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KenGen urged to hasten projects to avoid debt risk

Photo/ FILE



STEAM POWER: Shareholders on a tour of the Kengen Olkaria power generation plants in Naivasha.

BY RICHARD MUNGAI

ANALYSTS say Kengen should speedily execute its lined up power projects to start servicing its huge debt portfolio.

The Kenya Electricity Generating company's total loan portfolio grew by 68 per cent from Sh80.93 billion in June 2013 to Sh136.11 billion in 2014.

"Serious mis-steps would reside where KenGen does not execute projects in time and revenues are not able to keep up with interest payment," financial analyst Aly Khan Satchu told the Star.

Kengen injected 280 megawatts from the Olkaria geothermal project to the grid in 2014 and completed installation of 24 turbines in Ngong wind farm which raised its output from 5.1MW to 25.5MW.

It has outlined plans to scale up geothermal generation to 700MW in 2015 by drilling

more wells in Olkaria.

"To fund the planned capacity we are exploring broader modes of financing including public private partnerships," the managing director, Albert Mugo stated in the 2014 annual report.

It has a power generation target of 3,000 megawatts up from 1,337MW currently.

The report shows KenGen closed the year 2014 with 30 loans from 18 different creditors.

These loans have an interest rate of between 0.2 and 12.5 per cent and a maturity period of up to 32 years.

The major lenders include Japan Bank for International Cooperation, Kreditanstalt Fur Weideraufbau of German, International Development Association, KCB Bank of Belgium, European Investment Bank, the Exim Bank of China, National Bank of Belgium and the Spanish government.

Others are France Development Agency, New York based HSBC, Standard Chartered, Commercial Bank of Africa, Citibank, Equity Bank, Bank of Africa, NIC Bank and Kenya Commercial Bank. The loans are state guaranteed thus risk free.

Genghis Capital power and gas specialist, Florence Kimaiyo said project execution delays would result in KenGen being charged by Kenya Power on the power shortfall because of power purchase agreements they have signed.

She said the massive debt could result to lower returns to shareholders as dividend payout is cut back.

"This may discourage long term capital investments," she said on email.

However, the power producer said stakeholders should not worry about their investment because it has completed previous projects in time.

Organisations warn leaders on poverty

BY STAR REPORTER

ONE billion more people could become extremely poor if urgent action is not taken by world leaders at two major summits this year, more than 1,000 global organisations have warned.

The organisations have launched a campaign called action/2015 to lobby local

and world leaders to take urgent action to stop man-made climate change, eradicate poverty and address inequality.

The campaign was launched in Kenya and other parts of the world last Thursday.

According to statistics issued by the campaign group, the number of people living in extreme poverty which is that surviving on less than Sh114

per day could be reduced from over a billion to 360 million by 2030 if policy makers act now.

The Action/2015 lobby group wants leaders to deliver and build on the growing momentum for ambitious deals at the UN Special Summit on Sustainable Development to be held in New York in September and the UN Climate talks in Paris in December.

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IT TAKES COURAGE TO BE A PIG

In an article I wrote on August 25 2014, I posited that; "My view is the new normal is a very arrhythmic world"

When I plugged "arrhythmia" into my computer, it threw up this; "For years he'd been studying the phenomenon of chaos, of which an arrhythmic heartbeat was a perfect example"

The Swiss Franc move last week was a perfect example of arrhythmia in the financial markets.

The Swiss Central Bank (SNB) abruptly lifted its three-year-old cap of 1.20 franc per euro. Essentially, SNB had been buying euros and selling Swiss francs at the 1.20 level and had spent billions in this enterprise ballooning the SNB's foreign-currency holdings to \$556 billion equivalent by December 2014.

With a statement, the SNB lifted the cap and the Swiss franc surged up to 41 per cent against the euro to the strongest level on record and in one of the biggest moves among major currencies since the collapse of the Bretton Woods system in 1971. The Swiss franc closed the week more than 20 per cent higher against the euro.

All of the more than 170 global currencies tracked by Bloomberg fell at least 15 per cent versus the franc last week.

"The interbank market for francs was illiquid for hours after the event and no traders with an open franc position were able to close it for a significant period of time, at any broker," said Bloomberg.

The violence of the move in the Swiss franc self evidently created big losses across the markets.

Switzerland's benchmark SMI index declined as much as 8.7 per cent on the day in Zurich as investors calculated that a 20 per cent currency appreciation would be a serious headwind for Switzerland Inc. If I were sitting at the apex of Nestle or any other Swiss multinational, I would be demanding a list of possible acquisitions across

the world and parlaying the rally in the Swissie into a currency for acquisition.

The SNB moved the deposit rate to -0.75 per cent. In fact the entire Swiss yield curve out to 10 years is trading at a negative rate, which again speaks to a financial market arrhythmia. This means that the Swiss government can borrow money and will get paid for the privilege of borrowing.

This decision by Thomas J. Jordan's SNB came just one week before European Central Bank policymakers meet to discuss the purchase of government bonds [quantitative easing]. Jordan is 'front-running' the ECB decision and therefore, the signal emitting out of this arrhythmic normal is a very simple one. It is this "Sell the Euro".

I return to one of the traders I most admire Stanley Druckenmiller who said: "As a macro investor, my job for 30 years was to anticipate changes in the economic trends that were not expected by others - and therefore not yet reflected in securities prices".

"Soros has taught me that when you have tremendous conviction on a trade, you have to go for the jugular. It takes courage to be a pig ... As far as Soros is concerned, when you're right on something, you can't own enough." In this instance, I cannot sell enough euros. The euro is set to unravel and below parity and very quickly.

The @WEF said "The interconnections between geopolitics and economics are intensifying" in its latest release. These are markets I like when you can achieve "Escape Velocity"

"The effectiveness of electronic money lies in its mass, which increase its velocity of circulation." Paul Virilio claims that as the 'last post-industrial resource, acceleration exceeds accumulation...the escape velocity [vitesse de liberation] becomes the equivalent of profit."

"It takes courage to be a pig."

Readers are advised that this column represents Satchu's personal opinion.