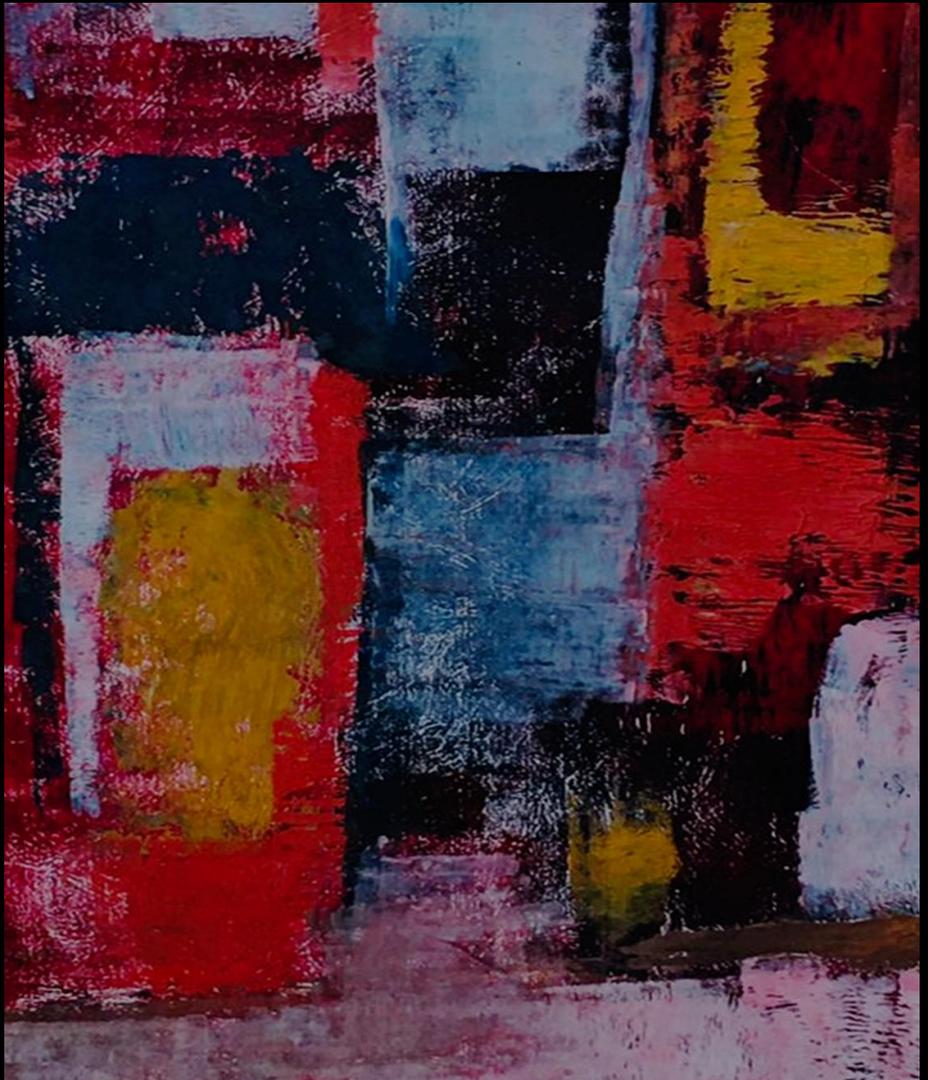


The Liquidity Mandate

Exploring the Importance of Individual Stock Liquidity to Market Depth, Exit Risk, and Investment Flexibility in the Nigerian Equities Listed Market.



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Executive Summary

Every market cycle delivers lessons. Some are dramatic: sharp sell-offs, sudden rallies. Others are quieter but more enduring. One of the most persistent and underappreciated lessons in the Nigerian equities market is the critical importance of liquidity. Liquidity rarely feels urgent in calm conditions. It is only when the market is stressed that investors discover it is not guaranteed.

The central theme of this piece is that liquidity must act as the first filter in equity portfolio construction for listed stocks in Nigeria by investors. Valuation, earnings, and dividends remain important considerations, but without the ability to act by entering or exiting a position in reaction to them, their actual value in dictating investment decisions is diminished. This report seeks to examine the importance of considering individual stock liquidity when making investor decisions on the NGX, the structural sources of constraints to market depth on the NGX, suggest strategic solutions for unlocking liquidity, and a quantitative assessment of NGX30 stocks using the Amihud Illiquidity Ratio.

Liquidity is not merely a trading convenience; it is the mechanism that transforms theoretical returns into actionable capital. In the Nigerian equities market, liquidity must function as the primary investment filter.

Section 1: The Investor's Dilemma: Liquidity as the Ultimate Filter

Liquidity – the true enabler of investment flexibility

Every market cycle brings lessons. Some are dramatic: sharp price moves, sudden sell-offs, and unexpected rallies. Others are quieter but far more enduring. One of the most persistent and underappreciated lessons in the Nigerian equities listed market is the importance of liquidity. Liquidity rarely feels urgent when markets are calm. Trades go through, prices update, and exits seem straightforward. It is usually only when the market is under stress that investors realise liquidity is not guaranteed in the market. There have also been occasions where a listed stock shows market movement but there is no liquidity to allow investors to make investment decisions even in normal market conditions.

The ability to act; to buy or to sell, is what separates theoretical gains from realisable returns when a stock price appreciates. Think of liquidity as freedom - i.e., the difference between being able to make strategic moves instantly or being forced to wait. In assessing the market outlook and constructing stock recommendations, liquidity acts as a primary filter. Valuation, earnings, and dividends matter, but without the ability to act on them, their actual value diminishes.

History reinforces this point. During periods of market turbulence, such as the COVID-19 shock in 2020, not all stocks behaved the same. Large, actively traded Nigerian equities continued to transact. Investors could reduce exposure, rotate defensively, or rebalance portfolios. Mid and small-cap stocks, however, often stopped trading meaningfully. Spreads widened, volumes dried up and exits became difficult. It was not the fundamentals that failed, it was a lack of market depth that caused problems for investors. The lesson is that valuation only matters if you can act on it.

Another illustration of liquidity's role as a risk-management tool can be seen in global markets during recent periods of heightened uncertainty. In more developed markets such as the US, episodic tariff announcements, policy unpredictability and geopolitical risk have driven investors to adjust exposures because deep, liquid markets enabled efficient rebalancing into other assets at transparent prices. As risk sentiment weakened, capital rotated out of equities into traditional defensive instruments such as gold and US Treasuries, showing how liquidity preserves optionality during stress. Where a market is liquid, uncertainty does not trap capital, it allows it to be reallocated.

Liquidity is not just about ease of entry; it is also ease of exit, real-time responsiveness, and the freedom to adjust positions. For Nigerian investors, understanding this principle is critical.

Liquidity vs. Dividend yields

In evaluating dividend-paying equities, investors are often drawn to headline metrics. A high dividend yield can appear immediately attractive, offering the promise of a stable income stream. However, focusing on yield in isolation obscures a critical determinant of real investment value: liquidity.

On paper, many high-yielding stocks appear compelling. In practice, the investment case can deteriorate once liquidity is tested. In thinly traded stocks, executing meaningful transactions, particularly during periods of market stress, can be difficult or costly. Orders may only be filled at materially lower prices than those initially quoted, or not at all. In such cases, dividend income remains intact, but the investor's ability to deploy, reallocate, or protect capital is constrained. The yield, while real, becomes largely academic.

This contrasts sharply with highly liquid stocks, notably the main Tier 1 Nigerian banks (FUGAZ). These names may not always offer the highest headline dividend yields. Their advantage lies elsewhere: flexibility. Liquidity allows investors to respond to changing market conditions, whether that means rotating into defensive assets, reallocating toward higher-conviction opportunities, or reducing risk exposure.

Section 1: The Investor's Dilemma: Liquidity as the Ultimate Filter

In the Nigerian market, this distinction is particularly important. High dividend yields in illiquid stocks can be misleading, masking underlying liquidity risk. Such stocks may reward patience during stable market conditions, but they often restrict investor agility. By contrast, liquid equities offer both income and optionality. This optionality, the ability to act decisively when conditions or opinions change, functions as a hidden dividend that can enhance total return over time.

When dividends matter and when they do not

Dividends are most effective when paired with sufficient liquidity, or when the investor has a long-term hold view that is unlikely to change during the set investment horizon. In liquid stocks, dividend income complements price flexibility. Investors can hold for income, trim positions, rebalance exposures, or exit entirely without materially delayed execution. The dividend becomes an enhancement to total return, not a constraint on timely decision-making.

By contrast, in illiquid stocks, dividends often become the justification for holding positions that cannot otherwise be exited efficiently. This introduces behavioural risk: investors may tolerate deteriorating fundamentals or changing macro conditions that change their investment outlook because the cost of exit in time and pricing is elevated. In effect, dividends can anchor investors to positions that no longer align with initial portfolio objectives.

Dividend yield is more valuable when paired with exit optionality. The takeaway is not that dividends are unimportant, but that they can be conditional. In portfolio construction, liquidity must act as the first filter, with dividends evaluated within that universe and according to the investment view.

Exit risk: the hidden cost of illiquidity

Exit risk is the silent companion of every investment. It does not announce itself the way dividends do or the way a share price surge catches headlines. But it can dictate whether an investment is truly successful or frustratingly constrained. Exit risk refers to the difficulty an investor may face in selling a position without impacting price or waiting indefinitely for a counterparty. It is what converts a paper profit into a real return.

During periods of stress, such as the COVID-19 shock in 2020, investors holding illiquid stocks found that selling at the desired price was often impossible. Stocks remained on the books, effectively trapped, and could not respond to broader shifts in market sentiment. The dividend yield, in this scenario, was comforting when the position was still in line with the investment thesis but offered little succour when the capital was effectively immobilised.

Contrasting this with highly liquid stocks, like the FUGAZ banks, exit risks were minimal. Prices reflect active participation, spreads are tight, and an investor can scale in or out of a position efficiently. In this sense, liquidity does not just enable trading, it protects capital and preserves optionality.

Exit risk also explains why some investors may accept lower headline yields in liquid stocks. The cost of liquidity, trading at a slightly lower yield, is more than compensated for by the ability to act, redeploy capital, and avoid being trapped in adverse scenarios.

In emerging and frontier markets like Nigeria, exit risk is a key consideration. Illiquid dividend-paying stocks may appear attractive at first glance, but the hidden cost is the inability to re-allocate capital effectively from both a capital appreciation or depreciation scenario.

Section 1: The Investor's Dilemma: Liquidity as the Ultimate Filter

Price discovery and the role of bid-ask spreads

Liquidity and dividends are only part of the story. The other side of the coin is price discovery, how the market determines the true value of a stock at any given moment. In practical terms, price discovery happens every time someone buys or sells: an efficient market constantly reconciles what buyers are willing to pay and what sellers are willing to accept.

In highly liquid stocks, bid-ask spreads are tight. An investor can buy or sell shares quickly at a price that closely reflects listed market value. Prices are updated continuously, and each trade contributes to a transparent valuation. In more illiquid stocks, spreads are wide and often volatile. With few buyers and sellers, executing even modest-sized trades can move the price significantly. The market may lack a reliable mechanism to quickly adjust to new information, meaning price discovery is slow, inefficient, or even nonexistent at certain times.

The wider the bid-ask spread, the higher the implicit cost of liquidity. Investors effectively pay a premium when exiting illiquid stocks, either through price concessions or delayed sales. That is why high headline yields in thinly traded stocks often fail to compensate for hidden market friction.

Valuation premium and the illiquidity discount

Liquidity is not merely a trading convenience; it can have a direct and measurable impact on equity valuation. Investors explicitly price liquidity risk into stocks, giving rise to a valuation premium for highly liquid names and an illiquidity discount for thinly traded ones. Highly liquid stocks, such as Nigerian Tier 1 banks, benefit from continuous trading activity, deep market participation, and tight bid-ask spreads. Frequent interaction between buyers and sellers supports efficient price discovery, allowing market prices to adjust rapidly to new information.

Illiquid stocks, by contrast, trade intermittently and often exhibit wide bid-ask spreads and shallow market depth. Even when such stocks offer attractive dividend yields, the risk of limited exit options or the need to accept steep price discounts to sell in any decent volume diminishes their effective value. This risk is often reflected in an illiquidity discount, whereby stock prices trade below intrinsic or fundamental value to compensate investors for reduced flexibility.

Concentrated ownership and control structures

A defining feature of many NGX-listed companies is concentrated ownership, founding shareholders, core investors, or strategic entities retaining sizeable controlling stakes well beyond their Initial Public Offering or listing by introduction. While such structures can support long-term strategic alignment, they materially limit the volume of shares available for active trading. In practice, concentrated control compresses order-book depth and increases sensitivity to marginal trades, particularly when institutional investors seek scale for their positions.

The implications of ownership concentration are observable across sectors. Stocks with dominant controlling shareholders frequently exhibit thinner two-way quotes and wider bid-ask spreads, even when market capitalisation is large and earnings visibility is strong. This suggests that ownership structure, rather than investor interest or company fundamentals, is often a primary determinant of effective liquidity on the NGX.

Section 2: The NGX Context: Understanding the Market Depth Problem

The Nigerian Exchange (NGX) has delivered strong headline returns in recent years, yet liquidity remains structurally constrained. While market capitalisation has expanded materially, improvements in executable market depth have lagged. This section examines the sources of this constraint through ownership structure, free float availability, investor behaviour, and direct microstructure evidence from bid-ask spreads. Together, these factors explain why capital gains on the NGX have not translated into commensurate improvements in market depth or exit capacity.

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Free float: technically adequate, functionally constraining

Closely linked to ownership concentration is the structure of free float. On paper, many NGX large-cap stocks meet or exceed the Exchange's minimum free-float thresholds, with several companies maintaining free-float levels above 20%. In absolute terms, free-float market values for some names are substantial, running into hundreds of billions of Naira. However, compliance with NGX's free-float requirements has not translated into proportionate improvements in market depth. The effective tradability of these shares remains constrained by the behaviour of free-float holders, many of whom are long-term strategic or yield-focused investors with limited trading activity.

Low effective free float magnifies price movements during periods of strong demand, as limited supply meets incremental buying pressure. Conversely, during periods of uncertainty or ownership transition, liquidity compresses sharply, exposing the fragility of depth. This dynamic creates the illusion of liquidity in rising markets while constraining exit capacity when sentiment shifts.

Table 1: Free float (%) and free-float market value for selected NGX stocks

Company	Sector	Free Float (%)	Free Float Value (N)
BUA Foods	Consumer Goods	4.73%	N679.7bn
Transnational Corp of Nigeria	Conglomerates	54.44%	N276.0bn
MTN Nigeria Communications	Telecommunications	26.61%	N1,592.1bn
Dangote Cement	Industrial Goods	4.79%	N352.8bn
BUA Cement	Industrial Goods	2.32%	N125.5bn
Presco	Agriculture	34.83%	N568.9bn
Nestle Nigeria	Consumer Goods	29.19%	N432.7bn

Section 2: The NGX Context: Understanding the Market Depth Problem

Table 1 contd.: Free float (%) and free-float market value for selected NGX stocks

Company	Sector	Free Float (%)	Free Float Value (N)
Custodian and Allied Insurance	Conglomerates	51.03%	N129.1bn
First HoldCo	Financial Services	58.34%	N1,242.3bn
United Bank for Africa	Financial Services	84.36%	N14,956.2bn
Access Holdings	Financial Services	72.58%	N922.9bn
Dangote Sugar Refinery	Consumer Goods	27.67%	N205.1bn
Guinness Nigeria	Consumer Goods	22.78%	N91.8bn
International Breweries	Consumer Goods	2.55%	N23.8bn
Honeywell Flour Mills	Consumer Goods	14.46%	N25.1bn

Sources: Company Financials, Coronation Research

The buy-and-hold culture and turnover velocity

Investor behaviour further compounds these structural constraints. The NGX remains dominated by buy-and-hold investors, attracted by dividends, long-term capital appreciation, and limited alternative domestic investment options. While this behaviour can support price stability in certain environments, it suppresses turnover velocity and reduces the recycling of shares through the market. As a result, liquidity on the NGX is largely sentiment-driven rather than structurally embedded.

This dynamic is evident at the market-wide level. Despite a significant expansion in average market capitalisation over recent years, turnover ratios have remained persistently low, underscoring the disconnect between valuation growth and trading intensity.

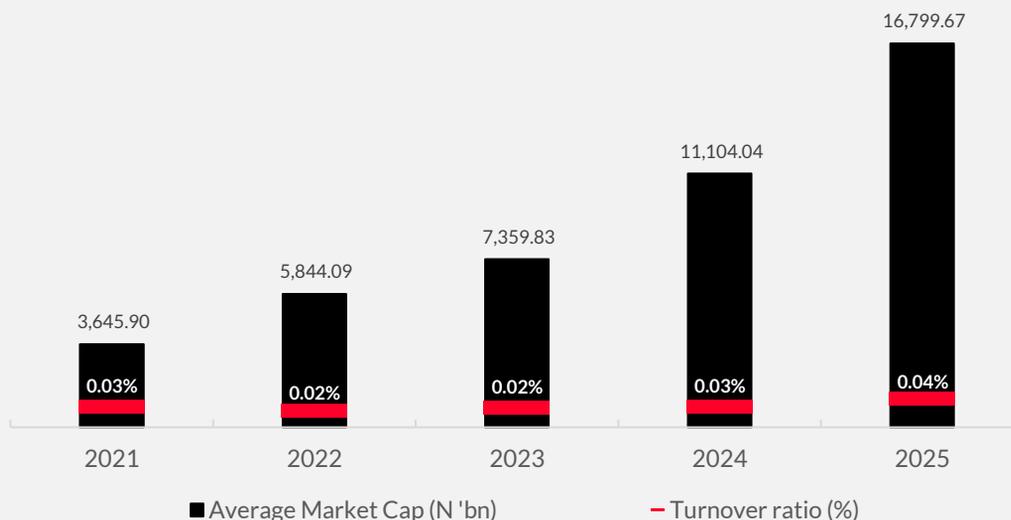
Table 2: Annual value, average market cap and turnover ratio – NGX

Year	Annual Value Traded (N'bn)	Average Market Cap (N'bn)	Turnover Ratio (%)
2021	N0.91bn	N3,645.9bn	0.03%
2022	N1.16bn	N5,844.1bn	0.02%
2023	N1.79bn	N7,359.8bn	0.02%
2024	N2.84bn	N11,104.0bn	0.03%
2025	N5.96bn	N16,799.7bn	0.04%

Sources: NGX, Bloomberg, Coronation Research

Section 2: The NGX Context: Understanding the Market Depth Problem

Chart 1: Annual turnover ratio for NGX



Sources: NGX, Bloomberg, Coronation Research

Bid-ask spreads: evidence of shallow market depth

The combined effects of concentrated ownership, functionally constrained free float, and buy-and-hold behaviour are most clearly reflected in bid-ask spreads. Analysis of average bid-ask spreads across NGX large-cap stocks shows that only a small subset trade consistently with spreads below 0.5%. The majority exhibit spreads above 1%, with several exceeding 2–3%, implying relatively sizeable transaction costs and limited capacity for the market to absorb large trades without price impact. Transaction costs in the NGX are also high even when compared to African peers which is a disincentive to volume trading. This needs to be addressed by NGX and SEC if the market is to truly reach its potential.

Table 3: Large-cap stocks with tight bid-ask spreads (< 0.5%)

Stock	Avg. Bid-Ask Spread (%)
Zenith Bank	0.29%
MTN Nigeria Communications	0.32%
Guaranty Trust Holding Co.	0.43%
Dangote Cement	0.47%

Sources: Bloomberg, Coronation Research

Despite their size and visibility, these stocks represent a small minority of NGX large caps, highlighting how limited genuinely deep liquidity is across the market. Importantly, elevated bid-ask spreads persist even among stocks with strong market capitalisation and investor recognition, reinforcing the view that liquidity constraints on the NGX are structural rather than cyclical.

Section 2: The NGX Context: Understanding the Market Depth Problem

Table 4: Large-cap stocks with moderate to wide spreads (0.5% – 1.0%)

Stock	Avg. Bid-Ask Spread (%)
Wema Bank	0.57%
Access Holdings	0.67%
United Bank for Africa	0.73%
Presco	0.87%
Lafarge Africa	0.93%

Sources: Bloomberg, Coronation Research

Table 5: Large-cap stocks with wide bid-ask spreads (> 1.0%)

Stock	Avg. Bid-Ask Spread (%)
First HoldCo	1.14%
Transnational Corp of Nigeria	1.31%
Fidelity Bank	1.39%
Nigerian Breweries	1.53%
BUA Cement	1.83%
FCMB Group	1.84%
Dangote Sugar Refinery	1.96%
International Breweries	2.06%
Flour Mills of Nigeria	2.12%
SEPLAT Energy	2.13%
Unilever Nigeria	2.23%
Nestlé Nigeria	2.50%
Custodian & Allied Insurance	3.75%

Sources: Bloomberg, Coronation Research

Table 6: Large-cap stocks with intermittent or no continuous quotes

Stock	Avg. Bid-Ask Spread (%)
Airtel Africa	N/A – episodic trading
Guinness Nigeria	N/A – episodic trading
Total Energies Marketing Nigeria	N/A – episodic trading

Section 2: The NGX Context: Understanding the Market Depth Problem

Table 6 contd.: Large-cap stocks with intermittent or no continuous quotes

Stock	Avg. Bid-Ask Spread (%)
Geregu Nigeria	N/A – Episodic trading

Sources: Bloomberg, Coronation Research | Note: Zero reported spreads reflect intermittent trading and absence of continuous two-way quotes, not perfect liquidity.

The breadth of the wide-spread group confirms that illiquidity is not confined to small or obscure names but is pervasive even at the top end of the market. The presence of stocks with no continuous quotes further underscores the fragility of NGX market depth, where liquidity can disappear entirely outside narrow trading windows.

Case study: when price discovery outruns liquidity – Geregu

Geregu Power offers a clear example of how strong price performance does not always translate into real liquidity. Following its listing, the stock experienced a rapid repricing phase, rising from N149.00 in December 2022 to N399.00 by December 2023. Interestingly, this price appreciation occurred alongside a gradual decline in trading volumes, falling from over 160,000 shares in late 2022 to much lower levels over time.

This divergence suggests the rally was not driven by broad market participation but by relatively limited buying activity within a tightly held shareholder base. The disconnect became even more evident in early 2024: between December 2023 and March 2024, the share price surged sharply from N399.00 to approximately N1,000.00. However, trading activity did not expand meaningfully. In practical terms, relatively small trades were able to drive significant price movements, pointing to scarcity of available shares rather than deep, two-way market engagement.

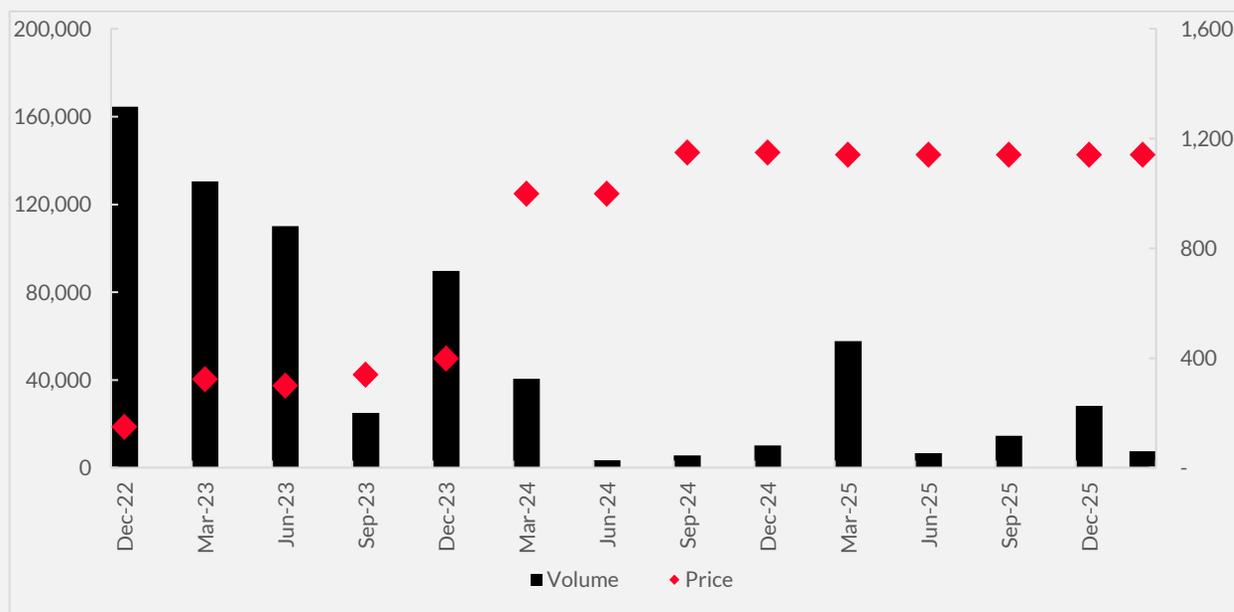
After this sharp re-rating, the stock entered a period of apparent stability, trading largely between N1,000 and N1,150. At first glance, this stability might suggest fair value had been found. However, trading volumes remained consistently thin, with several periods showing fewer than 10,000 shares traded. In illiquid markets, stable prices can reflect inactivity rather than pricing consensus. With limited buyer participation at elevated price levels, execution opportunities became constrained, capital gains existed, but converting those gains into cash was not always straightforward.

These dynamics of thin liquidity and sharp price movements driven by relatively small trades are often amplified by the crossing of large blocks of shares, where significant trades occur off the main exchange or within a limited set of participants. When these crossings dominate activity, they can create the appearance of price momentum while leaving actual liquidity thin, making it difficult for other investors to enter or exit positions. This not only affects individual stocks like Geregu Power but can also influence broader market price discovery and volatility, particularly if multiple large trades occur simultaneously or sequentially. In more mature markets such as the US and UK, block trades are subject to pre-trade approval and near-real-time reporting, ensuring that large transactions are transparent and reflected in market prices immediately. Adopting tighter oversight of crossings on the NGX, including faster reporting, clearer thresholds for pre-trade disclosure, and monitoring of structured trades, could help prevent a small number of trades from disproportionately driving prices, strengthening both liquidity and market integrity.

Section 2: The NGX Context: Understanding the Market Depth Problem

The Geregu experience reinforces a broader reality within the NGX: price is not the same as liquidity. Sharp price appreciation within concentrated ownership structures propelled by tightly managed block trades can occur without a corresponding improvement in market depth. Minority investors find themselves unable to benefit from the capital appreciation due to lack of liquidity to enable an exit. Geregu is less an outlier and more a clear illustration of some of the structural challenges present across parts of the Nigerian equity market even among large cap names.

Chart 2: Geregu volume traded vs price movement



Sources: NGX, Bloomberg, Coronation Research

Section 3: Strategic Solutions: Unlocking Liquidity without Distorting Value

Improving liquidity in the Nigerian equities market requires addressing the structural bottlenecks that have persisted for years. Liquidity is not merely a measure of trading frequency; it is the degree to which investors can enter and exit positions at scale. Where liquidity is shallow, execution risk rises, bid-ask spreads widen, and equity valuations embed an illiquidity discount. This section focuses on practical, evidence-based solutions that address liquidity constraints at their source.

Regulatory levers: restoring credibility to free float rules

Free float regulation is a cornerstone of structural liquidity in the Nigerian equities market, as it determines the proportion of shares genuinely available for trading and by extension, shapes price discovery, execution certainty, and investor confidence. When free float is limited, liquidity becomes fragile, market prices are more easily distorted, and turnover remains structurally constrained.

A revised framework requiring listed companies to maintain higher public free float levels without reliance on market value-based exemptions would materially improve liquidity outcomes. Increasing share-based free float expands effective tradable supply, reduces ownership concentration, and increases the likelihood that shares circulate continuously in the secondary market rather than remaining locked with insiders or strategic holders.

Under the current NGX framework, free float requirements may be satisfied either through share dispersion or through market value-based alternatives. For Main Board companies, the requirement is a minimum of 20% of issued and fully paid-up shares held by at least 300 public shareholders, or a free float market value of N20bn or more. For Premium Board companies, the threshold is similarly 20%, or a free float market value of N40bn or more. While these thresholds were designed to balance liquidity with ownership control, the value-based exception materially weakens the actual intent of free float regulation.

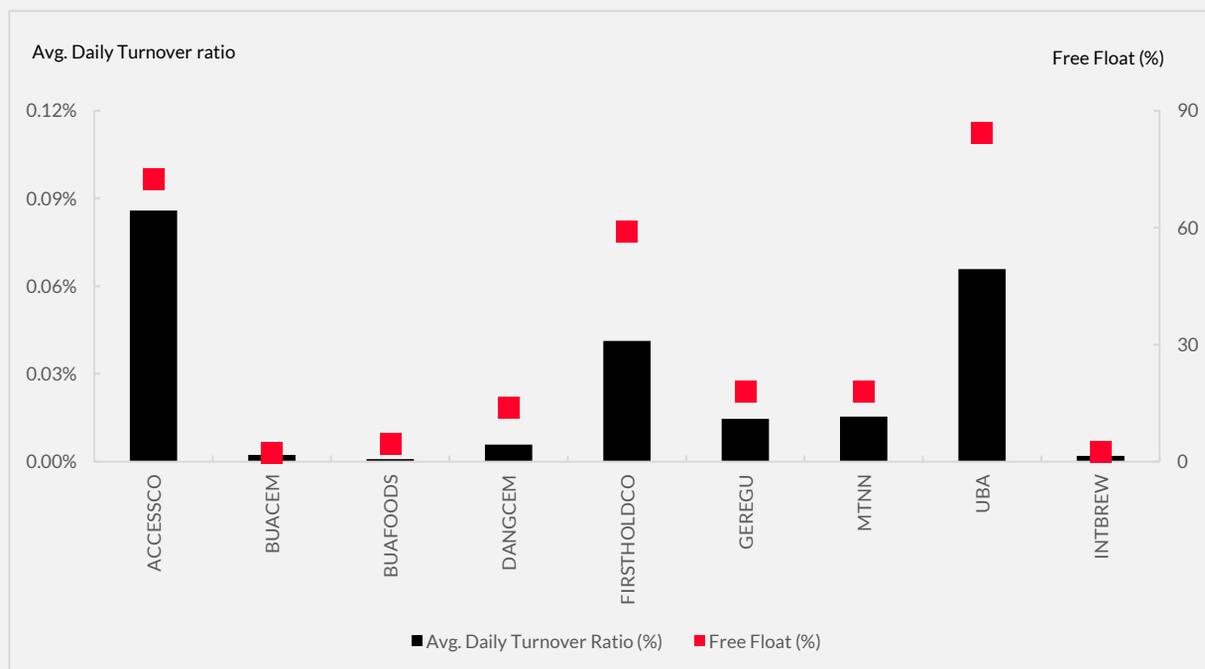
Comparatively, more developed markets anchor liquidity more firmly to tradable supply. In the UK, premium-listed companies must maintain a minimum proportion of shares in public hands, with the LSE requiring 25% for Premium Board and 10% for Standard Board companies, and FTSE constituents needing at least 25% free float. These rules reinforce share dispersion as a structural liquidity safeguard. In contrast, the United States does not impose a fixed percentage threshold, but benefits from naturally dispersed ownership structures, deep institutional participation, active securities lending markets, and robust market-making ecosystems that collectively sustain high effective free float. Nigeria, however, does not yet possess the depth of institutional capital, derivatives infrastructure, or securities lending penetration that allows the U.S. model to function effectively without strict dispersion rules. In this context, reliance on valuation-based compliance is particularly problematic.

In practice, companies with high nominal valuations but tightly held ownership structures can meet regulatory requirements without meaningfully increasing the number of shares available for trading. The result is a class of stocks that are compliant on paper yet structurally illiquid in reality. This low free float–low turnover dynamic amplifies liquidity risk; when tradable supply is scarce, relatively small trades can move prices disproportionately, widening bid-ask spreads and increasing execution uncertainty. Such conditions undermine price discovery and discourage both domestic and foreign institutional participation.

By anchoring free float requirements to a higher share-based threshold and eliminating valuation-driven compliance, liquidity would be tied to actual tradable supply rather than headline market capitalisation. Over time, improved free float would translate into higher turnover ratios, reduced price impact, tighter spreads, and a more credible conversion of capital gains into cash. While free float reform alone will not resolve Nigeria's liquidity constraints, it represents a foundational structural adjustment, one that, when complemented by increased securities lending, active market making, and broader institutional engagement, can materially strengthen the resilience and credibility of the Nigerian equities market.

Section 3: Strategic Solutions: Unlocking Liquidity without Distorting Value

Chart 3: Liquidity analysis: average daily turnover relative to free float for selected Nigerian stocks



Sources: NGX, Bloomberg, Coronation Research

Market infrastructure: making liquidity continuous rather than episodic

Market making is most effective when treated not as an auxiliary programme but as part of core market infrastructure. When properly designed and sufficiently scaled, market makers transform liquidity from an episodic phenomenon dependent on sporadic investor interest into a continuous process, ensuring that executable two-way quotes are consistently available across trading sessions. This permanence of bids and offers improves execution certainty, narrows bid-ask spreads, reduces price impact for large orders, and strengthens the integrity of price discovery.

In the Nigerian context, the regulatory and operational foundations for market making are already in place. The NGX has established eligibility standards, quoting obligations, minimum presence requirements, and supervisory mechanisms, and has licensed both principal and supplemental market makers across a select group of securities. The binding constraint is not institutional absence but limited scale, insufficient incentives, and narrow security coverage. Market making activity remains concentrated in a small subset of highly capitalised stocks, leaving large portions of the market especially mid-cap and structurally illiquid names effectively unserved.

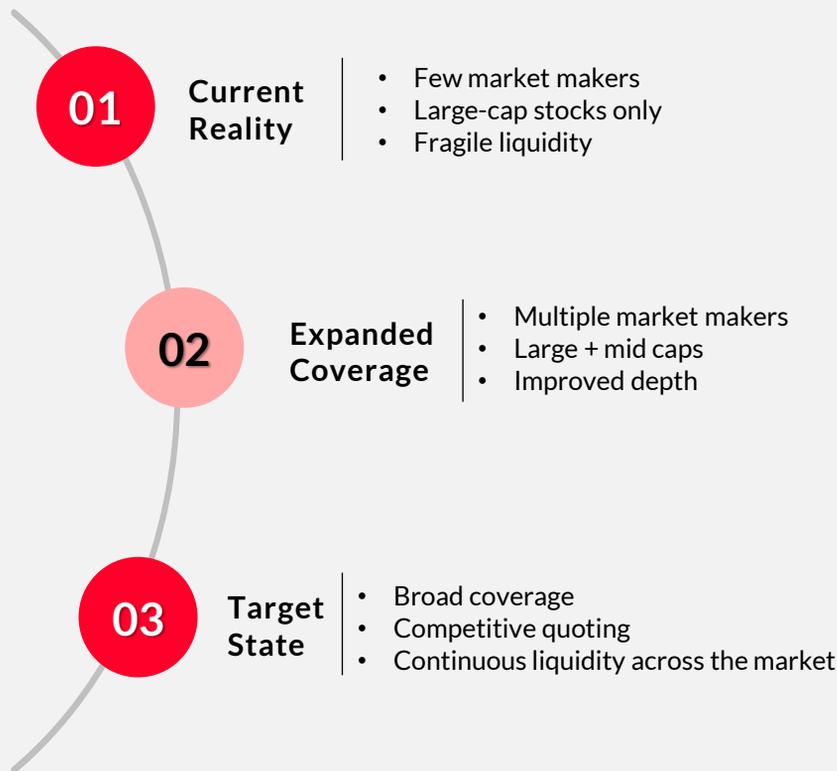
International evidence shows that liquidity improves materially when multiple competing market makers operate per security rather than relying on a single designated provider. In markets such as South Africa, Brazil, the United States, and the United Kingdom, competition among market makers compresses spreads, deepens order books, and strengthens quote resilience during periods of stress.

Incentive design is equally critical. In the United States, exchanges use a maker-taker model that pays rebates for adding liquidity, alongside reduced fees, volume discounts, and allocation priority at the best bid and offer. In the United Kingdom, registered market makers benefit from stamp duty exemptions, reduced transaction levies, and defined quoting privileges in exchange for strict two-sided quote obligations. These measures lower inventory costs and compensate for adverse selection risk.

Section 3: Strategic Solutions: Unlocking Liquidity without Distorting Value

Adapting similar mechanisms in Nigeria including performance-based liquidity rebates, reduced exchange and regulatory levies, allocation priority for compliant market makers, tax relief on qualifying trades, and a stronger securities lending framework would materially improve the risk-reward profile of market making. Combined with expanding the number of licensed providers and linking incentives to measurable liquidity metrics, this approach would enhance market resilience and improve trading continuity across both large-cap and more illiquid securities.

Diagram 1: Tiered liquidity improvement model



Sources: Coronation Research

Securities lending and borrowing as a liquidity multiplier

Among all the potential liquidity-enhancing tools available in the Nigerian equities market, Securities Lending and Borrowing (SLB) remains one of the most underutilised relative to its potential impact. SLB directly increases the effective tradable supply of equities without requiring changes to ownership structure, free float, or capital raising. It transforms idle long-term holdings into active liquidity, while preserving economic ownership for lenders.

Although Nigeria has had a functional SLB framework since 2015, utilisation remains modest when measured against market size. Annual transaction values, while growing, still represent only a negligible share of total equity market capitalisation. This contrasts sharply with more developed markets, where SLB is deeply embedded in the market structure.

Section 3: Strategic Solutions: Unlocking Liquidity without Distorting Value

In markets such as the United States, United Kingdom, and Japan, securities lending consistently contributes several percentage points of additional effective float, particularly in stocks with concentrated ownership. Empirical studies from these markets show that higher SLB activity is associated with:

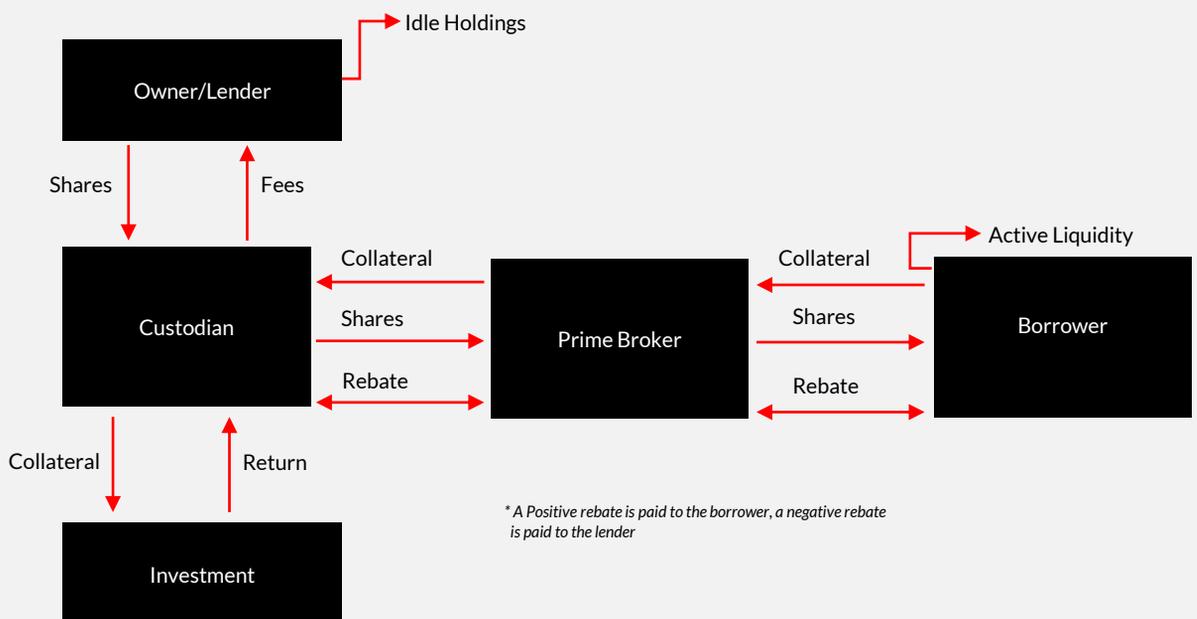
- Narrower bid-ask spreads
- Lower price impact for large trades
- Improved price efficiency through arbitrage and hedging activity

For Nigeria, the solution lies in broadening institutional participation particularly among pension funds, insurance companies, and large asset managers that collectively hold a substantial proportion of listed equities. The PenCom framework on securities lending and repo transactions already permits Pension Fund Administrators (PFAs) to engage in lending within defined risk limits and governance standards, including disclosure requirements, exposure caps, full collateralisation, and strong custodial and audit oversight, thereby mitigating potential fiduciary risk.

Enhancing risk management guidance, standardising documentation, and strengthening custodial facilitation would further reduce operational barriers and build confidence among long-term holders. Even modest growth in SLB participation supported by existing safeguards on collateral, reporting, and concentration limits would expand effective tradable supply, particularly in stocks where the headline free float overstates actual liquidity.

When combined with market making, SLB acts as a force multiplier; market makers gain access to inventory, short sellers improve price efficiency, and long-term investors earn additional returns on their holdings. Covered shorts, where short sellers borrow shares while simultaneously holding hedges or long positions, allow risk-managed short selling that enhances liquidity and market depth. Together, these dynamics support continuous trading, strengthen price discovery, and enhance the credibility of observed market prices, while ensuring that borrowing and short-selling activity remains orderly and economically productive.

Diagram 2: The securities borrowing and lending process



Section 3: Strategic Solutions: Unlocking Liquidity without Distorting Value

Improving liquidity quality through trading design

Liquidity is not solely a function of capital availability, it is also shaped by how trading is organised. In markets characterised by uneven participation and concentrated ownership, well-designed trading mechanisms can materially improve execution quality without distorting price signals. One proven solution is the targeted use of periodic call auctions for less liquid securities. By aggregating orders over defined intervals and executing them at a single clearing price, call auctions concentrate liquidity and reduce the price impact of isolated trades. Several European and Asian exchanges employ intraday call auctions for thinly traded stocks, resulting in improved price stability and higher institutional participation.

Introducing structured intraday call auctions on the NGX for selected low-liquidity stocks would allow institutional investors to transact at scale with reduced execution risk, while preserving continuous trading for more liquid names. Complementary measures such as minimum order resting times and dedicated block-trade mechanisms can further protect the integrity of price formation while accommodating large transactions.

Information quality as a liquidity catalyst

While Nigeria's disclosure framework seeks to ensure broad and timely access to financial information, liquidity outcomes are shaped not only by availability but by the clarity, accuracy and market visibility of that information. Financial statements that meet formal disclosure standards may still fail to translate into liquidity if they are not actively analysed, contextualised, and disseminated to investors.

International evidence consistently shows that stocks with stronger analyst coverage and structured investor engagement benefit from tighter bid-ask spreads, higher turnover ratios, and materially lower execution risk. The underlying mechanism is straightforward: analyst research reduces information asymmetry by translating disclosures into forward-looking insights, comparable metrics, and valuation frameworks. This lowers the uncertainty premium demanded by investors and market makers alike, encouraging more confident quoting and larger trade sizes.

Practical solutions in this area centre on expanding coverage where market incentives are currently weak. In Malaysia and South Korea, programmes supporting broader independent analyst participation significantly increased coverage breadth, improved valuation dispersion, and led to sustained increases in trading activity for previously under-followed securities.

Broadening participation without fueling speculation

A deeper and more reliable liquidity profile can be achieved without incentivising speculative or short-term trading behaviour. The key lies in broadening participation through structured, rules-based mechanisms that introduce predictable and repeatable order flow rather than just momentum-driven activity. When participation is anchored in institutional processes and passive allocation frameworks, liquidity improves while market discipline and price integrity are preserved.

Mechanisms such as designated institutional rebalancing windows, expanded participation in securities lending and borrowing, and the growth of passive and index-linked investment vehicles are particularly effective in this regard. Exchange-traded funds (ETFs) and index strategies play an especially stabilising role within this ecosystem. Their trading activity is mechanical and rules-based, driven by index changes, inflows, and outflows. In markets where passive vehicles are well developed, this creates a steady baseline of turnover that can smooth liquidity across market cycles.

Section 3: Strategic Solutions: Unlocking Liquidity without Distorting Value

By aligning institutional, retail, and passive participation within a coherent market structure, Nigeria can move toward a model of continuous, high-quality liquidity that supports capital formation, improves execution outcomes, and strengthens investor confidence, without compromising market integrity or encouraging speculative behaviour.

Liquidity, capital gains, and valuation credibility

Ultimately, liquidity enhancing reforms determine whether capital gains are realisable rather than theoretical. Markets with shallow depth embed an illiquidity premium into valuations, raising required returns and undermining investor confidence. Structural solutions, higher effective float, active market making, expanded securities lending, and smarter trading design, directly compress this premium.

The credibility of valuations improves when investors can enter and exit positions efficiently. In this sense, liquidity reform is not about trading activity alone, it is about making price signals more credible. Applying quantitative measures such as the Amihud Illiquidity Ratio provides a framework for identifying where interventions will deliver the greatest benefit and for tracking progress over time.

Section 4: The Amihud Illiquidity Ratio: assessing stocks on the NGX30

Methodology and framework

We analysed stocks within the NGX 30 using the Amihud illiquidity ratio. The NGX30 index serves as a benchmark for the overall performance of the Nigerian equity market by tracking the 30 most capitalised and liquid stocks listed on the exchange. The Amihud illiquidity ratio measures how much a stock's price moves for a given amount of trading value. Formally, it is the average of the absolute daily return divided by the daily value traded, in this case over a 12-month period, measuring the long-term liquidity trend.

Conceptually, the Amihud ratio captures price impact: if a small amount of money causes a large price change, the stock is illiquid. If large trading values are absorbed with little or no price movement, the stock is liquid. Lower Amihud values indicate higher liquidity; higher values indicate thinner markets and greater execution risk.

Based on our analysis, the distribution immediately shows that liquidity on the NGX is highly concentrated, even within large-cap names. Most stocks cluster at moderate Amihud ratios (within 10^{-04}) while a small number of names sit far to the right tail with higher values. This tells us that a narrow group of stocks can absorb trading with minimal price impact, whereas liquidity deteriorates quickly outside that core. When compared to mature markets like the US/FTSE, there exist a huge gap as stocks should have Amihud ratios within 10^{-07} - 10^{-09} to be considered very liquid. If our selection is judged by mature markets tiering, it would mean our current Amihud ratio range of 10^{-05} - 10^{-02} for the NGX 30 stocks would be considered illiquid, but given the peculiarity of our market we have tiered them as follows:

Liquidity Tiering Analysis

Table 7: Liquidity tiering for stocks within the NGX30

Ticker	Amihud Ratio	Liquidity Tier	Interpretation
Zenith Bank	10^{-05}	Tier 1	Liquid
GTCO	10^{-05}	Tier 1	Liquid
AccessCorp	10^{-05}	Tier 1	Liquid
Aradel	10^{-05}	Tier 1	Liquid
UBA	10^{-05}	Tier 1	Liquid
MTNN	10^{-05}	Tier 1	Liquid
Fidelity	10^{-05}	Tier 1	Liquid
WAPCO	10^{-05}	Tier 1	Liquid
FirstHoldCo	10^{-05}	Tier 1	Liquid
Presco	10^{-05}	Tier 1	Liquid
DangCem	10^{-05}	Tier 1	Liquid
Nestle	10^{-04}	Tier 2	Moderate Liquidity
Okomu	10^{-04}	Tier 2	Moderate Liquidity

Section 4: The Amihud Illiquidity Ratio: assessing stocks on the NGX30

Table 7 contd.: Liquidity tiering for stocks within the NGX30

Ticker	Amihud Ratio	Liquidity Tier	Interpretation
NB	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
UCAP	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
Seplat	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
FCMB	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
Transcorp	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
Wema	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
DangSugar	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
Stanbic	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
Total	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
BUA Cement	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
BUA Foods	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
Guinness	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
Unilever	10 ⁻⁰⁴	Tier 2	Moderate Liquidity
Custodian	10 ⁻⁰³	Tier 3	Low liquidity
ETI	10 ⁻⁰³	Tier 3	Low liquidity
IntBrew	10 ⁻⁰³	Tier 3	Low liquidity
Geregu	10 ⁻⁰³	Tier 3	Low liquidity
Airtel Africa	10 ⁻⁰²	Tier 4	Illiquid

Tier 1 – Core Liquid Names | Amihud Ratio: 10⁻⁵

The lowest Amihud readings are dominated by Tier 1 banking names, which explains why they are usually the market's preferred trading names. These stocks exhibit near-zero price impact per unit of value traded, reflecting deep order books, consistent daily turnover, and broad investor participation. In practical terms, they can accommodate large trades with limited slippage and form the backbone of institutional portfolio rebalancing on the NGX.

Tier 2 – Moderate Liquidity | Amihud Ratio: 10⁻⁴

A second group of stocks shows good and functional liquidity. These stocks trade regularly, but execution becomes more sensitive to timing and order size. Large trades may need to be staggered or worked through brokers, as price impact can emerge more quickly than in Tier 1 names.

Tier 3 – Low Liquidity | Amihud Ratio: 10⁻³

Stocks in this range display low liquidity. Trading activity exists, but price impact is noticeable even at modest trading values. For investors, this implies higher entry and exit risk, greater dependence on market conditions, and more careful timing of transactions.

Section 4: The Amihud Illiquidity Ratio: assessing stocks on the NGX30

Tier 4 – Structurally Illiquid | Amihud Ratio: 10^{-2}

The highest Amihud values signal structural illiquidity on the NGX. In these cases, small trades can lead to outsized price movements, often due to limited free float, concentrated ownership, or price discovery occurring outside the exchange. Airtel Africa's extreme reading is a clear example, it does not imply weak fundamentals, but rather very thin local trading relative to the company's size.

Key findings and investment implications

The Amihud Illiquidity Ratio analysis confirms that while the NGX has a core set of genuinely liquid large-cap stocks, liquidity drops off sharply beyond them. The analysis yields three critical observations for portfolio construction:

- **Liquidity concentration is extreme:** A narrow group of predominantly Tier 1 banking names absorbs the vast majority of executable trading flow. Outside this core, execution risk rises rapidly.
- **Large-cap status does not guarantee liquidity:** Several well-known, large market-cap names exhibit Amihud Illiquidity Ratios indicating meaningful execution risk.
- **The illiquidity premium is real:** Stocks with higher Amihud Illiquidity Ratios often need to offer a corresponding return premium to compensate investors for reduced exit flexibility.

The Amihud Illiquidity Ratio provides a useful lens for assessing execution risk, highlighting which stocks can absorb institutional flows smoothly and which require patience, planning, and potentially a liquidity premium in valuation. For institutional investors, this tiering framework should inform position sizing, execution strategy, and portfolio construction. For regulators and the NGX, this should provide a barometer for liquidity and a call to action to address it.

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