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Nigerian Capital Market update

July 2024

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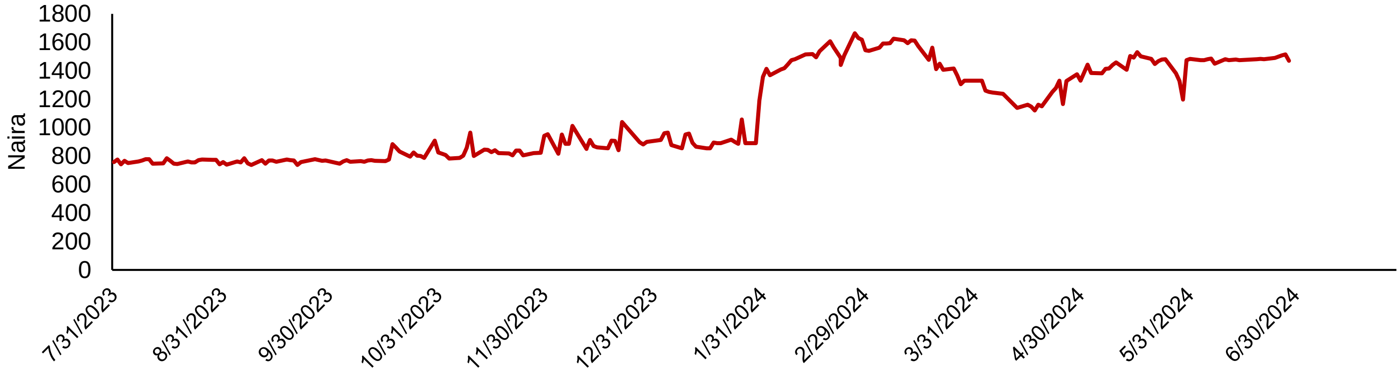
The Nigerian capital market update report is an annual research report providing useful insights on the domestic capital market as well as some major activities in the domestic, regional and global markets.

This report covers events from July 2023 to June 2024.

Macroeconomic snapshot

GDP growth rate	MPR	Inflation at an all-time high	Exchange rate
2.98%	**26.75%**	**34.19%**	**N1,470.19/$**
Period **Q1 2024**	Period **July 2024**	Period **June 2024**	Period **H1 2024**
Y.o.Y 29% ↑	Y.o.Y 42.7% ↑	Y.o.Y 50.02% ↑	Y.o.Y 48% ↑
Previous 2.31%	**Previous** 18.75%	**Previous** 22.79%	**Previous** N770.38/$

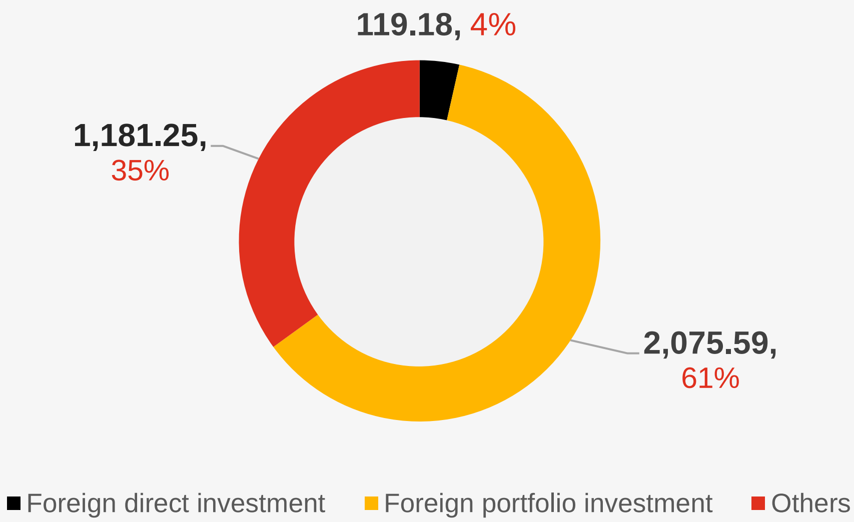
Exchange rates between June 2023 to June 2024



- Inflation rate was majorly driven by food inflation rate which rose from 25.25% in June 2023 to 40.87% in June 2024, owing to insecurity, climate change and emigration in food producing regions.
- Core inflation* grew by 7.34% Y-o-Y to 27.40% in June 2024 from 20.06% in June 2023 , an aftermath of global supply chain disruption, fuel subsidy removal, depreciation of the Naira, and electricity subsidy removal.
- Naira crashed against the dollar by 48% between H1 2023 (N770.38/$) and H1 2024 (N1470.19/$), following the unification of exchange rates and FX scarcity.

CAPITAL IMPORTATION

US$3,376.01 million



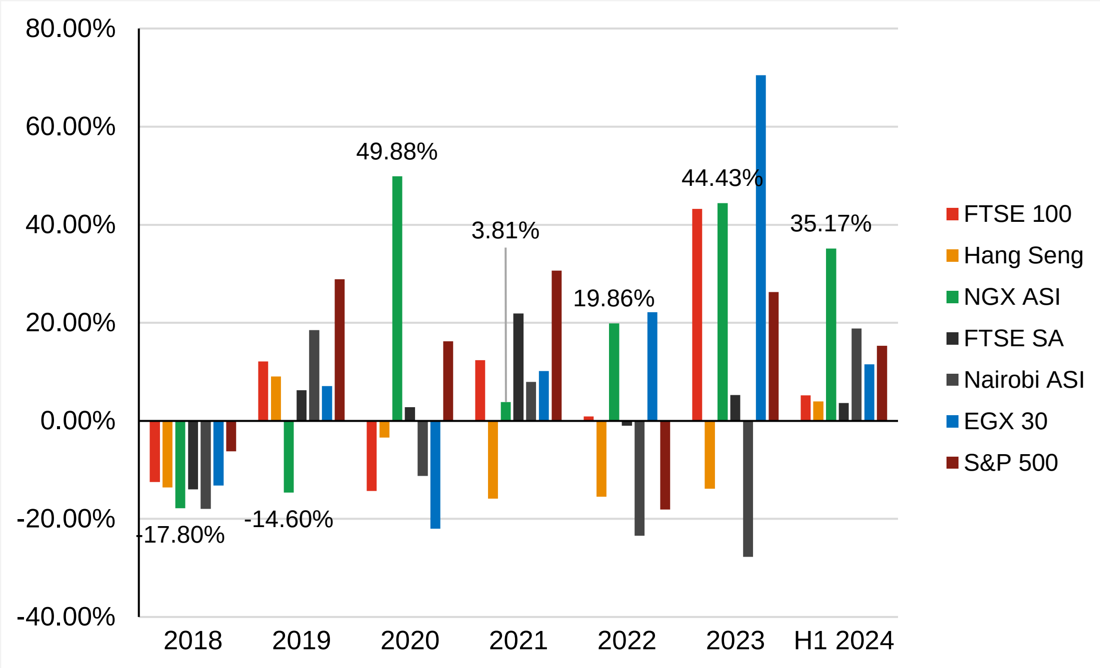
Period	Y.o.Y ^	Previous
Q1 2024	198.06% ↑	$1,132.65 million

*Core inflation is a measure of inflation which excludes changes in cost of food and energy

Equities market

The Nigerian stock market has continued to grow despite biting double digit inflation

NGX ASI V Global Indices 2018- June 2024



Market Returns (NGX)

- The Nigerian equities market (NGX) ranked 1st in the African stock market with a 35.17% increase in H1 2024 relative to Q4 2023.
- The NGX capitalisation increased by 38.33% in H1 2024 (to N56.602 trillion) compared to Q4 2023 (N40.918 trillion), driven by new listings, significant acquisitions, and increase in share prices.

- The NGX performed better than several of its peers in H1 2024, recovering from its second position in Q4 2023.
- Exchanges around the world recorded positive market returns, driven majorly by the growing interest in equities of tech companies. The FTSE 100 (5.20%), Hang Seng (3.96%), FTSE SA (3.66%), Nairobi ASI (18.87%), EGX 30 (11.54%) and S&P 500 (15.29%) all recorded positive returns in H1 2024. Nairobi ASI and Hang Seng recovered from their Dec 2023 negative growth position.
- NGX Banking ASI dropped by 7.4% to 830.20 in June 2024 from 897.20 in Dec 2023, due to the uncertainty associated with the CBN recapitalisation directive in March 2024. Some banks made public offers and rights issue programmes in the Nigerian market, while others are seeking international capital to meet up with the new requirement.

H2 2023 – H1 2024

5

Listing by introduction

N1,954 billion

- 3 equity listings
- 2 infrastructure debt fund

10

Follow-on offering

N56.86 billion

- 5 Rights issue
- 3 private placement
- 2 other FOs

7

Delisting

N248.18 billion

- 6 listed companies
- 1 unit trust

The NASD market capitalisation increased by 66.75% to N2.101 trillion as at H1 2024, from N1.26 trillion as at Q4 2023.

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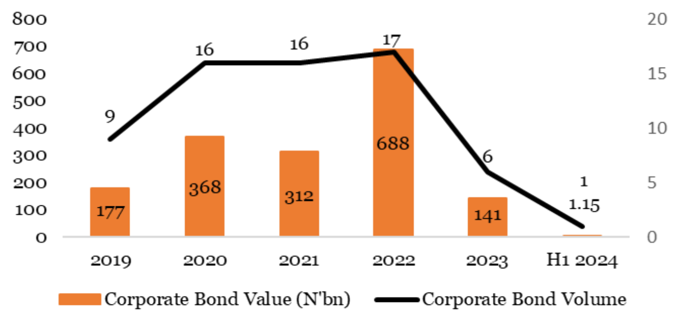
Admitted securities on NASD

N48.3 billion

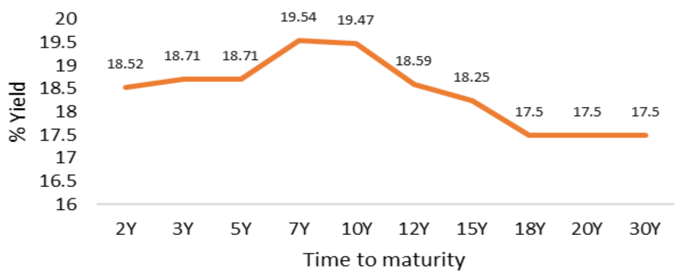
Debt market

The Federal Government and corporate entities scaled back from bond issuances amidst rising cost of borrowing

Corporate bond activity (2019 to June 2024)



FGN yield curve as at June 2024



Source; FMDQ, PwC research

There was an 83% decline in corporate bond issuances in H1 2024. Only one corporate bond was issued making it the lowest corporate bond issuance in the last five years. The bond was issued by Eat & Go Finance SPV PLC. Three corporate bonds valued at N47.15billion were however issued between July 2023 and June 2024.

Companies have steered away from issuing bonds due to the fast-rising cost of borrowing. This is a direct result of the Central Bank's decision to increase the monetary policy rate to curb inflation.

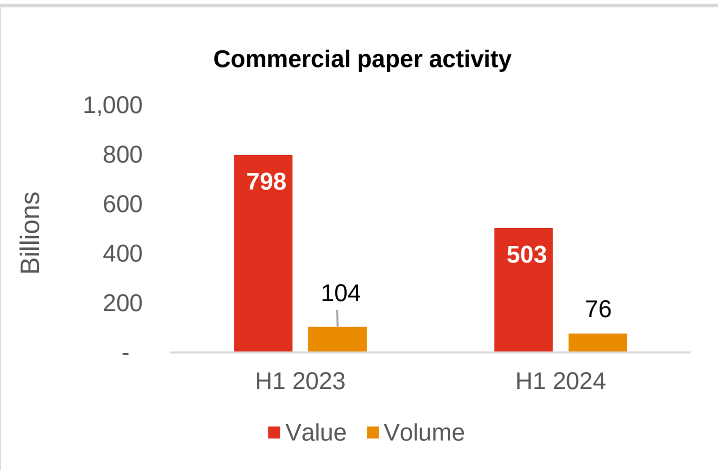
The yield on the benchmark 10-year FGN bond increased by 281 basis points from 14.69% in June 2023 to 17.5% in June 2024. This can be attributed to the macroeconomic headwinds in the country such as the rising interest rates and inflation rates.

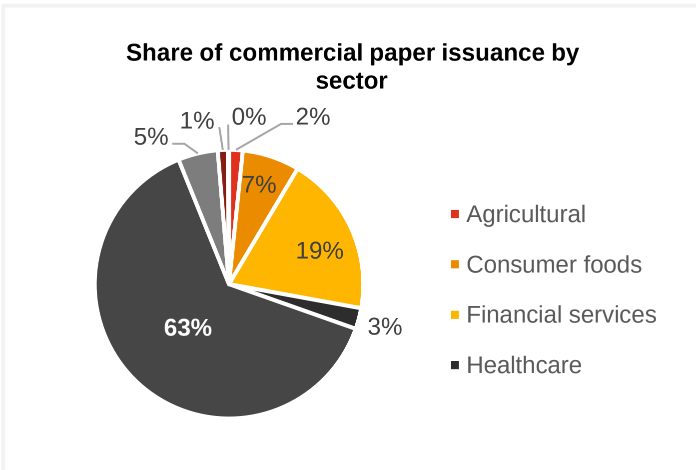
The Federal Government issued N6.25 trillion worth of bonds between July 2023 and June 2024, a 59% decline from the bonds issued in the prior period. 0.52% of these bonds representing N32bn are savings bond, 5.6% (representing N350bn) sukuk and 93.9% (representing N5.9 trillion) plain FGN Bonds.

Commercial paper issuances also witnessed a decline in the first half of the year with 76 issuances compared to 104 in the previous year

In the first half of 2024, a total of N503 billion was raised in 76 commercial paper issuances by 32 entities. This is a significant decrease of 37% in value and 27% in number of issuances compared to the same period in 2023 possibly attributed to rising interest rates, which makes borrowing less appealing to issuers.

The industry spread shows that the manufacturing sector was the dominant player accounting for 63% of the total issuance value, followed by the financial services industry contributing 19% to the overall figure, with agriculture and consumer foods having 2% and 7% respectively, and 9% represented issuances from other sectors. Dangote Sugar Refinery Plc was the highest issuer in H1 2024, with a 28% deal share (N142 billion).





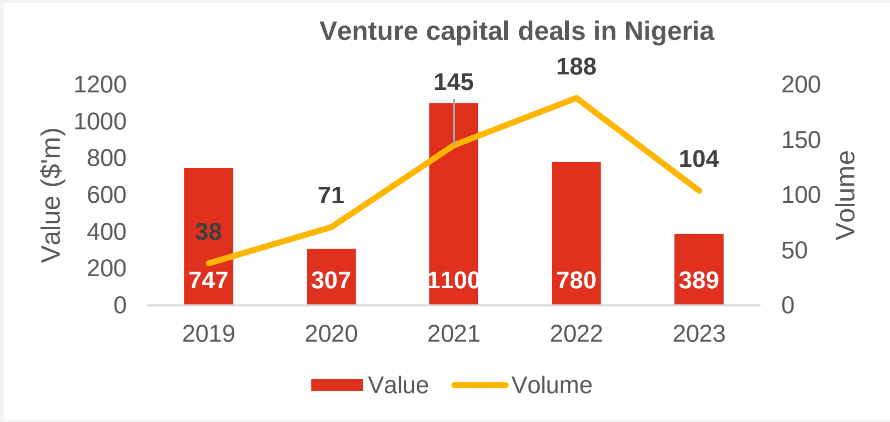
Source; FMDQ, PwC research

Private markets - venture capital

The venture capital market was hit by a downturn in the previous year due to changes in investment patterns

Nigeria has one of the largest private capital markets in west Africa and for the last 5 years, has been among the top 10 primary destinations for early-stage venture capital investments in both volume and value.

However, the venture capital market in Nigeria and Africa as a whole, has experienced a decline in transactions in the past year driven by geopolitical tensions, unsupported company valuations and economic instability, prompting investors to make strategic adjustments as well as changes in investment patterns and deal locations.



Source: AVCA, Partech

Summary of key events in Nigeria

CBN capital requirements and banking sector recapitalisation

The Central Bank of Nigeria (CBN) recently announced new capital requirements for commercial, merchant and non-interest banks in Nigeria. This reform is part of the CBN's strategy to enhance the banking sector's resilience and attract more investments. The new definition of minimum capital includes only paid-up capital and share premium, excluding retained earnings and other forms of capital

Key changes:	Old	New
International Commercial Banks	N50bn	N500bn (10x increase)
National Commercial Banks	N25bn	N200bn (8x increase)
Regional Commercial Banks	N10bn	N50bn (5x increase)
National Merchant Banks	N15bn	N50bn (3.3x increase)
National Non-interest Banks	N10bn	N20bn (2x increase)
Regional Non-interest Banks	N5bn	N10bn (2x increase)

CBN has set a 24-month compliance timeline from 1 April 2024 to 31 March 2026. Banks are expected to meet the minimum capital requirement through various means, including public offerings, rights issues, private placements, mergers and acquisitions and an upgrade or downgrade of license authorisation.

Multinational entities exit the Nigerian market

Nigeria has seen a notable exit of multinational corporations in the past year due to challenging economic realities affecting the business environment and the unavailability of foreign exchange to cover resource input needs.

Between August 2023 and July 2024, the following companies have exited or announced plans to exit their operations in Nigeria:

Microsoft
Kimberly-Clark
JUMIA FOOD
P&G
GSK
BAYER
equinor
sanofi

With the exit of these companies, the Nigerian economy could experience a setback of at least N804 billion ($509 million) in foreign direct investments, potentially hindering economic development.

Additionally, international oil companies such as Total Energies and Shell are divesting their Nigerian onshore oil business and increasing their stake in other African countries.

Change of guard at the SEC and NGX

The President of the Federal Republic of Nigeria, Bola Tinubu appointed new board members of the Nigeria Securities and Exchange Commissions (SEC) with Mr. Emomotimi Agama as the Director General, Mr. Mairiga Katuka its chairman as well as 3 executive and 2 non-executive commissioners.

At the bourse, former CEO of Nigerian Exchange Limited, Mr. Temi Popoola was appointed as the Group Managing Director of the Nigerian Exchange Group Plc, Mr. Jude Chiemeka, the CEO of the Nigerian Exchange Limited and Mr. Olufemi Shobanjo, as the CEO of the regulatory arm of the group, NGX Regulation Limited.

Using technology and strategic partnerships to drive visibility and access to the market

NGX launched an Unstructured Supplementary Service Data (USSD) platform that allows investors to access real-time information about listed companies and connect with Trading License Holders by using a USSD code *5474#, on their mobile phones.

It also launched a web application, NGX Invest, to transform the process of raising capital in the primary market, particularly public offers and right issues.

NGX also partnered MOBILIST (Mobilising Institutional Capital Through Listed Product Structures), a flagship UK public markets programme that supports investment solutions in emerging and frontier market, which help deliver sustainable development and climate transition goals.

New SEC requirement for crypto firms In Nigeria

SEC now requires crypto firms seeking licenses to set up local offices and have their chief executive officer resident in Nigeria. This is stated in the new framework titled 'Framework on Accelerated Regulatory Incubation Program (ARIP) for the Onboarding of Virtual Assets Service Providers and Other Digital Investments Service Providers'. The SEC also announced that its rules on Digital Assets Issuance, Offering Platforms, Exchange and Custody is going through an amendment process. The purpose of the amendment is to expand the scope of regulation in line with the current realities. and provide some protection to investors.

NGX introduces Impact Board to foster sustainable instruments

NGX launched an Impact Board, a dedicated platform to list and promote sustainability instruments. It aims to foster an ecosystem that facilitates capital raising for projects aligned with driving sustainable development in Nigeria. Prior to the launch of the Impact Board the SEC had in May 2024 approved NGX's Framework for Listing on NGX Impact Board.

Opportunities in the Nigerian capital market

1 Harnessing multinational departures

The exit of multinationals from Nigeria has opened opportunities for indigenous firms and entrepreneurs. With adequate support and empowerment from the government, indigenous firms can fill the void created by these exits as they are more resilient and able to deal with the nuances of the local economy posed by the challenging macro-economic environment. Indigenous players can leverage these exits to develop capacity and expertise in these sectors and acquire modern technology for increased productivity and competitiveness.

Instituting reforms that support the structural economic transformation by creating incentives, adopting policies to local context and increasing the pace of infrastructural development are some strategies that the government can explore to maximise these opportunities for domestic players and what may seem to be a crisis in the short run may become the driving force that unlocks private domestic investments for industrial development.

2 Strengthening banks, fueling growth

The recent bank recapitalisation programme is expected to engender the emergence of stronger, healthier and more resilient banks in Nigeria.

To meet the new capital requirements, banks would need to raise additional equity which is expected would be channeled towards facilitating credit for infrastructural development, agriculture, SMEs, etc. and contribute to the growth and development of the Nigerian economy, in support of the goal of achieving a $1 trillion economy by 2030. As banks position themselves to secure additional funding to meet the CBN's requirement, a significant portion of these funds would be raised from the capital market leading to increased activity in the local bourse through Rights issues, private placements, Initial public offering (IPOs) and follow-on offerings.

3 Possible low price entry points for financial assets

Asset prices are usually undervalued during periods of rising inflation as the nominal prices of assets are yet to reflect current realities due to the dynamic macro- economic environment. This leads to price corrections. These corrections can provide entry points for investors to buy assets at prices below their intrinsic values.

4 Improved transparency and reporting

The recent introduction of the sustainability disclosure standards (i.e, IFRS S1 and S2) will increase transparency and uniform reporting on companies' sustainability initiatives, providing more data points which will aid investor decision making. It also sets the foundation for the development of sustainability ratings and provides fund managers with the opportunity to create sustainability related products that caters to ESG investors.

Across Africa

In Africa, Zimbabwe launches its first gold-backed currency while gender bonds toolkit was launched in Nairobi

Egypt Devalues Currency and Hikes Interest Rates Amid Economic Reforms

In March 2024, Egypt's Central Bank increased interest rates by 600 basis points, agreed to cut infrastructure spending and allowed the local currency to freely float as part of a reform plan demanded by the International Monetary Fund (IMF) to secure an US$8 billion loan. These measures are expected to combat rising inflation and attract foreign investment.

Zimbabwe launches ZIM Gold

The Central Bank of Zimbabwe has introduced a new gold-backed currency named Zim Gold (ZiG), to combat inflation and stabilize its struggling economy. Zim Gold (ZiG) will be supported by foreign currencies, gold and precious minerals. Additionally, to further stabilise the economy, interest rates were cut from 130% to 20%, aiming to alleviate the inflationary pressure.

Kenya Introduces digital platforms for government securities

Kenya launched a digital platform, Central Securities Depository Dhow (DhowCSD), that allows for electronic trading of government securities. It comprises a digital portal and mobile app.

The infrastructure which is domiciled with the Central Bank of Kenya (CBK), is expected to eliminate the process of physically visiting the Central Bank to open an account and trade government securities. It is also expected to facilitate foreign participation and promote transparency.

Gender Bonds Toolkit launched in African Capital Markets

Gender Bonds Toolkit was launched in Nairobi by British International Investment (BII), FSD Africa, the UK's development finance institution and impact investor, the FSD Network's gender collaborative programme and the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women). The toolkit seeks to enhance understanding of gender bonds and their potential to attract investment for women's empowerment initiatives in the African capital market.

African Development Bank (AfDB) partners with African Carbon Markets Initiative to strengthen climate finance

AfDB officially became a member of the African Carbon Markets Initiative on May 30th, 2024. This strategic step aims to strengthen African countries and the private sector by securing additional resources to address climate challenges. This initiative underscores a collective commitment to advancing sustainable development goals through climate action initiatives

JSE and Saudi Signs MoU for Dual Listing

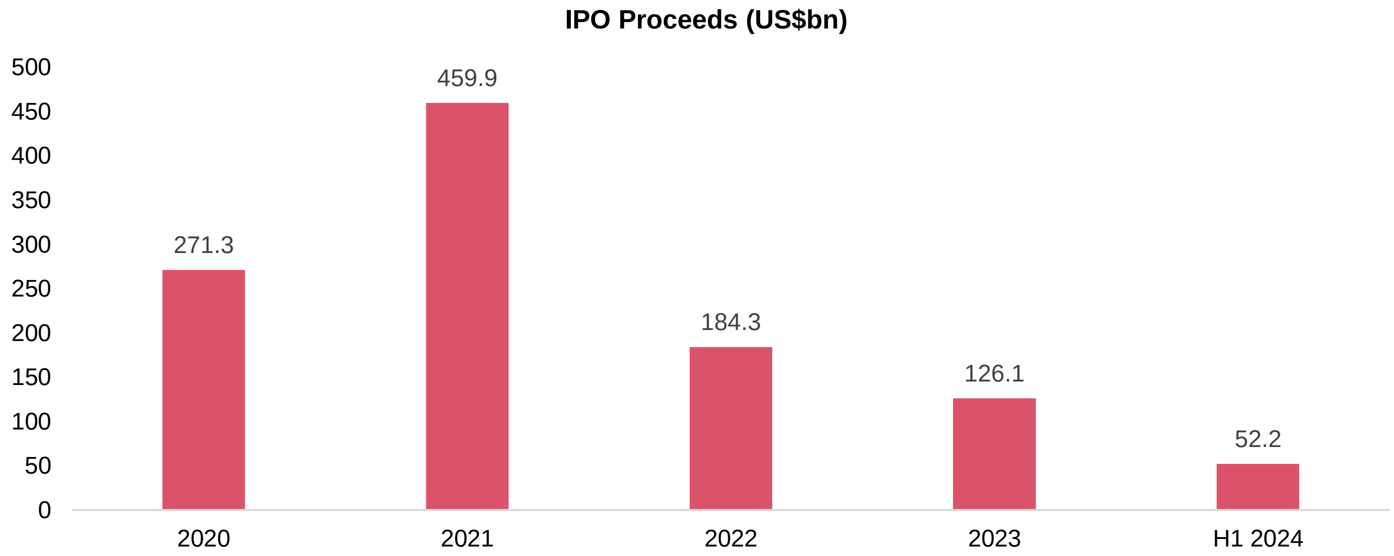
The Johannesburg Stock Exchange (JSE) and the Saudi Tadawul Group has signed a memorandum of understanding (MoU), aimed at fostering dual listing opportunities and enhancing market access for investors.

This strategic partnership will allow companies to list their shares on both stock exchanges, broadening the trading landscape for both South African and Saudi Arabia investors.

Global Markets

Globally, the volume of merger & acquisitions deals grew while IPO activities were on the decline

Reduced IPO activity in H1 2024



Source; PwC Research & Global IPO Watch, 2023 and 2024

2024 had a slow IPO start. 551 companies raised US$52.2b in H1 2024, a 12% and 16% decrease respectively from H1 2023.

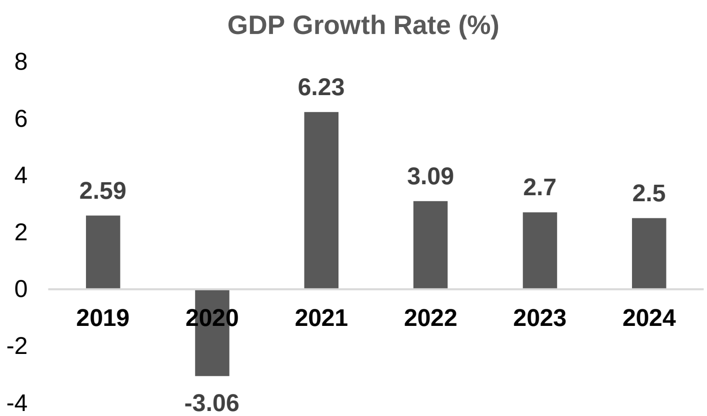
Notable high-profile IPOs include Galderma, Amer Sports, Douglas and the 19-year-old forum hosting website; Reddit, which signals what could be a good year for IPOs.

The African Development Bank launched a €500 million green bond. This comes at a time where the outlook for green bonds is positive with S&P anticipating the value of issuances to exceed $1 trillion in 2024.

Mergers & acquisitions increased globally

Globally, the volume of M&A activity spiked by 5% with a drop in value by 30% in H1 2024 relative to H1 2023. Various sectors noted significant activities this year including the technology, financial services, oil and gas and hospitality and leisure sectors. Some of the biggest M&A deals are: Capital One's proposed $35.3bn merger with Discover Financial Services, Synopsys's proposed $32.5bn acquisition of software company Ansys and Diamondback's proposed $25.8bn acquisition of upstream oil and gas company Endeavor Energy Resources.

Global GDP growth forecast for 2024 is 2.5%



Source; Wood Mackenzie, Macrotrends

Global GDP growth is forecast to slow to 2.5% in 2024, from 2.7% in 2023.

Monetary policy easing strategies are being used by central banks with the European Central Bank recently reducing rates. The US Federal Reserve and the Bank of England are expected to follow suit in Q3 of 2024.

The US Economy is still in decline but at a gradual pace and significant improvement in the European economy has been observed.

Conclusion/Outlook

The global economy has remained resilient despite consecutive difficulties over the last few years resulting from the pandemic, international frictions and economic turbulence.

With inflationary pressures slightly easing and countries recovering from the near-recession conditions, global recovery is currently progressing at a slow but consistent rate. The World Bank projects global growth to stabilize at 2.6% this year. However, the rising tensions in the Middle East and Asia could possibly spark negative sentiments for investors globally and potentially trigger further economic shocks. In addition, upcoming elections in major countries around the world could shape the dynamics of the global economy.

On the domestic forefront, several factors which contribute to inflationary pressures persists such as the removal of fuel subsidy, the volatile exchange rate and the disruptions in the food supply chain. Despite CBN's policies to maintain stability, Nigeria's economic recovery has been slower than expected due to its complex macroeconomic environment, leading investors to remain cautious.

However, with the potential increase in our oil refining capacity, government initiatives to mitigate food shortages, as well as the loan from the African Development Bank to bolster food production, there is optimism for alleviating inflation. Additionally, the ongoing banking recapitalisation is expected to set the right foundation that will support the achievement of the US $1 trillion economy by 2030 as well provide opportunities for the growth of the equities market.

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