CORONATION

Nigeria Weekly Update

Navigating the Capital Market: The Investors' Dilemma

As we have pointed out for months, no Federal Government of Nigeria T-bill or bond currently yields more than inflation. Yet, surprisingly, for the most of the past 10 years, 2010-2019, Nigerian portfolio managers were able to obtain returns above inflation simply by investing in T-bills. That era appears to be over, so what do portfolio managers do now? The first thing, we believe, is to set benchmarks as preparation for taking investment risk, and these benchmarks are set out in today's landmark publication, available on our website: *Navigating the Capital Market: The Investors' Dilemma.*

FX

The Naira was broadly stable in the interbank foreign exchange market (also known as the NAFEX market and the I&E Window), closing at N388.03/US$1 on Friday. In the parallel market (or street market) it closed 0.9% down on the week at N465/US$1, 19.8% lower than the interbank rate. The foreign exchange reserves of the Central Bank of Nigeria (CBN) were broadly stable, closing at US$36.13bn. This may indicate that the CBN is not supplying as many US dollars to the NAFEX market as it has in the past. Indeed, NAFEX liquidity remains thin, as it has done since March. We expect the NAFEX rate to hold but expect more downward pressure on the parallel market rate.

Bonds & T-bills

The secondary market yield for a Federal Government of Nigeria (FGN) Naira bond with 10 years to maturity increased by 25 basis point (bps) to 9.05%, and at 3 years declined by 135bps to 4.11% last week. The annualised yield on 335-day T-bill remained flat at 2.96%, while a CBN Open Market Operation (OMO) bill with similar tenure declined by 8bps to 5.59%. Given the strong liquidity in the system, we expect rates to stay low for weeks, and even months, ahead.

Oil

The price of Brent crude increased by 1.03% last week to US$43.24/bbl. The average price, year-to-date, is US$42.15/bbl, 34.34% lower than the average of US$64.20/bbl in 2019, and 41.20% lower than the average of US$71.69/bbl in 2018. The increase in oil prices in recent months has been driven by production cuts and increasing demand. Global oil production has declined from an estimated 100.0mbpd to 86.9mbpd at the close of last week. We are wary of the resurgence of COVID-19, especially in the US, but we think oil prices will find support above US$40.00/bbl.

Equities

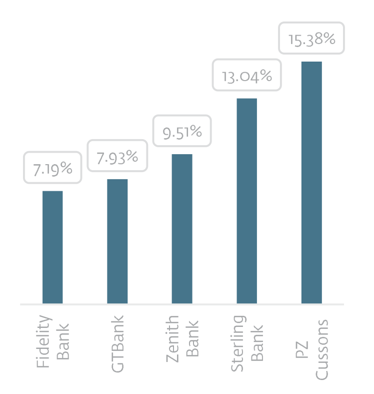
The Nigerian Stock Exchange All-Share Index (NSE-ASI) declined by 0.12% last week. The year-to-date return is negative 9.45%. Last week PZ Cussons (+15.38%), Sterling Bank (+13.04%), Zenith Bank (+9.51%) and GT Bank (+7.93%) closed positive, while Unilever Nigeria (-9.78%), Okomu Oil Palm (-8.91%), Nestle Nigeria (-6.51%) and International Breweries (-2.53%) closed negative.

Naira Sovereign Yields

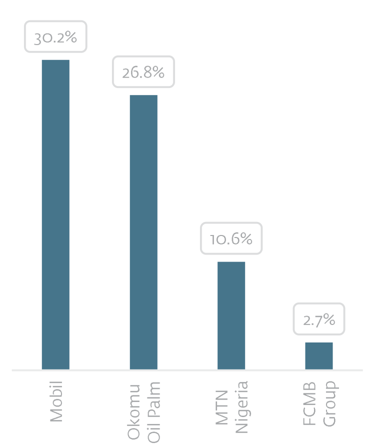
Spot	
319-day (OMO)	5.81%
342-day (T-bill)	2.96%
3 Year	4.11%
7 Year	8.12%
10 Year	9.05%
Inflation	12.40%

Quotes at 10 July 2020

WoW Performance of C-30



Best Performing Year to Date



Source: NSE, FMDQ

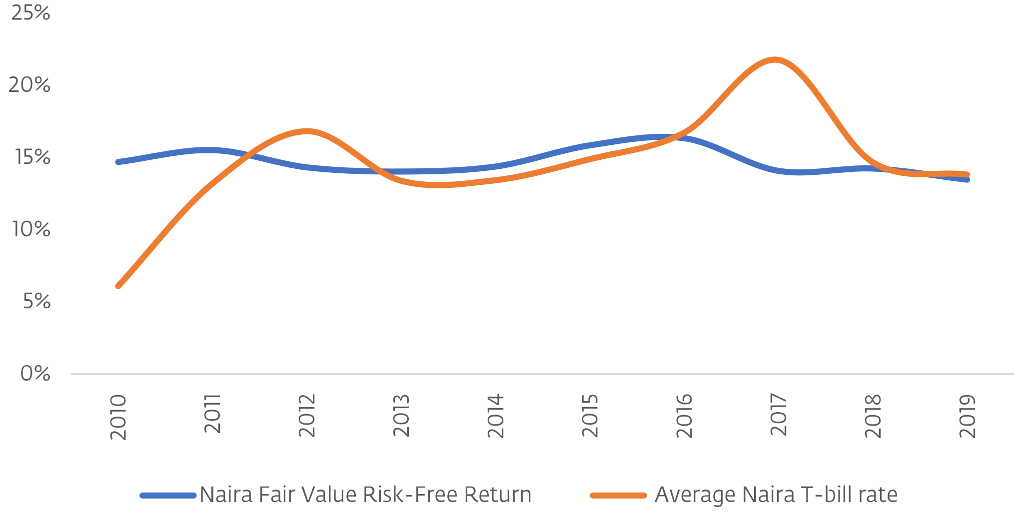
Navigating the Capital Market: The Investors' Dilemma

Today we publish our views on Nigerian investments in *Navigating the Capital Market: The Investors' Dilemma*, 14 July 2020. We reproduce the salient points below.

For 10 years up until the end of 2019, Nigerian investors and savers had it good. By investing in Nigerian Treasury Bills they could get an inflation-beating return. In 2020 the situation is very different, with yields far below inflation. How should investors and savers react? If risk-free Treasury Bills no longer deliver adequate returns, then they must re-acquaint themselves with risk-taking, investing in a range of securities including equities.

But what benchmarks should they use and what returns should they demand? Based on a wealth of historical data from Nigerian markets, we set out our answers.

Our desired Risk-Free Return of 14.70% and Average Naira T-bill rates



Source: Bloomberg, Coronation Research

We think investors need to beat the effects of Naira devaluation against the US dollar, and obtain the risk-free return they would have in US dollars. That points us to a Naira risk-free fixed-income (or Treasury bill) return of 14.70% per annum over the long term. T-bills come remarkably close to delivering our desired risk-free return, at least over the long term. They only fall a little way short of it. And, to the satisfaction of inflation-focused investors, they beat inflation over the long term (though that is not the case since October 2019).

And, when it comes to equities, we think that Nigerian investors should demand a return of 20.53% per annum. For the most part, the major listed companies of the Nigerian Stock Exchange All-Share Index (NSE-ASI) do not return what we consider an adequate 20.53% RoE, so we would not expect such a share price return. There are notable exceptions, particularly among the banks, but in aggregate the RoE of the major listed companies fall short. Many industrial companies have reported steeply declining returns over the past 10 years, disappointing a generation of investors in Nigerian industry.

Clearly, easy returns cannot be obtained in Nigeria today. So, investors are being forced to take investment risk like never before. This is our guide to the benchmarks they should use and the emerging opportunities.

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Model Equity Portfolio

Last week the Model Equity Portfolio rose by 0.18%, compared with a decline in the Nigerian Stock Exchange All-Share Index (NSE-ASI) of 0.12%, therefore outperforming it by 31 basis points. Year-to-date it has lost 5.34%, against a loss of 9.45% in the NSE-ASI, outperforming it by 410bps.

Lightening our positions in banks three weeks ago did not play out well last week, though we had reasonable upside from our notional positions in GT Bank and Zenith Bank. On balance, we are comfortable with our underweight position in the sector, reasoning that in an equity market which is drifting off, banks are likely to be sold quite heavily.

Last week our notional position in Okomu Oil cost us quite a lot, but we reason that it benefits from its US dollar-based revenues which could become important if the Naira exchange rate dislocates at some point in the future. At any rate, pressure on the exchange rate is evident in the parallel market.

Model Equity Portfolio for the week ending 10 July 2020

Security	July 3, 2020 position, N	July 10, 2020 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	ytd
FBNH	95,950,000	98,800,000	1.0%	3.0%	-21.2%	3	-123
Zenith	373,625,000	409,150,000	4.3%	9.5%	-14.9%	37	-19
UBA	127,050,000	131,250,000	1.4%	3.3%	-17.5%	4	-107
GT Bank	395,200,000	426,550,000	4.5%	7.9%	-25.7%	33	-304
Stanbic IBTC	166,375,000	166,375,000	1.8%	0.0%	-6.9%	0	-24
MTN Nigeria	2,633,200,000	2,635,470,000	27.9%	0.1%	6.2%	2	275
Dangote Cement	1,714,500,000	1,701,000,000	18.0%	-0.8%	-13.9%	-14	-158
BUA Cement	420,000,000	1,023,750,000	10.8%	-2.5%	-4.8%	-13	-25
Nestle Nigeria	100,480,000	94,000,000	1.0%	-6.4%	-20.1%	-7	-93
Okomu Oil	294,120,000	267,900,000	2.8%	-8.9%	9.5%	-28	23
Presco	239,825,000	239,825,000	2.5%	0.0%	9.0%	0	19
Cash	2,887,766,992	2,271,457,162	24.0%	0.0%	0.0%	0	0
Total	9,448,091,992	9,465,527,162	100%	0.18%	-5.34%	18	-534

Source: Coronation Research

Last week we completed building a notional neutral-weight in BUA Cement, having ascertained that it has a reasonable return on equity (RoE) and reasonable top-line growth in inflation-adjusted terms. Building up these notional positions is eating away at our cash, which stands at 24.0% of the portfolio.

This week we will begin to build a notional stake in Airtel Africa, though stock is difficult to get hold of. Its profitability appears to be improving and, overall, we are positive on the telecom sector.

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