

# NIGERIA WEEKLY UPDATE

MONDAY, 18 OCTOBER 2021

## What happens to Nigeria if US equities fall?

The international financial press is full of the inflation story. What happens if inflation takes root in the US and puts the US equity market into reverse? The question is relevant because the US equity markets have been the default investment for many wealthy individuals for years. Would a fall in US equities drag down the Nigerian market? The answer is, most likely, no; the Nigerian market does not correlate with US or international markets. See pages 2 & 3.

### FX

Last week, the exchange rate at the Investors and Exporters Window (I&E Window) fell to a record low of N422.07/US\$1 before settling at N415.07/US\$1 (-0.19% w/w). The Central Bank of Nigeria's FX reserves rose by 3.76% to US\$39.62bn, the highest level since 5 December 2019. The accretion reflects, in our view, the US\$3.50bn International Monetary Fund's (IMF) Special Drawing Right (SDR) allocation to Nigeria and the FGN's issues of US\$4.00bn in Eurobonds last month. Nevertheless, FX turnover on the official markets remains low in comparison with levels seen in previous years. Our view remains that there may be continued pressure on the official and parallel exchange rates if the CBN does not increase supply.

### BONDS & T-BILLS

Last week, activity in the Federal Government of Nigeria (FGN) bond secondary market was mixed, as market players remained on the sidelines awaiting further clarity on the direction of yields. The average benchmark yield for bonds fell marginally (-1bp) to 11.33%. On benchmark notes, the yield of the 10-year (-3bps to 11.97%), 7-year (-4bps to 11.71%), and 3-year (-2bps to 9.20%) FGN Naira-denominated bonds all tightened, slightly. On Wednesday, the Debt Management Office (DMO) is due to offer N150bn (US\$365mn) worth of instruments through re-openings of the January 2026, April 2037 and March 2050 bonds at the primary auction. Nevertheless, we reiterate our expectation that a future rise in bond yields, if any, is unlikely to be sharp over the coming months due to unaggressive borrowing as the DMO manages its debt service costs.

Trading in the Treasury Bill (T-Bill) secondary market was mainly bullish, as market participants sought to fill unmet demand in the recent primary market auction (PMA) and reacted to the fall in the stop rate of the 1-year bill. Consequently, the average benchmark yield for T-bills fell by 7bps to 5.20%. However, the annualised yield on a 328-day T-bill expanded by 38bps to 7.36%. At the PMA, the DMO allotted N187.23bn (US\$455.56m) worth of bills across all tenors. The rate on the 364-day bill dropped by 25bps to 7.25% (annualised yield: 7.82%). Demand was strong, as a total subscription of N493.03bn – the highest level since July 2021 – was recorded, implying a bid-to-offer ratio of 4.05x (versus an average of 1.87x at the last four auctions). Elsewhere, the average yield for OMO bills closed flat at 6.47% while the yield on a 305-day OMO bill fell by 1bp to 7.32%.

### OIL

The price of Brent closed at US\$84.86/bbl last week, its highest level since 2 October 2018. Last week's gain marked the sixth consecutive weekly gain for the commodity. Year-to-date, Brent is up 63.82% and it has traded at an average price of US\$68.78/bbl, 59.14% higher than the average of US\$43.22/bbl in 2020. The price has continued to rally amidst the persisting energy crunch in Europe and China and constrained supplies from major producers. Skyrocketing prices of gas and coal are precipitating a switch to oil products. Elsewhere, the Organisation of the Petroleum Exporting Countries (OPEC), in its Monthly Oil Market Report (MOMR) for October, revised its estimate for global oil demand growth downwards for 2021 to 5.8mbpd (previously 5.96mbpd). According to the report, the world is expected to consume 96.6mbpd of petroleum products this year and an average of 100.8mbpd in 2022. Consequently, we reiterate our view that the price of Brent oil is likely to remain well above the US\$60.00/bbl mark for several months.

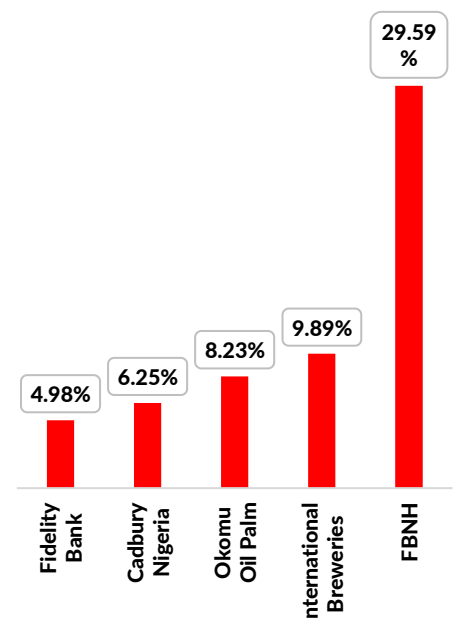
### EQUITIES

The Nigerian equities market recorded its fifth consecutive weekly gain, edging higher by 1.39% to close at 41,438.15 points – its highest level since 9 February 2021. Consequently, the year-to-date return rose to +2.90%. FBN Holdings +29.59%, International Breweries +9.89%, Okomu Oil Palm +8.23% and Cadbury Nigeria +6.25% closed positive last week, while Nigerian Breweries -3.23%, Guinness Nigeria -1.86%, Sterling Bank -0.65% and Oando -0.38% dropped points. Sectoral performances were bullish as the NGX Insurance index led the gainers, rising by 1.60%, followed by the NGX Industrial +0.98%, NGX Oil & Gas +0.64%, NGX Consumer Goods +0.47% and NGX Banking +0.06% indices. See page 4 for the Model Equity Portfolio.

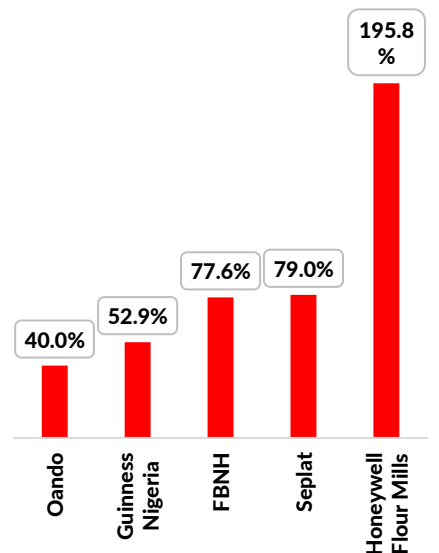
### If US equities fall

Naira Sovereign Yields	
Spot	
305-day (OMO)	7.32%
328-day (T-bill)	7.36%
3 Year	9.20%
7 Year	11.71%
10 Year	11.97%
Inflation	16.63%
Quotes on 15 October 2021	

### WOW PERFORMANCE OF C-30



### BEST PERFORMING IN 2021, YTD

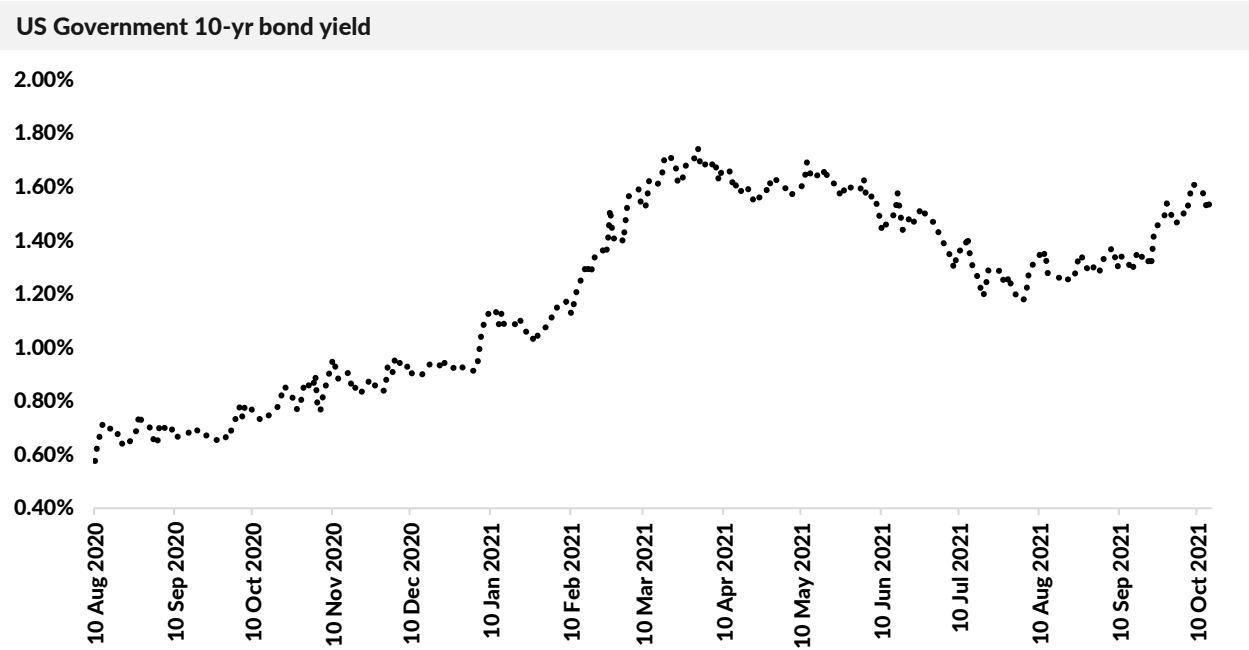


Source: NGX Exchange, FMDQ, NBS

# What happens to Nigeria if US equities fall?

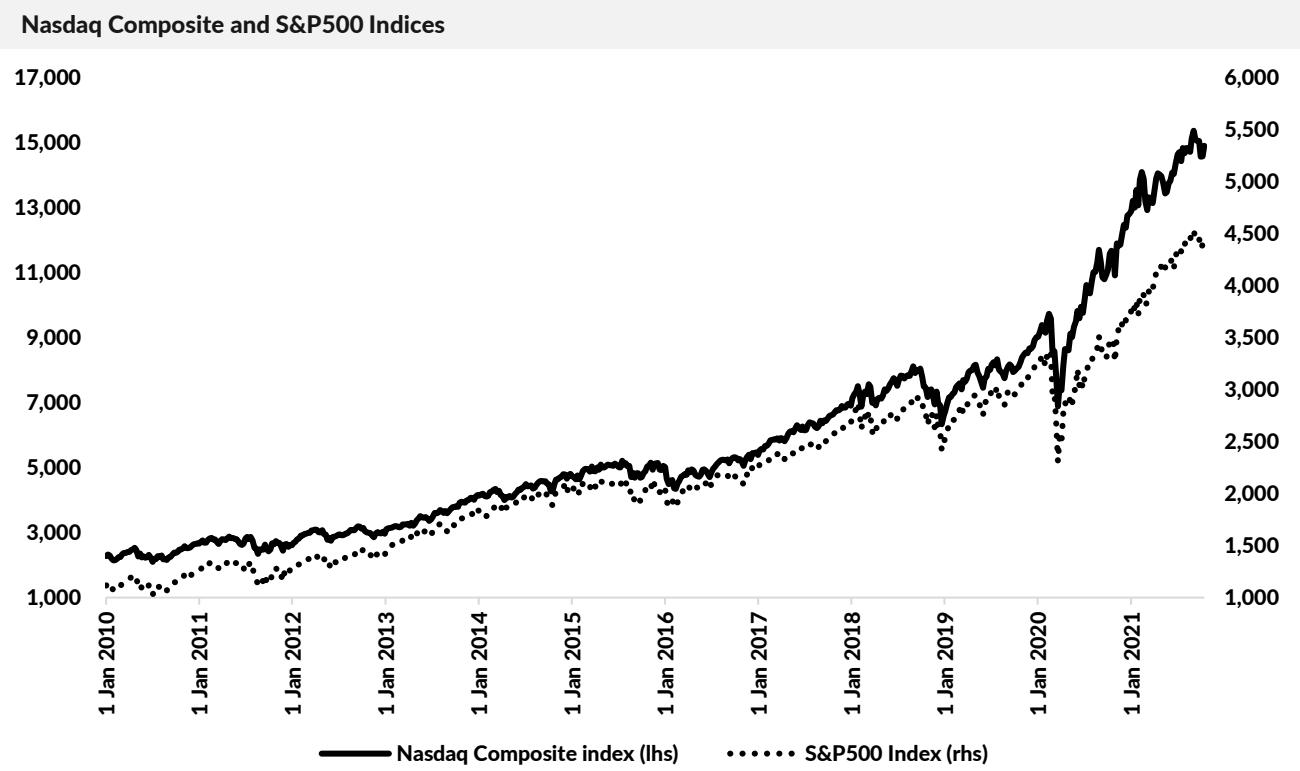
Early this year it looked as if US inflation was on the rise. This was reflected in the yield of the US Government 10-year bond which rose from 0.68% pa in October 2020 to 1.74% pa in March 2021. Thereafter the yield fell, confounding those who had sold the 10-year bond earlier. Yet the yield has moved back up, closing last week at 1.57% pa.

At least two venerable market strategists of international repute have weighed in on the subject recently, one being Stephen Roach, former Chief Economist at Morgan Stanley and now a faculty member at Yale University, another being John Plender of the Financial Times. Both warn that policy makers are likely to respond too slowly to the build-up of inflationary pressure, Roach adding that the problem of inflation has been absent for so long (in developed markets) that policy makers no longer remember how to deal with it.



Source: Bloomberg, Coronation Research

This article is not the place to judge whether inflation in developed markets will continue to rise or not. Our point is that a very long period of low inflation, accommodative monetary policies and low interest rates in the US have coincided - one could say aided - a long bull run in US equity markets, notably the S&P500 and the Nasdaq Composite indices.

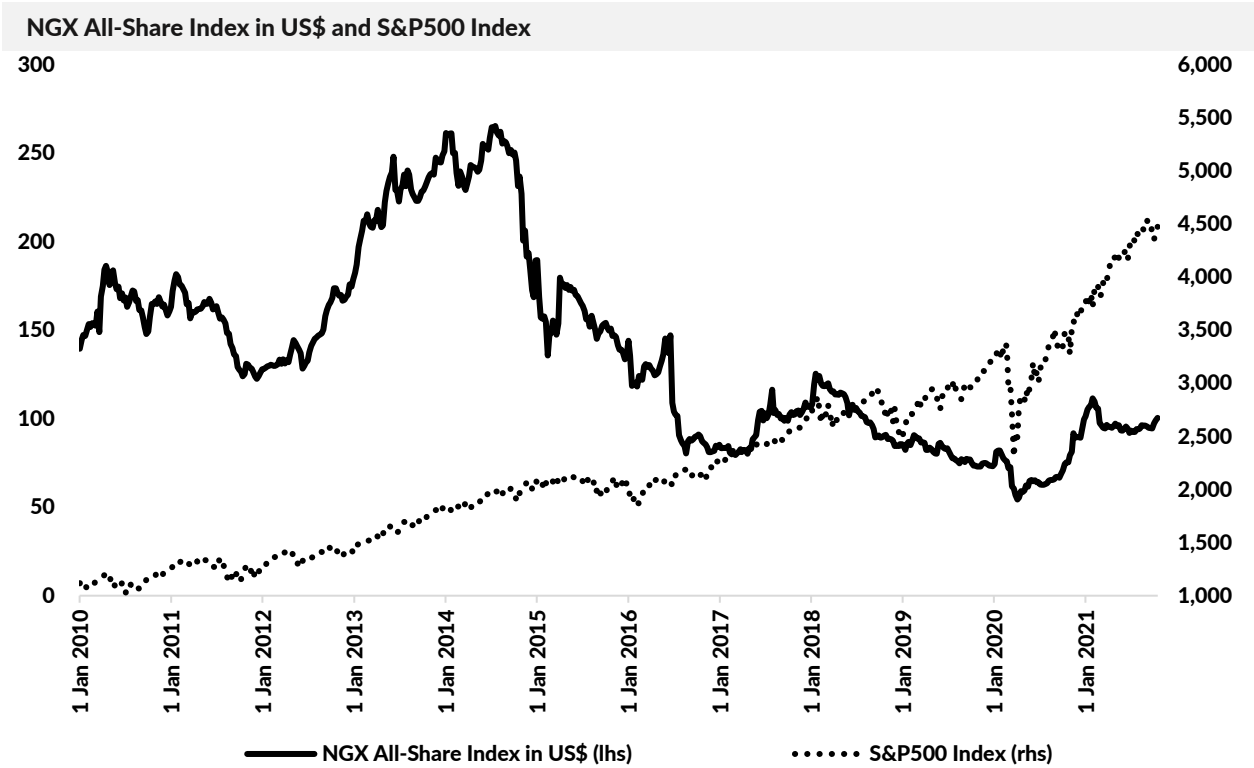


Source: Bloomberg, Coronation Research

Over the past six weeks both indices have faltered, the S&P500 having fallen by 1.27% and the Nasdaq Composite by 2.37%. This, of course, may not mean very much. Both markets have fallen by much more during various setbacks over the past decade, only to continue to rally. And the relationship between US government bond yields and US equity markets is complex (the negative correlation is weak). Nevertheless, investors might want to start to think about what would happen if the long bull run in US equities runs out of steam.

## The ideal non-correlating market

After all, the US equity have been a destination - almost a default destination - for wealthy individuals' funds, as well as institutional funds, for a long time. Where would investors' spare money go if not into the US equity markets? And would a downturn in US equity markets mean a downturn in the Nigerian equity market?



Source: Bloomberg, NGX Exchange, Coronation Research

On that last point, we can reply with a resounding no. The NGX All-Share Index has a negligible correlation with US markets, meaning that the NGX All-Share Index dances to its own tune. This could be good news if US equity markets turn down, as investors could look to non-correlating markets, like ours, in order to find value and returns.

Model Equity Portfolio – Week to 15 October

Last week the Model Equity Portfolio rose by 1.69% compared with a rise in the NGX Exchange All-Share Index (NGX-ASI) of 1.39%, therefore outperforming it by 29 basis points. Year to date it has gained 5.17% against a rise in the NGX-ASI of 2.90%, outperforming it by 227bps.

Model Equity Portfolio for the week ending 15 October 2021							
Security	October 8, 2021 position, N	October 15, 2021 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	ytd
FBNH	494,900,000	641,350,000	3.9%	29.6%	77.6%	90	183
Zenith	784,000,000	790,400,000	4.8%	0.8%	-0.4%	4	-14
UBA	504,825,000	527,050,000	3.2%	4.4%	-4.0%	14	6
Guaranty Trust Holding	572,000,000	592,000,000	3.6%	3.5%	-8.5%	12	-82
Stanbic IBTC	663,000,000	663,000,000	4.0%	0.0%	-11.5%	0	-44
MTN Nigeria	2,955,810,000	2,955,810,000	17.9%	0.0%	2.9%	0	91
Airtel Africa	2,427,516,000	2,427,516,000	14.7%	0.0%	-10.8%	0	-39
Dangote Cement	3,690,400,000	3,690,400,000	22.3%	0.0%	14.3%	0	363
BUA Cement	1,531,200,000	1,566,000,000	9.5%	2.3%	-12.7%	21	-96
Nestle Nigeria	784,400,000	784,400,000	4.7%	0.0%	-1.7%	0	-20
Okomu Oil	345,345,000	373,750,000	2.3%	8.2%	37.4%	17	89
Presco	92,650,000	97,010,000	0.6%	4.7%	25.4%	3	27
Seplat	568,000,000	576,000,000	3.5%	1.4%	16.1%	5	49
AIICO	7,650,000	8,075,000	0.0%	5.6%	-25.8%	0	-1
Custodian Investment Plc	32,830,000	35,770,000	0.2%	9.0%	23.7%	2	4
Cash	788,884,253	788,884,253	4.8%	0.0%	0.0%	0	0
Total	16,243,410,253	16,517,415,253	100%	1.69%	5.17%	169	517

Source: Coronation Research

We have not published an update of the Model Equity Portfolio over the five weeks prior to this one, and over the following pages we present the outputs from each of those weeks: the week to 10 September; to 17 September; to 24 September; to 30 September; to 8 October. During this period, we made no changes to the Model Equity Portfolio, other than to continue the previously-declared tactic of neutralising our positions in the big-four index weights (Airtel Africa, Dangote Cement, MTN Nigeria, BUA Cement) by making a small notional purchase of Dangote Cement, taking the notional position in it from 18.8% to 20.9% of the portfolio. Other than this, the portfolio contains exactly what it did on 3 September.

We have been fortunate to enjoy the sudden appreciation in FBN Holding shares whose price is up 69.3% over the month (there is remarkably little press commentary as to what it going on). The rally in FBN Holding has inspired buying in other banks stocks in which we have notional positions: Zenith Bank; UBA; Guaranty Trust Holding (though not Stanbic IBTC).

Other notional positions have done well, too. Okomu Oil is up 20.2%, Presco is up 11.9% and Custodian and Allied Insurance is up 9.0% over a month.

Going forward, we must be frank and put our success in our notional position in FBN Holding down to luck. Therefore, over the coming week we will begin to sell down this notional position. At the same time, we will resume building our position, liquidity permitting, in Custodian and Allied Insurance.

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.*

## Model Equity Portfolio – Week to 8 October

In the week to 8 October the Model Equity Portfolio outperformed the NGX All-Share Index by 41bps, therefore outperforming it by 194bps year to date

Model Equity Portfolio for the week ending 8 October 2021							
Security	September 30, 2021 position, N	October 8, 2021 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	ytd
FBNH	406,525,000	494,900,000	3.0%	21.7%	37.1%	55	89
Zenith	750,400,000	784,000,000	4.8%	4.5%	-1.2%	21	-18
UBA	479,425,000	504,825,000	3.1%	5.3%	-8.1%	16	-8
Guaranty Trust Holding	561,000,000	572,000,000	3.5%	2.0%	-11.6%	7	-95
Stanbic IBTC	663,000,000	663,000,000	4.1%	0.0%	-11.5%	0	-44
MTN Nigeria	2,957,500,000	2,955,810,000	18.2%	-0.1%	2.9%	-1	91
Airtel Africa	2,283,781,500	2,427,516,000	14.9%	6.3%	-10.8%	90	-39
Dangote Cement	3,690,400,000	3,690,400,000	22.7%	0.0%	14.3%	0	363
BUA Cement	1,531,200,000	1,531,200,000	9.4%	0.0%	-14.7%	0	-118
Nestle Nigeria	784,400,000	784,400,000	4.8%	0.0%	-1.7%	0	-20
Okomu Oil	337,272,000	345,345,000	2.1%	2.4%	26.9%	5	71
Presco	87,472,500	92,650,000	0.6%	5.9%	19.8%	3	25
Seplat	568,000,000	568,000,000	3.5%	0.0%	14.5%	0	44
AIICO	8,075,000	7,650,000	0.0%	-5.3%	-29.7%	-0	-1
Custodian Investment Plc	32,830,000	32,830,000	0.2%	0.0%	13.6%	0	2
Cash	788,884,253	788,884,253	4.9%	0.0%	0.0%	0	0
Total	15,930,165,253	16,243,410,253	100%	1.97%	3.42%	197	342

Source: Coronation Research

## Week to 30 September

In the week to 30 September the Model Equity Portfolio outperformed the NGX All-Share Index by 7bps, therefore outperforming it by 155bps year to date.

Model Equity Portfolio for the week ending 30 September 2021							
Security	September 24, 2020 position, N	September 30, 2020 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	ytd
FBNH	378,750,000	406,525,000	2.6%	7.3%	12.6%	18	33
Zenith	752,000,000	750,400,000	4.7%	-0.2%	-5.4%	-1	-40
UBA	476,250,000	479,425,000	3.0%	0.7%	-12.7%	2	-24
Guaranty Trust Holding	555,000,000	561,000,000	3.5%	1.1%	-13.3%	4	-102
Stanbic IBTC	663,000,000	663,000,000	4.2%	0.0%	-11.5%	0	-44
MTN Nigeria	2,957,500,000	2,957,500,000	18.6%	0.0%	3.0%	0	92
Airtel Africa	2,283,781,500	2,283,781,500	14.3%	0.0%	-16.1%	0	-130
Dangote Cement	3,229,100,000	3,690,400,000	23.2%	14.3%	14.3%	299	363
BUA Cement	1,577,600,000	1,531,200,000	9.6%	-2.9%	-14.7%	-30	-118
Nestle Nigeria	742,000,000	784,400,000	4.9%	5.7%	-1.7%	27	-20
Okomu Oil	328,900,000	337,272,000	2.1%	2.5%	24.0%	5	66
Presco	79,570,000	87,472,500	0.5%	9.9%	13.1%	5	21
Seplat	568,000,000	568,000,000	3.6%	0.0%	14.5%	0	44
AIICO	8,160,000	8,075,000	0.1%	-1.0%	-25.8%	-0	-1
Custodian Investment Plc	32,830,000	32,830,000	0.2%	0.0%	13.6%	0	2
Cash	788,884,253	788,884,253	5.0%	0.0%	0.0%	0	0
Total	15,421,325,753	15,930,165,253	100%	3.30%	1.43%	330	143

Source: Coronation Research

Model Equity Portfolio – Week to 24 September

In the week to 24 September the Model Equity Portfolio underperformed the NGX All-Share Index by 11bps, therefore outperforming it by 144bps year to date

Model Equity Portfolio for the week ending 24 September 2021							
Security	September 17, 2021 position, N	September 24, 2021 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	ytd
FBNH	378,750,000	378,750,000	2.5%	0.0%	4.9%	0	15
Zenith	761,600,000	752,000,000	4.9%	-1.3%	-5.2%	-6	-39
UBA	482,600,000	476,250,000	3.1%	-1.3%	-13.3%	-4	-26
Guaranty Trust Holding	560,000,000	555,000,000	3.6%	-0.9%	-14.2%	-3	-106
Stanbic IBTC	663,000,000	663,000,000	4.3%	0.0%	-11.5%	0	-44
MTN Nigeria	2,957,500,000	2,957,500,000	19.2%	0.0%	3.0%	0	92
Airtel Africa	2,283,781,500	2,283,781,500	14.8%	0.0%	-16.1%	0	-130
Dangote Cement	3,229,100,000	3,229,100,000	20.9%	0.0%	0.0%	0	69
BUA Cement	1,577,600,000	1,577,600,000	10.2%	0.0%	-12.1%	0	-88
Nestle Nigeria	742,000,000	742,000,000	4.8%	0.0%	-7.0%	0	-47
Okomu Oil	310,960,000	328,900,000	2.1%	5.8%	20.9%	12	60
Presco	86,655,000	79,570,000	0.5%	-8.2%	2.9%	-5	16
Seplat	568,000,000	568,000,000	3.7%	0.0%	14.5%	0	44
AIICO	8,075,000	8,160,000	0.1%	1.1%	-25.0%	0	-1
Custodian Investment Plc	32,830,000	32,830,000	0.2%	0.0%	13.6%	0	2
Cash	788,884,253	788,884,253	5.1%	0.0%	0.0%	0	0
Total	15,431,335,753	15,421,325,753	100%	-0.06%	-1.81%	-6	-181

Source: Coronation Research

Week to 17 September

In the week to 17 September the Model Equity Portfolio underperformed the NGX All-Share index by 7bps, therefore outperforming it by 155bps year-to-date

Model Equity Portfolio for the week ending 17 September 2021							
Security	September 10, 2021 position, N	September 17, 2021 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	ytd
FBNH	381,275,000	378,750,000	2.5%	-0.7%	4.9%	-2	15
Zenith	768,000,000	761,600,000	4.9%	-0.8%	-4.0%	-4	-32
UBA	482,600,000	482,600,000	3.1%	0.0%	-12.1%	0	-22
Guaranty Trust Holding	541,000,000	560,000,000	3.6%	3.5%	-13.4%	12	-102
Stanbic IBTC	659,600,000	663,000,000	4.3%	0.5%	-11.5%	2	-44
MTN Nigeria	2,915,250,000	2,957,500,000	19.2%	1.4%	3.0%	27	92
Airtel Africa	2,283,781,500	2,283,781,500	14.8%	0.0%	-16.1%	0	-130
Dangote Cement	3,229,100,000	3,229,100,000	20.9%	0.0%	0.0%	0	69
BUA Cement	1,577,600,000	1,577,600,000	10.2%	0.0%	-12.1%	0	-88
Nestle Nigeria	742,000,000	742,000,000	4.8%	0.0%	-7.0%	0	-47
Okomu Oil	328,900,000	310,960,000	2.0%	-5.5%	14.3%	-12	49
Presco	86,655,000	86,655,000	0.6%	0.0%	12.1%	0	21
Seplat	607,760,000	568,000,000	3.7%	-6.5%	14.5%	-26	44
AIICO	8,415,000	8,075,000	0.1%	-4.0%	-25.8%	-0	-1
Custodian Investment Plc	32,830,000	32,830,000	0.2%	0.0%	13.6%	0	2
Cash	788,884,253	788,884,253	5.1%	0.0%	0.0%	0	0
Total	15,433,650,753	15,431,335,753	100%	-0.01%	-1.75%	-1	-175

Source: Coronation Research

## Model Equity Portfolio – Week to 10 September

In the week to 10 the Model Equity Portfolio underperformed the NGX All-Share Index by 11bps, therefore outperforming it by 162bps year to date.

Model Equity Portfolio for the week ending 10 September 2021							
Security	September 3, 2021 position, N	September 10, 2021 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	ytD
FBNH	378,750,000	381,275,000	2.5%	0.7%	5.6%	2	17
Zenith	771,200,000	768,000,000	5.0%	-0.4%	-3.2%	-2	-28
UBA	492,125,000	482,600,000	3.1%	-1.9%	-12.1%	-6	-22
Guaranty Trust Holding	557,000,000	541,000,000	3.5%	-2.9%	-16.4%	-10	-114
Stanbic IBTC	675,750,000	659,600,000	4.3%	-2.4%	-11.9%	-10	-46
MTN Nigeria	2,915,250,000	2,915,250,000	18.9%	0.0%	1.5%	0	65
Airtel Africa	2,395,575,000	2,283,781,500	14.8%	-4.7%	-16.1%	-72	-130
Dangote Cement	2,935,100,000	3,229,100,000	20.9%	0.0%	0.0%	2	69
BUA Cement	1,577,600,000	1,577,600,000	10.2%	0.0%	-12.1%	0	-88
Nestle Nigeria	742,000,000	742,000,000	4.8%	0.0%	-7.0%	0	-47
Okomu Oil	328,900,000	328,900,000	2.1%	0.0%	20.9%	0	60
Presco	86,655,000	86,655,000	0.6%	0.0%	12.1%	0	21
Seplat	607,760,000	607,760,000	3.9%	0.0%	22.5%	0	70
AIICO	8,755,000	8,415,000	0.1%	-3.9%	-22.7%	-0	-1
Custodian Investment Plc	32,095,000	32,830,000	0.2%	2.3%	13.6%	0	2
Cash	1,080,484,253	788,884,253	5.1%	0.0%	0.0%	0	0
Total	15,584,999,253	15,433,650,753	100%	-0.97%	-1.73%	-97	-173

Source: Coronation Research



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Flour Mills of Nigeria	G
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RATINGS AND PRICE TARGET HISTORY

	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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