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Meristem 2024 Annual Outlook.

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Content Highlights

Executive Summary

The contractionary monetary policies implemented by major economies, including the US Fed, the UK's BoE, and the Euro Area's ECB in 2023, not only led to a significant decline in global inflation to 6.90% (from 8.70% in 2022) but also dampened global economic growth to 3.00% in 2023, (from 3.50% in 2022). Looking ahead to 2024, we anticipate the continued deceleration in inflation (5.80%), propelled by factors like lower food and energy prices and monetary policy-induced pressure. Additionally, we expect a further slowdown in global growth to be influenced by geopolitical crises (current and looming), reduced US household savings, and subdued demand in China.

The Sub-Saharan African region was hit by significant headwinds like political instability and sluggish growth in 2023. Consequently, the IMF estimates a second consecutive year of lower regional growth. We expect a moderate economic boost in the region in 2024, driven by anticipated improvements in the services, construction, information, communications, and technological sectors.

In the domestic landscape, significant policy reforms implemented in 2023, such as currency devaluation, fuel subsidy removal, and the gradual withdrawal of interventions by the CBN in the real sector added pressure on the output growth of the non-oil sector. Also, lingering challenges in the oil sector contributed to sub-optimal production volumes in the year's first half. In 2024, we anticipate a rebound in business activities as the impact of economic reforms lessens. Additionally, we project a modest improvement in oil production volumes, driving overall output for the year. However, the expectation of further Naira depreciation due to FX market volatility poses a concern for this outlook.

We also anticipate a further increase in price levels in 2024 as the factors driving inflation in 2023 persist. The base effect should, however, impact headline inflation towards the end of the year. Considering our expected inflation trajectory in 2024, we expect the monetary policy committee to increase policy rates by a minimum of 200bps and conduct OMO auctions to absorb liquidity.

Post-policy reforms, the Nigerian equities market remained mostly positive in the second half of 2023. With our anticipation of a recovery in business activities and improved economic growth in 2024, we envisage a sustained positive performance for the local bourse in 2024 to also be supported by corporate performance and corporate actions.

For 2024, we project elevated yield levels in the fixed-income market, driven by a potential 200bps rate hike and a stringent liquidity management strategy by the CBN. Our projection is an average T-bills yield within 9.59% - 10.59% and an average bond yield within 15.54% - 16.54%.

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Global Economy

Lingering Crises; Gloomy Optimism

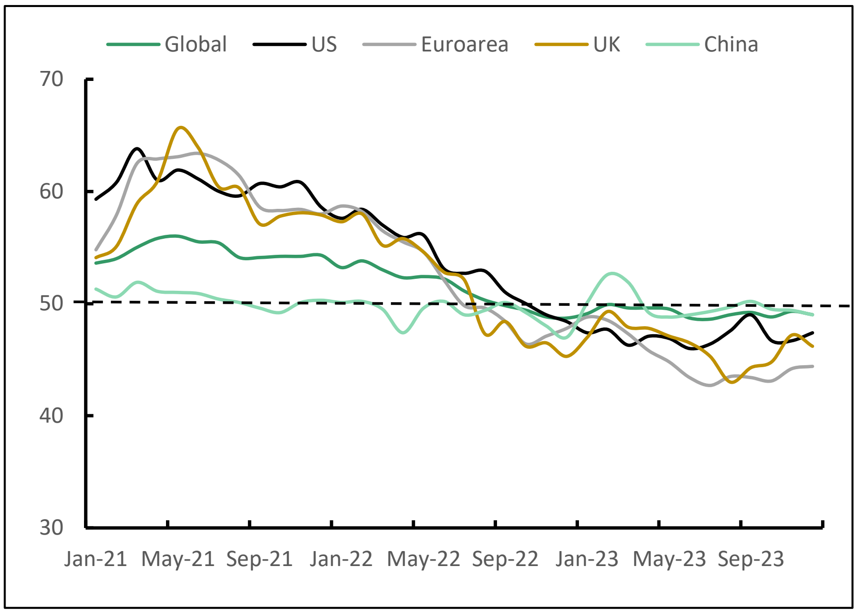
The global economy showed a greater level of resilience than expected in 2023 despite a myriad of challenges, the year started with and others that took root in the year. At least a third of the global economy was expected to experience a recession, and the economy was forecasted to expand by 2.70% in 2023.

The global economy, however, remained on a resilient growth path (although slower than 2022), projected to have ended the year at a 3.00% growth rate according to the IMF. This was buoyed by consumption spending in the US, improvement in services demand in the Eurozone, improvement in global supply chains and the aversion of the financial sector crisis. Also, WHO declared that the coronavirus was no longer a global health emergency which improved international travel. The manufacturing sector, however, witnessed a significant contraction in 2023 as the high cost of living and high-interest rate hindered manufacturing activities. Global manufacturing PMI has remained below the 50pts benchmark since Q3:2022, declining further in 2023 (average of 49.19pts vs an average of 51.25pts in 2022).

In 2024, global growth is expected to slow down, anchored on existing and new challenges. These challenges include: the persistent geopolitical crisis (Russia-Ukraine and Israel-Hamas), the anticipated effect of the rate hike cycle across economies, a slowdown in savings stock for US households, and the continued slowdown in China's growth. Data on Global Purchasing Managers' Index (PMI) further buttresses the weakening growth prospect as it indicates that global PMI declined to an average of 49.21pts in 2023 (vs 53.95pts in 2022).

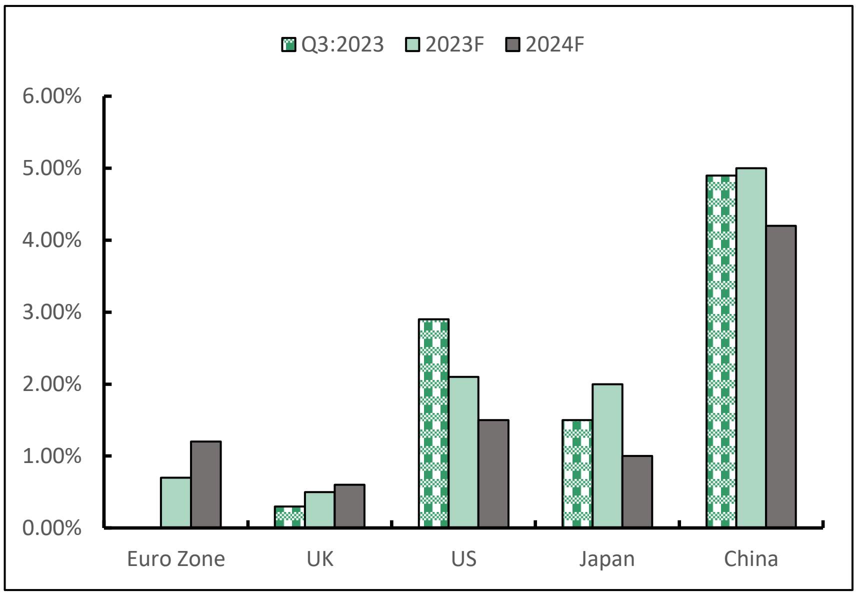
In addition, the IMF projects a deceleration in growth across major economies from 3.50% in 2022 to 3.00% and 2.90% in 2023 and 2024, respectively.

Chart 1: Global PMI (pts) 2021-2023



Source: Bloomberg, Meristem Research

Chart 2: 2023 Actual GDP and Forecast GDP in Major Economies



Source: IMF, Bloomberg, Meristem Research

Navigating Political Crossroads in 2024

With a significant amount of the world's population conducting elections in 2024, global growth prospects would also be largely dependent on the outcome of these elections, given their implications for taxes and fiscal policy. In the US, attention will be focused on the expected return of the Biden-Trump face-off and its impact on the geopolitical tensions (Russia-Ukraine, Israel-Hamas war), the US-China trade war, and domestic policy.

Also, given the need to score political points on de-escalating the cost-of-living crisis, President Biden's actions in 2024 are likely to favour a continued campaign against inflation, which should further diminish the economy's growth prospects in the year. Lastly, raising the country's debt ceiling till 2025 temporarily avoided a default and a government shutdown but points to political dysfunction and volatility, which threatens investors' confidence. Given the US's reserve currency and safe-haven status, we opine that the political uncertainties portends negative signals to investors, especially with the increasing risks of de-globalization.

For the UK, economic growth has not been as resilient as the US economy, but the campaign against inflation has gained significant strides. Thus, actions leading up to the polls would be directed mainly at continuing the fight against inflation, which will likely keep the nation's output growth rate low.

Lags in China to Dampen Growth

The Chinese economy exhibited lower-than-expected growth throughout 2023. This was due to low consumer demand and the persistent crisis within the property sector (which historically propelled China's economic growth). The continuous struggle for liquidity among real estate developers and drag on substantial stimulus policies to boost the economy also impacted the economic performance.

As the second largest world economy, the continuation of China's real estate market decline (typically 25% of its GDP) would have further bearings on global growth in 2024. Also, as a major net exporter of electronic products, cars and machinery (with key trading partners like India, the UK, the US, South Africa and Vietnam), the ripple effect of a slowdown should have repercussions for other economies worldwide.

Thus, the initiatives instituted by the Chinese government to increase demand for housing and rescue its real estate sector provide a significant level of comfort on the country's 2024 growth prospects. These initiatives include a mid-year revision to the central government budget and fiscal deficit target, easing curbs on home purchases, cutting mortgage borrowing costs, and issuing USD137.00 bn in debt to shore up its property market.

Furthermore, the IMF estimates China's economy to have grown by 5.40% in 2023 (up from its earlier projection of 5.00%) but maintains an expectation of lower growth in 2024 (4.20%) on the back of subdued export demand and lingering effects from its property sector.

What Does the War Portend?

Unprecedented levels of geopolitical risk have intensified in recent years, leading to significant uncertainties around supply chains, commodity prices, inflation and overall growth. The ongoing conflict in Europe and the recent upheaval in the Middle East are substantial global concerns.

In our view, the effect of the Russia-Ukraine crisis has primarily waned, and the Israel-Hamas conflict remains largely contained. However, in a scenario where external allies join in to amplify the Israel-Hamas conflict, we expect this to have dire consequences on the oil market, supply chain disruptions, currencies of import-dependent countries and global economic growth at large.

Global Inflation & Monetary Policy

Inflationary Pressures Ease Across Major Economies

The hawkish monetary stance adopted by major economies like the US Fed, the UK's BoE and the Euro Area's ECB pulled inflation to significantly low levels in 2023 (6.90% by IMF estimate vs 8.70% in 2022). The average core CPI for the G10 economies (except for Japan, where inflation remained stubbornly high at 2.80% YoY, owing to cost-push pressures) has fallen to about 3.00% (vs 6.00% in 2022).

While variations exist across economies and regions, the decline is expected to persist in 2024 (5.80%), creating room for rate cuts. The key factors influencing the decline in inflation rates include the fall in food & energy prices and monetary policy-induced pressure. These factors are expected to keep headline inflation even lower in 2024. Additionally, with nominal wage growth slowing down to an average of c.3% in the US, Euro Area and the UK, the chances of a reversal in disinflation are reduced. In the Euro Area, the disparity in inflation among EU members made it challenging to curb inflation to target range using policy rates. Nevertheless, we expect inflation in the region to maintain its downward trajectory.

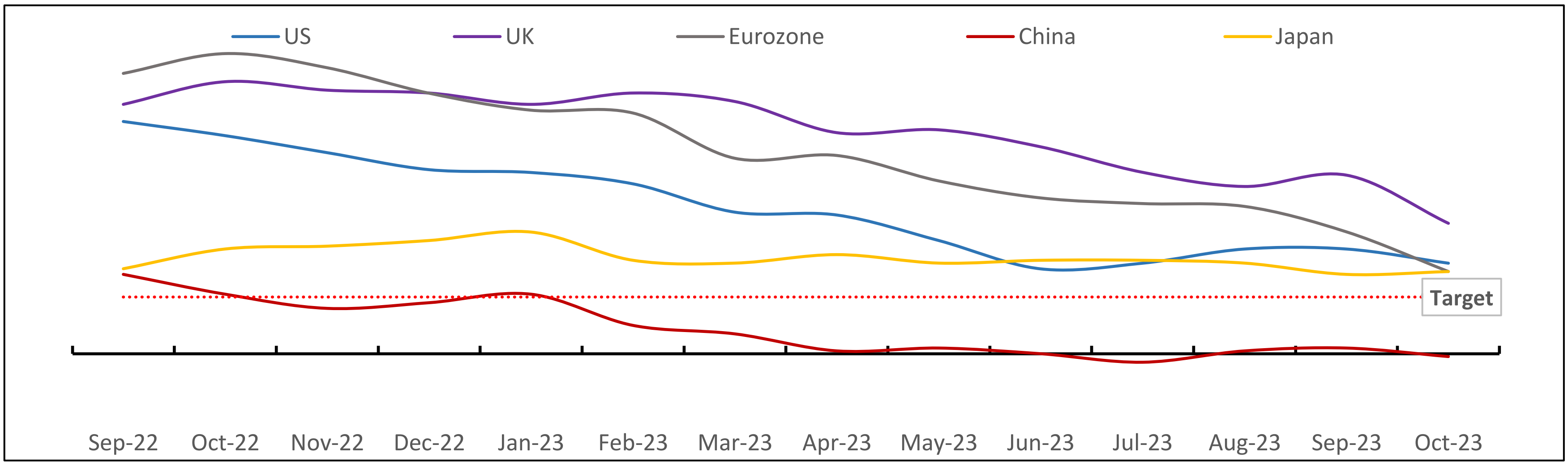
Significant downsides to this projection include supply chain disruptions at the Red and Black Sea (if the Israel-Hamas conflict escalates and a defining factor impacts Russia-Ukraine) and unanticipated shocks to the oil market.

Is the Hiking Cycle at Peak?

Supported by robust labour markets, monetary policymakers mostly sustained their rate hike cycle in 2023 (though slower than in 2022). Broadly in line with our expectations, monetary policy turned accommodative towards the end of 2023, as policymakers opted to pause the pace of rate hikes.

Given the need to maintain the balance between tightening, easing rates and output growth, we expect monetary authorities to adopt a dovish tilt in the latter part of 2024. The possibility of a recession is hinged on the delicate balance between a loose monetary policy, which could counter the winning battle against inflation, and a continued tightening in monetary policy, which could prompt a recession. Thus, the option of rate cuts is unlikely in the first half of 2024 but possible in late 2024. Subsequently, we expect central banks to begin cutting their respective rates towards the second half of the 2024FY unless another significant risk emerges.

Chart 3: Inflation Rates in Major World Economies



Source: *Central Banks, Meristem Research*

Global Trade

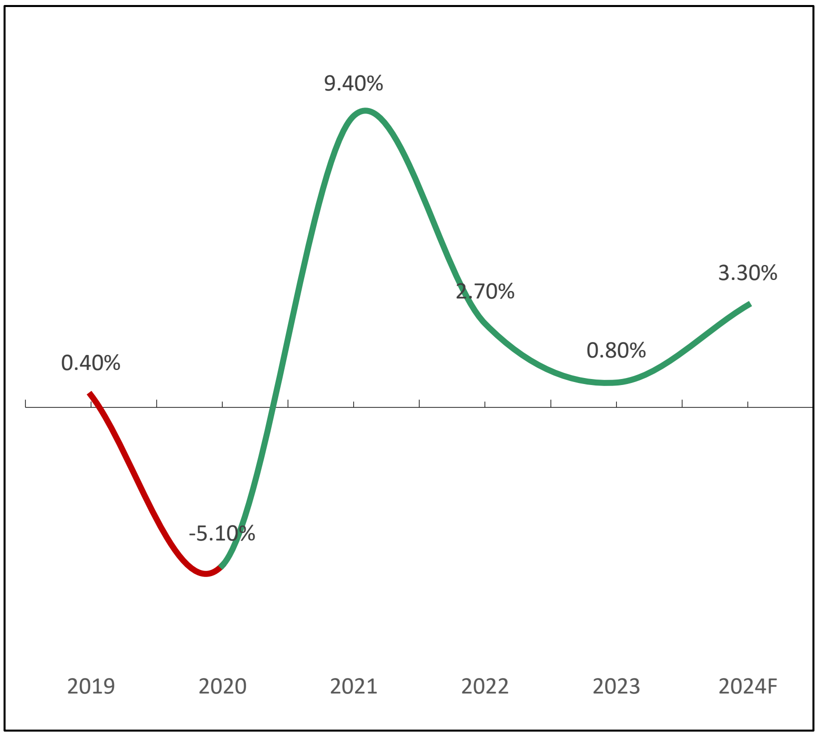
Global Turbulence Slows Trade Recovery

Global trade growth remained dim in 2023 due to inimical factors, including weaker demand in China, geopolitical tensions in the Middle East, and the lingering effects of the Russian war on Ukraine. As a result, The World Trade Organization (WTO) estimates global trade growth to have declined to 0.80% in 2023 (vs 2.70% in 2022). This also reflects the change in consumption patterns for domestic goods and services post-pandemic. Given the strength of the USD as an invoicing currency, its appreciation also made imports more expensive for dependent countries and contributed to the slowdown in trade growth.

The risk of trade fragmentation poses a downside risk to trade growth projections for 2024. WTO's data on trade across regions depicts that the share of partner regions in total bilateral trade increased in the United States, Germany, China, and Japan in 2023 and is expected to persist in 2024 (with the strengthening of BRICS countries' membership).

Also, adverse weather conditions (El-Nino) in major food-producing climes might result in food shortage, especially in the H1:2024. Trade activities should, however, rebound from their 2023 levels, especially for trade in consumer durables and machineries. Expectations to increase China's oil demand should also improve trade growth in 2024. Thus, on this premise, the WTO expects global trade to grow by 3.30% in 2024. While we also expect trade growth in 2024, we opine that the risk is tilted more to the downside, given that most headwinds impacting global trade remain persistent. Thus, we project that global trade will expand by 1.60% in 2024, lower than the WTO's expectation.

Chart 4: Annual Global Trade Growth Rate (2019-2024F)



Source: WTO, Meristem Research

Energy : Price Fluctuations Disrupts Commodities Market

Commodity prices witnessed extreme volatilities in 2023 as different factors and events impacted the markets. In the oil market, prices declined in H1:2023 due to weaker global demand. However, supply shortages in the energy market, stemming from oil production cuts and the ripple effect of geopolitical tensions, spurred periodic hikes in energy prices, especially in the second half.

Majorly, announcements by OPEC+ to cut crude oil supply, including the voluntary cuts by Saudi Arabia and Russia, led to an uptick in prices. Consequently, at the end of Q3:2023, oil prices rose to around 90.00 USD/bbl (vs. 72.00 USD/bbl at the beginning of the year).

Also, the Middle East conflict towards the end of the year contributed to higher prices due to uncertainties about the broader impact of the conflict on global supply. This also resulted in an uptick in natural gas prices by 35.00% in Europe following the shutdown of gas fields in Israel.

On the demand side, the World Bank reports that oil demand increased by 2.30mbpd in 9M:2023 in Emerging Markets and Developing Economies (EMDEs). This was driven by the recovery in China's transportation sector in Q3:2023. However, demand in Europe fell marginally by 0.50% YoY during the period, reflecting lower industrial sector activities and expectations of possible near-term monetary tightening.

For 2024, we expect a blend of factors to affect energy prices. We highlight that OPEC+ decisions on oil production cuts in 2024 will play a key role in determining prices in the near term. Also, we note that geopolitical risks stemming from the Middle East conflict could potentially significantly impact the market if it escalates.

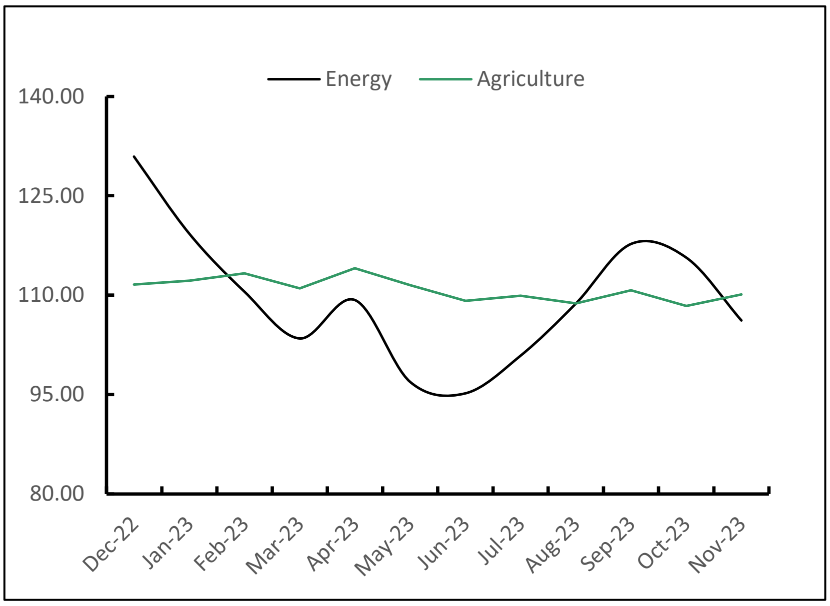
Food Prices to Reach Lower Levels

In 2023, despite the suspension of the Black Sea Grain deal and adverse weather conditions (El Nino), global food prices moderated due to stronger supply growth from other critical suppliers in South America and Asia. This improved supply conditions of crucial commodities led to a decline in their prices- grains (-16.82% YoY), meat (-12.60% YoY), Coffee (-7.29% YoY) and wheat (-19.78% YoY). However, India's export ban on rice during the year kept prices high (+24.89% YoY) due to significantly lower supply as the country is the highest exporter of rice globally.

Other agricultural raw materials like Cotton (-46.62% YoY) and Rubber (-10.83% YoY) witnessed moderate price declines during the year due to weaker global demand. While we maintain an optimistic outlook on food prices in the near term as demand improves across economies, expectations of a stronger El Nino and other extreme weather events might impact the supply of some agricultural products. These, coupled with the possible escalation of the Middle East conflict, pose a downside to our outlook.

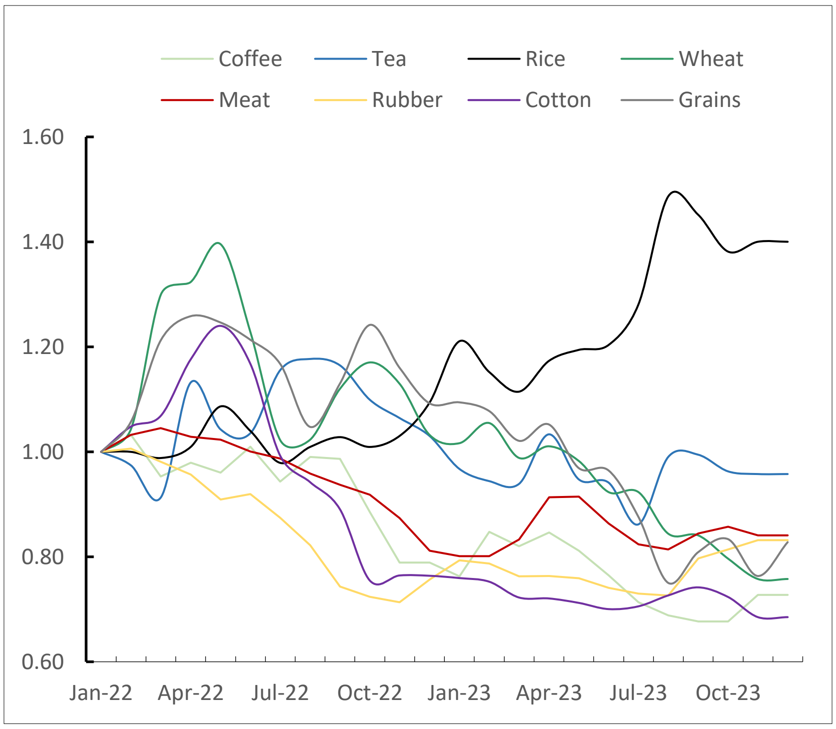
The World Bank projects food prices to decline further by 2.00% in 2024, largely in line with our expectations.

Chart 5: Energy and Agriculture Prices Index in 2023



Source: World Bank, Meristem Research

Chart 6: Commodities Price Movement in 2023



Source: World Bank, Meristem Research

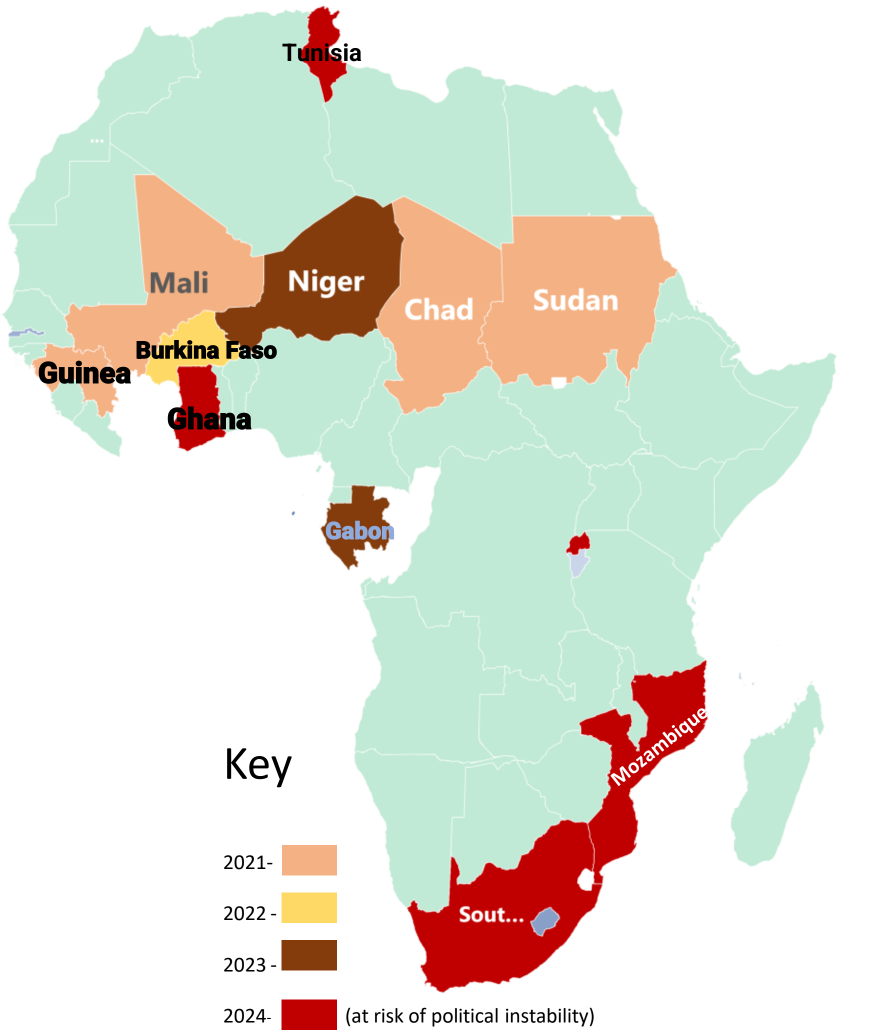
Sub-Saharan Africa

SSA Rocked By Five Cardinal Headwinds

Political instability, declining-but-high inflation rates, sluggish economic growth, rapidly deteriorating currencies, and a humongous debt profile were five (5) major headwinds that defined 2023 for the Sub-Saharan region. The notion that coups were a relic of the past in sub-Saharan Africa (SSA) has been shattered by a recent spate of political upheavals, significant instability, coups and social unrest. The coup d'etat in the Niger Republic marked the eighth such occurrence in the region since 2020 (after Guinea, Mali, Burkina Faso, Chad, Sudan, Niger and Gabon). The Democratic Republic of Congo, Somalia, and Ethiopia also experienced significant political instability, contributing to the region's dimming growth prospects. The escalation of this menace contributed to higher prices of commodities in the domestic market for these countries, resulting in higher inflation levels.

2024 is a year of political transition for many countries within the region. Specifically, there are a series of legislative and presidential elections lined up in Algeria, Burkina Faso, Chad, Ghana, Mali, Mozambique, Rwanda, South Africa, and Tunisia in 2024. These activities are poised to exacerbate the security and political tension across SSA. Thus, given the level of activities expected in the regional political landscape, we expect the instability to persist in 2024.

Chart 7: Political Tension Trend in SSA (2021-2024E)



Source: Meristem Research

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SSA Poised for Modest Growth in 2024

Due to the high policy rates across several countries, weather conditions affecting agricultural output, political instability and a slowdown in global economic growth, output growth across the region slowed in 2023. The IMF estimates that the region's growth rate declined for the second consecutive year to 3.30% in 2023 (from 4.00% and 4.70% in 2022 and 2021, respectively).

South Africa's GDP in Q3:2023 contracted by 0.20% due to persistent rotational load shedding, and logistical constraints triggering a decline in five major economic sectors (agriculture, manufacturing, construction, trade, and mining and quarrying). Also, Angola's economy stagnated in Q2:2023, following a marginal 0.30% rise in the preceding quarter. The crucial oil sector in Angola declined by a milder rate of 2.90% in Q2, compared to the sharp 8.90% decline in Q1:2023. Conversely, the real GDP in Kenya (5.90%), Nigeria (2.54%), Rwanda (7.50%), and Ghana (2.00%) increased in Q3:2023 due to the strengthening service and agricultural sectors and lower contraction in the oil sector.

We project a moderate bolstering of economies in the region in 2024. This outlook is rooted in our expectation of enhanced performance in the region's services, construction, and information communications & technological sectors. Furthermore, our anticipation of peaking inflation in most countries reinforces this positive outlook. However, we acknowledge potential risks to this projection, including regional political tensions and the likelihood of elevated borrowing costs as monetary policy authorities endeavor to align inflation with central banks' objectives.

Inflation is Expected to Peak in 2024

In the SSA region, price levels declined but remained high in major economies (countries like Ghana, South Africa, Ethiopia, and Rwanda recorded moderations in their inflation levels). However, amongst the 45 countries within the region, 14 countries maintained double-digit inflation rates, with many countries having their current inflation rate above their target ranges. Others like Nigeria (+688bps), Angola (+433bps) and Zambia (300bps) recorded higher inflation numbers in 2023, underscoring the prevalent price pressures in the Region.

To combat the surging price pressure, monetary authorities in many countries continued monetary tightening, with policy rates sitting at multi-decade highs. Notably, Ghana, Nigeria, Angola, South Africa and Rwanda hiked their policy rates by 300bps, 225bps, 150bps, 125bps, and 100bps to 27.00%, 18.75%, 6.50%, 8.25%, and %, in 2023, respectively.

Despite the risk of higher commodities prices from the political tension in 2023, we anticipate that many countries across SSA will peak the inflation rate. This is premised on declining global food prices, continuous monetary tightening, lower imported inflation, and projected mild currency appreciation. Our projected disinflation trend is supported by the IMF's estimate of a 270bps decline in the average inflation rate to 13.10% in 2024 from 15.80% in 2023.

Table 1: Expected Monetary Policy Action and GDP Growth for Selected SSA Countries

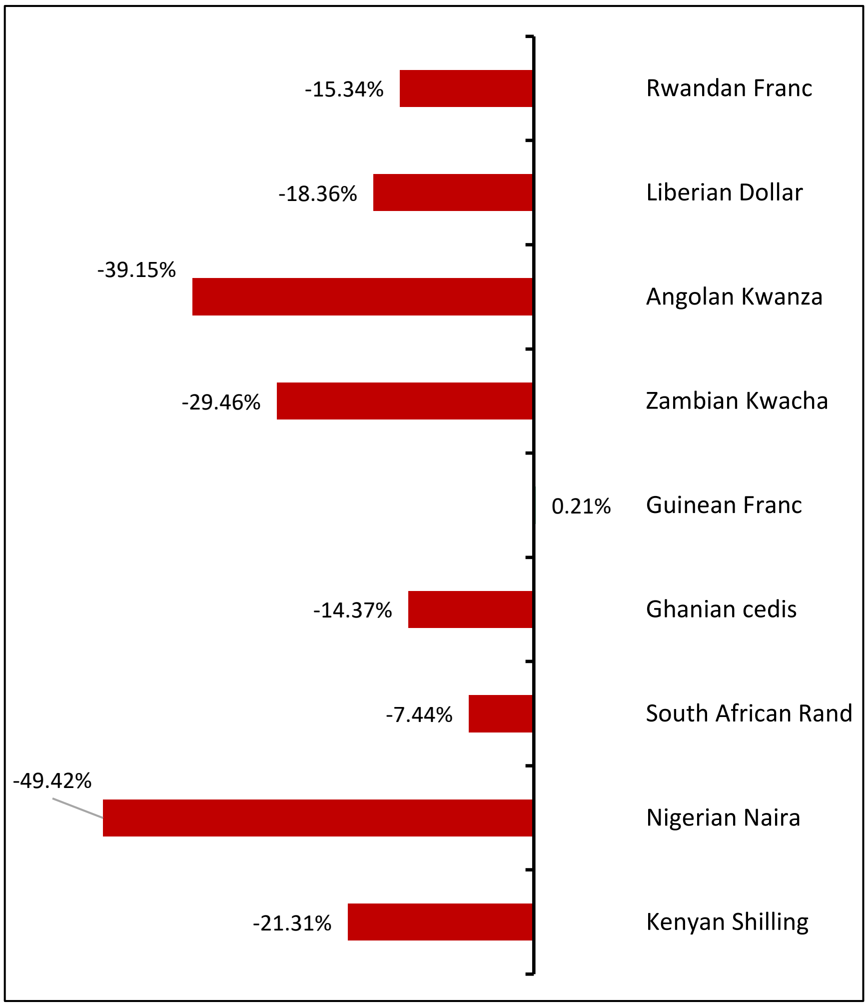
Country	Inflation (Dec'22)	Inflation (Nov'23)	Inflation Target	Monetary Policy (2023)	Expected Monetary Policy Action (2024)	GDP Growth Expectation (2024)
Angola	13.86%	18.19%	19.50%	150bps ↓	HOLD →	Positive
Ghana	54.10%	26.40%	6.00-10.00%	300bps ↑	100 – 200bps ↑	Positive
Kenya	9.10%	6.80%	2.50-7.50%	375bps ↑	HOLD →	Positive
Nigeria	21.34%	28.20%	6.00-9.00%	225bps ↑	100 – 200bps ↑	Positive
Rwanda	31.70%	9.40%	2.00-8.00%	100bps ↑	50 – 100bps ↑	Positive
Senegal	12.80%	0.90%	1.00-3.00%	75bps ↑	HOLD →	Positive
South Africa	7.20%	5.50%	3.00-6.00%	125bps ↑	HOLD →	Positive
Zambia	9.90%	12.90%	6.00-8.00%	200bps ↑	50 – 150bps ↑	Positive

Source: *IMF, Bloomberg, Meristem Research*

Currency Crisis Worsens Growth Prospects

Despite the restrictive monetary stance adopted regionwide, the currencies of many countries depreciated rapidly against the USD during the period. Particularly, the rate hikes the Federal Reserve implemented and certain idiosyncratic factors in specific countries contributed heavily to the immense pressure on exchange rates. Notably, the Nigerian Naira, Angolan Kwanza, Zambian Kwancha, Kenyan Shilling, and Congolese Franc are major currencies that recorded the heaviest losses against the USD in 2023. In 2024, we expect mild appreciation across many SSA countries' currencies against the USD. This expectation is premised on estimated decline of the USD. Furthermore, the expected rate hikes from some monetary authorities should support SSA countries' local currencies.

Chart 8: Major Currencies in SSA Depreciated Against USD in 2023



Source: Bloomberg, Meristem Research

Debt Dilemma: The Ongoing Struggle

Three years after the global pandemic (COVID-19) outbreak that brought the world to its knees, SSA countries continue to grapple with elevated debt burdens. This dilemma is further worsened by the high-interest rates in the international capital market, limiting the refinancing options available to these SSA countries. As a result, some countries have resorted to debt restructuring and default on principal and interest repayments. This has also dissuaded SSA countries from new Eurobond issuance, with no issuance in 2023 (compared to USD14bn in 2021 and USD6bn in Q1:2022).

Moreover, the lower revenue-generating ability that has plagued many countries within the region has made them more reliant on borrowings (both domestic and external means) to finance fiscal deficits. Against this backdrop, fiscal sustainability metrics have rapidly deteriorated. According to the IMF, the average public debt ratio in SSA has almost doubled in just a decade— to 56% of GDP in 2022 vs 30% of GDP at the end of 2013

The straining situation has affected countries including Ghana, Zambia, and Ethiopia – all with recent cases of default and looming default. More recently, Ethiopia missed a USD33mn coupon payment on its USD1bn Eurobond, following bondholders' rejection of proposals to extend the repayment period and lower interest rates. Zambia also faced setbacks from creditors, who objected the move to restructure its USD3bn international bond. Also, Tunisia is traversing a similar path, facing a USD3.90bn Eurobond repayment in 2024. For Ghana, it missed settling a USD40.60mn coupon payment on its USD1bn 2026 Eurobond. However, the country made significant progress in agreeing with its external creditors to restructure USD20bn external debt.

Therefore, there is heightened concern about SSA countries meeting their debt obligations (especially external debt) in 2024. As it stands, there is an estimated USD9.65bn Eurobond maturity scheduled in 2024. Notably, countries like Tunisia, Zambia, Kenya, and Mozambique pose concerns as potential candidates for default.

Despite legitimate concerns of a likely default for Kenya, our analysis of the country's reserves-to-debt cover at 2.71x indicates that its default risk remains manageable. Furthermore, its existing relationship with multilateral lenders provides comfort for cash inflows towards the redemption of its USD2bn Eurobond. Successfully clearing the 2024 debt could alleviate external pressures for Kenya, with the subsequent Eurobond repayments of USD1.90bn not due until 2027-28, potentially restoring yield spreads to normal levels.

SSA countries must prioritize fiscal policies that enhance revenue collection in response to escalating financing requirements, surging interest rates, and low revenue-to-GDP ratios. This entails broadening the tax base, concentrating on capital expenditure, and embracing a comprehensive management approach. By adopting these strategies, countries can assess and mitigate risks while working towards achieving sustainable debt levels.

Table 2: Default Risk Estimate for Selected SSA Countries

Country	Eurobond due in 2024 (USD'bn)	2024 Coupon Payment (USD'bn)	Reserves (USD'bn)	Reserves-to-Debt Cover	Default Risk
Senegal	0.50	0.26	3.60	4.73x	Low
Kenya	2.00	0.51	6.80	2.71x	Moderate
Ethiopia	1.00	0.07	1.00	0.94x	Defaulted
Ivory Coast	0.75	0.54	3.40	2.64x	Moderate
Nigeria	Nil	1.59	33.04	20.78x	Low

Source: Bloomberg, Meristem Research

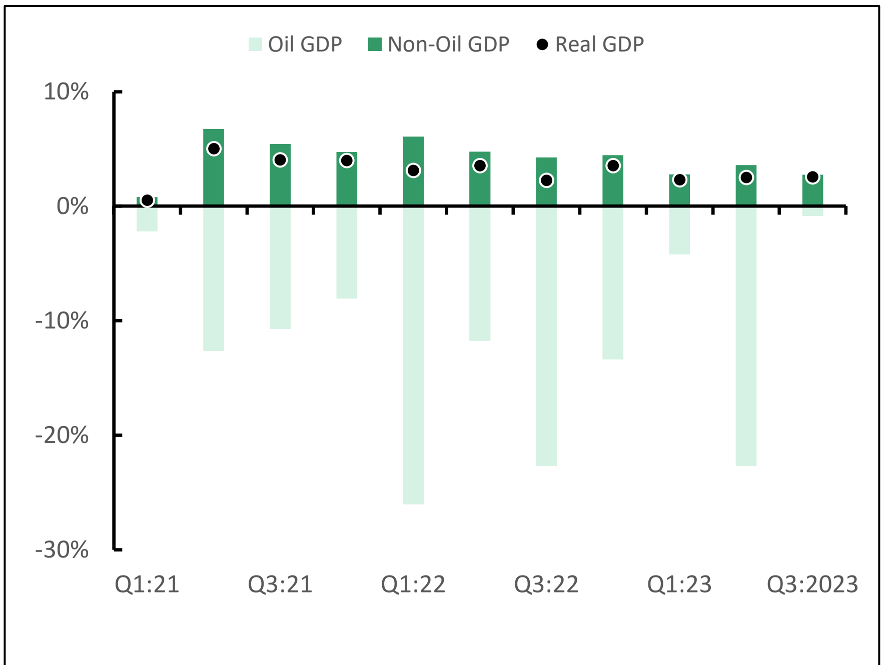
Domestic Economy

Enhanced Growth Prospects for Nigeria's Economy in 2024

The Q3:2023 GDP report by the National Bureau of Statistics (NBS) revealed that Nigeria's economy expanded by 2.54% YoY—an improvement from 2.25% YoY recorded in Q3:2022 and 2.51% YoY in the previous quarter (marking the 12th consecutive quarter of economic expansion). This growth was driven by a notable recovery in the oil sector and the continued resilience of the nation's non-oil sector.

However, output growth in Nigeria is expected to decline for the second consecutive year due to the numerous challenges the economy faced in 2023. Firstly, significant policy direction changes and noteworthy macroeconomic events occurred (especially in the second half), inhibiting growth in the non-oil sector. Also, suboptimal production volumes in the first half of the year impacted growth in the oil sector.

Chart 9: Real GDP Growth (YoY) 2021-2023



Source: NBS, Meristem Research

A Renaissance in Nigeria's Oil Sector.

Due to persistent challenges, including pipeline vandalism, illegal oil bunkering leading to the Rumuekpe-Nkopu explosion, oil theft, and the PENGASSAN strike in Q2:2023, the oil sector's output in the first half of the year declined by 8.97% YoY. However, in Q3:2023, the oil sector recorded a lesser contraction of 0.85% YoY (vs 22.67% YoY in Q3:2022). This comes on the heel of a surge in the average oil production by 18.17% YoY to 1.45 mbpd in Q3:2023, marking the sector's most robust performance since Q2:2020. In our Q3:2023 report, we highlighted some factors propelling the increase in oil production volumes for the quarter. This positive momentum in Q3:2023 contributed to the sector's overall 9M:2023 performance, elevating the average oil production volume to 1.46 mbpd (from 1.38 mbpd in 9M:2022).

Given the commencement of operations of the Dangote oil refinery in December 2023, NNPCL's resolution of the PENGASSAN strike (expected to lead to the restoration of c.275,000 bpd) and expected low base effect in Q4:2022, we expect the oil sector to return to growth in Q4:2023. However, the decline witnessed in the first half is expected to keep the sector in a contraction for 2023. We also note that oil production would remain shy of the country's OPEC+ production quota of 1.74mbpd based on existing structural challenges in the sector.

Looking ahead into 2024FY, barring any significant unprecedented or unexpected shock to the sector, we expect oil production to be higher at 1.55mbpd (vs 1.46mbpd 2023), premised on several factors. We envision the federal government's dedicated efforts to improve output will be crucial in enhancing oil production.

Strategic initiatives, such as introducing the Nembe oil grade to the global market, combined with intensified efforts to curb oil theft, are poised to boost production significantly.

Additionally, noteworthy advancements in the oil and gas sector, such as Nigeria's USD 533.00mn memorandum of understanding with Saudi Arabia, the ongoing USD 2.80bn Ajaokuta–Kaduna–Kano gas pipeline project by Oilserve Limited, and the commencement of operations at the Dangote oil refinery in December 2023, are anticipated to serve as critical drivers of progress in the country's oil and gas sector in the medium to long term. Furthermore, we note that the federal government's heightened focus on expanding the country's natural gas production and utilization (evidenced by various agreements signed with international companies and countries, including Indorama Eleme Petrochemicals Ltd and Germany) is likely to be instrumental in propelling the output for Nigeria's oil and gas sector in 2024.

Lastly, we project that the low base effect will also be reflected in the oil sector growth numbers (especially in the first half of 2024).

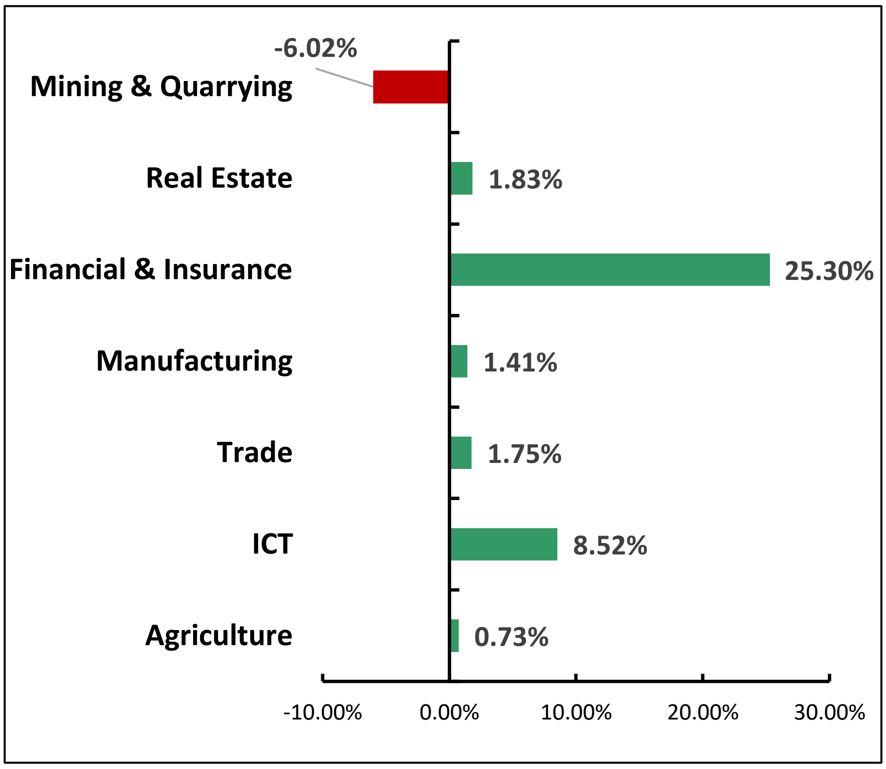
A Cautious Outlook for the Non-Oil Sector Amidst Sectoral Dynamics

While the non-oil sector has demonstrated resilience, maintaining its growth trajectory, major policy reforms implemented during the year, including currency devaluation, fuel subsidy removal, and the gradual phase-out of interventions by the CBN in the real sector, exerted pressure on its output growth in Q3:2023. Hence, the non-oil sector grew by 2.75% YoY, slower than Q3:2022 and Q2:2023 (4.27% and 3.58%, respectively). Specifically, growth in the manufacturing sector was subdued throughout the year, primarily due to the unfavourable operating conditions experienced by manufacturers.

In Q3:2023, slower growth was recorded in the manufacturing sector (0.48% YoY, primarily anchored on a low base effect in Q3:2023) due to the impact of high inflation on input and operational costs. According to CBN estimates, the Purchasing Managers' Index (PMI) also declined to 45.50pts (from 53.07pts in Q3:2022 and 50.40pts in Q2:2023).

Similarly, the agricultural sector's growth slowed to 1.30% YoY from 1.50% in Q2:2023 due to persistent challenges in the agricultural value chain (such as supply chain disruptions and infrastructural deficits) that continue to plague the sector. Also, the ICT sector faced notable lags, with growth declining to 6.69% YoY from 10.53% (Q3:2022) to 8.60% (Q2:2023). On the positive side, the financial and insurance sector expanded significantly by 28.21% YoY (from 12.70% in Q3:2022). This sector's growth is mainly attributable to the increase in loan books during the period (average of 20.69% YoY across major financial institutions) and digital banking. We posit that the gains realized from the FX revaluation positively impacted the banks' ability to grow their financial assets. Accordingly, for Q4:2023, we expect the continued depreciation of the Naira to drive positive performance further in the financial and insurance sector.

Chart 10: Growth by sector (9M:2023)



Source: NBS, Meristem Research

We expect a further decline in output growth from the non-oil sector in Q4:2023 (manufacturing, agricultural, trade and transportation sectors). Lower PMI data for Q4:2023 indicates a contraction, driven by a significant decrease in new business, representing the most pronounced downturn since the cash crisis in Q1, as both output and new orders declined significantly. Thus, we revised our 2023 growth forecast for the country's economy to 2.58% (from 2.94%). Also, the World Bank and the IMF revised their 2023 growth expectations for Nigeria downward to 2.90%, attributing the adjustments to the sustained depreciation of the naira and suboptimal production volumes in the oil and gas sector.

For 2024, we expect a recovery in business activity as the impact of the economic reforms wane. Given the administration's planned achievement of USD1.00trn (throughout its tenure), we foresee a rebasing of the GDP basket in 2024. We also expect an expansion of output coverage to include aspects of sectors not included in the 2009 construction. A significant downside to the expectation would be further expectations of Naira depreciation, given the volatility in the FX market. We outline possible drivers and drags to growth in 2024 in the table below.

Table 3: 2024 Outlook for Key Sectors (c. 85% of GDP)

Sector	% of GDP	Drivers	Drags	Outlook
Information and Communication	16%	Adoption of 5G network, increase in subscriber base.	Exchange rate, high borrowing cost.	Bullish
Trade	15%	Increasing free and bilateral trade and zones agreements (AFCTA and LFTZ), bilateral trade agreements, standardized commodity exports.	Increase in electricity tariff, PMS prices, minimal cash crunch.	Modest
Mining and Quarrying	6%	Government efforts to improve production, increased rig count and improved production volumes, fuel subsidy removal, Dangote Refinery operations, and increased industrial investment.	Pipeline theft and vandalism, challenges with sourcing FX for importation.	Bullish
Agriculture	29%	Backward integration, Improved commodities market and standards, government subsidy on agricultural inputs, low base effect from prior period	Unfavourable weather conditions, insecurity in food-producing regions and persistent infrastructural challenges.	Modest
Manufacturing	8%	Recovery from adverse effect of policy reforms, encouragement of local manufacturing	Increasing inflationary pressures, high interest rate, FX sourcing for importation, limited port access.	Bearish
Real Estate	6%	Increased allocation for capital expenditure in the 2024 budget and PENCOM's guideline, allowing the use of 25% of retirement savings balance for residential mortgage equity.	High interest rate, reduced purchasing power due to inflation.	Bullish
Financial and Insurance	4%	Sustained technological and digital advancement, increased underwriting profitability, and FX revaluation gains.	Increase in Non-performing loans.	Bullish

Source: Meristem Research

Consumption Expenditure Expected to Drive Growth

In 2023, consumption expenditure weakened despite the increase in government expenditure (11.50%YoY) on electioneering activities in the year, as the cash crunch witnessed in the first quarter impacted household consumption (-12.30% YoY), leading to a 10.38% decline in real consumption expenditure. Its contribution to GDP also waned to 60.61% (from 70.85% in H1:2022).

On the other hand, real disposable income increased by 8.79% YoY in H1:2023 despite rising prices in the economy, exchange rate devaluation and FX illiquidity, removal of fuel subsidies and the upward review of electricity tariffs. This uptick was mainly driven by higher compensation of employees (+17.32% YoY). In our view, the decline in the unemployed and underemployed population based on official unemployment figures as of Q2:2023 (to 4.20% in Q2:2023 vs 5.30% in Q4:2022) is a major catalyst spurring this marginal uptick in disposable income. For the second half of 2023, we estimate an increase in disposable income on the back of the Federal government's monthly conditional cash transfer of NGN25,000 to vulnerable households and salary increments across private companies to augment the rising cost of living for their workers.

Going into 2024, we expect consumption spending to improve. Firstly, consumption spending in Q1:2024 should increase compared to Q1:2023 due to the low base effect in the period. Also, we expect increased oil receipts (due to expected higher production volumes) and government spending on improving specific sectors of the economy to spur growth in 2024.

The Federal government's provisional wage increment of NGN35,000 for all federal government workers (to end in March 2024) and proposed minimum wage increase will also increase disposable income and consumption spending in 2024. Lastly, we envisage a decline in headline inflation towards the second half of 2024 alongside the effect of the projected easing of the MPR in the same period.

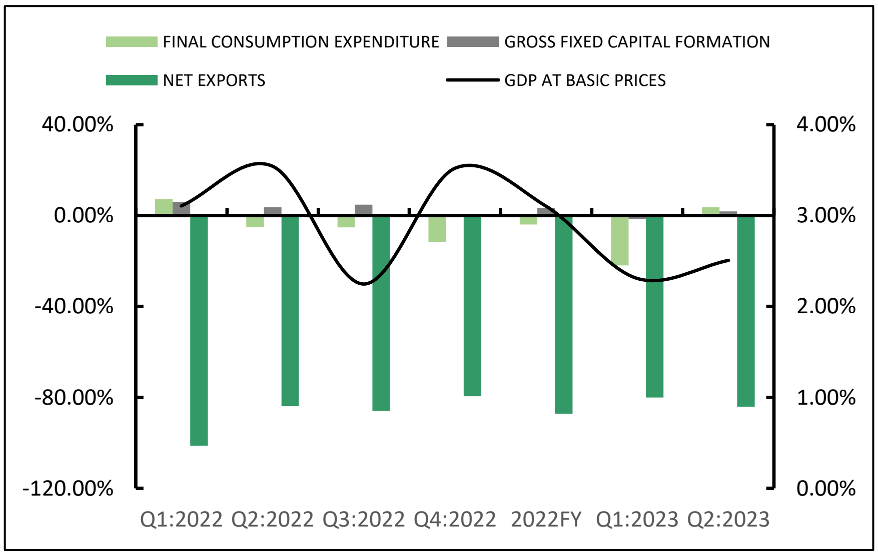
We, therefore, expect the improvement in total consumption to support output growth in 2024. Downsides to this outlook, however, include the increase in unemployment and underemployment, as well as another unanticipated shock to household consumption (like the cash crunch event of Q1:2023).

Investment Spending also Remains Low

Investment spending is essentially gross capital formation, which refers to expenditure aimed at increasing the stock of real capital in the economy. In Nigeria, investment spending accounts for c.16% of real GDP. This remains low due to exchange rate volatility and poor infrastructure, limiting capital investment into the country. Anchored on the significant reduction in investment in machine and equipment (-33.48% YoY), research and development (-1.86% YoY) and inventory (-23.75% YoY), investment spending declined marginally by 1.45% YoY in H1:2023. This is despite increasing access to credit facilities in the economy with higher net domestic credit (+35.99% YtD).

For 2024, we anticipate an increase in production level, industrial activities and construction across sectors, which should positively impact investment spending.

Chart 11: GDP and Expenditure Growth (YoY)



Source: NBS, Meristem Research

Inflation & Monetary Policy

Impact of Policy Reforms Expected to Wane

Broadly in line with our expectations at the start of the year, headline inflation sustained its upward trajectory through 2023, fueled by existing and new issues impacting price levels. As with previous years, insecurity in food-producing regions, structural challenges within the agricultural value chain, adverse weather & rainfall conditions and persistent FX challenges contributed to higher prices in both the food and core indices. Also, new reforms such as removing the petroleum subsidy bill (which led to higher transportation costs), the ensuing depreciation of Naira due to the unification of FX windows, spending during the election period, and increased electricity tariffs.

On the back of the aforementioned factors, headline inflation increased to its 18-year zenith at 28.20% in November 2023 (from 21.82% in January), food inflation increased significantly to 32.84% (from 24.32% in January), and core inflation increased to 22.38% (vs 18.88%). Moreso, President Tinubu declared a state of emergency regarding food security in Nigeria over its rising cost and growing unaffordability for vulnerable households.

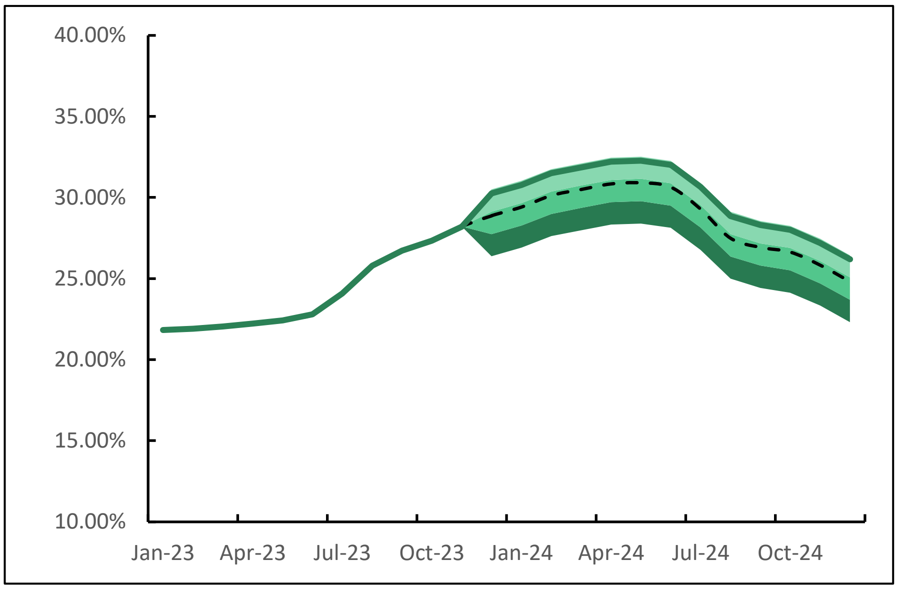
On a month-on-month basis, the food index peaked at 3.87% MoM in August 2023 (its highest monthly increase since June 2010). However, a shift occurred in September as the rate decelerated to 2.45% MoM, attributed to an augmented food supply during the harvest season, which started in September. This trend was short-lived, as the month-on-month food inflation rebounded to a 2.42% increase in November in response to heightened demands associated with year-end festivities.

We project that price levels are likely to rise further in 2024 as the factors that contributed to the upward trend in inflation during 2023 persist.

The continued depreciation of the Naira (to a range of NGN892.80 – NGN924.94/USD in the official market) in 2023, higher PMS prices, poor road infrastructure and continued pressure on the food index from lingering agricultural challenges and expected food shortage are factors likely to worsen price levels in 2024 .

However, recent developments, such as the acquisition of a USD163.00mn loan from the African Development Bank to support wheat production, the Federal government's directive to the Ministry of Agriculture to reduce input prices for farmers ahead of the planting season, and other proposed government schemes to address food insecurity, should contribute to an easing in the trajectory of the food inflation uptrend in the mid to long term. Furthermore, we project that the high base effect from 2023 will moderate inflation figures in the second half of 2024.

Chart 12: Trend in Inflation % (Historical and Forecast)



Source: NBS, Meristem Research

A Pragmatic Policy Path in Latter 2024

Nigeria's monetary policy in 2023 remained focused on ensuring price stability as the monetary authority raised interest rates by 225bps (25bps higher than our expectation of 200bps), adjusted the asymmetric corridor (to +100/-300bps around the MPR from +100/-700bps around the MPR), and removed the NGN2.00bn limit on Standing Deposit Facility for banks.

Also, as anticipated in our half-year outlook, we note the return of the Open Market Operation (OMO) auction to mop up system liquidity after an eight-month pause alongside a Cash Reserve Requirement Debit. This is unsurprising given the persistent rise in price level and increase in money supply: broad money supply (M3) at +26.43% YtD, credit to the private sector at +41.06% YtD, credit to the Government at +28.07% YtD, and net domestic credit at +35.99% YtD.

The CBN also moved to improve stability in the foreign exchange market by clearing a portion of the existing backlogs of matured Non-Deliverable Forwards (NDF), lifting the 8-year-long restrictions on some 43 items, allowing increased access to the official foreign exchange (FX) window.

Considering the expected trajectory of inflation in 2024, we expect monetary policy authorities to raise the MPR further by a maximum of 200bps. We also expect more OMO auctions, which would mop up liquidity and attract foreign inflows into the economy, especially given the CBN governor's forward guidance of likely holding only four meetings in 2024. Furthermore, global monetary authorities are likely to start cutting rates in the second half of 2024, thus creating an opportunity for emerging markets to attract foreign investors. This gives the monetary authority further impetus to raise the monetary policy rate.

However, we expect the monetary policy committee to adopt a HOLD stance towards the end of 2024 as policy measures to cushion inflationary pressures are expected to take effect. Lastly, we do not foresee a shift toward a more expansionary policy rate stance (rate cuts) until 2025, barring any economic shocks that warrant otherwise.

Inflation Scenario Analysis

Bull Case – 26.11%

- Improved security in food producing regions.
- Appreciation of the naira against the dollar.
- Adequate rainfall, no drought and flooding occurrences.
- Increased investment in the agricultural sector's infrastructure.
- Tighter than expected monetary policies.

Base Case – 28.61%

- Insecurity in food producing regions persists.
- Deficient agricultural sector infrastructure.
- Continuous depreciation of the naira against the dollar.
- Higher transportation costs
- Stable global commodities prices.

Bear Case – 31.61%

- Escalation of global or domestic geopolitical tensions.
- Unfavourable weather conditions.
- Increment of minimum wage.
- Surge in global commodities prices.
- Earlier than expected adoption of accommodative policy stance

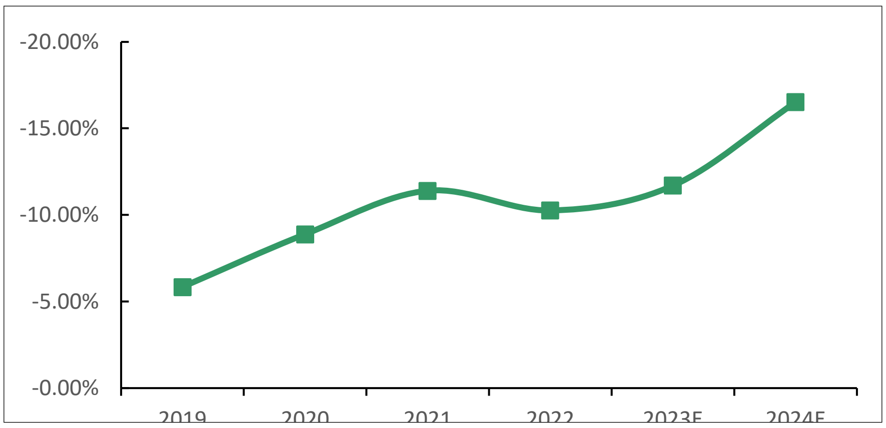
Fiscal Policy & Debt

Rising Burdens: Fiscal Pressures and Implications

An assessment of the provisional budget performance report for the first nine months of 2023 reveals a higher revenue performance than previous years, mainly buoyed by non-oil revenue and grants. Representing 110.56% of the 9M pro-rated budget, Federal government revenue (excluding GOE) for the period settled at NGN7.15trn, significantly higher than the budgeted (NGN6.47trn) as non-oil revenue (NGN1.86trn vs NGN987.28bn) and grants (NGN1.04trn vs NGN32.27bn) came in higher. However, the oil revenue (-15.30%) continues to fall short of the revenue target as in previous years.

Expenditure, on the other hand, was significantly below budget on the back of low capital expenditure (NGN1.47trn vs NGN5.97trn budgeted) and non-debt recurrent expenditure (NGN4.73trn vs NGN6.99trn budgeted) in the period. Given the higher revenue and lower expenditure, the current budget deficit as at 9M:2023 stands at NGN4.05bn (vs NGN10.33trn budgeted). Although crude oil prices were lower in Q4:2023 (compared to the preceding quarters), we see oil revenue increasing in the fourth quarter of 2024 on the back of higher production volumes. However, we project that the fiscal deficit would widen to NGN7.13trn by 2023FY, given the current trajectory, while the fiscal deficit to GDP is expected to increase to 12.94%.

Chart 13: Fiscal Deficit to GDP % (2019-2024E)

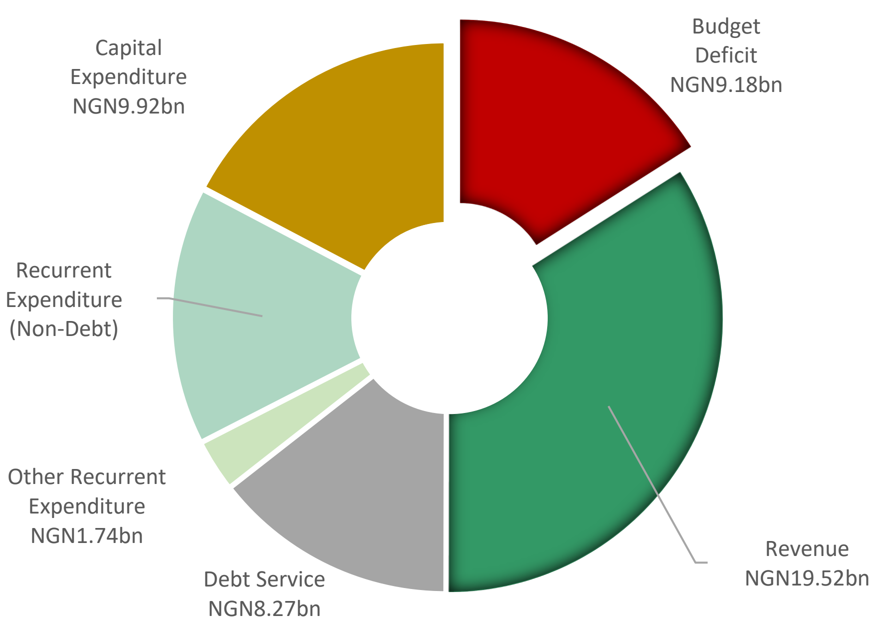


Source: Budget Office, NBS, Meristem Research

The 2024 Budget- A Balloon of Hope

In its latest budget passed by the Senate, the Federal Government plans to spend NGN28.66trn in 2024, which is 15.47% higher than the 2023 budget (plus supplementary).

Chart 14: 2024 Budget and its Underlying Assumptions



Source: Budget Office, Meristem Research

The proposed allotment of 31.99% of the entire budget to capital expenditure reflects the same dance of budget allocations in previous years (though it is 15.33% higher than 2023's capital expenditure budget). This demonstrates the lack of distribution to more sustainable revenue mechanisms. The table below shows critical sectoral allocations in the budget;

Table 4: Sector Allocation in 2024 Budget

Sector	Indicated Allocation (%)	Comment
Healthcare	4.28%	The allocation shows a 14.17% increase from the 2023 budget but remains lower than last year's allocation.
Education	5.01%	The allocation marks a 33.71% increase from the 2023 budget, with a higher allocation from 4.34% last year.
Defense	5.50%	The allocation shows a 14.06% increase from the past year but remains lower than 2023 budget allocation.
Infrastructure	2.29%	This accounts for a meagre 2.29% of total expenditure, although marking a 22.97% increase from the previous year's allocation.

Source: Budget Office, Meristem Research

Table 5: 2024 Budget Assumptions

Oil Price	USD77.96/bl
Exchange Rate	NGN800/USD
Oil Production Volume	1.78mbpd
Inflation Rate	21.40%

Source: Budget Office, Meristem Research

Nigeria's budget assumptions typically have the challenge of being overly optimistic, and the 2024 budget is no different. We opine that achieving the set targets would present a rather arduous challenge to the government.

Going by the 2023 revenue performance so far, the proposed revenue projection of NGN19.52trn would be largely unattainable. Several factors contribute to this improbability, including the unlikelihood of meeting the targeted oil production volumes, given the country's failure to recover to pre-pandemic numbers due to oil theft and pipeline vandalism issues. Moreover, OPEC's recent adjustment of Nigeria's production quota to 1.5mbpd also limits the country's production capacity for 2024.

Conversely, regarding non-oil revenue, the proposed tax committee's initiative to harmonize across all levels and broaden the tax bracket might help shore up total government revenue. We believe the government must improve revenue generation, address fiscal leakages, and ensure more efficient spending to achieve its budget propositions.

Considering oil revenue performance, our expectations for the crude oil market in 2024, and our projection for non-oil revenue in 2024, we project total revenue to settle at NGN12.77trn.

Fiscal Sustainability Under Pressure

Official data from the Debt Management Office (DMO) shows that the FGN total domestic debt stock was NGN50.20trn as of September 2023, representing a net increase of 126.02% over its level in December 2022). This surge highlights the inclusion of securitized Ways and Means advances from the CBN (NGN22.70trn), the devaluation of the Naira (NGN841.00/USD) on the NAFEM window and further heightens concerns about debt sustainability. Our analysis of the provisional budget performance report for the first nine months of 2023 puts the average interest rate on Nigeria's total debt at c.7% as of September 2023 due to debt service of (NGN5.79trn or 80.91% of FG's retained revenue).

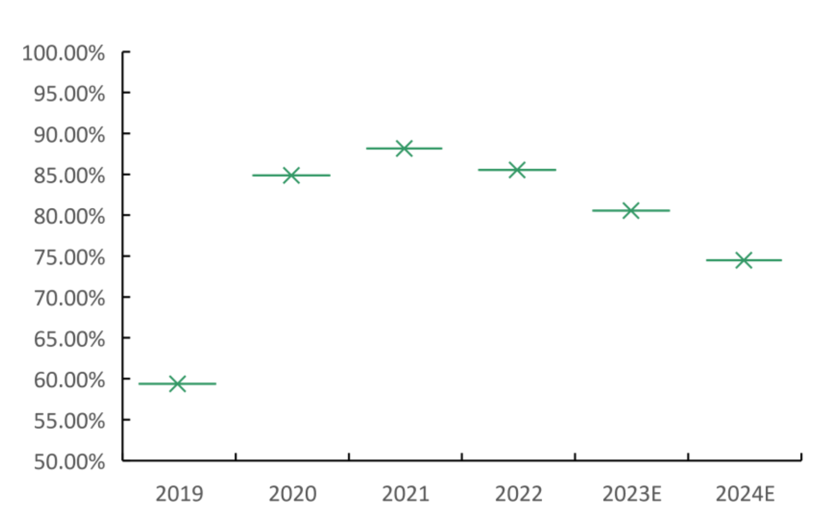
....Deficit Likely to be Higher in 2024

Given that we expect the 2024FY revenue performance to be lower than budgeted, we project that the fiscal deficit will likely be higher than the expected NGN9.18trn. Like 2023, we expect more funding from domestic sources (probably more than the government's target of NGN6.06trn).

This expectation also hinges on the fact that interest rates remain high in the global market; thus, accessing external debt would come at a higher cost to the government. The FG has also stated plans to draw down on multilateral and bilateral loans, which would help augment its financing needs.

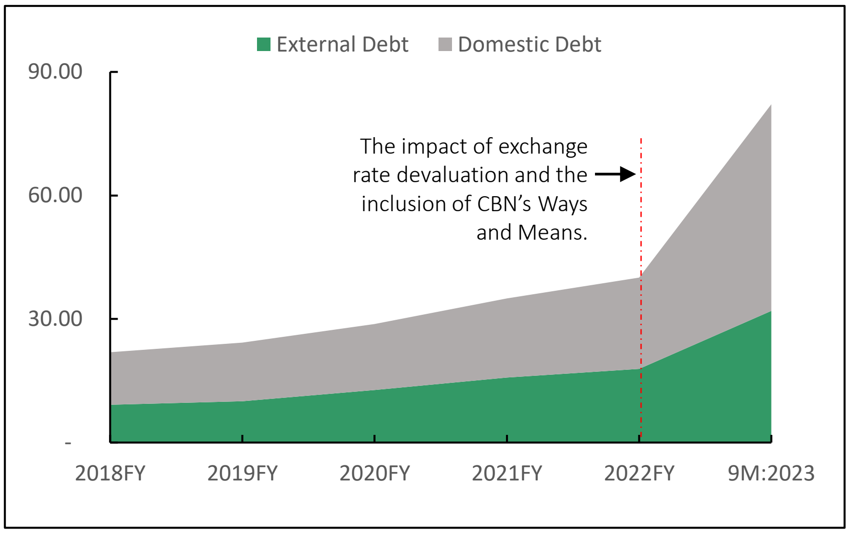
Lastly, we consider the Ways and Means Window another likely avenue for the government to source funding. Given the increase in the accessibility to Ways and Means to 15.00% (from 5.00%) of the previous year's revenue and our projection for FG revenue to settle at NGN11.54trn in 2023, we see the government accessing Ways and Means facility of up to NGN1.80trn in 2024FY. Given the monetary authority's commitment to playing by the book, we do not expect an overshoot of the 15.00% approval. We also opine that consistent implementations of anticipated policies could result in Nigeria's rating upgrade in 2024.

Chart 15: Debt Service to Revenue (2019-2024E)



Source: Budget Office, Meristem Research

Chart 16: Domestic and External Debt (NGN'trn)



Source: Budget Office, Meristem Research

An Overview of the External Sector

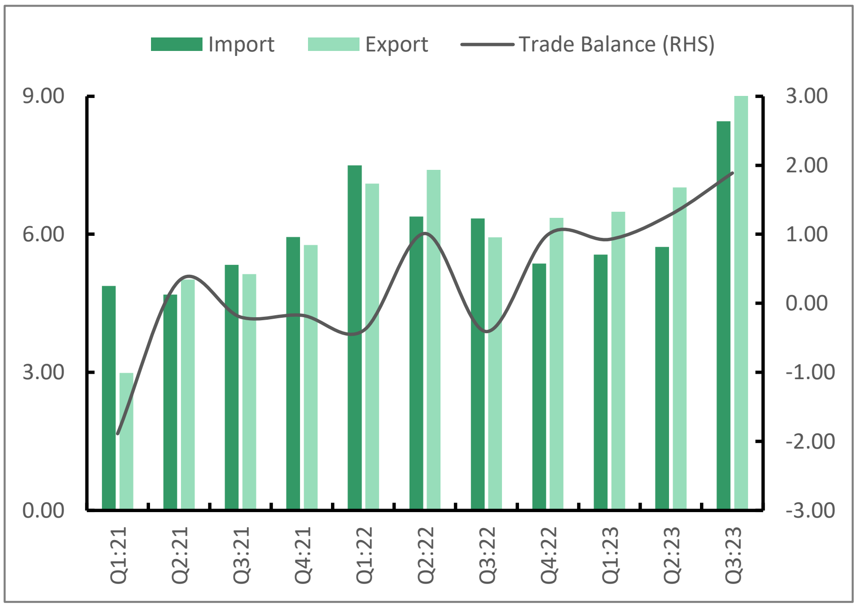
As indicated in our External Sector Commentary, Nigeria's external position remains weaker than implied by key economic fundamentals (foreign trade and current account). Although Nigeria recorded a current account surplus (due to trade surplus, FX illiquidity for repatriation and fuel imports, and higher workers remittance), this has had minimal impact on the external reserve balance as it declined all through 2023. Capital inflows remain low, and the FX reforms during the year have so far led to further devaluations in the country's exchange rate. While reforms are underway in the FX market, there is a crucial need for continued monitoring and strategic interventions to steer Nigeria's external position toward stability.

Trade Balance Tints Optimistic Signals

According to data released by NBS, the trade surplus experienced a substantial expansion by 1,860% YoY in 9M:2023 to NGN4.11trn, reaching the highest level since 2018. This surge was primarily due to the trade surplus in Q3:2023 (+561.40% YoY and 46.49% QoQ). Notably, exports soared by 74.36% YoY, attributed to a trio of factors: depreciation of Naira (NGN755.27/USD in 9M:2023 vs NGN437.03/USD in 9M:2022), which amplified the converted value of exports; an increase in crude oil export (averaging 1.45mbpd in Q3:2023 vs 1.22mbpd in Q2:2023 and 1.20mbpd in Q3:2022) per NBS estimates; and elevated crude oil price during the period (USD94.12pb vs USD78.72 in Q2:2023). The devaluation also caused the cost of imports to increase by 33.33% YoY and 48.71% QoQ. We expect this to impact the current account (CA) balance for the second half of 2023 (as with the first half), given that the goods account made up a significant contribution to the current account surplus witnessed in H1:2023.

Other factors that will result in the expected CA surplus include a continued reduction in the pace of funds repatriation (primary income) and an anticipated increase in remittances. According to the World Bank, Remittance inflows into Nigeria are projected to have increased to USD20.50bn in 2023 (vs USD20.13bn in 2022).

Chart 17: Quarterly Foreign Trade (2019-2023) NGN'trn



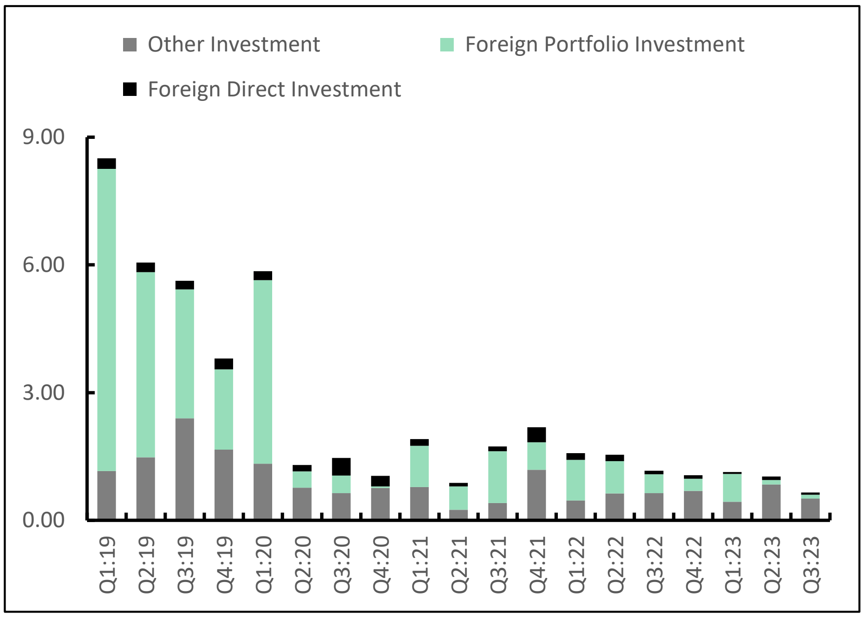
Source: NBS, Meristem Research

In 2024, we project that the trade balance will remain positive, anchored on the continuous depreciation of the naira, the anticipated rise in crude oil production volumes and prices, and the improvement in economic activities of our trade partners (mainly Europe, which is c. 45% of Nigeria's export destinations). Additionally, we anticipate a contraction in fuel imports owing to the commencement of operations at the local refineries (Dangote and Port Harcourt). Nevertheless, a potential downside to our outlook is the persistent weak demand from China, poised to impact global trade dynamics.

Thus, the current account surplus will likely increase as the trade surplus grows. Moreover, given the continuous increase in migrating individuals and expected positive GDP growth in advanced economies, we forecast a further increase in remittance inflows, which should boost the CA surplus balance. The primary income and services account is, however, likely to record higher deficits on the back of increased clearing of FX backlogs, expectation of increased business activity and FX devaluation pressure on services payment in 2024.

In 2024, we anticipate foreign investors will be on the lookout, given that domestic fixed income yields are rising. The upward trajectory of these rates is expected to ignite investors' interest. Additionally, with the outlook for increased economic growth and a rebound in business activities, we hold the view that these optimistic macroeconomic signals will play a crucial role in retaining foreign investors within the domestic economy.

Chart 18: Quarterly Capital Inflows (2019-2023) NGN'trn



Source: NBS, Meristem Research

Weak Inflows Persist Post-Pandemic

Contrary to what is obtainable with the trade surplus and current account, capital inflows into Nigeria remain weak and below pre-pandemic levels. Total capital inflow declined by 33.99% YoY in 9M:2023 (with Q3:2023 standalone being the lowest point in more than one decade) as inflows remained low on the bac of weak macroeconomic prospects, low fixed income yields and attraticevness of investment in safer havens.

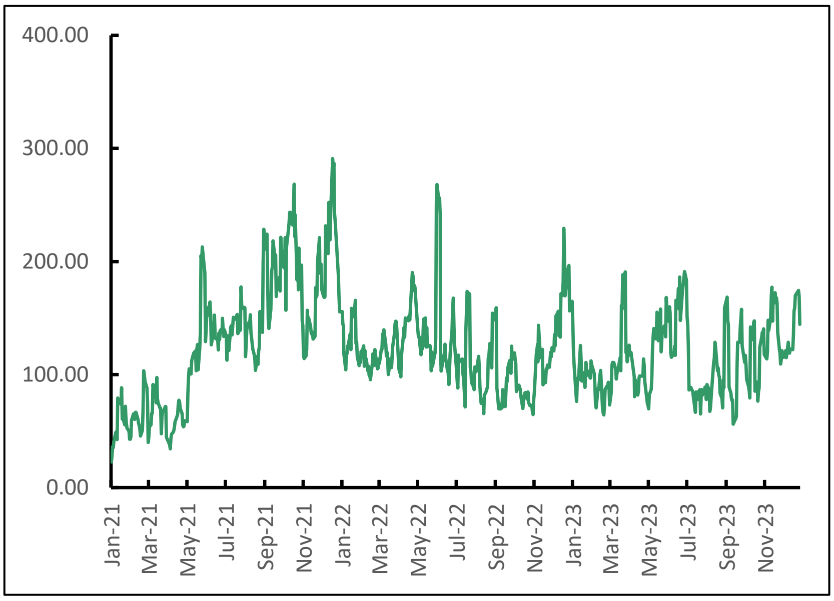
Foreign Portfolio Investment (FPI) declined by 80.30% YoY & 18.47 QoQ, to USD87.11mn, Foreign Direct Investment (FDI) fell by 26.86% YoY & 30.52% QoQ to USD59.77mn and Other Investment Inflows also declined by 20.15% YoY & 39.36% QoQ to USD507.77mn

Despite the recorded trade and current account surplus, the expected improvements in Nigeria's external reserve and exchange rate position remain unseen. According to data from the CBN, Nigeria's external reserve, as of Dec 31st 2023, declined by 11.25% YoY to its 24-month low of USD32.91bn due to lower crude oil production, which offset the potential gains from elevated crude prices. This is also despite the removal of fuel subsidy payments, which has gulped accretion to external reserves in the past.

The FX reforms (which include unification of all FX windows, clearance of a portion of the existing backlog and lifting the 8-year-long restrictions on some 43 items) yielded little effect in appreciating the value of the Naira against the greenback due to the persistent unavailability of the USD at the official market. Thus, Naira continued its nosedive course as FX demand could not be met at the official window.

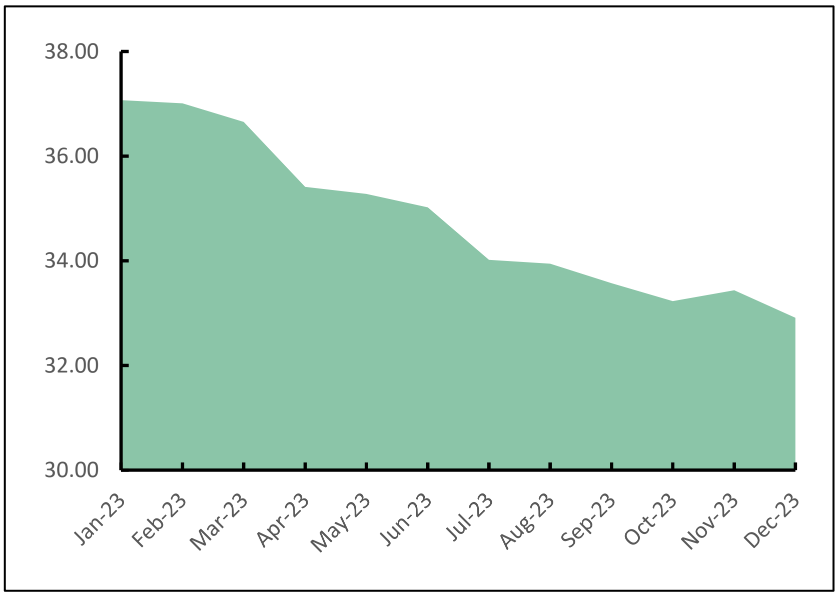
As of 30th December 2023, the exchange rate on the official window depreciated by 96.56% YoY to NGN907.11/USD (vs 66.68% in June). The depreciation on the parallel market was 63.29% YoY to NGN1,210.00/USD, maintaining a premium of 33.39% over the official rate. On a positive note, the external reserves remained above the benchmark of 3.0 months of import cover recommended by the IMF standard and could finance up to 6.30 months of import as of September 2023. Also, we expect the receipt of the first tranche of the long-awaited loan facility from the AFREXIM bank (USD2.25bn out of USD3.30bn) to increase the country's foreign reserves levels. In our macroeconomic note, we highlighted that the AFREXIM loan is a welcome short-term fix; however, Nigeria's inherent FX market issues require more permanent solutions. Clearing the existing FX backlog and meeting new legitimate FX demands would require additional sustainable inflows of FX into the reserve balance.

Chart 19: Turnover at NAFEM Window (2021-2023) USD'bn



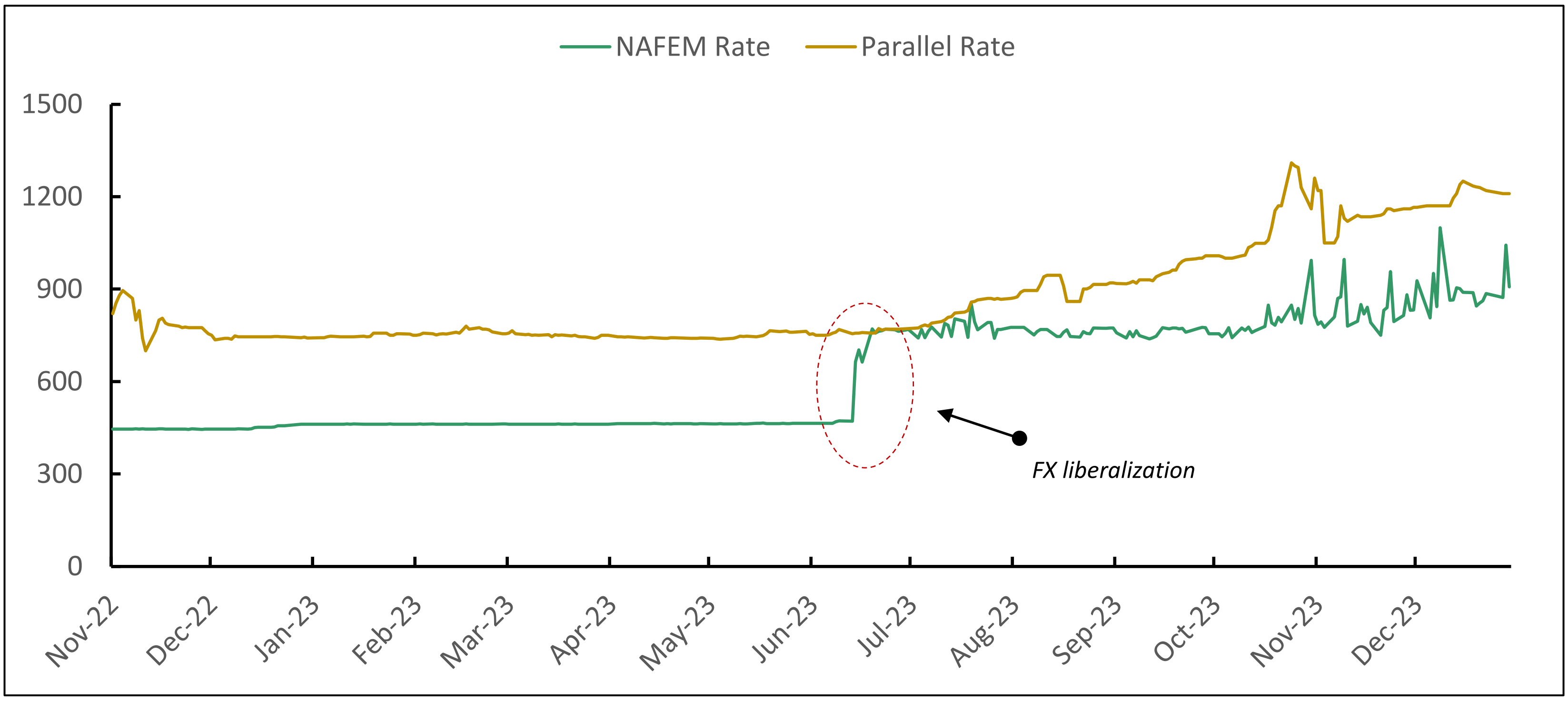
Source: FMDQ, Meristem Research

Chart 20: Trend of Nigeria's Foreign Reserves (USD'bn)



Source: CBN, Meristem Research

Chart 21: Movement in Official Rate and Unofficial Rate (Jan 2023 – Dec 2023)



Source: FMDQ, Meristem Research

Outlook on Exchange Rate

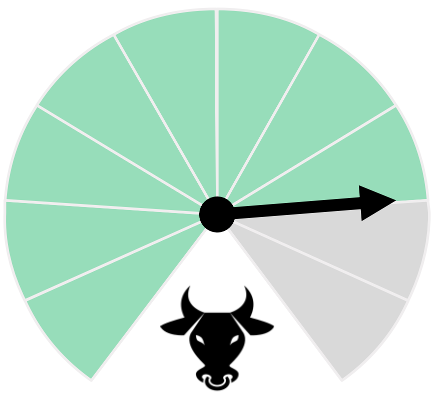
Beyond the Obvious

In our 2023 full-year outlook, we discussed a potential Naira devaluation in 2023 to align the exchange rate with prevailing market realities. True to that, introducing the "willing buyer, willing seller" model prompted a devaluation in H1:2023. We expect that the further settlement of existing backlogs will play a deciding factor in our outlook for the Naira (with c. 20% settled in January 2024), fueling investors' optimism on the direction of the Naira. Looking ahead to 2024, we anticipate continued depreciation of the Naira, primarily influenced by the following factors:

- With OPEC+'s proactive measures to stabilize the global oil market, we expect oil prices to remain within USD80 - 90pb in the first half of 2024. However, Nigeria's 2024 allotted oil production quota at 1.50mbpd may keep production levels below the country's targeted levels of 1.73mbpd. This uncertainty implies FX reserve accretion is unlikely, thus limiting the government's capacity to provide liquidity to the FX market.
- Fixed income yields will dictate FX market supply linked to foreign portfolio inflows. Our expectation of higher yields in the first half of the year poses a potential upside for the value of Naira.

Scenario Analysis

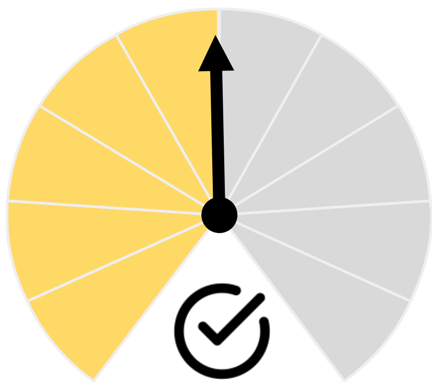
The Potential Ups and Downs



Bull Case

- Strong global demand (particularly from China)
- Oil prices exceed USD90pb.
- OPEC+ reviews Nigeria's crude production quota above 1.50mbpd
- Fixed income yields align with MPR – Increased Capital Inflow
- Dangote Refinery production output exceeds 350,000mbpd

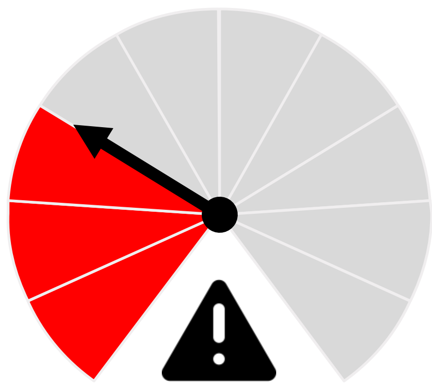
NGN892.80/USD



Base Case

- Moderate recovery in global economy.
- Oil prices remain within USD80-90pb range.
- Current account balance remains in surplus territory
- Nigeria crude oil production at 1.55mbpd
- Foreign Capital inflow improves.
- Dangote Refinery production output at 350,000mbpd

NGN907.06/USD



Bear Case

- Global economy recovery is slower than expected.
- Oil prices fall below USD80pb
- Nigeria crude production declines below 1.40mbpd
- Foreign Capital inflow decline
- Dangote Refinery production output falls below 350,000mbpd
- Nigeria's

NGN924.94/USD

Socio-Economic Development

Unemployment Rate

New Numbers, New Meanings?

After seven quarters without updates, the National Bureau of Statistics (NBS) released the Nigerian Labour Force Survey (NLFS), adopting a new methodology that is in line with the International Labour Organization (ILO) guidelines. Notably, employed persons are now defined as those in paid jobs who have worked for at least one hour in the past seven days. As of Q1:2023 and Q2:2023, the reported unemployment rate stood at 4.10% and 4.20%, respectively, a significant drop from the last reported figure of 33.28% in Q4:2020. Given the challenging macroeconomic landscape in recent years, this sharp decline was perceived as being unrepresentative of the current realities. As such, we analyzed the released labor data using the previous methodology and reached an estimated unemployment rate of 13.25% in Q4:2022 and 29.13% in Q1:2023.

We note that the anticipation of increasing business activities might increase labor demand, potentially leading to a marginal decline in the unemployment rate. Also, the substantial emigration from the country could create additional job opportunities for skilled workers. Nevertheless, the overall impact of the economic downturn will likely continue to influence the Nigerian labor market dynamics in the near term.

Population

Strength in Population Demography

According to the recently released demographic bulletin by the NBS, Nigeria's population was 216.78mn as of Dec 2022. Also, as of 2022, 61.34% of the country's population is below the age of 24 (per UN estimates), representing a growing and youthful population. This demography presents opportunities for increased labor force participation, productivity, and innovation, thus, leading to higher economic output.

While the numbers seem encouraging, we highlight that c.63% of Nigerians are multidimensionally poor (according to the NBS MPI survey of 2022). Thus, the increasing population yields minimal benefit for companies and consumption expenditure. Also, the The United Nations projected the country's population to double to 400mn+ by 2050, emerging as the world' s fourth most populous country. Rapid population growth of this magnitude makes eradicating poverty more difficult (particularly deficiency in the provision of basic needs).

We posit that balancing economic development with social welfare will be paramount to ensuring a sustainable economy. Looking forward, It is important to note that realizing the full potential of favorable population demography requires quality education and skill development programs, healthcare provisions, and infrastructural provisions.

Table 6: Changes in Labour Statistics Methodology

	Old Methodology	New Methodology
Working Age	Individuals aged 15 - 64 years.	Individuals aged 15 years and above
Employment	Individuals within the working-age population who participated in activities generating goods or services for a minimum of 20 hours.	Working-age individuals who participated in activities to produce goods or provide services for pay or profit for a minimum of one hour.
Unemployed	Worked less than 20 hours or actively searching and available for work.	Unemployed and actively available (was without pay or profit).
Periodity	One-time data collection (cross-sectional).	Continuous year-long collection.
Underemployed	Worked 20-39 hours weekly	Worked under 40 hours per week but available for additional hours.

Source: NBS, Meristem Research

What is MORE?

MERISTEM ORIENTATION FOR RISING ENTREPRENEURS

MORE stands for Meristem Orientation for Rising Entrepreneurs.

MORE is a CSR project of MSL geared towards contributing significantly to youth development, by inspiring and enhancing the capacity of young people to take on guided, informed, and interesting investing and entrepreneurial adventures.

Some of the direct benefits of MORE are;

1. **Boosting Financial Literacy and Financial Inclusion**
2. **Driving Youth Empowerment**
3. **Increasing Economic Growth**

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MERISTEM

Financial Markets:

Equities & Fixed Income

Global Equities

Positive Returns Amid Macroeconomic Woes

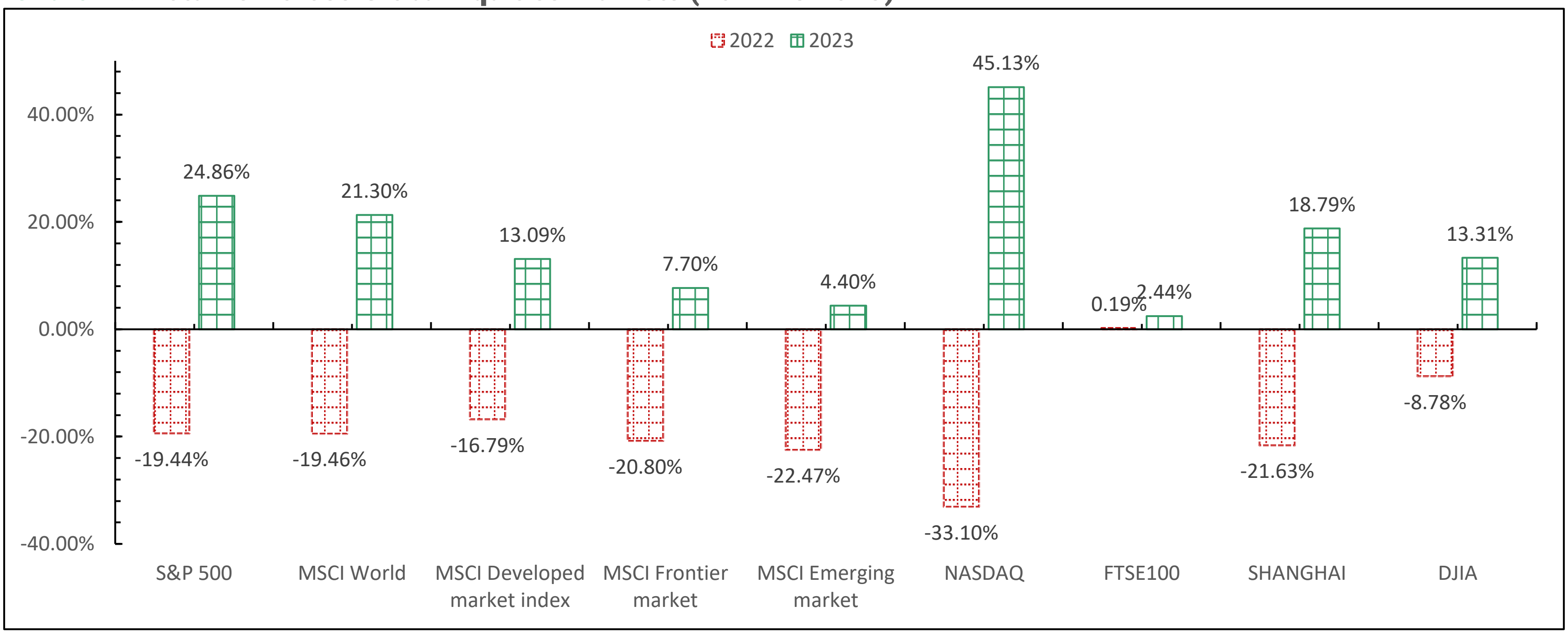
As inflation across advanced economies slowly declined, monetary authorities also reduced the pace of policy rate hikes. This elicited a positive reaction from global equities investors as the global equities market maintained its positive performance in the second half of 2023, closing positively. Furthermore, the better-than-expected corporate performance evinced by companies' financials released during the period bolstered investors' sentiment and buoyed the overall performance for the year.

The S&P Global Broad Market Index returned 7.29% and 24.86% in H2:2023 and 2023FY (vs -7.08% in H2:2022 and -19.46% in 2022FY). Similarly, the MSCI World, Emerging, and Frontier indices returned 21.30%, 4.44% and 7.70% in 2023.

Fears of slower economic growth in China (chiefly hinged on the lingering property crisis), weaker regional domestic demand, and rising geopolitical tensions caused a temporary decline across major equities markets in Q3:2023.

Consequently, the S&P 500, NASDAQ, and SHANGHAI indices declined by 3.65%, 1.72% and 4.71% in Q3:2023, respectively but rebounded in the fourth quarter. Notably, the overall performance of the equities market in 2023 was driven mainly by technology stocks. Notably, a group of large-cap tech-oriented stocks referred to as "The Magnificent 7" attracted significant buying interest during the year as investors' enthusiasm increased over advancement in Artificial Intelligence tools. For 2024, we expect the less hawkish stance of foremost monetary authorities to sustain investors' optimism during the year. Also, the possible cheaper valuation for stocks, triggered by expectations of rate cuts across major economies, should further pique investors' interest. Furthermore, the expected positive corporate performance of financial services, tech and renewable energy stocks is expected to pique investors' interest in 2024. In our view, the expectation for a decline in global growth, increased volatilities across equities markets, and unanticipated global shocks pose a significant downside to our outlook and may further dampen investors' sentiment toward the equities market during the period.

Chart 22: Returns Across Global Equities Markets (2022 vs 2023)



Source: Bloomberg, Meristem Research

African Markets

Resilience Across the African Terrain

Ghana: Distressed Debt Market Spur Equities Interest

The Ghanaian equities market showed gleaming signs of recovery and recorded an impressive performance in 2023. The country's stabilizing currency, easing inflationary pressure and optimism about economic growth bolstered the recovery path during the year. Investors' renewed interest in the equities market due to concerns around the Domestic Debt Exchange Programme (DDEP) spurred a positive return of 14.90% in H1:2023 (vs. 1.17% in H1:2022). Thus, closing the half year as Africa's third best-performing stock market.

Similarly, the year's second half witnessed sustained positive momentum, manifested by increased participation from Pension funds. Notably, the impressive H1:2023 banking sector earnings result, despite the impact of DEEP on the banks' balance sheet, spurred market activities after significant selloffs in the first half of the year. Also, optimistic investors' sentiment towards the telecoms, consumer goods, and agricultural sectors buoyed the bullish performance. Overall, the GSE all-share index returned 28.08% in 2023 (vs -4.61% in 2022).

In 2024, however, we expect the Ghanaian bourse to trade on a mixed note with a positive tilt. While we foresee a sustained bullish momentum driven by a gradual improvement in macroeconomic indicators, positive corporate performance and robust demand in specific sectors, we note the country's fiscal debt management will play a crucial role in determining the equities market direction. Also, we highlight that political risk would play a key role, as the country will hold a keenly contested Presidential election in 2024. We anticipate increased investors' attention to critical events across economic reform and policy changes.

South Africa: Accommodative Monetary Stance Improves Equities Return

The South African market closed on a positive note in 2023, however, with largely mixed sentiment during the year. The South African All Share Index (**JSE-ASI**) returned 4.18% in Q1:2023 due to a positive reaction to the 2023 budget's fiscal outlook and the government's debt relief plans for the state power utility company (Eskom Holdings Ltd). Investors' sentiment was, however, dampened by the various challenges facing the country's economy. Chiefly, the energy crisis and power shortages driven by infrastructural inadequacies in the power sector inhibited the growth of business activities, fuelled inflationary pressure, and caused significant strain on economic growth. Also, concerns about declining government revenue stemming from lower commodity prices, falling iron ore exports and coal-fuelled expectations of a looming fiscal crunch further dampened investors' sentiment toward the equities market. Consequently, the equities market declined in Q2:2023 and Q3:2023 by 0.10% and 4.79%, respectively.

However, towards the end of the year, the less hawkish posture of the South African Reserve Bank (SARB) – *maintaining a hold stance in its last three consecutive meetings* – spurred investors' optimism during the period. Also, higher investments in tech companies and startups, especially in healthcare tech and AgriTech, drove buying interest in technology stocks during the period. As a result, the equities market gained 6.23% in Q4:2023. Thus, recording a full-year return of 5.26%.

We foresee a sustained positive sentiment in 2024, driven by ongoing reforms in the power sector. Particularly, we anticipate increased private sector investment in power generation, which should ease the constraints on business activities and spur economic recovery. However, the weakening currency might stoke inflationary pressures in 2024 and prompt expectations of further rate hikes during the year, which may taper investors' upbeat mood.

Kenya: Rising Fiscal Burden Heightens Investors' Apathy

Kenya's bourse was predominantly bearish in 2023 with a negative return of 28.08%, its worst performance since 2017, with the Kenya All share Index being the worst-performing index globally in 2023. The sovereign risk stemming from the country's high debt burden and diminishing foreign reserves impacted investors' sentiment towards the equities market during the period. Additionally, the weakened currency during the year, driven by capital flight and lower foreign inflow, prompted selloffs in the equities market, particularly by foreign investors. Also, the multiple interest rate hikes during the period (total of 350bps) to combat the persistent inflationary pressure reduced the attractiveness of the equities market as yields on fixed-income instruments rose.

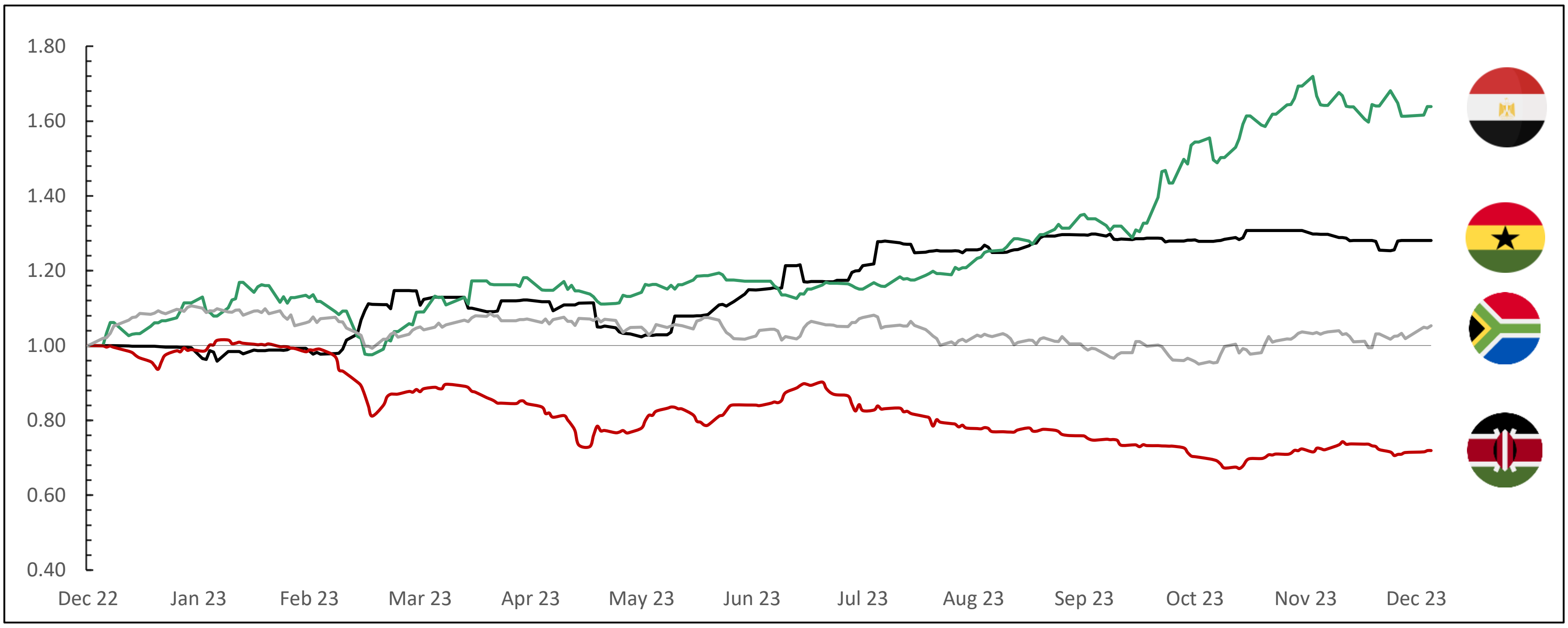
We expect the deteriorating macroeconomic conditions to fuel investors' apathy in the near term. Also, concerns around the country's ability to meet its debt obligations in the fiscal year and weaker corporate performance may continue to weigh on investors' confidence.

Egypt: Equities Market Pose Dynamic Safety Net

The Egyptian stock market recorded its strongest positive performance since 2016, returning 65.04% in 2023. Thus, it closed the year as the best-performing bourse in Africa and the Middle East. The bullish mood is majorly attributed to investors' buying interest during the year as a hedging strategy against the persistent inflationary pressure and a weakening Egyptian Pound (EGP). Since the country's FX market liberalization in 2022, its currency has dropped to record lows against the US Dollar. Consequently, inflation levels increased, driven by higher costs of imported essential goods. As a result, we observed higher investor interest in export-based companies like fertilizer and chemical manufacturers and industrial producers as they benefit from the weaker currency.

We anticipate sustained positive sentiment in 2024, especially by domestic institutional investors, as they cherry-pick on export-oriented stocks with decent dividend payments. Also, expectations of further currency devaluation in the near term should bolster investors' sentiment toward the equities market.

Chart 23: Stock Index Movement Across Select African Markets in 2023



Source: Bloomberg, Meristem Research

Domestic Equities

Resilient Ascent on Bumpy Hill

Since the initial wave of optimism that sparked through the domestic equities market after the ascent of the new administration, the Nigerian equities market maintained a predominantly positive trajectory throughout the second half of 2023 (save for the mild market correction witnessed in October). Corporate actions across sectors, favorable corporate results in the banking sector and investors' increased appetite for bellwether stocks were significant factors that propelled this upbeat momentum.

A temporary shadow was cast over investors' confidence when companies released their H1:2023 financial scorecards. This resulted in sell-offs during August and September, briefly dampening the bullish sentiments that had characterized the market earlier in the year. In our half-year outlook, we underscored that the financial services and oil and gas sectors are poised to benefit from the new regime's key reforms (particularly the devaluation of naira and removal of fuel subsidy). As anticipated, both sectors exhibited remarkable profitability, while others lagged. In Q4:2024, renowned providers of global benchmark indices and portfolio analysis tools - Morgan Stanley Capital Index (MSCI) and FTSE Russell reclassified the Nigerian stock market from Frontier markets to Standalone market status and unclassified market, respectively.

The move to reclassify comes in response to the issue of foreign exchange illiquidity and funds repatriation, which limits portfolio replicability for investors. Notwithstanding, the market's reaction to these developments was relatively muted as investors remained largely active across diverse sectors, demonstrating a continued pursuit of value. As such, volume and value traded more than doubled in 2023 to reach their highest annual levels of 117.06bn units and NGN1.74trn, respectively.

At year-end, the All-Share Index (**NGX-ASI**) closed in the green zone for nine out of twelve months to deliver an impressive +45.90% return (vs +19.98% recorded in 2022), reaching its highest ever point on record at 74,773.85pts and a market capitalization of NGN40.92trn. For the first time in six years, all sectoral indices performed in unison to record positive returns in 2023. *See "Table 8" for an overview.*

Furthermore, in relation to the performance of other markets, the Nigerian equities market surpassed the 2023FY returns of major MSCI global indices (the Frontier market index +8.27% , the Emerging market index +6.95%, and the Developed market index +15.29%) and some African peers (Ghana +28.08%, Kenya -28.08% and South Africa +5.26%).

Table 7: Trend in Yearly Performance across Sectors (2013-2023)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
NGX-ASI	47.19%	-16.14%	-17.36%	-6.17%	42.30%	-17.81%	-14.60%	50.03%	6.07%	19.98%	45.90%
NGXBNK	31.94%	-21.53%	-23.59%	2.17%	73.32%	-16.09%	-10.55%	10.14%	3.32%	2.81%	114.90%
NGXCNSMRGDS	31.14%	-17.88%	-17.41%	-4.49%	36.97%	-23.28%	-20.83%	-3.29%	2.78%	-0.06%	90.39%
NGXOILGAS	122.25%	11.84%	-6.20%	-12.31%	5.76%	-8.61%	-13.13%	-13.84%	52.52%	34.05%	125.54%
NGXINS	29.80%	-2.11%	-4.70%	-11.44%	10.36%	-9.25%	-0.52%	50.61%	4.54%	-11.99%	84.48%
NGXINDUSTR	n/a	-15.98%	1.27%	-26.37%	23.84%	-37.34%	-13.11%	90.81%	-2.15%	19.67%	12.86%
MERI-TELCO	n/a	n/a	n/a	n/a	n/a	n/a	n/a	189.69%	11.52%	88.16%	13.69%
MERI-AGRIC	106.09%	-39.82%	33.22%	29.49%	71.40%	4.81%	-31.82%	59.83%	49.56%	29.97%	52.20%

Source: Bloomberg, Meristem Research

Table 8: Major Drivers of 2023FY Sectoral Returns

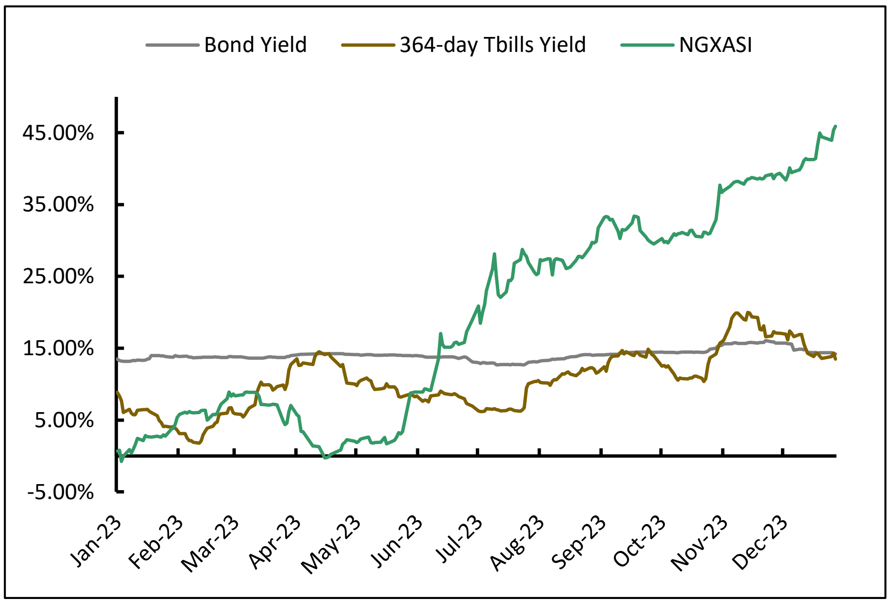
Agriculture (+52.20%)	• Increased revenue for the oil palm millers, hinged on the impact of FX devaluation on export value. • Dividend declarations during the year • Expectations of near-term positive impact of policy reforms in the Agricultural sector
Banking **(+114.90%)**	• Persistently high yield environment which gave rise to even stronger financial performance • The suspension of Godwin Emefiele as the Governor of the CBN • Devaluation of the currency and expectations of higher dividends • The new CBN Governor's speech, specifically, his directive for re-capitalization in the banking sector
Oil and Gas **(+125.54%)**	• Deregulation of downstream oil and gas sector influenced positive outlook for downstream tickers' financial performance – **MRS** (+644.68%), **CONOIL** (+216.60%), **OANDO** (+167.86%), among others • Expectation of higher crude oil prices led to buying interests in **SEPLAT** (+110.00%)
Consumer Goods **(+90.39%)**	• Amid weak financial results, corporate actions caused a positive ripple effect across the sector. • Proposed merger between **DANGSUGAR** (+255.14%) and **NASCON** (+384.23%) • Planned delisting of **PZ** (+135.24%). Other gainers include; **BUAFOODS** (+197.54%), and **CADBURY** (+59.66%).
Insurance **(+84.48%)**	• Impressive corporate earnings driven by growth in gross premiums • Devaluation of the currency and expectations of higher dividends
Industrial Goods **(+12.86%)**	• Performance was driven by large cap **DANGCEM** whose Share buyback programme sparked interest on the ticker, thus, gaining +22.57% in the year. The paints sub sector also garnered attention during the year – **BERGER** (+116.67%) and **CAP** (+17.13%)
Telecoms **(+13.69%)**	• Dividend declarations from both players mitigated the impact of lower-than-expected financial performance. Thus, both tickers gained – **MTNN** (+22.79%) and **AIRTELAFRI** (+15.41%)

Source: Meristem Research

Immunity to Uptrend in Fixed Income Yields

The Equities market showed resilience and remained immune to the uptrend in fixed income yields during the second half of the year. Despite the elevation of bonds and T-bills yields to their year-high levels, there was no substantial rotation of funds in the stock market. The equities market served as a favourable diversification option for investors, enabling them to generate returns that exceeded the domestic inflation rate, thus, contrasting with the fixed income market, where negative rates of return continued to prevail.

Chart 24: Trend in NGX-ASI, Bond Yield, and T-bills Yield

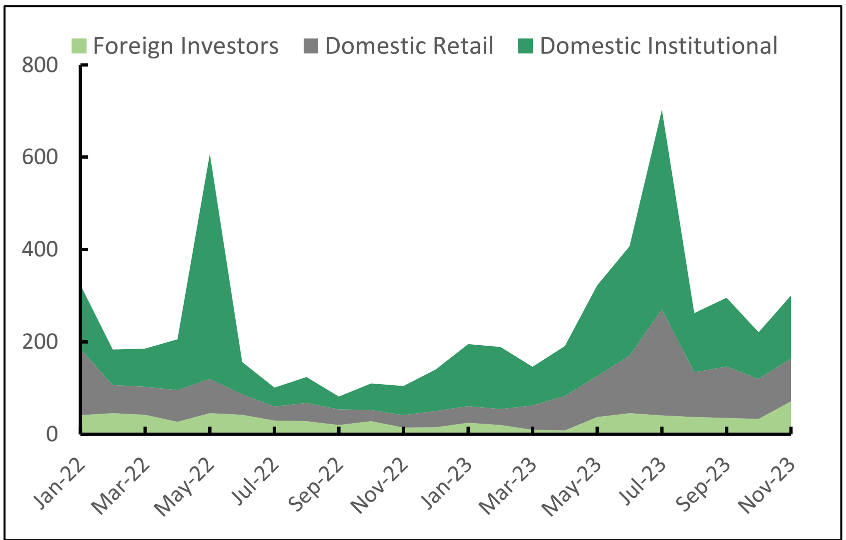


Source: FMDQ, Bloomberg, Meristem Research

Changing Dynamics in Market Participation

Market participation saw some changes in 2023, with foreign investors' involvement peaking at 23.74% in November, the highest since October 2022. Retail investors began to gain more ground on the domestic front, representing an average of 35.76% of domestic transactions after participation fell as low as 13% in April 2022. While the increased involvement of retail investors is positive for market liquidity, it also introduces the risk of heightened market volatility, potential bubbles, and susceptibility to speculative trading patterns.

Chart 25: Trend in Market Participation (NGN'bn)



Source: NGX, Meristem Research

A Rush of De-listings

Nigeria's unstable macroeconomic landscape triggered widespread restructuring across companies, prompting some entities to delist from the Nigerian Exchange (NGX). Motivations behind the exits vary across companies; some opted to cease operations in the country entirely, while others intended to undergo a comprehensive overhaul of their business model without the scrutiny associated with being publicly traded. Specifically, three companies (with a combined market cap of NGN226.82bn) delisted from the NGX in 2023, while four have signified intention to delist. Despite concerns about the de-listings potentially affecting the depth of the Nigerian capital market, the NGX had new listings (VFDGROUP and MECURE). This reaffirms that there is still perceived value and opportunities for equity capital funding in the Nigerian capital market.

Table 9

Major Corporate Actions that Shaped 2023

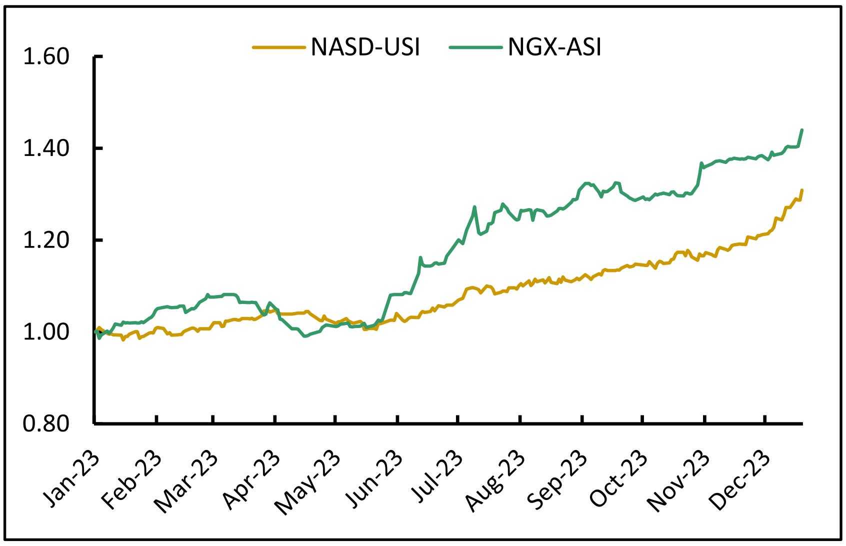
Proposed Merger	In July 2023, Dangote Sugar Refinery PLC (DANGSUGAR) announced its proposed merger with NASCON Allied Industries PLC (NASCON) and Dangote Rice Limited. The modalities behind the merger as agreed by all parties, is Eleven (11) ordinary shares of DANGSUGAR to be substituted for every twelve (12) ordinary shares of NASCON and seven (7) shares of DANGSUGAR will be substituted for one (1) of DRL shares. We made further analysis in our recommendation report.
Share Buyback	During the year, Dangote Cement Plc (DANGCEM) completed a share buy-back programme of 121,404,714 shares at an average price of NGN339.00 per share.
New Listings on the Exchange	Investment proprietary company – VFD Group Plc (VFDGROUP) and pharmaceutical company – Mecure Industries Limited (MECURE) listed on the Nigerian exchange at NGN244.88 and NGN2.96, respectively.
De-listings	ARDOVA , CAPHOTEL, COURTVILLE and UBN delisted from the NGX.
Intention to Delist	**PZ, UNITYBNK, OANDO, WAPIC and GLAXOSMITH signified intention to delist from the NGX.**
Capital Raise via Rights Issue	• Ellah Lakes Plc **(ELLAHLAKES)** raised NGN2.90bn of 1.00bn ordinary shares at NGN2.90 per share. • Ikeja Hotel Plc **(IKEJAHOTEL)** issued 1.13bn units of shares to its existing shareholders. • NEIMETH allotted 2.37bn shares at NGN1.55 per share • WEMABANK issued 8.57bn ordinary shares of NGN0.50 each at NGN4.66 per share. • FBNH to raise additional capital of 4.49bn by issuing 8.97bn shares to its existing shareholders at a yet to be determined price.

Source: NGX, Meristem Research

NASD: Walking the NGX Bullish Path

Continuing the trend observed in the past three years, the NASD exchange concluded the year in the same direction as the NGX. Fueled by persistent bargain hunting, the NASD Unlisted Securities Index (NASD-USI) achieved a return of +37.35% for 2023 to reach 927.47 points. Remarkably, the exchange surpassed the NGN1.00trn market capitalization milestone to attain its highest-ever level of NGN1.26trn. Including Purple Real Estate Income Plc in its listings also enhanced the exchange depth, offsetting the adverse impact of VFDGROUP delisting.

Chart 26: NGXASI vs NASDUSI in 2023



Source: NASD, Bloomberg Meristem Research

Outlook

What Will Move the Domestic Equities Market in 2024?

Macro-Economic Fundamental:

Anticipating a gradual business recovery and improvement in economic growth in 2024, we foresee a positive impact on investors' sentiment, driving the search for value in the equities market. While concerns linger around macroeconomic variables such as inflation, exchange rates, and potential monetary policy hikes, we believe the market will maintain its positive outlook.

Corporate Actions, Equity Funding and New Listings:

In 2024, we anticipate a concentration of corporate actions and new listings, focusing on the oil and gas and banking sectors.

- *The potential listing of Dangote Refinery and selected government entities is expected to drive substantial market activity, attract both domestic and foreign investors seeking opportunities and creating a positive ripple across the oil and gas sector.*
- *In the banking sector, we expect the proposed recapitalization of banks to increase equity raises through right issues and (or) potential mergers as banks seek to strengthen their capital base. This should act as an incentive to investors, resulting in spur buying activities across tickers in the banking index.*

Corporate Performance:

Despite persistent macroeconomic challenges, there is optimism for improved financial performance across sectors in the 2024FY. Particularly, we anticipate the financial services, oil and gas, and industrial goods sectors to outperform, driven by the outlook of stronger economic activities.

Reclassification of the Nigerian Market:

Given the reclassification of the Nigerian index from two major global indices (MSCI and FTSE Russell) in 2023, there is likely to be an upgrade in 2024. This anticipated upgrade is grounded in the outlook of improved macroeconomic fundamentals as the reasons given for the downgrade are expected to improve. Specifically, we expect a likely re-classification from FTSE Russell during its annual review process in September 2024.

Foreign Investors Participation:

We anticipate sustained levels of foreign investor participation in 2024 from Q4:2023, driven by the enhanced appeal of the Nigerian equities market and expectations of a more favourable macroeconomic environment.

Market Valuation:

Acknowledging the significant repricing across tickers, with new highs reached, we maintain the perspective that the Nigerian equities market has ample potential for further advancement. Being comparatively undervalued (lower P/E ratio) in relation to its peers, underscores the attractiveness and affordability of the local bourse to investors looking to take strategic position.

Considering a balanced assessment of the aforementioned factors, we expect the positive market activities to continue in 2024, albeit at a moderated pace.

Domestic Equities Outlook:

Fundamental Approach

Using the fundamental approach, our expected market return for 2024FY was calculated using the 2024FY target prices of our coverage stocks.

Table 10: Expected Sectoral Returns

Sector	Weight	Expected Return	Weighted Return
Banking	18.52%	8.90%	1.65%
Insurance	0.61%	26.45%	0.16%
Materials and Industrials	24.50%	22.28%	5.46%
Consumer Goods	16.09%	8.04%	1.29%
Agricultural Products	1.24%	13.74%	0.17%
Energy	4.14%	-13.49%	-0.56%
Healthcare	0.21%	18.14%	0.04%
Information Technology	34.08%	-5.26%	-1.79%
Other Financial Services	0.43%	23.99%	0.10%
TOTAL	100%		
Expected Return			6.52%

Econometrics Approach

In recent years, statistical models, such as the ARIMA model, have been widely used for stock market indices forecasting. Here, we use an ARIMA model to obtain a forecast of the NGXASI using daily data on the All-share index. The popularity of the ARIMA model is due to its inherent properties which reduces the effect of seasonality in stocks market variables and its capacity to model the random noise in the data.

Based on this model, we expect the All-share index to settle at 86,182.37pts, implying a return of +15.26% by 2024FY from close of 29th December 2023.

Technical Indicator

Technical indicators are used to analyse market trends and identify potential future market movement patterns. Given the recent market movements and lack of fundamental justification for price uptick on some tickers, we consider the Fibonacci extension as an important indicator as it smoothens the effect of recent price jumps and predicts performance based on likely reversion to historical mean.

Table 11: Weighted Market Return

Approach	Weight	Returns	Weighted Return
Fundamental approach	34%	6.52%	2.22%
Econometrics approach	33%	15.26%	5.03%
Technical indicator	33%	17.77%	5.86%
Expected market return			**13.12%**

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Equities Strategy

Market Expectation

Our strategic portfolio in H2:2023 returned 14.08%, underperforming the benchmark (NGX-30 index) by 1,068bps mainly due to a loss on GUINNESS (-17.50%) which eroded the gains on other tickers.

In line with our outlook for 2024FY, we have constructed a strategic portfolio aimed at maximizing returns. The portfolio has been constructed to include quality growth stocks likely to outperform the market.

The stocks in the portfolio, must have met at least 6 criteria.

- Omega ratio higher than 1.
- Expectation of top-line and bottom-line growth in 2023.
- ROE >10% or ROE in excess of COE.
- At least three years of revenue and earnings growth in the past five years.
- Double digit or above industry-average margins
- Upside potential > 5%
- Relatively high beta.

Table 12

2024 Strategic Portfolio

	Fundamentals					Trailing				Valuation								
	AT	NM	ROE	ROA	Lev	EPS	BVPS	PE	PBV	Target PE	Exp. EPS	TP	CP	Exp. Div. Yield	UPP	Omega Ratio	Portfolio Weights	Tot. Return
ACCESSCORP	0.10	16%	16%	1%	13.05	7.5	46.15	3.55	0.58	2.87	9.62	27.61	26.55	7%	3.99%	1.61	1.38%	10.77%
AFRIPRUD	0.18	29%	12%	5%	2.56	0.5	4.64	15.70	1.81	12.90	0.74	9.54	8.40	6%	13.59%	1.00	4.72%	19.54%
AIICO	0.33	12%	20%	3%	6.82	0.2	1.21	4.84	0.95	5.10	0.30	1.54	1.15	3%	33.78%	1.00	11.72%	36.39%
CADBURY	0.94	-17%	-435%	-16%	26.64	-6.6	1.53	-2.54	11.06	9.43	2.80	26.37	16.90	0%	56.06%	1.00	19.45%	56.06%
DANGCEM*	0.58	18%	33%	13%	2.45	26.2	80.16	12.40	4.05	10.35	38.89	402.51	325.00	7%	23.85%	1.00	8.28%	30.52%
DANGSUGAR	0.69	-9%	2%	0%	4.89	0.2	10.37	273.91	6.27	24.65	2.72	67.11	65.00	1%	3.24%	1.43	1.12%	4.32%
FIDSON	0.97	9%	22%	8%	2.65	1.9	8.38	10.20	2.29	9.55	2.35	22.48	19.20	3%	17.08%	1.00	5.93%	19.94%
GTCO	0.12	43%	32%	5%	6.77	13.8	43.25	0.00	0.00	4.42	10.07	44.51	42.50	8%	4.73%	1.16	1.64%	12.96%
MTNN	0.76	8%	76%	8%	9.93	11.7	15.23	24.46	18.71	16.64	18.59	309.33	285.00	5%	8.54%	7.95	2.96%	14.01%
NASCON	0.99	19%	50%	17%	2.86	5.1	10.34	11.65	5.78	21.32	3.15	67.17	59.80	1%	12.32%	1.00	4.28%	13.49%
STERLINGNG	0.08	11%	10%	1%	13.56	0.6	5.76	10.00	1.00	4.32	1.45	6.26	5.77	4%	8.56%	52.24	2.97%	12.89%
TOTAL	1.33	3%	27%	3%	7.90	42.5	158.99	9.06	2.42	7.49	57.12	427.92	385.00	7%	11.15%	1.00	3.87%	17.81%
UCAP	0.04	48%	17%	1%	11.97	1.7	10.20	14.50	2.47	10.86	2.61	28.39	25.15	6%	12.89%	1.00	4.47%	18.86%
WAPCO*	0.72	14%	14%	9%	1.52	3.6	26.27	9.71	1.32	6.67	8.76	58.43	34.65	6%	68.63%	1.00	23.82%	74.72%
ZENITHBANK	0.07	33%	25%	3%	9.46	15.4	61.15	2.73	0.69	4.09	11.27	46.09	42.00	9%	9.75%	60.22	3.38%	18.32%
Exp Return																	**100%**	**20.63%**

AT=*Asset Turnover*
NM=*Net Margin*
ROE=*Return on Equity*
ROA=*Return on Asset*
Lev=*Leverage*
EPS= *Earnings Per Share*

BVPS= *Book Value Per Share*
P/E=*Price to Earnings Ratio*
PBV=*Price to Book Value*
Target PE=*2024 Target PE*
Exp. EPS= *2024 Dec Expected EPS*

TP=*Target Price*
CP= *Price as at January 5, 2024*
Exp Div. Yield=*Expected Dividend Yield*
UPP=*Upside Potential*
Omega Ratio= *A risk adjusted performance ratio that measures returns per unit of risk.*

Data in the Fundamental columns are based on trailing performance.

MeriTrade
Portfolio Overview
Equity Assets

Sectors
Review and Outlook

Agriculture

Persistent Structural Challenges Moderate Sector Growth

The agricultural sector recorded a growth of 1.30% YoY in Q3:2023, marginally lower than the 1.34% recorded in Q3:2022. Also, the sector's contribution to the country's GDP declined to 29.31% YoY (vs 29.67% in Q3:2022). In our view, this performance reflects the adverse effect of lingering challenges plaguing the sector. Particularly, the persistent security challenges in food-producing regions of the country have resulted in supply shortages of farm produce during the period. Also, farmers' higher cost of fertilizers, inadequate storage facilities, and limited access to financing contributed to the sector's underperformance during the year.

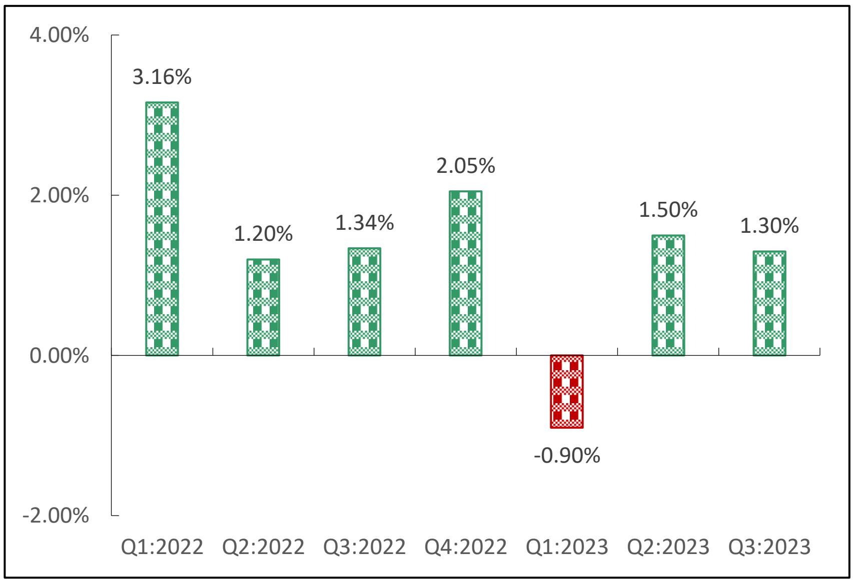
For 2024, we expect the fiscal authority's pro-growth stance to bolster development in the sector. Particularly, we foresee improved sector contribution to GDP in the near term, hinged on interventions around security and funding for the agricultural value chain. Also, the low base effect from 2023 will likely improve the sector's performance in 2024. However, inflationary pressure and other structural issues within the sector may dampen our outlook.

Robust Demand to Buoy Earnings

The domestic palm oil millers, OKOMUOIL and PRESCO recorded impressive top line growth in 9M:2023 (+20.86% YoY and + 29.83% YoY respectively), driven by Naira devaluation which increased the value of their exports during the period. We also accredit the increase in sales volume during the period as a catalyst for this growth as crude palm oil prices declined significantly (-42.87% YoY).

However, increased operating costs and foreign exchange losses owing to the high inflationary environment and currency depreciation drove OPEX higher for the palm oil players. Nonetheless, OKOMUOIL and PRESCO's bottom line in 9M:2023 advanced by 15.90% and 47.79% YoY, respectively, as the strong revenue growth outweighed the cost pressure. In 2024, we foresee an uptick in global palm oil prices hinged on supply constraints stemming from unfavorable weather conditions (El Nino). Also, the growing demand for biofuel in major producing countries - particularly Indonesia, is expected to reduce the country's exports and taper global supply, thus pushing prices upwards. Furthermore, we anticipate sustained demand levels during the year, which should drive revenue growth. However, the persistent inflationary pressure and FX depreciation may continue to weigh on cost, thereby reducing profitability.

Chart 27: Agricultural Sector GDP Growth Rate



Source: NBS, Meristem Research

Valuation and Fundamental Metrics

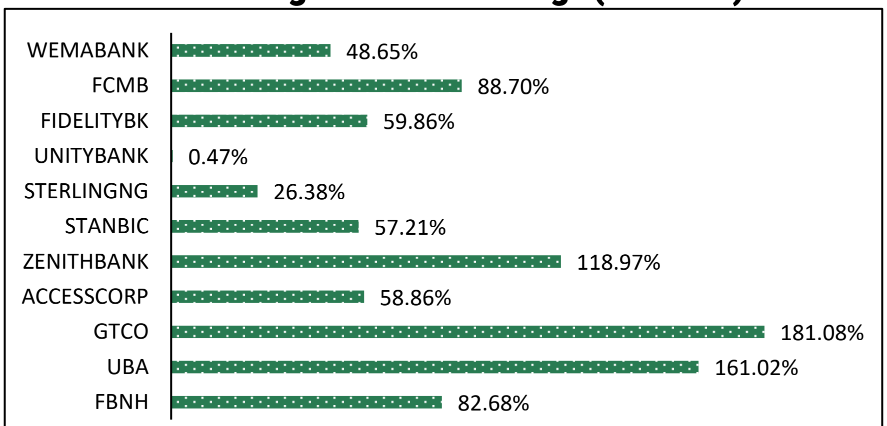
	Fundamentals					Trailing				Valuation						
	AT	NM	ROE	ROA	Lev	EPS	BVP	P/E	P/BV	Exp Div Yield	Target PE	Exp. EPS	2024 TP	CP	UPP	RT
OKOMUOIL	0.82	27%	44%	23%	1.95	20.02	46.61	12.98x	5.70x	5.36%	11.00	23.96	263.56	260.00	+1.37%	HOLD
PRESCO	0.62	21%	41%	13%	3.13	20.62	50.83	11.15x	4.52x	4.83%	8.61	28.56	245.90	230.00	+6.91%	HOLD

Banking

Banking Through Double-Edges

In 2023, the banking sector experienced favourable events capitalizing on various factors, including a significant 75% devaluation of the Naira and a high-yield environment. As we highlighted in our H1:2023 outlook, the impact of the Naira devaluation on banks with net long positions yielded significant revaluation gains, triple-digit topline and bottom-line growth in 9M:2023. More specifically, top-tier banks like **GTCO** reported NGN334.40bn in foreign exchange revaluation gains in 9M:2023 (vs NGN7.40bn loss in the same period of 2022). Collectively, the FUGAZ (**FBNH**, **UBA**, **GTCO**, **ACCESSCORP** and **ZENITHBANK**) reported a combined revaluation gain of NGN1.73trn in 9M:2023 (vs NGN194.15bn in 9M:2022). Cumulatively, these factors pushed funded and non-funded income higher significantly year-on-year. Simultaneously, the currency devaluation and macroeconomic headwinds led to higher loan loss provisions for these banks. Furthermore, the higher default risk from borrowers increased many banks' non-performing loan (NPL) ratio. For instance, the NPL ratios of **FIDELITYBK** and **FCMB** rose to 3.70% and 4.50% in 9M:2023 (vs 2.87% and 4.40% in 9M:2022), respectively. Notwithstanding, the buoyant operating income outweighed the operating expenses, resulting in higher shareholder returns. As a result, the industry's average return on assets and return on equity increased significantly by 113bps and 1190bps to 2.40% and 24.69% in 9M:2023 (vs 1.27% and 12.79% in 9M:2022).

Chart 28: YoY Change in Gross Earnings (9M'2023)



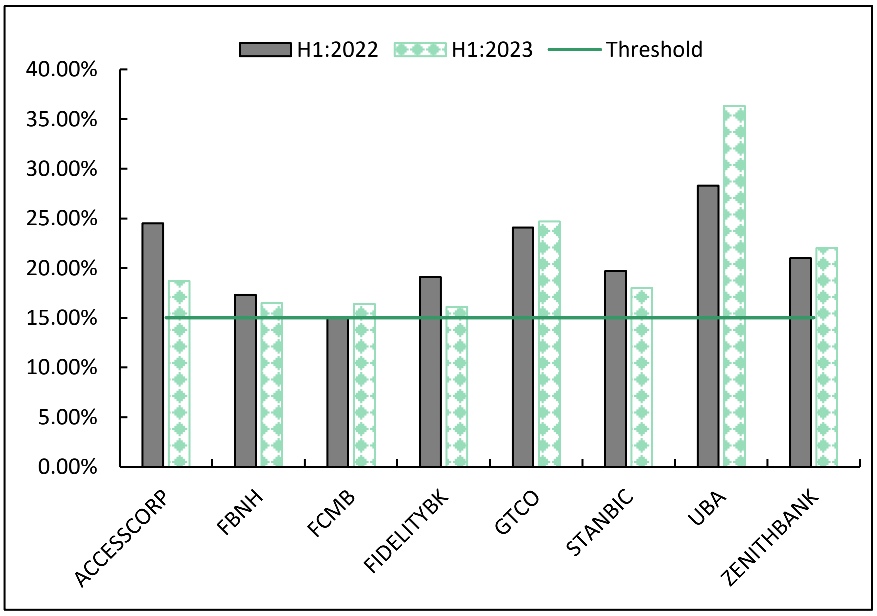
Source: Companies' Financials, Meristem Research

In 2024, we project sustained elevation in treasury yields, leading to higher asset yields and fueling growth in interest income. For non-interest income, we expect higher transaction volumes on electronic platforms to drive fees and commission income. Notwithstanding, we anticipate normalizing FX revaluation gains, leading to a lower non-funded income year-on-year. Furthermore, operating expenses should remain higher owing to the inflationary and FX pressures in the operating environment. Consequently, we envisage lower gross earnings and profit-after-tax in 2024FY for most banks.

Capital Crunch or Catalyst?

Many Nigerian banks suffered a shrinking capital base due to the Naira devaluation and subsequent upward revaluation of foreign currency (FCY) loans and overall risk-weighted assets. Based on our estimate, over half of the banks have their capital adequacy ratio close (within 100bps to 200bps) to their prudential threshold. To address this, **FCMB** issued perpetual additional Tier-1 fixed rate bonds to raise NGN20.686bn, while **FIDELITYBK** concluded a private placement of 3.04bn ordinary shares at NGN4.60 per share in 2023.

Chart 29: Movement in Capital Adequacy Ratio



Source: Companies' Financials, Meristem Research

While the banks continue to work consciously to shore up their capital base amidst the rapidly expanding risk-weighted assets, the newly appointed CBN governor – Dr. Olayemi Cardoso – hinted that the Nigerian banks will be very instrumental in driving the USD1trn economy projected by the Tinubu-led administration. As such, a recapitalization exercise for Nigerian banks is expected.

As it stands, banks with regional, national, and international licences have capital requirements of NGN10bn, NGN25bn, and NGN50bn. From our estimate, we believe the CBN could increase the minimum capital requirement by 10x. This implies that the above licenses' capital requirements could rise to NGN100bn, NGN250bn and NGN500bn. From our projections, we firmly believe the top-tier banks, including **ACCESSCORP**, **GTCO**, **FBNH**, **ZENITHBANK** and **UBA**, are well-capitalized as they all maintain an equity base over NGN1trn. For the other banks, we posit that we would likely see more capital raise through the right issues or additional Tier-1 bonds. We also highlight the likelihood of business consolidation activities, especially relating to regional banks.

Valuation and Fundamental Metrics

	Fundamentals					Trailing				Valuation						
	NIM	CoF	CIR	CAR	NPL	EPS	BVP	P/E	P/BV	Exp Div Yield	Target PE	Exp. EPS	2024 TP	CP	UPP	RT
ACCESSCORP	4%	5%	61%	19%	3%	7.47	46.14	3.55x	0.58x	6.78%	2.87x	9.62	27.60	26.55	4%	HOLD
ETI	5%	4%	54%	14%	6%	13.62	73.01	1.84x	0.34x	4.08%	2.22x	10.48	23.26	25.10	-7%	HOLD
FBNH	7%	2%	46%	17%	5%	7.84	38.27	3.32x	0.68x	3.85%	4.91x	4.10	20.11	26.00	-23%	SELL
FCMB	8%	14%	50%	16%	5%	6.46	18.87	1.51x	0.52x	3.08%	3.25x	2.62	8.50	9.75	-13%	SELL
FIDELITYBK	8%	5%	55%	16%	4%	3.57	186.84	3.97x	0.08x	5.63%	5.18x	2.21	11.46	14.20	-19%	SELL
GTCO	7%	2%	34%	25%	5%	13.80	43.25	3.08x	0.98x	8.24%	4.42x	10.07	44.53	42.50	5%	HOLD
STANBIC	6%	2%	49%	18%	3%	10.41	36.35	6.29x	1.80x	5.34%	7.21x	9.16	66.05	65.50	1%	HOLD
STERLINGNG	6%	4%	67%	14%	4%	0.58	5.76	10.00x	1.00x	4.33%	4.32x	1.45	6.27	5.77	9%	HOLD
UBA	3%	2%	45%	36%	3%	14.72	51.99	1.97x	0.56x	5.87%	4.00x	7.31	29.25	28.95	1%	HOLD
WEMABANK	6%	5%	72%	10%	5%	1.74	9.22	4.23x	0.80x	4.07%	4.01x	1.59	6.38	7.38	-14%	SELL
ZENITHBANK	6%	2%	40%	22%	4%	15.41	61.15	2.73x	0.69x	8.57%	4.09x	11.27	46.09	42.00	11%	BUY

Consumer Goods

A Slow Recovery Through a Bumpy Course

In our consumer goods sector update, we discussed the landscape of the consumer goods industry in 2023, shedding light on the multitude of challenges encountered by consumer goods companies. These include the battle against inflation, foreign exchange (FX) losses attributed to the impact of Naira devaluation, and the consequential outcomes reflected in the various corporate actions. Additionally, we analysed the financial performance of key industry players as of 9M:2023 and our projections for 2024FY.

On a broad scale, we project that the consumer goods sector will likely improve mildly in 2024. This is hinged on revenue projections (driven by anticipated price increases, expansions in product portfolio, and investments). However, we note that challenges like mounting cost pressures and the continued weakening of the Naira remain a significant downside to our overall outlook. We also project modest earnings growth in 2024, which hinges on the projections for revenue and the low base effect from 2023.

Operational Hurdles Expected to Drive More Corporate Actions in 2024

In the past year, a challenging operating environment significantly impacted the consumer goods sector, prompting several companies to adopt strategic measures to sustain profitability. Looking ahead to 2024, we anticipate an increased likelihood of further corporate initiatives. These may encompass business restructuring, product diversification, strategic mergers, and acquisitions aimed at adeptly navigating the complex operational landscape and ensuring continued relevance in meeting evolving consumer demands.

Flour Millers : A Persistent Pinch on Millers' Wallets

Despite the decline in global wheat prices during the latter part of 2023, Nigerian flour millers continue to face escalating input costs, attributed to the devaluation of the Naira and increased energy expenses that significantly strain the sector. While major flour millers have heightened their efforts in backward integration strategies to bolster domestic production, persistent challenges such as insecurity in wheat-producing regions hindering farming activities, insufficient access to quality seeds, inadequate irrigation systems, and substandard storage facilities continue to plague the industry.

Looking ahead, we believe that the trajectory of rising input costs for the industry seems inevitable, given its heavy reliance on imports for the bulk of raw materials, rendering it vulnerable to fluctuations in exchange rates. However, we acknowledge the potential for a boost in domestic production driven by government initiatives. Notable among these are the recent acquisition of a USD163.00mn loan from the African Development Bank and the Federal government's directive to the Ministry of Agriculture to reduce input prices for farmers ahead of the planting season. These measures could positively influence the local production volume in the mid-to-long term.

Sugar Industry: Import Dependence to Keep Costs Elevated

Global sugar prices traded at historic levels owing to supply constraints. As a result, global sugar prices reached an all-time high, averaging USD0.54/kg in Q4:2023 (vs. USD0.40/kg in Q4:2022) and USD0.52/kg in 2023 compared to USD0.41/kg in the previous year. This is a result of the dual effects of unfavorable weather patterns (El Nino) causing drought in major sugar-producing countries, especially in South-East Asia, coupled with restrictions on sugar exports.

Efforts to improve domestic sugar production are underway as players move to increase local production. DANGSUGAR increased its acreage in Nasarawa (600ha), which kickstarted in December, and FLOURMILL commenced the production of Brown Sugar.

Fears of a prolonged El Nino weather pattern into the 2023/24 season is expected to alter sugar production particularly for India, Thailand and China and to keep global sugar price elevated for longer-than-expected periods as surplus volumes from Brazil would nit be sufficient to cover the deficit.

Furthermore, with over 90% dependency on raw sugar imports for local production, industry players like DANGSUGAR, FLOURMILLS, and BUAFOODS are likely to encounter further upticks in production cost as the higher prices of inputs and currency depreciation will keep costs elevated for longer periods. For domestic players involved in backward integration (in line with the government's Sugar Master plan), we opine that the incentives and tax holiday would reduce costs for the period. Input costs are also expected to be lower as a result.

For brewers, our outlook is for moderate revenue increases with a slight improvement in earnings. This is hinged on our expectation that companies will adopt diverse strategies to navigate the cost strain, to mitigate the impact on their overall financial performances.

Valuation and Fundamental Metrics																
	Fundamentals					Trailing				Valuation						
	AT	NM	ROE	ROA	Lev	EPS	BVP	P/E	P/BV	Exp Div Yield	Target PE	Exp. EPS	2024 TP	CP	UPP	RT
GUINNESS*	0.97	-8%	-31%	-7.50%	4.14	-8.36	26.95	-7.29x	2.26x	2.05%	4.89	15.25	74.51	61.00	22.15%	BUY
NB*	0.79	-11%	-52%	-8.28%	6.31	-5.72	10.94	-6.48x	3.39x	-	4.38	10.84	47.46	37.05	28.11%	BUY
BUAFOODS	0.86	20%	50%	16.92%	2.97	7.12	14.20	27.65x	13.87x	4.50%	19.54x	9.71	189.73	196.90	-3.64%	HOLD
CADBURY*	0.94	-17%	-435%	-16.32%	26.64	-6.64	1.53	-2.54x	11.06x	0.00%	9.43x	2.80	26.37	16.90	56.04%	BUY
DANGSUGAR	0.69	1%	2%	0.47%	4.89	0.24	10.37	273.91x	6.27x	2.80%	24.65x	2.72	67.11	65.00	3.25%	HOLD
FLOURMILL	1.36	1%	7%	1.16%	6.07	3.73	52.85	8.99x	0.63x	4.87%	8.57x	4.69	40.17	33.50	19.91%	BUY
NASCON	0.99	18%	50%	17.37%	2.86	5.13	10.34	11.65x	5.78x	3.74%	21.32x	3.15	67.17	59.80	12.32%	BUY
NESTLE*	1.02	-7%	82%	-6.85%	-12.00	-43.21	-52.57	-27.68x	-22.75x	0.00%	7.98x	166.14	1,325.07	1,196.00	10.79%	BUY
UACN**	1.07	4%	9%	4.46%	2.06	1.60	17.45	9.76x	0.90x	6.02%	1.04x	16.07	16.73	15.65	6.90%	HOLD
UNILEVER**	0.78	6%	10%	4.79%	2.00	1.13	11.80	13.90x	1.33x	3.07%	18.45x	0.97	17.90	15.70	14.01%	BUY

* Target P/E – Target EV/EBITDA
**Target P/BV – Target P/BV

Energy

Upstream Sub-Sector

Production Pains, Price Predicaments

In comparison to 2022FY, both production levels and crude oil prices declined in 2023. Various factors including terminal operational disruptions, strike actions, vandalism and theft activities negatively impacted production output. Persistent speculations regarding the Middle East conflict and sluggish demand from China kept prices fluctuating around the range of USD70-90 per barrel throughout the year. SEPLAT reported a topline growth of 31.01% YoY in 9M:2023, attributed to higher total crude lifted during this period (+76.70% YoY to 8.70mbpd) that helped mitigate the effect of lower average realized oil price (-23.55% YoY to USD82.76pb from the USD108.25pb in 9M:2022). Despite foreign exchange loss and overlifts (surplus of crude lifted above its share of production), the company's net income increased by 38.60% YoY to NGN46.93bn.

Our outlook for oil price in 2024FY is to remain in the range of USD90-100 pb. This projection considers OPEC+'s targeted oil supply cuts, warring tensions and subdued demand. Additionally, with the resumption of production in major terminals and other production enhancement procedures, we foresee an improvement in production output levels to 1.55mbpd in 2024FY. Overall, we anticipate the uptrend in oil price to positively influence SEPLAT's financial performance in 2024FY.

Downstream Sub-Sector

Return to Status Quo: Shelfing the Importation Licenses

Following the subsidy removal and deregulation of the downstream oil sector, the Nigerian Midstream and Downstream Regulatory Authority (NMDPRA) issued licenses to downstream oil and gas companies for the importation of petroleum products into the country.

However, these companies faced challenges in obtaining sufficient foreign exchange amid illiquidity and continuous depreciation of the Naira, thus unable to import petroleum products actively. Consequently, NNPC resumed its role as the sole importer of petroleum products. Despite the volatility in global oil prices and the depreciation of the Naira, the price of PMS has remained relatively stable since the removal of subsidies in May. This suggests that the prices still do not accurately reflect the current market realities.

Local Refineries: Catalysts of Change

With the commencement of operations at the Dangote refinery and the Port Harcourt refinery, boasting production capacities of 650,000bpd and 210,000bpd, respectively, the Nigeria Upstream Petroleum Regulatory Council (NUDPRC) issued a compulsory Domestic Crude Supply Obligation (DCSO) to upstream companies aimed at bolstering domestic refining capacity. This mandate requires the upstream companies to supply a total of 483,000bpd of crude oil to the refineries in H1:2024. This move comes in response to the challenges faced by local refineries in sourcing crude oil. Consequently, the expectation is that oil marketers will increasingly source petroleum products locally rather than rely on imports. While the currency of purchase (whether in Naira or dollars) remains uncertain, we anticipate increasing fuel prices, reflecting market realities. This shift is likely to result in increased revenue for downstream oil and gas players as petroleum product prices rise. However, considering the narrow profit margins in the industry, we foresee the cost of sales increasing at a similar pace to the topline. Additionally, the prevailing high borrowing costs pose a downside to earnings growth. In summary, we anticipate healthy price competition amongst players, with the most efficient players expected to achieve higher margins.

Need for Collaborations and Investments

The Nigerian oil and gas sector attracted foreign investment interests in 2023, which is needed to optimize the efficiency of existing structures and facilitate the streamlined deployment of new ones. Notably, the gas industry has garnered attention in light of the government's commitment to explore and develop its vast gas reserves (c. 209trn cubic feet, as per NUPRC estimates).

Furthermore, the sector is actively implementing the Nigerian Gas Flare Commercialization Programme (NGFCP) to utilize and convert gas flares into economically viable resources. Several countries, including Turkey, Germany, Argentina, and Libya, have expressed interest in Nigeria to supply their natural gas needs. The demand for gas is rapidly increasing, but insufficient infrastructure for exporting the commodity from Nigeria underscores the crucial need for investments.

In its recently unveiled 2024 oil and gas sector regulatory action plan, the NUPRC has outlined key deliverables, including the conclusion of the bidding round for deep offshore oil block licenses. Additionally, the commission aims to pursue strategies to optimize the unit cost of production for oil and gas. This involves driving down the average unit cost of production across all terrains to below USD20pb, from the current range of USD25 – 40pb.

It is worth noting that the substantial resource potential coupled with a focus on operational efficiency may serve as catalysts for increased capital expenditure (CAPEX) investments across the entire value chain of the oil and gas sector. This, in turn, is expected to generate increased foreign interest in the domestic sector.

Valuation and Fundamental Metrics

	Fundamentals					Trailing				Valuation						
	AT	NM	ROE	ROA	Lev	EPS	BVP	P/E	P/BV	Exp Div Yield	Target PE	Exp. EPS	2024 TP	CP	UPP	RT
SEPLAT	0.15	8%	2%	1.23%	2.00	55.88	2,281.42	41.34x	1.01x	4.16%	9.33	201.92	1,883.44	2,310.00	-18%	SELL
TOTAL	1.33	3%	27%	3.38%	7.90	42.50	158.99	9.06x	2.42x	6.67%	7.49	57.12	427.92	385.00	+11%	BUY
CONOIL	2.00	7%	36%	13.37%	2.66	17.25	48.56	5.51x	1.96x	2.94%	5.96	13.56	80.79	95.00	-15%	SELL
ETERNA	2.10	-3%	-61%	-7.23%	8.43	-3.90	6.40	-4.23x	2.58x	2.18%	13.07	1.09	14.25	16.50	-14%	SELL
MRS	2.61	3%	18%	7.81%	2.31	11.68	64.74	9.85x	1.78x	0.00%	9.06	12.68	114.97	115.00	-0%	HOLD

Healthcare

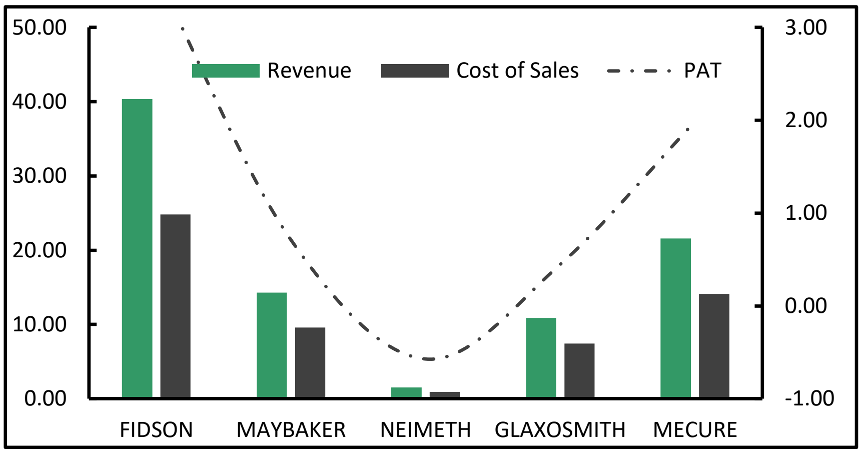
Pills and Profits - Balancing Success and Struggles

The Nigerian healthcare sector demonstrated growth in 2023, highlighted by an improved real output, with the chemical and pharmaceutical products GDP expanding by 6.77% YoY in Q3:2023 compared to 6.41% YoY in the previous period. Noteworthy developments in the sector include **FIDSON's** collaboration with Asia's Aidea Pharma in H2:2023 to produce drugs for HIV treatment and the listing of Mecure Industries Plc on the Nigerian Exchange in 2023, which resulted in increased investor participation in the sector.

The industry grappled with challenges amplified by economic headwinds such as inflationary pressure and exchange rate volatility. As a result, GlaxoSmithKline Consumer Nigeria Plc, a major pharmaceutical giant, announced its exit from the Nigerian market due to difficulties accessing foreign exchange (FX), impacting product availability. Our company note provides valuable insights into the decision to cease operations, accompanied by recommendations for the stock ahead of the proposed cash compensation. Sanofi-Aventis Nigeria Ltd, a major supplier of polio vaccines, also announced its exit from the Nigerian market and transition to a third-party distribution model. We posit that these exits create an opportunity for existing companies to capture market share further. We also anticipate an increase in pharmaceutical and consumer health product prices in 2024.

Across the listed companies under our coverage, revenue expanded moderately by 3.66% YoY in 9M:2023 on the back of expansion of sales volume and implemented price adjustments aimed at mitigating escalating input costs.

Chart 30: Top Industry Players Performance 9M:2023 (NGN'bn)



Source: Companies' Financials, Meristem Research

However, of these companies, only **FIDSON** (+3.81% YoY) registered an increase in earnings as surging raw material prices, increasing operational costs, and rising borrowing costs undermined the uptick in revenue.

We anticipate a strengthened financial performance at the industry level in 2024FY, propelled by anticipated growth in sales volumes and projected price adjustments to align with the prevailing macroeconomic conditions. However, we foresee a corresponding upswing in production costs and operational expenses, attributed mainly to expected increases in transportation and energy costs and sustained high inflation. Furthermore, considering the industry's reliance on imports for its critical raw material - active pharmaceutical ingredients (API) - the Naira's continuous depreciation is poised to spur the industry's import bills. Hence, we project only marginal improvement in earnings for players in the sector.

Valuation and Fundamental Metrics																
	Fundamentals					Trailing				Valuation						
	AT	NM	ROE	ROA	Lev	EPS	BVP	P/E	P/BV	Exp Div Yield	Target PE	Exp. EPS	2024 TP	CP	UPP	RT
FIDSON	0.97	9%	22%	8%	2.65	1.88	8.38	8.66x	1.95x	2.87%	9.55	2.35	22.48	19.20	17.08%	BUY
GLAXOSMITH*	0.54	5%	8%	3%	3.15	0.62	7.80	27.63x	2.18x	-	-	-	17.42	17.00	2.47%	-
MAYBAKER	1.03	4%	9%	4%	2.10	0.45	4.88	11.31x	1.04x	5.04%	8.68	0.80	6.92	5.95	16.30%	BUY
NEIMETH**	0.27	-35%	-22%	-9%	2.36	-0.20	0.91	-9.35x	2.09x	-	1.80	0.98	1.75	1.92	-8.85%	HOLD

*Target Price – Exit Price

** Target P/E – Target Price to book

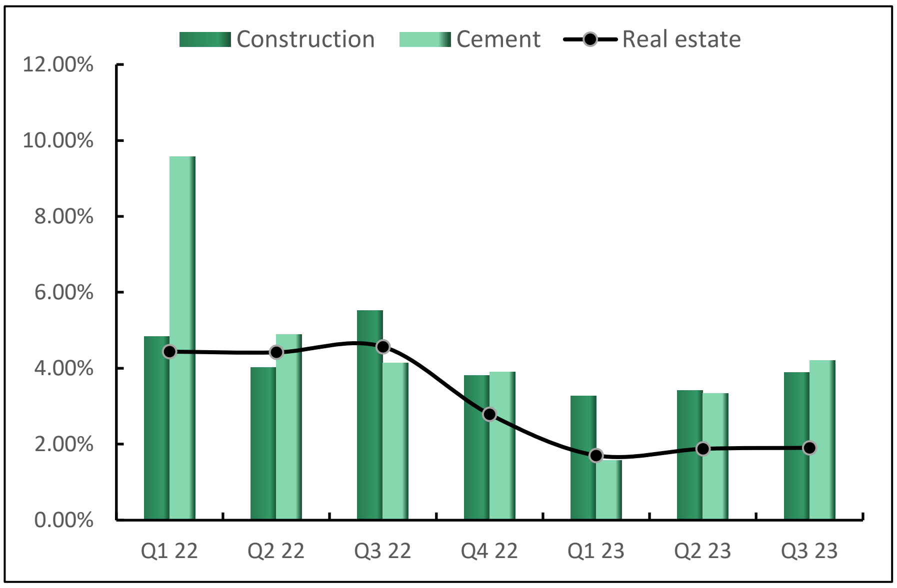
Industrial Goods

Infrastructural Developments to Sustain Sectoral Growth

Despite the challenges brought on by the cash crunch in Q1:2023, the impact of FX liberalization, lower government spending on infrastructural projects post-election, reduced public-private partnership, and heavy rainfall impacting construction activities, the industrial goods sector recorded growth in 2023.

This is evinced by the expansion in cement (3.02% YoY), construction (3.52% YoY) and real estate sectors (1.82% YoY) as of 9M:2023. However, the impact of these challenges was not wholly lost on the sectors, as the growth recorded was considerably lower than that of Q3:2022. The real estate sector, in particular, saw little investment as the high cost of borrowing characterized the general economy.

Chart 31: Construction, Cement and Real Estate Real GDP Growth Rate

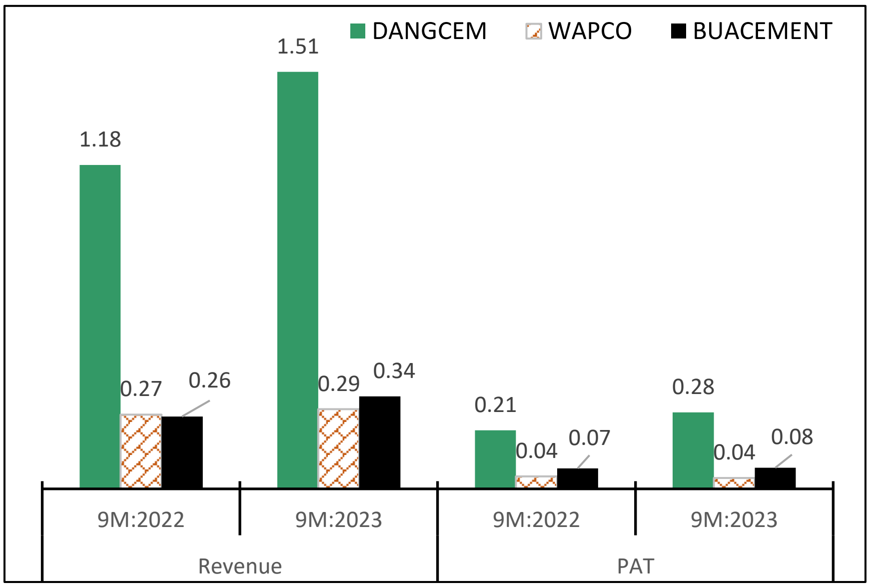


Source: NBS, Meristem Research

The cement players under our coverage also recorded lower sales volumes in 9M:2023. The total volumes sold by the players declined by 1.90% YoY to 28.91MT (vs 29.47MT in 9M:2022). Thus, total revenue for the three listed players was up by 25.14% in 9M:2023 driven by the higher sales volume and upward price adjustments during the period.

In 2024, we estimate revenue for the listed players to reach NGN3.25trn, supported majorly by higher sales volumes from the BUACEMENT and DANGCEM's increase in production capacity despite lower prices. We also expect an increase in demand (sales volume) locally from both the private and public sectors – especially given the government's projected spending on capital expenditure and significant allocation to infrastructure projects in the budget. Similarly, the rise in exporting activities across players within the industry is expected to be a major catalyst for the sector's expansion in 2024.

Chart 32: Financial Performance of Cement Companies (9M:2021 - 9M:2022) NGN'trn



Source: Companies Financials, Meristem Research

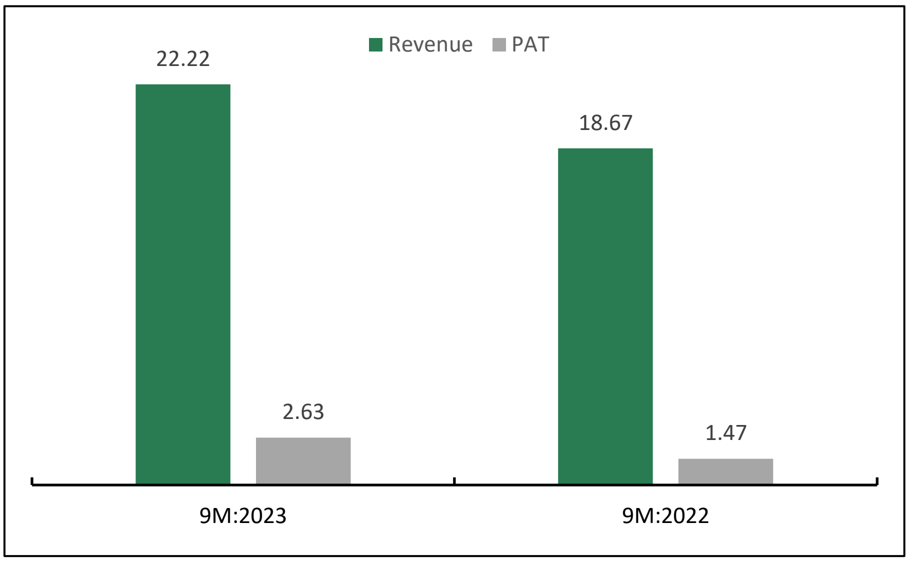
Paint Sub-sector

...Projected to Sustain Double Digit Growth

The paint manufacturers also had a positive outing in 2023. Combined revenue for the players increased by 26.34% for listed players – CAP, BERGER, and MEYER. This is an offshoot of the improvement in the real estate sector, culminating in increased sales volumes for players. Earnings also increased significantly (+79.32%) despite the unfavorable macroeconomic environment and exposure to the FX volatility as a substantial part of their raw materials is imported.

We expect the paint manufacturers to continue to reel in double-digit revenue growth in 2024FY. Our expectation is hinged on the anticipated growth in the real estate sector, increased infrastructural development and urbanization trends. We opine that the paint players would adopt innovative trends to increase coating solutions and their overall paint application services segments. However, inflationary pressures and FX devaluation could remain a significant headwind for growth in the sector due to the over-dependence on importation of raw materials.

Chart 33: Cumulative Financial Performance of Listed Paint Companies (9M:2023 - 9M:2022)



Source: Companies' Financials, Meristem Research

Fundamentals and Valuation Metrics

	Fundamentals					Trailing				Valuation					
	AT	NM	ROE	ROA	Lev	EPS	BVP	P/E	P/BV	Exp Div Yield	Target PE	2024 TP	CP	UPP	RT
DANGCEM*	0.60	24%	33.0%	14.0%	2.29x	22.65	69.17	12.58x	4.12x	7.61%	10.35x	402.51	325.00	23.85%	BUY
WAPCO*	0.64	16%	12.1%	9.0%	1.35x	3.17	26.76	9.09x	1.08x	7.15%	6.67x	58.43	34.65	68.63%	BUY
BUACEMENT*	0.41	12%	23.9%	12.4%	2.13X	4.95	12.14	18.65	7.13	2.98%	17.19x	102.97	102.00	0.95%	HOLD
CAP	1.43	12%	35.2%	20.4%	2.03X	2.65	8.10	7.24	2.37	9.79%	12.89x	33.53	21.00	59.67%	BUY
BERGER	1.15	3%	6.3%	3.8%	1.66x	1.04	11.95	9.62x	0.84x	5.00%	10.59x	19.06	14.30	33.29%	BUY

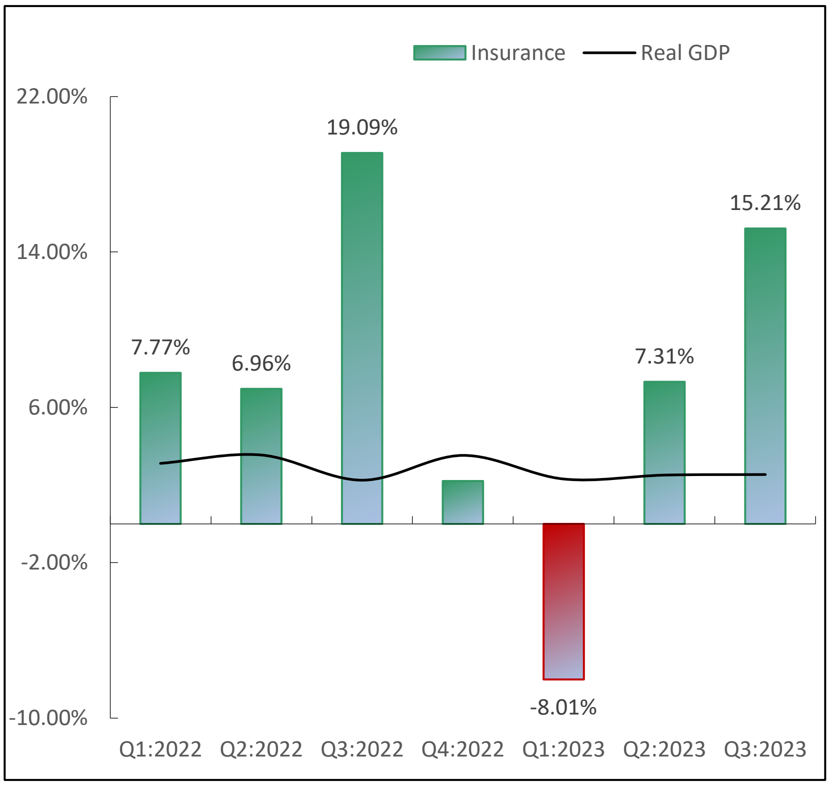
Insurance

Treading new paths: Striving for Sustainable Growth

The insurance industry grew by 15.21% YoY in Q3:2023. This, however, represents a slower growth compared to the 19.09% YoY recorded in Q3:2022 and Other financial institutions, which grew by 29.66% YoY in Q3:2023 (vs. 12.03% in Q3:2022). During the year, insurance products witnessed healthy demand, stemming from increased consumer confidence in the sector despite the harsh macroeconomic environment. Also, strategic and concerted efforts by the regulators to enhance technology adoption by insurance players in product distribution and business optimization contributed to the industry's overall growth.

In line with our expectation, the financial performance of insurance players in 9M:2023 reflected a sustained growth in premium income (+22.66% YoY to NGN381.91bn), gleaning from available financial records of listed players. This growth was driven by expansion across business segments, with the non-life segment growing significantly by 57.65% YoY. Remarkably, the oil and gas, fire and motor insurance product lines spurred the growth in the non-life business, contributing 31.40%, 26.60% and 15.80%, respectively. Although claims payment increased during the period (+43.92% YoY) due to the impact of the higher inflationary environment, underwriting profit rose by 5.96% YoY. This underscores improved underwriting efficiency by the insurance players during the period. However, the underwriting margin fell slightly to 9.27% YoY (vs 10.73% YoY in Q3:2022). Nonetheless, the industry bottom line spiked by 124.50% YoY in 9M:2023, hinged on increased investment income during the period (+23.77% YoY) and significant foreign exchange gains for some players, owing to currency devaluation during the period, which outweighed the impact of higher operating cost during the year.

Chart 34: Insurance Sector and Real GDP Growth Rate



Source: *NBS, Meristem Research*

Chart 35: Key Metrics of Listed Insurers (Q3:2023 vs Q3:2022 (NGN'BN))

Source: *Companies' Financials, Meristem Research*

We maintain a positive outlook for the sector in 2024, hinged on expansion across business segments, especially the life insurance segment, which should support premium growth as insurance uptake increases. In the same vein, we anticipate increased health insurance coverage as policy reforms by the new administration support developments in the health sector. Also, our expectation of a high fixed-income yield environment in the year should lower provisioning for life & annuity funds and bolster investment income. Thus, we expect underwriting profit and net income to increase during the period. On the other hand, increased underwriting and operating costs resulting from the high inflationary environment may drag profitability for the insurers during the year.

Valuation and Fundamental Metrics

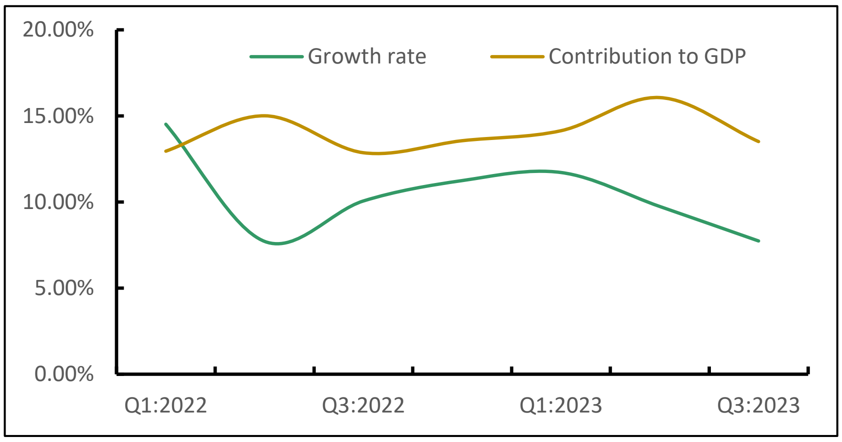
	Fundamentals					Trailing				Valuation						
	AT	NM	ROE	ROA	Lev	EPS	BVP	P/E	P/BV	Exp Div Yield	Target PE	Exp. EPS	2024 TP	CP	UPP	RT
AIICO	0.3	9%	20%	3%	6.8	0.24	1.21	4.84x	0.95x	4.23%	5.10	0.30	1.53	1.15	+33.04%	BUY
CORNERSTONE	0.4	49%	39%	18%	2.2	0.70	1.79	2.42x	0.95x	18.18%	5.00	0.26	1.30	1.70	-23.53%	SELL
CUSTODIAN	0.5	14%	22%	7%	3.2	2.93	13.58	3.71x	0.80x	10.67%	3.52	3.29	11.58	10.85	+6.73%	HOLD
LASACO	0.6	6%	7%	3%	2.0	0.51	7.27	4.33x	0.30x	4.77%	4.50	0.71	3.21	2.20	+45.90%	BUY
MANSARD	0.6	17%	36%	10%	3.6	1.50	4.16	3.73x	1.35x	1.52%	7.00	0.90	6.30	5.60	+12.50	BUY
NEM	0.7	15%	179%	10%	17.67	1.34	0.74	4.75x	8.53x	4.69%	9.80	0.63	6.17	6.35	-2.83%	SELL
WAPIC	0.5	-7%	-7%	-3%	2.1	-0.06	0.89	-11.35x	0.80x	-	13.00	0.05	0.65	0.71	-8.45%	SELL

Telecommunications

Output Weighed Down by Adversities

The telecommunications sector sustained its impressive contribution to the GDP, accounting for 13.50% in Q3:2023 (as compared to 12.85% in Q3:2022). However, growth was on a downward trend in 2023. As of Q3:2023, the sector expanded by +7.74% YoY (lower than +9.74% YoY in Q2:2023 and +10.06% YoY in Q3:2022). The positive impact of increased internet usage, adoption of the 4G & 5G networks, and continuous CAPEX investments by telco players was subdued by the decline in subscriber base and the escalating effect of the currency devaluation on the sector's operations.

Chart 36: Telecommunications Sector Growth and Contribution to GDP

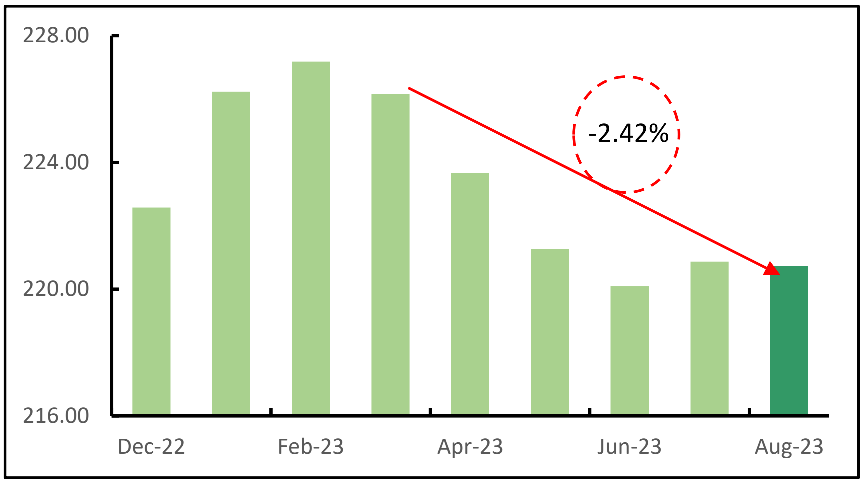


Source: NBS, NCC, Meristem Research

Another Looming Hit for Subscriber Base?

In December 2023, the Nigerian Communications Commission (NCC), under its new leadership, directed all mobile network operators (MNOs) to disconnect all phone lines whose users had not submitted their national identity numbers (NINs). This directive is set to take effect on 28 February 2024 for lines without NINs and on 29 March 2024 for lines whose NINs have not been verified. Recall that the NCC gave a similar notice in 2021, which led to a loss of c. 9.00mn subscribers. The industry is still grappling with the repercussions of cash shortages from H1:2024, which resulted in a 2.42% decline in the subscriber base to 220.72mn as of August 2023. While we acknowledge the MNO's concerted efforts to accelerate the verification process and encourage users to submit their NINs, we anticipate a potential decline in the subscriber base, as more users will face disconnection.

Chart 37: Trend in Total Subscriber Base ('mn)



Source: NCC, Meristem Research

Financial Performance Outlook

Telecom players **MTNN** and **AIRTELAFRI** were adversely affected by the devaluation of the Naira, leading to the revaluation of their dollar-denominated liabilities and strains on CAPEX investments. Despite revenue growth for both companies (+21.76% YoY for **MTNN** and +9.70% YoY for **AIRTELAFRI**), net income contracted (**MTNN's** declined by 45.23%, and **AIRTELAFRI** incurred a loss of USD13mn). In 2024FY, we anticipate top-line growth driven by the increased data usage and continued demand for connectivity. However, a potential decline in the mobile subscriber base poses a downside risk to our outlook. We anticipate improved earnings despite inflation and FX volatility affecting operating and finance costs. This improvement is attributed to the absence of the one-off impact of foreign exchange losses recorded in 2023FY. Consequently, we expect both players to report net income growth in 2024FY.

Valuation and Fundamental Metrics

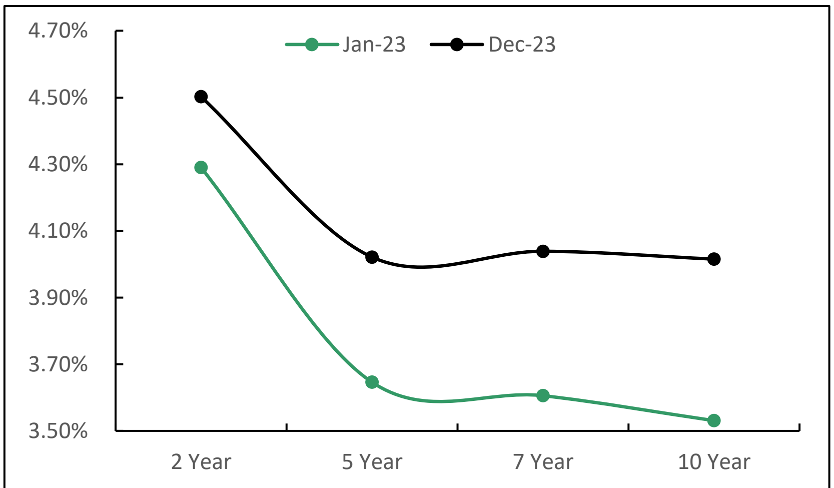
	Fundamentals					Trailing				Valuation						
	AT	NM	ROE	ROA	Lev	EPS	BVP	P/E	P/BV	Exp Div Yield	Target PE	Exp. EPS	2024 TP	CP	UPP	RT
MTNN	0.76	10%	76%	7.70%	9.93	11.31	14.79	25.20x	19.27x	5.47%	16.64	18.59	309.33	285.00	+9%	HOLD
AIRTELAFRI	0.48	8%	11%	3.64%	2.93	108.30	1,013.26	18.47x	1.97x	0.29%	2.61	559.83	1,461.15	2,000.00	-27%	SELL

Global Fixed Income

Harvest Time for Fixed Income

Despite the numerous global macroeconomic headwinds, the fixed-income market was relatively positive in 2023. With major central banks catapulting policy rates to their highest since the Global Financial Crisis (GFC), short-duration treasury yields rose faster and higher than yields at the longer end of the curve. This has especially been the case for the US Treasury yields, and as a result, the yield curve has remained inverted, with the 2-year US treasury yield (4.25% at the end of 2023) higher than a 10-year treasury yield (3.88% at the end of 2023). Though the market expects between 75bps and 100bps rate cuts from the US Fed, we expect this run to begin towards the second half of 2024. Thus, we consider an overweight on short-duration treasury bonds a better investment strategy in 2024.

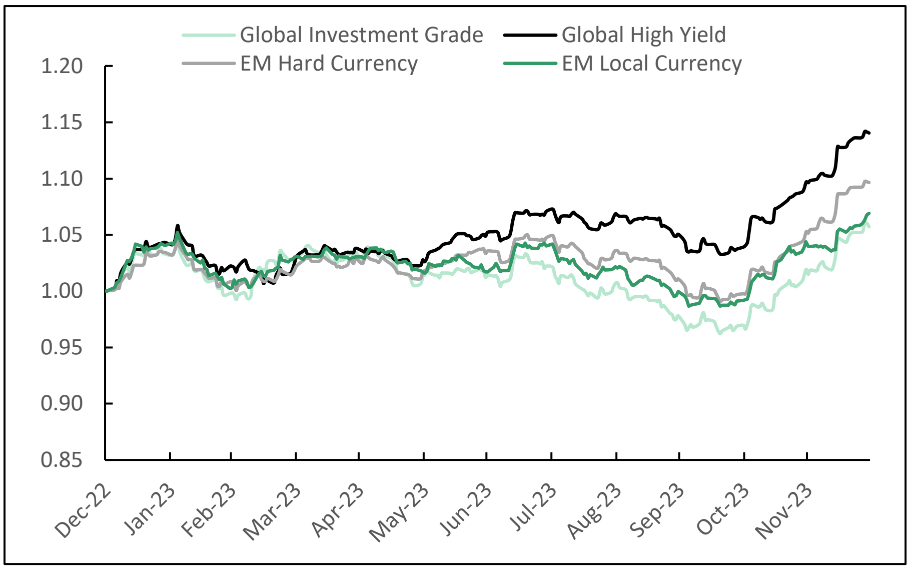
Chart 38: US Treasury Yield Curve Remains Inverted



Source: Bloomberg, Meristem Research

In 2023, global high-yield bonds (+14.04%) outperformed their counterparts, primarily driven by the heightened expectation of a soft landing in major developed markets. However, we foresee a change in dynamics in 2024 hinged on the broad outlook of sluggish growth, especially in advanced economies. Given this position, corporates' bottom-line should feel the heat. Moreover, there is a direct implication of higher refinancing costs for companies seeking funds in the debt market to meet their refinancing needs. Thus, we believe this situation favours high-quality investment-grade corporate bonds more.

Chart 39: Market Performance Across Global Fixed Income Markets in 2023



Source: Bloomberg, Meristem Research

While the debt instruments of major emerging markets (Brazil, Indonesia, India, Mexico, Poland, and South Africa) gained increased interest from investors given their attractiveness, some other EM economies witnessed selloffs on their bonds (especially their local currency-denominated instruments). This divergence can be primarily linked to the heightened pressure of the USD appreciation on the countries' currencies. Consequently, the Bloomberg EM Hard Currency Index returned 9.63% in 2023, higher than the 6.91% return on the Bloomberg EM Local Currency Index. We see a continuance of this trend in 2024 as the emerging market's hard currency debt instruments are poised to give investors higher returns. Moreover, the EM hard currency index offers a higher yield relative to a similar-tenor US treasury bond, and we expect the spread to remain wide, particularly when the Fed embarks on an expansionary policy stance. In 2024, we believe the fixed-income market is well-positioned as an attractive investment opportunity. Our expectation of a higher-for-longer policy rate and sluggish economic growth prospects for many advanced economies make case for both short-duration treasury bonds and high-quality investment-grade corporate bonds. Also, we maintain a positive outlook for emerging market hard-currency debt instruments while we advise investors to stay underweight on emerging-market local-currency debt instruments.

Domestic Fixed Income

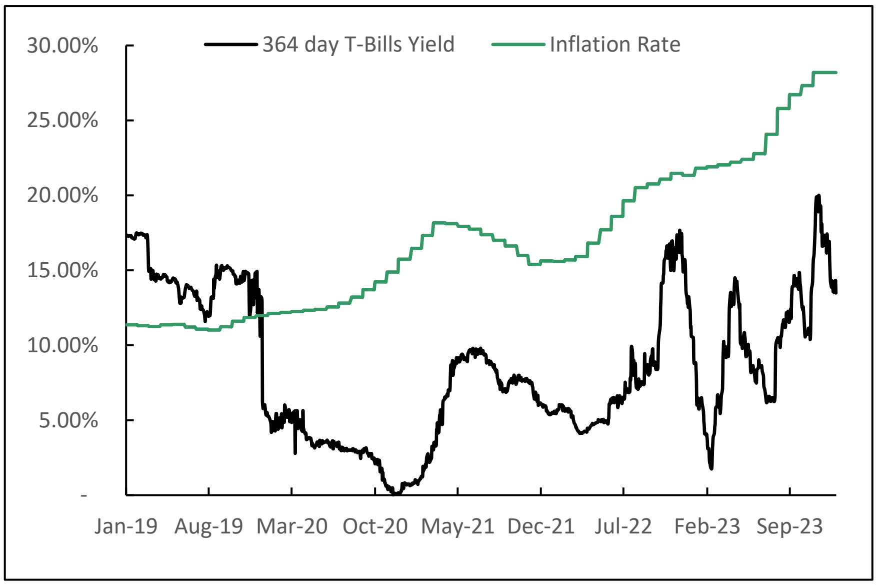
Treasury Yields Reach Historic Levels

To finance its 2023 NGN10.33trn budget deficit, the Government issued Treasury instruments totaling NGN7.51trn (NGN2.13trn Treasury bills and NGN5.38trn FGN bonds). This represents the highest amount raised by the Government on record in the domestic fixed-income market. Against this backdrop, activity levels in both the primary and secondary markets skyrocketed in 2023. At the T-bills auctions held in 2023, total subscription (NGN20.85trn) stayed at 4.87x the figure recorded in 2022 (NGN4.28trn), while total subscription at the FGN bond auction improved significantly by 59.75% YoY to NGN7.43trn in 2023. Again, the highlighted figures mark record-high numbers, underscoring the improved participation and activities in the domestic fixed-income market during the review period.

It is, however, pertinent to mention that the increased activity level was more pronounced in the second half of the year following the numerous measures implemented by the monetary authority that directly impacted the market. Factors including adjustment of the asymmetric corridor, removing the NGN2bn cap on the Standing Deposit Facility (SDF), reintroducing OMO bills, and periodic CRR debits significantly influenced the system liquidity level in 2023.

Owing to these factors, Treasury yields at both the primary and secondary markets rallied to high levels last witnessed in 2019. At the secondary market, the yield on 364-day notes peaked at 20.00% in November – narrowing the real return to -820bps vs (-1297bps at the start of 2023). Thus, the average T-bills yield stayed higher at 8.18% at the end of 2023 (vs 5.71% at the end of 2022).

Chart 40: 364-Day T-bills Yield vs Inflation Rate



Source: FMDQ, NBS, Meristem Research

In the second half of the year especially, the FGN bond market was predominantly bearish. Of the 22 FGN bonds in issue, 19 of them recorded negative price return in 2023. Furthermore, the S&P/FMDQ Nigeria Sovereign Bond Index, which tracks Naira-denominated Sovereign debt, declined by 0.98% in H2:2023 (vs 9.94% in H1:2023). Moreover, the average bond yield settled at 14.13% at the end of 2023 (109bps higher than 13.04% at the end of 2022).

Table 13: Price Return and Yield of Selected FGN Bonds in 2023

FGN Bond	Price Return (%)	Yield (Dec-2023)
JAN-26	-3.59	13.30%
MAR-27	+0.91	13.04%
JUL-34	-8.35	14.86%
JAN-42	-9.66	15.45%
MAR-50	-12.82	16.09%
JUN-53	-0.79	16.25%

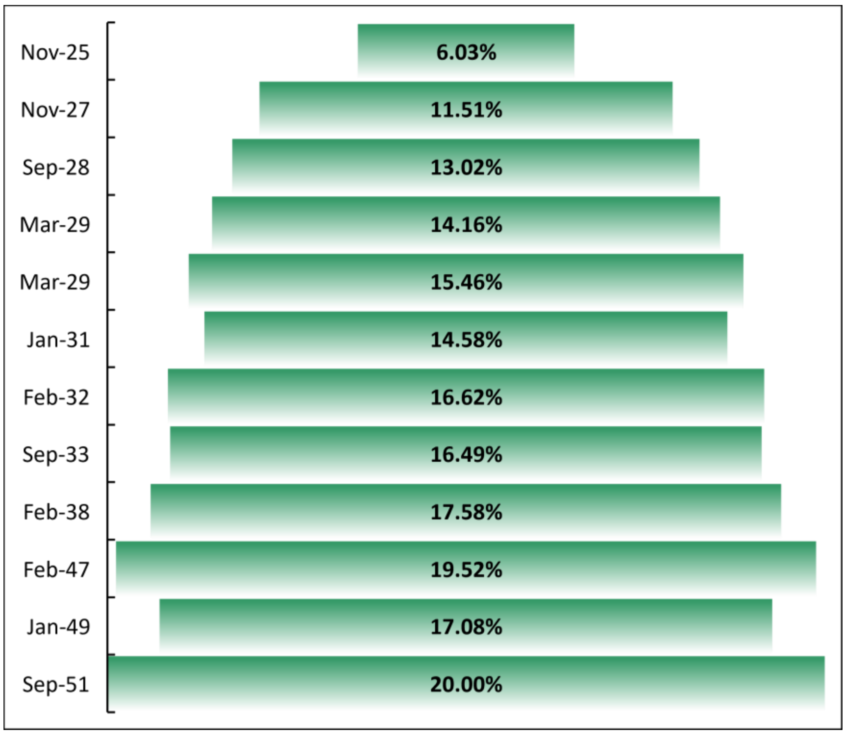
Source: FMDQ, Meristem Research

Eurobonds

Unlike the domestic market, the international market was relatively positive for Nigerian Eurobonds in 2023. The broad upbeat mood was primarily supported by the significant bullish run in the second quarter of 2023 following the optimism surrounding the twin reforms the fiscal authority implemented. Notwithstanding, in Q3:2023, concerns around the country's low external reserve and rapidly declining currency against the USD provoked selloffs on the instruments. However, the impact was minimal as the Government moved to restore investors' confidence in its ability to repay via full redemption of its USD500mn JUL-2023 Eurobond and other agreements to assess foreign inflows. Furthermore, the Fed's decision to pause its rate hikes at the end of 2023 enhanced the attractiveness of these instruments. Overall, the average Eurobond yield decreased to 9.49% at the end of 2023 (from 11.90% in 2022).

Notably, the longer-dated Eurobonds (Feb-38, Feb-47, Jan-49, and Sep-51) appreciated the most in 2023.

Chart 41: 2023 Performance of Nigerian Eurobonds



Source: DMO, Meristem Research

Commercial Paper and Corporate Bonds

The burden of high borrowing costs on corporates comes with dissuasion from issuing debt instruments due to the disadvantage of refinancing maturing instruments at higher interest rates. For this reason, many issuers avoided issuing corporate bonds in 2023. During the year, five (5) corporate bonds were listed on the FMDQ exchange compared to thirteen (13) in 2022. As of the end of 2023, the outstanding value of the newly issued corporate bonds was NGN120.50bn (vs NGN668.09bn in 2022).

Conversely, the cash crunch made it more pressing to tap into the money market for financing to meet working capital needs. As a result, commercial paper issuances skyrocketed by 89.09% to 104 issuances in H1:2023. Despite the lower issuances of CPs in the second half of the year, given the high-interest rate environment and narrowing spread relative to treasury instruments, total CP issuances in 2023 were 190 (vs 109 in 2022). To put it in perspective, listed CPs on the FMDQ exchange between Q1:2023 and Q3:2023 totaled NGN1.40trn compared to NGN1.29trn in the corresponding period of 2022.

In 2024, we expect the yield levels to stay elevated, especially in the year's first half. Our expectation of higher treasury yields is majorly hinged on a maximum of 200bps rate hike and a more stringent liquidity management strategy by the CBN. During the year, occasional swings are very probable. Given these considerations, we project that the average T-bills yield should be within the range of 9.59% - 10.59%, while we maintain that the average bond yield will likely be within the range of 15.54% - 16.54%.

In addition, we have a positive outlook for Nigerian Eurobond instruments in 2024. Premised on the expectation of a weaker USD and better outlook for the Nigerian economy, the Nigerian Eurobond instruments, especially the long-dated ones, should post positive price returns in 2024FY.

Fixed Income Strategy

In formulating a strategic approach, we meticulously assessed pivotal factors within both the global and local debt markets.

On the global front, we underscore the continuance of disinflation and anticipated dovish monetary stance. This nuanced analysis suggests an upswing in the attractiveness of Treasury instruments. Furthermore, considering the escalating risk of slower growth across many nations, there is a discernable preference for investment-grade instruments over high-yield alternatives.

In the domestic debt market, we considered the government's inclination to finance its fiscal deficit through local debt market borrowings. Furthermore, our expectation of a higher MPR and more stringent liquidity management strategies in 2024 were key factors that influenced our strategic considerations.

Based on our reflections, we recommend the use of **Barbell Strategy** as a preferred strategy to explore in 2024. In our view, short and long-duration instruments present attractive opportunities at respective periods during the year. On one hand, investment in instruments with modified duration lower than the market average would help reduce the effect of expected rise in yield. On the other hand, high-yielding long-duration instruments could benefit in an event of rate cut or more accommodative stance from monetary authorities.

The table below summarizes our outlook and strategy views on several global fixed income instruments:

Table 14: Fixed Income Outlook and Strategy

Instrument Type	Outlook	Strategy
U.S Treasury	Positive	Overweight (Short Duration)
Investment Grade Corporate Bonds	Positive	Overweight
High Yield Corporate Bonds	Negative	Underweight
EM Local Currency Bonds	Modest	Underweight
EM Hard Currency Bonds	Positive	Overweight
Cash	Modest	Underweight

Riding on the back of our recommendation of selected African countries' Eurobonds in our recently-published Fixed Income Commentary, the table below summarizes recommended Sovereign Eurobond instruments, time-to-maturity, maturity date, coupon rate, yield-to-maturity, and amount issued.

Table 15: Recommended Eurobond Instruments

Country	TTM (Yrs)	Maturity Date	Coupon Rate	Yield to Maturity*	Amount Issued (USD'bn)
Angola	5	09-May-2028	8.250%	11.437%	1.75
Nigeria	9	16-Feb-2032	7.875%	10.376%	1.50
Nigeria	24	28-Nov-2047	7.625%	10.436%	1.50
Nigeria	26	21-Jan-2049	9.248%	10.911%	0.75
Rwanda	8	09-May-2031	5.500%	9.318%	0.62
South Africa	7	22-Jun-2030	5.875%	6.793%	1.40
South Africa	29	20-Apr-2052	7.300%	8.098%	1.60

For the domestic debt market, we recommend the following:

Table 16: Fixed Income Portfolio Recommendation

Instrument Type	Proportion	Duration	Remark
Eurobonds	Up to 30%	Modest	Hedge against Naira depreciation, Low Liquidity
Commercial Papers	Up to 25%	Moderately High	Competitive Real Rate of Return, Low Liquidity
Corporate Bonds	Up to 10%	Moderately High	Modest Real Rate of Return, Low Liquidity
Treasury Bills	Up to 20%	Moderately High	Low Real Rate of Return, highly liquid
FGN Bonds	Up to 15%	Moderately High	Low Real Rate of Return, highly liquid

Table 17: Recommended Nigerian Local Bonds

FGN BONDS	Closing Yield	Coupon	Modified Duration	2024FY Forecasted Yield
13.53 23-MAR-2025	12.15%	13.53%	1.06	**13.56%**
12.50 22-JAN-2026	13.30%	12.50%	1.65	**14.71%**
16.2884 17-MAR-2027	13.04%	16.29%	2.37	**14.45%**
13.98 23-FEB-2028	13.80%	13.98%	2.92	**15.21%**
15.45 21-JUN-2038	15.41%	15.45%	5.69	**16.82%**
13.00 21-JAN-2042	15.45%	13.00%	5.77	**16.86%**
9.80 24-JUL-2045	15.59%	9.80%	6.06	**17.00%**
14.80 26-APR-2049	15.75%	14.80%	6.06	**17.16%**
12.98 27-MAR-2050	16.09%	12.98%	5.93	**17.50%**
15.70 21-JUN-2053	16.25%	15.70%	6.06	**17.66%**

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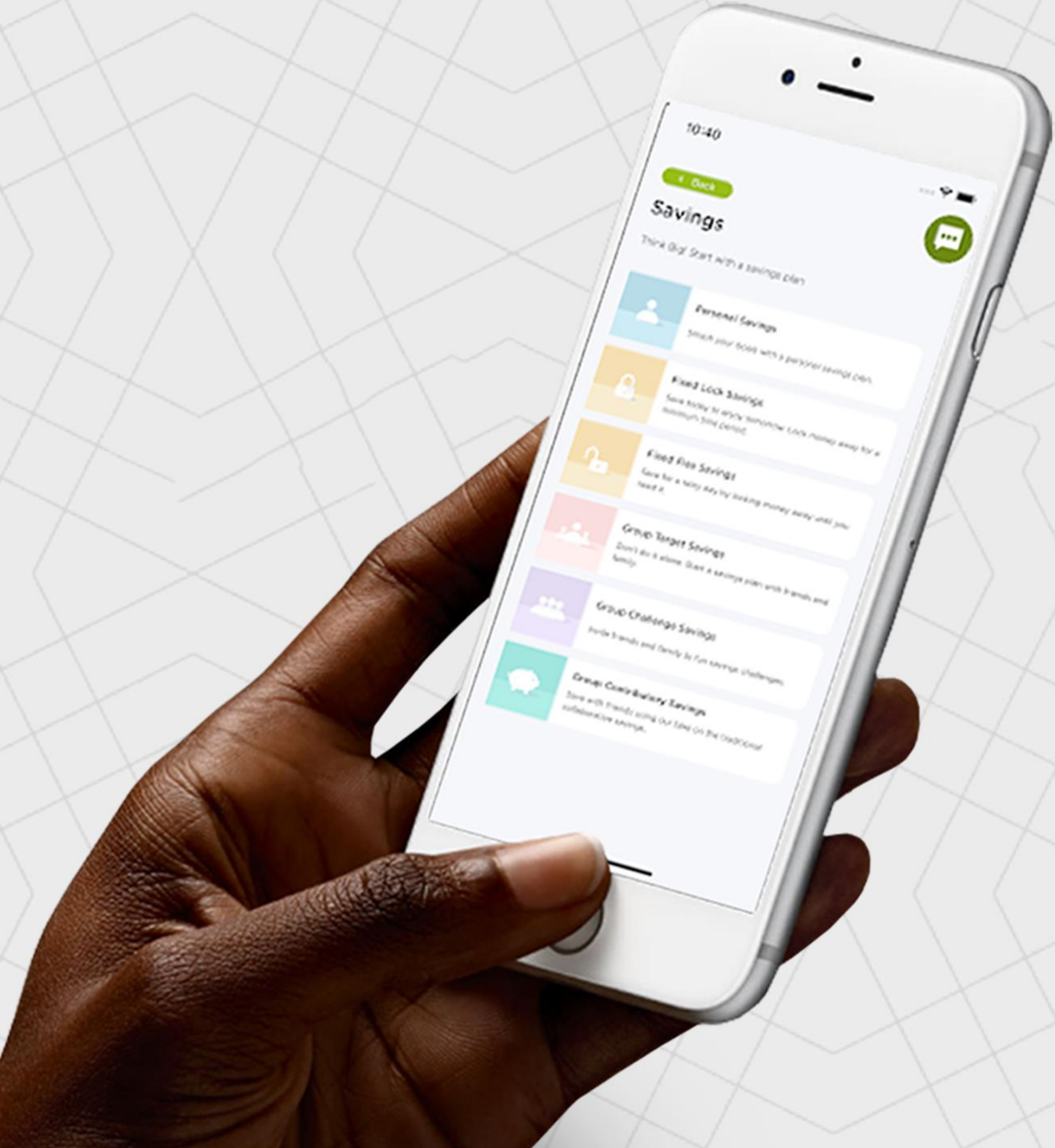

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Alternative Investments

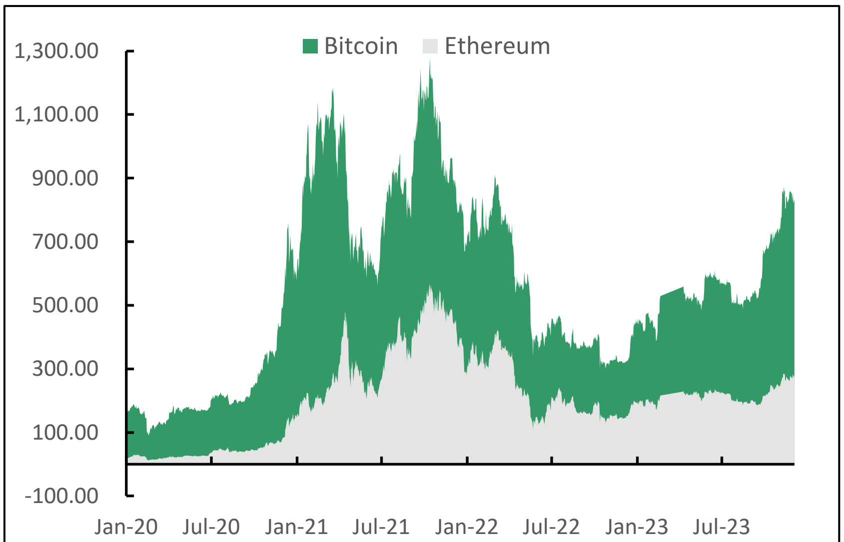
Cryptocurrency

Crypto is Here to Stay

Following the numerous industry-specific failures and regulatory measures that prompted a bearish run in the asset class in 2022, cryptocurrencies rebounded in 2023 as more favourable macroeconomic conditions boosted performance. As a result, Bitcoin and Ethereum (which jointly account for c.67% of total cryptocurrency market capitalization) gained 156.03% and 89.84% in 2023, respectively. Similarly, popular altcoins like Polkadot, BNB, Solana, Cardano, and Ripple jumped by 89.68%, 27.20%, 918.13%, 141.37%, and 82.84%, respectively. To put the bullish run into better perspective, the total market cap of cryptos doubled to USD1.69trn in 2023.

2023 also saw major players in the financial industry show increased interest in the crypto market. Particularly, financial institutions, including BlackRock, Fidelity, Invesco, VanEck, and Ark Invest, have submitted applications to the Securities and Exchange Commission (SEC) to launch spot bitcoin exchange-traded funds (ETFs). While the SEC has rejected several applications in the past, there is growing optimism that the approval of these applications is only a matter of time.

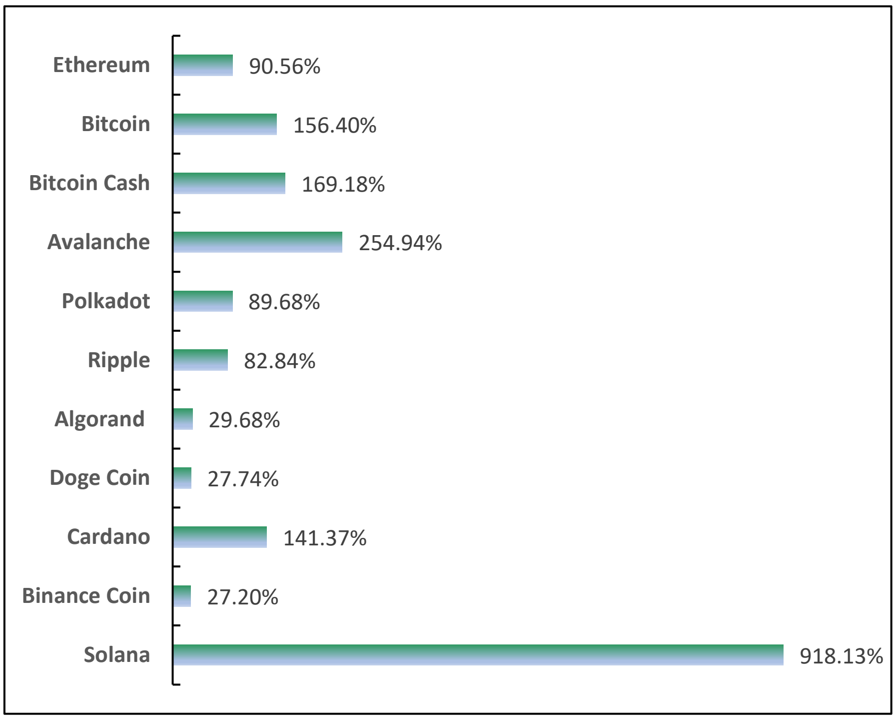
Chart 42: Market Capitalization of Bitcoin and Ethereum (USD'bn)



Source: *Bloomberg, Meristem Research*

The US banking crisis, the rate hike pause by the US Fed and other monetary authorities, and the global disinflationary trend contributed significantly to the positive performance of cryptos in 2023. With the possibility that these trends should continue in 2024, positioning in cryptos as an alternative asset class in 2024 is an attractive investment option.

Chart 43: Price Returns of Major Cryptocurrencies in 2023



Source: *Bloomberg, Meristem Research*

With the prospect of spot bitcoin ETFs coming alive in 2024, the acceptability of cryptocurrency looks promising. The existence of such an investment option could give room for more traditional and institutional investment in virtual assets. This, combined with the projected dovish monetary stance of major central banks, slowing inflationary pressures, and a better regulatory landscape, makes a case for a positive outlook for cryptocurrencies in 2024. Moreover, the scheduled Bitcoin halving in April 2024 (an exercise done once in four years to reduce the volume of Bitcoin in circulation) could drive higher prices of Bitcoin and other virtual assets in 2024.

Real Estate

Navigating Challenges, Embracing Recovery in 2024

In 2023, the real estate market was majorly influenced by higher interest rates across economies, increased adoption of hybrid work structures, and sluggish economic activities. More importantly, China's property sector faced immense pressure, resulting in large private developers defaulting on their debt repayment. These underlying factors also impacted the performance of global real estate investment trusts (REITs). In 2023, the S&P Global REITS Index (a benchmark of publicly traded equity REITs listed in both developed and emerging markets) posted a 6.63% price return in 2023.

In Nigeria, the market experienced a mixed performance. In the first quarter of 2023, the cash crunch adversely affected the sector. However, the sector improved by 1.90% in Q3:2023 (vs 1.70% in Q1:2023). Conversely, the bullish sentiment in the local bourse spurred buying activities in Nigerian REITs. **UPDCREIT** and **SFSREIT** gained 113.33% and 31.62%, respectively, while **UHOMREIT** remained flat.

In 2024, the real estate sector is expected to continue its recovery at a faster pace. The critical driver for this positive outlook is the government's pronounced interest in spurring growth within the sector (reflective of the 2024 budget allocation to capital expenditure). Also, we cite PENCOM's guideline on accessing 25% of retirement savings balance towards residential mortgage equity contribution as a factor to influence growth in the sector. Notwithstanding, high inflationary pressures and borrowing costs are key downside risks to highlight. For REITs, we project a positive outlook as these securities are likely to mirror the mood in the Nigerian equities market.

Precious Metals

Investors Look to Gold for Safety

Despite the global economic landscape volatility, precious metals, especially gold, recorded robust performance. Events, including the U.S. regional banking crisis and heightened geopolitical tension, reminded investors to rotate their funds into safer havens. Thus, spot gold gained 13.10% in 2023 – its best performance since 2020 – to close at USD2,062.98 per ounce. During the year, gold hit a record-high of USD2,077.49 on the back of a potentially dovish monetary stance by the U.S. Fed in 2024. For the more industrially-used precious metal (Silver), its 2023 performance was less optimistic than gold – as it has been for the past ten years. Despite silver hitting a year-high of USD26.05 per ounce in May, the slower economic activities across many countries that triggered lower global demand relative to its supply dragged the price downward by 8.66% to close the year at USD23.80 per ounce. Moreover, according to The Silver Institute, the estimated global demand for silver declined by c.10% YoY due to lower demand from photography, jewellery, silverware and net physical investment.

It is expected that gold's price will continue to trend upward in 2024. The anticipated rate cuts from central banks in 2024 and the estimated disinflationary trend are key drivers of our projection. We expect an increase in the price level of silver owing to the projected recovery in global industrial activities.

Chart 44: Price Movement of Gold and Silver Since 2019

Source: Bloomberg, Meristem Research

Glossary

Abbreviation	Full Meaning
ASI	All Share Index
BOE	Bank of England
bps	Basis points
CBN	Central Bank of Nigeria
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
DMO	Debt Management Office
ECB	European Central Bank
FCY	Foreign Currency
FDI	Foreign Direct Investment
FGN	Federal Government of Nigeria
FOMC	Federal Open Market Committee
FPI	Foreign Portfolio Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
MBPD	Million Barrels Per Day
MPC	Monetary Policy Committee of the Central Bank of Nigeria
MPI	Multidimensional Poverty Index
MPR	Monetary Policy Rate
MSCI	Morgan Stanley Composite Index
NAFEM	Nigerian Autonomous Foreign Exchange Market
NAICOM	National Insurance Commission
NBS	National Bureau of Statistics
NGX	Nigerian Exchange Limited
NNPCL	Nigerian National Petroleum Company Limited
NSMP	Nigerian Sugar Master Plan
NUPRC	Nigerian Upstream Petroleum Regulatory Commission
OMO	Open Market Operation
OPEC+	Organisation of Petroleum Exporting Countries and its Allies
PENCOM	National Pension Commission
PENGASSAN	Petroleum & Natural Gas Senior Staff Association of Nigeria
PMI	Purchasing Managers' Index
PMS	Premium Motor Spirits
QoQ	Quarter-on-Quarter
QtD	Quarter to Date
UN	United Nations
US Fed	United State Federal Reserves
WB	World Bank
WHO	World Health Organisation
WTO	World Trade Organisation
YoY	Year-on-Year
YtD	Year to Date

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