

BIDDING GUIDE: RE-OPENED FXD1/2023/2 AND FXD1/2016/010



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 **FXD1/2023/002** and **FXD1/2016/010** seeking to raise a total of KES 35.0Bn for FY 2023/2024 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 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 Number	Re-opened FXD1/2023/002	Re-opened FXD1/2016/010
Tenor	1.9 years	2.9 years
Period of Sale	01/09/2023 to 13/09/2023	
Value Date	18-Sept-23	
Redemption Date	18 August 2025	17 August 2026
Coupon (%)	16.9723%	15.0390%
Bidding Guide	17.30% - 17.90%	17.90% - 18.50%

Source: NSE, NCBA IB Research

Yields of comparable papers on tenor;

Issue No.	Tenor to Maturity	Outstanding Amount Shs' Mn.	Fixed Coupon Rate	Implied Yield To Maturity
FXD1/2023/002	1.97	29,003.09	16.9723%	16.9723%
FXD1/2016/010	2.97	65,277.06	15.0390%	17.4926%

Source: NSE, NCBA IB Research

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INVESTMENT CASE

Demand

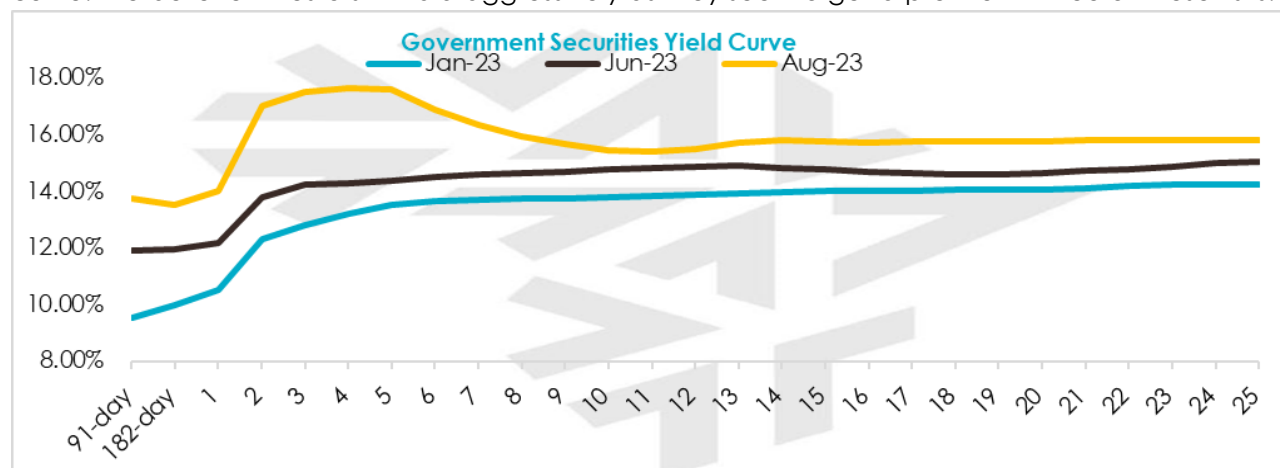
The auction performance will be driven by investors' interest rate expectations and the government's appetite for funds to plug into the new financial year budget.

We expect the paper to exhibit a high subscription rate in line with the previous bond auction as investors seek a high return and the papers' relatively short tenors.

Interest rates

The MPC maintained the **CBR rate** to **10.50%** in its August Sitting, the decision comes after observing a decline in **inflation** last month the overall year on year Inflation for the month of August eased to **6.7%** from 7.3% in July falling within the Central Bank's target range of **2.5%-7.5%**. The slowdown was mainly on the back of food and Non-alcoholic beverages index declining by 0.5% from July.

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: NSE, NCBA IB Research

Budget Support

The Treasury lowered the **domestic borrowing target** for the current financial year by KES 162Bn. Treasury now targets KES 313.7Bn from the domestic market in the current financial year, up from the KES 475.0Bn prescribed in the Supplementary Budget tabled earlier in the year. The upward revision in the domestic borrowing target comes as the government shifts its focus on domestic debt from the issuance of long-term instruments to more short and medium-term ones to align with investor appetite and realize the borrowing target for the period ending June 30 2024.

Debt distress

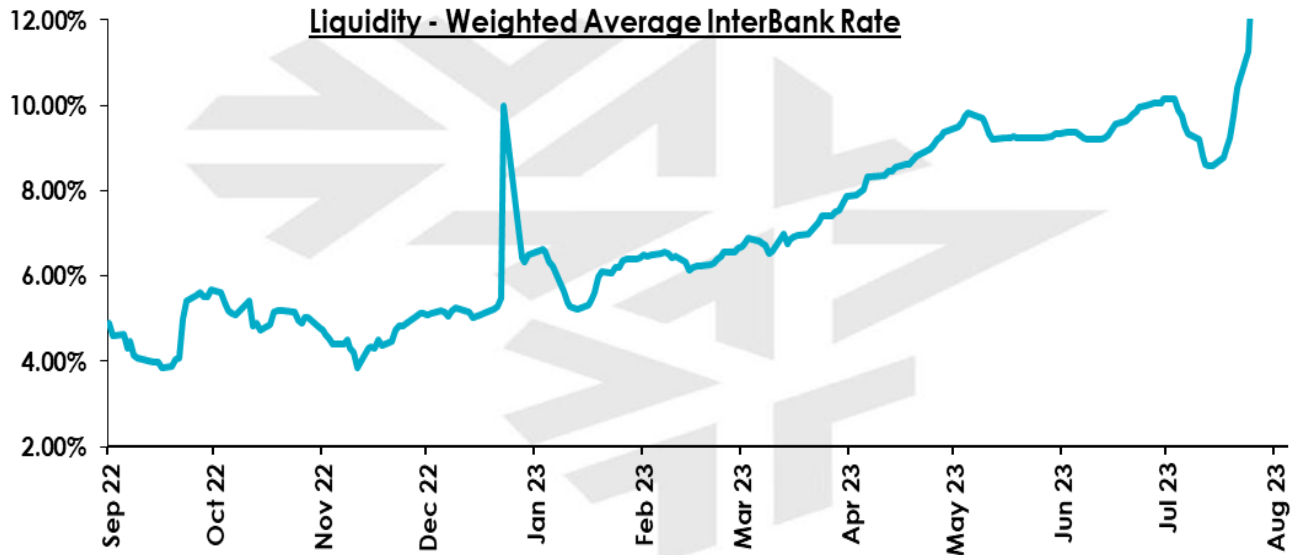
The government has experienced a liquidity crunch that has led to a delay in some of its recurrent expenditure payments. Investors have exhibited an averseness to investment in long-term bonds as witnessed in the recent long tenured auctions.

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Liquidity

Liquidity conditions in the interbank space tightened in the month of August'23. Indicatively, the overnight interbank rate rose by 165bps month on month to close at 12.40%. Moreover, the average daily traded volumes increased to KES 25.32Bn from KES 15.03Bn observed in the previous month.

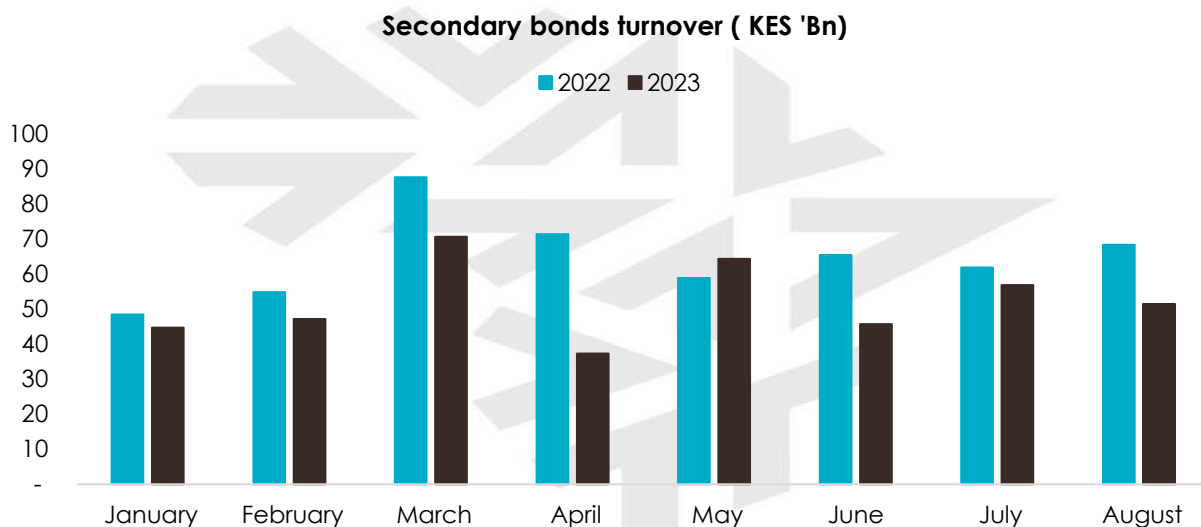


Source: CBK, NCBA IB Research

Secondary Market:

In the secondary bonds market, total bond turnover remains relatively low. The market continues to remain illiquid as investors continue to stay out.

Bond turnover decreased to **KES 51.51Bn** from KES 56.84Bn recorded in July 2023. Trading is concentrated on **short term papers** as investors seek to minimize duration risk.



Source: CBK, NCBA IB Research

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KENYA GOVERNMENT DEBT MATURITIES SCHEDULE (SEPTEMBER 2023)

The government has total domestic debt maturities of **KES 83.05Bn** in the month of September 2023 compared to KES 183.24Bn in August 2023.

We expect robust government activity in the local market attributable to elevated debt obligations which will consequently lead to an upsurge in 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
FXD1/2010/015	September 11, 2023	1.51	27,693.90	10.25%	1,419.31	16.0053%
FXD1/2012/015	September 11, 2023	4.01	90,939.90	11.00%	5,001.69	17.6253%
IFB1/2021/021	September 11, 2023	19.01	106,742.20	12.74%	6,797.88	15.5113%
IFB1/2023/017	September 11, 2023	16.51	68,705.36	14.40%	4,946.44	15.5904%
FXD1/2016/020	September 18, 2023	13.03	12,761.20	14.00%	893.28	15.7028%
FXD1/2018/020	September 18, 2023	14.53	94,515.60	13.20%	6,238.03	15.7551%
IFB1/2011/012	September 18, 2023	0.03	11,735.50	12.00%	704.13	10.0000%
IFB1/2013/012	September 18, 2023	2.03	16,060.21	11.00%	883.31	12.8350%
IFB1/2015/012	September 18, 2023	3.53	33,486.55	11.00%	1,841.76	12.6250%
IFB1/2019/025	September 18, 2023	20.53	16,828.65	12.20%	1,026.55	13.9500%
Total					29,752.39	

Treasury Bills	
Payment Date	Amount KES 'Mn
September 4, 2023	11,361.35
September 11, 2023	12,751.69
September 18, 2023	20,328.03
September 25, 2023	8,856.87
Total	53,297.94

Source: CBK, 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.

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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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