Creating Wealth Through Fixed Income Securities

The issuers of the debt instruments promise to pay interest to the investors on a predetermined basis until the maturity date.

There are huge opportunities in the Nigerian fixed income securities market for investors to create wealth. Investment in fixed income securities presents an opportunity for investors with a preference for low risk to generate regular income and reduce the volatility of the return on their investment portfolio. Fixed income instruments are used by governments and corporate organisations to borrow money from the investing public, to finance their activities either on a short-term or long-term basis. The issuers are the borrowers while the investors are the lenders. The issuers of the debt instruments promise to pay interest to the investors on a predetermined basis until the maturity date. In most cases, the issuer pays the principal amount to the investor on the maturity date. The price of a traded fixed income instrument may appreciate or depreciate between the issue date and the maturity date but the price moves to the par value on the maturity date.

The Nigerian Government Treasury Bills (NTBs) are short-term debt obligations backed by the FGN with a maturity not more than one year.

Some of the risks associated with fixed income securities investment are: default risk and reinvestments risk. Some fixed income securities don't pay interest, as such they are issued at a discount to the face value and are redeemed on maturity at the face value. The Nigerian Government Treasury Bills (NTBs) are short-term debt obligations backed by the FGN with a maturity not more than one year. They are issued at a discount to the face value. This means that the amount that investors invest is lower than what they receive at maturity and they are not paid intermediate interest. Commercial Papers (CPs) are issued by corporate organisations to finance short-term obligations of not more than 270 days and are usually issued at a discount to face value. Some fixed income securities however pay interest, called coupon, at pre-determined time intervals such as semi-annually or quarterly.

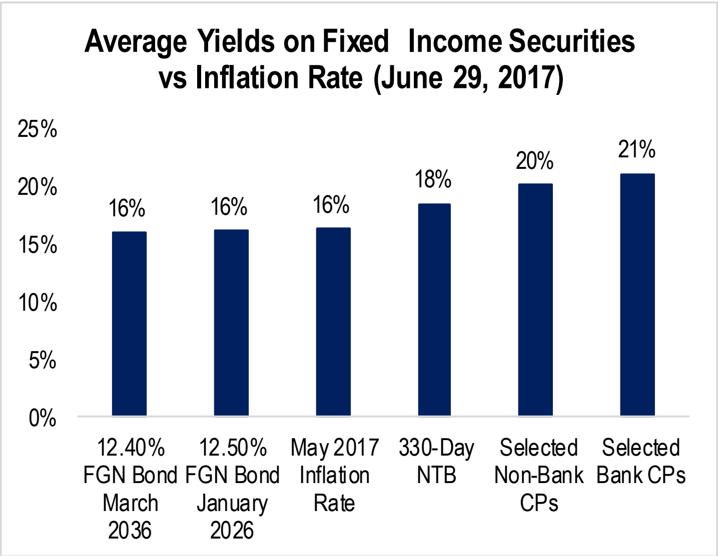
The instruments issued by the FGN (NTBs and FGN Bonds) are considered the safest of all investments in the domestic debt market because they are backed by the 'full faith and credit' of the FGN.

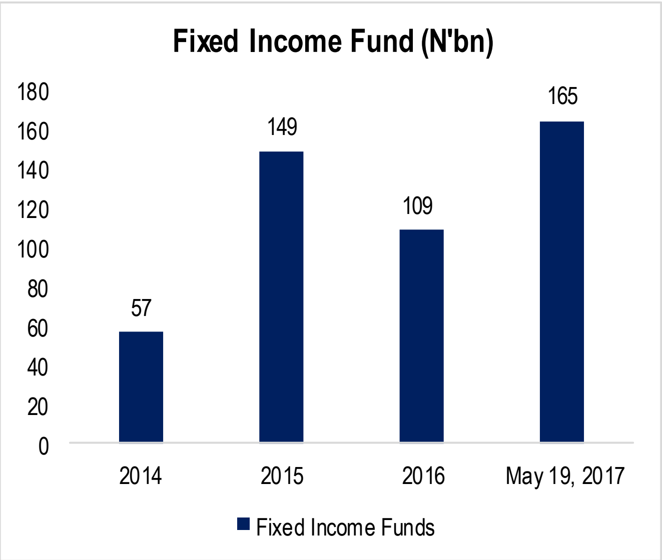
Fixed income instruments in Nigeria include: The Federal Government of Nigeria Bonds (FGN Bonds), State Government Bonds (SG Bonds), NTBs and CPs. The Debt Management Office (DMO) issues the FGN Bonds on behalf of the FGN and the tenor ranges from 3 to 20 years. The FGN has an obligation to pay the bondholders the principal and agreed interest as and when due. The instruments issued by the FGN (NTBs and FGN Bonds) are considered the safest of all investments in the domestic debt market because they are backed by the 'full faith and credit' of the FGN. The FGN has never defaulted in the payment of interest and principal due to investors. Thus the default risk is low but the FGN Bonds face reinvestment risks because of changes in interest rate in the economy. At the moment, the interest income earned on Bonds, CPs and NTBs are tax free.

There are also mutual funds that have fixed income securities as their underlying assets. Mutual Funds are good investment vehicles that promote savings and investments

In March 2017, the FGN introduced the FGN Savings Bond, to promote a savings culture among Nigerians, while giving retail investors the opportunity to earn income from a secure investment. The FGN Savings Bond is issued monthly in tenors of 2 and 3 years, with quarterly interest payments. The minimum subscription amount is N5,000 with additions in multiples of N1,000, subject to a maximum of N50 million. There are also mutual funds that have fixed income securities as their underlying assets. Mutual Funds are good investment vehicles that promote savings and investments. The Net Asset Value of Fixed Income Securities Funds in Nigeria grew from N57billion in 2014 to N165billion as at May 2017 according to data from the Securities and Exchange Commission (SEC). This shows the increasing interest in these instruments as investment vehicle for Nigerians and Nigerian entities to growth wealth.

The average yield on the FGN Bond as at June 29, 2017 was around 16%. The average yield on the 330-day NTB was 18%, while the average yields on some selected Non-Bank CPs and Bank CPs were 20% and 21% respectively. **Most of these yields are higher than the latest inflation rate of 16.25%. With consistent investment in fixed income securities, investors can create and grow wealth while providing the needed capital to the issuers to finance developments in the domestic economy.**





Sources: National Bureau of Statistics (NBS), Securities and Exchange Commission (SEC), and FMDQ

For enquiries please contact us at our offices:

Lagos Office: 5th-8th floors UAC House, 1/5 Odunlami Street, Lagos. Tel: 234-1-2702880-2; 234-1-2702887

Port Harcourt Office: 2nd Floor, Skye Bank Building (Former Mainstreet Bank Building) 5 Trans Amadi Road, Port Harcourt. Tel: 234-8024081331

Abuja Office: Leadway House (First Floor), Plot 1061 Herbert Macaulay way, Central Business District, Abuja-Nigeria. Tel.: 234-9-2918821

Website: www.fsdhgroup.com **email: research@fsdhgroup.com**

Our Reports and Prices are also Available on Bloomberg {FSDH<GO>}