

NIGERIA MACROECONOMIC UPDATE

Moody's Latest Credit
Rating Downgrade:
Implications and the Way
Out

January 2023



MOODY'S DOWNGRADE... REEMPHASIZING THE HERCULEAN TASK AHEAD OF THE NEW CEO

- On Friday 27th January 2023, global credit rating agency, Moody's Investors Service (Moody's) downgraded Nigeria's Medium and Long-term Foreign Currency (FC) and Local Currency (LC) issuer ratings deeper into junk category with ratings of "Caa1" and "B3", respectively from "B3" and "B2".
- The latest downgrade is coming barely four months after Moody's downgraded Nigeria's FC and LC issuer ratings which were "B2" and "B1" respectively, before October 2022, due to deteriorating fiscal fundamentals and her failure to optimise the gains from the oil price rally in the year.
- Although Nigeria's FC and LC credit ratings have always been in the junk category, the latest downgrade is the lowest since global credit rating agencies began to issue ratings on Nigeria in 2006. Hence, reinforcing one of the herculean tasks that lie ahead of the incoming government.

Long-Term Credit Rating Scale by Top Global Rating Agencies

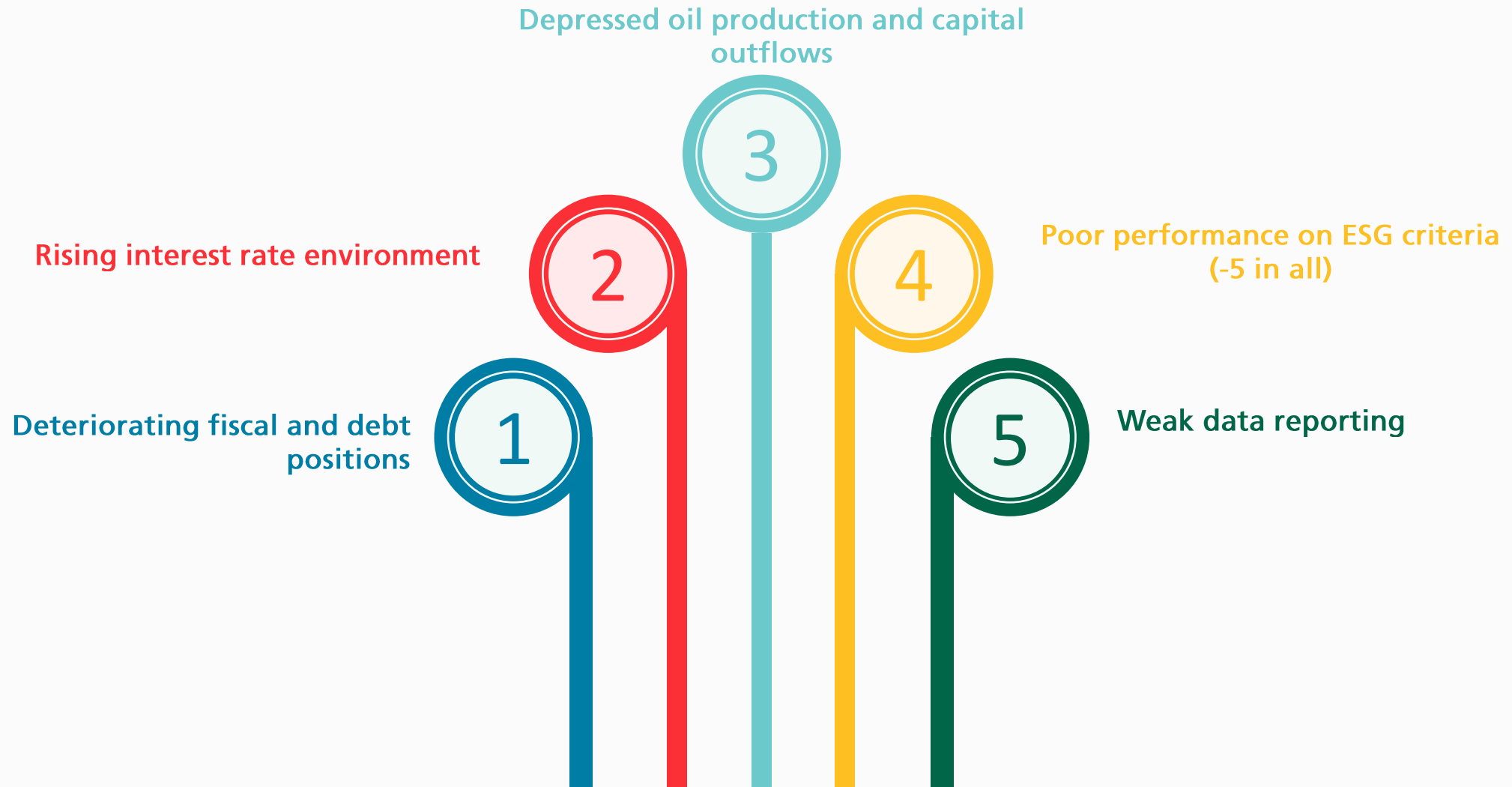
Moody's	S&P	Fitch	Rating Implication
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	High speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risk
Caa2	CCC		Extremely speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC C	CC C	
C	D	D	In default
/			

"Junk"



Source: WSJ, Afrinvest Research

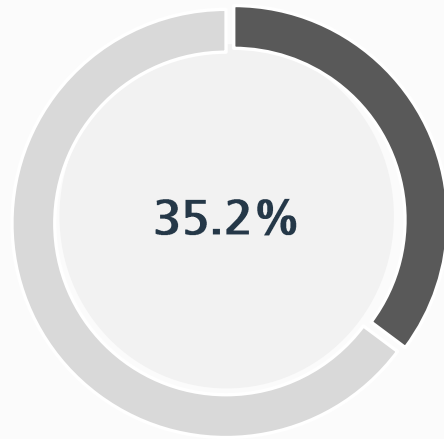
BASIS OF THE CREDIT RATING DOWNGRADE



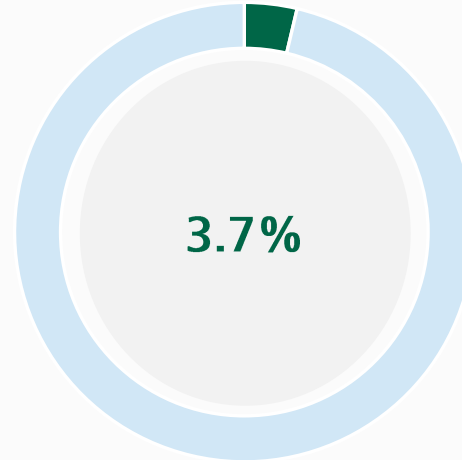
Source: Moody's, Afrinvest Research

NOTABLE JUSTIFICATION FOR THE DOWNGRADE

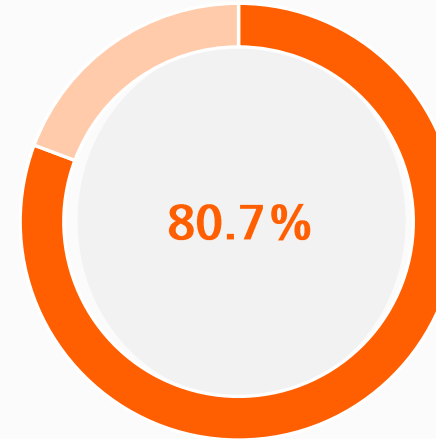
■ All of Nigeria's sustainability metrics indicate that illiquidity is closer than ever



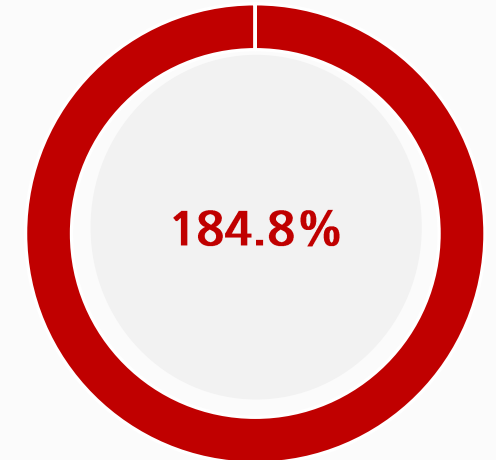
Total Debt-to-GDP



Revenue-to-GDP



Debt Service-to-Revenue



External Debt Service-to-Oil Revenue

NB: Data is as of November 2022

Source: FMFBNP, CBN, DMO, Afrinvest Research

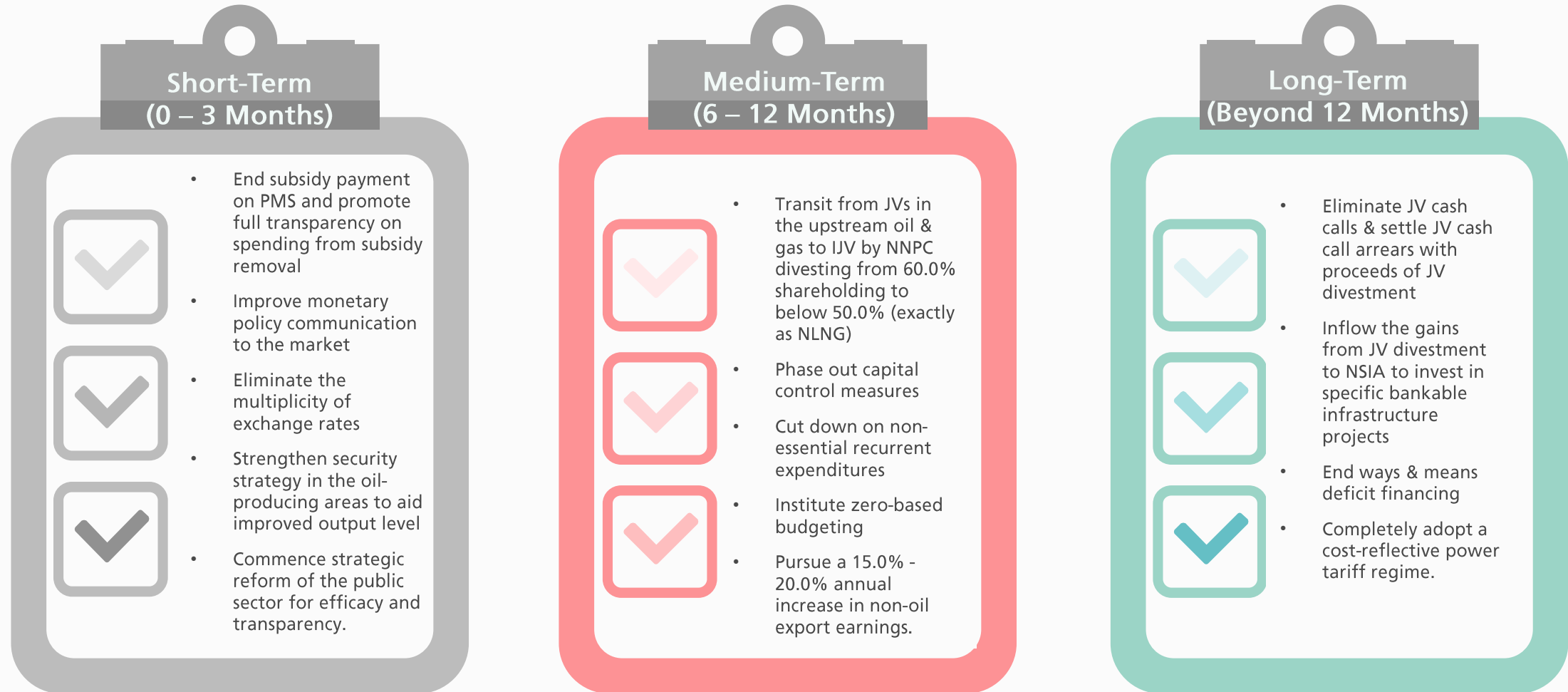
IMPLICATION OF THE DOWNGRADE

Sovereign	Corporates
<ul style="list-style-type: none">Increased FG's crowd-out of the private sector in the domestic debt market due to unfavourable pricing and weak investors' interest in the Eurobond market.	<ul style="list-style-type: none">Boxed out of the Eurobond market due to high yield demand and weak investors' interest.
<ul style="list-style-type: none">Worsening foreign investors' apathy and increased capital outflows.	<ul style="list-style-type: none">Near-term weak profitability and muted business expansion, due to the pass-through effect of the high cost of available capital.
<ul style="list-style-type: none">Renewed pressure on the foreign reserves and value of the Naira due to the Dollar illiquidity.	<ul style="list-style-type: none">Increased cases of job cuts and complete business collapse, especially businesses that are highly leveraged.
<ul style="list-style-type: none">Fiscal weakness to trigger reduced allocation to capital expenditure.	<ul style="list-style-type: none">FDI and FPI to shrink further.

Source: Afrinvest Research

WHICH WAY OUT

- For the incoming administration to successfully fix the factors responsible for Nigeria's deteriorating fiscal indices, and improve her perception in the global financial market, Afrinvest has identified several medium and long-term policy actions/reforms that should be implemented to arrest the current fiscal decline.



Source: Afrinvest Research

DISCLAIMER

This report has been issued and approved by Afrinvest Securities Limited (“Afrinvest”). This report is based on information from various sources that we believe are reliable; however, no, representation is made that it is accurate or complete. While reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors or facts or for any opinion expressed herein. This document is for information purposes only. It does not constitute any offer or solicitation to any person to enter into any trading transaction. Any investment discussed may not be suitable for all investors. This report is provided solely for the information of clients of Afrinvest who are expected to make their own investment decisions. Afrinvest conducts designated investment business with market counterparties and intermediate customers and this document is directed only at such persons. Other persons should not rely on this document. Afrinvest accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report is for private circulation only. This report may not be reproduced distributed or published by any recipient for any purpose without the prior express consent of Afrinvest. Investments can fluctuate in price and value and the investor might get back less than was originally invested. Past performance is not necessarily a guide to future performance. It may be difficult for the investor to realize an investment. Afrinvest and/or a connected company may have a position in any of the instruments mentioned in this document. Afrinvest and/or a connected company may or may not have in the future a relationship with any of the entities mentioned in this document for which it has received or may receive in the future fees or other compensation. Afrinvest is a member of The Nigerian Exchange Limited and is regulated by the Securities and Exchange Commission to conduct investment business in Nigeria.

CONTACTS

Research & Consulting

Abiodun Keripe	akeripe@afrinvest.com	+234 1 270 1680 ext. 1034
Aminat Tolani	atolani@afrinvest.com	+234 1 270 1680 ext. 1027
Benedict Egwuchukwu	begwuchukwu@afrinvest.com	+234 1 270 1680 ext. 1023
Damilare Asimiyu	dasimiyu@afrinvest.com	+234 1 270 1680 ext. 1054
Mobifoluwa Adesina	maadesina@afrinvest.com	+234 1 270 1680 ext. 1051
Omobola Adu	oadu@afrinvest.com	+234 1 270 1680 ext. 1081
Nelson Abudah	nabudah@afrinvest.com	+234 1 270 1680 ext. 1107
Segun Adams	sadams@afrinvest.com	+234 1 270 1680 ext. 1073
David Ogidan	Dogidan@afrinvest.com	+234 1 270 1680 ext. 1104

Securities Trading & Brokerage

Adedoyin Allen	aallen@afrinvest.com	+234 1 270 1680 ext. 1016
Taiwo Ogundipe	togundipe@afrinvest.com	+234 1 270 1680 ext. 1601

Capital

Suru Daniels	sdaniels@afrinvest.com	+234 1 270 1680 ext. 1098
Kate Isabota	kisabota@afrinvest.com	+234 1 270 1680 ext. 1017

Asset Management

Christopher Omoh	comoh@afrinvest.com	+234 1 270 1680 ext. 1505
Robert Omotunde	romotunde@afrinvest.com	+234 1 270 1680 ext. 1039

Trustees

Rita Abengowe	rabengowe@afrinvest.com	+234 1 270 1680 ext. 1005
Chisom Nwogbo	cnwogbo@afrinvest.com	+234 1 270 1680 ext. 1048

For further information, please contact:

Afrinvest West Africa Limited (AWA)

27, Gerrard Road,

Ikoyi, Lagos,

Nigeria.

Tel: +234 1270 1680

+234 1 270 1689

www.afrinvest.com

Thank You



Lagos Office

27 Gerrard Road,
Ikoyi, Lagos,
Tel: +234 (1) 270 1680
+234 (1) 631 2940

Abuja Office

Oakland Centre.
48, Aguiyi Ironsi Street,
Maitama, Abuja FCT
Tel: +234 (9) 870 9157

Port Harcourt Office

Plot F/4A Sani Abacha Road,
Opposite Bougainvillea Hotel,
GRA Phase 3, Port Harcourt,
Rivers state
Tel: +234 (8) 446 1701-2

Onitsha Office

109 Upper New Market Road,
Trinity Plaza DMGS Roundabout,
Onitsha, Anambra State
T +234 803 707 1720