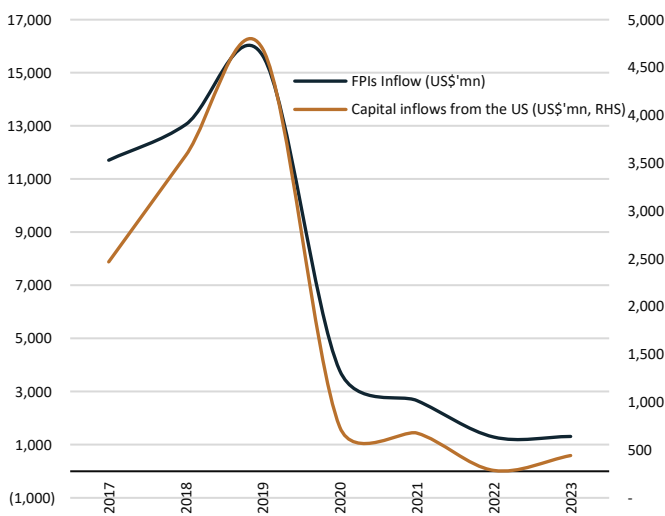


**Nigerian Equities: Attractive valuation supports re-rating outlook**

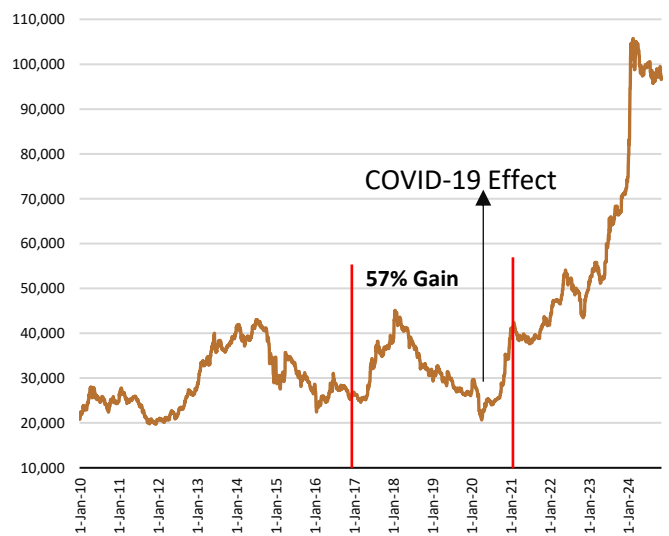
In our view, the US is crucial to the Nigerian market from a foreign portfolio standpoint. Accordingly, we expect investors to pay attention to policy rollout in the U.S. over the next four years as Donald Trump becomes the 47th President of the US. The importance is reflective in the 98% correlation coefficient of capital inflows into the Nigerian economy from the US alone and the foreign portfolio inflow into the Nigerian FX market via the NAFEM window (previously I&E window). It is also worthy to note that the NGX ASI gained 57% over period 20 January 2017 and 20 January 2021 when Trump was President. This was despite the outbreak of COVID-19 in 2019 that triggered selloffs in 2020, bringing markets to record low levels. In addition to this, given the expectation of lower yields in the US on the back of dovish monetary policy, we see higher FPIs into Nigeria in 2025. Accordingly, we are optimistic of a positive performance of the Nigerian equities market in 2025 and beyond. The downside risk to this expectation is low liquidity in the FX market. We, however, expect the CBN to address market participants’ concerns around liquidity, transparency of market support and price discovery.

The trend in FPIs inflows vs. U.S. capital inflows



Source: FMDQ, NBS, Chapel Hill Denham Research

NGX ASI gained 57% over 2017-2021 despite COVID-19



Source: NGX, Chapel Hill Denham Research

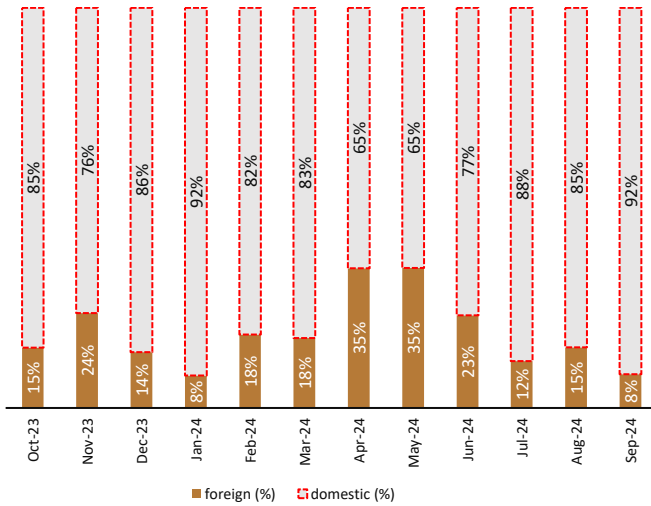
In the last 12 months, foreign participation in the Nigerian equities market has fallen substantially largely due to concerns around FX volatility, from a peak of 35% as at April 2024 to 8% as at September 2024. This is evidenced by the chart below. Thus, we believe that an increase in FPI participation will be supportive of NGX ASI re-rating. However, we like the fact that retail investors’ participation in the market has increased to 64% from a trough of 31% over the same review period. We attribute the increased retail participation to the series of capital raising activities the equities market has seen this year. For context, we have had the banks such as Access, GTCO, Fidelity, Zenith, FCMB, Stanbic, UBA, FBNH tap into the equities market to raise capital in a bid to meet up with the CBN’s recapitalisation requirement. Consumer companies such as Nigerian Breweries Plc, International Breweries Pls amongst others have also raised capital this year.

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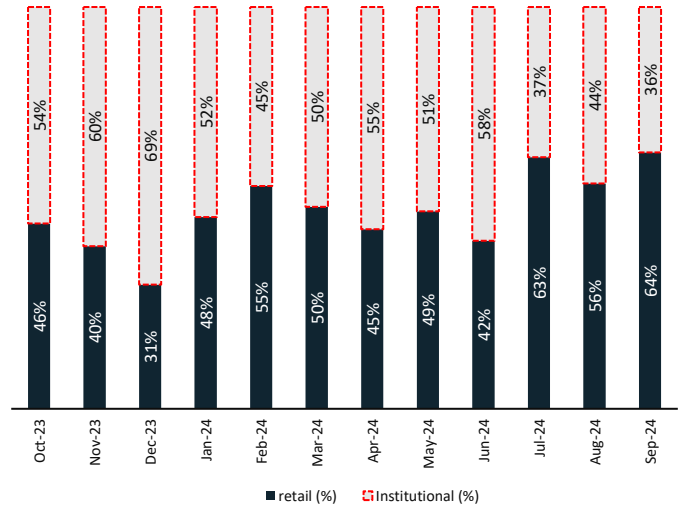
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FPI participation in equity at lowest in the last 12 months



Retail participation in equity at peak in the last 12 months



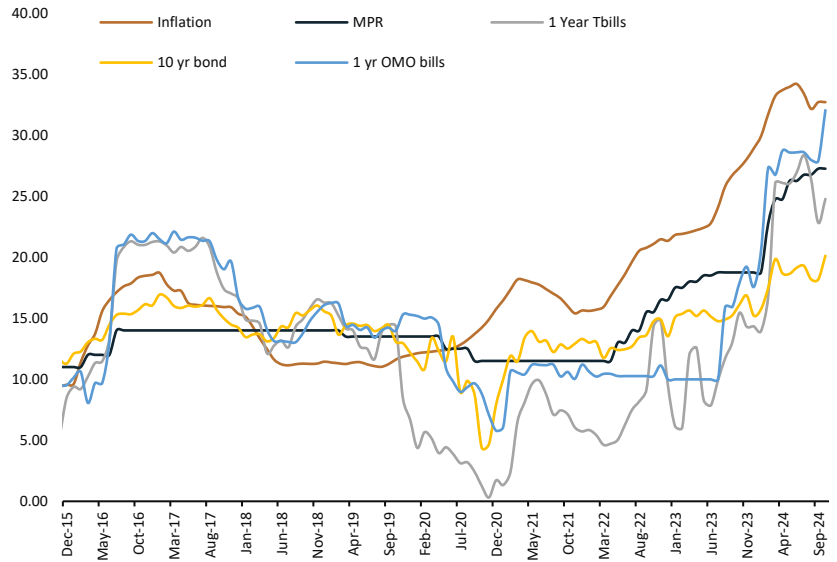
Source: NGX, Chapel Hill Denham Research

Since our last publication entitled [equities beat inflation and fixed income despite rising interest rates](#) published on 12 March 2024, the market has de-rated by 6.1%. Going into 2025, **we believe that investors should BUY these dozen stocks (GTCO, Zenith, Access, Stanbic, MTNN, Fidelity, NB, NIDF, Unilever, UBA, Airtel Africa, Presco and Okomu) in preparation for the higher dividend yields and capital appreciation of 35.7% (our forecast) on average over the next 12 months. This is above our forecast CPI increase of 21.2% over the same period and the effective yields on 1-yr OMO and T-bills of 32.04% and 29.85% respectively. Notably, the year-to-date (YTD) CPI increase is 24.91% vs. the All-share index YTD return of 30.04%.**

**Year-To-Date, the MPR has been raised by a total of 850bps**

The CBN’s tight monetary policy stance has resulted in an increase in the MPR to 27.25% currently, with a corresponding increase in CRR to 50% at the September meeting of the Monetary Policy Committee. This has resulted in the expansion of fixed income yields. This, we explained in our report entitled [MPR and CRR Hikes: Contractionary Stance Persists](#). For context, the 1-year OMO bill was repriced to an effective yield of 32.04% at the auction of 5 November 2024 from the trough effective yield of 20.48% at the auction of 29 January 2024. Similarly, the 1-year T-Bill was also repriced to an effective yield 29.85% as of 6 November 2024 from the trough effective yield of 9.17% as of 10 January 2024. On fixed income instruments, the 10-year bond has also been repriced to 20.16% currently from the trough of 14.24% as of 16 January 2024. Looking at money market, although currently at -66bps, we highlight that the negative spread between inflation and 1-year OMO yield has narrowed significantly from -560bps in June 2024, with the outlook for inflation suggesting that real OMO yield will turn positive.

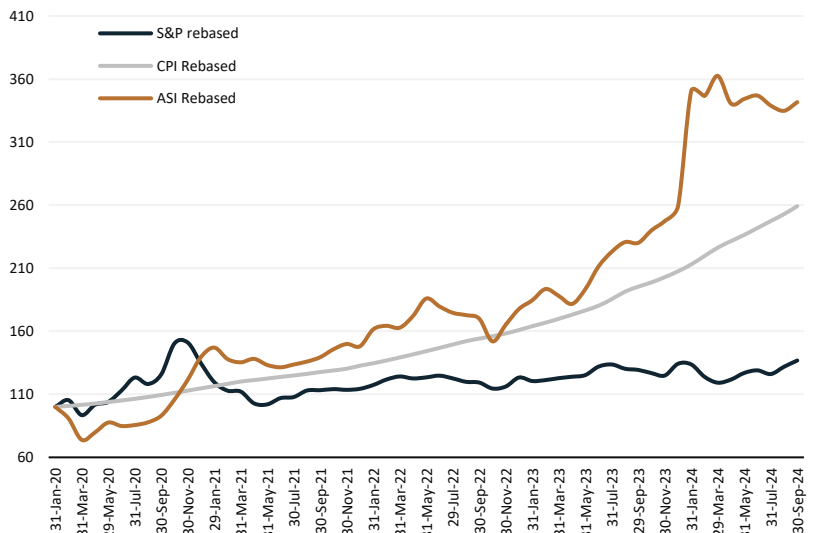
### 1-year OMO inches closer to inflation



Source: NGX, NBS, Bloomberg, Chapel Hill Denham Research

We believe elevated yields are prompting a portfolio reallocation in favour of fixed income and money market instruments over equities. This reallocation is reflected in the asset allocation of PFAs, which has witnessed an increased exposure to government securities (FGN bonds and T-bills). To put in context, PFAs’ allocation to government securities increased by 123bps to 63.4% as at August 2024 from 62.2% as at December 2023. Asset class performance over the review period show that government bonds, as measured by the S&P/FMDQ Nigeria Sovereign Bond Index, have underperformed the CPI and equities (NGX ASI). Interestingly, equities have not only outperformed fixed income instruments (short and long dated) but have also outperformed inflation with compelling outlook to sustain this performance, considering that valuation remains cheap. The chart below shows the performance of equities (NGX ASI), bonds (S&P/FMDQ Bond Index) and the CPI since Covid-19 year (2020).

### Equities still beat inflation and S&P Nigeria Sovereign Bond Index



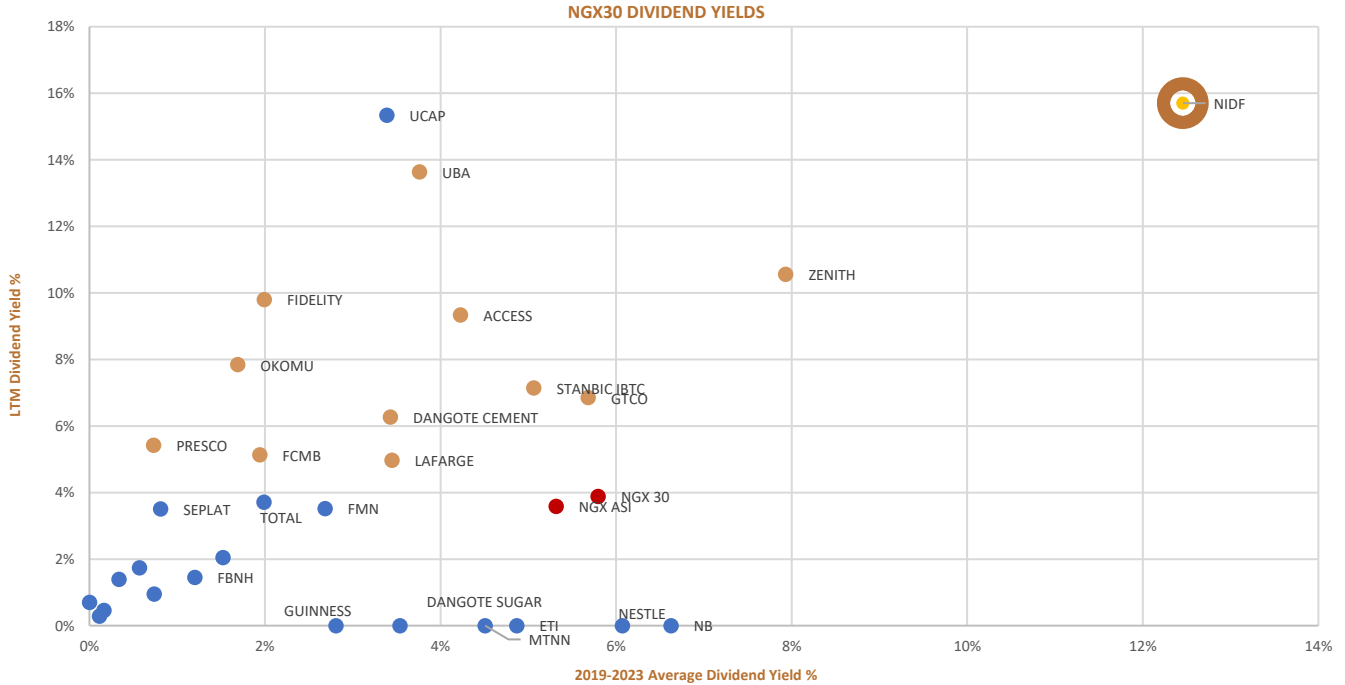
Source: NGX, NBS, Bloomberg, Chapel Hill Denham Research

## NGX ASI at 150,000 points within the next 18-24 months?

Since our last report cited above, the market has witnessed the listing of Aradel Holdings Plc, an oil & gas business. Precisely on 14 October 2024, Aradel listed 4.3 billion ordinary shares of 50 kobo each at a price of N702.69, implying a market capitalisation of N3.05tn. Accordingly, the listing lifted the NGX market capitalisation by 6.1% to N59.51tn on 14 October 2024, given that Aradel's share price gained 10% on the day of listing. On the said date, the NGX market capitalisation was USD36.39bn in dollar terms, a level last seen on 9 July 2024 (USD36.41bn). While we highlight that the market has de-rated by 8.0% from its all-time high of 105,724.78 on 18 February 2024, we view the de-rating in the equities market as a reflection of its relatively cheap valuation, presenting an attractive entry point for strategic investors. In addition, we see dividend expectations as another compelling reason for a potential re-rating into 2025. At current level, the ASI would require only 2.9% uptick to return to 100,000 points and only 8.7% to return to its all-time high level. We reckon that this can be achieved before the end of Q4-24 or at the latest Q1-25. **However, what we consider more compelling is the NGX ASI at 150,000 points and this would imply c.55% increase from current level. Potential catalysts that would spur this re-rating include the following. (I) New listings of large market capitalisation companies such as Dangote refinery, NNPC Limited and secondary listing of Airtel Money among others. (II) Favourable macroeconomic indicators with supportive monetary and fiscal policies that could improve foreign capital inflows.**

For 2024, we see the NGX ASI closing the year at around our base case forecast return of 35%. Nonetheless, we recognise the possibility of bearish sentiments prevailing in the market, which could result from the following factors. (I) Higher fixed income yields and (II) Macroeconomic headwinds such as slower-than-expected GDP growth and higher inflation that could negatively influence investors' confidence in the market. Notwithstanding, we believe the market will be able to defend our bear case return of 21.0%. On dividend yield strategy going into 2025, we favour high-single-to-double-digit dividend yield stocks. These stocks include [Nigeria Infrastructure Debt Fund \(NIDF\)](#), [UBA](#), [Zenith](#), [Fidelity](#), [Access](#), [Okomu](#), [Stanbic](#) and [GTCO](#).

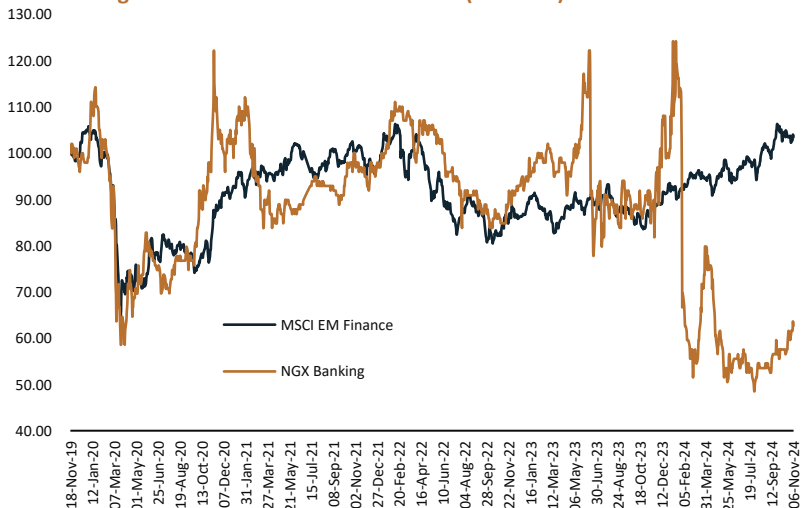
The chart below shows the dividend yield of the NGX30 stocks in the last twelve months (LTM, on the vertical axis) and five-year average dividend yields over 2019-2023 (on the horizontal axis). **It is worth highlighting that NIDF is the "best-in-class"** in this regard, considering that it has the most compelling average dividend yield of 12.5% over the past five years and the highest dividend yield of 15.7% from an LTM standpoint. From a market comparison viewpoint, we highlight that Dangote Cement, Presco, FCMB, Lafarge have **above-market LTM dividend yields**, and so can be considered as the next set of dividend stocks for 2025.



Source: NGX, Bloomberg, Chapel Hill Denham Research (Prices as at 7-Nov-2024)

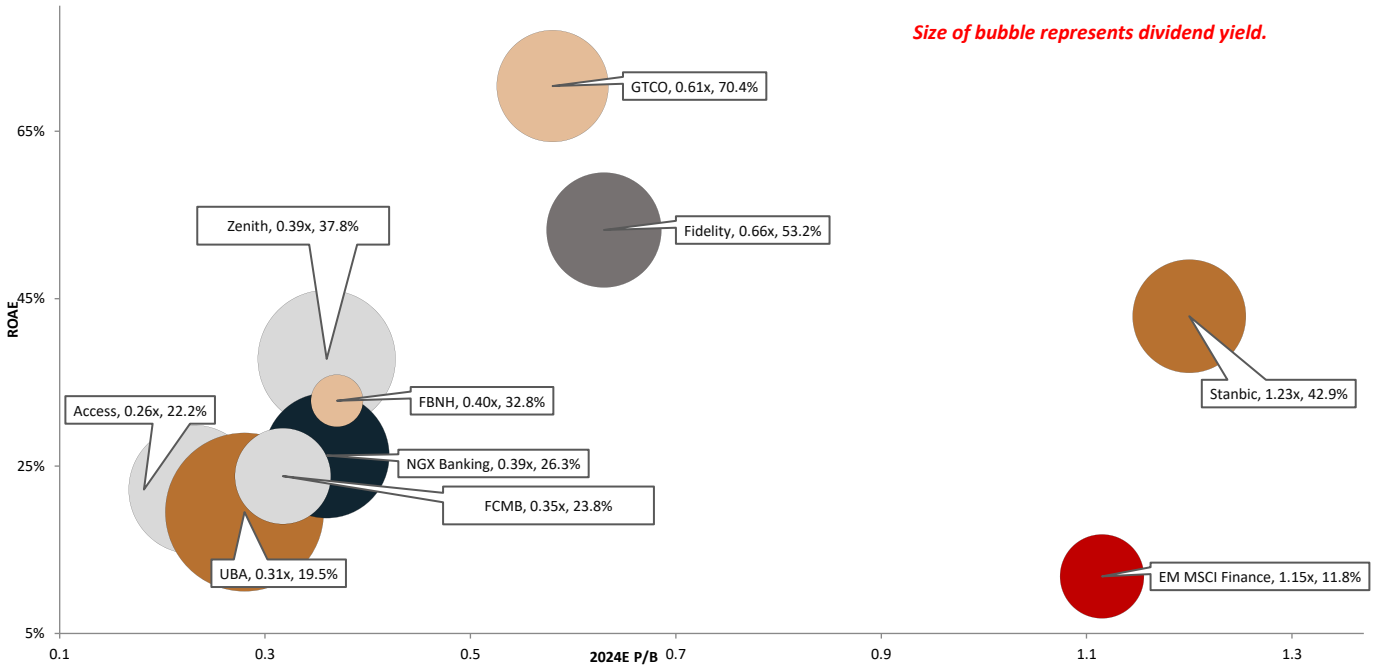
**What sectors are likely to drive the NGX ASI to 150,000 points?** In addition to new listings and supportive macroeconomic indicators, sectoral interests could stir up market sentiment towards attaining that level of index. **For the banks, attractive valuations, high dividend yields, and strong liquidity remain key factors for consideration, in our view.** Notably, we have seen the banks (FBNH, UBA, GTCO, Access, Zenith, Stanbic, Fidelity and ETI) report remarkable earnings so far in 2024. Combined, these banks reported c.108% year-on-year increase in profit before tax to N5.21tn in 9M-24. **Despite taking a beating earlier in the year, we have seen the NGX banking index rebound to deliver a YTD return of 14.7% and a recovery of 40.3% from its trough of 733.39 points on 24 May 2024.** Despite this recovery, this index remains attractive relative to the MSCI EM Finance Index as indicated by the chart below. **Speaking to valuation, the NGX Banking Index trades at a P/B ratio of 0.39x alongside a robust ROAE of 26.3%, indicating a discount to the MSCI EM Finance Index, which trades at a P/B of 1.15x with an ROAE of 11.8%. Dividend yield analysis further highlights this attractive valuation, with the NGX Banking Index offering a stronger yield of 8.7% compared to the 3.9% yield on the MSCI EM Finance Index.**

**NGX Banking index vs. MSCI EM Finance Index (Rebased)**



Source: Bloomberg, Chapel Hill Denham Research

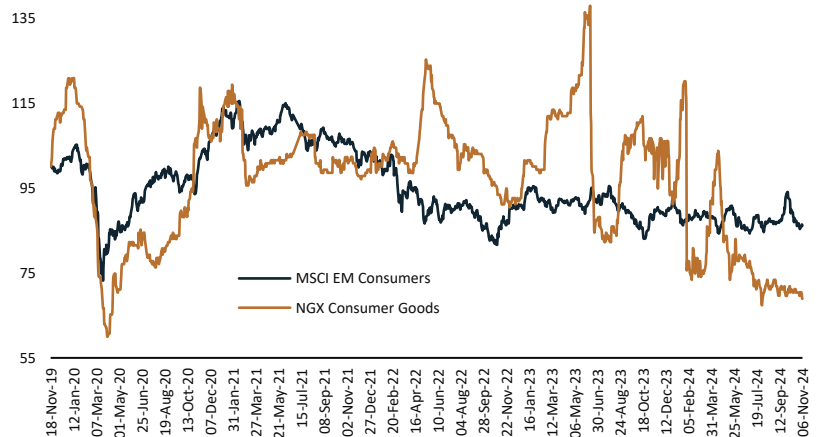
From a valuation standpoint, the NGX banking index is cheap and more compelling than the MSCI EM Finance Index



Source: Bloomberg, Company Financials, NGX, Chapel Hill Denham Research (Prices as at 7-Nov-2024)

For the consumers, while we recognise the fact that FX devaluation has significantly dented performance within the last 18 months, we reckon that recovery will materialise from 2025. This recovery would be driven by strategic product price adjustments, increased local sourcing of raw materials to counteract supply chain challenges, FX stability and possibly improved consumer spending on the back of lower inflation. We highlight that despite inflationary pressures, the sector's focus on cost efficiency and innovation positions it for sustainable growth and resilience beyond its current FX woes. **On a YTD basis, the consumer index has gained 38.8% fuelled by the performance of Bua Foods, accounting for c.95% of the index's YTD gains.** So far, in 2024, we like that Cadbury, Nigerian Breweries (NB) and International Breweries (IntBrew) have taken reactive steps towards returning to profitability with the series of capital raises (NB and IntBrew) and the debt-to-equity conversion (Cadbury) to eliminate FX-related debt. Others such as Nestlé resulted to a more organic approach by adopting product price adjustment strategies, innovation, and backward integration to drive revenue growth and tame cost growth.

### NGX Consumer Goods index vs. MSCI EM Consumer Staple Index (Rebased)



Source: Bloomberg, Chapel Hill Denham Research

**For the industrials, we like that on a YTD basis, the industrial sector is up by 27.2%.** This gain was largely fuelled by the activities of a strategic investor in Dangote Cement (Dangcem) in Q1-24. We highlight that despite the 37.2% pullback from its peak of N763.00 (Dangcem) on 29 January 2024, its YTD return remains strong at 49.7%. In this sector, we remain cautiously optimistic on the performance of Dangcem, Lafarge and Bua cement, but do not rule out the potential impact that a strategic investor can have on price performance.

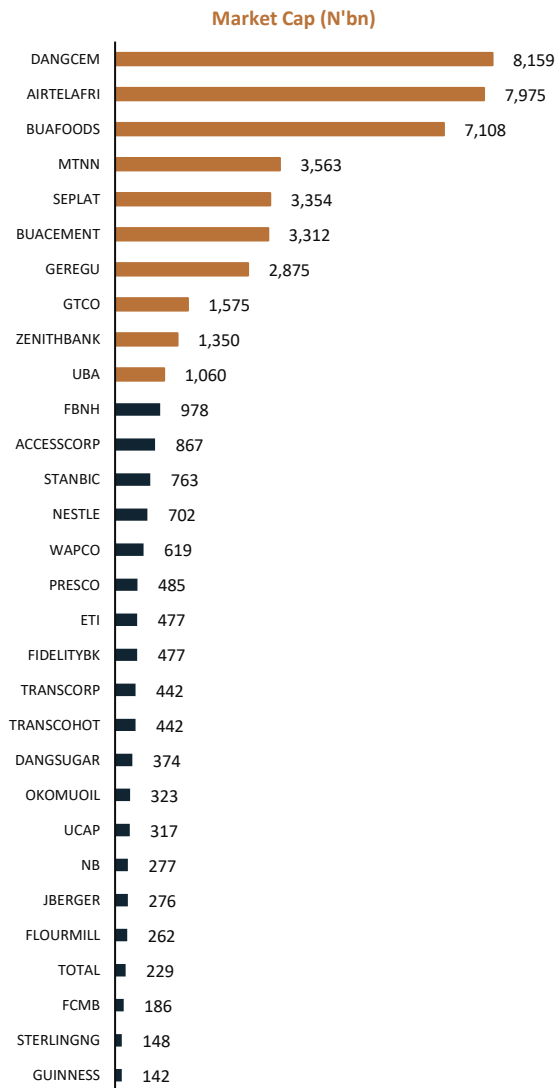
**The two agriculture stocks, Okomu and Presco, have rallied by 151.5% and 30.0% YTD respectively. From a fundamental standpoint,** both companies benefit from strong local demand for edible oils and supportive government policies aimed at reducing palm oil imports. In addition, despite facing challenges such as fluctuating input costs and infrastructure constraints, Okomu and Presco continue to expand capacity and adopt strategies to improve efficiency. For context, Presco proposed the acquisition of a 100% equity stake in Ghana Oil Palm Development Company Limited in a bid to increase capacity by 19%, maximise economies of scale and expand the company's market share. We believe this has sustained investors' interest in these stocks.

**In the oil & gas space,** Seplat remains a compelling stock, largely supported by the positive news flows around the Exxon Mobil deal and its attendant impact on the business going forward. In addition, Seplat's dual listing also presents an opportunity for further re-rating of the stock. Another key development in the oil & gas sector is the listing of Aradel, which was discussed earlier. Activities in Oando and TotalEnergies have also supported the strong YTD return of 133.1% we have seen in the sector.

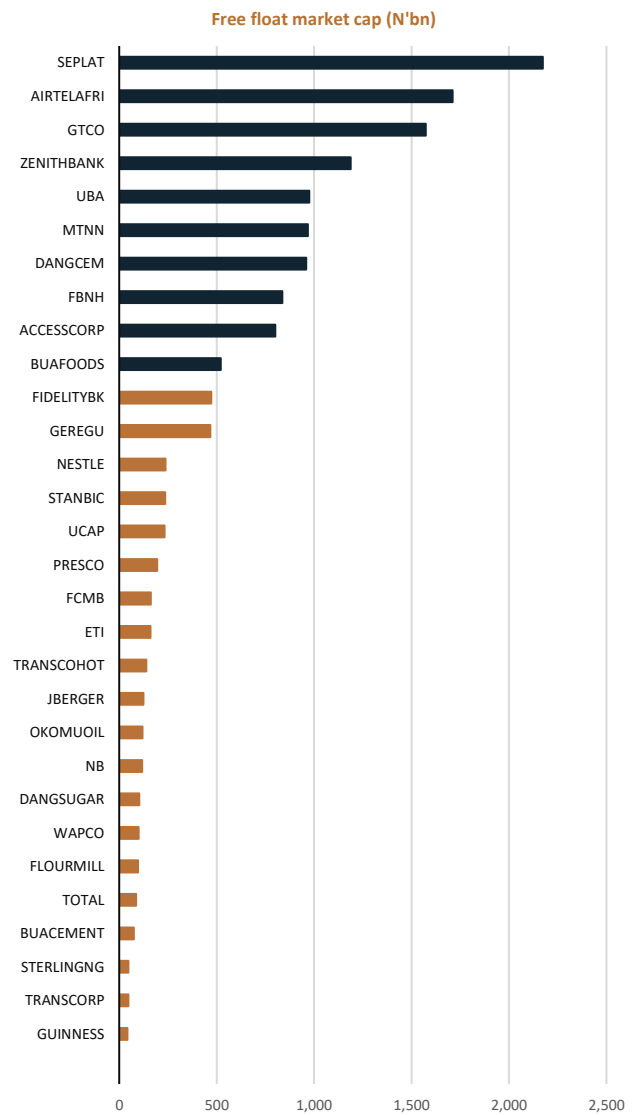
**In the Telecommunications sector,** Airtel Africa Plc continues to present opportunities for investors to buy and sell in either of the London or Nigerian exchange. This is, however, dependent on what the price differential is based on exchange rate at the time of trade. We highlight that Airtel had a [strong performance, but FCY impact persists](#) in the first half of its current financial year (FY-25E). on MTNN, while we recognise the FX challenges to earnings, we highlight that the underlying business remains strong. We see a regulatory approval, possibly in 2025, for MTNN and other telecoms companies to effect a tariff increase to combat inflationary pressure on earnings, as a major catalyst for the re-rating of MTNN and to some extent, Airtel Africa Plc.

**In addition to the above, we highlight that free float is also another key factor for consideration.** As shown in the chart below, companies with the highest market capitalisations are not necessarily the highest by free float. For context, BUACEM and GEREGU rank among the top 10 stocks by market capitalisation in the NGX 30 index, but do not make it to the top 10 by free float. Indicatively, investors will find SEPLAT, AIRTEL AFRICA, GTCO, ZENITH, UBA, MTNN, DANGCEM, FBNH, ACCESS, and BUAFOODS compelling in terms of liquidity in the market.

## NGX 30 market capitalisation (N'bn)



## NGX 30 market free float (N'bn)



Source: NGX, Chapel Hill Denham Research (Prices as at 7-Nov-2024)

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