

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 new infrastructure Treasury bond **IFB1/2024/8.5** seeking to raise a total of KES 70.0Bn for funding of Infrastructure projects in the FY2023/2024 budget estimates.

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:

Bond Offer	
Issue	IFB1/2024/8.5
Tenor to Maturity	8.5
Redemption date	09-Aug-32
Coupon Rate	Market Determined
Offered Amount (KES Bn)	70.00
Opening Date	24-Jan-24
Closing date	14-Feb-24
Value Date	19-Feb-24
Taxation	Tax - free
Minimum Amount	50,000.00
Bidding Guide	18.80% - 19.50%

Source: CBK, NCBA IB Research

Comparable IFB Papers and their trading statistics in January 2024:

Bond issue	Turnover	High Yield	Low yield	No of deals	Coupon
IFB1/2023/6.5	24.36Bn	19.09%	12.45%	868	17.9327%
IFB1/2023/007	3.15Bn	18.84%	14.30%	176	15.8370%
IFB1/2022/018	0.69Bn	19.00%	16.70%	112	13.7420%
IFB1/2023/017	0.79Bn	20.00%	14.57%	83	14.3990%

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 infrastructure bond auction as investors seek a high tax-exempt return and the paper's relatively short tenor.

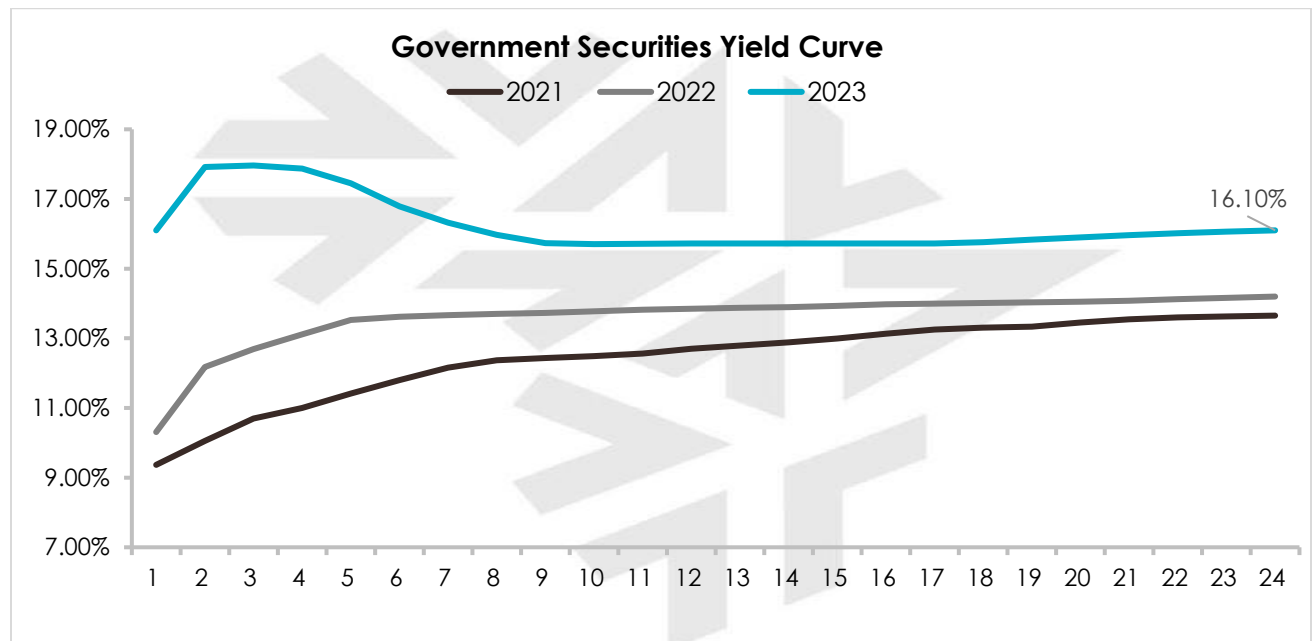
Interest rates

The MPC raised the **CBR rate to 13.00%** in its February Sitting, citing the need to adjust the pressures on the forex exchange and mitigate second round effects from global prices.

Relatedly, inflation for January 2024 increased to 6.9% from 6.6% which is still within the Central Bank's target range of **2.5%-7.5%**. Consumer prices climbed at their quickest rate in four months, owing to increased expenses on education, energy, apparel, financing, and resumed upward pressure on food prices.

We expect interest rates to continue in their upward adjustment as investors price in the Central Bank rate hike and surging inflationary pressures.

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

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Budget Support

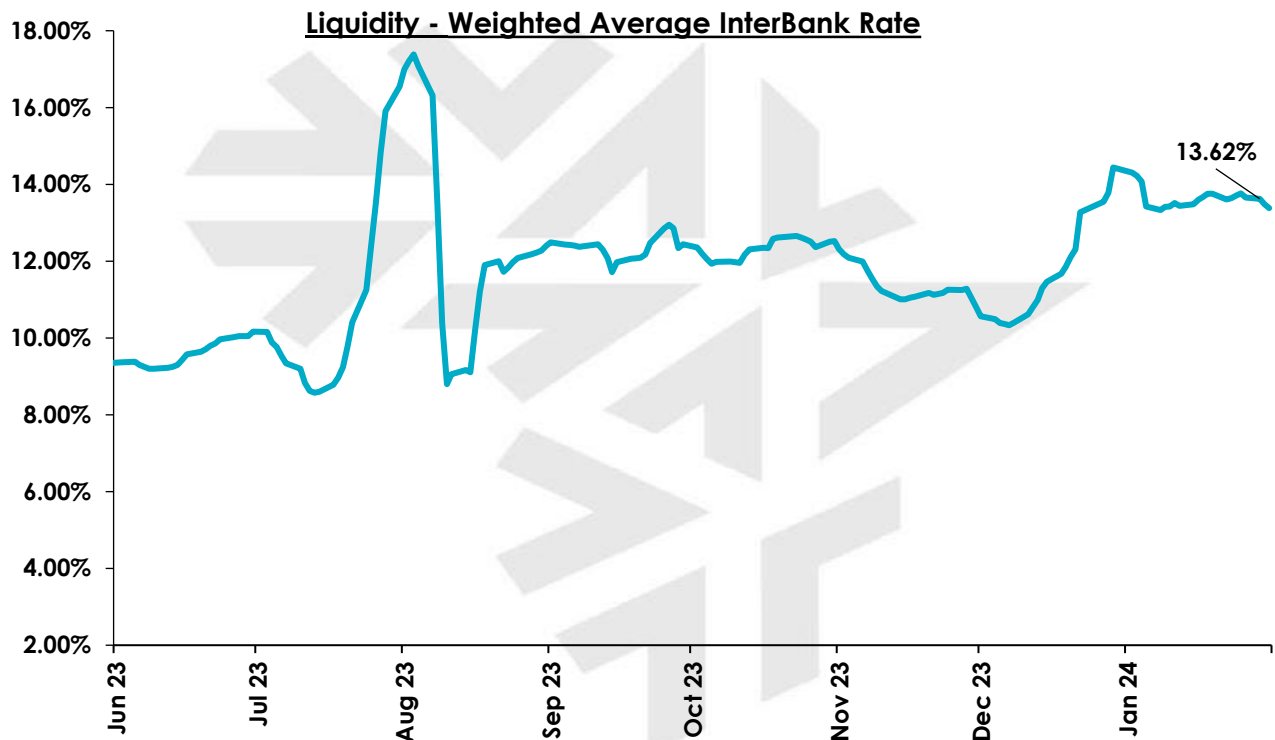
The Treasury increased the **domestic borrowing target** for the current financial year to KES 471.36Bn from the KES 415.3Bn in the original budget. The upward revision in the domestic borrowing target comes as the government shifts its focus on domestic debt from the issuance of long-term instruments to more short and medium-term ones to align with investor appetite and realize the borrowing target for the period ending June 30 2024.

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 January. Indicatively, the overnight interbank rate increased by 194bps month on month to close at 13.48%. However, the average daily traded volumes decreased to KES 19.57Bn from KES 26.01Bn observed in the previous month.



Source: CBK, NCBA IB Research

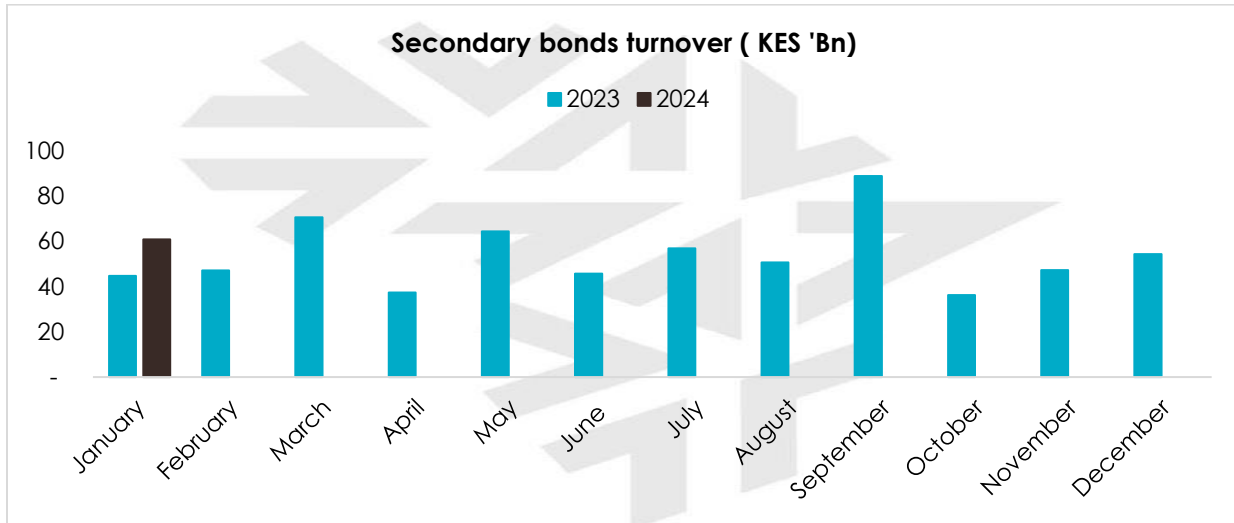
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Secondary Market:

In the secondary bonds market, total bond turnover remains relatively low. We believe the paper is likely to attract foreign investors into the local market

However, bond turnover increased to **KES 60.80Bn** in January 2024 from KES 54.35Bn in December 2023. Trading is concentrated on **short term papers** as investors seek to minimize duration risk.



Source: CBK, NCBA IB Research

KENYA GOVERNMENT DEBT MATURITIES SCHEDULE (February 2024)

The government has total domestic debt maturities of **KES 250.28Bn** in the month of February 2024 compared to **KES 193.61Bn** in January 2024. We expect **robust government activity** in the local market.

Treasury Bills	
Payment Date	Amount KES 'Mn
February 5, 2024	36,395.23
February 12, 2024	46,709.62
February 19, 2024	43,299.23
February 26, 2024	28,642.66
Total	155,046.74

Source: CBK, NCBA IB Research

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Treasury Bond Maturities					
Issue No.	Maturity Date	Tenor to Maturity	Fixed Coupon Rate	Outstanding Amount KES 'Mn	Implied Yield To Maturity
FXD1/2019/005	February 19, 2024	0.05	11.30%	65,359.50	16.0925%
Total				65,359.50	

Source: CBK, NCBA IB Research

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
FXD1/2019/005	February 19, 2024	0.05	65,359.50	11.30%	3,694.12	16.0925%
FXD1/2023/002	February 19, 2024	1.55	50,604.40	16.97%	4,294.37	17.8000%
FXD1/2016/010	February 19, 2024	2.55	74,495.75	15.04%	5,601.71	18.1246%
FXD1/2013/015	February 12, 2024	4.03	82,473.25	11.25%	4,639.12	18.6932%
FXD1/2018/010	February 19, 2024	4.55	40,584.60	12.69%	2,574.28	18.6668%
FXD1/2019/010	February 19, 2024	5.05	67,524.85	12.44%	4,199.37	18.0576%
FXD3/2019/010	February 12, 2024	5.53	68,743.45	11.52%	3,958.59	17.5779%
FXD1/2023/010	February 12, 2024	9.03	12,886.51	14.15%	911.79	15.8629%
FXD1/2020/015	February 19, 2024	11.05	73,156.30	12.76%	4,665.91	15.7130%
SDB1/2011/030	February 12, 2024	17.03	28,144.70	12.00%	1,688.68	15.8109%
FXD1/2021/020	February 12, 2024	17.53	75,984.00	13.44%	5,107.64	15.8231%
IFB1/2017/012	February 19, 2024	5.05	11,402.85	12.50%	712.68	12.9000%
IFB1/2020/011	February 19, 2024	7.55	80,249.60	10.90%	4,373.60	15.0250%
IFB1/2022/019	February 19, 2024	17.05	98,377.55	12.97%	6,377.32	14.2750%
Total					29,873.34	

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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- (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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