



Friday, 11 December 2020

Analysts:

Renaldo D'Souza

+254 (20) 2222651

Renaldo.DSouza@sterlingib.com

Susan Makena

+254 (20) 2222651

Susan.Makena@sterlingib.com

Elizabeth Njenga

+254 (20) 2222651

Elizabeth.Njenga@sterlingib.com

Justina Vuku

+254 (20) 2222651

Justina.Vuku@sterlingib.com

Email: research@sterlingib.com

Bond Dealing: +254 (20) 2213914, 3315414; 2244077
+254 723153219, +254 734219146

Email: invest@sterlingib.com

Website www.sterlingib.com

Bloomberg Code: SCLK <GO>


STERLING CAPITAL LIMITED

Fixed Income

Primary Bond Auction Results

Update Note

December 2020

“Investors’ appetite for yield”

Table of Contents

December 2020 bond primary auction results update	3
Disclosures	4

December 2020 bond primary auction results update

- The Central Bank of Kenya re-opened **FXD1/2012/15 (6.82 years)** and **FXD2/2019/15 (13.48 Year)** looking to raise KES.40Bn.
- Our Weighted Average Rates predictions in our December Fixed Income report titled “**Investors’ appetite for yield**” [PowerPoint Presentation \(sterlingib.com\)](http://sterlingib.com) were largely in line with the actual auction averages as indicated below:

Weighted Average Rate (WAR) of investor bids

- **FXD1/2012/15: 11.50% - (CBK - 11.502%)**
- **FXD2/2019/15: 13.00% - (CBK - 12.97%)**

WAR of accepted bids

- **FXD1/2012/15: 11.40% (CBK - 11.461%)**
 - **FXD2/2019/15: 12.90% (CBK - 12.807%)**
- Actual investor subscriptions at **KES.24.3Bn (60.8%)** however fell short of our **KES.35 - KES.40Bn (80% - 100%)** prediction.
 - We had cited the “high supply” of similar tenor bonds by the CBK this fiscal year as the main reason for the below par subscription and we see this as a key reason for the waning demand.
 - We also attribute this undersubscription to tightening commercial bank liquidity considering banks are currently focused on their short term liquidity needs.
 - A bulk of the total bids received (62%) were on the longer tenor issue (**FXD2/2019/15**) an indication that yield rather than investment tenor was the main investment consideration in this auction.
 - On the CBK's acceptance rate - KES.8.5Bn of the KES.9.3Bn received in bids for **FXD1/2012/15** (92.3%) while KES.9.7Bn of the KES.15.1Bn (64.4%) received for **FXD2/2019/15** were accepted, with the comparatively lower acceptance rate of the latter showing the CBK's intent to manage its domestic borrowing costs.
 - We had mentioned a significant decline in debt service costs for December 2020 compared to November 2020 with no T-Bond redemptions set for the month and this largely explains why the entire proceeds from this bond were used as new borrowing with no redemptions.
 - As the calendar comes to a close, we expect a decline in secondary bond trading.

Disclosures

Ownership and material conflicts of interest:

The authors or a member of their household, of this report do not hold a financial interest in the securities of this company. The authors or a member of their household, of this report do not know of the existence of any conflicts of interest that might bias the content or publication of this report.

Position as an officer or director: The authors or a member of their household, do not serve as an officer, director or advisory board member of the subject company.

Research analyst certification:

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that all of the views expressed herein accurately reflect their personal views. Each research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the view(s) expressed by that research analyst in this research report.

Additional Disclosures:

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither SCL nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research reports preparation or publication, or any losses or damages which may arise from the use of this research report.

Disclaimer:

This research report was prepared under the supervision of the Research Department of Sterling Capital Limited (SCL), a company authorized to engage in securities activities in Kenya, and with partnerships in Uganda, Rwanda, Zimbabwe, and Tanzania. Data used in this report was gathered from reliable sources, but the analyst(s) and the publishers of this report do not hold themselves responsible for the accuracy or completeness of data used. The report provides the opinions, analyses and conclusions of the Research division only and is provided without any warranties of any kind.

This report does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Whilst every care has been taken in preparing this report, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by SCL or any employee of SCL as to the accuracy, timeliness, completeness merchantability or fitness for any particular purpose of any such recommendation or information contained and opinions expressed herein. SCL do not accept any liability for any direct or remote loss or damage arising out of the use of all or any part of the information contained in this report.

This report is published for information purposes only and is not an offer to solicit, buy or sell any security of any kind. This report does not provide customized investment advice. It has been prepared without regard to the individual financial circumstances and risk and return objectives of individuals who receive it. The appropriateness of a particular investment will depend on an investor's individual circumstances, risk tolerance and return objectives. The investments securities referred to in this document may not be suitable for all or certain categories of investors. The Research Division and SCL have implemented Chinese walls procedures to prevent any conflict of interest. Other additional information may be available at SCL.

Further disclosure regarding SCL policy on potential conflicts of interest in the context of investment research and SCL policy on disclosure and conflicts in general are available on request. The opinions presented in this note may be changed without prior notice or cannot be depended upon if used in the place of the investor's independent judgment. The historical performance of a security is not representative of the security's future returns. Investment in securities can be highly risky as security prices may go down in value as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may adversely affect the value, price or income of that investment. In case of illiquid investments for which there is no organized market it may be difficult for investors to exit investment positions or to obtain reliable information about its value or the extent of the risk to which it is exposed. The information contained in this report is confidential and is solely for use to those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose.