

# Nigerian Capital Markets Update

September 2019

## Slowdown in the Nigerian economy

According to Nigeria's National Bureau of Statistics (NBS), the Nigerian economy grew by 1.94%/y in Q2 2019, below the 2.10%/y growth recorded in the preceding quarter. The lackluster performance in Q2 2019 (compared to Q1 2019) was mostly due to the performance of the non-oil sector, which grew by 1.64% (Q1 2019: 2.47%).

Capital importation declined by 31% to from US\$8.49 billion in Q1 2019 to US\$5.82 billion in Q2 2019, majorly driven by a decline in foreign portfolio investments (FPI). FPI dropped by 40% from US\$7.15 billion in Q1 2019 to US\$4.3 billion. Analysis of portfolio investments showed that the bulk of FPI inflow was channeled into money market instruments (82.21%).

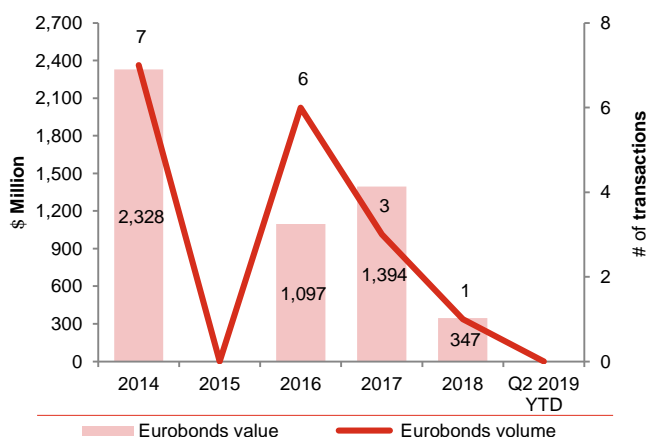
Investments in equity and bonds, on the other hand, declined by 52.60%/y and 20.96%/y, respectively.

Despite the renewed activity in the primary equity market, the Nigerian Stock Exchange All Share Index (NSE ASI) recorded a decline of 5% from 31,430.50 as at the end of December 2018 to 29,966.87 as at the end of June 2019.

## Decline in corporate Eurobond activity

Nigeria corporate Eurobond activity continues to wane amidst declining appetite for dollar borrowings. In 2018, the volume and value of Eurobond issuances declined by 67% and 75% respectively, compared to 2017, while no issuance was recorded as of Q2 2019 YTD. The market also witnessed some early redemptions of Eurobonds by issuers such as Access Bank PLC, First Bank of Nigeria Limited, and Guaranty Trust Bank PLC in order to reduce their funding cost, amongst other reasons. The last corporate Eurobond issuance was recorded in Q1 2018, by Seplat Petroleum Development Company PLC, raising \$347 million.

## Nigeria corporate Eurobond Activity (2014–Q2 2019)

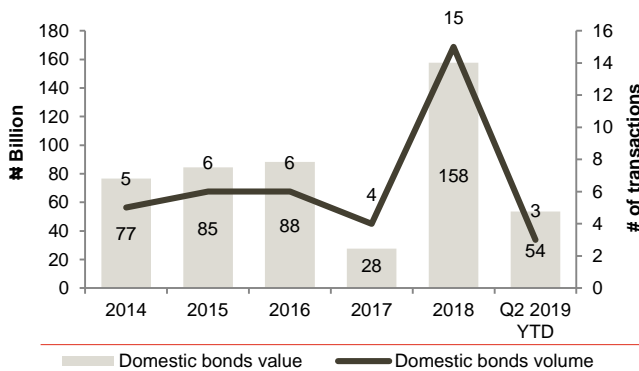


\* Does not include supranational and sovereign issuances  
Source: Dealogic

## The emergence of green bonds in the domestic bond market

Domestic debt market activity increased in Q2 2019, by 80%, in terms of value raised by issuers compared to Q2 2018. ₦54 billion was raised by three issuers as at Q2 2019 YTD. There has also been an increase in investors' appetite for green bonds following the introduction of the green bond framework in the Nigerian capital market, and the issuance of the first sovereign green bond in Africa, by Nigeria in 2017. As at Q2 2019 YTD, two corporate green bonds have been issued in the market; the ₦15 billion 5-year green bond issued by Access Bank PLC and the ₦8.5 billion 15-year green bond issued by NSP-SPV PowerCorp Plc (the longest-tenured corporate bond to date and the second infrastructure bond issued in Nigeria).

## Domestic Bond Activity (2014 – Q2 2019)



Source: FMDQ and NSE

## Renewed domestic and cross-border equity market activity

Primary market activity opened on a positive note with the Nigerian Stock Exchange (NSE) recording its first initial public offering (IPO) in four years. Skyway Aviation Handling Company (SAHCOL) PLC concluded its Offer for Sale of 406.1 million shares valued at ₦1.89 billion in April 2019, albeit undersubscribed by 35%.

The government's continued effort to encourage listings resulted in the much anticipated direct listing of MTN Nigeria PLC in May 2019. Also, the market recorded the second dual listing; Airtel Africa Plc listed its shares on both the London Stock Exchange (LSE) and the NSE in July 2019, raising \$750 million.

The resumed primary activity in the equities market has gained traction among potential issuers. We expect to see more companies take advantage of the positive market sentiment before the end of the year.

## Continued growth in commercial paper activity

Activity in the short-term debt market has witnessed significant year-on-year growth over the last five years, as large corporates continue to access the commercial paper (CP) market for funding. ₦297 billion was raised in thirty-three (33) issuances as at Q2 2019 YTD compared to ₦240 billion raised in seventeen (17) issuances as at Q2 2018 YTD, representing a 23% and 94% increase in value and volume, respectively.

Dangote Cement Plc accounted for 34% of the total funds raised through the CP market in Q2 2019 YTD, raising ₦100 billion in six issues.

## What lies ahead

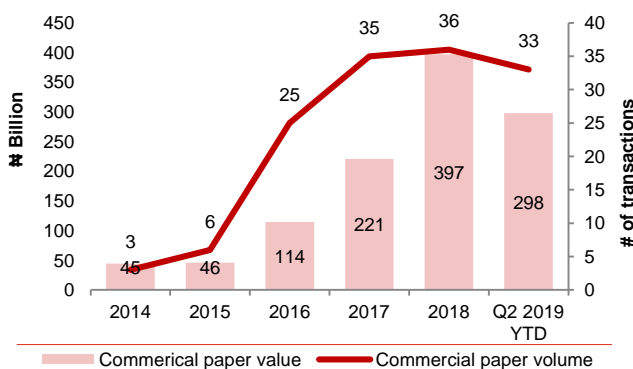
We expect that the global trade tensions and its resultant global economic slowdown will further impact the performance of the equities market for the rest of the year as investors are being cautious of exposure to emerging markets. However, the positive growth outlook for Nigeria in 2019 and beyond, according to the July 2019 World Economic Outlook by the International Monetary Fund also places the country among the preferred emerging markets investment destinations for long term investors who are looking for higher yields and attractive returns on investment, especially in the more stable fixed income market.

Meanwhile, the ongoing recapitalization exercise in the insurance sector is expected to drive market activity, in the short to medium term, as insurance companies explore mergers and acquisitions, and other fundraising options to meet the new minimum regulatory capital requirements.

As part of the efforts to promote sustainable finance in the Nigerian debt capital markets, the city of Lagos recently joined other world's leading international financial centres as a member of the International Network of Financial Centres for Sustainability (FC4S Network). The initiative, which was supported by FMDQ, puts the Nigerian capital markets in a position to unlock the much-needed global sustainable investment, currently valued at over \$30 trillion, especially in the areas of infrastructure financing.

In a similar vein, integration of the West African Capital markets received another boost as the West African Securities Regulatory Authorities (WARSA) agreed to issue a framework for cross-border issuance of fixed income securities within the West African sub-region. This is expected to foster a globally competitive regional market by ensuring market liquidity and efficiency in terms of capital movement.

## Commercial Paper Activity (2014 – Q2 2019)



Source: FMDQ



### Capital markets watch series



PwC's Capital Markets Watch is an annual report that focuses on equity and debt capital markets transactions in Africa.

The report provides a detailed and insightful analysis of major trends across Africa's capital markets, including information on initial public offerings (IPOs), further offerings (FOs) and debt issuances on African exchanges, and of African companies globally.

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