MERISTEM

Macro and Market Insight

May 2023

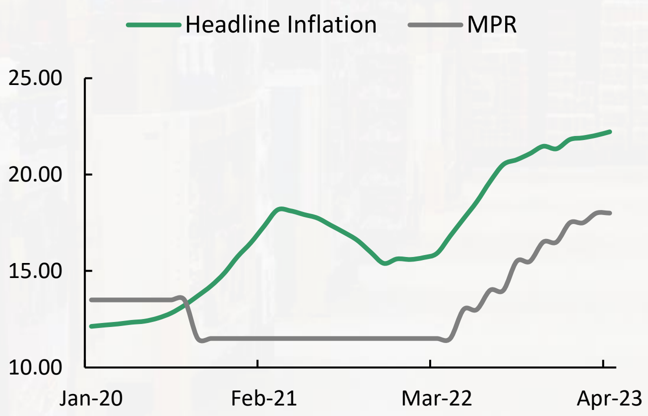
Macros

Nigerian Economy Faces Crisis on Multiple Fronts

Review

Several interesting events rocked the Nigerian macroeconomic environment in May 2023. Consumer Price Index (CPI) for April 2023 rose by 18bps to 22.22% YoY, its highest level since September 2005, (vs. 22.04% YoY in March 2023). This uptick was driven by both the food (+24.61% YoY) and core (+20.14% YoY) indices. Consequently, the Monetary Policy Committee, during its May meeting, reiterated its dedication to ensuring overall price stability. As a result, the Committee hiked the Monetary Policy Rate (MPR) for the 7th consecutive time since May 2022, bringing it to 18.50% (its highest level in 20 years).

Chart 1: **Inflation rate and Monetary Policy Rate (YoY change)**



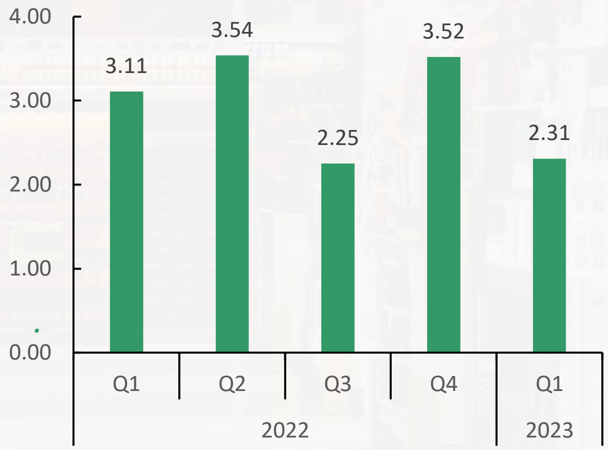
Source:* *NBS, Meristem Research

In the near term, we expect the persistent challenges plaguing the agricultural sector as well as the recent increase in Premium Motor Spirit (PMS) price to keep headline inflation elevated. Hence, in our opinion, the sustained hawkish stance by the Monetary Policy Committee will not significantly impact the uptrend in headline inflation, given that it is largely cost driven.

The National Bureau of Statistics also reported a deceleration in the real GDP growth rate to 2.31%% YoY (relative to 3.52% and 3.11% in the preceding quarter and the corresponding quarter of 2022, respectively). This was largely driven by the cash crunch experienced in the first quarter of the year, which slowed economic activities. In addition, higher borrowing costs resulting from the hawkish stance of the MPC adversely impacted economic activities.

In the near term, we expect an improvement in the GDP growth rate relative to Q1:2023 level, given that the cash crunch has subsided. However, we envisage slower growth relative to 2022 levels hinged on the prevailing macroeconomic headwinds as well as the hawkish stance of the MPC.

Chart 2: : **Real GDP Growth Rate (%)**



Source: NBS, Meristem Research

In the month of May, Nigeria's external reserves maintained its downward trend, declining by 9.45% YoY to an average of USD35.21bn. This is attributable to the lingering challenges (oil theft, vandalism, industrial strike action) affecting oil production, thereby leading oil receipt lower. Consequently, the Naira further depreciated by 10.56% YoY to NGN463.43/USD (vs. NGN419.15/USD in May 2022).

Going forward, we expect an improvement in oil revenue barring any halt in production resulting from theft, pipeline vandalism, or industrial action. Hence, we expect an improvement in the external reserves.

Macros

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Dangote Refinery was also inaugurated in May 2023 with a capacity of 650,000bpd of crude oil to produce refined petroleum products. It is expected to commence operations in the third quarter of the year. We note that 60% of the refined petroleum products will be sold locally, while 40% will be exported. This is expected to increase the domestic availability of PMS locally, thereby easing fuel scarcity crisis in the country.

The newly elected President of the Federal Republic of Nigeria, in his inaugural speech, highlighted policies that are likely to be implemented during his administration. Specifically, the unification of the exchange rate, removal of the Premium Motor Spirit (PMS) subsidy, the reduction of interest rate, and the achievement of an economic growth rate of at least 6%, amongst others.

We opine that the removal of the PMS subsidy will keep inflation elevated in the near term. Furthermore, we expect the planned unification of the exchange rate to attract Foreign Portfolio Investors (FPIs) and Foreign Direct Investors (FDIs), thereby making the achievement of the aforementioned economic growth rate achievable.

Following the securitization of the Ways and Means Loan by the Central Bank of Nigeria (CBN) in April 2023, the recently amended CBN Act 2007 increased the threshold for Ways and Means Loan by the Federal Government from 5% to 15% of the previous year's revenue. **We posit that there is a likelihood of strict adherence to the current threshold of the Ways and Means Loans, given its upward revision.**

Summary of Expectations for June 2023

- ***Headline inflation to remain tilted to the upside.***
- ***Real GDP to decelerate relative to 2022 levels hinged on the contractionary monetary policy.***
- ***An improvement in oil production relative to May, thereby strengthening the external reserve balance and the domestic currency.***

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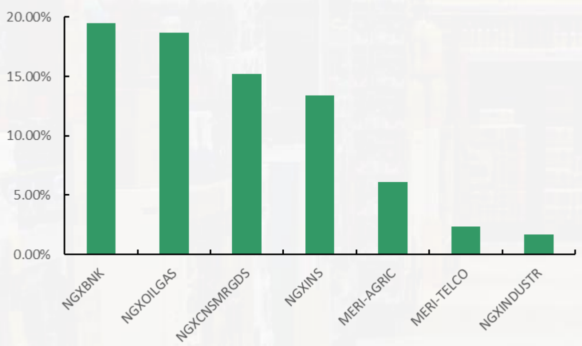
Equities

Unleashing the Bulls into the Greens

Review

The bulls regained control of the local bourse in May 2023 after two consecutive months of decline. The NGXASI advanced by 6.42% MoM (highest monthly gain this year) to reach 55,769.28 points. In the same vein, activities level in the market remained strong as volume traded increased by 18.63% MoM to 12.43bn and market turnover surged significantly by 133.39% to NGN 158.28bn. Similarly, the market breadth reflected the positive performance recording 7.00x vs. 0.86x the previous month.

Chart 3: **Sectoral Performance**



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

Sectoral Symphony- All Ships follow the Tide

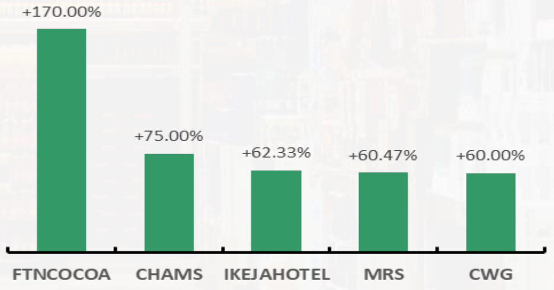
Notably, for the first time in four months, all sectoral indexes recorded gains on a monthly basis- **NGXBNK** (+19.49% MoM), **NGXCNSMRGDS** (+15.20% MoM), **NGXINS** (+13.37% MoM), **NGXOILGAS** (+18.67% MoM), I**NGXINDUSTR** (+1.67% MoM), **Meri-Agric** (+6.08% MoM), and **Meri-Telco** (+2.38% MoM). Investors retained their interests in banking tickers hinged on the positive outlook on the sector; **ZENITHBANK** and **ACCESSCORP** gained +27.19% MoM and +21.18% MoM respectively. The returns of the Industrial goods sector were stifled by a loss of 5.98% MoM in **BUACEMENT** while a 6.00% MoM loss in **AIRTELAFRI** dragged down the performance of the Telco sector.

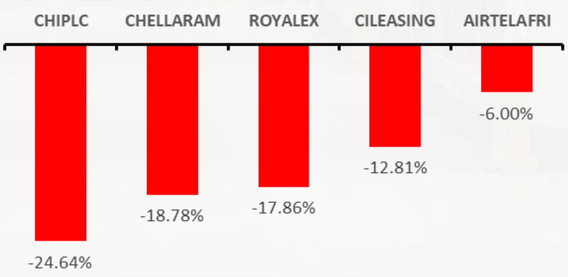
Macroeconomic Deelopments Sparks Positivity

At the tail end of the month just after the 16th president of the country- President Bola Ahmed Tinubu was sworn in, the market rallied with sparks of positivity across all nooks bolstering the Year to Date to +8.77% as of 30th May 2023 (vs +3.36% 26th May 2023).

Sentiments were particularly driven by sheer enthusiasm from the President's inauguration speech which highlighted the expected enactment of pro-market policies expected to spur economic growth and foreign portfolio participation in the market. Overall, the market's performance in May showcased a noteworthy recovery and resilience.

Chart 4: **Top Gainers and Losers for the month**





Notable Occurrences

TRANSCORP successfully emerged as the bidder for the Abuja Electricity Distribution Company (AEDC), solidifying its position as a major player in the Nigerian power sector. This achievement comes on the heels of their impressive portfolio which already includes the Ughelli power plant and the 966MW Afam GenCo. With the addition of AEDC, **TRANSCORP**'s total installed capacity will exceed the cumulative generating capacity of 972MW, accounting for approximately 15.50% of Nigeria's total installed capacity. The market responded positively to this development, with **TRANSCORP** experiencing a significant increase in its share price. The company's share price jumped as high as 32.14% in the days following the announcement to NGN3.06 per share.

Equities

Notable Occurrences

On the other hand, **SEPLAT** was in court for issues surrounding its corporate governance practices. This prolonged saga led to the arraignment of nine key officers of the company, including its CEO, COO, and certain independent directors. The Federal High Court initially ruled against the company, citing allegations of racism and illegal possession of a work permit by the company CEO – Rogers Brown. However, this verdict was subsequently overturned by the Appellate Court. Despite the legal turmoil, there were no sell-offs on the ticker which implies investors' confidence in the company.

In May 2023, interest in oil and gas tickers grew following recent macroeconomic developments (Fuel subsidy removal and the commissioning of the Dangote Refinery). Notably, **CONOIL** (+44.88%), **MRS** (+60.47%), **SEPLAT** (+7.59%), and **TOTAL** (+25.06%) stood out among the companies that garnered increased attention during the month. Remarkably, the sector achieved the highest gain this year, with a notable month-on-month increase of +18.67%.

Key Expectations for June 2023

In our view, the market will keep responding to developments of the new administration and this will keep the bullish momentum on course albeit at a mild pace. We do not rule out the possibility of profit-taking activities as many tickers are trading at their year-high prices. In general, we expect mixed sentiments to prevail in the market for June 2023.

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 %
ETI	12.60	17.88	+42%	1-June-2023	0.51	4.05%
FIDSON	10.10	13.71	+36%	14-July-2023	0.55	5.45%
UBA	9.45	15.16	+60%	17-Apr-2023	0.90	9.52%
MTNN	249.90	301.49	+21%	28-Mar-2023	10.00	4.00%
WAPCO	25.80	28.36	+9.92%	17-Apr-2023	2.90	11.24%

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

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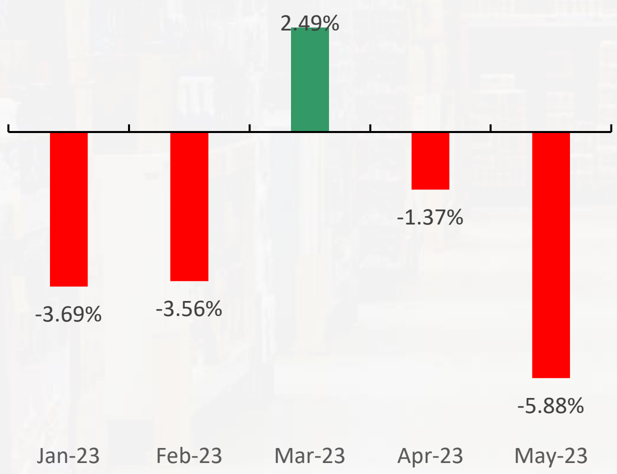
Fixed Income

Investors’ Reaction to Subsidy Removal Mutes MPR Hike

Review

In May, the value of major African bonds declined owing to several vulnerabilities in the countries. This has majorly been the trend in the African bond market this year, primarily due to fiscal sustainability concerns, depreciating currencies, and weak economic growth projections. Consequently, the Bloomberg African Bond Index plunged by 5.88% during the month – its highest MoM decline in 2023.

Chart 5: **Bloomberg Africa Bond Index MoM Change**



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

Conversely, the Nigerian fixed-income market showed some positives during the period. Particularly, the average T-bills and bond yields dipped by 168bps and 14bps to 5.48% and 13.26% in May 2023 at the secondary market, respectively. In the bonds market, we observed increased buying activities on some instruments, including Mar-2024 (+2.90% MoM), Feb-2028 (+1.13% MoM), and Nov-2028 (+0.35% MoM). In the T-bills market, the buying interest was more broad-based as notable price increases were noticed across the yield curve. Higher subscription levels and unmet demand at the primary market primarily drove the price appreciation of these instruments.

As highlighted above, the primary market auctions in the month had a high subscription level. At the T-bills market, a total subscription amounted to NGN2.35trn while a total of NGN324.43bn was offered. Consequently, the 91-Day, 182-Day, and 364-Day instruments declined significantly to 2.29%, 4.99%, and 7.99% (vs 4.50%, 8.00% and 8.99%), respectively. At the bonds auction, a total of NGN360bn was offered, while the subscription was NGN478.92bn. Approximately 70% of the subscription was on the FGN MAR 2050 bond. Thus, the marginal rate for the bond remained flat at 15.80%. However, the marginal rates for the FEB 2028, APR 2032, and JAN 2042 bonds increased slightly by 10bps, 20bps, and 29bps to 14.00%, 14.90%, and 15.69%, respectively.

In the Nigerian Eurobonds market, the mood was relatively quiet for the most part of May as the average yield hovered around the same level as the previous month. However, the President’s declaration to remove the fuel subsidy spurred buying activities on the instruments. Hence, the average yield declined to 9.57% at the end of May (vs 10.23% at the end of April).

Chart 6: **Average Eurobond Yield in 2023**

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

Fixed Income

Key Expectations for June

In June, the prevailing influence on yields is anticipated to be determined by the several factors including the system liquidity. Specifically, the Government has indicated its intention to raise a total of NGN547.10bn (NGN187.10bn T-bills, NGN360.00bn bonds). Considering this, alongside the positive outlook surrounding the new administration, it is plausible that investors will take position in the treasury instruments. Thus, we expect price appreciation on the instruments in the market. Similarly, in the Eurobonds market, we anticipate that the recent suspension of the United States debt ceiling will exert a positive effect on the instruments. Consequently, we posit that the current level opens an enticing opportunity for investors to take positions.

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