

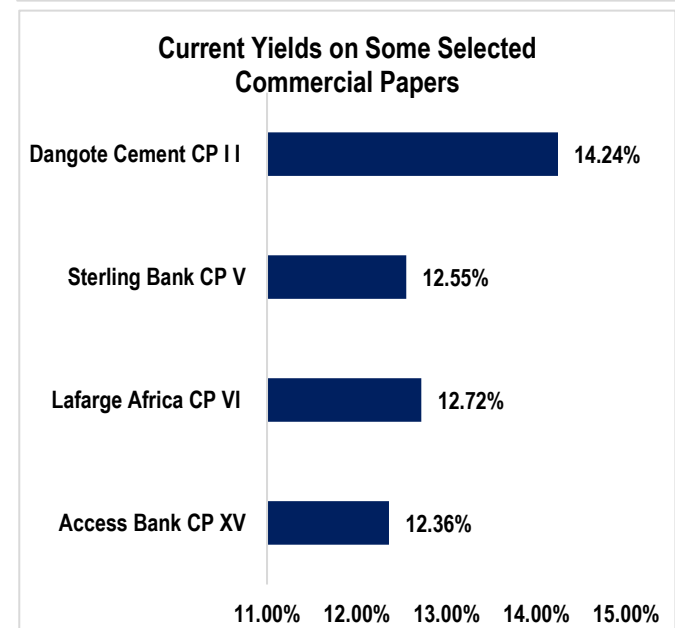
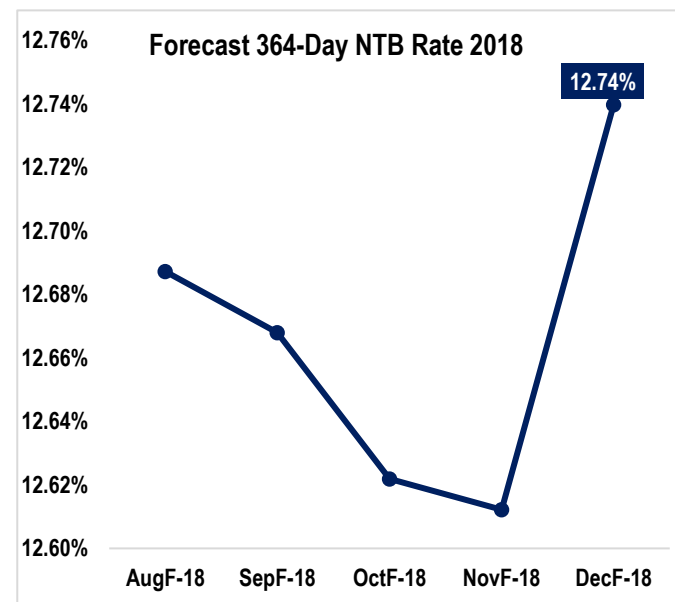
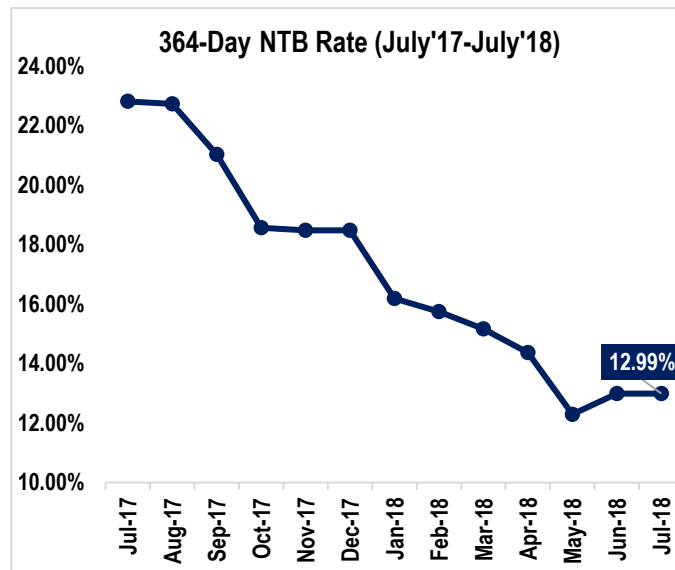
## Investment Opportunities in Commercial Papers

FSDH Research identifies investment opportunities in Commercial Papers (CPs). CPs are unsecured money market instruments issued in the form of promissory notes to raise short-term funds, which companies use to finance their operations. They are issued by large corporations with good credit ratings. CPs are issued in tenors ranging between a minimum of 15 days and a maximum of 270 days. FSDH Research has observed a number of companies recently issuing CPs in the market.

The drop in the yields on Nigerian Treasury Bills (NTBs) will also drive the CP issuance. In addition, the Monetary Policy Committee (MPC) of the Central Bank of Nigeria (CBN) is encouraging large corporations to issue CPs. The yields on CPs are usually higher than those on NTBs. FSDH Research notes, however, that the risks inherent in investing in CPs are higher than the risks inherent in investing in NTBs. The yields on the NTBs have dropped consistently over the last few months. The average yield on the 364-Day NTB dropped to 12.99% in July 2018, compared with 22.80% in July 2017.

The Securities and Exchange Commission (SEC) regulates the CP market in Nigeria and protects investors' interests to ensure an organised market. Usually, the offer for subscription of CPs opens for a short period of time – in most cases, one week. The issuing company determines the minimum subscription, which is usually N5million, but may be lower.

The CPs are typically issued at a discount to the face value. This means that an investor will pay less than the amount on the face of the investment note and will earn the full value at maturity. The interest on the investment is the difference between the face



value and the discounted amount the investor paid at the time of investment.

Investment banks or investment management companies regularly introduce available CPs into the market to their clients when the offer is open for subscription. CPs are relatively low-risk investments because of their short maturity period. The FMDQ OTC Securities Exchange provides a platform for trading in CPs in Nigeria. Thus, CPs investments are relatively liquid as they can be traded in the secondary market if investors wish to sell before maturity.

Some Selected Commercial Papers in the Secondary Market					
Issuer	Description	Yields at Issue	Maturity Date	Current Yield *	Discount Rate (%)*
Access Bank Plc	ACCESS CP XV	17.51%	18-Sep-18	12.36%	12.22%
Lafarge Africa Plc	LAFARGE CP VI	16.62%	29-Oct-18	12.72%	12.40%
Sterling Bank Plc	STERLING CP V	16.75%	05-Nov-18	12.55%	12.21%
Dangote Cement Plc	DANGCEM CP II	13.96%	26-Mar-19	14.24%	13.11%

\* As at 16 August 2018

Sources: FMDQ, Central Bank of Nigeria and FSDH Research Analysis

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