Raising Money in the Nigerian Capital Markets

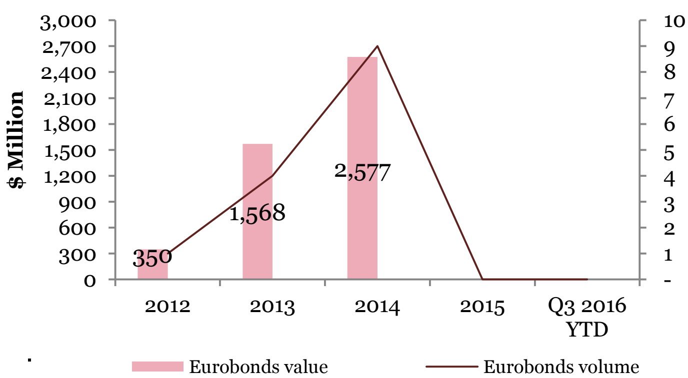
According to Nigeria's National Bureau of Statistics (NBS), Nigeria's GDP for the second quarter of 2016 contracted by 2.06% to record its lowest growth rate in three decades. This negative growth has caused companies to seek ways to de-risk, re-strategize, and, most importantly, cut costs, which includes refinancing expensive debt and looking for new funding options. One of such options has been raising funds through the capital markets – both cross-border and domestic.

Nigerian Pension Fund Administrators (PFAs) and Foreign Portfolio Investments (FPIs) are significant investors in the Nigerian capital markets. According to the National Pension Commission (Pencom), PFAs as at July 2016 had an asset base of ₦5.82 trillion, primarily invested in government securities. However, PFAs have been increasing their investments in corporate debt and equity. According to Pencom, this grew by 19% from ~₦701 billion in December 2015 to ~₦834 billion in July 2016. Concurrently, according to NBS, FPIs have experienced a 64.6% decline from \$952.5 million in Q4 2015 to \$337.3 million in Q2 2016.

Short-Lived Uptick in Corporate Bond Market

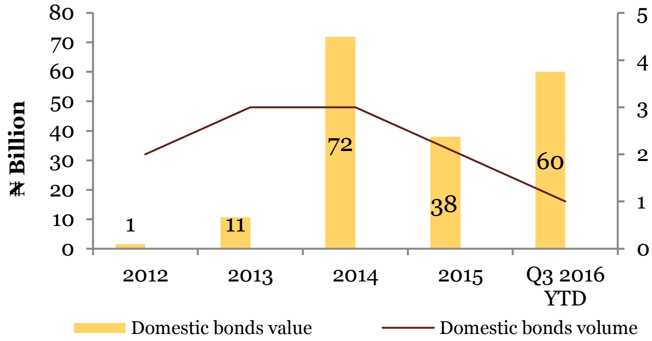
As seen in the chart below, 2013-14 was a boom period for Nigerian corporate Eurobond issuances with over \$4.1 billion (~₦730 billion) raised, mostly by Nigerian banks. On the other hand, the domestic corporate bond market saw issuances of only ₦82.6 billion (~\$528 million) during this period. Between 2015 and Q3 2016 year-to-date, there were no Eurobond issuances by Nigerian corporates as oil prices retreated, the Naira declined and the risk profile of emerging economies increased.

Eurobond Capital Markets Activity 2012 – Q3 2016YTD



* Does not include supranational and sovereign issuances
Source: Dealogic

Domestic Bond Capital Markets Activity 2012 – Q3 2016 YTD



* Does not include supranational and sovereign issuances
Source: FMDQ and NSE

Traditional bank financing also contracted between 2015 and Q3 2016, as banks had less appetite to refinance low performing loans or issue new loans. This pushed companies to the relatively less costly domestic bond market. This is evident in the 20% increase in the total Naira value of domestic bond issuances, an increase from ₦82.6 billion in 2013 and 2014 combined, to ₦98.0 billion in 2015 and Q3 2016 year-to-date combined.

Decline in Equity Capital Markets and Cross-Border Activity

Equity markets tend to decline in periods of recession and Nigeria is no exception. Companies' stock valuations drop, hitting stock market performance, and as a result, a reduction in the number of new entrants. There have been no Initial Public Offerings (IPOs) or Further Offers (FOs) on the Nigerian Stock Exchange, or by Nigerian companies on foreign exchanges, to date, in 2016.

Unlike bond markets, equity capital markets tend to bear the initial brunt of a recession, as seen in the absence of IPOs and FOs in 2016. However, we expect to see activity pick up in the equity capital markets in 2017 as the Naira begins to stabilize, investors regain confidence, and issuers who paused their plans due to uncertainty, access the market again. We particularly expect to see renewed activity in the Nigerian telecommunications sector.

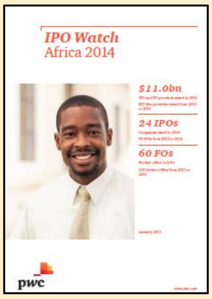
Beyond 2016

In the short term, as inflation and hence yields, continue to rise, we expect domestic bond activity to taper as bond yields and bank interest rates converge. However, we suspect PFAs will continue to have appetite for high quality domestic issuers. We also believe cross-border investors in search of yields will continue to have appetite for existing Nigerian high yield Eurobond issuers looking to refinance.

In the medium and long term, we expect that government stimulus packages – in the form of agriculture, manufacturing and social intervention funds - and the proposed increase in capital projects spending will stimulate growth. Economic growth coupled with improved business climate is expected to attract foreign investment, promoting growth in the capital markets in due time.

Other useful Capital Markets publications

Capital markets watch series



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

Our 2015 Africa Capital Markets Watch expands 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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