

NIGERIA WEEKLY UPDATE

MONDAY, 17TH MAY 2021

Do you want a 15.0% Naira return?

For the past 18 months investors in 1-year risk-free Nigerian Treasury Bills (T-bills) have been denied a return anywhere near the rate of inflation. Yet this has begun to change and, we believe, conditions are set to improve still further. After the radical interest rate policies of 2020, we see a return to something close to normality. We believe that we may see 1-year T-bill rates at close to 15.0% on a three-month time horizon, and even 17.0% later on in Q3 2021. See pages 2 and 3 for details.

FX

Last week the exchange rate in the Investors and Exporters Window (I&E Window) weakened by 0.33% to close at N411.67/US\$1. In the parallel (or street) market, the Naira weakened by 0.21% to close at N484.00/US\$1. Elsewhere, Central Bank of Nigeria's (CBN) FX reserves fell to US\$34.57bn, a loss of 0.40% in the week. The CBN removed the official exchange rate of N379.00/US\$1 from its website in a move seen by many as an attempt to unify multiple exchange rates. There has not been any official communication on this topic. However, this suggests that the NAFEX rate has been adopted as the reference exchange rate for official transactions and is in line with the Minister of Finance's March comments that monthly Federal Accounts Allocation Committee (FAAC) distributions are to be done with reference to the NAFEX rate. We also note that the World Bank has linked approval of a US\$1.5 billion loan on the unification of exchange rates. Nonetheless, persisting FX illiquidity in the I&E Window, and the parallel market rate's weakness still suggest that pressure on the I&E rate is likely to continue, in our view.

BONDS& T-BILLS

Last week, trading in the secondary market was slightly bullish following renewed interest at the mid-to-long segments of the curve. The yield for an FGN Naira-denominated bond with 10 years to maturity fell by 6bps to 13.25%, the yield on the 7-year bond fell by 8bps to 13.02%, and the yield on a 3-year bond fell by 1bp to 12.05%. Thus, the overall average benchmark yields for the week declined by 8bps w/w to close at 12.29%. Selloffs are expected to resume this week amidst the persisting bearish sentiment in the market. We also expect rates to take a cue from auction stop rates; the CBN is offering N150bn in bonds at Wednesday's primary auction. Amidst tight liquidity conditions, we expect auction rates to move higher than the previous auction.

Last week, the annualised yield on a 349-day T-bill in the secondary market rose by 121bps to 9.25%, while the yield on a 305-day OMO bill fell by 2bps to 9.88%. The Nigerian Treasury Bill Auction was oversubscribed last week. At the auction, the CBN offered a total of N117.56bn (US\$286.73m) and with a total allotment of N138.99bn, comprising of N8.44bn for 91-day, N7.99bn for 182-day, and N122.56bn for 364-day bills. Stop rates for the 91-day bill rose by 50bps to 2.50%, while the rates on the 182-day (3.50%) and 364-day (9.75%) remained unchanged. We expect secondary market yields to trend higher over the coming weeks amidst the continued squeeze on system liquidity.

Oil

The price of Brent crude rose by 0.63% last week, closing at US\$68.71/bbl, meaning a 32.64% increase year-to-date. The average price year-to-date is US\$62.97/bbl, 45.69% higher than the average of US\$43.22/bbl in 2020. Oil prices rose last week as the Colonial Pipeline restarted product supply following the cyber-attack. In its monthly report, the Organization of the Petroleum Exporting Countries (OPEC) was optimistic that the increased pace of vaccinations and rising fuel demand will raise global oil demand by 5.95 million barrel per day (bpd) this year, despite the current COVID crisis in India. According to the report, world oil demand is set to average 96.5 million bpd in 2021, nearly 6 million bpd higher than in 2020, with the pace picking up in H2 2021. On the other hand, the International Energy Agency (IEA) revised down its oil demand forecast for 2021 by 270,000 bpd, citing weak demand in Europe, OECD Americas, and India. Our view is that oil prices are likely to remain well above the US\$60.00/bbl mark for several weeks, at least.

EQUITIES

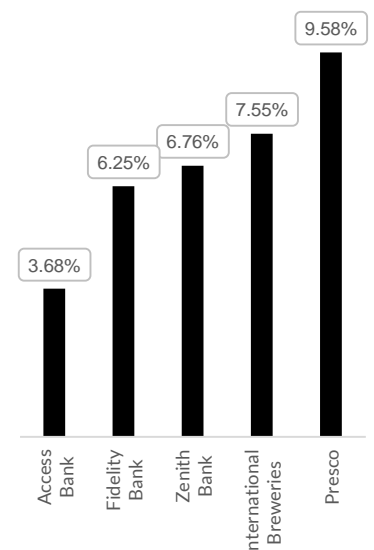
The Nigerian Stock Exchange All-Share Index (NGX-ASI) advanced by 0.75% in the three trading sessions of last week, reducing the year-to-date loss to -1.93%. Presco +9.58%, International Breweries +7.55%, Zenith Bank +6.76%, and Fidelity Bank +6.25% closed positive last week, while Sterling Bank -6.92%, Okomu Oil Palm -6.31%, and Honeywell Flour Mills -5.04% closed negative. Across sectors, performance was broadly positive. We expect investors to be cautious, given the fact that fixed income yields and yields on bank deposits have improved considerably over the past few weeks. And we expect investors to react to the fact that many bank stocks have gone ex-dividend (at least, the full-year dividend) recently. See Model Equity Portfolio on page 4.

Rising T-bill yields

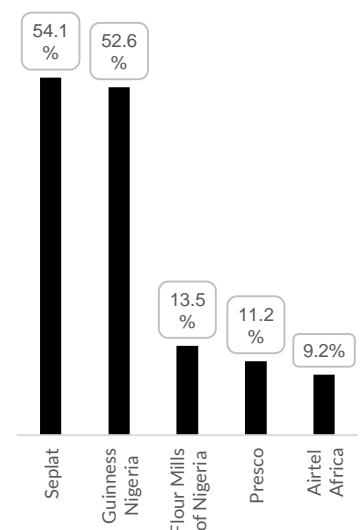
Model equity portfolio

Naira Sovereign Yields	
Spot	
305-day (OMO)	9.88%
349-day (T-bill)	9.25%
3 Year	12.05%
7 Year	13.02%
10 Year	12.25%
Inflation	18.17%
Quotes at 14 May 2021	

WOW PERFORMANCE OF C-30



BEST PERFORMING IN 2021, YTD



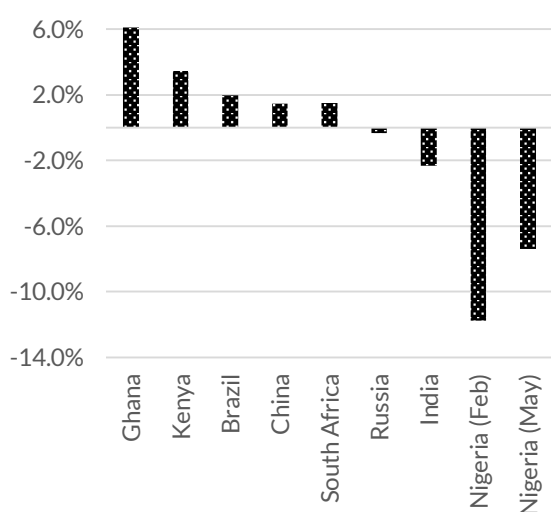
Source: NSE, FMDQ

15.0% T-bills rates in prospect

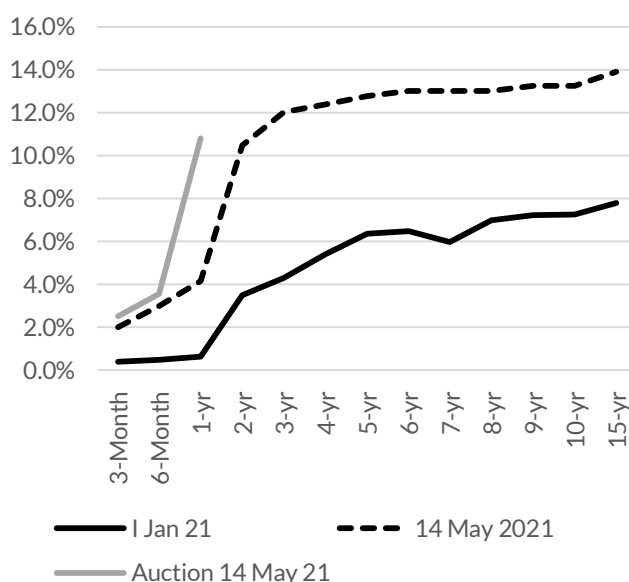
In February, when 1-year Nigerian Treasury Bill (T-bill) rates were close to 4.2%, we said that we expected to see 1-year rates of 10.0%, or more, by mid-year. We did not have to wait long, with a primary market auction of T-bills at the end of April yielding 10.80%, annualised, for 364-day paper. Secondary market T-bill yields are catching up. What do we expect now?

We believe that 1-year risk-free Naira rates can reach 15.0% over the coming three months and could even reach 17.0% later in the third quarter (Q3) of this year. We are seeing a process of rebalancing between 1-year risk-free rates and inflation. Many countries set their 1-year risk-free rates close to, or considerably above, the rate of inflation in order to: a) deal with inflation; b) protect their currencies. This was often the case with Nigeria, up until late 2019 and 2020 when unorthodox policies forced interest rates to very low levels.

Heading back to normal: 1-yr risk-free rate* minus inflation



Nigeria Government T-bill and bond yield curve



Source: Bloomberg, National Bureau of Statistics (NBS), FMDQ, Coronation Research *in local currency

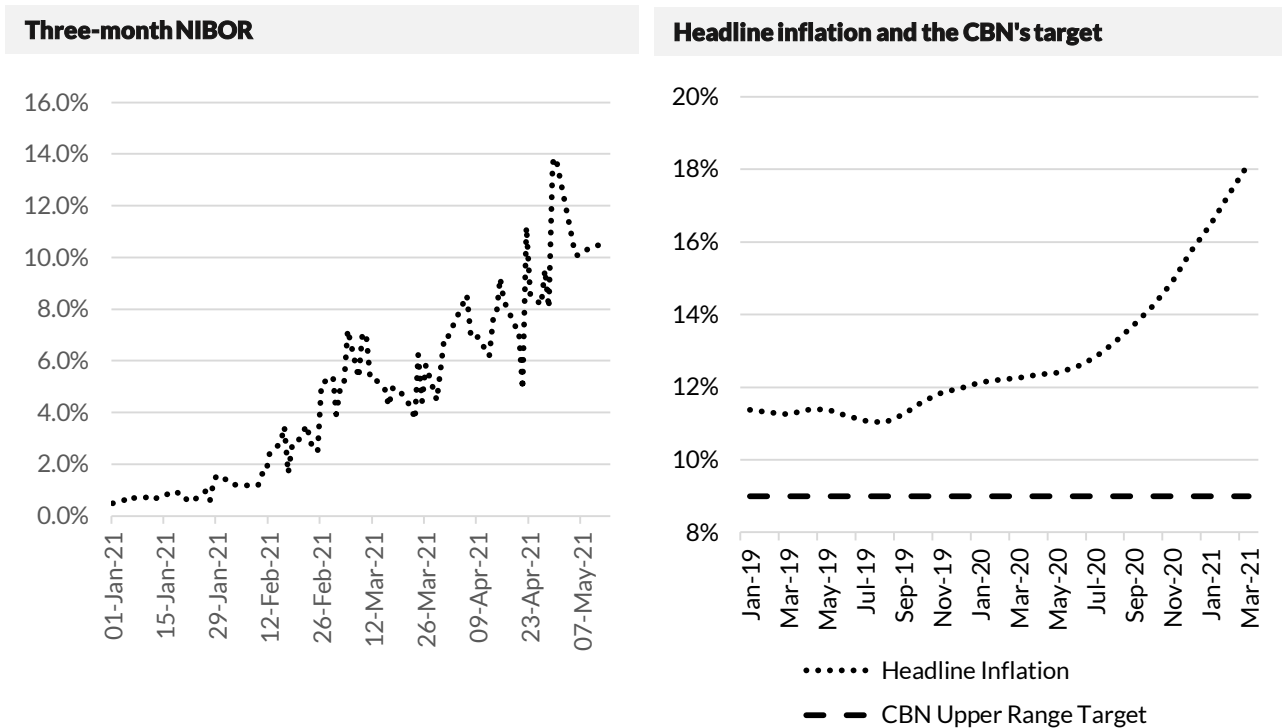
In 2021 Nigeria has begun to return to the traditional, and normal (for many emerging markets), relationship between rates and inflation. In mid-February the 1-year T-bill rate minus inflation was negative 11.75%: three months later (last Friday) this metric stood at negative 7.37% (see chart, left). At the same time Nigerian bond yields have been moving up sharply. The average yield of 10 durations we track (see chart, right) has risen by 658 basis points since the beginning of the year with an average yield of 12.71% at the end of last week. 96 of those 658 basis points have been added over the last three weeks.

For inflation, we pinpoint three issues. The loan-to-deposit ratio created a surge in credit that, while it softened the impact of recession last year, likely contributed to inflation. Very low market interest rates (1-year T-bill rates fell from 5.40% in January 2020 to 0.15% in early December) abetted the process. Fiscal monetisation (lending by the central bank to the government) created a source of un-funded money, which is inflationary. These policies and actions added to the effects of FX depreciation, insecurity, border closures and supply chain disruption.

Can inflation, which was at 18.17% y/y in March, come down? And will the T-bill rate and the inflation rate meet at some point in the near future? One significant driver of inflation, in our view, was the depreciation in the parallel exchange rate in June and July of 2020. If we assume that many businesses adapted quickly to those parallel exchange rates, then the fact that the parallel exchange rate has not depreciated much since then suggests that year-on-year, this source of inflation will be less potent (or dangerous) in the second half of 2021 than in the first half.

Another factor which may bring inflation down over the coming months is the shortage of liquidity in Naira money markets, which contrasts with the surge in liquidity seen last year. One sign of this is the rise in the Nigerian Interbank Offered Rate (NIBOR), which is up sharply this year. In fact, Naira liquidity is so tight these days that it is possible for institutions to make short-term deposits with banks at 10.0% per annum or more. However, there remain forces pushing inflation upwards, notably the rise in oil prices and in electricity tariffs. The outcome for inflation remains uncertain.

15.0% T-bills rates in prospect



Source: Bloomberg, FMDQ, CBN, National Bureau of Statistics

The reasons for lack of interbank liquidity worth considering. Credit is not being formed as fast as it was last year. It is possible that the monetary authorities are concerned about the consequences of fiscal monetisation and wish to deal with it. It is also worth noting that pension funds, great sources of liquidity, have not grown lately. The monetary authorities engineered the great fall in market interest rates last year and may believe the time is right to bring interest rates and inflation in line.

Specifically, the Monetary Policy Council (MPC) of the CBN, which meets next week to decide its policy rate (currently 11.50%), will weigh up the risks to the economic recovery of allowing interest rates to rise. (We still do not have GDP data for the first quarter of 2021, though Q4 2020 recorded positive growth.) Members of the MPC will want to know to what extent interest rate rises are being passed on to lenders (our sense is that this process is only just beginning). There are still many data to assess but, given the current trend, we think that we may see 1-year risk-free rates of around 15.0% in three months, and even 17.0% later in Q3.

Model Equity Portfolio Last Week

Last week the Model Equity Portfolio rose by 0.83% compared with a rise in the Nigerian Stock Exchange All-Share Index (NSE-ASI) of 0.75%, therefore outperforming it by 8 basis points. Year to date it has lost 1.43% against a loss in the NSE-ASI of 1.93%, outperforming it by 50bps.

Model Equity Portfolio for the week ending 14 May 2021

Security	May 7, 2020 position, N	May 14, 2020 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	Performance attribution (bps) ytd
FBNH	352,800,000	340,800,000	2.2%	-3.4%	-0.7%	-8	2
Zenith	876,900,000	936,150,000	6.0%	6.8%	-4.4%	39	-26
UBA	271,700,000	277,400,000	1.8%	2.1%	-15.6%	4	-30
GT Bank	1,272,375,000	1,305,000,000	8.4%	2.6%	-7.3%	21	-59
Stanbic IBTC	728,500,000	713,000,000	4.6%	-2.1%	4.4%	-10	19
MTN Nigeria	2,737,800,000	2,732,730,000	17.7%	-0.2%	-4.8%	-3	-51
Airtel Africa	2,090,268,000	2,090,268,000	13.5%	0.0%	9.2%	0	144
Dangote Cement	2,898,920,000	2,945,500,000	19.0%	1.6%	-12.2%	30	-196
BUA Cement	997,120,000	997,120,000	6.4%	0.0%	0.7%	0	-2
Nestle Nigeria	14,200,000	14,200,000	0.1%	0.0%	-5.6%	0	-1
Okomu Oil	515,000,000	481,500,000	3.1%	-6.5%	5.8%	-22	18
Presco	546,480,000	598,851,000	3.9%	9.6%	11.2%	34	41
Seplat		496,000,000	3.2%	0.0%	0.0%	-1	-1
AllCO	0	1,280,000	0.0%	0.0%	0.0%	-0	-0
Custodian & Allied	0	5,900,000	0.0%	0.0%	0.0%	-0	-0
Cash	2,051,398,594	1,545,914,030	10.0%	0.0%	0.0%	0	0
Total	15,353,461,594	15,481,613,030	100%	0.83%	-1.43%	83	-143

Source: Coronation Research

Last week our overweight notional position in banks earned us a total 46bps, reversing the 44bps it had had lost the previous week. All the same, we think that we are over-exposed here, being some 6 percentage points overweight against the index and having lost a notional 94bps in banks year-to-date.

Note that, when it comes to calculating a total return (i.e. with dividends paid) the notional overweight in banks may prove to have paid off, given that their dividend yields tend to be superior to that of the market as a whole.

Nevertheless, we will trim our notional bank positions this week with the intention of adding up to 4 percentage points of notional cash from this source. We will also seek to reduce our notional position in Airtel Africa, liquidity permitting (and it is not very liquid).

As we forewarned, we made changes to the Model Equity Portfolio last week. We made a notional purchase of Seplat, taking a notional position of roughly double its index weight. We began to make notional purchases of insurance companies AllCO and Custodian and Allied but were held back by the low level of liquidity in these stocks. Granted, there were only three trading days last week, but in any event these insurance stocks are difficult to get hold of. We will continue to build up notional positions in these two stocks, liquidity permitting, this week.

Nota bene: The Coronation Research Model Equity Portfolio is an expression of opinion about Nigerian equities and does not represent an actual portfolio of stocks (though market liquidity is respected, and notional commissions are paid). It does not constitute advice to buy or sell securities. Its contents are confidential to Coronation Research up until publication. This note should be read as an integral part of the disclaimer that appears at the end of this publication.

DISCLOSURES & DISCLAIMERS

The analyst(s) and/or Head of Research has (have) produced this report independently of the company or companies, and independently of the issuer of security or securities, covered in this report, and (has) have done so using publicly-available information. Information used in the preparation of this report is believed to be accurate at the time of going to press, though not verified independently. No liability is accepted for errors nor omissions of fact, nor is any warranty given for the reasonableness, accuracy or completeness of the information presented. Market information may have been gathered from different sources, including official and government sources, and processed in arriving at the opinion(s) expressed in this report.

This report is intended as background information for clients of Coronation Asset Management Ltd, and clients of its subsidiaries and affiliates, and is not to be read as a solicitation, approval or advice to buy or sell securities.

Neither Coronation Asset Management Ltd, its directors, employees and contractors, nor its subsidiaries and affiliates, nor the directors, employees and contractors of its subsidiaries and affiliates, accept(s) responsibility for losses or opportunity costs, whether direct or consequential, that may be incurred as a result of trading, or not trading, in securities covered in this report, or other securities, as a result of any decision taken after reading this report. Clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, who read this report, should not rely on it for the purposes of making investment decisions and should make their own evaluation of: the potential performance of securities; the risks involved in buying or selling securities; the volatility and liquidity of securities; and of other factors such as interest rates, exchange rates, exchange rate liquidity, trading costs, settlement and custody. Clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, who read this report, should assess their own investment objectives and financial capacities when taking investment decisions and should consult a relevant financial adviser in these respects.

This report is intended for the clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates. Copying and reproduction of this report, and onward forwarding, is only allowed with the specific permission of Coronation Asset Management Ltd, its subsidiaries and affiliates. Receipt of this report does not qualify you as a client of Coronation Asset Management Ltd, its subsidiaries and affiliates. If you are in unauthorised receipt of this report you are requested to notify Coronation Asset Management Ltd, or one of its subsidiaries or affiliates, and to return or delete the report.

This report is intended for corporate and institutional clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, where those clients are regulated and professional investment customers and market counterparties. This report is not intended for individual investors.

This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulations.

Coronation Research is a department within Coronation Asset Management Ltd which supplies research services to Coronation Asset Management Ltd, and is ring-fenced with regard to the activities of Coronation Asset Management Ltd. The Head of Research, contractors and employees of Coronation Research do not receive any non-public information regarding the investments or investment objectives of Coronation Asset Management Ltd and do not take part in its internal meetings.

Coronation Asset Management Ltd and its subsidiaries are incorporated under the laws of the Federal Government of Nigeria and are licensed by the Central Bank of Nigeria and by the Securities and Exchange Commission of Nigeria.

Your attention is brought to the fact that the analyst(s), and/or Head of Research, mentioned at the beginning of this report is (are) employed by Coronation Asset Management Ltd in the Federal Republic of Nigeria, and while subject to the laws of the Federal Republic of Nigeria is (are) not subject, as author(s) of this report, to the laws of other countries, notably the United States of America ('US'), the member states of the European Union ('EU'), or the United Kingdom ('UK', during and after its membership of the EU) as these laws may affect the production, publication and distribution of this report.

DISCLOSURES & DISCLAIMERS

Your attention is brought to the fact that the analyst(s), and/or Head of Research, mentioned at the beginning of this report, is (are) not registered or qualified as research analysts with the Financial Industry Regulatory Authority in the US, nor registered with the Financial Conduct Authority of the United Kingdom. No liability for compliance with those laws, with respect to this report, is accepted by Coronation Asset Management Ltd, its directors, staff and contractors, or those of its subsidiaries and affiliates.

Where this report is distributed to clients and potential clients of Coronation Asset Management Ltd, and of its clients and affiliates, in the European Union ('EU'), including the United Kingdom ('UK'), during and after its membership of the EU, this report is either: a) distributed by virtue of a contract between Coronation Asset Management Ltd, its subsidiaries and affiliates, and the client for research services, or: b) distributed as a free sample, for a given period of time, pursuant to a future contract for the sale of research services.

The opinions expressed in this report concerning the company(ies) and securities covered, accurately represent the personal views of the analyst(s) and Head of Research whose names are given at the beginning of the report. No part of the compensation of the analyst(s) and Head of Research mentioned at the beginning of this report is, or will be, related to the views or recommendations(s) given in this report.

Conflicts of Interest

The compensation of the analyst(s), and/or Head of Research, mentioned at the beginning of this report is not linked to the recommendations, forecasts, estimates or opinions expressed in this report, nor to commissions or spreads or other gains generated in trading securities, whether covered in this report or not.

This report is produced by the Research Department of Coronation Asset Management Ltd and may be used, after its publication, by other departments of Coronation Asset Management Ltd for advisory or trading purposes, or otherwise for the assessment of companies and securities. However, it is the policy of Coronation Asset Management Ltd that no department influences the opinions, estimates, forecasts or recommendations of the Research Department, nor is privy to the contents or recommendations of the Research Department's reports and recommendations ahead of their publication. It is also the policy of Coronation Asset Management Ltd that members of the Research Department are not privy to knowledge of advisory mandates, or other fiduciary relationships, engaged in by other departments. Coronation Asset Management Ltd, its directors, contractors and staff, and its subsidiaries and affiliates and their directors, contractors and staff, and connected parties, may have positions in the securities covered by this report, and may have advisory and/or other fiduciary relationships with companies covered in this report. As such, this report should not be considered free from bias.

Disclosures for companies cited in report

The table below outlines currently known conflicts of interest that may unknowingly bias or affect the objectivity of the analyst(s) with respect to an issuer that is the subject matter of this report. Disclosure(s) apply to Coronation Asset Management or any of its direct or indirect subsidiaries or affiliates with respect to any issuer or the issuer's securities.

- a. The analyst(s) responsible for the preparation and content of this report (as shown on the front page of this report) holds personal positions, directly or indirectly, in securities of the company(s) to which this report relates.
- b. The analyst(s) responsible for this report as indicated on the front page is a board member, officer or director of the Company(ies)
- c. Coronation Asset Management or its affiliates have recently been the beneficial owners of 1% or more of the securities mentioned in this report.
- d. Coronation Asset Management or its affiliates have managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
- e. Coronation Asset Management or its affiliates have received compensation for investment banking services from the issuer of these securities in the past 12 months.

DISCLOSURES & DISCLAIMERS

- f. Coronation Asset Management or its affiliates expects to receive compensation for investment banking services from the issuer of these securities within the next three months.
- g. The company (s) covered in this report is a client of Coronation Asset Management or its affiliates.
- h. Coronation Asset Management has other financial or other material interest in the Company

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

Coronation Research's equity research rating system

Coronation Research's Investment ratings are a function of the research analyst's expectation of a stock's performance relative to relevant indices or peers. The benchmark used in deciding our stock rating is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest percent.

Coronation Asset Management uses the following rating system:

Buy:	The analyst considers the stock undervalued and expects the stock to outperform the Benchmark over the next 12 months or the stated investment horizon.
Hold:	The analyst considers the stock to be fairly valued and expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.
Sell:	The analyst considers the stock overvalued and expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.
Under Review (UR):	Where the company covered has a significant material event with further information pending or to be announced, it may be necessary to temporarily place the investment rating Under Review. This does not revise the previously published rating, but indicates that the analyst is actively reviewing the investment rating or waiting for additional information to re-evaluate the expectation of the company's performance.
Not Rated:	This applies when the stock is either not covered by Coronation Research or the rating and price target has been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Coronation Asset Management is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts' ability to provide forecasts for the company in question.
Price targets:	Price targets reflect the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings fall short of estimates.

DISCLOSURES & DISCLAIMERS

In cases where issuing of research is restricted due to legal, regulatory or contractual obligations, publishing investment ratings will be restricted. Previously published investment ratings should not be relied upon as they may no longer reflect the analysts' current expectations of total return. While restricted, the analyst may not always be able to keep you informed of events or provide background information relating to the issuer.

If the investment rating on a stock has not been reviewed for a period of one year, coverage of the stock will be discontinued by Coronation Research. Investment decisions should be based upon personal investment objectives and should be made only after evaluating the security's expected performance and risk. Coronation Research reserves the right to update or amend its investment ratings in any way and at any time it determines.

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%

By accepting this document, you agree to be bound by all the preceding provisions. The information contained in this document is confidential and is solely for use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose without the written consent of Coronation Asset Management.

© Coronation Asset Management 2021. All rights reserved

Coronation Asset Management,
10 Amodu Ojikutu Street,
PO Box 74853, Victoria Island
Lagos, Nigeria.