



Nigeria Weekly Update

Foreign exchange flexibility

The Central Bank of Nigeria (CBN) last Friday changed the rate in the principal foreign exchange markets by 3.6% in US dollar terms. This looks like a swift adjustment to the pressures in the markets and suggests flexibility. When it comes to the Monetary Policy Rate (MPR) to be decided by the CBN's Monetary Policy Committee (MPC) today, the way may be open to adjust the headline 13.5% rate downwards, in our view, as a response to economic pressures caused by the coronavirus. See page 2 for details.

FX

The CBN changed the Naira/US dollar exchange rate on Friday last week. It pegged the rate at N380.2/US\$1 for the NAFEX market (which is the price indicated on the Bloomberg page USDNGN), which is also known at the Importers and Exporters Window (I&E Window), and for registered bureaux de change. The official exchange rate was changed from N306.5/US\$1 to N360.0/US\$1. These changes have led to a high degree of convergence of exchange rates, although we notice one website indicating US dollars sold at N400/US\$1 today. Be that as it may, the CBN's actions show a swift reaction (much faster than in 2016, for example) to market pressures. This suggests a degree of flexibility.

Bonds & T-bills

The secondary market yield for a Federal Government of Nigeria (FGN) Naira bond with 10 years to maturity rose by 77bps to 12.79%, and at 3 years rose by 136bps to 10.78% last week. The annualised yield on 328-day T-bill, the longest duration available in the secondary market, remained at 5.90%, while a CBN Open Market Operation (OMO) bill with similar tenure closed at 20.93% up week-on-week. Last week the CBN recorded zero subscription for its N150.0bn (US\$394.7m) OMO sale across different tenors despite the elevated yields on these instruments.

Oil

The price of Brent declined by 20.30% last week to US\$26.98/bbl. The average price, year-to-date, is US\$53.94/bbl, 15.97% lower than the average of US\$64.20/bbl in 2019, and 24.76% lower than the average of US\$71.69/bbl in 2018. Oil prices have fallen for four straight weeks by 69.55% and we think they will remain suppressed in the short term amid falling demand, build-up of global stocks and the end of production limits within OPEC after April 1.

Equities

The Nigerian Stock Exchange All-Share Index (NSE-ASI) declined by 2.36% last week, the year-to-date return is negative 17.30%. Last week Oando (+16.93%), Cadbury Nigeria (+13.64%), MTN Nigeria (+10.52%) and Fidelity Bank (+10.46%) closed positive while Dangote Cement (-15.23%), International Breweries (-13.39%), UBA (-10.71%) and Seplat (-10.00%) fell. Given that there is no improvement in the global outlook – depressed oil prices and the COVID-19 epidemic – we think there remains the possibility of further declines.

- ◆ [Foreign Exchange Flexibility](#)
- ◆ [Model Equity Portfolio](#)

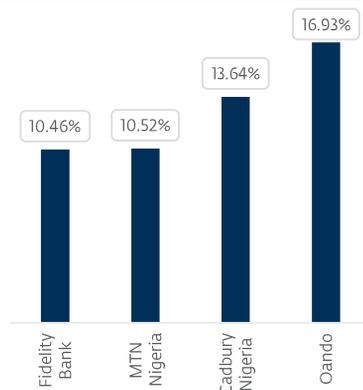
Naira Sovereign Yields

Spot

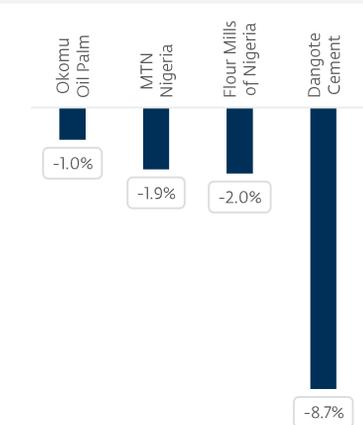
333-day (OMO)	20.93%
328-day (T-bill)	5.90%
3 Year	10.78%
7 Year	12.68%
10 Year	12.79%
Inflation	12.20%

Quotes at 20 March 2020

WoW Performance of C-30



YTD Performance of C-30



Source: NSE, FMDQ

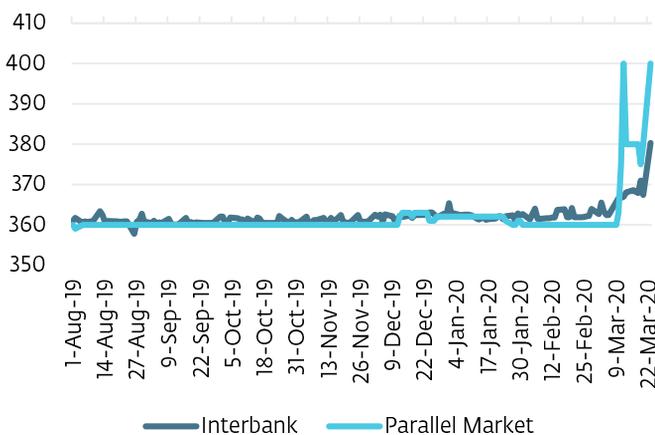


Foreign exchange flexibility

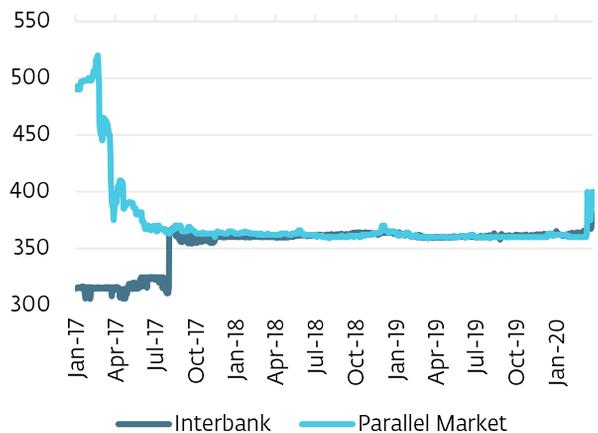
Last Friday, 20 March, the CBN changed the Naira/US dollar exchange rate. The rate for reference in the Nigerian Autonomous Foreign Exchange Market (the NAFEX market), which is also known at the Importers and Exporters Window (I&E Window), was changed from N366.7/US\$1 to N380.2/US\$1, a 3.6% change in US dollar terms. This rate was also set for the officially-sanctioned bureaux de change. The official rate (which is used in budget calculations, for example) was changed from N306.5/US\$1 to N360.0/US\$1.

As we wrote in Coronation Research, Year Ahead 2020, 16 January, our three methods of reaching Naira/US dollar fair value came to values of N346.69/US\$1, N399.44/US\$1 and N400.40/US\$1, with a simple average, for these three rates, of N382.18/US\$1. We did not think that this rate would be reached during 2020, reasoning that oil revenues, issues of Eurobonds and other debt, together with sales by the CBN of its open market operation (OMO) bills to foreign investors, would combine to keep the rate at close to N362.50/US\$1 for most, if not all, of 2020. We have been overtaken by events in a short space of time.

Last six months, Naira/US dollar rate



Last three years, Naira/US dollar rate



Source: Bloomberg, Coronation Research.

The CBN appears to be reacting swiftly to the build-up in pressure in the markets. One reason is that, despite its name, the NAFEX market enjoys supply of US dollars from the CBN. Managing the need to carefully manage its US\$35.9bn of FX reserves and the exchange rate, the CBN has altered the latter.

It also seems that the Monetary Policy Council (MPC) of the CBN, which meets today and tomorrow, no longer makes a close connection between domestic interest rates and the Naira/US dollar rate. This may give the MPC the confidence to signal economic stimulus – as most of the world’s central banks are doing now – by reducing its headline 13.5% Monetary Policy Rate (February CPI: 12.20% year-on-year) when it concludes its meeting tomorrow.



Model Equity Portfolio

Last week the Model Equity Portfolio gained 0.48% compared with the NSE-ASI which lost 2.35%. Year-to-date it has lost 9.74% compared with a loss of 17.30% for the NSE-ASI. Last week's outperformance was due to two factors. First, the market showed renewed interest in MTN Nigeria; it rose by 10.5% over the week and we began the week with a 14.7% position in it. Second, our cash position was extremely high, starting the week at 69.4% of the portfolio, so we missed much of the correction in other stocks.

Naturally, we know that most equity funds could not hold so much cash. For most fund managers the question, during times like these, is where to hide. Last week we complained that there are almost no stocks with low volatility and therefore few places to hide (really, it seemed, nowhere). To an extent MTN Nigeria provided an answer last week. It had high volatility (only this time it was going up) and has a strong investment case in the current climate if only because usage of telecommunications is a defensive part of an economy under pressure.

Model Equity Portfolio for the week ending 20 March 2020

Security	March 13, 2020 position, N	March 20, 2020 position, N	Security weighting	Weekly change ytd	Performance attribution (bps)		
					ytd change	Past Week	ytd
FBNH	80,000,000	80,000,000	0.9%	0.0%	-39.4%	0	-145
Zenith	178,500,000	278,475,000	3.1%	-0.4%	-39.6%	-17	-124
UBA	101,000,000	100,000,000	1.1%	-1.0%	-34.0%	-1	-126
GT Bank	228,000,000	427,800,000	4.7%	-2.1%	-38.4%	-35	-380
MTN Dangote Cement	1,323,440,000	1,462,600,000	16.2%	10.5%	-5.8%	155	-67
	765,000,000	1,257,300,000	13.9%	-8.7%	-4.6%	-49	-14
Nestle Nigeria	73,224,000	68,000,000	0.8%	-7.1%	-42.2%	-6	-119
Cash	6,233,836,244	5,351,563,859	59.3%	0.0%	0.0%	0	0
Total	8,983,000,244	9,025,738,859	100%	0.48%	-9.74%	48	-974

Last week, and as indicated in the last edition of Nigeria Weekly Update, we made notional purchases of Zenith Bank, Guaranty Trust Bank and of Dangote Cement, in order to bring these positions up to close to neutral index weights. (In fact, the percentage values of NSE-ASI index weights change all the time with price changes.)

At this point, and with a notional cash position equal to 59.3% of the portfolio, we will hold off notional trades for a week.

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.



Disclosures & Disclaimers

The analyst(s) and/or Head of Research has (have) produced this report independently of the company or companies, and independently of the issuer of security or securities, covered in this report, and (has) have done so using publicly-available information. Information used in the preparation of this report is believed to be accurate at the time of going to press, though not verified independently. No liability is accepted for errors nor omissions of fact, nor is any warranty given for the reasonableness, accuracy or completeness of the information presented. Market information may have been gathered from different sources, including official and government sources, and processed in arriving at the opinion(s) expressed in this report.

This report is intended as background information for clients of Coronation Merchant Bank Ltd, and clients of its subsidiaries and affiliates, and is not to be read as a solicitation, approval or advice to buy or sell securities.

Neither Coronation Merchant Bank Ltd, its directors, employees and contractors, nor its subsidiaries and affiliates, nor the directors, employees and contractors of its subsidiaries and affiliates, accept(s) responsibility for losses or opportunity costs, whether direct or consequential, that may be incurred as a result of trading, or not trading, in securities covered in this report, or other securities, as a result of any decision taken after reading this report. Clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates, who read this report, should not rely on it for the purposes of making investment decisions and should make their own evaluation of: the potential performance of securities; the risks involved in buying or selling securities; the volatility and liquidity of securities; and of other factors such as interest rates, exchange rates, exchange rate liquidity, trading costs, settlement and custody. Clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates, who read this report, should assess their own investment objectives and financial capacities when taking investment decisions and should consult a relevant financial adviser in these respects.

This report is intended for the clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates. Copying and reproduction of this report, and onward forwarding, is only allowed with the specific permission of Coronation Merchant Bank Ltd, its subsidiaries and affiliates. Receipt of this report does not qualify you as a client of Coronation Merchant Bank Ltd, its subsidiaries and affiliates. If you are in unauthorised receipt of this report you are requested to notify Coronation Merchant Bank Ltd, or one of its subsidiaries or affiliates, and to return or delete the report.

This report is intended for corporate and institutional clients of Coronation Merchant Bank Ltd, and of its subsidiaries and affiliates, where those clients are regulated and professional investment customers and market counterparties. This report is not intended for individual investors.

This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulations.

Coronation Research is a department within Coronation Asset Management Ltd which supplies research services to Coronation Merchant Bank Ltd, and is ring-fenced with regard to the activities of Coronation Asset Management Ltd. The Head of Research, contractors and employees of Coronation Research do not receive any non-public information regarding the investments or investment objectives of Coronation Asset Management Ltd and do not take part in its internal meetings.

Coronation Merchant Bank Ltd and its subsidiaries are incorporated under the laws of the Federal Government of Nigeria and are licensed by the Central Bank of Nigeria and by the Securities and Exchange Commission of Nigeria.

Your attention is brought to the fact the analyst(s), and/or Head of Research, mentioned at the beginning of this report is (are) employed by Coronation Merchant Bank Ltd in the Federal Republic of Nigeria, and while subject to the laws of the Federal Republic of Nigeria is (are) not subject, as author(s) of this report, to the laws of other countries, notably the United States of America ('US'), the member states of the European Union ('EU'), or the United Kingdom ('UK', during and after its membership of the EU) as these laws may affect the production, publication and distribution of this report.



Disclosures & Disclaimers

Your attention is brought to the fact that the analyst(s), and/or Head of Research, mentioned at the beginning of this report, is (are) not registered or qualified as research analysts with the Financial Industry Regulatory Authority in the US, nor registered with the Financial Conduct Authority of the United Kingdom. No liability for compliance with those laws, with respect to this report, is accepted by Coronation Merchant Bank Ltd, its directors, staff and contractors, or those of its subsidiaries and affiliates.

Where this report is distributed to clients and potential clients of Coronation Merchant Bank Ltd, and of its clients and affiliates, in the European Union ("EU"), including the United Kingdom ("UK"), during and after its membership of the EU, this report is either: a) distributed by virtue of a contract between Coronation Merchant Bank Ltd, its subsidiaries and affiliates, and the client for research services, or: b) distributed as a free sample, for a given period of time, pursuant to a future contract for the sale of research services.

The opinions expressed in this report concerning the company(ies) and securities covered, accurately represent the personal views of the analyst(s) and Head of Research whose names are given at the beginning of the report. No part of the compensation of the analyst(s) and Head of Research mentioned at the beginning of this report is, or will be, related to the views or recommendations(s) given in this report.

Conflicts of Interest

The compensation of the analyst(s), and/or Head of Research, mentioned at the beginning of this report is not linked to the recommendations, forecasts, estimates or opinions expressed in this report, nor to commissions or spreads or other gains generated in trading securities, whether covered in this report or not.

This report is produced by the Research Department of Coronation Merchant Bank Ltd and may be used, after its publication, by other departments of Coronation Merchant Bank Ltd for advisory or trading purposes, or otherwise for the assessment of companies and securities. However, it is the policy of Coronation Merchant Bank Ltd that no department influences the opinions, estimates, forecasts or recommendations of the Research Department, nor is privy to the contents or recommendations of the Research Department's reports and recommendations ahead of their publication. It is also the policy of Coronation Merchant Bank Ltd that members of the Research Department are not privy to knowledge of advisory mandates, or other fiduciary relationships, engaged in by other departments. Coronation Merchant Bank Ltd, its directors, contractors and staff, and its subsidiaries and affiliates and their directors, contractors and staff, and connected parties, may have positions in the securities covered by this report, and may have advisory and/or other fiduciary relationships with companies covered in this report. As such, this report should not be considered free from bias.

Disclosures for companies cited in report

The table below outlines currently known conflicts of interest that may unknowingly bias or affect the objectivity of the analyst(s) with respect to an issuer that is the subject matter of this report. Disclosure(s) apply to Coronation Merchant Bank or any of its direct or indirect subsidiaries or affiliates with respect to any issuer or the issuer's securities.

- a. The analyst(s) responsible for the preparation and content of this report (as shown on the front page of this report) holds personal positions, directly or indirectly, in securities of the company(s) to which this report relates.
- b. The analyst(s) responsible for this report as indicated on the front page is a board member, officer or director of the Company(s)
- c. Coronation Merchant Bank or its affiliates have recently been the beneficial owners of 1% or more of the securities mentioned in this report.
- d. Coronation Merchant Bank or its affiliates have managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
- e. Coronation Merchant Bank or its affiliates have received compensation for investment banking services from the issuer of these securities in the past 12 months.



Disclosures & Disclaimers

- f. Coronation Merchant Bank or its affiliates expects to receive compensation for investment banking services from the issuer of these securities within the next three months.
- g. The company (s) covered in this report is a client of Coronation Merchant Bank or its affiliates.
- h. Coronation Merchant Bank has other financial or other material interest in the Company

Security Name	Available Disclosure
Access Bank	G
Diamond Bank	
FBN Holdings	G, D
FCMB	
Fidelity Bank	
Guaranty Trust Bank	
Skye Bank	
Stanbic IBTC	D
UBA	D
Zenith Bank	D

Coronation Research's equity research rating system

Coronation Research's Investment ratings are a function of the research analyst's expectation of a stock's performance relative to relevant indices or peers. The benchmark used in deciding our stock rating is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest percent.

Coronation Merchant Bank uses the following rating system:

- Buy:** The analyst considers the stock undervalued and expects the stock to outperform the Benchmark over the next 12 months or the stated investment horizon.
- Hold:** The analyst considers the stock to be fairly valued and expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.
- Sell:** The analyst considers the stock overvalued and expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.
- Under Review (UR):** Where the company covered has a significant material event with further information pending or to be announced, it may be necessary to temporarily place the investment rating Under Review. This does not revise the previously published rating, but indicates that the analyst is actively reviewing the investment rating or waiting for additional information to re-evaluate the expectation of the company's performance.
- Not Rated:** This applies when the stock is either not covered by Coronation Research or the rating and price target has been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Coronation Merchant Bank is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts' ability to provide forecasts for the company in question.
- Price targets:** Price targets reflect the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings fall short of estimates.



Disclosures & Disclaimers

In cases where issuing of research is restricted due to legal, regulatory or contractual obligations, publishing investment ratings will be restricted. Previously published investment ratings should not be relied upon as they may no longer reflect the analysts' current expectations of total return. While restricted, the analyst may not always be able to keep you informed of events or provide background information relating to the issuer.

If the investment rating on a stock has not been reviewed for a period of one year, coverage of the stock will be discontinued by Coronation Research. Investment decisions should be based upon personal investment objectives and should be made only after evaluating the security's expected performance and risk. Coronation Research reserves the right to update or amend its investment ratings in any way and at any time it determines.

By accepting this document, you agree to be bound by all the preceding provisions. The information contained in this document is confidential and is solely for use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose without the written consent of Coronation Merchant Bank.

© Coronation Merchant Bank 2018. All rights reserved

Coronation Merchant Bank,
10 Amodu Ojikutu Street,
PO Box 74853, Victoria Island
Lagos, Nigeria.