MERISTEM

Macro and Market Insight

April 2023

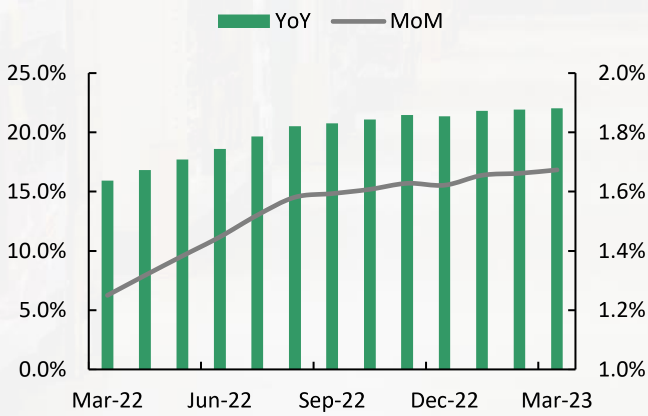
Macros

Worsening Macroeconomic Indicators

Review

Macroeconomic events in Nigeria largely remained on the same trajectory in April with inflation sustaining its uptick, external reserve balance continued to deplete and exchange rate on the I&E window depreciated further. The National Bureau of Statistics (NBS) reported the country's inflation rate for March 2023 increased to 22.04% YoY (vs. 21.91% YoY in February 2023). Both food (24.45%) and core (19.86%) indices increased with the latter reversing its erstwhile disinflation recorded in February 2023. Farm conditions however appeared to have improved as farm produce inflation rate slowed to 1.95% (vs 5.20% in February 2023). Nevertheless, the effect of other factors such as consumers stockpiling ahead of the Ramadan season, higher oil prices which translated into higher transportation cost, and FX volatility prevailed, pushing the headline inflation index up.

Chart 1: Headline Inflation (YoY and MoM)

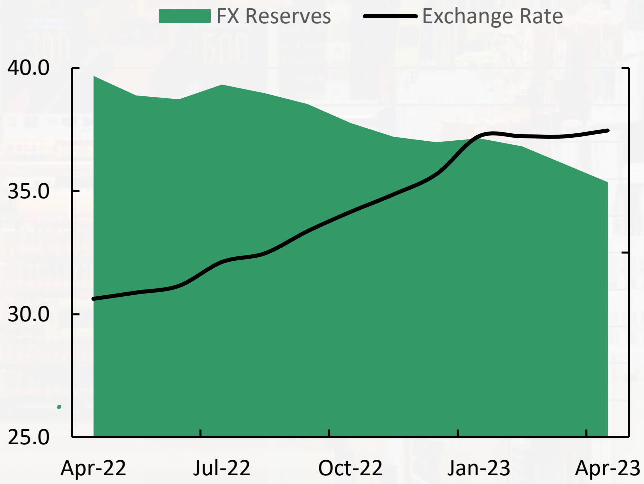


Source: NBS, CBN, Meristem Research

In the near term, headline inflation is expected to remain elevated hinged on the following factors:

- **Higher demand for food items during the Easter festivities.**
- **Concerns about Russia pulling out of the Black Sea Grain deal which would keep global food prices elevated, thereby further exerting pressure on imported food inflation**
- **The pass-through effect of expected higher crude oil prices (resulting from OPEC's crude oil supply cut) on the core index.**
- **Currency outside banks increased by 71.40% in March. Thus we expect this to persist in April as old notes re-released into circulation.**

Chart 2: Exchange Reserve Balance and Exchange Rate (Apr 2022– Apr 2023)



Source: CBN, FMDQ, Meristem Research

Given that oil sector revenue has been underperforming (as against budgeted), the industrial strike action by the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN) which disrupted oil production activities also did harm to the Nation's purse and reserves. This, coupled with the pipeline explosion at the Trans Niger pipeline in March, led to a contraction in oil production. Unsurprisingly, the external reserve balance declined in April 2023, shedding 10.94% YoY to USD 35.25bn (vs. USD 39.58bn in April 2022) and Naira depreciated on the I&E window by 10.93% YoY to NGN463.09/USD (vs NGN 417.46/USD). We however note the relative stability in the parallel exchange rate market around NGN740.00/USD, attributable to reduced speculation activities in the market and investors "wait-and-see" approach ahead of the new government's inauguration.

In the near term, we posit that the persistent decline in oil revenue, FX volatility as well as low inflows from Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) will continually limit the ability of the Central Bank of Nigeria (CBN) to defend the Naira.

Macros

On capital flows, the National Bureau of Statistics reported a third yearly consecutive decline in capital importation for 2022FY by 20.47% YoY to USD5.33bn (vs. USD6.70bn in 2021FY), reflecting lower foreign investors' interest in the country. FDI, FPI, and other investments all declined by 33.02% YoY, 27.86% YoY, and 7.55% YoY, respectively, due to a combination of factors: higher interest rates across advanced economies which represent safer havens for foreign capital, FX illiquidity in Nigeria which makes it repatriation of FPI difficult, the ripple effect of risk concerns in Sub-Saharan African (SSA), amongst others. **We do not foresee a reversal of this trend in the near term as the contributory factors are still present. In addition, we expect investors to continue to sit on the fence until there is a meaningfully promising policy direction from the incoming administration.**

More recently, the Federal Government got the National Assembly's go-ahead to securitize the NGN22.7trn Ways and Means (W&M) advances from the Central Bank of Nigeria (CBN), with a view to promoting fiscal transparency. According to the Debt Management Office (DMO) and in line with the approved terms, the loan will be converted to a 40-year security with a 3-year moratorium; the interest rate will be 9% per annum, as against the currently running MPR+3% (which translates to 21% per annum at the current MPR of 18%). Adding the W&M balance to the public debt balance brings Nigeria's total public debt stock to NGN68.75 as of December 2022, while also bringing the public debt-to-GDP ratio to 34.59%. **The reduction in the interest rate is a positive for the Federal Government as it would lower debt service costs, thereby reducing the huge budget deficit gap. Nonetheless, we posit that this gives room for further downgrade of the country's credit rating by international rating agencies which will keep the cost of borrowing in the international capital market elevated.**

Summary of key expectations for May 2023

- ***Sustained uptrend in headline inflation.***
- ***Economic growth for Q1:2023 is expected to come in lower than Q1:2022 due to the negative effect of the controversial Naira redesign policy.***
- ***Increase in the Monetary Policy Rate (MPR) by 50bps at its next meeting later this month hinged on the sustained hawkish stance of the advanced economies as well as the expected uptrend in headline inflation.***
- ***We foresee an improvement in oil production on the back of the recently resolved strike action earlier embarked upon by PENGASSAN, contributing to oil revenue.***
- ***We expect the securitization of the NGN22.7bn Ways and Means loan to further exert pressure on the fiscal deficit.***
- ***Finally, we anticipate a decline in external sector fundamentals (capital flows and external reserve balance) as the domestic economy remains unattractive to foreign capital.***

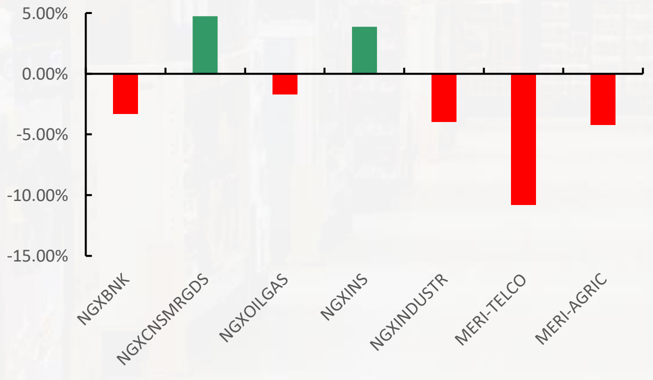
Equities

Sustaining Positive Sentiments

Review

For the second consecutive month, the bears remained in control of the Nigerian bourse. The All-share Index lost **3.37% MoM** to settle at 52,403.52pts, marking a poor start to the second quarter of the year. Despite the lower number of trading days during the month (16 days vs. 23 days in March), market turnover increased marginally to NGN67.84bn (+1.16% MoM), and volume traded increased notably (+67.67% MoM) to 10.50bn units. The jump in volume traded was due to significant activities on **TRANSCORP** (5.42bn units) and **ACCESSCORP** (1.82bn units). Market breadth (0.86x) remained below 1.00x during the month, though higher than the previous month's 0.63x.

Chart 3: **Sectoral Performance**



Source: *Bloomberg, Meristem Research*

Mixed Sentiments Across Sectors

Across sectors, the Consumer Goods (+4.75% MoM) and Insurance (+3.87% MoM) indexes recorded gains, while the Meri-Telco (-10.81% MoM), Meri-Agric (-4.19% MoM), Industrial Goods (-3.98% MoM), Banking (-3.29% MoM), and Oil and Gas (-1.68% MoM) indices declined. Notably, **AIRTELAFRI** lost 15.58% MoM and there were selloffs on **NB** (-13.51% MoM) following the company's poor financial performance in the period.

Q1:2023 Earning Releases

Many companies released their Q1:2023 scorecards during the month, revealing broadly positive performances. Particularly, most companies in the Banking, Insurance, Oil and Gas, and Consumer Goods sectors recorded both top-line and bottom-line growth. Conversely, companies in the Industrial Goods sector had their earnings constrained by the cash crunch and higher production costs.

Noteworthy Events

SEPLAT's management team received a formal dismissal of the criminal complaint filed by the Nigeria Immigration Service against the Company and several of its Officers from the court. The company also disclosed various changes to its board composition as well as the plan for the board's succession, in a display of its dedication to sound corporate governance. Prior to the annual general meeting in May 2024, both the Chairman and Senior Independent Non-Executive Director will resign from the Board. Also, an Independent Non-Executive Director will leave the Board on October 21, 2023.

Elsewhere, **TRANSCORP** announced the acquisition of a significant portion of the group's shares (5.52% or 2.25bn units of shares) by Mr. Femi Otedola, a move that saw the share price appreciate by up to 126.09% within 15 working days. The share price of the company continued to skyrocket, hitting its highest in eight years (NGN3.12) before the conglomerate announced that HH Capital Limited, owned by its Chairman, acquired 11.70bn units of shares in the company, increasing HH Capital Limited's holding to 29.50% of **TRANSCORP**'s total shares outstanding. Subsequently, the share price of the company settled at NGN2.81 at the end of the month, implying a net 103.62% gain from the prior month.

ACCESSCORP through its banking subsidiary (Access Bank Plc) received regulatory approval from the Central Bank of Angola for the acquisition of a majority stake in Finibanco Angola S.A. This followed the approval by the Central Bank of Nigeria earlier in October 2022. As we have previously noted, the acquisition is expected to support the company's growth and resonates with the company's expansion strategy. The group also disclosed a USD300mn capital investment in its banking affiliate, Access Bank Plc, in support of the capital requirement of its African continent expansion plan. These disclosures, as well as the impressive 2022FY results and dividend declaration (NGN1.30 dividend per share), spurred buying activities on the ticker, leading it to gain 12.78% MoM.

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Equities

Noteworthy Events

Lastly, trading activities were suspended on Sterling Bank Plc as the company completed its restructuring into a holding company (HoldCo). This makes the group the most recent in line of banks that have transitioned into HoldCo in recent times. Later during the Month, the group was relisted on the exchange with its new ticker "**STERLINGNG**" and subsequently gained 8.11% from the date of its relisting till the month-end.

Key Expectations for May 2023

In our view, the recent and ongoing mark-down of stock prices present attractive entry opportunities that we expect investors to take advantage of. Furthermore, we expect investors to cherry pick on some stocks that have recorded positive performance in Q1:2023. Thus, we expect a broadly positive market performance during the month.

Below is a list of some stock(s) with attractive dividend yields and price appreciation prospects, as well as recently marked-down stocks that investors can take advantage of.

Ticker	Current Price (NGN)	Target Price (NGN)	Upside (%)	Closure Date	Dividend Declared (NGN)	Dividend yield %
ACCESSCORP	11.25	13.48	+20%	10-May-2023	1.30	11.56%
FIDSON	9.45	13.71	+45%	14-July-2023	0.55	5.82%
UBA	7.90	15.16	+92%	17-Apr-2023	0.90	11.39%
MTNN	228.90	301.49	+32%	28-Mar-2023	10.00	4.37%
ZENITHBANK	24.05	28.36	+18%	17-Apr-2023	2.90	12.06%

**prices are updated as of May 5th, 2023*

Fixed Income

Mixed Sentiment Prevails As Market Reacts to Controversies

Review

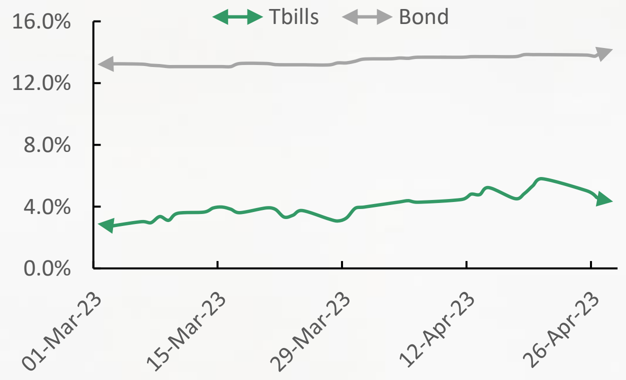
In the global fixed-income market, the residual effect of the collapse of Silicon Valley Bank and the global financial stability concerns spilt over to April. This, coupled with the market's expectation of further rate hikes by major central banks forced selling activities; thus, prompting a decline in the prices of treasury instruments. Conversely, the impact on the Nigerian fixed income market (especially the local debt instruments) was negligible, owing to the relatively robust system liquidity, and the apparent disconnect between the Monetary Policy Rate (MPR) movement and rates on treasury instruments. For context, the maturity of the Apr-2023 FGN Bond (NGN735.96bn), coupon payments (NGN342.57bn), and FAAC distribution (NGN714.63bn) were major inflows into the market during the month. In fact, in the money market, the Open Repo Rate (OPR) and Overnight Rate (O/N) declined to 12.63% and 13.13% at the end of the month (vs 18.50% and 18.88% at the end of March).

At the T-bills primary auction, a total amount of NGN281.10bn was offered with a total subscription of NGN1.10trn. The bulk of the subscription was noticed on the 364-Day instruments (a total of NGN1.08trn in April). This was primarily driven by the robust system liquidity. Hence, the total subscription-to-offer more than doubled to 3.91x. Consequently, rates on the 364-Day instrument declined significantly to 10.17% at the last auction in April (vs 14.74% at the last auction in March) while that of 91-Day and 182-Day instruments stayed flat at 6.00% and 8.00%.

At the bond primary market auction, the total subscription was NGN444.04bn (versus NGN360bn offered) while NGN368.67bn was allotted. Moreso, the Apr-2037 and Apr-2049 FGN bonds were replaced by the Jan-2042 and Mar-2050 at the auction. Owing to lower subscription compared to the previous auction, the bid-to-cover ratio declined to 1.20x (vs 1.44x at the previous auction). Subsequently, the marginal rates of Apr-2032 increased by 5bps to 14.80%, while that of Feb-2028 stayed flat at 14.75%. Also, the rates on the 2042 and 2050 were 15.40% and 15.80%, respectively.

Similarly, the secondary market reflected the realities of the primary market during the period. At the T-bills market, there were notable buying activities on instruments as investors continued their hunt for attractive returns. In the local bond market however, selloffs particularly on 2030, 2036, 2037, and 2042 FGN bonds, spurred the bearish performance. As a result, the average T-bills yield dipped to 4.34% (vs 7.95% at the of March), while average bond yield nudged upward to 14.20% at the end of April (vs 13.56% at the end of March).

Chart 4: **Average T-bills and Bond Yield**

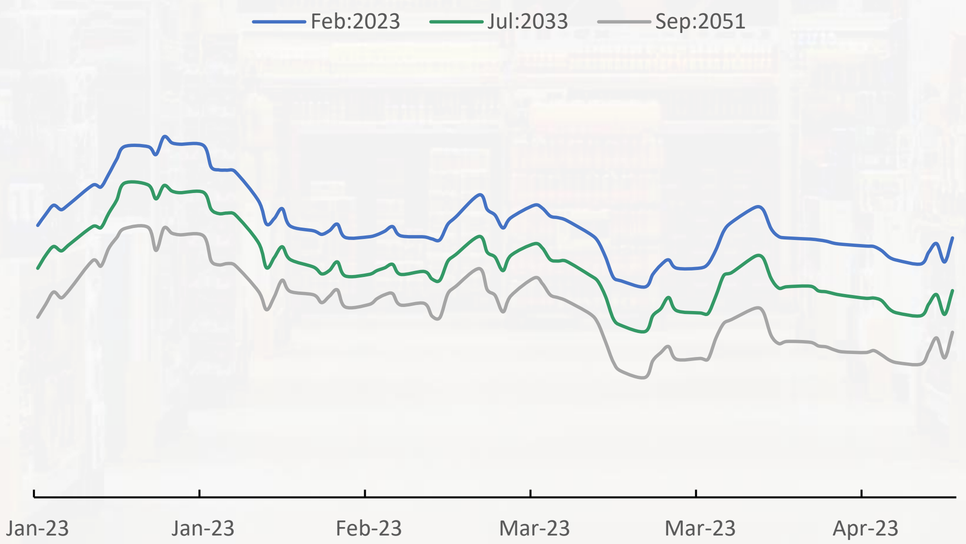


***Source:* Bloomberg, FMDQ, Meristem Research**

Fixed Income

As it relates to Nigerian Eurobond instruments, investors traded sideways; however, the selloffs were stronger. First, the increased pessimism about the escalation of the failed banks in the United States was a major trigger. Furthermore, the controversies from the finance minister's announcement on the suspension of fuel subsidies contributed to the bearish sentiment. Notably, the Feb-2032, Jul-2033, and Sep-2051 Eurobonds tumbled significantly upon the announcement. These bonds went on to shed 1.95%, 2.40%, and 1.81% in April, respectively. Thus, the average Eurobond yield inched up by 43bps to 10.23% at the end of April (from 9.80% at the end of March).

Chart 5: **Price Movement of Selected Nigerian Eurobonds**



***Source:* Bloomberg, Meristem Research**

Key Expectations for May

Our broad expectation is for the fixed-income (especially the T-bills) market to maintain a bullish posture. Chiefly, the improved system liquidity will be a primary driver of the market's direction. In addition, the planned transition to a new administration this month is likely to increase optimism amongst investors during the period. However, the anticipated Monetary Policy Rate (MPR) hike is a factor that should prompt investors to further demand for higher rates. Notwithstanding, the recent low correlation between the MPR and treasury instruments' rates is likely to limit the anticipated increase in market rates.

For the Eurobond instruments, we expect investors to react to the recent Senate House's approval to securitize the CBN Ways and Means. Thus, an expected dip in price should create an attractive entry for investors.

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