Nigerian Capital Market Update

August 2023

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About the report

The Nigerian capital market update report is an annual research report providing useful insights on the performance of the domestic capital market as well as some major activities domestically, across other African markets and globally.

This version of the report covers events from the last date of the previous publication (August 2022) till June 2023.

Summary of Some Major Events

Key events that occurred in the Nigerian capital market in the period under review include:

Launch of the Nigerian Capital Market Masterplan (CMMP)

- The SEC in 2014-launched 10-Year Master Plan to drive the vision and growth of the Nigerian capital market
- The need to align the aims, objectives, metrics and targets to current realities, factor in the market's dynamism and advancements in financial technology have necessitated an update to the CMMP
- The Revised Capital Market Master Plan, is anticipated to serve as the capital market's strategy for the years to come

Unification of exchange rates boosts government revenue

- Nigeria's exchange rate unification has really increased the federal government's revenue from the previous exchange rate.
- This revenue was shared among the Executive, Legislative and Judiciary levels of government.

Launch of IFRS S1 and S2 Sustainability Disclosure Standards in Nigeria by FRC, ISSB, and NGX Regulation Limited

- The two ISSB Standards, IFRS S1 & S2, were introduced by the Financial Reporting Council (FRC) of Nigeria, International Sustainability Standards Board (ISSB), and Nigeria Exchange Group Regulation Limited (NGX Reg).
- The introduction is crucial for the development of the capital market because it enables Nigerian businesses to participate in a worldwide standard for reporting sustainability.

Unlocking capital market liquidity with FMDQ derivatives

- FMDQ Group subsidiaries FMDQ Securities Exchange Limited and FMDQ Clear Limited created the FMDQ Exchange-Traded Derivatives (ETD) market.
- The market has two products, FGN Bond Futures & USD-naira non-deliverable FX futures.

The Nigerian economy grew by 2.31% Y-o-Y in real terms while inflation rose to its highest level in the last five years at 22.79% as at Q2 2023

Gross Domestic Product

The non-oil sector contributed 93.79% to Q1 2023 GDP growth rate, lower than its 95.66% contribution in Q4 2022.

Services, Agriculture, and Industries sector contributed 57.29%, 21.66% and 21.05% to Real GDP respectively.

2.31%
Q 1 2023 (YoY)

3.52%
Q4 2022 (YoY)

3.11%
Q1 2022 (YoY)

Inflation rate; Q2 2023 — **22.7%**

Monetary policy rate (MPR) – June 2023 — **18.5%**

- Inflation reached an all-time high of 22.79%, up by 4.1% from the 18.6% recorded in June 2022, with potential impact on the real return on investments
- The CBN further increased the MPR to 18.5% in May 2023 to enhance price stability. However, this may impede on Bank's ability to service the real sector of the economy

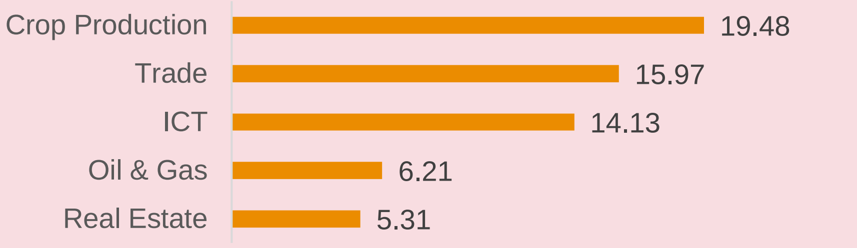
A new administration was sworn in on May 29th, 2023. Policies implemented by the new administration include;

- Removal of fuel subsidy.
- Unification of exchange rates
- Signing of electricity and student loan bill
- Suspension of some taxes

Economic Downside

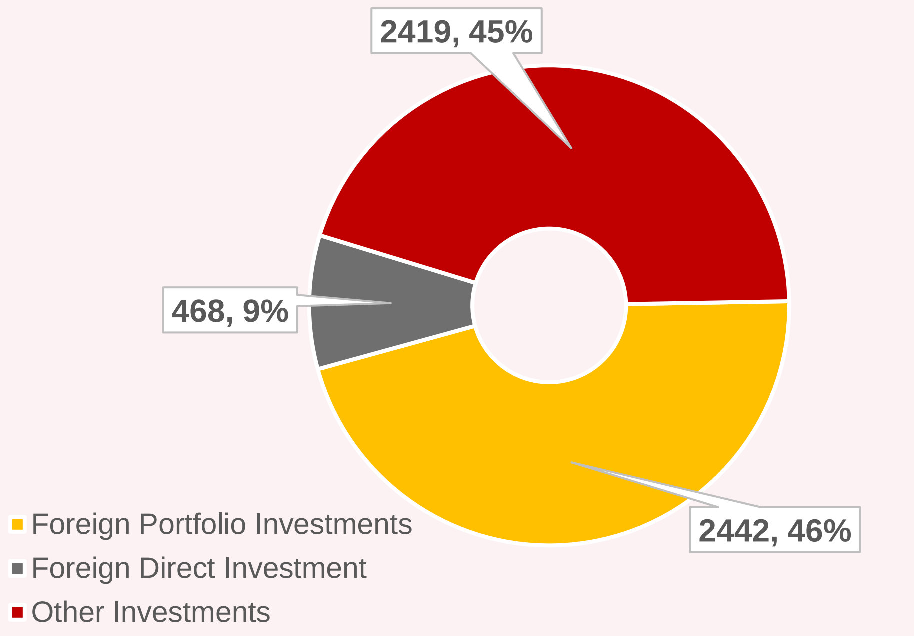
1. Cash crunch.
2. Fuel subsidy removal
3. Rising exchange rates

Top 5 Contributors to Real GDP in Q1 2023 (%)

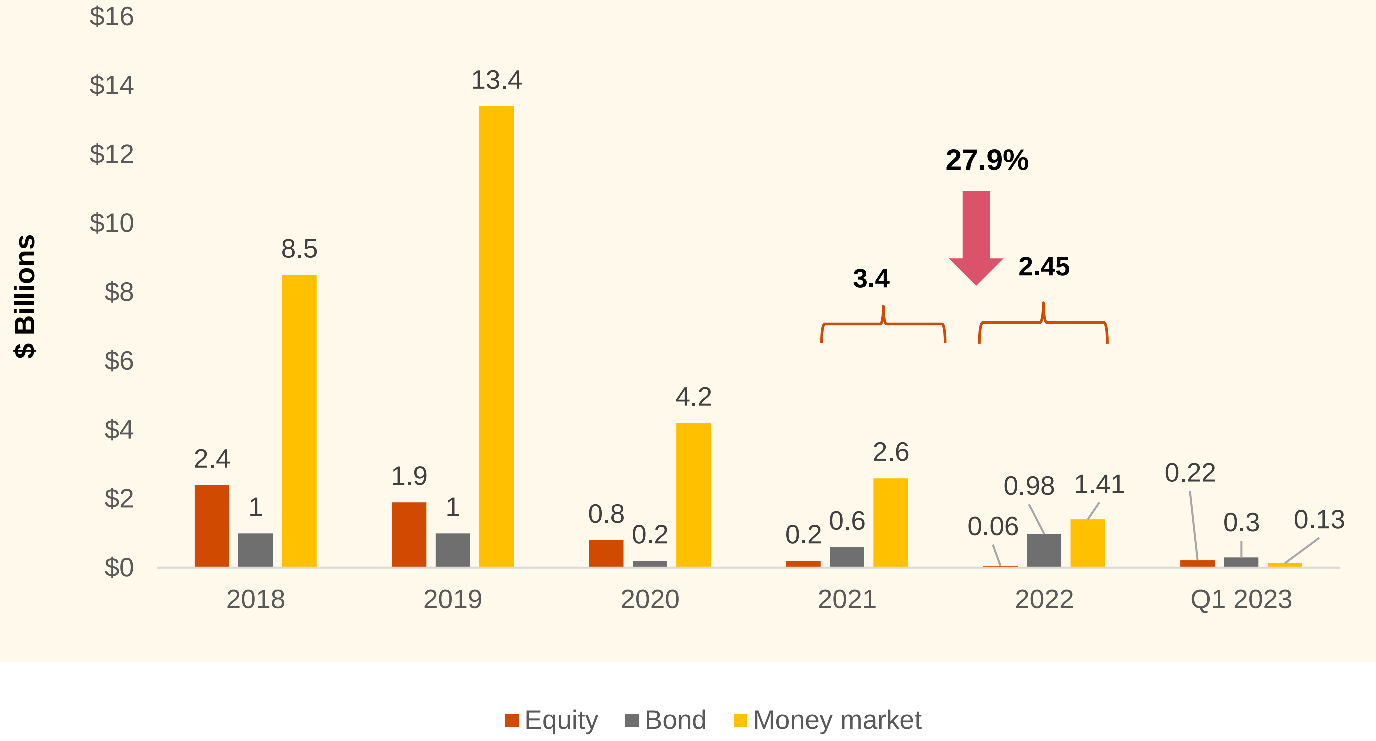


As of Q1 2023, total capital importation declined by 28% to $1.1m relative to $1.5m as of Q1 2022

Distribution of total capital importation in 2022 (In $'millions)



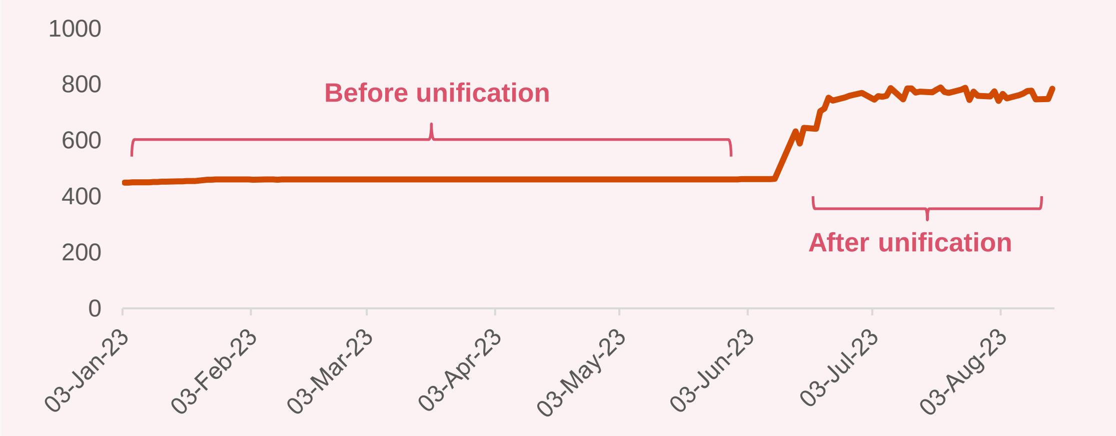
Foreign portfolio investment trend, 2018 – March 2023



Source: National Bureau of Statistics

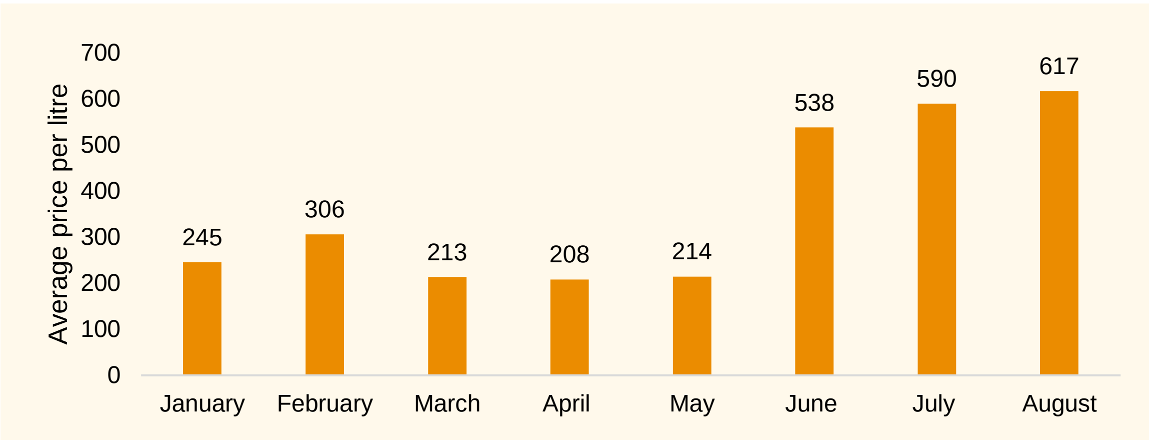
In June 2023, the announcement of the unification of exchange rates as well as the removal of fuel subsidy caused a huge spike in exchange rates and fuel prices

Exchange rates Year-to-date



Source: Central Bank of Nigeria

Average fuel pump price Year-to-date



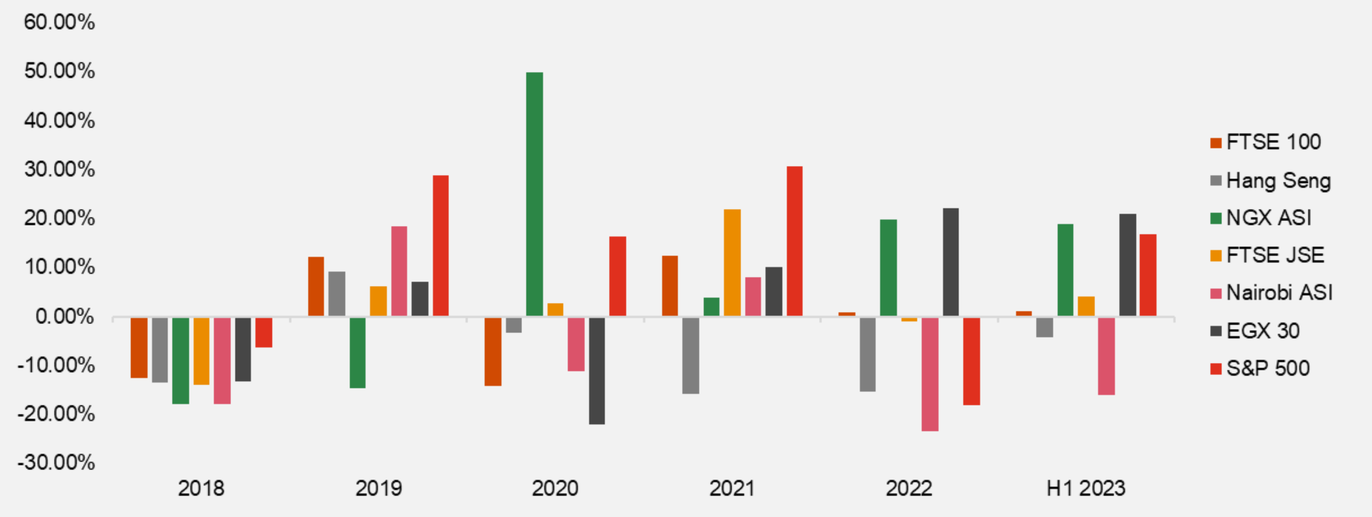
Source: National Bureau of Statistics, Trading Economics, PwC research

Opportunities Amidst Disruptions

- Amidst the economic disruptions arising from sudden macro-economic reforms in the short run, it is expected that these reforms would yield positive benefits for the economy and the capital market in the long run
- The liberalisation of the foreign exchange market could potentially attract foreign investments and positive capital flows
- In addition, the removal of fuel subsidy will provide more fiscal space for the Federal Government and allow for channeling of the funds saved from payment of subsidy into more developmental projects such as infrastructure development. However, policy implementation and accountability in fiscal offices is key to reap the benefits of the subsidy removal
- Other macro-economic initiatives of the Federal Government aimed to improve its fiscal position and increase revenue including setting up the Presidential Committee on Fiscal Policy and Tax Reforms to enhance revenue collection efficiency, ensure transparent reporting, and promote the effective utilisation of tax etc. and the planned sale of about 20 state-run companies to raise funds and improve governance in these entities also presents opportunities for the capital market. The Sale of the state-owned entities through the capital market would deepen and grow the market. Furthermore, tax incentives to attract more companies to utilise the capital markets as well as investors to participate in investing in the capital markets could be introduced through the tax reform process

The domestic equities market has been on an upward trajectory since the pronouncement of key policy changes by the new administration

NGX ASI vs global indices, 2018 - June 2023



- The domestic equities market outperformed most of its peers in the West African market.
- Investors had a positive reaction to the bold key policy changes by the government such as the removal of subsidy, floating of the naira and the unification of the exchange rate windows which caused the market to rally positively
- The global equities market experienced major improvements, with a few exceptions from the past year as investors see positive returns on investments
- Investor concerns over the Russian-Ukraine war, high inflation and other tensions have been gradually abated as several governments set up measures to combat the fallout.
- The FTSE 100 (1.07%), EGX 30 (21.01%), FTSE JSE (4.08%), S&P 500 (16.89%) all recorded positive returns while the Nairobi ASI (-16.06%) and Hang Seng (- 4.37%) recorded positive returns

18.96%

18.93%

Market Capitalisation:

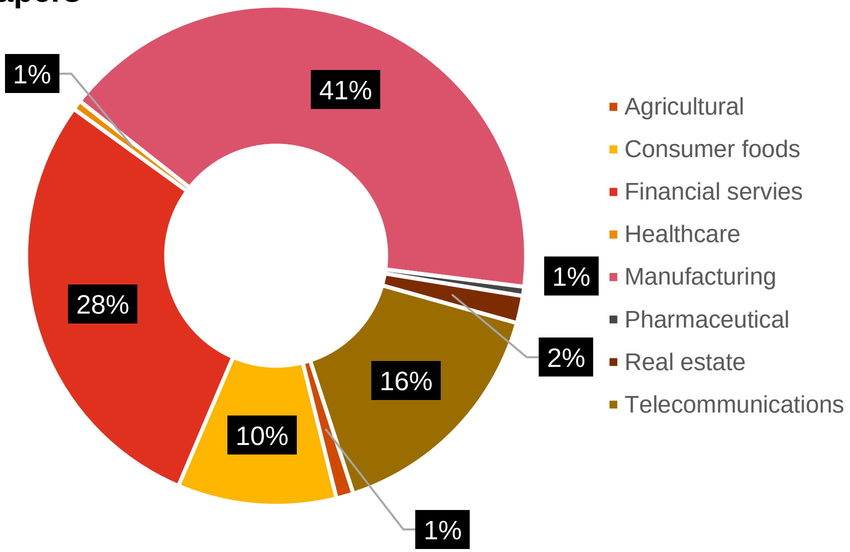
The market (NGX) recorded an 18.93% increase as at H1 2023 (N33.19 trillion) relative to December 2022 (N27.92 trillion).

Returns:

The NGX also recorded an all-time high index since 2008 at 60,968 points in June 2023 − an increase of 18.96% relative to December 2022.

About 104 commercial papers worth NGN 798.30 billion, and N95billion in corporate bonds were issued in the first half of 2023

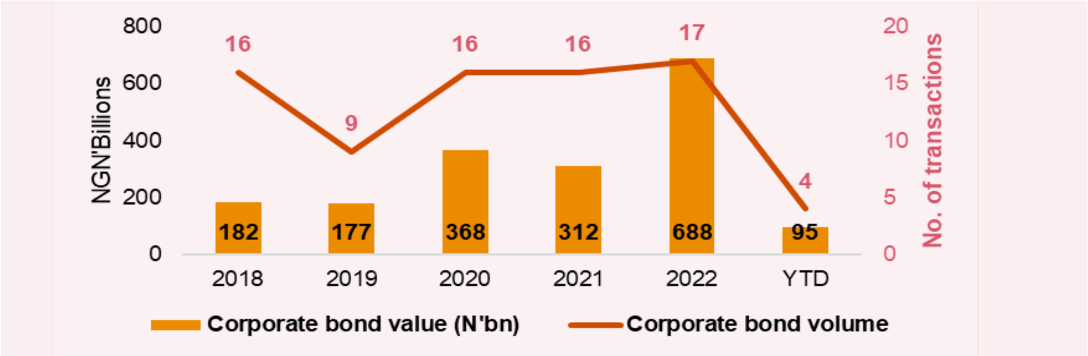
Commercial papers



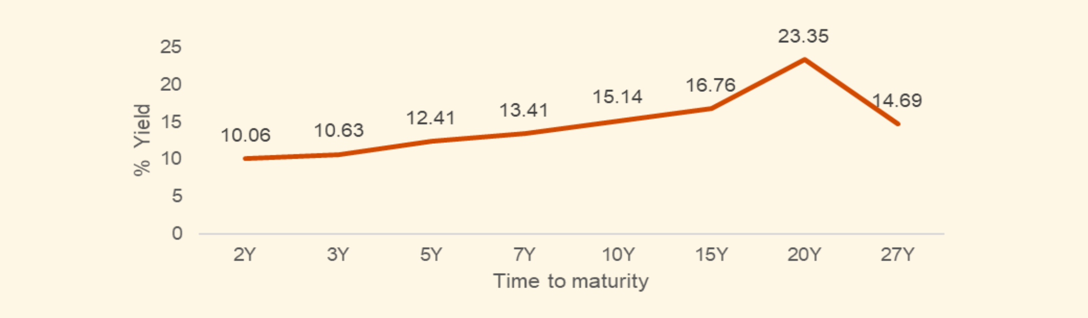
NGN 798.3 BN	Total Value of commercial papers issued in Nigeria as at H1 2023
60%	The relative increase in the value of commercial papers issued in H1'23 to H1'22
41%	The manufacturing sector accounted for 41% of total issuances for H1 2023, while the financial services accounted for 28%.
104	Total number of commercial papers issued in Nigeria
Dangote Cement Plc	The highest issuer of commercial paper in H1'23 with a value of NGN 138BN

Source: FMDQ, PwC Research

Corporate Bond Activity (2018 – June 2023)



FGN Yield Curve as of June 2023



There was an 86% decline in corporate bond issuances in H1 2023 relative to 2022 which can be attributed to the soaring interest rates and uncertainties in the macroeconomic environment.

The 10-year FGN bond yield experienced an increase of 21.5% as at June 2023 relative to June 2022. In H1 2023, the FGN issued bonds worth N3.6trn and savings bond worth N6bn.

Source: FMDQ DQL

In West Africa, Ghana experienced its first default on sovereign debts, while AELP kicks off Phase 2 to boost cross-border securities trade.

Ghana Defaults on Sovereign Bonds

The Ghanaian Finance Ministry in December 2022 announced the suspension of payments on selected sovereign external debt including its Eurobonds, commercial loans and most bilateral loans, calling the decision an "interim emergency measure". The Ministry further disclosed this interim measure, pending agreements with all relevant creditors, was necessary to prevent a further deterioration of Ghana's fiscal situation and preserve its limited international reserves. Consequently, Fitch downgraded Ghana's credit rating from “C” to Restricted Default (RD).

The Ghanaian government has completed the first phase of meeting the conditions for a $3bn extended credit facility from the IMF aimed at restoring fiscal stability and investor's confidence. This includes the completion of the Domestic Debt Exchange Programme (DDEP) with 85% participation rate recorded.

African Exchange Linkage Project (AELP) Phase 2

The African Exchange Linkage Project (AELP), a flagship project between African Securities Exchanges Association (ASEA) and the African Development Bank Group to link African capital markets launched the AELP Trading link in December 2022. This e-platform would allow investors in the listed countries to trade shares on other African exchanges through a single and centralised platform. This milestone would foster cross-border trading and free movement of investments in the continent.

Additionally, the ASEA and the Bank Group kicked of the Phase 2 of African Exchanges Linkage Project (AELP) through signing an agreement for a $600,000 grant to expand the number of linked African exchanges from 7 to 15. The AELP is a flagship project of ASEA and the Bank Group to link African capital markets, thereby promoting cross-border securities trading, increasing liquidity and diversifying investment opportunities for investors.

Listing rules for Nigeria Technology Board

The Securities and Exchange Commission (SEC) approved the rules for listing on Nigerian Exchange Group (NGX) Technology Board in December 2022. This specialised platform aims at wooing tech-based companies to list and raise capital on The Exchange given the stringent requirements for listing on the Main Board. This represents a game changer for African tech companies to expand their funding sources beyond private equity investments.

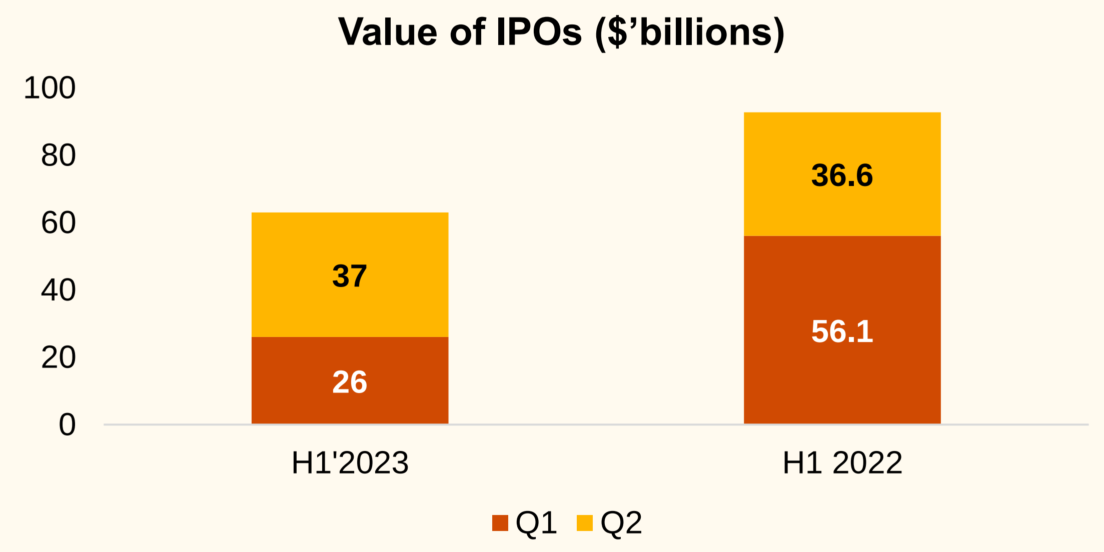
Fundraising for Ethiopian Exchange

Ethiopia took a giant step in establishing its first stock exchange by initiating the fund raising for the Ethiopia Securities Exchange (ESX). Ethiopia has begun selling shares of ESX stock exchange to finance its establishment in 2024. The aim is to raise 75% of the funds needed from private investors, while 25% would be held by Ethiopian Investment Holdings. This initiative aims to open up the economy to private-led investments including foreign players.

Globally, IPOs and mergers and acquisitions fell in the first half; sales of green bonds outpaced those of fossil fuel bonds; and mainland China reopens (1 /2)

Global IPOs decline by 50%

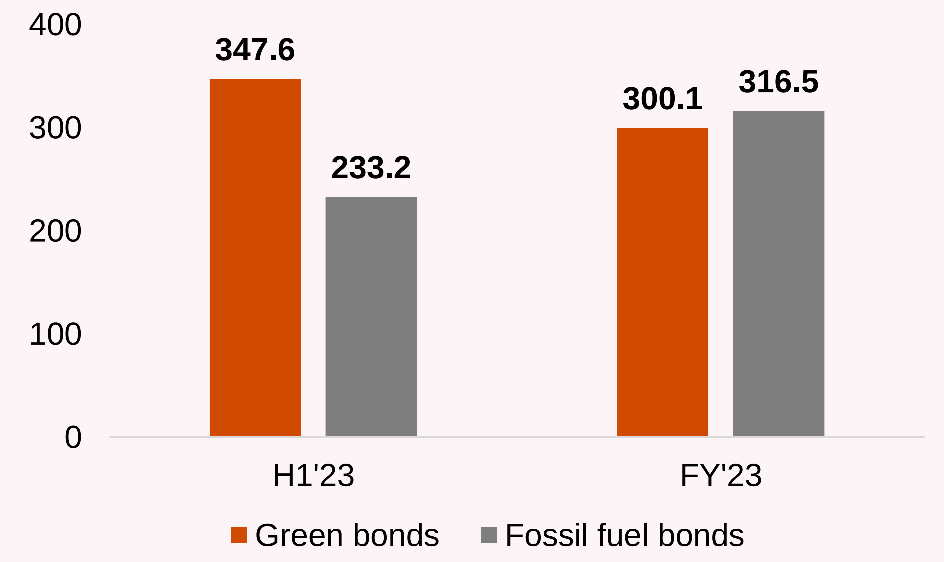
In H1 2023, global IPOs raised a total of $63 billion. This represents a 50% decrease in the $96 billion in proceeds from global IPOs in H1 2022. The Asia Pacific area made up the majority of the funds raised via IPOs in H1 2023, but it also saw a 30% decrease in proceeds of issue compared to H1 2022.



Source : Global IPO Watch, 2022 and 2023, PwC UK

$300 billion raised in Green bond issuances in H1 2023

According to Bloomberg, a total of $347.6 billion was raised through the sale of green bonds in H1'23, representing a 15.8% rise over the $300.1 billion in value of green bonds issuances in 2022. This is the first time that more money was raised overall from the sale of green bonds than from fossil fuel bonds.



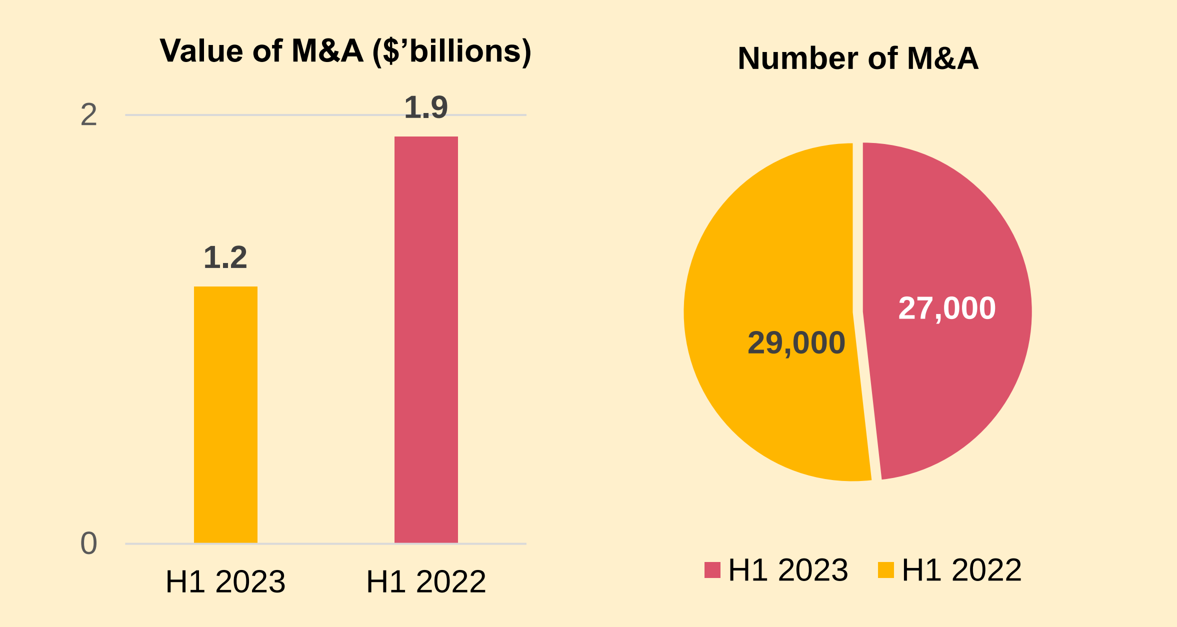
Source: Bloomberg

Globally, IPOs and mergers and acquisitions fell in the first half; sales of green bonds outpaced those of fossil fuel bonds; and mainland China reopens (2 /2)

Decline in mergers and acquisitions deals in the H1' 2023

In H1 2023, there were over 27,000 deals worth over $1.2 billion, which is a decrease from H1 2022, when there were over 29,000 deals worth over $1.9 billion.

Macroeconomic instability, erratic capital markets, sharply rising interest rates, and the effects of inflation are all contributing factors to the decline in worldwide merger and acquisition deals.



Source: Global M&A Industry Trends: 2023 Mid-Year Update – PwC UK

Mainland China reopens

Toward the end of 2022, Mainland China lifted its COVID restrictions. The Chinese economy is experiencing a solid recovery, as evidenced by the 4.5% increase in Q1 of this year and is expected to grow an average of 5.2% in 2023.

Decline in global inflation towards the end of first half of the year

Inflation in advanced economies has maintained its lower trend shows the benefits of the central bank's monetary tightening policies.

The inflation rate in the US decreased to 3% in June from 4% in May 2023, getting closer to the 2% goal range.

The Eurozone also saw a slowdown in inflation, which dropped to 5.50% in June from 6.1% in May 2023. The decline in prices in the energy, transportation, and food industries can be linked to the cause of downward trend in inflation.

Silicon Valley Bank fails

In March of this year, the United States saw the second-largest bank failure since the financial crisis of 2007-2008. After investing the majority of their deposits in long-term assets paying close to zero interest rates, Silicon Valley Bank (SVB) experienced liquidity problems.

Additionally, interest rates have recently increased significantly as a result of rising inflation. As a result, bond prices fell, an SVB's loss position led to a rating downgrade, and investors started to flee in large numbers.

Conclusion

What’s next on the horizon?

The global economy is slowly recovering from the effects of the ongoing Russian-Ukraine war which has caused disruptions to supply chains and energy supply as well as high inflation across several countries and continents. However, with Inflation gradually subsiding due to hawkish stances being applied by central banks to combat inflationary pressures, global outlook seems weak amid slow economic growth and concerns of recession. Reports by the world bank project a decelerated growth to 2.1% in 2023.

In the domestic market, key policy changes of the new administrations to address macroeconomic imbalances was met with positive sentiment. The removal of subsidy and the unification of foreign exchange rates is expected to improve the efficiency of the FX market, unlock private investment, increase the inflows of foreign direct investments as well as improve the fiscal space and restore macroeconomic stability.

However, while the policy changes are being implemented, inflationary pressures would still be high in the short-term. The completion of the Dangote refinery could also alleviate pressure and act as a catalyst for growth and opportunities.

Contacts

Omobolanle Adekoya

Partner, PwC
omobolanle.adekoya@pwc.com

Elizabeth Ekpo

Senior Manager, PwC
elizabeth.ekpo@pwc.com

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