SUMMARY OF PREVIOUS AUCTION

Marginal Rates:

13.53% MAR 2025	12.50%
12.50% APR 2032	13.50%
13.00% JAN 2042	14.00%

Amount:

13.53% MAR 2025	NGN4.21bn
12.50% APR 2032	NGN28.84bn
13.00% JAN 2042	NGN167.53bn

SUMMARY OF CURRENT AUCTION

FGN MAR 2025

Auction Date	19/09/2022
Settlement Date	21/09/2022
Maturity Date	23/03/2025
Next Coupon Date	23/09/2022
Clean Price	101.11

FGN APR 2032

Auction Date	19/09/2022
Settlement Date	21/09/2022
Maturity Date	27/04/2032
Next Coupon Date	27/10/2022
Clean Price	97.01

FGN APR 2037

Auction Date	19/09/2022
Settlement Date	21/09/2022
Maturity Date	18/04/2037
Next Coupon Date	18/10/2022
Clean Price	116.00

FGN Bond Auction Scheduled for 19th September 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 19th of September 2022. The total amount on offer is expected to be between NGN210bn and NGN240bn from three issues. The instruments include three re-opening issues (Mar 2025, Apr 2032, and Apr 2037).

13.53% FGN MAR 2025	**NGN70bn – NGN80bn**
12.50% FGN APR 2032	**NGN70bn – NGN80bn**
16.25% FGN APR 2037	**NGN70bn – NGN80bn**

Current Yield Analysis

Contrary to the low demand witnessed in July's Primary Market Auction (PMA), there was significant improvement in subscription across the instruments on offer at the last PMA. Total subscription at the auction rose by 73.65% MoM to NGN247.08bn (vs. NGN142.29bn at the July PMA). Similarly, the total amount allotted grew by 61.97% MoM to NGN220.58bn (vs. NGN123.84bn at the previous auction). As a result, the bid-to-cover ratio improved to 1.23x (vs. 1.15x in July), indicating increased investors' participation. Due to the Government's inclination towards domestic debt, marginal rates on the trio instruments increased by 150bps, 50bps, and 25bps to 12.50%, 13.50% and 14.00%, respectively.

In the coming auction, we anticipate a marginal increase in rates across tenors. This is premised on investors' demand for higher rates due to the persistent increase in inflation (20.52% YoY in August - the highest in over a decade). Also, the expectation of a further hike in monetary policy rate (MPR) could influence investors' decision to demand for more advanced rates.

The sentiment in the market has been largely mixed since the previous auction, with average bond yield at 12.74% as of 15th of September (7bps lower than the yield as at the last auction date). In the near term, we expect a reversal in the sentiment hinged on the expectation of rates hike at the primary market auction.

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, 12.50% FGN APR 2032** and **16.25% FGN APR 2037** 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	101.11	13.00%	12.70% - 12.80%
12.50% FGN APR 2032	97.01	13.05%	13.50% - 13.65%
16.25% FGN APR 2037	116.00	13.68%	13.70% - 13.85%

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.

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
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 (+234 805 498 4522)
crmwealth@meristemng.com
Tel: +234 01 738 9948

Registrars

oluseyiowoturo@meristemregistrars.com (+234 802 321 0561)
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)
car@meristemng.com

Investment Research

damilareojo@meristemng.com (+234 816 890 2771)
praiseihansekhien@meristemng.com (+234 817 007 1512)
research@meristemng.com

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

Meristem Research can also be accessed on the following platforms:
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