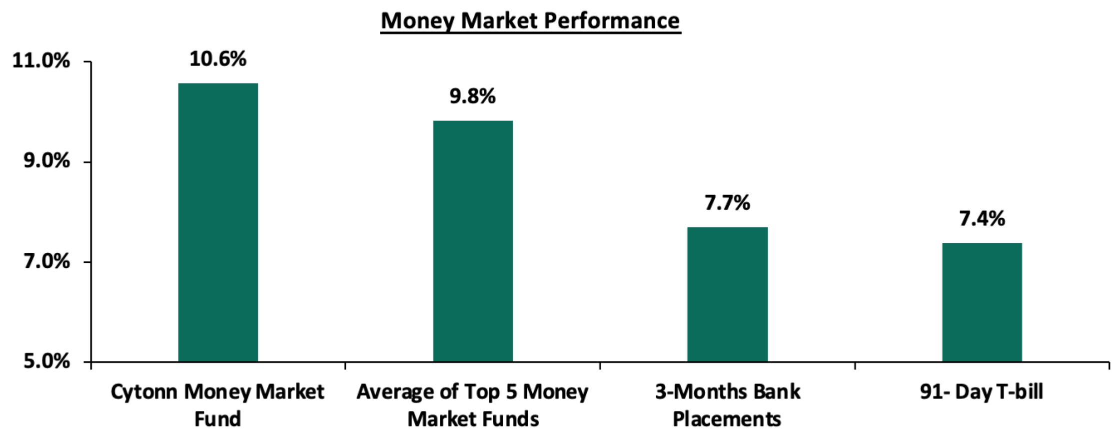
Kenya Listed Banks FY'2021 Report, & Cytonn Weekly #15/2022

Fixed Income

Money Markets, T-Bills & T-Bonds Primary Auction:

During the week, T-bills remained undersubscribed, with the overall subscription rate coming in at 48.6%, down from the 60.4% recorded last week despite liquidity in the money markets easing as evidenced by the decline in the interbank rate to 4.5% from 4.8% recorded last week. The 91-day paper recorded the highest subscription rate, receiving bids worth Kshs 4.8 bn against the offered Kshs 4.0 bn, translating to a subscription rate of 120.0%, an increase from the 59.6% recorded the previous week. The subscription rate for the 182-day and 364-day papers declined to 26.0% and 42.5%, respectively, from 39.3% and 81.7%, recorded the previous week. The yields on the government papers were on an upward trajectory with yields on the 91-day, 182-day and 364-day papers increasing by 4.7 bps, 9.6 bps and 0.2 bps, to 7.4%, 8.2% and 9.7%, respectively. The government accepted bids worth Kshs 11.6 bn, out of the Kshs 11.7 bn worth of bids received, translating to an acceptance rate of 99.2%, reflecting the government's debt appetite.



In the money markets, 3-month bank placements ended the week at 7.7% (based on what we have been offered by various banks), while the yield on the 91-day T-bill increased by 4.7 bps to 7.4%. The yield on the Cytonn Money Market Fund increased by 0.1% to 10.6%, from 10.5% recorded the previous week while the average yield of the Top 5 Money Market Funds remained relatively unchanged at 9.8%, as recorded the previous week.

The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 14th April 2022:

Money Market Fund Yield for Fund Managers as published on 14th April 2022

Rank	Fund Manager	Effective Annual Rate
1	Cytonn Money Market Fund	10.6%
2	Zimele Money Market Fund	9.9%

Money Market Fund Yield for Fund Managers as published on 14th April 2022

Rank	Fund Manager	Effective Annual Rate
3	Nabo Africa Money Market Fund	9.8%
4	Madison Money Market Fund	9.5%
5	Sanlam Money Market Fund	9.3%
6	Apollo Money Market Fund	9.3%
7	Dry Associates Money Market Fund	9.2%
8	CIC Money Market Fund	9.0%
9	Co-op Money Market Fund	8.6%
10	GenCap Hela Imara Money Market Fund	8.4%
11	NCBA Money Market Fund	8.4%
12	Orient Kasha Money Market Fund	8.4%
13	ICEA Lion Money Market Fund	8.4%
14	AA Kenya Shillings Fund	7.9%
15	Old Mutual Money Market Fund	7.5%
16	British-American Money Market Fund	7.1%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets eased, with the average interbank rate declining to 4.5%, from 4.8%, recorded the previous week, partly attributable to government payments which offset tax remittances. The average interbank volumes traded declined by 53.7% to Kshs 14.5 bn, from Kshs 31.3 bn recorded the previous week.

Kenya Eurobonds:

During the week, the yields on Kenyan Eurobonds were on an upward trajectory, partly attributable to investors attaching higher risk premium on the country due to increasing inflationary pressures, local currency depreciation and risks around the August 2022 elections. Yields on the 10-year and 30-year bonds issued in 2018, 12-year bond issued in 2019 and the 12-year bond issued in 2021 all increased by 0.4% points to 8.7%, 10.0%, 9.2% and 9.1%, respectively. Similarly, yields on the 7-year bond issued in 2019 increased by 0.5% points to 8.9%, while yields on the 10-year bond issued in 2014 increased by 0.3% points to 7.2%. Below is a summary of the performance:

Kenya Eurobond Performance

	2014	2018		2019		2021
Date	10-year issue	10-year issue	30-year issue	7-year issue	12-year issue	12-year issue
3-Jan-22	4.4%	8.1%	8.1%	5.6%	6.7%	6.6%
1-Apr-22	6.7%	8.1%	9.4%	8.1%	8.5%	8.3%
8-Apr-22	6.9%	8.3%	9.6%	8.4%	8.8%	8.7%
11-Apr-22	7.0%	8.4%	9.7%	8.4%	8.9%	8.7%
12-Apr-22	7.1%	8.5%	10.0%	8.8%	9.1%	9.0%

Kenya Eurobond Performance

Date	2014	2018		2019		2021
	10-year issue	10-year issue	30-year issue	7-year issue	12-year issue	12-year issue
13-Apr-22	7.2%	8.7%	10.0%	8.9%	9.2%	9.1%
Weekly Change	**0.3%**	**0.4%**	**0.4%**	**0.5%**	**0.4%**	**0.4%**
MTD Change	**0.5%**	**0.6%**	**0.6%**	**0.8%**	**0.7%**	**0.8%**
YTD Change	**2.8%**	**0.6%**	**1.9%**	**3.3%**	**2.5%**	**2.5%**

Source: CBK

Kenya Shilling:

During the week, the Kenyan shilling depreciated by 0.1% against the US dollar, to close the week at Kshs 115.4, from Kshs 115.3 recorded the previous week, partly attributable to increased dollar demand from the oil and energy sectors. Key to note, this is the lowest the Kenyan shilling has ever depreciated against the dollar. On a year to date basis, the shilling has depreciated by 2.0% against the dollar, in comparison to the 3.6% depreciation recorded in 2021. We expect the shilling to remain under pressure in 2022 as a result of:

i. Rising global crude oil prices on the back of supply constraints and geopolitical pressures at a time when demand is picking up with the easing of COVID-19 restrictions and as economies reopen. Key to note, risks abound the recovery following the emergence of the new COVID-19 variants,
ii. Increased demand from merchandise traders as they beef up their hard currency positions in anticipation for more trading partners reopening their economies globally,
iii. An ever-present current account deficit due to an imbalance between imports and exports, with Kenya's current account deficit estimated to come in at 5.6% of GDP in the 12 months to February 2022 compared to the 4.3% for a similar period in 2021. The wider deficit reflects a higher import bill, particularly for oil, which more than offset increased receipts from agricultural and services exports, and remittances, and,
iv. The aggressively growing government debt, with Kenya's public debt having increased at a 10-year CAGR of 18.4% to Kshs 8.0 tn in December 2021, from Kshs 1.5 tn in December 2011 thus putting pressure on forex reserves to service some of the public debt.

The shilling is however expected to be supported by:

i. High Forex reserves currently at USD 8.3 bn (equivalent to 4.9-months of import cover), which is above the statutory requirement of maintaining at least 4.0-months of import cover, and the EAC region's convergence criteria of 4.5-months of import cover. In addition, the reserves were boosted by the USD 1.0 bn proceeds from the Eurobond issued in July 2021, USD 972.6 mn IMF disbursement, USD 130.0 mn World Bank loan financing received in June 2021, and, the USD 750.0 mn World Bank loan facility issued in March 2022, and,
ii. Improving diaspora remittances evidenced by a 23.5% y/y increase to USD 321.5 mn as of February 2022, from USD 260.3 mn recorded over the same period in 2021, which has continued to cushion the shilling against further depreciation.

Weekly Highlights:

I. **Finance Bill 2022**

During the week, the Cabinet Secretary for the National Treasury tabled the Finance Bill 2022 in Parliament for consideration. Key to note, the Finance Bill has been tabled two months earlier in April as compared to June in previous years, in order to provide Parliament with ample time to discuss the bill, before it winds down ahead of the August 2022 general elections. If Parliament approves the bill, the bill will be forwarded for presidential assent, after which the proposals will come into effect. Some of the proposals include;

Under the Income Tax Act;

i. The Finance Bill 2022 proposes to increase digital service tax (DST) to 3.0% from the current 1.5% of either consideration received in respect of the service provided in the case of a digital service provider or the commission or fee paid for the use of the platform in the case of a digital marketplace provider excluding VAT charged for the service. The bill also proposes to exempt non-resident entities with a permanent establishment in Kenya from DST. The increase in DST, is commendable as it will allow the Government to tap more into the growing online economy while allowing the Government a share of revenues made by multinational companies. However, we expect the increased taxes to be passed on to the end users and increase cost of online transactions, and,
ii. The Finance bill proposes to increase the Capital Gains Tax (CGT) on transfer or sale of property by an individual or company to 15.0% from the current 5.0%. Key to note, the government had proposed to increase capital gains tax to 12.5% in the Finance Bill 2019, but the proposal was rejected by parliament. An increase in CGT rate would be unfavorable for individuals and companies dealing in sale of property and would result in increased dealing and transaction costs. The Bill also proposes to tax gains from financial derivatives for foreigners under the CGT rate of 15.0%. We expect that taxing gains from financial derivatives for foreigners will worsen their uptake, which has been slow since their introduction in 2019, and,
iii. The Finance Bill 2022 seeks to limit the allowable deductions on investments made outside Nairobi and Mombasa Counties to expenditure on investments in hotel buildings, buildings used for manufacturing and machinery used for manufacturing, from the current 100.0% of start-up expenditure. The incentives were in place to encourage investments outside Nairobi and Mombasa Counties in order to spur economic growth. Rolling back of the incentives is expected to reduce the attractiveness of investments outside the two counties.

Under the Excise Duty Act;

i. The Finance Bill proposes to empower the Kenya Revenue Authority's Commissioner General to exempt specific excisable products from the annual inflation adjustments depending on the economic circumstances in the relevant year. Key to note, KRA had gazetted an inflationary adjustment of 5.0% in November 2021 on specific products in a bid to raise Kshs 3.7 bn in excise duty tax. However, the inflation adjustment was frozen by the High Court of Kenya. We expect that this provision will allow the Commissioner general to exempt critical products like fuel from inflationary adjustment particularly for periods when fuel prices are high, in order to prevent further increase in the cost of living, and,
ii. The Finance Bill 2022 seeks to increase excise duty on various goods such as bottled water and non-alcoholic beverages by 9.5% to Kshs 6.6 per litre, from the current Kshs 6.0 per litre. Excise duty on fruit and vegetable juices will increase by 9.3% from Kshs 13.3 per litre from Kshs 12.2 per litre. The bill further proposes to increase excise duty on items such as cosmetic and beauty products, powdered beer and spirits, among others. Should the bill be passed, we expect the contribution of excise duty tax to total tax revenue to increase from the current 13.8% as estimated for the Fiscal Year 2022/2023 in the Budget Statement.

Under the Value Added Tax Act;

i. The Finance Bill 2022 proposes to remove maize flour, cassava flour, wheat and meslin flour from the list of tax exempt goods under the Second Schedule to the Value Added Tax (VAT) Act 2013.

This would see the named goods subjected to the VAT at a rate of 16.0% and a subsequent increase in food prices. The implication of this increase will be an increase in the cost of living with maize flour being a staple meal in Kenyan households. We also expect this changes to exert upward pressure on the inflation basket as food is a headline contributor to Kenya’s inflation.

Under the Capital Markets Act;

i. The Finance Bill has proposed to amend the definition of an investment advisor by deleting the requirement for an investment advisor to be a company incorporated under the Companies act and substituting it with such legal entity as prescribed by the regulations. We expect this provision to allow for individuals and partnerships to seek regulatory approval to provide investment advisory services.

We expect the increase in excise duty scope to significantly contribute to the projected Kshs 50.2 bn in additional tax revenue for the FY’2022/23. The main focus of the Finance Bill 2022 has been on increasing the government’s revenue, which is key in the path towards fiscal consolidation. We expect the aggressive revenue collection measures to propel the government towards reducing the fiscal deficit as a percentage of GDP from the current 11.4%, to the target of 6.2%, for FY’2022/2023.

II. **Fuel Prices**

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum fuel price in Kenya effective 15th April 2022 to 14th May 2022. Notably, super petrol, diesel and kerosene prices increased by 7.3%, 8.6% and 9.6% to Kshs 144.6 per litre, Kshs 125.5 per litre and Kshs 113.4 per litre, from Kshs 129.7 per litre, Kshs 110.6 per litre and Kshs 103.5, respectively. Key to note, the current prices are the highest ever recorded in the country. Below are the key take-outs from the statement:

The performance in fuel prices was attributable to:

i. An increase in the average landed costs of Super Petrol by 20.5% to USD 814.9 per cubic meter in March 2022, from USD 676.4 per cubic meter in February 2022,
ii. An increase in the average landed costs of Diesel by 24.7% to USD 844.6 per cubic meter in February 2022, from USD 677.3 per cubic meter in 2022,
iii. An increase in the average landed costs of Kerosene by 11.8% to USD 693.0 per cubic meter in February 2022, from USD 619.6 per cubic meter in February 2022, and,
iv. The depreciation of the Kenyan shilling during the period by 0.7% to Kshs 114.6 in March 2022, from Kshs 113.8 in February 2022.

However, the fuel prices were supported from further increase by:

i. The fuel subsidy program under the Petroleum Development Fund which resulted in subsidies of Kshs 29.1 on Super Petrol, Kshs 40.2 on Diesel and Kshs 26.5 on Kerosene during the month,
ii. Removal of suppliers margins since October 2021, and,
iii. The decline in the Free on Board (FOB) price of Murban crude oil in March 2022 by 11.5% to USD 85.1 per barrel, from USD 74.4 per barrel in February 2022.

Globally, global fuel prices have continued to increase, recording a 36.2% increase to USD 106.1 per barrel as of 16th April 2022, from USD 77.9 per barrel recorded on 1st January 2022, driven by persistent supply chain constraints worsened by the geopolitical pressures occasioned by the Russian invasion of Ukraine. Largely, the fuel subsidy program under the National Treasury has cushioned Kenyans from the high fuel prices. However, we believe that the program is unsustainable and will be depleted should the average landed costs of fuel continue to rise. Further the program has come under increasing pressure from the Oil Marketing Companies (OMCs) due to delayed payment of compensation amounts. Key to note, the compensation amounts for Super Petrol and Diesel in April 2022 increased by 42.6% and 45.7% to Kshs 29.1 per litre and Kshs 40.2 per litre from Kshs 20.4 per litre and Kshs 27.6 per litre, respectively in March 2022, while those for Kerosene declined by 1.5%, to Kshs 26.5 per litre in April 2022 from Kshs 26.9 per litre in March 2022. Despite the additional Kshs 24.9 bn for stabilization of oil market prices and the rationalization of Capital expenditure, allocated in the recently assented-to Supplementary Budget, the National Treasury would have to disburse an estimated Kshs 15.0 bn monthly to meet the full subsidy in the period of review. As such, the additional amount to the program would be depleted in two months. We expect an elevation in the cost of living and inflation, attributable to fuel being a major contributor to Kenya's headline inflation and fuel prices being a major input cost in majority of Kenya's sectors such as manufacturing, transport and energy.

Rates in the Fixed Income market have remained stable due to the relatively ample liquidity in the money market. The government is 3.9% ahead of its prorated borrowing target of Kshs 534.4 bn having borrowed Kshs 555.5 bn of the Kshs 661.6 bn borrowing target for the FY'2021/2022. We expect a gradual economic recovery as evidenced by the revenue collections of Kshs 1.2 tn during the first eight months of the current fiscal year, which was equivalent to 100.8% of the prorated revenue collection target. However, despite the projected high budget deficit of 11.4% and the affirmation of the `B+' rating with negative outlook by Fitch Ratings, we believe that the support from the IMF and World Bank will mean that the interest rate environment will remain stable since the government is not desperate for cash. Owing to this, our view is that investors should be biased towards short-term fixed-income securities to reduce duration risk.
