NICO Asset Managers

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INVESTOR'S GUIDE

A guide to the financial markets, investments and the economy

29 March 2019

Topic 305: Investing in bonds

Last week, we looked at the risks that investors face when investing in bonds. We looked at default risk, inflation risk, market risk, call risk, liquidity risk and interest rate risk. This week, we will look at the common ways in which to invest in bonds.

Bonds are initially issued in a primary market. After that, they are then traded in the secondary market.

Primary Market

The primary market is a place where the bonds either for a corporation or government are initially offered. When borrowers decide to sell bonds with the aim of raising capital, they will negotiate with investment banks, pension funds and any large institutional investors to place those bonds in the market. This is because the bond price of the newly issued bond, already pre-determined by the borrower, tends to be very high and everyone who seeks to invest in it will get the same coupon rate, but the yield may differ.

Example of Malawi Government bond

For example, on 26 March 2019, the Government of Malawi through the Reserve Bank of Malawi (RBM) made a bond issue identified as TN05YR280324. This is a 5-year maturity bond meaning after this period, it would mature. The investors that are expected to purchase the bond from RBM are expected to offer a minimum of MK1 million and thereafter, invest with multiples of MK100 thousand. The coupon rate is 10% per annum and will be paid out semi-annually.

Example of a Malawian corporate bond

New Finance Bank (NFB) in June 2018 issued a corporate bond which sought to raise MK14 billion. Unlike the Government bond, this bond was issued in tranches. This means that the total MK14 billion would be offered to investors in portions. In the first portion, K4 billion was issued by NFB and Institutional investors were expected to have to purchase the bond with a minimum amount of MK50 million.

Secondary Market

The secondary market involves the buying and selling of bonds after the initial offering. This market will consist of institutional investors, small investor, Over-the-Counter (OTC) market trades and the public or stock exchange.

The OTC is an example of an informal marketplace where bond buyers and sellers seek each other out and then attempt to arrange terms and conditions acceptable to both for trade.

The public or stock exchange on the other hand is an organized trading system that sees brokers trading bonds on behalf of buyers and sellers. The brokers will advise on the bond features including price and the spread which will determine whether it is profitable for one to invest in the bond or not. An example of the stock exchange is the Malawi Stock Exchange (MSE). The MSE trades both government and corporate bonds. The information of NFB and the Government bonds can be sourced from here.

Therefore, if you seek to invest in the bonds discussed, you can go through any authorized broker which are Stockbrokers Malawi Limited (SML), Alliance Capital Limited, Cedar capital and Continental Capital Limited (CCL) brokers and ask for more information.

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