

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 **FXD2/2018/10** seeking to raise a total of **KES 20.0Bn** for budgetary support.

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	FXD2/2018/010
Tenor	5.7 years
Period of Sale	16 Mar 2023 to 04 April 2023
Value Date	Monday, 10 April 2023
Coupon (%)	12.502%
Bidding Guide	14.00% - 14.30%

CURRENT TRADING STATISTICS OF COMPARABLE PAPERS

The trading statistics of comparable papers are as follows;

Issue No.	Tenor to Maturity	Outstanding Amount (KES'Mn)	Coupon Rate	Implied Yield to Maturity
FXD1/2018/010	5.4 years	40,584.60	12.6860%	13.6419%
FXD1/2019/010	5.9 years	67,524.85	12.4380%	13.7180%

Source: NSE, NCBA IB Research

INVESTMENT CASE

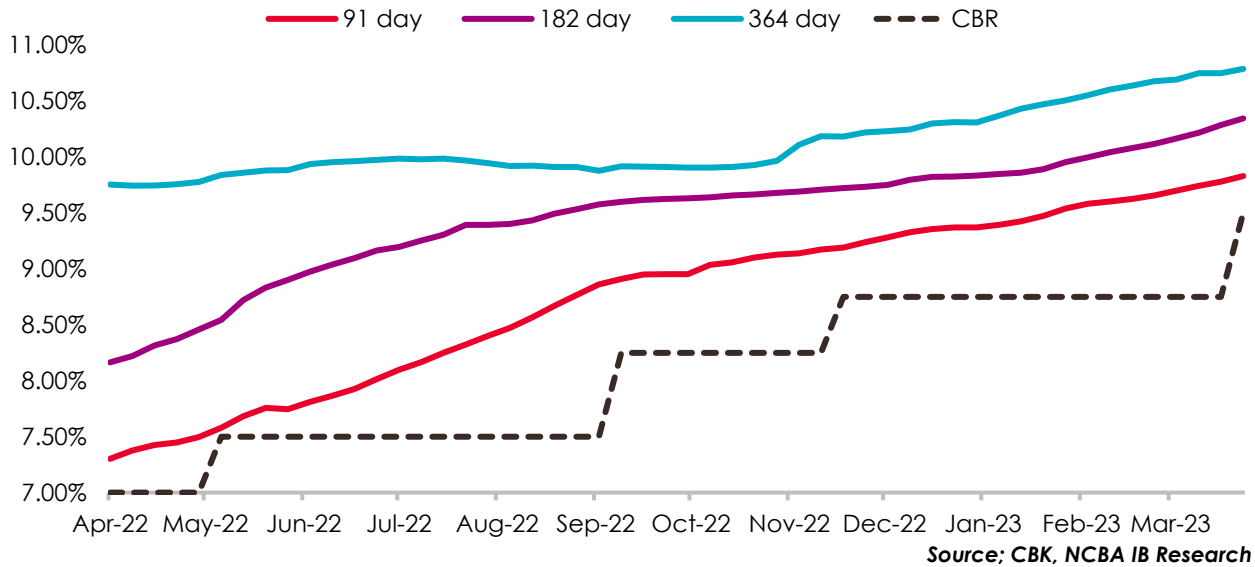
Interest rates: In March, secondary bonds market turnover rose by approximately 40% from KES 47.15Bn traded in February 2023 with most of the trading activity by investors taking place in infrastructure bonds and short term papers.

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.

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

Policy rate hike: 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. The inflation rate was 9.2%, in February 2023, a slight rise from 9%, recorded the previous month attributable to rise in food and energy prices.



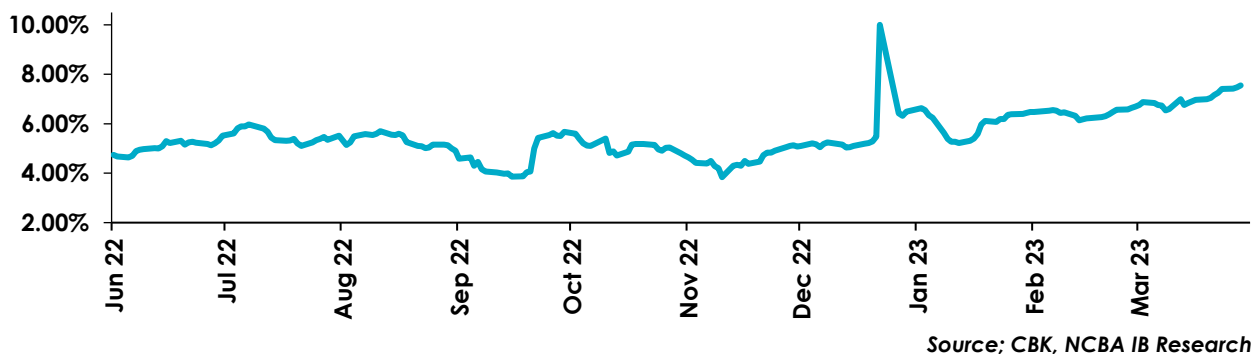
Demand: The auction performance will be driven by investors' interest rate expectations and the government's appetite for funds to plug into the FY'2022/23 fiscal deficit. Relatedly, the high amount of Treasury bill maturities and bond interest payments in April 2023 will impact the subscription levels. We expect the paper to exhibit a low subscription rate as investors seek to minimize duration risk.

LIQUIDITY

In the money markets, liquidity tightened with the weighted average interbank rate averaging 6.98% in March 2023, up from 6.41% in February 2023. The rate stood at 7.6% as of 30th March 2023.

Treasury bills' subscription in March was significantly oversubscribed, posting an average performance rate of 113.9% for the month.

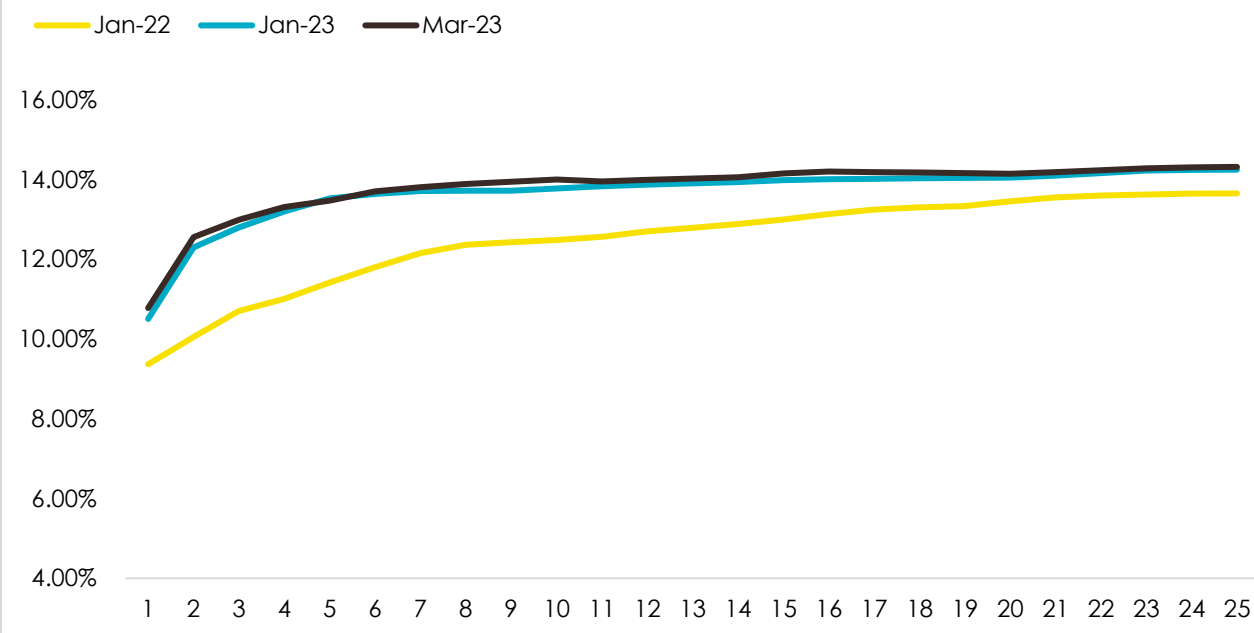
Average weighted interbank rate trend



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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

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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.

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.

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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
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