CENTUM INVESTMENTS UPDATE:

Centum: Low on Sentiments but High in Value

24th April 2019

NSE Ticker:
ICDC

Target Price
KES 58.37

Current price
KES 32.00

NAV per share:
73.61

Recommendation
BUY

Upside
82%

52 week range:
KES 24.50 to KES 44.25

LTM EPS:
KES 5.08

P/E
5.96x

LTM ROE:
6.1%

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» Current Valuation still leaves the door wide open for value investors. We firm up our previous BUY recommendation on Centum (NSE: ICDC) due to persistent market undervaluation of the investment company. The current price of KES 32.00 is a reflection of the current pessimistic market sentiments and not a true reflection of Centum's fundamentals. The market seems to be reflecting a recency bias, with the market overweighting the adverse 2018 Full Year (FY18) surprise, of a 66.4% decline of Profit After Tax (FY18 PAT) to KES 2.8Bn from KES 8.3Bn.

» The market is under-pricing the quality of Centum's management: Centum (NSE: ICDC) is currently trading at a 57% discount to NAV. The firming up of discount to NAV we feel is not justified considering that Centum has a solid management track record and history of value upturns. Investors may be underestimating the management's ability to manage the development risk inherent in their business model and management's ability to execute their clearly defined investment strategies.

» Exposure to the economy is leveraged but diversification is increasing: Centum's adoption of active investment strategies in search of market-beating returns has seen it increase significant exposures to Private Equity and Real Estate. These sectors have been one of the main NAV growth drivers. The two sectors have jointly driven the growth of NAV, but the total return performance has been dominated by the property sector, with the Two Rivers & Rea Vipingo Development exposure especially significant. The exposure concentration is likely to continue to decline with the management focus shifting to buying mature companies with proven earnings potential and as greenfield investments in energy, agriculture and education take off.

» Management refocus on cash-generating investment will further diversify the earnings mix: Value accretions have significantly contributed to Centum's previous successes. Fair value gains and investment income from the sale of assets have been critical in growing shareholder's value. The focus on gains, however, may be a cause of the current investor discomfort. The good news is that Management is pivoting. They have communicated plans to halt investments into their development portfolio and look into investing more into mature companies. The realignment of their strategy, will yield more income streams that will create more headroom to fund operating and financial costs. By extension, investing in mature companies would also reduce the sensitivity of Net Income to asset sales.

» The nature of Centum's portfolio and their long-term active portfolio approach will continue to provide diversification benefits to investors: Centum has taken a unique route to deliver value for its investors. Centum, unlike most listed companies, does have a truly long-term focus in creating value. The unique total return profile of Centum, dividend income and realized gains, can provide diversification to investors who already own companies on the NSE. This diversification benefit is especially crucial given the NSE currently doesn't offer a lot of options to invest in certain sectors such as: Education and Food services.

CERTIFICATIONS& REQUIRED DISCLOSURES BEGIN ON PAGE 20

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Investment Drivers and Risks

Key Value Drivers

» The growth of the Kenya Economy will help Centum's profitability recover: By virtue of its active investments into 8 sectors, 6 of which are currently active. Centum is long the economy. Their poor performance in FY17 was indeed partially brought about by their exposure to the weakening of Kenya's Economic growth in 2017 to 4.8% (source: KNBS). The leveraged exposure, however, will provide crucial tailwinds to help Centum to recover as the economy bounces back in the medium term.

» Consolidation in the Banking sector could give financial services a reprieve: The banking sector is currently in a transitional phase. Banking mergers and acquisitions in the last decade have been propelled by increased capital requirements, the need to increase market share and to cope with interest caps . The changing winds of consolidation could provide management with an exit from the underfire Sidian Bank or atleast form a stronger and more profitable entity with a like-minded bank.

» Low inflation and the increase in household incomes will be crucial in growing turnover for FMCG: Centum's is exposed to the Fast-Moving Consumer Goods segment (FCMG) through Almasi Beverage & King Beverage. The subsidiaries could see an uptick in demand for their products as incomes and consumer confidence recover. The growth in FCMG could help counteract any possible decline in profitability from financial services.

» Real Estate remains an area where value can be created through active management: Centum's portfolio allocation by management is heavily exposed towards the Real Estate industry with 49.94% of the balance sheet exposed to the sector. The active share of 42.94% compared to Kenya's GDP exposure to Real Estate, may come under pressure in the short term as price correction and slowdown in the sector dampens profitablility. In the long term, however, we remain optimistic that despite the illiquid nature of Kenyan Real Estate, Centum can take advantage of the low information transparency in the sector to outperform. As a specialist in the area, Centum can deliver higher risk-adjusted returns once the demand in the sector recovers.

» An easier lending environment could reduce Sidian's Loan Loss Provision: As the defaults plateau, profit margin recovers, dividend payouts increase and cash positions of businesses recover from the hard times in FY19 we could see banks take on less loan loss provisions. Sidian, the tier III bank, is no different. Lower loan loss provisions in FY18 and FY19 could lift the bank's profitability in the short term.

» Private equity activity has picked up and exits could continue to accelerate: Investment income in FY19 would be boosted by the GenAfrica transaction that closed in the first half of the 2019 Full Year (HY1FY19). Centum's private equity could still record another gain on exit in the HY2FY19. The end of political uncertainty and the improvement in the business environment could enable management to score another profitable exit. The gain on sale of assets will definitely result in a recovery of FY19 EPS and may signal the price towards fair value.

» Centum current market valuation is a classic case of market overreaction and we expect impressive FY19 financial results to be the catalyst that cures loss aversion. The current price in our opinion is a classic case of behavioural biases overpowering fundamentals. Centum has a strong management track record, the investment group has a great commitment to sector diversification and holds the long-term view in investing their portfolio. We issue a recommend of BUY to long term investors, whose investment horizon match the company's long-term approach to unlocking value. With HY19 financial results already in the black, we believe that Centum Investments results will continue to ride the tailwinds of a better business environment in FY19 to possibly beat market expectations. A positive earnings surprise announcement could go a long way in undoing the bearish sentiments on the stock.

Key Investment Risks

» Centum may be diversified by sector but concentrations still exist: In a deliberate effort to outperform its benchmark, Centum has concentrated 87.8% of its balance sheet into companies within 3 sectors. The three key active sectors are : Real Estate, Manufacturing and the Finance & Insurance sectors. These sectors have been continually supported by the development of in-house expertise specific to these sectors. That said, the high concentration is still a risk. The high concentration means that investors may pay a huge amount of opportunity costs if the other underweighted sectors, such as Agriculture and Education outperform the entire economy.

In KES Million unless otherwise Stated	Ownership	Carrying Value FY18	Carrying Value HY19	HY19 Contr. to Balance Sheet/ Total Assets (a)	Sector Contr. to 2017 GDP (b)	Active Share (a-b)
Real Estate Exposure		30,523	33,435	49.94%	7.00%	+42.94%
Financial & Insurance	-	11,026	9,037	13.50%	7.40%	+6.10%
Manufacturing		16,716	16,314	24.37%	7.90%	+16.47%
Information, communication and Technology		763	812	1.21%	1.30%	-0.09%
Accommodation and Food Services	15.0%	856	856	1.28%	0.70%	+0.58%
Energy		3,635	3,610	5.39%	1.70%	+3.69%
Agriculture	100.0%	185	212	0.32%	34.60%	-34.28%
Education		556	643	0.96%	3.90%	-2.94%
Others						
Receivables	100.0%	101	45	0.07%		
Cash	100.0%	1,078	1,026	1.53%		
Assets under development	100.0%	241	330	0.49%		
Others		1,420	1,401	2.09%		
Total Exposure		66,088	66,952	100.00%		
Borrowings		-14,843	-14,770			
Other Liabilities		-2,559	-3,199			
Net Asset Value		48,686	48,983			

Source: Centum HY19 presentation, AIB Capital

» Centum returns are biased towards value accretions from realized and unrealized fair value gains: Centum management's ability to consistently realize value uplifts speaks to their investment management pedigree. Centum's reliance on realized gains on exits, however, exposes investors to the possibility that in a tough selling environment, Centum's headroom to cover expenses becomes thin. The lumpiness of realized value accretion also means that the growth of Centum's EPS is less predictable to investors and can be sensitive to the overall economy.

» Interest rate capping still remains an impediment for Sidian and Real Estate investments: The regulation around the pricing of credit has hit Tier Three banks such as Sidian the hardest. The i-rate cap and the rush to quality in the banking sector has left the Tier III banks with an insurmountable hill to climb. Management is currently undertaking crucial initiatives to turn the performance of Sidian Bank including rebranding, changing the bank's focus to trade finance, acquiring IFU funding and even changing Sidian's leadership. All these actions, however, will be of nought if the regulation remains and Centum fails to "merges-up" the Tiers to Tier I.

» Transitory impediments to fair value could be sticky in the short term: Transitory roadblocks to fair valuation of Centum still remains. We delve into the short-term impediments in the next page.

What could be driving the stickiness of Centum's undervaluation?

We believe that on top of the issue of investor pessimism that currently pervades, that there are certain transitional idiosyncratic factors at play. We list the following impediments to the uncovering of fair value that investors should have in mind before investing in centum:

» Centum has a limited analyst coverage: As far as we know Centum is currently only covered consistently by a limited number of sell-side research houses. Limited coverage could be linked with ICDC's undervaluation because it creates low signalling to market participants of any undervaluation. Low coverage may not be ideal in creating a great environment to drive the market price towards the fair value, but creates space for the opportunistic investor to pounce on any prevailing market distortion.

» Asymmetry of information between the market players and management: Centum Investment's current portfolio could be described as: a diversification focused portfolio with a bias towards alternative investments. These investments into the Real Estate and Private Equity create a critical and significant mismatch of information between management and investors. The current undervaluation may be the market demanding a higher premium for assuming the risks of information asymmetry during this period of high uncertainty.

» The market may be pricing in Key Man risk: The level of success achieved by the company is generally perceived as a result of two key individuals at Centum: James Mworia, CFA & Chris Kirubi. The dynamic duo is generally credited with the growth of the group. Market perception of the duo's future involvement with Centum may come into play, with the market pricing in a discount to Net Asset Value (NAV) for the risk of potential disruptions.

» The premium for complexity & Risk: Investment companies are notoriously complicated to analyse and project their earnings. Centum has a long-term horizon view, with a bias towards value accretions. We believe the market is incorrectly underestimating Centum's ability to actualize re-evaluation gains. The current price doesn't reflect the management's truly tested ability to achieve gains on exits. We believe that, except for their Vipingo development and Pearl Marina (Centum Devt.), the current valuation of the investment portfolio is within the reach of management.

» An easier lending environment could reduce Sidian's Loan Loss Provision: As the defaults plateau, profit margin recovers, dividend payouts increase and cash positions of businesses recover from the hard times in FY19 we could see banks take on less loan loss provisions. Sidian, the tier III bank, is no different. Lower loan loss provisions in FY18 and FY19 could lift the bank's profitability in the short term.

To assure investors of the group's fundamentals, we have released this report with a special focus on evaluating management performance, to mark James Mworia's 10 years at the helm.

MANAGEMENT SCORECARD: A friendly reminder to investors

» To evaluate management ability under Mworia's leadership we delve into the drivers of management's performance and their achievements. We also crucially evaluate Centum's management ability to meet their strategic objectives and highlight Centum's returns at the group level.

» Mworia's 10-year tenure spans two strategic periods namely: Centum 2.0 and Centum 3.0. We flesh out our evaluation across the strategic periods to fully understand management's achievements and competence. We also initiate our management scorecard to communicate our opinion on management effectiveness throughout the strategic period.

MANAGEMENT SCORECARD: Centum 2.0 Performance

For the Period from 2009 to 2014

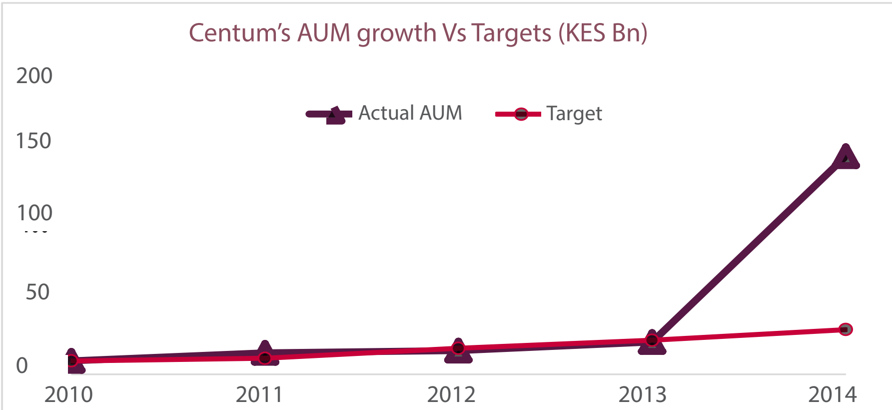
Key Objectives:

Increase Asset Under Management (AUM) to KES 30Bn
Achieve returns above NSE 20
Maintain Portfolio costs below 2.5% of Assets Under Management
Diversify away from Kenya

The Key Outcomes:

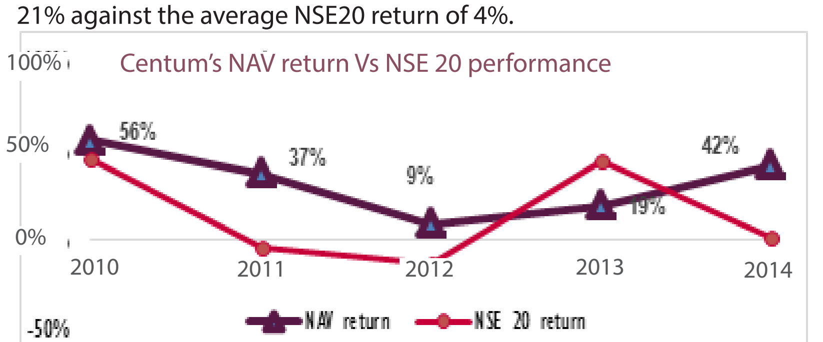
Centum 2.0 Performance: Positives:

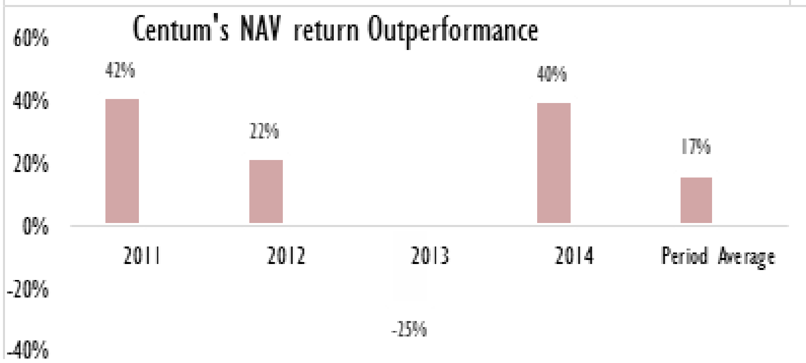
» AUM targets we achieved and even exceeded: Centum's management remained on track, growing the Asset Under management consistently above targets. The centum management, however, were behind on their third-party AUM targets until they successfully acquired GenAfrica (then Genesis Kenya Investment Management) in 2014.



Source: Centum financials, AIB Capital

» Centum's NAV return was superior to the return from NSE 20: Centum's sees itself as an active manager who aims to invest in assets to deliver a return higher than an investment into the NSE. Management efforts over the strategic period yielded a total return over and above the NSE 20. Total return, measured by NAV return, outperformed in four of the five years in the strategic period. The average NAV return for the period between 2009 and 2014, stood at 21% against the average NSE20 return of 4%.



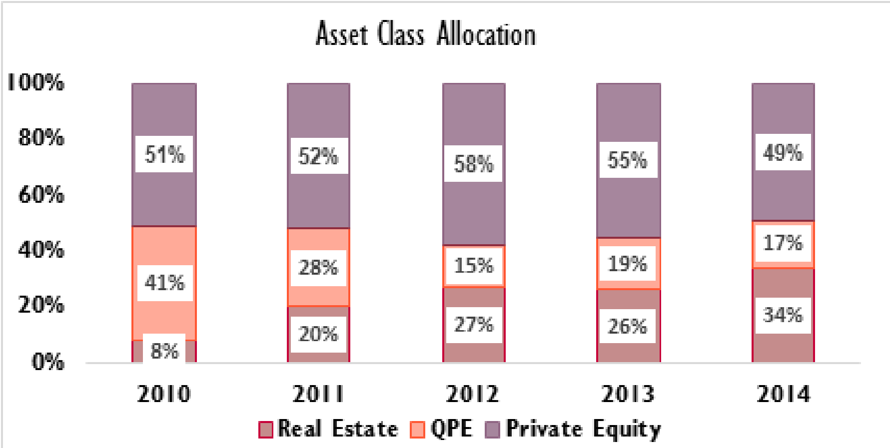


MANAGEMENT SCORECARD: Centum 2.0 Performance

For the Period from 2009 to 2014

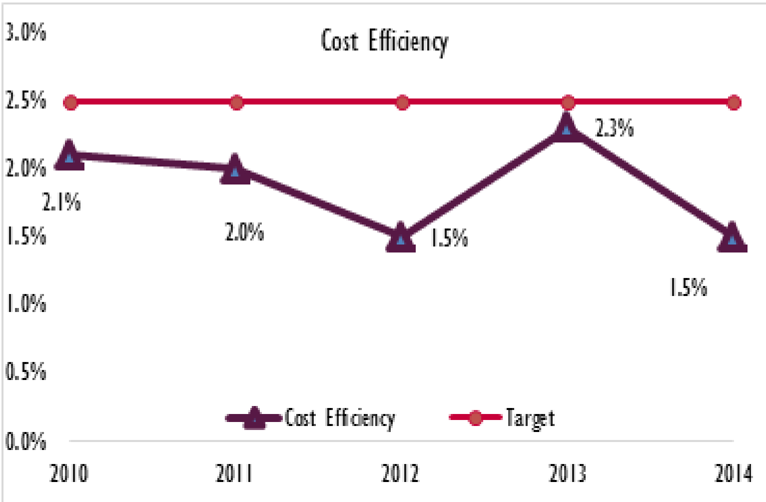
Centum 2.0 Performance: Positives:

» The company diversified away from Quoted Private Equity: Centum's management did achieve a greater level of diversification by the end of FY14. The group diversified away from quoted private equity and increased allocation into Real Estate.



Source: Centum financials, AIB Capital

» Management successfully managed to keep portfolio costs below 2.5% of portfolio value: Centum's management was also successful in keeping the company's portfolio costs below the target of 2.5%. Cost efficiency during the period was kept well in focus, with the highest cost to closing portfolio ratio recorded in 2013 at 2.3%.



Source: Centum financials, AIB Capital

Company Data	2009	2010	2011	2012	2013	2014
Portfolio Value (Mn)	5,930	9,360	14,463	14,694	19,307	29,372
Portfolio Cost (Mn)	123	199	291	227	442	431
Cost Efficiency	2.1%	2.1%	2.0%	1.5%	2.3%	1.5%

Source: Centum financials, AIB Capital

MANAGEMENT SCORECARD: Centum 2.0 Performance

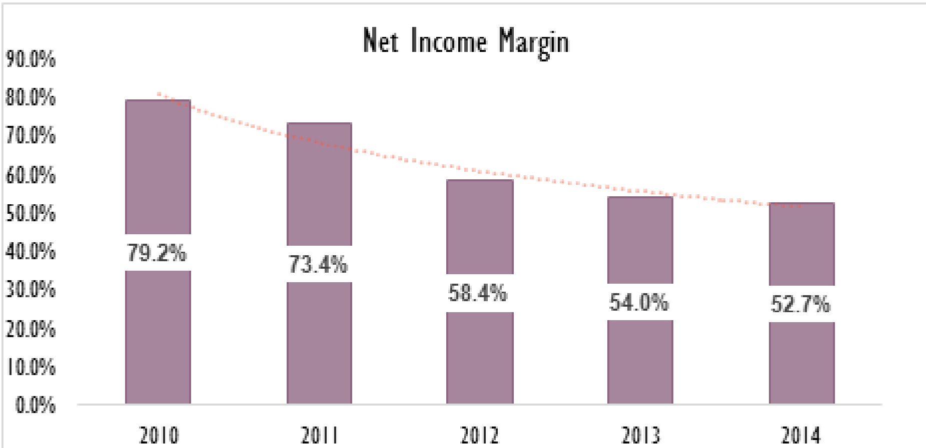
For the Period from 2009 to 2014

Centum 2.0 Performance: Negatives

» Company's Net Margins declined. The Net Income margin fell from 79.2% to 52.7% by the end of March 2014. The decline in profitability during the strategic period was driven by the gradual but irreversible firming up of Administrative and finance costs. The Net Income margin was also driven mostly by investment income with exits providing tailwinds without a matching increase in expenses.

Income KES Millions:	2010	2011	2012	2013	2014	Period Growth
Total Income	1,121	1,685	764	1,914	1,988	77%
Total Expenses	246	446	277	843	863	263%
Common Size Ratio	2010	2011	2012	2013	2014	
Total Income	100.0%	100.0%	100.0%	100.0%	100.0%	-
Total Expenses	21.9%	26.5%	36.2%	44.0%	44.9%	-

Source: Centum financials, AIB Capital

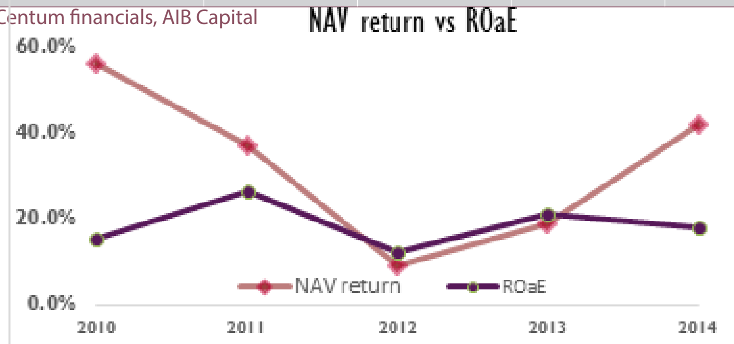


Source: Centum financials, AIB Capital

» Company's ROaE and ROaA declined as management turned to value accretion. NAV return out-performance of the NSE 20 was mainly driven by capital gains or accretions rather than income. The flow of shareholder returns gradually shifted from the income statement, to flow from Other Comprehensive Income. This shift in earnings mix, drove the decline in Centum's' ability to create value through the Return on Equity but boosted Centum's ability to grow value via the NAV returns. The Dupont analysis of ROE revealed that the weakness was driven by two big drivers; Profitability and Asset utilization, which fell consistently over the five-year strategic period.

ROE:	2010	2011	2012	2013	2014
Net Income Margin(a):	5,930	9,360	14,463	14,694	19,307
Net Income/Total Income	76.4%	83.4%	63.7%	60.2%	57.9%
Total Asset Turnover (b):	2.1%	2.1%	2.0%	1.5%	2.3%
Total Income/Average Total Assets	0.19	0.27	0.16	0.27	0.22
Financial Leverage (c):					
Average Assets/Average Equity	1.05	1.18	1.22	1.29	1.43
ROaE ((a)x(b)x(c))	15.4%	26.3%	12.1%	21.2%	18.0%
ROaA ((a)x(b))	14.8%	22.3%	10.0%	16.4%	12.6%

Source: Centum financials, AIB Capital



MANAGEMENT SCORECARD: Centum 2.0 Performance

For the Period from 2009 to 2014

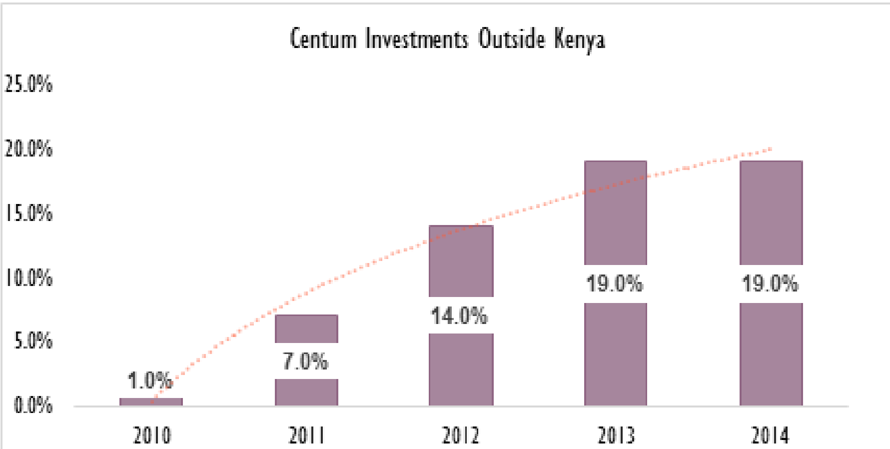
Centum 2.0 Performance: Negatives

» The dominance of Other Comprehensive Income (OCI) suppressed Asset Utilization during the period firmed up. The decline in asset turnover or asset utilization lies in the growth of the average assets. The increasing importance of Centum's Other Comprehensive Income, during the period, played a crucial role in accelerating the growth of assets in the period at a faster rate than earnings, surpassing the contribution of Net Income to asset growth. This scenario has seen ROaE and ROaA decline gradually as the growth of assets continued.

KES Million	2010	2011	2012	2013	2014	Period Growth
Net Income	888	1,237.18	446.14	1,034.10	1,047.27	77%
Total OCI	2,159.12	686.96	1,417.14	5,752.23	5,752.23	263%
Total Comprehensive Income	3,396.30	1,133.10	2,451.24	6,799.51	6,799.51	
Common Size Ratios	2010	2011	2012	2013	2014	-
Net Income	26.9%	36.4%	39.4%	42.2%	15.4%	-
Other Comprehensive Income	73.1%	63.6%	60.6%	57.8%	84.6%	
Total Comprehensive Income	100.0%	100.0%	100.0%	100.0%	100.0%	

Source: Centum financials, AIB Capital

» Management didn't successfully diversify geographically. Centum's management failed to diversify 50% of its investments outside Kenya, achieving only 19% by the end of the period. The decision may have been a strategic move to maximise returns.



Source: Centum financials, AIB Capital

Centum 2.0 Performance: Conclusions

» Management delivered a four-star performance. The management managed to deliver on three of the four key deliverables set by the board. The NAV return performance was especially impressive, consistently staying above the NSE-20. Cost efficiency was also a place that management scored considerable points, reporting numbers below the 2.5% target across all the strategic period years.

MANAGEMENT SCORECARD: Centum 3.0 Performance

For the Period from 2014 to 2019

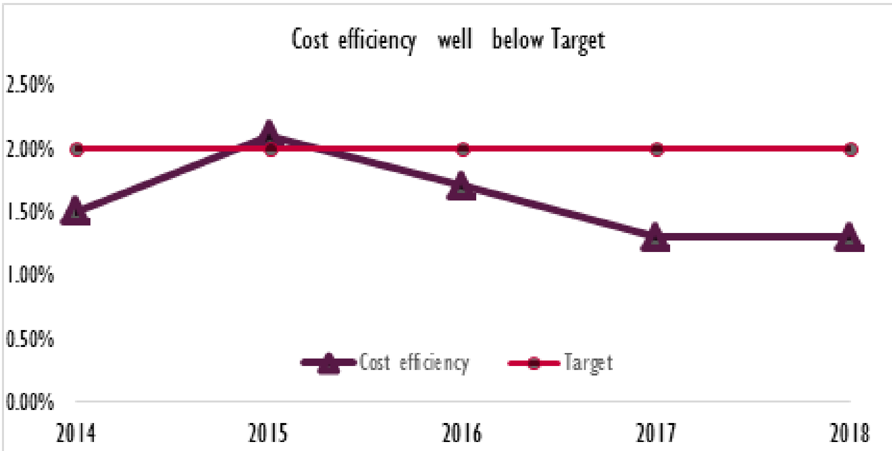
Key Objectives:

Increase Asset to KES 120Bn by 2019
Achieve returns above 35%+ annualized return over the period.
Maintain Portfolio costs below 2.0% of Total Assets
Diversify into eight sectors: Agriculture, Education, Energy, Financial Services, FMCG and ICT

The Key Outcomes:

Centum3.0 Performance: Positives

» Portfolio costs were maintained under 2.0%: Maintaining cost efficiency, was also a key gauntlet that the management took up in the current strategic period. Centum management has been very successful in keep cost below the target 2.0% despite challenges in growing the company's asset. Cost efficiency targets were only exceeded in 2015 but the cost efficiency ratio has trended lower ever since.



Source: Centum financials, AIB Capital

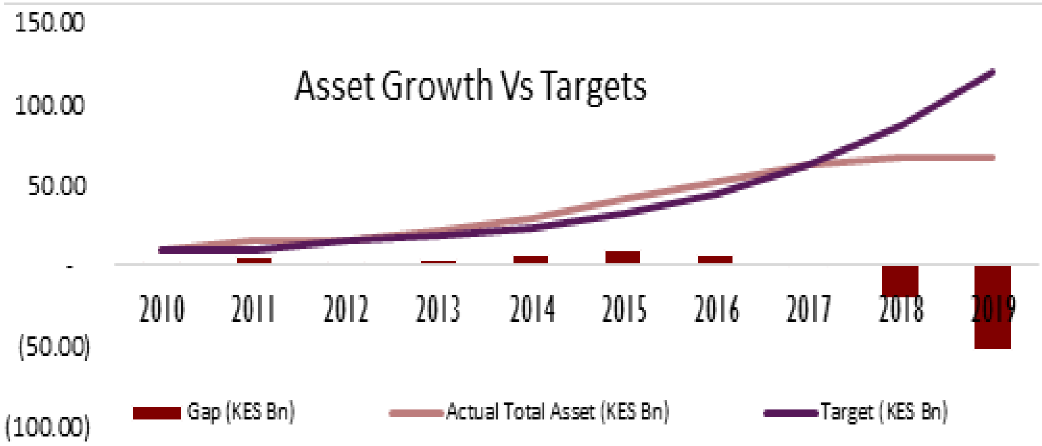
» Exposure targets were largely achieved: As for the general objectives of growing the company's exposure to eight sectors namely: Agriculture, Education, Energy, Financial Services, Fast Moving Consumer Market and ICT. Centum has been successful so far in the current strategic period. The exposure is further evidence to Centum's commitment to diversity.

Sector	HY19 Exposure (KES Million)	
1.Real Estate	KES 33,435	(49.94%)
2.Finance & Insurance	KES 9,037	(13.50%)
3.Manufacturing	KES 16,314	(24.37%)
4.ICT	KES 763	(1.21%)
5. Accommodation & Food Services	KES 856	(1.28%)
6.Energy	KES 3,635	(5.39%)
7.Agriculture	KES 185	(0.39%)
8.Education	KES 556	(0.96%)

Source: Centum financials, AIB Capital

Centum 3.0 Performance: Negatives

» Under Centum 3.0 strategy period, the asset growth has slipped below target. Management is unlikely to achieve their 2019 target of KES 120Bn in Total Assets. As at 30th September 2018, Centum had a Total Asset of KES 67.0Bn. Centum has been struggling with growing the company assets since the end of the 2017 Full Year. This is most likely due to the challenging business environment and the tough macro-economic climate during the period. Macro level headwinds have upended the management's efforts to achieve the levels of return that would have pushed Total Assets to the KES 120Bn.



Source: Centum financials, AIB Capital

» The ambitious goal was likely inspired by a recency bias. The strategic goals now look quite ambitious. The return and total asset goals were likely inspired by the strong Centum 2.0 performance. The KES 120Bn Total Asset target and NAV growth target of 35%+, were all set in FY15 when NAV return was 39% and Total Asset growth was 43.4%. The Total Asset growth has since slowed down, pushed down by low NAV returns over the strategic period. Strong economic headwinds and a general decline in economic growth since 2016 saw the group and the company performance dip from 35% recorded in 2014 to record an average NAV return of 22% in the strategic period.

Returns (KES Million)	2014	2015	2016	2017	2018	HY19	Average
Total Asset (a) KES Bn	28.8	41.3	51.5	61.9	66.1	67.0	
Asset Growth (at/a(t-1)-1)	35%	43%	25%	19%	23.5%	39%	27%
NAV Return (annual)	42.0%	39.0%	21.0%	-0.1%	37.2%		21.8%

Source: Centum financials, AIB Capital

» Centum as a company failed to meet its target of 35% annualized return so far. The current average Total Return so far standing at 22%. Using Total Return, a measure that incorporates both cash and unrealized return, the management has been able to generate a higher return than their benchmark but still the return remains below the 35%+ target.

MANAGEMENT SCORECARD: Centum 3.0 Performance

For the Period from 2014 to 2019

Centum 3.0 Performance: Negatives

Returns (KES Million)	2014	2015	2016	2017	2018	Average	Average
Total Return (NAV Return) (a)	42.0%	39.0%	21.0%	-0.1%	37.2%	21.8%	
NSE 20 Return-Benchmark (b)	1.7%	6.1%	-24.1	-21.8%	23.5%	-4.1%	27%
Outperformance (a-b)	40.3%	32.9%	45.1%	21.7%	13.7%		21.8%

Source: Centum financials, AIB Capital

» ROaE and ROaA have been devastated by the drop-in profitability since 2016. The drop is return performance as illustrated above during the Centum 3.0 strategic period could be mostly be attributed to a fall in profitability since 2016. Firming up of expenses during the period was driven mostly by higher finance costs, that drove the contribution of Net Income progressively lower and lower during the period. The decline of Total Income reported also meant that asset utilization remained low during the period compared to the previous strategic period.

DuPont Analysis

Year	2014	2015	2016	2017	2018
Net Income margin:					
Net Income/Total Income	52.7%	72.8%	45.0%	40.7%	29.2%
Asset Turnover:					
Total Income/Average Assets	0.08	0.19	0.09	0.08	0.06
Financial Leverage:					
Average Assets/Average Equity	1.29	1.28	1.30	1.34	1.37
ROaE	5.36%	17.74%	5.49%	4.16%	2.20%
ROaA	10.9%	10.0%	2.9%	5.6%	4.2%

Centum 3.0 Performance: Conclusions

» Management delivered a three-star performance. The management managed to deliver on two of the four key deliverables set by the board. Management successfully maintained costs below 2% of Total Assets and met exposure targets. The cost efficiency target was achieved despite suppressed asset growth during the period. Management was also able to achieve diversification targets laid out by the board and actualizing investments into 8 sectors.

Medium Term Outlook:

Key Value Drivers

- Centum's broad exposure to the economy will enjoy tailwinds from the recovery of the economy. We opine that improving economic conditions in Kenya will mean that Centum's profitability benefits from its diversified exposure. Improving incomes and recovery of consumer confidence in the medium term will also mean more sales to Centum's trading subsidiaries i.e. Almasi and King Beverages.

- The environment for portfolio exits is improving. The investment activity in Kenya is improving after the conclusion of the political impasse in 2017. Corporate actions such as Kenol's acquisition by Rubis and the merger of NIC &CBA, indicate that investment activity in Kenya is gathering pace. Centum's Private Equity portfolio performance could also benefit from an exit in the medium term as strategic and financial investors seek exposure to one of SSA's most dynamic and stable economies. Investment income still could show an upward bias in the long term if Centum manages to offload any of its subsidiaries.

- Consolidation in the Banking industry could offer Centum an exit from Sidian. With the rise in mergers and consolidation in the banking sector, Sidian Bank could be a key target from strategic investors such as rival Banks looking to consolidate or from PE firms looking for exposure to the banking sector.

- Real Estate headwinds will persist in the short term but fundamentals remain strong: The Real Estate segment of Centum's portfolio should continue facing headwinds in the short term as market correction happens in the face of rationalization of demand for Real Estate. We expect a normalization of growth and subdued fair value gains from the Real Estate portfolio. We, however, do believe in the long term, that a recovery in business confidence, consumer confidence and recovery of private sector credit growth may inspire Centum's Real Estate portfolio to achieve an IRR within the range of 20%-25% just around the current hurdle rate of 25%.

- The Marketable Portfolio may enjoy valuation gains inspired by a dovish Fed: Market valuation in the entire market is low, especially the Equity segment. Active equity investment returns may enjoy tailwinds from increased foreign investments into the frontier market after the Fed announced on the 21st of March that it was planning to maintain the Fed rate at 2.5% for the whole of 2019. The decision of the Fed is most likely going to boost the demand for risky assets, benefiting mostly asset classes from emerging and frontier equity markets as a whole.

- Management's new strategy to invest in relatively mature companies with good earnings and dividend potential may be complicated by the new 30% dividends on tax. The recent challenges faced by Centum in growing its development portfolio has seen management communicate they are changing tact. From developing investment opportunities from scratch (such as Greenblade), they are turning towards established strong earnings performers. This simply necessitated for need for centum to put a greater emphasis on income generation to balance out fair gains. The new tax might now complicate the equation. The benefits of income generation will, however, surpass any cost of taxation.

- Diversification benefits will continue to accrue as the greenfield investments in education and agriculture take off. Investment into Sabis and Greenblade in its development portfolio will help Centum continue to grow its diversification and reduce industry concentrations. With the rest of its investment in its development portfolio namely: healthcare and the power sector likely to become active in the medium term, Centum may be able to continue to diversify away its concentrated exposure to Real Estate.

Centum Investment Subsidiary Table:

Entity	Investment Year	Cost (KES Mn)	HY19	Implied value gains	Implied IRR	Vintage	Remarks
Real Estate							
Two Rivers Development	2011	1,216	7,632.00	6,416	76%	8 Years	TRDL is carried at high valuation but an implied IRR greater than 50% is justified for a greenfield project.
Vipingo Estates	2016	386	1,007.17	621	37.6%	3 Years	Vipingo Estate Valuation is justifiable an IRR of 37.6% looks achievable and not demanding given the cost basis.
Vipingo Development	2016	0.36	9,999.00	9,999	>100%	3 Years	Vipingo Development implied IRR is demanding given the replacement costs. High risk for value gain reversal and also high development risks
Pearl Marina (Centum Devt. Ltd)	2016	0.09	7,505.00	7,505	>100%	3 Years	Vipingo Development implied IRR is optimistic given the replacement costs. High risk for value gain reversal and also high development risks
FCMG							
Almasi Beverages	2014	3,261	8,697.00	5,436	26.8%	5 Years	Almasi implied IRR of approx. 27% looks achievable and justified given the cost basis.
Nairobi Bottlers	1979	56.90	5,078.00	5,021	11.9%	40 Years	Nairobi bottlers implied IRR of approx. 12% looks achievable and justified given the 40-year vintage. Fair Valuation gains leave sufficient headroom for management to achieve gains on exit.
King Beverage	2014	68	513.00	445	49.8%	5 Years	Implied IRR looks justified given King beverage is a greenfield project. The higher risk centum took in the start-up justifies the current valuation. Little room for gains on exit.
Financial Services							
Sidian Bank	2005	3,448	3,870.00	422	3.1%	14 Years	Implied IRR of 3% looks low given management's ability to exit at IRR of 20%+. Valuation is not demanding given cost basis and 14 years of investment curation and there is still headroom for possible gains on exit.
Nabo Capital	2012	438	668.00	230	26.1%	7 Years	Implied IRR of 26% looks low and achievable given Nabo invested in the company at startup and has 100% control. There is still headroom for possible gains on exit.
Zohari Leasing	2017	214	220.00	6	1.3%	2 Years	Conservative valuation almost at cost.
Power				-			
Amu Power	2014	2,144	2,100.00	(44)	n/a	5 Years	At cost.
Akiira Geothermal	2016	1,347	1,510.00	163	n/a	3 Years	At cost.
Others							
Longhorn	2008	751	812.00	61	1.6%	11 Years	Conservative valuation almost at cost. There is still headroom for possible gains on exit given the low implied IRR and management ability to achieve uplifts on exit.
NAS Servair	1996	0.7	856.00	855	38%	23 Years	Valuation given the implied IRR of 38% is at the threshold of management's ability to create uplift. Fully achievable given the market positioning of the company and not demanding in our opinion. No headroom for gain on exits.
Isuzu East Africa Ltd	1993	185	2,026.00	1,841	8.20%	26 Years	At the implied IRR of less than 10%, the subsidiary current carrying value looks conservative and the fair value gains are not demanding given the 26 years invested.

Centum Valuation: Sum Of The Parts (SOTP)- Adjusted NAV

							Carrying Value HY19	Adjusted Sum Of The Parts			
3.1	Real Estate										
		Two Rivers Development	58.3%		Haircut	40%	7,632	4,579		Net Asset Value rep fair value	
		Two Rivers Lifestyle	29.2%				5,149	5,149		Market transaction	
		Rasimu (owns 3.65% of TRDL)	100.0%				742	742		Net Asset Value rep fair value	
		Uhuru Heights (owns 1.05% of TRDL)	100.0%				855	855		Net Asset Value rep fair value	
		Vipingo Development	100.0%		Haircut	40%	9,999	5,999		NAV adjusted by 40% Haircut	
		Vipingo Estates	100.0%				1,240	1,240		Net Asset Value rep fair value	
		Pearl Marina (Centum Devt. Ltd)	100.0%		Haircut	40%	7,505	4,503		NAV adjusted by 40% Haircut	
		Athena	100.0%				209	209		Net Asset Value rep fair value	
		Others					104	104			
		Total					33,435	23,381			
3.2	Cash and Marketable securities										
		Centum Exotics	100.0%				3,587	3,587		Market Price	
		Centum QPE	100.0%				58	58		Market Price	
		Receivables	100.0%				45	45		Cost	
		Cash	100.0%				1,026	1,026		Cost	
		Total					4,716	4,716			
3.3	FMCG										
		Almasi Beverages	53.9%				8,697	8,697		Discounted EBITDA Multiple	6.94x
		Nairobi Bottlers	27.6%				5,078	5,078		Discounted EBITDA Multiple	6.94x
		King Beverage	100.0%				513	513			
		Total					14,288	14,288			
3.4	Financial Services			Book Value FY18	Book Value FY19						
		Sidian Bank	77.0%	4,037	4,037	0.63	3,870	1,858		Adjusted Kenyan P/B ratio	P/B Ratio
		Platcorp	0.0%				-	-		Exited	
		GenAfrica	73.4%				-	-		Exited	
		Nabo Capital	100.0%				668	668		Net Asset Value rep fair value	
		Zohari Leasing	100.0%				220	220		Net Asset Value rep fair value	
		Others					634	634		Cost	
		Total					5,392	3,380			

							Carrying Value HY19	Adjusted Sum Of The Parts		
3.5	Others			Price	No of shares	Control Premium				
		Longhorn	60.2%	5.00	272	20%	812	1,169	Market Price	
		NAS Servair	15.0%				856	856	Discounted EBITDA Multiple	3.68x
		Isuzu East Africa Ltd	17.8%				2,026	2,026	Recent Transactions	
		Centum Business Solution	100.0%				632	632	Net Asset Value rep fair value	
		Asset under development	100.0%				330	330		
		Total					4,656	5,013		
3.6	Power									
		Amu Power	51.0%				2,100	2,100	Cost	
		Akiira Geothermal	37.5%				1,510	1,510	Cost	
		Total					3,610	3,610		
3.7	Education									
		ACE Holdings	16.4%				643	643	Cost	
3.8										
		Greenblade Growers	100.0%				212	212	Net Asset Value rep fair value	
3.9	Total						66,952	55,242		
		Less Borrowings					(14,770)	(14,770)		
		Less Other Liabilities					(3,199)	(3,199)		
		Net Asset Value					48,983	40,826		
		NAV Per share					73.61	56.01		

	% ownership	Our Valuation	Change	Rationale
Two Rivers Development	58.3%	4,579	(3,053)	We believe there Two Rivers Devt. is at a high risk for market correction
Vipingo Development	100%	5,999	(4,000)	We believe there Vipingo Development is at a high risk for market correction
Pearl Marina	100%	4,503	(3,002)	We believe there Pearl Marina is at a high risk for market correction
Sidian Bank	75%	1,858	(2,012)	Price to Book of 0.63 applied to Sidian's book value of KES 4.0 bn. Multiple arrived at by applying a 30% illiquidity discount, 20% premium for control to P/B of 0.75 for the regional comparable
Longhorn	60%	1,169	357	Adjusted for current market price to KES 5.94
Net Adjustment			(11,710)	
Net NAV Adjustment per Share			(17.60)	

Centum Valuation: Relative Valuation

Ticker	Name	Cntry	P/E	P/B:Y	EV / EBIT Adj	ROA:Y	ROE:Y	P/S:Y	PM:Y
PSG SJ Equity	PSG GROUP LTD	South Africa	25.1805	2.7397	36.8739	2.2194	11.5849	2.2453	9.1702
CGP NW Equity	CAPRICORN INVESTMENT GROUP L	Namibia	8.8634	1.5727		2.9702	22.8622	1.6091	30.3067
SWAPROP SD Equity	SWAZILAND PPTY INVESTMENTS	Swaziland	15.9989	1.4281		5.9003	9.9248	8.12	56.3409
NVE SJ Equity	NVEST FINANCIAL HOLDINGS LTD	South Africa	8.2664	1.4163	5.3493	9.4667	14.5061	2.0499	20.295
LTE SJ Equity	LIGHTHOUSE CAPITAL LTD	Mauritius	4.8654	1.2314		4.1523	5.6004	24.5392	135.6044
ASCE MP Equity	ASCENCIA LTD	Mauritius	10.5459	1.136		7.1672	13.0035	6.3615	71.292
NITL MW Equity	NATIONAL INVESTMENT TRUST	Malawi	3.8341	0.9443	120.9833			24.8162	679.8816
ACG SJ Equity	ANCHOR GROUP LTD	South Africa	11.9048	0.8596	6.1784	-18.7964	-24.1552	1.5284	-50.928
AIL SJ Equity	AFRICAN RAINBOW CAPITAL INVE	South Africa	6.7037	0.7947	8.1384	14.0359		7.7724	84.6511
LBR SJ Equity	LIBSTAR HOLDINGS LTD	South Africa	16.766	0.7864	9.5657	2.3044	4.4581	0.4008	2.2464
CENTUM KN Equity	CENTUM INVESTMENT CO LTD	Kenya	5.9586	0.7697	15.3697	3.0236	7.3698	3.0761	29.0024
GAI SJ Equity	GAIA INFRASTRUCTURE CAPITAL	South Africa	9.8423	0.57		7.3547	7.4082		
FIDE MP Equity	BEE EQUITY PARTNERS LTD/THE	Mauritius	6.5476	0.4149		8.0933	8.7566	2.165	45.4772
NESF NL Equity	NIGERIA ENERGY SECTOR FUND	Nigeria	3.0353	0.3712				2.3539	77.5501
Median			8.5649	0.9020					

	SSA Median P/B Multiple	BVPS FY19	
Implied P/B Value	0.90	78.60	70.89
	SSA Median P/E Multiple	EPS FY19	
Implied P/E	8.56	6.64	56.83
Average			63.87

Centum Valuation: Fair Valuation

» We have adjusted the latest Net Asset Value to reflect the current investment climate. We have applied a 40% haircut on the Net Asset value of two subsidiaries owned by Two Rivers Development, Centum: Vipingo Development and Pearl Marina to price in development risk and normalize their growth given their demanding valuations. We have updated the valuation of Longhorn to reflect the current market price of KES 5.94 per share and update Sidian Bank multiple from the current discounted P/B of 1.16x used to our discounted P/B of 0.63. Our final valuation was the average of the current relative valuation and Sum Of The Parts.

Adjustment to NAV	% ownership	Our Valuation	Change
Two Rivers Development	58.3%	4,579	(3,053)
Vipingo Development	100%	5,999	(4,000)
Pearl Marina	100%	2,412	(3,002)
Sidian Bank	75%	2,412	(2,012)
Longhorn	60%	821	357
Net Adjustment			(11,710)
Net NAV Adjustment per Share			(17.60)

Fair valuation			
	Value	Weight	Value
The Sum Of The Parts	KES 56.01	70%	39.21
Relative valuation	KES 63.87	30%	19.16
Fair value			KES 58.37

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