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Fixed Income

Primary Auction Results Update Note

Kenya Mortgage Refinance Company PLC (KMRC)

February 2022

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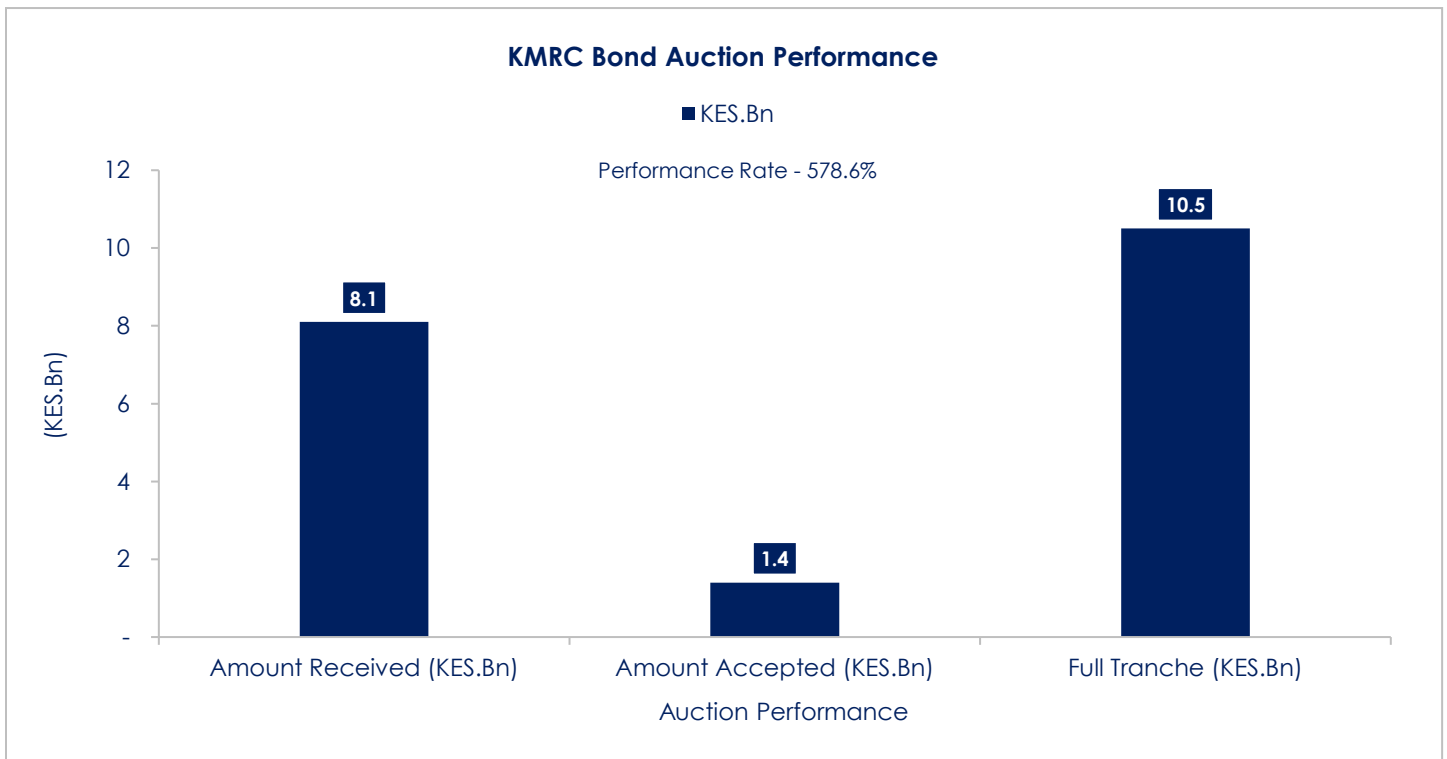
February 2022 KMRC primary auction results update

- Kenya Mortgage Refinance Company PLC (KMRC) issued a Medium Term Note (MTN) with an implied term to maturity tenor of 4.5 years in February 2022 seeking to raise KES.1.4Bn in its first tranche of KES.10.5Bn.

Subscription rate

- The debt issue was oversubscribed as mentioned in our [KMRC MTN Note](#), with total bids received amounting to KES.8.1Bn against the KES.1.4Bn target equivalent to a 578.6% subscription rate.
- We attribute the oversubscription to both the small lot size and the attractive yield offering a premium rate above current yield curve levels at 100bps and 82bps above the Kenya Treasury bonds and EABL MTN respectively.

Figure.1: KMRC primary auction results



Source: Capital Markets Authority

Our view

- 1) **Investment Case** - Oversubscription (578.6%) of the KMRC bond signals renewed confidence in the previously troubled local bond market.

Notably, the EABL MTN issued in October 2021 had an oversubscription rate of 275%.

However, we recommend a “hold” for this bond due to its associated credit risk, liquidity risk and potential decrease in its marketability in the near future since the yield curve is expected to gradually shift up.

Our preference remains the concurrently issued **IFB1/2022/19** which has a slightly higher coupon of 12.97%, is tax exempt and highly liquid in the secondary market.

Further, government debt continues to present a compelling investment case for both “buy and hold” or active bond trading strategies considering subdued equity prices, rising inflationary pressure and limited low risk high yielding investment options available.

- 2) **Market Liquidity** - The repo, reverse repo and inter-bank rates as of 23rd February 2022 were 4.8%, 8.6% and 5.6% pointing to a relatively liquid environment.

With the CBK largely issuing reverse repos during the month of January and February amounting to KES.130Bn in what we see was a bid to inject liquidity to support subscription for the concurrently issued IFB1/2022/19 in turn provided liquidity for the KMRC note.

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