

BIDDING GUIDE: RE-OPENED FXD1/2023/2 AND FXD1/2023/5



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 **FXD1/2023/005** 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 FXD1/2023/005
Tenor	1.9 years	4.8 years
Period of Sale	2/10/2023 to 11/10/2023	
Value Date	16 th October 2023	
Redemption Date	18 August 2025	10 July 2028
Coupon (%)	16.972%	16.844%
Bidding Guide	17.50% - 18.09%	18.00% - 18.59%

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	1.89	44,045.71	16.9723%	17.3581%
FXD1/2023/05	4.79	48,623.10	15.0390%	17.4073%
FXD1/2018/10	4.89	40,584.60	12.6860%	17.3559%

Source: NSE, NCBA IB Research

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INVESTMENT CASE

Demand

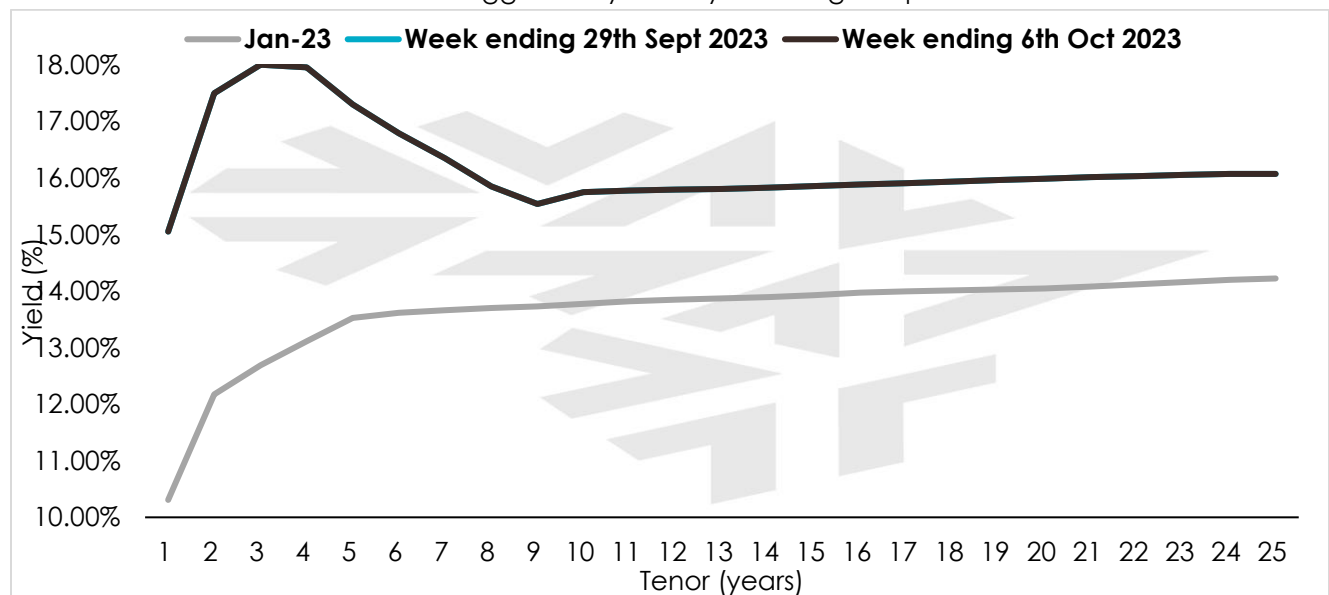
The auction performance will be driven by investors' interest rate expectations and the government's appetite for funds to plug into the new financial year budget.

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 October Sitting, the decision comes after observing that inflation is expected to remain within the target range and the expected decline in NFNF inflation. The headline inflation for the month of September increased marginally to 6.8% from 6.7% recorded in August 2023 mainly on the back of increases in prices of commodities. The committee also noted that the impact of June 2023 hike is still transmitting in the economy.

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, down from the KES 475.0Bn prescribed in the Supplementary Budget tabled earlier in the year. This 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.

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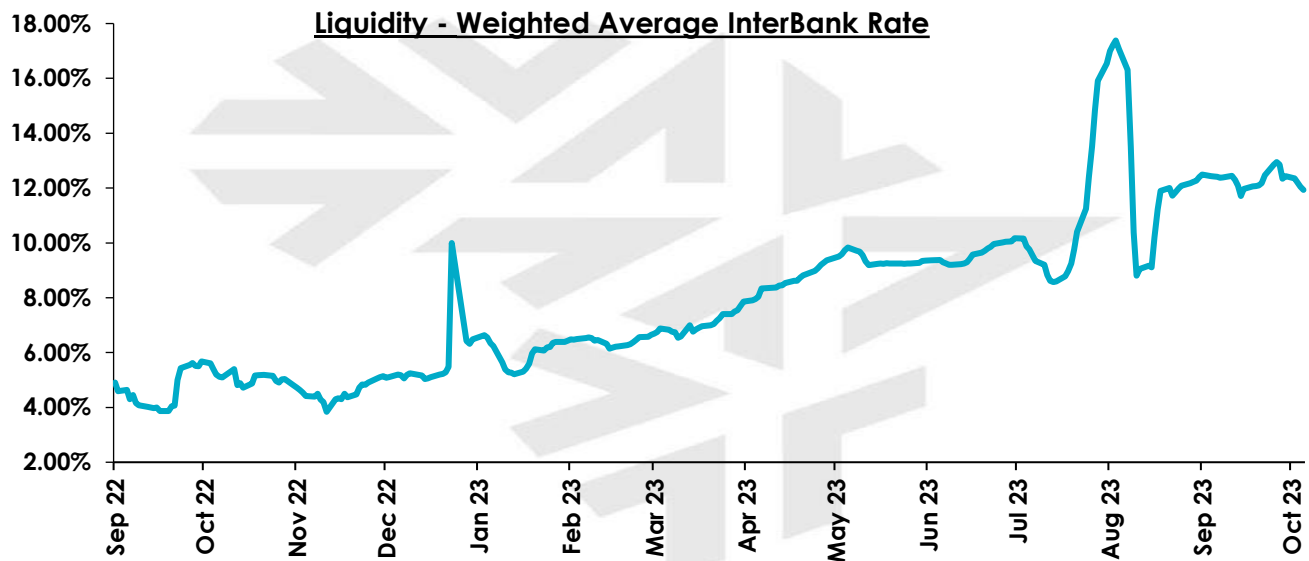
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Debt distress

The government has experienced a liquidity crunch given the high debt service. Investors have also exhibited an averseness to investment in long-term bonds as witnessed in the recent long tenured auctions.

Liquidity

Liquidity conditions in the interbank space tightened in September. Indicatively, the overnight interbank rate rose by 3.6bps month on month to close at 12.44%. Moreover, the average daily traded volumes increased to KES 27.51Bn from KES 25.32Bn observed in the previous month.



Source; CBK, NCBA IB Research

Secondary Market:

Bond turnover Increased to **KES 88.73Bn** from KES 50.62Bn recorded in August 2023. Trading is concentrated on **short term papers** as investors seek to minimize duration risk.

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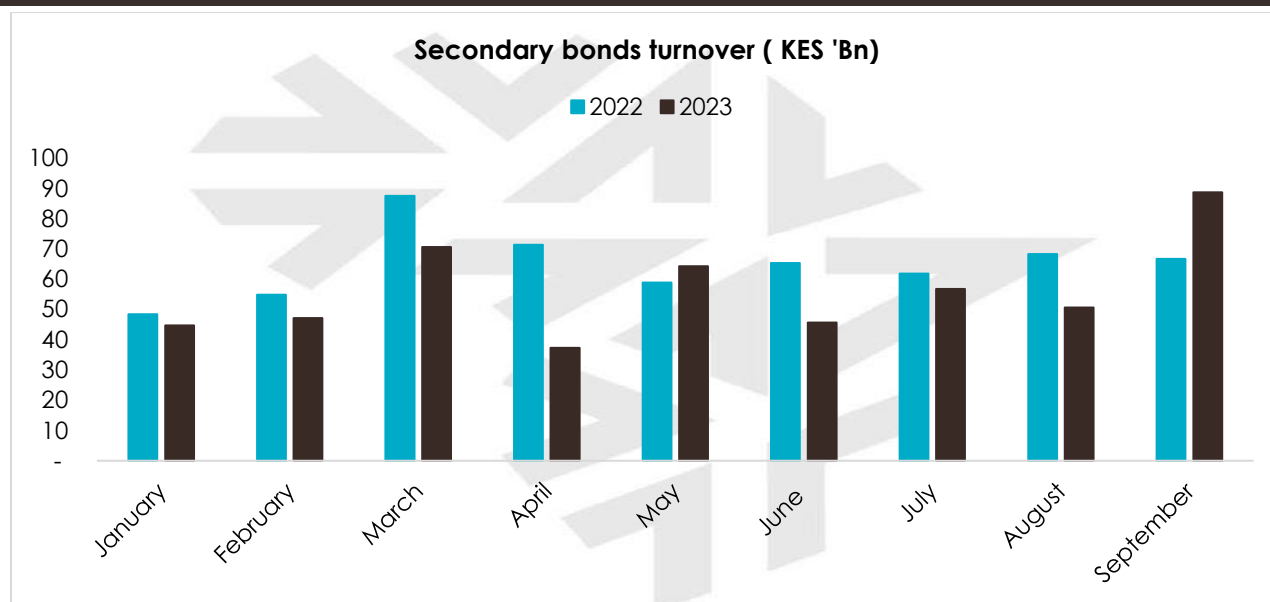
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Source: CBK, NCBA IB Research

KENYA GOVERNMENT DEBT MATURITIES SCHEDULE (OCTOBER 2023)

The government has total domestic debt maturities of **KES 161.30Bn** in the month of October 2023 compared to **KES 83.05Bn** in September 2023.

We expect **robust government activity** in the local market.

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
FXD1/2009/015	October 9, 2023	1.03	31,952.45	12.50%	1,997.03	15.4060%
FXD1/2022/003	October 9, 2023	1.53	60,594.09	11.77%	3,564.75	16.6919%
FXD2/2019/010	October 9, 2023	5.53	60,725.30	12.30%	3,734.61	17.0131%
IFB1/2020/009	October 9, 2023	5.53	78,973.60	10.85%	4,284.32	14.3000%
FXD1/2019/020	October 9, 2023	15.53	83,350.00	12.87%	5,364.82	15.8206%
IFB1/2021/018	October 9, 2023	15.53	81,785.60	12.67%	5,179.89	14.9029%
IFB1/2014/012	October 16, 2023	3.05	16,631.48	11.00%	914.73	12.5525%
FXD2/2013/015	October 16, 2023	4.55	70,859.75	12.00%	4,251.59	17.5745%
IFB1/2016/015	October 16, 2023	8.05	30,004.70	12.00%	1,800.28	14.3600%
FXD2/2018/015	October 16, 2023	10.05	33,411.70	12.75%	2,130.00	15.7496%
IFB1/2019/016	October 23, 2023	12.07	71,028.55	11.75%	4,172.93	14.8500%
FXD1/2022/015	October 23, 2023	13.57	68,200.07	13.94%	4,754.23	15.7494%
FXD1/2022/025	October 23, 2023	24.07	20,699.83	14.19%	1,468.45	16.0583%
Total					43,617.61	

Treasury Bills

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Payment Date	Amount KES 'Mn
October 2, 2023	7,287.62
October 9, 2023	28,680.19
October 16, 2023	39,005.20
October 23, 2023	31,429.96
October 30, 2023	11,280.08
Total	117,683.05

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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