MERISTEM

Macro and Market Insight

April 2024

Macros

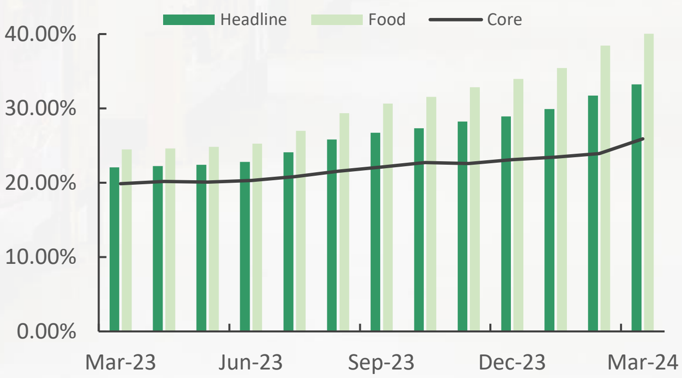
Strengths and Strains: April's Economic Tapestry

Review

In April, numerous key developments shaped Nigeria's macroeconomic environment reflecting both gains and pains. These include consistent appreciation of the naira, a rise in inflation, fall in crude oil production, and proactive efforts by the monetary and fiscal authorities to bolster the country's growth prospect.

According to the data from the Nigerian Bureau of Statistics (NBS), headline inflation surged for the fifteenth consecutive month, hitting its highest level in 28 years at 33.20% YoY in March 2024, from 31.70% in February 2024. Concurrently, food and core inflation spiked by 209bps and 77bps, to 40.01% and 25.90%, respectively. This persistent upward trend is primarily attributed to surges in food prices, fuelled by increased demand and supply limitations during the festive periods. More so, March saw a notable appreciation of the Naira (+21.82%), resulting in declines in month-on-month headline, food, and imported food inflation to 3.02%, 3.62%, and 3.86%, respectively, compared to the previous month's figures of 3.12%, 3.62%, and 4.24% respectively.

Chart 1: Trend in Headline, Food, and Core Inflation (% YoY)



Source: NBS, Meristem Research

In the near term, we expect inflation to remain on the uptrend hinged on:

- **Constraints in the production of food in various regions (insecurity, storage facilities, and inadequate transportation networks) and electricity tariff hike for Band A.**

- **On the other hand, a continuous appreciation in the country's currency could lead to moderation in month-on-month figures for core inflation and imported inflation.**

Elsewhere, information provided by the Organization of the Petroleum Exporting Countries (OPEC) revealed that Nigeria's crude oil production declined for the second consecutive month in March 2024, falling from 1.32 million barrels per day (mbpd) in February 2024 to 1.23mbpd. This decline is attributed to persistent incidents of oil theft, pipeline vandalism, insecurity in oil-producing regions, and maintenance activities on major terminals. However, OPEC data indicates that Nigeria's average crude oil production for Q1:2024 stood at 1.33mbpd, surpassing the Q4:2023 average of 1.31mbpd.

Moving forward, we emphasize the significance of heightened security measures by the Federal Government surrounding oil infrastructure. Present production levels lag behind the country's 2024 budget projection of 1.70mbpd and OPEC's quota of 1.50mbpd. Additionally, swift completion of maintenance activities at major terminals holds the potential to augment production levels.

The Nigerian Electricity Regulatory Commission (NERC) approved a 243.15% increase in tariffs for Band A users, from NGN68.00 to NGN225.00 per kWh. Band A customers, accounting for about 40% of total electricity consumption, receive over 20 hours of supply daily. Additionally, the government raised the wholesale price of natural gas supplied to power plants from USD2.18 to USD2.42 per MMBTU. This follows a USD120.00mn disbursement to gas suppliers due to unpaid invoices totaling USD1.20bn, resulting in reduced gas supply to power plants.

The tariff revision and rise in gas price is anticipated to contribute to the development of the domestic power sector by fostering increased power supply and stimulating investments within the industry. On the other hand, it is expected to exert additional upward pressure on the country's inflation in the near term.

The Federal Account Allocation Committee (FAAC) disbursed a total of NGN1.10trn to the three tiers of government in March 2024 (vs NGN2.07trn in February 2024), marking the end to the consecutive increase in allocation from September 2023. This reduction was primarily due to a decline statutory revenues (excise duty, oil royalty) during the period.

We expect that the continuous appreciation of the Naira, improved mineral revenue, and rise in statutory revenue may improve distributable revenue from FAAC in the near term.

Macros

Strengths and Strains: April's Economic Tapestry

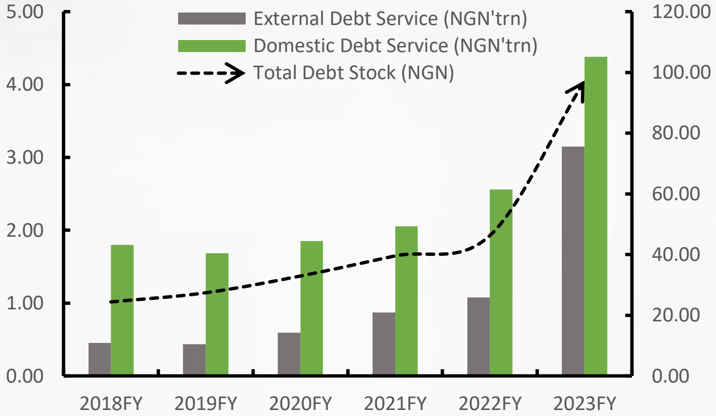
The Federal government launched the consumer credit scheme through the Nigerian consumer credit corporation (CREDICORP). The program aims to bolster the credit reporting system and widen consumer credit access, starting with civil service members. Its goal is to reach 50% of employed Nigerians by 2030.

Looking ahead, we expect this to potentially boost entrepreneurship and consumer spending. Although targeted at providing credit access to members of the working-class which is a substantial step toward a more inclusive and dynamic economy. However, there exist a downside as increased spending can further trigger inflationary pressures.

Meanwhile, data from the Central Bank of Nigeria (CBN) revealed that Nigeria's foreign debt service in 2023FY stood at USD3.50bn, a 45.65% spike from USD2.41bn in 2022. This uptick is majorly attributed to an increase in external borrowing during the period (USD42.50bn in 2023 vs USD41.69bn in the prior period), and the depreciation of the Naira.

We anticipate that the country's rising borrowing needs to fund its fiscal deficit will lead to an ongoing increase in its debt servicing obligations in the near term. Additionally, the persistent depreciation of the Naira adds to this challenge. Nevertheless, we acknowledge the fiscal authority's initiatives aimed at enhancing debt management and increasing government revenue, targeted at reducing reliance on external borrowing.

Chart 2: Trend in Nigeria's Debt Service and Total Debt Stock (RHS) (NGN'trn)



Source: NBS, Meristem Research

Furthermore, the CBN issued two circulars targeted at the country's foreign exchange (FX) market. Firstly, the use of foreign-denominated assets as collateral for Naira loans is to be ceased, except for cases involving Eurobonds issued by the federal government of Nigeria and guarantees from foreign banks, such as standby letters of credit. The Apex bank provided a 90-day ultimatum to wind down loans falling within this category and after this period, any remaining loans will be subject to a risk-weighting of 150% for capital adequacy ratio computation. In addition, the CBN announced its FX sale to Bureau De Change (BDC) operators at the rate of NGN1101/USD, while maintaining the directive for BDCs to limit the spread on end-user sales to 1.50% of the purchase price.

In our assessment, these directives are in line with recent reforms initiated by the CBN, with the goal of enhancing liquidity in the FX market and stabilizing the Nation's currency. While we recognize the CBN's efforts to promote market stability, we believe that a continued strengthening of the Naira is significantly hinged on maintaining a consistent supply of FX from foreign inflows (particularly in the form of FDIs).

Summary of Key Expectations for May 2024

- ***Sustained increase in headline inflation.***
- ***For the stability in the currency to persist hinged on CBN reforms to curb speculative activities and improve liquidity as well as expectations of an improvements in foreign inflows.***
- ***Enhanced economic growth premised on improved oil output as maintenance activities are concluded and better performance of the non-oil sector.***
- ***Rise in total debt stock as the federal government continues to explore both domestic and external borrowings.***

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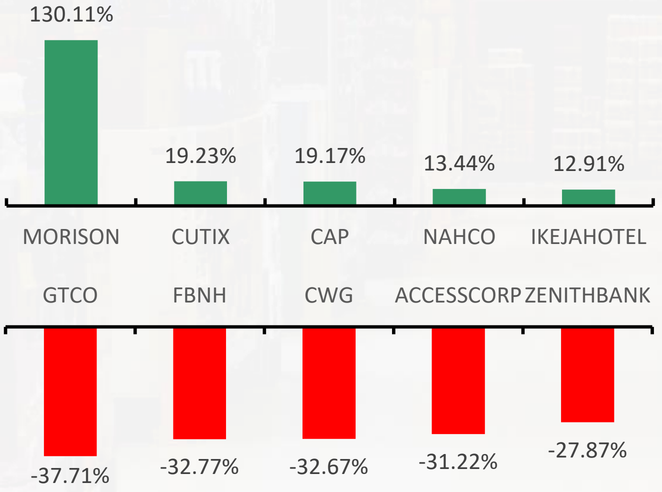
Equities

Broad-based Subdued Mood Drag Local Bourse to April Slump

Review

In April, the mood in the Nigerian Equities Market was broadly bearish as the All-Share Index (**NGXASI**) posted its highest monthly loss in 19 months at **6.06%** MoM, to settle at 98,225.63pts. Also, Year-to-Date return dwindled to +31.36%.. The activity level for the month reflected the cautious trading value traded declined by 7.34% MoM to NGN0.17bn from NGN0.18bn in March while volume traded increased by 12.10% to 8.30bn units. On the same vein, the market breadth for the month stood at 0.28x, 23 tickers recorded gains while 83 were clawed down by the bear.

Chart 3: Top Gainers and Losers for April 2024

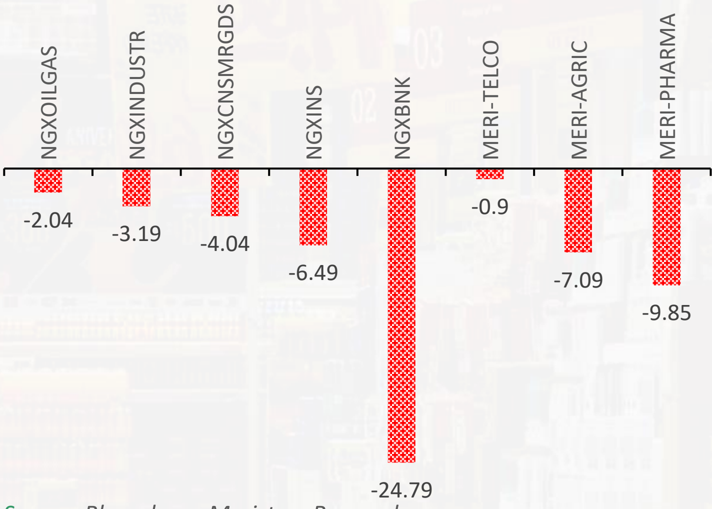


Source: *Bloomberg, Meristem Research*

Sectoral Performance: Jointly in the Red Zone

Across sectoral indices under our coverage, the bears dominated as all sectors recorded monthly losses – **NGXINDUSTR** (-3.19% MoM), **NGXCNSMRGOODS** (-4.04% MoM) **NGXINS** (-6.49% MoM), **NGXOILGAS** (-2.04% MoM), **MERI-TELCO** (-0.90% MoM), **MERI-AGRIC** (-7.09% MoM), **NGXBNK** (-24.79% MoM) and **MERI-PHARMA** (-9.85% MoM). Notably, the Banking Index recorded its highest monthly decline since November 2012 owing to investors' skepticism on the recapitalization exercise, potential shares dilution and emerging corporate governance issues. As such, most banking tickers shed substantially during the month – **FBNH** (-32.77% MoM), **ACCESSCORP** (-31.22% MoM), **GTCO** (-37.71% MoM), **ZENITHBANK** (-27.87%), amongst others.

Chart 4: MoM Sectoral Returns (%) in Apr-2024



Source: *Bloomberg, Meristem Research*

Q1:2024 Earnings Season Clocks On

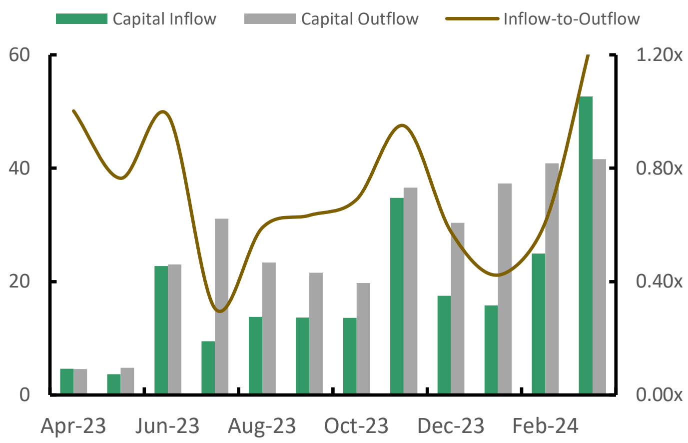
Financial releases for Q1:2024 period was in line with our expectations as indicated in our *note*. Naira's depreciation against the greenback, inflation, and elevated rates continued to impede profitability across sectors. Regardless, some companies posted strong results for the quarter. Investors were relatively muted to these releases given the broad-based subdued mood in the market coupled with the fact that expectations had been largely priced into their positions.

Strong Foreign Inflow Signals Foreign Investors' Interest

According to the most recent data from NGX, foreign investors' participation on the exchange declined marginally by 89bps in March 2024 to 17.50% from 18.39% in February 2024. Nevertheless, total foreign transaction value surged to its highest since March 2020 at NGN94.26bn driving mainly by strong foreign inflow during the month – NGN52.66bn. This marks the highest monthly foreign inflow in 5 years and represents c.30% of 2023FY foreign inflows. We attribute this heightened influx to growing confidence of foreign investors about the Nigerian economy particularly influenced by the recent monetary policy direction, Naira stability in March, and attractive entry points across tickers. Moreover, the inflow/outflow ratio crossed the 1.00x point for the first time since April 2023 at 1.27x, which signals that investors are willing to retain their funds in the domestic equities market as repatriation concerns continue to ease.

Equities

Chart 5: Foreign Inflow, Outflow and Inflow/Outflow Ratio (April 2023 – March 2024)



Source: NGX, Meristem Research

Other Notable Occurrences and Corporate Actions

Nascon Allied Industries Plc. (**NASCON**) disclosed that its proposed merger with Dangote Sugar Refinery Plc (**DANGSUGAR**) and Dangote Rice Limited has been suspended due to Securities and Exchange Commission (SEC) concerns around the current non-operational status of Dangote Rice Limited. As a result, investors sold off on their **DANGSUGAR** (-25.19% MoM) holdings while **NASCON** remained unchanged at NGN52.55. **We anticipate a potential delay in the merger, which could lead to reduced investor confidence amid perceived uncertainty around the tickers. Our 2024FY target prices for both tickers (DANGSUGAR and NASCON) are currently under review.**

After 54 years on the Exchange, MRS Oil Plc (**MRS**) has announced its intention to voluntarily delist from the Nigerian Stock Exchange (**NGX)** and list its shares on the NASD OTC Exchange**. MRS** intents to focus on long term growth and strategic reassessment. The company currently has a shares outstanding of 342.88mn units. **While awaiting shareholders and regulatory approval, we advise investors to be cautious in their dealings around the ticker given that further exit modalities has not been disclosed by the company. Based on our 2024FY target price of NGN114.70, the ticker has a -15.00% upside potential, currently trading at NGN135 per share.**

Following the upward revision of the minimum [required capital for banks](), several banks have disclosed their intention to raise additional capital during the month to close its funding gap as required to maintain the necessary banking license. **ACCESSCORP** revealed a capital raise of NGN365bn via right issue and USD1.5bn capital raise programme which is in line with the groups 5-year capital programme. Also, **GTCO** disclosed its intention to raise USD750mn fresh equity via public issue. In the same vein, **FBNH** has announced its intention to seek shareholder approval for a capital raise of up to NGN300bn (approximately USD241mn) via public share offerings or private placements, which could be conducted domestically or internationally. Furthermore, Stanbic IBTC Holdings Plc (**STANBIC**) also disclosed its intentions to raise about NGN550.00bn through a debt issuance program and a rights issue. **In the near term, we believe more banks will signify interests to raise additional capital given the 2-yr timeline from the CBN to meet the new guidelines. The ongoing investors' pessimism on the banking tickers is expected to persist however, these lower attractive prices may spur occasional buying interest and a gradual recovery. Overall, we anticipate less selling pressure on banking tickers in May compared to the previous month.**

Furthermore, Zenith Bank Plc. (**ZENITHBANK**) has disclosed its plans to transition into a holding company. The restructuring involves transferring of outstanding shares (31.40bn units). from Zenith Bank Plc (*the current listed entity*) to Zenith Bank Holding Company Plc (*the HoldCo entity*), with shareholders receiving shares in the HoldCo proportionate to their existing holdings. Additionally, existing Global Depository Receipts (GDRs) will be replaced with new HoldCo GDRs, and shares held in Zenpay Limited will be transferred to the HoldCo. **We anticipate this transition to enhance business efficiency, increase earnings, boost competitive advantage and consequently create more value for shareholders.**

International Breweries Plc. (**INTBREW**) has approved a convertible loan of USD379.9mn from its parent company - AB InBEV Nigeria Holdings. This loan is intended to help repay an existing foreign denominated loan from Citibank Abu Dhabi. Subject to regulatory approval, **INTBREW** intends to convert the USD379.9mn loan into company shares for AB InBEV Nigeria Holdings through a right issue. **We acknowledge this as a favourable development for the company as this conversion will reduce the its debt burden, boost capital structure, mitigate the exposure to foreign exchange loss , and ultimately improve profitability.**

Equities

With Q1:2024 earnings reports releases, dividend investing presents a compelling strategy to capitalize on market opportunities. We've identified the following stocks based on their attractive combination of strong dividend yields and potential for capital appreciation.

Table 1: Stock Recommendation with Dividend Yield and Capital Appreciation

Ticker	Current Price (NGN)	Target Price (NGN)	Upside (%)	Expected Dividend Yield (%)
ACCESSCORP	17.50	27.60	57.71%	10.29%
OKOMUOIL	232.50	263.56	13.36%	6.02%
TOTAL	321.50	427.92	33.10%	7.78%
UBA	25.00	29.25	17.00%	10.00%

**Prices are updated as of May 2nd, 2024*

Summary of Key Expectations for May 2024

In May, we expect the Nigerian equities market to trade on both sides, albeit tilted towards the red zone. The unstable domestic macroeconomic landscape is poised to continue casting a shadow on investors' confidence in the near term. Moreover, as the May 2024 MPC meeting nears, where a continuation of a hawkish stance is anticipated, investors may opt for safer havens and potentially higher returns in the fixed income market during this period.

However, the bourse has been on a bearish note for 6 consecutive weeks, which has created attractive entry points for investors. As such, this may prompt occasional buying interest on some tickers. Nonetheless, broad-based positivity in the market remains unlikely this month. Any upward momentum is expected to hinge on positive developments within specific sectors and individual stocks, rather than a market-wide trend.

a cautious sentiment is anticipated among investors in the equities market, with a preference for fundamentally sound stocks and a readiness to seize profit-taking opportunities as they arise.

Eurobonds

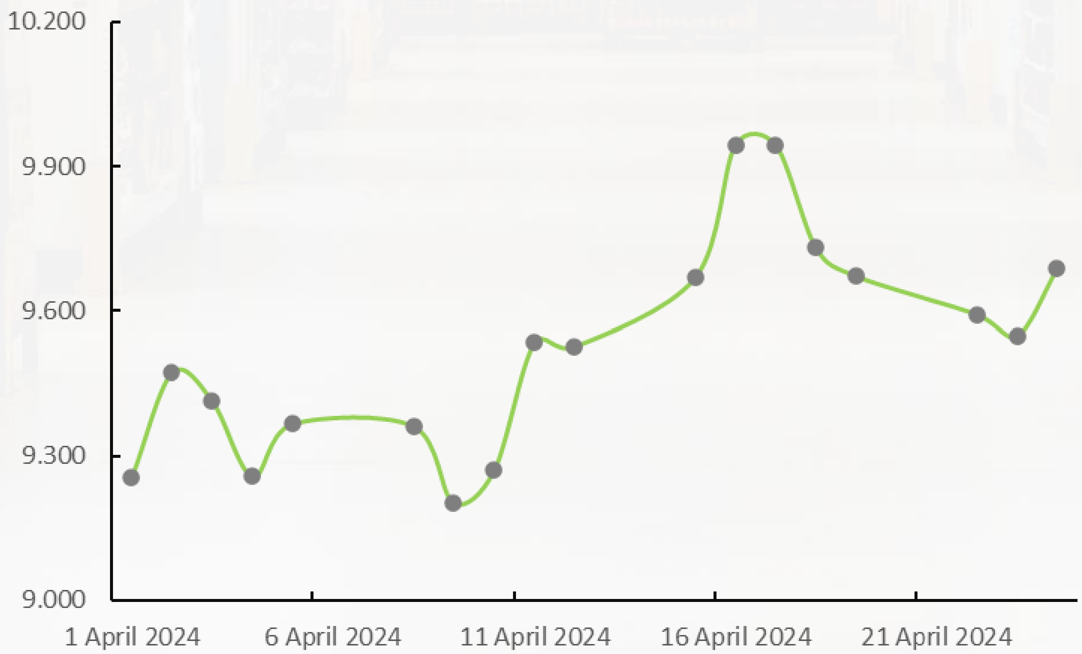
Yield on Nigerian Foreign Bonds on an Increase

Performance in the Nigerian Eurobonds market exhibited fluctuations as yields increased and peaked in the middle of the month at 9.94% before settling at 9.68% (vs. 9.26% at beginning of the month). The increase in yields was driven by selloffs triggered by the depreciation of the Naira to NGN1,300/USD levels. This dampened investor sentiments and raised concerns about funds repatriation. Additionally, the persistent US inflationary pressures contributed to dampened expectations of a rate cut and further amplifies the move of funds from the Eurobonds market. Consequently, average Eurobond yields increased to 9.69%, a 43bps increase from 9.26% at the beginning of the month.

Expectations

In May, we anticipate a continued increase in yields in the Nigerian Eurobonds market, in line with the expectation of higher-for longer rates in the United States owing to resurfacing inflationary pressures.

Chart 6: Average Eurobond Yields in April 2024



***Source:* DMO, Meristem Research**

Domestic Fixed Income

Treasury Rates Maintain Prevailing Levels

Review

In April 2024, four (4) Primary Market Auctions were conducted, (2 T-bills, 1 bond and 1 OMO auction). Interest in the fixed income market remained elevated amidst declining system liquidity (NGN445.58bn as of 30th April 2024). Also, as part of the cost management technique of the government, auctions were characterized by constant stop rates.

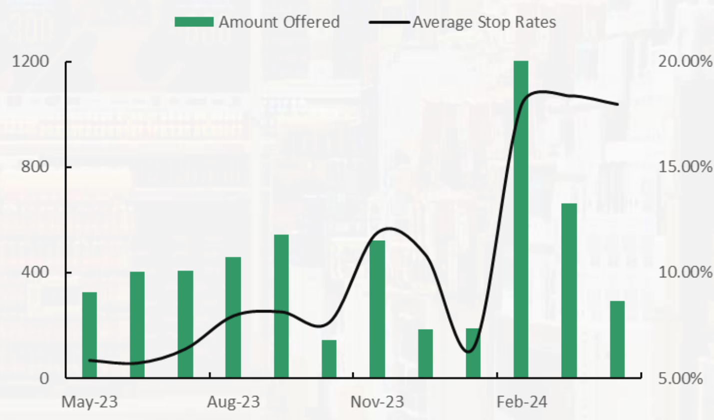
For context, at the T-bills Primary Market Auctions, NGN292.21bn was offered in April 2024 across the three maturities (vs NGN660.72bn in the previous month). This is a result of reduced funding needs of the government as majority of the finance needed was raised in Q1:2024. Moreover, total amount allotted reduced to NGN1.31trn compared to NGN2.67trn in March. On the back of these, investors' demand significantly reduced as total subscription dropped to NGN2.58trn from NGN5.78trn. As a result, bid-to-cover ratios dropped to 1.97x from 2.16x in the previous month and the stop rates for the 91-Day, 182-Day, and 364-Day instruments remained constant at 16.24%, 17.00% and 20.70% during the period (vs. 16.57%, 17.33% and 21.24% in March).

Furthermore, the Central Bank of Nigeria (CBN) issued OMO bills across three maturities—97-Day, 188-Day, and 363-Day—keeping the offer amount constant at NGN500bn. However, subscription was 2.38x the offered amount in April (vs. 2.28x in March). Stop rates were relatively constant across all three maturities except the 363-day bill which dropped by 37bps, bringing rates to 19.00%, 19.50%, and 21.13% respectively, compared to the previous rates of 19.00%, 19.50%, and 21.50%. However, the amount allotted declined to NGN676.56bn from NGN1.06trn in the previous month and the Bid-to-Cover ratio rose to 1.75 times from 1.08 times in March.

In the bond market, the DMO offered NGN150.00bn across three maturities: FGN-29, FGN-31, and FGN-34. The bid-to-cover ratio increased to 1.47x from 1.27x in the previous auction. Stop rates across different maturities remained steady, with FGN-31 falling slightly to 19.75% from 19.94% in the previous auction and FGN-34 remaining unchanged at 20.00%. The downward adjustment in interest rates also reflects the government's efforts to keep interest rates down.

In the secondary market, the negative system liquidity spurred sell-offs as average T-bills yield rose by 116bps to 20.13% in April (vs. 18.97% in March 2024) and average bond yields closed at 19.05% in April from 18.54% in March.

Chart 7: T-Bills Primary Market Auction Activity in April 2024



***Source:** CBN, Meristem Research*

Summary of Key Expectations for May 2024.

Looking ahead, we anticipate improved investor participation in the Nigerian fixed income market as there is the possibility of a rate hike by the Monetary Policy Committee (MPC) in May, making the market more attractive. We however expect fluctuations in rates across the month as the government continues to manage its cost of borrowing.

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