

Nairobi Securities Exchange Plc 'Bourse 1H17 PAT dips'

NSE Plc 1H17 PAT declined by 5.1% y/y to KES 77.8 M attributable to an 8.0% y/y increase in administrative expenses to KES 254.7 M. Despite the increase in admin expenses, NSE saw a 3.7% y/y rise in total income to KES 346.8M, implying a sustained top-line growth going forward. The group EPS dropped 6.3% y/y to KES 0.30.

Top-line inclines as equity turnover improves: NSE Plc posted a 3.7% y/y incline in revenues to KES 346.8 M driven by a jump in operating income (+5.9% y/y) and other income (+8.5% y/y). The improvement in operating income rode on the tide of higher equity pricing which saw equity turnover surge 11.4% y/y to KES 82B in 1H17. Consequently, income from equity transactions grew 11.0% y/y to KES 196.8M despite the 15% y/y drop in number of trades recorded in 1H17.

Income from bond transactions levy dropped 9.0% y/y to KES 16.7M. This is despite a decrease of 9.0% y/y in interest income.

Administrative expenses rise on the back of product expansion: Administrative expenses posted a 8.0% y/y growth to KES 254.7 M due to new product development costs mainly related to the derivatives market, M-Akiba bond and Exchange Traded Funds. Management asserts that a majority of these are one-off expenses; unlikely to recur going forward. This prefigures a healthier bottom-line for the bourse going forward.

Share of profit of associates down as number of trades dip: The investment in associate represents an investment in Central Depository and Settlement Corporation Limited (CDSC) where NSE Plc owns 22.5%. Share of profit of associate dropped 7.6% y/y to KES 7.5M which could be attributed to higher costs for the associate. This is informed by the fact that CDSC earns a 0.08% transaction levy from equity turnover and 0.002 % transaction levy bond turnover which has gone up in 1H17.

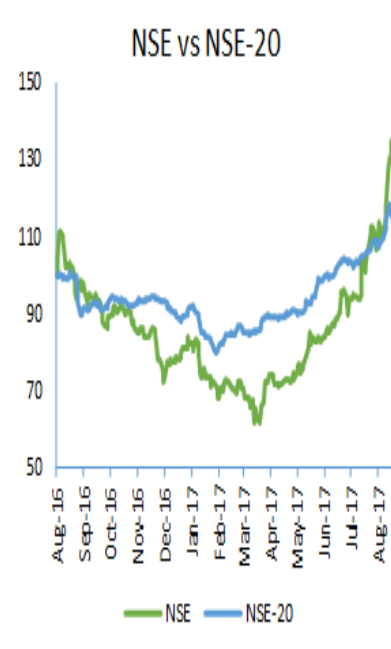
Looking ahead: In the face of prolonged drought in 1H 2017, recently concluded General election, potential upside of interest rates in the United States and Geo-political environment in Europe the economic horizon seems quite positive. The markets have remained resilient with the NSE 20 share index appreciating 25.20% YTD hinged heavily on local and international institutional investors and we expect renewed momentum following the conclusion of the election period. The investment atmosphere in Kenya remains relatively stable and attractive. Moreover, investors are anticipated to continue taking advantage of the existing and emerging opportunities at the NSE.

NSE Plc current stock price of KES 23.75 sees it trade at 33.9 times trailing FY16 earnings. Compared to a peer average of 20.4 times trailing earnings, NSE appears pricy and as such, may not be appealing to value investors.

Bloomberg Ticker :	NSE KN
Reuters Ticker:	NSE.NR

Share Statistics	
Current Price (KES)	23.75
Issued shares (M)	259.5
Market cap (USD M)	59.7
Year end	31 Dec
3-month avg traded val (USD)	33,228
Free float (%)	96.6

Price Trend



Source: Bloomberg, ApexAfrica Research

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Financials

Income Statement	1H16	2H16	FY16	1H17	% change
	KES '000	KES '000	KES '000	KES '000	y/y
Operating income	266,796	260,368	527,164	282,603	5.9
Interest income	51,766	43,000	94,766	47,125	-9.0
Other income	15,734	79,521	95,255	17,077	8.5
Total income	334,296	382,889	717,185	346,805	3.7
Administrative expenses	(235,782)	(251,509)	(487,291)	(254,664)	8.0
Share of profit of associate	8,138	(4,917)	3,221	7,518	-7.6
Profit before taxation	106,652	126,463	233,115	99,659	-6.6
Taxation charge	(24,690)	(24,469)	(49,159)	(21,889)	-11.3
Profit for the year	81,962	101,994	183,956	77,770	-5.1
EPS (KES)	0.32	0.39	0.71	0.30	-6.3

Statement of Financial Position	1H16	2H16	FY16	1H17	% change
Assets					
Non-current assets	1,023,376	1,004,550	1,004,550	1,017,913	-0.5
Current assets	913,383	1,009,195	1,009,195	1,003,423	9.9
Total assets	1,936,759	2,013,745	2,013,745	2,021,336	4.4
Equity and liabilities					
Share capital	778,500	1,038,003	1,038,003	1,038,003	33.3
Share premium	277,185	277,185	277,185	277,185	0.0
Revenue reserves	705,355	547,852	547,852	555,569	-21.2
Other reserves	(185)	(475)	(475)	(475)	156.8
Revaluation reserves	498	580	580	568	14.1
Total Equity	1,761,353	1,863,145	1,863,145	1,870,850	
Non-current liabilities	11,145	12,904	12,904	11,763	5.5
Current liabilities	164,261	137,696	137,696	138,723	-15.5
Total equity and liabilities	1,936,759	2,013,745	2,013,745	2,021,336	4.4

Statement of Cash Flows	1H16	2H16	FY16	1H17	% change y/y
Cash flows from operating activities					
Cash generated from/(used in) operations	(27,557)	248,129	220,572	35,571	-2.3
Tax paid	(6,738)	(17,903)	(24,641)	(19,393)	1.9
Net cash generated from/(used in) operating activities	(34,295)	230,226	195,931	16,178	-1.5
Net cash (used in)/generated from investing activities	6,336	340,755	347,091	(298,259)	-48.1
Net cash used in financing activities	(88,036)	(4,339)	(92,375)	(66,474)	-0.2
(Decrease)/increase in cash and cash equivalents	(115,995)	566,642	450,647	(348,555)	2.0
Cash and cash equivalents at the beginning of the period	444,035	(415,323)	28,712	479,359	0.1
Cash and cash equivalents at the end of the period	328,040	151,319	479,359	130,804	-0.6

Key Ratios	1H16	2H16	FY16	1H17	% change y/y
Operating Margin(%)	31.90	33.03	32.50	28.74	-9.9
Net Margin(%)	24.52	26.64	25.65	22.42	-8.5
Effective Tax Rate(%)	23.15	19.35	21.09	21.96	-5.1
Current Ratio	5.56	7.33	7.33	7.23	30.1
R.O.A(%)	4.23	5.06	9.14	3.85	-9.1
R.O.E(%)	4.65	5.47	9.87	4.16	-10.7
P/E(x)				33.93	
P/B(x)				3.29	

Appendix

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