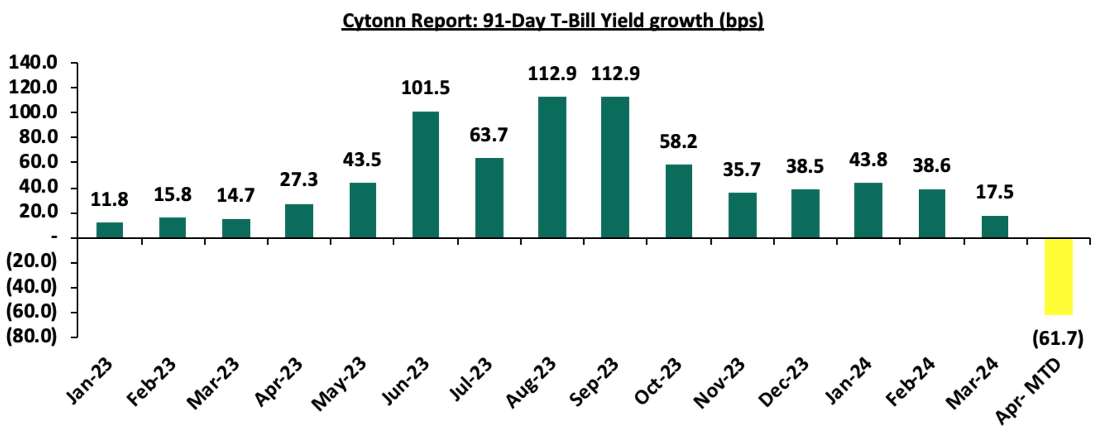
Kenya Listed Banks Report FY'2023, & Cytonn Weekly #16/2024

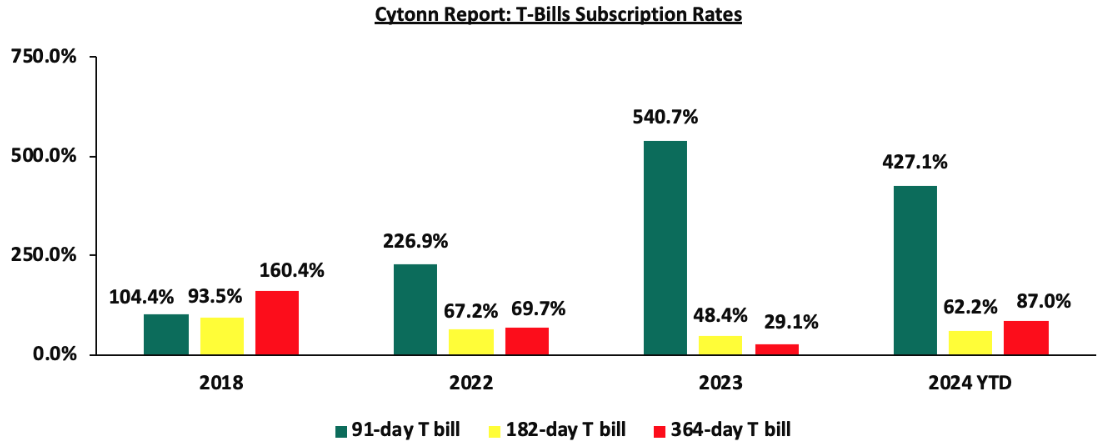
Fixed Income

Money Markets, T-Bills Primary Auction:

During the week, T-bills were oversubscribed, with the overall oversubscription rate coming in at 108.7%, lower than the oversubscription rate of 192.8% recorded the previous week. Investors' preference for the shorter 91-day paper persisted, with the paper receiving bids worth Kshs 6.0 bn against the offered Kshs 4.0 bn, translating to an oversubscription rate of 150.1%, significantly lower than the oversubscription rate of 410.4% recorded the previous week. The subscription rates for the 182-day paper and 364-day paper decreased to 78.1% and 122.7% respectively from 105.6% and 192.9% respectively recorded the previous week. The government accepted a total of Kshs 26.0 bn worth of bids out of Kshs 26.1 bn of bids received, translating to an acceptance rate of 99.6%. The yields on the government papers recorded mixed performances, with the yield on the 91-day paper increasing by 7.0 bps to 15.80% from the 15.73% recorded the previous week, while the yields on the 364-day and 182-day papers decreased by 2.3 bps and 40.2 bps to 16.51% and 16.47% from 16.53% and 16.87% respectively recorded the previous week. The chart below shows the yield growth rate for the 91-day paper over the period:



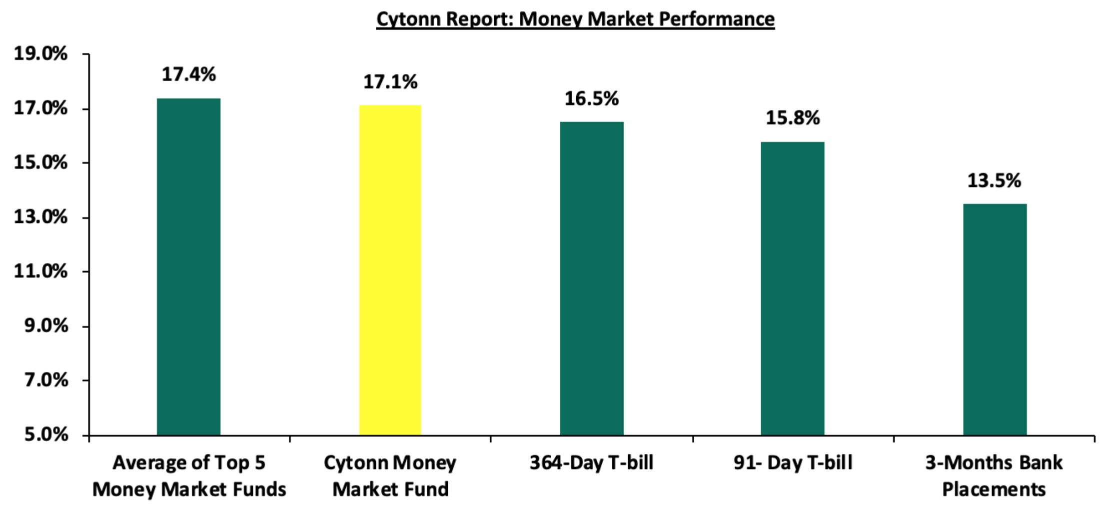
The chart below compares the overall average T-bill subscription rates obtained in 2018, 2022, 2023, and 2024 Year-to-date (YTD):



During the week, The Central Bank of Kenya released the auction results for the reopened bond FXD1/2023/02 with a tenor to maturity of 2.0 years. The bond was oversubscribed with the overall subscription rate coming in at 118.0%, receiving bids worth Kshs 47.2 bn against the offered Kshs 40.0 bn. The government accepted bids worth Kshs 34.8 bn, translating to an acceptance rate of 73.7%. The weighted average yield of accepted bids came in at 16.99% which was within our expected range of 16.55%-17.00% and a decline of 74.4 bps from the 17.74% yield of the previous similar tenor reopened FXD1/2023/02 bond issued in October 2023. The coupon rate for the bond was fixed at 16.97%, similar to the previous issue's rate. With the Inflation rate at 5.7% as of March 2024, the real return of the bonds is 11.3%;

Money Market Performance:

In the money markets, 3-month bank placements ended the week at 13.5% (based on what we have been offered by various banks), and the yields on the 364-day and 91-day papers recorded mixed performances, with the yield on the 91-day paper increasing by 7.0 bps to 15.8% from the 15.7% recorded the previous week while the yield on the 364-day paper decreased by 2.3 bps to 16.5%. The yields of the Cytonn Money Market Fund increased marginally by 6.0 bps to remain relatively unchanged from the 17.1 recorded the previous week, while the average yields on the Top 5 Money Market Funds increased marginally by 0.4 bps to remain unchanged at 17.4% recorded the previous week.



The table below shows the Money Market Fund Yields for Kenyan Fund Managers as published on 19th April 2024:

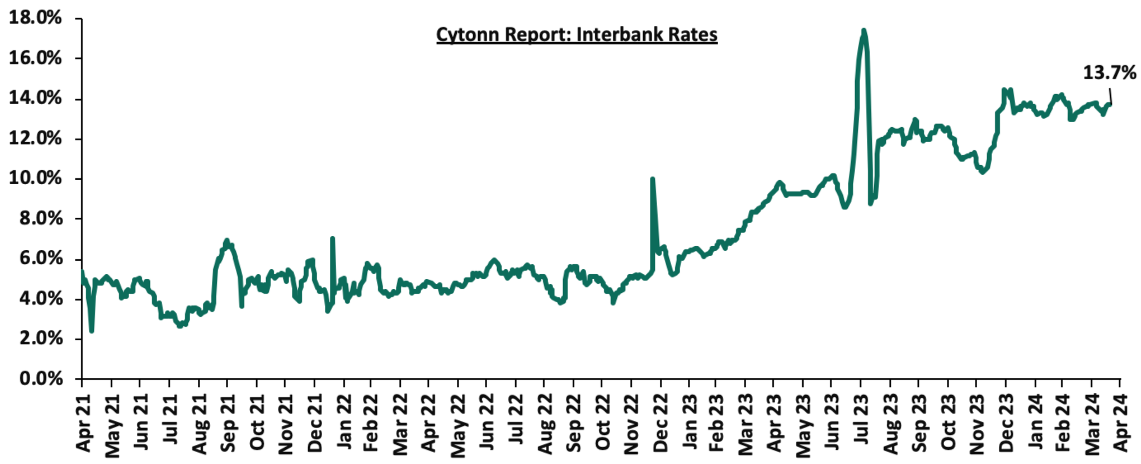
Cytonn Report: Money Market Fund Yield for Fund Managers as published on 19th April 2024

Rank	Fund Manager	Effective Annual Rate
1	Lofty-Corban Money Market Fund	18.3%
2	Etica Money Market Fund	18.3%
3	Cytonn Money Market Fund (Dial *809# or download the Cytonn app)	17.1%
4	GenAfrica Money Market Fund	16.9%
5	Nabo Africa Money Market Fund	16.5%
6	Kuza Money Market fund	16.4%
7	Enwealth Money Market Fund	16.2%
8	Apollo Money Market Fund	15.9%
9	KCB Money Market Fund	15.7%
10	Madison Money Market Fund	15.6%
11	Jubilee Money Market Fund	15.4%
12	Co-op Money Market Fund	15.3%
13	Absa Shilling Money Market Fund	15.2%
14	Mali Money Market Fund	15.2%
15	Sanlam Money Market Fund	15.1%
16	AA Kenya Shillings Fund	15.1%
17	Mayfair Money Market Fund	14.9%
18	GenCap Hela Imara Money Market Fund	14.8%
19	Equity Money Market Fund	14.6%
20	Dry Associates Money Market Fund	13.7%
21	Old Mutual Money Market Fund	13.6%
22	Orient Kasha Money Market Fund	13.5%
23	CIC Money Market Fund	13.2%
24	ICEA Lion Money Market Fund	12.4%
25	British-American Money Market Fund	9.9%

Source: Business Daily

Liquidity:

During the week, liquidity in the money markets tightened, with the average interbank rate increasing by 33.6 bps, to 13.7%, from 13.4% recorded the previous week, partly attributable to tax remittances that offset government payments. The average interbank volumes traded decreased by 14.0% to Kshs 21.1 bn from Kshs 24.6 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 yields on the 7-year Eurobond issued in 2019 increasing the most by 15.7 bps to 9.0% from 8.8% recorded the previous week. The table below shows the summary of the performance of the Kenyan Eurobonds as of 19th April 2024;

Cytonn Report: Kenya Eurobonds Performance

	2018		2019		2021	2024
Tenor	**10-year issue**	**30-year issue**	**7-year issue**	**12-year issue**	**13-year issue**	**6-year issue**
Amount Issued (USD)	**1.0 bn**	**1.0 bn**	**0.9 bn**	**1.2 bn**	**1.0 bn**	**1.5 bn**
Years to Maturity	**3.9**	**23.9**	**3.1**	**8.1**	**10.2**	**6.8**
Yields at Issue	**7.3%**	**8.3%**	**7.0%**	**7.9%**	**6.2%**	**10.4%**
01-Jan-24	9.8%	10.2%	10.1%	9.9%	9.5%	
01-Apr-24	8.7%	9.8%	8.4%	9.3%	9.3%	9.2%
11-Apr-24	9.0%	9.9%	8.8%	9.5%	9.6%	9.5%
12-Apr-24	9.0%	9.9%	8.7%	9.5%	9.6%	9.5%
15-Apr-24	9.0%	10.0%	8.8%	9.6%	9.7%	9.6%
16-Apr-24	9.2%	10.2%	9.2%	9.9%	9.9%	9.9%
17-Apr-24	9.1%	10.1%	9.0%	9.7%	9.8%	9.7%
18-Apr-24	9.0%	10.1%	9.0%	9.7%	9.7%	9.6%
Weekly Change	**0.0%**	**0.1%**	**0.2%**	**0.1%**	**0.1%**	**0.1%**
MTD Change	**0.3%**	**0.3%**	**0.5%**	**0.4%**	**0.4%**	**0.4%**
YTD Change	**(0.8%)**	**(0.1%)**	**(1.1%)**	**(0.2%)**	**0.2%**	**9.6%**

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

Kenya Shilling:

During the week, the Kenya Shilling depreciated against the US Dollar by 0.8% to close at Kshs 131.4, from Kshs 130.4 recorded the previous week. On a year-to-date basis, the shilling has appreciated by 16.3% against the dollar, in contrast to the 26.8% depreciation in 2023. We expect the shilling to remain under pressure in 2023 as a result of:

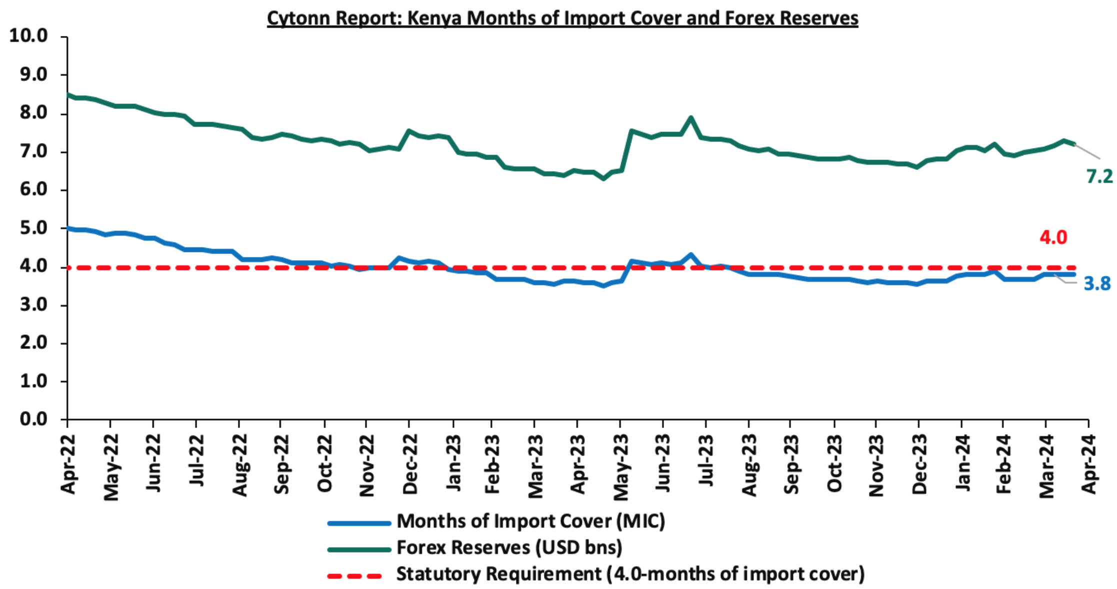
i. An ever-present current account deficit which came at 3.5% of GDP in Q3’2023 from 6.4% recorded in a similar period in 2022,
ii. The need for government debt servicing, continues to put pressure on forex reserves given that 67.5% of Kenya’s external debt was US Dollar denominated as of September 2023, and,
iii. Dwindling forex reserves, currently at USD 7.2 mn (equivalent to 3.8 months of import cover), which is below the statutory requirement of maintaining at least 4.0 months of import cover.

The shilling is however expected to be supported by:

i. Diaspora remittances standing at a cumulative USD 4,380.5 mn in the 12 months to March 2024, 9.0% higher than the USD 4,019.6 mn recorded over the same period in 2023, which has continued to cushion the shilling against further depreciation. In the March 2024 diaspora remittances figures, North America remained the largest source of remittances to Kenya accounting for 56.2% in the period, and,
ii. The tourism inflow receipts which came in at USD 352.5 bn in 2023, a 31.5% increase from USD 268.1 bn inflow receipts recorded in 2022, and owing to tourist arrivals that improved by 27.6% to 182,000 in the 12 months to January 2024, from 151,000 recorded during a similar period in 2023.

Key to note, Kenya’s forex reserves declined by 0.9% during the week to USD 7.2 bn from USD 7.3 bn recorded the previous week, equivalent to 3.8 months of import cover same as the previous week, and remained below the statutory requirement of maintaining at least 4.0-months of import cover.

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



Weekly Highlights

I. **Fuel Prices Effective 15th April 2024 to 14th May 2024**

During the week, the Energy and Petroleum Regulatory Authority (EPRA) released their monthly statement on the maximum retail fuel prices in Kenya, effective from 15th April 2024 to 14th May 2024. Notably, the maximum allowed price for Super Petrol, Diesel and Kerosene decreased by Kshs 5.3, Kshs 10.0, and Kshs 18.7 each respectively, and will retail at Kshs 193.8, Kshs 180.4, and Kshs 170.0 per litre respectively from the March 2024 prices of Kshs 199.2, Kshs 190.4 and Kshs 188.7 respectively.

Other key take-outs from the performance include;

i. The average landing costs per cubic meter for Super Petrol increased by 4.9% to USD 737.7 from USD 703.5 recorded in February 2024 while Kerosene decreased marginally by 0.7% to USD 725.3 in March 2024 from USD 728.0 in February 2024 and Diesel remained relatively unchanged from the USD 722.5 recorded in February 2024, and,
ii. The Kenyan shilling gained against the US Dollar by 9.8% to Kshs. 133.5 in March 2024, compared to the mean monthly exchange rate of Kshs 148.0 recorded in February 2024.

We note that fuel prices in the country have decreased, largely attributable to the government's efforts to stabilize pump prices through the petroleum pump price stabilization mechanism which has so far expended Kshs 9.9 bn in the FY’2023/24 to cushion the increases applied to the petroleum pump prices, coupled with the ongoing appreciation of the Kenyan Shilling against the dollar and other major currencies. Nevertheless, fuel prices in the country still remain under pressure from the high taxation of petroleum products as provided in the Finance Act 2023. We expect that fuel prices will drop in the coming months as a result of the government's efforts to mitigate the cost of petroleum through the pump price stabilization mechanism, strengthening of the Kenyan Shilling against the United States Dollar, having gained by 16.3% against the dollar on a year-to-date basis, coupled with a reduction in international fuel prices. As such, we expect the business environment in the country to improve as fuel is a major input cost, as well as further ease in inflationary pressures, with the inflation rate expected to move further towards the CBK’s preferred target of 5.0%.

II. Exchequer Highlight March 2024

During the week, the National Treasury gazetted the revenue and net expenditures for the ninth month of FY’2023/2024, ending 28th March 2024, highlighting that the total revenue collected as at the end of March 2024 amounted to Kshs 1,589.7 bn, equivalent to 61.7% of the revised estimates of Kshs 2,576.8 bn for FY’2023/2024 and is 82.3% of the prorated estimates of Kshs 1,932.6 bn.

The National Treasury gazetted the revenue and net expenditures for the ninth month of FY’2023/2024, ending 28th March 2024. Below is a summary of the performance:

FY'2023/2024 Budget Outturn - As at 28th March 2024

Amounts in Kshs billions unless stated otherwise

Item	12-months Original Estimates	Revised Estimates	Actual Receipts/Release	Percentage Achieved of the Revised Estimates	Prorated	% achieved of the Prorated
Opening Balance			2.6			
Tax Revenue	2,495.8	2,495.8	1,535.1	61.5%	1,871.9	82.0%
Non-Tax Revenue	75.3	80.9	52.0	64.3%	60.7	85.7%
Total Revenue	**2,571.2**	**2,576.8**	**1,589.7**	**61.7%**	**1,932.6**	**82.3%**
External Loans & Grants	870.2	849.8	506.9	59.7%	637.3	79.5%
Domestic Borrowings	688.2	851.9	603.8	70.9%	638.9	94.5%
Other Domestic Financing	3.2	3.2	3.5	111.1%	2.4	148.1%
Total Financing	**1,561.6**	**1,704.9**	**1,114.3**	**65.4%**	**1,278.6**	**87.1%**
Recurrent Exchequer issues	1,302.8	1,360.1	905.8	66.6%	1,020.1	88.8%
CFS Exchequer Issues	1,963.7	2,078.8	1,364.6	65.6%	1,559.1	87.5%
Development Expenditure & Net Lending	480.8	457.2	207.5	45.4%	342.9	60.5%

FY'2023/2024 Budget Outturn - As at 28th March 2024

Amounts in Kshs billions unless stated otherwise

Item	12-months Original Estimates	Revised Estimates	Actual Receipts/Release	Percentage Achieved of the Revised Estimates	Prorated	% achieved of the Prorated
County Governments + Contingencies	385.4	385.4	223.5	58.0%	289.1	77.3%
Total Expenditure	**4,132.7**	**4,281.6**	**2,701.5**	**63.1%**	**3,211.2**	**84.1%**
Fiscal Deficit excluding Grants	**1,561.6**	**1,704.9**	**1,111.8**	**65.2%**	1,278.6	86.9%
Total Borrowing	**1,558.4**	**1,701.7**	**1,110.7**	**65.3%**	1,276.2	**87.0%**

Amounts in Kshs bns unless stated otherwise

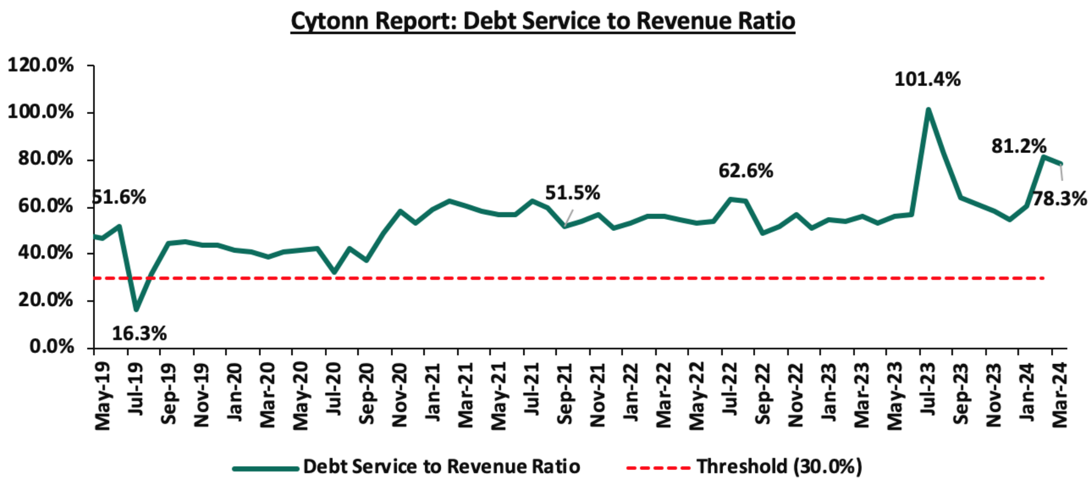
The Key take-outs from the release include;

a. Total revenue collected as at the end of March 2024 amounted to Kshs 1,589.7 bn, equivalent to 61.7% of the revised estimates of Kshs 2,576.8 bn for FY'2023/2024 and is 82.3% of the prorated estimates of Kshs 1,932.6 bn. Cumulatively, tax revenues amounted to Kshs 1,535.1 bn, equivalent to 61.5% of the revised estimates of Kshs 2,495.8 bn and 82.0% of the prorated estimates of Kshs 1,871.9 bn,

b. Total financing amounted to Kshs 1,114.3 bn, equivalent to 65.4% of the revised estimates of Kshs 1,704.9 bn and is equivalent to 87.1% of the prorated estimates of Kshs 1,278.6 bn. Additionally, domestic borrowing amounted to Kshs 603.8 bn, equivalent to 70.9% of the revised estimates of Kshs 851.9 bn and is 94.5% of the prorated estimates of Kshs 638.9 bn,

c. The total expenditure amounted to Kshs 2,701.5 bn, equivalent to 63.1% of the revised estimates of Kshs 4,281.6 bn, and is 84.1% of the prorated target expenditure estimates of Kshs 3,211.2 bn. Additionally, the net disbursements to recurrent expenditures came in at Kshs 905.8 bn, equivalent to 66.6% of the revised estimates of Kshs 1,360.1 and 88.8% of the prorated estimates of Kshs 1,020.1 bn,

d. Consolidated Fund Services (CFS) Exchequer issues came in at Kshs 1,364.6 bn, equivalent to 65.6% of the revised estimates of Kshs 2,078.8 bn, and are 87.5% of the prorated amount of Kshs 1,559.1 bn. The cumulative public debt servicing cost amounted to Kshs 1,244.0 bn which is 66.7% of the revised estimates of Kshs 1,866.0 bn, and is 88.9% of the prorated estimates of Kshs 1,399.5 bn. Additionally, the Kshs 1,244.0 bn debt servicing cost is equivalent to 78.3% of the actual revenues collected as at the end of March 2024. The chart below shows the debt serving to revenue ratio;



e. Total Borrowings as at the end of March 2024 amounted to Kshs 1,110.7 bn, equivalent to 65.3% of the revised estimates of Kshs 1,701.7 bn for FY'2023/2024 and are 87.0% of the prorated estimates of Kshs 1,276.2 bn. The cumulative domestic borrowing of Kshs 851.9 bn comprises of Net Domestic Borrowing Kshs 471.4 bn and Internal Debt Redemptions (Rollovers) Kshs 380.5 bn.

The government has been unable to meet its prorated revenue targets for the nine months of the FY'2023/2024, attaining 82.3% of the revenue targets in March 2024, mainly on the back of the tough economic situation exacerbated by the elevated inflationary pressures that despite decreasing by 0.6% points in March to 5.7% from the 6.3% recorded in February, still remains on the upper bound of the CBK target of within a range of 2.5% -7.5%. Additionally, the revenue collection continues to be impeded by the high cost of living, evidenced by the deterioration in the business environment with the PMI coming in at 49.7 in March from the 51.8 recorded in February 2024. In light of this, the government is yet to fully benefit from the strategies put in place to improve revenue collection such as expanding the revenue base and sealing tax leakages, and suspension of tax relief payments. The coming months' revenue collection performance will largely depend on how quickly the country's business climate stabilizes. This stabilization is expected to be aided by the ongoing appreciation of the Shilling, which gained by 8.2% against the dollar in the month of March, and a further ease in inflationary pressures in the country.

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 20.1% ahead of its prorated net domestic borrowing target of Kshs 383.3 bn, having a net borrowing position of Kshs 460.4 bn out of the domestic net borrowing target of Kshs 471.4 bn for the FY'2023/2024. However, we expect a downward readjustment of the yield curve in the short and medium term, with the government looking to increase its external borrowing to maintain the fiscal surplus, hence alleviating pressure in the domestic market. As such, we expect the yield curve to normalize in the medium to long-term and hence investors are expected to shift towards the long-term papers to lock in the high returns.