

Ahead of Next T-Bills Auction

Treasury Bills Auction Scheduled for 26th Jan 2022

SUMMARY OF PREVIOUS AUCTION

Stop Rate:

| | |
|---------|-------|
| 91-Day | 2.50% |
| 182-Day | 3.44% |
| 364-Day | 5.50% |

Amount Allotted:

| | |
|---------|------------|
| 91-Day | NGN2.19bn |
| 182-Day | NGN1.46bn |
| 364-Day | NGN53.90bn |

SUMMARY OF CURRENT AUCTION

Auction Date January 26, 2022

Settlement Date January 27, 2022

Auction Size

| | |
|---------|-------------|
| 91-Day | NGN2.68bn |
| 182-Day | NGN3.54bn |
| 364-Day | NGN123.11bn |

Maturing Instruments

| | |
|---------|-------------|
| 91-Day | NGN2.68bn |
| 182-Day | NGN3.54bn |
| 364-Day | NGN123.11bn |

Meristem Advised Stop Rates

| | |
|---------|-------------|
| 91-Day | 2.00%-2.50% |
| 182-Day | 3.00%-3.50% |
| 364-Day | 5.00%-6.50% |

Offer Summary

The Central Bank of Nigeria (CBN) will hold a Treasury Bills (T-Bills) Primary Market Auction (PMA) on 26th of January 2022. At the PMA, Existing T-Bills totalling NGN129.33bn (NGN2.68bn, NGN3.54bn and NGN123.11bn across the 91-day, 182-day, and 364-day instruments, respectively), will mature and be rolled over.

Outlook on Yields

At the first PMA in the year 2022, stop rates on the 91-day and 182-day instruments remained largely unchanged at 2.50% and 3.44%, respectively (vs 2.49% and 3.45%, respectively at the previous auction). However, the rate on the 364-day instrument increased by 60bps to 5.50% from the last auction. We note the improvement in investors' demand driven by high system liquidity at the time. Thus, overall subscription advanced by 37.45% compared to last auction's record, and overall bid to cover ratio increased to 1.96x (from 1.56x).

In the next auction, we do not expect any significant movement in the stop rates for the 91- and 182-Day instruments from the range they have been for a while. For the 364-day instrument, however, which has enjoyed the most interest from both investors and the government, the stops rates will be determined by a mix of factors. On the one hand, the higher system liquidity resulting from coupon credits and money market maturities could keep the stop rate on the instruments low. On the other hand, we consider a higher rate a necessary incentive for the government to raise the higher amount being offered on the 364-day instrument (NGN123.11bn). We think this factor would keep rates on the instrument higher, albeit marginally, at this current auction.

So far in 2022, the secondary market for Treasury Bills has been bearish. Average yield has increased from 3.95% (as at 31 December 2021) to 4.34% (as at 24 January 2022). This movement has been largely due to weak demand across different maturities on the T-Bills curve. In the short term, we do not expect any significant deviation from this trend, especially given the expectation of a higher rate on the 364-day instrument at the PMA.

In view of the above, our rate guidance is informed by the need to strike a balance between the goals of maximizing investment returns and having a successful bid. Thus, the recommended stop rates for the respective instruments are as follows:

| Tenor | Offer Size | Advised Rates |
|---------|-------------|---------------|
| 91-Day | NGN2.68bn | 2.00%-2.50% |
| 182-Day | NGN3.54bn | 3.00%-3.50% |
| 364-Day | NGN123.11bn | 5.00%-6.50% |

Investing through Meristem Wealth Management Limited

Meristem Wealth Management Limited charges a transaction fee of 0.25% of the principal amount invested, and there will be three (3) days prior notification before maturity for all Treasury Bills investments. *The income from investing in T-Bills is tax-free, so interest received is not subject to withholding tax and you will receive an immediate Investment confirmation letter for the Treasury bills. Also, note that the T-Bills certificates can be used as collateral for securing loans.*

Participation Process

The T-bills Primary Auction bid holds twice in a month (i.e. every other Wednesday). The above likely stop rates are our estimates and might not necessarily hold true, as the final decision always lies with the CBN based on the auction process.

About Treasury Bills

Treasury Bills (T-bills) are marketable money market securities that serve the purpose of raising money for the government and are also used as monetary policy tools by the Central Bank. T-bills are short-term securities that mature in 1 year or less from their issue date. They are usually issued with 3-month, 6-month, and 1-year maturities.

How is Return Determined?

T-bills are purchased for a price that is less than their par (face) value; when they mature, the government pays the holder the full par value. Effectively, your interest is the difference between the purchase price of the security and what you get at maturity.

The advised stop rate is different from the annualized yield of instruments. For example; the annualized yield of a 91-day T-bill, with a stop rate of 15.30% is 15.90%. If you buy a 91-day T-bill with a face value and stop rate of N1, 000,000 and 15.3% accordingly, the discounted value would be N962, 274. The difference between the face value and purchase price, which is N37, 726, is the money return and it implies 15.9% yield on annual basis. However, the holding period yield for this instrument is 3.75% since it is held for a 91-day period (3 months), and not a year.

How does the Auction Process work?

Treasury bills (as well as notes and bonds) are issued through a competitive bidding process at auctions.

Primary market trading of Treasury bill instruments entails auctions by the country's monetary authority – The Central Bank of Nigeria. **T-bills are auctioned at established rates which determine the return to investors.** Purchasing these instruments in the primary market and holding it until maturity would mean that the investor gets a fixed interest payment.

Benefits of T-bills

The biggest reasons that T-Bills are so popular are that they are one of the few money-market instruments that are affordable to individual investors. Other positives are that T-bills (and all Treasuries) are considered to be risk-free investments because they are

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backed by the full faith of the Federal Government. In addition, returns on T-bills are tax-free, unlike equities.

The only downside to T-bills is that investors will not get a great return (alpha) because Treasuries are considered “exceptionally safe”.

Contact Information

Brokerage and Retail Services

| | |
|--|---------------------|
| topeoludimu@meristemng.com | (+234 905 569 0627) |
| abisoyeoludipe@meristemng.com | (+234 708 0007861) |
| isaaconaolapo@meristemng.com | (+234 803 234 8275) |
| contact@meristemng.com | |

Investment Banking/Corporate Finance

| | |
|--|---------------------|
| rasakisalawu@meristemng.com | (+234 806 022 9889) |
| seunlijofi@meristemng.com | (+234 808 536 5766) |

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 803 355 0008)
crmwealth@meristemng.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 | |

Trust Services

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

Group Business Development

| | |
|--|---------------------|
| saheedbashir@mersitemng.com | (+234 802 454 6575) |
| ifeomaogalue@meristemng.com | (+234 802 394 2967) |
| info@meristemng.com | |

Client Services

| | |
|--|---------------------|
| adefemitaiwo@meristemng.com | (+234 803 694 3034) |
| blessingogwuche@meristemng.com | (+234 706 896 5173) |
| car@meristemng.com | |

Investment Research

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

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

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