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NSE's Listed Agricultural Sector Companies: A brief Performance forecast for the tea sector

November 4 2009

It is an open secret that most investors shun agricultural stocks listed on the NSE. Their disappointment is not without basis, given the seasonal nature of productivity in this sector which almost entirely depends on weather patterns. However, looking critically at the specific stocks in this segment, it appears that whereas there are some counters that have performed dismally there are some other counters where opportunities have been lost in the past (and will probably be lost in future). Below we give a brief commentary about tea sector-related counters.

Agricultural Segment at the NSE

At the Nairobi Stock Exchange, the Agricultural Segment is made up of 3 companies (Kakuzi – specialized in Tea and Horticultural crops, Rea Vipingo plantations – Sisal and Sasini – tea and coffee). These companies belong to the Main Investment Market Segment (MIMS) where the minimum authorized issued and fully paid up share capital is Kshs. 50.0 million.

In the Alternative Investment Market Segment (AIMS), out of the 8 constituent companies, 5 are Agricultural sector-related. These are (Eaagads - Coffee, Williamson Tea Kenya – Tea, Kapchorua Tea – Tea, Kenya Orchards – fruits, preserves & juices and Limuru Tea – Tea). In this segment, the minimum authorized issued and fully paid up share capital is Kshs. 20.0 million.

In the recent past, tea prices have risen to record highs amid concerns that production may fluctuate significantly due to bad weather. Although Kenya's output dropped 11 percent in the first seven months of 2009 compared with the same period in the previous year due to a drought in the region, strong prices have led to farmers getting record bonuses. The average price for Best Broken Pekoe Ones (BP1s) has been about \$4.50 per kg. Afghanistan has been the key buyer, while UK and Pakistan have been fairly active too.

Given the foregoing, we anticipate that listed tea sector-related companies that include Kakuzi, Sasini, Williamson Tea Kenya, Kapchorua Tea and Limuru Tea could perform better than their previous financial years. Below, we give our opinion.

Kakuzi

The Company: Kakuzi Limited is engaged in the cultivation, manufacture and marketing of tea. The Company is also engaged in the growing and marketing of avocados, livestock farming, pineapples farming, growing of other horticultural crops and forestry development.

Ownership: The Company is mainly owned by Camellia Plc of England through Bordure Ltd (26.60%) and Lintak Investments (24.64%), who hold a combined majority of 50.7 per cent of all issued shares.

Recent Results: In the latest HY09 results, the company registered a 161% growth in EPS, from a loss of Kshs. 1.94 per share to a profit of Kshs. 1.19 per share. The company attributed to better trading conditions for tea, avocado and livestock operations.

Prospects: The effects of the just-ended drought conditions, the piracy threat that may have adversely affected shipping schedules and the strengthening of the shilling are likely to affect the company's performance in FY09. We however reckon that the company's performance is likely to improve and forecast an EPS of Kshs. 13.90 per share (2008 – 13.12 per share) because of markedly improved tea prices, a hitherto favourable foreign exchange environment and a recovering global economic scene.

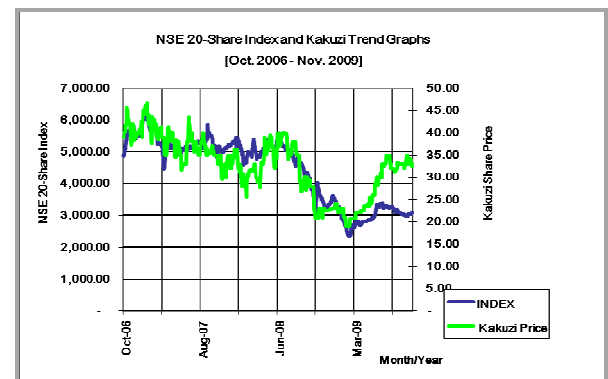
Sasini

The Company: Sasini Limited is principally engaged in the growing and processing of tea and coffee, commercial milling and marketing of coffee, value additions to related products, forestry, dairy operations, livestock and horticulture, along with its subsidiaries. In addition, the Company provides warehousing services, and is also active in the tourism sector.

Ownership: Sasini's majority shares are 58.1 per cent owned by Naushad Merali through Legend Investments Ltd (41.84 per cent), Yana Towers (12.13 per cent), and East African Batteries (4.13 per cent).

KAKUZI LATEST RESULTS	HY09	HY08	%Δ
	Shs. '000'	Shs. '000'	
Sales	694,947	460,830	50.80%
Gains from changes in FV	34,529	14,348	140.65%
Total Sales	729,476	475,178	53.52%
Cost of production	-491,672	-413,379	18.94%
Gross profit	237,804	61,799	284.80%
Other Income	4,659	5,263	-11.48%
Distribution Costs	-120,075	-27,207	341.34%
Administrative Expenses	-69,498	-56,939	22.06%
Finance Costs	-15,071	-27,081	-44.35%
Profit on Sale of Subsidiary	35,179	16,321	115.54%
PBT	72,998	-27,844	-362.17%
Tax	-37,891	-5,127	639.05%
PAT before Minority interest	35,107	-32,971	206.48%
PAT after Minority interest	23,359	-38,044	161.40%
EPS	1.19	-1.94	161.34%

Note: FV – Fair Value
Source: Kakuzi/Sterling Inv. Bank



Source: NSE/Sterling Inv. Bank

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Sasini Cont'd

Recent Results: In the latest HY09 results, the company recorded a 488.89 percent EPS growth (excluding biological assets value) from a loss of Kshs.0.09. per share to Kshs. 0.38 per share. The improved results were attributed to increased revenues from improved production as a result of a recovery from post-election violence, stronger tea prices and a favourable exchange rate.

Prospects: We are seeing the company registering improved results in FY09, with the EPS rising from Kshs. 3.84 per share to about Kshs. 4.96 on the strength of stronger tea prices, a recovery from the effects of the post-election violence, revenues from diversification initiatives and a favourable exchange rate.

Williamson Tea Kenya

The Company: Williamson Tea Kenya Ltd. is engaged in the cultivation, manufacture and sale of tea. The Company is also engaged in investment in property and sale of generators. Williamson Tea Kenya Ltd.'s associated companies are Kapchorua Tea Company Ltd (39.56% owned), and Williamson Developments Ltd, which is engaged in property management. The Company operates in the United Kingdom, Kenya and Egypt.

Ownership: Williamson family of Britain has a controlling majority shareholding in both Williamson Tea and Kapchorua Tea companies. In Williamson Tea, it holds about 67.2 per cent of the total 8.8 million shares issued through their company, Ngong Tea Holdings Ltd. In Kapchorua tea, they hold 40 per cent of the 3.9 million shares issued.

Recent Results: In the FY09 results, WTK registered a 227.25% turn-around in EPS, mainly as a result of better tea prices and a weak Kenya Shilling especially in Q209.

Prospects: We are forecasting and end-year (2009/10) EPS of Kshs. 13.97 (2009 – Kshs. 12.62 per share), on the strength of markedly improved tea prices and a favorable exchange rate.

Kapchorua

The Company: Kapchorua Tea Company Limited is engaged in the cultivation, manufacture and sale of tea.

Ownership: The Williamson family of Britain has a controlling majority shareholding in Kapchorua Tea where it holds a 40 per cent stake of the 3.9 million shares issued.

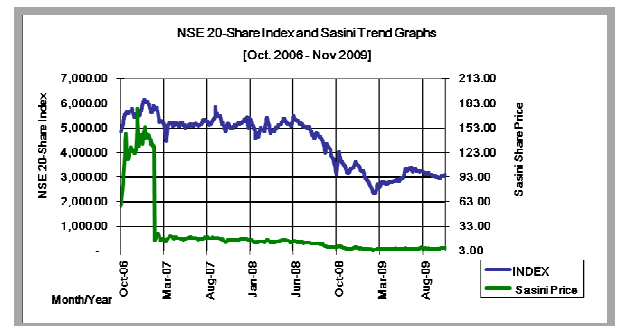
Recent Results: The Company's FY09 results indicate a turn-around for the company which registered a 200 percent EPS growth from a loss per share of Kshs. 17.84 to an EPS of Kshs. 17.87 per share.

Prospects: Just like will be the case for WTK, we forecast strong HY and FY results. The significantly improved tea prices and a favorable exchange rate will most likely provide the momentum, with production rising following the starting of short rains. We are projecting an EPS of Kshs. 19.90 for Kapchorua for the FY09/10.

SASINI LATEST RESULTS

	HY09	HY08	%Δ
	Shs. '000'	Shs. '000'	
Turnover	1,019,123	650,993	56.55%
Gains from changes in FV	122,175	163,387	-25.22%
Profit from operations	259,580	164,934	57.38%
Finance Costs	-23,701	-33,026	28.24%
PBT, minority interest	235,879	131,908	78.82%
Taxation	-72,125	-39,527	82.47%
PAT after minority interest	155,672	87,631	77.64%
PAT from operations	78,890	-20,469	485.41%
Gains from Changes in FV	76,782	108,100	-28.97%
EPS from normal operations	0.35	-0.09	488.89%
EPS on biological assets	0.33	0.47	-29.79%
Net EPS	0.68	0.38	78.95%

Note: FV – Fair Value
Source: Sasini/Sterling Inv. Bank

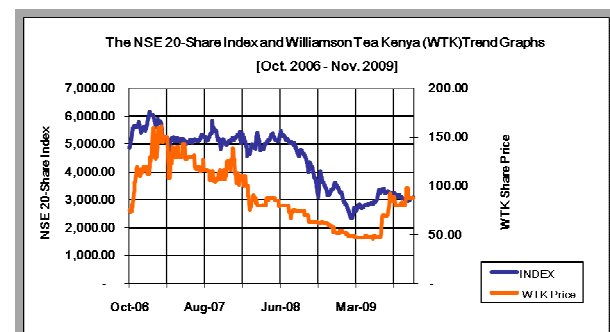


Source: NSE/Sterling Inv. Bank

Williamson Tea Kenya

	FY09	FY08	%Δ
	Shs. '000'	Shs. '000'	
Turnover	1,489,982	1,185,755	25.66%
Profit/loss from operations before BA valuation	195,728	-51,311	481.45%
Gains/losses from changes in FV of BA	-17,291	-19,697	12.22%
Finance Costs	-72,879	-32,197	126.35%
Share results of associated companies	39,783	-40,779	197.56%
PBT	145,341	-143,984	200.94%
Taxation	-35,471	46,467	176.34%
PAT Attributable to equity holders of the parent	110,501	-86,737	227.40%
PAT Attributable to members	109,870	-97,517	212.67%
Comprising:			
PAT from operations	122,605	-72,949	268.07%
Gains from Changes in FV	-12,104	-13,788	12.21%
EPS	12.62	-9.91	227.35%

Note: FV – Fair Value; BA – Biological Assets
Source: Sasini/Sterling Inv. Bank



Source: NSE/Sterling Inv. Bank

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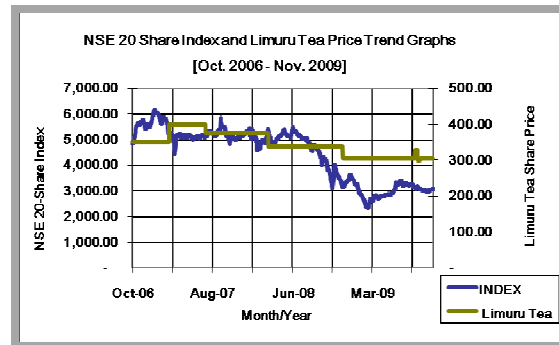
Limuru Tea

The Company: Limuru Tea Company Limited is engaged in the growing of green leaf tea. Unilever Tea Kenya acts as the Company's managing agent in the growing, manufacturing, sales and marketing of its teas. The green leaf is manufactured in the Unilever Tea Kenya's Mabroukie factory from where it is sold mainly for export.

Ownership: The British-owned Brooke Bond Group holds 54 per cent of the total shares issued in Limuru Tea Company. The company recently issued bonus shares in the ratio of 1:1, with the register closing on May 11 2009. The new shares will qualify for dividend from now on. The shares were credited to CDS accounts on August 21 2009.

Recent Results: The Company's EPS dropped by 91% in the first half of the year due to low tea production as a result of low rainfall in Q1 and a late onset of the long rains. Consequently, even though the tea prices improved by about 20%, this was insufficient to offset long rains, with turnover falling by 24%, relative to a similar period in 2008.

Prospects: We opine that the company's profitability should improve in H209, as production is set to improve, in addition to tea prices remaining at relatively higher prices.

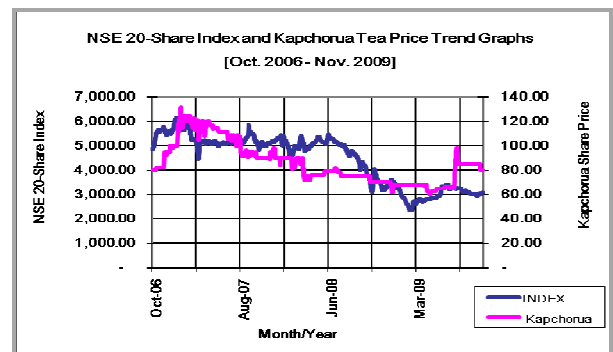


Source: NSE/Sterling Inv. Bank

KAPCHORUA LATEST RESULTS

	FY09		FY08
	Shs. '000'	Shs. '000'	%Δ
Turnover	743,079	574,997	29.20%
Profit/loss from operations before BA valuation	44,127	(17,322)	354.70%
Gains/losses from changes in FV of BA	60,849	(66,654)	191.30%
Finance Costs	(5,241)	(19,105)	72.60%
PBT	99,735	(103,091)	196.70%
Taxation	(29,827)	33,303	189.60%
PAT	69,908	(69,788)	200.20%
Comprising:			
PAT from operations	27,314	(23,120)	218.10%
Gains from Changes in FV	42,594	(46,658)	191.30%
	69,908	(69,788)	200.20%
EPS	17.87	-17.84	200.20%

Note: FV – Fair Value; BA – Biological Assets
Source: Kapchorua/Sterling Inv. Bank



LIMURU TEA LATEST RESULTS

	HY09		HY08
	Shs. '000'	Shs. '000'	%Δ
Turnover	26,588	34,794	-24%
Loss/profit before tax	-37	7,896	-100%
Taxation	543	-2,574	-121%
PAT	506	5,322	-90%
EPS/LPS	0.84	8.87	-91%

Source: Limuru Sterling Inv. Bank

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Comparative indicative statistics for tea sector related NSE listed companies

	KUKZ – 6months	LIMIT - 6months	SASN - 6 months	KAPC - 12 months	WTK - 12 months
	30-Jun-09	30-Jun-09	31-Mar-09	31-Mar-09	31-Mar-09
Total assets Ksh ('000')	2,630,257	54,619	7,097,007	1,167,797	2,145,342
Debt ratio (%)	38.88%	43.93%	30.69%	40.98%	60.21%
Return on assets (%)	0.89%	0.93%	2.19%	5.99%	5.12%
ROE (%)	1.59%	1.65%	3.16%	10.14%	4.18%
Net worth ('000')	1,472,872	30,623	4,919,060	689,260	2,629,451
End of period cash ('000')	(12,479)	7,498	384,788	83,089	63,381
Book Value (Kshs. Per Share)	75.15	25.52	21.57	176.19	300.29
Shares outstanding	19,599,999	1,200,000	228,055,500	3,912,000	8,756,320

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