



Market Scan

### **Kenya's Chaos Cools Economy**

Parmy Olson, 01.04.08, 8:05 PM ET

When investors pour their money into Africa they are fully aware of the enormous risks and benefits. But Kenya's recent election violence is giving foreign investors the jitters as mass killings and riots threaten to set back recent efforts to stabilize the region.

The country's Nairobi Stock Exchange slipped 5%, to close at 5,167 points in the day before it's final trading day last Thursday--it hasn't been active since. The World Bank warned that the unrest could wipe out the impressive economic gains Kenya's made in recent years.

The situation has put some investors in a dilemma. "It's the question no one can answer," said Florida fund manager Robert Levitt. "Stability versus lower values." If the Kenyan market falls between 40 and 50%, Levitt says he will consider investing in Safaricom, one of the country's biggest and most liquid stocks which has been due to list on the Nairobi Stock Exchange.

But lower stocks, likely brought on by further violence, could also spell a damaged economy. "When blood is on the streets, we prefer the comfort of home," said Levitt.

There have already been problems with Kenyan stocks. While the country's economic growth has been moving along at an impressive 6% clip, shares have become so popular that they're now expensive. The market itself is trading at a price earnings ratio of 17 which for a fast growing market is good -- but relative to the rest of rapidly-growing Africa, the stocks have been trading at high levels.

That's why William Alexander of Investec Asset Management in Cape Town has kept only a minor position in Kenyan stocks in his pan-African fund. Kenyan stocks have had "lofty valuations," he said. His team would consider increasing its holding only if the market was to fall back to a level where companies looked attractive, and he was comfortable with the political situation.

Levitt said he would want a "very comfortably margin for error" before increasing his holding of Kenyan stocks, which is also small.

Fitch Ratings said this week that if political tensions in Kenya eased in the next few days, the economic fallout would be manageable. But if the violence continued, it would call for a rating cut. "Tourism revenue is... likely to suffer," said Fitch. "The planned Safaricom IPO and debut Eurobond issue will, at the very least, be delayed."

Kenya currently has a long-term foreign currency issuer default rating of "B+" and long-term local currency rating of "BB-," both with stable outlooks.

“Events in Kenya are perhaps a timely reminder that while attractive returns can be generated across the continent, political risk always needs to be taken into account when investing in Africa," said Alexander.

On Friday, the iShares MSCI South Africa Index, a rather volatile exchange traded fund available on the NYSE, was down 2.7%, or \$3.58, at \$129.40. It has fallen 3.1% since the violence in Kenya began, though in the last 12 months, it has risen 21%.

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