SUMMARY OF PREVIOUS AUCTION

Marginal Rates:

12.50% JAN 2026	10.15%
13.00% JAN 2042	12.70%

Amount:

12.50% JAN 2026	NGN127.00bn
13.00% JAN 2042	NGN169.37bn

SUMMARY OF CURRENT AUCTION

FGN MAR 2025

Auction Date	25/04/2022
Settlement Date	27/04/2022
Maturity Date	27/03/2025
Next Coupon Date	27/09/2022
Clean Price	100.48

FGN APR 2032

Auction Date	25/04/2022
Settlement Date	27/04/2022
Maturity Date	25/04/2032
Next Coupon Date	22/10/2022
Clean Price	100.00

FGN JAN 2042

Auction Date	25/04/2022
Settlement Date	27/04/2022
Maturity Date	21/01/2042
Next Coupon Date	21/07/2022
Clean Price	100.59

FGN Bond Auction Scheduled for 25th April 2022

Issue on Offer/Summary

The Federal Government of Nigeria (FGN), through the Debt Management Office (DMO), will be conducting a bond auction on Monday 25th of April 2022. The total amount on offer is expected to be between NGN210bn and NGN240bn from three issues. The instruments include two re-opening issues (Mar 2025 and Jan 2042) and a new issue (Apr 2032).

13.53% FGN MAR 2025	**NGN70bn – NGN80bn**
FGN APR 2032	**NGN70bn – NGN80bn**
13.00% FGN JAN 2042	**NGN70bn – NGN80bn**

Current Yield Analysis

At the last Primary Market Auction (PMA) held in March 2022, demand for the instruments on offer remained strong as witnessed in the previous auctions during the quarter. While the subscription for the Jan 2026 instrument was lower by 29.00%, the total subscription at the auction was 7.30% higher than the prior auction (NGN598.42bn vs NGN557.72bn in February). The increased demand was however met with a marginally lower allotment compared to the February auction (the amount allotted was NGN296.37bn vs NGN297.39 in February). Therefore, there was a marginal decline in rates on both instruments to 10.15% and 12.70% respectively (vs. 10.95% and 13.00% in February).

A major cause of the robust demand for treasury instruments in Q1:2022 was the high system liquidity. This constrained investors' bargaining power at the primary market auctions, resulting in a decline in rates. With lower system liquidity in the second quarter and the continued uptrend in inflation, we note the likelihood of investors demanding for higher rates. Thus, we expect a marginal increase in rates on the reopened instruments. We expect these factors to also influence the rate on the newly issued instrument.

In the secondary market, bond yields have trended upwards since the last primary market auction, with average bond yield at 9.68% as of the 14th of April (499bps above what it was as at the last auction). With lower system liquidity and likelihood of increased rates at primary market auctions, we expect the bearish sentiment in the secondary market to persist over the near term.

Please refer to page 5 for our disclaimer notice and other relevant disclosures

Please see the table below for our recommended bid rates based on our analysis of the current yield environment.

Bond Absolute and Relative Valuation

In valuing the **13.53% FGN MAR 2025, FGN APR 2032** and **13.00% FGN JAN 2042** offers with the current yield curve as the basis for discounting, we arrived at the following fair value, implied yield and advised bid rates for the instruments:

Instrument	Fair Value	Implied Yield	Advised Bid Rates
13.53% FGN MAR 2025	100.48	12.29%	9.00% - 9.50%
FGN APR 2032	100.00	12.00%	12.00%-12.50%
13.00% FGN JAN 2042	100.59	12.91%	12.90% - 13.10%

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.

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.

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