

BIDDING GUIDE: Re-opened FXD1/2023/002



The Central Bank of Kenya, in its capacity as a fiscal agent for the Republic of Kenya is offering an opportunity to invest in **FXD1/2023/002 (Re-opened)** 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	FXD1/2023/02 (Re-opened)
Tenor to Maturity	1.4 Yrs.
Redemption date	18 Aug 2025
Coupon Rate	16.9723%
Offered Amount (KES Bn)	40 Bn
Closing date	17 Apr 24
Value Date	22 Apr 24
Taxation	15%
Minimum Amount	50,000.00
Bidding Guide	17.4% - 17.9%

Comparable Papers:

Issue No.	Tenor to Maturity	Outstanding Amount KES' Mn.	Fixed Coupon Rate	Implied Yield to Maturity
FXD1/2020/005	1.07	104,518.70	11.667%	17.1764%
FXD2/2010/015	1.66	25,199.80	9.000%	17.9563%

Source: NSE, NCBA IB Research

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INVESTMENT CASE

Demand

We anticipate moderate subscription given its shorter-term tenor and the attractive coupon.

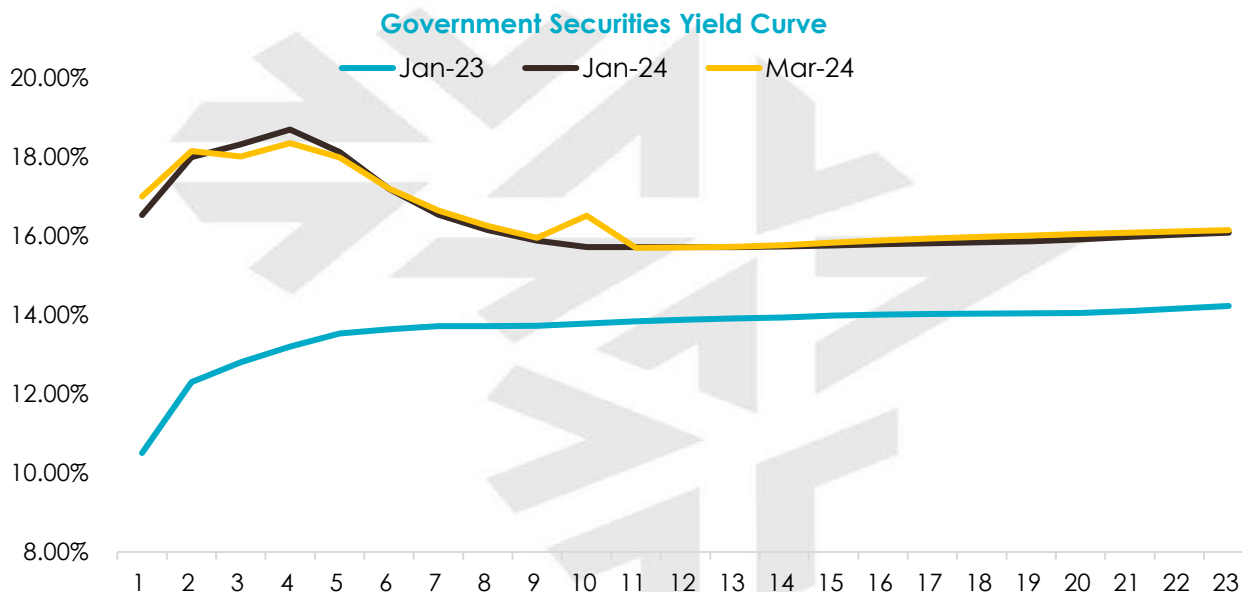
Interest rates

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	15.73%	16.66%	(93)
182 Day	16.87%	16.85%	2
364 Day	16.53%	16.98%	(45)

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

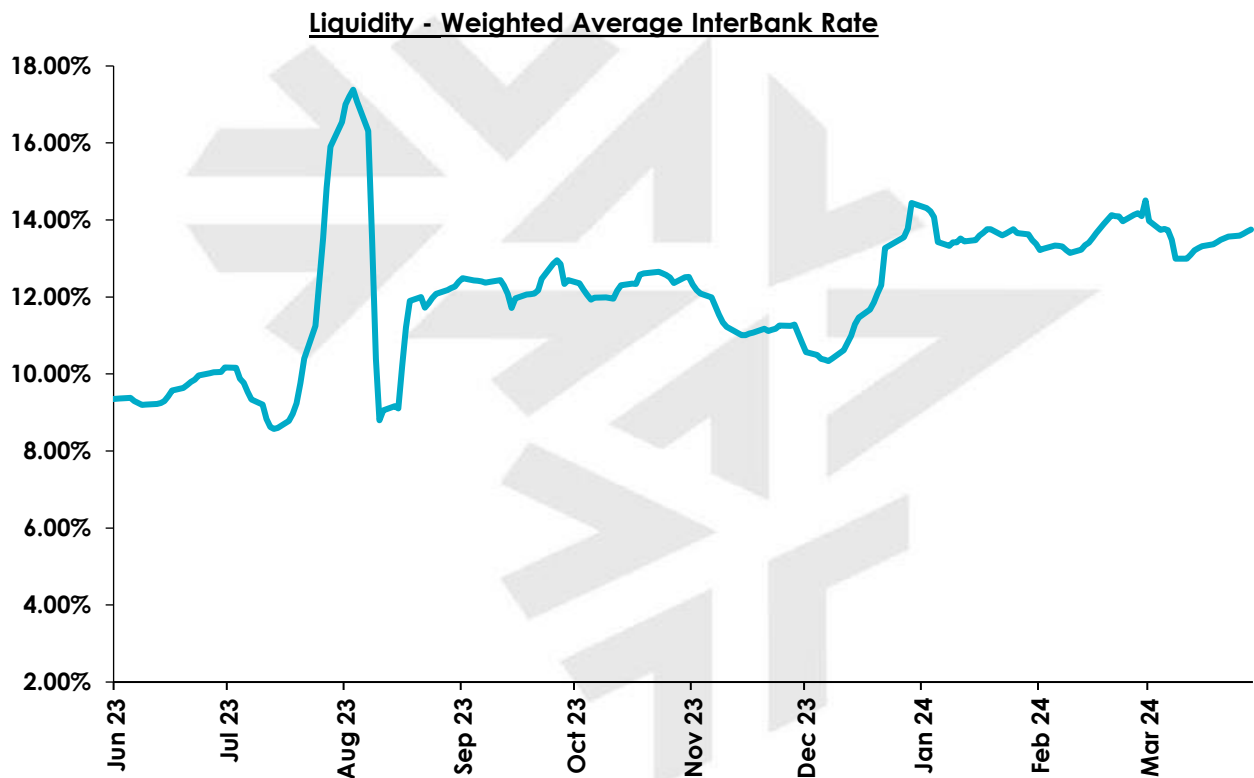
The Treasury increased the **domestic borrowing target** for the current financial year to KES 471.36Bn from the KES 415.3Bn in the original budget. The upward revision in the domestic borrowing target comes as the government shifts its focus on domestic debt from the issuance of long-term instruments 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 eased in March. Indicatively, the overnight interbank rate declined by 18.95bps month on month to close at 13.48%. The average daily traded volumes however increased to KES 26.64Bn from KES 26.00Bn recorded in the previous month.



Source: CBK, NCBA IB Research

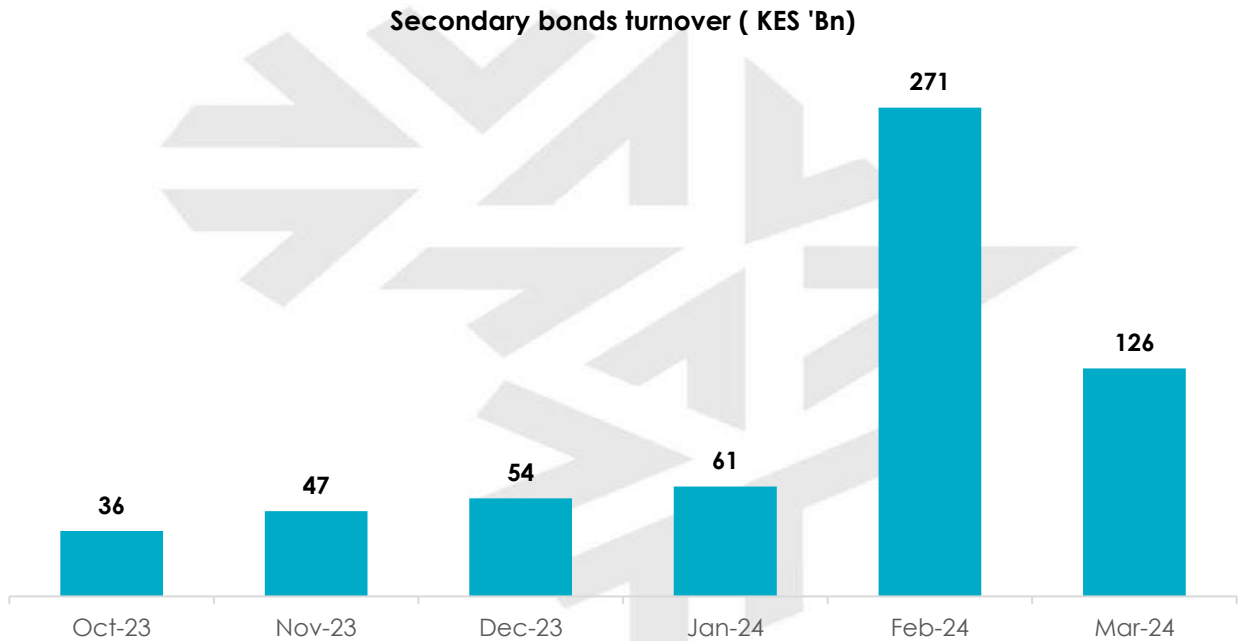
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Secondary Market

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 – April 2024:

The government has total domestic debt maturities of **KES 174.27Bn** in the month of April 2024 compared to **KES 128.59Bn** in March 2024. We expect **robust government activity** in the local market.

Treasury Bills	
Payment Date	Amount KES 'Mn
April 1, 2024	9,339.15
April 8, 2024	32,227.67
April 15, 2024	38,464.61
April 22, 2024	29,468.26
April 29, 2024	21,135.07
Total	130,634.76

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
FXD1/2009/015	April 8, 2024	0.52	31,952.45	12.50%	1,997.03
FXD1/2022/003	April 8, 2024	1.02	60,605.75	11.77%	3,565.44
FXD2/2013/015	April 15, 2024	4.03	70,859.75	12.00%	4,251.59
FXD2/2019/010	April 8, 2024	5.01	60,725.30	12.30%	3,734.61
FXD2/2018/015	April 15, 2024	9.52	33,411.70	12.75%	2,130.00
FXD1/2022/015	April 22, 2024	13.02	68,357.70	13.94%	4,765.22
FXD1/2019/020	April 8, 2024	14.98	83,350.00	12.87%	5,364.82
FXD1/2022/025	April 22, 2024	23.50	20,773.50	14.19%	1,473.67
IFB1/2014/012	April 15, 2024	2.53	16,631.48	11.00%	914.73
IFB1/2016/015	April 15, 2024	7.52	30,004.70	12.00%	1,800.28
IFB1/2019/016	April 22, 2024	11.53	71,028.55	11.75%	4,172.93
IFB1/2020/009	April 8, 2024	5.01	78,973.60	10.85%	4,284.32
IFB1/2021/018	April 8, 2024	14.98	81,785.60	12.67%	5,179.89
Total			43,634.51		

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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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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