

BIDDING GUIDE: Re-opened FXD1/2023/05 & FXD1/2024/10



The Central Bank of Kenya, in its capacity as a fiscal agent for the Republic of Kenya is offering an opportunity to invest in two papers **FXD1/2023/05(Re-opened)** and **FXD1/2024/10(New)** seeking to raise **KES 40.00 Bn** for budgetary support for FY 2023/2024 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	FXD1/2023/05 (Re-opened)	FXD1/2024/10 (New)
Tenor to Maturity	4.4 Yrs.	10.00 Yrs.
Redemption date	11-Jul-28	13-Mar-34
Coupon Rate	16.844%	16.000%
Offered Amount (KES Bn)	40.0	
Closing date	20-Mar-24	20-Mar-24
Value Date	25-Mar-24	25-Mar-24
Taxation	15%	10%
Minimum Amount	50,000.00	
Bidding Guide	18.4% - 18.9%	Conservative: 16.7% - 17.5% Aggressive: 18.0% - 18.50

Source: CBK, NCBA IB Research

Comparable Papers:

1. FXD1/2023/05(Re-opened)

Issue No.	Tenor to Maturity	Outstanding Amount Shs'M.	Fixed Coupon Rate	Implied Yield to Maturity
FXD1/2023/005	4.35	55,496.50	16.8440%	18.4614%
FXD1/2018/010	4.45	40,584.60	12.6860%	18.4211%

Source: NSE, NCBA IB Research

2. FXD1/2024/10

Issue No.	Tenor to Maturity	Outstanding Amount Shs'M.	Fixed Coupon Rate	Implied Yield to Maturity
FXD1/2019/015	9.87	79,096.85	12.8570%	15.9167%
FXD2/2019/015	10.16	81,644.75	12.7340%	15.8047%
FXD3/2019/015	10.37	53,919.80	12.3400%	15.8850%

Source: NSE, NCBA IB Research

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INVESTMENT CASE

Demand

we anticipate moderate subscription for FXD1/2023/05 and FXD1/2024/10

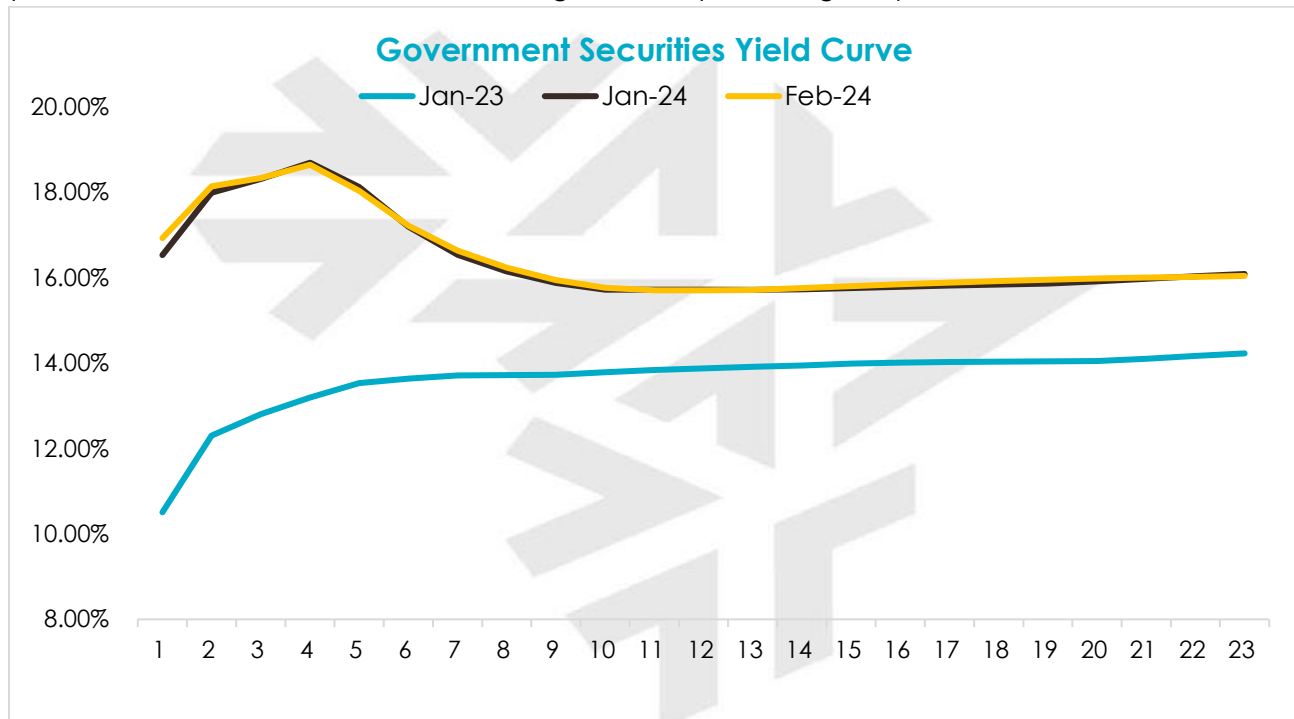
Interest rates

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 February 2024 eased to 6.3% from 6.9% which is still within the Central Bank's target range of **2.5%-7.5%**. The decline was on the back of slow down in food and housing indices coupled with the moderation of fuel prices during the period.

We expect interest rates to continue in their upward adjustment, though moderately, as investors price in the Central Bank rate and elevated inflationary pressures.

Yields across short-term tenors recorded continued rise leading to **sustained upward pressure** on the yield curve. We believe investors will bid higher as they seek to get a premium in lieu of these risks.



Source; NSE, NCBA IB Research

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Budget Support

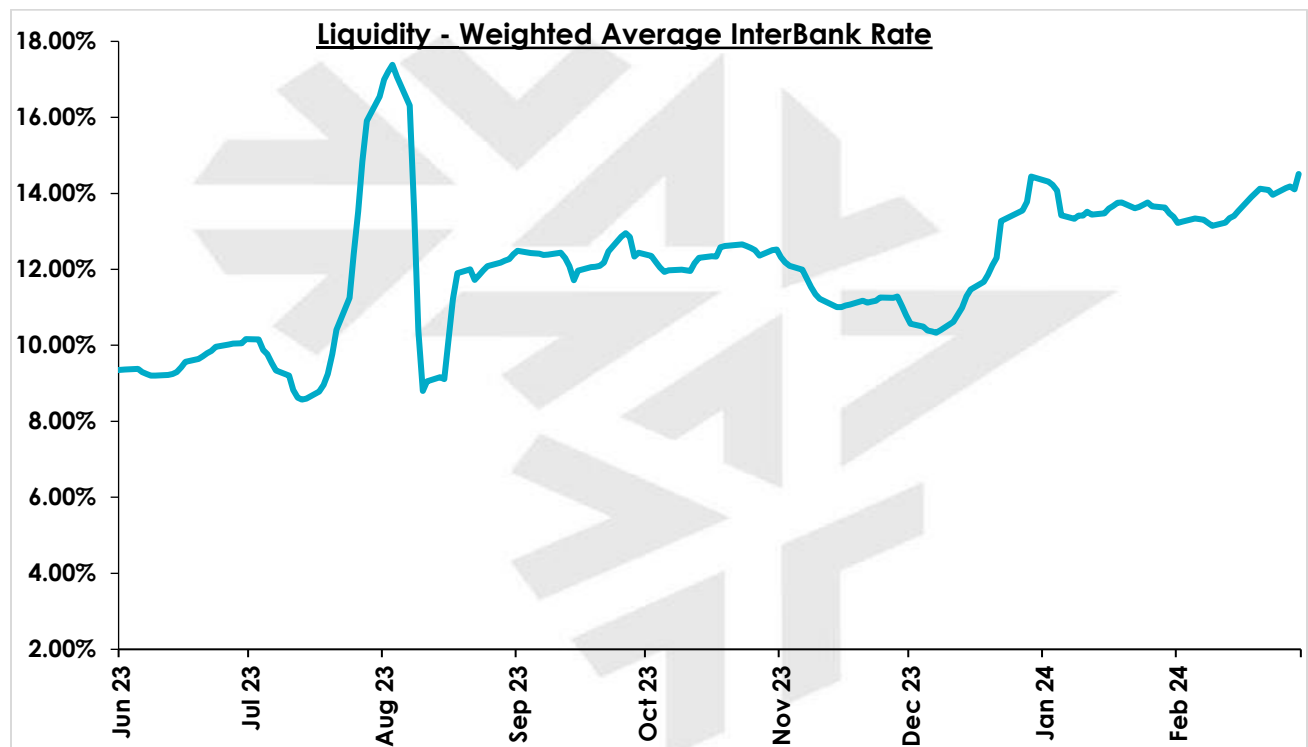
The Treasury increased the **domestic borrowing target** for the current financial year to KES 471.36Bn from the KES 415.3Bn in the original budget. The upward revision in the domestic borrowing target comes as the government shifts its focus on domestic debt from the issuance of long-term instruments to more short and medium-term ones to align with investor appetite and realize the borrowing target for the fiscal year 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 February 2024. Indicatively, the overnight interbank rate increased by 8.49bps month on month to close at 13.67%. The average daily traded volumes increased to KES 26Bn from KES 19.22Bn observed in the previous month.



Source; CBK, NCBA IB Research

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Secondary Market

Bond auction results | FXD1/2024/03

The Central Bank of Kenya received a total of **KES 43.07Bn** (107.69% Subscription rate), out of which it accepted **KES 34.27Bn** (79.56% Acceptance rate).

The paper is currently trading at 18.05%.

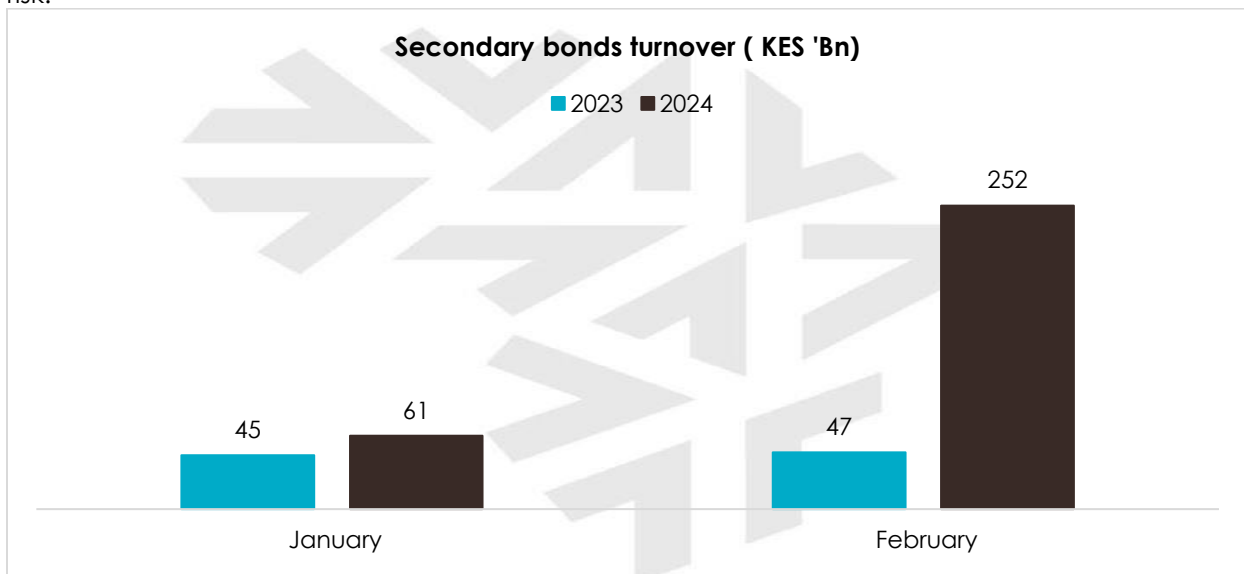
See below a summary of the Treasury bond auction results:

Issue	FXD1/2024/03
Tenor to Maturity	2.9
Offered Amount (KES Bn)	40.00
Bids Received (KES Bn)	43.07
Amount Accepted (KES Bn)	34.27
Market Weighted Average Rate (%)	18.516%
Weighted Average Rate of Accepted Bids (%)	18.422%
Adjusted Average Price (Per KES 100)	102.664
Coupon Rate (%)	18.385%

Source: NSE, NCBAIB Research

In the secondary bonds market, total bond turnover was relatively high in the month of February supported by robust activity in IFB1/2024/8.5.

However, bond turnover increased significantly to **KES 252Bn** in February 2024 from KES 61Bn in January 2024. 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 (March 2024)

The government has total domestic debt maturities of **KES 128.59Bn** in the month of March 2024 compared to **KES 273.21Bn** in February 2024. 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
FXD1/2010/015	March 11, 2024	1.02	27,693.90	10.25%	1,419.31
FXD1/2012/015	March 11, 2024	3.52	90,939.90	11.00%	5,001.69
IFB1/2021/021	March 11, 2024	18.52	106,742.20	12.74%	6,797.88
IFB1/2023/017	March 11, 2024	16.02	68,196.50	14.40%	4,909.81
FXD1/2016/020	March 18, 2024	12.54	12,761.20	14.00%	893.28
FXD1/2018/020	March 18, 2024	14.04	94,515.60	13.20%	6,238.03
IFB1/2013/012	March 18, 2024	1.54	16,060.21	11.00%	883.31
IFB1/2015/012	March 18, 2024	3.04	33,486.55	11.00%	1,841.76
IFB1/2019/025	March 18, 2024	20.04	16,828.65	12.20%	1,026.55
Total					29,011.62

Source: CBK, NCBA IB Research

Treasury Bills	
Payment Date	Amount KES 'Mn
March 4, 2024	23,704.37
March 11, 2024	38,188.44
March 18, 2024	18,668.67
March 25, 2024	19,019.41
Total	99,580.89

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

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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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