

TRADING

Why the Kenya pipeline deal is a win for Uganda

Uganda's stake in KPC secures fuel supply, strengthens regional energy influence, and anchors its emerging petroleum value chain.

Markets.

DEOGRATIUS WAMALA

Uganda, through Uganda National Oil Company (UNOC), has taken advantage of Kenya's recent fiscal pressures that pushed Nairobi to privatise some state assets to raise revenue rather than increase unpopular domestic taxes.

Among the assets partially divested was Kenya Pipeline Company (KPC), which was listed through an Initial Public Offering on the Nairobi Securities Exchange and began trading on March 10.

Uganda moved quickly during the offer period that ended on February 24, acquiring a 20.15 per cent stake worth about \$255m, taking up the entire 20 per cent allocation reserved for East African investors.

Negotiators secured governance protections, including veto power over pipeline tariffs, appointment of at least two directors to the board, veto over revisions to the dividend policy, material changes to the company's business plan, increases or reductions in share capital and alterations to the company's Memorandum or Articles of Association.

Irene Batebe, the Energy permanent secretary, says there are specific articles in the Memorandum and Articles of Association that give comfort to Uganda with respect to KPC operations, but it is "not the intention of the government of Uganda to frustrate business operations".

"Our expectation is continuous discussion and dialogue to support decision-making," she says.

The stake is particularly significant because Uganda relies heavily on the Kenyan pipeline system for fuel imports.

In May 2024, UNOC signed a Transportation and Storage Agreement with KPC, allowing Uganda to import fuel through the Port of Mombasa and transport it via pipeline to depots in western Kenya before distribution into Uganda.

Currently, more than 95 per cent of Uganda's fuel imports, about 2.96 billion litres annually, pass through Kenya, with the remainder coming through Tanzanian ports.

About 65 per cent of the volumes transported through the Kenya pipeline system are destined for Uganda, meaning the country contributes roughly 35 per cent of KPC's revenue through transit and storage.

Previously, before the divestiture, Uganda relied largely on bilateral relations to ensure supply security. With private investors now involved and profit expectations likely to rise, Uganda saw it necessary to take a direct ownership stake to safeguard the country's energy interests.

Strategic gains

Uganda's investment in KPC combines stable infrastructure cash flows, influence over a key regional logistics asset, and alignment with the country's expanding petroleum infrastructure.

Over the past decade, Uganda has been assembling a complete petroleum value chain that includes exploration and production, transportation, refining, and petrochemical processing.

A cornerstone of this strategy is the East African Crude Oil Pipeline (EACOP), a 1,443-kilometre heated pipeline under construction to transport crude oil from the Albertine Graben to the Tanzanian port of Tanga for export.

In parallel, Uganda is developing a domestic refinery in Hoima designed to process locally produced crude into diesel, petrol, jet fuel, and kerosene by 2030, which would reduce dependence on imports while supplying neighbouring markets.

Upstream exploration is also expanding reserves. The Kasurubani oil field, operated by UNOC, could hold around 600 million barrels of recoverable



Kenyan President William Ruto (second left) rings the bell to mark the start of trading of Kenya Pipeline Company shares on the Nairobi Securities Exchange in Nairobi, Kenya, recently. PHOTO / COURTESY

Key figures

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crude, reinforcing the long-term viability of Uganda's production sector.

Taken together, these projects illustrate Uganda's effort to build a full petroleum value chain: exploration grows reserves, EACOP transports crude, the refinery converts it into fuel, KPC moves refined products, and petrochemical industries produce industrial inputs.

The Ministry of Energy and UNOC are also expanding fuel storage infrastructure. An additional 10 million litres is being added at the Jinja Storage Terminal, while development of the Kampala Storage Terminal is progressing after completion of the front-end engineering design phase. Phase one will have a capacity of 140 million litres.

Private terminals such as Mahathi Infra are also supporting Uganda's fuel supply chain.

Financial gains

KPC is a critical regional energy logistics asset, operating 1,342 kilometres of pipelines transporting refined petroleum products from Mombasa through Nairobi into western Kenya, with onward flows to Uganda, Rwanda, Burundi, and eastern DR Congo.

Its infrastructure includes storage terminals in

Mombasa, Nairobi, Nakuru, Eldoret, and Kisumu, along with truck loading facilities and airport hydrant systems that form the backbone of the region's petroleum distribution network.

Pipelines like these are often described as "toll roads for energy," because revenue depends mainly on volumes transported rather than oil prices.

KPC's financial profile reflects this stability. As of June 2024, the company's book value stood at KSh89b (Shs2.57 trillion), with KSh77b (Shs2.22 trillion), about 86 per cent, recorded as retained earnings. Net profit was KSh6.9b (Shs199.68b), representing a 7.7 per cent return on equity.

Infrastructure assets typically require limited reinvestment once built. With payout ratios around 50 per cent, Uganda could see steady dividend flows alongside capital appreciation.

For governments managing strategic assets, such annuity-like returns are often preferable to the volatility associated with commodity extraction.

Fuel demand across East Africa is also rising due to increased vehicle ownership, electricity generation, and industrial consumption, reinforcing the long-term value of Uganda's investment.

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