Meristem 2024 Half Year Outlook

Topic:

PATCHY PROGRESS on a TOILSOME TRAIL

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MERISTEM

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Content Highlights

Approaching a Soft Landing

Global growth is expected to continue its upward trend in H2:2024, fueled by robust consumer spending, fiscal policies tied to elections in over 60 economies and a predicted slowdown in global inflation (due to lower commodities prices and improved supply conditions).

Charting a Recovery Path

Despite lingering inflationary pressures in Sub-Saharan Africa, we believe that stringent monetary measures could bring price stability in the short to medium term. Nevertheless, the region's fiscal health remains a concern, as high debt servicing costs and persistent budget deficits continue to pose significant challenges.

Towards Steadier Grounds

We anticipate an increase in oil output for the rest of the year, driven by investments and infrastructure upgrades, among other factors. Meanwhile, GDP rebasing, strong growth in key sectors, and government measures to curb inflation could drive economic expansion and moderate inflation figures in H2:2024.

Steering into a Positive H2:2024

While we expect mixed trading to persist in the equities market for the rest of the year, we predict an overall positive outlook for 2024 hinged on factors including corporate actions & performances and improved forex liquidity, which could boost investor sentiment towards equities assets.

Yields to Hold Steady

We expect yields to remain relatively stable, as the Central Bank's goal of price stability offsets the government's desire to keep borrowing costs manageable, thus keeping yields range-bound.

Crypto and Precious Metals to Shine

We maintain a bullish outlook on cryptocurrencies and precious metals, driven by increasing adoption, anticipated high liquidity, and their appeal as a hedge, which will attract investors to these assets. In contrast, the real estate sector will likely continue to struggle with a subdued sentiment, as ongoing cost pressures and weak demand weigh on the market.

Executive Summary

Global growth in the first half of 2024 surpassed expectations, driven by increased consumer confidence and consumption spending amid robust labour market conditions and declining inflationary pressures across major economies. Although monetary policies have remained stringent in major economies for most of H1:2024, fiscal policies have been largely expansionary, marked by heightened social spending and pro-growth fiscal support measures.

We anticipate a continued uptrend in global growth in H2:2024, driven by sustained consumer and social spending and expansionary fiscal policies linked to election expenditures in over 60 economies. Our expectation of a further slowdown in global inflation also supports this positive growth outlook.

Following years of sluggish growth, Sub-Saharan Africa appears to be at the precipice of a gradual economic rebound, marked by declining inflation, improvements in the oil sector and improving growth prospects. Debt sustainability concerns, however, remain major as countries engage in debt restructuring arrangements with creditors. Carry trade for countries in the region is presently positive, attracting more foreign investment in 2024. Also, the region returned to the Eurobond market in H1:2024 following a two-year break.

While inflation remains a concern, we anticipate that stringent monetary policies will help stabilize prices in the mid-term. However, fiscal sustainability remains a worry, with elevated debt costs and budget deficits persisting across the region.

On the domestic scene, with recovery in the oil sector and stellar performance of the financial services sector, Nigeria's economy maintained its growth trajectory in Q1:2024. However, the growth was tempered due to factors like tighter monetary policies and inflationary pressures which affected growth in the non-oil sector.

Moving forward, we anticipate enhanced crude oil production throughout 2024, supported by increased investments, infrastructure enhancements, and potential contributions from new fields and refineries. Additionally, strong growth in sectors like financial services, trade, and transport are set to drive economic expansion in the near term.

While we expect high price levels to persist, factors including government measures to reduce inflation, suspension of import duties, VAT on essential items, and the base effect are likely to moderate inflation figures in H2:2024. However, we do not expect the Monetary Policy Committee to reduce policy rates in the near term as this would undermine the relative FX stability recorded between March and June 2024.

The Nigerian stock market began the year strong, with significant gains in January, but the momentum reversed in the following months as the CBN's hawkish stance and disappointing corporate earnings eroded investor confidence, leading to a largely bearish first half. *For the remainder of the year, we anticipate a continuation of sideways trading activities in the equities market. Nevertheless, we predict an overall positive outlook for the Nigerian equities market in 2024 as corporate actions & performances and enhanced liquidity in the foreign exchange market boost investor sentiment, impact activity levels and drive growth in the local bourse.*

In contrast, the Nigerian fixed income market thrived as a result of the CBN's contractionary monetary policies. The higher interest rates led to attractive yields, drawing significant investments into the fixed income market in H1:2024. *Looking ahead, we anticipate that yields will hover around current levels, owing to the countering impact of the monetary authority's price stability objective and the need for the government to moderate its borrowing cost.*

Global Economy: Approaching a Soft Landing

Fiscal Policy: Pathway to Policy Normalisation

Contrary to the restrictive monetary policy stance of major advanced economies world-over, the fiscal policy stance from 2023 till the first half of 2024 has mostly been expansionary as spending, fiscal deficit, and global debt remained high due to increased social spending and the introduction of fiscal support measures in many countries. This, along with high consumer spending, has also supported resilient growth witnessed in the global economy so far in 2024.

The Chinese government's pro-growth stance to support its housing, infrastructure, and advanced manufacturing sectors, along with the US government's increased spending on infrastructure investment and climate initiatives, are examples of fiscal support measures. These measures have contributed to the increase in global debt levels and fiscal deficits. Being the two largest world economies, the rise in global debt has mostly been driven by these countries. The UK also followed a similar trend in fiscal measures and, most recently, a significant cut to the National Insurance Contribution. While the fiscal authority has strategically planned revenue-raising measures to partially fund these expenditures to reduce the fiscal deficit, there remains a risk of the debt trajectory worsening in the medium term, especially with the likely change in government.

According to the International Monetary Fund (IMF), global fiscal deficits and public debt as a percentage of GDP increased to 5.50% and 93.20% in 2023 (from 3.90% and 91.30% in 2022). The debt level is expected to increase slightly in 2024 to 93.80%, driven by continued social spending as well as election-targeted spending. Fiscal consolidation is, however, expected to be the main goal for most authorities given high debt levels. Thus, the global fiscal deficit to GDP should decline to 4.90% (from 5.50% in 2023).

The fiscal policy landscape for 2024, particularly in the second half, is poised for significant shifts, hinging on the outcomes of political polls worldwide. With over 60 countries set to hold elections this year, the anticipation is for fiscal policy makers to lean towards expansion, leading to a global increase in fiscal deficits. Notably, in H1:2024, President Putin secured the Russian Federation seat, India elected Narendra Modi as prime minister-elect, and Mexico celebrated its first female president.

More so, the US' Biden-Trump rematch at the November polls raises the debate on whether investors and economic watchers can expect further expansionary fiscal policies (like debt forgiveness, higher spending and expanded tax credits with potentially higher taxes on wealthy households and corporations) associated with the Biden administration.

The Trump administration, on the other hand, plans to implement tax cuts of the Tax Cuts and Job Acts and partially offset with spending cuts. However, we expect the fiscal deficit in the US to expand regardless of where election results swing, leading to a positive outlook for economic growth in 2024/2025.

The United Kingdom threw a curveball by announcing an early national election on July 4th that led to a new majority party and prime minister. Given the significant stride in reducing inflation recorded by the outgone Prime minister, we expect the new administration to be pro-growth and pursue economic expansion in the country through tax reduction and increased infrastructure spending. We also anticipate significant fiscal consolidation designed to reduce dependence on debt without harming output growth.

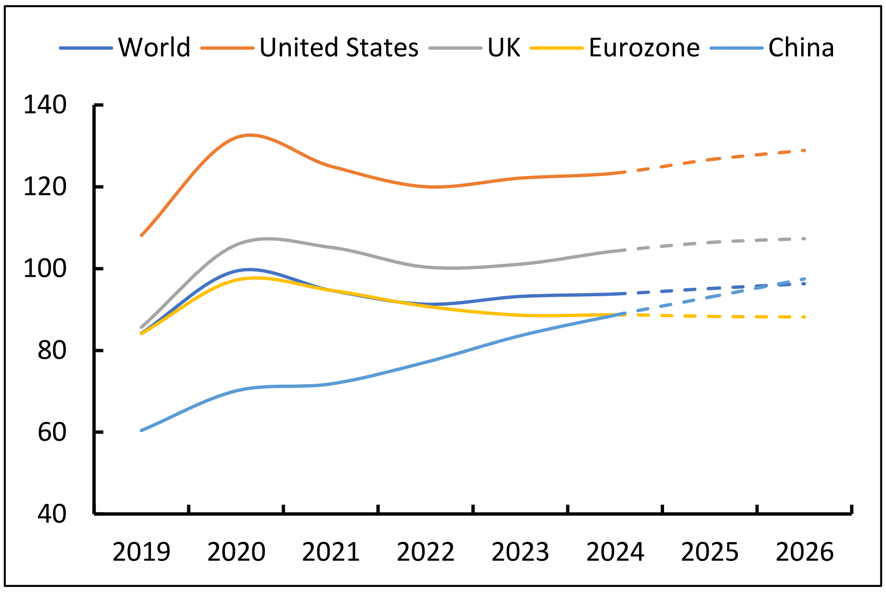
Table 1: **Potential Policy Course of the United States' Presidential Candidates**

Category	Democratic	Republican
Monetary Policy	Fed to continue to operate freely.	Likely direct pressure to loosen monetary policy.
Fiscal Policy	Large-scale stimulus packages, focus on infrastructure investment, proposed tax increases on the wealthy.	Income tax cut, less allocation on some Biden's flagship initiatives.
Global Trade	Trade actions under Biden include continued pressures and further restrictions on the export of sensitive equipment to China.	Protectionist approach, a potential 10% board tariff on imports and a 60% tariff on Chinese imports. A likely intervention to end the Russian –Ukraine conflict.

Although fiscal tightening is anticipated in H2:2024, it is shrouded in uncertainty, particularly with the ongoing elections in major economies. The trajectory of fiscal consolidation will be largely predicated on these electoral outcomes. Some countries like China may persist with expansionary measures to bolster economic recovery, while others might prioritise fiscal consolidation to manage already high debt and curb inflation. Near-term fiscal restraint could aid the disinflation process as inflation edges closer to target levels.

However, postponing consolidation could heighten vulnerabilities and diminish fiscal capacity to rebuild buffers essential for future crises, potentially resulting in more severe fiscal adjustments and adverse financial repercussions. Progress will heavily depend on the withdrawal of energy subsidies and other pandemic-era support measures. Furthermore, the challenges of an aging population and labour market mismatches are expected to exert additional pressure on fiscal positions.

Chart 1: **Government Debt to GDP (2019-2026) (%)**

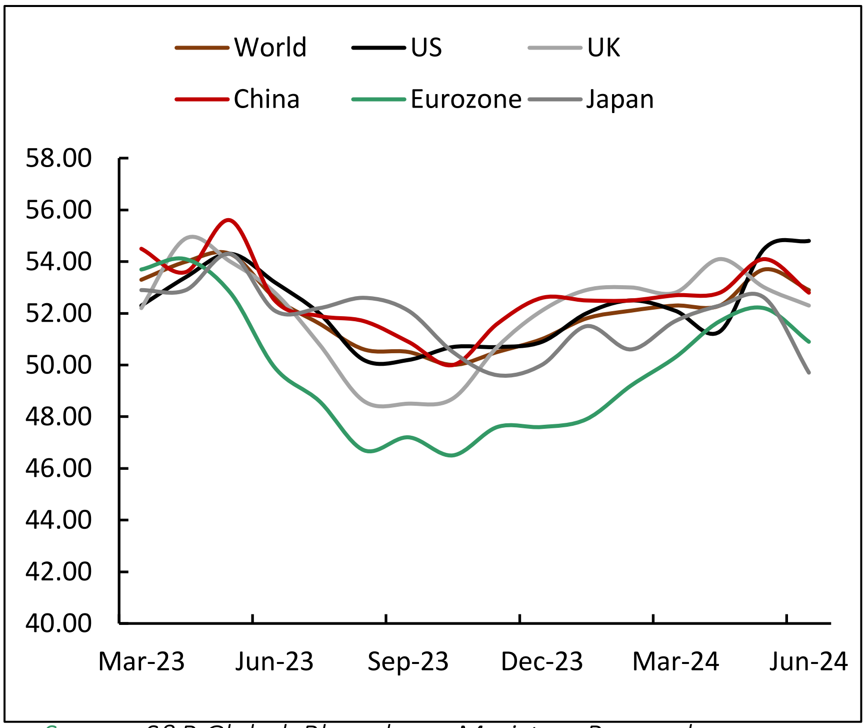


Source: IMF, Meristem Research

Growth: Different Strokes for Different Folks

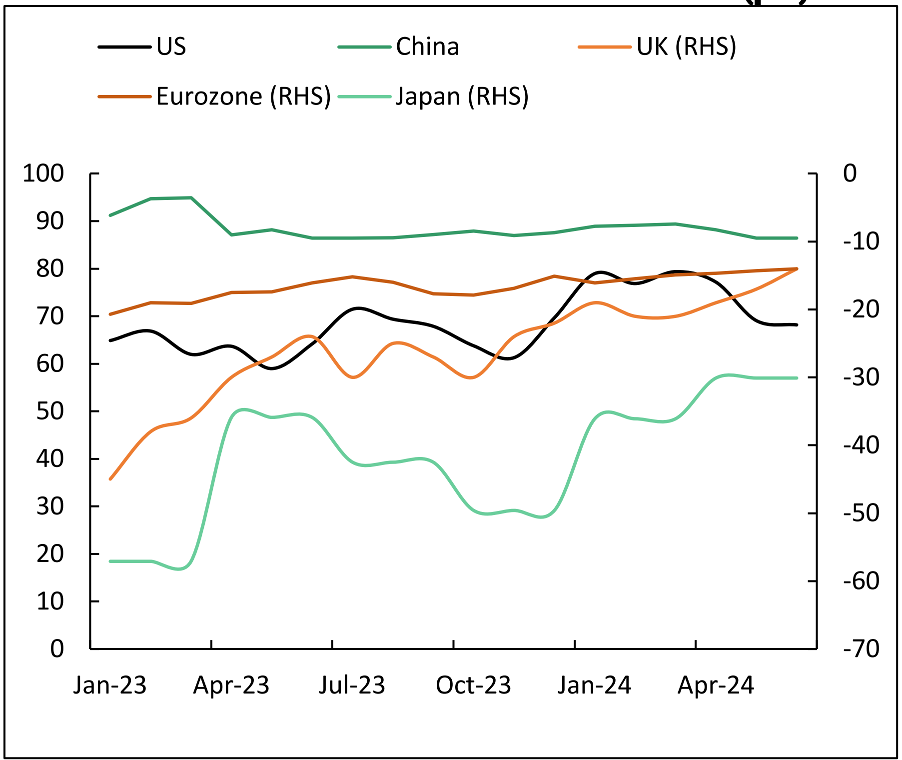
As consumer confidence and consumption spending remained high in H1:2024, the global economy continued to defy expectations of slower growth. The US, China, Eurozone, and the UK, amongst others, experienced significant expansions, buoyed by strong demand which was supported by consumption expenditure, large government spending, strong labour market conditions and lower inflationary pressures. This positive trend was also reflected in the global composite PMI (52.90 pts in June 2024, compared to 51.00pts in December 2023, according to S&P Global PMI estimates).

Chart 2: **Composite PMI 2023-2024 (pts)**



Source: S&P Global, Bloomberg, Meristem Research

Chart 3: Consumer Confidence Index 2023-2024 (pts)



Source: Bank of Japan, Bloomberg, Meristem Research

Notably, the Eurozone experienced its strongest growth since Q3:2022, with a 0.30% expansion in Q1:2024. This growth was primarily driven by a rebound in Germany, the region's largest economy, which grew by 0.20% after a contraction in the previous quarter. Similarly, the UK emerged from its recession with its fastest growth in three years, expanding by 0.60% in Q1:2024.

The US economy grew by 1.40% YoY (its slowest rate since Q3:2022 and a marked decrease from the robust 3.40% recorded in Q4:2023) and the Japanese economy contracted by 2.00% YoY, impacted by a combination of factors, including reduced private consumption, decreased net exports, lower private and corporate investments, and a disruptive earthquake in Tokyo.

The IMF revised its global growth forecast for 2024 upwards to 3.20%, a slight increase from the previously anticipated 3.10%. This comes on the back of expected gains from monetary easing, stronger-than-expected resilience in the first half and sustained supply chain normalisations. Output growth is, however, expected to slow down in H2:2024 as wage growth momentum appears to be weakening, consumer spending declining, and fiscal consolidation is expected in major economies (sans the US and China).

China: Beyond Bricks and Mortar

Despite the struggles in the property sector, China's GDP expanded by 5.30% in Q1:2024. This growth is primarily driven by improved activity in the manufacturing and service sectors, along with a rise in exports and external demand. As an indicator of this strength, the county's PMI reached a 23-month high of 51.70% in May 2024, signifying expansion in the sector.

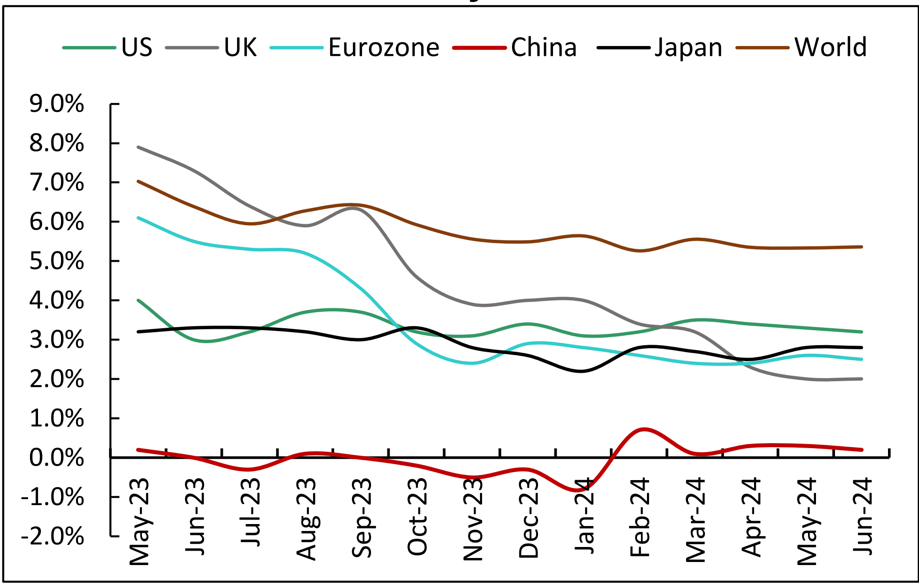
The Chinese government has implemented various measures to revive the property sector. These include easing down-payment requirements for first-time homebuyers, reducing mortgage rates for existing homeowners, and injecting liquidity into the market by lowering reserve ratios for banks. Additionally, the government is utilising state-owned enterprises to buy properties and convert them into affordable housing. In a unique move to address the aging population, mortgages have been allowed to be rolled over to the next generation. Furthermore, the government injected Yuan 496bn into the property sector in March and has started the issuance of a Yuan 138trn bond to support the property sector.

While the property sector faces difficulties, China's economic diversification and proactive government measures offer hope for a potential rebound in the short to medium term. We also expect better economic growth hinged on improved output from the manufacturing sector and higher domestic demand. The IMF has also upgraded its growth forecast for the Chinese economy to 5.00% from 4.60% in 2024.

Global Inflation: Inflationary Tides Ebb towards Stability

On the back of supply chain normalisation and a stable labour market, disinflationary conditions continue to persist in H1:2024 as the global inflation rate declined to 5.36% (from 6.39% in June 2023 per Bloomberg estimates). Notably, energy prices (due to an increase in global energy supply) and food prices moderated during the period, as reflected in FAO's food price index which declined to 120.60 pts in June 2024 from 123.10 pts this time last year.

Chart 4: Inflation Rates in Major World Economies



Source: Central Banks, Bloomberg, Meristem Research

In the US, headline inflation resumed its decline in Q2:2024, settling at 3.30% as of May 2024, following a temporary increase in Q1:2024 due to robust private consumption. However, persistent high mortgage rates continue to exert upward pressure on shelter costs, discouraging home purchases and driving up rental demand. Similarly, the Eurozone (2.50% as of May 2024), the UK (2.00% as of May 2024), and Japan (2.80% as of May 2024) have all experienced considerable declines in inflation, inching closer to their 2.00% target.

In contrast, China's inflation rate rose to 0.30% in May 2024, compared to deflation levels in 2023. The government's efforts to ease mortgage restrictions and provide affordable housing alternatives are poised to increase spending and sustain inflationary pressures, albeit within the People's Bank of China's target. This will likely lead to increased consumer spending, especially in the housing market, while maintaining inflation stability.

Looking ahead, we foresee a continued downtrend in inflation into the second half of 2024 as the pandemic and geopolitical tension-induced supply chain pressures decline and price shocks dissipate (in the energy sector). This aligns with the IMF's forecast of a steady global disinflation to 5.90% in 2024, from 6.80% in 2023.

Monetary Policy: On the Easing Track: Lower Rates in View?

Despite the prevailing restrictive interest rate environment across major economies in H1:2024, the imperative to initiate an easing cycle is becoming increasingly compelling, particularly in the face of declining price levels. Contrary to expectations at the beginning of the year, rates have been maintained at elevated levels for an extended period due to lingering concerns about inflationary pressures. However, forward guidance from major Central Banks suggests a pivot towards monetary policy easing is likely in Q4:2024.

Already, the European Central Bank (ECB) has broken the mould by reducing its benchmark rate by 25 bps to 3.75%, marking the first decrease in five years from its all-time high of 4.00%. While another rate cut is not imminent in the near term, the bank is likely to exercise prudence and retain flexibility to respond to potential inflationary surprises, given the resurgence of wage growth in the region.

In the US and UK, rate cuts are likely to be delayed until the second half of the year or 2025, as prices remain sticky on the downside. The upcoming election-related spending is expected to inject more money into the economy, potentially exacerbating inflation concerns and necessitating a delayed response from policymakers.

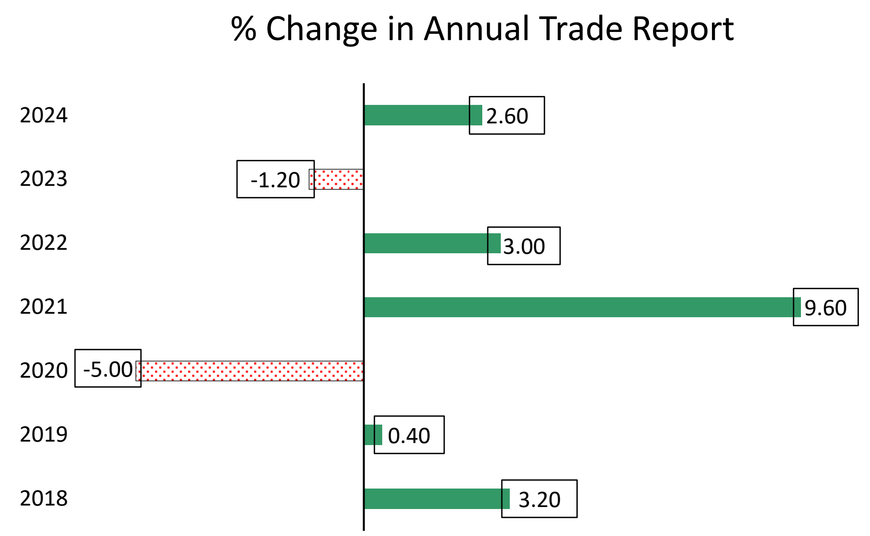
Trade: The Alternative Route

The decline in the price of commodities is already yielding positives for international trade as the World Trade Organisation (WTO) reports that trade increased by 1.40% in Q1:2024 – despite a decline in the dollar value of trade during the period. Thus, the growth was mostly buoyed by a 1.02% increase in volume traded across countries. This is also in spite of problems along major shipping routes caused by disruptions at the Panama Canal due to climate extremes and reduced traffic along the Suez Canal due to attacks by Houthi rebels at the Red Sea and Gulf of Eden.

These attacks, caused by the Israel-Hamas conflict, began in November 2023 and hindered trading activities along the Red Sea and the Suez Canal, which connects Asia and Europe.

The WTO reports that about 15.00% of global trade typically passed through this route. However, the blockage has reduced monthly shipment through the Suez canal by c.54%. To resolve this crisis, shipment has mainly been rerouted through the Cape of Good Hope canal – a longer route by an average of 17 days. The impact of this disruption has, however, been more negligible compared to the Suez canal blockage of 2021 which lasted for a week.

Chart 5: Annual Global Trade Growth Rate (2019-2024F)



Source: WTO, Meristem Research

Increasing Risk of Trade Fragmentation?

While concerns about de-globalisation and trade fragmentation remain low, the pattern of trade flows is increasingly being affected by the rise of geopolitical blocs. According to the WTO, trade and FDI inflows between countries considered "friendly" have grown faster since the war in Ukraine compared to other regions. This is likely to accelerate with countries increasingly implementing trade restrictions. The pace of trade restrictions accelerated in 2022 and 2023, with 3,200 and 3,000 new measures implemented, respectively. This marks a substantial increase from the 1,100 restrictions introduced in 2019, highlighting a worrying trend towards greater protectionism in global trade. For example, the US raised duties on several goods imported (including steel, aluminium, electric cars, batteries, and solar panel) from China, with duties on electric cars raised by 100%.

Elections and changes in fiscal authority across several economies could also raise new barriers to trade and labour flows between countries. Thus, the discussion about the potential impact of fragmentation on global trade and economic growth in the medium to long term is increasingly taking the central stage.

Outlook: What will 2024 Brew?

According to the WTO, global trade volumes are expected to grow YoY by 2.70% in 2024, buoyed by a predicted decline in inflation and more accommodative monetary policies in major economies. Although, there are potential risks, such as election-related fiscal uncertainties, continued and (or) fresh geopolitical tensions, and supply chain disruptions, the outlook suggests a positive trajectory for global trade.

There are increasing tensions around the South China Sea (which accounts for c.33% of shipping activities globally), according to the United Nations Conference on Trade and Development (UNCTAD) report. China's claims of Taiwan being its territory (as opposed to Taiwan's government's claim of being a sovereign Nation) and the intention to re-unify its territories have been a major concern in the area.

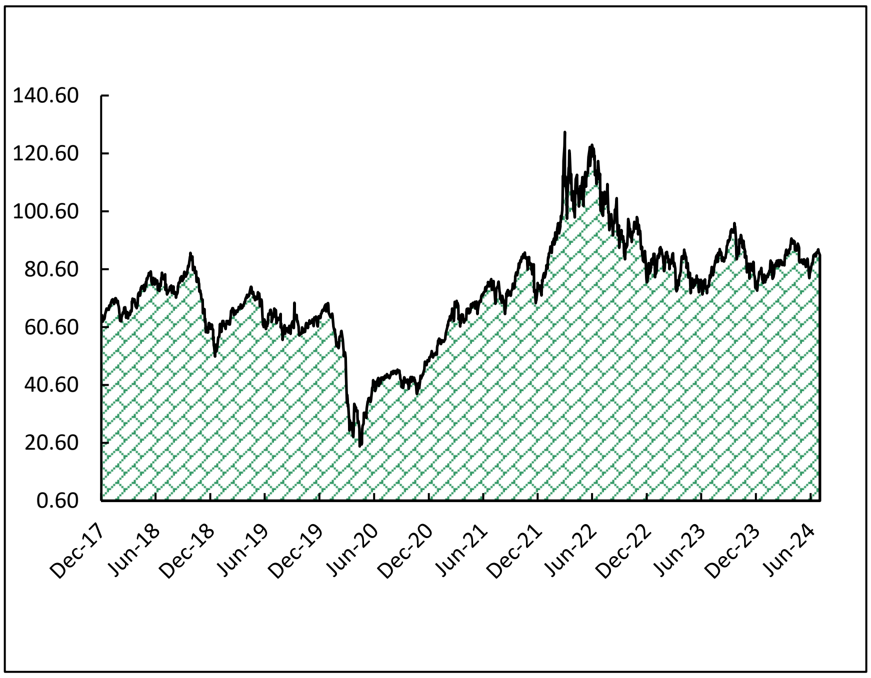
A conflict in the South China Sea could have far-reaching consequences, potentially disrupting the strategic Malacca Strait, a vital waterway connecting the Pacific and Indian Oceans, and putting at risk over 60% of global maritime trade. If a new conflict or escalation occurs in 2024, it is likely to increase inflation due to global supply bottlenecks and higher costs, while also slowing down global economic growth, particularly for countries heavily reliant on this critical trade route.

Commodities | Energy:
Increasing Geo-Political Risk: A Threat to Oil Supply?

The global oil market tightened in January 2024, despite apparent demand weakness, due to a combination of factors. Extreme weather conditions, including heavy snowfall, in key oil-producing regions in the US and Canada led to significant supply disruptions. Additionally, voluntary output curbs by some OPEC+ countries and escalating geopolitical tensions in the Middle East, which caused oil tankers to circumvent the Red Sea, further disrupted supply flows to global markets. As a result, Brent crude oil prices rose to USD86.41/bbl at the end of June 2024.

Looking ahead, both OPEC+ and the International Energy Agency (IEA) have revised the pace of oil demand growth downwards, highlighting expectations of weaker upstream demand and downstream consumption, particularly from China, the world's second-largest consumer of oil. In anticipation of these lower demand prospects and in a bid to stabilise prices, OPEC+ has taken proactive steps to reduce output by about 1.30mbp in H1:2024. However, the robust outlook of supply from non-OPEC+ members might disrupt the balance during the period, potentially causing occasional shocks to oil prices.

Chart 6: Trend in Brent Price (Jan 2018 - Feb 2024)



Source: Bloomberg, Meristem Research

Commodities | Renewable Energy:
Setting the Stage for Net Zero Emissions

Shocks to the global oil market caused by the Russian-Ukraine war heightened calls for a transition to more sustainable energy sources. The need for adequate provisions for both renewable and non-renewable replacements for oil has become increasingly apparent. While there are various sources of renewable energy available, hydropower, wind, and solar power are the most widely adopted.

As of 2022, renewable energy only accounted for 12.50% of the total world energy mix. However, in 2023, renewable energy made remarkable strides. According to the IEA, renewable energy capacity surged by c.50% YoY in 2023 as additional renewable electricity capacity reached 507 gigawatts (GW). Notably, China led much of this growth by commissioning wind power and solar photovoltaic (PV) projects in 2023, which was equivalent to the entire world's capacity addition for the year. Advanced economies such as the US and Europe also reached record levels in their renewable energy capacity.

We expect renewable energy capacity to continue its upward trajectory over the next five years as economies establish frameworks for de-carbonisation and accelerate adoption. This is supported by the fact that power generation costs from renewable options are cheaper than those from fossil fuels and non-fossil fuel alternatives. As a result, clean energy sources will increasingly contribute to meeting global electricity demand. Moreover, the IEA forecasts that solar PV and wind power installations will account for c. 96% of new capacity by 2028, reaching 710GW. However, a downside risk to our optimistic outlook is the lack of financing and investments, particularly for emerging and developing economies. This could lead to an unequal distribution of clean energy across the world in the future.

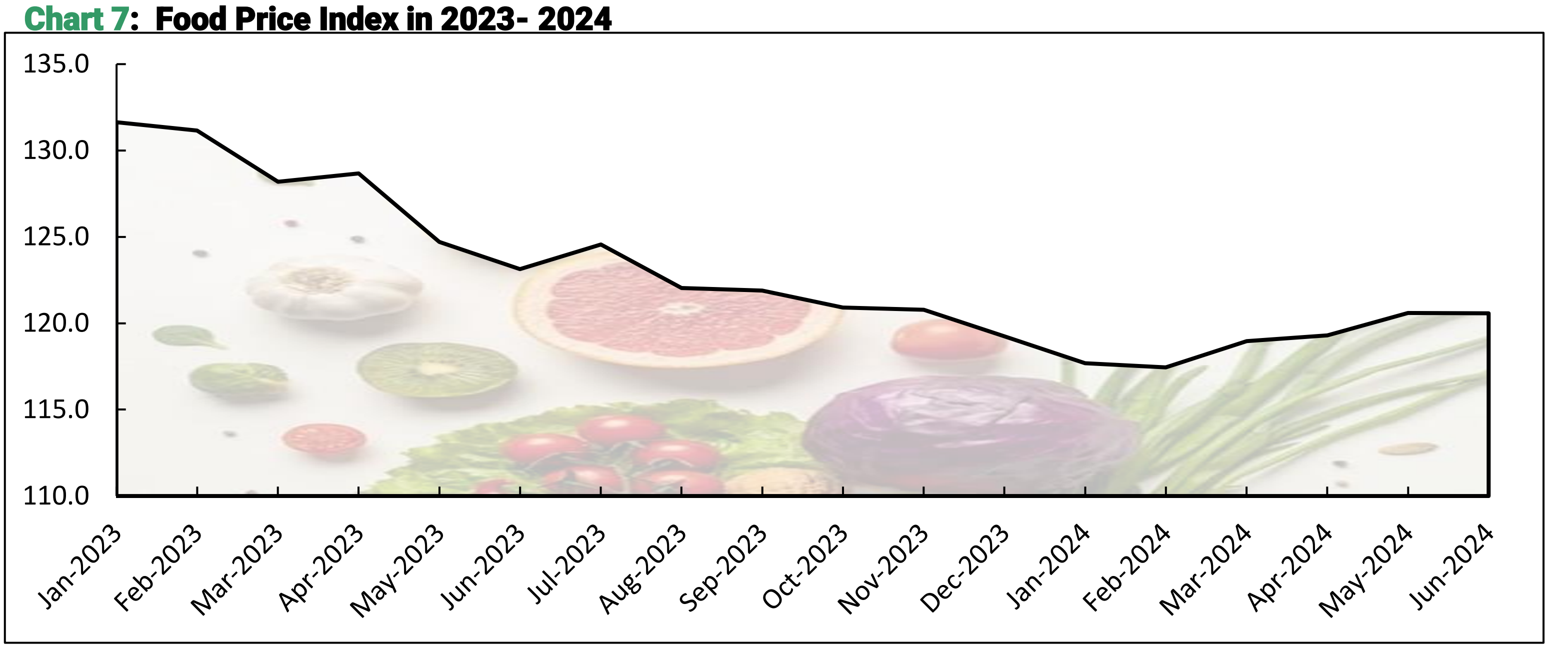
Commodities | Food: More Price Moderations in Sight

The FAO reported a drop in global food prices as of April 2024. The index declined by 7.83% YoY to stand at 119.10pts, driven by lower prices of cereal and sugar (-18.33% YoY and -14.24%YoY respectively) as restored export from India and Thailand, as well as favourable weather conditions in Brazil, pushed supply upward. Save for vegetable oil (+0.67% YoY), prices of the other commodities (Meat -0.42% YoY and Diary -4.28% YoY) in the basket declined owing to better supply chain.

According to the World Bank, 19 countries have implemented a total of 22 food export bans and 15 export-limiting policies since the post-pandemic period, severely restricting food trade. However, it is anticipated that these restrictions will be lifted in 2024, potentially reopening channels for global food trade.

We expect global food prices to continue their downward trend in 2024, driven by improved supply conditions and the anticipated lifting of export restrictions by 19 countries. As trade channels reopen, prices of cereals, sugar, and other commodities are expected to decline further.

Chart 7: Food Price Index in 2023- 2024



Source: FAO, Meristem Research

Sub-Saharan Africa:

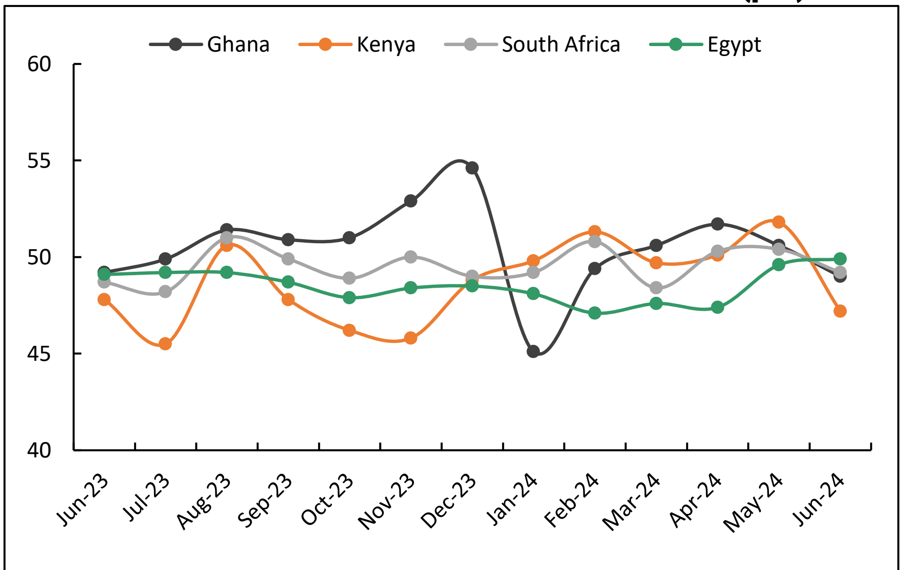
Charting a Recovery Path

Economic Growth: A Gradual Upturn Amidst Hurdles

Sub-Saharan Africa (SSA) has faced significant economic challenges over the past few years, marked by slow growth due to falling global commodity prices, currency devaluation, political instability, high borrowing cost and rising fiscal imbalances. However, several developments such as the declining inflation, stabilisation of debt levels, and improvement in the oil sector for economies like Nigeria, Senegal, Niger and Angola depict a tale of gradual recovery in the region. The reduction in global supply chain pressures also aided growth in the region and contributed to the declining inflationary environment.

Additionally, following a two-year hiatus from the Eurobond market, Cote d'Ivoire, Benin, and Kenya issued Eurobonds in the first half of 2024 as sovereign spreads narrowed. Thus, improving the region's narrative and increasing global appetite for SSA debt. Composite Manufacturing PMI data for the region also depicts the growth trajectory in 2024 with economies like South Africa, Ghana, Kenya, Angola and Mozambique recording significant improvements in business conditions compared to the same period in 2023.

Chart 8: PMI Data Across Selected SSA Countries (pts)



Source: S&P, Bloomberg, Meristem Research

In Ghana, strong performances in its industrial sector, particularly from mining and quarrying, resulted in a 4.70% YoY growth in Q1:2024, (from 3.80% in Q1:2023) primarily due to strong performances in its industrial sector, particularly from mining and quarrying. Rwanda and Kenya also recorded substantial GDP increases of 9.70% YoY and 5.00% YoY, respectively, driven by improvements in their services, industrial and agricultural sectors. In contrast, South Africa's growth stagnated at 0.50% YoY, hindered by persistent electricity shortages (load-shedding) that have negatively impacted productive sectors and increased operating costs for businesses.

In response to the aforementioned, the IMF revised its growth forecast for the region upward to 3.80% YoY in 2024, up from 3.40% in 2023.

In H2:2024, we expect moderate growth from countries in the region hinged on continuously improving supply chain dynamics and declining inflation. The risks, however, remain tilted to the downside on the back of financing shortages, high borrowing costs and vulnerability to global shocks.

Countries like Ghana and South Africa also face challenges like the El Nino effect, floods, and high energy prices, which threaten their growth.

Inflation and Monetary Policy: A Medley of Outcomes

In tandem with the global trend, the inflation rate in the SSA region has largely declined across economies, reflecting the effect of monetary tightening across major economies. There has been a noticeable decline driven by reducing food and energy prices and the prior-year base effect, although many still grapple with double-digit inflation rates and price pressure, as the pass-through of lower food and energy price tensions from the global economy typically lags in the region.

For countries like Kenya (5.10% vs 6.60%), Ethiopia (23.30% vs 28.70%), and Ghana (23.10% vs 23.20%), the decline compared to December 2023 was driven by the aforementioned factors. Meanwhile, Nigeria (33.95% vs 28.92%), Angola (30.16% vs 20.01%) and Zambia (14.70% vs 13.10%) still report higher inflation numbers due to adverse weather conditions, structural challenges, and significant currency devaluation.

The need to avoid celebrating success prematurely and properly rein in inflation to target levels has caused monetary policy authorities to remain mostly restrictive. Also, the hike in policy rate was also implemented to address exchange rate issues. Hence, select monetary policy authorities in the continent opted to buck the global trend and continue the pace of rate hikes. Kenya increased its rate by 50bps to 13.00%, Nigeria by 750bps to 26.25%, Egypt by 800bps to 27.25% and Angola by 150bps to 19.50%. Conversely, Ghana reduced its rate by 100bps to 29.00%, while South Africa held its rate steady at 8.25%.

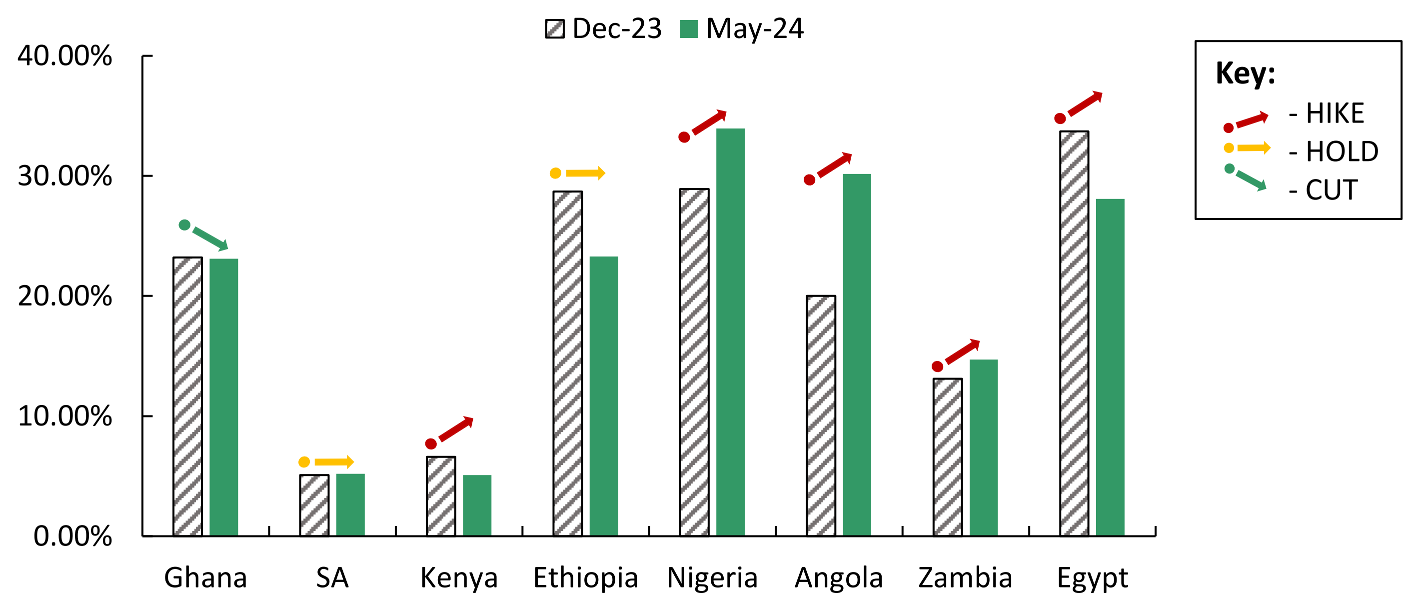
A slight moderation in inflation is anticipated for the rest of the year, driven by stabilising global commodity prices and a steady decline in inflation in advanced economies (which will help reduce imported inflation). Additionally, mild currency appreciation as the US Fed is expected to adopt an accommodative stance should contribute to this trend.

The monetary policy rate is expected to remain high while we see the possibility of a hold stance in some countries (like South Africa, Kenya, and Rwanda) as authorities prioritise price stability.

Key monetary policy actions across the SSA region for H2:2024 hinge heavily on:

- controlling price pressures to guide inflation towards the Central Banks' target ranges before considering potential easing,
- the need to reduce borrowing costs to stimulate economic activity and support growth, and
- balancing the spillover risks associated with fiscal measures aimed at improving living standards, ensuring these don't undermine inflation control.

Chart 9: Inflation and Monetary Policy Trend Across Selected SSA Countries (%) (Dec 2023 – May 2024)



Source: Bloomberg, Meristem Research

Currency: Continued Woes with Local Currencies

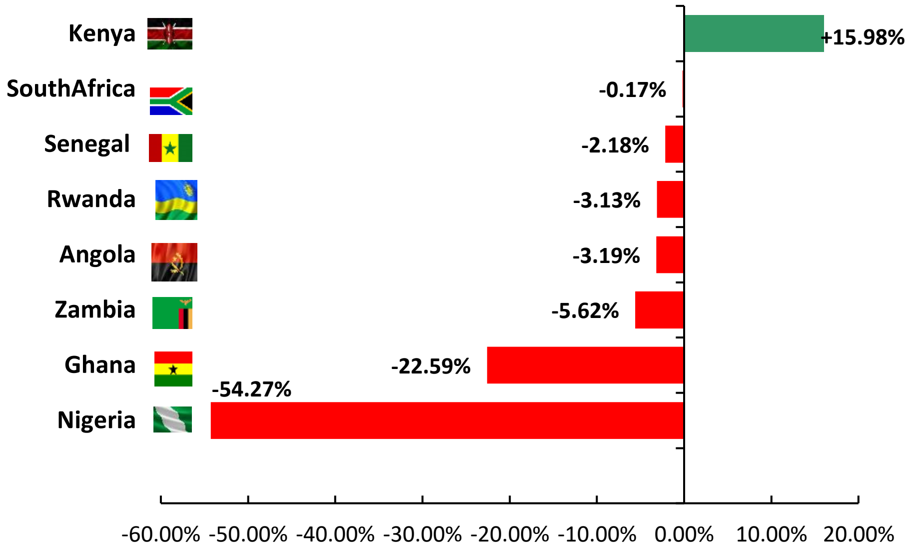
The currency crisis in the region still reflects lingering structural issues among member countries and the depletion in foreign currency reserves as monetary authorities sought to defend local currencies, coupled with the continued strengthening of the US dollar (USD).

South Africa's gains with slight reduction in load-shedding hours and Nigeria's recent FX market reforms (clearing of all FX backlogs, FX supply to BDC's), has led to some level of stability in these countries' currencies in H1:2024. However, the currency devaluation in early March and the escalation of the Middle-Eastern conflict, which doused investors' sentiment and affected key revenue sources, led to a severe depreciation in the Egyptian Pound earlier in the year.

All isn't clear skies, as the region still battles with severe idiosyncratic issues that make for major shortfalls to the significant appreciation in these countries' currencies. Particularly, the aftermath of the elections in South Africa, influencing the political terrain and the recent socio-political unrest in Kenya could reverse the gains recorded in H1:2024 on the Rand and Shillings, further compounded by the strength of the USD should the Fed keep rates higher for longer.

However, with pronounced signals of a cooldown in inflationary pressures and a recent rate cut in the global economy (by the ECB), we expect that a gradual ease in policy rates could aid appreciation of African currencies. Also, development aid from the twin Brenton-Woods institutions (IMF and World Bank) and other multilateral agencies would help shore up local currency reserves and improve stability.

Chart 10: SSA Currencies Depreciated Against USD in H1:2024



Source: Bloomberg, Meristem Research

Fiscal Consolidation; A Growing Need

Not all is positive with SSA economies. Fiscal sustainability remains a key concern in the face of high debt costs, a mounting debt profile, and large budget deficits. According to the IMF, the debt-to-GDP ratio surpassed the IMF's recommended benchmark of 55% to hit 59% in 2023 and is expected to increase further in 2024. This is further strained by high interest rates in the international capital market and currency depreciation across SSA.

Fiscal deficit-to-GDP ratios in Ghana (4.60%), Kenya (5.30%), Niger (5.50%), Rwanda (5.50%), and South Africa (6.00%), respectively, exceed the IMF's recommended 2-3% estimate for the region. Many countries in SSA need to carry out significant fiscal adjustments that fiscal consolidation alone cannot address. Hence, there is a need for debt restructuring efforts such as refinancing and renegotiating payment terms. This is evident with Ghana and Zambia who infamously defaulted on their debt and have secured an agreement in principle with their international and Eurobond holders, marking a significant step towards emerging from a prolonged default. Additionally, there is an increasing demand for longer-term and concessional loans aimed at alleviating budgetary constraints.

Ghana has made significant strides in restructuring its debt, following the receipt of USD1.24bn from the IMF. The country has successfully restructured about 40% of its bonds, with debtholders agreeing to a 37% haircut. Similarly, Zambia has proposed a 21.6% haircut to its creditors, while Ethiopia is still in negotiations with its creditors to reach a mutually agreeable solution.

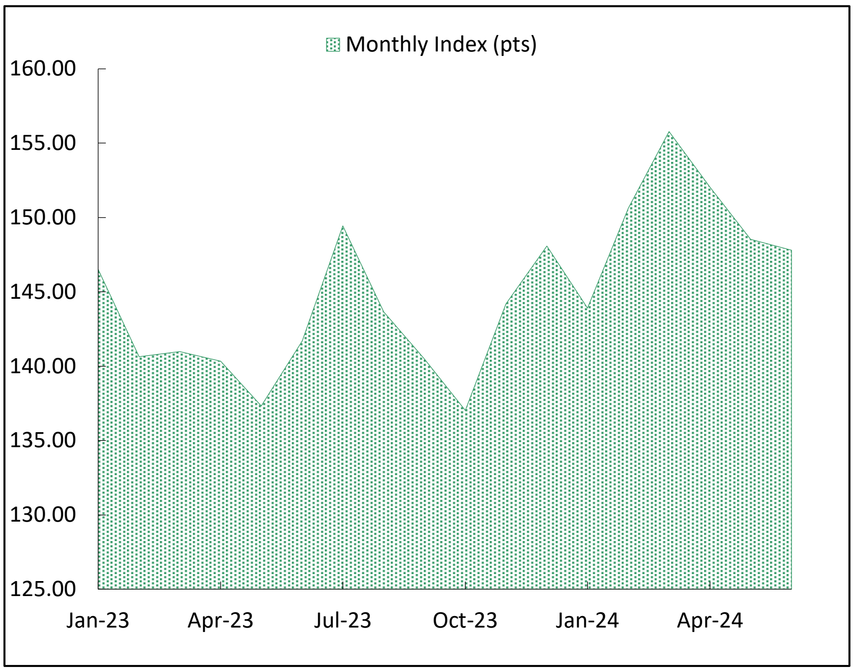
The arrangements and IMF bailouts are expected to extend the debt maturity of these countries, improving economic conditions for defaulting nations. As a result, we anticipate a resurgence of SSA economies in global capital markets, attracting foreign investment and bolstering local currencies. This influx of capital is expected to stabilise the regional economy, creating a positive feedback loop that fosters economic growth and development.

We believe the increasing adoption of fiscal consolidation by countries in SSA is pertinent for improved debt sustainability in the long term. However, this might pose a downside to growth prospects as government spending reduces on key sectors – crucial for long-term growth. Despite fiscal pressures, looming USD5.90bn Eurobond repayment in 2024 and record-high debt levels in countries like Angola, Zambia, Ghana, Nigeria, and South Africa, we don't expect further defaults in the region this year. This is premised on expectations of lower global interest rates and ample fiscal assistance from the IMF.

Daunting Debut: SSA Eurobonds Re-Emerge in a Challenging 2024

Côte d'Ivoire, Benin, and Kenya broke the mould on Eurobond issuances in the region attracting a combined USD4.85bn in foreign inflows with an average coupon c.9%. The offerings were oversubscribed by over 6x, indicating a shift in the risk appetite of investors towards the frontier markets following the expectation of a rate cut from major economies. This issuance, coupled with the USD2.92bn disbursement from IMF helped improve Kenya's credit risk profile and resulted in currency appreciation for the country.

Chart 11: Emerging Market Capital Flow Index (2023-2024)



Source: Bloomberg, Meristem Research

While the recent issuance of Eurobond in the region is an indication of increasing investors' confidence in its outlook, it is pertinent to note the consistent decline in the net debt flow (repayments are offsetting new offerings).

This, coupled with the possible slowdown in financing from China's Belt & Road Initiative and the World Bank, could pose significant challenges for the region in the long run, with a significant amount of Eurobond repayments coming due in the next few years as Côte d'Ivoire and Nigeria, amongst others, have substantial repayments lined up in 2025.

Recent efforts by SSA countries to re-enter international capital markets are expected to enhance investor confidence and boost growth in the region.

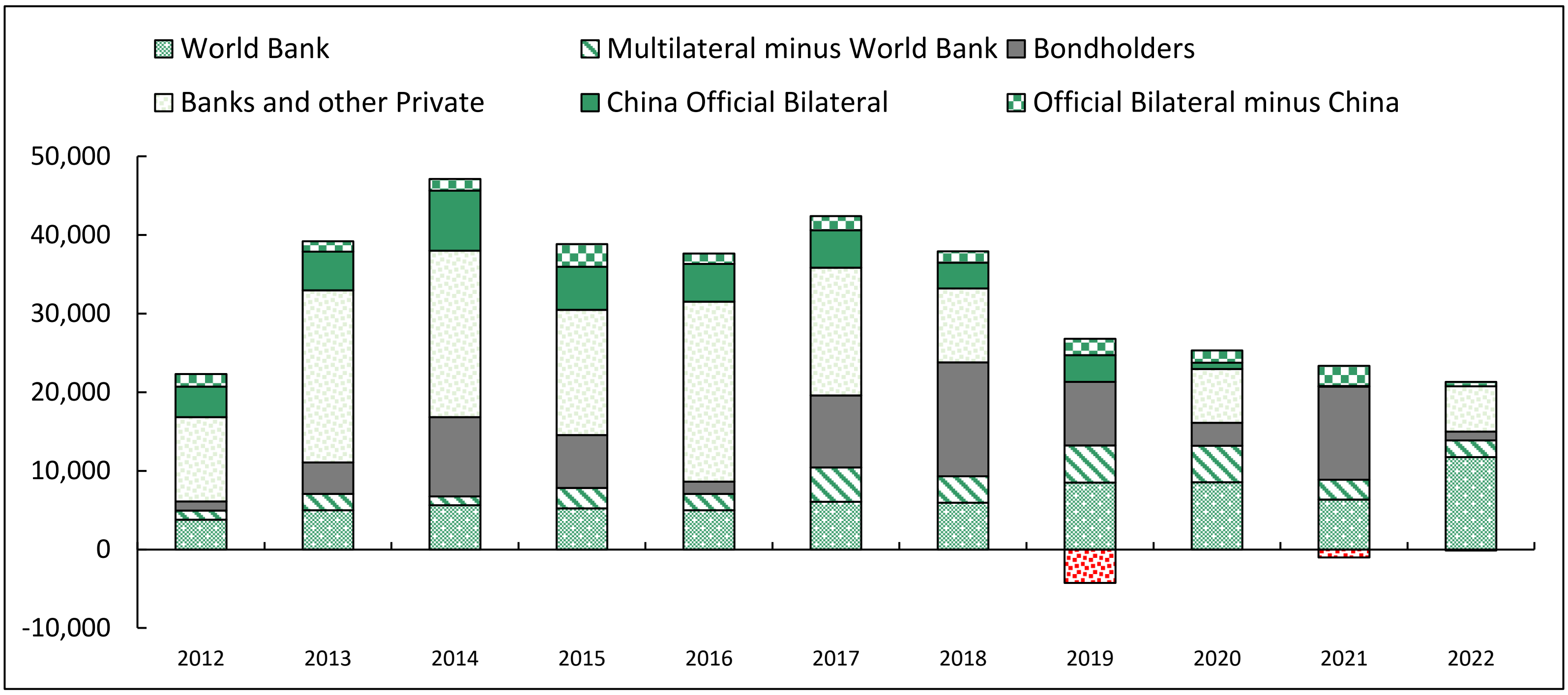
Looking ahead, while high global interest rates could exert upward pressure on Eurobond yields, potential improvements in SSA economies, increased investor demand seeking higher returns, and successful debt restructuring initiatives could create a more favourable environment. This interplay of factors may lead to a stabilisation of yields around current levels, with the potential for moderation if positive developments outweigh global headwinds.

Table 2: New Eurobond Issuances and Maturing in 2024

Country	Coupon	Issue Date	Amount (USD)	Maturity (years)	Currency	Subscription Rate
Benin	7.96%	2/13/2024	750,000,000	14	USD	6x
Cote d'Ivore	8.25%	1/30/2024	1,500,000,000	13	USD	3x
Cote d'Ivore	7.63%	1/31/2024	1,100,000,000	9	USD	3x
Cote d'Ivore**	5.38%	7/23/14	750,000,000	10	USD	6x
Kenya	9.75%	2/16/2024	1,500,000,000	7	USD	3x
Kenya**	6.88%	6/24/2014	2,000,000,000	10	USD	4x

Source: Bloomberg, Meristem Research

Chart 12: Sub-Saharan Africa: IDA Net Debt Flows (USD'mn)



Source: World Bank International Debt Statistics, Meristem Research

Domestic Economy:

Towards Steadier Grounds

Economic Growth: Reforms on the Way to Recovery

Keeping with our anticipated outcomes at the year's onset, output growth in Q1:2024 was mostly buoyed by the expansion in the oil sector (which recorded its second consecutive quarter of positive growth), the financial services sector and the low base effect of Q1:2023. The economy grew by 2.98% YoY exceeding the 2.31% YoY recorded in Q1:2023. This, however, marks a slowdown compared to its performance in Q4:2023 (+3.46% YoY).

The slight moderation is mostly due to slower growth in the non-oil sector and can be attributed to the change in monetary policy tone (*to a more stringent one*), lower disposable income due to biting inflationary pressures and the ripple effects of exchange rate fluctuations during the period, which impacted both raw material procurement and consumer demand.

Owing to concerted efforts to implement reforms and curb pipeline vandalism and oil theft, average daily oil production in Q1:2024 increased to 1.57 million barrels per day (mbpd), up from 1.51mbpd in Q1:2023 and 1.55mbpd in Q4:2023. Thus, growth in the oil sector came in higher at 5.70% YoY in Q1:2024 (vs 4.21% YoY in Q1:2023). This came in slower than the 12.11% growth recorded in Q4:2024 (mostly due to the low base effect in the period).

The non-oil sector expanded marginally, higher than the previous year (2.80% YoY vs 2.77% YoY in Q1:2023) but slower than Q4:2023 (3.04% YoY) as the high interest rate environment and currency devaluation tapered growth in the construction sector (2.14%), agricultural (0.18%), manufacturing (1.46%), and ICT sector (5.43% YoY).

In our view, the decline recorded in the construction sector – *its first decline in 15 quarters (since Q2:2020)* – is chiefly anchored on the impact of the currency volatility and reduced activity in infrastructure development (as the real estate and cement sub-sector also recorded subdued growth).

On the positive side, due to the double-digit growth recorded in the financial services sector (+31.24% YoY), the services sector expanded by 4.32% YoY, contributing 58.04% to the overall GDP. We also note that the transport subsector exited its recession (which began in Q2:2023), reflective of broad recovery from the subsidy removal reform implemented in 2023.

Following the reopening of terminals and fields such as the Awoba and Trans-Niger fields earlier booked for maintenance, the anticipated reopening of additional oil terminals and the commencement of production in new fields like the Madu Field, we expect improved crude oil production for the rest of 2024. Also, the scheduled completion of maintenance activities at major terminals will further alleviate production constraints. Finally, the potential production of a wider range of petroleum products at the Dangote Refinery by H2:2024 is expected to improve the sector's overall contribution to the Nigerian economy. On a balance of factors, we maintain our expectation for crude oil production at 1.56mbdp (from 1.43mbdp in 2023).

We do not expect a significant expansion from the non-oil sector, as the country's currency woes, fiscal inefficiencies and high interest rate environment are expected to impact growth in the manufacturing sector. Overall, we expect the GDP to expand by 3.14% YoY in 2024 (vs 2.74% YoY in 2023), mostly anchored on the oil sector's performance and expansions in the financial services and transport sectors. In the table on the next page, we outline possible drivers and drags to growth in 2024.

Long Overdue Rebasing: Capturing the Full Spectrum

In our 2024FY Outlook report, we mentioned the possibility of a rebasing of the GDP to reflect a more recent base year (current base year is 2009) and capture more growing sectors in the economy in the light of the administration's goal of achieving a USD1.00trn GDP. The rebasing exercise is done to capture the contributions of new and emerging industries and businesses, including those within the informal sector.

As the Nigerian Bureau of Statistics (NBS) announced preparation to conduct this later this year (after a 10-year gap), we highlight that the previous rebasing resulted in a significant upward revision in the nominal GDP by *c.69%*. This exercise also included underreported sectors like telecommunications and movies.

In our view, rebasing Nigeria's GDP is essential for providing a more accurate reflection of economic growth, especially considering the substantial improvements across various sectors since the last rebasing. The emergence of fintech and digital services has revolutionised the financial landscape, while new value chains in the agricultural sector, such as commodity exchanges and agrobusiness, have significantly boosted economic activity.

The renewable energy sector is also experiencing notable growth due to the widespread adoption of solar energy. Additionally, the entertainment industry, including the skit industry, Nollywood, and music production, has gained international recognition, further driving economic development.

Table 3: H2:2024 Outlook for Economic Growth

Sector (88% of GDP)	% of GDP	Drivers	Drags	Outlook
Information and Communication	18%	Growing digital and technology market and demand for Telco services	High operating & borrowing costs, exchange rate depreciation, NIN-SIM blockage, excise duty on Telco services	Modest
Trade	16%	Increased operational free trade zones like IPRFZ, the adoption of the Nigeria Single Window Trade portal	Infrastructure challenges, increase in electricity tariffs and fuel prices, port congestion	Bullish
Mining and Quarrying	6%	The issuance of additional mining licences leading to increased mining output, increased rig count, oil production volume, and investment in the oil and gas sector	Theft and infrastructure vandalism, high importation expenses.	Bullish
Agriculture	21%	Government reforms and increased investment aimed at improving agricultural productivity	High operating costs, increased competition from imported substitutes due to the suspension of import duties, unfavourable weather conditions and issues with the agricultural value chain	Modest
Manufacturing	10%	Increased investment in sectors like textile, suspension of import duties on essential raw materials for certain industries.	High interest rates, declining disposable income, high energy costs, congested ports, and exchange rate depreciation	Modest
Infrastructure (Real Estate, Construction, Cement)	10%	Government expenditures including the "Renewed Hope Cities and Estates" program.	High borrowing and mortgage rates.	Bearish
Financial and Insurance	7%	High yield environment, increased underwriting income, moderate FX revaluation gains.	Earnings dilution due to recapitalisation, regulatory constraints	Bullish

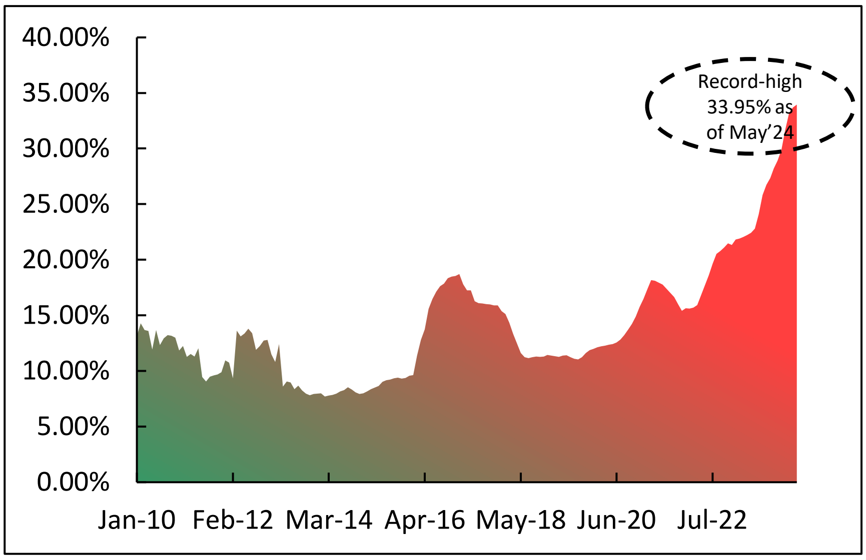
Source: *Meristem Research*

Inflation: Moderation in Price Levels Anticipated

Throughout the first half of the year, headline inflation continued to rise, hitting its 17-month high of 33.95% in May 2024. While legacy issues (like insecurity and poor infrastructure) continue to embattle Nigeria's food security, new issues also emerged in the period, creating additional pressure points in the already high inflationary environment for both the food and core indices. These include adverse weather conditions, higher production costs, higher energy prices, lower harvests impacting food supply, exchange rate volatilities, higher electricity tariffs, and transportation issues.

We expect price levels to remain high but recede moderately in H2:2024, driven chiefly by the base effect from H2:2023. The government's inflation targeting scheme, which includes suspending import duties and VAT on basic food items, staple food, raw materials, and agricultural inputs, among other things, should also help to reduce producers' costs. The price-moderating effect of harvest supplies, the expected reduction in FX volatility, the government's all-season plantation scheme, distribution of farm inputs, and the AFDB's USD2.90bn intervention and the waning impact of structural reforms should also result in a decline in the pace of growth. Risks to this outlook, however, include lower-than-expected harvest supplies, the introduction of the consumer credit scheme, which should increase the money supply and electricity tariff hikes.
Therefore, we foresee inflation averaging 31.80% for 2024FY (vs average of 24.52% in 2023FY) and easing to **29.15%** by the end of 2024.

Chart 13: Inflation Reaches Highest Level Historically (Jan 2010- May 2024 (%)



Source: NBS, Meristem Research

Table 4: Inflation Scenario Analysis

Bull Case – 26.65%	Base Case – 29.15%	Bear Case – 32.15%
Significant Naira appreciation	Global commodities prices remain stable	Increased FX pressures lead to Naira value of NGN1700-NGN1800/USD
Improved security in food producing areas	Naira remains around current levels	Higher electricity tariffs across all Bands
Favourable weather to support agricultural yield	Insecurity in food producing areas continues	Surge in global commodities prices
More stringent monetary policies and lower PMS prices	Poor harvest season	Worsened insecurity situation in food producing areas

Source: Meristem Research

Monetary Policy: Higher for How Much Longer?

To combat inflation and maintain an attractive environment for foreign investment, the Monetary Policy Committee (MPC) implemented a series of aggressive rate hikes in 2024, totaling 750bps (February: 400bps, March: 200bps, May: 150bps), bringing the rate to a historical high of 26.25%. Additionally, the Committee increased the Cash Reserve Ratio (CRR) for Deposit Money Banks by 1250bps to 45.00% and for Merchant Banks by 400bps to 14.00%. The asymmetric corridor's lower band was initially adjusted to -700bps around the MPR, then reverted to -300bps in March, while the liquidity ratio remained steady at 30.00%.

We also note a major turn in the monetary policy rate (MPR) alignment with market rates, which the Cardoso-led Apex bank ensured to reinstate following years of non-conventional monetary policy actions. As a result, the hike in the MPR also translated to higher fixed-income rates, leading to increased foreign portfolio investment (FPI), better FX stability and slower month-on-month inflation growth.

Looking ahead, we anticipate that the direction of monetary policy rates will be largely influenced by the FX stability as we opine that the MPC cannot afford to implement rate hikes despite the expected decline in headline inflation (due to base effect). We opine that a 100bps cut in rate could result in as much as a 20-30% increase in the exchange rate and further stoke inflationary pressures. Thus, we expect the committee to deliver another 100bps rate hike in its July meeting for the year. The MPC may adopt a more accommodative stance, potentially leading to a hold stance in Q4:2024.

Fiscal Policy: All Hands on a Progressive Deck

For the first time in over a decade, Nigeria met and surpassed its budget excluding Government Owned Enterprises' revenue target by 19.41% in 2023 on the back of higher company income tax (CIT), education tax, value-added tax (VAT) and grants & donor funding. This also depicts a 55.79% YoY increase compared to the 2022 budget performance. Aggregate revenue printed at NGN11.88trn, higher than the estimated NGN11.05trn. On oil revenue, the improvement in oil production (1.43mbpd) compared to 2022 (1.37mbpd) supported oil revenue for the country despite lower oil prices in the period (average of USD82.18pb vs average of USD99.04pb).

On the expenditure side, government expenditures undershot the budget by 19.05% (NGN16.70trn vs NGN20.63trn budgeted) but were higher than 2022's by 24.55% YoY. The underperformance was a result of significantly lower capital expenditures than budgeted by 52.85%. Fiscal deficit to GDP thus reduced to 2.95%, the *lowest since the pandemic struck* and was financed mainly by domestic borrowings (85.92%) and multilateral project tied loans (14.08%).

So far in 2024, fiscal policy has remained largely expansionary with the 2024 budget including an extensive spending plan. The fiscal authority implemented guidelines relating to the applicability of fiscal incentives and tax relief measures such as tax credits, suspension of import duties and VAT on some items, and allowances for oil and gas companies in order to attract over USD10.00bn in investment within the next 18 months. A review of the Accelerated Stabilisation and Advancement Plan (ASAP) presented by the Minister of Finance revealed that expenditure in fuel subsidy is expected to reach NGN5.40trn in 2024, eroding the expected gains from the removal of fuel subsidy announced in 2023. The draft plan also revealed a likely supplementary budget of up to NGN6.65trn which should fund the increase in minimum wage amongst other expenditure requirements. Going forward, we expect government expenditure to increase substantially due to ongoing PMS and electricity subsidies, higher debt service payment (due to high MPR rates) and expectation of higher wages.

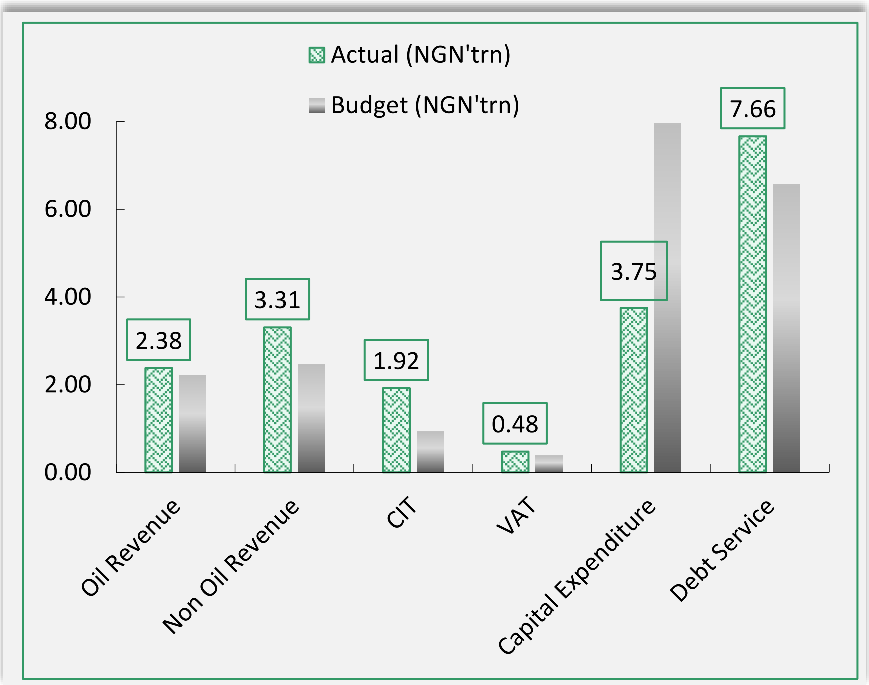
We anticipate a significant shortfall in oil revenue relative to what was budgeted, given our projection of 1.56mbpd (vs 1.78mbpd budgeted by the government). We also expect these tax relief measures implemented to reduce non-oil revenue in 2024, despite measures taken to improve tax revenue collection in Nigeria. Higher crude oil prices (as demand is expected to increase) should however, serve as an upside for oil revenue. Also, data on CIT and VAT for Q1:2024 reveal a +109.97% YoY and +101.70% YoY increase, respectively. Thus, revenue is projected to rise by 26.21% YoY this year. Taking the above factors into account, we anticipate an uptick in fiscal deficit to GDP (c.6%), hinged on increased debt service cost and higher government spending.

Debt: Navigating Rising Pressure

In Q1:2024, Nigeria's official debt stock increased by 25.12% to NG121.67trn. This increase was mainly due to the currency devaluation, which led to a 45.92% increase in the value of the external debt. Additionally, the government used domestic borrowings to finance a portion of the Ways and Means debt repayment (NGN7.30trn), further contributing to the rise in the debt stock. As of Q1:2024, only NGN0.92trn of the Way and Means financing remains unpaid to the Central Bank of Nigeria, resulting in a reduction in the pace of borrowings towards the end of the quarter.

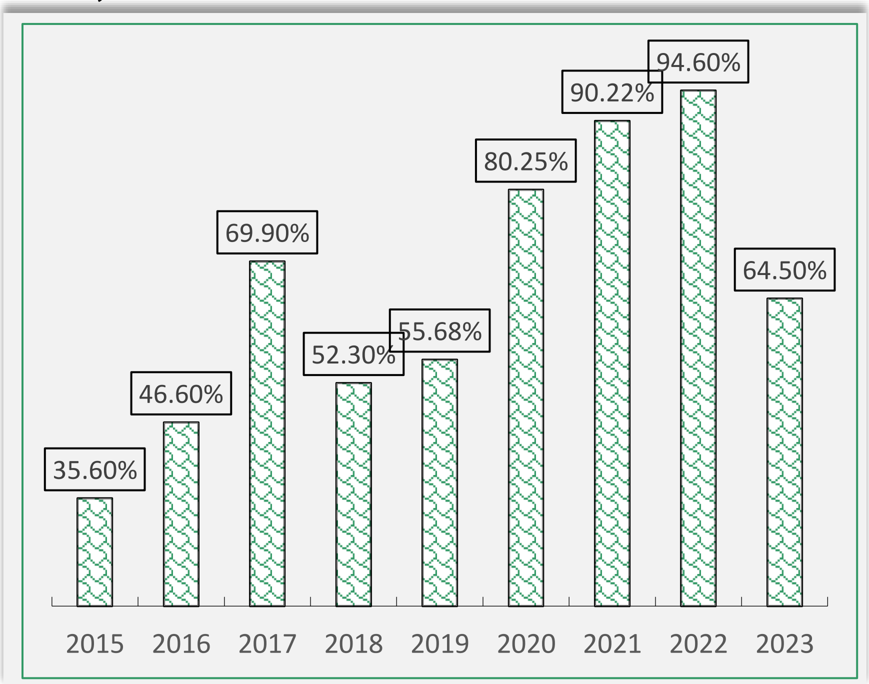
For the remainder of 2024, we estimate external debt stock to rise further on the back of the USD1.00bn earmarked as an oil-backed loan from Africa Export-Import Bank (AFREXIM) and the possibility of a Eurobond issuance towards the end of the year. We also expect domestic borrowings to increase, given the need to fund the expected NGN6.65trn supplementary budget. We do not rule out a possible return to the Ways and Means window for funding, given that a substantial portion of the extant debt has been financed. We, however, expect this to serve as a last recourse if more multi-lateral and/or bi-lateral funding sources prove inaccessible. Meanwhile, we note the USD2.25bn conditional loan facility secured from the World Bank at a 1% interest rate over a 40-year term with a 10-year moratorium.

Chart 14: 2023FY Fiscal Budget Performance



Source: Budget Office, Meristem Research

Chart 15: Debt Service-to-Revenue Ratio Trend (2015-2023)



Source: DMO, Budget Office, Meristem Research

External Sector: An Introduction

Following the settlement of FX backlogs, interventions in the FX market, and the flood of circulars and policies released and enacted by the CBN to regulate the FX market, Nigeria's external sector dynamics improved in H1:2024 for the first time in a while, and confidence improved with both the domestic and foreign investment community.

As of June 2024, the Naira's volatility declined to the lowest in 5 months, and foreign investments have visibly increased. However, concerns about the sustainability of these measures to ensure a concrete recovery of the country's external sector remain top burner, especially as currently high interest rates are not expected to remain so indefinitely.

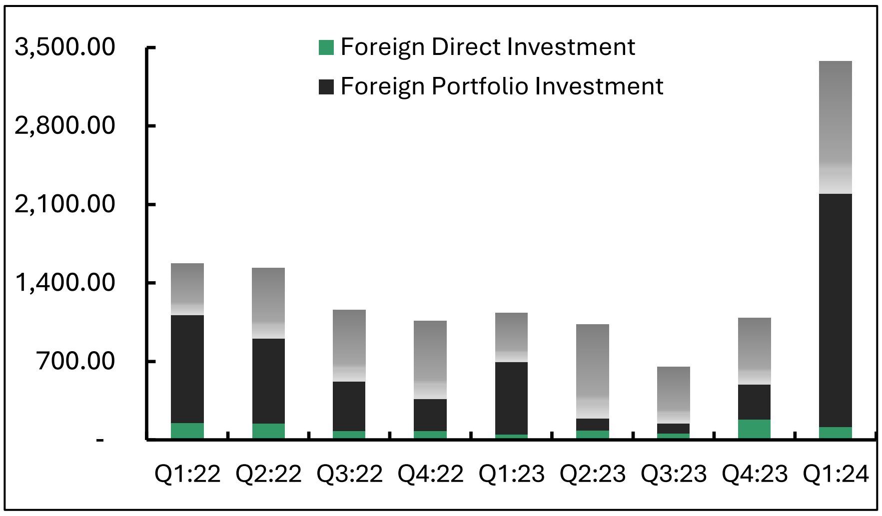
Nigeria's Fixed-Income Market: A Haven for Investors in 2024

Total capital inflow in Q1:2024 increased by 198.06% YoY and 210.16% QoQ in Q1:2024, reaching USD3.38bn from USD1.13bn in Q1:2023. This marks the highest quarterly inflow in four years and the largest QoQ increase in over a decade. Also, the total inflow of USD3.38bn nearly dwarfs the total capital inflows recorded in 2023 (USD3.91bn).

In line with expectations, the short-term fixed-income market experienced a surge in foreign investment during the quarter, driven by attractive higher yields. The significant inflow of USD1.61bn in FPI - a 219.67% YoY increase - was largely driven by investments in money market instruments. This marks the highest FPI inflow since Q2:2020, suggesting a potential gradual recovery to pre-pandemic levels.

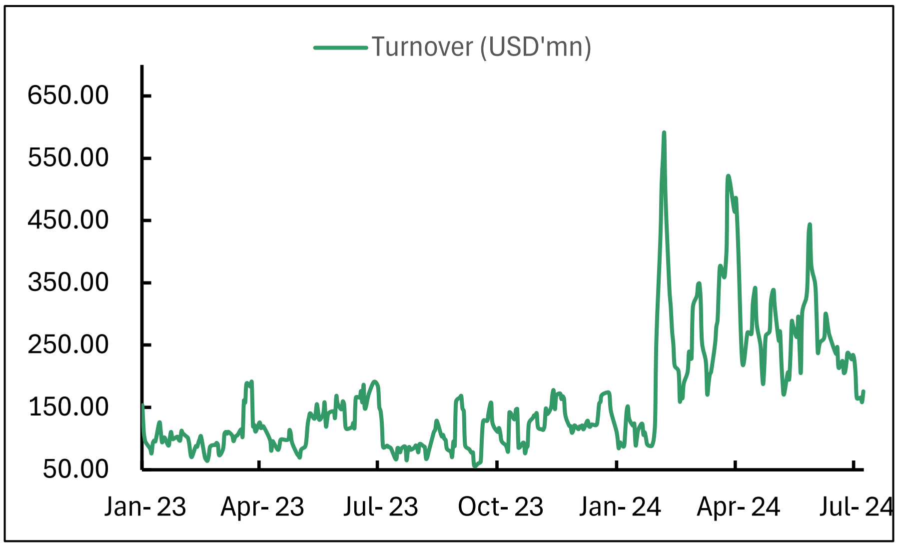
Foreign Direct Investment (+150.35% YoY), however, remains low as the country's weak macroeconomic environment, currency issues, and unfavourable business conditions make it a hard sell for long-term investors looking to take root in the country. Due to these macroeconomic headwinds, we have witnessed more foreign companies exiting or divesting from their investments in Nigeria.

Chart 16: Capital Importation USD'mn



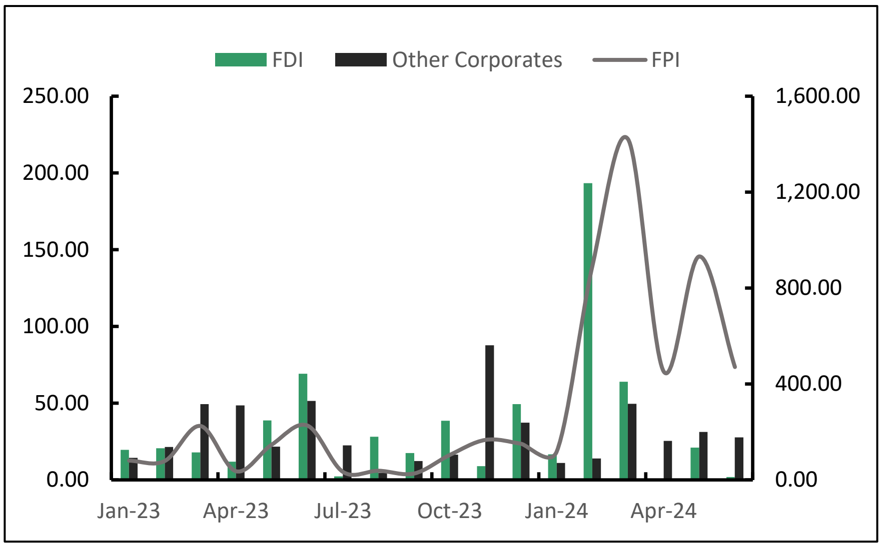
Source: NBS, Meristem Research

Chart 21: Daily FX Turnover (5-Day Moving Average)



Source: FMDQ, Meristem Research

Chart 22: FX Inflows Through NAFEM



Source: FMDQ, Meristem Research

For H2:2024, we anticipate that the attractive domestic fixed-income yields will sustain investors' interest in Nigerian assets, particularly as the monetary authority maintains its contractionary stance. We maintain that real rates of return remain negative. However, with inflation expected to decline in the second half and fixed income rates expected to decline only marginally, we anticipate the negatives to narrow. Thus, FPI inflows and other investments are expected to remain high and result in the highest total capital inflow recorded in 4 years.

Additionally, inflows secured by the government in the form of loans from multilateral agencies (including the USD2.25bn from the World Bank) and other parties (such as the AFREXIM bank) are expected to boost other investment figures for 2024FY. However, a resurgence in FX backlogs and the long-term unfavourable outlook for the Naira constitute significant downsides to our projection.

Foreign Trade: Current Account to Maintain Surplus Position

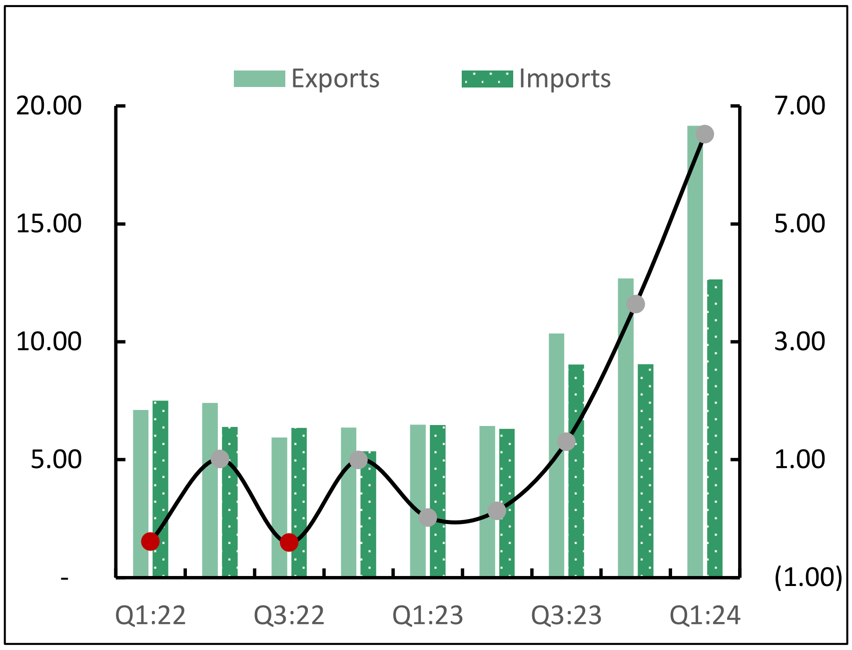
In Q1:2024, Nigeria's total trade surged to NGN31.81trn, marking a 145.58% increase from NGN12.95trn in Q1:2023 and a 39.65% QoQ increase from NGN21.75trn in Q4:2023. This growth was driven by a significant rise in exports, which increased by 195.47% YoY to NGN19.17trn, up from NGN6.49trn in Q1:2023. Imports also saw a notable rise, increasing by 95.53% YoY to NGN12.64trn, up from NGN6.47trn in Q1:2023.

Consequently, the country recorded a historic trade surplus of NGN6.53trn in Q1:2024, a substantial improvement from the NGN20.94bn and NGN3.64trn surplus in Q1:2023 and Q4:2023, respectively. The significant increase can be attributed primarily to the Naira's depreciation, which boosted the value of the country's exports during the period. Furthermore, given the oil sector's continued dominance in exports (c.90%), the slight increase in oil production (to 1.54mbpd from 1.53mbpd in Q1:2023) also contributed to the surge in export figures.

However, on conversion to USD, the country's total trade came in at USD24.29bn in Q1:2024 (using the official exchange rate as of March 29 2024– NGN1,309.39/USD), representing a 13.58% YoY decrease from USD28.11bn in Q1:2023 (using the official exchange rate as of March 31, 2023 – NGN1,309.39/USD).

Total exports amounted to USD14.64bn, a slight 3.97% YoY increase from USD14.08bn in Q1:2023, while total imports were USD9.66bn, down 31.20% YoY from USD14.03bn in Q1:2023. These figures reflect the true value of the country's trade position in terms of foreign currency, highlighting the impact of the Naira's devaluation in June last year and its subsequent depreciation since then.

Chart 23: Foreign Trade (NGN'trn)



Source: NBS, Meristem Research

Looking ahead, we expect the current account surplus in 2024 to remain at a surplus, hinged on higher trade surplus (due to Naira depreciation, which will enhance the value of exports), higher crude oil production volumes compared to 2023 and higher non-oil exports. On the flipside, we expect the cost of import to also increase compared to last year, driven by the devaluation. The decline in global inflation, anticipated supply of PMS to the local market by Dangote Refinery and expected reduced volatility of the Naira should, however, cushion the impact of the increase, keeping the trade balance at a surplus.

External Reserves and Exchange Rate: Naira Stability Likely to Sustain in the Near Term

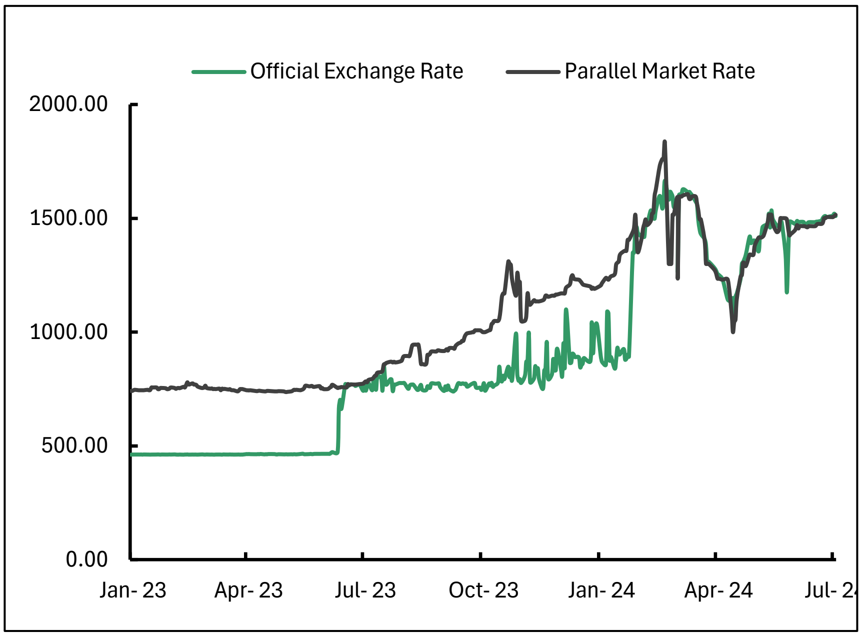
While the country's external reserves has seen some improvement in 2024, the trend has not been entirely upward. The reserves fell to a seven-year low of USD32.11bn in April 2024. However, as of June 28th, 2024, the reserves had rebounded to USD34.19bn, reflecting a 3.55% YtD increase. This boost is largely attributed to increased FPI's in government assets and the transference of NNPC's account to the CBN to maintain transparency. The CBN also disclosed that overseas remittances into the country reached USD1.30bn in February 2024, up from USD300.00mn in the previous month.

Additionally, the CBN reported an inflow of over USD2.50bn from the purchase of Naira assets by foreign portfolio investors in Q1;2024, contributing to the reserves' growth. Furthermore, additional reforms by the CBN, such as electronic payouts for PTA and BTA, restrictions on repatriating export proceeds, lifting the cap on spreads for interbank FX transactions, permitting Naira payouts for international money transfers, mandating banks to reduce their net long position to 0% and net short position to 20% of shareholders' funds, and regulating BDC sales, played a crucial role in managing demand pressures and temporarily strengthening the Naira.

This further emphasises the need for more sustainable long-term measures that would improve the country's, FX supply and reduce volatility. As of June 28, 2024, the official exchange rate depreciated by 31.23% YtD to NGN1,505.30/USD (compared to NGN1,035.12/USD at the start of the year). The parallel market rate depreciated by 20.06% YtD to NGN1,505.00/USD, 0.02% below the official rate.

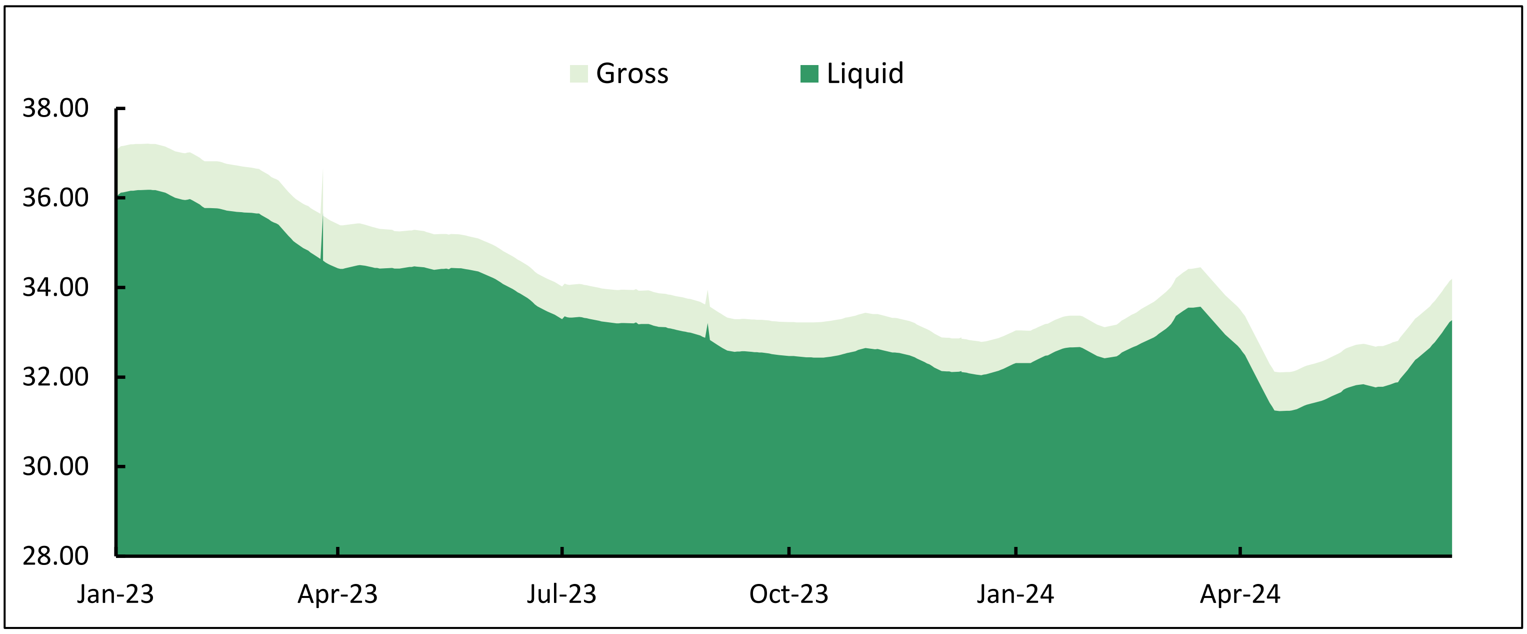
Given our expectation of below-budgeted oil production volumes, the resumption in subsidy payments and likely lower exports due to the domestic crude supply obligation, we expect accretion to the FX reserves to be mostly anchored on capital inflows and carry trade benefits, borrowings and likely Eurobond issuance.

Chart 24: Exchange Rate in the Official & Parallel Market (NGN/USD)



Source: FMDQ, Meristem Research

Chart 25: External Reserves (USD'bn)



Source: CBN, Meristem Research

Figure 1

Exchange Rate Scenario Analysis

BULL CASE

NGN1,454.28/USD

- Improved oil production > 1.65mbpd
- Elevated global oil prices
- Substantial increase in foreign inflows
- Elevated yields on fixed income instruments
- Higher non-oil exports
- Reduced FX demand pressures

BASE CASE

NGN1,515.95/USD

- Rate cuts across major economies
- Relatively stable capital inflow
- Oil production at 1.50mbpd
- Surplus current account position
- Stable global oil prices
- CBN maintains contractionary stance

BULL CASE

NGN1,601.70/USD

- Subpar oil production < 1.40mbpd
- Current account deficit position
- Decline in global oil prices > USD70/bl
- Accommodative stance from the monetary authority
- Lower capital inflow

Socio-Economic Development

Minimum Wage: Stalemate in Wage Negotiations

In the first half of 2024, organised labour intensified its demands for a new minimum wage, motivated by the worsening cost of living crisis and strained purchasing power. The president's initial action in H1:2024 was to inaugurate a Tripartite Committee tasked with recommending a reasonable national minimum wage for both the public and private sector. Meanwhile, the continued payment of a NGN35,000 provisional wage award is expected to provide relief until a new minimum wage is agreed upon and implemented.

Negotiations have largely been stalled by the inability of all parties to reach a consensus on an appropriate and affordable minimum wage to implement. Organised labour demands a review from NGN30,000 to NGN250,000 (a 146.00% drop from its initial demand of NGN615,000) and the Federal Government proposed a NGN62,000 minimum wage. To affirm its position, Labour embarked on a strike in June which resulted in the shutdown of the power grid nationwide and disrupted flights across the country. The strike was called off after 24 hours to allow for continued negotiation among parties.

Should negotiations with the NLC over a new minimum wage continue to stall, there may be more industrial actions, which could disrupt economic activities in the country. Given that this has far-reaching effects on the general economy, we think that NLC and the FG should settle the minimum wage within a range of NGN70,000 to NGN80,000 to forestall any adverse consequences. Looking ahead, the outcome of the minimum wage discussions will likely influence the size of any supplementary budget passed to accommodate the new wage structure.

Polity and Security: Assessing the Safety of Investments

Nigeria faced a range of security challenges in the first half of 2024. These included insurgency, banditry, communal conflicts, and maritime insecurity, all of which are closely linked and impact the country's stability. As a result, Nigeria's ranking on the Global Peace Index dropped from 144 to 147 in 2024, according to the Institute for Economics and Peace.

As the government takes steps to enhance the investment climate's safety, recent occurrences have sparked apprehension as H1:2024 saw attacks on major assets and infrastructure. In focus, the assault on Okomu Oil Palm Plc's (OKOMUOIL) plantation by militants in the Niger Delta resulted in substantial damage to both production facilities and personnel. Also, the frequent vandalism of electricity transmission towers and facilities has led to constant power outages. Furthermore, persistent bandit attacks in the North pose a continued threat to the nation's food supply chain.

Financial Markets:

Exploring Terrains, Uncovering Gains

Global Equities: Broader Optimism Spurs Positive Returns

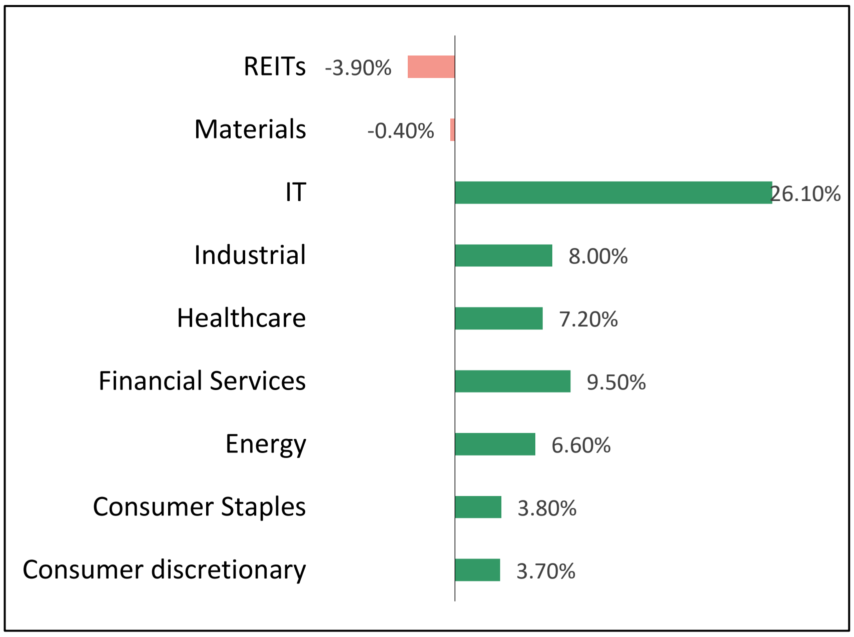
Investor sentiment remained upbeat in H1:2024 as the global equities market continued its bullish momentum from the previous year, evinced by strong gains across major equity indices. The S&P Global Broad Market Index returned 14.48% in H1:2024 (vs 15.91% in H1:2023). In the same vein, the MCSI world, Developed and Emerging indices gained 10.81%, 3.51% and 6.11%, respectively, during the period.

This strong performance, chiefly bolstered by impressive Q1:2024 gains, can be attributed to investors' sustained enthusiasm for the equities market and their forward-thinking optimism about technology and Artificial Intelligence (AI). Also, strong expectations of interest rate cuts across major economies spurred the equities market's activities.

In the US market, the appetite for equity assets remained strong despite slower-than-expected monetary easing in H1:2024 mostly driven by positive corporate earnings surprises. Sectors like energy, financial services and information technology (particularly the "Magnificent Seven"') recorded impressive earnings, while the real estate and utilities sectors lagged. Interestingly, about 30% of the S&P returns recorded were driven by gains on tech giant NVIDIA alone.

Similarly, the UK market and Eurozone bourse recorded gains in H1:2024, led by strong demand for stocks in the information technology sector. Also, improvements in the economic outlook in the regions as inflationary pressure cooled pumped investors' sentiment.

Chart 26: Sectoral Returns Across Global Equities in H1:2024



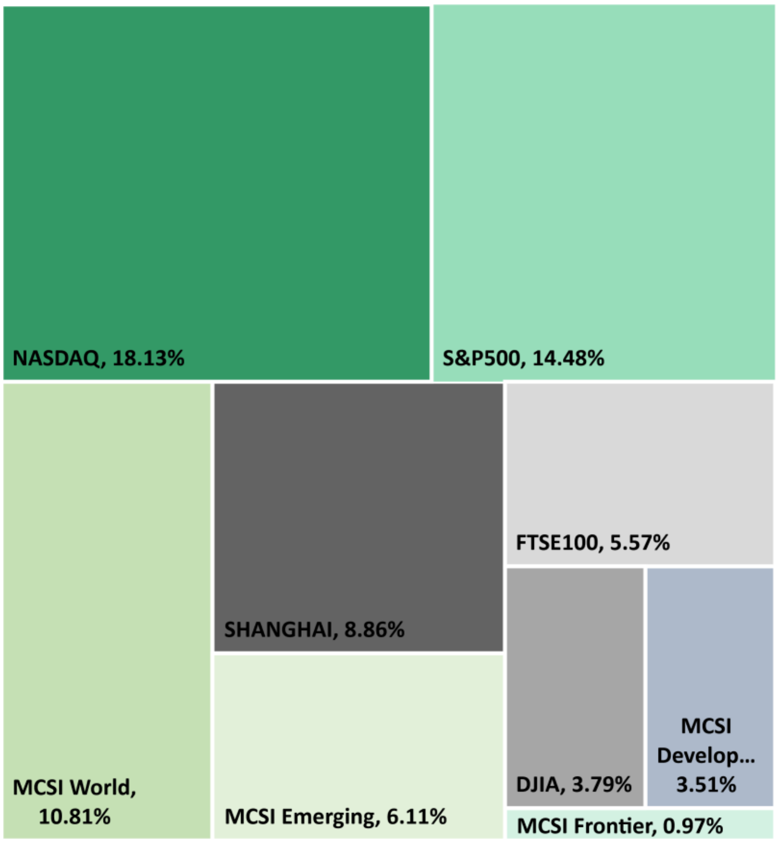
Source: Bloomberg, Meristem Research

Furthermore, we observed that investors had already priced in an imminent interest rate cut in the UK as the inflation rate fell below the monetary authority's forecast.

Across Asia, the Japanese market witnessed a significant rally during the period, driven by budding optimism by foreign investors over the country's economic cycle and monetary reforms, including lifting the negative interest rate policy and abandoning the yield curve control. Gains on large-cap stocks bolstered market performance, in addition to substantial buying interest in semiconductor-related tickers. Meanwhile, investors remained cautious towards the Chinese market amid ongoing concerns about the outlook for the Chinese economy. As a result, we observed occasional swings during the period.

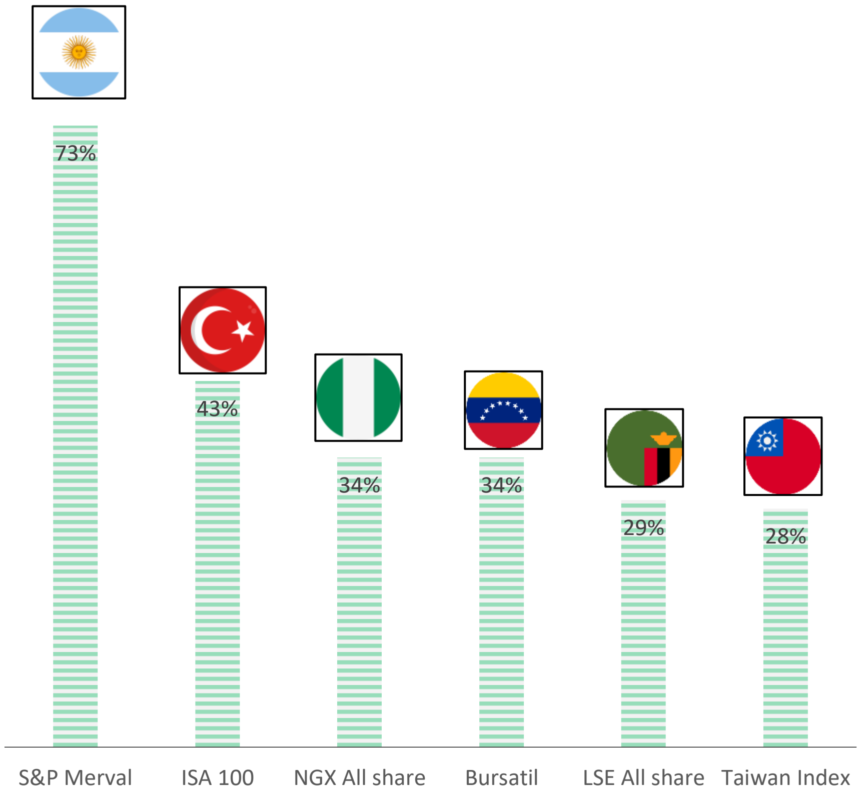
Global Equities

Chart 27: Global Equities Market Returns in H1:2024



Source: Bloomberg, Meristem Research

Chart 28: Best Performing Indices by Country in H1:2024



Source: Bloomberg, Meristem Research

In H2:2024, we expect the mood in the global equities market to remain upbeat, riding on the optimism from the first half of the year. In our view, stronger investors' expectations of a soft landing across global economies, as inflationary pressures continue to ease, prompting at least one rate cut in H2:2024 (particularly in the US and UK economies), will continue to sustain investors' sentiment towards the equities market. This also makes a case for higher valuation for stocks as fixed-income yields moderate. Also, we anticipate positive corporate earnings performance, which should continue to spur interest in equity assets. Thus, we foresee investors taking positions across sectors poised to outperform. However, the persistent macroeconomic headwind stemming from China's property sector crisis may continue to spark uncertainty and dampen investors' sentiment towards the region's equities market. Overall, we maintain a bullish outlook for the global equities market for the rest of 2024.

Domestic Equities

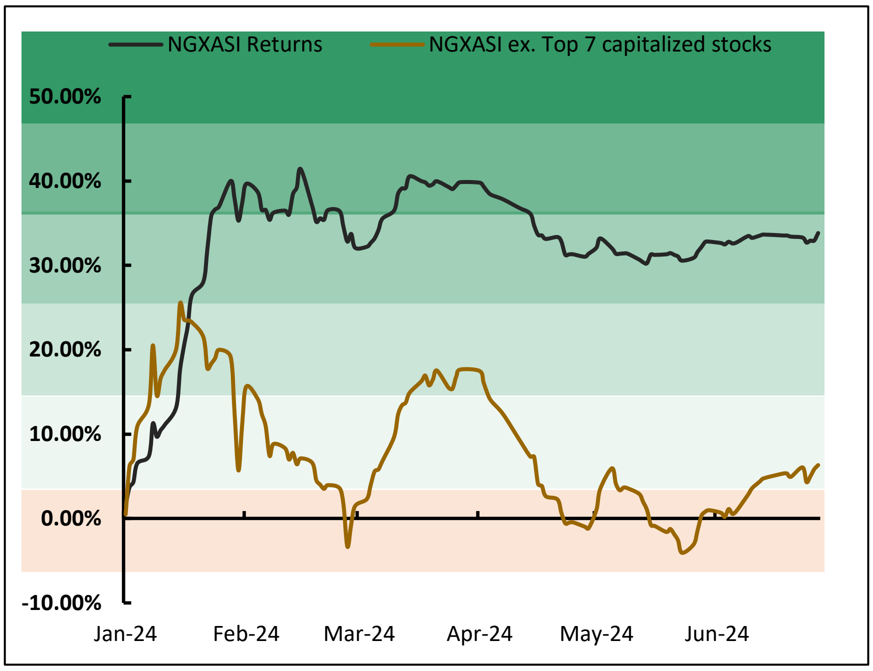
Bourse Bulwarks: Bell-Weather Tickers Mask Equities Shop Negativity

The Nigerian equities market commenced 2024 on a remarkably strong footing, sustaining the widespread bullish momentum that characterised 2023. Notably, the All-Share Index achieved a historic milestone, surpassing the 100,000-point threshold for the first time on record and posting a remarkable 35.53% return in January—the highest monthly return ever recorded. This significant gain was largely driven by substantial buying interests in several large-cap stocks to new highs.

However, the tides turned in the subsequent months as several dispiriting factors eroded investor confidence in the equities market. Specifically, the cumulative 600bps increase in the Monetary Policy Rate (MPR) during the first quarter, accompanied by a simultaneous upswing in fixed income yields, made equity assets less appealing. The initial 400bps hike in February, which was unprecedented, caught investors off guard, leading to intensified sell-off pressures amid an already subdued atmosphere on the bourse. In contrast, the market largely anticipated the subsequent 200bps hike in March, resulting in a muted response from investors who had already adjusted their positions accordingly. In early March, the listing of Transcorp Power Plc (**TRANSPOWER**) on the exchange boosted the broad market performance. As a heavyweight counter (valued at NGN1.80trn), the strong buying interests (+55.79% YtD) eclipsed the existing dampened mood during the month.

Furthermore, the underwhelming financial releases from corporates during this period also triggered significant selloffs across various tickers, including large caps like **MTNN**, which plummeted to a 3-year low of NGN183.00 per share, and **NESTLE**, which declined by 16.36% YtD. As market activities remained mixed on the bourse, the Central Bank of Nigeria (CBN) released guidelines for the recapitalization of banks. This move further fueled selloffs in the banking sector, driven by heightened fears of share dilution. Consequently, the gains realized by banking tickers in the first quarter of the year were reversed.

Table 29: Trend NGX-ASI and NGX-ASI ex. Top 7 most Capitalised Stocks Returns (H1:1024)

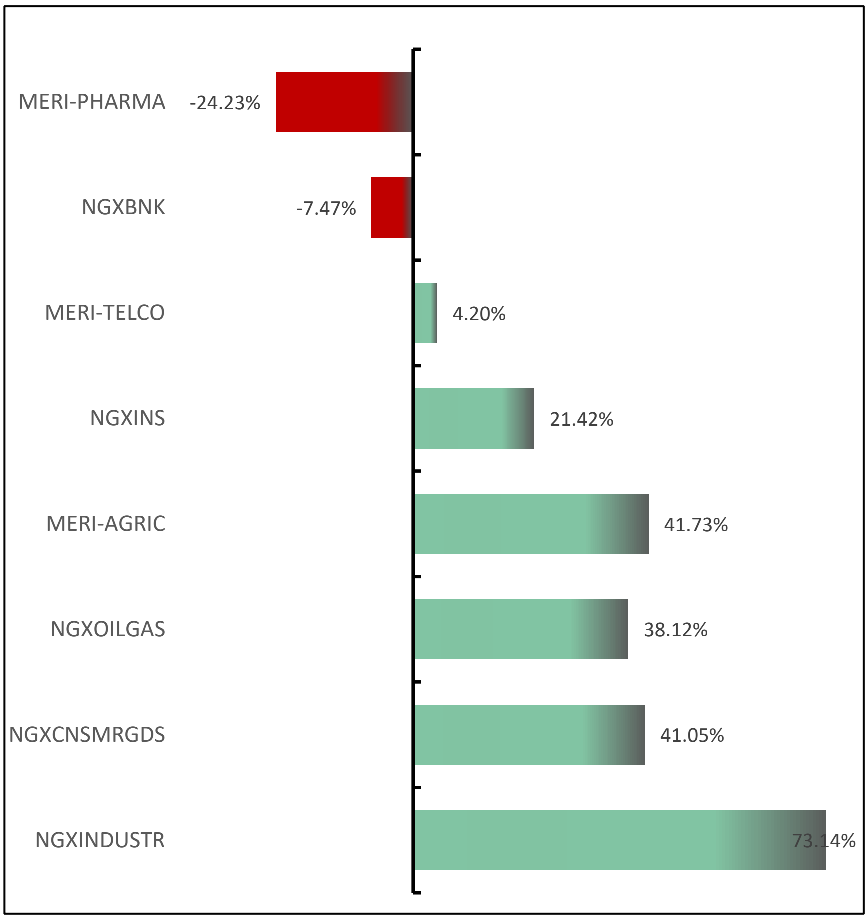


Source: Bloomberg, Meristem Research

In Q2:2024, the market sentiment remained largely mixed, with occasional influences from corporate actions. Specifically, the suspension of the merger between **DANGSUGAR** (-24.56% YtD) and **NASCON** (-35.81% YtD) led to sell-offs. However, by June, the market began to show signs of positivity, driven by attractive prices that sparked buying interests and increased clarity on the banking sector's capital raise plans.

Despite the prolonged bearish reign in the bourse, the All-Share Index ended the H1:2024 at 100,057.49pts and a return of 33.81%, largely attributed to the initial rally on large-cap tickers at the beginning of the year. Notably, the seven of the most capitalized stocks, which collectively account for c. 70% of the total market capitalization, have all registered impressive year-to-date returns – **DANGCEM** (+105.28%), **AIRTELAFRI** (+11.13%), **BUAFOODS** (+96.43%), **BUACEMENT** (+47.63%), **GEREGU** (+150.63%), **SEPLAT** (+64.28%) and **TRANSPOWER**. Excluding these top 7 capitalized stocks, the market gain stands at a mere 6.34% YtD, which highlights the broadly subdued mood on the exchange during the half.

Table 30: **Sectoral Returns H1:2024**

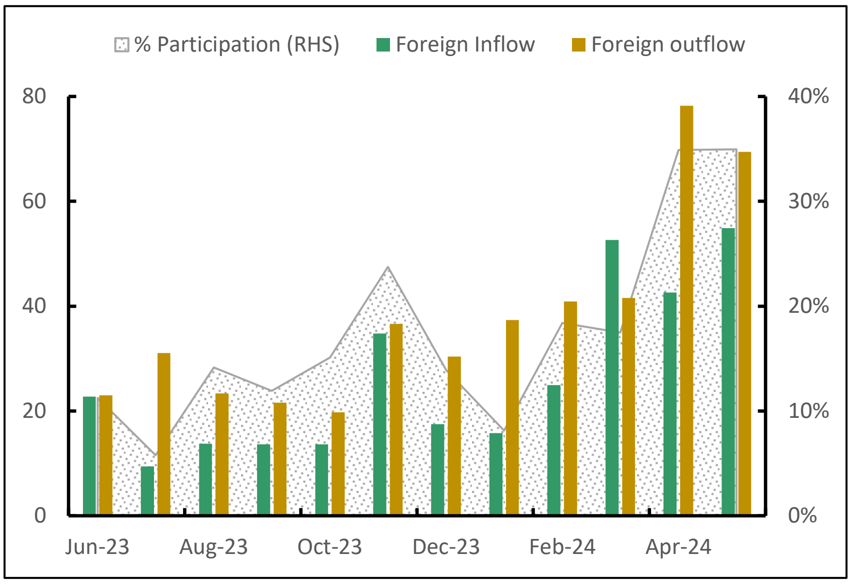


Source: NGX, Meristem Research

Foreign Investors' Enthusiasm Reaches Fever Pitch

According to the latest data from the Nigerian Exchange Group (NGX), foreign investors' participation on the exchange soared to a 30-month high of 34.97% in May 2024, up from 9.51% in December 2023. Moreover, the cumulative total foreign transaction value skyrocketed to NGN458.29bn as of May 2024, surpassing the full-year transaction value for the past two years (NGN410.62 bn in 2023 and NGN379.23 bn in 2022). Additionally, foreign inflows reached their highest level since May 2018 at NGN54.87 bn, accounting for approximately 31% of the total foreign inflows in 2023. We attribute this significant influx to growing confidence among foreign investors in the Nigerian economy, driven by the recent monetary policy direction, Naira stability in Q2:2024 amid improved FX liquidity, and attractive entry points on the bourse. This trend also indicates that investors are increasingly willing to retain their funds in the domestic equities market as repatriation concerns continue to dissipate.

Table 31: **Foreign Inflow, Outflow, and % Participation**

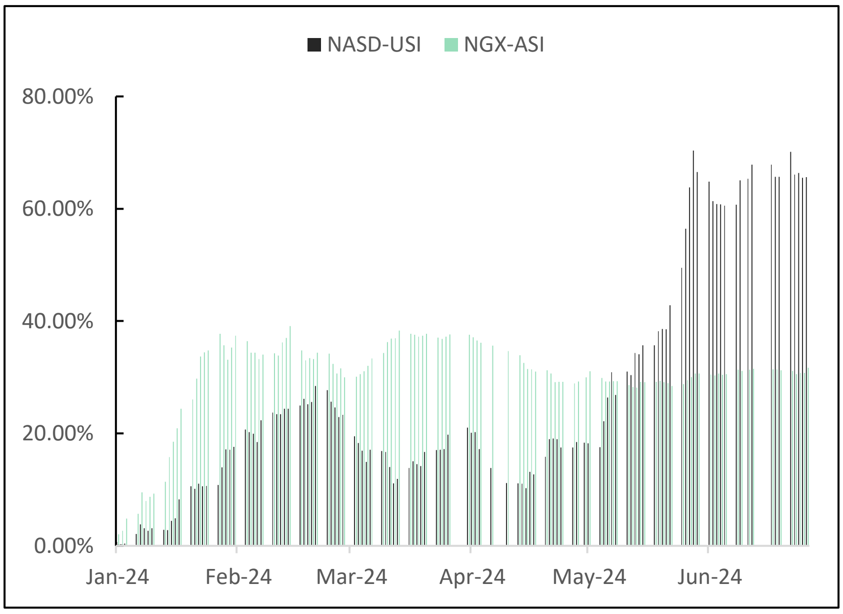


Source: NGX, Meristem Research

NASD Takes Pole Position in Returns

Following a sluggish start to the year, reflective of the NGX's trajectory, the NASD- Unlisted Securities Index (NASD-USI) gained momentum in mid-May, surging to an all-time high of 1,533.00 points, with a return of 65.60% in H1:2024 (two-folds that of the NGXASI). This feat is pillared by the listings of two (2) companies on the exchange - Capital Hotel Plc and Impresit Bakolori Plc which boosted liquidity and market capitalization of the exchange. Additionally, impressive financial performance and a potential listing on NGX drove buying interests in SDARADEL (353.64% YtD), thus, catapulting the ticker to become the most expensive on any exchange in Nigeria at NGN4,990.00 as of June 28, 2024.

Table 32: **Trend in NGXASI and NASDUSI Returns - H1:2024**



Source: NGX, NASD, Meristem Research

Corporate Actions Captain the Ship's Direction

In our 2024 full-year Outlook, we anticipated a concentration of corporate actions and potential new listings, with a focus on the energy and banking sectors. Consistent with our forecast, H1:2024 was characterized by a plethora of corporate actions that significantly impacted the exchange's performance at various points in time. Some of the notable corporate actions are highlighted below:

Table 5

Major Corporate Actions and Developments that Shaped H1:2024

Suspension of Merger	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.
Share Buyback	Airtel Africa Plc (**AIRTELAFRI**) launched a share-buy-back programme of about USD100mn (or its naira equivalent). The programme began in March 2024 and is expected to last over a 12-month timeline.
New Listing	Transcorp Power Plc (**TRANSPOWER**) - *power generating company*, a subsidiary of **TRANSCORP**, successfully listed on the NGX on March 4, 2024. **TRANSPOWER** listed 7.50bn units at a price of NGN240.00 and a market capitalization of NGN1.80trn. See our initiation of coverage report here.
De-listings	• Arbico Plc (**ARBICO**) announced its intention to voluntarily delist from the Nigerian Exchange (NGX) after 46 years of being listed. • After 54 years on the Exchange, MRS Oil Plc (**MRS**) disclosed its intention to voluntarily delist from the Nigerian Stock Exchange (NGX) and list its shares on the NASD OTC Exchange.
Convertible Loan	International Breweries Plc. (**INTBREW**) approved a convertible loan of USD379.9mn from its parent company - AB InBEV Nigeria Holdings and a rights issue of 161.17bn ordinary shares of 2kobo each at NGN3.65 per share to complete the transaction.
Proposed Acquisition	• Guinness Nigeria Plc (**GUINNESS**) disclosed that Tolaram Group will acquire Diageo's 58.02% majority stake in the company at NGN81.60 (offering a 48.91% premium to its current price of NGN54.80), with the transaction expected to be completed in 2025. Read our note here. • NNPCL has approved the sale of ExxonMobil's 40.00% stake in Mobil Producing Nigeria Unlimited (MPNU) to Seplat Energy Plc (**SEPLAT**) after a two-year delay. • EnjoyCorp Limited, *a food beverage, and hospitality firm*, reached an agreement with Heineken B.V. to acquire 100% of its shareholding in Champion Breweries Plc (**CHAMPION**).
Shares Restructuring	• Transnational Corporation Plc (**TRANSCORP**) disclosed its intention to restructure its share capital by reducing the number of its issued ordinary shares and a proportional upward adjustment in the share price. For more details, read our equity note. • **VFDGROUP** had a share split exercise by restructuring its shares on a basis of four (4) new shares for each one (1) share held. Subsequently, the ticker's price was adjusted lower to NGN40.60 from NGN202.90.
Intention to Raise Capital	• Cadbury Nigeria Plc (**CADBURY**) stated its intention to issue additional share capital of 402,082,657 ordinary shares at 50 kobo each, increasing its total share capital by 21.41% to NGN1.14bn. Read more from our note here.
Banks' Recapitalization	• **ACCESSCORP** is currently in the market to raise NGN351bn via rights issue. • **GTCO** disclosed its intention to raise USD750mn fresh equity via public issue. • **FBNH** has announced its intention to raise NGN300bn (approximately USD241mn) via public share offerings or private placements. • Stanbic IBTC Holdings Plc (**STANBIC**) also disclosed its intentions to raise about NGN550.00bn through a debt issuance program and a rights issue. • **FIDELITYBK** announced a rights issue and public offer, aiming to raise up to NGN127.10bn. Read our analysis of the offer here.

Outlook

Steering into H2:2024: A Favourable Outlook?

During the second half of the year, mixed sentiment is expected to persist as bears and bulls continue their tug-of-war for market control. While June's positive indicators may have boosted optimism for a more resilient H2:2024, several factors will likely keep the market in a state of equilibrium, with both positive and negative influences holding significant weight. Although broad-based positivity on the exchange may be elusive, we anticipate improved sentiment and activity levels, with investors becoming less cautious. The following factors will likely serve as catalysts for market direction, with both drivers and drags explored:

Investors will Still Observe Macros

Reform efforts are underway across various sectors, and although this process has been challenging, a glimmer of hope is emerging. Encouragingly, inflationary pressures are expected to moderate in the short term, which will significantly influence the trajectory of interest rates. As a result, we anticipate investors will take this into account when assessing their appetite for equity assets, given the prospect of a reduced cost of equity.

More Corporate Actions, Equity Funding and New Listings

2024 has been characterised by a flurry of corporate actions, and we anticipate this trend to continue, particularly as the banking sector recapitalization progresses. Moreover, indications suggest that some corporates from the NASD exchange may migrate to NGX, which we believe will stimulate buying interest and boost activity on the exchange in the second half. However, occasional reductions in market capitalization may occur as some companies complete their delisting process.

Expectation for Fixed Income Yields

With fixed income yields hovering around same levels the past few months, we anticipate a growing interest in the equities market, although a full-scale shift is unlikely given the still-attractive and elevated yields. In light of our expectation of higher yields on the longer end of the curve, we foresee an increase in short-term trading activities on the equities market, which will help sustain market momentum and activity levels, thereby offsetting the prevailing caution in the bourse.

Corporate Performance: A Mixed Tale

As emphasized in our report titled "*the impact of currency depreciation on coverage companies*", a key driver of financial performance in 2024FY will be the trajectory of the exchange rate. Although the Naira has experienced relative stability recently, there are still potential risks of further depreciation. Certain companies may continue to post weak results and opt not to distribute dividends, which could discourage investors from buying. However, we believe that these have been largely factored into current market positions, and therefore, we do not anticipate prolonged sell-offs on the exchange unless there are unexpected shocks to individual stock's financial performance.

Foreign Investors to Maintain Liquidity

We expect foreign investor participation and inflows to remain robust in H2:2024, fueled by the increased attractiveness of the Nigerian equities market and optimism about a more conducive macroeconomic environment and clear policy directions.

Fundamental Valuations Point to Attractive Entries

During H1:2024, investors relied on technical analysis, with chart patterns providing valuable insights into potential market trends, particularly due to the uncertain market conditions prevalent during that period. However, as investor sentiment becomes more clear-cut, we anticipate a shift in focus towards fundamental analysis in Q4:2024. Furthermore, current valuations across the exchange suggest attractive prices with substantial upside potential, and we believe investors will incorporate these fundamentals into their trading decisions, driving market activity.

Domestic Equities Outlook:

Fundamental Approach

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

Table 6: Expected Sectoral Returns

Sector	Weight	Expected Return	Weighted Return
Banking	13.09%	28.00%	3.67%
Insurance	0.50%	14.03%	0.07%
Materials and Industrials	33.62%	1.96%	0.66%
Consumer Goods	18.24%	1.72%	0.31%
Agricultural Products	1.29%	7.27%	0.09%
Energy	6.13%	4.15%	0.25%
Healthcare	0.10%	25.30%	0.03%
Information Technology	24.63%	10.81%	2.66%
Other Financial Services	0.35%	4.28%	0.02%
TOTAL	100%		
Expected Return in H2:2024			7.76%

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 reduce the effect of seasonality in stock 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 107,526.98pts, implying a return of +43.80% by 2024FY from the close of 30th December 2024.

Technical Indicator

Technical indicators are used to analyse market trends and identify potential future market movement patterns. Given the recent market movements and less reliance on fundamental analysis in H1:2024, we consider the Fibonacci extension as an important indicator as it smoothens the effect of recent price movements and predicts performance based on likely reversion to historical mean.

Table 7: Weighted Market Return (Jan-Dec 2024)

Approach	Weight	Returns	Weighted Return
Fundamental approach	40.00%	41.57%	16.63%
Econometrics approach	30.00%	43.80%	13.14%
Technical indicator	30.00%	46.87%	14.06%
Expected market return			43.83%

Equities Strategy

Market Expectation

Our strategic portfolio in H1:2024 generated a return of **8.38%,** underperforming the benchmark (NGX-30 index) by 24.59 due to losses in CADBURY (-12.63%), which has a significant weight of c. 20% in the portfolio, thereby offsetting gains from other stocks.

In accordance with our 2024FY outlook, we have rebalanced our strategic portfolio to optimize returns. This refreshed portfolio focuses on high-quality growth stocks poised to outperform the broader market.

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

- Omega ratio higher than 1.
- Expected Revenue and Earnings growth in 2024FY
- 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
- Dividend yield higher than 5%
- Lower P/E relative to industry average
- Upside potential > 10%
- Relatively high beta.

Table 8

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%	28%	2%	12.79	19.9	71.65	0.95	0.26	1.71	14.32	24.49	18.95	11%	29.22%	1.61	7.29%	2.48%
AIICO	0.24	39%	33%	6%	5.68	0.5	1.61	1.83	0.60	5.10	0.30	1.54	0.97	5%	58.61%	1.00	8.69%	3.98%
CAP	1.46	15%	22%	17%	1.26	4.1	18.87	8.69	1.91	9.75	4.05	39.49	36.00	5%	9.69%	1.00	3.73%	0.93%
CONOIL	2.78	5%	30%	12%	2.47	16.1	54.02	6.50	1.94	8.67	14.59	126.50	105.00	3%	20.47%	1.00	4.24%	1.44%
FIDELITYBK	0.09	16%	25%	2%	15.04	4.0	16.12	2.56	0.63	3.12	4.27	13.32	10.20	7%	30.61%	1.01	6.87%	2.34%
GTCO	0.12	67%	47%	7%	6.48	31.9	68.17	0.00	0.00	2.76	21.48	59.28	45.00	6%	31.74%	1.16	8.96%	2.37%
MANSARD	0.49	40%	55%	12%	4.61	2.6	4.68	2.09	1.15	7.00	0.90	6.27	5.41	6%	15.95%	1.00	3.94%	1.34%
MAYBAKER	0.96	10%	15%	6%	2.42	0.8	5.47	7.00	1.08	10.40	0.75	7.77	5.90	5%	31.78%	1.00	6.76%	2.30%
MTNN	0.77	-52%	147%	-18%	-7.96	-31.4	-21.36	-6.83	-10.02	4.07	65.57	266.87	214.00	7%	24.71%	7.95	5.87%	2.00%
OKOMUOIL	0.92	35%	47%	21%	2.31	26.8	56.56	10.88	5.15	11.75	26.95	316.66	291.50	7%	8.63%	1.38	7.78%	0.95%
STANBIC	0.09	25%	29%	3%	10.98	12.1	42.02	4.28	1.24	4.95	14.13	69.94	52.00	7%	34.51%	1.10	7.56%	0.95%
TOTAL	1.32	4%	34%	3%	9.89	59.6	174.03	6.52	2.23	7.49	57.12	427.92	388.90	7%	10.03%	1.00	3.05%	2.58%
UBA	0.09	25%	27%	3%	9.71	20.4	76.37	1.10	0.29	4.00	7.31	29.25	22.45	9%	30.29%	1.00	7.19%	1.04%
UCAP	0.05	58%	12%	1%	8.99	2.1	18.06	12.65	1.47	14.37	1.90	27.30	26.50	6%	3.03%	1.00	1.59%	2.45%
WAPCO*	0.62	37%	11%	7%	1.57	3.0	27.01	11.28	1.26	6.67	8.76	58.43	34.05	6%	71.60%	1.00	9.26%	2.45%
ZENITHBANK	0.03	33%	31%	4%	8.53	27.7	90.70	1.29	0.39	2.35	19.65	46.18	35.70	10%	29.35%	60.22	7.20%	4.86%
Exp Return																	100%	34.46%

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*
****EV/EBITDA***= *Enterprise Value to Earnings Before Interest Tax and Depreciation*
TP=*Target Price*
CP= *Price as at June 12, 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.

Sectors

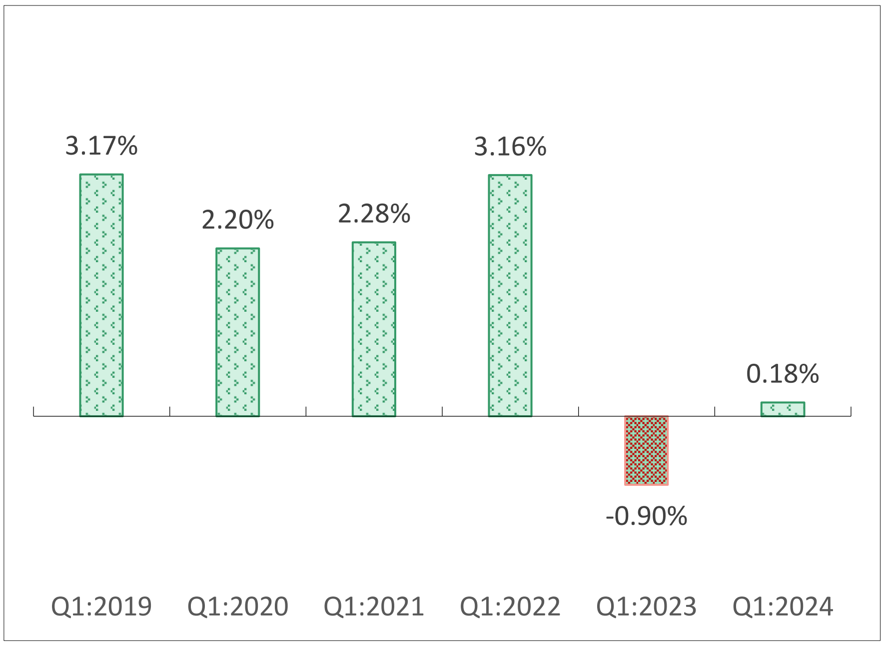
Review and Outlook

Agriculture

Building Momentum for Sustained Growth

Nigeria's Agricultural sector remained resilient during the first quarter of the year, growing by 1.08% YoY in Q1:2024 from a decline of 0.90% in Q1:2023. We attribute this to a gradual recovery from the setbacks witnessed in the previous period. However, the sector's contribution to GDP declined marginally to 21.07% in Q1:2024 (vs 21.66% in Q1:2023). This contraction is largely attributable to the lingering domestic factors, which include insecurity in food-producing areas, poor infrastructure, inadequate financing and higher cost of fertilisers. The sector is also plagued with high costs of imports owing to the persistent FX volatility. As a result, food prices stayed elevated during the period, thus fueling the persistent food inflation.

Chart 33: Agric Sector GDP Growth (Q1:2019- Q1:2024)



Source: NBS, Meristem Research

Local oil palm millers- **OKOMUOIL** and **PRESCO**, have continued to benefit from the surge in global palm oil prices. CPO prices soared by 12.13%YoY to 1176.92 in Q1:2024 owing to global supply shortfalls. By implication, oil palm imports into the country remained relatively more expensive thereby providing domestic players with the latitude to increase prices of products. In Q1:2024, **OKOMUOIL** and **PRESCO** reviewed their product prices upwards during the period. As such, the companies recorded impressive top-line performance in Q1:2024 (NGN43.48bn and 42.55bn vs. NGN24.21bn and NGN21.92bn in Q1:2023).

We anticipate sustained earnings performance for the oil palm millers. We expect increased supply as the harvest season falls in the second half of the year. Also, the festive period towards the end of the year is expected to spur demand. However, the palm oil players may continue to face higher input costs, although lower than in the previous period.

For the rest of the year, we expect the fiscal authority's efforts, particularly around food security and providing agricultural inputs at lower costs, to foster near-term improvements in the sector's performance. Also, we anticipate positive impacts of external funding support secured during the period, aimed at spurring growth in the sector in the near term.

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	2023 TP	CP	UPP	RT
OKOMUOIL	0.92	22%	47%	20.51%	2.31	26.79	56.56	10.88x	5.15x	6.52%	11.00	26.95	296.45	291.50	+1.70%	HOLD
PRESCO	0.61	36%	55%	21.77%	2.52	44.51	81.22	7.96x	4.36x	6.90%	10.61	34.55	366.58	354.20	+3.49%	HOLD

Banking

Weathering the Storm: Resilience in H1:2024

H1:2024 was a bag of mixed events for the Nigerian banking sector. First came the two-edged impact of the CBN's hawkish 750bps monetary policy rate hike aimed at combating entrenched inflationary pressures and maintaining price stability. On one hand, it enabled Nigerian lenders to reprice their loan books faster, leading to higher interest income. On the other hand, it also resulted in a significant increase in the cost of funds, putting pressure on the banks' interest expenses. However, the net effect has been an improvement in net interest margin as the positive effect outweighed the negative.

Moreso, Nigerian banks booked revaluation gains in Q1:2024 following the sharp 20.95% depreciation in the value of the Naira during the quarter. In turn, this bolstered topline profitability metrics and balance sheets despite rising cost pressures and operating expenses. ACCESSCORP emerged with the best gross earnings (NGN974.24bn) and balance sheet size (NGN32.57trn) in Q1:2024, while GTCO had the highest net profit (NGN457.13bn) and net margin (67.19%) enhanced by its legacy cost efficiency.

We anticipate that the CBN's hawkish stance will moderate in H2:2024. Despite this, banks are expected to continue recording higher interest income and gains from investment securities, driven by elevated asset yields and increased lending capacity, especially as many banks are in the process of raising additional capital.

Given our outlook for persistent inflationary pressures, operating expenses are expected to rise. However, banks are expected to continue to deploy various cost-optimizing strategies to manage their cost-to-income ratios and offset the impact of higher personnel and operational expenses.

Overall, we foresee a relative normalisation of earnings by the end of 2024.

Table 9: Performance Comparison of Tier 1 Banks (Q1:2024).

Bank	Gross Earnings (NGN'bn)	Profit (NGN'bn)	Total Asset (NGN'bn)	Net Asset (NGN'bn)	Loan book sise (NGN'bn)	Deposit (NGN'bn)	Trailing EPS (NGN)	P/B
FBNH	1,517.37	208.16	21,548.85	1,915.29	11,884.95	15,809.22	13.04	0.43x
UBA	2,073.29	142.58	25,369.42	2,611.66	7,457.23	21,149.45	20.37	0.31x
GTCO	1,186.47	457.13	13.002.22	2,006.22	3,023.61	9,508.56	31.89	0.69x
ACCESSCORP	2,594.74	159.29	32,570.32	2,546.97	10,900.10	18,156.39	15.48	0.27x
ZENITHBANK	2,131.75	258.34	24,280.78	2,847.53	8,650.49	16,784.23	27.68	0.41x

Source: Company Financials, Meristem Research

Banking

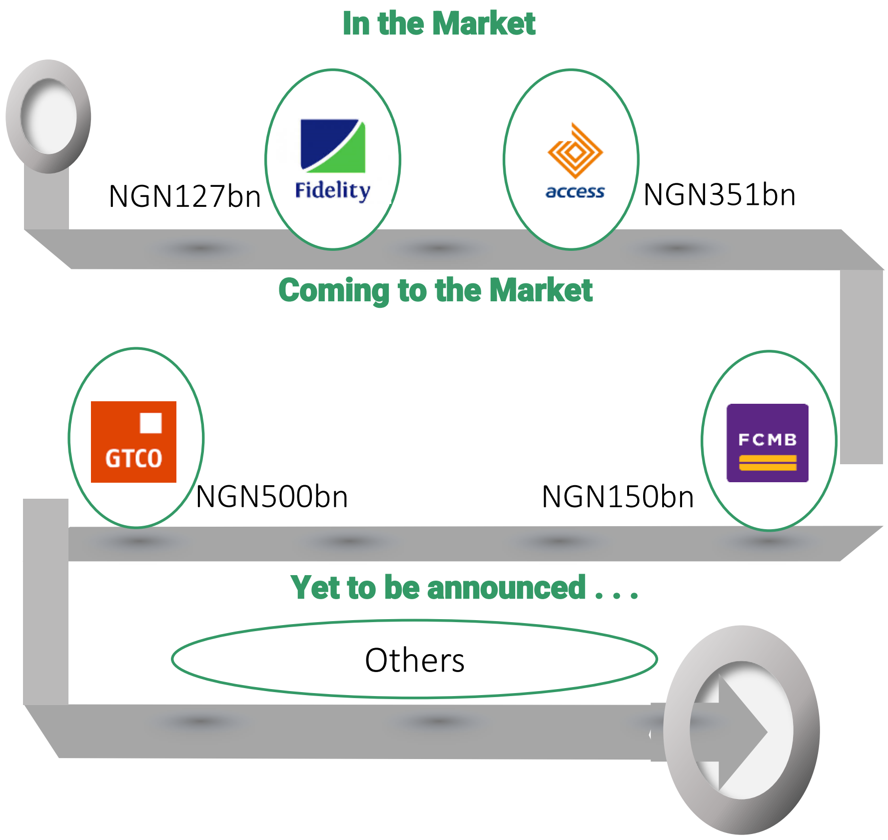
During the period, the CBN introduced a new capital adequacy requirement, building on the foundational reforms of 2004. Within 24 months (from April 1, 2024 to March 31, 2026), banks are required to increase their minimum capital base, with a specific emphasis on Tier 1 capital through the augmentation of share capital and share premium, excluding shareholder funds. This move aims to enhance the stability and resilience of Nigerian banks, strengthening them against any unforeseeable risks, and maintaining a robust banking system.

Although Nigerian banks have reported nominal growth in capital base in Naira terms, the devaluation of the Naira tells a different story when measured in dollar terms. The 2024 recapitalization plan addresses this disparity, aiming to inject NGN3.57trn (USD2.79bn) into the sector, a significant increase from the USD190.80mn infused in 2005. The need for this reform is pressing, as Nigeria's banking sector currently has one of the lowest assets-to-GDP ratios globally – xx% (vs 47% in Kenya, 74% in South Africa, and c. 100% in Egypt).

Further to this, **FIDELITYBK**, **ACCESSCORP**, **GTCO** & **FCMB** amongst others, have already announced their plans to raise additional capital with the investing public.

Looking ahead, more banks are expected to follow suit, aiming to strengthen their capital reserves through private placements, rights issues, and public offerings. Additionally, there is increasing anticipation of potential bank consolidations, especially among banks that may struggle to meet the new regulatory requirements.

Figure 2 : Race to Recapitalisation



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
ACCESSCORP	0.10	22%	28%	2%	12.79x	19.88	71.64	0.97x	0.27x	10.50%	1.71x	14.32	24.49	19.05	+28.54%	BUY
ETI	0.07	15%	17%	1%	16.54x	19.84	113.89	1.11x	0.19x	3.26%	2.22x	10.48	23.27	21.50	+8.21%	HOLD
FBNH	0.09	24%	24%	2%	11.25x	13.04	53.36	1.77x	0.43x	2.21%	4.87x	5.26	25.62	22.60	+13.35%	BUY
FCMB	0.12	18%	23%	2%	10.55x	5.68	25.02	1.34x	0.30x	7.89%	6.06x	1.59	9.64	7.60	+26.78%	BUY
FIDELITYBK	0.09	18%	25%	2%	15.04x	3.98	16.12	2.56x	0.63x	6.70%	3.12x	4.27	13.32	10.45	+27.49%	BUY
GTCO	0.12	59%	47%	7%	6.48x	31.89	68.17	1.48x	0.69x	6.19%	2.76x	21.48	59.28	45.20	+31.16%	BUY
JAIZBANK	0.08	29%	39%	2%	17.07x	0.45	1.14	5.20x	2.05x	2.27%	5.34x	0.54	2.88	2.20	+31.07%	BUY
STANBIC	0.09	29%	29%	3%	10.98x	12.15	42.02	4.47x	1.29x	4.60%	4.95x	14.13	69.94	54.30	+28.81%	BUY
STERLINGNG	0.08	10%	15%	1%	17.92x	0.87	5.85	4.68x	0.69x	5.00%	4.42x	1.32	5.83	4.00	+45.86%	BUY
UBA	0.09	29%	27%	3%	9.71x	20.37	76.36	1.16x	0.31x	8.70%	4.00x	7.31	29.25	23.00	+27.13%	BUY
WEMABANK	0.10	15%	27%	2%	17.49x	3.13	11.59	2.25x	0.61x	8.96%	3.06x	3.12	9.55	6.70	+42.50%	BUY
ZENITHBANK	0.11	33%	31%	4%	8.53x	27.68	90.69	1.35x	0.41x	9.57%	2.35x	19.65	46.18	37.10	+24.47%	BUY

Consumer Goods

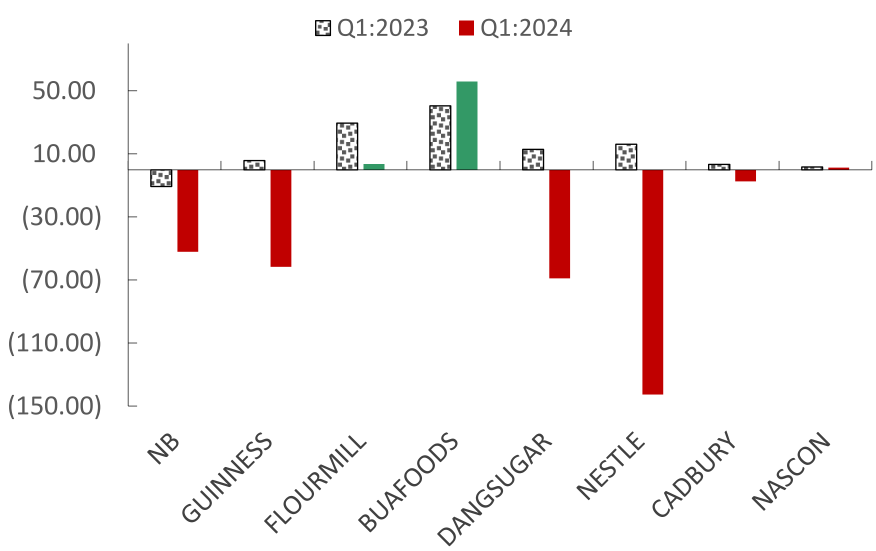
Navigating Gains and Woes: Sector Players Persist Through Challenges

In our 2024FY Outlook report, we underscored the challenging landscape of the Nigerian consumer goods industry, emphasizing the ongoing struggle against inflation, cost pressures, and substantial foreign exchange (FX) losses that have squeezed profitability. Despite these hurdles, 2024 has seen various events shape the sector, occasionally driving gains amidst the tough environment.

The analysis of Q1:2024 financial performance reveals a mixed picture for the FMCG sector. Companies faced significant challenges, with all major players under our coverage reporting losses for the January to March period in 2024. Key players in the breweries and sugar industries, including **NB**, **GUINNESS**, **DANGSUGAR**, **BUAFOODS**, **FLOURMIL**, **NESTLE**, **CADBURY**, and more recently, **NASCON**, experienced substantial FX losses due to a notable depreciation (64.76% YoY in Q1:2024) of the local currency.

Despite these challenges, some companies found growth opportunities. Topline growth has remained strong, with industry players achieving double-digit revenue increases driven by both volume and price hikes. As anticipated, several corporate actions have been implemented in response to the challenging environment, underscoring the industry's resilience in the quest for profitability.

Chart 35: Q1:2024 Earnings Performance (NGN'bn)



Source: Company Financials, Meristem Research

Acquisitions and Adaptations: A Path to Resilience

Amid the challenging environment, a series of strategic corporate actions underscores the industry's resilience and drive for profitability. Significant developments include Diageo Plc's announcement to sell its 58.02% majority stake in **GUINNESS** to Tolaram Group. Our company note provides a detailed analysis of the events leading to this decision and its near to mid-term implications. Likewise, EnjoyCorp Limited successfully acquired an 86.50% stake in **CHAMPION**.

Additionally, in June 2024, **NB** completed the acquisition of an 80.00% stake in Distell Wines and Spirits Nigeria Limited. Also, **NB** temporarily suspended operations at two of its factories to cut operational costs and boost profitability. Furthermore, **CADBURY** stated its intention to issue additional share capital, a development stemming from an outstanding debt of USD7.72mn (c. NGN7.04bn) owed to its parent company - Cadbury Schweppes Overseas Limited.

While ongoing challenges are expected to impact short-term performance, we anticipate mild improvements as companies adapt with effective strategies. Notably, NESTLE and CADBURY are anticipated to achieve positive shareholder positions through strategic debt-to-equity conversions and asset revaluations. Recent acquisitions and capital raises by NB, GUINNESS, and INTBREW are expected to bolster their capital bases and enhance their ability to navigate the challenging business environment in the mid to long term.

Global Challenges Impact the Local Flour Mill Industry

In early 2024, global wheat prices initially fell as exports from Ukraine and Russia rebounded, supported by Russia's record-high stocks. However, in Q2:2024, prices rose again due to damage to Black Sea shipping infrastructure, attacks on key grain hubs amid escalating Russia-Ukraine tensions, supply chain disruptions, and concerns about adverse weather affecting 2024 harvests in major wheat-producing regions.

Consumer Goods

Given the industry's heavy reliance on imported wheat, these global issues have driven up raw material costs for local millers. To enhance local productivity, the federal government launched the National Agricultural Growth Scheme Agro-Pocket (NAGS-AP). The project aims to provide farmers with quality seeds and other inputs at subsidised rates.

Our outlook for the flour milling industry remains cautious. While the essential nature of their products is expected to sustain revenue, the government initiatives will likely fall short of meeting domestic wheat needs in the near term. Consequently, domestic wheat prices will remain vulnerable to global disruptions. Additionally, the continuous depreciation of the Naira will further pressure wheat prices in Nigeria in the short to mid-term.

Sweetening the Market: Challenges and Opportunities for Sugar Players

Global sugar prices have been on the decline due to Brazil's harvest season and favourable weather conditions, which have boosted supply. This trend is reflected in the FAO's sugar index, which dropped from 134.20pts in December 2023 to 119.40pts in June 2024 (its lowest level since January 2023).

Despite these global trends, domestic sugar prices remain elevated. The National Sugar Development Council (NSDC) reported that average sugar prices locally spiked by 103.40% YoY to NGN16.76mn pmt in Q1:2024, up from NGN8.24mn pmt in Q1:2023. This sharp increase has strained industry players, raising the cost-to-sales ratio to 72.73%, compared to 84.93% in Q1:2023. The sector's heavy dependence on sugar imports (about 95%) and the volatile Naira have exacerbated these challenges.

Although global sugar prices have declined recently, factors such as increased monsoon rainfall in India, reduced crop yields in Europe, and a lower-than-expected harvest from Brazil could reverse this trend. These concerns might drive sugar prices higher, further straining production costs for Nigerian sugar producers. This pressure is exacerbated by the Naira's depreciation and the industry's heavy reliance on imported sugar.

However, there are positive developments. DANGSUGAR is expanding its Numan Factory from 3,000 tonnes of cane crushed per day (TCD) to 9,800 TCD by year end. This expansion aligns with the government's National Sugar Master Plan (NSMP), aiming to boost local production and reduce dependency on imports, offering a glimmer of hope for the industry in the mid to long-term.

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**	1.18	-31%	-	-37%	-49.68	-39.12	-2.16	-1.79X	-32.46X	-	4.87	15.87	77.34	67.00	+15.43%	BUY
NB**	0.82	-21%	-1294%	-17%	75.07	-14.37	1.11	-2.02X	26.20X	-	4.00	9.46	37.82	29.50	+28.22%	BUY
BUAFOODS	0.87	14%	40%	11.77%	3.41	7.08	17.66	53.65x	21.51x	1.18%	7.08	17.66	53.65x	379.90	-3.07%	HOLD
CADBURY*	1.26	-34%	-528%	-43.09%	12.25	-13.10	2.48	-1.27x	6.69x	-	9.43	2.80	26.37	16.60	+58.88%	BUY
DANGSUGAR	0.75	-34%	-1517%	-25.18%	60.26	-12.81	0.84	-3.16x	47.98x	1.16%	5.02	7.22	36.22	43.00	-15.76%	SELL
FLOURMILL	1.54	0%	2%	0%	6.39	0.86	56.98	50.61x	0.77x	4.94%	2.78	19.27	53.54	44.50	+20.31%	BUY
NASCON	1.03	15%	46%	15.70%	2.95	4.93	10.62	6.94x	3.22x	2.03%	6.18	5.70	35.20	34.50	+2.04%	HOLD
NESTLE*	0.78	-40%	337%	-30.74%	-10.95	-300.72	-89.33	-3.06x	-10.30x	-	7.19	176.16	1,266.59	920.00	+37.67%	BUY
UACN**	1.05	12%	27%	12.29%	2.20	5.46	20.21	2.76x	0.75x	1.39%	1.04	16.07	16.73	15.80	+5.91%	HOLD
UNILEVER**	0.92	8%	12%	7.24%	1.62	1.59	13.55	10.99x	1.29x	2.78%	18.45	0.97	17.90	18.00	-0.58%	HOLD

* EV/EBITDA
** P/BV

Energy

Oil & Gas Sector

Production Shortfall and Unsold Crude Hurdles

Domestic crude oil production experienced a setback in Q1:2024, reversing the improvements made in the latter part of 2023. This decline was attributed to issues with the Trans-Niger pipeline and scheduled maintenance activities by several oil companies. Typically, oil firms undertake maintenance at the beginning of the year to minimize operational disruptions and breakdowns later-on. Compounding the situation, over half of the scheduled oil consignments from Nigeria in May remained unsold in international markets due to extensive refinery maintenance in Europe, Nigeria's largest crude oil buyer. This led to a decrease in demand for Nigerian oil, resulting in an excess supply during the trading cycle.

SEPLAT's 2024FY revenue is expected to increase moderately, driven by optimized drilling and alternative evacuation routes, which will improve production. Additionally, a marginal oil price increase is anticipated amidst escalating geopolitical tensions. Furthermore, the mechanical completion of the ANOH Gas Plant and its first scheduled output in Q3:2024 will boost gas revenue for the year, contributing to the overall revenue growth.

Offshore Bound: IOCs Continue Assets Divestiture

The shift towards offshore oil exploration has not slowed down, with International Oil Companies (IOCs) in Nigeria selling off their interests in onshore and shallow-water blocks. This move is part of their strategy to streamline their asset portfolios and focus more on deep offshore operations given the persistent issues in onshore and shallow-water areas. Many of these blocks are being sold through negotiated bid arrangements.

We believe these exits present favorable opportunities for indigenous oil and gas companies to expand their presence in the sector by taking the lead in onshore and shallow-water exploration.

For example, Shell announced its agreement to sell its 30% share in Shell Petroleum Development Company (SPDC) to a consortium of five Nigerian businesses. Similarly, TotalEnergies, Equinor and ENI onshore assets are being acquired by Nigerian energy firms. Also, NNPCL has approved the sale of ExxonMobil's 40.00% stake in Mobil Producing Nigeria Unlimited (MPNU) to Seplat Energy Plc (SEPLAT). We note that this trend might send unfavourable signals to foreign investors, particularly during the investment drought that the sector has been witnessing in recent years. Nonetheless, we do not foresee a substantial threat to oil production levels as International Oil Companies (IOCs) still retain their investments in offshore fields.

Refineries Agitate Over Unfulfilled Supply of Crude

Despite the mandatory Domestic Crude Supply Obligation (DCSO) requiring upstream companies to supply crude oil to local refineries in H1:2024, refineries like Dangote and modular refineries continue to face feedstock shortages due to oil firms' preference for exporting crude to earn dollars. Due to this supply constraint, Dangote refinery has resorted to importing several batches of crude oil from the United States to meet its refining capacity. This move undermines the purpose of refining in Nigeria, as it reintroduces the costs of freight and shipping that would have been eliminated by refining locally instead of importing. The situation is even more critical for modular refineries, which cannot independently import crude and were initially assured of a steady supply of crude by regulatory authorities when over 30 licences for modular refineries were issued in 2015. The failure to honour this agreement casts a shadow over the oil sector, which is still struggling to attract investors.

We believe that some upstream companies have existing forward contracts with foreign trade partners that extend into the current period, thereby limiting their ability to supply crude oil domestically.

Furthermore, the National Upstream Petroleum Regulatory Council (NUPRC) has indicated its intention to implement a more structured approach to the domestic crude oil supply obligation in the second half of the year. Under this new approach, NUPRC will act as an intermediary between local refiners and producers in cases where a deal cannot be reached on crude supply, facilitating a purchase agreement on a willing buyer, willing seller basis. This move is aimed at ensuring a more efficient and equitable distribution of crude oil supplies in the domestic market.

Measured Reforms: A Pathway to Sustainable Growth

The current regime has prioritized reforms aimed at revitalizing the oil sector and developing the country's gas assets. Recently, the federal government announced strategic fiscal incentives in the oil and gas sector, focusing on 1. Cost reduction and efficiency management at the upstream level. 2. Gas development, essential for optimizing existing infrastructure and facilitating the streamlined deployment of new projects. Also, proactive measures have also been taken to organize gas demand, which is more resilient and inclusive than fossil fuels. Notably, the federal government has mandated all its agencies and parastatals to purchase only CNG-powered vehicles going forward. This aligns with the sustainable drive to transition to cleaner fuels, although the journey ahead is long. In our macroeconomic commentary, we highlighted potential near-to-medium-term reforms likely to be implemented in the oil and gas sector. These reforms aim to create a more efficient, sustainable, and inclusive domestic energy sector.

Power Sector

Regulatory Authority Puts a Cap on Power Export

In a bid to increase power availability in the domestic market, the Nigerian Electricity Regulatory Commission (NERC) has implemented an interim cap on Power Generating Companies (GENCOs) supply of power to cross-border customers (Benin, Niger, and Togo) for the next six months, effective May 2024. The regulatory agency has directed that power delivery to bilateral customers must not exceed 6% of total grid electricity at any point in time, aimed at addressing sub-optimal grid dispatch operation practices. We believe the impact is two-sided. On the one hand, the export restriction may limit GENCOs' access to foreign exchange (FX) amid scarcity. Also, there's a potential for increased cases of stranded power and negatively impacting revenue growth. On the other hand, the cap will improve electricity distribution for Nigerian consumers.

Discos Increase Tariffs for Band-A Customers

The NERC approved a 243.15% increase in tariffs for Band A users, from NGN68.00 to NGN225.00 per kWh. 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 gas price hike are expected to boost the development of the domestic power sector by encouraging increased power supply and stimulating investments in the industry.

Valuation and Fundamental Metrics

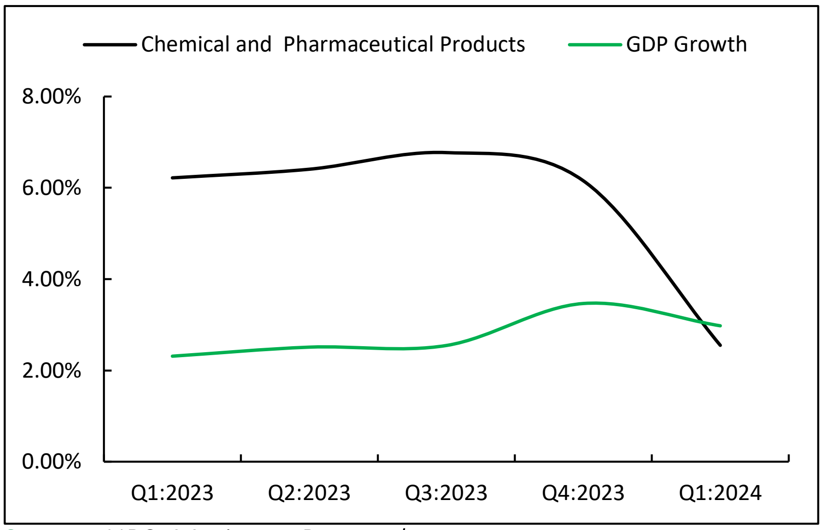
	Fundamentals					Trailing				Valuation						
	AT	NM	ROE	ROA	Lev	EPS	BVP	P/E	P/BV	Exp Div Yield	Target PE	Exp. EPS	2024 TP	CP	UPP	RT
SEPLAT	0.18	6%	2%	1%	1.83	88.42	4268.96	42.92x	0.89x	2.53%	10.80	365.61	3948.59	3,794.90	+4.05%	HOLD
TOTAL	1.32	3%	34%	3%	9.89	59.64	174..03	6.52x	2.23x	6.60%	7.49	57.12	427.92	388.90	+10.03%	BUY
CONOIL	2.78	4%	30%	12%	2.47	16.14	54.02	7.84x	2.34x	2.66%	8.67	15.38	126.50	105.00	+20.47%	BUY
ETERNA	3.46	-7%	-	-23%	-113.21	-11.19	-0.43	-1.36x	35.28x	2.25%	15.12	1.09	16.48	16.00	+3.01%	HOLD
MRS	4.26	2%	19%	8%	2.20	13.31	71.75	9.97x	1.85x	-	10.07	15.38	154.88	135.00	+14.72%	BUY
TRANSCORP	0.44	26%	30%	12%	2.56	1.64	5.52	7.85x	2.33x	0.77%	8.10	1.90	15.39	13.00	+18.38%	BUY

Healthcare

Pharma's Steady Pulse: Resilience Amidst Headwinds

In Q1:2024, Nigeria's healthcare sector, represented by the chemical and pharmaceutical products subsector, experienced a slower growth rate of 2.55%, compared to the 6.22% and 6.16% growth in Q1:2023 and Q4:2023, respectively. The sector's underperformance can be attributed to the broader macroeconomic challenges affecting the country's real sector, including high inflation and interest rates, which have impacted output in related sectors.

Chart 36 Chemical and Pharmaceuticals Product Growth



Source: NBS, Meristem Research

The aforementioned challenges, coupled with higher Active Pharmaceutical Ingredients (API) costs, have resulted in increased production costs for sector players, who largely rely on imported raw materials.

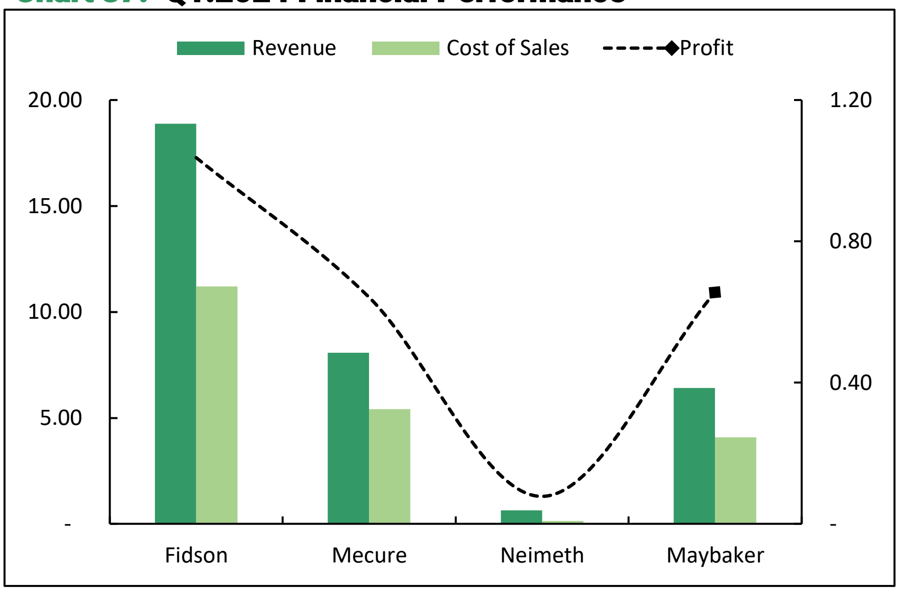
Despite these headwinds, the essential nature of the industry's products drove a resilient revenue growth of 57.44% YoY to NGN34.03bn in Q1:2024, with total earnings increasing by 20.00% YoY to NGN2.41bn.

Looking ahead, we foresee a continuation of the financial performance pattern observed in Q1:2024. We anticipate that the industry will remain resilient, with healthy demand driven by the essential nature of its products. While the reliance on imported APIs will continue to expose production costs to exchange rate fluctuations, we anticipate stable earnings due to factors like volume growth, product innovation, and price adjustments, which will support revenue figures.

Moreover, the President's recent executive order suspending import duties and VAT on essential medical supplies, including APIs, excipients, and other raw materials, could reduce importation and production costs, boosting profitability albeit marginally.

Furthermore, the recent USD1.20bn investment in vaccine production in Africa through the African Vaccine Manufacturing Accelerator (AVMA) presents a significant opportunity for the Nigerian healthcare sector to reduce reliance on imports and boost local production capabilities in the medium term.

Chart 37: Q1:2024 Financial Performance



Source: Company Financials, 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
FIDSON	0.96	5%	16%	5%	3.29	1.43	8.86	10.31x	1.66x	4.01%	10.13	1.81	18.35	14.95	+22.74%	BUY
MAYBAKER	0.96	7%	15%	6%	2.42	0.84	5.47	6.54x	1.01x	5.09%	10.40	0.75	7.77	5.90	+31.69%	BUY
NEIMETH	0.26	-109%	-168%	-29%	5.83	-0.61	0.36	-2.65x	4.45x	-	2.10	0.98	2.06	1.60	+28.75%	BUY

Insurance

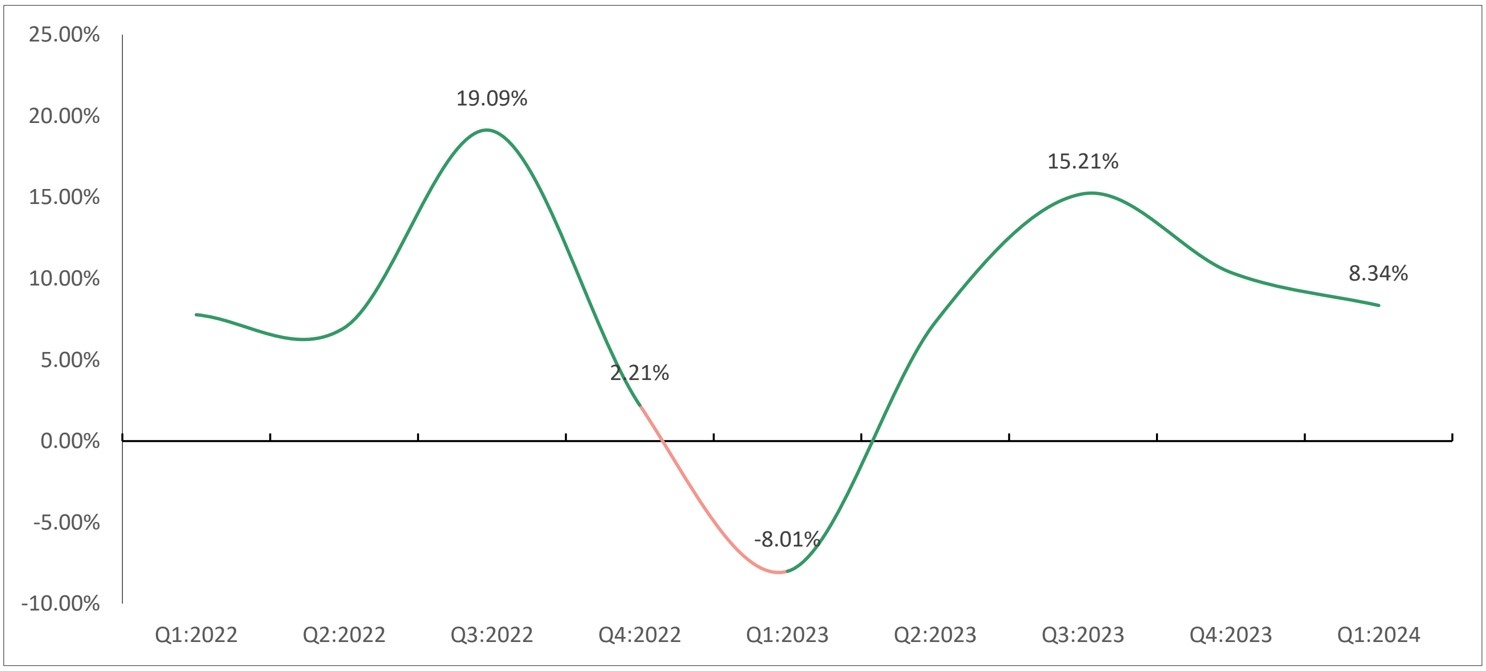
Leveraging Opportunities, Unlocking Value

The insurance sector maintained its positive trajectory in Q1:2024, with GDP growth surging by 8.34% year-over-year, a significant rebound from the 8.01% decline experienced in Q1:2023. This growth was fueled by increased consumer demand and confidence across various product lines. Additionally, insurance companies made concerted efforts to expand their customer base by leveraging diverse channels, including social media and advanced technological processes. Notably, the insurance players recorded an impressive financial performance in Q1:2024, with Premium income reaching NGN1.03trn. This growth was driven by expansion across business segments, with the non-life segment growing significantly by 94.90.% YoY during the period. For context, the oil and gas, fire and motor insurance product lines spurred the growth in the non-life business. Also, the life business expanded by 16.10% YoY, hinged on upticks in individual and group life insurance products.

Rising Cost Lines Impact Underwriting Result

During the period, the insurance players incurred higher claims expenses (+54.10% YoY in Q1:2024), gleaning from the financial records of listed players. Also, underwriting expenses increased by 35.20% YoY. We attribute this to increased activities within the sector during the period and the challenging business environment. Also, for the life insurance players, we observed an uptick in the provisioning for life & annuity funds during the period (+44.76% YoY). This was hinged on the fluctuations in the fixed-income environment. Nonetheless, underwriting profit increased by 6.85% YoY as the stronger premium income subdued the impact of the increased underwriting cost. This underscores improved underwriting efficiency by the insurance players during the period. However, the underwriting margin moderated marginally to 26.87% (vs 27.32% in Q1:2023).

Chart 38: Insurance Sector GDP Growth (Q1:2022- Q1:2024)



Source: NBS, Meristem Research

Insurance

Significant FX Gains Buoys Earnings

As we expected, the insurance players benefitted from the elevated interest rate environment and currency depreciation during the period. For context, investment income advanced in Q1:2024 by 68.12% YoY (vs 70.02% YoY in Q1:2023). In the same vein, most players realized significant foreign exchange gains, driven by the increased value of foreign currency-denominated assets during the period (+240.61% YoY). This notable uptick supported the bottom-line performance for the insurance players, as Profit After Tax advanced by 84.20% YoY to NGN23.98bn (vs. NGN13.02bn in Q1:2023).

We maintain a modest outlook for the insurance sector for the rest of the year. Substantial premium generation and effective claims management are expected to bolster consumer confidence in the sector. However, expected volatility in the fixed income yields in H2:2024 may spur increased provisioning for life and annuity funds, thus dampening earnings performance. Also, operating costs may remain elevated for most insurers due to sustained cost pressures during the period. Overall, we expect strong revenue growth to outweigh the impact of the cost drivers.

Valuation and Fundamental Metrics

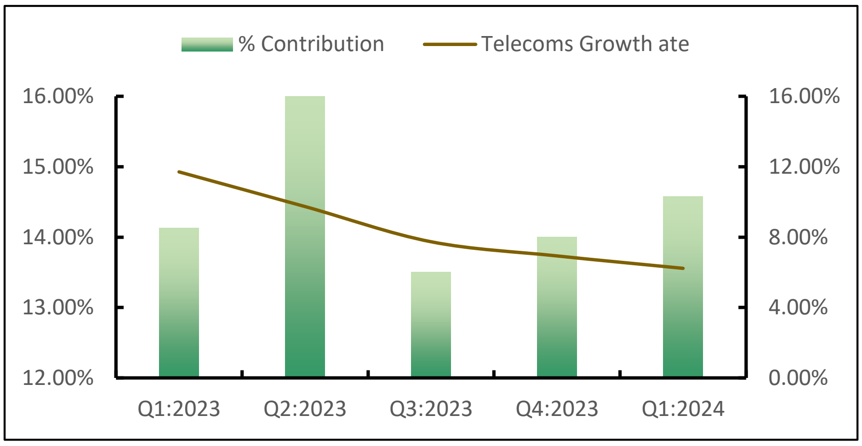
	Fundamentals					Trailing				Valuation						
	AT	NM	ROE	ROA	Lev	EPS	BVP	P/E	P/BV	Exp Div Yield	Target PE	Exp. EPS	2024 TP	CP	UPP	RT
AIICO	0.24	24%	33%	6%	5.68	0.53	1.61	2.08x	0.68x	5.15%	5.10	0.30	1.53	1.10	+39.09%	BUY
CORNERST	0.34	57%	41%	19%	2.14	0.86	2.11	2.44x	1.00x	7.62%	5.00	0.40	2.00	2.11	-5.21%	HOLD
CUSTODIAN	0.35	18%	22%	6%	3.52	3.38	15.35	2.81x	0.62x	7.84%	3.52	3.29	11.58	9.50	+21.90%	BUY
LASACO	0.63	8%	10%	5%	1.90	0.78	7.73	2.94x	0.30x	5.88%	4.50	0.71	3.20	2.30	+38.91%	BUY
MANSARD	0.49	25%	55%	12%	4.61	2.59	4.68	2.08x	1.15x	5.55%	7.00	0.90	6.30	5.40	+16.67%	BUY
NEM	0.81	31%	40%	25%	1.57	4.32	10.88	1.94x	0.77x	3.53%	9.80	0.82	8.04	8.40	-4.33%	HOLD
WAPIC	0.39	25%	25%	10%	2.58	0.31	1.23	2.58x	0.64x	0.00%	10.00	0.07	0.70	0.79	-11.39%	SELL

Telecommunications

Output Weighed Down by Adversities

The Telecoms sector continued to underperform in Q1:2024, growing at its slowest pace since Q4:2021 by 6.23% (vs 6.93% in Q4:2023 and 6.69% in Q1:2023). Given the nature of the sector, currency depreciation and high borrowing costs deterred CAPEX investments and system upgrades during the period. Also, the impact of the increased demand for connectivity and data was dragged by a decline in subscriber base (-2.41% to 219mn from 224mn as of 2023FY). In the near term, our outlook remain modest. While a growing digital appetite will sustain growth, further Naira depreciation and the mandatory implementation of NIN-SIM linkage by telcos (which will lead to a decline in subscriber base) could hamper output.

Chart 39: Telecommunications Sector Growth and Contribution to GDP



Source: *NBS, NCC, Meristem Research*

Is an Upward Tariff Review in Sight?

Industry players have persistently urged the Nigerian Communications Commission (NCC) to approve a tariff increase, aiming to pass on escalating costs to customers. Since the last review in 2013, the unchanged tariffs have hindered operators' ability to invest in infrastructure, resulting in deteriorating service quality. In response, the NCC has announced a cost-based study to determine whether to approve price increments for operators.

We believe a tariff increase is crucial for the sustainability of telecom businesses, especially amid rising inflation and operating costs. However, the regulatory body may consider the impact on the average Nigerian consumer, given the current high cost of living. Therefore, a tariff increase may not be imminent in the near term

Financial Performance Outlook: Dark Clouds Still Up

MTNN and AIRTELAFRI, both listed players, delivered impressive top-line performances in the recent financial period, driven by optimized data bundle offerings and expanded network coverage, leading to increased internet usage. However, this success was offset by exchange rate depreciation, which repriced the companies' foreign currency-denominated obligations. Consequently, MTNN's foreign exchange loss skyrocketed by over fourteenfold to NGN656.37.bn in Q1:2024, resulting in its largest quarterly loss on record at NGN392.69bn and a negative shareholders' fund of NGN437.06bn, wiping out retained earnings. AIRTELAFRI faced a similar fate, albeit mitigated by its presence in other markets. Despite recording a loss of USD0.09bn in 2024FY, its shareholders' funds remained positive.

Looking ahead, both companies are poised to continue their revenue growth trajectory, driven primarily by data revenue. However, we anticipate sustained pressure on operating expenses due to rising inflation and foreign exchange depreciation. While efforts to optimize lease contracts are underway, we do not expect significant near-term impact. Given the Naira's freefall and rising domestic interest rates, we foresee a surge in finance costs and further exposure to foreign exchange losses.

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	0.77	-24%	147%	-18.45%	-7.96	-30.40	-20.71	-6.58x	-9.66x	7.29%	4.07	65.57	266.87	200.00	+33.44%	BUY
AIRTELAFRI	0.47	4%	6%	2.05%	2.93	60.90	1,012.77	34.43x	2.07x	0.27%	3.51	615.81	2,161.50	2,100.00	+2.93%	HOLD

Global Fixed Income

Reaching the Ceiling?

In line with broad expectations for H1:2024, the global economy exhibited a pronounced disinflationary trend, with advanced economies converging towards their central banks' inflation targets. Despite this progress, monetary authorities maintained a cautious stance. This led to a persistent inversion of the yield curve in advanced markets, where shorter-term debt securities yielded higher returns than longer-term securities.

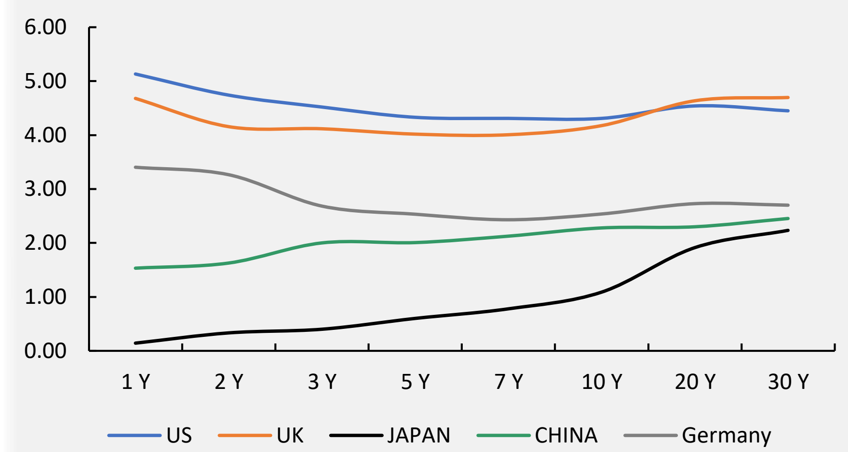
The Eurozone wasn't immune to this trend, as 1-year bond yields (3.11%) surpassed 10-year yields (2.49%), compared to their pre-hike levels of 0.43% and 1.66%, respectively. However, In June, the ECB made the first move by cutting its key policy rate by 25bps (4.50% to 4.25%) for the first time since 2019. in reaction to this decision, yields on the 10-year Italian BTP and German Bond rose to 3.87% and 2.56%, respectively. The ECB yield curve has since continued to correct, with yields on short-term instruments marginally declining to 3.49% from 3.63% in June, while yields on long-term instruments increased to 3.53% from 3.46% in June.

Owing to persistent inflationary pressures in the US, the Feds have held rates steady since last July. This led to a substantial repricing of the US Treasury yield curve, with the 10-year yield surging above 4.50% in April, (a level last seen five months prior), following three consecutive upside inflation surprises. Consequently, the US Treasury yield curve inverted, with short-term instruments yielding more than their long-term counterparts, a scenario last observed in 2022. As of now, the 1-year Treasury yield (5.13%) exceeded the 30-year Treasury yield (4.45%), a stark departure from pre-2022 levels where the 1-year/30-year yield spread was firmly positive (0.07% vs 1.90%).

The UK also experienced a yield curve inversion, with short-term instruments (1-month at 5.36%) yielding more than long-term instruments (30-year at 4.67%).

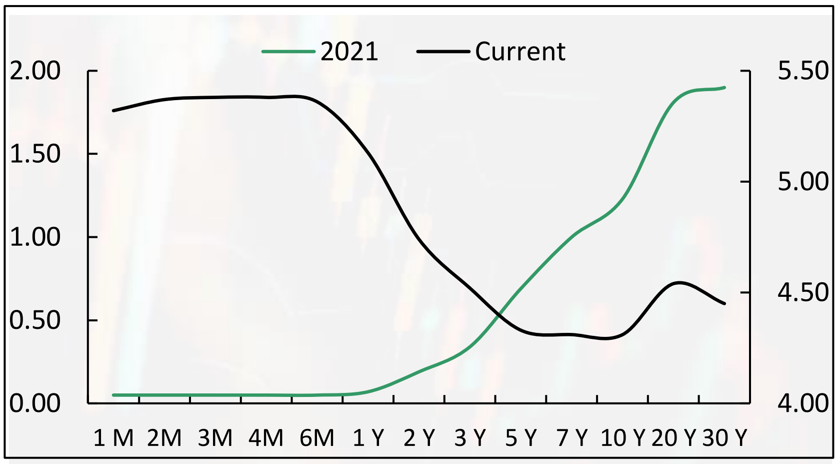
With the Bank of England's August meeting approaching, inflation data meeting the 2% target may lead some to advocate for a rate cut, despite persistent services sector pressures. Meanwhile, the Federal Reserve is likely to hold off on rate adjustments, creating a window for investors to secure higher yields. If the Feds adopt a dovish stance in September and December, treasury yields may fall, making it advantageous to lock in long-term instruments with attractive yields and capital appreciation potential. High-quality corporate debt also offers attractive income generation opportunities, given stable earnings, moderate default rates, and anticipated easing.

Chart 40: Yield Curve of Selected Advanced Economies



Source: Bloomberg, Meristem Research

Chart 41: US Yield Curve – Then & Now



Source: Bloomberg, Meristem Research

Emerging Markets: Strategic Gains – Hard Currency vs Local Currency

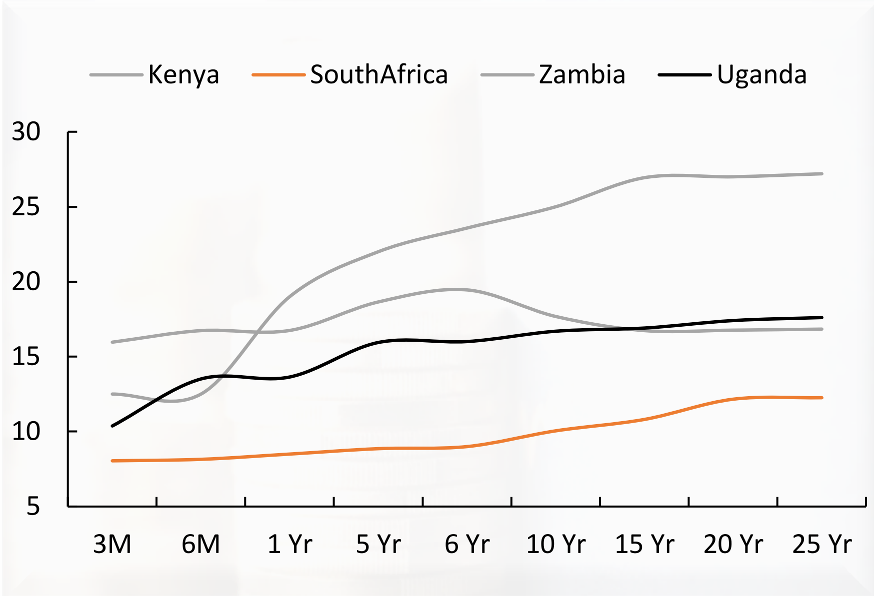
Emerging market (EM) debt began the period cautiously, following a strong rally towards the end of 2023. Initial optimism that the Israel-Hamas conflict would be short-lived faded, leading to increased fears of escalation, which negatively impacted risk sentiments and drove oil prices higher. Despite this, inflation continued to ease across major EM economies.

Frontier countries and debt restructuring contributed to some gains. However, performance varied towards the end of the period, with hard currency corporates leading with a return of 8.67%, driven by real estate issuers as Chinese authorities unveiled further steps to spur demand for the reeling property sector. This was closely followed by hard currency sovereigns at 7.71%. In contrast, local currency debt struggled, posting a -1.36% return, owing to a relatively strong dollar. The superior performance of hard currency assets was mainly driven by gains in treasury returns, while local currency debt was adversely affected by unfavourable currency fluctuations.

Additionally, we continue to see positive fundamental developments such as the formation of a new coalition in South Africa (which is set to introduce supportive reforms and improve its fiscal profile), and a successful debt restructuring in Zambia and Ghana. Specifically, Zambia's economy experienced a normal yield curve, with the 10-year average bond yield hovering around 25.60%, while its 2-month bond instrument returned a yield of 13.90%. Similarly, in South Africa, 10-year bond yields sit around 9.97%, while its three-month yield sits around 7.95%.

Source: Bloomberg, Meristem Research

Chart 42: Inversion of the Yield Curve in US



Source: Bloomberg, Meristem Research

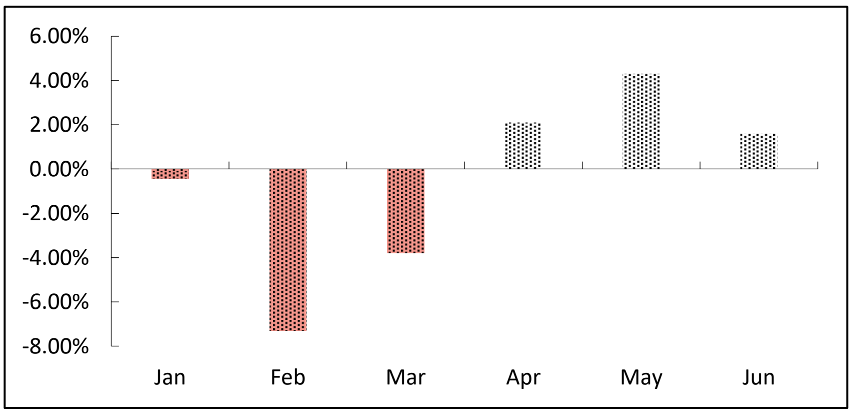
Despite market variability, emerging markets debt presents a compelling investment case. Valuations are attractive, and assets are undervalued, creating a buying opportunity. Also, the easing of US monetary policy will have a positive ripple effect on emerging markets. Meanwhile, local assets are bolstered by robust growth prospects and effective monetary policy. The bond market environment is favourable, with real yields at historic highs and inflation on a downward trajectory. Additionally, country-specific stories are showing promise, with meaningful reforms and policy shifts underway.

Domestic Fixed Income

Treasury Yields Chart Upward Trajectory

The Nigerian fixed-income market was characterised by an uptrend in yields in H1:2024. As we expected, a blend of factors during the period determined the northward trajectory of treasury yields. Chiefly, the hawkish stance maintained by the monetary authority, evinced by the MPR hikes during the period, spurred a responsive uptrend in yields. This was also in the monetary authority's bid to narrow the real rate of return for investors (which has remained negative) and ensure that treasury yields align with monetary policy rates. Additionally, the borrowing needs of the government during the period made a case for the elevated yield levels. For context, the DMO raised a total of NGN3.83trn from the domestic bonds market in H1:2024 (vs NGN2.35trn in H1: 2023). Similarly, the CBN allotted a total of NGN4.65trn in the Treasury Bills Primary Auctions in H1:2024 (vs NGN1.65trn in H1:2023), also dwarfing the NGN3.78trn raised in 2023FY. Overall, the domestic fixed-income market was largely bearish in H1:2024, with the average yields on T-Bills and Bonds at 21.80% and 18.80% (vs. 11.35% and 14.17% in H1:2023, respectively). Underscoring the bearish mood, the S&P/FMDQ Nigerian Sovereign bond index returned -3.91% in H1:2024 (vs. +7.01% in H1:2023).

Chart 43: S&P FMDQ Nigerian Sovereign Bond Index Return in H1:2024

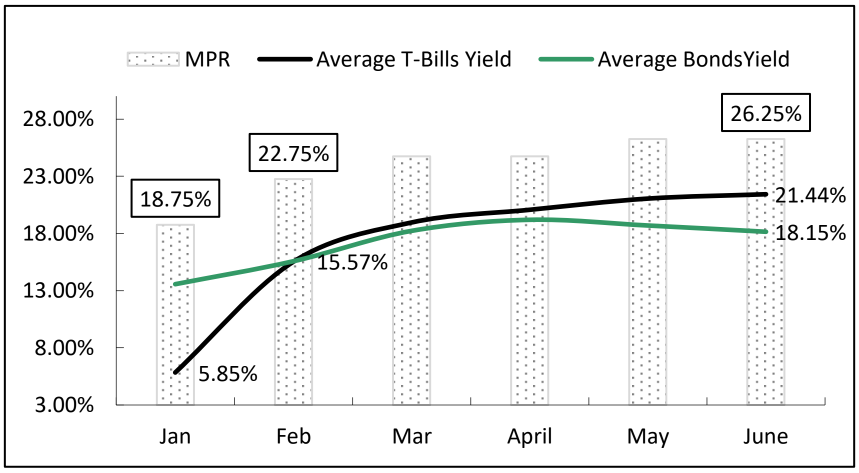


Source: S&P, Bloomberg, Meristem Research

Meanwhile, the CBN's liquidity management strategy remained intact during the period as the apex bank continued to roll out OMO bills with increased frequency, allotting a total of 5.05trn in H1:2024 (vs NGN627.20bn in 2023FY). As a result, interbank liquidity remained subdued, averaging NGN8.39bn in H1:2024. Notably, the market witnessed a significant influx of FPIs during the period (+219.67% YoY to USD2.08bn in Q1:2024), underscoring the increased demand during the period. This was driven by higher money market (+1138.46%) and bonds (+39.77%) inflows, which contributed 97.62% to the total FPI inflow.

Similarly, the primary market witnessed very strong demand in H1:2024, driven by investors' expectations of increased rates. As such, average stop rates rose to 18.14% as of H1:2024 (vs. 4.49% in H1:2023). However, toward the end of Q2:2024, stop rates at the T-Bills auction stayed unchanged in a bid to manage the rising government debt burden. In the same vein, the DMO issued five new FGN Bonds during the period (MAR 2027, APR 2029, FEB 2031, MAY 2033 and FEB 2034), reflecting the efforts in managing the government's fiscal sustainability and maturing debt profile. The average marginal rate at the Bond PMA stood at 20.44% (vs 14.94% in H1:2023).

Chart 44: Movement in MPR and Average T-Bills & Bonds Rates in H1:2024



Source: FMDQ, Meristem Research

Domestic Fixed Income

Commercial Paper and Corporate Bonds

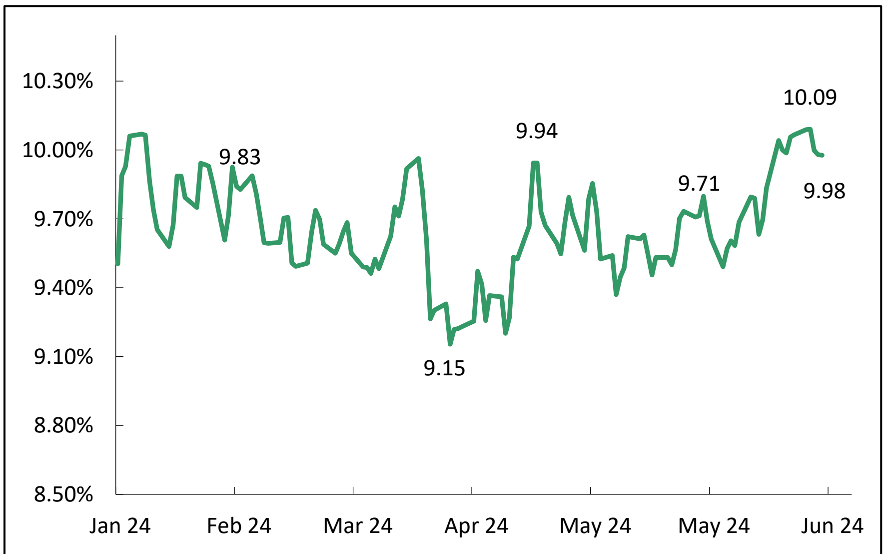
The elevated interest rate environment continued to limit corporate debt issuance in H1:2024. Available data from FMDQ revealed that no corporate bonds were issued during the period (vs 2 in H1:2023), highlighting the crowding-out effect of government borrowings.

For commercial paper (CP), we observed modest corporate access to the debt market for short-term funding as they sought to meet working capital requirements despite the higher rates. However, new CP issuances trended lower in H1:2024 (76 vs. 104 in H1:2023).

Eurobonds

The Eurobonds market witnessed heightened volatility in H1:2024, stemming from a mix of factors. Investors' expectations of the direction of global monetary policy partly determined the sentiment towards Nigerian Eurobonds during the period. Also, efforts to improve the country's macroeconomic condition and fiscal sustainability improved the outlook on USD-denominated instruments. However, investors reacted to the occasional swings in the FX valuation, spurring a bearish mood in Q2:2024. As such, the average Eurobonds yield came in at 10.09% in June 2024.

Chart 45: Movement in Average Eurobond Yield in H1:2024



Source: Bloomberg, Meristem Research

For the rest of the year, we expect some key drivers to dictate the direction of treasury yields. The following points are key to our considerations:

- Continued debt refinancing in the current high-yield environment.
- Tackling Inflationary pressure and maintaining FX stability.

Our expectation is of lower government borrowings from the domestic debt market compared to H1:2024, as a significant fraction of the outstanding ways and means borrowings have been cleared. This may pose a lesser incentive for an uptick in rates. Also, we expect that inflation may begin to moderate in H2:2024, driven by the high base effect in the previous period. Additionally, we anticipate lower FX volatility, buoyed by FPI inflows and multilateral support. As such, we foresee a potential pause in rate hikes in Q4:2024, which may lead to rates steadying around current levels across treasury instruments.

On the demand side, a less aggressive monetary tightening is expected to push system liquidity higher. However, the increased cash reserve ratio for banks, coupled with the very frequent issuance of OMO bills, may continue to taper interbank liquidity during the period.

For Eurobonds, we maintain a positive outlook, supported by improving macroeconomic indicators and pro-growth policy reforms, which are expected to sustain investor sentiment during this period.

Fixed Income Strategy

We considered key factors in the global and domestic debt markets to arrive at our strategy for the rest of the year.

Assessing the global market, we anticipate a potential dovish tilt, hinged on our expectation of at least one rate cut across major economies in H2:2024. However, elevated inflation risks stemming from a persistently tight labour market may delay the timing of rate cuts. Also, given our expectation of modest growth across global economies, we foresee a sustained investor preference for investment-grade instruments over high-yield instruments.

In the domestic debt market, we considered the possibility of a less hawkish/hold stance from the monetary policy committee, the CBN's liquidity management strategy during the period, and the government's preference for the local debt market to finance its fiscal deficit. We also consider the government's funding needs, which are expected to be less than the first half's.

Based on our analysis, we recommend adopting a long-duration strategy in 2024 to capitalise on the current high yields in long-dated government instruments. By taking a long position in these instruments, investors can avoid the re-investment risk associated with short-dated instruments, especially when yields start to trend downwards.

Our forecast suggests that yields will gradually decrease in 2025, making it essential to lock in high-yielding investments before the decline. The risk to this is that the Monetary Policy Committee (MPC) may continue to raise interest rates to combat inflationary pressures, which could negate the benefits of this strategy.

Additionally, we advise corporates and asset managers to consider issuing floating-rate notes, which will benefit from lower borrowing costs when interest rates eventually decrease.

The table below summarises our outlook and strategy views on fixed income instruments:

Table 1: Fixed Income Portfolio Recommendation

Instrument Type	Proportion	Strategy
Eurobonds	Modest	Overweight
Commercial Paper	Moderately High	Overweight
Corporate Bonds	Moderately High	Underweight
Treasury Bills	Moderately High	Overweight
FGN Bonds	Moderately High	Overweight

Table 10: Recommended Eurobond Instruments

Country	TTM (Yrs)	Maturity Date	Coupon Rate	Yield to Maturity*	Amount Issued (USD'bn)	Rating (S&P/Moody's)
Angola	5	26-Nov-2029	8.00%	9.57%	1.75	B- / B3
Angola	8	14-Apr-2032	8.75%	10.01%	1.75	B- / B3
Nigeria	14	23-Feb-2038	7.70%	10.29%	1.25	B- / Caa1
Nigeria	23	28-Nov-2047	7.625%	10.28%	1.50	B- / Caa1
Nigeria	27	28-Sep-2051	8.25%	10.39%	1.25	B- / Caa1
Rwanda	7	09-Aug-2031	5.500%	9.18%	0.62	B+ / B2

Table 11: Recommended Nigerian Local Bonds

FGN BONDS	Closing Yield	Coupon	Modified Duration	2024FY Forecasted Yield
21.00 20-MAR-2026	18.42%	21.00%	1.52	**18.51%**
19.94 20-MAR-2027	18.64%	19.94%	2.22	**18.68%**
12.49 22-MAY-2029	18.73%	13.98%	2.89	**18.84%**
8.50 20-NOV-2029	19.08%	21.00%	2.79	**19.12%**
10.00 23-JUL-2030	19.68%	15.00%	3.16	**19.85%**
18.50 21-FEB-2031	20.20%	19.30%	3.40	**20.41%**
19.00 21-FEB-2034	20.50%	12.49%	3.75	**20.79%**

Alternative Investments

Cryptocurrency

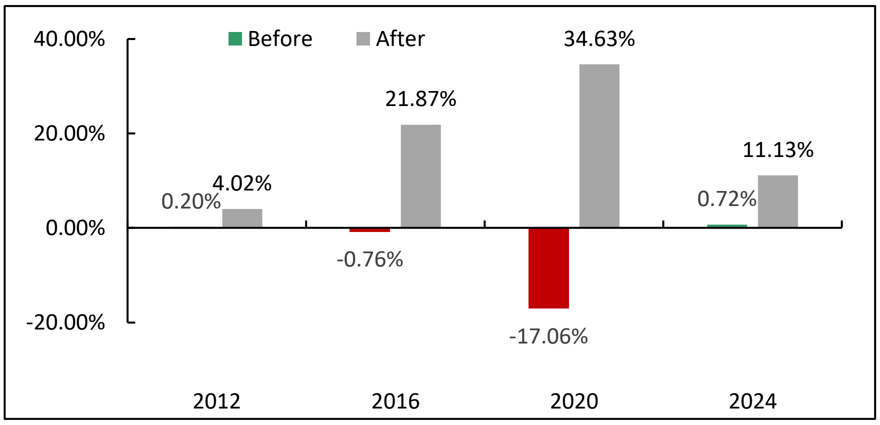
Bullish Momentum Intact: Bitcoin's H2 Outlook Remains Strong

In 2024, the cryptocurrency market eagerly anticipated the US Securities and Exchange Commission (SEC)'s approval of Bitcoin Exchange-Traded Funds (ETFs) and Exchange-Traded Products (ETPs), a move signaling growing acceptance and confidence.

Following the approval of spot ETFs, Bitcoin's price surged to as high as USD73,000 in March 2024 from a low of USD38,000 in December 2023. Additionally, the anticipation surrounding the Bitcoin halving in April (which typically reduces the supply of new bitcoins and potentially drives up prices due to decreased availability) further fueled buying activity. However, while these halving events have historically led to substantial price increases, the 2024 market reaction has been less dramatic than expected.

Despite a year-to-date (YTD) increase of 41.89% as of 30th June 2024, Bitcoin's 2024 post-halving gains fall short of the average seen after previous halving events. We attribute the muted reaction to other factors, such as the previously mentioned SEC approval of Bitcoin ETFs and the high anticipation of the coin's appreciation post-halving, which had already spurred buying activities before the halving event and pushed the price to an already record-high.

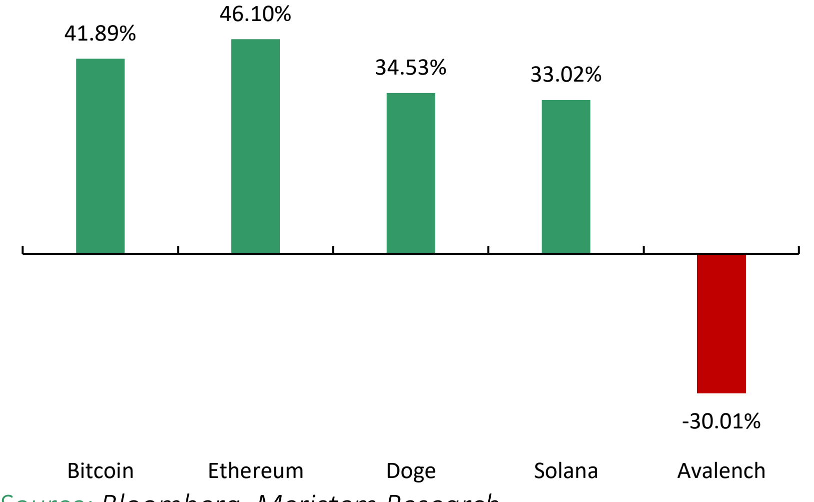
Chart 46: Historical Bitcoin Price Movement Pre & Post Halvings



Source: Bloomberg, Meristem Research

Interestingly, the SEC's approval of a spot Ethereum ETF came quicker than that of Bitcoin, broadening adoption among institutional investors and fund managers keen on accumulating Ethereum. As a result, Ethereum has also experienced significant gains, with a price appreciation of 46.10% YTD.

Chart 47: YtD Returns of Major Cryptocurrencies in H1:2024



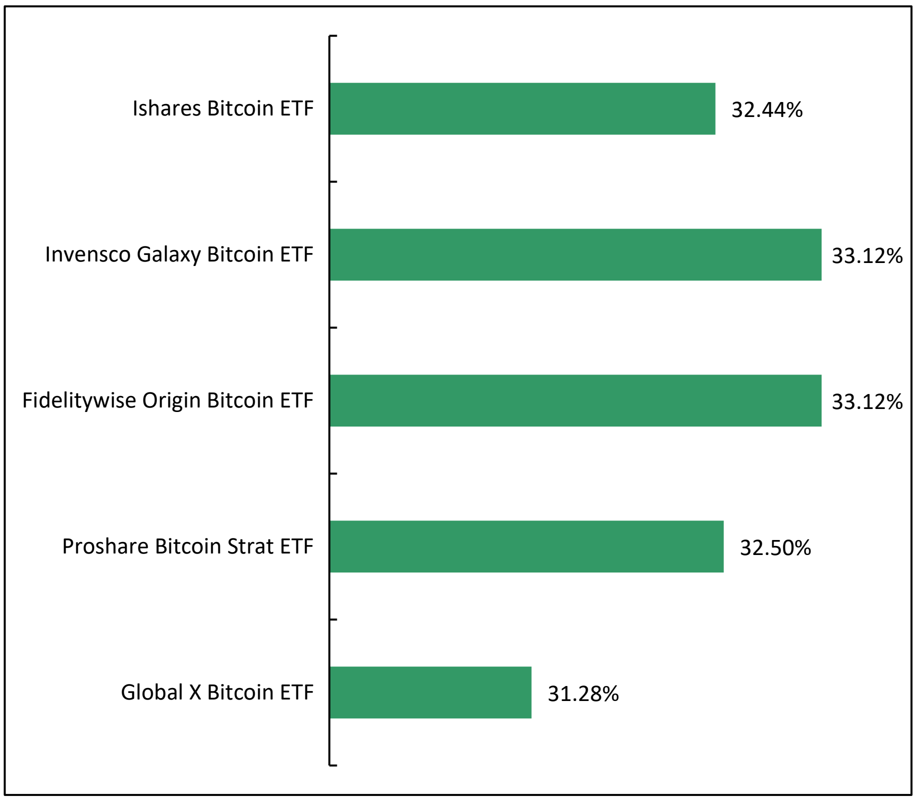
Source: Bloomberg, Meristem Research

Cryptocurrency

On the domestic front, the anticipated improvement in cryptocurrency adoption in Nigeria encountered significant restrictions in the first half of 2024. The Securities and Exchange Commission (SEC) announced a ban on cryptocurrency trading activities, citing concerns over speculative activities by peer-to-peer (P2P) traders in the country's FX market and the perceived manipulation of the exchange rate. Additionally, the government's clampdown Binance prompted the platform to deactivate its Naira services.

The government cited potential misuse of crypto trading platforms, concerns about illicit financial flows, tax evasion, money laundering, and security risks as major motivations for these measures.

Chart 48: Year-to-date gains for Top Bitcoin ETFs



Source: Bloomberg, Meristem Research

We anticipate a sustained bullish momentum for Bitcoin in the second half of 2024. This outlook is based on increasing investment as both retail and institutional investors capitalise on the spot ETFs to take positions in the market. Additionally, the potential rate cut by the Federal Reserve in H2:2024, coupled with easing inflation, could further drive Bitcoin's rise. Historically, lower interest rates result in higher market liquidity, prompting investors to seek alternative assets. Thus, Bitcoin, which is regarded as a hedge against inflation and currency devaluation, could attract significant interest as traditional investment yields decline.

Furthermore, the current and forthcoming approvals of spot Bitcoin ETFs in countries such as Thailand, Hong Kong, Australia, Singapore, and the UAE are expected to add additional momentum to Bitcoin's price rally.

On the local scene, we do not anticipate any significant change in the Federal Government's stance in the second half of 2024, given that the security concerns mentioned earlier are still prevalent. Consequently, peer-to-peer cryptocurrency trading is likely to remain prohibited during this period.
However, we continue to advise caution on trading Bitcoin and other cryptocurrencies due to their extreme volatility.

Commodities

Real Estate

Nigeria's Property Sector Hits Speed Bumps Amidst Cost Pressures

Entering 2024, the global real estate market continued to grapple with persistent challenges, chief among which remains high interest rates. In the US, the 16-year high interest rates have led to soaring house prices and mortgage costs, leaving both investors and consumers with little incentive to engage. The situation in the UK mirrors this, with rising mortgage rates and economic uncertainty dampening demand in its housing sector.

Meanwhile, China's housing market, c.25% of its GDP, continues to suffer from weakened demand post-pandemic. To address this, the government has implemented measures such as cutting the 5-year mortgage-linked rate to 3.95% (by 25bps) and reducing down-payments by 15% to their lowest since 2008, aiming to clear long-standing inventory and improve participation in the sector.

Here in Nigeria, the real estate sector's expansion slowed to 0.80% YoY in the first quarter of 2024, the lowest since the decline in 2020 due to COVID-19 (vs. 1.70% YoY and 1.30% YoY recorded in Q1:2023 and Q4:2023, respectively). The slowdown is primarily attributed to the challenging macroeconomic environment, marked by increased cost pressures and elevated interest rates, which have led to higher borrowing costs for developers and buyers. This also reflects the construction sector's first decline in 15 quarters due to Nigeria's lower level of infrastructure development.

Real Estate Investment Trusts (REITs) listed on the NGX also faced challenges in H1:2024, with UPDCREIT recording a 21.88% YTD loss, while UHOMREIT remained flat by the end of the period.

We expect the real estate sector to maintain sluggish growth in the second half of 2024, mirroring its H1:2024 performance. Government projects, including the "Renewed Hope Cities and Estates" program, which aims to allocate 50-150 hectares of land in each state for affordable housing, may boost activity in the sector in the medium term. However, the persistent challenges will likely continue to temper investment enthusiasm in the near term.

Precious Metal

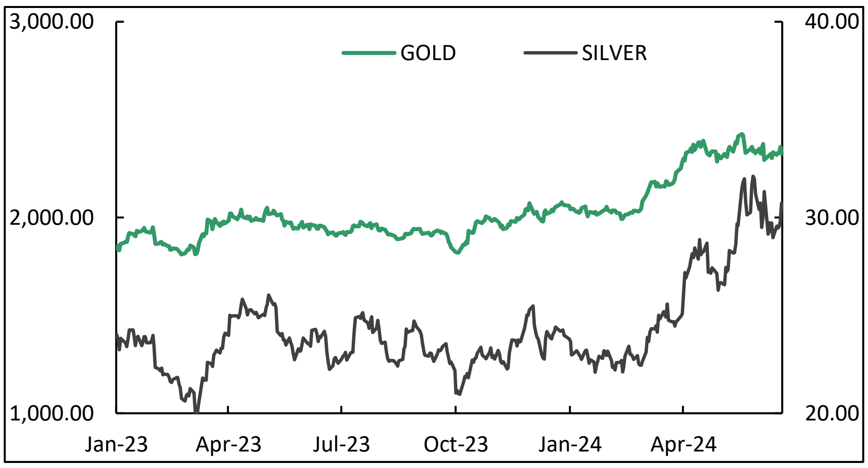
Shining Prospects: Sustained Optimism for Precious Metals

Gold price maintained its ascent from late 2023 into the first half of 2024. The rise, buoyed by a less aggressive policy stance by the Federal Reserve and geopolitical tensions like the Israel-Hamas conflict, has culminated in gold reaching an unprecedented peak in May 2024 (USD2425.31/t oz). As of June 30th, 2024, gold has delivered a year-to-date return of +13.01%.

Similarly, silver has shown strong performance with a year-to-date return of +23.15%. Meanwhile, copper rose significantly in 2024, achieving record-highs in May. This bullish trend was driven by short-covering activities, stimulating speculation about future price increases. Additionally, supply constraints arising from project delays and the closure of a major mine in December 2023 have tightened the copper market, contributing to its robust YtD return of 12.34%.

Looking ahead, we anticipate that precious metal prices will be contingent on several factors, including potential rate cuts by Central Banks, which could lead to increased liquidity in the commodities market and subsequently drive prices up. We expect gold to remain resilient, maintaining its safe-haven status amidst uncertainties and macroeconomic fluctuations. Similarly, silver may experience strong gains thanks to its dual role as both a precious metal and an industrial metal, particularly as demand for it surges in the renewable energy sectors.

Chart 49: Movement in Prices of Gold and Silver



Source: Bloomberg, Meristem Research

Glossary

Abbreviation	Full Meaning
ASI	All Share Index
AFREXIM	Africa Export-Import Bank
API	Active Pharmaceutical Ingredient
BDC	Bureau de Change
BOE	Bank of England
BTA	Business Travel Allowance
CAPEX	Capacity expansion expense
CBN	Central Bank of Nigeria
CIT	Company Income Tax
CNG	Compressed Natural Gas
CPI	Consumer Price Index
CPO	Crude Palm Oil
CRR	Cash Reserve Ratio
DMO	Debt Management Office
EM	Emerging Market
ECB	European Central Bank
FAO	United Nation's Food and Agriculture Organisation
FCY	Foreign Currency
FDI	Foreign Direct Investment
FGN	Federal Government of Nigeria
FMCG	Fast Moving Consumer Goods
FPI	Foreign Portfolio Investment
GENCO	Generation Companies
GDP	Gross Domestic Product
IAE	International Energy Agency
IOC	International Oil Companies
IMF	International Monetary Fund
LSE	London Stock Exchange
MBPD	Million Barrels Per Day
MDA	Ministries, Departments, and Agencies
MMBTU	Million British Thermal Units
MMTPA	Million Metric Tonnes Per Annum
MPC	Monetary Policy Committee of the Central Bank of Nigeria
MPR	Monetary Policy Rate
MSCI	Morgan Stanley Composite Index
NAGS-AP	National Agricultural Growth Scheme and Agro Pocket
NAICOM	National Insurance Commission
NBS	National Bureau of Statistics
NCC	Nigerian Communications Commission
NERC	Nigerian Electricity Regulatory Commission
NEPL	NNPC Exploration and Production Limited
NGIC	NNPC Gas Infrastructure Company
NIN	National I dentification Number

Glossary

Abbreviation	Full Meaning
NGML	NNPC Gas Marketing Limited
NGX	Nigerian Exchange Limited
NNPCL	Nigerian National Petroleum Company Limited
NSMP	Nigerian Sugar Master Plan
NUPRC	Nigerian Upstream Petroleum Regulatory Commission
OPEC+	Organisation of Petroleum Exporting Countries and its Allies
PMI	Purchasing Managers' Index
PMS	Premium Motor Spirit
PTA	Personal Travel Allowance
QoQ	Quarter-on-Quarter
QtD	Quarter to Date
REIT	Real Estate Investment Trust
TCJA	Tax Cuts and Job Acts
UNCTAD	United Nations Conference on Trade and Development
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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