FGN Bond Auction Scheduled for 17th April 2023

SUMMARY OF PREVIOUS AUCTION

Marginal Rates:

13.98% FEB 2028	14.00%
12.50% APR 2032	14.75%
16.25% APR 2037	15.20%
14.80% APR 2049	15.75%

Amount:

13.98% FEB 2028	NGN70.85bn
12.50% APR 2032	NGN21.76bn
16.25% APR 2037	NGN144.24bn
14.80% APR 2049	NGN326.51bn

SUMMARY OF CURRENT AUCTION

FGN FEB 2028

Auction Date	17/04/2023
Settlement Date	19/04/2023
Maturity Date	23/02/2028
Next Coupon Date	23/08/2023
Clean Price	99.89

FGN APR 2032

Auction Date	17/04/2023
Settlement Date	19/04/2023
Maturity Date	27/04/2032
Next Coupon Date	27/04/2023
Clean Price	88.92

FGN JAN 2042

Auction Date	17/04/2023
Settlement Date	19/04/2023
Maturity Date	21/01/2042
Next Coupon Date	21/07/2023
Clean Price	86.74

FGN MAR 2050

Auction Date	17/04/2023
Settlement Date	19/04/2023
Maturity Date	27/03/2050
Next Coupon Date	27/09/2023
Clean Price	83.31

Issue on Offer/Summary

The Federal Government of Nigeria (FGN), through the Debt Management Office (DMO), will be conducting a bond auction on Monday, April 17, 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, JAN 2042, and MAR 2050).

13.98% FGN FEB 2028	**NGN80bn – NGN100bn**
12.50% FGN APR 2032	**NGN80bn – NGN100bn**
16.25% FGN JAN 2042	**NGN80bn – NGN100bn**
14.80% FGN MAR 2050	**NGN80bn – NGN100bn**

Current Yield Analysis

In the first quarter of 2023, the dynamics of the Nigerian fixed income market was recurrently influenced by a common factor: system liquidity. At the last Primary Market Auction (PMA) held in March 2023, investors' demand for the instruments declined. Specifically, the total subscription at the auction was 18.58% MoM lower than the last auction (NGN808.61bn vs NGN993.11bn in February). The drastic decline in total subscription was majorly driven by the tight system liquidity (cNGN155.94bn as of the auction date). Correspondingly, total allotment dipped by 26.89% MoM to NGN563.26bn (vs NGN770.56bn in the previous auction). Thus, the substantial drop in amount allotted supported total bid-to-cover ratio to 1.44x (vs 1.29x in February). Subsequently, the marginal rates of Apr-2032, Apr-2037 and Apr-2049 bonds declined by 15bps, 70bps, and 25bps to 14.75%, 15.20% and 15.75%, respectively, while that of Feb-2028 increased negligibly by 1bps to 14.00%.

In the forthcoming auction, we do not expect a different play in the market. First, the persistent tight system liquidity would limit investors' demand for the instruments. Infact, the interbank liquidity settled at a negative value of NGN51.66bn as of April 12. Moreover, inflows from the maturity of Apr-2023 FGN bond (NGN735.96n) and coupon payments (NGN342.57bn) are expected after the auction date. In addition, the recent 50bps Monetary Policy Rate hike as well as the high inflation rate are motivating factors for investors to demand higher incentives from the Government.

The sentiment in the secondary market has increased since the previous primary market auction, as the average bond yield increased to 13.72% as of April 13 (45bps higher than the last auction date). In the near term, we foresee a reversal of the bearish sentiment owing to the high inflows expected during the month.

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**, **13.00% FGN JAN 2042** and **12.98% FGN MAR 2050** 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	99.89	14.00%	14.20% - 14.65%
12.50% FGN APR 2032	88.92	14.76%	14.80% - 15.20%
13.00% FGN JAN 2042	86.74	15.14%	15.30% - 15.60%
12.98% FGN MAR 2050	83.31	15.63%	15.52% - 15.72%

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.

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)
adaezeonyemachi@meristemng.com	(+234 808 369 0213)
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)
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

sulaimanadedokun@mersitemng.com	(+234 803 301 3331)
ifeomaanyanwu@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
Bloomberg: MERI <GO>
Capital IQ: www.capitaliq.com
ISI Emerging Markets: www.securities.com/ch.html?pc=NG
Reuters: www.thomsonreuters.com
FactSet: www.factset.com

Disclaimer Notice: