SUMMARY OF PREVIOUS AUCTION

Marginal Rates:

14.45% APR 2029	14.60%
12.50% APR 2032	14.75%
16.25% APR 2037	15.80%

Amount:

14.45% APR 2029	NGN45.45bn
12.50% APR 2032	NGN40.42bn
16.25% APR 2037	NGN178.65bn

SUMMARY OF CURRENT AUCTION

FGN FEB 2028

Auction Date	30/01/2023
Settlement Date	01/02/2023
Maturity Date	23/02/2028
Next Coupon Date	23/02/2023
Clean Price	101.25

FGN APR 2032

Auction Date	30/01/2023
Settlement Date	01/02/2023
Maturity Date	27/04/2032
Next Coupon Date	27/04/2023
Clean Price	91.41

FGN APR 2037

Auction Date	30/01/2023
Settlement Date	01/02/2023
Maturity Date	18/04/2037
Next Coupon Date	18/04/2023
Clean Price	105.37

FGN APR 2049

Auction Date	30/01/2023
Settlement Date	01/02/2023
Maturity Date	26/04/2049
Next Coupon Date	26/04/2023
Clean Price	96.35

FGN Bond Auction Scheduled for January 30th 2023

Issue on Offer/Summary

The Federal Government of Nigeria (FGN), through the Debt Management Office (DMO), will be conducting a bond auction on Monday, January 30th 2023. The total amount on offer is expected to be between NGN320bn and NGN400bn from four issues. The instruments include four re-opening issues (FEB 2028, APR 2032, APR 2037, and APR 2049).

13.98% FGN FEB 2028	**NGN80bn – NGN100bn**
12.50% FGN APR 2032	**NGN80bn – NGN100bn**
16.25% FGN APR 2037	**NGN80bn – NGN100bn**
14.80% FGN APR 2049	**NGN80bn – NGN100bn**

Current Yield Analysis

At the last Primary Market Auction (PMA) held in December, demand for the instruments on offer increased significantly relative to the auction held in November. The total subscription at the auction rose by 54.71% MoM to NGN532.20bn (vs. NGN344.00bn at the November PMA). The increase in subscription was majorly driven by robust system liquidity. In contrast, allotment declined slightly by 1.73% MoM to NGN264.52bn (vs. NGN269.16bn in the previous auction). Consequently, the total bid-to-cover ratio was 2.01x (vs. 1.28x in November), signalling higher investors' demand for the instruments at the PMA. Due to the excess demand at the auction, marginal rates on the trio instruments decreased by 15 bps, 45 bps, and 40 bps to 14.60%, 14.75%, and 15.80%, respectively.

In the coming auction, we anticipate a marginal uptick in rates across tenors. This is based on the increased amount on offer (NGN320bn – NGN400bn) compared to the prior auction (NGN225bn). Also, the recent hike in monetary policy rate (MPR) to 17.50% could influence investors' decisions to demand for higher rates at the PMA. However, the downside risk is the government's management of its cost of debt.

The sentiment in the secondary market has been largely bullish since the previous primary market auction, with an average bond yield of 13.11% as of January 27th, 2023 (98bps lower than the last auction date). In the near term, we bearish sentiments to prevail as an uptick in rates at the PMA could prompt investors to demand higher yields.

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 **13.98% FGN FEB 2028, 12.50% FGN APR 2032**, **16.25% FGN APR 2037** and **14.80% FGN APR 2049** 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
13.98% FGN FEB 2028	101.25	13.62%	14.05% - 14.50%
12.50% FGN APR 2032	91.41	14.19%	14.80% - 15.20%
16.25% FGN APR 2037	105.37	15.30%	15.30% - 15.95%
14.80% FGN APR 2049	96.35	15.36%	15.25% - 15.60%

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

Ahead of Next Bond Auction

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)
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

Finance

olasokomubo@meristemfinance.com (+234 803 324 7996)
matthewawotundun@meristemfinance.com (+234 802 390 6249)

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:
Meristem Research portal: meristem.com.ng/rhub
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