

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 re-opened Treasury bond **FXD1/2022/03 & FXD1/2019/15** seeking to raise a total of **KES 30.0Bn**.

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

Our recommended bidding ranges are:

Issue Number	FXD1/2022/03	FXD1/2019/15
Tenor (Yrs.)	1.99	10.76
Period of Sale	16-Mar-23 to 18-Apr-23	
Offered Amount (KES Mn)	30,000.00	
Value Date	24-Apr-23	
Redemption Date	7-Apr-25	9-Jan-34
Coupon (%)	11.77%	12.86%
Bidding Guide (%)	13.20% - 13.50%	14.30% - 14.60%

The trading statistics of the two papers are as follows;

Issue No.	Tenor to Maturity	Outstanding Amount (KES' Mn)	Coupon Rate	Implied Yield to Maturity
FXD1/2022/03	1.99 years	58,837.00	11.766%	12.5934%
FXD1/2019/15	10.76 years	79,096.85	12.857%	14.0798%

Yields of comparable papers;

Issue No.	Tenor to Maturity	Outstanding Amount (KES' Mn)	Coupon Rate	Implied Yield to Maturity
FXD1/2010/015	1.9 years	27,693.90	10.250%	12.5388%
FXD2/2018/015	10.5 years	33,411.70	12.75%	14.1170%

Source: NSE, NCBA IB Research

Contacts:

Trading: Tel: +254 711056605 / +254 711056610
 Email: ncbaibresearch@ncbagroup.com
 Office: NCBA Annex, Hospital Road, Upper Hill,
 P O Box 44599-00100, Nairobi, Kenya
 Tel: +254 20 2884444 Mobile: +254 711 056444
 Website: investment-bank.ncbagroup.com

INVESTMENT CASE

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 (KES 100Bn) and bond interest payments (KES 43.5Bn) in April 2023 will impact the subscription levels.

We expect the short-term paper (**FXD1/2022/03**) to exhibit a high subscription rate as investors seek to minimize duration risk.

Debt distress: The government has experienced a liquidity crunch that has led to the delay of some of its recurrent expenditure payments. We have also observed that investors are averse to government lending as witnessed with the most recent auction receiving 17.85% subscription rate. A tap sale of IFB1/2023/17 @ 14.399% is also currently on offer with a target of KES 10Bn payable on 17th April 2023.

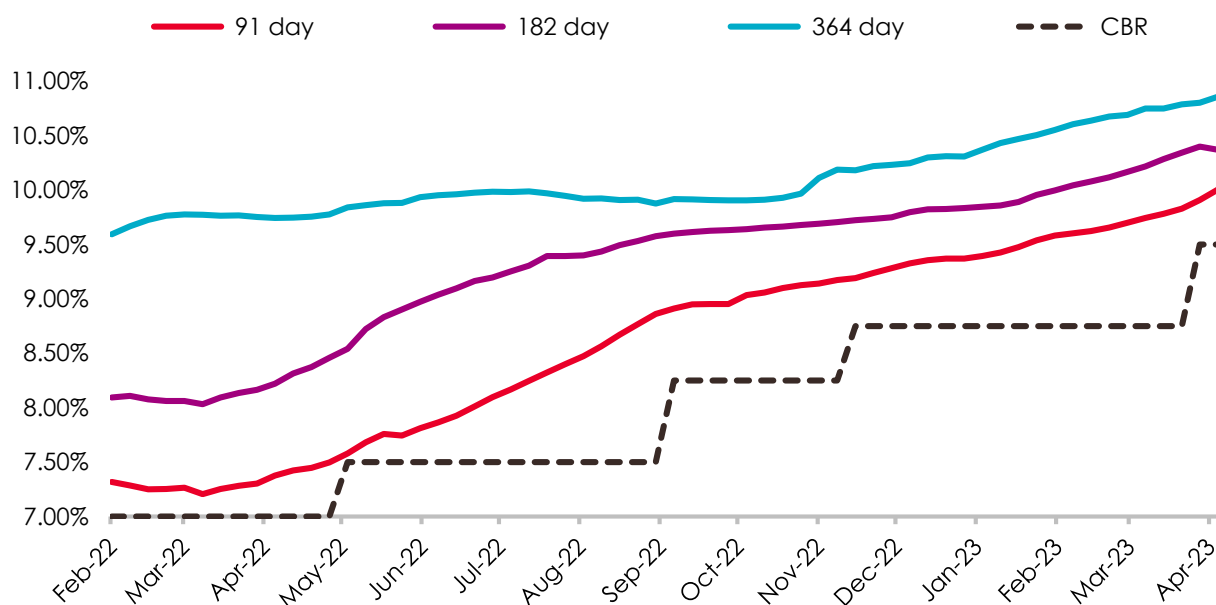
We believe investors will bid aggressively as they seek to get a premium in lieu of the risks.

Interest rates:

The Central Bank of Kenya raised the policy rate (CBR) by 75bps to 9.5% in its March meeting stating that tightening was paramount in the fight against elevated inflationary pressures. Cumulatively, the central bank has tightened by 250bps since 2022.

Inflation remained relatively unchanged at 9.2% in March 2023, attributable to elevated food and energy prices.

Yields across various tenors recorded mixed performance with short-term papers recording gains while those for long term papers remained largely unchanged. The gains are attributable to investors seeking to minimize duration and liquidity risks associated with the longer-term papers.



Source: CBK, NCBA IB Research

Contacts:

Trading: Tel: +254 711056605 / +254 711056610

Email: ncbaibresearch@ncbagroup.com

Office: NCBA Annex, Hospital Road, Upper Hill,

P O Box 44599-00100, Nairobi, Kenya

Tel: +254 20 2884444 Mobile: +254 711 056444

Website: investment-bank.ncbagroup.com

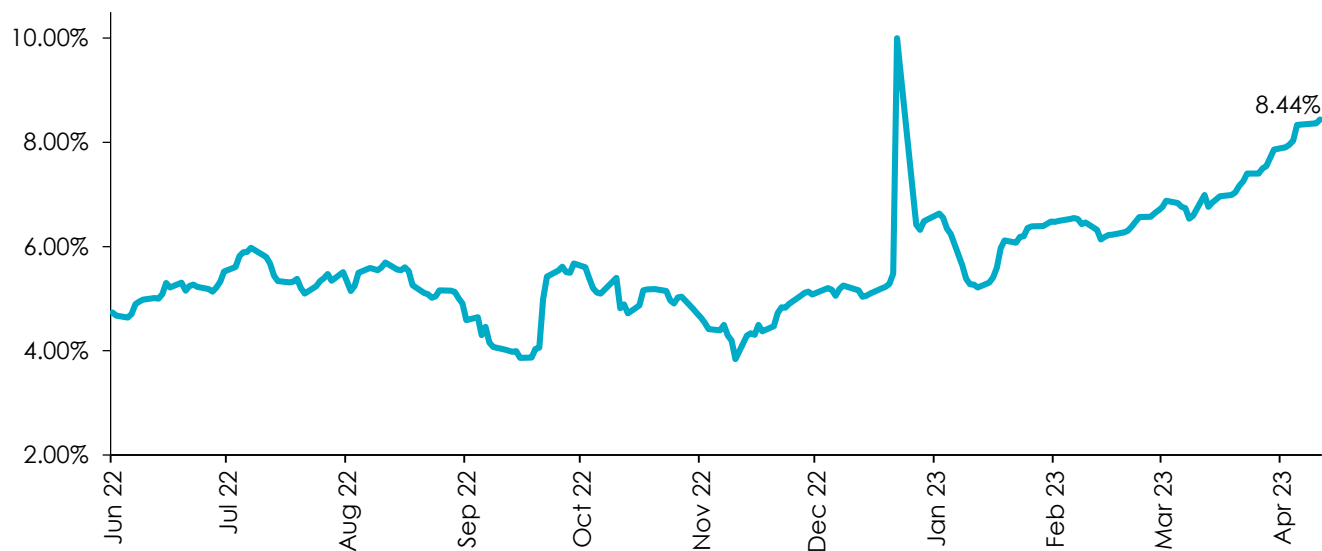
LIQUIDITY

In the money markets, liquidity tightened with the weighted average interbank rate averaging 7.05% in March 2023, up from 6.41% in February 2023. The rate stood at 8.44% as of 12th April 2023.

The latest treasury bills' subscription in April was significantly oversubscribed, posting a performance rate of 134.4% in the auction.

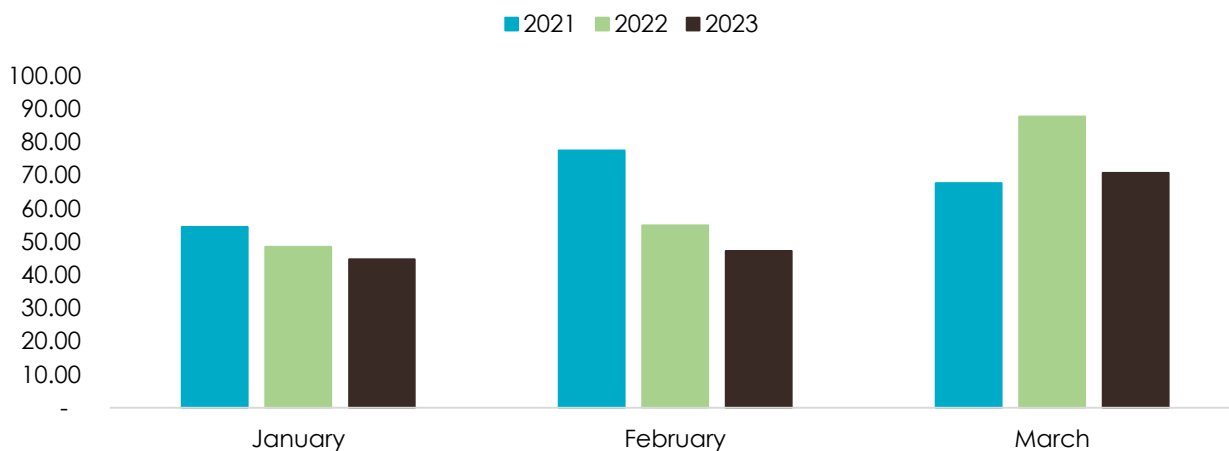
In March, secondary bonds market turnover rose by approximately 40% from KES 47.15Bn traded in February 2023 with most of the trading activity being recorded in infrastructure bonds and short term papers.

Average weighted interbank rate trend



Source: CBK, NCBA IB Research

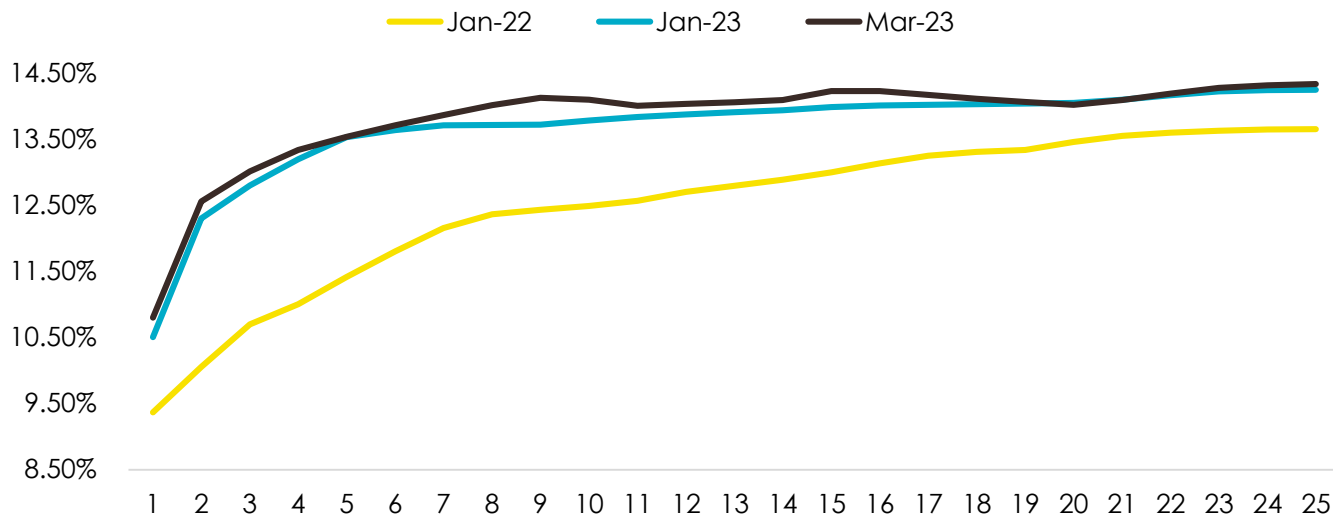
Secondary bonds turnover (KES 'Bn)



Contacts:

Trading: Tel: +254 711056605 / +254 711056610
 Email: ncbaibresearch@ncbagroup.com
 Office: NCBA Annex, Hospital Road, Upper Hill,
 P O Box 44599-00100, Nairobi, Kenya
 Tel: +254 20 2884444 Mobile: +254 711 056444
 Website: investment-bank.ncbagroup.com

Government Securities Yield Curve



Source: CBK, NCBA IB Research

KENYA GOVERNMENT DEBT MATURITIES SCHEDULE (APRIL 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
FXD1/2009/015	April 10, 2023	1.53	31,952.45	12.50%	1,997.03	12.14%
FXD1/2022/003	April 10, 2023	2.03	58,837.00	11.77%	3,461.38	12.69%
FXD2/2019/010	April 10, 2023	6.03	60,725.30	12.30%	3,734.61	13.67%
FXD1/2019/020	April 10, 2023	16.03	83,350.00	12.87%	5,364.82	14.10%
IFB1/2020/009	April 10, 2023	6.03	78,973.60	10.85%	4,284.32	12.92%
IFB1/2021/018	April 10, 2023	16.03	81,785.60	12.67%	5,179.89	13.66%
FXD2/2013/015	April 17, 2023	5.05	70,859.75	12.00%	4,251.59	13.51%
FXD2/2018/015	April 17, 2023	10.55	33,411.70	12.75%	2,130.00	13.84%
IFB1/2014/012	April 17, 2023	3.55	16,631.48	11.00%	914.73	12.58%
IFB1/2016/015	April 17, 2023	8.55	30,004.70	12.00%	1,800.28	13.53%
FXD1/2022/015	April 24, 2023	14.07	68,200.07	13.94%	4,754.23	13.99%
FXD1/2022/025	April 24, 2023	24.57	20,699.83	14.19%	1,468.45	14.28%
IFB1/2019/016	April 24, 2023	12.57	71,028.55	11.75%	4,172.93	13.63%
Total					43,514.24	

Source: NSE, NCBA IB Research

Treasury Bills	
Payment Date	Amount KES 'Mn
April 3, 2023	7,606.56
April 10, 2023	34,259.12
April 17, 2023	32,796.35
April 24, 2023	25,375.35
Total	100,037.38

Source: NSE, NCBA IB Research

Contacts:

Trading: Tel: +254 711056605 / +254 711056610
 Email: ncbaibresearch@ncbagroup.com
 Office: NCBA Annex, Hospital Road, Upper Hill,
 P O Box 44599-00100, Nairobi, Kenya
 Tel: +254 20 2884444 Mobile: +254 711 056444
 Website: investment-bank.ncbagroup.com

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.

Physical Address

NCBA Annex,
Hospital Road, Upper Hill, Tel: +254 20 2884444
Mobile: +254 711 056444/+254 732 156444

Certification

The following analyst(s) who prepared this research report: Victoria Mututu 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.

Disclaimer

Any opinion or other information in this document is not an invitation to buy or sell any asset class. Legally binding obligations can only arise for or be entered into on behalf of NCBA Group by means of a written instrument signed by a duly authorized signatory. You are cautioned to ensure that you have made an independent decision in accordance with your own objectives, experience, operational and financial resources and any other appropriate factors including independent professional advice. No guarantee, warranty, or representation is made in respect of the performance or return on any transaction.

Key Contacts: Research Team

ncbaibresearch@ncbagroup.com

victoria.mututu@ncbagroup.com

Key Contacts: Trading Team

dealing@ncbagroup.com

Contacts:

Trading: Tel: +254 711056605 / +254 711056610
Email: ncbaibresearch@ncbagroup.com
Office: NCBA Annex, Hospital Road, Upper Hill,
P O Box 44599-00100, Nairobi, Kenya
Tel: +254 20 2884444 Mobile: +254 711 056444
Website: investment-bank.ncbagroup.com