

The Central bank of Kenya acting in its capacity as fiscal agent for the Republic of Kenya is offering an opportunity to participate in the re-opened bond **FXD1/2018/25** seeking to raise **KES 25.00Bn**.

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                          | FXD1/2018/25 Re-opened          |
|--------------------------------|---------------------------------|
| Tenor to Maturity              | 18.3 Yrs                        |
| <b>Offered Amount (KES Bn)</b> | <b>KES 25Bn</b>                 |
| <b>Coupon Rate</b>             | <b>13.40%</b>                   |
| Period of Sale                 | 21st Feb 2025 to 5th March 2025 |
| Value Date                     | <b>10th March 2025</b>          |
| Minimum Bidding Amount         | KES 50,000.00                   |
| Taxation                       | 10.00%                          |
| <b>Our Bidding Range</b>       | <b>13.60% to 13.95%</b>         |

Source: CBK, NCBA IB Research

## Comparable Papers:

|               | Tenor to Maturity | Outstanding Amount Shs'M. | Fixed Coupon Rate | Implied Yield to Maturity |
|---------------|-------------------|---------------------------|-------------------|---------------------------|
| FXD1/2021/020 | 16.4 Years        | 75,984.00                 | 13.4440%          | 12.9500%                  |

Source: NSE, NCBA IB Research

## INVESTMENT CASE

### Demand

The auction performance will be driven by investors shifting their focus to longer-term papers to lock in current rates for an extended period. We expect moderate investor demand for the issuance, driven by ample liquidity in the market.

Since the onset of rate cuts, the market has experienced **oversubscriptions**, largely driven by investors reacting to capitalize on **higher rates before they stabilize**.

We anticipate this trend to continue in the upcoming auction, despite the government's cautious stance on issuing new debt instruments. We recommend that investors consider acquiring the bond at a discount, providing an opportunity for trading on the secondary market.

## Interest rates

The Monetary Policy Committee met on February 5<sup>th</sup> 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

The impact of the downward revision of interest rates is already evident in the market, with banks lowering lending rates and overall interest rates continuing to decline.

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

## Inflation

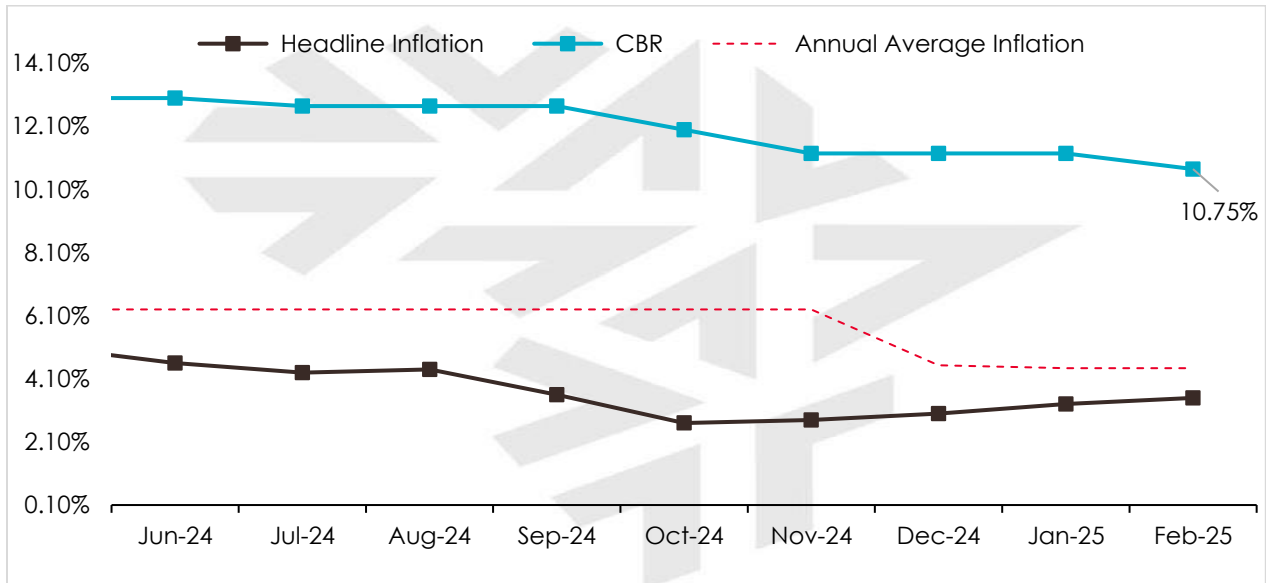
Kenya's headline inflation rate for February 2025 showed a slight increase, rising to **3.5%** from 3.3% in January 2025.

The price increase was primarily driven by rising prices in key categories, with Food & Non-Alcoholic Beverages increasing by 6.4% and the Transport sector by 0.7%.

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.

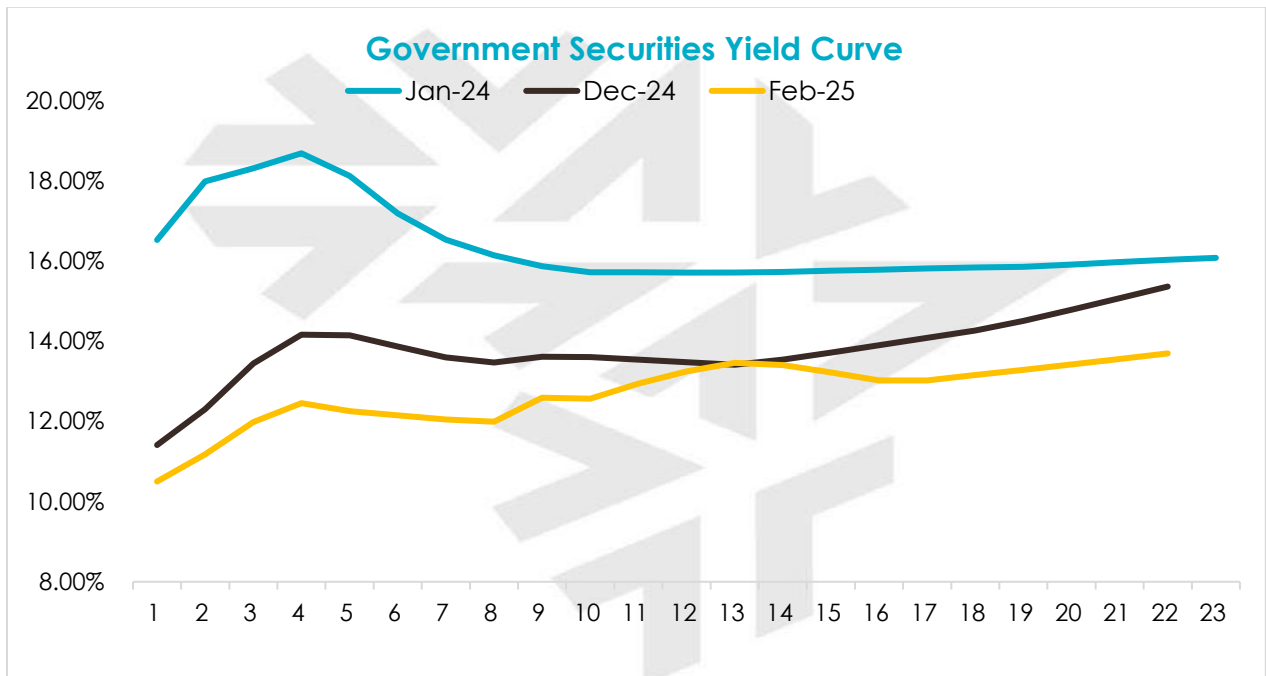
| Statistic | Current | Previous | Change (bps) |
|-----------|---------|----------|--------------|
| CBR       | 10.75%  | 11.25%   | (50.0)       |
| Inflation | 3.50%   | 3.30%    | 20.00        |

Source: CBK, NCBA IB Research



Source: CBK, KNBS, NCBA IB Research

Yields on government securities are on a downward trajectory. Overall, we anticipate a continued downward trend in the yield curve, driven by the transmission of recent rate cuts into the market. This movement was further supported by the injection of liquidity by the Central Bank through treasury buybacks.



source: NSE, NCBA IB Research

## Liquidity

Liquidity conditions eased during the month. Indicatively, the overnight interbank rate declined by 55.73bps month on month to close at 10.70%. The average daily traded volumes declined to KES 15.94Bn from KES 27.14Bn recorded the previous month.

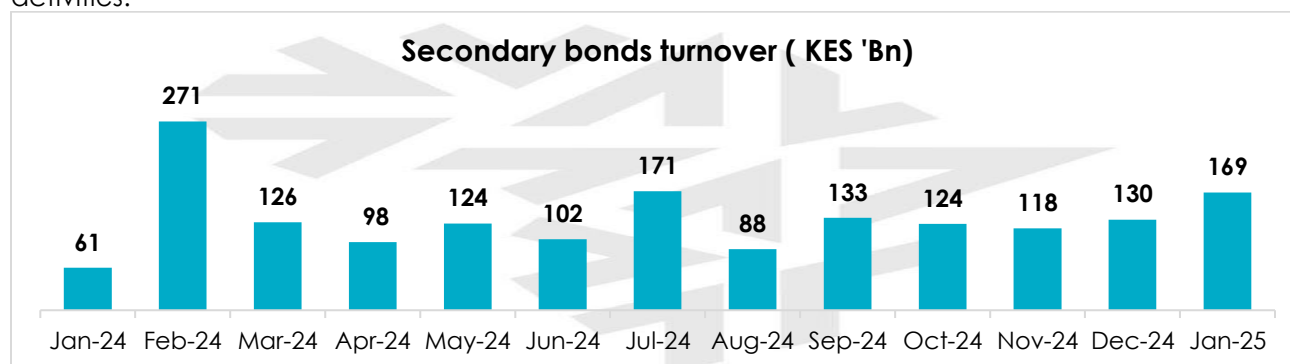
The reduction in the CRR, along with the anticipated continued liquidity support through open market operations, is expected to unlock increased liquidity within the banking sector.

| Statistic              | Feb-25 | Jan-25 | Change (bps) |
|------------------------|--------|--------|--------------|
| Average Interbank Rate | 10.70% | 11.26% | (55.73)      |

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 –March 2025:

The government has total domestic debt maturities of **KES 190.58Bn** in the month of March 2025 compared to **KES 181.88Bn** in the month of February 2025. We expect robust government activity in the local market.

Following the buyback, the government is ahead of its **FY24/25 domestic borrowing target** by **43.2%**, having raised **KES 584.85Bn** against a target of **KES 408.41Bn**

| Treasury Bond Maturities |                |                   |                            |
|--------------------------|----------------|-------------------|----------------------------|
| Issue No.                | Maturity Date  | Fixed Coupon Rate | Outstanding Amount KES 'Mn |
| FXD1/2010/015            | March 10, 2025 | 10.25%            | 27,693.90                  |
| <b>Total</b>             |                |                   | <b>27,693.90</b>           |

| Coupon payments |                          |               |                            |                   |                        |
|-----------------|--------------------------|---------------|----------------------------|-------------------|------------------------|
| Issue No.       | Next Coupon Payment Date | Maturity date | Outstanding Amount KES 'Mn | Fixed Coupon Rate | Coupon payment KES 'Mn |
| FXD1/2010/015   | 10-Mar-25                | 10-Mar-25     | 27,693.90                  | 10.25%            | 1,419.31               |
| FXD1/2012/015   | 10-Mar-25                | 6-Sep-27      | 90,939.90                  | 11.00%            | 5,001.69               |
| IFB1/2021/021   | 10-Mar-25                | 18-Aug-42     | 106,742.20                 | 12.74%            | 6,797.88               |
| IFB1/2023/017   | 10-Mar-25                | 20-Feb-40     | 186,018.92                 | 14.40%            | 13,392.43              |
| FXD1/2016/020   | 17-Mar-25                | 1-Sep-36      | 21,972.90                  | 14.00%            | 1,538.10               |
| FXD1/2018/020   | 17-Mar-25                | 1-Mar-38      | 115,257.30                 | 13.20%            | 7,606.98               |
| IFB1/2013/012   | 17-Mar-25                | 15-Sep-25     | 16,060.21                  | 11.00%            | 883.31                 |
| IFB1/2015/012   | 17-Mar-25                | 15-Mar-27     | 12,180.65                  | 11.00%            | 669.94                 |
| IFB1/2019/025   | 17-Mar-25                | 22-Feb-44     | 16,828.65                  | 12.20%            | 1,026.55               |
| FXD1/2024/010   | 24-Mar-25                | 13-Mar-34     | 124,539.40                 | 16.00%            | 9,963.15               |
| <b>Total</b>    |                          |               |                            |                   | <b>48,299.35</b>       |

| Treasury Bills |                   |
|----------------|-------------------|
| Payment Date   | Amount KES 'Mn    |
| March 3, 2025  | 29,101.36         |
| March 10, 2025 | 38,742.89         |
| March 17, 2025 | 11,879.92         |
| March 24, 2025 | 21,729.04         |
| March 31, 2025 | 13,135.48         |
| <b>Total</b>   | <b>114,588.69</b> |

Source: NSE, NCBA IB Research

## **DISCLAIMER AND DISCLOSURES**

### **1. General Disclaimer**

This research report (Report) has been prepared by NCBA Investment Bank (NCBA-IB) and contains detailed industry analyses, statistics and forecasts exclusively for informational purposes and is intended solely for the use of NCBA-IB clients and may not be distributed, published, or reproduced, in whole or in part, nor may its contents be disclosed to any other party without the express written consent of NCBA-IB. While this Report contains analyses and insights aimed at assisting customers in making investment decisions regarding various securities, it does not constitute an offer, solicitation, or recommendation to buy or sell any securities, and it is not intended to provide the basis for any evaluation of the securities discussed herein. NCBA-IB expressly disclaims any responsibility for errors and omissions in this Report. The Information set forth in this Report has been obtained from sources believed reliable and developed through the application of independent judgement, but NCBA-IB does not warrant its completeness or accuracy. Opinions expressed in this Report are current viewpoints as of the date of issue and are subject to change without notice. Furthermore, NCBA-IB is under no obligation to update or keep the information current. While every effort has been made to ensure the accuracy and completeness of the information provided, no representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained herein, and nothing contained herein is, or shall be relied upon as, a promise or representation as to the future performance of any securities or financial product and market conditions which may change and this might materially impact the accuracy and validity of such analysis.

### **2. Use of Information**

The information presented in this Report is intended solely for informational purposes and is not a comprehensive treatment of the topic at hand. NCBA-IB makes every effort to use reliable, comprehensive information, but we do not represent that the information is accurate or complete. NCBA-IB is not responsible for errors or omissions nor for results obtained from the use of this information. All information is provided "as is", without warranty of any kind, express or implied.

### **3. No Guarantees on Performance**

NCBA-IB, its affiliates, employees, or any associated entities provide no guarantee, warranty, or representation regarding the potential performance or expected outcomes of any investment or financial transaction referenced within this document. Investment values can fluctuate, and the past performance of a security, industry, sector, market, financial product, trading strategy, or individual investment does not guarantee future results or returns.

### **4. Independent Decision Making**

Recipients of this Report are strongly advised to make investment decisions based on their own investment objectives, careful consideration of their financial situation, operational capacity, and the availability of resources. It is recommended that all clients conduct thorough due diligence and, where appropriate, consult independent financial, legal, tax, or other professional advisors to assess the suitability of any potential investment.

### **5. Limitation of Liability**

The Bank, its affiliates, and their respective officers, directors, employees, or agents accepts no liability whatsoever for any direct or consequential loss or damage arising from the use of this Report or the information contained herein. Past performance is not necessarily indicative of future results, and NCBA-IB does not undertake that the recipient of this report will obtain profits or avoid incurring losses. This Report does not constitute

a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in these reports is suitable for their particular circumstances and, if necessary, seek professional advice, including tax advice.

## 6. Authority to Enter Contracts

Please be advised that legally binding obligations on behalf of NCBA-IB can only be established through formal written agreements, duly signed by authorized representatives of NCBA-IB. No electronic communications or implied agreements through informal communications shall be considered binding under any circumstances.

## 7. Disclosure Statement

NCBA-IB may, from time to time, participate or invest in transactions with the companies mentioned herein, perform services for or solicit business from company(s) mentioned, and/or have a position or effect transactions in the securities or options thereof. Members of NCBA-IB, its principals or affiliates, may have a financial interest in securities of the companies mentioned in this report.

## 8. Conflicts of Interest

NCBA-IB may engage in transactions in a manner that is inconsistent with the recommendations made in this Report, and it may have commercial relationships with entities mentioned in this Report. NCBA-IB may have provided advice or investment services relating to the investments concerned or a related investment to any company mentioned in this Report prior to its publication. Further, NCBA-IB may receive compensation for these services and acts as a market maker or liquidity provider in the securities that are the subject of this report. NCBA-IB does not prepare research on entities within its corporate group ("the NCBA Group") or other entities where a real or perceived conflict of interest may exist.

## 9. Confidentiality

This Report is confidential and is intended only for the person or entity to which it is addressed. It may contain confidential, proprietary, or legally privileged information. No confidentiality or privilege is waived or lost by any misdelivery or transmission errors. If you are not the intended recipient, please immediately delete it and all copies of it from your system, destroy any hard copies of it, and notify the sender. You must not, directly or indirectly, use, disclose, distribute, print, or copy any part of this report if you are not the intended recipient.

## 10. Intellectual Property Rights

All content, data, analyses, graphics, and logos provided in this Report are the exclusive property of NCBA-IB and/or its affiliates, unless otherwise noted, and cannot be copied, distributed, transmitted, displayed, published, or broadcast without the prior written permission of NCBA-IB.

## 11. Regulatory Compliance

This Report is also subject to regulatory restrictions and obligations that may affect its use. NCBA-IB produces research reports which adhere to regulatory standards. This document may not be distributed in any jurisdiction where its distribution may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

## 12. Use and Distribution

These materials are intended only for clients of NCBA-IB, and may not be reproduced, redistributed, or copied in whole or in part for any purpose without the express written consent of NCBA-IB

© 2024 NCBA-IB. All rights reserved. This document contains intellectual property belonging to NCBA-IB. Unauthorized use is prohibited. For further information regarding the methodologies used or data in the report, contact NCBA-IB at [ncbaresearch@ncbagroup.com](mailto:ncbaresearch@ncbagroup.com)



**DISCOVER THE MARKETS**