MERISTEM

Monthly Market Review & Preview

September 2022

Equities

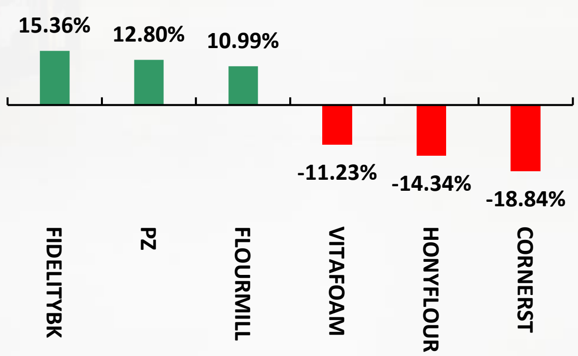
Fourth Consecutive Month of Negative Returns

Review

Bearish sentiment sustained in the equities market as the All-Share index declined by 1.63% MoM in September to close at 49,024.16pts. Selloffs on heavyweight tickers like **GTCO** (-10.58% MoM), **NESTLE** (-10.00% MoM), **ZENITHBANK** (-8.68% MoM), **GUINNESS** (-5.69% MoM) etc, led the market into the negative zone. Also, for the second time this year, the bearish mood cut across all sectors as seen in chart 2 below. We also note that the Q3:2022 period ended on a bearish note, representing the market's first quarterly decline in six consecutive quarters.

In our view, investors priced in the adoption of a hawkish tone by the monetary authorities, higher rates of fixed income instruments and expected lower valuation of listed companies. Thus, liquidity strayed from the market as average daily transactions declined to NGN1.89bn (vs NGN2.57bn in August 2022).

Chart 1: **Top gainers and losers in September**

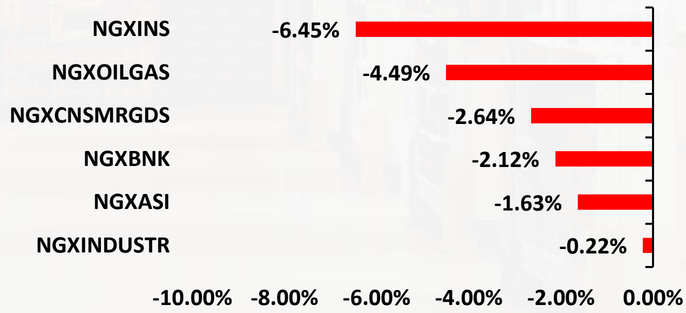


Source: *NGX, Meristem Research*

ACCESSCORP obtained CBN's approval to establish its payment subsidiary, Hydrogen Payment Services Company Limited **(HYDROGEN).** The subsidiary will offer payment solutions and switching services, competing with other fintech company like Flutterwave, Interswitch and Paystack.

We expect this to facilitate the turnaround of the corporations payment services subsidiary which recorded a loss of NGN426.00mn in H1:2022. Also, **HYDROGEN** is a continental play, hence, we expect it to further improve the corporation's non-interest revenue. This together with the corporation's strategic acquisitions, is expected to increase shareholder's earnings.

Chart 2: **MtD sectoral performance**



Source: *NGX, Meristem Research*

Preview

With the recent increase in Monetary Policy Rate (MPR) and Cash Reserve Ratio (CRR), we do not expect sentiments on risky assets to improve in the near term. We also expect rates in the fixed income market to remain high in October. This coupled with the expectation of tighter liquidity in the month would likely lead investments towards the fixed income space than the equities market. Also, the increase in MPR would pressure economic growth and negatively impact companies' valuation. Therefore, investors are least likely to anticipate significant returns from the equities market. Consequently, buying interest is set to remain muted.

However, we do not rule out the possibility of investors taking position on currently undervalued tickers, particularly in the financial services sector, as the increase in MPR provides an improved outlook on interest income. Investors with a long-term horizon could also see attractive entry points on tickers that have shed appreciably.

Fixed Income

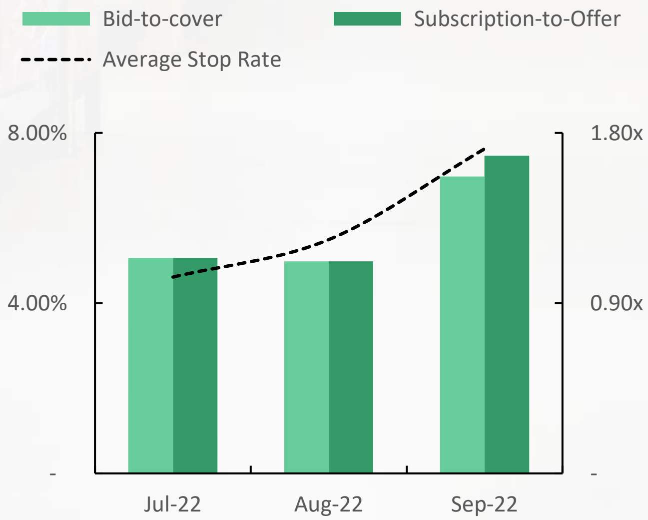
Yields Maintain Upward Trajectory

Review

As the MPC continues to strengthen its hawkish stance, the fixed income market has remained an attractive destination for investors relative to the equities market. The immediate impact of the committee's September rate hike rate was seen at the T-bills' PMA that took place after the MPC meeting (28th of September). The stop rates on the trio instruments increased significantly by 99bps, 150bps, and 225bps to 6.49%, 7.50%, and 12.00%, respectively.

In September, the Central Bank of Nigeria (CBN) held three T-bills Primary Market Auctions (PMAs), offering a total sum of NGN515.68bn – *the highest in 2022* – and successfully raised a sum of NGN553.66bn. Investors' increased appetite and participation at the PMAs pushed the total subscription-to-offer and bid-to-cover ratio to 1.68x and 1.57x (vs 1.12x and 1.12x in August), respectively.

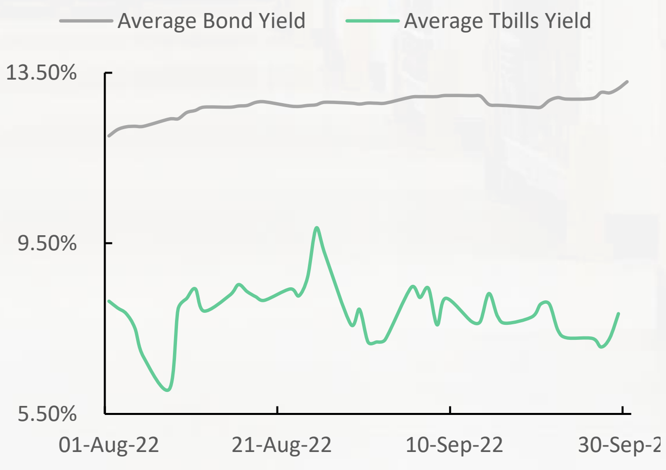
Chart 1: T-bills' PMA Activities in Q3:2022



Source: *CBN, Meristem Research*

At the bond auction held in September, the Debt Management Office (DMO) offered NGN225bn across the three instruments (Mar-2025, Apr-2032, and Apr-2037). Unlike the T-bills PMA, the total bid-to-cover ratio declined to 1.08x in September from 1.23x in August. Although investors' participation at the auction declined marginally (total subscription declined by -0.26% MoM), the Federal Government increased interest to raise higher capital (total allotment increased by +14.27% MoM) was largely responsible for the decline. Overall, the marginal rates on the Mar-2025 and Apr-2032 instruments increased by 100bps and 35bps to 13.50% and 13,85%, respectively. While the rate on the Apr-2037 instrument settled at 14.50%.

Chart 2: Average T-bills and Bond Yield in September 2022



Source: *FMDQ, Bloomberg, Meristem Research*

In the secondary market, the attractiveness of newly issued fixed income instruments and tight liquidity prompted continued selloffs. Consequently, the average bond and T-bills yield increased to 12.90% and 8.80% in September (vs. 12.59% and 7.76% in August), respectively.

Fixed Income

We observed increased selloffs on Nigerian Eurobonds in September, attributable to the aggressive monetary stance adopted in most countries, especially the United States. In addition, the persistent uncertainties impacting the macroeconomic environment and the increased market risk were contributing factors. Specifically, inflation ticked up to its highest since September 2005, and the Naira further depreciated on the I&E FX Window to an average of NGN437.03/USD in September (from an average of NGN429.44/USD in August). As a result, the average Eurobond yield increased to 9.90% (from 8.88% in August).

Preview

This month, the Government has indicated its intention to raise a total of NGN656.16bn (NGN431.16bn T-bills, NGN225.00bn bonds). However, this is lower than the previous month (NGN740.68bn), as the maturing T-bills are lower than the previous month.

In October, we expect the increase in MPR to prompt a further uptick in stop rates at the T-bills PMAs. Also, the higher CRR is expected to further tighten system liquidity during the month. Thus, we project that yields in both T-bills and Bond secondary markets will continue to trend upward as investors look to benefit from higher rates at the PMAs.

We also expect higher yields on Nigerian Eurobonds in October. This is premised on the further depreciation of the Naira (due to the FX supply challenges impacting the country) and the expectation of a slowdown in economic activities.

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