SUMMARY OF PREVIOUS AUCTION

Marginal Rates:

19.30% APR 2029	19.30%
18.50% FEB 2031	10.75%
19.00% FEB 2034	20.00%

Amount:

18.50% APR 2029	NGN79.92bn
18.50% FEB 2031	NGN85.05bn
19.00% FEB 2034	NGN461.85bn

SUMMARY OF CURRENT AUCTION

FGN APR 2029

Auction Date	13/05/2024
Settlement Date	20/05/2024
Maturity Date	15/04/2029
Next Coupon Date	15/10/2024
Clean Price	101.53

FGN FEB 2031

Auction Date	13/05/2024
Settlement Date	15/05/2024
Maturity Date	19/02/2031
Next Coupon Date	19/08/2024
Clean Price	97.12

FGN MAY 2033

Auction Date	13/05/2024
Settlement Date	15/05/2024
Maturity Date	13/05/2033
Next Coupon Date	13/11/2024

FGN Bond Auction Scheduled for 13th May 2024

Issue on Offer/Summary

The Federal Government of Nigeria (FGN), through the Debt Management Office (DMO), will be conducting a bond auction on Monday 13th of May 2024. The indicated amount on offer is within the range of NGN300.00bn - NGN600.00bn from three issues. The instruments include one new issue (May-33).

FGN APR 2029	**NGN100.00bn – NGN200.00bn**
FGN FEB 2031	**NGN100.00bn – NGN200.00bn**
FGN MAY 2033 (New)	**NGN100.00bn – NGN200.00bn**

Current Yield Analysis

At the last Primary Market Auction (PMA) held in April 2024, the DMO offered a total of NGN450.00bn (NGN150.00trn on each instrument) across the APR 29, FEB 31, and FEB 34 instruments. The PMA saw higher investor participation as subscription increased, printing at NGN920.09bn (vs NGN615.01bn at the previous auction in January), despite the unchanged offer amount. In the same vein, the amount allotted rose to NGN626.81bn (vs NGN475.66bn at the March auction). As such, the bid-to-cover ratio increased to 1.47x from 1.29x in March. Consequently, the marginal rates on the Apr-29 printed at 19.30% while the rates on the Feb-31 and Feb-34 declined 25bps and 45bps to 19.75% and 20.00%, respectively.

In the upcoming auction, we expect rates on the offered instruments to hover around current levels. The monetary authority's continued debt sustainablitiy measures and efforts to effectively manage borrowing cost, lessens the incentive for an uptick in rates on treasury instruments. Also, gleaning from the result of the NTB auction held earlier in the week where stop rates remained unchanged, we anticipate that the upcoming bonds PMA will likey follow a similar trend.

Meanwhile, in the secondary market, the sentiment has been predominantly bullish since the last auction as the average bond yield declined to 18.58% as of 9th May 2024 from 19.29% at the last auction date.

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 **FGN APR 2029, FGN FEB 2031** and **FGN MAY 2033** 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
FGN APR 2029	101.53	18.79%	19.00% - 19.40%
FGN FEB 2031	97.12	19.25%	19.50% – 19.75%
FGN MAY 2033	Nil	Nil	19.50% -20.50%

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 analyzed the issues on offer given the current yield environment market liquidity and 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 a 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 called municipal bonds, while those issued by organizations are corporate bonds.

The government usually issues bonds at the primary market to raise domestic funds to meet 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 the 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, N100 or N1,000, as with Nigerian bonds. A 2-year bond issued at a 12% annual coupon with a par value of N1000 implies that the issuer will make three semi-annual payments of N60 and a final N1060 on the maturity date.

Bonds can be purchased at both the primary and secondary markets and 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. Therefore, an investor can trade bonds at the secondary market 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 conducted by the Debt Management Office, which serves as the government representative. An existing government instrument can also be re-issued at the primary market, wherein 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 them 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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