

NIGERIA WEEKLY UPDATE

MONDAY, 15 NOVEMBER 2021

The re-emergence of the Fixed Income fund

This year has seen a sizeable shift in funds from Money Market funds to Fixed Income funds. As we explain on page 2, the shift can be attributed to differences in yields, but this misses the important point about mark-to-market values which lies at the core of the debate about implementing international reporting standards.

FX

Last week, the exchange rate at the Investors and Exporters Window (I&E Window) weakened by 0.19% to N415.10/US\$1. Elsewhere, the Central Bank of Nigeria's (CBN) foreign exchange (FX) reserves declined by -0.46% as CBN stepped up its interventions in the FX market. It appears that the interventions of the CBN in the I&E window and the restrictions on Bureaux de Change (BDC) operations have begun to yield positive results, resulting in the appreciation of the Naira in the parallel market by 4.26% to N540/1US\$. FX turnover in the official market has been rising recently, contributing to stability in the I&E Window rate. Now that the CBN has brought more liquidity into the official FX markets we may see continued stability there and possibly a further easing of pressure on the parallel market rate.

BONDS & T-BILLS

Last week, activity in the Federal Government of Nigeria (FGN) bond secondary market was mixed as sell-offs at the mid-to-long segments of the curve were offset by buying activity at the short end. The average benchmark yield for bonds fell marginally (-1bp) to 11.30%. However, on benchmark notes, the yield of the 10-year (+2bps to 11.92%) and 7-year (+6bps to 11.68%) bonds expanded, while the yield on the 3-year bond (-4bps to 9.47%) declined. This week, at the November primary market auction, the Debt Management Office (DMO) is expected to offer N150bn (US\$364.96m) across the January 2026, April 2037 and March 2050 bonds. We maintain our expectation that a future rise in bond yields is unlikely to be sharp as the DMO wishes to keep its debt service costs to a minimum.

Trading in the Treasury Bill (T-Bill) secondary market was bullish amidst buoyant system liquidity, and as investors reacted to the fall in the auction stop rate of the 1-year T-bill. Consequently, the average benchmark yield for T-bills fell by 15bps to 5.18%. The annualised yield on a 335-day T-bill fell by 31bps to 6.84%. At the T-bill PMA, the DMO allotted N196.17bn (US\$477.31m) worth of bills across all tenors. The stop rate on the 364-day bill dropped by 49bps to 6.50% (annualised yield, 6.95%), while the rates on the 91-day (2.50%) and 182-day (3.50%) remained unchanged. Demand was strong, with a total subscription of N574.88bn – the highest since November 2020 – implying a bid-to-offer ratio of 3.81x (versus an average of 2.51x at the last four auctions). Elsewhere, the average yield for OMO bills fell by 47bps to 5.62%, with the yield on a 326-day OMO bill falling 19bps to 6.56%.

OIL

Last week, the price of Brent fell by -0.69%, its third consecutive weekly decline, to settle at US\$82.17/bbl. Nevertheless, Brent is up 58.63% year-to-date and has traded at an average price of US\$70.15/bbl, 63.23% higher than the average of US\$43.22/bbl in 2020. Oil prices fell due to a surge in the US dollar and speculation that President Joe Biden's administration might release oil from the US Strategic Petroleum Reserve to cool prices. In addition, demand prospects have soured a bit in recent weeks as OPEC cut its Q4 2021 demand forecast by 330,000 b/d as high energy prices and inflation hamper economic recovery. Nevertheless, we reiterate that the price of Brent oil is likely to remain well above the US\$60.00/bbl mark over the rest of the year and on into the early part of next year. This is a comfortable position for the public finances of Nigeria, in our view, though this is turn depends on levels of domestic production remaining high.

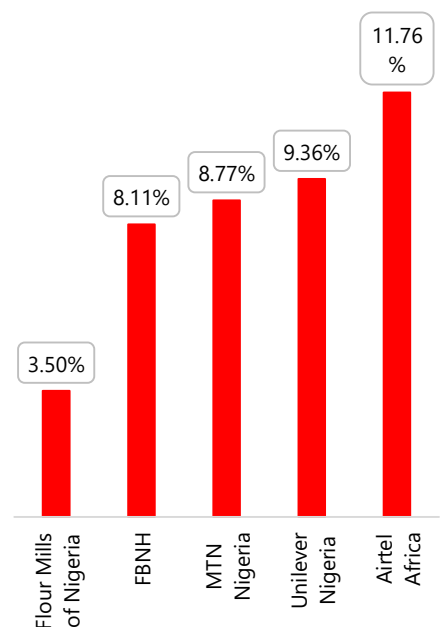
EQUITIES

The NGX All-Share index rose by +2.95% last week to close at 43,253.01 points. Consequently, the year-to-date return rose to +7.41%. Airtel Africa +11.76%, Unilever Nigeria +9.36%, MTN Nigeria +8.77% and FBNH +8.11% closed positive last week, while Honeywell Flour Mills -6.59%, Sterling Bank -3.23%, Guaranty Trust Holdco -2.66% and Zenith Bank -2.44% closed negative. Sectoral performances were mainly negative: the NGX Insurance -2.25%, NGX Banking -1.31%, NGX Oil & Gas -0.69% and NGX Industrial -0.01% indices declined, while the NGX Consumer Goods +0.63% index gained. See Model Equity Portfolio on page 3.

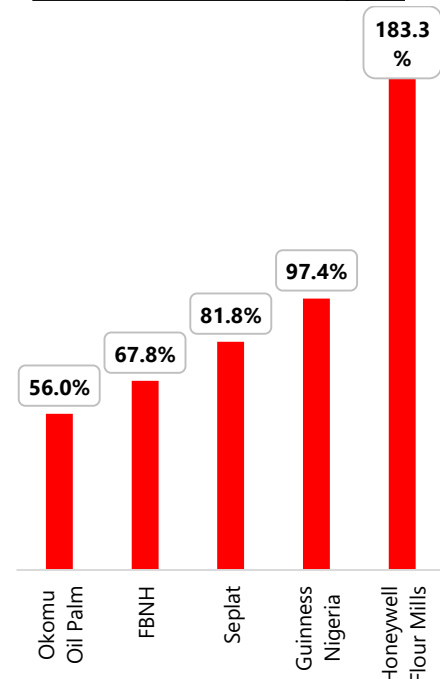
The re-emergence of the Fixed Income fund

Naira Sovereign Yields	
Spot	
326-day (OMO)	6.56%
335-day (T-bill)	6.84%
3 Year	9.47%
7 Year	11.68%
10 Year	11.92%
Inflation	15.99%
Quotes on 12 November 2021	

WOW PERFORMANCE OF C-30

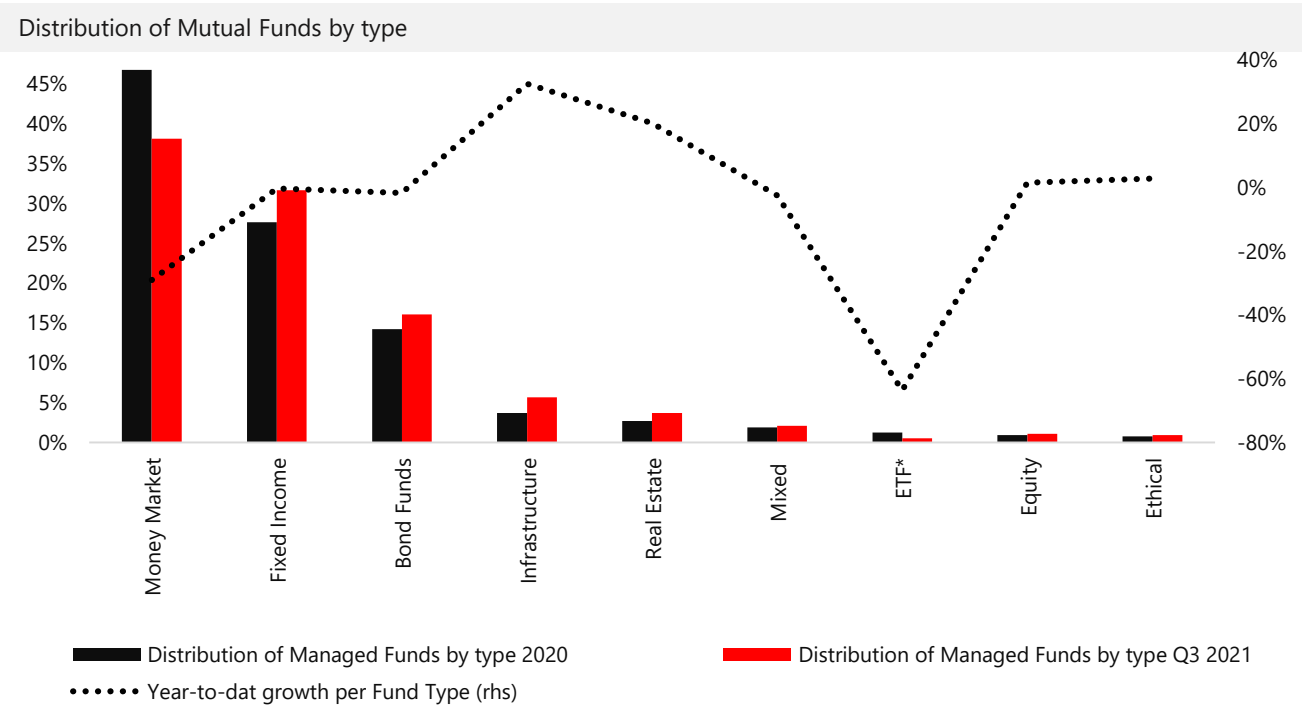


BEST PERFORMING IN 2021, YTD



The re-emergence of the Fixed Income fund.

The first nine months of 2021 saw a remarkable shift in investor appetite away from Money Market mutual funds and into Fixed Income mutual funds. Money Market funds are the mainstay of the mutual fund industry and still account for 38% of all funds under management, but lost ground to Fixed Income funds, which now account for 32% of all fund under management (see chart).

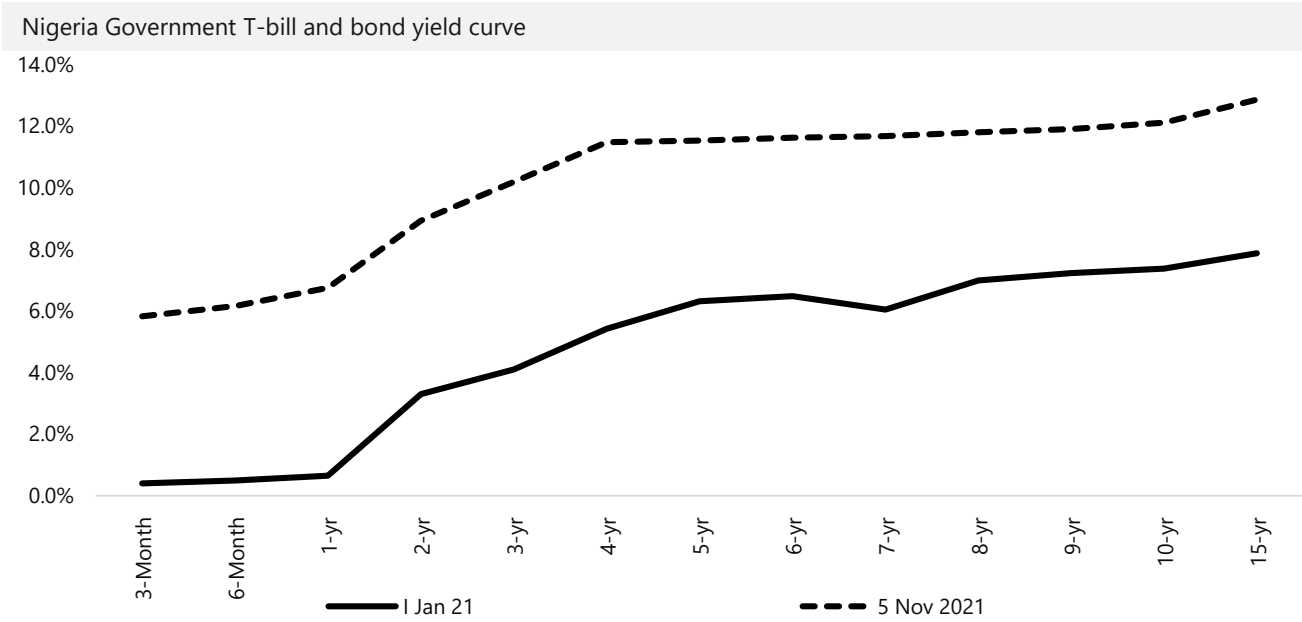


Source: Securities and Exchange Commission (SEC), Fund Managers Association of Nigeria (FMAN), Coronation Research

What has been going on? Money Market funds are designed to give investors a superior rate of return over their savings accounts with banks. Towards the end of last year this became difficult as rates of 1-year Treasury bills fell from 5.40% pa in January to 0.15% pa in early December. However, 1-year T-bill rates then rose during the first five months of the year, peaking at over 10.0% pa in mid-May,.

The problem, however, was that while rates on 1-year T-bill yields rose, the rates on short-dated T-bills remained stubbornly low. At successive Primary Market Auctions (PMA) the rates for 90-day and 180-day paper hardly moved, staying generally well below 4.00% pa. As most Money Market funds are obliged to have a weighted average duration of under 90 days, their average yields did not keep up with the rise in 1-year rates.

Meanwhile, Fixed Income funds, which predominantly hold Federal Government of Nigeria (FGN) bonds, saw their yields rise quickly, as bond rates (always over a year in duration) rose quickly. Our measure of the average FGN bond yield shows this rising by some 530bps year-to-date. So, presumably, investors were attracted by the superior yields.



Source: FMDQ, Coronation Research

Another factor is that some fund listed as Fixed Income funds invest in US dollar bonds, so some of the shift could be attributed to the appetite for US dollar bond funds that we have written about (see [Coronation Research, The rise of US dollar mutual funds, 1 Nov](#)).

If our prognosis is correct, then investors are comparing the yields of Money Market with those of Fixed Income Funds. Yet, as we explained in [Coronation Research, Mutual Funds, Comparing Apples and Oranges, 10 May](#), this is mistaken. The proper measure of a Fixed Income fund is the mark-to-market value of the securities it holds. One index of FGN bonds, provided by Bloomberg, puts this as having fallen by 16.7% year-to-date. Admittedly, the Bloomberg index consists of mostly long-dated FGN bonds (whose prices are volatile and fall when interest rates rise) but it does show that buying Fixed Income for yield needs to be weighed against mark-to-market performance when assessing the value of a fund. Mark-to-market is the basis of measuring performance according to global standards.

Model Equity Portfolio

Last week the Model Equity Portfolio rose by 3.22% compared with a rise in the NGX Exchange All-Share Index (NGX-ASI) of 2.95%, therefore outperforming it by 28 basis points. Year to date it has gained 10.54% against a gain in the NGX-ASI of 7.41%, outperforming it by 313bps.

Model Equity Portfolio for the week ending 12 November 2021							
Security	November 5, 2021 position, N	November 12, 2021 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	ytd
FBNH	149,850,000	324,000,000	1.9%	8.1%	67.8%	12	177
Zenith	787,200,000	768,000,000	4.4%	-2.4%	-3.2%	-11	-28
UBA	705,575,000	708,080,000	4.1%	0.4%	-2.0%	1	15
Guaranty Trust Hold	423,000,000	274,500,000	1.6%	-2.7%	-15.1%	-6	-105
Stanbic IBTC	747,500,000	747,500,000	4.3%	0.0%	-11.5%	0	10
MTN Nigeria	2,967,640,000	3,227,900,000	18.6%	8.8%	12.4%	155	264
Airtel Africa	2,491,398,000	2,784,296,970	16.0%	11.8%	2.3%	174	189
Dangote Cement	3,690,400,000	3,690,400,000	21.3%	0.0%	14.3%	0	363
BUA Cement	1,728,400,000	1,728,400,000	10.0%	0.0%	-3.7%	0	8
Nestle Nigeria	742,000,000	742,000,000	4.3%	0.0%	-7.0%	0	-47
Okomu Oil	424,580,000	424,580,000	2.4%	0.0%	56.0%	0	121
Presco	97,010,000	97,010,000	0.6%	0.0%	25.4%	0	27
Seplat	585,200,000	585,200,000	3.4%	0.0%	18.0%	0	55
AIICO	11,050,000	10,795,000	0.1%	-2.3%	-0.8%	-0	1
Custodian Investmer	54,925,000	53,550,000	0.3%	-9.5%	29.7%	-3	5
Cash	1,212,662,400	1,194,327,502	6.9%	0.0%	0.0%	0	0
Total	16,818,390,400	17,360,539,472	100%	3.22%	10.54%	322	1,054

Source: Coronation Research

More so that any other week of this year, we felt like passengers last week. Following an announcement from the Central Bank of Nigeria (CBN) that could lead to telecom companies being allowed to participate in the money transfer business, MTN Nigeria rallied by 8.8% and Airtel Africa rallied by 11.8%. All we could do is sit back and watch the market rocket upwards.

All the same, our notional overweigh position in banks continued to cost us, and this week we will continue to move towards a neutral position here, as advised last week. And, again like last week, we shall continue to build, liquidity permitting, a notional position in Custodian Investments.

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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Security Name	Available Disclosure
Nestle Nigeria	
Flour Mills of Nigeria	G
Unilever Nigeria	G
PZ Cussons Nigeria	G

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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.
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	Date	Recommendation	Date	Recommendation	Date	Recommendation	Current price, Naira/s	Target price, Naira/s
Zenith	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Buy	21.80	27.50
GT Bank	02-Jan-19	Hold	08-May-19	Hold	08-Jan-20	Buy	31.25	37.50
Access	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Buy	10.30	11.25
FBNH	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Buy	6.50	12.50
UBA	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Buy	8.85	11.50
Stanbic IBTC	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Buy	42.50	61.35
Fidelity	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Hold	2.02	2.50
Sterling	02-Jan-19	Hold	08-May-19	Hold	08-Jan-20	Hold	2.00	1.90

	Date	Recommendation	Current Price, Naira/s	Target price, Naira/s
Nestle Nig.	17-May-19	Hold	1,300	1,213.89
Flour Mills of Nig.	17-May-19	Hold	13.50	18.29
Unilever Nig.	17-May-19	Hold	29.45	28.39
PZ Cussons Nig.	17-May-19	Hold	5.90	8.22

Coronation Research Investment Rating Distribution	
Buy	66.7%
Sell	0%
Hold	33.3%
Under Review	0%

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