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AccessKenya Analysis

AccessKenya Group Limited

Synopsis

AccessKenya Group Limited was incorporated in Kenya, as a private limited company under the Act on February, 23rd , 2006 under the name AccessKenya Limited (registration number C122775), solely to act as a holding company for Communication Solutions Limited (registration number C63645), a private limited company incorporated under the Act on March 2nd, 1995 and Broadband Access Limited (registration number C73068), a private limited company incorporated under the name of Netscape Limited, under the Act on October 7th, 1996. AccessKenya Group Limited was converted to a public company on April 12th, 2007.

The main objects of the Group are the provision of internet and electronic mail services to corporate clients, and the provision of high speed wireless local loop services

AccessKenya Group Limited is a holding company for the two AccessKenya Group Subsidiaries involved in the provision of internet and electronic mail services to corporate clients, and the provision of high speed wireless local loop services. In December, 2006, the shareholders of the Subsidiaries executed agreements to be allotted shares in AccessKenya Group Limited in exchange for their shareholding in the two subsidiary companies. This transaction required approval from the Collector of Stamp Duty under S.95 of the Stamp Duty Act, and this approval was received in February 2006. The completion of the share exchange took place on February 28, 2007.

AccessKenya GROUP

The table next sets out details of the group Subsidiaries, both of which are now owned 100% by AccessKenya Group.

Subsidiary Name	Beneficial Ownership	Activities
Communication Solutions Limited	100%	The provision of internet and electronic mail services to corporate clients
Broadband Access Limited	100%	The provision of high speed wireless local loop services

Offer

An Offer for Subscription of up to 45,000,000 New Ordinary Shares of KShs. 1/= Each

And Offer for Sale of Up To 35,000,000 Fully Paid and Issued Ordinary Shares of KShs. 1/= Each

At an offer price of Kenya Shillings 10.00 per ordinary share

Lead Sponsoring Stockbrokers

Dyer & Blair Investment Bank Limited
Kestrel Capital (EA) Limited
Standard Investment Bank Limited

Company Background
AccessKenya Group is the holding company for the two businesses of the Group – AccessKenya, the leading corporate ISP in Kenya and Blue, one of the largest PDNOs offering network services and in particular the "last mile" connection from customer premises to ISPs. Although the separate businesses have been consolidated under one holding company, the two companies operate as separate entities as required by the market regulator, CCK.

The Group operates solely in Kenya and has four distinct although inter related business activities:

Leased Line Internet Access
AccessKenya is the market leading provider of leased line internet access to corporate customers in Kenya. AccessKenya's leased line offerings – sold under the brand names "Broadband Max" and Broadband Max 2" - are differentiated from the main competitors in a number of ways.

Firstly, where many competitors offer "symmetrical" leased lines – i.e. the same speed to and from the internet, Broadband Max and Broadband Max 2 offer twice and four times the download speeds from the internet respectively, at similar or lower prices than the comparable symmetrical offerings of the competition.

Secondly, AccessKenya offers an absolute guarantee that advertised speeds of their leased lines will be attained by customers at all times unlike a number of the competition who offer "target" speeds.

Thirdly AccessKenya offers all leased line clients a full service level guarantee ("SLA") of 99.8% availability each month

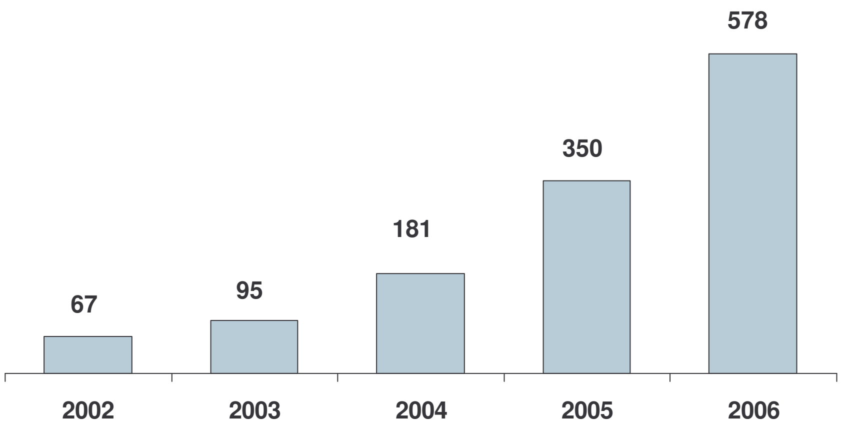
Finally, AccessKenya has wired a very significant number of buildings (greater than one hundred) around Nairobi offering clients in those buildings a cheaper and more efficient way to gain connectivity to the Group's network. Only one of the Group's major competitors has been able to wire a significant number of buildings.

Telephony Services utilising "Voice over IP" technology
In 2006, AccessKenya launched its alternative telephone service for corporate customers – "Yello". AccessKenya installs telephone "routers" on clients' telephone switchboards ("PBXs") which seamlessly connect telephone calls to Yello's main "switch" in Nairobi, from where the calls are passed to various international telephone carriers to complete calls overseas. Calls to Kenya mobiles are also possible. Yello's service offers high quality calls, "no hassle dialling" (customers dial as normal on their office phones) and amongst the lowest rates in the market

"Last mile" wireless local loop connectivity to internet service providers and end user customers
Blue has deployed one of the largest wireless networks in Kenya, and one of the largest Motorola wireless networks in all of Africa. With thirteen base stations in Nairobi and Mombasa, Blue's network covers 2,700 square kilometres. Almost all of AccessKenya's customers are connected from their offices to the main Point of Presence by Blue.

AcessKenya Financial Performance

AK Group Turnover
KShs m



Source: AccessKenya

Revenues
During the last two years, the Group has consolidated its position as the leading provider of corporate internet services in Kenya. As stated in section 2.6.3, the Group appears to have over 30% of the corporate leased line internet market, having grown by an average of approximately 75% per year for each of the last three years. The Group has leveraged its scale, its satellite bandwidth buying power and Blue's reliable but low cost network to offer customers the highest speeds coupled with the best value for money in the market. The Group's tremendous growth from year to year has been attributed to the following factors:

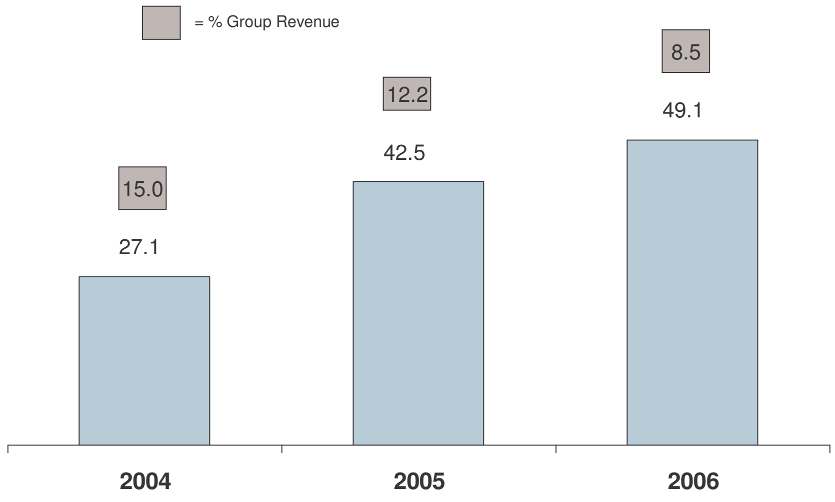
1. Under penetrated large and fast growing market A dominant position in the core corporate internet services market which has been translated into excellent value for money in the service offering
2. An extensive and well trained sales and marketing department
3. Motivated loyal staff members dedicated to the Group and to offering Clients excellent standards of service
4. A driven and perfectionist senior management team and Board of Directors
5. A well managed and reliable network

Sources of new business
During 2006, the Group continued to acquire new customers aggressively. At the end of 2005, the Group had approximately 700 leased line connections and this had grown to 1,250 by the end of December 2006, representing approximately $250,000 of new monthly revenue. These new connections came from a mixture of sources over the year, both new leased line connections and the acquisition of customers from the competition.

Capital Expenditure
The Group has invested regularly and heavily to ensure that Clients benefit from the latest technology and efficiencies. The table below illustrates capital expenditure over the last three years

as an absolute number and as a percentage of revenues. It is clear that the Group has realised the scale where capital expenditure has begun to decrease as a percentage of sales.

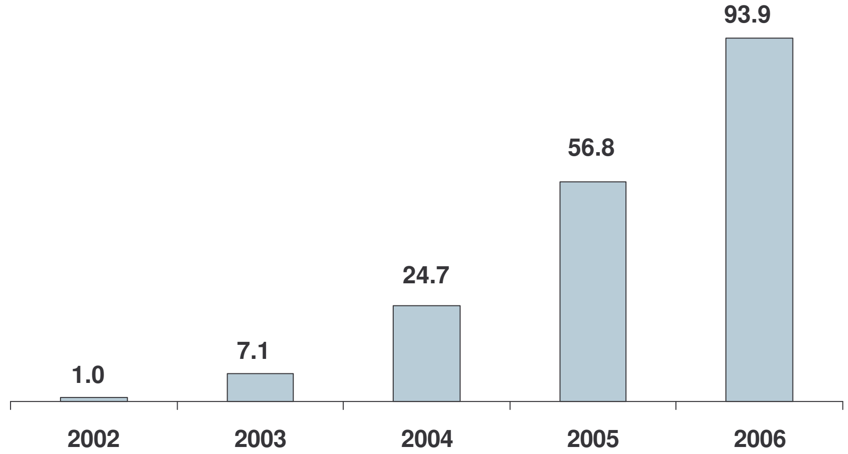
Capital Expenditure
KShs m



Source: AccessKenya

Profit after Tax
Taking into all the above factors into account, the accounts reflect a clear picture of a steadily increasing "adjusted" net profit over the last five years

"Adjusted" Profit after Tax
KShs m



Source: AccessKenya

OFFER STATISTICS
Offer Price per Offer Share KShs 10.00
Number of New Shares now offered for subscription 45,000,000
Number of Sale Shares now offered for sale 35,000,000
Gross Proceeds of the Offer KShs 800,000,000
Estimated Net Proceeds receivable by the Company KShs 426,000,000
Estimated Net Proceeds receivable by the Vendors KShs 334,000,000
Number of Issued AccessKenya Group Shares following the Offer 199,885,578
Market Capitalisation of the Company at the Offer Price KShs 1,998,855,780
EPS for the twelve (12) month period ended 31st December 2006 KShs 0.32
"Adjusted" EPS for the twelve month period ended 31st December 2006 KShs 0.64
DPS for the twelve (12) month period ended 31st December 2006 KShs 0.07
Implied Historic PE based on the EPS for the twelve (12) month period ended 31st December 2006 31.3 times
Implied "adjusted" Historic PE based on the EPS for the twelve (12) month period ended 31st December 2006 15.6 times
Forecast EPS for the twelve (12) month period ending 31st December 2007 KShs 1.02
Forecast DPS for the twelve (12) month period ending 31st December 2007 KShs 0.30
Implied Future PE based on the forecast EPS for the twelve (12) month period ending 31st December 2007 and the Offer Price 9.8 times
Implied Future Dividend Yield based on the forecast DPS for the twelve (12) month period ending 31st December 2007 and the offer Price 3.0%

1. For comparison purposes, the calculation of actual and "adjusted" EPS and PE for 2006 and 2007 is based on the 147,635,578 shares outstanding in the Company as of February 28th, 2007 on completion of the share swap.

2. The DPS calculation for 2006 is based on the total dividend of KShs. 10,000,000 paid by BAL and CSL as a final dividend for the twelve (12) month period ended 31st December 2006 and 147,635,578 shares outstanding. The DPS and dividend yield calculations for 2007 are based on the Company's projections and an assumed dividend policy of 40% of profit after tax and the 199,885,578 shares outstanding after the Offer.

3. The net proceeds to the Company of the Offer for Subscription are KShs. 426,000,000, after deduction of the estimated commission and other expenses of the Offer payable by the Company, which are expected to be KShs. 24,000,000.

OFFER

The Offer is open to any member of the public including individuals, corporations, institutions and foreign investors who make an application in the required form through an Authorised Selling Agent in Kenya.

Classification	% Offer Shares	No. Offer Shares	Minimum application	Minimum Lots for extra shares
Category A: Employees of the Group	5%	4,000,000	1,000	1,000
Category B: Retail Investors	35%	28,000,000	5,000	1,000
Category C: High Net Worth Investors	30%	24,000,000	50,000	5,000
Category D: Qualified Institutional Investors	30%	24,000,000	100,000	10,000

Over-Subscription Criteria

Category A. All valid applications received from Applicants will be allocated the total number of Offer Shares applied for up to 100 Offer Shares each. Thereafter all remaining available Offer Shares will be allocated pro-rata amongst all Applicants in this category

Category B. All valid applications received from Applicants will be allocated the total number of Offer Shares applied for up to 100 Offer Shares each. Thereafter all remaining available Offer Shares will be allocated pro-rata amongst all Applicants in this category

Category C. All valid applications received from Applicants will be allocated the total number of Offer Shares applied for up to 10,000 Offer Shares each. Thereafter all remaining available Offer Shares will be allocated pro-rata amongst all Applicants in this category

Category D. All valid applications received from Applicants will be allocated the total number of Offer Shares applied for up to 100,000 Offer Shares each. Thereafter all remaining available Offer Shares will be allocated pro-rata amongst all Applicants in this category.

APPLICATION OF PROCEEDS

The net proceeds from the issue of New Shares by the Company will be applied, inter alia, for the following purposes:

1. Increase in sales and marketing expenditure across the Group's businesses

2. Purchase of the necessary equipment to connect corporate customers to the Group's telephone service and finance the cost of equipment for eligible customers

3. Development of the Group's business in adjacent market sectors, including the possible deployment of new and complementary networks such as CDMA and WiMax to facilitate voice and data services for SoHo and Hi Res as well as corporate customers through either or both of organic growth and acquisition

4. Investment into the development of an IT services business through either or both of organic growth and acquisition

5. Expansion of the Group's existing network to increase its robustness, functionality and cost effectiveness for current and future customers

6. The proceeds from the sale of the Sale Shares will accrue to the Vendors.

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