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Thoughts from a Renaissance man Nigeria warrants your attention again

At around NGN400/\$, the naira currently offers a 5% discount to our estimated fair value (this discount will likely disappear due to inflation over 2017), while we think equities and naira bonds are cheap.

After spending most of the past fortnight in Nigeria, at Renaissance Capital's 8th Annual Pan-Africa 1:1 Investor Conference in Lagos and the 10th African Finance Corporation's (AFC) infrastructure-focused conference in Abuja, we believe we have learnt enough to justify a more optimistic stance towards Nigerian assets. In February, we argued that when greater FX flexibility came to Nigeria, investors might only enter the market at an exchange rate of NGN450-500/\$. We assumed there would be no Egyptian-style float of the currency. We thought investors would need a 'Nigeria FX risk premium' of at least 10-20% to compensate for the potential risk that FX flexibility might be short-lived. But we were wrong to only look at investing in Nigeria through the FX prism. We should have also considered whether bonds and equities were cheap or expensive. What has become evident in recent weeks is that naira bonds yielding 18% and equities are cheap enough that investors are prepared to buy the naira even with just a small discount to the NGN375/\$ fair value estimate of our 22-year REER model. Note due to inflation we estimate that fair value will depreciate to NGN410-415/\$ by mid-2018.

The 'I&E' FX window was clearly the catalyst of change

The catalyst of this was the introduction of the new investor and exporter (I&E) FX window on 24 April, which finally gave portfolio investors a currency market they could access after two years of market-destroying FX illiquidity. After a hesitant start, foreign inflows began to pick up, and the stock market reacted sharply at the time of our Lagos conference. Media reports suggest \$600mn has flowed into Nigeria over four weeks (a fair amount has flowed out too).

The I&E rate varies from bank to bank, with recent estimates putting the exchange rate range from around NGNG370/\$ to NGN425/\$. The large range is because so far banks are barred from trading with each other in this FX window. Comments last week from Vice-President Yemi Osinbajo, that "the market should determine everything", imply we may see all Nigeria exchange rates converge to a market-determined rate. But for now, we think investors should cautiously assume the I&E window remains the only accessible window until the 2019 elections. The most obvious threat to the I&E window is a collapse in oil production and/or oil prices; in that scenario, we cannot be sure the Central Bank of Nigeria (CBN) would continue supplying FX to this window. But potentially, investors would meet their own supply and demand needs, presumably at a much weaker exchange rate. Whatever scenario unfolds, the key point is that the FX barrier to investing in Nigeria has now been removed. As a consequence, investors can now focus on the reform priorities of the government.

This is (mostly) a reform-minded administration

Nigeria's per-capita GDP has fallen to around \$1,740 in 2017, from over \$3,000 in 2014. This year the IMF forecasts Nigeria will have the third-fastest GDP growth acceleration of any Frontier market, and it expects this to repeat in 2018. Investment spending in the 2016 budget reached perhaps NGN600bn, and the government aims to push this to NGN2,240bn via the 2017 budget. Railway investment will be funded by China's Eximbank, similar to what we have seen in Kenya. The Ministry of Trade and Investment is focusing on special economic zones to boost manufacturing, under advice from former World Bank chief economist Justin Lin. That should be supported by the **Power Sector Recovery Programme**, partly funded by the World Bank. The ministry is also advancing Ease of Doing Business reforms. The anti-corruption campaign continues, and the Ministry of Finance should soon unveil a tax amnesty plan to gather revenue and encourage future tax collection. Reform is under way.

We think most metrics in Nigeria will be demonstrating improvement in 2017, providing oil prices/production do not plunge. We are cautiously positive on equities and bonds at an exchange rate around NGNG400/\$.



We have produced a long stream of Nigeria-focused research in the past few weeks, most notably from our SSA economist Yvonne Mhango:

Sub-Saharan African: Pockets of value, published 8 May 2017.

Renaissance Capital 8th Annual Pan-Africa 1:1 Investor Conference: *Nigeria: Stability is returning*, published on 16 May 2017.

Her latest macro forecasts were updated this week, after the Monetary Policy Committee (MPC) decision and the release of GDP figures. They are in *Nigeria: Slower rate of decline*, published on 24 May 2017. Note Yvonne stuck with her 0.5% GDP forecast, but others such as the African Development Bank are more optimistic.

We published our views on Nigeria's growth acceleration in *Populism matters*, published on 15 May 2017.

Our latest FX views on African currency are shown below, with spot rates from 24 May 2017.

Figure 1: African currencies in our 22-year REER model, and Yvonne Mhango's 13-year model on the right

	Current FX rate vs \$	FX rate implied by long-term average REER	FX rate if REER falls to previous lows	Date of REER low	Long-term average divided by current rate	IMF 2016 C/A (% GDP)	IMF 2017E C/A (% GDP)	Standard deviations away from historical average	Yvonne's avg REER estimate
Central African Republic	588	1,197	1,567	Dec-99	2.04	-8.9	-7.6	2	
Angola	166	291	977	Oct-99	1.75	-4.3	-3.8	1	196
Kenya	103	169	309	Jul-95	1.64	-5.5	-5.8	2	124
Ethiopia	23.2	32.7	44.2	Jan-04	1.41	-9.9	-10.0	2	27
Eq. Guinea	588	776	1,181	Oct-00	1.32	-17.3	-10.6	1	
Zambia	9.33	12.0	21.5	Jul-95	1.29	-5.5	-3.2	1	9.2
Mauritius	34.8	40.6	46.9	Dec-06	1.17	-4.3	-8.1	2	
Nigeria (interbank)	320	364	816	Apr-95	1.14	0.6	1.0	0	298
Botswana	10.3	11.7	13.7	Sep-98	1.14	14.7	1.8	2	
Cameroon	588	654	750	Oct-00	1.11	-3.6	-3.1	2	
Ivory Coast	590	634	736	Aug-97	1.07	-2.2	-4.0	1	
Gabon	588	631	699	Sep-00	1.07	-9.0	-8.3	1	
Chad	588	626	786	May-00	1.06	-8.8	-4.7	0	
Morocco	9.76	10.0	10.7	Aug-12	1.02	-3.9	-2.6	0	
Algeria	108	110	129	Mar-08	1.02	-16.4	-12.3	0	
Namibia	13.0	13.2	17.8	Dec-01	1.02	-11.2	-4.2	0	
Tanzania	2,229	2,203	2,704	Dec-93	0.99	-6.3	-7.2	0	2,211
Senegal	590	581	644	Nov-00	0.98	-7.1	-7.8	0	
Rwanda	828	804	1,062	Feb-04	0.97	-14.5	-10.9	0	768
South Africa	13.0	12.3	18.5	Dec-01	0.95	-3.3	-3.4	0	11.2
Mozambique	59.6	55.5	82.0	Sep-16	0.93	-38.9	-34.8	0	43
Uganda	3,610	3,317	4,343	Aug-11	0.92	-5.9	-7.0	0	3,311
Nigeria (I&E)	400	364	816	Apr-95	0.91	0.6	1.0	0	298
Ghana	4.38	3.53	6.60	Aug-14	0.81	-6.4	-6.0	0	3.6
Tunisia	2.46	1.97	2.36	Aug-16	0.80	-9.0	-8.6	-1	
Egypt	18.1	12.9	20.0	Dec-03	0.71	-5.6	-5.3	-1	13.5

Source: Bruegel, Bloomberg, IMF, Renaissance Capital



Nigeria

Figure 2: Key data

Local Currency	NGN
S&P / Moody's Rating	B/B1
Weight in MSCI FM (%)	7.5%
MSCI Index	MXNG
2017 P/E	8.0
2017 EPS Growth	40.3%
Trailing P/B	1.3
Beta to FM	1.4
MSCI Full MktCap, \$bn	25.6
MSCI FF MktCap, \$bn	8.3
No. of Companies	16
3M ADTV (\$mn)	7.2
Local Index	NGSEINDX
MktCap (\$bn)	30.3
No. of Companies	171
3M ADTV (\$mn)	8.7

Figure 3: Performance, \$ (31 Dec 09 = 100)

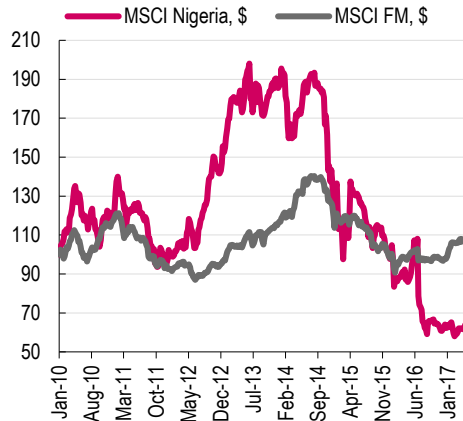


Figure 4: Economic outlook

IMF Forecasts	2016	2017	2018
Real GDP (% YoY)	-1.5	0.8	1.9
GDP/Capita, \$	2,211	2,123	2,435
Population, mn	184	189	194
CPI (year-end, %YoY)	18.6	17.5	17.5
C/A balance (% of GDP)	0.6	1.0	1.0
Government balance (% of GDP)	-4.4	-5.0	-4.2
Bloomberg consensus			
Real GDP (%YoY)	-1.5	1.5	3.5
CPI (year-end, %YoY)	18.6	19.0	14.5
C/A balance (% of GDP)	0.6	-1.3	-2.0
Key policy rate (year-end)	14.0	14.2	12.7
FX			
NGN vs \$	315	325	368
NGN vs EUR	332	348	405

Figure 5: Index and stock data

Ticker	Name	Sector	MktCap (\$mn)	FF Mkt Cap (\$mn)	3MADTV (\$mn)	\$ Performance			12MF P/E (x)	Trail PBV (x)	12MF RoE (%)	# Analys Recs	MSCI wgt (%)
						1M	3M	12M					
MXNI	MSCI Nigeria		25,629	8,307	7.2	12.6	20.4	-28.7	7.4	1.3	16.7	236	7.5
NB NL	Nigerian Brewer	Cons. Staples	3,606	1,814	0.7	12.5	10.2	-29.1	28.3	6.5	22.4	18	21.9
GUARANTY I	Guaranty Trust	Financials	2,989	1,502	1.3	20.7	33.0	0.1	7.2	1.8	24.4	21	18.2
ZENITHBA NI	Zenith Bank Plc	Financials	1,762	883	1.8	15.8	20.0	-25.5	4.7	0.8	17.0	23	10.7
NESTLE NL	Nestle Nigeria P	Cons. Staples	2,099	856	0.5	13.4	46.3	-27.8	25.0	17.2	67.9	18	10.2
DANGCEM N	Dangote Cement	Materials	8,653	614	0.5	-6.0	-5.3	-40.5	11.4	3.1	27.5	16	7.4
UBA NL	United Bank Afr	Financials	802	403	0.4	25.2	41.9	-0.4	3.7	0.6	16.7	19	4.9
STANBIC NL	Stanbic Ibtc Hol	Financials	779	357	0.2	10.8	41.4	-3.8	6.0	1.6	24.8	9	4.1
ACCESS NL	Access Bank Plc	Financials	671	338	0.4	13.3	9.1	-11.2	3.1	0.5	17.0	17	4.1
SEPLAT NL	Seplat Petrol	Energy	685	267	0.6	-8.3	3.4	-30.3	6.6	0.6	9.6	11	3.3
GUINNESS N	Guinness Nigeria	Cons. Staples	328	244	0.3	11.1	6.7	-51.8	155.8	2.7	3.1	16	2.9
FBNH NL	Fbn Holdings Plc	Financials	475	234	0.3	18.6	34.1	-30.5	2.5	0.3	8.4	16	2.9
WAPCO NL	Lafarge Africa P	Materials	810	227	0.1	-10.9	19.4	-58.0	8.1	3.6	15.8	14	2.7
ETI NL	Ecobank Transnat	Financials	736	221	0.1	25.2	-2.9	-61.0	2.1	0.4	na	8	2.7
UNILEVER N	Unilever Nigeria	Cons. Staples	424	216	0.1	-3.5	24.0	-28.0	33.6	10.2	26.3	16	2.6
PZ NL	Pz Cussons Niger	Cons. Staples	235	72	0.0	23.5	33.3	-46.0	17.8	1.9	10.3	10	0.9
FO NL	Forte Oil Plc	Energy	185	59	0.1	-3.5	-11.1	-86.7	11.6	5.0	na	4	0.7
OANDO NL	Oando Plc	Energy	321	310	0.2	52.7	78.1	-11.9	na	0.9	na	3	-
OKOMUOIL I	Okomu Oil Palm	Cons. Staples	151	143	0.0	4.0	13.1	8.8	6.4	2.4	32.4	8	-

Figure 6: 3MADTV, \$mn

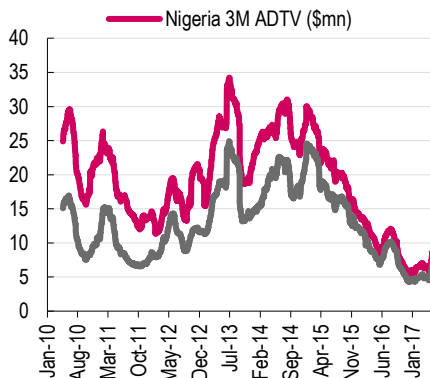


Figure 7: Valuations vs EM, 12M Fwd P/E (x)

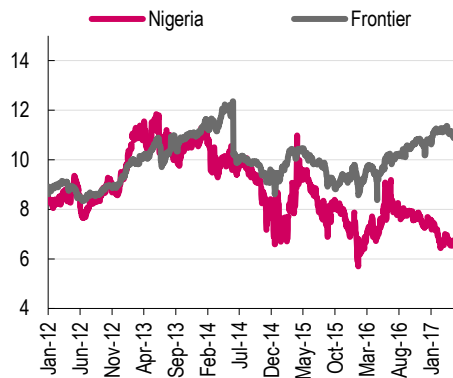
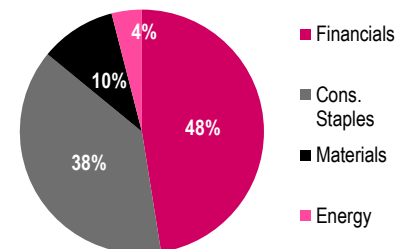


Figure 8: MSCI sector weights

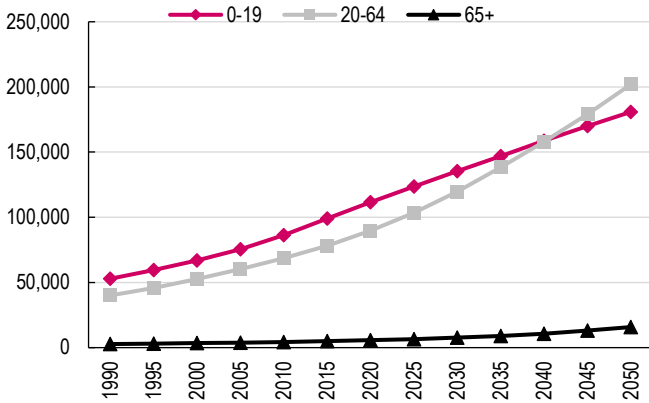


Sources for all tables and charts: IMF, Bloomberg, MSCI



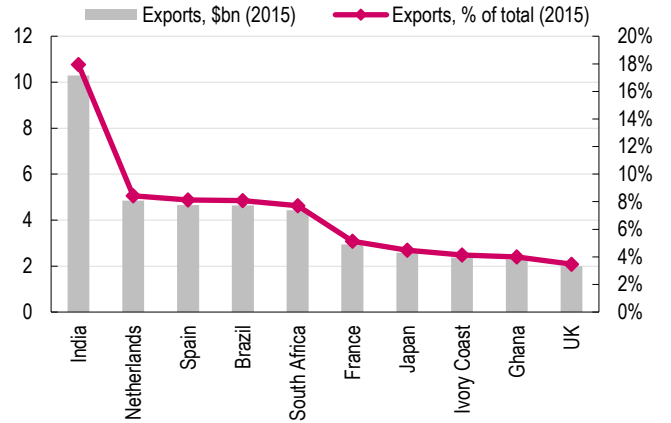
Nigeria

Figure 9: Population, '000



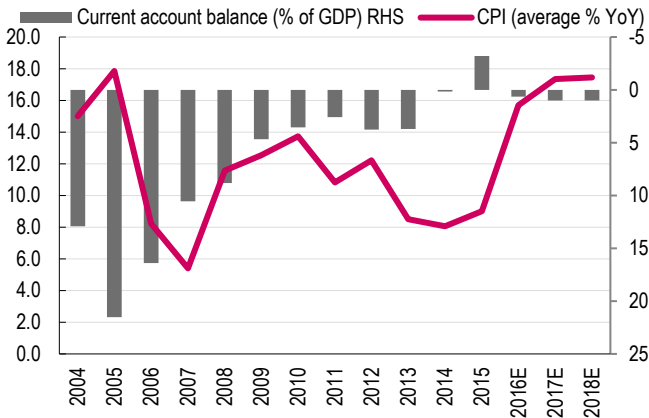
Source: UN

Figure 10: Export destinations, total \$57bn



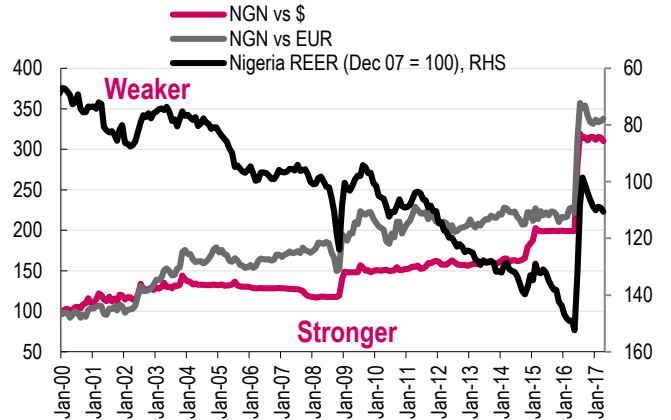
Source: IMF

Figure 11: CPI avg %, C/A % of GDP



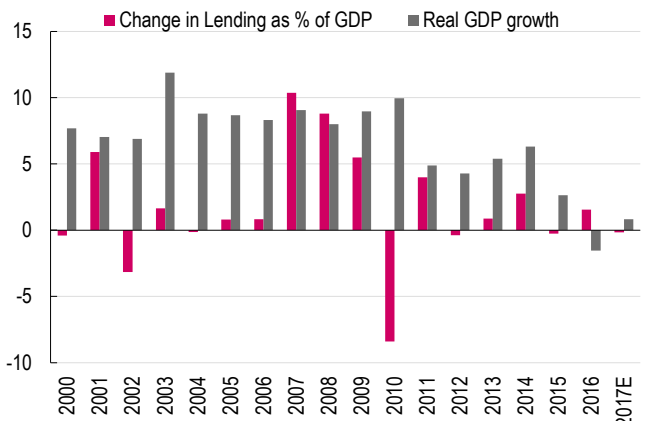
Source: IMF

Figure 12: Nigeria - naira



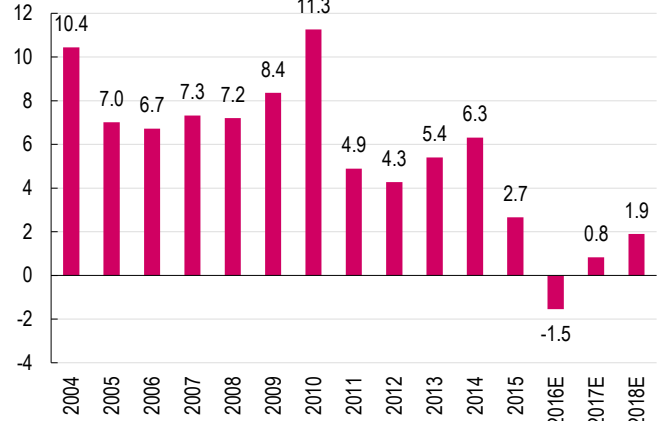
Source: Bloomberg, Bruegel

Figure 13: Bank lending growth vs GDP



Source: IMF

Figure 14: Real GDP % change, YoY



Source: IMF



Nigeria

Figure 15: Credit ratings

	Current	Date	Outlook (Prior)	
Foreign currency				
Moody's	B1	Apr-16	=	(Ba3)
S&P	B	Sep-16	=	(B+)
Fitch	B+	Jun-16	-	(BB-)
Local currency				
Moody's	B1	Apr-16	=	(Ba3)
S&P	B	Sep-16	=	(B+)
Fitch	B+	Jul-16	-	(BB-)

Figure 16: Consensus forecasts

	17E	18E
Real GDP (%)	1.5	3.5
CPI (%)	14.7	12.5
C/A bal. (% GDP)	-1.3	-2.0
Fiscal bal. (%GDP)	-2.5	-2.5
FX vs \$, YE	368	353
FX vs EUR, YE	405	402

Note: Bloomberg Consensus

Figure 19: Eurobonds (10y or closest) vs US 10y yields

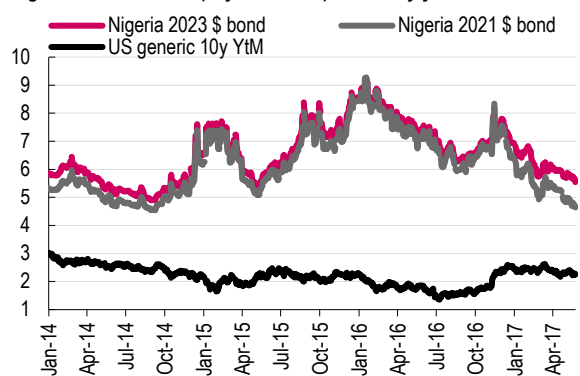


Figure 17: Selected benchmark issues

Name	Amt. Out. (mn cu)	Price Level	Coupon (%)	Dur.	Yield (%)	Z-Sprd. (bps)
Sovereign						
\$						
NGERIA 5 ½ 07/12/18	500	102.08	5.13	1.1	3.2	183.0
NGERIA 6 ¼ 01/28/21	500	107.03	6.75	3.2	4.6	291.9
NGERIA 6 ¾ 07/12/23	500	104.22	6.38	4.9	5.6	362.0
NGERIA 7 ¼ 02/16/32	1,500	110.86	7.88	8.8	6.7	442.8
Local						
NIGB 14.2 03/14/24	719,994	92.27	14.20	4.0	16.1	na
NIGB 12 ½ 01/22/26	611,918	83.12	12.50	4.6	16.2	na
NIGB 12.4 03/18/36	668,100	78.98	12.40	5.9	15.9	na
Corporate						
\$						
ACCESS 10 ½ 10/19/21	300	108.60	10.50	3.5	8.1	634.9
DIAMBK 8 ¼ 05/21/19	200	91.92	8.75	1.7	13.5	1200.8
ZENITH 6 ¼ 04/22/19	672	99.38	6.00	4.6	6.1	425.1
GRTBNL 6 11/08/18	400	102.74	6.00	1.4	4.0	257.9

Figure 20: Government bond yields (lcl)

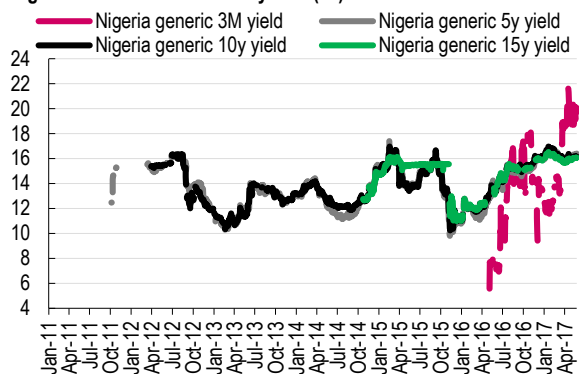


Figure 21: Currency vs \$ and Euro and REER (Dec 07 = 100)

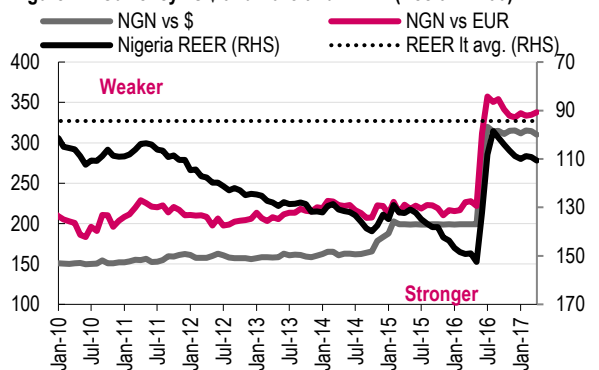


Figure 22: CPI vs policy rate

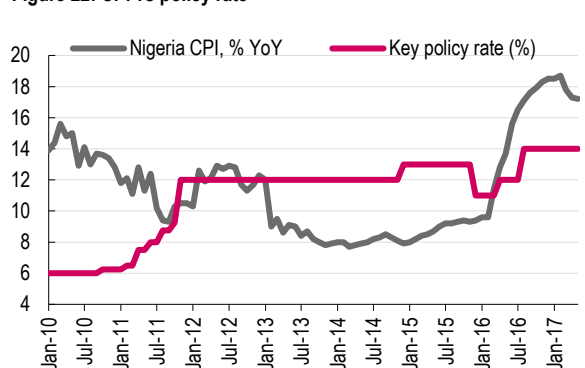


Figure 18: Trade profile

Exports, 2015 (\$bn)	46	Imports, 2015 (\$bn)	52
Geographic share			
Exports		Imports	
Euro area	28%	China	26%
Japan	5%	EU	18%
US	3%	US	6%
China	2%	Japan	1%
Other key countries			
India	17%	India	4%
Brazil	8%	UK	3%
South Africa	6%	UAE	3%
Ivory Coast	4%	Hong Kong	2%
Ghana	4%	Brazil	1%
Product			
Exports		Imports	
Fuels	91%	Machinery and transport	38%
Food items	4%	Other machinery/transport	29%
Other manufactures	2%	Other manufactures	22%
Agricultural raw materials	1%	Food items	14%
Machinery and transport	1%	Fuels	12%

Source for all tables and charts: Bloomberg, Bruegel, IMF, UNCTAD



Nigeria

Figure 23: Nigeria key economic indicators

Ratings (M/S&P/F) B1/B/B+ EODB Rank: 169 (170) - Weak Corruption Rank: 136 (136) - Weak RenCap Legal score: 13 (11) - Weak

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E
Activity													
Real GDP (%YoY)						5.3	4.2	5.5	6.3	2.8	-1.4	0.5	2.0
Private consumption (%YoY)						2.6	0.3	29.3					
Government consumption (%YoY)						4.6	-2.0	1.4					
Investment (%YoY)						-29.8	1.9	10.5					
Oil production (mbd YE)	2.4	2.2	2.1	2.1	2.4	2.4	2.0	2.2	2.2	2.1	1.6	1.8	1.9
Nominal GDP (NGNtn)	27.4	31.4	37.8	39.6	55.5	63.7	72.6	81.0	90.1	95.2	106.0	125.1	146.4
Nominal GDP (€bn)	170	182	216	189	277	293	359	382	415	431	385	300	281
Nominal GDP (\$bn)	214	249	317	264	367	408	462	508	546	481	412	328	316
Population (mn)	140	144	148	152	156	160	165	169	174	179	184	189	194
GDP per capita (\$)	1,525	1,734	2,148	1,739	2,354	2,547	2,803	3,001	3,136	2,693	2,244	1,740	1,628
Gross national saving (% of GDP)	34.2	30.6	25.3	26.8	21.2	19.2	19.3	18.8	16.0	12.4	13.1	13.5	13.5
Bank credit to private sector (lcl tn)	2.6	5.1	8.1	10.2	9.7	14.2	15.2	16.2	18.1	18.7	23.0	26.5	29.9
Bank credit to private sector (% of GDP)	9.3	16.1	21.3	25.7	17.5	22.3	20.9	20.0	20.1	19.7	21.7	21.2	20.4
Loan to deposit ratio	60.5	70.9	94.7	100.8	86.7	79.3	73.3	69.1	72.1	71.0	72.0	72.0	73.0
Prices													
CPI (average %YoY)	8.4	5.4	11.5	12.6	13.7	10.8	12.2	8.5	8.4	8.2	15.6	15.7	13.1
CPI (end-year %YoY)	8.6	6.6	15.1	13.9	11.8	10.9	12.0	8.0	8.1	9.6	18.6	14.1	12.0
Fiscal balance (% of GDP)													
Federal government balance	2.7	-0.3	0.6	-1.9	-2.5	-1.7	-1.5	-1.4	-0.9	-2.5	-3.2	-3.3	-2.2
Total public debt	8.1	8.5	7.5	9.6	9.6	10.2	10.4	10.4	10.6	11.5	14.3	15.4	15.0
External balance													
Exports (\$bn)	58.8	54.8	80.7	60.0	75.1	93.3	96.0	95.1	83.9	45.9	34.7	40.7	44.4
Imports (\$bn)	22.8	32.7	27.8	30.0	53.8	62.2	53.6	51.4	57.6	52.3	34.4	33.8	43.8
Trade balance (\$bn)	36.0	22.1	52.9	30.0	21.3	31.1	42.5	43.8	26.3	-6.4	0.3	6.9	0.6
Trade balance (% of GDP)	16.9	8.9	16.7	11.3	5.8	12.0	9.2	8.6	4.8	-1.3	0.1	2.1	0.2
Current account balance (\$bn)	36.8	27.9	29.3	14.0	13.4	8.8	20.4	20.7	6.2	7.4	2.8	8.8	-3.2
Current account balance (% of GDP)	17.3	11.2	9.2	5.3	3.7	2.1	4.4	4.1	1.1	1.5	0.7	2.7	-1.0
Net FDI (\$bn)	8.8	6.0	5.5	5.8	4.0	7.7	4.2	3.0	2.9	3.1	2.9	2.2	2.4
Net FDI (% of GDP)	4.1	2.4	1.7	2.2	1.1	1.9	0.9	0.6	0.5	0.6	0.7	0.7	0.8
C/A balance plus FDI (% of GDP)	21.4	13.6	11.0	7.5	4.7	4.0	5.3	4.7	1.7	2.2	1.4	3.4	-0.3
Exports (%YoY, value)	18.0	-7.0	47.0	-26.0	25.0	24.0	3.0	-1.0	-12.0	-45.0	-24.0	5.0	9.0
Imports (%YoY, value)	70.0	44.0	-15.0	8.0	79.0	16.0	-14.0	-4.0	12.0	-9.0	-34.0	-2.0	29.0
FX reserves (ex gold, US\$bn)	42.3	51.3	53.0	44.8	32.3	32.4	44.2	43.6	34.5	29.1	25.8	27.0	26.5
Import cover (months of imports)	22.3	18.9	22.9	17.9	7.2	6.3	9.9	10.2	7.2	6.7	9.0	9.6	7.3
Debt indicators													
Gross external debt (\$bn)	4.1	3.9	4.1	4.5	5.6	5.9	6.5	8.9	11.5	10.7	15.0	17.5	19.0
Gross external debt (% of GDP)	1.9	1.5	1.3	1.7	1.5	1.4	1.4	1.7	2.1	2.2	3.6	5.3	6.0
Gross external debt (% of exports)	7.0	7.0	5.1	7.6	7.5	6.3	6.8	9.3	13.7	23.4	43.3	43.0	42.8
Total debt service (\$bn)	6.7	1.0	0.4	0.4	0.3	0.4	0.3	0.5	0.5	0.4	0.5	0.6	0.7
Total debt service (% of GDP)	3.0	0.4	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Total debt service (% of exports)	11.0	1.8	0.5	0.7	0.4	0.4	0.3	0.5	0.5	0.9	1.5	1.4	1.6
Interest & exchange rates													
Monetary policy rate (MPR), %YE	14.0	9.5	9.8	6.0	6.3	12.0	12.0	12.0	13.0	13.0	14.0	18.0	14.0
Broad money supply (%YoY)	50.7	58.1	58.0	17.1	7.1	15.8	12.0	14.7	16.0	18.2	16.0	12.0	18.0
Credit to the private sector (%YoY)	27.8	97.1	59.4	26.0	-4.4	46.2	6.8	6.9	11.9	3.3	23.0	15.0	13.0
5Y yield (%YE)	13.0	9.5	10.5	9.4	12.0	11.2	11.8	13.5	13.8	13.1	13.3	12.7	12.5
Exchange rate (NGN/EUR) year-end	170	172	195	214	203	206	206	221	222	219	332	478	529
Exchange rate (NGN/EUR) annual average	161	172	175	209	200	217	202	212	217	221	283	404	503
Exchange rate, NGN/\$ year-end	129	118	140	150	152	159	156	160	183	199	315	447	481
Exchange rate (NGN/\$) annual average	129	126	119	150	151	156	157	159	165	198	257	381	464
Credit rating history													
													Latest
Moody's	-	-	-	-	-	-	Ba3	Ba3	Ba3	Ba3	B1	B1	na
Standard & Poor's	BB-	BB-	BB-	B+	B+	B+	BB-	BB-	BB-	B+	B	B	na
Fitch	BB-	BB-	BB-	BB-	BB-	BB-	BB-	BB-	BB-	BB-	B+	B+	na

Source: IMF, World Bank, national statistics agency, central bank, Renaissance Capital estimates

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