CORONATION

Nigeria Weekly Update

Bad news but no catastrophe

Nigeria is the world's best-performing stock market this year (see page 2). Foreign portfolio investment is confidently investing in Naira-denominated fixed income (see below). What is going wrong? Fear over the coronavirus dampens oil prices. The Cash Reserve Ratio (CRR) of the banks has been raised from 22.5%to 27.5% (see last week's Update). Our advice is not to panic. Economies recover from disasters. Banks will make a little less money than we imagined but still benefit significantly from falling interest rates.

FX

Foreign Portfolio Investment (FPI) for the month of January was reported at US$1.71 billion, a 30% year-on-year increase. FPI flows averaged US$0.54 billion per month in Q4 2019. This increase is positive in that there is renewed appetite for the Central Bank of Nigeria's Open Market Operation (OMO) bills by foreign investors. Although the CBN's published foreign reserves shed US$479.73 million (-1.24%) in January, there may be no cause to worry just yet if FPI flows are sustained at current levels.

Bonds & T-bills

The secondary market yield for a Federal Government of Nigeria (FGN) Naira bond with 10 years to maturity fell by 12bps to 10.84%, and at 3 years rose by 55bps to 8.94% last week. The annualised yield on 349-day T-bill, the longest duration available in the secondary market, was at 4.16%, while an OMO bill with similar tenure closed at 14.40%, 63bps up week-on-week. OMO auctions held last week saw the long-dated OMO oversubscribed by 2.54 times. OMO yields averaged 14.22% in the month of January, 224bps above current inflation, slightly outside our estimate of 250-300bps above inflation. Notwithstanding, rates seem to still attract bids from foreign investors.

Oil

The price of Brent fell by 4.17% last week to US$58.16/bbl. The average price, year-to-date, is US$63.71/bbl, 0.76% lower than the average of US$64.20/bbl in 2019, and 11.14% lower than the average of US$71.69/bbl in 2018. Brent crude fell by 12.21% in the month of January alone. Prior to the outbreak of the coronavirus, the oil market was already troubled by weak demand. However, OPEC and its allies are still intent on production cuts (announced last December), and we recall that economies usually recover from disasters. Further short-term oil price declines are likely, but support may be found in a few months' time.

Equities

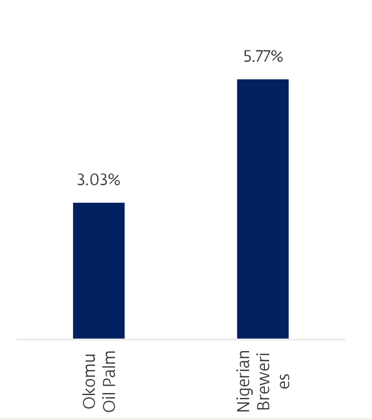
The Nigerian Stock Exchange (NSE) All-Share Index fell by 2.65% last week, the year-to-date return is positive 7.46%. Last week Nigerian Breweries (+5.77%) and Okomu Oil Palm (+3.03%) closed positive while Honeywell Flour Mills (-17.80%), Unilever Nigeria (-14.53%) and Lafarge Africa (-12.86%) fell.

FY 2019 financial performance reports from companies have started trickling in and have, so far, been poor. This has triggered slight sell-offs across the board which reflected in negative trading last week. We await more results.

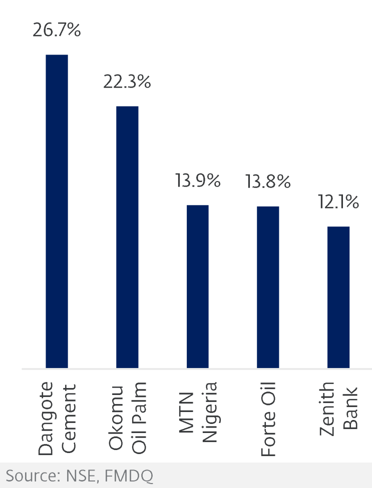
Naira Sovereign Yields	
Spot	
354-day (OMO)	14.40%
349-day (T-bill)	4.16%
3 Year	8.94%
7 Year	10.56%
10 Year	10.84%
Inflation	11.98%

Quotes at 31 January 2020

WoW Performance of C-30



YTD Performance of C-30



Source: NSE, FMDQ

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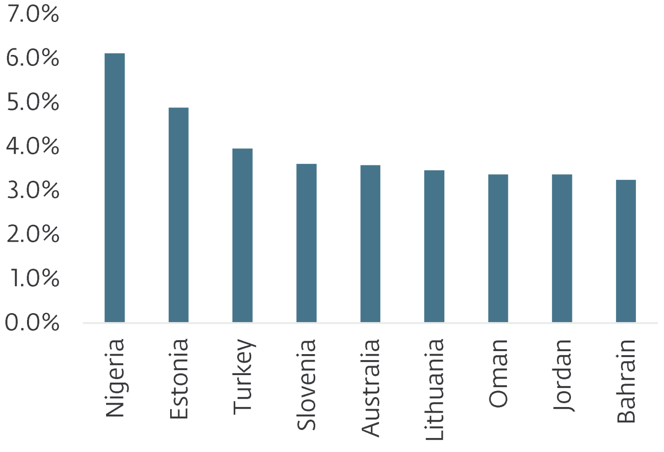
Bad news but no catastrophe

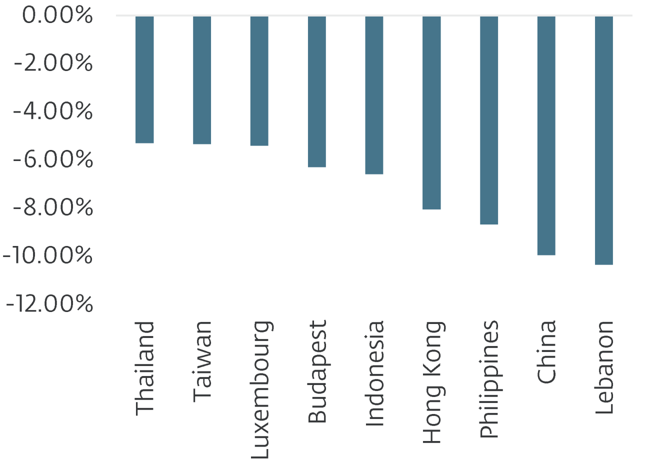
It is not often that the Nigerian Stock Exchange All-Share Index (NSE-ASI) is the best performing in the world: but in the first month of 2020 it was. So we thought we would celebrate by reproducing, in our own format, Bloomberg's page (code: WEIS) of the best and worst performing markets in the world for January.

Nigeria was featured on Bloomberg's page last year, for the wrong reason. It was recorded as the sixth-worst performing equity market in the world, with an annual US dollar return of negative 14.88%. In 2018 it returned negative 18.60% in US dollars (but did not feature on the page: there were many other, worse markets). In 2017 it made a positive return of 24.51% in US dollars. And in 2016 it returned negative 40.63% in US dollars.

Best performing equities markets in January



Worst performing equities markets in January



Source: Bloomberg, Coronation Research

What does a January rally signify? We hope that it does not signify much, as there was a rally in January 2018 worth 15.63% before the market sold off brutally. Other loss years (2016, 2019) did not have significant January rallies. Our interpretation of January 2020's rally is that investors have decided to invest in Nigerian equities for their dividend yields as T-bill yields headed from the low teens in October 2019 to under five percent in January 2020.

If our interpretation is correct, then we may limit our fears about the correction during the last week of January which saw the market fall by 2.65%. The fundamental driver of the rally, namely low T-bill rates, is still in place, in our view. Banks are negatively affected by the hike in the cash reserve requirement (CRR) from 22.5% to 27.5%, but still benefit from declining interest rates, in our view. On the other hand, we would not predict that the NSI-ASI will be the best performing equity market in the world during the first two months of 2020.

Such is the poor performance of the NSE-ASI over five years that we doubt many large institutional foreign investors have decided to come back into the Nigerian equity market this year. However, foreign investors are always present, and they may well have increased their positions in the light of the interest rate outlook and the dividend yields of selected stocks.

Model Equity Portfolio

Our Model Equity Portfolio contracted by 4.42% last week compared with a decline of 2.65% in the NSE-ASI broad index. Last week's trading activity consisted of sell-offs following weak financial performance of several companies which reported FY 2019 results. The NSE-ASI broad index is therefore in the lead with 7.46% y-t-d, 276bps outperforming the Model Equity Portfolio at 4.69% y-t-d. The distribution of last week's losses was largely skewed to our four constituent bank names, whose sub-index was down 6.13% week-on-week.

Our large exposure to banks, collectively 49.5% of the portfolio, highlights an area of risk concentration to a lively regulator and other banking sector systemic shocks. However, it is also a reflection of the lack of depth in the market for quality names with fundamentally reasonable upsides at the moment, in our view. MTN (24% portfolio weight), Dangote Cement (8.6% portfolio weight) and Nestle Nigeria (3.3% portfolio weight) complete the Model Equity Portfolio's current equity allocation with a cash position of 14.6%.

We persist with our strategy to be underweight brewers, food and fast-moving consumer goods companies on weak medium to long-term real growth and stiff competition from unlisted brands. Also, last week's correction in the bank sub-index creates some positive adjustments to the dividend yields on the four Model Equity Portfolio's constituent banks.

Nota bene: *The Coronation Research Model Equity Portfolio is an expression of opinion about Nigerian equities and does not represent an actual portfolio of stocks (though market liquidity is respected and notional commissions are paid). It does not constitute advice to buy or sell securities. Its contents are confidential to Coronation Research up until publication. This note should be read as an integral part of the disclaimer that appears at the end of this publication.*

Model Equity Portfolio for the week ending 31 January 2020

Security	January 24, 2020 position, N	January 31, 2020 position, N	Security weighting	Weekly change	ytd change	Performance attribution (bps) Past Week	ytd
FBNH	876,000,000	786,000,000	7.5%	-10.3%	-1%	-82	-10
Zenith	1,536,500,000	1,459,500,000	13.9%	-5.0%	6%	-70	80
UBA	1,539,000,000	1,440,000,000	13.8%	-6.4%	6%	-90	70
GT Bank	1,605,000,000	1,500,000,000	14.3%	-6.5%	-1%	-96	-18
MTN	2,625,000,000	2,511,600,000	24.0%	-4.3%	9%	-104	206
Dangote Cement	899,500,000	899,500,000	8.6%	0.0%	23%	0	164
Nestle Nigeria	345,000,000	345,000,000	3.3%	0.0%	-6%	0	-24
Cash	1,527,648,540	1,527,648,540	14.6%	0.0%	0%	0	0
Total	10,953,648,540	10,469,248,540	100%	-4.42%	4.69%	-442	469

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UBA	D
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