Bond Watch

Analysis

During the previous week, secondary market activities were affected by the postponement of the FGN primary market bonds auction and the release of the third quarter 2012 treasury bills issuance calendar. The development led to a relative slowdown of market activities as traders sought to cover their short positions in view of the rescheduled auction, which led to a marginal decline in prices across all tradable maturities.

The FGN primary market bond auction, which was earlier scheduled to take place on Wednesday June 20, 2012, was postponed till Wednesday June 27, 2012. It is expected that a total of ₦83.91 billion worth of bonds will be issued out of which ₦30.00 billion each will be 5year and 7year maturities, while ₦23.91 billion is of 10year maturity. The 7year bond will be a new issue while the 5year and 10year are being re-opened.

The treasury bills issuance calendar for the third quarter shows a proposed total treasury bills issue of circa ₦841.32 billion against ₦917.77 billion for the second quarter of 2012. In our analysis, we note the significant increase in the issue of treasury bills since the fourth quarter of 2011 as monetary authorities maintain tight liquidity management on the back of the bi-monthly auctions. ***(fig.: Tbills quarterly auction, 1Q11 - 3Q12E)***

In the sub-sovereign bond market, Fitch Ratings withdrew its expected rating on the Rivers State's proposed fixed rate bond. Prior to the withdrawal, the expected ratings of the issuer and bond were B+ and AA- respectively. The bond was scheduled to be issued between the end of 2011 and beginning of 2012. The withdrawal is as a result of the delay in finalizing the transaction documents. Rivers State remains one of Nigeria's main oil producing states and collects monthly budgetary allocations of circa ₦19 billion (US$118million) from the federation account. Beyond this, we observe that no sub-sovereign bond has been concluded in the current fiscal year; in our opinion, the outlook for sub-sovereign issues remains weak in view of the current interest rate regime.

In the week ahead, it is expected that the inflation figure for the month of May will be released by the National Bureau of Statistic (NBS). Also, there will be a treasury bills primary auction during which about ₦100.62 billion worth of 91day and 182day bills is expected to be issued. We equally expect the maturity of circa ₦79.19 billion worth of treasury bills and OMO bills worth c. ₦90.48 billion. Therefore, we anticipate a high level of subscription during the treasury bills auction as a result of the liquidity inflow that will be experienced during the week.

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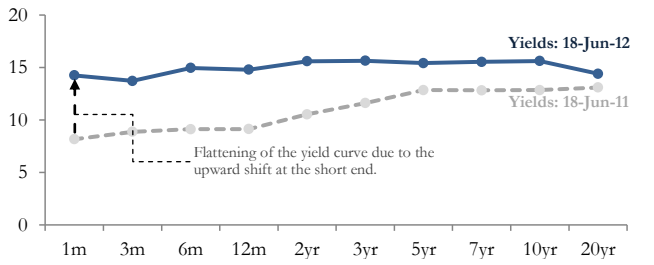
Fig. 1: Market Indicators

FGN Bonds Market Cap., ₦'bn	3,503.75
FGN Bonds Market Cap., $'bn	22.50
Domestic Debt Stock, ₦'bn	5,966.77
Domestic Debt Stock, $'bn	38.32
External Debt, ₦'bn	920.56
External Debt, $'bn	5.91
MPR (%)	12.00
Inflation (%)	12.90

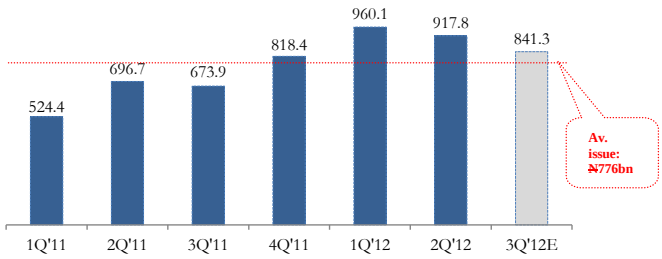
Source: DMO, NBS, DLM Research

Fig. 2: FGN Yield Curve



Source: DLM Research

Fig. 3: Tbills quarterly auction (₦'bn)



Source: DLM Research

Fig. 4: FGN Benchmark Bonds

Description	Price (%)	Yield (%)
10.50 Mar 18, 2014	92.38	15.59
4.00 Apr 15, 2015	74.00	15.63
9.35 Aug 31, 2017	98.61	15.41
16.39 Jan 27, 2022	103.77	15.61
10.00 Jul 23, 2030	71.90	14.40

Source: DLM Research

Fig. 5: Eurobonds

Issuer	Description	Price (%)	Yield (%)
FGN	6.75 Jan 28, 2021	108.65	5.48
GT Bank	7.50 May 19, 2016	104.35	6.25

Source: DLM Research, Bloomberg

Figure 6: Sub-National Bonds

Issuer	Issue Size (₦'bn)	Rating	Maturity	Original Tenor	TTM/ Average Life	Coupon (%)	Mid-Price	Yield (%)
Lagos (S1)	50.00	A+, AA,	Feb-14	5	1.65	13.00	94.84	16.67
Niger#	6.00	A-	Oct-15	5	2.17	14.00	94.47	17.92
Kwara	17.00	A	Aug-14	5	2.14	14.00	93.91	17.50
Ebonyi#	16.50	A	Sep-15	5	2.83	13.00	93.71	17.52
Imo#	18.50	A+	Jun-16	7	3.17	15.50	97.81	16.94
Benue#	13.00	A-	Jun-16	5	3.17	14.00	84.80	17.77
Kaduna	8.50	A+	Aug-15	5	3.21	12.50	87.85	17.59
Bayelsa#	50.00	A-	Jun-17	7	3.83	13.75	93.81	17.12
Ekiti#	20.00	A	Dec-18	7	4.50	14.50	93.41	17.31
Delta#	50.00	A+	Sep-18	7	4.50	14.00	93.61	16.87
Niger (S1)	9.00	A-	Oct-18	7	4.83	14.00	85.90	17.79
Ondo#	27.00	A/A-	Feb-19	7	4.86	15.50	95.06	17.24
Lagos (S2)	57.00	A+	Apr-17	7	4.84	10.00	78.04	16.79
Edo	25.00	A-	Dec-17	7	5.55	14.00	86.48	17.94

Source: DLM Research

Figure 7: Corporates

Issuer	Issue Size (₦'bn)	Rating	Maturity	Original Tenor	TTM/ Average Life	Coupon (%)	Mid-Price	Yield, (%)
UPDC#	15.00	A-	Aug-15	5	2.83	10.00	87.34	18.41
Lafarge	11.80	A+/AA-	Oct-14	3	2.31	11.50	87.81	18.16
GT Bank	13.17	AA+	Dec-14	5	2.51	13.50	92.18	17.48
Chellarams#	1.50	BBB-	Jan-16	5	2.83	14.00	82.33	19.38
Flourmills#	37.50	A	Dec-15	5	3.50	12.00	90.02	17.79
*Dana#	8.01	BBB/BBB+	Apr-18	7	4.50	16.00	93.13	18.92
NAHCO	2.15	AA/A-	Sep-16	5	4.29	13.00	83.81	18.62
*Tower (S1 Tr. A)#	3.63	A-/A-	Sep-18	7	4.17	15.75	92.20	18.80
*Tower (S1 Tr. B)#	1.00	AAA/AA-	Sep-18	7	4.17	14.00	90.00	17.80
*Chellarams(S2)	0.45	BBB-	Feb-19	7	4.83	17.00	88.58	19.52
UBA (S1)	20.00	A+	Sep-17	7	5.29	13.00	83.50	17.94
UBA (S2)	35.00	A/A	Sep-18	7	6.29	14.00	86.15	17.72

Source: DLM Research

Legend:
: Amortizing bonds; * : Floating rate bonds; Sr : Series; Tr : Tranche

NB: (i) Prices and yields on Sub-National and Corporate Bonds are indicative.
(ii) For amortising bonds, average life is used in place of Term-To-Maturity (TTM)

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