

# BIDDING GUIDE: Re-opened 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 participate in the Re-opened **FXD1/2024/10** seeking to raise **KES 25.0Bn** for budgetary support in the 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                   | <b>FXD1/2024/10 (Re-opened)</b> |
| Tenor to Maturity       | 9.90 Yrs.                       |
| Redemption date         | 13 March 2034                   |
| Coupon Rate             | <b>16.00%</b>                   |
| Offered Amount (KES Bn) | 25.0Bn                          |
| Period of sale          | 25-April-24 to 02 -May-24       |
| Taxation                | 10.0%                           |
| Minimum Amount          | 50,000.00                       |
| <b>Bidding Guide</b>    | <b>16.10% - 16.60%</b>          |

## Comparable Papers:

| Issue No.     | Tenor to Maturity | Outstanding Amount KES' Mn. | Fixed Coupon Rate | Implied Yield to Maturity |
|---------------|-------------------|-----------------------------|-------------------|---------------------------|
| FXD1/2019/015 | 9.74              | 79,096                      | 12.8570%          | 15.7393%                  |

Source: NSE, NCBA IB Research

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**INVESTMENT CASE**

**Demand**

We anticipate moderate subscription given its medium tenor and the attractive coupon.

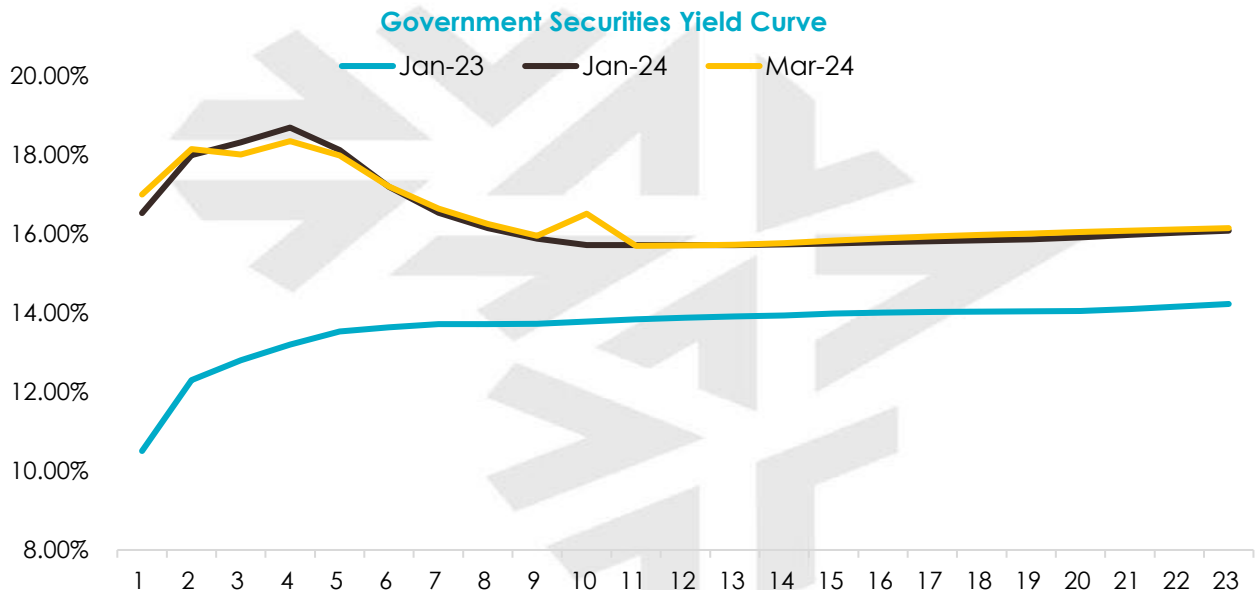
**Interest rates**

The Monetary Policy Committee retained the Central Bank Rate (CBR) at **13.00%** in its April meeting, citing the need to anchor inflationary pressures and the currency.

Yields on treasury bills declined marginally month-on-month. High subscription rates were recorded underpinning demand for short term papers. We believe investors will bid at moderate rates in the current interest rate environment.

| Prevailing rates | April 24 | Mar 24 | m/m change (bps) |
|------------------|----------|--------|------------------|
| 91 Day           | 15.82%   | 16.66% | (84)             |
| 182 Day          | 16.46%   | 16.85% | (39)             |
| 364 Day          | 16.49%   | 16.98% | (49)             |

Relatedly, Inflation in March eased to 5.7% from 6.3% in the previous month remaining within the Central Bank of Kenya (CBK) band of **2.5% - 7.5%**. The decline was on the back of lower food and fuel prices partly attributable to favorable weather conditions and appreciation of the KES against the US dollar. We expect inflation to sustain this downtrend in the near-term.



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## Budget Support

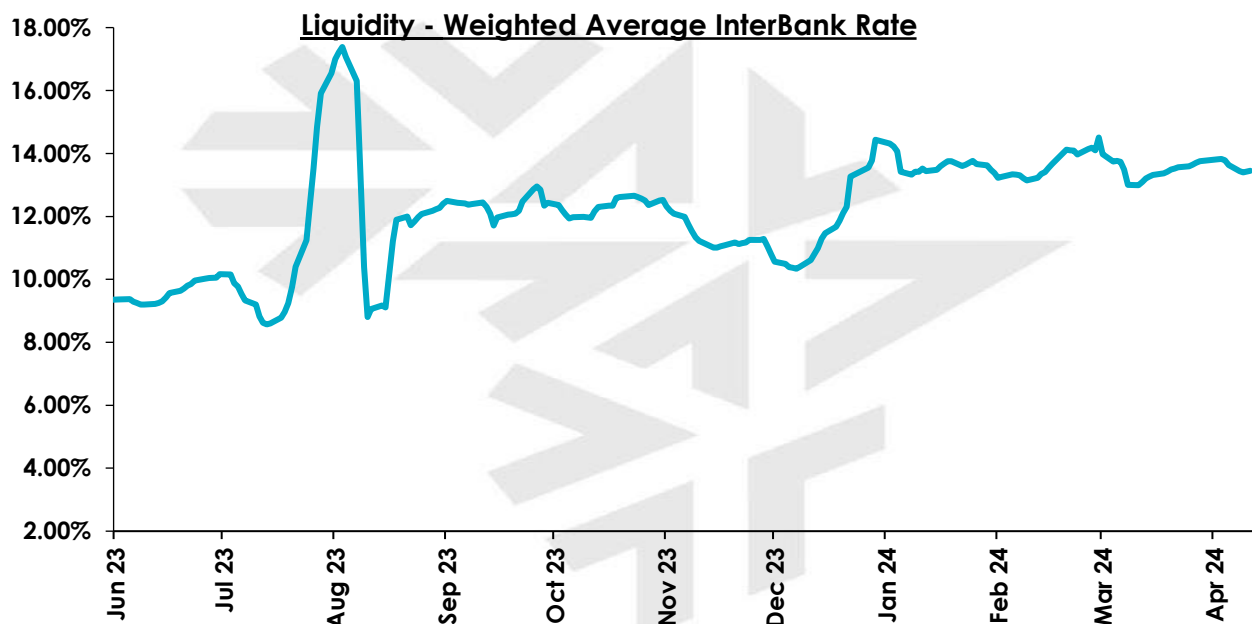
The Treasury increased the **domestic borrowing target** for the current financial year to KES 471.36Bn from the KES 415.3Bn in the original budget. The upward revision in the domestic borrowing target comes as the government shifts its focus on domestic debt from the issuance of long-term instruments 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 tightened in April. Indicatively, the overnight interbank rate increased by 19.63bps month on month to close at 13.91%. The average daily traded volumes however decreased to KES 22.25Bn from KES 25.70Bn recorded in the previous month.



Source: CBK, NCBA IB Research

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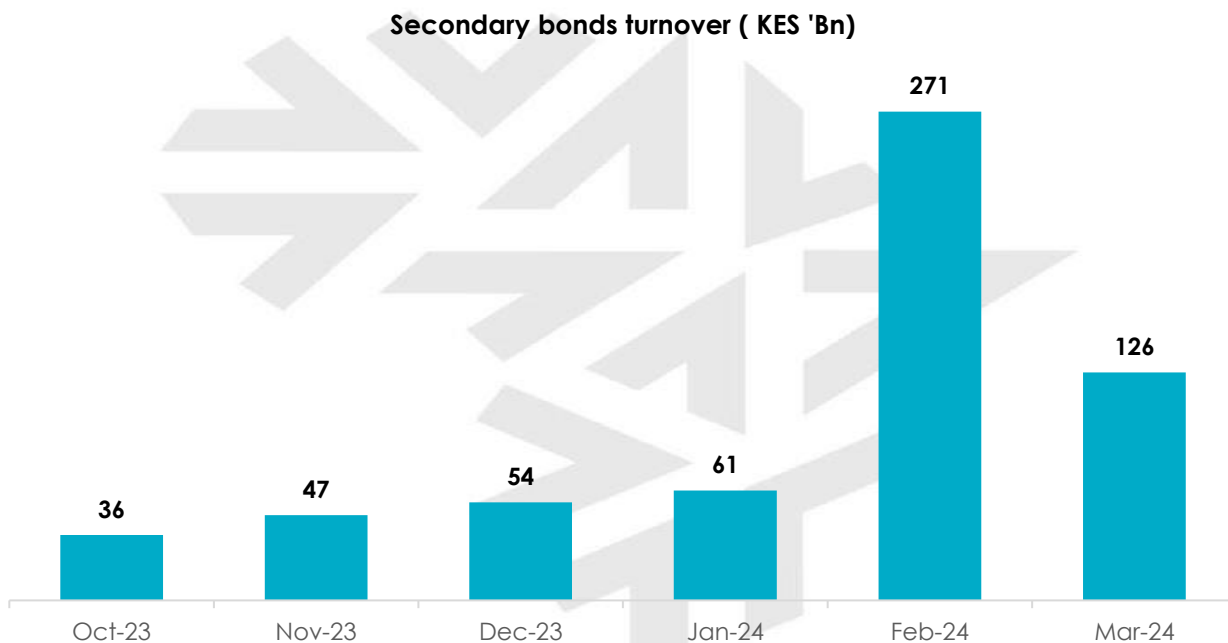
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**Secondary Market**

In the secondary bonds market, total bond turnover declined to KES 126Bn but remained relatively higher compared to the period Oct 23 - Jan24. Bond turnover in February 2024 was driven by the infrasture bond- IFB1/2024/8.5.

Trading is concentrated on **short term papers** as investors seek to minimize duration risk. However, investor's preference is seemingly turning to longer- dated bonds as they seek to lock in high returns.



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## Kenya Government Debt Maturities Schedule – May 2024:

The government has total domestic debt maturities of **KES 240.81Bn** in the month of May 2024 compared to **KES 174.27Bn** in April 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 |
| FXD2/2019/005   | May 6, 2024              | <b>0.02</b>       | 39,201.40                  | 10.87%            | 2,130.99               |
| FXD1/2020/005   | May 6, 2024              | <b>1.02</b>       | 104,518.70                 | 11.67%            | 6,097.10               |
| FXD2/2019/015   | May 6, 2024              | <b>10.02</b>      | 81,644.75                  | 12.73%            | 5,198.32               |
| FXD1/2021/025   | May 6, 2024              | <b>22.02</b>      | 90,490.00                  | 13.92%            | 6,299.91               |
| FXD1/2023/003   | May 13, 2024             | <b>2.04</b>       | 76,537.95                  | 14.23%            | 5,444.91               |
| FXD1/2021/005   | May 13, 2024             | <b>2.54</b>       | 66,075.85                  | 11.28%            | 3,725.69               |
| FXD1/2011/020   | May 13, 2024             | <b>7.04</b>       | 37,029.40                  | 10.00%            | 1,851.47               |
| FXD1/2022/010   | May 13, 2024             | <b>8.04</b>       | 60,705.30                  | 13.49%            | 4,094.57               |
| FXD1/2012/020   | May 13, 2024             | <b>8.54</b>       | 87,285.65                  | 12.00%            | 5,237.14               |
| IFB1/2016/009   | May 13, 2024             | <b>1.04</b>       | 19,925.79                  | 12.50%            | 1,245.36               |
| IFB1/2018/020   | May 13, 2024             | <b>14.54</b>      | 36,787.30                  | 11.95%            | 2,198.04               |
| IFB1/2022/014   | May 13, 2024             | <b>12.54</b>      | 94,258.60                  | 13.94%            | 6,568.88               |
| IFB1/2023/6.5   | May 13, 2024             | <b>6.04</b>       | 112,732.95                 | 17.93%            | 10,108.03              |
| FXD4/2019/010   | May 20, 2024             | <b>5.55</b>       | 89,972.85                  | 12.28%            | 5,524.33               |
| FXD1/2018/015   | May 20, 2024             | <b>9.05</b>       | 76,351.65                  | 12.65%            | 4,829.24               |
| IFB1/2017/007   | May 20, 2024             | <b>0.55</b>       | 21,262.25                  | 12.50%            | 1,328.89               |
| IFB1/2020/006   | May 27, 2024             | <b>2.07</b>       | 10,252.00                  | 10.20%            | 522.85                 |
| <b>Total</b>    |                          |                   |                            |                   | <b>72,405.73</b>       |

Source: CBK, NCBA IB Research

| Treasury Bond Maturities |               |                   |                   |                            |
|--------------------------|---------------|-------------------|-------------------|----------------------------|
| Issue No.                | Maturity Date | Tenor to Maturity | Fixed Coupon Rate | Outstanding Amount KES 'Mn |
| FXD2/2019/005            | May 6, 2024   | <b>0.02</b>       | 10.87%            | 39,201.40                  |
| <b>Total</b>             |               |                   |                   | <b>39,201.40</b>           |

Source: CBK, NCBA IB Research

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| Treasury Bills |                   |
|----------------|-------------------|
| Payment Date   | Amount KES 'Mn    |
| May 6, 2024    | 21,801.90         |
| May 13, 2024   | 53,712.04         |
| May 20, 2024   | 41,955.03         |
| May 27, 2024   | 11,735.02         |
| <b>Total</b>   | <b>129,203.99</b> |

Source: CBK, 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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- (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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