



DYER & BLAIR

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DYER AND BLAIR INVESTMENT BANK

WEBINAR: INVESTING UNDER UNCERTAINTY

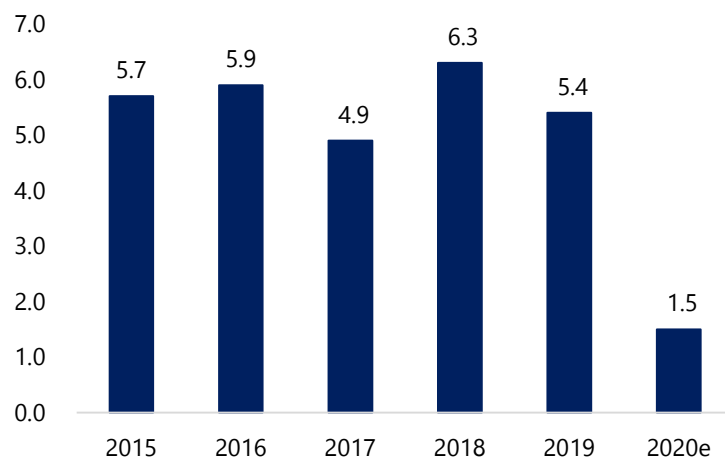
T-BILLS, TREASURY BONDS & EUROBONDS

JULY 8, 2020



MACROECONOMIC ENVIRONMENT

Real GDP growth (%)

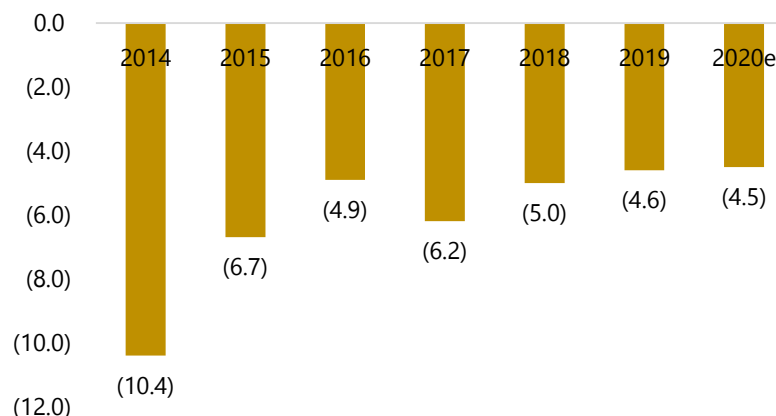


Real GDP growth has slowed down considerably due to COVID-19.

Recovery assumes:

- COVID-19 pandemic will be contained within 2020
- Kenya will remain in a fairly stable political and internal security situation
- The weather patterns will remain favorable in 2020 & the locust invasion will be well contained
- That crude oil prices will remain subdued/low

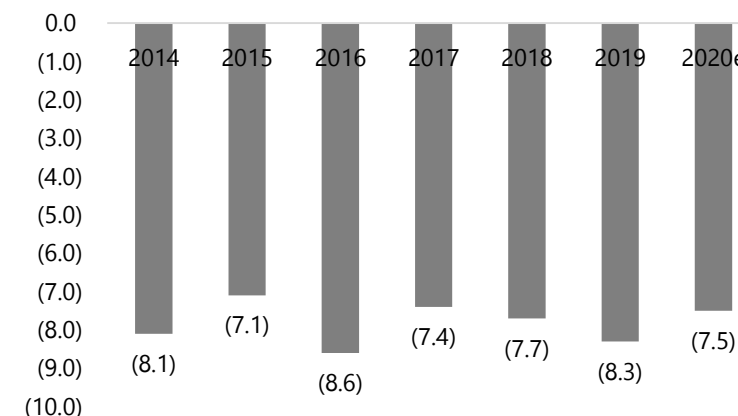
Current Account Balance (%)
(Including grants)



Recent gains on a narrowing CA are at risk from the impact of subdued inflows from remittances, tourism & exports.

- Remittances stood at US\$ 2.9 BN (2.9% of GDP) in 2019 having grown rapidly since 2014
- Number of tourist arrivals in 2019 rose 1.2% y-o-y to 2.1 MN
- Key agricultural exports like horticulture, tea and coffee have been under pressure.

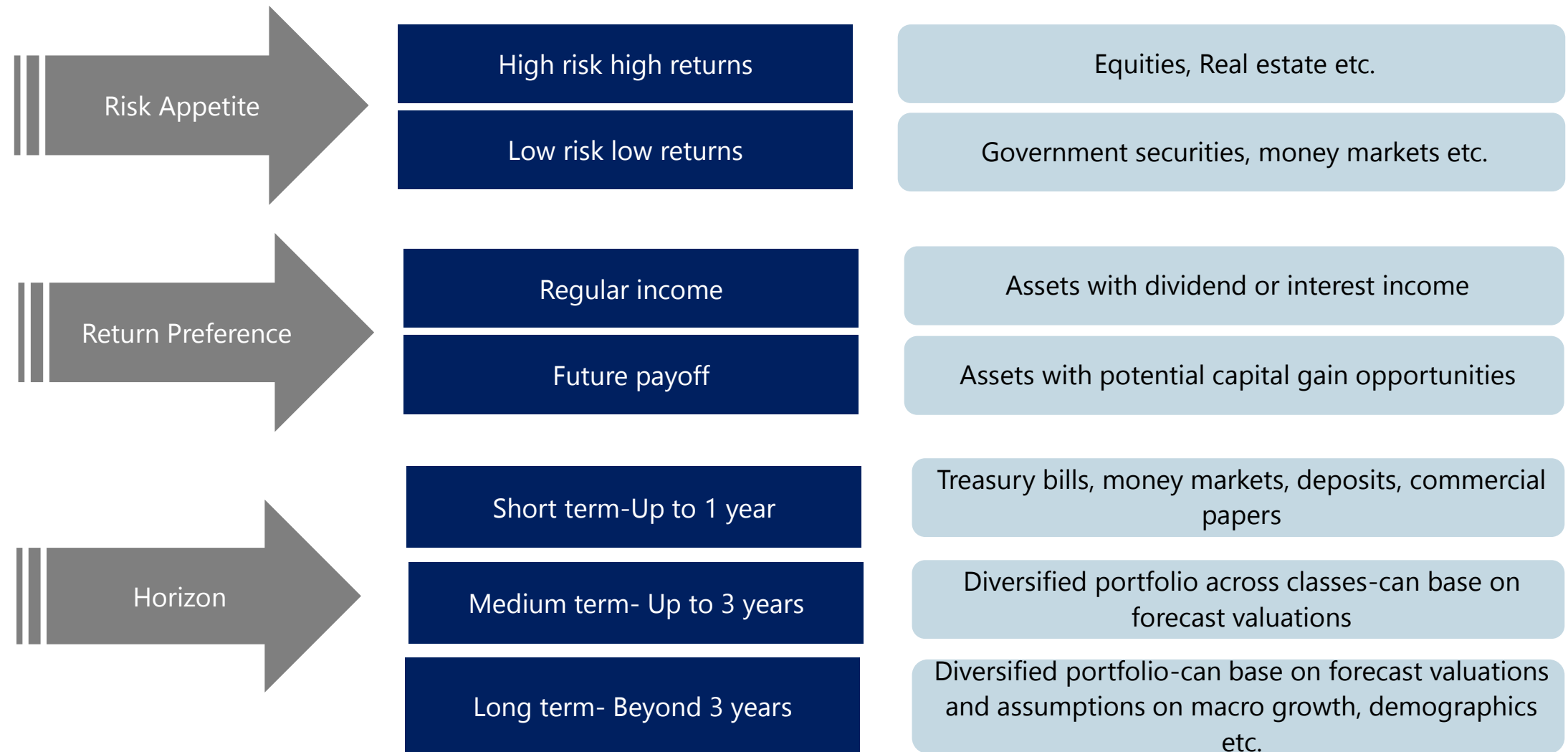
Fiscal Deficit (%)
(Including grants)



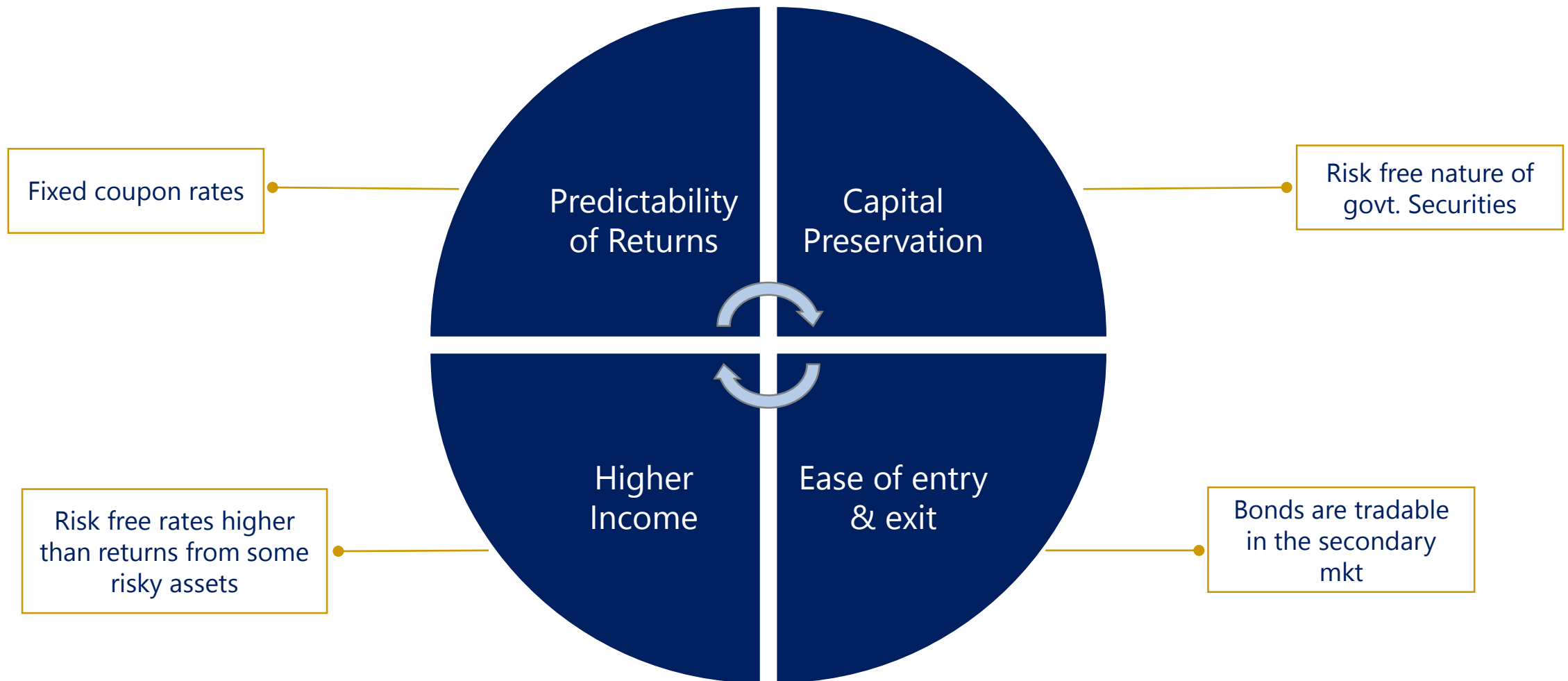
Kenya's path to fiscal consolidation has been disrupted by COVID-19

- Tax revenue will underperform
- If there is a second wave of COVID-19 in 2021 & if the political environment heats up, tax revenue could be impaired till after 2022 elections
- This creates significant uncertainty over the outlook of interest rates.

FUNDAMENTAL QUESTIONS



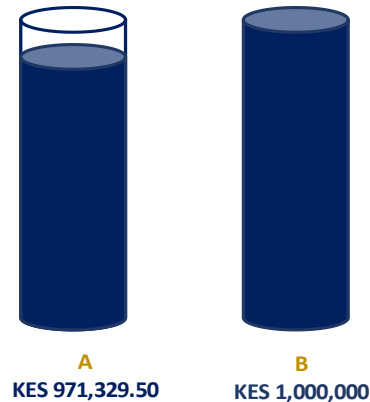
WHY FIXED INCOME NOW?



TREASURY BILLS vs GOVERNMENT BONDS

Treasury Bills

- Short-term investments (<1 year)
- Auctioned weekly
- Issued at a discount
(B-A = Interest earned)
- 15.0% WHT on interest earned



Example:

Amani would like to invest KES 1.0 MN in a 182-day T-bill. The latest auction results given by CBK were 7.0% p.a. for the 182-day T-bill.

Assuming the rate would stay the same;

Amani would pay KES 971,329.50 now and receive KES 1.0 MN upon maturity; hence earning a net interest of KES 28,670.50.

Government bonds

- Longer-term investments (> 1 year)
- Investment opportunities in both the primary & secondary market
- Fixed coupons paid out semi-annually
- Two types of government bonds: Infrastructure bonds & FXD bonds

Infrastructure bonds:

- i. Tax exempt
- ii. Partial redemption structures
- iii. More liquid

FXD bonds:

- i. Subject to tax (long-term papers: 10.0% ; short-term papers: 15.0%)
- ii. No partial redemption structures



BOND PRICING

The price of a bond is the present value of all its future cash flows which includes all its coupon payments & its principal amount upon maturity.

$$Y = \left\{ \frac{C}{1+i} + \frac{C}{(1+i)^2} + \dots + \frac{C}{(1+i)^N} \right\} + \frac{P}{(1+i)^N}$$

Where:

Y – Price of the bond

C – Future Cash flows

P – Principal Amount

N – Number of periods

i – Interest rate



MOCK PRICING

PRICING FOR THE IFB1/2017/7		
Issue No	IFB1/2017/7	
Coupon Rate	12.500%	
Issue Date	27-Nov-17	
Maturity Date	18-Nov-24	
Last Payment Date	25-May-20	
Next Payment Date	23-Nov-20	
Value Date	10-Jul-20	
Period to Final Redemption	4.37 Yrs	
Face Value	1,000,000.00	
Yield to Maturity	12.0000%	
Days Accrued Interest	46.00	
Interest to Accrue to Maturity	421,703.30	
Dirty Price	102.88080	
Accrued Interest	1.57967	
Clean Price	101.30113	
Consideration (KES)	1,028,808.00	
Transaction Charges		
Brokerage Commission	0.0240%	500.00
CMA, NSE, CDSC Levies	0.0110%	113.17
VAT(14%)	0.0034%	70.00
Total Charges		683.17
Net Amount Payable		1,029,491.17
Net Amount Receivable		1,028,124.83

1st Infrastructure bond issued in 2017 for 7 years

The interest (coupon) you will earn every year, given in 2 instalments, semi annually

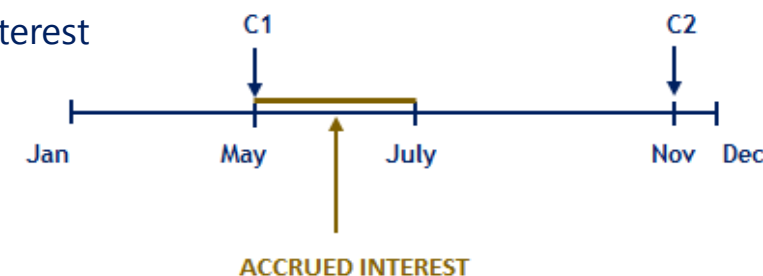
Helpful in calculating the accrued interest

Yield to Maturity (affects the clean price)

Clean Price + Accrued Interest

Gross amount payable

Net amount payable



HOW TO INVEST IN T-BILLS & BONDS

Option 1

- Open a CBK CDS Account

Option 2

- Trade through DBIB CBK CDS Account

T-Bills

Weekly Auction

- DBIB processes for both CBK account holders and DBIB account holders.
- Minimum Amount: KES 100,000 only

Treasury Bonds

Primary Auction

- At primary auction, DBIB processes for both CBK account holders and DBIB account holders.
- FXD - Minimum Amount: KES 50,000 only
- IFB - Minimum Amount: KES 100,000 only

Treasury Bonds

Secondary Trading

- DBIB sources counter-party trades and closes the trade on behalf of the client.

KENYAN EUROBONDS

Characteristics of the Kenyan Eurobond:

- i. Tax exempt
- ii. USD denominated
- iii. Listed on the London & Irish Stock Exchange

Advantages of Investing in Eurobonds:

- i. Higher dollar yields
- ii. Exchange rate risk diversification
- iii. Capital appreciation i.e. trading opportunities
- iv. Geographical risk diversification

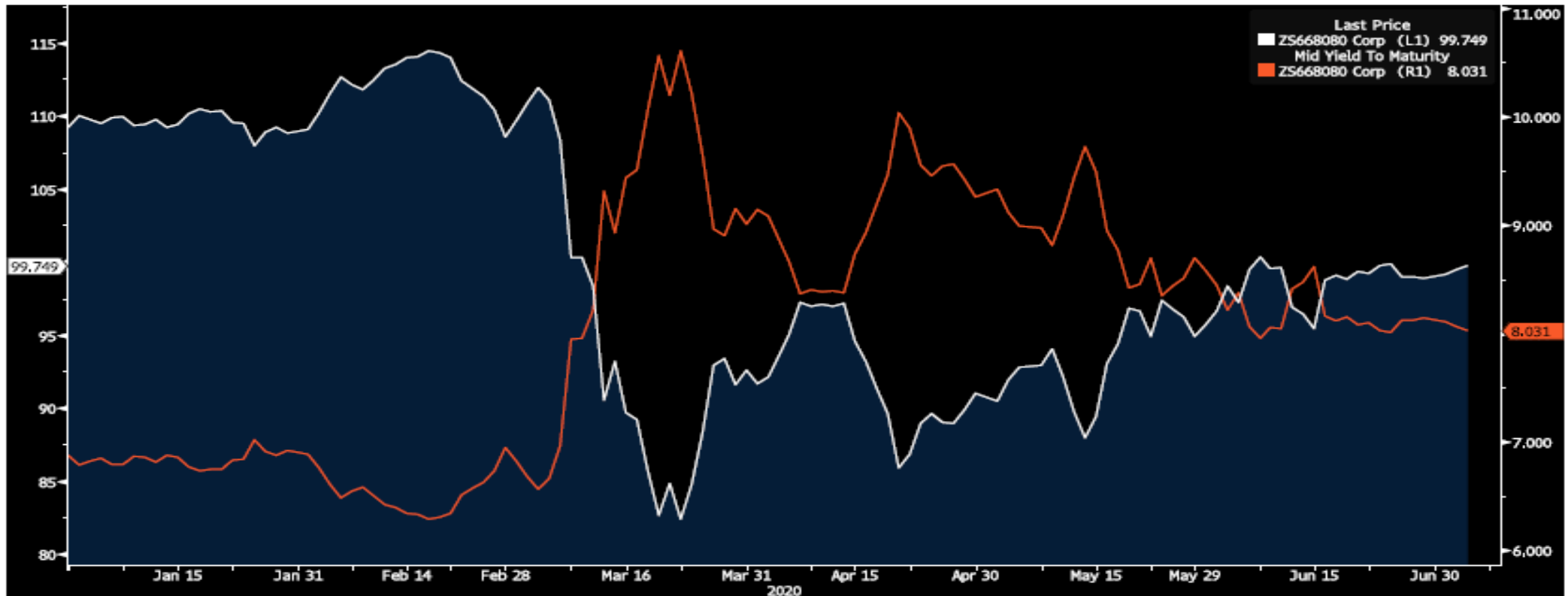
Currently, there are 5 papers available with different maturities and coupon payments. Below is the latest pricing of the bonds:

Kenyan Eurobond	Price	Coupon	Yield
2024	101.663 - 102.614	6.875%	6.392% - 6.121%
2027	99.112 - 100.159	7.000%	7.164% - 6.968%
2028	99.211 - 100.332	7.250%	7.385% - 7.191%
2032	99.172 - 100.275	8.000%	8.108% - 7.962%
2048	99.118 - 100.216	8.250%	8.330% - 8.229%

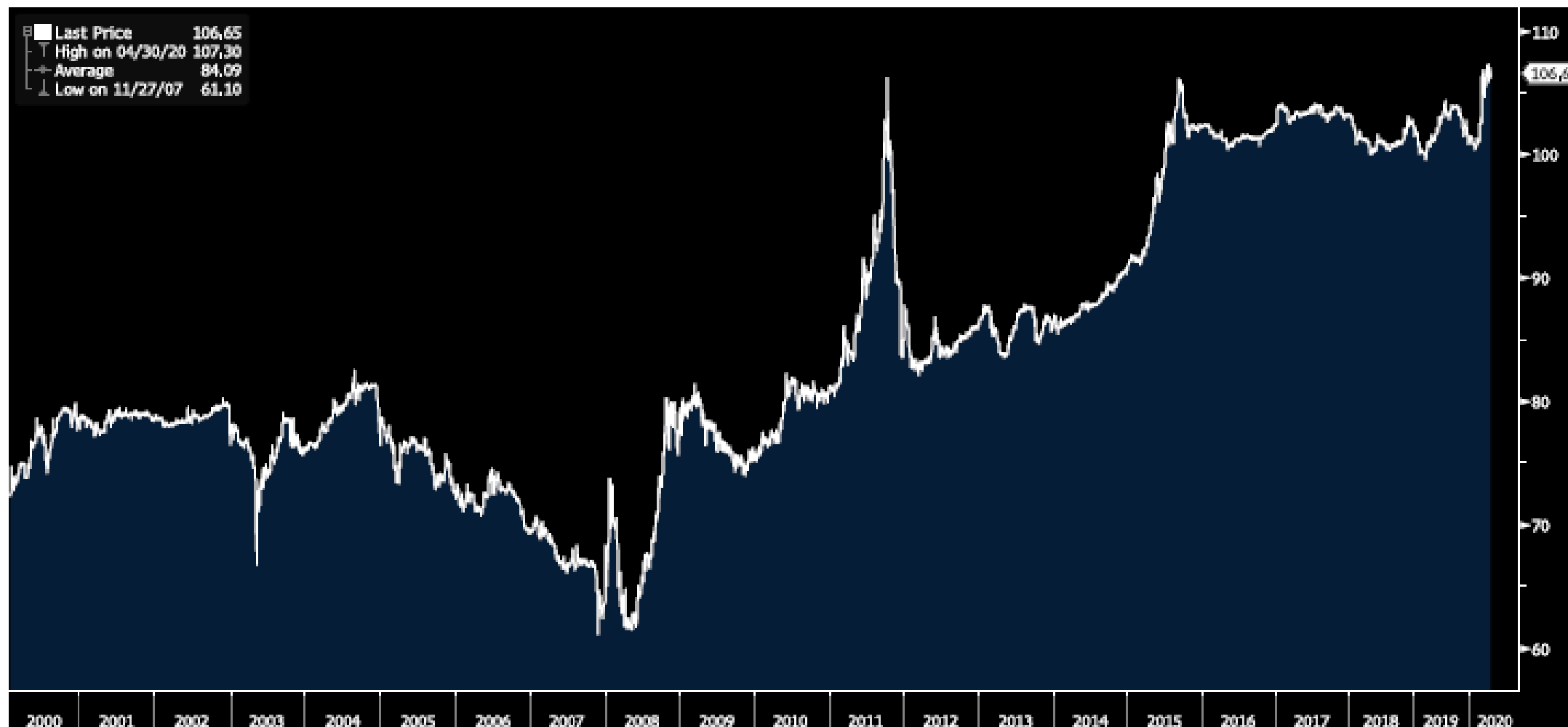


High Dollar Yields

ZS668080 Corp (KENINT 8 05/22/32)
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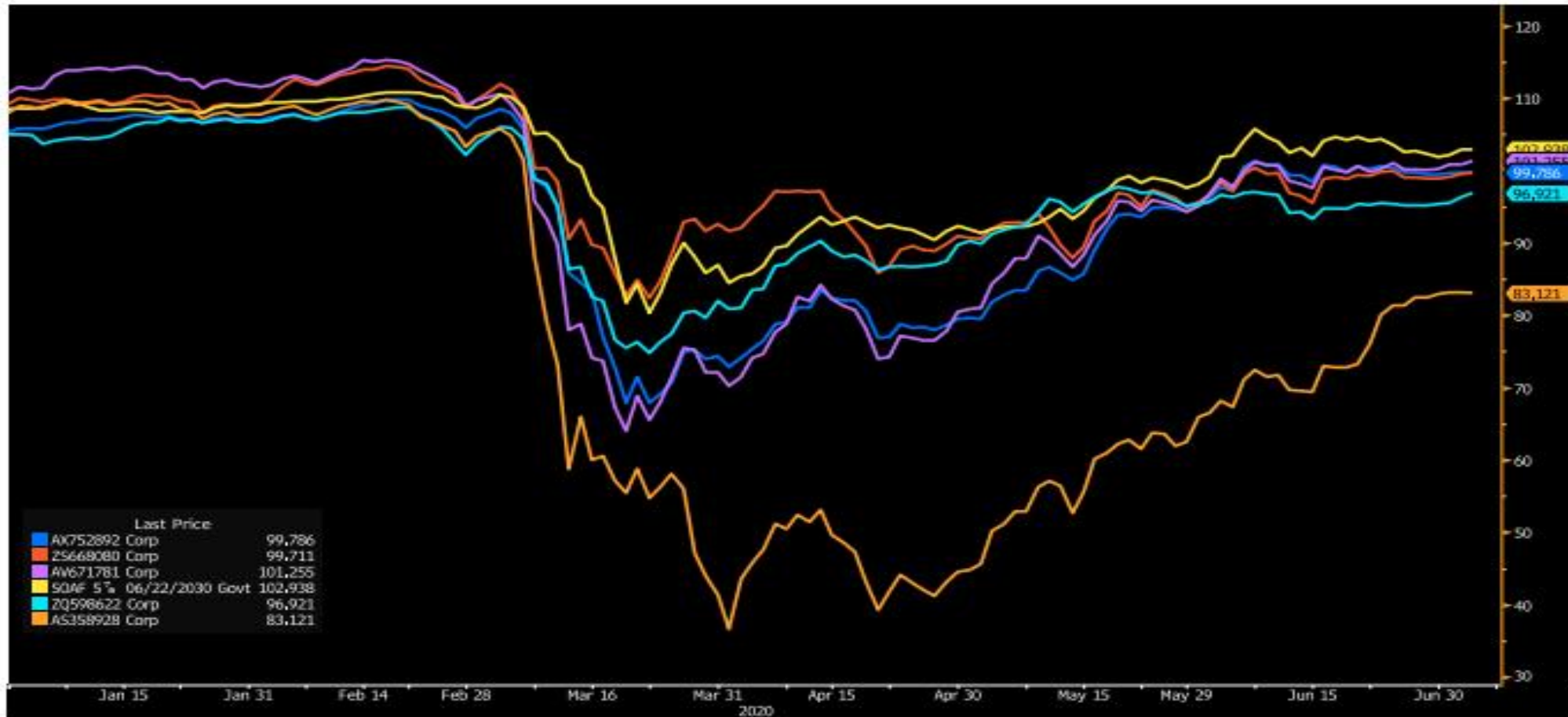
KES/USD: Exchange Risk Diversification



Trading Opportunities: Capital Appreciation

AX752892 Corp (GHANA 7 7/8 03/26/27)
ZS668080 Corp (KENINT 8 05/22/32)
AV671781 Corp (NGERIA 8.747 01/21/31)
AS676374 Corp (SOAF 5 7/8 06/22/30)

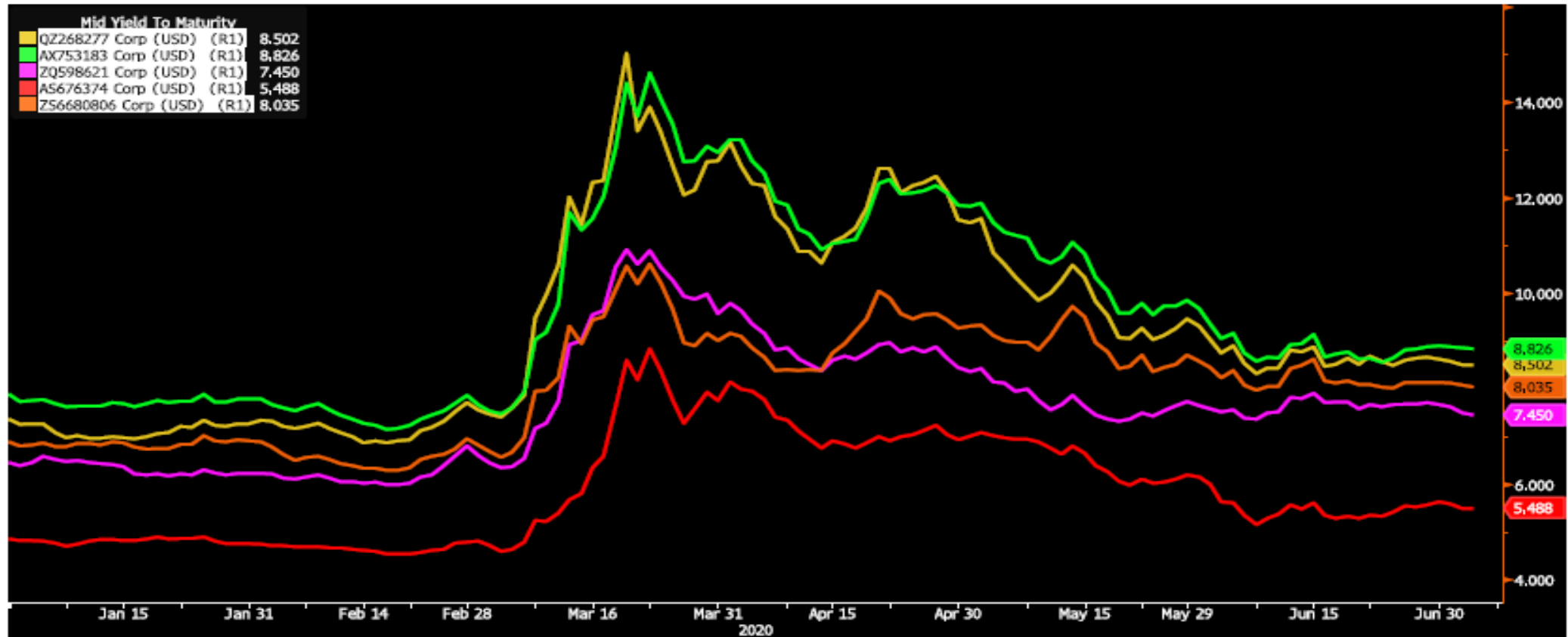
ZQ598622 Corp (EGYPT 7.0529 01/15/32)
AS358928 Corp (ANGOL 8 1/4 05/09/28)



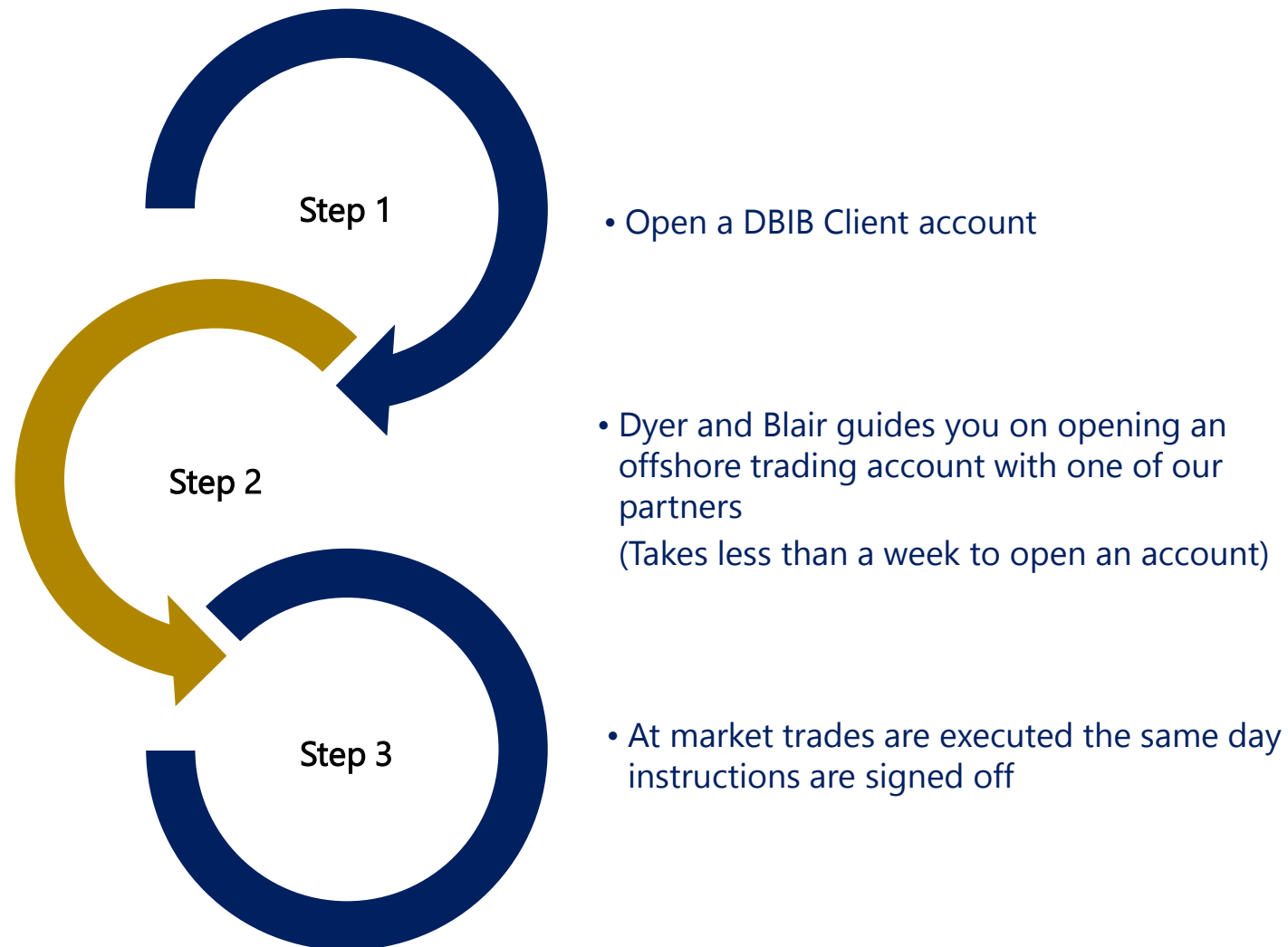
Geographical Diversification

QZ268277 Corp (NGERIA 7 7/8 02/16/32)
AX753183 Corp (GHANA 8 1/8 03/26/32)
ZQ598621 Corp (EGYPT 7.0529 01/15/32)
AS676374 Corp (SOAF 5 7/8 06/22/30)

ZS668080 Corp (KENINT 8 05/22/32)



HOW TO INVEST IN EUROBONDS



Q&A

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