NIGERIA'S CAPITAL MARKET INSIGHTS: EQUITIES RECOVERS, SELL-OFFS IN BONDS MARKET

EQUITY MARKET SUMMARY

5.7% gain in April: The Nigerian Equity Market bounced back in April, up 5.7% as the index closed at 49,638.94 points. Consequently, YTD return improved to 16.2%.

These 3 Large caps contributed majority of the gain: The improvement in the market was largely driven by buy pressure on SEPLAT (+29.0%), AIRTELAFRI (+10.0%), and NESTLE (+3.2%).

Bullish market sentiment: All the indices under our coverage recorded positive performance in April. The Oil & Gas index yet again posted the highest (19.1% m/m and

FIXED INCOME MARKET SUMMARY

Treasury bills market: Average stop rates on the 91-day, 182-day, and 364-day T-Bills declined across boards by 13bps, 7bps, and 68bps respectively to 2.4%, 3.3% and 4.8%.

FGN Bond market: Sell-offs plague the FGN bond market as average yield rose 41bps to 11.1%. Yield on 18 out of 20 bonds traded in the market increased.

System Liquidity: Around N470.5bn is expected to hit the financial market in May following maturities in both T-Bills and OMO market.

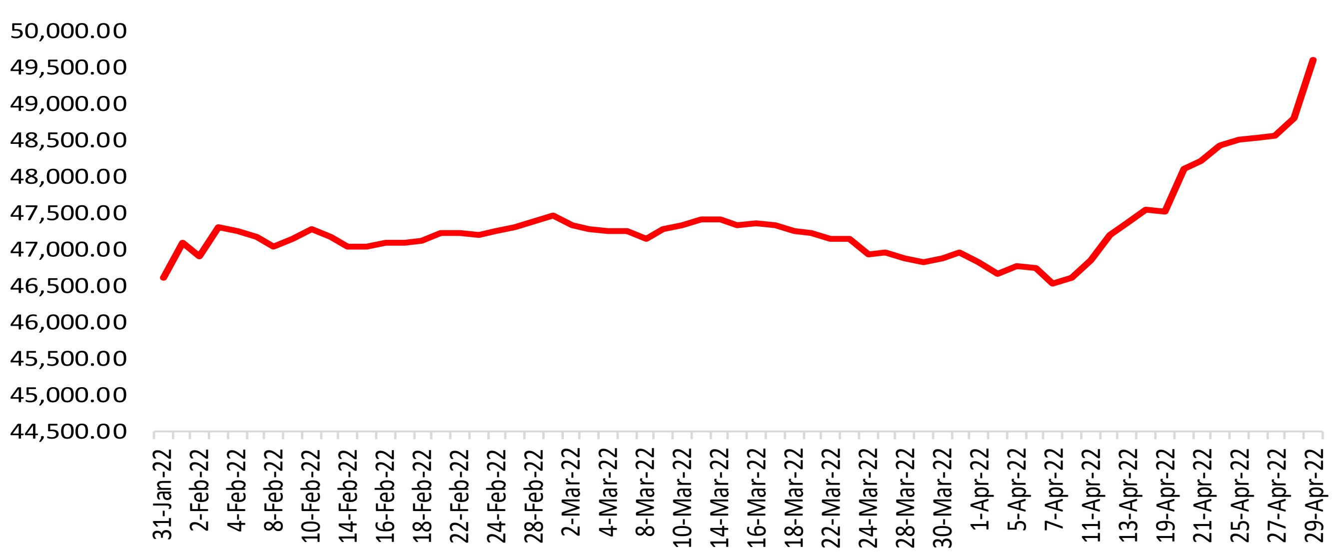
INVESTMENT IMPLICATION

After recording a loss in March (-0.9%), the Nigerian equity market rebounded in April, advancing 5.7% to 49,638.94 index points. We attribute the upturn in April to investors reacting positively to impressive earnings results of some bellwether stocks and dividend payments. For example, in Q1 2022, MTNN's revenue grew by 22.2% to N471.0bn while PAT advanced 31.3% to N96.8bn; and DANGCEM's topline and bottom-line advanced 24.2% and 18.0% respectively to N413.2bn and N105.9bn.

In contrast, the bullish run in the fixed income market was haltered as average yield in the domestic bonds market rose 41bps to 11.1% in April while in the Eurobonds market, yield increased by around 188bps to 9.9% from 8.0% highlighting our concerns of a contagion effect of the ongoing Russia-Ukraine crisis.

We opine that the increasing hawkish tone of global central banks in response to elevated inflationary pressures (the US Fed has hinted possibly hiking rates by around 50bps for the rest of the year) would be a major concern to investors in the fixed income market. Consequently, the fixed income market should experience a higher degree of uncertainty, thereby driving volatility in the market. Hence, we believe that fixed income investors (investors in local and foreign markets) would be best served by focusing on volatility management. On the other hand, the equity market is expected to continue its positive run, the Oil & Gas index in particular has enjoyed a stellar year buoyed by higher oil prices. Accordingly, we expect the return for equities to be stronger than fixed income in the coming months.

CHART 1: NGX-ASI TREND



Source: NGX, BRIU Research

EQUITY MARKET REVIEW

NGX-ASI REVERSES PREVIOUS MONTH DECLINE, UP 5.7% IN APRIL

In April, Nigeria's equity market rose 5.7% to reverse the previous decline in March (0.9%) as the All-Share Index (ASI) advanced to 49,638.94 points.

The upturn in April was largely driven by investors' positive sentiment on account of the impressive Q1 2022 earnings results and dividend payments. Consequently, market capitalisation increased N1.4tn to N26.8tn.

Following the positive monthly performance, Year-to-date (YTD) return advanced to 16.2% from 9.9% in the prior month. In terms of trading days performance, out of the 19 trading days, the ASI closed in the green on 14 days while declining on 5 days.

Focusing on trading activity levels for the month, the average volume of stocks and total volume traded fell 15.0% and 29.8% respectively to 314.8mn and 6.0bn. Likewise, average value and total value traded decreased 2.8% and 19.7% respectively to N3.9bn and N74.7bn.

In terms of the stocks that drove market performance, the growth in the market were largely supported by buy pressures on **SEPLAT** (+29.0%), **AIRTELAFRI** (+10.0%), and **NESTLE** (+3.2%).

BULLISH PERFORMANCE ACROSS MAJOR SECTOR INDICES: OIL & GAS INDEX LEADS THE WAY AGAIN

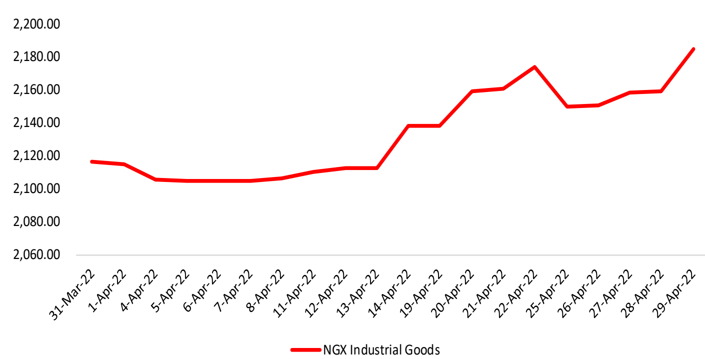
Just like prior months, the **Oil & Gas** index emerged as the best-performing index of the month, up 19.1%, driven by investors' interest in SEPLAT (+29.0%) and PRESCO (+7.8%).

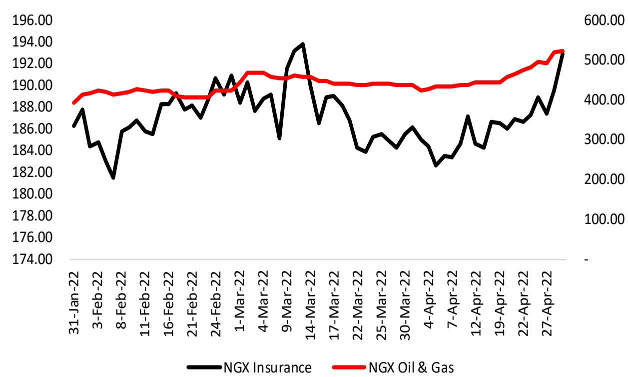
Following, **Consumer Goods** index rose 11.5% in April supported by price uptick in NESTLE (+3.2%) and GUINNESS (+30.6%). Likewise, price appreciation in ZENITHBANK (+9.4%) and FIDELITYBK (+18.8%) drove the **Banking** index up 6.2%.

Similarly, the **Insurance** and **Industrial Goods** indices rose 3.7% and 3.2% respectively buoyed by buy pressures on AIICO (+17.9%), NEM (+10.8%), WAPCO (+13.9%), and DANGCEM (+6.9%).

On a YTD basis, the Oil & Gas index is up 52.0%, followed by the Industrial Goods, Banking and Consumer Goods indices closing 8.8%, 7.1%, and 4.9% respectively. Whereas, the Insurance index is down 2.5%.

CHART 2: SECTOR INDICES PERFORMANCE





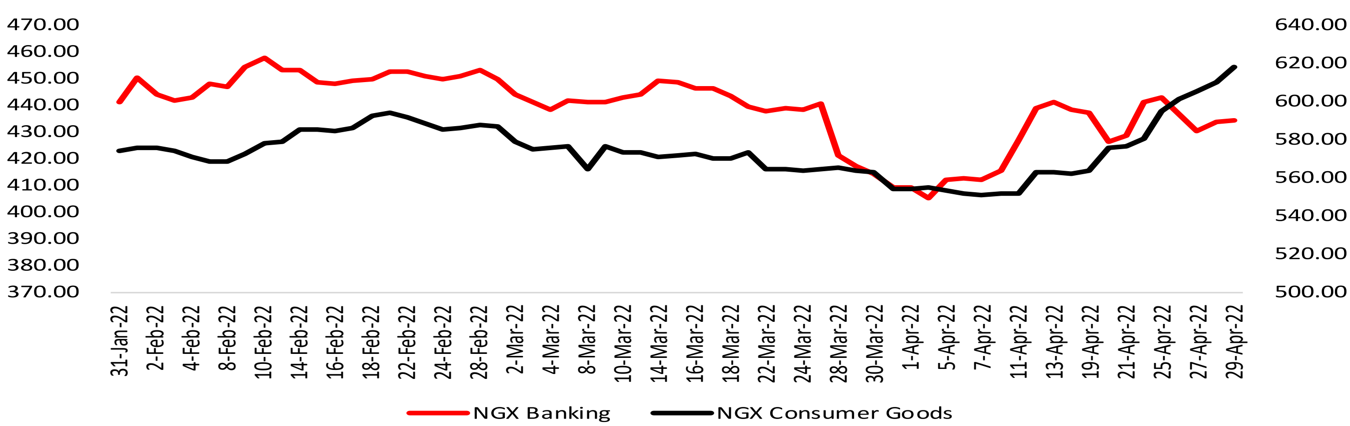


CHART 3: TREND IN THE VOLUME OF TRADED STOCKS (VALUES IN MILLIONS)

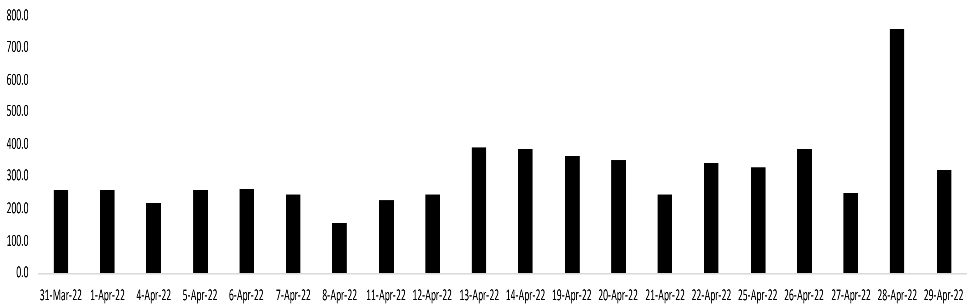


CHART 4: TREND IN THE VALUE OF TRADED STOCKS (VALUES IN BILLIONS OF NAIRA)

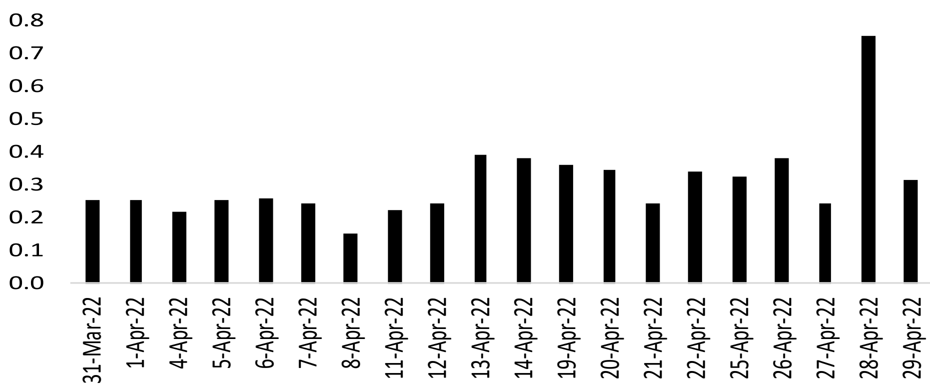


CHART 5: TOP 10 BEST PERFORMING STOCKS OF THE MONTH

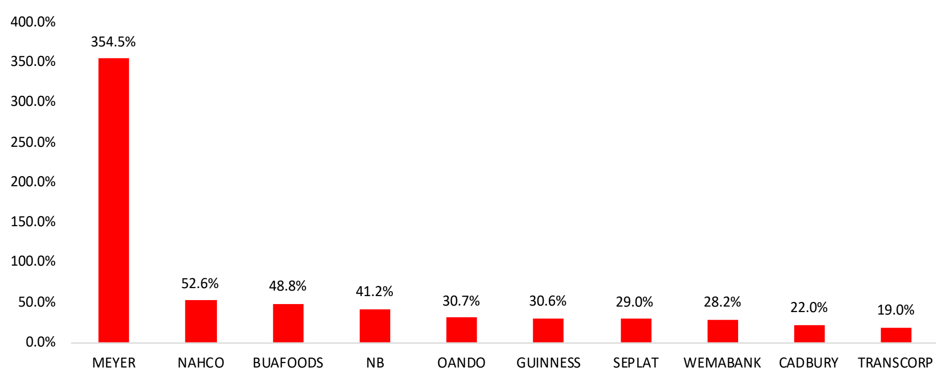
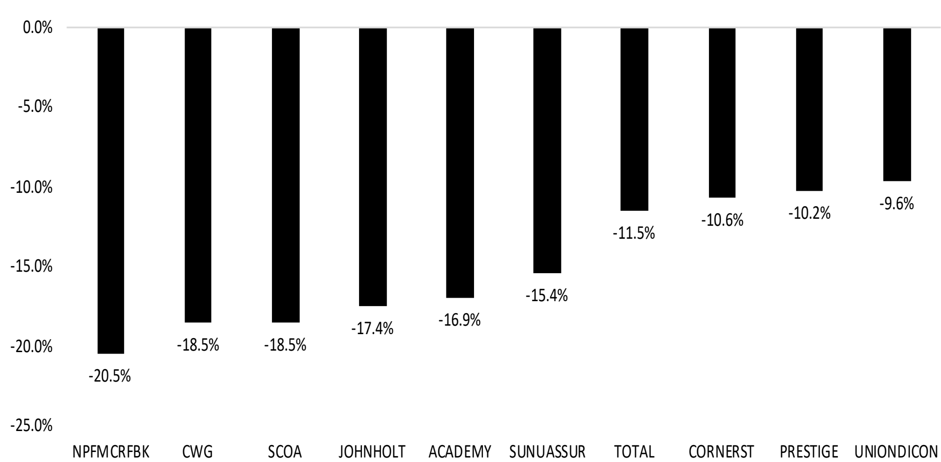


CHART 6: TOP 10 WORST PERFORMING STOCKS OF THE MONTH



FIXED INCOME MARKET REVIEW

BEARISH PERFORMANCE IN THE TREASURY BILLS SECONDARY MARKET

In the secondary market, yield rose by about 3bps, 36bps, and 16bps month-on-month on the 91-day, 182-day, and 364-day T-Bills, thereby signifying selling interest by investors.

In April, the Central Bank of Nigeria (CBN) conducted two rounds of treasury bills (T-Bills) auction worth a total of N289.1bn relative to the expected N147.1bn across the 91-day, 182-day, and 364-day bills.

Investors' interest were particularly seen on the 182-day T-Bill. CBN initially offered N9.0bn, but received total subscription of about N34.5bn across the two rounds, implying a subscription level of around 3.8x.

The 91-day T-Bill also received high investor subscription in the last auction of the month. Subscription level slowed to 1.0x (27/04/2022) compared to 5.4x in the previous round (13/04/2022) for the 91-day T-Bill. Whereas, subscription level rose for the 364-day T-bill to 2.0x (27/04/2022) from 1.7x (13/04/2022).

In the last auction of the month, rate remained unchanged across all the instruments 91-day T-Bill (1.8%), 182-day T-Bill (3.0%), and the 364-day T-Bill (4.8%).

However, on a monthly basis, average stop rates on the 91-day and 182-day T-Bills declined 1bp and 14bps respectively to 1.7% and 3.0% while the rate on the 364-day T-Bill rose 42bps to 4.7%.

System liquidity from T-Bills maturities in April is expected to be bolstered by around N280.5bn across all instruments (91-day; 182-day and 364-day).

RATES EXPECTED TO REMAIN IN CHECK IN LINE WITH SYSTEM LIQUIDITY

There were no OMO bills on offer in April, however, about N190.0bn worth of OMO bills are expected to hit the system in May. In combination with the maturity of N280.5bn T-Bills, we expect money market rates to remain around the same levels.

BULLISH RUN HALTED AS WIDE SELL-OFFS PLAGUE THE BONDS MARKET

In the primary market, the Debt Management Office (DMO) conducted bond auction across three instruments (re-opening) which witnessed strong buying interest (average subscription level: 1.8x).

In total, N150.0bn was offered by DMO, against N409.4bn in subscription by investors. However, DMO eventually made allotment of N219.8bn, 46.3% shortfall from the total subscriptions.

CHART 7: CHANGES IN AVERAGE STOP RATES (T-BILLS)

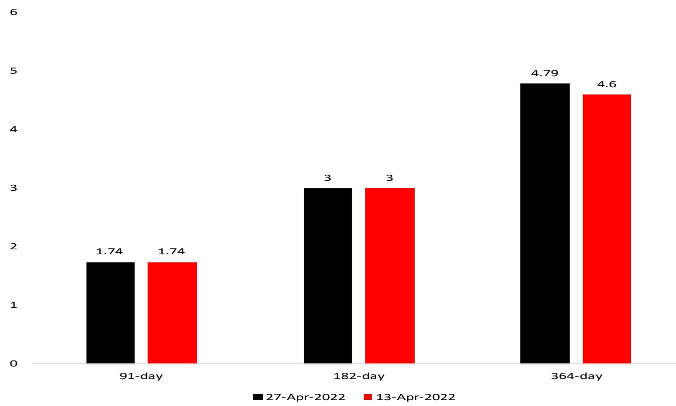


CHART 8: CHANGES IN SUBSCRIPTION LEVELS (T-BILLS)

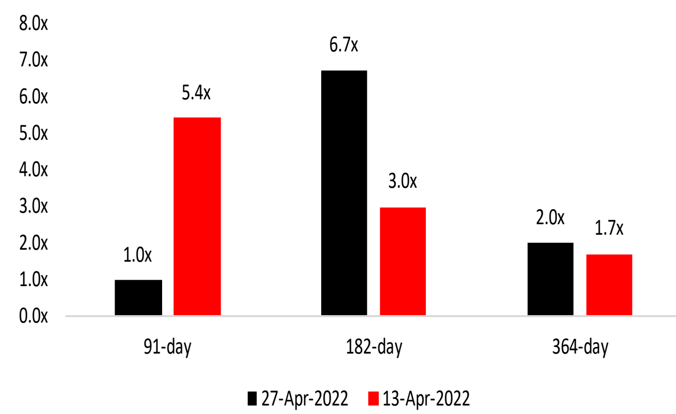


TABLE 1: EXPECTED MATURITIES OF T-BILLS IN APRIL

Expected Maturities in May		
Maturity Date	Tenor	Amount [₦'mn]
26-May-2022	91 DAYS	5,364.3
12-May-2022	91 DAYS	1,911.9
26-May-2022	182 Day	3,783.5
12-May-2022	182 Day	2,998.5
26-May-2022	364 Day	143,884.9
12-May-2022	364 Day	122,559.9
Total		**280,503.0**

In particular, the 2026 bond was oversubscribed by 1.4x while the 2042 bond was oversubscribed by 3.0x. The stop rates on the 2026 bond trended lower by 15bps to 10.0% while the rate on the 2042 bond rose 20bps to 12.9%.

In the secondary market, performance was largely bearish as average yield increased 41bps to 11.1% in April compared to 10.7% the prior month. In total, the yield on 18 of the bonds traded in the market advanced while the yield on 2 bonds declined.

Majority of the selling pressure was witnessed at the short and middle end of the yield curve, as the yield on the 3-yr bond (MAR 2025) and 12-yr bond (NOV 2034), increased by 93bps and 74bps respectively to 10.0% and 12.3%.

We believe the sustained bearish sentiment in the bond market in April reflects the increasing volatility in the global economy in reaction to rising inflation and interest rates thus affecting valuation.

BEARISH SENTIMENT IN THE EUROBONDS MARKET

Large scale sell-offs of FGN Eurobonds were witnessed in April as average yields increased over 188bps to 9.9% compared to March. The JUN 2023 had the most sell-offs as yield rose 502bps to 10.7%.

We envisage that the sell-offs are largely driven by investors' risk-off approach in light of the ongoing Russia-Ukraine crisis and global central banks interest rate hikes.

The FGN has hinted that they would be revisiting the Eurobond market, to raise capital worth $950.0m. In light with recent developments, we believe that they are likely to borrow at higher rates compared to the previous (8.0%) due to sustained global pressures.

CHART 9: BULLISH SENTIMENT IN T-BILLS MARKET

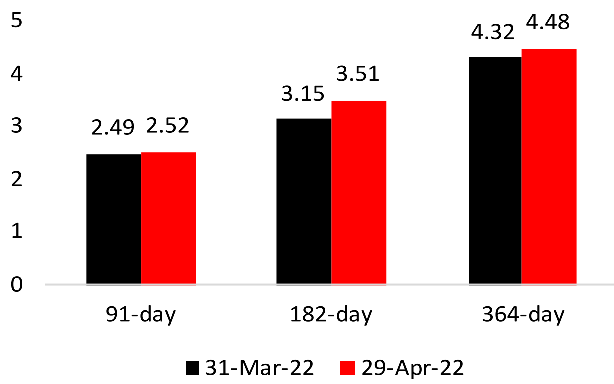


CHART 10: FALLING DOMESTIC BOND YIELD

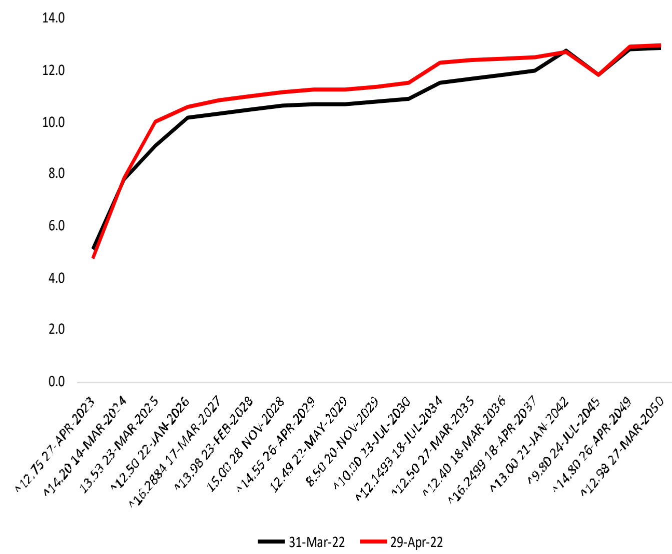


CHART 11: RISING EUROBOND YIELD

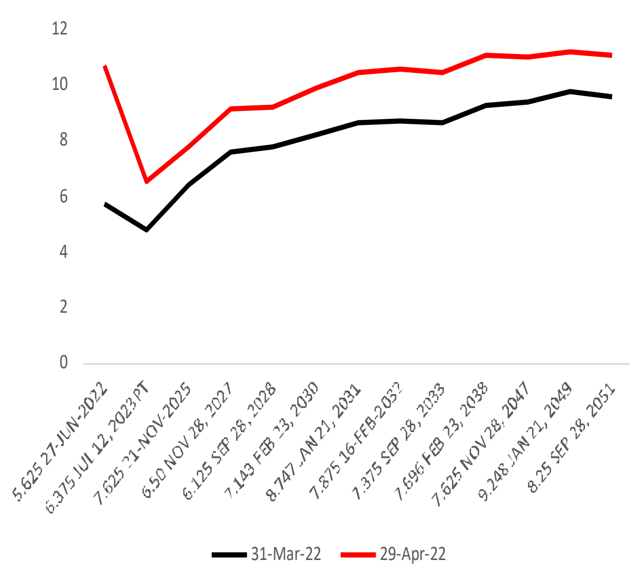


CHART 12: TREND IN I&E WINDOW EXCHANGE RATE

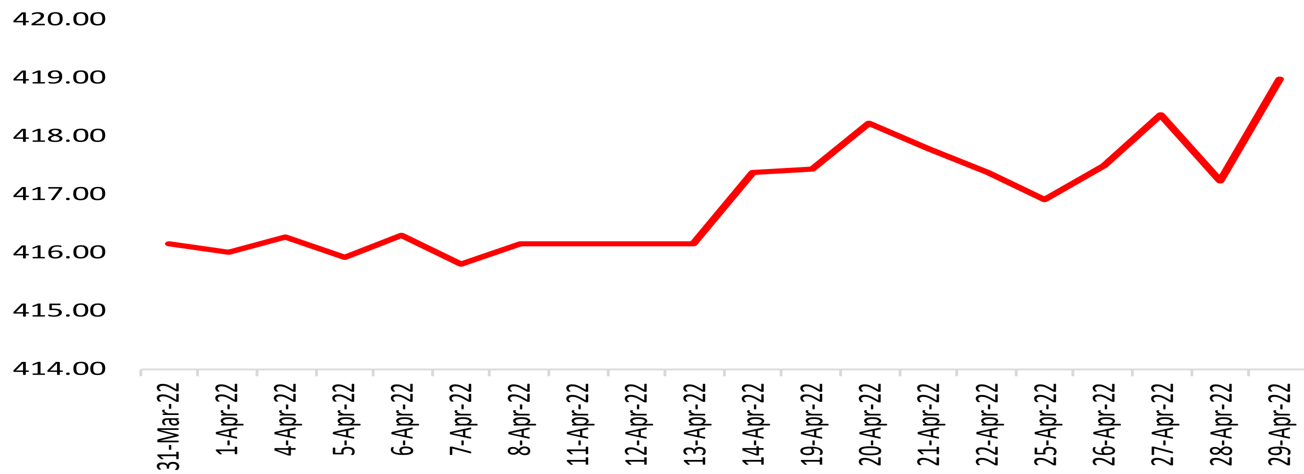


CHART 13: INTERBANK LENDING RATE

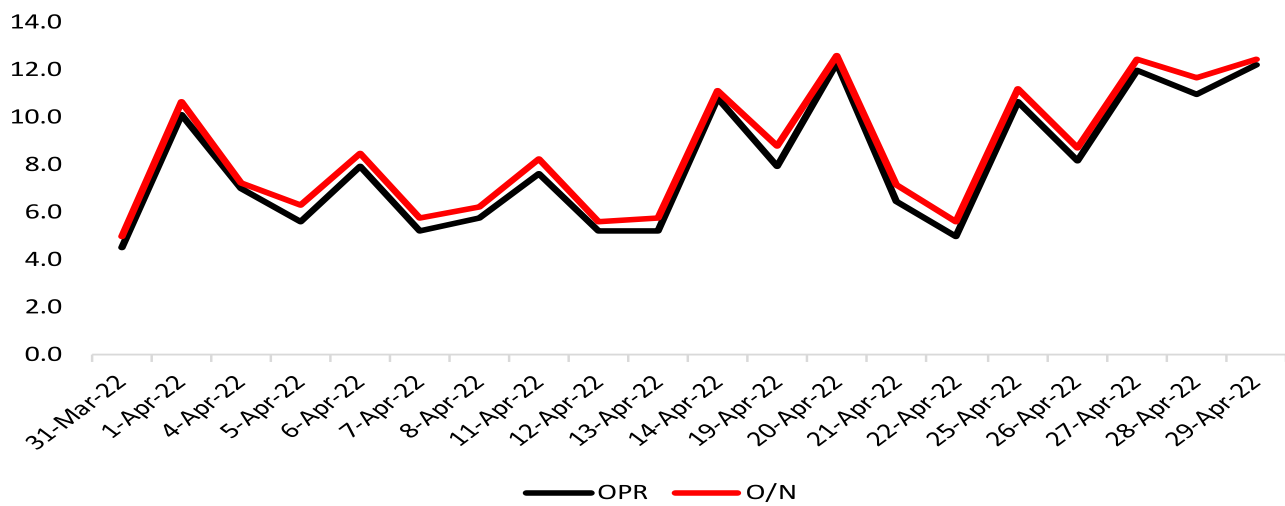
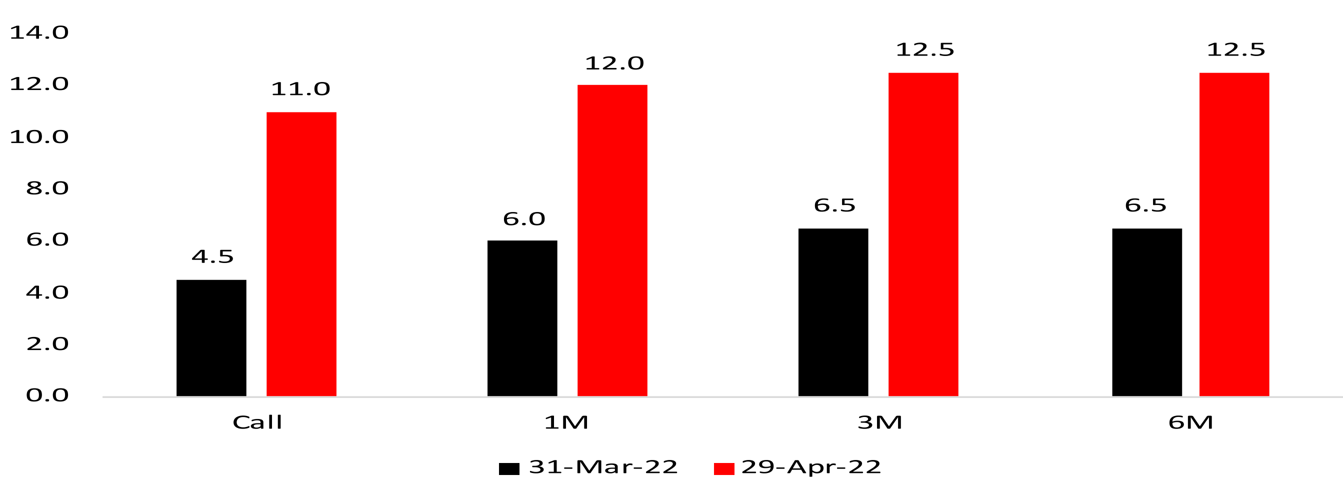


CHART 14: TREND IN REPO RATE



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