Monthly Economic & Financial Market Outlook

Investment Opportunities in the Nigerian Financial Market

FSDH MERCHANT BANK LTD

Executive Summary

- *Nigeria still records low savings and investment, despite the growth in these products*
- *The ratio of Gross National Savings (GNS) to Gross Domestic Product (GDP) in Nigeria is one of the lowest among some selected countries*
- *The ratio of investment to GDP in Nigeria is the lowest among the selected countries*
- *In addition, despite impressive growth in mutual funds in Nigeria over the last five years, the ratio of mutual fund assets to GDP (estimated at 0.5% as at December 2018) is still very low*
- *This shows that there are a lot of opportunities for further growth in mutual fund investment in Nigeria*
- *Small savings in the financial system lead to a relatively small amount of money available for lending purposes: the available funds will command a high interest rate*
- *Low savings and investment limit the ability of a country to create wealth and lift its people from poverty*
- *It also means that government will have limited access to raise tax revenue to embark on development*
- *Some of the reasons for low savings and investment in Nigeria have been identified as high unemployment in the country, weak purchasing power and inadequate knowledge on investment products and how they work*
- *FSDH Research, therefore, dedicates this edition of the Monthly Report to discuss some financial instruments in the Nigerian financial system and how Nigerians can create wealth from these instruments*
- *These financial instruments include the Federal Government of Nigeria Bond (FGN Bond), FGN Savings Bond (FGNSB), Nigerian Treasury Bills (NTBs), Commercial Papers (CPs), Mutual Funds, Real Estate Investment Trusts and Stocks*
- *In another development, the crude oil price rallied further to the highest prices since October 2018*
- *The production cut by the Organization of the Petroleum Exporting Countries (OPEC), insecurity in Libya and sanctions on Iran and Venezuela continue to drive the crude oil price high*
- *The external reserves continued its upward trend in April 2019, rising to hit US$44.80bn, the highest figure since September 2018*
- *The rise in the external reserves was driven by the increase in the price of crude oil and sustained FPI inflows*
- *However, FSDH Research stresses that the rise in crude oil price may be temporary and could witness a reversal without warning since the current drivers are not based on strong global demand*
- *We note that FPI inflows are decelerating and crude oil price is expected to be lower in 2019 than in 2018. Therefore, continued accretion to the external reserves may not be sustained unless there is a growth in non-oil export earnings in Nigeria*
- *FSDH Research expects the April 2019 inflation rate to drop marginally to 11.23% from 11.25% in March*
- *In the equity market, the Nigerian Stock Exchange All Share Index (NSE ASI) recorded its largest deprecation so far in 2019 during April.*

International Scene:

- *The Federal Open Market Committee (FOMC) of the US Federal Reserve System maintained the interest rate at a range of 2.25%-2.5% at its May 2019 meeting*
- *Market expectation is that there will not be an increase in 2019 unless conditions change as the FOMC maintains its 'patient' stance*
- *The International Monetary Fund (IMF) revised downwards its global economic growth forecast for 2019 and projected a decline in growth for 70% of the global economy*
- *This downward revision is a reflection of trade tensions, macroeconomic stress in Argentina and Turkey and tighter credit policies in China in the first half of 2019*

1.0 Low Savings and Investment in Nigeria:

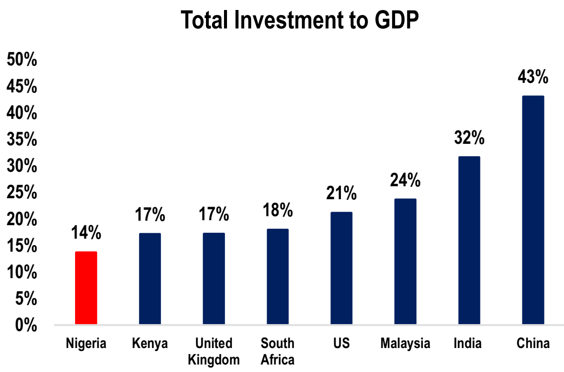
Nigeria still records low savings and investment, despite the growth in these products.

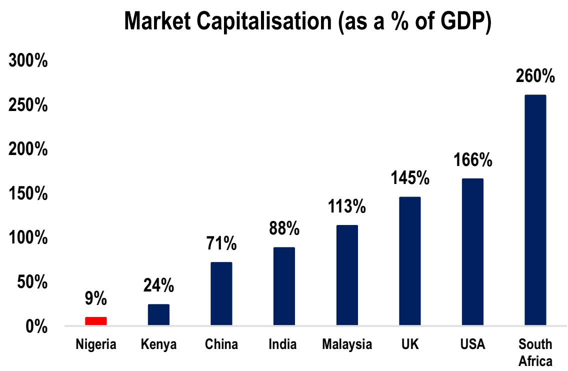
Nigeria still records low savings and investment, despite the growth in these products. The ratio of Gross National Savings (GNS) to the Gross Domestic Product (GDP) in Nigeria is one of the lowest among some selected countries. The ratio of investment to GDP in Nigeria is the lowest among the selected countries. Furthermore, the ratio of the equity capitalisation to GDP in Nigeria is the lowest among the same selected countries. In addition, despite impressive growth in mutual funds in Nigeria over the last five years, the ratio of mutual fund assets to GDP (estimated at 0.5% as at December 2018) is still very low. This shows that there are a lot of opportunities for further growth in mutual fund investment in Nigeria.

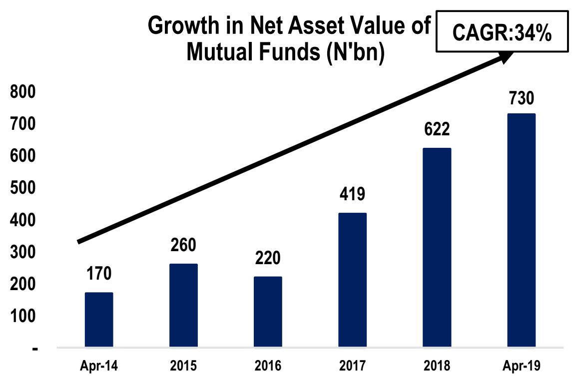
Low savings and investment limit the ability of a country to create wealth and lift its people from poverty.

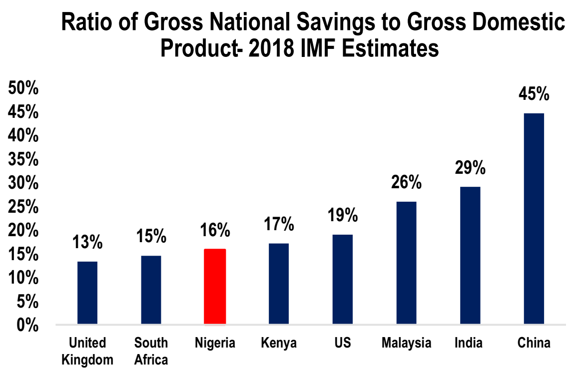
Small savings in the financial system lead to a relatively small amount of money available for lending purposes: the available funds will command a high interest rate, which is not good for companies or government when they plan to borrow money to finance business expansion or infrastructure development. Low savings and investment limit the ability of a country to create wealth and lift its people from poverty. It also means that government will have limited access to tax revenue to embark on development. Those who do not participate in formal saving and investment are excluded from financial services and, as the World Bank put it, "Financial inclusion is a key enabler to reducing poverty and boosting prosperity".

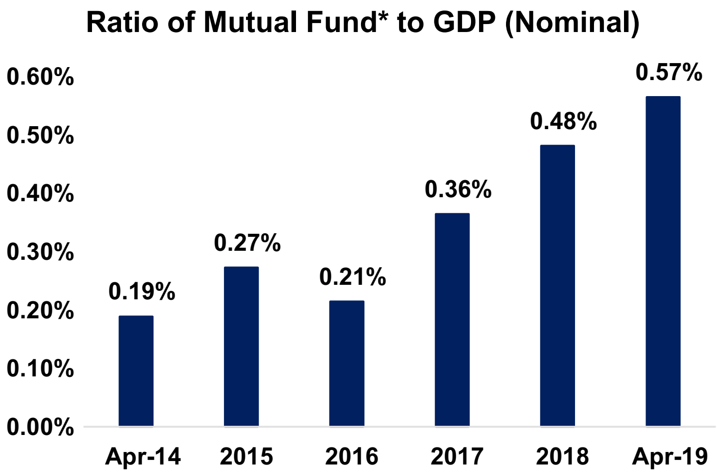
Some of the reasons for low savings and investment in Nigeria have been identified as high unemployment in the country, weak purchasing power and inadequate knowledge on investment products and how they work. FSDH Research, therefore, dedicates this edition of the Monthly Report to discuss some financial instruments in the Nigerian financial system and how Nigerians can create wealth from these instruments.











*Sources: International Monetary Fund (IMF), Securities and Exchange Commission (SEC), World Bank, Bloomberg and FSDH Research. *Net Asset Value of Mutual Funds*

Government uses FGN Bonds to borrow money from the investing public and pay interest (coupon) to the investors.

Federal Government of Nigeria Bond (FGN Bond) – Government uses FGN Bonds to borrow money from the investing public and pay interest (coupon) to the investors. Usually the FGN pays interest twice in a year to the Bond holders throughout the life (tenor) of the Bond and pays the principal at maturity. The tenor of the FGN Bond ranges from 3 – 30 years. The Debt Management Office (DMO) issues FGN Bonds on behalf the FGN every month. The income that investors earn from Bond investments is exempted from taxes. The minimum amount that an investor may invest in the FGN Bond from the primary market auction is N50,001,000. FGN Bond investment is considered safe because the FGN guarantees to meet interest and principal obligations as and when due. Investors can also use the investment in a Bond as a collateral to obtain loans in any financial institution in Nigeria. Contact your investment manager for advice on how to invest in the FGN Bond.

FGNSB targets retail investors and those who do not have the required minimum investment sum to invest in the FGN Bond.

FGN Savings Bond (FGNSB) – FGNSB targets retail investors and those who do not have the required minimum investment sum to invest in the FGN Bond. The minimum amount to invest in FGNSB is N5,000 and the maximum is N50million. FGNSB is of two tenors: 2 and 3 years. The investment is open for subscription for 5 days starting from the first Monday of every month. Government pays interest on the bond every three months and it is traded on the floors of The Nigerian Stock Exchange (NSE). The Bond can be used as collateral for a loan, and income from it is free from tax. FGNSB is considered a safe investment. Contact your stockbroker for advice on how to invest in FGNSB.

FGN borrows money from the public on a short-term basis (within one year) using NTBs.

Nigerian Treasury Bills (NTBs) – FGN borrows money from the public on a short-term basis (within one year) using NTBs. NTBs are issued at a discount to the face value. This means that investors pay a sum that is less that the amount on the investment and will receive the full amount at maturity. In Nigeria, NTBs have tenors of 91, 182 and 364 days and are issued twice a month. The income from the investment is free from tax and the investment can be used as collateral for a loan. Contact your investment manager for advice on how to invest in NTBs.

Companies in the private sector issue CPs to raise short-term finance to fund their business operations.

Commercial Papers (CPs) – Companies in the private sector issue CPs to raise short-term finance to fund their business operations. CPs are issued in tenors ranging from a minimum of 15 days to a maximum of 270 days. The Securities and Exchange Commission (SEC) regulates the CP market in Nigeria, therefore the investment is safe but potentially not as safe as the FGN Bonds and NTBs because companies may fail to meet their obligations on a few occasions. CPs are also sold to investors at a discount to the face value. Companies determine when they issue CPs and investment is open for a short period of time. Usually, the minimum investment in a CP is N5million. The income on it is free from tax. Contact your investment manager for advice on how to invest in CPs.

Investment managers use a mutual fund to pool funds from retail investors and low-income earners.

Mutual Funds – Investment managers use a mutual fund to pool funds from retail investors and low-income earners and invest the money in instruments to deliver superior returns to the unit holders who are themselves the investors in the mutual fund. A mutual fund invests in financial instruments such as NTBs, FGN Bonds, CPs, Real Estate, Stocks and Commodities. Therefore, when an investor buys a unit of a mutual fund, he is indirectly buying the underlying securities. In Nigeria, the SEC regulates the operation of mutual funds and the professionals that are involved in them. Most mutual funds are open-ended investment schemes. This means that new investors can buy additional units and sell units at any time; this is particularly useful when an investor needs to liquidate his or her investment to meet urgent needs. In most cases the minimum investment in a mutual fund is N5,000. A mutual fund is a good investment vehicle to save towards a large sum of money over a long period of time. Contact your investment manager for advice on how to invest in a mutual fund.

A special kind of mutual fund is the Real Estate Investment Trust (REIT).

Real Estate Investment Trusts – A special kind of mutual fund is the Real Estate Investment Trust (REIT). REITs are investment vehicles which pool resources together to invest in real estate, therefore allowing individual investors to partake in the benefits of the underlying properties. REITs are traded on the Nigerian Stock Exchange (NSE), just like stocks/shares. There is no minimum amount to invest in a REIT, so it is suitable for all investors. Contact your stockbroker for advice on how to invest in a REIT.

When an investor buys a stock or share of a company, he or she becomes a part owner of the company.

Stocks – When an investor buys a stock or share of a company, he or she becomes a part owner of the company and shares part of the profit of that company in the form of a dividend, bonus and capital appreciation. Stock investment can attract a significant amount of risk as investors could lose their entire investment if the company fails. Therefore, investors should always speak to an investment professional before investing in the equity market. The SEC regulates activities of professionals who engage in stock investment in Nigeria.Various stockbroking firms have different minimum amounts to open a stockbroking account with them. Contact your stockbroker for advice on how to invest in stocks.

FSDH Research notes, however, that these investment instruments need more support than is currently available.

FSDH Research notes, however, that these investment instruments need more support than is currently available to enable existing and potential investors to fulfil their wealth creation and developmental goals. In growing wealth, government would also earn more tax revenue. Government should intensify its efforts to improve the business environment, which would increase savings and investable funds, job creation and reduce unemployment.

1.1 Global Developments:

FSDH Research observed a mixed performance in the prices of sovereign bonds in the countries we monitored in April 2019.

The India Government Bond offered the most attractive real yield amongst the selected bonds in April.

The FOMC of the US Federal Reserve System maintained the interest rate at its May 2019 meeting

FSDH Research observed a mixed performance in the prices of sovereign bonds in the countries we monitored in April 2019. The Turkey Bond continued to experience sell-off and consequently recorded the highest month-on-month (M-o-M) price decrease for the third consecutive month. The 8.8% September 2023 Turkey Government Bond recorded a M-o-M price depreciation of 10.11% to 64.00. This was followed by 16.39% January 2022 Nigerian Government Bond with a price decrease of 1.66% to 103.70. The 12.705% June 2022 Kenyan Government Bond recorded the highest M-o-M price increase of 0.41% to 105.56. All the bonds we monitored recorded positive real yields in April. **The India Government Bond offered the most attractive real yield amongst the selected bonds in April.**

In line with market expectations, the Federal Open Market Committee (FOMC) of the US Federal Reserve System maintained the interest rate (the federal funds rate) at a range of 2.25%-2.5% at its 1 May 2019 meeting. The Fed also set the interest paid on required and excess reserve at 2.35%. This is 15 basis points below the top of the target range for the federal funds rate. This is intended to encourage trading in the federal funds market at rates within the FOMC's target range. The Fed noted that economic activity "rose at a solid rate". Real Gross Domestic Product (GDP) in the US increased at an annual growth rate of 3.2% in Q1 2019, according to the 'advance' estimate by the US Bureau of Economic Analysis (BEA) released on 26 April 2019. The real GDP increased by 2.2% in Q4 2018. Inflation rate in the US rose to 1.9% in March 2019 from 1.5% in February. This reflects a faster pace of increase in food prices and an increase in energy prices.

Table 1: Summary of Key Indicators

S/N	Indicators	China	Egypt	India	Kenya	Nigeria	Russia	South Africa	Turkey	USA
1	Bond Price	101.56	100.89	103.17	105.56	103.70	100.15	100.13	64.00	98.03
2	Bond Yield	3.08%	16.59%	6.99%	10.56%	14.67%	7.65%	7.70%	21.91%	2.26%
3	Bond Price MoM Change	(0.82%)	(0.63%)	(0.77%)	0.41%	(1.66%)	0.18%	0.10%	(10.11%)	(0.09%)
4	Bond Yield MoM Change	0.22%	0.25%	0.25%	(0.20%)	0.71%	(0.11%)	(0.03%)	3.41%	0.03%
5	Bond Price YTD Change	(0.55%)	3.80%	0.20%	1.22%	0.38%	0.50%	1.35%	(13.51%)	1.14%
6	Bond Yield YTD Change	0.12%	(1.56%)	(0.17%)	(0.61%)	(0.32%)	(0.27%)	(0.40%)	4.93%	(0.24%)
7	Real Yield	0.78%	2.39%	4.13%	3.98%	3.42%	2.35%	3.20%	2.20%	0.36%
8	Volatility	0.31	0.64	0.30	0.15	0.64	0.03	0.18	2.70	0.16
9	FX Rate MoM Change*	0.34%	(0.78%)	0.58%	0.32%	0.10%	(1.64%)	(1.19%)	6.64%	(0.01%)
10	FX Rate YTD Change*	(2.13%)	(4.06%)	(0.29%)	(0.65%)	(1.11%)	(7.24%)	(0.35%)	11.32%	(2.10%)
11	Inflation Rate	2.30%	14.20%	2.86%	6.58%	11.25%	5.30%	4.50%	19.71%	1.90%
12	Policy Rate	4.35%	15.75%	6.00%	9.00%	13.50%	7.75%	6.75%	24.00%	2.50%
13	Debt to GDP	47.60%	101.00%	68.70%	57.10%	21.30%	13.50%	55.80%	28.30%	105.00%
14	GDP Growth Rate	6.40%	5.50%	6.60%	5.90%	2.40%	2.70%	1.10%	(3.00%)	3.20%
15	Nominal GDP (US$'bn)	12,238bn	235bn	2,601bn	74.94bn	376bn	1,578bn	349bn	851bn	19,391bn
16	Current Acct to GDP	0.40%	(2.40%)	(2.30%)	(5.20%)	2.00%	2.20%	(3.50%)	(3.50%)	(2.40%)

-ve means appreciation while +ve means depreciation

Sources: Bloomberg, Central Banks of Various Countries; Trading Economics; and FSDH Research Analysis

1.2 Global Economic Growth:

The IMF projects a decline in growth for 70% of the global economy.

The International Monetary Fund (IMF) revised downwards its global economic growth forecast for 2019 and projected a decline in growth for 70% of the global economy. This downward revision is a reflection of trade tensions, macroeconomic stress in Argentina and Turkey and tighter credit policies in China during the first half of 2019. Consequently, the IMF revised downwards its global growth forecast for 2019 by 0.2% from its forecast in January 2019 to 3.3% while the forecast for 2020 remains unchanged.

However, the IMF noted that it expects a pick up in the global economy in the second half of 2019. The major drivers include:

- Policy accommodation by major economies
- Improvement in the outlook for the US-China trade tensions
- Policy stimulus in China
- Gradual stabilization of conditions in stressed emerging market economies including Argentina and Turkey

The balance of risks remains tilted downwards. Therefore, FSDH Research stresses that the current rally in the crude oil price above US$70/b may not be sustained. Major central banks are also expected to maintain their patient stance.

Table 2: Global Economic Growth Rate (Actual vs Forecast)

					Difference from January 2019 WEO Update		Difference from October 2018 WEO	
	2017A	2018E	2019F	2020F	2019F	2020F	2019F	2020F
Global	3.8%	3.6%	3.3%	3.6%	-0.20%	0.00%	-0.40%	-0.10%
Advanced Economies	2.4%	2.2%	1.8%	1.7%	-0.20%	0.00%	-0.30%	0.00%
USA	2.2%	2.9%	2.3%	1.9%	-0.20%	0.10%	-0.20%	0.10%
Japan	1.9%	0.8%	1.0%	0.5%	-0.10%	0.00%	0.10%	0.20%
Euro-Area	2.4%	1.8%	1.3%	1.5%	-0.30%	-0.20%	-0.60%	-0.20%
Emerging Market and Developing Economies	4.7%	4.5%	4.4%	4.8%	-0.10%	-0.10%	-0.30%	-0.10%
China	6.9%	6.6%	6.3%	6.1%	0.10%	-0.10%	0.10%	-0.10%
India	6.7%	7.1%	7.3%	7.5%	-0.20%	-0.20%	-0.10%	-0.20%
United Kingdom	1.8%	1.4%	1.2%	1.4%	-0.30%	-0.20%	-0.30%	-0.10%
Nigeria	0.8%	1.9%	2.1%	2.5%	0.10%	0.30%	-0.20%	0.00%
South Africa	1.3%	0.8%	1.2%	1.5%	-0.20%	-0.20%	-0.20%	-0.20%

Source: IMF World Economic Outlook (WEO) Update, April 2019

1.3 Nigeria's Fiscal Position Improves but there are Issues to Resolve:

Recent happenings appear to be in favour of Africa's most populous country as activities both globally and locally have improved Nigeria's fiscal position.

Recent happenings appear to be in favour of Africa's most populous country as activities both globally and locally have improved Nigeria's fiscal position. This position, which gives information on the revenue and the expenditure of the country, is stronger due to the twin developments of rising crude oil prices and interest-saving on government debt.

Data from the Central Bank of Nigeria (CBN) shows that crude oil and gas account for 94% of total exports from Nigeria and are therefore the major source of revenue for the country. As a result, movements in the price of this 'black gold' has the capacity to influence the direction of the economy. Since the start of 2019, the price of crude oil has jumped by 46% and Nigeria has gained from this rise. However, FSDH Research points out that with the increase in crude oil price, the cost of under-recovery (petroleum subsidy) rises too.

The drop in the interest rate in the Nigerian financial market has also improved the fiscal position of the Federal Government of Nigeria (FGN) through interest-savings on the domestic debts. The FGN is currently borrowing funds cheaper through the Nigerian Treasury Bills (NTBs) and FGN Bonds than it borrowed in January 2019. FSDH Research estimates that government has been able to save over N9bn in interest cost between February and April. This represents a drop in government expenses, leading to an improvement in the country's fiscal position, other things being equal.

Despite the increase in the crude oil price and the interest-savings made by the government, FSDH Research identifies certain issues that need to be resolved. These include the funding of the new national minimum wage of N30,000; the implied increase in subsidy on Premium Motor Spirit (PMS), which is a drain on government's resources, and the existing electricity tariff which does not reflect current costs. These important issues have the capacity to erode the gains the nation is making from the rising crude oil price and the drop in interest rate.

Against this backdrop, FSDH Research stresses that the rise in crude oil price may be temporary and could witness a reversal without warning since the current drivers are not based on strong global demand. If Nigeria does not put adequate measures in place, a possible drop in crude oil price below US$60/b may weaken the economic performance of the country. As a result, government should continue to develop structures that would improve the business environment in order to attract more investments and increase profitability of businesses in Nigeria.

1.4 Is Nigeria's Public Debt Too High? FSDH Research Provides Some Insights:

Low revenue generation makes it very difficult for the FGN to meet its debt obligations without sacrificing other important responsibilities of government.

Just as individuals and companies are faced with the dilemma of whether or not to borrow, countries also face the same problem. Although it is difficult to find any country that does not borrow, there are key questions each country must ask. How much debt should they contract? What projects will the debt be used for? How will the loan be repaid on top of the associated interest? Whom should they approach to lend the money? What will be the impact of the loan servicing on the country's ability to perform her obligations to the citizens? Some countries have shown that debt is not bad in itself. What truly matters is the productivity of the debt that is contracted. Countries such as China, South Africa, India, UK and USA have high Debt-to-GDP of over 50%. Our computation shows that despite the significant increase in Nigeria's public debt in recent years, standing at N24 trillion, Nigeria's Public Debt-to-GDP ratio is less that 20%. Based on this measure, Nigeria could borrow more.

The way to change this narrative is for Nigeria to diversify her revenue and create multiple sources.

The countries mentioned above, however, have managed to deploy their borrowings into activities that can stimulate revenue generation including education, transportation, construction, security, technology, and other growth-enhancing infrastructure. By utilizing these borrowed funds in areas that improve the ease of doing business in their countries, they have been able to grow their economies further, create job opportunities, and create more avenues for their governments to grow their revenue.

In reviewing Nigeria's debt profile, FSDH Research observes that the level of debt has been on the increase over the years. As at December 2018, the total public debt increased to N24.39trillion. But this is not where the issue lies. In measuring the ability of a country to service her debt obligations, we look at the ratio of domestic debt service-to-FGN Federation Account Allocation Committee (FAAC) allocation. This is where the problem lies for Nigeria. Low revenue generation makes it very difficult for the FGN to meet its debt obligations without sacrificing other important responsibilities of government.

The way to change this narrative is for Nigeria to diversify her revenue and create multiple sources. Just as FSDH Research has suggested several times in our previous reports, there is an urgent need to expand the revenue base of the country through the growth of the non-oil sector. We suggest that the government should adopt strategies to increase and broaden its revenue. In addition, we emphasize that borrowing should be tied to specific projects that can improve the competitiveness of the country, such as the FGN Sukuk Bond.

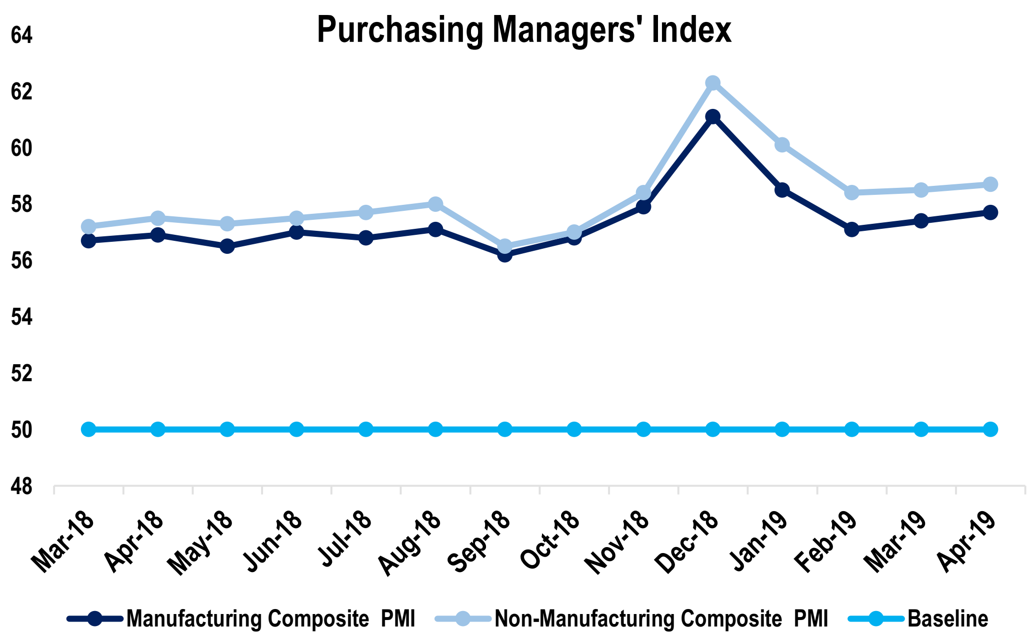
1.5 Purchasing Managers' Index (PMI):

Manufacturing and non-manufacturing activities are picking up following the successful general elections

Manufacturing and non-manufacturing activities are picking up following the successful general elections. The Manufacturing and Non-Manufacturing PMI increased for the second consecutive month in April 2019. The overall Manufacturing PMI was 57.7 points, a faster growth rate than 57.4 points recorded in March 2019. This can be attributed to the faster rate of expansion of new orders, employment level, production level and raw materials. However, the level of supplier delivery time expanded at a slower pace than in March 2019.

The Non-Manufacturing PMI expanded at a faster pace than in March 2019 and stood at 58.7. The level of business activity, new orders and employment level in the non-manufacturing sector expanded at a faster rate than in the previous month. However, inventory in the non-manufacturing sector expanded at a slower pace than in March.

The expansion in the manufacturing and non-manufacturing sectors should stimulate leading activities in the financial sector.



Sources: Central Bank of Nigeria (CBN)

1.6 Inflation Rate:

FSDH Research expects the inflation rate to drop to 11.23% in April from 11.25% in March 2019.

FSDH Research expects the inflation rate to drop to 11.23% in April from 11.25% in March 2019. The drop in the inflation rate is due to the fact that the Consumer Price Index (CPI) increased more slowly in April 2019 than it increased in the corresponding period of last year. The bad news, however, is that the month-on-month increase in April 2019 was the fastest increase recorded since October 2018. The price monitor that FSDH Research conducted on food and non-food items shows that prices moved in an upward direction in April 2019 compared with March 2019. The prices of some food items such as rice, tomatoes, pepper, Irish potatoes and meat increased. Meanwhile, the prices of a few consumer goods declined in April compared with March. The National Bureau of Statistics (NBS), the body authorised to ascertain the inflation rate in Nigeria, will release the actual figure for the month of April on Monday, 20 May 2019.

In the short-term, we maintain that the government's decision to remove the "subsidy" on the pump price of Premium Motor Spirit (PMS), as well as the possible upward review of the electricity tariff to reflect correct cost structure, will affect the inflation rate. If there is no adjustment to these prices, FSDH Research expects an inflation rate in the low double digits region for the remainder of the year 2019. If there is an adjustment to these prices, there will be a shift in the inflation rate by about 2.5%. Other issues that may affect the choice of monetary policy implementation in the short-term are: the fiscal deficit in the 2019 proposed budget and the impacts of the current global economic developments (particularly the US and China trade disputes) on the crude oil price.

Table 3: Inflation Rate Actual Vs. Forecast

Month	Jan-19A	Feb-19A	Mar-19A	Apr-19F	May-19F	Jun-19F	Jul-19F	Aug-19F	Sep-19F	Oct-19F	Nov-19F	Dec-19F
Inflation Rate	11.37%	11.31%	11.25%	11.23%	11.00%	10.64%	10.35%	10.19%	10.10%	10.18%	10.21%	10.49%
Adjusted Inflation Rate*	11.37%	11.31%	11.25%	11.23%	11.00%	12.76%	12.47%	12.32%	12.22%	12.30%	12.33%	12.61%

Sources: National Bureau of Statistics and FSDH Research Analysis.
*A- Actual, F – Forecast *Forecast after June assumes an adjustment to the electricity tariff and the PMS Pump Price*

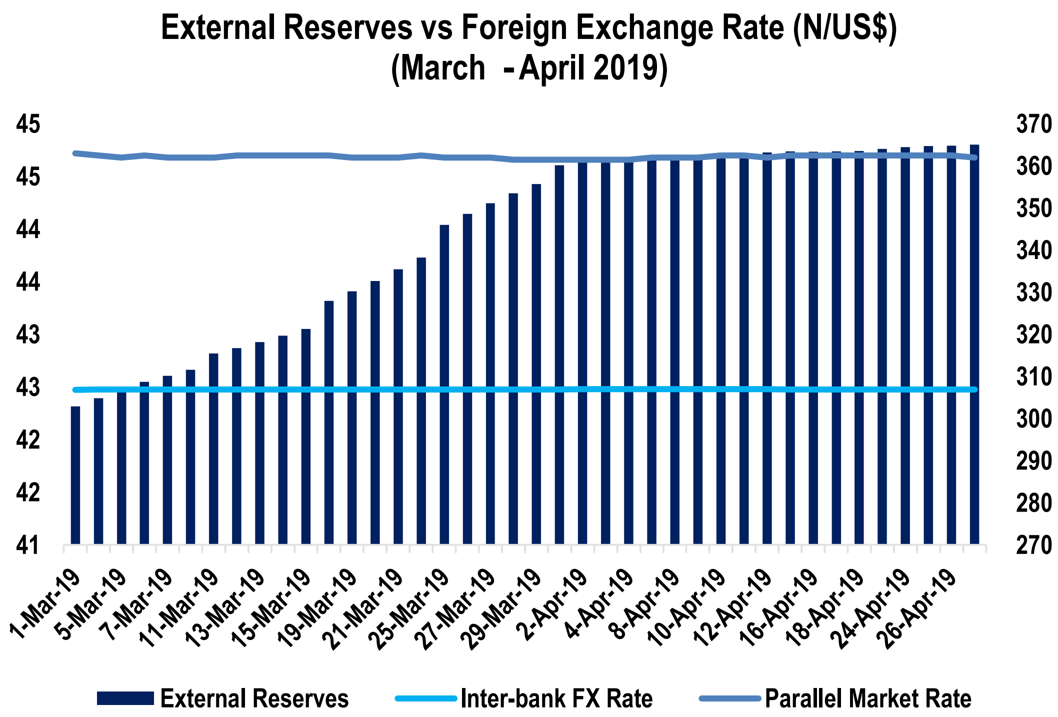
1.7 Movement in the External Reserves:

The external reserves continued its upward trajectory in April 2019, rising to hit US$44.80bn, the highest figure since September 2018.

The external reserves continued its upward trajectory in April 2019, rising to hit US$44.80bn, the highest figure since September 2018. The rise in the external reserves was driven by the increase in the price of crude oil and the sustained FPI inflows. We note that the FPI inflows are decelerating and the price of crude oil is expected to be lower in 2019 than 2018. Therefore, continued accretion to the external reserves may not be sustained unless there is a growth in non-oil export earnings in Nigeria.

The rise in the external reserves was driven by the increase in the price of crude oil and the sustained FPI inflows.

The current position of the external reserves continues to provide short-term stability for the value of the Naira. The external reserves position is enough to cover over 13 months of imports. However, we reiterate that the medium-term stability in the foreign exchange market will depend on the country's ability to increase its foreign exchange receipts from both crude oil and non-oil products. The 30-Day moving average external reserves increased by 0.84%, from US$44.43bn at end-March to US$44.80bn at end-April 2019**.**



Sources: Central Bank of Nigeria (CBN), FMDQ, and Cash Hunters

1.8 Currency Transaction at the I&E Window:

There was a significant drop in capital importation via FPI in the I&E window in April 2019 compared with record highs in March 2019.

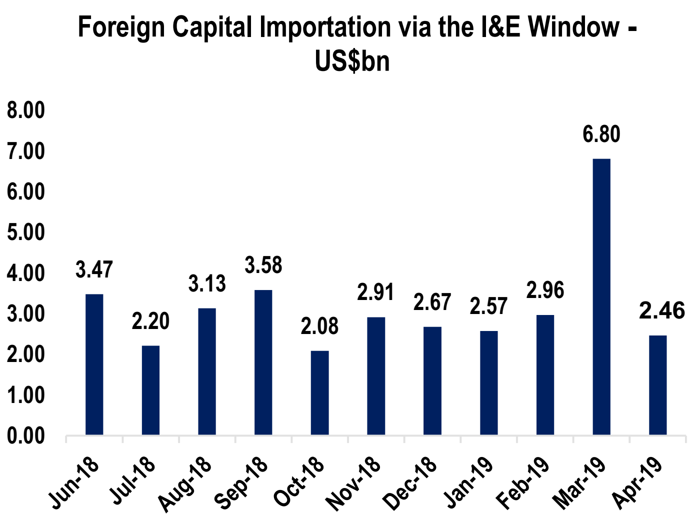
There was a significant drop in capital importation via Foreign Portfolio Investment (FPI) in the Investors' and Exporters' Foreign Exchange Window (I&E window) in April 2019 compared with record highs in March 2019. This may be a reflection of the declining yields in the fixed income securities market. However, FPI still accounted for the largest proportion of inflows in April 2019. According to data released on Monday, 6 May 2019 from the FMDQ OTC Securities Exchange, contribution from FPI in April stood at US$1.44bn, accounting for 58.68% of total inflows. The FPI inflows, albeit at a slower rate, provided short-term support for the foreign exchange.

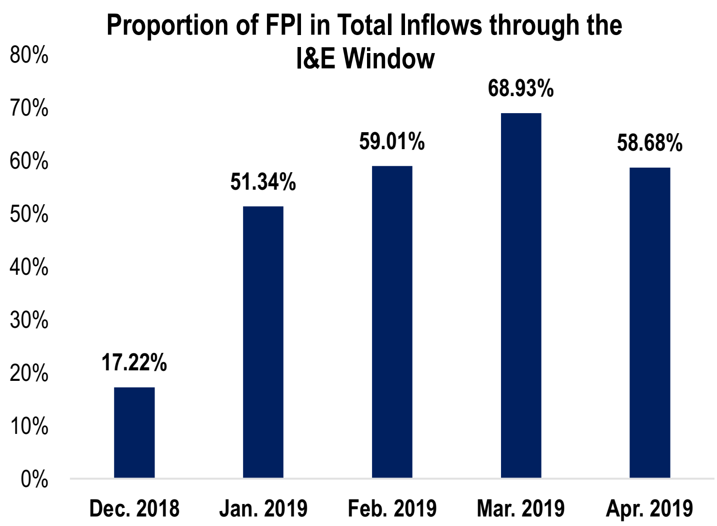
The total capital importation through the I&E window in April 2019 stood at US$2.46bn, the lowest figure recorded since October 2018. From inception in April 2017 to April 2019, capital importation through the I&E window totalled U$63.47bn.

Table 4: Foreign Capital Importation through the I & E Window

	January		February		March		April	
Source	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**	**Value ($'bn)**	**PT**
FDIs	0.23	8.79%	0.20	6.59%	0.23	3.45%	0.16	6.54%
FPIs	1.32	51.34%	1.75	59.01%	4.69	68.93%	1.44	58.68%
Other Corporates	0.05	1.97%	0.03	1.10%	0.02	0.35%	0.03	1.17%
CBN	0.45	17.65%	0.15	4.92%	0.79	11.69%	0.01	0.41%
Exporters	0.08	3.15%	0.08	2.72%	0.14	2.01%	0.08	3.32%
Individuals	0.00	0.18%	0.02	0.73%	0.03	0.39%	0.00	0.17%
Non-Bank Corporates	0.22	8.66%	0.74	24.94%	0.90	13.18%	0.73	29.71%
Other Corporates	0.21	8.26%	N/A	N/A	N/A	N/A	N/A	N/A
Total	**2.57**	**100%**	**2.96**	**100%**	**6.80**	**100%**	**2.46**	**100%**

Source: FMDQ; PT – Proportion of Total *N/A: Not Applicable





Sources: FMDQ

1.9 Crude Oil Market and Bonny Light Price:

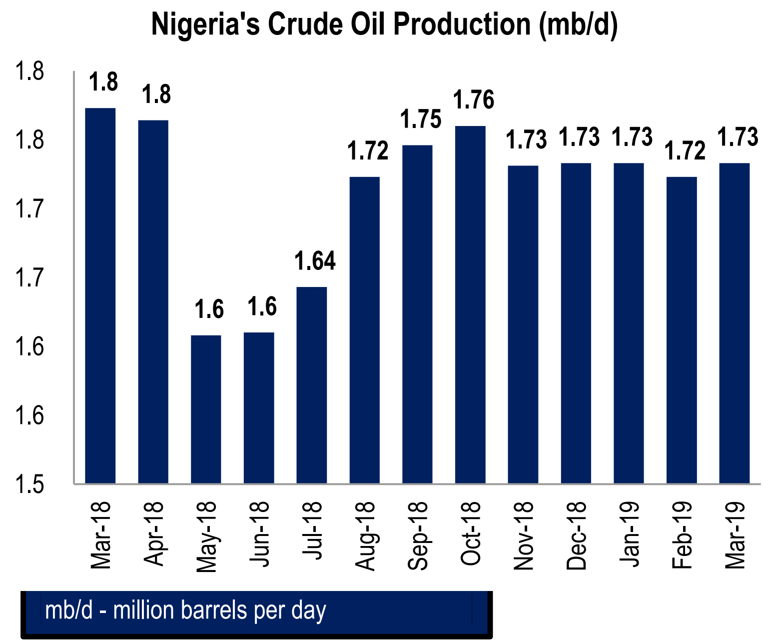
The EIA forecasts an average price of Brent crude oil of US$65.15/b and US$62.00/b in 2019 and 2020, respectively.

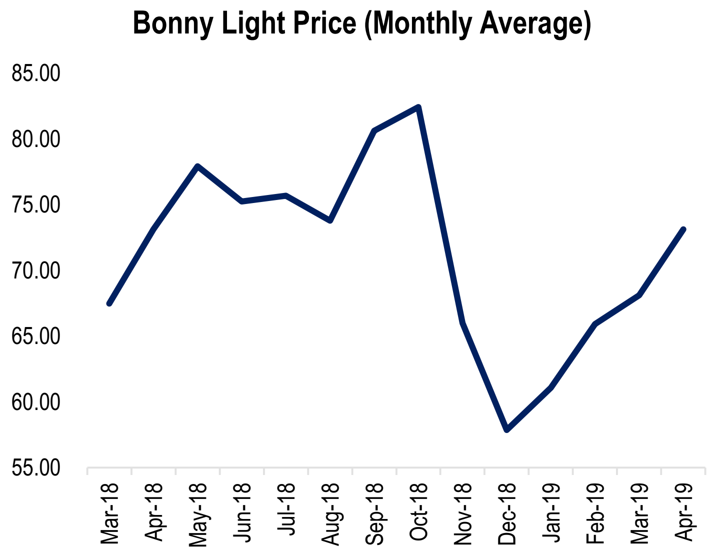
The crude oil price rallied further to the highest prices since October 2018. The production cut by the Organization of the Petroleum Exporting Countries (OPEC), insecurity in Libya and sanctions on Iran and Venezuela continue to drive the crude oil price high. However, FSDH Research stresses that the rise in crude oil price may be temporary and could witness a reversal without warning since the current drivers are not based on strong global demand.

In its monthly report for April 2019, the US Energy Information Administration (EIA) revised upward its forecast of the average Brent crude oil price for 2019 for the second consecutive month. This is primarily a reflection of forecast inventory build being less than previously projected. The EIA forecasts an average price of Brent crude oil of US$65.15/b and US$62.00/b in 2019 and 2020, respectively. The forecast is lower than the average price of Brent in 2018 which was US$71.19/b. This low forecast further supports our position that the current increase in the price of crude oil may not be sustained and Nigeria may earn less revenue from oil in 2019 compared with 2018.

The daily crude oil production in Nigeria increased by 0.58% to 1.73mb/d in March 2019, from 1.72mb/d in February.

According to secondary data available from OPEC's report for the month of April 2019, the daily crude oil production in Nigeria increased by 0.58% to 1.73mb/d in March 2019, from 1.72mb/d in February. This is below the 2019 budget benchmark of 2.3 mb/d. The lower crude oil production compared with budget may have negative implications on Nigeria's revenue receipts.





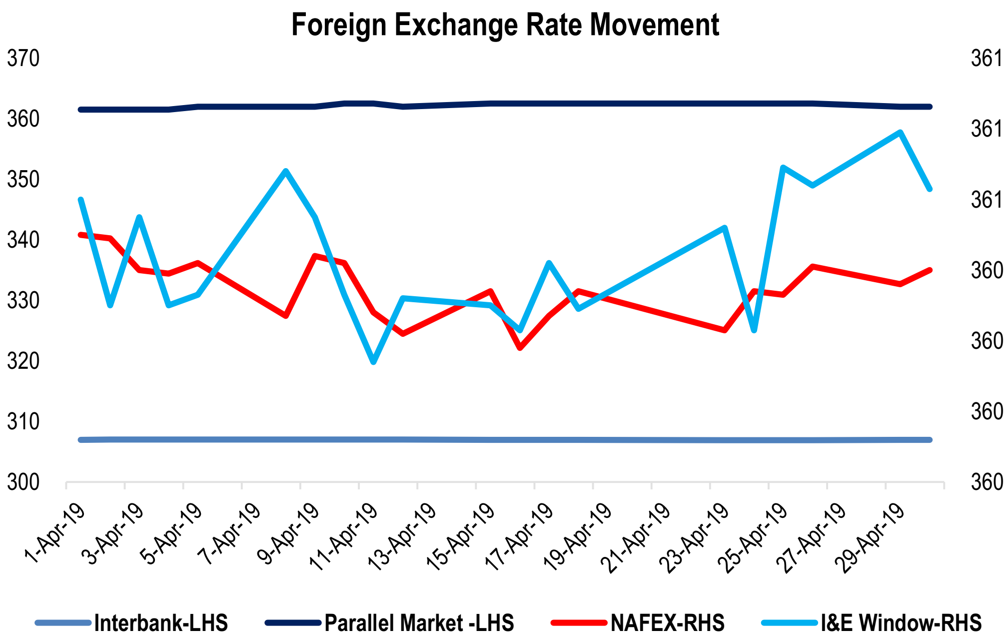
Sources: OPEC and Thomson Reuters

1.10 Foreign Exchange Rate:

The price of crude oil above US$70/b and the continued FPI inflows (albeit at a slower pace) continued to provide short-term stability in the foreign exchange market in April 2019. FSDH Research observed a marginal appreciation in the value of the Naira in the I&E Window, while it depreciated at the parallel market. The value of the Naira remained unchanged at the inter-bank market. Additionally, the premium between the inter-bank and parallel markets narrowed further in April 2019 compared with March 2019.

The price of crude oil above US$70/b and the continued FPI inflows (albeit at a slower pace) continued to provide short-term stability in the foreign exchange market.

Month-on-month, the value of the Naira remained unchanged to close at N306.95/US at the inter-bank market while it depreciated by 0.14% to close at N362/US$ at the parallel market at the end of April compared with March 2019. At the I&E window, it appreciated marginally by 0.01% to stand at N360.63/US$ at end-April. The highest rates recorded at the inter-bank, parallel market and I&E window in April were N307.00/US$, N362.50/US$ and N360.79/US$ respectively. The lowest values were N306.90/US$, N361.50/US$ and N360.14/US$ respectively.



Sources: FMDQ and Cash Hunters

2.0 Interest Rate and Yield Analysis:

The fixed income securities market was characterised by mixed reactions in April 2019

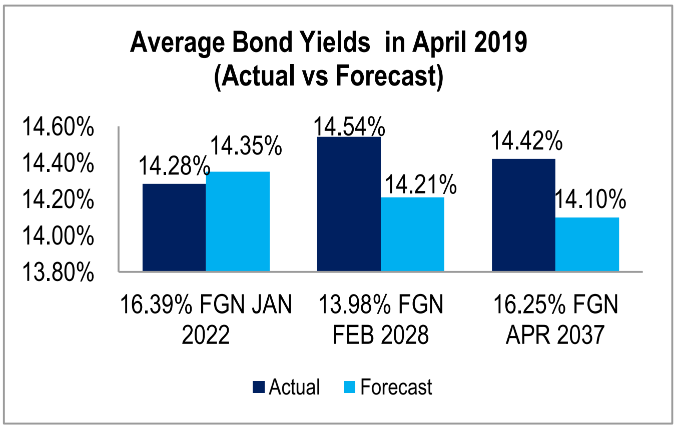
The fixed income securities market was characterised by mixed reactions in April 2019. Lower yields however, dominated the latter part of the month as the nation's macroeconomic factors remained relatively stable. These factors include the declining inflation rate, higher crude oil prices, further expansion in the PMI and stability in the foreign exchange rate.

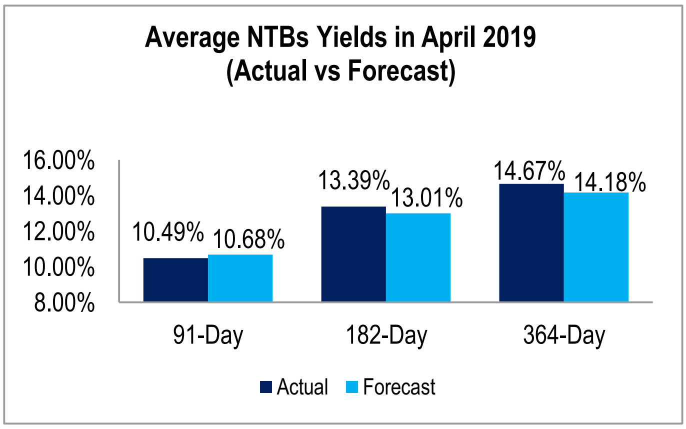
Lower yields however, dominated the latter part of the month as the nation's macroeconomic factors remained relatively stable.

The fixed income market analysis for the month of April 2019 shows a net outflow of N572bn, compared with a net outflow of N1.27trn in March. The major outflows in April were the Open Market Operations (OMO) and Repurchase (REPO) Bills of N693bn, CBN's Foreign Exchange Sale of N408bn, Primary Nigerian Treasury Bills (NTBs) of N154bn and the FGN Bond auction of N97bn. Meanwhile, in March 2019, the major outflows were the OMO and REPO of N1.66trn, CBN's Foreign Exchange Sale of N412bn, Primary NTBs of N138bn and the FGN Bond auction of N29bn. The major inflows in April were the matured OMO and REPO Bills of N295bn, matured NTBs of N154bn, and the Federation Account Allocation Committee (FAAC)'s injection of about N330bn. The major inflows in March were the matured OMO and REPO Bills of N497bn, matured NTBs of N138bn, and the FAAC's injection of about N335bn.

The average 91-Day NTB yield decreased to 10.49% in April down from 10.81% in March.

At the NTBs auction in April, average yield on two of the tenors increased while the yields on the shortest end of the market decreased, compared with March 2019. The average 91-Day NTB yield decreased to 10.49% in April, down from 10.81% in March. While the average 182-day NTB yield closed at 13.39%, up from 13.16% in March. The average 364-Day NTB yield stood at 14.67% in April from 14.41% in March.





Sources: FMDQ, Central Bank of Nigeria (CBN), and FSDH Research

The average Nigerian Interbank Offered Rate (NIBOR) moved in varying directions in April compared with March. The average 30-day NIBOR stood at 12.07% in April up from 10.83% in March, while 90-day and 180-day NIBOR decreased to 12.48% and 14.71% respectively in April 2019, down from 12.85% and 14.74% in March. The yields on the FGN Bonds that we monitored also moved in varying directions in April compared with March.

Table 5: Market Liquidity (N'bn)

	March 2019			April 2019		
	Total Inflow	Total Outflow	Net Flow	Total Inflow	Total Outflow	Net Flow
Primary Market: NTB	138	138	0	154	154	0
Open Market Operations & Rev Repo	497	1663	(1165)	295	693	(398)
Bond	2	29	(27)	1	97	(97)
FAAC	335	0	335	330	0	330
FX Market	0	412	(412)	0	408	(408)
CRR Debit/Credit	0	0	0	0	0	0
TSA Implementation	0	0	0	0	0	0
Total	**973**	**2,242**	**(1,269)**	**780**	**1,352**	**(572)**

Sources: Central Bank of Nigeria and Federal Ministry of Finance

Table 6: Average Bond Yields

	16.39% FGN JAN 2022	13.98% FGN FEB 2028	16.25% FGN APR 2037
March 2019	14.45	14.24	14.15
April 2019	14.28	14.54	14.42
Change	**(0.16)**	**0.30**	**0.28**

Source: Financial Market Dealers Quotation (FMDQ)

Table 7: Average Interest Rate and Yields

	NIBOR				Treasury Bill Yields		
	Call	30-Day	90-Day	180-Day	91-Day	182-Day	364-Day
March 2019	12.88%	10.83%	12.85%	14.74%	10.81%	13.16%	14.41%
April 2019	16.28%	12.07%	12.48%	14.71%	10.49%	13.39%	14.67%
Change	**3.39%**	**1.24%**	**(0.37%)**	**(0.03%)**	**(0.32%)**	**0.23%**	**0.26%**

Sources: CBN and FMDQ

2.1 Revised Outlook Going Forward:

The stable macroeconomic indicators are expected to continue to have a positive impact on yields in the short-to-medium term.

FSDH Research expects a total inflow of about N1.2trn to hit the money market from the various maturing government securities and FAAC in May 2019. We estimate a total outflow of approximately N804bn from the various sources, leading to a net inflow of about N392bn. The market is expected to be liquid in the month of May 2019.

The stable macroeconomic indicators are expected to continue to have a positive impact on yields in the short-to-medium term. However, we note that there are some factors that have the capacity to place upward trend on yields in the market. We expect that the interest rate and yield will rise from mid-year 2019. The factors that will drive the increases include: the deficit financing of the FGN, possible rise in inflation rate due to likely adjustments to the electricity tariff and Premium Motor Spirit (PMS) pump price. Therefore, FSDH Research expects the yields on the bonds to increase from current levels starting from mid-year.

Table 8: Expected Inflow and Outflow Analysis – May 2019 (N'bn)

Date	02-May-19	09-May-19	16-May-19	23-May-19	30-May-19	Others*	Total
Inflows	171.51	196.42	140.94	106.89	200.94	379.08	1,195.78
Outflows	108.71	-	33.84	115.00	67.37	479.00	803.92
Net flows	**62.80**	**196.42**	**107.10**	**(8.11)**	**133.57**	**(99.92)**	**391.86**

*Source: FSDH Research Analysis, *Statutory Allocation (FAAC), and Cash Reserve Requirement (CRR) Debit*

Table 9: Revised Average Yields – Actual vs Forecast

	Treasury Bills (Primary Market)			FGN Bonds (Secondary Market)		
	91-Day	192-Day	364-Day	Jan-22	Feb-28	Apr-37
Jan-19A	11.27%	14.17%	17.41%	15.07%	15.43%	15.23%
Feb-19A	11.24%	14.14%	17.18%	14.84%	14.78%	14.54%
Mar-19A	10.81%	13.16%	14.41%	14.45%	14.24%	14.15%
Apr-19A	10.49%	13.39%	14.67%	14.28%	14.54%	14.42%
May-19F	10.31%	13.12%	14.41%	14.09%	14.35%	14.24%
Jun-19F	11.73%	13.66%	14.93%	15.41%	15.86%	15.95%
Jul-19F	11.43%	13.37%	14.64%	15.11%	15.57%	15.66%
Aug-19F	11.28%	13.21%	14.48%	14.96%	15.42%	15.50%
Sep-19F	11.18%	13.12%	14.38%	14.86%	15.32%	15.41%
Oct-19F	11.26%	13.20%	14.46%	14.94%	15.40%	15.49%
Nov-19F	11.29%	13.23%	14.50%	14.97%	15.43%	15.52%
Dec-19F	11.57%	13.51%	14.77%	15.25%	15.71%	15.80%

Sources: CBN, FMDQ, and FSDH Research Forecasts

2.2 Investment Strategies:

1. **Investors should position for Commercial Paper investment opportunities during May 2019**

2. **Investors should trade in the short-end of the Treasury Bill and Bonds to enable them to respond quickly to market changes**

3. **Investors should take profit on the Eurobond investment**

The current yields on all the outstanding FGN Eurobonds are lower than the coupon rates.

The prices on the FGN Eurobonds were higher in April than in March 2019 except on the 6.75% FGN Eurobond January 2021, which remained flat. Consequently, the yields on the bonds closed lower in the month of April than in March. The attractiveness of the yields on the FGN Euro bonds compared with similar risk-profiled bonds led to an increase in prices in April 2019. **The current yields on all the outstanding FGN Eurobonds are lower than the coupon rates, reflecting the low interest rate environment in the international market. It may be a good time to take profit on the bonds as the yields may move up gradually.**

Table 10: FGN Eurobonds

	15-Year 7.875% FGN Eurobond February 2032		10-Year 6.75% FGN Eurobond January 2021		10-Year 6.375% FGN Eurobond July 2023		5-Year 5.625% FGN Eurobond June 2022	
Date	**Price (US$)**	**Yield**	**Price (US$)**	**Yield**	**Price (US$)**	**Yield**	**Price (US$)**	**Yield**
01-Apr-19	104.92	7.28%	103.55	4.69%	103.85	5.35%	101.74	5.03%
02-Apr-19	104.64	7.31%	103.42	4.76%	103.76	5.38%	101.52	5.11%
03-Apr-19	104.57	7.32%	103.44	4.74%	103.78	5.37%	101.64	5.07%
04-Apr-19	104.24	7.36%	103.43	4.74%	103.67	5.40%	101.55	5.09%
05-Apr-19	104.54	7.32%	103.49	4.70%	103.79	5.37%	101.65	5.06%
08-Apr-19	104.56	7.32%	103.44	4.73%	103.77	5.37%	101.64	5.06%
09-Apr-19	104.58	7.32%	103.44	4.73%	103.81	5.36%	101.66	5.06%
10-Apr-19	104.13	7.37%	103.46	4.71%	103.71	5.38%	101.57	5.09%
11-Apr-19	103.47	7.45%	103.36	4.76%	103.41	5.46%	101.38	5.15%
12-Apr-19	103.84	7.41%	103.40	4.73%	103.42	5.46%	101.41	5.14%
15-Apr-19	104.22	7.36%	103.51	4.67%	103.61	5.41%	101.66	5.05%
16-Apr-19	104.35	7.34%	103.44	4.70%	103.56	5.42%	101.50	5.11%
17-Apr-19	104.61	7.31%	103.54	4.64%	103.69	5.38%	101.69	5.04%
18-Apr-19	104.09	7.38%	103.39	4.72%	103.43	5.45%	101.38	5.15%
22-Apr-19	104.09	7.38%	103.36	4.74%	103.51	5.43%	101.38	5.15%
23-Apr-19	104.20	7.36%	103.38	4.72%	103.54	5.42%	101.43	5.13%
24-Apr-19	103.99	7.39%	103.40	4.71%	103.49	5.43%	101.39	5.14%
25-Apr-19	103.11	7.49%	103.20	4.81%	103.10	5.54%	101.24	5.19%
26-Apr-19	103.74	7.42%	103.32	4.74%	103.38	5.46%	101.50	5.10%
29-Apr-19	103.49	7.45%	103.36	4.71%	103.34	5.47%	101.54	5.09%
30-Apr-19	103.67	7.42%	103.41	4.68%	103.39	5.46%	101.60	5.07%

Source: Bloomberg

3.0 Equity Market:

3.1 The Secondary Market:

In April, the Nigerian Stock Exchange All Share Index (NSE ASI) recorded its largest depreciation so far during 2019.

In April, the Nigerian Stock Exchange All Share Index (NSE ASI) recorded its largest depreciation so far during 2019, dropping by 6.06% (a depreciation of 6.05% in US Dollar) to close at 29,159.74 points. Year-to-Date (YTD), the Index has depreciated by 7.22%. The market capitalisation recorded a M-o-M loss of 6.11% (a loss of 6.10% in US Dollar) to close at N10.96trn (US$30.39bn). **The difference in the rate of change between the market capitalisation and the Index was due to the listing of 1,353,580,000 ordinary shares of Skyway Aviation Handling Company Plc. Additionally, following the Scheme of Merger between Access Bank Plc and Diamond Bank Plc, 6,617,253,991 additional shares of Access Bank Plc were listed while the entire 23,160,388,968 shares of Diamond Bank were delisted.**

There was a pick-up in activity in the equity market in April.

There was a pick-up in activity in the equity market in April. The volume of stocks increased by 30.40% to 8.57bn in April 2019. Wema Bank Plc (1.55bn), Sterling Bank Plc (727.37mn), Chams Plc (496.96mn), FBN Holdings Plc (468.16mn), and Access Bank Plc (454.38mn) were the five most highly traded stocks in April. Similarly, the value of stocks traded on the NSE in April increased by 28.95% to N72.41bn, from N56.16bn in March.

All the NSE Sectoral Indices depreciated further in April.

All the NSE Sectoral Indices depreciated further in April. The NSE Industrial Index recorded the highest M-o-M depreciation of 12.98%, with a YTD depreciation of 12.85%, mainly attributable to the decrease in share prices of Cement Company of Northern Nigeria Plc. (29.65%), Lafarge Africa Plc. (6.15%) and Dangote Cement Plc. (5.76%). The NSE Consumer Goods Index recorded the second highest M-o-M depreciation of 5.78% and a YTD depreciation of 10.50%.

Table 11 : Nigerian Equity Market: Key Indicators

Month	Volume (bn)	Value (N'bn)	NSEASI	Market Cap. (N'trn)	Banking*	Insurance*	Consumer Goods*	Oil/Gas*	Industrial*
March	6.57	56.16	31,041.42	11.67	403.96	125.98	711.29	290.52	1239.73
April	8.57	72.41	29,159.74	10.96	381.71	121.27	670.18	280.65	1078.83
Change	30.40%	28.95%	(6.06%)	(6.11%)	(5.51%)	(3.74%)	(5.78%)	(3.40%)	(12.98%)
YTD			(7.22%)	(6.50%)	(4.32%)	(4.12%)	(10.50%)	(7.14%)	(12.85%)

*Sources: NSE and FSDH Research. * NSE Sectoral Indices*

Table 12: Major Earnings Announcements in April 2019						
Company and Result	**Turnover (Nm)**	**Change**	**PBT (Nm)**	**Change**	**PAT (Nm)**	**Change**
Access Bank Nigeria Plc						
3 Months Mar. 2019	160,123	10.92%	45,101	64.37%	41,148	86.05%
Zenith Bank Plc						
3 Months, Mar. 2019	158,111	-6.84%	57,293	6.10%	50,234	6.70%
Guaranty Trust Bank Plc						
3 Months, Mar 2019	110,328	1.25%	56,985	8.29%	49,303	10.37%
Nigerian Aviation Handling Company Plc						
3 Months Mar. 2019	2,629.14	20.12%	228.22	94.38%	183.58	88.16%
UBA Plc						
3 Months Mar. 2019	131,667	10.31%	30,156	13.56%	28,664	20.76%
Transnational Corporation Of Nigeria Plc						
3 Months, Mar. 2019	18,306	-30.40%	2,553	-56.99%	2,092	-61.34%
Nigerian Breweries Plc.						
3 Months, Mar. 2019	91,388	3.33%	11,458	-24.86%	8,026	21.34%
Sterling Bank Plc						
3 Months, Mar. 2019	36,491	-8.23%	3,273	3.09%	3,240	4.52%
Guinness Nig Plc						
9 Month, Mar. 2019	101,402	-3.87%	6,252	20.77%	4,252	16.45%
Unity Bank Plc						
3 Months, Mar. 2019	10,050	14.28%	505	4.10%	465	4.10%
FCMB Group Plc						
3 Months, Mar 2019	43,904	4.11%	4,296	31.93%	3,618	39.89%
Stanbic IBTC Holdings Plc						
3 Months March 2019	58,693	2.27%	23,509	-11.92%	19,150	-16.98%
Wema Bank Plc						
3 Months, Mar 2019	19,854	23.53%	1,331	50.61%	1,144	49.61%
Nascon Allied Industries						
3 Months, Mar 2019	6,820	0.77%	1,022	-34.58%	695	-34.59%
Dangote Cement Plc						
3 Months, Mar 2019	240,157	-0.81%	78,960	-27.16%	60,254	-16.46%
11 Plc (Formerly MOBIL OIL NIG PLC)						
3 Months Mar. 2019	46,072.47	2.21%	3,018.05	-25.97%	2,039.88	-25.99%
Seplat Plc						
3 Months, Mar. 2019	48,941.00	-11.40%	5,957.00	-66.88%	10,022.00	59.41%
Nestle Nigeria Plc						
3 Months, March 2019	70,966.75	5.19%	19,121.20	40.18%	12,846.32	49.27%
Source: NSE						

Table 13: Major Corporate Action Announcements in April 2019					
Company	**Result**	***DPS (N)**	**Closure Date**	**Payment Date**	**Interim/Final**
Eterna Oil & Gas Plc	Full year, Dec. 2018	0.25	14-May-19	14-Jun-19	Final
Caverton Offshore Support Group	Full year, Dec. 2018	0.25	08-May-19	21-May-19	Final
Cement Co. Of North Nig. Plc	Full year, Dec. 2018	0.50	02-Jul-19	26-Jul-19	Final
U A C N Plc	Full year, Dec. 2018	0.64	21-May-19	27-Jun-19	Final
May & Baker Nigeria Plc	Full year, Dec. 2018	0.20	22-May-19	03-Jun-19	Final
Regency Alliance Insurance Company Plc	Full year, Dec. 2018	0.03	13-May-19	19-Jun-19	Final
Nigerian Aviation Handling Company Plc	Full Year Dec. 2018	0.25	09-Jul-19	26-Jul-19	Final
AIICO Insurance Plc	Full year, Dec. 2018	0.06	10-May-19	20-May-19	Final
Source: NSE; *DPS– Dividend Per Share					

The DAX Index (Germany) recorded the highest M-o-M appreciation of 7.10% in April, with a YTD appreciation of 16.91%.

All the stock markets that we monitored in Europe and North/Latin America appreciated in April 2019. However, all the stock market indices we monitored in Africa depreciated, with the exception of the FTSE/JSE Africa All Share Index. The Shanghai Stock Exchange Composite Index (China) was the only Index that recorded a depreciation in the stock markets we monitored in Asia. The DAX Index (Germany) recorded the highest M-o-M appreciation of 7.10% in April, with a YTD appreciation of 16.91%.

Table 14: Foreign Equity Market Performance in April 2019

North/Latin America	YTD Change		Month-on-Month Change
Dow Jones Industrial Average	14.00%		2.56%
S&P 500 Index	17.51%		3.93%
NASDAQ Composite	22.01%		4.74%
Brazil Stock Market Index	9.63%		0.98%
Europe			
Swiss Market Index	15.90%		3.08%
FTSE 100 Index (UK)	10.26%		1.91%
CAC 40 Index (France)	18.09%		4.41%
DAX Index (Germany)	16.91%		7.10%
SMSI Index (Madrid, Spain)	11.86%		3.54%
Africa			
NSE All-Share Index	(7.22%)		(6.06%)
FTSE/JSE Africa All Share Index	10.98%		3.66%
Nairobi All Share Index (Kenya)	12.02%		(0.22%)
GSE Composite Index (Ghana)	(8.86%)		(4.49%)
Asia/Pacific			
NIKKEI 225 Index (Japan)	11.21%		4.97%
S&P BSE SENSEX Index (India)	8.22%		0.93%
Shanghai Stock Exchange Composite Index (China)	23.43%		(0.40%)
Hang Seng Index (Hong Kong)	14.91%		2.23%

Sources: Bloomberg and Nigerian Stock Exchange (NSE)

3.2. Outlook for the Month of May 2019:

We expect the following factors to drive performance of the equity market in the short-term:

- The drop in yields on fixed income securities
- Crude oil price above US$70/b
- Stability in the foreign exchange market
- Inflow of FPI
- Listing of MTN Nigeria Plc

FSDH Research expects portfolio allocation in favour of the equity market very soon.

3.3. Strategies:

- Investors should position in stocks that have good fundamentals and are currently trading below their fair value
- Investors should take position in stocks that have a history of good dividend payment
- Investors should also position for the listing of MTN Nigeria Plc
- We see opportunities in the banking, consumer goods, building materials, and oil and gas sectors of the equity market

The equity market recorded more appreciations than depreciations in the last six years between April and May. Given the drop in the yields on fixed income securities and the oversold position of the equity market, FSDH Research expects portfolio allocation in favour of the equity market very soon.

Table 15: Equity Market Trend Analysis (2013-2018) – NSE ASI Analysis

	Year					
Months	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
April	33,440.57	38,492.13	34,708.11	25,062.41	25,758.51	41,268.01
May	37,794.75	41,474.40	34,310.37	27,663.16	29,498.31	38,104.54
Change	**13.02%**	**7.75%**	**(1.15%)**	**10.38%**	**14.52%**	**(7.67%)**

Sources: The Nigerian Stock Exchange (NSE) and FSDH Research Analysis

Table 16: Revised Asset Allocation	
Asset Class	**Fund Allocation**
Equities	25%
Fund Placement	10%
Treasury Bills	25%
Real Estate Investment Trust (REIT)	5%
Bonds	20%
Collective Investment Schemes	15%

Source: FSDH Research

Table 17: Stock Recommendation One Year Target Price

Stocks	Max Entry Price	52 Week Low	52 Week High	Trailing EPS	Trailing PE Ratio	Target Price
Dangote Cement	179.00	170.00	260.00	22.21	8.06	240.00
Dangote Sugar	14.00	12.45	22.25	1.98	7.09	18.00
FBNH	7.50	6.80	13.45	1.69	4.44	11.00
Flour Mills	16.00	15.25	37.00	2.02	7.94	25.00
GT Bank	32.30	31.30	45.65	6.43	5.02	45.00
Nigerian Breweries	65.50	56.90	130.00	2.16	30.35	81.49
UBA	6.60	6.00	11.90	2.44	2.70	9.50
Zenith Bank	20.45	19.60	28.90	6.26	3.27	32.00
Seplat	579.90	520.00	769.00	82.59	7.02	760.00
11 Plc	173.00	150.00	200.00	23.88	7.24	218.14

Source: FSDH Research

Table 18: Bond Recommendation

S/N	Security Description	Tenor To Maturity (Yrs)	Coupon	Current Price (N)	Current Yield	Modified Duration
1	16.39% FGN JAN 2022	2.72	16.39%	104.03	14.51%	2.07
2	13.98% FGN FEB 2028	8.81	13.98%	97.10	14.56%	4.79
3	16.25% FGN APR 2037	17.94	16.25%	110.70	14.55%	6.18

Source: FSDH Research Prices and yields as at 08 May, 2019

The prices of the Eurobonds of the following companies are trading at discounts to their face values: Access Bank, First Bank and Ecobank, all of which offer attractive prices and yields. Investments in these securities may generate good returns for investors who have US Dollar liquidity and can take the associated risks.

Table 19: Attractive Fixed Income Securities Trading on the FMDQ as at 08 May, 2019

Issuer	Description	Coupon	Maturity Date	TTM (Years) *	Current Yield	Price
State Bonds						
Lagos	14.50% LAGOS 22-NOV-2019	14.50%	22-Nov-19	0.54	14.51%	99.97
Lagos	13.50% LAGOS 27-NOV-2020	13.50%	27-Nov-20	1.56	15.66%	97.10
Corporate Bonds						
FCMB	15.00% FCMB 6-NOV-2020	15.00%	06-Nov-20	1.50	18.79%	95.25
NAHCO	15.25% NAHCO II 14-NOV-2020	15.25%	14-Nov-20	1.52	15.33%	99.88
Transcorp Hotels Plc	15.50% TRANSCORP 4-DEC-2020	15.50%	04-Dec-20	0.87	17.44%	98.50
Lafarge Africa Plc	14.75% LAFARGE 15-JUN-2021	14.75%	15-Jun-21	2.10	15.62%	98.45
FCMB	14.25% FCMB I 20-NOV-2021	14.25%	20-Nov-21	2.54	17.12%	94.33
UBA	16.45% UBA I 30-DEC-2021	16.45%	30-Dec-21	2.65	15.58%	101.76
Fidelity Bank	16.48% FIDELITY 13-MAY-2022	16.48%	13-May-22	3.01	15.76%	101.66
Transcorp Hotels	16.00% TRANSCORP 26-OCT-2022	16.00%	26-Oct-22	2.12	17.39%	97.68
Flour Mills of Nigeria	16.00% FLOURMILLS II 30-OCT-2023	16.00%	30-Oct-23	4.48	15.96%	100.10
Stanbic IBTC	182D T.Bills+1.20% STANBIC IA 30-SEP-2024	16.29%	30-Sep-24	5.40	15.31%	103.46
Stanbic IBTC	13.25% STANBIC IB 30-SEP-2024	13.25%	30-Sep-24	5.40	15.31%	92.57
Supranational Bonds						
AfDB	11.25% AFDB 1-FEB-2021	11.25%	01-Feb-21	0.98	14.18%	97.42
Corporate Eurobonds						
Zenith Bank Plc II	7.375% MAY 30, 2022	7.375%	30-May-22	3.06	5.64%	104.80
Access Bank Plc II	9.25%/6M USD LIBOR+7.677% JUN 24, 2021	9.25%	24-Jun-21	2.13	9.70%	100.40
First Bank Ltd.	8.00%/2Y USD SWAP+6.488% JUL 23 2021	8.00%	23-Jul-21	2.21	9.21%	99.13
Ecobank Nig. Ltd	8.75% AUG 14, 2021	8.75%	14-Aug-21	2.27	9.64%	99.64
Seplat Petroleum Development Company Plc	9.25% April 01, 2023	9.25%	01-Apr-23	3.90	7.80%	104.78
Commercial Paper						
Issuer	Description	Yields at Issue	Maturity Date	DTM (Years) **	Current Yield	Discount Rate (%)
Flour Mills Of Nigeria Plc	FLOUR MILLS CP VI 13-AUG-19	14.75%	13-Aug-19	97	13.43%	12.97%
Flour Mills Of Nigeria Plc	FLOUR MILLS CP IV 18-JUL-19	15.00%	18-Jul-19	71	12.29%	12.01%

*TTM – Tenor to Maturity; ** DTM- Day to Maturity
Source: FMDQ

Table 20: Select Global Bonds Issue	
Country	Bond
China	3.52% February 21, 2023
Egypt	17% April 03, 2022
India	8.15% June 11, 2022
Kenya	12.705% June 13, 2022
Nigeria	16.39% FGN January 2022
Russia	7.60% April 14, 2021
South Africa	7.75% February 28, 2023
Turkey	8.8% September 2023
United States	1.75% May 15, 2023
Source: Bloomberg	

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