AFRINVEST

The Nigerian Financial Market Review for H1:2022 and H2:2022 Outlook

Deeper into the Rabbit Hole

July 2022

Deeper into the Rabbit Hole

Equities Market Review and Outlook

Nigerian Financial Market H1:2022 Review and H2:2022 Outlook

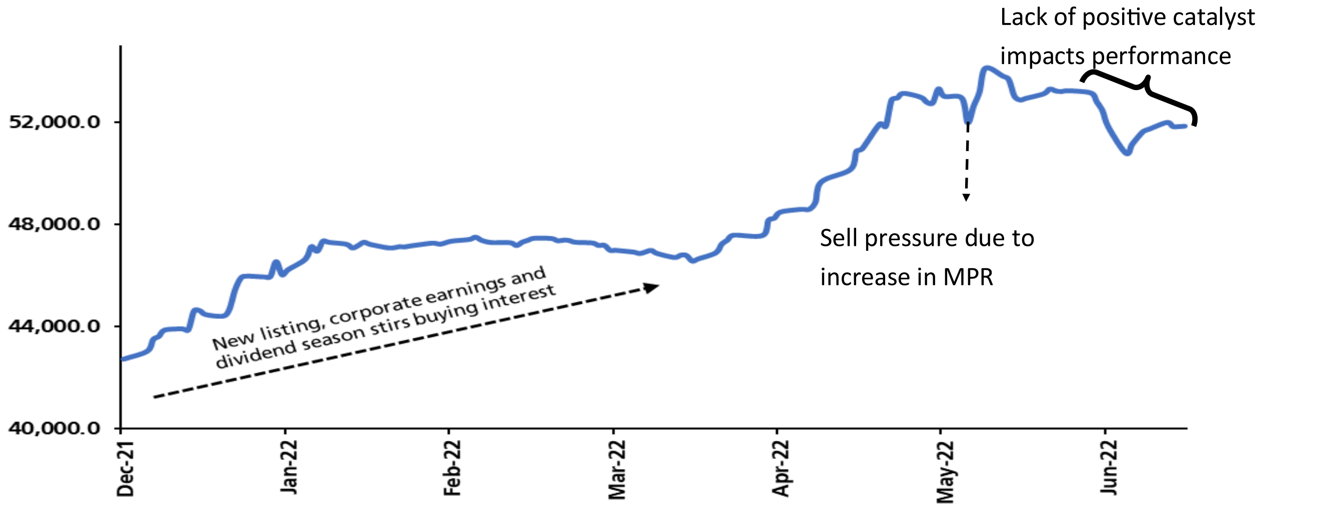
Equity Market: Rally Unbridled by Rate Reversal and Pre-Election Jitters

The local bourse sustained the positive momentum from the prior year in the first half of 2022 with a return of 21.3% – outperforming our bull case projection of 13.7%. In part, this was driven by impressive FY:2021 corporate earnings, dividend payments, market stimulating corporate actions, and robust system liquidity. Although yield reversal in the fixed income market and the CBN hawkish switch (150bps increase in MPR to 13.0%) dented the broad-base market rally from 2021, the resilience of major bellwethers - MTNN (+16.8%), AIRTELAF (+81.4%), DANGCEM (+7.0%), and SEPLAT (+100.0%) - with over 50.0% share of market capitalisation supported the NGX return over the period. In addition, we observed a further decline in foreign investors' participation on the bourse to 13.4% in May 2022 (FY-2021: 22.9%), a development we attribute to the persistent FX woes.

From a quarterly perspective, the market mood was bullish in the two quarters with Q1 returning 10.3% higher than 9.9% in Q2. The first quarter kickstarted with a strong sentiment following impressive earnings results by major bellwethers, dividend payment, the listing of BUA Foods, as well as corporate restructuring involving acquisitions, and WEMA's share reconstruction. Accordingly, the month of January and February saw gains of 9.1% and 1.7% respectively. However, this momentum slowed in March as investors took profit hence, the benchmark index pared gains by 0.9%. A similar trend played out in the second quarter (April: 5.7%, May: 8.1%, and June: -3.4%) even as policy normalization took center stage. Although earnings and dividend seasons spilled into the early part of the quarter, the shining armour that stirred positive performance was the commencement of payment service banking (PSB) by telco giants (MTN and AIRTEL). Also, the finalization of Flourmill-Honeywell & Union - Titan Trust bank acquisition deals, the announcement of Access Bank - Sidian Bank Kenya acquisition, and the establishment of GTCO payment subsidiary stirred the market.

The stellar performance of the bourse in H1:2022 positioned it as the second-best performing market in the World, as the negative spillover effect of the Russia-Ukraine war and the aggressive policy normalization in AEs triggered large-scale selloffs. The local bourse's immunity stems from its participation dynamics, which is alienated

Chart 1: The Local Bourse Performance in the First Half of 2022



Source: NGX, Bloomberg, Afrinvest Research

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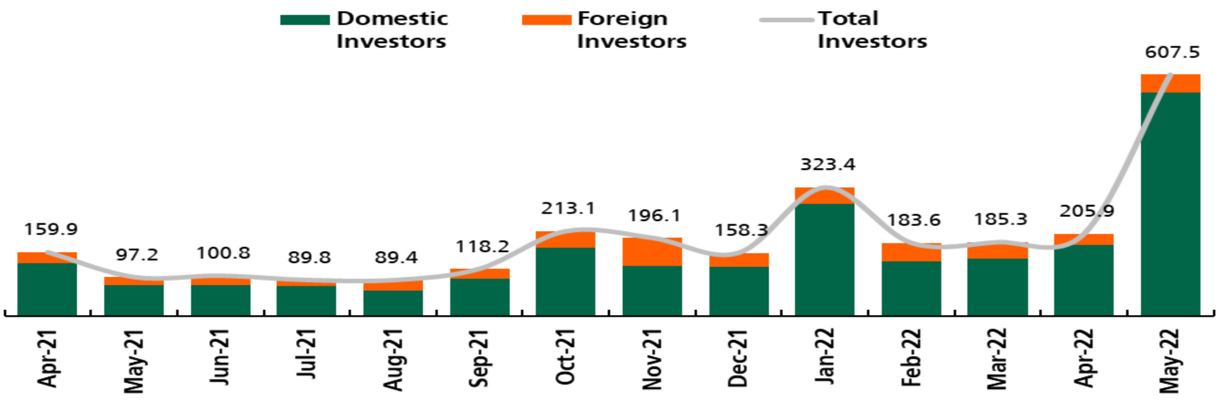
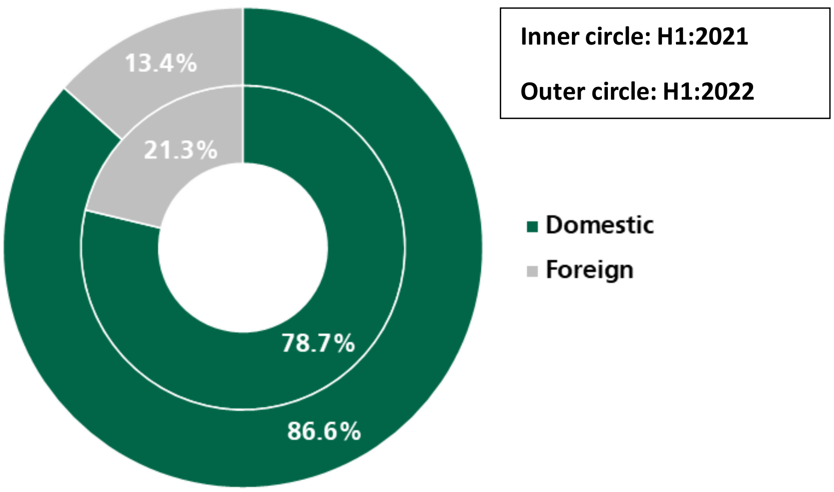
Chart 2: Domestic Players Maintain Dominance by Transaction (₦bn)



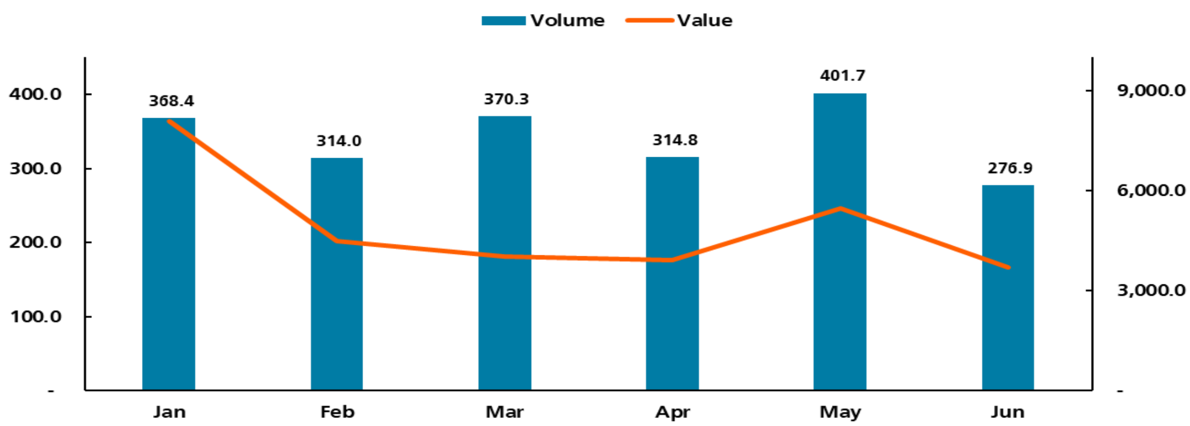
Source: NGX, Afrinvest Research

Chart 3: Players Participation in the Equities Market



Source: NGX, Afrinvest Research

Chart 4: Average Daily Volume (million units - LHS) and Value (₦ million - RHS) Traded in H1:2022



Source: NGX, Afrinvest Research

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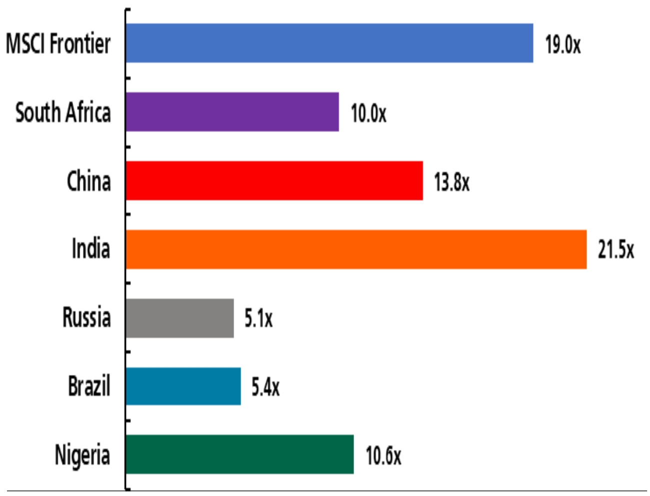
from high foreign investors' participation. Foreign investors maintained a standoffish attitude towards the market majorly due to FX illiquidity as participation and inflows remained low despite the attractiveness of the market compared to peers. Data from NGX as of May revealed the low involvement as foreign contribution to total transaction (₦1.5tn) amounted to ₦201.3bn (13.4%) while net outflow printed at ₦15.3bn. Domestic counterparts on the other hand, primarily drove the market as trading transactions amounted to ₦1.3tn (86.6%) with the institutional investors (86.8% as of May) pulling their weight as usual. Meanwhile, trading activity level was mixed as daily average volume fell 7.8% to 341.4m units while value traded rose 25.2% to ₦4.9bn with January and May recording the largest trade by value. The high trade in the respective months was due to the new listing, buying interest as investors positioned for dividend payment, and the reaction to the anchor rate increase.

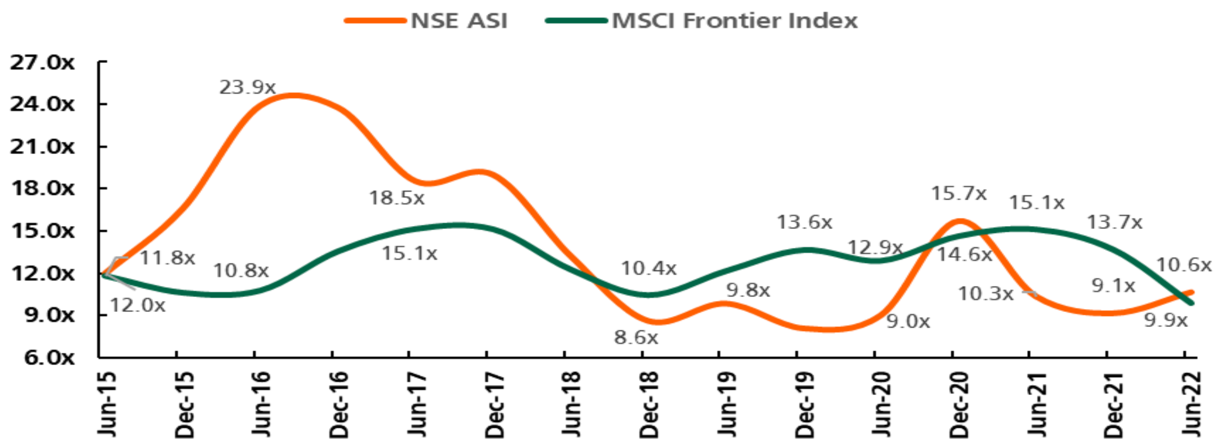
Chart 5: P/E Ratio Comparison for Nigerian vs BRICS & Frontier Market in H1:2022



Source: Bloomberg, Afrinvest Research

The uptrend in the local bourse performance reflected in market valuation as P/E remained robust in H1:2022 at 10.6x compared to 10.3x in the prior year. This was driven by the continued fast-paced recovery in market earnings per share (up 31.9% y/y) relative to the gains in prices. In comparison to peers in the BRICS and MSCI Frontier markets, the NGX-ASI remains relatively undervalued although it is better priced than the South African (10.0x), Brazilian (5.4x), and Russian (5.1x) markets. This attractive valuation is projected to slow down as deep-rooted structural challenges, soaring inflation, coupled with global supply constraints are expected to weigh on EPS growth. Also, we see a slightly upward moderation in yield which could potentially lure capital allocation away from the equities market in H2:2022

Chart 6: Historical Average P/E Multiple for Nigerian vs MSCI Frontier Market Index



Source: Bloomberg, Afrinvest Research

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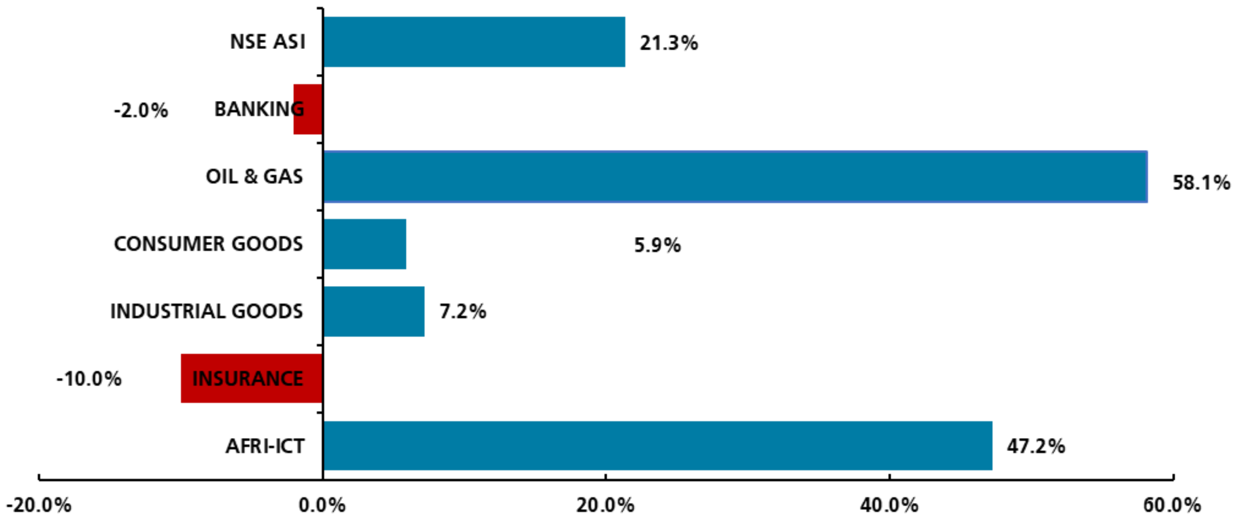
Chart 7: Sector Performance in H1:2022



Source: Bloomberg, Afrinvest Research

Chart 8: Sector Outlook

Sector	Expectations (H2:2022)	Downside Risks
Industrial Goods	Upward adjustment in cement prices would buoy revenue and shield margins from the impact of energy and currency pressure	Pre-election uncertainties with elevated cement prices might weigh on demand.
Consumer Goods	Earnings would print at higher levels (mostly for the brewery players), amid higher input costs as companies adopt backward integration plans to reduce costs.	Weak consumer spending, inflationary pressures, structural challenges to growth, and FX issues might weigh on profitability.
Oil & Gas	The global oil market dynamics would be a key driver in the performance of the sector, mostly for upstream players (SEPLAT). We expect SEPLAT to post stronger earnings on the back of higher oil prices.	Insecurity and vandalism, redundant refineries, FX issues, and higher cost of handling & transportation might weigh on profitability
Insurance	A rise in gross premium is anticipated, however, it would be slower than before.	Claims ratio and Underwriting margin would be pressured as inflationary effects trickle into insurance policy acquisition and maintenance costs thus raising underwriting expenses
Telecommunications	Increasing smartphone penetration, recovery in subscriber base, rapid investment in network infrastructure, and deployment of 5G technology would support the sector.	Vandalism, FX issues, and regulatory hindrances could weigh on the performance of industry players.
Banking	Total income would improve supported by a rise in interest and non-interest income.	Regulatory risk, unattractive yield environment, and increasing competition from non-bank financial institutions especially fintech

Source: Afrinvest Research

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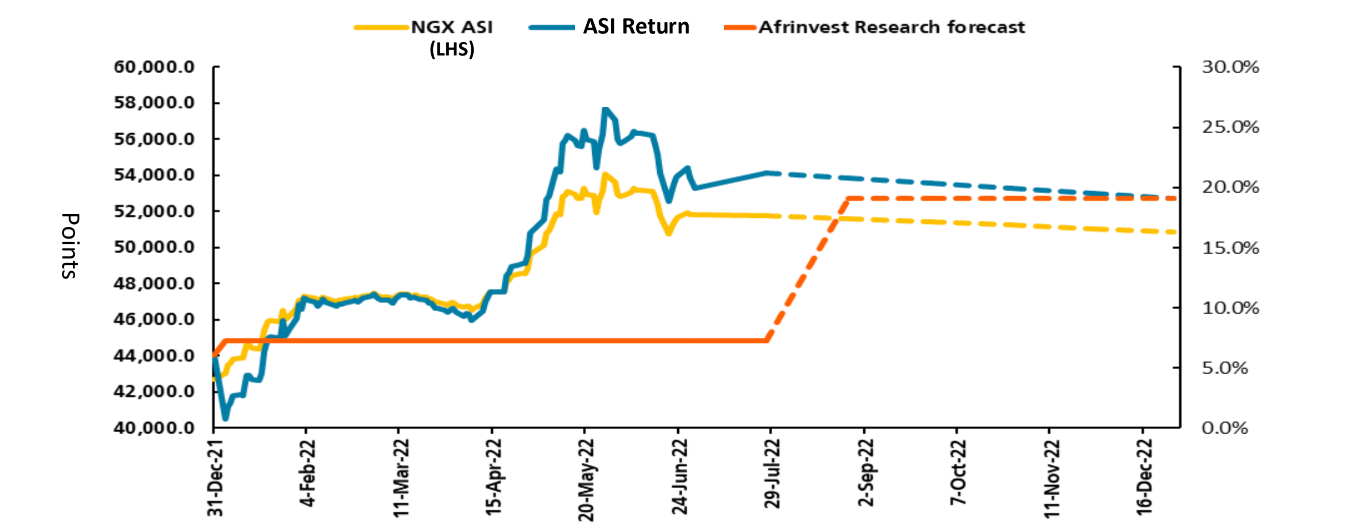
Chart 9: NGX-ASI Projected to Close 2022 at 19.1%



Source: Bloomberg, Afrinvest Research

Bullish Sector Performance… Surge in Global Oil Prices Buoys Higher Returns in Oil & Gas Sector

In line with the overall improved sentiment towards the equities market, sector performance in H1:2022 was bullish save for the **Insurance** and **Banking** indices. Given the impact of the declining global oil spare capacity and geopolitical tensions on crude oil prices, **Oil & Gas** index was the best performing sector in H1:2022, up 58.1%. SEPLAT (+100.0%) received the most buying interest on the back of impressive financial performance and innovative adaptability. In addition, improved interest in OANDO (+28.3%), CONOIL (+30.9%) TOTAL (+5.7%), and MRS (+31.6%) contributed to the impressive Oil & Gas index performance. Similarly, the **AFR-ICT** index gained 47.2% to rank the second-best performing sector due to gains in AIRTELAF (+81.4%) and MTNN (+16.8%). The interest in AIRTELAF and MTNN was buoyed by investors' positive reaction to dividend announcement, impressive earnings, and the telcos' PSB operation.

The **Industrial Goods** index advanced 7.2% in the first half of the year as pent-up demand and price adjustment drove the revenue and earnings performance of companies in the sector. Accordingly, the positive sentiment was largely due to gains in DANGCEM (+7.0%), BUACEMENT (+7.2%), WAPCO (+10.2%), and MEYER (+447.8%). Meanwhile, TRIPPLEG (-1.0%), BERGER (-19.9%), CAP (-6.7%), and CUTIX (-9.1%) recorded losses. In the same vein, the **Consumer Goods** index gained 5.9% as an increase in product prices impacted the earnings of the companies in the index. Bargain hunting in GUINNESS (+132.1%), NB (+17.6%), INTBREW (+27.3%), FLOURMILL (+14.6%), and CADBURY (+96.0%) drove the index northwards. However, NASCON (-11.0%), HONYFLOUR (-18.8%), and DANGSUGAR (-6.3%) recorded losses.

Conversely, the **Insurance** index dipped 10.0% in H1:2022. Although CORNERST (+56.5%) and LINKASSURE (+2.0%) recorded positive performances, losses in tickers such as LASACO (-1.9%), SOVRENIN (-10.0%), SUNUASSUR (-22.2%), REGALINS (-47.1%), and MBENEFIT (-24.2%) dragged the Insurance index lower. For the **Banking** sector, buying interest was outweighed by sell pressures as the NGX Banking index dipped 2.0%. Noteworthy, the poor outing was largely due to losses in UNITYBANK (-16.7%), UBA (-7.5%), and ZENITH (-13.7%). Meanwhile, there were noticeable gains in WEMABANK (aided by the "3 for 1" share reconstruction exercise in March which brought real price appreciation to 47.7%) and FIDELITY (+34.1%).

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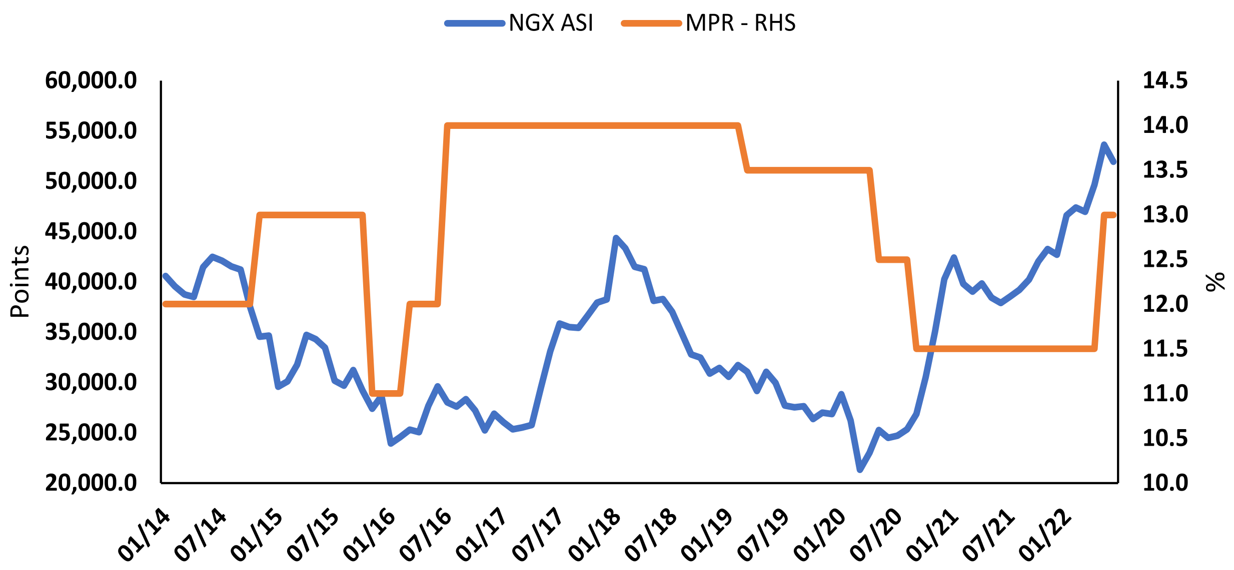
H2:2022 Scenario Analysis & Prognosis… Yields Uptrend to Moderate Equities Gain

In view of the factors that shaped market performance in H1:2022 (up +21.3%) and based on our expectation of their trend in H2:2022 (summarized in chart 11 below), we have revised our year-end equities market projection. Furthermore, we highlighted additional considerations in our prognosis for the remainder of the year. With respect to the changing domestic monetary policy landscape, our study of historical trends found inconclusive links between MPR changes and the movement of the benchmark index. Data from our analysis suggests an indirect correlation (-0.3) between the MPR and NGX-ASI from January 2014 to June 2022. The result confirms our argument in the Domestic Review & Outlook Section that the link between the MPR (per se) and equities & bonds markets is weak. Nonetheless, monetary policy outlook is pivotal for forecasting market performance as other tools of monetary policy (one of such being OMO) can influence market activities more potently.

Our base-case expectation is that the domestic equities market would gain 19.1% in 2022, implying a moderation of returns in the second half of the year. We expect an uptick in FI yields in H2:2022 to spur a slowdown in equities market performance, although expected earnings growth could counter this. By 2022-end, we project EPS growth of 19.3% y/y compared to 90.8% y/y in the prior year. Our projection is justified by continued broad macroeconomic recovery and positive sector-specific outlooks. On the other hand, it is noteworthy that the 2021 base is an unusual year accentuated by the normalisation of economic activities from a depressed 2020 (-18.8% y/y EPS growth by year-end). More so, the full effects of policy support during the heat of the 2020 pandemic aided the 90.8% y/y EPS upswing by 2021-end. We believe these factors are weak in the current year. On pricing, we anticipate a moderation in the P/E ratio from 10.6x (27-June) to 9.6x which is close to the 3-year historical average (9.2x) bar 2020 (17.3x). Though the Nigerian market (dominated by domestic players) traded at a discount to the MSCI frontier market (19.0x) and BRICS peers (11.2x) in H1:2022, we expect asset rotation into higher-yielding fixed-income instruments in H2:2022 to deepen undervaluation. That said, the biggest upside risk to our forecast is the potential for fixed income yields to flatten or decline in H2:2022 while on the downside, poor earnings growth could deter the outlook.

Chart 10: MPR vs NGX-ASI Trend



Source: CBN, Investing.com, Afrinvest Research

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Chart 11: Afrinvest Equity Market Projection Scenarios in 2022

Factors	Pessimistic	Neutral	Optimistic
Interest Rate Direction of Global Systemic Central Banks	Sharper hikes to worsen outflow	Lukewarm rate hike momentum to keep hot money at bay	Pause on rate hike to lessen or reverse the outflow
Corporate Earnings	Poor earnings performance would dampen investor confidence	Modest earnings growth would support market performance	Strong and resilient earnings performance would spur investor confidence
Domestic Interest Rate Policy	Aggressive interest rate hikes and deployment of other tools would significantly raise borrowing costs	Sustained hawkish posture would pressure companies profitability	Accommodative stance would support earnings growth
FI Yield Environment	Large upswings in FI yields would trigger rotation out of equities	Modest uptick in yields would lower potential equities gain	Yield contraction would shift investors interest into equities
FX Dynamics	FX quagmire worsens and leads to more FPIs exit	FPI participation is subdued but not worsened if no positive or negative FX policy changes occur	Clarity in the FX market would improve FPI participation
Pre-Election Politicking	Heightened uncertainties, insecurity weighs on companies performances	Business as usual if there are no surprises	Stable political environment would boost investor confidence
Ukraine-Russian War	Escalation worsens cost pressures and sharply erodes margins	War does not escalate, and cost strategies help margins	Positive resolution to war, input cost pressure eases and faster margins expansion

Chart 12: Outlook Scenario Analysis for 2022

Afrinvest Revised Equity Market Projection 2022							
Scenarios	EPS Growth Forecast	2022 EPS	P/E (x) Forecast	2021 NGX ASI	2022 NGX ASI	NGX ASI Return	Probability of Occurence
Minimum P/E	-3.0%	4,309.90	8.0x	42,716.44	34,479.23	-19.3%	10.0%
Median P/E	19.3%	5,299.64	9.6x	42,716.44	50,876.54	19.1%	60.0%
Maximum P/E	33.0%	5,910.83	10.2x	42,716.44	60,290.43	41.1%	30.0%

Source: Afrinvest Research

Under the best-case scenario, we imagine that stable domestic monetary and FX policies alongside favourable global dynamics would enhance the attraction of the domestic equities market to FPIs. Similarly, a positive resolution to the Ukraine-Russian war and/or a cooling down of the global commodities market reduces the pressure on input costs, particularly energy and grains. Furthermore, under this scenario yield in the domestic fixed-income space moderates in H2:2022, and the allure of the equities market improves with the NGX-ASI gaining +41.1% by year-end.

In our bear-case scenario, we anticipate that the CBN would implement additional interest rate hikes in H2:2022 including clearing OMO auctions at higher stop rates to incentivise hot money inflows. Thus, an elevated interest rate environment should prompt investors to hunt for fixed-income yields which could weaken equities performance. In addition, rising interest expenses should compound woes for corporate earnings already confronted by high input costs, thereby worsening overall financial performance. Factoring in other relevant considerations, our model predicted a 19.3% loss.

Investment Strategy... Searching for Value Amid Cautious Optimism

At the start of the year, we posited that the market would close in the positive territory in 2022. This is guided by our expectation of positive COVID-19 headlines, low political risk, strong earnings performance, unattractive fixed-income yield environment, and reduced capital flight (as local players dominate trading). We highlighted that negative sentiment from rate hike, pre-election concerns, and increased fixed income yield could dent this outlook. On the back of this, we recommended a strategic equity play with four portfolios that had potential for alpha.

Reviewing the performance of the portfolios as at H1:2022, all portfolios returned positive though one outperformed the market. For H2:2022, we are retaining all our portfolio constituents excluding the dividend yield portfolio which we have rebalanced to comply with our selection criteria (see chart 14). Overall, signals from H1:2022 and expectations for the rest of the year leaves us confident that our strategic portfolio choices would return value at year end.

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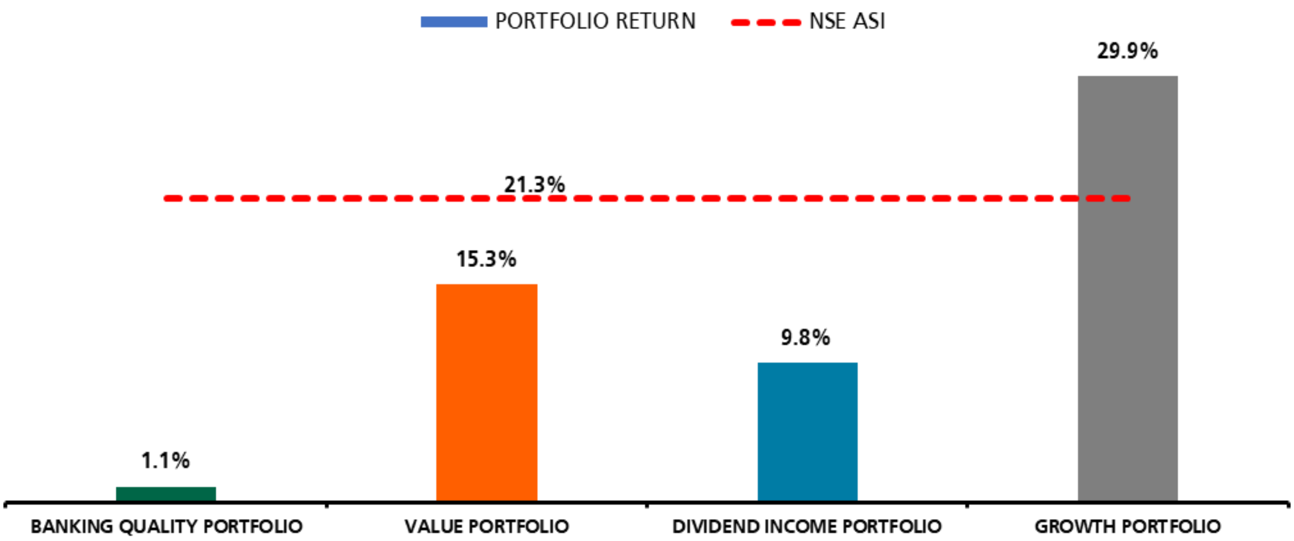
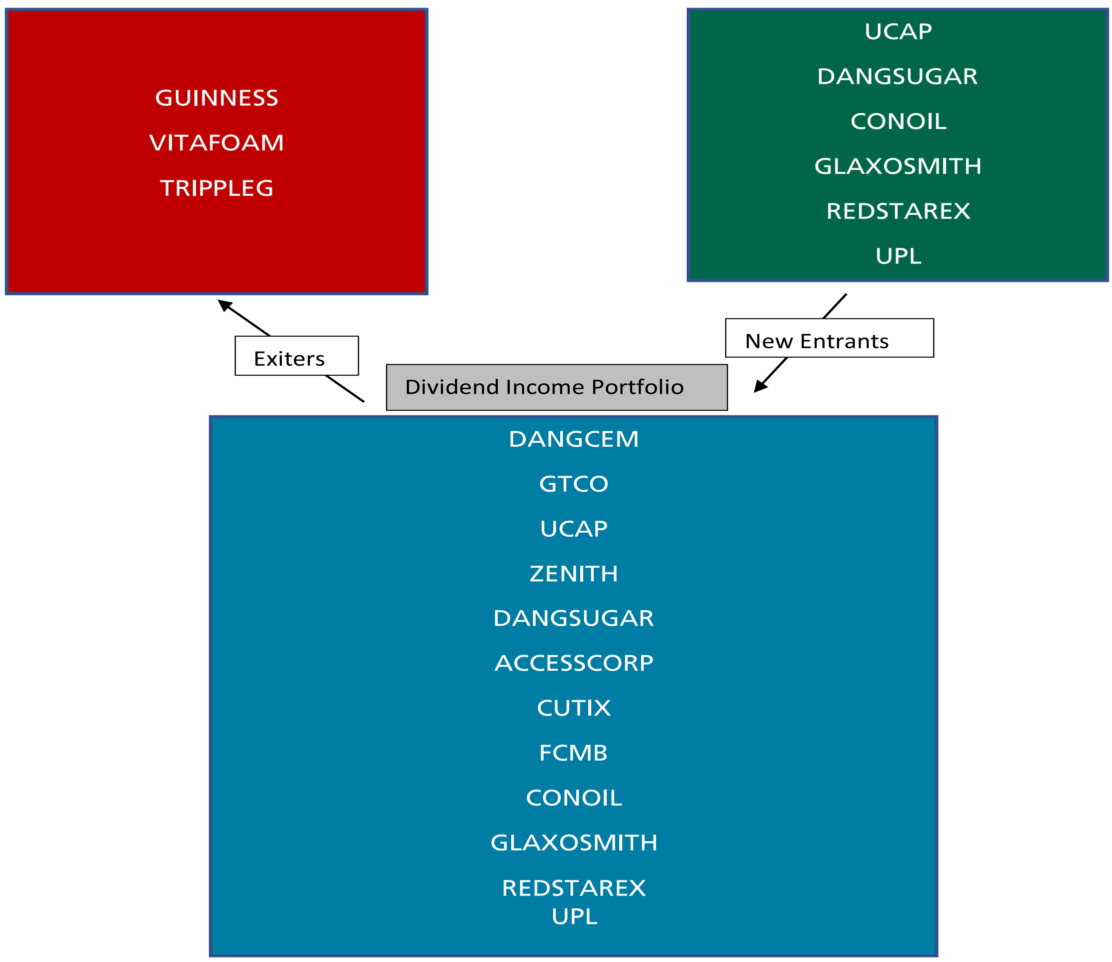
Chart 13: Afrinvest Equities Portfolio Performance vs Comparable Benchmark



Source: NGX, Afrinvest Research

Chart 14: Dividend Income Portfolio Revised Constituent



Source: Afrinvest Research

Fixed Income Market Review and Outlook

Fixed Income Market H1:2022 Review and H2:2022 Outlook

Global Debt Market... Would Monetary Tightening Slow Mountain of Debt?

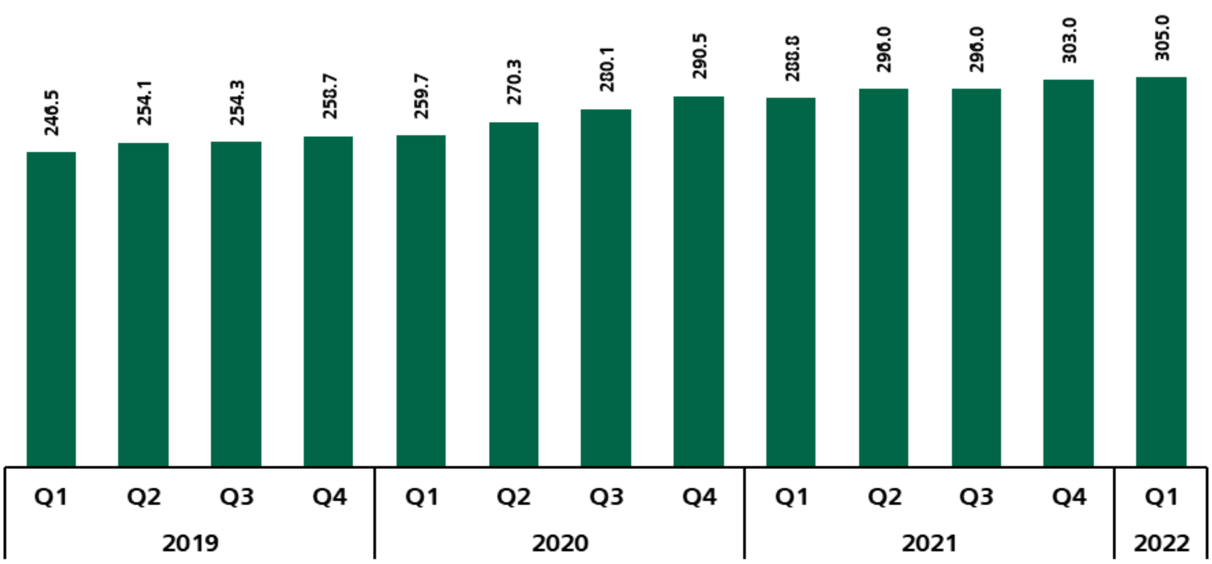
Amid an ongoing but tentative recovery, the global economy was upset by new headwinds in H1:2022. The invasion of Ukraine magnified the pre-existing strain that the pandemic exerted on commodity prices and aggravated global supply chain disruption. Consequently, inflation soared across the world, prompting policy makers' tradeoffs between supporting economic growth and stabilizing prices. The consequent contractionary policy stance of systemic central banks to combat rising prices tightened global financial conditions, with adverse implications for global debt dynamics. Although global debt stock rose 5.6% y/y to an historic high of $305.0tn in Q1:2022 buoyed by the US ($1.8tn) and China ($2.5tn) borrowings, debt accumulation slowed on a quarterly basis (+0.7% q/q) compared to Q4:2020 (+2.4% q/q). In our view, this quarterly slowdown is more likely indicative of the impact of rising global interest rates on the debt market rather than a seasonal effect.

Into the rest of 2022, record-high inflation above central banks' target globally remains a key risk for debt markets. Data from IMF projects average global consumer prices to rise to 7.4% (AEs: 5.7%; EMDEs: 8.7%) in 2022. Thus, sustaining the drive for rate hikes for the rest of 2022. On this basis, we expect global liquidity environment to further tighten and the global debt market, especially EMDEs, to be vulnerable in 2022, posing financial stability risk.

SSA Sovereign and Corporate Eurobond Markets... Have Yields Peaked?

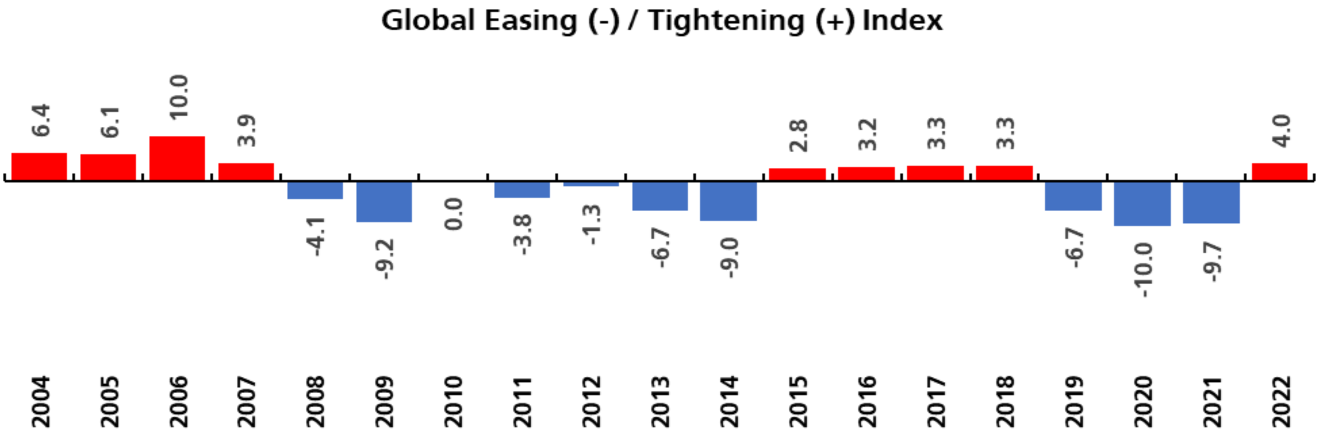
Soaring inflation, central banks hawkish responses, and the Russian-Ukraine crisis were the major highlights of the first half of 2022. Specifically, the Fed's rate hike to 1.75% from 0.5% triggered a risk-off attitude towards emerging markets assets. For the Sub-Saharan African (SSA) region, fiscal vulnerabilities, currency depreciation and debt servicing issues intensified the aversion. These headwinds provoked a repricing of instruments and capital flight from the SSA region to safer havens. Consequently, performance of SSA Sovereign Eurobond markets under our purview remained weak following a sharp uptick in average yield to 24.9% in H1:2022 (H1:2021:7.4%). The waning investor confidence

Chart 1: Global Debt Stock ($'tn) Continues Uptrend in Q1:2022, Albeit Softly



Source: IMF, Afrinvest Research

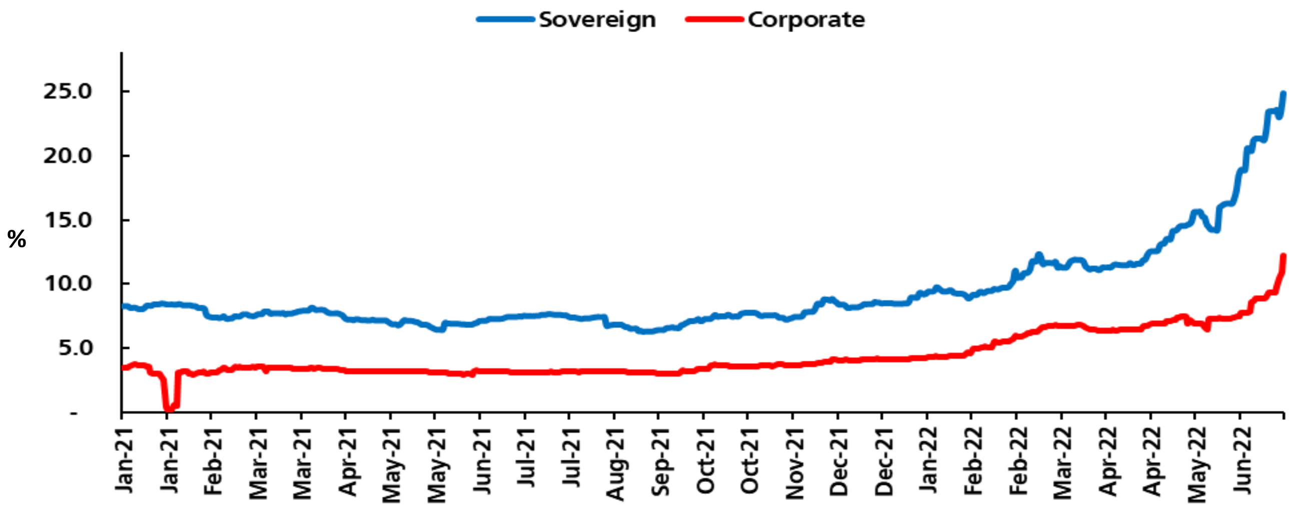
Chart 2: Contractionary Global Interest Rate Environment in 2022



Source: CFR, Afrinvest Research

**Data points are as of June for respective years*

Chart 3: Average Yield Trajectory for SSA Sovereign and Corporate Eurobonds



Source: Bloomberg, Afrinvest Research

Chart 4: Average Yield Trajectory for SSA Sovereign and Corporate Eurobonds

Country	Issuer Name	Amount Outstanding ('m)	Issue Date	Maturity Date	Book Size ('m)	Coupon (%)
Corporate						
NIGERIA	BOI Finance BV *	750.0	2/16/2022	2/16/2027		7.5
SOUTH AFRICA	Anglo American Capital PLC	750.0	3/16/2022	3/16/2052		4.8
Sovereign						
SOUTH AFRICA	South Africa Government	1,400.0	4/20/2022	4/20/2032	3,000.0	5.9
ANGOLA	Angolan Government	1,750.0	4/14/2022	4/14/2032	4,000.0	8.8
SOUTH AFRICA	South Africa Government	1,600.0	4/20/2022	4/20/2052	3,000.0	7.3
NIGERIA	Nigeria Government	1,250.0	3/24/2022	3/24/2029	3,600.0	8.4

Source: Bond Prospectus, Bloomberg, Afrinvest Research

**Amount in Euro*

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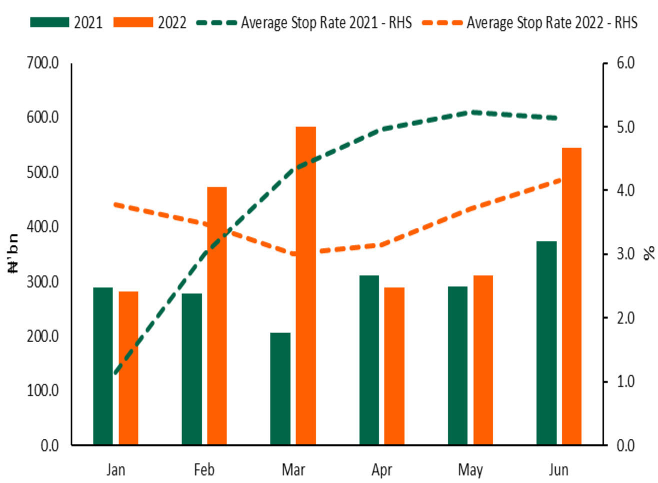
also hit the corporate Eurobond market as average yield on papers tracked inched higher to 12.2% from 3.2% in H1:2021.

Specifically for the Sovereign market, yields on the ZAMBIA 2022 bond rose the most from 46.6% in H1:2021 to 350.8%, as the paper nears maturity coupled with the country's failure to service obligations amid fiscal challenges. NIGERIA 2022 paper also recorded an increase in yield to 62.0% from 1.5% as investors reprice due to maturity and increased credit risk (JP Morgan Emerging Markets Bond Index reclassification from overweight). Similarly, the Ghanian instruments recorded selloffs (2026 paper yield rose the most to 23.0% from 5.5%) owing to high debt levels amid fiscal challenges and depleting reserves. Meanwhile, price adjustment as the SOUTH AFRICA 2022 instrument matured drove a yield decline to -26.0% from 0.2%, to be the lone gainer for the period. Aside repricing that pushed yields on maturing corporate instruments higher, the ESKOM 2025 (+908bps to 14.3%) and ACCESS 2026 (615bps to 12.0%) instruments also saw uptick in yield.

The SSA region's appetite for foreign-denominated debt increased in H1:2022 though market conditions were unfavourable. During the period, SSA Sovereign Eurobond maturity totaled $1.3bn while issuances amounted to $6.0bn. The issuances were accompanied with high interest as book size hit $13.6bn, indicating a bid-to-cover of 2.3x. This comes below the $8.0bn issued in H1:2021 as repayment risks and high borrowing costs caused a slow-down. For the corporate Eurobond space, we note higher issuances ($750.0m and €750.0m) compared to maturities ($556.5m).

Chart 5: NT-Bills PMA Trend 2022 vs 2021



Source: CBN, Afrinvest Research

H2:2022 would be shaped by the continuous rate hike in AEs which would further make a case for capital outflow and unattractiveness of the market. Meanwhile, the SSA monetary authorities' responses would be closely monitored and is expected to also dictate the direction of the market. The region is projected to witness slower economic growth (3.8% by the IMF), even with elevated commodity prices which is a plus to the region. In addition, socio-political instability, currency depreciation and revenue constraints amid rising debt levels remain major headwinds. Nevertheless, we see opportunities for bargain hunting as papers are lowly priced. Also, there is potential for renewed interest if inflation and policy normalization slowdown in AEs. Therefore, we foresee a weak outing for the Eurobond markets on the back of persistent rise in yields. Likewise, we expect a hold back on new issuances though, SSA external debt is estimated to increase to $781.2bn from $743.6bn in 2021.

Nigerian Fixed Income Market Review... Divergent Outcomes as PMAs Influence Tides

At the start of year, we posited that the fixed-income market would toll a bearish path premised on liquidity environment, demand-supply dynamics, regulatory actions, macro-economic trajectory, and pre-election risk perception. Although our FY outlook was bearish, we anticipated a bullish outcome in H1:2022 where the significant maturities for the year would crystalize (c.62.0%

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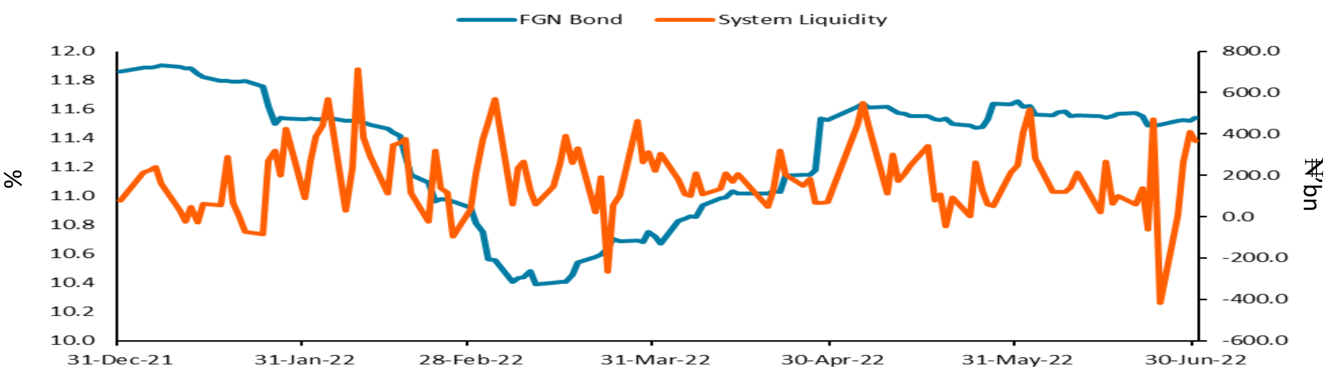
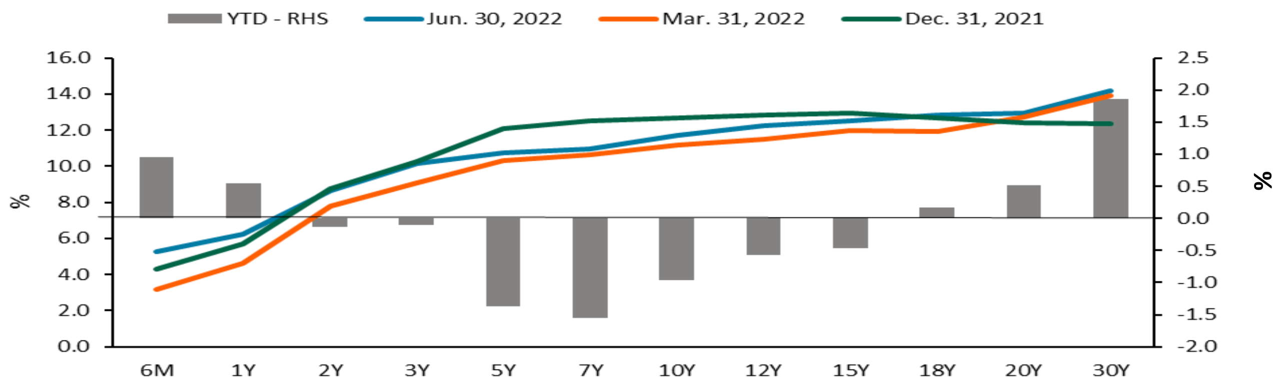
Chart 6: Average Bond Yields Trend in H1:2022



Source: FMDQ, CBN, Afrinvest Research

Chart 7: FGN Yield Curve



Source: FMDQ, CBN, Afrinvest Research

across the board). True to our prognosis, the FGN bonds yield moderated 32bps to 11.5% in the eventful half-year where strong bullish momentum till mid-March gave way to a bearish run up to early May, and an eventual sideways movement till June.

At the short end of the curve, yields for NT-bills and OMO-bills diverged in the secondary market over H1:2022. Precisely, the average OMO yield eased 16bps to 5.3% as of June 30 while NT-bills yield rose 1.1ppt to 5.5%. This divergence can be accounted for by CBN's decision to maintain stop rates in the OMO Primary Market Auction (PMA) in H1:2022 at prevailing levels despite its unusual switch to a hawkish stance symbolized by a 150bps MPR hike in May.

On the other hand, secondary NT-bills yield was initially on a downtrend up till late March as consistent decline of stop rates at PMAs (Average 2021-end: 3.6% vs 2.9% at the March 16 PMA) forced market participants to reprice instruments. However, CBN's pegging of interbank lending rates to MPR asymmetric corridors in March, implying a floor of 4.5% per previous MPR of 11.5%, stoked yield higher to maintain attractiveness of bills. Moreso, the final PMA in March saw the CBN allot bills at a higher marginal rate (average of 3.1% vs 2.9% in prior auction) which added gusto to the upswing in NT-bills yield till June-end. In the OMO PMA, the CBN undersold bills by ₦10.0bn, allotting only 98.7% of total offer (₦800.0bn) despite a 5.3x subscription ratio. Overall, inflows from maturing NT-bills in H1:2022 stood at ₦1.6tn compared to issuances of ₦2.5tn. Also, the average system liquidity in the half-year was ₦191.7bn, 31.2% lower y/y but up by 78.6% q/q while OPR and OVN rates rose 3.8ppts and 3.5ppts respectively to

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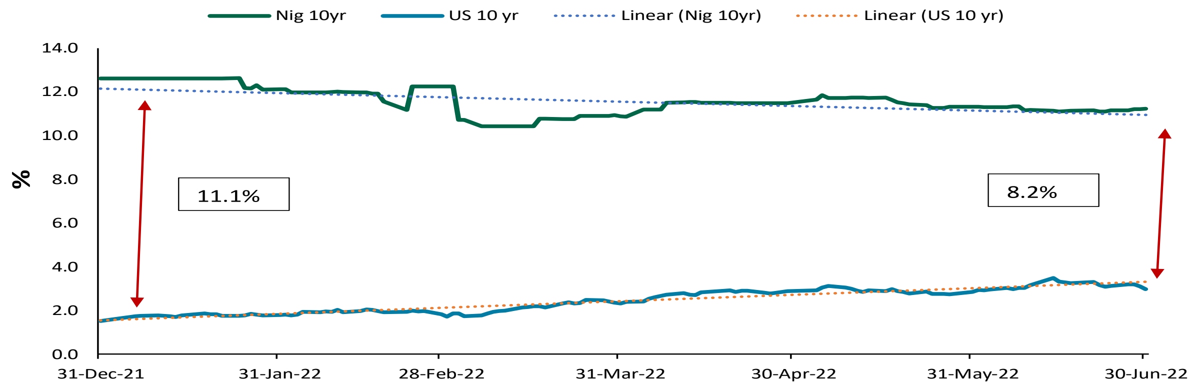
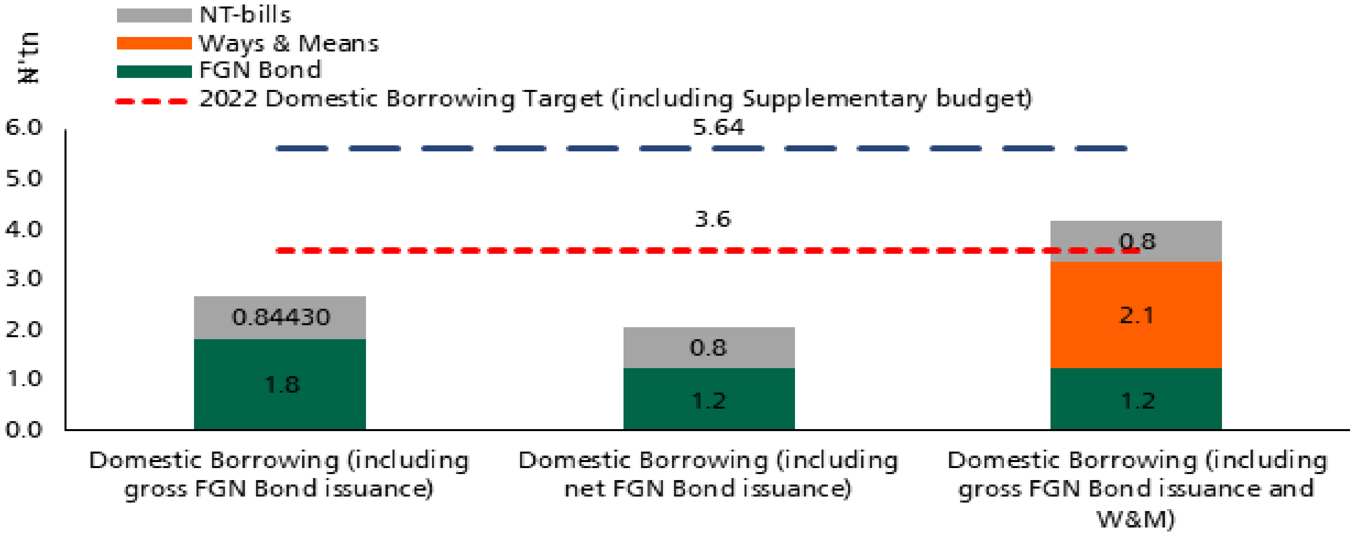
Chart 8: Thinning Spread on Benchmark Nigeria and US Bonds Underpins Local Market Dislocation



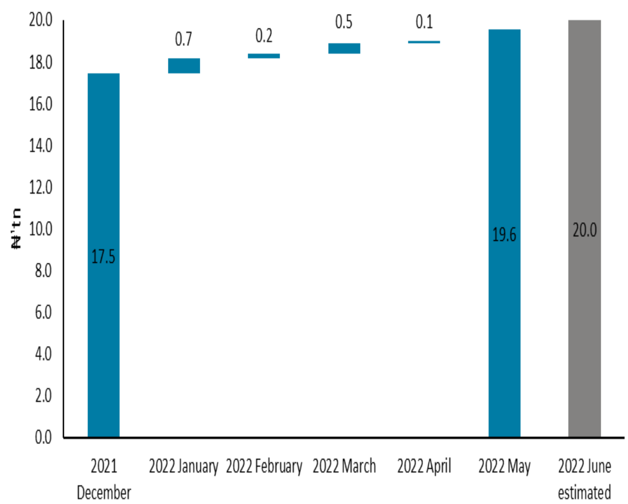
Source: FRED, FMDQ, Afrinvest Research

Chart 9: FG Borrowing vs Targets



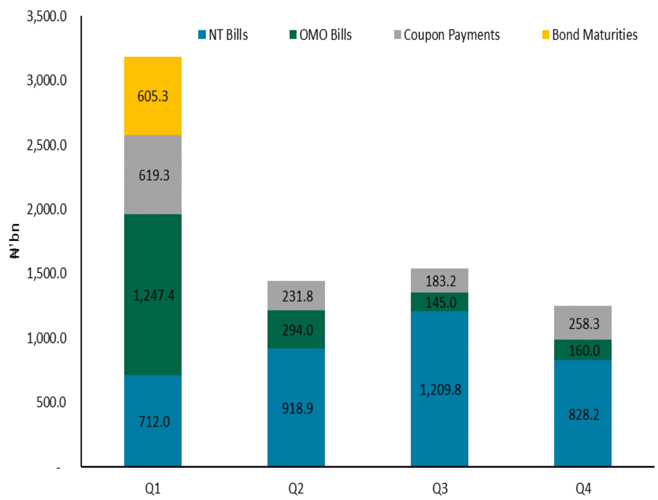
Source: FMDQ, CBN, Budget Office, Afrinvest Research

Chart 10: Ways & Means Financing in H1 2022



Source: CBN, Afrinvest Research

Chart 11: Expected Maturity Profile for 2022



Source: FMDQ, CBN, Afrinvest Research

Chart 12: Corporate Issuances in H1:2022

Corporate Bonds				Commercial Papers			
Issue Date	Issuer	Issue Amount (₦'bn)	Coupon Rate (%)	Issue Date	Issuer	Issue Amount (₦'bn)	Discount Rate (%)
Mar-22	EAT & GO FINANCE SPV	3.5	13.3	Feb-22	UNITED CAPITAL PLC	13.5	9.2
Feb-22	PAT SPV PLC (GTD)	10.0	13.3	Apr-22	MTN NIGERIA COMMUNICATIONS PLC	127.0	9.2
				Apr-22	DUFIL PRIMA FOODS PLC	30.0	10.0
				Mar-22	FBN QUEST MERCHANT BANK	38.2	9.5
				Jun-22	NEVEAH LIMITED	7.8	15.4
				May-22	MIXTA REAL ESTATE PLC	22.6	13.2
				Apr-22	CORONATION MERCHANT BANK LIMITED	61.2	9.1
				May-22	OTHERS	186.7	11.5
2022 YTD		13.5	13.3			487.0	11.3

Source: FMDQ, Afrinvest Research

13.8% and 14.0%.

Down the curve, the FGN sovereign bond market was bullish (as stated earlier). Consequently, the FMDQ S&P index, which tracks price movement of Nigerian government bonds, rose 9.1% in H1:2022.

Despite our outlook hinged on total inflows skewed towards H1:2022, we opine that the trajectory of yields was also influenced by the DMO's posture to keep a lid on stop rates despite frontloading FG's borrowing. At the same time, we suspect CBN's financing (₦2.1tn between Jan and May) to have placed the FG and the DMO in a comfortable position in the local debt market. Precisely, we note that as of H1:2022, the DMO had raised a total of ₦2.7tn from FGN bonds (₦1.8tn) and net NT-bills (₦844.3bn) sales. This sum represents 104.3% of FG's initial domestic borrowing target of ₦2.6tn.

Given the upward adjustment that tailed the approval of a supplementary budget in April, budget deficit rose by ₦1.1tn to be financed from the domestic market. Based on this development, we estimate a new domestic borrowing benchmark of ₦3.6tn which implies that DMO has raised 74.9% of 2022 local debt target. However, to account for the FGN bond maturity of ₦605.3bn in Q1:2022, we place domestic borrowing at (₦2.1tn) 58.0% of 2022 budget target (for further analysis, see chart 9).

Notwithstanding the aggressive borrowing, marginal rates dropped from an average of 12.4% at the last auction of 2021 to 11.9% at the June auction. Meanwhile, domestic inflation rose steadily through H1:2022 to an 11-month high of 17.7% y/y in May 2022.

Nigerian Fixed Income Outlook… On Course for Bearish Year?

For H2:2022 we maintain our bearish outlook although we have lowered our expectations of upticks in yields to reflect the prevailing market dynamics. First, in our domestic outlook for 2022 we predicted an increase in domestic bond sales to exceed the ₦2.6tn budgeted to an estimate of ₦3.1tn in 2022. While our forecast was spot on (supplementary budget raised domestic target to ₦2.6tn, see Domestic Macroeconomy Review and Outlook section for more), the shelving of further

Eurobonds sales for the remainder of 2022 after a $1.25bn issuance in H1:2022 means the domestic target might increase to ₦5.6tn in 2022 as DMO turns to the local market for additional financing. Based on the new estimates, there would be legroom for issuance of up to ₦3.6tn in H2:2022. Meanwhile, we estimate total inflows (including in and outs) in H2:2022 at ₦2.8tn compared to ₦4.6tn in H1:2022, with FGN bond coupon payments accounting for 15.9% of total inflows (see chart 11). Also, we still entertain the possibility of OMO rate hikes to incentivise foreign portfolio inflow as part of attempts to improve attractiveness of Naira assets. Our view is premised on the decoupling of the Monetary Policy Rate (MPR) from key market rates including OMO rates. For instance, although the MPR was unchanged at 11.5% in 2021, OMO primary market rates were adjusted upwards by the CBN in Q1-2021 to lure hot money, driving the short end of the curve upward in the secondary market. In the same vein, outcomes in recent pre-election years have pointed to an uptick in yields. These trends can be explained by social unrest, uncertainties in business environment associated with pre-election permutations, combined with need for better real returns amid inflationary pressures priced into yields. Considering the factors in play, we expect FGN bond yields to close the year at around 12.7% down from 13.0% we projected at the start of the year. Downside risks to our forecast could stem from (1) Uptrend in Ways and Means Financing (2) A pause in global hawkish policy bias which could dissuade anticipated OMO hike by CBN (3) A leaning of the DMO towards external and concessionary debt sources.

Corporate Bonds and Commercial Papers… Issuances rose in H1:2022

As we envisaged at the beginning of the year, corporate issues flooded the market in H1:2022 as issuers took advantage of the low yield environment to either refinance existing debts or issue new notes. Commercial papers issuances increased to ₦487.0bn in H1:2022 from ₦374.3bn in 2021 at an average rate of 11.3%. Corporates also issued bonds with a total outstanding value of ₦13.5bn which includes Eat & Go Finance SPV (₦3.5bn) a 7-year bond at 13.3% and Pat SPV Plc (GTD) (₦10.0bn) a 10-year bond at 13.3%. With the shift of focus to electioneering activities over H2:2022, we believe corporates will be hesitant to borrow significantly as they mull business uncertainties in the 2023 election year.

Investment Strategy Review

Our H1:2022 strategy for investors to play at the short end of the yield curve was informed by expected bullish momentum in the period, especially Q1:2022, where there was significant liquidity inflow. A review of the performance of our recommended portfolio for H1:2022 shows an average return of -5.9%. Our Modified Duration Portfolio returned 2.6%, lagging the S&P/FMDQ Nigerian Bond Index of 9.1% of H1:2022. On the other hand, our Smart Eurobond Portfolio returned -20.8% against the JP Morgan EMBI of -18.9% during the year, while our domestic corporate bonds returned 0.5%. The underperformance of the Modified Duration Portfolio is due to the rotation of investors mostly to the mid-segment rather than the front end of the yield curve. Also, our selected SSA Eurobonds were hurt by faster-than-anticipated interest rate hikes as global tightening highlighted fiscal vulnerabilities in the region.

Our Modified Duration Portfolio strategy is for investors to play across maturities as FI yield charts an uptrend over H2:2022. Meanwhile, the heightening vulnerability of SSAs assets necessitates cherry-picking across the region. We maintain our buy-and-hold strategy recommendation as the interest-rate shock should wane

Fixed Income Market Review and Outlook

in H2:2022 and interest in the region's dollar debt is expected to improve. For our passive bond portfolio (which generally comprises corporate bonds that are mostly illiquid), we maintain an existing strategy for investors to continue to hold. For new investors, we believe it would be difficult to position in this portfolio, hence, we recommend positioning in short-dated instruments (such as T-bills) and at the short end of the FGN bond market.

Chart 13: Corporate Issuances in H1:2022

Modified Duration Bond Portfolio

Instrument	H1:2022 Return
12.75 27-APR-2023	-1.0%
14.20 14-MAR-2024	-0.2%
12.50 22-JAN-2026	2.6%
16.2884 17-MAR-2027	4.5%
14.55 26-APR-2029	7.0%
Average	**-2.6%**

Smart Eurobond Portfolio

Issuer	H1:2022 Return
REPUBLIC Of KENYA (2048)	-39.4%
FIDELITY BANK PLC (2022)	-22.6%
REPUBLIC OF GHANA	-33.0%
REPUBLIC OF KENYA (2028)	-4.2%
STANDARD BANK GROUP	-4.7%
Average	**-20.8%**

Passive Bond Portfolio

Issuer	H1:2022 Return
ACCESS BANK 2026	1.7%
UNION BANK 2025	0.9%
FLOUR MILLS OF NIGERIA PLC 2023	0.3%
CI & LEASING 2023	-1.7%
STANBIC IBTC 2023	-0.7%
UNITED CAPITAL PLC 2025	0.9%
DANGOTE CEMENT PLC 2025	1.8%
Average	**0.5%**

Source: FMDQ, Bloomberg, Afrinvest Research

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Contacts

Investment Research		
Abiodun Keripe	akeripe@afrinvest.com	+234 1 270 1680 ext. 1034
Aminat Tolani	atolani@afrinvest.com	+234 1 270 1680 ext. 1027
Benedict Egwuchukwu	begwuchukwu@afrinvest.com	+234 1 270 1680 ext. 1023
Damilare Asimiyu	dasimiyu@afrinvest.com	+234 1 270 1680 ext. 1054
Daniel Onasanya	donasanya@afrinvest.com	+234 1 270 1680 ext. 1060
David Ogidan	dogidan@afrinvest.com	+234 1 270 1680 ext. 1104
Mariam Olabode	molabode@afrinvest.com	+234 1 270 1680 ext. 1053
Mobifoluwa Adesina	madesina@afrinvest.com	+234 1 270 1680 ext. 1051
Oladayo Akinfolarin	oakinfolarin@afrinvest.com	+234 1 270 1680 ext. 1077
Omobola Adu	oadu@afrinvest.com	+234 1 270 1680 ext. 1081
Salma Suleiman	ssuleiman@afrinvest.com	+234 1 270 1680 ext. 1103
Segun Adams	sadams@afrinvest.com	+234 1 270 1680 ext. 1073
Temitope Ekundayo	tekundayo@afrinvest.com	+234 1 270 1680 ext. 1102
Securities Trading & Brokerage		
Adedoyin Allen	aallen@afrinvest.com	+234 1 270 1680 ext. 1016
Taiwo Ogundipe	togundipe@afrinvest.com	+234 1 270 1680 ext. 1601
Investment Banking		
Suru Daniels	sdaniels@afrinvest.com	+234 1 270 1680 ext. 1098
Kate Isabote	kisabote@afrinvest.com	+234 1 270 1680 ext. 1017
Asset Management		
Christopher Omoh	comoh@afrinvest.com	+234 1 270 1680 ext. 1505
Robert Omotunde	romotunde@afrinvest.com	+234 1 270 1680 ext. 1039
Trustees		
Rita Abengowe	rabengowe@afrinvest.com	+234 1 270 1680 ext. 1005
Chisom Nwogbo	cnwogbo@afrinvest.com	+234 1 270 1680 ext. 1048

For further information, please contact:

Afrinvest West Africa Limited (AWA)

27,Gerrard Road
Ikoyi, Lagos
Nigeria
Tel: +234 1270 1680 | +234 1 270 1689
www.afrinvest.com

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