Nigerian Capital Markets Update
September 2017

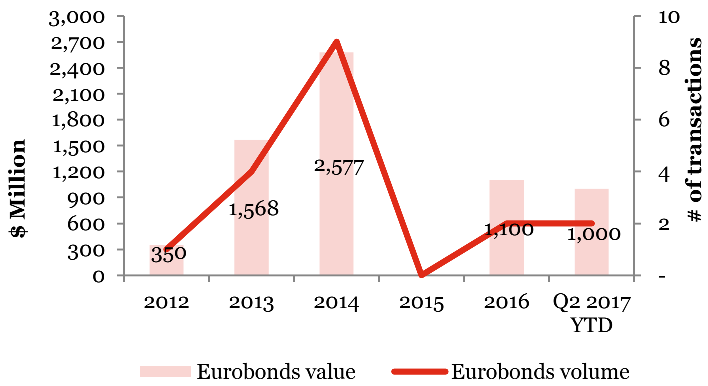
The Nigerian economy has turned the corner

In the second quarter of 2017, Nigeria's economy returned to positive growth as real gross domestic product (GDP) increased by 0.55% compared to Q2 2016, after five consecutive quarters of negative growth. This recovery was driven by improvements in the oil sector (8.8% of GDP), which expanded for the first time in seven quarters. Although growth in the non-oil sector slowed, the performance of key sub-sectors such as trade and manufacturing suggests the economy continues to benefit from improved liquidity in the foreign exchange market. This renewed confidence has resulted in a rebound in foreign investments with Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) up 49% and 128% respectively in Q2'2017 as compared to the same period in the prior year. Similarly, investor appetite for equities has increased with the Nigerian Stock Exchange All Share Index (NSEASI) 24.4% higher between January and June 2017, recovering from a 6.2% contraction between January and December 2016.

Continued activity in the corporate Eurobond market

Corporate Eurobond issuances at Q2 2017 YTD of $1.0 billion (~₦305.2 billion) were almost on par with 2016 issuances of $1.1 billion (~₦277.9 billion). Between 2016 and 2017, two new Nigerian issuers accessed the Eurobond market for the first time, IHS in 2016 and UBA in 2017, signalling continued global investor appetite for Nigerian assets despite the economic recession. We expect more Nigerian issuers to access the Eurobond market as the Nigerian economy stabilises following the emergence from the recession and as Naira volatility subsides.

Eurobond Activity (2012 – Q2 2017 YTD)

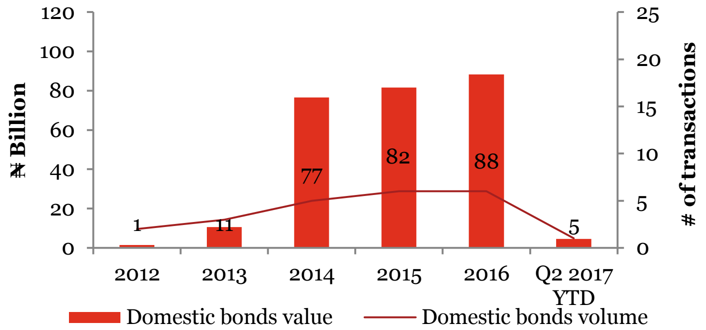


* Does not include supranational and sovereign issuances
Source: Dealogic

Slow down in domestic bond market activity

The decline in government revenues has severely impacted budgetary obligations across the three tiers of government. The implication for the Federal Government (FG) was a 14% decline in 2016 revenues compared to 2015, resulting in a fiscal deficit of 2.2% of GDP (2015: 1.6% of GDP), the highest deficit in seven years. To finance this deficit, the FG borrowed ₦2.2 trillion from the domestic bond market in 2016, the highest domestic borrowing in recent times. This caused corporate bond yields to increase to levels nearly equivalent to the cost of bank financing, which has discouraged issuers from seeking funding through the domestic capital markets.

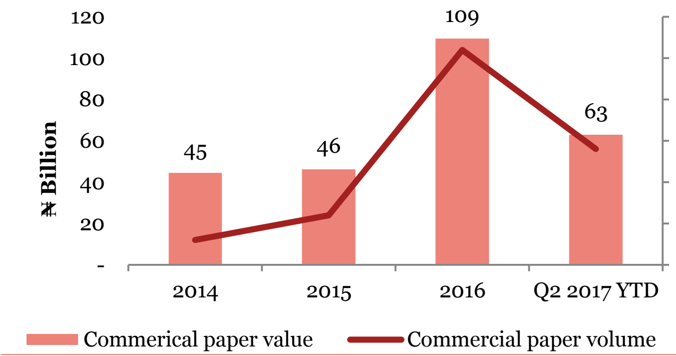
Domestic Bond Activity 2012 – Q2 2017 YTD



Source: FMDQ and NSE

The domestic corporate bond market has therefore tapered in 2017 relative to activity observed between 2014 and 2016. We do however, see increased activity in the near term from large Nigerian corporates looking to refinance for longer tenors, and other issuers looking to finance large projects with the support of guarantees from new players in the market such as InfraCredit, established by the Nigeria Sovereign Investment Authority in collaboration with Guarant Co, an institution that provides guarantees of local currency loans and bonds to finance infrastructure in lower income countries.

Commercial Paper Activity (2014 – Q2 2017 YTD)



**Source: FMDQ*

Unlike the bond market, the commercial paper (CP) market in Nigeria has seen significant activity, with the largest issuance to date in 2017 by Access Bank. Issuances increased 137% in value between 2015 and 2016 and as at Q2 2017 YTD, made up about 58% of the value of 2016 issuances. CP issuers represent diverse sectors – REITs, banking and FMCG companies - signalling increased interest across all Nigerian corporates.

Quiet domestic and cross-border equity capital markets

There have been no initial public offerings (IPOs) on the Nigerian Stock Exchange, or by Nigerian companies on foreign exchanges, to date, in 2017. However, we saw some further offers (FOs) – Guinness Nigeria – and activity in the secondary market as FPI increased significantly, a positive indicator for the recovery of the Nigerian equity capital markets.

What lies ahead for the rest of 2017 and beyond

In the short term, we expect inflation and yields to begin to drop as the FG reaches its debt ceiling. This in turn may lead to an increase in domestic corporate bond issuances.

In the medium and long term, we expect to see activity pick up in the equity capital markets as Nigeria continues to emerge from the recession and companies execute on plans postponed since 2015 due to economic uncertainty.

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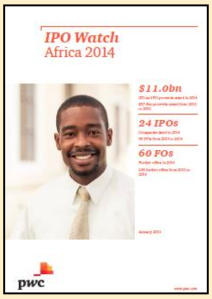

Our inaugural IPO Watch Africa 2014, provides an analysis and trends of IPOs and FOs on African exchanges.

Our 2015 and 2016 Africa Capital Markets Watch series expand the scope of our first report, providing analysis and trends of both equity and debt capital markets activities on African exchanges and by African companies on foreign bourses.

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