

The background of the entire page is a complex financial chart. It features a candlestick chart in the upper half and a bar chart in the lower half. The charts are overlaid with several moving average lines and dotted trend lines. A price value of '1.65' is visible at the top left. The overall color scheme is a mix of light blues, greys, and whites, with a subtle glow effect.

MERISTEM

Monthly Market Review & Preview

August 2022

Equities

Industrial sector leads sectoral losses

Review

Bearish sentiments lingered in the local bourse in August, although weaker than the prior month. The NGXASI lost 1.06% MoM (vs -2.79% MoM in July), as profit taking on **BUACEMENT** (-24.96%), **OKOMUOIL** (-13.19%) and **FLOURMILL** (-10.49%) drove the market lower. Buying activities on **BUAFOODS** (14.76%) and **AIRTELAFRI** (7.06%) however supported the market.

MBENEFIT trading suspension was lifted upon filing its 2021FY audited financial statements. Recall that the company was suspended in July along with 8 other companies for failing to file their audited financial statement. Although topline improved by 34.49% to NGN26.13bn in 2021FY, the company reported a loss of NGN5.42bn for the year.

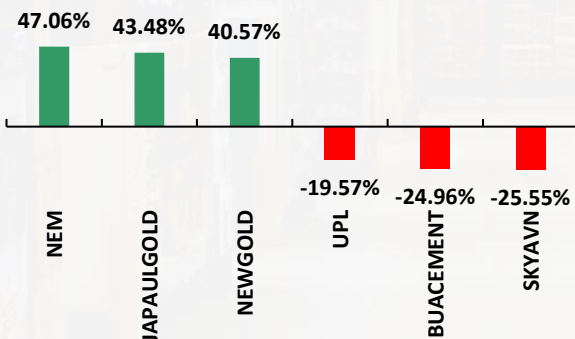
Interim Dividend Announcements:

ZENITHBANK: NGN0.30

STANBIC: NGN1.50

FIDELITYBK: NGN0.10

Chart 1: Top gainers and losers in August



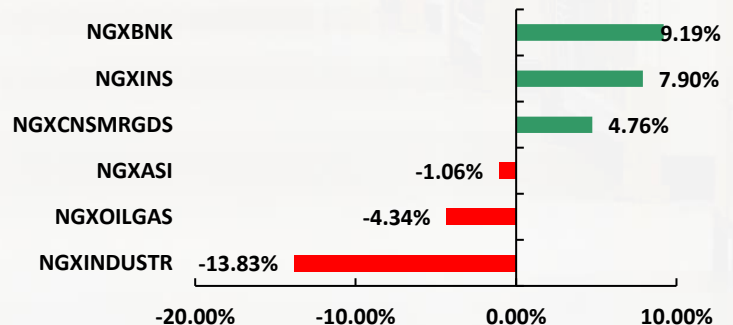
Source: NGX, Meristem Research

Summary of Corporate Actions:

NEIMETH obtained the approval to hold a Rights Issue of 2.37bn ordinary shares of 50 kobo each at NGN1.55 per share. The issue will be on the basis of 5 new shares for every 4. The rights issues is available for all shareholders who qualified as of 22nd April, 2022. We note that the stock was trading at NGN1.40 prior to the announcement but closed at NGN1.56 as of September 6th 2022. Our recommendation advised investors with a long term focus on the market to take up the rights if they do qualify.

MTNN kicked off 5G network pilot testing as it prepares for a commercial launch. We remain bullish on the ticker given its sound fundamental performance, innovation and capacity expansion.

Chart 2: MtD sectoral performance



Source: NGX, Meristem Research

Preview

Despite the decline in the equity market in the month of August, the All-Share Index closed higher in the last two weeks of the month. This was supported by improved market breadth. Buying interest on heavy weight tickers helped support the market recovery. We expect the emerging bullish sentiment to continue in September. However, considering the uptrend in inflation, we expect the Monetary Policy committee to further raise interest rate in its September meeting. This could lead to further rounds of selloffs in the market. Also, the rise in yield remains a headwind to risk asset performance. However, we note that low prices on the index may trigger bargain hunting on the domestic bourse.

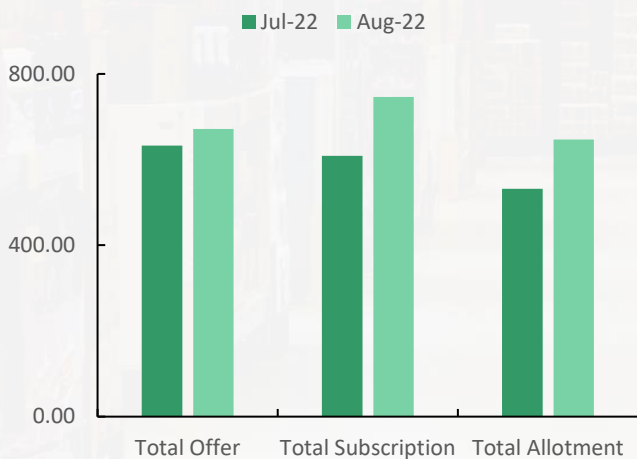
Fixed Income

Sustained Uptrend in Yields

Review

In August, the Central Bank of Nigeria (CBN) offered more (NGN446.15bn) at the Tbills primary market auction (PMA) compared to the previous month (NGN407.55bn). However, the total subscription-to-offer and bid-to-cover ratio across the trio instruments declined to 1.12x (vs. 1.14x in July). This signifies a reduction in investors' appetite and participation during the month.

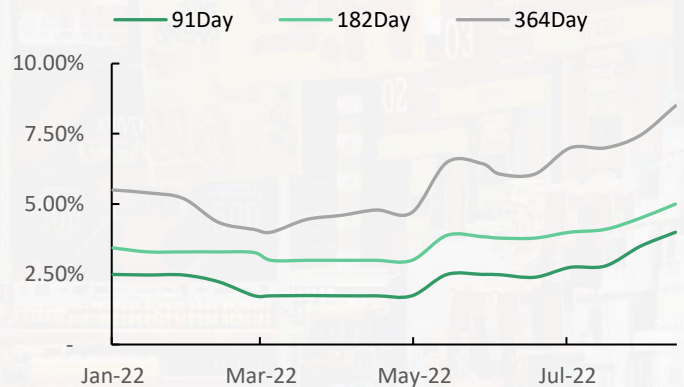
Chart 1: PMA Results for Aug 2022 (NGN'bn)



Source: CBN, DMO, Meristem Research

Also, the Debt Management Office (DMO) offered NGN225bn in its August bond auction for three instruments (Mar-2025, Apr-2032, and Jan-2042). Unlike the Tbills PMA, total bid-to-cover ratio improved compared to the previous month (1.23x in August vs. 1.15x in July). There was an increase in stop rates across the various instruments on offer at both the treasury bills and bonds PMAs.

Chart 2: Movement in Stop Rates

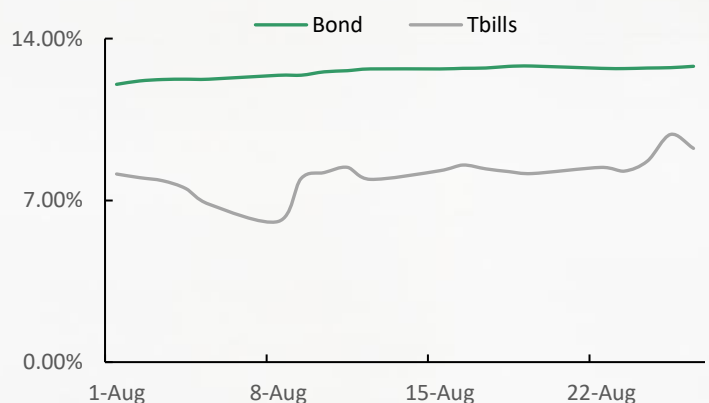


Source: CBN, Meristem Research

Drivers:

- Investors' pricing of the increased market risk and the recent monetary policy rate hike.
- Increase in interest rates on savings account and bank deposit rates gave investors more incentive to demand for higher rates.
- Government's interest to raise funds from the domestic debt market, as cost of borrowing from the international debt market remains high.

Chart 3: Average Tbills and Bond Yield



Source: FMDQ, Meristem Research

Fixed Income

During the month, bearish sentiment prevailed in the secondary fixed income market as yields trended upwards with falling prices. Average bond and T-bills yields increased to 12.59% and 8.08% (vs. 11.55% and 6.97% in July), respectively. This is due mainly to a shift in investors' focus to the PMA, especially with rising rates and other factors highlighted earlier.

In August, we noted slight increase in system liquidity as average OPR and O/N lowered by 98bps and 70bps to 13.34% and 13.75%, respectively.

Preview

This month, the Government has indicated to raise a total of NGN740.68bn (NGN515.68bn T-bills, NGN225.00bn bonds). This is higher than previous month (NGN671.15bn August) which shows the FGN interest for the local debt market.

We therefore maintain our expectation for uptrend in stop rates at the PMAs this month, as the factors currently driving the market are expected to persist. We also expect a further hike in monetary policy rate at the upcoming MPC meeting this month to impact the fixed income market positively.

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