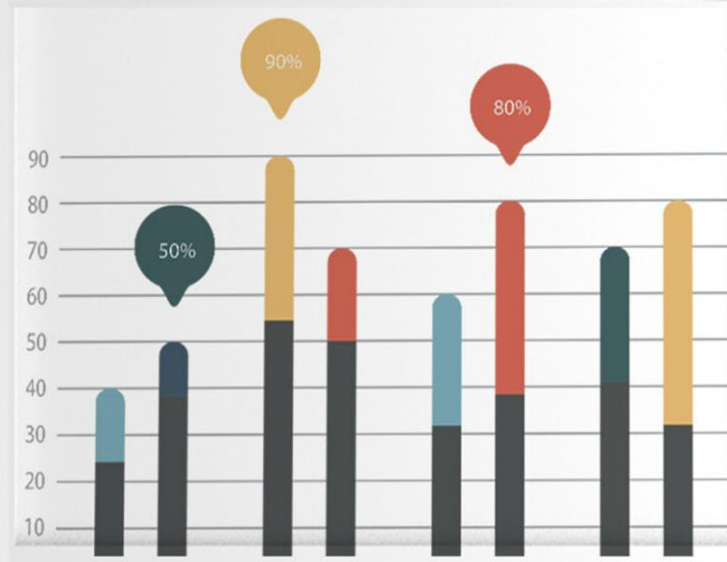




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AIB-AXYS Africa Primary Bond Auction Note



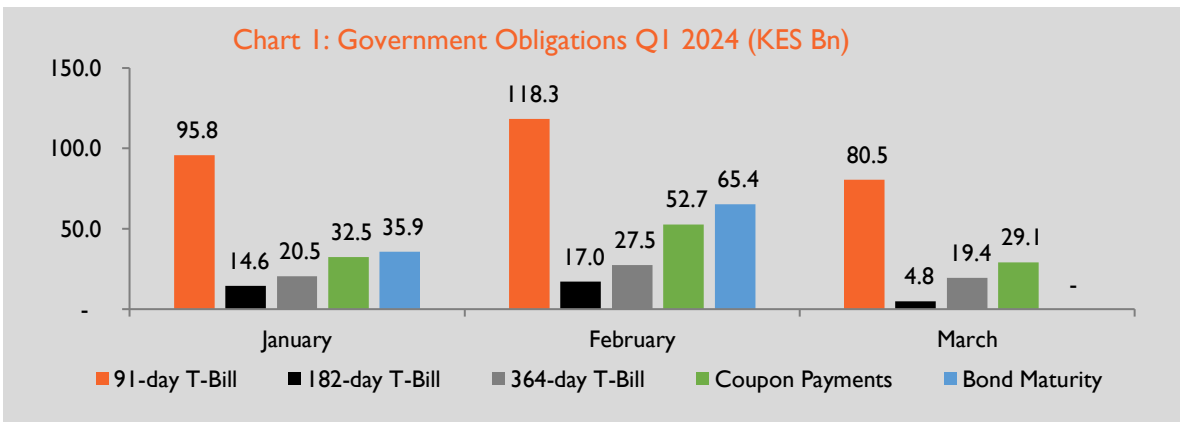
AIB-AXYS February 2024 Primary Bond Auction Note

Summary – “Testing Deeper Waters”

- The Exchequer is seeking to raise KES 70.0Bn through the issue of the IFBI/2024/8.5Yr (8.5 years) amortized infrastructure bond earmarked for funding of budgeted infrastructure projects.
- **The Exchequer is tilting towards longer duration bonds as it seeks to test overall investor sentiment.** From our point of view, we expect the yield curve to begin flattening as investors price-in risk premia at the medium section of the curve.
- The weighted average tenor to maturity of the Infrastructure Treasury Bonds (IFB) series stands at c. **10.23 years**. Further, the government has approximately KES 280.93Bn worth of T-Bills and coupon and principal bullet repayments due in **February 2024**. We estimate that significant portion of this auction’s proceeds will be allocated towards refinancing upcoming maturities.
- **We expect the auction on this paper to be broadly oversubscribed** driven largely by foreign investor rush to lock-in attractive frontier market yields.
- **From our analysis of prevailing macroeconomic conditions, we recommend bidding of the IFBI/2024/8.5Yr paper at between 18.95% - 19.15%.**

Key Highlights

IFBI/2024/8.5Yr	
Issuer:	Republic of Kenya
Total Amount:	KES 70 billion
Purpose:	Funding of infrastructure projects in FY23/24 budget.
Tenor:	8.5Yrs (Effectively 6.8years)
Coupon:	Market-Determined
Price Quote:	Discounted/Premium/Par
Period of sale:	24/01/2024 to 14/02/2024
Minimum Amount:	KES 50,000.00
Taxation:	Tax-exempt
Redemption Dates:	15-Feb-2027 - 20% amortization of principal 11-Feb-2030 - 30% amortization of principal 09-Aug-2032 - 100% final redemption
Classification:	Non-benchmark bond
Non-competitive bids per CSD A/C:	Maximum KES 20 million per CSD A/c
Competitive bid per CSD A/C:	Minimum KES 2 million per CSD A/c
AIB-AXYS Competitive Bidding Range Recommendation:	18.95% - 19.15%



Term Structure of Interest Rates

The yield curve sustained its upward trajectory, largely driven by investors demand for higher risk premia to offset increased global uncertainty and strained macroeconomic fundamentals. In the spot market, yields have soared fasted on the 364-day rate by a cumulative 76bps to 16.86%, whereas in the forward market, the 4-year yield soared the highest by a cumulative 79bps to 18.66% since the year start. We anticipate the yield curve begin flattening as investors adjust medium-term yields to the changing risk environment.

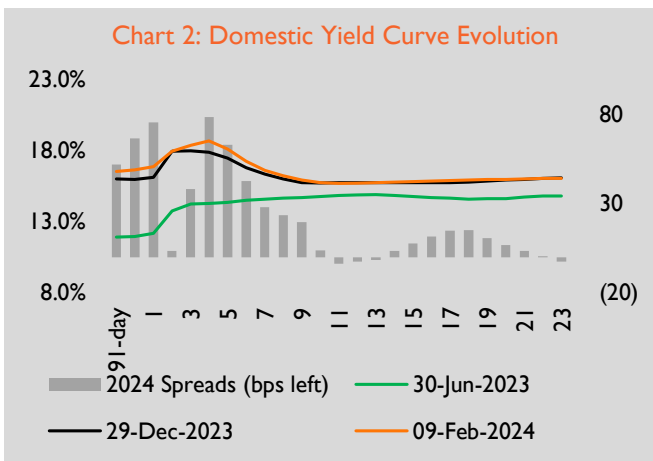
Market Liquidity

Liquidity conditions across money markets remained tight – primarily owing to the Central Bank of Kenya’s increase of the benchmark rate by 50bps to 13.0% in February 2024. However, we note that the introduction of symmetric corridor of ±250bps around the Central Bank Rate resulted in lowered rate volatility and stimulated higher interbank lending. We anticipate that interbank rates will approach the upper bound threshold of the interest rate corridor limit of 15.0% in the near term as funding costs and term yields continue to rise.

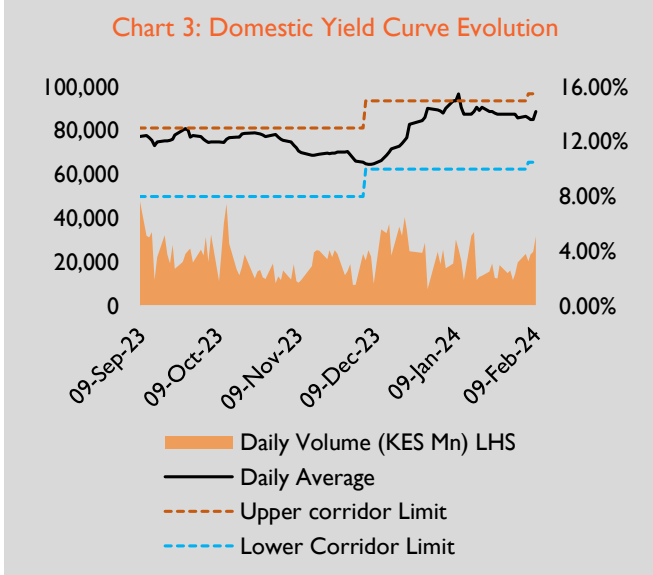
Price Levels

Headline inflation accelerated marginally to 6.9% in January 2024 from 6.6% a month prior. The increase came largely on the back of a sharper rise in food and electricity prices in the period. Food inflation accelerated by 20bps m/m to 7.9% in January 2024 reflecting overhangs of the festive season demand upswings.

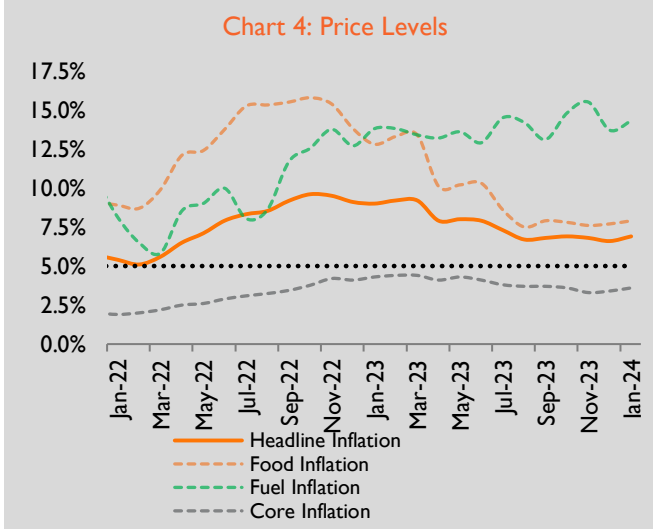
Fuel inflation on the other hand, accelerated markedly by 60bps to 14.3% - largely on account of the forex rate fluctuations, despite the offsetting decline in oil prices in global markets. Core inflation (Non-Food-Non-Fuel) similarly tightened 20bps to 3.60% - pointing to underlying price pressures. We expect further price pressures to be mild and transitory, underpinned by the positive effects of monetary policy tightening. However, we expect price levels to remain fragile and prone to external shocks via the exchange rate channel.



Source: CBK, AIB-AXYS Africa Research



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Previous Infrastructure Bonds

Issue No.	Maturity Date	Tenor in years	Outstanding Amount KES M.	Fixed Coupon Rate	Implied Yield to Maturity	Modified Duration
IFBI/2023/6.5	06-05-30	6.3	112,732.95	17.9327%	17.2441%	3.5
IFBI/2023/007	10-06-30	6.3	213,251.60	15.8370%	15.5760%	3.8
IFBI/2023/017	20-02-40	16.1	68,196.50	14.3990%	15.0375%	5.6
IFBI/2022/006	27-11-28	4.8	59,561.98	13.2150%	13.2533%	3.4
IFBI/2022/014	27-10-36	12.8	94,258.60	13.9380%	14.8100%	5.5
IFBI/2022/018	21-05-40	16.3	79,827.50	13.7420%	14.4486%	6.1
IFBI/2022/019	28-01-41	17.0	98,377.55	12.9650%	14.2000%	6.4
IFBI/2021/021	18-08-42	18.6	106,742.20	12.7370%	14.6250%	6.0
IFBI/2021/018	21-03-39	15.2	81,785.60	12.6670%	14.4250%	5.9
IFBI/2021/016	05-01-37	12.9	80,958.35	12.2570%	15.3851%	5.7
IFBI/2020/011	11-08-31	7.5	80,249.60	10.9000%	15.0250%	4.7
IFBI/2020/006	25-05-26	2.3	10,252.00	10.2000%	12.4000%	1.9
IFBI/2020/009	02-04-29	5.2	78,973.60	10.8500%	14.0038%	3.6
IFBI/2019/016	08-10-35	11.7	71,028.55	11.7500%	14.8500%	5.5
IFBI/2019/025	22-02-44	20.1	16,828.65	12.2000%	14.0437%	6.4
IFBI/2017/012	12-02-29	5.0	67,524.85	12.5000%	18.0529%	3.4
IFBI/2018/020	25-10-38	14.8	36,787.30	11.9500%	14.5000%	6.0
IFBI/2018/015	10-01-33	8.9	41,184.80	12.5000%	13.6500%	5.1
IFBI/2017/007	18-11-24	0.8	21,262.25	12.5000%	12.1500%	0.7
IFBI/2016/015	06-10-31	7.7	30,004.70	12.0000%	14.3596%	4.5
IFBI/2016/009	12-05-25	1.3	19,925.79	12.5000%	12.3000%	1.1
IFBI/2015/009	02-12-24	0.8	8,506.50	11.0000%	12.5750%	0.7
IFBI/2015/012	15-03-27	3.1	33,486.55	11.0000%	12.7500%	2.4
IFBI/2014/012	12-10-26	2.7	16,631.48	11.0000%	12.5525%	2.2
IFBI/2013/012	15-09-25	1.6	16,060.21	11.0000%	12.9000%	1.3

Source: CBK, AIB-AXYS Africa Research

	Offered Amount (KES, Mn)	Paper(s)	Duration at Issuance (yrs)	Performance Rate	Coupon Rate (%)	Market Average Yield (%)	Accepted Average Yield (%)	Premium above Yield Curve
Feb-23	50,000	FXD1/2017/010 - Re-open	4.5		12.966%	13.897%	13.875%	▲ 34 bps
		FXD1/2023/010 - New Issue	10.0		14.151%	14.217%	14.151%	▲ 36 bps
				39.1%				
	10,000	FXD1/2017/010 - Tapsale	4.5		12.966%			
		FXD1/2023/010 - Tapsale	10.0		14.151%			
				124.6%				
Mar-23	50,000	IFB1/2023/017 - New Issue	17.0	119.5%	14.399%	14.469%	14.399%	▲ 21 bps
	20,000	IFB1/2023/017 - Tapsale	17.0	63.6%	14.399%			
Apr-23	20,000	FXD2/2018/010 - Re-open	5.8	17.9%	12.502%	14.393%	14.366%	▲ 64 bps
	10,000	IFB1/2023/017 - Tapsale	17.0	51.2%	14.399%			
	30,000	FXD1/2022/003 - Re-open	2.1		11.766%	13.839%	13.471%	▲ 66 bps
		FXD1/2019/015 - Canceled	10.9		12.857%	-	-	-
				24.4%				
May-23	20,000	FXD1/2023/003 - New Issue	3.0	103.7%	14.228%	14.259%	14.228%	▲ 89 bps
	10,000	FXD1/2023/003 - Tapsale	3.0	106.0%	14.228%			
	20,000	FXD1/2023/003 - Tapsale	3.0	136.0%	14.228%			
Jun-23	60,000	IFB1/2023/007 - New Issue	7.0	367.5%	15.857%	15.857%	15.837%	▲ 148 bps
	15,000	FXD1/2023/003 - Tapsale	3.0	123.7%	14.228%			
Jul-23	40,000	FXD1/2016/010 - Re-open	3.2		16.328%	16.582%	16.328%	▲ 208 bps
		FXD1/2023/005 - New Issue	5.0		16.844%	17.026%	16.844%	▲ 248 bps
				129.4%				
	20,000	FXD1/2016/010 - Tapsale	3.2		16.328%			
		FXD1/2023/005 - Tapsale	5.0		16.844%			
				222.1%				
Aug-23	40,000	FXD1/2023/002 - New Issue	2.0		16.972%	17.555%	16.972%	▲ 64 bps
		FXD1/2023/005 - Re-open	4.9		16.844%	18.165%	17.954%	▲ 173 bps
				132.5%				
	20,000	FXD1/2023/002 - Tapsale	1.9		16.972%			
		FXD1/2023/005 - Tapsale	4.9		16.844%			
				118.0%				
Sep-23	35,000	FXD1/2023/002 - New Issue	1.9		16.972%	17.583%	17.454%	▲ 45 bps
		FXD1/2016/010 - Re-open	2.9		15.039%	18.487%	17.927%	▲ 55 bps
				97.2%				
	15,000	FXD1/2023/002 - Tapsale	1.9		16.972%			
		FXD1/2016/010 - Tapsale	2.9		15.039%			
				23.0%				
Oct-23	35,000	FXD1/2023/002 - Re-open	1.9		16.972%	17.964%	17.736%	▼ (4 bps)
		FXD1/2023/005 - Re-open	4.8		16.844%	18.465%	17.992%	▲ 34 bps
				35.1%				
Nov-23	50,000	IFB1/2023/6.5 - New Issue	6.5	177.8%	17.933%	18.104%	17.933%	▲ 40 bps
Dec-23	25,000	IFB1/2023/6.5 - Tapsale	6.5	191.5%	17.933%			
Jan-24	35,000	FXD1/2024/003 - New Issue	3		18.385%	18.770%	18.385%	▲ 43 bps
		FXD1/2024/005 - Re-open	4.5		16.844%	19.068%	18.770%	▲ 111 bps
				106.1%				
	15,000	FXD1/2024/003 - Tap Sale	3		18.385%			
		FXD1/2024/005 - Tap Sale	4.5		16.844%			
				78.4%				
Average*	38,750		5.0	112.5%	15.658%	16.594%	16.368%	▲ 82 bps

Source: CBK, AIB-AXYS Research, * - Yearly average results excludes tap sales



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