

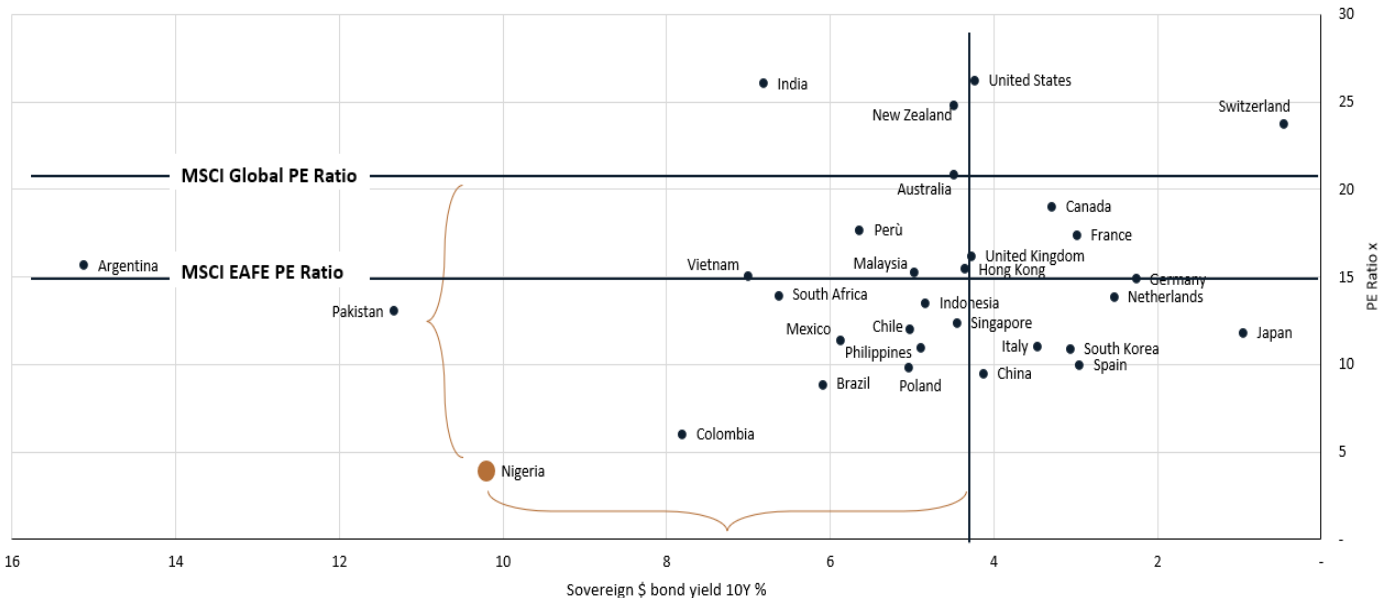
## Nigeria is Cheap Relative to Global Equities

In this report, we tell the cheap Nigerian equity valuation differently as we consider global valuation indicators.

**Taking a global look at Nigeria's valuation shows a cheap market,** credit and equity. Starting with credit, investors in Nigeria's 10-year Sovereign dollar bond with a yield of 10.2% get 600bps outperformance versus the US Sovereign credit. Put differently, such investors will generate two and a half times the return that is generated in the US. Now, looking at the equity market, the free float Nigerian PE ratio is just 3.95x compared to 26.27x in the US. Extending this to the MSCI global PE ratio of 21.50x also shows that Nigeria is cheap. Furthermore, considering the MSCI Europe Australia and Far East (MSCI EAFE), which excludes the US, we note that the Nigerian free float PE ratio is significantly lower compared to the MSCI EAFE with a PE ratio of 15.1x. The expensive valuation in the US seems to be underpinning the decision of Warren Buffet's Berkshire Hathaway sell-off in US stocks worth US\$166bn dollars over the past two years, with Berkshire Hathaway now having over US\$325bn in cash. **We reckon that huge investment portfolios in Nigeria should consider increasing equity exposure, focusing on high-quality, defensive, and value stocks with strong fundamentals and appealing cash flows.** In addition, diversifying across asset classes enhances resilience, while maintaining liquidity allows flexibility to capitalise on new opportunities.

### Nigerian Valuation from a global perspective

Equity vs Credit Markets



Source: Bloomberg, Chapel Hill Denham Research

**Emerging markets (EM) are typically seen as more volatile but offer higher growth potential than developed markets (DM).** This can be credited to the faster economic growth in EM countries than in DM, a trend previously seen and expected to continue in the long term. However, this expectation depends on the time horizon. Over the past five years, developed markets have outperformed emerging markets, highlighting how results can vary based on the investment horizon.

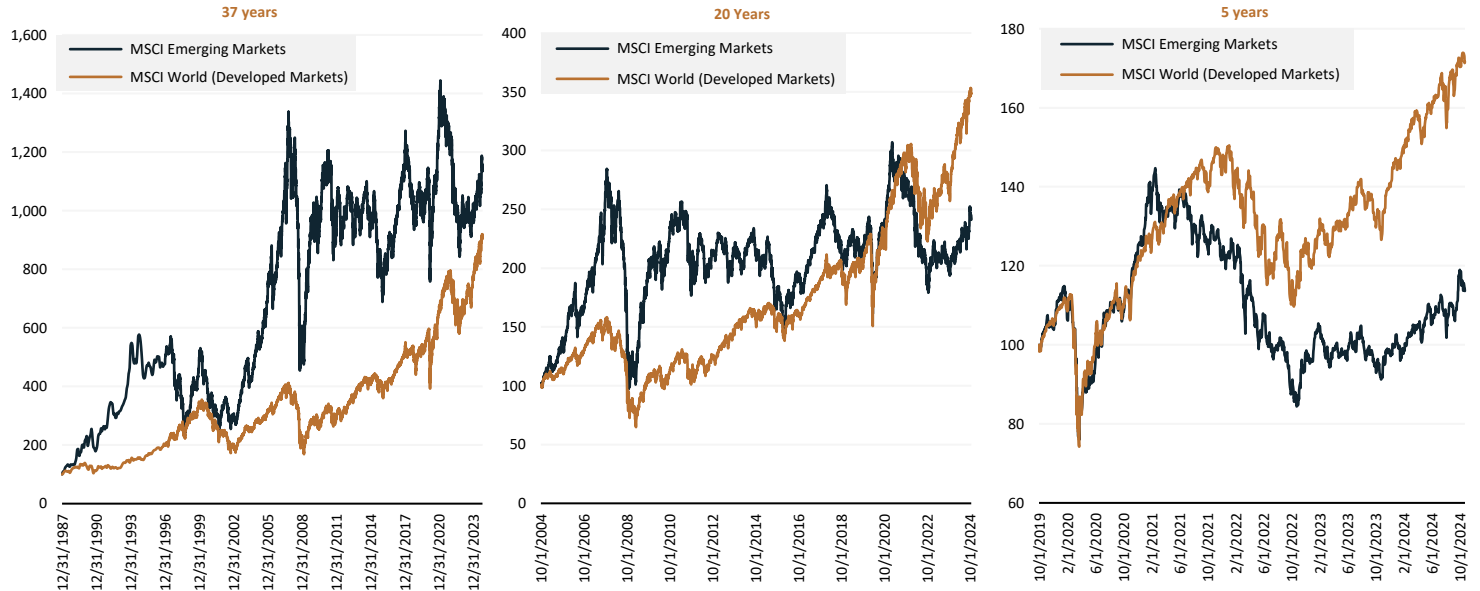
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The charts below illustrate that over a 37-year period, the MSCI Emerging Market Index has significantly outperformed, delivering returns exceeding 1,000%, compared to the MSCI World (Developed Market Index) at 806%. However, in shorter time periods, the trend reverses. Over the past 20 years, the Developed Market Index posted a 249% return, surpassing Emerging Markets at 141%. Similarly, in the last 5 years, Developed Markets returned 72%, while Emerging Markets lagged with a 14% return.

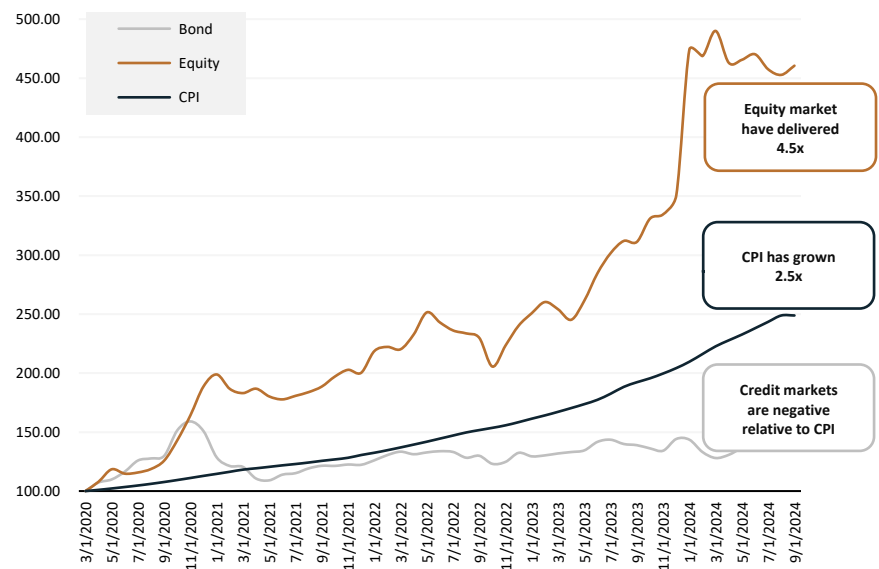
### Emerging versus Developed markets: Investment horizon matters



Source: Bloomberg, Chapel Hill Denham Research

In a frontier market with high inflation such as Nigeria, achieving real returns on investment is particularly important, in our view. **Interestingly, the Nigerian equity market has outperformed inflation since March 2020 to date, with the equity market delivering 4.5x return**, which is more compelling than the CPI expansion of 2.5x and the c. 47% credit market return. The credit market's return indicates a negative real return over the review period. In our view, the outlook for inflation is benign, indicating that the equity market can sustain a positive real return over the next 12 months.

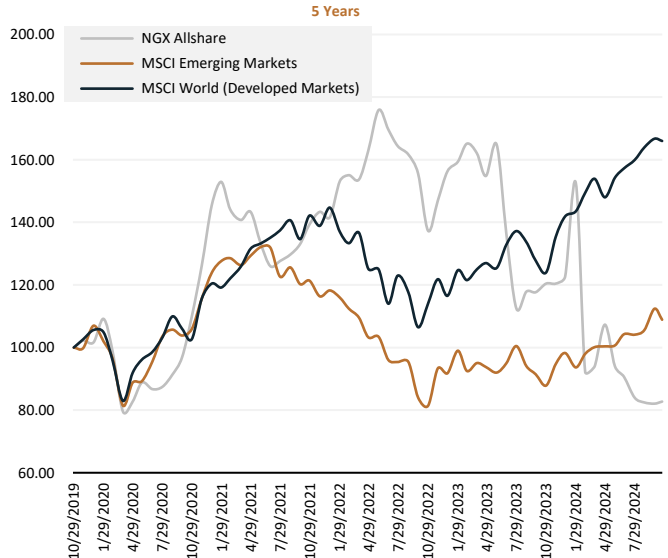
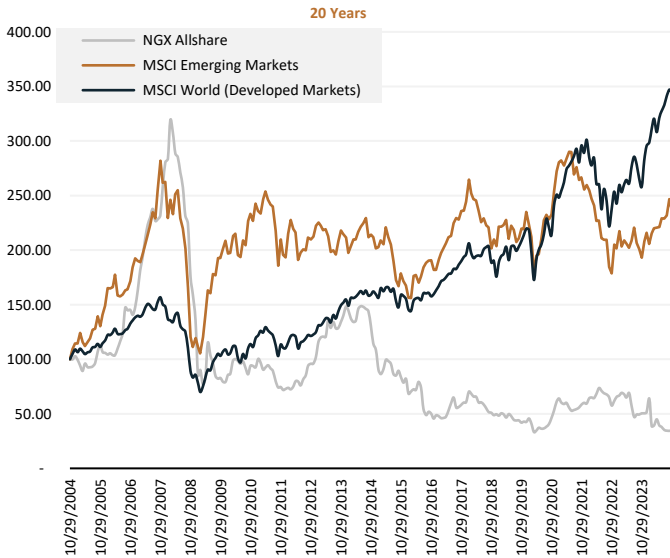
### Nigerian markets: Equity outperforms credit & CPI, but credit lags the CPI



Source: NGX, S&P Nigeria Sovereign Bond Index, NBS, Chapel Hill Denham Research

Comparing the NGX ASI in USD to the USD-denominated MSCI World and MSCI EM indices reveals that the NGX ASI's performance is unappealing over a 20-year period. **Interestingly though, tracking the performance over the past five years shows significant rebound since 2019, possibly underpinned by the new listings in the telecoms sector (MTN Nigeria and Airtel Africa).** Nevertheless, the avalanche devaluation and the relatively slow rise of the NGX ASI in 2024 resulted in a downslope of the NGX ASI in USD terms. Considering that the recent devaluation of the USD/NGN was reform-driven, we expect stability and believe that a recovery is on the cards for the NGX ASI USD return over the next 2-3 years.

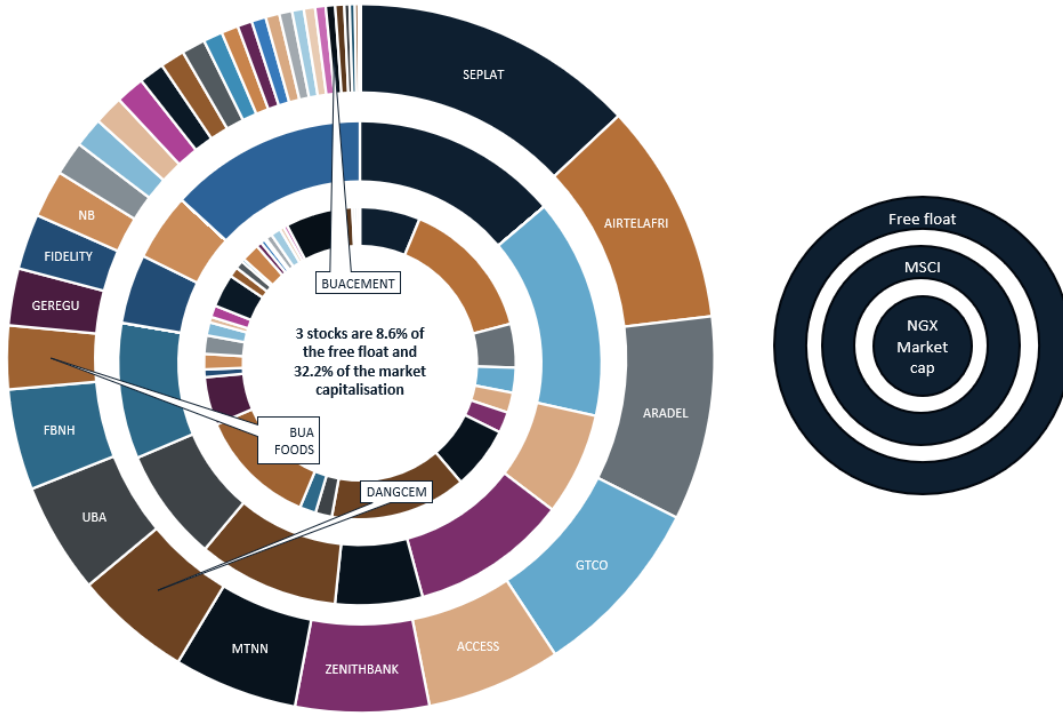
## NGX ASI versus MSCI World versus MSCI Emerging Markets



Source: Bloomberg, NGX, Chapel Hill Denham Research

It is on the back of the importance of liquidity in a market like Nigeria that we consider free float. We highlight that the MSCI index for instance ignores overseas listed stocks such as Airtel Africa while the Nigerian NGX ASI is market capitalisation weighted, despite some stocks in the index having a free float that is as low as 10%. **In this regard, we highlight that the Chapel Hill Denham stock index (the Paramount Index) is free float weighted, focusing on the dozen stocks representing 90% of the value of the free float of the entire Nigerian equity market.** For the dozen stocks, see our report entitled [Nigerian Equities: Attractive valuation supports re-rating outlook](#), published on 08 November, 2024. We believe that the average of just 33% of the NGX market capitalisation as free float is a weak reflection of real value as some low free float stocks have unusually high valuations. To put this in context, the market P/E of 7.95x comes down to 3.95x while the P/B moderates to 1.15x from 1.54x when both metrics are adjusted for free float.

NGX ASI stocks from a free float viewpoint



Source: Bloomberg, NGX, Chapel Hill Denham Research

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