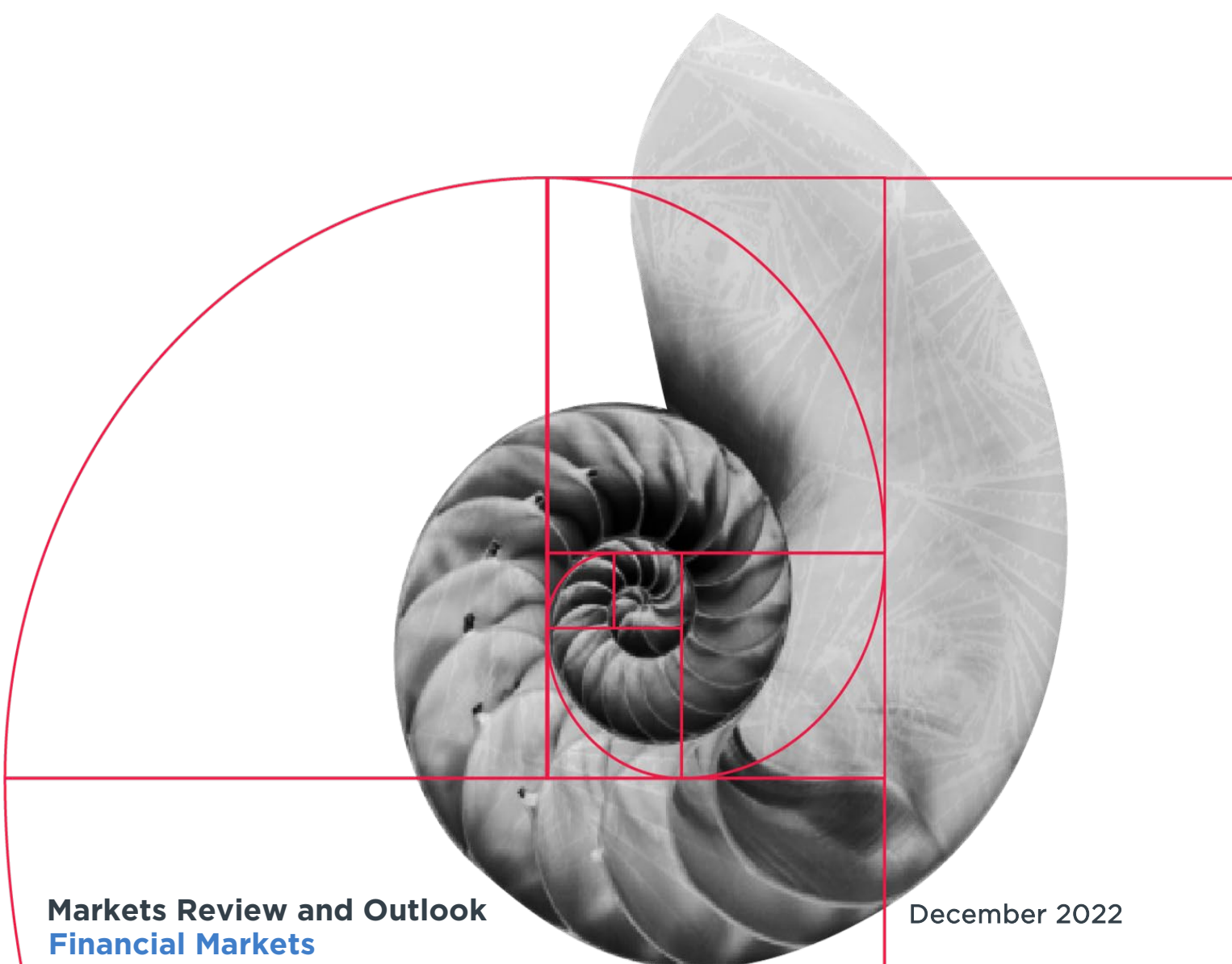


Nigeria

in 2023. *Charting Through a Pervasive Slowdown.*



Executive Summary.

The year 2022 was an auspicious year for investors in the financial market. As the global economy came under significant pressure, the domestic financial market's performance mostly tracked well with original expectations, with the variance stemming from the lower-than-expected yield rise.

The fixed income market was quite volatile in the year, with yields trending northwards and touching levels last seen in 2019. A switch to a hawkish stance by the Monetary Policy Committee of the CBN and the demand and supply imbalance drove the upward tilt of the naira curve. However, we believe the rise in yields should have been steeper, considering the government's inability to implement its external debt issuance program, which should ordinarily increase the FG's reliance on the domestic market. However, this eventuality was circumvented by the FG's continuous use of the CBN's Ways and Means.

On the other hand, the equities market's performance was mixed. A combination of significantly positive earnings with its associated dividend declarations, an accommodative monetary policy stance, and sustained FPI interest in fungible stocks underpinned the stellar H1-22 performance on the domestic bourse. However, the story turned sour in the year's second half, as investors rebalanced portfolios following the uptick in fixed income yields and a shortfall in liquidity, given the deliberate actions by the monetary authorities to hike interest rates. It is pertinent to note that the impact of electioneering activities on the equities market was less pronounced than in previous pre-election years.

In 2023, all signs indicate a sustained northward movement in fixed income yields, with intermittent periods of upward pressure in Q1-23. The factors supporting our thesis include (1) a sustained tightening in the global financing conditions, though at a much slower pace, (2) a sustained imbalance in the demand and supply dynamics, (3) monetary policy administration, and (4) the electioneering process outcome and fiscal policy management after that. Assessing all the factors, we estimate that the yields on Treasury bills and bonds will increase in the year and settle at c.12.8% and c.15.5% by the end of 2023FY.

For the equities market, we posit three scenarios for market performance next year – base, bear, and bull cases. In the base case, which is the scenario that we believe is most likely to play out, we expect a combination of (1) positive corporate earnings, (2) a muted uptick in fixed-income yields, and (3) investors' positive reactions to the election's outcome, will support market performance and lead to a 3.5% return for 2023FY. In the bear case scenario, we assume a blend of (1) significantly weaker corporate earnings and dividend pay-outs, (2) a higher-than-anticipated uptick in fixed income yields, and (3) a sudden violent turn in 2023 election activities to drive apathy for stocks, to pressure the market

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performance. Finally, the bull case scenario expects the global economy to rebound within the year, and capital inflows strengthen as investors hunt for alpha. However, we still expect a disconnect between company fundamentals and valuation multiples.

We present our views on the different sectors we cover in the following sections:

Financial Services (Banking): For 2023FY, we believe Nigerian banks will maintain their growth trajectory supported by core income, owing to higher loans and investment securities yields. Although, we think banks will be cautious about growing loans domestically in 2023FY as the tight monetary conditions will likely limit risk asset creation. On the external front, Moody's downgraded nine Nigerian bank's long-term ratings based on the weakening in the Nigerian government's fiscal capacity to support the country's banks, and interlinkages between the sovereign's weakened creditworthiness and the banks' balance sheets, given the banks' significant holdings of sovereign debt securities. Although, we expect non-core income to support earnings in 2023FY, albeit marginal, as the price sharing and glitch on the e-banking platforms will continue to impact the performance. In addition, we believe this will negatively impact Nigerian banks looking to raise debt externally. Our top picks are (1) **GTCO (BUY, TP: NGN28.21/s)**, as the company maintains a leadership position in operational efficiency, and (2) **ZENITHBNK (BUY, TP: NGN26.91/s)**, given its dominance in the corporate and retail segments of the industry.

Industrial Goods (Cement): For 2023FY, we envisage solid growth in revenue for firms under our radar on the back of higher prices of cement and leverage of exportation strategy. On the flip side, we highlight that the higher inflationary environment will continue to pressure the operational activities of firms in the industry. Consequently, we believe companies that can maintain operational efficiency and optimise plants to enhance fixed cost absorption will be better placed to deliver decent earnings in 2023. Overall, our top pick for the industry is **WAPCO (BUY, TP: NGN32.31/s)**.














Agriculture: Despite the challenging operating landscape, factors such as CPO import restrictions amid current FX liquidity challenges and long-term sector growth prospects remain favourable for sector players. Thus, we remain optimistic about **OKOMUOIL (BUY, TP: NGN242.81/s)** and **PRESCO (BUY, TP: NGN213.37/s)**. For OKOMUOIL, though we do not expect a significant increase in its maturities, we believe the upgrade of the milling capacity at the Okomu II plantation will cause an improvement in its production efficiency and in turn, its volumes. For PRESCO, we expect the producer to deliver revenue expansion supported by improved volumes.

Consumer Staples: Across our coverage universe, we expect most **HPC** names to report single-digit volume growth over 2023 as we expect the high inflationary

pressures to persist (Cordros estimate: 18.01% y/y), thus, keeping consumer spending in check. Nevertheless, we believe the agro-allied and the brewery subsectors will lead the next growth phase. Accordingly, we see scope for earnings growth for [Agro-allied](#) names – **FLOURMILL (BUY, TP: NGN63.12/s)**, **NASCON (BUY, TP: NGN27.84/s)**, and **DANGSUGAR (BUY, TP: NGN26.31/s)**, given the inelastic demand facing their products and the ability to implement more significant price increases than peers. In contrast, the HPC's growth will be more muted due to more exposure to foreign currency volatility and cost pressures. For [Brewery stocks](#), **NB (BUY, TP: NGN60.71/s)** and **GUINNESS (BUY, TP: NGN93.25/s)**, we expect price increases and premiumisation to remain supportive of earnings growth amid cost pressures arising from higher excise duties and the high inflationary environment.

Oil & Gas (Downstream): We expect the price cap on PMS to remain in place, though we acknowledge the possibility of a hike in the product's price. We expect the NNPC to remain the sole supplier of the market, pending the potential commissioning of the Dangote Refinery in 2023. As structural issues persist, we highlight that individual product sourcing will remain a big challenge for downstream players. Our top pick remains **TOTAL (BUY, TP: NGN435.35/s)** as we expect the company to maintain its resilience in 2023, leveraging its ample storage and distribution network to sustain its control of sector volumes.

Equity Views by Sector

		Overweight 	Neutral 	Underweight 
SECTOR	POSITIVES	NEGATIVES	INDUSTRY	VIEW
Financials VIEW 	<ul style="list-style-type: none"> – Valuations remain compelling – Attractive dividend yields – High yield environment to support income growth 	<ul style="list-style-type: none"> – High yield environment to impact funding cost – Higher cost pressures to impact earnings – Increased regulatory risk poses systemic risk 	Banks	
Industrial Goods VIEW 	<ul style="list-style-type: none"> – Marginal prices increase 	<ul style="list-style-type: none"> – Low government CAPEX to subdue demand – Higher cost pressures To dampen profitability 	Cement	
Consumer Staples VIEW 	<ul style="list-style-type: none"> – Improved cost-efficiency – FX liquidity challenges to constrain influx of smuggled products 	<ul style="list-style-type: none"> – Security challenges may undermine activities on farmland – Lower CPO prices due to increased supply from large producers 	Agricultural Producers	
	<ul style="list-style-type: none"> – Higher pricing to support margins – Premiumisation to cushion margin pressure 	<ul style="list-style-type: none"> – Consumer wallet remains pressured – Competition is still intense – Subdued volume growth 	Brewery	
Oil & Gas VIEW 	<ul style="list-style-type: none"> – Valuations are undemanding – Substantial price increases expected from agro-allied producers 	<ul style="list-style-type: none"> – Consumer wallet remains pressured – Competition still intense 	Food and Household & Personal Products	
	<ul style="list-style-type: none"> – Increased demand as the economy reopens – Higher PMS prices and margins 	<ul style="list-style-type: none"> – FX illiquidity to impede imports – Inflation puts pressure on distribution costs 	Downstream (Refining & Marketing)	

Source: Cordros Research

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Financial Markets.

Fixed Income.

Market Dynamics Will Keep Volatility Muted Despite Risks Abounding

- The fixed income market was characteristically volatile in 2022FY
- The MPC increased the policy rate by 500bps to 16.5% resulting in the average yield on Treasury bills and bonds rising by 6.0% and 2.7% to 10.8% and 14.3%, respectively
- We note that before the increase in the policy rate, yields were relatively flat despite the significant demand and supply imbalance as the Federal Government has continued to utilise the CBN's Ways and Means as its primary funding source rather than issuing debt in the market
- We expect the market to remain volatile in 2023FY
- Our baseline expectation, we estimate that the yields on Treasury bills and bonds will increase by 2.0% and 1.2% over 2023FY to settle at c.12.8% and c.15.5% by the end of 2023FY

Views from the start of 2022

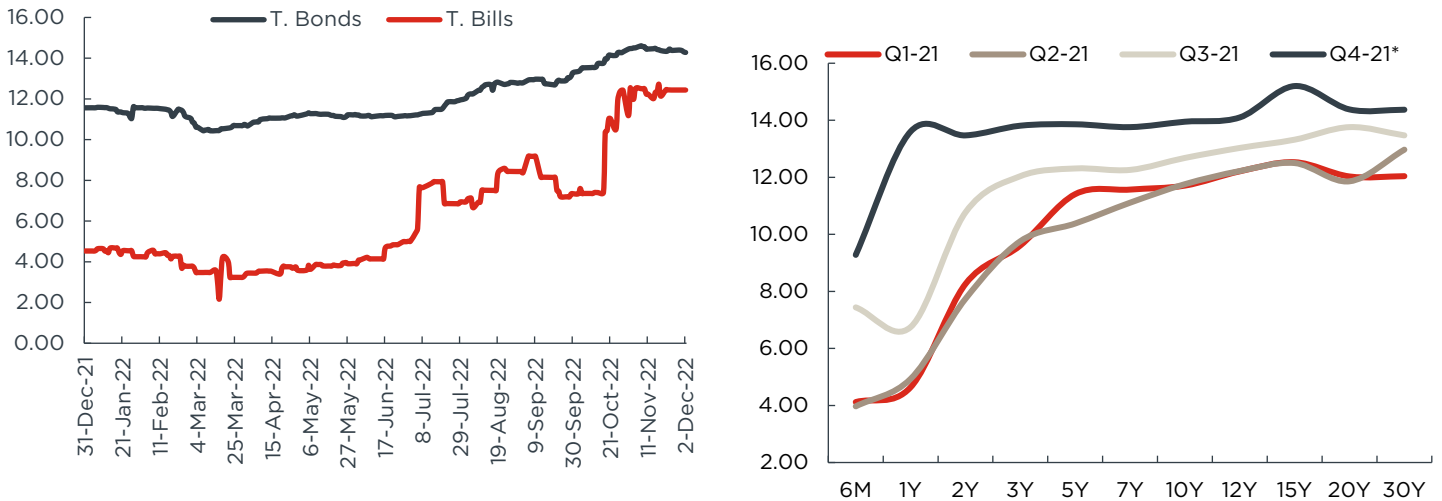
The year had its fair share of volatility as yields rose significantly due to a combination of factors. Firstly, the Monetary Policy Committee (MPC) pivoted to a more hawkish stance, in line with the global theme as monetary policy authorities looked to tether spiralling inflation. Secondly, the demand and supply imbalance in the market, due to the Federal Government's (FG) inability to fully implement its external debt issuance program (primarily through Eurobonds) given the restrictive level of yields - USD1.00 billion was issued in Q1-22, relative to c. USD5.91 billion scheduled for 2022FY.

While an expansion in yields was expected, it was for a much larger level. This is because the estimated domestic borrowings were quite large, and we expected that most of the external portion of the borrowings would be reapportioned to the domestic market, given that it was restrictive to borrow externally given yield levels. However, as has been the case in recent times, the government continued to extend its use of the CBN's Ways and Means, with the balance increasing exponentially to accommodate the excess borrowings, even as domestic debt issuances also expanded. As a result, the overdraft facility has now become the primary government funding source (2022E: NGN7.57 trillion | 2021FY: NGN4.35 trillion) relative to debt raised through the domestic market (2022E: NGN3.54 trillion | 2021FY: NGN3.93 trillion).

Consequently, the average yields on Treasury bills and bonds increased moderately, expanding by 6.0% and 2.7%, respectively, to 10.8% and 14.3%. In the

Treasury bills segment, the average yields on NTB and OMO instruments increased by 6.6% and 4.6% to 10.1% and 11.0%, respectively.

Figure 1: Treasury Bonds and Bills Average Yields (Jan - Dec 2022) Figure 2: Quarterly Yield Curve (Q1-22 - Q4-22)



Source: FMDQ OTC, Cordros Research

Government Borrowings Show Continued Reliance on Ways and Means

As stated earlier, the Federal Government has relied heavily on the CBN's Ways and Means borrowings to plug shortfalls in the deficit since 2020, resulting in the balance growing exponentially during this period. Similarly, despite persistent claims of the cessation of use, and potential securitisation of the balance, the balance was further utilised in 2022FY. As of 8M-22, the balance grew by 26.4% to NGN22.07 trillion (2021FY: NGN17.46 trillion). Consequently, as mentioned earlier, the magnitude of borrowings that should have been recorded in 2022 has not been recorded.

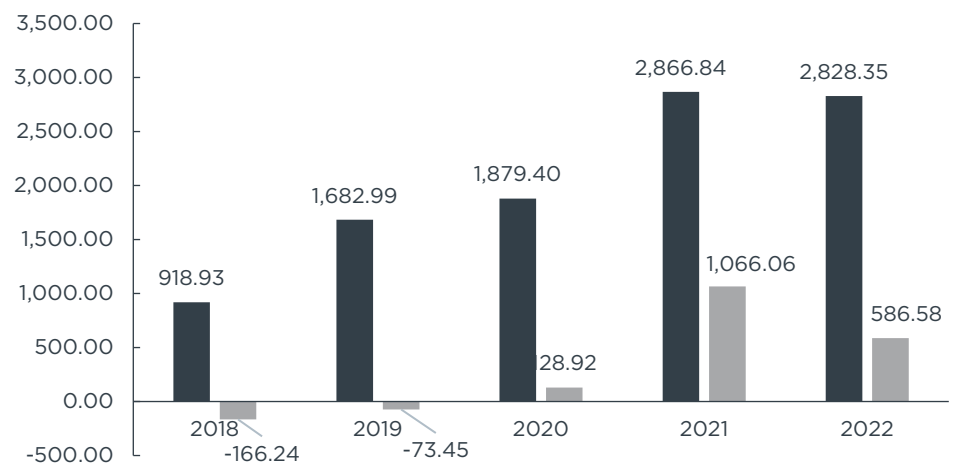
Treasury Bonds: The Debt Management Office (DMO) issued c. NGN2.83 trillion in bonds, as of the November FGN bond auction (the last bond auction before the publishing of this report), mainly through re-openings of previously issued bonds. Given that issuances remained at a level easily absorbed by the market, yields on Treasury bonds were tethered through the year, with bond yields declining incrementally by the end of H1-22 (-38bps to c. 11.2% across instruments) before rising precipitously (YTD: +273bps to c.14.3% | H2-22¹: +3.7%) following the increase in the monetary policy rates. As stated in earlier segments of the report, the MPC raised the MPR by 500bps, three times cumulatively, starting in May and ending in November, to 16.5% - the highest level since record compilation commenced in 2006.

Treasury Bills: It was expected that the FG would rely more on the money market, given the level of yields in the Treasury bonds market and the need to

¹ As of December 2

manage the cost of debt. However, the level of overallotment trailed the preceding year, with the DMO only issuing NGN586.58 billion in additional debt in the money market. Notably, most of this was done in Q1-22 (NGN622.03 billion) when yields on Treasury bills were low (Q1-22 average: 4.75%). Over the subsequent three quarters, as implementation reversed, the DMO under-allotted by NGN35.44 billion, with average interest rates at 7.9% between Q2-22 and Q4-22. This management is unsurprising, as passing more borrowings through the money market was utilised to tether debt-servicing-to-revenue (8M-22: 96.2%), which became less useful as yields rose.

Figure 3: Treasury Bonds & Bills Allotments (2018 – 11M-22)



Source: FMDQ OTC, Cordros Research

Eurobonds: As earlier stated, the FG could not access the external market to the extent it had intended, given the volatility in debt markets in the year. For context, the average yield on SSA Eurobonds rose to 16.2% (as of 2 December 2022) from 7.5% at the start of the year. Similarly, Nigeria’s asset prices rose significantly due to credit rating downgrades precipitated by domestic issues (from weak crude oil production due to theft, vandalism, and infrastructure deficits), while external pressures due to increased risk-off sentiments (mostly tied to issues surrounding the Russia-Ukraine conflict) added a layer to the pressure.

Also, in 2022, several SSA countries came under pressure, given weak access to markets, prefaced by sustained periods of fiscal mismanagement. Consequently, two countries – Zambia and Ghana – are currently restructuring debt. As a result, we expect debt sustainability issues to be a theme through 2023FY as the increased perception of risk further limits market access, and countries look to embark on fiscal consolidation. In our opinion, this will create a vicious cycle that limits SSA countries’ access to markets for a significant period.

Table 1: Nigeria Sovereign Eurobonds

NIGERIA	Currency	Coupon	Maturity	Mid-yeild (%)	YTD Change (%)
REPUBLIC OF NIGERIA JUL 2023	USD	6.375	7-Dec-23	7.99	5.52
REPUBLIC OF NIGERIA NOV 2025	USD	7.625	21-Nov-25	10.54	6.56
REPUBLIC OF NIGERIA NOV 2027	USD	6.5	28-Nov-27	11.48	5.66
REPUBLIC OF NIGERIA SEP 2028	USD	6.125	28-Sep-28	11.33	4.82
REPUBLIC OF NIGERIA MAR 2029	USD	8.375	24-Mar-29	11.97	5.23
REPUBLIC OF NIGERIA FEB 2030	USD	7.143	23-Feb-30	11.65	4.25
REPUBLIC OF NIGERIA JAN 2031	USD	8.747	21-Mar-31	11.78	3.83
REPUBLIC OF NIGERIA FEB 2032	USD	7.875	16-Feb-32	11.84	3.78
REPUBLIC OF NIGERIA SEP 2033	USD	7.375	28-Sep-33	11.59	3.63
REPUBLIC OF NIGERIA FEB 2038	USD	7.696	23-Feb-38	11.78	3.245
REPUBLIC OF NIGERIA NOV 2047	USD	7.625	28-Nov-47	11.55	2.93
REPUBLIC OF NIGERIA JAN 2049	USD	9.248	21-Jan-49	11.98	2.93
REPUBLIC OF NIGERIA SEP 2051	USD	8.25	28-Sep-51	11.97	3.15
				11.34	4.27

Source: Bloomberg, Cordros Research

Outlook

In assessing the outlook for the fixed income market for 2023FY, we evaluated a multitude of factors that we believe will have an outsized impact on the direction of activities. These include the (1) direction of global monetary policy and the external debt markets; domestically - (2) demand and supply dynamics given FG's borrowing plans, (3) monetary policy expectations, (4) electioneering process, and (5) fiscal authorities management post-election.

Global Monetary Policy Stance to Stem Capital Flow Reversals

In 2022FY, most central banks across the globe adopted hawkish stances as the policy was squarely focused on tethering spiralling inflation. The switch resulted in successive hikes in policy rates of major central banks, with the US Fed's FOMC raising the Fed Funds rate by 375bps cumulatively to a range of 3.75 - 4.00% by November 2022 and Bank of England's MPC increasing its benchmark rate by 2.75% to 3.0% (the highest level since October 2008: 4.5%). Similarly, the governing council of the European Central Bank increased its policy rate by 200bps to 2.0%. Moving forward, the expectation of a slowdown in increases by the FOMC would likely impact the direction of policy globally, as the successive rate hikes by other western central banks have been markedly influenced by the US Fed Policy and its impact on the US dollar strength (and depreciation therein for other countries' currencies). Equally, as the Fed's initiatives of driving down inflation and increasing labour market tightness crystallise, the probability of a slowdown increases. This would impact (1) the external market as Eurobond yields would moderate marginally and possibly reduce significantly if there is a pivot (although the chance of a pivot is slim), and (2) the domestic market if capital inflows increase as yield-seeking investors return to the Nigerian economy.

Our baseline expectation is that the pace of FOMC increases will temper significantly in the face of macro-indicators aligning with its expectations and cause a realignment of the external market, at the very least. As a result, we

expect that the yields in the SSA market will correct from the highs of 2022FY, although not significantly, as risks remain for SSA countries, as noted earlier. Nonetheless, we expect the average yield on Nigeria's Sovereign Eurobonds to settle at 9.3% after accounting for historical sovereign yield and adjusting for modified default spreads. While this level would generally align with the weighted average yield on Nigeria's Eurobonds of 7.6%, we still view the level as restrictive. In addition, we don't expect the FG to access the market in 2023FY. Consequently, the domestic debt market should be the primary source of financing for government debt.

Monetary Policy Stance to Remain Hawkish

In line with our expectations, the Monetary Policy Committee of the Central Bank of Nigeria (CBN) shifted away from its accommodative policy stance, switching to a hawkish monetary policy stance from its May policy meeting. The Committee continuously raised the MPR at its next three meetings – 100bps in July, 150bps in September, and 100bps in November taking the 2022FY cumulative rate hikes to 500bps and bringing the MPR to 16.5%. For 2023FY, **we expect the MPC to increase the MPR by an additional 100bps in H1-23 before holding the rate steady for the rest of the year.**

However, the impact on the fixed income market may be muted (although yields should stay elevated), as was the case after the last two rate increases. In addition, given that the Federal Government is the outsized debt issuer, the DMO can tether rates through its administration of the auctions. We expect this to continue, especially with the cost of debt being a front-burner issue – 2022E debt-service-to-revenue ratio: 105.4%.

Demand and Supply dynamics Point Towards Significant Imbalance

Given the FG's budget and our expectations for external debt, the demand and supply dynamics over 2023FY point towards another imbalance, which should lead to a significant increase in yields in the domestic debt market. For context, our baseline expectation is that the fiscal deficit will settle at NGN12.69 trillion compared to FGN's estimate of NGN10.78 trillion (which represents 5.6% of GDP). We assume some multilateral loans (NGN1.77 trillion) may come through in addition to privatisation proceeds (NGN206.18 billion), leading to an NGN10.72 trillion allocation to the domestic market. While this imbalance should ordinarily cause a significant rise in yields, we expect the FG to continue to utilise Ways and Means significantly for fiscal support.

Given that the government is on course to do a W&M of NGN7.57 trillion this year, we conservatively assume c. NGN7.00 trillion will go to CBN's W&M in 2023FY. This would initially bring total domestic debt issuances to NGN3.72 trillion, which we further adjust for maturing debt. There is a total of NGN1.20 trillion in maturing debt for 2023FY – Treasury bonds (NGN735.96 billion), Savings bonds (NGN5.09

billion), Promissory notes (NGN225.87 billion), and Eurobonds (NGN222.90 billion; USD500 million) –, which will need to be re-financed given limited payments to sinking fund since 2020FY. This brings total domestic issuances to NGN4.92 trillion – NGN410.00 billion/month (2022E: NGN294.62 billion) – most of which should be raised through the bonds market. This partly informs our estimates, despite the upcoming change of fiscal managers with the forthcoming change in government.

Electioneering Process May Exert Pressure on Market Activities

We believe the upcoming election and fiscal policy management after the change of government can significantly impact market activities over 2023FY. Firstly, the election itself should have impacted the market negatively; however, this de-facto evolution of market activities has been muted by weaker foreign investors' participation in the market and implicit capital controls, which have locked-in participation to a large degree. Summarily, investments are mostly in the OMO segment of the Treasury bills market, and the illiquid currency market means that investors cannot leave the market expediently.

Fiscal Authorities Management Post-Election

So, while election activities alone may not impact the market significantly, the incoming government and its choices around fiscal policy management can significantly impact the market. Earlier, we noted our expectation that ways and means would be continually utilised despite the current government stating that this balance would be securitised on several occasions. If, as expected, the FG continues utilising the balance, our base case for a limited rise in yields remains. However, if the incoming government pivots away from its use, this would result in a significantly oversupplied domestic market, which would see yields rise significantly over the short term. Over the medium term, the FG could access multilateral loans, allowing for yield correction as supply levels correct within target and external debt increases.

Our baseline expectation is that regardless of the new government, the methodology of fiscal management will remain at least for 2023FY. Consequently, yield increases across the market will be tempered relative to the implied levels that domestic oversupply would suggest.

Is an Immediate Pivot from Ways and Means Possible?

While initially, the pandemic was the driver of the significant utilisation of the ways and means facility, the realisation that it could be continually utilised without accruing the commensurate interest has driven extended use. Moreover, the government is meant to utilise the overdraft at the cost of MPR (now 16.5%) plus 3.0%, so if the government was paying the prescribed cost of the debt, it would now be cheaper to borrow from either the money market or the debt

market. Indeed, actual payment data shows that this is closer to 7.2% in 2022E (relative to 19.5% as of November and 13.3% monthly average for 2022E).

In our opinion, the continued reliance on ways and means is borne from a realisation that the current and budgeted debt levels are not sustainable at market costs given the revenue profile (2022E: NGN5.50 trillion) – 2022E debt stock: NGN46.96 trillion, excluding NGN22.07 trillion ways and means. For these reasons, we believe that this government will continue utilising the overdraft until a change of fiscal managers.

Beyond this, the new fiscal managers have a tough call to make on its use, given the state of things. Debt service to revenue remains high at 96.1% 2022E (2023E: 135.6%) – not accounting for interest on ways and means – while recurrent expenditure to revenue remains elevated (2022E: 186.3%). There is simply a little-to-no room to change the situation without a significant amount of tumult immediately. Notwithstanding, we expect tough decisions to be made over the medium-to-long term, which may change dynamics and allow for the cessation of the dysfunctional use of the facility.

All Signs Pointing Northwards

Given our analysis of the factors expected to impact the market in the year, we expect the fixed-income market to remain volatile in the 2023FY, with intermittent periods of upward pressure in Q1-23. Specifically, we expect (1) MPC's hawkish stance and (2) the frontloading of significant borrowings in Q1-23 to dictate the direction of yields as investors demand yield in the face of significant supply. In H2-23, the direction of market activities will be swayed by considerations surrounding (1) monetary policy stance globally and domestically and (2) continued demand and supply imbalance, given that the government's borrowings are expected to exceed the budgeted amount. **Assessing all the factors, we estimate that the yields on Treasury bills and bonds will increase in the year and settle at c.12.8% and c.15.5% by the end of 2023FY.**

Equities.

A Mixed Bag for Equities in 2023

- The Nigerian equities market started the year positively as the All-Share index recorded a gain of 21.3% in H1-22
- Consequent to the uptick in yields in the FI market, domestic investors who remain the dominant players in the market scaled down exposure to stocks amid weak macro conditions. The All-Share Index recorded a decline of 6.7% over the period from the end of H1-22 to 6 December
- The weak macroeconomic environment is expected to exert pressure on corporate profit expansion and, by extension, valuations and market performance in 2023
- Our baseline expectation is that the market will deliver a positive return of 3.5% in 2023E

Review: The Domestic Bourse Sustained its Resilience in 2022

The performance of the Nigerian equities market was broadly positive at the start of the year owing to a combination of positive 2021FY corporate earnings and dividend declarations. In addition, the accommodative interest rate environment provided room for buying interest amid low yields on fixed-income instruments. Furthermore, some notable events in the year supported the market rally in H1-22. Starting the year, BUAFOODS (a total of 18.00 billion shares at NGN40.00/s) was listed on the mainboard of the Exchange on 5 January. Also, Dangote Cement Plc successfully executed the second tranche of its Share buy-back program on the 19th and 20th of January. The Tranche II of the program entailed repurchasing 126,748,153 units of shares, representing 0.7% of the company's fully paid ordinary shares at an average price of NGN276.89. Furthermore, the CBN's approval of Payment Service Bank licenses for the two listed telecommunication players – MTNN and AIRTELAFRI, spurred a positive market reaction. Other market events later in the year are highlighted below.

- ACCESSCORP announced the receipt of CBN's approval for its payment business - Hydrogen Payment Services Company Limited
- ACCESSCORP (First Guarantee Pension Limited and First Ally Asset Management) announced the acquisition of the total issued shares of Actis Golf Nigeria Limited (AGNL) and, by extension, Sigma Pensions Limited (Sigma) - AGNL is the sole shareholder of Sigma
- FBN Holdings announced the acquisition of Access Pension Custodian Limited by First Pension Custodian Limited.

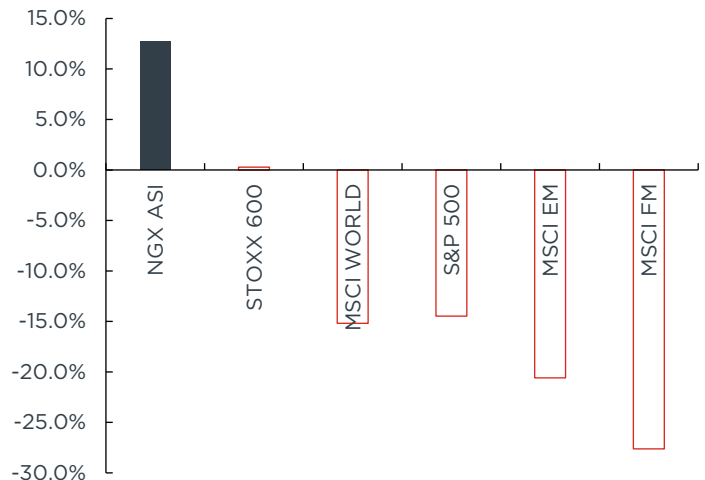
- Fidelity Bank PLC notified the investing public of an agreement to acquire a 100% equity stake in Union Bank UK Plc. The bank also announced its intentions to raise additional capital through a private placement
- Gereg Power Plc was listed by introduction on the Exchange’s main board on 05 October

The bullish proceedings from H1-22 were partly offset by the sell-offs that dominated Q3-22 (-5.4%) and most of Q4-22 (-2.8%) as investors reduced their exposure to stocks amid the attractive yields in the fixed-income market. For clarity, the All-share index recorded a 3.2% loss on 6 October — the most significant single-day loss since the pandemic-induced rout on 12 March 2020, as investors reduced exposure to AIRTELAFRI. In addition, the deliberate actions by the monetary authorities to hike interest rates significantly stoked the bearish sentiments in the market amid the resulting liquidity shortfall. Notwithstanding, Nigerian stocks remain among the best-performing globally.

Figure 4: NGX ASI performance in 2022



Figure 5: Return: Nigerian vs frontier and global equities (2022)

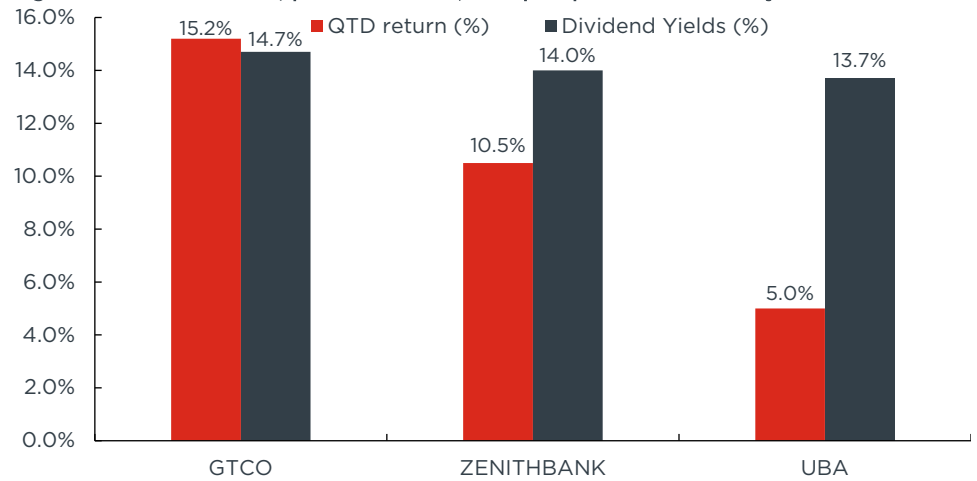


Source: NGX, Bloomberg, Cordros Research

The Domestic Bourse is on Course To End The Year Positively

Following the selloffs that ensued in Q3-22, the local bourse provided attractive entry points for bargain hunters, with most value stocks trading at relatively attractive prices and prospective dividend yields. Thus, investors started to rebalance their portfolios towards value stocks. As a result, in the period from the end of Q3-22 to 3 December, tickers such as GTCO (+15.2%), ZENITHBANK (+10.5%), and UBA (+5.0%) recorded strong gains as investors looked to lock in attractive prospective dividend yields — GTCO (14.7%), ZENITHBANK (14.0%), and UBA (13.7%); calculated using the preceding year’s final dividends -, whilst monitoring developments in the fixed-income space and macroeconomic environment. At the time of publication, the All-Share Index had returned a year-to-date gain of 13.2% (H1-22: +21.3% YTD).

Figure 6: Stocks return (quarter-to-date) and prospective dividend yields

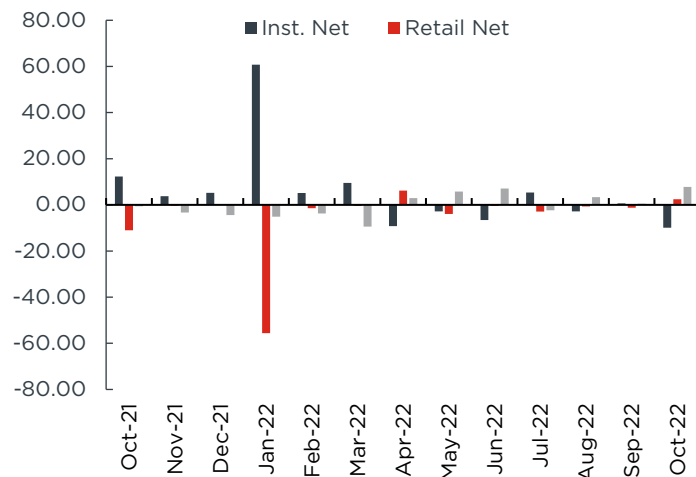


Source: Bloomberg, Cordros Research

Fund Flows: Domestic Investors Retain Dominance in the Bourse

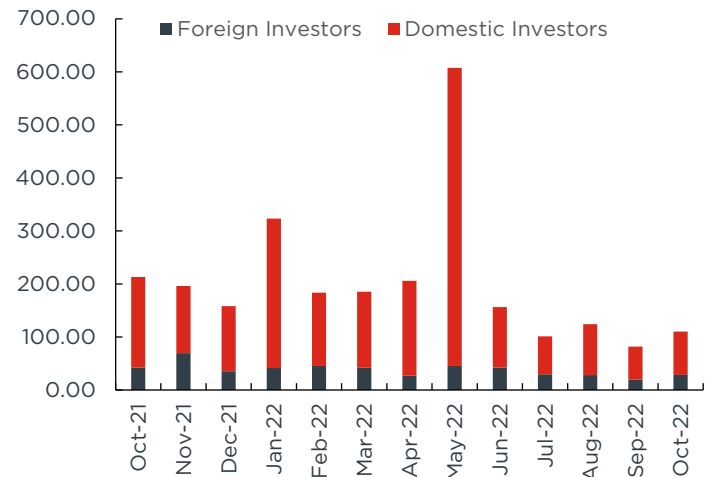
NGX data shows that total foreign inflows for 2022FY, as of October, settled at NGN178.21 billion, against total outflows of NGN171.38 billion, translating to a net inflow of NGN6.83 billion in the period. We cite the sustained FX liquidity challenges and a lack of flexibility in the FX framework as the main drivers of the low participation of foreign investors amid rising interest rates in advanced economies. Notably, foreign investors' share of the total transactions on the NGX fell to a new low of 7.5% in May 2022 – the lowest level since the NGX began compiling the current data series. Conversely, domestic investors remained dominant players in the market, as the average share of transactions for 2022FY settled at 74.1% as of October (2021FY average: 77.3%). However, activity levels waned on the back of the developments in the FI market. For context, domestic investors' transactions declined by 71.1% to NGN81.54 billion as of October 2022 from NGN282.07 billion in January. A further breakdown revealed that the decline in the value of domestic transactions was underpinned by domestic retail investors (-74.8%) relative to domestic institutional investors (-69.2%). Thus, domestic investors became net sellers of equities after the MPR increase, as rising FI yields fostered sell-offs.

Figure 7: NGX Investor flows (NGN billion)



Source: NGX, Cordros Research.

Figure 8: Foreign vs Domestic Participation in the NGX



Sector Performance: Where did Investors Play?

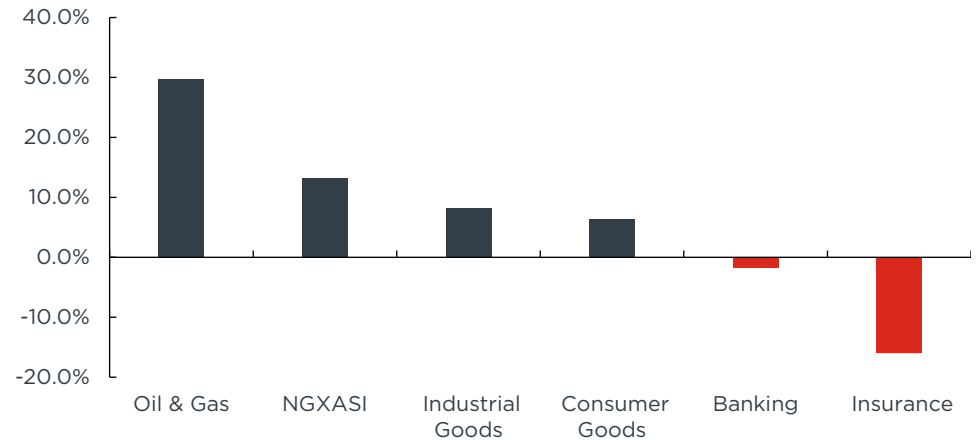
The “heavyweight” stocks in the Oil & Gas, Telecommunication, and Industrial Goods sectors led this year’s gains in the local bourse. Analysing sectoral performance, we highlight that the global energy shortages associated with the Russia/Ukraine conflict continue to bode well for upstream players in the Oil & Gas sector, evidenced by the record gains. For clarity, the Oil & Gas (YTD: +29.7%) index topped the gainers’ chart as the higher crude oil prices fared well for upstream players like SEPLAT (YTD: +67.2%), whose earnings were bolstered by the rise in oil prices, amid foreign investors continuously exploiting the fungibility of the stock in repatriating their funds. This, coupled with increases in the share prices of CONOIL (YTD: +30.0%), MRSOIL (YTD: +28.4%), and ARDOVA (YTD: +12.3%), underpinned the sector’s stellar performance.

Similarly, Telecommunications names – MTNN (YTD: +19.7%) and the dual-listed AIRTELAFRI (YTD: +58.1%) – also delivered strong price appreciation following the positive reaction to their resilient earnings amid the full rollout of their Payment Service Banks (PSBs). In the same vein, the Industrial Goods (YTD: +8.2%) index advanced, driven by renewed interest in BUACEMENT (YTD: +26.9%) and DANGCEM (YTD: +9.4%).

On the flip side, the Insurance (YTD: -16.0%) index recorded the highest decline among the sectors, followed by the Consumer Goods (YTD: -6.9%) index, which reversed its decent outing earlier in the year as the highly inflationary environment impacted the earnings of industry players. Mainly, sell-offs of NESTLE (YTD: -35.6%), FLOURMILL (YTD: -32.9%), and NASCON (YTD: -18.3%) drove the loss amid gains in GUINNESS (YTD: +94.4%), PRESCO (YTD: +45.4%) and OKOMUOIL (YTD: +30.5%).

Away from non-financials, the Banking (YTD: -1.8%) index declined as investors exited positions in tier-1 banks – GTCO (YTD: -8.2%), ZENITHBANK (YTD: -0.7%), and FBNH (YTD: -2.0%).

Figure 9: Sector Index returns vs ASI



Source: NGX, Cordros Research

2023FY Outlook: A Mixed Bag for Equities in 2023

We expect investors positioning for 2022FY results ahead of upbeat corporate earnings and re-investment of dividends to drive bullish sentiments in Q1-23. Nevertheless, in the latter part of the year, we believe that market sentiments will be shaped by a combination of the (1) outcome of the 2023 elections, (2) market-friendly policy or reforms, (3) the direction of monetary policy, and impact on fixed income yields, (4) sector-specific events and (5) the weak macroeconomic environment. Therefore, we discuss the factors which we believe will have a significant impact on the market in 2023, which include but are not limited to:

Will the election outcome stoke market's performance? Investors' perception of the nation's general political cum economic outlook is a significant factor to consider, given the forthcoming general elections. This is because sentiments tend to turn bullish when investors have a positive outlook on the economy while assessing the monetary and fiscal plans and policies set out by a candidate with a likelihood of emerging triumphant at the polls. However, a negative perception of the economic outlook will likely drive portfolio rebalancing to safe-haven assets. Notwithstanding, we expect a muted impact from any tensions arising from the electioneering process, given that foreign investors' participation in the market is limited relative to previous election years. However, we note that the economic and political stability after the general elections could attract more capital inflows into the equities market. In other words, only non-violent or peaceful polls could restore investors' confidence in the equities market, spur a bullish outcome and bolster the expected recovery post-election. Elsewhere,

foreign investors will likely remain on the sidelines as the FX liquidity challenge is expected to persist (due to weak crude oil output and limited access to international debt markets).

FPI's apathy to persist amid a dearth of market policy reforms: The lack of robust and market-friendly policy reforms, such as (1) trade restrictions, (2) lack of flexible FX framework, and (3) insincere monetary policy actions and renewed global policies, will continue to keep foreign investors on the sidelines. Over the short-to-medium term, we do not expect the current liquidity conditions to retrace towards pre-pandemic levels due to still weak inflows from foreign investors (53.8% of total IEW inflows in 2019FY). We think foreign investors will need more convincing actions from the CBN regarding flexibility and clarity in the foreign exchange framework before a resurgence of interest in the market, as witnessed in 2017FY when the IEW was established.

Fixed income market yields to trend higher: While we acknowledge that yields will remain slightly elevated in 2023 given the combination of (1) weak market participation, (2) monetary policy stance globally and domestically, (3) widening fiscal deficit, and (4) a weak macroeconomic environment; we do not expect a significant expansion in yields in 2023 considering the unwillingness on the part of DMO to allow yields to trend significantly upwards due to rising debt sustainability concerns. Overall, we estimate that the average yields on Treasury bills and bonds will increase in the year and settle at c.12.8% and c.15.5% by the end of 2023FY.

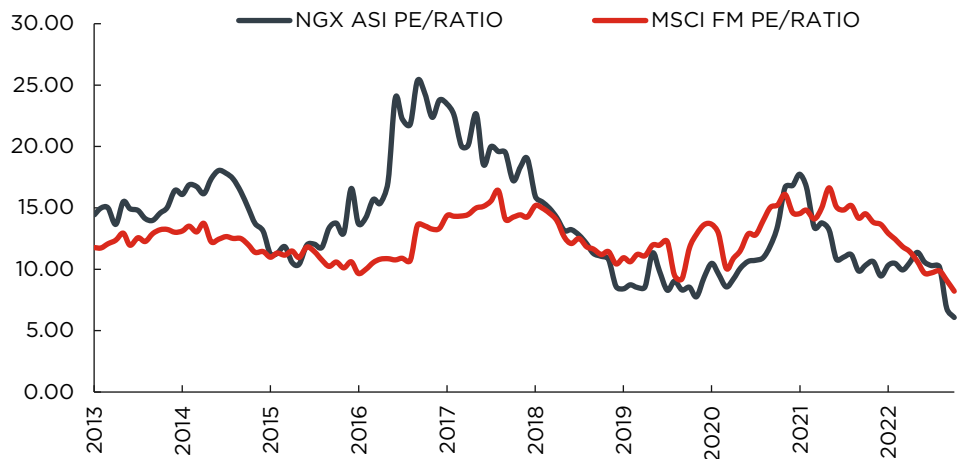
Weak macro conditions to cap bullish theme: Our outlook for the Nigerian economy is subdued; although we expect the economy to expand by 3.02% y/y in 2023FY (2022E: 2.72% y/y), we note that inflation remains upwardly sticky and above monetary policy targets, impacting corporate earnings amidst continued pressure on the consumer wallet. As stated in our domestic outlook, the 2023 macroeconomic narrative will remain weak, dampened by elevated prices, high unemployment, and FX liquidity constraints, amid a more subdued prospect for global economic recovery given policy tightening actions from major central banks and the lingering Russia/Ukraine conflict. Overall, the weak macroeconomic environment is expected to exert pressure on corporate profit expansion and, by extension, valuations and market performance in 2023.

Sector/stock-specific events could buoy bullish sentiments: Finally, we think some sector/stock-specific events will support bullish sentiments in the market in 2023. One is Dangote Cement Plc's proposed share buy-back of 10.0% (representing 1,687,355,925 fully paid-up ordinary shares, less the treasury shares) of its issued shares. This is, however, subject to approval by the board at an Extra-ordinary General Meeting (EGM) slated to hold on 13 December 2022.

Is there Still Value in Nigerian Equities?

The bearish theme in the market pushed the NGX ASI to settle at 48,426.49 points as of 7 December, from a high of 51,817.59 points recorded on 30 June. We highlight that the higher interest rate environment primarily drove the downbeat mood in the market from Q3-22. Accordingly, the Nigerian equities market currently trades at an average P/E multiple of 9.5x, a 7.7% discount to its 5-year average of 15.5x, and a 27.7% discount to the MSCI FM (13.3x). However, the market has continued to deliver strong earnings growth, indicating that it should be trading at a premium to its five-year average of 15.5x. Therefore, we believe there is scope for slight expansion in valuation multiples in H1-23 as long as corporate earnings remain resilient. Nevertheless, we note that the degree of impact of the factors highlighted earlier will be significant in determining the extent to which stocks will be repriced. Thus, investors will likely continue to seek relative safety in value stocks as they remain concerned about the market's volatility, political and economic uncertainties, and higher interest rates.

Figure 10: NGX ASI vs MSCI FM Price-to-Earnings Ratio



Source: Bloomberg, Cordros Research

Market Return Scenarios

We postulate three scenarios for market performance next year, with the base case scenario assuming a combination of (1) positive corporate earnings, (2) a muted uptick in fixed-income yields, and (3) investors' positive reactions to the election's outcome. In the bear case scenario, we assume a blend of (1) significantly weaker corporate earnings and dividend pay-outs (2) a higher-than-anticipated uptick in fixed income yields, and (3) a sudden violent turn in 2023 election activities to drive apathy for stocks. The final scenario expects the global economy to rebound within the year, and capital inflows strengthen as investors hunt for alpha.

	Base Case	Bear Case	Bull Case
Market Return	+3.5%	-24.3%	+30.1%
ASI Level	49,096.73	35,891.47	61,697.97
Probability	45.0%	30.0%	25.0%

Source: Cordros Research estimates

Key factors to watch – (a) downside risks: (1) higher T-bills and bonds yields, (2) significantly weaker earnings and dividend pay-outs, (3) slowing economic growth, (4) decline in oil prices, and (5) a sudden violent turn in the 2023 elections

Key factors to watch – (b) upside risks: (1) sustained higher oil prices and increased FX liquidity, (2) devaluation of the naira, (3) lower/negative FI yields, (4) solid corporate earnings growth, and (5) capital market reforms

Sectors

Financial services (Banking)

Solid earnings propelled by funded and non-funded income: After the pandemic and the global recession that followed, the Nigerian banking industry is still grappling with macroeconomic challenges like a weak business environment, limiting opportunities for growth, inflation, and regulatory policies. Nevertheless, banks have continued to record stable financial performances, as seen by the strong results reported in 9M-22. For perspective, banks listed on the Nigerian exchange group (NGX) reported a gross earnings growth of 34.6% y/y to NGN4.13 trillion, with most banks recording profit expansions – ETI had not released 9M-22 financials as of the time of writing. Tier-1 banks continue to contribute largely to the industry’s earnings growth, accounting for 75.7% of the total increase in earnings during the period, growing by 27.4% y/y to NGN3.13 trillion. On the other hand, in terms of revenue growth, Tier-2 banks grew faster by +63.4% y/y to NGN1.01 trillion.

Parsing through the income lines, banks recorded an expansion in core income (+29.2% y/y to NGN2.74 trillion) owing to the increase in loans and advances to customers (+29.4% y/y to NGN1.84 trillion) and investment securities (+29.3% y/y to NGN785.38 billion). The increase in proceeds from investment securities can be attributed to the higher government securities yields coupled with the increase in investment securities holdings (+6.1% YTD to NGN16.10 trillion). For context, as of 30 September 2022, the average yields on OMO and NTB bills expanded by 481bps to 10.3% and 271bps to 7.1%, respectively. Likewise, increased income from loans and advances to customers was triggered by increased risk asset creation during the period, evidenced by the growth in loans and advances to customers (+14.3% YTD to NGN23.47 trillion).

Further in, non-core income grew by 18.5% y/y to NGN1.15 trillion as the higher gains on trading investment securities (+108.7% y/y to NGN292.82 billion), fees and commission (+14.6% y/y to NGN575.17 billion) and FX trading (+11.1% y/y to NGN179.44 billion) were enough to offset the losses on FX revaluation (-109.2% y/y to NGN5.02 billion). We note that increases in income from fees and commissions can be attributed to the expansion in transaction volumes (+153% y/y to 438.00 million), as reported by NIBSS. Consequent to the simultaneous growth in core and non-core income, operating income expanded by 22.2% y/y to NGN2.68 trillion. Given the inflationary environment putting pressure on the industry's operational efficiency, the cost-to-income ratio deteriorated to 66.0% y/y from 65.4% y/y in the same period of the preceding year. All in, profitability settled higher as PBT and PAT expanded by 23.0% y/y and 19.9% y/y, respectively.

Capital adequacy ratio still above threshold: The industry's capital position was pressured but remained above the threshold at 18.1% as of 9M-22, relative to 21.1% the prior year. The decline in the CAR during the period may be attributed to increased risk asset creation during the period, just as the risk in the environment remains elevated. Across the players, Tier-1 banks, most of which are domestic systematically important banks (D-SIBs), recorded a CAR of 21.1% (relative to a minimum threshold of 16%, including a 1% surcharge). UBA was the most capitalised, with a CAR of 30.3%, followed by ACCESSCORP and ZENITHBANK, with CARs of 22.5% and 21.3%, respectively. Also, Tier-2 banks maintained this momentum as the average CAR for the tier settled at 16.1% in 9M-22, with no bank in either the International or domestic bank categories breaching the minimum levels of 15.0% and 10.0%, respectively. Regarding Basel III, CBN is yet to communicate the date for full implementation; therefore, adopting the guideline is currently voluntary, although players are ready for full compliance.

Economy recovery improved asset quality: In 9M-22, asset quality for Nigerian banks improved as the average NPL across the sector settled at 3.8% (vs 9M-21: 5.3% | 2021FY: 4.8%). We attribute this improvement primarily to the recovery in the economy during the period (Q3-22: +2.25% y/y | Q2-22: +3.54% y/y | Q1-22: +3.11% y/y). In addition, after the forbearance expired, the apex bank, on 19 January 2022, announced the automated loan recovery tool – Global Standing Instruction (GSI) – which will work on an unrestricted basis until full loan principal and interest are paid on defaulting loans. That said, this feature assisted banks in recovering loans from obligors and, by extension, contributed to the improvement in NPL across banks during the review period.

Business diversification: Banks started to explore different sustainable long-term development opportunities in light of the curtailed growth prospects of traditional income streams. In 2022, banks such as GTCO and ACCESSCORP

successfully transitioned to holding company (Holdco) structures, allowing for the diversification of earnings streams. This move was the primary driver of recent acquisitions within the sector, which has seen banks acquire asset management and pension businesses in recent times – ACCESSCORP acquired First Guarantee Pension Ltd, and FBNH acquired Access Pension Fund Custodian Limited.

2023FY Outlook: Elevated interest rate to support growth: For 2023FY, we opine that the banking sector will maintain its growth trajectory in gross earnings driven majorly by the increase in core income. However, we believe growth in the bottom lines will be impacted by the higher cost incurred during the period.

On core income growth, we expect higher yields on loans and investment securities will support income from banks' funded income in 2023FY. Our prognosis is based on our belief that the CBN will raise MPR further to quell anticipated inflationary pressures, which will impact customer borrowing costs and yields on fixed-income securities. Although, we note that players may not grow their loan book significantly in 2023FY due to the weak macro story, which may eventually trigger higher NPL. In addition, the recent increase in CRR to 32.5% (previously: 27.5%) may also impact the growth of bank loans. However, banks can use the differentiated cash reserve ratio (DCRR) window to request money from their CRR with the CBN to finance greenfield and brownfield projects.

Notwithstanding, we believe the anticipated elevated interest rate in the environment will be sufficient to support revenue growth from loans and advances to customers in 2023FY. For non-core income growth, we believe banks' e-banking business will continue to support growth in 2023FY. Although, we highlight that banks having to share income from e-banking transactions with regulators and telecommunication operators and glitches experienced on the e-banking platforms will undermine the e-banking business performance.

On the cost side, we envisage higher costs to be incurred in 2023FY, as the (1) recently increased the minimum interest rates payable on local currency savings deposits from 10% to 30% of the Monetary Policy Rate (MPR) will increase the expenses incurred on deposits from customers, (2) higher interest rate in the environment will lead to a higher cost of borrowing for the banks and (3) anticipated inflationary pressures will hurt profitability.

Valuation: We adopted a blended approach of absolute valuation (Dividend discount model and Gordon's growth NAV) and relative valuations (justified P/B and P/E multiples) in valuing the sector's companies, which led us to the following TPs for our coverage companies – ACCESSCORP (BUY, TP: NGN13.45/s), GTCO (BUY, TP: NGN28.21/s), UBA (BUY, TP: NGN11.08/s), ZENITHBNK (BUY, TP: NGN26.91/s) and FBNH (HOLD, TP: NGN12.96/s).

Industrial Goods (Cement)

Price increase as a catalyst for topline growth: Players in the cement sub-sector recorded strong financial performances in 2022, as indicated by 9M-22 numbers, with earnings expanding on the back of industry-wide price increases amid moderation in sales volume growth. We attribute the higher cement prices to the surge in input costs (energy and raw materials costs), exacerbated by the simultaneous impact of the Russia-Ukraine conflict and foreign exchange issues, as manufacturers had to pass on costs to customers. However, on sales volume growth, cement producers were unable to maximise their capacities as production levels came under pressure due to (1) energy supply disruption, (2) severe power outages due to national grid shutdowns, and (3) heavy rainfall in Q3-22, which influenced slower demand from customers during the period. For context, save for BUACEMENT, which recorded an increase in its volume (+15.0% y/y), DANGCEM (-4.7% y/y), and WAPCO (-3.7% y/y), experienced declines in sales volumes. On BUACEMENT's higher volumes, management highlighted that the commissioning of a production line in Sokoto State favoured the increase as the firm leveraged the capacity expansion. That said, we emphasise that companies under our coverage reported higher revenue during the period; DANGCEM (+22.1% y/y) for its Nigeria operation; BUACEMENT (+40.5% y/y) and WAPCO (+29.0% y/y).

Elevated cost pressures undermine profitability: Beyond the top line, cost pressures overshadowed revenue growth, eventually slowing profitability growth due to persistent inflationary pressures. More significantly, cement players suffered the impact of higher energy costs following the spike in selling and distribution costs - BUACEMENT (+125.2% y/y), DANGCEM (+54.2% y/y) and WAPCO (+54.0% y/y) - as transportation costs rose steeply. To put it in perspective, prices for diesel (or automotive gas oil; AGO) used for companies' trucks and production activities skyrocketed. According to the NBS, prices for AGO grew by 173.3% YTD to NGN790.90/ litre as of October 2022. This cost growth led to OPEX expanding significantly during the period - BUACEMENT (+77.2% y/y), DANGCEM (+43.5% y/y), and WAPCO (+42.9% y/y). Furthermore, beyond operating costs, there was a jump in the net finance cost for BUACEMENT (+666.8% y/y) and DANGCEM (+159.9% y/y) on the back of a spike in foreign exchange losses (BUACEMENT: +1684ppts y/y; DANGCEM: +770ppts y/y) and higher borrowing costs incurred during the period. Also, the management of BUACEMENT stated that apart from the high-interest rate environment inducing higher interest expenses, the firm also discontinued the capitalisation of both bond and loan interest on its Sokoto line 4, commissioned in January 2022. Conversely, WAPCO reported a 46.0% y/y decline in finance costs as it continues to pay its financial obligations. All in, save for DANGCEM (-12.5% y/y), which

recorded a slowdown in its profit; BUACEMENT (+34.8% y/y) and WAPCO (+11.5% y/y) were able to record higher bottom-line.

2023FY Outlook: Price-induced revenue growth to spur performance: Our expectations for revenue growth in 2023 are skewed towards further price increases amid another volume decline. We believe the rising energy costs amid the increased difficulties with acquiring raw materials will influence intermittent price increases from industry players as they move to protect margins. On volumes, we believe the growth deceleration will be prominent in H1-23, as (1) government CAPEX spending will be moderate through the period following electioneering activities and (2) private sector investments in the real estate and construction sectors will most likely decline owing to impending change of government as investors will be wary of the uncertainties from the result of the election. Notwithstanding, we expect that after a smooth transition to the new government by the end of H1-23, public-private sector investment in housing and construction should improve, which will support cement demand. Overall, we expect average revenue for players in the industry to grow by c. 53.3% in 2023E.

Effective cost management is required to sustain margin: Given our expectations in the domestic section of this report that elevated inflationary pressures will persist through 2023FY, we expect cost pressures to remain prevalent through 2023FY. As a result, we note the need for industry players to focus on operational efficiency measures to preserve profitability. On the one hand, cement producers have started employing alternative fuels (ALF) to counter the higher cost of AGO. For example, DANGCEM is to commission its ALF feed system at Obajana and Ibese before 2022E, as well as ramp up its investment in compressed natural gas (CNG) to reduce its AGO usage. On the other hand, we believe adopting alternative fuels for companies' trucks and plants will significantly ease the pressure on operational costs. Similarly, we think that players switching to local sourcing of raw materials will help reduce FX volatility's impact.

Exportation strategy; a driver for performance growth: Considering the expected slowdown in demand locally, companies will most likely focus on exportation in H1-23. DANGCEM is already a leader in this segment. As of 9M-22, the company successfully exported 581.00K tonnes of cement and 56.00K tonnes of clinker. In addition, the management of BUACEMENT stated that in 9M-22, the firm exported 62,000 tonnes of cement. This export strategy should support companies' performances in 2023FY. However, it is crucial to note that companies must run at full capacity to meet these external demands. Aside for WAPCO, which highlighted its strategy to focus on the local market by eliminating bottlenecks in its plants, DANGCEM and BUACEMENT have shown interest in increasing capacity in the near future.

Valuation: We valued our coverage names using a blend of Discounted Cash Flow (DCF) and Relative Valuation (RV) methodologies in a ratio of 60:40. Thus, we are neutral on the sector, as we believe cost pressures will continue to impact companies' performance over the short to medium term. Notwithstanding, we remain optimistic about **WAPCO (BUY; TP: NGN32.31/s)**, given the company's reduced exposure to FX losses. On the other hand, we are cautious about **DANGCEM (HOLD; TP: NGN288.99/s)** as we expect cost pressures stemming from higher energy costs to constrain margin expansion.

Agriculture

H1-22 supports revenue expansion: 2022 was another stellar year for Nigerian CPO planters, as another uptick in CPO prices (particularly in H1-22) supported revenue expansion for the listed companies – OKOMUOIL and PRESCO. Global CPO prices rallied at the beginning of the year, rising by 56.7% YTD to a high of USD1,944.03/mt as of June, due to (1) supply shortages due to bad weather conditions and labour constraints in Malaysia, (2) the Russia-Ukraine conflict and (3) the export ban in Indonesia. Notably, CPO prices moderated in H2-22 as supply conditions in the market improved significantly, as Indonesia flooded the market with products as the country lifted its ban on CPO exports. Notwithstanding the price fall in the year's second half, OKOMUOIL and PRESCO remained in a favourable position, as the price surge in H1-22 translated to a higher sales outturn amid the absence of cheaper imported substitutes, given the ban on CPO importation. Specifically, both companies recorded revenue expansions of 61.6% y/y and 72.9% y/y, with overall industry revenue amounting to 129.2% of the total revenue in 2021FY.

The challenging business environment became overwhelming for both companies as cost pressures remained elevated. We highlight that cost of sales for both OKOMUOIL and PRESCO increased whoppingly by 356.5% y/y and 92.0% y/y, highlighting the impact of higher energy and plantation costs stemming from increases in the price of diesel and fertilisers. Nonetheless, the growth in sales was significant enough to accommodate the cost pressures and ensure profitability, with both companies – OKOMUOIL (+55.6% y/y) and PRESCO (+15.3% y/y) – recording EPS expansions in the same period.

CPO prices to moderate in 2023e: In 2023, CPO prices are expected to moderate, facilitated by the excess inventories in the global market, which will hold out into the new year, better supply picture for vegetable oils, easing labour shortages in Malaysia and the absence of weather anomalies, amid the risk of a global recession. Overall, the World Bank estimates CPO price will average USD1,050.00/mt in 2023FY, translating to a 17.6% y/y decrease from this year's price (2022E: USD1,275.00/mt). However, we acknowledge that soaring fertiliser costs remain a significant threat to global output and price projections.

Slower revenue growth in 2023e: In line with the lower prices and considering that Nigerian producers are price takers, we expect the tempered global CPO prices to translate to a lower pace of growth in sales for the domestic CPO planters OKOMUOIL and PRESCO. We forecast revenue growth of 8.6% y/y and 9.7% y/y, driven specifically by factors peculiar to individual companies. For OKOMUOIL, though we do not expect a significant increase in its maturities, we believe the upgrade of the milling capacity at the Okomu II plantation to an overall capacity of 60 tonnes/hour will cause an improvement in its production efficiency and improve its FFB extraction rate and, in turn, its volumes. For PRESCO, we expect the producer to benefit from improved volumes over the rest of the year. Our view is hinged on the company's palm oil refinery project with a capacity level of 60 tonnes/hour, expected to elevate the output from PRESCO's Sakpomba estate. Also, we cite further support from the recent acquisition of Siat Nigeria Limited, with a total land area of 15,000 ha (and c. 10,000ha planted area). Overall, we project EPS growth of 10.2% y/y and 13.1% y/y to NGN22.65 and NGN24.40 for both OKOMUOIL (2022E: NGN20.54) and PRESCO (2022E: NGN21.57) in 2022E.

We remain "OVERWEIGHT": Our valuation points to a BUY recommendation on the sector. We remain optimistic about **OKOMUOIL (BUY, TP: NGN242.81/s)** and **PRESCO (BUY, TP: NGN213.37/s)**, as we believe that despite the overall challenging operating landscape, factors such as CPO import restrictions amid current FX liquidity challenges and long-term sector growth prospects remain favourable for sector players.

Consumer Staples

Food & HPC

Still on the path to recovery: Although Food & HPC companies recorded strong revenue growth in 2022 driven by substantial price increases, cost pressures from the pass-through impact of currency depreciation and the highly inflationary environment weighed on the margins of most players. Across food staple producers, the continued focus on route-to-market channels and price increases implemented in the year supported topline expansions. For instance, FLOURMILL achieved a +37.8% y/y revenue growth in H1-23, supported by price increases and an accelerated expansion in its key Business to Customer (B2C) segment. Also, NESTLE, UNILEVER, and NASCON combined revenue grew by 27.1% y/y in 9M-22, buoyed by price increases across their product portfolio. Further down, the elevated cost pressures in the operating environment drove contractions in margins across the board, save for DANGSUGAR. For clarity, FLOURMILL's gross and EBITDA margins declined by 90bps y/y and 50bps y/y, respectively, in H1-23. Likewise, NESTLE and NASCON's gross margins contracted by 350bps y/y and 200bps y/y, respectively, in 9M-22. Consequently, the EBITDA margins

dipped by 220bps y/y and 680bps y/y, respectively. In the HPC segment, UNILEVER recorded gross and EBITDA margin declines of 50bps y/y and 160bps y/y, respectively, underpinned by elevated cost pressures. However, DANGSUGAR's margins were resilient in the period (gross: +110bps y/y | EBITDA: +160bps y/y) as revenue (+47.5% y/y) grew faster than the cost of sales (+45.4% y/y), amid a 4.6% y/y decline in OPEX.

Agro-allied Names Still Preferred Play: One of the significant challenges for agro-allied and HPC players in the Nigerian consumer goods sector in the near term is high food inflation - October: 23.72 % y/y (September: 23.34% y/y). We think this may affect the companies over the short to medium term in the following ways: (1) margin squeeze as primary raw materials such as sugar and wheat record price increases, and (2) weak consumer demand following the real wage decline in the domestic economy. Consequently, we expect industry players to sustain sub-inflationary price increases to preserve margins. We, therefore, believe the agro-allied names in our coverage - **FLOURMILL (BUY, TP: NGN63.12/s)**, **NASCON (BUY, TP: NGN27.84/s)**, and **DANGSUGAR (BUY, TP: NGN26.31/s)** - provide the most value, given the essential nature of their products and their ability to implement more price increases than peers. On the other hand, we are cautious about **UNILEVER's (HOLD, TP: NGN13.40/s)** outlook due to (1) weak operating margins given the company's FX exposure and (2) stiff competition from unlisted brands. However, for **NESTLE (HOLD, TP: NGN1,415.41/s)**, we remain optimistic about the company's medium-term growth prospects, given its innovativeness and brand equity which we estimate will allow for the maintenance of its advantage over unlisted, cheaper brands. Nevertheless, we expect cost pressures, particularly from the sourcing of raw materials, to constrain margin expansion.

Brewery

Premiumisation buoys earnings amid unfavourable policies: The brewers under our coverage (NB, GUINNESS, and INTBREW) recorded strong topline growth underpinned by the improved activities in the premium segment (consumers in this segment are less sensitive to prices than consumers in the mainstream and value segments). For context, NB recorded a 78.4% y/y growth in EPS to NGN1.82, underpinned by solid topline growth (+27.2% y/y). For GUINNESS, the brewer recorded a significant boost (+732.1% y/y) in EPS to NGN6.98, supported by gains from the industry-wide premiumisation drift. Elsewhere, INTBREW recorded a lower loss per share of NGN0.10 (loss per share of NGN0.52 in 9M-21) following a 25.0% y/y growth in revenue.

Excise duties pressures margins: The Federal Government announced a new tax of NGN10.00 per litre on all non-alcoholic, carbonated, and sweetened beverages in January. The Federal Government also upwardly reviewed the excise duty rates

for alcoholic beverages and tobacco, which went into effect on 1 June 2022. The FG applied the new duties at different levels across beer, stouts, wines, and spirits, and this will be implemented gradually on an annual basis from 2022 to 2024. The increase in excise duties in the period weighed on topline performance and exerted pressure on margins, especially for NB and INTBREW, in Q3-22. For clarity, due to increased excise duties amid higher input costs in the period, INTBREW (-768bps y/y) recorded the most significant gross margin contraction relative to NB (-262bps y/y). However, for GUINNESS, the revenue growth (Q1-23: +11.3% y/y) outpaced the increase in the cost of sales (+7.4% y/y) hence the expansion in gross margin (+241bps y/y)

GUINNESS and NB remain our top picks: For 2023, we are cautiously optimistic about the brewery sector as we expect demand growth to be sluggish due to low disposable income amid limited wage growth. With another upward adjustment in excise duties looming, we are concerned about the resilience of industry players, especially as inflation continues to take a large portion of consumers' disposable incomes, thus curtailing household recreational spending. Moreover, in the absence of strong growth in demand, we expect the battle for market share to persist. Therefore, we believe the brewers would have to raise prices further to improve profitability and protect margins. We believe that NB and GUINNESS will continue to achieve some cost efficiencies in their operations, given progressing backward integration initiatives. Thus, we maintain a positive outlook on **NB (BUY, TP: NGN60.71) and GUINNESS (BUY, TP: NGN93.25)**. However, for **INTBREW**, we forecast that earnings will remain negative over the short-medium term unless management addresses the company's debt overhang, which we believe will substantially reduce its finance charges, with a solid pass-through to cashflows and earnings. Hence, our more cautious view on the stock (**HOLD, TP: NGN4.90**)

Oil & Gas Downstream (Refining & Marketing)

PMS subsidy remains an issue: With the Federal Government (FG) unable to fully deregulate the downstream oil and gas sector – especially PMS – following kickbacks from labour unions, it has continued to incur expensive subsidy payments through NNPC under-recovery costs. In 2022, PMS has retailed at an average of NGN181.01/litre – a 53.9% discount to the expected open market price of NGN392.63/litre for the same period. As such, the under-recovery cost in the year amounted to NGN2.04 trillion – 9.7% higher than the 2021FY total (NGN1.45 trillion). At this run rate, we estimate the cost to settle at NGN3.50 trillion for 2022FY.

Another noteworthy trend in the sector this year is intermittent fuel scarcity, the first of which occurred in January and February, with other occurrences coming in bouts across the year. While the importation and subsequent recall of

adulterated products at the top of the year specifically influenced the scarcity in January and February, the other occurrences were influenced by independent marketers' unwillingness to sell the product at the stipulated price (NGN165.00/litre) following the significant difference in the ex-depot price for PMS (NGN190.00 per litre), at which the product is typically sourced.

Crude oil price hike stokes cost pressures: The surge in crude oil prices (2022 average brent price: USD101.64/bbl | 2021 average: USD70.85/bbl), coupled with the high inflationary environment, triggered an increase in sector players' costs and exerted downward pressure on the previously recovering margins of marketers. For context, the gross margin of our coverage names declined by about 282bps on average, following a c. 41.2% y/y increase in costs. Overall, we highlight that the average sector gross margin increased marginally by 231bps to 15.3% amid a c.26.3% y/y average cost increase.

TOTAL still resilient: Across our coverage, TOTAL maintained its resilience as the marketer sustained profitability growth in the year. In addition, the marketer intensified its efforts to improve its sales mix and reduce its reliance on PMS as a significant contributor to revenue. As a result, TOTAL delivered stellar revenue (+39.2% y/y) and EBIT (+0.1% y/y) growth in 9M-22, improving its lubes sales volumes. Meanwhile, ARDOVA disappointed in the same period, reporting a 0.6% y/y decrease in its operating margin. In our view, the ballooning cost pressures influenced the decline, despite ARDOVA growing its revenue markedly by 34.2% y/y.

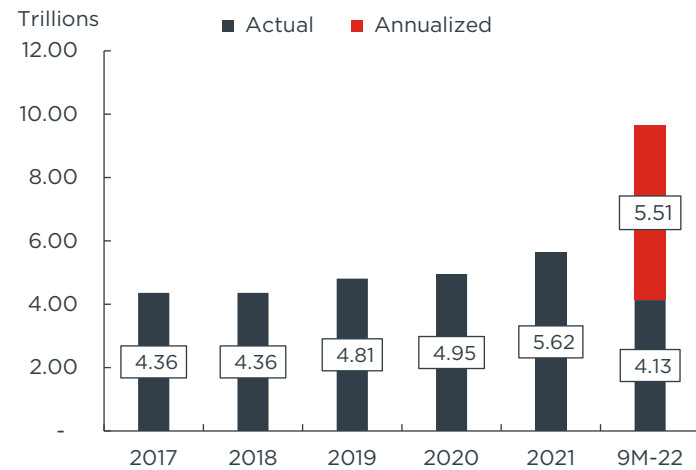
2023E, the tipping point? 2023 may be the year that some semblance of normalcy is restored to the downstream oil and gas sector. The FG, having kicked the can down the road in 2022, once again intends to permanently halt PMS subsidy by June 2023, essentially deciding to implement that of the incoming government next year. However, while Nigeria's finances may have hit the tipping point, we believe it is unlikely that a new administration will completely remove the subsidy immediately after the swearing-in ceremony, given the acute domestic price pressures. Instead, the new administration may likely come up with a road map or timeline for subsidy removal in 2024 after assessing the impact of the Dangote refinery on domestic fuel prices. In the midst of these, we imagine that there will be intermittent PMS scarcity in the process of coming up with modalities for distributing PMS from the Dangote refinery (expected to commence operation in June 2023) and importing fuel as the refinery is expected to operate below capacity at the onset of operations. Consequently, we expect the government to adjust PMS prices upward to NGN250.00/litre (vs current national average price: NGN191.65/litre) to ease marketers' tension and save part of the PMS subsidy cost.

While the entire supply picture for the full year may not be clear as of yet, the known variable for 2023 is that the NNPC will remain the market's sole supplier in the first half of the year, with leeway provided for proven marketers to cover for shortfalls at specific times when necessary. However, as has been for the past few years, individual product sourcing will remain a big challenge for downstream players as FX liquidity issues persist.

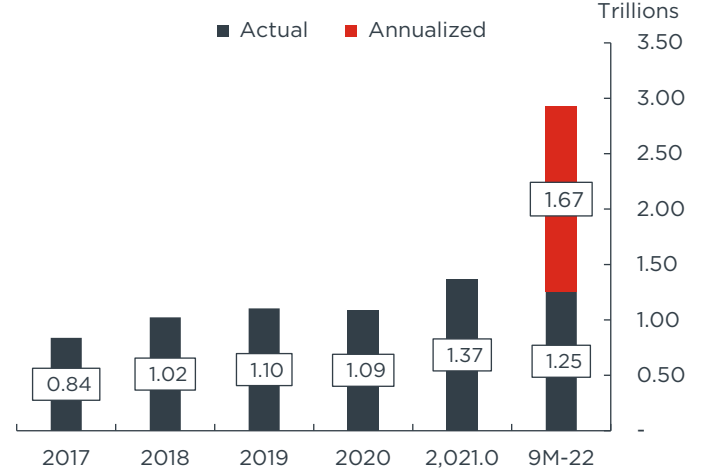
TOTAL remains the sector's top pick: We adopted the DCF method in valuing our coverage companies, which led us to the following 2023E TPs for our coverage companies - **TOTAL: NGN435.35/s; ARDOVA: NGN12.90/s. TOTAL (BUY, TP: NGN435.35/s)** remains our top pick for the sector. We expect the company to maintain its resilience in 2023, leveraging its ample storage and distribution network to sustain its sector volume control. As evidenced in its preliminary numbers for 2022, we expect the marketer to maintain its strategy of intensifying the output from the higher-margin lubricants space, where it is the current market leader (c. 50.0% of market share). On returns to shareholders, we forecast a 2023E DPS of NGN25.88, translating to a dividend yield of 13.4%.

Chart Pack. *Financials – Banking.*

Gross earnings trend 2017 - 9M-22 (NGN trillion)

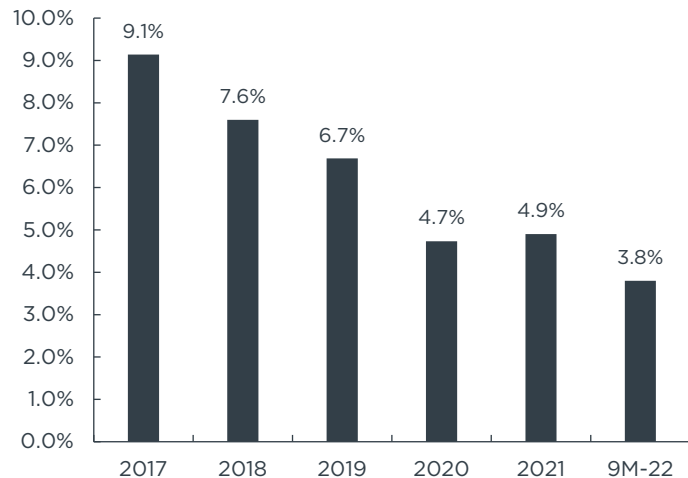


Profitability trend 2017 - 9M-22 (NGN trillion)

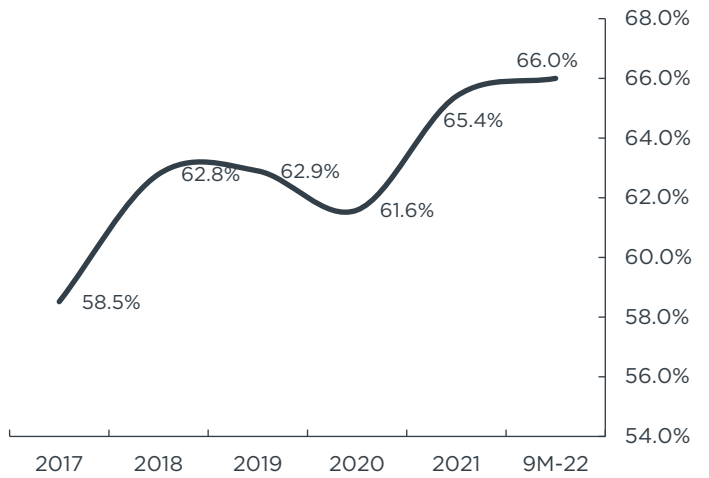


Source: Company Financials, Cordros Research

Non-performing loans trend 2017 - 9M-22

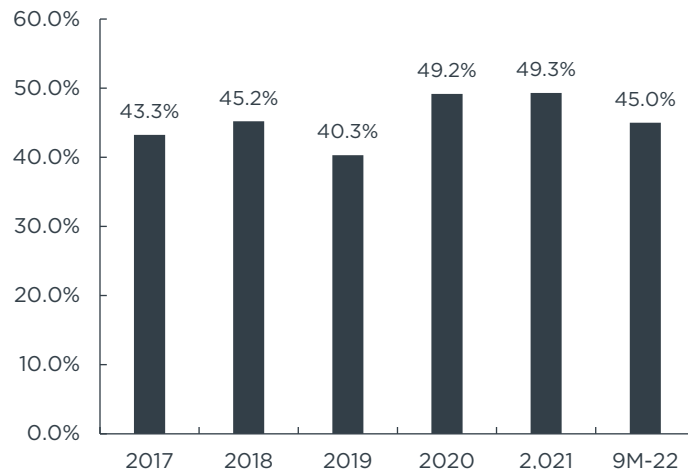


Cost-to-Income ratio trend 2017 - 9M-22



Source: Company Financials, Cordros Research

Liquidity ratio trend 2017 - 9M-22



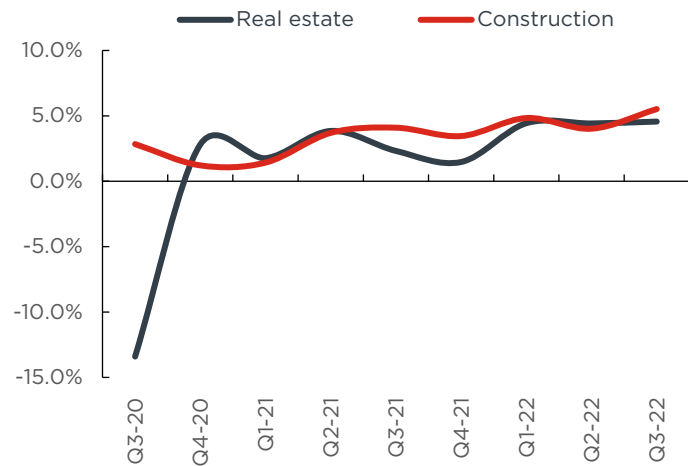
NGX-ASI vs NGX B10 (1-year trend)



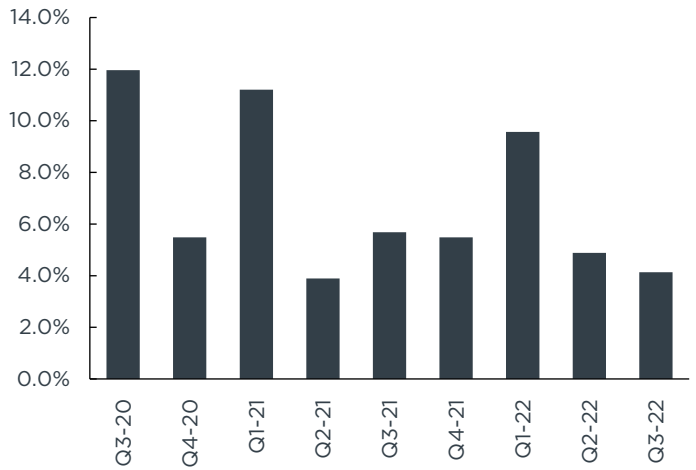
Source: Company Financials, Cordros Research

Chart Pack. *Industrial Goods – Cement.*

Real estate and Construction sectors GDP (%)

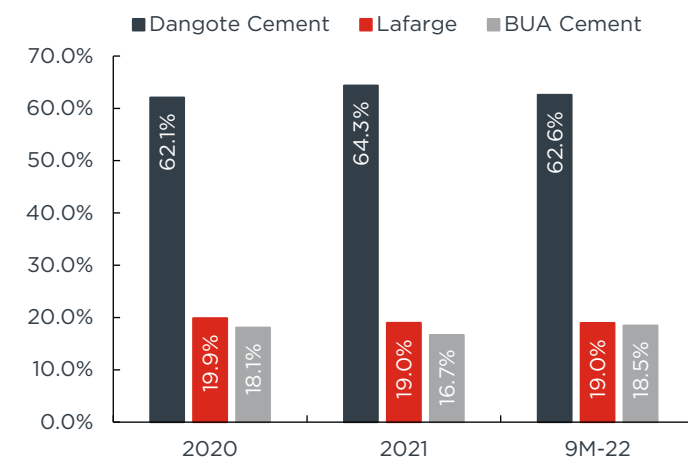


Cement sector GDP (%)

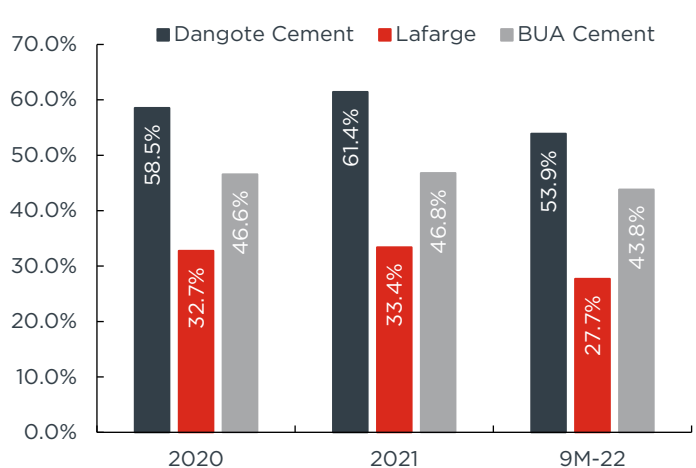


Source: NBS, Cordros Research

Market share based on revenue (%)

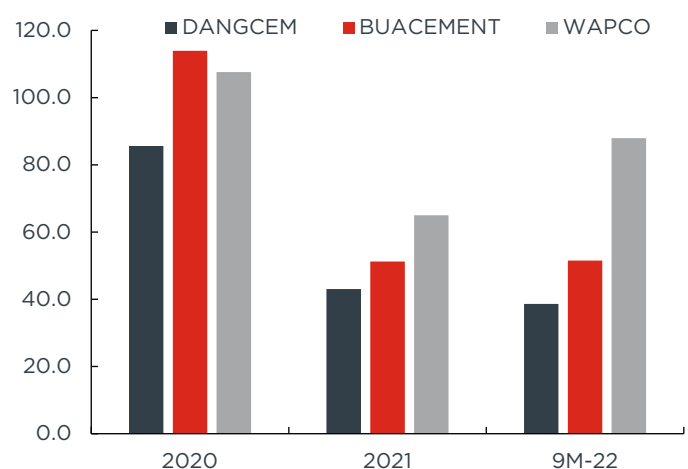


EBITDA margins (%)

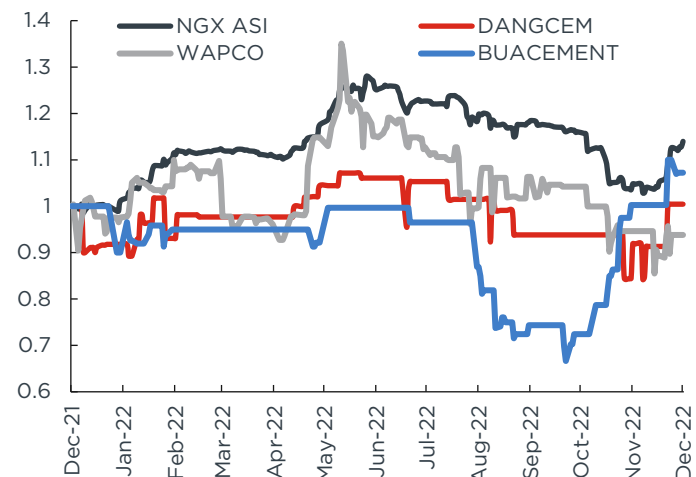


Source: Company Financials, Cordros Research

Energy Cost (NGN billion)



Share price performance vs NGX ASI



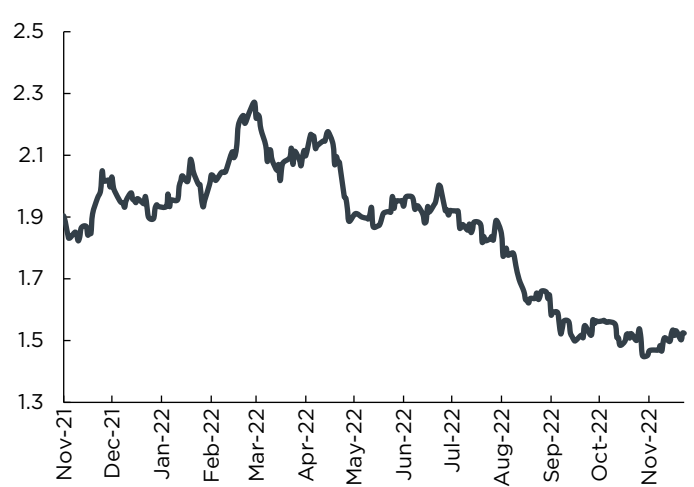
Source: Company Financials, Bloomberg, Cordros Research

Chart Pack. *Consumer Staples – Agriculture.*

Global CPO prices (USD/mt)

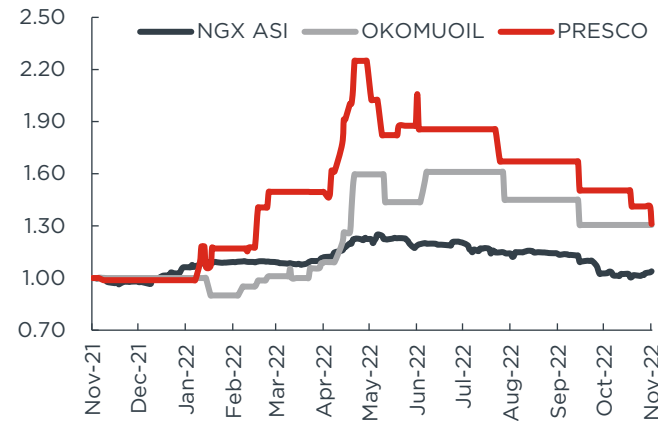


Global Rubber Prices (USD/kg)

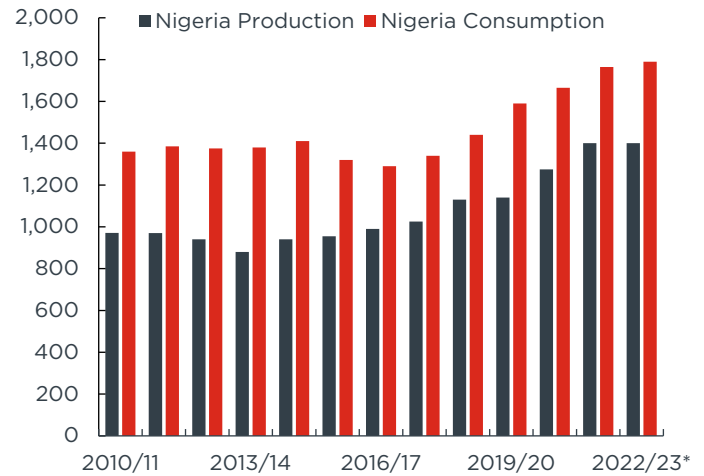


Source: Bloomberg, Cordros Research

YTD share performance of individual stocks (%)



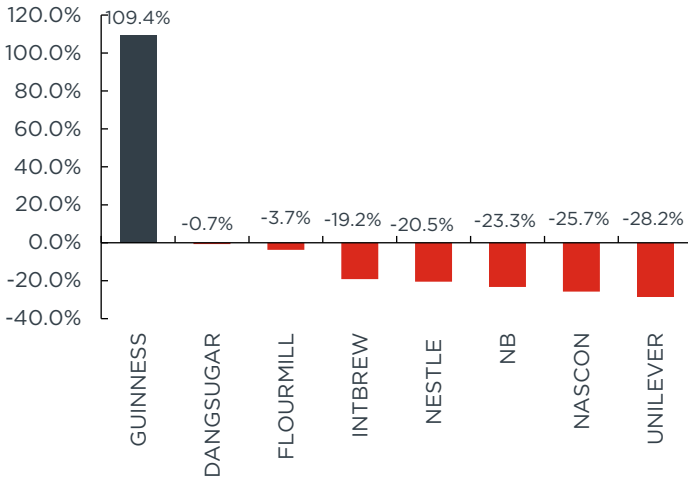
CPO Production/Consumption in Nigeria (mt '000s)



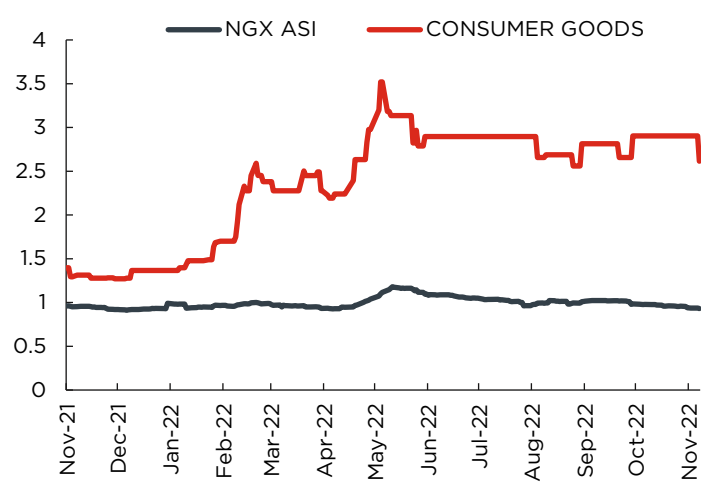
Source: NGX, USDA, Bloomberg, Cordros Research

Chart Pack. *Consumer Staples – Food & HPC and Brewers.*

YTD share performance of individual stocks (%)

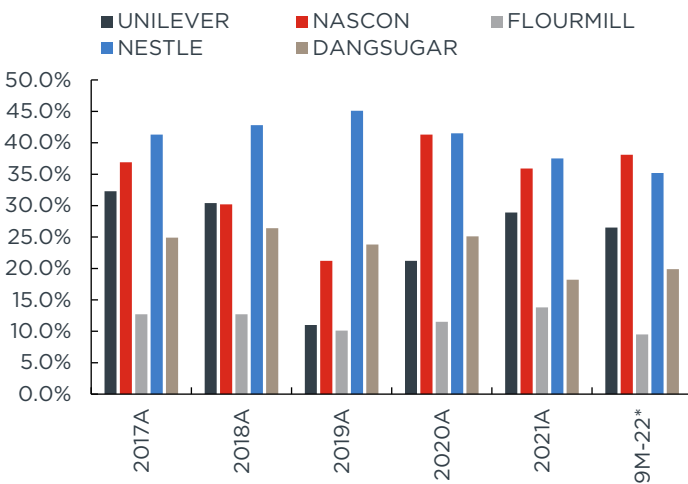


Benchmark indices: YTD performance (rebased to 1)

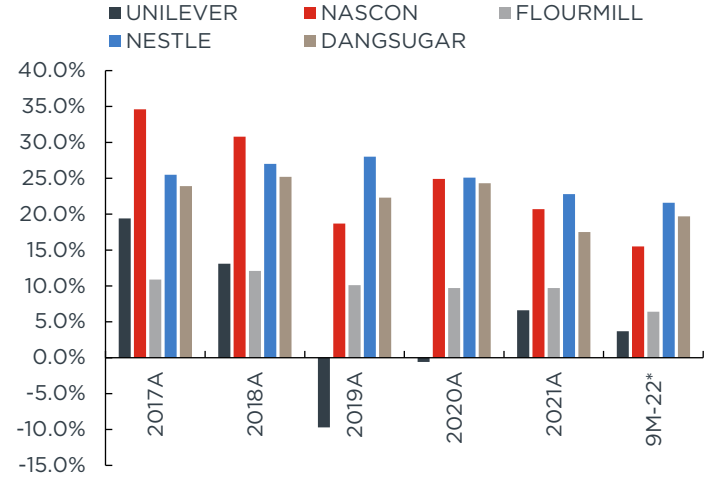


Source: NGX, Bloomberg, Cordros Research.

Food & HPC gross margin trend (2017-9M-22)



Food & HPC EBITDA margin trend (2017 - 9M-22)



Source: Company Financials, Cordros Research.

Figure 5: Brewers gross margin trend (2017 - 9M-22)

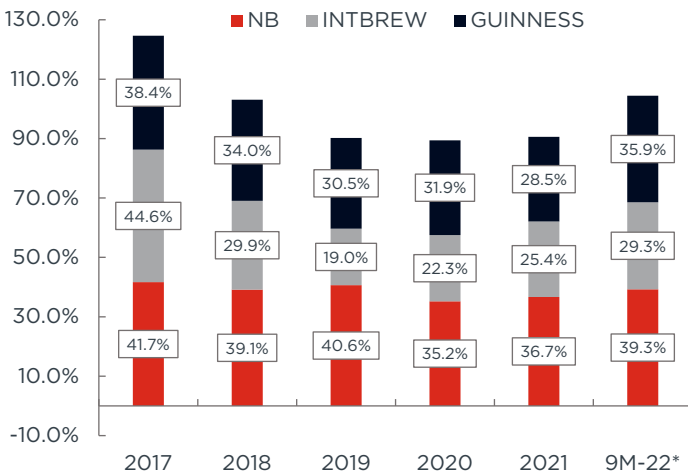
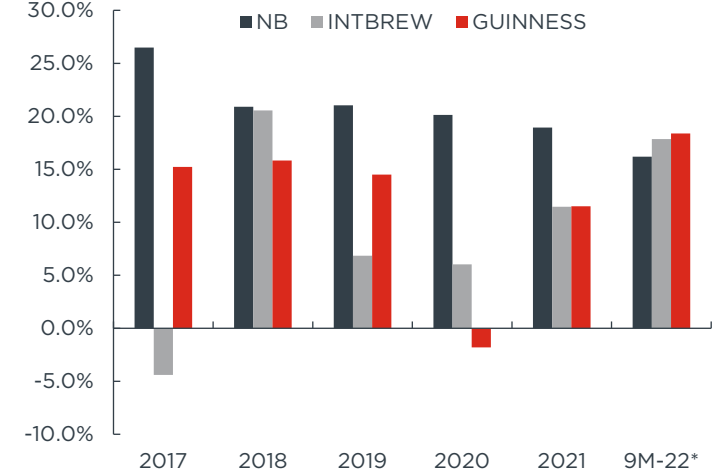


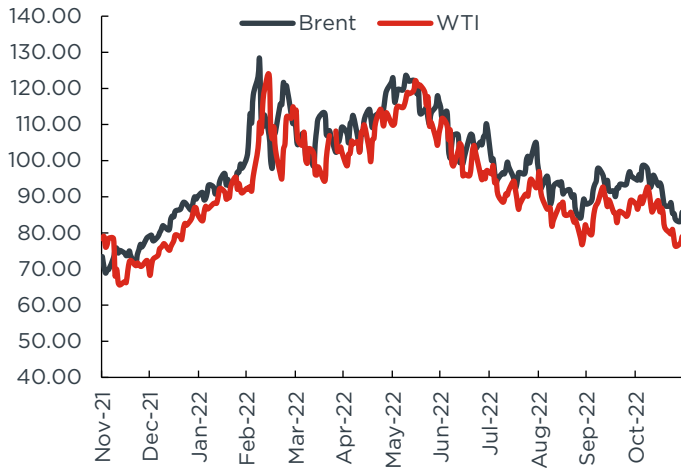
Figure 6: Brewers EBITDA margins trend (2017 - 9M-22)



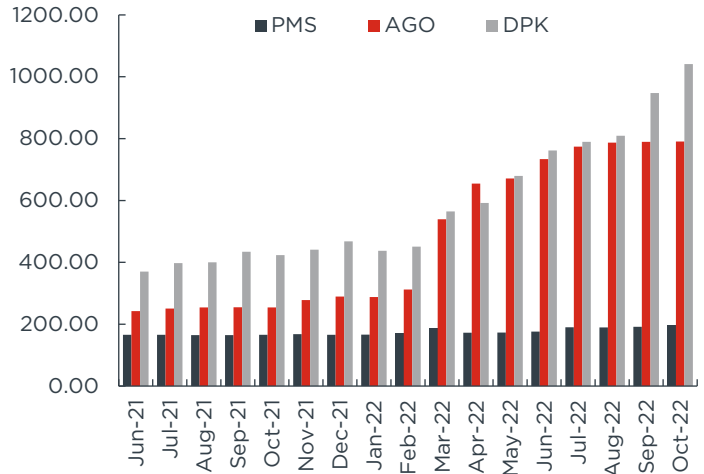
Source: Company Financials, Cordros Research| FLOURMILL year-end is in March; GUINNESS year-end is in June.

Chart Pack. *Oil & Gas.*

Crude Oil price (USD/bbl.)

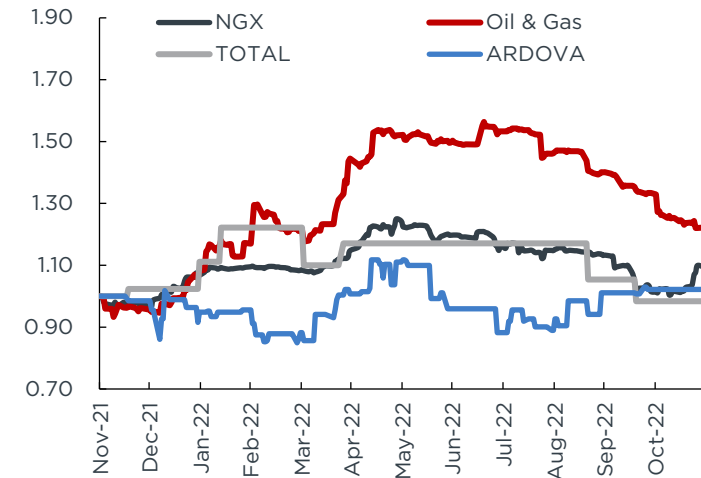


EMOP vs Actual PMS price (NGN)

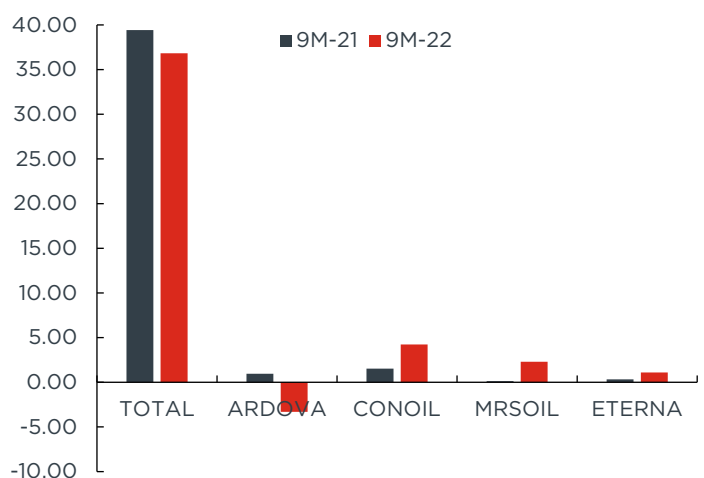


Source: Bloomberg, Cordros Research

Performance of individual stock vs the broader ASI

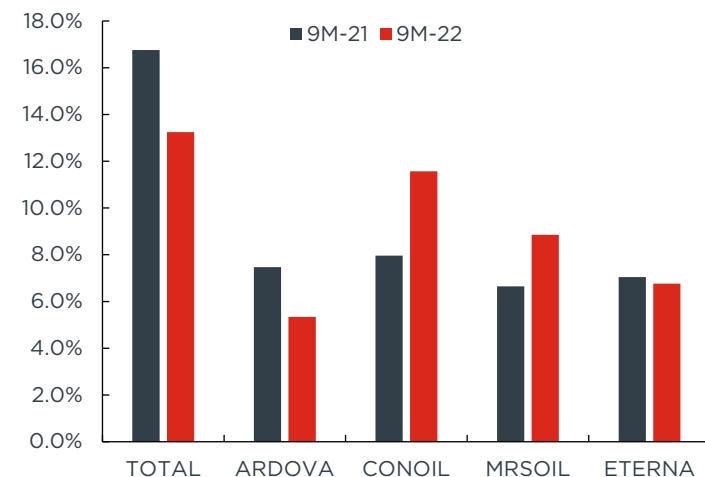


EPS of listed Marketers

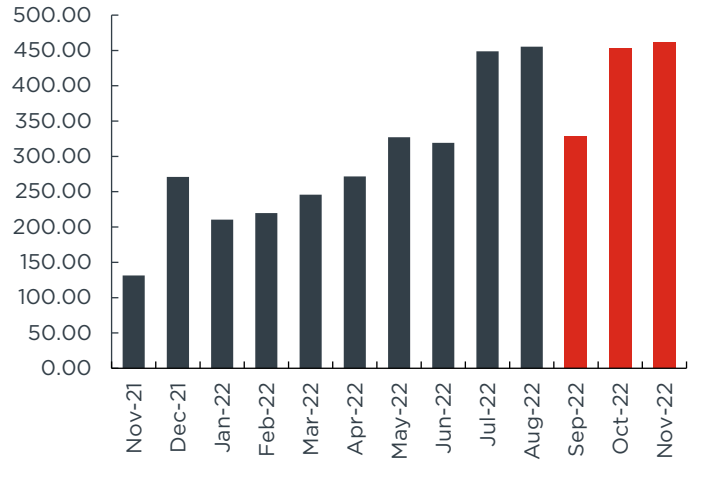


Source: Company Financials, Bloomberg, Cordros Research estimates

Oil marketers' gross margin



PMS under-recovery (NGN billion)



Source: Company Financials, Bloomberg, NNPC, NBS, Cordros Research estimates

Appendix.

SSA Eurobonds Ex-Nigeria.

	Currency	Coupon (%)	Maturity	Mid-yield (%)	YTD Change (%)
ANGOLA					
REPUBLIC OF ANGOLA NOV 2025	USD	9.5	11-Dec-25	8.09	USD
REPUBLIC OF ANGOLA MAY 2028	USD	8.25	5-Sep-28	9.64	USD
REPUBLIC OF ANGOLA NOV 2029	USD	8	26-Nov-29	9.63	USD
REPUBLIC OF ANGOLA MAY 2048	USD	9.375	5-Aug-48	11.20	USD
REPUBLIC OF ANGOLA NOV 2049	USD	9.125	26-Nov-49	11.02	USD
				9.91	1.37
BENIN					
REPUBLIC OF BENIN MAR 2026	EUR	5.75	26-Mar-26	7.08	7.08
REPUBLIC OF BENIN MAR 2032	EUR	4.875	19-Jan-32	8.53	8.53
REPUBLIC OF BENIN MAR 2035	EUR	4.95	22-Jan-35	8.74	8.74
REPUBLIC OF BENIN MAR 2052	EUR	6.875	19-Jan-52	9.54	9.54
				8.47	8.47
GHANA					
REPUBLIC OF GHANA APR 2025	USD	0	4-Jul-25	60.35	48.75
REPUBLIC OF GHANA JAN 2026	USD	8.125	18-Jan-26	60.12	48.97
REPUBLIC OF GHANA FEB 2027	USD	6.375	2-Nov-27	45.00	33.82
REPUBLIC OF GHANA MAR 2027	USD	7.875	26-Mar-27	41.77	30.33
REPUBLIC OF GHANA APR 2029	USD	7.75	4-Jul-29	33.52	22.08
REPUBLIC OF GHANA MAY 2029	USD	7.625	16-May-29	32.70	21.38
REPUBLIC OF GHANA OCT 2030	USD	10.75	14-Oct-30	18.39	9.82
REPUBLIC OF GHANA MAR 2032	USD	8.125	26-Mar-32	28.06	16.75
REPUBLIC OF GHANA APR 2034	USD	8.625	4-Jul-34	27.48	15.87
REPUBLIC OF GHANA FEB 2035	USD	7.875	2-Nov-35	25.60	14.49
REPUBLIC OF GHANA MAY 2042	USD	8.875	5-Jul-42	25.57	14.29
REPUBLIC OF GHANA JUN 2049	USD	8.627	16-Jun-49	25.59	14.55
REPUBLIC OF GHANA MAR 2051	USD	8.95	26-Mar-51	26.17	14.92
REPUBLIC OF GHANA MAR 2061	USD	8.750	3-Nov-61	25.62	14.59
				33.99	22.90
IVORY COAST					
REPUBLIC OF IVYCST JUL 2024	USD	5.375	23-Jul-24	8.03	4.44
REPUBLIC OF IVYCST JUN 2025	USD	5.125	15-Jun-25	6.66	4.10
REPUBLIC OF IVYCST AUG 2028	USD	6.375	3-Mar-28	6.96	2.52
REPUBLIC OF IVYCST MAR 2030	EUR	5.250	22-Mar-30	8.33	3.48
REPUBLIC OF IVYCST OCT 2031	EUR	5.875	17-Oct-31	8.63	3.21
REPUBLIC OF IVYCST JAN 2032	EUR	4.875	30-Jan-32	8.51	3.15
REPUBLIC OF IVYCST DEC 2032	USD	5.75	31-Dec-32	6.33	2.02
REPUBLIC OF IVYCST JUN 2033	USD	6.125	15-Jun-33	7.68	2.26
REPUBLIC OF IVYCST OCT 2040	EUR	6.875	17-Oct-40	9.53	3.12
REPUBLIC OF IVYCST MAR 2048	USD	6.625	22-Mar-48	9.54	2.89
				8.02	3.12
KENYA					
REPUBLIC OF KENYA JUN 2024	USD	6.875	24-Jun-24	11.56	7.19
REPUBLIC OF KENYA MAY 2027	USD	7.000	22-May-27	10.50	5.04
REPUBLIC OF KENYA FEB 2028	USD	7.25	28-Feb-28	9.93	4.22
REPUBLIC OF KENYA MAY 2032	USD	8.000	22-May-32	10.25	3.62
REPUBLIC OF KENYA JAN 2034	EUR	6.3	23-Jan-34	9.46	2.96
REPUBLIC OF KENYA FEB 2048	USD	8.250	28-Feb-48	10.64	2.56
				10.39	4.26
SENEGAL					
REPUBLIC OF SENEGAL JUL 2024	USD	6.25	30-Jul-24	9.93	6.60
REPUBLIC OF SENEGAL MAR 2028	EUR	4.750	13-Mar-28	8.76	4.37
REPUBLIC OF SENEGAL MAY 2033	USD	6.25	23-May-33	8.80	2.95
REPUBLIC OF SENEGAL MAY 2048	USD	6.750	13-Mar-48	9.68	2.80
				9.70	3.92
ZAMBIA					
REPUBLIC OF ZAMBIA SEP 2022	USD	5.375	20-Sep-22	12.26	12.26
REPUBLIC OF ZAMBIA APR 2024	USD	8.500	14-Apr-24	73.03	73.03
REPUBLIC OF ZAMBIA JUL 2027	USD	8.970	30-Jul-27	30.17	30.17
				23.94	20.85
OTHERS					
REPUBLIC OF CAMEROON NOV 2025	USD	9.5	19-Nov-25	10.68	4.27
REPUBLIC OF CAMEROON JUL 2032	EUR	5.950	7-Jul-32	10.62	3.82
REPUBLIC OF ETHIOPIA DEC 2024	USD	6.625	12-Nov-24	32.75	10.68
REPUBLIC OF GABON JUN 2024	USD	6.375	12-Dec-24	7.50	3.14
REPUBLIC OF GABON JUN 2025	USD	6.95	16-Jun-25	7.50	1.87
REPUBLIC OF NAMIBIA OCT 2025	USD	5.250	29-Oct-25	7.49	3.80
REPUBLIC OF RWANDA AUG 2023	USD	6.625	5-Feb-23	9.67	7.74
				12.31	5.04

Source: Bloomberg, Cordros Research

Coverage Universe. *Valuation Summary.*

BANKS	Rating	Price Target (NGN)	Price (NGN)	Potential Up/ Downside (%)	TTM EPS	Forward EPS	P/E (x)	Forward P/E (x)	Div Yield 2023E (%)	Exp. Return (%)
ACCESSCORP	BUY	13.45	8.50	58.2%	5.01	5.41	1.70	1.6	9.3%	67.5%
FBNH	HOLD	12.96	10.80	20.0%	5.56	4.42	1.94	2.4	10.2%	30.2%
GTCO	BUY	28.21	21.05	34.0%	6.18	6.59	3.41	3.2	8.7%	42.7%
UBA	BUY	11.08	7.30	51.8%	3.72	4.12	1.96	1.8	10.6%	62.4%
ZENITHBANK	BUY	26.91	22.05	22.0%	8.22	8.54	2.68	2.6	12.6%	34.6%
Average				37.2%				2.3	10.3%	47.5%

INDUSTRIAL GOODS	Rating	Price Target (NGN)	Price (NGN)	Potential Up/ Downside (%)	TTM EPS	Forward EPS	P/E (x)	Forward P/E (x)	Div Yield 2023E (%)	Exp. Return (%)
BUACEMENT	SELL	48.50	82.00	-40.9%	2.66	2.58	30.83	20.2	4.8%	-36.1%
DANGCEM	HOLD	288.99	262.30	10.2%	17.38	20.56	15.09	13.0	6.5%	16.7%
WAPCO	BUY	32.31	21.90	47.5%	3.44	3.37	6.37	7.6	8.3%	55.8%
Average				5.6%				13.6	6.5%	12.2%

CONSUMER GOODS	Rating	Price Target (NGN)	Price (NGN)	Potential Up/ Downside (%)	TTM EPS	Forward EPS	P/E (x)	Forward P/E (x)	Div Yield 2023E (%)	Exp. Return (%)
FOOD										
DANGSUGAR	BUY	26.31	16.20	62.4%	2.58	2.50	6.28	4.9	11.1%	73.5%
FLOURMILL	BUY	63.12	28.10	124.6%	5.80	7.54	4.84	6.2	15.7%	140.3%
NESTLE	BUY	1,415.41	963.90	46.8%	58.80	57.54	16.39	14.1	6.2%	53.0%
NASCON	BUY	27.84	10.45	166.4%	1.30	1.25	8.04	4.3	8.3%	174.7%
Average				100.1%				7.4	10.3%	110.4%

BREWERS										
GUINNESS	BUY	93.25	69.30	34.6%	6.55	0.43	10.58	11.1	7.2%	41.8%
NB	BUY	60.71	46.00	32.0%	2.40	1.40	19.17	16.5	6.0%	38.0%
INTBREW	HOLD	4.90	4.40	11.4%	-0.25	1.40	NM	-22.0	0.0%	11.4%
Average				26.0%				1.8	4.4%	30.4%

HOUSEHOLD & PERSONAL CARE (HPC)										
UNILEVER	HOLD	13.40	11.80	13.6%	-0.13	0.21	NM	42.1	2.0%	15.6%

AGRICULTURE										
OKOMUOIL	BUY	242.81	167.50	45.0%	21.48	17.99	7.80	7.4	8.9%	53.9%
PRESKO	BUY	213.37	120.50	77.1%	21.42	13.80	5.63	4.9	6.1%	83.1%
Average				61.0%				6.2	7.5%	68.5%

OIL & GAS	Rating	Price Target (NGN)	Price (NGN)	Potential Up/ Downside (%)	TTM EPS	Forward EPS	P/E (x)	Forward P/E (x)	Div Yield 2023E (%)	Exp. Return (%)
ARDOVA	SELL	12.90	15.25	-15.4%	-5.54	2.23	NM	NM	0.0%	-15.4%
TOTAL	BUY	435.35	193.00	125.6%	47.07	34.43	4.10	3.3	13.4%	139.0%
Average				55.1%				3.3	6.7%	61.8%

FLOURMILL year-end is in March; GUINNESS year-end is in June | NM = Not Meaningful

Source: NGX, Bloomberg, Cordros Research estimates

Disclosures.

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Company	Disclosure
ACCESSCORP	
ARDOVA	
BUACEMENT	
DANGCEM	
DANGSUGAR	
FBNH	
FLOURMILL	
GTCO	
GUINNESS	
INTBREW	
NASCON	
NB	
NESTLE	
OKOMUOIL	
PRESCO	
TOTAL	
UBA	
UNILEVER	
WAPCO	
ZENITHBANK	

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