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NIGERIAN ECONOMIC AND FINANCIAL MARKET REVIEW FOR 2022 AND 2023 OUTLOOK

AT A TIPPING POINT... REFORM OR DEFORM

December 2022

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Executive Summary

At the start of the year, the global economy was projected to extend the strong post-pandemic recovery (2021: 6.1%) with a baseline growth rate of 3.6% in 2022. However, this bullish outlook was dented by the multifaceted negative spillovers from the ongoing war in Ukraine and aggressive monetary policy tightening by global systemic central banks targeted at curbing the runaway inflation. On the back of these developments, the IMF in its October 2022 World Economic Outlook (WEO) report downgraded its global growth projection for 2022 to 3.2% – its third downgrade since the war in Ukraine began in February.

On the domestic scene, the combined effect of the year-long structural challenges, policy mismatch, and negative externalities have begun to taper the recovery momentum recorded in 2021. In Q3:2022, GDP growth slowed markedly to 2.3% from 3.1% and 3.5% in Q1 and Q2:2022, respectively. Noteworthy, inflationary pressure (average: 18.6%), public debt profile (up 18.7% to ₦67.8tn), and exchange rate crises (parallel market rate weakened 31.0% to ₦740.00/$1.00) all took a major leap in 2022 as Nigeria's economic managers failed to optimise its human capital potential and favourable oil prices. We expect the factors to drag because of the political transition and the time it would take policy reforms (if any) by the incoming administration to manifest gains. Hence, we estimate a 3.3% GDP growth for 2022 and project a 3.0% growth for 2023.

In the equities market, bullish momentum dominated proceedings in H1:2022 (NGX-ASI gained 21.3%) to extend the trend from the prior year. Relatively low fixed-income yield, impressive corporate earnings, and attractive valuation of new listings topped the catalysts that supported market performance. Although this trend was markedly hurt between July and November 2022 due to negative investors' reactions to aggressive monetary policy tightening and the high inflation rate knock-on effect on corporate earnings, the bourse rallied 7.5% in December to close the year at 20.0% (Afrinvest projection: 19.1%). Looking ahead, we project a modest 7.3% return in 2023, driven by cautious trading amidst political transition and fiscal and monetary policy reforms.

In the fixed-income market, yield momentum picked up noticeably in H2:2022 following four successive episodes of MPR hikes by the CBN which prompted the repricing of yields across the ends of the curve. We noticed that bond yields rose less steeply than the T-bills. This dynamic, we believe was due to the tight liquidity environment, CBN cum DMO's market rate management in H1 amid aggressive front-loading of supplies, as well as sustained backdoor financing through Ways & Means facility. Looking ahead, we expect unfavourable external pricing conditions to keep the FG active in the domestic debt market in 2023. In the face of expected wide budget financing gaps relative to the depth of the local market, we do not rule out the possibility of continued W&M financing despite plans to securitize the W&M portfolio. Importantly, we expect monetary policy to be less aggressive in 2023 while inflation should soften, providing the basis for fixed-income yields to taper.

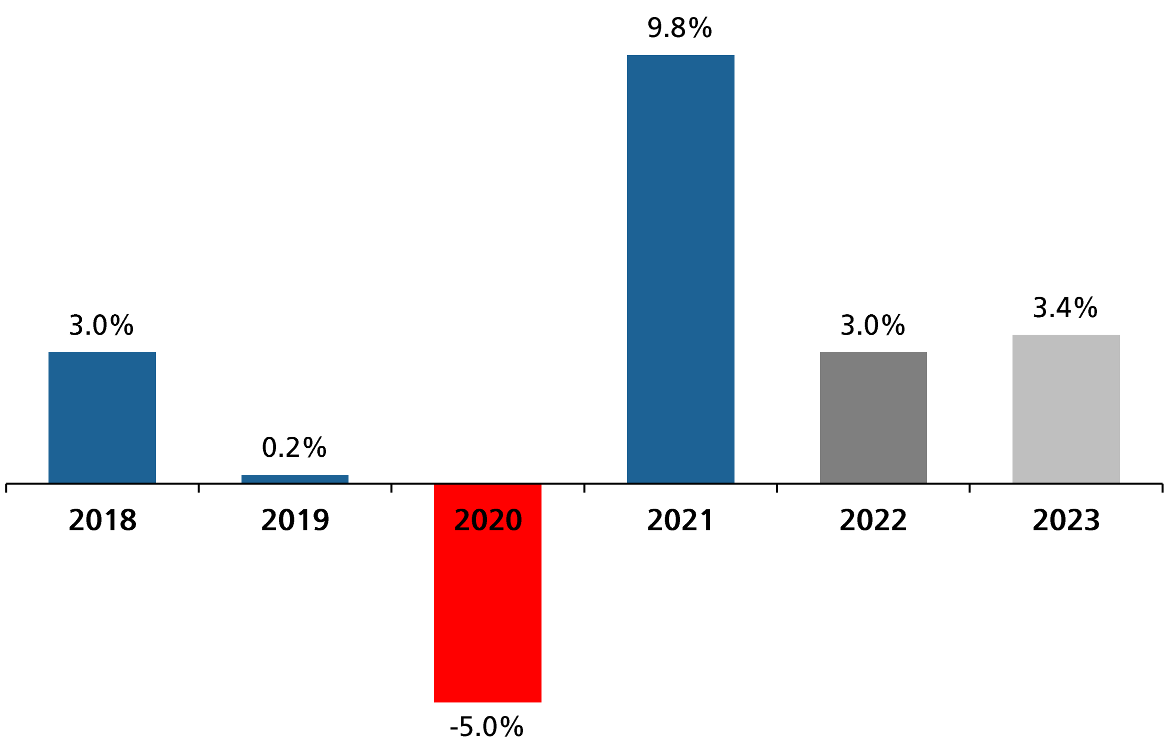
SECTION 1

GLOBAL MACROECONOMY

RUSSIA-UKRAINE CONFLICT PUTS FRAGILE GLOBAL TRADE RECOVERY AT RISK

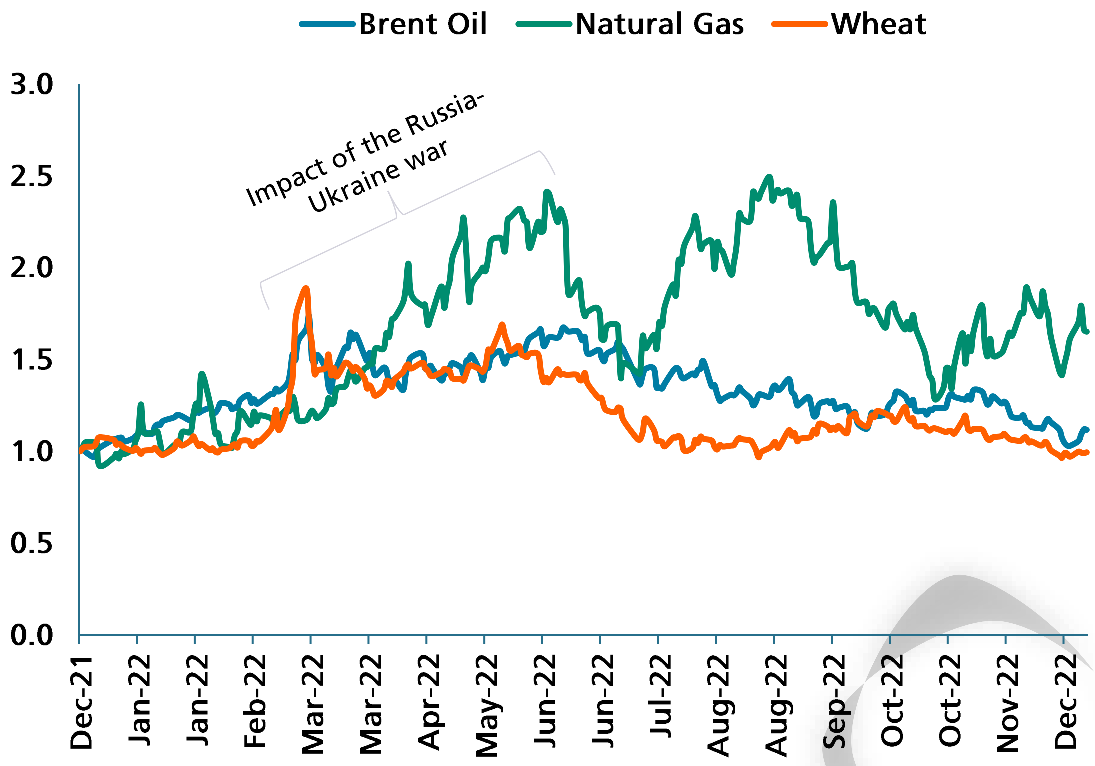
- Prospects for the global economy have darkened since the outbreak of war in Ukraine on 24 February, prompting WTO economists to reassess projections for world trade over the next two years.
- World merchandise trade volume is expected to grow 3.0% in 2022 (down from 4.7% previously) and 3.4% in 2023, but these figures may be subject to revision due to uncertainty about the course of the conflict in Ukraine.

Global Trade Growth



Source: WTO, Afrinvest Research

Commodity Price Trajectory



Source: Investing.com, Afrinvest Research

THE GREAT INFLATION RATTLES GLOBAL ECONOMY AND MARKETS

Global inflation is estimated to close 2022 at 8.8% from 4.7% in 2021. It is forecasted to moderate to 6.5% in 2023

Global Inflation Drivers

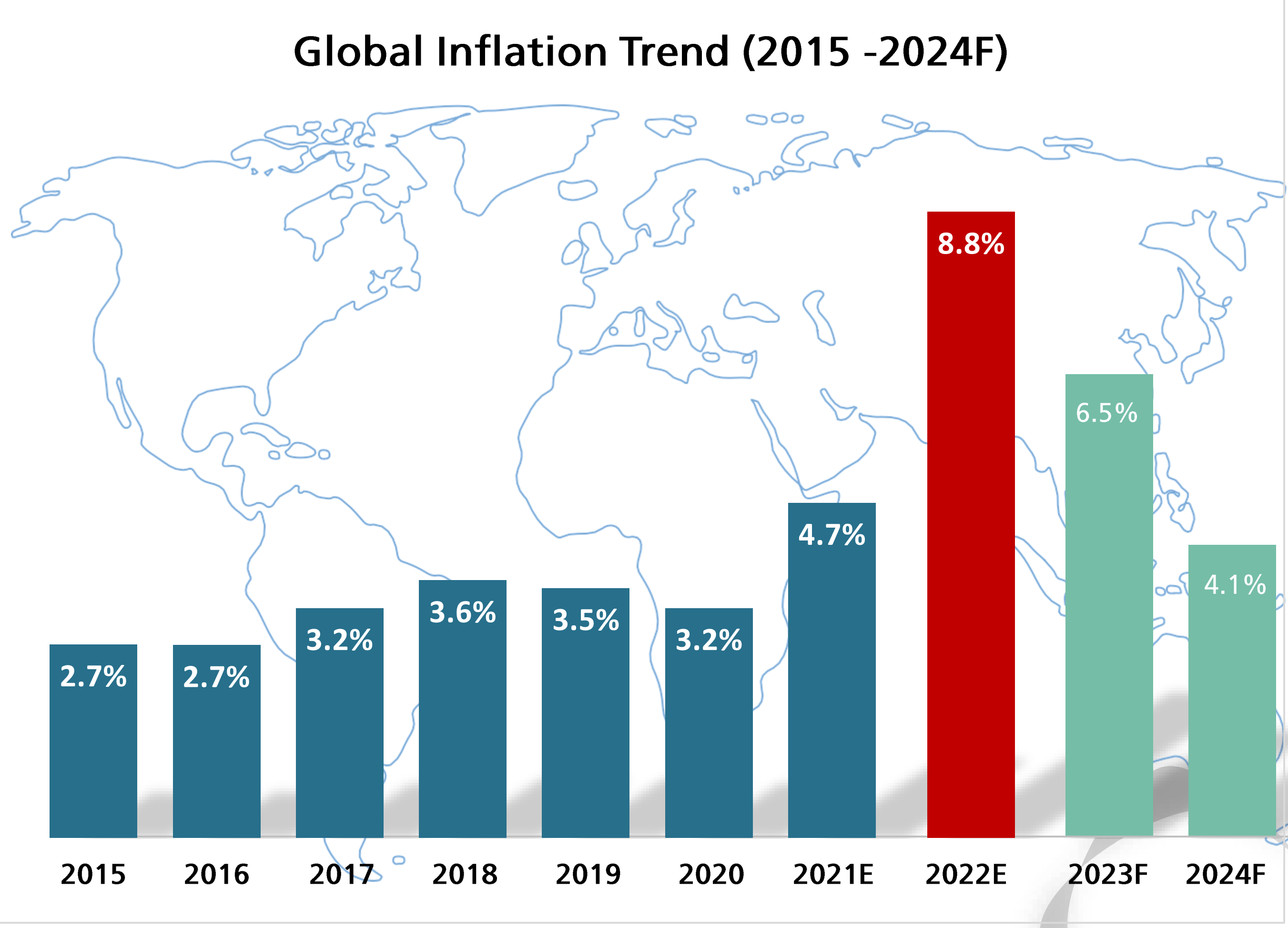
Soaring Food & Energy Prices

Build-up in fiscal & monetary intervention (2020/2021)

Supply chain disruption especially from China

Outlook

Global inflation is forecast to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but to decline to 6.5% in 2023 and to 4.1% by 2024.

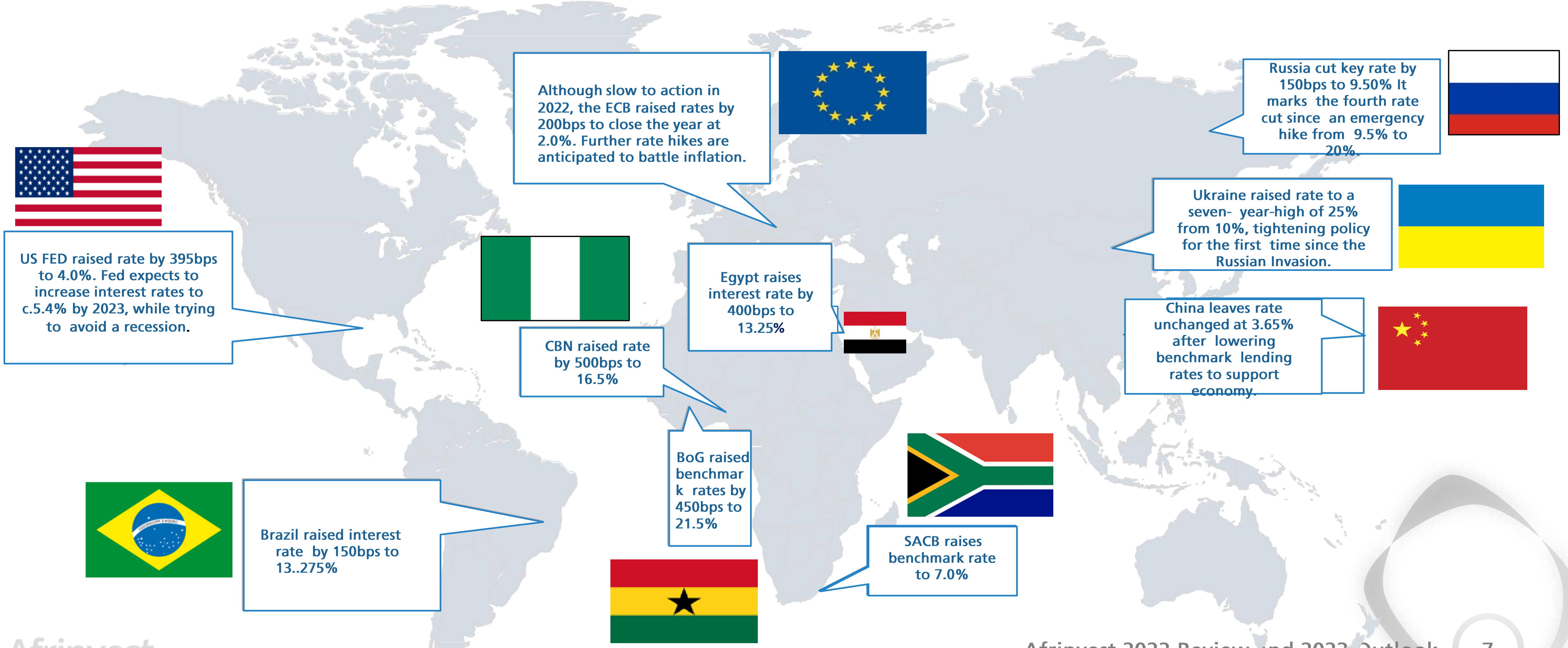


Source: IMF, Afrinvest Research

CENTRAL BANKS TACKLE HIGH INFLATION…

Global Central banks are expected to have raised interest rates 267 times by the end of 2022.

Major monetary authority's moves in 2022

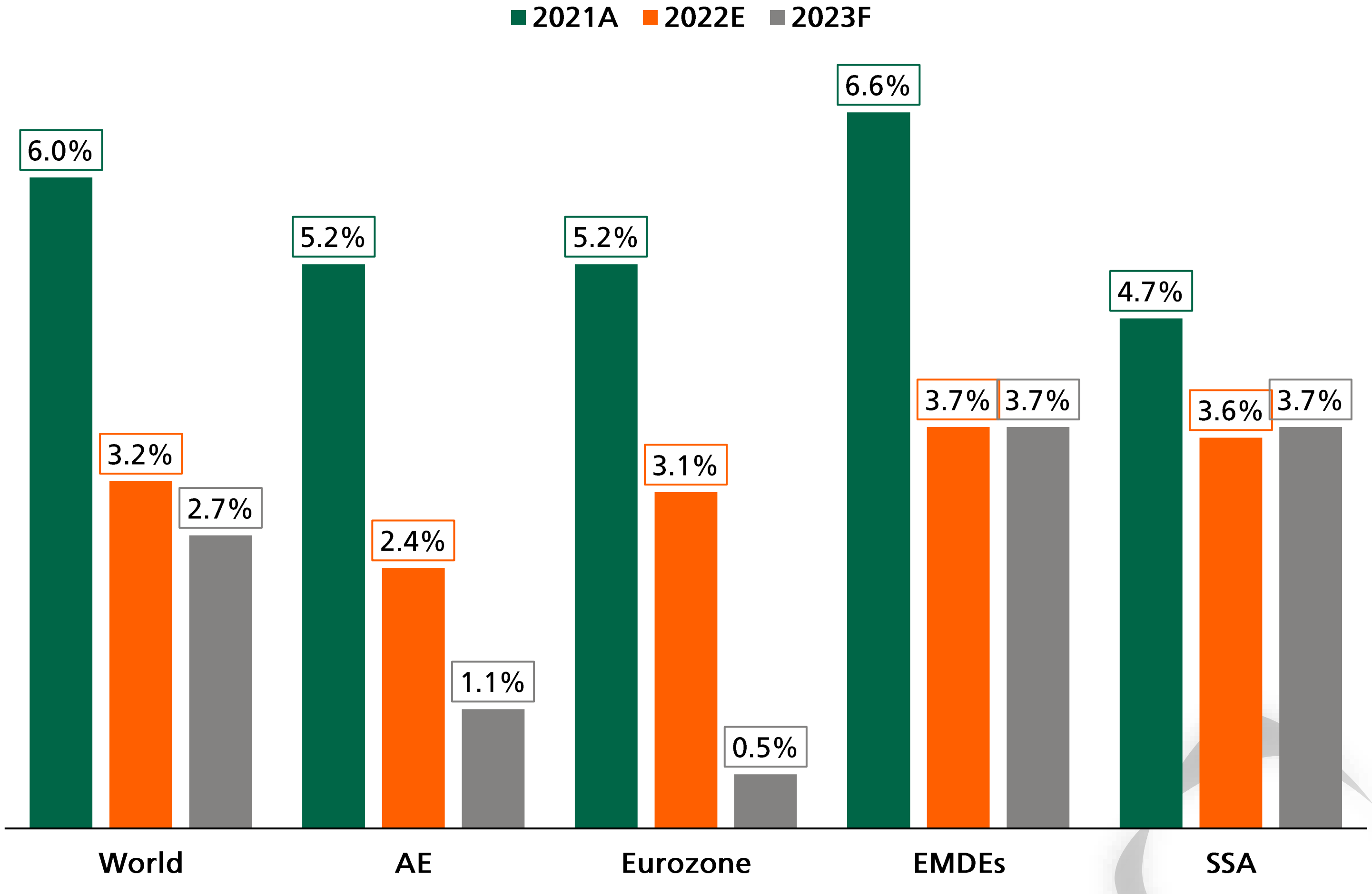


Source: Goldman Sachs, Afrinvest Research

…Leaving a Dent on Global Economic Outlook

While the pandemic gradually loses sway on most global economies, monetary & fiscal policy tightening to rein in Inflation as well as the war in Ukraine continue to squeeze global activities. According to IMF, economic activity slowed down by 0.1% in Q2:2022.

- For most regions, outlook is dimmer than six months ago – dented by tightening global financial conditions, sharper slowdown in China due to extended lockdowns, and spillover effects of the war in Ukraine.
- In Advanced Economies (AEs), US growth is expected to slow down to 1.6% and 1.0% in 2022 and 2023 respectively due to declining real disposable income.
- Prospect in the EMDEs has worsened largely due to dented outlook for China (2022: 3.2%). Lockdown in most part of China and worsening property market have held back activity in the region.
- Weaker outlook for the SSA reflects lower trading partner growth, tighter monetary conditions, and a negative shift in commodity terms of trade.



Source: IMF, Afrinvest Research

GLOBAL MACROECONOMIC OUTLOOK FOR 2023

Another Recession in View?

In our view, a global economic recession is less likely in 2023. Our view is hinged on the persistent strong labour market in the US, marked recovery in China's GDP growth, and resilient commodities market.

Slower Rate Hikes

Due to the late impact of rate hikes expected to lag into 2023, we posit that the pace of monetary tightening by Central Banks would decelerate.

Economic Growth to Remain Pressured

Although monetary tightening is expected to reduce in 2023, the late impact of rate hikes implemented this year would pressure growth. Also, trade tension and structural challenges would continue to pressure growth.

Inflation to slow down

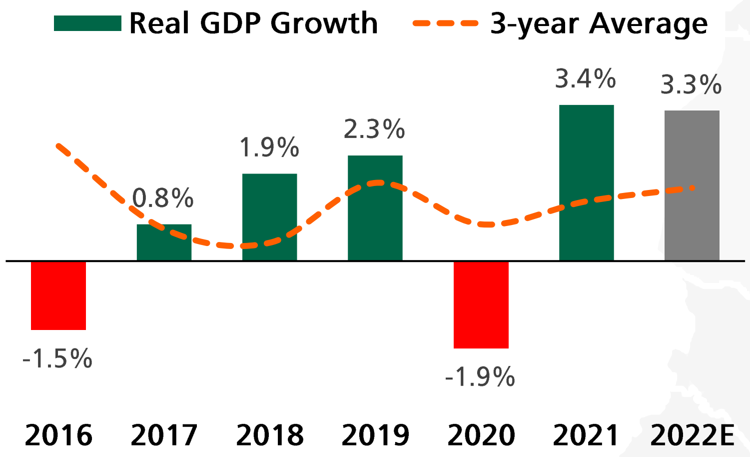
Given the aggressive monetary rate hikes by major world Central Banks, inflation is expected to slowdown gradually in 2023.

SECTION 2

DOMESTIC MACROECONOMY

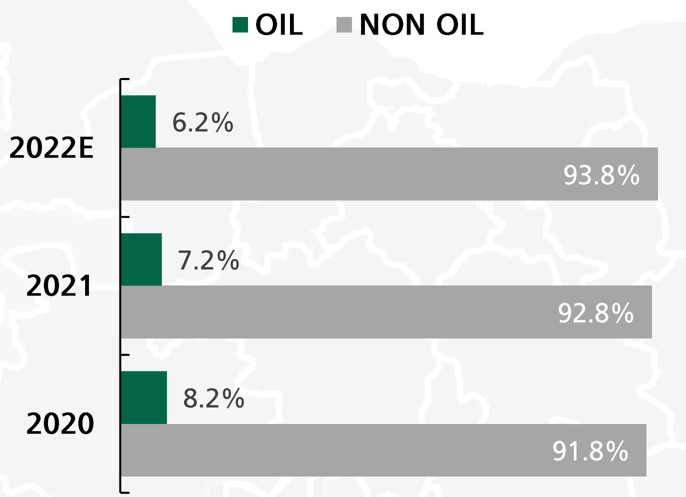
2022 IN RETROSPECT… NON-OIL SECTOR UPHOLDS FRAGILE GROWTH

Growth Trend



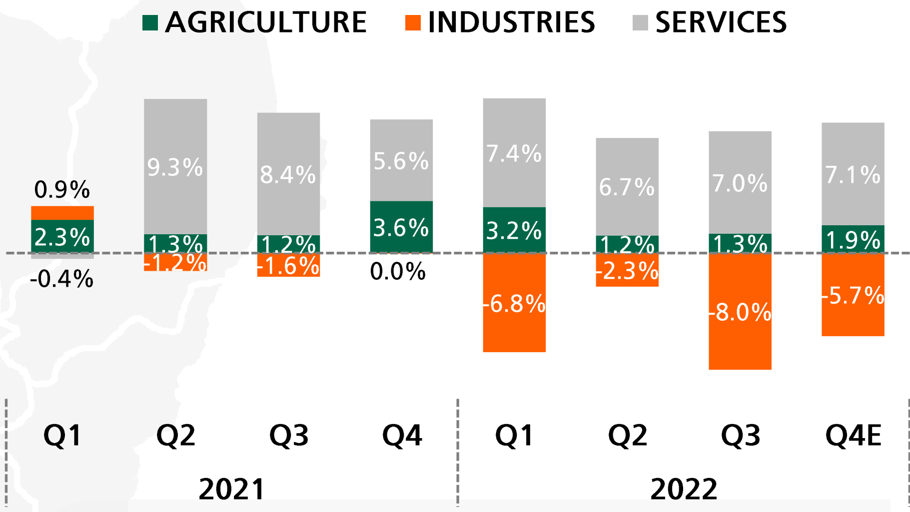
- Growth momentum took a major knock in Q3:2022 to print at 2.3% (Q3:2021: 4.0%) as weak macro fundamentals and monetary policy tightening takes centre stage. We estimate a base case GDP growth of 3.3% in 2022, driven mainly by the non-oil sector.
- Intensified monetary tightening, spiraling inflation, other socio-economical and environmental factors are key downsides to our projection.

GDP Contribution



- The impressive 4.3% growth of the non-oil sector over 9M:2022 has sustained the sector's share increase in the GDP.
- Amidst major drag factors such as suboptimal oil production, large-scale theft, and low investment, the oil sector contracted 22.7% in 9M:2022, stretching the sector's recession trend to 10 quarters.

Sectoral Performance

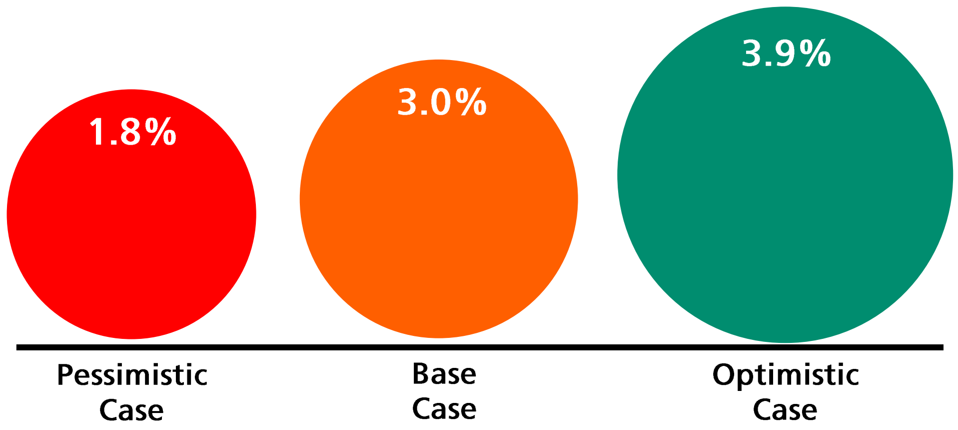


- ICT (10.5%), Trade (5.1%), Transportation & Storage (41.6%) and Finance & Insurance sectors (12.7%) were the brightest segments of the economy. Meanwhile, the flooding occurrence hindered an upbeat performance in the agriculture sector.
- High interest rate, declining investments, FX illiquidity, legacy structural bottlenecks, insecurity weighed on the Industries sector as negative growth worsened to 8.0% in 9M.

Source: NBS, Afrinvest Research

GDP Growth Projection… Accelerated Growth Still Remains Elusive

Scenarios for 2023



Optimistic Case Drivers

i. Sizeable portfolio inflows into the real sector
ii. Material improvement in the logistic bottleneck, especially from Apapa port
iii. Significant reduction in crises across agrarian communities
iv. Reduced constraints on importation through land borders
v. Delay in PMS subsidy removal & power tariffs review
vi. Price & exchange rate stability.

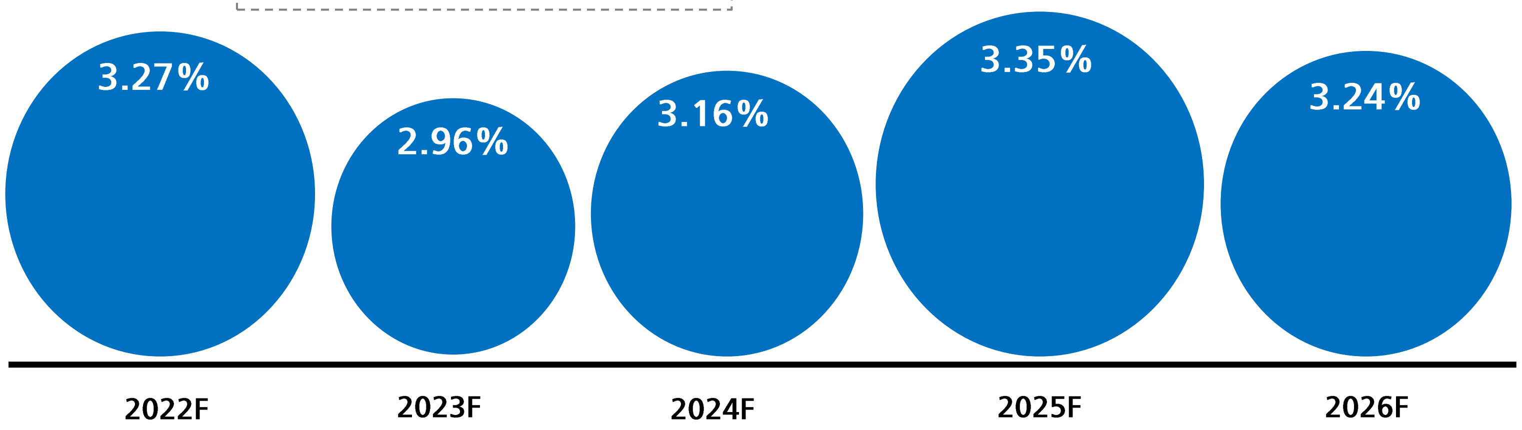
Base Case Drivers

i. Weak improvement in external balance and portfolio inflows
ii. Persistent logistic bottlenecks at major sea ports
iii. Modest reduction in crises across agrarian communities
iv. Maintaining status quo on the partial opening of the land borders
v. Sustained policy onslaught against runaway inflation
vi. Mild disruption to exchange rate stability.

Pessimistic Case Drivers

i. Protracted apathy of FPIs
ii. Escalation of the logistic bottlenecks at major sea ports
iii. Sustained conflict in the agrarian communities
iv. Further tightening of importation through land borders
v. Simultaneous implementation of subsidy removal & review of power tariffs.
vi. Material depreciation in Naira value.

Medium Term Growth Forecast



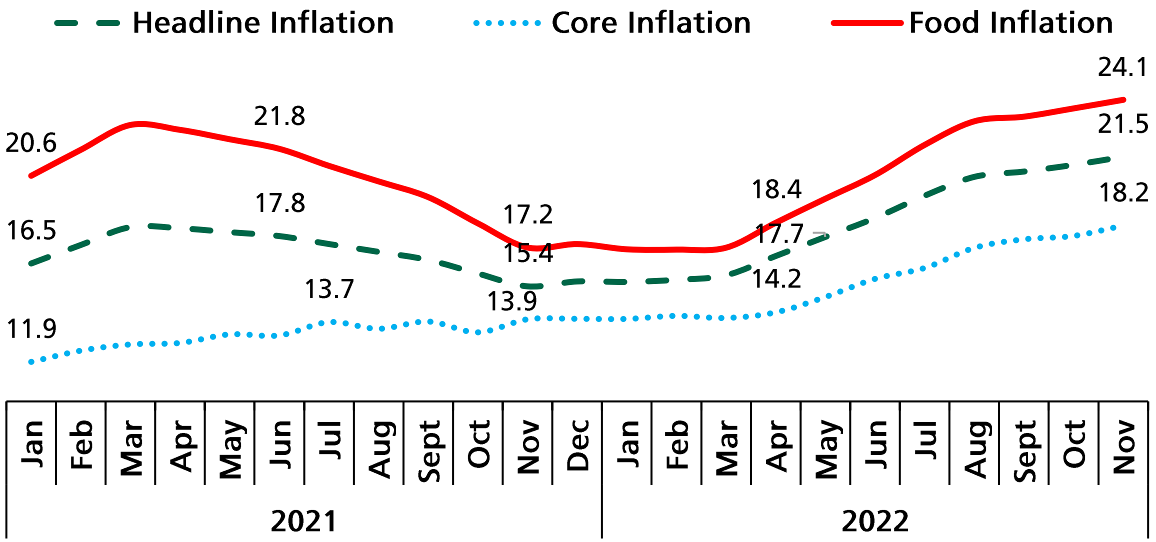
Source: Afrinvest Research

- Real GDP growth is expected to moderate in 2023 following the impact of monetary tightening, inflation and other structural inefficiencies on various sectors of the economy.
- On the positives, measures to curb oil theft, improved oil production and the commencement of Dangote refinery is projected spur recovery in the oil sector.

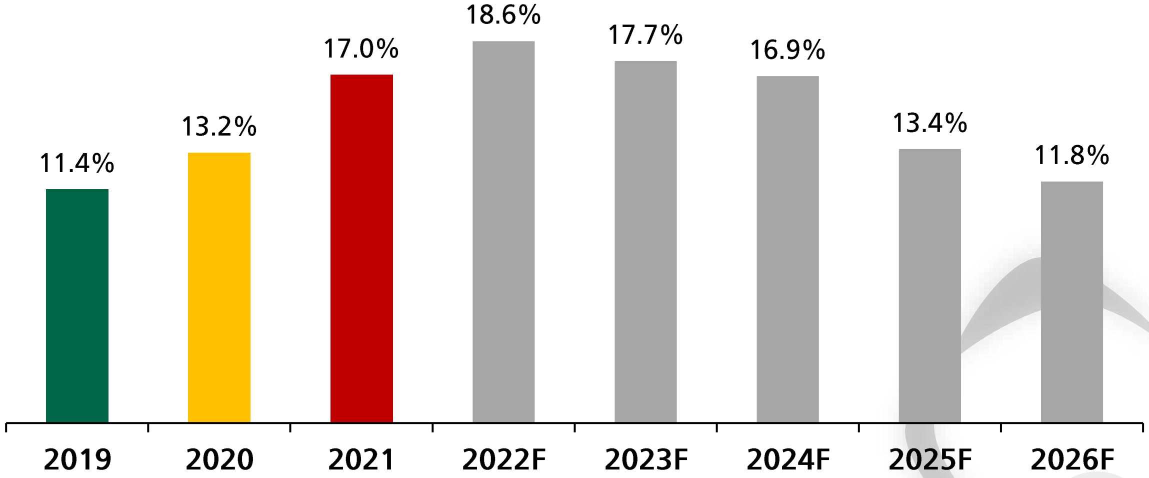
Inflation Rate… Sticky at 17-Year High with Moderation in Sight

- The emergence of unintended external shocks such as the disruption caused by the war in Ukraine has worsened structural bottlenecks which drove inflation higher.
- To halt and reverse this ugly trend, a combination of fiscal prudence, structural reforms, and proactive monetary measure would be key.
- Looking ahead, we posit that inflationary pressure would remain in 2023 although average inflation rate is expected to moderate to 17.7% due largely to high base year effect and softer foreign inflation pass through.

CPI Trajectory by Components

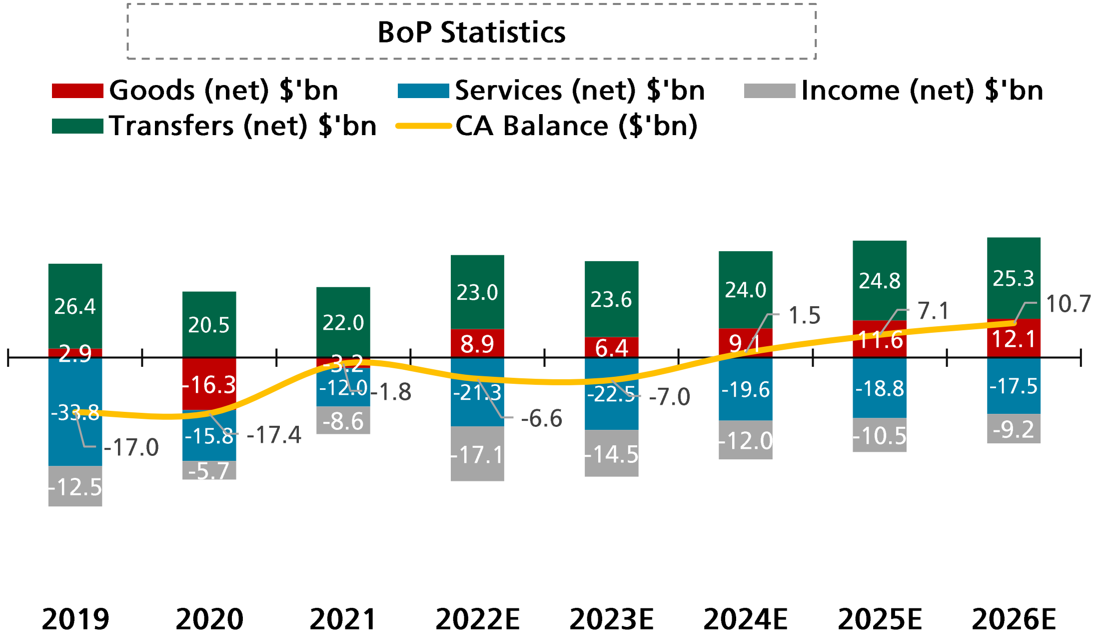


Base Case Average Inflation Projections

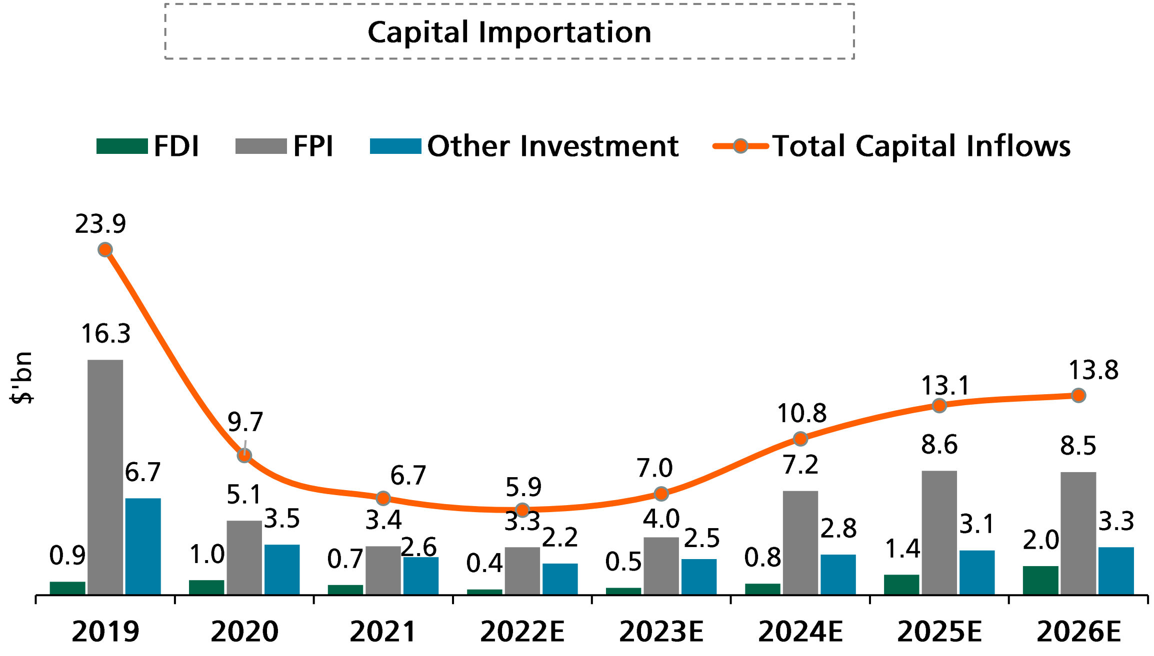


Source: NBS, Afrinvest Research

External Balance Expectations: Market Reforms the Only Way Out



Source: CBN, Afrinvest Research

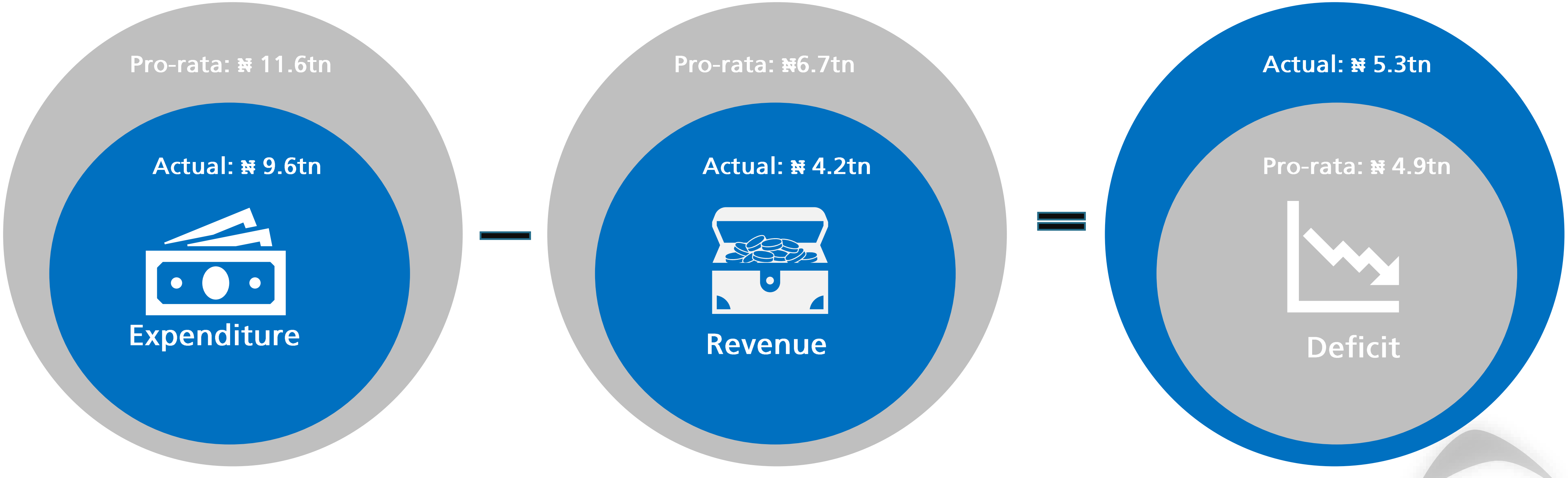


Source: NBS, Afrinvest Research

- Goods account balance is expected to recover in 2022 due to higher crude oil prices.
- In 2023, the goods account is expected to benefit from reduced FX outflow on PMS importation following the coming onstream of Dangote's refinery and non-oil export promotion drives.
- Increase spread of working-class Nigerians in the diaspora is expected to continue supporting the strong performance of the transfers account, especially, the remittance component.
- Political stability post-2022 and more market-oriented policies of the new administration are expected to drive a steady recovery in portfolio inflows over the medium term.

2022 Budget in Retrospect: Dismal Revenue Drags Performance

Revenue underperformance has continued to linger due to public sector inefficiency, dearth of innovation, structural bottlenecks, tough business operating environment, obsolete tax system, poor integration of the informal sector, and the industrial-scale oil theft in the Niger Delta region.

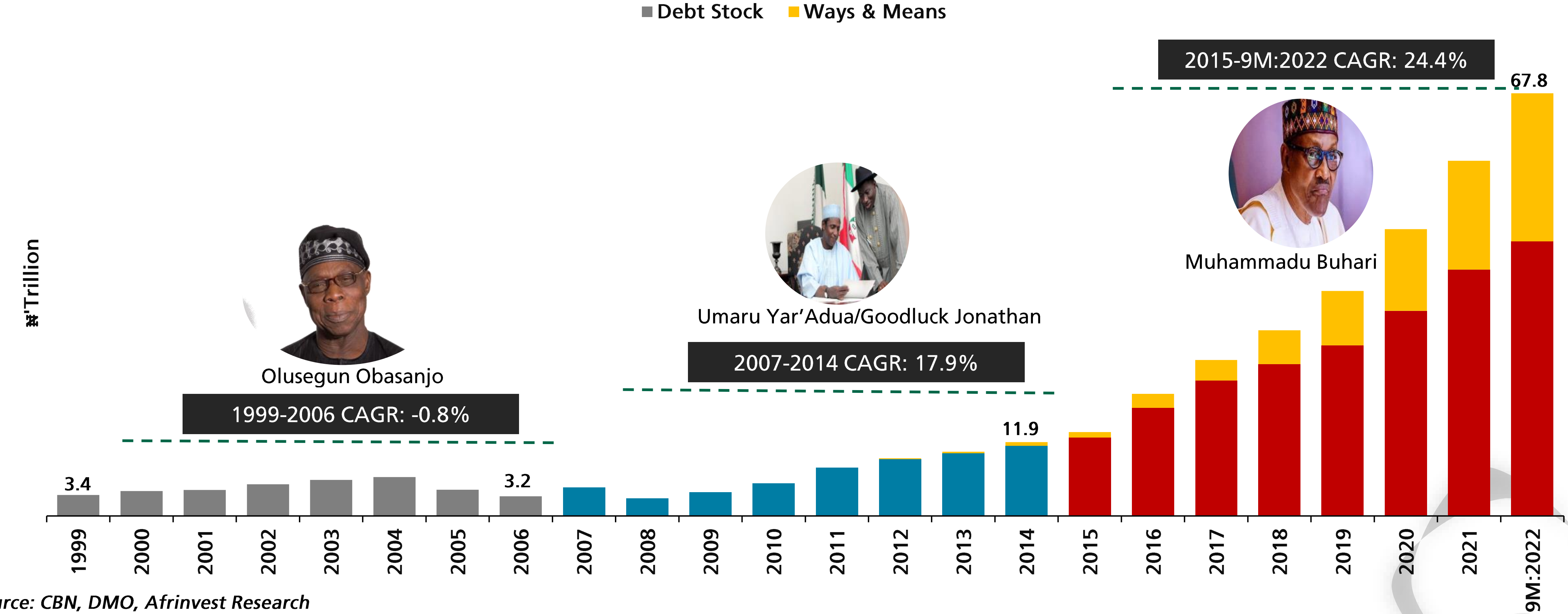


Source: FMFBNP, Afrinvest Research

Aggressive Debt Build-up Paints Gloomy Picture

- Sustained revenue underperformance and bourgeoning expenditure resulted in aggressive debt build-up
- If the current trajectory is sustained, the debt-to-GDP metric could surpass DMO's sustainable threshold of 40.0% by 2026 and IMF's critical baseline of 55.0% for LIC by 2030.

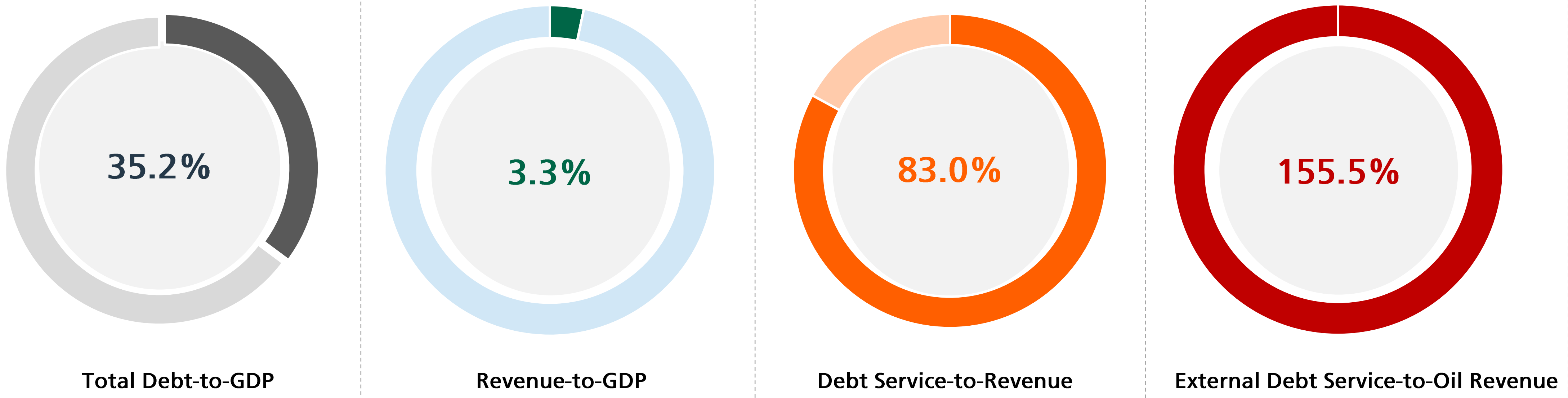
Debt Trajectory Under Nigeria's CEOs



Source: CBN, DMO, Afrinvest Research

Debt Sustainability Metrics… Illiquidity Closer than Ever

Worrisome illiquid situation has necessitated the downgrade of the nation's credit rating deeper into the junk category (B-) by Fitch ratings



NB: Data is as of September 2022

Source: FMFBNP, CBN, DMO, Afrinvest Research

2023 Proposed Budget… Herculean Task for the New CEO

We estimate that actual revenue would peak at ₦7.1tn in a Best-Case Scenario (vs ₦9.7tn projected) while actual deficit may top ₦14.0tn based on historical trend of revenue performance.

AGGREGATE EXPENDITURE	₦21.8tn
Non-debt Recurrent	₦8.3tn
Debt Service & Sinking Fund	₦6.6tn
Capital Expenditure	₦6.0tn
Statutory Transfer	₦1.0tn
AGGREGATE REVENUE	₦9.7tn
Independent Revenue	₦5.4tn
Non-oil Revenue	₦2.4tn
Oil Revenue	₦1.9tn
BUDGET DEFICIT	₦12.1tn

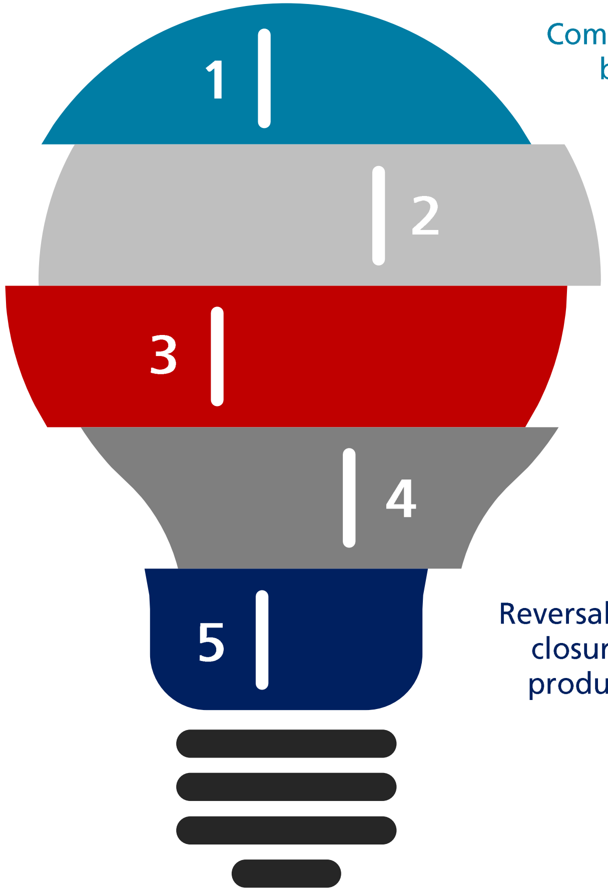
Key Budget Assumptions

1	1.69mbpd Average crude oil production
2	US$75.0/bbl. Benchmark crude oil price
3	₦435.57/US$1.00 Exchange Rate
4	17.2% Average inflation rate
5	3.8% GDP growth rate

Source: Budget Office, Afrinvest Research

Fiscal Policy Imperatives for 2023… Reform or Deform?

To rescue the country from the current tipping point, we highlight 5 imperative actions the new administration must not trivialize



Complete removal of the PMS subsidy would be a major positive for fiscal capacity enhancement

Public sector right sizing and blockage of fiscal leakages would help in lowering the cost of governance

Adoption of holistic approach to solving insecurity challenges would be a major win for the next administration

Formulation and implementation of compelling business-friendly policies would be a major catalyst for revenue growth and job creation

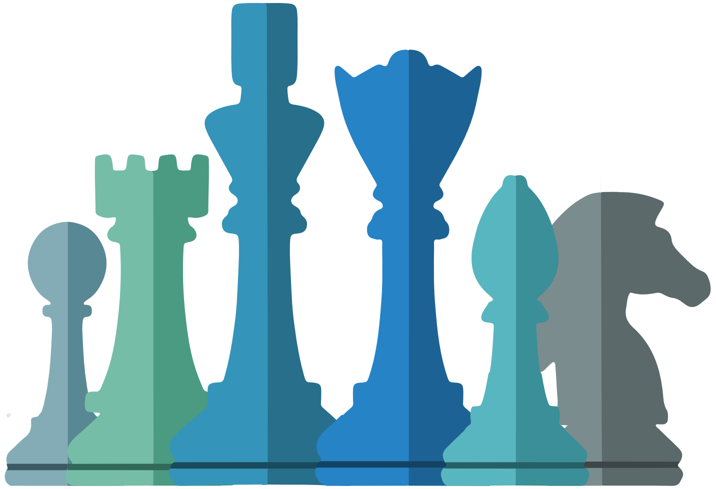
Reversal of the counter-productive land border closure for essential goods not adequately produced locally would be key in reversing runaway inflationary trend

Major Events That Would Shape 2023… (1 of 2)

There are game changing events in 2023 that could either spur a new dawn or tip Nigeria down the cliff of macro and socio-economic crisis.

Implementation of New Cashless Policy

CBN's cashless policy becomes fully operational in Jan 2023. This would aid in curbing insecurity, reduce large-scale currency printing, drive financial inclusion and support the efficacy of monetary policy. In turn, we expect increased investment in payment technology and related e-solutions.



General Polls

Nigerians are heading to the polls in February. Their choices can either make or mar the country's condition. The elections would stall economic and business decision-making amidst increased uncertainty.

Census

The fifth national census since independence is expected to hold in April 2023. This would put accuracy to Nigeria's population size needed in shaping developmental policies, planning and allocation of National resources.

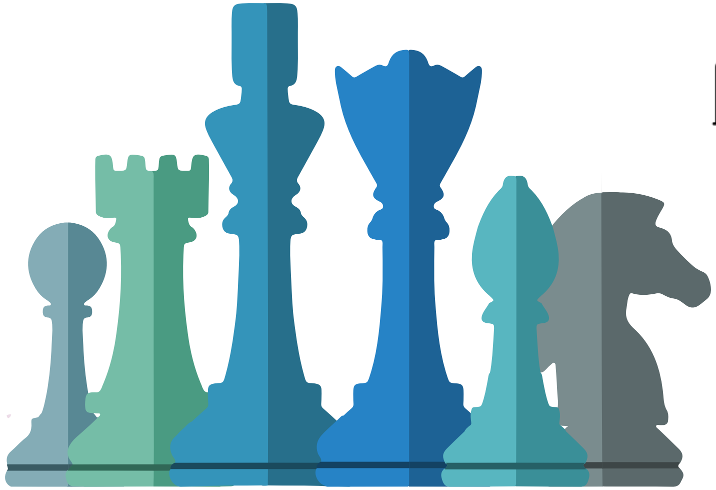
MAJOR EVENTS THAT WOULD SHAPE 2023 … (2 OF 2)

There are game changing events in 2023 that could either spur a new dawn or tip Nigeria down the cliff of macro and socio-economic crisis.

New Administration

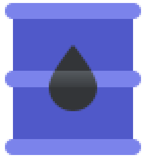
The transition to a new administration is expected to occur in May/June. We expect the new government to commence aggressive market reform that would reposition the economy. There are 4 developmental agenda the incoming administration should pursue:

- Accelerated & Inclusive Economic Growth
- Enhanced Foreign Investment Flows & Exchange Rate Stability
- Non-oil-driven Positive Net-exports
- Rapid Infrastructural Development



Dangote Refinery

The 650,00bpd integrated refinery is anticipated to commence operation by mid-2023. This in addition to the rehabilitated refineries are expected to put an end to refined oil importation and estimated to save Nigeria oil import logistics cost. This would also bolster performance of the oil sector.



PIA Full Implementation

The 18-month postponement of the PIA implementation, which deregulates the oil and gas industry, lapses in 2023. This would bring about unrestricted market pricing of PMS and an end to subsidy payment (estimated at ₦5.0tn in 2023) amongst other benefits to the industry. In addition, this plugs the leakage from government revenue that can be diverted for other developmental purposes

2023 Presidential Election: Agenda of Leading Contenders

Bola Tinubu

Economic Agenda

- Grow the economy at a baseline rate of 7.0% and double the economy every 10 years
- Drive expansion in the oil & gas sector with a special focus on the LNG
- Promote accelerated production, exports, and regional trade

Atiku Abubakar

Economic Agenda

- Drive a market-based economy in which manufacturing contribution would increase from 9.0% to 30.0% by 2025
- Privatise underutilised public assets for increased efficiency
- Develop the agriculture sector to become a major source of FX, employment, and industrial raw material

Peter Obi

Economic Agenda

- Promote agriculture and services sector-led diversification
- Provide fiscal incentives for business development with the aim of facilitating job creation
- Reinstate the autonomy of the CBN and support the elimination of multiple exchange rates

Source: Candidates manifestos, Afrinvest Research

2023 Presidential Election: Who Becomes Nigeria's Next CEO?

APC Bola Tinubu

Manifesto Ideology: Pro-market

Atiku Abubakar

Pro-market

Peter Obi

Pro-market

Pre-Election Burning Issues

- Economic stagnation
- Debt overhang
- Heightened insecurity
- High multi-dimensional poverty rate
- Multiple ethnic tension
- Endemic corruption
- Institutional failure
- Weak global perception
- Entitlement syndrome

Success Factors for Contenders

- Antecedent in public offices
- Party spread & membership base
- Incumbency advantage
- Values proposed in the manifesto
- Social media influence
- State governors influence
- Support from former military heads of states
- Traditional & religious leaders

Regional Voting Potential

- North-West: 22.67m
- South-West: 18.33m
- North-Central: 15.68m
- South-South: 15.30
- North-East: 12.82m
- South-East: 11.50m
- Total Registered Voters: 96.30m

NB: Data are as of September 2022

Afrinvest Projected Election Scenario

- We estimate a 40.0% - 45.0% average voters turnout rate (2019: 35.3%)
- A too-close-to-call contest with just 35.0% probability of a clear winner emerging on the first ballot
- In the scenario of a clear winner at the first ballot, we estimate that the top three candidates would secure about 32.7%, 30.8%, and 28.4% shares of the total vote cast.

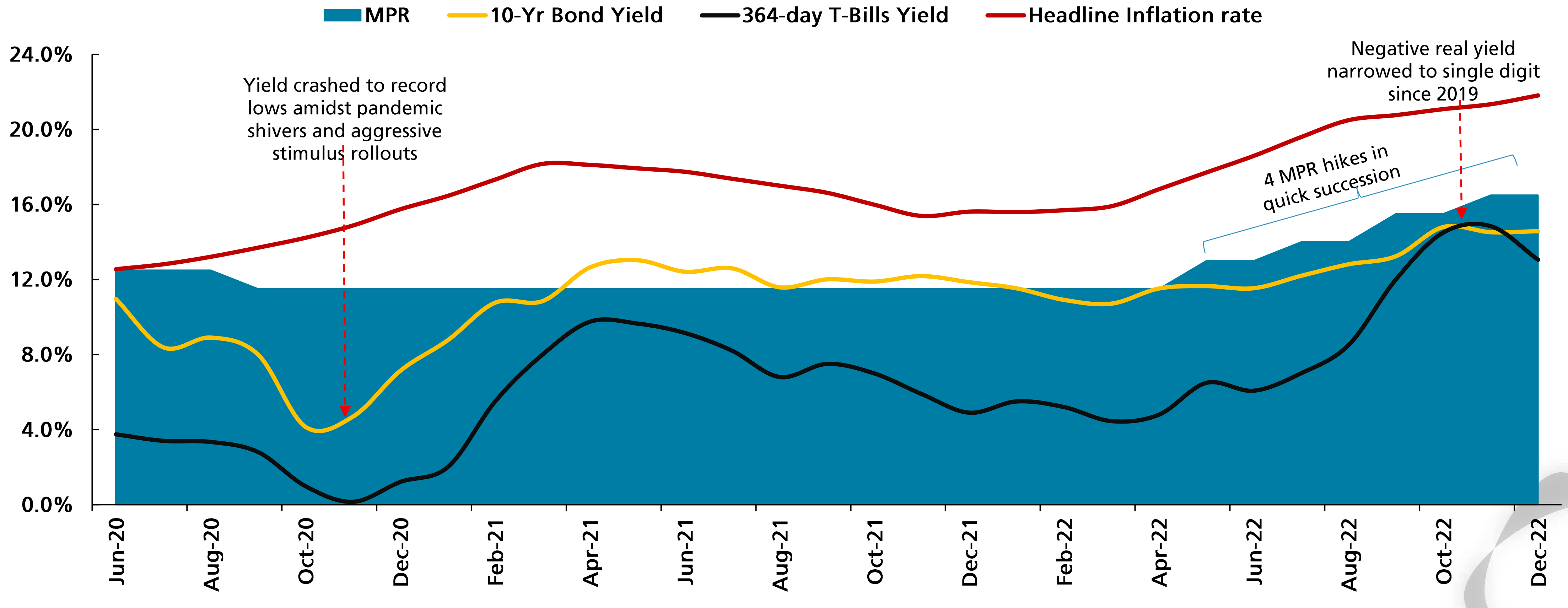
Source: INEC, Afrinvest Research Estimation

SECTION 3

MONETARY POLICY

UNORTHODOX STRATEGY TRADE-OFFS BITE HARDER

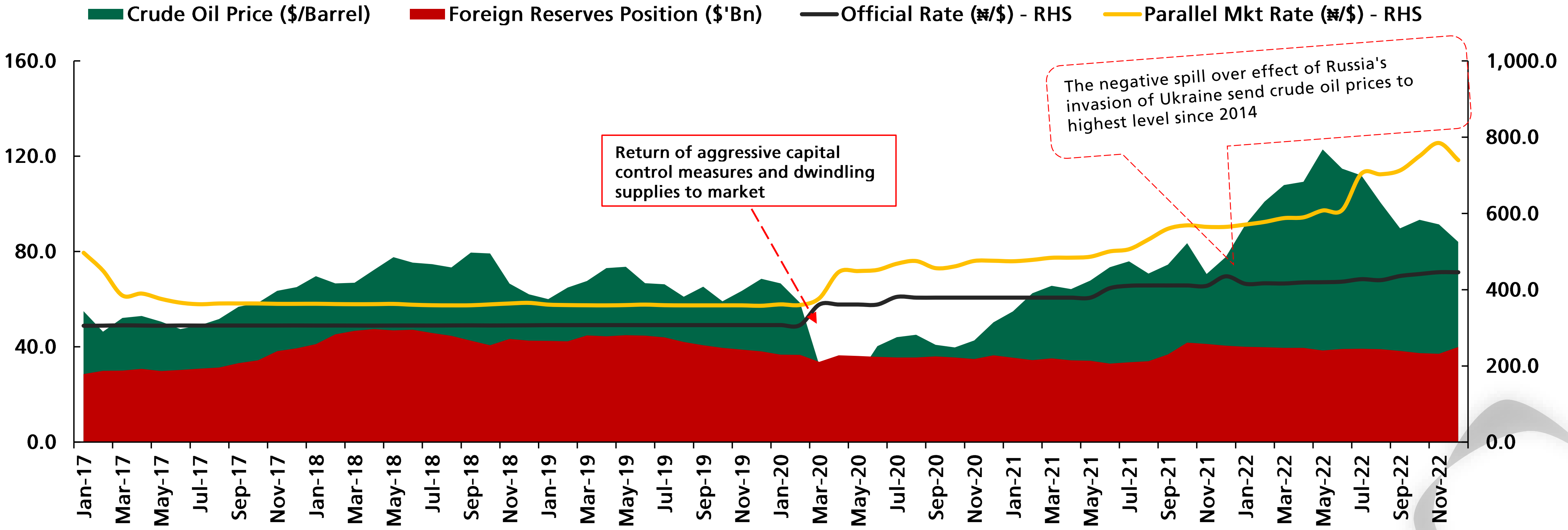
- Inflation has been less responsive to the recent aggressive hikes of the anchor rate by the CBN
- Delay in market yield adjustment and sustained liquidity injection through deficit financing and selective interventions top the drag factors of the MPR mechanism
- Successful taming of inflation would require the CBN to prioritize its core mandate while the fiscal authority pulls its weight in a synchronized manner



Source: CBN, NBS, FMDQ, Afrinvest Research

Oil Boom Without Oil Revenue… Exchange Rate Takes a Knock-on

- Despite the recovery in global crude oil prices post-2020 pandemic, Nigeria's exchange rate trajectory has continued to worsen due to the lack of market confidence in the CBN's FX management strategy
- Worst still, the large-scale oil theft and bourgeoning subsidy burden rubbed Nigeria of the windfall gain of higher oil prices post-Ukraine invasion
- A return to a market-friendly monetary policy regime, ending of subsidy payment, and improved non-oil export earnings would be key to end the Naira free-fall.



Source: Bloomberg, CBN, Afrinvest Research

INTEREST AND EXCHANGE RATES OUTLOOK FOR 2023… REFORM OR DEFORM?

Exchange Rate Scenarios

Valuation Approach	Best Case	Base Case	Worse Case
PPP	₦680.20/$1.00	₦755.00/$1.00	₦905.05/$1.00
Econometric forecasting	₦694.32/$1.00	₦744.10/$1.00	₦860.70/$1.00
Technical Analysis	₦512.80/$1.00	₦631.19/$1.00	₦715.30/$1.00
Average Fair Value	₦629.11/$1.00	₦710.01/$1.00	₦827.02/$1.00

Pre-conditions

- Phase convergence of NAFEX vs parallel market rate in the shortest possible time
- Improved FX supply aided by higher oil production and non-oil exports
- Policy-driven improvement in FPI inflows

- Sustenance of NAFEX vs parallel market dichotomy
- Weak FX earnings amid the extension of the subsidy regime
- Worsening FPI's apathy due to monetary policy uncertainty

Interest Rate Scenarios

Hawkish Posture

Probability

35.0%

Likely Triggers

- Negative global and domestic inflation surprises
- Lengthy pre or post-general election crises
- Major sanction by world powers

Muted Posture

Probability

50.0%

Likely Triggers

- Modest economic growth accompanied by sticky price pressure
- Muted or slow policy tightening in AEs
- Modest improvement in foreign capital flows

Dovish Posture

Probability

15.0%

Likely Triggers

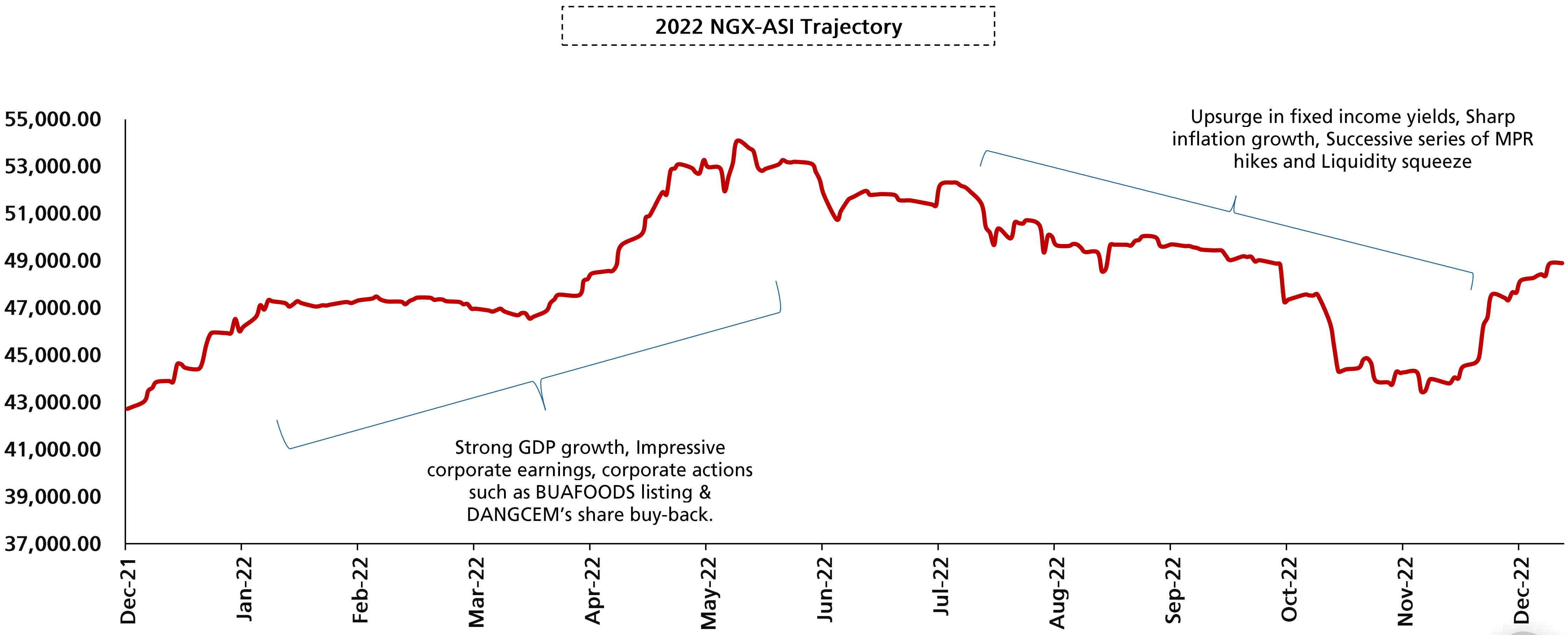
- Aggressive global stimulus resulting from policy response to unanticipated shock
- Sizeable positive domestic inflation surprise accompanied by modest GDP growth
- Deeper unorthodoxy to suit fiscal authority's preference

Source: Afrinvest Research Estimation

SECTION 4

DOMESTIC EQUITIES MARKET

Domestic Equities… Hawkish Policy Stance Tempers Market Performance

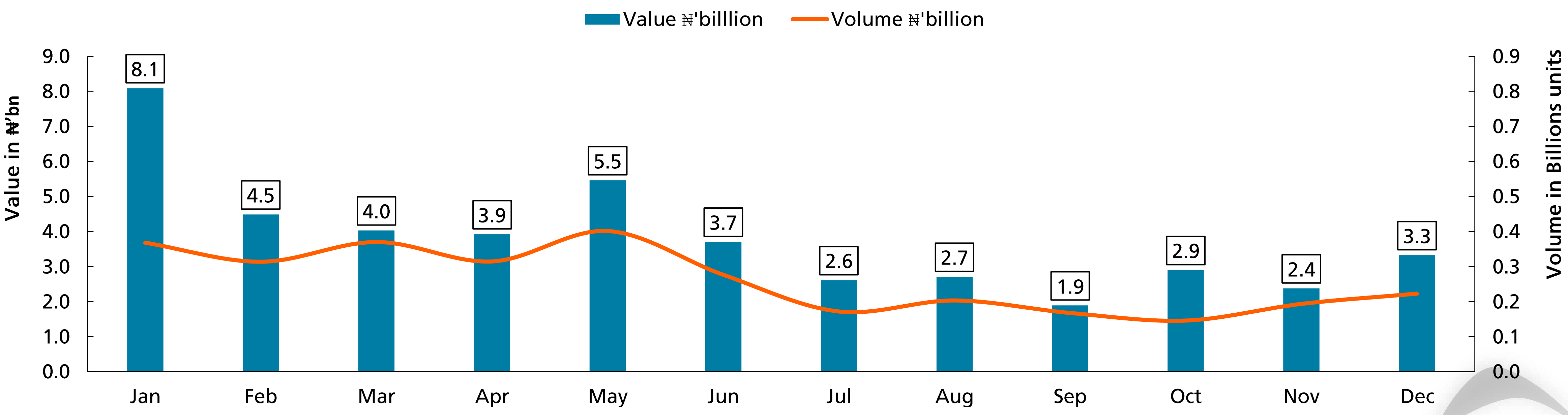


Source: NGX, Afrinvest Research

ACTIVITY LEVEL…DRAGGED BY WANING INVESTORS' SENTIMENT

- Activity level was mixed as average volume fell 20.2% to 262.7m units while average value rose 8.6% to ₦3.8bn.
- On a monthly basis, January recorded the highest trade by value on average. This was supported by the average monthly performance of SEPLAT (₦17.5bn), GTCO (₦12.8bn), and MTNN (₦10.2bn) and investors' interest in the listing of BUAFOODS.

Monthly Average Volume & Value Traded

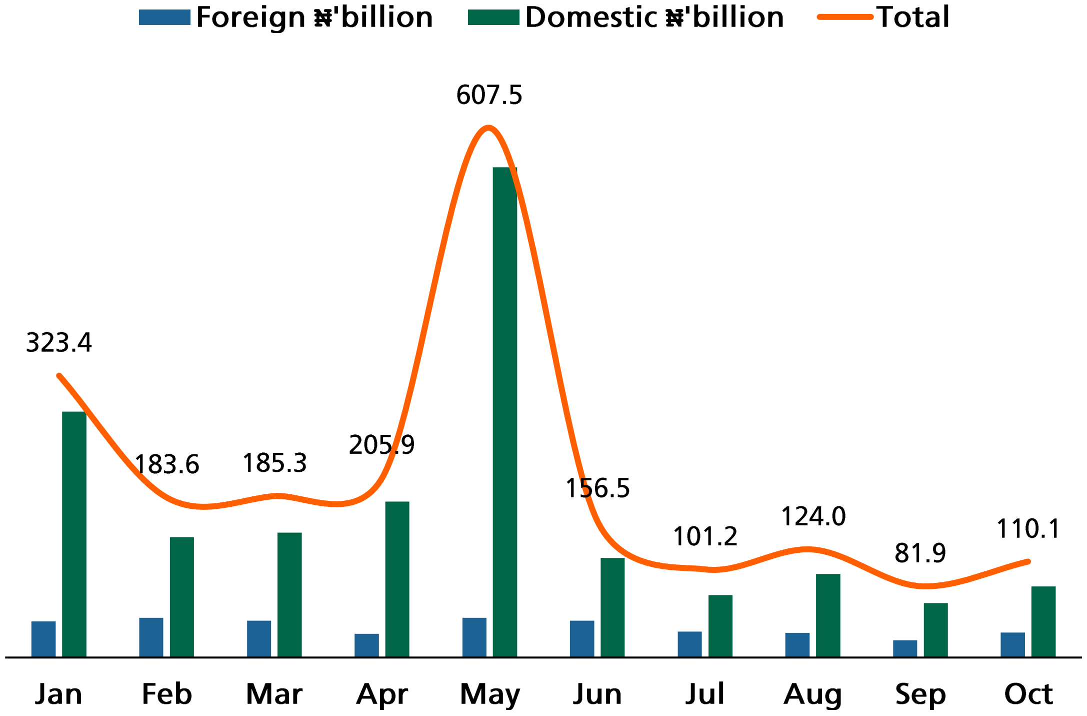


Source: NGX, Afrinvest Research

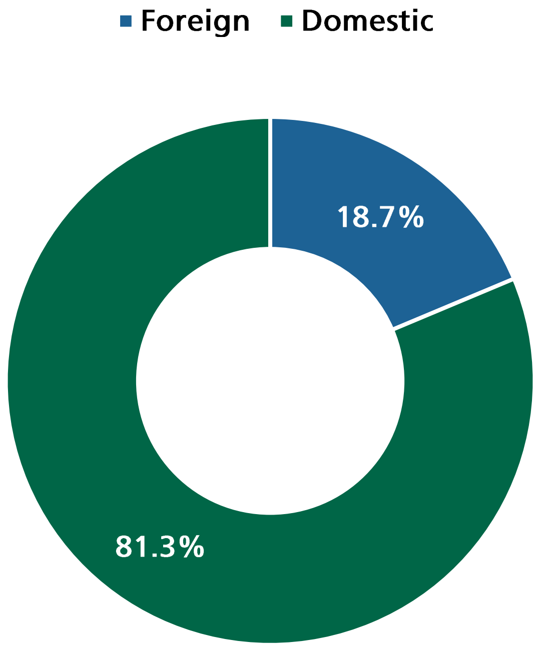
TOTAL PORTFOLIO INVESTMENT… DOMESTIC INVESTORS MAINTAIN GRIP

- At the end of October, domestic Investors share of portfolio investment rose to 83.2% (₦1.7tn) against 78.7% (₦1.2tn) in 2021. The improved share was aided largely by 59.5% and 17.4% y/y growth in institutional and retail investors transactions to ₦1.1tn and ₦580.3bn, respectively.
- Although foreign transactions increased 6.1% y/y to ₦349.6bn, foreign investors contribution fell from 21.3% to 16.8%.

2022 Breakdown of Portfolio Investment

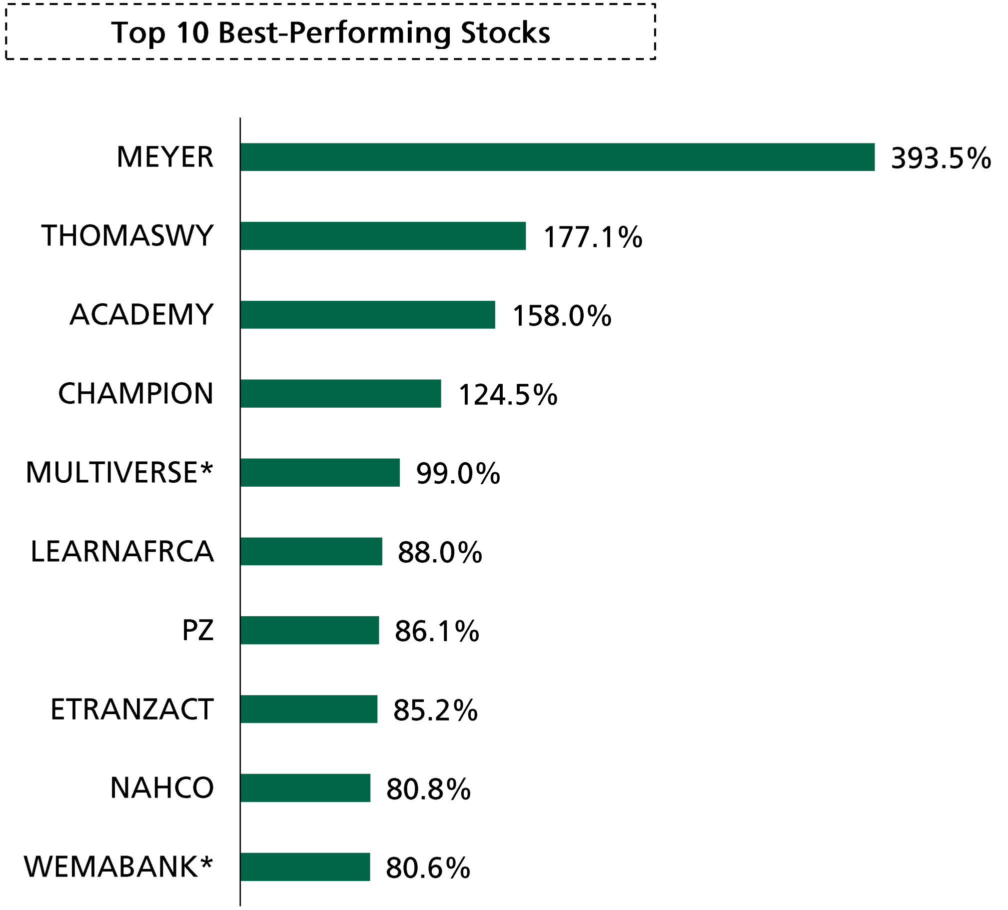


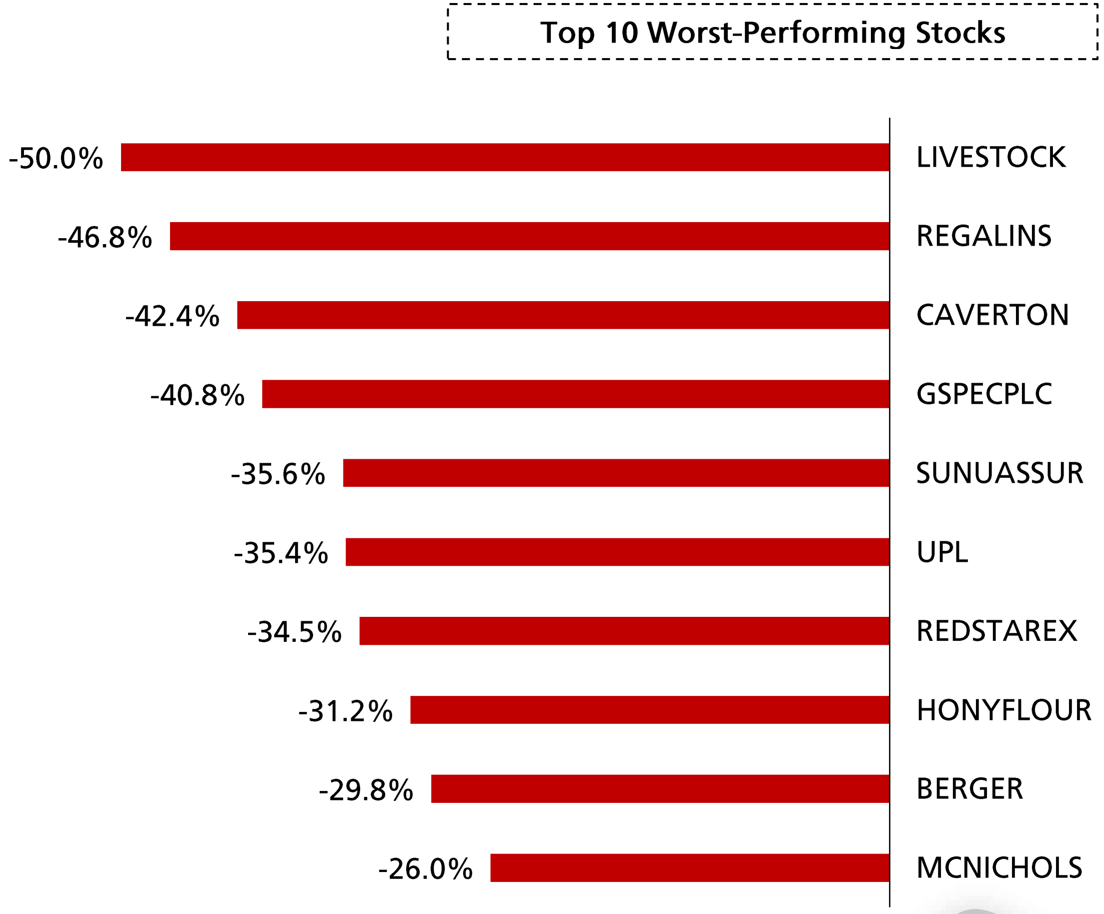
Players Participation in the Equities Market



Source: NGX, Afrinvest Research

Top 10 Gainers and Losers for 2022





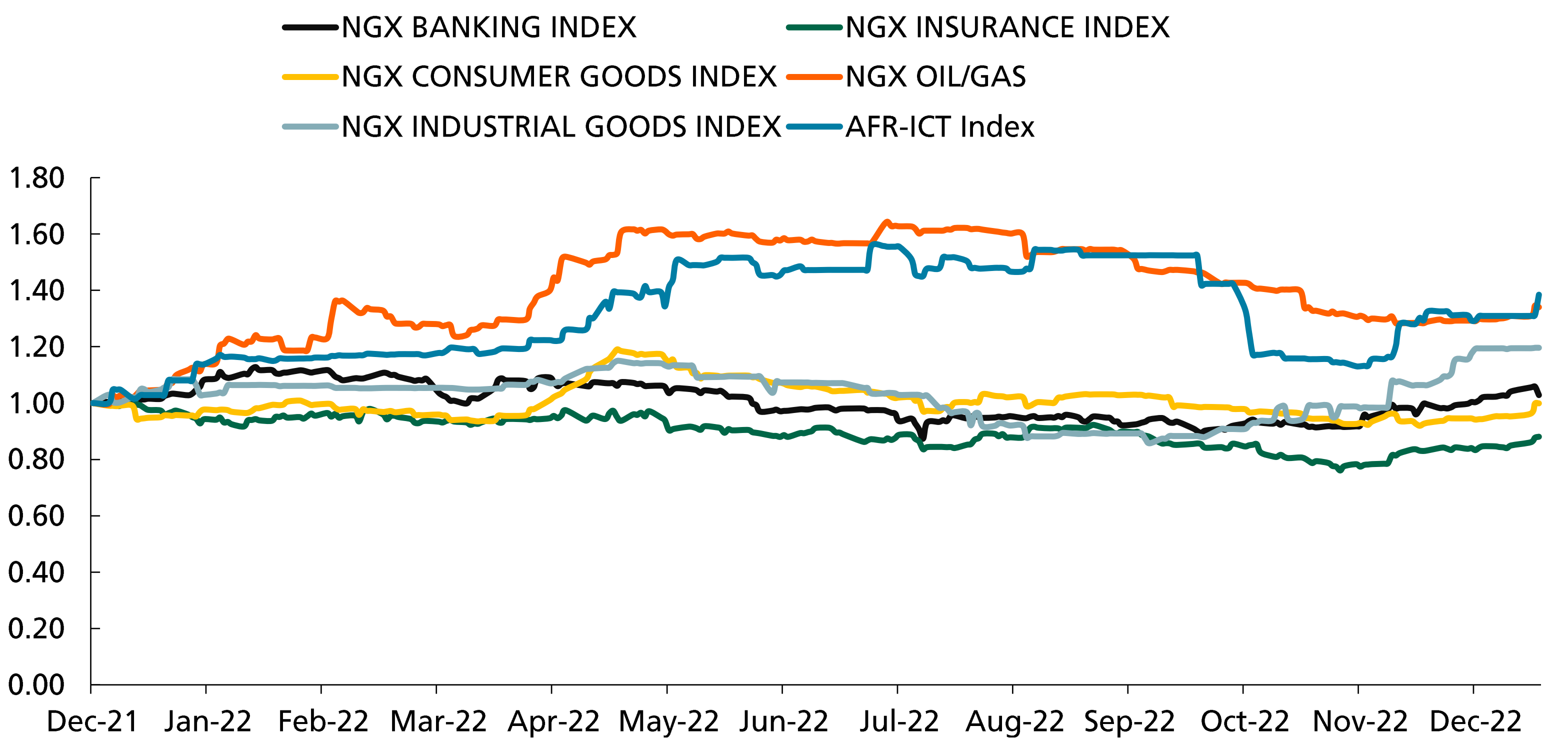
Note: *indicates rebased value

Source: NGX, Afrinvest Research

Strong Rally in Bellwethers Aid Market Performance

Sector Performances was bullish as 4 sectors gained while the Insurance and Consumer Goods indices lost. AFR-ICT and Oil & Gas indices were the top performing sectors due to the gains in AIRTELAF (71.2%), MTNN (18.1%), SEPLAT (69.2%), and ETERNA (32.5%).

Rebased Market Performance



Indices	YTD Return
NGX All-Share Index	20.0%
Oil & Gas Index	34.0%
AFR-ICT Index	38.5%
Insurance Index	-12.0%
Banking Index	2.8%
Consumer Goods Index	-0.1%
Industrial Goods Index	19.7%

Source: NGX, Afrinvest Research

EQUITY MARKET OUTLOOK AND DRIVERS FOR 2023

We project a mild gain of around 7.3% for the market in 2023 supported by key factors.

1 Moderation in Fixed Income Yield

With expectations that inflation is likely to moderate in 2023, we posit that yields are likely to fall on account of monetary policy easing. Consequently, aiding equity performance.

2 Strong Corporate Earnings

Strong and resilient earnings performance would spur investors' confidence in the market.

3 Foreign Exchange Dynamics

Favourable foreign exchange policies would improve foreign investors' participation in the market and support growth.

Afrinvest RESEARCH

2023 Investment Strategy… Improved Upside On Yield Moderation

Invest in Defensive & High-Dividend Yielding Stocks as Opposed to Cyclical

Utilities, Energy and Consumer Goods sectors are viable but with some caution

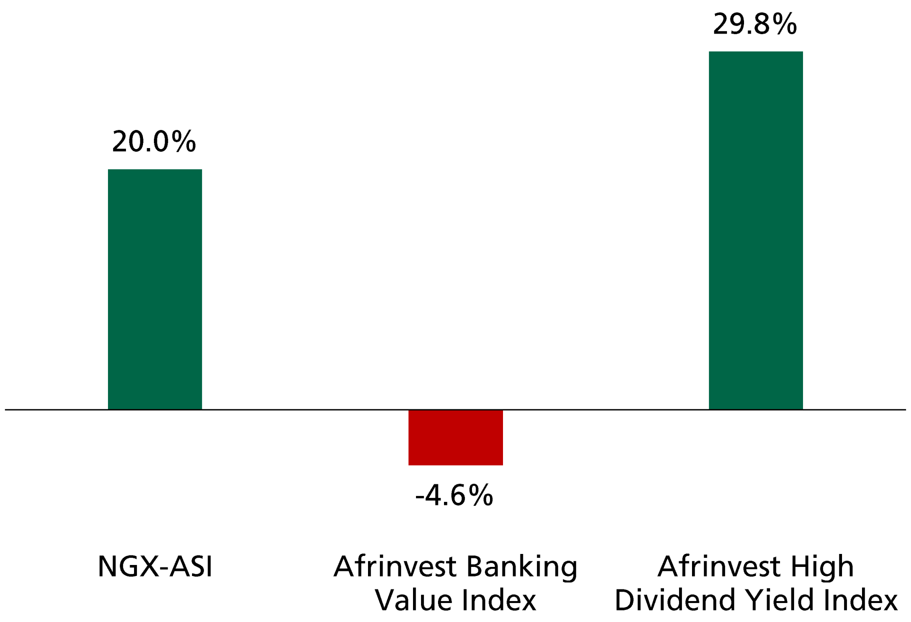
Strength of Fundamentals is Sine qua non to stocks selection

Confidently average down before the expected rally in 2023

2023 Investment Strategy… Improved Upside On Yield Moderation

- Relative to the broad market (NGX-ASI: 20.0%), our Afrinvest High Dividend Yield Index outperformed by 9.8ppt.
- Based on our outlook expectations, we recommend a diversified investment approach across vibrant sectors and defensive stocks.

Review of 2022 Investment Portfolios



Source: NGX, Afrinvest Research

Selected Stocks in Afrinvest High Dividend Yield Index

Stocks	Target Price	Current Price	Upside (%)	Dividend Yield (%)
DANGCEM	334.4	261.0	28.1%	8.7%
ZENITHBANK	30.7	24.0	27.9%	15.6%
CONOIL	35.4	26.5	33.6%	9.5%
UBA	10.6	7.6	39.5%	14.3%

SECTION 5

FIXED INCOME MARKET

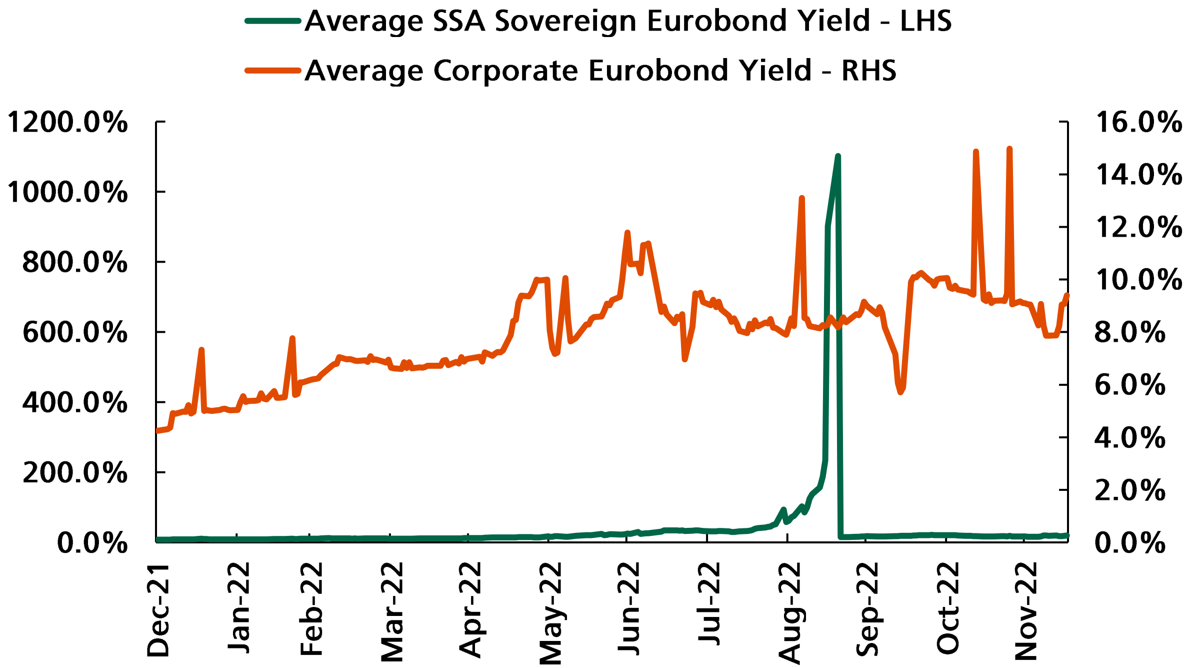
MONETARY TIGHTENING IMPACTS GLOBAL DEBT LEVELS

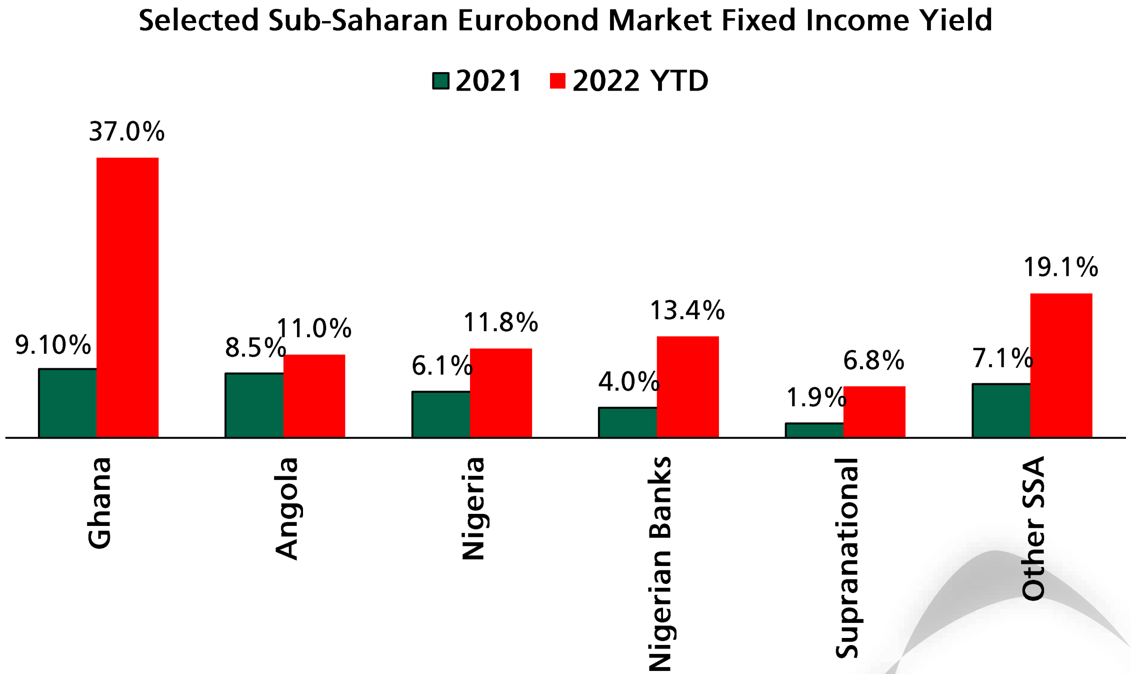
- Global debt stock fell 3.0% y/y to $290.6tn in Q3:2022, resulting from weaker growth outlook and tighter monetary policy. Debt accumulation slowed on a quarterly basis (-2.2% q/q) compared to Q2:2022 (-2.9% q/q).
- Despite the exceptional drop, global public and private debt-to-GDP ratios remain well above pre-pandemic records.

Source: IIF, Afrinvest Research

Yields Peak Not In Sight?

- Bonds saw unprecedentedly poor returns in 2022 due to normalization of policy rates, recession fears hurting credit spreads, and liquidity shocks driving up volatility.
- The performance of SSA Sovereign Eurobond markets under our purview remained weak as average yield rose sharply to 35.4% in 2022 (FY:2021: 9.7%; H1:2022: 24.9%).
- Similarly, the weak investor confidence hit the corporate Eurobond market as average yield inched higher to 7.9% from 5.0% in FY:2021 (H1:2021: 6.9%).



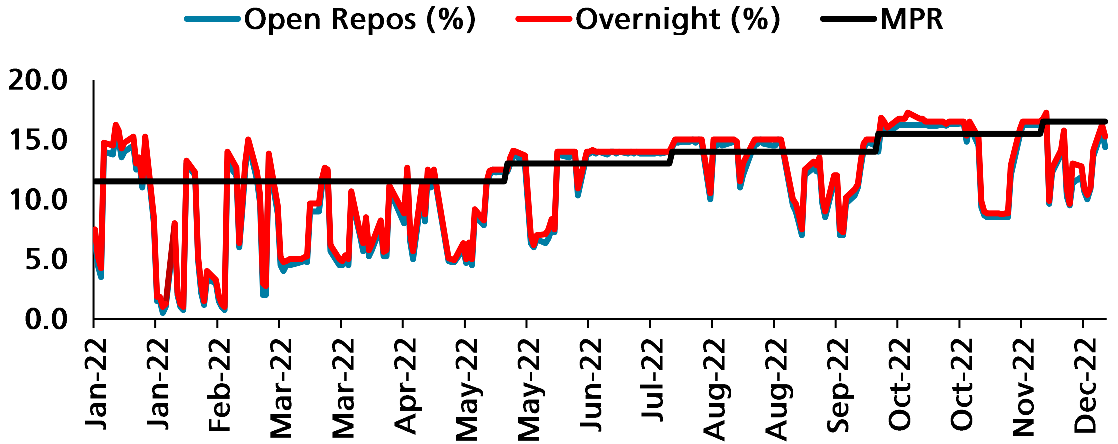


Source: Bloomberg, Afrinvest Research

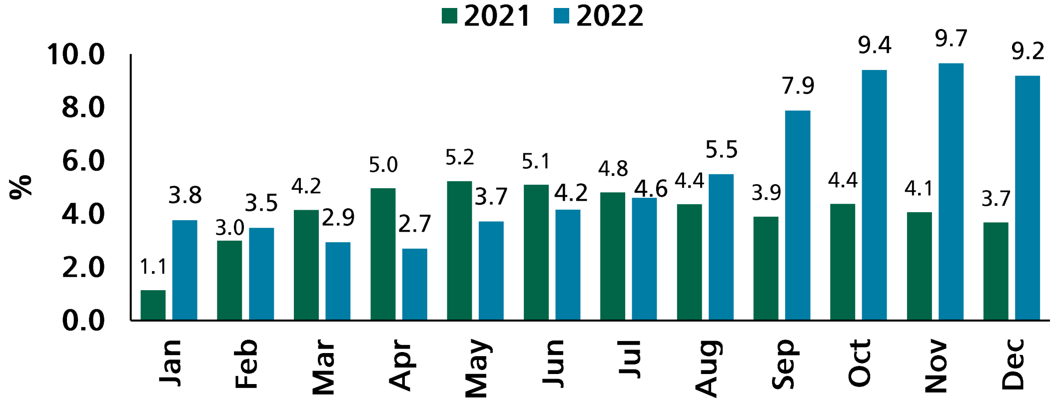
2022 in Retrospect… Hawkish CBN, Soaring Inflation Tilt Money Market to Bulls

- Contractionary monetary policy induced liquidity squeeze prompting a repricing of short-dated instruments.
- Real returns remained in negative zone although with significant improvement.

MPR Hikes Raise Interbank Rate Floor

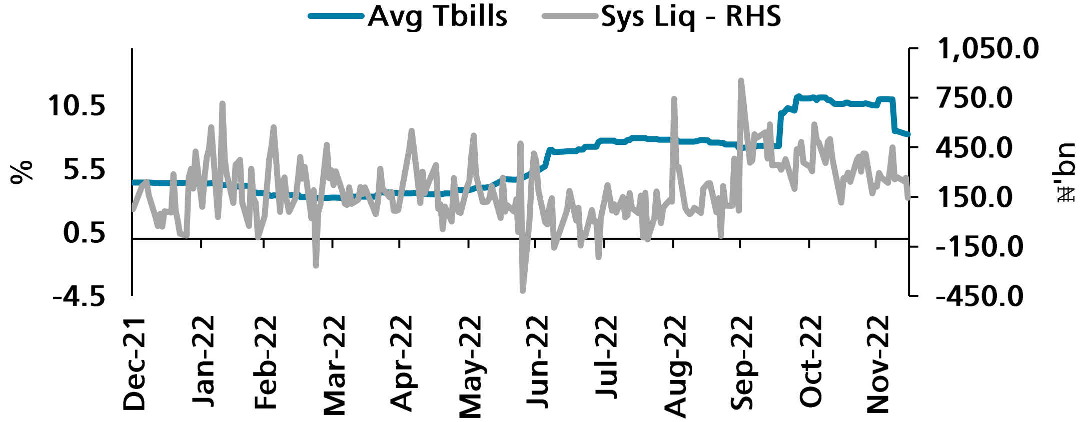


Average NT-bills Stop Rates Improve at PMA

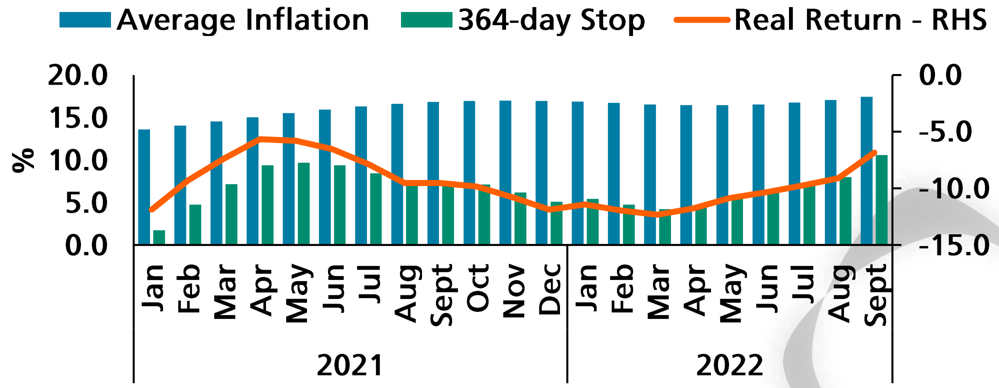


NB: December average stop rate is as of December 7th 2022

Liquidity Squeeze Triggers Yield Repricing



Negative Real Return Improves Despite Stubborn Inflation

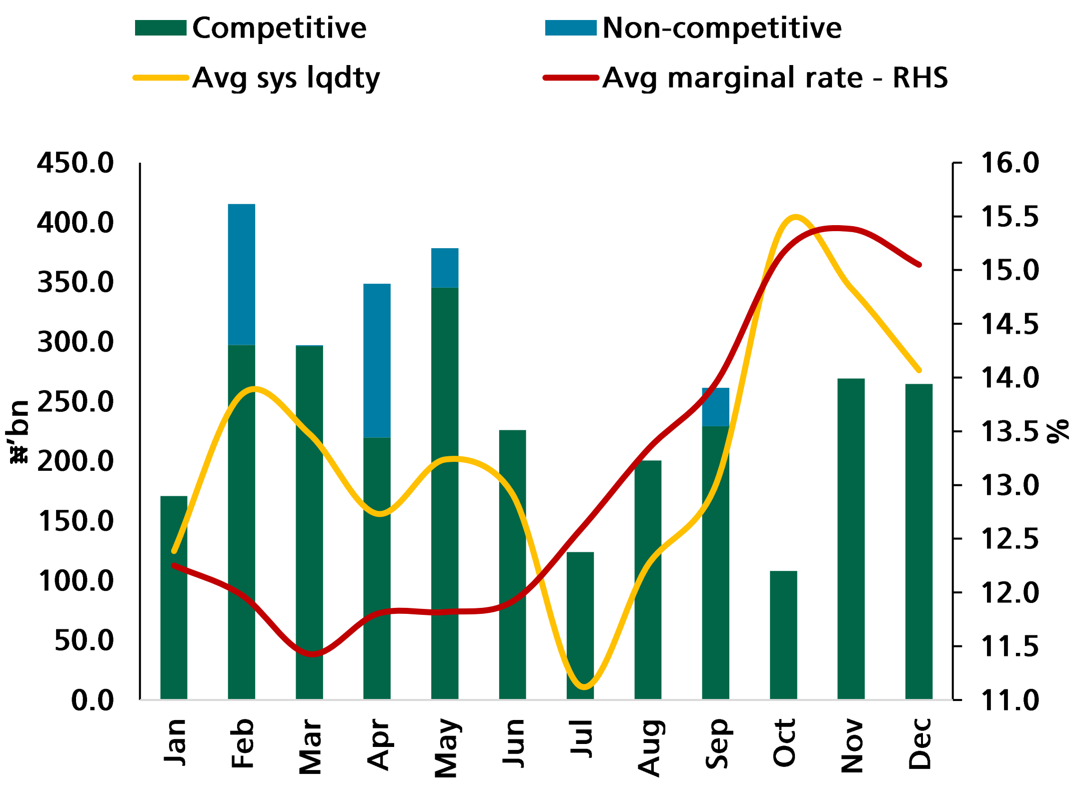


Source: CBN, DMO, FMDQ, Afrinvest Research

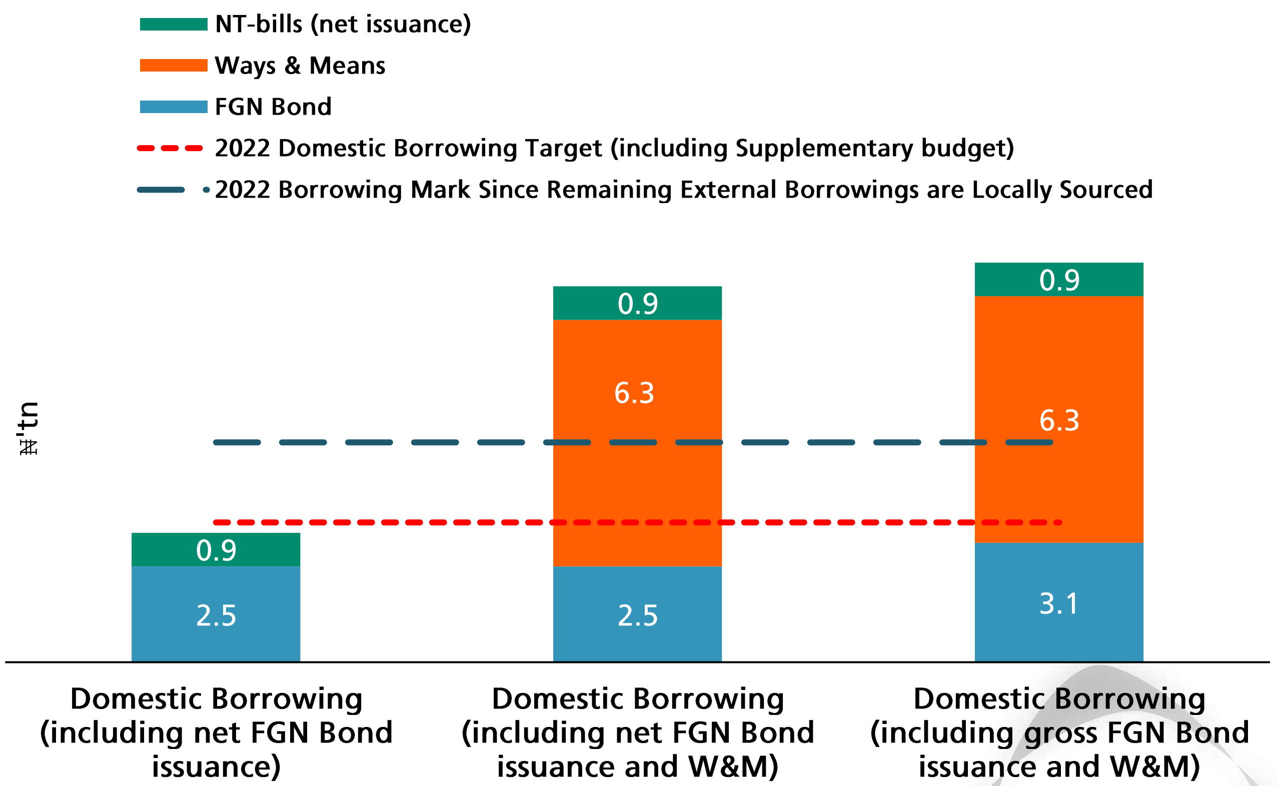
2022 IN RETROSPECT… FISCAL EXPANSIONISM FUNDED BY W&M

- Intense rate management in H1:2022 amid front-loading, in contrast to improved clearing rates in H2:2022
- Ways & Means was the main local borrowing source for FG in 2022, allowing financial repression

FGN Bond Sales and Marginal Rate Trend in 2022



Actual Domestic Borrowing vs Targets

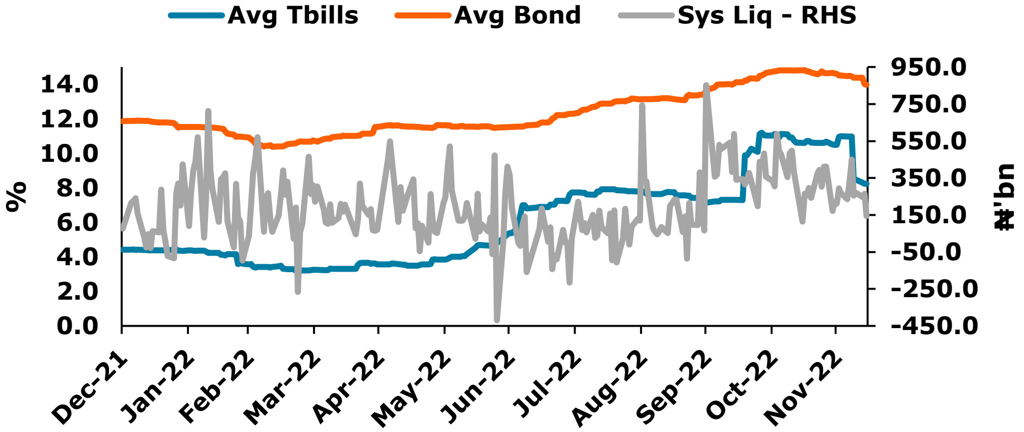


NB: Data excludes promissory notes, Savings bond and other (minor) instruments for government financing

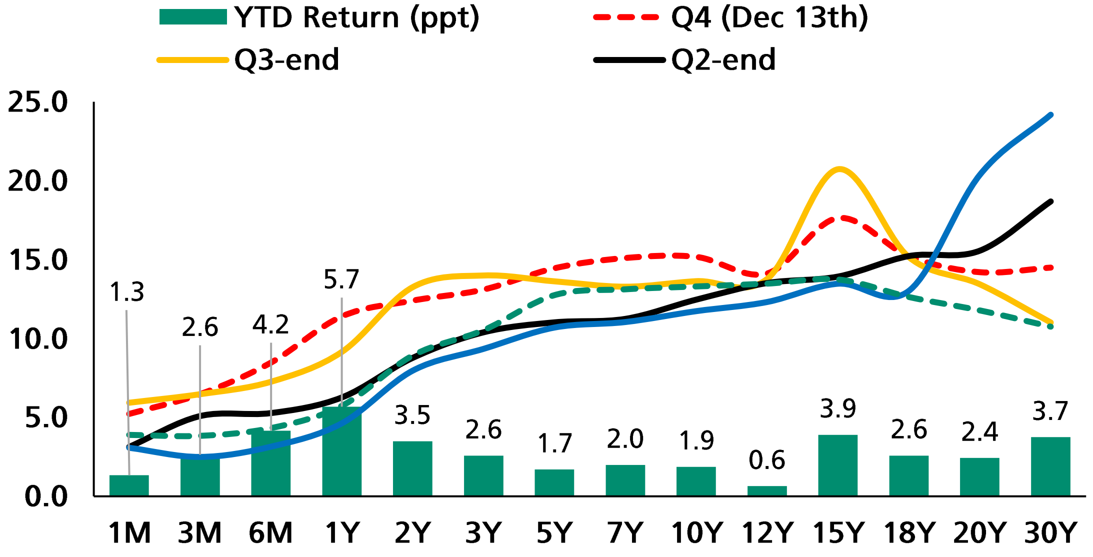
Source: CBN, DMO, FMDQ, Afrinvest Research

2022 in Retrospect… Secondary Bond Yields Trended Northwards

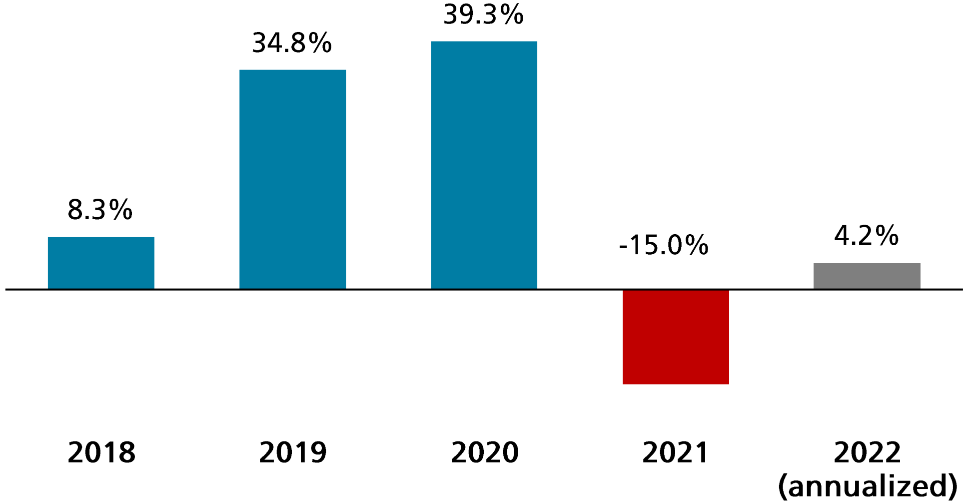
Bonds Yields Rose less Steeply Than T-bills



FGN Bond Yield Curve Evolution in 2022



LCY Sovereign Bond Returns 4.2% in 2022



NB: S&P calculates the total return by aggregating the interest return (reflecting the return due to paid and accrued interest) and price return (reflecting the gains or losses due to changes in the end-of-day price and principal repayments).

- Bond Yields rose less steeply than T-bills
- FGN Bonds returned 4.2% in 2022
- Liquidity squeeze drove repricing of yields at front-end of the curve while investors bought the belly

Source: CBN, DMO, FMDQ, Afrinvest Research

2022 IN RETROSPECT… CORPORATE BONDS ISSUANCE ROSE

Issue Date	Issuer	Issue Amont (₦'bn)	Coupon Rate (%)
27-Jul-22	PARTHIAN PARTNERS FUNDING SPV PLC	10.0	13.5
27-Apr-22	DANGOTE CEMENT PLC	4.3	11.9
15-Jun-22	ACCELEREX SPV PLC	2.3	14.0
14-Sep-22	UNITED CAPITAL PLC	11.7	15.0
08-Mar-22	EAT & GO FINANCE SPV PLC	3.5	13.3
05-Apr-22	PRESCO PLC	34.5	12.9
27-Apr-22	DANGOTE CEMENT PLC	4.3	11.9
19-Jul-22	DANGOTE INDUSTRIES FUNDING PLC	10.5	12.8
28-Jul-22	GEREGU POWER PLC	40.1	14.5
02-Feb-22	PAT DIGITAL INFRA FUND SPV PLC	10.0	13.3
27-Apr-22	DANGOTE CEMENT PLC	4.3	11.9
19-Jul-22	DANGOTE INDUSTRIES FUNDING PLC	10.5	12.8
10-May-22	LFZC FUNDING SPV PLC	25.0	13.3

	2021	2022
New issue Amount (₦'bn)	227.5	170.8
Average coupon rate of new issues (%)	11.8	13.1

NB: 2022 as of Dec 14

	2021	2022
Average yields of Corporate Bonds (%)	12.1	14.6

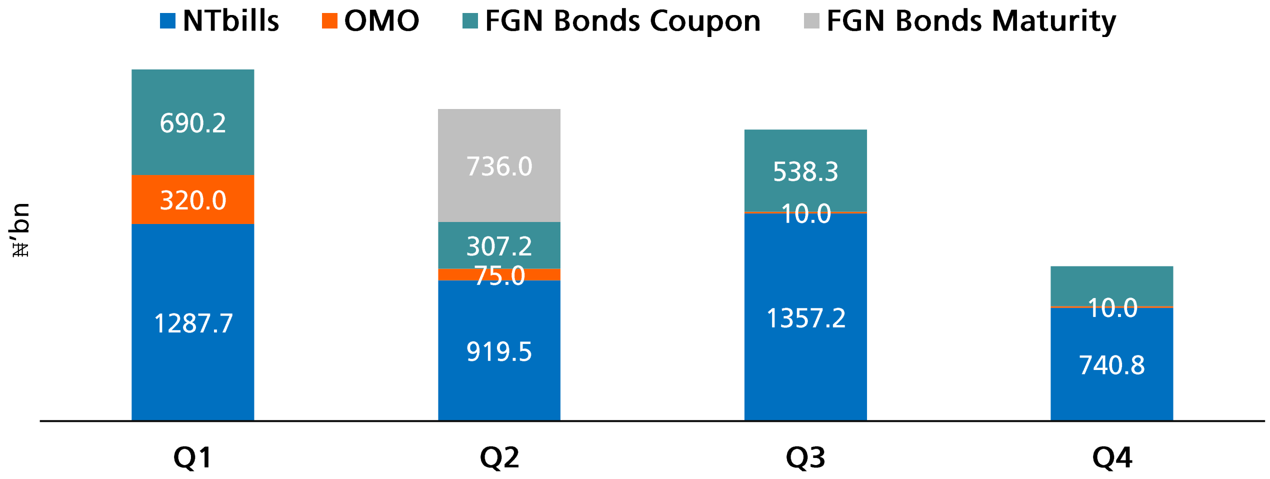
CPs	2021	2022
Average yields	11.2	15.3
Average discount	10.9	14.5

Source: FMDQ, Afrinvest Research

- Although there were 13 Corporate Bond issues in 2022 compared to 10 in 2021, total amount raised (₦170.8bn) was 24.9% lower y/y with average coupon rate at 13.1% vs 11.8% previously.
- The Biggest issuers in the year were Geregu Power (₦40.1bn), PRESCO (₦34.5bn) and LFZC (₦25.0bn).
- The average Corporate Bond yield rose to 14.6% from 12.1%.
- Average CPs yield rose to 15.3% from 11.25%.
- We estimate that CPs issuances in 2022 (80 listing between Apr & Dec 14) exceeded 37 recorded in the same period in 2021.

EXPECTED LIQUIDITY PROFILE FOR 2023

Breakdown of Expected Maturities and Coupon Payments in 2023



Gross vs Net Liquidity Outlook for 2023

	NT Bills	OMO Bills	Coupon Payments	Bond Maturities	Total	Total Less Outflow
Q1	1,287.7	320.0	690.2	-	2,298	396.14
Q2	919.5	75.0	307.2	736	2,038	504.09
Q3	1,357.2	10.0	538.3	-	1,905	- 65.84
Q4	740.8	10.0	260.3	-	1,011	- 343.80
Tota	4,305.1	415.0	1,796.0	736.0	7,252.1	490.59

Source: CBN, DMO, FMDQ, Afrinvest Research

- ₦8.8tn new borrowing has been earmarked in the 2023 budget, of which ₦7.0tn will be sourced locally and ₦1.0tn from foreign sources.
- Net liquidity expected to be positive in H1:2023 in contrast to H2:2023. Overall, we expect total liquidity inflow to exceed paper supply in 2023.
- In our view, the foreign bond market would likely be too expensive for issuance in 2023 while the domestic market cannot absorb the ₦7.0tn local borrowing need of the FG. Thus, we expect c.53.5% (₦3.8tn) to be raised from the local market while Ways & Means financing would likely remain on the table, albeit less than in 2022.

Afrinvest RESEARCH

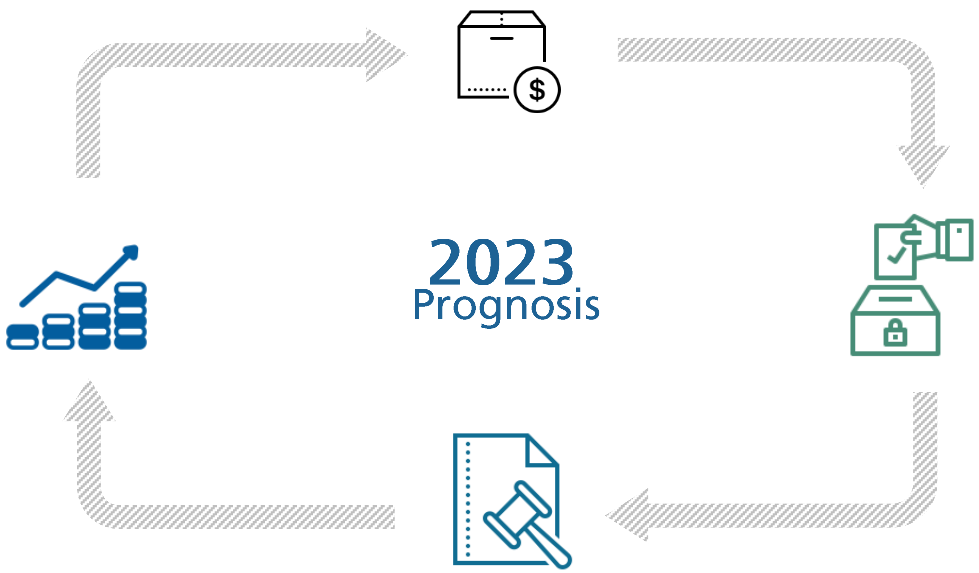
Soft Moderation in Yield Environment in 2023… Key Considerations

Fiscal Pressure to Build

Given the ambitious expenditure plan in the face of revenue weaknesses and high recurrent costs, we believe that fiscal burden will increase in the year, with W&M as a key financing source for the FG.

Softer Inflation Outlook

Average inflation rate is expected to moderate to 17.7% due largely to high base year effect and softer foreign inflation pass through.



Election Uncertainty

We expect uncertainties before the election to affect asset performance across financial market. On the balance of scale, we believe an upward adjustment of yields on short-term instruments to characterize the first few trading weeks.

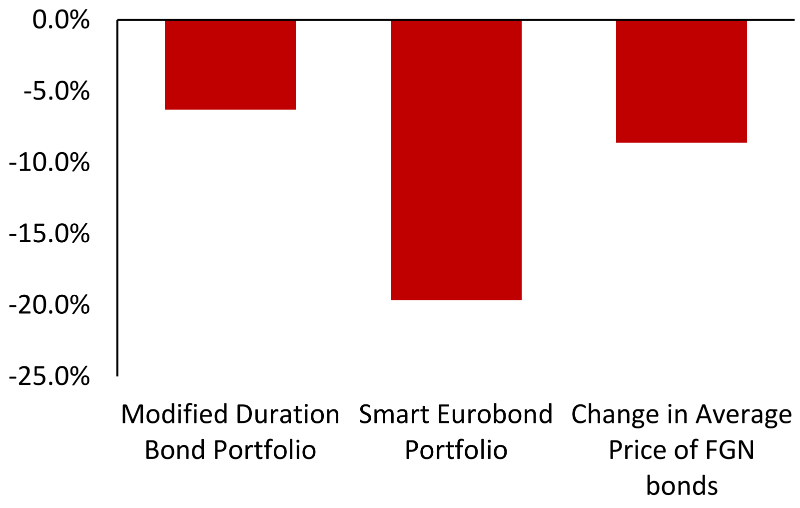
MPC Likely to Maintain Status-Quo

Our expectation is for the MPC to hold MPR for most part of the year.

2023 Investment Strategy… Optimizing a moderation in yields

- Going into 2022, we advised a switch to "short-selling" strategy by end of Q1:22 due to expected yield surge (price decline) and based on our Modified Duration Portfolio, we favored a tilt towards short-midterm instruments as an over-arching strategy for the year
- Our expectation of yields moderation in 2023, informs our strategy for traders to stay on the short-to-mid segment where prices should appreciate as yields moderate while investors yield-seeking players should lock into the long end and hold.

Review of 2022 Investment Portfolios



Source: FMDQ, Bloomberg, Afrinvest Research

Selected Bonds for 2023

Modified Duration Bond Portfolio	Smart Eurobond Portfolio	Passive Bond Portfolio
Instrument	Issuer	Issuer
^13.53 23-MAR-2025	REPUBLIC OF NIGERIA 2025	DANGOTE CEMENT PLC 2024
^12.50 22-JAN-2026	REPUBLIC OF NIGERIA 2031	FLOUR MILLS OF NIGERIA PLC 2025
15.00 28-NOV-2028	REPUBLIC OF NIGERIA 2038	UNITED CAPITAL 2025
^14.55 26-APR-2029	REPUBLIC OF NIGERIA 2049	ACCESS BANK 2026
^16.2499 18-APR-2037	REPUBLIC OF KENYA 2028	MTN NIGERIA COMMUNICATIONS PLC 2028
^13.00 21-JAN-2042	REPUBLIC OF ANGOLA 2028	
^14.80 26-APR-2049	ACCESS BANK PLC 2026	
^12.98 27-MAR-2050	ECOBANK TRANSNATIONAL 2024	

Asset Allocation Strategy for 2023

50%

Fixed Income

We recommend that investors should stay overweight across Fixed income investments with special focus on yield play.

20%

Real Estate

Real estate remains a solid option in the alternative space, with a focus on buying cheap assets in strategic locations.

15%

Equities

A hard landing could affect the performance of equities in 2023. Investors are expected to focus on defensive sectors.

10%

Commodities

The Commodities market could face further losses due to recession fears. Investors should diversify their portfolios with precious metals.

5%

PE/VC/Digital Assets

Investors should seek projects with solid fundamentals and strong use cases.

Fixed Income Asset Allocation Strategy for 2023

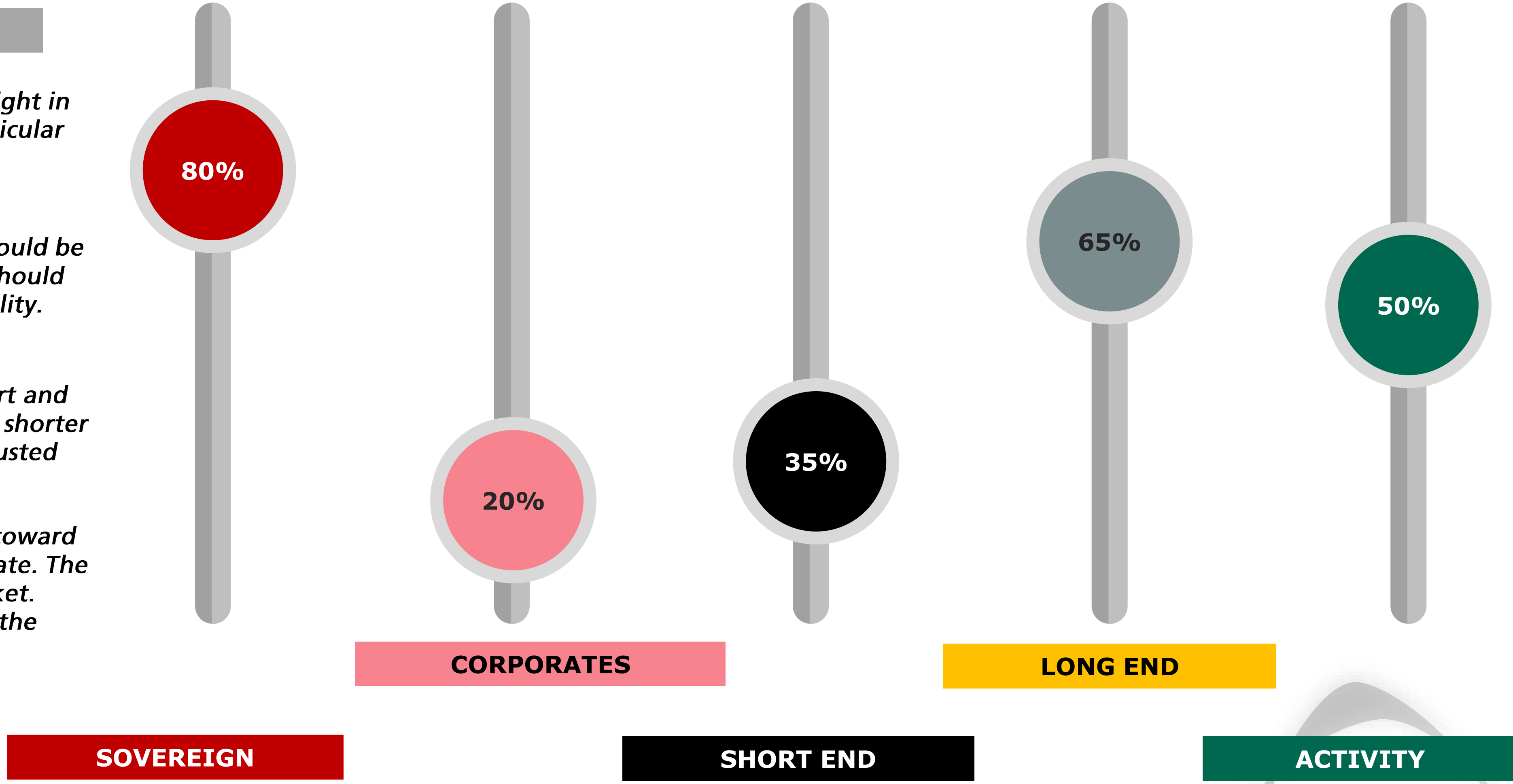
COMMENTARY

We advise investors to remain overweight in fixed-income investments, with a particular emphasis on yield play.

Sovereign with strong fundamentals should be the center of focus while corporates should also take a substantial part for stability.

The juiciest yield are sitted on the short and belly of the curve. A higher yield with a shorter maturity will deliver a better risk-adjusted return.

Given that we expect muted volatility toward the downside, activity should be moderate. The surest bet remains to long the market. However, investors can short when the opportunity arises.



ASSET ALLOCATION STRATEGY FOR 2023

1

Commercial Papers offering decent yields with quality credit rating are desirable

2

Hold TBs only to balance risks as yield should go lower

3

Liquidity is key overall in 2023. With sufficient liquidity, investors can take advantage of market drawdown/ mispriced assets

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