



Nigeria Weekly Update

Progress in the P&ID case

It is easy to forget – because the case rumbles on in foreign courtrooms – the danger posed to the Federal Government of Nigeria (FGN) by the award against it of US\$6.6bn in favour of the engineering firm Process & Industrial Developments (P&ID). With accrued interest the award has ballooned to some US\$10.0bn and, if enforced internationally, could lead to the freezing of FGN assets. Fortunately, Nigeria won the right to present new evidence in an unusual judgement in the High Court in London last week. See page 2 for details.

FX

In the parallel market last week the Naira appreciated against the US dollar as the Central Bank of Nigeria (CBN) resumed sales of FX to Bureaux de Change (BDC) operators. FX rates in the parallel market rate opened the week at N477/US\$1 and closed at N440/US\$1. The extent of Naira appreciation depends on how many US dollars the CBN is willing to sell and how well it can monitor the BDC's own rates to prevent arbitrage, in our view. While the sales of FX to the parallel market is alleviating the pressure in the FX market, the statistics from trade balances for Q2 2020 paints a different story. Nigeria reported a trade deficit of 1.8tn (US\$4.74bn) in Q2 2020, the worst in a decade, primarily due to weak oil production and prices. We think the renewed supply of FX to BDCs may fail to catalyze a full reversion to exchange rate unification across the various windows.

Bonds & T-bills

Last week the secondary market yield for an FGN Naira bond with 10 years to maturity decreased by 10 basis points (bps) to 8.90%, and at 3 years increased by 20bps to 5.49%. The annualised yield on 356-day T-bill decreased by 9bps to 3.09% while the yield of a CBN Open Market Operation (OMO) bill with similar tenure decreased by 55bps to 3.19%. At the OMO auction last week, the CBN offered bills worth N100.00bn (US\$263.2m), across different maturities: N10.00bn of the 82-day; N10.00bn of the 180-day and N80.00bn of the 355-day. We expect market activity to shift to the T-bill segment this week as the Debt Management Office (DMO) will be offering N128.06bn (US\$128.0m) worth of instrument. We expect continued strength in demand.

Oil

The price of Brent crude decreased by 5.31% last week to US\$42.66/bbl. The average price, year-to-date, is US\$42.65/bbl, 33.55% lower than the average of US\$64.20/bbl in 2019. Last week, oil prices declined after Saudi Arabia made the deepest monthly price cuts for its Arab Light crude, for sales to Asia in the month of October, by US\$1.40/bbl. Optimism about global demand recovery has cooled amid coronavirus outbreaks. We see US\$40.00/bbl as a support level and oil to be range-bound between there and US\$46.00/bbl for several weeks.

Equities

The Nigerian Stock Exchange All-Share Index (NSE-ASI) gained 1.17% last week. The year-to-date return is negative 4.61%. Last week Mobil (+10.00%), Nigerian Breweries (+8.11%), Fidelity Bank (+5.68%), Stanbic IBTC (+5.41%) and GT Bank (+4.53%) closed positive, while Oando (-4.26%), PZ Cussons (-2.38%), International Breweries (-1.35%), and Dangote Cement (-0.15%) closed negative. See Model Equity Portfolio on page 3.

◆ [Progress in the P&ID case](#)

◆ [Model Equity Portfolio](#)

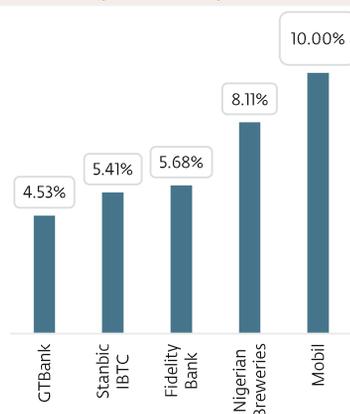
Naira Sovereign Yields

Spot

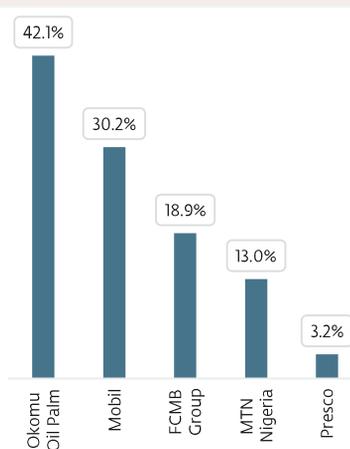
340-day (OMO)	3.19%
356-day (T-bill)	3.09%
3 Year	5.49%
7 Year	8.09%
10 Year	8.90%
Inflation	12.82%

Quotes at 04 Sep 2020

WoW Performance of C-30



Best Performing Year to Date



Source: NSE, FMDQ



Progress for Nigeria in the P&ID case

Last week a judge in the High Court in London allowed Nigeria time in which to substantiate its case against Process & Industrial Developments (P&ID). P&ID had earlier (January 2017) won an arbitral award against Nigeria for US\$6.6bn. Prior to last week, P&ID's case had been upheld several times, on issues such as place of jurisdiction and enforceability. And, with interest accruing, the sum had grown to around US\$10.0bn. The case relates to a gas supply contract (GSPA) between P&ID and the Ministry of Petroleum Resources signed in 2010.

This is a very different judgement to what has gone before. It involves examining the actual liability of Nigeria, i.e. whether the Federal Republic of Nigeria is at fault or not. Unlike previous court cases, the judge delved into what had taken place in Nigeria, for example: how the contract was awarded; P&ID's ability to finance the project; the way in which counsel for Nigeria later recommended that Nigeria should settle rather than contest P&ID's case. The judge stated (paragraph 196 of the judgement): "In my view there is a strong prima facie case that the GSPA was procured by bribery."

P&ID has argued that an unreasonable length of time has elapsed between the arbitral award in 2017 (also in London), and that for arbitral awards to be meaningful they must be enforced in good time. P&ID also argued that Nigeria had missed several opportunities to present evidence in court, which nullified its right to present evidence of misconduct at a later date. Against this the judge ruled that during previous arbitration Nigeria "did not know and could not with reasonable diligence have discovered the grounds it now advances" (paragraph 223). In other words, the judge thinks that Nigeria was poorly advised but now has new evidence to present.

In March 2019 it was reported (by Bloomberg) that a subsidiary of VR Capital Group had bought 25% of P&ID, thereby taking a stake in its claim against Nigeria. VR Capital Group is a hedge fund which specialises in distressed sovereign debt and has recorded successes in Russia (1998), Argentina (2001) and Ukraine (2004), among other instances. We reported on this investment in Coronation Research, *P&ID's risk to Nigeria*, 14 March 2019, and argued that the involvement of VR Capital Group would add resources to its legal case, given the hedge fund's track record. Clearly, last week's judgement represents a setback.

And it represents progress for Nigeria's Attorney General and Minister of Justice Abubakar Malami who decided to contest the case, despite the significant period of time that had elapsed since the award. However, it does not represent victory. Although last week's judgement contains many opinions that are helpful to Nigeria's cause, the judgement itself is about whether Nigeria may be allowed more time to present its case, the final paragraph (274) concluding with the words: "For the reasons given, I grant Nigeria's application for an extension of time and relief from sanctions." There will be many legal battles to come.



Model Equity Portfolio

Last week the Model Equity Portfolio rose by 1.00%, compared with a rise in the Nigerian Stock Exchange All-Share Index (NSE-ASI) of 1.17%, therefore underperforming it by 17 basis points. Year-to-date it has gained 0.04%, against a loss of 4.61% in the NSE-ASI, outperforming it by 465bps.

Last week we wrote: "We do not set ourselves the task of predicting which way the market will go from month to month, still less from week to week." This is just as well, as we were nervous about the market last week and if we had taken notional positions off the table then we would have underperformed by a bigger margin than we did. As it was, we sneaked into the first positive year-to-date return of the year - up 0.04%.

What has happened, in our view, is that market has stabilised and is reacting to normal occurrences, such as the good bank earnings that were reported last week, as opposed to exceptional occurrences such as the Covid-19-related lockdown and wild swings in commodity prices. We are no longer inclined to scale down our notional exposure to equities.

Model Equity Portfolio for the week ending 4 September 2020

Security	August 28, 2020	September 4, 2020	Security weighting	Weekly change	Change since purchase	Performance attribution (bps)	
	position, N	position, N				Past Week	ytd
FBNH	99,000,000	100,000,000	1.0%	1.0%	-24.2%	1	-127
Zenith	682,425,000	704,700,000	7.0%	3.3%	-11.3%	22	14
UBA	171,450,000	174,150,000	1.7%	1.6%	-14.9%	3	-103
GT Bank	685,800,000	716,850,000	7.2%	4.5%	-12.1%	31	-213
Stanbic IBTC	324,450,000	346,500,000	3.5%	6.8%	18.5%	22	40
MTN Nigeria	2,202,860,000	2,217,820,000	22.2%	0.7%	8.5%	15	325
Airtel Africa	1,140,000,000	1,140,000,000	11.4%	0.0%	15.9%	0	149
Dangote Cement	1,811,700,000	1,809,000,000	18.1%	-0.1%	-8.5%	-3	-50
BUA Cement	1,000,000,000	1,007,500,000	10.1%	0.7%	-6.3%	8	-41
Nestle Nigeria	94,000,000	94,000,000	0.9%	0.0%	-20.1%	0	-93
Okomu Oil	489,800,000	489,800,000	4.9%	0.0%	22.7%	0	59
Presco	470,400,000	470,400,000	4.7%	0.0%	18.1%	0	42
Cash	733,181,024	733,181,024	7.3%	0.0%	0.0%	0	0
Total	9,905,066,024	10,003,901,024	100%	1.00%	0.04%	100	4

Source: Coronation Research

For the fourth week in a row we had a consumer-related stock, in this case Nigerian Breweries, rallying a lot when we our position is to have very few of these stocks. As we have stated before, we are not minded to chase such rallies.

Also last week, we wrote that: "We are casting around for new themes to carry us into September and will report back." We have not done that yet. One point worth making is that our position in banks does not really reflect how much we like them. For example, Stanbic IBTC is one of the few banks in which we have a notional position, but it is only close to its weight in the index. So we are not really benefitting enough from it. On the other hand, we only have 7.3% in notional cash, so we must find some way of streamlining the portfolio and concentrating on the stocks we really like.

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.