

The Central Bank of Kenya, in its capacity as a fiscal agent for the Republic of Kenya, is offering an opportunity to participate in the auction of a new infrastructure bond (**IFB1/2023/17**), seeking to raise a total of KES 50.0Bn for funding of Infrastructure projects in the FY 2022/2023 budget estimates.

NCBA Investment Bank Ltd is an authorized placing agent.

## WHY INVEST IN THE BOND?

1. Opportunity to lock in **attractive coupons** paid semi-annually.
2. The bonds qualify for statutory liquidity ratio requirements for commercial banks and Non-Banking Financial Institutions as stipulated in the Banking Act CAP 488 of the Laws of Kenya.
3. An opportunity to make **capital gains** in the future.

## BIDDING GUIDE

Issue	IFB1/2023/17
Tenor to Maturity	17.0 Yr
Effective Tenor (50% redemption after 10 yrs, 50% after 17 yrs)	13.5 Yr
Value Date	13-Mar-23
Offered Amount (KES Mn)	50,000.00
<b>Coupon Rate</b>	<b>Market Determined</b>
Period of Sale	15-Feb-23 to 7-Mar-23
Redemption Date	20-Feb-40
<b>Bidding Guide</b>	<b>14.20% - 14.50%</b>

## CURRENT TRADING STATISTICS OF COMPARABLE PAPERS

The trading statistics of comparable papers are as follows;

Issue No.	Issue Date	Effective Tenor To Maturity	Outstanding Amount (KES'Mn)	Coupon Rate	Implied Yield to Maturity
IFB1/2022/18	June 2022	12.8 years	79,827.50	13.7420%	13.7625%
IFB1/2022/19	Feb 2022	13.5 years	98,377.55	12.9650%	13.7241%
<b>Comparable FXD on effective tenor:</b>					
FXD1/2016/020	Sept 2016	13.6 years	12,761.20	14.0000%	13.9730%

Source: NSE, NCBA IB Research

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## INVESTMENT CASE

**Bond Turnover:** Secondary market turnover declined by 17.9% in January to close at 39.4Bn from KES 48.0Bn traded in December 2022 following muted participation by institutional investors.

**Bond Yields:** Yields across various tenors recorded mixed performance with short-term and medium-term papers recording gains while those for long term papers remained largely unchanged.

We expect upwards pressure on the yield curve to persist over the remaining months of the current fiscal year.

**Interest rates:** The Central Bank of Kenya retained the base lending rate at 8.75% in its January meeting stating that the tightening effect in 2022 was still translating in the economy. Cumulatively, the Central Bank raised the CBR by 175 bps in 2022.

Inflation recorded 9.0% in January, a drop from 9.1%, recorded the previous month. The contraction was attributable to easing in food prices.

**Demand:** The auction performance will be driven by investors' interest rate expectations and the government's appetite for funds to plug into the FY'2022/23 fiscal deficit. Relatedly, the high amount of treasury bill maturities, bond interest payments and bond maturities in March 2023 will impact the subscription levels.

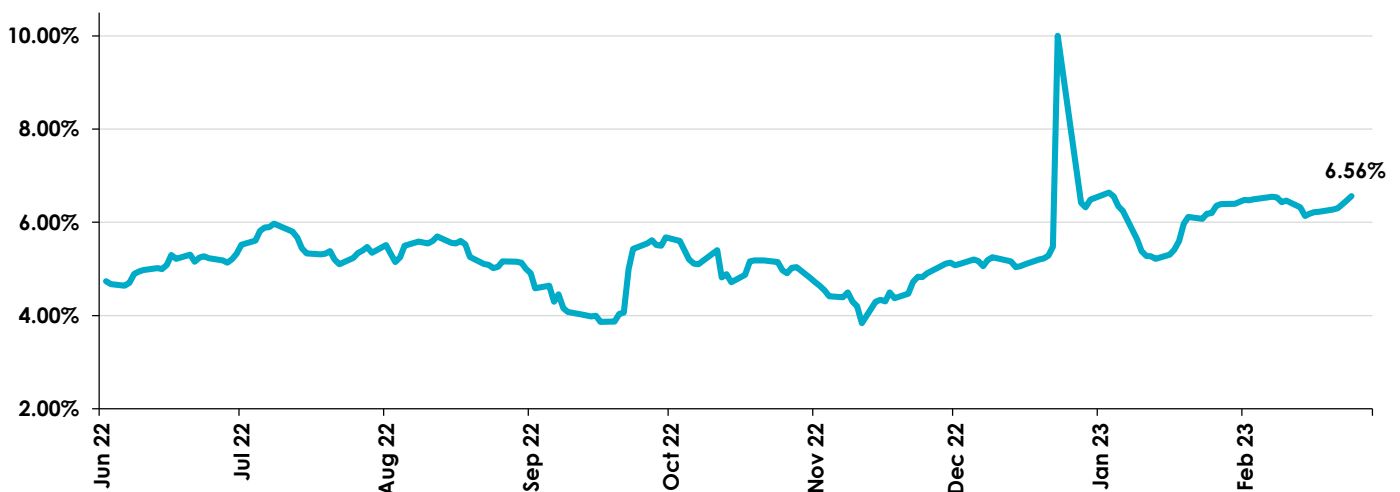
**We expect the infrastructure paper to exhibit a high subscription rate as it is tax exempted.**

## LIQUIDITY

In the money markets, liquidity tightened in February with the weighted average interbank rate averaging 6.4% so far in February up from 5.9% in January 2023. The rate stood at 6.56% as of 28 February 2023.

Treasury bills' subscription rate averaged 167.1% in February with investor demand concentrated on the 91-day paper. The performance rate was up from January's average of 126.6% and underpins market preference for liquidity and short term papers.

## AVERAGE WEIGHTED INTERBANK RATE



Source: CBK, NCBA IB Research

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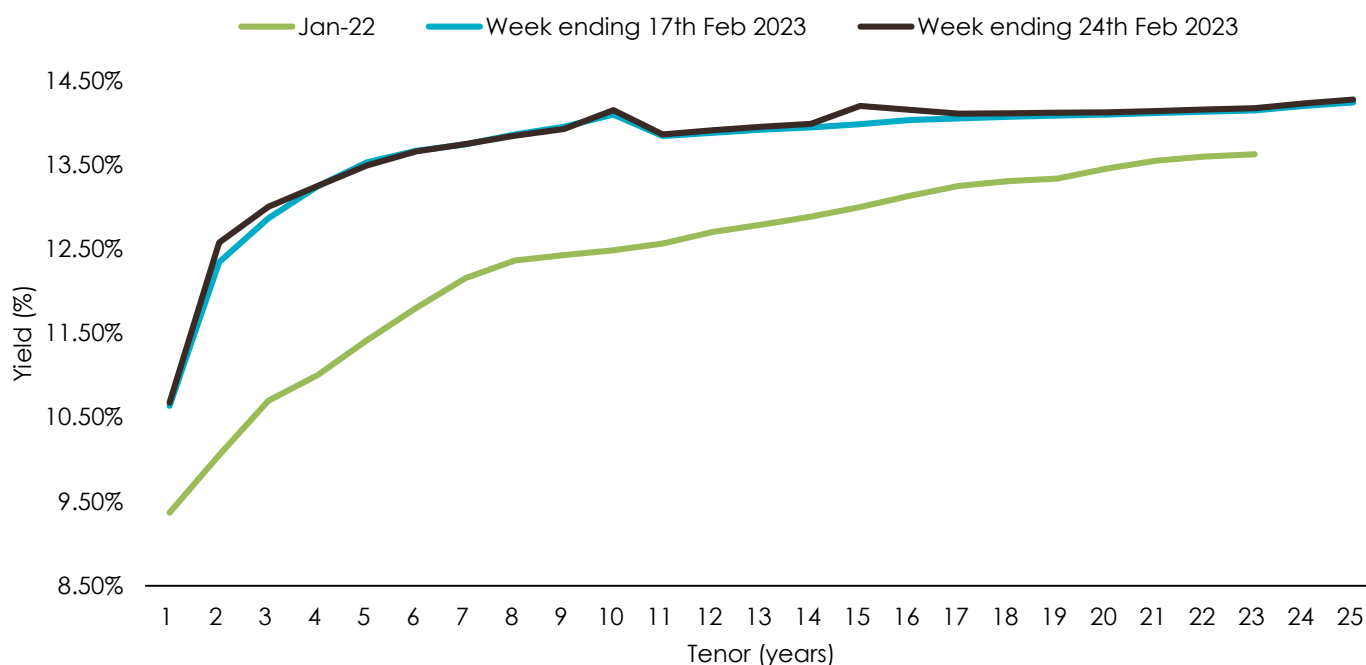
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## GOVERNMENT SECURITIES YIELD CURVE



Source: CBK, NCBA IB Research

## KENYA GOVERNMENT DEBT MATURITIES SCHEDULE (MARCH 2023)

Coupon payments						
Issue No.	Next Coupon Payment Date	Tenor to Maturity	Outstanding Amount KES 'Mn	Fixed Coupon Rate	Coupon payment KES 'Mn	Implied Yield To Maturity
FXD1/2008/015	March 13, 2023	0.04	34,789.80	12.50%	2,174.36	9.2500%
FXD1/2010/015	March 13, 2023	2.04	27,693.90	10.25%	1,419.31	12.6192%
FXD1/2012/015	March 13, 2023	4.54	90,939.90	11.00%	5,001.69	13.4355%
IFB1/2021/021	March 13, 2023	19.54	106,742.20	12.74%	6,797.88	13.3000%
FXD1/2018/005	March 20, 2023	0.06	30,795.55	12.30%	1,893.77	9.3951%
FXD1/2016/020	March 20, 2023	13.56	12,761.20	14.00%	893.28	13.9730%
FXD1/2018/020	March 20, 2023	15.06	94,515.60	13.20%	6,238.03	14.2158%
IFB1/2011/012	March 20, 2023	0.56	11,735.50	12.00%	704.13	10.1635%
IFB1/2013/012	March 20, 2023	2.56	16,060.21	11.00%	883.31	12.6389%
IFB1/2015/012	March 20, 2023	4.06	33,486.55	11.00%	1,841.76	12.6025%
IFB1/2019/025	March 20, 2023	21.06	16,828.65	12.20%	1,026.55	13.8275%
<b>Total</b>					<b>28,874.08</b>	

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Treasury Bond Maturities					
Issue No.	Maturity Date	Tenor to Maturity	Fixed Coupon Rate	Outstanding Amount KES 'Mn	Implied Yield To Maturity
FXD1/2008/015	March 13, 2023	0.04	12.50%	34,789.80	9.2500%
FXD1/2018/005	March 20,2023	0.07	12.30%	30,795.55	9.3951%
<b>Total</b>				<b>65,585.35</b>	

Treasury Bills Maturities	
Payment Date	Amount KES 'Mn
March 6, 2023	26,916.38
March 13, 2023	30,000.93
March 20, 2023	27,922.93
March 27, 2023	23,381.37
<b>Total</b>	<b>108,221.61</b>

Source: CBK, NCBA IB Research

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## About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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## Certification

The following analyst(s) who prepared this research report: Victoria Mututu and Justin N Mwangi hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

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