

BIDDING GUIDE: RE-OPENED FXD1/2023/05 AND FXD1/2024/03



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 **FXD1/2023/005** and **FXD1/2024/003** 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 FXD1/2023/005	FXD1/2024/003
Tenor	4.6 years	3.0 years
Period of Sale	14th Dec 2023 to 10th Jan 2024	
Value Date	15 th January 2024	
Redemption Date	10 July 2028	11 January 2027
Coupon (%)	16.844%	Market Determined
Bidding Guide	18.8%- 19.5%%	18.5%% - 19.0%

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
FXD1/2021/005	2.87	66,075.85	11.2770%	17.9913%
FXD1/2023/005	4.54	50,134.20	16.8440%	17.8854%
FXD1/2018/010	4.64	40,584.60	12.6860%	17.7872%

Source: NSE, NCBA IB Research

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INVESTMENT CASE

Demand

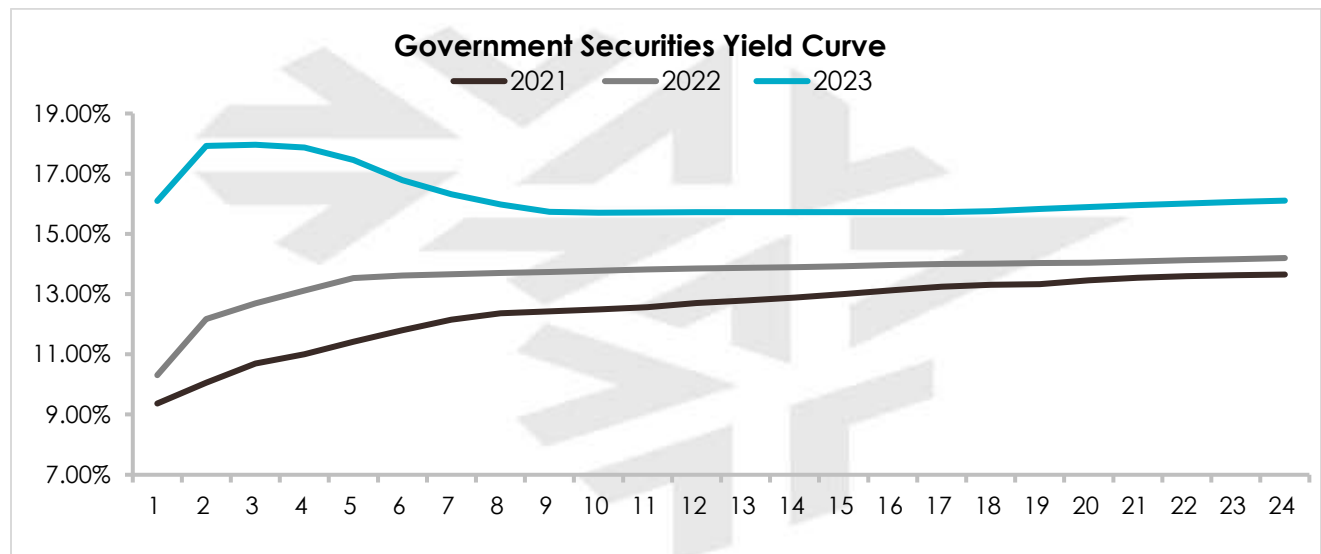
The auction performance will be driven by investors' interest rate expectations and the Government's appetite for funds to plug into the new financial year budget.

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

Interest rates

The MPC raised the **CBR rate to 12.5%** in its December Sitting, citing the need to alleviate the pressures on the forex exchange and mitigate second round effects including from global prices. The inflation for December 2023 eased to 6.6% from 6.8% 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 following heavy rainfall and agricultural input subsidies.

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 increased the **domestic borrowing target** for the current financial year to KES 471.36Bn from the KES 415.3Bn in the original budget. 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.

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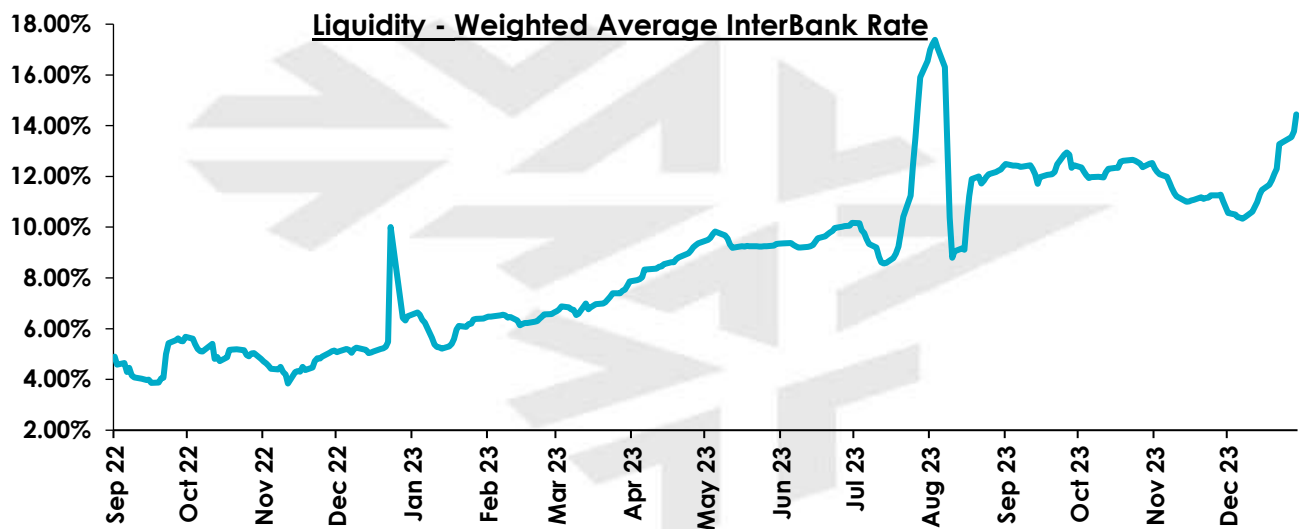
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Debt distress

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.

Liquidity

Liquidity conditions in the interbank space tightened in the month of December'23. Indicatively, the overnight interbank rate rose by 339.75bps month on month to close at 14.44%. Moreover, the average daily traded volumes increased to KES 26.17Bn from KES 18.00Bn 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.

However, bond turnover increased to **KES 54.35Bn** in December 2023 from KES 47.23Bn recorded in the previous month. Trading is concentrated on **short term papers** as investors seek to minimize duration risk.

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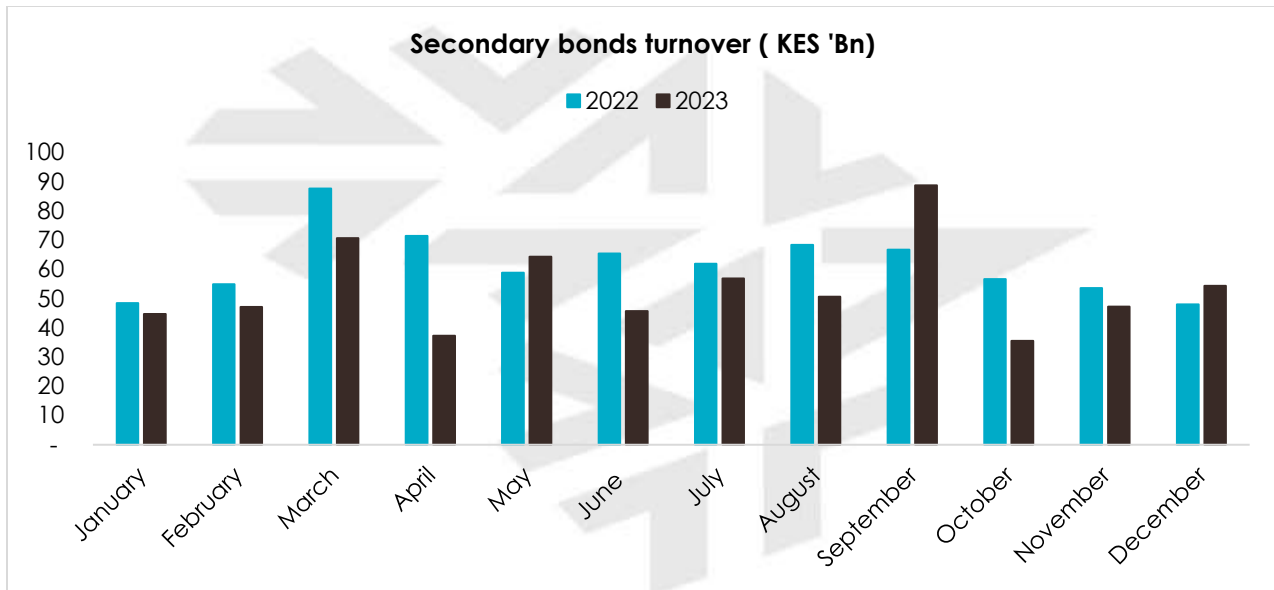
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Source: CBK, NCBA IB Research

KENYA GOVERNMENT DEBT MATURITIES SCHEDULE (January 2024)

The government has total domestic debt maturities of **KES 157.75Bn** in the month of January 2024 compared to KES 150.99Bn in December 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
FXD1/2014/010	January 15, 2024	0.03	35,852.15	12.18%	2,183.40	15.0412%
FXD1/2023/005	January 15, 2024	4.53	50,134.20	16.84%	4,222.30	17.8854%
FXD1/2017/010	January 22, 2024	3.55	65,974.90	12.97%	4,277.15	17.8611%
FXD1/2019/015	January 22, 2024	10.05	79,096.85	12.86%	5,084.74	15.7048%
FXD3/2019/015	January 22, 2024	10.55	53,919.80	12.34%	3,326.85	15.7088%
FXD2/2018/020	January 22, 2024	14.55	89,198.60	13.20%	5,887.11	15.7253%
IFB1/2018/015	January 22, 2024	9.05	41,184.80	12.50%	2,574.05	13.6500%
IFB1/2021/016	January 22, 2024	13.05	80,958.35	12.26%	4,961.53	15.3851%
Total					32,517.13	

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Treasury Bills	
Payment Date	Amount KES 'Mn
January 1, 2024	6,295.54
January 8, 2024	29,866.43
January 15, 2024	41,314.26
January 22, 2024	32,249.79
January 29, 2024	15,510.20
Total	125,236.22

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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