

Executive Summary.

Nigerian Capital Market 2024 Outlook Report

Working Towards a Fit-for-purpose Capital Market: Issues, Insights, and Strategy.



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- Ⓞ Executive Summary
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Executive Summary.

Capital markets need to be more responsive. The context of global economies changes, and so should markets, at least in Africa. Rather than continue the adoption of the one-size-fits-all approach of the last decade, global capital markets must adapt. They must remodel themselves in the light of local realities. The needs of global economies differ and are shaped by their economic structures; therefore, their capacity to raise capital will depend on their size, sophistication, and growth rates. In 2024, the need for capital market flexibility and agility will become pressing as global Inflation rates fall, gross domestic product (GDP) growth rates stumble (except in Asia), and consumer spending falters. (see illustration 1).

Illustration 1:

A FIT-FOR-PURPOSE CAPITAL MARKET REGULATOR.

Objectives

- 1 Regulation of digital assets, such as cryptocurrencies, NFT, and stablecoins
- 2 Development of market regulations around foreign equity investment by local investors
- 3 Harmonisation of Nigeria's regulatory rules with other African regulators via the Africa's Exchange Linkage Programme (AELP)

Funding

- 1 A minimum subvention from the government for a stable and predictable base for its operations.
- 2 Commissions on trading and fines/penalties to create incentives for the regulator to enforce the rules and deter misconduct.

Investments and Securities Tribunal (IST)

- 1 IST members possessing relevant expertise and experience in the capital market, and at least the chairperson being a lawyer with capital market experiences.
- 2 IST with the power and jurisdiction to adjudicate not just arbitrate.
- 3 IST with the status and authority equivalent to a high court.

Source: Proshare Research

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Tight global fiscal and monetary policies would likely lead to a relatively slow GDP growth rate in 2024 as governments keep the money supply in check and interest rates higher for longer. The high-interest rate environment would hurt manufacturers' cost of production and push commodity prices up. However, manufacturers will have slim room to raise prices as consumers' disposable incomes reduce their consumption propensity. Does that mean that they will save more? Theory suggests they should, but reality confirms that they will not because they are at such a low-income threshold that most of their wages and salaries are consumed. Environments with low savings generate low investments and require external investment capital support. A situation Nigerians are familiar with.

Issues

Nigeria's Capital market has several issues that require resolution. They include but are not limited to the following:

- ❶ Low domestic savings-
- ❷ Low domestic investment-
- ❸ Capital importation-



Insights

Emerging markets have concentrated on trade growth in primary commodities rather than stronger capital formation. This strategy has, and will always be, of dubious long-term benefit. For example, Brazil has shown incredible growth in its trade numbers. Brazil's agricultural and livestock investment came to US\$81.5bn in 2023 or a 9% increase from 2022. The country recorded a stellar performance in its 2022-2023 soybean production of 154.6m tonnes. The country's agricultural export volumes rose by 23.4% annually as prices fell by 10.3%. The problem with the growth is that over US\$105bn worth of farm products were exported to China, Hong Kong, and Macau (China alone accounted for US\$100bn), implying a notable Asian concentration risk.

Countries like Nigeria equally have export concentration problems and would do well to adopt the following template:

- ❶ Build a register of idle public assets.
- ❷ Create a deal room to trade public assets globally.
- ❸ List public assets on a local equity exchange.
- ❹ Establish a market price for the public asset (*financialisation*).

Over the last decade, asset values globally have exceeded trade values and grown faster. Therefore, Nigeria should reassess its idle public assets and prepare them for listing on the Nigeria Exchange Limited (NGX). So far, no government asset has been listed on the local Exchange. The absence of government equity assets on the local bourse indicates significant opportunities for capital deepening.

Sweating capital will be the most significant financial offensive by emerging market governments in 2024, or at least it should. Since COVID-19, Nigeria has seen foreign direct investment (FDI) shrink as foreign investors look for economies with higher security, more stable currencies, and a friendlier operating environment. Dr Ayo Teriba, CEO of Economic Associates, noted in a past interview with Proshare in 2023, *'If we are going to get out of the FX liquidity trap, we must do two things: financialise public assets, and attract foreign investments (FDI). We have seen India and China do it, even amid the COVID-19 challenges, and since we are not dunces, we should be able to do it with similar success.'* He noted that *'when we develop the will, we will find the way'*.

Teriba believed, *'If Nigeria is to beat the liquidity trap, it must understand that the past (and even the proposed) approaches to macroeconomic management will not work. It must deal with the **Impossible Trinity**. The trinity refers to the economic concept of governments being able to achieve only two of three macroeconomic goals simultaneously. The three goals involve independent monetary policy, free flow of capital, and exchange rate stability. I believe Nigeria needs to fix the currency liquidity challenge, which would help sort out domestic inflation and GDP growth rate.'*

Teriba is in a safe position with a tribe of local economists but not necessarily with government officials. President Bola Tinubu's administration has been tardy in making quick decisions concerning leveraging the nation's idle national assets to improve FX liquidity and get the Central Bank of Nigeria (CBN) to view monetary policy beyond the tried and serially failed efforts at inflation-targeting. Be that as it may, the local capital market has a major role in pulling Nigeria from a fiscal brink; a whole-of-government approach to fiscal and monetary policy aimed at non-inflationary growth, if pursued diligently, should do the trick by 2025. 2024 will witness spillover consequences of actions taken in 2023, and this could hamper the required GDP growth as tight monetary policy and loose fiscal policy would combine to raise commercial interest rates and drag back manufacturing output.



Strategy

For Nigeria to have an economic rebound, things must change. Rather than seeing public policy as simple income and expenditure balancing, the government must turn to the balance sheet side of fiscal management. A few policy tweaks could give the economy the required shot in the arm to support sustainable growth. At the centre of the strategy would be developing the country's capital market and rethinking its fiscal architecture.

If the government accepts and adopts the new fiscal thinking, analysts expect the following to happen between 2024 and 2025:

- ❶ Identification, documentation, and preparation of idle public assets for sale or long-term lease.
- ❷ Creation of proof of concept (POC) sandboxes leading to the creation of national asset 'deal rooms'
- ❸ Creation of a platform for monitoring national asset deal counts.
- ❹ Listing of public companies on local stock exchanges.

Nigeria's capital market, like the economy, needs a federal government policy makeover. The federal government needs to energise local financial markets through public asset *financialisation*. Assets must be listed on stock exchanges to establish market values and support fiscal liquidity. As seeds grow in fertile soil, assets thrive in vibrant markets; the government needs to 'plant' assets in Nigeria's capital market to unleash the power of capital and improve the livelihoods of citizens. This is not a new template; India and China are examples that prove the concept.

Meanwhile, **Section 1** of this report starts with an introduction that reviews Nigeria's Capital Market Master Plan and notes that the plan has been implemented more in its breach, distortion, or modest fulfilment. According to the report, the ten-year plan, which started in 2015, encountered early difficulties because of challenges, '*traceable to the non-alignment with the federal government's Economic Recovery and Growth Plan (ERGP), unstructured implementation methodology and an unfavourable macroeconomic environment (all-year recession in 2016)*'.

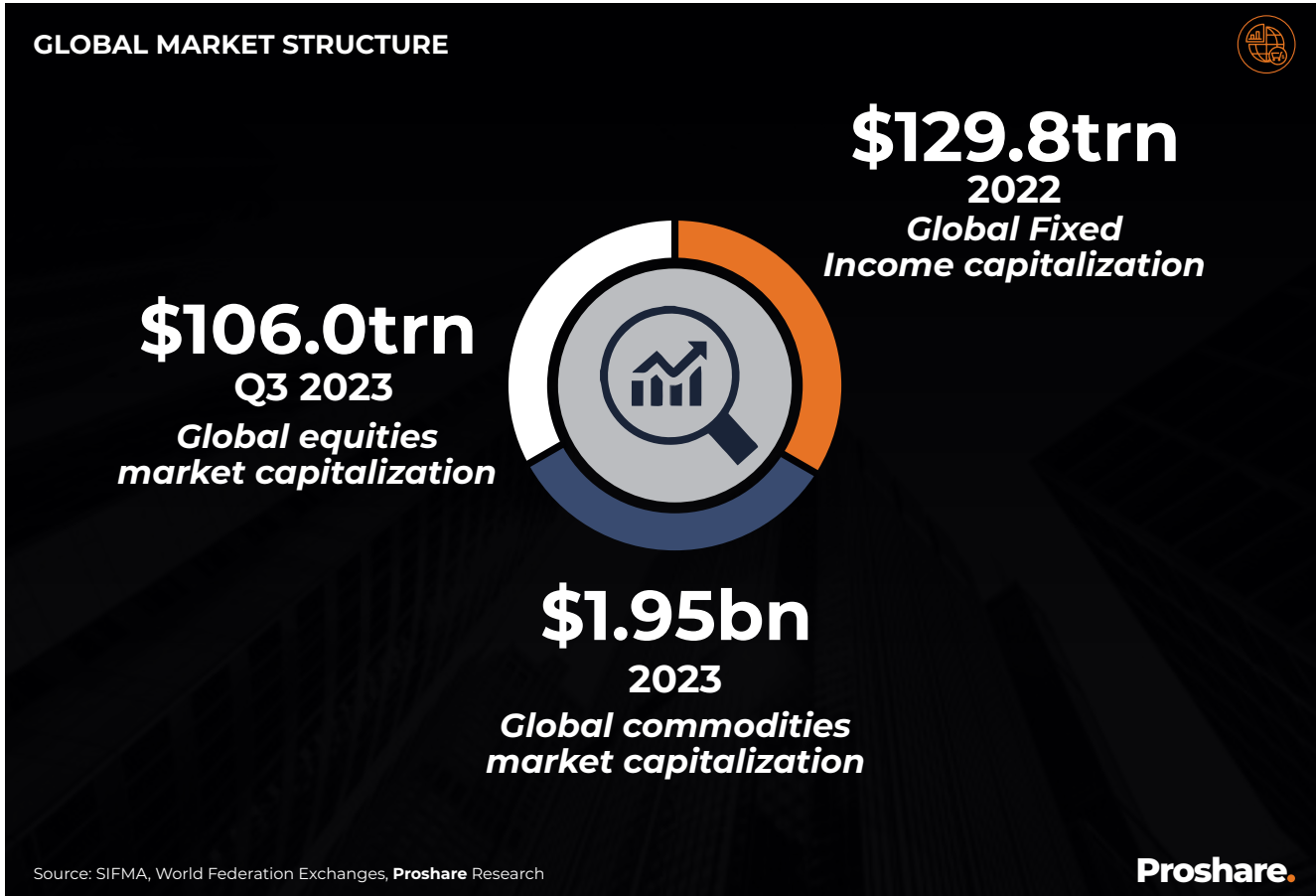
Nevertheless, the market has seen some success. According to the report, '*The capital market has achieved stock certificate dematerialisation, dividend management automation, direct cash settlement, increased participation of pension funds & insurance companies and regularisation of multiple subscriptions.*' Admittedly, these are modest achievements, but every long journey starts with small steps.

Section 2 of the report takes a drone flight across the globe and reviews the state of play of capital markets worldwide. The authors of the report noted that '*Major global exchanges retained their competitive positions, with the US hosting several of the world's most valuable firms. The New York Stock Exchange (NYSE) and Nasdaq, ranking as the two largest stock exchanges globally, jointly account for over 42.4% of the global market capitalisation. From the Netherlands, Euronext maintained its position among the top exchanges around the globe with US\$7.2trn in market capitalisation. In contrast, the Asian markets dominated most of the positions in the maximum equity exchanges in the world by market capitalisation.*'

The global market outlook for 2024 remains patchy as some economies appear stronger and more resilient than others. America's economy with strong labour employment numbers and a relatively low inflation rate, would likely see a livelier equity and bond market in 2024 as the economic outlook stays optimistic and purchase managers index (PMI) stay firmly above 50. The UK and Europe may see more muted growth and equity market increases as governments tackle inflation with a higher for longer interest rate policy (*see illustration 2*).



Illustration 2:

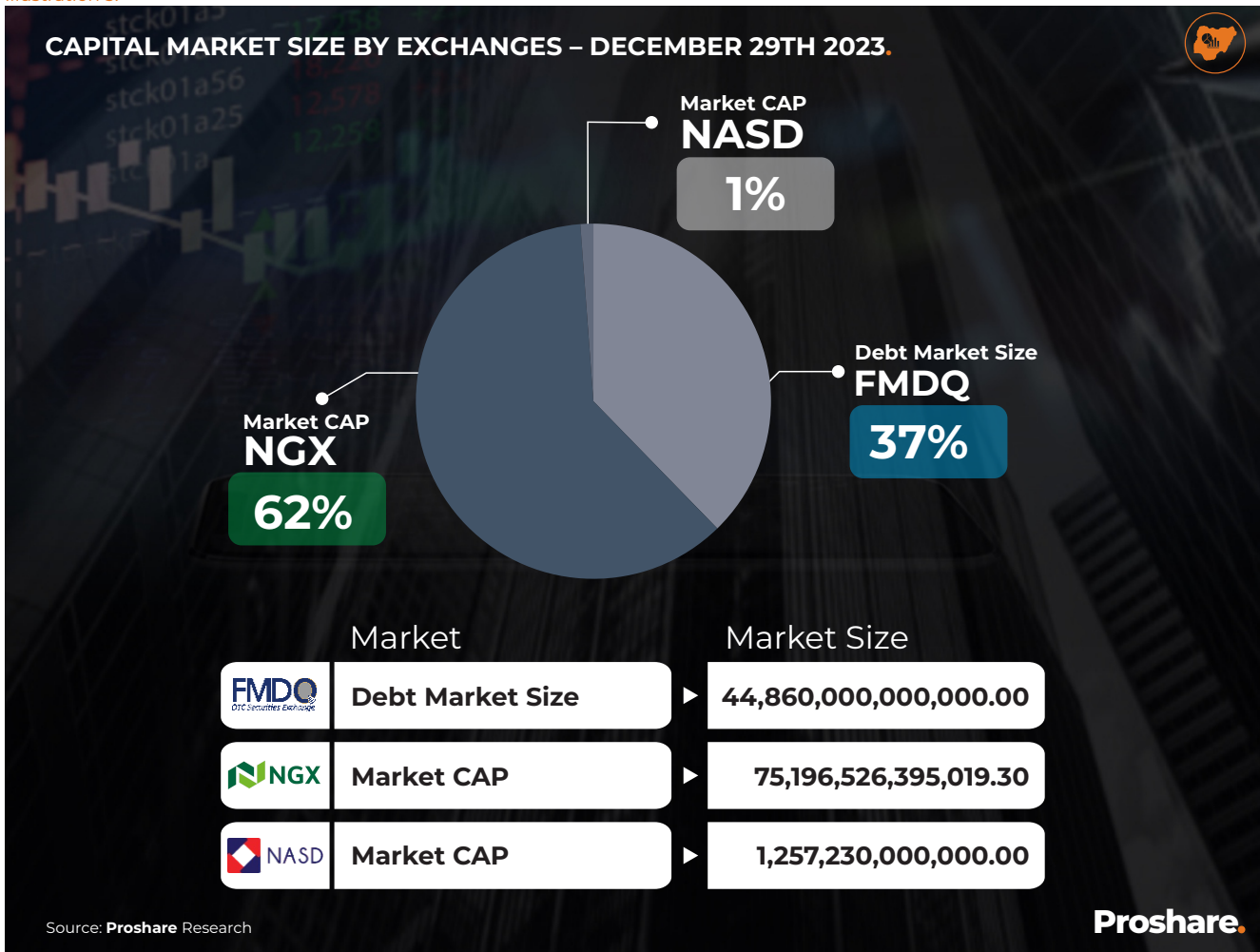


In **Section 3** of the report, the writers observed that Africa's capital markets had mixed performances across countries in 2023. While economies like Nigeria saw All Shares Index (ASI) growth of **45.90%** while the economy grew at less than 3%, countries like Egypt saw equity market growth of **69.14%**, Ghana **28.07%**, Nambia **-0.90%**, Tanzania **-6.46%**, Kenya **-27.74%**, and Uganda **-28.49%**. Interestingly, equity market growth did not appear to be correlated to GDP growth. Nigeria saw 2023 equity market growth that was out of step with the sluggish growth in the broad economy. In the case of Nigeria, economists have attributed the phenomenon to the fact that the Nigeria Exchange Limited (NGX) equities list did not mirror the broader economy. Large-cap stocks were concentrated in Banking, Building Materials, Telecommunications, and Energy and Power Sectors. Interestingly, of 17 stock markets, 13 exchanges saw growth, as against four that dipped. The four negative exchanges came from parts of Africa with the strongest growth outlooks for 2024.

Section 4 of the report deals with the Nigerian capital market realities. It reviews the structure of the market components (equity market, fixed income market, unlisted securities market, commodities market, collective investment schemes, and derivatives market). It reviewed the state of the markets' Financial Infrastructure, noting that a key element of the market's efficiency and effectiveness will come from scaling infrastructure like the clearing and settlement system and the market's digital asset growth and development. Another point of emphasis was the African Exchange and Linkage Programme (AELP), which, in collaboration with Afrexim, serves as the bedrock of trading assets across African markets. (see *illustration 3*).



Illustration 3:



Intracontinental trading is some way off, but what could be accelerated is the trading of equities of public enterprises such as the Nigerian National Petroleum Company Limited (NNPCL). The national petroleum company is owned jointly by the Ministry of Finance Incorporated (MoFI) (50%) and the Ministry of Petroleum Resources (50%). Proshare analysts have, over the years, advocated for a listing of the NNPCL on the country's official equity exchange. The recommendation has been met with either cold indifference or polite coolness. If Nigeria is to rise to its full economic potential, it cannot depend on old governance models that have outlived their usefulness. State-owned enterprises (SOEs) must be made more transparent, efficient, effective, and value-driven by using the tool of a stock market listing. If people hide in the dark, only light exposes who is dirty or not. For SoEs to be competitive and for them to become value lighting rods, they must be partly privatised and listed.

Section 5 of the report, therefore, describes the changing faces of the Nigerian capital market. It describes a variety of Ponzi schemes that appear to be on the ascendancy. The section also takes a time series review of the market and shows what difference a decade could make. It identifies regulatory gaps and urges the speedy resolution of the 'white spaces' to ensure that market rules are fit-for-purpose in a fast-paced, technology-driven, fungible asset-trading market space. The regulatory architecture, concludes the report writers, needs tweaking. The section also detours to review **Proshare's** bespoke Indexes. If Investors had bought the Toni Index, they would have done much better than the NGX ASI, which returned **45%** in 2023. The Toni Index returned **326.28%**, while the Gote Index returned **34%**. The section equally proposes reforms of public sector regulations



concerning government enterprises to ensure that their governance standards enable them to be prepared for public listing (see *illustration 4*).

PROSHARE TONI AND GOTE INDEX MARKET CONSTITUENTS IN 2023



NGX Market Capitalisation: **40,917.51**

Toni Index

Tickers	Market Cap	% of NGX Market Cap
TRANSCOHOT	718.82	1.76%
TRANSCORP	352.01	0.86%
UBA	877.22	2.14%
UCAP	138	0.34%
AFRIPRUD	14.8	0.04%
Total	2100.85	5.13%

Gote Index

Tickers	Market Cap	% of NGX Market Cap
DANGCEM	5,451.26	13.32%
DANGSUGAR	692.37	1.69%
NASCON	142.41	0.35%
--	--	--
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Total	6,286.04	15.36%

Toni and Gote Index

Market Cap	% of NGX Market Cap
8,386.89	20.50%

Market vs Toni and Gote Index Returns 2023

NGX ASI Returns	45.90%
Toni Index Returns	326.28%
Gote Index Returns	34.43%

Source: NGX, Proshare Research

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The last section of the report, **Section 6**, draws up scenarios of the Nigerian capital market in 2024 and gives a bird's-eye view of possible outcomes under different market assumptions. The analysts' thoughts drift to investor relations and how investor expectations and their journey experiences will define those relationships.



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A handwritten signature in black ink, appearing to be "Kia", written over a horizontal line.

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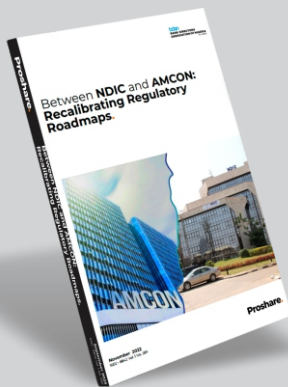
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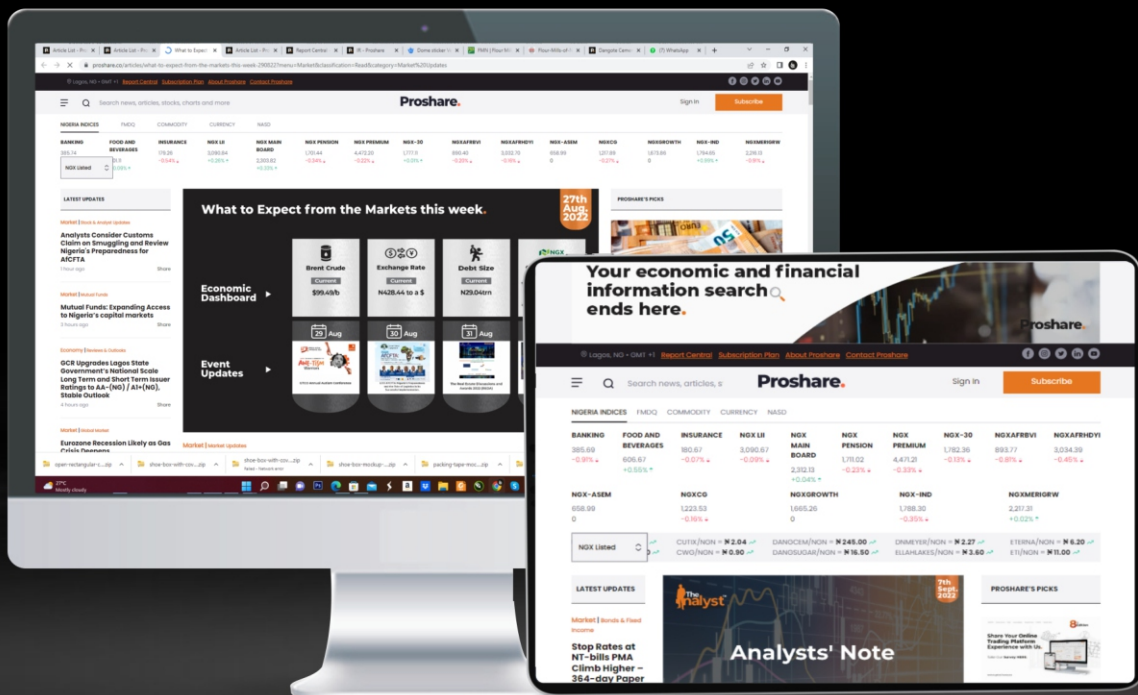
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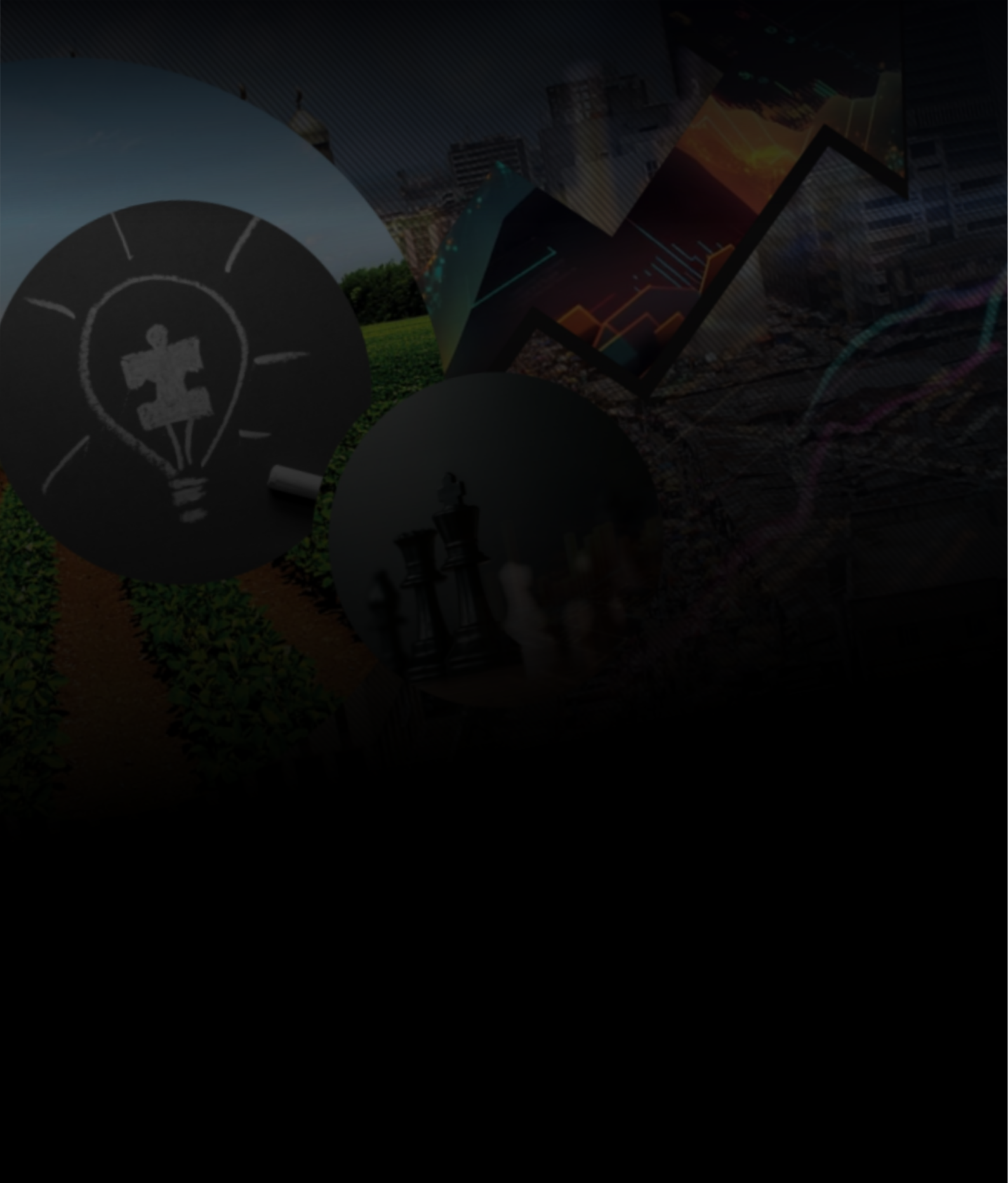
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