

## **Introduction**

Institutions and businesses which deal solely with helping customers find investment opportunities are yet to reach their full potential in Kenya. This is largely due to the traditional approach to investment taken by a majority of investors, where they rely on specific agents to make sales and purchases on their behalf. Investment banks have come up in the recent past, but their impact has been curtailed by the lack of clear information to the general public about how their operations work. While in the past most investment firms concentrated on a diverse clientele, Kurwitu has taken a different approach to investment. This report analyzes the operations of Kurwitu Ventures, providing information on its origins, its area of operation and the various risks it is faced with in its operation. A conclusion summarizing the key points of the report will also be provided.

## **Overview**

Investment vehicles in Kenya have been a preserve of banks, since they not only have the knowledge available on markets, they also have the financial resources to obtain such knowledge. There are a number of investment banks and institutions in the country, the main ones including ABC Capital, CBA Capital, Dyer & Blair, the Nairobi Securities Exchange and Centum Investment Company Limited. Most of these institutions deal with products suitable to the general public, regardless of religious affiliation. Kurwitu Ventures has set itself apart from the competition by tailoring its product portfolio in such a way that clients who may find what is already in the market contradictory to their religious convictions can invest in products which have been proven and tested. The agricultural sector offers a broad range of options, from

livestock farming to crop farming and horticultural ventures, all of which have significant returns. Real estate has seen a prolonged period of appreciation in the country, with land and building units providing stable rental and sales income. Rental fees range from KES20,000 to KES100,000 while sales prices range from KES7 million to KES18 million. The diversification of Kurwitu into these sectors not only mitigates risk, it also adds to the company's well of knowledge and sharpens its ability to provide accurate investment consultancy services. Real estate investments trusts are relatively new in Kenya, with the first having been introduced in the country in October 2015, therefore Kurwitu's success or failure in them is yet to be ascertained.

## **Corporate Analysis**

### *About the Company*

Kurwitu Ventures was initially set up as an investment management services company and was incorporated in 2006. After what its directors considered a failure to reach its intended targets, the company was restructured and it changed its target clientele. At present, Kurwitu Ventures exists as a company which specializes in providing Sharia compliant investment opportunities. While its primary targets are customers of the Islamic faith, it still accommodates other faiths. The company is the only one in Kenya which provides such services, and it is listed in the Nairobi Securities Exchange (NSE) as falling under the growth enterprise market segment (GEMS). The company trades under the stock ticker KURV. Kurwitu was listed on the bourse in 2014, floating 102,272 shares at KES1,250 per share, making it not only the highest priced initial public offer but the most expensive share as at March 2016. As at April 2016, the company share sits at KES1,500 per share. Kurwitu is located in Nairobi.

*Product Portfolio*

Kurwitu offers its clients a range of investments. These primarily revolve around agricultural ventures which pass the Sharia Compliance Test, since agriculture supports Kenya's economy very significantly. The company has plans to diversify into non-agricultural ventures which equally are up to its standards. It is also involved in asset backed securities, real estate investment trusts as well as investment notes. This portfolio of products is intended to provide options to its clients and allow them to mitigate risk by diversifying or investing in products in which they have sufficient knowledge.

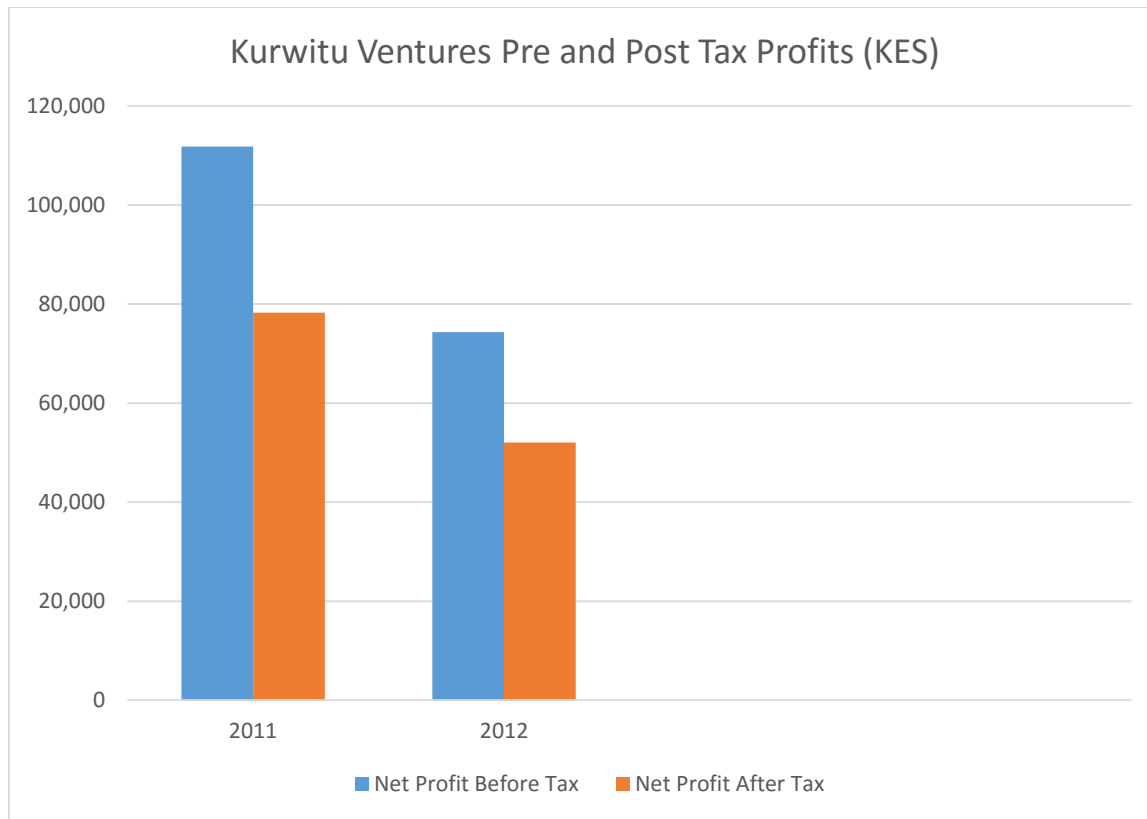
*Brand Distribution*

Kurwitu Ventures operates from its Nairobi headquarters, although the industries and sectors in which it is involved have a countrywide footprint. Agriculture and real estate are unlimited by county borders, and their lack of limitation places the company in an advantageous position, since it does not need to set up shop in a wide geographical area. A distribution chain which serves as the life blood of most entities is also unnecessary going by the nature of the business in which the investment company is involved, further working to the company's advantage.

*Financial Performance*

The company posted turnover figures prior to its listing on the NSE. In 2011, turnover stood at KES1,819,008, a figure which reduced to KES1,255,000 in 2012. Post-listing, no figures have been released by the company in terms of turnover. It is also worth noting that the Kurwitu share

has stood at a constant KES1,500 price tag. The following presents an illustration summarizing the company's financial performance:



Source: Kurwitu Ventures, 2014.

In 2013, Kurwitu posted losses both before and after tax of KES1,164,880 and KES815,416 respectively. In 2014, the pre and post-tax profits according to the company's pro forma income statement were KES18,533,191 and KES5,559,957 respectively. There were no revenue figures posted for both years.

Kurwitu Ventures made plans to borrow KES187 million in the form of convertible debt in 2015 from its shareholders. This was in a bid to plug in its losses and allow the company actualize its

investment plans, although no details were given on the actual allocation of the funds once raised.

### **Management Analysis**

The organizational structure of Kurwitu is hierarchical with the chairperson's position ranking topmost. As at April 2016, the company's chair is Mr Mohammed H. Abdikadir. The positions of non-executive directors follow, all of who are independent and therefore hold positions in other companies or are self-employed. Finally, there is an executive director's position. The aforementioned make up the Board of Directors. The position of Managing Director ranks next. Following this are the positions of finance and administrative officers and the investment associate, under who fall investment analysts.

Considering that the company is involved only in Sharia compliant investment opportunities, the management of Kurwitu takes a combination of a risk tolerant and a risk averse approach. The former is evidenced by the company's decision to invest in large scale real estate, with 3 parcels of land having been bought in Lamu at the coast for KES110 million in 2013. Risk averseness is demonstrated through the company's decision to stick to strictly Sharia compliant investments, and its notable bias towards stable and established sectors such as agriculture and real estate.

From the company's financial performance, the management of Kurwitu Ventures have posted substandard performance. The management's involvement in other lines of business and in other companies have dealt a significant blow to Kurwitu, especially considering the fact that the company has previously failed to reach its intended goals prior to its restructuring, a situation which might be recurring. With the company's public listing, analysts and the general public

would expect the company's financial outlook to be positive. However, the increasing losses indicate a slow-down in aggressiveness, placing Kurwitu in a somewhat undesirable position as far as neutral investors are concerned.

### **Industry Risks**

Since Kurwitu Ventures is solely an investment vehicle for its customers, it relies heavily on the dynamics within its chosen industries of involvement. While it does not fundamentally make use of technology, it does rely on the technology in use within the agriculture and real estate industries and their constituent sectors for its own successful operation.

Product obsolescence is still a tangible reality as far as Kurwitu is concerned, since it has to constantly monitor the market so as to offer its clientele the best product portfolio. Kurwitu offers investment consultancy, and therefore an in-depth market knowledge is necessary to update its product portfolio and remain relevant in its market segment.

Business cycles affect economies in varying degrees and for varying periods. As such, Kurwitu Ventures is subject to business cycles in its product offerings, even though the cycles do not occur directly within the investment sector itself. Therefore, booms and busts are attributable to individual sectors and industries in which the investment company is involved rather than attributable to Kurwitu itself.

As part of business risk is also the fact that Kurwitu focuses on clients of the Islamic faith. In the event that its preferred client base fails to show sufficient interest to allow the company to make desired investments, it risks running into financial strife. Its loss figures are already an indication

of the lack of enough market penetration, but the company's intended private placement which will raise KES400 million over a three-year period might change its fortunes.

### **Business Risk**

As has already been grossly mentioned, Kurwitu Ventures has invested in a variety of sectors in the country, which has allowed the company to hedge against risk. However, despite its hedging strategy, the company's financial performance has indicated a deficiency in managerial efficiency. Financial diversity has been made possible through the said product diversification.

There are several regulations to which Kurwitu is either directly exposed or affected by in a domino effect manner. On the agricultural front, the Ministry of Agriculture, Livestock and Fisheries is the main regulator. Other regulatory authorities under the same are the Kenya Dairy Board, the Aquacultural Association of Kenya and the Agriculture, Fisheries & Food Authority. While policies made by these bodies do not directly affect Kurwitu, they do affect the agricultural sector in which it participates, and thus affect the company's ability to offer quality investment products. There is currently no centralized regulatory authority that oversees the real estate sector in Kenya. Due to this fact, the Ministry of Land, Housing and Urban Development is in charge of carrying out regulatory functions appertaining to real estate in Kenya.

### **Financial Risk**

Based on the figures which the company has made public, its financial situation has been on a downward trend since 2011. The stagnant nature of the Kurwitu share makes it difficult to make any real analytical conclusions of the exact position of the company financially. However, there

have been no dividend payouts which have been made to shareholders, perhaps an indication that Kurwitu is not yet as financially stable as it would wish to be.

Cash generation has been on the basis of the agricultural and real estate sectors in which the company is involved making headway. Although there are three parcels of land in Lamu currently valued at KES120 million post-appreciation, there has been no reports of any leasing of the land, nor construction of any income-generating facility on the said parcels. Due to this, Kurwitu Ventures is currently solely reliant on the success of the aforementioned sectors for its cash generation.

Kurwitu's balance sheet has posted mixed results. In 2011, total assets and total equity and liabilities balanced at KES4,351,015. In 2012, the figure was KES3,861,519 while in 2013 and 2014 the figure stood at KES107,499,300 and KES120,676,626 respectively. It is therefore important that an investor considering putting their money in Kurwitu also considers other factors in informing their decision.

### **Competitive Environment**

In Kenya, Kurwitu is currently the only entity which solely offers Sharia-compliant investment opportunities as its core business. It does, however, face competition from investment banks the likes of which have been previously mentioned as well as the NSE, since the latter also provides consultancy services. Old Mutual, which has a presence in the Kenyan market also presents competition with such products as its Al Baraka Equity Fund.



**Regulation**

The regulation of Kurwitu Ventures lies with the Capital Markets Authority, which regulates the company in terms of its share listing. The various sectors in which the company is involved have their own specific regulatory bodies. These include the already mentioned authorities involved in agriculture. Kurwitu must therefore consider these authorities' regulations and accommodate them in their investment plans to avoid involving their clients in unprofitable ventures.

**Conclusion**

Kurwitu Ventures offers a unique service by focusing on bringing the Islamic community into the investment world. Its approach of offering investment consultancy and acting as an investment vehicle for its clients eases the investment burden significantly. However, the company's financial performance as well as the illiquid nature of its stock places it in doubt. Despite the rise in value of local real estate and the relative calm of Kenyan agriculture, the company has failed to make headway in its activities. Increased leverage through borrowing from shareholders further places the investment company in doubt. One of the possible strategies would be to invest in more sectors so as to further diversify and curb risk associated with the collapse or slowdown of the already invested-in agriculture and real estate.