CORONATION

Nigeria Weekly Update
Eurobond market contagion

Clients who listen to our macroeconomic presentations know that we consider Eurobonds issued by the Federal Government of Nigeria (FGN) to present a sweet spot. Yields are above their long-term average and yet the Eurobond market seems likely to welcome a issue next year, given Nigeria's absence from the market in 2019 and early 2020. So it was a surprise to see yields rise quite sharply last week. To our mind it seems like a case of contagion from elsewhere in Africa. See page 2 for details.

FX
Last week the foreign exchange rate in the NAFEX market (also know as the I&E Window and the interbank market) hardly moved, weakening by 0.05% to N386.04/US$1. In the parallel, or street market, the Naira lost 0.43% to close the week at an offer rate of N467.00/US$1. Such movements conform to our view of lack of turnover in the NAFEX market translating into demand for US dollars in the parallel market. The NAFEX and parallel rate are 21% apart and we think there will be continued, but moderate, pressure on the parallel rate until the time comes when NAFEX liquidity improves substantially.

Bonds & T-bills
Last week the secondary market yield for an FGN Naira bond with 10 years to maturity decreased by 3 basis points (bps) to 9.00%, and at 7 years fell by 87bps to 6.76%, while at 3 years it remained flat at 3.93%. The annualised yield on 335-day T-bill increased by stayed flat at 2.72% while the yield on a CBN Open Market Operation (OMO) bill with similar tenure decreased by 29bps to 2.28%. In a N25.00bn (US$64.10m) primary market auction of an FGN Naira bond of 5 years and 4 months duration subscriptions was oversubscribed and N66.97bn was allotted with a yield of 6.00%. Our sense is that the market continues to be liquid and we see moderate downward pressure on rates over the coming week.

Oil
The price of Brent crude fell by 2.85% last week to US$41.92/bbl. The average price, year-to-date, is US$42.55/bbl, 33.72% lower than the average of US$64.20/bbl in 2019. The market understands that the supply disruptions caused by several hurricane storms on the east coast of America have passed, while the recent OPEC+ (OPEC plus Russia) meeting only reaffirmed the 7.7 million barrels per day (mbpd) production cuts rather than deepening them. As we wrote last week, we think OPEC+ may tolerate oil prices under US$50.00/bbl for a few months, until its objective of winning back at least some market share from US shale producers has been reached.

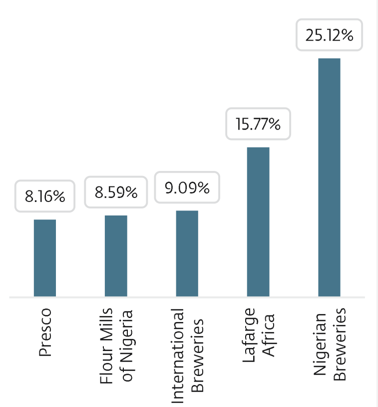
Equities
The Nigerian Stock Exchange All-Share Index (NSE-ASI) rose by 2.92% last week. The year-to-date return is negative 1.95%. Last week Nigerian Breweries (+25.12%), Lafarge Africa (+15.77%) and International Breweries (+9.09%) closed positive, while Oando (-11.74%), Unilever Nigeria (-5.56%) and Cadbury Nigeria (-5.41%) closed down. See Model Equity Portfolio on page 3.

Naira Sovereign Yields

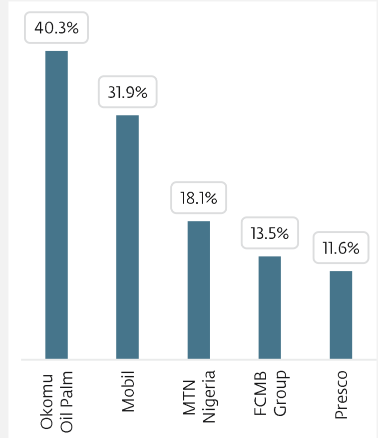
Spot	
319-day (OMO)	2.28%
335-day (T-bill)	2.72%
3 Year	3.93%
7 Year	6.76%
10 Year	9.00%
Inflation	13.22%

Quotes at 25 Sep 2020

WoW Performance of C-30



Best Performing Year to Date



Source: NSE, FMDQ

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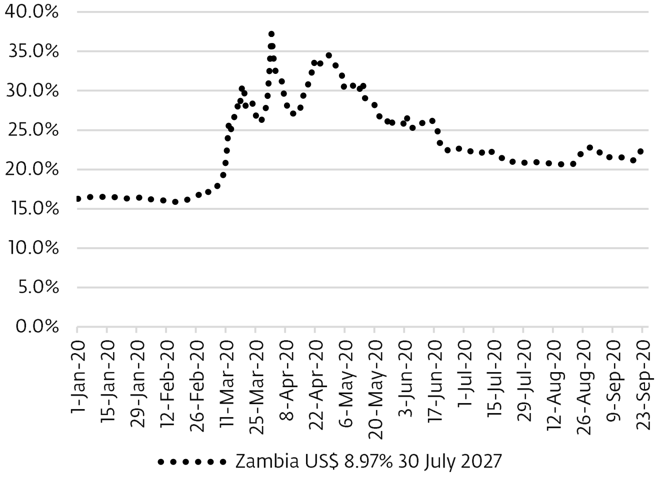
A case of Eurobond market contagion

Last week there was a flurry of news stories about African nations wanting to restructure private-sector debt, including Eurobonds. Zambia stated that it wished to defer interest payments on its Eurobonds until April next year. Chad asked oil trader Glencore to suspend payments on its cash loans this year. Angola's public-sector debt restructuring was reported not to be going according to plan.

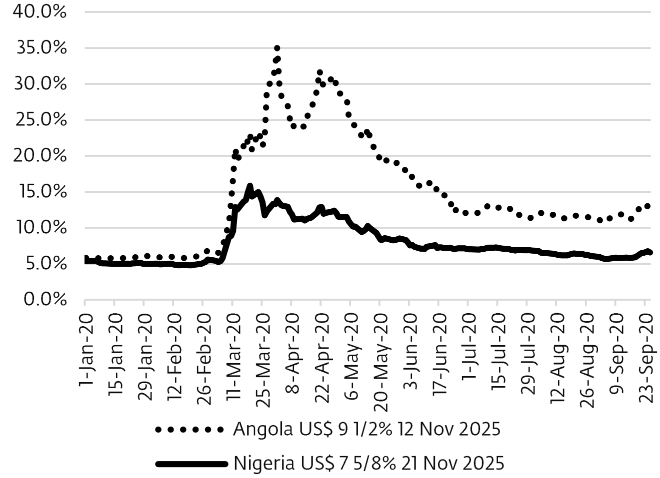
The result was a rise in Eurobond yields. Zambia's 2027 Eurobond yield rose from 21.53% to 21.64%, Angola's 2025 Eurobond yield rose from 11.87% to 12.52%. And Nigeria's 2025 Eurobond yield rose from 5.91% to 6.58%.

This looks like a case of market contagion, or risk by association. Nigeria's public finances are very different to those of Zambia and Angola. For example, Zambia's fiscal problem pre-date the Covid-19 crisis. Yet the market still read-across from Angola's and Zambia's problems to Nigeria.

Zambia, yield to maturity



Angola and Nigeria, yields to maturity



Source: Bloomberg, Coronation Research

In fact, Nigeria has been conspicuous by not asking for either bilateral or private-sector (which includes Eurobonds) debt relief. The Minister of Finance, Budget & Planning, Zainab Ahmed, has been clear on this point. And, with the Central Bank of Nigeria's foreign exchange reserves at US$35.8bn, Nigeria's position looks much better than those of many other African countries.

In our view, Eurobonds are a sweet spot among Nigerian investments. From the investor's point of view, Nigerian Eurobonds currently yield rather more than their average 5.8% yield over the period 2010-2019. From the issuer's point of view, Nigeria did not issue in 2019 and seems unlikely to issue in 2020, leaving the way clear for an issue in 2021.

Of course, markets are fickle. As the charts show, there was a certain amount of panic selling in March and April, which generated excellent buying opportunities for bold investors. And some of the last week's bad news was already priced in (so, markets can be fickle but also understanding at times). The market already knew that Zambia and Angola have their problems, hence their high yields. However, in the case of Nigeria the recent sell-off seems unwarranted.

Model Equity Portfolio

Last week the Model Equity Portfolio rose by 2.56% compared with rise in the Nigerian Stock Exchange All-Share Index (NSE-ASI) of 2.92%, therefore underperforming it by 36 basis points. Year-to-date it has gained 2.24% against a loss of 1.95% in the NSE-ASI, outperforming it by 419bps.

The market was in an extraordinarily bullish mood last week. Our underperformance can be attributed to the fact that we do not have a notional position in Nigerian Breweries, which accounts for 3.08% of the index and which rallied 25.1% on news that its parent company was buying its shares on the open market - this accounting for some 70bps of market performance. At the same time there was a 15.8% rally in Lafarge Africa, in which we hold no notional position and which accounts for 1.78% of the index - this accounting for some 20bps of market performance.

Model Equity Portfolio for the week ending 25 September 2020

Security	September 18, 2020 position, N	September 25, 2020 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	Performance attribution (bps) ytd
FBNH	99,000,000	103,000,000	1.0%	4.0%	-22.0%	4	-124
Zenith	676,350,000	700,650,000	6.9%	3.6%	-11.8%	24	10
UBA	162,000,000	164,700,000	1.6%	1.7%	-19.5%	3	-113
GT Bank	684,450,000	729,000,000	7.1%	6.5%	-10.6%	45	-200
Stanbic IBTC	351,900,000	364,500,000	3.6%	3.6%	24.6%	13	58
MTN Nigeria	2,244,000,000	2,318,800,000	22.7%	3.3%	13.5%	75	426
Airtel Africa	1,140,000,000	1,140,000,000	11.1%	0.0%	15.9%	0	149
Dangote Cement	1,822,500,000	1,876,500,000	18.4%	3.0%	-5.1%	54	17
BUA Cement	1,007,500,000	1,007,500,000	9.9%	0.0%	-6.3%	0	-41
Nestle Nigeria	94,000,000	94,000,000	0.9%	0.0%	-20.1%	0	-93
Okomu Oil	483,600,000	483,600,000	4.7%	0.0%	21.1%	0	53
Presco	470,400,000	508,800,000	5.0%	8.2%	27.7%	39	80
Cash	733,181,024	733,181,024	7.2%	0.0%	0.0%	0	0
Total	9,968,881,024	10,224,231,024	100%	2.56%	2.24%	256	224

Source: Coronation Research

Enough excuses! We wrote, three weeks ago, that we like banks but only hold a total notional position in them of 20.2% compared with their 19.2% position in the index. We need to have a much stronger weight in the banks if we truly to expect to benefit from their potential outperformance. We are putting our mealy-mouthed assessment from last week behind us and this week will take our notional position in the banks from a total 20.2% to just under 30.0% with notional purchases.

And, since this may take more cash than we have (we have not yet accounted for dividend income this year - this will feature in a separate Total Return portfolio later) then we will trim our notional holdings in Nestle Nigeria, Dangote Cement and Airtel Africa in order to free up a little notional cash.

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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