



**STERLING INVESTMENT BANK**

Member of the Nairobi Stock Exchange

# FIXED INCOME SECURITIES REPORT

REPORT NO.002/09 - APRIL 2009

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THE ISSUING OF A 10-YEAR BOND & RE-OPENING OF THE 5-YEAR BOND

## Summary of the Latest Bond Issue

**This report focuses on the current ten-year fixed coupon, Discounted Treasury bond Issue No. FXD 1/2009/10 and the re-opened 5-year fixed coupon, Discounted Treasury bond Issue No. FXD 4/2008/5 dated April 2009.**

*Amount: up to Kshs. 10 billion*

*Coupon: 9.50% for the five-year 10.75% for the ten-year*

*Interest payment frequency; Semi-annual*

*Redemption dates: The 5-year – 21/10/2013; the 10-year – 15/04/2019*

*Period of sale 05/09/2008 to 24/09/2008*

**Bids closure: 2.00pm Wednesday April 22 2009**

*Auction Date: 08/04/2009 to 22/04/2009*

*Secondary trading of the bond: In multiples of Kshs. 50,000 trading to commence on Thursday April 30 2009*

## Background

A Bond is a debt instrument in which an investor (in this case you) loans money to an entity (in this case government of Kenya) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, Kenya and foreign governments to finance a variety of projects and activities. Bonds are commonly referred to as fixed-income securities and are one of the three main asset classes, along with stocks and cash equivalents.

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 a fresh 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.

CBK invited bids for T-Bills for Kshs 6bn and received bids worth Kshs. 5.98bn, representing a 99.7% subscription.

### Results for the latest Treasury bill No. 1830) dated April 20 2009

	91 days T-Bill	182 days T-bill	Total
<b>Due Date</b>	20/07/2009	19/10/2009	
<b>Total Amount Offered (Kshs. Millions)</b>			6,000.00
<b>Total Bids (Kshs.M) received</b>	870.32	5,109.70	5,980.02
<b>Performance Rate (%)</b>			99.67
<b>Number of Successful Bids</b>	97	55	152
<b>Total Amount Accepted (Kshs. Millions)</b>	719.83	3,959.54	4,679.37
<b>Of Which: Competitive Bids</b>	424.88	3,545.24	3,970.11
: Non-Competitive Bids	294.95	414.30	709.25
<b>Price per Kshs. 100 at average yield</b>	98.203	95.947	
<b>Average Interest Rate (%)</b>	7.338%	8.471%	
<b>Purpose: Rollover</b>			4,126.37
: New Borrowing			553.00
<b>12 Week Moving Average Rate (%)</b>	7.397%	8.000%	

Source: Central Bank of Kenya

## Results for T-Bill Auction (Issue No. 1830) dated April 20 2009

The total amount received with bids below Kshs. 1m was Kshs. 9.9m, equivalent to 0.17% of the total bids received. Bids accepted were 78.25% of the total bids received and distribution was 15.38% in 91 days and 84.62% in 182 days.

#### Comparative Treasury bill average rates

	This Auction (%)	Last Auction (%)	Variance
<b>Value Date</b>	20/04/2009	13/04/2009	
<b>91 Days</b>	7.338	7.341	▼(0.003)
<b>182 Days</b>	8.471	8.288	▲(0.183)

Source: Central Bank of Kenya

#### T-Bill offer for issue No. 1831 dated 27/04/2009

<b>Offer Amount (Kshs.M) of which:</b>	6,000.00
<b>Rollover/Redemptions</b>	2,132.99
<b>New Borrowing</b>	3,867.01

Source: Central Bank of Kenya

In the latest bond issue results, the Government had offered for sale a 2-year Treasury bond worth Ksh 8.5 billion and received bids totaling Ksh 14.3 billion. The performance of the auction was 168.8 percent.

#### Results of Treasury bond Issue No. ZC1/2009/2 dated 23-Mar-2009

Tenor	2- Year	
<b>Due Date</b>	21/03/2011	
<b>Total Amount Offered (Kshs. M)</b>	8,500.00	
<b>Total Bids Received in Kshs. M</b>	14,347.30	
<b>Performance Rate (%)</b>	168.79	
<b>Total Number of Bids Received</b>	545	
<b>Number of Successful Bids</b>	284	
<b>Total Amounts Accepted (Kshs. M)</b>	8,500.00	
<b>Of which: Competitive bids</b>	8,116.69	
<b>Non-competitive bids</b>	383.31	
<b>Average Redemption Yield(% p.a)</b>	9.886	
<b>Price par Kshs 100 at average yield</b>	97.983	
<b>Coupon Rate</b>	8.750	
<b>Purpose/ Application of funds:</b>		
<b>Redemptions</b>		4,427.69
New Borrowing by Government		4,072.31

Source: Central Bank of Kenya

Going by the latest Treasury bond subscription levels, it can be safely said that activity in the primary bonds market is expected to remain vibrant.

Summary of the Latest T-Bill  
issue

Results of Treasury Bond  
Issue No. FXD1/2009/2  
Dated 23-Mar-2009

## The Latest T-Bond issues

**Bond re-opening**

The re-opening of the **5-year bond** that was initially issued on October 27 2008 as FXD4/2008/5 for a total of up to Kshs. 7bn out of which a total of Kshs. 4.42bn was taken at a coupon rate of 9.5% is the first re-opening of a Treasury bond in Kenya.

*Re-opening of a bond* - Refers to the process of reverting to an earlier issued bond and re-floating it after increasing the outstanding amount of the bond, with the aim of eliminating the issuance of many small fragmented bonds whilst increasing the trading in and liquidity of the already issued specified benchmark bonds by bond consolidation around those benchmark bonds.

- Depending on the ruling market interest rates at the time of reopening, the re-opened bond issue may have a different yield-to-maturity rate from its coupon rate.
- The average yield of the re-opened bond is determined at the re-opening auction.
- The bond's price at the re-opening auction will be close to the price in the secondary market because the bond has already traded in the past.
- If the value date for re-opening falls on an exact coupon payment date, the pricing for the bond will be the same as pricing at original issue except that remaining time to maturity will have decreased by the number of interest periods expired. As a result, prices at re-opening are to be different from those at original issue. There is no accrued interest and the resultant price is the clean price.
- Re-opening on a date other than an interest payment date requires the investor to pay slightly more at purchase because of the resulting accrued interest and tax levied on discount. Investors might bid yields slightly higher than the coupon rate but end up paying a par or premium price as the case may be.

**Interest payments for the FXD 4/2008/5 (5-year) and the FXD 1/2009/10 (10-year) bonds**

Interest payment dates					
FXD 4/2008/5 (5-year)			FXD 1/2009/10 (10-year)		
26/10/2009	23/04/2012		26/10/2009	21/10/2013	16/10/2017
26/04/2010	22/10/2012		26/04/2010	21/04/2014	16/04/2018
25/10/2010	22/04/2013		25/10/2010	20/10/2014	15/10/2018
25/04/2011	21/10/2013		25/04/2011	20/04/2015	15/04/2018
24/10/2011			24/10/2011	19/10/2015	
			23/04/2012	18/04/2016	
			22/10/2012	17/10/2016	
			22/04/2013	17/04/2017	

Source: Central Bank of Kenya

The **10-year bond** is a new issue. The most recent 10-year issue was one issued in September 2008 (FXD3/2008/10) at a coupon of 10.75%. The average yield of that bond is at 11.75%.

### Expectations for the Bonds Issues

For both bonds, we expect the average bid rates to be at approximately the same level as the most recent similar tenor bonds, with market liquidity determining the fluctuations from those rates. It is also noteworthy that lately, there has been renewed interest in government securities, following investors' dissatisfaction with the continued subdued performance of the stock market. It is likely that the floated bonds will attract wide interest.

#### Bidding for:

##### a. The re-opened 5-year bond

Aggressive Bids	-	10.75 – 11.25%
Conservative Bids	-	10.25 – 10.75%

##### b. The 10-year newly issued bond

Aggressive Bids	-	11.75 – 12.25%
Conservative Bids	-	11.25 – 11.75%

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