STERLING CAPITAL LIMITED

Thursday, 10 February 2022

Fixed Income Note

February 2022

"Another KES.75Bn Infrastructure Bond Issue"

Analysts:

Renaldo D'Souza
Renaldo.DSouza@sterlingib.com

Davis Gathinji
Davis.Gathinji@sterlingib.com

Isabel Chakairu
Isabel.Chakairu@sterlingib.com

Email: research@sterlingib.com

Bond Dealing: +254 (20) 2213914/0723 153 219

Email: invest@sterlingib.com

Office Address: Delta Corner Annex, 5th Floor, Ring Road Westlands.

Website www.sterlingib.com

Bloomberg Code: SCLK <GO>

Table of Contents

Executive Summary

- Our fixed income report for the month of February 2022 titled **"Another KES.75Bn Infrastructure Bond Issue"** is an analysis of the Central Bank's (CBK) first and second Infrastructure Bond (**IFB1/2022/19**) in the current calendar and fiscal year respectively.
- The IFB with an implied term to maturity tenor of 14.5 years seeks to raise KES.75Bn with the purpose marked as "finance infrastructure projects".
- We expect the IFB to be oversubscribed with our weighted average bid predictions as follows:

  Weighted Average Rate (WAR) of investor bids: 12.89% - 12.99%

  Weighted Average Rate of accepted bids: 12.79% - 12.89%

- The report covers primary auction outcomes, secondary market trading trends, short-term domestic debt interest rates and market liquidity.
- Domestic maturities have a huge impact on CBK's borrowing strategy and this debt service is analysed in the report.
- This month's fixed income report also covers the country's fiscal position including Government revenue, expenditure and fiscal deficit as well as its borrowing needs.
- The report includes an analysis of the yield curve over selected periods showing trends in yields of different tenors.
- We give our inflation expectations towards the end of the report, which concludes, with our view on the Monetary Policy Committee (MPC) decision in the short term.

CBK issues second IFB of the 2021/22 fiscal year

- The Central Bank of Kenya (CBK) invites bids for a 19-Year amortized Infrastructure Bond (IFB) with a market determined coupon **(IFB1/2022/19)**, to raise KES.75Bn (Table.1).
- It is the first IFB issue in 2022 and the second in the 2021/22 fiscal year and will.
- Redemption will be in two tranches, with the first tranche of 50% redeemed in February 2032 and the remaining 50% at expiry in January 2041.
- Our expectation is the debt issue will be oversubscribed as the attractive tax free yield as well as capital appreciation potential appeals to diverse investor segments.

Table.1: Infrastructure Bond issue summary

Issue Number	IFB1/2022/19
Total Amount Offered	KES.75Bn
Tenor (Years)	19 Years
Effective Tenor	14.5 Years
Coupon Rate (%)	Market Determined
Issue Price	Discounted/Premium/Par
Period of Sale	31st January 2022 to 15th February 2022
Auction Date	16th February 2022
Value Date	21st February 2022
Yield Curve (%) (Weighted Average tenor - 14.5 years) 4th February 2022	**13.0400**

Source: Central Bank of Kenya & Sterling Capital Research

IFB1/2022/19 Amortized redemption structure

- IFB1/2022/19 has an amortized redemption structure making its effective tenor 14.5 years (Table.2).

Table.2: Effective debt tenor is 14.5 years

Redemption Period	% of principal	Tenor Calculation	Weighted Tenor
10 Years (Feb 2022-Feb 2032)	50%	50%*10 years	5 years
19 Years (Feb 2022 – Jan 2041)	50%	50%*19 years	9.5 years
Effective tenor			5 + 9.5 = 14.5 years

Source: Central Bank of Kenya & Sterling Capital Research

STERLING CAPITAL LIMITED

Our weighted average and accepted bids averages

- We arrived at our market weighted and the CBK's accepted bids average estimates by analysing yields of securities of similar tenors on the Nairobi Securities Exchange (NSE) as at 7th February 2021 and discussions with fixed income traders (Table.3).

Table.3: Auction bid predictions

Rate	IFB1/2022/19
Market Weighted Average Rate (%)	12.89 - 12.99
Weighted Average Rate of Accepted Bids (%)	12.79 - 12.89

Source: Sterling Capital Research

Our predicted rates are guided by historical debt issues

- We used implied yields of bonds of almost similar tenors to maturity on the NSE as at 4th February 2022 as a guide for possible investor auction bid levels (Table.4).

Table.4: Benchmark issues to guide investor bids

Treasury Bond	Issue Date	Coupon Rate (%)	Maturity Date	Term to Maturity Years (Days)	Implied Yield to maturity (%)	Yield Curve at time of issue
IFB1/2018/20	19th Nov- 2018	11.95	25th Oct 2038	16.7 (6,107)	11.99	12.6250
IFB1/2021/21	13th Sep- 2021	12.74	18th Aug 2042	20.5 (7500)	12.53	13.3674

Source: Central Bank of Kenya

- Reviews of historical IFB auction results show the popularity for issues with tenors of less than 20 years, more so the 12, 15 and 16-year (Table 5).
- The last two most recently issued IFBs - IFB1/2021/18 and IFB1/2021 had coupon rates of 12.67% and 12.74% respectively and were oversubscribed (147.6%,201.7%) largely due to high market liquidity and the opportunity for attractive capital gains in the secondary market.
- It is likely that the CBK will likely accept in excess of KES.75Bn due to high financing needs brought about by shortfall in revenue collection targets for the current fiscal year.

Table.5: Historical IFB primary market auction performance

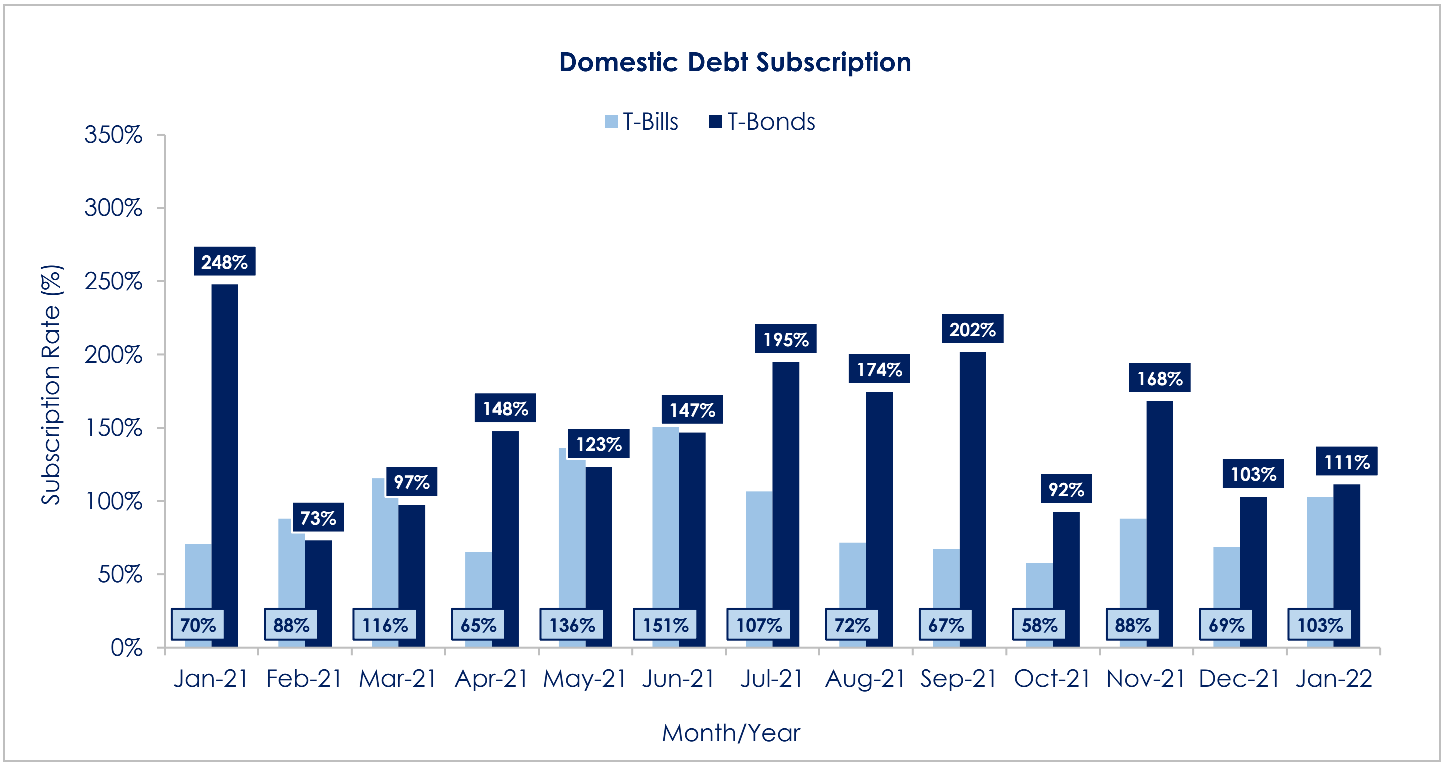
Issue	Issue Date	Offered (KES.Bn)	Bids Received (KES.Bn)	Amount Accepted (KES.Bn)	Performance Rate (%)	Coupon Rate (%)	Implied Yield (%)
IFB1/2014/12	Oct-2014	15	38.8	15.8	258.7%	11.00	9.6875
IFB1/2015/12	Mar-2015	25	51.7	25.7	206.8%	11.00	9.6500
IFB1/2015/12 (Tap)	Apr-2015	25	51.7	24	206.8%	11.00	9.6500
IFB1/2015/9	Dec-2015	30	16.6	14	55.3%	11.00	9.3766
IFB1/2016/9	May-2016	30	39.4	34.9	131.3%	12.50	9.4052
IFB1/2016/15	Oct-2016	30	35.1	30.6	117.0%	12.00	11.0731
IFB1/2017/12	Feb-2017	30	35.0	6	116.7%	12.50	10.4000
IFB1/2017/12 (Tap)	Mar-2017	24	8	7.6	33.3%	12.50	10.4000
IFB1/2017/7	Nov-2017	30	45.9	42.0	153.0%	12.50	9.3660
IFB1/2018/15	Jan-2018	40	55.8	5	139.5%	12.51	11.7000
IFB1/2018/15 (Tap)	Feb-2018	35	36.2	36.2	103.4%	12.51	11.7000
IFB1/2018/20	Nov-2018	50	40.4	27.6	80.8%	11.95	11.7188
IFB1/2018/20 Tap	Nov-2018	22.4	8.8	8.7	39.3%	11.95	11.7188
IFB1/2019/25	Mar-2019	50	29.4	16.3	58.8%	12.20	12.0648
IFB1/2019/16	Oct-2019	60	86.9	68.5	144.8%	11.75	11.7457
IFB1/2020/9	Apr-2020	60	68.4	39	114.0%	10.85	10.9500
IFB1/2020/9 (Tap)	Apr-2020	21	37.8	35.4	180.0%	10.85	10.9500
IFB1/2020/6	Jun-2020	26	21.2	19.3	81.5%	10.20	8.9000
IFB1/2020/11	Aug-2020	70	101.5	78.6	145.0%	10.90	10.3050
IFB1/2021/16	Jan-2021	50	125.5	81.1	251.0%	12.26	11.5600
IFB1/2021/18	Apr-2021	60	88.6	81.9	147.7%	12.67	11.8550
IFB1/2021/21	Sep-2021	75	151.3	106.8	201.7%	12.737	12.5104

Source: Central Bank of Kenya

T-bill subscription spikes in January 2022 after December 2021 slump

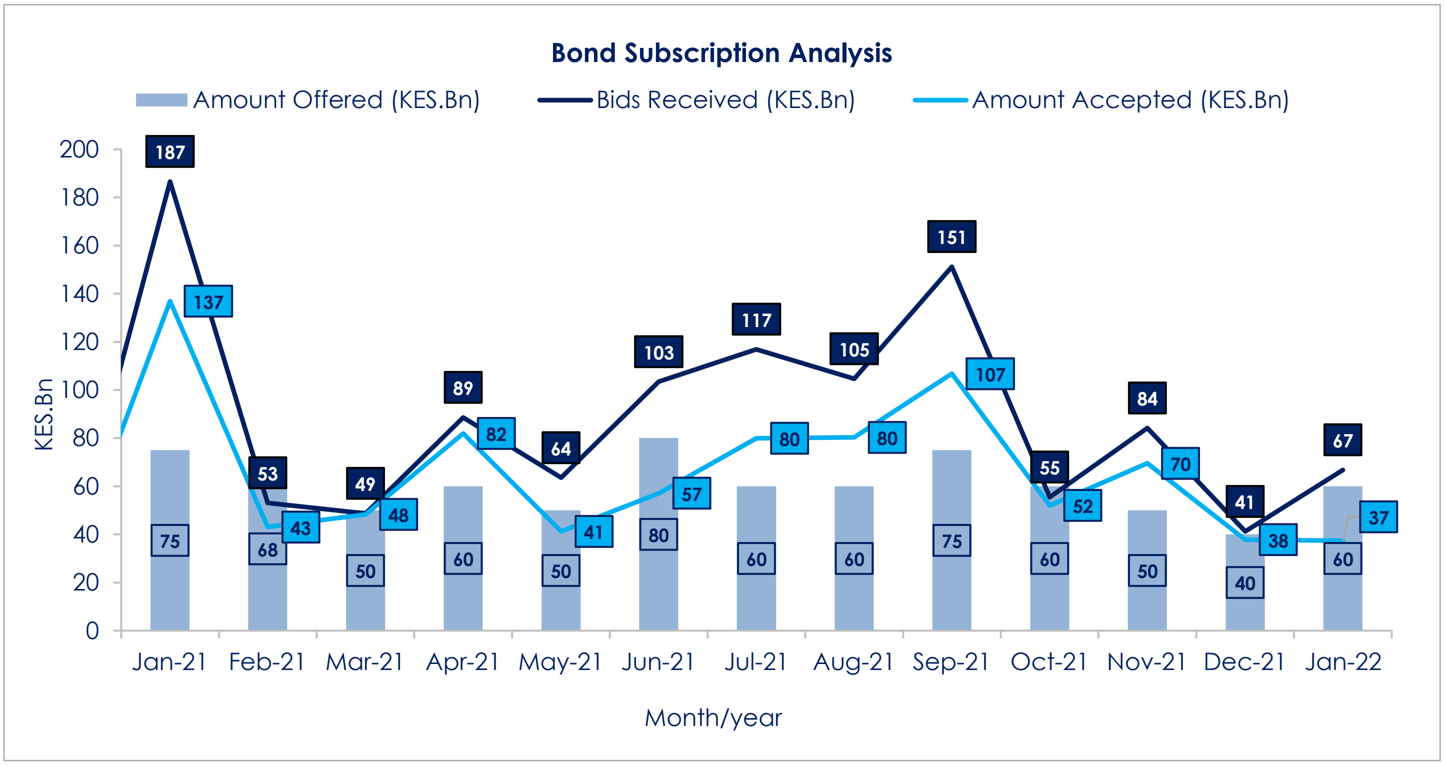
- Aggregate investor subscription for Treasury Bills (T-bills) rose in January 2022 with the CBK receiving bids worth KES.123.1Bn against KES.120Bn offered translating to a subscription rate of 102.6% (68.7% in December 2021) (Figure.1).
- Subscription rates for the 91, 182 and 364 day T-Bills stood at 70.3%, 80.1% and 138% respectively.
- **FXD1/2020/5**, **FXD1/2021/20** and **FXD2/2018/10** were re-opened in the month with total bids received at KES.66.8Bn against KES.60Bn offered, equivalent to a 111.3% subscription rate (Figure.2).
- We attribute the relatively high subscription to the longer period of sale, improving liquidity and low target amount (KES.30Bn) of both FXD2/2018/10 and FXD1/2021/20.
- This was sufficient to counter the undersubscription of FXD1/2020/5 which had a tight period of sale in the midst of festive season.

Figure.1: T-bond subscriptions spike in January 2022



Source: Central Bank of Kenya

Figure.2: Bond subscriptions rose sharply in January 2022

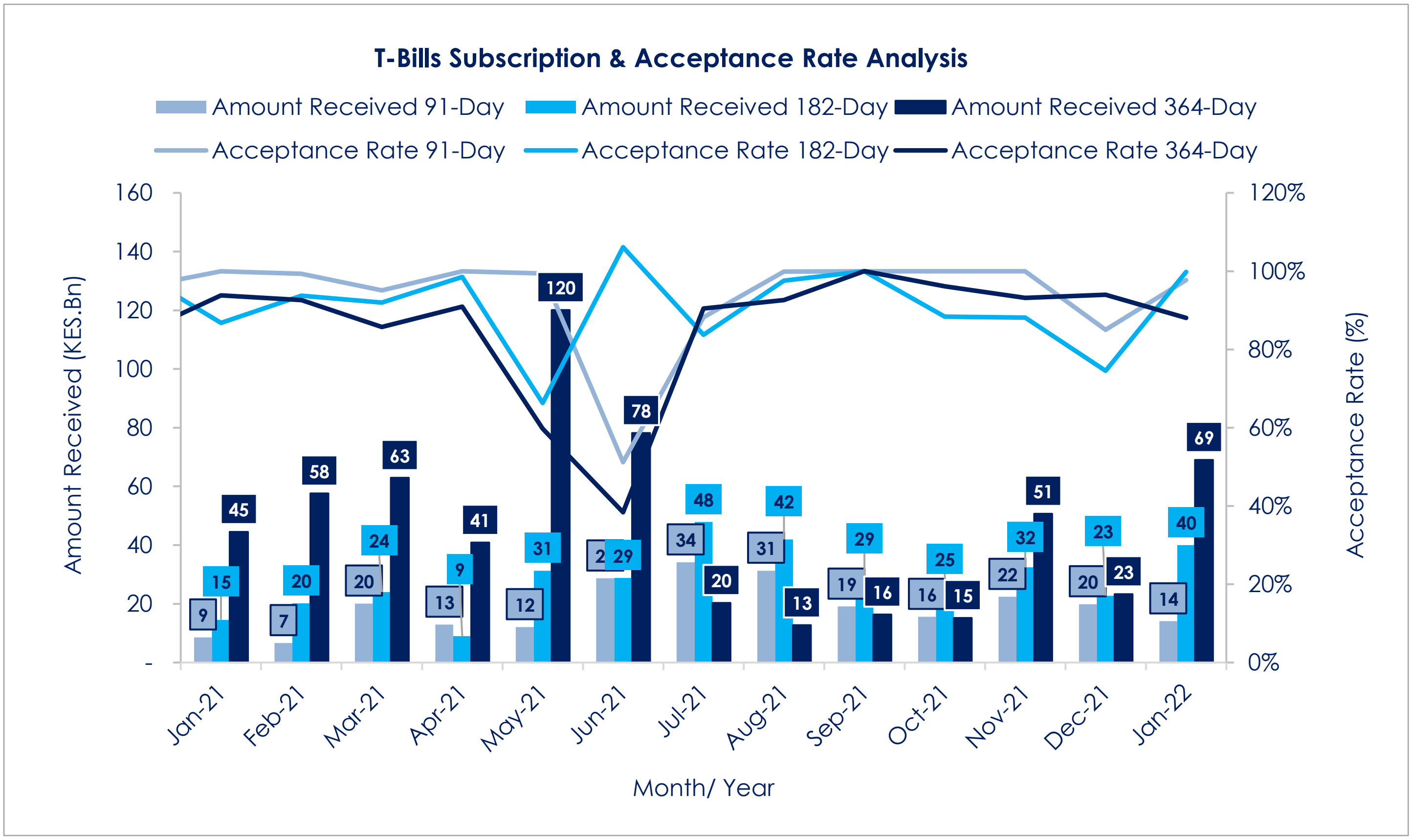


Source: Central Bank of Kenya

T-Bill acceptance rates close to full high as subscription

- CBK acceptance rates for the 91, 182 and 364-Day T-bills were relatively high at 97.7%, 99.8% and 88% respectively a trend we attribute to high deficit financing pressures (Figure.3).

Figure.3: Acceptance rate for 364-day papers goes down



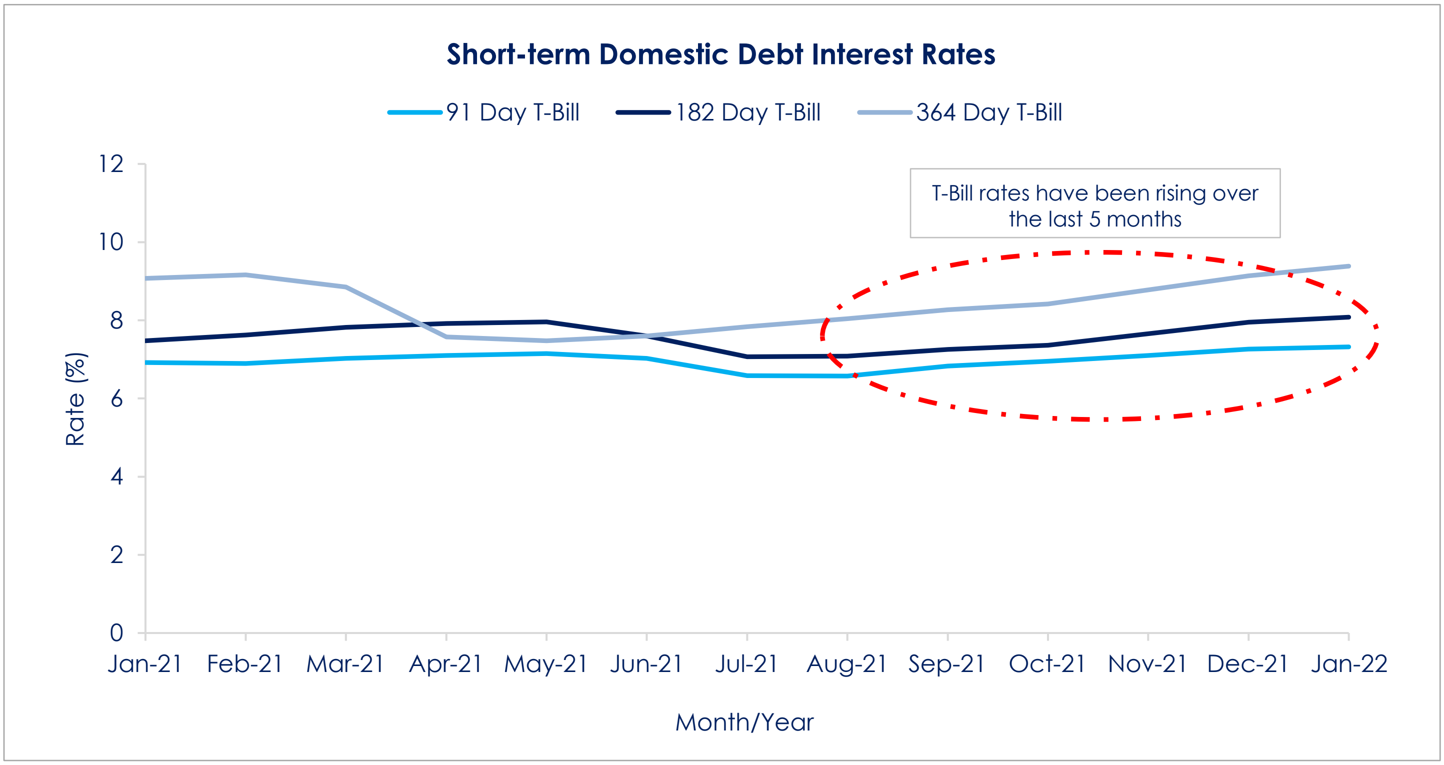
Source: Central Bank of Kenya

Short-term interest rates maintain the positive trend in January 2022

- Average short-term interest rates maintained the upward trajectory that started in the third quarter of the 2021 calendar year.
- The average 91, 182 and 364-day T-Bills rates rose to 7.32%, 8.1% and 9.5% in January 2022 from 7.26%, 8.0% and 9.1% in December 2021 respectively (Figure.4).
- We continue to attribute the rising interest rates to budget deficit financing pressure.
- The biggest increase remains on the 364 day with average interest rates up 40 bps over the previous month with the CBK showing a preference for the longer dated security to encourage investor subscription and reduce refinancing risks.

- Our position is that short-term interest rates will maintain this trend for the reasons mentioned above.

Figure.4: Short-term debt securities interest rates rise

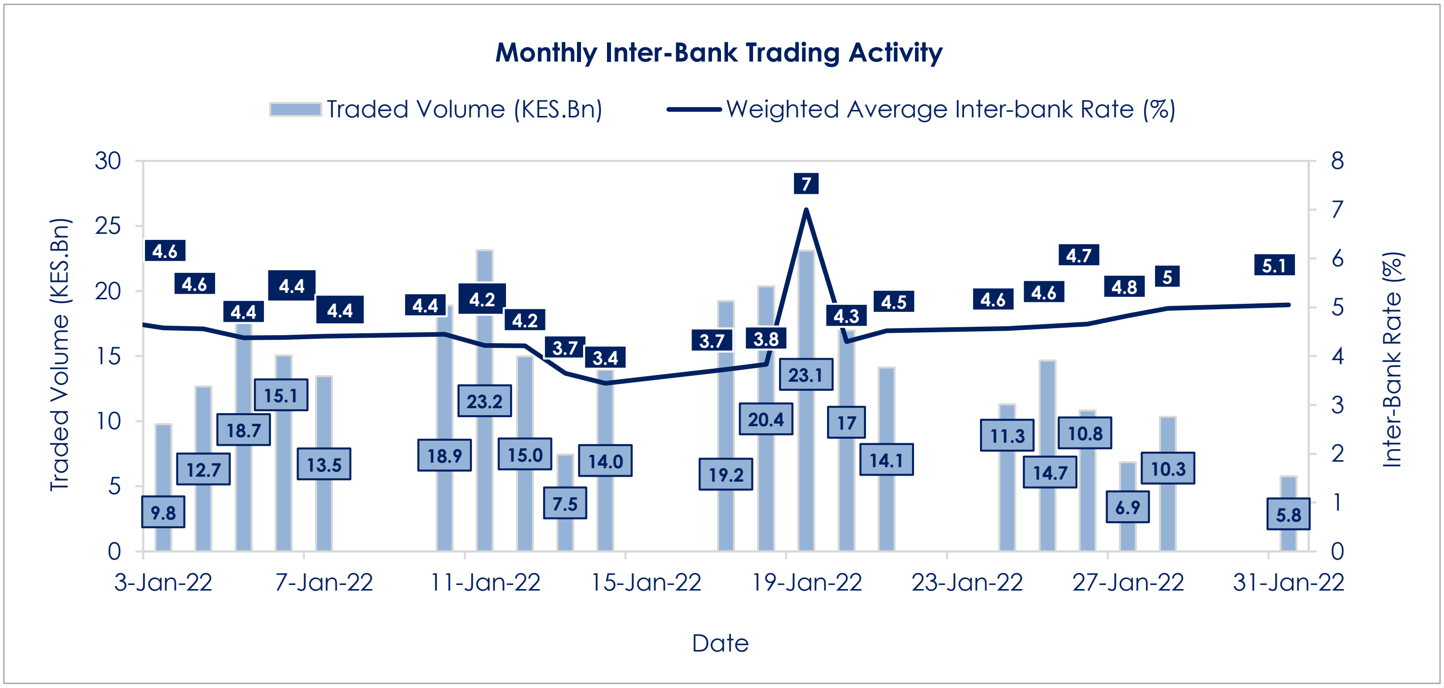


Source: Central Bank of Kenya

Average inter-bank lending rates dip in January 2022

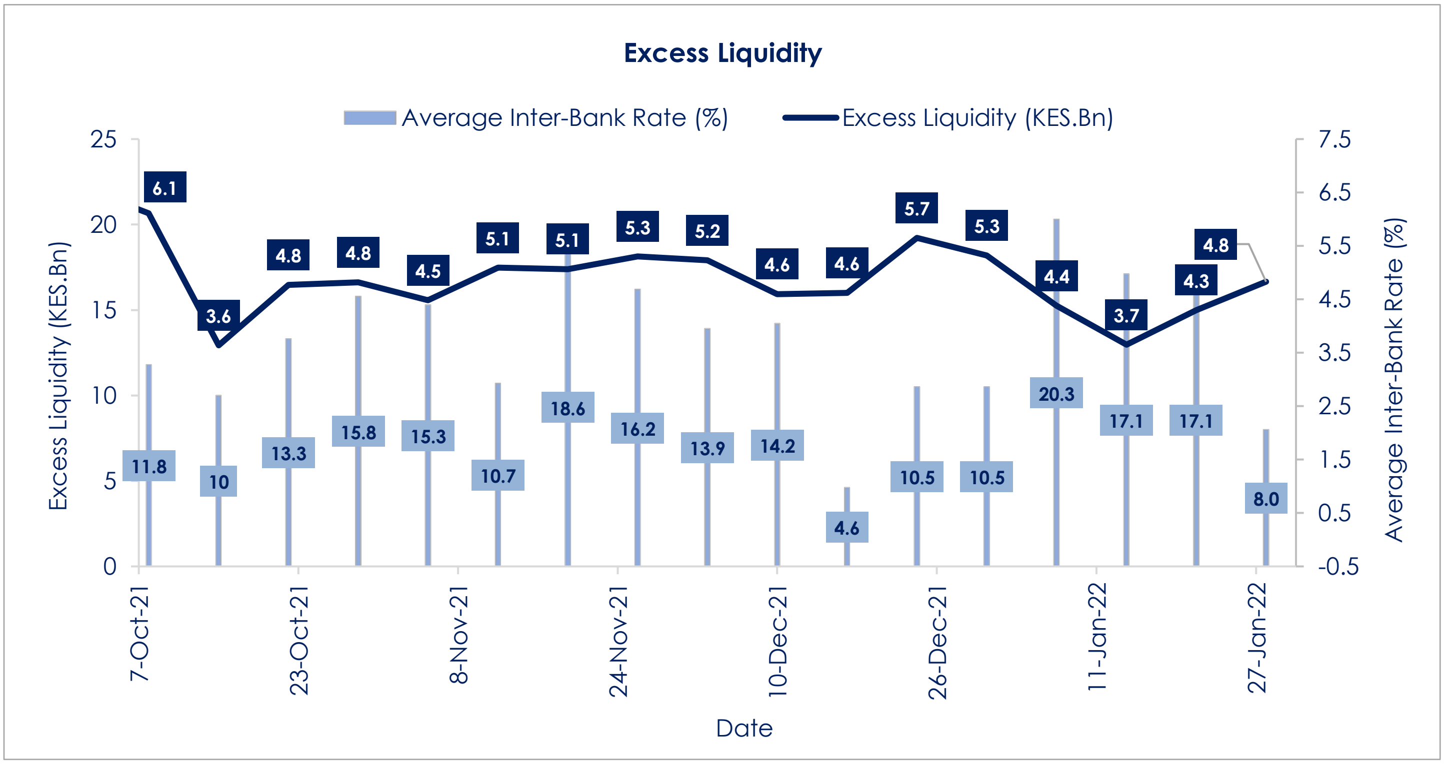
- Average inter-bank rates declined to 4.5% in January 2022 compared to 5.1% in December 2021 while total inter-bank trading volumes over the same period rose to KES.301.7Bn from KES.247.7Bn. (Figure.5).
- This decline could be attributed to excess liquidity in the market from KES.53.7Bn in December 2021 to KES.62.5Bn in January 2022.
- Excess reserves (additional liquidity above the minimum 4.25% Cash Reserve Ratio (CRR)) over the same period increased to KES.62.5Bn, compared to KES.53.7Bn in the previous month (Figure.6).
- Our forecasted average inter-bank rate for February 2022 is between 4% - 5.5%.

Figure.5: Inter-bank lending rates to range between 4% and 5.5% in February 2022



Source: Central Bank of Kenya

Figure.6: Excess commercial bank reserves decrease in January 2022

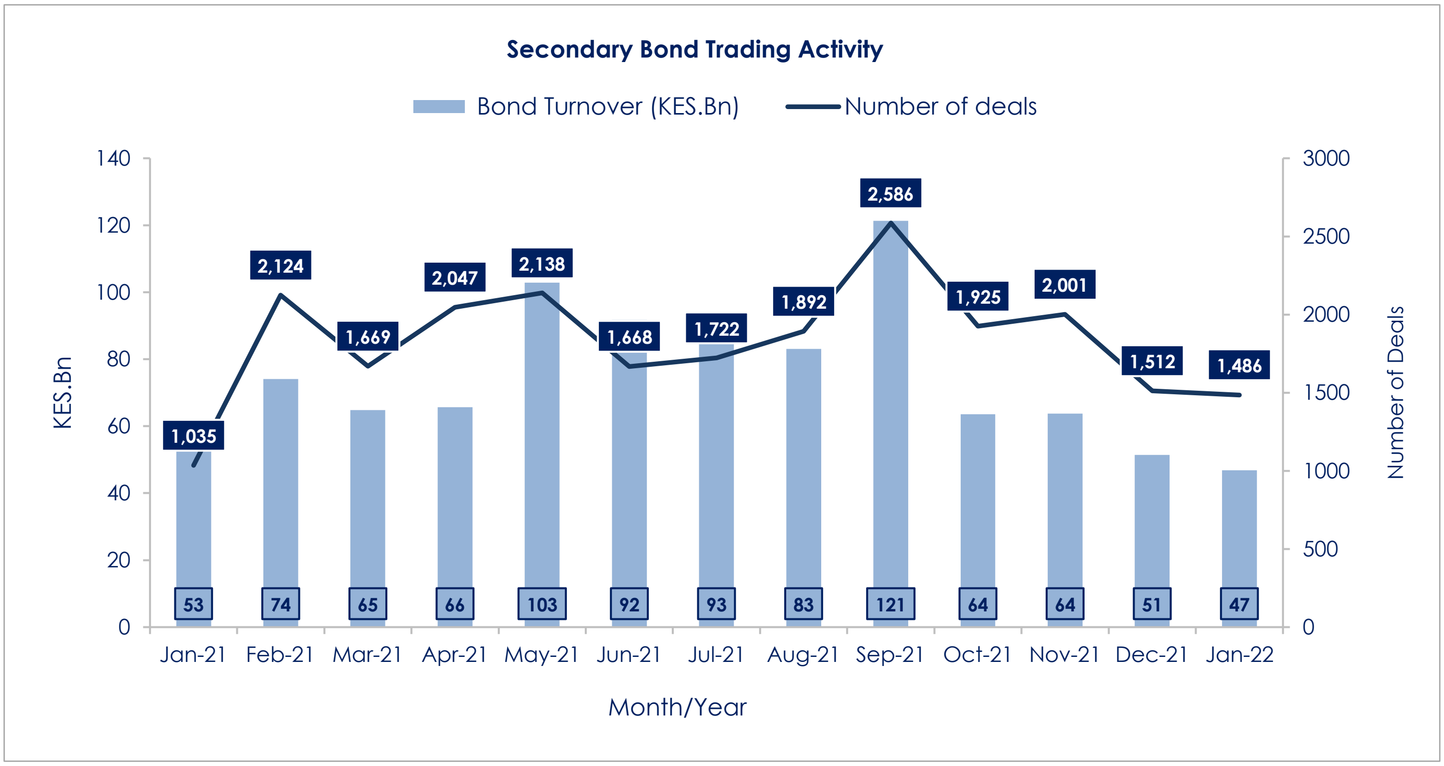


Source: Central Bank of Kenya

Secondary market bond turnover to increase in February 2022

- Against our prediction, secondary market trading activity declined 8.9% in January 2022 from December 2021 to KES.46.8Bn (KES.51.4Bn in December 2021) with the number of deals over the same period declining to 1,486 from 1,512 (Figure.7).
- This decline is explained by the general increase in implied yields within the month and mixed signals around relatively higher yields on recently issued 20 year bond and 25 year bonds, crowding out investors.
- FXD1/2021/20 is currently yielding 13.82% and selling at a discount while FXD1/2021/25 is yielding 13.80% and selling at a slight premium.
- However, we expect number of deals and turnover to pick up in February 2022 following the timely **IFB1/2022/19** issue that will appease the market and ease pressure on the interest rates given its high traction.

Figure.7: Secondary trading activity decreases in January 2022

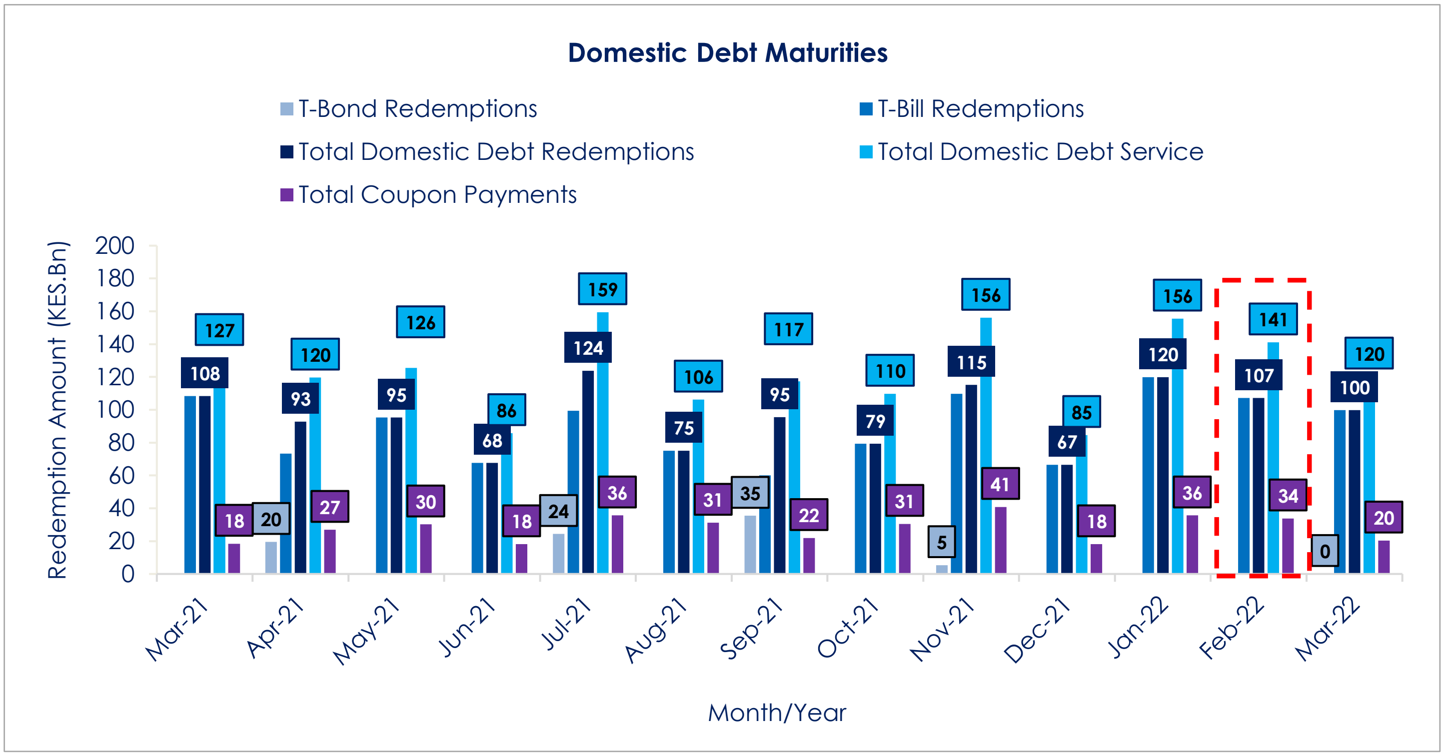


Source: Central Bank of Kenya

Domestic debt service for February 2020 at KES.141Bn

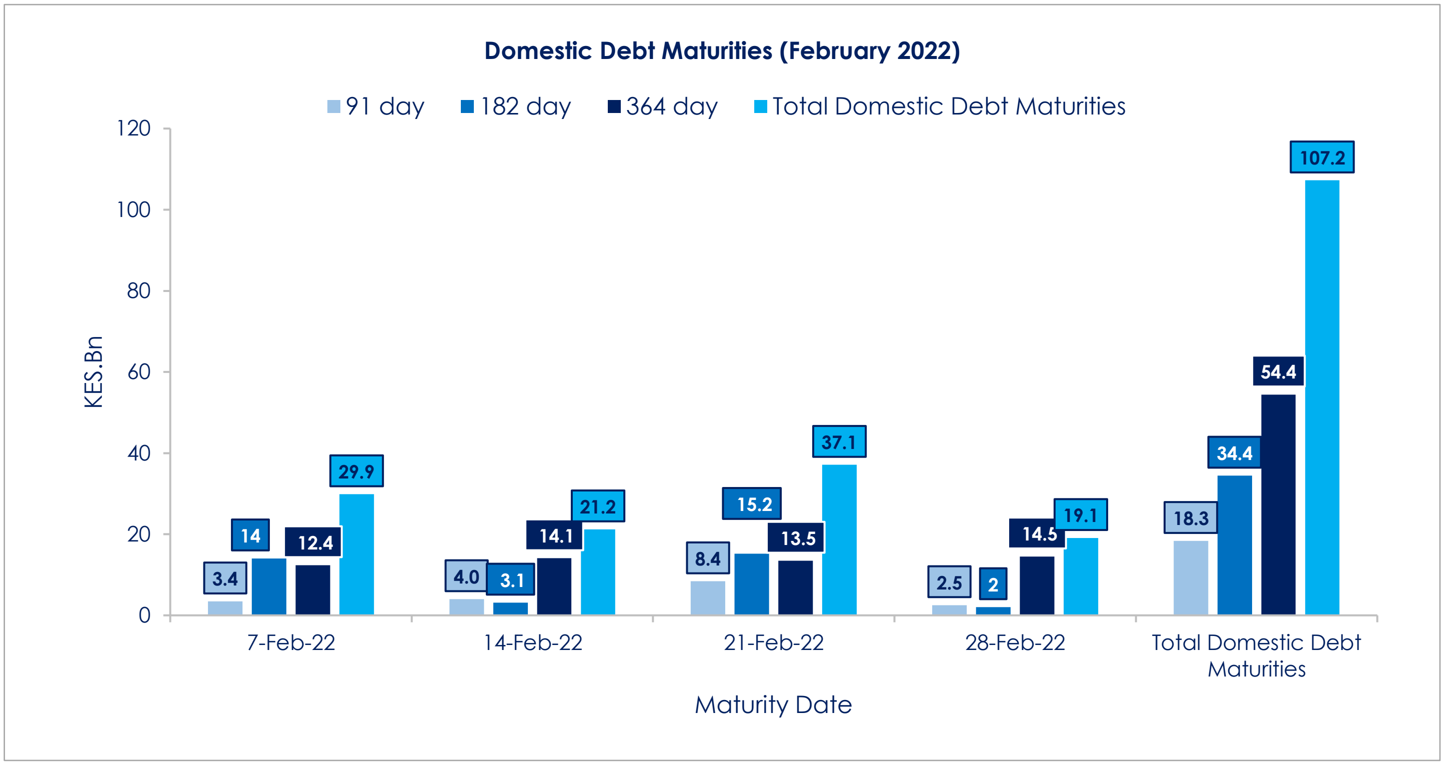
- Debt service for February is KES.144Bn, 7.4% lower than KES.155.6Bn in January.
- This comprises of KES.107.2Bn and KES.33.9Bn in T-Bill and coupon payments respectively as well as the partial redemption of IFB1/2017/12 amounting to KES.2.9Bn (Figure.8).
- Expected redemptions for the 91,182 and 364-day T-Bills during the month are KES.18.3Bn, KES34.4Bn, and 54.4Bn respectively with the third week of the month having the highest redemptions at KES.37.1Bn. (Figure.9).

Figure.8: February debt service KES.141Bn



Source: Central Bank of Kenya

Figure.9: Weekly debt maturities February 2022



Source: Central Bank of Kenya

Tax revenues above, domestic borrowing slips below 2021/22 fiscal year target

- The National Treasury surpassed our 2021/22 tax revenue linear target for the first time in the 2021/22 fiscal year at 50.9% (half year target 50%) (Table.7 and Figure.10).
- On the flip side, domestic borrowing has fallen below the same linear target at 46.5%.
- Note that our linear target run-rate assumes a flat monthly target.
- The issue of IFB1/2022/19 is likely to alter this trend with the CBK expected to accept in excess of KES.100Bn from investors which should push domestic borrowing in line with our target linear rate.

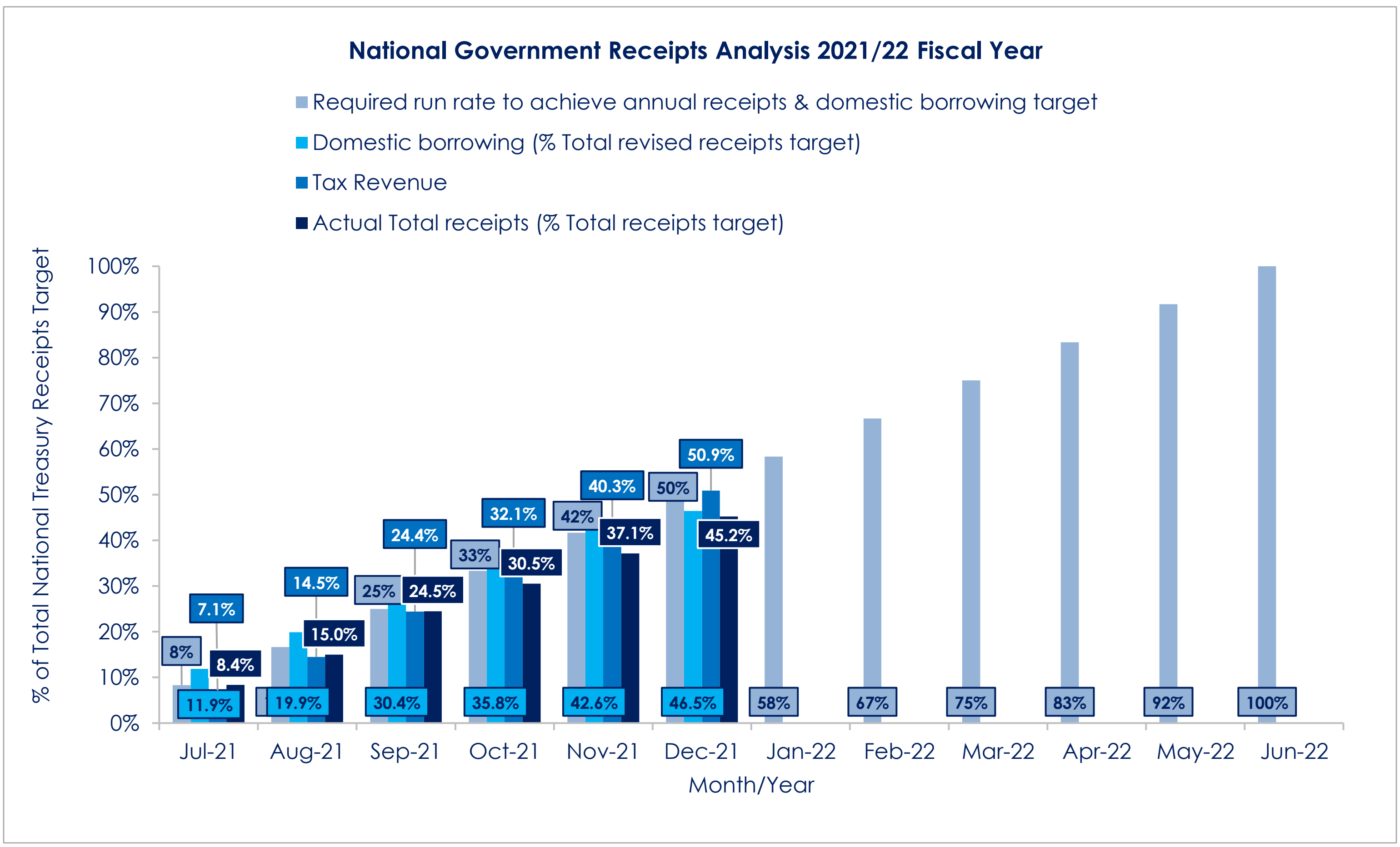
Table.7: 2020/21 fiscal year domestic borrowing above target run-rate

Receipts	Original Estimates July 2021 (KES.Bn)	Actual Receipts 30th Nov 2021 (KES.Bn)	Actual Receipts 31st Dec 2021 (KES.Bn)	Proportion of Total Receipts as at Dec 2021 (KES.Bn)
Opening Balance (1st July 2021)		21.3	21.3	-
Tax Revenue	**1,707.4**	**688.1**	**868.8**	**50.9**
Non-Tax Income	68.2	30.7	36.2	53
Domestic Borrowing*	**1,008.4**	**430.1**	**468.5**	**46.5**
External Loans & Grants	379.7	11.8	44.3	11.7
Other Domestic Financing	29.3	4.2	4.2	14.2
Total Revenue	**3,193**	**1,164.8**	**1,422**	**45.2**
Linear Run Rate target (6 months of fiscal year)				**50**

* Note 1: Domestic Borrowing of KES.1, 008.4Bn = Net Domestic borrowing KES.661.6Bn & Internal Debt Redemptions (Roll-overs) KES.346.8

Source: The Kenya Gazette Vol. CXXIV - No.6 14th January 2022

Figure.10: National Treasury at 43% of 2021/22 fiscal year domestic borrowing target

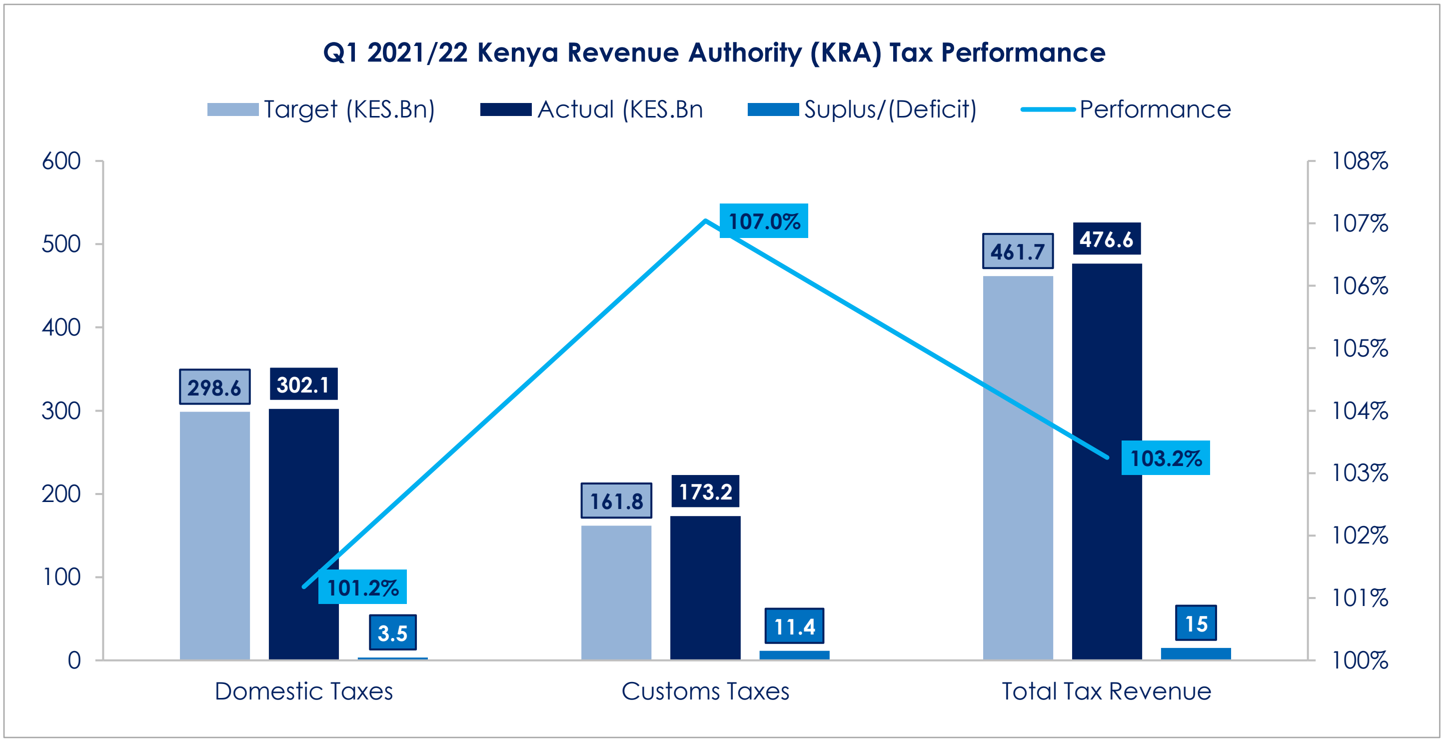


Source: The Kenya Gazette Vol. CXXIV - No.6 14th January 2022

Kenya tax revenues above targets but unlikely to cut fiscal deficit

- Quarter 1 2021/22 revenue data from the Kenya Revenue Authority (KRA) shows a marked increase in tax revenue collection compared to the same quarter of the 2020/21 fiscal year (Figure.11).
- This shows the impact of the removal of restrictions aimed to contain the spread of the Covid-19 pandemic on the economy.
- KRA attributes this trend to expansion of the tax base, improved debt recovery, use of data to enforce tax compliance, alternate dispute resolution, enhanced compliance efforts and automation of the authority's processes.
- While we view this as positive from a budget financing perspective, increased expenditure as stated in the 2021/22 supplementary budget 1 means that the net impact of tax revenue growth will have minimal impact on the fiscal deficit and the National Treasury's borrowing strategy.

Figure.11: KRA above its tax collection targets for Q1 2021/22

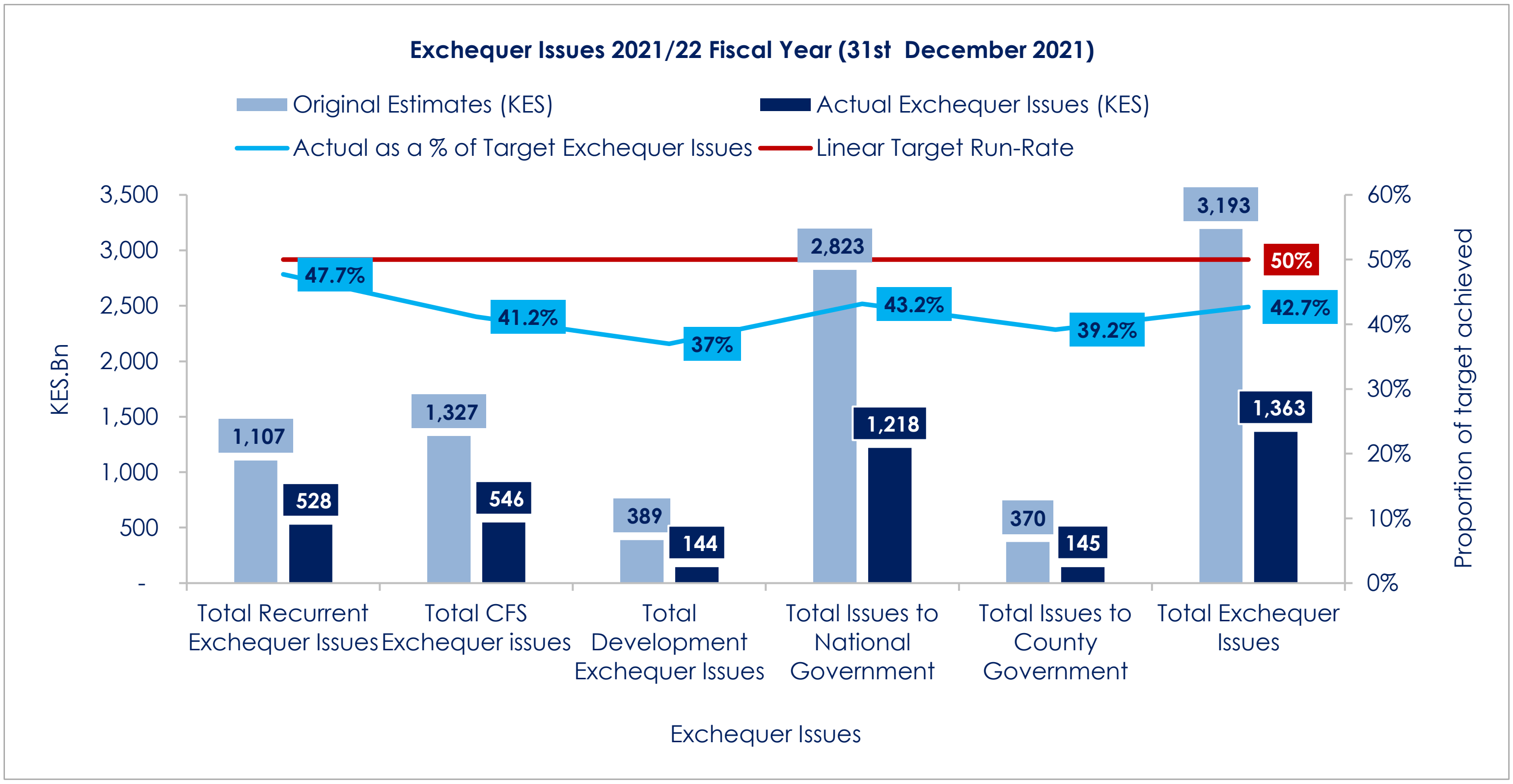


Source: Kenya Revenue Authority

Government expenditure remains below 2021/22 fiscal year expenditure run-rate targets

- Actual Total Government expenditure stood at KES.1.36Tn equivalent to 42.7% of the total fiscal year target of KES.3.19Tn (Figure.12) and below our 50% linear target run-rate for the first half of the 2021/22 fiscal year.
- Total development expenditure and transfers to county Government continue to underperform at 37% and 39.2% of the total target.

Figure.12: Government expenditure remains below target run-rate estimates

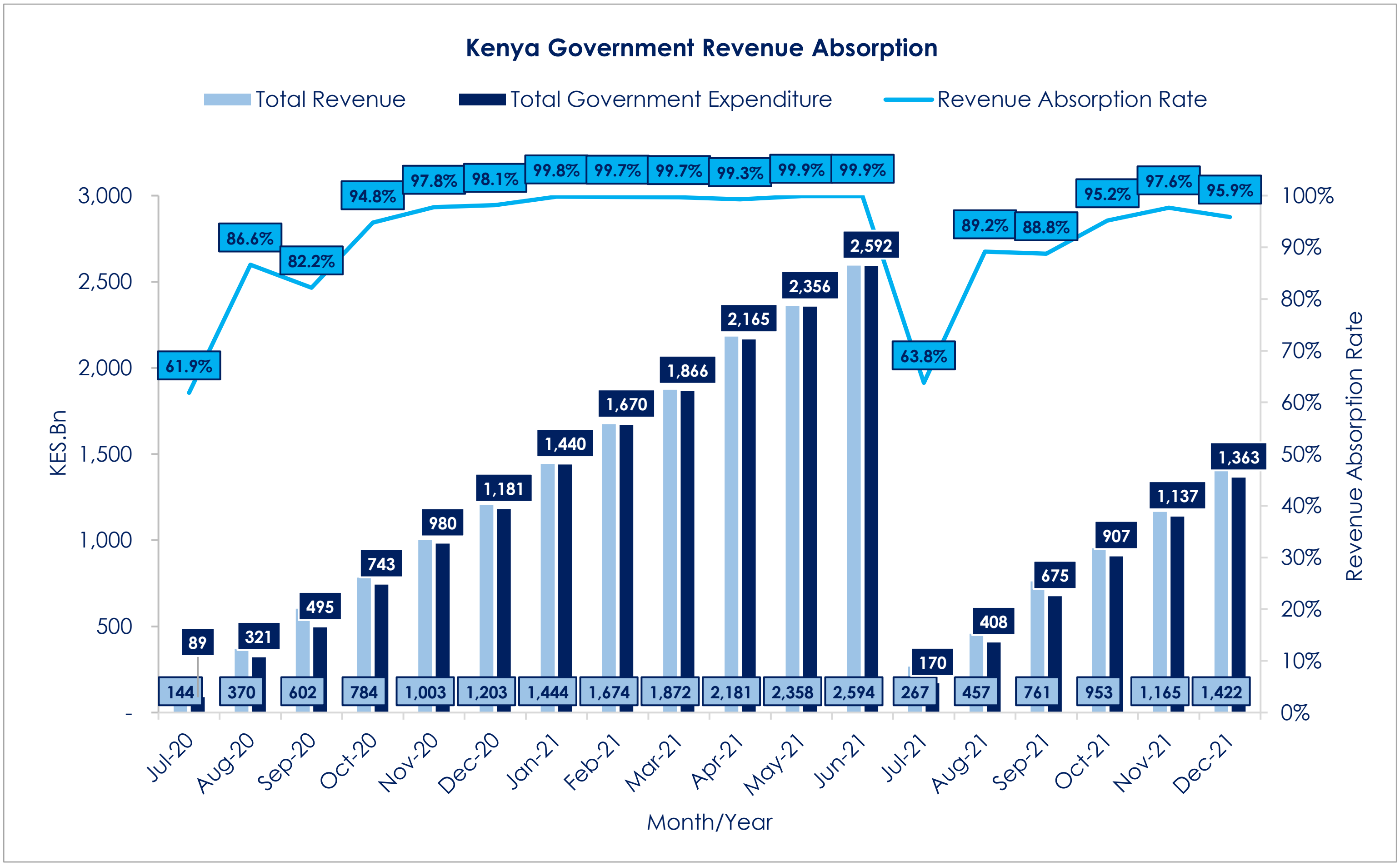


Source: The Kenya Gazette Vol. CXXIV - No.6 14th January 2022

Government Revenue Absorption dips in December 2021

- Revenue Absorption Rate (RAA) which is the proportion of Government receipts used to finance expenditure stood at 95.9% in December 2021 compared to 97.6% in November 2021 (Figure.13).
- This was also a decline from 98.1% at the same month in 2021.
- This was largely caused by a decline in CFS exchequer issues.
- We also believe that the National Treasury is cautious about non-election related expenditure in a General election year.

Figure.13: Revenue absorption dips in December 2021

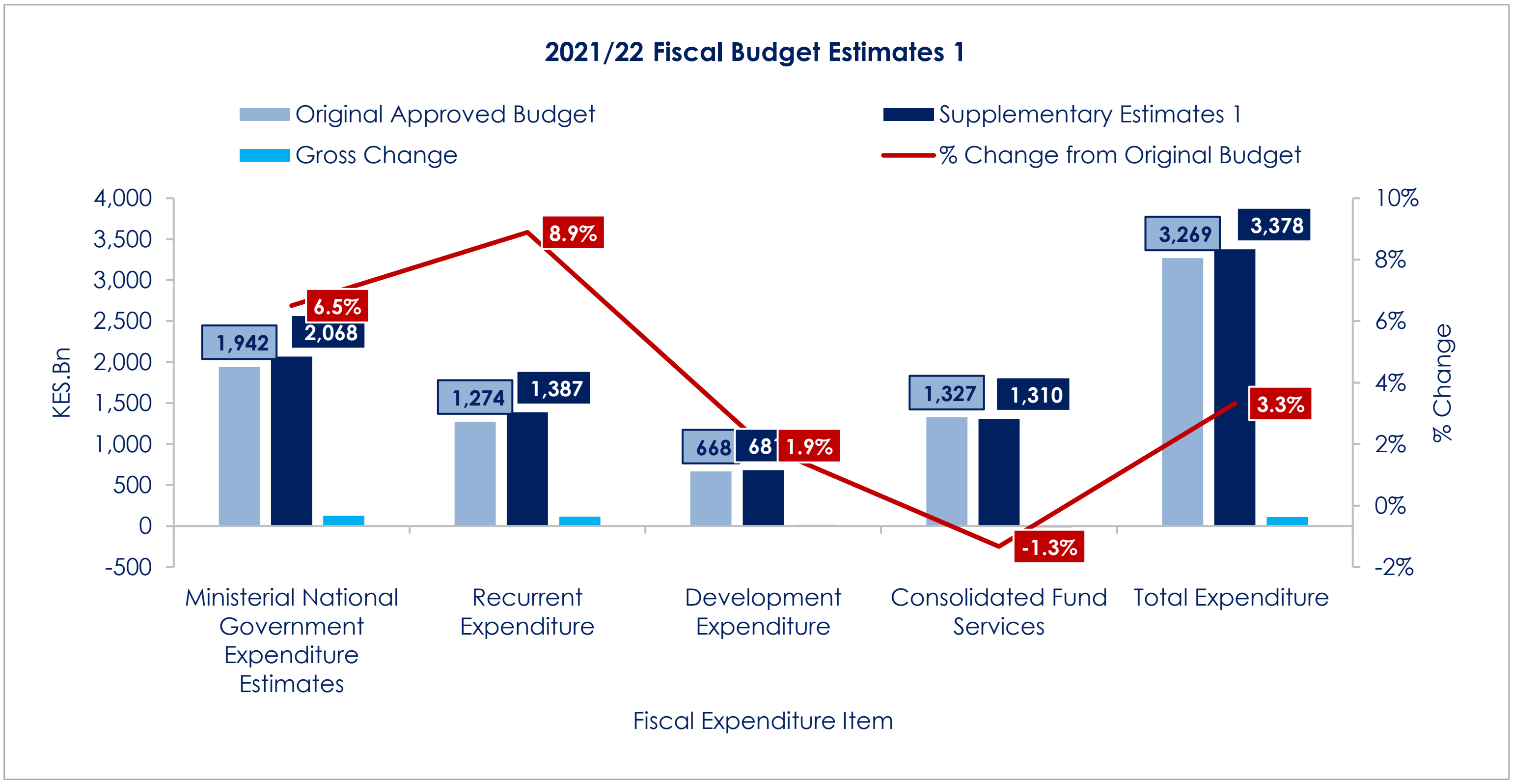


Source: The Kenya Gazette Vol. CXXIV - No.6 14th January 2022

2021/22 Supplementary Budget Estimates 1 unveil 6.5% increase in National Government Expenditure

- 2021/22 Supplementary Budget Estimates 1 show a KES.126.3Bn increase in National Government expenditure estimates (excludes consolidated fund services and county allocation) to KES.2, 068.3Bn, equivalent to an increase of 6.5% over the original approved budget (Figure.14).
- This increase is the result of an 8.9% and 1.9% increase in recurrent and development expenditure.
- The National Treasury attributes the increase to Covid-19, drought, 2022 general election, security and support for state owned enterprises expenditures.

Figure.14: Government expenditure remains below target run-rate estimates

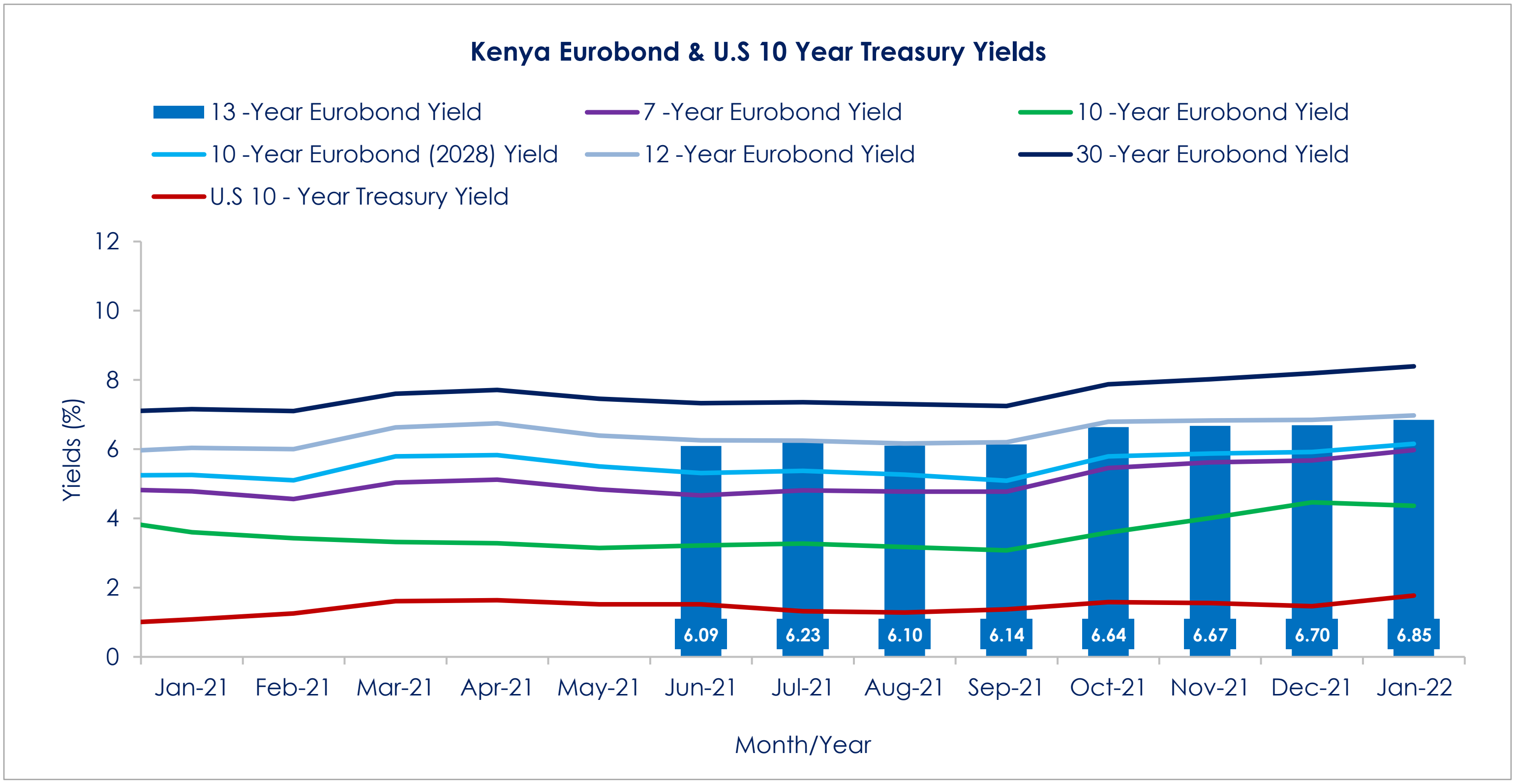


Source: The National Treasury & Planning

Kenya Eurobond yields rise in December 2021

- Average yields for all Government of Kenya Eurobond yields with the exception of 10 -Year Eurobond maturing in December 2024 rose in December 2021 compared to November 2021 (Figure.15).
- Average yields on the U.S 10-Year Treasury over the same period rose 31bps a trend we are likely to see as investors prepare for an imminent upward revision of the Fed rate.
- Generally, we expect Kenya Eurobond bond yields to rise on account of the above mentioned expectation.

Figure.15: Kenya Eurobond yields flat in November 2021

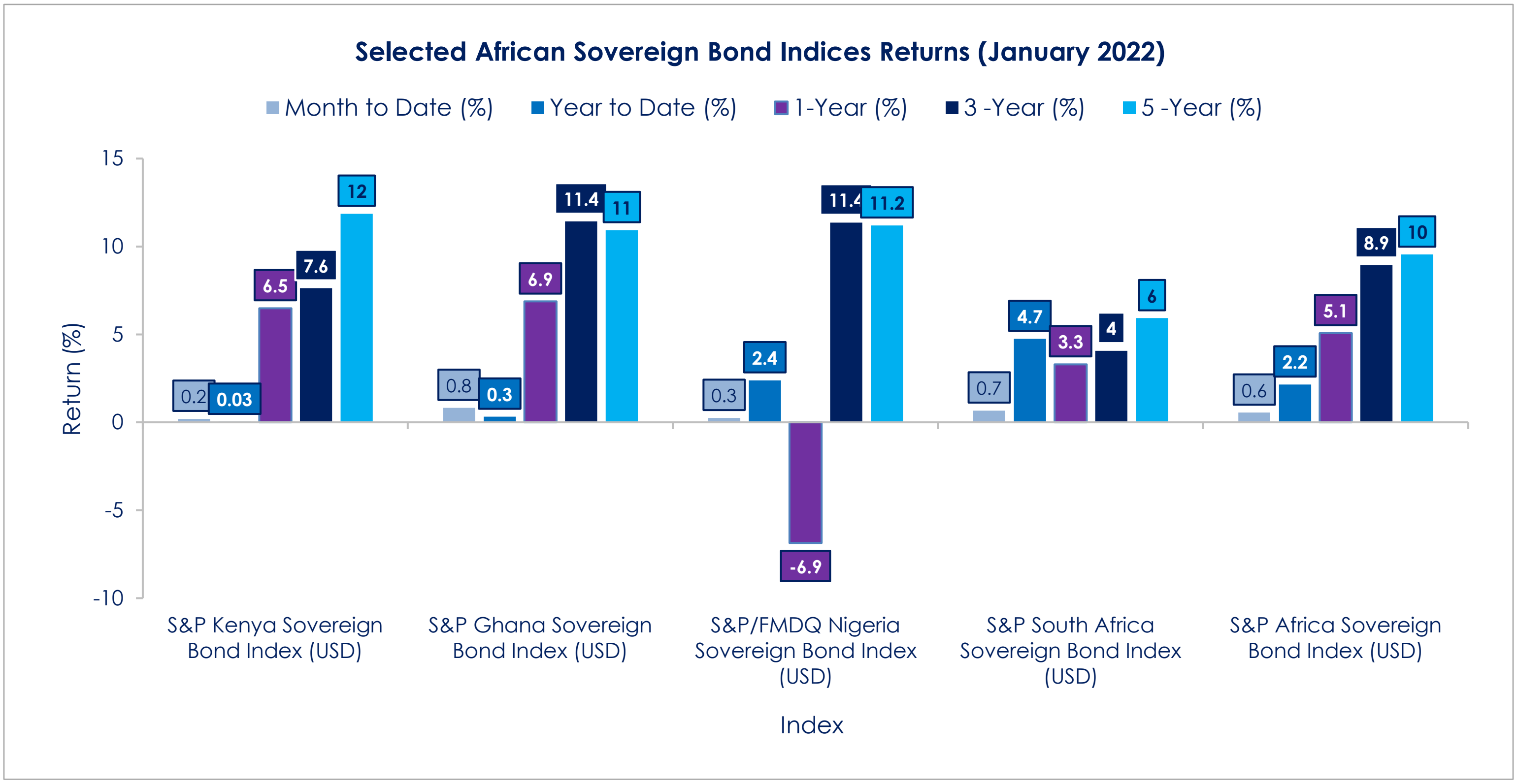


Source: Central Bank of Kenya

Ghana sovereign bond index tops month and annual performance

- The S&P Ghana Sovereign Bond Index remains the top performing sovereign bond index on a 1 year basis with a return of 6.9% (Figure.16).
- On a year to date basis, the top performing sovereign bond index has been the S&P South Africa Sovereign Bond index with a return of +4.7%.
- The Kenya sovereign Bond Index has returned 0.03% and 6.5% year to date and over the last one year.
- The reasons behind the poor return this year could be a combination of investors' expectations of new sovereign debt issues at higher yields and expectations of rising benchmark yields both of which would have a negative impact on bond prices.

Figure.16: S&P Ghana sovereign bond outperforms our comparable sovereign bond indices over 1 year



Source: S&P Global

Short-term yields on the rise

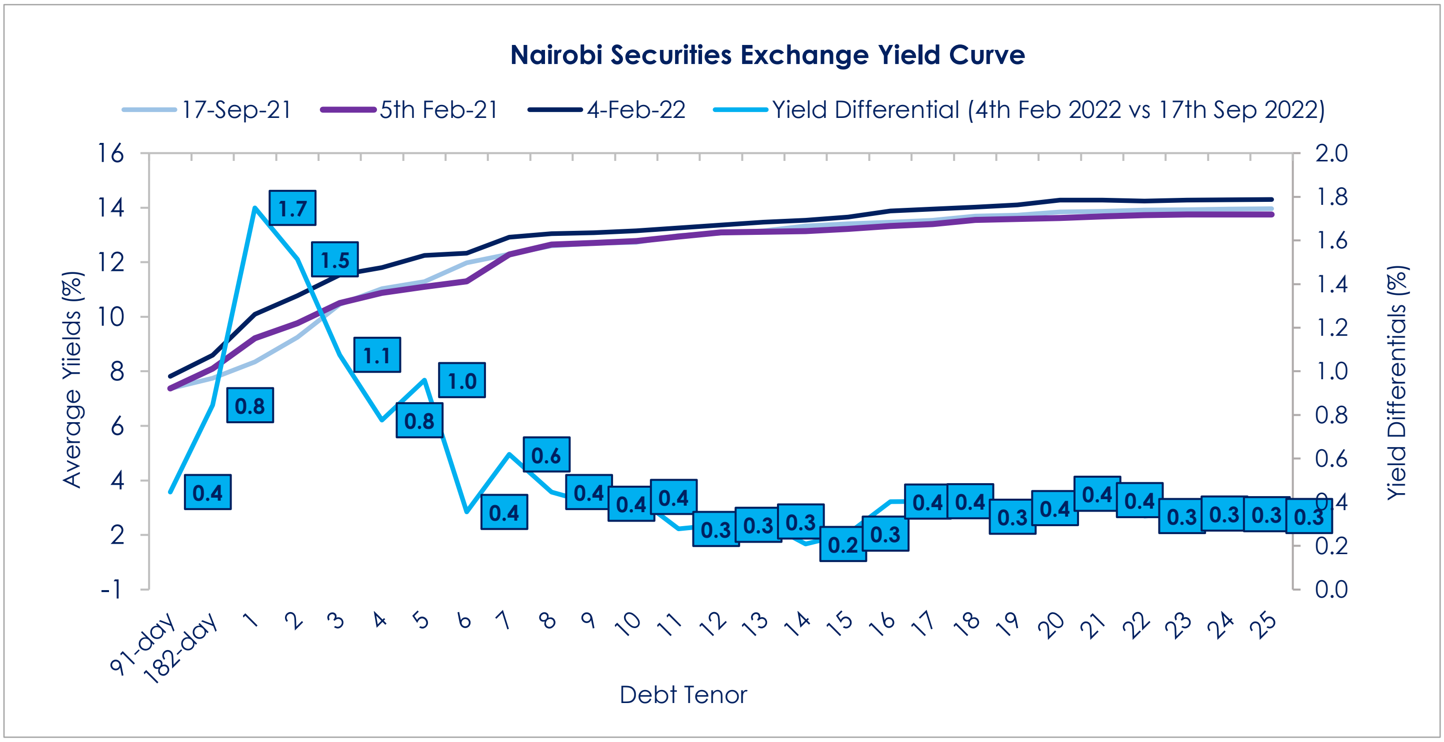
- A comparison of average yields on the NSE on 17th September 2021 (issuance of **IFB1/2021/21**) and 4th February 2022 shows an uptick across the short, medium and long tenors (Table.8 and Figure.17).
- Further, a comparison of yields during a similar period in the previous year shows an uptick across all tenors along the yield curve.
- The CBK has been driving demand for longer dated debt by accepting higher investor bids in debt auctions as its strategy to lengthen the Average Tenor to Maturity (ATM) of public debt.
- We predict a gradual increase in rates across the yield curve in 2022 due to an increased domestic debt financing demand.
- On the basis of the above, we expect a higher yield on IFB/1/2022/19 compared to **IFB1/2021/21** even with its comparatively shorter tenor.
- We maintain our recommendation of **BUY short and HOLD medium-term and long term papers.**

Table.8: Yield curve has shifted upwards since the issuance of IFB1/2021/21

Tenor	Yields (17th September 2021)	Yields (5th Feb 2021)	Yields (4th Feb 2022)	Δ Feb 2022 vs Sep) (Bps)	YoY Δ Feb 2022 vs Feb 2021 (bps)
1	7.8450	8.7160	9.5940	↑174.9	↑87.8
2	8.7534	9.2621	10.2667	↑151.3	↑100.5
5	10.7916	10.6007	11.7515	↑96	↑115.1
10	12.2299	12.2814	12.6544	↑42.5	↑37.3
15	12.9043	12.7188	13.1606	↑25.6	↑44.2
20	13.3384	13.1262	13.7774	↑43.9	↑65.1

Source: Nairobi Securities Exchange

Figure.17: Short, medium and long-term tenors rise

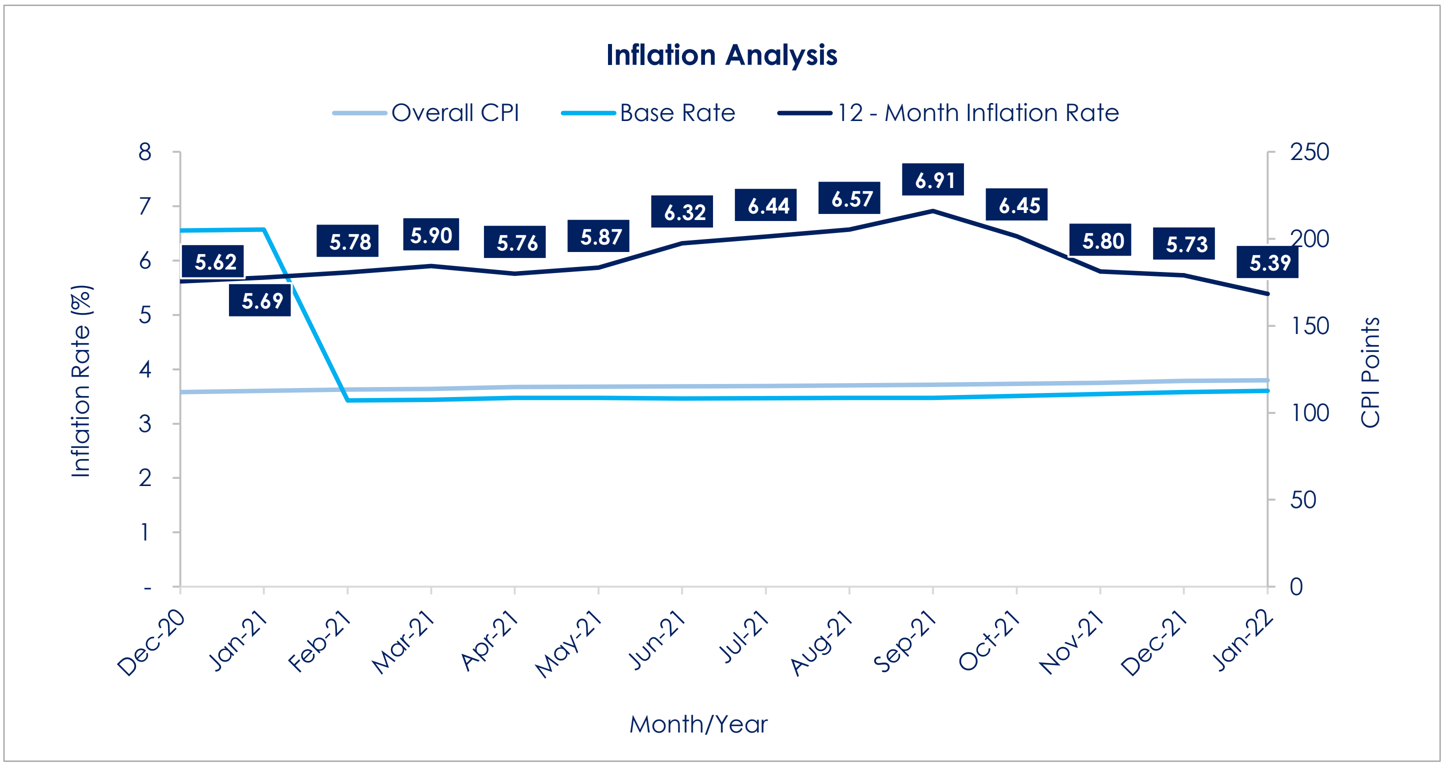


Source: Nairobi Securities Exchange

February 2022 inflation to rise on increased consumer demand

- Inflation for the month of January 2022 declined to 5.39% from 5.73% a month earlier largely due a decrease in the housing, water, electricity, gas and other fuels' index by 0.75% (Figure 18).
- During the same period, prices of mangoes, tomatoes and carrots decreased by 3.98%, 0.65% and 0.07% respectively.
- There was a marked increase in the prices of commodities under; food and non-alcoholic beverages (8.9%), transport (6.8%); and housing, water, electricity, gas and other fuels (5.1%) between January 2021 and January 2022 (Figure 17).
- Our short term forecast is that inflation will remain between 5.5% - 6.5% as at Q1.
- Further, we see inflation remaining within the medium and upper inflation bands of 5% to 7.5% through 2022.
- The rise in inflationary pressure will be of great concern to the monetary policy makers in 2022 but we do not see this resulting in an alteration in benchmark rates.

Figure.18: Short-term inflation forecast 5.5% - 6.5%



Source: Kenya National Bureau of Statistics

MPC holds monetary policy steady in January meeting

MPC maintained CBR and CRR at 7% and 4.25% respectively.

- The Monetary Policy Committee (MPC) will met on Wednesday, 26th January 2022 to review the impact of previous monetary policy measures on the economy.
- The main points of discussion were;

  1) The decline in food inflation in December which was reflective of the impact of improved rainfall.

  2) The recently released GDP data for the third quarter which showed the economy grew by 9.9% mainly due to recoveries within the services sectors.

     The committee expects strong growth in 2022 supported by continued strong performance of the services sector, recovery in agriculture and an improvement in global demand.

  3) Foreign exchange reserves which stood a U.S$8.3Bn (5.1 months of import cover) as at 26th of January 2022. The coverage remains above both the CBK's statutory requirement and the EAC region's convergence criteria of 4 and 4.5 months respectively.

  4) Gross Non-performing loans (NPLs) which stood at 13.1% in December as compared to 13.6% in October 2021.

  5) The growth in private sector credit to 8.6% in December 2021 from 7.8% in October 2021 due to notable growth in areas such as transport and communication (14.3%), manufacturing (13.1%), trade (8.5%), consumer durables (15%) and business services (9.5%).

- As per our expectations, the CBK retained both the Central Bank Rate (CBR) and Cash Reserve Ratio (CRR) at 7% and 4.25% respectively.

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.