Case Study

Government of Kenya – US$1.5bn Offering

Kenya partially refinanced its June 2024 Notes via a tender offer with a concurrent new $1.5bn 9.75% 6-year WAL offering. Citi acted as Dealer Manager on the tender offer and as Joint Bookrunner on the new issue.

The Client

The Republic of Kenya, rated B/B3/B by S&P, Moody's, and Fitch, respectively, is a Sub-Saharan sovereign with a population of 54 million and GDP of $113.4 billion for 2022.

The Challenge

Kenya's credit profile has been constrained in recent years by its high debt burden and interest payments, including a $2bn Eurobond repayment due in June 2024. Its large financing requirements was a key factor that led to the credit rating agencies downgrading the sovereign and changing the outlook to Negative throughout 2023. In addition, there was a concern that the agencies would classify the liability management exercise as a distressed exchange, as the $2bn Eurobond repayment was maturing in the coming months, which would lead to further rating actions.

The Solution

Citi helped the Government of Kenya to access the international capital markets for the first time since June 2021. Citi acted as Dealer Manager on the tender offer and as Joint Bookrunner on the new issue. Citi also engaged with the rating agencies to ensure transparency and an open dialogue throughout the process of the transaction.

On the back of a significant rally in the Republic of Kenya's US$ secondary curve in the months preceding the announcement, on Wednesday 7 February 2024, the sovereign announced a mandate and fixed income investor calls for a US$ 144A/RegS transaction with a 6-year weighted average life. On the same day, the Republic launched a capped tender offer targeting its $2bn 6.875% June 2024 Notes at a fixed price of par for up to a principal amount expected to be equal to the aggregate principal amount of a potential new issue offering. The Republic of Kenya was making the offer, in conjunction with the offering of the new notes, as part of the proactive management of Kenya's external indebtedness, specifically to smooth out the maturity profile of the Notes due in June 2024. The tender offered a purchase price of 100%, providing a transparent bid to existing bondholders at the time of the new issue process. Alongside the tender, Kenya priced a $1.5bn 9.75% 6-year WAL issuance, for which tendering noteholders were eligible to receive priority allocation.

The Result

This transaction achieved the Republic's core KPIs for this transaction:

- Maximize the issuance size in order to substantially de-risk the June 2024 maturity, while simultaneously achieving the tightest possible pricing.
- The refinancing enables investors and broader economic participants to look past the near-term refinancing need and focus on unleashing the economic potential for Kenya. The appreciation of the Shilling in the aftermath of the transaction is testament to this.
- Large and high quality orderbook was anchored by high-quality US and UK based real money investors and withstood significant price revisions.
- All three rating agencies agreed that the transaction did not constitute a distressed exchange and the new bond issuance was rated in line with Kenya's B rating at the time of the issuance.

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