

# Investors prop up Shelter Afrique's settlement plans

**INVESTMENT** The bond issued by the Pan African housing financier was oversubscribed by 8 per cent

BY JAMES MAKAU

Investor appetite for debt instruments at the Kenyan bond market shows no signs of relenting as the full take up of Shelter Afrique's Sh1 billion bond raises the tempo for more corporate issues at the bourse.

An oversubscription of 8 per cent paved the way for the pan African housing financier to invest in funding low to middle income housing projects in Kenya while affirming the local bond market as the new frontier for investors at the Nairobi Stock Exchange (NSE).

Forced to seek a safe haven in bonds amidst falling share prices at the stock exchange, institutional investors took up 98 per cent of the Sh1 billion Shelter Afrique bond in the sale that ended last month, with the difference taken up by retail investors.

"These issues will help strengthen the company's balance sheet by reducing the minimum exchange risk and improve the quality of loans for borrowers," said Alassane Ba, Shelter Afrique's managing director.

This listing marks the third time Shelter Afrique has tapped the Kenyan bond market for funds. The bond, which will mature in August 2012 consisted of both fixed and floating rate notes. The fixed rate notes are prices over the most recent implied yield to maturity for a Kenya government treasury bond with at tenor of 2.5 years plus a margin of 1.5 per cent.

The floating rate notes are priced at the 182 day Treasury bill rate plus a margin of 1.5 per cent basis points.

Mr Ba says the firm also plans to consolidate its financial position by doubling the issued capital from \$50 million \$100 million in order to strengthen institutional capacity and manage risk in order to be compliant with internationally accepted standards.

The growing preference for capital market debt is also overshadowing syndicated loans - loans provided by a group of lenders - as issuers reap from investors' apathy towards the stock market. In the past, firms have found it easier to seek syndicated loans from



**New flats in Kibera: Shelter Afrique has raised Sh1 billion in the local stock market to invest in funding low to middle income housing projects in the country.**

	Shelter Afrique	Kengen PIBO
<b>Size</b>	Sh1 billion	Sh15 billion
<b>Tenor</b>	2.5 years	10 years
<b>Rates</b>	Fixed and Floating	Fixed

commercial and investment banks rather than source funding from the capital market.

Bankers have been quick to dispel the notion that the syndicated loan market competes directly with the bond market, insisting that they are at the forefront of educating firms on the best options applicable in each unique situation.

"Companies now need to embrace the diversity of sources available to raise capital based on intelligent in-

formation," says Peter Muniiri, KCB Bank's deputy chief executive in charge of group business.

## Secondary market

Bond market players expect the second half to be more liquid and active in both primary auctions and secondary market trades. Telecommunications giant Safaricom has already picked transaction advisors for its Sh11.2 billion corporate bond. It is still not clear whether Barclays will be rolling out the

third tranche of its Sh5 billion bond this year. The Kengen public infrastructure bond (PIBO), the first of its kind, is also set to debut at the bourse with early indications pointing to a full take up of the Sh15 billion bond issue.

To cater for the possibility of an oversubscription, the Kengen offer has a green shoe option that allows the consequent take up of the extra funds. During the Shelter Afrique bond issue, the Capital Markets Authority (CMA) allowed the firm to increase the amount it sought from Sh700 million to Sh1 billion.

The increased activity in the bonds market has not only attracted heavy government borrowing, but also boosted prospects of private firms raising cash to fund their growth plans.

# NSE to automate bond trading

BY TIMES REPORTER

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THE Nairobi Stock Exchange (NSE) will automate bond trading by end of next month, Chairman Eddy Njoroge has said.

Njoroge said the automation will address the challenges of liquidity and flexibility with regard to the time it takes to conclude a deal.

The process according to him is expected to cost the bourse Sh15 million and will encourage secondary trading of bonds and draw in more retail investors.

Said he: "Automation will result in significant changes in the way that bonds are traded in the stock market, both at the primary and secondary market level."

Automation will also enhance the ability to predict the yields on issues, resulting in more objective process based on market fundamentals.

"On paper, it stands at T+6 but owing to the inefficiencies brought about by the paperwork involved, this process takes longer. Automation would result in a transaction period of T+3, bringing us closer to global standards," he added.

He said the process of electronically trading of bonds will reduce the required yield by investors, through a reduction of expected liquidity risk, making the cost of capital even cheaper. Njoroge was speaking during the listing of Shelter Afrique 3-year medium term Sh1 billion fixed rate bond.

The bond which was floated at the NSE three weeks ago has been over-subscribed by 8 per cent with institutional investors taking up 98 per cent of the issue.

Out of the Sh1 billion, retail investors subscribed to about Sh165 million worth of the bond value. The bond will mature in August 2012.

Shelter Afrique Managing Director Mr. Alassane Ba said the funds drawn from the bond will be used to finance housing projects which will benefit middle-income families, create jobs and help in economic development.

# Bonds trading to go electronic

NSE says the new mode will be in place by end of October

By JOSEPH BONYO

Local and foreign investor participation in the bond market is set to increase with the planned automated trading of the credit papers at the Nairobi Stock Exchange.

According to NSE chairman Eddy Njoroge, the process is to be completed before the end of next month.

## Now on offer

This comes just in time for the listing of Kenya Electricity Generating Company, (KenGen) public infrastructure bond currently on offer.

"We are putting things in place to ensure that we have the automation ready before the end of October," Mr Njoroge told journalists on the sidelines of a bond floating exercise at NSE by Shelter Afrique. KenGen Bond will list at NSE on November 9, 2009.

Currently, lack of an electronic platform for the bond instruments has made it a near preserve for only institutional investors.

## Fixed income

Calls for automation of the market have been renewed by interest of participation in the fixed income following a slump in equity issues.

This has been evident by the oversubscription rates of the issues both corporate and government.

"What we will now be looking forward to after the automation is to reduce the settlement periods from the current T+6 to a global standard of

T+3," Mr Njoroge explained.

The Sh1 billion fixed term bond by Shelter Afrique registered an eight per cent oversubscription rate. A majority of those who participated in the offer were institutional investors.

Shelter Afrique, a housing finance institution has in the

# 82m

## Cash in dollars that Shelter Afrique has committed

passed held two debt issues at the Nairobi Stock Exchange in 2000 and 2006. Proceeds from the current bond will be used in funding middle-income earners' housing projects in Kenya.

"In addition to projects to be financed by the proceeds of this issue, Shelter-Afrique currently has committed over \$82

million for housing projects with a value of \$150 million in Kenya," said Mr Alassane Ba, the firm's chief executive.

The bond was listed on September 9 and is expected to mature in August 2012.

Speaking at the floating, Cfc Stanbic managing director Nkoregamba Mwebesa said that the offer gave vital lessons to market players that would inform their future placements.

"The lesson here is the need to review the offer period for Fixed Income Issues as the practice is distinctly different from Equity Issues," said Mr Mwebesa.

The offer gave vital lessons to market players that would inform future placements

# Investor appetite for bonds rises

## As market players call for speedy automation to ease liquidity

By Kingori Choto

With investors now showing increasing appetite for bonds going by the heightened interest in fixed income securities at the Nairobi Stock Exchange in recent months, market players are now calling for the automation of the bond market to ease liquidity constraints to its growth.

They argue that although the huge potential for raising capital through bonds remains untapped, suboptimal liquidity has continued to hamper the growth of the primary and secondary bond markets at a time when investors are showing greater interest in them.

The shift in investor preference to bonds comes against the backdrop of sluggish demand for equities as the market struggles to get out of the prolonged slump that has seen share prices and traded volumes remain generally low.

The strong demand for bonds is evident in the growing interest particularly

among institutional investors for both government and corporate bonds on offer. Earlier this month, the Kenya Electricity Generating Company (Kengen) floated a Ksh 15 billion bond to raise funds to expand its generation capacity.

Already, the Kengen public infrastructure bond, the latest bond offer in the market, appears on course to over-subscription. It offers investors a 12.5 per cent annual yield.

Shelter Afrique, a major housing finance institution, recently saw its Ksh 1 billion 3-year bond oversubscribed by 8 per cent with institutional investors taking 98 per cent of the issue. The bond, which was listed at the NSE on September 9 and will mature in August 2012, started trading at the NSE late last week. The housing development financing firm will use the cash raised via the bond to fund projects mainly targeting middle-income families in Kenya. Shelter Afrique has financed over eighty projects in different parts of the country with

a total loan value of Ksh 6 billion.

Shelter Afrique is owned by 42 African governments including Kenya, the African Development Bank and the African Reinsurance Corporation.

According to Alassane Ba, managing director of Shelter Afrique, Kenya's bond market is suitable for raising long term capital for housing development projects. "Oversubscription to the bonds shows not only that investor confidence is strong, but also the efficiency of Kenya's bond market in raising capital for business."

Market players now say that the shift to bonds is a healthy signal of investor confidence in the NSE and shows that there is still a huge untapped potential in the fixed income segment.

Capital Markets Authority chief executive officer, Stella Kilonzo, says that the bond market has until now been overlooked in favor of equities despite the huge potential it has to raise cheap capital for businesses seeking expansion cash.



From left, Peter Mwangi, Alassane Ba and John Ngumi

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"Bonds are becoming popular investment avenues," says Peter Mwangi, deputy CEO in charge of group business at Kenya Commercial Bank (KCB) which participated in the Shelter Afrique bond issue as a lead arranger. "The increased investor appetite for bonds is a sign that our capital markets are maturing."

NSE chief executive officer, Peter Mwangi, says that although the bond market has been performing well in recent months, liquidity is still a constraint. "The bond market has not been as liquid as we would like but it still remains an efficient platform for raising capital for local

companies."

On his part, Nkoregamba Mwebesa, managing director of CFC Financial Services, says that although the yield curve in Kenya's bond market had generally improved, there was need to step up efforts to address the liquidity constraints to make it more efficient and accessible to investors.

NSE chairman, Edward Njoroge, who is also the managing director of Kengen, says that one of the ways to address the problem of liquidity is through automation of the bond market. "The main hindrance to the growth of the primary and secondary bond markets has been liquidity. Automation will address this

challenge by reducing the settlement period from eight to three days."

The NSE is moving to introduce the Automated Bond Trading System to improve tradability of bonds in the secondary market.

John Ngumi, director of investment banking at Stanbic Bank, also one of the lead arrangers for the Shelter Afrique bond, says that Kenya's bond market has the potential for another Ksh 30-40 billion worth of deals in the next nine months including the Kengen bond currently on offer.

He attributes the surge in bond trading to consistent efforts by market players in the past to encourage investors to put their money in fixed income securities even during the heady days of the shares boom when the bond market appeared to command little attention. Ngumi says that institutional investors have played a key role in driving demand in the bond market.

# Size of the bond market in focus

BY JAMES MBUGUA

THE size of the bond market could become clearer after being tested by the bonds of the Kenya Electricity Generating Company, Safaricom and the government.

Before the end of the financial year, the bond market will be asked for Sh25 billion from KenGen, Sh12 billion from Safaricom and Sh22.9 billion from the government.

Speaking during the launch ceremony of the successful Sh1 billion Shelter Afrique bond yesterday, Nairobi Stock Exchange chairman Eddie Njoroge said the money that could be raised through bonds from the market is yet to be established. "It is still not known how deep the Kenyan bond market is," Njoroge said. "Is it one billion, two billion, 15billion?"

The bond market has been gaining popularity with investors many of whom have been burnt by the stock market's volatility.

Last financial year, most brokerages and investment banks suffered massive losses.