

# Ahead of Next Bond Auction

## SUMMARY OF PREVIOUS AUCTION

### Marginal Rates:

<b>12.50% JAN 2026</b>	6.00%
<b>12.50% MAR 2035</b>	9.50%
<b>9.80% JUL 2045</b>	9.80%
<b>12.98% MAR 2050</b>	9.95%

### Amount:

<b>12.50% JAN 2026</b>	NGN25.00bn
<b>12.50% MAR 2035</b>	NGN42.00bn
<b>9.80% JUL 2045</b>	NGN75.00bn
<b>12.98% MAR 2050</b>	NGN35.00bn

## SUMMARY OF CURRENT AUCTION

### FGN JAN 2026

<b>Auction Date</b>	19/08/2020
<b>Settlement Date</b>	21/08/2020
<b>Maturity Date</b>	22/01/2026
<b>Next Coupon Date</b>	22/01/2021
<b>Clean Price</b>	126.53

### FGN MAR 2035

<b>Auction Date</b>	19/08/2020
<b>Settlement Date</b>	21/08/2020
<b>Maturity Date</b>	27/03/2035
<b>Next Coupon Date</b>	27/09/2020
<b>Clean Price</b>	129.29

### FGN JUL 2045

<b>Auction Date</b>	19/08/2020
<b>Settlement Date</b>	21/08/2020
<b>Maturity Date</b>	24/07/2045
<b>Next Coupon Date</b>	24/01/2021
<b>Clean Price</b>	102.06

### FGN MAR 2050

<b>Auction Date</b>	19/08/2020
<b>Settlement Date</b>	21/08/2020
<b>Maturity Date</b>	27/03/2050
<b>Next Coupon Date</b>	27/09/2020
<b>Clean Price</b>	128.79

## FGN Bond Auction Scheduled for 19<sup>th</sup> August 2020

### Issue on Offer/Summary

The Federal Government of Nigeria (FGN), through the Debt Management Office (DMO), will be conducting a bond auction on Wednesday 19<sup>th</sup> of August 2020. The total amount on offer is expected to amount to NGN150bn. All four (4) instruments on offer are re-opening issues.

<b>12.50% FGN JAN 2026</b>	<b>NGN25bn</b>
<b>12.50% FGN MAR 2035</b>	<b>NGN40bn</b>
<b>9.80% FGN JUL 2045</b>	<b>NGN45bn</b>
<b>12.98% FGN MAR 2050</b>	<b>NGN40bn</b>

### Current Yield Analysis

Strong investor buying interests were sustained at the last FGN Bonds primary market auction (PMA) as all instruments on offer viz. 12.50% JAN 2026, 12.50% MAR 2035, 9.80% JUL 2045 and 12.98% MAR 2050 Instruments were oversubscribed with bid to cover ratios of 2.88x, 1.44x, 1.74x and 5.93x respectively. And while marginal rates were lower on the 12.50% FGN MAR 2035 and 12.98% FGN MAR 2050 instruments, original coupon rate was maintained for both instruments.

The dominant sentiment in the secondary bonds market since the last auction has been bearish as average yields increased by a modest 6bps to 7.72% as of 17<sup>th</sup> August 2020 from 7.69% as at 22<sup>nd</sup> July 2020.

The gradual pickup of economic activities following the easing of lockdowns has improved the outlook of both the domestic and global economy. The COVID-19 curve has not yet flattened in Nigeria according to Nigeria Centre for Disease Control, however, a decline in daily reported cases has been noted. Also supporting economic recovery is the relative stability of oil prices with Brent prices hovering between USD40-45pb since the last auction. The resumption of international flight operations in Nigeria and several other countries as economies reopen, is expected to result in increased demand for crude oil and expectantly prop up crude oil prices.

FX rates have also been relatively stable since the last auction due to stability in gross FX reserves. I&E rates appreciated slightly by 0.70% to NGN388/USD while official rates stayed flat at NGN381. However, the official FX channels have remained largely illiquid, a situation which would continue to keep Foreign Portfolio Investors (FPIs) invested in domestic fixed income instruments and OMO bills. At the Parallel market, rates depreciated slightly by 0.64% over the same period. Ahead of the resumption of international travel, the CBN has pledged to improve dollar sales to the BDCs which should see a gradual strengthening of the Naira in the parallel market.

Renewed business confidence should reduce buying pressure on government securities especially as they currently offer negative real returns, however, the dearth of suitable investment options in Nigeria remains a key driver of robust participation in the government securities space. Thus, we expect strong buying interest to be sustained at the coming auction further spurred by the expected NGN181.36bn OMO maturities in the week.

## Ahead of Next Bond Auction

### Bond Absolute and Relative Valuation

In valuing the 12.50% FGN JAN 2026, 12.50% FGN MAR 2035, 9.80% FGN JUL 2045 and 12.98% FGN MAR 2050 re-opening offers with the current yield curve as the basis for discounting, we arrived at the following fair value, implied yield and an IRR for the instruments:

Instrument	Fair Value	Implied Yield	IRR
12.50% FGN JAN 2026	128.89	6.59%	-9.00%
12.50% FGN MAR 2035	134.35	8.88%	4.46%
9.80% FGN JUL 2045	102.86	9.58%	4.79%
12.98% FGN MAR 2050	134.05	9.94%	4.72%

Our valuation gives a fair-trading price ex coupon payment, the expected return on the bond considering its periodic interest payments and the expected return on the bond's periodic payments. We analysed the issues on offer given the current yield environment, market liquidity, as well as a review of the recent past auctions, whilst also introducing market sentiment factor into our valuation, on which we advise bid yield ranges for both issues on offer

# Ahead of Next Bond Auction

## About Bonds

**A bond is a fixed income debt instrument issued by the government (federal or state government) or corporate institutions with a definite date of maturity and a fixed interest payment (known as coupon) payable either semi-annually or annually. Unlike equities, bonds are issued with a guarantee of the initial investment and can have tenors as long as 20 years.**

A treasury note refers to a government bond instrument with a term to maturity of 1 to 10 years while a treasury bond has a maturity of 10 years and above. Bonds issued by state governments of a country are referred to as municipal bonds while those issued by organizations are corporate bonds.

The government usually issue bonds at the primary market to raise domestic funds to meet its fiscal responsibilities. This can be done from time to time as the need arises. Nigerian FGN bond instruments are named by their maturity, coupon, tenor etc. such as 13.05% FGN AUG 2016 instrument.

## How is Return Determined?

Bonds are mostly issued with a coupon otherwise known as **the periodic interest payable**. Bond instruments are usually issued at par; that is, N100 or N1,000 as is the case with Nigerian bonds. A 2-year bond issued at 12% annual coupon with a par value of N1000 implies that the issuer will make 3 semi-annual payments of N60, and a final N1060 on the maturity date.

Bonds can be purchased at both the primary and secondary markets, they are either quoted in price or yields. **There is an inverse relationship between the price of a bond and its yield to maturity (YTM).** At issuance, the yield on a bond instrument is most likely the coupon on that instrument. At the secondary market therefore, an investor can trade bonds by quoting a yield that reflects the variance between the par value and the current price based on the current market dynamics.

## How does the Auction Process work?

**Bond instruments are issued through a competitive bidding process at auctions as conducted by the Debt Management Office which serves as the representative of the government. An existing government instrument can be re-issued also at the primary market in which case the DMO re-issues based on the current market yield to maturity.**

**Bonds are auctioned at established rates which determine the return to investors.**

Purchasing these instruments in the primary market and holding it till maturity would mean that the investor gets a fixed interest payment, however, there is a secondary market in which investors can trade these bonds to meet their immediate liquidity needs.

## Contact Information

### Brokerage and Retail Services

topeoludimu@meristemng.com	(+234 905 569 0627)
abisoyeoludipe@meristemng.com	(+234 708 000 7861)
contact@meristemng.com	

### Investment Banking/Corporate Finance

seunlijofi@meristemng.com	(+234 808 536 5766)
---------------------------	---------------------

### Wealth Management

damilolahassan@meristemng.com	(+234 803 613 9123)
-------------------------------	---------------------

www.meristemwealth.com  
Tel : +234 01 738 9948

### Registrars

muboolasoko@meristemregistrars.com	(+234 803 324 7996)
martinaosague@meristemregistrars.com	(+234 802 303 1783)

www.meristemregistrars.com  
Tel: +23401-280 9250

### Group Business Development

saheedbashir@mersitemng.com	(+234 802 454 6575)
ifeomaogalue@meristemng.com	(+234 802 3942967)

### Client Services

blessingogwuche@meristemng.com	(+234 706 896 5173)
--------------------------------	---------------------

### Investment Research

ahmedjinad@meristemng.com	(+234 809 183 9487)
---------------------------	---------------------

research@meristemng.com

Corporate websites: [www.meristemng.com](http://www.meristemng.com) [www.meristemwealth.com](http://www.meristemwealth.com) [www.meristemregistrars.com](http://www.meristemregistrars.com)

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: [meristem.com.ng/rhub](http://meristem.com.ng/rhub)

Bloomberg: MERI <GO>

Capital IQ: [www.capitaliq.com](http://www.capitaliq.com)

ISI Emerging Markets: [www.securities.com/ch.html?pc=NG](http://www.securities.com/ch.html?pc=NG)

Reuters: [www.thomsonreuters.com](http://www.thomsonreuters.com)

FactSet: [www.factset.com](http://www.factset.com)

## Ahead of Next Bond Auction

---

### Disclaimer Notice:

**Meristem** and any of its associated or subsidiary companies or the employees thereof cannot be held responsible for any loss suffered by relying on the said information as this information as earlier stated, is based on publicly available information, analysts' estimates and opinions and is meant for general information purposes and should not be construed as an offer to buy or sell or a solicitation of an offer to buy or sell securities or any financial instruments. The value of any investment is subject to fluctuations, i.e. may fall and rise. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of the investment to increase or diminish. Hence investors may not get back the full value of their original investment. Meristem Wealth Management Limited is licensed and registered with the Securities and Exchange Commission (SEC). Meristem Wealth Management Ltd.'s registered office is at 3, Norman Williams Street, South West, Ikoyi, Lagos, Nigeria. Website: [www.meristemng.com](http://www.meristemng.com); Email: [crmwealth@meristemng.com](mailto:crmwealth@meristemng.com), © Meristem Wealth Management Limited 2020.