nairobi securities exchange

Discover Opportunity

ANNOUNCEMENT OF UNAUDITED GROUP RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

CONDENSED GROUP STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE	**6 Months Ended 30.06.2019 Unaudited KShs '000**	**6 Months Ended 30.06.2018 Unaudited KShs '000**	**12 Months Ended 31.12.2018 Audited KShs '000**
Revenue	288,731	352,402	626,191
Interest income	47,227	58,879	116,341
Other income	28,378	19,223	39,605
Total income	**364,336**	**430,504**	**782,137**
Administrative expenses	(339,404)	(277,332)	(560,300)
Share of profit of associate	4,963	14,654	19,012
Profit before taxation	**29,895**	**167,826**	**240,849**
Taxation charge	(5,627)	(33,940)	(50,171)
Profit for the year	**24,268**	**133,886**	**190,678**
Other comprehensive (loss)/income	(10,720)	8	(3,313)
Total comprehensive income for the year	**13,548**	**133,894**	**187,365**
Earnings Per Share* - Basic and diluted (Kshs.)	**0.09**	**0.52**	**0.73**
*EPS based on no. of shares	259,500,791	259,500,791	259,500,791

CONDENSED GROUP STATEMENT OF FINANCIAL POSITION AS AT	**30.06.2019 Unaudited KShs '000**	**30.06.2018 Unaudited KShs '000**	**31.12.2018 Audited KShs '000**
Assets			
Non current assets	1,152,453	1,060,647	1,079,514
Current assets	1,134,995	1,248,525	1,138,874
Total assets	**2,287,448**	**2,309,172**	**2,218,388**
Equity and liabilities			
Share capital	1,038,003	1,038,003	1,038,003
Share premium	277,185	277,185	277,185
Retained earnings	678,337	750,091	781,224
Other reserves	(11,384)	(558)	(664)
Revaluation reserves	-	3,209	-
Non current liabilities	2,711	5,712	2,711
Current liabilities	302,596	235,530	119,929
Total shareholders' funds and liabilities	**2,287,448**	**2,309,172**	**2,218,388**

CONDENSED GROUP STATEMENT OF CASH FLOWS FOR THE	**6 Months Ended 30.06.2019 Unaudited KShs '000**	**6 Months Ended 30.06.2018 Unaudited KShs '000**	**12 Months Ended 31.12.2018 Audited KShs '000**
Cash flows from operating activities			
Cash (used in)/generated from operations	(41,630)	178,759	124,642
Tax paid	(19,873)	(21,608)	(57,491)
Net cash (used in)/generated from operating activities	(61,503)	157,151	67,151
Net cash generated from/(used in) investing activities	67,136	(190,840)	79,987
Net cash used in financing activities	-	-	(73,860)
Increase/(decrease) in cash and cash equivalents	**5,633**	**(33,689)**	**73,278**
Cash and cash equivalents at the beginning of the period	228,564	156,030	156,030
Cash and cash equivalents at the end of the period	**234,197**	**122,341**	**229,308**

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED	**Share capital Kshs '000**	**Share premium Kshs '000**	**Revaluation & Other reserves Kshs '000**	**Retained earnings Kshs '000**	**Total Kshs '000**
At 1 January 2018	**1,038,003**	**277,185**	**2,649**	**694,049**	**2,011,886**
Profit for the period	-	-	-	133,886	133,886
Other comprehensive income	-	-	8	-	8
Transfer of excess depreciation	-	-	(8)	8	-
Deferred tax on transfer of excess depreciation	-	-	2	(2)	-
2017 dividend declared in the year	-	-	-	(77,850)	(77,850)
At 30 June 2018	**1,038,003**	**277,185**	**2,651**	**750,091**	**2,067,930**
Profit for the period	-	-	-	56,786	56,786
Impact of IFRS 9 and IFRS 15 transition adjustments:					
Additional loss allowance on adoption of IFRS 9	-	-	-	(7,130)	(7,130)
Deferred market access fee on adoption of IFRS 15	-	-	-	(25,001)	(25,001)
Deferred tax thereon	-	-	-	6,478	6,478
Other comprehensive income, net of tax	-	-	(3,315)	-	(3,315)
At 31 December 2018	**1,038,003**	**277,185**	**(664)**	**781,224**	**2,095,748**
Profit for the period	-	-	-	24,268	24,268
Other comprehensive income	-	-	(10,720)	-	(10,720)
2018 dividend declared in the year	-	-	-	(127,155)	(127,155)
At 30 June 2019	**1,038,003**	**277,185**	**(11,384)**	**678,337**	**1,982,141**

Explanatory Notes

The accounting policies used in preparing these financial statements are consistent with those used for the group's 2018 annual financial statements. These unaudited financial statements are extracts from the books of accounts of the group and were approved by the Board of Directors on 27 August 2019.

OPERATING ENVIRONMENT – FIRST HALF OF 2019

Global economic growth remained subdued in the first half of 2019 on account of strained US-China trade relations coupled with prolonged Brexit uncertainty, that significantly impacted on investor sentiments, slowing down investment. In the course of the 6 month period, the World Bank revised downwards its 2019 economic growth forecast by 0.3% points to 2.6%, from the projected 2.9% as at January 2019.

The macro-economic environment in Kenya during the first half of 2019 continued to face challenges characterized by erratic weather conditions, low private sector credit growth, reduced liquidity and increased inflation. During the period under review, the inflation rate increased to an average of 5.2% compared to an average of 4.3% posted over the same period in 2018. The country however experienced a relatively stable interest rate and currency environment evidenced by a marginal depreciation of 0.5% against the US Dollar and declining yields in government securities in the primary market in the period under review respectively.

FINANCIAL HIGHLIGHTS

The Group reported a decline in profit after tax of 82% to Kshs. 24 Million for the six months period ended June 2019 as compared to Kshs. 134 Million recorded over the same period in 2018. This was occasioned by an 18% decrease in revenues mainly driven by a 28% drop in equity turnover which declined from Kshs. 108.5 Billion for the six months ended 30 June 2018 to Kshs. 78.1 Billion for the six months ended 30 June 2019. This in turn led to a reduction in equity trading levies by 28% from Kshs. 259.9 Million for the six months ended 30 June 2018 to Kshs. 187.5 Million for the six months ended 30 June 2019. The decline in the equity turnover was as a result of low domestic demand which saw an increase in asset allocation towards the fixed income assets. Bonds turnover however edged up 16% to settle at Kshs. 360 Billion for the six months ended 30 June 2019 as compared to the same period in 2018. During the same period, the NSE reviewed its administrative costs leading to a one-off staff restructuring cost of Kshs. 52 Million. This is not expected to recur in the second half of 2019.

Interest income in the review period decreased by 20% to Kshs. 47.2 Million from Kshs. 58.9 Million recorded over a similar period in 2018 due to utilization of deposits on acquisition of strategic investments.

Share of profit in associate decreased by 66% from Kshs. 14.7 Million for the six months ended 30 June 2018 to Kshs. 5 Million for the same period in 2019 due to the decline in trading performance and increased system costs.

Other comprehensive loss of Kshs. 10.7 Million for the period under review relates to unrealised loss on the fair value of a quoted investment acquired in 2019. This was passed through Other Reserves.

Total assets declined marginally by 1% from Kshs. 2.31 Billion as at 30 June 2018 to Kshs. 2.29 Billion as at 30 June 2019. Current liabilities as at 30 June 2019 include a first and final dividend approved for the financial year ended 31 December 2018 of Kshs. 127.2 Million which was paid in July 2019.

Cash generated from operations for the six months ended 30 June 2019 declined as a result of the drop in performance for the period and utilization of funds on strategic acquisitions.

OUTLOOK – SECOND HALF OF 2019

Our expectation on market performance in the second half of 2019 is positive, driven by reduction of interest rates by the Federal Reserve Bank from the previous rate of 2.25% to 2.50% to the current benchmark rate of 2% to 2.25% effected in July 2019; which could spur activity in emerging and frontier markets by foreign investors. Stable macro-economic conditions supported by increased infrastructural investments by the Government will offer private sector players growth opportunities through their participation in the Big Four Agenda.

The successful launch of the NSE NEXT Derivatives Market at the beginning of July 2019 presents a great opportunity for the NSE to diversify its revenue streams whilst providing investors advanced risk management tools and a new avenue for deployment of capital. The market will also increase liquidity of underlying assets as well as buttress our position as a leading financial services hub in Africa. The launch is a key milestone in the achievement of our strategic priorities.

In the second half of the year, we will place special focus on increasing interaction with local and international investors and issuers in a bid to increase activity in the market. The NSE will also leverage on the Ibuka Program to create a pipeline of well-structured companies ready to list or access other capital options offered by the NSE. The Program has grown in leaps and bounds since its launch in 2018, attracting 16 companies since inception, underpinning the program's attractiveness among Kenyan companies.

The NSE will gear up efforts to facilitate issuance of corporate bonds to enable companies access short term capital to support their growth and expansion strategies.

We will maintain our focus on information services, with NSE providing real time comprehensive market data on a cost basis, to data vendors and other consumers of data who need the same to make informed investment decisions. The NSE plans to grow this revenue line by actively engaging with entities and institutions that rely on market data to make business decisions.

With the ongoing upgrade of the Automated Trading System, we anticipate increased trading activity catalyzed by increased systems efficiencies and trading capabilities.

During the period, the NSE will enhance internal efficiencies at an enterprise wide level and initiate strategic cost reduction initiatives to optimize resources in line with its commitment to maximize shareholder and stakeholder value. The NSE will also benefit from reduced staff costs as a result of the staff restructuring carried out in the first half of 2019.

DIVIDENDS

The Board of Directors does not recommend the payment of an interim dividend for the first half of the year 2019.

By Order of the Board

Mr. Geoffrey O. Odundo
Chief Executive

Nairobi
27 August 2019