



Nigeria Weekly Update

The curious equity market rally

It is the role of equity markets everywhere to predict company earnings and future economic conditions. Generally, equity markets rally far ahead of the end of recessions. The current rally in the Nigerian Stock Exchange All-Share Index, which is up 16.3% since 6 April, is therefore intriguing. Does it predict the resolution of Nigeria's problems, as the rally from April to December 2017 did? And, if one is unsure about that, how should one position an equity portfolio? We address these questions on page 2.

FX

Last week we wrote that the International Monetary Fund's (IMF) recently-approved Rapid Financing Instrument (RFI) facility of US\$3.4 billion (N1.3 trillion) for the Federal Government of Nigeria (FGN) could boost the Central Bank of Nigeria's (CBN) external reserves. The CBN's reserves grew by US\$449.3 million during the week to US\$34.2bn, though this was helped by an apparent inflow of money recovered from the estate of a former military ruler. Either way, this is the first reserve accretion since the start of the year. Against this backdrop, the Naira appreciated against the US dollar by 0.01% to N387.25/US\$1 in the main interbank FX market, the NAFEX market, and by 4.12% to N437.00/US\$1 in the parallel market. While this is positive, it is not the case that that FX turnover overall is recovering or that private-sector capital inflows have resumed. This just lifts the immediate pressure on the exchange rate, 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 35bps to 10.94%, and at 3 years contracted by 2bps to 8.29% last week. The annualised yield on 279-day T-bill, remained flat at 3.19%, while a CBN Open Market Operation (OMO) bill with similar tenure closed at 11.89%, 249bps down week-on-week. We think T-bill rates will rise over the coming month though high liquidity, such as last weeks N96.9bn (US\$230.8m) of OMO maturities, is likely to keep such rate rises modest.

Oil

The price of Brent rose by 17.13% last week to US\$30.97/bbl. The average price, year-to-date, is US\$43.81/bbl, 31.75% lower than the average of US\$64.20/bbl in 2019, and 38.89% lower than the average of US\$71.69/bbl in 2018. The key driver in the recent rise has been the clearing of global inventories that weighed on the market in April. The market now contends with global oil consumption variously estimated at 30%-35% below its peak and production variously estimated at 10%-15% below its peak. This suggests that the market is taking its time to move back into balance, though eventually it must. The result, in our view, will be slow appreciation of Brent prices as we approach the third quarter of the year.

Equities

The Nigerian Stock Exchange All-Share Index (NSE-ASI) advanced by 4.45% last week. The year-to-date return is negative 10.42%. Last week Ardova Oil (+32.47%), Nigerian Breweries (+25.00%), Dangote Cement (+15.38%), Nestle Nigeria (+8.67%) and Zenith Bank (+7.69%) closed positive, while Lafarge Africa (-6.78%), Access Bank (-3.03%), Guinness Nigeria (-2.17%) and Sterling Bank (-1.56%) fell. Sectoral performances this week were positive. The Consumer Goods sub-index (+8.5%) led the gains, followed by the Banking (+4.0%), Oil & Gas (+2.8%), Insurance (+2.8%), and Industrial Goods (+2.2%).

- ◆ [Equity Market Rally](#)
- ◆ [Model Equity Portfolio](#)

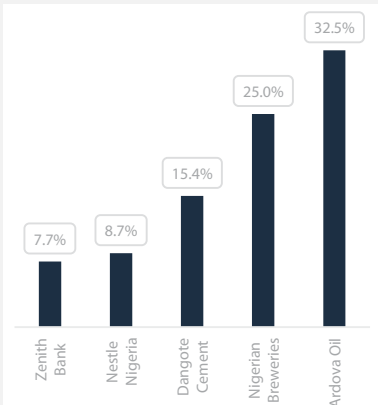
Naira Sovereign Yields

Spot

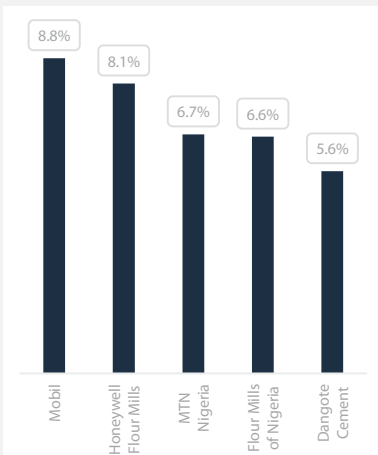
326-day (OMO)	11.89%
279-day (T-bill)	3.19%
3 Year	8.29%
7 Year	11.18%
10 Year	10.94%
Inflation	12.26%

Quotes at 08 May 2020

WoW Performance of C-30



Top year-to-date gainers



Source: NSE, FMDQ

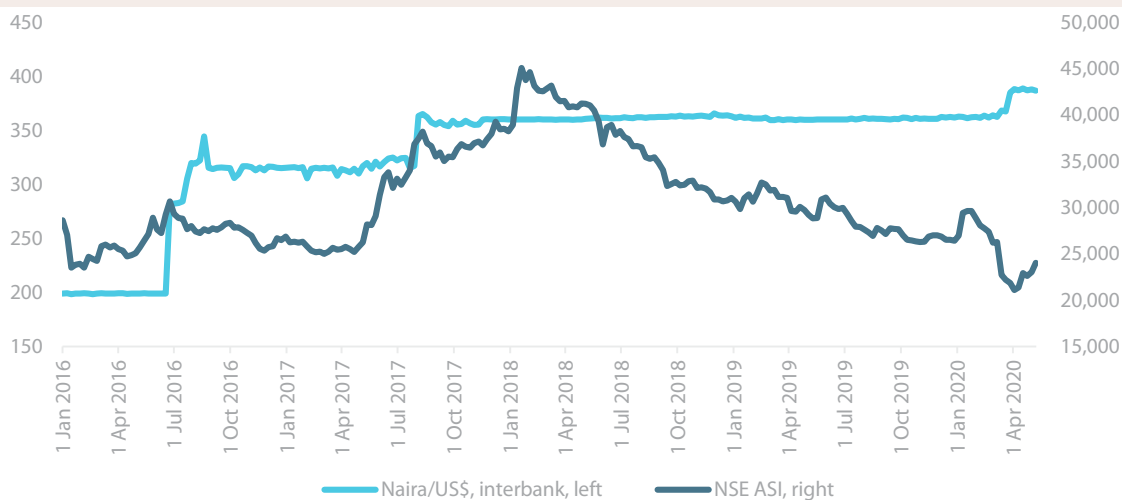


An equity market rally. Is it predicting the end of austerity?

Is this the equity market rally that takes us all the way from April through to the end of the year? The question comes up because the equity market is rallying (it is up 16.3% from its low point on 6 April) and because there appears to be a parallel with the equity market rally from April to December 2017, in which the Nigerian Stock Exchange All-Share Index (NSE ASI) returned 51.8% in Naira (and 32.6% in US dollars at the interbank rate). Nobody wants to miss a rally like that.

It is the task of equity markets to predict future economic conditions and future company earnings. So this might be the rally that heralds a recovery later this year, as in 2017. However, the 2017 rally began nine months after a serious exchange rate dislocation (in June 2016) and after five quarters of negative economic growth. A consensus was being reached, as the NAFEX foreign exchange market was launched in April 2017, as to where Naira/US dollar would settle in the interbank market. Today the recession still appears to be both current and be ahead of us, and currency fluctuations (e.g. in the parallel market rate) are still quite recent. On balance, it feels that we are still close to the beginning of troubles in the market, and that it is too soon to see the resolution of these issues. In April 2016 there was a rally (through to July) but it fizzled out later in the year.

Nigerian Stock Exchange All-Share Index (NSE ASI) and Naira/US dollar rate in the interbank market



Source: Bloomberg, Coronation Research

So, do we take fill our notional Model Equity Portfolio with equity, or remain cautious? We do not like to make binary choices, still less successive binary choices, about the direction of the market. As Oatree's Howard Marks put it: ""The bottom" is the day before the recovery begins. Thus it's absolutely impossible to know when the bottom has been reached . . . ever." He recommends spending some money when equity prices are low in the stocks you would like to own, but to be prepared to accept further corrections if necessary.

We think this is a wise approach - buy good stocks when they are at historically low levels, but don't overdo it. Over the past few weeks have raised our notional positions in MTN Nigeria and Dangote Cement, while enjoying strong performance in our selection of the major bank stocks. This has given us some performance without having to take the binary choice of betting on a market rebound. And our key strength is having a small notional Model Equity Portfolio and having flexibility as to how much equity and how much cash we hold. Very few professional equity portfolio managers have this luxury. Our selections express our thoughts on the market and how to survive it without having to call the bottom.

Model Equity Portfolio

Last week the Model Equity Portfolio gained 3.53%, compared with a rise in the Nigerian Stock Exchange All-Share Index (NSE-ASI) of 4.45%, therefore underperforming by 92 basis points. Year-to-date it has lost 3.35%, against a loss of 10.42% in the NSE-ASI, outperforming it by 707bps.

We made no notional purchases of equity last week, but were grateful that we had taken Dangote Cement to a nearly neutral position the week before. Dangote Cement contributed a critical 289 basis points (bps) of performance last week and without our earlier purchases it would only have delivered 193bps instead. Our four bank positions together delivered 56bps last week, though year-to-date they have done quite a lot of mark-to-market damage, namely negative 576bps (though we have not yet accounted for their dividends, which will likely make things better).

Two stocks in our notional portfolio are up 2.5% year-to-date, Dangote Cement and MTN Nigeria. Given the state of the market as a whole (down 10.42% year-to-date), this is remarkable. We are fans of MTN Nigeria, which continues to add subscribers. It has lost a degree of voice revenue during the lock-down but increases in data usage partly made up for this. Fundamentals appear to be strong.

Model Equity Portfolio for the week ending May 8 2020

Security	April 30, 2020	May 8, 2020	Security weighting	Weekly change	ytd change	Performance attribution (bps)	
	position, N	position, N				Past Week	ytd
FBNH	92,000,000	94,000,000	1.0%	2.2%	-28.8%	2	-131
Zenith	336,050,000	361,900,000	3.7%	7.7%	-21.5%	28	-41
UBA	121,000,000	124,000,000	1.3%	2.5%	-18.2%	3	-102
GT Bank	483,000,000	504,850,000	5.2%	4.5%	-27.4%	23	-303
MTN	2,542,400,000	2,542,400,000	26.3%	0.0%	2.5%	0	182
Dangote Cement	1,755,000,000	2,025,000,000	21.0%	15.4%	2.5%	289	166
Nestle Nigeria	73,600,000	80,000,000	0.8%	8.7%	-32.0%	7	-107
Cash	3,932,594,609	3,932,594,609	40.7%	0.0%	0.0%	0	0
Total	9,335,644,609	9,664,744,609	100%	3.53%	-3.35%	353	-335

Source: Coronation Research.

Our problem is that we are running out of stocks that we like. Some of the stocks participating in the rally are not ones we would wish to own in the long term, so buying them now would purely be a matter of chasing the market. We are wary of doing that. We will spend this week trying to come up with a broader strategy than the one we have, nevertheless. It usually pays to refresh one's ideas.

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.



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