



**STERLING INVESTMENT BANK**

Member of the Nairobi Stock Exchange

# FIXED INCOME SECURITIES REPORT

REPORT NO.006

E-Mail: | [research@sterlingstocks.com](mailto:research@sterlingstocks.com) / [victor@sterlingstocks.com](mailto:victor@sterlingstocks.com)

Website: | [www.sterlingstocks.com](http://www.sterlingstocks.com)

FOR THE BEST BOND DEALS, YOU CAN RELY ON SIB.

---

WEEK ENDED AUGUST 8, 2008

## Summary of the current Bond(s) Issue

*This report focuses on the current two-year and five-year fixed coupon, Discounted Treasury bonds Issue Nos. FXD 3/2008/2 and FXD 3/2008/5 dated August 25, 2008.*

*Amount: up to Kshs. 8 billion  
 Coupon: 8.75% for the one-year; 9.50% for the five-year  
 Interest payment frequency; Semi-annual  
 Redemption dates: 2-year 23/08/2010; 5-year 19/08/2013  
 Period of sale 08/07/2008 to 23/07/2008  
 Bids closure: 2.00pm Wednesday August 20 2008  
 Auction Date: 21/08/2008  
 Secondary trading of the bond: In multiples of Kshs. 50,000 trading to commence on Thursday August 28, 2008*

## Background

From time to time, the Government of Kenya (GoK), through the Central Bank invites bids for bonds to either pay for maturing bonds or borrow afresh from the capital market. The minimum amount required for bids is Kshs. 50,000. In a case of non-competitive bids, the maximum per investor per tenor is Kshs. 10million. Interest payments are subject to the prevailing withholding tax. Results are usually available on the amounts payable for successful bids, from CBK on the next working day after the auction.

## Results for the Latest Bond(s) Issue

Released results for subscription to the 1 year - 0.00% (zero) coupon discounted Treasury bond and the 10 year - 10.75% fixed coupon discounted Treasury bond that will be redeemed on 27/07/2009 for the 1-year 16/07/2018 for the 10-year bond had a combined 143.65% performance rate. The relatively better performance of the bonds market during the period of the auction was attributed to the easing of market liquidity because of the higher amount of rollovers and a return (albeit slow) to normalcy in market liquidity conditions following the Safaricom IPO.

The auction attracted bids worth Kshs. 11.49Bn, out of which, Kshs. 2.8Bn worth were accepted. Of the accepted bids, Kshs. 2.3Bn or 79.38% were in the competitive bids category.

## Results of Treasury bond issue Nos. ZC 2/2008/1 and FXD2/2008/10 dated 28-Jul-2008

	ZC 2/2008/1	FXD2/2008/10	
Tenor	1 Year	10 Year	
Due Date	27/07/2008	16/07/2008	
Total Amount Offered (Kshs. Millions)			8,000.00
Total Bids Received (Kshs. Millions)	8,066.94	3,424.93	11,491.87
Performance Rate (%)			143.65
Number of Bids Received	194	223	417
Number of Successful Bids	114	101	215
Total Amount Accepted (Kshs. Millions)	1,966.99	847.49	2,814.48
Of Which: Competitive Bids	1,747.27	585.85	2,333.12
: Non-Competitive Bids	219.73	261.63	481.36
Average Redemption Yield (% P.a)	9.653	11.42	
Price per Kshs. 100 at average yield	91.003	96.066	
Coupon Rate (%)	0.000	10.75%	
Purpose: Redemptions (Kshs. Millions)			6,717.99
: New borrowing (Kshs. Millions)			3,903.51

Source: Central Bank of Kenya, SIB

## Results for T-Bill Auction (Issue No. 1794) dated August 11 2008

The performance of the Treasury bill auction issue no. 1794 dated 11/08/2008 improved as market players re-aligned themselves to adjust their portfolios, to take advantage of the less volatile fixed income securities market. Relatively eased market liquidity conditions contributed a continuing significant oversubscription trend, with the government T-bill market witnessing a 278.60 performance rate, against the a 171.30% performance rate in the preceding week. We reckon that, in the short-to-medium term investor preference is likely to remain stuck with the fixed income securities market due to the fact that the equity market which would have provided an alternative investment vehicle has been dogged by a bearish sentiment in the last few months.

## Results for the latest Treasury bill No. 1794 dated 11/08/2008

	91 days T-Bill	182 days T-bill	Total
Due Date	10/11/2008	09/02/2009	
Total Amount Offered (Kshs. Millions)			5,000.00
Total Bids (Kshs.M)	2,796.65	11,135.45	13,932.1
Performance Rate (%)			278.6
Number of Successful Bids	78	52	130
Total Amount Accepted (Kshs. Millions)	1,234.47	3,981.79	5,216.26
Of Which: Competitive Bids	973.15	2,096.63	3,069.78
: Non-Competitive Bids	261.32	1,885.16	2,146.48
Price per Kshs. 100 at average yield	98.012	95.737	
Average Interest Rate (%)	7.902	8.951	
Purpose: Rollover			5,007.88
: New Borrowing			208.38
Moving Average Rate (%)	7.902	8.951	

Source: Central Bank of Kenya

## Comparative Treasury bill average rates

	12-Week Moving Average (%)	This Auction (%)	Last Auction (%)	Variance
Value Date		11/08/2008	04/08/2008	
91 Days	7.902	8.1	8.21	0.110 ↓
182 Days	8.951	8.93	9.159	0.229 ↓

Source: Central Bank of Kenya

In the week to August 8 2008, the average interbank rate was down, to 7.70%, from 8.09%, with interbank volumes falling from Kshs. 77.5b registered in the previous week, to Kshs.64.1b. The REPO rate however rose by 55 basis points to 6.08%, with a volume of Kshs. 22.1b being mopped, up from Kshs. 17.5b mopped in the preceding week. Given the easing liquidity conditions currently obtaining in the market, we expect these rates to either remain stable or decrease marginally in the coming days.

The latest Treasury bills offer issue no. 1795 dated 18/08/2008 has the government offering for subscription KShs. 5b worth of T-bills.

## Treasury Bills offer for issue (No. 1792)

	Kshs. Millions
Offer Amount (Kshs. Millions) of which:	5,000
Rollover	5,808.29
Net Repayment	808.29

Source: Central Bank of Kenya, SIB

The continued easing of market liquidity conditions is likely to play a key role in dictating the direction of market interest rates. Investors have been weary of recent upward revision of base lending rates, a signal that we have not seen the last of an interest rate increase that might lead to inflationary pressure. About six banks have already increased their base rates due to the high inflationary pressure that appears to have eased in the month of July to 27%. Bonds turnover decreased to Kshs 2.4Bn in the month of July 2008 compared to Kshs. 4.9Bn in June 2008. The reduced turnover may have been due to the interest rate direction.

Last month's 1-year and 10-year bond had a performance rate of 143.65%, yet, the Central Bank of Kenya only accepted 24% of the total bids received. Total amount accepted was 35% of the Kshs. 8 billion offered. This is yet another clear indication that the government has been conservative on the yield it is accepting on the primary bond issue.

REPO and Interbank rate  
- Week ended August 7  
11 2008

T-Bill offer  
Issue (No. 1792)

Secondary Bond Market  
Trading & Outlook

Point(s) to note

## Current Primary Bond Issue(s)

The government has also strategically issued bonds with two different tenors and this has been giving it leeway in terms of flexibility on the acceptance of bids.

The current 2-year and 5-year issues cater for maturities amounting to Kshs. 6.7Bn and new borrowing by the government of Kshs.1.3Bn. The two bonds are competing for the total value of Kshs. 8Bn that the government wants to raise. The Indicative yield on the 2 year bond is 10.20% and on the 5 year bond, it is 10.80%.

## Current Primary Bond Issues(s)

	FXD 3/2008	FXD 3/2008/5
Tenor	2-year	5-year
Price	Discounted	Discounted
Coupon	8.75%	9.50%
Minimum Amount	KShs. 50,000	KShs. 50,000
Placing Agents	Sterling Investment Bank can place for you	
Trading	Secondary trading of the bond on NSE in multiples of Kshs 50,000 will start on Thursday Aug. 28, 2008.	Secondary trading of the bond on NSE in multiples of Kshs 50,000 will start on Thursday Aug. 28, 2008.
Interest Payment Dates	23/02/2009, 24/08/2009, 22/02/2010, 23/08/2010	23/02/2009, 24/08/2009, 22/02/2010, 23/08/2010, 21/02/2011, 22/08/2011, 20/02/2012, 20/08/2012, 18/02/2013 and 19/08/2013.

Source: Central Bank of Kenya, SIB

In the last 2-year bond issue FXD 2/2008/2 the government auctioned Kshs.7.0 billion and accepted bids for Kshs.6.7Bn at an average yield rate of 10.235%. Further, in the last 5-year bond issue FXD 2/2008/5 the government auctioned Kshs.7.0 billion and accepted bids for Kshs.3.8Bn at an average yield rate of 11.249%. The expectation is for the government to try to largely maintain the same average rate tempo.

## Bidding for the FXD 3/2008/2

Aggressive Bids - 10.20 - 10.60%  
 Conservative Bids - 9.80- 10.20%

## Bidding for the FXD 3/2008/5

Aggressive Bids - 11.00 -11.50%  
 Conservative Bids - 10.50- 11.00%

Mr. Stanley Ngaine  
 Chairman  
 Phone: + 254 (20)2211915  
 Email: [sngaine@sterlingstocks.com](mailto:sngaine@sterlingstocks.com)

Mr. Ahmed Ndope  
 Chief Executive Officer  
 Phone: +254(20)2211917  
 Email: [ndope@sterlingstocks.com](mailto:ndope@sterlingstocks.com)

Mr. John Kirimi  
 Executive Director  
 Phone: +254(20)2211916  
 Email: [jekirimi@sterlingstocks.com](mailto:jekirimi@sterlingstocks.com)

Mr. David Ithanya  
 Executive Director  
 Phone: (+254(020) 2213914  
 Email: [david@sterlingstocks.com](mailto:david@sterlingstocks.com)

Mr. Justus Agoti  
 Research Analyst  
 Phone: (+254(020) 2213914, 244077  
 Email: [research@sterlingstocks.com](mailto:research@sterlingstocks.com)

## Disclaimer

All facts and figures are from sources deemed reliable and believed to be accurate. Information contained in this document has been prepared from data available as at the date of preparation and may have since changed. Past performance does not guarantee future results. This document should not be misconstrued to be an express recommendation for a buy, sell or hold position on any security. The investor should consider their investment objective and risk tolerance before taking any investment action.

## Expectations for the current Bond Issue(s)