Top CEOs in 2006

The stock market's worst and best performers

By Jackson Okoth

THE Financial Post

Supporting Business

Stock market - profitability ranking of all companies

Top CEOs in 2006

Most profitable companies

Most improved companies

Worst performing companies at the NSE

As the first quarter of this year draws to a close, perhaps now is the opportune time to reflect on recent company announcements of their profit figures and dividend payouts to shareholders.

With the economy on a resurgent upward growth momentum, a number of top drawer companies are riding on the boom. On the same wave, a similar group of top-notch companies have also seen their profit figures tumbling down.

As annual reports for the 2005/06 financial year come trickling in, the corporate scene can now be described as a case of mixed fortunes, bringing out the good, the bad and the ugly financial results in all listed and unquoted companies.

The Financial Post gives you an eye-view into the performance of all listed companies, based on pre-tax profit figures for the 2005 and 2006 financial year.

Our analysis is based on data compiled from annual financial reports of all listed companies, filed at the NSE, Capital Markets Authority (CMA) and figures on the websites of various firms.

The ranking list is drawn, based on pre-tax profit figures and end-year results of all listed companies at the Nairobi Stock Exchange.

It is notable to point out that a number of listed firms, especially those whose financial year end in March and June are yet to release their annual reports due mainly in the months of July and October respectively.

Outside the Nairobi Stock Exchange(NSE), the mobile phone operator Safaricom Limited is the top earner in Kenya's corporate landscape, whose pre-tax profits rose from Ksh 8,444,466.00 in 2005 to Ksh 12,210,542.00 in 2006.

Safaricom remains the company with the highest amount of profit, surpassing the Ksh 10 billion ceiling, the highest in Kenya's corporate history. Its high profit figures may well show that Kenyans are spending more of their disposable cash on making calls, with leisure coming a close second.

Behind the mobile phone company is East African Breweries Limited, the most profitable listed company in the East African region. Its pre-tax profit figures rose from Ksh 8.2 billion in 2005 to Ksh 8.5 billion by the end of June 30th, 2006, a marginal 4% improvement.

Analysts attribute the fortunes of EABL, the largest listed company in Kenya to the ongoing expansion of the economy, leading to more disposable cash in the pockets of many.

The profits of EABL is also attributed to its high profile and heavily funded advertising campaigns, driving the sales figures of its popular brands especially Tusker.

Over the past few months, EABL has seen its share prices rise considerably with shareholders having huge returns. It is now one of the most heavily capitalized companies, translating into billions of shillings moving into the hands of shareholders.

Also in the league of top earners is the national carrier Kenya Airways which made a 26 per cent improvement in pre-tax profit, from Ksh 5.5 billion to Ksh 6.9 billion in the financial year ended 31st March, 2006.

Equity bank is ranked the best performer in the billionaires' premier league, recording a 120 per cent improvement in pre-tax profits from Ksh500, 532,000 in 2005 to Ksh1, 102,873,000 in the financial year ending 31st December, 2006.

Only a year ago, Equity was a recently converted financial institution and a green horn in the cut-throat corporate finance world that is Kenya's lucrative banking sector. Not any more.

Today, Equity is looming large on the side mirror of the large transnational banks and has already switched on its indicator lights, with all intentions of overtaking on this busy banking highway.

Its pre-tax profits for the year ended December 31st, 2006 now stands at Kshs 1.1 billion from Ksh 500 million in 2005. This equates to a rise of 120%, making Equity Bank the best performer based on percentage improvement in earnings.

The bank's financial reports also indicate that Equity Bank's total assets value rose by 74 per cent from Ksh 11.5 billion in 2005 to Ksh 20 billion in 2006.

Altogether, stock market investors should experience an improvement in their portfolios following plans by Equity bank to capitalize Ksh905.6 million through a bonus issue, a move that could raise its share capital to from Ksh 500 million to Kshs 1.5 billion, creating massive wealth for shareholders of this bank.

Following closely on Equity is Kenya Commercial Bank whose pre-tax profits rose from Ksh 1.9 billion in 2005 to Ksh 3.1 billion in 2006, the group making a whooping 63 per cent improvement.
Looking at the list of risers and fallers, It makes one wonder how many investors would have correctly predicted that Equity Bank would come out the top in terms of performance, in the billionaires club.
Additionally, who would have guessed BAT a top notch firmly could be so badly hurt by declining markets and a spirited anti-smoking lobby campaign, factors that may have hit its profits.
Of course, there is more to investing in shares than just picking a handful of short-term winners. Investing in the stock market is a long-term pursuit, and needs a lot of time and effort to study the various companies if you plan to pick your own shares. And along the way you are bound to make some mistakes.
Also ranked in this billionaires club is Mumias Sugar Company, which made a pre-tax profit of Ksh 1.84 billion in 2005 to Ksh 2.2 billion at the year ended 30th June 2006. It also ranks in the same league with Bamburi Portland Cement, which posted a pre-tax profit of Ksh 3.8 billion up from Ksh 3.1 billion recorded in 2005.
Other usual members in the billionaires club are KPLC, Bamburi, KenGen, Kenya Airways, Standard Chartered Bank and Barclays.
On the list of potential members of the billionaires club is NIC bank, which registered an improved performance over the year ended 31st December 2006 as evidenced by results released on 1st March 2007.
Its total interest income went up 21.93% from Kshs 1.94 billion to Kshs a decent Kshs2.4billion for the year under review against the total interest expenses which increased by 18 per cent from Ksh770 million to Ksh 911million in the year 2006.The pre-tax profit increased by a convincing 59.12 per cent to Ksh 677 million in the year 2006 compared to Ksh425 million realized over previous period. After tax profit posted for 2006 is Ksh 458 million an increase of 58.84 per cent against Ksh 288 million achieved in year 2005.
With its total assets going up from Ksh 20.7 billion to Ksh 26 billion, the return on investments was up from 1.39 to 1.78 representing an overall increment of 39 basis points while the dividend cover for the year 2006 2.01 against 1.4 attained in the previous period.
KPLC recorded a pre-tax profit of Kshs 1.42billion over the six months to 31st December 2006 against Kshs 1.19billion realized over the fist half of financial year 2005/2006, a 20% increment. Already, its end-year results for 2005/06 financial year shows a pre-tax profit of Ksh 2.4 billion.
The improved performance was largely attributed to increased electricity sales revenue going up 8.14% from Kshs 11.23billion in year 2005 to 12.24billion in year 2006 owing to higher electricity consumption.
With the continued growth of the economy the energy demand are expected to go high. The company has embarked on a substantial capital investment in order to reduce outages and energy losses.
Standard Chartered Bank Limited, one of the two leading banks in Kenya, maintained its profit drive, recording a marginal 8% improvement in pre-tax profits evidenced by 2006 end year financial results.
The bank's post-tax profit edged up marginally by 7.43% from Kshs 2.4billion to Kshs 2.6billion.
Interest income went up18.58% from Kshs5.5billion in year 2005 to Kshs6.6billion in year 2006 largely buoyed an increase in loans and advances and the government securities operations.
Meanwhile a number of companies have also released their half- year results, providing an indication of how they are likely to perform in the 2006/7 financial year. **(See table below)**
One of the casualties this coming financial year may include Mumias Sugar Company Limited. In its report, the firm-considered the country's largest manufacturer of sugar, says that owing to the drought that swept the country at the end of 2005 to early 2006, it recorded a reduced pre-tax profits of Ksh627 million for the six months to December 2006 down from Sh1 billion the previous period.
KPLC, the monopoly power utility company recorded has reported a 20% increase in pre-tax profit up to Sh1.420 billion from Sh1.186 billion the previous period for six months to December 2006.
Thus, the company is likely to maintain its profitability as the economy expands, leading a rise in demand for electricity and energy. But its profitability may well depend on how it sorts out the contentious tariff structures it has with KenGen, the state-owned power generating company, which supplies it with power for onward transmission to consumers.
Knocking on the billionaires club is NIC bank, which has been expanding rapidly since moving from asset financing business into fully-fledged banking services.
With a huge growth in income generated from trading in foreign currency and a 33% in customer deposits, NIC bank has reported a 60% increase in pre-tax profits from Sh425 million to Sh678 million for the Financial year ended December 2006.
Financial results of all major listed companies are now out and having an impact on share prices at the exchange. For instance, Mumias is one such company whose share prices have been affected by its half-year financial results.
Meanwhile, the performance of KenGen will remain one of the most closely watched as the government offloads a further 19% of its stake in the company through the NSE, in the coming months.
Already, it has invested heavily in various multi-billion projects to increase power generation including development of Olkaria IV geothermal, re-development of Tana power station, Olkaria II, Kipevu, Sangoro

and Sondu Miriu. These projects will be coming on stream from November 2007 to 2010 when the Olkaria IV 70 MW geothermal power plant is completed.

CEOs: What it takes to be profitable

James Mwangi, Equity Bank CEO

Equity Bank joined the ‘billion club’ when it returned a pre-tax profit of Ksh 1.1 billion in 2006 up from Ksh 500 million recorded in 2005. Mwangi attributes the institution’s sterling performance to determination among the staff.

Mwangi further says the improved results are benefits the bank is reaping as a result of its investment in a robust and state-of-the-art information technology (IT) system which has enabled it to reduce its operation costs.

He points out that as a fast growing institution; Equity has had attractive products which are appropriately priced that have led to the doubling of its customers, transactions and loans over the period under review. This has fuelled the bank’s profitability.

The CEO says the bank has greatly benefited from the improved economic climate in the country which has seen rural areas become economic hubs with industries like dairy and agriculture recording improved performances.

“Since we are strategically positioned through our rural outlets spread across the country, we have managed to benefit from increased economic activities in the rural areas,” says Mwangi.

The Equity Bank Managing Director adds: “The bank has also benefited from consistent improvement in the quality of our loan portfolio as we do not have to make huge provisions for the loan book.”

Michael Joseph, Safaricom CEO

Joseph, the CEO of Safaricom, the most profitable company in East and Central Africa, says Safaricom “has been fortunate to supply the right product and service at the right price.”

Joseph explains: “We have also been able to market the products in such a way that people have ended up choosing our network over the others. I do not think there are any special secrets. We have only done the right things at the right time. Actually, being successful in our business means hard work, dedication and understanding what people want.”

But he faces one challenge, how to remain a market leader.

“The risk here is that when you lead, the staff equally starts to think they are market leaders and become complacent. The whole company, therefore, becomes complacent and everybody thinks you are number one and you do not have to do much,” he argues.

However, competition has kept him and his staff on track.

He explains: “When you have a strong competitor, then every staff has a reason to get worried. Also, I push them very hard. I want my staff to be better today than they were yesterday. You cannot use the same strategies you used yesterday to solve today’s challenges.”

On whether the decision by the Communication Commission of Kenya (CCK) to harmonize interconnection charges will negatively affect the company’s performance, Joseph says that CCK’s ruling was not unexpected since Safaricom participated in the study that came up with the measures.

“Even in our budget we factored in the potential impact of the ruling. However, I do not think the regulator should set call charges. Instead, the market should set the charges through healthy competition. But we are not scared for, currently, we have close to 5.9 million customers. By the end of this month, I expect the figure to be close to 6 million and our pre-tax profits are likely to increase,” he says.

But it has not all been a bed of roses as competition is snipping on the heels of the mobile telephone service provider.

Joseph explains:“Communication is becoming a free-for-all sector. Prices will then come under pressure. One thing we intend to improve on as a company is our customer care service. It is not one of the best

currently. It could be better if, say, we could install more Interact Voice Responses (IVRs) but Kenyans do not like to talk to machines. We get over 200,000 calls a day most of which are not manageable. Most of these are repeat calls. In fact, 70 per cent of the callers ask similar questions. We want to establish how we could automate the process where somebody could ask a question and get the answer without talking to a human being."

Terry Davidson, KCB CEO

Davidson argues that one must have a good team, excellent business proposition, a sound vision and supportive board of directors, among other forces, in order to drive an organization to success.

The KCB CEO says that in the last few years, KCB has managed to get all the necessary ingredients together, a feat that has contributed to the bank's impressive results.

Davidson says the bank's profit margins have also benefited from the economic reforms put in place by the government.

"A bank is an intermediary of money. This means that if the economy is growing, the banking sector too will grow and if the economy is shrinking, the sector will suffer. Fortunately, for the last four or so years, we have had a Gross Domestic Product (GDP) growth of 4 per cent plus. Equally, over the same years, our results have been quite impressive," explains Davidson. He adds that KCB has benefited from the government's decentralized expenditure processes through such programmes as Constituency Development Funds (CDF) and free primary education. "For a bank to reap the benefits of such initiatives, it must have an expansive branch network throughout the country including remote areas. KCB benefited because so far, we have the largest branch network," reveals Davidson.

While noting that the bank's results this year are driven by customer growth on both sides of the balance sheet, Davidson argues that there is significant growth on the loan side which is not reflected on its competitors' balance sheets.

He explains: "On the deposit side, a continuation of our low cost transaction in current accounts is evidence that we are growing our business based on true customer growth. There is more customer growth in 2006 compared to 2005. And even though there was heightened competition in 2006, profits increased by 63 per cent."

Standard Chartered Bank

An officer from the bank told *The Financial Post* that Standard Chartered Bank's strategic intent is to be the best international bank in Kenya, leading by example.

The officer said that the bank's success is a result of the staff commitment to all stakeholders, which include delivery of good customer service, attracting and developing the best talent, exemplary governance and delivering outstanding performance and superior returns to their shareholders.

The bank endeavours to lead the way in introducing innovative products in the market as well as leveraging on technology to improve efficiency.

And how does the bank intend to stay among the top performers?

The officer says the bank will remain a highflier since the management will be executing its strategy effectively to deliver the desired results for all the stakeholders through keeping an eye on the competition.

What is critical for the bank is to ensure that the management has the right strategy in place, remain competitive and deliver on its promises.

"That is why we have strived to overcome challenges like increased competition, reducing margins and competition for best talent," the officer says. To overcome this, Standard Chartered has continued to introduce innovative products and services, giving its customers choice. This has continued to help the bank retain and attract more customers.

The officer, speaking to *The Financial Post* said the bank shall continue to enhance its development programmes to ensure that its employees are well trained and skilled.

"This includes continued aggressiveness in marketing our products in order to increase our volumes."

Knocking on the 'billion club' door

Mike Du Toit, Managing Director, Stanbic Bank Limited

Stanbic Bank Kenya recorded a 108 per cent increase in pre-tax profits from KSh 440 million in 2005 to KSh917 million in 2006.

Du Toit, the bank's Managing Director, attributes the improved performance to a buoyant Kenyan economy, resulting in significant growth in transactional volumes.

Du Toit explains, “Stanbic Bank’s growth continues to be underpinned by our diverse portfolio which has been tailor-made to meet the needs of customers in this market. This customer focused approach has yielded these positive results.”
Citing a strong revenue growth as one of the key drivers of its performance, Du Toit reveals that total income grew by 58 per cent for the period under review**,** with strong contributions from both net interest income and non-interest income.
This, he says, was driven by increased customer activity in line with continued focus on selected target markets and a heightened focus on efficient liquidity management.

Compiled by Samwel Kumba
and **Justus Ondari**

Finance

Money transfer heats up but…

By Guchu Ndung’u
As the international money transfer services in the country pick up with the entry of mobile telephone service provider Safaricom into the fray, it is emerging that the country has no adequate regulations to govern the multi-billion industry.
In fact, the Minister of Finance Amos Kimunya, while launching the Safaricom mobile money transfer service, admitted that Kenya was still lagging behind in terms of legislation on a sector that is still in the infancy stage.
“But as long as the services meet the current laws of the land, they can roll out as the relevant legislation is put in place,” added his Information and Communication counterpart Mutahi Kagwe.
The Central Bank of Kenya (CBK) indeed confirmed to *The Financial Post* that the country does not have regulations for stand alone remittance service provider companies, as they are known.
“We are aware that some money transfer companies operate informally and are neither registered nor regulated. We need an appropriate legal framework,” CBK admits in a reply to our e-mailed questions.
Nothing illustrated this better than when Safaricom went to seek authorization for its M-PESA money transfer from the Communication Commission of Kenya (CCK), the telecommunications sector regulator, and CBK.
CCK threw the Safaricom ball to CBK, whose conditions were mostly centered on issues of record keeping, auditing processes, security and money laundering.
“Fortunately, all of those things had been built into our system and there was therefore nothing to adjust or change,” says Safaricom Chief Executive Officer Michael Joseph.
CBK is in the process of developing guidelines for remittance service providers whose highlights will be made public once the proposed National Payment System Bill is enacted, it (bank) says.
The Bill is shuttling between the corridors of Treasury and CBK as amendments, clarifications and other bureaucratic procrastination are said to be stalling its publishing and subsequent regulations.
Presently, among the only safety measures against money laundering through money transfer services is a limit on the amount of money transferable per transaction. However, there is no limit defined by CBK and different money transfer companies have their own limits.
For instance, Vigo Money Transfer puts the limit at US $ 8,000 (Ksh 560,000) per single transaction while for Xpress, the amount varies from country to country with 18.400 dinar (Ksh 350,000) for Dubai. Western Union puts it at $7,500 (Ksh 525,000) per transaction.
“The limits are self imposed to safeguard against vices such as money laundering,” says Andrew Odera, the General Manager of IRNet Coop KENYA Limited, the licensed operators of the Vigo Money Transfer in Kenya.
The money transfer companies work in partnership with banks and cooperative societies who offer the transfer services under the guise of the normal banking services.
With Kenya being a transit point for monies destined for Somalia, a so-called failed state due to the absence of a central government for decades, the country’s laws are increasingly coming under the scrutiny as the international community and the United States’ global war on terrorist funding focuses on Somalia.

According to statistics from the United Nations Development Programme (UNDP), the Somali Diaspora remits between $750 million (Ksh52.5 billion) to an excess of $ 1 billion (Ksh 70billion) annually.
Of this, $60 million (Ksh 4.2 billion) went through money transfer companies in Nairobi in 2003 and the figure is expected to have risen ever since.
Such remittances have become the focus of the war on terror and after the September 11, 2001 terrorist attacks in America, Al Barakaat, a Somalia remittance company, and several non-governmental organizations (NGOs), were shut down on allegations of money laundering and acting as a conduit for terrorists funding.
On the focus has been Hawal, a peer money transfer service favourite with Somalis in Kenya and which relies on kinship and clan members for transferring the money.
Nevertheless, CBK assures that companies operating in the umbrella of Banks and Foreign Exchange Bureaus are required to file reports with it (CBK) on all foreign exchange inflows. They are also expected to maintain information about the remitters in line with the Know Your Customer (KYC) requirements.
The KYC obligates banks to identify the source of transfers, its destination, among other details, that can assist in identifying details of the sender or receiver.
Amounts that exceed $5,000 or Ksh 500,000 must be 'declared' at the port of exit or entry. Foreign exchange bureaus are also required to report separately and provide documentation for amounts greater than $10, 000 (Ksh 700,000).
"However, there are no guidelines for those that are yet to come under regulation of the Central Bank," says the CBK reply.
CBK adds that it has rolled out guidelines for anti-money laundering and checks the internal control system of the financial institutions to assess their adequacy for mitigating fraud.
The bank hints that regulations for remittance service companies will borrow heavily from Bank for International Settlement standards and will be enacted once the NPS Bill is passed.
The amendments of section 4a (d) of the CBK Act gave the bank the mandate to ensure smooth operations of the payment systems which include the money transfer services.
Prior to that, the role of policing money transfer was ambiguous and shuttled between Treasury, the police and other government departments depending on the nature of the case.
The NPS Bill will give CBK the legal mandate to develop guidelines on money transfer, conditions to be met by the remittance companies, among other stipulations.
Both local and international money transfers are recording phenomenal growth as Kenyans look for greener pastures across the country's borders and finally remitting significant monies back home.
Figures from CBK confirm that remittances to Kenya collected through commercial banks amounted to $ 620 million (Ksh 43.4 billion) in 2006, almost double the $ 425 million (Ksh 29.75 billion) remitted in 2005.
In 2004, the figures were much lower with the country only getting $ 376 million (Ksh 26.32 billion) from the Diaspora.
The Kenya Community Abroad, a body made up of Kenyans living outside the country, however, puts the figure at an all high of Ksh 52 billion per annum.
Though statistics from the local money transfers are hard to come by, the recently launched Postal Corporation of Kenya's Postapay is reportedly handling figures of between Ksh 16 million and Ksh 19 million per day hardly four months after it was launched, an indication of the high potential of the local market.
As a result, competition in money transfer services in Kenya is heating up as more firms position themselves to have a slice of the cake.
"We are expanding at a rate of 40 per cent per annum and handling Ksh 36 million per month," says Nuru Yusuf of Dubai's Xpress Money Transfer.
The latest international entrant in the market and which is expected to take the money transfer business to new heights and location is the Vigo Transfer, a service being offered through Savings and Credit Cooperative Societies (SACCOs) spread across various parts of the Kenya.
"Apart from using Saccos which have the widest coverage, we have also lowered the cost of transactions to make it one of the most competitive in the market," says Odera.
Vigo charges $ 8 (Ksh 560) for remittances of between 0 and $100(Ksh 7000) while others like the Western Union average at Ksh 1,150 for the same amount.
It is owned by IRNet Coop, a company formed by a group of Kenyan Saccos including the Kenya Union of Savings and Credit Societies (KUSSCO), Mwalimu Sacco and the World Council of Credit Unions(WOCCU).
Barely three months since its launch, the group has eight branches across the country and a nationwide presence is in the offing.
With its eyes set for expansion, Postal Corporation of Kenya is also set to enter the international money transfer market at a launch in the US later this month.
Its services will be offered by Afri payments who are expected to open up branches in the US as per the demand of the service.
But the parastatal will have to brace itself for competition from established players in the US like Western Union whose branch network is strewn across the world.

Mobile phone service provider Safaricom, apart from the M-PESA local money transfer, is also rolling out an international transfer services in partnership with Citi Group bank 'by mid this year.'
It is anticipated that Kenyans in the United Kingdom will have the first opportunity to use the service to send money to Kenya on a trial basis and both parties plan to launch commercially, with a focus on Eastern European and Asian markets, such as Poland and India, in the near future.
The sender can initiate the transfer using either a mobile phone or a secure Internet website to give instructions on where to send the funds.
Susie Lone, the M-PESA project manager, says that the service aims to tap the Ksh 13.93 trillion ($199 billion) in remittances that the World Bank estimates were sent to developing countries in 2006.
But CBK takes issue with money transfer companies, accusing them of 'extracting resources from the transferees' through conversion of the monies sent to local currencies at the payout window.
"The conversion rate used is usually far lower than the one in the market," CBK adds.
For instance, payout for windows like the Western Union is Ksh 66 despite the dollar exchanging at a rate of between Ksh 69 and Ksh70. Efforts by the Kenya community abroad and CBK to offer cheaper remittance rate to the Kenyans in the Diapora hit a snag after the programme was deemed unsustainable and outside the mandate of the bank.

Kenyans set to access AccessKenya

The 12 year-old AccessKenya Group awaits CMA's approval to issue its IPO

By **Justus Ondari**

As a senior partner in the venerable Nairobi law firm Hamilton, Harrison & Mathews Advocates, Michael Somen would not just put his reputation on the line by plunging into a project unless he was sure it would survive the cutthroat competition of the corporate world. Not even when that project was Communication Solutions Limited (Commsol), a brainchild of his two sons, David and Jonathan.
"I knew what they were doing from the beginning because they (sons) kept me informed. I opted to join them (as a chairman) because I was confident that the business was going to succeed," Michael says of the company his sons set up on March 2, 1995, as he warmly smiles at Jonathan who is standing next to him during the interview.
It is not surprising given that the top notch city lawyer is an old hand in corporate management since, apart from working for a law firm whose client base reads like the who-is-who list of blue chip companies, he has served in the boards of national carrier Kenya Airways and the Nairobi Stock Exchange (NSE), among others. Currently, he sits on the boards of NIC Bank and Alexander Forbes.
Twelve years down the line, today, Michael's wisdom has been vindicated as his son's venture, Commsol-an information and communication technology (ICT) and a one-stop-shop for corporate clients in Kenya-has not only grown, but also seen its name change.
The name change begun in 2000 when AccessKenya, itself a registered business name, was set up as a Commsol brand. This has eventually led to a series of developments that have resulted in the birth of the AccessKenya Group which is the holding company of AccessKenya, a corporate Internet Service Provider (ISP), and Broadband Access (BLUE), one of the country's largest Public Data Network Operators.
On the growth side, steered by a board of directors that includes non-Somen family members Ngugi Kiuna and Mungai Ngaruiya, the company grew in excess of 200 per cent in each of its first three years of business while in 2004 and 2005; it recorded an annual growth in excess of 100 per cent in its top line revenue.
Today the company prides of over 1,300 clients including non-governmental organizations, manufacturers, banks, airlines, African Medical Research Foundation (Amref), multinationals like Nivea makers Beiersdorf AG, Credit Reference Bureau Africa and Swiss Airlines. No wonder, from a paltry three employees in 1995, the company's staff has grown over the years to reach 15 in 2000, a figure that has since shot up to the current 140.
"We can hire more," says Jonathan.
And the group is on the threshold of making history. In tandem with the increasing public thirst for investment in the stock market, the group has applied to the Capital Markets Authority (CMA) and Nairobi Stock Exchange (NSE) to list this year through an Initial Public Offer (IPO). If successful, the IPO will make the group, arguably, the first family owned ICT Company in the country to list at the NSE.
"Following our successful private placement in 2006, and the continued growth in our Internet and telephony businesses, our board has decided that the most appropriate way to further accelerate the development of the business is to seek a listing on the NSE," says Jonathan, the Group's Managing Director (MD).
The MD reveals that the IPO idea was mooted six months ago.

"We explored the various options such as getting equity in the traditional markets or going for an IPO. We settled for the latter because it not only widens our shareholder base but is also a very efficient way of raising capital for the company."

"As a Kenyan owned company focused on providing ICT services within this country, we are also keen to broaden our shareholder base amongst Kenyan institutions and individuals," says Jonathan, 37, who holds a degree in economics and accounting from Bristol University, United Kingdom. His partner, David, 41, holds a law degree from Oxford University and a Masters degree in Business Administration (MBA) from Harvard Business School.

AccessKenya has won the top award in corporate service provision sector for each of the past five years from 2001 to 2005.

Says Jonathan: "A listing will help us accelerate our goals, including a further improvement to our latest Broadband Max 2 - quadruple downlink - solution, a reduction or complete elimination of the set up costs to use our Yello telephone service and the launch of a new AccessKenya IT service offering. We are also in the process of expanding our network coverage as well as investigating new technologies that will be of benefit to Kenyans."

Initial Public Offer

The brothers aim to sell 40 per cent of the company to the public, a move that will see them benefiting from a tax incentive introduced by Finance Minister Amos Kimunya in the 2006 Budget speech.

Under the tax measure, a company that lists 40 per cent or more pays tax at a rate of 20 per cent as opposed to 25 per cent that any listed company pays or 30 per cent that unlisted firms pay.

Since they are waiting for CMA's nod, the ICT entrepreneur cannot discuss in detail much on how much they intend to net from the IPO.

"We are working on the details. But we are looking at the same amount as that netted by the Scangroup and Eveready East Africa Limited IPOs, that is, between Ksh 700 million to Ksh 800 million," says the MD.

"The big difference with our IPO is that much of the money, over 50 per cent, will go into the business. This is because we believe that there is enormous opportunity in the ICT sector and we are uniquely placed to take advantage of it."

Fear

Many family owned businesses remain unlisted due to the fear of watering down their shareholding, something the Somen brothers seem to have weathered.

"We do not have such fears. What should we be worried about? Already we run our business as if we are a public company and in a very professional manner," says David.

Jonathan adds: "Apart from the board of directors which include even non-family members, we observe strict corporate governance whereby, as MD, there are decisions I can make and others I cannot."

The MD continues: "I believe if I will continue doing a good job, our shareholders, including the post-IPO ones, will allow me to carry on with my duties. I have a great board and hardworking employees who would help me achieve this feat. In any case, clinging onto a small family business is not part of the strategic plan of this business."

Challenges

Like in any business, the company faces many challenges on a day-to-day basis.

"Our biggest challenge has been managing growth although we have managed to keep it under control in terms of costs, human resource and delivery of quality service," explains Jonathan.

Operating in a sector which changes by the day, the Somen brothers are constantly monitoring technological innovations, especially in ICT, around the world, lest their services become obsolete.

While appreciating the government's reforms in the ICT sector, the duo calls on the government to reduce excise duty levied on communication equipments besides implementing the fibre optic project expeditiously.

Advice

The brothers advise any entrepreneur who would like to invest in the ICT sector to know "where they want to go with their ventures."

"You have to choose whether you want to cling onto 100 per cent of a tiny business or list and own 10 per cent of a big business," observes David.

Jonathan adds: "We can own this business forever since we are under no obligation to make it public. In any case it is profitable. But we believe we could make a bigger contribution to the economy, build the business further, employ more Kenyans and add value to our shareholders and Kenyans in general once we list."

They are unfazed by the competition.

"We have built the business based on the competition. We are ready to take on whoever comes into the market. We are a strong company and so long as we continue delivering quality service at a good price, we can take on any competitor," they say.

How does the father feel about his sons' business venture twelve years after he joined them?
"Very proud and excited," concludes Michael who retired from Hamilton, Harrison & Mathews Advocates as senior partner in 2000 after 39 years of service.

Kenya: An investors' darling or pariah?

Negative image and red tape slows down the country's Foreign Direct Investment flow

By **Samwel Kumba**
Touted as the strongest economy in the East African region and an island of tranquility amidst a sea of Horn of Africa chaos, however, Kenya has played second fiddle to Uganda and Tanzania over the years as far as investments, especially Foreign Direct Investment (FDI), is concerned.
For instance, the United Nations Conference on Trade and Development (UNCTAD)'s
World Investment Report 2006 titled *FDI from Developing and Transition Economies: Implications for Development*; shows that Kenya received less FDI than Tanzania and Uganda.
According to the report, Tanzania and Uganda received between $0.2 billion (Ksh14 billion) and $0.4 billion (Ksh28 billion) FDI compared to Kenya's $0.1 billion (Ksh 7 billion).
Because of this, Kenya has had to dig deep into her organizational, public relations and incentive war chest to try and lure the tight-fisted but loaded investors into its boundaries. For, more investments can easily flow in if the country made a good impression in the eyes of the foreign investors.
Research has shown that this view holds true. For instance, a survey commissioned by the Steadman Group through its quarterly SPEC Barometer reveals that investors make their decisions based on how they view the future of an investment destination. If they view its future economic conditions as bright, their confidence is high and they are usually more than willing to invest.
Steadman Group Chief Executive Officer George Waititu, however, warns that if the investors are uncertain about the future prospects, they will hold back their resources. There are many factors that influence business confidence including government statements and actions.
And Waititu reveals that the business leaders' confidence in Kenya's economy declined through September 2005 to May 2006. He says that the lowest index of 58 was registered in May 2006, prior to the government's annual budget presentation.
"Six months later, it recorded the highest level of confidence, 72, in the Kenyan economy, the highest recorded since this survey started in 2005. This is an interesting finding given that 2007 is an election year where typically business confidence would be expected to be low," says Waititu.
But Kenya may not be doing well in all fronts. David Nalo, the Permanent Secretary in the Ministry of Trade and Industry, admits that the country has continued to rank poorly globally in terms of the indicators on doing business. He attributes the scenario to a poor business environment.
Nalo, however, maintains that the government is undertaking serious measures to improve the investment climate by reducing the cost of doing business in the country. The main focus, according to him, is improving the investment climate through reforms of the business environment so as to increase investor confidence.
The creation of an enabling environment for private investment, both for local and foreign investors, he says, is a clearly stated government priority in its current development blue-print, the Economic Recovery Strategy (ERS) for Wealth and Employment Creation.
The strategy calls for a critical analysis of the factors that determine firm level productivity, including the development of micro, small and medium enterprises (MSMEs).
"I feel that the government ought to increase the coordination of activities and improve their harmonization in order to involve both the government, development partners, the private sector and civil society," says Nalo.
The Director of Industry in the Trade and Industry ministry Margaret Rotich urges investors to diversify into other sectors like cotton, energy and infrastructure since they have enormous and unexploited potential.
But the government can do more: "The government needs to address investment constraining factors including the high cost of production, insecurity, inefficient infrastructure and low labour productivity," says Margaret.
She admits that FDI has not been flowing in as fast as Kenyans would have wished citing burdensome licensing and arbitration regimes as major contributors.

Michael Joseph, the Chief Executive Officer of Safaricom, admits the slow FDI inflow is a perception issue and feels the media plays a critical role in reinforcing the negative perception.
“The fact that the media houses headline corruption matters and other social ills is reason enough to scare any potential investor. Personally, I have never come across such grave corruption activities as portrayed by the media. What exists is what is in any other country across the world,” says the Safaricom CEO.
The government’s inactivity is also to blame. Joseph explains:’“The real act of deliberately fighting corruption seems not to be taking place. Kenyans and the world at large need to see those implicated in corrupt activities prosecuted and less of the yapping.”
He says an investor coming to Kenya faces a number of challenges but the government is addressing them.
“Generally speaking, the market potential for interested investors is enormous. Take for instance, Safaricom; when we came to the market seven years ago, it never crossed anybody’s mind that one day we will grow to be the sort of company we are today.”
Standard Chartered Executive Director in charge of Client Relationships in East Africa Mark Myers notes that there are plenty of opportunities in Kenya.
However, Myers observes that Kenya is not a very receptive market for foreign investment.
“There is one big company that was eyeing Kenya as a possible destination to set up a very big project. But the company’s CEO intimated to me that if it were another country, they would roll out red carpets for him. But in Kenya, he had difficulties meeting with anyone who could help.”
Citing telecommunications and infrastructure as potential areas of big investments Myers feels the government can do better.
“Among the things the CEO was raising is that whenever he wanted to do anything, there were barriers from all sorts of sources. He was even wondering where one can get arbitration in an amicable manner,” Myers says.
Myers says it is difficult enough for the locals but much more difficult for foreign investors.
“To me the problem is more of an attitude than administration. Kenya is an environment where the government is trying to be safe by ensuring that everything is done above board but in the actual sense, things are not going anywhere. Bureaucracy is abundant.”

Eastern African region

Amongst the five countries surveyed, Kenya recorded the highest level of business confidence. Uganda’s business confidence, having dropped significantly last year before the general elections, recorded a sharp rise from 44 to 57 points.
But the Tanzania’s business confidence has declined steadily from 66 points to 59 within the past year. Zambia, with the general elections out of the way, recorded an increase in business confidence of 9 points.
The average index for the five countries is 64 and it is only Tanzania and Uganda that are below this average. All the five economies are recording economic growth rates of between 5 and 6 per cent.
Kenya and Uganda have embraced China, which seem to have identified the continent as an area of significant economic and strategic interest and has now diversified the portfolio of investors in Africa.
Amid growing concerns about China’s burgeoning influence around the globe, a significant number of business leaders in the five countries surveyed indicated that China’s increasing economic activities in ‘natural-resource-rich’ Africa will have a positive impact on their businesses.
This view is more widely held by business leaders in Uganda and Kenya than in the other three countries. Only 20 per cent of the business leaders in the countries surveyed feel that Chinese ventures will have no impact on their businesses while a third of the sample expect China’s strategy to have negative impact on their businesses.
In Kenya, the entire information and communication telecommunication (ICT) and service sectors are the most apprehensive about China, while agriculture and hotels and tourism sectors expect to reap the most from the partnership. Zambia business leaders are most apprehensive about China.
With a little improvement , Kenya can become a darling of investors.