

NIGERIA WEEKLY UPDATE

MONDAY, 25 OCTOBER 2021

Making sense of the FBNH situation

October has witnessed the most extraordinary level of turnover, price performance and market speculation in FBN Holdings shares. We will not repeat the market speculation here, though in recent weeks, newspapers have carried stories of stake-building, which are helpful. The fundamental value of the stock, in our view, has not changed, so last week (20 October) we downgraded it from a HOLD to a SELL. See pages 2 and 3 for details.

FX

Last week, the exchange rate at the Investors and Exporters Window (I&E Window) was flat at N415.07/US\$1. The Central Bank of Nigeria's (CBN) foreign exchange (FX) reserves rose by 3.38% to US\$40.96bn, the highest level since 17 October 2019 and signifying its ninth consecutive weekly accretion. In our view, this reflects 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 closed bearish, as market players reacted to the rise in yields at the bond Primary Market Auction (PMA). Consequently, the average benchmark yield for bonds rose marginally (+6bps) to 11.38%. On benchmark notes, the yield of the 10-year (+10bps to 12.07%) and 3-year (+2bps to 9.22%) FGN Naira-denominated bonds expanded. However, the yield of the 7-year bond was flat at 11.71%. At the PMA, the Debt Management Office (DMO) allotted N191.39bn (US\$465.67m) worth of bills to investors. The marginal yield on the January 2026 bond settled at 11.65%, the yield on the April 2037 bond settled at 12.95%, while the yield on the March 2050 bond expanded by 20bps to 13.20%. Demand at the auction was weak, as a total subscription of N250.71bn – lowest since February 2021 – was recorded, implying a bid-to-offer ratio of 1.67x (versus an average of 2.01x at prior auctions in 2021). 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 bearish, as market participants sold off instruments to participate in the FGN bond PMA. Consequently, the average benchmark yield for T-bills expanded by 18bps to 5.38%. However, the annualised yield on a 321-day T-bill tightened by 49bps to 6.87%. On Wednesday, at the T-bill PMA, the DMO is due to rollover N150.05bn worth of maturities. Elsewhere, the average yield for OMO bills fell 3bps to 6.44%, while the yield on a 298-day OMO bill fell by 29bps to 7.03%.

OIL

The price of Brent closed 0.79% higher at US\$85.53/bbl last week, marking the seventh consecutive weekly gain for the commodity. Year-to-date, Brent is up 65.12%, and it has traded at an average price of US\$69.17/bbl, 60.05% higher than the average of US\$43.22/bbl in 2020. The price remains supported amidst the persisting energy crunch as worries about coal and gas shortages in China, India, and Europe spur some power generators to switch from gas to fuel oil and diesel. In addition, U.S. Energy Information Administration (EIA) data showed crude inventories fell by 431,000 barrels, compared with analysts' expectations for a 1.9 million barrel rise, further supporting oil prices. 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.

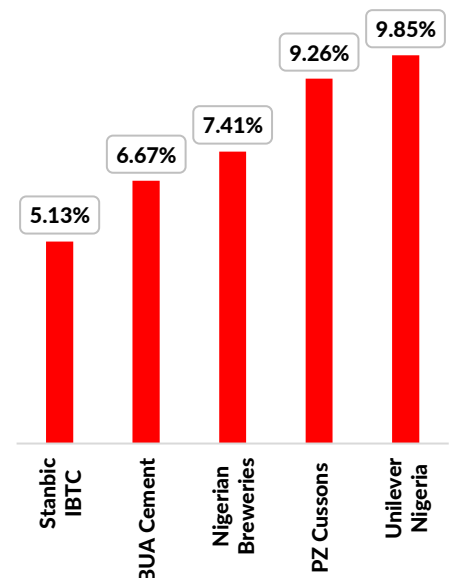
EQUITIES

The Nigerian equities market recorded its sixth consecutive weekly gain, advancing by 0.78% to close at 41,763.26 points – its highest level since 4 February 2021. Consequently, the year-to-date return rose to +3.71%. Unilever Nigeria +9.85%, PZ Cussons +9.26%, Nigerian Breweries +7.41% and BUA Cement +6.67% closed positive last week, while Cadbury Nigeria -5.88%, Nestle Nigeria -5.07%, Guaranty Trust Holdco -3.72% and FBNH -3.54% dropped points. Sectoral performances were mixed: the NGX Banking index led the gainers, rising by +3.29%, followed by NGX Industrial +2.59% and NGX Oil & Gas +1.40% indices, while the NGX Insurance -1.31% and NGX Consumer Goods -1.05% declined. See Model Equity Portfolio on page 4.

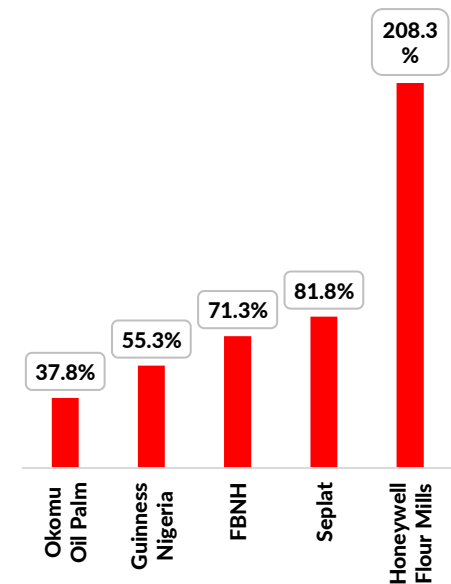
Making sense of the FBNH situation

Naira Sovereign Yields	
Spot	
298-day (OMO)	7.03%
321-day (T-bill)	6.87%
3 Year	9.22%
7 Year	11.71%
10 Year	12.07%
Inflation	16.63%
Quotes on 22 October 2021	

WOW PERFORMANCE OF C-30



BEST PERFORMING IN 2021, YTD



Source: NGX Exchange, FMDQ, NBS

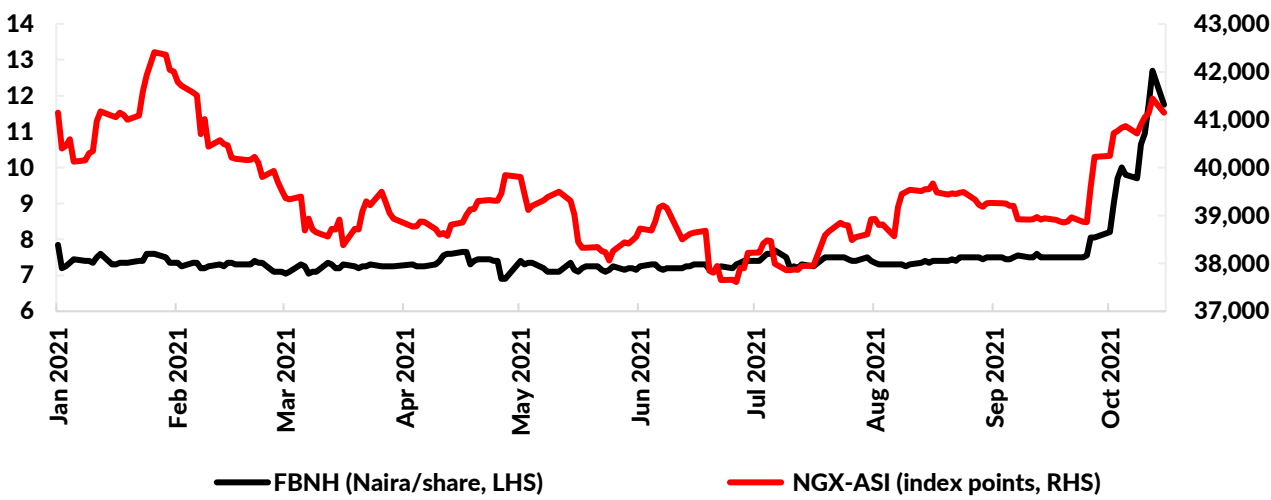
Making sense of the FBNH situation

Stock Rating: SELL
Price Target: N7.80
Price (22-Oct-2021): N12.25
Potential Upside / Downside: -36.3%
Tickers: FBNH NL / FBNH.LG

FBN Holdings (FBNH) shares are up 57.3% over the last month. Yet, there has been remarkably little commentary in the press (until recently) as to what is going on. This article re-states our view set out in our note on Wednesday last week (20 October) and adds fresh material from recent press sources on stake building in the company.

There appears to be a scramble to buy shares: perhaps as a prelude to influence the bank's board; perhaps as a tactic to participate in Airtel Nigeria's value. We regard the recent share price gain as a windfall rather than a change in the stock's fundamental value. Accordingly, we maintain our target price of N7.80/s and change our recommendation from HOLD to SELL.

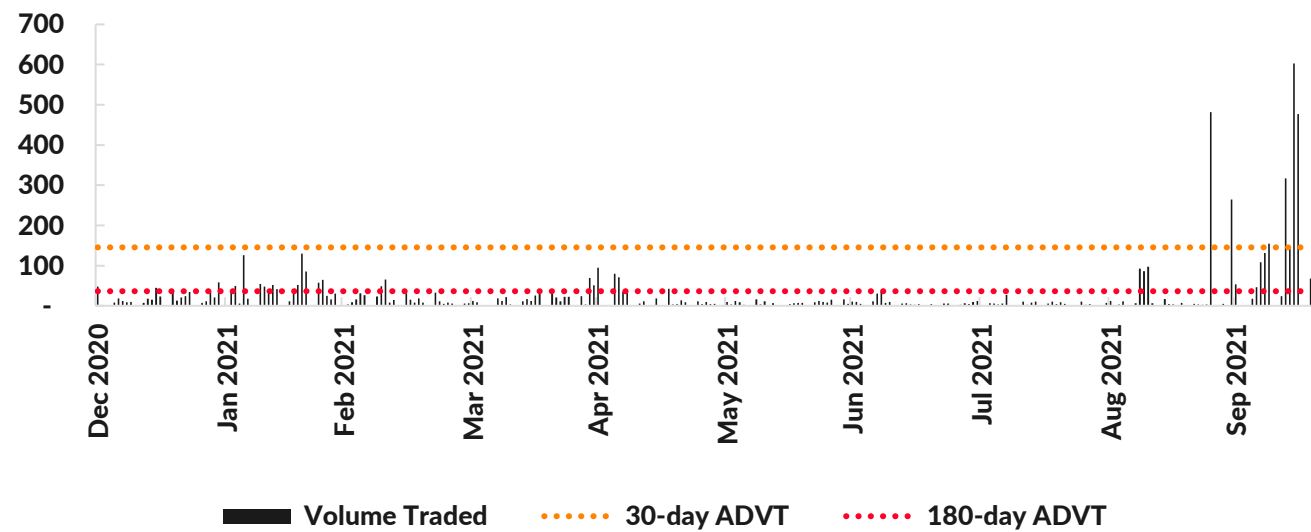
Fig 1: NGX All-Share Index and FBNH



Source: NGX Exchange, Coronation Research

Trading volumes in the stock have also been extraordinarily high.

Fig 2: FBNH Trading Volumes (million of shares)



Source: NGX Exchange, Coronation Research | ADTV= Average Daily Traded Volumes

Early reports (several weeks ago) stated that the rally was driven by investors recognising the fundamental value of First Bank of Nigeria's (FBN) banking franchise. These did not seem to amount to an adequate explanation of what is going on since the fundamentals are frequently assessed in published research reports. Since then, articles in the press have appeared concerning stake-building, presumably with the intention to influence the holding company's strategy.

According to the Punch newspaper, FBN Holdings, in a statement released to the Nigerian Exchange Limited and the investing public on Saturday, reported that Mr. Femi Otedola, a leading businessman, had acquired a 5.07 per cent shareholding in the company through his nominee, Calvados Global Services Limited.

Reports also emerged that the company's Chairman, Mr. Tunde Hassan-Odukale, had acquired 1.92 billion shares, representing 5.36 per cent of FBN Holdings' issued share capital.

While we find this extraordinary, the question remains: What are the reasons for these maneuvers? What is the motive behind this tussle for influence?

Making sense of the FBNH situation

There has been, clearly, some sort of competition to amass shares, as evidenced by an off-market cross-trade on 7 October for 473m shares (1.3% of shares outstanding) at a price of N16.00, a 60.0% premium over the day's closing price.

One possible motive could come from a public offer, announced on 4 October, from Airtel Africa plc to buy out minority shareholdings in Airtel Nigeria.

Airtel Africa's press release reads: "Airtel Africa, a leading provider of telecommunications and mobile money services, with a presence in 14 countries across Africa, today announces that its subsidiary Airtel Networks Limited ('Airtel Nigeria'), a leading provider of telecommunications services in Nigeria, has initiated a process under which it seeks to buy back the 8.27% minority shareholdings at an offer price of N55.81 per share. Assuming all minority shareholders decide to tender their shares, the total consideration is estimated to be N66.21 billion (c.US\$148.1 million using an exchange rate of 413.38 N/US\$). This represents an open offer to all shareholders. A further announcement will be made in due course."

FBNH's 2020 Annual Report (Note 3.6) states: "The Group holds a number of investments in unquoted securities with a market value of N227billion (2019: N193.37 billion) of which investments in Airtel Nigeria Limited and Africa Finance Corporation (AFC) are the significant holdings."

The Annual Report also explains (Note 3.6.1) that a value of N88.29 billion is assigned to Airtel Nigeria, using a single valuation technique (an EV/EBITDA multiple, with a sensitivity of +/- 2.5% on either side of Fair Value).

These figures compare with a market capitalisation of FBNH of N269.21bn a month ago (close of business on 27 September) and a market capitalisation of N450.48bn now (close of business on Monday 25 October). Note that it is not clear what percentage of Airtel Nigeria is held by FBNH or, indeed, whether the stake noted in the 2020 Annual Report is held in its entirety today. Much remains uncertain.

Earlier this year, the press carried reports of a struggle for management control of FBN between various shareholders and the Central Bank of Nigeria, with the CEO, who had earlier been dismissed, being reappointed. It is reasonable to think, therefore, that the struggle for influence is not over and that the possibility of a one-off gain in Airtel Nigeria shares might provide an added incentive.

A lot is still unclear with regard to issues such as the division of board control and CBN's influence in appointing the banks' CEO amongst others. We will continue to monitor the situation as it unravels.

Our fundamental recommendation for FBNH shares, based on our study '[Nigerian Banks, Resilience Built In](#)' (25 June), is a HOLD, based on the price prior to the recent rally. However, given the extraordinary nature of recent events, we assess the current price as a windfall and now recommend that investors SELL.

Model Equity Portfolio

Last week the Model Equity Portfolio rose by 1.25% compared with a rise in the NGX Exchange All-Share Index (NGX-ASI) of 0.78%, therefore outperforming it by 47 basis points. Year to date it has gained 6.48% against a gain in the NGX-ASI of 3.71%, outperforming it by 278bps. Note that if we strip out one transaction in the shares of Stanbic IBTC, which we explain below, the Model Equity Portfolio last week would have risen by just 0.71%, underperforming the market by 7 basis points.

Model Equity Portfolio for the week ending 22 October 2021							
Security	October 15, 2021 position, N	October 22, 2021 position, N	Security weighting	Weekly change	Change since purchase	Performance attribution (bps) Past Week	ytd
FBNH	641,350,000	346,500,000	2.1%	-0.8%	76.2%	-4	178
Zenith	790,400,000	800,000,000	4.8%	1.2%	0.8%	6	-8
UBA	527,050,000	533,400,000	3.2%	1.2%	-2.9%	4	10
Guaranty Trust Holding	592,000,000	572,000,000	3.4%	-3.4%	-11.6%	-12	-95
Stanbic IBTC	663,000,000	785,833,333	4.7%	5.1%	-6.9%	74	34
MTN Nigeria	2,955,810,000	2,940,600,000	17.6%	-0.5%	2.4%	-9	81
Airtel Africa	2,427,516,000	2,459,457,000	14.7%	1.3%	-9.6%	19	-18
Dangote Cement	3,690,400,000	3,690,400,000	22.1%	0.0%	14.3%	0	363
BUA Cement	1,566,000,000	1,670,400,000	10.0%	6.7%	-6.9%	63	-29
Nestle Nigeria	784,400,000	744,650,000	4.5%	-5.1%	-6.6%	-24	-45
Okomu Oil	373,750,000	374,946,000	2.2%	0.3%	37.8%	1	90
Presco	97,010,000	97,010,000	0.6%	0.0%	25.4%	0	27
Seplat	576,000,000	585,200,000	3.5%	1.6%	18.0%	6	55
AIICO	8,075,000	7,990,000	0.0%	-1.1%	-26.6%	-0	-1
Custodian Investment	35,770,000	43,200,000	0.3%	9.6%	35.6%	2	6
Cash	788,884,253	1,072,631,532	6.4%	0.0%	0.0%	0	0
Total	16,517,415,253	16,724,217,866	100%	1.25%	6.48%	125	648

Source: Coronation Research

Back in June Stanbic IBTC announced a 1-for-6 bonus issue of new shares, so that for its notional holding of 13.0 million shares the Model Equity Portfolio could collect just under 2.2 million new shares at zero cost. However, there was: a) a delay in the registration and delivery of the new shares; b) a minuscule settlement risk. Therefore, we chose to wait for delivery before recording the benefit. Net of price effects over the week (the price of Stanbic IBTC rose from N39.0/s to N41.0/s) the addition of new notional shares brought the portfolio 51bps.

As advised last week, we began to sell our notional position in FBH Holding, taking it from a double overweight notional position to a neutral weight. Also as advised last week, we built up the portfolio's position in Custodian Investment, though liquidity is scarce, and it has taken a long time to amass a notional position of just 0.3%.

Going forward into this week, we will rotate part of our notional position in Guaranty Trust HoldCo into Zenith Bank and UBA, reasoning that institutional investors may wish to lighten their Guaranty Trust Holdco shares in light of the fact it is a new entity without a long dividend history. And we will continue make notional purchases of Custodian Investment, liquidity permitting.

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

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

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Hold:	The analyst considers the stock to be fairly valued and expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.
Sell:	The analyst considers the stock overvalued and expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.
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	Date	Recommendation	Date	Recommendation	Date	Recommendation	Current price, Naira/s	Target price, Naira/s
Zenith	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Buy	21.80	27.50
GT Bank	02-Jan-19	Hold	08-May-19	Hold	08-Jan-20	Buy	31.25	37.50
Access	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Buy	10.30	11.25
FBNH	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Buy	6.50	12.50
UBA	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Buy	8.85	11.50
Stanbic IBTC	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Buy	42.50	61.35
Fidelity	02-Jan-19	Buy	08-May-19	Buy	08-Jan-20	Hold	2.02	2.50
Sterling	02-Jan-19	Hold	08-May-19	Hold	08-Jan-20	Hold	2.00	1.90

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

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

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