# BIDDING GUIDE: Re-opened bond IFB1/2022/14 AND IFB1/2023/17

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 bonds **IFB1/2022/14** and **IFB1/2023/17** seeking to raise **KES 70.0Bn** for 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 | IFB1/2022/14 Re-opened | IFB1/2023/17 Re-opened |
|---|---|---|
| Tenor to Maturity | 11.8 Yrs | 15.1 Yrs |
| **Coupon Rate** | **13.94%** | **14.40%** |
| **Offered Amount (KES Bn)** | **70.00** | |
| Period of Sale | 23rd Jan 2025 to 12th Feb 2025 | |
| Value Date | **17th Feb 2025** | |
| Minimum Bidding Amount | KES 50,000.00 | |
| **Taxation** | **Tax free as is the case for Infrastructure Bonds** | |
| **Our Bidding Range** | **14.00%-14.50%** | **14.30%-14.80%** |

***Source: CBK, NCBA IB Research***

## Comparable Papers:

*Re-opened IFB1/2022/14*

| | Tenor to Maturity | Outstanding Amount Shs'M. | Fixed Coupon Rate | Implied Yield to Maturity |
|---|---|---|---|---|
| IFB1/2021/016 | 12.0 years | 80,958 | 12.2570% | 14.2708% |

*Re-opened IFB1/2023/17*

| | Tenor to Maturity | Outstanding Amount Shs 'M. | Fixed Coupon Rate | Implied Yield to Maturity |
|---|---|---|---|---|
| IFB1/2022/019 | 16.0 years | 98,377 | 12.9650% | 13.9000% |

***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 financial year budget.

We expect strong investor demand for the issuance, driven by the prevailing preference to secure higher interest rates, the tax-exempt nature of the bonds, and the desire to capitalize on the attractive coupon rates.

### Interest rates

The Monetary Policy Committee met on February 5th and decided to **lower** the Central Bank Rate (CBR) by 50bps to **10.75%,** and further lowered the **Cash Reserve Requirement** (CRR) by 100 basis points to **3.25%.** This decision is expected to enhance liquidity in the banking sector, potentially lowering the cost of funds and encouraging private sector lending

Notably, the full transmission of the downward revision of interest rates takes long - about 6-9 months - hence, lending rates could stay relatively elevated in Q1.

The downward trend in short-term Treasury bill yields has persisted into 2025, with the 91-day and 364-day papers declining, while the 182-day paper recorded a marginal increase m/m. However, the pace of decline is expected to be more gradual compared to the aggressive easing observed in 2024. We believe investors will bid at moderate rates in the current interest rate environment.

| Prevailing rates | Feb-25 | Jan-25 | M/M change (bps) |
|---|---|---|---|
| 91 Day | 9.522% | 9.594% | (7.16) |
| 182 Day | 10.028% | 10.025% | 0.22 |
| 364 Day | 11.313% | 11.334% | (2.10) |

***Source: CBK, NCBA IB Research***

### Bond Buyback.

The government has issued the first domestic bond buy back, after the Eurobond buyback in Feb 2024, with an intention to purchase **KES 50Bn** of KES 185.05Bn maturing in April and May.

Although unprecedented for the domestic primary market, a comparable approach was taken last year with a Eurobond, where a portion was repaid ahead of schedule to manage a substantial payment obligation. This buyback seems to follow a similar strategy, considering the significant maturities during that period.

**By repurchasing part of the debt in advance, the CBK aims to alleviate the repayment pressure.**

Participation in this process is entirely voluntary and limited to holders of the designated bonds, who have the option to sell either a portion or the entirety of their holdings

## Inflation.

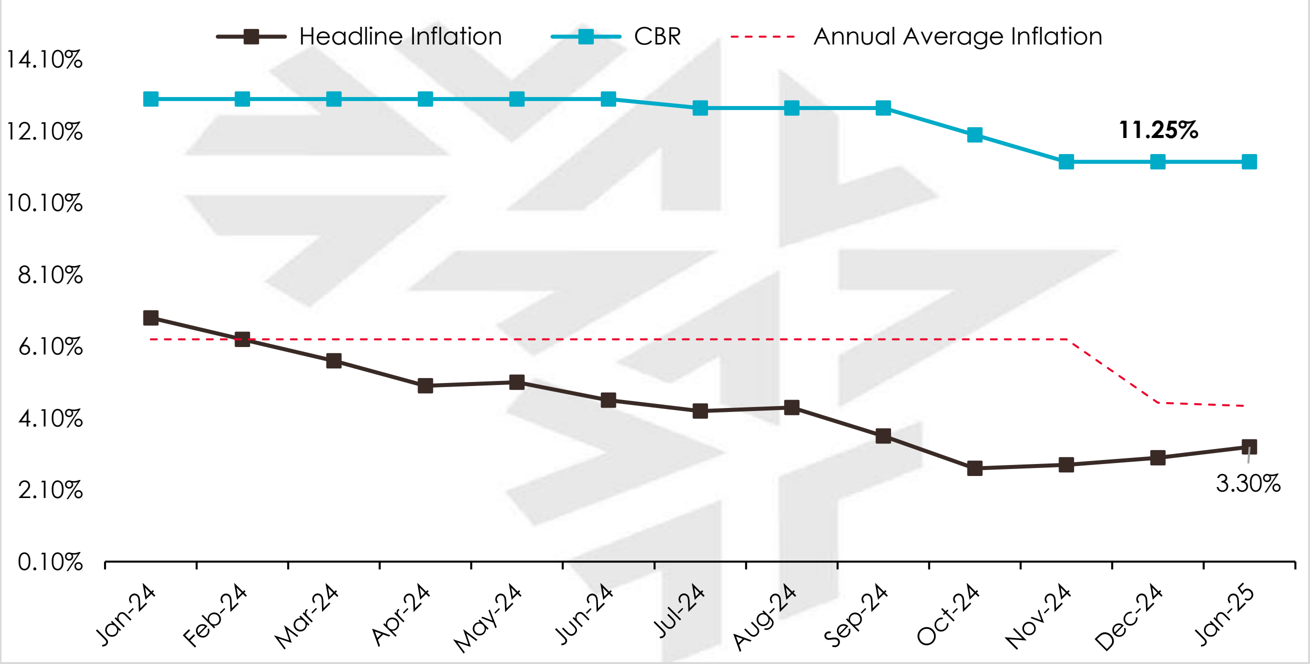
Kenya's headline inflation rate for January 2025 showed a slight increase, rising to **3.3%** from 3.0% in December 2024. Core inflation decreased to 2.0% from 2.2% in December, while non-core inflation surged to 7.1%, up from 5.2%.

The price increase was primarily driven by rising prices in the Food and Non-Alcoholic Beverages category (6.1%), and the Transport category (0.7%) over the same period. In contrast, prices in Housing, Water, Electricity, Gas and other fuels declined by 1.6 per cent. These three divisions together account for over 57% of the total weight across the 13 major expenditure categories.

Despite the marginal increase, we anticipate annual inflation rate to remain stable and within the midpoint of CBK's target range supported by stability in food prices and aided by declining global fuel prices.

| Statistic | Current | Previous | Change (bps) |
|---|---|---|---|
| CBR | 10.75% | 11.25% | (50.0) |
| Inflation | 3.30% | 3.00% | 30.0 |

***Source: CBK, NCBA IB Research***




***Source: CBK, KNBS, NCBA IB Research***

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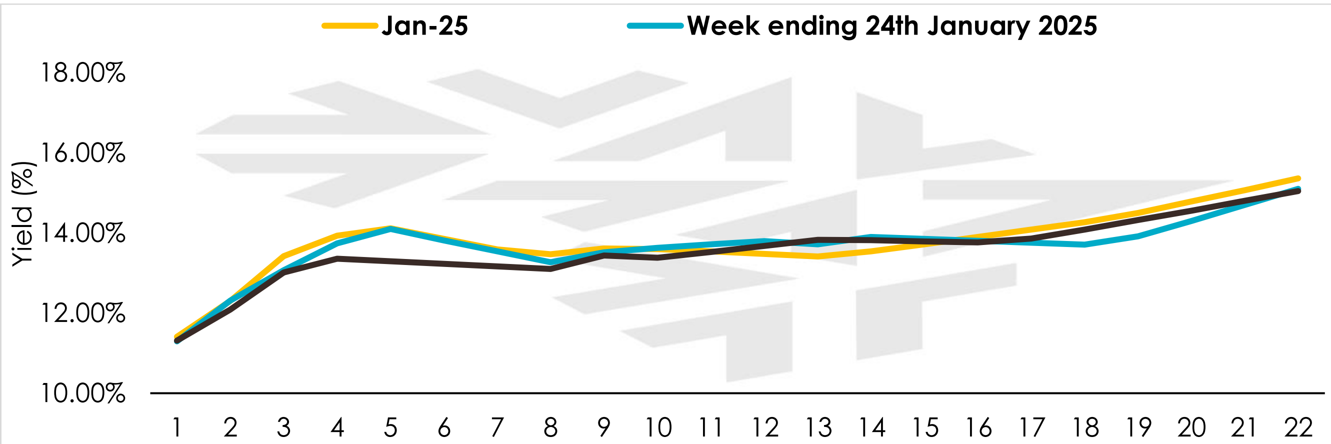
Yields on government securities are on a downward trajectory. We expect this trend to persist albeit at a slower pace as CBK continues with monetary easing measures.




***Source: NSE, NCBA IB Research***

## Liquidity

Liquidity conditions eased during the month. Indicatively, the overnight interbank rate declined by 15.88bps month on month to close at 11.26%. The average daily traded volumes declined to KES 27.14Bn from KES 37.76Bn recorded the previous month.

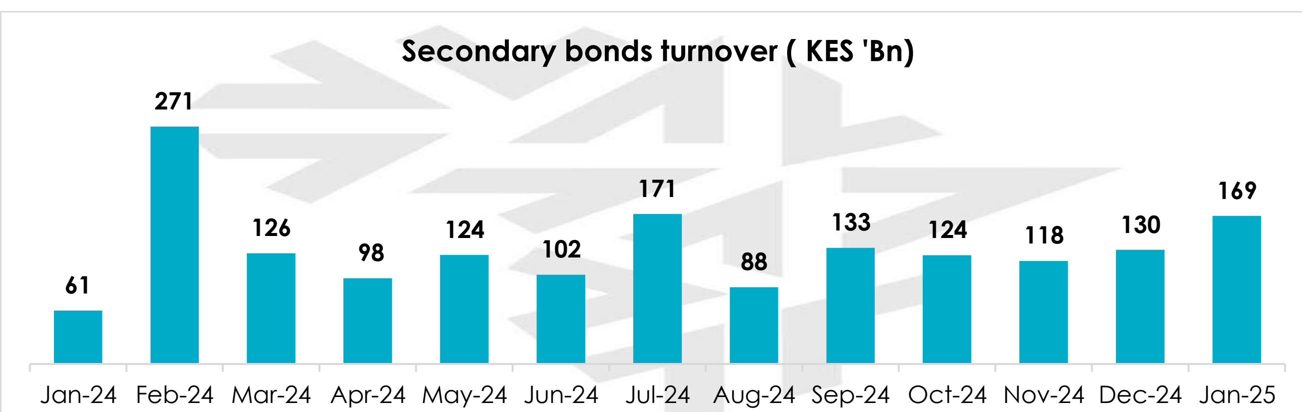
The reduction in the CRR, along with the anticipated continued liquidity support through open market operations, is expected to unlock increased liquidity within the banking sector.

| Statistic | Jan-25 | Dec-24 | Change (bps) |
|---|---|---|---|
| Average Interbank Rate | 11.26% | 11.42% | (15.88) |

***Source: CBK, KNBS, NCBA IB Research***

## Secondary Market

In the secondary bonds market, total bond turnover increased to **KES 169Bn** in January 2025 compared to KES 130Bn in December 2024 partially attributable to increased primary market bond activities.




***Source; CBK, NCBA IB Research***

## Kenya Government Debt Maturities Schedule – February 2025:

The government has total domestic debt maturities of **KES 181.88Bn** in the month of February 2025 compared to **KES 127.70Bn** in the month of January 2025. We expect robust government activity in the local market.

| Coupon payments | | | | | |
|---|---|---|---|---|---|
| Issue No. | Next Coupon Payment Date | Maturity date | Outstanding Amount KES 'Mn | Fixed Coupon Rate | Coupon payment KES 'Mn |
| FXD1/2013/015 | 10-Feb-25 | 25-Feb-13 | 82,473.25 | 11.25% | 4,639.12 |
| FXD3/2019/010 | 10-Feb-25 | 19-Aug-19 | 68,743.45 | 11.52% | 3,958.59 |
| FXD1/2023/010 | 10-Feb-25 | 13-Feb-23 | 73,595.17 | 14.15% | 5,207.23 |
| FXD1/2021/020 | 10-Feb-25 | 22-Jul-41 | 75,984.00 | 13.44% | 5,107.64 |
| FXD1/2023/002 | 17-Feb-25 | 18-Aug-25 | 94,638.05 | 16.97% | 8,031.13 |
| FXD1/2016/010 | 17-Feb-25 | 17-Aug-26 | 103,380.70 | 15.04% | 7,773.71 |
| FXD1/2018/010 | 17-Feb-25 | 14-Aug-28 | 40,584.60 | 12.69% | 2,574.28 |
| FXD1/2019/010 | 17-Feb-25 | 12-Feb-29 | 67,524.85 | 12.44% | 4,199.37 |
| FXD1/2020/015 | 17-Feb-25 | 5-Feb-35 | 73,156.30 | 12.76% | 4,665.91 |
| IFB1/2017/012 | 17-Feb-25 | 12-Feb-29 | 6,249.55 | 12.50% | 390.60 |
| IFB1/2020/011 | 17-Feb-25 | 11-Aug-31 | 80,249.60 | 10.90% | 4,373.60 |
| IFB1/2022/019 | 17-Feb-25 | 28-Jan-41 | 98,377.55 | 12.97% | 6,377.32 |
| IFB1/2024/8.5 | 17-Feb-25 | 9-Aug-32 | 240,334.85 | 18.46% | 22,183.75 |
| **Total** | | | | | **79,482.25** |

| Treasury Bills | |
|---|---|
| Payment Date | Amount KES 'Mn |
| February 3, 2025 | 19,330.00 |
| February 10, 2025 | 35,502.14 |
| February 17, 2025 | 20,010.57 |
| February 24, 2025 | 27,556.13 |
| **Total** | **102,398.84** |

***Source: NSE, NCBA IB Research***

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