Kenya Listed Banks FY’2017 Report, & Cytonn Weekly #15/2018

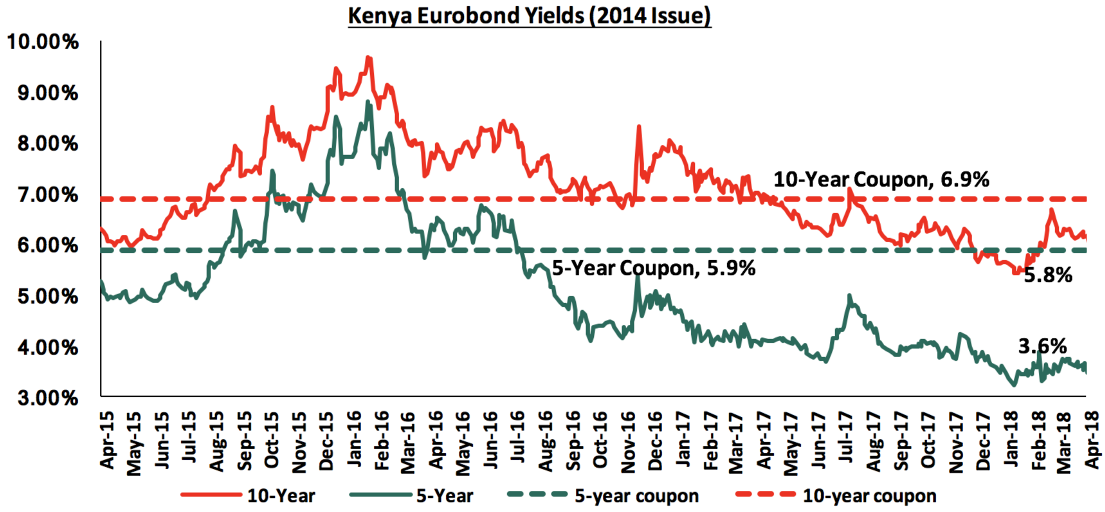
Fixed Income

Treasury bills were undersubscribed this week with the overall subscription rate coming in at 87.1%, compared to an overall subscription of 107.0% the previous week. The subscription rates for the 91, 182 and 364-day papers came in at 43.9%, 69.5%, and 121.9% compared to 73.9%, 71.6%, and 155.6%, respectively, the previous week. Yields on the 91, 182 and 364-day papers remained unchanged at 8.0%, 10.3% and 11.1%, respectively. The overall acceptance rate remained unchanged at 99.4%, with the government accepting a total of Kshs 20.8 bn of the Kshs 20.9 bn worth of bids received, against the Kshs 24.0 bn on offer. The government is currently 17.9% ahead of its domestic borrowing target for the current fiscal year, having borrowed Kshs 276.7 bn, against a target of Kshs 234.6 bn (assuming a pro-rated borrowing target throughout the financial year of Kshs 297.6 bn).

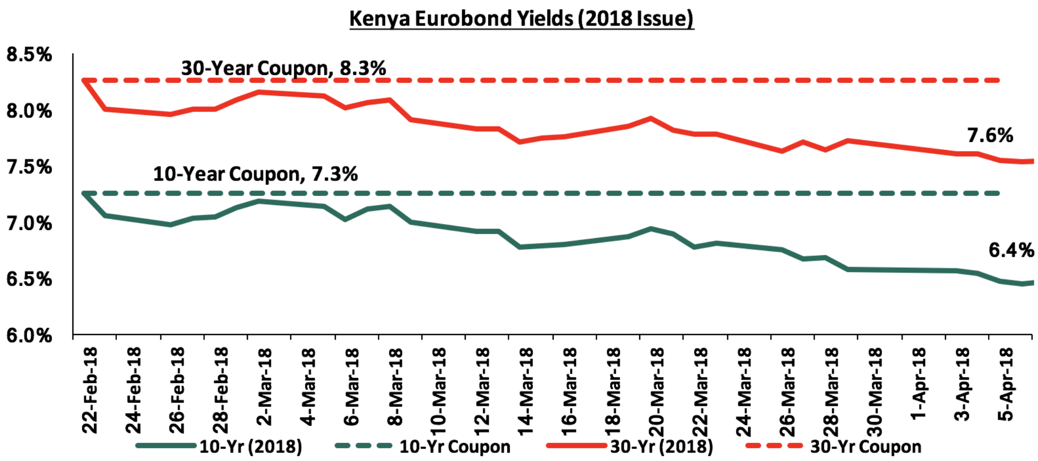
The Kenyan Government has re-opened 2 bonds, FXD 1/2008/15 and FXD 1/2018/20, with 4.9-years and 19.9-years to maturity, and coupons of 12.5% and 13.2%, respectively. The government will be seeking to raise Kshs 40.0 bn for budgetary support. The re-open sale period will end on 24th April and hence we will give our bidding range in next week’s report.

Liquidity levels increased in the money market as indicated by the decline in the average interbank rate to 6.1%, from 6.3% recorded the previous week, and there was an increase in the average volumes traded in the interbank market by 9.7% to Kshs 22.7 bn, from Kshs 20.7 bn the previous week, as banks borrowed from each other for PAYE tax remittances.

According to Bloomberg, the yield on the 5-year Eurobond issued in June 2014 remained flat at 3.6%, while the yield on the 10-year Eurobond increased by 10 bps to 5.8%, from 5.7% the previous week. Since the mid-January 2016 peak, yields on the Kenya Eurobonds have declined by 5.2% points and 3.8% points for the 5-year and 10-year Eurobonds, respectively, due to the relatively stable macroeconomic conditions in the country. Key to note is that these bonds currently have 1.2 and 6.2-years to maturity for the 5-year and 10-year bonds, respectively.



For the February 2018 Eurobond issue, during the week, the yields on the 10-year and 30-year Eurobonds remained the same at 6.4% and 7.6%, respectively. Since the issue date, yields on the 10-year and 30-year Eurobonds have declined by 0.8% points and 0.7% points, respectively, indicating foreign investor confidence in Kenya's macro-economic prospects.



The Kenya Shilling appreciated by 0.2% against the US Dollar during the week, to close at Kshs 100.9 from Kshs 101.0 the previous week, driven by horticulture export inflows. On a YTD basis, the shilling has gained 2.3% against the USD. In our view, the shilling should remain relatively stable against the dollar in the short term, supported by:

i. Weakening of the USD in the global markets as indicated by the US Dollar Index, which shed 9.9% in 2017, and has shed 2.5% YTD, as the Euro and the Sterling Pound continue to strengthen against the USD with the continued recovery of the Eurozone,
ii. Improving diaspora remittances, which increased by 47.5% to USD 210.4 mn in February 2018 from USD 142.7 mn in February 2017, driven by continued marketing of Kenya as an attractive investment destination for Kenyans in the diaspora, and,
iii. CBK's intervention activities, as they have sufficient forex reserves, currently at USD 8.8 bn (equivalent to 5.9 months of import cover), and the USD 1.5 bn stand-by credit and precautionary facility by the IMF, still available until September 2018, after which a new facility will be discussed.

According to the Stanbic Bank's Monthly Purchasing Manager's Index (PMI), the business environment in the country had the greatest improvement in March 2018 since December 2016, mainly driven by favorable economic conditions and greater inflows from new export orders. The PMI rose to 55.7 in March from 54.7 in February. The Q1'2018 performance was notably strong, averaging 54.4, 4.4 points above the 50-point mark. A PMI reading of above 50 indicates improvements in the business environment, while a reading below 50 indicates a worsening outlook. Firms reported faster growth in value of outputs, while new orders accelerated bolstered by a record rise in new export orders. This was despite high input costs experienced towards the end of March. Output is expected to continue rising, driven by a recovery in agricultural produce, mainly horticulture, as the Eurozone (Kenya's main horticultural export destination) continues to recover and boost demand. We maintain our view that GDP is expected to grow at 5.4% in 2018 supported by growth in the manufacturing, agriculture, real estate, construction and tourism sectors. Stanbic maintained their GDP growth projection for 2018 at 5.6%, same as their Q1'2018 projection.

The World Bank released their World Economic Update, April 2018, during the week. As per the update, Kenya's GDP growth is expected to recover and grow at 5.5% in 2018, up from the estimated 4.8% in 2017, driven by (i) expected improvement in agricultural output due to better rains, (ii) recovery in the global economy supporting a rebound in business sentiment, which is expected to support a broad-based recovery in private investment, and (iii) the improved political environment after the elections. The growth is however expected to be abated by the rising oil prices, currently at USD 72.7 per barrel up from USD 66.9 at the end of 2017, and the weak private sector credit growth, at 2.1% as at February 2018, following the implementation of the interest rate cap in 2016. With the ongoing talks and the push by the IMF to repeal the interest cap, the outlook is positive since if this is to happen, there will be improvement in credit to the private sector. As per the report, Kenya is also expected to move towards becoming an upper middle-income economy following implementation of the government's ***Big Four Agenda***, which addresses areas of agricultural and food security, real estate and affordable housing, manufacturing, and Universal Health Coverage (UHC). These goals are in line with the third Medium Term Plan (MTP 2018-2022) of Kenya's Vision 2030. Below is a table showing that the Kenyan economy is expected to grow by an average of 5.4% in 2018 according to updated projections by the organizations that we track. We shall continue to update this table as these organizations release their updated 2018 projections:

Kenya 2018 GDP Growth Outlook

No.	Organization	Q1'2018*	Q2'2018**
1	Central Bank of Kenya	6.2%	
2	Kenya National Treasury	5.8%	
3	Oxford Economics	5.7%	
4	African Development Bank (AfDB)	5.6%	
5	Stanbic Bank	5.6%	5.6%
6	Citibank	5.6%	
7	International Monetary Fund (IMF)	5.5%	
8	World Bank	5.5%	5.5%

Kenya 2018 GDP Growth Outlook

No.	Organization	Q1'2018*	Q2'2018**
9	Fitch Ratings	5.5%	
10	Barclays Africa Group Limited	5.5%	
11	**Cytonn Investments Management Plc**	**5.4%**	
12	Focus Economics	5.3%	
13	BMI Research	5.3%	5.2%
14	Standard Chartered	4.6%	
	Average	**5.5%**	**5.4%**

Q1’2018 projections are annual GDP projections for 2018 as at Q1’2018

****Q2’2018 projections are updated annual GDP projections as at Q2’2018***

Rates in the fixed income market have remained stable as the government rejects expensive bids. The government is under no pressure to borrow for this fiscal year due to: (i) they are currently ahead of their domestic borrowing target by 17.9%, (ii) they have met 72.9% of their total foreign borrowing target and 92.4% of its pro-rated target for the current fiscal year, and (iii) the KRA is not significantly behind target in revenue collection, and therefore we expect interest rates to remain stable. With the expectation of a relatively stable interest rate environment, our view is that investors should be biased towards medium to long-term fixed income instruments.