

The Week in Review | Week 25

The Finance Bill 2023

Here is a summary of some of the key changes made to the Bill:

1. **Advance tax**- Advanced tax levied on commercial vehicles including pick-ups and trucks has been set at Sh2,500 from the proposed Sh3,000. The rate rises from Sh1,500 currently.
2. **Excise duty**- Duty on imported fish falls to 10 percent from the proposed 20 percent. Human hair, wigs, false beards, artificial nails, eyebrows and eyelashes have been spared from the duty.
3. **Housing levy**- Housing Levy at the rate of 1.5 percent.
4. **Forex Losses**-Non-resident companies and businesses incurring forex losses will be able to offset the losses for a period of up to five years from the proposed deferment period of three years.
5. **Club and subscription fees.**
6. **Turnover tax**- retained at the proposed three percent from the current one percent.
7. **Digital content monetization**- lowered the rate of withholding tax for local content creators to five percent but lifted the rate for non-residents to 20 percent.
8. **Grant projects**- Non-resident contractors, sub-contractors, consultants and employees involved in grant-funded projects shall be exempt from income tax. Gains from the transfer of properties within a special economic zone enterprise shall also not be taxed. Royalties, interest, management fees, professional fees, training and consultancy fees earned by non-resident persons in SEZs shall not be taxed for the first 10 years of the SEZ establishment.
9. **PAYE**- introduced two new pay-as-you-earn (PAYE) tax bands above the previous 30 percent upper limit at 32.5 and 35 percent for income between Sh500,000 and Sh800,000 a month and income above Sh800,000 respectively. Repatriated income for non-residents will meanwhile be taxed at 15 percent.
10. **Zero-rating**- The supply of the following products has been zero-rated meaning the products will not only not attract VAT but its manufacturers and suppliers will recover input VAT; LPG, tea and coffee locally purchased for value addition before exportation, locally assembled and manufactured mobile phones, motorcycles, lithium-ion batteries, electric buses, bioethanol vapour stoves and inputs used in the manufacture of animal feed.
11. **Tax penalties**- The penalty for unpaid taxes is retained at 75 percent of the unpaid amount and not double the amount as proposed previously.
12. **Export and investment promotion levy**- raised from 10 to 17.5 percent.
13. **VAT on petroleum products**- Super petrol, diesel and kerosene to attract VAT at the rate of 16 percent from the previous eight percent.
14. **Alcohol**- KRA to set minimum prices for all alcoholic beverages as a countermeasure against the proliferation of illicit alcohol.

EQUITIES

Local Market Performance

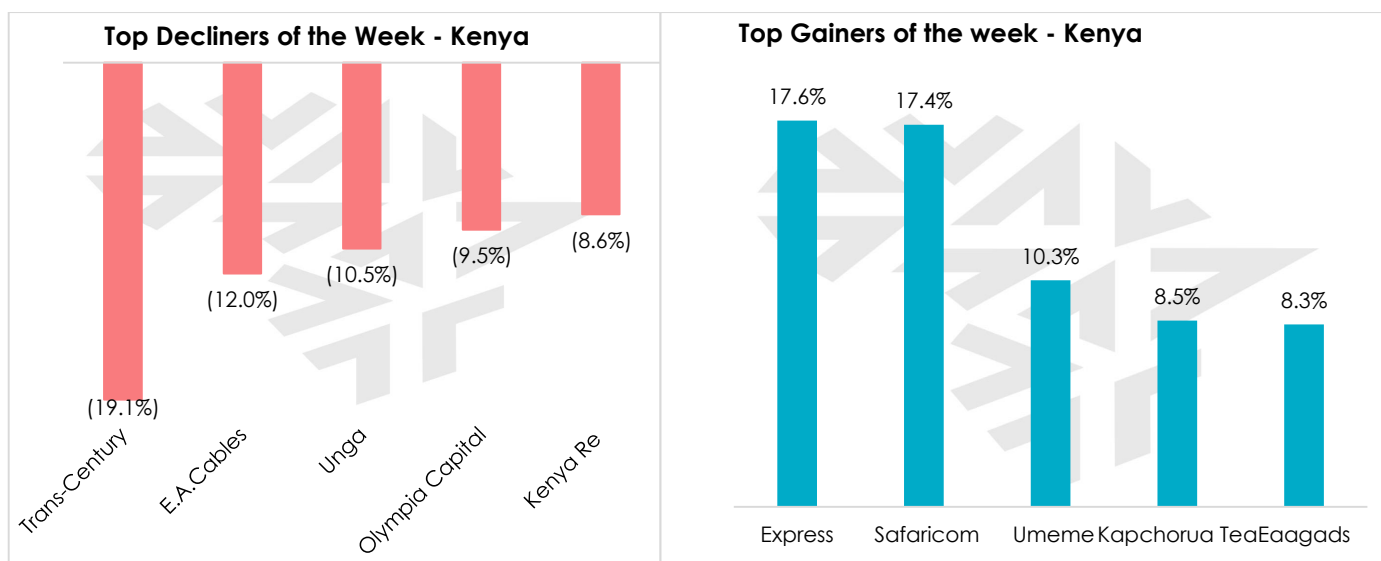
The market was up slightly week on week, with all share index (NASI) closing the week at **107.24**, a **15.78%** decline year to date.

The NSE-20 and NSE-25 indices closed the week at **1,582.47**, a **5.55%** decline year to date and **2,716.90**, a **13.43%** decline year to date, respectively.

Trading activity was concentrated on Safaricom, NCBA, EABL Bank of Kigali and Equity accounting for **78.93%** of the total turnover.

Foreign investors accounted for **48.54%** of the total turnover and they were net buyers as foreign inflows stood at KES 76.5Mn last week. Foreign investors were mostly active on Safaricom, EABL, Bank of Kigali, Equity and KCB in that order.



Market turnover increased to **KES 1.0Bn** from KES 1.65Bn traded the previous week.

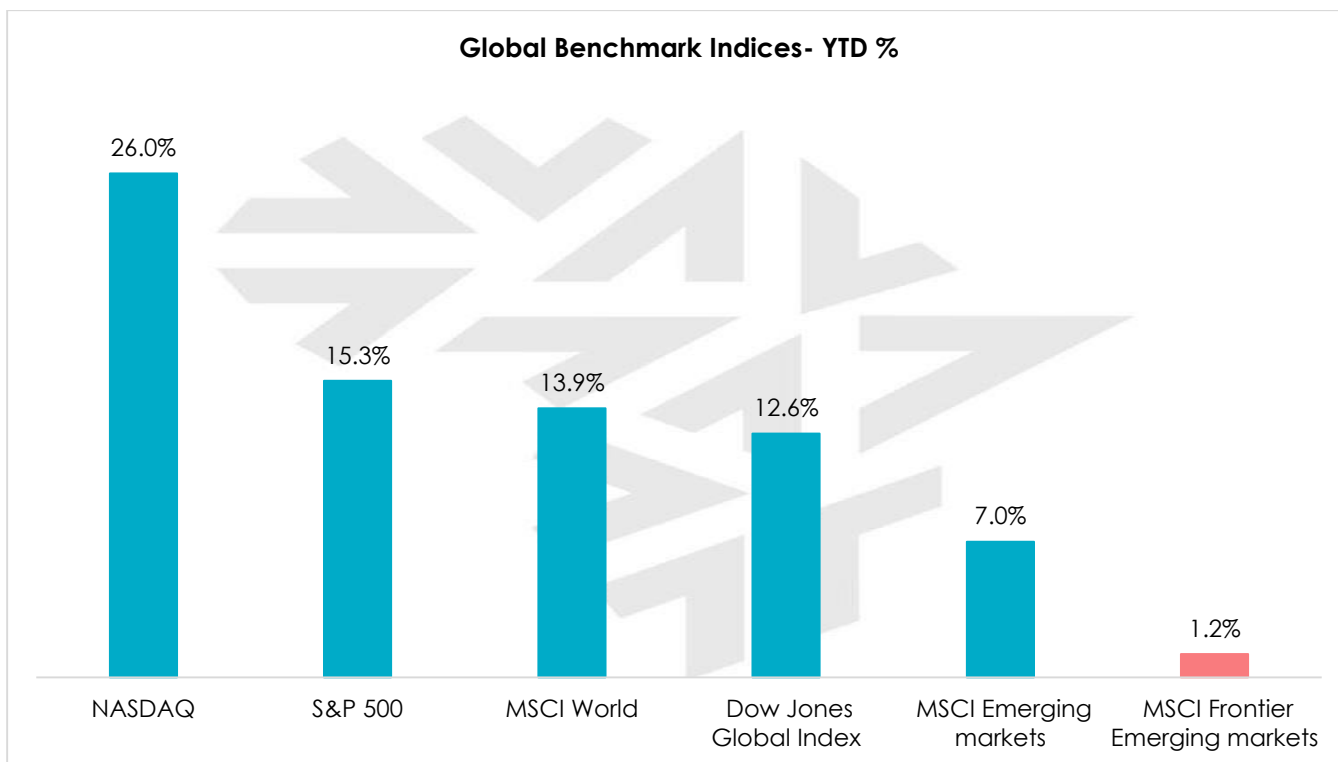
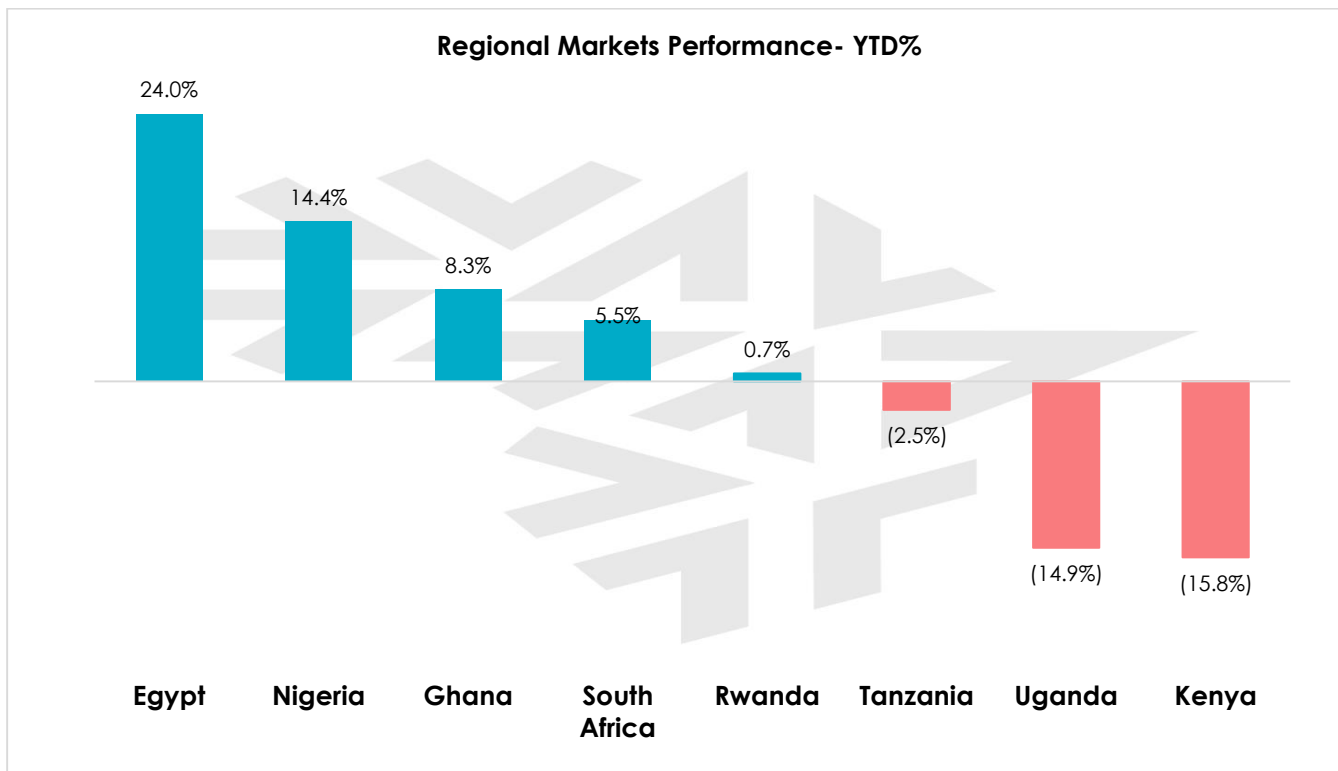


Source: NSE, NCBA IB Research

Key Corporate Announcements during the week

- Unga Group PLC**, issues a profit warning for the year ended June 2023 owing to increase production costs which could not fully be passed on customers and sharp depreciation of KES against the greenback has lead to margin erosins, high forex losses and increased interest expenses.

Counter	ANNOUNCEMENT	Dividend	SPx (As at 16/06/2023)	Dividend Yield (%)	Book Closure Date	Payment Date
	Final dividend	2.25	15.95	14.11%	27-Jun-23	20-Jul-23
	Final Dividend	4.00	43.00	9.30%	28-Jun-23	14-Aug-23



Source; Bloomberg, NCBA IB Research

FIXED INCOME

Primary Market

Treasury Bill Results

Treasury bills were undersubscribed, with a subscription rate of **63.91%** (down from 94.18% the previous week) and an acceptance rate of 99.70%. Majority of the bids geared towards the 91-day paper, accounting for performance rate of 275.3% as investors look to mitigate for duration risk.

KES 15.29Bn accepted at 11.785% (up 14.50bps), 11.863% (up 21.40bps) and 11.934% (up 12.60bps) for the 91, 182 and 364-day papers, respectively.

Year-to-date, the yield on T-bills has risen by an average of **168.63bps** across the curve.

Subscription	Amount offered KES Bn	Bids received Week 25	Bids received Week 24
91 day	4.00	10.97	7.11
182 day	10.00	1.99	1.72
364 day	10.00	2.33	1.74
Total	24.00	15.29	10.57

Prevailing rates	Week 25	Week 24	w/w change (bps)
91 Day	11.785%	11.640%	14.50
182 Day	11.863%	11.649%	21.40
364 Day	11.934%	11.734%	20.00

Source: CBK, NCBA IB Research

June Bond Tap Sale | FXD1/2023/003

The Central Bank of Kenya received a total of **KES 18.56Bn** (123.37% Subscription rate), out of which it accepted **KES 18.55Bn** (99.96% Acceptance rate).

See below a summary of the treasury bond auction results;

Issue	FXD1/2023/03
Tenor to Maturity	3 Years
Offered Amount (KES Mn)	15,000.00
Bids Received (KES Mn)	18,560.05
Amount Accepted (KES Mn)	18,552.07
Weighted Average Rate of Accepted Bids (%)	14.228%
Adjusted Average Price (Per KES 100)	101.599
Coupon Rate (%)	14.228%

Source: CBK, NCBA IB Research

Secondary Market

In the secondary bonds market, **total turnover** increased by **329.53% WoW** to **KES 16.98Bn** from KES 3.95Bn traded in the previous week.

The S&P Sovereign Bond index declined to close at **100.38** from 100.62 in the previous week.

The S&P Kenya Sovereign Bond Index tracks the performance of local currency denominated public government debt and has an inverse relationship to yield curve.

See the top moving bonds below:

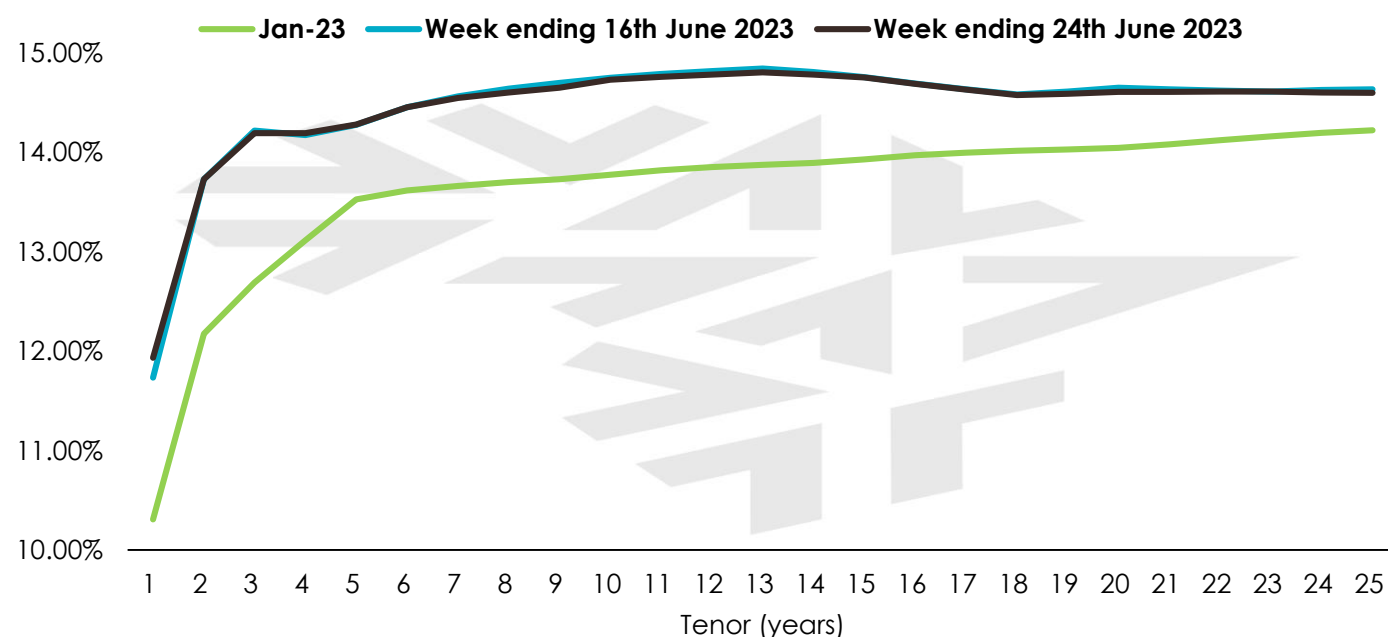
Bond Identifier	Years to Maturity	Coupon	Average Yield	Total Value (KES Mn)	Number of Trades
IFB1/2023/7Yr	7.59	15.83%	14.94%	10394.25	664
FXD2/2019/10Yr	6.29	12.30%	12.46%	2,250.00	4
FXD1/2018/10Yr	5.15	12.69%	14.42%	1,070.00	5
FXD3/2019/10Yr	6.61	11.49%	14.68%	500.00	2
IFB1/2016/16Yr	13.74	12.25%	15.82%	407.35	10

Source: NSE, NCBAIB Research

Government Securities Yield Curve:

The yield on government securities has been on an **upward trajectory** with investors demanding higher returns to cushion against duration and interest risks. The government has also increased appetite for the domestic debt necessary to meet the net domestic debt target for FY 22/23.

On a Y/Y basis, the entire yield curve shifted upwards with the largest increase on the 2-year tenor (**+244.7Bps**)



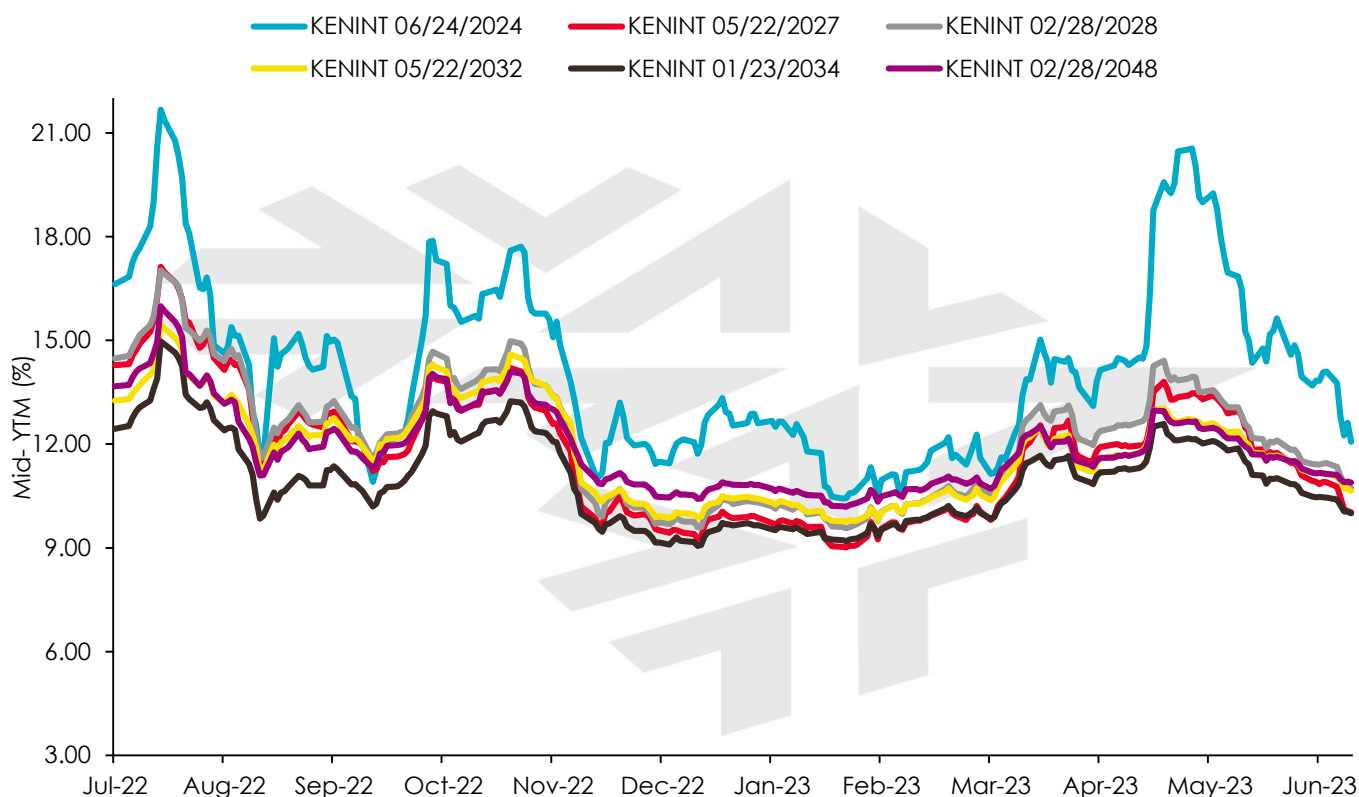
Source: NSE, NCBA IB Research

Kenya International Debt Yield Curves:

Kenyan Eurobonds' yields recorded mixed trends in the international market.

KENINT 2048 recorded the highest increase in its yield whereas the **KENINT 2034** registered the least increase in yield.

KENINT 2024, whose principal amounts to **USD 2.0Bn** matures in **June 2024** and is currently trading at **12.65%**, up from 12.06% in the previous week.



Source: Bloomberg, NCBA IB Research

Macroeconomic Developments:

Liquidity conditions in the interbank space improved. Indicatively, the overnight **interbank rate** increased by 4.3 bps week on week to close at **9.85%**.

The average daily traded volumes declined to **KES 9.4Bn** from KES 18.30Bn observed in the previous week.

Statistic	Current	Previous	change (bps)
CBR	9.50%	9.50%	-
Inflation	8.00%	7.90%	10.0
Average Interbank Rate	9.85%	9.42%	43.0

Source: NSE, NCBA IB Research

Currency

On the FX front, the shilling ceded **53-cents** to the greenback, closing at **140.30/140.50** on Friday. With the average estimated **daily loss** now at **11.96-cents**, we anticipate the shilling will break the 140 –mark by end of June.

Year to date, the Kenya shilling has depreciated by **11.40% Y/Y** against the dollar. Continued intervention by the central bank through activity in the interbank foreign exchange market and expected foreign currency inflows from the IMF will alleviate the downward pressure on the shilling.

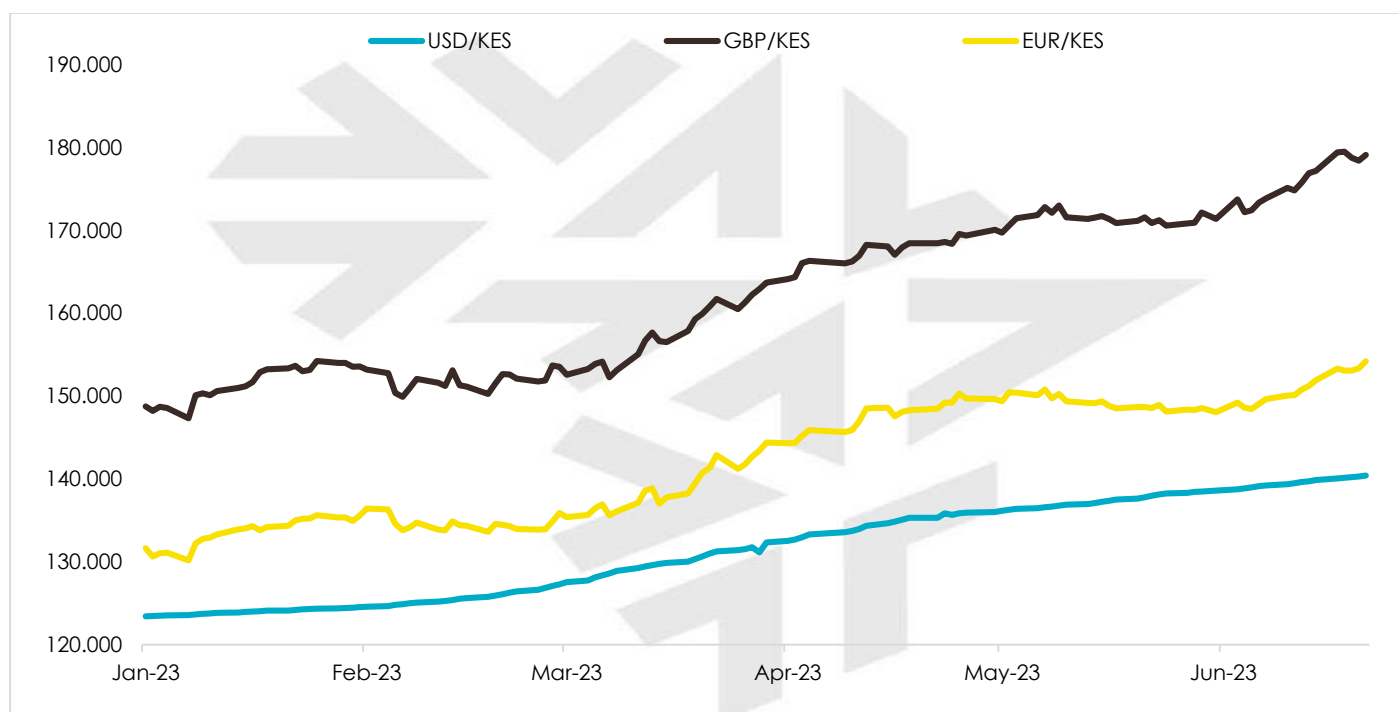
Foreign exchange reserves dropped marginally by **1.1%** week on week to close at **US \$7,375Mn**. Following an inflow from World bank under the development policy operation, the reserves represent **4.06 months** of import cover which meets CBK's statutory requirement of at least 4 months of import cover.

The **DXY** increased marginally to close at **102.87** from 102.24 in the previous week.

The U.S. Dollar Index (DXY) indicates the general international value of the USD. The DXY does this by averaging the exchange rates between the US Dollar and major world currencies.

Currency	Week 25	Week 24	w/w change (%)
US Dollar	140.40	139.87	(0.4%)
STG Pound	179.09	177.18	(1.1%)
EURO	154.17	151.89	(1.5%)
Forex reserves (USD Mn)	7,375.00	7,459.00	(1.1%)

Negative () = Depreciation, Positive = Appreciation
Source: CBK, NCBA IB Research



Source: CBK, NCBA IB Research

Fiscal Tracker- May 2023

The **total revenue** collected as reported by the National treasury stood at **KES 2,603.5Bn** which represents **72.07%** achievement. Net domestic borrowing stood at **KES 464.7 Bn** against a target of KES 886.5Bn in the FY 22/23 budget.

We expect the government to plug in the variance this month as evident with the increased **appetite** during the infrastructure bond auction. The auction has managed to raise KES 213.40Bn and activity in the weekly treasury bill auction remains robust.

The **total expenditure** decreased by KES 35.0Bn to **KES 2,601.1Bn** compared to KES 2,636.6Bn in 2023 same period. This is largely attributable to the decline in **recurrent expenditure** by KES 45.3Bn to KES 975.1Bn and **development expenditure** by KES 92.0Bn to KES 191.1Bn on the back of increased consolidation efforts by the government to lower the budget deficit.

Despite the efforts to lower the deficit, the government still has a long way to go in achieving the fiscal deficit to GDP of **5.7%** for FY'22/2023 and **4.4%** projection for FY'23/2024

	22/23 FY Budget	May-22	May-23	Variance (YoY)	Variance (MTD Vs FY Budget)	Variance (MTD Vs FY Budget)
INCOME(KES Bn)						
Total Tax Income	2,108.33	1,637.94	1,740.40	102.46	367.92	17.5%
Total Non-Tax Income	83.66	59.46	71.13	11.68	12.53	15.0%
Net Domestic Borrowing	886.52	783.52	464.66	(318.85)	421.86	47.6%
External Loans and Grants	520.59	172.17	311.78	139.61	208.81	40.1%
Other Domestic Financing	13.23	13.24	15.53	2.29	(2.30)	-17.4%
Total Revenue	3,612.32	2,666.33	2,603.51	(62.82)	1,008.82	27.9%

EXPENDITURE(KES Bn)						
Recurrent	1,265.97	1,020.39	975.12	(45.27)	290.85	23.0%
CFS	1,552.94	1,046.60	1,130.14	83.55	422.80	27.2%
Development	393.81	283.12	191.12	(92.00)	202.70	51.5%
County Government	399.60	286.50	305.25	18.75	94.35	23.6%
Total Expenditure	3,612.32	2,636.60	2,601.63	(34.97)	1,010.70	28.0%

Balances at end month		51.01	2.50	(48.51)		
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Source: National treasury, NCBA IB Research

Kenya Government Debt Maturities Schedule – June 2023:

The government has total domestic debt maturities of **KES 156.85Bn** for the month of June 2023 compared to **KES 159.98Bn** for May 2023.

The **high debt maturities** have seen **aggressive domestic borrowing** as seen with the government appetite for treasury bills as well as the latest primary auction (government accepted KES 213.39Bn from KES 220.52Bn bids received for the June 2023 infrastructure bond).

Going forward, we expect the **robust government activity** in the local market attributable to elevated debt obligations which will consequently lead to an upsurge in the yields.

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	

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

Source: CBK, NCBA IB Research

About NCBA Investment Bank

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