MERISTEM

Macros and Market Insight

January 2025

Macros

Shaping a new trajectory

Review

Nigeria's macroeconomic environment is undergoing significant adjustments, highlighted by the recent rebasing of GDP and CPI, which now provide a more accurate reflection of the economy's structure. Meanwhile, inflationary pressures persist, driven largely by supply-side constraints and ongoing fiscal reforms- such as the introduction of diaspora accounts, which aim to enhance foreign exchange liquidity and improve economic stability. Also, the country faces challenges related to rising public debt and persistent infrastructure gaps.

The National Bureau of Statistics (NBS) has rebased Nigeria's Gross Domestic Product (GDP) from 2010 to 2019, reflecting a more current economic structure. The exercise incorporates previously underrepresented sectors such as the digital economy, modular refineries, and informal labour, providing a more comprehensive assessment of economic activities. Given that 2019 was a relatively stable year, the new base year offers a better benchmark than subsequent periods affected by COVID-19 and policy shifts.

Similarly, the Consumer Price Index (CPI) has been rebased to 2024, expanding the inflation basket from 740 to 960 items, and adjusting weightings to reflect evolving consumption patterns. Notably, the weight of transport increased from 6.50% to 10.70%, healthcare from 3.00% to 6.10%, and restaurants & accommodation services from 1.20% to 12.90%, while the share of food and non-alcoholic beverages declined from 51.80% to 40.10%. This should improve inflation measurement accuracy, enabling better policy responses.

We expect the GDP rebasing to enhance Nigeria's economic reporting, providing clearer insights into growth trends and structural shifts. The larger GDP size will likely boost investor confidence and improve fiscal metrics, particularly debt sustainability ratios. However, risks related to insecurity, inadequate infrastructure, and foreign exchange volatility remain significant challenges to growth.

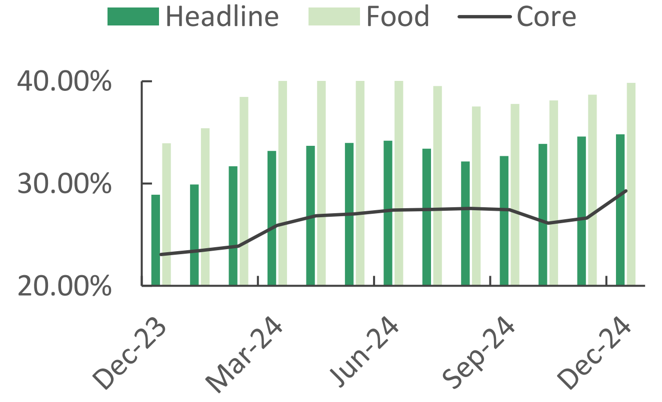
On inflation, we foresee a moderation in the CPI over the medium term, driven by the impact of the rebasing on food and fuel weightings and a potential easing of inflationary pressures. The weighting adjustments in transport and services will likely reflect a more accurate picture of consumer spending, supporting more targeted monetary policies.

In another development, the NBS reported another 20bps uptick in Nigeria's headline inflation to 34.80% YoY in December 2024, marking the fourth consecutive month increase after a short-lived deflationary trend. This climb could be attributed to higher core inflation, and an easing in food inflation.

Food inflation registered at 39.84% YoY (vs 39.93% in November 2024). On a monthly basis, inflation rose by 2.66% MoM, slower than the 2.98% MoM in November 2024 (the slowest increase recorded since September 2024). This was attributed to the waning effect of flash floods that reduced agricultural outputs earlier in the year. However, the year-on-year increase was linked to an increment in the average prices of Yam, Water Yam, Sweet Potatoes, Beer, Pinto, Guinea Corn, Maize Grains, Rice, and Dried Fish. This increase continues to reflect the impact of insecurity, supply deficit, elevated transport costs and increased festive demand.

The core index also continued its upward trajectory, rising by 29.28% YoY as opposed to 28.75% YoY in November 2024. On a monthly basis, the core index rose by 2.24% MoM, the highest increase since August 2024. This northward movement in the core index can be primarily attributed to the uptick in transportation and clothing prices and the high cost of hotel and restaurant prices within the festive period. These increases were offset by a 7.11% MoM appreciation of the Naira on the NAFEM window from an average of NGN1668.25/USD in November to an average of NGN1538.25/USD in December 2024 due to the introduction of the B-Match trading system improving system liquidity.

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



Source: NBS, Meristem Research

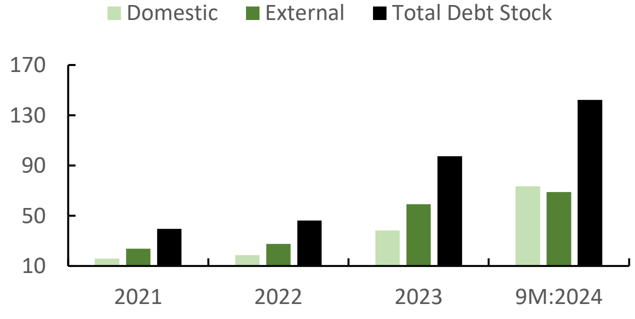
Macros

- We expect food inflation to moderate in the coming months due to several reforms of the government to ensure all round farming and several fundings from multilateral organisations to improve agricultural infrastructure could help improve supply within the year. Also, the rebasing of the CPI and the reduction of the weight of the Food and Beverages Index could help provide some respite.
- We anticipate a steady decline in the core index as the impact of fuel subsidy removal fades and exchange rate stability improves, driven by enhanced transparency in the FX market following key reforms by the apex bank.

The Debt Management Office reported that Nigeria's total public debt stock rose to NGN142.30trn in Q3:2024, a NGN5.97% QoQ increase from NGN134.30trn in Q2:2024. Domestic debt grew by 3.10% due to increased government borrowings, with Federal Government bonds accounting for 78.95% of the total. Also, external debt rose by 9.22%QoQ as a result of the Naira depreciating from NGN1,470.19/USD in Q2:2024 to NGN1,601.03/USD in Q3:2024. External debt servicing climbed by 29.70% QoQ to NGN2.11trn due to higher multilateral creditor payments, Eurobond interest, and bilateral obligations, particularly to China's Exim Bank. On the other hand, domestic debt servicing fell by 23.12% to NGN1.43trn, despite a 56.80% rise in Treasury Bill interest payments.

Nigeria's debt stock is expected to increase further, as the projected NGN13.09trn fiscal deficit for 2025 is set to be predominantly financed through debt, with 70.49% of the funding sourced via borrowings.

Chart 2: Total Debt Stock (NGN'bn)



Source: FMDQ, Meristem Research

The Central Bank of Nigeria (CBN) has suspended approvals for extending export proceeds repatriation for both oil and non-oil exporters, effective January 8, 2025. This measure aims to boost forex inflows, enhance liquidity, and stabilize the Naira by addressing delays in repatriation that have weakened forex reserves.

While this policy is expected to improve reserves and currency stability in the medium term, it may tighten liquidity for export-dependent sectors.

Additionally, the CBN has introduced two new accounts for Nigerians in the diaspora: the Non-Resident Nigerian Ordinary Account (NRNOA) and the Non-Resident Nigerian Investment Account (NRNIA). The NRNOA facilitates fund transfers and management in both local and foreign currencies, while the NRNIA enables diaspora investments in Nigerian assets, including bonds.

We expect these measures to increase forex inflows, strengthen the naira, and improve foreign exchange liquidity. The new diaspora accounts should enhance remittance inflows, boost diaspora investment in Nigerian assets, and promote financial inclusion, contributing to overall economic growth. However, tighter liquidity conditions for exporters may create short-term challenges for trade and investment.

The Federal Government has launched the National Credit Guarantee Company (NCGC) to enhance risk-sharing mechanisms for financial institutions. This initiative aims to improve credit access, support industrialization, and strengthen confidence in Nigeria's financial system. The NCGC is set to commence operations in Q2:2024 and will collaborate with key stakeholders, including the Bank of Industry, the Nigerian Sovereign Investment Authority, and private and multilateral organizations.

We anticipate that the NCGC will significantly expand credit availability, particularly for underserved groups and critical industries, thereby driving economic growth and revitalizing key sectors.

Summary of Key Expectations for February 2025;

- ***A moderation in inflation, driven by a slower pace of increase in the food and core indices.***
- ***Foreign exchange stability due to better forex inflows and increased remittances.***
- ***Continued increase in the country's debt obligations due to increased budget funding needs.***

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Equities

Sustained Optimism Fuel Bulls' Run

Review

The local bourse started the year with mixed sentiment, however with a bullish tilt. In January, investors gained NGN15.21bn, as the NGX-ASI recorded a positive return of 1.53% MoM to close at 104,496.12pts. As we anticipated, investors exhibited cautious trading, cherry-picking amongst stocks to kick start a new trading year and rebalancing existing portfolios. As a result, the positive momentum was largely subdued, compared to the 5.56% MoM recorded in the previous month. Nonetheless, the Nigerian market posted a decent performance compared to its peers across the African region in January- South Africa (+2.21% MoM), Egypt (+0.91% MoM), Ghana (6.97% MoM), Kenya (3.89% MoM), Emerging Market (1.88% MoM).

On market activity, we observed strong buying interest on some bellwether tickers like **MTNN** (+25.00%) -particularly following the 50% tariff hike approved by the Nigerian Communications Commission (NCC)- , also heightened Investor demand was observed on other large-cap tickers like **STANBIC** (+11.72%), **NESTLE** (+11.43%), **ZENITHBANK** (+11.21%), **UBA** (+10.88%), **ACCESSCORP** (+9.01%), **GTCO** (+7.11%), and **FBNH** (+6.77%), further fueling market gains. These pockets of demand outweigh the profit-taking activities on **DANGCEM** (-17.71%), **TRANSPOWER** (-2.81%), and **ARADEL** (-4.80%), underscoring the predominant appreciation bias during the month. However, the market breadth eased to 2.38x (from 3.46x in December 2024). Meanwhile, trading data from the NGX revealed increased activity, with total volume and value traded at 13.70bn units and NGN327.09bn, respectively, compared to 249.47bn units and NGN9.61bn in December 2024.

Other Notable Occurrences and Corporate Actions

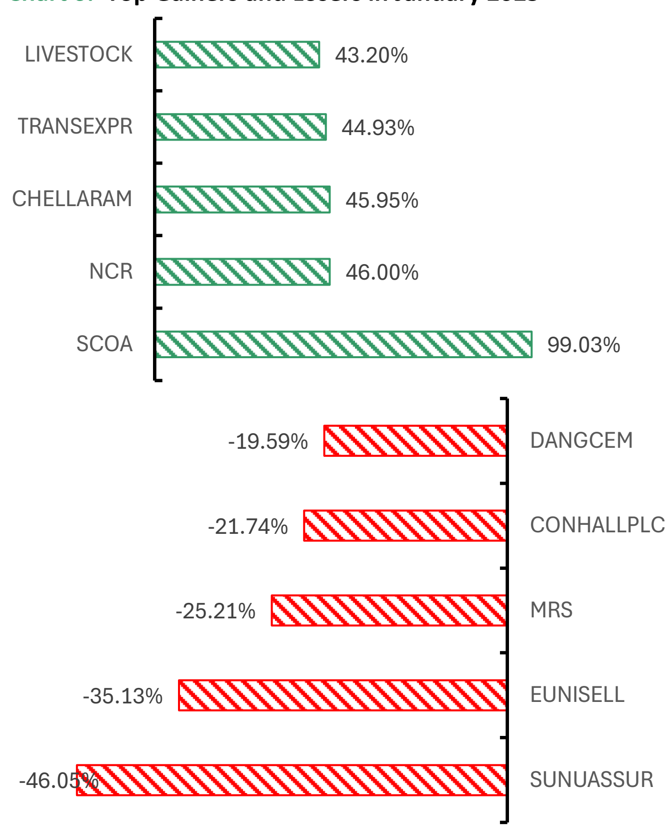
During the month, Guaranty Trust Holding Company (**GTCO**) announced the successful completion the first phase of its equity raising initiative on Nigerian Exchange Limited (NGX). The offer attracted significant interest from domestic retail investors, raising NGN209.41bn for 4,705,800,290 ordinary shares, which were fully allotted.
Likewise, Zenith Bank Plc (**ZENITHBANK**) successfully completed its Hybrid Offer, comprises of a Rights Issue of 5.23bn shares at NGN36.00 per share and a Public Offer of 2.77bn shares at NGN36.50 per share. The offer met strong interest from both domestic and institutional investors with the Public Offer oversubscribed by 160.47%, leading to the allotment of 4.44bn shares. The Rights Issue was fully subscribed at 100.18%, with the entire 5.23bn shares allotted. In total, the Hybrid Offer raised NGN350.46bn, positioning **ZENITHBANK** among the few Nigerian banks to meet and exceed the CBN's NGN500bn minimum capital requirement ahead of the March 2026 deadline. With this successful raise, the bank's share capital now stands at NGN614.65bn

Chart 5: MoM Sectoral Returns in January 2025

Index	Return	Drivers/ Lags
NGNBNK	+9.76%	Gains on WEMABANK, FCMB, FIDELITYBK, STANBIC
NGXCNSMRGDS	+4.47%	Gains of VITAFOAM, NNFM
NGXINS	-9.91%	Sell bias on SUNUASSUR, CORNERST, GUINEAINS, CONHALLPLC
NGXINDUSTR	-8.51%	Sell bias on DANGCEM,
NGXOILGAS	-1.58%	Sell bias on MRS, TOTAL, ARADEL
MERI-TELCO	+3.06%	Gains on MTNN
MERI-AGRIC	+4.60%	Gains on OKOMUOIL, PRESCO

Source: Bloomberg, Meristem Research

Chart 6: Top Gainers and Losers in January 2025



Source: Bloomberg, Meristem Research

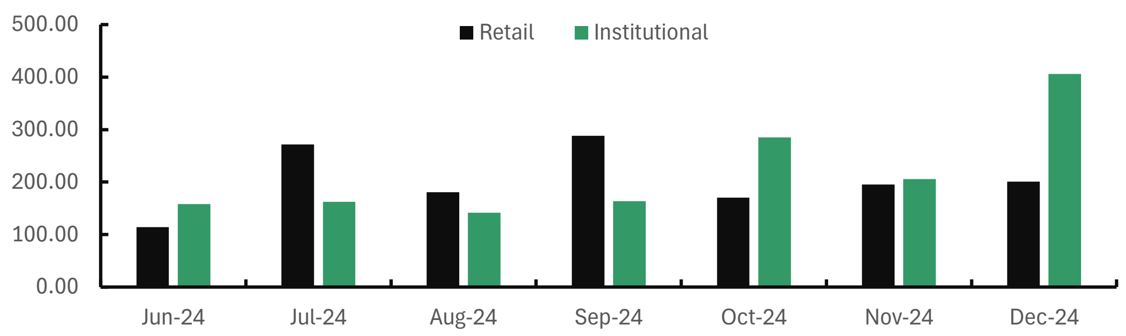
Equities

Year-End Blossom; Foreign Investors Remain Keen

The latest NGX data revealed a marginal increase in foreign investors' inflow to the local bourse in December, reaching NGN26.26bn, up from NGN25.25bn in November. Also, foreign outflows rose significantly to NGN40.49bn, compared to NGN15.09bn, marking the highest outflow since June 2024. This surge in outflows can be largely attributed to profit-taking activities following the year-end rally, as foreign investors capitalized on earlier gains. Despite the rise in outflows, net foreign outflows in 2024 moderated to NGN59.21bn, slightly lower than NGN61.02bn in 2023. This trend may reflect global interest rate easing and the resilience of key sectors such as banking and oil and gas, which likely encouraged foreign investors to maintain their positions rather than exit the market.

On the domestic front, trading activities surged to a 16-month high of NGN606.91bn in December 2024, with institutional investors accounting for 66.90% of the total transactions. This uptick in activity can be attributed to year-end portfolio rebalancing and robust participation from domestic players, reflecting strong local interest in the market.

Chart 7: Domestic Institutional and Retail Investors Transaction (NGN'bn)



Source: NGX, Meristem Research

Table 1: Meristem 2025 Strategic Portfolio

TICKER	NM	ROE	ROA	TP	Avg. Cost	CP	% Gain	P. Weight	Weighted Portfolio Return
ACCESSCORP	33%	41%	3%	31.08	**23.85**	26.00	9.01%	4.34%	0.39%
AIICO	9%	30%	5%	2.24	**1.43**	1.62	13.29%	8.06%	1.07%
BUACEMENT*	8%	3%	3%	121.52	**93**	93.00	0.00%	4.39%	0.00%
CUSTODIAN	60%	36%	11%	19.79	**17.1**	18.90	10.53%	2.25%	0.24%
DANGCEM*	11%	21%	8%	667.16	**478.8**	394.00	-17.71%	5.63%	-1.00%
DANGSUGAR	-38%	271%	-43%	38.65	**32.5**	36.00	10.77%	2.71%	0.29%
FBNH	24%	23%	2%	38.21	**28.05**	29.95	6.77%	5.19%	0.35%
FCMB	14%	21%	2%	13.77	**9.4**	11.05	17.55%	6.65%	1.17%
FIDELITYBK	29%	34%	2%	22.32	**17.5**	19.45	11.14%	3.94%	0.44%
GTCO	60%	48%	8%	68.38	**57**	61.05	7.11%	2.86%	0.20%
MAYBAKER	9%	23%	11%	13.05	**9.4**	8.65	-7.98%	5.57%	-0.44%
NASCON	11%	32%	10%	40.54	**31.35**	38.00	21.21%	4.20%	0.89%
NEM	20%	43%	21%	14.50	**10.95**	13.05	19.18%	4.64%	0.89%
PRESCO	40%	85%	29%	562.87	**475**	585.00	23.16%	2.65%	0.61%
TOTAL	3%	39%	6%	945.49	**698**	670.00	-4.01%	5.08%	-0.20%
UBA	22%	31%	3%	44.81	**34**	37.70	10.88%	4.55%	0.50%
WAPCO*	13%	15%	9%	81.95	**69.95**	71.00	1.50%	2.46%	0.04%
WEMABANK	18%	30%	2%	13.17	**9.1**	11.45	25.82%	6.40%	1.65%
ZENITHBANK	29%	30%	4%	63.79	**45.5**	50.60	11.21%	5.75%	0.64%
TRANSCORP*	26%	16%	12%	82.04	**43.5**	53.00	21.84%	12.68%	2.77%
Return								100.00%	10.50%

Equities

Our Strategic Equity Portfolio (SEP**)** recorded impressive gains in January, outperforming the **NGX30** (1.62% in January) with an impressive 10.50% Ytd return. This stellar performance was fueled by our carefully curated positions in high-potential stocks. The portfolio's exposure to **TRANSCORP** proved highly rewarding, with the ticker soaring by 21.84% MoM, reflecting heightened investor interest and confidence in the company's fundamentals. Likewise, our fairly weighted position in **WEMABANK** delivered exceptional gains, surging by 25.82% MoM, further boosting the overall portfolio performance.

While the portfolio largely experienced upward momentum, some tickers posed moderate drags. **DANGCEM** declined 17.71%MoM in January due to investor selloffs, while **MAYBAKER** and **TOTAL** recorded dips of 7.98% MoM and 4.01% MoM, respectively, slightly trimming the Weighted Portfolio Return (WPR) by -1.65%.

Summary of Key Expectations for February 2025

For February, we foresee a sustained positive bias amid occasional volatility. In our view, expected corporate earnings releases will spur market activity during the month as investors seek to capitalize on tickers with positive earnings performance and position for dividend payments. As such, we anticipate continued rotation into high-performing sectors. However, Investors may -in varying magnitudes-react to movements in macroeconomic indicators, particularly inflation and Monetary policy committee decisions during the month, which could potentially dampen or spur sentiment towards equity assets. Overall, we expect a generally bullish outlook for the Nigerian equities market.

Equities Strategy for February 2025

As we anticipate corporate earnings releases to influence equities market activity in February, our investment strategy is to take position on dividend-paying tickers, particularly those poised to deliver attractive dividend yields. Also, we consider tickers with sufficient upside potential in favourable sectors. Kindly click **HERE** to access our dividend portfolio report.

Fixed Income

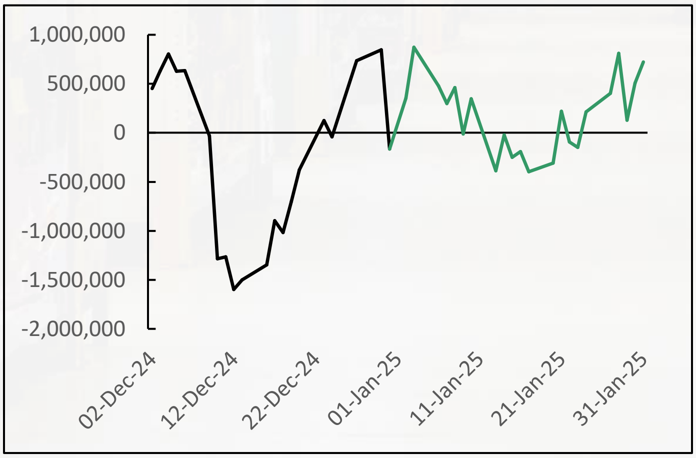
A Different Drive: Liquidity Still at Play

Review

The Nigerian fixed income market in January was influenced by several factors, including system liquidity, the trend in rates on new issuances, and inflation expectations.

In January, system liquidity showed improvement compared to December, averaging NGN165.22bn (vs NGN243.79bn in December 2024). However, the significant treasury bills net issuance of NGN733.52bn, OMO sales of NGN500.00bn, and FX sales of NGN22.44bn absorbed much of the available liquidity, leaving banks as net borrowers (NGN59.17bn vs NGN423.65bn in the previous month). This suggests that despite the overall positive liquidity, the market still faced borrowing pressures. As a result, interbank rates fluctuated during the period with OBB and O/V peaking at 32.50% and 31.87% and finally settled at 26.50% and 27.00% (vs 27.30% and 27.80% in the previous month) due to ample liquidity later in the month.

Chart 8: System Liquidity for December and January (NGN'bn)



Source: *CBN, Meristem Research*

At the primary auction, the CBN offered a total of NGN1.05trn in treasury bills (vs NGN1.19trn in the previous month) across the three maturities – 91-day, 182-day, and 364-day. The auction saw a total subscription of NGN4.06trn, driven by improved system liquidity, which led to a subscription-to-offer ratio of 3.87x (vs 3.46x in the previous month). A total of NGN1.27bn was allotted at stop rates of 18.00% and 18.50%, for the 91-day and 182-day bills (unchanged) respectively, while rates on the 364-day bills saw a decline from 22.90% in the first auction to 21.80% in the second auction (compared to 18.00%, 18.50%, and 22.93% in the December auction).

This downward trend in longer-tenor rates reflects the government's continued cost management efforts to ease its debt burden, which is aligned with its strategy to manage its fiscal profile amid inflationary pressures and liquidity fluctuations.

Given the strong demand and relative stability in the shorter-tenor bills, it is expected that the next few auctions will see moderate rates, particularly for the 364-day bills, as investor sentiment remains cautious but still relatively optimistic due to improved liquidity and fiscal reforms. However, any signs of heightened inflation or changes in fiscal policy could prompt adjustments in demand and rates in subsequent auctions.

Similarly, the DMO issued three instruments in its January Primary Market Auction (PMA) — a reopening of the FGN APR-29 and FEB-31 and a new issue of the FGN JAN-35 bonds. The total offering was NGN450bn (compared to NGN120bn in December), with total subscriptions amounting to NGN669.94bn (NGN278.82bn in the last auction). Allotments totalled NGN606.46bn as compared to NGN211.14bn in the previous auction at marginal rates of 22.30% (vs an average of 21.57% in the previous auction). It is noteworthy that the rate on the new JAN-35 instrument marked an all-time high for bond issuances.

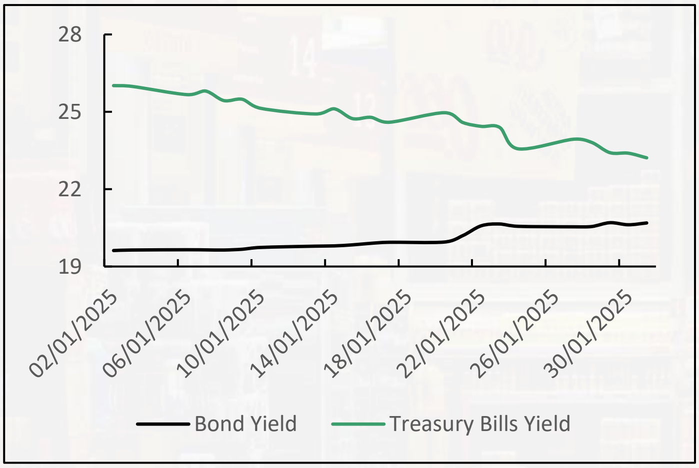
Bond yields are expected to remain stable in February, supported by government debt management and investor demand for higher yields. Liquidity and FX market transparency should maintain confidence, with steady demand in both primary and secondary markets.

In the secondary market, performance has been mixed as the average treasury bills yield declined to 23.43% (vs 25.55% in the previous month) while average bond yield edged up by 94bps to reach 20.69% (vs 19.75% in the previous month). The bullish performance in the treasury bills market is attributed to investors locking in funds at current high rate amidst the recent decline in rates at the PMA while the bearish performance in the bond market is chiefly driven by investors sentiments and general expectations.

In February, the fixed income market is expected to benefit from improving liquidity, with treasury bill stop rates likely holding steady at the short end and potentially declining on longer tenors. Bond yields may remain elevated, while secondary market performance could be mixed as investors adjust to shifting expectations.

Fixed Income

Chart 9: Average **Bond and Treasury Bills Yield – January (%)**



Source: FMDQ, Meristem Research

Non-Sovereign Debt : Evolving Preferences and Yield Dynamics

The spread between Investment Grade (IG) corporate bonds and Government (G) bonds narrowed for the second consecutive month, with the IG spread tightening to 3.05% (down from 3.51% in December). This shift suggests a growing investor preference for safer government securities, as evidenced by the decline in the average yield on treasury bills to 23.44% (from 25.55% in December). Meanwhile, corporate bond yields edged higher to 23.75% (from 23.26% in December), reflecting a slight increase in risk perception for corporate debt.

In February, the slightly higher yields on these instruments could attract investors seeking higher returns, but the spread between corporate and government bonds might remain tight, indicating a more cautious outlook. This suggests that while there may be little or no corporate issuances, investor preferences could continue to lean toward safer government bonds, with tighter spreads reflecting a moderation in perceived credit risk.

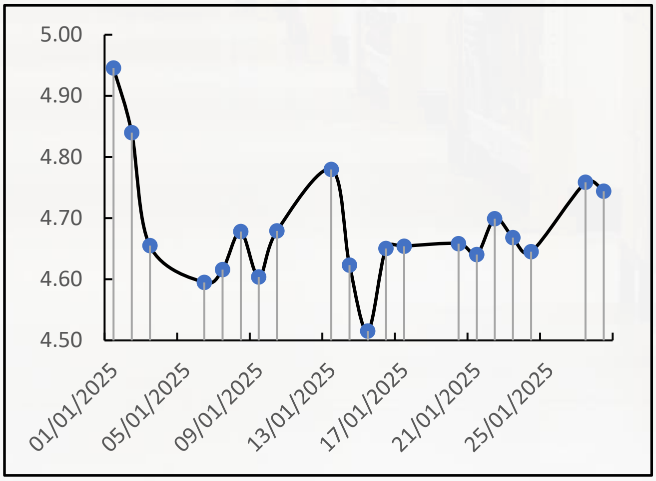
Eurobonds

Strong Demand Amid Changing Market Sentiment

Performance in the Nigerian Eurobond market was mixed with a bearish tilt, as the average yield inched up by 2bps to 9.32% (vs. 9.30% in the previous month). The release of U.S. inflation data and stronger-than-expected job numbers triggered a bearish reaction, pushing yields to 9.57% before retracing to 9.17%, compared to 9.42% at the start of the month. This reflects both investors demanding a higher risk premium and intermittent periods of renewed confidence in the market. It is noteworthy that significant buying interest was observed in the NOV-25 maturity, suggesting targeted positioning in short-duration instruments.

Meanwhile, despite the Fed's decision to keep rates steady, yields remained relatively muted, indicating that market participants are awaiting clearer signals on the timing of potential rate cuts before making decisive moves.

Chart 10: **Spread between the Nigerian Eurobond Yield and the US 10-year yield**



Source: DMO, Meristem Research

Looking ahead, we expect yields to remain volatile in February due to evolving global rate expectations, particularly as investors await clearer signals on the timing of potential Fed rate cuts. The dynamics between U.S. inflation data, labour market strength, and shifting risk sentiment will likely drive fluctuations, with intermittent buying interest in select maturities. Additionally, the persistence of a higher risk premium suggests that any major macroeconomic surprises could lead to sharp yield movements.

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CONTACT INFORMATION

Brokerage and Retail Services
topeoludimu@meristemng.com (+234 905 569 0627)
adaezeonyemachi@meristemng.com (+234 808 369 0213)
contact@meristemng.com

Investment Banking/Corporate Finance
rasakisalawu@meristemng.com (+234 806 022 9889)
davidadu@meristemng.com (+234 810 940 4836)

Wealth Management
funmilolaadekola-daramola@meristemng.com (+234 803 355 0008)
crmwealth@meristemng.com (+234 01 738 9948)

Registrars
nkechinyeluokoye@meristemng.com (+234 803 526 1801)
www.meristemregistrars.com (+234 01 280 9250)

Group Business Development
ifeomaanyanwu@meristemng.com (+234 802 394 2967)
info@meristemng.com

Trust Services
damilolahassan@meristemng.com (+234 803 613 9123)
trustees@meristemng.com

Investment Research
praiseihansekhien@meristemng.com (+234 817 007 1512)
research@meristemng.com

Client Services
adefemitaiwo@meristemng.com (+234 803 798 3762)
Brandandcomms@meristemng.com (+234 01 280 9250)

Meristem Finance Limited
olasokomubo@meristemfinance.com (+234 803 324 7996)
matthewawotundun@meristemfinance.com (+234 802 390 6249)

Corporate websites:
www.meristemng.com **www.meristemwealth.com** **www.meristemregistrars.com**

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