

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 **IFB1/2023/007** seeking to raise a total of **KES 60.0Bn**.

NCBA Investment Bank Ltd is an authorized placing agent.

WHY INVEST IN THE BOND?

1. Opportunity to lock in **attractive tax-free coupons** paid semi-annually.
2. The bond qualifies 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	IFB1/2023/007
Tenor to Maturity	7 yrs
Effective Tenor	4.5 yrs
Offered Amount (KES Mn)	60,000.00
Value Date	19/06/2023
Redemption Date	10/06/2030
Coupon Rate (%)	Market determined
Period of Sale	26/05/2023 to 13/06/2023
Minimum bidding Amount (KES)	100, 000.00
Bidding Guide	14.90% - 15.30%

Yields of comparable papers on effective tenor;

Issue No.	Tenor to Maturity	Outstanding Amount Shs'M.	Fixed Coupon Rate	Implied Yield To Maturity
FXD1/2012/015	4.25	90,939.90	11.00%	14.17%
FXD1/2013/015	4.67	82,473.25	11.25%	14.20%

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 86.33Bn), bond maturities and interest payments (KES 70.52Bn) in June 2023 will impact the subscription levels.

We expect the paper to exhibit a high subscription rate in line with the previous infrastructure bond auction as investors seek a high tax-exempt return and the paper's relatively short effective tenor.

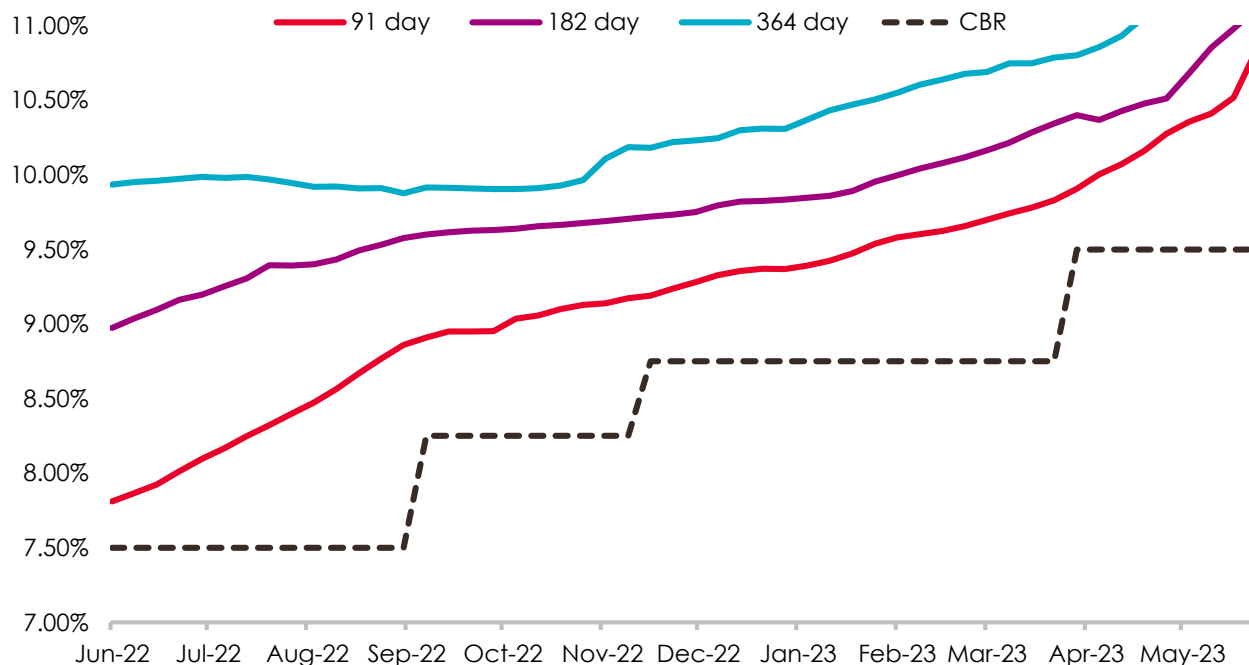
Debt distress:

The government has experienced a liquidity crunch that has led to a delay in some of its recurrent expenditure payments. Investors have exhibited an averseness to investment in long-term bonds as witnessed in the recent long tenured auctions. Relatedly, there will be a delay in inflows from the IMF as the Board will sit in July to approve Kenya's disbursement and not in June, as earlier anticipated.

Interest rates:

The MPC maintained the CBR rate at 9.50% in its May meeting to allow transmission of the previous MPC action. Overall inflation increased marginally to 8.0% in May 2023 from 7.9% in April, mainly driven by food and energy prices.

Yields across various tenors recorded a sharp rise leading to sustained upward pressure on the yield curve. We believe investors will bid aggressively as they seek to get a premium in lieu of these risks.

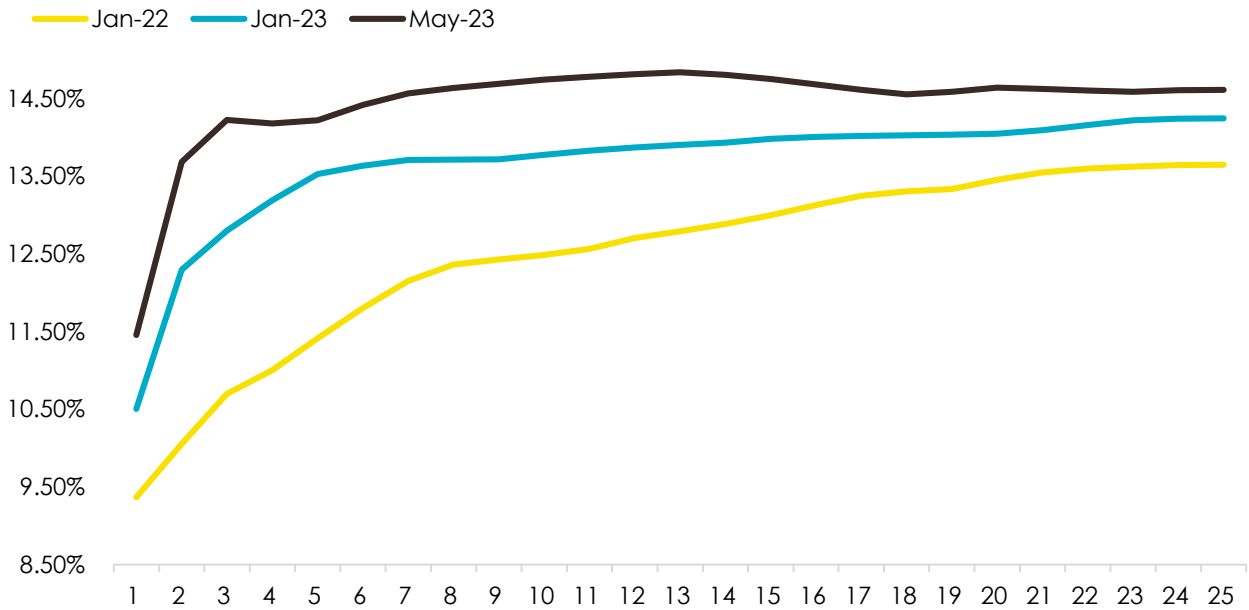


Source; CBK, NCBA IB Research

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Government Securities Yield Curve

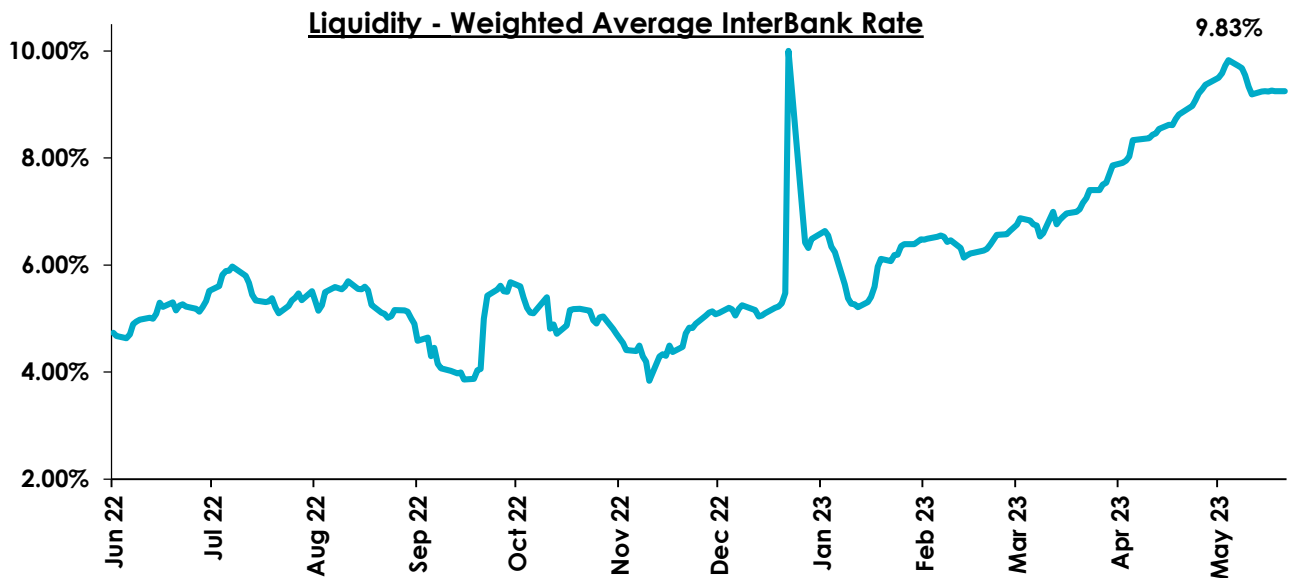


Source; NSE, NCBA IB Research

Liquidity:

In the money markets, liquidity tightened with the weighted average interbank rate averaging 9.39% in May 2023, up from 8.63% in April 2023. The rate stood at 9.35% as of 31st May 2023.

Treasury bills recorded a significant oversubscription, posting an average performance rate of 162.75% in the May auctions.



Source; CBK, NCBA IB Research

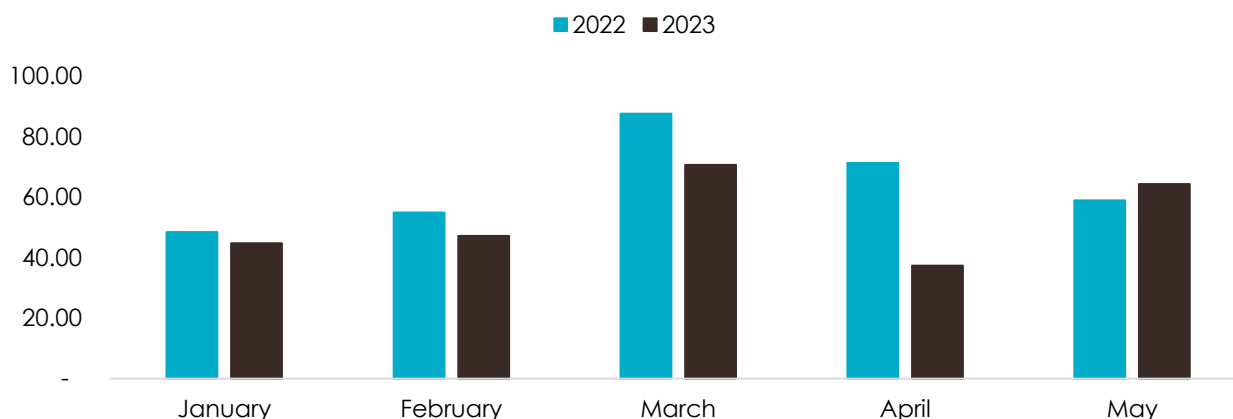
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Secondary Market:

In May, secondary bonds market turnover rose by 72.38% to close at KES 64.34Bn. Most of the trading activity was recorded in infrastructure bonds and short term papers.

Secondary bonds turnover (KES 'Bn)



Source: CBK, NCBA IB Research

KENYA GOVERNMENT DEBT MATURITIES SCHEDULE (JUNE 2023)

Treasury Bond Maturities				
Issue No.	Maturity Date	Fixed Coupon Rate	Outstanding Amount KES 'Mn	Implied Yield To Maturity
FXD1/2013/010	June 19, 2023	12.37%	39,248.20	9.9222%
Total			39,248.20	

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
IFB1/2015/009	June 5, 2023	1.54	8,506.50	11.00%	467.86	12.5000%
IFB1/2022/006	June 5, 2023	5.54	59,561.98	13.22%	3,935.56	13.1000%
FXD3/2019/005	June 12, 2023	1.56	44,830.50	11.49%	2,575.96	13.0370%
FXD2/2010/015	June 12, 2023	2.56	25,199.80	9.00%	1,133.99	14.2450%
FXD1/2008/020	June 12, 2023	5.06	55,410.70	13.75%	3,809.49	13.7841%
FXD2/2018/010	June 12, 2023	5.56	63,574.02	12.50%	3,974.01	13.9335%
FXD1/2010/025	June 12, 2023	12.06	20,192.50	11.25%	1,135.83	14.2512%
IFB1/2022/018	June 12, 2023	17.06	79,827.50	13.74%	5,484.95	14.0472%
FXD1/2013/010	June 19, 2023	0.08	39,248.20	12.37%	2,427.70	9.9222%
FXD1/2018/025	June 19, 2023	20.08	94,326.70	13.40%	6,319.89	14.5650%
Total					31,265.23	

Source: NSE, NCBA IB Research

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Treasury Bills	
Payment Date	Amount KES 'Mn
June 5, 2023	22,222.49
June 12, 2023	26,947.84
June 19, 2023	21,680.69
June 26, 2023	15,481.86
Total	86,332.88

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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

Key Contacts: Trading Team

dealing@ncbagroup.com

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