

A large, smooth, brown egg is balanced on its edge on a dark wooden surface. The background is a plain, light-colored wall.

# CSL STOCKBROKERS LIMITED

2023 OUTLOOK: A TIPPING POINT

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## INVESTMENT SUMMARY



## INVESTMENT SUMMARY (1/2)

- ❑ The Nigeria equities market closed positive (+19.98%) in 2022, for the third consecutive year, despite the external shocks that greeted the global investment terrain for most part of the year. Sustained revenue growth and corporate actions by some tickers were key drivers of market growth. Expectations of similar corporate actions/positive news around the heavily weighted stocks and elimination of political risk post the February elections are factors that may drive a positive 2023 close we believe. However, we expect the lingering impacts of the Russia – Ukraine war and electoral activities to keep activity level low in the first half of 2023
- ❑ The past few years have been particularly difficult for the country, characterised by systemic failures in governance, widespread insecurity and slow economic growth punctuated by two recessions. In our view, 2023 is a critical year for Nigeria. Two events that we believe will be game changers are the choice of leadership and the commencement of the Dangote refinery. Nigerians will again head for the polls in February. While our core view is that the 2023 election will be held without extensive violence, we do not eliminate the possibility of pockets of violence post the elections. Major decisions around subsidies, fiscal responsibility and FX liberalisation must be taken to avert an economic collapse. Judging by the antecedents and campaign promises of the three frontliners, there is a fair chance of knowing their stance on such decisions and we discuss these in the report.
- ❑ Nigeria's hope of attaining self-sufficiency in the local domestic oil refining space might just rest largely on the operations of the Dangote refinery. The refinery, which has one of the largest production capacities in the world, operating at full capacity would more than meet Nigeria's domestic fuel requirements with excess capacity for export and we expect a positive impact on foreign exchange supply. While we note that achieving self-sufficiency in local refining capacity might not reduce the cost of petrol significantly, it would at least boost the availability of the product and bring a lasting end to the persistent issue of fuel scarcity in the country.
- ❑ We forecast GDP growth of 3.1% driven by both the oil and non-oil sector as we expect a reversal in the fortunes of the oil sector. We forecast production will reach 1.6mbpd in 2023 and oil price will average US\$85/bbl. Headwinds to the Naira will likely persist as foreign inflows remain uninspiring, and demand pressure remains heightened. We expect the exchange rate at the I&E window to depreciate to N510.00/US\$ and the wide parallel market premium to persist. The CBN joined the hawkish parade in 2022, hiking the policy rate by 500bps to 16.5%. In 2023, we believe the CBN will maintain its rate hike stance in H1, though at a slower pace and will likely keep rate constant in the second half of the year. In 2023, we project inflation to moderate by 71bps to 18.20%, aided largely by base effect, especially in H2-2023. Nevertheless, we still expect some price triggers from electricity tariff hikes, PMS price adjustment, persistent currency pressure and climate-related shocks
- ❑ Foreign investors have in the past few years shown apathy towards Nigerian equities and we do not expect any significant comeback this year, at least until FX concerns are addressed directly, or indirectly through positive news like commencement of operations at the Dangote refinery. Activities at the Nigerian equities market remain dominated by institutional investors with 72% (56% local institutions and 16% foreign) share of transaction value as at November 2022. While transaction volumes from local institutional investors are expected to remain resolute, we expect a sizeable portion of investments to go to the fixed income market. Though still real negative, fixed income rates are expected to rise and will not be ignored by investors.

## INVESTMENT SUMMARY (1/2)

- ❑ We are, however, optimistic about the performance of some of the sectors we cover. We model an increase in Pre-tax profits for all Tier 1 banks in 2023e. We foresee headwinds such as slightly higher cost of risk and higher operational and refinancing costs impacting earnings, however, rising interest rates should support margins, cushioning the decline in earnings and permitting improvements in profitability. Moreover, current P/BV valuations of the banks remain at historic lows and present an entry opportunity for investors
- ❑ The Nigerian consumer remained under severe pressure in 2022 as purchasing power weakened progressively amidst high inflation. In response, the average consumer continued to trade down on the value chain, switching to cheaper alternatives as living costs rise in the face of generally low-income levels. However, most of the food processing and FMCG sub segments recorded revenue increases in 2022, albeit, driven mainly by upward price reviews. We expect Revenue to remain upbeat due to the essential nature of goods produced and the reduced level of imported substitutes despite the border re-opening in 2021. On the other hand, operating cost pressures will likely persist in 2023 due to FX pressures
- ❑ The cement sector remained moderately upbeat in 2022. With housing needs deficit estimated at 28million units and the gradual shift to cement paved roads, we believe that the sector will remain resilient. In addition, the establishment of the PPP Infra-Co to bridge the infrastructural gap in the country will benefit the players in the cement sector. We also expect private sector investments in real estate to remain strong.
- ❑ The telecoms sector retained its growth trajectory in 2022. Teledensity rose to 112.47% as at October 2022 from 102.40% as at December 2021. Similarly, broadband penetration rose to 45.55% as at October 2022 from 40.88% as at December 2021. The sector is also in the process of deploying the 5G broadband network with MTN Nigeria Limited already taking the lead. The operators' foray into payment service is another booster to the industry growth. We expect growth in the sector to remain strong as the virtual business space continue to gain traction.
- ❑ Barring any political catastrophe during the electoral process, the drivers of the Nigerian capital markets performance remain the oil price, the smooth running of the banking system, and the health of the economy. Oil price risk stands out as the one extraneous factor that could go badly wrong, and a sharp fall in the oil price would have directly negative effects, in our view. That said, we believe the valuations of many stocks remain very attractive. Within our coverage universe, we have Buy ratings on FBNH, UBA, Access, Zenith, Guaranty Trust Bank, Dangote Cement, MTNN, Cadbury and Okomu. Essentially, we believe current valuations present medium to long-term investors with attractive entry opportunities as we anticipate that a rebound in market performance will lead to a re-rate of these aforementioned stocks



**ANY GAME CHANGER?**



## 2023 ELECTION: ANY GAME CHANGER?

Presidential Candidates	Possible Outcome
Ahmed Bola Tinubu	Many believe that the APC candidate is a continuation of the present administration, as he has stated that he would seek to build on the antecedents of the present government. Making basic healthcare, education, and housing accessible and affordable for all were highlighted in his policy document.
Atiku Abubakar	Atiku Abubakar is known for spearheading the privatization plans of the Obasanjo regime. He has noted that he would look to break government monopoly in all infrastructure sectors, including refineries, rail transportation, and power transmission. This could improve the efficiency of these sectors, but we note that the downside to his privatization agenda would be an increase in the cost of living in the country as private investors would seek to protect their profit margins.
Peter Obi	Peter obi's campaign has been largely built on reducing the cost of governance and spearheading a shift from consumption to production, which should ultimately lead to an increase in economic output. He is known to be prudent with resources having left about N75bn in the coffers of Anambra state when he left office. If elected, fiscal responsibility may be the highlight of his government in our view. However, we note that the absence of a Labour party representative in the national assembly could constitute a challenge for an Obi administration.



# DANGOTE REFINERY & PETROL SUBSIDY REMOVAL

## Petrol price hike will likely make the product more available

- For most of 2022, the country witnessed a scarcity of fuel products which increased the hardship of motorists who were forced to spend hours in the sweltering heat, waiting in line for fuel, thereby losing productive man-hours.
- Different reasons were given for the scarcity during the year, from about 100 million liters of contaminated fuel imported into the country by the Nigerian National Petroleum Corporation (NNPC) and its related firms to trucks of fuel left stranded on the roads due to bad roads which were affected by the rains.
- The Federal Government has announced the removal of fuel subsidies in 2023 and has urged Nigerians to prepare for higher fuel prices that will follow. Though we realize how politically sensitive this discourse is, we see no option for the incoming government amidst a tight fiscal space.
- Undoubtedly, an attempt to revise the price to suit current realities will be strongly resisted by the populace who have been hard hit by two recessions and a pandemic in the last 7 years amid rising food and utility costs, making us believe the elimination of the subsidies will be gradual starting possibly from the second half of the year.

## Dangote Refinery: A possible game changer

- The Dangote refinery is an integrated petrochemical refinery which is situated in the Lekki Free Zone, Lagos State. It has a capacity of processing about 650,000 barrels of crude oil per day. This project is expected to be Africa's biggest oil refinery and the world's biggest single-train facility.
- The refinery is expected to have a significant impact on Nigeria's foreign exchange through import substitution and substantial savings in earnings in the long term. A significant inflow of forex is also expected to come in through exporting activities from the refinery, with the Central Bank Governor, Godwin Emefiele, projecting a 30% forex reversal.
- Nigeria's hope of attaining self-sufficiency in the local domestic oil refining space might just rest largely on the operations of the Dangote refinery. The refinery, which has one of the largest production capacities in the world, operating at full capacity would more than meet Nigeria's domestic fuel requirements with excess capacity for exports.
- While we note that achieving self-sufficiency in local refining capacity might not reduce the cost of petrol significantly, sufficient local refining capacity would at least boost the availability of the product and bring a lasting end to the persistent issue of fuel scarcity in the country.



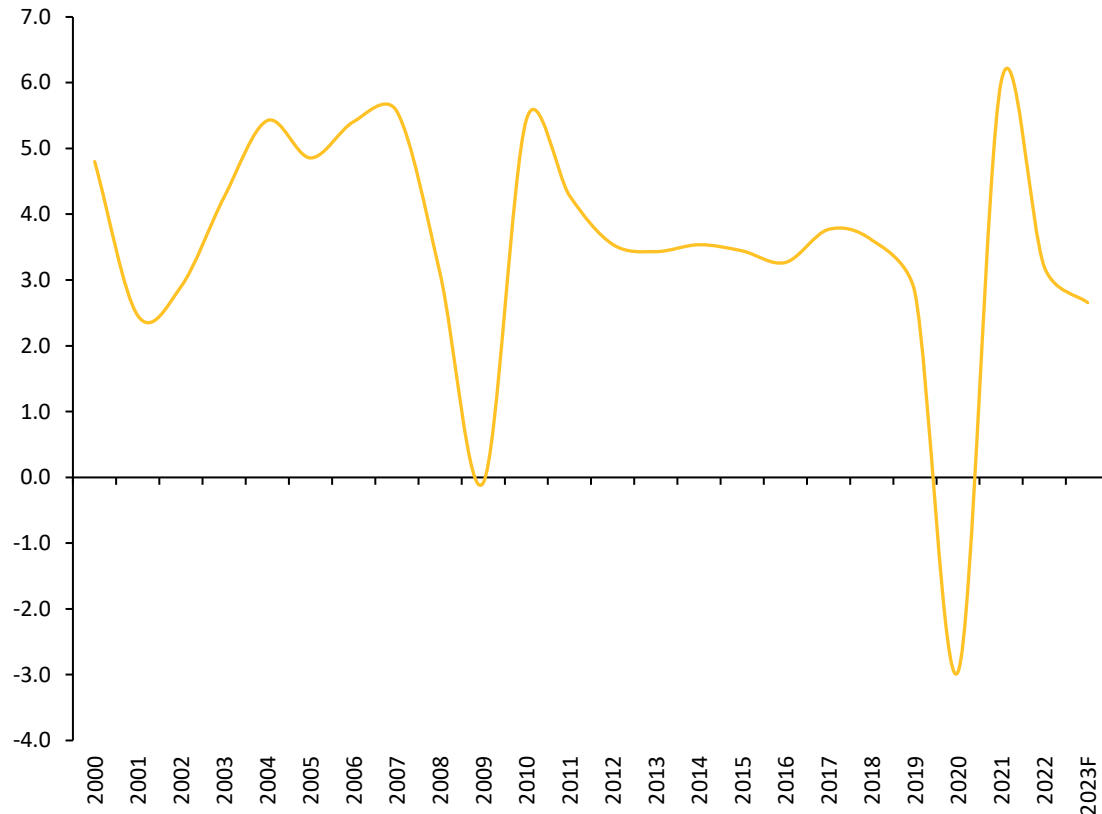
# GLOBAL ECONOMIC REVIEW



# GLOBAL ECONOMY HEADING FOR A RECESSION IN 2023

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## GLOBAL GROWTH IS PROJECTED TO SLOW SIGNIFICANTLY IN 2023



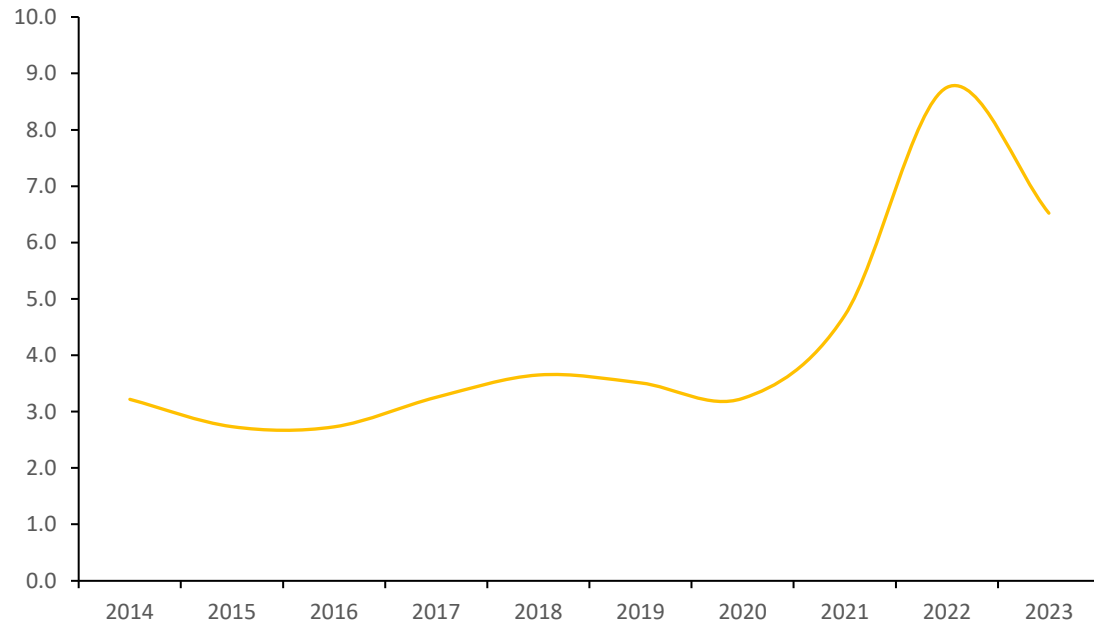
Sources: IMF, CSL Research

- The global economy was engulfed by uncertainties in 2022, as unprecedented inflation and hawkish monetary policy response resulted in a material slowdown in economic activities. We note that the EU is among the most exposed advanced economies to a recession in 2023 due to geographical proximity to the war and heavy reliance on gas imports from Russia
- Elsewhere, despite the declining demand in the US housing market, the country is likely to avoid a deep recession due to the relatively strengthened job market, with the unemployment rate at a five-decade low of 3.5% in December 2022
- Away from the EU and the US, China's growth in 2022 slumped to its second slowest pace since the mid-1970s due to Covid-19 restrictions and a slump in the property market (real estate)
- Consequently, IMF projected global growth to moderate from 6.0% in 2021 to 3.2% and 2.7% in 2022 and 2023, respectively. Despite the projected material slowdown in the global economy, reopening of China's economy after covid lockdowns brightens the global economic outlook

# GLOBAL ECONOMY: MONETARY AUTHORITIES LIKELY TO PAUSE RATE HIKEs

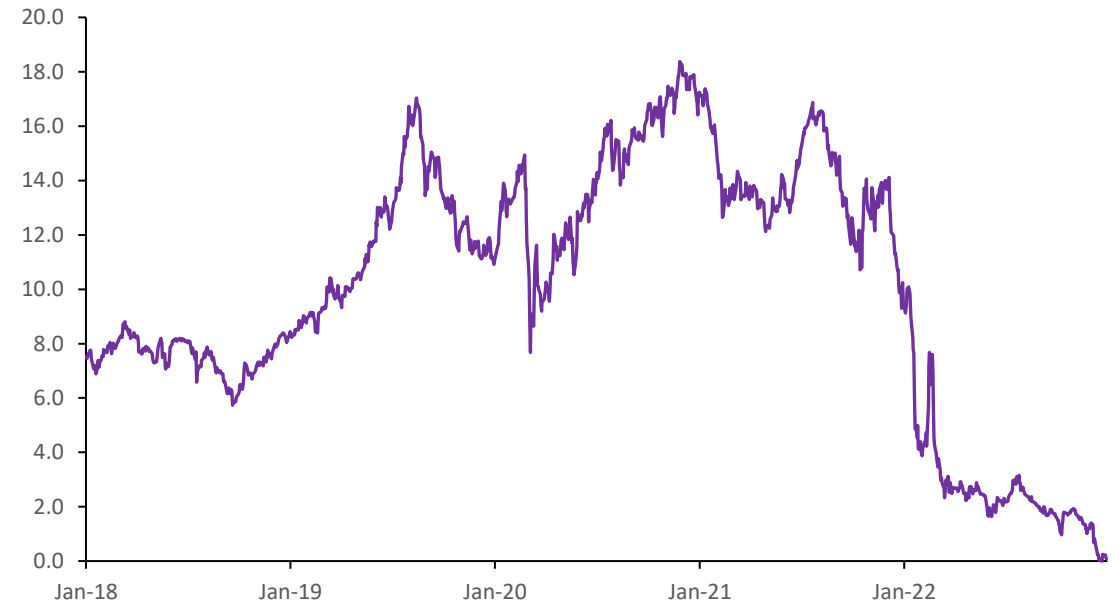
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## GLOBAL INFLATION (%) POISED TO MODERATE IN 2023



Sources: IMF, CSL Research

## GLOBAL STOCK OF NEGATIVE-YIELDING BONDS HAS DWINDLED TO ZERO



Sources: Bloomberg, CSL Research

The global economy was accustomed to inflation in 2022, exacerbated by the Russia-Ukraine conflict, which led to higher food, commodities and energy prices. Besides, the tight labour market conditions in advanced economies led to higher wage growth, colliding with lingering post-pandemic spending to create demand-side pressure. To combat this inflationary pressure, monetary authorities hiked the policy rate to an unprecedented level. This global hawkish stance has led to the global stock of negative-yielding bonds dwindling to zero from highs of US\$18.0 trillion in 2020 and significant balance sheet unwinding.

In 2023, global inflation could reach a peak, largely due to a possible high base effect. Furthermore, supply chain disruptions are gradually disappearing, with shipment activities improving and cost declining. Consequently, the lower inflation rate could lead to slower pace of rate hike or a pause on rate hikes in 2023. However, given that inflation is still far from central bank target, rate cut is very unlikely, despite the weaker growth expectations.



# GLOBAL ECONOMY: CHINA'S RE-OPENING, A TALE OF HOPES AND WOES



- The China reopening is a tale of a bitter-sweet pie for the global economy. On the positive, given that the world's second-largest economy is a low-cost producer, we expect the kickstart of economic activities to boost industrial activities and help reduce global supply bottlenecks, with positive passthrough to economic activities
- Conversely, China's demand for raw materials and energy will likely push up commodity prices. For context, the reduced participation of China in the gas market has enabled big importers in the EU to buy at less inflated prices. Reversal of that trend could pressure prices and amplify inflation.



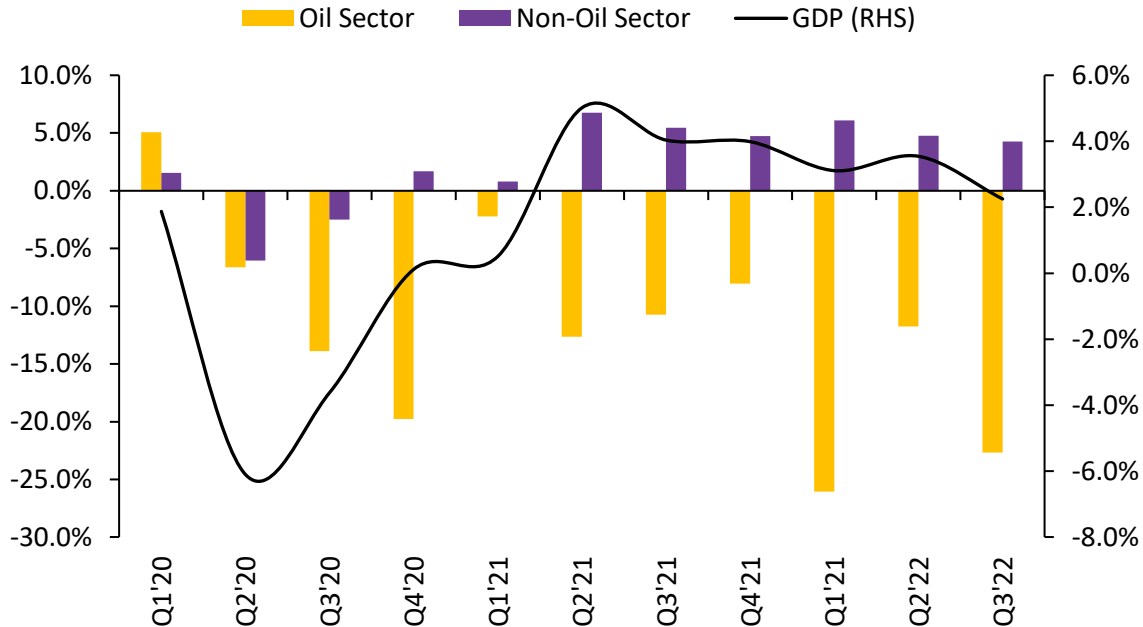
## DOMESTIC ECONOMIC REVIEW



# GDP: NON-OIL SECTOR CHAMPIONED GROWTH IN 2022

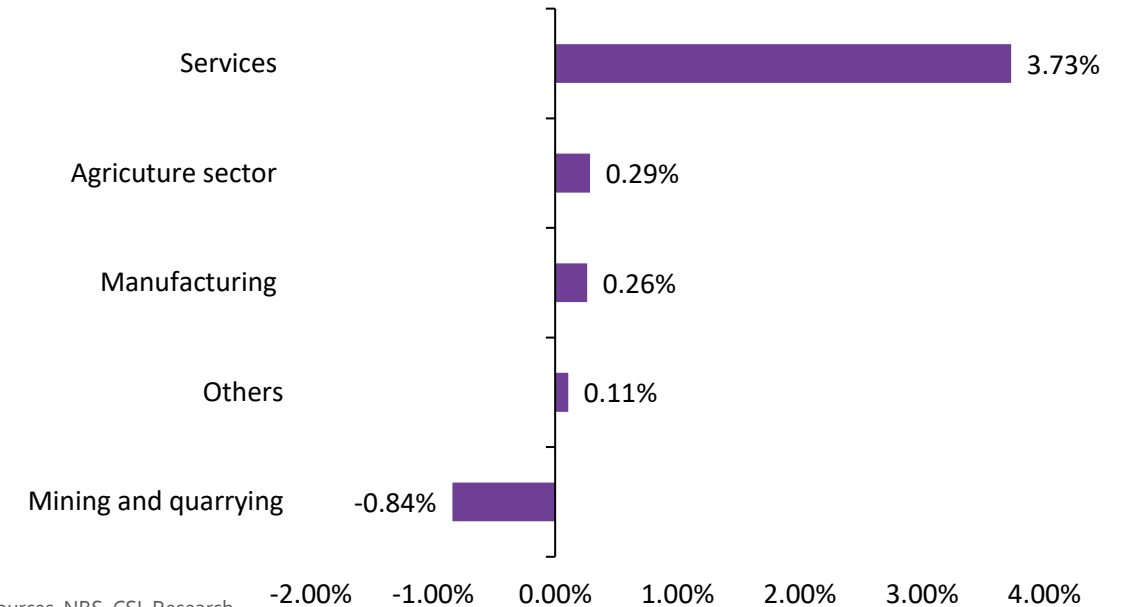
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## GROWTH REMAINS BIASED TO THE NON-OIL SECTOR



- Growth remained robust in 2022, supported by the non-oil sector (+5.01%), while the oil sector (-20.7%) remained in contraction. The growth in the non-oil sector was driven by traction from services, which profited from the uplift in ICT, catalysed by telcos infrastructural spending. Also, the mobile money launch by two MNOs could have provided additional support for ICT.
- Furthermore, increased activities of B2C & B2B ecommerce businesses had a positive pass-through to the trade value chain, while financial services gained from resilient credit allocation.

## ATTRIBUTION ANALYSIS REVEALED THAT SERVICES SECTOR WAS THE MAIN GROWTH DRIVER IN 2022



Sources: NBS, CSL Research

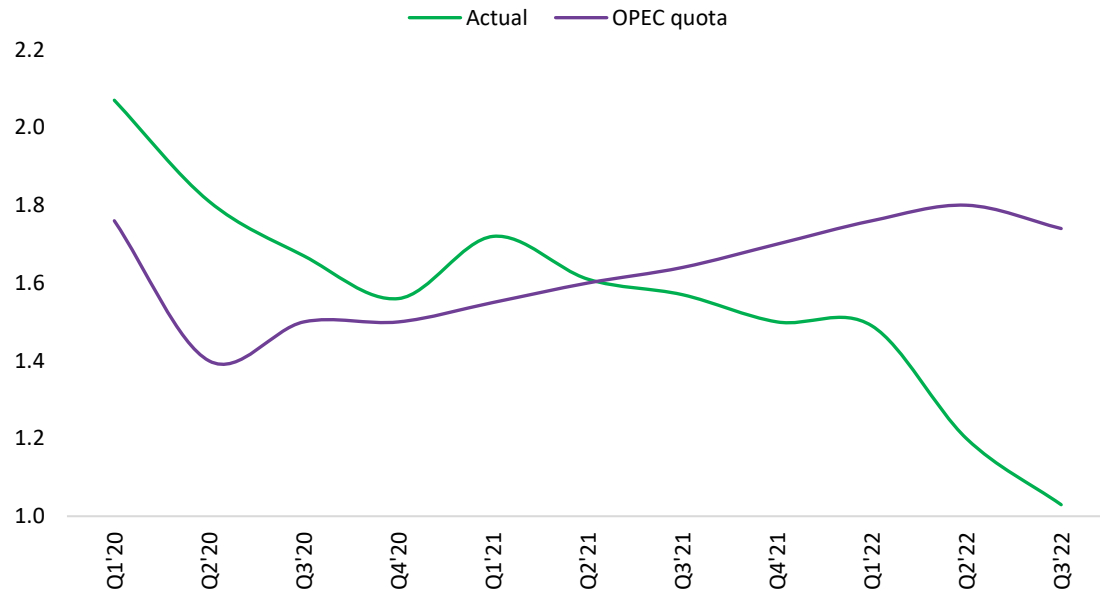
- The Agric sector touched new lows in 2022, as unabated insecurity and reported cases of flooding in over 35 states resulted in a drag on output.
- The manufacturing sector grew modestly by 2.31% in 2022, reflecting the negative impact of CBN's hawkish rendition, especially in the second half of the year. In fact, the sector contracted by 1.91% in Q3 2022, the first contraction since covid hit in 2020.



# GDP: THE OIL SECTOR REMAINS IN RECESSION, BUT THERE IS HOPE IN 2023

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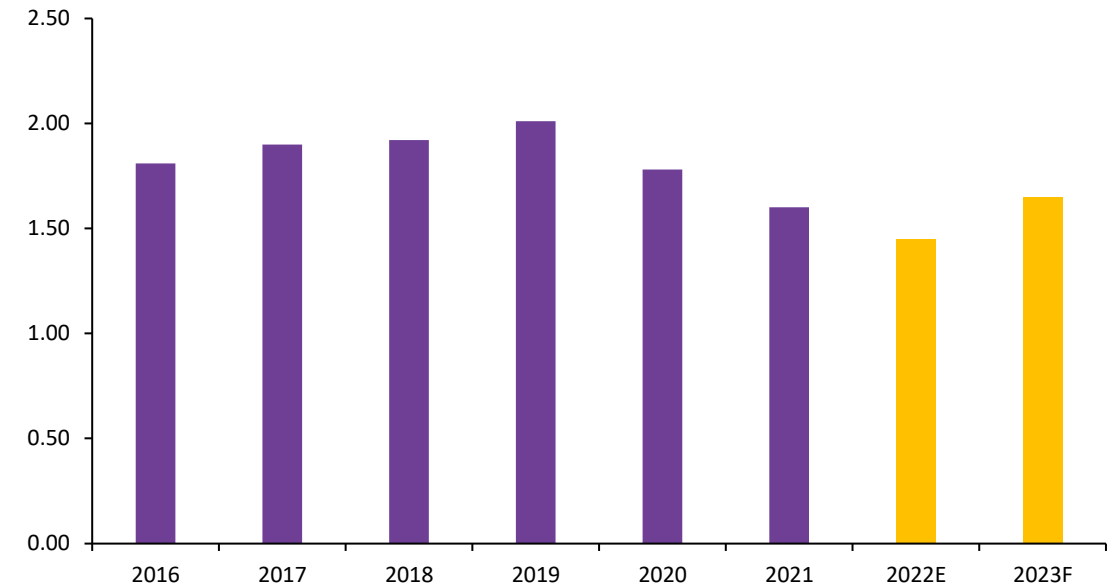
## CRUDE OIL PRODUCTION SLUMPED SIGNIFICANTLY BELOW THE OPEC QUOTA



Sources: NBS, OPEC, CSL Research

- Nigeria's crude production was marred by force-majeures in oil terminals, the resurgence of oil theft and waned investments. Consequently, the sector recorded an average contraction of 20.16% as of 9M-2022
- The oil sector, which has been in a three-year recession, is expected to rebound in 2023. Our expectation is based on the increased pipeline surveillance and the clampdown on oil theft by the government

## OIL SECTOR TO TURN POSITIVE IN 2023

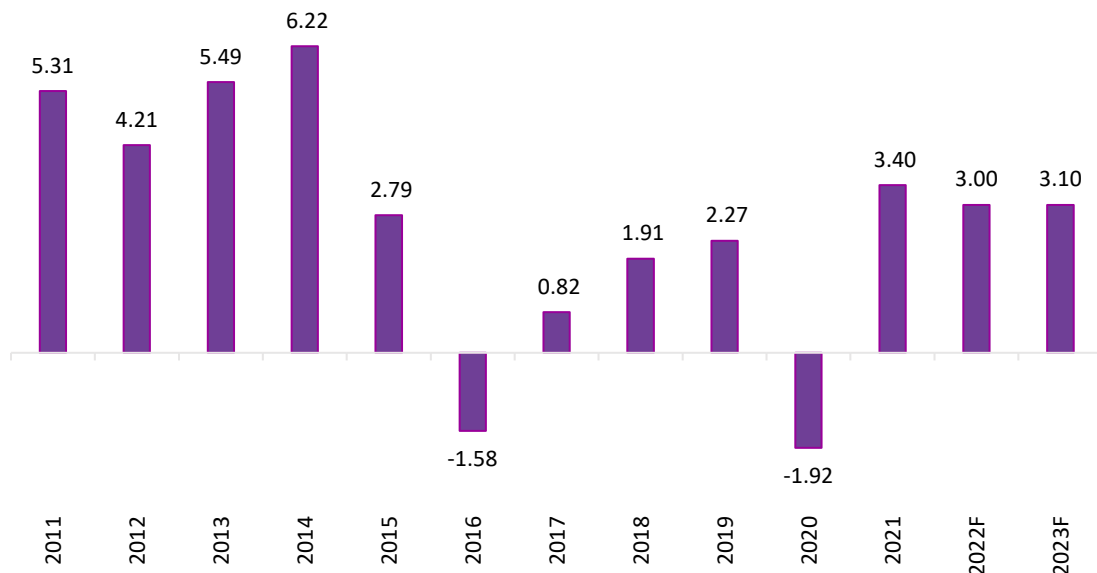


Sources: NBS, CSL Research

- Beyond this, we expect the commencement of 160,000 Amukpe-Escravos export terminals to support crude oil production in 2023
- Hence, we expect oil production to improve to 1.6omb/d, translating to 10.00% oil sector GDP growth.

# GDP: ECONOMIC GROWTH TO COAST AROUND 3.1% IN 2023

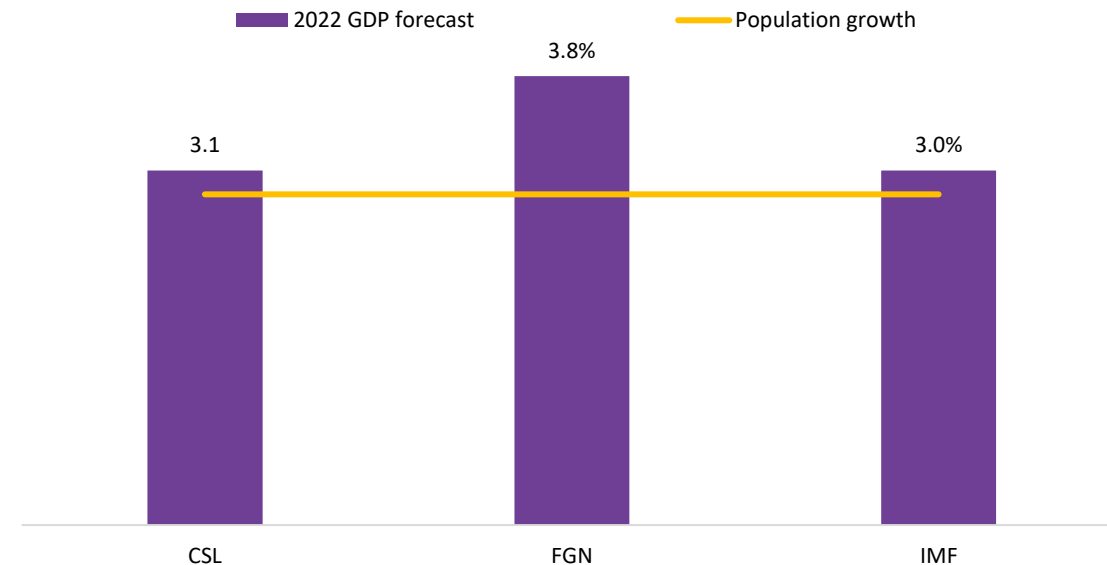
## GROWTH TO REACH 3.1% IN 2023



Sources: NBS, CSL Research

- Aside from the oil sector, we expect the service sector to maintain its growth pace in 2023, supported by gains from ICT. In our view, the rollout of the 5G network and the growing expansion of mobile money should drive ICT output. Elsewhere, we expect trade to positively impact the services sector, profiting from improved cross-border trade and B2B/B2C activities
- For the manufacturing sector, a lower pace of MPR hike by the CBN should have a positive pass-through to the sector

## ECONOMIC GROWTH SEEMS TO BE OUTPACING POPULATION GROWTH



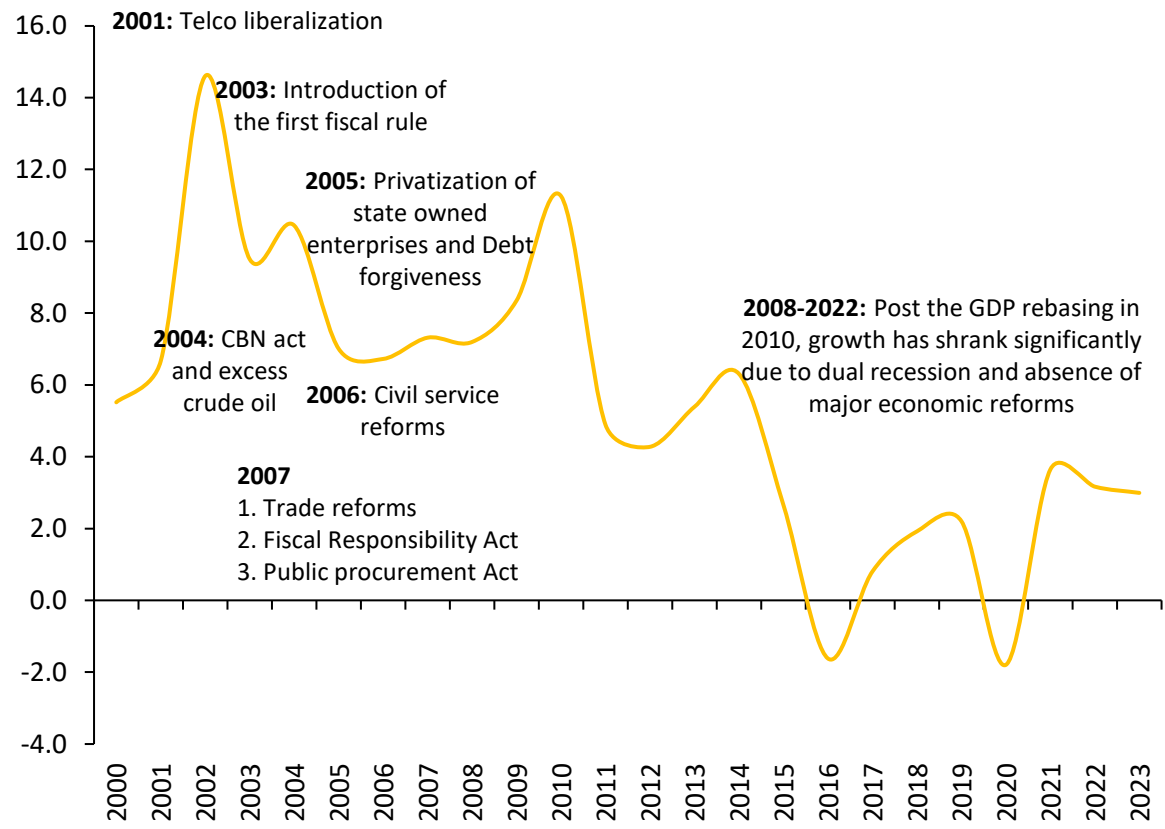
Sources: NBS, Budget office, IMF, CSL Research

- We also expect the operationalization of the Dangote refinery to have some tailwind effect on the oil refining GDP and the overall economy. IMF projected that the facility could add about 30-50bps growth to the economy
- Overall, given the factors above, we project growth to settle at 3.1% in 2023.
- Risks to our outlook include the political risk and sub-optimal crude oil production level.

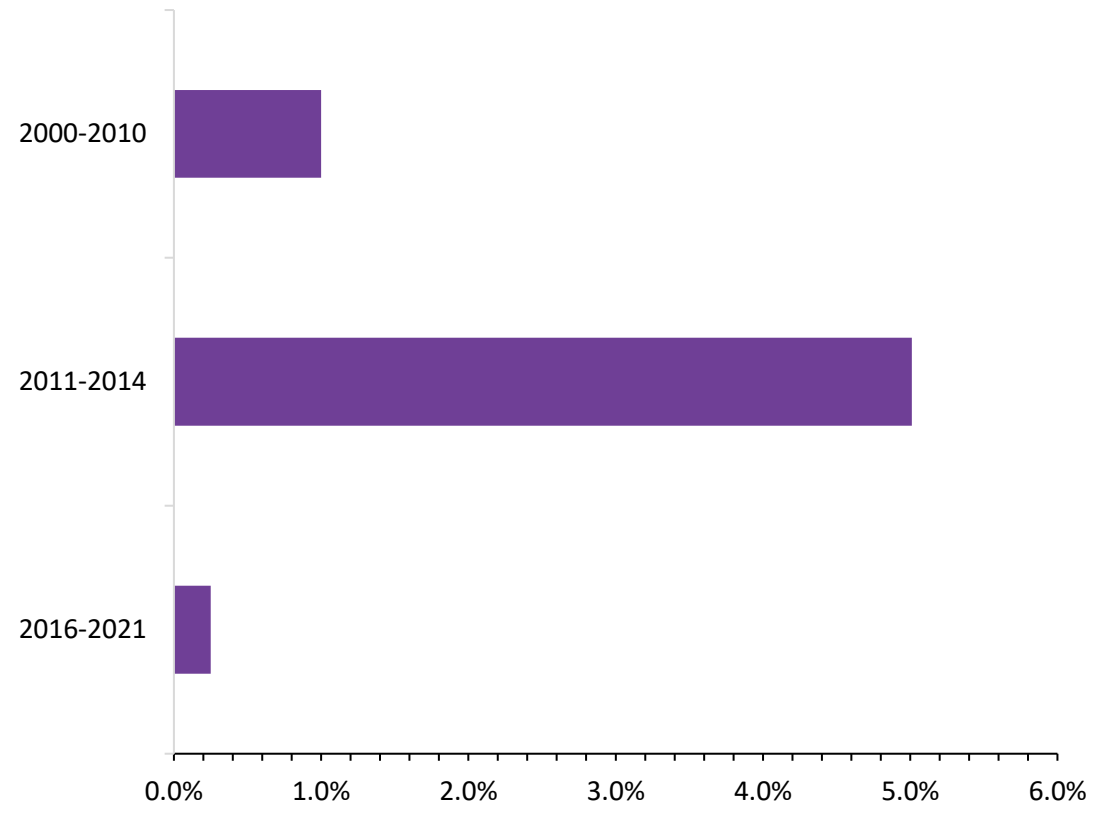
# GDP: THE APPETITE FOR REFORMS HAS DECREASED OVER THE PAST DECADE, LIMITING THE GROWTH POTENTIAL



FROM 2001 TO 2007, THE GOVERNMENT IMPLEMENTED A SERIES OF REFORMS



INVESTMENT GROWTH SEEMS CONSTRAINED BY ABSENCE OF MAJOR REFORMS

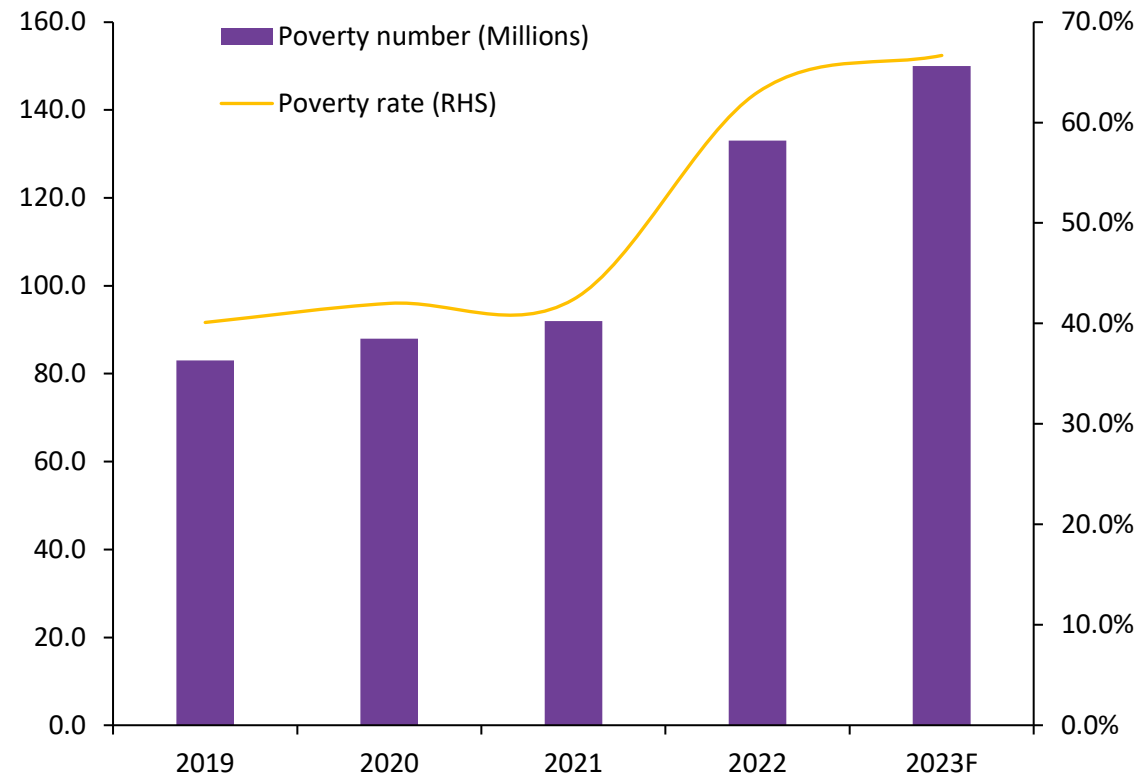


Source: NBS, World Bank, CSL Research

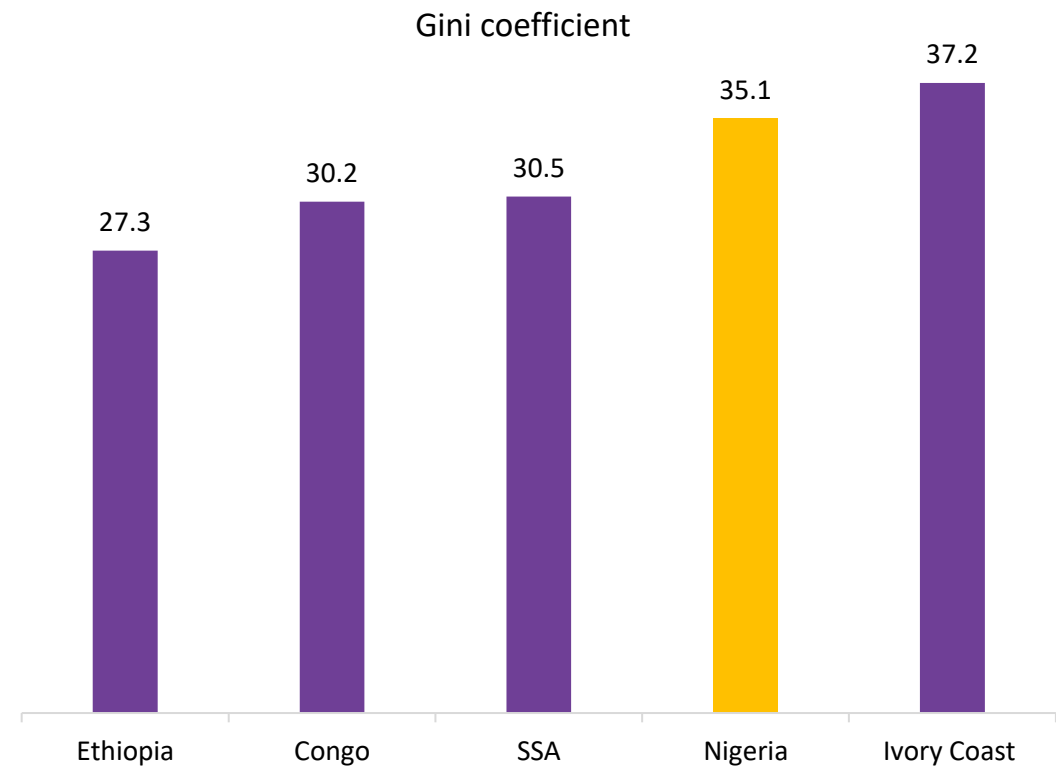
# POVERTY REMAINS ELEVATED, COUPLED WITH INCREASING ECONOMIC INEQUALITY



63% OF NIGERIANS ARE LIVING IN POVERTY



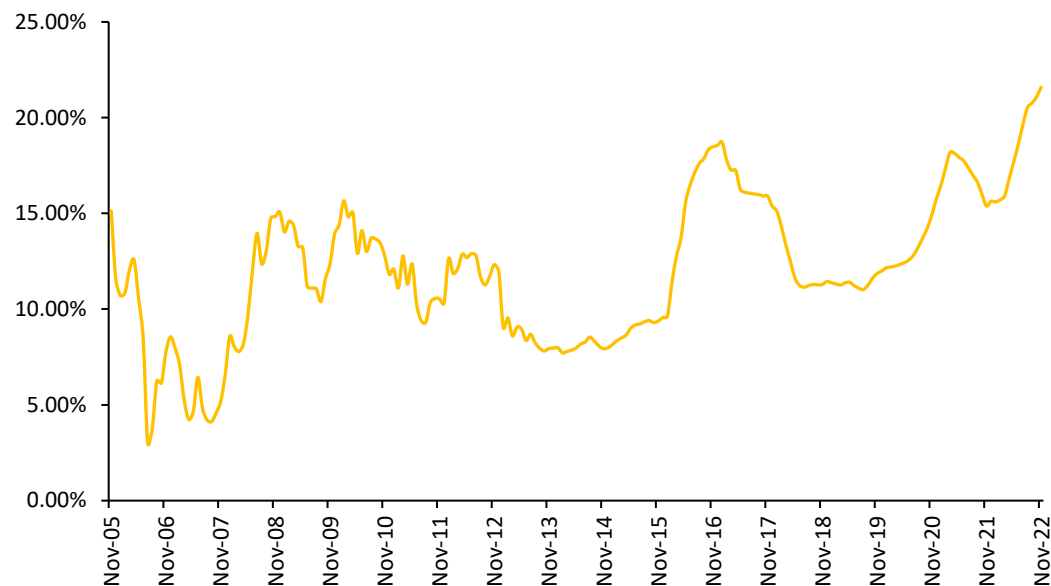
NIGERIA RANKS 11 IN WEST AFRICA AND 100 OUT OF 163 COUNTRIES GLOBALLY IN TERMS OF WEALTH INEQUALITY



Source: NBS, World Bank, CSL Research

# INFLATION: CONSUMER PRICES SHOW NO RESPITE, PACING TO A 17-YEAR HIGH

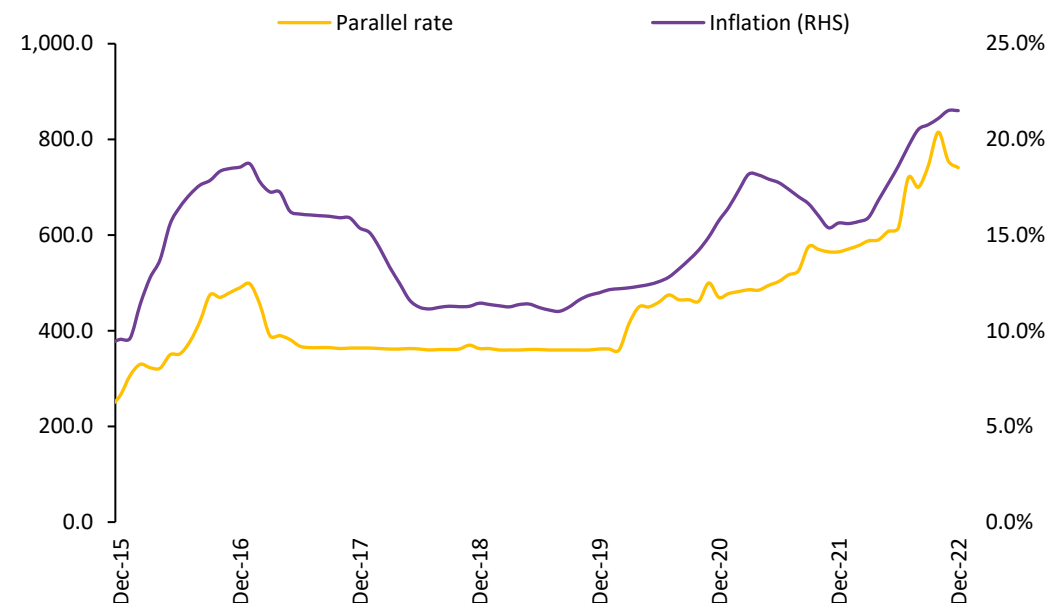
## NIGERIA'S INFLATION AT A 17-YEAR HIGH



Sources: NBS, CSL Research

- Inflation in 2022 squashed the favourable base effect, as unprecedented increases in diesel and gas prices pressured core inflation, with a knock-on impact on headline inflation. The intermittent scarcity of premium motor spirit (PMS) cannot be overlooked, with prices crossing N300 in some states and a thriving black-market.
- Consequently, both the food and core inflation increased by 6.38ppt and 4.62ppt, respectively, pushing the headline inflation up by 5.72ppt to 21.34% in December

## INFLATION TRACKS PARALLEL MARKET

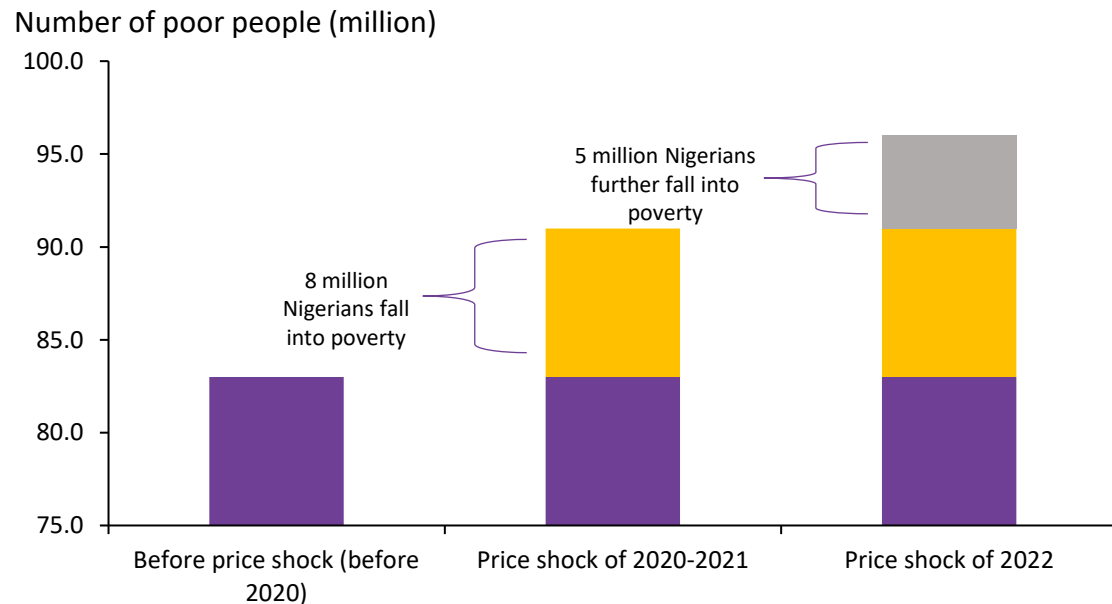


Sources: NBS, CSL Research

- Aside from energy prices, the 23.75% and 8.31% depreciation of the currency at the parallel and I&E windows further increased pressure on headline inflation. In fact, as highlighted in the figure above, parallel market rate and headline inflation have a perfect correlation of 0.87
- Lastly, food prices skyrocketed as flooding in over 30 states of the country worsened the inflation situation. For context, Famine Early Warning Systems Network (FEWSNET) reported that over 4.5 million people were displaced across the country, with disrupted livelihood activities

# INFLATION: PURCHASING POWER ERODED, AND POVERTY AMPLIFIED

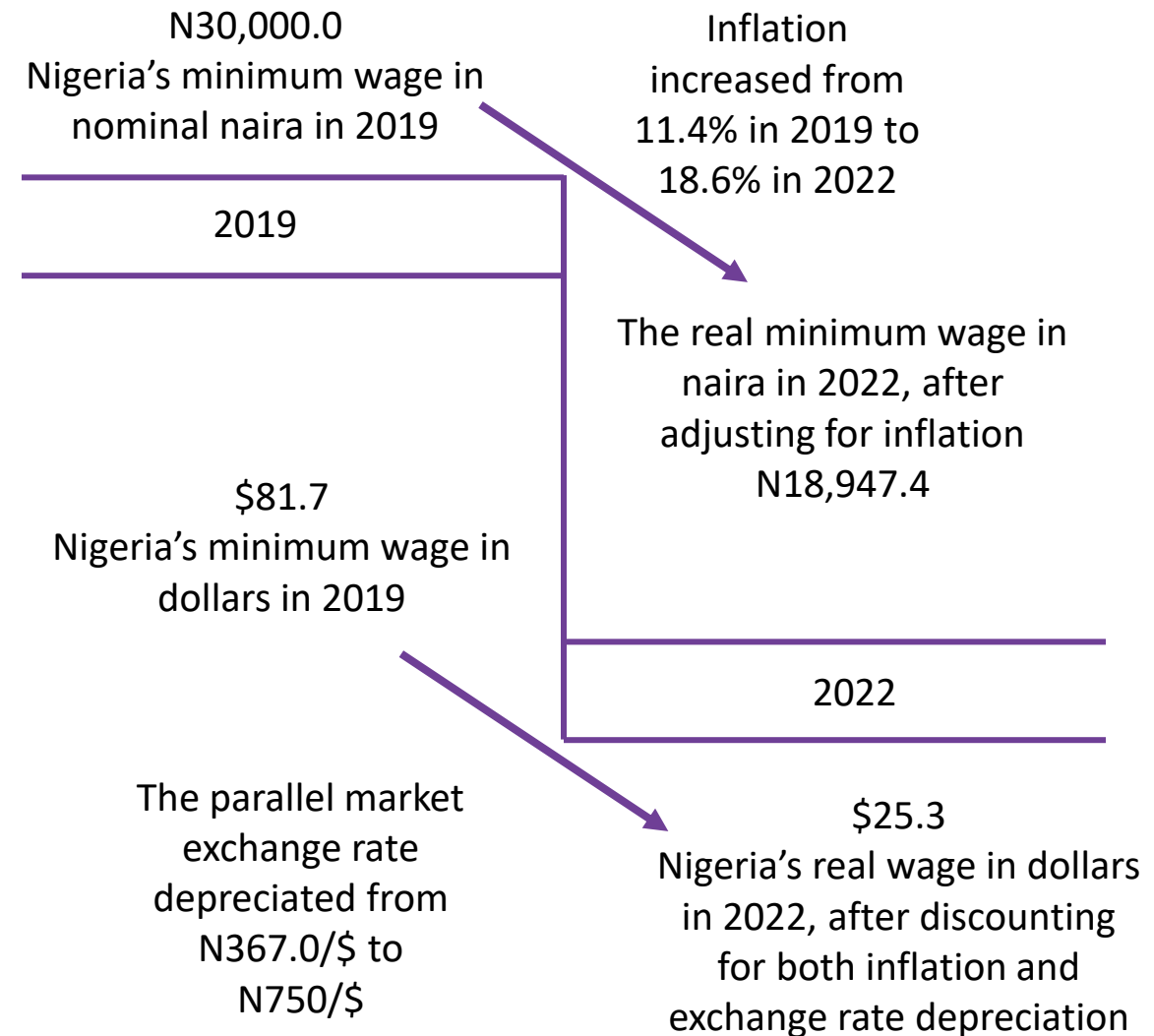
## INFLATION HAS AMPLIFIED POVERTY



Sources: NBS, World Bank, CSL Research

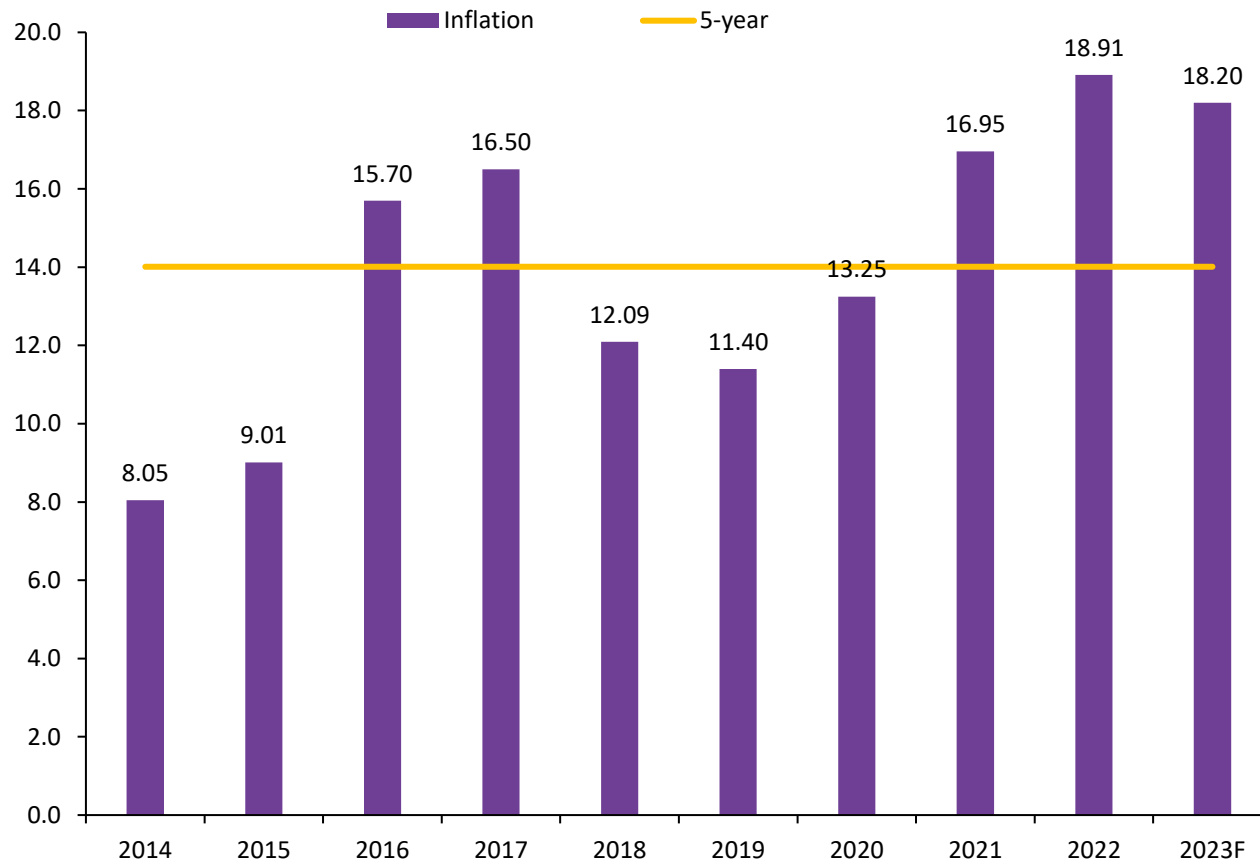
- As earlier mentioned, 133 Nigerians are living below the poverty line. The World Bank estimated that the elevated inflation pushed an additional 10 million Nigerian into poverty before the price shock in 2020 and an additional 13 million between 2020 and 2022.
- Furthermore, the frozen wages structure in the public sector also provided less comfort, with the value of money eroded.

## HOUSEHOLD PURCHASING POWER HAS SLUMPED SIGNIFICANTLY



# INFLATION: PRICES TO REMAIN STICKY, DESPITE SUPPORTIVE BASE EFFECT

## INFLATION TO MODERATE SLIGHTLY IN 2023



Sources: NBS, CSL Research

- In 2023, we project inflation to moderate slightly by 71bps to 18.20%, aided largely by base effect, especially in H2-2023. Nevertheless, we still expect some price triggers and this, includes; Electricity tariffs hike, PMS price adjustment, persistent currency pressure and climate-related shocks
- Current electricity tariffs are still not cost reflective according to the DISCOs and there was a silent increase at the beginning of the year, hence, there is the likelihood of a further increase in the course of the year
- In the recently approved 2023 budget, the government indicates plans to discontinue oil subsidies from the second half of the year. While there have been failed attempts in the past few years, we think that the commencement of the Dangote Refinery could provide some strong legroom for the government to stagger PMS adjustment over the next 2/3 years. Consequently, we expect the PMS price to officially sell for N250/litre by year-end.
- Headwinds to Naira will likely persist as foreign inflows remain uninspiring, and demand pressure remains heightened. We expect the rate at the I&E window to depreciate to N510.00/\$ and the parallel market premium to persist.
- Lastly, NEMA has warned that there could be a worse flood situation in 2023, which will likely keep agro-output suboptimal, with negative pass-through on food prices.



# FISCAL POSITION: THE OIL SECTOR DRAGGED THE REVENUE PERFORMANCE IN 2022

N'Billion	Jan-Nov 2022 (B)	Jan-Nov 2022 (A)	Deviation
Total revenue (including Top 10 GOEs)	7,476.88	6,497.98	-13.1%
Revenue to GOEs	1,296.30	639.27	-50.7%
Retained revenue (excluding top 10 GOEs)	6,180.58	5,858.71	-5.2%
Oil	1,642.78	586.71	-64.3%
Tax revenue	1,693.80	2,088.24	23.3%
Independent revenue	1,962.16	1318.37	-32.8%
Other Sources of Financing	881.84	1,865.39	111.5%
Total Expenditure	11,450.71	12277.07	7.2%
Recurrent non-debt	5,331.47	5,007.25	-6.1%
Debt service (including sinking fund)	2,983.57	5241.51	75.7%
Aggregate Capital Expenditure	1,877.70	2,798.42	49.0%
Statutory transfers	613.27	745.22	21.5%
Fiscal deficit ex GOEs and project-tired loans	-3,973.83	-5,779.09	45.4%

- Ambitious revenue estimates and poor revenue mobilization impaired the target in 2022, leading to 13.1% underperformance in revenue
- Oil revenue was the worst performing, as weak crude oil production masked the benefit from high oil prices
- Expensive subsidy payments also engulfed over 75% of gross oil revenue, limiting the amount paid to the federation account
- Relatively stable economic growth and a higher tax burden led to an estimated 23.3% outperformance in tax revenue
- The fiscal deficit has more than doubled from 1.0% of GDP in 2014 to about 3.2% in 2022. This is above 3.0% of GDP, as the Fiscal Responsibility Act (FRA) recommended
- Persistent fiscal spillage has resulted in debt servicing to revenue moving close to 100% (80.66% as of November). This trend will likely persist and calls for fiscal consolidation

# FISCAL POSITION IN 2023: A LOT LIKE DÉJÀ VU

Breakdown of 2023 budget	N' Trillion	Our projections
Total Expenditure	-21.8	-20.2
Recurrent non-debt	-8.3	-8.7
Debt service	-6.3	-7.2
Capital expenditure	-6.5	-4.2
Total Revenue	10.5	8.1
Oil	2.3	2.2
Tax revenue	2.4	2.4
Others	5.8	3.5
Fiscal Deficit	-11.3	-12.1
Fiscal Deficit (% of GDP)	-5.0%	-5.4%
<b>Financing</b>		
Domestic	7.0	
Foreign	1.8	
Privatization Proceeds	0.2	
Multilateral/bi lateral loan drawdowns	1.8	

BENCHMARK FOR 2023 BUDGET			
Description	2021	2022	2023
Oil Price Benchmark (\$/b)	71.3	73.0	75.0
Oil Production (mbpd)	1.5	1.6	1.7
Exchange Rate (N/\$)	383.0	410.2	435.6
Inflation (%)	17.0	16.11	17.2
Nominal GDP (N'billion)	176,075.5	198,930.0	225,507
GDP Growth Rate (%)	3.4	3.6	3.8

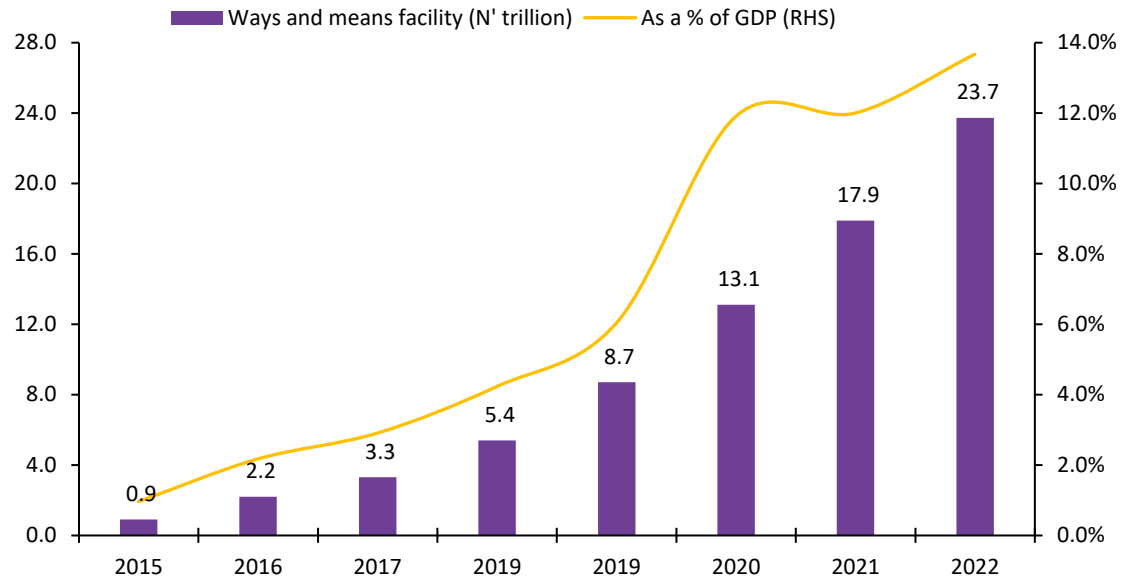
Sources: DMO, Budget Office, CSL Research

- The government's fiscal deficit for 2023 is the highest on record, as revenue mobilization remains largely constrained and spending continues to jump. Debt servicing and personal costs continue to take over 63% of the total spending, limiting the fiscal space. Although the government has an unprecedented level of capital expenditure, we are cautiously optimistic due to past performance and election-related concerns.
- On revenue estimate, we expect a relatively high oil price and recovery in crude oil production to support oil revenue. For tax revenue, we expect support from stable economic growth and the continued effort of the government to increase the tax net. Elsewhere, other non-oil revenue will remain below expectation due to leakages and low institutional accountability in government-owned enterprises.

# FISCAL POSITION: DEBT TRAJECTORY REMAINS NORTHWARD

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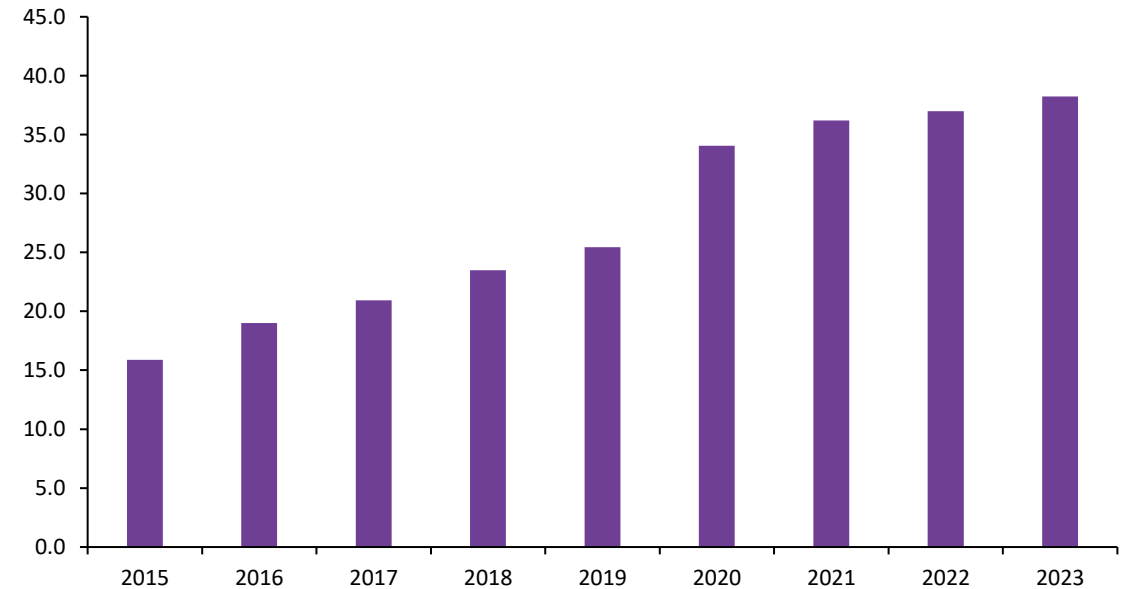
## SECURITIZATION OF WAYS AND MEANS: REAL OR FAÇADE?



Sources: CBN, CSL Research

- The government plans to securitize the ways and means loan of N23.72tn (US\$53 bn) into a 40-year bond at 9.0%.
- In our view, moving the asset into the financial system will drain liquidity, as the outstanding value is even bigger than the entire pension fund in Nigeria. Also, if the government introduces the facility into the capital market, the proposed 9.0% rate is clearly not viable, given the rising rate environment.

## NIGERIA'S DEBT TO GDP NEARS 40% LEVEL

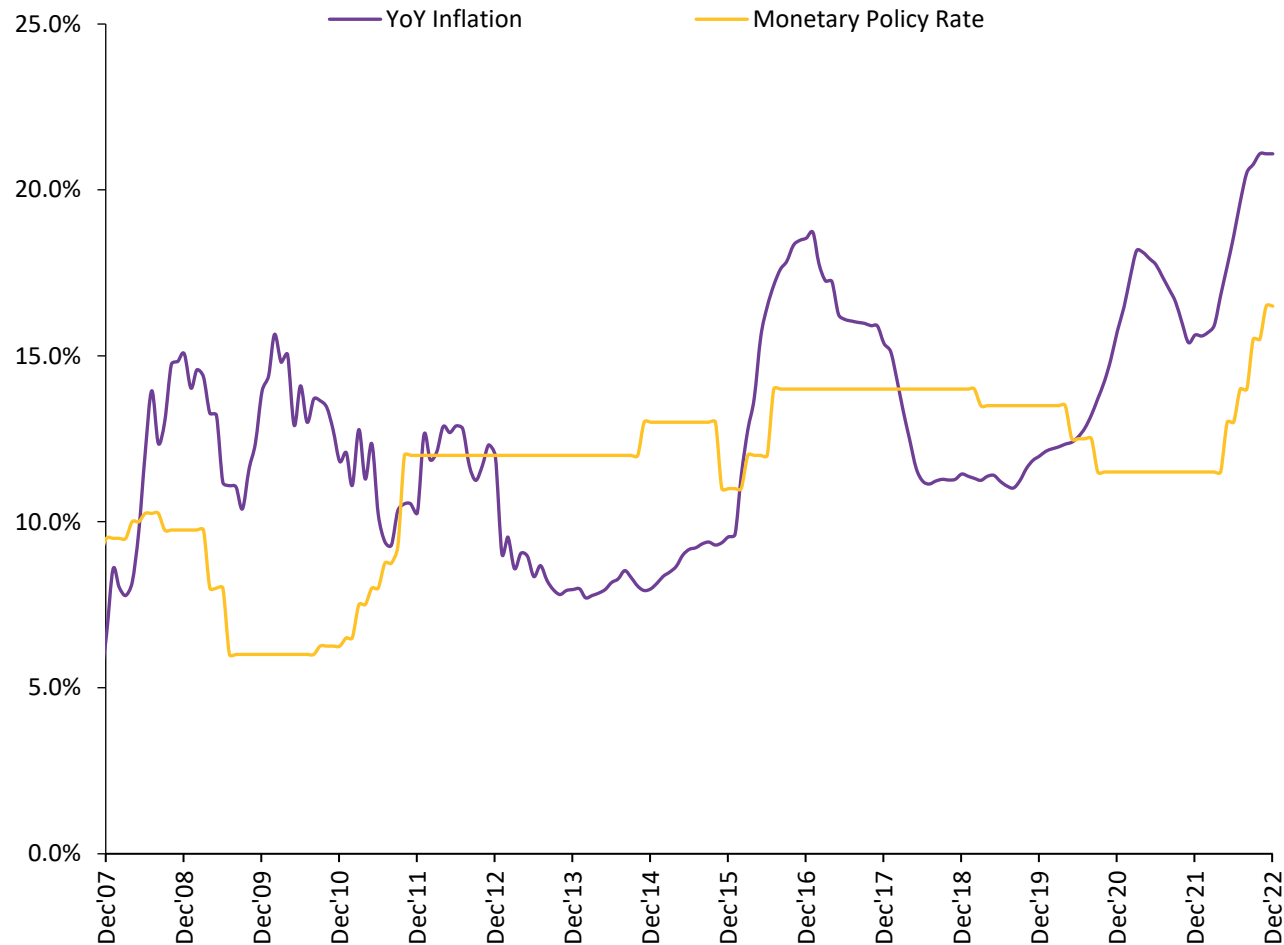


Sources: IMF, CSL Research

- Hence, we think that the securitization could be in the form of an accounting treatment, wherein the liability reflects on Nigeria's debt position, but there is no cash movement.
- Elsewhere, the debt level is set to grow due to unrelenting borrowing by the government.

# A SLOWER PACE OF RATE HIKE IN 2023

## POLICY RATE AT AN ALL-TIME HIGH

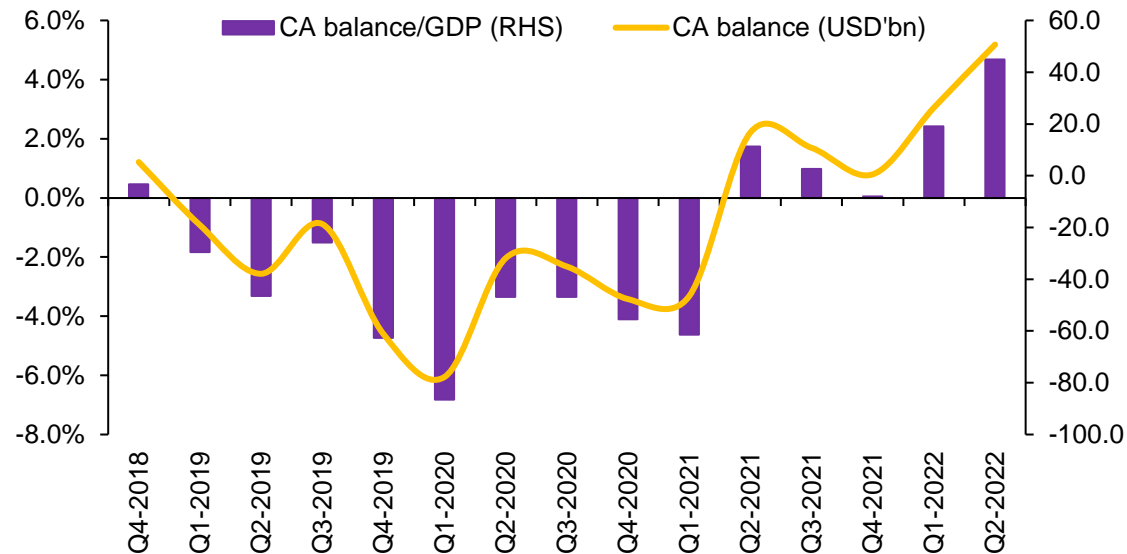


- The CBN joined the hawkish parade in 2022 by hiking the policy rate by 500bps to 16.5%. The CBN's posture reflects a willingness to tackle inflation, which touched a 17-year high in the review period. Although the CBN highlighted that inflation remains supply-side driven, it acknowledged the knock-on effect of some demand-side triggers.
- Furthermore, the CBN intensified its hawkish rendition, which led to a 500bps hike in CRR.
- In 2023, we expect the CBN to maintain its rate hike stance, albeit, at a slower pace in H1-2023 and will likely keep the rate constant in the second half of the year.
- Further strengthening our view, we expect that the disposition of the CBN could mirror the global stance which we believe will likely be a slower rate hike.

# CURRENT ACCOUNT (CA) SURPLUS TO PERSIST IN 2023

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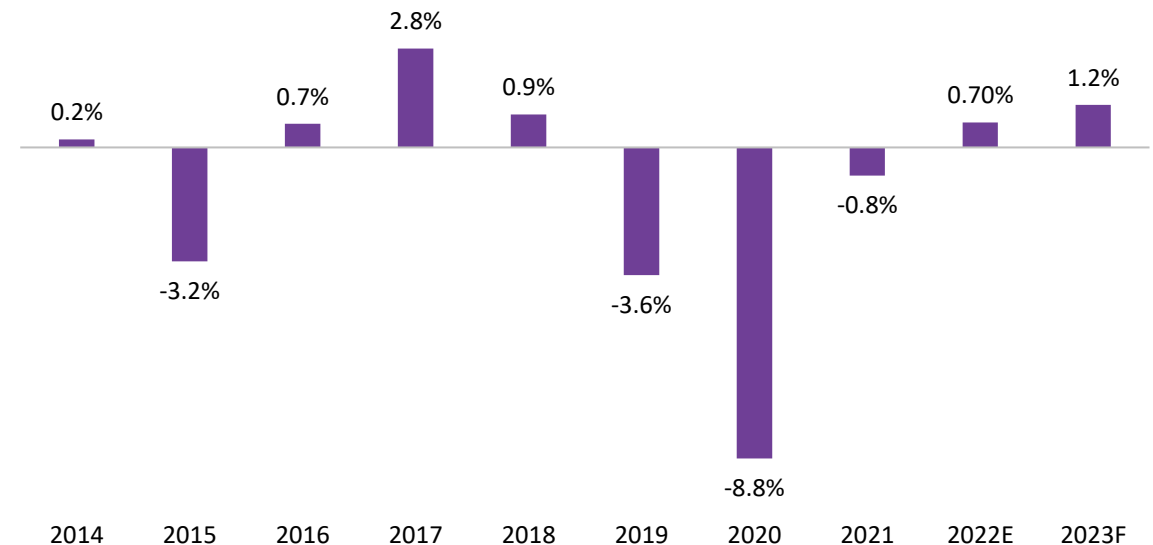
## CURRENT ACCOUNT SURPLUS STRENGTHENED IN 2022



Sources: CBN, CSL Research

- Nigeria's current account (CA) was in the surplus territory of US\$5.07 billion, the highest position since Q2-2018. The positive outturn reflected gains from crude oil prices. Despite the positive CA position, there was a net outflow of US\$ 3.4bn in FX reserves in 2022, reflecting continued FX intervention by the CBN.
- In 2023, we project CA to remain positive, riding the gains from an improved export condition. Specifically, we expect the relatively elevated crude oil price and oil production to result in an increase in export.

## CURRENT ACCOUNT TO TOUCH 1.2% OF GDP IN 2023



Sources: CBN, CSL Research

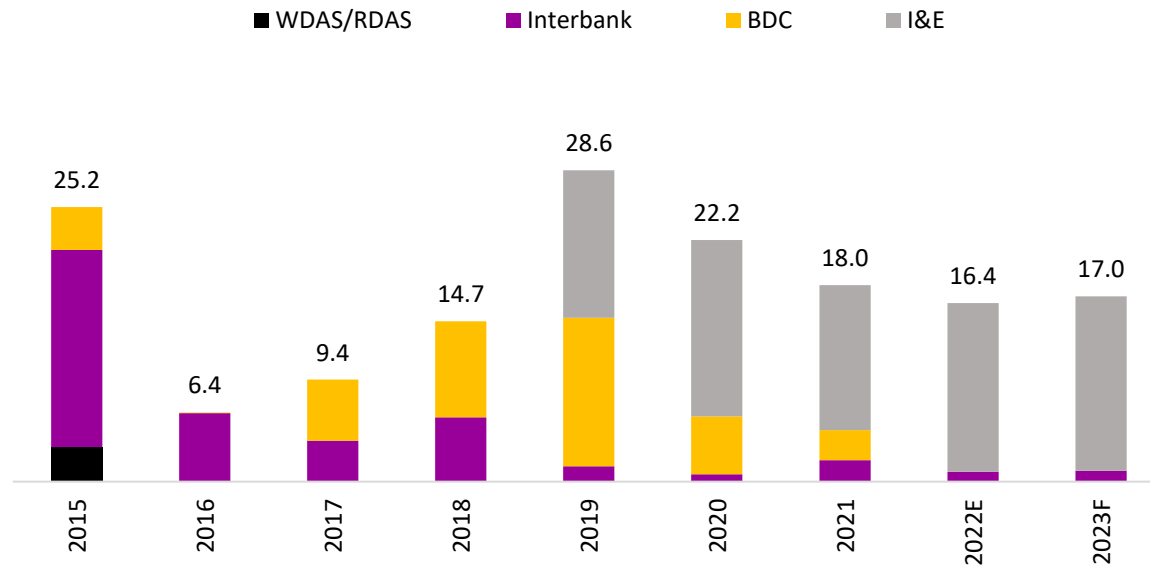
We project that crude oil price will coast around \$85.00/bbl, as the gradual re-opening in China will stimulate industrial activities and support the demand for crude oil. On crude production, we expect the ongoing clampdown on oil theft by government to provide some support. Overall, we expect the CA balance to settle at \$6.00 billion (1.2% of the GDP)

- Elsewhere, foreign investors will likely remain on the sidelines early in the year due to election-related concerns. Furthermore, the lack of market reflective FX rate remains a major downside to foreign inflows.

# CA: THE RECOVERY IN CRUDE OIL PRODUCTION TO SUPPORT EXTERNAL ACCOUNT

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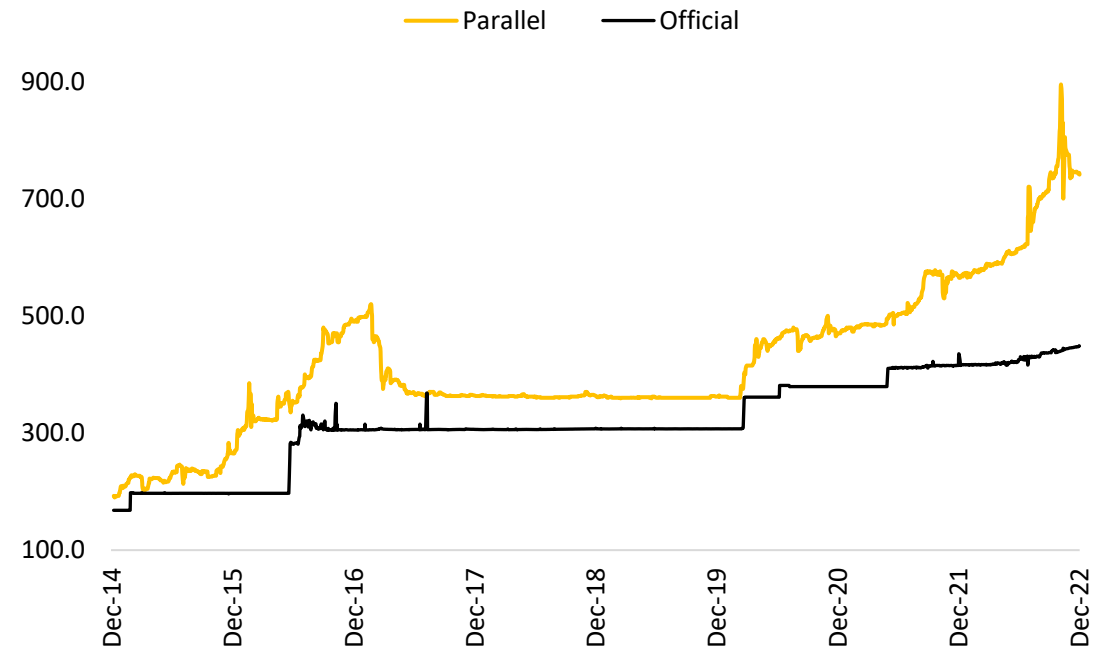
## CBN'S INTERVENTION IS YET TO RETURN BACK TO THE PRE-PANDEMIC LEVEL



Sources: CBN, CSL Research

- CBN is unlikely to ramp up intervention to pre-pandemic levels in the near term as inflows remain tepid. We expect the CBN monthly intervention in the FX market to increase slightly to c.US\$1.42 billion in 2023 from US\$1.36 billion in 2022, riding the wave of improved oil earnings.
- Clearly, this intervention level might be insufficient to meet market demand. Hence, we expect queues at the parallel market.

## PARALLEL MARKET RATE REMAINS ELEVATED



Sources: CBN, CSL Research

- Our currency valuation suggests that the naira could devalue N510.00 at the I&E window. This could help cushion the parallel market premium but is very unlikely to lead to a convergence in FX.

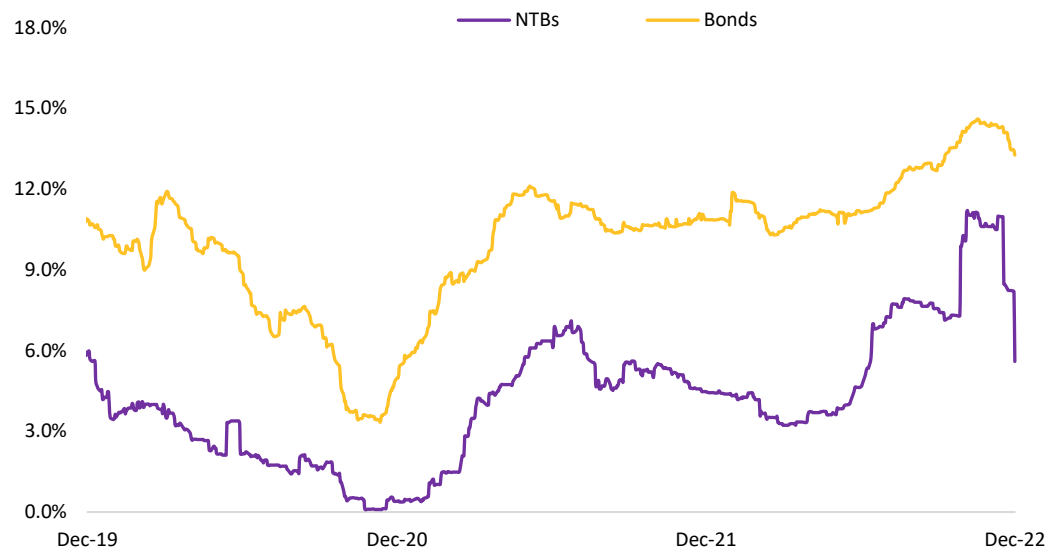


## FIXED INCOME



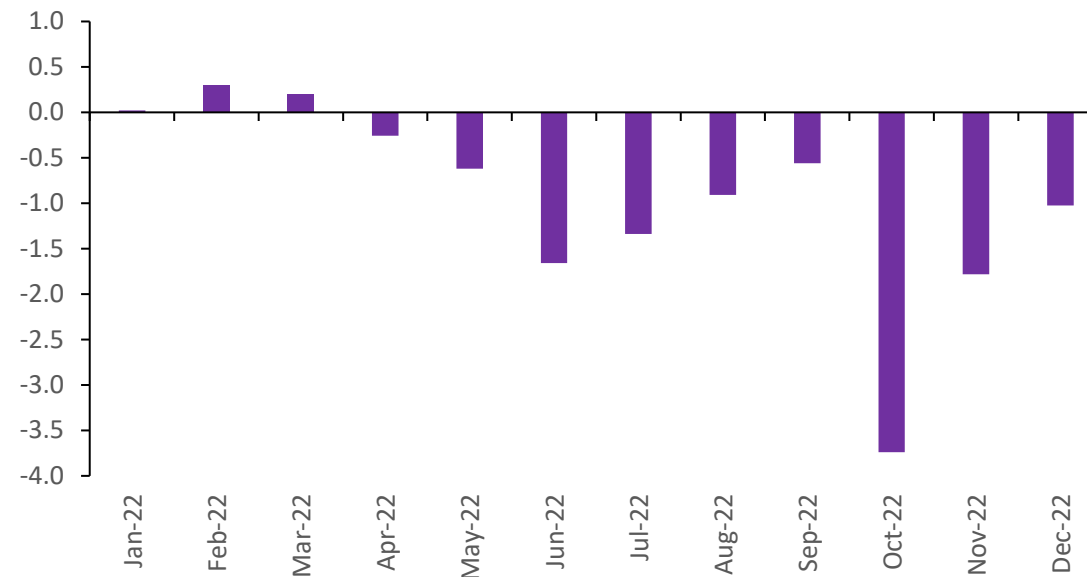
# A BEAR FLATTENED CURVE IN 2023

## TREND OF FIXED INCOME YIELD



Sources: CBN, CSL Research

## BANKS NET BORROWED N11.4 TRILLION IN 2022 FROM THE CBN DISCOUNT WINDOW



- The yield curve was bear flattened in 2022, as a combination of the tight system liquidity and hawkish stance of the CBN led to a +174bps jump in the FI yield.
- The yield increases were uneven, with the short end of the curve reporting a faster upswing of 374bps, compared to the mid and long segments of 230bps and 174bps, respectively.
- Furthermore, on the back of the strained liquidity, banks increased their presence at the CBN discount window, net-borrowing N11.4 trillion in 2022.
- Elsewhere, the elevated fiscal deficit led to a record paper supply of N3.1 trillion in bonds, higher than the N2.7 trillion of 2021.
- An increased supply was also seen in the NTBs market, with bills worth N701.0 billion net issued.

# WE ENVISAGE ABOUT 200BPS YIELD INCREASE IN 2023?

## TREND IN FISCAL DEFICIT (% OF GDP)



Sources: CBN, CSL Research

- The government budgeted a fiscal deficit of N11.0 trillion in 2023, with domestic borrowing touching an unprecedented level of N7.0 trillion. Consequently, the government has turned aggressive, with the recently released bond auction calendar indicating a 60% increase in monthly bond borrowings. In our view, the aggressive borrowing stance and election-related risk will likely outweigh the liquidity inflows, resulting in widening bid-to-ask spreads
- In terms of timing and positioning, we expect yield to increase throughout the year, save for Q2-2023, wherein elevated maturities through bond maturity of N736.0 billion, bond coupon payment of N924.1 billion and maturities from OMO and NTBs will lead to lower yields
- Elsewhere, the Minister of Finance suggested that Nigeria will likely adopt maturity management to reduce the debt servicing burden. Given the light maturity obligations between 2038 and 2048, we see latitude for more issuances at the long end of the curve or the introduction of new instruments with maturities beyond 2050
- **Strategic advice:** Short duration in Q1, Q3, and Q4, while gradual exposure to duration is advise in Q2, especially in April



## SOCIO-ECONOMIC & POLITICAL ENVIRONMENT

## SOCIO-ECONOMIC ENVIRONMENT

*The Nigerian consumer has faced severe cost pressures in the past few years. Partial fuel subsidy removal and persistent petrol scarcity, the free fall of the Naira in recent years, food shortages caused by insecurity in food processing regions and unfavourable weather, and utility price hikes have all contributed to inflationary pressures. In response, the average Nigerian consumer has been trading down on the value chain, switching to cheaper alternatives as living costs rise in the face of generally low-income levels. We expect price pressures to persist in 2023 driven by subtle electricity price hikes, partial or total removal of fuel subsidies, continuous food shortages due to the insecurity. Declining per capita income, elevated inflation and rising unemployment will likely continue to exacerbate social tensions in 2023. Though we expect the elections to be largely peaceful, we do not rule out the possibility of pockets of violence across various regions of the country.*

## Petrol price hike will likely make the product more available

- For most of 2022, the country witnessed a scarcity of fuel products which increased the hardship of motorists who are forced to spend hours in the sweltering heat, waiting in line for fuel, thereby losing productive man-hours. The scarcity of fuel, which has inadvertently led to an increase in the price of the product has increased the production cost of many businesses, which in turn has led to an increase in prices of goods and services, further increasing the financial burden on consumers. The current official pump price is N165, ranging between N160-N175 across states. In recent months we have seen a surge in prices to as high as N250 per litre, as marketers continue to sell above the government approved price. The National Bureau of Statistics (NBS) noted that Nigerians paid up to N202.48 per litre for fuel in November 2022, a 20.81% increase when compared to the N167.60 per litre in November 2021.
- Different reasons were given for the scarcity during the year, from about 100 million liters of contaminated fuel imported into the country by the Nigerian National Petroleum Corporation (NNPC) and its allied firms to trucks of fuel left stranded on the roads due to bad roads which were affected by the rains.
- The Federal Government has announced the removal of fuel subsidies in 2023 and has urged Nigerians to prepare for higher fuel prices that will follow. Though we realise how politically sensitive this discourse is, we see no option for the incoming government amidst a tight fiscal space. In 2020, a steep decline in global crude prices triggered by the pandemic completely wiped out the subsidy via significantly lower landing costs, paving the way for a reduction in the pump price of petrol in mid-March and talks of deregulation. The PPPRA announced a reduction in ex-depot price to N113/litre and the official pump price to N125/litre. Between June and November 2020 however, the petrol price was revised four times, rising from N121.50–N123.50 per litre in June to N140.80–N143.80 in July, N148–N150 in August, N158–N162 in September and N162–N165 in November. Since November 2020, however, the government has been unable to revise the pump price of petrol despite increasing crude prices to avoid a backlash from the severely impoverished populace despite extremely tight fiscal conditions and ballooning cost of subsidies (estimated at 3.3trn as at November 2022) due to high fuel price occasioned by the Russian Ukraine crisis.
- Undoubtedly, an attempt to revise the price to suit current realities will be strongly resisted by the populace who have been hard hit by two recessions and a pandemic in the last 7 years amid rising food and utility costs, making us believe the elimination of the subsidies will be gradual starting possibly from the second half of the year.

## Electricity Tariffs

- Several attempts have been made in the past three years to effect tariff increase with the most recent one in September 2021 which eventually was halted. However, in recent times, they have been subtle increases. There were increases in tariff in November 2020, January 2021, and January 2023 but it appears the quantum of the raise remains insufficient.
- NERC has been working to implement new electricity tariffs but has been challenged by government unwillingness, resistance from Discos who are sometimes unwilling to meet some terms of the new MYTO framework and resistance from consumers. Nevertheless, there have been increases, though still inadequate according to operators.
- Increasing tariffs could be a good starting point for improving liquidity while attracting investments into the power sector and we believe there will be further increases in 2023.

# INSECURITY: NO EFFECTIVE SOLUTIONS IN SIGHT YET

The rising state of insecurity has continued to affect the economic growth of the country significantly weighing on local food production and making it impossible for many farmers to go to their farms for fear of being killed or kidnapped. The incessant attacks on major highways and rail tracks have narrowed the options for farmers to transport their goods to the appropriate markets, thereby resulting in an increase in the cost of food



There has been an incursion of ISWAP into the country in recent months and this is arguably the most potent threat to the country’s security. With the rise in attacks from the group, ISWAP is primed to emerge as the deadliest group in the country in the coming months

The persistent attacks in Zamfara, Kaduna, Katsina, Borno, and Yobe states and the massacre at the catholic church in Ondo state have all contributed to the growing fears of ISWAP. These attacks are fueling the perception that the country is under siege, and this could be disastrous as we head into the forthcoming elections

The activities of ISWAP will be a recurring theme in 2023 in our view and could spread to other parts of the country. Although the Nigerian Army has gallantly confronted and repelled Boko Haram and ISWAP in recent months, attacks by the group are currently having very serious effects on socio-economic activities and are its major source of insecurity in the northern parts of the country, and this could persist into the new year



Fulani herdsmen/Bandits terrorized parts of the country in 2022, attacking and kidnapping vulnerable Nigerians, and this is likely to continue into 2023 as the country struggles to cope with the artillery of the bandits. Fulani herdsmen/indigenous community conflicts span more than a decade.

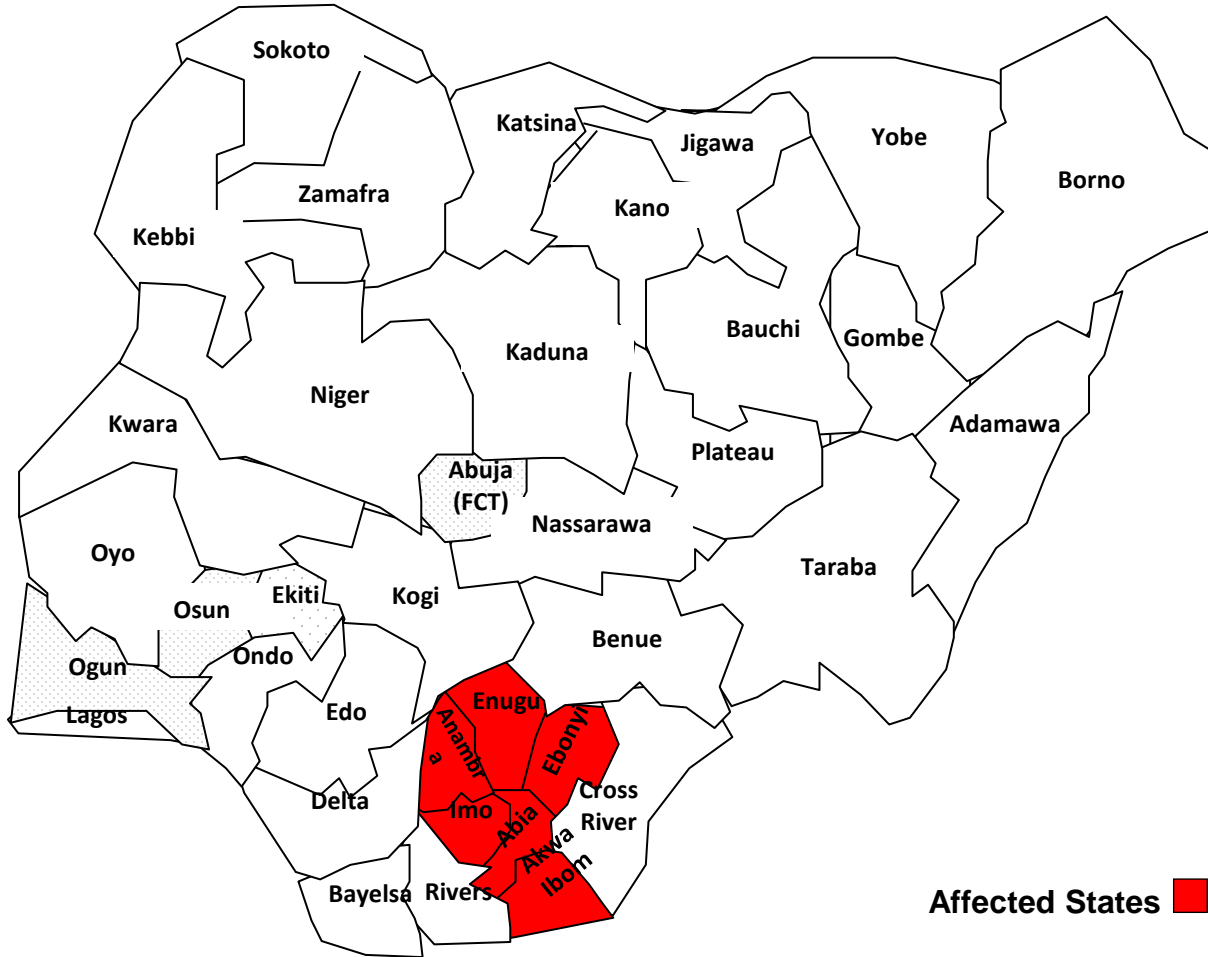
The current government has made progress in trying to curtail the situation with the crackdown on the bandit’s enablers, but this has failed to improve the situation.

Despite the numerous calls for the ban of open grazing, Fulani herdsmen have continued to ply their trade, and this has continued to heighten tensions with farmers, as the government seems to have turned a blind eye.

Some southern state governors have been steadfast in the ban on open grazing and stopping the attacks on their people and this has caused friction between them and their northern counterparts.



# IPOB NOT BACKING DOWN



## IPOB RELATED ACTIVITIES

- The continued detention of the embattled leader of the separatist organization, Indigenous People of Biafra (IPOB) has prolonged agitations in the region, which have continued to cripple the economy of the southeast
- The Monday sit-at-home order has had a torrid impact on the economy of the southeast, with the latest figures suggesting that the southeast has lost about N4trn in 2 years to insecurity and the IPOB sit-at-home protests.
- The sit-at-home orders disrupt economic activities within the affected regions which if allowed to continue unchecked, could negatively impact companies within our coverage.
- In our view, without a holistic response to insecurity in the southeast which is vital to relieving separatist tensions and addressing local grievances, we see the activities of IPOB remaining a theme in 2023 as we head into an election year.

# 2023 NIGERIA'S PRESIDENTIAL ELECTIONS; LOW RISK OF A WIDESPREAD VIOLENT OUTCOME



- Nigeria's 2023 presidential elections will be keenly contested. There are three (3) front-line parties: the ruling All Progressive Congress (APC), Peoples Democratic Party (PDP), and the Labour party(LP), we expect the presidential battle to be between the flagbearers of these parties.
- Nigeria's 36 states are split into 6 geopolitical zones, made up of between 5-7 states each. The electoral law requires the successful presidential candidate to obtain both a simple majority and 25% of the popular vote across two-thirds of Nigeria's 36 states and the FCT, otherwise, there will be a run-off.
- The All-Progressive Congress (APC), Bola Ahmed Tinubu has the southwestern part of the country as his stronghold, with a strong presence in the Northwest, and the Northeast because of his choice of running mate and the fact that of APC controls many of the northern states. The clamor against a Muslim-Muslim ticket and the evident decline in the candidate's health are the strongest factors that could undermine his success.
- The People's Democratic Party (PDP), Atiku Abubakar has a stronghold in the North particularly the northeast, and some parts of the NorthWest. With the internal wranglings going on in his party, coupled with the emergence of Peter Obi who is likely going to fight for votes in the southeast and south-south, which are predominantly PDP states, the PDP candidate has a lot of work to do if he is to emerge Nigerians president.
- The Labour party(LP), Peter Obi has organic support from the South-Eastern part of the country, with a strong presence in the South-south and North-Central parts of the country. He is greatly accepted by the youths nationwide and many suggest that his campaign is an offshoot of the End- Sars protest. We are however of the view that his popularity is being overstated on various social media platforms His apparent lack of political structure nationwide and the absence of an elected person on the platform of the labour party will prove a disadvantage in the race to become Nigeria's next president.
- We expect the major battleground to be the north-central. The region is expected to play a critical role in giving the edge to whoever would eventually emerge as the president. This is because none of the candidates can boast of 100% acceptance in the region, which leaves the region open.
- As the general elections draw closer, we note that this election seems too close to call. Nigerian politics is not based on competing ideology but on rival interests and ambitions, making it difficult to forecast what an APC or PDP win will do for the economy. An easier way is to focus on the individuals contesting and not their party affiliations.
- Though we expect the 2023 elections to result in heightened regional or ethnic tensions, we do not expect a violent outcome. That said, pockets of violence as seen post the 2011 elections cannot be completely ruled out.

## 2023 ELECTIONS: THE JOURNEY TO ASO VILLA

Presidential Candidates	Party affiliation	Chances of grass root support- our view	Brief Profile
Ahmed Bola Tinubu	APC	Strong	Former governor of Lagos state and APC national leader/king maker. Popularly known as "Jagaban"
Atiku Abubakar	PDP	Strong	A former Vice President of Nigeria from 1999 to 2007. Former governor of Adamawa state. He has unsuccessfully contested for the office of the President five times including the last elections
Peter Obi	LP	Moderate	A former governor of Anambra state who served for two terms.
Rabiu Musa Kwankwaso	NNPP	Weak	A former governor of Kano state who served for two terms and a former Minister of Defence.
Omoyele Sowore	AAC	Weak	A human activist and the founder of Sahara Reporters.
Prince Adewole Adebayo	SDP	Weak	A Lawyer and Founder of KAFTAN TV
Kola Abiola	PRP	Weak	The son of the winner of the 1993 presidential election Chief MKO Abiola
Prince Malik Ado-Ibrahim	YPP	Weak	The founder of Bicenergy, A leading energy and technology company in Africa.
Almustapha Hamza	AA	Weak	A Former Nigerian Army major and intelligence officer who served as Chief Security Officer to General Sani Abacha.
Kachikwu Dumebi	ADC	Weak	A Nigerian businessman, and media mogul. He is the founder of Roots Television
Umeadi Peter	APGA	Weak	A professor of Law.

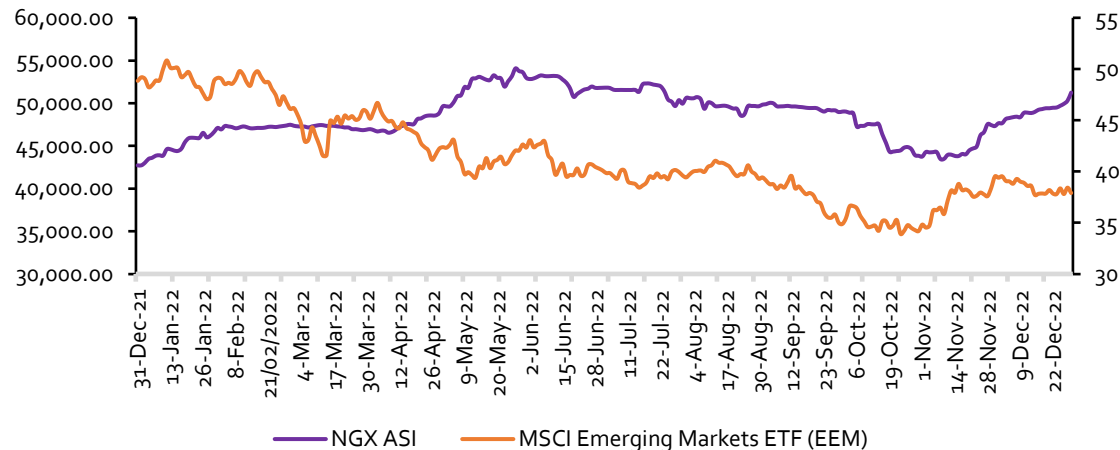


## EQUITIES REVIEW & OUTLOOK

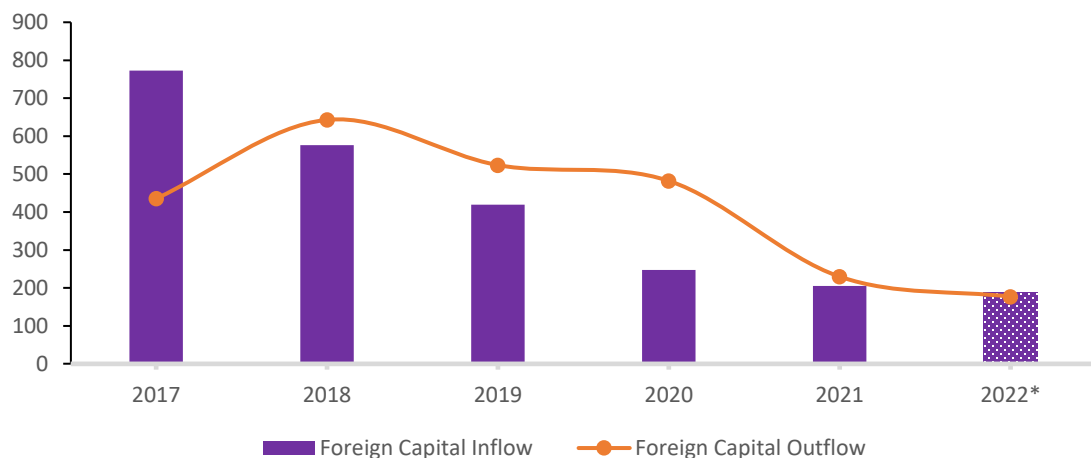


# THE NIGERIAN EQUITIES MARKET; 2022 IN RETROSPECT

## NGXASI AND MSCI EMERGING MARKET ETF TREND (2022)



## FOREIGN CAPITAL INFLOW & OUTFLOW (2022 IS AS AT NOV.)



In 2022, the equities market gained +19.98% to close at 51,251.06 amidst challenging business environment shaped by the following factors:

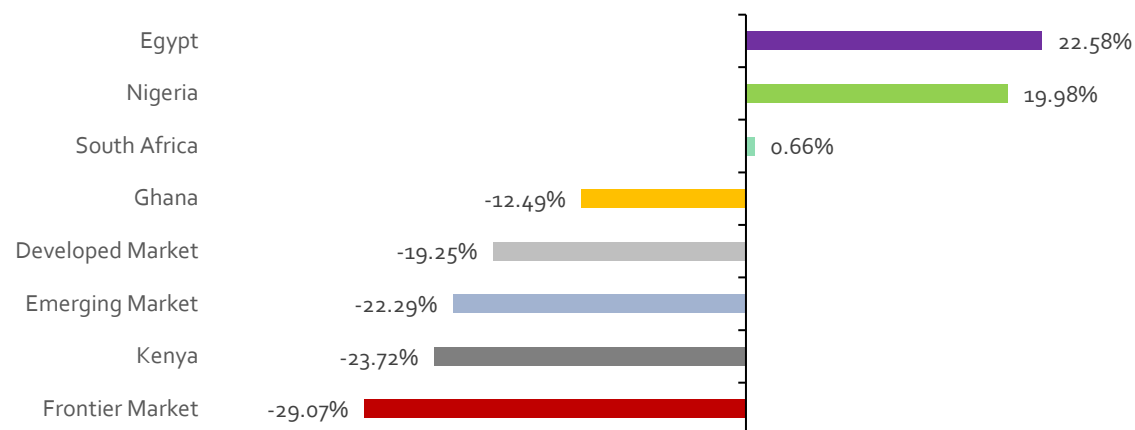
- Continuous capital flight worsened by the Russian Ukraine war: The hawkish monetary stance adopted by many global economies to combat rising inflation triggered by supply chain disruptions, worsened the capital flight that has characterised the Nigerian equities market in recent years. Foreign portfolio transactions shrank to 16.67% share as at November 2022 from 22.88% in 2021
- Hawkish Monetary Policies: Global inflation triggered by the supply chain disruption, occasioned by the Russia – Ukraine war, elicited hawkish monetary policies across global economies and Nigeria was not left out. This made fixed income yields more attractive to the detriment of the equities market. The Nigerian Monetary Policy Rate (MPR) closed at 16.5% in 2022 from 11.5% a year before.
- Foreign exchange volatility & illiquidity: The Naira exchange rate remained quite volatile, depreciating to N461.50/US\$ at the I&E window as at 31 December 2022. The resulting FX losses and heightened energy costs hampered corporate earnings performance for some companies

However, some blue-chip companies kept to their dividend payout policies thereby providing some level of support for the market as good dividends attracted investors. Nestle, Dangcem, Total, Guinness, Okomu, Presco and MTN led the pack in absolute value

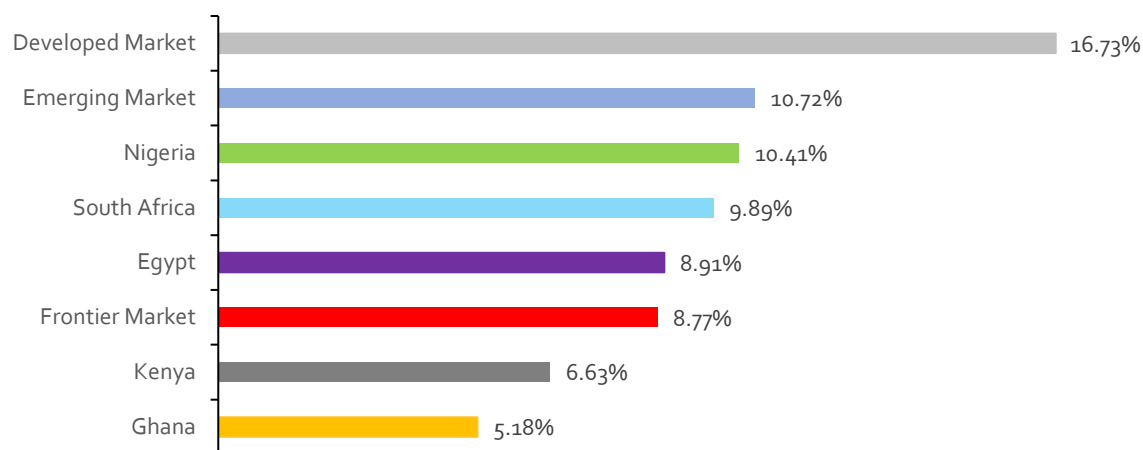
# PERFORMANCE AND VALUATION ACROSS MARKETS

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## EQUITIES MARKET PERFORMANCE (2022)



## EQUITIES MARKET VALUATION (P/E) (31-12-2022)

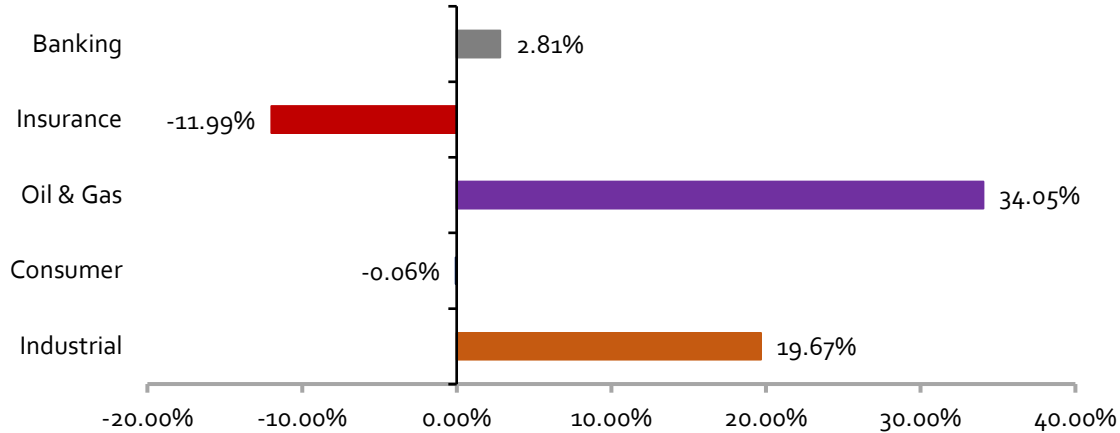


Sources: Bloomberg, CSL Research

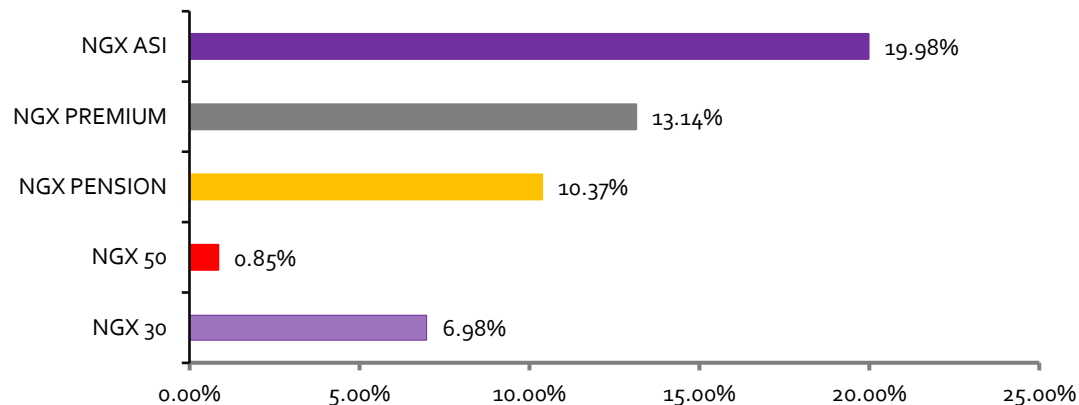
- The Nigerian Equities market(+19.98%) performed better than many of its African peers in 2022 save for Egypt that closed 22.58% higher than 2021. On the other hand, Ghana and Kenya closed negative, down -12.49% and -23.72% respectively
- The Nigerian equities market also outperformed the Frontier, Emerging Market and MSCI Developed Market Indices which returned -29.07%, -22.29% and -19.25% respectively in 2022.
- In 2022, the global equity markets were influenced mainly by the heightened investors' apathy and flight to safety occasioned by the Russia – Ukraine war. Fund managers adjusted their portfolio in favour of the fixed income market given the persistent hawkish monetary stance across the US, UK and most developed economies.
- The PE Ratio for Nigeria was 10.41x compared with South Africa (P/E: 9.89x), Egypt (P/E: 8.91x), Kenyan (P/E: 6.63x) and Ghana (PE: 5.18x).
- Despite the 19.25% decline in the Developed Market Index, the PE Ratio closed higher (PE: 16.73x) than the Emerging Market (PE: 10.72x), Frontier Markets (P/E: 8.77x), Frontier (P/E: 13.89x) and Nigeria (PE: 10.41x)

# MIXED SECTORAL PERFORMANCES

## SECTORAL INDICES PERFORMANCE (2022)



## OTHER INDEXES PERFORMANCE (2022)



Sources: NGX Exchange, CSL Research

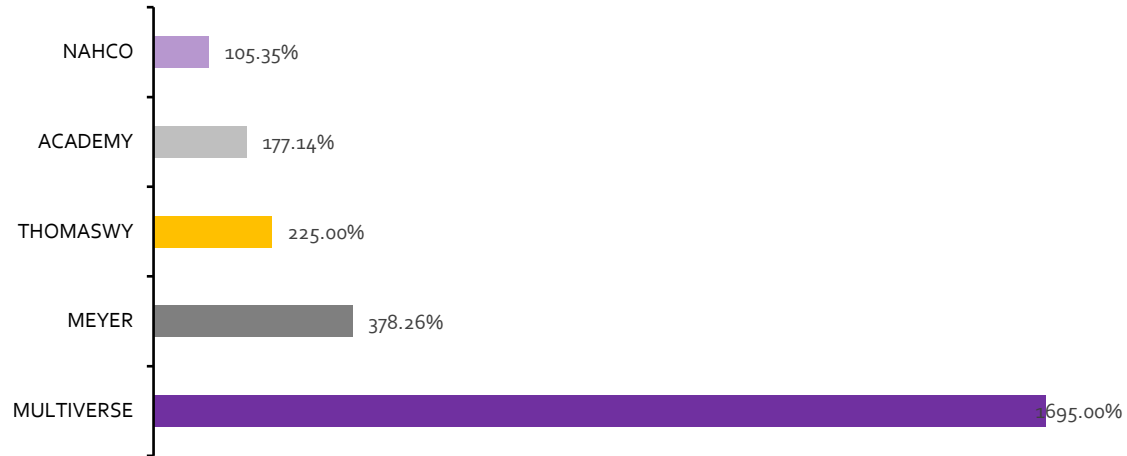
Sectoral Performances were mixed in the year.

- SEPLAT's dual listing on NGX Exchange and London Stock Exchange endeared it to some foreign portfolio investors who needed an exit window amid limited FX supplies. Hence, SEPLAT closed the year at +53.85%. Also, Eterna, Ardova, Conoil and MRS gained +34.65%, +30.38% and 20% respectively. However, OANDO and TOTAL closed the year negative. Consequently, the sector index gained the most, closing 34.05% higher
- The insurance sector remained bearish amidst recapitalization uncertainties and increased market risk. Notably, WAPIC, CUSTODIAN, and PRESTIGE lost -28.57%, -24.05%, and -23.53% respectively; hence the sector index closed 11.99% lower
- The banking sector was lukewarm. However, attractive corporate actions supported a 2.81% positive close. Notwithstanding, WEMABANK, FIDELITYBK, and FCMB appreciated considerably, up by +80.56%, +68.24% and 28.76% respectively
- The industrial goods sector recorded a marginal loss of -0.06% as DANGCEM and WAPCO shed 1.13% and 4.38% respectively. However, BUACEMENT gained 31.25%.
- The NSE Premium (up 13.14%) increased the most among the generic indices, followed by the Pension Index (up 10.37%). Similarly, the NGX-30 and NGX50 rose +6.98% and +0.85% respectively

# LEADERS AND LAGGARDS

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## TOP FIVE GAINERS FOR THE YEAR



Sources: Bloomberg, CSL Research

## TOP FIVE LOSERS FOR THE YEAR



Sources: Bloomberg, CSL Research

- As usual, top gainers and losers were dominated by low cap stocks with relatively low liquidity. However, NAHCO's share price was partly influenced by the No.41 dividend and 1 for 5 bonus declaration. Also, ACADEMY declared No.10 and 1 for 4 bonus.
- On the other hand, REGALINS, LIVESTOCK, and CAVERTON led the losers' table.



# NIGERIAN EQUITIES OUTLOOK; WHAT TO WATCH OUT FOR IN 2023



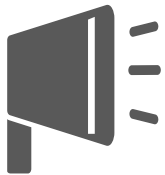
## External Conditions

The ripple effects of the supply chain disruption is expected to linger through H1 2022 as most economies are predicted to slide into recession. Hence, demand will slowdown, crude oil price is also expected to remain below the US\$90 mark. Global inflation is expected to moderate largely due to base effect hence monetary policies may not be as aggressive as seen in 2022.



## Moderate Political Risk

We see moderate political risk. While we believe a violent outcome is unlikely, we see possibility of heightened ethnic or regional tensions post the elections. It is impossible to be certain about the outcome of the elections, but we believe the APC Presidential candidate has the highest chance of winning.



## Corporate Actions & Announcements

Against all odds, some blue-chip companies will retain their dividend payout policies. Hence, we believe corporate actions from the banking, agricultural, industrial, oil & gas and telecoms sectors will spur buy interest in those names



## FX Shocks

The anticipated global recession and its associated slowdown in global demand would spell lower FX earnings. Hence, Naira is expected to remain pressured.



## Fixed Income Yields

we expect yield to increase throughout the year, save for Q2-2023, wherein elevated maturities through bond maturity of N736.0 billion, bond coupon payment of N924.1 billion and maturities from OMO and NTBs will lead to lower yields



## Banking Profits

The growing investment by many banks in digital technology and the onset of the covid-19 pandemic which has made many customers opt for online transactions have significantly contributed to growth in Non-Interest Income.



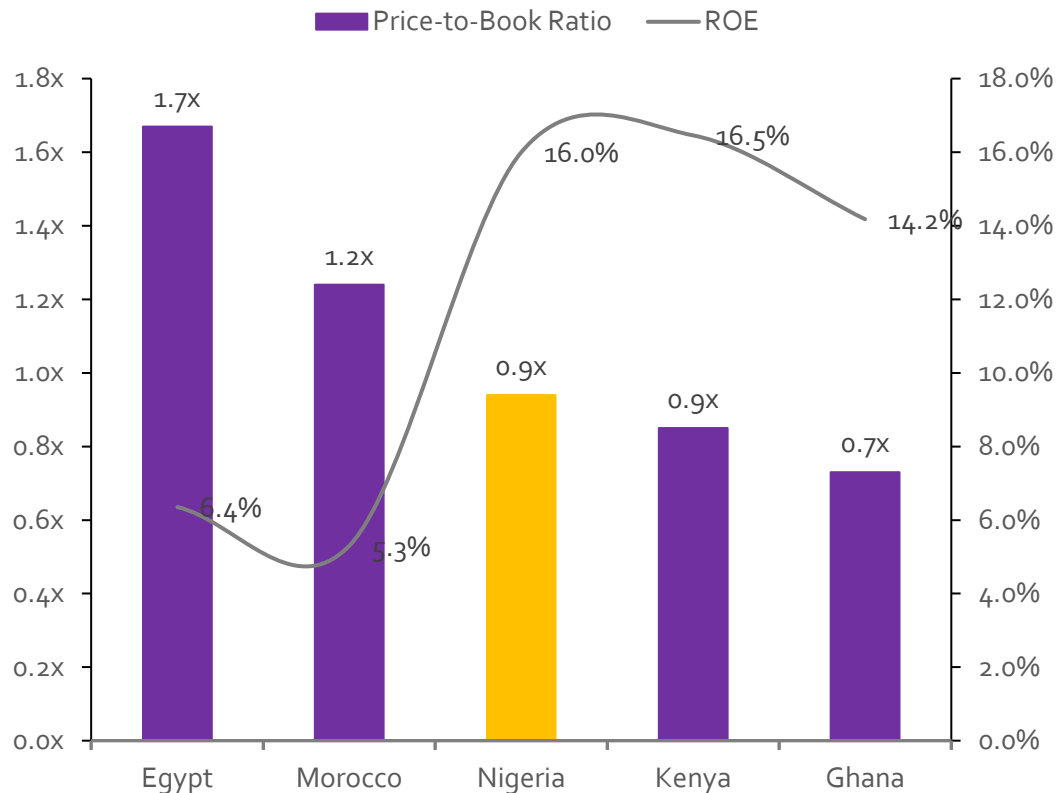
## BANKING SECTOR REVIEW & OUTLOOK



# BANKING SECTOR; ATTRACTIVE VALUATIONS. EARNINGS EXPECTED TO GROW IN 2023



While we note that achieving self-sufficiency in local refining capacity might not reduce the cost of petrol

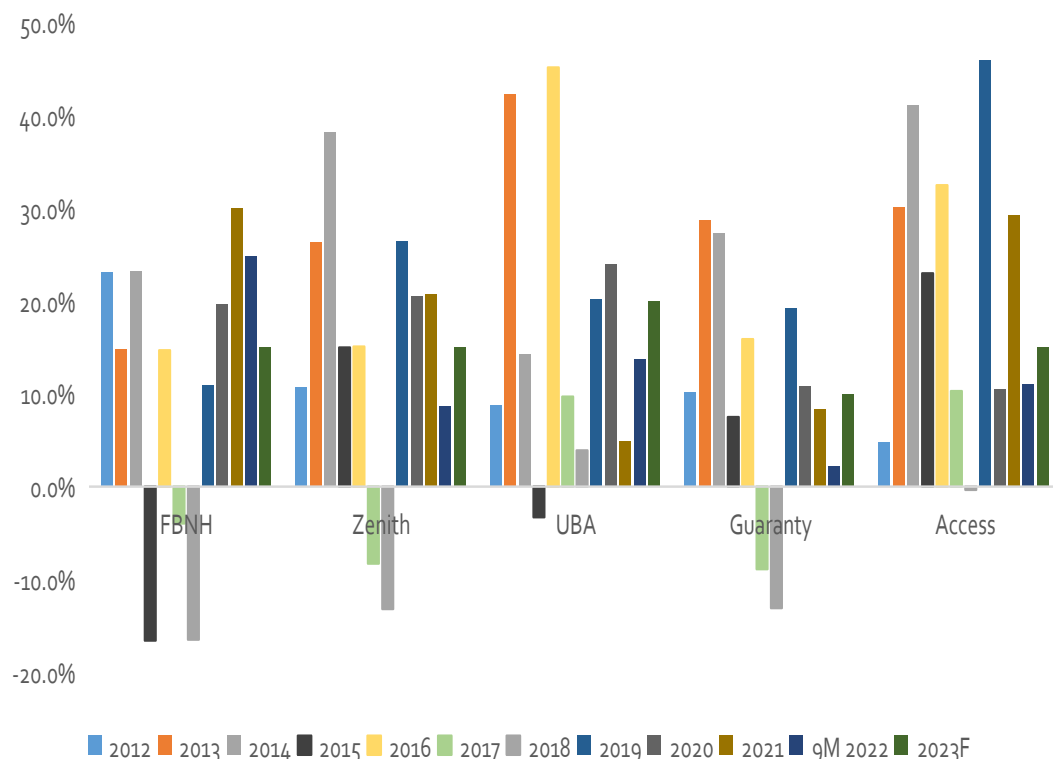


Source: Bloomberg, CSL Research

- We expect a moderate increase in average yields in 2022 as the continuous CRR debits by the CBN which sterilizes funds that should be earning interest to continue to weigh on asset yields. We also expect an increase in funding costs to reflect current market realities. However, for the big banks which are the focus of this report, we believe it will be NIM positive as they have a high proportion of cheap funds, which keeps funding cost minimal.
- Banks have invested significantly in digital channels, and we expect they will continue to look to Non-Interest Revenue to enhance earnings despite stiff competition from Fintechs and Telcos.
- Cost of risk (COR) has been low since 2020 reflecting regulatory forbearance due to the coronavirus pandemic which allowed banks to restructure loans to a few sectors impacted by the pandemic. Though we expect a rise in COR in 2023e, considering expectations of a continued downturn in the economy, we do not see any disaster ahead. Again, banks have not been too aggressive in loan creation
- We believe banks will continue to struggle to improve efficiency to support bottom line growth and so, we forecast moderate growth in opex in 2023e.
- Based on the aforementioned factors, we upgrade 2023e earnings moderately for the tier 1 banks and, prompted by adequate capital, relatively stable asset quality and in some cases, stable dividend yield, we maintain a Buy recommendation on Zenith, GTCO, Access, FBN and UBA.
- Current P/BV valuations of the banks remain at historic lows and present a good entry point for equity investors.

# LOAN GROWTH; LOANS TO RISE MODERATELY

## LOAN GROWTH



## LOAN GROWTH: EXPECTED TO RISE MODERATELY

- In the 9 months of 2022, Zenith Bank recorded a net loan growth of 8.7% relative to December 2021. Also, Access (+11.1%), UBA (+13.8%), GTCO (+2.2) FBNH (+24.9%) recorded net loan growths when compared with December 2021. We forecast average loan growth of 15% in 2023 for the tier 1 banks based on a confluence of factors.

### Factors that will limit loan growth

- Weak economic momentum, high inflation and higher interest rates will likely limit loan demand in 2023.
- Basel III requirements provide for additional oversight over lending arrangements which we believe will make banks cautious to extend loans aggressively. Again, an additional tier 1 capital is required for a Capital Conservation Buffer (CCB<sub>1</sub>) of 1.0% of Total Risk Weighted Asset (TRWA). A Countercyclical Capital Buffer (CCB<sub>2</sub>), to be determined by the CBN periodically taking into consideration the prevailing macroeconomic conditions and developments within the financial sector may also be required.
- Improved yield on money market instruments implies banks will not be too desperate to extend loans to support yield especially amidst weak macro conditions

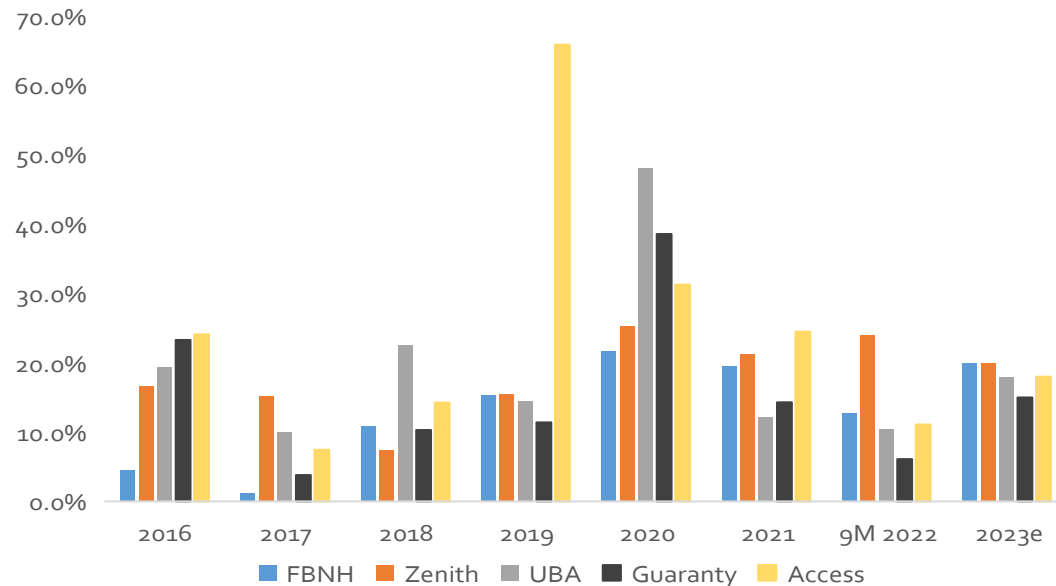
### Factors that will support loan growth

- Digital loans are expected to grow as banks are spurred by competition from fintechs. This will likely support retail loan growth albeit still a small portion of many banks' loan book.

# DEPOSIT GROWTH- REASONABLE GROWTH EXPECTED

CSL

## DEPOSIT GROWTH



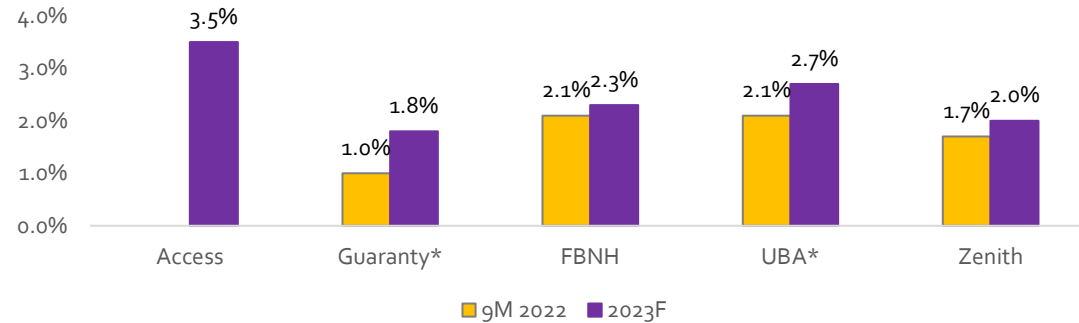
## DEPOSIT GROWTH: REASONABLE GROWTH EXPECTED

- We expect pre-election spending to continue to drive up cash in circulation and increase money supply up onto the elections in February
- CBN's Naira redesign policy and the subsequent revision of withdrawal limits should drive deposit growth for banks in 2023. The Maximum weekly limit for cash withdrawals across all channels by individuals and corporate organizations is down to N500,000 and N5,000,000 from the initial 500,000 (daily) and N3,000,000 (daily) respectively.
- In compelling circumstances where cash withdrawal above the limits are required for legal transactions, a processing fee of 3% and 5% for individuals and corporate organizations will be applied, respectively.
- That said, we expect domestic deposit growth to slow as household and corporate deposits are hurt by strained purchasing power and slower economic activities.
- In gM 2022, the tier 1 banks grew loans by an average of 12.9%. Overall, we forecast average deposit growth rate of 18.2% for the tier 1 banks in 2023.

# UPTICK IN COST OF FUNDS ANTICIPATED; FASTER INCREASE IN ASSET YIELDS EXPECTED

CSL

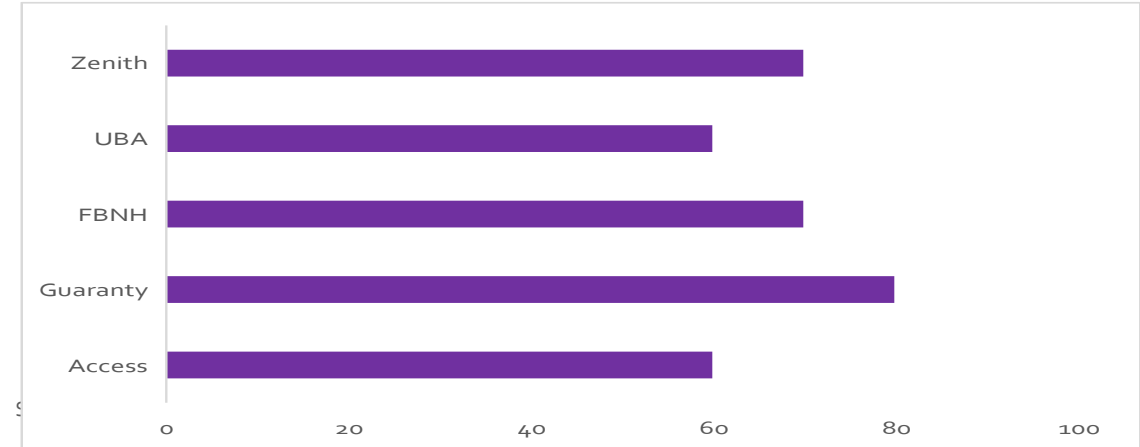
## COST OF FUNDS – MODERATE UPTICK EXPECTED



Sources CSL Research

- Rising inflation has prompted the Central Bank to tighten monetary policy in 2022 and we do not expect a loosening in 2023. This implies increasing funding costs for banks
- Cost of funds declined in 2020 due to CBN's policies but rose gradually from H2 of 2021e as banks began to reprice deposits in tandem with the general growth in the interest rate environment
- We forecast average cost of funds of 2.6% for the big banks in 2023e as many of the Tier 1 banks have a high percentage of cheap retail deposits which help keep funding costs minimal

## MODERATE INCREASE IN AVERAGE YIELDS EXPECTED



- Yields on money market instruments began to rise towards the end of Q1 2021 and we expect current levels can be sustained into 2023
- We expect the continuous CRR debits by the CBN (which sterilises funds that should earn Interest) to continue to weigh on asset yields
- However, we do not envisage any further decline in yields on fixed income securities
- We model an average 68pbs rise in assets yield of the big banks above FY 2022 levels

# NON-INTEREST INCOME: TRANSACTION VOLUMES TO INCREASE; NET INTEREST MARGIN EXPECTED TO GROW MODERATELY

CSL

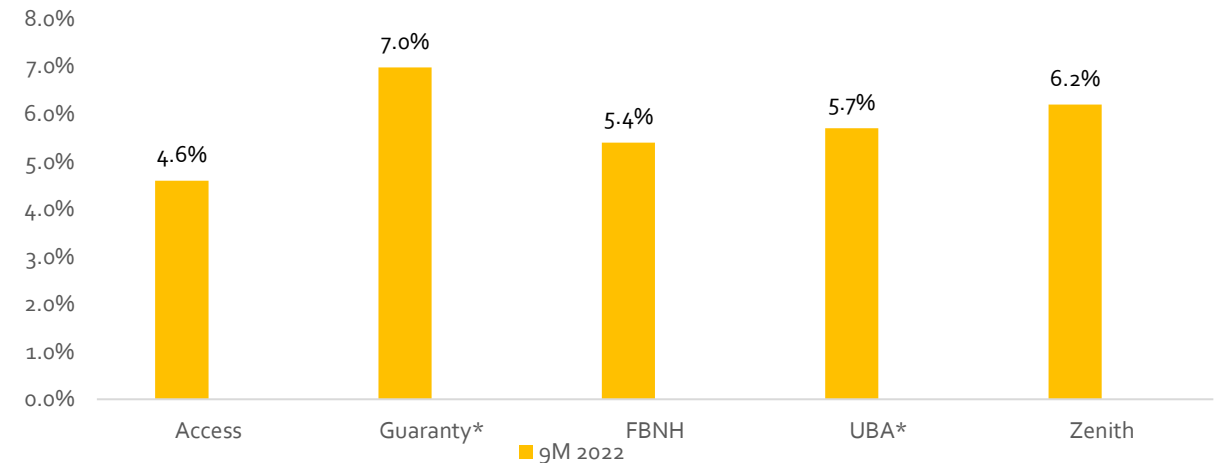
## NON-INTEREST INCOME- TRANSACTION VOLUMES TO GROW

The growing investment by many banks in digital technology and the onset of the covid-19 pandemic which has made many customers opt for online transactions have significantly contributed to growth in Non-Interest Income.

We believe banks can increase non-interest income from increased treasury and capital market activities.

We also believe banks will continue to leverage their competitive advantage in terms of scale and customer history to compete effectively in the fintech space.

## NET INTEREST MARGINS – TO GROW MODERATELY



Sources: CSL Research. UBA and GTB are H1

For the tier 1 banks with a high percentage of cheap retail deposits, we expect yields to rise faster than funding costs, which should be positive for NIMs.

Overall, we believe Net Interest Margins (NIMs) in the short to medium term will grow moderately.

## BANKS TO CONTINUE TO MANAGE OPEX LINES WITHIN THEIR CONTROL

### COST TO INCOME RATIO



### OPEX EXPECTED TO GROW BUT REVENUE TO GROW FASTER

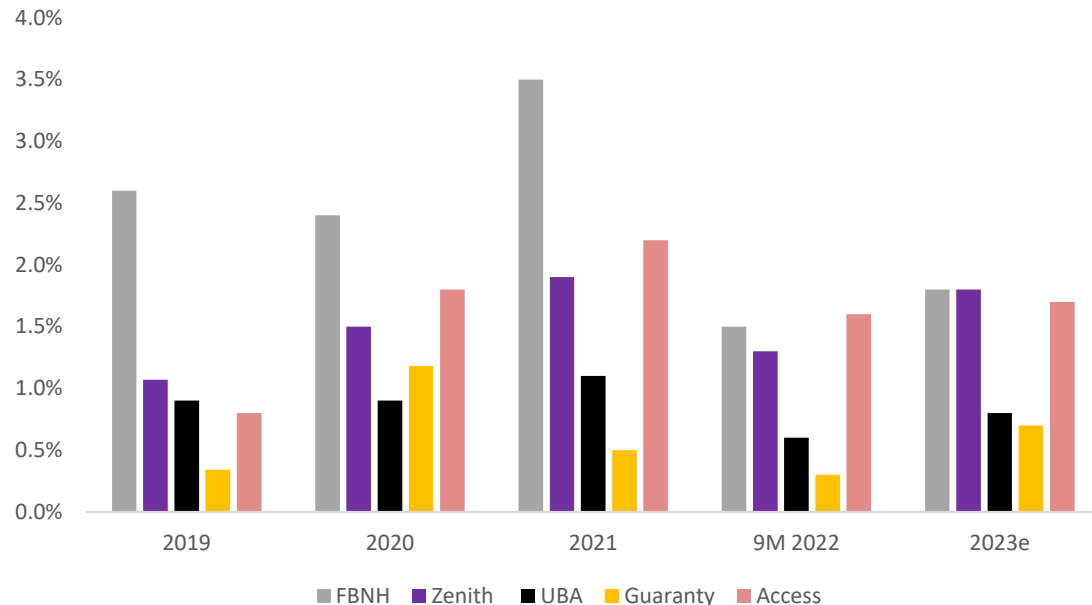
- The tier 1 banks reported an average cost to income ratio of 58.0% as of 9M 2022. We forecast average cost to income ratio (ex-provisions) of 55.7% for FY 2023e.
- Nigerian banks have all been making concerted efforts to reduce costs. Though GTCO saw a deterioration in its cost to income ratio (CIR) due to reduced income due to reduced assets yield, it still retained its position as the bank with the lowest CIR with CIR ex- provisions of 44.6% as of 9M 2022.
- Access group's cost to income ratio ex provisions of 65.3% as of 9M 2022 was the highest of the tier 1 banks.
- Though we expect regulatory costs (AMCON and NDIC) to continue to pressure opex, we believe banks will continue to make efforts to reduce the opex lines within their control.
- One expense line we expect to grow is personnel cost given the high rate of emigration attrition and the high cost of replacement



# ASSET QUALITY TO REMAIN STABLE IN 2023; COR TO RISE MODERATELY

CSL

## COST OF RISK



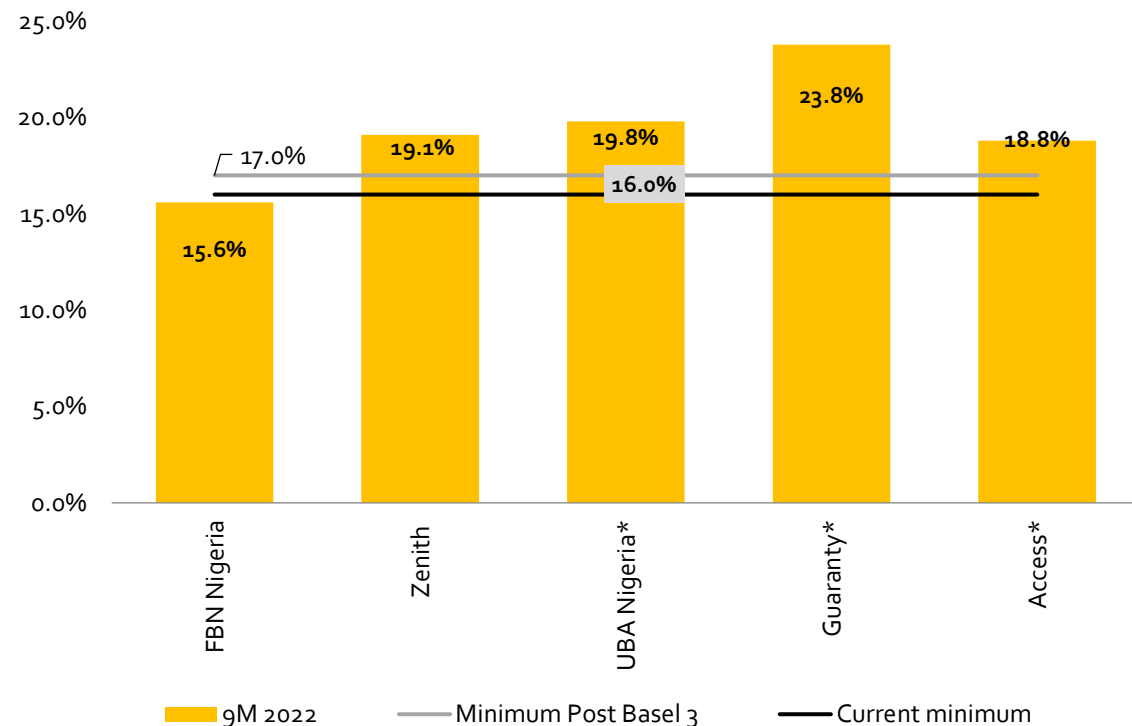
## NO MAJOR DISASTER EXPECTED IN THE SHORT TERM, BUT IMPAIRMENT CHARGE SETS TO RISE SLIGHTLY

- Cost of risk (COR) was an average of 1.1% for the tier 1 banks in 9M 2022. We expect CBN's tight monetary stance and the lack of forbearance that provided support for asset quality at the peak of the pandemic, to pressure NPLs and Cost of Risk (COR)
- The combination of tighter monetary policy and slow/deteriorating economic conditions will affect the ability of borrowers to service debt obligations, leading to a gradual increase in NPLs in 2023. However, coming from a low base, we expect only a moderate increase in COR, which we do not expect to hurt profitability and capital ratios significantly
- We forecast an average COR of 1.4% for the tier 1 banks in 2023e.

# CAR– EXPECTED TO BE PRESSURED BUT WILL LIKELY REMAIN ABOVE REGULATORY MINIMUM



## CAPITAL ADEQUACY RATIO 9M 2022



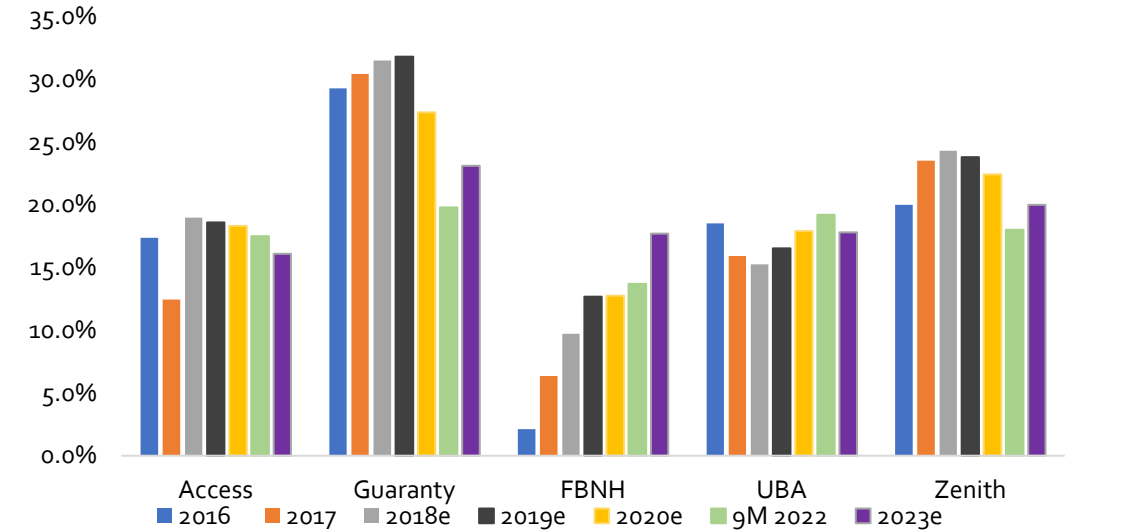
GTCO, Access and UBA Nigeria as at H1 2022

## CAR– EXPECTED TO BE PRESSURED

- Capital Adequacy: The CBN requires that banks with international subsidiaries maintain a capital adequacy ratio (CAR) of 15.0% while banks without international subsidiaries maintain a CAR of 10.0%. The minimum requirement for systemically important banks is 16.0% (although CBN is still giving a forbearance).
- Following the implementation of BASEL III, an additional tier 1 capital is required for a Capital Conservation Buffer (CCB1) of 1.0% of TRWA. A Countercyclical Capital Buffer (CCB2), to be determined by the CBN periodically taking into consideration the prevailing macroeconomic conditions and developments within the financial sector may also be required. Banks have been running this in parallel with current Basl requirements
- Impact on capital adequacy also comes from expectations of further currency devaluation. However, we expect only a moderate devaluation. So, we expect little impact on CAR. Moreover, many banks make windfall revaluation gains whenever there is a currency devaluation which make up for the impact of RWAs.
- Poor asset quality can also affect CAR value. If a bank suffers an unexpected rise in cost of risk (COR) that exceeds the capacity of one year's profits to absorb it, then that bank will be looking at writing down capital. For the tier 1 banks we cover in this report, we estimate that they will make sufficient profit to absorb Impairments within the year and would not require any write down in capital
- Continued dollar strength would increase the local currency cost of unhedged foreign exchange funding and will lead to higher funding cost for any banks that require short refinancing. This threatens to increase cost levels for new capital instruments and may curtail available investor demand.

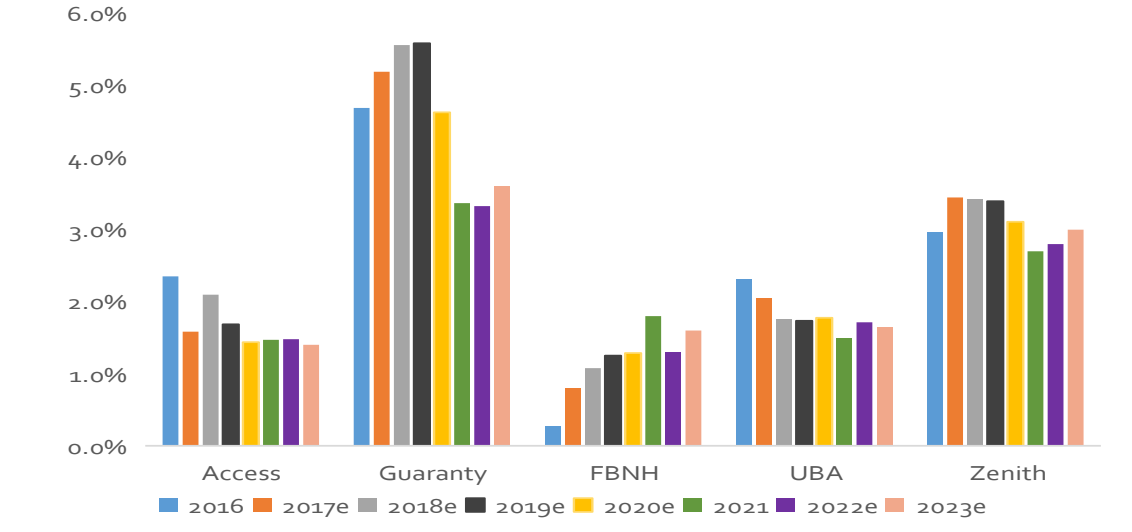
# PROFITABILITY: PROFITS TO BE DRIVEN BY GROTH IN BOTH INTEREST & NON-INTEREST REVENUE

ROAE



Sources: CSL Research

ROAA



Sources: CSL Research

We model an increase in Pre-tax profits for all Tier 1 banks in 2023e. We foresee headwinds such as slightly higher cost of risk and higher operational and refinancing costs impacting earnings. However, rising interest rates should support margins, cushioning the decline in earnings and permitting improvements in profitability.

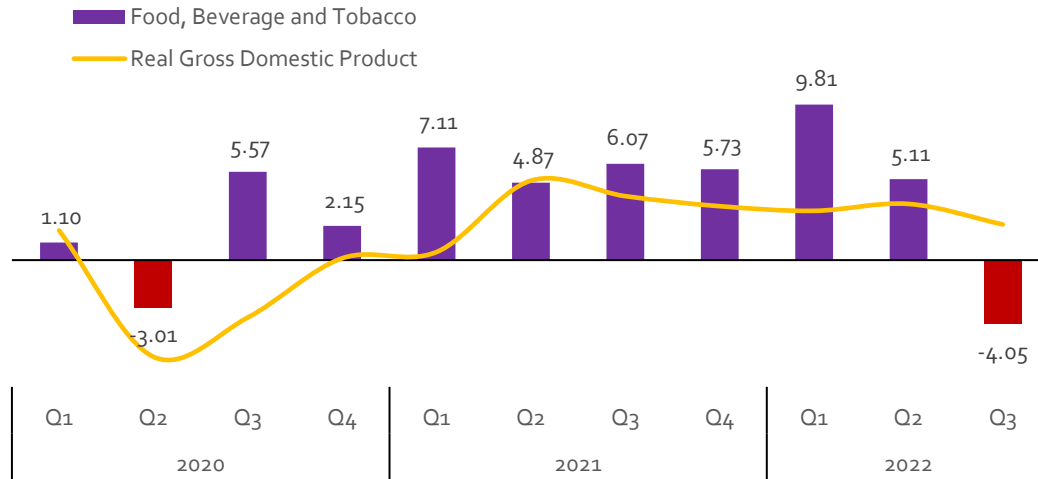


## CONSUMER GOODS SECTOR REVIEW & OUTLOOK

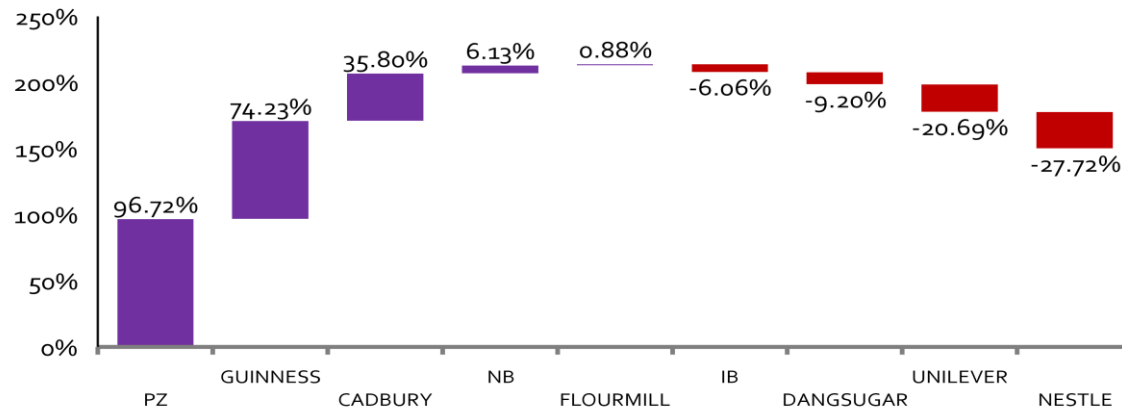


# CONSUMER GOODS SECTOR: HEMORRHAGING ON ENERGY COST & FX LOSSES

## FOOD, BEVERAGE AND TOBACCO (2020- 2022)



## RETURNS ON COVERED COMPANIES



Source: NBS, Bloomberg, CSL Research

## Food, Beverage, and Tobacco caves in Q3 2022

- The manufacturing sector came under intense operating cost pressure as energy costs, transport costs, FX losses, and cost of funds increased drastically. Although there were increases in prices, some manufacturers could not fully transfer the higher operating costs to the final consumers as sales volumes wobbled
- The GDP of the food, beverages, and tobacco sub-sector recorded a 4.05% decline in Q3 2022 after growing steadily at an average of 5.28% from Q3 2020 to Q2 2022. Consequently, the manufacturing sector recorded its first decline (-1.91%) since Q1 2021
- The food, beverages & tobacco subsector has continued to play a key role in determining the direction of the nation's overall GDP

## Share price increases driven largely by corporate actions

Amid moderate sales volumes occasioned by weakened purchasing power, corporate actions declarations ensured a sustained price upbeat in the share prices of some FMCGs and Brewers under our coverage

- PZ led the pack of gainers, up by +96.72% having declared N1.01 dividend despite recording an operating loss in full year 2022
- Guinness, Cadbury, and NB also recorded 74.23%, 35.80% and 6.13% gains in their share prices respectively
- On the other hand, Nestle, Unilever and Dangsugar recorded price declines despite dividend declarations of N50, No.50, and N1.00 respectively. International breweries declined the most (-27.72%) owing to poor earnings performance.

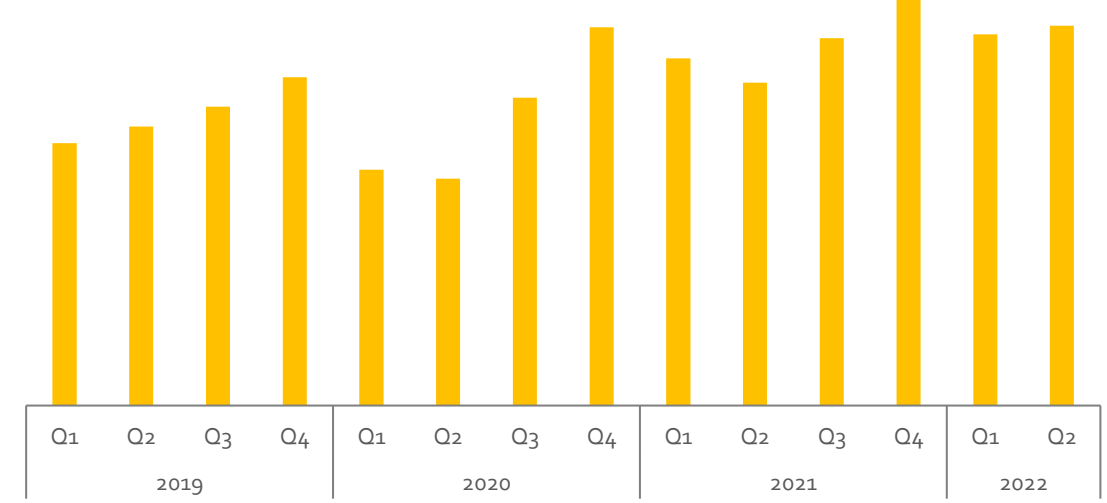
# CONSUMER GOODS SECTOR: HEMORRHAGING ON ENERGY COST & FX LOSSES ...(CONT'D)

HOUSEHOLD INCOME IN TRILLIONS OF NAIRA (2019 – 2022)



Source; NBS, CSL Research

HOUSEHOLD CONSUMPTION IN TRILLIONS OF NAIRA (2019 -2022)



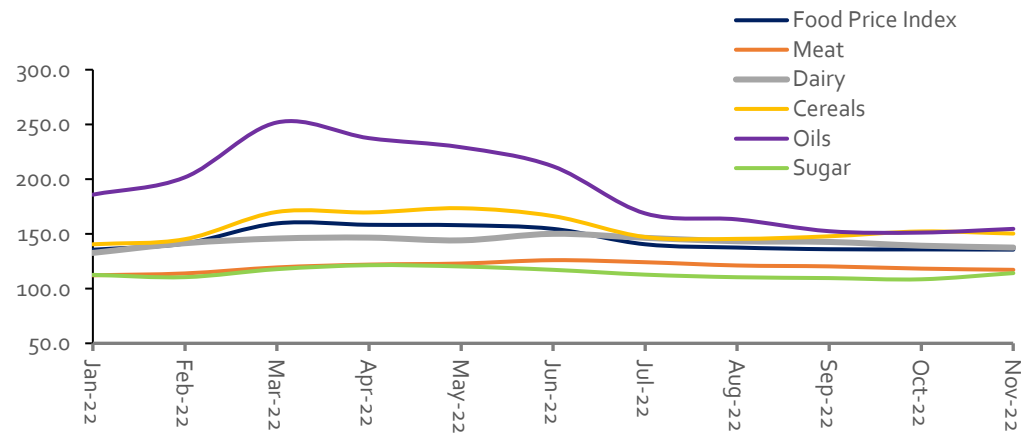
Source; NBS, CSL Research

## Improved household income in 2022:

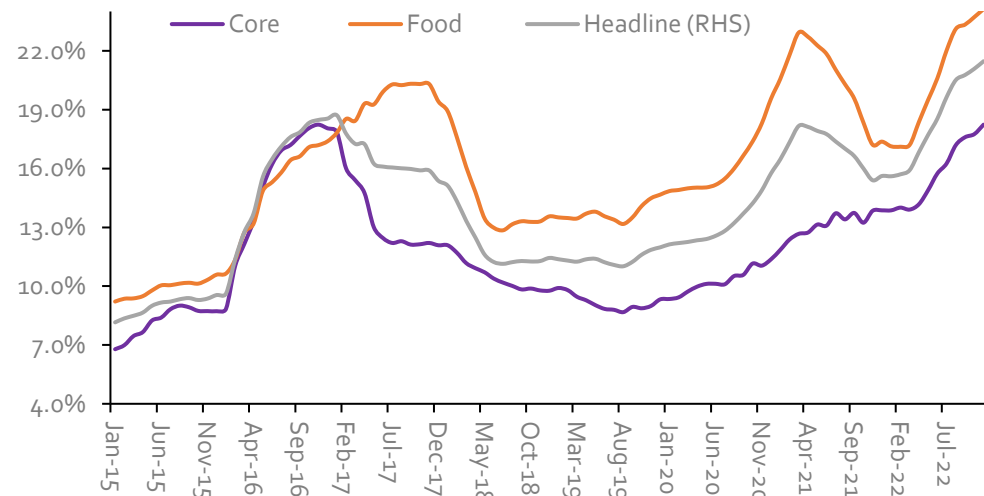
- In 2022, the absolute value of household income improved by 6.48% and 3.93% in Q1 and Q2 respectively compared to the corresponding period in 2021. While the improvement in absolute value showed optimism, we note however that the y/y change has been on a steady decline from 19.44% in Q2 2021 to 14.54%, 11.79%, 6.48%, and 3.93% in Q3 2021, Q4 2021, Q1 2022 and Q2 2022 respectively. This was partly influenced by the base effect of the lockdown in 2020
- Similarly, household consumption improved over 2021 levels in 2022. The y/y change in consumption has also been on a steady decline from 47.16% in Q1 2021 to 42.40% (Q2 2021), 19.36% (Q3 2021), 7.30% (Q4 2021) and 6.94% (Q1 2022). It, however, increased by 17.64% y/y in Q2 2022. We believe that the increase in consumption was largely driven by the consistent hike in price of goods hence we expect a sustenance, albeit, moderately, as inflation recedes on base effect.

# PURCHASING POWER WEAKENED FURTHER AS PRICES TICKED NORTHWARD

## COMMODITIES INDEX FOR 2022



## CONSUMER PRICE VARIATION (2015 -2022)



Source: FAO, National Bureau of Statistics, CSL Research

## Input costs seen moderating in H2 2022

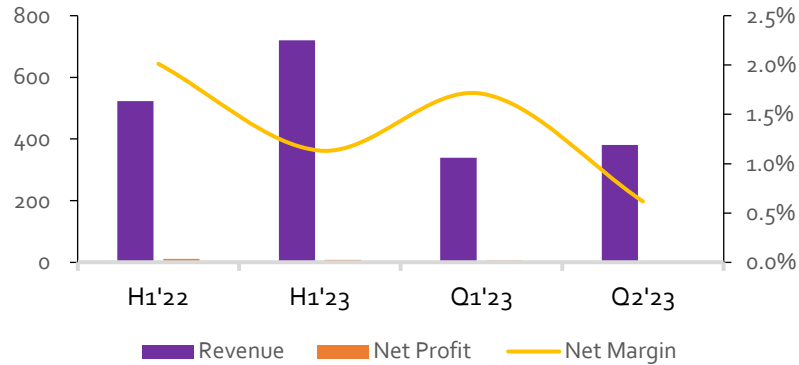
- Based on data from the FAO, the food price index spiked in March following the Russia – Ukraine war induced supply chain disruption. The index tracks the international prices of food commodities (raw material inputs) including cereals, sugar, oil, dairy and meat. The index however, moderated in H2 2022. With expectations of a recession in H1 2023, demand is expected to moderate, hence input prices are expected to retain its downward trajectory
- The Naira depreciated significantly and culminated in FX losses particularly for the manufacturing sector. The outlook remains depreciatory on concerns of low crude oil production and crude oil price widely expected to average below US\$90
- Energy cost also remained high as crude oil traded above the US\$100 mark, implying high diesel costs.

## Consumer Price Index rose to 17-year high

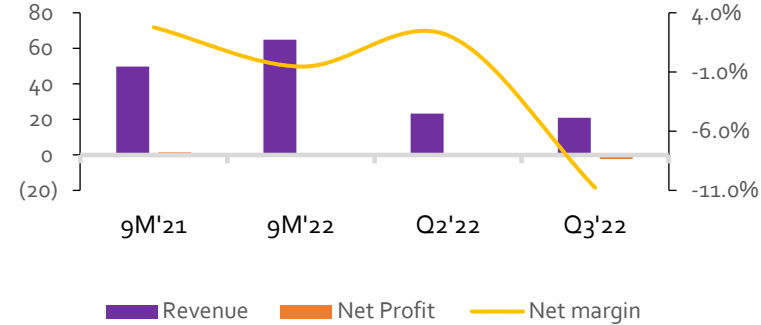
- In 2022, consumers came under unyielding inflationary pressure as consumer price index rose steadily to 21.47% (17-year high) in November. This was driven largely by the increase in the prices of food, exchange rate depreciation, heightened transport costs and local supply shortages
- By implication, purchasing power weakened and most manufacturing companies recorded lower sales volumes, although, revenue grew on the back of increases in product prices
- We, however, expect relative moderation in consumer prices. We believe the incoming government may be unwilling to commence their tenor with a full elimination of petrol subsidy as anticipated in the 2023 fiscal budget, implying a gradual removal starting from the second half of the year.

# CONSUMER GOODS SECTOR: NET MARGINS TREND SOUTHWARD ON INCREASED OPERATING COST

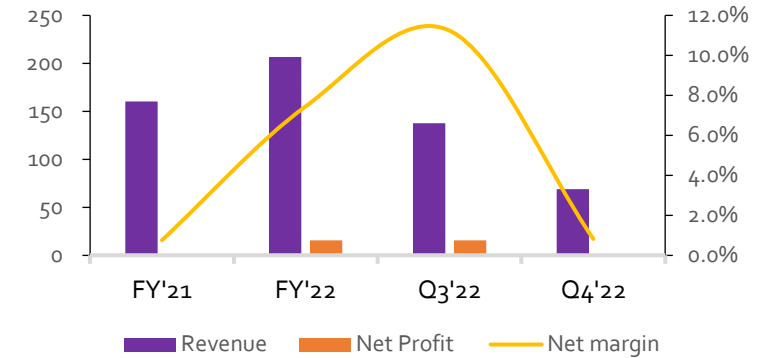
Flourmill H1 2023 (Nbn)



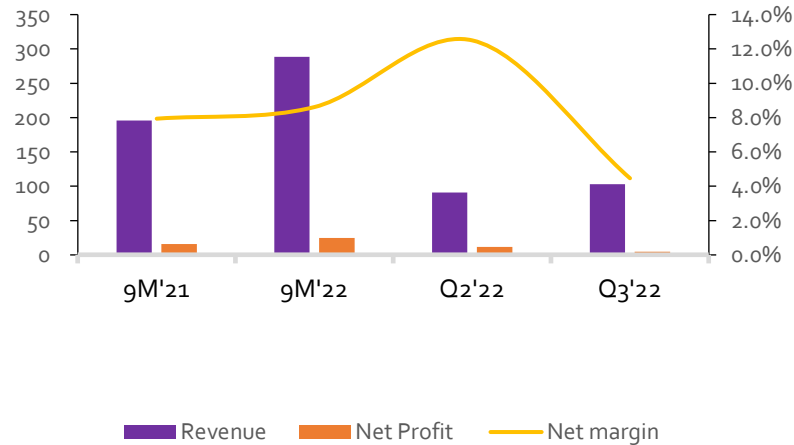
Unilever – gM 2022 (Nbn)



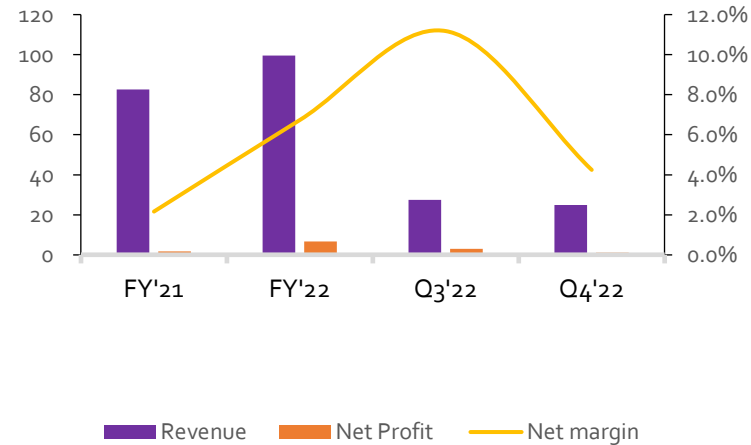
Guinness - FY 2022 (Nbn)



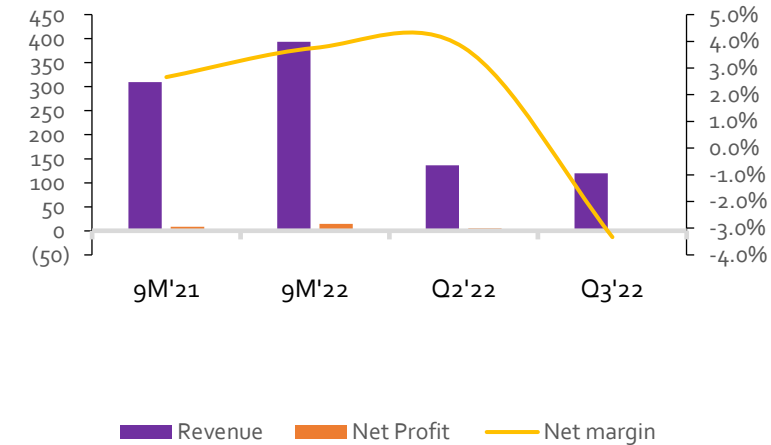
Dangsugar - gM 2022 (Nbn)



PZ - FY 2022 (Nbn)









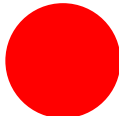


NB gM 2022 (Nbn)





# 2023 CONSUMER GOODS OUTLOOK

		Topline	Volume Growth	Bottom Line
<b>Food processors</b>	<ul style="list-style-type: none"> <li>- The essential nature of goods produced, and the recent price reviews underline our expectation of further increase in topline.</li> <li>- The reduced level of imported substitutes despite the border re-opening in 2021 has continued to ensure resilience of the players in the food processing segment.</li> <li>- However, the inability to fully transfer the skyrocketing operating costs remains a threat to bottom line.</li> </ul>			
<b>Brewers</b>	<ul style="list-style-type: none"> <li>- The over zoom of lively and socialite-oriented population remains the key driver of the beer and soft drink market. Besides, the oligopolistic structure of the Nigerian breweries industry with three frontline players will continue to play out in their favour</li> <li>- However, raw materials are still partly imported, hence, the continued exposure to the volatilities of commodity prices in the international market and exchange rate depreciation. Hence, we expect net margins to remain low</li> </ul>			
<b>FMCGs</b>	<ul style="list-style-type: none"> <li>- Specifically, we expect sales volumes for UNILEVER and PZ to remain challenged as consumers adjust their consumption profile more in favour of basic needs. However, topline are expected to grow moderately on the back of price increases</li> <li>- On the other hand, input costs will remain exposed to global price and exchange rate volatilities hence bottom lines are expected to decline</li> </ul>			

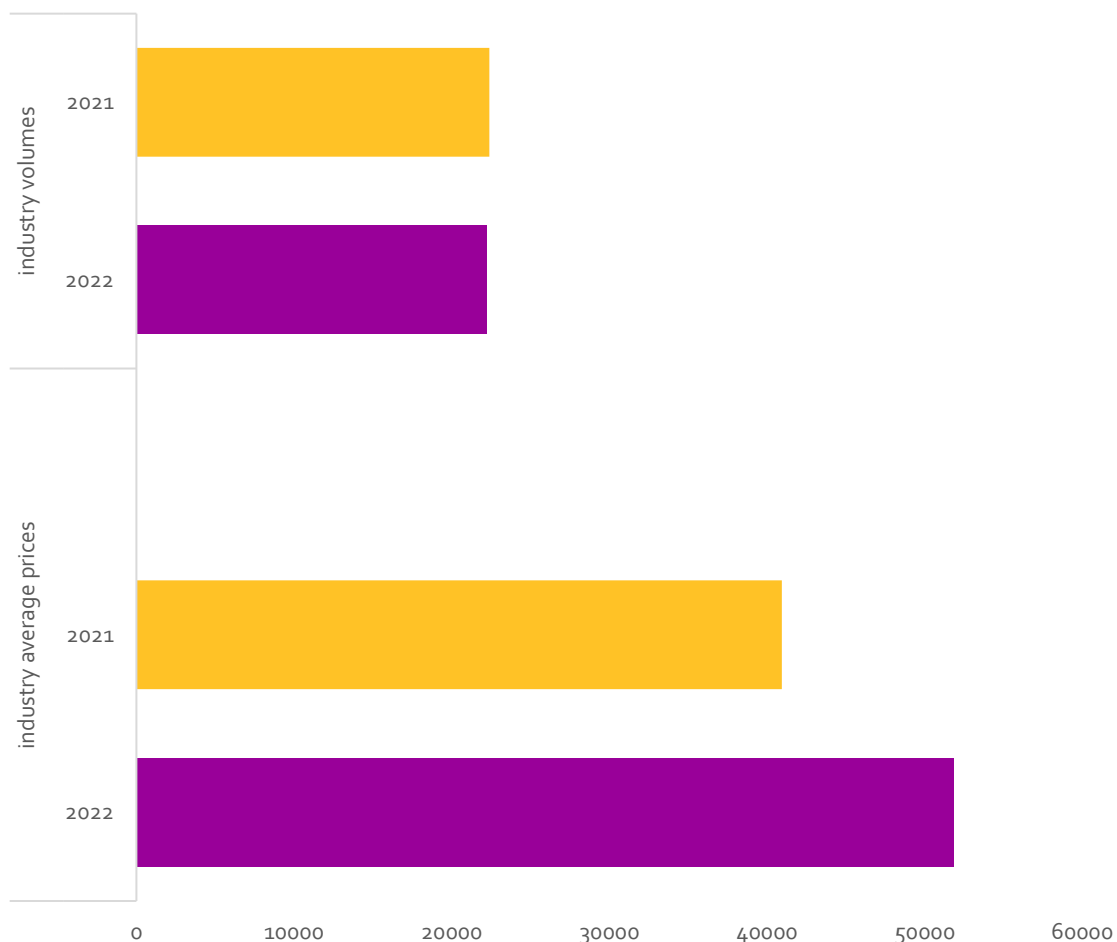
Legend:  Decline  Moderate Growth  Higher (over the next 12-month)



## INDUSTRIAL SECTOR REVIEW & OUTLOOK

# 2022 IN RETROSPECT

## ELEVATED INPUT COSTS DRIVE HIGHER PRICES



Sources: Company data, retailers' price list, CSL Research

## A Tepid Performance in 2022...

- Global energy supply disruptions occasioned by the Russian Ukraine war, inflationary pressures, and tightened financial market conditions were the major themes that played a significant factor in the cement industry in 2022.
- Avoidable nationwide flooding, increased taxes, increased cost of importation, currency devaluation, and poor energy supply were some of the headwinds faced by players in the cement sector.
- However, higher prices improved the revenue performance of the Nigerian cement players.
- Lower volumes were witnessed as a result of the torrid rains and floods witnessed in parts of the country.
- Higher input costs and distribution expenses (notably the negative impact of the spike in diesel prices) gave rise to higher product pricing, as the cement players sought to protect margins.
- Despite the moderate run in the cement sector, the expectation of a third tranche of the share buyback by Dangote cement was a catalyst in the sector closing positive .

# 2022 IN RETROSPECT

Effective pricing drive soaring returns..



## PRICE PER TONNE (9M 2022)

Growth  
28.1% ↑

Closing price  
N66,067

## VOLUME (9M 2022)

Growth  
-4.7% ↓

Closing volume  
13.5MT



Growth  
20.5% ↑

Closing price  
N64,865

Growth  
-3.1% ↓

Closing volume  
4.1MT



Growth  
22.3% ↑

Closing price  
N56,500

Growth  
14.9% ↑

Closing volume  
4.7MT

Sources: Company data, CSL Research

# 2022 IN RETROSPECT

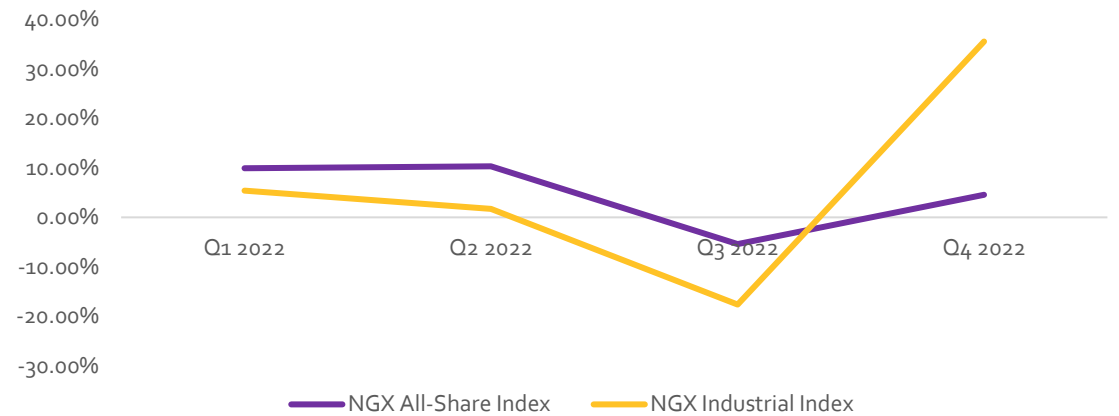
## GROWTH SEEN STAYING STRONG



Sources: NGX, CSL Research

- The cement sector sustained resilient output growth, reflected in its 4.14% yoy growth in Q3 2022. The output performance represented the ninth consecutive quarterly real growth since Q2 2020, during the peak of the coronavirus pandemic.
- Output growth in the cement manufacturing sector can be attributed to persistent negative low real interest rates, which also drove the demand for alternative assets including real estate.
- The construction sector saw a real output growth of 5.52% yoy in Q3 2022, driven by increased investments in infrastructural projects by the national and sub-national government.

## DON'T BE PUT OFF BY THE INDEX MOVEMENT

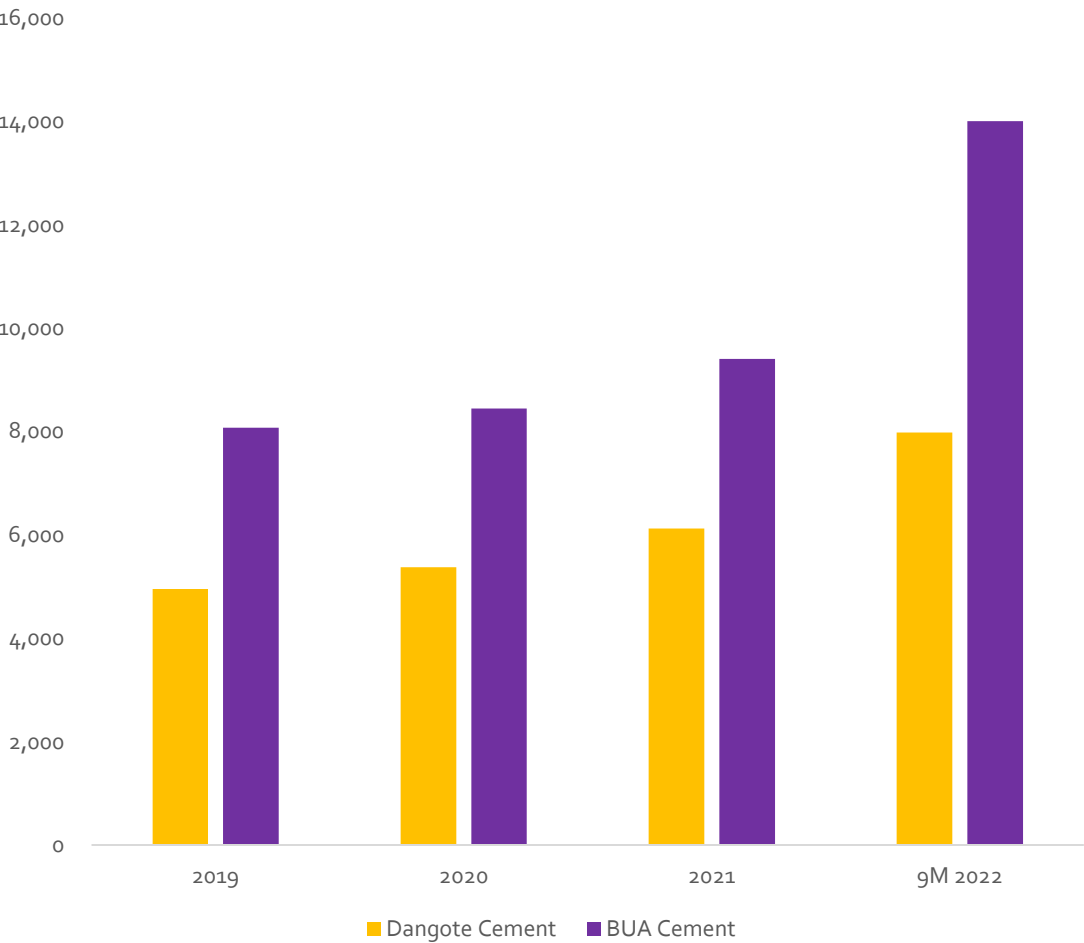


Sources: NGX, CSL Research

- The Industrial index delivered a 19.67% return in 2022, a few basis points below the overall market return of 19.98%; thus, slightly underperforming the NGX ASI Index.
- Following two consecutive gains in Q1 2022 and Q2 2022, the industrial index declined steeply in Q3 2022 due to investors' reaction to a broad decline in industry profitability in Q3 2022. Notably, the industry net profit declined by 50% in Q3 2022.
- A rebound in Q4 2022, led by BUA Cement, was enough to restore parity for the industrial index to align with overall market. The Q4 2022 rally is attributed to bargain hunting by investors. In addition, corporate actions - notably Dangote Cement's share buyback approval spurred renewed interest in the industrial index.

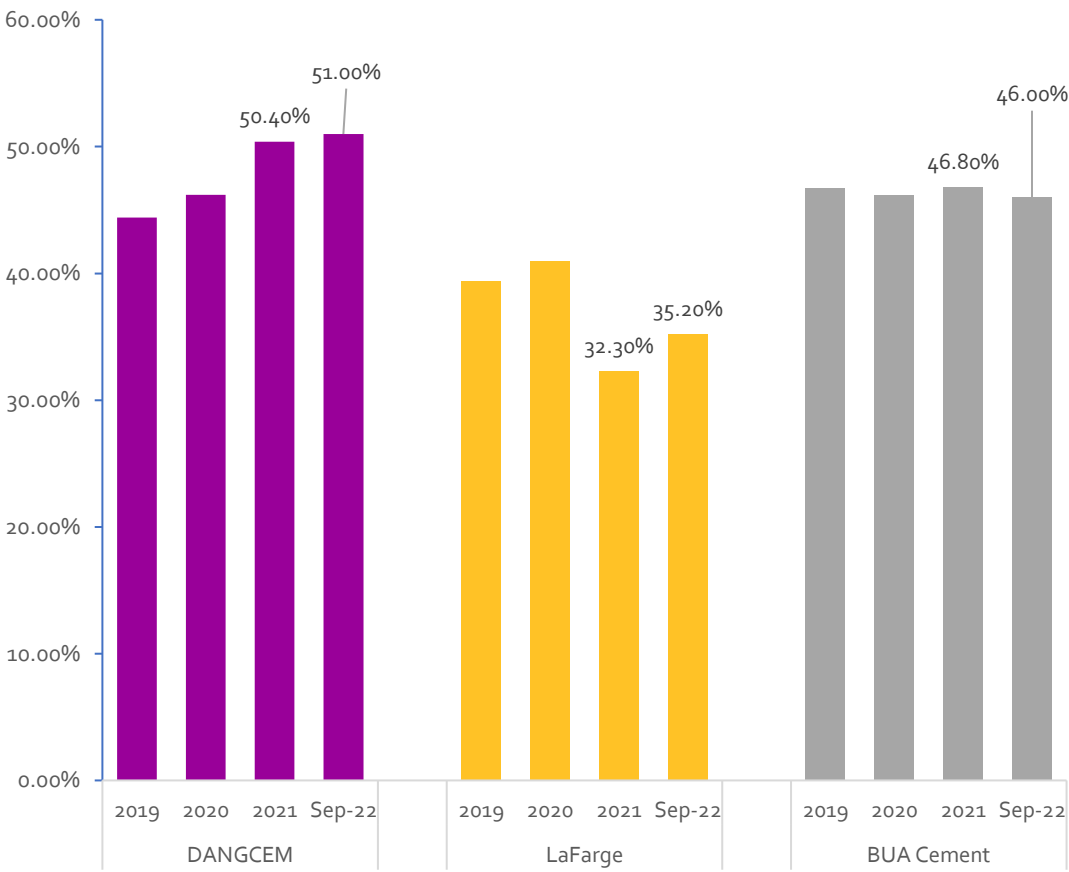
# 2022 IN RETROSPECT

## ENERGY COST PER TONNE (N): INDUSTRY-WIDE COST PRESSURES



Sources: Company data, CSL Research

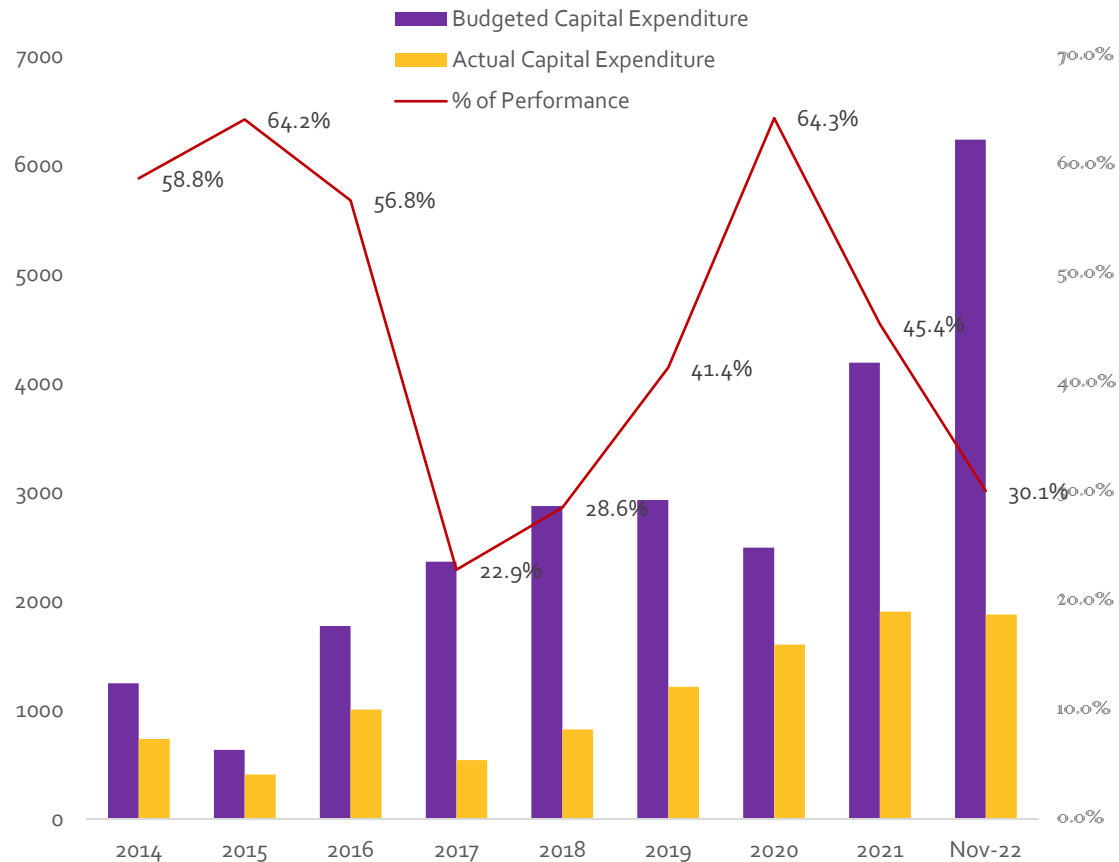
## EBITDA MARGIN: ELEVATED PRICES BOOST EBITDA MARGINS



Sources: NBS, CSL Research

## 2022 IN RETROSPECT

### CAPEX (NTRN) & IMPLEMENTATION RATE (RHS)



Sources: Budget Office, CSL Research

- While subsequent budgeted capital expenditures have increased over the last three years, the implementation rate has been declining. Data shows that just roughly 30% of the proposed capex budget was spent.
- This consistent decline supports the narrative that sufficient funds are not being channelled into infrastructural developments.
- Debt servicing, for its part, made up roughly 30% of the FGN's total expenditure. This represents capital that could have been better utilized on capital projects.
- The cost of governance (recurrent expenditure) remained high and unsustainable at approximately 42% whereas only 15% was spent on capital expenditure
- The prospect of the 2023 elections means a portion of the total expenditure may be directed towards election costs. Given the high level of corruption Nigeria currently faces, it is expected that funds diverted for this purpose might be bloated.

## OUTLOOK FOR 2023: THE ROAD AHEAD

- The outlook for the cement sector is mildly positive in 2023. Nigeria's increasing population and high urbanization growth are factors that are expected to drive increased activities in the real estate sector and Private sector demand in 2023. We also expect the use of tax credits to encourage the private sector to partake in road building. The downside risk, however, is the rising trend of interest rates which might raise the cost of capital to fund real estate projects
- We note an increase in CAPEX expenditure in the 2023 budget which could drive growth in the sector, According to the 2023 fiscal plan, an estimated N6.4trn was earmarked for capex. However, we note that if historical patterns are considered, the implementation rate could be much lower at c.30%-40% .
- With the presidential elections due in February 2023 and less than six months in office, the Buhari administration will likely look to solidify its legacy by investing in capital projects. This is expected to boost the profitability of the cement industry players.
- However, with high oil prices, energy costs might cut profitability associated with higher activity levels.
- The elections could also distract governance activities, as delays in policy implementation are expected during any transitioning period.
- The current volatility and uncertainty of the world economy could pressure the Central Bank of Nigeria (CBN ) to continue to raise rates and this might impact industry players cost of funds
- Overall, we expect volume growth to improve, on the back of increased demand and normalisation of energy disruptions that limited the production capacity of cement players in 2023.



## OUTLOOK FOR THE PERFORMANCE OF THE LISTED PLAYERS

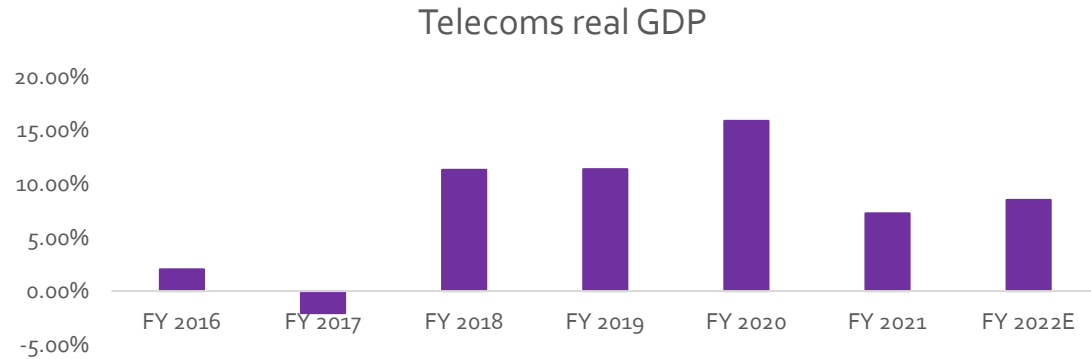
- Energy disruptions faced by the cement players in 2022 put a cap on production capacity, which led to higher operating costs notably haulage costs. Inflationary pressures negatively impacted revenue growth due to higher operating expenses.
- In 2023, topline growth for the cement players is expected to be driven by elevated prices and volume. We see volume growth increasing in 2023 based on the expectation that several headwinds faced in 2022 e.g energy disruptions should normalize.
- We expect the surge in price to continue to contribute to topline growth in 2023, We also note that the players in the cement industry have a pricing power (although at various degrees among the industry players). Therefore, there might be another phase of price raises in 2023 - albeit at a moderate pace and this is expected to continue to impact the topline growth
- BUA Cement's agreement with the IFC to fund additional lines is expected to increase their total volume capacity.



## TELECOMS SECTOR REVIEW & OUTLOOK

# 2022 IN RETROSPECT: SOLID MOMENTUM CONTINUES

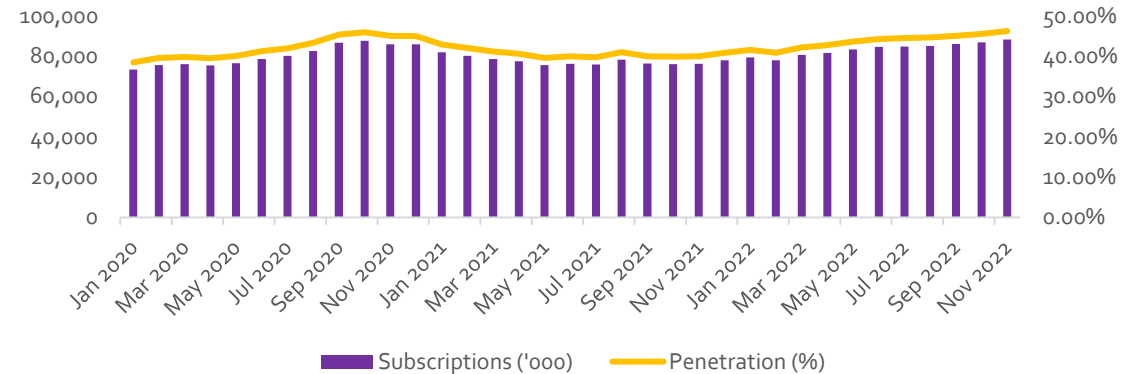
## TELECOMMUNICATIONS SECTOR: THE NIGERIAN ECONOMY'S CROWN JEWEL



Source: NBS, CSL Research

- Nigerian Information and Communications Technology (ICT) sector contributed 15.35% to the country's real Gross Domestic Product (GDP) in Q3 2022, a 1.15% y/y increase when compared with the 14.20% recorded in Q3 2021.
- The telecommunications sector remained a major growth driver of the Nigerian economy in 2022. As of 9M 2022, the telecoms sector grew in real terms by 10.52% yoy. The major catalysts of growth were increased digitalization of the economy, increased smartphone penetration, and the rollout of the 5G network.
- Growth in the industry is expected to persist in the near term as the number of active telecommunications subscribers continues to soar hitting over 212 million in 2022.

## BROADBAND PENETRATION IMPROVES, MOVES ON FROM THE NIN-LINKAGE SAGA

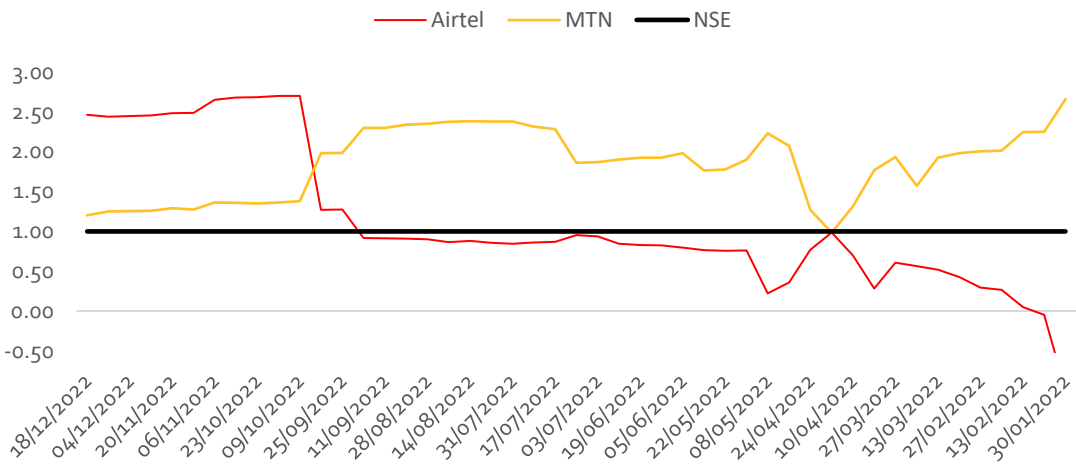


Source: NCC, CSL Research

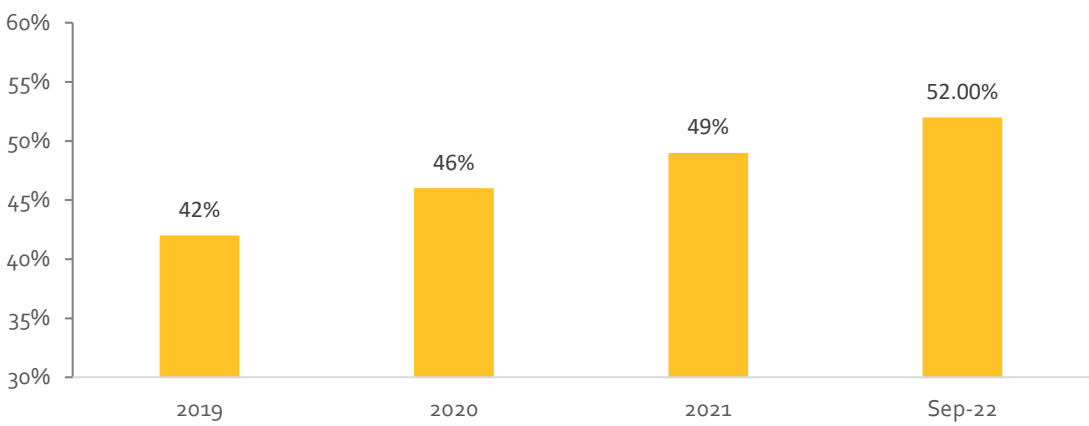
- There was an increase in broadband subscriptions and penetration in 2022 as more sims were linked to NIN. In November 2022, broadband subscriptions increased to 88.27 million from 78.04 million in December 2021 and penetration also increased to 46.24% from 40.88% in the same period.
- Given this is an election year, we expect the general elections to boost data revenues in the near term, as the elections will make use of the BVAS system.

# 2022 IN RETROSPECT

## MTNN SHOWS RESILIENCE

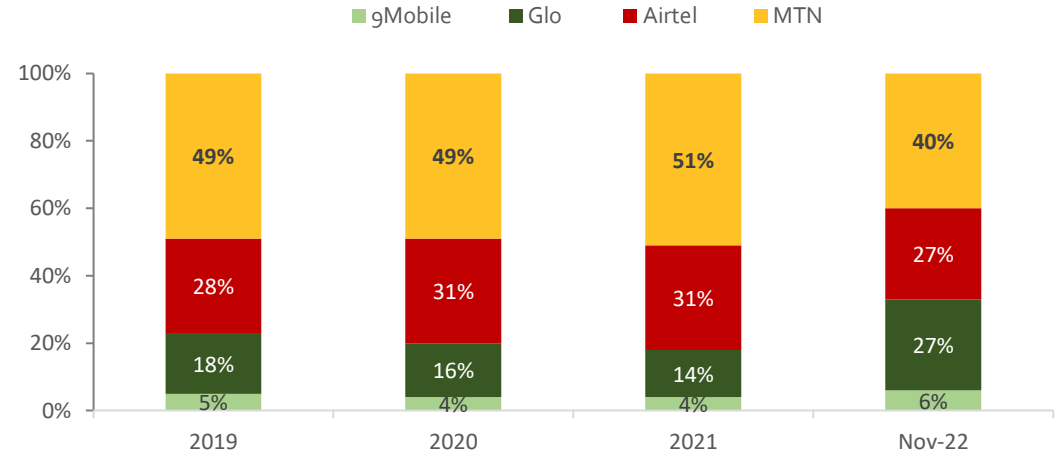


## MTNN PARTNER INTELLIGRA TO GROW SMARTPHONE PENETRATION

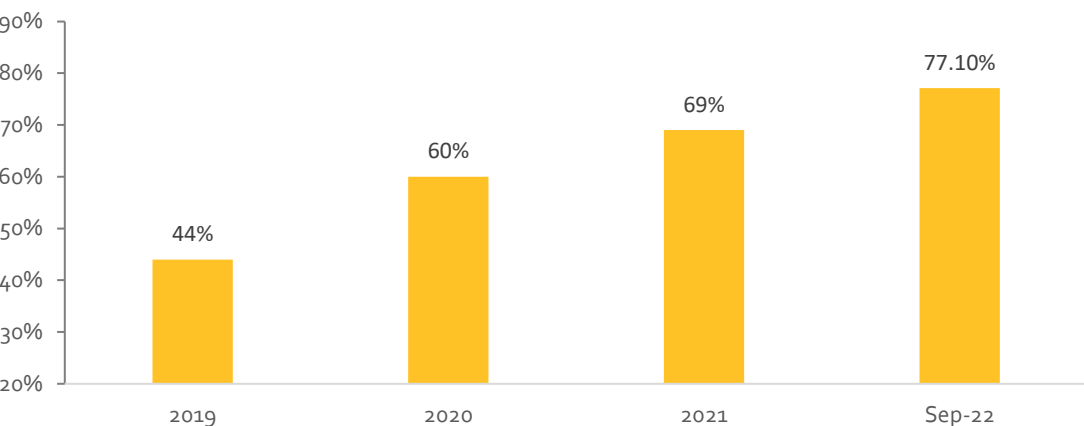


Sources: Company data, NGX, CSL Research

## MARKET SHARE BY MOBILE SUBSCRIBERS ACROSS MNOS



## CONVERSION OF 3G SIM CARDS DRIVE MTNN'S 4G POPULATION COVERAGE



# 2023 OUTLOOK

## 5G TECHNOLOGY TO HAVE A GREATER IMPACT THIS YEAR

- In 2022, the Nigerian Communications Commission (NCC) awarded 5G licence to MTN Nigeria Communications Plc, Mafab Communications Limited, and Airtel, bringing the number of players to three.
- MTN is already ahead of its peers having already rolled out its 5G network in Lagos and Abuja, with plans to launch in five more cities in 2023, such as Port Harcourt, Ibadan, Kano, Owerri, and Maiduguri.
- The full rollout of 5G services across the country in 2023 is expected to drive continuous growth in the telecoms sector.
- The unaffordability of 5G-enabled phones, poor fibre optics in the suburban and rural areas, and the high cost of deployment are factors that may affect the full roll out of the 5G network this year.

## NIN-SIM LINKAGE; ENROUTE TO FULL COMPLIANCE

- The Telcos complied fully with FG directives on Sim-NIN Linkage in early 2022, and this prompted an increase in NIN registration - with over 75 million people registered.
- We note that telcos have started recovering from the impact of the deactivation - as telcos subscribers' numbers increased considerably.
- We expect the compliance level to increase in 2023, due to external factors (Cash withdrawal limits).

## DATA TAKES THE DRIVING SEAT

- Revenues from data soared in 2022 due to the expansion of the 4G network across the country and the rollout of the 5G network.
- According to their 9M 2022 numbers, data revenue soared by 49.1% for MTN, while Airtel data Revenue soared by 26.7%. We expect data will play a major role in generating revenue for telcos this year and forecast data will contribute 43% to the total revenue for MTN in 2023e from 36% in 2022e

## THE RISE OF FINTECH

- We expect the fintech segment to contribute significantly to the growth of the sector, riding on the implementation of the start-up act and the rollout of the 5G network.
- We also expect the recent cash withdrawal limits to boost fintech operations in 2023, as people would be forced to route their transactions through a financial institution.
- With MTN and Airtel already granted PSB license, we note that this would boost financial inclusion in Nigeria.
- We estimate roughly 20% contribution from Fintech revenue to the total revenue of MTNN in the medium term, a rise from our 10% estimate in 2022.



## BUY RECOMMENDATIONS



# BUY RECOMMENDATIONS (1/3)

## **ZENITH BANK: HEALTHY FUNDAMENTALS, COMPELLING VALUATIONS; RATED BUY**

Zenith's 9M 2022 Capital Adequacy Ratio (CAR) of 19.1% remains comfortably above the regulatory minimum of 15.0%. We find the valuation of the shares compelling (PBV: 0.59x). Operating performance has remained relatively strong despite weak macro situation. The bank rates well relative to peers based on capital sufficiency, asset quality, and sustainable long-term dividend yield. Asset quality also remains strong with an NPL ratio of 4.4%, 9M 2022 annualized Cost of Risk (COR) of 1.3%, and coverage ratio of 99.6% as of 9M 2022. We do not expect any deterioration in asset quality in the near term. With our target price of N37.60/s. Current price: N24.50/s

## **GTCO: HOLDCO TO AID REVENUE ACCRETION**

We find valuation attractive at current levels (PBV 0.84x) and see limited risk to the bank's capital from potential provisions arising from subdued macro conditions. One of the highest capital adequacies among our coverage (Capital Adequacy Ratio of 22.02% as at H1 2021 with the full impact of IFRS 9). In the event of a significant deterioration in asset quality (which we think unlikely in the short term), we see little impact on the bank's capital adequacy. Though the cost to income ratio has deteriorated in recent times, 44.6% in 9M 2022 due to poor revenue growth because of significantly lower yields, we expect CIR to moderate as Interest Income improves. Guaranty's asset quality remains strong (9M 2022 annualized Cost of risk - 0.3%). We maintain a BUY rating on the stock. In our view, GTBank stands to benefit from the decision to operate as a holding company as this gives the bank opportunity to diversify its revenues away from the increasingly competitive commercial banking business revenue. The bank rates well relative to peers based on capital sufficiency, asset quality and sustainable long-term dividend yield. Our target price is N39.29/s. Current price: N24.35/s

## **ACCESS CORP: HOLDCO TO AID REVENUE ACCRETION**

The bank's decision to adopt a Holdco structure is broadly positive for earnings in our view. Operating performance has remained strong with growth in both Interest and Non-Interest Income. Asset quality ratios also show a healthy loan book (9M 2022 annualised Cost of Risk (COR) of 1.6%). We find valuation attractive (PBV 0.31x). We have a target price of N20.48/s. Current price: N9.05

## BUY RECOMMENDATIONS (2/3)

### **UNITED BANK OF AFRICA: HEALTHY FUNDAMENTALS; BUY RATING REITERATED**

The bank reports healthy asset quality ratios with annualized Cost of Risk (COR) of 0.6% for 9M 2022, NPL ratio of 3.2% and coverage ratio of 112.9%. Growing contribution from its Pan African subsidiaries continues to give some versatility to the business and helps protect margins. Valuations remain compelling (PBV 0.35x). Pre-tax Profit was up 12.3% y/y to N138.5bn while Profit after Tax was up 10.9%y/ tax profit was up 27.8% q/q while Net Profits grew 58.5% q/q due to a significantly lower tax charge in Q3 compared to Q2. We have a buy rating on the stock with a target price of N18.87/s, current price: N8.05/s..

### **FBNHOLDINGS: GRADUALLY GETTING BACK; BUY**

FBNH's operating performance showed significant improvement in the nine months of 2022. Pre-tax profit was up 99.3% y/y to N105.5bn and 36.2% q/q while Profit for the period grew 123.6% to N91.2bn bringing 9M 2022 annualized ROAE to 13.7% compared with only 7.2% in 9M 2021. The group's asset quality ratios have also improved significantly. 9M 2022 annualized Cost of Risk (COR) of 1.5%. We have a target price of N18.41/. Current price: N11.60 /s. Though we remain concerned about its borderline capital position (First Bank Nigeria reports Capital Adequacy Ratio (CAR) of 15.6% compared with 16.0% for systemically important banks), we believe aggressive capital retention amidst improved profitability can see the bank's CAR improve. We find valuation attractive (PBV 0.47x).

### **DANGOTE CEMENT: SOLID FUNDAMENTALS**

Despite several headwinds, the Nigerian cement market has continued to be resilient in terms of achieving growth. Dangote Cement has shown consistent growth in Revenue, recording 27.2% y/y increase in revenue as of 9M'22. We expect the upbeat momentum in the cement market to persist as the government solidifies several legacy projects which would boost earnings of cement players. We also envisage a bright year for real estate investments. We have a Buy rating on the stock with a target price of N372.49/s. Current price: N265.20/s.



# BUY RECOMMENDATIONS (3/3)

## **CADBURY: ENLARGING ITS COAST VIA PRODUCTS INNOVATION**

CADBURY delivered revenue growth of 41.6% y/y as of 9M 2022 with Net Income growth of 86.1% y/y to N2.82bn in 9M 2022. The company's Revenue growth is strongly supported by its premium beverage brands – Bournvita and 3-in-1 chocolate drink. The company's outlook remains strong, leveraging the existing and new products offerings. The management has been innovative in its product offerings, the latest being the newly introduced Cadbury Bournvita Biscuit which was launched on 10 November, 2022. It is the first biscuit brand in the history of the company. The management has been consistent with dividend payment. The company's shares currently trade at a PBV of 1.46x compared to Industry PBV of 9.51x. We have a BUY rating on the stock with a price target of N15.47/s. Current price: N12.10/s.

## **OKOMUOIL: LEVERAGING SUPPLY GAP**

OKOMUOIL recorded revenue growth of 61.63% y/y as of 9M 2022 with Net Income growth of 55.56% y/y to N18.05bn in 9M 2022. The company has continued to leverage the existing supply gap. Besides being the largest consumer of palm oil in Africa, Nigeria is a net importer of palm oil - 25% of yearly domestic consumption is imported. The Agriculture sector also enjoys strong support from the government both at the Federal and State levels. The management has been consistent with dividend payment. The company currently trades at an EV/EBITDA multiple of 6.50x compared to peer average of 7.2x. We have a BUY rating on the stock with a price target of N232.00/s. Current price: N175.0/s.

## **MTNN: DATA CONTINUES TO DRIVE REVENUE**

MTNN delivered Revenue growth of 20.71% y/y in 9M 2022, The company's Revenue growth was strongly supported by a continuous increase in their data revenue by 49%. The company can be considered a market leader controlling 38.85% of market share. The company's outlook remains strong, and revenue is expected to be boosted by the company's diversification into the PSB space and the full rollout of the 5G network. The implementation of the cash withdrawal limits is also expected to drive data revenues in the near term. The company has been consistent with dividend payment, with current dividend yield at 7.09%. The company's shares currently trades at a P/E of 13.42x compared to industry P/E of 11.07x. We have a BUY rating on the stock with a price target of N249.83/s. Current price: N233/s

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