



Nigeria Weekly Update

Oil prices, the new normal

The Nigerian Stock Exchange All-Share Index (NSE-ASI) staged a rally last week (see Model Equity Portfolio), reflecting optimism. Part of that optimism came from market speculation, later confirmed, of a deal between the US, OPEC and Russia to reduce oil production. But oil prices have barely rallied and Brent crude, at US\$32.12/bbl, is well short of the US\$50.00 – US\$60.00/bbl range that signals Nigeria's comfort zone for its own oil earnings and for foreign portfolio investment. Although financial support for Nigeria is likely to come from the IMF and the World Bank, these will be short-term measures designed to address the coronavirus pandemic. Over a period of two years (the medium term) low oil prices are likely to present difficult challenges. See page 2.

FX

Month-to-date the FX reserves of the Central Bank of Nigeria (CBN) have declined by US\$582.2m to US\$34.5bn (a data point that represents a one-month moving average), the lowest level since November 2017. There appears to be continued outflows on the part of foreign investors, compared with an inflow of US\$136.5m month-to-date into the NAFEX market (also known as the I&E Window, where the rate is the one quoted by Bloomberg). The CBN has a difficult balancing act because it is the provider of last resort of US dollars to the NAFEX market but at the same time success is judged by the level of its FX reserves. US\$30.0bn is widely seen as a key point. The prospect of the IMF and the World Bank supplying US dollar funds to the government is an important one. It cannot come too soon, in our view.

Bonds & T-bills

The secondary market yield for a Federal Government of Nigeria (FGN) Naira bond with 10 years to maturity declined by 32bps to 12.26%, and at 3 years declined by 139bps to 9.21% last week. The annualised yield on 308-day T-bill, the longest duration available in the secondary market, declined by 125bps to 3.43%, while a CBN Open Market Operation (OMO) bill with similar tenure closed at 14.59%, 276bps down week-on-week. Last week OMO maturities worth N130.9bn (US\$344.5m) entered the financial system and led to compression of yields. Since last October the T-bill and OMO markets have been effectively separate.

Oil

The price of Brent declined by 7.71% last week to US\$31.48/bbl. The average price, year-to-date, is US\$48.64/bbl, 24.23% lower than the average of US\$64.20/bbl in 2019, and 32.15% lower than the average of US\$71.69/bbl in 2018. With the favourable resolution between the US and the OPEC+ countries (i.e. OPEC plus Russia), a production cut of c.10mbpd seems likely to keep oil prices stable at around current levels. However, we do not think the cut is deep enough to cause a significant increase in oil prices given a glut of 11.4mbpd forecast by the US Energy Information Administration (EIA).

Equities

The Nigerian Stock Exchange All-Share Index (NSE-ASI) advanced by 1.37% last week, the year-to-date return is negative 20.33%. Last week Lafarge Africa (+41.34%), UBA (+25.25%), Sterling Bank (+25.23%) and Fidelity Bank (+24.26%) closed positive, while Ardova Oil (-18.48%), Seplat (-9.09%), Dangote Cement (-6.04%) and Cadbury Nigeria (-1.43%) fell. The gains reflect a degree of optimism and a certain amount of value selection by institutional investors, though we are doubtful about a sustained rally.

◆ Oil prices, the new normal

◆ Model Equity Portfolio

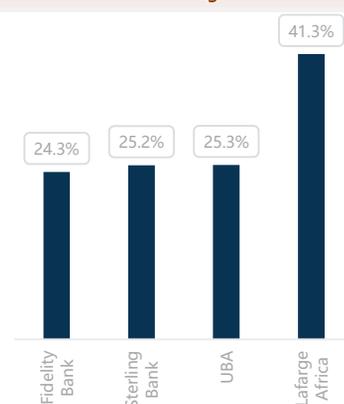
Naira Sovereign Yields

Spot

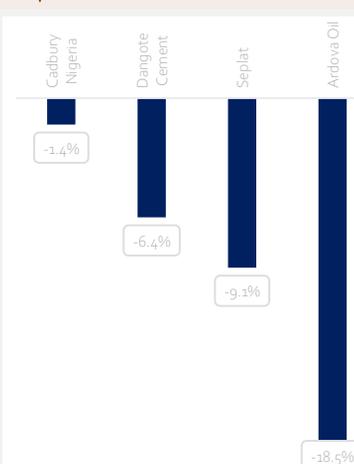
327-day (OMO)	14.59%
308-day (T-bill)	3.43%
3 Year	9.21%
7 Year	12.18%
10 Year	12.26%
Inflation	12.20%

Quotes at 09 April 2020

WoW Performance of C-30



Top week-on-week losers



Source: NSE, FMDO

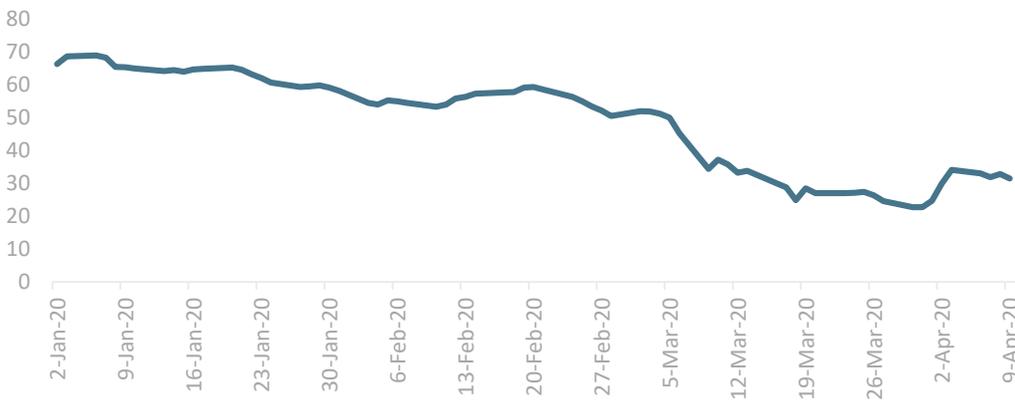


Oil prices, the new normal

Last week's deal between the Organization of the Petroleum Exporting Countries (OPEC), Russia and the US, was heralded as a breakthrough. It ended the stand-off that had brought oil prices down from above US\$50.00/bbl (Brent crude traded at US\$51.13/bbl as recently as 3 March) to under US\$30.00/bbl (US\$22.76/bbl on 30 March). Yet oil prices have not rallied much since the deal, with Brent now at US\$32.12/bbl. If oil prices stay this low for six months or more, then there are far-reaching implications for Nigeria's access to US dollars, the currency, and for its budget.

As we argued in Coronation Research, *Year Ahead 2020*, 16 January, Nigeria's comfort zone for Brent crude prices is above US\$50.00/bbl and preferably above US\$60.00/bbl (which they have not touched since the US\$60.69/bbl recorded on 24 January). Foreign portfolio investors (FPI), in our view, feel comfortable with oil prices in this range (and above US\$60.00/bbl), but tend to withdraw money when prices fall below US\$50.00/bbl. And, for the Central Bank of Nigeria (CBN), oil is the primary source of its US dollars from the Nigerian National Petroleum Corporation (NNPC), with the secondary (but larger) sources of FPI, bilateral loans and Eurobond sales depending on oil prices being in or above the comfort zone.

Oil prices, US\$/bbl



Source: Bloomberg, Coronation Research.

The reason why oil prices did not rally are several. First, an agreed production cut of 9.7 million barrels per day (mbpd), although roughly 10.0% of global production, may only represent half of what the world has lost to the coronavirus in terms of demand. There is still a glut. Second, the base on which the 9.7mbpd cut was calculated may be higher than what is actually produced, so in practical terms the cut may be less than 9.7mbpd. Third, the idea (or at least Saudi Arabia's and Russia's idea) of the cut is to bring prices to a level which is uneconomic for a portion of shale producers in the US. The intention, it appears, is not to bring prices up to US\$60.00/bbl again.

For Nigeria it makes sense to think in terms of oil prices in a range around US\$35.00/bbl. The amended 2020 budget has already adjusted the assumed price down from US\$57.00/bbl to US\$30.00/bbl and taken the envisaged government deficit up from N2.7 trillion (US\$7.1bn) to N5.1 trillion (US\$13.3bn).

How can the CBN replace its primary source of US dollars from the NNPC? It will continue to earn some US dollars from oil revenues with the NNPC, but it is difficult to say with any certainty how much. The answer, in the short term, is that development finance institutions such as the IMF and the World Bank, are likely to supply the government with funds and these will be banked with the CBN. However, these funds are for deployment in tackling the coronavirus, not for dealing with shortfalls from oil revenues.

Therefore, if oil prices trade at around US\$35.00/bbl in the medium term, say a year or even two, then deep adjustments will be required, in our view, to how Nigeria sources and manages foreign exchange reserves.



Model Equity Portfolio

Last week the Model Equity Portfolio gained 1.06%, compared with a rise in the Nigerian Stock Exchange All-Share Index (NSE-ASI) of 1.37%. Year-to-date it has lost 12.01%, against a loss of 20.33% in the NSE-ASI. Last week we benefited from our notional positions in volatile bank stocks which contributed 136bps to the portfolio, but were let down by our notional position (actually close to a neutral weight for the index) in Dangote Cement, which cost us 83bps. Last week there was a rare upswing in the market, and it was perhaps too much to expect that we could match market performance while holding a notional cash position of 55.9%.

Why did the market turn? We have spent a long time (since last November) arguing that some of the top bank stocks have excellent dividend yields: it was not as if, having ignored this advice for five months, the market suddenly paid attention. News of other markets rebounding might have had something to do with it, or rumours (which turned out to be true) of an impending deal involving OPEC, Russia and the USA to cut global oil production. Quite possibly, domestic investors saw the NSE-ASI edge down close to the level of 20,000.00 and thought that enough was enough. The low point of 20,669.38 was reached on Monday 6 April.

Model Equity Portfolio for the week ending 09 April 2020

Security	April 3, 2020 position, N	April 9, 2020 position, N	Security weighting	Weekly change	ytd change	Performance attribution (bps)	
						Past Week	ytd
FBNH	79,000,000	79,000,000	0.9%	-2.5%	-40.2%	17	-131
Zenith	279,650,000	279,650,000	3.2%	-5.6%	-39.3%	57	-74
UBA	99,000,000	99,000,000	1.1%	-7.5%	-34.7%	29	-102
GT Bank	404,800,000	404,800,000	4.6%	-1.7%	-41.8%	33	-374
MTN	1,306,400,000	1,306,400,000	15.0%	-8.0%	-15.8%	47	-182
Dangote Cement	1,125,000,000	1,125,000,000	12.9%	-3.6%	-14.6%	-83	-218
Nestle Nigeria	61,200,000	61,200,000	0.7%	0.0%	-48.0%	6	-120
Cash	5,351,563,859	5,351,563,859	61.5%	0.0%	0.0%	0	0
Total	8,706,613,859	8,706,613,859	100%	1.06%	-12.01%	106	-1,201

Last week we finally (we had promised to do this two weeks ago) took our slightly notional underweight position in MTN Nigeria to a slight notional overweight of 20.2%. This purchase took our notional cash position down from 60.8% to 55.9% and cost the portfolio a notional 2bps in commissions. We not intend to make any portfolio changes this coming 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.