FMDQ SPOTLIGHT

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FMDQ-Next Hosts Students of The Learning Place, Lagos

The FMDQ Next Generation Financial Market Empowerment Programme (FMDQ-Next), which is the flagship corporate responsibility programme of FMDQ OTC Securities Exchange (FMDQ or the Exchange), positioned to provide bespoke financial markets education for the younger generation (i.e. primary, secondary and tertiary students, as well as fresh graduates), welcomed the students of The Learning Place, an elementary school in Lagos, on an excursion to Exchange Place during the month.

The excursion was marked by interesting activities including a tour of Exchange Place, where the students had the opportunity to interact directly with FMDQ staff, learn about the Company, and its history as captured in the FMDQ Archives. The Students also visited the FMDQ Media Room - a world-class media room for the efficient dissemination of market-impacting news and information about

FMDQ and its markets, where they were opportune to view a live coverage interview granted by a financial market participant. The tour culminated at the FMDQ Q-Hub - a bespoke trading simulation room designed to expose the students to the 'financial markets world' -, where they learnt the basics of how to trade, the value of money and how to manage their savings, amongst others.

FMDQ-Next is an expression of the Exchange's commitment to the development of the next generation across the nation, as the Programme bolsters the students' academic abilities and help demystify the workings of the financial markets, further enhancing their interest and exposure to the financial markets at an early age.

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32nd OTC FX Futures Contract Matures and Settles on FMDQ

On Wednesday February 27, 2019, the 32nd OTC FX Futures contract NGUS FEB 27 2019, with contract amount of $563.55 million, matured and settled on FMDQ. This maturity brings the total value of matured Naira-settled OTC FX Futures contracts on FMDQ, since the inception of the market in June 2016, to circa $14.34 billion; with a total of about $20.05 billion worth of OTC FX Futures contracts traded so far.

The matured contract NGUS FEB 27 2019 was valued for settlement against the FMDQ reference Spot FX rate, NAFEX – the Nigerian Autonomous Foreign Exchange Fixing – published on February 27, 2018. All contracts quotes are published daily on FMDQ's website at www.fmdqotc.com and on the FMDQ Twitter page, @FMDQOTCExchange.

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FMDQ Kicks Off the Year with the Commemoration of the Listing of Sterling Investment Management SPV PLC Bond

For the past five (5) years since its inception, FMDQ has progressively championed and effectively supported initiatives aimed at boosting the growth and development of the Nigerian financial markets, with focus on the debt capital market (DCM). Consequently, credible issuers in the private sector have been able to successfully tap the DCM to access stable long-term finance to fund key activities that ultimately translate to the development of the Nigerian economy. The most recent of these issuers is Sterling Investment Management SPV PLC, which, following the approval granted by the FMDQ Board Listings, Markets and Technology Committee, successfully listed the **Sterling Investment Management SPV PLC ₦32.90 billion Series 2, 7-Year 16.50% Fixed Rate Unsecured Bond, under a ₦65.00 billion Debt Issuance Programme** ("the Sterling SPV Bond") on FMDQ.

To formally welcome this listing, FMDQ, in keeping with its tradition, held a prestigious Ceremony at its business complex, Exchange Place, on Tuesday, February 19, 2019, and played host to the issuer, Sterling Investment Management SPV PLC, represented by the Managing Director, Sterling Bank PLC, Mr. Abubakar Suleiman, and other representatives of the bank. Also present at the ceremony were the sponsor of the Bond on FMDQ and the Registration Member (Listings), Constant Capital Markets & Securities Limited (Constant Capital), and representatives from the Joint Issuing Houses, CardinalStone Partners Limited, FBNQuest Merchant Bank Limited, FCMB Capital Markets Limited, FSDH Merchant Bank Limited and Stanbic IBTC Capital Limited, as well as the solicitor to the listing, G. Elias & Co, amongst others.

Ms. Tumi Sekoni, Associate Executive Director, Capital Markets, FMDQ, whilst delivering the welcome address, congratulated the issuer for having successfully raised ₦32.90 billion from the Nigerian DCM. She commended the issuer for yet again joining the league of corporate entities whose debt profiles have been raised via the value-packed listings, quotations and noting service offered by FMDQ, for the second time. She further highlighted that this listing would contribute to the growth of the Nigerian corporate bond market, consistently injecting renewed confidence into the DCM. Ms. Sekoni went on to assure all parties that FMDQ will continue to innovate and provide efficient services, as may be necessary, to support issuers and investors, towards achieving a globally competitive and operationally excellent DCM.

In delivering his special address, Mr. Abubakar Suleiman, commented, “we are pleased to list the Sterling SPV Bond on FMDQ. The success of the bond reflects the increasing appetite of local institutional investors for long term debt instruments. We are happy with the very strong outcome which shows investors’ confidence in Sterling Bank PLC, and further strengthens and diversifies our corporate funding strategy. The bank looks forward to same peerless support in its future bond issues. We would also like to use this opportunity to appreciate FMDQ for its strategic role in deepening the Nigerian DCM by facilitating active secondary market trades and promoting the transparency of the listed instruments”.

Speaking on behalf of the sponsor to the issue and FMDQ Registration Member (Listings), Mr. Niyi Omojola, stated, “Constant Capital, the lead issuing house in this transaction, crafted a unique and innovative investment structure which enabled the Sterling SPV Bond share in the same investment grade rating as Sterling Bank PLC, enlarging the range of potential investors in the bond. The innovative structure, he commented, protects investors by providing bond-backed credit enhancement while investing in the Tier II capital of Sterling Bank PLC. As a result of the compelling proposition offered by Sterling Bank PLC and the structuring and distribution efforts of Constant Capital, the transaction was extensively oversubscribed. This innovation has allowed investors benefit from an enhanced rating, while providing Tier II capital to Sterling Bank PLC”.

Ms. Kaodi Ugoji, Associate Executive Director, Corporate Development, FMDQ, in her closing remarks, congratulated the issuer and sponsor of the issue on this remarkable feat in the DCM and expressed the FMDQ's gratitude for the issuer's decision to list the bond on FMDQ. According to Ms. Ugoji, being listed on FMDQ will avail the bond unprecedented market transparency, unrivalled information disclosure, efficient price formation and improved global visibility, among other benefits. She reiterated FMDQ's commitment to continually align its initiatives towards serving and providing the much-needed support to the players in the DCM.

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FMDQ Supports Housing and Infrastructure Development…
Admits Mixta Real Estate (Nigeria) PLC Bonds and Commercial Papers to its Platform

Housing and Infrastructure development in the nation is taking progressive steps in the right direction, as another corporate, Mixta Real Estate (Nigeria) PLC (Mixta PLC), taps the DCM for funding targeted at this development. The listing of the Mixta Real Estate PLC ₦2.96bn Tranche A and ₦2.32bn Tranche B Series 2 Bonds (the "Mixta Bonds") under a ₦30.00bn Debt Issuance Programme and the quotation of the Mixta Real Estate PLC ₦9.84bn Series 1 and ₦2.08bn Series 2 Commercial Papers (the "Mixta CPs") under a ₦15.00bn Commercial Paper Issuance Programme, on FMDQ is another significant contribution inspiring confidence in the Nigerian markets as housing and infrastructure development progressively takes form.

To commemorate the listing and quotation of the Mixta bonds and CPs, a prestigious Ceremony was held at FMDQ's business complex, Exchange Place, on Thursday, February 21, 2019, where FMDQ played host to the issuer, Mixta PLC, represented by the Managing Director, Mr. Kola Ashiru-Balogun, and other representatives of Mixta PLC. Also present at the Ceremony were the sponsor to the bonds and CPs on FMDQ and the Registration Member (Listings & Quotations), FBNQuest Merchant Bank Limited, and representatives from the Joint Issuing Houses, CardinalStone Partners Limited, Coronation Merchant Bank Limited, FSDH Merchant Bank Limited, Stanbic IBTC Capital Limited and Vetiva Capital Management Limited, as well as the solicitors to the listing, Banwo & Ighodalo, Udo Udoma & Belo Osagie, amongst others.

Ms. Tumi Sekoni, Associate Executive Director, Capital Markets, FMDQ, whilst welcoming the guests gathered to commemorate this commendable feat, congratulated the issuer for the successful issuances. She highlighted that the use of the proceeds of the bonds & CPs would help address the nation's housing and infrastructure gap in a sustainable manner to deliver prosperity for Nigerians and further deepen the domestic DCM, invariably contributing to Nigeria's development. She further reiterated FMDQ's commitment to continue to deliver strategic initiatives towards the development of a highly liquid, deep and well-developed DCM in Nigeria.

In delivering his special address, Mr. Kola Ashiru-Balogun, commented “these issuances play an important role in implementing our business strategy to develop affordable housing units; our modest contribution to bridging Nigeria’s significant housing deficit. The confidence the Nigerian capital market has in us as demonstrated in these issuances is encouraging; we are more than ever committed in our quest to make strategic partnerships and provide innovative solutions whilst utilising effective long-term financing mechanisms.”

Speaking on behalf of the sponsor to the bonds and CPs, Mr. Kayode Akinkugbe, stated, “we are pleased to have advised Mixta PLC on the issuances of its bonds and CPs. As a full-service investment bank, we have supported Mixta PLC in obtaining bridge finances, advised on the bond and CP issuances and structuring the securities. We have also leveraged our extensive distribution capability to successfully sell the bonds and CPs. This transaction enables Mixta PLC to finance affordable housing projects and extends the tenor of its debt portfolio. Listing and quoting of the bonds and CPs on FMDQ will provide investors with a transparent and efficient platform for price determination, liquidity and execution of trades.”

Ms. Kaodi Ugoji, Associate Executive Director, Corporate Development, FMDQ, in her closing remarks, applauded the issuer for achieving this landmark. She also commended the sponsor to the issue and Registration Member (Listings & Quotations) of FMDQ for their concerted efforts towards ensuring the success of the issuances. She further reiterated that through consistent collaboration with its stakeholders, FMDQ will not relent on its efforts to further deepen and effectively position the Nigerian DCM for growth, in support of the realisation of a globally competitive and vibrant economy.

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FMDQ TURNOVER & DEALING MEMBER (BANKS) LEAGUE TABLE

FMDQ Turnover & Dealing Member (Banks) League Table Report

The FMDQ Market Turnover Report shows the turnover on all products traded on the FMDQ secondary market – FX, T.bills, Bonds (FGN Bonds, other Bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds)) CPs and Money Market (Repos/Buy-Backs and Unsecured Placements/Takings). These figures exclude primary market auctions in T.bills and Bonds.

The data, collated from the weekly trade data submissions by FMDQ Dealing Member (Banks), represents trades executed amongst the Dealing Member (Banks), Dealing Member (Banks) & Clients, and Dealing Member (Banks) & the CBN.

FMDQ Market Turnover (January 2019)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	3,468,916	9,531
Foreign Exchange Derivatives	1,840,061	5,056
Treasury Bills	6,560,171	18,024
FGN Bonds	701,203	1,927
Other Bonds*	11	0
Eurobonds	15,091	41
Repurchase Agreements/Buy-Backs	2,448,160	6,726
Unsecured Placements/Takings	49,950	137
Money Market Derivatives	-	-
Commercial Papers	-	-
Total	**15,083,563**	**41,443**
No. of Business Days	19	19
Average Daily Turnover	**793,872**	**2,181**

Average YTD $/₦ @ 363.96
mm - million
**Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds*
Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks)
Source: FMDQ Data Portal as @ February 7, 2019; Figures reported by Dealing Member (Banks) on a week-ending basis

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The total turnover for January 2019 amounted to ₦15.08 trillion. Trading activities in T.bills contributed the largest to overall turnover, accounting for 43.49% of the market. FX market transactions (Spot FX and FX Derivatives) accounted for 35.20% whilst Repos/Buy-Backs product categories (Repos/Buy-backs) accounted for 16.23%, and Bonds and Unsecured Placements & Takings representing 4.75% and 0.33% respectively, of overall market turnover.

Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January 2019)

The FMDQ League Table shows the rankings of its top ten (10) Dealing Member (Banks) by overall market turnover in the FMDQ Markets

RANK	DEALING MEMBER (BANKS)
1	STANBIC IBTC BANK PLC
2	UNITED BANK FOR AFRICA PLC
3	ACCESS BANK PLC
4	STANDARD CHARTERED BANK NIGERIA LIMITED
5	ECOBANK NIGERIA LIMITED
6	FIRST BANK OF NIGERIA LIMITED
7	CORONATION MERCHANT BANK LTD
8	CITIBANK NIGERIA LIMITED
9	FBNQUEST MERCHANT BANK LIMITED
10	FIRST CITY MONUMENT BANK LIMITED

The top ten (10) Dealing Member (Banks) accounted for 74.70% (₦11.27 trillion) of the overall turnover in the market, with the top three (3) accounting for 51.17% (₦5.76 trillion) of this sub-section of the market. Stanbic IBTC Bank PLC, United Bank for Africa PLC and Access Bank PLC were the leaders in the value traded for the overall over-the-counter (OTC) market, ranking 1st, 2nd and 3rd respectively.

Click here to view Q4 2018 FMDQ League Table Reports for Top Ranking Registration Member (Listings & Quotations) and Solicitors

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Introduction to Infrastructure Bonds

A bond is a debt instrument issued by the Government (Federal, State and Local), Agencies, Corporate entities, Supra-nationals, amongst others, to borrow money from the capital market at an agreed interest rate (coupon) and for a defined period (maturity). A bond represents a long-term financial obligation of an entity. It is a fixed income investment in which an investor loans funds to the entity who borrows the funds for a defined period of time at a variable or fixed interest rate. The entity that issues the bond is referred to as the issuer, while the investor that purchases the bond is known as the bondholder. Bonds are issued for a variety of reasons, including but not limited to, the financing of government budget deficit, business expansion of corporate establishments and the financing of infrastructure development initiatives, amongst others. This month’s edition of FMDQ Learning will focus on Infrastructure bonds, its fundamentals, including its characteristics, benefits and risk considerations.

Definition of Infrastructure Bond

A bond is mainly classified as an infrastructure bond (also called a project bond) if it meets all the following criteria:

- Issued to finance a specific infrastructure project
- Capital raised from the bond is repaid from the cashflow generated by the project
- Bond assumes (and its performance is subject to) the specific risk associated with the project it finances
- Issued by a project operating company (typically a government parastatal, SPV or a corporate entity) with investment grade credit rating

Infrastructure bonds, therefore, are issued for and with the purpose of financing infrastructure projects for public utilisation. Typically, the bonds are structured by financial advisers (on behalf of the issuer) and issued by an issuing house. Other transaction advisers to the bond issuance include the legal advisers and bond trustees, amongst others. Investors subscribe to the bond at a stipulated issue price, while the funds realised from the issue are deployed for the intended infrastructure project (for example, housing, road, sea port, power plant etc.). Upon the listing of the bond on an authorised Securities Exchange, such as FMDQ, investors can trade the bonds at market determined prices.

Characteristics of Infrastructure Bonds

- They are usually long-tenored, with maturities ranging from ten (10) to twenty (20) years
- They often come with credit guarantees (such as partial risk guarantee from the government or entities) to de-risk the associated project(s)
- They are listed and traded on Securities Exchanges (such as FMDQ)
- They often offer impressive yields that match the inherent risks of the associated projects
- They provide a reasonable safeguard to capital; hence investors explore investment in infrastructure bonds as a strategy to mitigate market risk

Benefits of Infrastructure Bonds

- **Issuer**

Infrastructure bonds offer a potent funding alternative to address the infrastructure deficits across emerging economies. They have proved to be a veritable strategy for attracting private capital to the infrastructure space. Infrastructure bonds are a relatively cheaper, fixed and predictable source of long-term financing for specific infrastructure projects when compared to bank loans.

- **Investor**

Infrastructure bonds offer relatively higher risk-adjusted yields, hence constituting an attractive investment alternative to portfolio investors and pension funds administrators. Long- tenored funds in the financial sector (particularly pension funds and insurance companies' funds) are attracted to infrastructure bonds, given that they are relatively cheap, and could be used to match longer term liabilities. The bonds are liquid, and may be traded freely on a securities exchange, hence, investors can exit the investment prior to maturity, at market determined prices. In most countries, investments in infrastructure bonds are tax deductible, offering impressive tax incentives to investors.

- **Capital Market**

Infrastructure bonds contribute to deepening the DCM as they constitute an investable asset class for investors. They also enhance market liquidity especially through their attractiveness to pension funds administrators and insurance companies. Furthermore, infrastructure bonds bring more transparency to infrastructure investments, and to the financial market as the underlying projects are usually professionally and transparently structured, and managed.

Risk Considerations

Infrastructure bonds are not risk-free bonds, however, their risk profiles are comparatively low when compared to other bonds. The major risk consideration for an infrastructure bond is the issuer's risk, that is, the credibility of the institution offering the bonds. Ideally, if an issuer is considered to have incompetent management, poor credit ratings, a history of failed infrastructure projects and poor corporate governance, bonds issued by such issuer are considered risky. Investors therefore prefer to invest in infrastructure bonds that are issued by institutions with investment grade credit ratings (such as AAA, AA+, AA, and AA- ratings).

Furthermore, infrastructure bonds are subject to inflation risk, that is, the risk that unforeseen inflation will undermine the value of a bond investment, which impacts on the real return on such investment. Other risk considerations include sector-specific risks (i.e. risks that are unique to some sectors of the economy) whereby projects across these sectors, such as the construction sector, are generally perceived to be riskier as a result of high probability of technical failures, non-or delayed completion and cost over-runs, amongst others.

Conclusion

Globally, infrastructure contributes to economic development by increasing productivity and providing amenities, which enhance quality of life and business as well as economic activities. The DCM provides a key avenue through which infrastructural growth can be sustained to promote economic development, and Nigeria has taken a cue from model markets such as the United States, United Kingdom and Malaysia, which have used the strength of their DCM to power growth, fund and set up viable infrastructure projects to support development for the good of their citizenry.

Given the current strain in the nation's fiscal balances, infrastructure bonds have offered a potentially effective funding alternative to address infrastructure deficits. FMDQ, in collaboration with market stakeholders, will remain steadfast in its commitment towards the development of the DCM, and provide the requisite platform to power infrastructure growth, thereby fostering the development of the Nigerian economy.

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