

The Week in Review | Week 29

EQUITIES

Local Market Performance

The market was down week on week, with all share index (NASI) closing the week at **110.65**, a **13.11%** decline year to date.

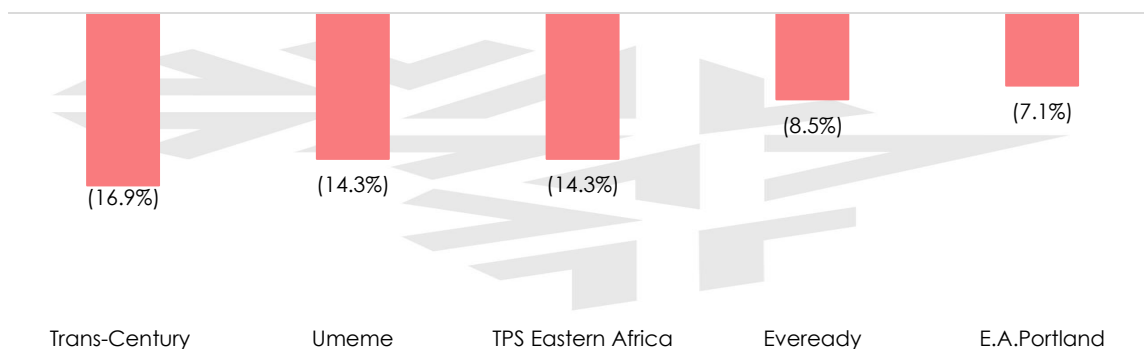
The NSE-20 and NSE-25 indices closed the week at **1,613.08**, a **3.72%** decline year to date and **2,864.72**, an **8.72%** decline year to date, respectively.

Trading activity was concentrated on Equity, Safaricom, KCB, Absa and BAT accounting for **86.73%** of the total turnover.

Foreign investors accounted for **42.29%** of the total turnover and they were net buyers as foreign inflows stood at KES 209.4Mn last week. Foreign investors were mostly active on Equity, Safaricom, BAT, Jubilee and Standard Chartered in that order.

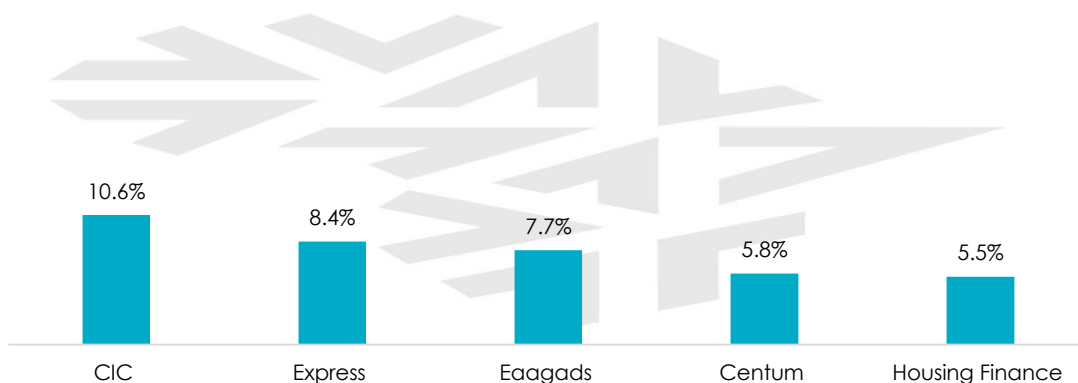
Market turnover declined to **KES 0.80Bn** from KES 0.83Bn traded the previous week.

Top Decliners of the Week - Kenya



Source: NSE, NCBA IB Research

Top Gainers of the week - Kenya



Source: NSE, NCBA IB Research

Key Corporate Announcements during the Week

BAT HY2023 Financial performance

BAT posted a resilient performance whereby earnings per share (**EPS**) shrunk by 3.5% y/y to **KES 28.22** while profit before tax declined by 3.9% y/y to **KES 2.82Bn**. The firm declared a KES 5.00 interim dividend per share, which reflects a dividend yield of 1.14%. The books closure will be **18th August 2023** and the Payment on 22nd September 2023.

- **Revenue:** In 1HY23, net revenue declined by 6.9% y/y to KES 13.12Bn driven by a decline in gross sales by 4% y/y to KES 20.99Bn. This was mainly driven by low sales volumes in the domestic market as well as a decline in cigarette and cut rag exports.

The adoption of excise-led pricing has continued to impact product affordability negatively leading to lower cigarette sales volumes and a higher incidence of illicit sales. The increases in excise tax in 2022 in the Kenyan market were implemented in July 2022 and October 2022 for the 10% and 6% increments, respectively. This led to increase in price for the tobacco products which impacted the customer affordability and the subsequent decline in sales volumes as well as the 4% y/y rise in illicit trade.

Turmoil in BAT Kenya's key export markets such as DRC Congo and Somalia, led to lower cigarette export sales. There was a significant decline of 7% in cigarette exports to Somalia, driven by political instability in the country. Cut rag exports to Sudan also saw a decline brought about by geo-political disruptions.

Going forward, we expect the increase in demand for the Velo product to support revenue in the second half of the year, as well improvement in export sales following favorable supply chain conditions.

- **Operating expenses:** Following effective cost management, in the first half operating expenses declined by 7.02% y/y to close at KES 9.24Bn. This largely attributable to the decline in total volume of produced as well as through decline in power costs as the company leveraged on sustainable cost management through use of solar power for operations. Currently, solar accounts for approximately 30% of power used by BAT Kenya.
- **Finance costs:** During the period, there was significant improvement in finance income to KES 145Mn from KES 20Mn in 1HY2022. This was derived from the volatility experienced in the exchange rates and the generation of forex income from export markets which creates a natural hedge from foreign currency implications.

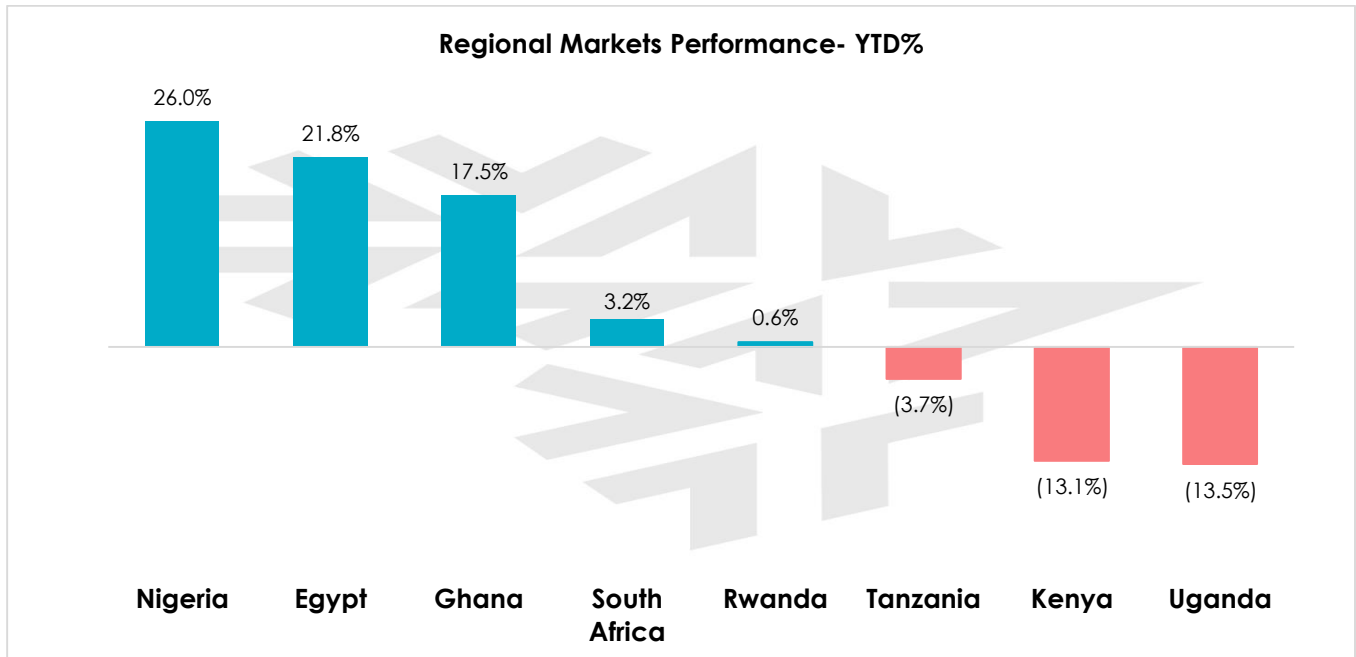
Dividend Payments:

Counter	ANNOUNCEMENT	Dividend	Dividend Yield	Book Closure Date	Payment Date
Safaricom	Final dividend	0.62	3.47%	28-Jul-23	31-Aug-23
BAT	Interim dividend	5.00	1.14%	18-Aug-23	22-Sep-23

Source: NSE, NCBA IB Research

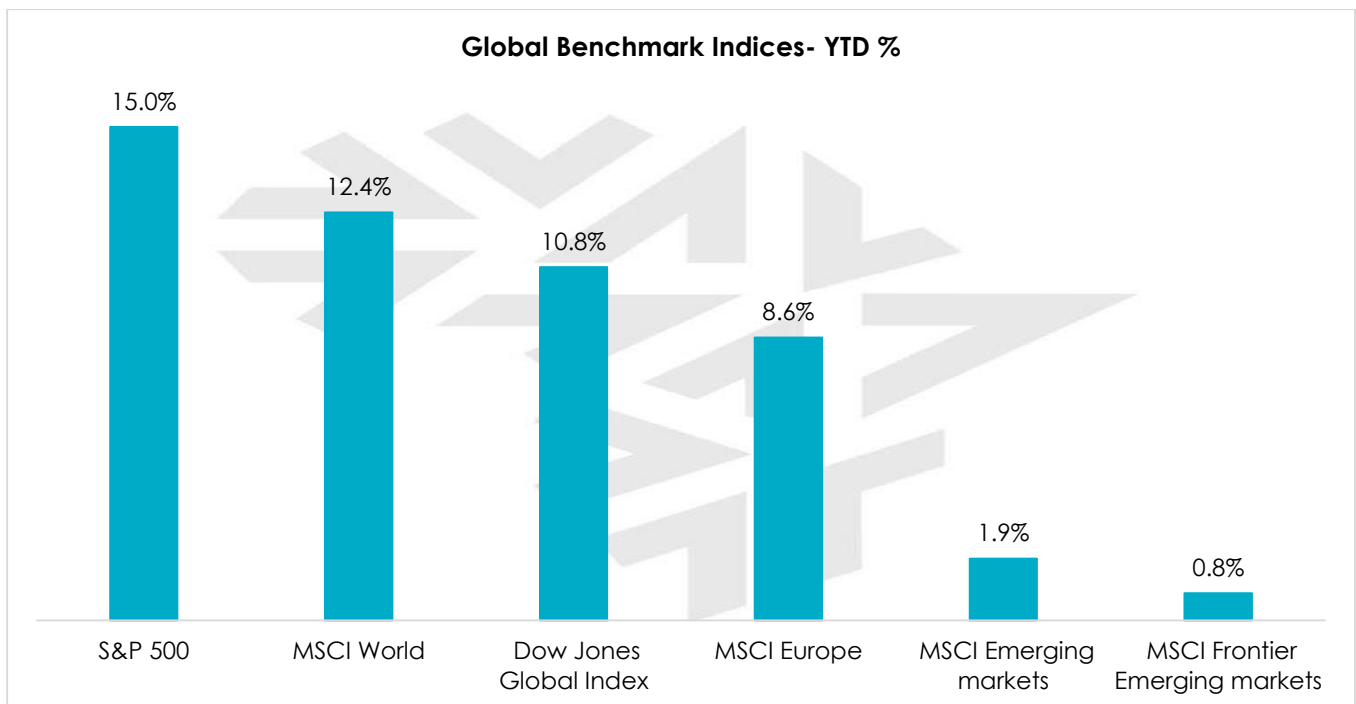
Regional Markets YTD% Performance

NSE recorded the worst performance compared to benchmark markets in Sub-Saharan Africa which is largely attributable to exits by foreign investors.



Source; Bloomberg, NCBA IB Research

Global Benchmark Indices YTD % performance



Source; Bloomberg, NCBA IB Research

FIXED INCOME

Primary Market

Treasury Bill Results

Treasury bills were oversubscribed, with a subscription rate of **164.50%** (up from 151.85% the previous week) and an acceptance rate of 92.9%. Majority of the bids geared towards the 91-day paper, accounting for performance rate of 711.6% as investors look to mitigate for duration risk.

KES 36.66Bn accepted at 12.233% (up 12.40bps), 12.322% (up 5.10bps) and 12.708% (up 25.60bps) for the 91, 182 and 364-day papers, respectively.

Subscription	Amount offered KES Bn	Bids received week 29	Bids received week 28
91 day	4.00	28.46	33.32
182 day	10.00	8.64	1.35
364 day	10.00	2.38	1.77
Total	24.00	39.48	36.44

Prevailing rates	Week 29	Week 28	W/W change (bps)
91 Day	12.233%	12.109%	12.40
182 Day	12.322%	12.271%	5.10
364 Day	12.708%	12.452%	25.60

Source: CBK, NCBA IB Research

July Tap Sale Bond Auction Results

The Central Bank of Kenya received a total of **KES 44.43Bn** for the Tap Sale of **FXD1/2023/05** and **FXD1/2016/10** against offered KES 20.00Bn (222.15% Subscription rate), out of which it accepted **KES 43.44Bn** (97.78% Acceptance rate).

Issue	FXD1/2023/05	FXD1/2016/10
Tenor to Maturity	5 yrs	3.2 yrs
Offered Amount (KES Mn)	20,000.00	
Bids Received (KES Mn)	12,212.15	32,216.95
Amount Accepted (KES Mn)	12,210.68	31,230.14
Market Weighted Average Rate (%)	17.03%	16.58%
Weighted Average Rate of Accepted Bids (%)	16.844%	16.328%
Adjusted Average Price (Per KES 100)	100.31	103.30
Coupon Rate (%)	16.844%	15.039%

Source: CBK, NCBA IB Research

Secondary Market

In the secondary bonds market, **total turnover** increased to **KES 14.67Bn** from KES 12.83Bn traded in the previous week.

The S&P Sovereign Bond index declined to close at **98.70** from 100.38 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.

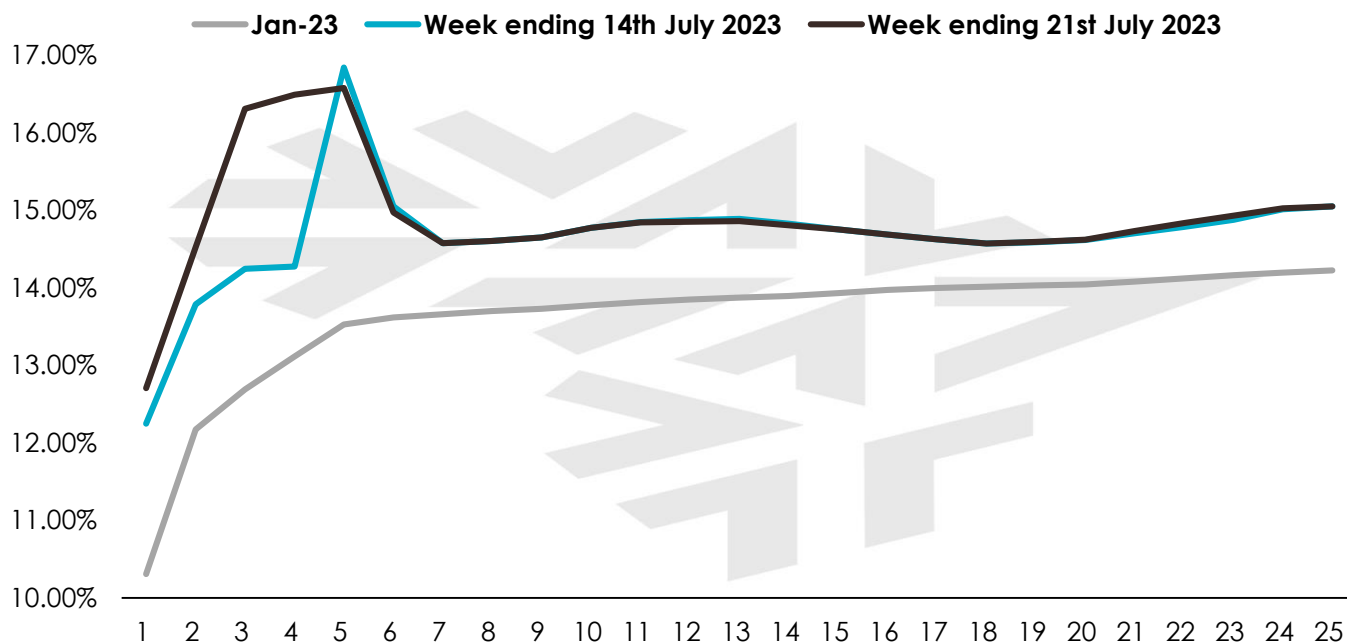
See the top moving bonds below:

Bond Identifier	Years to Maturity	Coupon	Average Yield	Total Value (KES Mn)	Number of Trades
IFB1/2023/7Yr	6.91	15.84%	14.79%	3,553.45	283
FXD 1/2023/3Yr	2.81	14.23%	16.21%	3,526.50	23
FXD1/2013/15Yr	4.56	11.25%	16.49%	3,000.00	22
FXD 1/2021/5Yr	3.31	11.28%	16.15%	1,200.00	2
FXD1/2022/025	24.26	14.19%	15.63%	684.10	13

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 23/24.

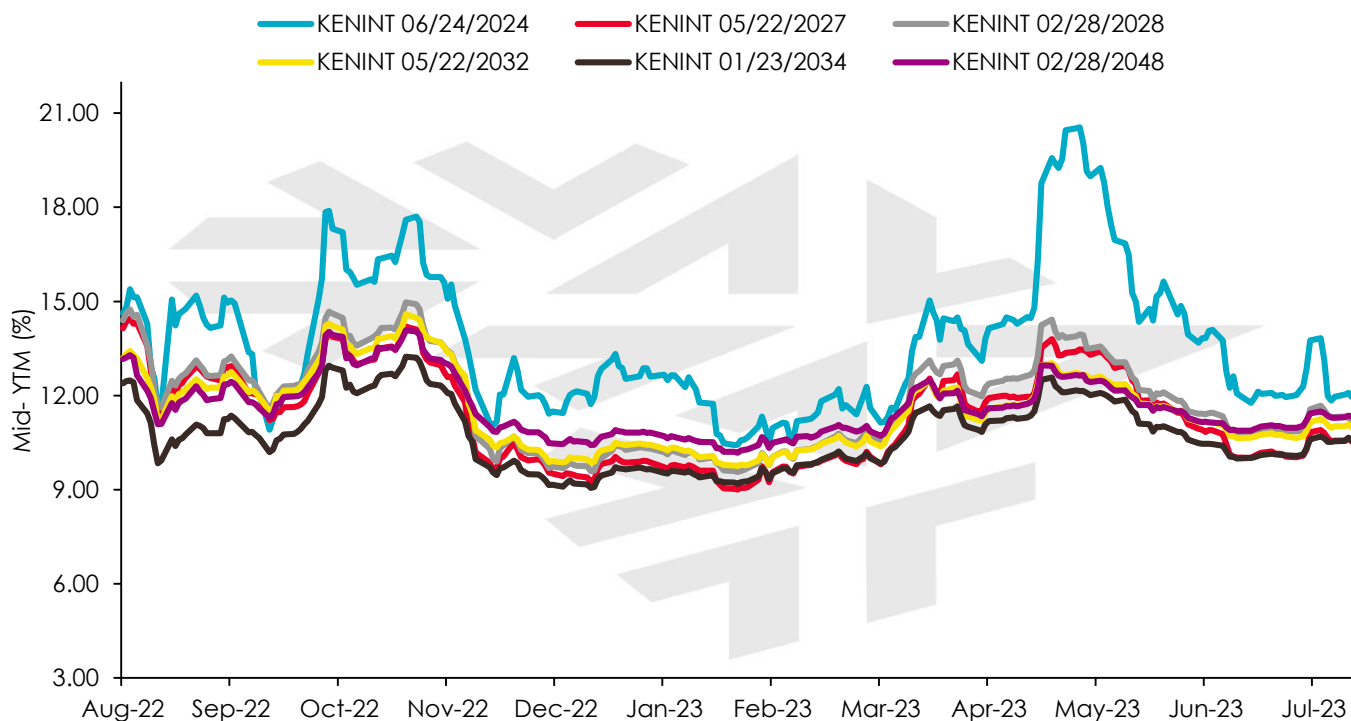


Source: NSE, NCBA IB Research

Kenya International Debt Yield Curves:

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

KENINT 2024, whose principal amounts to **USD 2.0Bn** matures in **June 2024** and is currently trading at **12.26%**, up from 11.96% in the previous week.



Source: Bloomberg, NCBA IB Research

Macroeconomic Developments:

Fitch Rating

Fitch Rating Agency downgraded the Outlook on Kenya's **Long-Term Foreign Currency Issuer Default Rating (IDR)** to **Negative** from **Stable**. The downward rating reflects heightened external financing constraints with high funding requirements especially with the USD 2.0Bn bond maturing in 2024, weakening international reserves and rising financing costs.

Additionally, the ongoing uncertainty in fiscal trajectory with a court injunction on the implementation of new tax hikes amidst social unrests has contributed to the revised outlook.

The rating balances Kenya's high government debt and external indebtedness and narrow revenue base against commitments to fiscal consolidation measures supported by the IMF.

Liquidity conditions in the interbank space tightened. Indicatively, the overnight **interbank rate** increased by 180.7 bps week on week to close at **10.40%**. The average daily traded volumes increased to **KES 21.77Bn** from KES 17.67Bn observed in the previous week.

Statistic	Current	Previous	change (bps)
CBR	10.50%	9.50%	100.0
Inflation	7.90%	8.00%	(10.0)
Average Interbank Rate	10.40%	8.60%	180.77

Source: CBK, NCBA IB Research

Fiscal Tracker-June 2023

The total revenue collected as reported by the National treasury stood at **KES 3,244.79Bn** which represents **89.63%** achievement of the revised estimates. Net domestic borrowing stood at **KES 696.4Bn** against a revised target of **KES 948.11Bn** in the FY 22/23 budget.

The total expenditure increased by **KES 164.40Bn** to **KES 3,242.79Bn** compared to **KES 3,078.39Bn** in 2022 same period. This is largely attributable to the increase in recurrent expenditure by **KES 15.66Bn** to **KES 1,221.57Bn** and county government expenditure by **KES 59.20Bn** to **KES 399.6Bn**.

The increase in the recurrent expenditure continue to hamper government's efforts of achieving fiscal deficit to GDP of 4.4% projection for FY'23/2024.

	22/23 FY Revised Budget	Jun-22	Jun-23	Variance (YoY)	Variance FY Budget	Variance FY Budget
INCOME(KES Bn)						
Total Tax Income	2,079.84	1,839.47	1,961.97	122.50	(117.86)	(5.67%)
Total Non-Tax Income	65.56	78.44	82.00	3.56	16.44	25.07%
Net Domestic Borrowing	948.11	877.04	696.40	(180.64)	(251.70)	(26.55%)
External Loans and Grants	513.42	239.61	488.31	248.70	(25.11)	(4.89%)
Other Domestic Financing	13.23	23.16	16.10	(7.06)	2.88	21.75%
Total Revenue	3,620.15	3,057.72	3,244.79	187.07	(375.36)	(10.37%)

EXPENDITURE(KES Bn)						
Recurrent	1,268.81	1,205.91	1,221.57	15.66	(47.24)	(3.72%)
CFS	1,577.74	1,191.07	1,313.59	122.52	(264.15)	(16.74%)
Development	374.00	341.01	308.03	(32.97)	(65.97)	(17.64%)
County Government	399.60	340.40	399.60	59.20	-	0.00%
Total Expenditure	3,620.15	3,078.39	3,242.79	164.40	(377.36)	(10.42%)

Balances at end month		0.62	2.62	2.00		
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Source: National Treasury, NCBA IB Research

Currency

On the FX front, the shilling ceded **7.76 cents** to the greenback, closing at **141.77/141.67** on Friday. With the average estimated **daily loss** now at **13.33 cents**, we anticipate the shilling will break the 150 –mark by end of year.

Year to date, the Kenya shilling has depreciated by **12.94% 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.

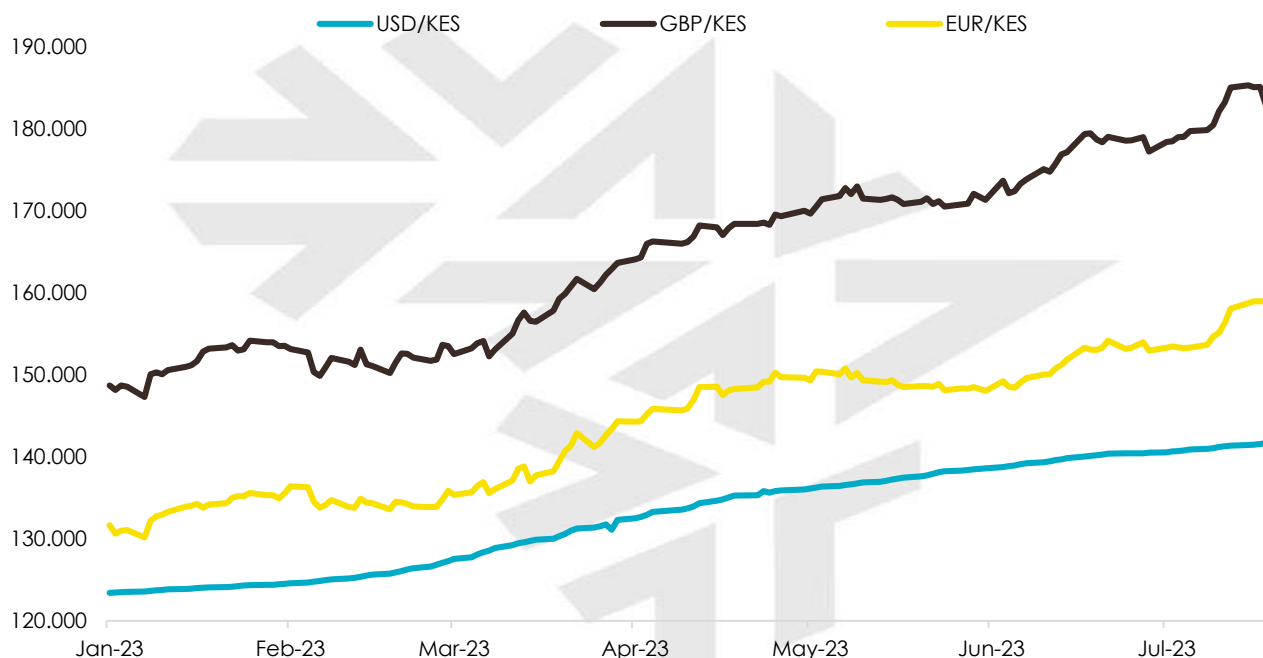
Foreign exchange reserves increased by **0.4%** week on week to close at **US \$7,885.0Mn**. Following an inflow from World bank under the development policy operation and the **US \$500.0Mn** syndicated loan, the reserves represent **4.31 months** of import cover which meets CBK's statutory requirement of at least 4 months of import cover.

The **DXY** increased to close at **101.30** from 101.08 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 29	Week 28	w/w change (%)
US Dollar	141.77	141.38	(0.3%)
STG Pound	182.51	185.06	1.4%
EURO	158.99	158.08	(0.6%)
Forex reserves (USD Mn)	7,885.00	7,481.00	5.4%

Negative () = Depreciation, Positive = Appreciation



Source: CBK, NCBA IB Research

Kenya Government Debt Maturities Schedule – July 2023:

The government has total domestic debt maturities of **KES 180.96Bn** for the month of July 2023 compared to **KES 156.85Bn** for June 2023.

The **high debt maturities** have seen **aggressive domestic borrowing** as seen with the government appetite for treasury bills and the bonds market with the government offering a tap sale for the July bonds, FXDI/2023/05 and the re-opened FXD1/2016/10.

Going forward, we expect the **robust government activity** in the local market attributable to elevated debt obligations hence continued upsurge in the yields.

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
FXD1/2014/010	July 17, 2023	0.53	35,852.15	12.18%	2,183.40	12.2330%
FXD1/2017/010	July 24, 2023	4.05	65,495.14	12.97%	4,246.05	16.4921%
FXD1/2019/015	July 24, 2023	10.55	79,096.85	12.86%	5,084.74	14.8128%
FXD3/2019/015	July 24, 2023	11.05	53,919.80	12.34%	3,326.85	14.8462%
FXD2/2018/020	July 24, 2023	15.05	89,198.60	13.20%	5,887.11	14.7538%
IFB1/2018/015	July 24, 2023	9.55	41,184.80	12.50%	2,574.05	13.6550%
IFB1/2021/016	July 24, 2023	13.55	80,958.35	12.26%	4,961.53	13.5125%
Total					28,263.73	

Treasury Bills	
Payment Date	Amount KES 'Mn
July 3, 2023	5,460.43
July 10, 2023	38,115.32
July 17, 2023	43,393.98
July 24, 2023	46,449.95
July 31, 2023	19,276.04
Total	152,695.72

Source: CBK, NCBA IB Research

About NCBA Investment Bank

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