CORONATION

Investment Opportunities from FX Liberalisation

Research | Nigeria | Financial Markets

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CORONATION

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Investment opportunities from FX liberalisation

Executive summary

In the past six weeks we have seen two major policy changes that are of enormous value to Nigerian investors. One is the removal of fuel subsidies, the other is the liberalisation of the foreign exchange regime with the aim of unifying Naira/US$ exchange rates. These present excellent investment opportunities.

We have already examined the investment implications of removing fuel subsidies in Coronation Research *Investment Opportunities from Fuel Subsidy Removal*, 9 June. In that report we argue that the Federal Government of Nigeria (FGN) is set to save some US$8.6bn per annum from fuel subsidy removal, enhancing its ability to service foreign currency debt. FGN US$ Eurobond investors are set to reap the rewards. We also argue that petroleum marketing companies are net beneficiaries and that the reform amounts to an incentive to refine oil.

We believe that foreign exchange liberalisation brings benefits to Nigerian equity investors and will encourage foreign investors to bring money into the country again. The long-term declines in both foreign direct investment (FDI) and foreign portfolio investments (FPI) are set to be reversed, in our view. Within the equity market we favour the bank sector. Banks not only tend to hold net long positions in US dollars but are also beneficiaries of liberalised FX trading and the increased liquidity that implies.

Today we update target prices and recommendations for the banks under our coverage, with upward revisions to our earnings estimates published only a few months ago (see Coronation Research, *Nigerian Banks, A Year of Resilience and Grit*, 10 March).

Throughout this report we compare today's situation with what happened in 2017, which was the last time when the official FX rate and the parallel market rate were realigned. 2017 was an excellent year both for equity and Naira-denominated bonds returns. There are many encouraging similarities with 2023 but also some key differences.

The incoming administration of President Bola Ahmed Tinubu is moving quickly. Many political manifestos promised fuel subsidy removal and reform of the foreign exchange market: it is another matter to deliver both within a month of taking office.

At the same time, the new administration is yet to announce an overall strategy towards Naira interest rate management which is to be expected, perhaps, as the effects of the first two reforms take shape. So, we have not yet formed a view on the direction of Naira interest rates.

Yet the existing implications for FGN Eurobond yields and for NGX Exchange-listed equities are sufficiently clear for us to deliver our views on these topics. The second half of 2023 is set to be a fruitful period for investors.

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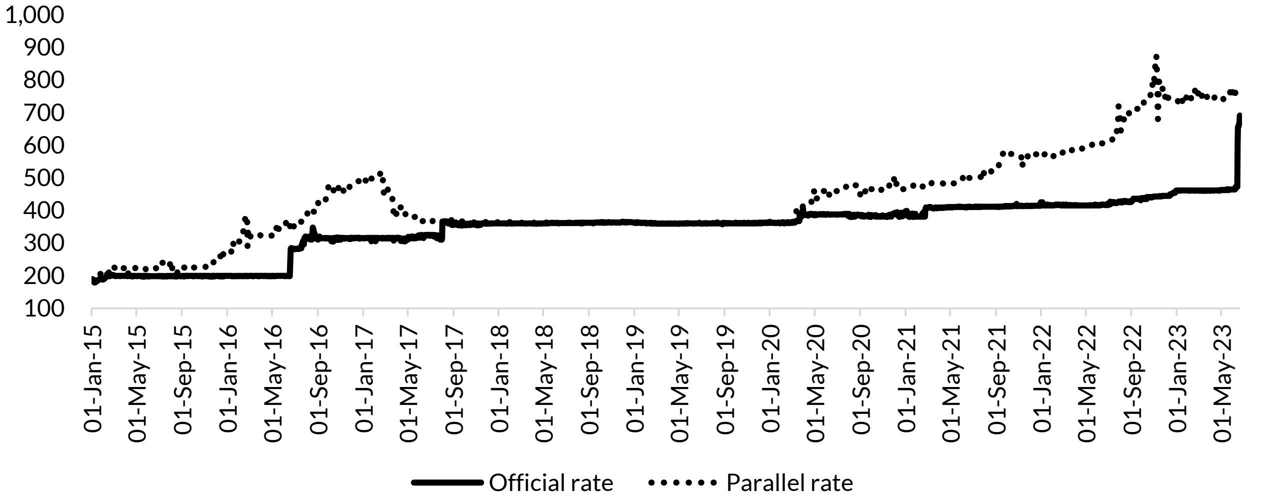
The long-term view

The past eight years have seen two major realignments of the official Naira/US dollar exchange rate with the parallel market rate. The first happened in mid-2017 when the two rates converged on N360.0/US$1. This followed a 31-month period when the parallel market veered away from the official rate. The second convergence is happening now although, unlike the first, it is less a case of two rates converging towards a mid-point than a case of the official rate weakening in order to adjust to the parallel rate (so far: these are early days). Today's realignment comes 38 months after the rates began to diverge in April 2020.

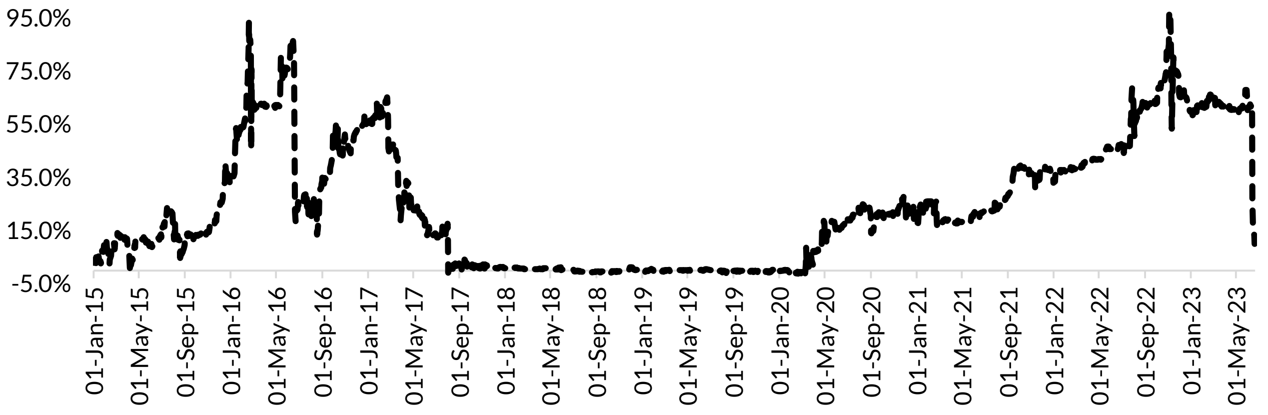
Naira/US$, Official rate* and parallel rate since 1 Jan 2015



Source: Bloomberg, Coronation Research *The Official rate is given as the interbank rate quoted by Bloomberg

Before we look at the investment implications of currency realignment in 2023, consider that the official Naira/US$ rate and the parallel market rate have been out of step with each other for 69 months during the 101 months since the beginning of 2015. For two-thirds of the time Nigerian households, businesses, and investors have been contending with dual exchange rates. The average excess Naira price for US dollars in the parallel market over those 69 months was 34.9%, reaching as high as 96.4% at one point. By contrast, the period of alignment between the two rates was a relatively short 32 months.

Excess of the Parallel FX rate, in Naira, over the Official* FX rate



Source: Bloomberg, Coronation Research *The Official rate is given as the interbank quoted by Bloomberg

Periods of currency realignment are special ones for investors. There are bound to be opportunities. It makes sense to look back to 2017, which was a good year for investors as a large dose of orthodoxy was restored to monetary and foreign exchange policy and investment gains were made. There are lessons from 2017 to apply to 2023, but we also think there are important differences.

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An historic moment

For at least a decade Nigeria's multilateral financing partners have consistently called for three key reforms: removal of fuel subsidies; unification of Naira/ US$ exchange rates (to be achieved through a free float of the Naira); power sector reform. The World Bank (WB), the International Monetary Fund (IMF) and many other development agencies and donor nations have made these demands, and until now they have been disappointed.

It can be argued that Nigeria's reluctance to enact these reforms resulted in a low level of investment by multilateral and public sector bodies (certainly in comparison with the packages made available to some other emerging markets). And it cannot be denied that foreign direct investment has fallen over many years (see charts on page 8). So, now that two key reforms have been enacted (and reforms to the power sector have already been announced), what is stopping these institutions from engaging with Nigeria again? There appears to be no better time to support the country.

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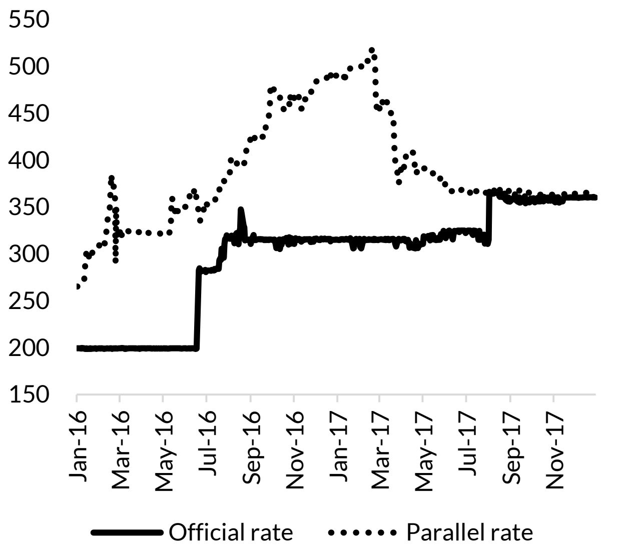
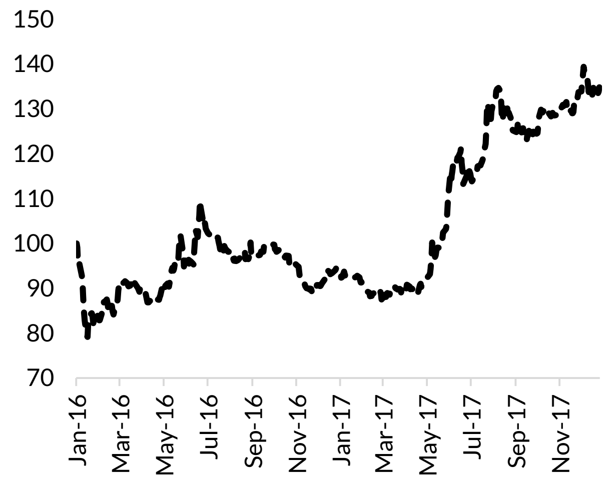
The lessons of 2017

The first question we can ask, from the point of view of Naira-denominated investors, is what investment gains were made in 2017, whether in Naira fixed income or in equities. To begin with we look at the equity market. Recall that there had been three straight years (2014, 2015, 2016) of stock market declines before 2017 as investors first found the market fully-valued (in 2014) and then became uneasy with the dual exchange rate phenomenon (from 2015 onwards). Then, in 2017 the NGX All-Share Index rose by 42.3%.

Naira/US$, Official rate* and parallel rate in 2016 and 2017



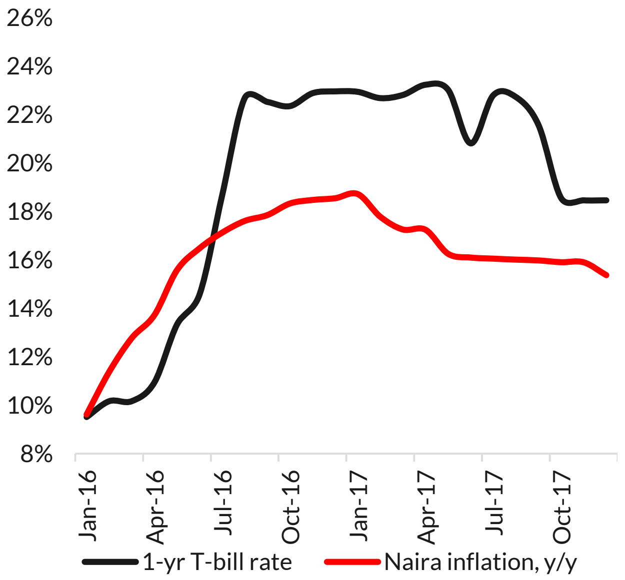
NGX All-Share Index in 2016 and 2017, rebased 1 Jan 2016=100



Source: Bloomberg, Coronation Research *The Official rate is given as the interbank rate quoted by Bloomberg

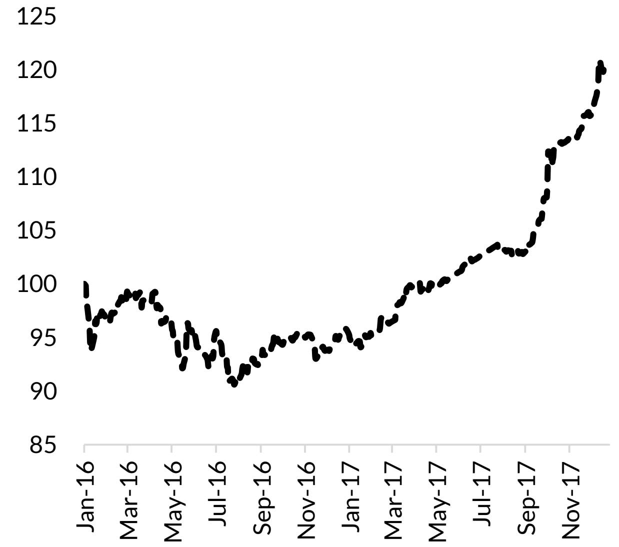
There were many reasons for the market's rise. Market interest rates, expressed as 1-year T-bill rates, declined from 22.9% per annum at the beginning of the year to 16.9% pa by year-end as inflation fell. The Monetary Policy Rate (MPR) was kept at a constant 14.00%. These were good conditions for investors to switch from T-bills into long-dated FGN bonds and equities. The Federal Government of Nigeria (FGN) Naira-denominated bond market rallied with the Bloomberg Nigeria Local Sovereign Index rising by 25.7% over the year.

Naira 1-year Treasury bill rates and inflation, 2016 and 2017



Source: FMDQ, National Bureau of Statistics, Coronation Research

Bloomberg Nigeria Local Sovereign Index, rebased 1 Jan 2016 = 100



Source: Bloomberg, Coronation Research

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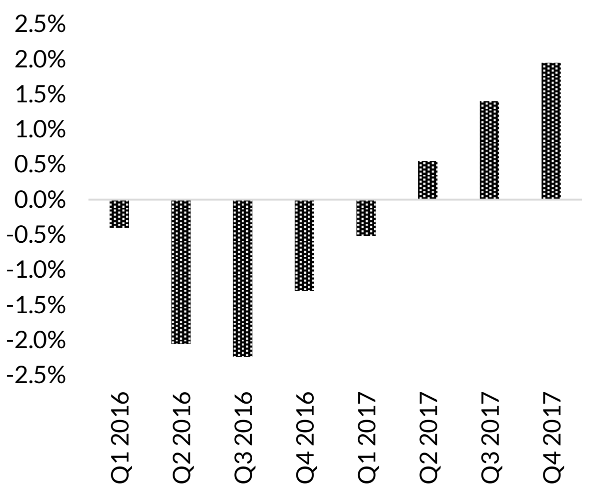
Investment opportunities from FX liberalisation

The economics of 2017

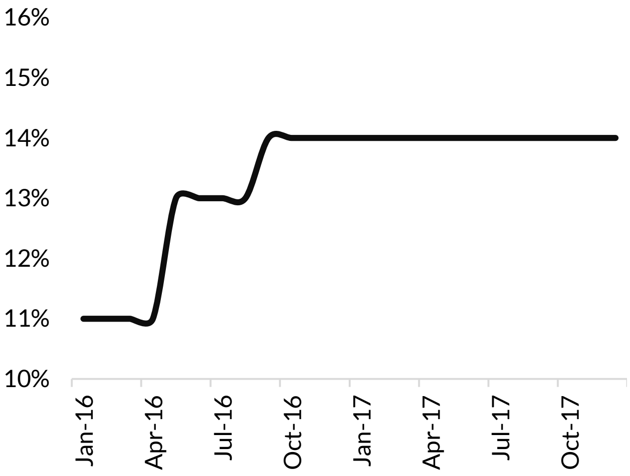
The economics of 2017 were very different to those of 2023. A recession, which had started in Q1 2016, came to an end in Q2 2017. By contrast, and after many years of monetary stimulus, Nigeria has enjoyed many quarters of continuous growth as we approach the second half of 2023.

Nigeria GDP growth, 2016 and 2017



Source: National Bureau of Statistics, Coronation Research

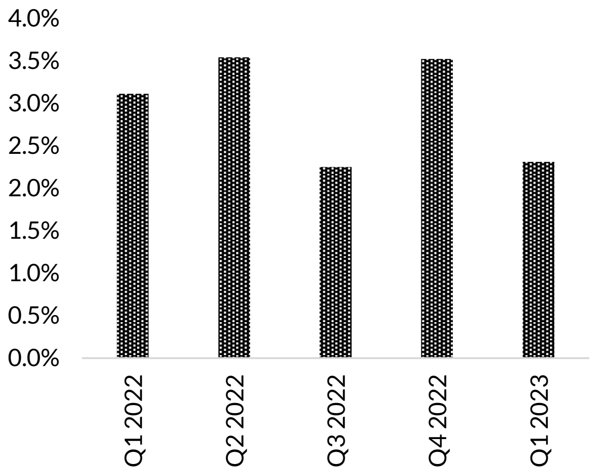
Naira Monetary Policy Rates, 2016 and 2017



Source: CBN, Coronation Research

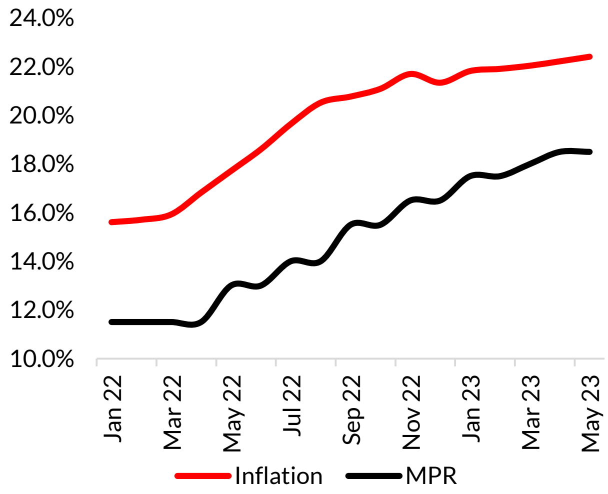
And, as noted above, the Monetary Policy Rate of the CBN was a constant 14.0% during the year whereas the MPR has been on an upward trajectory for over a year in mid-2023 and currently stands at 18.50%.

Nigeria GDP growth, 2022 and 2023



Source: National Bureau of Statistics, Coronation Research

Naira Monetary Policy Rate and Inflation, 2022 &2023



Source: CBN, NBS, Coronation Research

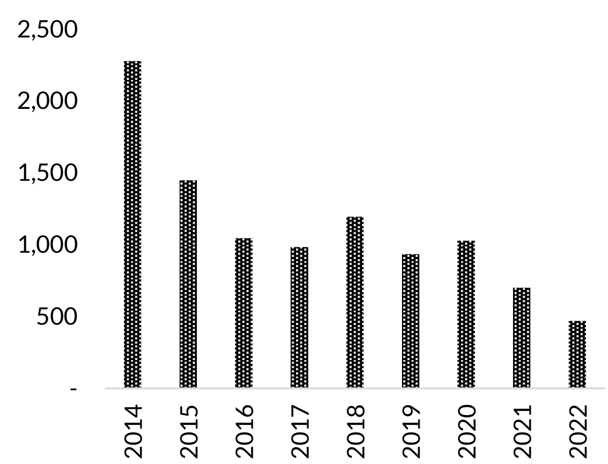
As we note later in this report, we do not yet know this administration's overall strategy for domestic Naira interest rates, though we will likely know more after the next regular meeting the Monetary Policy Council (MPC) of the Central Bank of Nigeria (CBN) on the 24^{th} and 25^{th} of this month. The new administration has expressed its intent to tilt towards a lower policy rate environment. The set goal is a 9.0% Monetary Policy Rate versus the current 18.5%. The intention is that low interest rates would stimulate demand for credit.

Investment opportunities from FX liberalisation

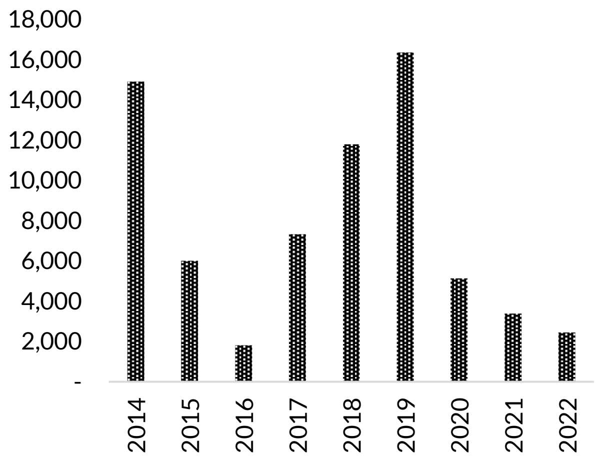
Will foreign investors return in 2023?

The next question is: "What sort of investors were attracted to the stock market in 2017?" As noted above, Nigerian investors, who in those days could earn risk-free returns in T-bills above the rate of inflation, were attracted because nominal T-bill yields were declining and there was an incentive to take equity risk (end of recession, end of dual foreign exchange rates). Foreign investors were also attracted. Even though they had experienced difficulties repatriating funds during 2016, there were enough dedicated Sub-Sahara Africa funds (located in the UK, South Africa, US, Europe and Singapore) willing to give the Nigerian stock market a second chance, and they invested. While 2017 was a good year for returns they were disappointed in 2018 and in 2019 when the stock market fell again.

Foreign Direct Investment, US dollar millions



Foreign Portfolio Investment*, US dollar millions

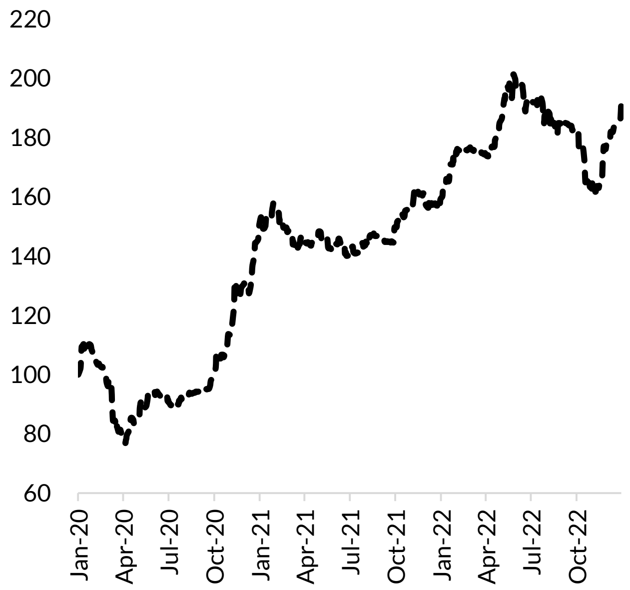


Source: National Bureau of Statistics (NBS), Coronation Research *All classes of securities, including T-bills, commercial paper, FGN bonds, corporate bonds, equities and Open Market Operation (OMO) bills of the Central Bank of Nigeria (CBN)

The profile of investors in Nigeria's domestic capital markets in 2023 is very different from what it was then. Foreign Portfolio investment (FPI) has declined over successive years and makes up a small proportion of the investment pool. Foreign portfolio investors participated in the equity market rally of 2017 and other classes of foreign portfolio investor (hedge funds and local currency debt funds) participated in the Open Market Operation (OMO) bill market and the T-bill market in 2018 and 2019 (the combination of Naira interest rates and FX hedging through forward rate agreements was remunerative). After 2019 foreign portfolio investment declined significantly as Naira market interest rates crashed

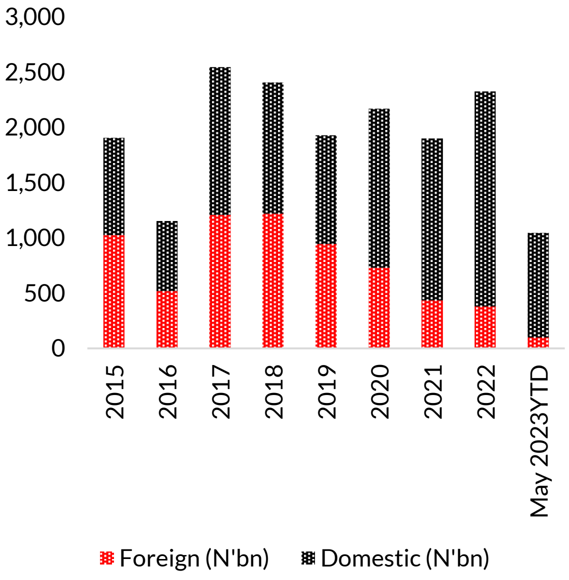
Therefore, while we are sure that there are foreign investors taking part in the equity market this year, we doubt they will be the kind of driving force they once were although it is important to note that foreign participation in the equity market rose significantly in May and is likely to have risen further in June.

NGX All-Share Index 2020, 2021 & 2022, rebased 1 Jan 2020=100



Source: Bloomberg, Coronation Research

Foreign and domestic participation in the NGX Exchange



Source: NGX Exchange, Coronation Research

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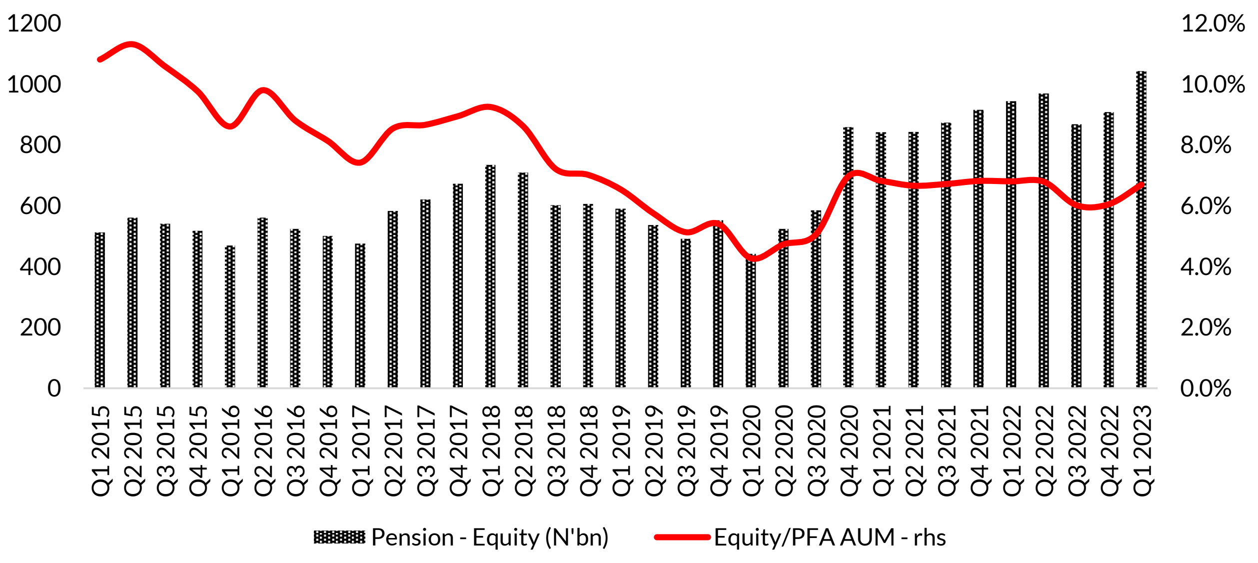
Investment opportunities from FX liberalisation

Will Nigerian pensions take more equities?

Just as important as foreign investors are domestic pension funds, which together manage some N15.6 trillion (in theory equivalent to 48.4% of the current market capitalisation of the NGX Exchange). Pension funds have historically low percentage allocations to equity.

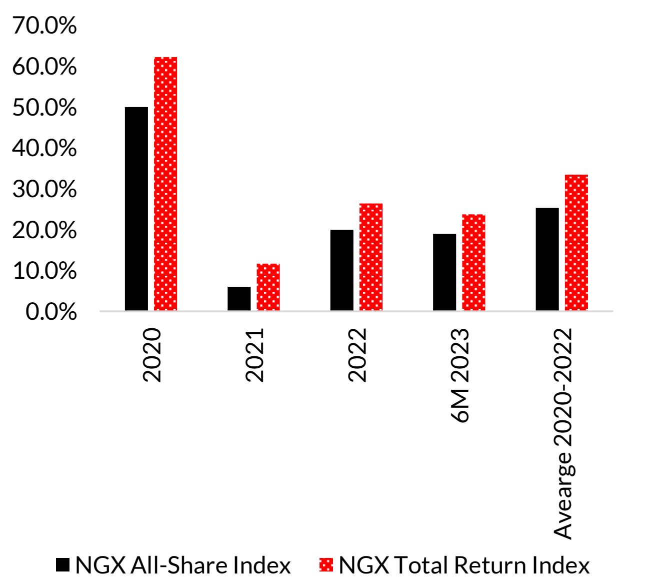
Pension Fund participation in the Nigerian equity market



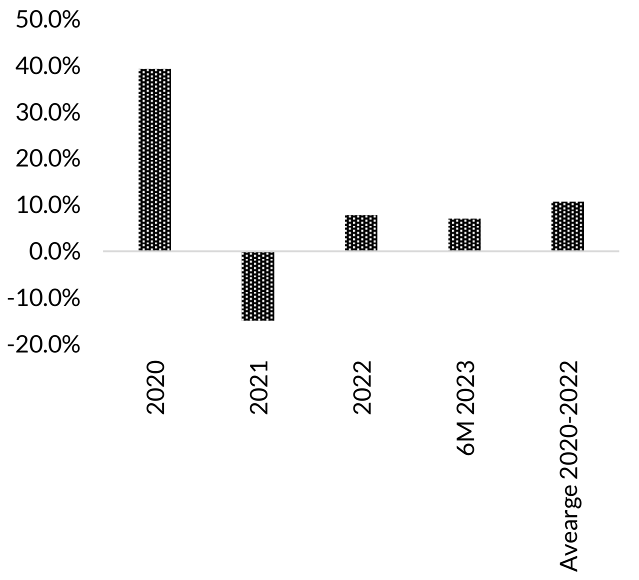
Source: PENCOM, Coronation Research

This is despite the positive returns recorded by the NGX All-Share Index in the successive years 2020, 2021 and 2022. We would expect domestic pension funds to increase equity allocations this year, and together with domestic mutual funds and retail investors we expect them to be the major participants in the stock market going forward.

Annual return of NGX All Share Index and NGX Total Return* Index



Annual return of FGN Naira bond: Bloomberg Nigeria Local Sovereign Index



Source: NGX Exchange, Bloomberg, Coronation Research; * Total Return with all gross dividends reinvested

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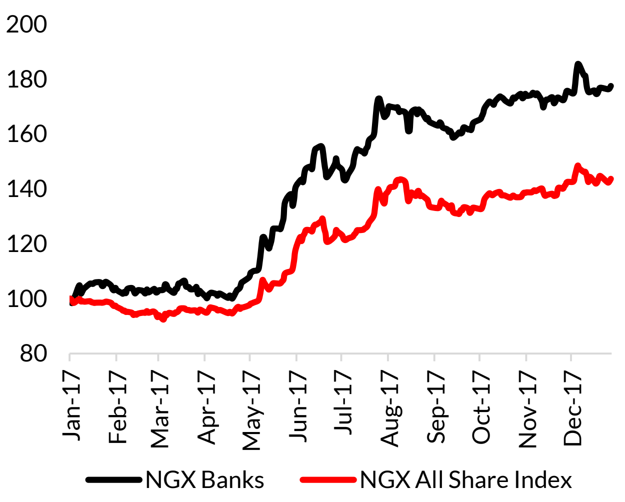
Investment opportunities from FX liberalisation

Sector selection

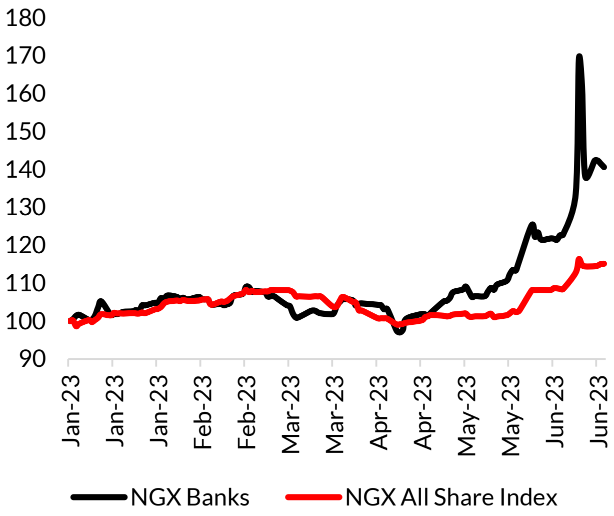
The third question to ask about 2017 relates to which sectors did well. Bank stocks outperformed, with the sub-index of banks rallying by 72.4% compared with the overall market's 42.3% gain. Some bellwether stocks did well, with Nestle Nigeria rising by 92.1% and Dangote Cement rising by 32.2%, but Nigerian Breweries fell by 8.8%. Recall that in 2017 there were no listed telecom stocks (both MTN Nigeria and Airtel Africa were listed in 2019) so the composition of the market was different from what it is today.

We expect banks stocks to outperform again this year. They tend to have net long positions in US dollars and therefore are set to benefit from revaluation gains (and even when their stated balance sheet positions in US dollars are short, they can still hold long off-balance-sheet positions in US dollars). The prospect of less onerous bank regulation (less onerous than the current cash reserve requirement of 32.5%, for example) suggests they will have more liquidity than before. Specifically, we think they will benefit directly from liberalisation of the foreign exchange market.

Banking sub-index and the NGX All-Share Index in 2017, rebased to 1 Jan 2017 = 100



Banking sub-index and the NGX All-Share Index in 2023, rebased to 1 Jan 2023 = 100



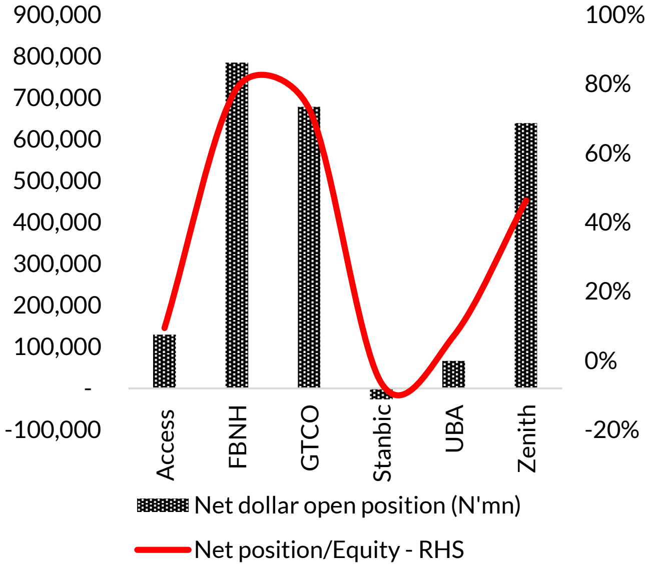
Source: Bloomberg, Coronation Research

Elastic and inelastic demand

When it comes to the rest of the market, we need to look at another significant difference between 2017 and 2023. In 2017 the economy came out of a recession. The parallel rate exchange rate of the Naira *appreciated* from N490.0/US$1 at the beginning of the year to N363.0/US$1 at year-end. Business conditions improved.

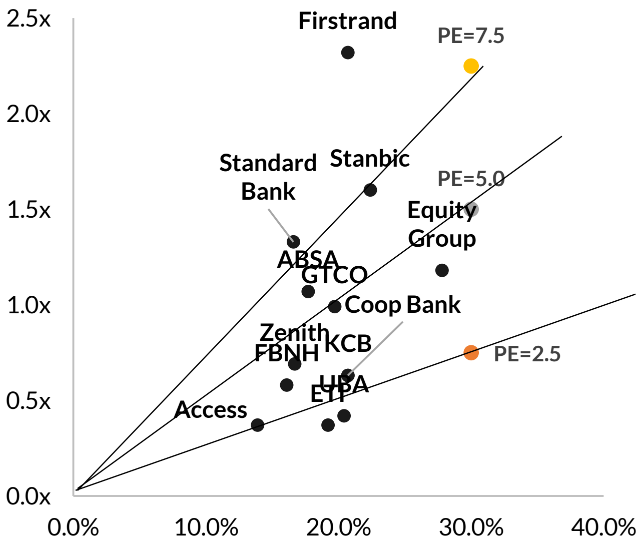
In mid-2023 it is difficult to be as optimistic about business conditions, particularly in relation to the consumer. The consumer has already endured the difficulties inherent in the banknote withdrawal policy (shortages of cash, long queues at ATMs day and night) and now faces the rise in transport costs associated with the removal of fuel subsidies. (For more on this topic see Coronation Research, *Investment Opportunities from Fuel Subsidy Removal*, 9 June.) Therefore, we have put question marks on the performance of manufacturers of branded packaged foods and consumer products, and brewers. Such companies are exposed to consumers' discretionary spending and elastic demand.

Net US dollar open position of Nigerian banks vs their total equity, 31 December 2022, in Naira millions



Source: Company Financials, Coronation Research. Access position is as at Q1 2023

Return on Equity vs P/B of selected Nigerian banks under coverage vs South African and Kenya banks



Source: Bloomberg, Coronation Research NB the above chart was priced at close of business 6 July 2023

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Investment opportunities from FX liberalisation

Elastic and inelastic demand, *continued*

The classic alternative to companies with elastic demand are companies with inelastic demand, whose products and services the consumer cannot avoid using. Banks fall into this category (it is difficult to stop using your bank). Telecom companies' services also fall under the category of inelastic demand, at least in most markets, but we question whether this is necessarily the case in Nigeria. We notice people switching off their WhatsApp services from time to time, perhaps because they are making economies on data purchases, though by contrast we notice more people telecommuting rather than paying up for vastly-increased transport costs to travel to work.

Therefore, our strategy is to favour banks and have a slightly overweight stance on telecoms and to be underweight consumer-facing industrials and brewers as we establish an equity strategy for the second half of the year.

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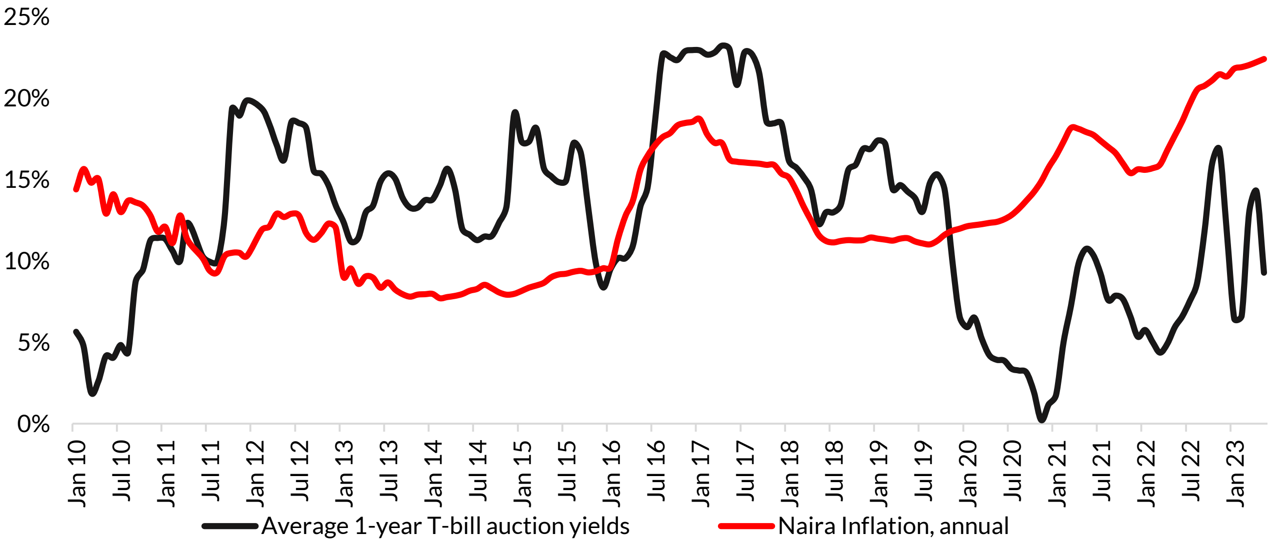
Investment opportunities from FX liberalisation

Fixed Income, waiting for a policy steer

The Naira fixed income market (T-bills, FGN bonds, commercial paper and corporate bonds) accounts for the bulk of Nigerian pension fund assets and the bulk of mutual fund assets. Therefore, the direction of market interest rates will have the most significant effect on the wealth of Nigerians this year. Nigerians have lacked a T-bill return above the rate of inflation for over three years.

1-year Naira T-bill yields and annual inflation

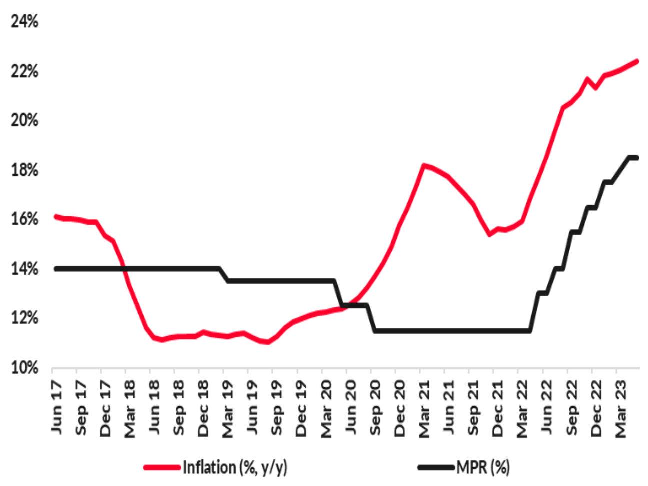


Source: FMDQ, National Bureau of Statistics (NBS), Coronation Research

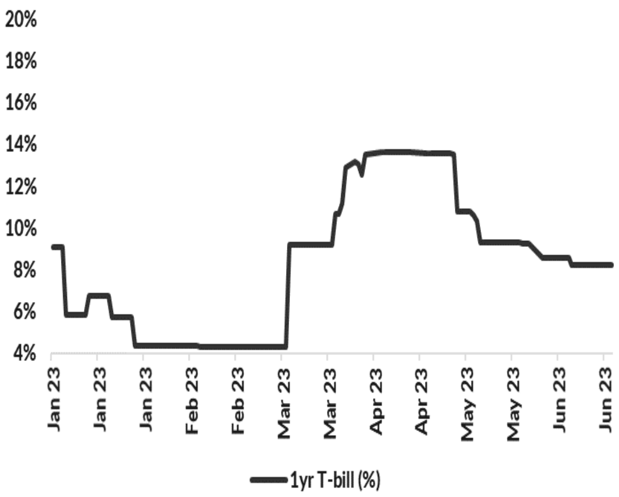
Yet there is little visibility as to the direction of market interest rates at the moment. If we follow the logic of a substantially liberalised foreign exchange market, then the CBN might continue to raise its policy rates and keep market interest rates high in order to:

a) combat inflation, which is likely to rise as a result of fuel subsidy removal;
b) increase the incentive to keep money in Naira rather than in US dollars.

Naira Monetary Policy Rate (MPR) and inflation from January 2017 to present



1-year Treasury bill yields, secondary market, 1 Jan 23 to date



Sources: FMDQ, Central Bank of Nigeria, National Bureau of Statistics, Bloomberg, Coronation Research

However, the All Progressives Congress (APC) manifesto is clear that the administration wishes to see low interest rates in order to facilitate lending to industry and to stimulate the economy. One thing we have learned about this administration is that it gets down to business quickly when delivering on key election pledges (at least with regard to fuel subsidy removal and unification of foreign exchange rates, with quite a lot of policy direction already in the power sector). The good news is that, in all likelihood, we can expect a policy announcement about interest rate policy quite soon, and we may learn more about monetary policy on 25 July at the conclusion of the meeting of the Monetary Policy Council (MPC) of the CBN. For the next MPC meeting, our view is that a hold stance will be adopted or another +50bps rate hike.

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Investment opportunities from FX liberalisation

Hold Naira or US dollars?

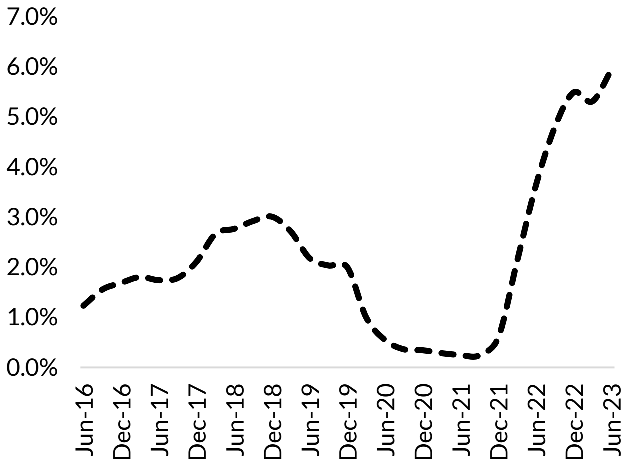
The perennial question for investors is whether to save in Naira or US dollars, assuming, of course, that the choice is possible from a purely regulatory perspective. Nigerian savers typically have a bit of both.

Clearly, it is best to hold US dollars ahead of a devaluation. By contrast, and after a major Naira devaluation (such as that in 2017) investors can take the view that:

a) a further major devaluation is unlikely for a while;
b) Naira fixed income yields beat US dollar yields; so it is best to invest in Naira.

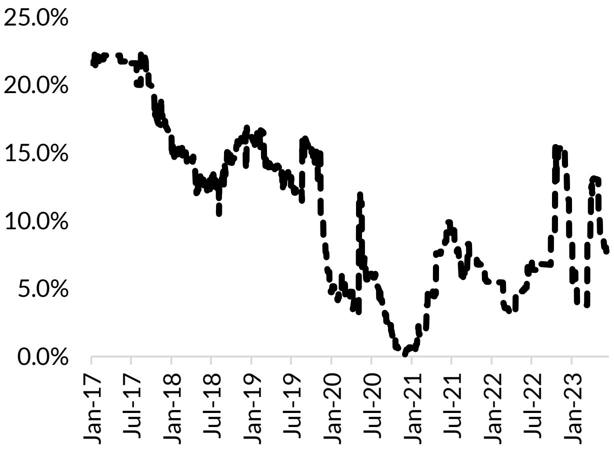
The outlook for currency stability, combined with the superiority of Naira fixed income yields over US yields, after August 2017 led to the influx of Foreign Portfolio Investment which we saw in 2018 and 2019 (see charts on page 8).

US Libor, January 2016 to present



Source: Bloomberg, Coronation Research

1-year Treasury bill yields, secondary market



Source: FMDQ, Coronation Research

On this point, we have received many questions as to exactly where the Naira/US$ exchange rate will settle. Our answer is that these are early days (foreign exchange rate liberalisation is only a few weeks old) and that trades are taking place at a variety of prices, though we expect the market to reach a consensus over a month or two (as opposed to the several months it took from January to August 2017).

And we advise people to put the difference between a putative N750.0/US$1 and a N800.0/US$1 exchange rate into perspective, because the difference (in US dollar terms) is 6.02%. 6.02% is a small difference when considering a currency that has devalued from N475.1/US$1 to N750.0/US$1 (37.3% in US dollar terms). Yet 6.02% is a big deal when comparing fixed income yields, so it makes sense to wait for the exchange rate to settle.

The carry trade, again?

This raises the question of the carry trade and the potential for a repeat of the very high levels of foreign portfolio investment seen in 2018 and 2019.

US dollar rates have changed significantly since the heyday of the carry trade four years ago, so conditions are unlikely to repeat themselves. For example, in September 2017 US Libor was 1.7% per annum which enabled US, UK and other hedge funds to borrow US dollars at low rates. A 1-year Naira T-bill yield was 20.1% pa, so a hedge fund could borrow in US dollars, buy Naira at close to N360.0/US$1, invest in a Naira T-bill (or similar securities) and even hedge Naira currency exposure with a non-deliverable forward (NDF). The principal risk was Naira/US dollar liquidity but this was not an issue while the CBN was supplying the foreign exchange markets with significant sums of US dollars during 2018 and 2019.

Today the arithmetic is very different. US dollar Libor is 5.9% and a 1-year Naira T-bill recently yielded 7.70%. Without a significant uplift in Naira T-bill rates and a lowering of US dollar borrowing rates it is unlikely that foreign investors will return to the carry trade in significant volumes.

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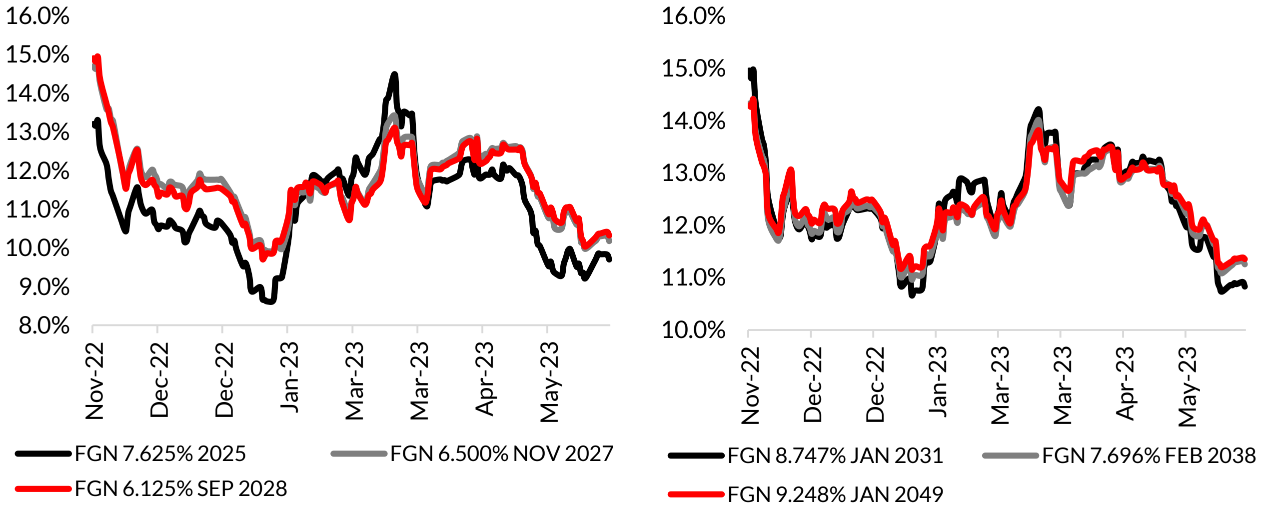
Investment opportunities from FX liberalisation

Value in Eurobonds

As we argued in Coronation Research *Investment Opportunities from Fuel Subsidy Removal*, 9 June, the. first beneficiary of fuel subsidy removal is the Federal Government of Nigeria (FGN). In 2022 the FGN's budget for fuel subsidy was N4.0 trillion (US$8.6bn at the exchange rate immediately before June this year), which represented 22.1% of its total budget of N18.1 trillion. The subsidy swallowed up 40.1% of budgeted aggregate FGN revenues of N9.97 trillion

Doing away with fuel subsidy clearly has positive implications for Nigeria's fiscal deficit, which was budgeted at N8.17 trillion in 2022. The government-owned NNPC's purchases of petroleum products take the form of swaps, of the NNPC's crude oil for imported products, with petroleum (until 31 May 2023) sold at subsidised Naira prices

Federal Government of Nigeria Eurobond yields



Source: Bloomberg, Coronation Research

Given the nature of the swaps, it seems that the NNPC is saving itself the equivalent barrels of oil, with the value accruing to the government (its shareholder). Removing fuel subsidy is therefore a US dollar saving for the FGN. Eurobond markets were quick to spot this, with yields tightening across the curve almost immediately after the announcement of fuel subsidy removal on 29 May. We think FGN Eurobonds still represent good value in the context of a government whose finances are improving and which has embarked on a path to reform another subsidised sector of the economy, the power sector.

Does foreign exchange liberalisation itself have implications for FGN Eurobonds? One could argue that a fully-liberalised Naira/US$ exchange market would remove the strain on the Central Bank of Nigeria of providing US dollar liquidity to it. The published foreign exchange reserves of the CBN have fallen from US$37.1bn to $34.0bn so far this year, though only part of that decline is likely attributable to interventions in the foreign exchange market. In our view the argument goes some way to suggest that FX liberalisation supports the US dollar reserve position of the nation, but we recognise that central banks routinely intervene in their foreign exchange markets, so the effect may be limited.

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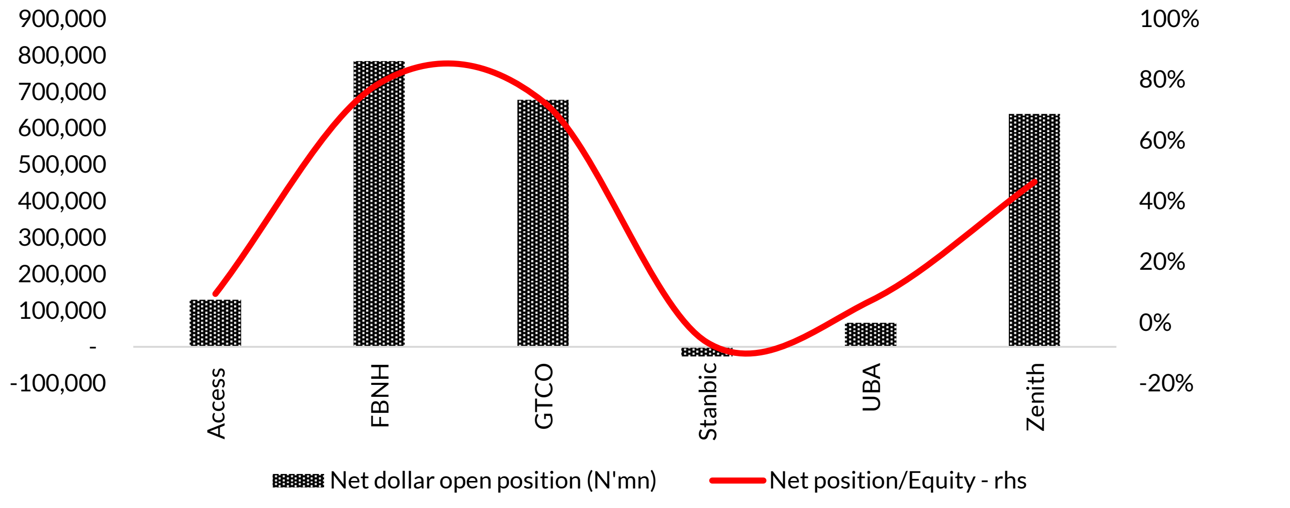
Investment opportunities from FX liberalisation

Banks upside potential persists

Nigerian banks routinely record gains/losses depending on their balance sheet exposure to foreign exchange. Following the recent FX liberalisation which has seen the value of the Naira dropped by circa 40% against the US dollar, we expect banks with net long US dollar balance sheets to book significant FX revaluation gains.

Net US$ open position of Nigerian banks vs Equity, 31 Dec 2022, in equivalent Naira millions

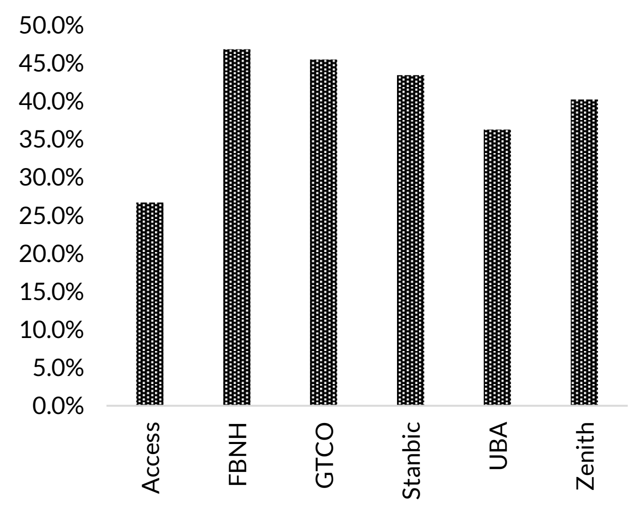


Source: Company Financials, Coronation Research

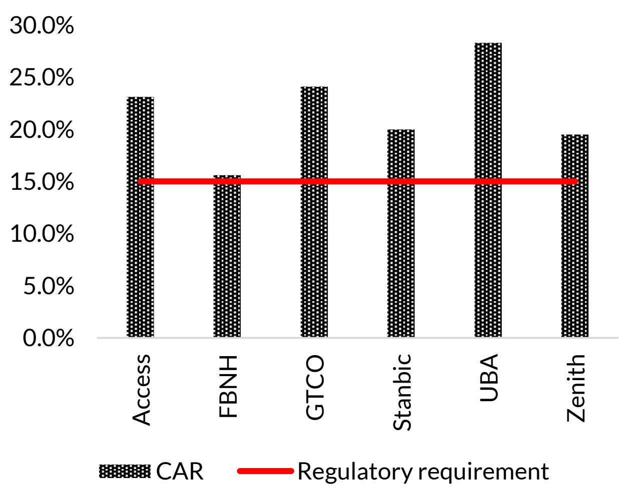
Note that the exposure of each bank may not be adequately expressed in the above chart. Each bank may hold off-balance sheet and derivative positions that either decrease or augment their net foreign exchange positions. Predicting revaluation gains from the above table alone, therefore, is not possible

On average, foreign currency loans for banks under our coverage account for 40% of their combined total loan book. In contrast with revaluation gains, we also expect a degree of elevated foreign currency non-performing loans (NPL) and associated impairment charges going forward.

FCY loans as a proportion of total loans, 31 Dec 2022



Capital Adequacy Ratio (CAR)* of selected banks



Source: Company Financials, Coronation Research; * Tier 1 + Tier 2 CAR at Q1 2023.

Shifting focus, we expect a breather for the banks from the tight regulatory regime imposed on them over the past four years. Nigerian banks have had to pay the 32.5% Cash Reserve Requirement (CRR) imposed by the CBN. There is market comment about possible CRR refunds which would result in a reduction in the cash reserve positions. This would in turn improve banks' margins.

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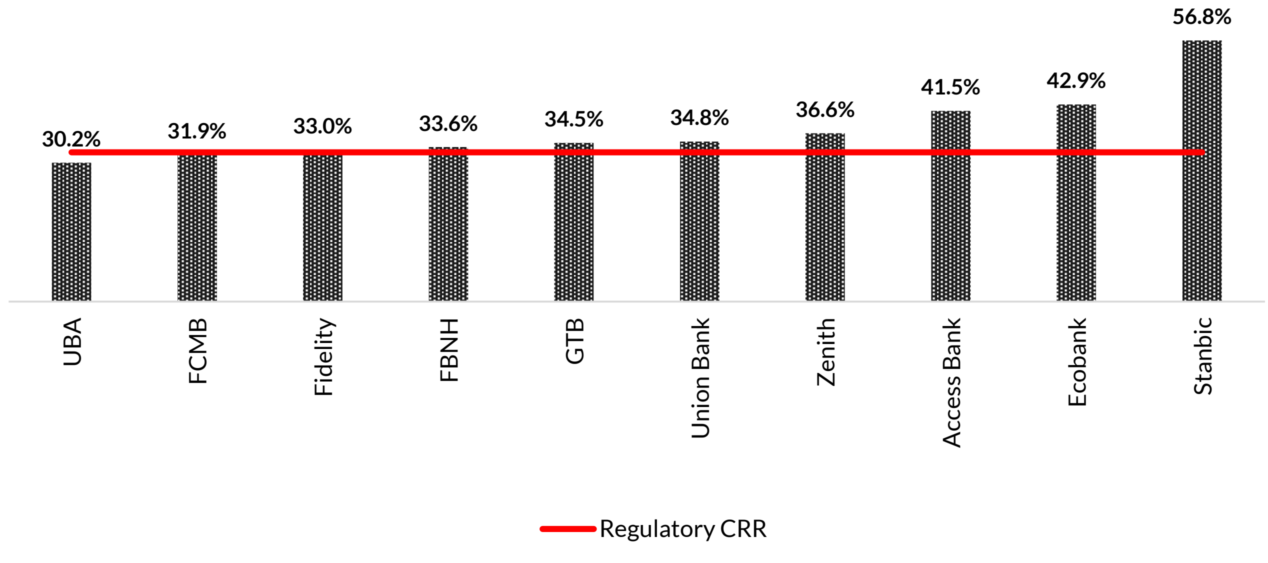
Investment opportunities from FX liberalisation

Effective CRR of selected banks at December 2022

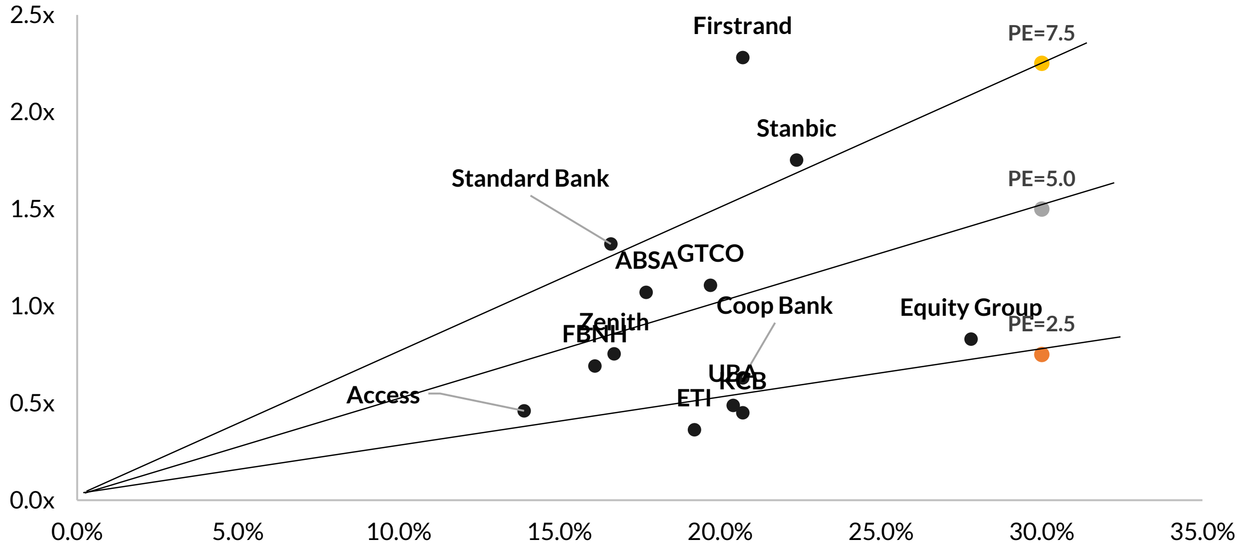


Source: CBN, Coronation Research

Recently, changes were made to the rates at which the Naira inter-bank market could trade. Previously, the rate at which overnight NIBOR could trade had been linked to the lower band set around the Monetary Policy Rate (MPR) at 18.5%, effectively putting an 11.5% floor to interbank rates. With this limit removed, NIBOR rates have reduced drastically. Typically, tier-2 banks are frequently at the receiving end of the inter-bank market, and so, this is likely to translate to reduced cost of funds for tier-2 banks.

We expect significant buying interest including from institutional investors as well as from foreign investors following FX liberalisation and we believe Nigerian banks look attractive in comparison with banks from comparable markets. In 2017, we saw the Importers and Exporters Window (I&E window) market introduced, and this resulted in improved FX liquidity in the market. This ushered significant increases in banks' share prices with the banking index gaining 73.3% in 2017 compared to a 42.3% return of the broader index.

Return on Average Equity (RoAE), versus Price-to-book value (P/BV) of selected Nigerian and African banks



Source: Bloomberg, Coronation Research. NB P/BV is on the vertical axis. This table was priced at COB 6 July

We have upgraded our earnings for the six banks under our coverage, and today we publish these along with new target prices (TP).

We see value in Access (BUY; TP: N22.05), FBNH (BUY; TP: N22.59), GTCO (BUY; TP: N44.31), Stanbic (HOLD; TP: N62.08), UBA (BUY; TP: N18.45), Zenith Bank (BUY; TP: N45.79).

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Investment opportunities from FX liberalisation

Summary of stock picks

	2023F (N'bn)			2024F (N'bn)			2025F (N'bn)				
	Old PAT	New PAT	% change	Old PAT	New PAT	% change	Old PAT	New PAT	% change	Old TP (N)	New TP (N)
Access Holdings	173.5	190.9	10.0%	210.2	230.6	9.7%	245.4	266.4	8.6%	13.43	22.05
FBN Holdings	138.8	188.5	35.8%	150.9	210.2	39.3%	163	228.5	40.2%	13.21	22.59
GTCO	197.4	225.4	14.2%	214.7	260	21.1%	234.2	295.9	26.3%	32.43	44.31
Stanbic	93.3	100.9	8.1%	119.7	132.3	10.5%	146.2	164.7	12.7%	44.3	62.08
UBA	188.2	204.8	8.8%	211.6	235.7	11.4%	230.7	246.4	6.8%	11.5	18.45
Zenith	268.4	274.9	2.4%	297.4	310.1	4.3%	329.9	339.1	2.8%	33.08	45.97

Source: Coronation Research; NB PAT – Profits after Tax, TP – target price

Valuation Summary

	2023F			2024F			2025F		
	P/E	P/B	ROE	P/E	P/B	ROE	P/E	P/B	ROE
Access Holdings	4.08x	0.53x	14.40%	3.38x	0.48x	15.00%	2.93x	0.42x	15.50%
FBN Holdings	4.39x	0.73x	18.10%	3.93x	0.63x	17.30%	3.63x	0.49x	16.30%
GTCO	5.87x	1.33x	23.50%	5.09x	1.21x	24.90%	4.47x	1.08x	25.60%
Stanbic	8.36x	1.75x	23.30%	6.38x	1.54x	26.90%	5.13x	1.32x	29.10%
UBA	3.17x	0.57x	20.20%	2.75x	0.49x	19.50%	2.63x	0.43x	17.70%
Zenith	5.25x	0.87x	18.10%	4.65x	0.77x	17.50%	4.25x	0.68x	17.00%

Source: Coronation Research. This table was priced at COB 6 July

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Access Holdings, summary forecasts

Balance Sheet (Nm)	2022A	2023F	2024F	2025F	2026F
ASSETS					
Net Loans	5,100,806	5,501,334	6,057,474	6,481,407	6,806,505
Investment securities	2,903,264	3,190,342	3,647,043	4,058,848	4,441,628
Other assets	6,994,331	7,526,984	8,396,703	9,152,032	9,940,349
Total Assets	**14,998,401**	**16,218,660**	**18,101,219**	**19,692,287**	**21,188,482**
LIABILITIES					
Customer Deposits	9,251,238	10,161,975	11,618,496	12,927,529	14,140,017
Interbank Funding	2,005,316	2,005,316	2,172,586	2,187,228	2,187,228
Long-term Funding	1,697,282	1,697,282	1,697,282	1,697,282	1,697,282
Other Liabilities	813,174	875,251	963,439	1,031,391	1,084,225
Total Liabilities	**13,767,010**	**14,739,824**	**16,451,803**	**17,843,430**	**19,108,752**
Shareholders' equity	**1,208,584**	**1,456,029**	**1,626,609**	**1,826,050**	**2,056,923**
Minority interests	22,807	22,807	22,807	22,807	22,807
Total liabilities & equity	**14,998,401**	**16,218,660**	**18,101,219**	**19,692,287**	**21,188,482**

Income Statement (Nm)	2022A	2023F	2024F	2025F	2026F
Interest income	827,466	916,729	1,028,662	1,151,408	1,263,836
Interest expense	(467,834)	(556,849)	(613,080)	(678,164)	(734,765)
Net interest income	**359,632**	**359,880**	**415,581**	**473,244**	**529,070**
Fees & commissions	145,735	174,882	209,858	241,337	277,538
Trading revenues	335,546	234,882	246,626	258,958	271,906
Other income	26,800	28,140	29,547	31,024	32,576
Non-interest income	**508,081**	**437,904**	**486,032**	**531,319**	**582,019**
Total operating expenses	(502,359)	(490,129)	(540,613)	(591,978)	(645,845)
Pre-provision operating profit	**365,354**	**307,655**	**361,000**	**412,585**	**465,245**
Loan loss provisions	(197,790)	(98,275)	(108,103)	(120,470)	(131,108)
Pre-tax profit	**167,680**	**209,380**	**252,897**	**292,115**	**334,137**
Tax	(14,778)	(18,453)	(22,288)	(25,745)	(29,448)
Net profit	**152,902**	**190,927**	**230,609**	**266,370**	**304,688**

Key Ratios	2022A	2023F	2024A	2025A	2026A
NIM	3.7%	3.3%	3.5%	3.6%	3.8%
NII/Total revenues	41.4%	45.1%	46.1%	47.1%	47.6%
Cost/income	57.9%	61.4%	60.0%	58.9%	58.1%
ROAE	13.7%	14.4%	15.0%	15.5%	15.8%
ROAA	1.1%	1.2%	1.4%	1.4%	1.5%
NPLs/loans	6.1%	4.8%	2.8%	2.1%	1.9%

Source: Coronation Research

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FBN Holdings (FBNH), summary forecasts

Balance Sheet (Nm)	2022A	2023F	2024F	2025F	2026F
ASSETS					
Net Loans	4,762,225	5,334,430	5,800,120	6,304,756	6,691,760
Investment securities	2,392,709	2,809,555	3,171,652	3,574,101	3,835,592
Other assets	3,682,578	4,284,310	4,804,994	5,381,284	5,783,754
Total Assets	10,837,511	12,428,294	13,776,765	15,260,141	16,311,106
LIABILITIES					
Customer Deposits	6,863,941	8,059,744	9,098,488	10,252,991	11,003,128
Interbank Funding	1,834,396	1,982,321	2,028,084	2,074,330	2,591,617
Long-term Funding	425,569	446,848	469,190	492,650	517,282
Other liabilities	757,809	816,687	879,126	946,569	503,254
Total Liabilities	**9,881,716**	**11,305,600**	**12,474,889**	**13,766,540**	**14,615,281**
Shareholders' equity	**945,390**	**1,112,289**	**1,291,471**	**1,483,196**	**1,685,420**
Minority interests	10,405	10,405	10,405	10,405	10,405
Total liabilities & equity	10,837,511	12,428,294	13,776,765	15,260,141	16,311,106

Income Statement (Nm)	2022A	2023F	2024F	2025F	2026F
Interest income	551,937	641,379	727,277	808,410	881,110
Interest expense	-188,688	-216,787	-250,239	-285,619	-320,152
Net interest income	**363,249**	**424,592**	**477,038**	**522,790**	**560,958**
Fees & commissions	117,969	125,215	131,475	138,049	144,952
Trading revenues	61,040	74,469	79,682	85,259	91,227
Other income	47,995	53,112	56,853	60,932	65,390
Non-interest income	**227,004**	**252,796**	**268,010**	**284,240**	**301,569**
Total operating expenses	-363,907	-404,036	-439,773	-474,338	-507,349
Pre-provision operating profit	**226,346**	**273,351**	**305,275**	**332,693**	**355,178**
Loan loss provisions	-68,619	-59,135	-66,423	-73,066	-79,224
Pre-tax profit	**157,902**	**214,217**	**238,851**	**259,627**	**275,954**
Tax	-21,591	-25,706	-28,662	-31,155	-33,115
Net profit	**136,311**	**188,511**	**210,189**	**228,472**	**242,840**

Key Ratios	2022A	2023F	2024F	2025F	2026F
NIM	5.4%	5.6%	5.6%	5.5%	5.5%
NII/Total revenues	61.5%	62.7%	64.0%	64.8%	65.0%
Cost/income	61.7%	59.6%	59.0%	58.8%	58.8%
ROAE	14.8%	18.1%	17.3%	16.3%	15.2%
ROAA	1.4%	1.6%	1.6%	1.6%	1.5%
NPLs/loans	8.8%	6.4%	5.3%	4.2%	3.5%

Source: Coronation Research

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Guaranty Trust Holding Company (GTCO), summary forecasts

Balance Sheet (Nm)	2022A	2023F	2024F	2025F	2026F
ASSETS					
Net Loans	1,885,853	2,080,472	2,183,122	2,291,139	2,404,501
Invesment securities	1,353,813	1,529,916	1,645,493	1,771,139	1,907,631
Other assets	3,206,790	3,617,094	3,897,159	4,207,926	4,554,050
Total Assets	**6,446,456**	**7,227,481**	**7,725,773**	**8,270,205**	**8,866,182**
LIABILITIES					
Customer Deposits	4,485,114	5,068,535	5,451,436	5,867,696	6,319,886
Interbank Funding	125,229	125,229	125,229	125,229	125,229
Long-term Funding	126,528	126,528	126,528	126,528	126,528
Other liabilities	778,436	907,941	924,655	928,265	920,879
Total Liabilities	**5,515,307**	**6,228,234**	**6,627,848**	**7,047,719**	**7,492,522**
Shareholders' equity	**912,004**	**980,103**	**1,078,780**	**1,203,341**	**1,354,515**
Minority interests	19,145	19,145	19,145	19,145	19,145
Total liabilities & equity	**6,446,456**	**7,227,481**	**7,725,773**	**8,270,205**	**8,866,182**

Income Statement (Nm)	2022A	2023F	2024F	2025F	2026F
Interest income	325,400	358,001	395,277	426,095	459,359
Interest expense	(66,097)	(78,547)	(91,394)	(103,765)	(117,565)
Net interest income	**259,303**	**279,454**	**303,883**	**322,330**	**341,794**
Fees & commissions	77,457	93,855	110,982	131,376	155,527
Trading revenues	40,282	48,339	58,007	69,608	83,529
Other income	46,995	111,969	134,363	161,235	193,483
Non-interest income	**164,735**	**254,163**	**303,352**	**362,219**	**432,539**
Total operating expenses	(197,898)	(241,745)	(270,716)	(301,870)	(337,763)
Pre-provision operating profit	**226,141**	**291,872**	**336,519**	**382,680**	**436,570**
Loan loss provisions	(11,987)	(13,627)	(15,522)	(17,433)	(19,497)
Pre-tax profit	**214,154**	**278,245**	**320,998**	**365,246**	**417,073**
Tax	(44,981)	(52,867)	(60,990)	(69,397)	(79,244)
Net profit	**169,173**	**225,378**	**260,008**	**295,850**	**337,829**

Key Ratios	2022A	2023F	2024F	2025F	2026F
NIM	5.8%	5.3%	5.3%	5.3%	5.3%
NII/Total revenues	61.2%	52.4%	50.0%	47.1%	44.1%
Cost/income	46.7%	45.3%	44.6%	44.1%	43.6%
ROAE	18.8%	23.5%	24.9%	25.6%	26.0%
ROAA	2.8%	3.2%	3.4%	3.6%	3.9%
NPLs/loans	7.8%	6.9%	6.4%	5.9%	5.6%

Source: Coronation Research

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Stanbic IBTC, summary forecasts

Balance Sheet (Nm)	2022A	2023F	2024F	2025F	2026F
ASSETS					
Net Loans	1,208,190	1,435,109	1,648,570	1,895,345	2,083,894
Investment securities	1,116,586	1,451,561	1,669,296	1,919,690	2,111,659
Other assets	704,250	982,081	1,108,689	1,252,283	1,364,543
Total Assets	**3,029,026**	**3,868,752**	**4,426,555**	**5,067,318**	**5,560,096**
LIABILITIES					
Customer Deposits	1,245,346	1,581,995	1,807,875	2,067,695	2,261,402
Interbank Funding	491,080	543,973	625,602	765,667	810,834
Long-term Funding	259,835	259,835	259,835	259,835	259,835
Other liabilities	625,095	1,023,330	1,209,768	1,366,710	1,512,729
Total Liabilities	**2,621,356**	**3,409,134**	**3,903,080**	**4,459,907**	**4,844,800**
Shareholders' equity	**399,662**	**451,610**	**515,467**	**599,403**	**707,288**
Minority interests	8,008	8,008	8,008	8,008	8,008
Total liabilities & equity	**3,029,026**	**3,868,752**	**4,426,555**	**5,067,318**	**5,560,096**

Income Statement (Nm)	2022A	2023F	2024F	2025F	2026F
Interest income	152,670	163,717	200,399	235,819	270,936
Interest expense	-39,551	-48,387	-57,210	-65,917	-74,808
Net interest income	**113,119**	**115,330**	**143,189**	**169,902**	**196,128**
Fees & commissions	91,059	103,444	119,041	137,226	158,463
Trading revenues	34,687	41,624	45,787	50,366	55,402
Other income	1,248	1,366	1,496	1,639	1,797
Non-interest income	**126,994**	**146,435**	**166,324**	**189,231**	**215,662**
Total operating expenses	-129,474	-137,478	-146,004	-155,088	-164,770
Pre-provision operating profit	**110,639**	**124,287**	**163,509**	**204,044**	**247,020**
Loan loss provisions	-10,290	-4,149	-6,019	-7,978	-10,239
Associate	0	1	2	3	4
Pre-tax profit	**100,349**	**120,139**	**157,492**	**196,070**	**236,785**
Tax	-19,535	-19,222	-25,198	-31,371	-37,885
Minorities	0	0	0	0	0
Net profit	**80,814**	**100,917**	**132,293**	**164,699**	**198,900**

Key Ratios	2022A	2023F	2024F	2025F	2026F
NIM	6.6%	5.6%	5.7%	5.9%	6.1%
NII/Total revenues	47.1%	44.1%	46.3%	47.3%	47.6%
Cost/income	53.9%	52.5%	47.2%	43.2%	40.0%
ROAE	20.6%	23.3%	26.9%	29.1%	30.1%
ROAA	2.8%	2.9%	3.2%	3.5%	3.7%
NPLs/loans	1.5%	0.9%	0.7%	0.5%	0.4%

Source: Coronation Research

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UBA, summary forecasts

Balance Sheet (Nm)	2022A	2023F	2024F	2025F	2026F
ASSETS					
Net Loans	3,440,128	4,043,918	4,290,256	4,550,845	4,825,646
Investment securities	4,208,577	4,626,299	4,850,247	5,084,074	5,327,254
Other assets	3,208,866	3,515,413	4,242,514	5,390,886	7,280,385
Total Assets	**10,857,571**	**12,185,631**	**13,383,018**	**15,025,805**	**17,433,285**
LIABILITIES					
Customer Deposits	7,824,892	8,569,685	8,951,360	9,348,393	9,759,650
Interbank Funding	1,170,238	1,170,238	1,170,238	1,170,238	1,170,238
Long-term Funding	535,735	629,727	740,210	870,076	1,022,727
Other liabilities	404,602	699,727	1,223,775	2,153,607	3,802,742
Total Liabilities	**9,935,467**	**11,069,377**	**12,085,583**	**13,542,313**	**15,755,356**
Shareholders' equity	**887,297**	**1,081,447**	**1,262,628**	**1,448,685**	**1,643,121**
Minority interests	34,807	34,807	34,807	34,807	34,807
Total liabilities & equity	**10,857,571**	**12,185,631**	**13,383,018**	**15,025,805**	**17,433,285**

Income Statement (Nm)	2022A	2023F	2024F	2025F	2026F
Interest income	557,152	645,206	712,814	759,238	808,356
Interest expense	-177,663	-214,061	-239,495	-263,680	-290,532
Net interest income	**379,489**	**431,145**	**473,318**	**495,558**	**517,824**
Fees & commissions	128,243	150,101	165,112	181,623	199,785
Trading revenues	72,150	93,795	103,175	106,270	109,458
Other income	13,040	18,902	22,682	27,219	32,663
Non-interest income	**213,433**	**262,798**	**290,968**	**315,111**	**341,905**
Total operating expenses	-350,389	-418,048	-450,408	-481,722	-514,608
Pre-provision operating profit	**242,533**	**275,895**	**313,879**	**328,947**	**345,121**
Loan loss provisions	-41,968	-34,290	-35,773	-38,278	-40,957
Pre-tax profit	**200,876**	**241,605**	**278,105**	**290,670**	**304,164**
Tax	-30,599	-36,803	-42,363	-44,277	-46,333
Net profit	**170,277**	**204,802**	**235,742**	**246,392**	**257,832**

Key Ratios	2022A	2023F	2024F	2025F	2026F
NIM	6.6%	5.6%	5.7%	5.9%	6.1%
NII/Total revenues	47.1%	44.1%	46.3%	47.3%	47.6%
Cost/income	53.9%	52.5%	47.2%	43.2%	40.0%
ROAE	20.6%	23.3%	26.9%	29.1%	30.1%
ROAA	2.8%	2.9%	3.2%	3.5%	3.7%
NPLs/loans	1.5%	0.9%	0.7%	0.5%	0.4%

Source: Coronation Research

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Zenith Bank, summary forecasts

Balance Sheet (Nm)	2022A	2023F	2024F	2025F	2026F
ASSETS					
Net Loans	4,013,705	4,225,552	4,513,971	4,820,135	5,145,117
Investment securities	3,974,872	4,380,592	4,909,448	5,442,949	6,040,977
Other assets	4,297,052	5,098,389	6,432,870	9,779,747	20,877,303
Total Assets	**12,285,629**	**13,704,533**	**15,856,289**	**20,042,831**	**32,063,397**
LIABILITIES					
Customer Deposits	8,975,653	9,891,808	11,086,018	12,290,715	13,641,122
Long-term Funding	1,274,642	1,280,866	1,287,214	1,293,689	1,300,294
Other liabilities	656,394	869,060	1,604,747	4,342,137	14,753,000
Total Liabilities	**10,906,689**	**12,041,734**	**13,977,981**	**17,926,544**	**29,694,421**
Shareholders' equity	**1,378,127**	**1,661,986**	**1,877,495**	**2,115,473**	**2,368,163**
Minority interests	813	813	813	813	813
Total liabilities & equity	**12,285,629**	**13,704,533**	**15,856,289**	**20,042,831**	**32,063,397**

Income Statement (Nm)	2022A	2023F	2024F	2025F	2026F
Interest income	540,166	627,043	701,134	784,521	876,553
Interest expense	-173,539	-216,161	-247,430	-283,583	-323,728
Net interest income	**366,627**	**410,883**	**453,703**	**500,939**	**552,826**
Fees & commissions	132,795	148,730	171,040	196,696	226,200
Trading revenues	212,678	233,946	266,698	293,368	313,904
Other income	35,494	39,043	44,900	49,390	54,329
Non-interest income	**380,967**	**421,720**	**482,638**	**539,454**	**594,433**
Total operating expenses	-339,692	-406,263	-457,616	-516,399	-583,494
Pre-provision operating profit	**407,902**	**426,339**	**478,726**	**523,994**	**563,765**
Loan loss provisions	-123,252	-76,829	-84,491	-92,849	-101,963
Pre-tax profit	**284,650**	**349,511**	**394,237**	**431,148**	**461,806**
Tax	-60,739	-74,579	-84,122	-91,998	-98,540
Net profit	**223,911**	**274,932**	**310,114**	**339,150**	**363,266**

Key Ratios	2022A	2023F	2024F	2025F	2026F
NIM	4.5%	4.2%	4.2%	4.3%	4.4%
NII/Total revenues	49.0%	49.3%	48.5%	48.1%	48.2%
Cost/income	45.4%	48.8%	48.9%	49.6%	50.9%
ROAE	16.8%	18.1%	17.5%	17.0%	16.2%
ROAA	2.1%	2.1%	2.1%	1.9%	1.4%
NPLs/loans	5.0%	5.1%	5.2%	5.4%	5.6%

Source: Coronation Research

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Risks

In this report, we assess the potential impact of foreign exchange liberalisation on Nigeria's capital markets, including Naira-denominated securities and US dollar-denominated FGN Eurobonds. Since the inauguration of President Bola Ahmed Tinubu on 29 May the government has implemented policies with regard to fuel subsidy removal (which was announced during the President's inaugural speech), foreign exchange market liberalisation, and power sector reform.

At the time of going to press the government has not announced a policy on interest rates, i.e. monetary policy, whether relating to the Monetary Policy Rate (MPR) of the Central Bank of Nigeria (which is an independent central bank) or to market interest rates (such as the Nigerian Treasury Bill yield and Naira-denominated FGN bond yields). Future monetary policy may affect the potential outcomes assessed in this report.

The new administration has removed fuel subsidies and liberalised the foreign exchange rate of the Naira. This report assumes that these two key policies will continue to be implemented during the second half of 2023 and beyond. Readers should be aware that an earlier attempt by the Federal Government of Nigeria to reform fuel subsidies, over 10 years ago, was later amended and ultimately effectively withdrawn.

The program of the new administration of President Bola Ahmed Tinubu is set out in the manifesto of the All Progressives Congress (APC). This calls for a range of policies across different areas, including fiscal policy. It is not known which policies will be prioritised nor when they will be implemented. At the time of going to press key ministerial appointments have yet to be made. These developments could influence the potential outcomes assessed in this report.

In addition, extraneous factors may influence the potential outcomes assessed in this report, including but not restricted to movements in oil prices (oil exports are a significant source of revenue for Nigeria), movements in other commodity prices, movements in international currencies and their interest rates.

This report revises our forecasts for the six banks under coverage, as well as setting target prices and giving recommendations. The performance of these banks, as with all Nigerian banks, may be profoundly affected by future monetary policy, future fiscal policy, and the regulatory regime of the Central Bank of Nigeria as well as by management performance. Therefore, the business conditions we assume for the banks during the forecast period may change materially. The disclaimer at the end of this report is an integral part of it.

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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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Ticker	Date	Recommendation	Date	Recommendation	Date	Recommendation	Target price, Naira/s
ZENITHBANK	25-Jun-21	Buy	22-Feb-22	Buy	10-Jul-23	Buy	45.97
GTCO	25-Jun-21	Buy	22-Feb-22	Buy	10-Jul-23	Buy	44.31
ACCESS	25-Jun-21	Buy	22-Feb-22	Buy	10-Jul-23	Buy	22.05
FBNH	25-Jun-21	Hold	22-Feb-22	Sell	10-Jul-23	Buy	22.59
UBA	25-Jun-21	Buy	22-Feb-22	Buy	10-Jul-23	Buy	18.45
STANBIC	25-Jun-21	Buy	22-Feb-22	Buy	10-Jul-23	Hold	62.08
MTNN	25-Jun-21	Not Rated	22-Feb-22	Buy	10-Jul-23	Buy	274.41
AIRTELAFRI	25-Jun-21	Not Rated	22-Feb-22	Sell	10-Jul-23	Sell	1,051.07
DANGCEM	25-Jun-21	Not Rated	22-Feb-22	Buy	10-Jul-23	Buy	328.65
WAPCO	25-Jun-21	Not Rated	22-Feb-22	Buy	10-Jul-23	Buy	39.23
BUACEMENT	25-Jun-21	Not Rated	22-Feb-22	Sell	10-Jul-23	Sell	44.60

Coronation Research Investment Rating Distribution	
Buy	73.0%
Sell	18.0%
Hold	9%
Under Review	0%

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