in December 2017.
- Increased investment in equities to 37% proportion of the marketable securities portfolio from 23%.

Sector exposure by portfolio value



Source: Centum reports and presentations

Outlook

Expected exits to contribute significantly

Management has given an indication of one or more possible exits within FY17 at significant value uplifts. This is expected to contribute to NAV growth through realized gains on exits.

Changes in governance

The Board has appointed the former Chairman and President of African Development Bank and Minister for Finance in Rwanda, Dr Donald Kaberuka as the new chairman of the Board. His wealth of experience and broad networks is expected to contribute positively to planning and execution of strategy.

Reduced dividend income for FY17

In line with our expectations, dividend income declined for HY17 and a similar trend is expected in the second half of the financial year. The major contribution to dividend income for FY16 was KES 1.65 bn from the disposal of quoted investments by Centum Exotics. Considering the continued bear run in the equities market and reduced yields on government securities in 2016, it is highly unlikely that the company will sustain a return of similar magnitude for FY17. Investment needs in a number of subsidiaries also reduce the possibility of dividend payments to Centum from these subsidiaries. Long term growth of dividend income is however expected in line with growth in population, disposable incomes and urbanization especially from FMCG, real estate and energy sectors. Concurrently, we expect growth in fair value gains of investment property.

Upcoming bond maturity

Centum has on their books a 5-year corporate bond that matures in September 2017. The bond could be repaid using internally generated funds but the more probable option would be to refinance it with another bond in order to allow investments to continue.

Possible share buyback

Last month, Centum became the first company to adjust its clauses to allow for share buybacks, possibly in order to support the share price. In the event that the company repurchases its shares at the current situation where book value is greater than market value, the implications would be a reduction in cash, NAV, total assets and number of issued shares but a net increase in NAV per share. At this point however there is no indication of the occurrence, timing, or method of a possible buy back.

Valuation

We make no significant changes to our projections based on the outlook and therefore we maintain a target price of KES 56.07 as presented in our update dated 18th October 2016. This represents an upside potential of 36% over the current market price of KES 41.00.

Click [here to download](#) the valuation update.

Research Disclosure

Though utmost care has been taken in the preparation of this report, we do not guarantee the accuracy or completeness of the information contained herein nor will AIB Capital Ltd be held liable for the information contained herein.

The views expressed in this report are solely those of the Research Department and are subject to change without notice.

The information in this report is not an offer for the sale or purchase of any security. This document should only be considered a single factor used by investors in making their investment decisions.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB Capital Ltd.

NOTICE TO US INVESTORS

This report was prepared, approved, published and distributed by AIB Capital Limited Company located outside of the United States (a non-US Group Company"). This report is distributed in the U.S. by LXM LLP USA, a U.S. registered broker dealer, on behalf of AIB Capital Limited only to major U.S. institutional investors (as defined in Rule 15a-6 under the

U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through LXM LLP USA.

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Analyst Certification. Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) AIB Capital Limited is the employer of the research analysts responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analysts are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. Important US Regulatory Disclosures on Subject Companies. This material was produced by Analysis AIB Capital Limited solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by LXM LLP USA and elsewhere in the world by AIB Capital Limited or an authorized affiliate of AIB Capital Limited. This document does not constitute an offer of, or an invitation by or on behalf of AIB Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which AIB Capital Limited or its Affiliates consider to be reliable. None of AIB Capital Limited accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information.

All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

LXM LLP USA assumes responsibility for the research reports content in regards to research distributed in the U.S. LXM LLP USA or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. LXM LLP USA has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of LXM LLP USA at the time of the publication of this research report. As of the publication of this report LXM LLP USA, does not make a market in the subject securities.