

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 Treasury bond **FXD1/2023/003** seeking to raise a total of **KES 20.0Bn**.

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 range is:

Issue Number	FXD1/2023/003
Tenor (Yrs.)	3 Yrs
Period of Sale	26-April-2023 to 09-May-2023
Offered Amount (KES Mn)	20,000.00
Value Date	15-May-2023
Redemption Date	11-May-2026
Coupon (%)	Market determined
Bidding Guide (%)	14.10% - 14.50%

Yields of comparable papers;

Issue No.	Tenor to Maturity	Outstanding Amount (KES' Mn)	Coupon Rate	Implied Yield to Maturity
FXD1/2016/010	3.3 years	18,306.45	15.039%	13.1985%

Source: NSE, NCBA IB Research

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 178.9Bn) and bond interest payments (KES 57.8Bn) in May 2023 will impact the subscription levels.

We however expect the paper to exhibit a low subscription rate in line with the previous auctions as investors seek to minimize duration risk. Investors are generally more interested in treasury bill auctions.

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

Debt distress:

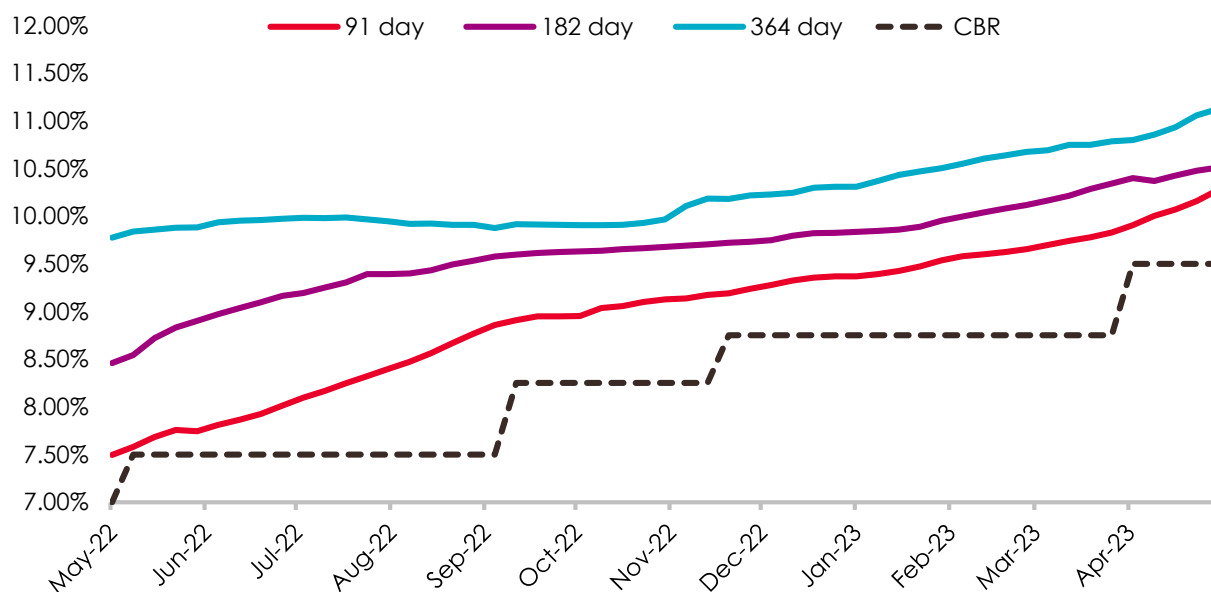
The government has experienced a liquidity crunch that has led to the delay of some of its recurrent expenditure payments. We have observed that investors are averse to government lending as witnessed with the most recent auction receiving 24.43% subscription rate out of the KES 30Bn offered for the re-opened FXD1/2022/03. The auction for FXD1/2019/15 was cancelled. We believe investors will bid aggressively as they seek to get a premium in lieu of these 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 in the month of April eased to 7.9% from 9.2% recorded in the month of March, attributable to base effects. Food and energy price pressures have remained elevated.

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

Liquidity:

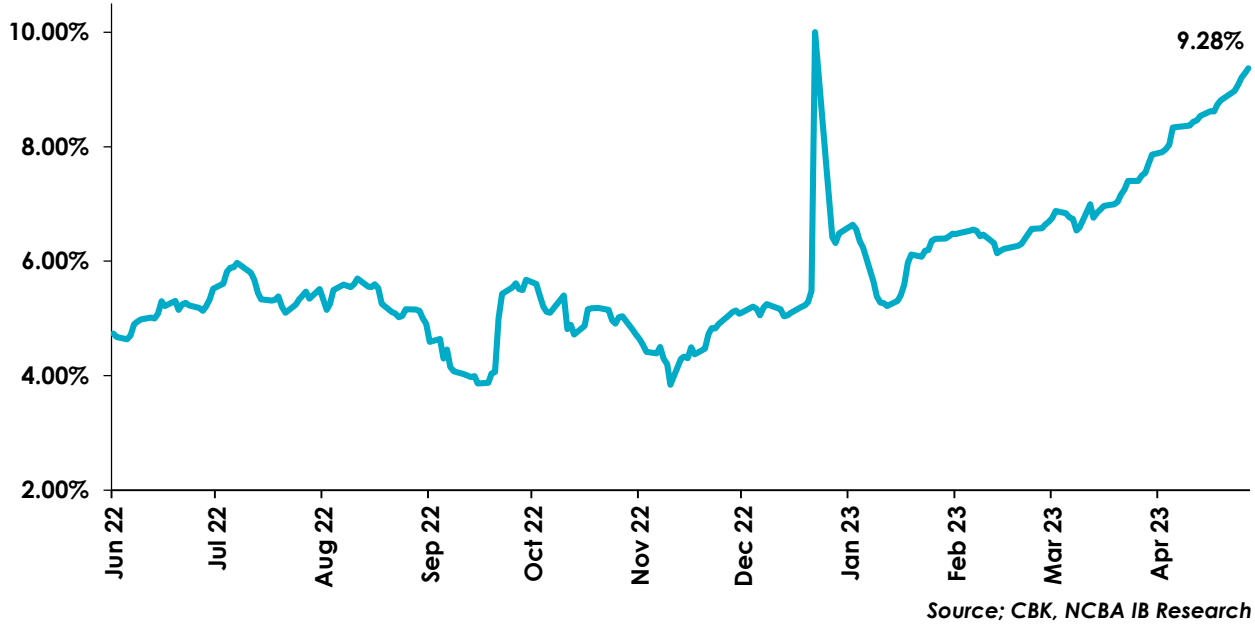
In the money markets, liquidity tightened with the weighted average interbank rate averaging 8.63% in April 2023, up from 7.05% in March 2023. The rate stood at 9.28% as of 28th April 2023.

Treasury bills recorded a significant oversubscription, posting an average performance rate of 179.23% in the April auctions.

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

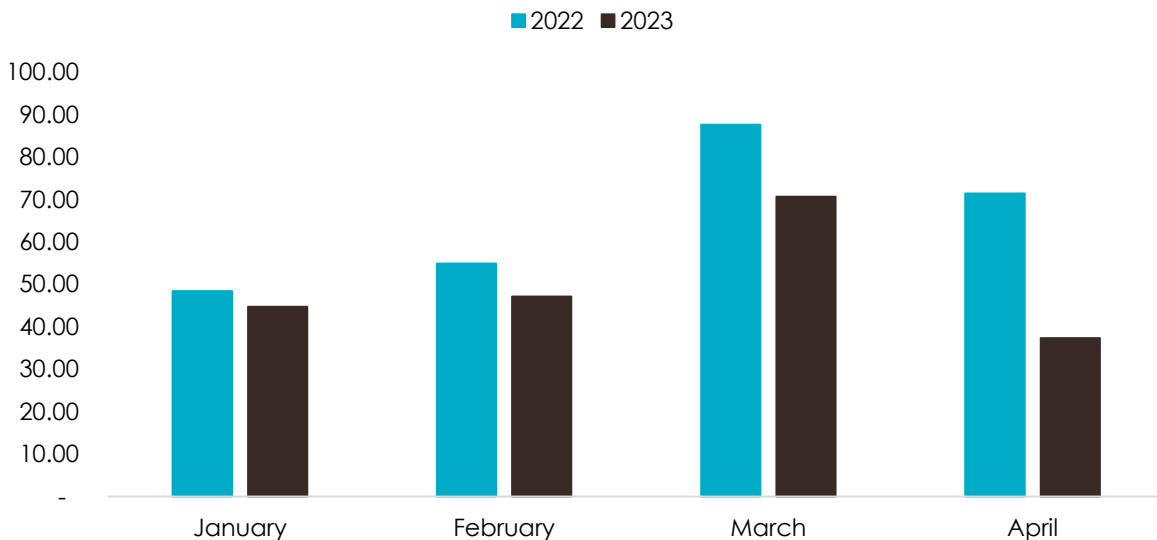
Liquidity - Average weighted interbank rate trend



Secondary Market:

In April, secondary bonds market turnover declined by 47.18% to KES 37.32Bn traded in April 2023 with most of the trading activity being recorded in infrastructure bonds and short term papers.

Secondary bonds turnover (KES 'Bn)

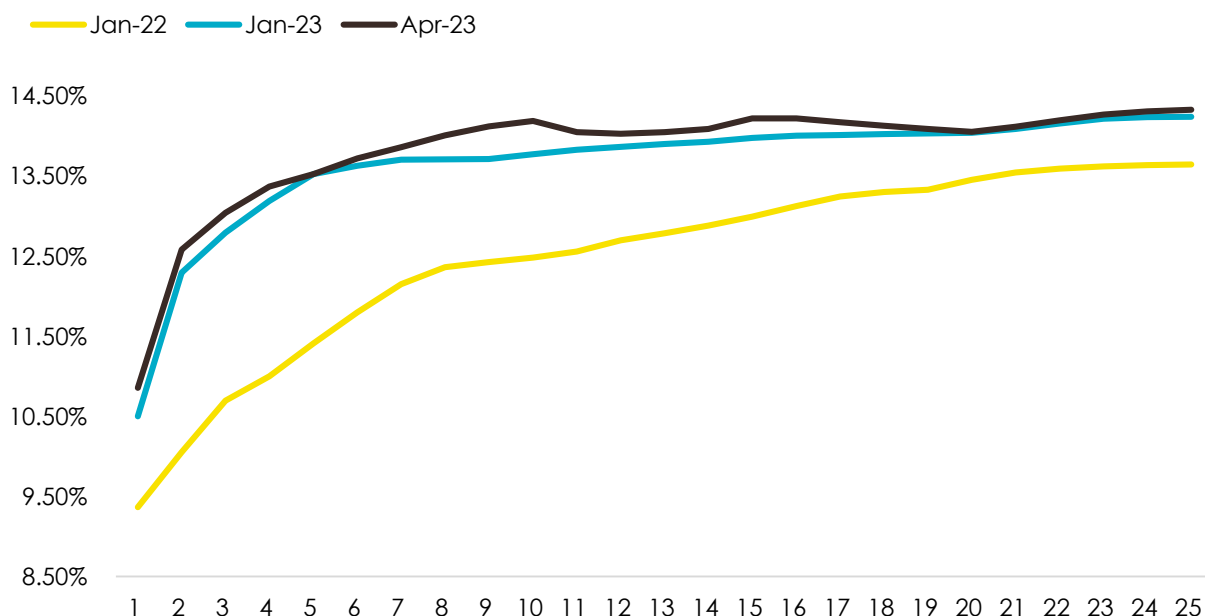


Source: CBK, NCBA IB Research

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

Government Securities Yield Curve



Source: CBK, NCBA IB Research

KENYA GOVERNMENT DEBT MATURITIES SCHEDULE (MAY 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
FXD2/2019/005	May 8, 2023	1.01	39,201.40	10.87%	2,130.99	11.4279%
FXD1/2020/005	May 8, 2023	2.01	103,609.22	11.67%	6,044.04	12.7492%
FXD2/2019/015	May 8, 2023	11.01	81,644.75	12.73%	5,198.32	13.8739%
FXD1/2021/025	May 8, 2023	23.01	90,490.00	13.92%	6,299.91	14.1770%
FXD1/2021/005	May 15, 2023	3.53	66,075.85	11.28%	3,725.69	13.1358%
FXD1/2011/020	May 15, 2023	8.03	37,029.40	10.00%	1,851.47	13.8658%
FXD1/2022/010	May 15, 2023	9.03	60,705.30	13.49%	4,094.57	13.9400%
FXD1/2012/020	May 15, 2023	9.53	87,285.65	12.00%	5,237.14	14.1125%
IFB1/2016/009	May 15, 2023	2.03	28,035.40	12.50%	1,752.21	12.2671%
IFB1/2022/014	May 15, 2023	13.53	94,258.60	13.94%	6,568.88	13.6138%
IFB1/2018/020	May 15, 2023	15.53	36,787.30	11.95%	2,198.04	13.2000%
FXD4/2019/010	May 22, 2023	6.55	89,972.85	12.28%	5,524.33	13.7155%
FXD1/2018/015	May 22, 2023	10.05	76,351.65	12.65%	4,829.24	13.8150%
IFB1/2017/007	May 22, 2023	1.55	21,262.25	12.50%	1,328.89	12.1300%
IFB1/2020/006	May 29, 2023	3.07	20,226.65	10.20%	1,031.56	12.2600%
Total					57,815.30	

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

Treasury Bills	
Payment Date	Amount KES 'Mn
May 1, 2023	27,507.95
May 8, 2023	29,612.28
May 15, 2023	47,938.50
May 22, 2023	46,133.31
May 29, 2023	27,763.99
Total	178,956.03

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

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