



SECURITIZATION IN AFRICA

HIGHLIGHTING THE BENEFITS TO INVESTORS IN NIGERIA

A PRESENTATION TO THE MILKEN INSTITUTE

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SECURITIZATION IN NIGERIA

A BRIEF HISTORY

SECURITIZATION IN NIGERIA | A BRIEF HISTORY

- One of the earliest notable securitization transactions in the Nigerian Debt Capital Market, in 2007 is the **FMBN Residential Mortgage Backed Securities (MBS) ₦100bn RMBS Program** - Series 1, 2 & 3 bond issuances with a combined size of ₦56.564 billion.
- Similar to the FMBN bond issuances is the **₦400bn NMRC Residential Pass-Through Bond program** in 2015, which was structured as a pass-through bond with the benefit of a Federal Government Guarantee. 3 Series have been issued
- Another form of securitization done was the **₦20bn Asset Backed Commercial Paper Program, in 2017 by Mortgage Warehouse Funding Limited (MWFL)**. 2 Series have been issued to date.
- DLM Advisory Limited have been involved in structuring these transactions; acting as the arranger, financial adviser and issuing house.
- The most recent securitization transactions in Nigeria are the first and second future flow securitization also executed by DLM Advisory.



SECURITIZATION IN NIGERIA

FUTURE FLOW TRANSACTIONS

SECURITIZATION IN NIGERIA | FUTURE FLOW TRANSACTIONS

- The execution of a future flow securitization provides a business with the capital needed to accelerate growth and significantly scale up. The repayment happens over the longer term, based on expected future cash flows
- Securitization of future flow receivables has a relatively short history in Nigeria.
- The first successful future flow securitization transaction in Nigeria occurred in 2017 with the **securitization of the Combined Expatriate Residence Permit and Alien Card (CERPAC) receivables** due to Continental Transfert Technique Limited; this is a **₦25 Billion Issuance Program that was led, structured and arranged and by DLM Advisory.**
- The second future flow securitization transaction in Nigeria, also led by DLM Advisory, was for **Primero Transport Services Limited (PTSL), which involved the listing of a ₦16.5 billion BRT tickets receivables securitization**

SECURITIZATION IN NIGERIA | FUTURE FLOW TRANSACTIONS.

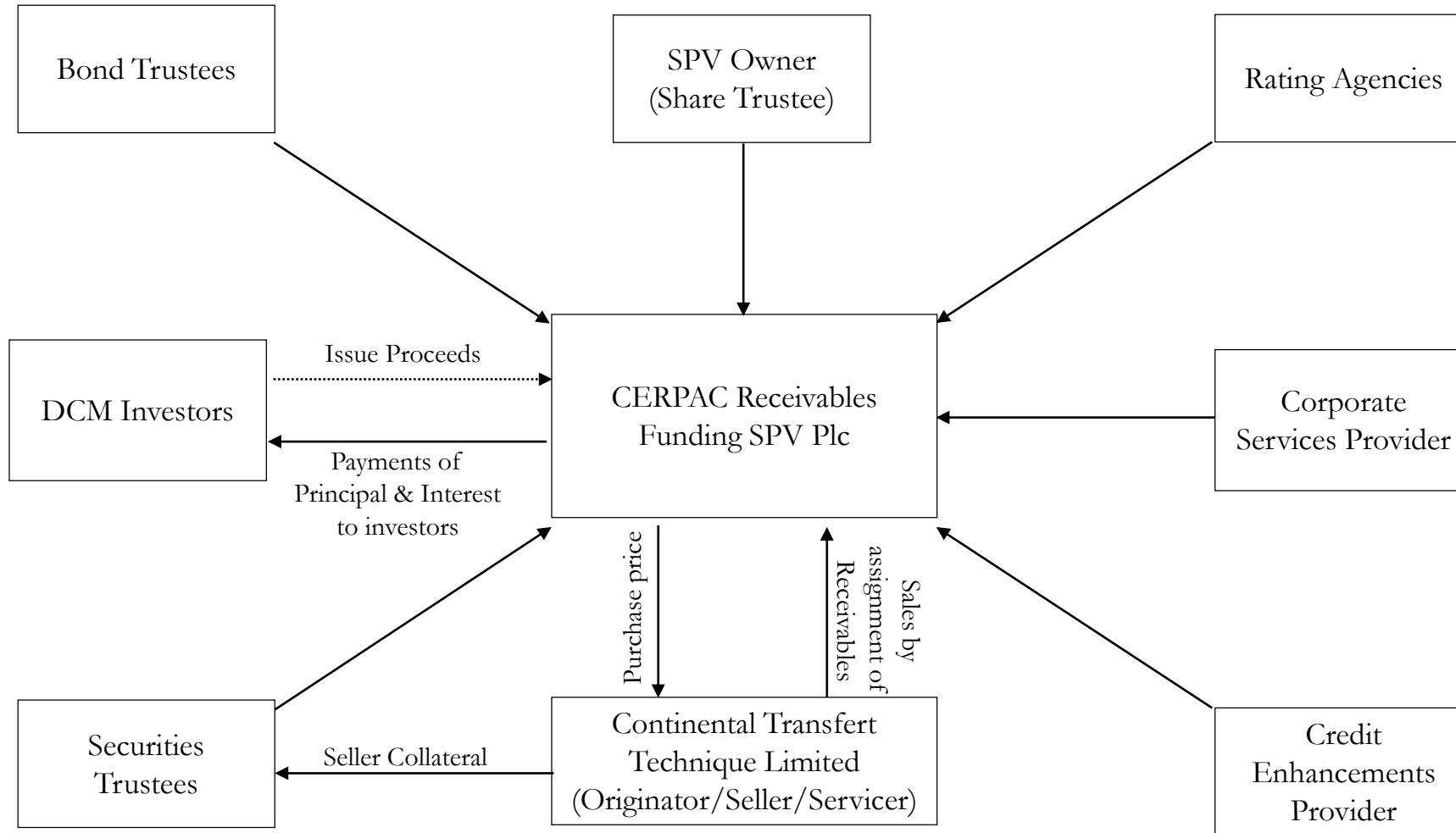


Issuer	Cerpac Receivables Funding SPV Plc
Sponsor/ Rating	Continental Tranfert Technique Limited – BBB+
Rating	AA-
Programme Size	₦25,000,000,000
Programme Type	Asset Backed Debt Issuance
DLM's Role	Sole Issuing House Bookrunner

Bonds Issued	Bond size (N'bn)	Yields (%)	Tenor (Years)	Issue Date
Discrete	4.87	18.25	5-years	Dec, 2017
Series 1	12.5	15.25	5-years	May, 2018
Series 2	1.6	15.5	5-years	July, 2018
Total	18.97			

- DLM Advisory successfully designed the transaction structure to suitably align with the Sponsor's funding objectives
- Developed relevant credit enhancements which achieved an investment-grade rating (AA-), representing 4 notches above the Sponsor's rating (BBB+)

SECURITIZATION IN NIGERIA | FUTURE FLOW TRANSACTIONS.



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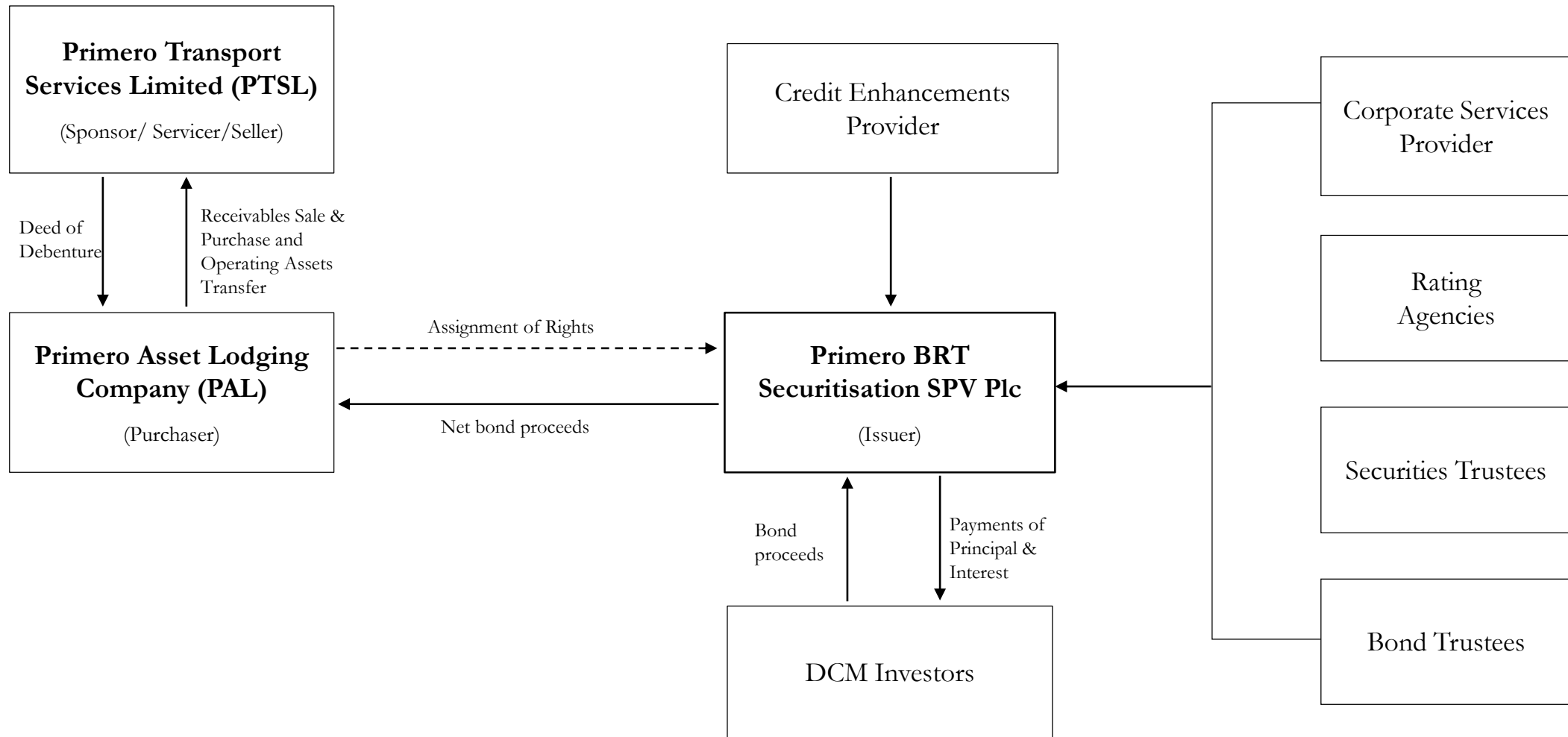


Issuer	Primero BRT Securitization SPV PLC
Sponsor/Rating	Primero Transport Services Limited / B +
Rating	BBB / A
Programme Size	₦100,000,000,000
Programme Type	Medium-Term Note
DLM's Role	Financial Advisor Arranger Issuing House

- Total issuance under the Primero BRT future flow securitization transaction currently stands at ₦16.5 Billion Series 1 bonds priced to a yield of 17%.
- Developed relevant credit enhancements which achieved an investment-grade rating

- The future flows securitization allowed the company to monetize its existing and predictable cash flows from ticket sales receivables, which is generated in the ordinary course of its business
- To implement the funding structure, an SPV was set up to facilitate a true sale and purchase of the rights to the Receivables which ultimately achieved a bankruptcy remoteness status.
- The structure was also used to stem the hemorrhage to the company via asset depreciation

SECURITIZATION IN NIGERIA | FUTURE FLOW TRANSACTIONS.





SECURITIZATION IN NIGERIA

BENEFITS TO INVESTORS

SECURITIZATION IN NIGERIA | BENEFITS TO INVESTORS

- **Diversification** makes it easier to predict outcomes and assess risk.
- For example, you fund one loan, that borrower might default, and you might not recoup all your principal in a forced sale situation and end up taking a 20%+ haircut.
- If you price your lending to offset that one-time risk, you will be priced out of the market.
- But, **if you know that only 0.5% out of a thousand mortgages will default (assuming a pool of similar debtors neutralize variances in credit profiles)**, you can price the market rates/risk sufficiently to make up for the aggregate losses and still make a +ve spread.
- This remains one of the greatest benefits to investors.

SECURITIZATION IN NIGERIA | BENEFITS TO INVESTORS

- Securitization structures allow the lender to calibrate the credit enhancements to offset expected risks, which improves the overall credit rating.
- So a single mortgage may be considered as a non-investment grade rating (much below BBB) due to the risk of possible single default.
- **A diversified pool might be considered A- since, the risk is now only 0.5% ProbDef but, a credit enhanced pool can now be structured to the AAA credit risk level.**
- **This is accomplished by covering not only the expected losses but also losses in a stressed scenario.**

SECURITIZATION IN NIGERIA | BENEFITS TO INVESTORS

- **Risk transformation.** Buying one person's debt has very different risk characteristics from buying a slice of 5000 peoples' debt.
- Can you imagine if you had lent your entire retirement fund to one person to buy a house? How would you sleep at night?
- **But, lending to 5,000 people totally transforms the risk** – making it much easier to sleep at night. A default of say 250 people will have an impact but, no where near enough to disturb the Class A notes.
- **Many investors therefore flock to securitization because of their 'AAA' credit ratings** – losses at this level have historically been extremely minuscule.
- **These high ratings are made possible through a combination of features** such as, third party insurance (in the early days) but, now mostly senior/subordinated credit structures.

SECURITIZATION IN NIGERIA | BENEFITS TO INVESTORS

- **Transparency of the Securitization Process itself.**
- Securitization is a complex mechanism using complex statistical formulations for predictability of receivables behavior. For instance, what would make a person default on say their rent payment... (i), (ii)....(∞)
- Assigning probabilities – Conditional Probabilities & Unconditional Probabilities – Binomial Expansion theorems, monte-carlo simulation techniques and lots of other complex mathematical optimization computations..etc..
- Point is, these “tricks of the trades” need to be made less opaque for investors (especially in this clime) and after the 2008 debacle, for them to be able to fully understand the workings and how to invest in them and monitor their performance.

SECURITIZATION IN NIGERIA | BENEFITS TO INVESTORS

- **Securitization connects the capital markets to the consumer finance markets.**
- Securitization is the mechanism by which individuals' borrowing money (home mortgages, automobile loans, etc.) essentially get to borrow money directly from institutional investors who in-turn get to invest in consumer loans.
- Finally, securitization is an exceptionally clever process that has very significant benefits for practically everyone involved
 - It takes debt off the balance sheet and replaces it with liquidity
 - It provides 3rd party investors with clearly rated investments that pay according to the risk they are willing to shoulder



THANK YOU