COMMODITIES REVIEW

ALY KHAN SATCHU

Geothermal Energy, Japan and KenGen

I spend a lot of my week watching the Tape. The Velocity and the Volatility of the real-time Tape is breathtaking. On Friday I was watching events unfold at the Treasury where the Cabinet Secretary Henry Rotich and the Japanese Ambassador to Kenya Toshitsugu Uesawa (who by the way is a fluent Kiswahili speaker, a tremendous Wag and can crack rather fine jokes in three languages -Japanese, Kiswahili and English) were appending their signatures to loan agreements for Olkaria one, two and three Geothermal Power Rehabilitation Project amounting to Sh9.53 billion. KenGen is also in the process of building a new 140-megawatt plant, financed by a $400 million (Sh40.52 billion) loan from JICA, that is expected to start running by 2018.

I learnt that the loan has a 10-year moratorium and then interest is charged at one per cent. Last week, in a hearing before the House Appropriations Committee, US Navy Secretary Richard Spencer accused Beijing of "weaponising capital," saying China is making loans, not grants or aid, to finance the infrastructure projects. If the debtor fails to make payments, "the asset owner comes and reclaims it and says these are now ours," said Spencer. At a time, when the cost of borrowing is a key issue around infrastructure, Japan deserve a shout-out for giving Kenya a long and inexpensive ramp. The Japanese have been a very strong partner to Kenya ever since I can recall. I told Prime Minster Shinzo Abe the same at the TICAD conference and reminded him that it was the Japanese who built the Nyali Bridge an eternity ago.

"We are keen on improving the lives of Kenyans through technologies that promote sustainable energy. We laud KenGen's capabilities in managing development projects," Toshitsugu Uesawa said.

Japan through its Development Agency JICA has backed KenGen's Geothermal drive in a big way. Kenya generated 45 megawatts of power with geothermal energy in 1985 and now generates about 630 megawatts; nearly 400 megawatts of that production has come online since 2014.

"No matter how you cut it, that is a significant amount of generation in the geothermal world," said Gene Suemnicht, chief executive of EGS, a California-based geothermal consultancy told the Independent earlier this month. Kenya ranks nineth worldwide in terms of installed Geothermal capacity just behind Iceland. Geothermal energy is widely attributed as having lifted Iceland from poverty in the 1970s to middle income status.

KenGen has been existence for 60 years and last year appointed its first woman managing director Rebecca Miano. The share price which gained over 40 per cent in 2017 is +5.26% this year. Interestingly, last year PIC SA (The PIC, a registered financial services provider, wholly owned by the South African Government, with the Minister of Finance as shareholder representative) mopped up around 10 per cent of the shares in the company. The Arrival of PIC SA completely changed the dynamics around the share price. PIC extinguished the excess supply of shares and by my estimate continue to build on their position. KenGen reported H1 results where earnings per share declined -11.429% (essentially because of an uptick in half-year depreciation and amortisation). Half year steam revenue accelerated +27.951% and speaks to the underlying and even exponential shape of the forward earnings curve. KenGen was one of my picks for the year and I expect a significant absolute return outcome at the end of the year.

Green and Renewable Energy is a big thing now. I am sure the MD is looking keenly at the opportunity around securitising steam assets with a view to issuing a "Green" Bond. The KenGen Infrastructure Bond was a Pioneering move for the Kenyan Capital markets, I expect them to play the same catalytic role with a Green Bond. KenGen trades on a trailing price earning of 6.56, headline revenue growth was running at +4.927% at the half year mark. Rebecca Ciano and her team have a significant tail-wind in their sails. Nine shillings a share will look very cheap at the end of year, in my opinion.

ONLINE SECURITY

OLX upgrdes its security features to protect users from scammers

VICTOR AMADALA / Online classifieds company OLX has launched a new app and upgraded its website to provide users an easier, faster, safer, and more local way of buying and selling used goods.

The change, which is part of the firm's global move to solidify its leading position, includes upgrading of its security features to give users a secure experience when trading through the platform.

Both buyers and sellers will need to register or login on the platform with verification either via mobile phone or through Facebook. Users will now have a profile, be able to see who they are talking to, and through Facebook verification, see if they have any mutual friends in common. This new layer of security will help prevent potential scammers and fraudsters.

"This is our biggest update to date to the platform.We have improved every aspect of the OLX user experience, reaching a level of innovation that we are incredibly proud of," said Sjoerd Nikkelen, OLX's chief executive Africa and Middle East

OLX has also changed the way its products are displayed. The listings now appear in an intuitive news feed-style layout, similar to social media platforms.

By using a device's built-in GPS, the geolocation system will look at where a user is and which offers are available in their area. The search area expands as users scroll through the listings. All the regular search functions, such as category and product filtering, will still be available.

UNCONTROLLED BORROWING

ICPAK warn government over looming debt crisis

The duration we take to repay loans from international organizations is 15-20 years which is relatively short that is why we are in this situation

ICPAK chairman Julius Mwatu addressing members of the media at White sands beach hotel in Mombasa last year /JOHN CHESOLI

FAITH MATETE
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The Institute of Certified Public Accountants has called for an overhaul of the country's debt strategy to enhance sustainability and economic growth.

ICPAK chairman Julius Mwatu said Kenya's public debt, currently at Sh4.5 trillion, was not in tandem with the country's economic growth.

Mwatu said this was likely to affect the country's economic development since 40 per cent of the annual budget will be spent on servicing public debt.

"In Budget Policy Statement 2018, the National Treasury is proposing that out of the Sh1.68 trillion that is budgeted as ordinary revenue in the 2018/19 financial year, Sh688 billion shall be applied to service existing public debt. This translates to 40 per cent of ordinary revenues going into debt servicing," he said.

The situation, he said, was further compounded by the fact that 50 per cent of the country's debt is domestic making it difficult for ordinary Kenyans and local entrepreneurs to access loans from lending institutions.

Mwatu said government's overall spending deficit in the next financial year, shall be 7.2 per cent of GDP, which Treasury proposes to plug through additional borrowing, further exacerbating the public debt problem.

"This points to a mismatch between the fiscal policy and the broader economic policy, a situation which should be evaluated critically to assess the sustainability levels of public debt," he added.

Speaking in Kisumu during the launch of the group's Nyanza branch, the chairman called on the government to explore accessing loans on concessionary terms to help ease the debt burden.

"The duration we take to repay loans from international organizations is 15-20 years which is relatively short that is why we are in this situation," he said.

He called for longer repayment periods to ease the heavy burden of servicing the loans to avoid affecting capital projects.

"Japan is the world most indebted country with debt to GDP ratio of 249 per cent implying that Japan owes twice the size of its economy yet debt sustainability is seldom an issue," he said. "The strategy adopted by Japan is negotiating longer tenure loans with very low rates. The trick is to work on the countries credit standing by focusing on investing on key sectors that stimulate economic activity."

He urged the government to keep an eye on the red flags and warning indicators to ensure that the country is not caught-up in a debt crisis in the near future.

Mwatu also called for prudence on public expenditure urging parliament and county assemblies to take their oversight roles seriously to help tame pilferage of public funds.

He further called for immediate action on the auditor general's report for financial year 2015-2016 which highlighted malpractices in both county and national governments.

THE SITUATION SHOULD BE EVALUATED CRITICALLY