Kenya’s Real Estate Investment Trusts (REITs) H1’2023 Report, & Cytonn Weekly #33/2023

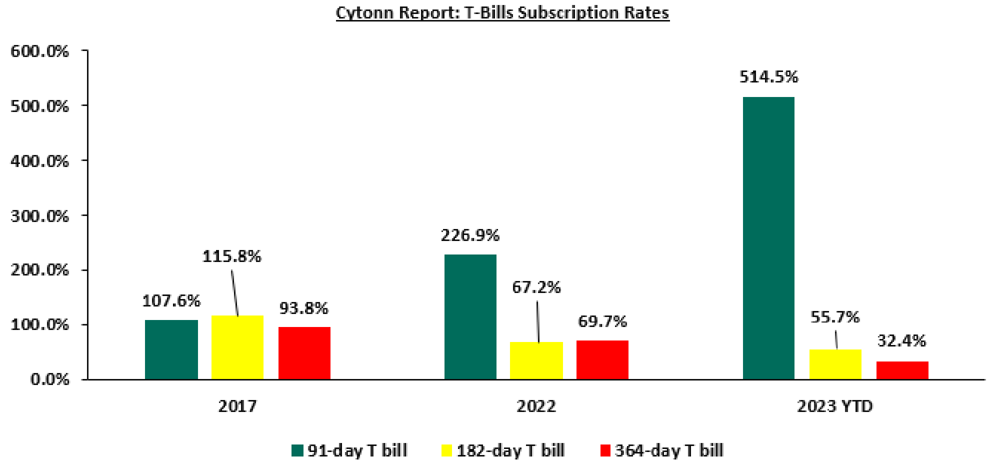
Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills were oversubscribed for the second week consecutively, with the overall subscription rate coming in at 186.2%, albeit lower than the oversubscription rate of 199.7% recorded the previous week. Investors’ preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 38.2 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 955.7%, albeit lower than the 1044.6% recorded the previous week. The subscription rate for the 364-day paper increased to 25.9% from 9.0% recorded the previous week, while the subscription rate for the 182-day paper decreased to 38.6% from the 52.5% recorded the previous week. The government accepted a total of Kshs 43.6 bn worth of bids out of Kshs 44.7 bn of bids received, translating to an acceptance rate of 97.5%. The yields on the government papers recorded a mixed performance, with the yields on the 364-day paper and 91-day paper increasing by 40.6 bps and 36.5 bps to 13.7% and 13.5% respectively while the yields on the 182-day paper decreased by 16.2 bps to 13.3%.

So far in the current FY’2023/24, government securities totalling Kshs 292.0 bn have been advertised, and bids amounting Kshs 377.8 bn have been received, comprising Kshs 228.6 bn in treasury bills and Kshs 149.2 bn in bonds, respectively. The government has accepted bids worth Kshs 320.4 bn, of which 219.3 bn and 101.1 bn were treasury bills and bonds, respectively. Total redemptions so far in FY’2023/24 equal to Kshs 269.5 bn, with treasury bills accounting for all redemptions. As a result, the government has a domestic borrowing surplus of Kshs 50.9 billion in FY’2023/24.

The chart below compares the overall average T- bills subscription rates obtained in 2017, 2022 and 2023 Year to Date (YTD):

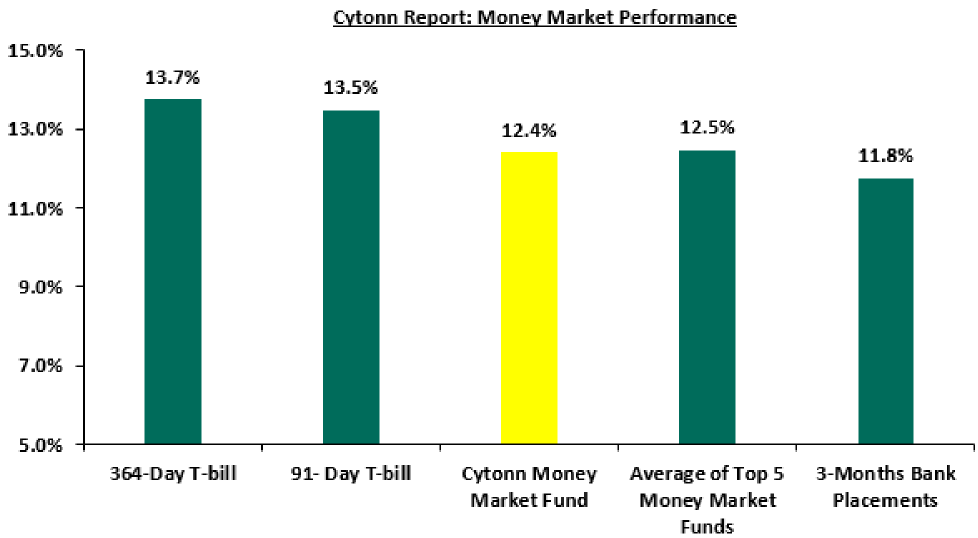


Source: Central Bank of Kenya (CBK)

In the primary market, the Central Bank of Kenya released the auction results for the newly issued bond FXD1/2023/02 with a tenor to maturity of 2 years and the re-opened bond FXD1/2023/05 with a 4.9-year tenor to maturity. In line with our expectation, the bonds recorded an oversubscription rate of 132.5%, receiving bids worth Kshs 53.0 bn against the offered Kshs 40.0 bn. The government accepted bids worth Kshs 19.1 bn, translating to an acceptance rate of 36.1%. The weighted average yield of accepted bids came in at 17.0% and 18.0% for FXD1/2023/02 and FXD1/2023/05, respectively. The coupon rate for the FXD1/2023/02 came at 17.0% and FXD1/2023/05 is set at 16.8%.

Money Market Performance:

In the money markets, 3-month bank placements ended the week at 11.8% (based on what we have been offered by various banks), while the yields on the 364-day and 91-day T-bills increased by 40.6 bps and 36.5 bps to 13.7% and 13.5%, respectively. The yield of Cytonn Money Market Fund remained unchanged at 12.4%, while the average yields on the Top 5 Money Market Funds increased by 19.4 bps to 12.5% from 12.3% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 18th August 2023:

Money Market Fund Yield for Fund Managers as published on 18th August 2023

Rank	Fund Manager	Effective Annual
1	GenAfrica Money Market Fund	12.6%

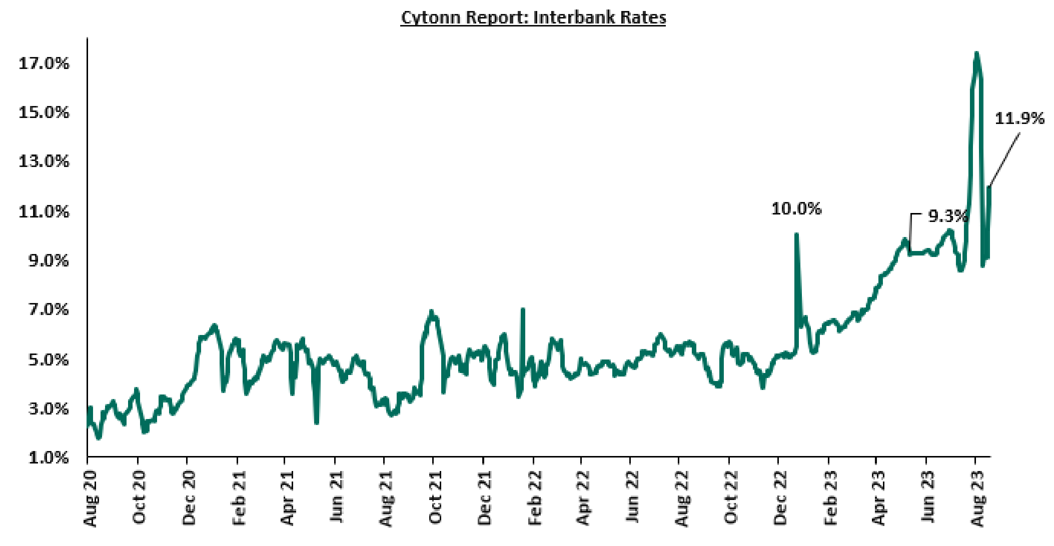
Money Market Fund Yield for Fund Managers as published on 18th August 2023

Rank	Fund Manager	Effective Annual
2	Enwealth Money Market Fund	12.6%
3	Cytonn Money Market Fund	12.4%
4	Lofty-Corban Money Market Fund	12.4%
5	Etica Money Market Fund	12.3%
6	Madison Money Market Fund	12.0%
7	Jubilee Money Market Fund	11.7%
8	Kuza Money Market fund	11.6%
9	Sanlam Money Market Fund	11.5%
10	AA Kenya Shillings Fund	11.3%
11	Co-op Money Market Fund	11.3%
12	GenCap Hela Imara Money Market Fund	11.2%
13	Old Mutual Money Market Fund	11.2%
14	ICEA Lion Money Market Fund	10.9%
15	Absa Shilling Money Market Fund	10.9%
16	KCB Money Market Fund	10.8%
17	Apollo Money Market Fund	10.8%
18	NCBA Money Market Fund	10.7%
19	Nabo Africa Money Market Fund	10.5%
20	CIC Money Market Fund	10.5%
21	Dry Associates Money Market Fund	10.5%
22	Orient Kasha Money Market Fund	9.9%
23	British-American Money Market Fund	9.5%
24	Mali Money Market Fund	9.3%
25	Equity Money Market Fund	9.0%

Source: Business Daily

Liquidity

During the week, liquidity in the money markets increased, with the average interbank rate decreasing to 10.3% from 11.6% recorded the previous week, partly attributable to increased governments payments which offset tax remittances. Additionally, the decrease in the interbank rate is also attributable to the recent intervention of the Central Bank of Kenya to introduce an interbank interest rate corridor around the Central Bank Rate (CBR), set at CBR +/-2.5%. As such, the monetary operations will be aimed at ensuring the interbank rate closely tracks the CBR. The average interbank volumes traded increased by 6.7% to Kshs 22.4 bn, from Kshs 21.0 bn recorded the previous week. The chart below shows the interbank rates in the market over the years:



Kenya Eurobonds:

During the week, the yields on Eurobonds were on an upward trajectory, with the yield on the 10-year Eurobond issued in 2014 and 7-year Eurobond issued in 2019 recording the largest increase, having increased by 1.0% points to 14.2% from 13.2%, and 12.3% from 11.3% recorded the previous week respectively. The table below shows the summary of the performance of the Kenyan Eurobonds as of 17th August 2023;

Cytonn Report: Kenya Eurobonds Performance

	2014	2018		2019		2021
Date	**10-year issue**	**10-year issue**	**30-year issue**	**7-year issue**	**12-year issue**	**12-year issue**
Amount Issued (USD)	**2.0 bn**	**1.0 bn**	**1.0 bn**	**0.9 bn**	**1.2 bn**	**1.0 bn**
Years to Maturity	**0.9**	**4.6**	**24.6**	**3.8**	**8.8**	**10.9**
Yields at Issue	**6.6%**	**7.3%**	**8.3%**	**7.0%**	**7.9%**	**6.2%**
2-Jan-23	12.9%	10.5%	10.9%	10.9%	10.8%	9.9%
1-Aug-23	12.5%	10.8%	10.8%	11.3%	10.8%	10.3%
10-Aug-23	13.2%	11.0%	10.9%	11.3%	11.0%	10.5%
11-Aug-23	13.4%	11.2%	11.0%	11.3%	11.1%	10.6%
14-Aug-23	13.4%	11.4%	11.1%	11.6%	11.2%	10.7%
15-Aug-23	14.2%	11.8%	11.4%	12.2%	11.5%	11.1%
16-Aug-23	14.3%	11.7%	11.4%	12.3%	11.5%	11.0%
17-Aug-23	14.2%	11.7%	11.4%	12.3%	11.5%	11.0%
Weekly Change	**1.0%**	**0.7%**	**0.5%**	**1.0%**	**0.5%**	**0.5%**
MTD Change	**1.7%**	**0.9%**	**0.5%**	**1.0%**	**0.7%**	**0.7%**
YTD Change	**1.2%**	**1.2%**	**0.5%**	**1.4%**	**0.7%**	**1.2%**

Source: Source: Central Bank of Kenya (CBK) and National Treasury

Kenya Shilling:

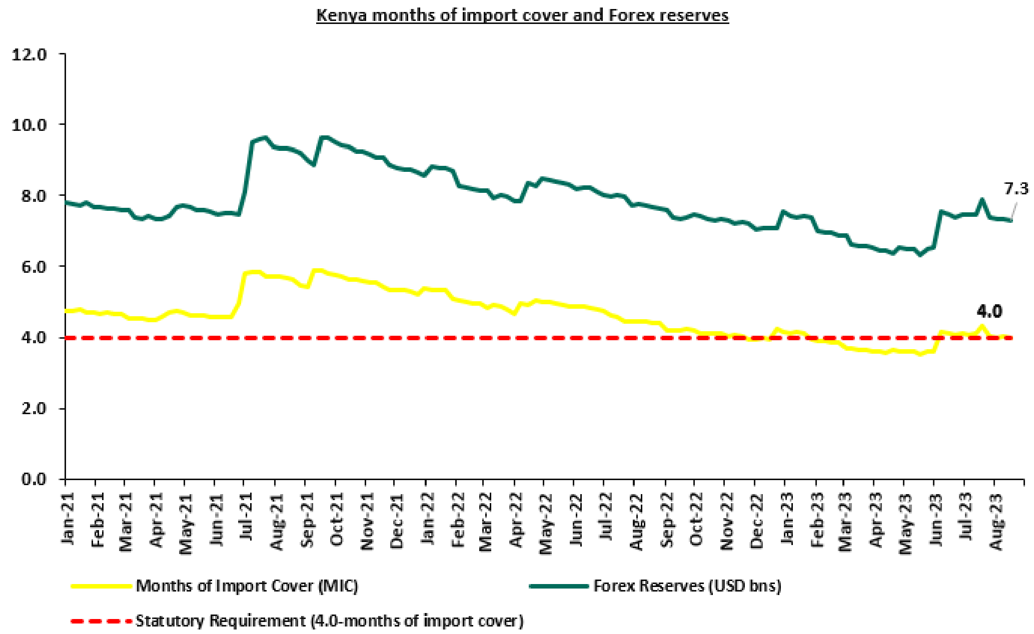
During the week, the Kenya Shilling depreciated by 0.4% against the US dollar to close the week at Kshs 144.2 from Kshs 143.6 recorded the previous week. On a year to date basis, the shilling has depreciated by 16.8% against the dollar, adding to the 9.0% depreciation recorded in 2022. We expect the shilling to remain under pressure in 2023 as a result of:

i. An ever-present current account deficit, which came at 2.3% of GDP in Q1'2023 from 4.2% recorded in a similar period last year, and,
ii. The need for government debt servicing, continues to put pressure on forex reserves given that 66.8% of Kenya's external debt of xxx is US Dollar denominated as of April 2023, and,

The shilling is however expected to be supported by:

i. Diaspora remittances standing at a cumulative USD 2,411.9 mn in 2023 as of July 2023, 2.0% higher than the USD 2,364.0 mn recorded over the same period in 2022, and,
ii. The tourism inflow receipts which came in at Kshs 268.1 bn in 2022, a significant 82.9% increase from Kshs 146.5 bn inflow receipts recorded in 2021.
iii. Adequate forex reserves currently at USD 7.3 bn (equivalent to 4.0-months of import cover), which is within the statutory requirement of maintaining at least 4.0-months of import cover.

The chart below summarizes the evolution of Kenya months of import cover over the years:



Weekly Highlights:

I. **Revenue and Net Exchequer for FY'2023/2024**

The National Treasury gazetted the revenue and net expenditures for the first month of FY'2023/2024, ending 31st July 2023. Below is a summary of the performance:

Cytonn Report: FY'2023/2024 Budget Outturn - As at 31st July 2023

Amounts in Kshs billions unless stated otherwise

Item	12-months Original Estimates (A)	Actual Receipts/Release (B)	Percentage Achieved of the Original Estimates (B/A)	Prorated D=(1/12*A)	% achieved of the Prorated (B/D)
Opening Balance		2.6			
Tax Revenue	2,495.8	155.1	6.2%	208.0	74.6%

Cytonn Report: FY'2023/2024 Budget Outturn - As at 31st July 2023

Amounts in Kshs billions unless stated otherwise

Item	12-months Original Estimates (A)	Actual Receipts/Release (B)	Percentage Achieved of the Original Estimates (B/A)	Prorated D=(1/12*A)	% achieved of the Prorated (B/D)
Non-Tax Revenue	75.3	1.9	2.5%	6.3	29.8%
Total Revenue	**2,571.2**	**159.6**	**6.2%**	**214.3**	**74.5%**
External Loans & Grants	870.2	43.1	4.9%	72.5	59.4%
Domestic Borrowings	688.2	83.6	12.1%	57.4	145.7%
Other Domestic Financing	3.2	0.9	27.6%	0.3	330.8%
Total Financing	**1,561.6**	**127.5**	**8.2%**	**130.1**	**98.0%**
Recurrent Exchequer issues	1,302.8	57.0	4.4%	108.6	52.5%
CFS Exchequer Issues	1,963.7	188.0	9.6%	163.6	114.9%
Development Expenditure & Net Lending	480.8	1.9	0.4%	40.1	4.7%
County Governments + Contingencies	385.42	32.76	8.5%	32.1	102.0%
Total Expenditure	**4,132.7**	**279.6**	**6.8%**	**344.4**	**81.2%**
Fiscal Deficit excluding Grants	**1,561.6**	**120.1**	**7.7%**	**130.1**	92.3%
Total Borrowing	**1,558.4**	**126.6**	**8.1%**	**129.9**	**97.5%**

The Key take-outs from the release include;

a. Total revenue collected as at the end of July 2023 amounted to Kshs 159.6 bn, equivalent to 6.2% of the original estimates of Kshs 2,571.2 bn for FY'2023/2024 and is 74.5% of the prorated estimates of Kshs 214.3 bn. The performance is attributable to the deterioration of the business environment seen during the month of July as evidenced by the drop in the purchasing managers index (PMI) to 45.5 in July 2023, from 52.0 that was recorded at the beginning of the year 2023. Cumulatively, tax revenues amounted to Kshs 155.1 bn, equivalent to 6.2% of the original estimates of Kshs 2,495.8 bn and 74.6% of the prorated estimates of Kshs 208.0 bn,

b. Total financing amounted to Kshs 127.5 bn, equivalent to 8.2% of the original estimates of Kshs 1,561.6 bn and is equivalent to 98.0% of the prorated estimates of Kshs 130.1 bn. Additionally, domestic borrowing amounted to Kshs 83.6 bn, equivalent to 12.1% of the original estimates of Kshs 688.2 bn and is 145.7% of the prorated estimates of Kshs 57.4 bn,

c. The total expenditure amounted to Kshs 279.6 bn, equivalent to 6.8% of the original estimates of Kshs 4,132.7 bn, and is 81.2% of the prorated target expenditure estimates of Kshs 344.4 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 57.0 bn, equivalent to 4.4% of the original estimates and 52.5% of the prorated estimates of Kshs 108.6 bn,

d. Consolidated Fund Services (CFS) Exchequer issues came in at Kshs 188.0 bn, equivalent to 9.6% of the original estimates of Kshs 1,963.7 bn, and are 114.9% of the prorated amount of Kshs 163.6 bn. The cumulative public debt servicing cost amounted to Kshs 161.8 bn which is 9.2% of the original estimates of Kshs 1,751.1 bn, and is 110.9% of the prorated estimates of Kshs 145.9 bn. Additionally, the Kshs 161.8 bn debt servicing cost is equivalent to 101.4% of the actual revenues collected as at the end of July 2023, and,

e. Total Borrowings as at the end of July 2023 amounted to Kshs 126.6 bn, equivalent to 8.1% of the original estimates of Kshs 1,558.4 bn for FY'2023/2024 and are 97.5% of the prorated estimates of Kshs 129.9 bn. The cumulative domestic borrowing of Kshs 688.2 bn comprises of Net Domestic

Borrowing KSh. 313.7 bn and Internal Debt Redemptions (Rollovers) Kshs 374.5 bn.

The revenue performance for the first month of the FY’2023/2024 is mainly on the back of poor business environment brought about by high cost of living amid high fuel prices as well as sustained depreciation of the Kenya shilling. This is evidenced by the purchasing managers index for the month of July 2023 coming in at 45.5, the lowest reading in 12 months to July 2023. As such, we believe that the performance of revenue collection in the coming months will be largely determined by how soon the country’s business environment stabilizes

II. Fuel Prices effective 15th August 2023 to 14th September 2023.

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya effective 15 August 2023 to 14 September 2023. Notably, fuel prices remained unchanged at Kshs 194.7 per litre for Super Petrol, Kshs 179.7 per litre for Diesel and Kshs 169.5 per litre for Kerosene respectively.

Other key take-outs from the performance include;

- The average landing cost per cubic meter for Super Petrol, Kerosene and Diesel increased by 6.8%, 7.4% and 4.3% and to USD 739.1, 690.6 and USD 702.0 in July 2023, from USD 691.8, USD 642.9 and USD 673.1 June 2023, respectively.

We note that fuel prices in the country still remain elevated based on historical levels, despite global fuel prices dropping to USD 86.2 per barrel from a peak of USD 128.3 per barrel in March 2022. Notably, the high fuel prices in the country are mainly due to the high cost of fuel imports as a result of the sustained depreciation of the shilling against the US dollar as well as the double increase in VAT on petroleum products to 16.0% from 8.0% as provisioned in the Finance Act 2023.

Rates in the Fixed Income market have been on an upward trend given the continued high demand for cash by the government and the occasional liquidity tightness in the money market. The government is 38.1% behind its prorated net domestic borrowing target of Kshs 82.2 bn, having a net borrowing position of Kshs 50.9 bn of the domestic net borrowing target of Kshs 586.5 bn for the FY’2023/2024. Therefore, we expect a continued upward readjustment of the yield curve in the short and medium term, with the government looking to bridge the fiscal deficit through the domestic market. Owing to this, our view is that investors should be biased towards short-term fixed-income securities to reduce duration risk.
