

(BUY; TP at KES 15.78)

Based on the valuation of Funguo Investments Ltd (FIL), we recommend uptake of the investment based on a target price of KES 15.78. Despite equity investments segment being affected negatively as a result of the negative performance of the securities market, our investment case is supported strongly by the tremendous growth in unquoted investments which we believe will still continue in the medium to long term horizon as well as marginal growth in fixed income segment. Total assets have registered a tremendous growth for the past five years with a CAGR of 28.2% from KES 360Mn in FY 2012 to KES 972Mn in FY 2016. If implemented successfully, Funguo 2.0 strategy plan, they will hit their fundraising targets thus grow assets under management hence strengthen the weighted net asset value per share which has performed well with a 5yr-CAGR of over 120%.

Investment catalysts

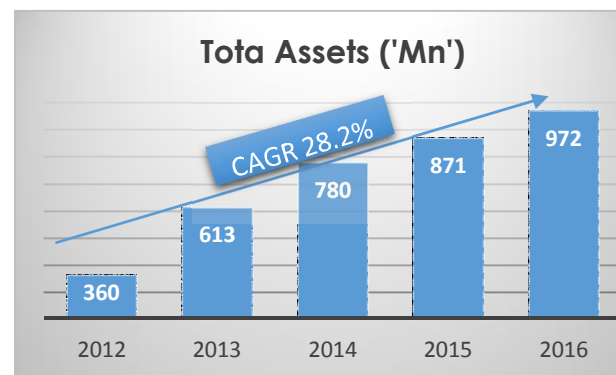
- Liquidity maintenance:** FIL has an appropriate liquidity risk management framework which enhances its short, medium and long term funding and thus ensuring available for sale quoted investments can be easily converted to cash when funds are required for any undertakings. We believe that they will continue to stay afloat with enough liquidity going forward having over 16% of the company's assets in FY 2016 that were convertible to cash.
- Additional capital injection:** The Company is seeking capital injection through a Rights issue which we believe will be successful especially with the new investors who partook the last issue having shown interest in the recent one and as such we believe that the company will have enough raise to undertake and deliver on their Funguo 2.0 strategy.
- Dividend payment:** The Company has been paying dividend and it intends to do so in the medium to long term. This instils a lot of confidence among the shareholders and other investors in that the management perceive a profitable business but on the flip side dividend payment is subject to profitability and other firm commitments.
- Key diversification strategy:** FIL investments has a strategic business plan that entails improving income; diversification of revenue streams; capital mobilization; investment in increased brand recognition; and a formalised portfolio restructuring to obtain optimization of returns for their portfolio. This we believe if adhered to tentatively the company will achieve its mandate of the deal pipeline of investment opportunities as it aims to do a target of KES 7.2Bn in Assets Under Management representing a CAGR of over 60% within a five year horizon. The new capital injection through the rights issue will primarily focus on construction services and material, ICT, financial services-credit, education services, health services, agribusiness (processing), fast moving consumer goods and real estate development.

Investment Risks

- Macro/political risks:** with the on-going macroeconomic indicators showing a relatively tough economic environment, this could impact FIL negatively if it doesn't cushion itself against the same as the political environment continues to hit up.
- Exit timing:** FIL has to comparatively re-align itself so as to determine an appropriate timing of exiting its portfolio so as to realise positive returns as some portfolio companies might be difficult to exit hence a reasonable strategy on the same should be viable
- Quoted market exposure:** With the recent turbulence experienced in the market we have seen profits taking a hit mostly on the equity portfolio thus FIL has to realign its quoted portfolio to protect itself from the shocks experienced. This we believe has the potential to negatively affect the Company's quoted equity portfolio which stands at about 10% of total portfolio value as at FY 2016.

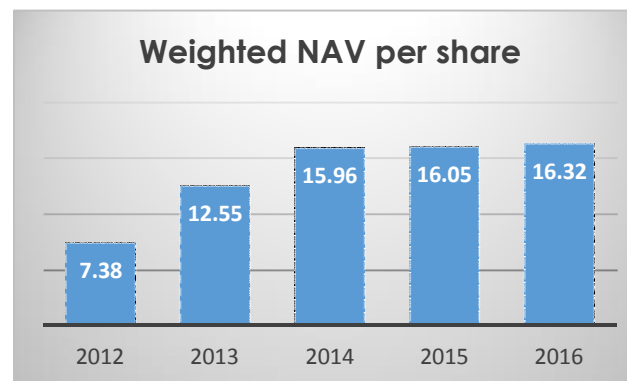
Recommendation Buy

Growth in Total Assets (Mn)



Source: Company fillings, OMS Research

NAV growth over the years



Source: Company fillings, OMS Research

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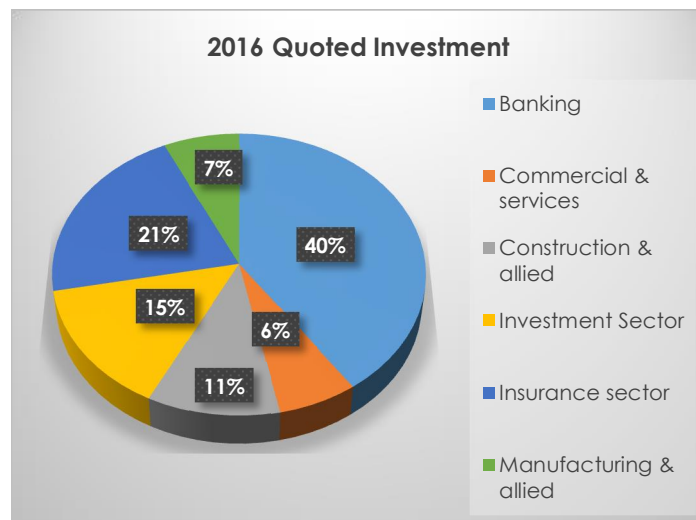


Company History

Funguo Investment Limited's Core Business is to be an investment channel that provides its Shareholders access to a quality investment portfolio. Funguo Investment Limited's business is currently in the following assets classes:

- i. Unquoted Equity
- ii. Fixed Income Securities
- iii. Real Estate
- iv. Quoted

In 1987, Funguo was founded as an investment vehicle for ICDC members of staff and in 1996 ICDC was invited as a strategic shareholder, acquiring a 40% stake in Funguo. In 1998 Funguo invested in AON Kenya Insurance Brokers Limited ('Aon Kenya') through acquisition of an equity stake and by 2016 had an 8% stake in AON. In 2014 they did a private placement resulting in on-boarding of new shareholders and capital. A total of KShs 78 million was raised in new capital. The roll of shareholders expanded from 330 to 375.



Unquoted Investments

Investee	As at 30/06/2016	As at 30/06/2015
AON KENYA INSURANCE BROKERS LTD	384,793,804	249,366,000
ALMASI BEVERAGES LIMITED	125,663,166	167,550,888
KWA HOLDINGS (EAST AFRICA) LIMITED	5,028,000	5,028,000
AFRICA ENERGY LIMITED	25,135,062	-
MOUNT KENYA BOTTLERS LIMITED	2,403,742	2,403,742
KISII BOTTLERS LIMITED	10,940,818	10,940,818
RIFT VALLEY BOTTLERS LIMITED	610,236	610,236

Source: Company Filings

Shareholding

Name : Top 10 shareholders	No.of shares	Shareholding
I.C.D.C	10,697,512	19.54%
SETA HOLDINGS LIMITED	7,421,710	13.56%
MOUNT KENYA INVESTMENTS LTD	3,638,122	6.65%
GEOFFREY.A.G. KIMARU	2,934,566	5.36%
YCEO HOLDINGS LIMITED	3,034,472	5.54%
JAPHETH OSUNGA	2,315,710	4.23%
PETER KING`ORI MWANGI	1,892,872	3.46%
VINCENT H. L. OPANGA	1,680,816	3.07%
JOSEPH MUNYIRI MUNENE c/o OLIVE MUNENE	1,232,839	2.25%
CHARLES NJUGUNA WAIGI	859,696	1.57%

Source: Company Filings

Valuation methodology

NAV/ SHARE

We have incorporated a Net Asset Value methodology as the company invests in various sectors of the economy and a price-to-book valuation and did an average of the prices to obtain our target price per share. We have used a five-year average terminal annual growth rate in all the segments to come up with our forward multiple to capture the downside or upside potential as investments are accounted for at cost and not fair value. Then the forward multiple was multiplied with the portfolio value to obtain the forward portfolios in each segment.

Quoted investments	As at 30/06/2016
Portfolio Value FY 2016	74,323,529
Target annual growth rate	-15%
CAGR 2012-2016	-6%
Forward Multiple to capture upside , x	0.85
Forward Value of portfolio	63,220,184
Subtotal Quoted Investments	63,220,184
Unquoted investments	
Portfolio Value FY 2016	619,544,410
Target annual growth rate	27%
CAGR 2012-2016	37%
Forward Multiple to capture upside , x	1.27
Forward Value of portfolio	783,743,176
Subtotal unquoted Investments	783,743,176
BONDS	
Portfolio Value FY 2016	64,121,830
Target annual growth rate	4%
CAGR 2012-2016	4%
Forward Multiple to capture upside , x	1.04
Forward Value of portfolio	66,392,211
Subtotal Quoted Investments	66,392,211
Total Asset Value	913,355,571
No. of shares	54,733,987
Target NAV/share	16.69

Assumptions;

- We anticipate a decline in quoted equities with the index having declined 21.15% year on year in 2016; FIL's equity had a 38% drop as at 30/06/16. We believe reduced exposure to equities will enhance its portfolio.
- As at 30/06/16 FIL's unquoted investments accounted for 64% of the total assets which we believe will continue to foster growth (26% growth Y/Y in 2016) and will contribute the greatest percentage in non-current assets segment as they undertake their Funguo 2.0 strategy.
- Fixed income securities will continue to realise growth especially in Government securities which contributed to 67% of the total bonds and bills and which grew 5% year on year.

Peer comparable:

Country	Name	Mkt Cap (KES)	Price (KES)	P/E (x)	ROE (%)	P/B (x)	DY (%)
KENYA	CENTUM INVESTMENT CO LTD	22,957.74	34.50	3.01	23.45	0.66	2.90
KENYA	TRANSCENTURY LTD	1,575.99	5.60	182.94	0.21	0.56	
OMAN	DHOFAR INTL DEVELOPMENT	23,696.64	96.17	11.72	7.78	0.74	4.29
ISRAEL	NAWI BROTHERS LTD	22,927.11	700.49	10.74	22.15	2.34	3.48
QATAR	NATIONAL LEASING	23,059.57	466.04	161.98	0.50	0.80	3.03
NAMIBIA	TRUSTCO GROUP HOLDINGS LTD	24,252.68	31.41	7.09	20.72	1.33	1.25
ISRAEL	MIVTACH SHAMIR HOLDINGS LTD	21,723.83	2281.99	551.61	1.10	0.72	-
OMAN	AL-OMANIYA FINANCIAL SERVICE	19,333.42	76.40	14.44	9.50	1.15	5.89
EGYPT	NILE CITY INVESTMENT	16,120.86	2223.58	69.23	6.30	3.31	-
S.A	AFRICAN EQUITY EMPOWERMENT	15,046.96	30.62	8.72	26.60	2.09	0.85
EGYPT	INTL COMPANY FOR LEASING	13,820.11	691.01	26.03	16.06	4.02	0.70
ISRAEL	IBI INVESTMENT HOUSE LTD	13,300.69	1050.58	14.41	8.12	1.15	4.24
S.A	GRAND PARADE INVESTMENTS LTD	12,809.59	26.93	172.36	8.57	0.70	11.66
KUWAIT	FIRST INVESTMENT CO KSCC	11,392.67	17.50	48.34	0.73	0.36	-
OMAN	NATIONAL FINANCE CO	11,298.96	41.67	6.57	14.25	0.97	7.47
QATAR	SALAM INTERNATIONAL INVESTME	35,225.92	308.15	10.93	6.79	0.74	7.33
NIGERIA	TRANSNATIONAL CORP OF NIGERI	9,429.05	0.23	-	-20.48	0.61	-
QATAR	QATAR & OMAN INVESTMENT CO	9,181.76	291.49	24.31	3.46	1.03	5.81
OMAN	TAAGEER FINANCE	9,077.80	35.80	4.43	12.65	0.93	7.01
OMAN	OMAN ORIX LEASING CO.	9,053.56	36.06	6.25	14.88	0.91	6.41
OMAN	AL ANWAR HOLDINGS SAOG	8,976.13	51.29	5.58	15.33	0.96	4.47
EGYPT	AMER GROUP HOLDING	8,540.00	1.87	6.60	14.06	0.91	3.74
NIGERIA	UAC OF NIGERIA PLC	8,812.77	4.59	5.28	11.23	0.58	7.33
	Average			61.48	9.74	1.20	4.88

Source: Bloomberg, OMS Research

Relative Valuation

Funguo limited is currently trading on high P/E of (1240x) and having a ROE of 3% compared to its peers with an average P/E of 61.48x and average ROE of 9.74%. The subdued returns were as a result of slowdown and eventual bear run on the listed equities asset class. However we are optimistic on the strategy plan to be undertaken that will ensure revenue diversification and increased contribution to returns by private equity portfolio. It trades on a high P/B (0.92x)-(based on market price as at 11/07/16) compared to its Kenyan peers but less on average terms among its peers with P/B of (1.2x).

Using the Price to Book valuation:

Book value per share =16.19, P/B multiple = 0.92, Implied price = 14.87

Methodology	Price
Net Asset Value	16.69
P/B	14.87
Average	15.78

Potential upside realized 12.7%

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